

**SC CONPET SA PLOIESTI**

**Economic Direction**

**APPROVED,  
GENERAL DIRECTOR**

S.s. Illegible

**Eng. Ilasi Liviu**

**Substantiation Note**

**regarding the General Meeting of Shareholders Approval of  
CONPET S.A. Draft Income and Expenditure Budget for the year 2015,  
as well as of the estimates for 2016-2017, accompanied by annex no.1**

The Income and Expenditure Budget is the main instrument of management, forecast and analysis of the economic-financial business, tracking the provision of the internal financial balance, for the business performance under profitable conditions.

The substantiation of the indicators within 2015 Income and Expenditure Budget and the estimates for the period 2016-2017 were grounded on the principles of "prudence" and "going concern", under economic efficiency conditions in sizing the financial resources needed for the financing of the entire business.

At the preparation of the Income and Expenditure Budget for the year 2015 the followings were considered:

- The provisions of art.49 of law no.186/2014 of the Stat Budget for the year 2015;
- The provisions of the Government Ordinance no.26/2013 regarding the reinforcement of the financial discipline at the level of certain economic operators to which the State or the territorial – administrative divisions act as unique or majority shareholders or hold directly or indirectly a controlling interest, subsequent amendments and additions, including the amendments and additions brought to the Government Emergency Ordinance no.88/2014;
- The provisions of the Order of the Ministry of Public Finance 2032/2013 for the approval of the format and structure of the income and expenditure budget, as well as the substantiation annexes thereof, subsequent amendments;
- The necessity to reduce the outstanding payments based on the reduction program approved in 2014, the preliminary results and the Government policy in the field;
- The average index of prices increase, forecasted for the year 2015, used for the determination of the salary-related expenses, of 102.2%;



- The Administration Plan of CONPET for the period 2014 – 2017 prepared by the Board of Administration and approved by GMS;
- The management plan for the period 2014 – 2017 prepared by the General Director and approved by the Board of Administration;
- The provisions of CONPET Collective Labour Agreement in force;
- The applicable legislation and legal regulations;
- The crude oil, rich gas and condensate quantities communicated for transport by the main clients holding 99% of the turnover.

**A. THE DRAFT INCOME AND EXPENDITURE BUDGET FOR THE YEAR 2015 (Annex no. 1 )**

The economic-financial indicators provided in the draft income and expenditure budget for the year 2015 are being set forth in annex no.2 and are being presented in the structure as follows:

**I. TOTAL INCOME**

The company's income is being achieved particularly out of the supply of the transport services for its clients, both by the Crude Oil National Transport System, concessioned based on the oil concession agreement, as well as on the railway, from the loading ramps to the beneficiaries, for the oil areas connected to the major transport pipelines.

The volume and structure of the total income comprised in the Draft Income and Expenditure Budget for the year 2015 have been substantiated considering mainly the crude oil and rich gas quantities forecasted to be transported to the refineries in 2015 (quantities that are included in the contracts concluded with: OMV Petrom, Petrotel Lukoil and Rompetrol-Petromidia) and the transport tariffs, as follows:

- For the Country Subsystem the average tariff for transport, of 78.64 LEI/tonne, stays flat. On 20.11.2014, CONPET submitted to NAMR (National Authority of Mineral Resources) the documentation regarding the substantiation of the transport tariff, of 78,64 LEI/tonne, for the country subsystem, tariff including the cost elements comprised in the tariff approved for December 2013 updated with the inflation index within the period October 2013 – November 2014 (2,29%), to which was added the tax rate for special constructions (applicable as of 01.01.2014) and the depreciation differences resulted following the revaluation of the fixed assets, and was depreciated the cost representing shunting services taken over by OMV Petrom in/from Brazi railway station on the plant railways belonging to Petrobrazi Refinery;
- For the Import Subsystem, by the documentation submitted to NAMR, on 20.11.2014, was required the update of the transport average tariff for the import subsystem as well, through the increase thereof by 11.96%.



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- ☐ The tariff amendment for the transport on the import subsystem was approved by NAMR Order no.12/2015 published in the Official Gazette of Romania, part I. no.90/03.02.2015.

In 2015 budget, the total income is in total amount 415,956 mii LEI, 0,9% increase compared to the income predicted to be achieved in 2014 and include:

1.1. **Operating revenues** in total amount of 410,431 LEI, 2% higher than the predicted for 2014, representing 98,67% of the total income. At the determination of the operating revenues were considered the revenues from the company's core business, respectively pipeline and railway transport services, the revenues achieved from secondary activities (rental of goods) and other operating revenues.

The structure and substantiation manner of the operating revenues is set forth as follows:

- The sales revenues budgeted for the year 2015 amount for 380,654 LEI, in the following structure:

Sales Revenues	MU	Predicted/achieved 2014	Draft Income and Expenditure Budget for 2015	Diff.	2015 Income and Expenditure Budget/achieved 2014
Sales revenues-total, of which:	Thousand LEI	375,046	380,654	5,608	101.5%
Transport revenues	Thousand LEI	372,946	378,657	5,711	101.5%
Rental revenues	Thousand LEI	1,348	1,233	-115	91.5%
Revenues from other activities related to turnover, of which:	Thousand LEI	751	764	13	101.6%
- shunting	Thousand LEI	103	104	1	100.9%
- resupply of thermal power	Thousand LEI	529	550	21	104.0%
- other activities	Thousand LEI	119	110	-9	92.4%

- ❖ **The transport revenues** have been substantiated based on the transport program for the year 2015 and the contract concluded with the clients, as follows:

TRANSPORTED QUANTITIES	MU	Achieved/Estimated 2014	2015 Draft Income and Expenditure Budget 2015	diff	2015 Income and Expenditure Budget/Achieved 2014
COUNTRY SUBSYSTEM QUANTITIES	tonne	3,958,758	4,029,095	70,337	101.78%
IMPORT SUBSYSTEM QUANTITIES, OF WHICH	tonne	2,485,829	2,330,578	-155,251	93.75%



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LUKOIL	tonne	2,227,002	2,205,578	-21,424	99,04%
PETROMIDIA	tonne	207,999	80,000	-127,999	38,46%
OMV	tonne	50,829	45,000	-5,829	88,53%
<b>TOTAL TRANSPORTED QUANTITIES</b>	<b>tonne</b>	<b>6,444,587</b>	<b>6,359,673</b>	<b>-84,914</b>	<b>98,68%</b>

Transport Revenues	MU	Achieved/ Estimated 2014	2015 Draft Income and Expenditure Budget	Diff	2015 Income and Expenditure Budget/Achieved 2014
<b>1. Revenues from country subsystem transport services</b>	Thousand LEI	<b>314,400</b>	<b>318,587</b>	<b>4,187</b>	<b>101.3%</b>
1.1 Transport revenues	Thousand LEI	311,317	316,848	5,531	101.8%
1.2 Additional transport revenues	Thousand LEI	3,083	1,739	-1,344	56.4%
<b>2. Revenues from import subsystem transport services</b>	Thousand LEI	<b>58,546</b>	<b>60,070</b>	<b>1,524</b>	<b>102.6%</b>
2.1 Transport revenues	Thousand LEI	56,608	60,070	3,462	106.1%
LUKOIL	Thousand LEI	53,286	58,181	4,895	109.2%
PETROMIDIA	Thousand LEI	1,352	628	-724	46.4%
OMV	Thousand LEI	1,970	1,261	-709	64.01%
2.2 Additional transport revenues	Thousand LEI	1,938	0	-1938	0%
<b>TOTAL –Transport service revenues , of which:</b>	Thousand LEI	<b>372,946</b>	<b>378,657</b>	<b>5,711</b>	<b>101.5%</b>
<i>Revenues from crude oil transport services</i>	Thousand LEI	<b>367,925</b>	<b>376,918</b>	<b>8,993</b>	<b>102.4%</b>
Additional transport revenues	Thousand LEI	5,021	1,739	-3,282	34.6%

In 2015 budget were provided additional revenues amounting for 1,739 LEI representing transport services by isolated rail tanks, 3,282 thousand lower than the level of the additional revenues achieved in 2014 ( 5,021 thousand LEI). The estimation of these revenues was made based on the data from the previous years and with no calculation of the revenues from the supply of other services of conjunctural nature.



- ❖ The revenues from other activities related to turnover represent revenues from the rental of tangible and intangible goods - CONPET property, tanks shunting services, resupply of thermal power etc. and are being estimated based on the tariffs of the concluded contract and the achievements predicted for the year 2014.
- o Other operating revenues comprise: revenues from pipe sales resulted from the disuse of the crude oil and rich gas pipelines (discard etc.), as well as from the recognition as income of the expenses related to the depreciation of the fixed assets financed from the modernization quota.

The detailed situation of other operating revenues included in 2015 budget, in amount of 29,465 LEI, as compared to the ones achieved/predicted for the year 2014 reveals the followings:

Other Operating Revenues	MU	Achieved/ Estimated 2014	2015 Draft Income and Expenditure Budget	Diff	2015 Income and Expenditure Budget/Achieved 2014
Other operating revenues, of which:	Thousand LEI	27,340	29,465	2,125	107.8%
Recognition as income of the modernization quota	Thousand LEI	25,354	27,563	2,209	108.7%
Sale of assets, recovered pipe etc.	Thousand LEI	1,105	1,575	470	142.5%
Other revenues	Thousand LEI	881	327	-554	37.2%

The financial revenues provided for the year 2015 are in amount of 5,525 LEI (55,6% of the estimated achievements of 2014) and include, at least 98% financial revenues achieved out of interests related to the placement of the liquid assets 1 year deposit accounts (approx. 240 million Lei for 1 year deposits and 30 million LEI for maximum 3 months deposits, with 2% average interest) ;

## II. TOTAL EXPENSES

The volume and structure of the total expenses comprised in the Draft Income and Expenditure Budget for the year 2015 have been sized according to the level of the revenues programmed to be achieved and the programs/plans elaborated, at the company's level, by the directions/departments specialized for activities such as: maintenance, investments, studies, provision of occupational safety and health, installations security, environmental protection, professional training etc., so that the company's business be performed under economic



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The **overall expenses** forecasted in the draft Income and Expenditure Budget for the year 2015 amount for 351,656 mii LEI, registering an increase by 0.8% compared to the achievements predicted in 2014, under the growth performance of the total income – of 0.9% and include:

1. The operating expenses amounting for 351,382 thousand LEI representing 99.92% of the overall expenses, increasing by 0.8% as compared to the achievements predicted for 2014;
2. The financial expenses amounting 274 thousand LEI representing 0,08% of the overall expenses, increasing by 0.7% as compared to the predicted achievements of the year 2014.

1. The **operating expenses** are being forecasted to an amount 351,382 thousand LEI and include the expenses meant for the safe operation and functioning of the National Transport System.

The categories of operating expenses forecasted in 2015 Income and Expenditure Budget, increasing as compared to the predicted achievements of the year 2014 are the followings:

- o The **stocks expenses** are being substantiated based on the supply program prepared for the provision of the necessary resources for activities of maintenance, provision of occupational safety and health, installations security, environmental protection etc. and safe operation conditions of the Crude Oil National Transport System (NTS), as well as for the auxiliary and administrative activities. For the year 2015 they are being provided for the amount of 20,708 thousand LEI, with a 10.7% increase compared to 2014 predicted achievements, increase generated by:
  - o The increase of the procurement price for materials, fuel, spare parts etc.;
  - o The increase of the material expenses as inventory objects, due to the procurement of protection work wear needed for the replacement of the existing one, which no longer meets the legal requirements regarding the utilization term, with work wear of higher quality, in order to guarantee the optimal protection at the workplace and the maintenance thereof for a longer period of time;

The procurement of the individual protection workwear is grounded on the following provisions:

- Law no. 319 / 2006, related to occupational safety and health, Art.13 letter r) and s) regarding the employer's obligation to provide individual protection workwear, as well as the replacement thereof in case of wear and tear.



GD no. 1425/2006 the Norms of application of the Occupational Safety and Health Law no. 319/2006, art.15. item 20 regarding the identification of the individual protection workwear necessary for the company's worksites and the preparation of the requisition order for the provision of individual protection workwear to the workers, pursuant to GD 1048/2006 regarding the minimum security and health requirements related to the use, by the workers, of the individual protection workwear at their workplace.

- o The increase by 5.2% of the energy expenses. The substantiation of the energy expenses was made based on the estimated transport program, of specific consumptions, as well as the evolution of the energy and water tariffs for the year 2015.
- **The third parties services expenses are being forecasted** in amount of 6,003 thousand LEI, with an increase by 36.1%. The highest rate in the total of these expenses, (64%) is being represented by the expense related to the maintenance and repairs necessary for providing safe conditions of operation of the National Transport System under safety conditions.
- **The legal counsel expenses** are being provided in amount of 135 thousand LEI and stand for consultancy in international law, in view of assessing the possibility to extend the business overseas.

**The security expenses** are being provided with an increase by 45.9%. The amount advanced in 2015 Income and Expenditure Budget, compared with the one registered in the previous year was calculated based on the following criteria:

- 2015 inflation forecast, at the elaboration date of the draft Budget;
- the necessity to conclude new maintenance contracts for ten video supervisory systems installed within CONPET S.A. sites, as per the provisions of **Chapter I, Art. 4 of GD 301/2012**, by which the beneficiaries of the endorsed systems (technical supervisory systems) **are bound to conclude periodical maintenance contracts with licensed firms** that certify the system operation as per the technical parameters; this thing is required, as, in the current year, the defect liability period of the 10 video supervisory systems installed in 2013 expires.

We hereby mention that the 10 video supervisory systems within CONPET S.A. works sites are complex systems, with an average number of 20 supervisory cameras, placed on the exterior, the risk of breakdown or improper operation being high, consequently the number of interventions for fixing thereof being directly proportional.

- **The protocol expenses** are being provided in amount of 250 thousand LEI, at the level of 20% of the value of protocol expense admitted for deductibility, stipulated in the fiscal Code, namely 2% of the gross profit.
- **The promotion and advertising expenses** are being budgeted in amount of 250 thousand LEI, 24.9% higher than the 2014 predicted achievements;



As compared to the 2014 year achievements, within CONPET S.A. public image promotion strategy for 2015 is being included the action aiming at the implementation of a new website design (dynamic, easy to access) meant to respond to all each and every user's needs, under the conditions imposed by the stock exchange listing of CONPET shares on the regulated market administered by Bucharest Stock Exchange.

- **The sponsorship expenses** are being provided in amount of 600 thousand LEI, determined at the level of 52% of the deductibility margin stipulated by the fiscal code (3% of the turnover, but not more that 20% of the corporate tax). The budgeted value for the year 2015 stands at the level of the 2014 predicted achievements.
- **The expenses with other duties, taxes and similar levies** are being provided with an increase by 1.9%, following the oil royalty increase pursuant to the provided transport volume;

In the total expenses with other duties, taxes and similar levies, the oil royalty represents 90.47%;

The calculation of the oil royalty value reveals the followings:

Thousand LEI

Crt. No.	Subsystems	Quantities tonnes	Royalty Calculation Basis	%	Royalty Value
1	Country subsystem pipeline transport	2,730,739	214,745	10%	21,475
2	Country subsystem combined transport	200,633	15,778	10%	1,578
3	Import subsystem transport	2,330,578	60,070	10%	6,007
0					
	<b>total</b>	<b>5,261,950</b>	<b>290,593</b>	<b>10%</b>	<b>29,059</b>

- **The personnel expenses** forecasted for 2015 are in total amount of 105,173 thousand LEI, increasing by 6.6% as compared to 2014 predicted achievements.

In the structure they look as follows:

- **The salaries expenses** are being provided in amount of 68,856 thousand LEI, registering an increase by 1.8%;
  - **The bonuses related expenses** are being provided in amount of 11,485 thousand LEI, 31 % higher than the predicted achievements of the previous year and include:
    1. – social expenses in amount of 1,377 thousand LEI, of the same kind as the ones provided at art.21 from Law no.571/2003 regarding the





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fiscal Code and comprise, mainly: birth grants, funeral grants, serious or cureless diseases, as well as other social expenses granted within the deductibility limit at the corporate tax calculation;

2. – food vouchers in amount of 3,565 thousand LEI, granted as per the provisions of Law no.142/1998, based on the personnel average number and the estimated exchange value of a voucher, weighed with the average number of working days in 2015;
  3. – expenses related to employees share of profit, in amount of 4,343 thousand LEI;
  4. – other rights provided in the Contract Labour Agreement (abonnements for employees transportation to and from the work place, other rights);
  5. – holidays vouchers (vouchers) provided in the amount of 1,000 thousand LEI, pursuant to the Contract Labour Agreement.
- **Other personnel expenses** are being provided in amount of 1,932 thousand LEI representing back charges settled as per the Contract Labour Agreement related to two layoff tranches provided for the months of June and August, of 29 employees each.
  - **The expenses related to the mandate contract and other management and control bodies, commissions and committees** are being provided in amount of 1899 mii LEI;

Considering:

*The memorandum with the theme "measurements that must be considered when preparing the income and expenditures budgets for the year 2015 of the economic operators with the capital or patrimony directly or indirectly held by the State, respectively the achievement, according to 2014 Income and Expenditure Budget of the gross profit and outstanding payments. In the Income and Expenditure Budget for the year 2005 was also included the annual variable subcomponent related to 2014, from the general director's remuneration and the Board of Administration members, at the level of a fix annual allowance (604 thousand LEI).*

For the application of the provisions stipulated in the administration and mandate contracts regarding the annual indexation of the fixed allowance, CONPET has requested the National Statistics Institute to communicate the gross average earnings during Dec 2013 – November 2014. By letter no.1593/14.01.2015, the National Statistics Institute communicated the gross average earnings based on which were forecasted the expenses with the non-executive administrators and general director remunerations, as follows:



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a) **The General Director** for the amount of 951 thousand LEI and comprise the monthly fixed allowance and the quarterly rate of the variable allowance.

*The General Director's remuneration is made of:*

- **a fixed monthly allowance** representing 6 times the average, on the last 12 months, of the gross monthly average wage in the extractive industry where the company is performing its business, communicated by the National Statistics Institute.

*4540 LEI / month (gross average wage) X 6 X 12 months = 327 months LEI*

The fixed monthly allowance, thus calculated, will be applied as of January 2015, pursuant to the Decision no.1/21.01.2015 of the Board of Administration

- ✓ *of a variable allowance (624 thousand LEI) settled as per the provisions of art.8 paragraph (4) and awarded as follows:*
- ✓ *The first subcomponent of the variable component quarterly awarded according to the achievement of the performance indicators assumed by the mandate contract, in amount of 321 thousand LEI ;*
  - a) 76 thousand LEI ( 4212LEI X 6 X 3 months) the first variable subcomponent related to Quarter IV 2014;
  - b) 245 thousand LEI (4540 LEI X 6 X 9 months) the first variable subcomponent related to Q I – Q III 2015);
- ✓ *The second subcomponent of the variable component consisting of a participation quota to the company's net profit granted following the completion and approval of 2014 annual financial statements, in amount of 303 thousand LEI.*

*4212 LEI / month (gross average wage) X 6 X 12 months = 303 thousand LEI*

**b)The Board of Administration for the amount of 948 thousand LEI**

*The remuneration of the members of the Board of Administration is made of:*

- **a fixed allowance** representing the average on the last 12 months, of the gross monthly average wage in the extractive industry where the company is performing its business, communicated by the National Statistics Institute.
- *4540 LEI / months (gross average wage) X 6 members X 12 months = 327 thousand LEI*



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The fixed monthly allowance, thus calculated, will be applied as of January 2015, pursuant to the Decision no.1/21.01.2015 of the Board of Administration.

- of a **variable allowance** (621 thousand LEI) settled as per the provisions of art.17 of the Administration Contract and is awarded as follows:
- The first subcomponent of the variable component quarterly awarded according to the achievement of the performance indicators assumed by the administration contract, in amount of **320 thousand LEI** ;
  - c) 75 thousand LEI ( 4180 LEI X 6 X 3 months) the first variable subcomponent related to Quarter IV 2014;
  - d) 245 thousand LEI (4540 LEI X 6 X 9 months) the first variable subcomponent related to Q I – Q III 2015);
- ✓ The second subcomponent of the variable component consisting of a participation quota to the company's net profit granted following the completion and approval of 2014 annual financial statements, in amount of **301 thousand LEI**.

*4180 LEI / month (gross average wage) X 6 X 12 months = 301 thousand LEI*

- **The expenses with social securities and social protection, in amount of 21,000 thousand LEI** are being provided with a decrease by cu 0,6 %.

The amount provided for the company's contribution to the facultative pensions schemes (Pillar III) is of 3,119 thousand LEI, thus determined: ( 1733 person\* 150 LEI/month\*12 months);

The expenses with social security and social protection have been determined by using the contributions rates settled by the State social security budget Law for the year 2015.

- **Other operating expenses** forecasted in total amount of 105,802 thousand LEI comprise mainly the followings:
  - **Expenses related to the settlement of the modernization quota**, weighing at least 57% in the total "other operating expenses" and are meant for the rehabilitation and modernization of the assets belonging to the State public domain.

Other expenses related to the period, included in this item stand for different fees: judicial stamp fees, fees at the trade registry office, CNVM, fees for environmental protection and water management etc.

**The financial expenses** are being provided at the level of 274 thousand LEI and comprise unfavorable differences in the exchange rate related to the foreign exchange payments and revaluation of the foreign currency cash balance.



### III. GROSS PROFIT

The company has budgeted the end of 2015 financial year with a gross profit in amount of 64,300 thousand LEI, registering an increase by 1% compared to the achievements predicted in 2014, over the increase level of the total income ( 0,9% ),

### IV. CORPORATE TAX

The expenses related to the corporate tax, in amount of 11,587 mii LEI have been determined pursuant to the provisions of the Law no.571/2003 regarding the fiscal Code.

The estimation of the non-deductible tax expenses and the non-taxable income when calculating the corporate tax for the year 2015 was performed based on the predicted achievements of the year 2014 and the expenses included in the draft budget for the year 2015.

The non-deductible tax expenses are being budgeted in amount of 7,091 thousand LEI and represent:

- o 960 thousand LEI exceed of the social-cultural expenses margin, respectively the difference between revenues and expenses estimated for Strejnic and Vointa sports bases;
- o 6,131 thousand LEI representing expenses with impairments and provisions, including the employees share of profit provision related to the year 2014, other non-deductible expenses.

When calculating the corporate tax for the year 2015 was considered also the taxation of the reserves from revaluation of the fixed assets, performed after January 1, 2014, which are being deducted when calculating the taxable profit by way of fiscal depreciation or expenses regarding assigned and/or discarded assets.

The corporate tax expenses were calculated as follows:

Crt. No.	Items	Thousand
		LEI
Value		
1	Accounting gross profit	64,300
2	Income similar elements (reserves from taxable revaluations)	10,865
3	Nontaxable income	6,090
4	Non-deductible expenses, of which:	7,091
	<i>Social cultural expenses, namely the difference between the income and the</i>	960



<i>expenses estimated for Strejnic and Vointa sports bases;</i>		
	<i>Impairments and provisions expenses</i>	5,397
	<i>Sponsorship expenses</i>	600
	<i>Other non-deductible expenses</i>	134
5	Taxable profit ( 1+2-3+4)	76,166
6	Corporate tax 16%	12,187
7	Corporate tax after the deduction of the sponsorship expenses	11,587

We hereby mention that CONPET SA has reached the deductibility margin provided at art.22 paragraph (1) of the Fiscal Code, the legal reserve being settled at least 20% out of the paid-up and subscribed share capital.

#### **V. THE REMAINDER ACCOUNTING PROFIT AFTER THE DEDUCTION OF THE CORPORATE PROFIT**

The net profit forecasted in the Income and Expenditure Budget for the year 2015, in amount of 52,713 thousand LEI is proposed for allocation pursuant to the provisions of the GO 64/2001 regarding the allocation of profit of the national and commercial companies fully or majority owned by the State, as follows:

- a. 85% dividends due to shareholders;
- b. 10% employees share of profit;
- c. 5% financing sources.

#### **VI-VII. REVENUES AND EXPENSES ELIGIBLE FROM EUROPEAN FUNDS**

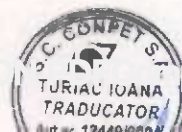
For 2015, the company has not provide operating activities financed out of European funds.

#### **VIII. INVESTMENTS FINANCING SOURCES**

The investments financing sources forecasted for 2015 are in amount of 51,912 thousand LEI, 70,1% higher than the predicted achieved ones in 2014 (Annex no.5 regarding the substantiation of the draft Income and Expenditure Budget for 2015).

#### **IX. INVESTMENTS EXPENSES**

CONPET SA 2015 Investment Program (Annex no.5 regarding the substantiation of draft Income and Expenditure budget for the year 2015) was drafted in compliance with the provisions of the company's Administration Plan and the priorities set forth by the minimal investment Program annex to the concession contract.



The main investment objectives comprised in the 2015 Investment Program are being presented below:

Crt. No.	Objective Name	2015 Program	of which:	
			Mod. quota	Own sources
	<b>Total general, of which:</b>	<b>51,912</b>	<b>36,601</b>	<b>15,311</b>
<b>I</b>	<b>PUBLIC DOMAIN</b>	<b>37,591</b>	<b>36,601</b>	<b>990</b>
1	Pipelines rehabilitation, of which :	21,008	21,008	0
1.1	Pipeline replacement	18,648	18,648	0
1.2	Safe disposal	2,360	2,360	0
2	Modernization and monitoring of the cathodic protection system at central and sectorial level, related to the crude oil transport pipelines Ticleni-Ploiesti, F1 and F2	4,500	4,500	
3	Modernization and monitoring of the cathodic protection system related to import and country NTS	811	811	
4	Pilot system for the detection of product leaks from Videle-Cartojani-Ploiesti crude oil the major pipelines system	100	100	
5	Technical assistance and expert advice	50	50	
6	Tanks	2,122	2,122	0
7	Fire Prevention and Extinction (Rom. PSI) Installations	380	0	380
8	Electric power feed	670	370	300
9	Telecommunications works	377	377	0
10	Pumping Systems Modernization	766	766	0
11	Modernization of the railway tanks weighing systems	1,600	1,600	0
12	Ramp modernization	105	0	105
13	Buildings, stations fencing	35	0	35
14	Other investment objectives	4,895	4,725	170
15	Projects, Studies, Technical Appraisals	172	172	0
<b>II</b>	<b>OPERATING AREA</b>	<b>14,321</b>	<b>0</b>	<b>14,321</b>

	Investment objectives, of which :	8,671	0	8,671
1	Pipelines rehabilitations	1,451	0	1,451
2	Water feed	365	0	365
3	Electric power feed	758	0	758
4	Stations heating systems	150	0	150
5	Buildings, stations fencing	573	0	573
6	LDH and rail tanks	1,377	0	1,377
7	Other works	1,021	0	1,021
8	Non-tangible investments	2,976		2,976
	Independent Facilities and Equipment	5,650		5,650

## I. PUBLIC DOMAIN

### 1. PIPELINES REHABILITATION

#### 1.1 PIPELINES REPLACEMENT

The necessity and opportunity are being settled following the in-line inspections with intelligent pig, the damages records and soil resistivity measures. An important item is represented also by the measures imposed by the environmental and water management authorities comprised in the compliance programs.

It was considered the natural process supposing firstly the contracting of the execution works.

Following the inside assessment was made a works optimization according to the risk incurred by each pipeline.

#### 1.2. SAFE DISPOSAL

Aiming at the achievement of several safe disposal works on the infrastructure of the water crossings that are meant to increase the degree of safety in operation of these pipelines, indirectly for the protection against pollution of the waters crossed.

2. Modernization and monitoring of the cathodic protection system at central and sectorial level, related to Ticleni-Ploiesti crude oil transport pipelines, Line 1 and Line 2.
3. Pilot system for detection and location of product leaks from the crude oil major pipelines system Videle - Cartojani - Ploiesti
5. Tanks – tank farm modernization works
6. PSI Installations – PSI installations modernization works
7. Electric power feed – electric installations modernization works
8. Telecommunication works – telecommunications system modernization works



**9. Pumping systems modernization**

**10. Tanks weighing systems modernization**

**11. Ramp modernization – modernization works at Independenta Ramp**

**12. Buildings, stations fencing – buildings modernization**

**13. Other investment objectives**

- Sampling system
- Upgrade SCADA system
- Modernization of the monitoring and vibration system of Orlesti pumps

**II. OPERATING AREA**

- Pipelines rehabilitation
- LDH and tanks
- Other works

**B. INDEPENDENT FACILITIES AND EQUIPMENT**

**X. SUBSTANTIATION DATA**

1 – 6. The substantiation of the wage nature expenses is revealed in Note no.1

**8 – 9. Outstanding Payments and Liabilities**

The level of the outstanding payments estimated in the draft Income and Expenditure Budget for the year 2015 is zero.

The level of outstanding liabilities estimated in the draft Income and Expenditure Budget for the year 2015 is of 365 thousand LEI, 1,35% lower than the ones predicted to be achieved in the year 2014.

**B. BUDGETARY ESTIMATES FOR THE PERIOD 2016-2017**

At the sizing of the budgetary estimates provided in the model – annex 1 of 2016 – 2017 Income and Expenditure Budget, were considered:

- Macroeconomic data provided by the National Prognosis Commission regarding the inflation forecasted for the years 2016 and 2017;
- ANRE Order no. 53/2010 (The Romanian National Energy Regulatory Authority) regarding the tariffs settlement Methodology for the transport services through the crude oil, rich gas, condensate and ethane National Transport System;
- CONPET SA Administration Plan for the period 2014-2017 prepared by the Board of Administration and approved by the General Meeting of Shareholders;





Recommended for analysis and endorsement in the BoA meeting dated \_\_\_\_\_ and OGMS approval dated \_\_\_\_\_

- The substantiation of the draft Income and Expenditure Budget for the year 2015;
- The provisions in CONPET SA Collective Labour Agreement in force;
- The legislation and applicable regulations in force;
- The quantities of crude oil, rich gas and condensate communicated by the main clients holding 90% of the turnover.

### THE PERFORMANCE INDICATORS PROVIDED IN THE ADMINISTRATION PLAN

The achievement degree of the annual global performance indicator for the year 2015, determined based on the performance indicators provided in the Administration Plan, each indicator's weight and of the budget provisions, as compared to the aimed targets is of 100.37%.

The structure and level of the performance indicators look as follows:

Crt. No.	Objectives/ Performance Indicator	Performance Objective	MU	Estimated 2014	2015 Income and Expenditure Budget
0	1	2	3	4	5
1	EBITDA	1% increased as compared to the level of the year 2013	Thousand LEI	100,469	106,419
2	The decrease of operating expenses	Level lower or equal with 2013 level	Thousand LEI	92.91 %	92.23 %
3	Labor productivity increase	The increase of the average earnings per employee by 3% per year	Thousand LEI/ person	235	237
4	The decrease of the total number of technical breakages	4% reduction from the level of 116 technical breakdowns registered in 2013	No. of technical breakdowns	79	76
5	Enhance visibility at Bucharest Stock Exchange	The active tracking of CONPET evolution performed by brokerage firms materialized in analysis reports prepared by analysts of the respective firms (weight in indicator 50%) for the year 2014 – 1 brokerage firm from Top 10, as per the classification settled by Bucharest Stock Exchange at the issuing date of the report	% from 100%	100%	100%



		Keeping the rank in TOP 25 of the issuers after capitalization, considering that the new firms listed at Bucharest Stock Exchange, 1 <sup>st</sup> Tier, in 2014 should not be accounted for (weight in indicator 50%)		

In view of analyzing the company's economic performance, we hereby present the key economic indicators, both for the 2014 predicted achievements, as well as for the draft Income and Expenditure Budget for the year 2015.

Financial indicators	Achieved/ predicted 31.12.2014	BVC 2015
<b>Profitability indicators</b>		
Sale gross margin	16.97	16.85
Sales net margin	13.46	13.84
Operating profit margin (EBIT %)	14.39	15.50
Profit margin (EBITDA %)	26.79	27.83
Return on Equity (ROE)	7.00	7.21
Return on Assets (ROA)	6.28	6.47
<b>Liquidity Indicators</b>		
Current liquidity - in no. of times	7.14	7.14
Quick liquidity - in no. of times	7.00	7.00
<b>Activity (management) indicators</b>		
Inventories turnover ( in number of days)	350	300
Inventories turnover speed (number of times)	1.04	1.22
Rotation speed of the clients' debts (days)	34	34
Rotation duration of the clients' debts (no. of times)	10.63	10.73
Rotation speed of the credits purveyors (days)	27	28



Recommended for analysis and endorsement in the BoA meeting dated \_\_\_\_\_ and OGMS approval dated \_\_\_\_\_

Rotation speed of the credits purveyors (no. of times)	13.46	13
<b>Degree of Indebtness Indicators</b>		
(1) Degree of indebttness indicator (Borrowed Capital/Equity)	0.00	0,00
(2) Degree of indebttness indicator (Borrowed Capital/Invested Capital)	0.00	0,00

X

X

X

We hereby mention that, pursuant to the GEO no. 26/2013, the preparation of the draft income and expenditure budget for the year 2015 and estimates for the period 2016-2017 were performed by consulting the union organization of CONPET employees, to the draft Income and Expenditure Budget for the year 2015 being applied the management financial audit as per the Government Decision no.1151/2012 for the approval of the Methodological Norms regarding the manner of organizing and exercising the management control audit.

According to Art.15, Paragraph (3), letter (g) of the Articles of Incorporation of CONPET SA, updated on 05.11.2014, we hereby recommend for approval CONPET SA Income and Expenditure Budget for the year 2015 and estimates for the period 2016-2017.

Economic Director,

Econ.Toader Sanda

S.s. Illegible

Financial Manager

Econ. Curteanu Veronica

S.s. Illegible

Head of the Legal Office

Legal Adviser, Geanta Irinel

S.s. Illegible

Head of Budgets and Analysis Bureau

Econ. Burlacu Rodica

S.s. Illegible

