

**ANNUAL REPORT OF THE ADMINISTRATORS  
OF THE COMPANY  
"CONPET" S.A.**

**For the Financial Year ended December 31<sup>st</sup> 2014**



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## REPORT AND ISSUER IDENTIFICATION DATA

Annual report concluded in compliance with:	Law no. 297/2004 regarding the capital market and CNVM Regulation no. 1/2006 regarding issuers and securities operations
For the financial year	2014
Report Date	
Contents	Preliminary financial statements
Company's Name	CONPET S.A.
Registered offices	No. 1-3, Anul 1848 Street, Ploiesti, Prahova county, 100559
Telephone/facsimile	0244 401360 / 0244 516451
E-mail / Internet	conpet@conpet.ro / www.conpet.ro
Sole Registration Number to the Trade Registry	1350020
Trade Registry Number	J29/6/22.01.1991
The regulated market where the issued securities are being traded	Bucharest Stock Exchange, 1 <sup>st</sup> Tier
Subscribed and fully paid-up share capital	28,569,842.40 Lei

The economic-financial indicators presented in this report are in compliance with the International Financial Reporting Standards adopted by the European Union (IFRS-UE), as per the Order of the Minister of Public Finances no. 881/June 25<sup>th</sup> 2012 and the accounting regulations approved as per the Order of the Minister of Public Finances no. 1286/2012-updated.

## GENERAL DATA

CONPET S.A. is the operator of the Crude Oil Pipeline Transport System, as it is being defined and regulated by Law no. 238/7.06.2004 - Petroleum Law and the Methodological Norms for the enforcement of the Petroleum Law approved under GD no. 2075/2004.

CONPET performs transport services for its clients both through the National Transport System, concessioned based on the Oil Concession Agreement on the operating activity of the crude oil, rich gas, condensate and ethane national transport system and on the railway tanks, from the loading ramps to the beneficiaries, for the oil fields which are not being linked to the transport major pipelines.

The basis of the pipeline transport activity were set in 1901, once with the commissioning of the first crude oil transport pipeline, along Bustenari - Baicoi railway station, from Prahova county.

Given the natural distribution of the oil fields spread over the entire the country area, the National Transport System was built as to meet the transport needs from all those fields to the refineries. The system operation is being made based on the local dispatch centers, coordinated from the Company Central Dispatch.

CONPET *mission* is the operation of the National Pipeline Transport System under safety and efficient conditions, easing free access to the system's available throughput to all applicants,



authorized legal persons, under equal conditions, transparently and in a non-discriminatory manner.

CONPET *vision* contemplates the preservation of its position of strategic player in the Romanian oil industry, acting as the pipeline and rail carrier of crude oil, ethane and rich gas.

The objectives assumed by CONPET during the performance of its business are: the provision of the operation of the national pipeline transport system under maximum safety conditions, sustainable improvement of the services quality, environmental protection, and economic efficiency.

The company **values** have been identified and oriented for:

- Ongoing learning and training
- Concern for people and environment
- Adaptability and quality improvement
- Flexibility and dynamism
- Communication and cooperation

## Chapter 1. ANALYSIS OF THE COMPANY BUSINESS

### 1.1.a) COMPANY'S CORE BUSINESS

The basis of the pipeline transport activity were put in 1900, once with the construction of the first crude oil transport pipeline linking Bustenari area from Baicoi railway station from Prahova county. The same year, was set-up the anonymous company „Conductul national” headquartered in Ploiesti, acknowledged by the historians the foregoer of the current company CONPET.

The reference marks outlining the history of over 110 years of existence of CONPET are:

- 1901: are set the basis of the crude oil pipeline transport activity, once with the commissioning of the first crude oil transport pipeline on the route Bustenari – Baicoi railway station, in Prahova County;
- 1935: the pipeline network reaches 2,522 km in length, and the gross oil production was estimated at approximately 8.5 million tons;
- 1956: The Crude Oil Pipeline Transport Company (Rom: I.T.T.C.) is set up, centralizing all the crude oil transport pipelines in Romania;
- 1960-1968: the pipelines network is being extended and new railway ramps are being constructed (Valcani, Biled, Pecica, Suplacu de Barcau, Ciresu, Independenta), following the set in operation of several crude deposits in the Western part of the country. Also, along this period, the first major rich gas transport pipeline is being constructed, on Ticleni-Ploiesti route;



- 1968: marks the beginning of the imported crude transport, on Constanta - Pitesti route, initially performed on railway tanks, and starting 1969 on the first major pipeline, 14 <sup>3/4</sup> inch in diameter, along Constanta-Pitesti route;
- 1976: is being commissioned the 2<sup>nd</sup> major pipeline for imported crude oil transport, from Constanta to Pitesti, 20 inch in diameter;
- 1977-1980: is being constructed the 3<sup>rd</sup> major pipeline for the transport of the imported crude along Constanta – Onesti route and two other major pipelines were commissioned, for the transport of the rich gas and ethane, from Oltenia to Ploiesti, respectively Pitesti;
- 1990: The Crude Oil Pipeline Transport Company (I.T.T.C.) becomes joint stock commercial company, under the name of CONPET, based on G.D. no.1213/1990, being the first company to be constituted in the oil industry;
- 1991: CONPET is being registered at Prahova Trade Register Office, acting ever since as a joint stock commercial company, where the main shareholder is the Romanian State;
- 1996-2008 marked the modernization of the National Transport System based on an IBRD loan;

The shareholding structure of CONPET SA on December 31<sup>st</sup> 2014 and December 31<sup>st</sup> 2013 was the following:

Shareholders	December 31 <sup>st</sup> ,14			December 31 <sup>st</sup> 13		
	No. of Shares	Amount (RON)	(%)	No. of Shares	Amount (RON)	(%)
The Romanian State by the Ministry of Economy	5,083,372	16,775,128	58.72%	5,083,372	16,775,128	58,72%
KJK Fund II SICAV – SIF	611,933	2,019,888	7.07%	221,933	731,388	2,56%
Fondul Proprietatea SA	524,366	1,731,332	6.06%	2,571,461	8,485,821	29,70%
Other shareholders (<5%)	2,437,857	8,043,494	28.15%	780,762	2,577,505	9,02%
<b>Total</b>	<b>8,657,528</b>	<b>28,569,842</b>	<b>100%</b>	<b>8,657,528</b>	<b>28,569.842</b>	<b>100%</b>

The shareholder, the Romanian State by the Ministry of Economy becomes, as per GD no. 42/2015, the Romanian State by the Ministry of Economy, Small and Medium-sized Enterprises and Business Environment.

All along 2014 took place significant changes in the structure of the shareholders with holdings equal or exceeding 5%.

The shareholders' dynamics was the following:

- The Romanian State kept the weight in the capital;



- Fondul Proprietatea lowered the participation from 29.70% la 6.06%;
- KJK FUND II SICAV – SIF reinforced the stake held, to 7.07% from 2.56%.

#### **1.1.b). COMPANY ESTABLISHMENT DATE**

CONPET S.A., is setup pursuant to GD no. 1213/20.11.1990 regarding the setting up of joint-stock companies in industry, pursuant to Law no.15/1990 regarding the reorganization of the State economic units as regies autonomes and commercial companies, by taking-over the entire Assets and Liabilities of the former Crude Oil Pipeline Transport Company (Rom: I.T.T.C.)

CONPET S.A is headquartered in PLOIESTI, no. 1-3, Anul 1848, and is being registered at the Trade Registrar Office of Ploiesti city, under no. J29/6/22.01.1991.

CONPET was set up as a joint-stock company, as per Law no. 31/1990 regarding the trade companies, republished and subsequently amended by Law no. 441/ 2006, being a publicly-held company, as per the terminology stipulated by Law no. 297/ 2004 on the capital market, being registered at the Romanian National Securities Commission (the current Financial Supervisory Authority) - National Office for Securities Records (registration certificate no. 7227/1997).

Ever since September 2013, the shares issued by CONPET are being transacted on the regulated market administered by Bucharest Stock Exchange, under „COTE”, Equities Sector, 1<sup>st</sup> Tier.

Starting January 5<sup>th</sup>, 2015, Bucharest Stock Exchange applied a new market segmentation and CONPET shares have been included to Premium category.

The company has a subscribed and paid-up share capital amounting 28,569,842.4 Lei, divided into 8,657,528 nominative shares with 3.3 nominal value each.

#### **1.1.c). CONPET MERGERS OR REORGANIZATIONS DURING THE FINANCIAL YEAR**

All along 2014, no significant CONPET mergers or reorganizations took place. The company has no subsidiary open in the country or overseas.

#### **1.1.d). ACQUISITIONS OR TRANSFERS OF ASSETS**

Except for the acquisition of assets necessary to carry-on the company business, most of them being represented by the replacement of certain sections of the major pipelines that have been identified as no longer ensuring safety in operation and by the investments on the installations and equipment related to the NTS, as well as by the goods released of operation under the Law, the company did not register any other such operations all along 2014.

#### **1.1.e). MAIN RESULTS OF THE EVALUATION OF COMPANY'S BUSINESS**

Based on the information contained by the report, the main results of the evaluation of company's business stand as follows:

The core business:

- a. The pipeline transport system is 3,800 km in length, out of which, 3,161 km are being effectively used for the transport of crude oil, rich gas, condensate and liquid ethane. For the transport of crude oil, rich gas, condensate and ethane



CONPET uses two main sub-systems: the domestic transport subsystem and the imported transport sub-system;

- b. CONPET collects, by way of the applied tariff, a modernization quota for the financing of the investments in the public domain;
- c. The utilization of the transport system lowered, from 28.8% in 2009 to 27.36% in 2014, as a result of the closing down of several refineries that led to the decrease of the transported quantities.
- d. The updates of the transport tariffs are differentiated as follows:
  - i. The average domestic transport tariffs were annually updated during 2007-2013, as per the legal regulations in force;

The tariffs approved by the National Agency for mineral Resources for the carry-on of the crude oil, rich gas and condensate transport activity on the domestic sub-system, related to the period 2013-2014, are the followings:

Order no. 15-/2012 for the period 05.06.2012 - 10.12.2013	74.58 Lei
Order no.199/2013 for the period 11.12.2013 - 31.12.2014	78.64 Lei.

- ii. The import transport tariffs for the import sub-system related to 2014, were those set by NAMR pursuant to Order no. 13/14.01.2010. The tariffs are being applied per refineries, according to the transported quantities intervals, being carried out the tariff bracket calculation model;

## 2. Technical-Investments:

- a. The current pipeline replacement frequency is given by the inline inspection thereof, the statistics of the breakages and the aggressive stance of the attacks, the replacements within the last few years, amounting approximately 392 km in length having been performed on the pipelines with the highest degree of utilization;
- b. The total number of breakdowns decreased by almost 32% yoy.

## 3. The Implemented Management Systems:

- a. As of September 2007, CONPET has implemented, maintained and improved an integrated management system in compliance with the requirements of ISO 9001:2008, ISO 14001:2005 and OHSAS 18001:2008 standards.

## 4. IT:

- a. The IT system operates on Microsoft infrastructure;
- b. In 2010, CONPET finalized the implementation of the ERP system, platform enabling data exchange in a unified framework, unified interface for development and modernization, high accessibility level, increased productivity by flexible adjustment of the data updates and a large variety of data exchange interfaces.





**5. Environment:**

- a. CONPET's environment and water management permits are all valid.

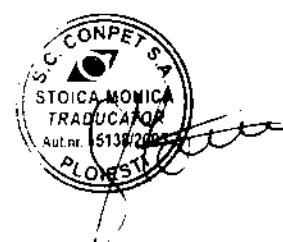
**6. Legal:**

- a. CONPET is involved in a number of 70 trials, out of which, in 15 files CONPET is acting as defendant. Following the risk assessment incurred by the ending of the dispute to the detriment of the company, have been estimated the potential cash outflows and have been made provisions in connection therewith.
- b. None of these files incurs any risk related to the stability and continuity of the company business.

**7. Financial:**

The evolution of the financial indicators during 2013-2014 and as opposed to 2014 Income and Expenditure Budget (Rom. BVC) is exposed in the table below:

Indicators	BVC 2014	Achieved 31.12.2014	Achieved 2014/BVC [%]	Achieved 31.12.2013	Achieved 2014/2013 [%]
<b>PERFORMANCE INDICATORS BoA/General Director</b>					
EBITDA (million Lei)	73	101	142.5%	67	151.0%
Operating Expenses (% Turnover)	100.98	92.86	92.0%	107.73	86.2%
Productivity (Lei/employee)	219,015	235,857	107.7%	228,727	10.1%
Number of technical breakage	116	79	68.1%	116	68.1%
Number of broker's reports	1	6			
BSE position - capitalization	25	19			
<b>OPERATIONAL INDICATORS</b>					
Total transported quantities (tons)	5,701,527	6,627,153	116.2%	5,898,435	112.4%
Operating costs/ ton (Lei/ton)	63.44	52.55	82.8%	63.71	82.5%
<b>Financial Indicators</b>					
Total operating income (million Lei)	389	403	103.6%	406	99.3%
Operating Expenses (million Lei)	362	348	96.1%	376	92.6%
Operating profit margin (% Operating Income)	6.9%	13.6%	196.8%	7.4%	184.0%
Net profit margin (% total income)	7.6%	12.5%	164.0%	7.5%	166.2%
Economic profitability (% ROA)	N/A	6.4%	N/A	4.3%	148.8%
Financial Profitability (% ROE)	N/A	7.1%	N/A	4.8%	148.2%
<b>INVESTMENT PLAN TRACKING INDICATORS</b>					



Investments- public domain (million Lei)	43.4	24.8	57.1%	30.4	81.6%
Investments - operating area (million Lei)	6.6	5.7	86.4%	10.0	57.0%

### 1.1.1. GENERAL EVALUATION ELEMENTS

The economic-financial activity of CONPET during 2013-2014 was performed based on the indicators included in the annual income and expenditure budgets, approved by the General meeting of Shareholders.

The main economic financial indicators achieved during 2014, as compare to the budget approved by way of the GD no. 593/2014 and OGMS Decision no. 5/02.09.2014, are presented in the table below:

Indicator [Lei]	Achieved	BVC	Execution Rate [%]
<b>Net turnover</b>	<b>375,032,873</b>	<b>358,173,000</b>	<b>104.7</b>
Operating revenues	403,079,120	388,533,000	103.7
Operating expenses	348,245,609	361,683,000	96.3
<b>Gross operating profit</b>	<b>54,833,511</b>	<b>26,850,000</b>	<b>204.2</b>
Financial Revenues	9,947,716	10,600,000	93.8
Financial Expenses	313,749	600,000	52.3
<b>Gross financial profit</b>	<b>9,633,967</b>	<b>10,000,000</b>	<b>96.3</b>
Total revenues	413,026,836	399,133,000	103.5
Total expenses	348,559,358	362,283,000	96.2
Gross Profit	<b>64,467,478</b>	<b>36,850,000</b>	<b>174.9</b>
Net Profit	<b>51,434,194</b>	<b>30,299,000</b>	<b>169.8</b>

The evolution of these indicators within the last two years is as follows:

Indicator [Lei]	2014	2013	2014/2013 [%]
<b>Net turnover</b>	<b>375,032,873</b>	<b>348,853,873</b>	<b>107.5</b>
Operating revenues	403,079,120	405,761,456	99.3
Operating expenses	348,245,609	375,811,674	92.7
<b>Gross operating profit</b>	<b>54,833,511</b>	<b>29,949,782</b>	<b>183.1</b>
Financial Revenues	9,947,716	11,821,081	84.2
Financial Expenses	313,749	470,816	66.6
<b>Gross financial profit</b>	<b>9,633,967</b>	<b>11,350,265</b>	<b>84.9</b>



Total revenues	413,026,836	417,582,537	98.9
Total expenses	348,559,358	376,282,490	92.6
Gross Profit	64,467,478	41,300,047	156.1
Net Profit	51,434,194	31,297,556	164.3

The net turnover increased by 7.5% in 2014 as opposed to 2013 and by 4.71% as opposed to the budget provisions due to the increase, by 729 thousands, of the transported quantities and the augmentation of the average transport tariff on the domestic transport sub-system as of December 2013.

The diminution by 0.7% of the operating income in 2014 as opposed to 2013 is being mainly revealed at the item „other operating income” and is due to the fact that in 2013 existed certain circumstantial situations that were no longer to be found in 2014 financial year, namely:

- The registering, based on the revaluation of a significant depreciation (21,844,500 Lei) of the tangible assets financed out of the modernization quota, aspect that led to the recognition of the reserves made in connection herewith into the income accounts.
- The encashment of certain tender guarantees and sale of an amount of rich gas out of the operating stock (4,264,312 Lei)

The operating profit increased by 83.1% in 2014 as opposed to 2013 and by 104.2% as opposed to the budget provisions. The 104.2% increase in the achieved profit vs estimated profit was triggered, on the one hand, by the augmentation of the revenues and on the other hand by the economies registered in relation to the maintenance expenses, rail transport, decontamination works etc.

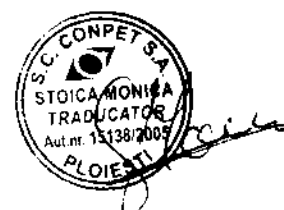
The financial revenues decreased by 6.2 % as opposed to the level stipulated in the BVC and by 14% yoy, due to the reduction of the NBR's reference interest rate and implicitly of the interest negotiated for the fixed-term deposits, made by the company.

The net profit increased, from 31.3 mln. Lei in 2013 to 51.4 mln. Lei in 2014, due to the operating activity that registered an increase in profit in amount of 24.9 mln. Lei.

## INCOME

As compared to the Income and Expenditure Budget (Rom. BVC), in the per segments and activities structure, the total revenues related to the operating activity in 2014 are as follows:

Indicator [Lei]	Achieved 2014	BVC	Execution Rate [%]
<i>Income from transport activity, out of which:</i>			
<i>Tons</i>	6,627,153	5,701,527	116.2
<i>Lei</i>	372,945,993	356,827,823	104.5
Income triggered by the transport on the Domestic Subsystem			
<i>Tons</i>	3,958,758	4,029,527	98.2



	Lei	314,399,632	316,882,003	99.2
<b>Income triggered by the transport on the Import Subsystem</b>				
	Tons	2,668,395	1,672,000	159.6
	Lei	58,546,361	39,945,820	146.6
<b>Rental Income</b>				
		1,348,073	817,192	165.0
<b>Other turnover – related revenues</b>				
		738,807	528,028	139.9
<b>Other operating income, out of which:</b>				
The reserves made on the Modernization quota –related expenses recognized as income				
		25,466,067	29,731,460	85.7
Income from sale of assets				
		1,105,101	280,000	394.7
Other revenues				
		1,475,079	348,496	423.3
<b>Total operating revenues</b>				
		403,079,120	388,533,000	103.7

The operating income registered 3.7% increase as compared to the Income and Expenditure Budget provisions, being influenced by the following factors:

- The transport revenues increased by 4.5% as compared to the budgetary provisions, being highlighted in the structure, on transport subsystems, as follows:
  - A decrease by 0.8% of the revenues generated by the transport on the domestic sub-system;
  - An increase by 46.6% of the revenues generated by the crude transport on the import sub-system;
- Other operating revenues fell by 7.6% as compared to the budgetary provisions, due to the diminution of the income resulting from the recognition as income of the fixed assets depreciation expenses financed out of the modernization quota.

The evolution of the total revenues on operating activities within the last two years is the following:

Indicator [lei]	2014	Weight [%]	2013	Weight [%]	'14/'13 [%]
<b>Income from transport activity, out of which:</b>					
	6,627,153		5,898,435		112.4
<b>Tons</b>					
<b>Lei</b>	372,945,993	92.5	347,378,482	85.6	107.4
<b>Income triggered by the transport on the Domestic Subsystem</b>					
	3,958,758		4,036,928		98.1
<b>Tons</b>					
<b>Lei</b>	314,399,632	78.0	304,216,518	75.0	103.3
<b>Income triggered by the transport on the Import Subsystem</b>					
	2,668,395		1,861,507		143.3
<b>Tons</b>					



Lei	58,546,361	14.5	43,161,964	10.6	135.6
<b>Rental income</b>	<b>1,348,073</b>	<b>0.3</b>	<b>975,723</b>	<b>0.2</b>	<b>138.2</b>
<b>Other turnover – related revenues</b>	<b>738,807</b>	<b>0.2</b>	<b>499,668</b>	<b>0.1</b>	<b>147.9</b>
<b>Other operating income, out of which:</b>	<b>28,046,247</b>	<b>7.0</b>	<b>56,907,583</b>	<b>14.1</b>	<b>49.3</b>
The reserves made on the Modernization quota - related expenses recognized as income	25,466,067	6.3	50,157,269	12.4	50.8
Income from sale of assets	1,105,101	0.3	747,809	0.2	147.8
Other revenues	1,475,078	0.4	6,002,505	1.5	24.6
<b>Total operating revenues</b>	<b>403,079,120</b>	<b>100.0</b>	<b>405,761,456</b>	<b>100.0</b>	<b>99.3</b>

In 2014, the income from transport activities registered an increase by 25,567,511 Lei (7.4%) yoy. The 7.4% increase was mainly generated by the augmentation of the domestic transport tariff as of December 2013 and the increase of the imported crude transported quantities;

The income from core business (crude oil, rich gas and condensate transport services) accounts for the largest share (92.5% in 2014) in the total operating expenses of the company.

Other operating expenses recorded a diminution by 50.4% yoy, being incurred by the two circumstantial situations described within the operating expenses.

## EXPENSES

In 2014, as compared to the approved budget, the total operating expenses are as follows:

Indicator	Achieved	BVC	Execution Rate
[Lei]	2014	2014	[%]
<b>Material expenses, out of which:</b>	<b>7,485,185</b>	<b>9,134,320</b>	<b>81.9</b>
-expenses for consumables	3,831,757	3,642,320	105.2
-Fuel expenses	2,792,744	3,128,000	89.3
Other outside expenses ( with energy and water)	<b>10,904,132</b>	<b>11,061,000</b>	<b>98.6</b>
<b>Personnel expenses, out of which:</b>	<b>98,015,328</b>	<b>101,221,126</b>	<b>96.8</b>
-Salary expenses	69,646,194	70,142,616	99.3
-Expenses related to the social security insurance contributions and other legal requirements	20,846,422	23,457,781	88.9
-Other personnel expenses	7,522,712	7,620,729	98.7
<b>Tangible and Intangible assets depreciation related expenses</b>	<b>46,430,433</b>	<b>44,046,138</b>	<b>105.4</b>
<b>-Third party expenses, out of which:</b>	<b>118,606,437</b>	<b>132,646,319</b>	<b>89.4</b>
-Maintenance (Maintenance, current and capital repairs) expenses	2,775,042	7,739,000	35.9
-Crude oil rail transport expenses	78,737,636	83,357,151	94.5



-Decontamination expenses	1,899,622	3,575,000	53.1
- Royalties	28,376,502	26,601,710	106.7
-other third party services	6,817,632	11,373,458	59.9
<b>Value adjustments on current assets</b>	<b>356,688</b>		
<b>Provisions adjustments</b>	<b>1,911,798</b>	<b>1,820,902</b>	105.0
<b>Other operating expenses, out of which:</b>	<b>64,535,608</b>	<b>61,753,195</b>	104.5
-modernization quota expenses	58,036,141	55,343,996	104.9
<b>Total operating expenses</b>	<b>348,245,609</b>	<b>361,683,000</b>	96.3

The evolution of the total expenses on operating activities within the last two years is the following:

indicator		Weight		Weight	2014/2013
[Le]	2014	[%]	2013	[%]	[%]
<b>Material expenses, out of which:</b>	<b>7,485,185</b>	<b>2,1%</b>	<b>6,006,037</b>	<b>1.6%</b>	<b>124.6</b>
-expenses for consumables	3,831,757	1,1%	2,669,486	0.7%	143.5
-Fuel expenses	2,792,744	0,8%	2,806,082	0.7%	99.5
Other outside expenses ( with energy and water)	10,904,132	3,1%	10,622,134	2.8%	102.7
<b>Personnel expenses, out of which:</b>	<b>98,015,328</b>	<b>28,1%</b>	<b>97,885,122</b>	<b>26.0%</b>	<b>100.1</b>
-Salary expenses	69,646,194	20,0%	67,585,901	18.0%	103.0
-Expenses related to the social security insurance contributions and other legal requirements	20,846,422	6,0%	20,219,204	5.4%	103.1
-Other personnel expenses	7,522,712	2,1%	10,080,017	2.7%	74.6
<b>Tangible and intangible assets depreciation related expenses</b>	<b>46,430,435</b>	<b>13,3%</b>	<b>36,662,747</b>	<b>9.8%</b>	<b>126.6</b>
<b>-Third party expenses, out of which:</b>	<b>118,606,435</b>	<b>34,1%</b>	<b>123,624,927</b>	<b>32.9%</b>	<b>95.9</b>
-Maintenance (Maintenance, current and capital repairs) expenses	2,775,043	0,8%	4,712,023	1.3%	58.9
-Crude oil rail transport expenses	78,737,636	22,6%	83,501,071	22.2%	94.3
-Decontamination expenses	1,899,622	0,5%	2,143,701	0.6%	88.6
- Royalties	28,376,502	8,1%	25,940,842	6.9%	109.4
-other third party services	6,817,632	2,0%	7,327,290	1.9%	93.0
<b>Value adjustments on current assets</b>	<b>356,688</b>	<b>0,1%</b>	<b>1,565,637</b>	<b>0.4%</b>	<b>22.8</b>
<b>Provisions adjustments</b>	<b>1,911,798</b>	<b>0,6%</b>	<b>8,672,876</b>	<b>2.3%</b>	<b>22.0</b>
<b>Other operating expenses, out of which:</b>	<b>64,535,608</b>	<b>18,6%</b>	<b>90,772,194</b>	<b>24.2%</b>	<b>71.1</b>
-modernization quota expenses	58,036,141	16,7%	53,292,506	14.2%	108.9



Total operating expenses	348,245,609	100,0%	375,811,674	100,0%	92.7
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The operating expenses achieved at the end of the year are in amount of 348.2 mln. Lei, registering 3.7% decrease as opposed to the budgetary provisions, mainly due to the decrease of the following types of expenses:

- Material expenses – 18.1%;
- Outside expenses with energy and water -1.4%;
- Personnel expenses -3.2%;
- Third party expenses -10.6%;

The budgetary provisions have been overrun in relation to the following expenses:

- Expenses regarding the impairment losses for the tangible and intangible assets – 5.4%
- Provision expenses – 5%
- Modernization quota related expenses – 4.9%, justified by the increase on the crude transport related income.

The value of the Outside expenses with energy and water increased by 2.7% in 2014 yoy, due to the rise in the procurement prices.

The personnel expenses, here included both salaries and indemnities, as well as the expenses related to the social security insurance contributions, described a constant trend in 2014 as opposed to 2013, generated by the even human resources policy.

The third party expenses lowered by 4.1% in 2014 as opposed to 2013, due to the reduction of the expenses incurred by maintenance, current and capital repairs, as well as rail transport.

### 1.1.2. EVALUATION OF CONPET TECHNICAL LEVEL

For the achievement of its core business, the transport of crude oil, rich gas, and ethane from and to its business partners, under maximum expediency, in a highly effective manner and with an operating cost as low as possible, observing the legislation in force regarding the environmental protection, labor protection and the other normative acts in the area, CONPET conducts sustainable activity towards the improvement of the technical state of the National Pipeline Transport System.

The Crude oil National Transport System is the ensemble of the interconnected major pipelines easing the collection of the oil extracted from the development areas or of the imported crude and the steerage thereof from the delivery sites to the producers/importers, towards the processing units, through the pumping stations, the rail loading-unloading ramps, as well as all the installations, equipment and ancillary facilities thereof.

The concessionaire of the crude oil national transport system is acting as common carrier and is bound to provide, as per the legal provisions, free access to the system's available throughput, to all petitioners, certified legal persons, under equal conditions, in a non-discriminatory and transparent manner.

The Crude oil National Transport System concessioned by CONPET S.A., belongs to the Romanian State public domain and is made of the following sub-systems:



- Sub-system for the transport of imported crude – approx. 20.2 mln. tons/year transport throughput;
- Sub-system for the transport of domestic crude - approx. 6.9 mln. tons/year transport throughput;
- Sub-system for the transport of rich gas and ethane- approx. 0.23 mln. tons/year transport throughput for rich gas and about 0.1 mln. tons/year transport throughput for ethane;

CONPET supplies transport services for its clients both through the National Transport System, concessioned based on the Oil Concession Agreement and on the railway tanks, from the loading ramps to the beneficiaries, for the oil fields which are not being linked to the transport major pipelines.

For the transport of the crude oil through the major pipelines of the National Transport System, CONPET, acting as holder of the Oil Concession Agreement, pays oil royalty to the State budget. As per the provisions of Art. 49 paragr. (2) letter b) of the Petroleum Law no. 238/2004, the oil royalty is being calculated by the application of the 10% quota out of the value of the gross revenues achieved by way of petroleum transport and transit operations through the national crude oil transport systems.

### **1.1.3. EVALUATION OF THE TECHNICAL-MATERIAL AND SERVICES PROCUREMENT ACTIVITY**

During 2014, the procurement activity was achieved based on the approved program, by direct procurement based on external order or ongoing contracts.

Have been provided for the material resources necessary to carry-on the transport activity under optimum conditions, as well as the stock for materials and spare – parts that are being used in case of operative interventions, in case of breakdowns, in view of limiting the effects on the environment.

The materials and spare-parts have been supplied by local, traditional suppliers, included on the list of the approved suppliers.

### **1.1.4. EVALUATION OF THE SALES ACTIVITY**

#### ***The sales and distribution market***

The main services provided by CONPET include: the transport of crude oil, rich gas, condensate and ethane from the internal production, through pipelines and by rail and the transport of imported crude through pipelines.

The beneficiaries of the transport services are:

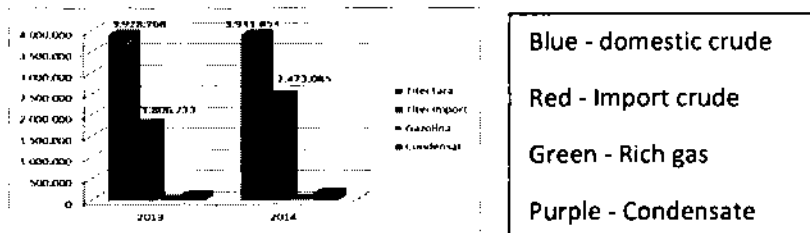
- OMV-Petrom SA for the transport of domestic crude and oil derivatives through pipelines and by rail;
- Petrotel – Lukoil SA for the transport of domestic crude oil, procured from OMV PETROM and of imported crude oil through pipelines;
- Rompetrol Rafinare SA for the transport of imported crude through pipelines.

The evolution of the crude oil, rich gas and condensate transported quantities via the national transport system during 2013-2014, is the following:





Crt. No.	Categories of products	M.U.	2013	2014
0	1	2	3	4
1	Domestic Crude	tons	3,931,853	3,928,768
2	Import Crude	tons	2,473,085	1,806,233
3	Rich Gas	tons	39,204	36,260
4	Condensate	tons	183,011	127,174
<b>TOTAL</b>			<b>6,627,153</b>	<b>5,898,435</b>



The share of the revenues invoiced and collected from the clients, for 2014, stands as follows:

- OMV PETROM S.A. – 81.97%
- Petrotel – Lukoil S.A. – 17.67%
- Rompetrol Rafinare S.A. – Complex Petromidia – 0.36%

### **The Competitive Environment**

#### *Threat triggered by Potential Competitors*

The access to the distribution channels is critical for easing success in this area. This factor plays a major role, triggering a high level of threat triggered by the potential competitors.

Nevertheless, the high level of necessary investments, as well as the highly regulatory level of the business area, reduce the threat triggered by the potential competitors.

#### *The Clients' Negotiation Skills*

The threat represented by the upstream integration is high, given also the high degree of concentration of the clients. Considering the high degree of concentration that may turn into a monopsony, the foregoing examples in the industry regarding the upstream integration, as well as the availability of substitution services standing as an argument for negotiation, we consider that the clients' power of negotiation is average.

#### *Suppliers' Negotiation Skills*

The level of threat determined by the Suppliers' negotiation power is reduced.

*The Intensity of the Competition among the Industry Competitors*

The company holds a monopoly position on the crude oil pipeline transport market, not having other competitors in this business area. The transport services are being contracted based on a frame contract approved by the national Agency for mineral Resources, the practiced transport tariffs being approved by the same authority.

*Significant Dependency on a Single Client*

The transport services supplied by CONPET SA address to a reduced number of potential beneficiaries; consequently, the volume thereof is closely related to the trade policy applied by the beneficiaries of the supplied services. A similar situation is being recorded in relation to OMV Petrom which is the main client when referring to the domestic crude oil transport and the only client for the transport of rich gas, condensate and ethane.

**1.1.5. EVALUATION OF THE ASPECTS RELATED TO THE COMPANY EMPLOYEES**

The level of training of the company employees at 31.12.2014 is the following:

EDUCATION	WOMEN	MEN	TOTAL	
	no.	no.	no.	%
Graduate of first level of secondary education (8-10 classes)	38	236	274	1.55%
Graduate of secondary education	86	911	997	56.58%
Post-secondary studies	21	105	126	7.15%
Higher Education	141	224	365	20.72%
<b>TOTAL</b>	<b>286</b>	<b>1476</b>	<b>1762</b>	<b>100%</b>

Out of the total of 1762 employees, 82 persons are in leading positions, 1680 are in execution positions, out of which 55 are low-skilled workers.

In 2014, the degree of syndicalization of the work force was of 99.97%.

The relations between the manager and the employees are laid down in the Organizational and Operational Rules and Regulations, the Collective Labor Agreement, the Code of Ethics. During 2014 did not exist any conflict situation between the employees and the company management.



### **1.1.6. EVALUATION OF THE ASPECTS CONCERNING THE IMPACT OF THE CORE BUSINESS ON THE ENVIRONMENT**

#### **Identification of the environment - related aspects and assessment of the impact on the environment**

The environment impact evaluation is being performed in the operating sectors whenever changes occur in the system that trigger activities bearing impact on the environment; the list of the aspects bearing significant impact, identified at company level underlies the preparation of the Environment Management Plan and of the Action Plan for the fulfilment of the environment objectives.

In 2014 have been revised the environment targets, updated the environment aspects at site level, the significant environment aspects being included into a new Actions Plan for the fulfilment of the environment objectives.

The state of achievement of the set objectives and goals is being recurrently analyzed as part of the management analysis.

#### **Assessments of the compliance with the legal requirements and other environment requirements**

The periodic evaluation of the observance of the legal requirements was provided by way of inspections carried out by the representatives of the National Environmental Guard - the Environmental County Commissariats, the Territorial Agencies for Environmental Protection, the "Romanian Waters" National Administration - the County Basinal Water Administrations/ the Water Management Systems, as well as by way of internal audits performed by the internal auditors within the Management System Certification Service.

During 2014, the environment authorities made 157 external audits, not being consigned any major non-compliance.

#### **Pollution Bearing Significant Impact on the Environment**

##### ***Decontamination of the Polluted Surfaces***

During the crude oil pumping on the transport pipelines, may occur accidental pollutions, generating the pollution of the geologic environment.

Consequently, during 2014 have been reported accidental pollutions in the areas: Dragos Voda, Perisoru, Ivanesti, Mariuta, Dragalina (Calarasi county), Imeci (Covasna county), Roata de Jos (Giurgiu county), Nuci (Ilfov county), Becsani (Valcea county), Tatarastii de Sus (Teleorman county), Balta Ialomitei (Ialomita county), Puiesti (Buzau county), Raca, Cateasca- Oarja, Mirosi - valea Burzii (Arges county), Ghimpatii, Selaru (Dambovita county), Corbu, (Olt county), Moara Noua, Matita, Albesti- Paleologu (Prahova county), Ianca, Perisoru, izlaz Ciresu, Baraganu (Braila county), Valul lui Traian, Valea Dermengiului, C1-C2 Danube right bank undercrossing, Cuza Voda (Constanta county).

The expenses performed in 2014 for the depollution of the affected areas, were in amount of **1,845,270 Lei** as opposed to the provisions of the budget approved with this destination, which were in amount of **3,500,000 Lei**.



### **Tanks Cleaning**

As a result of the activity of crude oil storage in the tanks (NACE CODE 5210), in time, the crude oil mechanical impurities sediment generating "tank slurry", being necessary the recurrent expulsion thereof, in view of providing the necessary space for the storage/repair/calibration thereof.

In 2014, within CONPET were performed slurry cleaning works on the tanks located in the following technological precincts: Dragos Voda station (Calarasi county), Independenta ramp (Galati county), Ciresu ramp (Braila county), Mavrodin Station (Dambovita county), Moreni Station (Dambovita county).

### **Monitoring of the Environment Factors**

The environment permits and the water management permits contain a separate chapter „*Environment Monitoring*” which details both the environment factors that need to be analyzed, the recurrence of the environmental factors monitoring, as well as the type of analysis that need to be performed.

Centralizing the requirements contained in the chapter "Environment Monitoring", was achieved "**2014 Annual Program for the Monitoring and measurement of the Environment Factors Features**" based on the performance of the determination of:

- The pollutant concentration in the water emissions discharged in the surface waters, in the sewing pipes, as well as the pollutants in underground water concentration (existing drilling testing), determination of the level of pollution in case of the accidental pollutions of the water courses;
- Concentration of pollutants in the atmospheric emissions of certain fixed/and or mobile sources (thermal power stations, crude oil storage tanks, railway tank loading units), as well as of the pollutants concentration in the ambient air
- Concentration of specific pollutants in the ground samples;
- Level of noise

For the analyzed indicators have not been ascertained overruns of the maximum allowable concentrations/exposure limit values.

### **WORK SAFETY AND HEALTHS**

In 2014 was performed the evaluation of work accident and illness for the South Division. The calculated risk level is 2.84 and the value thereof is smaller than the maximum accepted level (namely 3.5).

Have been performed audits by the Territorial Labour Inspectorates (Rom. ITM) in 5 counties where CONPET has business units, the only nonconformity being the lack of a rescue station to one location.

In view of providing the work safety and health and in order to prevent the work accident and illness, there is a legal obligation to perform the internal audits at the place of work, by



informing, in writing the company management on the ascertained deficiencies and measures proposed for the remediation thereof.

In 2014 have been performed 112 internal inspections both by the representatives of the Prevention and protection Service and the HSEQ persons in charge in the territory, following which have been imposed 112 measures wherefrom 109 were due and performed in 2014.

As regards the other requirements of the contracting parties performing works or supplying services for CONPET SA, during 2014 have been concluded 131 conventions regarding Work Safety and Health – Emergency Situation- Environment Protection, annexes to the economic contracts.

#### Work Incidents, Accidents

In 2014 took place only one event, the victim being the worker Vasile Ion, working as locksmith within the interventions formation of Ploiesti-Baicoi sector. Following the event investigation, it was registered by CONPET S.A as work accident with temporary incapacity for work.

#### Monitoring the State of Health of the Workers

In 2014 has been performed the medical examination of all workers as per the professional risk factors to which they are exposed to, being issued 121 conditional medical permits, out of which one being „invalid". Have not been identified professional illnesses.

#### 1.1.7. EVALUATION OF THE INVESTMENTS - DEVELOPMENT ACTIVITY

For 2014, CONPET S.A. was approved, by way of the Income and Expenditure Budget, an investments program amounting 50,000 thousand Lei and made investments amounting 30,520 thousand Lei (61%), out of which, by sources of financing:

- Other sources (modernization quota) - 22,012 thousand Lei ;
- Other sources (profit) - 8,508 thousand Lei.

The investments program targeted:

- The continuation of the works for the rehabilitation of the crude oil and rich gas major pipelines;
- Investments works on the installation, equipment and ancillary facilities related to the national transport system.

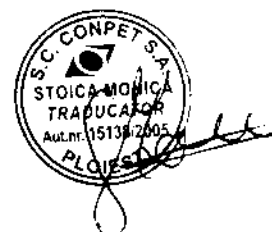
The commissionings performed in 2014 amounted 45,694 thousand Lei, out of which, achieved within the prior period in amount of 29,066 thousand Lei, and by sources of financing:

- 36.433 thousand lei from other sources - modernization quota;
- 9.261 thousand Lei from own sources - profit;

In structure, the state of completion of the investment program is as follows:

Thousand Lei

Crt. No.	Name of the Objectives	Programmed	Achieved	%
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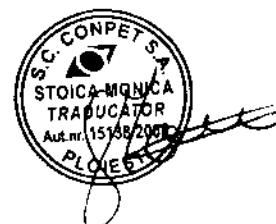


		2014	Estimated 2014	
	<b>Total general, out of which:</b>	<b>50,000</b>	<b>30,520</b>	<b>61%</b>
<b>I</b>	<b>PUBLIC DOMAIN</b>	<b>43,391</b>	<b>24,780</b>	<b>57%</b>
1	Pipeline rehabilitation, out of which:	25,854	13,178.23	51%
1,1	Pipeline replacement	19,418	11,231.45	58%
1,2	Safe Disposals	6,436	1,946.78	30%
2	Modernization and monitoring of the cathodic protection system at central and sectoral level, related to Ticleni-Ploiesti, Line 1 and Line 2 crude oil transport pipelines	755	338.32	45%
3	Modernization and monitoring of the cathodic protection system related to the domestic and import National Transport System	230	0.00	0%
4	Pilot system for detection and location of product leaks from the crude oil major pipelines system Videle - Cartojani - Ploiesti	4,111	0,00	0%
5	Technical Consulting and Assistance	50	0.00	0%
6	Other investment objectives	12,391	11,263.02	91%
<b>II</b>	<b>OPERATING AREA</b>	<b>6,609</b>	<b>5,740</b>	<b>87%</b>
	Investment objectives, out of which:	4,879	4,782.07	98%
a)	<i>ONGOING WORKS</i> , out of which:	2,103	1,828.85	87%
1	Pipeline rehabilitation	935	1,002.01	107%
b)	<b>NEW WORKS</b>	2,776	2,953	106%
	Independent facilities and equipment	1,730	958.34	55%

For 2015, the company contemplates the achievement of the investments works in amount of 51,912 thousand Lei, out of which, by sources of financing:

- Other sources (modernization quota) – 36,601 thousand Lei, out of which 27,662 thousand Lei are works in progress and 8,939 thousand Lei represent new works;
- Own sources (profit) – 15,311 thousand Lei, out of which 3.893 thousand Lei works in progress and 11,418 thousand Lei new works.

The most important investments objectives that will be continued this year are:



- Implementation of a pilot system for detection and location of product leaks from the crude oil major pipelines system Videle - Cartojani – Ploiesti, following the completion of a feasibility study and signing of the contract execution, system that might bring many benefits in relation to the loss reduction in case of breakdowns as well as the diminution of the decontamination costs;
- Modernization and monitoring of the cathodic protection system at central and sectoral level, related to Ticleni-Ploiesti, Line 1 and Line 2 crude oil transport pipelines.

#### **1.1.8. EVALUATION OF THE COMPANY ACTIVITY IN TERMS OF RISK MANAGEMENT**

The notion of "risk" is strictly related to the notion of "audit", being initially implemented in the private institutions, where it has fully proved effectiveness. In view of increasing the quality of the management act and for the compliance with the international standards and national regulations, the public organizations adopted the concept of "internal audit".

As per the institute of the internal Auditors, "the internal audit represents any action made by the management, board of administration and other parties for the risk management and enhancing the odds for the objectives and targets be reached".

The White Paper of the management reform within the European Commission services, charters: "the internal audit covers all the policies and procedures designed and implemented by the organization management in order to provide: the fulfillment of the objectives in an economic, effective and efficient way, the compliance of the external rules and policies and management regulations, protection of the goods and information, mitigation and detection of frauds and errors, as well as the quality of the accounting records and the production, in due time, of trustworthy information regarding the financial and management segment".

The management of the risks is a permanent major activity of the Board of Administration for the fulfilment of the objectives set in the Administration Plan.

Following the analysis, have been identified several factors that may lead to risks for which have been set control measures on short, average and long time basis, according to the degree of exposure to risks.

Below are exposed the risks assessed and found under supervision during 2014.

#### **The Market Risks**

The company is dependent at the level of processing the crude oil in Romania. CONPET is not interconnected to other external transport systems in the region.

The significant risk is being represented by the reduction of the transported crude quantities as a result of the diminution of the crude volumes imported by the refineries. This triggers <10% degree of utilization of the import sub-system. Currently, the refineries processing imported crude oil and using the national Transport System for the consignment thereof are Petrotel Lukoil S.A and to a smaller extent, Petromidia Refinery.

