

**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 PLOIEȘTI, no. 1-3, Anul 1848, and is being registered at the Trade Registrar Office of Ploiești 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
<b>Gross Profit</b>	<b>64,467,478</b>	<b>36,850,000</b>	<b>174.9</b>
<b>Net Profit</b>	<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 [%]
<b>Income from transport activity, out of which:</b>			
<b>Tons</b>	6,627,153	5,701,527	116.2
<b>Lei</b>	372,945,993	356,827,823	104.5
Income triggered by the transport on the Domestic Subsystem			
<b>Tons</b>	3,958,758	4,029,527	98.2



Lei	314,399,632	316,882,003	99.2
Income triggered by the transport on the Import Subsystem			
Tons	2,668,395	1,672,000	159.6
Lei	58,546,361	39,945,820	146.6
Rental income	1,348,073	817,192	165.0
Other turnover – related revenues	738,807	528,028	139.9
Other operating income, out of which:	28,046,247	30,359,957	92.4
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
Total operating revenues	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 [%]
Income from transport activity, out of which:					
Tons	6,627,153		5,898,435		112.4
Lei	372,945,993	92.5	347,378,482	85.6	107.4
Income triggered by the transport on the Domestic Subsystem					
Tons	3,958,758		4,036,928		98.1
Lei	314,399,632	78.0	304,216,518	75.0	103.3
Income triggered by the transport on the Import Subsystem					
Tons	2,668,395		1,861,507		143.3

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)	10,904,132	11,061,000	98.6
<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
[Lei]	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 steorage 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:

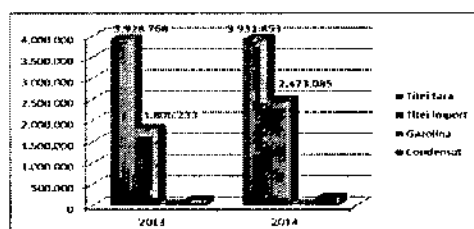
- OMV-Petrom SA for the transport of domestic crude and oil derivatives through pipelines and by rail;
- Petrotel – Lukoil SA for the transport of domestic crude oil, procured from OMV PETROM and of imported crude oil through pipelines;
- Rompetrol Rafinare SA for the transport of imported crude through 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
TOTAL			6,627,153	5,898,435



Blue - domestic crude

Red - Import crude

Green - Rich gas

Purple - Condensate

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), Ghimpat, Selaru (Dambovit 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 fulfillment 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 Risk**

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.



In lack of an interconnection of the National Transport System to other transport network outside the Romanian borders, there is a dependency in the achievement of the programmed revenues, on the decisions of the companies involved in the processing of the crude oil in Romania.

The crude oil and rich gas volumes produced out of Romania's internal resources for the next three years, based on the information received from the Company from OMV, is relatively constant, approximating 4 million tons/year.

Following the restructuring of the petrochemical industry in Romania, the transport of the domestic derivatives (rich gas and ethane) has lowered dramatically, triggering side effects on the degree of utilization of the sub-system related to these products.

Given all these, by the support of the main shareholder, the Minister of Economy and National Authority for Mineral Resources (NAMR), the Company pays efforts to identify new opportunities that lead to the increase of the degree of utilization of the system, nevertheless involving into regional projects started in its business area.

The company management reckons that it cannot forecast the changes to take place in Romania regarding the refineries' decision in relation to the level of processing, closing down/opening of the processing units and the effects thereof on the Company's financial position, operating result and cash flows.

The analyzed level of this risk was average; it is a risk describing low tolerability for which have been taken short term measures to keep it under control:

- Interconnection of the national Transport System with other systems in the region
- Identification and development of activities related to the core business.

### Operational Risks

The Company results and activity may be influenced by specific operational risks, including the followings:

- Degradation of the National Pipeline Transport System due to the low level of utilization (small quantities, reduced frequency).
- Escalation of the criminal acts related to pipeline attacks bearing significant impact on the Pipelines National Transport System and environment, in conjunction with a potential failure to provide the pipelines guard by way of gendarmes, activity currently performed based on the contracts concluded with the Romanian Gendarmerie.

The closing-down of a crude oil extraction site triggers every time the initiation of a procedure to identify possibilities to exploit the NTS.

Where haven't been identified new opportunities for the utilization of the respective throughputs, upon the NAMR approval, one proceeds to the conservation/inactivation thereof in order to cut expenses.

The analyzed level of operational risk associated to the "degradation of the NTS" was large; it is an intolerable risk for which have been set urgent measures to control it:

- Redefining the transport infrastructure according to demand.





The analyzed level of operational risk related to "the escalation of the criminal behavior" was average, being a low tolerability risk for which have been set short-term measures to keep it under control:

- The deterrence of the criminal behavior by the introduction of a real-time leak detection and location system.

### **The Personnel Risk and the Salary System**

On December 31<sup>st</sup> 2014, the age category with the highest rate ratio in the company is the personnel where the age is ranging between 41-50 years old (45%), followed by the category where the age is ranging between 51-60 years old (32%) and 31 - 40 years old (17%). Currently, this thing is a major advantage given that almost 70% of the personnel has 20 years of experience in the company.

The personnel related risk stands upon the possibility that in the future, the company be faced a lack of personnel due to the leaves of the employees due to natural causes.

The analyzed level of this risk was low; this is a high tolerability risk for and for the control thereof have been set average and long-term measures by way of the personnel policy and the monitoring of the personnel fluctuations (personnel input/output in/from the company).

### **The Credit Risk**

The credit risk implies the hazard for the COMPANY to bear a financial loss due to the non-fulfillment of the contractual obligations by a client or a counterpart to a financial instrument and this risk resides mainly in the trade liabilities, the cash and cash equivalents and short-term investments of the Company.

The Company carries-out trade relations exclusively with approved third-parties that justify the credit financing.

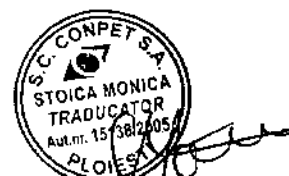
The financial assets that may submit the Company to the encashment risk, are mainly the trade liabilities, the cash and cash equivalents and short-term investments. The company implemented a series of policies where they provide that the sale of services is being performed by clients with similar receipts. The value of the net liabilities (no depreciation adjustments) represent the maximum amount exposed to the encashment risk.

The credit risk related to trade liabilities is reduced due to the regular encashment of the transport services. Despite the significant concentrations, the client base being extremely reduced, the management appreciates that the trade credit risk is reduced.

The analyzed level of this risk was negligible; it is a tolerable risk for which are not necessary special measures to keep it under control.

### **The Liquidity Risk**

The liquidity risk is handled by the company management based on the application of a policy on the permanent insurance of the liquidities meant to cover the settlement of the due financial liabilities.



The analyzed level of this risk was low; there is a high tolerability risk for which the measures to keep it under control stick to the close surveillance of the exposure to liquidity risk, this measure being sufficient.

### **Exchange Rate Risk**

The company may be exposed to fluctuations of the exchange rate of the currencies by means of cash and cash equivalents, short-term investments, long term loans or trade liabilities expressed in foreign currencies.

The functional currency of the Company is the Romanian Lei. To date, the company is exposed to the exchange rate risk through cash and cash equivalents, short-term investments, as well as through the procurements made in a currency different from the functional currency. The currencies exposing the Company to such a risk are mainly EUR, USD and GBP. The debts in foreign currency are subsequently expressed in Lei, at the exchange rate of the date of the balance sheet, communicated by the Romanian National Bank. The resulting differences are included in the profit and loss account, but do not affect the cash flow up to the moment of the extinguishment of the liability.

The Company exposure to the exchange rate risk was insignificant. The analyzed level of this risk was negligible; it is a tolerable risk for which are not necessary special measures to keep it under control.

### **Risks on Shares**

From the point of view of the value of the transactions made or market capitalization, the Bucharest Stock Exchange may be considered a stock exchange of reduced size as compared to other stock markets in the world, thus existing risks related to the reduced market liquidity, as well as high volatility of the price of the transacted share.

The reduced liquidity of the market may determine the impossibility of buying or selling shares of the Company without bearing significant impact on the price of that share, thus generating high volatility of the shares' price.

### **The Risk Determined by the Correlation with the Global Market Evolution**

The events on the world financial market bear direct and indirect impact on the evolution of the Romanian economy, fact reflected in the evolution of the Romanian capital market within the last years. Consequently, the evolutions at world level affect both CONPET activity and the evolution thereof on the capital market.

Romania's economy, like any other emerging economy, is sensitive to activity fluctuations at world level. The political, economic, social and any other type of world market events bear significant impact on the economic climate CONPET is doing business into.



The analyzed level of the risk determined by the evolution of the global market was high; there is an intolerable risk for which have been instituted urgent measures to keep it under control: the systematic and adequate communication with the representatives of the majority shareholder (the Romanian State), of the shareholders and of all other interested parties for the integration of the company economic activity in the national energy strategy.

### **The Financial Crisis**

The significant turbulences occurred at the credit global market level bore significant effect on the entities acting in various industries, generating a generalized liquidity and solvency at the level of the bank financial markets.

Other significant effects of the crisis are the increase of the financing costs, reduction of the credit and consumption market, significant volatility of the capital market and exchange rates etc.

The bankruptcies have affected the banking financial sector, certain states helping to the recapitalization of such entities in view of safeguarding them from bankruptcy. The credit capacity reduced significantly, same did the availability to credit, in such way that most of the world non-banking sector is facing a slowdown of the economic growth or recession.

### **Frontier Market Risk**

The frontier market investors must be aware of the fact that such markets present a higher risk than the markets of the countries with a developed economy and mature legal and political systems. This risk determined the need to adapt to the legislative system in view of creating certain effective instruments from both the legal and economic point of view, in order to provide the necessary framework for the establishment of a functional market economy.

The Romanian capital market, when referring to the current state of development, may be included in the frontier market category, markets that present higher risks as compared to the emerging or developed markets, although they may offer higher performance to the investors. The country risk is generated by the likelihood of occurrence of certain unpredictable political, social and economic changes, recurrent legislative changes, fluctuations of the exchange rate or high rates of inflation.

Even if Romania is member state of the European Union, CONPET financial standing and results may be influenced by unforeseeable events typical to a frontier market, being considered a market characterized by higher volatility, especially in the current global context.

### **Legislative-related Risks**

The results of CONPET initiatives are hard to predict and may be amended following the legislative instability in Romania. The frequent amendment of the normative acts, here included those that bear direct impact on CONPET activity, may trigger risks for the company.

CONPET effort to constantly adapt to the legislative requirements under continuous change may generate significant additional costs and the potential future amendments of the legislative



framework may bear side effects on CONPET business and profitability (tax augmentation, introduction of new taxes and fees, reduction or suspension of certain fiscal facilities etc.).

Moreover, a possible increase in the level of the royalty paid for the use of the national Transport System may affect the financial statements and financial projections. In the past, there existed such legislative projects and the company expressed its standing within the meaning of the inadvisability of such a legislative decision, justified by the presentation of the produced financial effects, on both the company and consecutive, at macroeconomic level. An increase of the level of the royalty shall reflect into an augmentation of the transport tariff and subsequently, the consequences may be seen on two levels: the decrease of the crude transported quantities – especially on the imported crude – and over the pump price of the finite products resulted from the crude oil processing.

So, the Romanian legislation regarding CONPET activity may be amended in the detriment of the company and implicitly of the investors (tax augmentation, introduction of new taxes and fees, reduction or suspension of certain fiscal facilities).

The level of the analyzed risk was low; it is a high-tolerability risk for which the control measures thereof are reduced to the systematic and adequate communication with all interested parties in order to prevent the amendment of the tax and levies and fiscal facilities.

An important risk is being represented by the loss of the facility regarding the expenses borne by the Romanian State, in order to provide the guard and protection of the pipelines by gendarmes, regulated by GD 1107 dated November 14, 2012, which amends and completes GD no. 1468/2005.

The level of this analyzed legislative risk was average; there is a low tolerability risk for which have been set short-term measures to keep it under control:

- The introduction of a real-time leak detection and location system partially covers the risk;

### **The Risk Related to the Regulation Framework and Permits**

CONPET core business, namely the transport through pipelines and by railway tanks, bears significant impact on the environment, which implies the acquirement and renewal of the permits regulating the Company activity, the acquirement of the building permits, based on all the permits necessary to conduct the subcontracted works included in the capital repairs (Rom. RK) programs and investments, acquirement of the permits and certifications for the rail transport activity (AFER), acquirement of INSEMEX permit for all sectors etc.

The Company activity is conditioned by a great number of regulations from different areas which, if not observed, may lead to the company sanctioning or activity suspension. Moreover, the Company is dealing with a lack of coherence and consistency between these regulations; this situation is triggering additional expenses and delays in the start or completion of certain works bearing side effects, such as: technical breakdowns, followed by losses of transported product and receipt of sanctions from the authorities.

The level of the analyzed risk determined by the regulation and authorizing framework was high; it is an intolerable risk for which have been set urgent measures to keep it under control:



- Urgent and systematic actions for the amendment of the Petroleum Law and harmonization thereof with other applicable legal provisions from the areas interfering with.

### **Risks related to certain Litigations**

One of the major risks the company is currently exposed to, acting as the concessionaire of the National Crude oil, rich gas, ethane and condensate transport system drives its sources in the legal regime of the lands under/over crossed by the transport major pipelines instituted pursuant to the provisions of Petroleum Law no. 238/2004. The number of private properties is very high and there is a possibility that more and more owners bring proceedings in Court against the Company in order to obtain substantiated compensations based on the simple presence of the pipelines on their lands. Due to the defective way that has been regulated the legal regime of the lands under/over crossed by the transport major pipelines, CONPET was and currently is engaged in a series of trials where the owners of those lands claim for the transport pipelines be either lifted, or moved to other sites (and the expense be borne by CONPET), or be granted annual compensations representing consisting amounts of money. Moreover, even certain public authorities formulated pecuniary claims in relation to the presence of the components belonging to the NTS on the lands that make object of property or administration thereof.

Within the last years, the company prepared various legislative proposals to amend Law no 238/2004 - Petroleum Law, hoping for a coherent and clear regulation of the legal regime of lands under/over crossed by the transport major pipelines. In essence, these proposals start from the following assumptions:

- The public property (over the major pipelines) must co-exist with the private property over lands, fact that leads to the conclusion that the State must be recognized the exercise, free of charge, of certain categories of real rights (servitudes etc.) in connection to the presence of the pipelines on site;
- CONPET is bound to entirely compensate the land owner for any action that may assume the temporary occupation of land in view of performing repair works, for the prejudice suffered by the owners following the technical breakdowns etc.

### **1.1.9. PERSPECTIVES ON THE COMPANY BUSINESS**

From the point of view of the strategic outlook, the internal resources of the company are geared towards the maintenance of the internal position of CONPET S.A., namely essential player in the local oil industry as crude oil, rich gas and ethane transport through pipelines and by rail in Romania.

In a tight interdependency, CONPET S.A. mission circumscribes to the operation of the National Crude Oil Pipeline Transport System under performance, safety and efficiency conditions, easing free, non-discriminatory access, to the available throughput to all petitioners, certified legal persons, under legal and totally transparent conditions.

Currently, based on the oil concession agreement, CONPET S.A. operates a pipeline transport system describing 3800 km in length, out of which, 3161 km (83% out of the total) are effectively used for the transport of crude oil, rich gas, condensate and liquid ethane.



Within the last few years, the degree of utilization of the transport system decreased to 21.6% due to the significant increase of the activities performed by the operators in the oil industry in Romania.

Currently, in Romania remained in operation only Petrobrazi, Petrotel-Lukoil and Petromidia refineries, for which CONPET transports crude oil and condensate; as for Petromidia refinery, the transported crude oil quantities are insignificant.

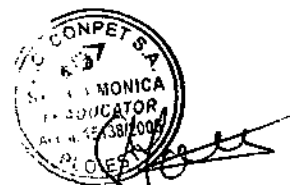
Consequently, the actual rhythm of pipeline replacement is being determined by the need to maintain into operation, under optimum conditions, the sections with the highest degree of utilization, this need being amended by the technical conclusions identified following the inline inspections thereof, the statistics and aggressiveness of the technological breakdowns and of the provoked damages.

The key elements of CONPET strategy are being formulated for the period 2015-2017 based on the strategic analysis of the competitive environment, in view of materializing the opportunities and consolidating the strengths existing at company level and comprise:

1. Improvement of the efficiency of the activity by :
  - The redefinition the necessary pipeline infrastructure
  - The reduction of the operating costs following the restructuring
  - The reduction of the technological consumptions within the storage and transport processes
  - Minimization of the energy, fuels and lubricants consumption
2. Income stimulation
  - Accessing new business areas eg. Supply of crude oil and oil products storage services
  - Initiation of income generating activities eg. Leasing storage facilities, rail infrastructure or atypical crude oil and oil products transports
3. Improvement to the National Transport System
  - Implementation of the leak detection and location system
  - Modernization of the cathodic protection system
  - SCADA system upgrade
  - Permanent pipelines replacement
  - Implementation of a program for the rehabilitation and resizing of the tank farm, adapted to the transported quantities
  - Implementation of a program for the rehabilitation and resizing of the tanks, adapted to the transported quantities
4. Connection of the crude oil national transport system to the regional and European systems

In fact, maximizing CONPET S.A. profit for the benefit of all shareholders will imply:

- The reduction of the operating expenses and enhance of the degree of safety into operation (eg. by the implementation of a Leak Detection and Location System; modernization of the pipelines' cathodic protection system; up-grade of the SCADA system);
- Reduction of the technological consumptions within the storage and transport process (



- (eg., by the implementation of a step-by-step program for the rehabilitation and resizing of the transit tanks, adapted to the quantities that are to be transported);
- Increasing revenues by augmentation of the transported quantity and identification of related income generating activities (eg.: Leasing storage facilities, rail shunting performance, lease of rail infrastructure, atypical crude oil and oil products transports).

As an immediate effect, we're contemplating on enhancing the efficiency of the crude oil national transport system, underlined by:

- Improvement of the measurement of the quantity and quality of the transported crude;
- Reduction of transported crude oil and products losses;
- Reduction of the energy, fuels and lubricants consumption;
- Cutting costs and operating shortcomings;
- Improvement of the viability and flexibility of the technological installations;
- Minimization of the negative impact on the environment.

Pursuing to extend the perspective on the company by considering the national external inputs received by CONPET S.A., we hereby observe, as a first step, the advantage conferred by the natural monopoly position. Nevertheless, managing a pipeline network isolated from the one of the neighboring countries, CONPET S.A. is effectively dependent on the internal market evolution (in terms of hydrocarbons extraction and refining), being a captive services supplier for a reduced number of clients. This risk is being added the political and regulatory risk, the company being exposed similar to other State-owned companies.

The dependency to a single major client (OMV Petrom) represents a major risk (the revenues from the domestic crude transport stand for approx. 75% of the total revenues); nevertheless, fortunately, this process is reciprocal, inducing a rather relative stability but which does not elude the instantaneous reflection, in the current activity indicators, of the evolution of its clients; consequently CONPET S.A. recorded a decline of the activity and income due to the recent developments in the sector:

- The close-down of Arpechim refinery, held by OMV Petrom, thing that discarded the need for crude oil of the above-mentioned company, starting January 2011, implicitly of the crude transport by segments, thing that led to the inexistence of pumping programs along Constanța – Călăreți – Arpechim route;
- Petromidia refinery built its own marine terminal, thing that significantly reduced the quantities contracted with CONPET S.A., and consequently, the degree of utilization of Oil Terminal – Petromidia pipeline throughput lowered from 58.1% in 2008 to 2.24% in 2012, currently the percentage being less than one;
- The cessation of RAFO Onești activity, namely the recent emptying of Bărăganu – Onești pipeline stock, left the respective segment in an unusable state, concurrently with the cancellation of the use, on this dimension, of the activity of Bărăganu pumping station.

Currently, only PETROTEL LUKOIL S.A. and, to a lesser extent, KazMunayGas use the system meant for the import crude transport. All these effects are visible in the evolution of the transported quantities during 2011 – 2013 (with a slight recovery in 2014), especially if we refer to the import crude. In this situation, the range of measures that might be adopted by CONPET S.A. is extremely narrow, the most appropriate application being represented by the connection of the transport network it is operating by the one of the neighboring countries.

To conclude, CONPET S.A. is dependent on the level of crude oil processing in Romania, not being interconnected to external networks. The significant risk is being represented by the reduction of the transported crude quantities as a result of the decrease of the crude oil



quantities imported by the refineries, which makes the degree of utilization of the import sub-system stand below 10%. By way of consequence, in lack of an interconnection of the national Transport System to other transport networks outside Romania, there is a dependency of the achievement of the programmed revenues on the decisions of the companies involved in the crude oil processing in Romania.

#### **1.1.10 INFORMATION REGARDING THE INTERNAL/MANAGEMENT CONTROL IN COMPLIANCE WITH THE PROVISIONS OF THE ORDER OF THE MINISTER OF PUBLIC FINANCES 946/2005**

CONPET has set, documented, implemented maintained and improved an integrated management system in compliance with the requirements of standards SR EN ISO 9001:2008, SR EN ISO 14001:2005 and SR OHSAS 18001:2008.

It has been issued and is being monitored the achievement of the program of implementation of the 25 internal/management control standards, up to the provision of an internal/management control system in compliance with the Order of the Minister of Public Finances 946/2005, republished, subsequent additions.

Consequently, in 2011, the General Director established the internal structure with the attributions set at Art. 3 of the Order of the Minister of Public Finances 946/2005, republished in 2011, the last one being the Decision no. 751/18.11.2014 to amend the composition of the working group with attributions on the monitoring, coordination and methodological guidance of the internal/management control system, in compliance with the Organizational Chart in force on 01.09.2014.

#### **The Development Program of the Internal/Management Control System**

Has been prepared the development program of CONPET internal/management control system, a program that has been revised annually.

For 2014, following the evaluation of the internal/management control system and preparation of Annexes 4.1, 4.2 and the Report on the internal/management control system at 31.12.2014, this one was declared partially compliant, with 24 implemented standards, 1 partially implemented standard (Standard 4. Sensitive Functions) and 0 non-implemented standards.

### **Chapter 2. TANGIBLE ASSETS OF CONPET SA**

#### **2.1. SPECIFICATION ON THE LOCATION AND FEATURES OF THE MAIN PRODUCTION CAPACITIES OWNED BY THE COMPANY / OPERATED BY CONPET SA**

Centralized on the sub-systems, the technological equipment of CONPET related to the crude oil and rich gas transport process comprises:

**1. The sub - system for the transport of domestic crude oil and condensate**, includes transport facilities from the oil fields to Petrobrazi, Arpechim, Petrotel-Lukoil and Steaua Romana Campina refineries. The sub-system mainly benefits from the following production capacities:

- Pipelines describing a total length of 1,540 km;
- Pumping stations;





- Storage capacity of approx. 126,000 m<sup>3</sup>

**2. The sub - system for the transport of rich gas, liquid ethane,** facilitating the transport of the products transport from the oil fields to Petrobrazi and Arpechim refineries and benefits from the following production capacities:

- Pipelines describing a total length of 921 km;
- Pumping stations;
- Storage capacity of approx. 663 m<sup>3</sup>

**3. The sub - system for the transport of the imported crude oil,** including transport facilities from Oil Terminal to Petrobrazi, Arpechim, Lukoil and Petromidia refineries and mainly disposes of the following production capacities:

- Pipelines describing a total length of 1,348 km;
- Pumping stations;
- Storage capacity of approx. 45,000 m<sup>3</sup>

**4. The sub - system for the rail transport,** for the transport of crude oil and rich gas from Petrobrazi and Lukoil refineries, and mainly disposes of the following production capacities:

- holds 10 crude oil and condensate loading ramps;
- holds 2 rich gas loading ramps;
- operates 1 crude oil loading ramp (Moinesti, which is the property of OMV Petrom);
- holds 1 crude oil and condensate unloading ramp and 1 rich gas unloading ramp (Barbatesti);
- 13 locomotives;
- Rail infrastructure describing 12.7 km in length;
- 40 railway tanks for crude oil transport and 29 tank cars for rich gas transport.

## 5. Vehicle Fleet

As per the structure of the vehicle fleet on December 1<sup>st</sup> 2014, CONPET active fleet has a number of 234 vehicles, as follows:

- Intervention means (excavator, bulldozer, vidanja, crane vehicles, tippers, bulldozer - excavators, mini excavator tracked, digger trucks, special trailers, forklifts) - 96 pieces;
- Intervention vehicles, vehicles for the transport of work teams and consignment transport - 72 pieces;
- Vehicles and automotive means for human transport (bus, minibus) - 66 pieces.

## 6. Tanks

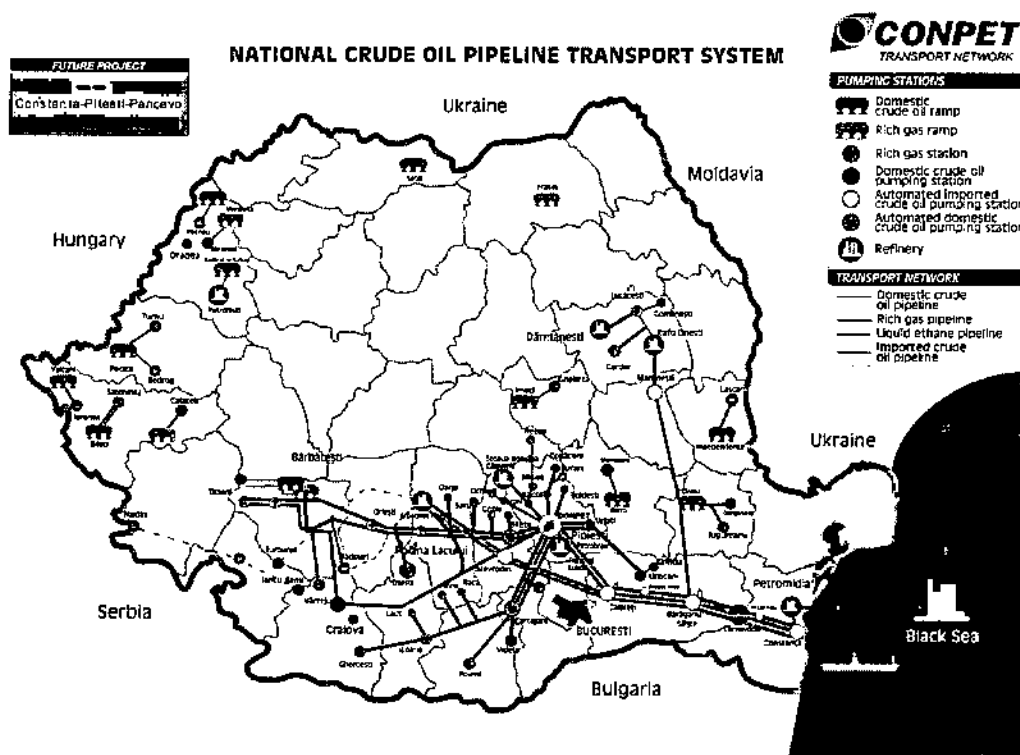
CONPET personnel carries on the transport activity, by making use of 194 crude oil and condensate tanks and 23 rich gas tanks.

- Out of the total number of 194 tanks of different capacities.
  - CONPET: 62 pieces;
  - OMV Petrom: 110 pieces;
  - Oil Terminal: 7 pieces;
  - Petrotel Lukoil: 7 pieces;
  - Rompetrol S.A.: 8 pieces;
- Out of the total number of 23 tanks of different capacities destination rich gas:
  - CONPET: 10 pieces;



- OMV Petrom: 13 pieces;

Considering the natural distribution of the oil fields on almost the entire surface of the country, the National Transport System was conceived as to meet the transport needs from all these fields to the refineries. The system operation is being ensured by the aid of the local dispatches, coordinated from the Central Dispatch of the company.



## 2.2. DESCRIPTION AND ANALYSIS OF THE DEGREE OF USE OF THE COMPANY PROPERTIES

For the achievement of the core business, the crude oil, rich gas and ethane transport from and to all its business partners, under maximum operability, highly efficient and lesser operating costs, in compliance with the legislation in force regarding the environmental protection, other normative acts in the area, CONPET SA performs sustainable business in view of improving the technical state of the national transport system.

In this respect, starting 1995 the national transport system undertook permanent modernization process, the value of these works approximating 150 mln. EURO.

Consequently, during 1995 – 2007, based on the Modernization project, co-financed by the World Bank, have been performed works consisting in:

- Rehabilitation and modernization/revamping of the crude oil national transport system by:

- Pipeline rehabilitation

- Rehabilitation of the pumping stations on the major pipelines and of two loading/unloading crude oil and rich gas ramps
- Automation of the transport system and introduction of SCADA system
- Introduction of the crude oil fiscal measuring systems
- Achievement of the owned telecommunications system

Following this period, the accent was put on the pipeline component. After this period, the stress was put mainly on the pipeline component. For the correct determination of the sections that needed to be replaced, most of the transport major pipelines have been inspected by smart pig.

As exposed in the table below, during 2003-2014, have been replaced approx. 395 km of pipeline belonging to the public domain:

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Km cd.	10.04	18.71	19.81	26.34	36.44	54.90	67.47	54.36	46.68	23.01	18.46	18.60	394.81

The activities took place in a fast rate, meant to provide the increase of the life service of the pipelines system under the observance of the augmentation of the safety in operation. In 2014 the investments in the system (State public domain) raised at 22 mln. Lei.

Moreover, for the operation, monitoring and maintenance, under safety conditions, of the pipelines national transport system, our company also has in mind the achievement of safe disposal works on the water crossings infrastructures, that are meant to increase the safety in operation of these pipelines and also to protect against the pollution of the crosses water courses.

The pipelines forming the crude oil national transport system are crossing various waters in two design layouts: over and under crossings.

Another major component from the point of view of the safety in operation and environment protection was the safe disposal of the crossings, consisting in:

- Downdrifts;
- Riverbank protection upstream and downstream of the downdrift
- Wave breakers
- Consolidation of the pipe crossing pile;
- River bank defense along the route of the pipelines parallel with the water bed (destroyed river bank)
- Other works related to pipeline consolidation.

As a result of the application of these programs, the number of unintended technical breakdowns decreased significantly, by almost 68.53%, namely from 251 in 2007 to 79 in 2014.

CONPET intensifies its efforts to carry on the activity of modernization of the main pipelines transport sub-system, also paying attention to other system technological components, namely:

- tanks;
- technological installations;
- Fire Prevention and Extinguishing installations;



- Technological and administrative buildings;
- Energy, thermal, telecommunications installations;
- Ancillary components.

Due to the system improvement, one may notice:

- the reduction of the technological consumptions during the storage and transport process;
- Minimization of the energy, fuels and lubricants consumptions;
- Minimization of the operating costs and reduction of the operational shortcomings;
- Improvement of the system safety and flexibility;
- Reduction of the ecologic impact on the ambient environment;
- Improvement of the quantitative and qualitative determinations on the transported crude.

Considering the above, it may be judged that the technical state of the national crude oil pipeline transport system, operated by CONPET, is adequate, the effort paid for future modernization must focus on components such as: leak detection system and modernization of the cathodic protection system.

### **2.3 SPECIFICATION ON THE POTENTIAL PROBLEMS RELATING TO OWNERSHIP RIGHT ON THE TANGIBLE ASSETS OF THE COMPANY**

#### **I. The situation of the leased lands / property of Conpet SA company**

The total area of lands under concession / property of Conpet SA company is of 883,931.77 square meters, whose structure is as follows:

**a) Purchased lands and lands for which we have obtained certificates of ownership existing in the company assets located in an area of 733,648.93 square meters, of which:**

- 554,537.62 square meters represent lands held under 47 Certificates of ownership obtained in 2001-2005, measured in accordance with 834/1991 GD on the establishment and evaluation of some lands owned by the state-owned companies, at the value of 26,255,918 lei. These lands have been recognized in the company's assets on other reserves from own capitals.

Subsequently, based on revaluations of the years 2005, 2008, 2011, 2013 and 2014 revaluation differences were recorded, according to accounting regulations relating to revaluation or on the account of capital accounts (reserves) or on the account of the global result. On 31 December 2014 the amount of the reserves maintained in capitals accounts is of 21,665,264 lei and the fair value of lands registered upon the revaluation is amounting to 11,858,571 lei resulting an surplus remained in the capital accounts (reserves) in the amount of 9,806,693 lei;

- 155,411.45 square meters represent lands related to a total number of 14 Ownership Certificates obtained until 2001, which are registered in the capital stock. On the date of 31 December 2014 the fair value of these lands is in the amount of 3,013,294 lei;



- 23,699.86 sqm represent lands acquired by the Company upon a total of 26 sale-purchase contracts with a correct value at 31 December 2014 of 7,602,573 lei.
- b) **Leased land** area of 150,282.84 sqm, contained in 11 certificates of ownership, obtained until the year 2001. These lands were subject to 1326/2001 GD for the approval of goods inventories in the public domain of the state, being included in Appendix 2 "the List of goods to be returned related to the public domain subject to the concession" at the Petroleum Concession Agreement of the operating activity of the National transport system of oil, gasoline, condensate and ethane concession agreement concluded between Conpet SA and the National Agency for Mineral Resources and approved by 793/2002 Government Decision.

In the case of these lands it is in course of completion the dismantling operation of these lands in order to harmonize the scriptural evidence with the factual one:

## **II. The tabulation situation of lands and buildings owned by Conpet company**

### **Lands**

From the total land area of 883,931.826 square meters were completed and registered at the Land Registry the tabulation documentation for 97.26% of lands, the difference of 2.84% representing land whose registration documentation at the Land Registry was rejected on the reason of a total or partial overlap with other neighbouring lands, already registered in the Land Registry.

These lands are:

- a) The land on which is located Icoana Pumping Station and for which the company has the Certificate of Ownership MO3 series no.9669 / 10.2004 for the surface of 446 sqm;
- b) The land on which is located Suplacu de Barcău Oil Loading Ramp and for which the company holds the ownership certificate series MO3 no.10094 / 07.2005 for the area of 11169 square meters;
- c) The land on which is located Ochiuri Pumping Station and for which the company holds the certificate MO3 series of ownership no.9464 / 06.2004 for 770 sqm surface. The three locations are part of the land category not included in the capital stock.

### **Buildings**

On 31 December 2014, Conpet SA has recorded in the assets a total of 412 buildings, of which up to date are registered in the Land Registry a total of 97 buildings (ie 23.54% of the total), and the difference of 315 buildings not tabulated are initiated steps towards preparing the documentation necessary for tabulation.



**III. Disputes concerning the ownership right on the tangible assets of the company**

On the date of 31 December 2014 Conpet has three ongoing actions to claim ownership right on some tangible assets for which the company has no longer ownership documents, namely:

- Legal File no. 25050/281/2011 Court of Ploiesti  
Applicant: Conpet S.A. Ploiesti  
Respondent: Astra Ploiesti refinery  
Subject: Conpet requires the ascertainment of ownership right on 2 buildings constructed on the land of the refinery for which has no property deeds, are recorded in the company's assets are proposed for cassation but cannot be demolished.  
Procedural stage: pending before the court
- Legal File no. 25051/281/2011: Court of Ploiesti  
Applicant: Conpet S.A. Ploiesti  
Defendants: SC FORADEX S.A. Ploiesti and the Electricity Distribution Branch - Muntenia Nord.  
Subject: CONPET requires an ascertainment of the ownership right on the building: wall of transformer station building built by CONPET inside Foradex.  
Procedural stage: pending before the court
- Legal File no. 2378/105/2009 - Prahova Court  
Applicant: Irinel Cojocaru buyer of litigious rights from of the initial applicant Bojboiu Marilena Respondent: Conpet SA Ploiesti company  
Subject: letting in full property and possession of the land area of 2500 square meters, located in Ploiesti, str. Rezervoarelor No number, existing in its exclusive owned by.  
The land area of 2500 sqm lot is part of a total area of 13315 square meters for which Conpet SA obtained the certificate of attestation of ownership MO3 series, no.7425 / 2002, the land on which is located the headquarters Conpet II.  
Procedural stage: pending before the court

**IV. Other litigations**

Regarding the capital stock, there is an ongoing action since 2007 brought before the courts for a claim submitted for a total of 524,366 shares, file where Conpet SA is a defendant, namely the file no. 5555/2/2014.

Details on the current contents and status of the file are as follows:

Defendants: S.C. Conpet S.A.

S.C. Property Fund S. A.

Register Regisco Independent S.A.

The National Commission of the Securities



The request: the Authority for State Assets Capitalization suits for recovery of a number of 524,366 shares from the share capital of SC Conpet S.A. against SC Property Fund, Independent Regisco Register SA, National Securities Commission, SC Conpet SA, asking:

- Enforcing the Respondent SC Property Fund S. A. to leave in full ownership and possession for the Authority for State Assets Recovery a number of 524, 366 shares from the share capital of SC Conpet S.A.

- enforcing the defendant Regisco, C.N.V.M. and SC Conpet S.A. to modify the number of shares in the registers of securities evidence.

Initially the action was registered pending before the court of sector 5 Bucharest, but by sentence no. 5851 / 18.09.2007 it has declined the jurisdiction in favour of the Bucharest Court. Later, in the period 2008-2011 were introduced new shares by the parties, existing several pending before court Files with the same object that finally were merged by the courts, remedies at law being exercised up to the High Court of Cassation and Justice

According to the available information on the portal court "www.just.ro" regarding the current procedural stage of the file, it was observed that by 118 / 30 January 2015 Decision the Court of Appeal Bucharest, found the ownership right of the MINISTRY OF ECONOMY on 524,366 shares at SC CONPET SA. It orders to the defendants to take the necessary steps in order to be registered in the register of shareholders. In the Decision apparatus it was shown that " the decision can be brought before the court by appealed within 15 days since communication". So far Conpet SA was not cited for this appeal procedure.

In the same period, the Property Fund appealed a proceeding (File no. 3715/105/2007 – Prahova County Court) seeking annulment of art. 4 of no. 2 / 25 February 2007 OGMS Decision on the 2006 profit distribution for dividends, taking into account the above subject of proceeding, on the ownership of those 524,366 shares of Conpet; procedure suspended pursuant to art.244 par. 1C civil trial disposal.

### **Chapter 3. MARKET OF THE SECURITIES ISSUED BY THE COMPANY**

#### **3.1. SPECIFICATION ON MARKETS IN ROMANIA AND OTHER COUNTRIES WHERE THE SECURITIES ISSUED BY THE COMPANY ARE NEGOTIATED**

CONPET S.A. is a publicly owned company, according to no. 297/2004 Law on the capital market, being registered at the National Securities Commission under no. 7227/1997. Shares issued by CONPET S.A. are traded on the regulated market managed by the Bucharest Stock Exchange, Equities securities sector - category I under the symbol "COTE".

Given the results recorded during 2013 year, respectively a price increase for the COTE stock trading with approx. 13.7%, we can observe the maintaining of this upward trend and at the level of 2014 year, the registered increase being of 19.7%. On 05 December 2014 the maximum trading price was of 57 lei / share. These values indicate the investors' confidence in the company's shares acquired following the effectiveness of the company's management and the high degree of transparency regarding their work and Conpet SA company objectives.

Activities performed by Conpet S.A. in the year 2014 as an issuer of securities on capital markets has resulted in the following aspects:



- during the year 2014 it was performed a number of 1284 transactions with 270 transactions more than in the same period of 2013.
- the total volume of shares traded during the year was of 2,125,366 shares, of approx. 27.66 times higher than in 2013 (76,838 shares);
- the total value of transactions during the year 2014 was of 104,889,210 lei, lei towards 3,043,926 lei in 2013;
- the average trading price was of 49.35 lei / share during the year 2014, in increase with 9.74 lei / share compared to the average price of shares in the year 2013 (39.61 lei / share);
- on 13 November 2014, it was recorded a peak of transactions when were carried out 60 transactions and was traded a total volume of 2,047,847 shares (representing approx. 96.35% of the total volume of shares traded during the year 2014), amounting to 99,834,617 lei;
- security market capitalization at the end of December 2014 was of 476,596,916 lei, increasing with 87,008,156 lei towards the value registered at the end of 2013 (389,588,760 lei).

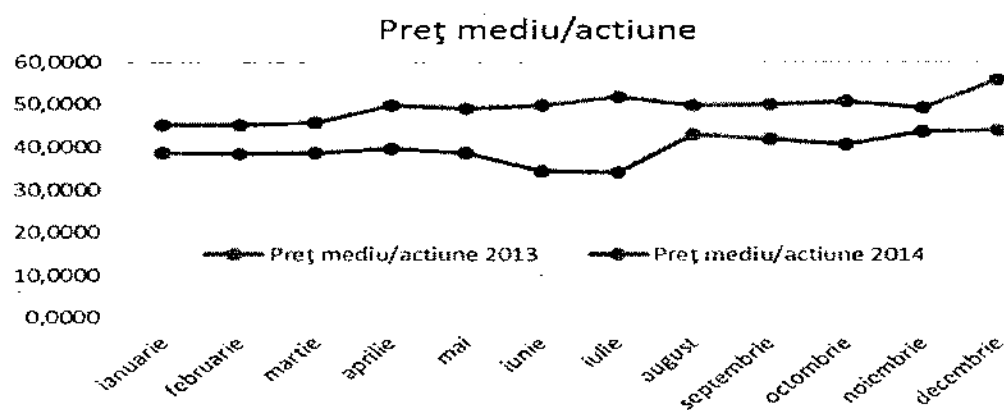
The main trading indices of the year 2014 for the shares issued by Conpet SA

<i>Month</i>  <b>Indices</b>	<b>Average price/share 2014</b>	<b>No. of transaction</b>	<b>No. of traded shares 2014</b>	<b>transactions value 2014</b>
January	45.0443	190	2,459	110,764
February	45.1278	218	3,772	170,222
March	45.6772	132	1,565	71,485
April	49.7693	111	8,079	402,087
May	48.9144	128	1,601	78,312
June	49.6798	94	5,944	295,297
July	51.7283	65	3,779	195,482
August	49.6974	54	2,967	147,452
September	50.0479	105	2,825	141,385
October	50.8137	64	5,413	275,054
November	49.2932	41	2,067,280	101,902,809
December	55.8307	82	19,682	1,098,861
<b>Cumulated</b>	<b>49.3500</b>	<b>1.284</b>	<b>2,125,366</b>	<b>104,889,210</b>





The evolution of COTE shares during 2014 compared to 2013 in terms of average price / share is as follows:



Graphically, the development of the trading price of Conpet shares, during the year 2014 is as follows:



According to the above data the COTE share is not an overstated one, but it is a share that reflects the real economic and financial performance of the company, an action that has enough strength to further remain attractive for investors both for short term and long term.

On 31. December 2014, according to **TOP 100 issuers after capitalization**, in the last three months, CONPET SA ranked on the place 20, with a security market capitalization of 476,596,916 lei (107.1 mil. EUR), which represents a 0.37% weight in the total market capitalization. Compared with the end of 2013, when the security market capitalization was of 86.9 mil. Euro, we can observe an increase of 23.2%.



### 3.2. DESCRIPTION OF COMPANY POLICY ON DIVIDENDS.

In relations with investors our strategy aimed at increasing the dividend value and maximize the return on investment efficiency. In the last 4 years, Conpet has distributed dividends in a rate between 85 and 90%, maintaining the same policy and in the budget projection for the next 3 years.

Conpet SA registers and pays dividends distributed from the net profit only after approval of the financial statements by the General Meeting of Shareholders.

Profit distribution by Conpet S.A. is made in accordance with:

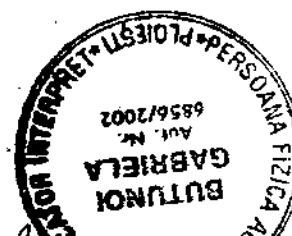
- no.31 / 1990 Law republished, on companies;
- no. 82/1991 Accounting Law, article 19, para. (3);
- no. 64/2001 Government Ordinance regarding profit distribution for national societies, national companies and companies with whole or majority state capital, as subsequently amended and no. 144/2005 Minister of Public Finance Order on the approval of specifications for determining the amounts subject to profit distribution as per no. 64/2001GO;
- Budget Revenues and Expenditures

Shareholders entitled to receive dividends distributed from profits to be assigned following financial year completion, are those registered in the consolidated register of shareholders on the registration date approved by the General Meeting of Shareholders.

In accordance with art. 1 para. (3) of no. 64/2001 Government Ordinance regarding profit distribution to national societies, national companies and companies with whole or majority state capital and also autonomous administrations, as amended by no. 47/2012GEO, notwithstanding the provisions of art. 67 para. (2) of the no. 31/1990 Companies Act, updated, amended and supplemented, national societies, national companies and companies in which the state or an administrative territorial unit is the sole shareholder, majority or at which owns the control are required to remit the corresponding dividends to shareholders within 60 days from the date prescribed by law for submitting annual financial statements.

Evolution of dividends distributed from the net profit in the period 2010 - 2013 is as follows:

For the year	Date SGA	Registration date	Total gross due Dividends -lei-	% From the net profit	Gross dividend / share -lei-	Paid gross Dividends -lei-	net Dividends accumulated on 31.12.2014
2010	27.04.2011	16.05.2011	34,825,089.00	90 %	4.0225210938	34,387,294.92	437,794.08
2011	27.04.2012	17.05.2012	22,262,904.00	90 %	2.571508172	21,982,281.08	280,622.92
2012	29.04.2013	21.05.2013	28,291,166.00	85 %	3.2678110888	27,913,856.06	377,309.94



2013	29.04.2014	19.05.2014	29,538,340	85%	3.4118676832	29,148,340.69	389,999.31
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For the fiscal year 2014 the Board of Directors proposes to the Ordinary General Meeting of Shareholders distribution of net profit, amounting to 56,381,586 lei as follows:

Item no.	Destinations	The Sum (lei)	Full element weight	
			Plan (IEB)	Accomplished
1	Profit sharing , total, of which:	4,947,392	10%	8.78%
	✓ Employees profit-sharing	4,343,168		
	✓ Share of profit due to BoA members	604,224		
2	Dividends due to shareholders	51,434,194	85%	91.22%
3	Total distributions (1+2)	56,381,586		

### 3.3. COMPANY PURCHASE ACTIVITIES OF BUYING ITS OWN SHARES

At the beginning of 2014 Conpet S.A. did not hold its own shares. During 2014 Conpet SA did not carry out transactions having as object its own shares and therefore at the end of 2014 the Company had no own shares.

### 3.4. NUMBER AND FACE VALUE OF SHARES ISSUED BY THE PARENT COMPANY OWNED BY SUBSIDIARIES

CONPET SA has no branches, as there are no shares issued by the parent company and owned by subsidiaries.

### 3.5. BONDS ISSUING OR OTHER ACKNOWLEDGEMENT OF DEBTS

In 2014 CONPET SA did not issue bonds or other debt securities.

## Chapter 4. COMPANY MANAGEMENT

### 4.1. LIST OF COMPANY DIRECTORS AND OF INFORMATION FOR EACH DIRECTOR

a) CV (surname, name, age, qualification/ professional experience, position and seniority)

The Board of Directors structure during 2014 and up to the date of this report are as follows:



- **Weiler Dan**, date of birth 10 May 1950, Mun. Bucharest degree in finance, banking and accounting; Member of the Board of Directors starting with 28 November 2013 (elected by OGMS Decision no. 6 / 28 November 2013, following the application of Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises); temporary president of the BoA for the period 28 November 2013 – 21 January 2014 (appointed by decision of BoA No. 16 / 28 November 2013); Chairman of BoA with effect from 21.01.2014 (appointed by BoA Decision no. 1 / 21.01.2014)
- **Ilași Liviu**, date of birth 01.05.1964, Mun. Hunedoara, county. Hunedoara, degree of Oil and Gas Institute of Ploiesti; temporary administrator for the period 17.12.2012 – 14.03.2013 (appointed by BoA Decision no. 13/ 14.12.2012, instead of the vacant place following the resignation of Mr. Nicolae Alexandri); Member of the Board of Directors as of 14 March 2013 (elected by OGMS Decision no. 1 / 14 March 2013 and respectively, by OGMS Decision no. 6 / 28.11.2013, following the application of Government Emergency Ordinance no. 109 / 2011 on corporate governance of public enterprises)
- **Chiriac Cristiana**, date of birth 04.09.1952, Mun. Bucharest, degree in law; temporary administrator in the period 25.03.2013 - 29.04.2013 (appointed by BoA Decision no. 4/ 25.03.2013 on the vacant position following the dismissal of Mrs.Hristu Madalina Carmen); **member of BoA starting with the date of 29.04.2013** (elected by OGMS Decision no. 2/ 29.04.2013 and respectively, by OGMS Decision no. 6/ 28.11.2013, as per applying the provisions of GEO no. 109/ regarding corporate governance of public enterprises); Provisional president during 05/07/2013 - 13/08/2013 (appointed by the BoA Decision no. 10 / 05.07.2013 on the vacant position following the resignation of Mr. Călin Georgel in as Chairman of BoA); Chairman of BoA for the period 13.08.2013 - 28.11.2013 (appointed by decision of no.4/13.08.2013 OGMS).
- **Meșca Darius - Dumitru**, data of birth 17.08.1971, Mun. Ploiesti, Prahova County, graduate in mechanical and electrical engineering, PhD engineer; temporary administrator during the period 25.03.2013 - 29.04.2013 (appointed by no. 4/ 25.03.2013 BoA Decision on the vacant place following the resignation of Mr. Ignat Ioan); **member of BoA starting with the date of 29.04.2013** (elected by OGMS decision no. 2/ 29.04.2013 and respectively, by OGMS Decision no. 6/ 28.11.2013, pursuant applying the provisions of GEO no. 109/ 2011 regarding the corporate governance of public enterprises)
- **Bugică Radu**, date of birth 13.12.1965, Mun. Râmnicu Vilcea, Vilcea County, double licensed, in economic and technical sciences; temporary administrator in the period 04.10.2013 - 16.10.2013 (appointed by BoA Decision no. 14/ 04.10.2013); **member of BoA starting with 16.10.2013** (elected by OGMS Decision no. 5/ 16.10.2013 on the vacant position following the resignation of Mr. Naftali Daniel – Adrian and respectively, by OGMS Decision no. 6/ 28.11.2013, following the application of the provisions of GEO no. 109/ 2011 regarding the corporate governance of public enterprises)
- **Dinu Dragoș - Lucian**, date of birth 06.04.1967, Mun. Râmnicu Vilcea, Vilcea County, graduate in technical sciences; **member of BoA starting with the date of 28.11.2013** (elected by OGMS Decision no. 6/ 28.11.2013, following the application of the provisions of GEO no. 109/ 2011 regarding the corporate governance of public enterprises)
- **Gheorghe Roxana - Elena**, date of birth 16.04.1973, Mun. Ploiești, Prahova County, graduate in economical sciences **member of BoA starting with the date of 28.11.2013** (elected by OGMS Decision no. 6/ 28.11.2013, pursuant applying the provisions of GEO no. 109/ 2011 regarding the corporate governance of public enterprises)



As annexes to the report it is shown C.V.-s of the administrators in position for Conpet S.A. on the date of 31.12.2014.

During the year 2014 were held 16 meetings of the BoA.

*b) Any agreement, covenant, family connection between the respective person and another person because of whom the respective person was appointed administrator.*

*The current members of the BoA were elected by cumulative vote method, following the application of Government Emergency Ordinance no. 109/2011 on corporate governance of public enterprises.*

*c) Directors participation in the capital of the company*

Mr. Ilași Liviu has a total of 40 shares issued by the company, the other directors having no shares in the capital stock of CONPET SA

d. List of persons affiliated to the company:

According to Annex d) of this report.

#### 4.2. PRESENTATION LIST OF THE EXECUTIVE MANAGEMENT MEMBERS

According to the company's organizational structure approved by Decision of BoA no. 5 / 29.03.2013, during the period 01.01.2014 - 01.04.2014 the executive management of CONPET S.A. had the following composition:

Ilași Liviu	General Manager
Stoica Narcis - Florin	Deputy General Manager
Dobromir Nicolae	Operations Directorate Manager
Toader Sanda	Financial Directorate Manager
Ionescu Gheorghe	Maintenance Directorate Manager

According to the company's organizational structure approved by Decision of BoA no. 7 / 27. 03.2014, during the period 01.04.2014 – 02.06.2014 the executive management of Conpet SA had the following structure:

Ilași Liviu	General Manager
Ionescu Gheorghe	Production - Investments- Maintenance Directorate Manager
Toader Sanda	Financial Directorate Manager



According to the current organizational structure of the company, approved by Decision of BoA no. 10/27.05.2014 starting with 02.06.2014 the executive management of Conpet SA, existing and at the time of preparing the present report is as follows:

Ilași Liviu	General Director
Ionescu Gheorghe	Operations Directorate Director
Zoican Liviu Aurel	Production Department Director
Antonescu Valentin Leonard	Production Department Assistant Director
Istrate Marius	Maintenance Department Director
Buzatu Dan	IT-Telecommunications-SCADA Department Director
Toader Sanda	Economical Directorate Director
Curteanu Veronica	Financial Department Director
Albu George Radu	Acquisitions and investments Management Department Director
Niculae Daniel*	Critical Infrastructure Protection* Directorate Director
Dumitrache Anamaria**	Corporate Management * Directorate Director (starting with the date of 15.12.2014)

Note\* - starting with 01.09.2014, the Critical Infrastructure Protection Department and the Corporate Management Department were transformed in Executive Directorates.

\*\* - Until the date of 20/10/2014, the position of Director of Corporate Management Directorate was occupied by Mr. Alexandru Varlan who is no longer employee of the company since the mentioned date.

*a) the term for which the person is part of the executive management*

Executive management members are employees of the company based on individual employment contracts and are part of the executive management indefinitely.

The General Manager has the mandate contract no. 1 / 06.12.2013 concluded with CONPET SA, represented by the BoA by Mr. Dan Weiler, Chairman of the BoA.

*b) Any agreement, covenant, family connection between the respective person and another person because of whom the respective person was appointed member of the executive management.*

It is not the case

*c. that person's participation in the capital of the company*



Mr. Zoican Liviu Aurel, Mr. Istrate Marius and Mr. Buzatu Dan, each one owns a number of 40 shares, issued by the company, the other managers do not own shares in the capital stock of Conpet S.A.

**4.3 DISPUTES OR ADMINISTRATIVE PROCEDURES RELATED TO THE ACTIVITIES OF BoA MEMBERS AND OF THE EXECUTIVE MANAGEMENT WITHIN THE COMPANY AND ON THEIR ABILITY TO PERFORM THEIR DUTIES**

During the year 2014 CONPET SA was sued by the former General Director, Dorin Tudor (file 1269/105/2014) by the filed claim requesting payment of salary related benefits due to the prematurely termination of the mandate contract.

Conpet has submitted a counterclaim asking the court to declare the absolute partial nullity of no. 1/2010 mandate Contract concluded between Conpet as a principal and as an agent Dorin Tudora namely the absolute nullity of art. 11 point. 11.4 of the mentioned contract.

By the resolution dated 17.12.2014, Prahova Court admits the exception of functional incompetence. Declines the jurisdiction of the matter on trial in the favour of Prahova Court Civil Division II, Administrative and Tax Contentious.

Procedural stage: on the main issue

The amount of the financial claims was estimated at 613,000 lei for which was established a provision on 31.12.2014.



## Chapter 5. ACCOUNTING STATEMENT

As per Art. 1 of the Order of the Minister of the Public Finances no. 881/25 June 2012 regarding the application, by the company where the securities are admitted for trading on a regulated market, of the International Financial Reporting Standards, starting 2012 financial year, the trade companies where the securities are admitted for trading on a regulated market are bound to apply the International Financial Reporting Standards (IFRS) at the preparation of the individual annual financial statements.

Starting 2013 financial year, the individual annual financial statements of CONPET are being prepared pursuant to IFRS.

### 5.1. STATEMENT OF THE FINANCIAL POSITION

	December 31 <sup>st</sup> 2014	December 31 <sup>st</sup> 2013
<b>Assets</b>		
<b>Fixed assets</b>		
Tangible assets	415,493,461	413,715,800
Intangible assets	3,162,304	6,308,341
Financial investments	527,515	1,020,324
<b>Total fixed assets</b>	<b>419,183,280</b>	<b>421,044,465</b>
<b>Current assets</b>		
Inventories	7,709,304	7,404,013
Commercial receivables and other receivables	34,812,158	41,797,973
Short term investments	7,669,483	7,080,956
Cash and cash equivalent	335,367,828	249,494,539
Prepayments	213,560	218,445
<b>TOTAL Current assets</b>	<b>385,772,333</b>	<b>305,995,926</b>
<b>TOTAL Assets</b>	<b>804,955,613</b>	<b>727,040,391</b>
<b>Shareholders equity and debts</b>		
<b>Shareholders' Equity</b>		
Share capital, of which:	28,569,842	145,794,385
<i>Subscribed share capital</i>	<i>28,569,842</i>	<i>28,569,842</i>
<i>Inflation adjustments of the share</i>		<i>117,224,543</i>





*capital*

Revaluation reserves	107,646,176	112,473,352
Legal reserves	5,713,968	5,713,968
Other reserves	472,512,205	441,436,160
Retained earnings	59,440,683	(85,961,582)
Profit/loss for the period	51,434,194	31,297,556
Other shareholders' equity elements	(1,891,974)	-
<b>Total Shareholders' equity</b>	<b>723,425,094</b>	<b>650,753,839</b>

**Long term debts**

Deferred tax liabilities	1,891,974	3,478,973
Provision for the employee benefits	3,772,056	3,187,830
Commercial debts		625,135
<b>Total long term debts</b>	<b>5,664,030</b>	<b>7,291,938</b>

Commercial debts	30,032,321	25,184,565
Other debts	24,001,008	23,217,850
Short term provisions	20,853,022	19,525,449
Deferred income	22,050	25,157
Investment Subsidies	958,088	1,041,593
<b>Total current liabilities</b>	<b>75,866,489</b>	<b>68,994,614</b>
<b>Total debts</b>	<b>81,530,519</b>	<b>76,286,552</b>
<b>Total shareholders' equity and debts</b>	<b>804,955,613</b>	<b>727,040,391</b>

At the date of the first-time adoption of IFRS (year 2013), the company chose to use the fair value as deemed cost.

At December 31, 2014 were appraised, by APPRAISSALS & CONSULTING DIVISION SRL Bucuresti, movables and immovable, special constructions and lands belonging to the state public domain, concessioned by CONPET S.A. as per G.O. 81/2003 and the goods in Group 1 – Constructions and lands in the company's patrimony.



The appraisal reports have been favorably endorsed within the Steering Committee from 18.02.2015, on the results having been informed also the Board of Administration, during the meeting dated 12.03.2015.

*The synthesis of the revaluation results, comprised in the report, looks as follows:*

**a) The goods and lands concessioned by CONPET S.A., belonging to the State public domain, at 31.12.2014, have been depreciated at a total value of 3,869,521 Lei.** The necessary arrangements are to be made in order to prepare the draft Government Decision in view of updating the value of the assets that make object of the concession agreement

**b) For the goods (Group 1 – Constructions, special Constructions and lands) related to CONPET S.A. patrimony at 31.12.2014.**

Pursuant to the results comprised in the revaluation report, the fair value at 31.12.2014 related to the intangible assets in group 1, representing lands and constructions, register a total increase of 15,097,852 Lei, and looks as follows in the structure:

Crt. No.	Category	Inventory Value	Residual Value	Fair Value at 31.12.2014	Revaluation Differences	Appreciation	Depreciation
1	Lands	24,622,797	24,622,797	22,474,438	(2,148,359)	-	(2,148,359)
2	Constructions	225,020,250	209,727,605	226,973,816	17,246,211	18,324,051	(1,077,840)
	<b>TOTAL</b>	<b>249,643,047</b>	<b>234,350,402</b>	<b>249,448,254</b>	<b>15,097,852</b>	<b>18,324,051</b>	<b>(3,226,199)</b>

Following the revaluation of the lands belonging to the company, they registered a decrease in the net accounting value, in amount of 2,148,359 Lei.

The company recognized an increase of the net accounting value from the tangible assets revaluation comprised in group 1 "Constructions" existing in the company's patrimony at 31.12.2014, in total amount of 17,246,211 Lei.

The impact on the financial statements, resulting from the registration of the differences related to the intangible assets, namely the appreciations and depreciations compared to the residual value, registered at 31.12.2014, resides in the increase of shareholders equity by the amount of 16,576,645 Lei and lower of the year's result, by the amount of 1,478,794 Lei, as follows:

<b>Shareholders' Equity</b>	<b>16,576,645</b>
Revaluation reserves	10,199,414
Other reserves (modernization quota)	6,377,231
<b>Profit and loss account</b>	<b>(1,478,794)</b>
Adjusting entries for the depreciation expenses	(1,640,634)



Revenues for depreciation impairments 161,840

# 1. Stocks

	December 31, 2014	December 31,2013
Raw materials and consumables	9,394,715	9,478,611
Adjustments for depreciation: depreciated and slow moving stocks	(1,685,411)	(2,074,598)
<b>TOTAL</b>	<b>7,709,304</b>	<b>7,404,013</b>

The stocks are made up of raw materials, materials, spare parts and consumables that are to be used when performing the company's core business, as well as from the security and intervention stocks destined to the potential technical break-downs provoked by the natural disasters.

## Trade Receivables and Other Receivables

The comparative statement of the receivables for the reporting period, according to age and type of receivables looks as follows:

	December 31, 2014	December 31,2013
Clients	31,387,166	39,770,229
Long-term receivables under 1 year	1,404	24,089
Impairments for doubtful receivables	(647,884)	(637,903)
<b>Sub-total trade receivables (net)</b>	<b>30,740,686</b>	<b>39,156,415</b>
Other receivables	7,361,661	5,191,332
Write downs for other doubtful receivables	(3,290,237)	(2,554,343)
<b>Sub-total other receivables (net value)</b>	<b>4,071,424</b>	<b>2,636,989</b>



Prepayments	49	4,569
<b>Total short-term receivables</b>	<b>34,812,159</b>	<b>41,797,973</b>
<b>Other long-term receivables</b>	<b>400,941</b>	<b>903,235</b>

The clients structure on activities is the following:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Clients-transport activity	30,276,781	38,863,678
Other clients – auxiliary activities	462,501	906,551
<b>Total</b>	<b>30,739,282</b>	<b>39,770,229</b>

The trade receivables are not interest bearer and have a rotation speed of 34 days.

At December 31, 2014 the current clients register a material decrease yoy, following the collection, in December 2014, of some transport invoices due in 2015.

The main clients holding a significant quota (99%) in the turnover are the clients related to the pipeline transport operation activity, namely: S.C. OMV PETROM S.A., S.C. Petrotel Lukoil S.A., S.C. Rompetrol Rafinare S.A.

Other receivables, amounting 7,361,661 Lei mainly include amounts to be recovered from different natural and legal persons in litigation pending before the law courts, non-exigible VAT unrarried invoices, as well as interest receivable related to the maturity deposits under three months.

*Impairments for the depreciation of doubtful receivables and other doubtful receivables.*

At the reporting date, the impairments for the depreciation of receivables are in total amount of 3,938,121 Lei the movements as compared to the end of the previous year being revealed in the table hereunder:

	<b>2014</b>
<b>Balance at 1<sup>st</sup> of January</b>	<b>3,192,246</b>
Increasing along the year	840,505
Reversals along the year	(94,630)



**Balance at December 31****3,938,121**

The reversals in amount of 94,630 Lei have been determined by the collection of several debts and challenged fines.

The Company's policy is to register a write-down of 100% for the clients in litigation, dissolution, facing bankruptcy and for other debts related to the established legal files or the fines facing challenge procedure.

At the end of 2014, the company maintained the depreciation impairments established for the doubtful receivables related to debts receivable from the following partners:

- SC Biodiesel SRL Comanesti (204,661 Lei);
- SC Nac Industrii SRL Bucuresti (340,938 Lei);
- CTF Bucuresti (50,512 Lei);
- SC Perfect Metal SRL (7,551 Lei);
- SC ICIM SA Ploiesti (33,598 Lei);
- SC Tobias SRL Constanta (643 Lei).

In addition, was registered an impairment also for the amount receivable from FOTBAL CLUB PETROLUL S.A. (9,981 Lei).

The receivables refer to the counter value of some services supply performed by the company and fallen under litigation with the respective beneficiaries and/or penalties calculated for the fail to execute in due term the engaged contracts.

The difference of 3,290,237 Lei represent impairments for other receivables – debtors legal persons pending before the law courts.

### Cash and Cash Equivalents

The comparative situation of the cash and cash equivalents, on the reporting period, looks as follows:

	December 31, 2014	December 31,2013
Current bank accounts	7,385,575	1,925,214
≤ 3 months due bank deposits	327,928,312	247,508,995
Cash on hand	16,252	11,460
Other cash equivalents	37,689	48,870
<b>Total</b>	<b>335,367,828</b>	<b>249,494,539</b>

The company manages an expenses quota for the modernization and development meant for the financial support related to the rehabilitation and modernization of the Crude Oil Pipeline Transport System, the modernization quota being collected from distinct cash account and used



for the payment of the modernization works belonging to public domain, in order to set-up new assets that are to be transferred to the Public domain after the full depreciation thereof.

Therefore, at 31.12.2014, the cash related to the modernization quota in the company's accounts are in amount of 142,123,515 Lei (42% of the cash).

### Short-Term Investments

The short-term financial investments are assets hold by the company in view of achievement of a profit within less than 1 year period. They represent deposits established for a period of more than 3 months and interest receivable at the end of the period.

	December 31, 2014	December 31, 2013
Short term investments		
Bank deposits with maturity term > 3 month	7,669,483	7,080,956

### Provisions

	December 31 <sup>st</sup> 2014	December 31 <sup>st</sup> 2013
Balance at the beginning of the year	22,713,279	14,040,404
Provisions constituted during the year	10,301,264	13,056,693
Provisions used during the year	8,389,466	4,383,818
<b>Balance at the end of the year, out of which:</b>	<b>24,625,078</b>	<b>22,713,279</b>
Long – term provisions	3,772,056	3,187,830
Short – term provisions	20,853,022	19,525,449
	December 31 <sup>st</sup> 2014	December 31 <sup>st</sup> 2013
Provisions for litigations	8,937,366	9,557,945
Provisions for employees' benefits	11,298,203	7,837,928
Other risks and expenses provisions	4,389,509	5,317,407
<b>Total</b>	<b>24,625,078</b>	<b>22,713,279</b>

### Provisions for litigations

In detail, the provisions for litigations are:



	December 31 <sup>st</sup> 2014
Litigations for civil compensations	7, 121,367
Litigations for the non-fulfillment, by third parties, of certain contractual clauses	1,192,999
Work litigations	623,000
<b>Total</b>	<b>8,937,366</b>

The company is involved into various litigations for compensations/damages claimed by various owners, natural and legal persons. Besides the compensations, they request either the payment of an annuity following the exercise, by the Company, of the easement right on the lands owned by the claimants, or by the retirement of the pipelines and installations to be found on their lands.

Following the restitution of their property rights, they are bringing proceedings in Court against the Company, invoking the lack of land use due to the fact that the latter are being crossed by the crude oil transport pipelines belonging to the public domain. For this issue have been constituted provisions in amount of 7,121,367 Lei.

Part of the provisions for litigations recorded at the end of the analyzed periods has been recognized following the settlement of certain trials pending before the law courts. The increase of the provisions is related to the opening of new litigations during the next period or the analysis of the likelihood to lose certain litigation opened the preceding year. On 31.12.2014, they amount 8,937,366 Lei.

#### Provisions for the Employees' Benefits

On December 31<sup>st</sup>, 2014, the Company mainly includes at this chapter, the provision for the share of profit and the provisions for pensions.

The provision for the employees' share of profit is being constituted based on the provisions of the Company's income and Expenditure budget approved for the end of the financial years, by the compliance of the Ordinance no. 64/2001 and Order of the Minister of Public Finances no. 144/2005.

#### Other Provisions

On December 31<sup>st</sup>, 2014, the balance of the item „other provisions” in amount of 4,389,509 Lei is made of:

- 2,409,317 Lei provisions for environment expenses; and
- 1,980,192 Lei provisions regarding the expenses related to the demolition of an asset (Breaza cardio-vascular recovery base, for which exists the OGMS Decision no. 1/14.03.2013)



## 5.2. The Global Result Statement

	December 31 <sup>st</sup> , 2014	December 31 <sup>st</sup> , 2013
<b>Revenues</b>		
Sales revenue	375,032,873	348,853,873
Other revenues	28,046,247	56,907,583
<b>Total operating revenues</b>	<b>403,079,120</b>	<b>405,761,456</b>
<b>Expenses</b>		
Expenses for raw materials and consumables	18,389,317	16,628,172
Personnel expenses	98,015,328	97,885,122
Value adjustments on tangible and intangible assets	46,430,433	36,662,747
Value adjustments on current assets	356,688	1,565,637
Third party expenses	118,606,437	123,624,925
Other expenses	64,535,608	90,772,195
Provisions adjustments	1,911,798	8,672,876
<b>Total operating expenses</b>	<b>348,245,609</b>	<b>375,811,674</b>
<b>Operating profit</b>	<b>54,833,511</b>	<b>29,949,782</b>
Financial Revenues	9,947,716	11,821,081
Financial Expenses	313,749	470,816
<b>Financial Profit</b>	<b>9,633,967</b>	<b>11,350,265</b>
<b>Earnings before taxes</b>	<b>64,467,478</b>	<b>41,300,047</b>
Income tax expenses	13,033,284	9,993,926
Deferred income Tax Expenses	-	8,565





<b>Profit for the Year</b>	<b>51,434,194</b>	<b>31,297,556</b>
<b>Other elements of the global result</b>	-	-
<b>Total other elements of the global results</b>	-	-
<b>Total global result for the year</b>	<b>51,434,194</b>	<b>31,297,556</b>

<b>Basic and diluted earnings per share ( Lei/share)</b>	<b>5.93</b>	<b>3.62</b>
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The income tax and deferred income tax of the company for 2014 and 2013 is determined at a statutory rate of 16%, being in force in 2014 and 2013.

The due income tax for 2014 and 2013 is the following:

	<b>2014</b>	<b>2013</b>
Current income Expense	13,033,284	9,993,926
Deferred income tax expense	-	8,565
<b>Tax expense</b>	<b>13,033,284</b>	<b>10,002,491</b>

Reconciliation of the effective tax rate:

	<b>2014</b>	<b>2013</b>
Profit before taxation	64,467,478	41,291,482
Tax in compliance with the 16% statutory tax rate	10,314,797	6,606,637
<b>Effect on the income tax of the:</b>		
-Non-deductible expenses	2,394,283	8,201,974
-Non-taxable income	(1,487,020)	(5,045,885)
-Elements similar to revenues	2,403,165	729,038
-Elements similar to expenses	(2,568)	(3,005)



Exemptions for sponsorship	(589,373)	(494,833)
<b>Income tax</b>	<b>13,033,284</b>	<b>9,993,926</b>

The deferred tax is recognized in correlation with the basic element in the global result statement or directly into the shareholders' equity. At December 31<sup>st</sup>, 2014, the deferred tax debt in amount of 1,891,974 Lei was recognized on the account of the shareholders' equity.

### 5.3. ECONOMIC - FINANCIAL INDICATORS

Financial Indicators	2014	2013
<b>Profitability indicators</b>		
Sale gross margin	17.19	11.84
Sale net margin	13.71	8.97
Operational profit margin (EBIT %)	14.62	8.59
Profit margin (EBITDA %)	27.00	19.09
Return on Equity (ROE)	7.11	4.81
Return on Assets (ROA)	6.39	4.30

<b>Liquidity Indicator</b>		
Current liquidity - in no. of times	7.14	6.32
Quick liquidity - in no. of times	7.00	6.16

<b>Activity (management) indicators</b>		
Inventories turnover ( in number of days)	352	499
Inventories turnover speed (number of times)	1	0.73
Rotation speed of the clients' debts (days)	34	39
Rotation duration of the clients'	10.73	9.34

debts (no. of times)		
Rotation speed of the creditors (purveyors) (days)	27.17	23
Rotation speed of the creditors (purveyors) (no. of times)	13.43	16.04

### Profitability Indicators

The operating profit margin fluctuated during the reference period due to both the fluctuations in the operating expenses figure and turnover variations.

### Liquidity Indicators

In 2014, the total current assets recorded an increase by 26.1% as opposed to the preceding year, due to the raise by 34.4% of the cash available facts having triggered the improvement of the quick and current liquidity figures.

The current liquidity indicator guarantees the coverage of the current liabilities by the current assets, which are usually liquid and can be easily enforced against, close to their book value. The book value at 31.12.2014 is 7,14, 5,14 over the acceptable value (2), reflecting the company's ability to cover the current liabilities on the account of the current assets.

### Activity Indicators

The rotation speed of debtors – clients conveys the company effectiveness in collecting its claims and represents the number of days up to the date when the debtors will have paid off their debts to the company. The value obtained up to 31.12.2014 is 34 days (medium balance of the clients' debts/turnover \* 365 days). The evolution of the indicator in 2014 highlights a lower trend of number of days for which the clients have paid their obligations.

## 5.4. CASH FLOW

### CASH FLOW STATEMENT FOR THE YEAR CONCLUDED AT DECEMBER 31, 2014

(Direct Method)

Name of the element	2014	2013
<b>Cash flows from operating activities:</b>		
+ Cash collections from customers	415,918,467	377,157,502
+ Other collections	7,389,568	11,433,547
- Payments to goods and services suppliers	138,802,797	153,718,651
- Payments to and on behalf of the employees	99,139,348	97,978,040
- VAT payments	58,716,346	49,805,434
- Income tax related payments	12,317,009	10,401,324



-	Other payments for operating activities	36,083,105	32,072,441
<b>A</b>	<b>Net cash from operating activities</b>	<b>78,249,430</b>	<b>44,615,159</b>
	<b>Cash flows from investment activities :</b>		
+	Proceeds from sale of tangible assets	61,964	1,084,425
+	Proceeds from modernization quota	58,036,141	53,292,505
-	Payments for purchase of tangible assets	30,284,627	32,024,398
-	Payments for interest, financing fees, differences in the exchange rate		1,350
-	Reimbursements of certain loans		30,316
<b>B</b>	<b>Net cash from investment activities</b>	<b>27,813,478</b>	<b>22,320,866</b>
	<b>Cash flows from financing activities</b>		
+	Proceeds from short-term financial investments	9,454,926	11,580,798
+	Proceeds from other financial income	544,060	886,149
-	Payments for purchase of short-term financial investments	588,528	318,509
-	Paid dividends	29,600,077	28,357,395
<b>C</b>	<b>Net cash from financing activities</b>	<b>(20,189,619)</b>	<b>(16,208,957)</b>
	<b>Net increase of the cash and cash equivalents=A+B+C=D2-D1</b>	<b>85,873,289</b>	<b>50,727,066</b>
<b>D1</b>	<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>249,494,539</b>	<b>198,767,473</b>
<b>D2</b>	<b>Cash and cash equivalents at the end of the financial year</b>	<b>335,367,828</b>	<b>249,494,539</b>
	<b>Cash and cash equivalents</b>		

By means of treasury, each enterprise evaluates its capital needs, based on the use manner structure, in stable investments and cyclical investments. Concurrently, as per the evaluations of the capital needs will be determined the source of the financing resources by which the capital is obtained and thus is being achieved the balance between the financing needs and the capitals procured with convenient costs.

By comparing the proceeds and the payments related to the **operating activities** in the two analyzed periods, the result is an excess, indicating that the operation generates cash, the proceeds being higher than the payments, the enterprise being able to even secure its growth.

The sources are being generally constituted from the proceeds related to the activity of supply of the crude oil, rich gas and condensate transport through pipelines. The performed payments are meant to support the transport activity.

The net cash from operating activities registers an important increase in 2014, following the increase of the proceeds volume in the reported period, based on the payment performed by the client OMV, before the cut-off date, of certain transport invoices due in 2015 and the decrease of the payments for goods and services procurements.

As regards the net cash from **investments activities**, the values registered at the end of the two analyzed periods reveal a positive result, with upward trend in 2014, due to the increase of



the collected modernization quota and reduction of the payments for the procurement of tangible and intangible assets.

In case of net cash from **financing activities** a deficit was registered in both periods, caused by the payment of dividends to the shareholders, representing a percentage of 85% from the net profit allocated by the General Meeting of Shareholders, as compared to the proceeds mainly coming from the negotiated interest rates related to the opened short term deposits.

2014 indicated a decrease in the cash inflows from the liquid assets investments, following a decrease of the interest rate in the capital market.

## Chapter 6. MISCELLANEOUS

### 6.1 AFFILIATED PARTIES

The company does not hold significant shares in other companies. The only long-term shareholdings held are at the following companies:

- a. Shareholdings amounting 5,000 Lei, representing 3.33 % out of the capital of the Registrului Independent Monitor, headquartered in Bucharest.
- b) Shareholdings in amount of 35,000 GBP, representing 16.6% out of the subscribed capital at the PEOP development company set up by trade companies in Romania (CONPET, Oil Terminal), Serbia and Croatia in view of attracting investors for the construction of Constanța-Trieste pipeline. The company from Croatia failed to submit the subscribed share capital. Following the Memorandum approved by the Department for Energy and the Report of the Operations Direction, in the Extraordinary General meeting of Shareholders of CONPET SA dated 02.09.2014 was approved the initiation of the legal proceedings for the liquidation of the PEOP-PDC project development company in compliance with the applicable legislation.

### 6.2 THE CORPORATE GOVERNANCE

The corporate governance is the whole set of procedures and processes based on which a company is controlled and administered. The corporate governance sets the distribution of the responsibilities and rights of the different parties involved in the life of a company: shareholders, management, third parties involved.

The corporate governance at company level is structured and is being performed in compliance with the legal framework in Romania, namely the Companies' Act no. 31/1990 and the Emergency Ordinance no. 109/2011 regarding the corporate governance of the public enterprises.



**"Apply or Explain" Statement according to Corporate Governance Code of  
Bucharest Stock Exchange**

Principle/ Recommendation		Question	Yes	Nu	If No, then explain
P19		Is the Issuer administered in a dualist system?		X	CONPET S.A. has adopted a unified management system that meets the current needs of the company on proper management and administration of the activity.
P1	R1	Has the Issuer developed a Corporate Governance Rules to describe the main aspects of corporate governance?	X		
		Is the Corporate Governance Rules posted on the company website, indicating the date of the last update?	X		
	R2	Are the corporate governance structures, functions, competencies and responsibilities of the Board of Administration and executive management defined within the Corporate Governance Rules?	X		
	R3	Does the Issuer's Annual Report include a chapter on corporate governance describing all the relevant events related to corporate governance, recorded during the previous financial year?	X		
		Does the Issuer disseminate information on its website regarding the following aspects related to its corporate governance policy: Description of its corporate governance structures?	X		
		Updated Articles of Incorporation?	X		
		internal operational rules / essential aspects thereof for each commission/specialised committee?	X		
		"Apply or Explain" Statement?	X		
		the list of the Board of Administration members stipulating who are the independent and/or non-executive members, executive members and the ones included in the committees/specialised commissions?	X		
		a short version of the CV for each member of the Board of Administration and executive management?	X		
	P2	Does the Issuer observe the rights of the holders of financial instruments issued by the same, providing them fair treatment and submitting for approval, during the special meetings, any modification of the rights of the respective holders?	X		
P3	R4	Does the Issuer publish, in a dedicated section of its website, details regarding the General Meeting of Shareholders :			
		a) convening notice of GMS?	X		
		b) materials/documents related to the Agenda and any other information relating to items on the Agenda?	X		



		c) special power of attorney forms?	X		
	R6	Has the Issuer developed and proposed to the GMS procedures for orderly and efficient GMS works, without bringing prejudice to the right of any shareholder to freely express his opinion on the ongoing matters?		X	The procedures regarding the conduct of GMS meetings are in progress. For the organisation and conduct of the general meetings, the company complies with the current legislation on capital markets and companies.
	R8	Does the Issuer disseminate, in a dedicated section of its website, the shareholders' rights as well as the rules and procedures for participating in the GMS?	X		
		Does the Issuer provide timely information (immediately after the GMS) of all shareholders through the dedicated section of its website:	X		
		regarding the decisions taken during the GMS?			
		b) regarding the detailed voting result?	X		
		Does the Issuer disseminate, through a special, easily identifiable and accessible section of the website:			
		Current reports/releases?	X		
		b) Financial calendar, annual, quarterly and biyearly reports?	X		
	R9	Has the Issuer a specialized department/person within the company, dedicated to the relationship with the investors?	X		
P4, P5	R10	Does the Board of Administration meet, at least once a quarter, in order to monitor the Issuer's activity?	X		
	R12	Does the Issuer have a set of rules relating to the behavior and reporting obligations of the transactions with the shares or other financial instruments issued by the Company („securities of the company") made on their own behalf by the administrators and other natural persons involved?		X	
		If a member of the board of Administration, or of the executive management, or any other person involved makes a transaction in their own with the company's trading securities, then, is this disseminated through its website, according to the applicable Rules?	X		During 2014, there were not such transactions.
P6		Does the Structure of the Issuer's Board of Administration ensure a balance between the executive and non-executive (and in particular independent non-executives administrators) so that no individual or small group can dominate, in general, the BoA's decision making?	X		
P7		Does the Structure of the Issuer's Board of Administration ensure a sufficient/adequate number of independent members?	X		
P8	R15	In its activity, does the Board of Administration have the benefit of the support of advisory committees / commissions to examine specific topics, chosen by the	X		



		BoA, and for the advice thereof on these topics?			
		Does the advisory committees/commissions submit activity reports to the BoA on subjects assigned by the latter?	X		
	R16	To assess the independence of its non-executive members, does the Board of Administration use the evaluation criteria stipulated in Recommendation 16?	X		
	R17	Does the Board of Administration members constantly improve their knowledge through training in the field of corporate governance?	X		
P9		Is the election of the Board of Administration members based on a transparent procedure (objective criteria regarding personal/professional qualification etc)?	X		
P10		Is there a Nomination Committee within the company?	X		There is a committee named: the Nomination and Remuneration Committee
P11	R21	Does the Board of Administration analyze at least once a year the need to set up a remuneration Committee / remuneration policy for the administrators and the executive management members?	X		
		Is the remuneration policy approved by the GMS?	X		Annually, The GMS establishes the level of the administrators remunerations and the general limits of the General Director's remuneration.
	R22	Is there a Remuneration Committee exclusively composed of non-executive administrators?	X		The Nomination and Remuneration Committee is composed of 3 non-executive administrators.
	R24	Is the remuneration policy submitted in the Corporate Governance Rules?	X		
P12, P13	R25	Does the Issuer disseminate in English language the information that make object of the reporting requirements:	X		
		Periodical information (recurrent provision of information)			
		b) continuous information (continuous provision of information)	X		
		Does the issuer prepare and disseminate financial reporting and according to IFRS?	X		
	R26	Does the Issuer promote, at least once a year, meetings with the financial analysts, brokers, rating agencies and other market specialists, in order to present financial elements, relevant to the investment decision?	X		
	R27	Is there an Auditing Committee within the company?	X		
	R28	Does the BoA or the Auditing Committee, as the case			





		may be, regularly examine the efficiency of the financial reporting, the internal control and of the risk management system adopted by the company?	X		
	R29	Is the Auditing Committee exclusively composed of non-executive administrators and does it have a sufficient number of independent administrators?	X		
	R30	Does the Auditing Committee meet, at least 2 times a year, in view of the preparation and dissemination of the biyearly and annual results, to both the shareholders and the public?	X		
	R32	Does the Auditing Committee make recommendations to the BoA with regard to the selection, the appointment, the reappointment and the replacement of the financial auditor, as well as the terms and conditions of his remuneration?	X		
P14		Did the BoA adopt a procedure in order to identify and adequately settle the conflict of interest situations?		X	The procedure is in progress.
P15	R33	Do the administrators inform the BoA on conflicts of interest as they arise and abstain from deliberating and voting on such matters, according to the incidental legal provisions?	X		
P16	R34/ R35	Has the BoA adopted specific procedures in order to ensure procedural fairness (criteria for identifying transactions with significant impact, transparency, objectivity, non-competition, etc?), in view of identifying transactions with related parties?		X	The specific procedures are in progress.
P17	R36	Has the BoA adopted a procedure regarding the internal circuit and disclosure, to third parties, of documents and information relating to the issuer, focusing mainly on information that can influence the market price of the securities issued by the Issuer?		X	The procedure is in progress.
P18	R37/ R38	Does the Issuer conduct activities on Environmental and Social Responsibility of the Company?	X		

Given that in September 2013, CONPET was transferred on the 1<sup>st</sup> Tier of Bucharest Stock Exchange the company complies with the capital market regulations, namely Law 297/2004 regarding the capital market, as well as the regulations specific to Bucharest Stock Exchange (BSE). In this context, it should be underlined that the companies listed on BSE commit to adopt and apply the Corporate Governance Code of Bucharest Stock Exchange. The application of the BSE's Corporate Government Code assumes the observance of certain minimum governance standards described in the 19 principles of the Code. CONPET, acting as a company traded on the First Tier of the BSE, is bound to comply with at least 14 out of the 19 governance principles contained by the Code.

It should be mentioned that late 2014, BSE drafted a New Corporate Governance Code that is currently a draft code. This new Corporate Governance Code will supersede the first Code issued in 2008. After the entry into force, the issuers should target the fulfillment of all provisions of the Code, namely a set of general principles and recommendations.

It became more and more obvious that a good corporate governance stands as a condition for the performance of an enterprise and in case of the public companies listed on the Stock Exchange, it is confirmed the fact that the investors pay a higher degree of trust in the companies that prove they apply high standards of corporate governance, which usually reflects positively in the price of the shares on the stock exchange as well.

As for CONPET, it is even more important the observance of the highest standards of corporate governance, given that the institutional investors are extremely sensitive to all these aspects.



## Corporate Governance Rules

Acting as issuer listed on Bucharest Stock Exchange, CONPET promoted and approved pursuant to the BoA Decision no. 7/27.03.2014, CONPET Corporate Governance Rules.

This document represents the voluntary assumption by the Company, of the corporate governance principles, considering the characteristics and specific activity in compliance with the principles stipulated in the Corporate Governance Code of Bucharest Stock Exchange.

CONPET Corporate Governance Rules is a public document and can be found on the [www.conpet.ro](http://www.conpet.ro) website.

## Other Applicable Documents

Within the application of the general regulating framework, CONPET adopted documents that ease the transposition into the practical application of the corporate governance:

- CONPET Articles of Incorporation, comprising provisions related to the management bodies (general meeting, board of administration, executive management) as well as to the powers and procedures for the operation thereof;
- The Organizational and Operational Rules and Regulations governing the Board of Administration, that details and operationalizes the way this body assembles, the way it analyzes, debates and takes decisions, the way they interact with the executive management and other parties.
- The Organizational and Operational Rules and Regulations governing CONPET, the Code of Ethics, Internal Rules, that take-over, detail and operationalize certain aspects incident to the company governance framework.

At CONPET level, the corporate governance structures are the followings:

1. **The General Meeting of Shareholders;**
2. **The Board of Administration**, at which level are being set up Consultative Committees, namely:
  - The Nomination and Remuneration Committee;
  - The Audit Committee;
  - The Finance and Investors Relation Committee;;
  - The Committee for the Relation with the Regulatory and Energy Authorities;
  - He Development Committee.
3. **The General Director.**

## The General Meeting of Shareholders

The shareholding structure, in compliance with the consolidated synthetic shareholders' structure at reference date 31.12.2014, is the following:

The Romanian State, by the Ministry of Economy (line ministry or successors thereof, as per the Law)

Number of shares: 5,083,372



Contribution value to the share capital: 16,775,127.60 Lei  
Share on benefit and loss: 58.7162%

#### LEGAL PERSONS

Number of shares: 2,915,629  
Contribution value to the share capital: 9,621,580 Lei  
Share on benefit and loss: 33.6774%

#### NATURAL PERSONS

Number of shares: 658,527  
Contribution value to the share capital: 2,173,134 Lei  
Share on benefit and loss: 7.6064%

The majority shareholders of "CONPET" S.A. is the Romanian State. The rights and duties of the Romanian State, acting as majority shareholder, shall be exercised, within the General Meetings of Shareholders, by the Ministry of Economy – the Department for Energy, the line ministry coordinating the company business, by way of specific normative acts, by specially designated representatives, as per the legal provisions.

The shareholders exercise their rights within the General Meeting of Shareholders (GMS) that represent the higher decisional body of the company. The powers of approval of the General Meeting of Shareholders, the conditions for the organization and validity of the sessions thereof are being set by way of the Articles of incorporation of the company, in compliance with the applicable regulations and are being complemented with the contingent legal provisions.

As per the law, every subscribed and paid share confers the holder a voting right in the General Meeting of Shareholders, the right to elect and be elected within the management bodies, the right to take part to dividend distribution as per the provisions of the Articles of incorporation and legal provisions, as well as other rights stipulated herein.

During the General Meeting of Shareholders sessions, the shareholders have the right to a correct and complete information regarding the company status. In case of the issue of new shares, the existing shareholders benefit from the subscription preference right, under the law.

The general meetings are ordinary and extraordinary.

The General Meeting of Shareholders is being convened by the Board of Administration, whenever necessary. The call of the General Meeting of Shareholders shall comply with the legal provisions regarding the companies, as well as the regulations regarding the capital market and provisions of this Articles of Incorporation. The meeting deadline cannot be less than 30 days as of the publishing of the Convening Notice in the Official Gazette of Romania, part IV.

In order to provide equal treatment and the full and fair exercise of the rights of the share holders, CONPET S.A. makes available all the relevant information regarding the GMS and the adopted decisions, as per the law, both through means of mass communication, as well as in the special section, created on the own internet webpage.



CONPET S.A. makes all diligence, by the compliance of the legislation in the area, to ease the participation of the shareholders to the sessions of the General meetings, as well as the full exercise of the rights thereof. The shareholders may take part and vote in person in the General meeting of Shareholders, but they also have the possibility to exercise the vote by representation or by correspondence.

The General meeting of Shareholders is open and is being presided by the Chairman of the Board of Administration, or in absence thereof, by the person substituting him.

Within the General Meeting of Shareholders it is allowed and encouraged the dialogue between the shareholders and the members of the Board of Administration/General Director. Each shareholder may address questions to the administrator, regarding the company business, as per the legal provisions.

The Decisions made by the General Meetings of Shareholders under the law and of the Articles of incorporation are binding even for the shareholders that did not take part to the meeting or have voted against.

The Decisions of the General Meetings of Shareholders not compliant with the law or the Articles of Incorporation may be brought against the Court, under the law.

#### **The Board of Administration**

The company is administered by a board of administration made of 7 administrators, elected by the Ordinary general meeting of shareholders for a period of 4 years, with possibility to be re-elected for new periods of 4 years. The administrators may be acting as shareholders.

The member of the Board of Administration have been elected pursuant to the Decisions of the Ordinary general meeting of shareholders no. 6/28.11.2013, by the compliance of the provisions applicable to the companies admitted to trading, being selected in compliance with the legal provisions stipulated in the EGO no. 109/ 2011 regarding the corporate governance of the public enterprises.

The Board of Administration has the following composition, this one being also represented in detail on the company website:

#### **Non-executive administrators:**

- Mr. Dan Weiler – Chairman of the BoA
- Mrs. Roxana-Elena Gheorghe – BoA Member
- Mrs. Cristiana Chiriac – BoA Member
- Mr. Dragos Lucian Dinu – BoA Member
- Mr. Radu Bugica – BoA Member
- Mr. Darius Dumitru Mesca – BoA Member

#### **Executive Administrator:**

- Mr. Liviu Iasi – BoA Member and General Director

The Chairman of the Board of Administration was elected from within the Board of Administration members, pursuant to the BoA Decision no. 16/28.11.2013, as per the provisions of Article 19 paragr. (3) of the Articles of Incorporation of the company.



As per Article 39, paragr. (2) of the EGO no. 109/ 2011 regarding the corporate governance of the public enterprises, the remuneration and the other benefits offered to the administrator and General Director will be consigned in the Annual Financial Statements and the annual report of the Nomination and Remuneration Committee. The policy and criteria of remuneration of the administrators and General Director shall be made public on the company's official internet page, by care of the Board of Administration.

The components of the remuneration of the non-executive administrators are provided for in the administration contract, namely on Chapter VII Administrator's rights, Article 15 (regarding the monthly fix gross allowance) and Article 17 (regarding the variable component of the remuneration of the non-executive administrators). The remuneration of the executive administrator is unique and set pursuant to the contract of mandate concluded for the executive capacity, this one no longer benefiting from the remuneration stipulated by the administration contract.

In case of vacancy of one or several administrator positions, the Board of Administration proceeds to the nomination of some provisional administrators, up to the reunion of the Ordinary General Meeting of Shareholders.

The Board of Administration usually meets at the company headquarters, or any other company work site or at any other place communicated by way of call. May be organized operational meetings of the Board of Administration by means of remote communication that meet the technical conditions necessary to identify the participants, the effective participation thereof to the Board of Administration meetings and forwarding of the deliberations on ongoing basis (via e-mail, telephone, video-call or any other communication equipment), whenever necessary, but at least every 3 months, at the Chairman's call or at the substantiated request of 2 of the members of the Board or of the General Director. The Board is also convened, at the substantiated request of at least two administrators or the General Director. In this case, the Agenda is being set by the authors of the request. The Chairman is bound to respond to such a request.

The sessions of the Board of Administration are convened by way of a notification sent to all the members of the of the Board of Administration, by telephone or e-mail, within at least 5 business days prior to the date the meeting will take place. In special cases, the meeting can be convened urgently. The call shall comprise the date, time and venue of the meeting and will have the Agenda attached. In well justified cases, the Chairman of the Board of Administration can order the reschedule of the meeting date or the supplement of the Agenda thereof.

For the validity of the decisions is necessary the presence (directly or by representation) of at least five of the member of the board and the decisions are taken by the vote of the majority of the members present. The Chairman of the Board of Administration will have the casting vote in case of parity of votes.

The Members of the Board of Administration can be represented at the meetings of the respective body exclusively by other members thereof. A present member can only represent a single absent member.



In case of decisions made during the meetings where a member of the Board failed to participate, the latter remains liable in connection therewith if, within 30 days of acknowledgement thereof, did not challenge them in the forms provided by the law.

**At the level of the Board of Administration are being constituted the following consultative committees:**

1. **The Nomination and Remuneration Committee** (set up pursuant to the BoA Decision no. 16/28.11.2013), being constituted of the following administrators: Mr. Dan Weiler – Chairman, Mrs. Cristiana Chiriac and Mr. Dragoș - Lucian Dinu – members;
2. **The Audit Committee** (set up pursuant to the BoA Decision no. 16/28.11.2013), being constituted of the following administrators: Mrs. Roxana - Elena Gheorghe – Chairman, Mr. Darius - Dumitru Meșca and Mr. Radu Bugică – members.
3. **The Finance and Investor Relations Committee** (set up pursuant to the BoA Decision no. 17/06.12.2013), being constituted of the following administrators: Mr. Radu Bugică – Chairman, Mr. Liviu Ilași and Mrs. Roxana - Elena Gheorghe - members.
4. **The Committee for the Relations with the Regulatory and Energy Authorities** (set up pursuant to the BoA Decision no. 17/06.12.2013), being constituted of the following administrators: Mrs. Cristiana Chiriac – Chairman, Mr. Dan Weiler, Mr. Liviu Ilași and Mr. Darius - Dumitru Meșca – members.
5. **The Development Committee** (set up pursuant to the BoA Decision no. 17/06.12.2013), being constituted of the following administrators: Mr. Liviu Ilași - Chairman, Mr. Dan Weiler, Mrs. Roxana - Elena Gheorghe, Mr. Darius - Dumitru Meșca and Mr. Dragoș - Lucian Dinu – members.

The Audit Committee and the Nomination and Remuneration Committee are binding, as per the legal provisions in force.

The consultative committees meet whenever necessary, at the Chairman's call, and the proposals/recommendations formulated by the Board of Administration (for the substantiation of the decisions made thereby) are being adopted by majority of exercised votes. The attributions and responsibilities of the consultative committees are being established by the Board of Administration.

The Board of Administration may set up, by decision, other consultative committees as well, in different areas of activity, pursuant to the company's necessities and the management strategy thereof.

At least one member of every consultative committee must be independent non-executive administrator. The Audit and the Remuneration Committees are only made of non-executive administrators. At least one member of the Audit Committee must have expertise in the application of the accounting principles or in financial audit.

#### **The General Director**

Starting 06.12.2013, the General Director of "CONPET" S.A. was appointed by the Board of Administration, from among the members of the Board of Administration, pursuant to the BoA



Decision no. 17/ 06.12.2013, by way of the Contract of Mandate no. 1/06.12.2013 being delegated the company management in compliance with the legal provisions in force and the Articles of Incorporation.

The General Director of the company has the duties stipulated in the Articles of incorporation, supplemented by the applicable legal provisions.

The General Director supplies to the Board of Administration, regularly and comprehensively, detailed information regarding all outstanding aspects for the company business. Additionally, any outstanding event is immediately communicated to the Board of Administration.

Moreover, any member of the Board of Administration may request the General Director information regarding the operative company management.

The management bodies and the administration bodies are active, have the freedom to adopt the decisions they consider right, acknowledge their role and are permanently capable of supporting their decisions against the administration structures or other interested parties that have the right to obtain such information.

### **The Remuneration Policy**

In compliance with the provisions of Article 37 paragr (1) and (2) and respectively of Art. 38, paragr. (2) of the Emergency Government Ordinance nr.109/2011 regarding the corporate governance of the public enterprises, further amendments and additions, the administrators and directors receive a monthly fixed gross allowance and a variable allowance for the activity performed.

The monthly fixed allowance is set according to the monthly average salary communicated by the NIS in the branch the company is performing its activity.

*The variable allowance is being paid according to the achievement of the performance indicators and criteria assumed by the administration contracts/mandate contract, as they are taken from the administration/management plan.*

The monthly fixed allowance for the nonexecutive administrators of the Board of Administration has been capped in compliance with the provisions of Art. 37 paragr. (3) of the Emergency Government Ordinance no. 109/2011 and it cannot exceed the 12 months average of the average monthly gross earnings in the branch the company is performing its activity, communicated by the National Institute of Statistics (Rom. INS) prior to the appointment.

The monthly fixed allowance for the executive administrators of the Board of Administration has been capped in compliance with the provisions of Art. 37 paragr. (4) of the Emergency Government Ordinance no. 109/2011 and it cannot exceed 6 times the last 12 months average of the average monthly gross earnings in the branch the company is performing its activity, communicated by the National Institute of Statistics (Rom. INS) prior to the appointment.

In compliance with the provisions of Art. 37 of the Emergency Government Ordinance no. 109/2011, the remuneration of the members of the Board of Administration and the general limits of the fixed allowance of the General Director have been approved by the OGMS dated 25.03.2014, as follows:



-the monthly fixed gross allowance of the nonexecutive members, considering the National Institute of Statistics (Rom. INS) communication is in amount of 4,180 Lei. This value has been achieved by calculating the arithmetic average of the values during November 2012 – October 2013 of the average monthly gross earnings for division 49 "Land Transport and transport via pipelines" NACE code 495 – "Transport through pipelines"

- the monthly fixed gross allowance of the General Director, executive member, considering the National Institute of Statistics (Rom. INS) communication is in amount of 25,272 Lei. This value has been achieved by calculating the arithmetic average of the values, related to December 2012 – November 2013, of the average monthly gross earnings for division 49 "Land Transport and transport via pipelines" NACE code 495 – "Transport through pipelines". The general limits of the monthly fixed gross allowance of the General Director, approved by the OGMS /25.03.2014, are at least 5 times the average gross earnings and no more than 6 times the average gross earnings communicated by the NIS. The Board of Administration, in the meeting dated 06.12.2013, have set the monthly fixed gross allowance of the General Director at a value representing 6 times the last 12 months average of the average gross earnings communicated by NIS. Consequently, the monthly fixed gross allowance calculated 6 times the average gross earnings communicated by NIS is in amount of 25,272 Lei (6\*4,212 Lei).

As concerns the variable allowance of the Board of Administration, the information contained in the study contain data regarding the remunerations of the Boards of Administration of Transgaz SA Romania, Gassco AS Norway, Janaf PLC Croatia and MERO CR a.s. the Czech Republic and include the maximum limits calculated according to the EBITDA (2.901%) and turnover value (1.833%).

The variable allowance stipulated in 2014 Income and Expenditure Budget for the executive and nonexecutive members of the Board of Administration is 1,208,448 Lei, value below the level of the remuneration calculated by making use of the maximum coefficients of the indicators described in the market study.

The performance objectives and criteria for the administrators related to the period January – December 2014 are detailed in annex e).

### **The Management of Conflicts of Interest**

The Board of Administration and the General Director shall adopt operational solutions in order to ease the proper identification and settlement of the situations where an administrator has a material interest in his own behalf or in behalf of third parties.

The administrator or the General Director who, in a certain operation, has, directly or indirectly, interests contrary to the company interests, is bound to notify the other administrators and the internal auditor in connection therewith and not to deliberate on this operation. The same liability will be incumbent on the administrator or General Director where, in such operation, holds information on his husband or wife, relatives, or in-laws until the 4<sup>th</sup> degree (inclusive of).

The members of the Board of Administration keep confidentiality of any facts, data or information they became aware of during the exercise of their powers and understand they do not have the right to use, or disclose them neither during the activity, nor following the termination thereof.

In order to avoid the occurrence of the conflicts of interest, the company set a series of deontological rules to be complied with by both the members of the Board of Administration and





the General Director and company employees, in correlation with the applicable legal provisions.

### **Transparency, Information and Communication**

Being a company traded on the First Tier of the Bucharest Stock Exchange, CONPET fully complies with the obligations to report to the investors and capital market in general, by the preparation and submission of periodic and occasional reports pursuant to the Stock Exchange regulations. The company has also set up a communication strategy to other interested parties, from the local authorities and communities to the media.

As a company acting in a competitive environment of major importance for the economy in general, CONPET targets the rich of proper balance between the confidential and the public information. Have been adopted the internal regulations regarding the information disclosure and observance of confidentiality.

Within the Programme for the Development of an internal/management control system drafted in compliance with the Order of the Minister of Public Finances no. 946/2005, republished in 2011, further amendments and additions, and considering the need to set basis for a Culture of integrity within CONPET, starting 2011 have been covered the following steps for the development of the Corporate Governance:

#### **1. The Conformity and Ethics Analysis at Company Level**

This stage required the analysis of the structure and categories of operations undertaken at company level in order to determine the applicable normative act (national and European, here-included the directly applicable "Acquis communautaire"), as well as the relevant standards and good practices.

#### **2. Identification and Assumption of the Company's Values**

It implies the organization and easing the process to define the company mission- vision-values, in relation to the identified needs for conformity and ethics and in relation to the economic - financial priorities of the company.

#### **3. Code of Ethics**

The current Code of Ethics (conduct) of the company was issued on 27.04.2012; the Board of Administration took act thereof pursuant to the BoA Decision no. 5/ 09.05.2012.

The entity Bureau of Ethics was set up within the Human Resources Service, where has been nominated the Ethics Counsellor, pursuant to the General Director Decision no. 519/ 14.11.2012.

#### **4. Dissemination and Promotion of the Code of Ethics**

This is the final component of the program, which implies recurrent training of all employees regarding the company institutional strategy, the expectations in terms of conduct in relation to the code of ethics, as well as the rights and obligations of the personnel in terms of ethics and conformity.

The organization of the training program starts from the premise that, if a company provides proper operation of the process of promotion of an ethical behavior, triggering a change of attitude of the personnel, then this system may limit the internal conflicts, thefts from the



company goods and frauds, the use of the company resources in purposes other than the ones destined to, the use of the image for the personal benefit of the employees or the sabotage of the company interests by way of misconduct of the employees in relation to the clients or the business partners, namely corruption etc. And all these are valued in money. The operation of such a system leads to the strengthening of the internal integrity system of the employee, the identification thereof with the company values, consequently to an increased performance, which consequently may translate into higher profit.

### **Social and Corporate Responsibility**

The corporate social responsibility means the focus on the social and environment impact of the business acting similar to an integrated policy on the company, influencing the day-by-day decision-making process as well as the company's actions at all levels.

Corporate social responsibility is part of CONPET strategy. The company plans for every employee to have a responsible social behavior. Moreover, it targets an improvement of the business practices by strengthening the Corporate Governance policy.

Consequently, CONPET is responsible not only for itself, but also for the clients, shareholders and company employees, given that the activity thereof always had impact on the company and environment.

On medium term, it is proposed the creation of a policy regarding social corporate responsibility to define the areas where CONPET may intervene at the level of the local communities as well as to supervise and communicate the company performance in this respect, by disseminating information on the matter through various communication channels.

CONPET, consistent to the sustainable development principles, uses the instruments specific to a modern economy, offered by the maintenance and ongoing improvement of the Quality Environment, Health and Occupational Safety Integrated management System as well as the implementation of an Energy management System, of a Risks Management System, both starting 2014.

The company committed to achieve and maintain the highest standards in all aspects of the activity thereof, exercise a positive impact on all the communities where it performs its activity. Special attention is given to education, sports and cultural activities and humanitarian aid.

This commitment involves not only the grant of financial help to certain institutions and collaboration so that every employee, partner, collaborator, shareholder be treated with dignity and respect. In this respect, CONPET issued its own Code of Ethics, based on the following principles: the compliance of the legal framework and internal norms, respect and trust, orientation to quality, confidentiality, elusion from conflict of interest situations, and responsibility for the local community, for the environment, transparency and loyalty.

One of the long term strategic objectives of CONPET is the participation to professional development of the employees by continuous improvement of the knowledge and competencies. Given that the formation of a specialist in the oil field implies a higher period of professional upgrade and training, the company chose to collaborate with Ploiesti Oil&Gas University for the selection of the best students of the faculties in this industrial branch. Even before becoming company employees, they are offered the possibility to attend internship.



Every year, on the occasion of the Oilman's Day and Company Anniversary, as well as on different other occasions, CONPET organizes actions for the promoting the company image: symposiums, lectures etc.

#### **Actions for the Ongoing Improvement of CONPET Corporate Governance**

Along with the company listing on the First Tier of the BSE, CONPET undertook to apply the Corporate Governance Code of the Bucharest Stock Exchange and consequently, the highest standards of corporate governance currently existing in Romania.

An essential component of this program will consist in the implementation of a mechanism of periodic evaluation of the activity of the Board of Administration as a whole and of the consultative committees set up at this level, based on quantifiable performance criteria.

### **CHAPTER 7. SPONSORSHIP**

The state of the sponsorship is disseminated to the public by the publishing of an annual report of the sponsorship awarded by CONPET SA on the company website, [www.conpet.ro](http://www.conpet.ro).

The sponsorship activity developed at S.C. CONPET S.A. level is being carried out in compliance with the provisions of Law no. 32/1994 regarding sponsorship, further amendments and additions, of Order no. 994/1994 regarding the approval of the instructions for the enforcement of Law no. 32/1994 regarding sponsorship, the provisions of EGO no. 127/1999, approved by Law no. 576/2001, the provisions of Law no. 571/2003 regarding the Fiscal Code, further amendments and additions, as well as with the Order of the Ministry of Economy and Finances no. 3512/27.11.2008.

The sponsorship actions are being performed following the approval of the Income and Expenditure Budget as per the law, falling within the sponsorship expenses broken down by areas of interest.

For 2014, the status of the achievement of the sponsorship related expenses as compared to the Income and Expenditure Budget is as follows:

Type of sponsorship expense [Lei]	Income and Expenditure Budget 2014	Achievements 2014	[%]
Sports Clubs	400,000	397,000	99.25
Places of worship	25,000	10,000	40.00
Humanitarian and social aids	15,000	13,900	92.67
Other expenses	210,000	168,473	80.23
<b>Total</b>	<b>650,000</b>	<b>589,373</b>	<b>90.67</b>

**CHAPTER 8. THE BOARD OF ADMINISTRATION PROPOSAL****8.1. APPROVAL OF THE FINANCIAL STATEMENTS ENDED 31.12.2014.****8.2. APPROVAL OF THE DISTRIBUTION OF NET PROFIT CORRESPONDING FOR 2014 FINANCIAL YEAR.**

Considering:

- Accounting Law no. 82/1991, republished, Art.19, paragr.(3);
- Government Ordinance no. 64/2001 regarding the distribution of profit at the national societies, national companies and trade companies where the State holds integral or majority stake, further amendments and the Order of the Minister of Public Finances no. 144/2005 regarding the approval of the Details for the determination of the amounts subject to the profit distribution as per G.O. no. 64/2001;
- Government Decision no. 593/2014 on the approval of 2014 Income and Expenditure Budget.
- Emergency Ordinance no. 109/2011 regarding the corporate governance of the public enterprises

Recommend for approval the proposal to distribute the net profit corresponding on 2014 financial year, amounting **56,381,586 Lei**, as follows:

<b>Share of profit, total, out of which:</b>	<b>4,947,392 Lei</b>
<i>Employees share of profit</i>	<i>4,343,168 Lei</i>
<i>Profit share due to the members of the BoA</i>	<i>604,224 Lei</i>
<i>As per EGO 109/2011</i>	
<b>Dividends due to shareholders</b>	<b>51,434,194 Lei</b>
<b>Total distributed profit</b>	<b>56,381,586 Lei</b>

The date of payment of dividends will be the deadline under the law, subsequent to the registration date set by the General Meeting of Shareholders.

**Chairman of CONPET SA Board of Administration**

**Dan Weiler**

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**Annexes:**

- a) Articles of Incorporation in force, updated on 05.11.2014 and the Articles of Incorporation of the company, amended during 2014;
- b) List of the major contract concluded by the company in 2014;
- c) C.V.s - of the current administrators;
- d) List of the persons affiliated to the company;
- e) Objectives and performance indicators for the administrators, achieved in 2014;
- f) Report on the internal/management control system at 31.12.2014.

