

Recommended for endorsement in the BOA meeting dated _____ and for approval in the OGMS dated _____

CONPET S.A. PLOIESTI
The Economic Direction
The Financial Department
No. 39315/04.11.2015

ENDORSED
General Director
Eng. Ilasi Liviu
S.s. Illegible

Substantiation Note

regarding the approval, by the General Meeting of Shareholders, of the proposal to rectify 2015 Revenues and Expenditure Budget

I. Description of the Current Status

2015 Revenues and Expenditure Budget, approved pursuant to GD no/270/2015, was prepared in consideration to the financial evolution estimated at that time, taking into account an increase, by 1.8%, of the operating revenues and by 7.6% of the operating profit related to the current year as compared to 2014 achievements.

II. Proposal to rectify 2015 REB

The rectification of 2015 Revenues and Expenditure Budget takes into account the following legal provisions:

- Pursuant to Article 10, letters a) and f) of the Ordinance no. 26/2013 regarding the strengthening of the financial discipline at the level of certain economic operators where the State or the administrative-territorial units are sole or majority shareholders or hold, directly or indirectly, a majority participation herein, one can proceed to the rectification of the Revenues and Expenditure budget, in case of:

Letter a) overrun of the maximum limits of the economic-financial indicators stipulated at paragraph (1) letter a), by the observance of the wage policy objectives set pursuant to the annual State Budget Law and the provisions of Article 9, paragraph (3);

Letter f) in other situations imposed by the legal provisions.

- Moreover, the Ordinance no. 20/2015 regarding the rectification of 2015 State budget stipulates, at Article 90 paragraph (1) letter (a): The economic operators that apply the provisions of the Government Ordinance no. 26/2013 regarding the strengthening of the financial discipline at the level of certain economic operators where the State or the administrative-territorial units are sole or majority shareholders or hold, directly or indirectly, a majority participation herein, approved with completions pursuant to the law no. 47/2014, further amendments and additions, can specify in 2015 Revenues and Expenditure Budget the augmentation of the wage expenses over the limits stipulated at Article 49, paragraphs (1) and (2) of Law no. 186/2014, as follows:



Recommended for endorsement in the BOA meeting dated _____ and for approval in the OGMS dated _____

- a) *With the amounts related to the reinstatement of the wage expenses for the entire year 2015, determined following the grant of certain wage increases in 2014, for a certain fraction of year, by the observance, along the execution, of the wage policy for 2014;*
- a) *With the amounts related to the reinstatement of the wage expenses for the entire year 2015, determined following the grant of certain wage increases in 2014, for a certain fraction of year, by the observance, along the execution, of the wage policy for 2014;*

The substantiation of 2015 rectified Revenues and Expenditure Budget stood upon the reallocation of the necessary resources to achieve the transport programme, inclusive of the maintenance into operation of the National Transport System, considering the preliminary achievements registered at 30.09.2015 and 2015Q4 estimates, in correlation with the targets of the performance indicators assumed under the Administration Plan and Administration Contracts.

I The Total revenues specified in 2015 rectified Revenues and Expenditure Budget are those stipulated in the initial REB, the amendments occurring exclusively in the structure of the financial revenues namely, the reduction, by the amount of 2,300 thousand RON, of the interest receivable in relation to the fixed-term deposits, together with the acknowledgement thereof at the financial investment revenues, following the acquisition of government securities in the form of treasury bills and government bonds.

The volume and structure of the overall expenses included in the draft rectification of 2015 REB have been dimensioned according to the level of the revenues programmed to be achieved and to the program/plans drafted at company level, by the specialized directions/departments such as: maintenance, investments, studies, provision of the work security and health conditions, security of the installation, environmental protection, professional training etc., related to 2015 Q4, as well as the achievements estimated for 30.09.2015, in such a way that the company business be performed effectively from the economic point of view, but also to securely operate the Crude oil National Transport System.

II. The overall expenses have been reduced by the amount of 700 thousand RON, respectively from 351,656 thousand RON to 350,956 thousand RON and include:

1. The operating expenses amounting to 350,900 thousand RON representing 99.9% of the overall expenses, 0.1% down as opposed to the approved budget;
2. The financial expenses amounting to 56 thousand RON represent 0.01% out of the overall expenses, 218 thousand RON down as compared to the approved budget.

The main variations registered in the operating expenses are the followings:

- **The third-party expenses** are provided with a 4% diminution (3,379 thousand RON) due to:
 - **3% reduction of the goods and persons transport - related expenses** (2,016 thousand RON), due to the conclusion, within the month of March 2015, of the crude oil transport agreement with CFR Marfa. The reduction is supported by the fact that, at the substantiation of 2015 REB, for the goods transport related



Recommended for endorsement in the BOA meeting dated _____ and for approval in the OGMS dated _____

expenses, has been considered, in what concerns the rail transport, the 2014 tariff amounting to 48.48 RON/ton, and currently, the tariff amounts to 46.90 RON/ton (as per contract SCA 102/30.03.2015 concluded with CFR Marfa S.A.);

- **Reduction of the insurance and guard related expenses** by the amount of 336 thousand RON following the diminution of the maintenance costs related to the video surveillance system;
- **Reduction of other third-party expenses** by the amount of 1,027 thousand RON representing mainly environment protection expenses (cost incurred by the decontamination of the lands affected by crude oil spills due to pipeline breakdowns);
- **The other duties, taxes and similar levies expenses** are provided with a diminution, in amount of 150 thousand RON, representing other local taxes and levies;
- **The personnel expenses** are provided with 1,978 thousand RON increase, from 105,173 thousand RON to 107,151 thousand RON, resulting from the application of Article 90 paragraph (1) letter a) of the Ordinance no. 20/2015 regarding the rectification of 2015 State budget;

In structure, the personnel expenses are amended as follows:

The wage expenses are provided with the amount of 70,156 thousand RON, 1300 thousand RON hike as compared to the approved budget.

In 2014, following the negotiations with the Trade Union, the Board of Administration approved to award wage raise, falling within 2014 wage policy, the value thereof amounting to 1,205 thousand RON (starting July 2014). Considering the above and in compliance with Article 90, paragraph (1) letter a) of the GO no. 20/2015, it is being proposed the reinstatement of the wages fund for the entire 2015 year, by the amounts determined following the award of the salary raises in 2014 for a fraction of year (respectively 6 months). Consequently, results an augmentation, by 1,300 thousand RON, as opposed to the level approved for 2015 and by 2,540 thousand RON as opposed to 2014 achievements (12 months).

In structure, the 1300 thousand RON increase include the followings:

- **The basic wages** are provided with an increase amounting to 1,108 thousand RON, from 53,454 thousand RON to the amount of 54,562 thousand RON.
- **Expenses on bonuses, premiums and other benefits related to the basic wage (as per the Collective Labour Agreement)** have been increased by the amount of 192 thousand RON representing bonuses, set pursuant to the Collective Labour Agreement, related to the increase of the basic wages;

Augmentation of the bonus related expenses by the amount of 795 thousand RON representing:

- 26 thousand RON increase (2%) of the social expenses, following the increase of the wage expenses;



Recommended for endorsement in the BOA meeting dated _____ and for approval in the OGMS dated _____

- 769 thousand RON other bonuses stipulated by the negotiated Collective Labor Agreement; This increase was made based on the diminution of other personnel expenses;
 - The budgeting of the amount of 6 thousand RON as **GMS expenses**, on the economies registered at the contracts of mandate for the GMS.
 - As per Article 14, paragraph (1) of GO no. 26/2013 regarding the strengthening of the financial discipline at the level of certain economic operators where the State or the administrative-territorial units are acting as sole or majority shareholders or hold, directly or indirectly, a majority participation herein, the company may award, to the State representatives, remuneration in amount up to 25% of the monthly fixed allowance of the General Director.
1 person x 1 GMS meeting x monthly fixed allowance of the General Director (25 thousand RON) x 25% = 6 thousand RON
 - **Social securities and social protection expenses** are provided with an increase amounting to 678 thousand RON, from 21,000 thousand RON to 21,678 thousand RON, related to the amounts augmented by rectification.
- **Other operating expenses** are estimated considering a net increase, by 1,070 thousand RON, respectively from 105,802 thousand RON to 106,872 thousand RON, made out of the raise of certain costs and diminution of the provisions depreciation, in the following structure:
 - Increase of the **expenses**, by the amount of 100 thousand RON related to the **environment fines**. In the Revenues and Expenditure Budget have not been budgeted expenses on fines and penalties. Up to 30.09.2015, have been registered environmental fines amounting to 79 thousand RON.
 - The **expenses on the amortization of the tangible and intangible assets** are provided with a 773 thousand RON increase, from the amount of 47,369 thousand RON to 48,142 thousand RON;
 - The **other expenses item is provided with an increase amounting to 1,126 thousand RON**, mainly representing expenses related to the modernization quota recalculated based on the revenues estimated at 30.09.2015 and Q4 budget and on the quotas stipulated in the transport tariffs;
 - The diminution of the **operating expenses** by the amount of 1,007 thousand RON representing the positive net value of the adjustments for impairment losses and provisions, out of which:
 - **impairment and provision expenses** are provided with 507 thousand RON increase representing impairment losses of tangible and intangible assets;
 - The revenues on provisions and impairment loss are provided with 1,515 thousand RON as compared to the approved budget, following the achievements registered at 30.09.2015 and estimates up to 31.12.2015.



Recommended for endorsement in the BOA meeting dated _____ and for approval in the OGMS dated _____

The financial expenses are provided with a reduction amounting to 218 thousand RON

III The gross result is provided with an increase amounting to 700 thousand RON, from 64,300 thousand RON to 65,000 thousand RON;

IV The corporate tax in amount of 11,698 thousand RON was determined in compliance with the provisions of Law no. 571/2003.

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

The corporate tax expenses were calculated as follows:

Thousand RON

Crt. No.	Elements	Value
1	Accounting gross profit	65,000
2	Income similar elements (taxable revaluation reserves)	10,865
3	Nontaxable income	6,090
4	Non-deductible expenses, out of which: social cultural expenses, namely the difference between the income and the expenses estimated for Strejnic and Vointa sports bases;	7,091
	Impairments and provisions expenses	960
	Sponsorship expenses	5,397
	Other non-deductible expenses	600
5	Taxable profit (1+2-3+4)	134
6	Corporate tax 16%	76,866
7	Corporate tax after the deduction of the sponsorship expenses	12,298
		11,698

The company does not constitute legal reserve fund, the deductibility limit stipulated at Article 22 paragraph (1) of the fiscal Code, being reached.

The net profit proposed for allocation, in amount of 53,302 thousand RON, observes the provisions of the GO 64/2001 regarding the profit allocation to the national and commercial companies where the State holds full or majority stake, as follows:

- a. 85% dividends due to shareholders;



Recommended for endorsement in the BOA meeting dated _____ and for approval in the OGMS dated _____

- b. 10% employees share of profit;
- c. 5% financing sources.

As concerns the average number of employees, was foreseen an 18 persons reduction, namely from 1733 persons to 1715 persons.

Labor productivity, calculated based on the rectified REB indicators, grew from 237 thousand RON/person to 239 thousand RON/person.

The investment sources, namely the **investment expenses** remain unamended, amounting to 51,912 thousand RON.

PERFORMANCE INDICATORS STIPULATED IN THE ADMINISTRATION PLAN

The performance indicators of the executive and non-executive administrators, calculated based on the indicators of the rectified REB, provide for 1% increase over the targets stipulated in the Administration Plan.

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

Crt No.	Performance Objective/ Indicator	Performance Objective	MU	2014	2015			Degree of achievement vs. targets (%)	Weight	%
					Targets as per objective s	Approved REB	Rectified REB			
0	1	2	3	4	5	6	7	8	9	10=9X8
1.	EBITDA	1% increase as compared to the previous level of the preceding year for 2014 and 2.5% for 2015-2017	Thousand RON	101,264	103,796	106,419	107,673	103.74%	25.00%	25.9%
2.	Decrease of operating expenses	1.5% reduction as compared to the previous level of the preceding year starting 2015, where the level recorded in 2014 is smaller or equals the one recorded in 2013	%	92.86%	91.47%	92.23%	92.11%	99.30%	25.00%	24.8%
3.	Labour productivity growth	Increase of the average income per employee by 3% per year the average of 2014-2017	Thousand RON/person	236	243.08	237	239	98.45%	25.00%	24.6%
4.	Decrease in the total number of technical breakdowns	4% reduction, on average, per year, as compared to the level of 116 technical breakdowns registered in 2013	No. of technical breakdowns	79	76	76	76	100%	10.00%	10.00%
5.	Enhance visibility on the BSE	Active tracking, by the brokerage houses, of CONPET evolution, materialized in analysis reports drafted by analysts working therein (50% weight in the indicator) for 2014 - 1 brokerage firm in TOP 10 as per the classification established by the BSE at the issue date of the report/for 2015&2017 - 2 brokerage companies in TOP 10 according to the classification established by the BSE at the issuing date of the report;	% in 100%	100%	100%	100%	100%	100%	15%	15%



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		Holding the position in Top 25 issuers according to capitalization considering that there will not be considered the new companies to be included in the 1 st Tier of Bucharest Stock Exchange during the examined period 2014-2017 (50% weight in the indicator)									
		TOTAL- degree of achievement of the performance indicators									101.0%

Considering the above, we hereby recommend for analysis and endorsement by the Board of Administration and for approval by the OGMS, the rectified 2015 Revenues and Expenditure Budget – Annex no. 1.

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Prepared,
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MINISTRY OF ENERGY, SMALL AND MEDIUM
ENTERPRISES AND BUSINESS ENVIRONMENT

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Annex no. 1

2015 Revenues and Expenditure Budget

thousand RON

		INDICATOR	No. row	Approved current year 2015	2015 rectification proposals	%	Provisions		%	
0	1	2	3	4	5	6=5/4	7	8	9	10
I.		TOTAL INCOME (Row 1= Row 2 + Row 5 + Row 6)	1	415,956	415,956	100.0%	431,843	429,192	103.8%	99.4%
	1	Total operating income, out of which:	2	410,431	410,431	100.0%	426,218	423,567	103.8%	99.4%
		a) subsidies, as per the legal provisions in force	3							
		b) transfers, as per the legal provisions in force	4							
	2	Financial income	5	5,525	5,525	100.0%	5,625	5,625	101.8%	100.0%
	3	Extraordinary income	6	0	0					
II		TOTAL EXPENSES (Row 7=Row 8+Row 20+Row 21)	7	351,656	350,956	99.8%	366,343	363,392	104.4%	99.2%
	1	Operating Expenses, out of which:	8	351,382	350,900	99.9%	365,993	363,042	104.3%	99.2%
	A.	Goods and services expenses	9	108,288	104,908	96.9%	113,360	110,760	108.1%	97.7%
	B.	Other taxes, duties and related expenses	10	32,119	31,969	99.5%	33,393	33,350	104.5%	99.9%
	C.	Personnel expenses, out of which:	11	105,173	107,151	101.9%	105,450	106,590	98.4%	101.1%
	C0	Wage nature expenses (Row 13+Row 14)	12	80,428	82,523	102.6%	81,952	82,900	99.3%	101.2%
	C1	Wage expenses	13	68,856	70,156	101.9%	69,213	70,038	98.7%	101.2%
	C2	Bonuses	14	11,572	12,367	106.9%	12,739	12,862	103.0%	101.0%
	C3	Other personnel expenses, out of which:	15	1,932	1,137	58.9%	0	0	0.0%	
		Expenses on compensations related to personnel lay off	16	1,932	1,100	56.9%	0	0	0.0%	
	C4	Expenses related to the contract of mandate and other management and control bodies, commissions and committees	17	1,813	1,813	100.0%	1,813	1,813	100.0%	100.0%
	C5	Expenses related to social securities and social protection, special funds and other legal liabilities	18	21,000	21,678	103.2%	21,685	21,877	100.0%	100.9%
	D.	Other operating expenses	19	105,802	106,872	101.0%	113,789	112,343	106.5%	98.7%
2		Financial Expenses	20	274	56	20.4%	350	350	625.0%	100.0%
3		Extraordinary Expenses	21	0	0		0	0		



III		GROSS RESULT (profit/loss)	22	64,300	65,000	101.1%	65,500	65,800	100.8%	100.5%
IV		CORPORATE TAX	23	11,587	11,698	101.0%	11,744	11,824	100.4%	100.7%
V		REMAINDER ACCOUNTING PROFIT AFTER CORPORATE TAX DEDUCTION, out of which:	24	52,713	53,302	101.1%	53,756	53,976	100.9%	100.4%
1		Legal reserves	25							
2		Other reserves representing fiscal facilities stipulated by law	26							
3		Cover of the previous years accounting losses	27							
4		Settlement of own financing sources for the projects co-financed from external loans, as well as for the settlement of the sources needed to reimburse the capital rates, interest payments, commissions and other costs related to these loans	28							
5		Other allocations provided by the law	29							
6		Remainder accounting profit after deduction of the amounts specified at Rows 25, 26, 27, 28, 29	30	52,713	53,302	101.1%	53,756	53,976	100.9%	100.4%
7		Employees' share of profit in the limit of 10% of the net profit, but not more than an average monthly basic wage achieved at the level of the economic operator during the reference financial year.	31	4,400	4,547	103.3%	4,547	4,547	100.0%	100.0%
8		Minimum 50% levies to the State or local budget in case of regies autonomies, or dividends due to the shareholders in case of the national enterprises/companies and enterprises where the State holds full or majority stake herein, out of which:	32	48,546	49,171	101.3%	49,557	49,745	100.8%	100.4%
a)		- dividends due to the State budget	33	28,504	28,871	101.3%	29,098	29,208	100.8%	100.4%
b)		- dividends due to the local budget	33a	0	0	0.0%	0	0	0.0%	0.0%
c)		- dividends due to other shareholders	34	20,042	20,300	101.3%	20,459	20,536	100.8%	100.4%
9		The profit non-allocated on the destinations stipulated at rows 31-32 is being allocated to other reserves and stands for own financing source	35	4,167	4,130	99.1%	4,199	4,232	101.6%	100.8%
VI		INCOME FROM EUROPEAN FUNDS	36							
VII		ELIGIBLE EXPENSES FROM EUROPEAN FUNDS, out of which:	37							
	a)	material expenses	38							
	b)	Wage expenses	39							
	c)	Services supply expenses	40							
	d)	Promotion and advertising expenses	41							
	e)	Other expenses	42							
VIII		INVESTMENTS FINANCING SOURCES, out of which:	43	51,912	51,912	100.0%	74,290	62,490	143.1%	84.1%



	1	Budget allocations	44						
		Budget allocations related to the payment of commitments from the previous years	45						
IX		INVESTMENTS EXPENSES	46	51,912	51,912	100.0%	74,290	62,490	143.1% 84.1%
X		SUBSTANTIATION DATA	47						
	1	Personnel number forecasted at the end of the year	48	1,715	1,715	100.0%	1,715	1,715	100.0% 100.0%
	2	Total average number of employees	49	1,733	1,715	99.0%	1,715	1,715	100.0% 100.0%
	3	Average monthly wage per employee (RON/person) determined based on the expenses of wage nature	50	3,592	3,731	103.8%	3,701	3,746	99.2% 101.2%
	4	The monthly average earnings per employee determined based on the wage expenses (RON/person) (Row.13/Row.49)/12*1000	51	3,311	3,409	103.0%	3,363	3,403	98.7% 101.2%
	5	Labour productivity in value units/total average personnel (thousand RON/person) (Row 2 / Row 49)	52	237	239	101.0%	249	247	103.8% 99.4%
	6	Labour productivity in physical units/total average personnel (quantity of finite products/person)	53						
	7	Overall expenses at 1000 RON total revenues (Row 7/Row 1)x1000	54	845	844	99.8%	848	847	100.5% 99.8%
	8	Outstanding payments	55						
	9	Outstanding liabilities	56	365	365	100.0%	358	351	98.0% 98.0%

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