

CONPET SA PLOIEȘTI

ENDORSED,

by BoA decision no. _____ from _____

**Report of the Board of Administration
on the monitoring of the key performance indicators classification
of administrators in the limits approved by the OGMS for the year 2018**

CONPET is a strategic company, part of the architecture of the national energy system, being the operator of the crude oil National Transport System via pipelines. CONPET is a publicly owned company, listed at the Bucharest Stock Exchange, under COTE symbol.

Since 2002, CONPET is the concessionaire of the crude oil, rich gas, condensate and ethane National Transport System operation activity, based on the oil Concession Agreement concluded with the National Agency for Mineral Resources, approved pursuant to Government Decision no. 793/25.07.2002.

Following the completion of the selection procedure provided by EGO no. 109/2011, on corporate governance of public enterprises, approved with amendments and completions by Law no. 111/2016, the OGMS, by Resolution no. 5/22.08.2018, following the application of cumulative voting method have been appointed administrators of the company, with a term of mandate of 4 years, i.e. starting from 22.08.2018 until 21.08.2022 (inclusive of).

The appointed administrators, have concluded with the company contracts of mandate, as approved by OGMS Resolution no. 5/22.08.2018. In the contracts of mandate, it was foreseen granting of remuneration consisting of a fixed monthly allowance and a variable component.

The variable component is being determined and is being awarded according to the objectives comprised in the administration plan and the financial and non-financial indicators approved by the General Meeting of Shareholders.

The financial and non-financial Key Performance Indicators (KPIs) for the calculation of the variable component of the remuneration are defined by the observance of the provisions and

criteria provided at Chapter II - Methodology for the settlement of the financial and non-financial key performance indicators and of the variable component of the remuneration - of the GD no. 722/28.09.2016 for the approval of the Methodological Norms for the application of certain provisions of EGO no. 109/2011 on corporate governance of the public enterprises, subsequent amendments and completions.

According to OGMS Resolution no. 7/18.12.2018 the financial and non-financial performance indicators of administrators were approved (KPIs) for the administrators of the company, calculated in conjunction with the Income and Expenditure Budget for 2018 rectified, and with the Administration Plan for the period 2018-2022, which will be used for determining and granting the variable remuneration component of administrators during the execution of the contract of mandate.

Regarding the variable component, Addendum no.1/2018 to the contracts of mandate of administrators, approved by the OGMS on 18.12.2018, stipulates the following:

“Art.1.4. The administrator benefits from a variable component of the remuneration in amount of 12 monthly fixed gross allowances, awarded under the law, respectively by the observance of the Income and Expenditure Budget approved in compliance with the applicable legal provisions in force and by the observance of the methodology established at Art. 1.6. to this Addendum.

Art. 1.5. The payment of the variable component will be made annually, in no more than 15 days as of the approval in the OGMS of the annual financial statements audited in compliance with IFRS and the presentation of the annual report of the Nomination and Remuneration Consultative Committee regarding the global result for the achievement of the financial and non-financial performance indicators approved pursuant to the OGMS Resolution no. 7/18.12.2018.

Art.1.6. The means of calculation and awarding of the variable component of the administrators
The variable component = The value of the variable component set pursuant by the addendum to the contract of mandate x Total Degree of achievement of the performance indicators (KPIs).
Total degree of achievement of the performance indicators (GTKPI) is the amount of the degree of achievement of every KPI (GIICP) weighted by the weighting coefficient (WICP) related to every KPI.”

Financial and non-financial key performance indicators (KPIs) for the calculation of variable component approved are provided in the Administration Plan of CONPET, Chapter 7 “*Indicators and Performance Criteria*”, for the period 2018-2022.

Subject to analysis and endorsement in the BoA meeting dated _____ and approval in the O.G.M.S. meeting dated _____

Performance indicators and objectives approved by the Ordinary General Meeting of Shareholders dated 18.12.2018 are defined and established as follows:

Crt. no.	Performance indicator	Performance Objective
A. Financial Key Performance Indicators: 25%		
1.	Outstanding payments	Level zero
2.	The decrease of the operating expenses = (Operating expenses– Impairments of assets and impairments of provisions)/ Turnover	The maintenance of the share of expenses in the turnover at the level assumed by the Administration Plan
3.	Adjusted EBITDA = Operating profit - write-back of the reserve out of the modernization quota + Expenses regarding the settlement of the modernization quota + Impairments of tangible and intangible assets, here included the revaluation differences).	Realization of adjusted EBITDA target assumed by the Administration Plan
4.	Labor Productivity	Achievement of the labor productivity level provided in the annual approved Budget
B. KEY PERFORMANCE INDICATORS - NON- FINANCIAL: 75%		
B1 OPERATIONAL: 25%		
5.	Framing within the specific consumptions for the crude oil transport (does not include the crude oil quantity lost during provoked breakdowns or in case of breakage resulting in contamination, where the owners do not ease access for remedy).	The target value is lower than the value of the maximal technological consumption, for crude oil
6.	Monitoring the electricity average annual specific consumption for technological purposes	Maintenance of the annual electricity average specific technological consumption at a level of max 3.3 Kwh/to
7.	Achievement of the investments financed out of the modernization quota	Min. Realization 95% of the annual Investments Plan financed out of the Modernization Quota
B2 OF CORPORATE GOVERNANCE: 50%		
8.	Implementation/development of the internal control management system in compliance with the legal requirements in force	100% achievement of the actions included in the program
9.	Duly reporting of the degree of achievement of the performance indicators of the company	Framing within the reporting due deadlines
10.	Boost institutional integrity by inclusion of the measures to mitigate corruption as an element of the management plan	Minimum 90% achievement of the measures assumed by the approved Integrity Plan

The target values of key performance indicators approved by OGMS for the year 2018, the achieved level of these indicators in 2018 and the fulfillment degree are presented in the table below:

Crt. no.	Performance indicator	MU	YEAR 2018		Degree of achievement (%)	KPI weights for the settlement of the remuneration	Degree of achievement of the performance indicators:	
			According to Annex 1 to the Contract of Mandate	Achievements				
A. Financial Key Performance Indicators: 25%								
1.	Outstanding payments	Thousand RON	0	0	100.0%	2%	2.00%	
2.	The decrease of the operating expenses = (Operating expenses - Impairments of assets and impairments of provisions)/ Turnover	%	80.80%	78.52%	102.8%	8%	8.23%	
3.	Adjusted EBITDA = Operating profit - write-back of the reserve out of the modernization quota + Expenses regarding the settlement of the modernization quota + Impairments of tangible and intangible assets, here included the revaluation differences).	Thousand RON	108,443	123,740	114.1%	10%	11.41%	
4.	Labor Productivity	Thousand RON/person	251	256	102.0%	5%	5.10%	
B. KEY PERFORMANCE INDICATORS - NON- FINANCIAL: 75%								
B1. OPERATIONAL: 25%								
5.	Framing within the specific consumptions for the crude oil transport (does not include the crude oil quantity lost during provoked breakdowns or in case of breakage resulting in contamination, where the owners do not ease access for remedy).	%	Domestic crude oil Target: ≤ 0.361% Achieved: 0.309% Target: Import crude oil LUKOIL Target: ≤ 0.29% Achieved: 0.115% Import crude oil Petrom Target: ≤ 0.143% Achieved: 0.138% Target: Import crude oil Midia Target: ≤ 0.108% Achieved: 0.097%	0.318%*)	0.219%	131.13%	3%	3.93%
6.	Monitoring the electricity average annual specific consumption for technological purposes	Kwh/to	Max 3.3 Kwh/to	3.3	2.85	100%	2%	2.00%
7.	Achievement of the investments financed out of the modernization quota	%	≥ 95 %	95%	100%	100%	20%	20.00%
B2. OF CORPORATE GOVERNANCE: 50%								
8.	Implementation/development of the internal control management system in compliance with the legal requirements in force	%	100%	100%	100%	100%	20%	20%

Crt. no.	Performance indicator	MU	YEAR 2018			Degree of achievement (%)	KPI weights for the settlement of the remuneration	Degree of achievement of the performance indicators:
			According to Annex 1 to the Contract of Mandate		Achievements			
9.	Duly reporting of the degree of achievement of the performance indicators of the company	%	100%	100%	100%	100%	20%	20%
10.	Boost institutional integrity by inclusion of the measures to mitigate corruption as an element of the management plans	%	≥ 90 %	90%	100%	100%	10%	10%
Total degree of achievement of the performance indicators:								102.67%

The total degree of fulfillment of key performance indicators underlying variable component granting, approved by the OGMS no. 7/18.12.2018 for 2018, included in the mandate contracts of administrators is of 102.67%.

In structure, the degree of achievement of the performance indicators reveals the following:

Key Performance Indicators	Degree of achievement of key performance indicators:		
	according to the CONTRACT OF MANDATE	Achieved 01.01.2018-31.12.2018	Variation
A. FINANCIAL KEY PERFORMANCE INDICATORS	25.00%	26.74%	1.74 pp
B. NON-FINANCIAL KEY PERFORMANCE INDICATORS	75.00%	75.93%	0.93 pp
B1. Operational	25.00%	25.93%	0.93 pp
B2. of Corporate Governance	50.00%	50.00%	0.00%
Total degree of achievement of the performance indicators:	100.00%	102.67%	2.67 pp

The total degree of achievement of the key performance indicators has been exceeded with 2.67 pp, being favorably influenced by the following indicators:

- **Financial key performance indicators (+1.74 pp)**, out of which:
 - ✓ Indicator ***Decrease of operating expenses*** contributed favorably with **0.23 pp** due to reduced operating expenses by 1.8% compared to the budgeted level. The target value of this performance indicator being the maintenance of expenditure ratio in the turnover at the level assumed by the plan of administration, increasing of the turnover with 1% had a favorable impact on the achieved level of the indicator. The degree of achievement of this indicator is of 102.8%.

- ✓ **Adjusted EBITDA** indicator favorably influenced by **1.41 pp** the increase of the degree of achievement of the financial indicators. The adjusted EBITDA indicator has increase by 15.3 mil. RON, mainly due to increased operating profit by 25%;
- ✓ **Labor productivity** had a positive contribution of **0.1 pp**. The increase in labor productivity by 2.1% from the target has been realized by increasing the operating revenues by 1.4% and decreasing the average number of staff by 11 people.

▪ **Non-financial performance key indicators (+0.93 pp)**

The achieved level of each non-financial performance indicator on corporate governance, is taken into account 100% at determining the degree of achievement when it is made. When the achieved level of the indicator "Implementation/development of the internal control management system in accordance with legal requirements in force" as well as for the indicator "Timely reporting of achievement of the performance indicators of the company" records a value below 100%, the degree of compliance is zero. As regards the indicator "Increase of institutional integrity by including measures to prevent corruption as part of the management plans", the fulfillment of this indicator is zero when the achieved level has a value below 90%.

Non-financial corporate governance indicators have been achieved in proportion of 100 %.

Overcoming non-financial key performance indicators was made at the expense of exceeding targets of the **non-financial operational indicator - Compliance with specific transport crude oil consumption**. This indicator contributed with 0.93 pp in the increase of total degree of indicators, the specific consumption in transport being lower by 31.13% compared to the target of technological consumption.

In structure, the achievement of specific consumption of crude oil transport (on crude oil types and refineries are as follows:

According to Annex 1 to the Contract of Mandate		Achievements (01.01.2018-31.12.2018)	
Domestic crude oil ≤ 0.361%	0.318 %*)	Domestic crude oil = 0.309%	0.219%
Import crude oil Lukoil ≤ 0.29%		Import crude oil Lukoil = 0.115%	
Import crude oil Petrom ≤ 0.143%		Import crude oil Petrom = 0.138%	
Import crude oil Midia ≤ 0.108%		Import crude oil Midia = 0.097%	

*) Average technological consumption (calculated according to each type of transport)

In conclusion, given that:

- In the Addendum to the contracts of mandate reference is made to the fact that financial and non-financial performance key indicators (KPIs) shall set the basis for the establishment and granting of the variable component of the administrators' remuneration along the performance of the contract of mandate;
- Provisions of Art.1.4 from Addendum no. 1/2018 to the contract of mandate, according to which:” The administrator benefits from a variable component of the remuneration in amount of 12 monthly fixed gross allowances, awarded under the law, respectively by the observance of the Income and Expenditure Budget approved in compliance with the applicable legal provisions in force and by the observance of the methodology established at Art. 1.6. to this Addendum.”
- Provisions of art. 1.5. from Addendum no.1/2018 to the contract of mandate, according to which “The payment of the variable component will be made annually, in no more than 15 days as of the approval in the OGMS of the annual financial statements audited in compliance with IFRS and the presentation of the annual report of the Nomination and Remuneration Consultative Committee regarding the global result for the achievement of the financial and non-financial performance indicators approved pursuant to the OGMS Resolution no. 7/18.12.2018.”
- Provisions of Art.1.7 from Addendum no. 1/2018 to the contract of mandate, according to which
“The administrator, together with the other members of the Board of Administration, has the obligation to monitor the classification within the limits specified in the Administration plan of the key performance indicators approved by the OGMS.”
- The company's administrators were appointed by the OGMS in the meeting held on 22.08.2018, with mandate starting 22.08.2018;
- The targets of the key performance indicators of administrators for 2018 are established based on indicators of the income and expenditure budget approved by the OGMS. dated 14.09.2018;
- The total degree of fulfillment of key performance indicators underlying variable component granting, approved by the OGMS Resolution no. 7/18.12.2018 for 2018, included in the mandate contracts of administrators is of 102.67%.

Given the activity carried out by the Board of Administration, reflected in the activity report for the period August 23rd, 2018 - December 31st, 2018, on the stage of fulfilling the strategic objectives contained in the Administration Plan related to the mandate period of 2019, reflected in the company's results and annual financial statements approved by OGMS Resolution

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no.3/23.04.2019, the Board of Administration reiterates the application from the Nomination and Remuneration Committee Report registered under no. 10851/19.03.2019 (attached to this report), presented as material for OGMS dated 23.04.2019 and submits for approval to the OGMS the followings:

a) the total degree of fulfillment (102.67%) of financial and non-financial key performance indicators (KPIs) for the year 2018, approved for administrators by OGMS Resolution no. 7/18.12.2018.

b) granting the variable component due to administrators for the period of mandate carried out in 2018 according to the provisions of the contract of mandate.

For the Board of Administration
Chairman of the Board of Administration

Gheorghe Cristian - Florin