

## **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 for 2019 in the limits approved by the OGMS**

CONPET is the operator of the Crude oil National Transport System via pipelines. Starting 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, has 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 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 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, which will be used for determining and granting the variable remuneration component of administrators during the execution of the contract of mandate.

This report of monitoring the classification of key performance indicators of the administrators was developed with the following provisions of the management agreement:

- Art. 1.7 The administrator, together with the other members of the Board of Administration has the obligation to monitor the framing, within the limits mentioned in the Administration Plan, of the key performance indicators approved by the OGMS.
- Art.1.8. The administrator, together with the other members of the Board of Administration, has the obligation to prepare and submit to the OGMS an Annual Report regarding the monitoring activity mentioned at item 1.7. within the GMS, for approval of the audited annual financial statements.

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.

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
<b>A. Financial Key Performance Indicators: 25%</b>		
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).	The 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>B. NON- FINANCIAL KEY PERFORMANCE INDICATORS: 75%</b>		
<b>B1. OPERATIONAL: 25%</b>		
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 of the annual electricity average 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
<b>B2. OF CORPORATE GOVERNANCE: 50%</b>		
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

<b>Crt.no.</b>	<b>Performance indicator</b>	<b>PERFORMANCE OBJECTIVE</b>
<b>9.</b>	Duly reporting of the degree of achievement of the performance indicators of the company	Framing within the reporting due deadlines
<b>10.</b>	Boost institutional integrity by inclusion of the measures to mitigate corruption as an element of the management plans	Minimum 90% achievement of the measures assumed by the approved Integrity Plan

### **Monitoring the framing within the limits specified in the Administration Plan of the key performance indicators approved by the OGMS**

Considering the provisions of art.1.7 and 1.8 of the Addendum no.1/2018 to the contracts of mandate, the Board of Administrators monitored quarterly the compliance within the limits specified in the administration plan of the key performance indicators approved by the OGMS.

For the monitoring and reporting of key performance indicators, the Board of Administration requested the executive management the drafting of an operational procedure to that effect.

In 2019 was developed the operational procedure "Monitoring and reporting of key performance indicators", procedure that defines the methodology and responsibilities for monitoring and reporting the key performance indicators, as well as the internal control mechanisms to ensure the accuracy of their reporting.

On a quarterly basis, the financial and non-financial key performance indicators, both for administrators and for directors with contract of mandate have been evaluated and monitored. The purpose of this quarterly assessment was to identify in advance any negative deviations from targets and to take measures in order to improve the level of the indicator.

The total and individual degree of achievement of the financial and non-financial key performance indicators was presented in the quarterly and annual reports of monitoring the framing of the key performance indicators in the limits approved by the OGMS. The total degree ranged in every quarter above the 100% level.

The financial auditor BDO Audit SRL verified the achievement degree of the performance indicators established by the contracts of mandate of administrators and directors with contract of mandate.

The quarterly monitoring situation of the achievement of financial and non-financial KPIs for directors is as follows:

<b>Key Performance Indicators</b>	<b>Degree of achievement of key performance indicators:</b>			
	<b>according to the contract of mandate</b>	<b>Quarterly achievements</b>		
		<b>Q I 2019</b>	<b>Q II Cumulated 2019</b>	<b>Cumulated Q III 2019</b>
A. Financial Key Performance indicators	25.0%	28.5%	29.6%	28.6%
B. Non-Financial Key Performance indicators	75.0%	75.9%	76.0%	76.0%

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

B1. Operational	25.0%	25.9%	26.0%	26.0%
B2. of Corporate Governance	50.0%	50.0%	50.0%	50.0%
<b>Total degree of achievement of the performance indicators: - quarterly</b>	<b>100.0%</b>	<b>104.4%</b>	<b>105.6%</b>	<b>104.6%</b>

The achieved level of **financial indicators (outstanding payments, decrease of operating expenses, adjusted EBITDA and labor productivity)** was determined using data from the interim financial statements prepared quarterly, and the fulfillment of financial indicators was

Nr. crt.	Indicatorul de performanță	UM	(Perioada 01.01.-31.12.2019)		Grad de îndeplinire ICP (%)	Ponderile ICP pentru stabilirea remunerației	Grad de îndeplinire ICP ponderat	
			Valori țintă aprobate	Valori realizate				
<b>A. INDICATORII CHEIE DE PERFORMANȚĂ FINANCIARI: 25%</b>								
1.	Plăți restante	mii lei	0	0	100,0%	2%	2,0%	
2.	Scăderea cheltuielilor de exploatare = (Cheltuieli de exploatare – Ajustările de valoare privind activele și ajustări privind provizioanele)/ Cifra de Afaceri	%	82,6%	79,2%	104,2%	8%	8,3%	
3.	EBITDA ajustată = Profit din exploatare – Reluarea la venituri a rezervei din cota de modernizare + Cheltuieli privind cota de modernizare + Ajustări de valoare privind imobilizările necorporale și corporale, inclusiv diferențele din reevaluare corporale	mii lei	90.316	109.391	121,1%	10%	12,1%	
4.	Productivitatea muncii	mii lei/pers	260	279	107,3%	5%	5,4%	
<b>B. INDICATORII CHEIE DE PERFORMANȚĂ NEFINANCIARI: 75%</b>								
<b>B1. OPERAȚIONAL: 25%</b>								
5.	Încadrarea în consumurile specifice la transportul țițeiului (nu include cantitatea de țiței pierdută la avarii provocate sau la avarii cu poluare, unde proprietarii nu permit accesul pentru remediere)	%	Țiței țară ≤ 0,361% Realizat =0,314% Țiței import Lukoil ≤ 0,29% Realizat 0,104% Țiței import Petrom ≤ 0,143% Realizat 0,123% Țiței import Midia ≤ 0,108% Realizat 0,097%	0,301%*	0,207%	131,2%	3%	3,9%
6.	Monitorizarea consumului specific mediu anual de energie electrică în scop tehnologic	Kwh/to	Max 3,3 Kwh/to	3,3	2,64	100,0%	2%	2,0%
7.	Realizarea investițiilor finanțate din cota de modernizare	%	≥ 95 %	95%	214,5%	100,0%	20%	20,0%
<b>B2. DE GUVERNANȚĂ CORPORATIVĂ: 50%</b>								
8.	Implementarea/dezvoltarea sistemului de control intern managerial în conformitate cu cerințele legale în vigoare	%	100%	100%	100%	100,0%	20%	20,0%
9.	Raportarea la timp a gradului de îndeplinire a indicatorilor de performanță ai societății	%	100%	100%	100%	100,0%	20%	20,0%
10.	Creșterea integrității instituționale prin includerea măsurilor de prevenire a corupției ca element al planurilor manageriale	%	≥ 90 %	90%	100%	100,0%	10%	10,0%
<b>Grad total de îndeplinire a indicatorilor cheie de performanță</b>							<b>103,7%</b>	

\*)Consum tehnologic mediu (calculat în funcție de ponderea fiecărui tip de transport).

established in comparison with the provisions of the approved revenues and expenditure budget.

The target values of key performance indicators approved by the OGMS for 2019, the achieved level of these indicators in 2019 and the fulfillment degree are presented in the table below

## Conclusions

The total degree of fulfillment of key performance indicators for 2019, underlying variable component granting, approved by the OGMS Resolution no. 7/18.12.2018, included in the mandate contracts of administrators is of 103.7 %.

In structure, the degree of achievement of the performance indicators in 2019 reveals the following:

Key Performance Indicators	Degree of achievement of financial and non-financial key performance indicators:		
	according to the contract of mandate	Achieved 01.01.2019-31.12.2019	Variation
<b>A. Financial Key Performance indicators</b>	<b>25.0%</b>	<b>27.8%</b>	<b>2.8 pp</b>
<b>B. Non-Financial Key Performance indicators</b>	<b>75.0%</b>	<b>75.9%</b>	<b>0.9 pp</b>
B1. Operational	25.0%	25.9%	0.9 pp
B2. of Corporate Governance	50.0%	50.0%	0.00%
<b>Total degree of achievement of the performance indicators:</b>	<b>100.0%</b>	<b>103.7%</b>	<b>3.7 pp</b>

The total degree of achievement of the key performance indicators has been exceeded by 3.7 pp, being favorably influenced by the financial key performance indicators by 2.8 pp and by the non-financial key performance indicators by 0.9 %, of which:

- **Non-financial performance key indicators (+2.8 pp):**

- ✓ The indicator "**Reduction of operating costs**" had a favorable contribution of 0.3 pp. Because the target value of this performance indicator is keeping the ratio of the operating costs in the turnover at the level assumed by the Administration Plan, the increase in the turnover had a favorable influence on the achieved level of the indicator. The degree of achievement of this indicator is of 104.2%.
- ✓ **Adjusted EBITDA** indicator favorably influenced by **2.1 pp** the increase of the degree of achievement of the financial indicators. The adjusted EBITDA indicator has increased by 19.1 mil. RON, mainly due to increased operating profit;
- ✓ **Labor productivity** had a positive contribution of **0.4 pp**. The increase in labor productivity by 7.3% as compared to the target has been realized by

increasing the operating revenues by 5.7 % and decreasing the average number of staff by 25 persons.

▪ **Non-financial performance key indicators (+0.9 pp):**

The addition of 0.9 pp to the non-financial key performance indicators, increasing the total compliance targets was at the expense of overcoming **the operational indicator - Framing within the specific transport crude oil consumption** due to specific transport consumption 31.2% lower than target.

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

Annex 1 from the Contract of Mandate		Achievements (01.01.2019-31.12.2019)	
Domestic crude oil ≤ 0.361%	0.301%*)	Domestic crude oil= 0.314%	0.207%
Import crude oil Lukoil ≤ 0.29%		Import crude oil Lukoil = 0.104%	
Import crude oil Petrom ≤ 0.143%		Import crude oil Petrom = 0.123%	
Import crude oil Midia ≤ 0.108%		Import crude oil Midia = 0.097%	

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

**Directors with contracts of mandate**

The situation of quarterly monitoring of the compliance level of financial and non-financial KPIs for directors with mandate contract (director general, deputy director general of economic director) is as follows:

Key Performance Indicators	Degree of achievement of financial and non-financial key performance indicators:			
	according to the contract of mandate	Quarterly achievements		
		Q I 2019	Q II Cumulated	Cumulated Q III
A. Financial Key Performance indicators	50.0%	56.9%	59.0%	57.0%
B. Non-Financial Key Performance indicators	50.0%	51.5%	51.7%	51.7%
B1. Operational	30.0%	31.5%	31.7%	31.7%
B2. of Corporate Governance	20.0%	20.0%	20.0%	20.0%
<b>Total degree of achievement of the performance indicators - quarterly:</b>	<b>100.0%</b>	<b>108.4%</b>	<b>110.7%</b>	<b>108.7%</b>

For 2019, the degree of achievement of the performance indicators set for directors with contract of mandate was of 107.0%.

In structure, the degree of achievement of the performance indicators for the directors with mandate, year 2019, is as follows:

Key Performance Indicators	Degree of achievement of key performance indicators Financial and non-financial
----------------------------	---

	<b>according to the CONTRACT OF MANDATE</b>	<b>Achieved 01.01.2019- 31.12.2019</b>
A. Financial Key Performance indicators	50.0%	55.4%
B. Non-Financial Key Performance indicators	50.0%	51.6%
B1. Operational	30.0%	31.6%
B2. Of Corporate Governance	20.0%	20.0%
<b>Total degree of achievement of the performance indicators: -</b>	<b>100.0%</b>	<b>107.0%</b>

In conclusion, given that:

- In the addendum to the contracts of mandate reference is made to the fact that financial and non-financial performance indicators (KPIs) will be the basis for establishing and paying the variable remuneration component for administrators over the period of the contract of mandate;
- The 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 Revenues 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.”
- The 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.”
- The 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 total degree of fulfillment of key performance indicators underlying variable component granting, for 2019, approved by the OGMS Resolution no. 7/18.12.2018, included in the mandate contracts of administrators is of 103.7 %

Considering:

- The activity carried out by the Board of Administrators presented in the Activity Report for the administration activity for the year 2019;
- The Annual Financial Statements for 2019 submitted to approval to the OGMS;
- The Annual Report of the Nomination and Remuneration Committee (Ro. CNR) related to the remunerations and other benefits awarded to the administrators and the directors with contract of mandate during 2019 financial year.

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

The Board of Administration submits for approval to the OGMS the following proposals.

- a) Approval of the total degree of fulfillment (103.7 %) of financial and non-financial key performance indicators (KPIs) for the year 2019, approved for administrators by OGMS Resolution no. 7/18.12.2018.
- b) Approval of granting of the variable component due to administrators for the period of mandate carried out in 2019, according to the provisions of the contract of mandate.

**For the Board of Administration**  
**Chairman of the Board of Administration**  
**Gheorghe Cristian - Florin**