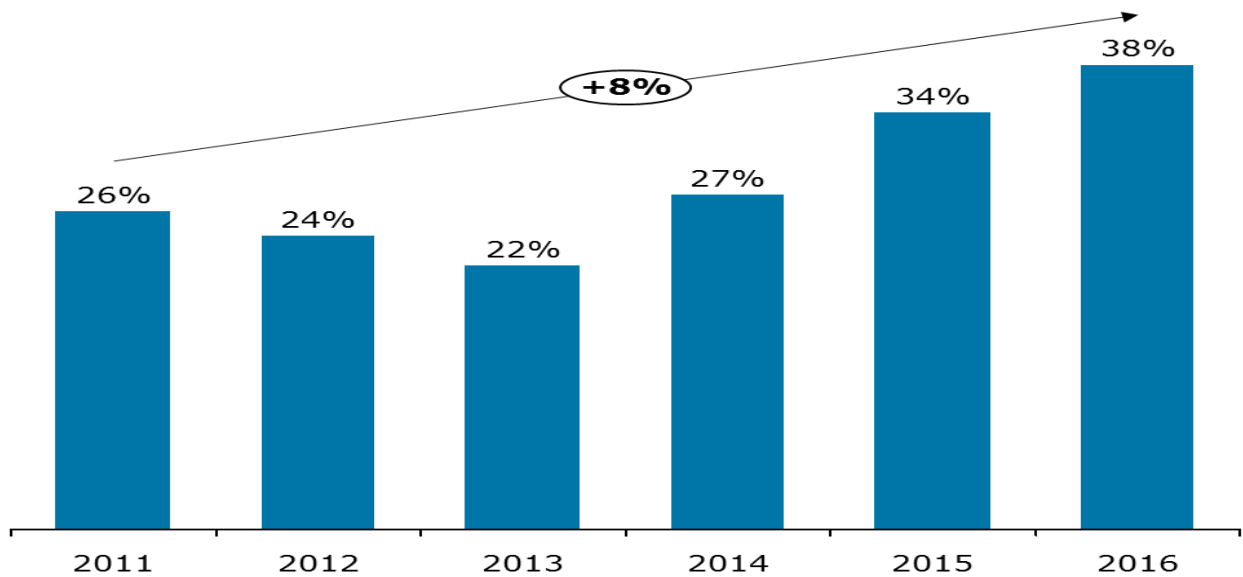


CONPET analysis for 2014-2016

Although the Company's financial performance during the analysed period is very good, with clear progress in the last 3 years, there is a significant improvement potential resulted from the National Transportation System configuration enhancement which has a low usage level compared to the quantity of crude oil/other products shipped. Thus, by reference to other similar companies, the operational expenses for supporting SNT are much higher.

Chart 1 – Evolution of system usability [%]



During 2014-2016 the system usability increased by 11%.

Integrated management system

For the first time, in 2016, within the majority state owned companies an energy management system was implemented according to SR EN ISO 50001:2011.

The implemented management systems are externally assessed and certified by the *Det Norske Veritas Germanischer Lloyd* body since 2007 and, for railway safety, by ASFR starting in 2012.





By implementing the **quality management system**, CONPET proves its ability to provide services that meet both the customers requirements as well as the applicable legal and regulatory requirements.



The implementation of this **envileimental management system** allows CONPET not only to meet the expectations regarding its envileimental performance but also to control its costs and comply with the envileimental legislation and regulations. The envileimental impact assessment is conducted in the productions sectors whenever changes occur in the transport system. Aspects with significant envileimental impact identified underlie the development of *Envileimental Management Programme and Action Plan for reaching the envileimental objectives*.



The newly **energy management standard**, implemented and certificated in 2016, aims to create a possibility for CONPET to follow a systematic approach for permanent improvement of energy performance, including energy efficiency and of use of consumed energy.



The internal control and risks management involves the review of specific objectives, linked to the strategic objectives of General Directorate, namely of the Board of Directors. Based on the results of self-assessment on 31 December 2016, it appears that the internal / managerial control system of CONPET has a partial degree of implementation (14 standards implemented, 1 partially implemented standard and 1 non-implemented standard).



OHSAS 18001:2008 leads to minimising the risk for employees or other persons and proves the CONPET concern **for improved security**.



In accordance with Directive 2004/49/EC, transposed into Law no. 55/2006, starting with 2012 CONPET implemented and maintained the AFER-ASFR certified **railway safety** management system. Thus, the company is committed to work towards achieving the joint safety objectives and to comply with the requirements laid down by the interoperability technical specifications and national safety regulations.

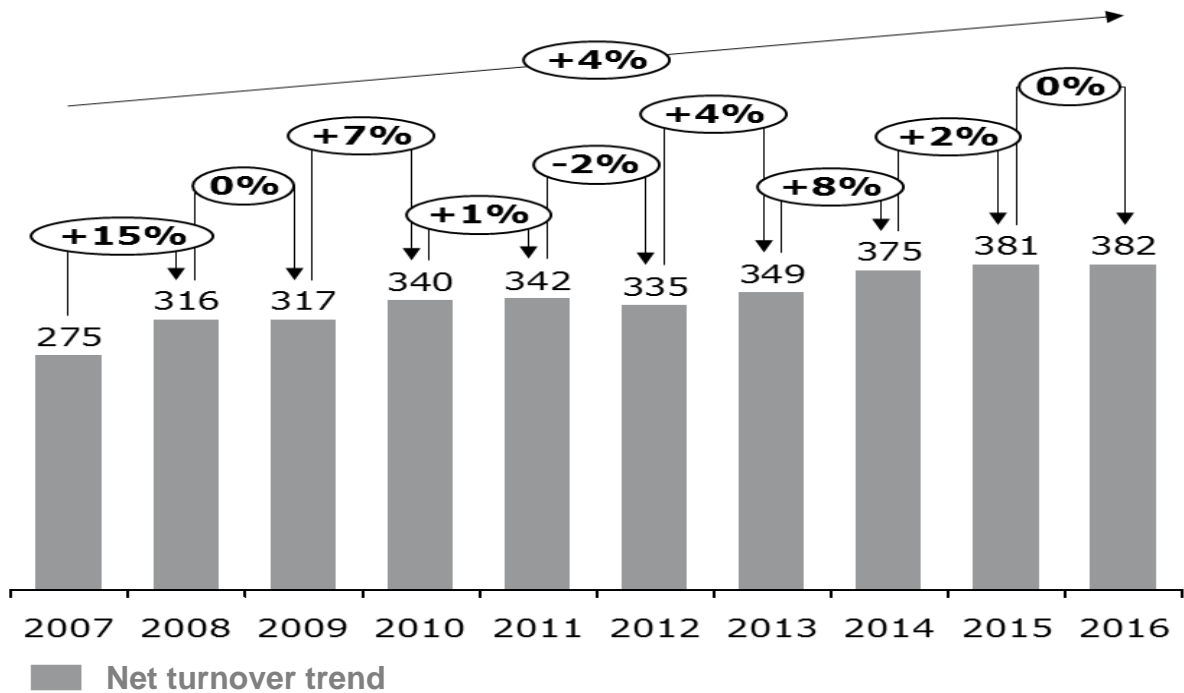
Analysis of turnover and operating expenses trend

During 2007-2016 the annual average growth rate of CONPET turnover was of 4%, as resulted from the chart below.

A significant increase was recorded in year, i.e. by 39% compared to 2007 and more recently we can notice a 8% increase in 2014 compared to 2013. In 2015 and 2016 the net turnover had an approximately equal value.

The only year covered by the analysed period in which a drop was recorded was 2012 when the net turnover was 2% lower compared to 2011.

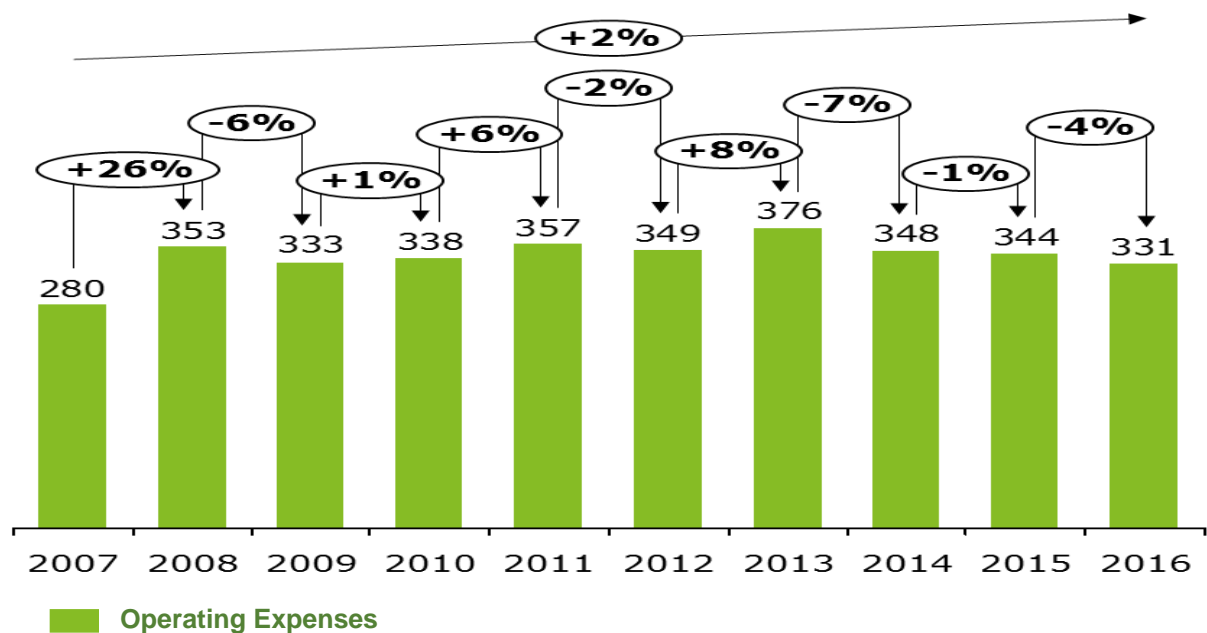
Chart 1 - Net turnover trend (mil. LEI)



Source: Report and financial statements of CONPET

Another indicator which must be considered for the company's due diligence is represented by the operating expenses. Although in 2007-2016 the annual average growth rate of operating expenses was of 2% as resulted from the chart below, such expenses began to drop each year starting with 2014. These drops are also a consequence of growing awareness of the need to reduce operating expenses and to streamline the operational process.

Chart 2 - Operating Expenses Trend [mil. RO]



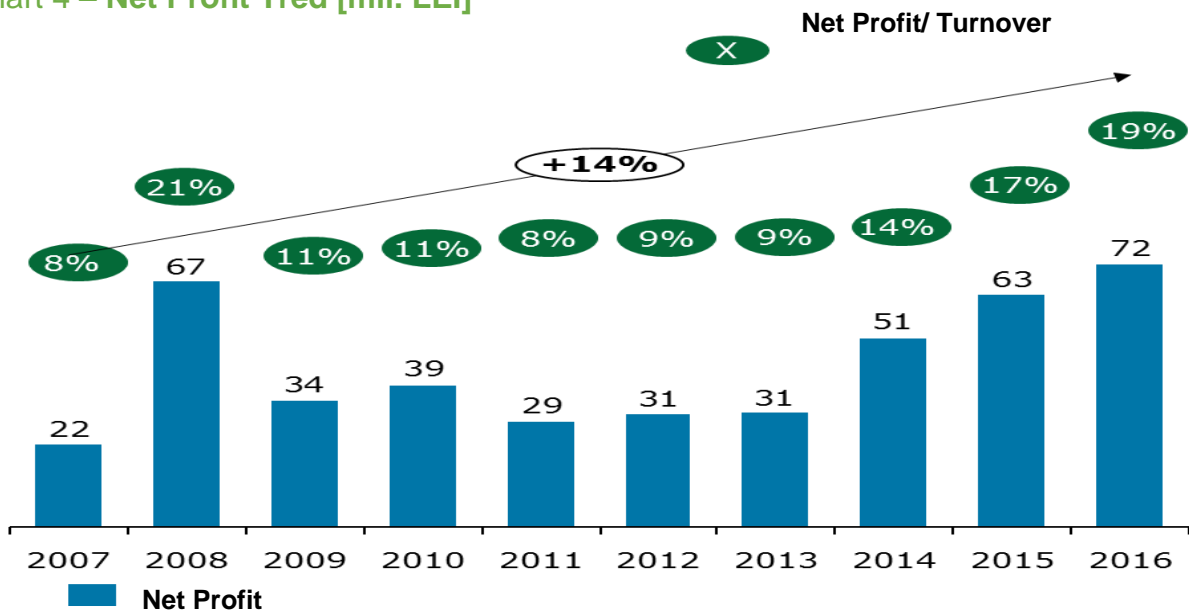
Source: Report and financial statements of CONPET

Although the gross profit margin was subject to major changes during the covered period, it recorded annual increases since 2013, reaching 22% in 2016 in comparison with 2015 when it reached 20%.

After a period during which the company's gross profit recorded significant drops, in 2016 its value tripled compared to the value recorded in 2007.

Regarding the net profit margin, in the chart below we can see that such margin reached 19% in 2016 and the annual average growth rate of gross profit during 2007-2016 was 14%. The increase of profit margins in 2013-2016 is due to the drop of operating expenses and number of employees.

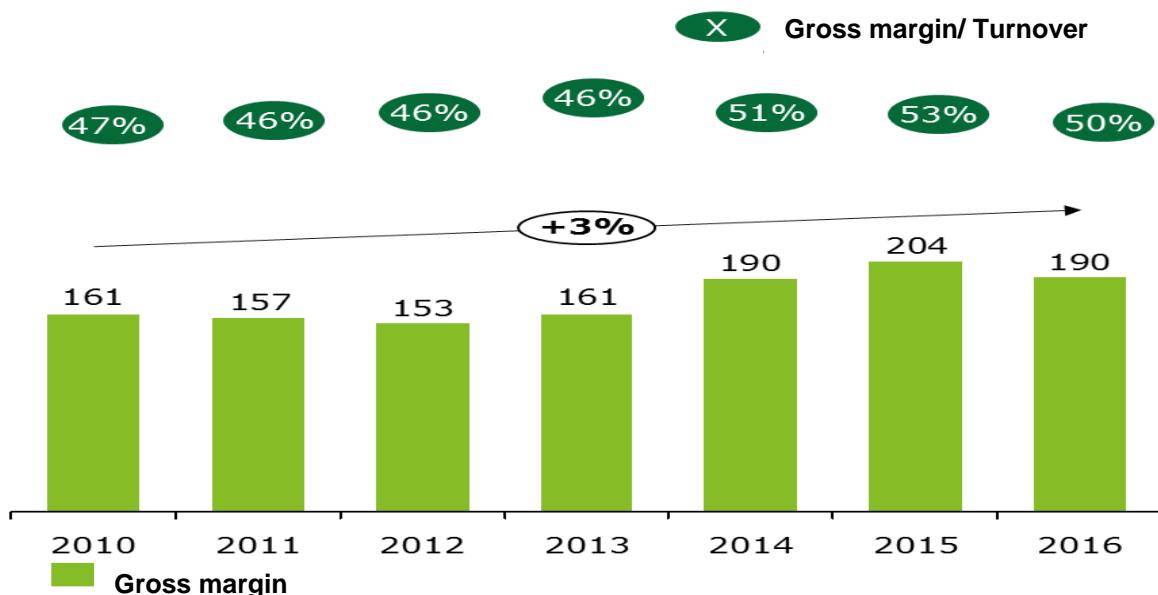
Chart 4 – Net Profit Trend [mil. LEI]



Source: Report and financial statements of CONPET

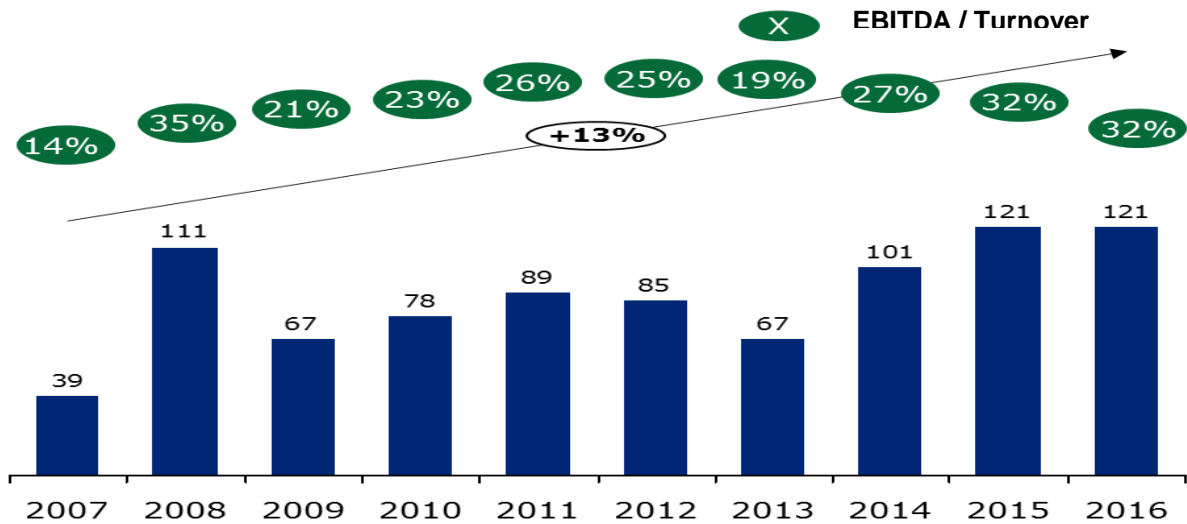
In both gross profit and net profit, circumstantial increases were recorded in 2008 due to short-term revenue gains from winning some litigation.

Chart 5 – Gross Margin Trend [mil. LEI]



According to the gross margin trend and EBITDA analysis, as presented in the following two charts, we can say that CONPET's financial performance in terms of the two indicators is above the average of listed companies. In 2016 the average EBITDA for the listed companies was estimated at de 112,3 millions lei.

Chart 6 – EBITDA Trend [mil. LEI]

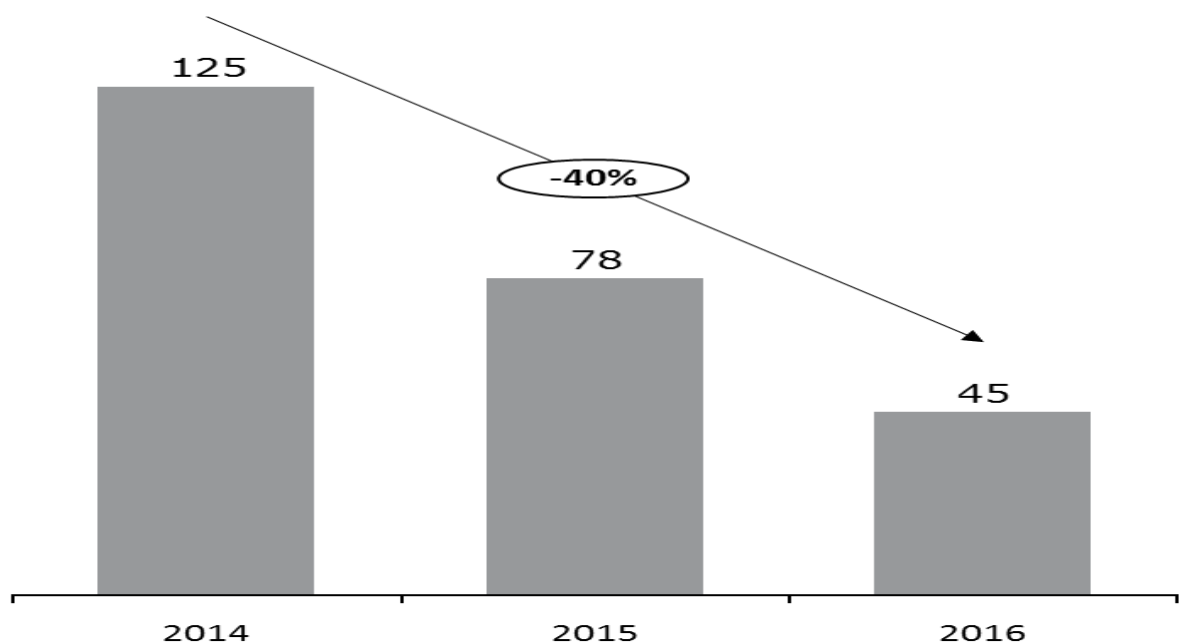


Source: Report and financial statements of CONPET

The annual average growth rate of EBITDA was 13% during 2007-2016. EBITDA had a significant increase starting with 2014 when it recorded an increase of over 50% as compared to 2013. By reference to the turnover, EBITDA represented 32% in 2016. In 2016 EBITDA was 3 times higher than in 2007.

The total number of breakdowns decreased with 40% during 2014-2016.

Chart 7 – Trend of the total number of breakdowns [no. of breakdowns]



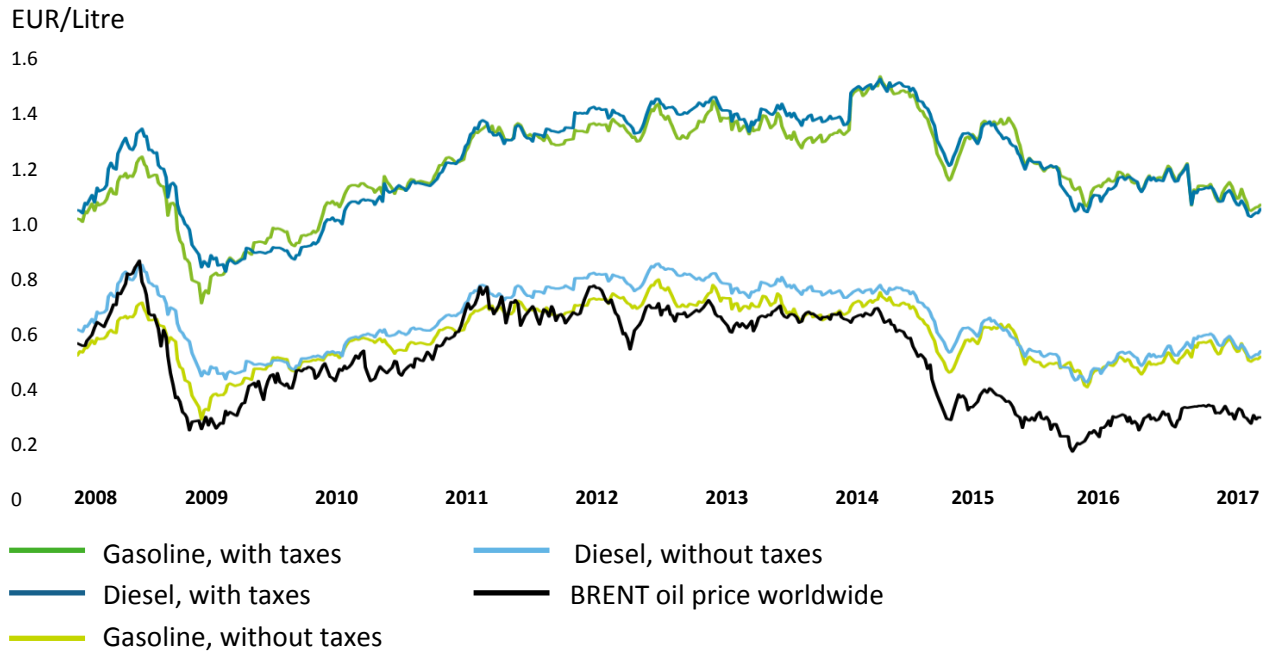
Source: CONPET reports

Trend in fuel price at the pump in Romania

At the end of 2016, the share of Conpet transport rate of the fuel price at the pump was of approximately EUR 0.01/litre.

The weighted average rate for oil transport charged by CONPET in 2016 was of RON 11.97/tonne.

Chart 8 – Trend in fuel price at the pump in Romania [EUR/litre]



















Source: Fuel prices with and without taxes - European Commission; BRENT Oil Price - www.quandl.com; Transport cost - CONPET Annual Report

Benchmarking analysis between CONPET and other regional and global companies

9 other companies were selected based on diversity criteria for the benchmarking analysis. Therefore, in the benchmarking range, state-owned, private and mixed local and global companies can be identified, with transport networks of various dimensions and a portfolio of operations from low to very wide.

Table 1 – Areas of activity

	 Extracție	 Stocare țitei	 Stocare prod. rafinate	 Transport țitei	 Transport prod. rafinate	 Rafinare	 Vânzare prod. finite	 Altele
				✓				
				✓	✓			✓
		✓		✓				
		✓	✓	✓				
	✓	✓	✓	✓	✓	✓	✓	✓
		✓	✓	✓	✓			✓
		✓		✓				✓
				✓				✓

Source: Companies' annual reports and websites