

Approved within the Board of Directors' meeting by Decision no. 01/12.01.2023 and sent for evaluation to OGSM' of 16(17).02.2023

OIL TERMINAL SA Constanta

No. 62/11.01.2023

SUBSTANTIATION NOTE

Regarding approval by Shareholders Ordinary General Assembly of

Budget of revenues and expenses proposal for 2023

The budget of revenues and expenses for 2023 represents for OIL TERMINAL SA Constanta the main programming instrument of both financial results and necessary funds, aiming at ensuring the internal financial balance (financing the terminal' operation, ensuring liquidities necessary for investment works, repairs and maintenance, payment of obligations to employees, suppliers, state budget, social security and social insurance budget, banks, shareholders and other third parties).

The substantiation of the indicators from the Budget of revenues and expenses proposal for 2023 was based on the principles of prudence and continuity of activity in conditions of economic efficiency in sizing the financial resources necessary to finance the entire activity.

The basis for the draft Revenue and Expenditure Budget for the year 2023 was made on the basis of the programmes for the modernisation and development, design, maintenance and rehabitiiaion of the existing infrastructure, the supply of consumables, fuels, spare parts; the programmes for the provision of certain services; the provisions of the CCM; the regulatory acts in force; the quantities of petroleum products estimated to be processed and the forecast capacity reservations.

No.	Budget indicators (thousand lei)	Budget of revenues and expenses 2022 approved	Preliminary year 2022	Budget of revenues and expenses 2023
1	TOTAL REVENUE	258.580	308.559	288.975
	<i>comparison of Budget of revenues and expenses 2022</i>		<i>119,3%</i>	<i>111,8%</i>
	<i>preliminary comparison 2022</i>			<i>93,7%</i>
1.1	Operating revenue	256.220	304.345	286.325

	<i>comparison of Budget of revenues and expenses 2022</i>		118,8%	111,7%
	<i>preliminary comparison 2022</i>			94,1%
1.2	Financial revenues	2.360	4.214	2.650
	<i>comparison of Budget of revenues and expenses 2022</i>		178,6%	112,3%
	<i>preliminary comparison 2022</i>			62,9%
2	TOTAL COSTS	250.580	296.819	279.075
	<i>comparison of Budget of revenues and expenses 2022</i>		118,5%	111,4%
	<i>preliminary comparison 2022</i>			94,0%
2.1	Operating expenditure	243.075	289.591	267.334
	<i>comparison of Budget of revenues and expenses 2022</i>		119,1%	110,0%
	<i>preliminary comparison 2022</i>			92,3%
2.2	Financial expenses	7.505	7.228	11.741
	<i>comparison of Budget of revenues and expenses 2022</i>		96,3%	156,4%
	<i>preliminary comparison 2022</i>			162,4%
3	GROSS PROFIT	8.000	11.740	9.900
	<i>comparison of Budget of revenues and expenses 2022</i>		146,8%	123,8%
	<i>preliminary comparison 2022</i>			84,3%
4	Corporation Tax	1.100	1.949	1.698
5	NET PROFIT	6.900	9.791	8.202
	<i>comparison of Budget of revenues and expenses</i>		141,9%	118,9%

	2022			
	<i>preliminary comparison 2022</i>			83,8%

General considerations on the development of the **Budget of revenues and expenses**

Having in view the provisions of GO. 26/21 August 2013, as subsequently amended and supplemented, on the strengthening of financial discipline at the level of certain economic operators in which the State or territorial administrative units are sole or majority shareholders or indirectly hold a majority stake, which regulates:

Art.6 para. (1[^]1) The economic operators referred to in Art. 4 para. (1) letter d), whose shares are admitted to trading on a regulated market, and their subsidiaries, shall submit, in accordance with the law, the income and expenditure budget accompanied by the supporting annexes, drawn up in accordance with the legal provisions in force, to the General Meeting of Shareholders for approval, after prior consultation with the trade union organisations, and publishes the income and expenditure budget with the amounts for the current year, **within 60 days of the entry into force of the annual law on the state budget** or of the date of approval of the local budgets of the communes, towns, municipalities, sectors of the municipality of Bucharest, counties and the municipality of Bucharest, as the case may be.

Art.7 para. (1) Annually, the state budget law establishes wage policy objectives on the basis of which economic operators base the indicators in the income and expenditure budgets.

Art.9 para. (1) When basing the income and expenditure budgets, economic operators shall take into account, but not be limited to, the following:

- a) compliance with the policy of the Government and the administrative-territorial units, respectively, on improving the economic-financial performance of economic operators;*
- b) compliance with the wage policy objectives established by the annual state budget law;*
- c) specific performance criteria and quantified targets on reduction of outstanding payments and receivables, reduction of losses, increase of profit, increase of turnover, as well as increase of labour productivity, laid down in the mandate contracts, established in correlation with the management strategy of the Management Board/Supervisory Board and the management plan of the managing directors/board members of the economic operators;*

the basis of OIL TERMINAL SA's Revenue and Expenditure Budget must comply with the Government's policy on improving economic and financial performance and salary policy objectives, objectives approved by the State Budget Law no.368/19.12.2022 for the year 2023.

The basis for the draft Revenue and Expenditure Budget for the year 2023 and the estimates for the next 2 years (years 2024-2025) were based on the legislation on :

Accounting Law 82/1991, republished, with subsequent amendments and additions Law no.500/2002 on public finances, as amended and supplemented

Law 500/2002 on public finances, with subsequent amendments and additions

Law 31/1990 on companies, as amended and supplemented

Law 227/2015 on the Fiscal Code, as amended and supplemented

Law 368/2022 on the State Budget for 2023, Article 63 on wage policy

Law 176/2018 on internship

Petroleum Law 238/2004, as amended and supplemented

Operational procedure for the preparation of the revenue and expenditure budget, code PO-05.02/2020

GO 26/2013 on the strengthening of financial discipline at the level of certain economic operators in which the State or administrative-territorial units are the sole or majority shareholders or hold directly or indirectly a majority stake

GEO 109/2011 on corporate governance, with subsequent additions and amendments

GO 64/2001 on the distribution of profits in national companies, national companies and companies with full or majority state capital, as well as autonomous regions, as amended and supplemented

OMPF 3818/30.12.2019 on the approval of the format and structure of the income and expenditure budget of economic operators, its annexes and the instructions for its completion, set out in annexes no.1-6

OMPF 3456/2018 on the amendment and approval of certain accounting regulations (application of the provisions of Article II)

OMFP no.2844/2016 for the approval of Accounting Regulations in accordance with International Financial Reporting Standards, as amended and supplemented

The preliminary values for 2022 are determined on the basis of eleven-month results and estimates for December.

The draft Revenue and expenditure budget for the year 2023 was submitted for consultation to the financial management control according to the Government Decision 1151/2012 for the approval of the Methodological Norms on the organization and exercise of the financial management control and consultation of trade union organizations.

The revenue base was determined having in view:

> the quantities of petroleum products expected to be handled in 2023 in accordance with the Physical Quantity Programme (7,578 thousand tonnes) approved by the Decision of the Board of Directors no.118/12.12.2022, which was drawn up on the basis of the communications received from customers for each petroleum product handled, on the basis of the analysis of Oil Terminal's ability to achieve the services/quantities estimated by customers and is the basis for determining the revenue from the services provided, which represents 97.1% of the company's total revenue.

> **the regulated tariffs approved by ANRM by Order 81/16.05.2022** as a result of the Petroleum Agreement concluded between the company OIL TERMINAL and the National Agency for Mineral Resources, concession contract, according to Government Decision no.886/2002 for services performed on the public domain of the State

> **the approved non-regulated tariffs in force**, approved through the internal procedure established in accordance with the provisions of Article 18, paragraph 4.1 of the company's Articles of Association

On the basis of these assumptions, the following economic and financial indicators on total revenue were derived:

Budget indicators (thousand lei)	Budget of revenues and expenses 2022 approved	Budget of revenues and expenses 2023	Budget of revenues and expenses 2023/ Budget of revenues and expenses 2022 %
	a	b	c = b/a * 100
Total revenue, of which :	258.580	288.975	▲ 111,8
1. Operating revenue	256.220	286.325	▲ 111,7
revenue from the sale of products	1.287	2.000	▲ 155,4
revenue from services rendered	250.698	280.680	▲ 112,0
rental income	925	1.100	▲ 118,9
income from the refurbishment of utilities	1.600	1.695	▲ 105,9
income from penalties	355	400	▲ 112,7
other income	420	450	▲ 107,1
2. Financial income	2.360	2.650	▲ 112,3

The expenditure was substantiated on the basis of the following :

> **the estimated inflation indices and/or the evolution of exchange rates forecast** "according to the Projection of the main macroeconomic indicators 2022-2026 issued by the National Commission for Strategy and Forecasting in the Autumn Forecast - October 2022" for those costs which by their nature have a relatively linear evolution

	2021	2022	2023	2024	2025
Consumer Price Index					
- year-end-	8,19	15,2	8,0	3,7	2,9
- annual average -	5,5	13,5	9,6	5,7	3,2
Average exchange rate - lei/EURO	4,92	4,94	4,98	5,04	5,10

> **technical regulations in force;**

> **programmes** for the modernisation and development of the terminal infrastructure according to the investment programme, design, maintenance of the existing infrastructure, supply of consumables, fuel and spare parts;

> **programmes for the provision of various services (security and safety, training, consultancy, etc.);**

> **the regulations in force for costs that are legislated (social security contributions, oil royalties, protocol and sponsorship costs, the value of meal vouchers granted to employees, etc.);**

> **expenditure on taxes and duties due to the local budget**

> **depreciation of tangible and intangible fixed assets resulting from the commissioning of investment objectives in previous years**

> expenses relating to adjustments and depreciation for impairment and provisions established in compliance with the provisions of Law no.227/2015 on the Fiscal Code, which include: provisions relating to employee profit-sharing for the previous year, provisions relating to agency contracts, provisions relating to staff rights granted on retirement, impairment for stocks, etc.)

> expenses relating to entitlements granted in accordance with the provisions of the Collective Labour Agreement (birth, marriage and death grants, oilman's and 8 March bonuses, Easter and Christmas gifts, gifts for employees' children, settlement of holiday/treatment tickets and related transport, other provisions)

> expenses related to mandate contracts (non-executive directors and directors with mandate contract) established in compliance with the provisions of GEO 109/2011

> **financial expenses**, comprising interest due by the company on bank loans for investments contracted in the previous period; exchange rate expenses, other financial expenses

In the substantiation of staff costs, account was taken of :

I. Application of the provisions of the State Budget Law for the year 2023, art. 63, para.(1) letter a), letter c) and letter e), para.(3) following, respectively:

Paragraf (1) For the year 2023, economic operators to which the provisions of Article 9 para. (1)(b) and para. (3) of Government Ordinance no. 26/2013 on strengthening financial discipline at the level of some economic operators in which the State or administrative-territorial units are the sole or majority shareholders or directly or indirectly hold a majority stake, approved with additions by Law no. 47/2014, with subsequent amendments and additions, may provide, in the revenue and expenditure budget, for an increase in salary-related expenses compared to the level programmed in the last income and expenditure budget approved in accordance with the legal provisions, as follows:

a) by the amounts representing increases in expenditure of a salary nature related to the average price increase index forecast for 2023;

.....

c) by the amounts representing increases in salary-related expenditure relating to their replenishment for the full year 2023, determined as a result of salary increases and bonuses in 2022 and staff increases in 2022;

.....

e) by amounts representing increases in salary-related expenditure due to an increase in the number of staff in 2023 compared to that approved in the previous year as a result of diversification/expansion of activity;

.....

Paragraf (3) Economic operators may increase the average gross monthly earnings per employee within the limit of the amounts laid down in paragraph 1, provided that its growth rate does not exceed the labour productivity growth rate calculated in value or physical units, as appropriate.

- The labour productivity growth index calculated in value units is 111.5%, calculated in accordance with **Article 63 para.(5)** in conjunction with **Article 63 para.(6)**.
- The growth rate of the forecast average gross earnings per employee is 110.3%, calculated in accordance with **Article 63 para. (4)** in conjunction with **Article 63 para.(6)**.

The company has increased the average gross monthly earnings per employee within the limit of the amounts referred to in paragraph (1), provided that the growth index does not exceed the labour productivity growth index calculated in value units.

Below we present their legal framework:

Indicators	Budget of revenues and expenses 2022	Preliminary 2022	Budget of revenues and expenses 2023	Budget of revenues and expenses 2023 / Budget of revenues and expenses 2022 (%)	Budget of revenues and expenses 2023 / Preliminary 2022 (%)
Salary-related expenses - thousand lei	107.962	107.554	132.840	123,0%	123,5%
Average monthly earnings per employee					

(lei/pers.) determined on the basis of salary expenses, recalculated in accordance with GC no.26/2013 and the Annual State Budget Law for 2023	8.236	8.754	9.659	117,5%	110,3%
Labour productivity in value units on average total staff (thousands of lei/persons) recalculated according to the Annual Law on the State Budget for 2023	222	261	291	131,1%	111,5%

II. The number of staff forecast at the end of the year is 1,035, an increase of 1.5% (15 people) compared to the level approved for 2022 and 1.6% higher than the preliminary level as at 31.12.2022 and was the basis for determining salary-related expenditure (basic salaries, bonuses, increments) for 2023.

The average number of employees forecast for the year 2023 is **985 employees** and was established according to the calculation method imposed by the National Institute of Statistics, being influenced by the number of paid employees who have individual employment contracts suspended during the reference period, whose evolution is estimated as follows: Quarter I - 980 people, Quarter II - 982 people, Quarter III - 984 people, Quarter IV - 985 people.

Based on these assumptions, the following economic and financial indicators on total expenditure have resulted:

Budget indicators (thousand lei)	BVC 2022 aprobat	Preliminat 2022	BVC 2023	BVC 2023/BVC 2022
	<i>a</i>	<i>b</i>	<i>c</i>	$d=c/a*100$
Total expenditure, of which :	250.580	296.819	279.075	▲ 111,4
1. Operating expenditure, of which :	243.075	289.591	267.334	▲ 110,0
A. Expenditure on goods and services, of which:	93.631	139.379	89.945	▼ 96,1
A1. Expenditure on stocks	27.962	26.350	21.610	▼ 77,3
A2. Expenditure on services performed	44.275	92.585	42.394	▼ 95,8
A3. Expenditure on other services performed by third parties	21.394	20.444	25.941	▲ 121,3
B. Expenditure on taxes and duties	14.485	15.386	15.605	▲ 107,7
C. Staff expenditure, of which :	113.523	113.030	138.505	▲ 122,0
C0. Expenditure of a salary nature (C1+C2)	107.962	107.554	132.840	▲ 123,0
C1. Expenditure on salaries	88.835	88.631	107.567	▲ 121,1
C2. Bonuses (social expenses and benefits)	19.127	18.923	25.273	▲ 132,1
C3. Other staff expenditure	0	0	0	0
C4. Expenditure on mandate contracts	3.152	3.075	2.747	▼ 87,2
C5. Expenditure on employer's contributions	2.409	2.401	2.918	▲ 121,1
D. Other operating expenses	21.436	21.796	23.279	▲ 108,6
2. Financial expenses	7.505	7.228	11.741	▲ 156,4

The estimated gross result for the year 2023 is 9,900 thousand lei.

Income tax was calculated taking into account:

- the influence of provisions for risks and charges and provisions for impairment of current assets;

- the influence of the employee profit-sharing expense relating to 2023 and the entitlements relating to the mandate contract payable in the following year;
- sponsorship expenses granted within the legal limit (Law 227/2015 - Tax Code art. 25 (4) letter i) of 0.75% of turnover, but not more than 20% of corporate income tax.
- non-deductible expenses for tax purposes provided for by the Tax Code in force

The profit distribution was determined taking into account the provisions of O.G. no.64/2001 on the distribution of profits of national companies, national companies and companies with full or majority state capital, as well as autonomous companies, with subsequent amendments and additions.

The distribution of the net profit for the year 2023 in the amount of MDL 9,054 thousand (MDL 8,202 thousand net profit replenished with the value of the provision set up for the employee profit-sharing fund as at 31 December 2023 in the amount of MDL 852 thousand) was allocated to the following purposes:

- Legal reserves: 538 thousand lei
- Other reserves representing tax incentives provided by law: 0 thousand lei
- Covering accounting losses from previous years - not applicable;
- Establishment of own sources of financing for projects co-financed from external loans - not applicable;
- Other statutory assignments - not applicable;
- Employee profit-sharing: 852 thousand lei
- Dividends due to shareholders : 4.258 thousand lei
- Own source of financing : 3.406 thousand lei

Planning the financial investment effort for 2023

The source of financing of investments for the year 2023 is in the total amount of **52,637 thousand lei**, of which 46,424 thousand lei are to finance **investment expenditure**, the difference of 6,213 thousand lei representing repayments on contracted investment loans.

The sources for financing investment expenditure are:

- own sources, which include depreciation and amounts allocated from net profit to finance investments in accordance with GO 64/2001 on the distribution of profit to national companies, national companies and companies with full or majority state capital, as well as autonomous regions, with subsequent amendments and additions;
- amounts from long-term bank loans in lei;

Investment expenditure was determined on the basis of:

- > modernisation and investment development programme for 2023;
- > design programme for investment works for 2023;
- > strategic development programme for the oil terminal

In accordance with the provisions of GO 26 of 21 August 2013 on the strengthening of financial discipline at the level of certain economic operators in which the State or administrative-territorial units are the sole or majority shareholders or directly or indirectly hold a majority stake, in the event of non-realization of the sources of financing of approved investments, the related commitments shall be reconsidered and all legal steps shall be taken so that the acceptance of services, works and goods is carried out at the level of the recalculated sources of financing.

In addition to the above, the budget projection that **we present for approval to the Ordinary General Meeting of Shareholders, in accordance with Article 12 paragraph (3) letter f) of the Company's Articles of Association, includes the following indicators for the year 2023:**

Total income	288.975	mii lei
Total expenditure	279.075	mii lei
Gross profit	9.900	mii lei
Expenditure of a salary nature	132.840	mii lei
No. of staff forecast at the end of the year	1.035	pers.
Average number of employees	985	pers.
Average monthly earnings per employee (lei/pers.) determined on the basis of salary expenses, recalculated according to the OG	9.659	lei/pers.

**no.26/2013 and Law no.368/2022 of the state budget for the year
2023**

Labour productivity in recalculated value units	291	lei/pers.
Source of investment funding	52.637	Thousands lei
Investment expenses	52.637	Thousands lei

In accordance with the provisions of OMPF no.3818/2019 on the approval of the format and structure of the income and expenditure budget of economic operators, the annexes to substantiate it, as well as the instructions for its completion, set out in Annex no.6, I. The general framework for the revenue and expenditure budget, attached to this Background Note is Annex No. 1 to the Order with the budget proposal for 2023.

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THE 2023 REVENUE AND EXPEDITURE BUDGET

thousand lei

		INDICATORI	Nr. rd.	Current year proposals 2023
0	1	2	3	4
I.		TOTAL REVENUE (Rd.1=Rd.2+Rd.5)	1	288 975
	1	Total operating revenues, of which:	2	286 325
		a) subsidies, in accordance with the legal provisions in force	3	
		b) transfers, in accordance with the legal provisions in force	4	
	2	Financial income	5	2 650
II		TOTAL EXPENDITURE (Rd.6=Rd.7+Rd.19)	6	279 075
	1	Operating expenses, (Rd.7=Rd.8+Rd.9+Rd.10+Rd.18) of which:	7	267 334
		A. expenditure on goods and services	8	89 945
		B. expenditure on taxes, duties and similar charges	9	15 605
		C. staff expenditure, (Rd.10=Rd.11+Rd.14+Rd.16+Rd.17) of which:	10	138 505
		C0 Expenditure of a salary nature (Rd.11=Rd.12+Rd.13)	11	132 840
		C1 salary costs	12	107 567
		C2 bonuses	13	25 273
		C3 other staff expenditure, of which:	14	0
		expenditure on severance payments related to staff redundancies	15	
		C4 Expenditure related to the mandate contract and other management and control bodies, commissions and committees	16	2 747
		C5 Expenditure on employer contributions	17	2 918
		D. other operating expenditure	18	23 279
	2	Financial expenses	19	11 741
III		GROSS PROFIT (profit/loss) (Rd.20= Rd.1-rd.6)	20	9 900
IV	1	CURRENT INCOME TAX	21	1 698
	2	DEFERRED CORPORATION TAX	22	
	3	DEFERRED INCOME TAX REVENUE	23	
	4	ACTIVITY-SPECIFIC TAX	24	
	5	OTHER TAXES NOT SHOWN IN THE ABOVE ITEMS	25	
V		NET PROFIT/LOSS FOR THE REPORTING PERIOD (Rd.26=Rd.20-Rd.21-Rd.22+Rd.23-Rd.24-Rd.25), of which:	26	8 202
	1	Legal reserves	27	538
	2	Other reserves representing tax relief provided by law	28	
	3	Coverage of accounting losses from previous years	29	
	4	The establishment of own sources of financing for projects co-financed by external loans, as well as for the establishment of the necessary sources for the repayment of principal, interest, commission and other costs related to these loans	30	
	5	Other statutory allocations	31	
	6	Accounting profit remaining after deducting the amounts of Rd. 27, 28, 29, 30, 31 (Rd.32= Rd.26-(Rd.27 to Rd.31)>=0	32	7 664
	7	Employee profit-sharing up to a maximum of 10% of the net profit, but no more than the level of an average monthly basic salary at the level of the economic operator in the reference financial year	33	852
	8	At least 50% of the payments to the state or local budget in the case of autonomous companies, or dividends due to shareholders in the case of national companies and companies with full or majority state capital, of which:	34	4 258
	a)	- dividends due to the state budget	35	2 539
	b)	- dividends due to the local budget	36	
	c)	- dividends due to other shareholders	37	1 719

		INDICATORI	Nr. rd.	Current year proposals 2023
0	1	2	3	4
	9	Profits not allocated to the purposes set out in Rd.33 - Rd.34 are allocated to other reserves and constitute an own source of financing	38	3 406
VI		REVENUE FROM EUROPEAN FUNDS	39	
VII		ELIGIBLE EXPENDITURE FROM EUROPEAN FUNDS, of which	40	
	a)	material expenses	41	
	b)	salary costs	42	
	c)	expenditure on the provision of services	43	
	d)	advertising and publicity expenses	44	
	e)	other expenses	45	
VIII		SOURCES OF INVESTMENT FUNDING, of which:	46	52 637
	1	Budget allocations	47	
		budgetary allocations related to the payment of commitments from previous years	48	
IX		INVESTMENT EXPENDITURE	49	52 637
X		SUBSTANTIATION DATA		
	1	Projected number of staff at the end of the year	50	1 035
	2	Total average number of employees	51	985
	3	Average monthly earnings per employee (lei/person) determined on the basis of salary expenses *)	52	10 710
	4	Average monthly earnings per employee (lei/person) determined on the basis of salary expenses, recalculated in accordance with the Annual State Budget Law **)	53	9 659
	5	Labour productivity in value units on average total staff (thousand lei/person) (Rd.2/Rd.51)	54	291
	6	Labour productivity in value units on average total staff recalculated according to the Annual State Budget Law	55	291
	7	Labour productivity in physical units per average total staff (quantity of finished products/person)	56	
	8	Total expenditure per 1000 lei total income (Rd.57=(Rd.6/Rd.1)x1000)	57	966
	9	Outstanding payments	58	0
	10	Outstanding claims	59	4 200