

Approved within the Board of Directors' meeting by Decision no. 05/22.01.2024 and sent for evaluation to OGSM' of 23 (26).02.2024

**OIL TERMINAL SA Constanta**  
No.111/19.01.2024

## **SUBSTANTIATION NOTE**

### **Regarding approval by Shareholders Ordinary General Assembly of Budget of revenues and expenses proposal for 2024**

The budget of revenues and expenses for 2024 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 2024 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 2024 was made on the basis of the programmes for the modernisation and development, design, maintenance and rehabilitation 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.

#### **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<sup>^</sup>) *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 for the draft Budget of Revenue and expenses for the year 2024 and the estimates for the next 2 years (years 2025-2026) were based on the legislation regarding :

- Accounting Law no.82/1991, republished, with subsequent amendments and additions
- 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 no.421/2023 on the state budget for 2024, Article 73 on wage policy
- Law 176/2018 on internship
- Petroleum Law no.238/2004, amended by the provisions of GEO no.91/2023 on some measures related to the exercise of public and private property rights of the state, as well as to the efficient administration of state property, and for the amendment and completion of some normative acts
- 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
- ANRM Order no.343/2023 approving regulated tariffs applicable from 01.01.2024
- 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 budget of revenue and expense for the year 2024 has been prepared taking into account :

- the diagnostic analysis of the preliminary results for 2023
- the preliminary trial balance for 2023 based on preliminary unaudited financial information dated 15.01.2024 on total revenue and expenditure
- the drawing up and approval of the company's main activity plans: the quantitative and qualitative physical programme for services provided, the annual procurement plan, the investment and equipment programme, the repair and maintenance plan, the plan for the standardisation of protective equipment, the plan for the professional training of TESA staff and workers
- the need to adapt the operation of the oil terminal to the macroeconomic indicators set for 2024

***The draft Revenue and expenditure budget for the year 2024 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 basis of the draft Budget of Revenue and Expenses for the year 2024 and the estimates for the next 2 years (years 2025-2026) are as follows :

No.	ECONOMIC AND FINANCIAL INDICATORS (thousands)	Budget of revenues and expenses 2024	Estimated 2025	Estimated 2026
<b>I.</b>	<b>TOTAL REVENUE, of which:</b>	<b>392 650</b>	<b>394 865</b>	<b>398 820</b>
1.1	Total operating revenue	391 100	393 215	397 070
1.2	Financial income	1 550	1 650	1 750
<b>II.</b>	<b>TOTAL EXPENDITURE, of which:</b>	<b>374 150</b>	<b>376 225</b>	<b>380 150</b>
<b>2.1</b>	<b>Operating expenses, of which:</b>	<b>354 534</b>	<b>355 055</b>	<b>359 319</b>
2.1.1	Expenditure on goods and services	136 806	121 400	120 794
2.1.2	Expenditure on taxes, duties and similar charges	22 973	23 257	23 584
2.1.3	Staff costs, of which	164 403	172 332	177 220
	Expenditure of a salary nature, of which :	155 735	163 511	168 291
	Expenditure on salaries	127 565	133 178	137 440
	Bonuses	28 170	30 333	30 851
	Expenditure related to the mandate contract and other management and control bodies, commissions and committees	5 202	5 202	5 202
	Expenditure on employer's contributions	3 466	3 619	3 727
2.1.4	Other operating expenses	30 352	38 066	37 721
<b>2.2</b>	<b>Financial expenses</b>	<b>19 616</b>	<b>21 170</b>	<b>20 831</b>
<b>III.</b>	<b>GROSS PROFIT</b>	<b>18 500</b>	<b>18 640</b>	<b>18 670</b>
<b>IV.</b>	<b>CORPORATION TAX</b>	<b>2 797</b>	<b>3 751</b>	<b>3 770</b>
<b>V.</b>	<b>NET PROFIT</b>	<b>15 703</b>	<b>14 889</b>	<b>14 900</b>

**The basis of the revenue for the year 2024** was determined taking into account:

> Preliminary trial balance for the year 2023 prepared on the basis of unaudited preliminary financial information dated 15.01.2024 on the level of total revenue

> **the quantities of petroleum products** estimated to be handled in 2024 in accordance with the Physical Schedule of Services (in terms of quantity - 8,063,428 tonnes and value - 382,702 thousand lei) approved by the Decision of the Board of Directors no.01/10.01.2024, being drawn up on the basis of the communications received from customers for each petroleum product handled, based on the analysis of Oil Terminal's ability to achieve the services/quantities estimated by customers and which is the basis for determining the revenue from the services provided, which represents 97.5% of the company's total revenue.

> **the regulated tariffs approved by ANRM by Order no.343/2023**, with applicability from 01.01.2024, based on the provisions of the Petroleum Agreement concluded between OIL TERMINAL and the National Agency for Mineral Resources, according to Government Decision no.886/2002

> **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 Constitutive Act.

The service tariffs are based on compliance with the provisions of the Order of the Minister of Public Finance No. 1826/2003 on certain measures relating to the organisation and management of management accounting, which allow efficient and economic activity and the recovery of all costs through competitive tariffs.

The structure of the total income (thousands of lei) is as follows :

Budget indicators (thousand lei)	Rd.Anexa nr.2 BVC	Budget of revenues and expenses 2023 approved	Preliminary year 2023	Budget of revenues and expenses 2024	Budget of revenues and expenses 2024/prelim 2023 %	Budget of revenues and expenses 2024/ Budget of revenues and expenses 2023 %
		a	b	c	d = c/b	e = c/a
<b>Total revenue (Rd.2+22), of which:</b>	<b>1</b>	<b>317.860</b>	<b>355.859</b>	<b>392.650</b>	<b>▲ 110,3</b>	<b>▲ 123,5</b>
<b>1. Operating revenue</b>	<b>2</b>	<b>316.405</b>	<b>354.171</b>	<b>391.100</b>	<b>▲ 110,4</b>	<b>▲ 123,6</b>
revenue from the sale of products	4	2.200	3.069	3.000	▼ 97,8	▲ 136,4
revenue from services rendered	5	309.400	344.106	382.702	▲ 111,2	▲ 123,7
rental income	6	1.100	1.329	1.200	▼ 90,3	▲ 109,1
income from the refurbishment of utilities	7	1.695	1.282	1.198	▼ 93,4	▼ 70,7
income from penalties	15	1.677	2.076	2.000	▼ 96,3	▲ 119,3
other income	21	250	1.345	1.000	▼ 74,3	▲ 400,0
<b>2. Financial income</b>	<b>22</b>	<b>1.455</b>	<b>1.688</b>	<b>1.550</b>	<b>▼ 91,8</b>	<b>▲ 106,5</b>

**Basis of expenditure for year 2024** was carried out 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 2022-2027 issued by the National Commission for Strategy and Forecasting in the Autumn Forecast - October 2023" for those costs which by their nature have a relatively linear evolution

Percentage change compared to the corresponding period of the previous year, %

	2022	2023	2024	2025	2026	2027
<b>Consumer Price Index</b>						
- end of the year	16,4	7,4	<b>4,6</b>	3,4	2,6	2,3
- annual average	13,8	10,5	<b>6,0</b>	4,0	2,9	2,6
<b>Average exchange rate - lei/EURO</b>	4,93	4,95	<b>5,00</b>	5,06	5,12	5,18

Source: National Strategy and Forecasting Commission; Autumn Forecast 2023

> **technical regulations in force;**

> **influence of utility contract tariffs for 2024 (water, gas, electricity);**

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

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

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

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

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

> **expenses related to adjustments and impairments for loss of value and provisions** established in compliance with the provisions of Law no.227/2015 on the Fiscal Code, which include: provisions related to employee profit-

sharing, provisions related to agency contracts, provisions related to staff rights granted on retirement, impairments for inventories, etc.)

> **expenses relating to entitlements granted in accordance with the provisions of the applicable 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 contracts) established in compliance with the provisions of GEO no. 109/2011, as amended and supplemented)

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

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

**Application of the provisions of the State Budget Law for the year 2024**

In accordance with the provisions of OG no.26/2013, approved with additions by Law no. 47/2014, with subsequent amendments and additions, the company must comply with the salary policy provided for in Article 73 of the State Budget Law for 2024.

As the company is subject to the provisions of [Art.9 para. \(1\) letter b\) and para. \(3\)](#) of the OG no.26/2013, in the income and expenditure budget for the year 2024 the company has provided for [the increase of expenses of a salary nature compared to the level programmed in the last income and expenditure budget approved in accordance with the legal provisions, as follows:](#)

**Art. 73, para.(1) :**

**a)** by the amounts representing increases in expenditure of a salary nature related to the average price increase index forecast for the year 2024.

The average price growth index forecast for 2024 of 6.0%, representing the annual average, is provided in the "Projection of main macroeconomic indicators 2022-2027 issued by the National Commission for Strategy and Forecasting in the Autumn Forecast - October 2023".

Thus, for the year 2024, the expenditure of a salary nature has increased by 8,062 thousand lei compared to the level programmed in the Budget Revenue Expenditure 2023, increasing from 134,370 thousand lei approved for the year 2023 to 142,432 thousand lei budgeted for the year 2024.

**d)** by the amounts representing increases in salary-related expenditure for the full year 2024 due to the increase in the number of staff during 2023 as a result of the expansion of the activity.

Thus, due to the increase in the number of staff during 2023 by 15 people as a result of the expansion of the activity, the salary expenses for the whole year 2024 are increased by the amount of 875 thousand lei, which includes expenses with salaries reincorporated in the amount of 708 thousand lei and related bonuses in the amount of 167 thousand lei.

**e)** by the amounts representing increases in salary expenditure, related to salary increases, for the full year 2024, determined as a result of salary increases in 2023.

Through the approved Income and Expenditure Budget for 2023, as a result of the MCC negotiations valid from 01.06.2023-31.12.2023, a salary increase was approved as of 01.06.2023. As a result of this increase the replenishment for the whole year 2024 from the granting of salary increases for a preliminary average number of staff of 996 pers.year 2023 is in the amount of 11,166 thousand lei.

**para.(2)** In the year 2024, the economic operators referred to in paragraph 1 shall be subject to the following conditions (1) may schedule an increase in expenditure of a salary nature as a result of an increase in the number of staff compared to that achieved in the year 2023, in the case of development of their activity, on the basis of a memorandum initiated by the public supervisory authority under which they operate and approved by the Government.

This condition is respected because :

- the number of staff forecast at the end of 2023 approved by OGSM Decision no.15/29.09.2023 = 1.050 persons
- no. of staff achieved at 31.12.2023 = 1.050 persons
- no. of staff forecast at the end of 2024 = 1,060 persons,

Thus, the increase in the number of staff in 2024 by 1.0% (+10 persons) compared to the number of staff in 2023 will generate an estimated salary expenditure of 1,262 thousand lei.

By address no.20/10.01.2024, endorsed by the Administrative Board by Decision no.02 /10.01.2024, the company requested the Ministry of Energy, as guardian public authority, to initiate the necessary legal steps to initiate a

Memorandum for increasing the number of staff forecast to be budgeted in 2024, in accordance with the provisions of art. 73, paragraph (2) of the State Budget Law for the year 2024, a Memorandum that would allow for the year 2024 to increase the number of staff to 1,060 employees compared to that achieved in the year 2023, namely 1,050 employees, and increase, as a consequence, the salary expenses for the year 2024 by the amount of 1,262 thousand lei.

**para. (5)** The expenditure referred to in paragraph 1 shall be borne by the Member States. (1) and (2) shall be shown separately in the annexes to the revenue and expenditure budget.

**para. (6)** Economic operators which in 2023 have made a profit and have no outstanding payments as at 31 December 2023 may schedule in 2024 an increase in salary-related expenditure up to the amounts referred to in paragraph 1. (1) and (2), provided that they schedule in 2024 an improvement in gross profit compared to that achieved on 31 December 2023 and do not schedule in 2024 outstanding payments.

This condition is respected because :

- at 31.12.2023 the company has no outstanding payments
- budgeted gross profit year 2024 = 18,500 thousand lei, up 13.4% compared to the preliminary unaudited result year 2023
- for the year 2024 no outstanding payments are scheduled (zero lei)

**para. (11)** Economic operators may increase the average gross monthly earnings per employee within the limit of the amounts laid down in paragraph 1. (1) and (2), provided that the rate of increase does not exceed the labour productivity growth index calculated in value or physical units, as appropriate.

- the growth index of the average gross monthly earnings per employee = 112.9% (determined on the basis of the salary expenses recalculated in accordance with GC no.26/2013 and the Annual Law on the State Budget, art.73, paragraph (12))
- labour productivity growth index in units recalculated in accordance with the Annual Law on the State Budget, art.73, paragraph (13) = 115.9%.

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 [ 115.9% (lw) > 112.9% (lcs) ].

**para. (12)** For the purpose of determining the average gross monthly earnings per employee referred to in para. 1, the following shall apply (11), the following expenditure shall not be taken into account for the purpose of determining the growth index:

(a) amounts representing increases in the average gross earnings per employee due to the increase in the guaranteed gross national minimum basic wage for the year 2024 and other related expenditure of a salary nature only for staff covered by these regulations;

b) the amounts representing the increases in salary-related expenses for the whole year 2024, due to the increase in the minimum gross basic salary per country guaranteed in payment, and other salary-related expenses, in accordance with the provisions of Government Decision No 900/2023, as amended, only for staff covered by these regulations.

The company has not taken into account the amounts under (a) and (b) because they are not covered by these regulations.

**para. (13)** For the determination of labour productivity, as referred to in paragraph 1, the following shall apply. (11), for the purpose of determining its growth index, operating income shall be adjusted as follows:

- (a) total operating income shall be reduced by operating income derived from cyclical events or activities and no longer present in either the previous or the current year.

In 2023, as a result of the crisis caused by the military conflict in Ukraine, the consequence of which was an increase in the quantities of diesel delivered, the company realized a contingency income of 27,840 thousand lei.

b) the operating revenue of the previous year, determined on the basis of prices/tariffs established by normative/administrative acts, for the comparability of labour productivity, will be recalculated using the prices used to determine the operating revenue of the current year, if there is a decrease in prices/tariffs.

At the time of drawing up the draft Budget of Revenue and Expenses for the year 2024, the company does not have any information on a possible economic situation, which is why no contingent revenues have been budgeted.

**para. (14)** The average gross monthly earnings growth index per employee recalculated in accordance with the provisions of paragraph 1. (12) and the labour productivity growth index recalculated as provided for in paragraph (12). (13) shall be determined by comparing the programmed level of the year 2024 with the realised level of the year 2023.

- the growth index of average gross monthly earnings per employee recalculated according to the provisions of paragraph (12) = 112.9% (12,029 lei/pers. scheduled year 2024/10,671 lei/pers.achieved year 2023)

- the labour productivity growth index recalculated according to the provisions of para. (13) = 115.9% (380 thousand lei/pers. programmed year 2024/328 thousand lei/pers. realized year 2023)

Indicatori	Budget of revenues and expenses 2023	Preliminary 2023	Budget of revenues and expenses 2024	Budget of revenues and expenses 2024 / Budget of revenues and expenses 2023 (%)	Budget of revenues and expenses 2024 / Preliminary 2023 (%)
Salary-related expenses - thousand lei	134.370	133.520	155.735	115,9%	116,6%
<b>Average monthly earnings per employee</b> (lei/pers.) determined on the basis of salary expenses, <b>recalculated</b> in accordance with GC no.26/2013 and the Annual Law on the State Budget for 2024.	9.533	10.671	12.048	126,4%	<b>112,9%</b>
<b>Labour productivity in value units</b> on average total staff (thousands of lei/persons) <b>recalculated</b> according to the Annual Law on the State Budget for 2024	287	328	380	132,3%	<b>115,9%</b>

In view of the above, the company complies with the salary policy established by the State Budget Law no.421/2023 for the year 2024.

**The number of staff forecast at the end of the year is 1,060 people**, an increase of 1% (+10 people) compared to the level approved and achieved in 2023 and was the basis for determining salary-related expenditure for 2024 (basic salaries, bonuses, other expenditure in accordance with the applicable CCM).

The average number of employees forecasted for 2023 is **1,030 employees** and has been established according to the calculation method provided 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 quarterly evolution is estimated as follows: T1-1,028 persons, T2-1,031 persons, T3-1,032 persons, T4-1,031 persons.

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

Budget indicators (thousand lei)	Rd. Annex no.2 Budget of revenues and expenses	Budget of revenues and expenses 2023 approved	Preliminary 2023	Budget of revenues and expenses 2024	Budget of revenues and expenses 2024 vs. preliminary 2023	Budget of revenues and expenses 2024/ Budget of revenues and expenses 2023
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		a	b	c	d=c/b*100	e=c/a*100
<b>Total expenditure (Rd.29+130), of which :</b>	<b>28</b>	<b>306.360</b>	<b>339.548</b>	<b>374.150</b>	<b>▲ 110,2</b>	<b>▲ 122,1</b>
<b>1. Operating expenditure, of which :</b>	<b>29</b>	<b>293.945</b>	<b>327.553</b>	<b>354.534</b>	<b>▲ 108,2</b>	<b>▲ 120,6</b>
A.Expenditure on goods and services, of which:	<b>30</b>	<b>114.341</b>	<b>146.224</b>	<b>136.806</b>	<b>▼ 93,6</b>	<b>▲ 119,6</b>
A1.Expenditure on stocks	31	23.565	23.526	<b>25.610</b>	<b>▲ 108,9</b>	<b>▲ 108,7</b>
A2.Expenditure on services rendered	39	60.923	94.673	<b>73.936</b>	<b>▼ 78,1</b>	<b>▲ 121,4</b>
A3.Expenditure on other services performed by third parties	45	29.853	28.025	<b>37.260</b>	<b>▲ 133,0</b>	<b>▲ 124,8</b>
<b>B.Expenditure on taxes and duties</b>	<b>78</b>	<b>16.211</b>	<b>17.720</b>	<b>22.973</b>	<b>▲ 129,6</b>	<b>▲ 141,7</b>
<b>C.Staff costs, of which :</b>	<b>85</b>	<b>140.164</b>	<b>139.159</b>	<b>164.403</b>	<b>▲ 118,1</b>	<b>▲ 117,3</b>
C0.Expenditure of a salary nature (C1+C2)	86	134.370	133.520	<b>155.735</b>	<b>▲ 116,6</b>	<b>▲ 115,9</b>
C1.Wages and salaries	87	108.141	108.125	<b>127.565</b>	<b>▲ 118,0</b>	<b>▲ 118,0</b>
C2.Bonuses (social expenditure and benefits)	91	26.229	25.395	<b>28.170</b>	<b>▲ 110,9</b>	<b>▲ 107,4</b>
C3.Other staff expenditure	99	0	0	<b>0</b>	<b>0</b>	<b>0</b>
C4.Expenditure on agency contracts	103	2.855	2.681	<b>5.202</b>	<b>▲ 194,0</b>	<b>▲ 182,2</b>
C5.Expenditure on employer contributions	112	2.939	2.958	<b>3.466</b>	<b>▲ 117,2</b>	<b>▲ 117,9</b>
<b>D.Other operating expenses</b>	<b>113</b>	<b>23.229</b>	<b>24.450</b>	<b>30.352</b>	<b>▲ 124,1</b>	<b>▲ 130,7</b>
<b>Financial expenses</b>	<b>130</b>	<b>12.415</b>	<b>11.995</b>	<b>19.616</b>	<b>▲ 163,5</b>	<b>▲ 158,0</b>

### Remuneration of members of the Board of Directors and directors with a mandate contract

The total expenses related to the mandate contracts for the directors of the company and the directors with mandate contract for the year 2024 are established in the amount of 5,202 thousand lei. In accordance with the provisions of the mandate contracts in force, the appointed non-executive directors and directors with mandate contract receive a remuneration comprising the gross fixed monthly compensation (also referred to as fixed component) and the variable component.

**Expenses related to non-executive directors with a mandate contract**, namely, the remuneration due consisting of a gross fixed monthly compensation and a variable component, were established taking into account the following legal provisions:

- GEO no.109/2011 on corporate governance, as amended, art.37 par.(1), par.(2) and par.(4)
- Law No 187/2023 amending and supplementing Government Emergency Ordinance No 109/2011 on corporate governance of public undertakings, Article VIII(1) and (2) in conjunction with Article IX(1) and (2)
- the mandate contracts of non-executive directors, Art.2(g), Art.14 and Art.15
- New Civil Code, Art. 6(1) and (6)
- GD no.722/2016 art.25(1)
- OGSM Decision No. 12 of 27.04.2023 appointing the non-executive directors of the company for a term of 4 years, starting from 28.04.2023 until 27.04.2027.

The remuneration of the members of the Board of Directors, i.e. non-executive directors, is determined by the General Meeting of Shareholders within the structure and limits provided for by GEO no. 109/2011, and consists of a fixed gross monthly remuneration and a variable component.

The level of the gross monthly fixed indemnity is established in accordance with Article 37 paragraph (2), which may not exceed 2 times the average gross monthly average earnings over the last 12 months for the activity carried out in accordance with the company's main object of activity, at class level according to the classification of activities in the national economy, communicated by the National Institute of Statistics, prior to the appointment.

Given that the non-executive directors of the company were appointed by OGSM Decision no.12/27.04.2023, art.4, the calculation of the fixed monthly gross compensation is based on the press release no.88 dated 12 April 2023 on the average gross salary for the period March 2022 - February 2023 issued by the National Institute of Statistics.

In accordance with the provisions of the OGSM Decision no.13/28.08.2023 for the Budget of revenues and expenses for the year 2024, an annual variable component at the level of 12 gross fixed monthly allowances has been taken into account.

**The expenses related to the directors with a mandate contract**, i.e. the remuneration due, consisting of a gross fixed monthly allowance and a variable component, were established taking into account the following legal provisions:

- GEO no.109/2011 on corporate governance, as amended, art.37 par.(3) and par.(4), in conjunction with art.38 par.(1), par.(2), par.(3)
- Law no.31/1990, art.153 index 18, paragraph (2)
- Decisions of the Board of Directors no.72/19.06.2023 on the appointment of the Managing Director of the company and no.73 /19.06.2023 on the appointment of the Chief Financial Officer; setting the term of office at 4 years, from 20.06.2023 to 20.06.2027; setting the gross fixed monthly remuneration (which may not exceed 6 times the average gross monthly salary over the last 12 months for the activity carried out in accordance with the main object of activity registered by the company, at class level according to the classification of activities in the national economy, communicated by the National Institute of Statistics prior to the appointment of the trustee), as well as approving the form and content of the mandate contract
- OGSM Resolution no.13/28.08.2023, (art.5) approving the setting of the remuneration limits for directors with a mandate contract assimilated to executive directors

According to Article 38 paragraph (1) of GEO no.109/2011, approved with amendments and additions by Law no. 111/2016, the remuneration of directors is set by the board of directors and may not exceed the level of remuneration set for executive members of the board of directors.

The calculation of the gross fixed monthly remuneration to be granted to directors with a mandate contract in 2024 is based on the provisions of Decisions No.72 and No.73/19.06.2023 and Press Release No.145 dated 13 June 2023 on the average gross earnings for the period May 2022-April 2023 issued by the National Institute of Statistics.

By Decisions no.117 and no.118/01.09.2023 the Board of Directors approved the variable component of the remuneration of directors with a mandate contract in the amount of 12 gross fixed monthly allowances for each year of mandate, granted under the terms of the law, within the provisions of the approved income and expenditure budget in accordance with the applicable legal provisions in force.

The annual variable component of the remuneration for non-executive directors and directors with a mandate contract is calculated in the same way.

The annual variable component to be granted is the product of *the amount of the annual variable component established by the amendment to the mandate agreement and the total degree of achievement of the financial and non-financial key performance indicators ( $GT_{ICP}$ )*.

The total degree of achievement of *the financial and non-financial key performance indicators ( $GT_{ICP}$ )* is the sum of the degree of achievement of each ICP ( $GI_{ICP}$ ) weighted by the weighting coefficient ( $W_{ICP}$ ) related to each ICP.

The variable component of the remuneration payable to non-executive directors and directors will be directly proportional to  $GT_{ICP}$  for the relevant financial year.

Also, in the event that :

- a.  $GT_{ICP} > 100\%$ , the annual variable component of remuneration shall be granted in the amount of approved for each financial year
- b.  $80\% \leq GT_{ICP} \leq 100\%$ , the variable component of the remuneration shall be granted pro rata according to the method of calculation shown
- c.  $GT_{ICP} < 80\%$ , the annual variable component of remuneration is not paid

ICP is assessed annually, based on the audited annual financial statements and other verification tools.

**The estimated gross** result for 2024 is 18,500 thousand lei.

**The 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 for the year 2023 and of the rights related to the mandate contract payable in the following year after approval of the audited annual financial statements;
- 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.
- other 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 to national companies, national companies and companies with full or majority state capital, as well as to autonomous companies, with subsequent amendments and additions.

**The proposed distribution of net profit in the amount of 15,703 thousand lei for the year 2024** (after provision for employee profit-sharing) was made in accordance with the provisions of the Governmental Decree no. 64/2001 on the distribution of profit to national companies, national companies and companies with full or majority state capital, as well as autonomous companies, approved with amendments by Law no. 769/2001.

**The distribution of the net profit for the year 2024 in the amount of 17,336 thousand lei**, replenished with the amount of the provision set up for the employee profit-sharing fund, was allocated to the following destinations:

a) Legal reserves - 1,007 thousand lei, in the amount of 5% of the accounting profit before the determination of the corporate income tax, in accordance with the provisions of art.1 par.(1) of OG no.64/2001

b) Other reserves representing tax incentives provided by law = 0 thousand lei

c) Coverage of accounting losses from previous years = not applicable;

c<sup>1</sup>) Establishment of own sources of financing for projects co-financed from external loans = not applicable;

d) Other allocations provided for by law = not applicable;

e) Employee profit-sharing - 1,633 thousand lei. Considering the level of the profit to be distributed remaining after deducting the amounts distributed under points a)-d), the reasoning of these expenses was done in a percentage of 10% according to the provisions of art.1 paragraph 1 letter e) of the OG no. 64/2001.

In accordance with OMFP Order No 418/06.04.2005 concerning certain accounting details applicable to economic agents, employee profit-sharing is reflected in the accounts by setting up a provision for risks and charges at the level of the gross amounts due to employees.

f) Dividends due to shareholders - 8,165 thousand lei were determined by applying the 50% quota on the net profit reinvested with the amount of the provision set up for the employee profit-sharing fund after deduction of legal reserves. According to the provisions of OG no. 64/2001 art.1 paragraph (1), letter f) the companies with majority state capital shall submit to the approval of the General Meeting of Shareholders "at least 50% of the payments to the state or local budget, in the case of autonomous companies, or dividends, in the case of national companies, national companies and companies with full or majority state capital".

g) Own source of financing - 6,531 thousand lei is established in accordance with the provisions of art.1 paragraph 1 letter g) of OG no.64/2001, i.e., the profit not allocated to the destinations provided for in letters a) - f) is allocated to other reserves and constitutes for the company its own source of financing.

## **Planning the financial investment effort for 2024**

**The source for financing investment expenditure** estimated for the year 2024 increases by 37.2% compared to the preliminary level for the year 2023, from 93,956 thousand lei to 128,927 thousand lei, comprising :

**1. Own sources** in the amount of 30,450 thousand lei, including depreciation (i.e. 26,452 thousand lei , in the following structure: depreciation related to tangible and intangible assets - 23,914 thousand lei and depreciation of assets related to the right of use of leased assets - 2,538 thousand lei) and the amounts allocated from the net profit of 2023 for the financing of investments established according to OG no.64/2001 in the amount of MDL 3,998 thousand.

**2. Allocations from the budget** - Not applicable

**3. Internal bank loans in the amount of 98,477 thousand lei**, of which: 7,430 thousand lei represents the amount planned to be used during 2024 from the investment credit contract no. 2022022309/25.02.2022 concluded with BCR for the financing of the investment objective "Construction of reservoir capacity 55. 000 cubic meters" located in the South Platform Section and 91,047 thousand lei represents the amount planned to be used during 2024 from the credit to be finalized during the current year for 3 investment objectives, namely: construction of 10,000 cubic meters reservoir in the Port Platform Section and modernization of T26 reservoir and reservoir in the South Platform Section.

**4. Other sources** - Not applicable

**Investment expenses** for the year 2024 are in the amount of 128,927 thousand lei, made up at the level of the investment financing source for the year 2024, and include the amounts intended for works for the development and modernization of the company's infrastructure and the amounts necessary for the repayment of the instalments on loans taken out by the company to finance investment works not covered by its own sources.

After **deducting the repayments** of the contracted investment loans, which for the year 2024 total **9,256 thousand lei**, the total investment expenditure amounts to **119,671 thousand lei**, with the following destinations: investments

in progress - 10,255 thousand lei, new investments - 31,741 thousand lei, modernization - 75,175 thousand lei, equipment (other purchases of tangible assets) - 2,500 thousand lei.

In accordance with the provisions of GO no. 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 directly or indirectly hold a majority stake*, in the event of non-realization of the sources of financing of approved investments, the related commitments are reconsidered and all legal steps are taken so that the reception of services, works and goods is carried out at the level of the recalculated sources of financing.

The summary of investment expenditure for the period 2024-2026 and how it will be financed is given below:

	INDICATORS	Value (thousand lei)		
		2024	2025	2026
I	<b>SOURCES OF INVESTMENT FUNDING, of which:</b>	<b>128 927</b>	<b>69 596</b>	<b>38 889</b>
	1 <b>Own sources, of which:</b>	<b>30 450</b>	<b>39 688</b>	<b>38 889</b>
	- Depreciation, of which:	26 452	33 157	32 720
	<i>ch. with depreciation of tangible and intangible fixed assets.</i>	23 914	30 854	30 828
	<i>depreciation of assets relating to rights of use of leased assets</i>	2 538	2 303	1 892
	- profit	3 998	6 531	6 169
	2 <b>Allocations from the budget</b>	0	0	0
	3 <b>Bank loans, of which:</b>	<b>98 477</b>	<b>29 908</b>	<b>0</b>
	4 <b>Other sources, of which:</b>	0	0	0
II	<b>INVESTMENT EXPENDITURE, of which:</b>	<b>128 927</b>	<b>69 596</b>	<b>38 889</b>
	1 <b>Investments in progress</b>	<b>10 255</b>	<b>10 000</b>	<b>10 000</b>
	2 <b>New investments</b>	<b>31 741</b>	<b>8 400</b>	<b>0</b>
	3 <b>Modernisations</b>	<b>75 175</b>	<b>34 508</b>	<b>11 000</b>
	4 <b>Repayments of instalments on investment loans</b>	<b>2 500</b>	<b>1 306</b>	<b>1 426</b>
	5 <b>INDICATORS</b>	<b>9 256</b>	<b>15 382</b>	<b>16 463</b>

#### Justification of economic and financial indicators that change significantly from the previous year

- ✓ Increase in energy and water expenses by 2,152 thousand lei ( 24% ) , of which: energy expenses increase by 1,945 thousand lei (27.6%) and water and sewage expenses increase by 207 thousand lei (10.9%) due to new prices/tariffs requested by utility suppliers following the liberalization of the energy market and the increase in water and sewage tariffs by the local supplier.
- ✓ Increase the expenses for insurance premiums by the amount of 2,120 thousand lei, representing contributions to voluntary pension funds within the limit of an amount equivalent in lei to 400 euros in one fiscal year for 1,060 employees of the company starting from 01.01.2024.
- ✓ The increase in borrowing costs by 6,967 thousand lei (66.1%). These expenses include the interest on loans contracted to finance projects included in the investment programme carried out by the company. Increase in oil royalty expenses by 4,321 thousand lei (31.4%) both due to the 11.2% increase in revenues from services rendered in 2024 and to the application of the new 11.5% rate provided for in Article 49 letter b) of the Oil Law no. 238/2004, amended by GEO no. 91/2023 on certain measures relating to the exercise of public and private property rights of the State, as well as to the efficient administration of State property, and for the amendment and completion of certain normative acts.
- ✓ Increase in expenses with other taxes and duties by 872 thousand lei (22.1%), respectively, increase in the special fund for the disabled, respectively, payments to the society according to GEO no.60/2017, as well as increase in some taxes and duties due to the local budget

- ✓ Increase in depreciation of tangible and intangible fixed assets by 5,582 thousand lei (30.4%), mainly as a result of the commissioning during 2023 of some investment objectives with a preliminary value of 93.96 million lei.

In view of 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 Constitutive Act**, includes the following indicators for the year 2024:

Total income	392.650	thousands lei
Total expenditure	374.150	thousands lei
Gross profit	18.500	thousands lei
Payroll expense	155.735	thousands lei
Number of staff forecast at year end	1.060	pers.
Average number of employees	1.030	pers.
Average monthly earnings per employee (RON/pers.) determined on the basis of salary expenses, recalculated according to GC no.26/2013 and Law no.421/2023 of the state budget for the year 2024	12.048	lei/pers.
Labour productivity in recalculated value units	380	thousands lei/pers.
Source of investment financing	128.927	thousands lei
Investment expenditure	128.927	thousands lei

In accordance with the provisions of OMFP no.3818/2019 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 Annex no.6, I. General framework for the income and expenditure budget, Annex no.1 is attached to this Background Note, which contains only the column relating to the budget proposal for the year 2024.

General Director,  
Sorin Viorel CIUTUREANU

Financial Director,  
Adriana Frangu

Head of Financial Services - Budget,  
Daniela Moldoveanu

Head of Legal Litigation,  
Carmen Borșuc

**BUDGET OF REVENUES AND EXPENSES FOR 2024**

mii lei

		INDICATORS	No. rd.	Proposals current year 2024
0	1	2	3	4
I.		<b>TOTAL REVENUES (Rd.1=R.2+R.5)</b>	1	392 650
	1	Total revenues from operating, from which:	2	391 100
		a) subventions, acc. to legal provisions in force	3	
		b) transfers, acc. to legal provisions in force	4	
	2	Financial revenues	5	1 550
II		<b>TOTAL EXPENSES (Rd.6=Rd.7+Rd.19)</b>	6	374 150
	1	Operating expenses, (Rd.7=Rd.8+Rd.9+Rd.10+Rd.18) from which:	7	354 534
		A. expenses on goods and services	8	136 806
		B. expenses on taxes, fees and assimilated instalments	9	22 973
		C. staff expenses, (Rd.10=Rd.11+Rd.14+Rd.16+Rd.17) from which:	10	164 403
		C0 Salary expenses(Rd.11=Rd.12+Rd.13)	11	155 735
		C1 Salaries expenses	12	127 565
		C2 bonuses	13	28 170
		C3 other staff expenses, from which:	14	0
		expenses on compensations related to redundancies	15	
		C4 Exepenses related to mandate contract and other management and control bodies, committees	16	5 202
		C5 Expenses on contributions due by employer	17	3 466
		D. other operating expenses	18	30 352
	2	Financial expenses	19	19 616
III		<b>GROSS RESULT (profit/loss) (Rd.20= Rd.1-rd.6)</b>	20	18 500
IV	1	<b>TAX ON CURRET PROFIT</b>	21	2 797
	2	<b>TAX ON DEFERRED PROFIT</b>	22	
	3	<b>REVENUES FROM TAX ON DEFERRED PROFIT</b>	23	
	4	<b>TAX REGARDING SOME ACTIVITIES</b>	24	
	5	<b>OTHER TAX NON-SUBMITTED IN ELEMENTS ABOVE</b>	25	
V		<b>NET PROFIT/LOSS OF REPORTING PERIOD (Rd.26=Rd.20-Rd.21-Rd.22+Rd.23-Rd.24-Rd.25), from which:</b>	26	15 703
	1	Legal reserves	27	1 007
	2	Other reserves representing fiscal facilities provided by law	28	
	3	Cover of accounting losses from previous years	29	
	4	Establishment of own financing sources for projects co-financed from external loans and establishment of sources required for reimbursement of capital ratios, payment of interests, commissions and other costs related to these loans	30	
	5	Other distributions provided by law	31	
	6	Accounting profit remaining after deduction of amounts from R. 27, 28, 29, 30, 31 (Rd.32= Rd.26-(Rd.27 la Rd.31)>=0	32	14 696

		INDICATORS	No. rd.	Proposals current year 2024
0	1	2	3	4
	7	Employees participation in profit within 10% of net profit, but not exceeding the monthly average basic salary achieved at the level of the economic operator in the reference financial year	33	1 633
	8	Minimum 50% instalments in state or local budget for autonomous companies, or dividends due to shareholders, for national companies and companies with full or majority state capital, from which:	34	8 165
	a)	- dividends due to state budget	35	7 165
	b)	- dividends due to local budget	36	
	c)	- dividends due to other shareholders	37	1 000
	9	Profit undistributed to destinations provided in R.33 - R.34 are distributed to other reserves and constitute own financing source	38	6 531
VI		REVENUES FROM EUROPEAN FUNDS	39	
VII		ELIGIBLE EXPENSES FROM EUROPEAN FUNDS, from which:	40	
	a)	material expenses	41	
	b)	salaries expenses	42	
	c)	expenses regarding services supplies	43	
	d)	advertising and publicity expenses	44	
	e)	other expenses	45	
VIII		INVESTMENT FINANCING SOURCES, from which:	46	128 927
	1	Budget allowances	47	
		budget allowances related to the payment of previous years undertakings	48	
IX		EXPENSES FOR INVESTMENTS	49	128 927
X		SUBSTANTIATION DATA		
	1	No. of employees forecasted at the end of the year	50	1 060
	2	Total average employees no.	51	1 030
	3	Monthly average earning per employee (lei/person) determined based on salary expenses *)	52	12 048
	4	Monthly average earning per employee (lei/person) determined based on salary expenses, recalculated acc. to annual law of state budget **)	53	12 048
	5	Labor productivity in value units per total average staff (thousand lei/person) (Rd.2/Rd.51)	54	380
	6	Labor productivity in value units per total average staff recalculated acc. to annual law of state budget	55	380
	7	Labor productivity in physical units per total average staff (quantity final products/ person)	56	
	8	Total expenses at 1000 lei total revenues (R.57=(Rd.6/Rd.1)x1000)	57	953
	9	Overdue payments	58	0
	10	Overdue receivables	59	4 200

General Director ,  
VIOREL SORIN CIUTUREANU

Financial Director,  
ADRIANA FRANGU

HEAD OF FINANCIAL SERVICES - BUDGET,  
DANIELA MOLDOVEANU