

The Economic Directorate

ENDORSED

The Board of Administration

by decision no. _____ from _____

CHAIRMAN OF THE BOARD OF ADMINISTRATION

Gheorghe Cristian - Florin

SUBSTANTIATION NOTE

**regarding the approval, by the Ordinary General Meeting of Shareholders
of 2019 Income and Expenditure Budget of CONPET S.A.
and the estimates for 2020-2021**

The Income and Expenditure Budget represents the programming and analysis instrument on average term of the economic-financial activity, targeting the provision of the internal financial balance for the performance of the business under profitability conditions.

As per the provisions of the Government Ordinance no.26/2013 “regarding the reinforcement of the financial discipline at the level of economic operators to which the State or the administrative - territorial divisions act as unique or majority shareholders or hold directly or indirectly a majority participation”, subsequent amendments and additions. The company has the obligation to prepare the draft income and expenditure budget for the current year (2019) and estimations for the following 2 years (2020,2021) accompanied by the substantiation annexes thereof in the form and structure approved by order of the Ministry of Public Finances no.3145/2017 regarding the approval of the form and structure of the Income and Expenditure budget, as well as the substantiation annexes thereof.

The substantiation of the indicators within the draft Income and Expenditure Budget for the year 2019 and the estimates for the period 2020-2021 was grounded on the “prudence” concept and the “continuation of the business”, in economic efficiency terms in sizing the financial resources needed to finance the entire activity.

At the elaboration of the draft Income and Expenditure budget for the year 2019 were considered the followings:

- The provisions of the Government Ordinance no.26/2013 regarding the reinforcement of the financial discipline at the level of economic operators to which the State or the administrative - territorial divisions act as unique or majority shareholders or hold directly or indirectly a majority participation, subsequent amendments and additions;
- The provisions of MPF Order, no.3145/2017, with regards to the approval of the form and structure of the income and expenditure budget, as well the substantiation annexes thereof;
- The provisions of the Collective Labour Agreement of CONPET in force;
- The applicable legislation and legal regulations;
- The quantities of crude oil, rich and condensate gas communicated for transport by the main clients holding 99% of the turnover;
- The estimated achievements of the company regarding the execution of the Income and Expenditure Budget for the year 2018;
- The proposals of the specialized Units for the year 2019 regarding the investment programs, maintenance, securing the occupational safety and health, security of the National Transport System, environmental protection, professional training, etc.

The predicted/achieved level of the budget indicators for the year 2018 is being revealed according to the preliminary financial Statements drafted based on the accounting regulations compliant to the International Financial Reporting Standards.

The revenues from the assets sale and the expenses related to assets transfer are being presented at net as gain or loss out of assets transfer, as the case may be.

A. THE DRAFT INCOME AND EXPENDITURE BUDGET FOR THE YEAR 2019 (Annex no. 1)

In 2019 Budget, the total revenues are being forecasted with a reduction of 1% and the expenses outline an increase by 3.7% as compared to the estimated achievements of the year 2018.

Within the completion instructions related to the Income and Expenditure Budget, approved by OMPF, no.3145/05.12.2017, Annex 6, Para II 6 was provided that: "The overall revenues and expenses are being estimated so that the increase index of the total expenses, usually, not exceed the increase index of the total revenues".

The limitations due to the specific character of the company's core business also generated a limitation of the revenues that can be budgeted and achieved and the costs, in proportion of 99% are related to the core business.

The company's income is being achieved mainly out of the supply of the transport services, both by the Crude Oil National Transport System, concessioned based on the oil concession agreement, as well as by railway for the oil areas not connected to the major transport pipelines.

The economic and financial indicators set forth in Annex no. 1 of the Income and Expenditure Budget proposed for 2019 are detailed in annex no. 2 and are to be found in the structure as follows:

I. TOTAL REVENUES

In 2019 year budget the overall revenues amount to 419,679 thousand RON and contain:

I.1 OPERATING REVENUES amounting to 416,774 thousand Lei, are 0.4% lower than the predicted for 2018, representing 99.3% of the total income. At the determination of the operating revenues were considered the revenues from the company's core business, respectively pipeline and railway transport services, the revenues achieved from secondary activities (rental of goods) and other operating revenues.

The structure and manner of substantiation of the operating revenues reveal the followings:

I.1.1. The revenues related to the turnover budgeted for the year 2019 are in amount of 385,257 thousand RON and are being revealed in the structure as follows:

Indicators	M.U.	Predicted /Achieved 2018	2019 Draft Income and Expenditure Budget	Diff. Budget 2019 - Predicted 2018	2019 Income and Expenditure Budget/Predicted 2018
<i>transport revenues</i>	<i>Thousand RON</i>	380,579	381,641	1,062	100.3%
<i>Revenues from rents</i>	<i>thousand RON</i>	1,483	1,434	-49	96.7%
<i>Revenues from other activities related to turnover (pipe sale, shunting, resupply of thermal power, other activities)</i>	<i>Thousand RON</i>	2,924	2,012	-912	68.8%
Revenues out of sold production, of which:	Thousand RON	384,986	385,087	101	100.0%
Revenues from sale of goods	Thousand RON	154	170	16	110.4%
Turnover	Thousand RON	385,140	385,257	117	100%

The volume and structure of the transport revenues contained in the draft Budget for the year 2019 have been substantiated in consideration of the quantities of crude oil, condensate and rich gas contracted with Petrotel Lukoil and Rompetrol-Petromidia and the ones communicated by OMV Petrom for being transported to the refineries in the year 2019 and by the transport tariffs approved by NAMR Order no.117/2018, as follows:

- for the domestic transport subsystem has been applied the average tariff of 84.37 Lei/ton;
- for the import transport subsystem have been applied differentiated tariffs on transport tranches, as follows:

Quantities (thousand tons)	Arpechim	Ploiesti Basin	Petromidia
< 120	38.85	38.00	27.00
> 120	16.60	16.00	24.74

I.1.1.1 The transport revenues and the transported quantities, in structure on transport subsystems, forecasted in the budget for the year 2019, as compared to the ones achieved/predicted in 2018 reveal the followings:

TRANSPORTED QUANTITIES	M.U.	Preliminary/Achieved 2018	2019 Draft Income and Expenditure Budget	Diff. 2019 Income and Expenditure Budget/predicted 2018	Income and Expenditure Budget-2018
					Predicted 2018
Quantities Domestic transport subsystem	tons	3,492,613	3,429,815	-62,798	98.2%
IMPORT SUBSYSTEM QUANTITIES, of which:	tons	3,362,335	3,064,554	-297,781	91.1%
<i>PETROTEL LUKOIL</i>	tons	2,642,384	2,484,554	-157,830	94.0%
<i>ROMPETROL-PETROMIDIA</i>	tons	40,569	80,000	39,431	197.2%
<i>OMV PETROM, of which:</i>	tons	679,382	500,000	-179,382	73.6%
<i>Spillage</i>	tons	276,107	0	-276,107	0.00%
TOTAL TRANSPORTED QUANTITIES	tons	6,854,948	6,494,369	-360,579	94.7%

The quantity transported to the refinery Petrotel Lukoil decreases in the year 2019, due to the temporary interruption of the refinery's activity for technological overhaul for a period of 30 days.

Transport revenues	M. U.	Preliminary/Achieved 2018	Proposal Income and Expenditure Budget 2019	Diff. 2019- Income and Expenditure Budget/predicted 2018	Income and Expenditure Budget 2019/
					Predicted 2018
1. Income from transport services, country subsystem, o/w:	Thousand RON	290,159	290,918	759	100.3%
1.1. Transport income	Thousand RON	287,197	289,373	2,176	100.8%

1.2. Supplementary transport income	Thousand RON	2,962	1,545	-1,417	52.2%
2. Incomes from transport services, import subsystem, o/w:	Thousand RON	90,420	90,723	303	100.3%
2.1. Transport incomes, o/w:	Thousand RON	90,420	90,723	303	100.3%
<i>PETROTEL LUKOIL</i>	Thousand RON	<i>71,501</i>	<i>69,563</i>	<i>-1,938</i>	<i>97.3%</i>
<i>ROMPETROL-PETROMIDIA</i>	Thousand RON	<i>903</i>	<i>2,160</i>	<i>1,257</i>	<i>239.2%</i>
<i>OMV PETROM, o/w:</i>	Thousand RON	<i>18,016</i>	<i>19,000</i>	<i>984</i>	<i>105.5%</i>
<i>Spillage</i>	Thousand RON	<i>2,688</i>	<i>0</i>	<i>-2,688</i>	
2.2. Supplementary transport income	Thousand RON	0	0	0	
TOTAL - Income from transport services, o/w:	Thousand RON	380,579	381,641	1,062	100.3%
Income from transport services	Thousand RON	377,617	380,096	2,479	100.7%
Supplementary transport income	Thousand RON	2,962	1,545	-1,417	52.2%

In 2019 Budget additional income amounting 1,545 thousand RON have been also foreseen, representing transport services with insulated tank cars.

I.1.1.2 The revenues from other activities related to turnover represent revenues from pipe sales resulted from works of removal/modernization of the transport system, rental of tangible and intangible goods - CONPET property, tanks shunting services, resupply of thermal power etc. and are being estimated based on the tariffs in the concluded contracts and the achievements predicted for the year 2018.

I.1.2 **Other operating revenues** predicted in 2019 draft Budget, in amount of 31,517 thousand RON mainly include (99%) the recognition as income of the reserve representing the modernization quota at the level of the expenses with the depreciation of fixed assets financed from the modernization quota.

The detailed statement of other operating revenues included in 2019 Budget, amounting to 31,517 thousand RON, compared to the revenues achieved/estimated for 2018, reveals the followings:

Indicators	M.U.	Estimated/ Achieved 2018	2019 Draft Income and Expenditure Budget	Diff. 2019 Income and Expenditure Budget - estimated 2018	2019 Budget Estimated 2018
Other operating expenses, out of which:	thousand RON	33,294	31,517	-1,777	94.7%
Write-back of revenues of the modernization quota	thousand RON	28,826	30,886	2,060	107.2%
Other revenues	Thousand RON	4,468	631	-3,837	14.1%

I.2. Financial revenues

An impact on the total revenues is brought also by the financial revenues that have been forecasted with a reduction of 2,557 thousand Lei (46.8%), as compared to the estimated achievements for the year 2018. This decrease is being generated by the diminution of the cash in bank accounts and also by the reduction of the interests obtained out of the cash placement in deposits accounts.

II TOTAL EXPENSES

The volume and structure of the total expenses contained in the draft Budget for the year 2019 have been sized based on the level of the revenues programmed to be achieved and the programs elaborated at the company's level by the specialized units, corresponding to the planned activity, such as: maintenance, investments, studies, ensuring occupational safety and health, the security of installations, environmental protection, professional training etc., so that the company's business be carried out under economic efficiency conditions and safety operation of the Crude Oil National Transport System (Rom. SNTT).

The overall expenses forecasted in the draft Income and Expenditure Budget for the year 2019 amount for 366,855 thousand RON, registering an increase by 3.7% compared to the achievements predicted in 2018.

II.1. **The operating expenses** in amount of 366,765 thousand RON contain the expenses destined to the operation and safety operation of the crude oil, rich gas, condensate and ethane National Transport System.

The main categories of operating expenses, contained in 2019 Budget are forecasted as follows:

A. Expenses with goods and services in amount of 100,393 thousand RON contain:

A1 The stocks expenses are being substantiated based on the supply program and the activity programs elaborated for ensuring the necessary resources for maintenance activities, securing occupational safety and health, installations security, environmental protection and safe operation conditions of the Crude Oil National Transport System (NTS), as well as for the auxiliary and administrative activities. For the year 2019 they are being provided for the amount of 20,832 thousand RON and represent 5.7% in total operating costs.

The expenses related to the spare parts (1,419 thousand RON) mainly stand for expenses for the fulfillment of the current maintenance programs estimated based on the necessary related to the activities that will be performed in Conpet.

In the category of the expenses related to stocks are being comprised also the expenses with the electric power, natural gas and water. In 2019 Income and Expenditure Budget, these expenses are being provided in amount of 12,217 thousand RON (59% of the total stocks expenses) and are being determined based on the estimated consumptions and the prices for electric power and natural gas.

A2 Third parties services expenses are being provided in amount of 5,877 thousand RON.

- The highest share in the total of these expenses (61%) is being represented by the *services related to maintenance and repairs* (tank cars overhauls and accidental repairs tank cars and locomotives, tanks cleanings, current repairs to the mechanical, thermal, electric installations etc) necessary for the safety operation of the Crude Oil National Transport System;
- *The rental-related expenses* are being estimated at 1,786 thousand RON and contain expenses related to ground leases, buildings and technical spaces necessary for the performance of the company's business.
- *The expenses related to the insurance premiums* (487 thousand RON) include the liability insurance for the administrators, CASCO and RCA insurances for transport means and other types of insurances (firemen, Prevention and Fire Fighting, buildings).

A3. The expenses with other services executed by third parties, in amount of 73,683 thousand RON represent: expenses related to the fees and commissions, protocol expenses, advertising and publicity expenses, sponsorship expenses, expenses with transport of goods and persons, travel expenses, bank services expenses, postal expenses and telecommunication services, guard services and the protection of the objectives and the personnel protection, services related to the maintenance of the

computation technique, services related to professional training of the personnel, expenses related to the authorized appraiser fees for the appraisal of tangible and intangible assets.

- *the fees-related expenses* in amount of 799 thousand RON contain fees for experts and bailiffs, financial audit services, as well as consultancy services for the performance of the feasibility studies related to strategic options for enhancing company's business comprised in the Administration Plan for a period of 2018-2022.
- *The expenses related to protocol, advertising and publicity* are being estimated at a value of 590 thousand RON, as follows:
 - o The protocol expenses (315 thousand RON) have been sized at the level of 2018 budget, under the level of deductibility provided in the Fiscal Code;
 - o The advertising and publicity-related expenses (275 thousand RON) consider the role of the company in the local and regional business environment, the dynamics of events inside the company, the necessity to disseminate the information and promotion of company's image among partners, collaborators and local authorities with regards to the modification of the organizational structure, events and activities carried within the company, press releases, anniversary layouts.
- *Sponsorship expenses* are estimated at 600 thousand RON, at the level of the year 2018 and represent 33% of the deductibility limit provided by the fiscal code (0.5% of the turnover, but no more than 20% of the corporate tax).
- *The expenses with goods and persons transport* (61,174 thousand RON) mainly comprise the railway crude oil transport services and pumping services executed by third parties. These expenses are foreseen as increasing by 3.2% as compared to 2018, the increase being generated by the consideration of a railway transport tariff estimated for the contract that is to be concluded starting April 1st, 2019, higher than the tariff established in the existing contract, valid until March 31st, 2019. The tariff in the existing contract was a fix tariff for a period of 4 years starting April, 2015.
- *The travel detachment expenses* (1,464 thousand RON) are estimated at the level of the needs identified for the year 2019, corroborated with the provisions of the Labor Collective Contract concluded in December, 2018.
- *The insurance and guard expenses* (701 thousand RON) represent services of guard, protection and intervention to Conpet objectives located at Conpet

headquarters and Inotesti materials storehouse. The increase of the expenses related to these services is being substantiated by the augmentation of the minimum wage, determining directly the increase of the hourly rate applied by the specialized firms for the guard services.

B. Expenses with duties, taxes and similar levies in amount of 32,786 thousand RON include in proportion of 92% the oil royalty, calculated based on the quantities transported via pipelines and combined, and the transport tariffs.

The calculation of the oil royalty values reveals the followings

Crt. No.	Transport Subsystems	Quantities tons	Basis for calculating the royalty (thousands RON)	Rate (%)	Royalty value (thousand RON)
1	Country transport subsystem and combined	2,513,288	212,046	10%	21,205
2	Import Transport Subsystem	3,064,554	90,723	10%	9,072
TOTAL		5,577,842	302,769	10%	30,277

C. Personnel expenses

The personnel expenses were based on the provisions of:

- GO no. 26/2013 on strengthening the financial discipline of economic operators to which the State or the territorial administrative units are unique or majority shareholders or directly or indirectly hold a majority stake, as amended and supplemented;
- Law no. 227/2015 – Tax Code further amendments and completions;
- Law of the State Budget for the year 2019;
- The Labor Code;
- The Collective Labor Agreement (CLA).

The personnel expenses projected for 2019 are in total amount of 154,578 thousand lei and records an increase of 10.2% over the 2018 preliminary achievements.

Considering the provisions of art. 57 of the Law on State Budget for 2019, CONPET falls under para. (1) Letter b), respectively:

b) the economic operators not having exceeded the level of outstanding payments scheduled for the end of 2018 may increase salary related expenses provided that, in 2019, not schedule outstanding payments, and if they schedule, they should predict the reduction thereof as

compared to the planned level of the previous year at least by the level of growth index of average gross monthly earnings/employee recalculated in accordance with paragraph (2).

Conpet predicted for 2019 a level of outstanding payments equal to zero, namely estimates not to record outstanding payments in 2018. Therefore, the budgeting of the salary expenditures increasing compared to the previous year complies with the provisions of art. 57 para. (1) letter b).

In the Revenue and Expenditure Budget for 2019, Annex 1, row (12) and Annex. 2 row (87), **Salary expenses** are foreseen with a 10.5%.

The increase of salary nature expenditures amounting to 13,479 thousand RON, compared to 2018 (from 128,482 to 141,961 thousand RON) resulted from the negotiation of the salary package of the new Collective Labor Contract dated 27.12.2018.

Bonuses budgeted at row (14) of Annex. 1, amounting 18,394 thousand RON, include the followings:

- *social expenses* increasing by 838 thousand RON (17%), estimated in the limits of a quota of 4.7% (5,754 thousand RON) applied to the amount of costs of personnel salaries, being below the 5% deductibility limit of these expenses according to Law. 227/2015 *regarding the Fiscal Code* (maximum 6,178 thousand RON).
- *meal vouchers* are foreseen in the amount of 5,310 thousand RON. The value of the granted ticket is 15 RON.
- *expenditure on employees share of profit* from the previous year is foreseen with an increase of 2,121 thousand RON (from 2,969 thousand RON to 5,090 thousand RON).

According to Government Ordinance no. 64/2001 regarding profit distribution to national enterprises, national companies and companies fully owned or majority State owned, as well as to the autonomous administrations, further amendments and completions, the maximum limit of settlement of Fund related to employees share of profit would have amounted for 6,456 thousand RON.

Other expenses according to the CLA are budgeted with an increase of 455 thousand RON (26%), from 1,785 thousand RON to 2,240 thousand RON and include rights granted to employees in accordance with the Collective Labour Agreement in force.

We hereby mention that in the personnel expenses are provided also **severance payments** amounting to 1,782 thousand RON, for employees laid off due to reduction of the number of employess, by 29 people starting June 2019.

Expenditure on severance payments were set considering the provisions of Art. 129 from CLA. The criterion for granting the number of severance payments to the individually dismissed employees is uninterrupted seniority in the company and each gross basic salary.

Expenditures on Mandate Contract

Personnel costs include also the remunerations due, under mandate contracts, to administrators and directors (general, economic and deputy director general).

Expenses related to the mandate contract are provided in the amount of 3,183 thousand RON, of which:

- 1,648 thousand RON for the Board of Administration;
- 1,535 thousand RON for Executives.

D. Other operating expenses are forecasted in total amount of 79,008 thousand RON, 15.4% under the level of the achievements estimated for 2018 and are made up of:

- **Expenses representing modernization quota** are foreseen in an amount of 29,328 thousand RON, down to 30% (12,500 thousand RON) compared to the 2018 preliminary achievements.

In the substantiation documentation of the updated transport tariff the decrease of the modernization quota level was predicted, from 14% to approximately 7% of the average transport tariff on domestic subsystem (the calculation basis of the modernization quota is represented by the pipeline and combined transport, to which a quota of 10% is being applied), and of 10% from the tariff on the import transport subsystem, correlated with the Investment Program 2019-2020 related to the public domain.

The modernization and development rate is intended to finance the modernization works of the Crude Oil National Transport System via Pipeline (RO. SNTTC) and to create new assets that will be transferred to the public domain after their full amortization.

- **Expenditures on depreciation of the tangible and intangible assets** are estimated in amount of 45,904 thousand RON, representing 58% of the overall other operating expenses;
- **Other expenses of the period**, in the amount of 3,776 thousand RON are: legal fees, fees at the Trade Register Office, National Commission of Securities (RO. CNVM), fees for environmental permits and water management, net value of impairments and depreciations, etc.

II.2 The Financial expenses are foreseen at the level of 90 thousand RON and include interest expenses and unfavourable differences of currency related to foreign currency payments and reevaluation of the balance for cash accounts in foreign currency.

III. GROSS PROFIT

The company has budgeted the end of 2019 financial year with a gross profit amounting to 52,824 thousand RON, registering a decrease by 24.8% compared to the achievements predicted for 2018.

IV. CORPORATE TAX

The expenses related to the corporate tax, amounting for 9,021 thousand RON have been determined pursuant to the provisions of Law no. 227/2015 regarding the Fiscal Code.

The estimation of the non-deductible fiscal expenses and the tax-free income to the calculation of the corporate tax on 2019 was based on the estimated achievements of 2018 and on the expenses included in the draft budget for 2019.

The non-deductible fiscal expenses are being budgeted in amount of 13,062 thousand RON and represent expenses with impairments and provisions, including the provision related to the employees share of profit for 2018 and other non-deductible expenses.

Also, when calculating the corporate tax for 2019 revenues similar elements are included (depreciation related to differences out of reevaluation of fixed assets made after January 1st, 2004.

Corporate tax calculation

	Elements	Amount (thousand RON)
1	Accounting gross profit	52,824
2	Elements similar to revenues (revaluation taxable reserves)	5,312
3	Tax-free revenues	9,258
4	Non deductible expenses, o/w:	13,062
	- <i>expenditures on impairments and provisions</i>	12,177
	- <i>sponsorship expenses</i>	600
	- <i>other non-deductible expenses</i>	285
5	Taxable profit (1+2-3+4)	61,940
6	Corporate Tax 16% (5x16%)	9,910
7	Sponsorship	600
8	Corporate tax after the deduction of sponsorship expenses (6-4)	9,310
9	Deferred Corporate tax	1,454
10	Revenues from deferred tax	1,788

11	Specific tax	45
12	Corporate tax (8+9-10+11)	9,021

We mention that the company did not foresee the establishment of legal reserves as the recorded legal reserves are in the deductibility limit prescribed by art. 22 paragraph (1) of the Tax Code, respectively 20% of the share capital subscribed and paid-up.

V. ACCOUNTING PROFIT REMAINING AFTER THE DEDUCTION OF THE CORPORATE TAX

Net profit forecasted in the Budget for 2019, reunited with employee share of profit fund, amounting to 48,681 is proposed for distribution in accordance with the provisions of GO no.64/2001 on the allocation of profits to national enterprises, national companies and commercial companies fully state owned or majority state owned, according to the dividend policy of the Board of Administration, as follows:

- a. 85% dividends due to shareholders;
- b. 10% employees share of profit fund;
- c. 5% own financing sources.

VI. ECONOMIC-FINANCIAL INDICATORS

1. LIQUIDITY INDICATORS	Predicted/ Achieved 2018	Income and Expenditure Budget-2019
a) Current liquidity indicator (Current assets/Current Debts)	4.31	3.84
b) Indicator of the immediate liquidity (Current assets – stocks)/Current debts	4.20	3.72
2 PROFITABILITY INDICATORS	Preliminary/ Achieved 2018	Income and Expenditure Budget-2019
a) Return on capital engaged (Profit before interest and corporate tax payment/Engaged capital)	10.39%	7.92%
Gross Profit Margin (Gross Profit/Operating Revenues x 100)	16.80%	12.67%
3 Performance key indicator	Target values	Income and Expenditure Budget-2019
a) Adjusted EBITDA Operating profit – Write-back to revenues of the reserve from the modernization quota + Expenses regarding constitution of modernization quota + Value adjustments on tangible and intangible assets, including revaluation differences)	90,316 thousand RON	94,355 thousand RON
b) Decrease of operating expenses	82.60%	82.50%

(Operating expenses – Value adjustments of assets and provisions impairments)/ Turnover

c) **Labor Productivity**

	258 thousand	258 thousand
Operating income/Average number of personnel	RON/pers.	RON/pers.
d) Outstanding payments	0	0

The financial performance indicators, calculated using data from the Budget for 2019 provide for the achievement of the targets approved for administrators by the General Meeting of Shareholders, respectively for directors, approved by the Board of Administration.

VII-VIII. ELIGIBLE INCOME AND EXPENSES OUT OF EUROPEAN FUNDS

For 2019, the company has not foreseen operating activities financed of European funds.

IX. INVESTMENT FINANCING SOURCES

The investment projects forecasted for 2019 are in amount of 86,000 thousand RON, according to Annex 4 to the Income and Expenditure Budget and have as financing sources the modernization quota (70,240 thousand RON), own sources (13,974 thousand RON) and borrowed sources (1,786 thousand RON).

X. INVESTMENT EXPENSES

CONPET SA investment program for 2019 was based on the priorities established by the minimal investment program, annex to the concession contract.

The main investment objectives included in the 2019 Investment Program are detailed below:

Crt. no.	Name of the Objective	2019 Program			
		Total, out of which:	Modernization quota	Own sources	Bank credit/leasing
	Grand total, out of which:	86,000	70,240	13,974	1,786
I	PUBLIC DOMAIN	70,285	70,240	45	0
	Investment objectives, out of which:	70,106	70,061	45	0
1	Pipelines rehabilitation, out of which:	28,688	28,688	0	0
1.1	Pipelines replacement	22,167	22,167	0	0
1.2	Safe disposals	6,521	6,521	0	0

Crt. no.	Name of the Objective	2019 Program			
		Total, out of which:	Modernization quota	Own sources	Bank credit/leasing
2	Replacement of the connection lines Danube crossing C1-C2 and C3-C4 Borcea arm, in total length of 24km	707	707		0
3	Modernization and monitoring of the cathodic protection system related to the National Transport System (Ro. SNT) domestic and import	2,800	2,800		
4	Modernization and monitoring of the cathodic protection system related to SNT domestic and import - stage 2	300	300		
5	Pilot system for detecting and locating leaks of product from the major pipelines system of crude oil transport Poiana Lacului - Siliste - Ploiesti	1,000	1,000		
6	Technical support and consultancy	50	50		
7	Tanks	9,490	9,490	0	0
8	Energy works	7,990	7,990	0	0
9	Telecommunication works	7,500	7,500	0	0
10	Pumping systems modernization	600	600	0	0
11	Stations/ramp modernization	2,630	2,630	0	0
12	Buildings and station fencing	1,075	1,030	45	0
13	Automation works and SCADA	4,600	4,600	0	0
14	Other works	2,571	2,571	0	0
15	Projects, Studies, Technical Expertise	105	105	0	0

Crt. no.	Name of the Objective	2019 Program			
		Total, out of which:	Modernization quota	Own sources	Bank credit/leasing
	Independent facilities and equipment	179	179		
II	OPERATING DOMAIN	15,715	0	13,929	1,786
	INVESTMENT OBJECTIVES, o/w:	12,515	0	12,515	0
1	Pipelines rehabilitation	1,530	0	1,530	0
2	Buildings and stations fencing	5,204	0	5,204	0
3	LDH and tank cars	2,690	0	2,690	0
4	Energy works	270	0	270	0
5	Other works	2,421	0	2,421	0
6	Intangible investments	400		400	
	Independent facilities and equipment	3,200		1,414	1,786

In Annex no.4, the Investment Program, endowments and financing sources are being presented in the investment projects, endowments and independent equipment.

XI. SUBSTANTIATION DATA

Outstanding Payments and Debts

In 2019 there are no outstanding payments estimated in the draft budget.

The level of outstanding liabilities estimated in the draft of the Income and Expenditure Budget for 2019 reached the amount of 288 thousand RON, 4% lower than the ones estimated 2018 Budget.

BUDGETARY ESTIMATES FOR THE PERIOD 2020 - 2021

At the sizing of the budgetary estimates provided in the model-Annex no. 1 of the Income and Expenditure Budget for 2020-2021, the following aspects were considered:

- The macroeconomic data provided by the National Prognosis Commission regarding the inflation forecasted for 2020 and 2021;
- The substantiation of the Income and Expenditure Budget draft for 2019;
- The provisions of the Collective Labour Agreement of CONPET SA in force;
- The legislation and the applicable regulations in force;
- The quantities of crude oil, rich gas and condensate communicated by the main clients holding 99% of the turnover.

CLIENT	M.U.	YEAR 2020	YEAR 2021
OMV PETROM, o/w:	tons	3,752,255	3,983,393
Domestic Subsystem	tons	3,302,255	3,533,393
Import Subsystem	tons	450,000	450,000
PETROTEL LUKOIL	tons	2,682,444	2,230,000
ROMPETROL-PETROMIDIA	tons	120,000	80,000
Total	tons	6,554,699	6,293,393

The gross profit estimated for the year 2020 reaches 44,560 thousand RON, respectively 48,286 thousand RON for the year 2021.

The net profit forecasted in the Income and Expenditure Budget related to 2020-2021, reunited with the employees share of profit fund (2020: 49,524 thousand RON, 2021: 53,665 thousand RON) is proposed for distribution in accordance with the provisions of GO no.64/2001 regarding profit distribution to national enterprise, national companies and fully State owned or majority State owned companies, according to the dividend policy of the Board of Administration, as follows:

- 85% dividends due to shareholders;
- 10 % employee share of profit fund;
- 5% own financing sources.

The 2019 draft Income and Expenditure Budget has been subject to the financial management control, according to Government Decision no.1151/2012 for the approval of the Methodological norms regarding the way of organizing and exercising of the financial management control.

Pursuant to Art.6 Para. 1[^]1 “The economic operators provided at Art.4 Para (1) letter d), whose shares are being admitted for trading on the regulated market, and the branches thereof, present, as per the law of income and expenditure budget accompanied by the substantiation annexes, prepared pursuant to the legal provisions in force, General meeting of shareholders, in view of approval thereof after the prior consultation with the union organizations”.

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

In accordance with Order no. 3145 of December 5th, 2017 approving the format and structure of the Revenues and Expenses Budget, as well as its substantiation Annexes, the level of economic - financial indicators provided in the Annexes 1-5 can be changed with the approval of the Board of Administration, except for those indicators for whose rectification are applicable the provisions Art. 10 para. (2) of Government Ordinance no. 26/2013.

Considering the above, we hereby submit for analysis and endorsement, to the Board of Administration, the Income and Expenditure Budget for the year 2019 and estimates for the period 2020-2021 (Annex no.1), accompanied by the substantiation Annexes no.2,3,4 and 5 and

Based on Art.15 Para (3), letter g) of the Articles of Incorporation of CONPET, we hereby recommend for approval of the Ordinary General Meeting of Shareholders the Income and Expenditure Budget for the year 2019 and the estimates for the period 2020-2021, accompanied by the substantiation annexes.

Director General

PhD Eng. CHIȘ Timur-Vasile

Economic Director

Econ. TOADER Sanda

Head of Controlling and Budgeting Office

Sîrbu Ștefan

**Head of Management and Budget
Reporting Office**

Econ. Rodica Burlacu

Endorsed,

Legal Unit

Legal advisor Cornel Bănică