

APPROVED by the Board of Administration

by Decision no. _____ from _____

SUBSTANTIATION NOTE

regarding the approval, by the General Meeting of Shareholders
of 2019 Income and Expenditure Budget of CONPET S.A.

The Income and Expenditure Budget for the year 2019 has been approved by the OGMS in the meeting dated April 09, 2019, as per the provisions of the Government Ordinance no.26/2013.

The Substantiation of the draft Revenues and Expenditure Budget rectified is based on the legislation regarding:

- strengthening financial discipline and settlement of the salary expenses in 2019 budget at the level of certain economic operators where the state or administrative-territorial units are unique or majority shareholders or hold directly or indirectly a majority participation (GD no. 26/2013);
- layout and structure of the Revenues and Expenditure Budget, as well as the substantiation annexes thereof (OMPF no. 3145/2017).
- the application, by the companies whose values are admitted for trading on a regulated market, of the International Standards of Financial Reporting (Order of the Ministry of the Public Finances no. 2844/2016);

The correction of the income and expenditure budget approved for the year 2019 is being generated, mainly, by the reduction of the number of posts, having as consequence the dismissal of a number of 29 employees, occupants of the dismissed posts for reasons not related to themselves and also by awards of wage increases.

The proposal to amend the 2019 Revenues and Expenditure Budget falls within the provisions of the GD no.26/2013 *regarding the strengthening of financial discipline at the level of certain economic operators where the state or administrative-territorial units are unique or majority shareholders or hold directly or indirectly a majority participation*, at Art. 10, para (2), letter a):

“(2) The economic operators may proceed to the rectification of the revenues and expenditures budgets, as per the provisions of Art. 4, whenever due to reasonably substantiated reasons are

necessary amendments of the level of the following approved economic-financial indicators, as follows:

a) exceeds of the maximum limits of the economic-financial indicators provided at para. (1) letter a), by the observance of the waging policy objectives set pursuant to the annual state budget law and of the provisions of Art. 9, para. (3).

Presentation and substantiation of the indicators included in the draft revenues and expenditure budget amended for the year 2019

In substantiating the draft budget there have been considered the followings:

- analysis of the budget execution performed along the first 6 months of 2019;
- evolution of the main budget indicators related to the first 6 months of 2019;
- provision of the necessary resources to normally perform the activity until the end of 2019;
- the provisions of the Collective Labor Agreement;

I. REVENUES

The total revenues are budgeted by the amount of 4,745 thousand RON, from 419,679 thousand RON to 424,424 thousand RON, in the following structure:

The operating revenues are being augmented by the amount of 2,300 thousand RON, from 416,774 thousand RON to 419,074 thousand RON, representing revenues generated by the maturity of invoking the statute of limitation of the shareholders in what regards the payments of the dividends due and unclaimed until the date of 31.07.2019 related to the financial year 2015.

The financial revenues are provided with an increase of 2,445 thousand RON, from 2,905 thousand RON to 5,350 thousand RON. This increase is being represented by the excess amount from the revenues out of interests associated to bank deposits at June 30, 2019, over the level budgeted for that period.

II. EXPENDITURE

The operating expenses raised by 4,745 thousand RON, from 366,765 thousand RON to 371,510 thousand RON and the amendments in the structure of the operating expenses, by main types of expenses is the following:

a) Personnel expenses

The personnel expenses have grown by 6,872 thousand RON, from 154,578 thousand RON to 161,450 thousand RON, as follows:

Salary related expenses

In Law no.50 of the state budget for the year 2019, at chapter III "Final dispositions", Art.62 are being provided the coordinates of the government on the wage policy for the year 2019.

Considering the fact that, the company has not recorded, in 2018, outstanding payments and has provided for the year 2019 a level of outstanding payments equal to zero, respectively it estimates not to record in 2019 outstanding payments, CONPET S.A. falls within Art.62 Para (1) letter b) of the state budget Law related to 2019, no.50/2019 where are being stipulated the followings:

(1) For the year 2019, the economic operators who are subject to the provisions of Art.9, Para (1), Letter b) and Para (3) of the Government Ordinance no.26/2013 regarding the reinforcement of the financial discipline at the level of the economic operators to which the state or the administrative-territorial units are sole or majority shareholders or hold directly or indirectly a majority stake approved with the completions by Law no.47/2014, ulterior amendments and completions, can forecast, in the income and expenditure budget, the augmentation of the salary expenses as compared to the level planned in the last income and expenditure budget approved as per the legal provisions, as follows:

.....

b) economic operators who have not exceeded the outstanding payments scheduled for the end of 2018 may increase salary related expenses provided in 2019 to not schedule the arrears, and if scheduled to predict their reduction to the planned level of the previous year with at least the growth index of average gross monthly employed recalculated in accordance with paragraph (2).”

Therefore, not recording outstanding payments by the end of 2018 and scheduled in the budget of the year 2019, CONPET S.A. can budget the award of salary augmentations, as the budget law, in this case, does not forbid and does not limit the augmentation of the salary-related expenses to the operators not recording outstanding payments.

We hereby mention that, at 30.06.2019 the company has not recorded outstanding payments.

Within the negotiation of the Collective Labor Agreement applicable at 01.01.2019 it was agreed upon the awards of salary outputs starting 01.10.2019 according to the financial results registered in the first 6 months 2019, namely income increases and/or expenses savings related to the budget.

As this condition has been fulfilled, there have been analyzed the possibilities related to awards of the salary outputs, in view of stimulating the employees and for the stabilization of the specialized personnel.

Salary-related expenses grew by 4,915 thousand RON, from 141,961 thousand RON to 146,876 thousand RON, as follows:

- 4,770 thousand RON stands for the amount by which are being augmented the salaries expenses, in order to ensure: the increase of the basic salary by 300 RON gross/employee as of the date of 01.10.2019 and the award of a premium in net quantum of 1000 RON/employee on the occasion of the Oilman Day.
- 145 thousand RON stand for bonuses granted as per the collective Labor Agreement, such as:
 - ✓ 119 thousand RON stand for the amount by which are being augmented the expenses destined to the transport to and from the workplace. The increase of these expenses, as compared to the amount initially budgeted is due the increase of the number of employees benefiting, on monthly basis, by the reimbursement of the expenses with the transport to and from the workplace as compared to the previous year, as well as result of the increase, over estimations, of the fuels price in the first half of the current year, as compared to the inflation rate considered at the initial budgeting.
 - ✓ 26 thousand RON stand for expenses destined to the settlement of the cost payed by the employees for the crèche/kindergarten. The increase of this type of

expenditure is generated by the increase of the monthly number of employees benefiting from this salary advantage.

The additional *expenditure representing gift vouchers in amount of 81 thousand RON*. The increase of such type of expenditure is being performed at the expense of the reduction of other expenditure - social expenditure type.

Other personnel expenses, representing severance payments related to personnel lay-off have increased by the amount of 1,800 thousand RON, from 1,782 thousand RON to 3,582 thousand RON. The amount of 1,800 RON, by which is being supplemented the value of the initial budget will be used for the payment of severance pays as per the Collective Labor Agreement

Considerations regarding the proposal to complement the expenditure related to severance payments

By the Administration Plan for the period 2018-2022, the Board of Administration of CONPET and the directors with mandate contract have assumed a series of strategic objectives targeting the development and effectiveness of the activity, as well as the shares that the management has to undergo in view of achieving each objective.

One of the objectives assumed by the Administration Plan is the reshape and ongoing adaptation of the human resources in correlation with the technical economic requirements and realities of the company.

In this respect, following the analysis of the number of employees and the real needs for the performance of the technical activities, economic and administrative of the company, it has been decided that, in addition to the number of eliminated posts initially forecasted in the budget, on Semester I 2019, to be eliminated other 29 posts in Quarter IV 2019. The estimated amount that has to be distributed for the performance of severance payments, as it is being provided in the Collective Labor Contract, reaches 1,800 thousand RON.

The lay-off of a number of 29 employees leads to amendments in the structure of the income and expenditure budget approved for 2019, as follows:

- *The increase of the severance payments related to the personnel lay-offs* by the amount of 1,800 thousand RON and, implicitly, the augmentation of the personnel expenses.
- The reduction of the physical number at December 31, 2019 with 29 persons, from 1,628 at 1,599 persons;
- The reduction of the average number of personnel at December 31, 2019 with 1 person, from 1,613 to 1,612 persons.

The expenses related to the mandate contract have been augmented by the amount of 9 thousand RON, from 3,183 RON to 3,192 thousand RON and represent the difference resulting from the calculation of the variable component due to the Economic Director with mandate contract for the year 2018, as per the OGMS Decision no,3/23.04.2019 on the approval of the general limits of the variable composition of the Directors with mandate contract.

The expenses with contributions due by the employer have increased by the amount of 148 thousand RON, from 7,652 thousand RON to 7,800 thousand RON representing the labor insured contribution 92.25%) related to the increase of the expenditure with severance payments.

b) The goods and services expenses have lowered by 2,155 thousand RON from 100,393 thousand RON to 98,238 thousand RON. The amendments in the structure of goods and services expenses on the main types of expenses reveal the followings:

- The increase of the expenditure with the insurance premiums by the amount of 50 thousand RON for covering the costs with the insurance policy of the directors with mandate contracts;
- The diminution of the repairs and maintenance expenditure by the amount of 800 thousand RON
- The reduction of other expenditure with the services delivered to third parties in amount of 1,347 thousand RON representing demolition works of certain disabled goods;
- The diminution of the material expenses by the amount of 58 thousand RON.

The amendment in the structure of the expenses with sponsorship by diminution of the expenses representing sponsorship for other actions and activities and the increase of expenses in education, social and sports activities.

b) Other operating expenses, are augmented by the amount of 28 thousand RON representing expenses with the severance granted by the company to the owners when using the lands for investment and repairs works;

Changes occurred in substantiation data - Annex 2

The augmentation of the salary-related expenses determines the increase of the monthly average earnings per employee, as follows:

- The monthly average earnings/employee (RON/person) determined based on the salary related expenses is being increased with 258 RON/person (from 6,774 RON/person to 7,032 RON/person);
- The average monthly earnings per employee (RON/person) based on payroll expenses, recalculated as per the annual State the annual State Budget Law) is being increased with 258 RON/person (from 6,677 RON/person to 6,936 RON/person);

The labor productivity is provided with an increase of 0.6% (from 258 thousand RON/person to 260 thousand RON/person), following the increase of the operating expenses and the reduction of the average personnel number, from 1613 to 1612 persons.

The proposed changes do not affect the level of the Gross Result of 52,824 thousand RON, namely the net result in amount of 43,803 thousand RON.

Considering the above, we recommend for analysis and endorsement to the Board of Administration, the amended Revenues and Expenditure Budget related to 2019

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 rectified Revenues and Expenditure Budget related to 2019.

We hereby attach to the substantiation note the following annexes:

- Annex no. 1 The Revenues and Expenditure Budget amended for 2019;

- Annex no. 2 Detailing of the economic-financial indicators stipulated in 2019 amended Budget;
- Annex no. 3 Total Revenues Performance;
- Annex no. 4 Investments Program, Endowments and Financing Sources - 2019 amended;
- Annex no. 5 Measures to improve the gross results and reduce outstanding payments.

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 Subscribed and paid-up share capital 28 569 842.40 RON

Annex no. 1

REVENUES AND EXPENDITURE BUDGET AMENDED FOR THE YEAR 2019

Thousand RON

	INDICATORS	No. row	Approved Current year 2019	Amendment proposals Current year 2019	%	Provisions			%
						YEAR 2020		YEAR 2021	
						7	8	9=7/5 10=8/7	
0	2	3	4	5	6=5/4	7	8	9=7/5 10=8/7	
I.	TOTAL REVENUES (Row1=Row2+Row5+Row6)	1	419.679	424.423	101,1%	439.472	447.255	103,5	101,8
1	Total operating revenues, of which:	2	416.774	419.074	100,6%	438.072	445.855	104,5	101,8
	a). subsidies, as per the legal provisions in force	3							
	b). transfers, as per the legal provisions in force	4							
2	Financial Revenues	5	2.905	5.350	184,2%	1.400	1.400	26,2 %	100,0%
3	Extraordinary income	6							
II	TOTAL EXPENSES (Row7=Row8+Row20+Row21)	7	366.855	371.600	101,3%	385.886	389.233	103,8%	100,9%
1	Operating expenses, out of which:	8	366.765	371.510	101,3%	385.486	388.733	103,8%	100,8%
	A. goods and Services Expenses	9	100.393	98.238	97,9%	101.338	99.115	103,2%	97,8%
	B. taxes, fees and similar levies related expenses	10	32.786	32.786	100,0%	33.537	33.882	102,3%	101,0%
	C. personnel expenses, out of which:	11	154.578	161.450	104,4%	165.066	168.930	102,2%	102,3%
	C0 Salaries and bonuses expenses (Rows 13+14)	12	141.961	146.876	103,5%	152.659	156.445	103,9%	102,5%
	C1 Salaries	13	123.567	128.337	103,9%	134.040	137.448	104,4%	102,5%
	C2 Bonuses	14	18.394	18.539	100,8%	18.619	18.997	100,4%	102,0%
	C3 Other personnel expenses, out of which:	15	1.782	3.582	201,0%	0	0	0,0%	
	Compensation costs related to staff cuts	16	1.782	3.582	201,0%	0	0	0,0%	
	Expenses related to the Contract of Mandate and other management and control bodies, committees and commissions	17	3.183	3.192	100,3%	4.759	4.759	149,1%	100,0%
	C5 Expenses with contributions due by the Employer	18	7.652	7.800	101,9%	7.648	7.726	98,0%	101,0%
D.	Other operating expenses	19	79.008	79.036	100,0%	85.545	86.806	108,2%	101,5%
2	Financial Expenses	20	90	90	100,0%	400	500	444,4%	125,0%
3	Extraordinary expenses	21							
III	GROSS RESULT (profit/loss)	22	52.824	52.824	100,0%	53.586	58.022	101,4	108,3

	INDICATORS	No. row	Approved Current year 2019	Amendment proposals Current year 2019	%	Provisions		%	
						YEAR 2020	YEAR 2021		
IV	INCOME TAX	23	9.021	9.021	100,0%	9.026	9.736	100,1%	107,9%
V	ACCOUNTING PROFIT REMAINING AFTER THE DEDUCTION OF THE INCOME TAX, out of which:	24	43.803	43.803	100,0%	44.560	48.286	101,7%	108,4%
	1 Legal reserves	25							
	2 Other reserves - fiscal incentives provided by Law	26							
	3 Accounting loses from previous years	27							
	4 Allocate own sources of financing for the projects partly financed through foreign loans, as well as for the establishment of the necessary sources to reimburse capital ratio, interests, commissions and other fees	28							
	5 Other allocations stipulated by law	29							
	6 Accounting profit remaining after deducting the amounts from Rows 25, 26, 27, 28, 29	30	43.803	43.803	100,0%	44.560	48.286	101,7%	108,4%
	7 Employees profit sharing schemes within the limit of 10% of the net profit but not more than the monthly average base salary achieved at the level of the economic operator reported in the corresponding year	31	4.878	4.878	100,0%	4.964	5.379	101,7%	108,4%
	8 Minimum 50% transfers to the state or local budget in case of regies autonomes or dividends due to shareholders in case of the societies or state-owned companies, out of which:	32	41.379	41.379	100,0%	42.096	45.615	101,7%	108,4%
	a). - dividends payable to the state budget	33	24.296	24.296	100,0%	24.717	26.783	101,7%	108,4%
	b). - dividends payable to the local budget	33a	0	0		0	0		
	c). - dividends payable to other shareholders	34	17.083	17.083	100,0%	17.379	18.832	101,7%	108,4%
	9 Retained earnings on destinations under Rows 31 - 32 is distributed to other reserves and is its own source of funding	35	2.424	2.424	100,0%	2.464	2.671	101,7%	108,4%
VI	REVENUES FROM EUROPEAN FUNDS	36							
VII	ELIGIBLE EXPENSES FROM EUROPEAN FUNDS, out of which:	37							
	a). material expenses:	38							
	b). salaries expenses	39							
	c). expenses on provision of services	40							
	d). advertising and publicity expenses	41							
	e). Other expenses	42							
VIII	INVESTMENT FINANCING SOURCES, out of wich:	43	86.000	86.000	100,0%	133.500	156.000	155,2%	116,9%
	1 Government grants	44							
	budget allocations related to payments of the commitments from previous years	45							

	INDICATORS	No. row	Approved Current year 2019	Amendment proposals Current year 2019	%	Provisions		%	
						YEAR 2020	YEAR 2021		
IX	INVESTMENT RELATED EXPENSES	46	86.000	86.000	100,0%	133.500	156.000	155,2%	116,9%
X	SUBSTANTIATION DATA	47							
1	Number of employees (estimated at the end of the year	48	1.628	1.599	98,2%	1.599	1.599	100,0%	100,0%
2	Total average number of employees	49	1.613	1.612	99,9%	1.579	1.579	98,0%	100,0%
3	Average monthly earnings per employee (RON/employee) based on payroll expenses *)	50	6.774	7.032	103,8%	7.477	7.666	106,3%	102,5%
4	Average monthly earnings per employee (RON/person) based on payroll expenses, recalculated as per the annual State Budget Law **)	51	6.677	6.935	103,9%	7.477	7.666	107,8%	102,5%
5	Labor productivity in physical units per total average number of employees (kRON/employee) (Row 2/Row 49)	52	258	260	100,6%	277	282	106,7%	101,8%
6	Labor productivity in physical units per total average number of personnel, recalculated as per the annual State Budget Law	53	258	260	100,6%	277	282	106,7%	101,8%
7	Labor productivity in physical units per total average number of personnel, (finished goods quantity/person)	54							
8	Total expenses per each 1000 RON of total revenues (Row 7/Row 1)x1000	55	874	876	100,2%	878	870	100,3%	99,1%
9	Overdue payables	56	0	0		0	0		
10	Overdue receivables	57	288	288	100,0%	276	265	96,0%	95,8%

*) Row 50 = Row 154 from Substantiation Annex no.2

***) Row 51 = Row 155 from Substantiation Annex no.2

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DETAIL OF THE ECONOMIC - FINANCIAL INDICATORS SET OUT IN THE REVENUES AND EXPENDITURES BUDGET AMENDED FOR THE YEAR 2019 AND THEIR QUARTERLY DISTRIBUTION

Annex no. 2

0	1	INDICATORS	No. row	YEAR 2018			Current year 2019		Amendment proposals Current year 2019	%	%	out of which:			
				APPROVED		Achieved year 2018	Approved REB 2019 as per OGMS no.2/09.04 2019	Achieved 30.06.2018				Q I	Q II Cumulated	Q III Cumulated	Q IV Cumulated
				As per OGMS Resolution no.6/14.09.2018	As per BoA Decision no.33/18.12.2018										
				4	4a	5	6	7	8			11	12	13	14
I.		TOTAL REVENUES (Row2+Row22+Row28)	1	414.321	414.321	424.173	419.679	220.389	424.424	100,1%	101,1%	99.555	203.950	314.523	424.424
	1	Total operating revenues (Rows 3+8+9+12+13+14), out of which:	2	412.763	412.763	418.711	416.774	216.285	419.074	100,1%	100,6%	98.730	202.304	312.246	419.074
		a). from sold production (Rows 4+5+6+7), out of which:	3	380.980	380.980	384.986	385.087	200.522	385.087	100,0%	100,0%	91.058	186.937	286.665	385.087
		a1) from the sale of products	4				0					0	0	0	
		a2) from supplied services	5	377.098	377.098	380.579	381.641	196.519	381.641	100,3%	100,0%	90.561	185.742	284.532	381.641
		a3) from royalties and rentals	6	1.403	1.403	1.483	1.434	782	1.434	96,7%	100,0%	359	717	1.076	1.434
		a4) other revenues	7	2.479	2.479	2.924	2.012	3.222	2.012	68,8%	100,0%	138	478	1.057	2.012
		b). from sale of goods	8	100	100	154	170	95	170	110,3%	100,0%	42	85	128	170
		c) from operating subsidies and transfers related to the net turnover (Rows 10+11), out of which:	9	0	0	0	0	0	0			0	0	0	0
		c1) subsidies, as per the legal provisions in force	10	0	0	0	0	0	0			0	0	0	0
		c2) transfers, as per the legal provisions in force	11	0	0	0	0	0	0			0	0	0	0
		d) from the production of fixed assets	12	0	0	434	0	74	0	0,0%		0	0	0	0
		e) revenues associated to production cost in progress	13	585	585	949	-848	-804	-848	-89,3%	100,0%	0	1	-206	-848
		f) Other operating revenues (Rows 15+16+19+20+21), out of which:	14	31.098	31.098	32.187	32.365	16.399	34.664	107,7%	107,1%	7.630	15.281	25.659	34.664
		f1) fines and penalties	15	50	50	97	0	10	0	0,0%		0	0	0	0
		f2) Gain from disposals of assets (Rows 18+19), out of which:	16	53	53	64	1.187	16	1.187	1868,0%	100,0%	0	0	0	1.187
		- tangible assets	17	53	53	64	1.187	16	1.187	1868,0%	100,0%	0	0	0	1.187
		- intangible assets	18												
		f3) investment subsidies	19												
		f4) exploitation of CO2 certificates	20												
		f5) other revenues	21	30.995	30.995	32.027	31.178	16.373	33.478	104,5%	107,4%	7.630	15.281	25.659	33.478