

THE BOARD OF ADMINISTRATION
CHAIRMAN
DAN WEILER
S.s. Illegible

NOTE

on the potential impact in the company profit following the augmentation of the share capital

In compliance with the provisions of Article 12 of Law 137/2002 regarding certain measures for the acceleration of the privatization, of provisions of Article 13, letter f) of Law no. 31/1990 and Article 240 paragraph (3) of Law no. 297/2004 regarding the capital market, based on the Appraisal Report on the settlement of the value of the lands found in CONPET patrimony for the augmentation of the share capital, prepared as per the provisions of Art. 6 (3) of the GD 834/1991, further amendments and completions **and for the carry-on of the measures disposed by the Court of Accounts based on Decision no. 28/2013**, the executive management of CONPET S.A. advanced to the Board of Administration for endorsement and approval, the report no. 10749/13/04.2016 in view of calling the EGMS for the **approval of the augmentation of the share capital by the maximum value of 92,188,158 RON representing contribution in kind(lands) in amount of 54,129,383 RON and in cash in amount of 38,058,775 RON, from the actual value of 28,569,842.40 RON to the maximum value of 120,758,000.40 RON by the issue of a maximum number of 27.935,805 new, nominative, dematerialized shares, at a price of 3.3 RON/share, equal to the nominal value (without the issue premium), out of which:**

- (i) **16,402,843 new shares amounting to 54,129,383 RON representing the contribution in kind of the Romanian State represented by the Ministry of Energy, by the lands in total surface of 554,537.61 sqm covered by the 47**

land ownership certificates for which CONPET obtained land ownership certificates during 2001-2005;

(ii) No more than 11,532,962 new shares in amount of 38,058,775 RON which will be offered, within the exercise of the pre-emption right, for subscription in exchange of the contribution in kind of the Romanian State represented by the Ministry of Energy, to the other shareholders of CONPET, namely the persons acting as shareholder at the registration date, in view of maintaining the participation quotas held in the company CONPET at the Registration Date.

During the meeting dated April 13, 2016, the Board of Administration, pursuant to Decision no .4, endorsed the report no. 10749/13.04.2016 and also decided, that the material exposed by the EGMS be attached a Note which will contain the potential impact in the company's profit that may result following the approval to augment the share capital.

The analysis of the impact triggered by the augmentation of the share capital by the value of the lands set pursuant to the provisions of Article 6 (3) of the GD no. 834/1991 ((re updated by the inflation indexes) and the estimate of the possible results, to date, can be made from the perspective of the financial statements and certain indicators which are presented in the financial statements.

The impact over the financial statements set based on the application of the accounting regulations

The evolution, within the financial statements, of the asset and liability elements related to the lands covered by the augmentation of the share capital is as follows:

- During 2001 - 2005 the company CONPET S.A. has acquired a number of 47 land ownership Certificates for lands with total area of 554,537.61 sqm, lands appraised as per GD 834/1991 and the Criteria of the Ministry of Finances no. 2665/1C/311/1992 regarding the settlement and appraisal of

certain lands held by the State-owned trade companies, to the amount of 26,255,918.33 RON, value which, in compliance with the provisions of Article 6 of GD 834/1991 amended and updated up to 31.12.2004 was included in the company patrimony, **with no amendment of the share capital.**;

- In 2003 was performed the first reevaluation of the lands included in the records up to 31.12.2003 in compliance with the provisions of Article 1 of GD 1553/2003 regarding the revaluation of the tangible assets and settlement of the original cost of the fixed assets. Following the reevaluation, in the financial statements concluded at 31.12.2003 was recorded an unfavorable difference in amount of 7,195,653 RON, amount by which has been decreased the value of the constituted reserves, from 26,255,918 RON to the amount of **19,060,265 RON (book account 106.8 :other reserves"**;
- Later on, starting 2008, every 3 years (2008, 2011, 2013 and 2014) have been made annual reevaluations; as a result thereof, the fair value of these lands registered in the company **patrimony** and reflected in the financial statements prepared **at 31.12.2015 is in amount of 11,858,571 RON.**

Moreover, please note that all four reevaluations of the tangible assets have been made in compliance with the legislation in force, specified here-above, namely by certified appraisers for the determination of the fair value of the lands, considering the inflation, the utility of the good, the state thereof **and the market price**, so as in the financial statements they be presented at the actual value (as per the provisions of the Accounting Law no. 82/1991 and the Orders of the Ministry of Public Finances (OMFP) for the application of the accounting regulations, respectively OMFP 3055/2009 and 1286/2012, as well as the own accounting policies manual.

The differences resulted following the pursuit of the four reevaluations have been recorded either on the account of the revaluation reserves account (account 105), or on the revenues and expenditure accounts, according to the result of the revaluation (appreciation/depreciation). At 31.12.2015, the balance of the revaluation reserve account (account 105) related to these lands is in amount of **2,604,998 RON.**

To conclude, at 31.12.2015, the fair value of the lands recorded in the account 211 "lands" is of **11,858,571 RON**, and in the reserves accounts is registered the amount of **21,665,263 RON** (19,060,265 RON in the account 106.8 "other reserves" and 2,604,998 RON in the account 105 "Revaluation Reserves").

Following the EGMS Resolution no. 2/10.06.2015 by which was approved the initiation of the procedure for augmentation of the share capital of the company "CONPET" S.A. by the value of the 47 lands for which the company holds land ownership certificates, was filed a request to the Trade Register Office attached to Prahova Law Court for the appointment of an expert appraiser, under the conditions of Article 38 and 39 of Law no. 31/1990 regarding the companies, republished, further amendments and completions, to draft the appraisal report of the contribution in kind representing lands.

The appraiser nominated by the Trade Register Office to evaluate the lands that make the object of the 47 Land Ownership Certificates which have been submitted to the company pursuant to the Hand-over Protocol no. 36957/16.10.2015.

The synthesis of the evaluation of the contribution in kind to the share capital of the lands under the conditions of Article 38 and 39 of the Companies Act no. 31/1990, set by the appraiser in the appraisal reports, are as follows:

- The value assessed in view of contributing to the share capital, by the lands covered by the 47 land ownership certificate, in total surface of 554,537.61 sqm for which have been obtained during 2001-2005 land ownership certificates, was set by the appraiser at the amount of 11,816,028 RON,
- The type of the value set was the fair value at 15.10.2015 and was used as a method for the market approach (direct comparison, using as comparable, properties in the area by the application of the necessary corrections);

In order to estimate the impact in the profit and loss account for the year covered by the augmentation of the share capital (2016) have been compared the two values, respectively the value of the lands from the financial statements related to

2015 and the fair value set by the appraiser appointed by the Trade Register Office and the difference is insignificant (42,543 RON).

Given the information exposed above, the augmentation of the share capital by the value of the contribution in kind (lands) set based on the update, by the inflation indices, of the value from the Land Ownership Certificates, trigger a book loss in amount of **32,474,120 RON**.

Consequently, from the point of view of the accounting regulations compliant with the International Standards of Financial Reporting, applicable to the commercial companies where the securities are admitted for trading on a regulated market, approved pursuant to the OMFP order no. 1286/2012, further amendments and completions and the accounting policies, **CONPET S.A. is liable to record and acknowledge in the financial statements, the fixed-assets elements at the fair value determined by the certified appraiser. This value amounts to 11,816,028 RON.**

The method for the acknowledgement of the assets based on the revaluation method regulates the case where, following the revaluation it becomes obvious that the fair value is lower than the book value, the reduction represents a **depreciation loss** which is acknowledged as follows:

- In the revaluation reserves of the asset in the extent where there is a reserve made in this respect (reserve diminution)
- In the profit and loss account (increase in the expenses).

To conclude, the difference in amount of 42,313,355 RON (between the value of the lands, updated based on the inflation indices, in amount of **54,129,383 RON** and **the fair value thereof in amount of 11,816,028 RON** represents a non-tax-deductible depreciation that is to be covered as follows:

- 9,839,235 RON out of capital accounts (difference between 21,665,263 RON reserves and 11,816,028 RON fair value);
- **32,474,120 RON**, depreciation which has to be acknowledged directly in the profit and loss account.

Note that this depreciation was not considered in the calculation of the net profit stipulated in 2016 Revenues and Expenditure Budget amounting to 62,633,435

and the impact would lead to the diminution of the budgeted net profit from 62,633,435 RON to 30,159,315 RON.

To conclude, we estimate that in case of approval of the share capital augmentation by the amount of 54,129,383 RON, the potential impact in the company's net profit could be **the diminution of the estimated profit in the 2016 budget, by 32,474,120 RON, from the amount of 62,633,435 RON up to the amount of 30,159,315 RON.**

Drafted,
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