

Recommended for approval in the EGMS of the company CONPET S.A. dated 29.11.2016

No. 37953/25.10.2016

**Endorsed in the BOA meeting
dated 25.10.2016
CHAIRMAN
Dan Weiler
S.s. Illegible**

NOTE

In the Board of Administration meeting dated 25.10.2016 was endorsed Report no. 37164/20.10.2016, whereupon was requested to recommend for approval in the Extraordinary General Meeting of Shareholders the expiry of Art. 2 of EGMS Resolution no. 3/17.12.2015 and use of the former registered offices of CONPET S.A., located in Ploiesti, 7 Independentei Blvd., Prahova county, as office premises for the company.

The asset, property of CONPET S.A., located in 7 Independentei Blvd., Ploiesti (former registered office of Conpet), is *available*, as of March 2009, when with the Resolution of the Extraordinary General Meeting of Shareholders n. 1/04/03/2009 one approved the transfer of the registered office and the tax residence of Conpet S.A. to the current address in Ploiesti Municipality, 1-3 Anul 1848 St., Prahova county.

The real estate is composed of buildings with the footprint area of 632 sq.m. (spread area 1316 sq.m.) and land with the area of 1144 sq.m. (1,143 sq.m. from measurements). The main building was built around the year 1940, in B+G+F regime, with destination offices. Access to the location is done on two streets - Golesti street and Independentei Blvd.

The buildings and the land are under the property of the company and are registered in the Land Register no. 69212 of the Cadastre and Real Estate Publicity Office Prahova - Cadastre and Real Estate Publicity Bureau Ploiesti.

Not being used following the transfer of personnel to the new office (2009), the real estate was proposed for capitalization through sale, and the Board of Administration endorsed the sale in the meeting dated 30.01.2013 (Decision no. 2/30.01.2013).

For the appropriate fulfilment of the Decision of the Board of Administration, in order for submission for approval by EGMS, the actions provided under the "*Working methodology for the organization and performance of the sale by open outcry auction of the assets belonging to the economic agents, where the Romanian State is sole or majority shareholder*" issued by the Department of Energy - General Directorate for Privatisation and Administration of State Ownership in Energy, required for the approval of the sale of the asset by the Extraordinary General Meeting of Shareholders of CONPET S.A..

By Resolution no. 3 of 17.12.2015, the Extraordinary General Meeting of Shareholders of CONPET S.A. approved the sale of the asset and gave the company's management a mandate to sell the real estate, which, among others, includes the following limits:

"-the start price of the outcry auction, according to the rule of competitive auction, and a rising price respectively, considering the auction step, the asset "buildings and land with the area of 1144 sq.m., located in Ploiesti Municipality, 7 Independentei Blvd., Prahova County", complies with Decision no. 14/ 11.11.2015 of the Board of Administration, of lei 3,170,616 VAT excluded, equivalent of EUR 718,000 VAT excluded (at the NBR exchange rate of 14.09.2015);

- auction step: 5% of the auction start price, i.e. RON 158,531 VAT excluded;

- the minimum sale price shall be equal to the auction's start price, i.e. RON 3,170,616 VAT excluded;"

Following the approval of the sale by the GMS, the executive management performed all publicity formalities laid down by the law and held 3 successive auctions, first on 16.03.2016, and the following (with extensive publicity) on 20.04.2016 and 23.06.2016, where no buyer took part.

A new attempt of capitalization through sale at the auction at a lowered price to encourage potential buyers may be held in compliance with the working methodology for the organization and performance of the sale by open outcry auction of the assets belonging to the economic agents, that the Romanian State is sole or majority shareholder of, issued by the Department of Energy - General Directorate for Privatisation and Administration of State Ownership in Energy, i.e. by redoing the initial approving procedure by the General Meeting of Shareholders.

To that effect, the executive management presented in the meeting of the Board of Administration dated 05.07.2016, an information regarding the state of performance of the E.G.M.S. Resolution on the sale of the asset, and the Board of Administration requested that concrete proposals are submitted for the capitalization and/or use of the asset.

In the meeting of the Board of Administration dated 30.09.2016, the executive management submitted an analysis for the identification of an alternative that would lead to the best use/capitalization of the real estate.

The analysis performed took into consideration the general condition of the buildings (physical wear, functional depreciations), but also the need to take measures to stop their deterioration, and the result is presented as follows:

I. Use within the company's own activity, as a result of occurrence of new elements after taking the decision to sell

Currently, the project for the performance of modernization works on the registered office in Rezervoarelor Street is in progress (at this date being approved the technical project of modernization). The building works for such buildings shall be carried out in several stages, and in order to facilitate their performance the premises need to be vacated and a number of 90 persons should be relocated in other identified office premises.

In September 2013, as a result of the control made by the Inspectorate for Emergency Situations and the measure disposed by it, the need to identify a solution to ensure compliance with legal dispositions arose. On 04.09.2013, ISU Ploiesti found that the number of personnel approved in the documentation required for obtaining the fire safety permit was exceeded by 50 persons and laid down as a measure to be taken in order to meet the legal conditions: widening the interior stairs and the headquarters located in 1-3 Anul 1848 St., in order to ensure the possibility that, in case of fire, a larger number of people may go down the stairs. In the registered office in Ploiesti, 1-3 Anul 1848 St., a number of 215 employees perform their activity against 165 employees provided in the permitting documentation. The fulfilment of the measure laid down is difficult to perform and, consequently, the relocation to a different building of a number of 50 persons is required.

Considering the situation presented above, which determines a requirement of office premises for a number of 140 persons (90 employees at the office located in Rezervoarelor St. and 50 employees from the headquarters), an assessment of the technical state of the real estate located in 7 Independentei Blvd. was performed, establishing the works that need to be done in order to bring this real estate in a functional state but also to stop the physical deterioration.

The value of the rehabilitation works is estimated at the amount of RON 1,391,000 (Euro 315,000).

II. Continuing the procedure of capitalization through auction

Considering that at the auctions held no buyer came forth, it results that the offer is not attractive for potential buyers, and the reason for the lack of buying interest could be the physical state of the building generating additional costs for the buyer to bring the buildings in a functional state. This situation entails a reduction of the start price in the auction because the current price exceeds the interest of potential buyers.

In this context, in order to organize a new sale auctions, the start price at the auction should be lowered, and this may only be done by the procedure laid down by the "*Working methodology for the organization and performance of the sale by open outcry auction of the assets belonging to the economic agents, where the Romanian State is sole or majority shareholder*" issued by the Department of Energy - General Directorate for Privatisation and Administration of State Ownership in Energy, in order to submit for approval the reduction of the price by the Extraordinary General Meeting of Shareholders.

We mention that the alternative of continuing the capitalization through sale at the auction, at a reduced price with more than 4% in relation to the current price, leads to the capitalization of the asset under the value left unamortized of RON 3,031,187, and this has a negative impact in the profit and loss account (loss of sale).

In this regard, considering that organizing a new capitalization procedure through sale in auction entails the reduction of the sale price, we consider that the general meeting of shareholders may review Decision no. 3 of 17/12/2015, approving the sale of the asset, as the reduction of the start price in the auction with more than 4% would lead to the capitalization of the asset under the net accounting value of lei 3,031,187, which would have a negative impact in the profit and loss account.

Consequently, given the analysis presented above for both variants of use/sale and also the need to stop the deterioration of the physical and technical state of the real estate, the Board of Administration considers appropriate that the real estate located in Ploiesti, 7 Independentei Blvd., Prahova County, be rehabilitated and used for the company's activity as office premises.

Considering the foregoing, the Board of Administration recommends to the Extraordinary General Meeting of Shareholders to approve the expiry of Art. 2 of EGMS Decision no. 3/17.12.2015 and the use of the former registered office of CONPET S.A., located in Ploiesti, 7 Independentei Blvd., Prahova, as office premises after the performance of the repair works to bring the buildings in a functional state.

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