

Subject for endorsement in the meeting of the Board of Administration from \_\_\_\_\_ and for approval in the Extraordinary General Meeting of the Shareholders from \_\_\_\_\_

**CONPET S.A.**  
**FINANCIAL DIRECTION**  
Assets Management Department  
No. 31724/3 August 2017

ENDORSED,  
Director General,  
Eng. Liviu Ilași  
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### **SUBSTANTIATION NOTE**

Regarding the proposal of CONPET Company for the approval of the sale, through an open outcry auction, of Strejnic sports complex assets, made of buildings with a gross building area of 1987.3 m<sup>2</sup>, located in Strejnicu village, Târgșoru Vechi commune, Prahova County

The transport of oil, gasoline and condensate through the national transport system by pipelines and by railway represents the basic activity of CONPET Company.

The national oil transport system is in the public property of the state and it is of strategic importance, CONPET having the right to operate based on the oil agreement and in accordance with the provisions of Petroleum Law no. 238/7 June 2004.

In the value chain of petroleum operations, the activity of CONPET as transporter occupies the central role between extraction/importer and refining.

Within the company, a proactive management is promoted, based on objectives and strategies, which provides: safe exploitation of the national transport system through pipelines, technical capacity necessary to provide quality services for customers. Increase of the economic efficiency, organisational structure of the staff adapted to legal requirements, but also to the operational needs of the system.

In order to reach the established objectives, the main directions followed by our company are essentially aiming: the modernisation of the transport system and technological equipment, improvement of the internal managerial system, reduction of administrative and production costs, implementation of programs which provide compliance with the environmental requirements etc.

Permanently, the company management monitors the financial performance and takes measures which lead to the increase of the performed activities.

Currently, the programs for the increase of transport activity are continued, such as: projects of infrastructure modernisation, implementation of the energy management system, decommission of inactive production facilities, reduction of expenses etc.

In parallel with the implementation of measures to reduce the costs, in order to reduce the general administration expenses and the fixed expenses of secondary activities which are registering losses, the aim is to implement programs for the efficiency improvement of some assets, which mainly include: identification of the auxiliary activities which are not profitable, setting up a plan to support the assets which can be turned into profitable ones, selling of the auxiliary assets which are not part of the basic activity of the company and cannot be included in a development program etc.

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One of the non-profitable secondary activities which unfavourably influences the profit and loss account of the company is the activity of Voința and Strejnic sports complexes. Starting with 2012, following the measures applied by the company, the costs have been reduced for Strejnic complex from 1,624,547 lei in 2012 to 412,000 lei in 2016 and for Voința complex the costs reduction was from 712,416 lei in 2012 to 374,667 lei in 2016.

CONPET has in its patrimony the buildings associated with the two sports facilities since 2000 and the lands on which they are located belong to the local administrations, Ploiești City Hall - Voința complex and Târgșoru Vechi City Hall - Strejnic complex.

Within the sports complexes, CONPET Sports Club carries out sports activities, through the bowling, chess, karate and tennis sections, as well as CONPET employees, in their free time, facility awarded through the Collective Employment Contract. Also, facilities within the complexes (football field, tennis field) were occasionally rented on short term (day, hour) to some local sports clubs and individuals.

### **Description of the financial status of Strejnic sports complex, property proposed for sale**

As above mentioned, under the measures taken to reduce costs, the financial results registered both in 2016, as well as in the first 6 months of 2017 are losses and most of the expenses were registered for maintenance and keeping the operational status, but also to avoid deterioration.

The status of revenues and expenses registered in 2016 and in the first 6 months of 2017 for Strejnic sports complex is the following:

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<b>STREJNIC SPORTS COMPLEX REVENUES/EXPENSES</b>	<b>2016</b>	<b>2016 monthly average</b>	<b>%</b>	<b>2017 H1</b>	<b>2017 H1 monthly average</b>	<b>%</b>
<b>Total income</b>	<b>28,817</b>	<b>2,401</b>		<b>8,058</b>	<b>1,343</b>	
<b>Total expenses, out of which:</b>	<b>412,550</b>	<b>34,379</b>	<b>100%</b>	<b>219,538</b>	<b>36,590</b>	<b>100%</b>
<b>Material expenses</b>	<b>15,882</b>	1,323	3,85%	<b>12,771</b>	2,129	5.82%
<b>power, gas and water expenses</b>	<b>42,060</b>	3,505	10,20%	<b>23,833</b>	2,972	10.86%
<b>Personnel expenses</b>	<b>100,812</b>	8,401	24,44%	<b>62,159</b>	10,360	28.31%
<b>Depreciation expenses</b>	<b>118,262</b>	9,855	28,67%	<b>58,095</b>	9,683	26.46%
<b>Repairs expenses</b>	<b>2,672</b>	223	0,65%	<b>1,374</b>	229	0.63%
<b>Security expenses</b>	<b>72,922</b>	6,077	17,68%	<b>36,936</b>	6,156	16.82%
<b>Postal and telecommunication expenses</b>	<b>4,151</b>	346	1,01%	<b>2,293</b>	382	1.04%
<b>Environmental protection expenses</b>	<b>665</b>	55	0,16%		0	0.00%
<b>Taxes and duties expenses</b>	<b>46,314</b>	3,860	11,23%	<b>19,712</b>	3,285	8.98%
<b>Sanitation, external performance, insurance, social expenses</b>	<b>8,810</b>	734	2,14%	<b>2,365</b>	394	1.08%
<b>RESULT (REVENUES - EXPENSES)</b>	<b>-383,733</b>	<b>-31,978</b>		<b>-211,480</b>	<b>-35,247</b>	
<b>No. of employees on 31 December 2016</b>	<b>2</b>			<b>2</b>		

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In 2016, Strejnic Sports Complex registered a loss of 383,733 lei, the total expenses amounting 412,550 lei and the income of 28,817 is coming from the rental of the sports complex field.

The main weight in expenses is represented by the fixed assets depreciation (29%), staff expenses (25%), objective security expenses (18%), power expenses (11%), tax on buildings (11%).

During 1 January - 30 June 2017, Strejnic Sports Complex registered a loss of 211,480 lei, the total expenses amounting 219,538 lei and the income of 8,058 is coming from the rental of the sports complex field.

The expenses weight is represented by staff expenses (28%), fixed assets depreciation (26%), followed by objective security expenses (17%), power expenses (11%), tax on buildings (9%), the difference being represented by material expenses and various performed services.

From the analysis arises the fact that the income of Strejnic sports complex does not cover the fixed costs, significant losses being recorded.

### **Description of the constructions within Strejnic sports complex**

Strejnic sports complex is made of buildings with sports facilities and stands with dome. The existing buildings are in the patrimony of the company since 2000 (annex buildings and stands). In 2010, the buildings were modernised.

The land on which the buildings are located and the sports facilities are laid out (2 football fields and one tennis field) is in the use of CONPET since 1997, being leased by Strejnicu City Hall under the lease contract no. 7020.

The leased land area is 26,940 m<sup>2</sup>, the lease price being integrally paid in 1997 and in 2006.

The stock value of the buildings, on 30 June 2017 is 2,892,783 lei and the remaining net book value is 2,554,103 lei.

The area where the sports complex real estate is located is Strejnicu village, Târgșoru Vechi commune, Prahova County. At approximately 5 km from the city of Ploiești, to the south-west.

The constructions and sports facilities which make the sports complex are: football and tennis fields, annex buildings for athletes, stands and dome, as well as other fixed assets.

The buildings are of metallic structure, pillars, beams and covers, they are made of protocol rooms, hallway, bathrooms, furnishings and cleaning room. The areas are made of metallic structure and enclosures of panels with three layers of sheet-metal and heat insulation, enclosures of curtain walls and glazed windows. The build area is 734 m<sup>2</sup> and the gross building area of 1987.3 m<sup>2</sup>. Other facilities: heating system, roads, enclosures and exterior lighting.

The buildings and facilities of the sports complex can be used exclusively for sports activities.

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From an economical point of view, the real estate market of sports properties, as well as of the other real estates is strongly influenced by the general economic status of the area where they are located and the vicinities, but especially by the general economic status of the locality.

Compared with the period before 2014, the sports facilities market in the area is increasing due to the development of some constructions and establishments designed for sports, such as: modern sports facilities, mini football fields, tennis fields, creating competition.

If CONPET chose the renting version, the rent should cover at least the estimated costs of approximately 7,000 €/month, but the market analysis made by us, but also by the valuer authorised by AVENAR [*the National Association of Authorised Romanian Valuers*], shows that for similar sports complexes the rent is much below 7,000 €/month.

All above mentioned aspects determined the company management to propose to the General Meeting of the Shareholders to sell, by auction, the buildings associated with Strejnic sports complex.

For this purpose, the services of the appraiser authorised by ANEVAR – S.C. Appraisals & Consulting Division Bucharest, were acquired in order to evaluate the buildings. In the drafted Valuation Report, the appraiser mentioned that the valuation was performed by two methods and the results are the followings:

Valuation method	Value established by the appraiser, VAT excluded
Sale – market value approached by the costs method	469,247 € 2,152,481 lei
Rental – market value approached by the income method	Rent: 2,440 €/month 11,191 lei/month 29,280 €/year 134,302 lei/year

The method suggested by the appraiser is the market value, namely 2,152,481 lei.

Considering that the book value left at 30 June 2017 is 2,554,103 lei, 556,837 €, at the exchange rate used by the appraiser of 4.5868 lei/€ and the value suggested by the appraiser is much below the remained book value, we suggest that the starting price for the auction is the book value, namely 2,554,103 lei, 556,837 €.

We mention that during 2017, the company received requests with an intention to buy or rent.

**In conclusion**, from the above mentioned information, the following arise:

- The sports complex is available and with no economic use for the basic activity of the company, permanently needing maintenance and repair expenses.
- The registered fixed expenses are approximately 7,000 €/month.

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- The rental option (2,440 €/month) does not cover the monthly costs for this asset.
- The change of the use, other than for sports, is not financially feasible.

The Composition of the Auction Committee shall be made in compliance with GD 577/2002 regarding the approval of the methodological norms for the application of EGO no. 88/1997 regarding the privatization of the trade companies, further amendments and additions and of Law no. 137/2002 regarding certain measures regarding the speeding up of the privatization subsequent to the approval of this Substantiation Note.

The presentation file regarding the sale of the sale, through an open outcry auction, of Strejnic sports complex assets, made of buildings with a gross building area of 1987.3 m<sup>2</sup>, located in Strejnicu village, Târgșoru Vechi commune, Prahova County, which includes:

Section A: Presentation of the economic operator CONPET S.A. and of the asset submitted to sale

Section B: Offer to sale the asset

Section C: The documents for the participation to the open outcry auction in view of buying the asset

ss presented in the annex to the Substantiation Note.

**Considering the above mentioned, we hereby request the endorsement by the Board of Administration, respectively the approval by the Extraordinary General Meeting of Shareholders of the sale, by public outcry auction of the asset Strejnic sports complex, the starting price for the auction being 2,554,103 lei (556,837 €), remaining book value on 30 June 2017, increasing by a bid increment representing 5% of the starting price.**

ECONOMIC DIRECTOR

Econ. Sanda Toader

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Head of Legal Department

Legal Advisor Cornel Bănică

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Head of Assets Management Department

Eng. Gabriela Hîlcu

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**Annexes: 1. Appraisal Report of the asset: Buildings and other fixed assets located in Strejnicu village, Târgșoru Vechi commune, Prahova County (sports base);**

**2. Presentation Folder concerning the sale of the Strejnic sports base, consisting of 1987.3 m<sup>2</sup> buildings located in Strejnic village, Târgșoru Vechi commune, Prahova County, by open outcry auction.**