



# Fondul Proprietatea – Performance Report

1 January – 31 December 2022



# Performance report

# Content of the Performance Report – in accordance with the IMA in force

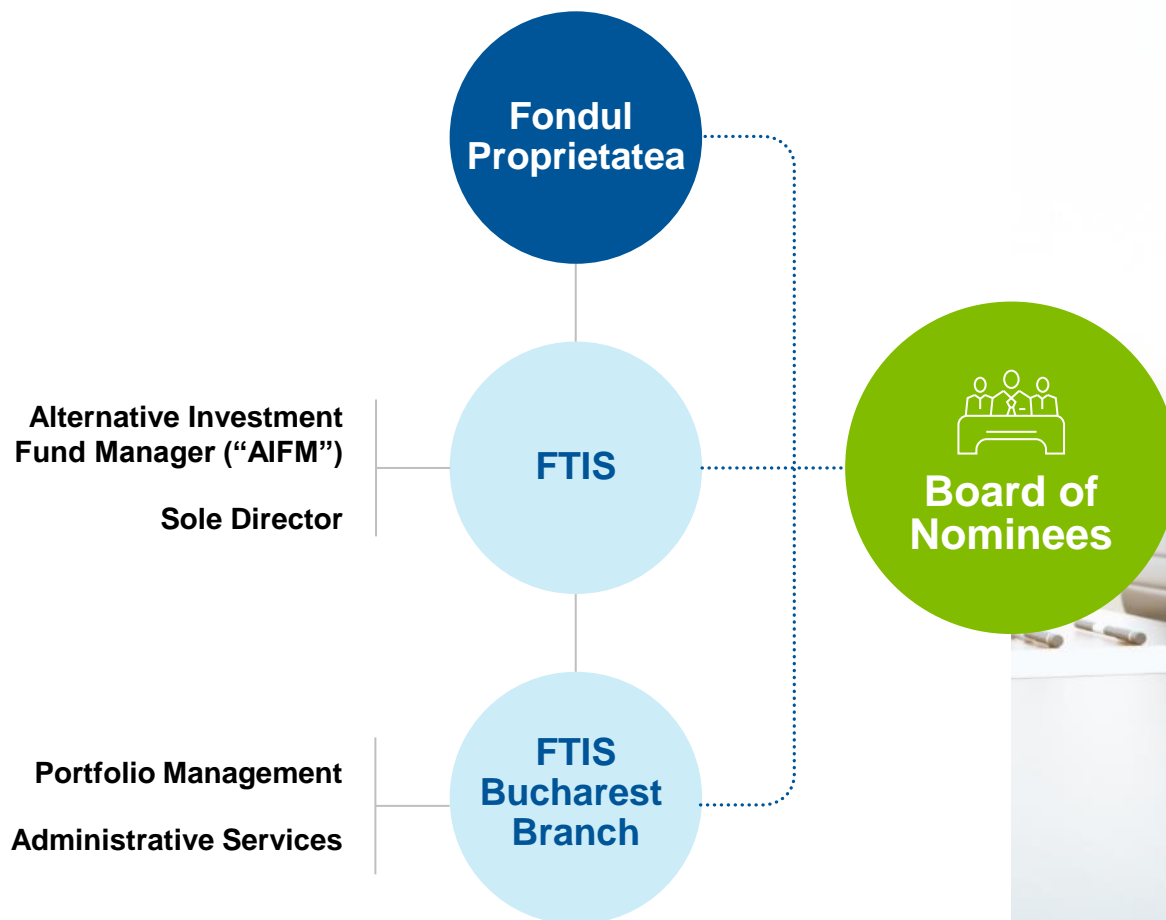
Reporting period:  
1 January –  
31 December 2022



- The report on the fulfillment of the Discount Objective
- The report on the fulfillment of the Net Asset Value (“NAV”) Objective
- The report on the fulfillment of the obligations regarding Discount Control Mechanism (“DCM”)
- Summary of the regulatory issues affecting the performance during the Reporting Period
- Summary of market conditions affecting the performance during the Reporting Period
- Other matters as the Fund Manager wishes to bring to the attention of the shareholders in relation to its activities and performance in the relevant period



# Fondul Proprietatea Structure



# Primary roles and responsibilities of FTIS S.à r.l. – Management Company



## Responsibilities of the AIFM

- Risk Management
- Portfolio Management (performed via FTIS Bucharest Branch)
- Valuation of unlisted assets of portfolio
- Due Diligence on the Depositary (BRD Groupe Société Générale)
- Reporting obligations - AIFMD Annex IV reporting



## Responsibilities of the Sole Director

- Responsibility to call & chair GSMs, implement shareholder decisions
- Prepare Performance report for shareholders
- Administration oversight (performed via FTIS Bucharest Branch)
- Reporting obligations - annual financial statements; the annual activity report; the semi-annual report; the quarterly reports; the performance report; the monthly NAV



## FTIS interaction with FTIS Bucharest Branch

- Attendance at GSM meetings
- Participate in BoN meetings
- Participate in weekly Management meetings
- Regular one to one meetings with the Portfolio Manager
- Regular risk management meetings
- Regular meetings with fund accounting
- Regular meetings on legal activities



FTIS Sarl's primary responsibility is to monitor and highlight any material issues in respect of the risk management of Fondul Proprietatea, the oversight of portfolio management (performed by FTIS Bucharest Branch), new regulatory developments and any other matter which we believe should be brought to the attention of the Board of Nominees or of shareholders.



During 2022 we have ensured that policies, controls and procedures in the major area of investment management are adequate and effective.



We have ensured that policies, controls and procedures in the major areas of risk management of Fondul Proprietatea, including portfolio risks (market, counterparty and issuer risks, etc.), operational risk and liquidity risk, are adequate and effective.



There are no matters for 2022 to raise to the attention of the Board of Nominees or to shareholders.

# Investment strategy and objective



## Investment Objective

- FP's investment objective is the maximization of returns to shareholders and the increase of the net asset value per share via investments mainly in Romanian equities and equity-linked securities.



## Investment Strategy

- No new investments until the discount narrows
- Active management and engagement with current portfolio companies to increase their value
- Continuing with buy-back programs of own shares (share repurchases and/or public tender offers) and cash distributions to shareholders (annual dividend income from portfolio companies, except special cash distributions, plus interest on cash less operating expenses and taxation, and less compulsory allocation to reserves, in accordance with regulations in force and subject to available financing sources).



# Performance objectives



## NAV Objective

Adjusted NAV/share as at the end of the Reporting Period > NAV/share as at the end of the previous reporting period

## Discount Objective

The discount between closing price and last reported NAV/share  $\leq 15\%$ , in at least 2/3 of the trading days in the Reporting Period (i.e. 1 January – 31 December for each year)



## Discount Control Mechanism

- Buy-back programs of shares and GDRs, via daily buy-backs or tender offers
- Dividend distributions
- Reduction of the nominal value of shares and cash distributions
- Increasing investor demand for the shares and GDRs by
  - Maintaining a transparent cash distribution policy
  - Increasing the share of listed companies in the portfolio and their transparency
  - Building good communication through active investor relations work
  - Supporting initiatives to make the Romanian capital market more attractive for investors

Source: Fund Manager. Full details of the Performance Objectives can be found in the Fund's Management Agreement, available on the Fund's website, [www.fondulproprietea.ro](http://www.fondulproprietea.ro).

Note: The adjusted NAV for a given date is calculated as the sum of: (1) the reported NAV as at the end of the reporting period, (2) any distributions to shareholders, being either dividend or non-dividend ones (i.e. in this case following reductions of the par value of the shares and distribution of the decreasing amount to shareholders) implemented after the end of the previous reporting period, and (3) any distribution fees (as defined in the IMA), and any transaction costs and/or distribution costs relating to either dividend or non-dividend distributions including buy-backs of shares and/or GDRs, and/or depository interests executed through daily acquisitions or public tenders, after the end of the previous Reporting Period. The adjusted NAV per share is equal to the adjusted NAV divided by: the total number of the Fund's paid shares, less treasury shares (FP ordinary shares bought back) and less equivalent in FP ordinary shares of FP GDRs acquired and not yet converted into FP ordinary shares, on the last day of the reporting period.



# NAV, Share price and GDR Performance



## Cumulative Performance<sup>1</sup>

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Since Performance Inception <sup>2</sup>
NAV (RON)	(0.5)%	8.9%	13.3%	1.4%	(0.6)%	7.3%	13.1%	19.9%	31.2%	2.2%	47.8%	19.1%	325.5%
Share Price (RON)	(30.3)%	38.3%	61.3%	14.5%	(4.1)%	4.9%	21.5%	9.9%	49.1%	37.8%	48.5%	12.2%	651.4%
GDR (USD)	N/A	N/A	N/A	N/A	N/A	1.2%	35.9%	(1.9)%	41.4%	48.5%	42.0%	3.9%	237.6%



## Average Discount to NAV

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Share Price	(55.7)%	(50.1)%	(40.7)%	(30.9)%	(29.1)%	(32.1)%	(28.1)%	(29.5)%	(29.4)%	(21.1)%	(5.7)%	(21.6)%
GDR	N/A	N/A	N/A	N/A	(29.6)%	(30.0)%	(27.0)%	(29.8)%	(30.7)%	(21.7)%	(7.6)%	(22.4)%

Source: BVB, LSE, Bloomberg, FP NAV reports.

Note: The discount is calculated based on the latest published NAV available for the day of the calculation.

The Performance Inception date for the NAV is 31 December 2010, for the Share Price is 25 January 2011, and for the GDRs is 29 April 2015.

1. Dividend adjusted.

2. As at 31 December 2022.



# Report on the Discount objective



# Discount objective

## Objective

- The discount between the closing price for each trading day on the BVB, of the shares issued by the Fund and the latest reported NAV per share at the date of calculation should be equal to or lower than 15% in at least two thirds of the trading days during the reporting period 1 January – 31 December 2022.

## 2022 monitoring

- In the period 1 January – 31 December 2022, discount was lower than 15% in 32.3% of the trading days.

## Discount evolution

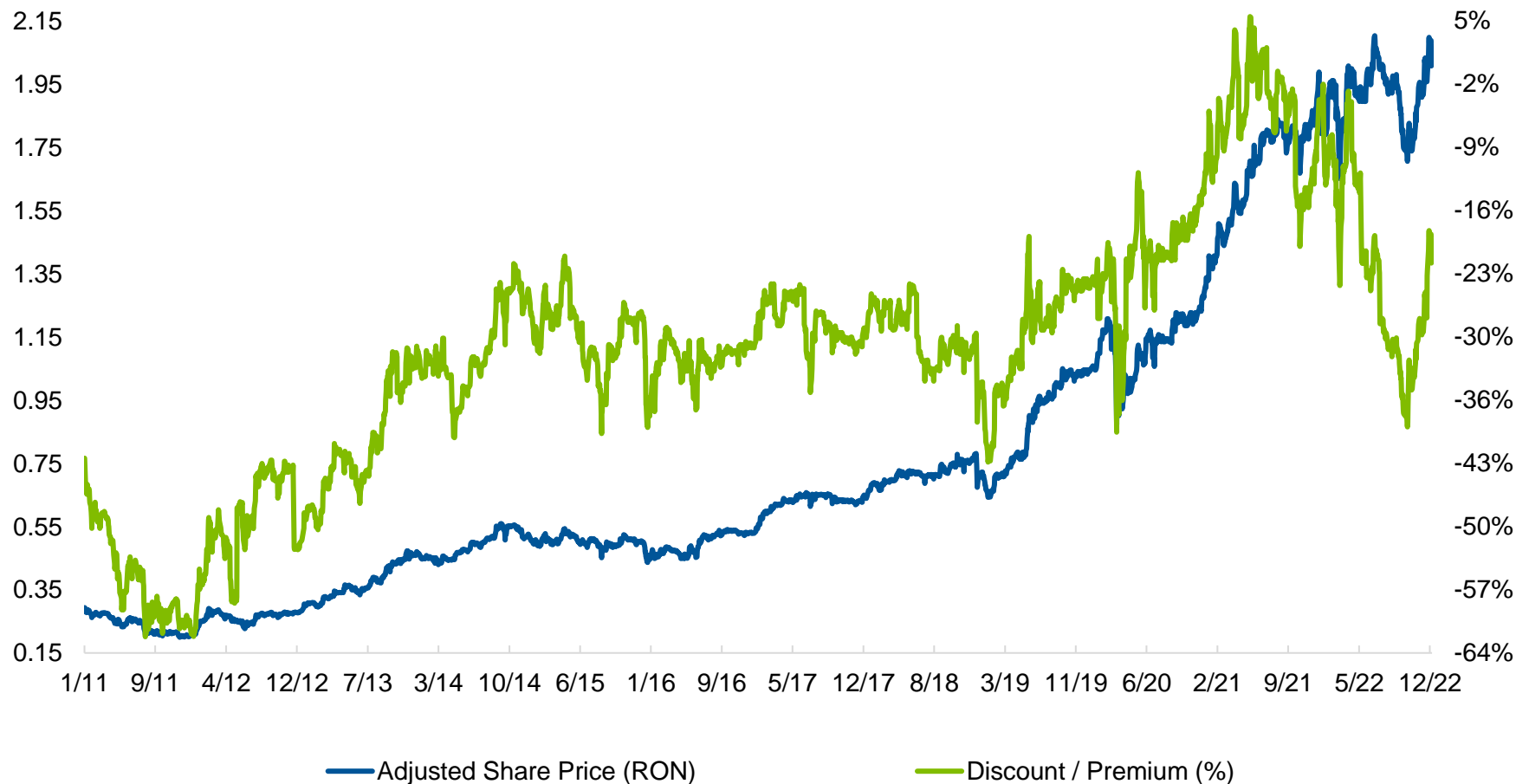
Discount at the Start of the Reporting Period – 3 January 2022	Discount at the End of the Reporting Period – 31 December 2022	Average Discount for the Reporting Period 3 January – 31 December 2022	Discount Range for the Reporting Period 3 January – 31 December 2022
(3.83)%	(20.39)%	(21.60)%	(39.41)% – (2.14)%

Source: Fund Manager calculations.

Note: The discount is calculated based on the latest published NAV/share at the date of the calculation.



# Share price and Discount / Premium evolution



Source: BVB, Bloomberg, Fund Manager calculations.  
 Note: The discount/premium is calculated based on the latest published NAV available for the day of the calculation.

## Measures taken

### Investor Relations

Proactive investor relations program to increase the visibility of the Fund to a broader base of investors



 **Distributed RON 2.27 billion to the Fund's shareholders during 1 January – 31 December 2022 via:**

#### Dividend Distributions

Special gross dividend distribution to shareholders of **RON 339.4 million** or RON 0.06 per share – payment started on 18 February 2022.

Gross dividend distribution to shareholders of **RON 774.3 million** or RON 0.125 per share – payment started on 27 June 2022.

#### Buy-backs

Executed the 13<sup>th</sup> buy-back programme through daily share repurchases of up to 25% of the average daily trading volume for the last 20 trading sessions and a Tender Offer for 325 million shares. The total acquisition cost at trade price (excluding transaction costs) of the buy-back program was **RON 1,157.2 million**.

#### Total amount distributed

(Including buy-backs and dividend distributions) is **RON 2,270.9 million**, i.e., 15.6% of the Fund's NAV as at 31 December 2022 .

## Creating liquidity at the portfolio level



Source: Fund's results reports.



## Distributions to shareholders

RON	Distributions to shareholders in the period 1 January – 31 December 2022 (excluding related costs)	Expenses related to distributions recorded in the period 1 January – 31 December 2022 <sup>1</sup>	Total	% of the NAV as at 31 December 2021	% of the average market capitalization as at 31 December 2022
Buyback program 13	1,157,219,019	9,061,740	1,166,280,759	8.8%	10.5%
2022 Dividend <sup>2</sup>	749,805,115	19,361,520	769,166,635	5.8%	6.9%
<b>Total</b>	<b>1,907,024,134</b>	<b>28,423,260</b>	<b>1,935,447,394</b>	<b>14.6%</b>	<b>17.3%</b>

Source: Fund's current reports.

1. Includes the Central Depository commission and the distribution commission invoiced by FTIS for the distribution of dividends.

2. Dividend distribution of RON 0.1250 per share approved by the Fund's shareholders during the 20 April 2022 Annual GSM, with Ex-Date on 2 June 2022, Registration Date on 3 June 2022 and Payment Date on 27 June 2022.

# Share buybacks

## Buyback programme

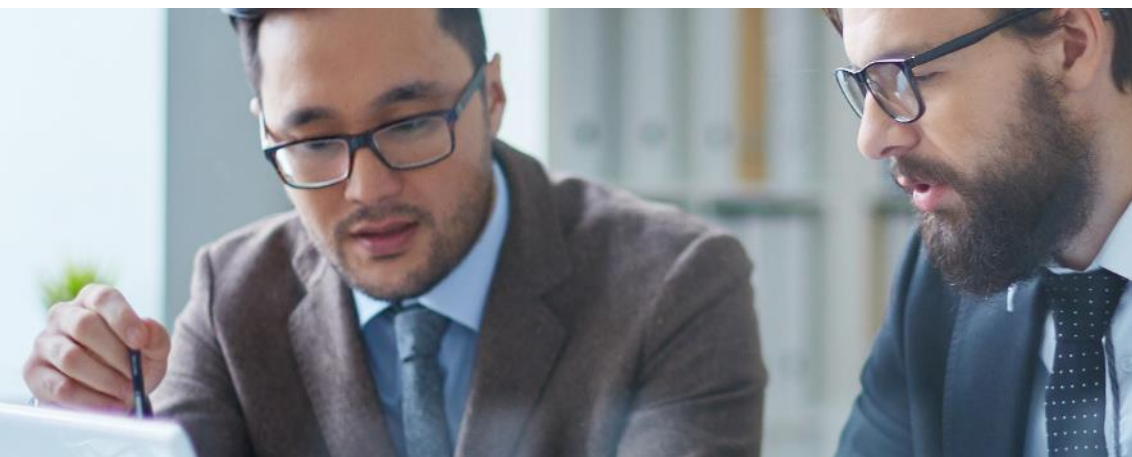
No.	Period	Status	No. of shares repurchased	Average share price (RON/share)	Acquisition cost of shares repurchased, excluding transaction costs (RON)	Broker	Cancellation of shares <sup>1</sup>
13 <sup>th</sup>	31 Jan – 30 Dec 2022	Finalized	549,019,085	2.1078 <sup>2</sup>	1,157,219,018.30	Auerbach Grayson, Swiss Capital	The cancellation of shares is subject to shareholders' approval in the 21 April 2023 Annual GSM

## Tender offer

No.	Subscription period	Size	Purchase price	Allocation method and Ratio	Consortium
10 <sup>th</sup>	18 May – 24 June 2022	325,000,000 shares: <ul style="list-style-type: none"> <li>• 264,555,900 in the form of shares and</li> <li>• 60,444,100 shares in the form of GDRs, namely 1,208,882 GDRs</li> </ul>	RON 2.19 per share and the USD equivalent of RON 109.50 per GDR	Pro-rata, 0.2393196964	<ul style="list-style-type: none"> <li>• Swiss Capital S.A. – Intermediary</li> <li>• Swiss Capital S.A. and Auerbach Grayson – Deal Managers</li> <li>• The Bank of New York Mellon – GDR Tender Agent</li> </ul>

1. To be effective, the FSA endorsement is legally required, and the shareholders' resolution for the share capital decrease needs to be registered with the Trade Register.  
 2. Based on the 549,019,085 repurchased shares (460,629,885 ordinary shares and 88,389,200 equivalent shares of the GDRs repurchased).

## Investor Relations activity



Communication between the Fund Manager and investors remains our top priority as we aim to ensure that investors are informed about the latest developments and obtain feedback as we continue to focus on maximizing shareholder value

**During the Reporting Period, the Fund Manager continued its efforts to increase the visibility and the profile of the Fund, as well as the local capital market, and Romania, to a broader international institutional investor base, and to keep investors and shareholders up to date on the Fund, its corporate actions, and its main portfolio holdings.**



Organized 6 road-shows in the United States and the United Kingdom and met with 58 investment professionals



Participated to 9 regional and global emerging and frontier market conferences, as well as dedicated conferences for closed-end funds, where we discussed with representatives of 92 international asset managers



Organized 5 conference calls with analysts and investors on the Fund's latest updates and financial results



Held 72 additional conference calls and 21 in-person meetings with analysts, brokers, current and prospective investors interested in the latest developments regarding the Fund's corporate actions and its portfolio companies



Organized in Bucharest, in collaboration with WOOD & Co, the 25<sup>th</sup> edition of the FP Investor Days event. 76 investors from 45 investment houses, and 76 representatives from 27 Romanian and other frontier markets companies participated in 266 investor meetings organized during the conference





# Report on the NAV objective

# NAV objective

## Objective

- The Adjusted NAV per share as at 31 December 2022, to be higher than the NAV per share as at 31 December 2021 (RON 2.2624 per share)

## 2022 monitoring

- The Adjusted NAV per share at 31 December 2022 is 20.08% higher than the NAV per share at 31 December 2021

NAV Objective	Amount RON	Comments
<b>Total NAV as at 31 December 2022</b>	<b>14,569,538,085</b>	
Gross dividend distribution	774,290,893	Gross dividend distribution approved on 20 April 2022 of RON 0.1250 per share with Ex-Date 2 June 2022, Registration Date 3 June 2022 and Payment Date 27 June 2022
Costs related to buy-backs after 31 December 2021	9,249,962	Fees related to thirteenth buy-back programme after 31 December 2021, excluding the distribution fees for buy-backs
Distribution fees for buy-backs performed after 31 December 2021	27,866,008	Distribution fees for buy-backs, after 31 December 2021
Distribution fees for cash distributions (return of capital/ dividend) after 31 December 2021	19,321,869	Distribution fee for dividend distributions
Costs related to the returns of capital and dividends after 31 December 2021	84,067	Fees charged by the Central Depository and Paying Agent for the payments performed for dividends
<b>Total Adjusted NAV as at 31 December 2022</b>	<b>15,400,350,883</b>	
Number of Fund's paid shares, less treasury shares and GDRs held as at 31 December 2022	5,668,806,128	
<b>Adjusted NAV per share as at 31 December 2022</b>	<b>2.7167</b>	
<b>NAV per share as at 31 December 2021</b>	<b>2.2624</b>	
<b>Difference</b>	<b>0.4543</b>	
<b>%</b>	<b>20.08%</b>	

Source: Fund Manager calculations.

Note: The adjusted NAV for a given date is calculated as the sum of: (1) the reported NAV as at the end of the reporting period, (2) any distributions to shareholders, being either dividend or non-dividend ones (i.e. in this case following reductions of the par value of the shares and distribution of the decreasing amount to shareholders) implemented after the end of the previous reporting period, and (3) any distribution fees (as defined in the IMA), and any transaction costs and/or distribution costs relating to either dividend or non-dividend distributions including buy-backs of shares and/or GDRs, and/or depository interests executed through daily acquisitions or public tenders, after the end of the previous Reporting Period. The adjusted NAV per share is equal to the adjusted NAV divided by the total number of the Fund's paid shares, less treasury shares (FP ordinary shares bought back) and less equivalent in FP ordinary shares of FP GDRs acquired and not yet converted into FP ordinary shares, on the last day of the reporting period.

# Attribution to NAV Performance for the period 1 January – 31 December 2022



## Top Performers



## Bottom Performers

Company	Status	Weight in total NAV <sup>1</sup>	Change in NAV performance	Change in NAV per share (RON)	% Change in share price / NAV per share
Hydroelectrica SA	Unlisted	76.5%	25.56%	0.5782	30.7%
Societatea Nationala a Sarii SA	Unlisted	1.9%	0.65%	0.0147	26.3%
CN Aeroporturi Bucuresti SA	Unlisted	4.9%	0.29%	0.0066	5.8%
Posta Romana SA	Unlisted	0.1%	0.06%	0.0013	56.1%
Zirom SA	Unlisted	0.2%	0.02%	0.0005	38.6%
OMV Petrom SA	Listed	0.0%	(1.12)%	(0.0252)	Sold in Dec 2022
Engie Romania SA	Unlisted	3.0%	(0.62)%	(0.0140)	(15.7)%
Enel Energie SA	Unlisted	0.1%	(0.30)%	(0.0067)	(64.6)%
Enel Energie Muntenia SA	Unlisted	0.0%	(0.25)%	(0.0057)	(100.0)%
E-Distributie Banat SA	Unlisted	1.5%	(0.24)%	(0.0055)	(13.1)%
<b>TOTAL NAV PER SHARE CHANGE</b>				<b>0.3077</b>	<b>13.6%</b>

Note: The amounts are adjusted with the dividends declared by the companies, according with FP accounting policy.

1. 31 December 2022 NAV report.



# Changes in the valuations of portfolio companies (I)

Company	Status	Value of FP holding as at 1 January 2022	Contribution in cash to share capital increase	Disposals	Net changes in fair value gain / (loss)	Value of FP holding as at 31 December 2022	Comments
Aeroportul International Mihail Kogalniceanu - Constanta SA	Unlisted	1,679,700	–	–	428,000	2,107,700	–
Aeroportul International Timisoara - Traian Vuia SA	Unlisted	5,600,000	–	–	(100,000)	5,500,000	–
Alcom SA	Listed – Illiquid	9,453,631	–	–	953,805	10,407,436	–
Alro SA	Listed – Liquid	131,192,485	–	–	(16,763,484)	114,429,001	–
CN Administratia Canalelor Navigabile SA	Unlisted	15,831,240	–	–	(92,287,560)	13,543,680	–
CN Administratia Porturilor Dunarii Fluviale SA	Unlisted	3,659,080	–	–	(401,540)	3,257,540	–
CN Administratia Porturilor Dunarii Maritime SA	Unlisted	4,037,298	–	–	(200,582)	3,836,716	–
CN Administratia Porturilor Maritime SA	Unlisted	294,400,000	–	–	(11,400,000)	283,000,000	–
CN Aeroporturi Bucuresti SA	Unlisted	674,200,000			38,800,000	713,000,000	
Complexul Energetic Oltenia SA	Unlisted	–	–	–	–	–	–
Comsig SA	Unlisted	–	–	–	–	–	–
E-Distributie Banat SA	Unlisted	245,100,000	–	–	(32,200,000)	212,900,000	–
E-Distributie Dobrogea SA	Unlisted	184,000,000	–	–	(13,600,000)	170,400,000	–
E-Distributie Muntenia SA	Unlisted	206,700,000	–	–	(22,800,000)	183,900,000	–

Source: FP Detailed Statement of Investments reports, FP Results reports.

## Changes in the valuations of portfolio companies (II)

Company	Status	Value of FP holding as at 1 January 2022	Contribution in cash to share capital increase	Disposals	Net changes in fair value gain / (loss)	Value of FP holding as at 31 December 2022	Comments
Enel Energie Muntenia SA	Unlisted	33,100,000	–	–	(33,100,000)	–	–
Enel Energie SA	Unlisted	61,100,000	–	–	(39,500,000)	21,600,000	–
Engie Romania SA	Unlisted	522,700,000	–	–	(82,000,000)	440,700,000	–
Gerovital Cosmetics SA	Unlisted	–	–	–	–	–	–
Hidroelectrica SA	Unlisted	9,040,900,000	23,970	–	2,107,876,030	11,148,800,000	On 12 December 2021, the Fund subscribed to the share capital increase of Hidroelectrica SA with a cash contribution of RON 23,970, effective starting 6 May 2022 - the registration date with the Romanian Trade Register.
IOR SA	Listed – Illiquid	262,227	–	–	(52,445)	209,782	–
Mecon SA	Listed – Illiquid	798,718	–	–	(210,189)	588,529	–
OMV Petrom SA	Listed – Liquid	1,977,810,491	78,772,701	1,781,883,963	(274,699,229)	0	<ul style="list-style-type: none"> <li>On 3 November 2022, OMV Petrom's Board announced the completion of the share capital increase based on shareholders' decision from 27 April 2022 GSM. The Fund subscribed and received 174,275,887 new shares, at a price of RON 0.1 per share.</li> <li>During 2022, the Fund completed two accelerated bookbuild offerings, following which the Fund liquidated its entire holding in OMV Petrom SA.</li> </ul>

Source: FP Detailed Statement of Investments reports, FP Results reports.

## Changes in the valuations of portfolio companies (III)

Company	Status	Value of FP holding as at 1 January 2020	Contribution in cash to share capital increase	Disposals	Net changes in fair value gain / (loss)	Value of FP holding as at 31 December 2020	Comments
Plafar SA	Unlisted	2,172,800	–	–	26,800	2,199,600	–
Posta Romana SA	Unlisted	13,900,000	–	–	7,800,000	21,700,000	–
Romaero SA	Listed – Illiquid	41,449,436	–	–	524,676	41,974,112	–
Romplumb SA	Unlisted	–	–	–	–	–	–
Salubriserv SA	Unlisted	–	–	–	–	–	–
Simtex SA	Unlisted	–	–	–	–	–	–
Societatea Electrocentrale Craiova	Unlisted	–	–	–	–	–	–
Societatea Nationala a Sarii SA	Unlisted	216,700,000	–	–	57,000,000	273,700,000	–
World Trade Center Bucuresti SA	Unlisted	–	–	–	–	–	–
World Trade Hotel SA	Unlisted	–	–	–	–	–	–
Zirom SA	Unlisted	26,156,500	–	–	2,686,800	28,843,300	–
<b>TOTAL</b>		<b>13,712,903,606</b>	<b>17,451,559</b>	<b>1,781,883,963</b>	<b>1,748,126,194</b>	<b>13,696,597,396</b>	–

Source: Detailed Statement of Investments reports, FP Results reports.

# Actions to protect and increase value of the portfolio companies (I)

## Hidroelectrica



- Engaged throughout the year 2022 in the public and industry consultations in connection to the several rounds of regulatory changes in the energy sector. In this respect, on behalf of the Fund, we sent comments, and position papers to, and had direct meetings with the Government, Ministry of Energy, Competition Council and ANRE.
- Initiated legal challenges against the windfall taxation of electricity producers based on constitutional and European legislation legal grounds.
- Worked with the company's Directorate to continue improving the company's profitability and optimize the capital structure.
- Proposed the distribution by the company of special dividends, that were approved in April 2022 and paid in September 2022.
- Obtained in the company's March 2022 GSM, the approval for listing Hidroelectrica based on an IPO carried out with the shares held by FP in the company. In line with the listing decision, FP has been working closely with Hidroelectrica's management on all the relevant workstream to carry out a successful listing in 2023. As part of the ongoing IPO preparation process, we continue to maintain an active dialogue with the controlling shareholder.
- FP advocated through extensive engagement with the Government on the merits of an international listing that would complement the local listing of Hidroelectrica on BVB.
- Provided extensive comments to the current draft law for the modification of GEO 109 / 2011.

## OMV Petrom



- Continued to actively support a fair and balanced taxation regime for the oil and gas sector.
- Advocated for legislative changes that could allow the company to take a favorable final decision regarding investments in the Black Sea perimeter.

## Enel group companies



- Engaged with the management throughout 2022 to assess the impact of frequent legislative changes on the company's operations.

## Engie Romania



- Ongoing discussions on corporate governance matters.
- Successfully negotiated for changes in the Constitutive Act of the company to allow the appointment of a Board member on behalf of Fondul Proprietatea.
- Fondul has been closely monitoring energy regulatory changes and potential impact on Engie's operations.

## Alro



- Ongoing discussions on remuneration policy.



# Actions to protect and increase value of the portfolio companies (II)

## Bucharest Airports

- Worked with company's interim Boards and interim general managers to improve company's results, as traffic is recovering to levels near pre-covid period.
- Continued to support proper implementation of Corporate Governance legislation.
- Continued to advocate for the listing of the company.
- Legal actions against share capital increase proposal, which would severely dilute FP's stake in Bucharest Airports, were successful in blocking it until now.
- Provided extensive comments to the current draft law for the modification of GEO 109 / 2011.

## Baneasa Airport share capital increase

- During the October 2021 GSM, the Ministry of Transport voted in favor of a share capital increase with the land inside the Baneasa Airport, brought as Romanian state's contribution in kind to the company's capital. This was the third time the process to increase the share capital was initiated since 2001, when Baneasa Airport received the land ownership certificates. According to the GSM documentation, the proposed value for the share capital increase was RON 3.81 bn.
- The share capital increase approved in the GSM was RON 4.76 bn: RON 3.81 bn as in-kind contribution of the Romanian State, calculated as value of the land parcels as per the 2021 land valuation report, and RON 953.70 mn as value of shares to be subscribed by Fondul Proprietatea for maintaining its 20% ownership. The preference rights may be used by the Fund within 60 days calculated starting with date when the shareholders' resolution is published in the Official Gazette. After the 60 days period expires, the share capital will be increased with the value of the paid-up shares (the Romanian State's contribution in kind is already considered to be completed). If the Fund does not subscribe, the unsubscribed shares will be cancelled.
- The Fund Manager expressed its opinion, strongly disputing the flawed land valuation report, as it attributes a very high value to the land, despite a previously approved valuation report from 2017 which had set the value of the same land at RON 269 mn. In June 2021 we challenged the valuation report done for the share capital increase to the National Association of Authorised Romanian Valuers (ANEVAR) and in February 2022 the valuator was sanctioned by ANEVAR with a six-month suspension of his license.
- The Fund Manager started court cases for the annulment of the shareholders' resolution and obtained last year the suspension of the entire process until the claim for annulment is irrevocably closed. The lawsuit continues in 2023 with new terms, in which, among others, a professional analysis of the valuation report was asked.
- We continue to engage Ministry of Transport in solving this issue outside the Court, as the case is expected to be lengthy.

# Actions to protect and increase value of the portfolio companies (III)

## Salrom



- Continued to pursue various workstreams needed for the IPO of the company following approval in principle of the listing of Salrom via a public offer made by Fondul Proprietatea as selling shareholder in July 2021. Appointed advisers needed for the IPO process.
- Worked closely with the Ministry of Economy for the Government's Memorandum supporting Salrom's listing by FP that was approved in July 2022.
- Actively engaged with the Government, Ministry of Economy, National Agency for Mineral Resources, Salrom's management and other stakeholders on the listing topic and its roadmap.
- The Fund continues to prepare for an IPO during 2023.
- Worked closely with the management to improve operations.
- Helped the company with legal advisory in different litigations.
- Continued to support proper implementation of Corporate Governance legislation.
- Fondul is closely monitoring Salrom's strategy of growth by potentially resuming graphite exploitation operations.
- Provided extensive comments to the current draft law for the modification of GEO 109 / 2011.

## Constanta Port



- Supported the Board and the executive management in the ongoing effort to improve revenues from renting land in the ports and keeping operating costs under control.
- Challenged in court the shareholders' decision approving the distribution as dividends of only 25% of the 2017 net profit. The matter is now with the Constitutional Court.
- Challenged in Court a share capital increase approved in February 2022 only by the State from undistributed retained earnings.
- Challenged in Court several transfers from Constanta Port's concession agreement of some plots of land and a building to other public authorities.
- Continued to advocate for the IPO of the company and necessary changes to the ports law.
- Provided extensive comments to the current draft law for the modification of GEO 109 / 2011.

## CE Oltenia (CEO)



- Continued to advocate for the restructuring of the company.
- Actively engaged with the European Commission, Ministry of Energy and the management with respect to CEO's Restructuring Plan and its roadmap.
- Actively engaged with the Ministry of Energy and the management with respect to CEO's spun-off process of Craiova II Power Plant via a symmetrical spin-off procedure and the incorporation of the new entity, Electrocentrale Craiova in which FP holds the same stake (i.e., 21.559%), and appointed a Board member in the newly formed company.
- Ongoing monitoring of potential share capital increases with the value of the lands that will be contributed by CE Oltenia in the SPVs created in the context of new investments as per the Restructuring Plan where changes of the legislative framework would be needed.
- Fondul is closely monitoring energy regulatory changes and potential impact on CE Oltenia's operations.
- Provided extensive comments to the current draft law for the modification of GEO 109 / 2011.



# Report on the obligations regarding the Discount Control Mechanism

## DCM provisions

According to Article 9 of the Management Agreement under AIFMD in force starting 1 April 2020



### “FUND MANAGER PERFORMANCE OBJECTIVES. ANNUAL REPORTING

- 9.1. For the duration of this Management Agreement, the Fund Manager must manage the Portfolio in accordance with, and must comply with, all the obligations undertaken under the IPS and seek to achieve the objectives therein, including (without limitation) the Discount Objective and the NAV Objective (together the “Performance Objectives”). The Customer and the Fund Manager acknowledge and agree that there is no guarantee that the Performance Objectives will be achieved, and the Fund Manager does not warrant, undertake or represent that it will achieve them.
- 9.2. The Fund Manager will call a BoN meeting to discuss the Discount Control Mechanism (“DCM”) strategy if the Discount stays above 15% for more than half of the Trading Days in any financial quarter of the Customer. In addition, if the Discount stays wider than 15% for more than half of the Trading Days in any two successive financial quarters of the Customer, the Fund Manager will call a GSM (which would be held no later than the end of the next quarter) at which the Fund Manager would propose, for the Customer’s shareholders’ approval, specific DCM measures pre-agreed with the BoN and which are in line with the IPS, unless such actions are already pending and soon to be implemented based on the resolution of the general meeting of shareholders dated in the current quarter or in the previous year, (for as long as such measures are not limited by subsequent resolutions of the general meeting of shareholders).”

# Discount control during Q1 – Q4 2022 (the IMA in force)



## There were

4 quarterly calculation periods (Q1 – Q4 2022),  
and 4 two-quarter valuation periods (Q4 2021 +  
Q1 2022, Q1 + Q2 2022, Q2 + Q3 2022,  
Q3 + Q4 2022)



- If the discount stays above 15% for more than half of the trading days in any quarter, the Fund Manager will call a Board meeting to discuss the DCM



- The Board meetings when the DCM was discussed with the Board took place on the following dates: 24 February, 30 June, 15 September, 14 November 2022.



# Ongoing DCM measures



## Cash distributions

- The Fund Manager proposed, and shareholders approved during the 15 December 2021 GSM a special gross dividend distribution of RON 0.06 per share. The payment started on 18 February 2022.
- The Fund Manager proposed, and shareholders approved during the 20 April 2022 GSM, a gross dividend distribution of RON 0.072 per share. The payment started on 27 June 2022.



## Asset disposals

- Completion of two ABB offerings for the Fund's entire stake in OMV Petrom SA, for a total value of RON 1,742.4 mn.
- Ongoing work on the IPO processes for listing Hidroelectrica and Salrom.



## Investor relations activities

- Organized 6 road-shows where we met with 58 investment professionals and participated to 9 online and in-person investor conferences, where we discussed with representatives of 92 international asset managers.
- Held 72 additional conference calls and 21 in-person meetings with analysts, brokers, current and prospective investors.
- Organized 5 conference calls with analysts and investors on the Fund's latest updates and financial results and the 25<sup>th</sup> edition of the FP Investor Days event where 76 investors from 45 investment houses participated to 266 investor meetings organized during the conference.



## Share buybacks

- Execution of the 13<sup>th</sup> buy-back programme of 549.02 mn shares, at an average share price of RON 2.1078 per share<sup>1</sup>.

### Tender offer

- Execution of the 10<sup>th</sup> tender offer of 325 mn shares, in order to accelerate the 13<sup>th</sup> buy-back programme.

1. Based on the 549,019,085 repurchased shares (460,629,885 ordinary shares and 88,389,200 equivalent shares of the GDRs repurchased).

# DCM techniques based on the current IPS

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## Recommendation of buy-back programs of the Fund's shares and GDRs

- Shareholders' approval for the 14<sup>th</sup> buy-back programme of 3.5 billion shares, to be executed during January –December 2023.



## Cash distributions to shareholders

- Dividend distribution for the 2022 FY was discussed with the Board of Nominees and proposed to shareholders on 28 February 2023.



## Increasing the share of the listed companies in the portfolio

- IPO of Hidroelectrica and Salrom.



## Execution of buy-back programs via trading on the regular market

- Execution of the 13<sup>th</sup> buy-back programme.



## Building good communication through active investor relations work

- Proactive investor relations outreach through participation to online regional and global emerging and frontier market conferences, as well as dedicated closed-end funds conferences.



**Summary of the regulatory  
issues affecting the performance  
during the Reporting Period**

# Summary of regulatory changes and issues

## Regulatory issues affecting the performance during the Reporting Period



- The approval by the Government and Parliament of several Government Ordinances and Laws regulating the Romanian energy market, regarding measures applicable to final consumers of electricity and natural gas for the period 1 April 2022 to 31 March 2023, followed by the extension of the measures until August 2023, and afterwards until 31 March 2025.
- Breach of the Corporate Governance Legislation (OUG 109 / 2011) implementation by the Romanian State and several tentatives to change the legislation in Parliament.
- Amendments to the Water Law with potential impact on the activity of Hidroelectrica.
- Potential changes of the Romanian legislation without following a transparent process and without offering predictability.





**Summary of the market conditions  
affecting the performance during  
the Reporting Period**



## Summary of market conditions

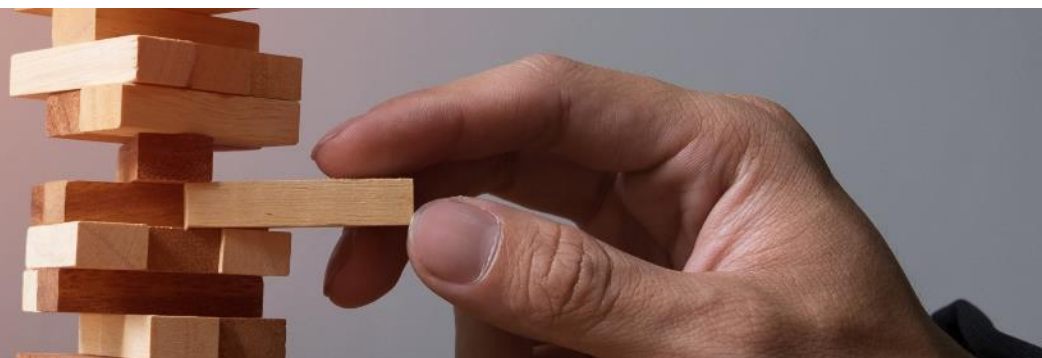
### Market conditions affecting the performance during the Reporting Period



- Geopolitical Uncertainty (Russia – Ukraine war)
- Electricity Prices
- Oil and Gas Prices
- Global Economic Risks driven by higher inflation and interest rates increases
- Market Sentiment in Emerging and Frontier Markets
- Overall markets volatility

## General risks

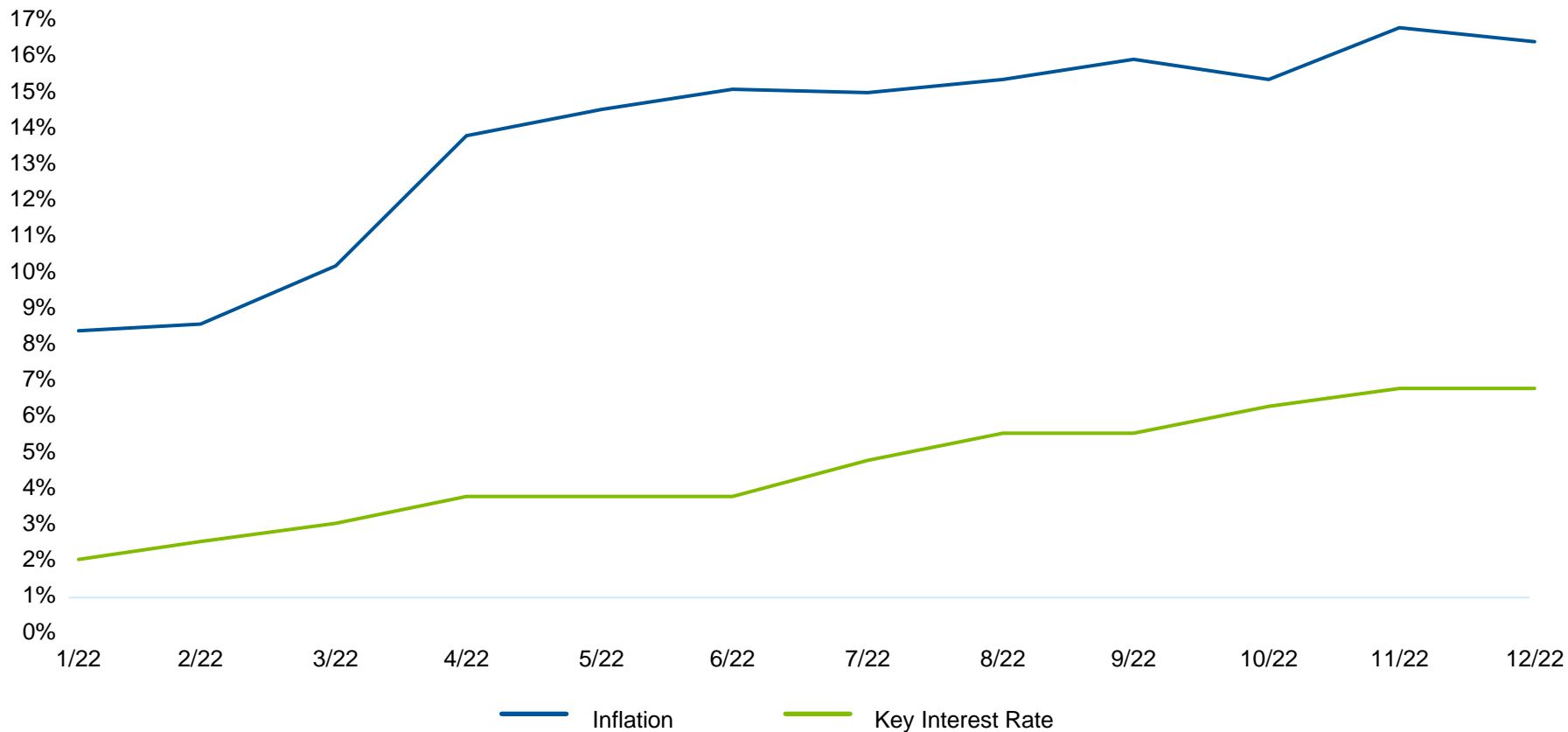
### Market conditions affecting the performance during the Reporting Period



- There are certain risks associated with an investment in developing markets, including Romania, which may be greater than risks inherent in more developed markets.
- Risks related to the oil, gas industry and electricity sectors.
- Risks related to poor performance of poorly managed companies in the Fund's portfolio.
- Risks related to the liquidity of investments held by the Fund.
- Risks related to holdings in majority State-owned companies.
- Risks relating to global events.
- The Fund's investments are concentrated in a limited number of industry sectors.
- Potential difficulties in implementing the Fund's strategy related to the companies in its portfolio.
- Frequent changes in tax legislation without respecting transparency rules.
- Dilution risk in companies where Fondul Proprietatea is minority shareholder.
- The Romanian judicial system and Romanian legislation continue to develop, and this may create an uncertain environment for investment and for business activity.

# Inflation vs. Key Interest Rate

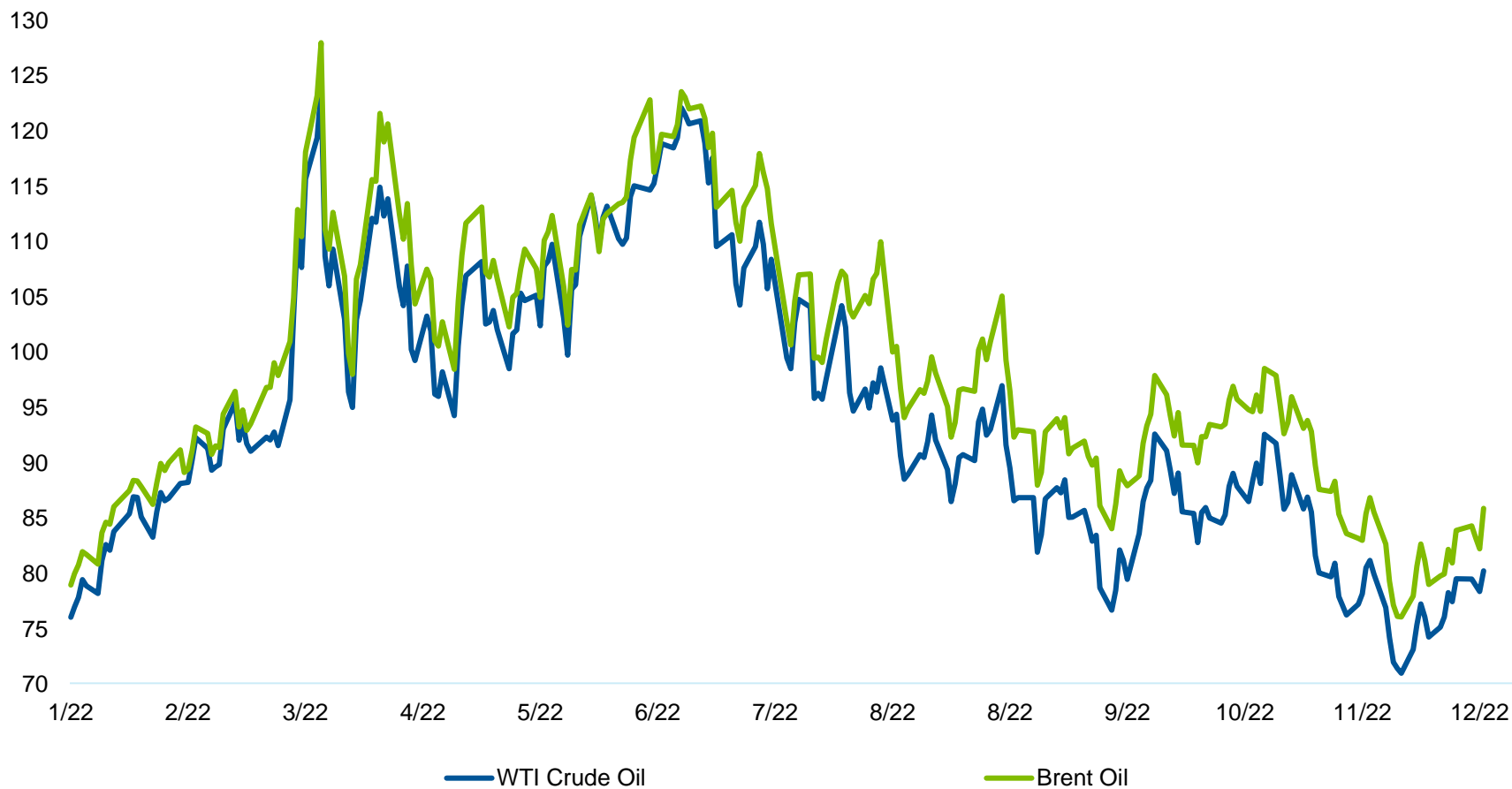
(%)



Source: National Bank of Romania.

# Oil price volatility

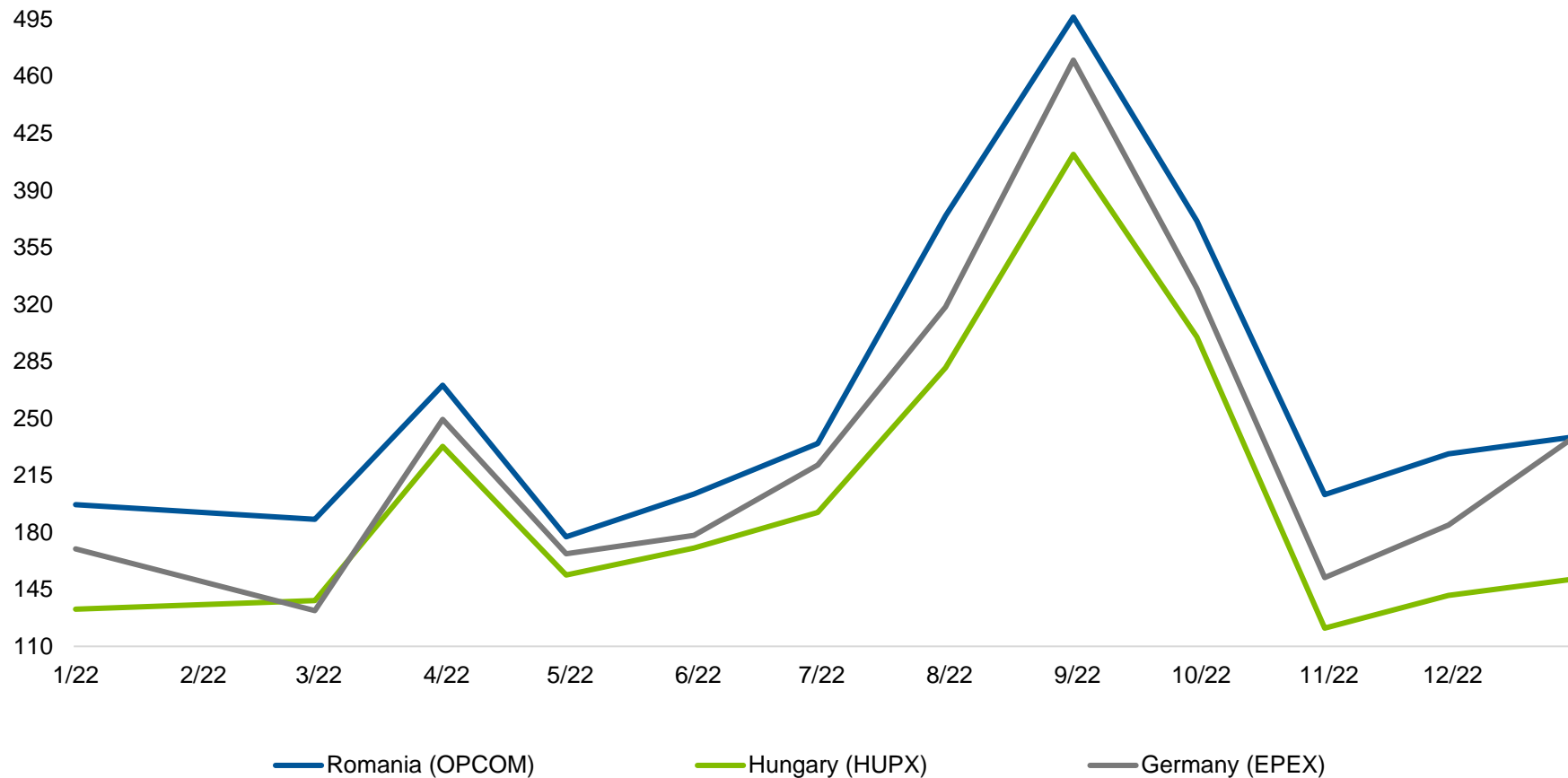
USD



Source: Bloomberg.

# Electricity prices volatility

## Average Wholesale Electricity Prices (EUR / MWh)

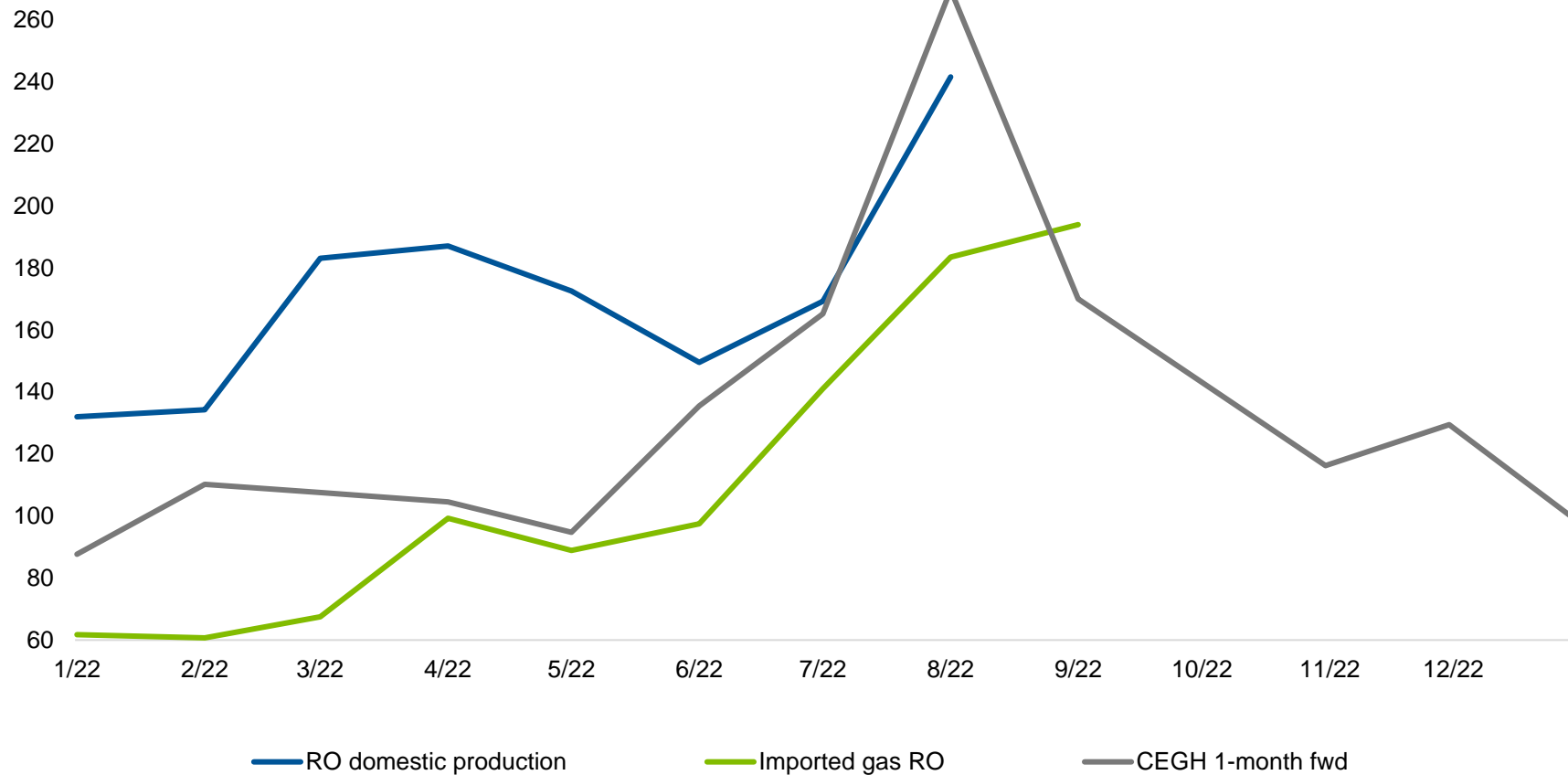


Source: Bloomberg.



# Gas prices volatility

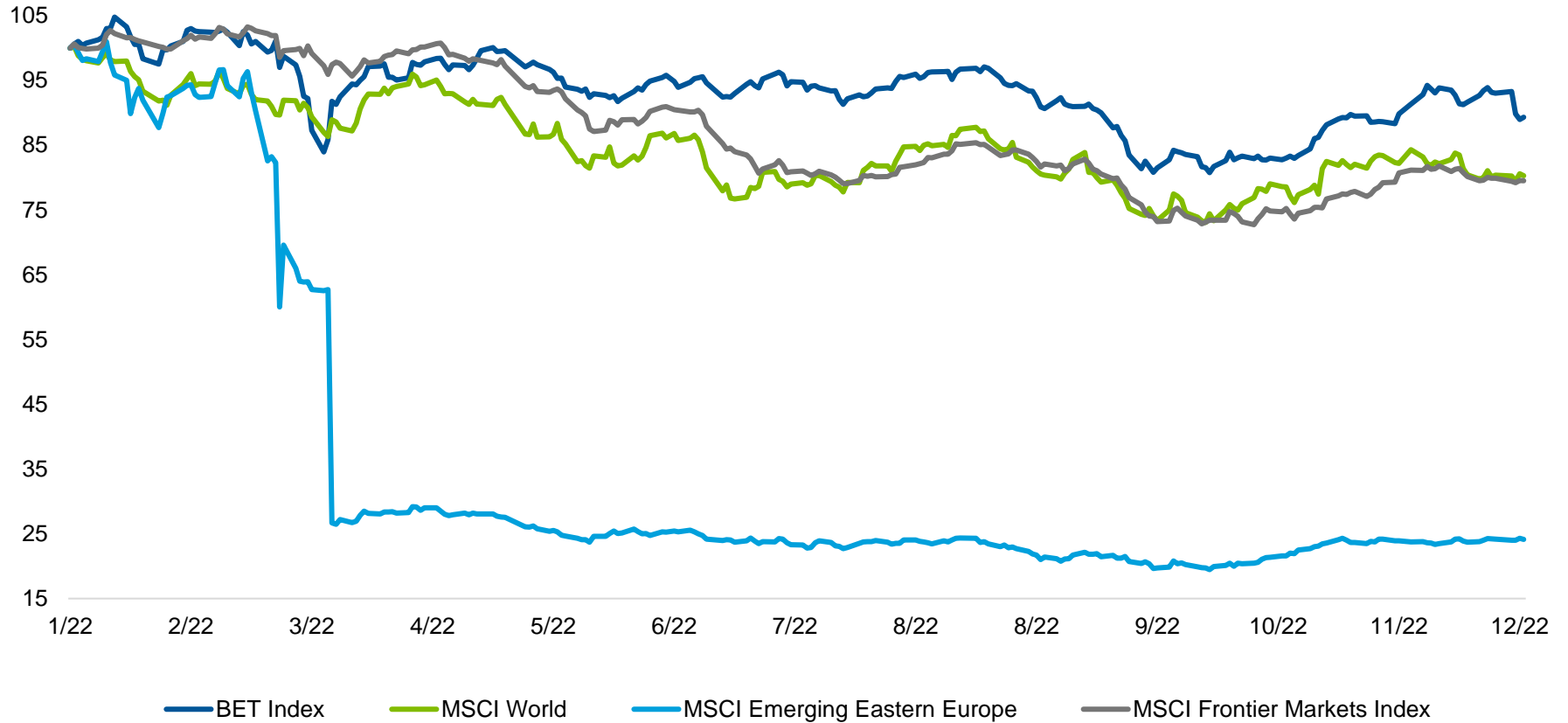
EUR / MWh



Sources: Romanian Energy Regulator (ANRE) for RO prices from both bilateral contracts and centralized markets, Bloomberg for CEGH forward prices.

# Romania vs. MSCI Eastern Europe vs. Frontier Markets vs. World

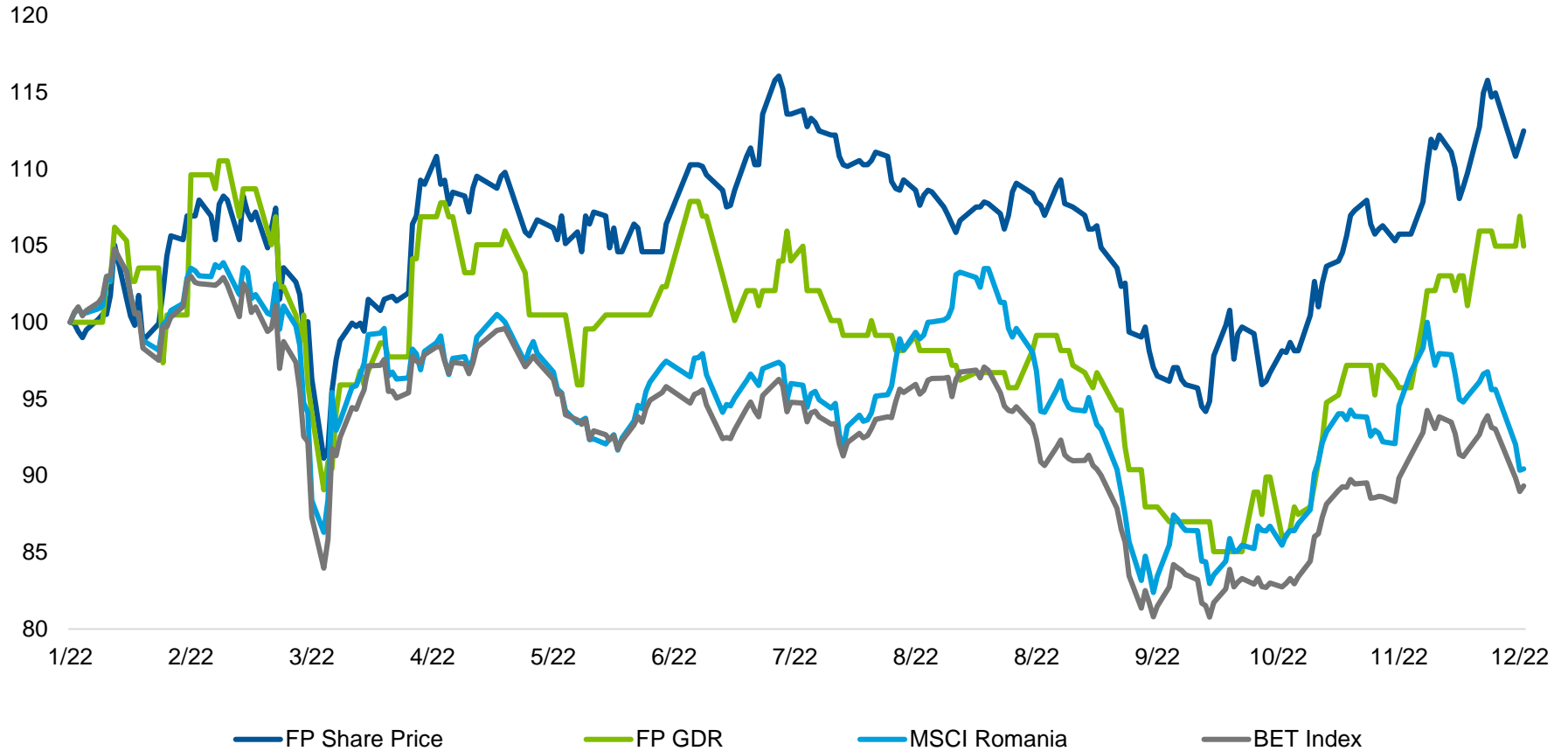
% (USD)



Source: Bloomberg.

# FP Share and GDR prices vs. MSCI Romania vs. BET Index

% (USD)



Source: Bloomberg.



## Other developments during the Reporting Period

**FONDUL**  
PROPRIETATEA



**FRANKLIN  
TEMPLETON**

# Challenges (I)

## Regulatory requirements in the energy sector

### Windfall tax

- In the context of high energy price, the electricity sector was subject to several forms of windfall taxation throughout 2022.
- Initially, between 1 November 2021 and 31 March 2022, Law no. 259 / 2021 introduced for electricity producers the taxation at an 80% rate of the additional revenues resulting from the difference between the average monthly selling price and RON 450 per MWh.
- Subsequently, GEO no. 27 / 2022 extended the timeline of the windfall tax until 31 March 2023 while keeping the 80% tax rate and the RON 450/MWh reference rate unchanged.
- Starting 1 September 2022, GEO no. 119 / 2022 extended the timeline for the windfall tax until 31 August 2023, increased the windfall taxation rate on electricity producers to 100% (from 80% previously) and broadened the scope of the windfall tax to electricity and gas traders on the wholesale market and to import / export and intra-EU electricity transactions.
- Law no. 357 / 2022 for the approval of GEO no. 119 / 2022, which entered into force on 16 December 2022, further extended the application of the windfall taxation until 31 March 2025.

### Caps for end-consumers prices

- Throughout 2022, the Government implemented several support schemes and price caps at the level of electricity and gas end-consumers, key legislation pieces being represented by GEO no. 118 / 2021 related to the compensation scheme for consumption of electricity and natural gas for the cold season 2021 – 2022 (i.e., between 1 November 2021 and 31 March 2022), Law no. 259 / 2021 for the approval of GEO no. 118 / 2021 and GEO no. 3 / 2022 which further amended GEO no. 118 / 2021.
- Starting with 1 April 2022, the price caps at the level of electricity and gas end-consumers were implemented through GEO no. 27 / 2022 which was subsequently amended by several normative acts, most notably by GEO no. 119 / 2022 which extended the duration of the price caps at the level of electricity and gas end-consumers from 31 March 2023 until 31 August 2023 and Law no. 357 / 2022 for the approval of GEO no. 119 / 2022 which among other adjustments further extended the duration of price-capping measures until 31 March 2025.

### Centralized electricity acquisition mechanism

- Through GEO no. 153 / 2022, adopted on 11 November 2022, the Government introduced from 1 January 2023 until 31 March 2025 the centralised electricity acquisition mechanism at the regulated price of RON 450/MWh.
- According to GEO no. 153 / 2022, the electricity producers in scope of the regulation would have to sell based on an annual and monthly centralised acquisition mechanism the available production to the electricity and natural gas market operator OPCOM at the above-mentioned regulated price.
- In the same time, OPCOM would sell at the same price of RON 450/MWh the electricity purchased through the centralised acquisition mechanism to the supply companies who have end-consumer portfolios and to the electricity transport operator Transelectrica and to the electricity distribution operators for covering their grid losses.

# Challenges (II)

## Regulatory requirements in the energy sector

### Measures regarding sale of energy to Republic of Moldova

- Government issued GEO no. 138 / 2022 amending GEO no. 119 / 2022 by temporary introducing the requirement to conclude bilateral contracts, within the limits of available quantities, giving priority to traders / suppliers appointed by to the Government of the Republic of Moldova at a set price of RON 450/MWh.

### Regulated transport and distribution tariffs

- According to the provisions of GEO no. 119 / 2022 which entered into force on 1 September 2022, for licensed economic operators, providers of electricity and natural gas transport and distribution services, the additional costs of purchasing electricity and natural gas, made between 1 January 2022 and 31 August 2023, in order to cover own technological consumption and, respectively, technological consumption, compared to the costs included in the regulated tariffs, are capitalised quarterly.
- The capitalised costs are recognised in the regulated tariffs in compliance with the cost recognition criteria provided in the ANRE methodologies.

## Offshore law

- The definition of a proper legal framework surrounding the gas exploration in the Black Sea took a very long time and was adopted only in Q2 2022.
- Exxon Mobil participation in the project was acquired by Romgaz in July 2022.
- As a result of the lack of predictability, the final investment decision for the project from OMV Petrom was postponed until H1 2023.



# Disclaimer (I)

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February 2023

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In addition, the list of investor rights can be found in the Constitutive Act, available on the Fund's website, in the Corporate Governance section, here: <https://www.fondulproprietea.ro/about-fund/fund-overview/corporate-governance>.

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The Fund's headquarters are located at 76 – 80 Buzesti street, 7th Floor, Bucharest, 1st District, 011017, Romania. Fund's Fiscal Identification Code is 18253260 and Trade Registry registration number is J40/21901/2005. The subscribed and paid-up share capital is RON 3,233,269,110.76.

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