

2022 Annual Results Conference Call

28 February 2023

Marius Dan, Deputy CEO, Corporate Strategy:

Good afternoon and welcome everyone to our conference call to discuss the 2022 Annual results and the January 2023 NAV developments. Johan Meyer, CEO of Franklin Templeton Bucharest Branch as Fund Manager of Fondul Proprietatea, Catalin Cadaru, Financial Reporting Manager and I are pleased to host today's call.

The 2022 Annual Results report can be found on the Fund's website, in the Financial results section and the presentation that we will be discussing is available on our website at www.fondulproprietatea.ro in the "Investor Relations Calls" section.

After the presentation, we will have a 30-minute Q&A session.

As a reminder, this conference call is being recorded and the recording will be available on the Fund's website after the call. That being the agenda, I now turn to Johan to start off with the presentation.

Johan Meyer, CEO Franklin Templeton Bucharest and Fund Manager Fondul Proprietatea:

I would like to start with **slide 2** of the presentation where we highlight the key facts about the Fund. At the end of January, the Fund's NAV was RON 14.57 billion / USD 3.21 billion and the NAV / share reached RON 2.5723 / USD 0.5658.

On the right-hand side, you can see the evolution of the Fund's adjusted share price and discount / premium since the Fund's listing in January 2011. As at yesterday's close, the Fund was trading at a discount of 17.97% for the shares and 20.11% for the GDRs.

On **slide 3** we present the Fund's shareholders structure as at 31 January 2023 with no major changes since our last results conference call in November 2022. The cancellation of shares bought back during 2022 is submitted for shareholders' approval during the 2023 Annual GSM.

On **slide 4** we show a summary of the NAV, share price and GDR performances since 2011, and the evolution of the Fund's average annual discount on BVB and LSE.

The NAV total return in 2022 was 19.1%, the total return for the local shares was 12.2%, while the total return for the GDRs was 3.9%.

For the first month of 2023, the NAV total return was 0.1%, the total return for the local shares was negative, of (0.5)%, while the total return for the GDRs was 2.8%.

On **slides 5 and 6** we show the contributors to the Fund's NAV performance for the fourth quarter and for the entire last year.

During the fourth quarter of 2022, **slide 5**, the NAV per share decreased by 4.6% mainly as a result of the valuation update of the portfolio companies.

For the 30 November 2022 NAV, starting from the methodology used in the last valuation report prepared with the assistance of KPMG Advisory for Hidroelectrica SA, the main inputs were updated: the market multiples, EBITDA, and net cash position, based on the company's financial information. Also, the inputs to the valuation included an adjustment to reflect the impact coming from the latest changes in the energy market legislation.

For the 31 December 2022 NAV, valuation updates in accordance with the International Valuation Standards were prepared for 19 unlisted holdings with the assistance of KPMG Advisory and Darian DRS, representing 100% of the unlisted portfolio. The valuation date was 31 October 2022, and the reports are based on the financial data of the companies as at 30 September 2022, while the valuations also considered the subsequent developments until 31 December 2022, such as changes in legislation.

As you can see, following these valuation report updates, the main contributors in the fourth quarter of last year, were the power and gas utilities companies i.e., Enel distribution companies and Engie Romania, followed by Salrom, the salt mine company.

The bottom performers for the quarter were the power producer Hidroelectrica and the two Enel supply companies, followed by Constanta Port and Canale Navigabile - a smaller holding in the Fund's portfolio.

On **slide 6**, we present the top and bottom performers were the entire last year.

Even if at the beginning of 2022, the risks associated with the COVID 19 pandemic decreased, the Russian invasion of Ukraine brought new turmoil on the global and regional markets. We continued to closely monitor the evolution of financial markets and that of the specific industries the unlisted holdings operate in for each NAV reporting date and whenever necessary, updates on the valuation of unlisted holdings were prepared in accordance with the International Valuation Standards, with the assistance of KPMG Advisory and Darian DRS.

As a result, for the entire 2022, the top performers were Hidroelectrica, Salrom, Bucharest Airports, Posta Romana and Zirom - two smaller companies in the Fund's portfolio, while the bottom performers were the power and gas utilities companies Engie and Enel (supply companies and distribution company Banat).

The overall performance for the NAV in 2022 was positive of 13.6%.

The Fund will continue to closely monitor the evolution of financial markets and that of the specific industries the unlisted holdings operate in and if necessary, an update of the multiples' analysis will be prepared, and the valuation of unlisted holdings will be updated accordingly.

In the next section, we would like to give an update on the **Fund's Portfolio**

On **slide 8**, we show the portfolio structure as at the end of January: 92.8% in unlisted companies, 5.9% in listed equities, and 1.3% in Net cash and receivables. Net cash and receivables position as at 31 January was USD 190.1 mn.

On **slide 9** we present the main portfolio companies as at 31 January 2023, representing 92.2% of the Fund's NAV, with Hidroelectrica representing 76.5% of the Fund's NAV.

On the next slides, **slides 10** and **11**, we present some updates on the largest holding of the Fund, Hidroelectrica.

On **slide 10**, we show the preliminary financial and operational figures for 2022. According to the management, on a standalone basis, the company registered, compared to 2021:

- Operating revenues of RON 9.1 bn, up 40%,
- Operating result of RON 4.7 bn, up 37%,
- EBITDA of RON 5.8 bn, up 25%,
- Net profit of RON 4 bn, up 33%,
- Total electricity sold was 14.3 TWh, down 16%, while Electricity sold out of own production was down 20% to 13.3 TWh,
- Average realised electricity selling price was 560 RON / MWh, up 65% compared to 2021.

According to management, on a stand-alone basis, the company registered in 2022 total costs with:

- the windfall tax of RON 557.1 mn versus RON 113.2 mn in 2021,
- the turbinated water of RON 451.0 mn, down 16.5% y.o.y., driven by lower electricity production volume.

At the end of December 2022:

- the cash and equivalents position stood at RON 4.13 bn.
- the total interest-bearing debt amounted to RON 498.4 mn, compared to RON 579.3 mn as at the end of December 2021.

Over the period, operating cash-flow amounted to RON 4,511.7 mn, versus RON 3,952.9 mn during 2021.

CAPEX carried out by the company in 2022 amounts to RON 194.1 mn versus RON 829.3 mn in 2021 (out of which RON 635.2 mn was related to the acquisition of Crucea Wind Park).

On the Corporate Governance front, **slide 11**, please note that in October 2022, shareholders approved the initiation of the selection process for the Supervisory Board in accordance with the provisions of GEO no. 109 / 2011. The selection process, conducted by the Ministry of Energy with the assistance of an independent HR recruitment specialist, is currently ongoing. The deadline for submission of applications was 20 February 2023.

The 4-year mandate of all the seven members of the Supervisory Board appointed in 2019 expired on 5 February 2023. Subsequently, a new Supervisory Board with the same composition was appointed for an interim mandate of 4 months or until the finalisation of the selection process mentioned above, in case it occurs before the expiration of the 4-months mandate period.

On 7 December 2022, Mr. Andrei Gereaa was appointed as interim member of the Directorate for a period of 4 months, replacing Mr. Radu Pop.

Following a court case initiated in 2020 by an employee of the company, the Bucharest Court annulled in April 2022, the recruitment procedure and the selection process that was carried out by the company during 10 April – 4 June 2019, for the selection of the 5 members of the Directorate. According to the decision, the company is obliged to issue a new decision for a new recruitment process. Hidroelectrica has appealed the Court decision and a ruling on the matter is expected in the next period.

Regarding the company's IPO, we, Hidroelectrica, and the consortium of investment bank are conducting intensive work to complete the IPO process in 2023. The Romanian State, the company's majority shareholder, committed in PNRR to the listing of Hidroelectrica by the end of H1 2023.

On **slide 12**, we present the main details on the OMV Petrom ABB executed in December 2022, following which the Fund exited entirely from the company.

On **slide 13** we present the 2022 preliminary figures for Bucharest Airports.

On the financial side:

- Operating revenues increased 73% compared to 2021, to almost RON 1 bn;
- Operating result reached RON 280.1 mn from RON 40.8 mn in 2021;
- Net income was RON 215.7 mn, up six times compared to the previous year.

In Q4 2022, traffic was down by 8% compared to Q4 2019, which was at a historical peak and just before the start of the pandemic. Overall traffic in 2022 reached 12.6 mn passengers, 14% below pre-pandemic levels.

On **slide 14** we show the 2022 preliminary figures for Constanta Port.

On the financial side:

- Operating revenues increased by 18% y.o.y. to RON 493 mn;
- Operating profit was RON 129 mn, down from RON 141 mn in 2021;
- Net income was RON 117 mn, down 10% compared to the previous year.

In 2022 traffic volumes reached an all-time high of 75.6 mn tons, including one-off traffic triggered by the war in Ukraine (approximately 11.85 mn tons).

The management estimates that while revenues also jumped by 24%, profitability slightly deteriorated to RON 117 mn.

Regarding Salrom's 2022 preliminary results, on **slide 15**:

- Operating revenues increased by 39% y.o.y. to RON 521 mn;
- Operating profit was RON 145 mn from RON 70 mn in 2021;
- Net income was RON 142 mn, up 135% compared to the previous year.

On the corporate governance front, last month the company's shareholders approved the re-launch of the selection process for Board members based on GEO no. 109 / 2011, with the selection procedure being conducted at the level of the Ministry of Economy.

Regarding the company's IPO, the Fund, as selling shareholder, and Salrom continue to prepare for an IPO during 2023.

Moving to the **Corporate Actions section**, I would like to invite Marius to comment.

Marius Dan, Deputy CEO, Corporate Strategy:

Thank you, Johan.

On **slide 17**, we outline the Fund's distributions since we started managing the Fund.

The 2023 amounts are estimations we've made based on the buybacks executed so far, the ongoing Tender offer, the dividend distribution proposed for shareholder's approval during the April Annual GSM and the number of paid shares excluding treasury shares as at 31 January. Please note that daily

execution of the 14th buyback programme started on 3 January is currently suspended due to the ongoing Tender offer process.

Total distributions made since 2010, including the current estimations for 2023, reached RON 18 bn i.e., USD 4.6 bn.

On **slide 18**, we outline the latest updates on the Fund's buy-back programmes. The 14th buy-back programme started on 3 January 2023, while the cancellation of shares bought back last year is on the agenda of the April Annual GSM.

On the next slide, **slide 19**, we show the main details of the ongoing Tender offer I've already mentioned:

- the size of the offer is of 225 mn shares in the form of shares and / or GDRs;
- the purchase price is of RON 2.19 per share and the USD equivalent of RON 109.50 per GDR;
- the subscription period started on 10 February and will end on 13 March;
- the allocation method is pro-rata;
- and the consortium handling the offer is composed of: Swiss Capital as Intermediary; Swiss Capital and Auerbach Grayson as Deal managers, and The Bank of New York Mellon as GDR Tender agent.

On **slide 20**, we present the cash distribution recommendation we submitted for shareholders' approval, for the 2022 financial year.

Considering the provisions of the Annual Cash Distribution Policy, the available cash balance and the ongoing DCM measures (ongoing 11th Tender offer), the Fund Manager proposes to shareholders for their approval, a cash distribution of RON 0.05 per share.

The Sole Director intends to use any cash inflows related to portfolio events occurring during 2023 to further implement the DCM techniques set out in the Fund's Investment Policy Statement such as by funding the buyback programme, as approved by the Fund's shareholders, and / or by proposing to shareholders the payment of a potential dividend(s) (subject to market conditions and any restrictions under Romanian legal or tax regulations and to required shareholders' approval).

The above-mentioned DCM techniques will be separate from any distributions resulted from the ongoing listing projects.

On **slide 21** we present the main points of the 21 April 2023 Annual GSM.

On the EGM agenda, the main topics are:

- The approval of several amendments to the Constitutive Act of Fondul Proprietatea.
- The approval of the decrease of the subscribed share capital of Fondul Proprietatea pursuant to the cancellation of the own shares acquired by Fondul during 2022.
- The approval of the decrease of the legal reserve of the Fund by RON 20.21 mn representing 20.63% of the share capital, to RON 646.65 mn representing 20.00% of the share capital

On the EGM agenda, the main topics are:

- The presentation by the Fund Manager of the 2022 Performance Report and by the Board of Nominees of its annual report for 2022 FY, including its Review Report in relation to the Fund's Performance Report.

- The approval of the Annual Activity Report of the Sole Director for the 2022 FY, including the IFRS and the auditor report.
- The approval to cover, from other reserves, the negative reserves arising out of the cancellation of the treasury shares acquired during 2022.
- The approval to allocate to other reserves from the 2022 net audited accounting profit an amount of RON 908.85 mn to be used for covering the negative reserves estimated to arise from the cancellation of treasury shares acquired in 2022.
- The approval of the 2022 remaining net accounting profit allocation, including the approval of the gross annual dividend of RON 0.05 per share corresponding to the 2022 FY profit.

On **slide 22**, we include the 2023 Financial Calendar for Fondul Proprietatea.

The Fund's **Financial results** for the period are presented on slides 24 and 25, and I would like to invite Catalin Cadaru, Head of Financial Reporting to comment.

Catalin Cadaru, Head of Financial Reporting:

Thank you, Marius.

Slide 24, Statement of Financial Position

The liquid assets increased by approximately RON 500 million at the end of 2022. The most important inflows during the year relate to the proceeds from the full disposal of OMV Petrom SA shares and the net dividends collected, and these were partially offset by the dividends paid to shareholders and the amounts paid in the buyback program.

The net increase in equity investments of more than RON 1 billion was mainly generated by the increase in the fair value of Hidroelectrica SA (approximately RON 2 billion) that was partially offset by the full disposal of OMV Petrom SA and the decrease in the fair value of other holdings (mainly Enel companies and Engie).

Other liabilities caption decreased compared to 31 December 2021 mainly due to the dividend distribution that started on 18 February 2022.

Slide 25, Statement of Comprehensive Income

The Fund registered an audited profit of RON 2,8 billion for the financial year ended 31 December 2022.

The operating income is influenced by the performance of the portfolio companies and their decisions on dividend distributions, by the changes in the share price of listed portfolio companies as well as by money market performance.

The net unrealised gain from equity investments at fair value through profit or loss of approximately RON 2 billion was mainly generated by the increase in the fair value of Hidroelectrica SA.

The gross dividend income for 2022 mainly includes the amounts approved by Hidroelectrica SA (RON 764.0 million) and OMV Petrom SA (RON 133.6 million).

The net gain from other financial instruments at fair value through profit or loss in 2022 mainly includes the realised gains from the collection of the unpaid shares from the Romanian State in February 2022 and from the OMV Petrom preferential rights that were exercised by the Fund as part of a share capital increase in the company.

Both realised losses captions relate to the full disposal of OMV Petrom SA during 2022 (either through daily market transactions or ABBs).

Marius: Thank you Catalin. At this point, I would like to open it up for your questions.

Thank you again everyone for your time today. For any additional questions, please do not hesitate to contact me.