

# Q1 2023 Results Conference Call

12 May 2023

## Marius Dan, Deputy CEO, Corporate Strategy:

Good afternoon and welcome everyone to our conference call to discuss the Q1 2023 results and the April 2023 NAV developments. Calin Metes, Deputy 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 Q1 2023 Quarterly 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](http://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 Calin to start off with the presentation.

## Calin Metes, Deputy CEO Franklin Templeton Bucharest and Deputy Portfolio 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 April, the Fund's NAV was RON 14.31 billion / USD 3.19 billion and the NAV / share reached RON 2.6510 / USD 0.5902.

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 **20.81%** for the shares and **19.72%** for the GDRs.

On **slide 3** we present the Fund's shareholders structure as at 30 April 2023 with no major changes since our last results conference call in February 2023. The cancellation of shares bought back during 2022 was approved 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 Q1 2023 was 0.5%, the total return for the local shares was 3.2%, while the total return for the GDRs was 6.5%.

For the first four months of 2023, the NAV total return was 5.1%, the total return for the local shares was 2.0%, while the total return for the GDRs was 6.5%.

On **slide 5** we show the contributors to the Fund's NAV performance for the first quarter.

During the first quarter of 2023, **slide 5**, the NAV per share increased by 0.5% mainly as a result of the tender offer that was finalized in March and the share price evolution according with Bucharest Stock Exchange.

As you can see, the main contributors in the first quarter of 2023, were Alro SA, Mecon SA and IOR SA.

The bottom performer for the quarter was Romaero SA - a smaller holding in the Fund's portfolio.

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 7**, we show the portfolio structure as at the end of April: 93.0% in unlisted companies, 1.2% in listed equities, and 5.8% in Net cash and receivables. Net cash and receivables position as at 30 April was USD 185.7 mn.

On **slide 8** we present the main portfolio companies as at 30 April 2023, representing 92.1% of the Fund's NAV, with Hidroelectrica representing 75.9% of the Fund's NAV.

On the next slides, **slides 9 and 10**, we present some updates on the largest holding of the Fund, Hidroelectrica.

On **slide 9**, we show the financial and operational figures for Q1 2023. According to the management, the company registered, compared to Q1 2022:

- Revenues of RON 3.4 bn, up 37%,
- Operating result of RON 2.0 bn, up 33%,
- EBITDA of RON 2.2 bn, up 34%,
- Net profit of RON 1.7 bn, up 34%,
- Total electricity sold was 4.8 TWh, up 45%, while Electricity sold out of own production was up 38% to 4.4 TWh.
- Average realised electricity selling price was 656.3 RON / MWh, up 0.1% compared to Q1 2022.

According to management, over the first three months of the year, the company registered total costs with:

- the windfall tax of RON 230.6 mn, down 32.2% y.o.y.
- the turbinated water of RON 163.6 mn, up 47.5% y.o.y.

At the end of March 2023:

- the cash and equivalents position stood at RON 4.89 bn.
- the total interest-bearing debt amounted to RON 473.5 mn, compared to RON 555.0 mn as at the end of March 2022.

In Q1 2023, operating cash-flow amounted to RON 1,210.7 mn, versus RON 1,214.8 mn during Q1 2022.

CAPEX carried out by the company in Q1 2023 amounts to RON 40.6 mn versus RON 15.7 mn in Q1 2022.

Dividends: RON 3.91 bln, 780 mln FP – to be paid in 16<sup>th</sup> of June.

Special dividends: RON 435 mn – FP 87 mn – paid towards the end of September.

On the Corporate Governance front, **slide 10**, please note that on 28 March 2023, the shareholders appointed a new Supervisory Board with a 4-year mandate. Out of the seven board appointments Mr. George Niculescu, Mr. Silviu Avram and Mr. George Toniuc were acting for the first time as board members on the Supervisory Board of Hidroelectrica while Mr. Mihai Mihalache, Ms. Carmen Radu, Mr. Karoly Borbely and Mr. Daniel Naftali have been reappointed. Subsequently, on 21 April 2023, the shareholders approved the revocation of Mr. George Niculescu from the Supervisory Board of Hidroelectrica, following the termination of his mandate contract through mutual agreement. Mr. Niculescu was appointed by decision of the Romanian Parliament as President of the ANRE starting with 23 April 2023.

Following a court case initiated in 2020 by an employee of the company, in April 2022 the Bucharest Court annulled 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. The appeal filed by Hidroelectrica was rejected by the Bucharest Court of Appeal in a ruling issued in March 2023.

Starting with 7 April 2023, all five members of the Directorate: Mr. Bogdan Badea, Mr. Andrei Gere, Mr. Marian Bratu, Mr. Razvan Pataliu and Mr. Cristian Vladoianu were reappointed on an interim basis for a 4-months period.

Regarding the company's IPO, we and Hidroelectrica SA continue to prepare for an IPO during 2023.

The Romanian State committed in PNRR to the listing of Hidroelectrica by the end of H1 2023.

On **slide 11** we present the 2022 figures for Bucharest Airports.

On the financial side:

- Operating revenues increased 73% compared to 2021, to almost RON 1 bn;
- Operating result reached RON 344.7 mn from RON 40.8 mn in 2021;
- Net income was RON 304.0 mn, up almost 8 times compared to the previous year.

Airport traffic reached record high levels in Q1 2023 of 3.1 million passengers, over 3% higher than pre-Covid levels in Q1 2019 and 54% higher year-over-year.

On **slide 12** we present some updates on Enel.

The Fund and the Greek company Public Power Corporation S.A. have concluded on 19 April 2023 an agreement for the sale of all the equity stakes held by the Fund in E-Distributie Muntenia S.A., Enel Energie Muntenia S.A., E-Distributie Dobrogea S.A., E-Distributie Banat S.A., and ENEL Energie S.A., in exchange for a total consideration of RON 650,000,000. The completion of the sale under the SPA is subject, among others, to the closing of the transaction between Enel and PPC.

On **slide 13** we present some updates on Enel and Engie.

Following several ANRE orders approved in March 2023:

- Gas distribution tariffs for Engie are on average 57.2% higher compared to the tariffs approved in 2022.
- Regulated distribution tariffs for E-Distributie companies increased on average by 11.6% starting with April 2023 versus April 2022.

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

On the financial side:

- Operating revenues increased by 15% y.o.y. to RON 480 mn;
- Operating profit was RON 132mn, down from RON 141 mn in 2021;
- Net profit was RON 115 mn, down 12% compared to the previous year.

On the corporate governance front, all Board members have interim mandates. The selection process for 4-year mandates has not started yet.

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

- Operating revenues increased by 32% y.o.y. to RON 495.3 mn;
- Operating profit was RON 134 mn from RON 70 mn in 2021;
- Net income was RON 121 mn, up 101% compared to the previous year.

On the corporate governance front, in January 2023, 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 continues to engage with the majority shareholder and the company in relation to preparations for a potential IPO in the context of the protracted process for the appointment of the company's directors under the corporate governance rules applicable to state owned entities.

On **slide 16** we show key financials for the Fund's largest holdings, including the 2022 figures, approved or pending shareholders' approval.

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

**Marius Dan, Deputy CEO, Corporate Strategy:**

Thank you, Calin.

On **slide 18**, 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 finalized Tender offer, the dividend distribution approved by the shareholders during the April Annual GSM and the number of paid shares excluding treasury shares as at 11 May. Please note that daily execution of the 14th buyback programme started on 3 January is currently suspended.

Total distributions made since 2010, including the current estimations for 2023, reached RON 18.1 bn i.e., USD 4.7 bn.

On **slide 19**, we outline the latest updates on the Fund's buy-back programmes. The 14<sup>th</sup> buy-back programme started on 3 January 2023. During the annual GSM held on 21 April, the Fund's shareholders approved the cancellation of shares bought back last year, and the process is currently ongoing.

On the next slide, **slide 20**, we show the main details of the Tender offer that was previously 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 ended 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 21** we include details on the Fund's annual net dividends and dividend payout ratios for the largest portfolio companies as at the end of April, based on the figures approved **by the shareholders**. Total amount for top holdings is approximately RON 600.6 mn for the dividends declared in 2022. Subsequently, in April 2023, Hidroelectrica declared an annual regular dividend amounting to RON 780.7.

On the following slide, **slide 22**, we show a summary of the total dividend income received from the portfolio companies in the last 10 years. Total dividends (regular and special) to be received this year amount so far, to RON **868.4** mn.

On **slide 23**, we include the 2023 Financial Calendar for Fondul Proprietatea.

The Fund's **Financial results** for the period are presented on **slides 25 and 26**, and I would like to invite Catalin Cadaru, Head of Financial Reporting to comment.

### **Catalin Cadaru, Head of Financial Reporting:**

Thank you, Marius.

#### **Slide 25, Statement of Financial Position**

The liquid assets decreased by 61% at 31 March 2023 compared to the end of 2022, mainly as a result of the amounts paid for the acquisition of treasury shares within the 14th buyback programme, including the tender offer settled during the period.

The net decrease in **equity investments** during Q1 2023 was mainly related to the reclassification of Enel holdings as non-current assets held for sale following the signing of the related SPA.

#### **Slide 26, Statement of Comprehensive Income**

**Interest income** arose from short term deposits held with banks and was the main income element recorded by Fondul during Q1 2023.

Following the analysis performed, the Fund concluded that there were no significant changes to the valuation of the unlisted holdings in the portfolio during Q1 2023 therefore the first quarter results were not impacted by this element.

**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.