

Memo regarding the accounting losses recorded as at 31 December 2015

On 28 December 2015, the FSA published the Norm no. 39/2015 approving International Financial Reporting Standards as adopted by European Union (“IFRS”) as the statutory accounting basis (official accounting regulations) for the annual financial statements for the year ended 31 December 2015, although, during 2015 Romanian accounting regulations (CNVM Regulation no 4/2011, as subsequently amended) were the official accounting regulations.

According to Romanian accounting regulations mentioned above, Fondul Proprietatea recorded a net profit of RON 1,012,898,265 for the financial year 2014, while, for the same financial year, according to IFRS the Fund recorded a net profit of RON 427,186,290.

Under IFRS, Fondul Proprietatea incurred an accounting loss of RON 565,116,301 for financial year 2015, while the cumulated losses for previous financial years were an amount of RON 1,908,041,171.

The main factor behind the accounting loss in 2015 was the unrealised negative net change in fair value related to equity investments classified at fair value through profit or loss, principally related to the holding in OMV Petrom SA, as a result of the negative evolution of the share price of this company in 2015.

The main factors behind the cumulated accounting losses in previous financial years were:

(1) the impairment losses recorded for equity investments available for sale, principally for the holding in Hidroelectrica recorded mainly in 2012 when this company entered insolvency and for the holdings in Complexul Energetic Oltenia and Nuclearelectrica recorded mainly in 2013 and 2014; and

(2) the unrealised negative net change in fair value for the holding in OMV Petrom because of the negative evolution of the share price of this company as compared to the value at which this holding was brought by the Romanian state as contribution to the share capital of Fondul Proprietatea.

According to article 19 paragraph (4) of the Romanian Accounting Law (Law no. 82/1991) “*The retained accounting loss shall be covered from the profit of the financial year and from retained profit, from reserves, capital premiums and share capital, according to the decision of the general assembly of the shareholders or of the associates.*”

Also, according to article 88 of the Norm no. 39/2015 “*Retained accounting loss is covered from the profit of current year and retained profit, reserves, capital premiums and share capital, according to the decision of the general shareholders’ meeting, in accordance with the legislation in force. In the absence of any specific legal provisions, the order of covering the accounting losses is approved by the general shareholders’ meeting and board of directors*”.

Considering the legal provisions mentioned above the Fund Manager proposes to analyse during 2016 the potential measures and the sources for covering retained accounting losses and to propose an appropriate solution in a later stage.

Franklin Templeton Investment Management Ltd. United Kingdom Bucharest Branch, acting as Sole Administrator on behalf of FONDUL PROPRIETATEA S.A.

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