

Memo regarding the share capital decrease

In accordance with the Annual Cash Distribution Policy, the Fund Manager is committed to returning cash to shareholders on an annual basis. The Romanian regulatory environment requires that all accounting losses are covered before a cash distribution can be made to the shareholders.

On 26 April 2016, during the 2016 Annual General Meeting of Shareholders, the shareholders empowered the Fund Manager to analyse during 2016 the potential measures and the sources for covering the retained accounting losses and to propose an appropriate solution in a later stage.

Accounting losses coverage

On 28 December 2015, the FSA published the Norm no. 39/2015 approving the International Financial Reporting Standards as endorsed by the European Union (“IFRS”) as the statutory accounting basis (i.e. official accounting regulations) starting with 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.

In accordance with IFRS, Fondul Proprietatea incurred an accounting loss of RON 565,116,301 for the financial year 2015, while the cumulated losses for the previous financial years amounted to RON 1,908,041,170.66.

In accordance with the latest audited financial statements (i.e. financial statements as at 31 December 2015), the total accounting loss to be covered amounts to RON 2,473,157,471.66. Also, the Other reserves caption includes:

- Legal Reserves – RON 243,735,507
- The part of 2006 and 2007 profits allocated to reserves – RON 120,299,557, and
- Reserves related to gain on cancellation of treasury shares – RON 163,362,822

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 during 2015.

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

- (1) the impairment losses recorded for the available for sale equity investments, mainly for the holding in Hidroelectrica, the most significant amount being recorded in 2012 when this company entered in insolvency and for the holdings in Complexul Energetic Oltenia and Nuclearelectrica, recorded in 2013 and 2014; and
- (2) the unrealised negative net change in fair value for the holding in OMV Petrom as a result of the negative evolution of the share price for 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.

Legal requirements and possible scenarios

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".

The Legal reserves cannot be used to cover the accounting losses.

Starting from the article 19 paragraph (4) of the Romanian Accounting Law, applied together with the Company Law, there are three potential solutions to cover the accounting losses, in order to let shareholders to receive an extraordinary cash distribution, as follows.

Scenario 1:

The accounting loss can be covered using:

- RON 256,859,707.54 from 'Other reserves' respectively RON 120,299,556.29 representing the part of 2006 and 2007 profits allocated to reserves and an amount of RON 136,560,151.25 taken from the reserves related to gain on cancellation of treasury shares and
- RON 2,216,297,764.12 from registered capital.

As a result there may be a decrease of nominal value from RON 0.85 to RON 0.63 for covering the accounting losses and from RON 0.63 to 0.58 for extraordinary cash distribution of RON 0.05 / share.

Scenario 2:

The accounting loss can be covered using:

- RON 156,118,900.08 from 'Other reserves' respectively RON 120,299,556.29 representing the part of 2006 and 2007 profits allocated to reserves and an amount of RON 35,819,343.79 taken from the reserves related to gain on cancellation of treasury shares and
- RON 2,317,038,571.58 from registered capital.

As a result we have a decrease of nominal value from RON 0.85 to RON 0.62 for covering accounting losses and from RON 0.62 to 0.57 for extraordinary cash distribution of RON 0.05 / share.

Scenario 3:

The accounting loss can be covered using:

- RON 55,378,092.62 from 'Other reserves' respectively from the part of 2006 and 2007 profits allocated to reserves and
- RON 2,417,779,379.04 from registered capital.

As a result we have a decrease of nominal value from RON 0.85 to RON 0.61 for covering accounting losses and from RON 0.61 to 0.56 for extraordinary cash distribution of RON 0.05 / share.

The Fund Manager's recommendation and proposals

The Fund Manager recommends the shareholders to follow the second scenario as this make full use of the 'Other Reserves' set-up from 2006 and 2007 profits and as a summary, we propose shareholders to approve the share capital decrease by decreasing the nominal value from RON 0.85 to RON 0.57 for covering the accounting losses and for an extraordinary RON 0.05 / share distribution.

In light of the above, we would like to submit for the shareholders' approval the share capital decrease, as follows.

"The approval of the decrease of the subscribed share capital of Fondul Proprietatea S.A. from RON 8,562,968,634.10 to RON 5,742,226,025.22 through the reduction of the par value of the shares of Fondul Proprietatea SA from RON 0.85 to RON 0.57, and thus the approval of its mechanics which incorporates two operations (coverage of accounting losses and distribution to shareholders) described below as follows.

1. The approval of the coverage of the accumulated accounting losses as reflected in Fondul Proprietatea S.A. financial statements at 31 December 2015 in amount of RON 2,473,157,471.66, in accordance with article 207 paragraph (1) letter b) of Law no. 31/1990 using:

- RON 156,118,900.08 from Other reserves
- RON 2,317,038,571.58 from registered capital
through the decrease of the subscribed share capital of Fondul Proprietatea S.A. from RON 8,562,968,634.10 to RON 6,245,930,062.52 by reducing the par value of the shares of Fondul Proprietatea SA from RON 0.85 to RON 0.62.

2. The approval of the decrease of the subscribed share capital of Fondul Proprietatea SA from RON 6,245,930,062.52 to RON 5,742,226,025.22 through the reduction of the par value of the shares of Fondul Proprietatea SA from RON 0.62 to RON 0.57. The decrease is motivated by the optimization of the share capital of Fondul Proprietatea SA, involving the return to the shareholders of a part of their contributions, proportionally with their participation to the paid-up share capital of Fondul Proprietatea SA. The subscribed share capital decrease will take place on the basis of Article 207 paragraph (2) letter b) of Law no. 31/1990. As such, the shareholders approve the payment to the shareholders registered as such at the Registration Date of this EGM of RON 0.05/share, proportionally with their participation to the paid-up share capital of Fondul Proprietatea SA. The payment shall start on the Payment Date of this EGM provided that the Conditions (as defined below) are met.

After the share capital decrease mentioned above, the subscribed share capital of Fondul Proprietatea SA shall have a value of RON 5,742,226,025.22 being divided in 10,074,080,746 shares, each having a nominal value of RON 0.57 per share.

The approval of the amendment of Article 7 paragraph (1) of the Constitutive Act as follows.

“(1) The subscribed share capital of Fondul Proprietatea is in amount of RON 5,742,226,025.22, divided in 10,074,080,746 ordinary, nominative shares, having a nominal value of RON 0.57 each. The capacity as shareholder of Fondul Proprietatea is attested by a statement of account issued by Depozitarul Central SA”.

The approval of the amendment of Article 9 paragraph (2) of the Constitutive Act of Fondul Proprietatea SA as follows.

“(2) The nominal value of a share is RON 0.57”.

The subscribed share capital decrease herein from RON 8,562,968,634.10 to RON 5,742,226,025.22 will be effective after the following conditions (“**Conditions**”) are met:

- (i) this resolution is published in the Official Gazette of Romania, Part IV for at least two months;
- (ii) Financial Supervisory Authority (“**FSA**”) endorses the amendment of Article 7 paragraph (1) and Article 9 paragraph (2) of the Constitutive Act of Fondul Proprietatea SA as approved by shareholders during this meeting, where required by applicable law or regulation;
- (iii) the share capital decrease approved by the shareholders on 11 October 2016 is effective;
- (iv) the shareholders’ resolution for approving this share capital decrease is registered with the Trade Registry.”

Franklin Templeton International Services S.À R.L., acting as Sole Director on behalf of FONDUL PROPRIETATEA S.A.

Oana Valentina Truta
Permanent representative