

# Fondul Proprietatea – Performance Report

September 2016



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The price of shares and income from them can go down as well as up and you may lose some or all of your capital invested. The previous results of a fund or company do not account for future performances. Currency fluctuations will affect the value of foreign investments. All investments are subject to certain risks. Generally, investments offering the potential for higher returns are accompanied by a higher degree of risk. Stocks and other equities representing an ownership interest in a corporation have historically outperformed other asset classes over the long term but tend to fluctuate more dramatically over the shorter term. Small or relatively new companies can be particularly sensitive to changing economic conditions due to factors such as relatively small revenues, limited product lines, and small market share. Smaller company stocks have historically exhibited greater price volatility than larger company stocks, particularly over the short term. The significant growth potential offered by Emerging Markets remains accompanied by heightened risks when compared to developed markets, including risks related to market and currency volatility, adverse social and political developments, and the relatively small size and lesser liquidity of these markets.

The Fund's headquarters are located at 78-80 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 share capital is RON 9,320,973,180.85 and paid up share capital is RON 9,011,732,683.35.

Starting with 1 April 2016, in view of complying with the AIFMD, implemented in the Romanian legislation through Law no. 74/2015 on managers of alternative investment funds and Regulation no. 10/2015 on alternative investment fund management, Fondul Proprietatea SA, qualifying as an alternative investment fund, is managed by Franklin Templeton Investment Services S.À R.L. ("FTIS"), a société à responsabilité limitée qualifying as an alternative investment fund manager under Article 5 of the Luxembourg Law of 12 July 2013 on alternative investment fund managers, authorized by the Commission de Surveillance du Secteur Financier under no. A00000154/21 November 2013, whose registered office is located at 8A rue Albert Borschette, L-1246 Luxembourg, registered with the Luxembourg Register of Commerce and Companies under number B 36.979, registered with the Romanian Financial Supervisory Authority ("FSA") under number PJM07.1AFIASMDLUX0037/10 March 2016.

This presentation herein is issued by Franklin Templeton Investment Management Limited ("FTIML"), registered with the FSA under no. PJM01SFIM/400005/14 September 2009, which is authorized and regulated in the UK by the Financial Conduct Authority, registered therein under the number 121779, registered as a foreign equivalent of an investment adviser with the US Securities Exchange Commission, acting through its Romanian branch having its registered office at Premium Point, 78-80 Buzesti Str., 7-8th floors, 1st. District, Bucharest, Romania. FTIML acts herein as a delegate of FTIS with respect to the portfolio management functions as well as administration services over the Fund.

# Performance Report



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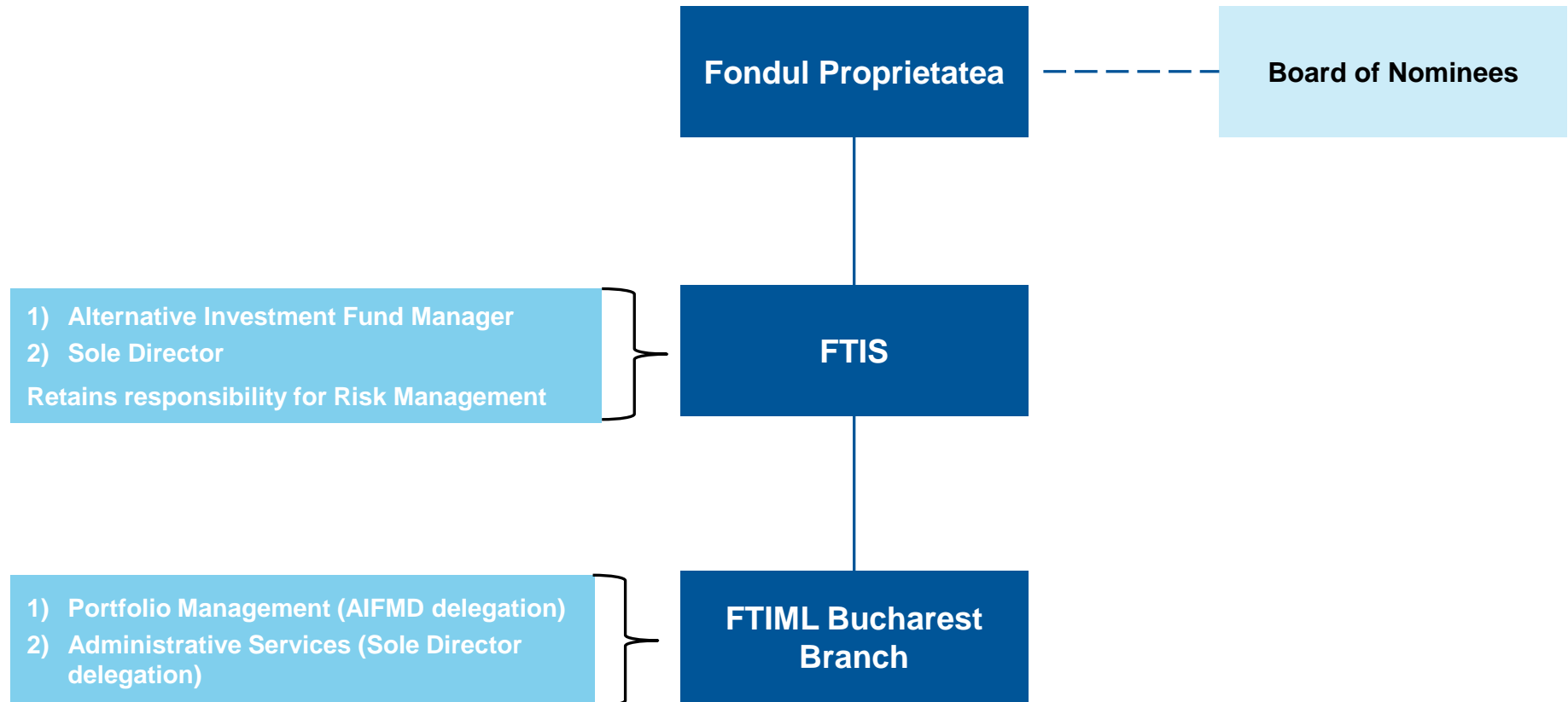
# Content of the Performance Report – According to the IMA in force

**Reporting Period:  
1 July 2015 – 30 June 2016**

- The report on the fulfillment of the Discount Objective
- The report on the fulfillment of the NAV Objective
- The report on the fulfillment of the obligations regarding 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 – since 1 April 2016

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# Primary Roles and Responsibilities of FTIS S.à r.l. – Management Company

## Responsibilities of the AIFM:

- Risk Management
- Investment Management (Oversight of delegated portfolio management to FTIML Branch)
- Valuation
- Due Diligence on the Depositary (BRD Groupe Societe Generale)
- Reporting obligations - AIFMD Annex IV reporting

## Responsibilities of the Sole Director:

- Responsibility to call & chair GSM, implement shareholder decisions
- Prepare Performance report for shareholders.
- Administration oversight (activity delegated back to FTIML Branch)
- Reporting obligations - annual financial statements; the annual activity report; the semi-annual report; the quarterly reports; the performance report.

## FTIS interaction with FTIML Bucharest

- Attendance at GSM meetings;
- Participate in BoN meetings
- Participate in weekly Management meetings
- Regular one to one meetings with the Investment Manager
- Regular risk management meetings
- Regular meetings with fund accounting

- 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 delegated to Franklin Templeton Investment Management Limited, new regulatory developments and any other matter which we believe should be brought to the attention of the Board or Shareholders.
- Since 1 April 2016 we have ensured that policies, controls and procedures in the major area of delegation and service provision – 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 the period since 1 April 2016 to raise to the attention of the Board of Nominees or to shareholders.



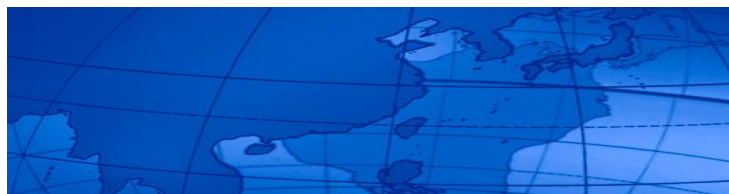
## Investment Objective:

- Maximization of returns and per-share capital appreciation via investments mainly in Romanian equities and equity-linked securities



## Investment Strategy:

- No new investments until the discount narrows significantly
- Active management and engagement with current portfolio companies to increase their value
- Continuing with buy-back programs (share repurchases and/or public tender offers) and cash distributions to shareholders (100% of dividends received from portfolio companies plus interest on cash less operating expenses and applicable taxes)



## Performance Objectives (IPS):

- Discount of 15% or less for at least two thirds of the trading days between 1 July 2015 – 30 June 2016
- Higher adjusted NAV per share than the NAV per share reported as at 30 June 2015<sup>1</sup> (RON 1.1851 per share)



1. 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 returns to shareholders, following reductions of the share capital (return of nominal value) implemented after 30 June 2015, and (3) any distribution fee and any transaction costs relating to non-dividend distributions including buy-backs of shares and/ or GDRs executed after 30 June 2015. 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.



# Historical NAV, Share Price and GDR Performance

## Cumulative Performance (RON)

	2011	2012	2013	2014	2015	Q1 2016	YTD <sup>2</sup>	Since Performance Inception <sup>2</sup>
NAV	(0.47)%	8.91%	13.29%	1.39%	(0.60)%	(4.84)%	3.53%	28.14%
Ordinary Share Price	(30.32)%	38.30%	61.34%	14.53%	(4.06)%	(4.81)%	(4.21)%	63.66%
GDR	N/A	N/A	N/A	N/A	N/A	(7.95)%	(3.05)%	(7.05)%

## Average Annual Discount

2011	2012	2013	2014	2015	YTD <sup>2</sup>	Current Share Price Discount <sup>2</sup>	Current GDR Price Discount <sup>2</sup>
55.67%	50.20%	41.30%	30.71%	28.92%	32.69%	33.12%	31.15%

Source: BVB, LSE, FP NAV reports.

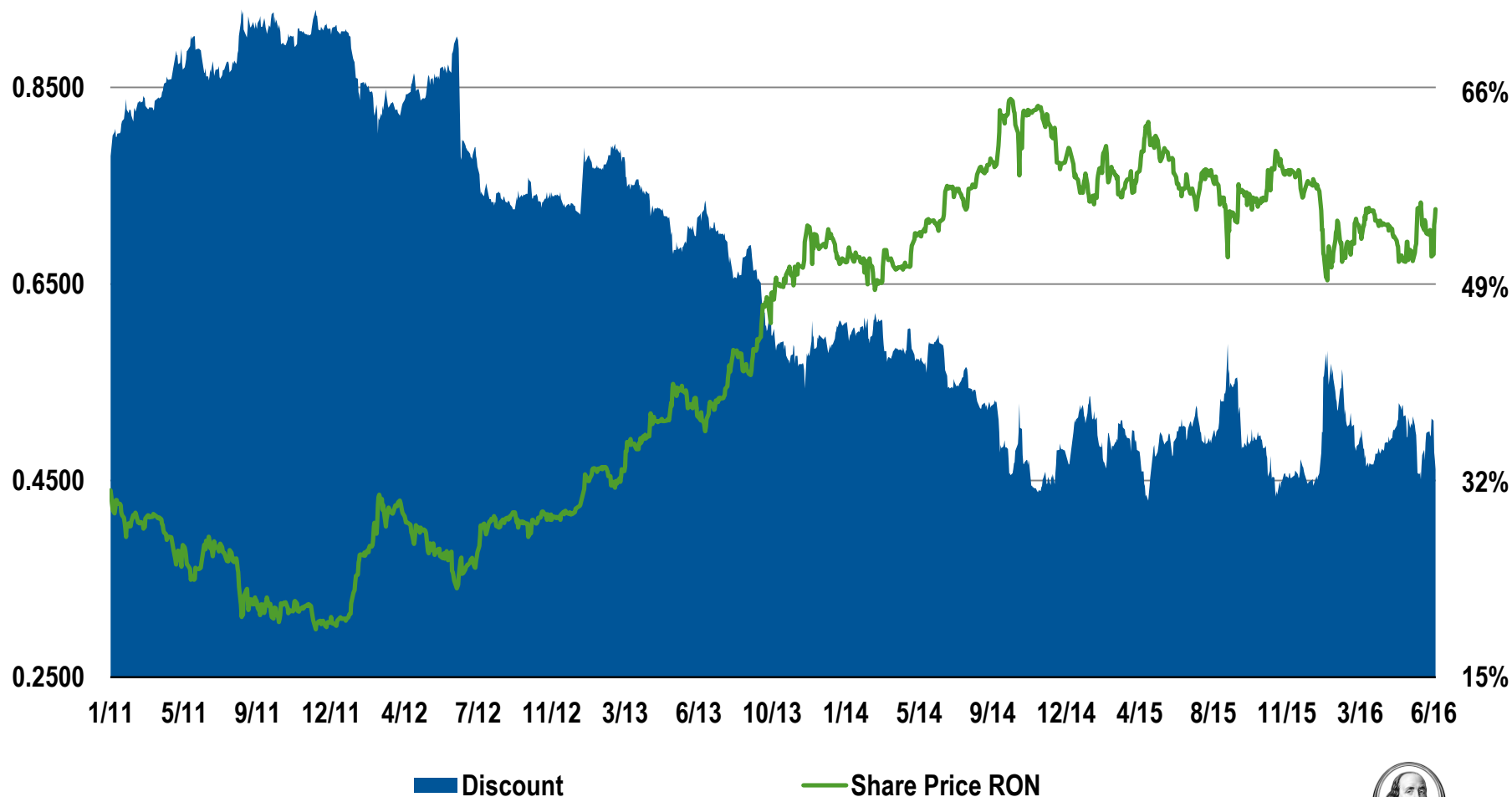
Note: The discount is calculated based on the latest published NAV available for the day of the calculation.

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. For the period: 4 January – 30 June 2016.

2. As at 30 June 2016.

# FP Share Price (RON) and Discount (%)



Source: BVB, for the period 25 January 2011 – 30 June 2015.

# Report on the Discount Objective



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# Discount Objective

- **Objective**

- The discount between closing price and last reported NAV per share to be equal to or lower than 15%, in at least 2/3 of the trading days in the period 1 July 2015 – 30 June 2016

- **Monthly Monitoring – 30 June 2016**

- In the period 1 July 2015 – 30 June 2016, discount was higher than 15%, for both shares and GDRs.

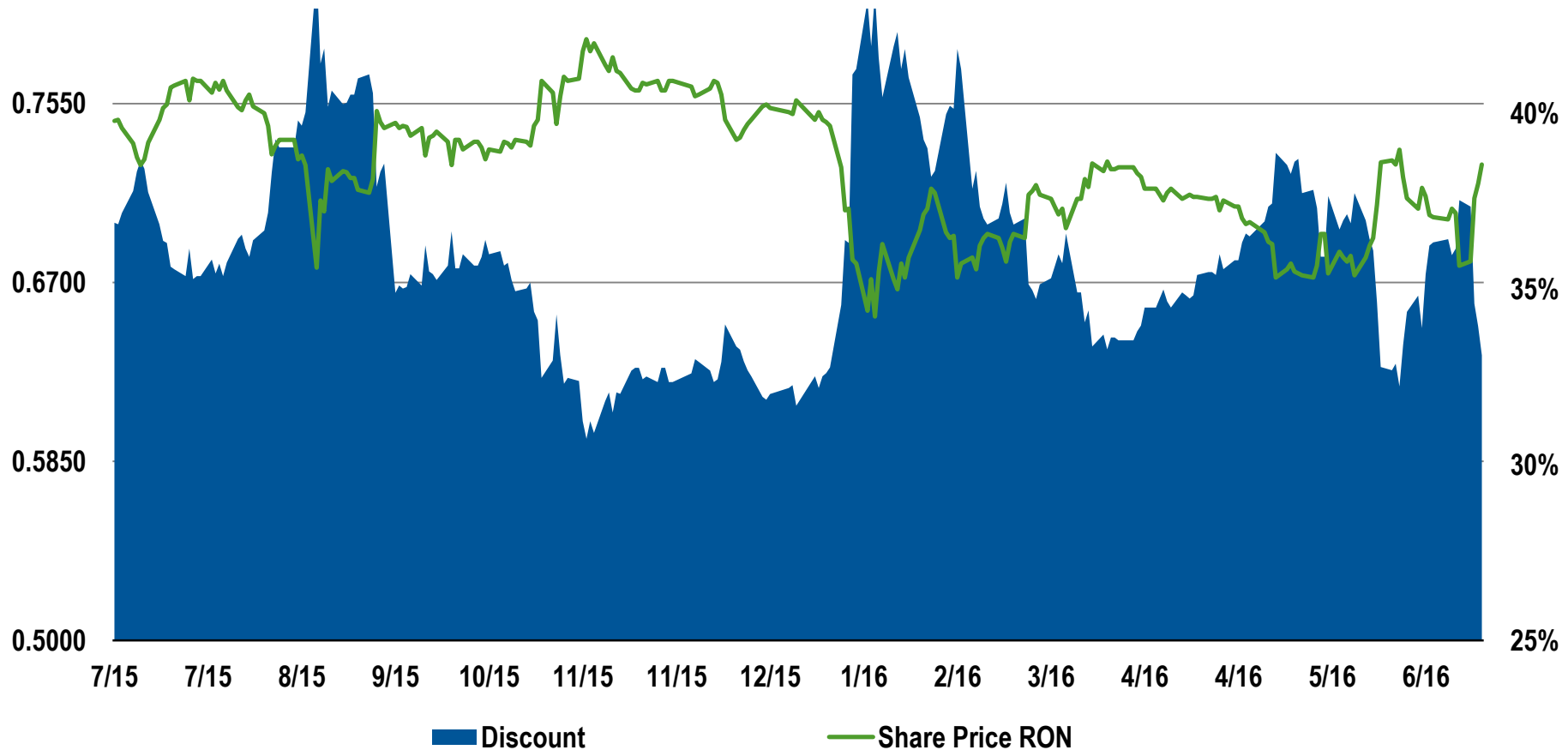
## Discount Evolution

Discount at the Start of the Reporting Period – 1 July 2015	Discount as at 30 June 2016	Average for the Reporting Period	Discount Range for the Reporting Period
32.4%	33.1%	31.8%	25.9% - 40.1%

Source: Fondul Proprietatea Report.

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

# Discount Objective – Evolution During the Reporting Period



Source: BVB, for the period 1 July 2015 – 30 June 2016.

# Discount Objective – Measures Taken

- Distributed RON 797.0 million to the Fund's shareholders during 1 July 2015 – 30 June 2016 via:
  - Execution of the 5<sup>th</sup> and 6<sup>th</sup> buy-back programs to acquire approx. 10% of the outstanding shares, through daily share repurchases of up to 25% of the average daily trading volumes for the last 20 trading sessions
  - Cash distribution to shareholders of RON 0.05 per share – paid starting with 27 June 2016
  - The total amount distributed (including buy-backs and cash distributions) represents 6.30% of the Fund's NAV as at 30 June 2015
- Proactive investor relations program to increase the visibility of the Fund to a broader base of investors



# Discount Objective – Creating Liquidity at the Portfolio Level during the Reporting Period<sup>1</sup>

	Amount RON
Total Proceeds Collected on Disposals	1,624,115,940
Dividends Received (Collected)	441,607,778
Credit Facility (Committed and Uncommitted)	500,000,000
<b>Total</b>	<b>2,565,723,718</b>

Source: Fund Manager.

1. For the Reporting Period: 1 July 2015 - 30 June 2016.

# Discount Objective – Distributions to Shareholders 1 July 2015 – 30 June 2016

RON	Distributions to shareholders in the period 1 July 2015 - 30 June 2016 (excluding related costs)	Expenses related to distributions recorded in the period 1 July 2015 - 30 June 2016	Total	% from the NAV as at 30 June 2015	% of the average share price during the period
Buyback program 5	55,219,927	65,436	55,285,363	0.43%	0.67%
Buyback program 6 (through shares acquisitions on the BSE and GDRs acquisitions on LSE)	224,885,534	251,530	225,137,064	1.78%	2.73%
Return of capital 2016	516,886,344	15,125	516,901,469	4.09%	6.28%
<b>Total</b>	<b>796,991,805</b>	<b>332,091</b>	<b>797,323,896</b>	<b>6.30%</b>	<b>9.68%</b>

# Discount Objective – Share Buybacks

Program	Period	Status	No. of shares to be repurchased / % of the Fund's issued share capital	Average share price (RON/share)	Broker	Cancellation of shares
Fifth	Feb – Jul 2015	Completed	227.6 mn/1.86%	0.8501 <sup>1</sup>	Wood & Co.	Cancelled on 14 March 2016
Sixth	Started on 9 Sep 2015	32.34% Completed	891.8 mn/7.54%	0.7799 <sup>2</sup>	Wood & Co., Goldman Sachs Int.	Shareholders approved on 26 April 2016 the cancellation of 179.6 mn shares
Seventh	-	Approved during the GSM on 29 October 2015	Max. 10% of the issued share capital at the relevant time	-	Pending	-

- The Fund Manager extended, until 31 August 2016, the Citi credit facility of RON 500 million (aprox. USD 125 million), with a potential increase to a further RON 500 million (USD 125 million). The credit facility was split into a committed facility of maximum RON 375 million (aprox. USD 94 million) and an uncommitted facility of maximum RON 125 million (aprox. USD 31 million). The credit facility was terminated on 8 July 2016.
- On 4 July 2016, the Fund Manager contracted a revolving credit facility for a maximum committed amount of RON 1 billion from BRD - Groupe Societe Generale SA., that replaces the financing arrangement concluded by the Fund with Citibank Europe Plc. The purpose of this credit facility is for general corporate use, including share buybacks, but excluding investments.

Program	Number of shares repurchased during 1 July 2015 – 30 June 2016	Market value of shares repurchased (RON)
Fifth	68,516,915	55,219,927
Sixth <sup>2</sup>	288,370,107	224,885,534
<b>Total</b>	<b>356,887,022</b>	<b>280,105,461</b>

1. As at 29 July 2015, based on the 227,572,250 shares repurchased.

2. As at 24 June 2016. Estimated value based on the 288,370,107 shares repurchased (239,871,207 ordinary shares and 48,498,900 equivalent shares of the GDRs repurchased).

# Discount Objective – Investor Relations Activity

- New research coverage of the Fund:
  - December 2015: Liberum (UK) started covering the Fund
  - March 2016: InterCapital Securities (Croatia) started covering the Fund
- During the period, the Fund Manager continue to actively promote Fondul Proprietatea, through:
  - 611 Investor Meetings
  - 60 Investor Conference Calls
  - 43 Investor Conferences and Road-shows
  - 3 Analyst and Investor Days (Bucharest in October 2015, London in February 2016, and New York in April 2016)
- Investors that attended FP Investor Days in 2015 manage over USD 1,500 billion
- Investors that attended the Romania Day in London and Romania Investor Days in New York events in February and April 2016, have assets under management of over USD 4,500 billion

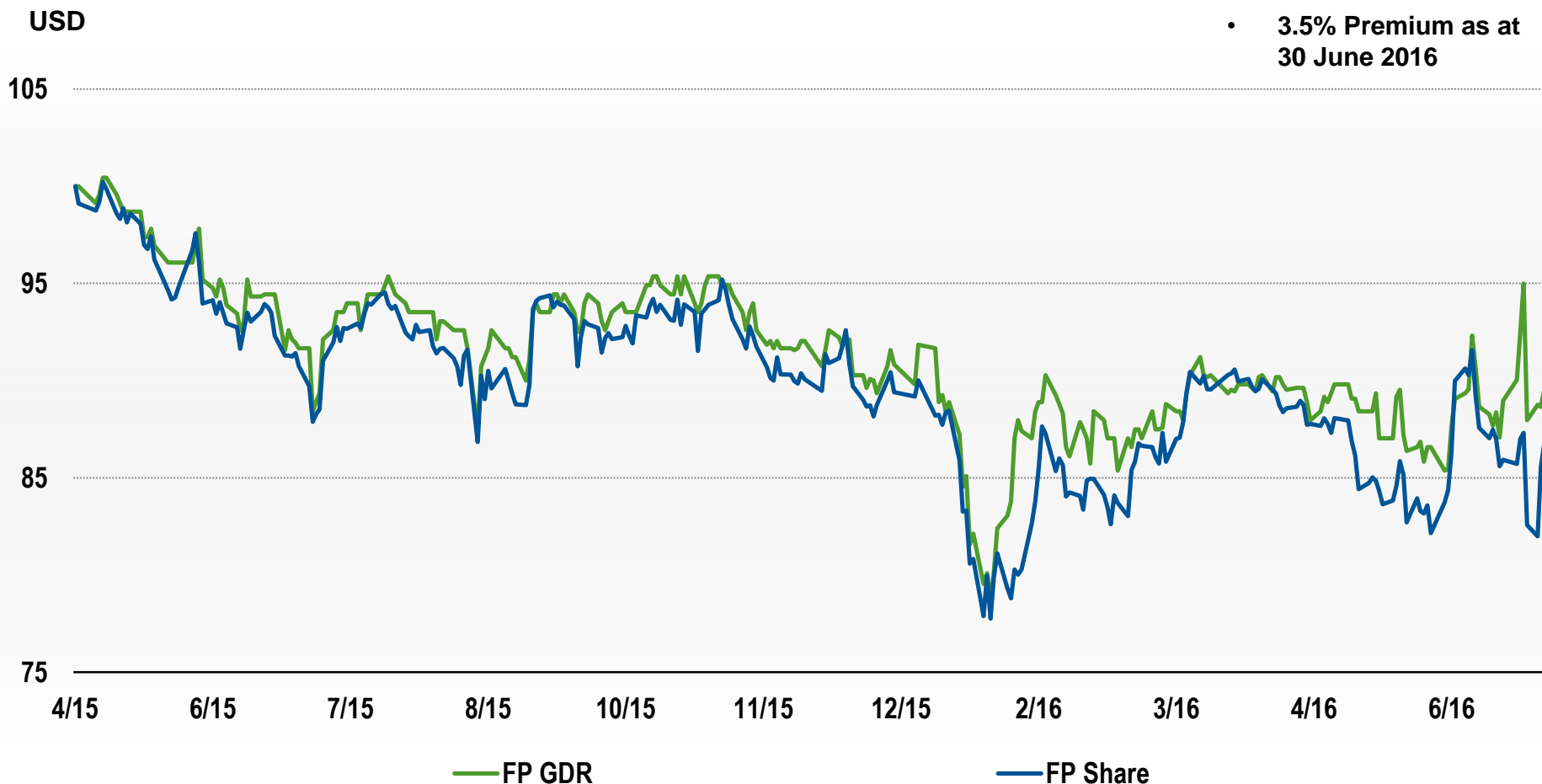
# Discount Objective – Secondary Listing on the London Stock Exchange

## Considerations on the impact of the Fund's listing on the LSE

- The GDR facility of 1/3 of the outstanding shares reached capacity in a relatively short period of time (less than 9 months)
- Large long-only mutual funds, endowments, closed end fund specialist investors, as well as hedge funds have invested in the Fund via the London Stock Exchange. Most of the new investors would have not been able to invest prior to the secondary listing
- New investors were able to absorb the supply of shares available during the period. Without the LSE listing, the Fund's discount to NAV could have been higher
- New research coverage was initiated by Liberum (UK) and InterCapital Securities (Croatia). Renaissance Capital (UK) and Value Investment Principals (US) started covering the Fund ahead of the listing on the LSE
- The GDRs have traded almost constantly at a premium to the local shares (average premium during the Reporting Period was 1.6%)

# Discount Objective - Fondul Proprietatea GDR Premium to the Local Shares

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Source: Bloomberg, for the period 29 April 2015 – 30 June 2016.





# Report on the NAV Objective



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# NAV Objective

- **Objective**

- The Adjusted NAV per share as at 30 June 2016, to be higher than the NAV per share as at 30 June 2015 (RON 1.1851 per share)

- **Monthly Monitoring – 30 June 2016**

- Adjusted NAV as at 30 June 2016 is higher than the NAV per share as at 30 June 2015

NAV Objective	Amount RON	Comments
Total NAV as at 30 June 2016	11,804,505,872	
Costs related to the 2015 and 2016 returns of capital after 30 June 2015, until 30 June 2016	18,718	Fees charged by Central Depositary and Paying Agent for the payments performed after 30 June 2015 (for the 2015 return of capital)
Costs related to buy-backs after 30 June 2015, until 30 June 2016	316,965	Fees related to fifth buy-back programme after 30 June 2015 and sixth buy-back programme up to 30 June 2016
Distribution fees after 30 June 2015, until 30 June 2016	14,800,023	FT distribution fees for distributions to shareholders (buy-backs) after 30 June 2015
2016 Return of capital to shareholders	516,886,344	
<b>Total Adjusted NAV as at 30 June 2016</b>	<b>12,336,527,922</b>	
Number of Fund's paid shares, less treasury shares and GDRs held as at 30 June 2016	10,313,668,344	
<b>Adjusted NAV per share as at 30 June 2016</b>	<b>1.1961</b>	
<b>NAV per share as at 30 June 2015</b>	<b>1.1851</b>	
<b>Difference</b>	<b>0.0110</b>	
<b>%</b>	<b>0.93%</b>	

Source: FP Report.

1. 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 returns to shareholders, following reductions of the share capital (return of nominal value) implemented after 30 June 2015, and (3) any distribution fee and any transaction costs relating to non-dividend distributions including buy-backs of shares and/ or GDRs executed after 30 June 2015. 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.

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# Attribution to NAV Performance for the Reporting Period (30 June 2015 – 30 June 2016)<sup>1</sup>

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## TOP PERFORMERS

Company	Status	Weight in total NAV <sup>2</sup>	Change in share price or NAV value per share for the period 30.6.2015 – 30.6.2016	Total effect for the period 30.6.2015 – 30.6.2016
Hidroelectrica S.A.	Unlisted	27.7%	50.1%	8.63%
CN Aeroporturi Bucuresti S.A.	Unlisted	5.4%	90.3%	2.37%
CN Administratia Porturilor Maritime S.A.	Unlisted	1.8%	58.9%	0.62%
SN a Sarii SA (Salrom)	Unlisted	1.5%	24.2%	0.27%
Banca Transilvania S.A.	Listed	0.1%	(2.3)%	0.44%

## BOTTOM PERFORMERS

Company	Status	Weight in total NAV <sup>2</sup>	Change in share price or NAV value per share for the period 30.6.2015 – 30.6.2016	Total effect for the period 30.6.2015 – 30.6.2016
OMV Petrom S.A.	Listed	21.9%	(36.3)%	(11.65)%
Romgaz S.A. <sup>3</sup>	Listed	0.0%	N/A <sup>3</sup>	(3.21)%
Nuclearelectrica S.A.	Listed	1.2%	(32.9)%	(0.53)%
Complexul Energetic Oltenia S.A.	Unlisted	0.5%	(42.1)%	(0.36)%
BRD Groupe Societe Generale S.A.	Listed	2.1%	(9.1)%	(0.20)%

## TOTAL NAV VARIANCE

**(3.43)%**

1. Due to the strict confidentiality clauses in the sale agreement, the analysis excludes E.ON Distributie Romania SA and E.ON Energie Romania SA

2. Source: Detailed Statement of Investments as at 30 June 2016.

3. Holding disposed of in April 2016.



# NAV Objective – Major Equity Transactions

## Completed Transactions

Company	Transaction	Seller	Offering Stake	Transaction Value (RON mn)	Investment Consortium Selected	Comments
Romgaz	ABO	FP	4.15%	456.0	Goldman Sachs, Wood & Co, BCR	Completed in October 2015
Romgaz	ABO	FP	5.85%	541.0	Goldman Sachs, Wood & Co, BCR	Completed in April 2016
E.ON Companies	Private Sale	FP	Entire Stake <sup>1</sup>	Confidential	N/A	Completed in June 2016
<b>Total</b>				<b>997.0<sup>2</sup></b>		

1. The Fund owned 18% in E.ON Distributie Romania and 13% in E.ON Energie Romania.

2. Does not include the E.ON deal transaction value.

# NAV Objective – Changes in the Valuations of Portfolio Companies (I)

Portfolio company	Listed / Unlisted 30 June 2016	Value of FP holding as at 30 June 2015	Value of FP holding as at 30 June 2016	Comments on disposals & participation in share capital increase
OMV Petrom SA	Listed	4,054,934,501.30	2,582,075,564.64	
Hidroelectrica SA	Unlisted	2,178,093,960.01	3,268,991,069.48	
Romgaz SA	Listed	1,402,963,744.00	-	Entirely disposed through transactions carried on in October 2015 and April 2016
ENEL Distributie Banat SA	Unlisted	640,490,827.98	623,999,706.18	
ENEL Distributie Muntenia SA	Unlisted	465,768,832.67	455,399,816.53	
Engie Romania SA <sup>1</sup>	Unlisted	461,320,800.50	446,099,943.54	
E.ON Distributie Romania SA	Unlisted	445,916,727.31	-	Entirely disposed in June 2016
ENEL Distributie Dobrogea SA	Unlisted	396,894,780.04	401,199,898.51	
CN Aeroporturi Bucuresti SA	Unlisted	332,285,905.54	632,479,854.38	
BRD Groupe Societe Generale SA	Listed	273,676,775.68	248,561,868.80	Partially disposed [24,000 shares] in April 2016
Electrica Distributie Muntenia Nord SA	Unlisted	235,599,682.85	253,899,285.29	
Electrica Distributie Transilvania Sud SA	Unlisted	206,499,494.38	222,299,910.09	
Nuclearelectrica	Listed	205,014,689.88	137,590,072.62	
Electrica Distributie Transilvania Nord SA	Unlisted	201,599,594.03	215,599,225.51	

Source: Fund Manager.

1. Former GDF Suez Energy Romania.

# NAV Objective – Changes in the Valuations of Portfolio Companies (II)

Portfolio company	Listed / Unlisted 30 June 2016	Value of FP holding as at 30 June 2015	Value of FP holding as at 30 June 2016	Comments on disposals & participation in share capital increase
Banca Transilvania SA	Listed	159,825,139.21	11,785,802.08	Partially disposed [74,771,163 shares] during the period April - June 2016
Societatea Nationala a Sariei SA	Unlisted	142,881,925.56	177,418,835.09	
E.ON Energie Romania SA	Unlisted	133,899,605.89	-	Entirely disposed in June 2016
CN Administratia Porturilor Maritime SA	Unlisted	132,593,826.03	211,299,910.98	Participation in share capital increase (7,015 shares, RON 70,150) in April 2016
Electrica Furnizare SA	Unlisted	126,367,968.02	149,599,978.13	
Complexul Energetic Oltenia SA	Unlisted	108,472,675.16	62,838,889.54	
Alro SA	Listed	87,461,656.80	75,435,678.99	
ENEL Energie SA	Unlisted	74,376,960.00	76,599,936.00	
Enel Energie Mutenia SA	Unlisted	65,143,965.15	63,999,993.24	
Posta Romana SA	Unlisted	55,894,725.60	58,696,600.42	
Zirom SA	Unlisted	39,337,980.60	23,274,977.02	Participation in share capital increase (549,162 shares, RON 5,491,620) in August 2015, December 2015 and April 2016
Conpet SA	Listed	36,600,746.80	38,488,464.40	

Source: Fund Manager.



# NAV Objective – Changes in the Valuations of Portfolio Companies (III)

Portfolio company	Listed / Unlisted 30 June 2016	Value of FP holding as at 30 June 2015	Value of FP holding as at 30 June 2016	Comments on disposals & participation in share capital increase
Romaero SA	Listed	17,707,828.50	23,610,438.00	
CN Administratia Canalelor Navigabile SA	Unlisted	16,474,345.98	16,474,345.98	
Primcom SA	Listed	14,129,161.20	13,897,848.80	Partially disposed [152,156 shares] in December 2015
Alcom SA	Listed	10,409,423.24	10,133,492.11	
Aeroportul International Timisoara - Traian Vuia SA	Unlisted	3,934,913.67	2,613,997.55	
Oil Terminal SA	Listed	3,182,856.25	3,488,263.26	
CN Administratia Porturilor Dunarii Fluviale SA	Unlisted	2,946,503.52	3,010,533.51	
Aeroportul International Mihail Kogalniceanu - Constanta SA	Unlisted	2,279,998.92	1,573,999.12	
Plafar SA	Unlisted	1,833,999.33	1,911,996.65	
Comsig SA	Unlisted	1,720,901.59	1,967,922.73	
Palace SA	Listed	1,458,120.50	1,691,419.78	
CN Administratia Porturilor Dunarii Maritime SA	Unlisted	1,158,329.32	1,181,787.10	
IOR SA	Listed	550,677.33	839,127.36	

Source: Fund Manager

# NAV Objective – Changes in the Valuations of Portfolio Companies (IV)

Portfolio company	Listed / Unlisted 30 June 2016	Value of FP holding as at 30 June 2015	Value of FP holding as at 30 June 2016	Comments on disposals & participation in share capital increase
Cetatea SA	Unlisted	336,886.39	349,328.21	
Mecon SA	Listed	240,216.00	102,992.61	
Romplumb SA	Listed	-	-	
BAT Service SA	Unlisted	-	-	
World Trade Center Bucuresti SA	Unlisted	-	-	
Simtex SA	Unlisted	-	-	
Petrotel - Lukoil SA	Unlisted	-	-	Entirely disposed in November 2015
Gerovital Cosmetics SA	Unlisted	-	-	
World Trade Hotel SA	Unlisted	-	-	
Salubriserv SA	Unlisted	-	-	
<b>TOTAL</b>		<b>12,742,281,652.73</b>	<b>10,520,482,774.23</b>	
<b>TOTAL (excluding OMV Petrom SA)</b>		<b>8,687,347,151.43</b>	<b>7,938,407,209.59</b>	
<b>Proceeds from disposals during 1 July 2015 – 30 June 2016</b>			<b>1,624,115,940</b>	

Source: Fund Manager.

# Actions to Protect and Increase Value of the Portfolio Companies (I)

## OMV Petrom

- Encouraged management to continue with investor relations efforts and to participate to more investor events and management road-shows
- Continued to actively support a fair and balanced taxation regime for the oil and gas sector
- Presented the risks developing in the gas market, where some of the major consumers continued to face financial difficulties

## Hidroelectrica

- Continued to work with and to support the judicial administrator in the measures taken in order to maximize returns and decrease costs. The company exited insolvency with impressive margins: 68% EBITDA margin and more than 30% net profit margin
- Worked with the company to change the accounting policy with regards to the residual asset lives; the changes are in line with similar European peers. As a consequence the net profits of the company will increase by 20-30%, provided everything else stays equal

## Romgaz

- Continued to actively support a fair and balanced taxation regime for the oil and gas sector
- Presented the risks developing in the gas market, where some of the major consumers continued to face financial difficulties

# Actions to Protect and Increase Value of the Portfolio Companies (II)

<b>E.ON Companies</b>	<ul style="list-style-type: none"><li>• Successfully negotiated and executed the exit from the shareholders structure of both E.ON Distributie Romania and E.ON Energie Romania, operation completed in 29 June 2016</li><li>• Took a constant activist stance on several strategic initiatives (merger of the gas and distribution businesses, spin-off/internalization of the technical services) and corporate governance issues (related party transactions)</li></ul>
<b>Electrica Companies</b>	<ul style="list-style-type: none"><li>• Disagreed with the way the NGO was intended to be set up at the level of the subsidiaries. As a consequence, changes were brought to the NGO legal acts that make it easier to supervise and control</li></ul>
<b>Engie Romania</b>	<ul style="list-style-type: none"><li>• Raised in shareholder meeting the issue of related management contracts between the company and majority shareholder which we deem to be poor corporate governance. As a result of our action, the management contract was not approved by shareholders</li></ul>
<b>BRD</b>	<ul style="list-style-type: none"><li>• Continued to encourage management to improve investor relations efforts and to actively participate in investor events and management road-shows</li><li>• Engaged in active discussions with BRD's top management to bring an additional independent director with significant internal experience on the board of BRD. The process is still ongoing, the board and Societe-Generale having started the internal evaluation of the candidate proposed by the Fund</li></ul>

# Actions to Protect and Increase Value of the Portfolio Companies (III)

## **Bucharest Airports**

- Worked with 2 separate interim Boards and the interim General Manager to continue improving the company's profitability through cost management and initiatives aimed at opening new routes and enhance non-aeronautical revenues
- Continued to support proper implementation of Corporate Governance legislation through ongoing litigations
- Presented to the Government the reasons why the company can sustain a higher dividend payout ratio at 75% vs. the minimum 50% required by existing regulations
- Provided balanced opinions and challenged some of the assumptions behind planned capital expenditure projects. Continued to push for the listing of the company

## **Constanta Port**

- Supported the Board and executive management in the ongoing effort to improve revenues from renting land in the ports and keeping operating costs under control
- Presented to the Government the reasons why the company can sustain a higher dividend payout ratio at 75% vs. the minimum 50% required by existing regulations
- Continued to push for the IPO of the company

# Actions to Protect and Increase Value of the Portfolio Companies (IV)

## CE Oltenia

- Successfully replaced, after several attempts, in December 2015, the general manager of the company, who took value destructive management decisions in the past. The company's CFO who had been selected according with law 109 was appointed as the new interim general manager. He was the first general manager to show some tangible results in terms of cost cutting
- Worked closely with the new team to draft the restructuring plan for the next 5 years: we pushed for the most important measure in the restructuring plan which is the labor cost reduction – 5,000 employees will leave the company in the next 5 years (2,000 in 2016, 2,000 in 2017 and 1,000 afterwards). In the restructuring plan approved by the Supervisory Board, a number of other measures are mentioned, which started to be implemented since the beginning of 2016. These led to a return to profitability in Q1 2016 when the company recorded a gross profit of RON 149 million compared to Q1 2015 when it registered a loss of RON 20 million
- Started litigations against the value destructive management decisions (e.g.: taking over operation of the Chiscani gas fired power plant; also submitted a complaint at the European Competition Council with regards to this action, and litigations against the members of the Directorate for continuing to supply coal to clients (SOEs) with overdue payments)

# Actions to Protect and Increase Value of the Portfolio Companies (V)

## Salrom

- Worked closely with the management team to improve operations: drafting an updated commercial policy which lead to an increase of the client base and better pricing for their products, and helped the company with legal advisory in different litigations
- Organized several meetings with the majority shareholder in order to speed up the selection process of a new executive and non-executive management team which was successfully completed in July 2017

## Posta Romana

- Continued to push initiatives aimed at improving the cash flow position of the company in the short term while supporting initiatives aimed at stabilizing the decline of revenues over the medium term
- Worked with the majority shareholder to identify solutions for attracting new capital for much needed investments from International Financial Institutions such as EBRD
- Continued to push for a commitment from the Government to list the company

## Nuclearelectrica

- Emphasized to the Company's management the importance of a predictable dividend policy for the next years
- Proposed the following measures in the GSM for approval of the 2015 financial statements: 1) increasing the dividend payout ratio for 2015 to 100% (vs 72% payout ratio proposed by the management) and 2) setting a dividend policy for the next years with 100% payout ratio but no less than 0.5 RON/share, the equivalent of RON 150 million per year

# Actions to Protect and Increase Value of the Portfolio Companies (VI)

## Primcom

- Continued to return cash to the shareholders: in December 2015, the Fund sold 152,156 shares in Primcom SA, at the price of RON 30 per share, within the buy-back program carried by the Company

## APDF

- Engaged with the majority shareholder (Ministry of Transport) and the top management in the context of severe financial difficulties experienced by the company due to loss of a significant part of the turnover due to loss of a business line, to implement a series of urgent decisions such as a significant increase of harbor tariffs and the sale of non-operational assets to allow the company to solve the issue of increased liabilities, decisions that have been eventually implemented over the past 12 months
- Proposed officially to the majority shareholder a merger between APDF (Inland Danube Ports) and APDM (Maritime Danube Ports Administration) in order to increase the size of the company, reduce administrative costs and create synergies

## Petrotel-Lukoil

- Successfully negotiated with the controlling shareholder the exit from the refinery Petrotel –Lukoil at an attractive valuation. The exit was finalized in November 2015. The refinery had been historically loss-making and was valued in the Fund's NAV at zero. The Fund had been constantly engaging with the company on a number of topics such as transfer pricing issues and parent company financing.



# Actions to Protect and Increase Value of the Portfolio Companies (VII)

## **Administratia Canalelor Navigabile**

- Rejected the 2015 financial statements which showed the company making a loss even though operationally it was a very good year for the company. The financial statements were restated, some unnecessary provisions were canceled and the company showed a profit which allowed a dividend to be paid to the Fund in 2016

## **Oil Terminal**

- Initiated legal action in order to address the issue of a share capital increase with the value of land for which company obtained property deeds and which is potentially highly dilutive for minority shareholders

## **Aeroporturi Timisoara**

- Worked closely with the majority shareholder to select a new board according to the law 109; the Fund's board representative was a member of the committee interviewing the candidates. The new board was appointed in August 2015.

# Actions to Protect and Increase Value of the Portfolio Companies (VIII)

## General Actions

- Worked with the Ministry of Public Finance on the changes to the Ordinance 109 proposed by the Government. Ordinance 109 was approved by a law (Law no. 111/2016) in June 2016
- Continued monitoring the implementation of Ordinance 109 and have sent letters to the companies outlining Ordinance 109 breaches and asked for quick and correct implementation

# Top 20 Portfolio Holdings – Key Financials

Top 20 Holdings <sup>1</sup>	EBITDA (RON mn)					Net Profit (RON mn)				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
Hidroelectrica SA	873.6	707.3	2,008.3	2,189.3	2,100.2	6.5	(508.0)	718.8	941.5	899.4
OMV Petrom SA	7,524.3	8,270.2	9,313.0	8,145.0	6,231.1	3,758.6	3,946.1	4,820.9	2,100.0	(676.0)
ENEL Distributie Banat SA	316.7	292.4	335.1	323.2	315.8	220.5	167.2	190.7	172.2	157.9
Romgaz SA <sup>5</sup>	1,884.8	2,126.6	1,972.5	2,511.0	2,209.0	1,031.8	1,244.1	995.6	1,434.4	1,184.5
E.ON Distributie Romania SA	543.5	413.0	471.1	482.0	593.3 <sup>4</sup>	237.7	144.3	154.8	155.0	260.3
CN Aeroporturi Bucuresti SA	186.5	205.0	238.4	257.5	331.7	52.6	53.1	72.0	98.8	178.8
ENEL Distributie Muntenia SA	211.3	357.9	424.0	439.9	451.4	50.5	206.3	267.2	240.8	237.9
Engie Romania SA <sup>2</sup>	426.6	582.6	730.5	838.8	716.1	261.9	360.1	447.1	439.4	380.5
ENEL Distributie Dobrogea SA	185.6	189.7	248.2	239.0	252.9	108.9	94.5	133.5	87.7	114.8
BRD Groupe Societe Generale SA	-	-	-	-	-	498.5	(290.6)	(384.3)	63.1	465.8
Electrica Distributie Muntenia Nord SA	141.8	165.6	146.8	271.7	289.6	67.4	87.2	126.5	140.3	153.2
Banca Transilvania SA	-	-	-	-	-	297.3	346.5	408.6	448.1	2,446.1
Electrica Distributie Transilvania Sud SA	111.2	156.4	211.9	242.2	318.1	19.6	45.8	69.4	100.1	152.6
Electrica Distributie Transilvania Nord SA	120.3	161.6	205.5	255.4	313.5	29.1	53.1	63.7	95.3	158.8
SN a Sarii Salrom SA	19.2	41.1	65.4	51.0	47.7	1.4	20.8	42.8	24.5	15.8
CN Administratia Porturilor Maritime SA	82.7	80.8	110.3	123.4	150.1	42.3	35.6	65.0	70.3	97.4
Electrica Furnizare SA	91.7	108.2	107.2	230.5	150.5	84.5	90.5	101.5	204.7	131.1
Nuclearelectrica SA	531.7	549.1	892.5	605.7	652.9	95.0	34.5	426.9	137.1	147.4
E.ON Energie Romania SA	(196.1)	(13.2)	228.8	111.5	127.5	(191.7)	(32.6)	224.5	94.0	111.9
Alro S.A.	561.0	323.0	(43.0)	155.0	306.0	242.9	(240.0)	(102.0)	0.0	0.0
<b>TOTAL</b>	<b>13,616.4</b>	<b>14,717.3</b>	<b>17,666.5</b>	<b>17,472.1</b>	<b>15,557.3</b>	<b>6,915.3</b>	<b>5,858.5</b>	<b>8,843.2</b>	<b>7,047.3</b>	<b>6,618.2</b>
<b>WEIGHTED TOTAL</b>	<b>2,514.7</b>	<b>2,719.0</b>	<b>3,192.7</b>	<b>3,022.5</b>	<b>2,580.5</b>	<b>1,171.0</b>	<b>1,098.7</b>	<b>1,587.2</b>	<b>1,108.4</b>	<b>617.8</b>
<b>WEIGHTED TOTAL LISTED COMPANIES<sup>3</sup></b>	<b>1,569.7</b>	<b>1,695.3</b>	<b>2,146.6</b>	<b>1,872.5</b>	<b>1,403.1</b>	<b>807.1</b>	<b>768.2</b>	<b>1,093.8</b>	<b>570.7</b>	<b>41.7</b>
<b>WEIGHTED TOTAL UNLISTED COMPANIES<sup>3</sup></b>	<b>945.0</b>	<b>1,023.7</b>	<b>1,046.1</b>	<b>1,106.9</b>	<b>1,177.3</b>	<b>363.8</b>	<b>330.5</b>	<b>493.5</b>	<b>524.5</b>	<b>576.0</b>

Note: EBITDA = Operational result + Depreciation. Source: Companies' financial statements, Hidroelectrica Judicial Administrator's reports.

1. Based on the 31 March 2016 Detailed Statement of Investments.
2. Former GDF Suez Energy Romania. Consolidated IFRS financial statements.
3. Weighted for the Fund's stake in the companies.
4. EBITDA = Operational result + Depreciation - Revenues from investment subsidies.
5. Holding sold entirely in April 2016.

# Report on the Obligations regarding the Discount Control Mechanism



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- **According to Article 9 of the Management Agreement under AIFMD, as approved by the Fund's Shareholders on 29 October 2015, which commenced on 1 April 2016:**

## “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 shareholder approvals obtained during the relevant preceding two quarter periods.”

# Discount Control during Q2 of 2016 (the new IMA into force)

- If the discount stays above 15% for more than half of the trading days in Q2 2016, the Fund Manager will call a Board meeting to discuss the DCM
- The Board meeting took place on 7 June 2016
- First calculation period based on the new IMA:
  - starts on 1 April 2016
  - there are 63 trading days
  - half of Q1 trading days = 31.5, therefore 32 trading days (1 Apr - 17 May 2016)

- **Cash Distributions:** the Fund Manager proposed and shareholders approved the cash distribution for 2016 (to shareholders registered as at 6 June 2016 of RON 0.05/share, proportionally with their participation to the paid-up share capital of Fondul Proprietatea SA; payment started on 27 June 2016.
- **Share Buy-backs:** the 6<sup>th</sup> buy-back is ongoing. The seventh buy-back is approved by shareholders and ready to commence as soon as the 6<sup>th</sup> buy-back is completed.
- **Tender offer:** the Fund Manager has resumed on 5 July the public tender of up to 575,000,000 shares in the form of shares and/or GDRs, at a purchase price of RON 0.8420 per share and the USD equivalent of RON 42.10 per GDR.
- **Asset Disposals:**
  - The private placement of Romgaz shares took place in April 2016
  - The sale of the Fund's stake in E.ON companies took place in June 2016
  - Ongoing discussions for selling unlisted stakes and selling of listed stakes of the Fund

# Ongoing DCM Measures:

- **Credit facility:** starting with July 2016, there is a new credit facility of RON 1 billion from BRD – Groupe Societe Generale
- **Investor Relations Activities:**
  - In April, we organized the 3<sup>rd</sup> Romania Investor Day event in New York, where 41 investment professionals participated, representing institutional investment funds with assets under management of over USD 3,500 billion
  - We also participated in several regional and global emerging and frontier market conferences, as well as dedicated conferences for closed-end funds in London, New York, Zurs, Singapore, Warsaw, and Paris
  - Further promotion of the Fund through road-shows to Talinn, Copenhagen, Stockholm, and London, and participation in the most important investor conferences
  - Organizing the 9<sup>th</sup> Fondul Proprietatea Analyst and Investor Days in Bucharest on 7-9 September



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

- 6th Buy-back Programme ongoing
- 7th Buy-back Programme approved by shareholders (it will expire in May 2017)
- 8th Buy-back Programme will be on the October GSM agenda

## Reduction of the nominal value of shares, accompanied by cash distributions to shareholders

- Ongoing

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

- 6th Buy-back Programme ongoing

## Execution of buy-back programs via public tender offers

- Planned and worked during the reporting period on the documentation for the third Tender offer. The documentation was filed with the FSA on 5 July 2016.

## Maintaining a transparent cash distribution policy

- The cash distribution policy planned to be updated and communicated to the market in September 2016

## **Increasing the share of the listed companies in the portfolio and their transparency**

- IPO for Hidroelectrica pending – the banks have signed the EL and the project is expected to commence as the court decided in June 2016 on Hidroelectrica exiting the insolvency – target execution Q4 2016 (delayed probably to H1 2017)
- Discussions continue on starting IPO processes for 4 of the Fund's unlisted companies (Salrom, Bucharest Airports, Constanta Port, and Posta Romana)

## **Building good communication through active investor relations work**

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

## **Supporting initiatives to make the Romanian capital market more attractive for investors**

- Organized Fondul Proprietatea Analyst and Investor Days (October 2015), Romania Investor Days in London (March 2016) and in New York (April 2016). Preparing Fondul Proprietatea Analyst and Investor Days (September 2016).

# Summary of the Regulatory Issues Affecting the Performance during the Reporting Period



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# Summary of Regulatory Changes and Issues

## Regulatory issues affecting the Performance during the reporting period

- FSA including the Fund under the new AIFMD legislation
- Delays in implementation of Corporate Governance Legislation (OUG 109/2011)
- Delays in the IPO calendar of the SOEs
- Hidroelectrica exiting the insolvency procedure only on 21 June 2016
- Delays in the gas price liberalization for households
- Delay in the publication of the new royalty scheme for the oil and gas sector

# Summary of the Market Conditions Affecting the Performance during the Reporting Period



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# Summary of Market Conditions

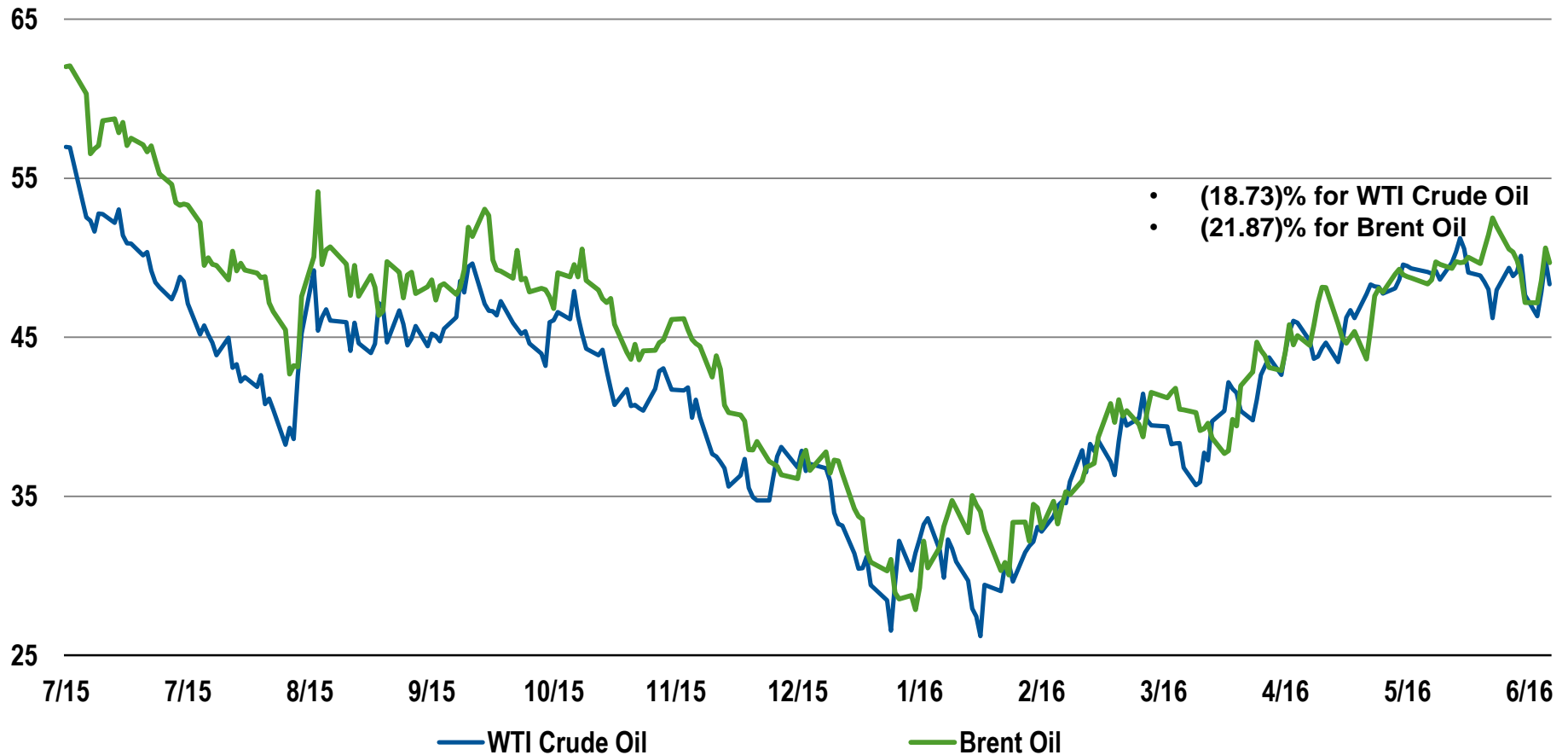
## Market Conditions Affecting the Performance during the Reporting Period

- General Risks
- Oil Prices
- Electricity Prices
- Market Sentiment in Emerging and Frontier Markets
- Volatility in developed markets
- Brexit
- Performance of the BVB

**Market Conditions  
Affecting the Performance  
during the Reporting  
Period**

- The Fund's investments are concentrated in a limited number of industry sectors
- Risks related to the oil, gas industry and electricity sectors
- Risks related to poor performance of poorly managed companies in the Fund's portfolio
- Potential difficulties in implementing the Fund's strategy related to the 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
- 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 relating to global events
- The Romanian judicial system and Romanian legislation continue to develop and this may create an uncertain environment for investment and for business activity

# Oil Prices

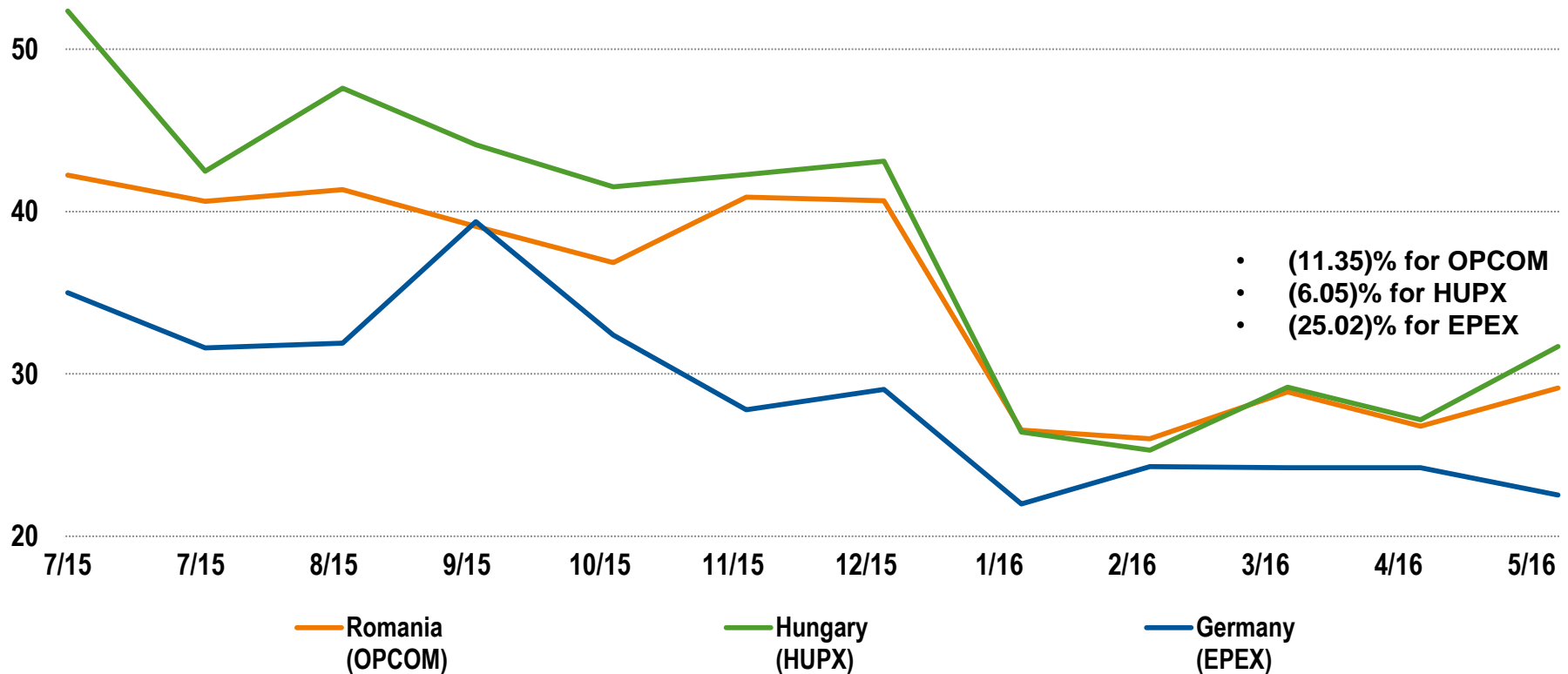


Source: Bloomberg, for the period 1 July 2015 – 30 June 2016.



# Electricity Prices

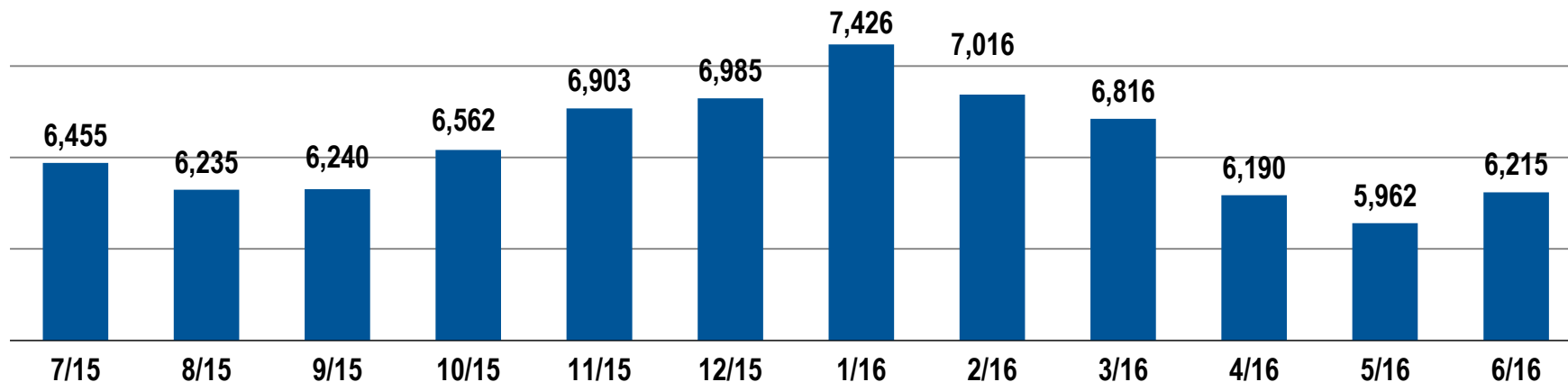
## Electricity prices (EUR/MWh)



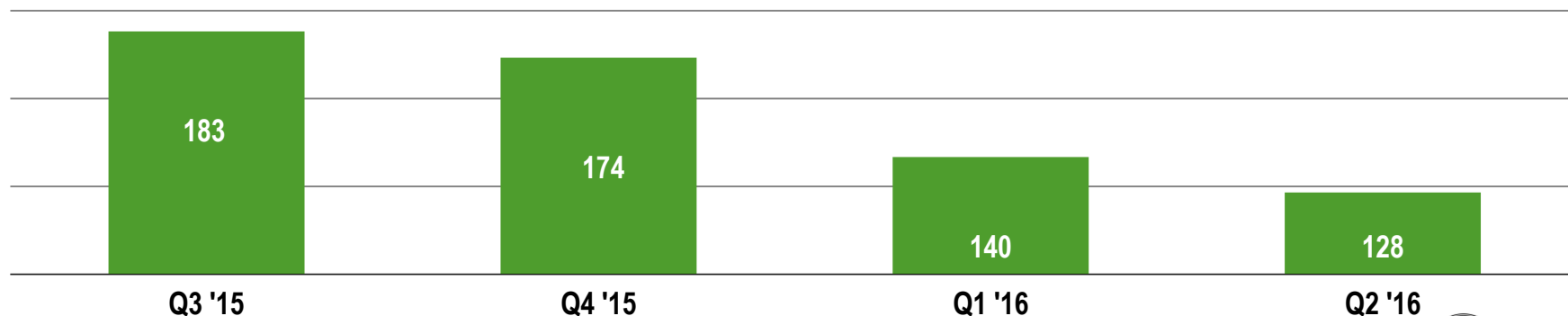
Source: Hidroelectrica, Bloomberg, as at 30 June 2016.

Note: Base load prices.

## Consumption (average hourly values)



## Day Ahead Market Prices (RON/MWh)

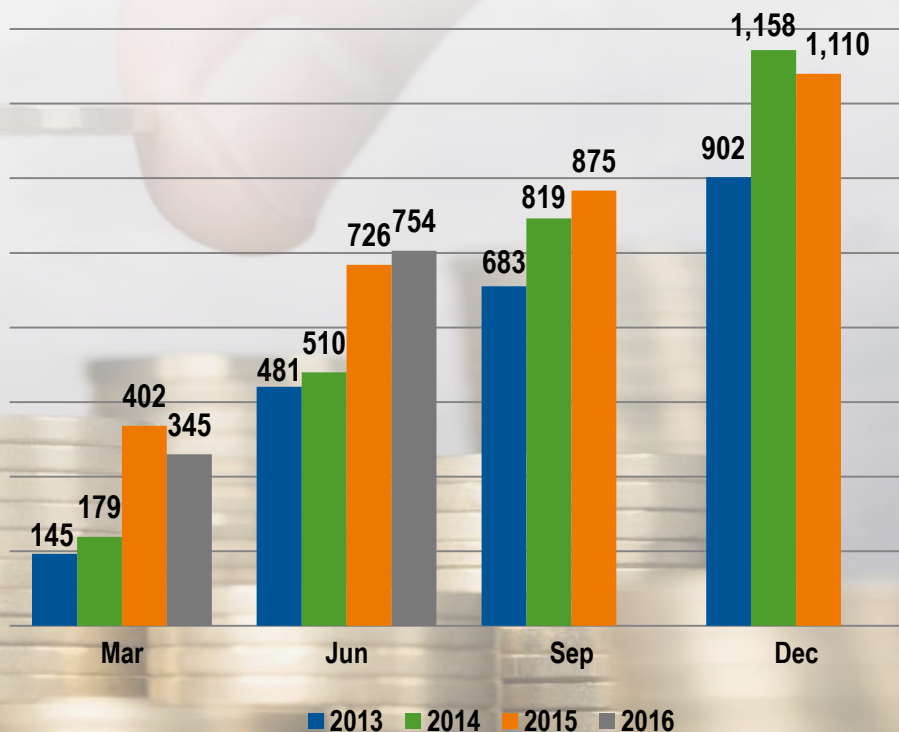


Source: Hidroelectrica.

# Hidroelectrica – Financial Performance

- On 21 June 21 2016 the company exited the insolvency procedure by the decision of the syndic judge.
- The company is run by an interim Supervisory Board composed of 7 members, and an interim Directorate, composed of 3 members.
- Selection of the Supervisory Board and the directorate based on Law 111/2016 will follow.
- Pending litigations are to be settled outside insolvency by the Court of Appeal (as final Court) starting this autumn.
- Listing preparation is ongoing, led by Morgan Stanley and Raiffeisen.
- While the production levels decreased 10% y-o-y in the first half of 2016 (9.2 TWh vs. 10.2 TWh), the pre-tax profits of the company increased 4% (RON 754mn vs. RON 725mn)

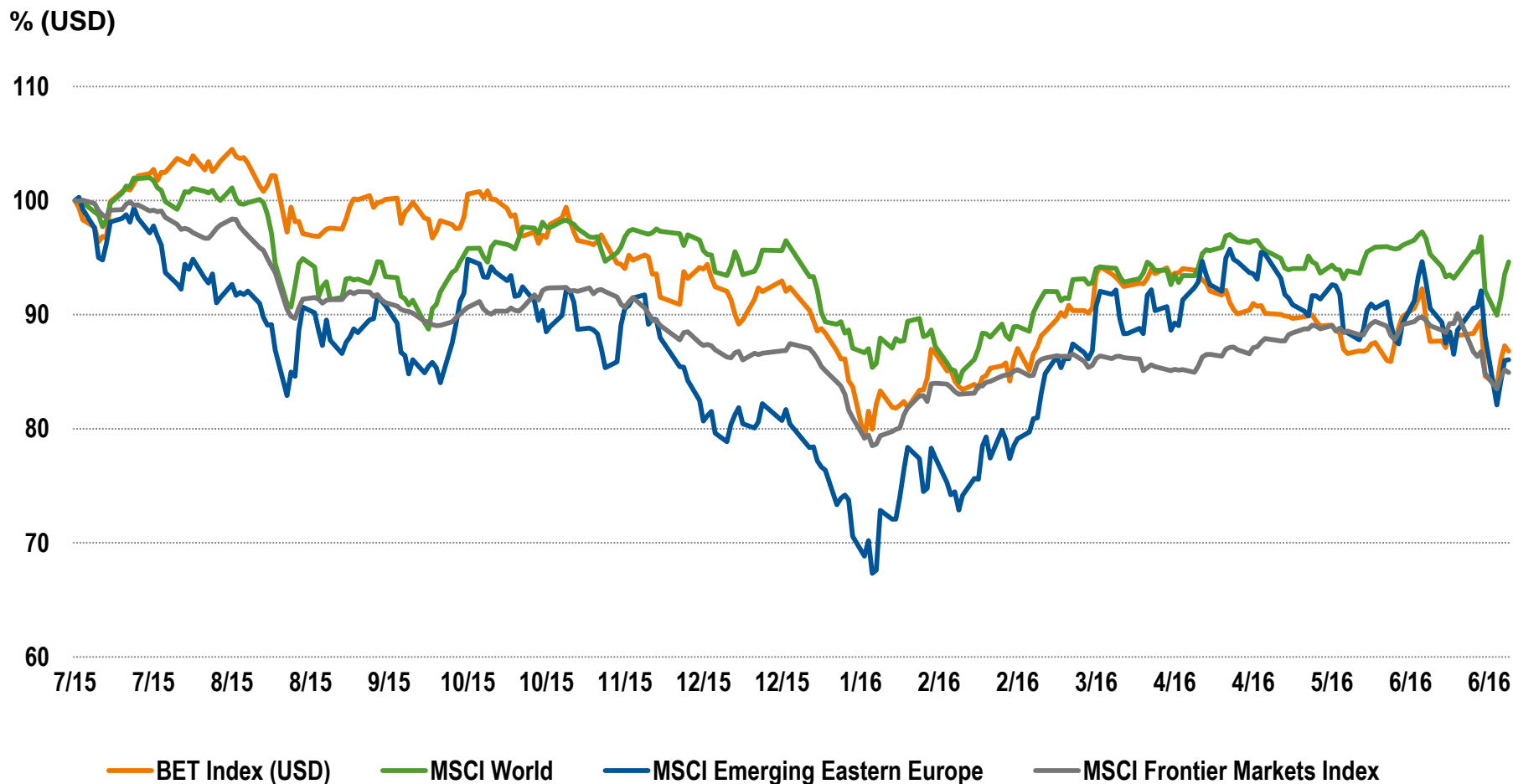
Pre-tax cumulated profit (RON mn)



Source: Hidroelectrica 2009 – 2015 Annual reports and financial statements, Hidroelectrica monthly press releases.

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

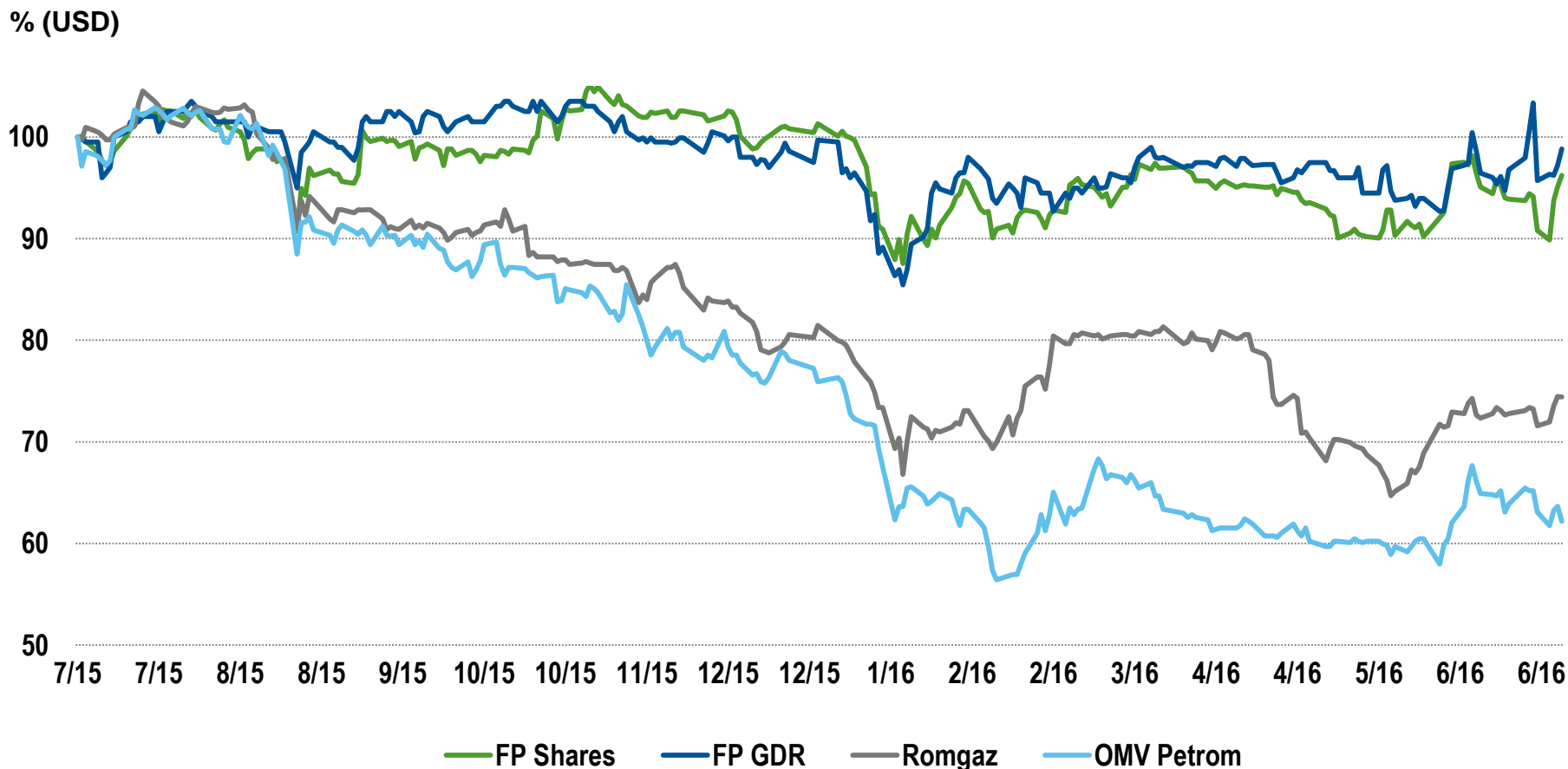
FONDUL  
PROPRIETATEA



Source: Bloomberg, as at 30 June 2016.



# FP Share Price vs. Romgaz and Petrom Share Prices

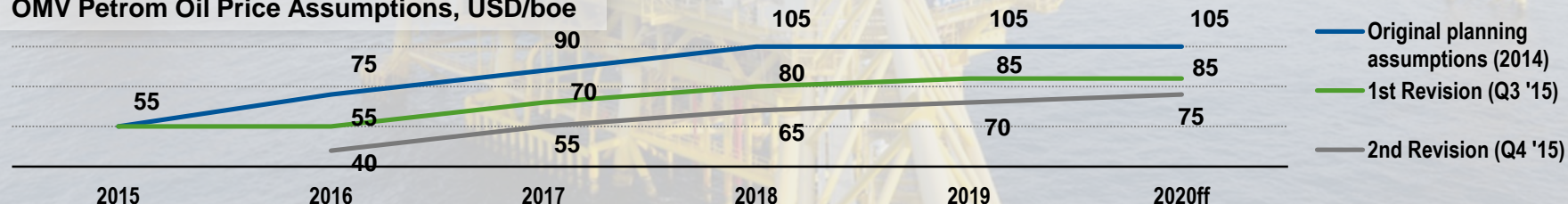


Source: Bloomberg, as at 30 June 2016.

# OMV Petrom – Financial Performance

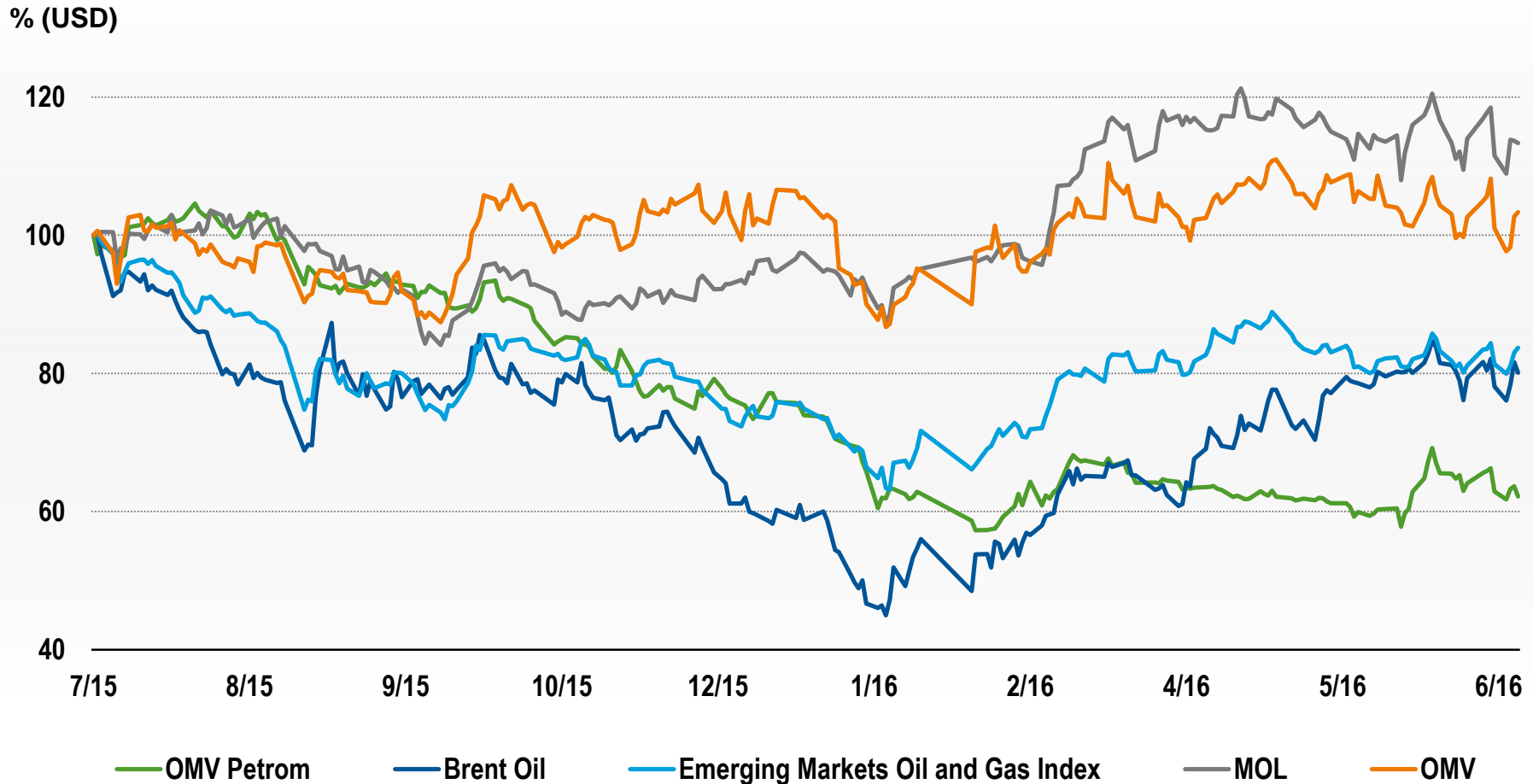
Financial and Operational highlights	H1 2015	H1 2016	%YoY
<b>Sales (mn RON)</b>	<b>8,811</b>	<b>7,192</b>	<b>(18)%</b>
Downstream Oil	6,474	5,032	(22)%
Downstream Gas	2,248	2,114	(6)%
<b>Clean EBIT (excl. extraordinary items)</b>	<b>1,251</b>	<b>638</b>	<b>(49)%</b>
EBIT (mn RON)	1,280	561	(56)%
Upstream	695	71	(90)%
Downstream	766	634	(17)%
Corporate and consolidation	(181)	(145)	-
<b>Clean net income (excl. extraordinary items)</b>	<b>914</b>	<b>458</b>	<b>(50)%</b>
<b>Net income (mn RON)</b>	<b>1,041</b>	<b>408</b>	<b>(61)%</b>
Hydrocarbon production (mn boe)	33.00	32.08	(3)%
Average realized oil price (\$/boe)	49.51	31.77	(36)%
OPEX (\$/boe)	13.70	12.17	(11)%
Refining margin (USD/bbl)	8.59	7.43	(14)%
Refinery utilisation (%)	84	81	(3)%
Refined product sales (million tons)	2.32	2.27	(2)%
Gas sales volume (TWh)	27.26	24.75	(9)%
Net electrical output (TWh)	0.40	0.91	125%

**OMV Petrom Oil Price Assumptions, USD/boe**



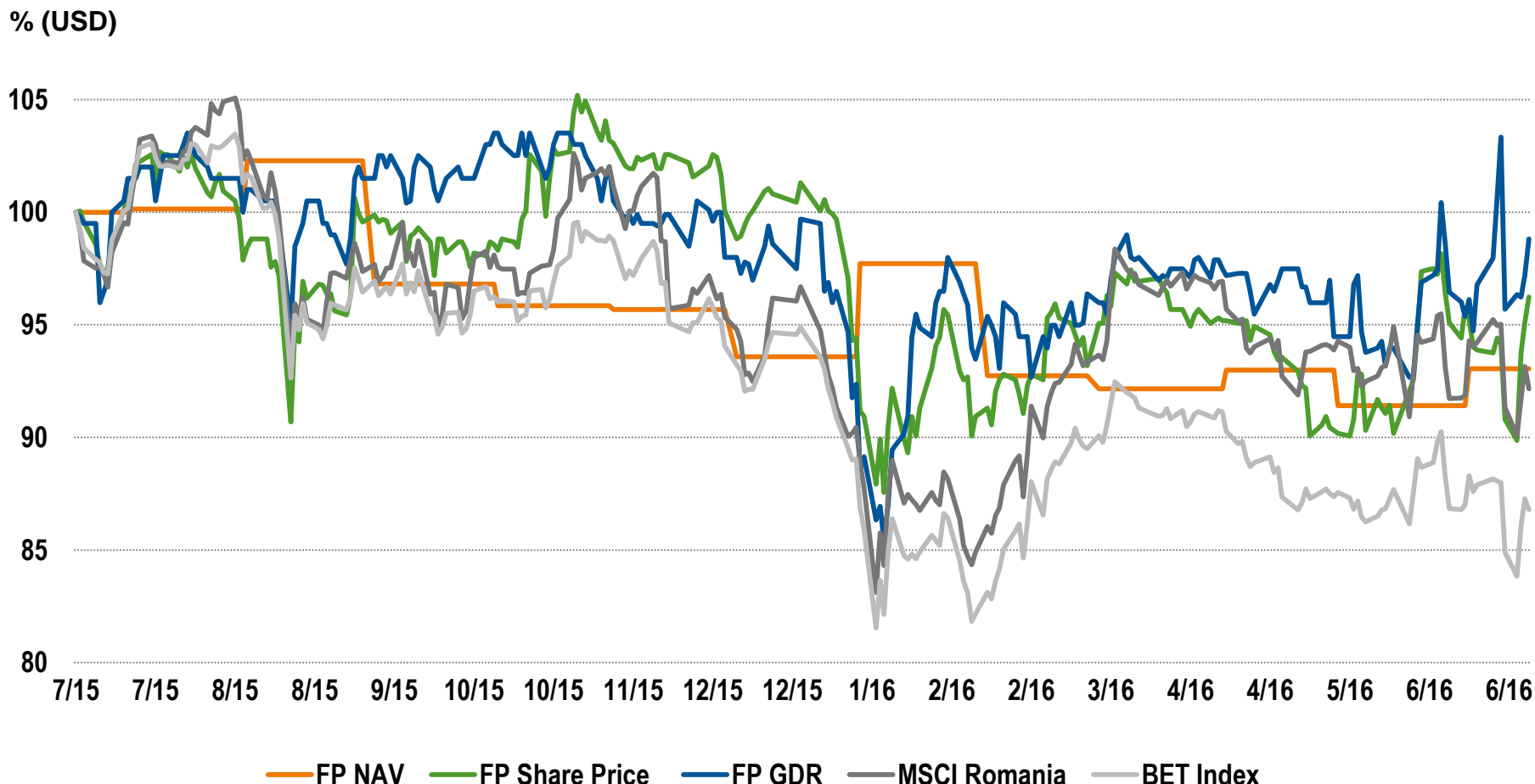
Source: OMV Petrom H1 2016 results report.

# OMV Petrom – Share Price Performance



Source: Bloomberg, for the period 1 July 2015 - 30 June 2016.

# FP Share Price and NAV Performance vs. MSCI Romania vs. BET Index



Source: Bloomberg, as at 30 June 2016.



# Other Developments during the Reporting Period



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## **Delay of a potential transaction with OMV Petrom shares**

- The significant decrease in the oil prices globally led to a delay in the envisaged transaction with OMV Petrom shares
- The Fund publicly announced its intention to reduce its stake in OMV Petrom from 19% to below 15%

## **Hidroelectrica's Insolvency**

- The Initial Public Offering of Hidroelectrica was delayed to Q4 2016 due to the fact that the company remained in insolvency until 21 June 2016

## **Delay in the IPO of Salrom and other SOEs**

- Although the Fund Manager has been in constant discussions with the Government to support further listings of SOEs in which the Fund is a minority shareholder, there has been no formal Government decision with regards to the IPOs of several companies in the Fund's portfolio
- The prime candidates for an IPO discussed with the Government were: Bucharest Airports, Constanta Port, Salrom, and Posta Romana
- The majority shareholder of Salrom has delayed our proposal to IPO the Company through an offering of the Fund's stake in the company

## **Failed negotiations with Electrica**

- The negotiations with Electrica S.A. to sell the Fund's stake in the 4 subsidiaries have failed, as announced in March 2016 due to a low offer from Electrica (RON 684 million compared to the Fund's NAV of RON 841 million)
- The Fund is now waiting for a new CEO to be appointed in order for the negotiations to formally re-open

## **Delay in the Tender Offer to accelerate the 6<sup>th</sup> Buy-back Program**

- The Fund announced on 14 January 2016 its intention to accelerate the 6<sup>th</sup> buyback program through a Tender Offer to repurchase 430 million shares and GDRs
- Due to the significant market volatility, the Fund announced that it decided to postpone the tender offer and to resume daily buy-backs through the BVB and LSE
- Subsequently, the documentation was filed with the FSA on 5 July 2016, and the tender offer was completed on 8 September 2016. The Fund repurchased 575 million shares at RON 0.8420/share and RON 42.10/GDR. The tender was oversubscribed 11.5 times and the allocation ratio as 8.67%.

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