FONDUL PROPRIETATEA

Sole Director's Proposal for the Coverage of the Negative Reserve balance incurred during 2017 Financial Year

Overview and accounting treatment

Fondul Proprietatea SA ("the Fund") recognises the treasury shares (repurchases of own shares and/ or GDRs) at trade date as a deduction to shareholders' equity (in an equity reserve account). Treasury shares are recorded at acquisition cost, including brokerage fees and other transaction costs directly related to their acquisition. The GDRs bought back by the Fund are accounted for exactly as the own ordinary shares repurchased, as a deduction to shareholders' equity. This is the result of the application of substance over form principle, due to the fact that buy-back via GDRs is only a technical/ legal form of the transaction, the substance of the transaction being that the Fund buys back its own shares, giving the same rights to both the holders of the Fund's ordinary shares and to the holders of the Fund's GDRs, to take part in the buy-back programmes carried out by the Fund.

Upon completion of all legal and regulatory requirements, the treasury shares are cancelled and netted off against the share capital and other reserves.

At the cancellation date, only a reallocation between the equity accounts is booked, without any impact on profit or loss or an additional total shareholders' equity decrease (as compared to the acquisition impact). A negative reserve (equity element) arises upon cancelation of the shares acquired in a buy-back programme, if the acquisition value (trade price and related costs) is higher than the nominal value. However, as mentioned before, this does not generate an additional shareholder's equity decrease.

The accounting treatment applicable for the recording and cancellation of treasury shares is based on the provisions of the Financial Supervisory Authority Norm 39/ 2015, article 75.

Negative reserve arising during 2017

During 2017, the nominal value decreased below the acquisition price starting on 24 March 2017 when the share capital decrease according to 31 October 2016 GSM was registered at Trade Registry. All subsequent acquisitions in the buy-back programmes (respectively 7th, 8th and 9th buyback programmes) were made at an acquisition price higher than the nominal value.

On 29 November 2017, a number of 739,398,468 treasury shares (out of a total number of 830,247,619 acquired by the Fund during the 7th buy-back programme) were cancelled, in accordance with the GSM decision dated 3 May 2017. No cancellation of treasury shares acquired during the 8th and 9th buyback programmes was effective before 31 December 2017, as the required legal and regulatory steps were not yet completed.

The table below shows the negative reserve arising on the cancelation of treasury shares from 29 November 2017:

		Buy-back program 7
Number of shares cancelled during 2017	*(1)*	739,398,468
Total acquisition costs (including brokerage fees and other transaction costs) (RON)	*(2)*	682,500,639
Less the impact of the Fund's share Nominal Value decrease during 2017 (RON)[1]	*(3)*	(41,939,847)
Accounting value of the cancelled treasury shares as at 29 Nov 2017 (the cancellation date) (RON)	*(4) = (2)+(3)*	640,560,792
Correspondent Nominal Value at the cancellation date (NV = RON 0.52/ share) (RON)	*(5) = (1)*NV*	384,487,203
Negative equity reserve arising on the partial cancellation of shares acquired during the 7th buy-back (RON)	***(6) = (5)-(4)***	**(256,073,589)**

[1] *For shares cancelled and in balance at the date of Fund's share nominal value decrease in 2017: 1) 99,398,468 shares at 24 March 2017 and 2) 739,398,468 shares at 16 June 2017.*

Article 75 from Norm 39/2015 mentions that the negative balance arising out of the cancellation of equity instruments may be covered from the retained earnings and other equity elements, in accordance with the resolution of the General Shareholders Meeting.

Sole's Director Proposal for covering the negative reserve

Although there is not an explicit legal or regulatory requirement to cover the negative balance arising out of the cancellation of equity instruments, it is to be noted that Norm 39/2015 specifically details how to present it in the financial statements and, further on, the sources that may be used for covering it, in accordance with the resolution of the general meeting of shareholders. From this perspective, and by applying a prudentially regulatory approach, the Sole Director believes there are reasonable arguments supporting the idea that these reserves should be covered and thus proposes to shareholders the coverage of these reserves as follows.

The Other reserves caption of the Fund as at 31 December 2017 include:

- Legal Reserves – RON 330,578,802;
- Reserves related to gains on cancellation of treasury shares – RON 177,865,119. These gains resulted from the cancellation of treasury shares acquired in the previous buy-back programmes when the acquisition price was lower than the related nominal value.
- Distributions (return of capital) for which the statute of limitation occurred – RON 2,583,847.

In addition, the retained earnings of the Fund includes the 2016 unallocated profit amounting to RON 424,621,363 (that remained available to the Fund according to GSM decision) and dividends for which the statute of limitation occurred in amount of RON 1,313,027.

Considering the above, the Fund's Sole Director proposes to shareholders that the negative reserves in amount of RON 256,073,589 (as stated in the notes to the annual audited statutory IFRS financial statements and detailed in the table above) resulted from the partial cancellation of the shares acquired during the 7th buy-back programme to be covered using:

- RON 177,865,119 from reserves related to the gain on cancellation of treasury shares
- RON 2,583,847 from reserves related to distributions for which the statute of limitation occurred
- RON 1,313,027 from retained earnings related to dividends for which the statute of limitation occurred
- RON 74,311,596 from 2016 unallocated profit remained under unallocated retained earnings.