

Fondul Proprietatea – Performance Report

1 January – 31 December 2019



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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 4,733,020,898.32 and paid up share capital is RON 4,543,838,476.32.

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.



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Performance report

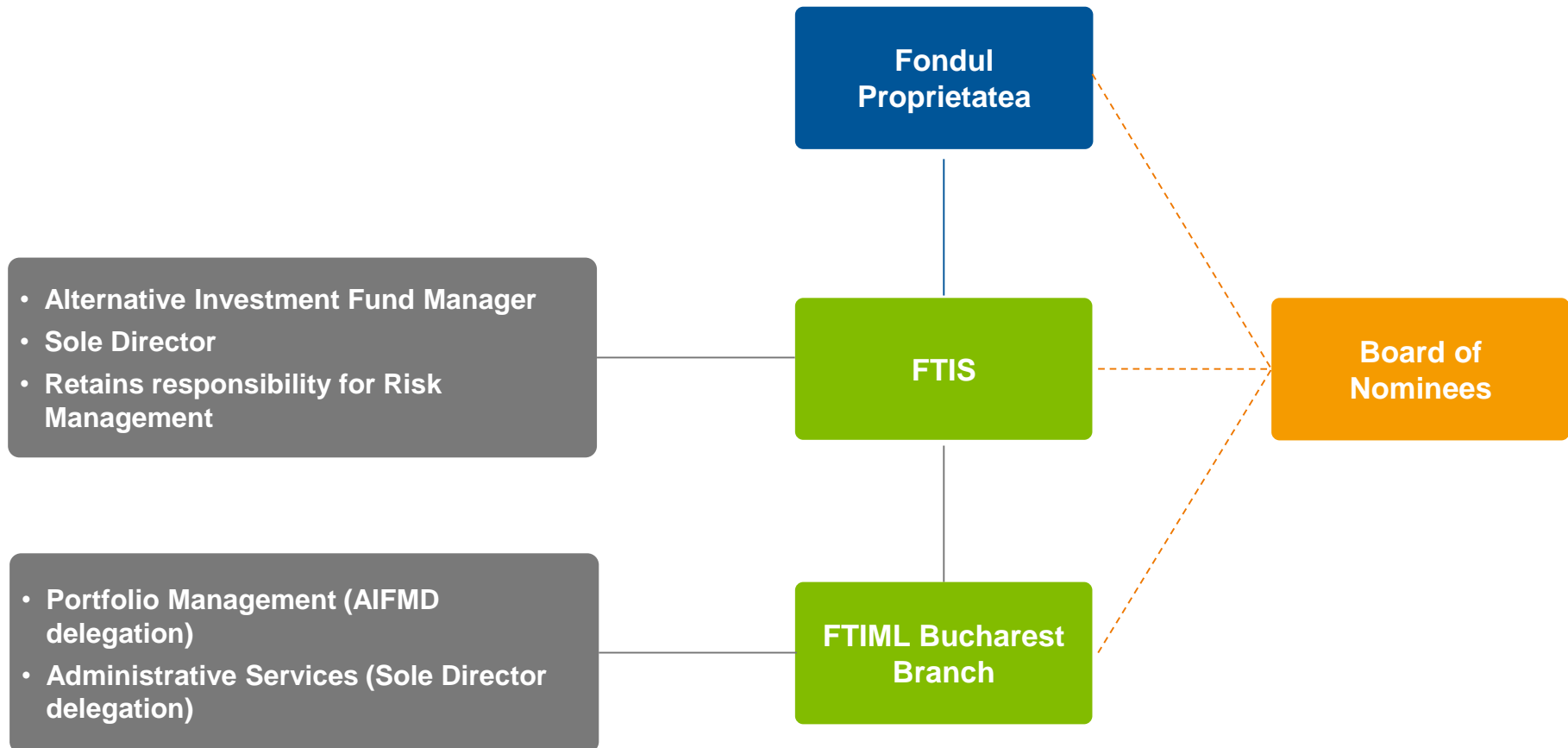


Content of the Performance Report – according to the IMA in force

Reporting period: 1 January – 31 December 2018

- The report on the fulfillment of the Discount Objective
- The report on the fulfillment of the Net Asset Value (“NAV”) Objective
- The report on the fulfillment of the obligations regarding Discount Control Mechanism (“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
- **The performance of the Fund has been significantly impacted at the end of 2018 by the Emergency Ordinance 114/2018 approved by the Romanian Government on 21 December 2018, with negative effects on the portfolio companies, specifically on the energy and banking sector.** More details can be found on slides 37 and 46.

Fondul Proprietatea structure – since 1 April 2016



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 of unlisted assets of portfolio
- Due Diligence on the Depositary (BRD Groupe Societe Generale)
- Reporting obligations - AIFMD Annex IV reporting



Responsibilities of the Sole Director

- Responsibility to call & chair GSMs, 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; the monthly NAV



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
- Regular meetings on legal activities

- 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 of Nominees or of Shareholders.
- During 2018 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 2018 to raise to the attention of the Board of Nominees or to shareholders.

Investment strategy and performance objectives



Investment Objective

- FP's investment objective is the maximization of returns to shareholders and the increase of the net asset value per share 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 of own shares (share repurchases and/or public tender offers) and cash distributions to shareholders (100% of dividends or other cash distributions received from portfolio companies plus interest on cash, less operating expenses and applicable taxes, and less compulsory allocation to reserves, in accordance with regulations in force)



Performance Objectives (IPS)¹

- Discount of 15% or less for at least two thirds of the trading days between 1 January – 31 December 2018
- Higher adjusted NAV per share than the NAV per share reported as at the end of the previous Reporting period, i.e. NAV per share as at 30 June 2017² (RON 1.1953 per share)

1. For the Reporting period 1 January – 31 December 2018.

2. 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 distributions to shareholders, being either dividend or non-dividend ones (i.e. in this case following reductions of the par value of the shares and distribution of the decreasing amount to shareholders) implemented after the end of the previous reporting period, and (3) any distribution fees (as defined in the IMA), and any transaction costs and / or distribution costs relating to either dividend or non-dividend distributions including buy-backs of shares and/or GDRs, and/or depository interests executed through daily acquisitions or public tenders, after the end of the previous Reporting Period. 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.



NAV, Share price and GDR performance



Cumulative Performance

	2011	2012	2013	2014	2015	2016	2017	2018	Since Performance Inception ¹
NAV (RON)	(0.47)%	8.91%	13.29%	1.39%	(0.60)%	7.33%	13.10%	19.94%	80.20%
Ordinary Share Price (RON)	(30.32)%	38.30%	61.34%	14.53%	(4.06)%	4.90%	21.46%	9.90%	139.23%
GDR (USD)	N/A	N/A	N/A	N/A	N/A	1.15%	35.88%	(1.94)%	23.32%



Average Annual Discount

2011	2012	2013	2014	2015	2016	2017	2018
55.67%	50.09%	40.74%	30.87%	29.12%	32.08%	28.05%	29.54%

Source: BVB, LSE, Bloomberg, 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.

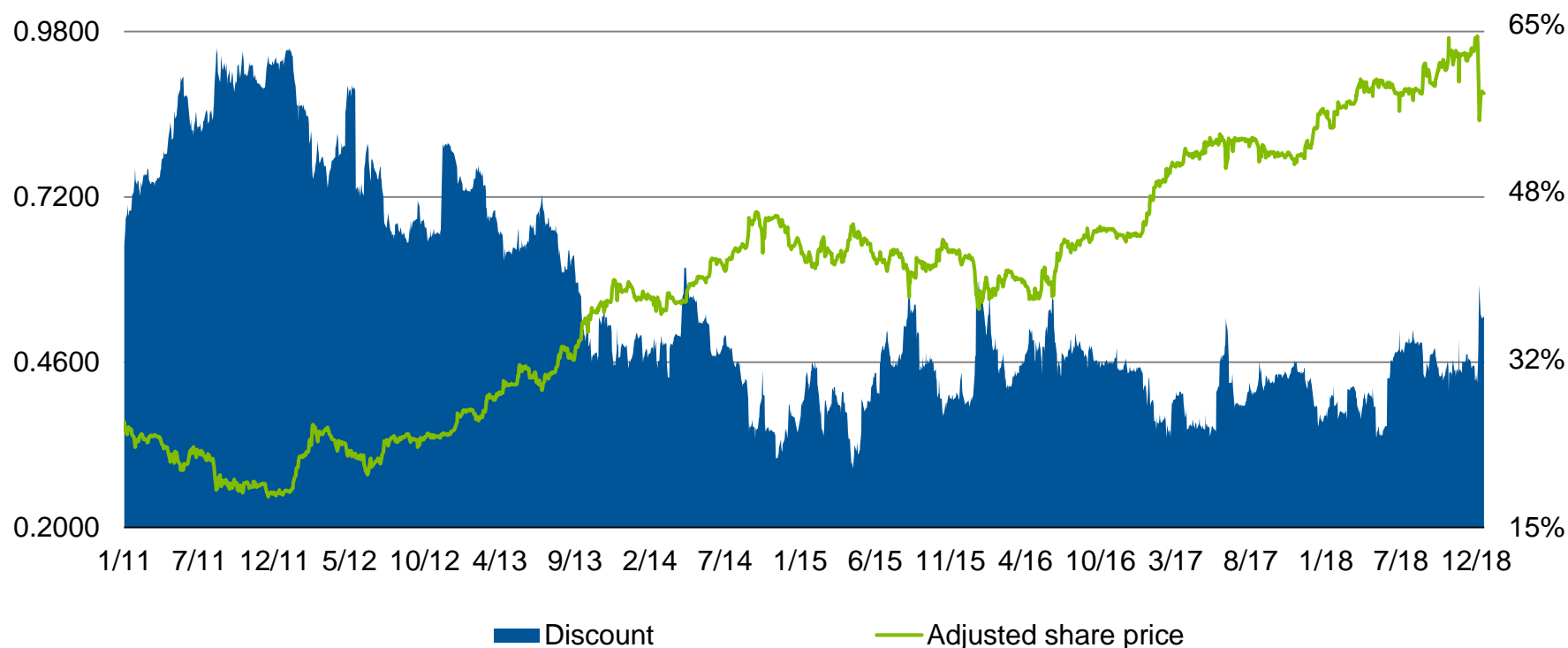
1. As at 31 December 2018.

FP adjusted share price (RON) and Discount (%)

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FP Adjusted share price (RON) and Discount (%)



Source: BVB, Bloomberg, for the period 25 January 2011 – 31 December 2018.

Report on the Discount objective



Discount objective



Objective

The discount between the closing price for each Trading Day on the Bucharest Stock Exchange, of the shares issued by the Fund and the latest reported NAV per Share should be equal to or lower than 15% in at least two thirds of the Trading Days during the reporting period 1 January 2018 – 31 December 2018.



Monthly Monitoring – 31 December 2018

In the period 1 January – 31 December 2018, discount was higher than 15%, for both shares and GDRs.



Discount evolution

Discount at the start of the Reporting Period – 3 January 2018	Discount as at 31 December 2018	Average for the Reporting Period 1 January – 31 December 2018	Discount range for the Reporting Period 1 January – 31 December 2018
26.98%	35.75%	29.54%	23.85% – 38.88%

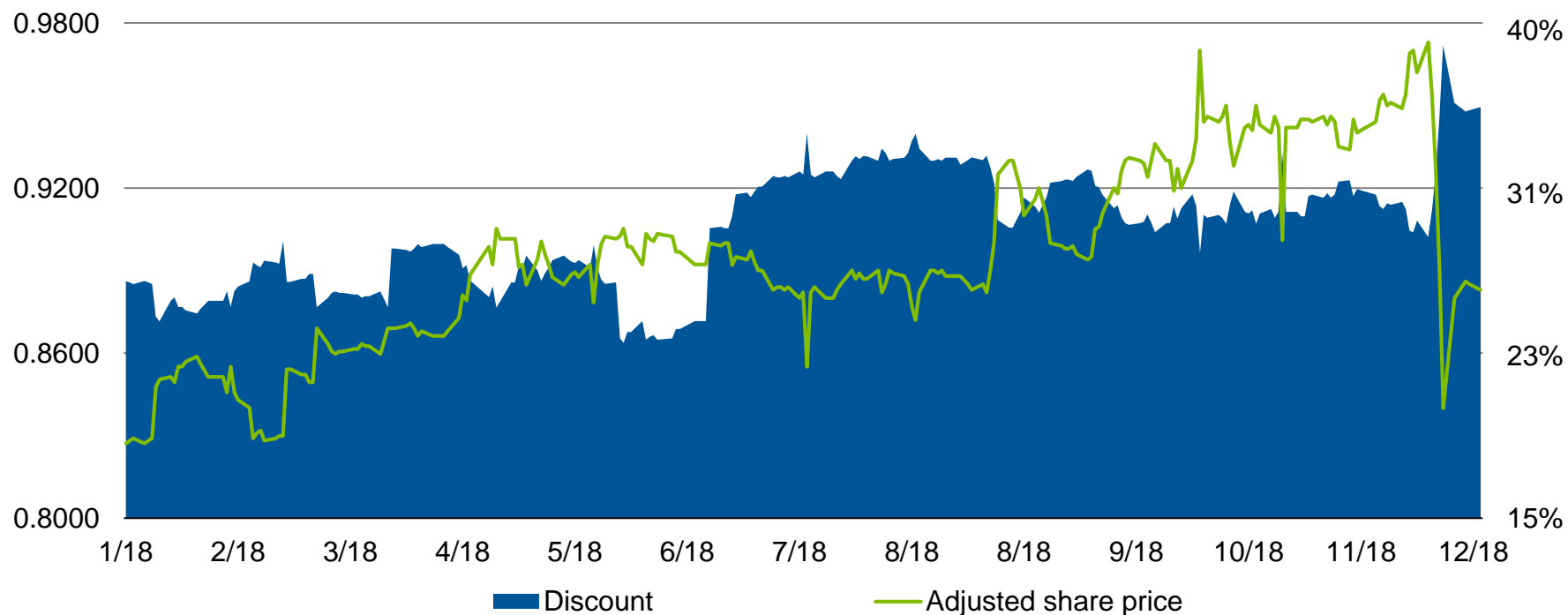
Source: Fondul Proprietatea Report.

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

FP share price and Discount evolution



FP Adjusted share price (RON) and Discount (%)



Source: BVB, Bloomberg, for the period 3 January – 31 December 2018.



Distributed RON 1.87 billion to the Fund's shareholders during 1 January – 31 December 2018 via:

- **Annual Dividend Distribution:**

Gross distribution to shareholders of **RON 499.98 million** or RON 0.0678 per share – payment started on 29 June 2018

- **Buy-backs:**

Executed the 9th buy-back programme (19 November 2017 – 31 December 2018) through a tender offer for 1.2 bn shares (executed in February 2018) and daily share repurchases of up to 25% of the average daily trading volume for the last 20 trading sessions. The total acquisition cost at trade price (excluding transaction costs) of the buy-back program was **RON 1,370,57 million**

- **Total amount distributed**

(including buy-backs and dividend distributions) is **RON 1,870.55 million**, i.e. 18.3% of the Fund's NAV as at 31 December 2018



Investor Relations:

Proactive investor relations program to increase the visibility of the Fund to a broader base of investors

Creating liquidity at the portfolio level¹

	RON
Total Value of Disposals	173,011,275
Dividends Received (Collected)	629,045,350
Credit Facility (Committed) ²	400,000,000
Total	1,202,056,624

Source: Fund's periodical reports.

1. For the Reporting Period: 1 January – 31 December 2018.

2. Maximum committed amount of RON 400 million, plus the possibility to access, at any given time, an additional amount of RON 200 million, subject to the Bank's approval and in accordance with the provisions of the Credit Facility, without exceeding RON 600 million in total.

Distributions to shareholders

RON	Distributions to shareholders in the period 1 January – 31 December 2018 (excluding related costs)	Expenses related to distributions recorded in the period 1 January – 31 December 2018	Total	% of the NAV as at 30 June 2017	% of the average market capitalization during the period
Buyback program 9	1,370,570,876	27,600,580	1,398,171,456	13.23%	18.98%
June 2018 dividend distribution	499,976,344	5,013,547	504,989,891	4.78%	6.85%
Total	1,870,547,220	32,614,127	1,903,161,346	18.00%	25.83%

1. Source: Fund's periodical reports.

Share buybacks

Program	Period	Status	No. of shares repurchased	Average share price (RON/share)	Acquisition cost of shares repurchased, excluding transaction costs (RON)	Broker	Cancellation of shares ¹
Ninth	14 Nov 2017 – 31 Dec 2018	Finalized	1,487,992,569	0.9319	1,386,721,945.39	Wood & Co., Jefferies Internat.	The cancellation of shares will be subject to shareholders' approval in 2019

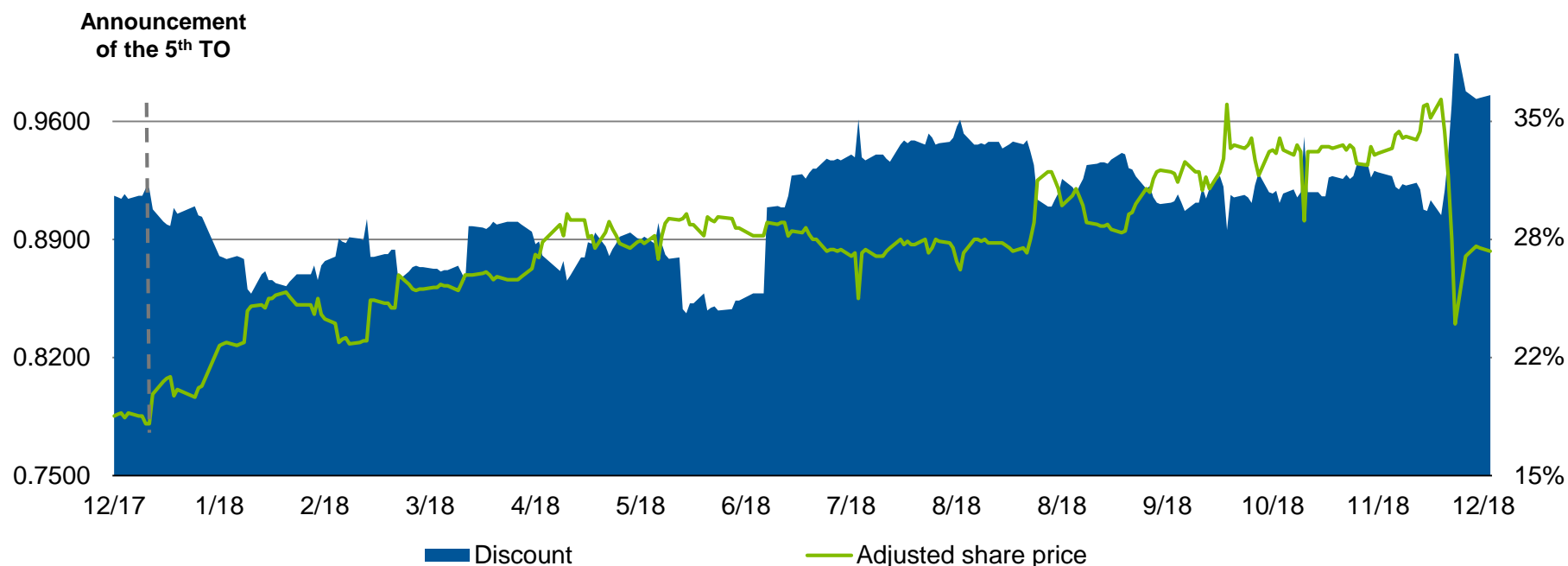
- The Fund Manager contracted a revolving credit facility for a maximum amount of RON 400 mn² from BRD - Groupe Societe Generale SA. The purpose of this credit facility is for general corporate and operational use, including buybacks of own shares, distributions to shareholders, but excluding investments. The credit facility is available until June 2020.

1. To be effective, the FSA endorsement is legally required, and the shareholders' resolution for the share capital decrease needs to be registered with the Trade Register.

2. Maximum committed amount of RON 400 million, plus the possibility to access, at any given time, an additional amount of RON 200 million, subject to the Bank's approval and in accordance with the provisions of the Credit Facility, without exceeding RON 600 mn in total.

Tender offer

Tender Offer	Announcement date	Tender price (RON/share)	FP pre-announcement share price (RON/share)	Premium to pre-announcement share price (%)	Discount of offer price to NAV (%) ¹	Take-up rate (%)
Fifth	15 Dec 2017	0.9350	0.8400	11.31%	22.84%	54.10%



Source: Investment Manager current reports and Tender offer documentation, BVB for the period 1 December 2017 – 31 December 2018.

1. Latest NAV available at the date of the Tender offer announcement: 31 October 2017 NAV for the Fifth Tender Offer.

Investor Relations activity



During the Reporting Period, the Fund Manager continued to actively promote Fondul Proprietatea, through:

- 339 Investor Meetings

- 47 Investor Conference Calls

- 30 Investor Conference and Road-shows

- 100 participants to the Romania Investor Days in London event, 28 February – 1 March 2018

- 171 participants to the FP Investor Days event, 5 – 7 September 2018

- 4 Results conference calls with analysts and investors



Investors that attended the Romania Investor Days in London and FP 2018 Investor Days events have assets under management of over EUR 2,500 billion.

Report on the NAV objective



NAV objective



Objective

The Adjusted NAV per share as at 31 December 2018, to be higher than the NAV per share as at 30 June 2017 (RON 1.1953 per share)



Monthly Monitoring – 31 December 2018

Adjusted NAV as at 31 December 2018 is higher than the NAV per share as at 30 June 2017

NAV Objective	Amount RON	Comments
Total NAV as at 31 December 2018	10,219,444,080	
Dividend distribution from 2017 profits	499,976,344	Dividend distribution approved by shareholders during 26 April 2018 GSM, based on eligible shares as at dividend record date - 11 June 2018 (total issued shares less unpaid shares less shares bought-back and held by the Fund)
Costs related to buy-backs after 30 June 2017	13,961,801	Fees related to eighth buy-back programme after 30 June 2017; ninth buy-back programme, including the FSA fees of 1% of the tender offer value, excluding the distribution fees for buy-backs
Distribution fees for buy-backs performed after 30 June 2017	15,094,559	Distribution fees for buy-backs, including the tender offer within the ninth buy-back programme
Distribution fees for dividends after 30 June 2017	4,999,763	Distribution fees for distributions to shareholders in the form of dividends
Costs related to returns of capital and dividends after 30 June 2017	48,516	Fees charged by the Central Depositary and the Paying Agent for the payments performed after 30 June 2017 (for the 2015, 2016 and 2017 returns of capital and 2018 dividend distribution)
Total Adjusted NAV as at 31 December 2018	10,753,525,062	
Number of Fund's paid shares, less treasury shares and GDRs held as at 31 December 2018	7,250,158,347	
Adjusted NAV per share as at 31 December 2018	1.4833	
NAV per share as at 30 June 2017	1.1953	
Difference	0.2880	
%	24.09%	

Source: FP Report.

Note: 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 distributions to shareholders, being either dividend or non-dividend ones (i.e. in this case following reductions of the par value of the shares and distribution of the decreasing amount to shareholders) implemented after the end of the previous reporting period, and (3) any distribution fees (as defined in the IMA), and any transaction costs and / or distribution costs relating to either dividend or non-dividend distributions including buy-backs of shares and/or GDRs, and/or depository interests executed through daily acquisitions or public tenders, after the end of the previous Reporting Period. 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.

Attribution to NAV performance for the period 1 January – 31 December 2018



Top Performers

Company	Status	Weight in total NAV ¹	Change in NAV performance	Change in NAV per share (RON)
Hidroelectrica SA	Unlisted	41.8%	9.95%	0.1231
OMV Petrom SA	Listed	16.6%	1.68%	0.0208
CN Aeroporturi Bucuresti SA	Unlisted	8.4%	1.65%	0.0204
Nuclearelectrica SA	Listed	1.7%	0.71%	0.0088
Societatea Nationala a Sarii SA	Unlisted	2.4%	0.55%	0.0068



Bottom Performers

Company	Status	Weight in total NAV ¹	Change in NAV performance	Change in NAV per share (RON)
E-Distributie Banat SA	Unlisted	4.6%	(0.61)%	(0.0075)
E-Distributie Dobrogea SA	Unlisted	2.8%	(0.46)%	(0.0057)
Complexul Energetic Oltenia SA	Unlisted	0.0%	(0.30)%	(0.0037)
E-Distributie Muntenia SA	Unlisted	3.8%	(0.28)%	(0.0034)
Posta Romana SA	Unlisted	0.1%	(0.26)%	(0.0032)
TOTAL NAV PER SHARE CHANGE				0.1720

Note: The amounts are adjusted with the dividends declared by the companies, according with FP accounting policy.

1. NAV report as at 31 December 2018.

List of disposals

Company	Status	Disposal type	Stake sold (%)	Proceeds on disposals (RON)	Disposal date
BRD Groupe Societe Generale SA	Listed	Market sale	0.77%	68,095,656	May – June 2018
Conpet SA	Listed	Market sale	6.06%	52,960,966	April 2018
Nuclearelectrica SA	Listed	Market sale	2.04%	49,271,711	January – July 2018
Palace SA Sinaia	Listed	Market sale	15.43%	2,682,942	June 2018
Total				173,011,275	

Source: Fund's periodical reports.

Changes in the valuations of portfolio companies (I)

Company	Status	Value of FP holding as at 1 Jan '18	Contribution in cash to share capital increase	Disposals	Net changes in fair value gain / (loss)	Value of FP holding as at 31 Dec '18	Comments
Alcom SA	Listed	9,906,746	-	-	2,925,886	12,832,632	
OMV Petrom SA	Listed	1,619,774,750	-	-	73,626,125	1,693,400,875	
Plafar SA	Unlisted	1,990,000	-	-	926,000	2,916,000	
Societatea Nationala a Sarii SA	Unlisted	233,000,000	-	-	17,000,000	250,000,000	
Zirom SA	Unlisted	26,839,000	2,350,000	-	(2,060,000)	27,129,000	Cash contribution of RON 2,350,000 to share capital increase (235,000 new shares at the nominal value of 10 RON per share)
Alro SA	Listed	238,333,015	-	-	(13,848,096)	224,484,919	
Conpet SA	Listed	52,121,980	-	(52,960,966)	838,986	-	Entirely disposed in April 2018
BRD Groupe Societe Generale SA	Listed	285,646,454	-	(68,095,656)	(26,584,884)	190,965,914	Partially disposed (5,391,740 shares) during the period May - June 2018
Nuclearelectrica SA	Listed	197,340,343	-	(49,271,711)	25,481,145	173,549,777	Partially disposed (6,140,026 shares) during the period Jan - Jul 2018
Hidroelectrica SA	Unlisted	3,566,000,000	148,120	-	318,851,880	3,885,000,000	Cash contribution of RON 148,120 to share capital increase (14,812 new shares at the nominal value of 10 RON per share)

Source: Fund's periodical reports.

Changes in the valuations of portfolio companies (II)

Company	Status	Value of FP holding as at 1 Jan '18	Contribution in cash to share capital increase	Disposals	Net changes in fair value gain / (loss)	Value of FP holding as at 31 Dec '18	Comments
Complexul Energetic Oltenia SA	Unlisted	32,000,000	-	-	(32,000,000)	-	
E-Distributie Banat SA	Unlisted	545,000,000	-	-	(73,000,000)	472,000,000	
CN Aeroporturi Bucuresti SA	Unlisted	774,000,000	-	-	87,000,000	861,000,000	
E-Distributie Dobrogea SA	Unlisted	342,000,000	-	-	(54,000,000)	288,000,000	
E-Distributie Muntenia SA	Unlisted	419,000,000	-	-	(30,000,000)	389,000,000	
Posta Romana SA	Unlisted	35,000,000	-	-	(28,300,000)	6,700,000	
Engie Romania SA	Unlisted	472,000,000	-	-	(27,000,000)	445,000,000	
CN Administratia Porturilor Maritime SA	Unlisted	230,000,000	-	-	14,000,000	244,000,000	
Romaero SA	Listed	30,168,893	-	-	(4,197,411)	25,971,482	
Enel Energie Muntenia SA	Unlisted	61,000,000	-	-	(3,000,000)	58,000,000	
Enel Energie SA	Unlisted	57,000,000	-	-	(13,000,000)	44,000,000	
CN Administratia Canalelor Navigabile SA	Unlisted	15,648,846	-	-	(1,045,686)	14,603,160	

Source: Fund's periodical reports.

Changes in the valuations of portfolio companies (III)

Company	Status	Value of FP holding as at 1 Jan '18	Contribution in cash to share capital increase	Disposals	Net changes in fair value gain / (loss)	Value of FP holding as at 31 Dec '18	Comments
Aeroportul International Timisoara – Traian Vuia SA	Unlisted	22,000,000	-	-	(2,000,000)	20,000,000	
Palace SA	Listed	2,682,942	-	(2,682,942)	-	-	Entirely disposed in June 2018
Aeroportul International Mihail Kogalniceanu - Constanta SA	Unlisted	2,441,000	-	-	(974,000)	1,467,000	
CN Administratia Porturilor Dunarii Maritime SA	Unlisted	2,816,774	-	-	1,199,364	4,016,138	
CN Administratia Porturilor Dunarii Fluviale SA	Unlisted	3,514,750	-	-	(1,768,930)	1,745,820	
Mecon SA	Listed	189,170	-	-	1,180,062	1,369,232	
IOR SA	Listed	786,682	-	-	(498,232)	288,450	
Total		9,278,201,345	2,498,120	(173,011,275)	229,752,209	9,337,440,399	

Source: Fund's periodical reports.

Actions to protect and increase value of the portfolio companies (I)

Timisoara Airport

- As active members of the Board, we worked with the board and the executive management to continue improving the company's profitability through cost management and initiatives aimed at opening new routes and enhancing non-aeronautical revenues
- Pushed against initiatives: 1) to merge the airport with the airport in Arad and 2) to transfer land from the State to the company, which could not have been used efficiently

Alro

- Continued to actively engage with the management for improved corporate governance, better transparency and adoption of a more investor friendly attitude. Also, we have been discussing with the Chairman of the Board about possible options to improve the liquidity of the stock
- The 180 days lock –up period accepted by the Fund as part of the Secondary Public Offering attempted by the company in conjunction with the controlling shareholder in July 2018, expired in the same month as the offering was not successful.

Bucharest Airports

- As active members of the Board, we worked with 6 separate interim Boards and 4 interim General Managers to continue improving the company's profitability through cost management and initiatives aimed at opening new routes and enhancing non-aeronautical revenues
- In 2018 the company reported a new record in terms of profitability
- Continued to support proper implementation of Corporate Governance legislation through ongoing litigations
- Provided balanced opinions and challenged some of the assumptions behind planned capital expenditure projects
- Continued to push for the listing of the company
- Worked closely with the management and the board in order to successfully finalize the share capital increase with the land contributed by the Ministry of Transport which was evaluated at a fair value
- Pushed the company to pay special dividends in 2018

Actions to protect and increase value of the portfolio companies (II)

Constanta Port

- Supported the Board and the executive management in the ongoing effort to improve revenues from renting land in the ports and keeping operating costs under control
- Challenged in court the shareholders' decision approving the distribution as dividends of only 25% of the 2017 net profit
- Issued several press statements denouncing the lack of transparency and highlighting the shortcomings of several appointments of board members carried out by the Ministry of Transport
- Challenged in court the appointment of some board members whom we consider are in a situation of potential conflict of interest
- Continued to push for the IPO of the company

CE Oltenia

- Continued litigations against the value destructive management decisions (e.g.: taking over operation of the Chiscani gas fired power plant - 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).

Engie Romania

- Raised in a shareholders' 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. In 2017 we initiated legal actions against the management for related party contracts approved in the past. The litigation is ongoing.
- Requested the convening of a shareholders' meeting to approve the listing of the company on the stock exchange. The request was unfortunately rejected by the majority shareholder.
- In 2018 we initiated legal action in court against shareholders' decision related to long term contracts signed by the company with third parties for the Black Sea gas.

Actions to protect and increase value of the portfolio companies (III)

Hidroelectrica

- Intervened in several litigations on behalf of the company (claims filed by the trade unions against the company worth more than EUR 100 mn, claims filed against the regulator, claims filed against third parties)
- Contested in Court the appointment of the new Directorate. The appointment breached the principles of the Corporate Governance Code and the Code of Ethics
- Challenged in Court any detrimental measures initiated by the Directorate such as the changes to the company's Organization chart
- Communicated our observations to the selection process initiated by the Ministry of Energy for the selection of the Supervisory Board based on OUG 109, with the aim of having a professional, transparent and fair processs

Nuclearelectrica

- Emphasized to the company's management the importance of a predictable dividend policy for the next years
- Continued to oppose in the shareholders' meetings to the project to build nuclear reactors 3 and 4 which would have a negative impact to the company's value
- Pushed the company to pay special dividends in 2018

OMV Petrom

- Pushed for a better defined dividend policy
- 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

Actions to protect and increase value of the portfolio companies (IV)

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
- Initiated legal action against the decision for the company to complete a share capital increase which we deemed was insufficient in the absence of a clear restructuring plan
- Challenged in court other decisions related to the company contracting more loans from banks and informed the financial institutions of the situation as well

Salrom

- Worked closely with the management team to improve operations: drafted an updated commercial policy, which lead to an increase of the client base and better pricing for the products. Helped the company with legal advisory in different litigations
- The results of our continuous efforts will be seen in the record profitability to be reported by the company for 2018
- Worked with Unicredit, external lawyers, the management and the Board for the strategic review of the Fund's stake in the company. We organized management meetings with the potential investors and received non-binding offers

Report on the obligations regarding the Discount Control Mechanism





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 Q4 2017 – Q4 2018 (the new IMA into force)



If the discount stays above 15% for more than half of the trading days in any quarter, the Fund Manager will call a Board meeting to discuss the DCM



The Board meetings took place on the following dates: 14 February, 1 March, 25 April, 14 May, 19 July, 13 August, 5 September, 14 November and 13 December 2018



There were:

- 4 quarterly calculation periods (Q1 – Q4 2018), and
- 4 two-quarter valuation periods (Q4 2017 + Q1 2018, Q1 + Q2 2018, Q2 + Q3 2018, Q3 + Q4 2018)

Ongoing DCM measures

Cash distributions

- The Fund Manager proposed and shareholders approved a gross dividend distribution of RON 0.06780 per share, for the 2017 FY
- The payment started on 29 June 2018

Tender offer

- Execution of the 5th Tender offer of 1.2 bn shares, in order to accelerate the 9th buy-back programme

Credit facility

- Contracted a revolving credit facility for a maximum amount of RON 400 mn¹ from BRD - GSG SA
- The credit facility is available until June 2020

Share buybacks

- Execution of the 9th buy-back programme during 2018

Asset disposals

- Ongoing discussions for selling unlisted stakes of the Fund

Investor relations activities

- Between 28 February – 1 March, we organized in collaboration with Wood & Co, the 2018 Romania Investor Days in London conference. 83 investors from 43 investment houses, and 43 representatives from 17 Romanian companies participated to 244 investor meetings organized during the conference
- Between 5 – 7 September, we organized in collaboration with Wood & Co, the FP Investor Days event in Bucharest. 82 investors from 53 investment houses, and 62 representatives from 31 Romanian and other frontier markets companies participated in 448 investor meetings organized during the conference
- We participated in several regional and global emerging and frontier market conferences, as well as dedicated conferences for closed-end funds in United States, United Kingdom, Hungary, Singapore, Austria, and Czech Republic
- Further promotion of the Fund through road-shows to United Kingdom, Croatia, United States, South Africa, and Sweden

1. Maximum committed amount of RON 400 million, plus the possibility to access, at any given time, an additional amount of RON 200 million, subject to the Bank's approval and in accordance with the provisions of the Credit Facility, without exceeding RON 600 mn in total.

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

- Shareholders' approval for the 10th buy-back programme of 750 million shares, to be executed during 1 January – 31 December 2019

Cash distributions to shareholders

- Dividend distribution for the 2017 FY has started on 29 June 2018
- Dividend distribution for the 2018 FY will be discussed with Board of Nominees and proposed to shareholders on 14 February 2019

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

- Execution of the 9th buy-back programme

Maintaining a transparent cash distribution policy

- The cash distribution policy has been updated and communicated to the market in September 2016 and is currently implemented

Increasing the share of the listed companies in the portfolio

- Potential IPO of Hidroelectrica after the Sovereign Fund is established
- Discussions continue on starting IPO processes for 3 of the Fund's unlisted companies (Salrom, Bucharest Airports, and Constanta Port)

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

- Organization of several road-shows to United Kingdom, Croatia, United States, South Africa, and Sweden, participation to conferences in United States, United Kingdom, Hungary, Singapore, Austria, and Czech Republic, and organization of the Fund's Investor Days in London and Bucharest

Summary of the regulatory issues affecting the performance during the Reporting Period



Regulatory issues affecting the performance during the Reporting Period

- Breach of the Corporate Governance Legislation (OUG 109/2011) implementation by the Romanian State and attempts to change the legislation in Parliament
- Delays in the IPO calendar of SOEs
- Changes of the Romanian legislation without following a transparent process and without offering predictability
- Delays of the Financial Supervisory Authority in approving the share capital decrease processes
- Most important, the approval of the Emergency Government Ordinance 114 on 21 December 2018 that generated increased market turmoil on the Bucharest Stock Exchange and has negatively impacted the Fund and some of the listed and unlisted companies in the portfolio due to its main provisions:
 - Introducing a 2% tax on turnover for companies in the electricity and gas sectors
 - Capping gas prices for households at RON 68 MW/h until February 2022 and for industrial consumers at a mix between RON 68 MW/h, import price, and storage cost
 - Capping electricity prices for households and small enterprises (with less than 50 employees and revenues less than EUR 50 million) at a price to be set by the regulator (“ANRE”)
 - Asset tax on banks: a progressive tax rate linked to the 3-month and 6-month quarterly ROBOR average

Summary of the market conditions affecting the performance during the Reporting Period



Market conditions affecting the performance during the Reporting Period

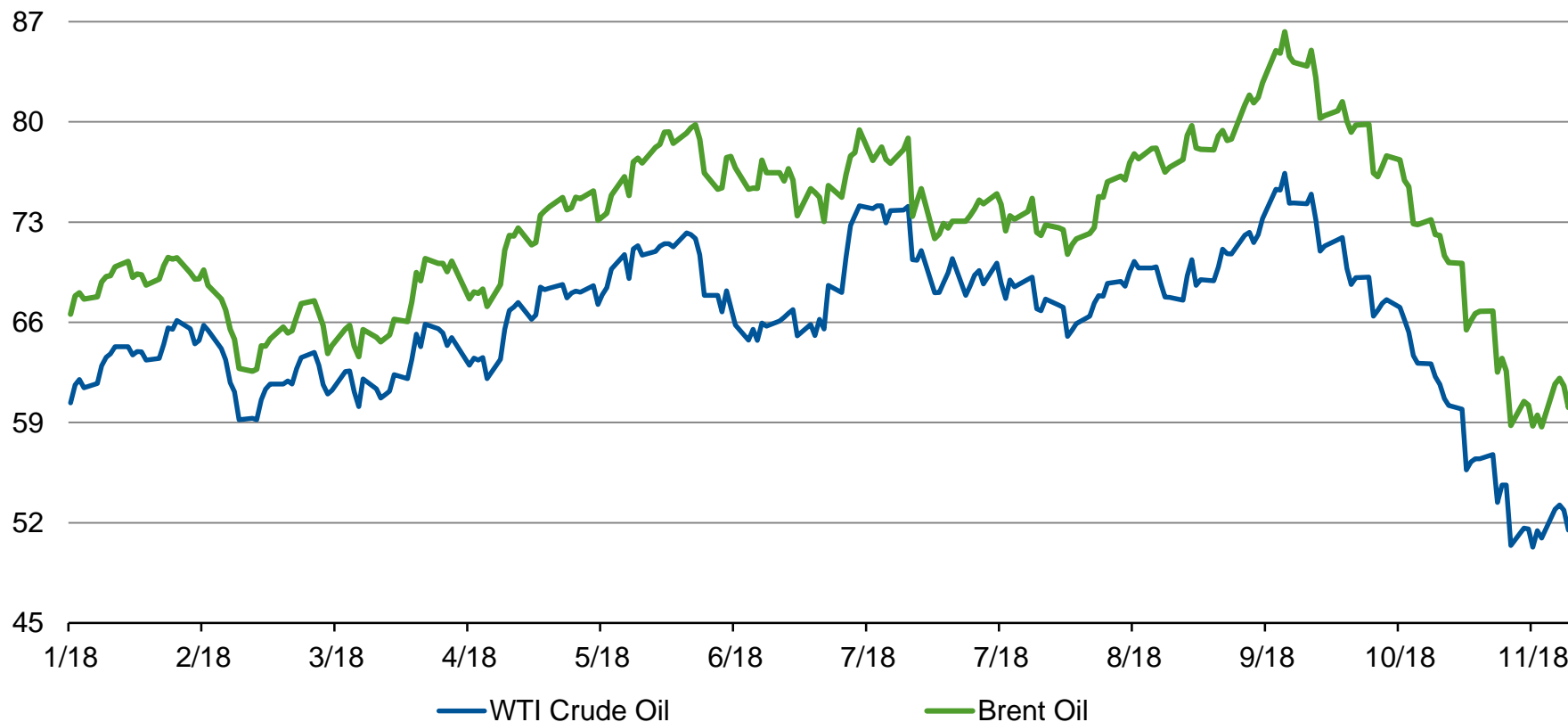
- General Risks
- Oil Prices
- Electricity Prices
- Market Sentiment in Emerging and Frontier Markets
- Volatility in developed markets

Market conditions affecting the performance during the Reporting Period

- The Romanian judicial system and Romanian legislation continue to develop and this may create an uncertain environment for investment and for business activity
- 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 its 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
- Frequent changes in tax legislation without respecting transparency rules

Oil price volatility

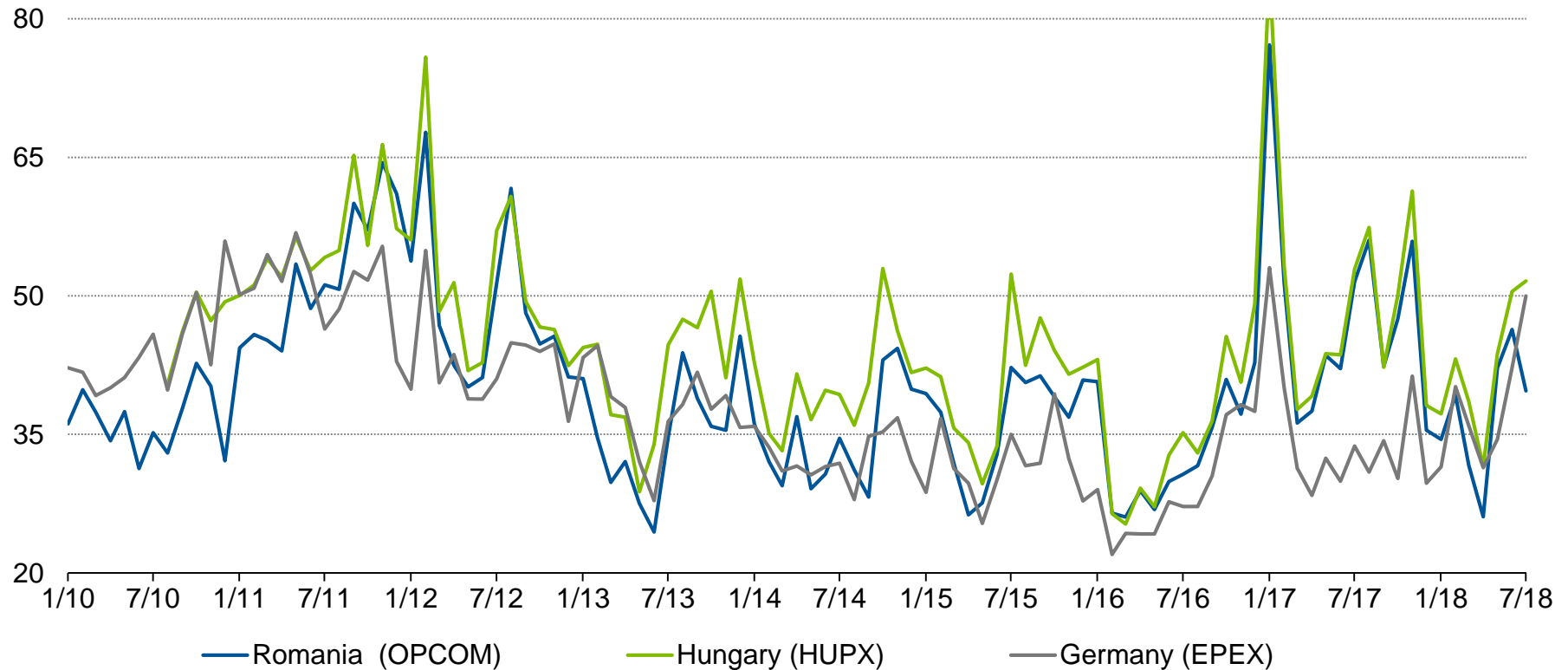
- 24.78% decrease for WTI Crude Oil
- 19.18% decrease for Brent Oil



Source: Bloomberg, for the period 1 January 2018 – 31 December 2018

Electricity prices

Monthly electricity prices (EUR/MWh)

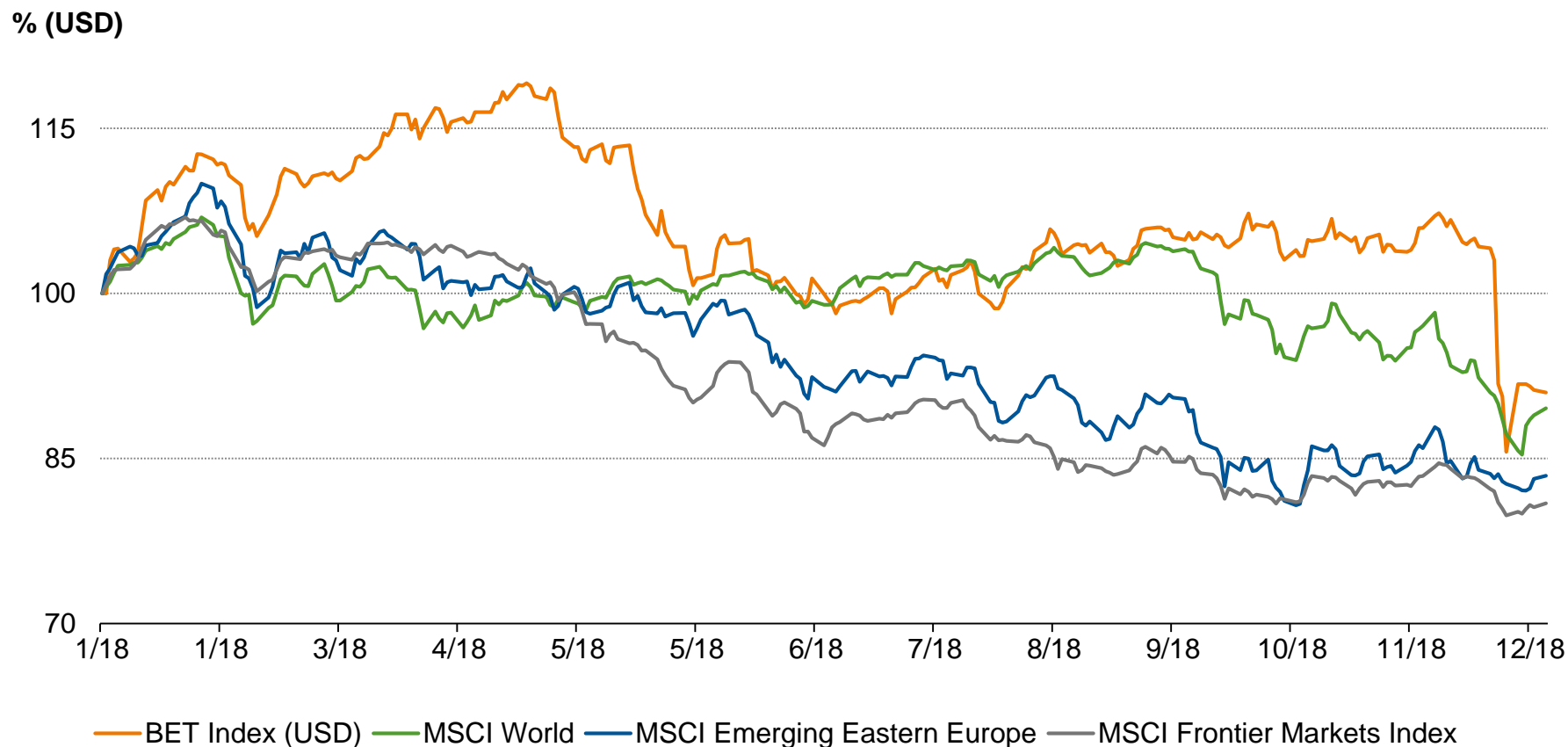


Source: Hidroelectrica, Bloomberg starting 2017.

Note: Base load prices.

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

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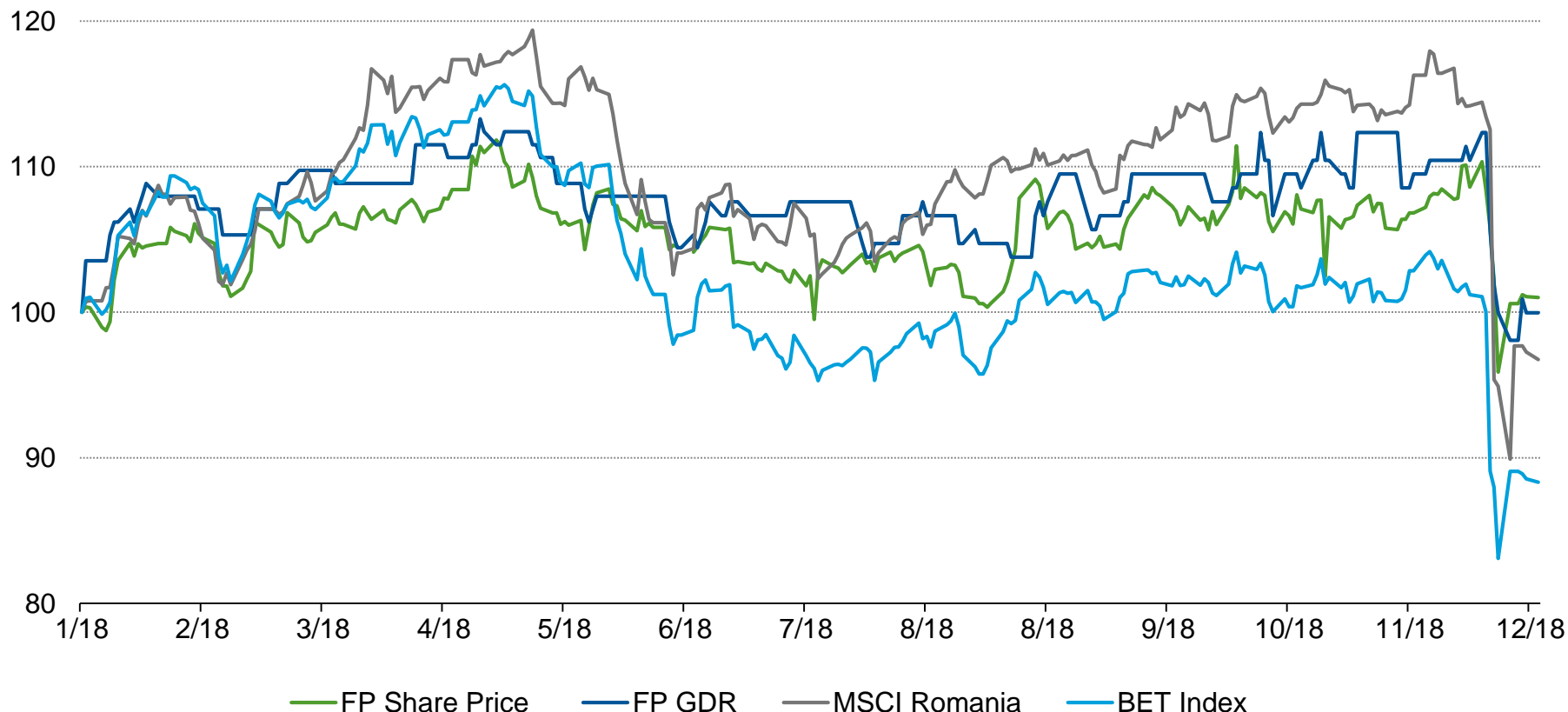


Source: Bloomberg, for the period 1 January – 31 December 2018.



FP Share and GDR prices vs. MSCI Romania vs. BET Index

% (USD)



Source: Bloomberg, for the period 1 January – 31 December 2018.

Other developments during the Reporting Period



Adoption of OUG 114/2018

- The adoption of OUG 114/2018 has introduced many uncertainties in the energy market with effects on the portfolio companies which are still yet to be determined. After the reporting period, the Fund had to adjust down the most recent valuation of Hidroelectrica in the January 2019 NAV by RON 391 million RON or 9.1%.

Hidroelectrica's IPO

- The IPO has been postponed due to delays in key decisions to be taken by the Romanian Government as the majority shareholder of the company: independent Board, professional management
- As a result, and given recent developments related to OUG 114/2018, the expected timing of the IPO is uncertain

New Offshore law

- The definition of a proper legal framework surrounding the gas exploration in the Black Sea took a long time. The plan is now jeopardized by OUG 114/2018

Delay in the IPO of 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: Hidroelectrica and Bucharest Airports. Other potential candidates would be Constanta Port, and Salrom

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