

**BOARD OF NOMINEES ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2018**

I. THE ROLE OF THE BOARD OF NOMINEES

INTRODUCTION:

The Board of Nominees of Fondul Proprietatea SA (the “Fund” / “Fondul Proprietatea”) is a body created in accordance with the Fund’s Constitutive Act and with Article 224 para. (4) of National Security Commission’s Regulation no. 15/2004, which does not have an equivalent correspondence in the corporate body structure regulated by the Companies’ Law no. 31/1990 (“For concluding the administration contract in case of an investment firm which is not self-managed, and also for verifying the unrolling of this contract, the general shareholding can appoint representatives”).

The Board of Nominees consists of members appointed by the Ordinary General Shareholders’ Meeting (“OGM”) for a mandate of three (3) years, which upon expiry is automatically extended until the next OGM.

The members of the Board of Nominees shall be the persons designated by the Fund’s shareholders (and may themselves be shareholders) and shall hold adequate experience and qualifications to decide (if necessary, by assistance of an independent consultant) whether the transactions proposed by the Fund Manager, which require the approval of the Board of Nominees, are carried out for the benefit of the shareholders. The Board has a diligence and loyalty duty to the Fund, acting in the best interests of its shareholders.

The Board of Nominees shall meet at least quarterly. The convening of the meeting shall be made by the chairman of the Board of Nominees (selected by the members thereof), by a member of the Board of Nominees or by the Fund Manager. The meeting of the Board of Nominees shall assemble within seven (7) days of convening. The resolutions of the Board of Nominees shall be passed statutorily with a quorum representing the majority of the total members thereof, with the vote of the majority of the voting rights held by the members of the Board of Nominees.

According to the Constitutive Act, the main duties of the Board of Nominees are:

- (1) Following the information received from the Alternative Investment Fund Manager (“AIFM / Fund Manager”) with regard to the summoning of the ordinary and/or extraordinary general meeting of the shareholders requests, if it deems necessary, the insertion of supplementary matters in the text of the calling notice of the general meeting of shareholders;
- (2) Receives from the Alternative Investment Fund Manager the information in connection with the answers to the written requests submitted before the date of the general meeting of the shareholders, by the shareholders on topics regarding Fondul Proprietatea’s activity;

(3) Receives from the Alternative Investment Fund Manager the annual financial statements, the annual activity report presented by the Alternative Investment Fund Manager and the financial auditors' report, before being made available to the shareholders and analyses them, being able to formulate an opinion to be presented to both the Alternative Investment Fund Manager and the general meeting;

(4) Receives from the Alternative Investment Fund Manager for analysis the annual report and the management policy of Fondul Proprietatea and presents an opinion to the Alternative Investment Fund Manager and to the general meeting of the shareholders regarding such;

(5) Receives from the Alternative Investment Fund Manager for analysis the yearly income and expenditure budget before it is submitted to the approval of the general meeting of shareholders and presents an opinion to the Alternative Investment Fund Manager and to the general meeting of the shareholders regarding such;

(6) Receives from the Alternative Investment Fund Manager for analysis the strategy in accordance with the Fondul Proprietatea's investment policy before to be submitted to the approval of the general meeting of the shareholders and presents an opinion to the Alternative Investment Fund Manager and to the general meeting of the shareholders;

(7) Receives from the Alternative Investment Fund Manager for analysis and approves the framework for carrying out Fondul Proprietatea's operations, as well as any other Fondul Proprietatea's regulations issued by Alternative Investment Fund Manager according to legal provisions in force, capital market rules and regulations;

(8) Receives from the Alternative Investment Fund Manager for analysis the proposal to the ordinary general meeting of the shareholders for the conclusion of the financial audit agreement and presents an opinion to the Alternative Investment Fund Manager and to the general meeting of the shareholders;

(9) Reviews on a regular basis the investment policy of Fondul Proprietatea and presents an opinion to the Alternative Investment Fund Manager and to the general meeting of the shareholders as any time it deems necessary, but in any case, at least once a year to the annual ordinary meeting;

(10) Receives the report of the internal auditor and presents an opinion to the Alternative Investment Fund Manager and to the general meeting of the shareholders;

(11) Monitors the following, based on information and reports received from the Fund Manager:

- the list of all portfolio investments and percentage breakdown by each investment type;
- a list of major transactions occurring in the Fondul Proprietatea portfolio for the period under review;
- the total profit of the portfolio and comparison of profit with the appropriate market benchmark;
- comparison of the obtained profit with the initial objective;

- the extent of compliance with the investment policy, including, specifically, the degree to which any performance objectives set out therein are achieved, as well as any variations and actions taken to achieve such objectives and improve investment results;
- the performance evaluation report.

The Board of Nominee shall draft and present to the general meeting of the shareholders an annual report regarding the monitoring activity performed or a monitoring report for another period agreed by the general meeting of shareholders; Page | 3

(12) Represents the general meeting of the shareholders in relation with the Alternative Investment Fund Manager from the communication point of view between the two corporate bodies, except for the cases expressly regulated by this constitutive act as a direct communication between the general meeting and the Alternative Investment Fund Manager;

(13) Verifies the report of the Alternative Investment Fund Manager and the exercise of the permanent monitoring over the management of Fondul Proprietatea by the Alternative Investment Fund Manager, and verifies if the operations carried on by the Alternative Investment Fund Manager are in compliance with the applicable law, the constitutive act and/or with any relevant decision of the general meeting of the shareholders;

(14) Under the conditions of art. 13 paragraphs (11) and (14) calls upon the general meeting of the shareholders;

(15) Participates to the meetings of the general shareholders' meetings and presents in this meeting reports in all cases provided by this constitutive act or with regard to any issue it deems to be relevant for the shareholders;

(16) Proposes to the general meeting of the shareholders the prior approval or rejection of the execution of contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of Fondul Proprietatea, whose value exceeds, individually or cumulatively during a financial year, 20% of the total value of the non-current assets, less receivables;

(17) Recommends to the General Meeting of the Shareholders the termination of the management agreement for the case when the Board of Nominees is considered is to the benefit of the shareholders.

(18) Recommends to the general meeting of the shareholders on any other issues the Board of Nominees is considered relevant to the shareholders.

(19) Following the proposal of the Alternative Investment Fund Manager, recommends to the Extraordinary General Meeting of the Shareholders the appointment of the public offer intermediary, as well as on its remuneration, when it will become necessary that such a company be appointed related to the admission to trading of Fondul Proprietatea.

(20) Approves the delegation by the Alternative Investment Fund Manager of certain activities. The delegation shall be effective in accordance with the legal provisions in force.

(21) Is responsible for monitoring the Alternative Investment Fund Manager performance of the Investment Management Agreement.

The Constitutive Act also includes regulatory provisions with respect to the conflict of interest and confidentiality responsibilities of the members of the Board of Nominees.

Furthermore, the Board of Nominees will decide, within a reasonable period of time, upon any request submitted by the Fund Manager so as to permit the Fund Manager to perform its obligations. Page | 4

SHORT PRESENTATION OF THE BOARD OF NOMINEES' ACTIVITY FOR 2018:

Composition of the Board of Nominees

The structure of the Board of Nominees as at 31 December 2018 was the following:

Name	Position	Mandate until
Mr Sorin-Mihai Mîndruțescu	Chairman	30 September 2019
Mr Mark Henry Gitenstein	Member	30 September 2019
Mr Julian Rupert Francis Healy	Member	5 April 2021
Mr Steven Cornelis van Groningen	Member	14 April 2021
Mr Piotr Rymaszewski	Member	5 April 2021

Considering the fact that the previous mandates for Mr. Rymaszewski, Mr. Healy and Mr. van Groningen ended in April 2018, during 14 February 2018 GSM shareholders decided to appoint three members in the Board of Nominees of Fondul Proprietatea following the expiration of three mandates, as follows:

- Mr. Julian Rupert Francis Healy starting with on 5 April 2018;
- Mr. Piotr Rymaszewski starting with 5 April 2018 and
- Mr. Steven Cornelis Van Groningen starting with 14 April 2018.

The mandates of the new members are for a period of three (3) years onwards.

Meetings & Relevant Decisions

In accordance with the provisions of Article 16 of the Constitutive Act of the Fund adopted by the Extraordinary General Shareholders Meeting Decision no. 5 of 29 November 2010 and the provisions of Chapter III of the Regulation for organization and functioning of the Board of Nominees approved by the Board of Nominees' Decision no. 2 of 14 October 2010, as subsequently amended, there were nine (9) meetings of the Board of Nominees in 2018, as follows:

- **14 February 2018 – meeting** (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **1 March 2018 – meeting** (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **25 April 2018 – meeting** (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)

- **14 May 2018 – meeting** (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **19 July 2018 – conference call** (Members of the Board joining the conference call: Mr. Julian Healy – Chairman of the meeting, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **13 August 2018 – conference call** (Members of the Board joining the conference call: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Piotr Rymaszewski, Mr. Steven van Groningen and Mr. Mark Gitenstein)
- **5 September 2018 – meeting** (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **14 November 2018 – meeting** (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **13 December 2018 – meeting** (Members of the Board joining the meeting: Mr. Julian Healy – Chairman of the meeting, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)

During 2018, the Board of Nominees issued a total number of thirty-five (35) resolutions. Among such, the most important ones referred to:

- ✓ The approval of the Procedure for implementing the General Data Protection Regulation (EU) 2016/679 (“*GDPR*”) for Fondul Proprietatea SA;
- ✓ The approval of amending the Procurement Procedure of Fondul Proprietatea SA;
- ✓ The approval of amending the Nomination and Remuneration Policy for Fondul Proprietatea SA;
- ✓ The approval of amending the Policy regarding the authorization of payments on Fondul Proprietatea SA;
- ✓ The approval of the costs related to signing different arrangements for rendering various services to the Fund;
- ✓ The approval of the waiver for the selection of different providers with respect to the activity performed by Fondul Proprietatea SA;
- ✓ The approval of the convening notices in relation to the General Shareholders Meetings held during 2018;
- ✓ The approval of updating the procedure for organising the Fund’s general shareholders’ meetings;
- ✓ The prior approval of the decrease of the subscribed share capital of the Fund (either through the decrease of the par value of the Fund’s shares involving cash distributions to the Fund’s shareholders or pursuant to the cancellation of own shares acquired by the Fund within the buyback programmes);
- ✓ The prior approval of the buyback programmes of the own shares issued by the Fund;
- ✓ The prior approval of the Fund’s Sole Director Annual Report for 2017;
- ✓ The approval of the 2017 Annual Report of the Board of Nominees;
- ✓ The prior approval of the negative reserves’ coverage incurred in 2017 financial year derived from the cancellation of the Fund’s treasury shares;
- ✓ The prior approval of the net profit allocation registered for the financial year 2017;

- ✓ The prior approval of Fondul Proprietatea's 2019 budget;
- ✓ The approval of certain expense categories reclassifications/ reallocations in the Fund's 2018 Budget;
- ✓ The approval of reimbursement of the expenses incurred by Franklin Templeton Investment Management Ltd. United Kingdom Bucharest Branch on behalf of Fondul Proprietatea.

SHORT PRESENTATION OF THE CONSULTATIVE COMMITTEES OF FONDUL PROPRIETATEA

At Fondul Proprietatea's level, two permanent Consultative Committees are established, in accordance with the applicable legal provisions in force, namely:

- The Audit and Valuation Committee of Fondul Proprietatea ("AVC")
 - The Nomination and Remuneration Committee of Fondul Proprietatea ("NRC")
- ***Overview of the activity performed by the Audit and Valuation Committee of Fondul Proprietatea SA during 2018***

Introduction:

A permanent Audit and Valuation Committee composed of four Board of Nominees members was established to provide assistance to the governing bodies of the Fund in the area of internal control and financial reporting. This committee reviews the annual financial statements and the proposal for profit distribution, as well as performs other activities under the new European audit regulation. In addition, the Audit and Valuation Committee analyses the proposal for appointing the independent financial auditor, who is appointed by shareholders at an OGM.

The Committee also supervises the Fund's risk management strategy and its financial performance and assesses any issues brought to its attention by the internal auditor.

The Sole Director reports to the Audit and Valuation Committee at least once a year on the internal audit plan and on any material relevant matters.

The Audit and Valuation Committee consists only of non-executive directors and should be composed of at least three members. The majority of the members of the Audit and Valuation Committee should be independent. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the committee should have proven to have relevant expertise concerning the application of the accounting principles or concerning the financial statutory audit, proved through supporting qualification documents in such fields.

The Audit and Valuation Committee must have the qualifications required by law in the area in which the Fund, as the audited entity, operates. The Chairman of the Audit and Valuation Committee should be an independent non-executive member, being appointed by the members of the Audit and Valuation Committee or by the Board of Nominees.

Composition of the Audit and Valuation Committee

As at 31 December 2018, the structure of the Audit and Valuation Committee was the following:

Name	Position	Mandate until
Mr Julian Rupert Francis Healy	Chairman	5 April 2021
Mr Steven Cornelis van Groningen	Member	14 April 2021
Mr Piotr Rymaszewski	Member	5 April 2021
Mr Sorin-Mihai Mîndruțescu	Member	30 September 2019

During 2018, there were seven (7) meetings of the Audit and Valuation Committee, as follows:

- **14 February 2018 - meeting** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Sorin Mîndruțescu)
- **1 March 2018 - meeting** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Sorin Mîndruțescu)
- **14 March 2018 – conference call** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Sorin Mîndruțescu)
- **15 May 2018 – meeting** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Sorin Mîndruțescu)
- **11 July 2018 – conference call** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Sorin Mîndruțescu)
- **4 September 2018 – meeting** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Sorin Mîndruțescu)
- **13 December 2018 – meeting** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman, Mr. Steven van Groningen and Mr. Piotr Rymaszewski)

➤ ***Overview of the activity performed by the Nomination and Remuneration Committee of Fondul Proprietatea SA during 2018***

Introduction

A permanent Nomination and Remuneration Committee composed of three Board of Nominees members was established at the level of Fondul Proprietatea, to provide assistance to the governing bodies of the Fund in the area of nomination and changes in remuneration, being independent from the sole director and from the Board of Nominees.

The responsibilities of the Nomination and Remuneration Committee are:

- drafting an annual activity report for the evaluation of its activity,
- analysing the reasons for which the changing of the sole director is required, if necessary, and enfoldng the process for the appointment of a temporary sole director, if the sole director is removed from its position.
- elaborating a remuneration policy for the directors and managers,
- presenting to the Board of Nominees an analysis regarding the implementation of the management agreement, and proposals regarding the remuneration of the members of the Board of Nominees making sure that these proposals are in accordance with the remuneration policy adopted by Fondul Proprietatea SA;
- leading the process for Board appointments and making recommendations to the Board.

For the fulfilment of its responsibilities, the Committee shall adopt proposals and recommendations and submit them to the implementation by the sole administrator of Fondul Proprietatea SA and to the Board of Nominees.

The Committee will have the obligation to present reports to the Board of Nominees periodically or on the terms established by the Board of Nominees.

The Nomination and Remuneration Committee shall assist the sole director in fulfilling its responsibilities.

The Nomination and Remuneration Committee consists of 3 non-executive members. The majority of the members of the Nomination and Remuneration Committee should be independent.

Composition of the Nomination and Remuneration Committee

As of 31 December 2018, the structure of the Nomination and Remuneration Committee was the following:

<u>Name</u>	<u>Position</u>	<u>Mandate until</u>
Mr Sorin-Mihai Mîndruțescu	Chairman	30 September 2019
Mr Piotr Rymaszewski	Member	5 April 2021
Mr. Mark Henry Gitenstein	Member	30 September 2019

During 2018, there were three (3) meetings of the Nomination and Remuneration Committee during 2018, as follows:

- **15 February 2018 - meeting** (Members of the NRC joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **14 May 2018 – meeting** (Members of the NRC joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **14 November 2018 – meeting** (Members of the NRC joining the ad-hoc meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)

II. THE OPINION OF THE BOARD OF NOMINEES REGARDING ANNUAL REPORT FOR THE YEAR END 31 DECEMBER 2018:

ANNUAL ACTIVITY REPORT PRESENTED BY THE SOLE DIRECTOR

This section provides an overview on the main elements of the Fund’s financial position and performance for the period ended 31 December 2018.

Statement of Financial Position

RON million	31 December 2018 Audited	31 December 2017 Audited
Cash and current accounts	19.6	19.2
Deposits with banks	187.1	1,276.7
Treasury bills	49.6	46.3
Government bonds	131.6	195.9
Dividend receivables	137.0	-
Equity investments	9,337.4	9,278.2
Other assets	1.5	10.7
Total assets	9,863.8	10,827.0
Payables	14.8	15.2
Other liabilities	20.6	21.6
Total liabilities	35.4	36.8
Total equity	9,828.4	10,790.2
Total liabilities and equity	9,863.8	10,827.0

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The cash and cash equivalents of the Fund in 2018 included term **deposits with banks, government bonds and treasury bills** issued by the Ministry of Public Finance of Romania. All instruments are denominated in RON and have maturities of up to one year.

The decrease in liquid assets by 74.8% during 2018 is mainly due to the cash outflow for funding the Public Tender Offer settled in February (RON 1,134.8 million, including transaction costs) and the dividend distribution in June (RON 469.8 million net dividends paid until 31 December 2018), partially netted off by the inflows from the dividends collected from portfolio companies (RON 629.2 million) and by the proceeds from disposal of equity instruments (RON 173.0 million).

The **dividend receivables** caption comprises the special dividend declared by Hidroelectrica SA in December 2018 and collected by the Fund in January 2019.

The increase in **equity investments** of RON 59.2 million during 2018 is mainly due to the increase in Hidroelectrica SA fair value (RON 318.9 million), partially netted off by the disposal of portfolio companies (partial disposal of shares in BRD – Groupe Societe Generale SA and Nuclearelectrica SA and disposal of entire holdings in Conpet SA and Palace SA, total impact RON 173.0 million).

Statement of Comprehensive Income

RON million	2018 Audited	2017 Audited
Gross dividend income	776.2	740.4
Net unrealised gain/ (loss) from equity investments at fair value through profit or loss	225.3	222.8
Interest income	9.8	11.9
Net realised gain/ (loss) from equity investments at fair value through profit or loss	4.5	(1.4)
Reversal of impairment losses on receivables, net	0.2	36.4

RON million	2018 Audited	2017 Audited
Net realised gain/ (loss) from disposal of non-current assets held for sale	-	330.6
Net realised gain on disposal of equity investments classified as available for sale	-	38.5
Impairment losses on equity investments classified as available for sale	-	(8.0)
Other income/ (expenses), net*	2.9	0.9
Net operating income	1,018.9	1,372.1
Administration fees recognised in profit or loss	(46.8)	(63.0)
Other operating expenses	(26.5)	(34.5)
Operating expenses	(73.3)	(97.5)
Finance costs	(0.3)	(0.2)
Profit before income tax	945.3	1,274.4
Income tax expense	(10.2)	15.5
Profit for the year	935.1	1,289.9
Other comprehensive income	-	(85.4)
Total comprehensive income for the year	935.1	1,204.5

* Other items of income/ (expense), net included mainly the net gain/ (loss) from revaluation of government securities through profit or loss, net foreign exchange gain/ (loss) and other operating income/ (expenses).

Gross dividend income for 2018 included the dividend income earned from the Fund's portfolio companies, mainly from Hidroelectrica SA (RON 363.3 million), OMV Petrom SA (RON 113.3 million), CN Aeroporturi Bucuresti SA (RON 91.2 million), Nuclearelectrica SA (RON 53.7 million), Societatea Nationala a Sariei SA (RON 42.3 million), Alro SA (RON 39.0 million), BRD – Groupe Societe Generale SA (RON 36.3 million) and Engie Romania SA (RON 20.2 million). This includes both the annual dividends and the special dividends declared by the portfolio companies during 2018.

The **net unrealised gain from equity investments at fair value through profit or loss** for 2018 of RON 225.3 million was mainly generated by Hidroelectrica SA, as a result of the increase of this company's fair value (RON 318.9 million, increase of 8.9%).

Interest income arose from deposits held with banks and from short-term government securities.

Administration fees recognised in profit or loss during 2018 included the base fee of RON 41.8 million and distribution fee of RON 5.0 million related to the dividend distribution in June 2018. Starting with the financial statements for the year ended 31 December 2017, the distribution fee related to buy-backs is recognised directly in equity together with the value of the underlying shares.

Additional details on the administration fees for the period and comparatives are presented below:

RON million	2018 Audited	2017 Audited
Recognised in profit or loss	46.8	63.1
Base fee	41.8	46.8
Distribution fee for buy-back programmes	-	-
Distribution fee for return of capital/ dividends	5.0	16.3
Recognised in other comprehensive income	13.7	15.0
Distribution fee for buy-back programmes	13.7	15.0
Total administration fees	60.5	78.1

For the year ended 31 December 2017, the **other comprehensive income** mainly comprised the changes in fair value of available for sale equity investments (mainly Hidroelectrica SA and Alro SA), net of related deferred tax. Starting 1 January 2018, all equity investments are classified as fair value through profit or loss, following the implementation of IFRS 9. All amounts recorded through other comprehensive income have been transferred to retained earnings on the date of initial application.

The Board of Nominees has reviewed the financial information and related statements set out above and is satisfied that they correctly reflect in all material aspects the activity of the Fund during 2018.

FINANCIAL REPORT OF AUDITORS

The Board of Nominees has reviewed Deloitte's audit report, which is presented together with the statutory financial statements. The Board has had the opportunity to discuss the report in detail with Deloitte.

The audit opinion contains an unqualified audit opinion on the Fund's annual financial statements for the year ended 31 December 2018.

The key audit matters included in the audit report are: valuation and accounting of equity investments.

Profit appropriation proposal

According to the annual financial statements prepared in accordance with the IFRS the Fund recorded a net profit for the financial year ended 31 December 2018 of RON 935,091,985. The Fund's Sole Director proposal, subject to shareholders' approval in accordance with the legislation in force, for the appropriation of the net accounting profit for the 2018 financial year in an amount of RON 935,091,985 is as follows:

- RON 46,754,599 to legal reserves;
- RON 654,854,996 to dividends;
- RON 233,482,390 to other reserves (to be used to cover the negative reserves that will arise from cancellation of shares acquired during the 9th buy-back programme).

Also, the Fund's Sole Director proposes that RON 407,262,322 from 2017 profit remained under unallocated retained earnings to be allocated to other reserves, to be used to cover the negative reserves that will arise from cancellation of shares acquired during the 9th buy-back programme.

Coverage of the Negative Reserves

The Fund recognises the treasury shares (repurchases of own shares and 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, distribution fees and other transaction costs directly related to their acquisition. Page | 12

Upon completion of all legal and regulatory requirements, the treasury shares are cancelled and netted off against the share capital and/ or other reserves. The details on the accounting treatment to be applied for the registration and cancellation of treasury shares can be found in the FSA Norm 39/ 2015, article 75.

A negative equity element arises upon cancellation of the shares acquired in a buy-back programme, where the acquisition price is higher than the nominal value, but this does not generate an additional shareholder's equity decrease. At the cancellation date, only a reallocation between the equity accounts is booked, without any impact on profit or loss and without generating additional shareholders' equity decrease (the decrease is recorded at shares acquisition date).

During the 26 April 2018 GSM the shareholders approved the coverage of the negative reserves of RON 256,073,589 resulted from the cancellation of treasury shares as follows:

- RON 177,865,119 from reserves related to the gain on cancellation of treasury shares
- RON 2,583,847 from reserves related to distributions (return of capital) 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.

The table below shows the movement of the negative reserves during 2018:

	<i>All amounts in RON</i>
Opening balance of the negative reserve as at 1 January 2018 (audited)	256,073,589
Coverage of negative reserves according with GSM Resolution no. 7/ 26 April 2018	(256,073,589)
Negative equity reserve arising on the cancellation of the remaining shares acquired during 7th buyback programme according to EGM resolution no. 4/ 26 September 2017 (on 29 June 2018)	31,068,596
Negative equity reserve arising on the partial cancellation of the shares acquired during 8th buyback programme according to EGM resolution no. 4/ 26 September 2017 (on 29 June 2018)	24,396,485
Negative equity reserve arising on the cancellation of the remaining shares acquired during 8th buyback programme according to EGM resolution no. 2/ 4 September 2018 (on 28 December 2018)	25,445,288
Closing balance of the negative equity reserve at 31 December 2018 (audited)	80,910,369

The table below shows additional details on the negative reserves booked during 2018 and the estimated negative reserve that will arise upon the cancellation of the treasury shares in balance as at 31 December 2018:

Negative reserve recorded during 2018		Buy-back programme 7	Buy-back programme 8	Buy-back programme 9
Number of shares cancelled during 1 January – 31 December 2018	(1)	90,849,151	141,869,861	-
Total costs (including transaction costs and other costs), representing the accounting value of the shares cancelled (RON)	(2)	78,310,155	123,614,100	-
Correspondent Nominal Value at the cancellation date (NV = RON 0.52 per share) (RON)	(3)=(1)*NV	47,241,559	73,772,328	-
Negative equity reserve on the cancellation (RON)	(4)=(3)-(2)	(31,068,596)	(49,841,772)	-

Negative reserve that will arise on cancellation of the treasury shares in balance as at 31 December 2018		Buy-back programme 7	Buy-back programme 8	Buy-back programme 9
Number of shares to be cancelled	(1)	-	-	1,487,992,569
Total costs as at 31 December 2018 (including transaction costs and other costs), representing the accounting value of the shares to be cancelled in the future (RON)	(2)	-	-	1,414,500,848
Correspondent nominal value (NV = RON 0.52 per share) as at 31 December 2018 (RON)	(3)=(1)*NV	-	-	773,756,136
Estimated negative reserve to be booked on cancellation (RON)	(4)=(3)-(2)	-	-	(640,744,712)

The coverage of the negative reserve balance reflected in the audited financial statements for the financial year ending 31 December 2018 will be subject to shareholders' approval during the 2019 annual GSM.

Article 75 from Norm 39/2015 mentions that the negative balance arising on 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. As at 31 December 2018, the Fund's equity elements that could be used to cover the negative reserve are sufficient and include retained earnings and share capital.

2018 BUDGET COMPARED TO ACTUAL RESULTS

The Board of Nominees asked the Fund Manager to analyse the significant variances in the main categories of income and expenses of Fondul Proprietatea S.A. by comparing the budget for the year ended 31 December 2018 (approved by shareholders on 26 October 2017) to the audited actual results for the same period.

The result of this analysis has been reviewed by the Board of Nominees, which is satisfied with the explanations given for any significant variances.

Together with the approval of 2018 Budget in October 2017, the shareholders granted the Fund Manager the power to:

- exceed the expenses budgeted for investment management and administration fees;
- exceed the expenses budgeted for commissions and fees for FSA and Depository bank, to the extent arising from the Fund's actual average NAV, the value of assets under custody and/ or volume of portfolio and buy-back trades in 2018 being higher than the ones assumed in the 2018 Budget;
- incur on behalf of the Fund all expenses necessary (e.g. intermediary fees of brokers or investment banks, market authorities' fees, lawyers, public notaries, other advisors costs, as well as other related expenses, commissions or fees) related to acquisitions and disposals of equity investments or participation in share capital increases of portfolio companies;
- incur on behalf of the Fund all expenses related to the buy-back of the Fund's shares or the equivalent global depository receipts corresponding to shares of the Fund and their subsequent cancellation, under any buy-back programme approved by shareholders;
- incur on behalf of the Fund any expenses related to bank loans/ credit facilities contracted by the Fund, with Board of Nominees approval;
- incur on behalf of the Fund any expenses related to the potential change of the Fund Manager and Sole Director of the Fund (expense incurred by the Board of Nominees);
- incur on behalf of the Fund any expenses resulting from the implementation of any regulation applicable to the Fund

even if this will result in exceeding the total expenses approved in the 2018 Budget.

A detailed breakdown of the figures has been included in **Annex 1**. According to the main assumptions of 2018 budget, there are certain categories of income and expenses which cannot be budgeted, such as: foreign exchange gains and losses, revenues and expenses from impairment adjustments, fair value changes, gains or losses and other expenses related to disposal of financial instruments, and other items of income/expenses. Consequently, this actual vs. budgeted analysis presents an overview of the non-budgeted items and a detailed explanation for the budgeted items.

A. Total net actual results

The table below presents an overview of the budgeted/ non-budgeted profit for 2018:

RON million	Budget	Actual	Variance
Budgeted items	353.3	703.9	350.6
Non-budgeted items	-	231.2	231.2
Total profit for the period	353.3	935.1	581.8

The *actual net profit (audited)* of the Fund for the year ended 31 December 2018 was RON 935.1 million, while the net actual profit corresponding to the budgeted items amounts to RON 703.9 million. The main difference is due to the non-budgeted items and relates to the *net gain from equity instruments at fair value through profit or loss* amounting to RON 229.8 million (mainly generated by Hidroelectrica SA).

B. Variances for the net budgeted profit

The *actual net profit* was RON 703.9 million, compared to a budgeted profit of RON 353.3 million. The main contributor to the variance was the *net dividend income* (annual dividends and special dividends) amounting to RON 766.1 million (80% higher compared to the budgeted amount of RON 426.4 million).

Income from current activity

Actual total income from current activity for 2018 is 74% higher than budgeted.

The table below presents additional details and explanations for the differences between the budgeted and actual net dividend income received from the portfolio companies (all amounts in RON):

Portfolio company	Actual net dividend	Budgeted net dividend	Variance	Reason for variance
Hidroelectrica SA	363,264,046	134,644,264	228,619,782	Increase in 2018 due to (1) increase of 2017 profit, (2) the Government decision to pay out minimum 90% of 2017 profits and (3) the special dividends approved by shareholders in December 2018 (RON 137 million)
OMV Petrom SA	107,607,413	91,827,805	15,779,608	Increase of dividends in 2018 due to the increase of 2017 profit
CN Aeroporturi Bucuresti SA	91,193,113	19,187,202	72,005,911	Increase of dividends in 2018 due to (1) the increase of 2017 profit, (2) the Government decision to pay out minimum 90% of 2017 profits and (3) the distribution of special dividends in December 2018 (RON 30 million)
Nuclearelectrica SA	51,008,936	8,592,528	42,416,408	Increase of dividends in 2018 due to (1) the increase of 2017 profit (2) the Government decision to pay out minimum 90% of 2017 profits and (3) the distribution of special dividends (RON 32.5 million), partially netted of by the disposals during the period
Societatea Nationala a Sarii SA	42,337,557	23,618,980	18,718,577	Increase of dividends in 2018 due to (1) the increase of 2017 profit and (2) the Government decision to pay out minimum 90% of 2017 profits
Alro SA	39,010,085	6,863,554	32,146,531	Increase of dividends in 2018 due to the increase of 2017 profit
BRD Groupe Societe Generale SA	34,499,006	17,589,557	16,909,449	Increase of dividends in 2018 due to the increase of 2017 profit
Engie Romania SA	20,232,568	13,308,134	6,924,434	Increase of dividends in 2018 due to the increase in distribution ratio
Electrica Group	-	85,889,100	(85,889,100)	Companies sold in November 2017
Other	16,917,233	24,905,404	(7,988,171)	Negative impact as a result of Conpet SA sale and lower dividends distributed by E-Distributie Banat SA and E-Distributie Dobrogea SA following the decrease of 2017 profit
TOTAL	766,069,957	426,426,528	339,643,429	

The budgeted net reversal of impairment adjustments and provisions at 31 December 2018, in amount of RON 18.2 million represents an impairment release related to the receivable for the unpaid shares of the Ministry of Public Finance, estimated based on the assumption that there will be a reduction of the nominal value of the Fund's shares. Considering the profitability of the Fund for the financial year 2017 and other legal aspects, the Fund Manager proposed, and the shareholders approved to distribute dividends for 2017 financial year and therefore a return of capital was not implemented.

In addition, there was an increase of *interest income* of RON 9.8 million recorded in 2018, related to deposits with banks and short-term government securities. The related cash inflows were mainly collected from disposal of equity investments, which were not budgeted according to the assumptions in the 2018 budget.

Expenses from current activity

During the year, the *actual expenses from current activity* amount to RON 85.7 million and are lower than the budgeted expenses of RON 91.3 million. The *third-party service providers' expenses*, which are lower by RON 2.1 million compared to the budgeted amount, are presented in detail in **Annex 1**.

The main component of third-party services expenses relates to the fees due to the Fund Manager. The actual expenses with investment management and administration fees were adjusted by adding RON 13.8 million recognised directly in other comprehensive income, representing distribution fee for buy-backs. A corresponding presentation adjustment was included in order to reconcile the net actual results to the Fund's accounting records. During the year ended 31 December 2018, the total investment management and administration fees were higher by RON 7.1 million due to the distribution fee resulting from the distributions made available to the shareholders (mainly the tender offer from February 2018). However, this is in line with the power granted by the shareholders to the Fund Manager for exceeding such budgeted amounts.

Additional details on the total investment management and administration fees are presented below:

<i>All amounts in RON</i>	Actual	Budgeted	Variance
Base fee	41,768,231	43,368,631	(1,600,400)
Distribution fee for buy-back programmes	-	5,836,750	(5,836,750)
Distribution fee for dividends	4,993,649	4,225,248	768,402
Recognised in profit or loss	46,761,881	53,430,629	(6,668,749)
Recognised in other comprehensive income	13,753,586	-	13,753,586
Distribution fee for buy-back programmes	13,753,586	-	13,753,586
Total administration fees	60,515,467	53,430,629	7,084,838

The FSA fees included in *Commissions and fee expenses* caption were lower than budgeted amount mainly due to the lower total NAV value, based on which these are calculated. The table below presents details regarding the total fees to FSA recorded during the year ended 31 December 2018:

Expense	Budget caption	Amount (RON)
FSA fee for tender offer (1% of tender offer value)	N/A – FSA fees related to buy-back programs are not budgeted	11,220,000
FSA monthly fee (0.0078% of NAV)	Commissions and fees expenses (include FSA fees)	9,278,307
FSA fee for daily buy-backs (0.06% of acquisition value)	N/A – FSA fees related to buy-back programs are not budgeted	113,408
Other FSA fees	Commissions and fees expenses (include FSA fees)	3,000
Total FSA fees incurred in 12M 2018		20,614,715

Information on expense reallocations in 2018 Budget

In the Fund's 2018 Budget several reallocations between expense categories were performed. Details regarding these reallocations are presented below:

- The reallocation of additional amounts for rent, utilities and other property management expenses was necessary as a result of higher actual expenses than budgeted, mainly due to:
 - higher actual RON/ EUR exchange rate than budgeted in 2018 and

- the annual indexation of the rent cost with CPI-EU index published by Eurostat, according to the contractual agreement between the parties.
- The reallocation of the amounts from “Social security contributions” to “Board of Nominees remunerations” was performed as a result of the changes in the fiscal legislation, according to which the taxation and all related contributions were transferred from the employer to the employee starting with 1 January 2018. The net remuneration of the members of the Board has not been increased.

The main amendments impacting the remuneration paid by Fondul Proprietatea to the Board of Nominees members starting 1 January 2018 are summarised in the table below:

TAXATION IN DECEMBER 2017	Calculation RON/month	TAXATION STARTING WITH 1 JANUARY 2018	Calculation RON/month
Gross Remuneration	RON 20,000	Gross Remuneration	RON 24,123
Social security contributions rates due by the members of the BON:		Social security contributions rates due by the members of the BON:	
▪ 10.50% - pension fund contribution	RON 2,100	▪ 25% - pension fund contribution	RON 6,031
▪ 5.50% - health fund contribution	RON 1,100	▪ 10% - health fund contribution	RON 2,412
Income tax rate - due by the BON member - 16%	RON 2,688	Income tax rate - due by the BON member - 10%	RON 1,568
Net remuneration	RON 14,112	Net remuneration	RON 14,112
Social security contributions rates due by the Fund:		Social security contributions rates due by the Fund:	
▪ 15.80% - pension fund contribution for normal working conditions	RON 3,160	▪ No contribution to be paid by the Fund	RON -
▪ 5.20% - health fund contribution	RON 1,040		
Total social security contributions paid to State Budget (for both BON member & the Fund)			
37.00%	RON 7,400	35.00%	RON 8,443

To summarize, starting with 1 January 2018, the total social charges (35%) and the income tax (10%) are borne by the Board of Nominees members. The table below summarizes the gross and net remuneration of BoN members by comparing the latest two GSM approvals (RON):

Description	October 2015 GSM	February 2018 GSM	Difference
Gross remuneration	20,000	24,123	+4,123
Net remuneration	14,811	14,112	-699

III. PORTFOLIO INVESTMENT OF THE FUND:

BOARD OF NOMINEES OPINION REGARDING THE INVESTMENT POLICY OF THE FUND AND THE DEGREE OF COMPLIANCE WITH THE INVESTMENT POLICY AND ANY CHANGES AND ACTIONS THAT LEAD TO TARGETTED RESULTS

The investment objective of the Fund 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. Details of the investment policy can be found in the Investment Policy Statement and Constitutive Act.

The Board of Nominees believes that the Fund Manager was in compliance during 2018 with the applicable investment policy adopted by the Fund.

BOARD OF NOMINEES OPINION REGARDING THE PORTFOLIO INVESTMENT AND THE PERCENTAGE ACCOMPANYING EACH TYPE OF INVESTMENT AT THE END OF 2018

The Board of Nominees holds frequent and detailed discussions on managing the Fund to maximize shareholder value. This includes developing a consistent approach for appropriate actions aimed at reducing the discount at which the Fund's shares are traded on the Bucharest Stock Exchange. In particular, the Board is supportive of the implementation of various Discount Control Mechanism techniques including buyback programmes, tender offers, return of capital and dividends to shareholders, because the Fund's shares are traded at a deep discount. The Board also discusses at its meetings with the Fund Manager the potential strategies for unlocking the value of the individual unlisted investments. The Board has an Audit and Valuation Committee, part of the role of which is to consider on a regular basis the appropriate valuation methodology for valuing the individual unlisted investments.

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BOARD OF NOMINEES OPINION REGARDING THE SIGNIFICANT TRANSACTIONS OF THE FUND FOR 2018

The Board of nominees considers that the most significant portfolio transactions during 2018 were consistent with maximizing returns for the Fund's shareholders. The most significant transactions of the Fund within the investment portfolio during 2018 were:

During 2018 the Fund sold part of the holdings in Nuclearelectrica SA and BRD – Groupe Societe Generale SA and the entire holdings in Conpet SA and Palace SA.

BOARD OF NOMINEES OPINION REGARDING KEY PORTFOLIO VALUATIONS DURING THE PERIOD

The Sole Director updated the valuations for 16 unlisted holdings and independent appraisers' reports were prepared for the first time for 3 unlisted holdings as inputs to those companies' valuations, representing 100% of the unlisted portfolio. KPMG Advisory and Darian DRS were selected to assist during the valuation process.

The valuation date was 30 September 2018, but the valuations considered the subsequent developments until 31 December 2018, such as the distribution of special dividends by Hidroelectrica SA and CN Aeroporturi Bucuresti SA and the share capital increase performed by CN Aeroporturi Bucuresti SA.

On 28 December 2018, the Romanian Government approved a fiscal package through Government Extraordinary Ordinance no. 114/2018 regarding the establishment of measures in the field of public investments and fiscal-budgetary measures, the amendment and completion of some normative acts and the extension of some deadlines ("GEO 114/2018") published in the Official Gazette of Romania no. 1116 / 29 December 2018, targeting, among others, the electricity and gas sectors. GEO 114/2018 was approved on very short notice, without public consultation, and without impact analysis and significant regulatory clarifications were still pending at the date of 31 December 2018 NAV publication (on 11 January 2019). Consequently, its impact on the Fund's holdings could not be reliably assessed and reflected for the 31 December 2018 NAV purposes.

On 18 January 2019, ANRE issued for public consultation the methodology for the calculation of the regulated electricity prices and quantities to be sold based on regulated contracts by producers to the suppliers of last resort, which was subsequently approved in February 2019 by ANRE Order 10/1 February 2019. On 6 February 2019 ANRE also issued Order 11 which sets the methodology for calculating the regulated electricity prices to final consumers by the suppliers of last resort.

The publication of ANRE additional methodology represents a subsequent adjusting event for IFRS financial statements for the year ended 31 December 2018 and was reflected accordingly.

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The Sole Director performed a scenario analysis regarding the potential impact of the new regulatory requirements on the value of the Fund's holdings and the fair value of Hidroelectrica SA was adjusted downwards by RON 391.0 million in the 31 December 2018 IFRS financial statements compared to the value of the company included in 31 December 2018 NAV report. The Sole Director considers that the new value represents the best estimate of the fair value of the Fund's holding in Hidroelectrica SA, based on the information available at the date of issue of the IFRS financial statements.

The total value of the Fund's holding in Hidroelectrica SA included in the IFRS financial statements as at 31 December 2018 is RON 3,885.0 million and was also reflected in 31 January 2019 NAV report of the Fund. The adjustment of Hidroelectrica SA represents 3.83% of the 31 December 2018 NAV of the Fund. The full list of valuation reports impact for 2018 is included in Annex 2.

In terms of listed holdings, the most significant impact relates to OMV Petrom's share price, which had a positive evolution during the year with an increase of 4.5% (net positive impact during the period of RON 73.6 million).

IV. BOARD OF NOMINEES OPINION REGARDING THE ANNUAL REPORT OF THE INTERNAL AUDITORS AND THE ANNUAL COMPLIANCE REPORT

The Board of Nominees has reviewed the internal audit reports prepared by Fondul Proprietatea's internal auditor, BDO Audit SRL and been informed about the internal audit performed by FTI Internal Audit team, for the year ended 31 December 2018.

The overall objective of the report of the internal auditors was to assess whether the key risks relating to Fondul Proprietatea's operations are being managed in an appropriate manner and in compliance with applicable regulatory requirements and FTI policies and procedures.

The reports have not identified any major deficiencies regarding the design and effectiveness of controls which were subject to the internal audit work.

The Board of Nominees received and reviewed the Annual Compliance Report prepared by the local compliance officer, addressing the management of the compliance risk within the company / fund.

The compliance report covered the activities performed by Franklin Templeton Investment Management Limited UK Bucharest Branch and Fondul Proprietatea S.A. in respect of compliance with applicable local rules and regulations and internal procedures.

No material compliance exceptions have been reported in 2018.

In the opinion of the Board of Nominees, both the Annual Report of the Internal Auditors and the Annual Compliance Report have been prepared to an adequate standard.

V. THE GENERAL EVALUATION OF THE ACTIVITY OF THE FUND MANAGER FOR 2018

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The most notable activities during 2018 include:

- Completion of the fifth tender offer of 1.2 billion shares (652.8 million in the form of shares and 547.2 million in the form of GDRs), at a purchase price of RON 0.9350 per share and the USD equivalent of RON 46.75 per GDR, executed in order to accelerate the ninth buy-back programme;
- Gross dividend distribution of RON 500.0 million to shareholders for the 2017 financial year;
- Completion of the ninth buy-back programme for 1.49 billion shares. The total value of the programme excluding transaction costs was RON 1.39 billion, and the weighted average share price for the cumulated value of shares and GDRs acquired was RON 0.9319 per share;
- Continued efforts to promote the Fund and raise its visibility, as well as the visibility of the Romanian capital market, the local companies (listed or candidates for being listed), and of Romania in general, in the key financial centers in the United States of America, Europe, and the Middle East;
- Record high participation from foreign institutional investors and analysts at the Romania Investor Days in London, and Fondul Proprietatea Investor Days in Bucharest;
- Key shareholders' approvals during 2018:
 - The new Investment Policy Statement, in force starting 1 April 2018;
 - The distribution of a gross dividend of RON 0.0678 per share for the 2017 financial year, as proposed by the Sole Director;
 - Approval of the tenth buy-back programme to repurchase a maximum number of 750 million shares, starting with 1 January 2019 until 31 December 2019.

VI. RECOMMENDATIONS FOR SHAREHOLDERS:

In view of the proposed points of the agenda of the annual GSM, the Board of Nominees would like to recommend to shareholders that they approve all the proposals of the Fund Manager submitted to this meeting.

Please note that this report is the annual report of the Board of Nominees prepared on the basis of Article 17 of the Constitutive Act of Fondul Proprietatea SA.

Mr. Sorin-Mihai MÎNDRUȚESCU, Chairman _____

Mr. Steven Cornelis van GRONINGEN, Member _____

Mr. Piotr RYMASZEWSKI, Member

Mr. Julian Rupert Francis HEALY, Member

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Mr. Mark Henry GITENSTEIN, Member

Annex 1

2018 Adjusted Actual vs. Budgeted Results

	Budget 2018	Reallocations	Budget 2018 (after reallocations)	Adjusted actual 2018	Variance	
	RON	RON	RON	RON	RON	%
I. INCOME FROM CURRENT ACTIVITY	444,617,146	-	444,617,146	775,829,294	331,212,148	74%
Budgeted income	444,617,146	-	444,617,146	775,829,294	331,212,148	74%
Dividend income	426,426,528	-	426,426,528	766,069,957	339,643,429	80%
Revenue from reversal of impairment adjustments and provisions	18,190,618	-	18,190,618	-	(18,190,618)	-100%
Interest income	-	-	-	9,759,337	9,759,337	0%
II. EXPENSES FROM CURRENT ACTIVITY	91,346,249	-	91,346,249	85,695,261	(5,650,988)	-6%
Budgeted expenses	91,346,249	-	91,346,249	85,695,261	(5,650,988)	-6%
Third party services providers' expenses	72,583,986	-	72,583,986	70,514,497	(2,069,489)	-3%
Commissions and fees (including FSA fees)	10,292,246	-	10,292,246	9,546,268	(745,978)	-7%
Investors relations expenses	2,284,415	-	2,284,415	1,356,031	(928,384)	-41%
Other expenses	1,403,686	-	1,403,686	451,319	(952,367)	-68%
Board of Nominees remunerations	1,200,000	252,000	1,452,000	1,447,380	(4,620)	0%
Social security contributions	252,000	(252,000)	-	-	-	0%
Public relations expenses	1,511,946	-	1,511,946	842,829	(669,117)	-44%
Bank fees and distribution to shareholders fees (including Depositary fees)	860,831	(10,000)	850,831	693,290	(157,541)	-19%
Amortisation expenses	517,809	-	517,809	504,744	(13,065)	-3%
Insurance expenses	341,985	-	341,985	236,944	(105,041)	-31%
Rent expenses	73,121	5,000	78,121	75,655	(2,466)	-3%
Expenses with utilities	24,224	5,000	29,224	26,304	(2,920)	-10%
III. GROSS PROFIT/ (LOSS)	353,270,897	-	353,270,897	690,134,033	336,863,136	95%
Distribution fees - presentation adjustment	-	-	-	13,753,586	13,753,586	0%
IV. ADJUSTED GROSS PROFIT/ (LOSS)	353,270,897	-	353,270,897	703,887,619	350,616,722	99%
IV. Income tax	-	-	-	-	-	n/a
V. NET PROFIT/ (LOSS)	353,270,897	-	353,270,897	703,887,619	350,616,722	99%
VI. CAPITAL EXPENDITURE	498,105	-	498,105	112,321	(385,784)	-77%
Intangible assets	498,105	-	498,105	112,321	(385,784)	-77%

2018 Actual vs. Budgeted - Detail of Third Party Services Providers' Expenses

	Budget	Actual	Variance	
	2018	2018	RON	%
	RON	RON	RON	%
Third party service providers' expenses	72,583,986	70,514,497	(2,069,489)	-3%
Investment management and administration fees	53,430,629	60,515,466	7,084,837	13%
Legal and litigation assistance	10,172,466	5,414,875	(4,757,591)	-47%
Portfolio holdings valuation	1,627,849	1,561,427	(66,422)	-4%
GSM organisation	1,071,000	579,754	(491,246)	-46%
External audit	503,096	474,879	(28,217)	-6%
Tax compliance & tax advisory expenses	534,476	456,845	(77,631)	-15%
Software maintenance and support fees	426,777	193,539	(233,238)	-55%
Trade Register and Official Gazette expenses	261,800	756	(261,044)	-100%
Internal audit	187,425	178,500	(8,925)	-5%
Other third party service providers' expenses	4,368,468	1,138,456	(3,230,012)	-74%

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Note: The total investment management and administration fees amounting to RON 60.5 million reported under actual amounts include both the amounts recognised in profit or loss as well as the amounts recognised in other comprehensive income during the period. The total administration fees for 2018 recognised in other comprehensive income amount to RON 13.8 million and additional details are included above.

Annex 2

Table of unlisted holdings valuation at 31 December 2018 vs. 31 December 2017

No.	Portfolio company name	Value in 31 Dec 2018 IFRS financial statements (RON million)	Value in 31 Dec 2017 IFRS financial statements (RON million)	Difference (RON million)	Difference (%)
1	Hidroelectrica SA	3,885.0	3,566.0	319.0	+8.9%
2	CN Aeroporturi Bucuresti SA	861.0	774.0	87.0	+11.2%
3	E-Distributie Banat SA	472.0	545.0	(73.0)	-13.4%
4	Engie Romania SA	445.0	472.0	(27.0)	-5.7%
5	E-Distributie Muntenia SA	389.0	419.0	(30.0)	-7.2%
6	E-Distributie Dobrogea SA	288.0	342.0	(54.0)	-15.8%
7	Societatea Nationala a Sarii SA	250.0	233.0	17.0	+7.3%
8	CN Administratia Porturilor Maritime SA	244.0	230.0	14.0	+6.1%
9	ENEL Energie Muntenia SA	58.0	61.0	(3.0)	-4.9%
10	ENEL Energie SA	44.0	57.0	(13.0)	-22.8%
11	Zirom SA	27.1	26.8	0.3	+1.1%
12	Aeroportul International Timisoara - Traian Vuia SA	20.0	22.0	(2.0)	-9.1%
13	CN Administratia Canalelor Navigabile SA*	14.6	15.6	(1.0)	-6.4%
14	Posta Romana SA	6.7	35.0	(28.3)	-80.9%
15	CN Administratia Porturilor Dunarii Maritime SA*	4.0	2.8	1.2	+42.9%
16	Plafar SA	2.9	2.0	0.9	+45.0%
17	CN Administratia Porturilor Dunarii Fluviale SA*	1.7	3.5	(1.8)	-51.4%
18	Aeroportul International Mihail Kogalniceanu - Constanta SA	1.5	2.4	(0.9)	-37.5%
19	Complexul Energetic Oltenia SA	-	32.0	(32.0)	-100.0%
TOTAL		7,014.5	6,841.1	173.4	

**For these holdings valuation reports were prepared for the first time for 31 December 2018 reporting. The values in the table above as at 31 December 2017 are based on the values included in the NAV reporting for 29 December 2017.*