



**Annual Sole Director's Report**  
For the Financial Year Ended  
31 December 2018

# Fondul Proprietatea SA

(this is a translation from the official Romanian version)



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## List of Abbreviations

<b>AIF</b>	Alternative Investment Fund
<b>AIFM</b>	Alternative Investment Fund Manager
<b>AIFM Directive</b>	Directive 2011/61/EU on Alternative Investment Fund Managers
<b>ALFI</b>	Association of the Luxembourg Fund Industry
<b>ANRE</b>	Romanian Energy Regulatory Authority
<b>ASPAAS</b>	Romanian Authority for Public Monitoring of the Statutory Audit Activity
<b>ATS</b>	Alternative Trading System
<b>Brexit</b>	The withdrawal of the United Kingdom from the European Union
<b>BVB</b>	Bucharest Stock Exchange
<b>CAEN</b>	Classification of Economic Activities in Romania
<b>CNVM</b>	National Securities Commission (currently FSA)
<b>Companies' Law</b>	Law 31/1990 regarding companies, with subsequent amendments
<b>CSSF</b>	Commission de Surveillance du Secteur Financier, the Luxembourg Financial Supervisory Authority
<b>Depozitarul Central SA</b>	Romanian Central Depository
<b>Depository Bank/ Depository</b>	BRD – Groupe Societe Generale SA
<b>EGM</b>	Extraordinary General Shareholders Meeting
<b>EGO</b>	Emergency Government Ordinance
<b>EU</b>	European Union
<b>FATCA</b>	The Foreign Account Tax Compliance Act
<b>Fondul Proprietatea/ the Fund/ FP</b>	Fondul Proprietatea SA
<b>FSA</b>	Romanian Financial Supervisory Authority
<b>FTI</b>	Franklin Templeton Investments
<b>FTIML/ Investment Manager</b>	Franklin Templeton Investment Management Limited United Kingdom, Bucharest Branch
<b>FTIS/ Alternative Investment Fund Manager/ Sole Director</b>	Franklin Templeton International Services S.à r.l.
<b>GDP</b>	Gross Domestic Product
<b>GDPR</b>	Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation)
<b>GDR</b>	Global Depository Receipt
<b>GSM</b>	General Shareholders Meeting
<b>IFRS</b>	International Financial Reporting Standards as endorsed by the European Union
<b>IPS</b>	Investment Policy Statement
<b>LME</b>	London Metal Exchange
<b>LSE</b>	London Stock Exchange
<b>MiFID II</b>	Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU
<b>NAV</b>	Net Asset Value
<b>OGM</b>	Ordinary General Shareholders Meeting
<b>PRIIPs</b>	Packaged retail and insurance-based investment products
<b>RAB</b>	Regulated Asset Base
<b>RRR</b>	Regulatory Rate of Return
<b>SAPE</b>	Management company for the state-owned holdings in energy sector
<b>UCI</b>	Undertakings for Collective Investment
<b>UCITS</b>	Undertakings for Collective Investment in Transferable Securities
<b>2018 Management Agreement</b>	Management Agreement that entered into force on 1 April 2018

# Company Information

## The Company

Fondul Proprietatea was incorporated on 28 December 2005 as a joint stock company operating as a closed-end investment company. The Fund is registered with the Bucharest Trade Register under the number J40/21901/2005 and has the sole registration code 18253260.

The Fund's investment objective is the maximisation of returns to shareholders and the increase of the net asset value per share via investments mainly in Romanian equities and equity-linked securities.

During the reported period, the Fund was managed by FTIS as its Sole Director and AIFM under the AIFM Directive and local implementation regulations. There were two management agreements in force during 2018 - the Management Agreement executed in 2015 that entered into force on 1 April 2016 and the Management Agreement, that entered into force on 1 April 2018 based on 14 February 2018 GSM Resolution. FTIS has delegated the role of Investment Manager, as well as certain administrative functions to FTIML for the entire duration of its mandate as AIFM<sup>1</sup>. FTIML was the previous Sole Director and Fund Manager of Fondul Proprietatea (between 29 September 2010 and 31 March 2016).

Since 25 January 2011, the Fund's shares have been listed on BVB. Since 29 April 2015, the Fund's GDRs issued by The Bank of New York Mellon as GDR Depository, having the Fund's shares as support, have been listed on the Specialist Fund Market of LSE.

The following table shows a summary of the financial information of the Fund:

NAV* and share price developments	Notes	31 December 2018	31 December 2017	31 December 2016
Total shareholders' equity (RON million)		9,828.4	10,790.2	11,386.0
Total shareholders' equity change in period (%)		-8.9%	-5.2%	-5.5%
Total NAV (RON million)	a	10,219.4	10,790.4	11,427.4
Total NAV change in period (%)		-5.3%	-5.6%	-5.5%
NAV per share (RON)	a	1.4095	1.2375	1.1865
NAV per share change in the period (%)		+13.9%	+4.3%	+2.6%
NAV per share total return in the period (%)	b, h	+19.9%	+13.1%	+7.3%
Share price as at the end of the period (RON)	c	0.8830	0.8640	0.7950
Share price low (RON)	c	0.8400	0.8000	0.6780
Share price high (RON)	c	0.9740	0.9250	0.8100
Share price change in the period (%)		+2.2%	+8.7%	-1.9%
Share price total return in the period (%)	b, i	+9.9%	+21.5%	+4.9%
Share price discount to NAV as at the end of the period (%)	e	37.4%	30.2%	33.0%
Average share price discount for the period (%)	e	29.5%	28.0%	32.1%
Average daily share turnover (RON million)	d, k	6.4	6.9	6.7
Average daily share turnover change in period (%)		-7.2%	+3.0%	-17.3%
GDR price as at the end of the period (USD)	f	10.5000	11.4500	9.4000
GDR price low (USD)	f	10.3000	9.4000	8.5000
GDR price high (USD)	f	12.8000	11.4500	10.6500
GDR price change in the period (%)		-8.3%	+21.8%	-5.1%
GDR price total return in the period (%)	b, j	-1.9%	+35.9%	+1.2%
GDR price discount to NAV as at the end of the period (%)	e	39.3%	28.0%	31.8%
Average GDR price discount for the period (%)	e	29.5%	27.4%	30.0%
Average daily GDR turnover (USD million)	g, l	1.7	1.0	0.9
Average daily GDR turnover change in the period (%)		+70.0%	+11.1%	-40.0%

Source: Fondul Proprietatea

\*NAV for the end of each period was computed in the last working day of the month.

After the 31 December 2018 NAV publication date, ANRE published additional regulatory requirements (on 18 January 2019 for consultation purposes and approved by Order 10/ 1 February 2019) related to the electricity

<sup>1</sup> If Brexit is implemented during 2019 the delegation agreement between FTIS and FTIML will be terminated, and all current delegated activities will be performed by FTIS directly or via its Bucharest Branch.

regulated market. The Sole Director assessed the impact of this regulation on its portfolio holdings and decided to adjust the value of Hidroelectrica SA by RON 391.0 million. This adjustment was booked in the 31 December 2018 IFRS financial statements resulting in a difference compared to the value of this company reported in 31 December 2018 NAV. Therefore, all information included in this report that is based on 31 December 2018 NAV does not include the adjustment mentioned above.

For more details, please see section *Analysis of the Portfolio of the Fund - Differences between the IFRS financial statements and NAV reporting at 31 December 2018*.

## Notes:

- a. Prepared based on local rules issued by the Romanian capital market regulator
- b. Compared to the end of the previous period
- c. Source: BVB - REGS market - Closing prices
- d. Source: BVB
- e. Share Price/ GDR Price discount to NAV as at the end of the period (%) is calculated as the discount between FP share closing price on BVB – REGS/ FP GDR closing price on LSE on the last trading day of the period and the NAV per share at the end of the period; the average discount is calculated according to IPS, using the latest published NAV per share at the date of calculation
- f. Source: LSE - Closing prices
- g. Source: Bloomberg
- h. The NAV per Share Total Return is calculated in RON by geometrically linking total returns for all intermediate periods when official NAV is published. Each total return for a single period is calculated using the following formula: the NAV per share at the end of the period plus any cash distribution during the period, dividing the resulting sum by the official NAV per share at the beginning of the period. The resulting single period total returns are geometrically linked to result in the overall total return. The Fund uses this indicator as it is directly related to the performance objectives of the Fund included in the IPS
- i. The Share Price Total Return is calculated in RON by geometrically linking daily total returns. Daily total return is calculated as the closing price at the end of the day, plus any cash distributions on that day, dividing the resulting sum by the closing price of the previous day. The resulting single period total returns are geometrically linked to result in the overall total return. The Fund uses this indicator as it is directly related to the performance objectives of the Fund included in the IPS
- j. The GDR Price Total Return is calculated in USD by geometrically linking daily total returns. Daily total return is calculated as the closing price at the end of the day, plus any cash distributions on that day, dividing the resulting sum by the closing price of the previous day. The resulting single period total returns are geometrically linked to result in the overall total return. The Fund uses this indicator as it is directly related to the performance objectives of the Fund included in the IPS
- k. Including the tender offer carried by the Fund in February 2018 with a total value of RON 610.4 million (excluding transaction costs) for the 652.8 million shares acquired on BVB/ in March 2017, with a total value of RON 337.3 million (excluding transaction costs) for the 370.7 million shares acquired on BVB/ in September 2016, with a total value of RON 327.2 million (excluding transaction costs) for the 388.6 million shares acquired on BVB
- l. Including the tender offer carried by the Fund in February 2018 with a total value of USD 135.5 million (excluding transaction costs) for the 547.2 million shares equivalent to the GDRs acquired on LSE/ in March 2017, with a total value of USD 57.9 million (excluding transaction costs) for the 269.3 million shares equivalent to the GDRs acquired on LSE/ in September 2016, with a total value of USD 39.7 million (excluding transaction costs) for the 186.4 million shares equivalent to the GDRs acquired on LSE

Share capital information	31 December 2018*	31 December 2017	31 December 2016
Issued share capital (RON)	4,733,020,898.32	4,854,034,784.56	9,168,314,116.70
Paid in share capital (RON)	4,543,838,476.32	4,664,852,362.56	8,859,073,619.20
Number of shares in issue	9,101,963,266	9,334,682,278	10,786,251,902
Number of paid shares	8,738,150,916	8,970,869,928	10,422,439,552
Nominal value per share (RON)	0.52	0.52	0.85

Source: Fondul Proprietatea

**\*Note: the following changes in the Fund's share capital took place during 2018:**

1. On 29 June 2018, the Trade Registry registered Resolution no. 4/26 September 2017 of the Fund's EGM for approving the decrease of the subscribed share capital from RON 4,854,034,784.56 to RON 4,771,610,196.08 pursuant to the cancellation of 158,508,824 own shares acquired by the Fund during the seventh and eighth buy-back programmes, endorsed by the FSA through Endorsement no. 163/ 30 May 2018.

2. On 28 December 2018, the Trade Registry registered Resolution no. 2/4 September 2018 of the Fund's EGM for approving the decrease of the subscribed share capital from RON 4,771,610,196.08 to RON 4,733,020,898.32 pursuant to the cancellation of 74,210,188 own shares acquired by the Fund during the eighth buy-back programme, endorsed by the FSA through Endorsement no. 447/14 December 2018.

The following table shows a summary of the Fund's quarterly performance in 2018:

NAV* and share price developments	Notes	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Total NAV (RON million)	a	10,219.4	9,895.7	9,781.2	9,839.0
Total NAV change in the period (%)	b	+3.3%	+1.2%	-0.6%	+7.2%
NAV per share (RON)	a	1.4095	1.3546	1.3294	1.3270
NAV per share total return in the period (%)	b, d	+4.1%	+1.9%	+5.5%	+7.2%
Share price as at the end of the period (RON)		0.8830	0.9310	0.8840	0.9340
Share price total return in the period (%)	b, e	-5.2%	+5.3%	+1.8%	+8.1%
Share price discount to NAV as at the end of the period (%)	c	37.4%	31.3%	33.5%	29.6%
GDR price as at the end of the period (USD)		10.50	11.50	11.30	12.6
GDR price total return in the period (%)	b, f	-8.7%	+1.8%	-4.1%	+10.0%
GDR price discount to NAV as at the end of the period (%)	c	39.3%	31.7%	31.9%	28.3%

Source: Fondul Proprietatea

\*NAV for the end of each period was computed in the last working day of the month.

Notes:

- Prepared based on local rules issued by the Romanian capital market regulator
- Compared to the end of the previous quarter
- Share Price/ GDR Price discount to NAV as at the end of the period (%) is calculated as the discount between FP share closing price on BVB - REGS/ FP GDR closing price on LSE on the last trading day of the period and the NAV per share at the end of the period
- The NAV per Share Total Return is calculated in RON by geometrically linking total returns for all intermediate periods when official NAV is published. Each total return for a single period is calculated using the following formula: the NAV per share at the end of the period plus any cash distribution during the period, dividing the resulting sum by the official NAV per share at the beginning of the period. The resulting single period total returns are geometrically linked to result in the overall total return. The Fund uses this indicator as it is directly related to the performance objectives of the Fund included in the IPS
- The Share Price Total Return is calculated in RON by geometrically linking daily total returns. Daily total return is calculated as the closing price at the end of the day, plus any cash distributions on that day, dividing the resulting sum by the closing price of the previous day. The resulting single period total returns are geometrically linked to result in the overall total return. The Fund uses this indicator as it is directly related to the performance objectives of the Fund included in the IPS
- The GDR Price Total Return is calculated in USD by geometrically linking daily total returns. Daily total return is calculated as the closing price at the end of the day, plus any cash distributions on that day, dividing the resulting sum by the closing price of the previous day. The resulting single period total returns are geometrically linked to result in the overall total return. The Fund uses this indicator as it is directly related to the performance objectives of the Fund included in the IPS

### Share information

Primary listing	Bucharest Stock Exchange
Since	25 January 2011
Secondary listing	London Stock Exchange
Since	29 April 2015
Bucharest Stock Exchange symbol	FP
London Stock Exchange symbol	FP.
Bloomberg ticker on BVB	FP RO
Bloomberg ticker on LSE	FP/ LI
Reuters ticker on BVB	FP.BX
Reuters ticker on LSE	FPq.L
ISIN	ROFPTAACNOR5
Financial Supervisory Authority register no	PJR09SIIR/400006/18.08.2010
LEI code	549300PVO1VWBFH3DO07
CIVM registration no	AC-4522-4/16.01.2019

### Largest Shareholders

Shareholder	Latest ownership disclosure	% of voting rights
Anchorage Capital Group LLC	21 September 2018	6.69%
NN Group	27 March 2017	5.02%

Source: ownership disclosures submitted by shareholders

## Disclosure of holdings during the period

During the year the Fund made the following announcements based on the disclosures received from shareholders:

- Current report dated 1 March 2018 regarding holdings below 10%, based on which the combined holdings (shares and GDRs) of Manchester Securities Corporation and Beresford Energy Corporation represented 7.34% of the subscribed share capital of the Fund and 7.86% of the total number of voting rights as at 31 January 2018.
- Current report dated 26 April 2018 regarding holdings below 5% based on which City of London Investment Management Company Limited combined holdings (shares and GDRs) represented 3.94% of the subscribed share capital of the Fund and 4.96% of the total number of voting rights as at 29 March 2018.
- Current report dated 22 August 2018 regarding holdings below 5%, based on which the combined holdings (shares and GDRs) of Manchester Securities Corporation and Beresford Energy Corporation represented 2.42% of the subscribed share capital of the Fund and 3.02% of the total number of voting rights as at 31 July 2018.
- Current report dated 21 September 2018 regarding holdings over 5% of the total voting rights in the Fund, according to which AIO V (Ireland) Finance Designated Activity Company and AIO VI (Ireland) Finance Designated Activity Company (Anchorage Capital Group LLC) holdings in GDRs represented 6.69% of the total number of voting rights.

## Shareholder Structure\* (as at 31 December 2018)<sup>1</sup>

Shareholder categories	% of subscribed share capital	% of paid-in share capital	% of voting rights <sup>2</sup>
The Bank of New York Mellon (GDRs) <sup>3</sup>	28.82%	30.01%	36.46%
Romanian institutional shareholders	16.77%	17.47%	21.23%
Romanian private individuals	15.60%	16.24%	19.74%
Foreign institutional shareholders	15.35%	15.98%	19.42%
Foreign private individuals	2.42%	2.52%	3.06%
Romanian State <sup>4</sup>	0.07%	0.08%	0.09%
Treasury shares <sup>5</sup>	17.00%	17.70%	-
Unpaid shares <sup>6</sup>	3.97%	-	-

Source: Depozitarul Central SA

\*The structure above does not reflect yet the share capital decrease which was effective starting with 28 December 2018, as its implementation with Depozitarul Central SA was ongoing as at the end of December 2018 and was implemented on 22 January 2019.

As at 31 December 2018, there were 6,203 shareholders and the total number of voting rights was 7,251,822,439.

## Contact Details

Address: 78-80 Buzesti Street (7th floor), District 1,  
Postal Code 011017, Bucharest, Romania.

Web: [www.fondulproprietatea.ro](http://www.fondulproprietatea.ro)

E-mail: [office@fondulproprietatea.ro](mailto:office@fondulproprietatea.ro)  
[investor.relations@fondulproprietatea.ro](mailto:investor.relations@fondulproprietatea.ro)

Telephone: +40 21 200 9600

Fax: +40 21 200 9631/32

<sup>1</sup> Information provided based on settlement date of transactions

<sup>2</sup> The unpaid shares of the Romanian State, represented by the Ministry of Public Finance, and the treasury shares held by Fondul Proprietatea were not taken into consideration at the calculation of the total number of voting rights

<sup>3</sup> Fondul Proprietatea held 15,000 global depository receipts as at 31 December 2018

<sup>4</sup> The percentage represents the paid shares: the percentage of subscribed share capital of Romanian State represented by Ministry of Public Finance is 4.04%, including the unpaid shares

<sup>5</sup> 1,560,538,665 treasury shares acquired by the Fund in the eighth and ninth buy-back programmes, based on settlement date (930,376,565 ordinary shares acquired and 630,162,100 shares corresponding to GDRs acquired, converted into shares), out of which 74,210,188 shares were cancelled starting with 28 December 2018, but the implementation with Depozitarul Central SA was ongoing and was implemented on 22 January 2019

<sup>6</sup> Shares unpaid by Romanian State represented by Ministry of Public Finance

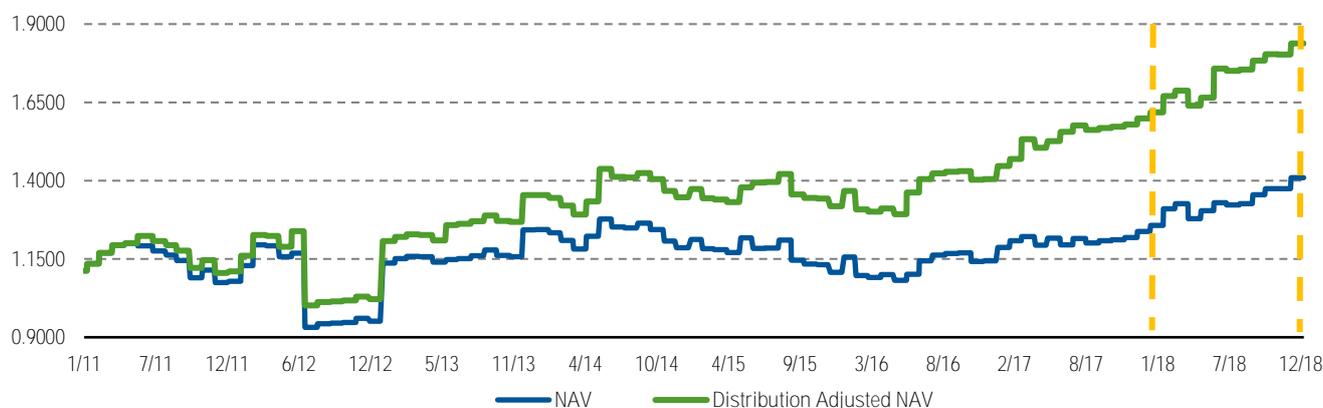
# Sole Director's Letter to Shareholders

Dear Shareholders,

Our focus throughout 2018 has remained unwavering on protecting and creating shareholder value for the Fund's shareholders through our active management approach, close supervision of the portfolio companies, and a constant focus on value-enhancing corporate actions. In 2018, the Fund's NAV per share total return was 19.9% and the Fund's share price cumulative performance was 9.9%. The discount of the Fund's share price to the NAV ranged between a high of 38.9%<sup>1</sup> and a low of 23.8%<sup>1</sup>, and ended the year at 35.8%<sup>1</sup>. On the LSE, the total negative return for the GDR was -1.94% and the discount varied between a high of 39.0%<sup>1</sup> and a low of 23.6%<sup>1</sup>, and ended the year at 37.8%<sup>1</sup>. The average annual discount for both ordinary shares and GDRs was 29.5%.

We would like to underline that the increase in the discount level registered at the end of the year was directly influenced by the Emergency Government Ordinance published as a draft on the Ministry of Public Finance webpage on 18 December and approved by the Romanian Government on 21 December, targeting the electricity, gas, telecom, and banking sectors, as well as the private pension funds (Pillar II), which led to an abrupt deterioration of investor sentiment and a negative market reaction. The Bucharest Stock Exchange BET index dropped by 17% in the three days following the announcement of the EGO and ended the year with a negative return of -4.77%<sup>2</sup>, despite outperforming emerging and frontier market indices for most the year.

We are pleased that we managed to generate positive returns on the NAV and on the share price for our shareholders, despite the 6.2% drop in the share price of the Fund in December. The discount level remains excessively high in our view and our efforts to reduce it significantly below the current levels will continue in 2019, with share buy-backs and cash distributions as key actions that are under our control.



Source: Fondul Proprietatea, based on NAV reports submitted to FSA

## Market Environment

In 2018, the BVB had a moderate performance compared to the largest markets in Central Europe, in both local currency and EUR terms, as shown in the table below:

% change in 2018	in local currency	in EUR
BUX (Hungary)	-0.61%	-3.87%
<b>BET-XT (Romania)</b>	<b>-7.47%</b>	<b>-7.26%</b>
WIG20 (Poland)	-7.50%	-10.27%
PX (Czech Republic)	-8.50%	-9.19%
ATX (Austria)	-19.72%	-19.72%

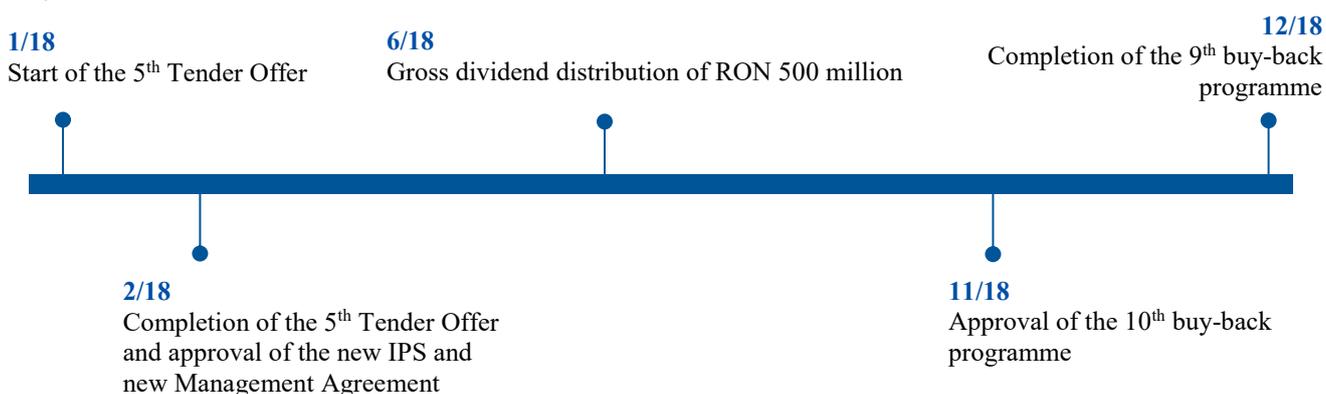
Source: Bloomberg

We provide details on the portfolio management on a monthly basis via Factsheets and also via the Quarterly Results Reports. We encourage you to read the full details given in the section *Analysis of the Portfolio of the Fund*.

<sup>1</sup> Calculated as the discount between FP share closing price on BVB - REGS/ FP GDR closing price on LSE and the latest available published NAV per share at the date of calculation

<sup>2</sup> Source: Bloomberg, as at 5 February 2019

## Key Events and Activities in 2018



Some of the key highlights for 2018 are:

- 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 centres 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.

## Profit Appropriation Proposal

According to the annual financial statements prepared in accordance with 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 9<sup>th</sup> 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 9<sup>th</sup> buy-back programme.

## Eight Years of Listing on the Bucharest Stock Exchange

Eight years after the listing on the BVB on 25 January 2011, the Fund continues to be among the most actively traded companies:

- 1.7 billion shares were traded on the BVB last year, equivalent to 19.8% of the Fund's paid shares as at 31 December 2018;
- The value of trading in Fondul Proprietatea shares exceeded RON 1.6 billion (EUR 344.1 million) in 2018. The total trading value since the listing exceeds RON 23.2 billion (EUR 5.0 billion);
- After eight years since its listing, the Fund continued to be among the most liquid stocks on BVB, with an average daily trading volume in 2018 of 7.0 million shares, i.e. 20.9% of the total daily equities turnover on BVB.

## Three Years of Listing on the London Stock Exchange

On 29 April 2015 the Fund was listed on the Specialist Fund Market of the LSE, through Global Depository Receipts. During the third year of trading on LSE:

- 35.6 million GDRs were traded, representing 20.4% of the Fund's paid shares as at 31 December 2018. The total value of the GDRs traded was USD 423.4 million/ RON 1,725.0 million;
- As at 31 December 2018, Fondul Proprietatea was the eighth largest closed-end fund listed on LSE, based on its NAV.

## Performance Objectives

According to the 2018 Management Agreement in force starting with 1 April 2018, the first reporting period of the mandate is from 1 January until 31 December 2018 and every subsequent reporting period shall be from 1 January until 31 December of the following year.

In accordance with the Fund's IPS, there are two performance objectives that the AIFM is aiming to achieve. The NAV objective refers to an adjusted NAV<sup>1</sup> per share in the last day of the reporting period higher than the reported NAV per share as at the end of the previous reporting period. For the avoidance of doubt, the term "*previous reporting period*", when applied to the first reporting period under 2018 Management Agreement, is to be understood as being the last reporting period derived from either the current or the previous management agreement (i.e. 30 June 2017).

The discount objective implies the discount between the closing price of the Fund's shares on BVB – REGS and the latest reported NAV per share to be equal to, or lower than 15%, in at least 2/3 of the trading days in the reporting period.

### ***NAV Objective – First reporting period***

As at 31 December 2018, the end of the First reporting period, the adjusted NAV per share was 24.1% higher than the 30 June 2017 NAV per share of RON 1.1953.

<sup>1</sup> Summarising the provisions of the IPS, the adjusted NAV for a given date is calculated as the sum of: (i) the reported NAV as at the end of the Reporting Period; (ii) any distributions to shareholders, being either dividend or non-dividend ones (i.e. in the last case following reductions of the par value of the shares and distribution to the shareholders), implemented after the end of the previous Reporting Period, and (iii) any distribution fee and any transaction/ distribution costs relating to either dividend or non-dividend distributions including buy-backs of shares/ GDRs/ depositary 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 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. For more details, please refer to the IPS available on the Fund's webpage.

NAV Objective	Amount RON	Details
<b>Total NAV as 31 December 2018</b>	<b>10,219,444,080</b>	
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, and 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 the returns of capital and dividends after 30 June 2017	48,516	Fees charged by Romanian Central Depository and Paying Agent for the payments performed after 30 June 2017
<b>Total Adjusted NAV as at 31 December 2018</b>	<b>10,753,525,062</b>	
Number of Fund's paid shares, less treasury shares and GDRs held as at 31 December 2018	7,250,158,347	
<b>Adjusted NAV per share as at 31 December 2018</b>	<b>1.4833</b>	
<b>NAV per share as at 30 June 2017</b>	<b>1.1953</b>	
<b>Difference</b>	<b>0.2880</b>	
<b>%</b>	<b>24.09%</b>	

Source: Fondul Proprietatea

### Discount Objective – First reporting period

In the period between 1 January 2018 and 31 December 2018, the discount to NAV was greater than 15%.

### Discount Evolution<sup>1</sup>

Discount as at 31 December 2018	Minimum discount between 1 January – 31 December 2018	Maximum discount between 1 January – 31 December 2018	Average discount for the period 1 January – 31 December 2018
35.7%	23.8%	38.9%	29.5%

Source: Fondul Proprietatea

The AIFM and the Investment Manager will continue their efforts to reduce the discount to NAV as we firmly believe that the Fund's shares should be trading at a significantly lower discount than the current levels, given the quality of the underlying portfolio assets, our track record in working with the portfolio companies to improve efficiency and profitability, the attractive dividend yield, the ongoing buy-back programmes and our transparency, disclosure, and proactive investor relations efforts.

### Investor Relations Update

In 2018, in our efforts to increase the visibility and the profile of the Fund, as well as the local capital market, and Romania, to a broader international institutional investor base, the Fund's management team participated in 15 regional emerging and frontier market conferences in the United States, United Kingdom, Hungary, Singapore, Austria, and Czech Republic and met with investment professionals representing 157 international institutional investors and brokers, interested in finding out more details about the Fund and its equity story, and in receiving updates on the Fund, its corporate actions, and the main portfolio holdings, as well as on the Romanian macro-economic environment.

During this period, we also organised 15 road-shows in the United Kingdom, Croatia, United States, South Africa, and Sweden. During the road-shows, the Investment Manager participated in individual and group meetings with representatives of 110 international institutional investment firms, both current shareholders and potential investors.

On 1 and 2 March we organised in collaboration with WOOD & Company the fifth edition of the "Romania Investor Days in London" event. 83 representatives from 43 international investments firm, with assets under management of over EUR 2,000 billion, and 43 representatives from 17 Romanian companies, listed or candidates

<sup>1</sup> The daily discount is calculated in accordance with the IPS, i.e. the discount between the FP shares closing price on the BVB - REGS for each trading day and the latest reported NAV per share at the date of calculation.

for IPOs, participated in the event. During the event, over 244 individual and group meetings were held between the investors and the management teams of the Romanian companies present at the event.

Between 5 to 7 September, we organised the 11<sup>th</sup> edition of the Fondul Proprietatea Investor Days event in Bucharest. 82 institutional investors from 53 investment houses (with over EUR 2,500 billion collectively in assets under management) participated in the event. Also, representatives of the Romanian Government, US and UK Embassies in Romania, National Bank of Romania, International Monetary Fund, Romanian Fiscal Council, FSA, European Bank for Reconstruction and Development, Bucharest Stock Exchange, and Pension Funds industry, corporates, journalists and other parties joined the event, bringing the total number of attendees to over 190.

During the first day of the event, we organised a group site visit to the Hidroelectrica Iron Gates power plant on the Danube, the third largest in Europe.

The first half of the second day of the event was dedicated to speeches from representatives of the Romanian Government, and the US and UK Embassies in Romania. We also organised 3 panels on the Romanian macroeconomics, energy sector, and capital markets, with speakers from the National Bank of Romania, International Monetary Fund, Fiscal Council, OMV Petrom SA, Hidroelectrica SA, Citigroup, FSA, European Bank for Reconstruction and Development, BVB, NN Pension Fund, and WOOD & Co.

In the second part of the day, and the entire day on 7 September, we organised together with WOOD & Co, the Frontier Investor Days conference. 448 investor meetings – individual and group meetings - were organised between the institutional investors and the 62 representatives of the 31 corporates present at the event, Romanian listed and unlisted companies, as well as foreign corporates from other Frontier markets (Georgia, Croatia, Slovenia, Ukraine, Moldova) and from UK.

Also, during the year, we participated to general panel discussions in 2 conferences in Croatia and France, where we presented the Fund's equity story to over 150 investment professionals.

As part of our communication strategy to update the institutional investors and analysts covering Fondul Proprietatea on its financial results, the latest events involving the Fund and its portfolio companies, and the planned corporate actions, we organised the 2017 results, 2018 first quarter, 2018 first half, and 2018 third quarter results conference calls.

Furthermore, during the year, we organised 36 additional meetings with analysts, brokers, current and prospective investors, and held 47 conference calls with institutional investors and analysts covering Fondul Proprietatea, interested in the latest developments regarding the Fund's corporate actions and its portfolio companies.

Communication between the Investment Manager and investors remains our top priority as we aim to ensure that investors are informed about the latest developments and obtain their feedback as we continue to focus on maximising shareholder value.

## Corporate Governance

Following the self-assessment conducted, the AIFM informs the shareholders and the investors that the Fund is fully compliant with the provisions of the Corporate Governance Code of BVB, and with the FSA Regulation 2/2016 on the application of the principles of corporate governance by the entities authorised, regulated and supervised by the FSA.

## GDR Facility Update

The GDR facility is limited to one-third of the Fund's subscribed share capital under the Romanian securities regulations, or 60,679,755 GDRs as at 31 December 2018, each GDR representing 50 shares. As at 31 December 2018, 2,644,651,100 of the Fund's issued shares were held by The Bank of New York Mellon, the GDR depository bank, accounting 52,893,022 GDRs, representing 87.2% of the GDR facility.

## Buy-back Programmes

During 2018 the Fund finalised the cancellation process of the shares acquired within the seventh and eighth buy-back programmes and finalised the acquisition of shares within the ninth buy-back programme, which will be proposed for cancellation to shareholders during 2019. As at 31 December 2018 the Fund held 1,487,992,569 own shares, corresponding to the ninth buy-back programme, which was finalised on 31 December 2018.

The tenth buy-back programme was approved by shareholders during the 14 November 2018 GSM, for a total number of 750 million shares in the form of ordinary shares and GDRs, at a price that cannot be lower than RON

0.2 per share or higher than RON 2 per share, to be implemented during the financial year 2019. The tenth buy-back programme started on 1 January 2019.

### Share Capital Decrease Process in 2018

The table below presents the summary of the share capital changes occurred in 2018:

Description of share capital process	Effective date	Subscribed share capital (RON)	Issued shares after implementation	Nominal value (RON)
Partial share cancellation for the seventh buy-back programme and eighth buy-back programme	29 June 2018	4,771,610,196.08	9,176,173,454	0.52
Partial share cancellation for the eighth buy-back programme	28 December 2018	4,733,020,898.32	9,101,963,266	0.52

### 2017 Dividend Distribution

On 26 April 2018 shareholders approved the distribution of a gross dividend of RON 0.0678 per share, with Ex-date 8 June 2018 and Registration date 11 June 2018. The Fund started the payment of dividends on 29 June 2018 and by 31 December 2018 shareholders had collected 98.1% of the total dividend distribution of RON 500.0 million.

With effect from 2015, for the distributions to shareholders, the payments are performed through Romanian Central Depository, according to the legislation in force, as follows:

- a) for shareholders having a custodian/ brokerage account, directly by the respective custodian bank or broker;
- b) for all other shareholders:
  - (i) by Romanian Central Depository, through BRD – Groupe Societe Generale (acting as Payment Agent), for bank transfers when the supporting documentation required by Romanian Central Depository, along with a payment request, have been submitted
  - (ii) by the Payment Agent for cash payments at any of its agencies, or by bank transfer (when the supporting documentation required by the Payment Agent, along with a payment request, have been submitted to the Payment Agent)

**Also, as an important notice to shareholders, this dividend payment is subject to the general statute of limitation. As such, shareholders may request the payments only within a three-year term starting with the Payment Date, namely by 29 June 2021.**

### Special and Interim Dividends Received from Portfolio Companies

In December 2018 several portfolio companies controlled by the Romanian state approved the distribution of special dividends, while Alro SA also approved the distribution of interim dividends for the nine-month period ended 30 September 2018. Thus, the following gross amounts were approved for the Fund in accordance with its shareholding in each company:

Portfolio company	Type of dividend	Gross amounts (RON million)	Date of recording in accounting	Collection date
Alro SA	Interim dividend	20.7	January 2019	January 2019
Alro SA	Special dividend	12.6	January 2019	January 2019
Hidroelectrica SA	Special dividend	137.0	December 2018	January 2019
Nuclearelectrica SA	Special dividend	34.2	December 2018	December 2018
CN Aeroporturi Bucuresti SA	Special dividend	30.0	December 2018	December 2018
Alcom SA	Special dividend	1.3	January 2019	January 2019
<b>Total</b>		<b>235.8</b>		

For more details, please refer to the section *Analysis of the Portfolio of the Fund*.

### Outlook for 2019

Despite significant political noise, the Romanian economy continued to perform well in 2018. GDP is estimated to have increased by 4%, driven mainly by domestic consumption. Our expectation for 2019 is for a more moderate increase in GDP of 3.5% given the disruptive measures taken by the Romanian Government in December 2018, which have an impact primarily on the banking and energy sectors and could result in lower credit expansion as

well as a decrease of investments. Overall, the macroeconomic fundamentals have remained positive, as public debt to GDP remains below 40% and the budget deficit has been kept under the 3% threshold despite significant increase in the public-sector wages. Unemployment continued to shrink to a record low of below 4%, which has also been reflected in the wage pressure throughout the year. On the negative side, the current account deficit has continued to increase to 4.5%<sup>1</sup> driven by higher imports, while the Government's inability to attract EU funds has resulted in a lower absorption rate for 2018.

Further increasing budgetary expenses, continuing to disregard the corporate governance legislation, and passing legislation without proper public consultation can result in a significant deterioration of investor sentiment, with implications not only to the financial sector, but to the overall economy. It is important for the fight against corruption to continue, as it should lead to further governance improvement and increased efficiency of state institutions, which are the backbone to economic activity.

Listing companies on stock exchange represents the key driver in developing the local capital market. New companies on the stock exchange would not only boost the liquidity and attract new investors, but also should contribute to the potential upgrade of the Romanian capital market to emerging market status from the current frontier one.

### **Maximising shareholder value in 2019**

As we look to generate further value for the Fund's shareholders and not only meet, but exceed the performance objectives included in the IPS (discount of 15% or less and a higher adjusted NAV per share), we will continue to actively manage the Fund, work closely with the Government to ensure the state controlled companies in the Fund's portfolio continue the strong performance path registered in the past years, and the progress in the listing of the largest companies in the Fund's portfolio which are prepared for an Initial Public Offering: Hidroelectrica SA, and Bucharest Airports.

Value-enhancing corporate actions, such as share buy-backs and cash distributions to shareholders, and continued promotion of the Fund and of the Romanian capital market, should allow the Fund's NAV to be better reflected in the share price.

We are confident that our active, bottom-up investment process will allow us to continue delivering the best long-term results for our shareholders and we look forward to the opportunities ahead for Fondul Proprietatea.

### **Annual General Shareholders Meeting**

Last but not least, we would like to take this opportunity to invite shareholders to attend the Annual General Shareholders Meeting to be held in Bucharest on 4 April 2019, starting with 11.00 AM, at "Radisson Blu" Hotel, Atlas Room, 63-81 Calea Victoriei Street, 1<sup>st</sup> District, Bucharest, 010065, Romania, where you will have the opportunity to receive the latest updates about the Fund. The agenda of the Annual General Shareholders Meeting and support documents are published on [www.fondulproprietatea.ro](http://www.fondulproprietatea.ro).



Johan Meyer

Permanent Representative of FTIS in relation to Fondul Proprietatea SA

CEO of FTIML

Portfolio Manager, Emerging Markets

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<sup>1</sup> Source: Raiffeisen Research - Romania Economic Update report, 25 January 2019

# Presentation and Activity of the Fund

## General Information

### Main activities of Fondul Proprietatea

Fondul Proprietatea is a Romanian legal entity, incorporated as a joint stock closed-end investment company. The Fund is registered with the FSA in the category “Other Organisations for Collective Investments – AOPC” and has been listed on the regulated market of BVB since 25 January 2011 and on the Specialist Fund Market of the LSE since 29 April 2015.

The main activities of the Fund according to the National Statistics CAEN and the Fund’s own Constitutive Act are the business of operating mutual funds and other similar financial entities (CAEN reference 643) and the main activity is financial investments (CAEN reference 6430).

### Management of Fondul Proprietatea

During the reported period, the Fund was managed by FTIS as its Sole Director and AIFM under the Management Agreement executed in 2015 that entered into force on 1 April 2016, and under the Management Agreement that entered into force on 1 April 2018, according with the 14 February 2018 GSM Resolution. FTIS has delegated the role of Investment Manager as well as certain administrative functions to FTIML. FTIML was the previous Sole Director and Fund Manager of Fondul Proprietatea (between 29 September 2010 and 31 March 2016).

### Incorporation of the Fund

The Fund was incorporated by the Romanian state in 2005 as a joint stock company with the initial purpose of providing compensation to individuals whose real property assets were illegally confiscated by the Romanian State during the communist regime, and which could no longer be returned in kind to those individuals.

The Fund’s initial Constitutive Act was enacted by Government Decision 1481/2005 regarding the incorporation of Fondul Proprietatea, which established that the Fund would be an undertaking for collective investments organised as a closed-end investment company. However, the Fund was officially registered by CNVM (currently FSA) as a closed-end investment company only in 2010 (by CNVM Decision 34/18 August 2010).

The initial sole shareholder of the Fund was the Romanian state. Since the Fund’s launch, the shares have been awarded by the National Authority for Property Restitution to individuals legally entitled to receive compensation from the Romanian state and who chose to convert their compensation entitlements into shares issued by the Fund.

Starting 15 March 2013, the date when EGO 4/2012 regarding on the application of certain provisions of Law 247/2005 entered into force, the compensation process was suspended. In January 2015 the Law 10/2015 entered into force confirming that the Romanian state will no longer use the compensation scheme for Fondul Proprietatea shares in future.

As at 31 December 2018 the Romanian state’s participation in the share capital of the Fund was of 370,456,198 shares, out of which 6,643,848 paid shares.

### Investment policy and investment restrictions

The Fund's investment objective as set out in the IPS is the maximisation of returns to shareholders and the increase of the net asset value per share via investments mainly in Romanian equities and equity-linked securities.

The Fund's IPS is drafted by the AIFM with the observance of the investment limits set forth in the applicable laws and regulations and in the Constitutive Act.

According to the current IPS, in the absence of investment opportunities offering better returns for shareholders, or if the discount to NAV per share is wider than 15% for more than 50% of the trading days in any three-month financial quarter, the AIFM will use all or a significant part of the proceeds from annual dividends, additional special cash distributions performed by portfolio companies and the cash inflows from the disposal of portfolio companies to implement measures aimed at maximising cash returns to shareholders and fulfilling the performance objectives.

According to the Article 82 in EGO 32/2012, approved by Law 10/2015, the Fund may only invest in the following assets:

- (i) EU listed transferable securities and money market instruments;
- (ii) Non-EU listed transferable securities and money market instruments, subject to supervisory endorsement;
- (iii) Newly issued securities, in certain conditions;
- (iv) Units in undertakings for collective investment in transferable securities and/ or in other undertakings for collective investment, under certain conditions;
- (v) Deposits with credit institutions, reimbursable upon request, with a maturity of maximum 12 months, in certain conditions;
- (vi) Financial derivatives, in certain conditions; and
- (vii) Other money market instruments, under certain conditions.

According to Law 247/2005, Article 7(1), the investments made by the Fund are subject to the following limits:

- a) the Fund may hold maximum 20% of its assets in unlisted transferable securities and money market instruments (except for government securities and bonds issued by the Romanian Ministry of Public Finance and for unlisted securities received by the Fund from the Romanian State at incorporation);
- b) the Fund cannot invest more than 10% of its assets in securities or money market instruments issued by the same issuer (except for government bonds and for securities received by the Fund at incorporation);
- c) the Fund cannot invest more than 10% of its assets in financial instruments issued by entities part of the same group;
- d) the Fund generally cannot invest more than 10% of its assets in units issued by collective investment undertakings;
- e) the current accounts and cash held by the Fund cannot exceed 20% of its assets (the threshold can be exceeded in certain circumstances);
- f) the amount of bank deposits with the same credit institution cannot represent more than 10% of the Fund's assets;
- g) exposure to the counterparty risk in one over-the-counter derivative transaction cannot exceed 10% of the Fund's assets, while the global exposure through derivatives cannot exceed 15% of the total allocation of net assets;
- h) minimum 20% of the Fund's total assets invested in listed securities, UCITS or other UCI, and newly issued securities.

In addition to the above, according to the IPS, under normal market conditions, the Fund should have at least 80% of its net assets invested in Romanian equity and equity-linked securities.

Also, according to the Fund's Prospectus, the Fund may hold money market instruments only in financial institutions rated "Investment grade" and may only invest in corporate bonds rated "Investment grade".

The Fund will inform investors of breaches to the investment policy by publishing current reports.

The investment policy of the Fund is established by the AIFM, with the observance of the Constitutive Act and of the investment limits provided by the legal provisions in force and is in line with the IPS approved by shareholders.

The AIFM provides the strategy in accordance with the investment policy for analysis to the Fund's Board of Nominees before it is submitted for GSM approval. The Board of Nominees' opinion on the proposed strategy is presented to the AIFM and to the GSM.

The IPS sets the prudential rules concerning the investment policy of the Fund and presents the investment goals, objectives and the decision-making process for selecting investments in accordance with the investment objectives.

Romanian Ministry of Public Finance published a draft law regarding the alternative investment funds that the Government intends to propose to Romanian Parliament to enact. The draft law includes various investment restrictions; however, these were not presented in detail in the report because usually there are material changes between the first draft published and the final law. The calendar for the new legislation has not been announced so far and considering the past practice we do not expect to have this new law enacted during 2019.

### **Employees of the Fund**

As at 31 December 2018 the Fund had no employees. Given that the Fund is administrated by the AIFM, it is not expected that the Fund will have any employees in the future.

## Subsidiaries

As at 31 December 2018, the Fund controlled the following companies, which under Romanian applicable laws qualify as subsidiaries of the Fund, all of which are incorporated and operate in Romania. In the Sole Director's opinion, none of these subsidiaries qualifies as a significant subsidiary.

<u>Name</u>	<u>Ownership interest</u>
Alcom SA	72%
Comsig SA	70%
Zirom SA	100%

None of the subsidiaries of the Fund holds shares in the Fund as at 31 December 2018, based on the information made available to the Fund. Comsig SA is in administrative liquidation process. There was no corporate reorganisation of the Fund or its subsidiaries in 2018.

## Branches

During 2018 the Fund had no branches.

## Governing legislation

The Fund operates in accordance with the provisions of the following main laws and regulations:

- Law no. 31/1990 regarding companies, with subsequent amendments;
- Law no. 82/1991 Accounting Law;
- Law no. 297/2004 regarding the capital market, with subsequent amendments;
- CNVM Regulation no. 15/2004 regarding the authorisation and operation of the investment management companies, of the undertakings for collective investments and of the depositaries;
- Law no. 247/2005 regarding the reforms in the sectors of justice and property as well as certain related measures, with subsequent amendments;
- Government Decision no. 1481/2005 regarding the incorporation of Fondul Proprietatea;
- Government Emergency Ordinance no. 81/2007 for the acceleration of the compensation procedure related to the real estate abusively confiscated, with subsequent amendments;
- CNVM Regulation no. 6/2009 on the exercise of certain rights of the shareholders in the general shareholders meetings of companies;
- CNVM Regulation no. 4/2010 regarding the registration with the CNVM and operation of Fondul Proprietatea, as well as trading of shares issued, with subsequent amendments;
- Regulation (EU) no. 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision;
- Regulation (EU) no. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC;
- Law no. 10/2015 on amending Title VII of Law no. 247/2005 regarding the reforms in the sectors of justice and property, as well as certain related measures, with subsequent amendments;
- Law no. 74/2015 on alternative investment fund managers;
- FSA Regulation no. 10/2015 regarding the alternative investment funds management;
- FSA Norm no. 27/2015 on the financial audit of the entities authorised, regulated and supervised by the FSA, as subsequently amended;
- FSA Norm no. 39/2015, regarding the approval of the accounting regulations in accordance with IFRS, applicable to the entities authorised, regulated and supervised by FSA – Financial Investments and Instruments Sector, with subsequent amendments;
- FSA Regulation no. 2/2016 on the application of the principles of corporate governance by the entities authorised, regulated and supervised by the FSA;
- Law no. 24/2017 on issuers of financial instruments and market operations;

- Law no. 162/2017 regarding the statutory audit of annual financial statements and annual consolidated financial statements and on amending other pronouncements;
- Law no. 126/2018 on the markets of financial instruments;
- FSA Regulation no. 5/2018 regarding the issuers of financial instruments and market operations;
- FSA Regulation no. 12/2018 on the implementation of certain provisions of Regulation (EU) No. 1286/ 2014 on key information documents for structured and insurance-based individual investment products.

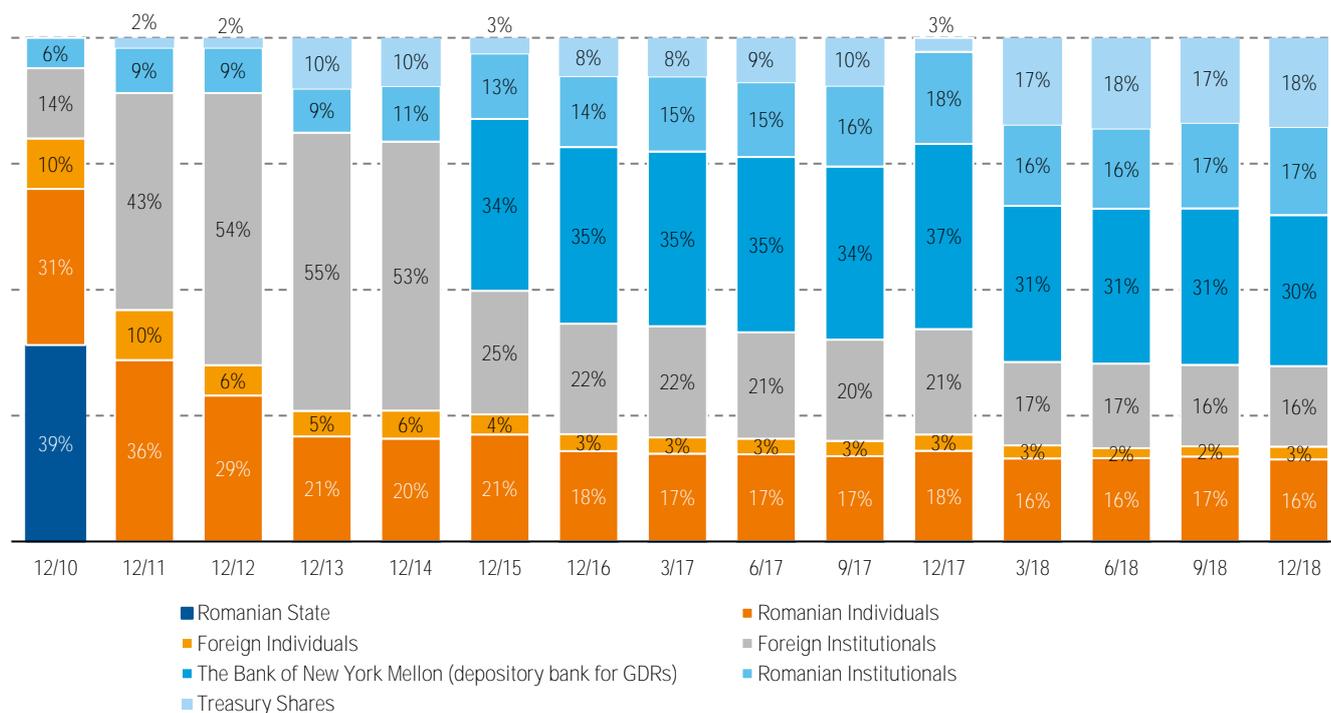
**Changes in the accounting regulation**

The Fund has implemented IFRS 9 Financial instruments which has replaced IAS 39 “Financial Instruments: Recognition and Measurement” starting with 1 January 2018. Additional disclosures and the analysis of the impact compared to previously recognised amounts are included in the Fund’s annual IFRS financial statements for the year ended 31 December 2018, included in Annex 1 to the report.

**Shareholding and share capital changes**

**Evolution of the shareholder structure**

The evolution of the shareholder structure is illustrated in the following chart:



Source: Romanian Central Depository, based on issued share capital until 31 July 2011, based on paid share capital starting 31 July 2011. The structure for 2018 does not reflect yet the share capital decrease which was effective starting with 28 December 2018, as its implementation with Depozitarul Central SA was ongoing as at the end of December 2018 and was implemented on 22 January 2019.

**Share capital changes during 2018**

**Share cancellation after the seventh and eighth buy-back programmes**

During the 26 September 2017 GSM the shareholders approved the decrease of the subscribed share capital of the Fund from RON 4,854,034,784.56 to RON 4,771,610,196.08 pursuant to the cancellation of 158,508,824 own shares (having a par value of RON 0.52) acquired by the Fund during the seventh and eighth buy-back programmes.

The FSA endorsed the share capital decrease through Endorsement no. 163/ 30 May 2018. With effect from 29 June 2018, the Trade Registry registered the Resolution no. 4/ 26 September 2017 of the Fund’s EGM for approving the share capital decrease.

Consequently, as of 29 June 2018 the new value of the Fund’s subscribed share capital was RON 4,771,610,196.08 (divided into 9,176,173,454 shares with a nominal value of RON 0.52 per share), while the value of the paid-up share capital was RON 4,582,427,774.08 (divided into 8,812,361,104 shares with a nominal value of RON 0.52 per share).

### Share cancellation for the remaining shares acquired during the eighth buy-back programme

During the 4 September 2018 GSM the shareholders approved the decrease of the subscribed share capital of the Fund from RON 4,771,610,196.08 to RON 4,733,020,898.32 pursuant to the cancellation of 74,210,188 own shares, having a par value of RON 0.52, acquired by the Fund during the eighth buy-back programme.

The decrease was endorsed by the FSA through Endorsement no. 447/14 December 2018 and was registered with the Trade Register on 28 December 2018.

Consequently, as of 28 December 2018, the new value of the Fund's subscribed share capital is RON 4,733,020,898.32 (divided into 9,101,963,266 shares with a nominal value of RON 0.52 per share), while the value of the paid-up share capital is RON 4,543,838,476.32 (divided into 8,738,150,916 shares with the same par value as mentioned above).

### Evolution of the Fund's share capital since listing

The following table presents information with respect to the main events during the period from 1 January 2011 until 31 December 2018, which have changed the amount of the issued share capital of the Fund:

Date	Reason	Structure of the share capital after event			
		Issued share capital (RON)	Paid share capital (RON)	Issued shares (Shares)	Paid shares (Shares)
<b>1 January 2011</b>	<b>Opening balance</b>	<b>13,778,392,208.00</b>	<b>13,778,392,208.00</b>	<b>13,778,392,208</b>	<b>13,778,392,208</b>
24 February 2014	The cancelation of the shares acquired during the first buy-back programme	13,538,087,407.00	13,172,832,785.00	13,538,087,407	13,172,832,785
25 June 2014	The decrease for annual cash distributions to shareholders	12,861,183,036.65	12,515,396,724.25	13,538,087,407	13,174,101,815
26 September 2014	The cancelation of the shares acquired during the second buy-back programme	11,815,279,886.85	11,469,656,813.90	12,437,136,723	12,073,322,962
27 January 2015	The cancelation of the shares acquired during the third buy-back programme	11,575,064,733.65	11,229,443,001.15	12,184,278,667	11,820,466,317
31 May 2015	The decrease for annual cash distributions to shareholders	10,965,850,800.30	10,638,419,685.30	12,184,278,667	11,820,466,317
12 August 2015	The cancelation of the shares acquired during the fourth buy-back programme	10,074,080,745.90	9,746,649,630.90	11,193,423,051	10,829,610,701
14 March 2016	The cancelation of the shares acquired during the fifth buy-back programme	9,869,265,720.90	9,541,834,605.90	10,965,850,801	10,602,038,451
9 June 2016	The decrease for annual cash distributions to shareholders	9,320,973,180.85	9,011,732,683.35	10,965,850,801	10,602,038,451
26 October 2016	The partial cancelation of the shares acquired during the sixth buy-back programme	9,168,314,116.70	8,859,073,619.20	10,786,251,902	10,422,439,552
18 January 2017	The partial cancelation of the shares acquired during the sixth buy-back programme	8,562,968,634.10	8,253,728,136.60	10,074,080,746	9,710,268,396
24 March 2017	The decrease for covering accumulated accounting loss and for an extraordinary cash distribution to shareholders	5,742,226,025.22	5,534,852,985.72	10,074,080,746	9,710,268,396
16 June 2017	The decrease for annual cash distributions to shareholders	5,238,521,987.92	5,049,339,565.92	10,074,080,746	9,710,268,396
29 November 2017	The partial cancelation of the shares acquired during the seventh buy-back programme	4,854,034,784.56	4,664,852,362.56	9,334,682,278	8,970,869,928
29 June 2018	The partial cancelation of the shares acquired during the seventh and eighth buy-back programmes	4,771,610,196.08	4,582,427,774.08	9,176,173,454	8,812,361,104
28 December 2018	The partial cancelation of the shares acquired during the eighth buy-back programme	4,733,020,898.32	4,543,838,476.32	9,101,963,266	8,738,150,916
<b>31 December 2018</b>	<b>Closing balance</b>	<b>4,733,020,898.32</b>	<b>4,543,838,476.32</b>	<b>9,101,963,266</b>	<b>8,738,150,916</b>

### Changes to the Constitutive Act

During 2018 there were several changes in the Constitutive Act of the Fund related to the articles referring to share capital and nominal value, as a result of the share capital decrease processes.

According to regulations in force, all the changes to the Constitutive Act enter into force after FSA endorsement.

### Management Agreements in force during 2018

During 2018 there were two management agreements in force:

- the Management Agreement concluded between the Fund and FTIS as AIFM on 2 November 2015, which entered into force on 1 April 2016 with a duration of 2 years (1 April 2016 – 31 March 2018);

- the Management Agreement concluded between the Fund and FTIS as AIFM on 14 February 2018, which entered into force on 1 April 2018 with a duration of 2 years (1 April 2018 – 31 March 2020).

Both management agreements include the following management structure:

- FTIS is Sole Director and AIFM under AIFM Directive and local implementation regulations;
- The Board of Nominees approved the delegation of certain portfolio management and administrative activities from FTIS to FTIML.

The 2018 the Management Agreement reflects the renewal of the mandate of FTIS as AIFM and Sole Director of the Fund for another two (2) years term starting with 1 April 2018, under the following key commercial terms:

<b>Base Fee per year</b>	<ul style="list-style-type: none"> <li>0.60%</li> <li>Discount 15% – 20%, + 0.05%, i.e. Base Fee Rate = 0.65%</li> <li>Discount &lt; 15%, + 0.05%, i.e. Base Fee Rate = 0.70%</li> </ul>
<b>Consideration for the Base Fee</b>	<ul style="list-style-type: none"> <li>Weighted average market capitalisation of the Fund</li> </ul>
<b>Distribution Fee for all cash distributions</b>	<ul style="list-style-type: none"> <li>1.00% applied to the value of the distributions</li> </ul>
<b>Consideration for the Distribution Fee</b>	<ul style="list-style-type: none"> <li>Share buy-backs</li> <li>GDR buy-backs</li> <li>Public tender buy-backs</li> <li>Return of share capital</li> <li>Dividends</li> </ul>
<b>Duration</b>	<ul style="list-style-type: none"> <li>2 years</li> </ul>
<b>Continuation vote</b>	<ul style="list-style-type: none"> <li>Annually, each April</li> </ul>

According to the Constitutive Act in force the AIFM has the obligation to organise a shareholder meeting no later than end of September 2019 having on the agenda:

- The renewal of the mandate of FTIS, as the AIFM and Sole Director of Fondul Proprietatea SA for another two-year term starting with 1 April 2020;
- The appointment of an AIFM of the Fund for a mandate of two years starting with 1 April 2020, in accordance with the legal provisions in force, and for this point, shareholders can make proposals for candidates. The proposals, along with the professional qualification and proof of regulatory license(s) allowing the proposed candidate to manage the Fund, needs to be presented in the same time.

In case the first point (regarding the new mandate of FTIS) is rejected and the second one (regarding to the appointment of an AIFM of the Fund) is approved, the shareholders will empower the Board of Nominees to negotiate and execute the relevant management agreement with the selected candidate and fulfil all relevant formalities for the authorisation and legal completion of such appointment.

### Important GSM Resolutions during 2018

The main resolutions approved by the Fund's shareholders during the GSMs in 2018 were the following:

- The approval of the new IPS in force starting with 1 April 2018;
- The approval of the 2018 Management Agreement – in force starting with 1 April 2018;
- The appointment of three members in the Board of Nominees for a 3 years mandate, as follows:
  - Mr. Julian Healy starting with 5 April 2018
  - Mr. Piotr Rymaszewski starting with 5 April 2018 and
  - Mr. Steven van Groningen starting with 14 April 2018.
- The approval of the increase of the gross monthly remuneration for each member of the Board of Nominees from RON 20,000 per month to RON 24,123 per month as a result of changes in taxation legislation starting with 1 January 2018<sup>1</sup>;
- The approval of the Annual Activity Report of the AIFM for the financial year 2017, including the financial statements for the year ended on 31 December 2017 prepared in accordance with IFRS as adopted by the European Union, and the approval of the auditor's report as well as the ratification of all legal acts concluded,

<sup>1</sup> The net remuneration of the members of the Board has not been increased.

adopted or issued on behalf of the Fund, as well as of any management/ administration measures adopted, implemented, approved or concluded during the 2017 financial year, along with the discharge of the AIFM for any liability for its administration during the 2017 financial year;

- The approval to cover the negative reserves incurred in the 2017 financial year derived from the cancelation of treasury shares;
- The approval of the allocation of the net profit registered for the financial year 2017, and the approval of the value of the gross dividend of RON 0.0678 per share; the start of dividends payment on 29 June 2018 to the persons registered as shareholders of the Fund on 11 June 2018;
- The approval of the decrease of the subscribed share capital of the Fund from RON 4,771,610,196.08 to RON 4,733,020,898.32 pursuant to the cancellation of 74,210,188 own shares acquired by the Fund during the eighth buy-back programme;
- The approval of the termination of the ninth buy-back programme starting with 31 December 2018;
- The approval of tenth buy-back programme for a maximum number of 750,000,000 treasury shares, starting with 1 January 2019 until 31 December 2019, at a price that cannot be lower than RON 0.2 per share or higher than RON 2 per share;
- The approval of 2019 budget of Fondul Proprietatea.

### Changes of the credit facility agreement and issued debt in 2018

On 4 July 2016 the Fund has contracted a revolving committed credit facility for a maximum amount of RON 1 billion from BRD – Groupe Societe Generale SA, with an availability period of one year, which was extended until 4 July 2018. The purpose of the credit facility was for general corporate use, including share buy-backs and distributions to shareholders, but excluding investments.

On 29 June 2018 the Fund extended the existing credit facility for a two-year period, until 29 June 2020. The permitted use of the credit facility is for general corporate and operational use, and has a new maximum committed amount of RON 400 million; the Fund may access, subject to the Bank's approval and in accordance with the provisions of the credit facility, additional financing in excess of the said committed amount, without exceeding a total amount of RON 600 million at any given time. The Fund did not use the credit facility during 2018 and the outstanding balance is nil.

The Fund had no bonds or other debt securities in issue during 2018.

### Buy-back Programmes

#### Overview of share buy-back programmes since listing

Nine buy-back programmes were completed since listing. Please see below the details regarding the buy-back programmes performed by the Fund since 2011:

Programme	Period	No. of shares repurchased (million shares)	Tender offer	Cancellation of shares
First	May – Sep 2011	240.3	N/A	Completed
Second	Apr – Dec 2013	1,100.9	Oct – Nov 2013	Completed
Third	Mar – Jul 2014	252.9	N/A	Completed
Fourth	Oct 2014 – Feb 2015	990.8	Nov – Dec 2014	Completed
Fifth	Feb – Jul 2015	227.5	N/A	Completed
Sixth	Sep 2015 – Sep 2016	891.7	Aug – Sep 2016	Completed
Seventh	Sep 2016 – May 2017	830.2	Feb – Mar 2017	Completed
Eight	May – Nov 2017	141.9	N/A	Completed
Ninth	Nov 2017 – Dec 2018	1,488.0	Jan – Feb 2018	The cancelation of shares will be subject to shareholders' approval during 2019
Tenth	Jan – Dec 2019	-	N/A	Started on 1 January 2019
<b>TOTAL</b>		<b>6,164.2</b>		

#### Evolution of the discount and buy-back programmes

The chart below presents the evolution of the discount and trading price by reference to the buy-back programmes, returns of capital and dividend distributions implemented:



Source: Bloomberg for Adjusted Share Price, Fondul Proprietatea for Discount

Note: The discount is calculated in accordance with the IPS i.e. the discount between the FP shares closing price on the BVB - REGS for each trading day and the latest published NAV per share at the date of calculation

During the year ended 31 December 2018, the Fund bought back a total number of 1,468,833,241 own shares within the ninth buy-back programme (out of which 856,600,041 ordinary shares and 612,233,200 ordinary shares corresponding to GDRs), representing 16.1% of the total issued shares as at 31 December 2018, for a total acquisition value of RON 1,370,570,876, excluding transaction costs. The total number of own shares (including shares corresponding to GDRs) held by the Fund as at 31 December 2018 is 1,487,992,569 own shares, having a total nominal value of RON 773,756,136 (RON 0.52 per share), representing 16.3% of the total issued shares as at 31 December 2018. During 2018 the Fund converted 12,219,664 GDRs acquired into 610,983,200 ordinary shares. As at 31 December 2018, the Fund held 25,000 GDRs.

The table below shows a summary of the buy-back programmes during the year ended 31 December 2018 (information based on the transaction date):

Programme	Description	No of shares	Equivalent shares of GDRs	Total no of shares	% of issued share capital**
7th	Opening balance as at 1 January 2018	90,849,151	-	<b>90,849,151</b>	
	Cancelations	(90,849,151)	-	<b>(90,849,151)</b>	
	<b>Closing balance as at 31 December 2018</b>	-	-	-	<b>8.24%</b>
	<b>Weighted average price (RON per share; USD per GDR)*</b>	<b>0.8888</b>	<b>10.7529</b>		
8th	Opening balance as at 1 January 2018	141,869,861	-	<b>141,869,861</b>	
	Cancelations	(141,869,861)	-	<b>(141,869,861)</b>	
	<b>Closing balance as at 31 December 2018</b>	-	-	-	<b>1.41%</b>
	<b>Weighted average price (RON per share; USD per GDR)*</b>	<b>0.8591</b>	<b>10.8805</b>		
9th	Opening balance as at 1 January 2018	19,159,328	-	<b>19,159,328</b>	
	Acquisitions	856,600,041	612,233,200	<b>1,468,833,241</b>	
	Converted during the period	610,983,200	(610,983,200)	-	
	<b>Closing balance as at 31 December 2018</b>	<b>1,486,742,569</b>	<b>1,250,000</b>	<b>1,487,992,569</b>	<b>16.35%</b>
	<b>Weighted average price (RON per share; USD per GDR)*</b>	<b>0.9318</b>	<b>12.3097</b>		
	<b>Total balance of treasury shares as at 31 December 2018</b>	<b>1,486,742,569</b>	<b>1,250,000</b>	<b>1,487,992,569</b>	

\* Weighted average price is calculated based on transaction price, excluding the related transaction costs, for the entire buy-back programme

\*\*calculated as the total number of shares acquired within the programme (own shares and shares corresponding to GDRs) divided by the number of shares corresponding to the issued share capital at the end of the programme

*Tender Offer within the ninth buy-back programme*

During 2018 the Fund performed one Tender Offer. WOOD & Company Financial Services a.s. has been engaged as intermediary in relation to the purchase of shares. Jefferies International Limited and WOOD & Company Financial Services a.s. have been engaged as dealer managers and The Bank of New York Mellon has been appointed as tender agent in relation to the purchase of the GDRs.

The daily execution of the ninth buy-back programme, with respect to the shares on the BVB and GDRs on the LSE was suspended between 11 December 2017 and 6 March 2018.

The subscription period was from 18 January until 23 February 2018, and the purchase price was RON 0.9350 per share and the USD equivalent of RON 46.75 per GDR.

On 23 February 2018, the Investment Manager announced the results of the tender offer: total subscriptions of 4,853,201,369 shares representing 404% of the Offer (2,640,228,469 in the form of shares and 2,212,972,900 shares in the form of GDRs, namely 44,259,458 GDRs).

Under this tender offer, the Fund repurchased 1,200,000,000 shares (652,821,500 in the form of shares and 547,178,500 shares in the form of GDRs, namely 10,943,570 GDRs).

**Impact of the buy-back programmes on the Fund's equity**

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.

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).

<b>Buy-backs impact on equity for the shares acquired in 2018</b>	<b>Buy-back program 9 (all amounts in RON)</b>
<b>Acquisition cost</b>	<b>1,370,570,876</b>
<b>Total costs directly related to transactions, out of which:</b>	<b>27,600,580</b>
Brokerage fees	671,520
FSA fees	11,333,408
Stock Exchange fees (BSE and LSE)	1,396,746
Romanian Central Depository fees	67,949
Other professional fees	377,372
Distribution fees*	13,753,586
<b>Total buy-backs impact on equity during 2018</b>	<b>1,398,171,456</b>
Impact of shares acquired during 2017	16,329,392
<b>Total equity impact of buy-back program 9</b>	<b>1,414,500,848</b>

\* FTIS distribution fees related to buy-backs which are recognised directly in equity together with the underlying shares

**Coverage of the negative reserves**

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:

*All amounts in RON*

<b>Opening balance of the negative reserve as at 1 January 2018 (audited)</b>	<b>256,073,589</b>
Coverage of negative reserves according with GSM Resolution no. 7/ 26 April 2018	(256,073,589)
Negative equity reserve arising on the cancelation 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 cancelation 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 cancelation 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
<b>Closing balance of the negative equity reserve at 31 December 2018 (audited)</b>	<b>80,910,369</b>

The table below shows additional details on the negative reserves booked during 2018 and the estimated negative reserve that will arise upon the cancelation 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 cancelation date (NV = RON 0.52 per share) (RON)	(3)=(1)*NV	47,241,559	73,772,328	-
<b>Negative equity reserve on the cancelation (RON)</b>	<b>(4)=(3)-(2)</b>	<b>(31,068,596)</b>	<b>(49,841,772)</b>	<b>-</b>

Negative reserve that will arise on cancelation 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
<b>Estimated negative reserve to be booked on cancelation (RON)</b>	<b>(4)=(3)-(2)</b>	<b>-</b>	<b>-</b>	<b>(640,744,712)</b>

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.

## Analysis of the Portfolio of the Fund

### NAV methodology

The key performance indicator of the Fund is its Net Asset Value. The Fund is required to publish a monthly net asset value per share in accordance with local rules issued by the capital market regulator, no later than 15 calendar days after the reporting month end.

All NAV reports are published on the Fund's website at [www.fondulproprietatea.ro](http://www.fondulproprietatea.ro), together with the share price and discount information.

CNVM Regulation 4/2010, as subsequently amended, allows the NAV calculation based on best international practice suitable for a listed closed-end fund.

Listed securities are valued either at closing market prices if listed on regulated markets, or reference prices if listed on an ATS. In case of shares listed on ATS the reference price is considered to be the average price.

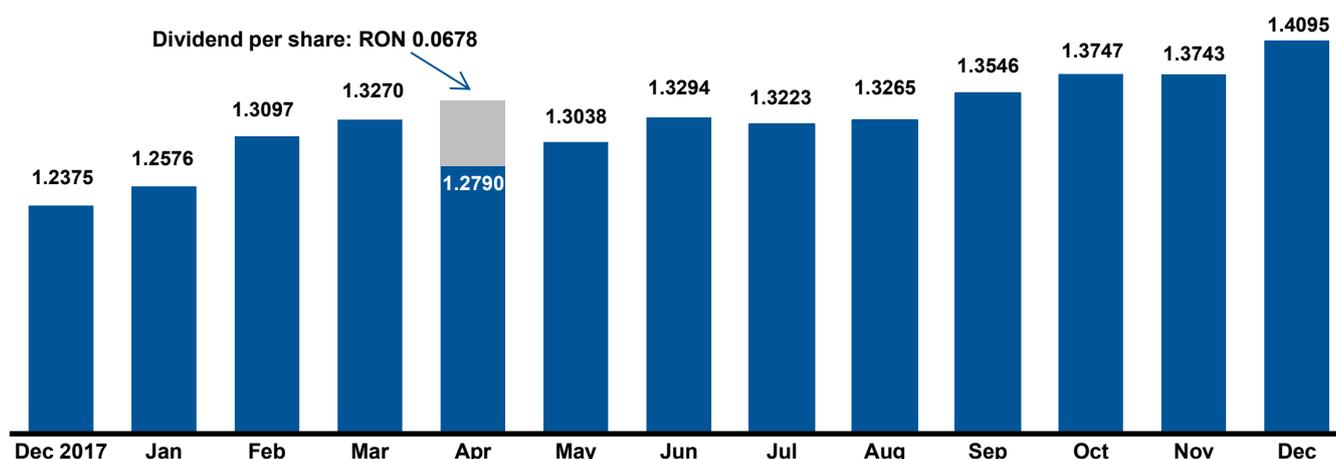
Illiquid or unlisted securities are valued using either the value of shareholders' equity, as per the latest available annual financial statements, proportionally with the stake held, or at fair value according to International Valuation Standards which permit fair valuation.

The shares in the companies under insolvency or reorganisation procedures are valued at zero. The shares in companies under a judicial liquidation procedure or any other liquidation procedures, as well as in companies under temporary or final suspension of operation, are valued at zero until the procedure is finalised.

The treasury shares acquired through buy-backs are excluded from the number of shares used in the NAV per share computation. Due to the fact that in substance the Fund's GDRs are similar to the ordinary shares to which they correspond, in the computation of the number of shares used NAV per share calculation, the equivalent number of shares corresponding to the GDRs bought back and held by the Fund as at NAV reporting date are also deducted, together with the number of ordinary own shares bought back and held.

### NAV per share (RON per share)

The following chart shows information on the monthly published NAVs per share for the period 29 December 2017 to 31 December 2018:



Source: Fondul Proprietatea, based on NAV reports submitted to the FSA, computed for the last working day of the month

During the **first quarter of 2018**, the NAV per share had an upward trend compared with the end of the previous year, mainly due to the positive share price evolution of the Fund's listed holdings, principally OMV Petrom SA (impact on the Fund's NAV of RON 181.2 million or RON 0.0208 per share) and due to the ninth buy-back programme tender offer carried out by the Fund during this period.

During the **second quarter of 2018** the NAV per share had an increase of 0.2% compared with the end of the previous quarter, mainly due to the recording of 2017 dividend receivables from portfolio companies and due to the ninth buy-back programme carried out by the Fund during this period, netted off by the dividends payable approved by shareholders during the 2018 Annual GSM. In June 2018 the Fund performed valuation updates for certain unlisted holdings. The valuation was performed with the assistance of KPMG Advisory, in accordance with International Valuation Standards. The valuation date was 31 March 2018 and the reports for Hidroelectrica SA and CN Aeroporturi Bucuresti SA also considered the dividends approved after valuation date. The overall impact was an increase by RON 7.0 million or RON 0.0009 per share, compared to 31 May 2018 NAV:

No.	Portfolio company	Value in 29 June 2018 NAV (RON million)	Value in 31 May 2018 NAV (RON million)	Impact on Total NAV (RON million)	% 29 June 2018 NAV vs. 31 May 2018 NAV	Impact on NAV per share <sup>1</sup> (RON)
1	Hidroelectrica SA	3,531	3,566	(35)	-1.0%	(0.0047)
2	CN Aeroporturi Bucuresti SA	791	774	17	+2.2%	0.0023
3	Societatea Nationala a Sarii SA*	258	233	25	+10.7%	0.0034
<b>TOTAL</b>		<b>4,580</b>	<b>4,573</b>	<b>7</b>	<b>+0.2%</b>	<b>0.0009</b>

\*does not include the impact of dividend distribution

During the **third quarter of 2018**, the NAV per share had an upward trend compared with the end of the previous quarter, mainly due to the positive share price evolution of OMV Petrom SA (impact on the Fund's NAV of RON 237.9 million or RON 0.0323 per share) and due to the ninth buy-back programme carried by the Fund during this period.

<sup>1</sup> Computed based on the number of shares used in NAV per share computation as at 31 May 2018

During the **last quarter of 2018** the NAV per share increased by 4.1%, mainly due to the update of the unlisted portfolio companies' valuation and due to the positive impact of the ninth buy-back programme carried out by the Fund during the quarter. The increase was partially offset by the decrease by 14.1% of the listed holdings in the Fund's portfolio compared to the end of the third quarter (total impact RON 380.0 million) following the new fiscal measures adopted by the Government in December 2018 (for more details please see section *Energy sector updates*).

Valuation updates in accordance with the International Valuation Standards were prepared for 16 unlisted holdings with the assistance of KPMG Advisory and valuation reports were prepared for the first time for 3 unlisted holdings with the assistance of Darian DRS, representing 100% of the unlisted portfolio. 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.

### Differences between the IFRS financial statements and NAV reporting at 31 December 2018

On 28 December 2018 the Government approved a fiscal package through EGO 114/2018 targeting, among others, the electricity and gas sectors. EGO 114/2018 was approved on very short notice, without public consultation 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. For more details regarding the regulatory requirements affecting the companies in the energy sector, please see section *Energy sector updates*.

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

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 following this 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 this value 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 overall impact of the valuation adjustments on the unlisted holdings of the Fund is detailed in the table below:

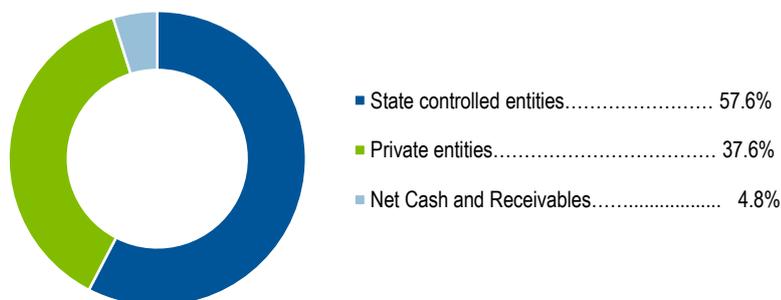
No.	Portfolio company name	Value in	Value in	Value in	Impact on total		Impact on total NAV	
		31 Jan 2019 NAV	31 Dec 2018 NAV	29 Nov 2018 NAV	NAV 31 Jan 2019 vs. 31 Dec 2018	%	31 Dec 2018 vs. 29 Nov 2018	%
		(RON million)	(RON million)	(RON million)	RON million	%	RON million	%
1	Hidroelectrica SA	3,885.0	4,276.0	3,531.0	(391.0)	-9.1%	745.0	+21.1%
2	CN Aeroporturi Bucuresti SA	861.0	861.0	791.0	-	-	70.0	+8.8%
3	E-Distributie Banat SA	472.0	472.0	545.0	-	-	(73.0)	-13.4%
4	Engie Romania SA	445.0	445.0	472.0	-	-	(27.0)	-5.7%
5	E-Distributie Muntenia SA	389.0	389.0	419.0	-	-	(30.0)	-7.2%
6	E-Distributie Dobrogea SA	288.0	288.0	342.0	-	-	(54.0)	-15.8%
7	Societatea Nationala a Sarii SA	250.0	250.0	258.0	-	-	(8.0)	-3.1%
8	CN Administratia Porturilor Maritime SA	244.0	244.0	230.0	-	-	14.0	+6.1%
9	ENEL Energie Muntenia SA	58.0	58.0	61.0	-	-	(3.0)	-4.9%
10	ENEL Energie SA	44.0	44.0	57.0	-	-	(13.0)	-22.8%
11	Zirom SA	27.1	27.1	26.8	-	-	0.3	+1.1%

No.	Portfolio company name	Value in	Value in	Value in	Impact on total		Impact on total NAV	
		31 Jan 2019 NAV	31 Dec 2018 NAV	29 Nov 2018 NAV	NAV 31 Jan 2019 vs. 31 Dec 2018	%	31 Dec 2018 vs. 29 Nov 2018	%
		(RON million)	(RON million)	(RON million)	RON million	%	RON million	%
12	Aeroportul International Timisoara - Traian Vuia SA	20.0	20.0	22.0	-	-	(2.0)	-9.1%
13	CN Administratia Canalelor Navigabile SA	14.6	14.6	16.0	-	-	(1.4)	-8.8%
14	Posta Romana SA	6.7	6.7	17.3	-	-	(10.6)	-61.3%
15	CN Administratia Porturilor Dunarii Maritime SA	4.0	4.0	2.4	-	-	1.6	+66.7%
16	Plafar SA	2.9	2.9	2.0	-	-	0.9	+45.0%
17	CN Administratia Porturilor Dunarii Fluviale SA	1.7	1.7	3.7	-	-	(2.0)	-54.1%
18	Aeroportul International Mihail Kogalniceanu - Constanta SA	1.5	1.5	2.4	-	-	(0.9)	-37.5%
19	Complexul Energetic Oltenia SA	0.0	-	32.0	-	-	(32.0)	-100.0%
<b>TOTAL</b>		<b>7,014.5</b>	<b>7,405.5</b>	<b>6,830.6</b>	<b>(391.0)</b>		<b>574.9</b>	

### Investment strategy and portfolio analysis

The Fund's investment objective is the maximisation of returns to shareholders and the increase of the net asset value per share via investments mainly in Romanian equities and equity-linked securities. The equity exposure amounted to 95.2% of the Fund's NAV as at 31 December 2018. As at that date, the portfolio was composed of holdings in 35 companies (8 listed and 27 unlisted), a combination of privately held and state-controlled entities.

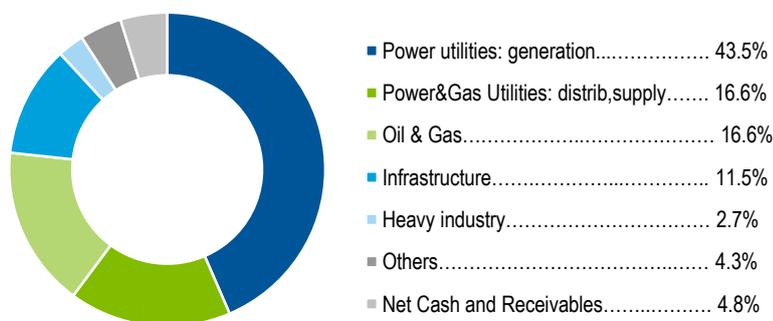
#### Portfolio Structure – by Controlling Ownership



Source: Fondul Proprietatea, data as at 31 December 2018, % in total NAV

- Net cash and receivables includes bank deposits, current bank accounts, short-term treasury bills and bonds, dividend receivables, as well as other receivables and assets, net of all liabilities (including liabilities to shareholders related to the returns of capital and dividend distribution) and provisions.

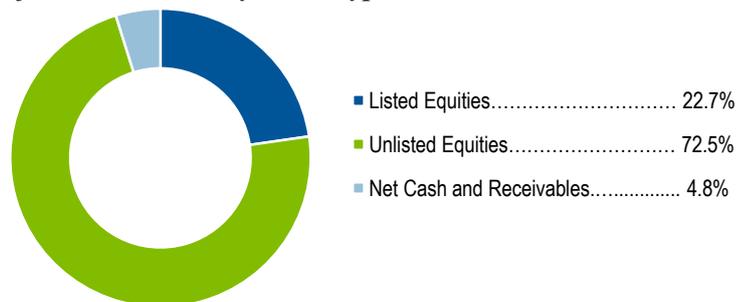
#### Portfolio Structure – by Sector



Source: Fondul Proprietatea, data as at 31 December 2018, % in total NAV

- The portfolio remains heavily weighted in power, oil and gas sectors (approx. 76.7% of the NAV), through a number of listed and unlisted Romanian companies

**Portfolio Structure – by Asset Type<sup>1</sup>**



Source: Fondul Proprietatea, data as at 31 December 2018, % in total NAV

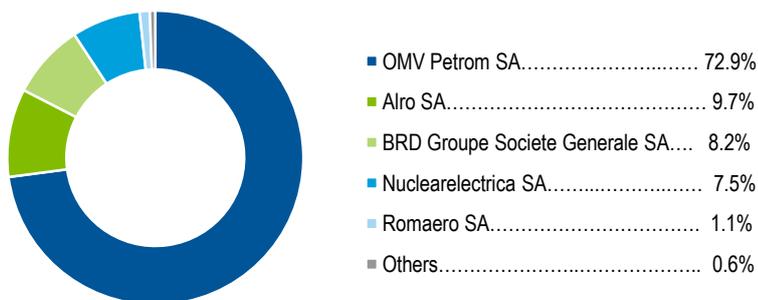
**Portfolio Structure – Unlisted holdings**



- The largest unlisted holding is Hidroelectrica SA (41.8% of the NAV)

Source: Fondul Proprietatea, data as at 31 December 2018; the chart reflects the company NAV value as a % in total NAV value of unlisted holdings

**Portfolio Structure – Listed holdings**



- The largest listed holding is OMV Petrom SA (16.6% of the NAV)

Source: Fondul Proprietatea, data as at 31 December 2018; the chart reflects the company NAV value as a % in total NAV value of listed holdings

<sup>1</sup>Note: the value of listed shares compared to total assets of the Fund based on NAV values is 22.7% as at 31 December 2018

**Top 10 equity investments**

No	Name	Fund's stake (%)	Value as at 31 December 2018 <sup>1</sup> (RON million)	% of NAV as at 31 December 2018 <sup>1</sup>
1	Hidroelectrica SA	19.94%	4,276.0	41.8%
2	OMV Petrom SA	10.00%	1,693.4	16.6%
3	CN Aeroporturi Bucuresti SA	20.00%	861.0	8.4%
4	E-Distributie Banat SA	24.13%	472.0	4.6%
5	Engie Romania SA	12.00%	445.0	4.4%
6	E-Distributie Muntenia SA	12.00%	389.0	3.8%
7	E-Distributie Dobrogea SA	24.09%	288.0	2.8%
8	Societatea Nationala a Sarii SA	49.00%	250.0	2.4%
9	CN Administratia Porturilor Maritime SA	20.00%	244.0	2.4%
10	Alro SA	10.21%	224.5	2.2%
<b>Top 10 equity holdings</b>			<b>9,142.9</b>	<b>89.4%</b>
<b>Total equity holdings</b>			<b>9,728.4</b>	<b>95.2%</b>
<b>Net cash and receivables</b>			<b>491.0</b>	<b>4.8%</b>
<b>Total NAV</b>			<b>10,219.4</b>	<b>100.0%</b>

Source: Fondul Proprietatea, based on NAV reports submitted to FSA (31 December 2018 NAV report)

<sup>1</sup>Rounded to one decimal

**Key portfolio developments during the period****Dividends**

During 2018 15 companies in the Fund's portfolio declared dividends for the 2017 financial year. In addition, 3 companies declared special dividends in December 2018. The total amount of gross dividend income recorded by the Fund in 2018 is RON 776.2 million and the most significant amounts relate to Hidroelectrica SA and OMV Petrom SA.

For more details regarding dividend income, please refer to section *Financial Statements Analysis*.

**Participation in share capital increases**

In February 2018 the Fund subscribed to the share capital increase of Hidroelectrica SA with a cash contribution of RON 148,120, which became effective on 21 May 2018, at the registration with the Romanian Trade Register.

In May 2018 the Fund subscribed to the share capital increase of Zirom SA with a cash contribution of RON 2,350,000, which became effective on 22 May 2018, at the registration with the Romanian Trade Register.

**Disposals**

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.

**Energy sector updates*****New regulatory framework for the electricity distribution companies***

On 18 September 2018 ANRE published Order 169 regarding the methodology for energy distribution tariff calculation, which sets the new regulatory framework for the distribution companies operating in the electricity sector. One of the most important changes brought by the regulation is the decrease of the rate of return from 7.7% to 5.66%, with a significant impact on the activity and profitability of the distribution companies.

	2014 – 2018 (3 <sup>rd</sup> Regulatory Period)	2019 – 2023 (4 <sup>th</sup> Regulatory Period)
<b>Regulated rate of return</b>	7.70%	5.66% 6.66% for new investments
<b>Regulated Asset Base</b>	Initial RAB at the privatisation + Follow on investments after privatisation + Scheduled estimated in the new regulatory period	Initial RAB at the privatisation – Undepreciated value of the existing assets at the privatisation which were sold/ idled + Follow on investments after privatisation + Scheduled estimated in the new regulatory period
<b>Regulated revenues and controllable costs</b>	Reference controllable costs at the beginning of the regulated period are based on the actual costs in the last year of the previous regulated period after deducting half of the average efficiency gains from the previous regulated period	In determining the regulated revenues, the following type of costs are no longer recognised <sup>1</sup> : <ul style="list-style-type: none"> <li>• salary expenses for management/ board of directors representing bonuses;</li> <li>• compensatory salary expenses with management and board members (expenses related to laying offs resulted from a restructuring program are still recognised)</li> <li>• financial costs</li> </ul> Reference controllable costs at the beginning of the regulated period are based on a comparative analysis between the costs of distribution companies in the previous regulated period and adjusted for each individual company (elements considered: length of the network, number of users etc.)
<b>Efficiency gains (controllable costs)</b>	<ul style="list-style-type: none"> <li>• Efficiency factor is applied to all controllable costs</li> <li>• Efficiency factor is at least 1.5%</li> <li>• 50% of efficiency gains above the target stay with consumers</li> </ul>	<ul style="list-style-type: none"> <li>• Efficiency factor is applied to all controllable costs, except salary costs</li> <li>• Efficiency factor is maximum 2%</li> <li>• 50% of efficiency gains above the target stay with consumers</li> </ul>
<b>Technological losses (non-controllable costs)</b>	<ul style="list-style-type: none"> <li>• Set by ANRE</li> <li>• 50% of efficiency gains on low voltage grid and 25% for the high and medium voltage grid above the target stay with the company if the actual technological losses are lower than approved losses</li> <li>• Acquisition cost of the energy used to cover the losses is estimated using the acquisition cost</li> </ul>	<ul style="list-style-type: none"> <li>• Set by ANRE based on the current grid losses for each distributor (different targets if the losses are currently &gt; 15%, between 14-15%, between 13-14%)</li> <li>• 50% of efficiency gains on low voltage grid and 25% for the high and medium voltage grid above the target stays with the company if the actual technological losses are lower than approved losses</li> <li>• Acquisition cost of the energy used to cover the losses is estimated using the same reference price for all distributors = an average of the acquisition cost for the distributors and the transporter for the previous 12 months, after eliminating the 2 extreme values</li> </ul>

Source: Fondul Proprietatea, based on ANRE Order 72/ 2 October 2013, ANRE Order 168/ 17 September 2018, ANRE Order 169/ 18 September 2018, and ANRE press release dated 17 September 2018

### ***New Offshore Law***

Law 256/2018 (new Offshore Law) entered into force on 17 November 2018; the main provisions of the law are:

1. Maximum limit of deducted investments in the upstream segment cannot exceed 30% of the total tax from additional offshore revenues
2. Minimum 50% of the gas must be sold on the domestic gas market
3. Minimum 25% of the total annual average number of employees used in the offshore projects must be Romanian citizens with fiscal residency in Romania
4. Value of windfall taxes as detailed in the table below:

Interval	Windfall tax
≤ RON 85 per MWh	30%
> RON 85 per MWh and ≤ RON 100 per MWh	15%
> RON 100 per MWh and ≤ RON 115 per MWh	30%
> RON 115 per MWh and ≤ RON 130 per MWh	35%
> RON 130 per MWh and ≤ RON 145 per MWh	40%

<sup>1</sup> The list is not exhaustive

Interval	Windfall tax
> RON 145 per MWh and ≤ RON 160 per MWh	50%
> RON 160 per MWh and ≤ RON 175 per MWh	55%
> RON 175 per MWh and ≤ RON 190 per MWh	60%
> RON 190 per MWh	70%

The fiscal regime remains unchanged for the entire duration of the projects.

### ***Gas tariff changes***

At the level of the producers the gas prices for industrial consumers have been fully liberalised since 1 January 2015, while for household consumers have been fully liberalised on 1 April 2017. However, gas prices were capped in December 2018 through EGO 114/2018 – please see next section for more details.

### ***New regulatory requirements in the energy sector***

In 28 December 2018 the Government approved a fiscal package through EGO 114/2018, targeting the electricity, gas, telecom, banking and private pension fund sectors. The main provisions of EGO with an impact on the Fund's portfolio are as follows:

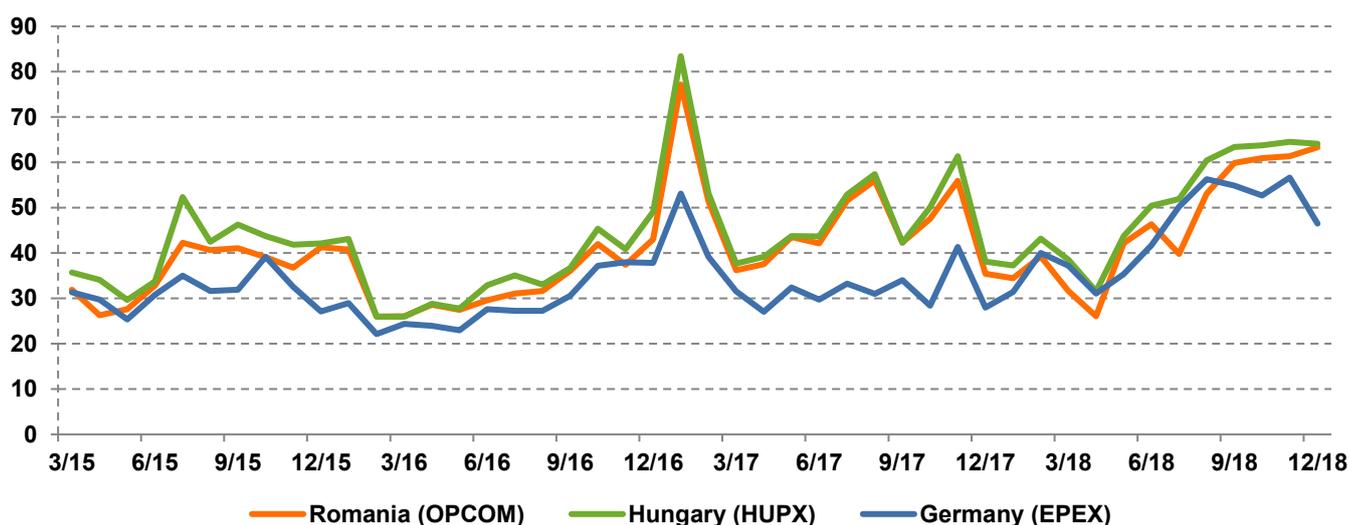
- 2% tax on turnover for companies in the electricity and gas sectors; the draft methodology for the calculation of the tax has already been published on ANRE website for public consultation and the final order is expected to be approved by the end of February 2019
- capping gas prices at the level of the producers as follows: for households at RON 68 MWh until February 2022 and for industrial consumers at a mix between RON 68 MWh, import price, and storage cost
- capping electricity prices at the level of the producers for households at a price to be set by ANRE
- asset tax on banks: a progressive tax rate linked to the 3-month and 6-month quarterly ROBOR average
- changes to the Pillar II pension funds:
  - option to transfer from Pillar II to Pillar I after at least 5 years of contributions to Pillar II
  - the reduction of the contribution fee from 2.5% to 1%
  - higher capital requirements for the Pillar II Pension fund managers

For the implementation of the above, in February 2019 ANRE issued the following regulations:

- Order 10/ 1 February 2019 regarding 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. The methodology would be applied for the period 1 March 2019 – 28 February 2022.
- Order 11/ 6 February 2019 regarding the methodology for the calculation of regulated electricity prices by suppliers of last resort to final consumers.

According to the new regulatory provisions, the electricity producers operating nuclear or hydro production units would be required to sell up to 65% of their expected output on the regulated market, at prices approved by ANRE based on a cost plus 5% methodology. Also, according to the methodology, the obligation to sell firm quantities of electricity based on regulated contracts would be determined by ANRE in the ascending order of the prices established according to the methodology. For March 2019 - December 2019 period, the 65% limit would not be applied. The companies in the Fund's portfolio that could face the biggest impact from the new regulations are Hidroelectrica SA and Nuclearelectrica SA.

At the date of this report uncertainties regarding the regulatory requirements for the energy companies still exist, mainly driven by the additional decisions ANRE should issue in the following period, regarding the level of regulated prices and quantity of the electricity to be sold through regulated contract by each producer.

**Electricity prices (EUR/ MWh)**

Source: Bloomberg, Hidroelectrica SA

Note: Day Ahead Market – monthly average for base load

**Energy resources (thousand tonnes barrels of oil equivalent)**

	January – December 2018			January - December 2017			% change		
	Total	Production	Import	Total	Production	Import	Total	Production	Import
Net coal	4,809.9	4,258.6	551.3	5,169.6	4,658.9	510.7	-7.0%	-8.6%	7.9%
Crude oil	11,638.0	3,373.0	8,265.0	11,175.9	3,421.7	7,754.2	4.1%	-1.4%	6.6%
Usable natural gas	9,494.0	8,296.2	1,197.8	9,282.0	8,337.7	944.3	2.3%	-0.5%	26.8%
Hydro, nuclear, and import energy	5,294.4	5,042.1	252.3	5,203.8	4,889.5	314.3	1.7%	3.1%	-19.7%
Import oil products	2,905.5	-	2,905.5	2,977.4	-	2,977.4	-2.4%	-	-2.4%
Others	443.3	-	443.3	479.1	-	479.1	-7.5%	-	-7.5%
<b>Total resources</b>	<b>34,585.1</b>	<b>20,969.9</b>	<b>13,615.2</b>	<b>34,287.8</b>	<b>21,307.8</b>	<b>12,980.0</b>	<b>0.9%</b>	<b>-1.6%</b>	<b>4.9%</b>

Source: National Institute of Statistics webpage

**Update on the largest 10 portfolio holdings****Alro SA**

RON million	2016	2017	Budget 2017*	Budget 2018*
Turnover	2,302.8	2,726.3	2,417.2	2,595.8
Operating profit	166.7	438.9	270.2	280.4
Net profit/ (loss)	71.5	391.1	161.1	167.9
Dividends**	67.2	382.0	-	-

Source: Consolidated IFRS financial statements/ Budgeted figures based on company's budgets as approved by shareholders

\*Budgeted figures do not include any change in the fair value of the derivative embedded in the electricity purchase contract concluded with Hidroelectrica SA. Budget refers to Alro SA individual financial statements. The amounts were converted from USD to RON using the RON/ USD National Bank of Romania exchange rate at budget publishing date (i.e. 23 March 2017/22 December 2017)

\*\*do not include the special dividends declared by the company during 2018

March: On a consolidated basis, Alro reported an audited net profit of RON 391.1 million for 2017, as compared to RON 71.5 million in 2016, while consolidated sales advanced by 18.4% y.o.y. to RON 2.73 billion, on the back of a strong LME environment and higher volumes. Sales volumes of primary aluminium products decreased by 3.3% y.o.y. to approximately 122.6 thousand tonnes (vs. 126.7 thousand tonnes in 2016) while sales volumes of processed aluminium products advanced 6.8% y.o.y. to 107.5 thousand tonnes (vs. 100.6 thousand tonnes in 2016).

April: Based on the Board's recommendation, shareholders approved a gross dividend per share of RON 0.53523, out of unconsolidated, distributable net profit.

June: On 26 June the Company announced that its major shareholders, Vimetco NV and Conef SA, intend to proceed with a public offering for up to 383.8 million shares (approximately 53.8% of the share capital of the company) during 2 – 16 July 2018.

July: On 20 July the company announced that the conditions for successfully closing the secondary public offering by Vimetco NV and Conef SA were not met.

August: The company reported consolidated financial results for the first half of 2018. Net profit during the period reached RON 154.2 million, down 17.5% y.o.y. while operating profit decreased by only 7.3% y.o.y. to RON 211.1 million and turnover advanced by 13.5% y.o.y. to RON 1.6 billion. During the first half of 2018 total volume of primary aluminium sales reached 67,000 tonnes, up 8.1% y.o.y. while the volume of processed aluminium sales stood at 56,000 tonnes, similar to the first half of 2017. During the period, the company benefitted from higher benchmark LME aluminium prices (average aluminium LME prices of USD 2,209 per tonne over the first half of 2018, up 17.5% y.o.y.), but was negatively affected by the depreciation of the USD against the RON.

November: On a consolidated basis, for the first nine months of 2018 Alro reported a net profit of RON 223.5 million compared to RON 256.8 million during the similar period of the previous year, while consolidated sales advanced by 12.3% y.o.y. to RON 2,296.4 million on the back of higher sales volumes and a supportive LME environment. Sales volumes of primary aluminium products increased over the first nine months of the year by nearly 4.0% y.o.y. to approximately 97.6 thousand tonnes while sales volumes of processed aluminium products decreased by 4.4% y.o.y. to 78.3 thousand tonnes.

December: The company informed the market that its controlling shareholder Vimetco NV together with Conef SA have launched an accelerated private placement offer in Alro SA shares addressed to institutional investors, representing a cumulative percentage of approximately 33.77% of the share capital of the issuer. Following the operation Vimetco NV reduced its holding in Alro SA to 54.19%, while Conef SA no longer holds Alro SA shares. Also, after the private placement, Paval Holding SRL informed the market that its stake in Alro SA reached 23.16%.

The shareholders approved the distribution of a gross dividend of RON 326.6 million, out of which RON 202.9 million as interim dividends for the first nine months of 2018 and RON 123.7 million out of retained earnings from previous years' profits.

#### CN Administratia Porturilor Maritime SA

RON million	2016	2017	H1 2017	H1 2018	Budget 2017	Budget 2018
Operating revenue	314.0	330.5	155.6	160.9	315.0	325.9
Operating profit	54.8	93.8	78.0	85.2	64.0	75.1
Net profit	36.8	79.7	68.0	74.9	50.1	61.9
Dividends	55.0	20.3	-	-	25.1	16.5

Source: Financial statements in accordance with applicable Romanian accounting regulations/ Budgeted figures based on company's budgets as approved by shareholders

April: The shareholders appointed Mr Dan Tivilichi, Ms Gabriela Murgeanu and Mr Daniel Naftali as Board members for a four-year period. Mr. Dan Tivilichi has been General Manager of the company since September 2016, first with an interim mandate and as of October 2017 with a four-year mandate. Ms. Gabriela Murgeanu is a civil servant with the Ministry of Transport with responsibilities related to the naval sector, while Mr. Naftali has been proposed by Fondul Proprietatea.

June: The company reported for 2017 financial year a turnover of RON 302.5 million compared to RON 289.8 million in 2016 and a net profit of RON 79.7 million compared to RON 36.8 million in 2016. Total annual throughput in 2017 was 58.4 million tonnes, slightly down compared to RON 59.4 million tonnes in 2016. The shareholders approved the distribution of a total gross dividend of RON 20.3 million.

August: For the first six months of the year, the company reported a turnover of RON 148.4 million, up 4.3% y.o.y., an operating profit of RON 85.2 million, up 9.2% y.o.y. and a net profit of RON 74.9 million, up 10.1% y.o.y. During the period, the total volume of operated goods advanced by 8.8% y.o.y to nearly 27 million tonnes.

December: The shareholders appointed Ms. Elena Patrascu, Mr. Mircea Burlacu, Ms. Daniela Serban and Mr. Ghiorghe Batrinca as Board members for a mandate expiring in April 2022. Ms. Elena Patrascu is General Secretary with the Ministry of Transport, Ms. Daniela Serban is the Economic Director of the company and hence an executive director, Mr. Mircea Burlacu is a leading member of the National Federation of Port Trade Unions, Mr. Batrinca is lecturer at the Maritime University in Constanta as well as the administrator of a shipping company. The Fund has challenged in court the shareholders' decision for appointing the four Board members due to transparency breaches from the corporate governance legislation. Also, the Fund considers that two appointed candidates are in a potential conflict of interest, considering their current employment and affiliations.

January 2019: On 29 January Ms. Daniela Serban, Economic Director and Board member of the company, took over the duties of General Manager on an interim basis, following a definitive Court ruling, annulling the selection procedure and the subsequent appointment in October 2017 of Mr. Dan Nicolae Tivilichi as General Manager with a four-year mandate.

### CN Aeroporturi Bucuresti SA

RON million	2016	2017	H1 2017*	H1 2018	Budget 2017	Budget 2018
Total revenue	910.3	1,076.5	423.8	464.4	983.2	1,215.3
Operating profit	276.6	393.3	149.0	225.4	225.7	428.3
Net profit	234.5	337.5	122.7	192.4	185.9	368.3
Dividends**	214.8	305.9	-	-	95.9	187.6

Source: Financial statements in accordance with applicable Romanian accounting regulations. Budgeted figures based on company's budgets as approved by shareholders

\*Restated figures

\*\*do not include the special dividends declared by the company during 2018 and 2017

June: In H1 2018 the passenger traffic increased by 7.1% up to 6.34 million passengers, while aircraft movements increased by 4.76% to 57,800. The Board of Directors and the CEO are appointed with interim mandates and the selection process according with EGO 109/2011 was not started yet.

August: The company reported the financial results for H1 2018. The highlights include: operating revenues of RON 458.2 million (+11.7% y.o.y.), operating profit of RON 225.4 million (+51.2% y.o.y.) and net profit of RON 192.4 million (+56.8% y.o.y.). The good financial results were on the back of the increase in passenger number that reached 6.3 million (+ 7.1% y.o.y.).

November: The company reported an increase of 7.57% in the number of passengers transiting the airports in the first nine months of 2018, compared to the same period last year, to 10.5 million passengers.

On 6 November the shareholders approved a share capital increase with the land owned by the state. The total value of the share capital increase is RON 336.5 million, consisting of RON 269.1 million as contribution in-kind with the land and RON 67.3 million as cash to be contributed by Fondul Proprietatea in order to preserve its stake in the company.

December: The shareholders approved the proposal sent by the Ministry of Transportation to distribute RON 150 million as special dividends.

### E-Distributie Banat SA

RON million	2016	2017	Budget 2017	Budget 2018
Operating revenue	557.8	550.5	483.6*	446.7**
Operating profit (EBIT)	107.8	87.4	90.4	74.4
Net profit	93.6	82.8	72.8	66.4
Dividends	37.0	31.9	-	-

Source: Financial statements in accordance with applicable Romanian accounting regulations/ Budgeted figures based on company's budgets as approved by shareholders

\*Revenue from operating activity

\*\*Electrical business revenue

January: Starting 1 January 2018, the regulated electricity distribution tariffs decreased on average by 0.9% (based on ANRE Order no. 113 published on 12 December 2017).

August: The majority shareholder decided to transfer the ownership of the shares from Enel Investment Holding to Enel Spa.

December: The Board membership mandate for Catalin Niculita was extended for a period of 4 years following the proposal coming from Fondul Proprietatea.

### E-Distributie Dobrogea SA

RON million	2016	2017	Budget 2017	Budget 2018
Operating revenue	480.3	475.3	414.1*	401.2**
Operating profit (EBIT)	84.8	56.6	68.4	52.5
Net profit	73.5	49.5	53.8	44.5
Dividends	27.4	17.7	-	-

Source: Financial statements in accordance with applicable Romanian accounting regulations/ Budgeted figures based on company's budgets as approved by shareholders

\*Revenue from operating activity

\*\*Electrical business revenue

January: Starting 1 January 2018, the regulated electricity distribution tariffs increased on average by 2.0% (based on ANRE Order no. 111 published on 12 December 2017).

February: Company appointed two new Board members proposed by SAPE, Valerica Draniceanu and Alexandru Iulian Bocai, following the expiration of the Board member mandates for Elena Voicu and Cornel Bobalca.

August: The majority shareholder decided to transfer the ownership of the shares from Enel Investment Holding to Enel Spa.

December: The Board membership mandate for Calin Metes was extended for a period of 4 years following the proposal coming from Fondul Proprietatea.

### E-Distributie Muntenia SA

RON million	2016	2017	Budget 2017	Budget 2018
Operating revenue	921.7	856.6	848.7*	717.9**
Operating profit (EBIT)	178.5	77.3	185.0	97.7
Net profit	151.7	85.9	156.8	96.6
Dividends	-	-	-	-

Source: Financial statements in accordance with applicable Romanian accounting regulations/ Budgeted figures based on company's budgets as approved by shareholders

\*Revenue from operating activity

\*\*Electrical business revenue

January: Starting 1 January 2018, the regulated electricity distribution tariffs increased on average by 0.8% (based on ANRE Order no. 112 published on 12 December 2017).

August: The majority shareholder decided to transfer the ownership of the shares from Enel Investment Holding to Enel Spa.

December: SAPE decided to nominate Anca Stefiuc as Board member in the company and this was subsequently approved by shareholders.

### Engie Romania SA

RON million	2016	2017	Budget 2017	Budget 2018
Turnover	4,473.1	4,839.9	4,018.7	4,718.3
Operating profit	453.0	422.9	358.9	273.9
Net profit	366.7	343.1	289.4	227.5
Dividends*	110.9	168.6	-	-

Source: Consolidated IFRS financial statements (2016 figures are restated)/ Budgeted figures based on company's budgets as approved by shareholders, on a consolidated basis

\*Dividends are based on the separate financial statements

January: According to ANRE Order 1/2018, with effect from 10 January 2018 the regulated supply tariffs for households were increased on average by approximately 6.1%.

April: According to ANRE Order 60/2018, with effect from 1 April 2018 the regulated supply tariffs for households were increased on average by approximately 9.8%.

May: ANRE issued for public consultation the methodological principles of the regulatory framework for the distribution business for the next 5 years. The proposal is for the regulated rate of the return to be reduced to 5.07% (same as for electricity) from the current level of 8.52%.

September: Popescu Alexandru George and Slate Aurelia Carmen were revoked as Board members following the request of the Ministry of Energy. The new Board members proposed by the Ministry of Energy and subsequently approved by shareholders are Oltean Dorel and Horga Maria Gabriela.

November: Shareholders rejected the listing of the company on the stock exchange following the request from Fondul Proprietatea.

December: ANRE published the methodology for the 5-year regulatory period starting in 2019. The first year for which new regulated tariff will be calculated starts with 1 July 2019. ANRE has not yet published the new

regulated rate of return for gas distribution services, but same for electricity, new investments in the regulated asset base will be remunerated with 1 extra percentage point above the approved RRR<sup>1</sup>.

## Hidroelectrica SA

RON million	2016	2017	H1 2017	H1 2018
Turnover	3,338.0	3,253.6	1,705.1	1,992.2
Operating profit	1,540.3	1,581.8	844.4	1,130.8
Net profit	1,227.7	1,359.6	716.7	961.6
Dividends*	1,035.7	1,134.4	-	-

Source: Financial statements in accordance with applicable Romanian accounting regulations.

\*do not include the special dividends declared by the company during 2018 and 2017

March: Total revenues increased by 9% in Q1 2018 versus Q1 2017 to RON 987 million while net profit increased by 23.1% to RON 485 million vs. RON 394 million for the same period last year.

August: During the first six months of the year, the company had a net profit of RON 961.6 million, 34.2% higher compared with the same period of the previous year. During the first six months of the year, Hidroelectrica distributed 90% from the historic 2017 profit in the form of dividends.

December: The shareholders approved the distribution of a special dividend of RON 687 million out of the company's retained earnings.

January 2019: At the expiration of the interim mandate of the existing Board, the shareholders re-appointed six out of the seven Board members for an interim four-month mandate. On this occasion, the Fund recommended and voted on the Supervisory Board of Hidroelectrica SA for Mr. Daniel Naftali, VP/ Executive Director of FTIML. Mr. Naftali replaced Ms. Oana Truta.

February 2019: The shareholders appointed Ms. Ioana-Andreea Lambru, Mr. Mihai Liviu Mihalache, Mr. Cristian Stoina, Mr. Karoly Borbely, Ms. Carmen Radu, Mr. Catalin Popescu and Mr. Daniel Naftali as Supervisory Board members for a 4-year mandate. Ms Lambru, Mr. Borbely, Mr. Stoina and Mr. Naftali have been Supervisory Board members of Hidroelectrica SA on an interim basis since April 2017, July 2017, May 2018 and January 2019 respectively. Ms. Lambru is currently Deputy General Secretary of the Government, Mr. Mihalache is currently General Director with the Privatisation Department of the Ministry of Energy, Mr. Popescu is lecturer at the Technical University of Civil Engineering of Bucharest and he is working with SAPE, Mr. Borbely currently works as Corporate and Public Affairs Director at Telekom Romania Communications, Ms. Radu is member of the Directorate of the Romanian Counter-Guarantee Fund, while Mr. Stoina currently works as independent advisor having previously worked with the Ministry of Public Finance and the Court of Accounts. Mr. Naftali has been proposed by Fondul Proprietatea.

According to the preliminary, unaudited financial results for 2018, the total turnover of the company increased by 30.7% compared to 2017, to RON 4.25 billion, EBITDA increased by 35.0% over the same period, to RON 3.05 billion, while net profit increased by 13.9% compared to 2017, to RON 1.55 billion. The total energy sold during 2018 was MWh 16.9 million, 22.7% higher compared to previous year.

## OMV Petrom SA

RON million	2017	2018*	Budget 2017	Budget 2018
Sales	19,435.1	22,523.2	13,487.0	13,680.0
Operating profit	3,270.4	5,212.9	1,851.0	2,936.0
Net profit	2,489.3	4,077.8	1,827.0	2,582.0
Dividends**	1,132.9	1,529.4	-	-

Source: Consolidated IFRS financial statements/ Budgeted figures based on company's budgets as approved by shareholders

\*Preliminary results

\*\*Based on separate IFRS financial statements

January: On 9 January 2018 the Supervisory Board of OMV Petrom decided to appoint Christina Verchere as the new President of the Executive Board and CEO. She replaced Mariana Gheorghe for the remaining term of the mandate granted to Mariana Gheorghe which was until 16 April 2019.

<sup>1</sup> ANRE Orders 217 and 219 issued on 19 December 2018

February: The Executive Board made an initial proposal regarding gross dividend distribution for the 2017 financial year of RON 0.02 per share.

March: Mr. Johann Pleininger has notified the waiver of his mandate as member of the Supervisory Board of OMV Petrom, effective starting 26 April 2018.

April: Lacramioara Diaconu-Pintea waived her mandate as Executive Board Member responsible for Downstream Gas of OMV Petrom SA. Her waiver was to become effective on the date when her successor, Franck Neel, takes office, but in any event on 1 August 2018, at the latest.

Starting with 17 April 2018, the Supervisory Board of OMV Petrom SA appointed Alina-Gabriela Popa as the new CFO, following the finalisation of the mandate as designate CFO of Stefan Waldner. The appointment will be effective starting 16 April 2019.

May: The company reported the financial results for Q1 2018. The highlights include: sales increase by 4,8% compared to Q1 2017 to RON 4,874.8 million, operating profit increased by 35.3% compared to Q1 2017 to RON 1,080.0 million and net profit increased by 38.2% compared with Q1 2017, to RON 854.1 million. The increase of Q1 2018 operating result was mainly due to higher sales revenue and cost optimisation.

June: Mr Radu-Sorin Caprau was appointed as the new Executive Board Member responsible for Downstream Oil Activity, replacing Mr Neil Anthony Morgan who has communicated his resignation on 30 May. The appointment became effective on 1 October 2018.

July: The company reported the financial results for H1 2018. The highlights include: sales increased by 6.4% compared to H1 2017 to RON 9,850.7 million, operating profit increase by 12.9% compared to H1 2017 to RON 1,781.3 million and net profit increase by 6.4%. The increase of sales was generated by higher crude oil and natural gas prices and higher electricity volumes sold, which compensated for the lower quantities of petroleum products and natural gas sold and lower selling prices for electricity.

October: The company reported the financial results for the first nine months of 2018. The highlights include: sales increased by 12.7% compared to the same period of 2017 to RON 16,110.6 million, operating profit increase by 41.3% compared to the same period of 2017 to RON 3,462.1 million and net profit increase by 44.3%. The increase in sales was generated by higher prices across all petroleum products offered by the company and higher electricity demand.

November: The company announced the discovery of a new gas deposit in Romania, that started production with more than 190,000 m<sup>3</sup>/d (approx. 1,100 boe/d).

February 2019: The company published the 2018 preliminary results. The highlights include: the company benefited from increased demand for electricity and fuels and from higher commodity prices. Consolidated sales increased 25% in Q4 2018 compared to Q4 2017, partially offset by lower sales volumes of natural gas. For the entire 2018, sales increased by 15.9% y.o.y, while operating results of the group improved 59.4% y.o.y to RON 5.2 billion from RON 3.3 billion in 2017. In Q4 2018 downstream oil represented 72% of the consolidated sales, while downstream gas accounted for 26% and upstream for 2% (upstream is largely sold intra group). Net income attributable to stockholders was RON 1.4 billion in Q4 2018 compared to RON 642 million in Q4 2017. For the entire 2018, net profit stood at RON 4.1 billion compared to RON 2.5 billion. in 2017. Company proposed a dividend of RON 0.027 per share, up 35% y.o.y which represents a 38% pay-out ratio. The regulatory instability led management to revisit downwards their growth investment plans and daily average production is expected to decline by approximately 5%. On Black Sea, the company announced that current legislative environment does not provide the necessary prerequisites for a multi-billion investment decision, but they will maintain the dialogue open with the authorities.

### Societatea Nationala a Sarii SA (Salrom)

RON million	2016	2017	Budget 2017	Budget 2018
Operating revenue	315.0	388.8	338.4	373.5
Operating profit	43.3	101.6	57.5	53.2
Net profit	30.1	86.4	48.2	42.3
Dividends	28.1	86.4	48.2	42.3

Source: Financial statements in accordance with applicable Romanian accounting regulations/ Budgeted figures based on company's budgets as approved by shareholders

July: In the first half of 2018 the company recorded an increase in turnover of 8% compared to the same period of the previous year, up to RON 186.1 million, while the total revenues increase up to RON 197.2 million.

November: The General Manager resigned starting with 8 November and a new interim General Manager was appointed for a four-month mandate. Mr. Constantin Jujan, the new interim General Manager, was a non-executive Board member selected according with Law 111/2016 in January 2018.

The results for the first nine months of 2018 show operating revenues of RON 279.3 million, operating profit of RON 70.0 million and a net profit of 61.9 million. The profitability remained strong compared with last year, when the company recorded an all-time high net profit.

### **Bankruptcies, insolvencies and reorganisations**

The following companies from the Fund's portfolio are under bankruptcy, insolvency or reorganisation procedures:

- BAT Service SA (sole registration code 16086637) is a company in bankruptcy according to Buzau Court decision related to the file 4339/114/2009;
- Gerovital Cosmetics SA (sole registration code 334493) is a company under bankruptcy procedure starting with 6 January 2010, according to the decision issued by the Bucharest Court related to the file 22491/3/2007;
- Romplumb SA (sole registration code 2206334) is a company under bankruptcy procedure starting with 15 September 2017, according to the decision issued by the Maramures Court related to the file 729/100/2012;
- Simtex SA (sole registration code 324490) is a company under judicial reorganisation procedure starting with 10 December 2008, according to the decision issued by the Bucharest Court related to the file 5768/3/2008;
- Salubriserv SA (sole registration code 7774360) is a company in judicial reorganisation procedure according to the decision issued by the Mures Court related to the file 108/1371/2015 on 22 December 2016;
- World Trade Center Bucharest SA (sole registration code 364354) is a company under insolvency procedure starting with 8 June 2010, according to the decision issued by the Bucharest Court related to the file 45619/3/2011.

The holdings in these companies are reflected at zero in the NAV reporting.

Forsev SA (sole registration code 1605710) is a company under insolvency procedure starting with 23 December 2015, according to the decision issued by the Mehedinti Court related to the file 7883/101/2015. Forsev SA is not reflected as a portfolio company - the Fund has recorded a receivable for the uncollected value of the shares in Forsev SA according to the provisions of the legislation in force, for which an impairment adjustment was recorded, following the delisting of the company after RASDAQ market was closed.

## Risk Management

### **Financial risk management**

The Fund's investing activities expose it to various types of risks that are associated with the financial instruments and with the markets in which it invests. The most important financial risks the Fund is exposed to are: market risk, credit risk and liquidity risk. The management monitors the potential adverse effects on the financial performance of the Fund associated with these risk factors. Starting 29 September 2010, the Fund Management implemented financial risk management procedures consistent with those applied globally by Franklin Templeton Investments.

#### ***i) Market risk***

Market risk is the risk that changes in market prices and rates, such as equity prices, interest rates and foreign exchange rates will affect the Fund's income or the value of its holdings. The objective of market risk management is to manage and control market risk exposures within acceptable levels, while optimising return.

#### ***Equity price risk***

Equity price risk is the primary risk impacting the Fund and refers to the risk that the value of an equity instrument fluctuates as a result of changes in market prices, whether caused by factors specific to the issuer or factors affecting all instruments traded in the market. Diversification across securities and industries is the primary technique for mitigating equity price risk. The companies in which the Fund holds equity instruments operate in different industries, however the Fund has concentrated exposures to the "Oil and gas", "Power and gas utilities: distribution and supply" and "Power utilities: generation" sectors.

#### ***Interest rate risk***

Most of the Fund's assets are non-interest bearing. The interest bearing financial assets (deposits and government securities) generally have short-term maturities: deposits generally up to 3 months, treasury bills and government bonds up to 12 months. As a result, the Fund has a limited exposure to variations in interest rates.

*Foreign currency risk*

Fund's exposure to currency risk is insignificant. The Fund held current accounts, receivables and payables denominated in foreign currencies (EUR, USD and GBP), but the balances were immaterial during the reporting period. During 2018 the Fund did not hold any equity investment denominated in other currency than RON.

**ii) Credit risk**

Credit risk is the risk of financial loss to the Fund if counterparties to financial instruments fail to meet their contractual obligations, and arises principally from cash and deposits with banks, treasury bills, government bonds and other receivables.

For government securities held, the credit risk is assessed as low to moderate, given that the issuer is the Romanian State through the Ministry of Public Finance.

Cash held by the Fund that is not invested in portfolio companies or government securities may be placed in short-term bank deposits. The Sole Director implemented a formal policy regarding bank counterparty risks and limits. The Fund only establishes new deposits with financial institutions where the institution or the institution's corporate parent has a credit rating investment grade (BBB- or better). The counterparty credit risk is also diversified by allocating the cash and cash equivalents across several banks. The selection of financial institutions as deposit takers was made and the exposure limits were decided upon based on their credit ratings.

**iii) Liquidity risk**

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure that it has sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. As a closed end investment fund, liquidity risk attributable to the Fund is less significant than for an open-end fund.

The Fund's equity investments include unlisted instruments issued by companies domiciled in Romania, which are not traded in a regulated market and generally may be considered illiquid. Liquidity can vary over time and from market to market and some investments may take longer to sell. As a result, the Fund may not be able to sell certain investments within the time constraints imposed by its own liquidity requirements, or to respond to specific events such as deterioration in the credit worthiness of a particular issuer.

Also, not all shares listed on BVB are considered liquid due to insufficient volumes of transactions. The Fund prudently manages liquidity risk by maintaining sufficient liquid assets to finance current liabilities. FTIML reviews liquidity at the time of making each investment decision and monitors the evolving liquidity profile of the portfolio regularly.

**iv) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Fund's processes, service providers, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all the Fund's operations. The Fund's objective in managing operational risk is to maintain a proper balance between limitation of financial losses and damage to the Fund's reputation with the overall cost effectiveness, avoiding control procedures that restrict initiative and creativity.

**v) Operating environment**

The Fund's performance is highly correlated to the performance of portfolio companies and their respective industries and markets. The Fund has significant exposure to companies in the oil, gas and electricity sectors and as such the Fund's performance and liquidity will be correlated to the performance of those industries.

While uncertainty still exists within the European political environment regarding the direction of fiscal policies, responding central bank action and the final outcome of Brexit, equity markets will be exposed to continued volatility especially with regards to countries with strong ties to Europe.

Recently introduced fiscal changes may lead to a greater level of volatility in the Romanian market. Commodity markets may as well experience prolonged volatility given the uncertainty regarding global trade relationships and increasing protectionism.

Both political uncertainty and fluctuation in commodity prices, particularly in the energy sector, can have an impact on the Romanian economy and consequently on the Fund's portfolio companies.

**vi) Risks arising from potential changes in the legislation governing the Fund**

The existence, operation and the initial structure of the Fund's portfolio are regulated by primary legislation, as well as by secondary legislation such as laws enacted by Parliament, government ordinances or decisions and FSA regulations. Hence, it may not be ruled out that the current legal framework might change so as to directly affect the Fund and its shareholders.

This risk is sustained by the legislative history of the past few years that reveals a series of laws which have changed also the Fund's portfolio composition. Such legal changes would have to be carried out in compliance with the constitutional principles regulating the guarantee of the private property.

Notwithstanding the general principle described above, the numerous instances where the relevant institutional structures have ruled on the unconstitutionality of certain laws, prove that the risk of legislative changes which may adversely affect the Fund and which may be passed in breach of the Constitution may not be ruled out.

**vii) Other risks and uncertainties**

- *Corporate governance legislation* – there is a risk of delays and omissions in the implementation of the corporate governance legislation for state owned companies (EGO 109/2011), in the context of the current attempts from the Parliamentary majority to cut down the already fragile corporate governance legislation. The proposed changes are, in our opinion, a significant backward step, while the risks of corruption and value destruction in these companies are expected to grow significantly.
- *Risks related to poor performance of poorly managed companies in the Fund's portfolio* - the Fund owns significant holdings in companies that are controlled by Romanian State. Past experience indicates that the management of these companies, often replaced after government changes, is politically appointed as opposed to being named on the basis of professional skills, and it is often the case that their experience in the industry in which the company operates is severely limited, if not, non-existent.

**Internal control and risk management**

FTIS and FTIML have implemented internal policies and procedures to ensure that timely and accurate disclosure regarding the Fund is made on all material compliance matters, including the investment restriction breaches, NAV, errors, financial position, performance, ownership and governance of the Fund. In addition, strict internal rules, designed to protect the Fund's interests, have been established in the areas of financial reporting, internal control and risk management.

FTIS and FTIML have established Compliance departments responsible for managing the compliance risk of the AIFM, the Investment Manager and of the Fund with the applicable legislation as well as with the internal policies and procedures. The local Compliance Officer is part of Global Compliance team and member of Franklin Templeton International Compliance Team and reports directly to the Luxembourg Compliance Manager – Global Compliance.

The Compliance department is responsible for providing regulatory guidance, advice and compliance training to operational departments, assisting them in managing the reputational risk in relation to legal and regulatory requirements and codes of conduct and performing second level compliance controls.

The Fund, FTIS and FTIML are covered by relevant policies, procedures and global good standing practices already implemented within the Franklin Templeton Investment group as required by regulatory requirements.

FTIS has implemented a specific Risk Management Policy applicable to the Fund. The purpose of this policy document is to outline the main business processes in place and how they are applied for the Fund and to establish an effective risk framework which observes regulatory requirements, and thereby enhances the governance structure throughout the business.

Franklin Templeton oversees the key risks based on the Compliance Monitoring Plan. The risk assessment is a critical element of compliance oversight and monitoring program. The compliance monitoring programme is updated annually with the issues reported monthly by the executive management. The high-risk areas are monitored at least annually to reflect the results of the final risk assessment for each year.

In respect of the portfolio monitoring activity, Franklin Templeton Investment Management Limited United Kingdom has implemented procedures and controls which are designed to ensure that all assets are managed prudently and in accordance with client mandates. In addition, Franklin Templeton has a dedicated Investment Compliance team of specialists who are responsible for the rigorous day-to-day monitoring of all client accounts, including Fondul Proprietatea, against the agreed investment guidelines and constraints.

The front office trade management system has embedded compliance functionality which enables investment restrictions, regulatory and internal requirements to be included within the system. All trade orders (with the exception of foreign exchange trades and certain debt and derivative security trades) are automatically checked against the relevant investment restrictions in the system prior to trading.

Post trade compliance checks are automatically run overnight for all portfolios against the investment restrictions included within the trade management system. Any exceptions are investigated and cleared by Franklin Templeton Investment Compliance team. Investment restrictions that cannot be automated are reviewed periodically.

All active and passive breaches are reported to the relevant investment managers and operating departments. Corrective action is taken as necessary to address and resolve any issues. Trading errors are monitored by the Global Compliance department of Franklin Templeton, which produces monthly reports providing details on significant compliance matters and initiatives, updates on monitoring activities and current client complaints and breaches. These reports are circulated to the relevant senior management.

The European and Middle East Risk Committee of Franklin Templeton provides the oversight framework for risk management processes and is made up of senior management from the business areas and key risk and control functions. Meeting quarterly, it reviews risk reports and input from business management and maintains a detailed register of risk items and resolutions.

The Board of Directors of FTIML United Kingdom and the Board of FTIS provide oversight, being aware of the risk management practices and their deployment within the firm, staying apprised of significant risks and management responses.

Franklin Templeton's approach is to use a dedicated team of risk management specialists who are independent of the portfolio managers and provide robust risk and performance analytics and unbiased perspective on the risks and exposures in the portfolios.

### **Risk management systems**

The current risk profile of the Fund, including the risks the Fund is or may be exposed to, is described above in the *Financial risk management* section.

The AIFM has established a permanent risk management function to ensure that effective risk management policies and procedures are in place and to monitor the risks and compliance with risk limits. The AIFM has a risk management process document filed with the regulator of the AIFM and risk management policies which cover the risks associated with the Fund and the adequacy and effectiveness of this framework is reviewed and approved at least annually. Regular reporting is prepared and reviewed by the AIFM Senior Management.

For each relevant risk area, risk limits are set by the AIFM which take into account the objectives, strategy and risk profile of the Fund. These limits are monitored regularly as required by the nature of the risk area, and the sensitivity of the portfolio to key risks is undertaken periodically as appropriate to ascertain the impact of changes in key variables to the Fund.

An important part of the Fund's assets consists of unlisted securities. The portfolio also has a large exposure to the Oil and Gas and Energy sector. The principal risks in relation to the Fund are therefore market risk (including security price risk, interest risk and sector concentration risk) credit risk, and liquidity risk. Further details in relation to the nature and extent of these risks are described in more detail above in the *Financial risk management* section and in the IFRS financial statements of the Fund, *Annex 1* to this report.

Diversification and concentration limits are set for market risk and are monitored daily.

Amongst other measures considered regularly, the AIFM is assessing and monitoring market risk through relative Value at Risk (VaR) calculated using the Monte Carlo approach. VaR is a statistical risk measure that estimates the potential portfolio loss from adverse market moves in an ordinary market environment. VaR analysis reflects the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR can be defined as the predicted loss a portfolio can experience at a specified confidence level (e.g. 99%) over a given period of time (e.g. 20 days).

The VaR calculations are based on a confidence level of 99% with a holding period of not greater than 1 month (20 days) and a historical observation period of not less than 1 year (250 days). A 99% 1-month VaR means that the expectation is that 99% of the time over a 1-month period the Fund will lose less than this number in percentage terms. Therefore, higher VaR numbers indicate higher risk.

The AIFM uses the relative VaR methodology and calculates this figure for the portion of the portfolio that has observable prices in a regulated market (securities listed on the stock exchange). Relative VaR is simply the absolute VaR of the portfolio divided by the absolute VaR of the benchmark. The benchmark used is the one that is most representative of the Fund's strategy and likely risk exposures.

It is noted that the use of this VaR methodology, as any other statistical risk measure, has limitations. There is some probability that the loss could be greater than the VaR amounts and therefore the AIFM can neither guarantee that losses will not exceed the indicated VaR, nor that losses in excess of the VaR amounts will not occur more frequently. Risk statistics are subject to fluctuations and historical figures may not reflect current or future portfolio characteristics.

The AIFM assesses on a regular basis the sensitivity of the Fund's portfolio in relation to a general market drop of the MSCI Romania Index, the MSCI Emerging Markets index and the MSCI Frontier Markets Index.

Fund's equity trading activity is conducted on a Delivery versus Payment basis with approved counterparties only, minimising counterparty exposure. Any counterparty is subject to a review and approval process prior to any trading activity. The risk function of the AIFM prepares and assesses counterparty exposure reports regularly and reviews reporting provided by FTIs Counterparty Credit Committee.

***No risk limits set by the AIFM have been exceeded or were likely to be exceeded during 2018.***

### Liquidity risk

As at 31 December 2018, no assets held by the Fund were subject to special arrangements arising from their illiquid nature. There are no new arrangements for managing the liquidity/ liquidity risk of the Fund.

The Fund's closed-end structure has relatively low liquidity requirements, reducing the impact of potential illiquidity in the portfolio. The risk function of the AIFM performs a regular assessment of the asset liquidity status using liquidity market data from different sources to ensure that the portfolio is sufficiently liquid in normal and exceptional market conditions.

The Fund's shares are not redeemable, and shareholders do not have the right to require their shares to be purchased by the Fund. Accordingly, the general liquidity management policies ensure that the Fund's portfolio is sufficiently liquid to meet the following main obligations:

- the Fund's operating and financing expenses: in practice, these expenses are typically covered by dividends received from the Fund's holdings; and
- the potential need to repay borrowings at short notice, which would require to be met by the sale of liquid assets.

If required, the Fund has access to a borrowing facility which is an additional mitigation factor for liquidity risk. On 29 June 2018 the Fund has extended its existing borrowing facility with BRD – Groupe Societe Generale for a period of two years, until 29 June 2020 for a maximum amount of RON 400 million.

## Key Financial Highlights

### Summary of liquid assets

RON million	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017
Current accounts*	19.6	23.3	62.7	17.4	19.2
Bank deposits	187.1	213.2	68.7	292.4	1,276.6
Treasury bills and government bonds	181.2	147.3	36.4	13.3	242.2
Dividend receivables	137.0	12.0	300.2	-	-
Total liabilities**	(34.5)	(37.3)	(103.3)	(44.2)	(35.6)
<b>Liquid assets less liabilities</b>	<b>490.4</b>	<b>358.5</b>	<b>364.7</b>	<b>278.9</b>	<b>1,502.4</b>
<b>Net Assets Value</b>	<b>10,219.4</b>	<b>9,895.7</b>	<b>9,781.2</b>	<b>9,839.0</b>	<b>10,790.4</b>
<b>% Liquid assets less liabilities in NAV</b>	<b>4.8%</b>	<b>3.6%</b>	<b>3.7%</b>	<b>2.8%</b>	<b>13.9%</b>

\*Current accounts include also the cash blocked for distributions (2016, 2017 and 2018 distribution amounts)

\*\*Total liabilities less provisions

The table above shows the change in the net cash position of the Fund as a percentage of the NAV. For more details regarding the decrease of the liquid assets of the Fund during the year ended 31 December 2018, please see section *Financial Statements Analysis*.

### Total expense ratio

The total expense ratio of the Fund as at 31 December 2018 was 0.73% and excluding transaction related expenses this was 0.72% (2017: 0.92% and excluding transaction related expenses this was 0.84%). The ratio is calculated by dividing the relevant expenses by the average month-end NAV of the year. For the purpose of this calculation, expenses do not include foreign exchange losses, value of equity investments disposed of, impairment adjustments, interest expenses and commitment fees, fair value adjustments, expenses with amortisation and provisions and income tax expenses.

The lower total expense ratio in 2018 is mainly due to the lower level of management and administration fees in 2018 compared to 2017 (please see *Financial Statements Analysis* section for more details regarding the Fund administration fees).

### Income from operating activity

The income from operating activity mainly comprises the gross dividend income, the changes in fair value of financial instruments at fair value through profit or loss, interest income and the net realised gains/ losses from transactions with financial instruments. The changes in fair value of the equity investments of the Fund are recognised in profit or loss.

The income from operating activity is significantly influenced by the changes in the share price of listed portfolio companies, the performance of the portfolio companies and their decisions on dividend distributions, as well as by money market performance.

As at 31 December 2018 the Fund's exposure to Romanian equities accounted for 95.2% of the NAV, the difference of 4.8% being represented by the net cash and receivables.

The BET-XT index, which reflects the performance of the top 25 most traded companies listed on BVB's Regulated Market, including the financial investment companies (SIFs), decreased by 7.6% during 2018 compared to the end of 2017.

BET-BK index is a free float market capitalisation weighted index of the Romanian and foreign stocks listed on BVB's regulated market with the highest free-float market capitalisation adjusted with liquidity factors. BET-BK was designed to be used as a benchmark by asset managers and other institutional investors. The calculation methodology reflects on legal requirements and investment limits applying to investment funds. BET-BK decreased by 11.6% during 2018 compared to the end of 2017.

The significant correction of the two indices at the end of 2018 was mainly caused by the EGO adopted by the Romanian Government in December, targeting the electricity, gas, telecom, banking and private pension fund sectors.

### BET-XT index evolution



Source: Bloomberg

**BET-BK index evolution**

Source: Bloomberg

Further information on the Fund's financial results can be found in the *Financial Statements Analysis* section.

**Capital expenditure**

Capital expenditure comprises the costs of the intangible assets of the Fund - website costs, the value of the licences, the implementation costs and the updates of the Fund's accounting and reporting software, net of the accumulated amortisation.

During 2018 the Fund's investment in intangible assets includes the updates to the Fund's website and to the accounting and reporting software, mainly as a result of the IFRS 9 implementation.

# Market for Securities Issued by the Fund

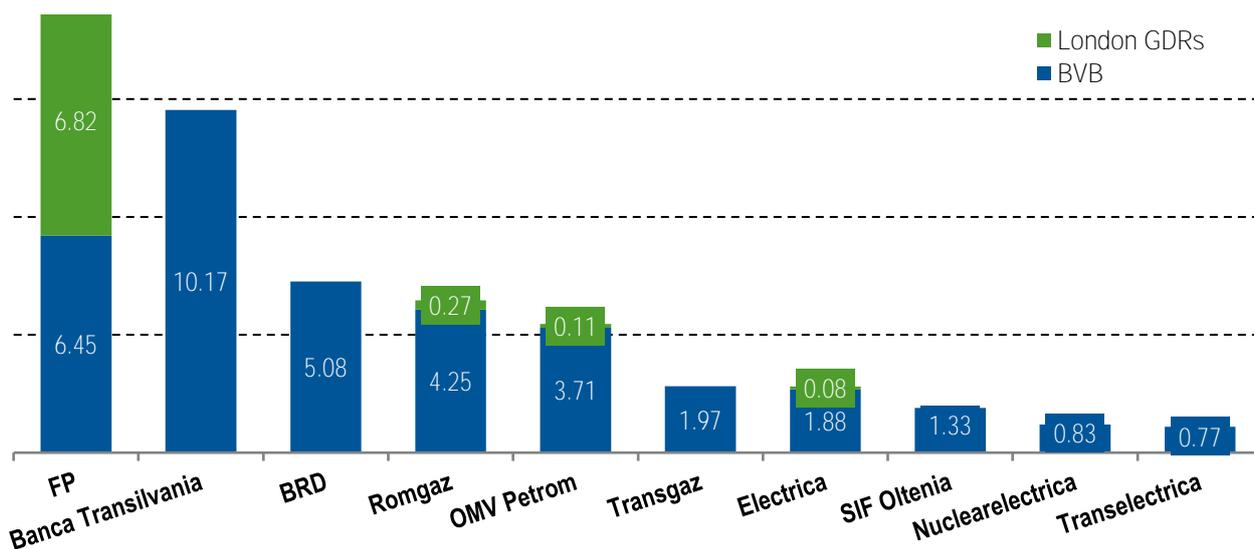
## Trading of the Fund's Shares

Since 25 January 2011, the Fund's shares have been listed in the Tier I category of the regulated market of the BVB under ISIN number ROFPTAACNOR5, and market symbol FP.

The shareholders' register of the Fund is maintained, in accordance with the provisions of the regulations in force, by an independent registrar, Depozitarul Central SA, with the registered office in Bucuresti, 34-36 Carol I Avenue, 3<sup>rd</sup>, 8<sup>th</sup> and 9<sup>th</sup> Floors, 2<sup>nd</sup> District.

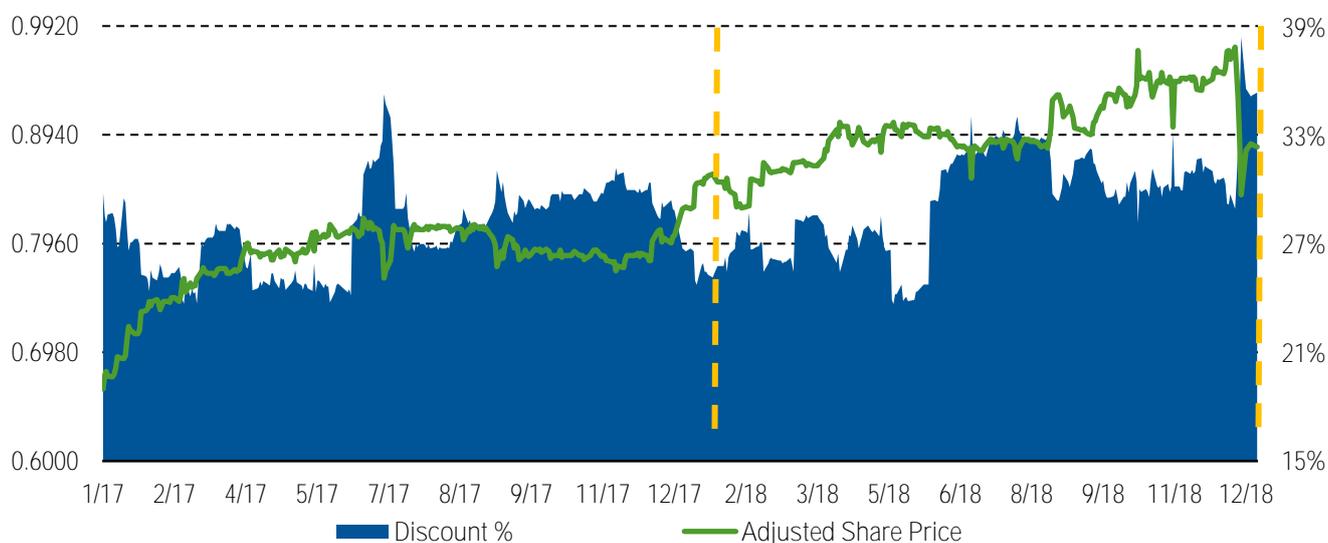
Starting 29 April 2015, the Fund's GDRs are listed on the Specialist Fund Market of the LSE under the market symbol "FP.". The Bank of New York Mellon was appointed by the Fund to act as depositary bank in relation to the GDR facility.

### Average Daily Turnover in 2018 (RON million)



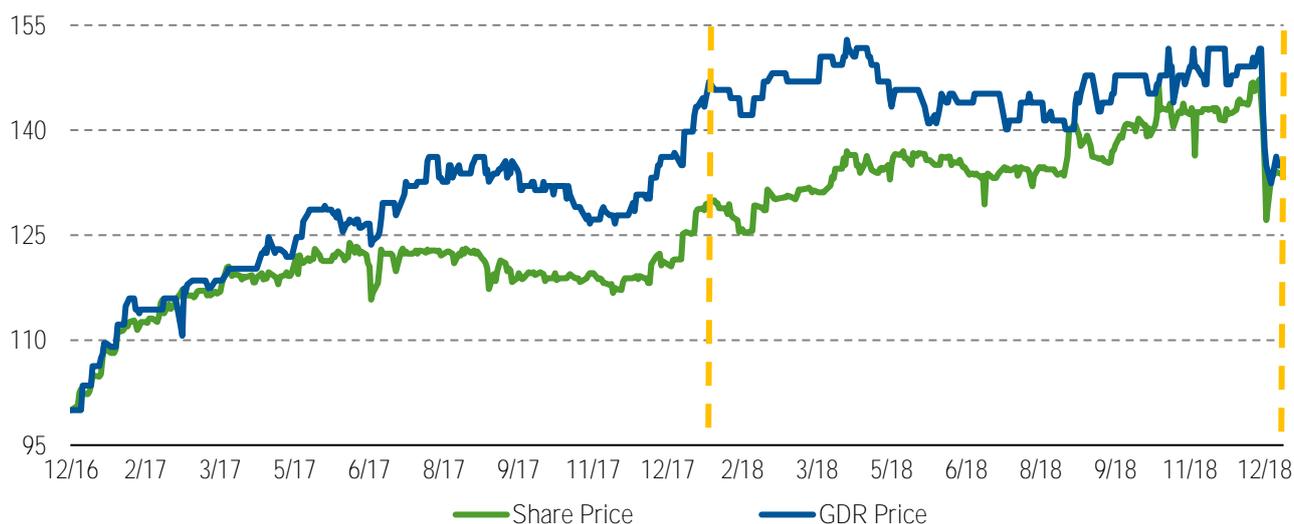
Note: the values include the Fund's tender offer from February 2018, of RON 610.4 million for the 652.8 million shares acquired on BVB and RON 511.1 million for the 547.2 million shares equivalent to the GDRs acquired on LSE, based on the RON/ USD exchange rate at the transaction date, as communicated by the National Bank of Romania  
Source: BVB, Bloomberg

### Fund's Share Price and Discount History (RON per share)



Source: Bloomberg for Adjusted Share Price, Fondul Proprietatea for Discount  
Note: The discount is calculated in accordance with the IPS i.e. the discount between the FP shares closing price on the BVB - REGS for each trading day and the latest published NAV per share at the date of calculation

## FP Share Price vs. FP GDR price (%)



Source: BVB, LSE

## Distribution to Shareholders

### Annual Cash Distribution Policy

FTIS and FTIML remain committed to returning cash to shareholders on an annual basis (subject to applicable law and necessary approvals), according to the Fund's Annual Cash Distribution Policy which is presented below:

*“In the absence of exceptional market conditions or circumstances, and subject to any restrictions under Romanian legal or tax regulations and subject to available funding, the Investment Manager intends to recommend a cash distribution related to each financial year equivalent to: 100% of the sum of the Fund's dividend income from portfolio companies, plus interest on cash balances, less expenses and taxation and less compulsory allocations to reserves according to the regulations in force, in each case for that year, **but not less than RON 0.05 per share.**”*

*The cash distributions would be paid to shareholders in the form of a return of capital (by decreasing the nominal value per share) and / or in the form of dividends, in each case subject to any restrictions under Romanian legal or tax regulations.*

*In the case of dividend distributions (where permitted by applicable law), the distributable amount will be assessed based on audited financial information.*

*In the case of a return of capital, the distributable amount will be based on a best estimate according to the latest management accounts at the time of proposing the resolution.*

*Unpaid and treasury shares will not be entitled to receive cash distributions.”*

The Annual Cash Distribution Policy does not limit additional cash returns and share buy-backs that can be recommended by the Sole Director and by the Investment Manager separately, subject to available funding and depending on the discount level, in accordance with the IPS.

The Annual Cash Distribution Policy is published on the Fund's webpage, in *About the Fund - Corporate Governance* section.

## Distributions history

Key information on the Fund's distributions history is included in the table below:

Description	Paid in	Gross distribution declared (RON)	Gross distribution per share (RON)	Total number of shares*	Status of distribution payment (%)	Deadline for distribution collection by shareholders
2006 Dividend	2007	36,076,046	0.00250	14,240,540,675		30 June 2012 (Status of limitation occurred)
2007 Dividend	2008	89,997,678	0.00660	13,644,179,910		30 June 2012 (Status of limitation occurred)
2008-2009 Dividend (aggregate)	2010	1,124,316,804	0.08160	13,778,392,208		11 October 2013 (Status of limitation occurred)
2010 Dividend	2011	432,729,046	0.03141	13,776,792,208		30 June 2014 (Status of limitation occurred)
2011 Dividend	2012	507,658,517	0.03854	13,172,250,055		30 June 2015 (Status of limitation occurred)
2012 Dividend	2013	536,437,206	0.04089	13,119,031,695		28 June 2016 (Status of limitation occurred)
Distribution - Return of capital	2014	601,325,852	0.05000	12,026,517,031		25 July 2017 (Status of limitation occurred)
Distribution - Return of capital	2015	534,322,868	0.05000	10,686,457,366		29 June 2018 (Status of limitation occurred)
Distribution - Return of capital	2016	516,886,344	0.05000	10,337,726,877	> 99%	27 June 2019
Distribution - Return of capital	March 2017	480,543,496	0.05000	9,610,869,928	>99%	27 March 2020
Distribution - Return of capital	June 2017	443,502,747	0.05000	8,870,054,948	>99%	30 June 2020
2017 Dividend	June 2018	499,976,344	0.0678	7,374,282,346	>98%	29 June 2021

\* Number of shares defined as (1) the number of shares in issue, less (2) any unpaid shares and less (3) any treasury shares acquired via buy-backs (in the form of ordinary shares or GDRs corresponding to ordinary shares) at the registration date decided upon by the GSM approving the dividend distribution or return of capital.

## 2017 Dividend distribution

On 26 April 2018 shareholders approved the distribution of a gross dividend of RON 0.0678 per share, with Ex-date 8 June 2018 and Registration date 11 June 2018. The Fund started the payment of dividends on 29 June 2018 and by 31 December 2018 shareholders had collected 98.1% of the total dividend distribution of RON 500.0 million.

With effect from 2015, for the distributions to shareholders, the payments are performed through Romanian Central Depository, according to the legislation in force, as follows:

- a) for shareholders having a custodian/ brokerage account, directly by the respective custodian bank or broker;
- b) for all other shareholders:
  - (i) by Romanian Central Depository, through BRD – Groupe Societe Generale (acting as Payment Agent), for bank transfers when the supporting documentation required by Romanian Central Depository, along with a payment request, have been submitted
  - (ii) by the Payment Agent for cash payments at any of its agencies, or by bank transfer (when the supporting documentation required by the Payment Agent, along with a payment request, have been submitted to the Payment Agent)

**Also, as an important notice to shareholders, this dividend payment is subject to the general statute of limitation. As such, shareholders may request the payments only within a three-year term starting with the Payment Date, namely by 29 June 2021.**

***Distribution to shareholders with payment dates in 2016 and 2017***

During 2016 and 2017 the Fund performed three cash distributions to shareholders:

***1) 2016 cash distribution***

During the 27 January 2016 GSM, the Fund's shareholders approved the return to shareholders of RON 0.05 per share, following the share capital decrease through the reduction of the nominal value of the Fund's share from RON 0.90 to RON 0.85.

The shareholders registered in the shareholders' registry with Romanian Central Depository on 6 June 2016 have the right to receive RON 0.05 per share, proportionally with their participation in the paid-in share capital of the Fund. The payment started on 27 June 2016. By 31 December 2018, shareholders have collected 99.5% of the total distribution.

The payment of the amounts due to the Fund's shareholders related to the 2016 cash distributions is subject to the general statute of limitation. As such, the shareholders may request these payments only within a three-year term with effect from the payment date, namely until 27 June 2019.

***2) Cash distribution in March 2017***

During the 31 October 2016 GSM, the Fund's shareholders approved the return of RON 0.05 per share, following the share capital decrease through the reduction of the nominal value of the Fund's share from RON 0.85 to RON 0.57 (the share capital decrease incorporate two operations: coverage of accounting losses and distribution to shareholders).

The shareholders registered in the shareholders' registry with Romanian Central Depository as at 7 March 2017 have the right to receive RON 0.05 per share, proportionally with their participation in the paid-in share capital of the Fund. The payment started on 27 March 2017. By 31 December 2018, shareholders have collected 99.3% of the total distribution.

The payment of the amounts due to the Fund's shareholders related to March 2017 cash distribution is subject to the general statute of limitation. As such, the shareholders may request these payments only within a three-year term with effect from the payment date, namely until 27 March 2020.

***3) Cash distribution in June 2017***

During the 28 February 2017 GSM, the Fund's shareholders approved the return of RON 0.05 per share, following the share capital decrease through the reduction of the nominal value of the Fund's share from RON 0.57 to RON 0.52.

The shareholders registered in the shareholders' registry with Romanian Central Depository as at 12 June 2017 have the right to receive RON 0.05 per share, proportionally with their participation in the paid-in share capital of the Fund. The payment started on 30 June 2017. By 31 December 2018, shareholders have collected 99.1% of the total distribution.

The payment of the amounts due to the Fund's shareholders related to June 2017 cash distribution is subject to the general statute of limitation. As such, the shareholders may request these payments only within a three-year term with effect from the payment date, namely until 30 June 2020.

# Corporate Governance of the Fund

## Overview

The Fund has a clear and transparent corporate governance framework concluded in 2011 that was updated and enhanced in the subsequent periods in order to meet new demands and opportunities. The framework is published on the Fund's website and presents clearly, for public reference, the main characteristics of the Fund's corporate governance structure, the functions of the Board of Nominees and of the Fund's Sole Director, as well as their powers and responsibilities.

In order to enhance shareholder confidence, the Fund has implemented a transparent decision-making process, based on clear rules. This contributes to the protection of shareholders' rights, improving the overall performance of the Fund, offering better access to capital and risk mitigation.

### **Compliance with the provisions of the Corporate Governance Code issued by BVB**

The Fund lends great importance to the principles of good corporate governance and, coinciding with its listing at the beginning of 2011, has adhered to the BVB Code of Corporate Governance.

In September 2015 BVB issued a new Corporate Governance Code applicable starting 2016. Following the self-assessment conducted, the AIFM informs the shareholders and investors that the Fund is fully compliant with the provisions of the current Corporate Governance Code of BVB.

For more details please see *Annex 5 Compliance with the corporate governance requirements*.

### **Compliance with the corporate governance principles by the entities authorised, regulated and supervised by the FSA**

In March 2016 the FSA issued Regulation 2/2016 on the application of the principles of corporate governance by the entities authorised, regulated and supervised by the FSA. Following the self-assessment conducted, the AIFM informs the shareholders and investors that the Fund is fully compliant with the principles of corporate governance applicable to the entities authorised, regulated and supervised by the FSA.

For more details please see *Annex 5 Compliance with the corporate governance requirements*.

## Corporate Governance of the Fund

### **Corporate bodies**

In September 2010, a one-tier system of governance was implemented at the Fund's level, as a result of the implementation of the rules established by the Government Ordinance 81/2007. Although the Fund is currently administrated under a one-tier system, the role of the Board of Nominees is similar to the role of a Supervisory Board, with a few exceptions.

Since adopting the one-tier system, the Fund is administrated by the Sole Director.

The powers and duties of the above-mentioned bodies are described in a number of official documents:

- The Constitutive Act of the Fund which is included in Annex 4 to this report and is also available on the Fund's website, together with all the shareholders resolutions that modified the Constitutive Act;
- The Management Agreement, signed between the Fund and FTIS in 2018 which is included in Annex 6;
- The IPS approved by shareholders in February 2018 which is included in Annex 7; and
- Other internal regulations.

### **Commitment to follow the principles of corporate governance**

In accordance with best corporate governance practice, the Fund is managed in a climate of transparency, based on open discussions between FTIS, FTIML and the Board of Nominees.

FTIS, FTIML, their employees and the members of the Board of Nominees have a duty of care and loyalty towards the Fund. Hence, FTIS, FTIML and the Board of Nominees pass their resolutions as required for the welfare of the Fund, primarily in consideration of the interests of shareholders and investors.

The Fund implemented all recommendations from the BVB's Corporate Governance Code and has in place the following policies:

- The Annual Cash Distribution Policy;
- The Nomination and Remuneration Policy;
- The Forecast Policy; and
- The Policy regarding Related Parties Transactions.

### **General Shareholders Meeting**

Any GSM shall be convened by the Sole Director whenever necessary, with the prior approval of the Board of Nominees, in accordance with the provisions of the law. The date of the meeting may not be less than 30 (thirty) calendar days after publishing the convening notice. The convening notice shall be published in the Official Gazette of Romania, Part IV, and in one of the widely distributed newspapers in Romania.

In exceptional cases, when the Fund's interest requires it, the Board of Nominees may convene the GSM. Any convening notice will be sent to BVB and FSA in accordance with the capital markets regulations. Any convening notice will also be published on the Fund's website in the GSM section, together with any explanatory document related to items included on the meeting agenda.

The annual financial statements are made available starting with the date of the convening notice of the Annual OGM, convened to resolve upon them.

### **General Shareholders Meeting organisation**

The GSM is usually chaired by one of the permanent representatives of the Sole Director, who may designate another person to chair the assembly. The chairman of the Meeting designates two or more technical secretaries to verify the fulfilment of the formalities required by law for the carrying out of the Meeting and for drafting the minutes thereof.

The minutes, signed by the Chairman and by the technical secretaries, shall ascertain the fulfilment of the formalities relating to the convening notice, the date and place of the Meeting, the agenda, the shareholders present, the number of shares, a summary of the issues discussed, the resolutions passed and, upon the request of the shareholders, the statements made by such shareholders during the meeting.

The resolutions of the GSM shall be drafted pursuant to the minutes and shall be signed by the person empowered by the shareholders to do this. In observance of the capital market regulations, the resolutions of the GSM will be disseminated to BVB and FSA within 24 hours after the event. The resolutions will also be made available on the Fund's website under the respective GSM section.

### **General Shareholders Meeting main duties**

The main duties of the OGM are the following:

- a) to discuss, approve and amend the annual financial statements after reviewing the reports of the AIFM and financial auditor;
- b) to establish the distribution of the net profit and to establish the dividends;
- c) to appoint the members of the Board of Nominees and to cancel their appointment;
- d) to appoint the AIFM in accordance with the law and to cancel its appointment;
- e) to appoint and cancel the appointment of the financial auditor and to set the minimum duration of the financial audit agreement;
- f) to set the remuneration level of the members of the Board of Nominees, the AIFM and of the financial auditor for financial audit services for the ongoing fiscal year;
- g) to rule over the management of the AIFM and to evaluate his/ her performances and to discharge him/ her from its management,
- h) to decide on the action in a court of law against the AIFM or, as the case may be, against the financial auditor, for damages caused to Fondul Proprietatea;
- i) to approve the strategy and the development policies of Fondul Proprietatea;
- j) to approve the annual budget for the following financial year;
- k) to decide upon the pledge, lease or creation of movable securities or mortgages on the assets of Fondul Proprietatea;
- l) to decide on any other aspects regarding Fondul Proprietatea, according to the legal duties.

The EGM is entitled to decide mainly upon:

- a) set-up or closing of some secondary units: branches, agencies, representative offices or other such units with no legal personality;
- b) share capital increase;
- c) share capital decrease or re-completion thereof by issuing new shares;
- d) conversion of shares from one category to another;
- e) conversion of a category of bonds to another category or to shares;
- f) issue new bonds;
- g) approval of the admission for trading and selection of the regulated market on which Fondul Proprietatea shares will be traded;
- h) the execution of contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of the Fund, whose value exceeds, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of the Fund, less receivables;
- i) change of the management system of Fondul Proprietatea;
- j) limitation or cancellation of the preference right of the shareholders;
- k) approval of the IPS;
- l) any other amendment of the Constitutive Act or any other resolution requiring the approval of the EGM.

During 2018, there were 6 GSMs, and 4 EGM resolutions and 9 OGM resolutions were issued. EGM and OGM resolutions are published on the Fund's webpage.

### Board of Nominees

The Board of Nominees consists of five members appointed by the OGM in accordance with the provisions of the Constitutive Act in force.

The Board of Nominees has sufficient members in order to effectively supervise, scrutinise and evaluate the activity of the Sole Director and the fair treatment of all the shareholders.

The composition of the Board of Nominees is balanced so as to enable it to take well-informed decisions. The decision-making process is a collective responsibility of the Board, which remains fully liable for decisions taken within its field of competence.

An independent member is defined as one who does not maintain, nor has recently maintained, directly or indirectly, any business relationship with the Fund or persons linked to the Fund, or shareholders of the Fund, of such significance as to potentially influence them.

The Board of Nominees ensures that consultative committees (Nomination and Remuneration Committee and Audit and Valuation Committee) are constituted to examine specific topics chosen by the Board and to report to the Board. At least one independent Board of Nominees member sits on each such committee. The mandate of each member of the Board of Nominees imposes the same type of restrictions around confidentiality of information and the same type of reporting and consent requirements on the individual's ability to personally trade in the Fund's shares as the restrictions that are in place for the staff of FTIS and FTIML. Beginning with 2016 the Fund implemented the annual evaluation of the members of the Board in order to fully comply with the BVB Corporate Governance Code.

The members of the Board of Nominees may be shareholders of the Fund.

### *Composition of Board of Nominees and activities during 2018*

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 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

The previous mandates for Mr Rymaszewski, Mr Healy and Mr van Groningen ended in April 2018. During the 14 February 2018 GSM shareholders decided to re-appoint the three members in the Board of Nominees following the expiration of their mandates, as follows:

- Mr. Julian Rupert Francis Healy starting with 5 April 2018;
- Mr. Piotr Rymaszewski starting with 5 April 2018;
- 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.

There were nine (9) formal meetings of the Board of Nominees in 2018 and issued thirty-five (35) resolutions. There were also informal conference calls and meetings during the year for discussing current subjects regarding the Fund's activity.

**Mr Sorin-Mihai Mindrutescu** is the Chairman of the Board of Nominees. Mr Mîndruțescu has extensive experience in corporate finance and in the banking industry. From 1994 until 2001, he held various senior positions in several large Romanian credit institutions. From 2009 until 2012, Mr Mîndruțescu was Chairman of the Board of Directors of the American Chamber of Commerce Romania (AmCham). Currently, Mr Mîndruțescu is a Managing Director with Oracle Romania. Mr Mîndruțescu holds MBA qualifications from both The University of Edinburgh Management School and ENCP School of International Management in Paris. Mr Mîndruțescu is member of the Board of Nominees starting with 29 September 2010.

As at 31 December 2018, Mr Mîndruțescu held no shares issued by the Fund. Mr Mîndruțescu is an independent member. Mr. Mîndruțescu attended 7 board meetings during 2018.

**Mr Mark Gitenstein** is a senior counsel in the Government and Global Trade practice in Mayer Brown's Washington DC office. He was appointed in 2009 by President Barack Obama to serve as the United States Ambassador to Romania, completing his term of service at the end of 2012. As US Ambassador to Romania, he worked to strengthen relations with Romania on a variety of issues. He actively promoted deeper development of Romania's equity markets, as well as a fair and transparent business environment for all investors. He also encouraged greater private sector involvement in state owned enterprises, including the introduction of a corporate governance code for state owned enterprises. Before undertaking his ambassadorial role, Mr Mark Gitenstein spent two decades as a partner at Mayer Brown. Additionally, he was a non-resident senior fellow in governance studies at the Brookings Institution, where he specialised in issues related to national security and civil liberties. Before joining Mayer Brown, Mr Mark Gitenstein served for 17 years on the staff of the US Senate Judiciary and Intelligence committees, 13 of those years working for Senator Joe Biden. He is the author of *Matters of Principle*, an award-winning book on his experience managing the Judiciary Committee staff during the confirmation battle over the nomination of Robert Bork to the Supreme Court. Mr Gitenstein serves as President of the Biden Foundation and is founder of a Romanian diaspora organisation in the United States, Alianta, which seeks to improve Romania's image in the US and strengthen the Romanian-American alliance. Mr Gitenstein is member of the Board of Nominees starting with 23 April 2013.

As at 31 December 2018, Mr Gitenstein held 400 GDRs having as support shares issued by the Fund. Mr Gitenstein is an independent member. Mr Gitenstein attended all Board's meetings during 2018.

**Mr Julian Healy** has long and extensive experience of banking and investment management in emerging markets and particularly in Central and Eastern Europe. He is a Member of the Institute of Chartered Accountants in England and Wales. Mr Healy also acts as a non-executive director in a number of other companies. Mr Healy chairs the Audit and Valuation Committee. Mr Healy has been a member of the Board of Nominees since 5 April 2012.

As at 31 December 2018, Mr Healy held no shares issued by the Fund. Mr. Healy is an independent member. Mr Healy attended all Board's meetings during 2018 (and chaired two of them when the Chairman of the meeting could not attend).

**Mr Steven Cornelis van Groningen** has extensive experience in banking and is the President and CEO of Raiffeisen Bank Romania SA. Mr van Groningen previously held senior management positions in ABN AMRO Bank (in Romania, Russia and Hungary). Mr van Groningen is the President of Confederatia Patronala Concordia, a former President of the Foreign Investors Council in Romania and former President of The Council of Banking Employers in Romania. Mr van Groningen is member of the Board of Nominees starting with 13 April 2012.

As at 31 December 2018 Mr van Groningen held 522,708 shares issued by the Fund. Mr van Groningen is an independent member. Mr. van Groningen attended 7 board meetings during 2018.

**Mr Piotr Rymaszewski** has experience in finance, turnaround, real estate and law. He is a CEO of Octava Asset Management Sp. z o.o. and Octava SA, a company listed on the Warsaw Stock Exchange. Starting with 2017 he is an independent non-executive Director in Digi Communications N.V., company listed on BVB. Mr Rymaszewski also acts as a non-executive director in several listed and unlisted companies, representing institutional investors. Mr Rymaszewski is member of the Board of Nominees since 5 April 2012.

As at 31 December 2018 Mr Rymaszewski held no shares issued by the Fund. Mr. Rymaszewski is an independent member. Mr Rymaszewski attended all Board's meetings during 2018.

### ***Duties of Board of Nominees***

The main duties of the Board of Nominees include:

- 1) Requesting, if necessary, the insertion of supplementary matters in the text of the GSM calling notice, following the information received from the AIFM with regard to the summoning of the OGM or EGM;
- 2) Receiving from the AIFM the answers to the written requests submitted by shareholders before the GSM date, on topics regarding Fund activity;
- 3) Receiving from the AIFM the annual financial statements, the annual activity report presented by the AIFM and the financial auditors' report, before being made available to shareholders and analysing them, in order to formulate an opinion to be presented to both the AIFM and to the GSM;
- 4) Receiving from the AIFM for analysis the annual report and the management policy of Fondul Proprietatea and presenting an opinion to the AIFM and to the GSM regarding such;
- 5) Receiving from the AIFM for analysis the annual budget, before it is submitted for approval to the GSM and presenting an opinion to the AIFM and to the GSM regarding such;
- 6) Receiving from the AIFM for analysis the strategy and the development policies of Fondul Proprietatea, before these are submitted for approval to the GSM, and presenting an opinion to the AIFM and to the GSM regarding such;
- 7) Receiving from the AIFM for analysis and approval the framework for carrying out Fondul Proprietatea operations, as well as any other Fondul Proprietatea regulations issued by AIFM according to legal provisions in force, capital market rules and regulations;
- 8) Receiving from the AIFM for analysis the proposal to the OGM for concluding the financial audit agreement and presenting an opinion to the AIFM and to the GSM regarding such;
- 9) Reviewing on a regular basis the IPS of Fondul Proprietatea and presenting an opinion to the GSM at any time it deems necessary, but in any case, at least once a year to the Annual OGM;
- 10) Receiving the internal auditor's report and presenting an opinion to the AIFM and to the GSM regarding such;
- 11) Monitoring the following, based on information and reports received from the AIFM:
  - the list of all portfolio investments and percentage breakdown by each investment type;
  - the list of major transactions implemented in the Fund 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, as well as any variations and actions taken to obtain the correct results;
  - the performance evaluation report.
- 12) Representing the GSM in relation with the AIFM regarding the communication between the two corporate bodies, except for the cases expressly regulated by the Constitutive Act regarding the direct communication between the GSM and the AIFM;

- 13) Verifying the report of the AIFM and permanently overseeing the management of the Fund, verifying if the operations carried out by the AIFM are following the applicable law, the Constitutive Act or with any relevant decision of the GSM;
- 14) Calling upon the GSM, under the conditions of art. 13 paragraphs (11) and (14) of the Constitutive Act;
- 15) Participating to the GSM and presenting the reports in all cases provided by the Constitutive Act or regarding any issue it deems to be relevant for the GSM;
- 16) Proposes to the GSM 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 the Fund, whose value exceeds, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of the Fund, less receivables;
- 17) Recommending to the GSM the termination of the management contract for the case when the Board of Nominees considers this is to the benefit of the shareholders;
- 18) Recommending to the GSM on any other issues the Board of Nominees considers relevant to the shareholders.
- 19) Recommending to the EGM the appointment of the public offer intermediate and his remuneration, following the proposal of the AIFM, when it becomes necessary that such a company is appointed, related to the admission to trading of Fondul Proprietatea;
- 20) Approving the delegation by the AIFM of certain activities. The delegation will be in force after the approval of FSA, where required by legislation in force;
- 21) Monitoring the AIFM performance in accordance with the Management Agreement.

For more details regarding the activity of the Board of Nominees during 2018, please see the annual activity report of the Board, available on the Fund's webpage in the *Investor Relations – GSM Information* section.

## Committees

### *Audit and Valuation Committee*

A permanent Audit and Valuation Committee composed of four Board of Nominees members was established to help 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 and performs other activities under the 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 includes members that have the necessary expertise in the area of financial audit and accounting. As at 31 December 2018 the members of the Audit and Valuation Committee were Mr Julian Healy (as Chairman), Mr Steven van Groningen, Mr Sorin Mîndruțescu and Mr Piotr Rymaszewski.

### *Nomination and Remuneration Committee*

A Nomination and Remuneration Committee composed of three Board of Nominees members was established to help the governing bodies of the Fund in the area of nomination and changes in remuneration.

As at 31 December 2018 the Nomination and Remuneration Committee members were Mr Sorin Mîndruțescu (as Chairman), Mr Mark Gitenstein, and Mr Piotr Rymaszewski.

## The Sole Director

The Sole Director of the Fund is Franklin Templeton International Services S.à r.l., a société à responsabilité limitée qualifying as an alternative investment fund manager under Article 101-1 of the Luxembourg Act of 17 December 2010 concerning undertakings for collective investment, as amended from time to time, whose registered office is located at 8A rue Albert Borschette, L-1246 Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B 36.979. FTIS qualifies as an AIFM under Chapter 2 of the Luxembourg Law of 12 July 2013 on alternative investment fund managers and is entitled to carry out services in Romania in accordance with the Law 74/2015 being registered with the registry kept by the FSA and is authorised

to carry out the management of a fund such as Fondul Proprietatea (including, without limitation, risk management and portfolio management).

The Sole Director is appointed and revoked by the OGM. The duration of the mandate as the AIFM and Sole Director of the Fund is of 2 years and it started on 1 April 2018. The Sole Director issues decisions regularly and whenever necessary for the daily operations of the Fund.

FTIS has delegated the role of Investment Manager as well as certain administrative functions to FTIML. For details regarding the delegated activities please read *Delegated management functions* section.

The Sole Director is responsible for the Fund's executive management. FTIS as Sole Director and AIFM, as well as FTIML as Investment Manager act in the best interest of the Fund and protect the general interests of the shareholders.

In June 2009, Franklin Templeton Investment Management Limited United Kingdom was designated the winner of the international tender procedure organised by the Fund for the selection of the Fund's Investment Manager and Sole Director. Franklin Templeton Investment Management Limited United Kingdom, Bucharest Branch was the Sole Director of the Fund between 29 September 2010 and 31 March 2016.

In order to comply with the AIFM Directive, FTIS was appointed as the AIFM and Sole Director of the Fund for a mandate of two years starting 1 April 2016. On 14 February 2018 the shareholders of the Fund approved the renewal of the mandate of FTIS, as the AIFM and Sole Director of the Fund for a new mandate of two years starting 1 April 2018.

Neither FTIS nor FTIML had any agreement, understanding or family relationship with the shareholders responsible for appointing it to the position of Sole Director and Investment Manager. On 31 December 2018 neither FTIS nor FTIML held any shares issued by the Fund.

Franklin Templeton Investment Management Limited United Kingdom is authorised and regulated by the UK Financial Conduct Authority and is registered as a foreign investment adviser with the United States Securities and Exchange Commission.

Treating customers fairly is one of the core values of Franklin Templeton Investments. Preferential treatment among clients is strictly prohibited. Aiming to ensure fair treatment to any client or investor, FTI has developed and implemented several policies and procedures. Both FTIS and FTIML apply FTI global best practices to meet its regulatory obligations and comply with laws and regulations.

These include:

- Code of Ethics to which all employees are bound;
- Conflicts of Interest Policy to evidence compliance with conflicts of interest requirements as set out in MiFID II;
- Data Protection Policy to ensure that its business operations comply with the Data Protection Regulation;
- Anti-Bribery Policy to ensure that employees of FTIS and FTIML comply with the U.S. Foreign Corrupt Practices Act and applicable anti-bribery and anti-corruption regulations of the local jurisdictions where FTIS and FTIML operate;
- Compliance Policy and Charter, which sets the compliance framework, describing the generic compliance and regulatory requirements and the consequences of failure to comply;
- Personal Investments and Insider Trading Policy designed to prevent Franklin Templeton employees from engaging in prohibited insider trading and to fairly disclose non-public information;
- Gifts and Entertainment Compliance Policy, intended to deter providers of gifts or entertainment from seeking or receiving special favours from employees of Franklin Templeton;
- Regular staff training on compliance and related matters;
- Reinforcement of corporate values which focus on acting in the client's best interests, with integrity and confidentiality.

### **The main duties of the Sole Director**

As provided by the Constitutive Act, the Management Agreement and the IPS, the main duties of FTIS performed under the control of the GSM and monitored by the Board of Nominees, are:

- fulfilling the necessary and useful operations to achieve the Fund's business objective, except for the operations reserved by the law for the GSM, having all the obligations attributed to it by the applicable law;

- establishing a reference date for shareholders entitled to vote within the GSM, under the law, and drafting the text of the announcement on the convocation of the GSM, after obtaining the prior approval of the Board of Nominees and after adding to the agenda the matters requested by the Board of Nominees;
- giving responses on the aspects concerning the business of Fondul Proprietatea, upon the written request submitted by any shareholder before the date of the GSM, after obtaining the prior approval of the Board of Nominees;
- ensuring that a copy of or extract of the GSM minutes is given to any shareholder upon his request; making available to shareholders the financial statements of the Fund and the reports of the AIFM and of the financial auditors, after the announcement of the Annual OGM is published;
- preparing the annual financial statements, drafting the annual activity report, examining the financial auditors' report, presenting them to the Board of Nominees before submitting such documents to the GSM and making proposals on the distribution of the profit to the GSM, after obtaining the prior approval of the Board of Nominees;
- managing the relationship with Romanian Central Depository with regard to its shareholders register functions;
- preparing an annual report on the management and business policy of Fondul Proprietatea, to be presented to the Board of Nominees for approval prior to its submission to the GSM;
- proposing to the Board of Nominees for prior approval and further, to the GSM for final approval, the annual budget and business plan;
- proposing to the Board of Nominees for the prior approval and further, to the GSM for final approval, the general strategy in accordance with the IPS of Fondul Proprietatea;
- implementing the IPS and achieving a proper balance between the profits and the risks related to the Fondul Proprietatea portfolio;
- informing the Board of Nominees periodically on any significant changes in the activities and portfolio structure of the Fund;
- approving the outsourcing of certain activities, within the limits of the approved budget; delegating the execution of certain activities, with the prior endorsement of the FSA, where required by applicable legislation;
- submitting to the approval of the EGM the execution of contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of the Fund, whose value exceeds, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of the Fund, less receivables;
- entering into contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of the Fund, whose value does not exceed, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of the Fund, less receivables, without the GSM approval;
- proposing to the OGM the conclusion of the financial audit agreement according to the legal provisions in force, upon obtaining the prior approval of the Board of Nominees;
- approving the internal audit procedure and the internal audit plan;
- deciding on the relocation of the registered office, provided that the registered office shall always be registered in Romania;
- making available to the Board of Nominees the reports and other necessary documents for exercising the monitoring duties, in accordance with the Constitutive Act;
- informing at once the Board of Nominees of any litigation or infringement of legislation regarding the AIFM, any operation that might represent an infringement to the IPS and about the plans/ correction measures for approaching these matters;
- calling the GSM to decide whenever an issue appears on which the Board of Nominees has a disagreement with the AIFM, which cannot be resolved amiably;
- proposing to the Board of Nominees the EGM recommendation for the appointment of the investment firm/ investment bank who shall manage a public offer, as well as its remuneration, when it becomes necessary that such a company is appointed related to the admission to trading of Fondul Proprietatea.

The Sole Director coordinates the strategy of the Fund.

The Sole Director ensures that the provisions of the relevant European and Romanian capital markets legislation are complied with and implemented by the Fund, as presented above within this section. Likewise, the Sole Director ensures the implementation and operation of an accounting, risk management and internal controlling system which meets the requirements of the Fund.

The employees of the Sole Director qualified as insiders and the persons closely related to them and to the Sole Director have the duty to report to the Sole Director and to the FSA any and all trading/ business performed for their own account with (i) shares or other securities issued by the Fund and admitted for trading on regulated markets; and/ or (ii) derivative financial instruments relating to securities issued by the Fund and/ or (iii) any other instruments relating thereto.

The Sole Director has the duty to disclose immediately to the Board of Nominees any material personal interests it may have in the transactions of the Fund as well as all other conflicts of interest.

Sole Director conducts all business according to the principle that it must manage any conflicts of interest fairly between itself and the Fund. The Franklin Templeton group has group-wide policies for managing conflicts of interest and ensuring the ethical conduct of its entire staff which apply to the Sole Director. These policies were designed to evidence compliance with the conflicts of interest requirements as set out in MiFID II and were also submitted to FSA during the Sole Director's licensing application.

All business transactions between the Fund and the Sole Director as well as persons or companies closely related to them must comply with the normal industry standards and applicable corporate regulations.

During 2018, the Sole Director issued 54 resolutions on all matters requiring its approval in accordance with the Constitutive Act.

### Permanent representatives of the Fund

As at 31 December 2018, Craig Blair, Dan Gheorghe, Calin Metes, Johan Meyer, Daniel Naftali, Mike Sommer and Denise Voss are the permanent representatives of the Fund.

**Craig Blair** is the General Manager, Member of the Board and a Conducting Officer for FTIS in Luxembourg, where he has worked since 2004. During this period, Mr Blair held several roles within the organisation in the fund administration department. Mr Blair holds an MBA from Manchester Business School, is a Member of the Chartered Institute of Management Accountants and holds a Law degree from Leicester University.

As at 31 December 2018, Mr Blair held no shares issued by the Fund.

**Dan Gheorghe** is one of the FTIML Directors. He joined Franklin Templeton in 2010. He has 12 years of experience out of which 8 with Franklin Templeton. Prior to joining Franklin Templeton, Mr Gheorghe held the position of investment analyst at Wood & Company and EFG Eurobank Finance. In addition to his responsibilities for Romanian companies, Mr Gheorghe covers listed and unlisted stocks in Croatia, Serbia, Slovenia, Georgia and Kazakhstan. Mr Gheorghe holds a master's degree in Financial Management and Capital Markets from the Academy of Economic Studies and a B.S. in Finance from the same university.

As at 31 December 2018, Mr Gheorghe held no shares issued by the Fund.

**Calin Metes** is one of the FTIML Directors. He joined Franklin Templeton in 2010. He has 12 years of experience, out of which 8 with Franklin Templeton. Prior to that, Mr Metes was portfolio manager at Raiffeisen Asset Management and held the position of investment analyst at Finas Invest. Mr Metes' expertise includes research and analysis of public companies in Romania and within the region, namely Greece and Bulgaria, with the purpose of making investment recommendations for the public funds managed by Franklin Templeton. Mr Metes holds a master's degree in Banking and Capital Markets, a master's degree in Management of Political Organisations, a BA in Banking and Stock Exchanges and a BA in Political Sciences, each from Babes-Bolyai University. Mr. Metes holds the Chartered Financial Analyst (CFA) diploma.

As at 31 December 2018, Mr Metes held no shares issued by the Fund.

**Johan Meyer** is the CEO of FTIML and the Portfolio Manager of Fondul Proprietatea starting with 1 April 2018. Effective from 1 November 2016 he was appointed Co-CEO of FTIML and Co-Portfolio Manager of Fondul Proprietatea. He joined Franklin Templeton Investments in 2004. Prior to his role in Romania, he was Managing Director South Africa, and the Director of Africa Strategy for Templeton Emerging Markets Group. In this capacity, he was responsible for setting the overall strategy for his respective area, providing guidance and thought leadership, coordinating appropriate resources and coverage, and leveraging the group's expertise to add value across products within the strategy. Mr Meyer holds Bachelor of Commerce and Bachelor of Commerce (Honours) degrees both with specialisation in economics from the University of Pretoria. He speaks English and Afrikaans.

As at 31 December 2018, Mr Meyer held no shares issued by the Fund.

**Daniel Naftali** is one of the FTIML Directors. He joined Franklin Templeton in 2010. He has 12 years of experience, out of which 8 within Franklin Templeton. Prior to joining Franklin Templeton, Mr. Naftali acted as an Investment analyst at Raiffeisen Asset Management Romania, and Analyst at Alpha Finance Romania. Mr Naftali holds a bachelor's degree in International Securities, Investment and Banking from the ICMA Centre, Reading University, UK, a master's degree in Banking and Insurance from the University of Orleans, France, and a bachelor's degree in Banking and Finance from the Academy of Economic Studies in Bucharest. He also is a CAIA Charter holder.

As at 31 December 2018, Mr Naftali held no shares issued by the Fund.

**Mike Sommer** is a conducting officer and the Head of Risk Management of Franklin Templeton International Services S.à r.l., the Luxembourg-based UCITS Management Company and Alternative Investment Fund Manager of Franklin Templeton Investments and is responsible for the implementation and ongoing execution of the risk management function. Being part of a global organisation, he also provides advice to other Franklin Templeton entities with respect to regulatory risk management topics. Prior to his current role he worked within Franklin Templeton's Global Compliance Department which he joined in 2007. Mr. Sommer is an active member of the Association of the Luxembourg Fund Industry risk management working groups where he leverages his 16 years of experience in the financial industry including roles in the external audit and banking sectors.

As at 31 December 2018 Mr Sommer held no shares issued by the Fund.

**Denise Voss** is a conducting officer and Board Member of FTIS, Franklin Templeton Investments' Luxembourg based management company, managing both UCITS and AIFs. Ms Voss joined Franklin Templeton Investments in 1995 where she served as a general manager of the Luxembourg subsidiary until December 2005. Between 2006 and 2013, she held the role of conducting officer of Franklin Templeton Investments' Luxembourg-domiciled UCITS. Prior to joining Franklin Templeton Investments, Ms Voss worked in the audit division of Coopers & Lybrand in Boston, USA and Luxembourg, for over nine years. Ms Voss holds a Massachusetts Certified Public Accountant license and obtained an undergraduate degree from Tufts University, as well as a master's degree in accountancy from Bentley College. She is Chairman of the Association of the Luxembourg Fund Industry and has been a member of the ALFI Board of Directors since 2007. Ms. Voss is also past chairman of the European Fund and Asset Management Association (EFAMA) Investor Education working group.

As at 31 December 2018 Ms Voss held no shares issued by the Fund.

### Legal representatives of the Investment Manager

At the date of this report, Johan Meyer is the CEO of the Investment Manager and Dan Gheorghe, Calin Metes and Daniel Naftali are Directors of Investment Manager, all being legal representatives of the Investment Manager, each of them having full management powers in this regard.

Effective on 1 April 2018, Mr Johan Meyer is the CEO of FTIML and the Portfolio Manager of Fondul Proprietatea.

### The remuneration of the Sole Director

The fees due to AIFM are approved by shareholders and are part of the management agreements. The fees payable to the AIFM are calculated in RON and paid EUR in compliance with the provisions below. The amount calculated in RON is converted into EUR using the official exchange rate for RON to EUR published by National Bank of Romania in the last banking day of the period invoiced.

#### 1. The Base Fee is calculated according to the following formula:

*Base Fee Rate multiplied by the notional amount, multiplied by the number of calendar days during the applicable calculation period divided by 365*

where:

Base Fee Rate = 60 basis points per year;

1 basis point = 0.0001; and

Notional amount = the market capitalisation of the Fund, which is defined as:

(a) the number of the Fund's paid shares considered on daily basis, minus

(b) the weighted average over the applicable calculation period of the number of the Fund settled own shares together with the number of the Fund equivalent ordinary shares represented by GDRs, in each case where those shares or GDRs are held by the Fund as treasury shares

(c) then multiplying the resulting number by the weighted average market price of the Fund's shares calculated for the applicable calculation period. The "weighted average market price" is computed based on the daily average market prices of the Fund's shares and corresponding daily volumes, as published by BVB on REGS section.

If the number of shares relevant for the computation of the Base Fee described above in (a) and (b) changes over the calculation period, the Base Fee is an aggregation of the computation for each sub-period.

For each day in a calculation period for which the Base Fee is to be calculated, when the Discount is below or equal to 20%, but above 15%, an additional Base Fee Rate of 5 basis points per year shall become payable (i.e. the Base Fee Rate referred to in the calculation above shall become 65 basis points per year for the applicable days in the relevant period).

For each day in a calculation period for which the Base Fee is to be calculated, when the Discount is equal to or below 15%, a further additional Base Fee Rate of 5 basis points per year shall become payable (i.e. the Base Fee Rate referred to in the calculation above shall become 70 basis points per year for the applicable days in the relevant period).

As the Base Fee (including any additional fee determined under the previous two paragraphs) is computed using the number of days in a calendar year (365 days), the Base Fee Rate used for non-trading days is the rate applied for the prior trading day.

## 2. The Distribution Fee is calculated as follows:

100 basis points of the distributions made available from 1 April 2018 up to and including 31 March 2020, where distributions means:

- (a) repurchases of Fund shares;
- (b) repurchases of Fund GDRs and/ or depositary interests;
- (c) dividends; and
- (d) returns of share capital.

The calculation of the Distribution Fee is made when such distributions become available to shareholders. In case of a repurchase of own shares or GDRs, the calculation of the Distribution Fee is made at the date when the own shares repurchase transactions or own GDRs repurchase transactions are settled (i.e. settlement date).

For GDRs transactions, the Distribution fee is computed taking into account the official exchange rate published by the National Bank of Romania for the date of settlement of GDRs transactions.

Any failure on the part of any shareholder to collect, or to take the necessary steps to facilitate the receipt of the distributions made available will not result in any adjustment of the calculation of the Distribution Fee due to the AIFM.

## 3. Payments

- (a) The Base Fee is paid by the Fund quarterly, based on the invoices issued by the AIFM within twenty (20) business days following the end of the quarter for which payment is to be made.
- (b) The Distribution Fee is paid by the Fund quarterly, based on the invoices issued by the AIFM within twenty (20) business days following the end of the quarter for which the Distribution Fee was calculated.
- (c) The invoices for the Base Fee and the Distribution Fee are submitted to the Depositary Bank.
- (d) The AIFM provides to the Board of Nominees quarterly and on an annual basis and upon reasonable request of the Board of Nominees a detailed report regarding the fees collected, in the form reasonably required by the Board of Nominees.
- (e) The payment of each fee is made within 30 business days of the receipt of the applicable invoice.

## 4. Verification

The payment of the Base Fee and the Distribution Fee is arranged only after the verification and certification by the Depositary Bank of the correctness of the following amounts used in the calculation of those fees: the notional amount, the value of distributions, and all the other items used in calculation of the fees, as well as the methods for determining the fees.

### Remuneration Policy of the AIFM

In order to comply with Articles 21 (2) (e) and (21) (2) (f) of the AIFM Directive (Law 74/2015), details of the Remuneration Policy of the AIFM and amounts attributable to the Fund are available to existing shareholders upon request at the registered office of the AIFM.

### Potential professional liability risks for AIFM

The AIFM will always maintain the capital requirements and insurance required under AIFM Directive and national legislation. The AIFM has in place the following insurance:

- (a) Professional liability to provide against any failure to duly perform the management agreement;
- (b) Fidelity bond to provide against any failure to account to the Fund for any money or investments.

### Delegated management functions

FTIS has delegated the role of Investment Manager as well as certain administrative functions to FTIML.

The delegation of the portfolio management allows FTIML, among others, to:

- manage the investment, realisation and reinvestment of the assets of the Fund with power at its discretion, to purchase, subscribe to, acquire or deal in investments and securities and to sell, redeem, exchange, vary or transpose the same, provided that FTIML observes and complies with the Constitutive Act, the IPS, any guidelines, directives and instructions given by FTIS, and all local laws and regulations the Fund is subject to and, if the case, any applicable FSA decisions;
- exercise all rights of voting conferred by the investments and securities of the Fund;
- enter into contracts in the name of the Fund in order to apply the investments policy and objectives;
- take appropriate arrangements in order to supervise the performance of the portfolio management activities by its staff;
- take reasonable steps to manage the risks associated with portfolio management;
- on receipt, give instructions to pay to and/ or deposit with the Depositary Bank of the Fund all moneys, investments and securities received by it on behalf of the Fund;
- participate, institute or join, at the Fund's costs, any proceeding or similar action including but not limited to any class action with respect to the assets of the Fund, except the legal actions in front of courts or arbitral courts (in respect of the latter FTIML being also authorised to engage on behalf of the Fund legal counsel to provide legal representation), in accordance with the Constitutive Act, the IPS and the relevant legislation and regulations in force;
- present reports to the Board of Nominees of the Fund;
- cooperate with FTIS in view of distributing dividends and other non-dividend distributions and executing buy-back programmes and tenders, in each case subject to all necessary shareholder approvals and in compliance with applicable laws and regulations;
- evaluate the investments and the securities, price movements in respect of such investments and securities and other factors FTIML considers relevant for its management of the investment, realisation and re-investment of the assets of the Fund;
- analyse the progress of all investments and securities in the portfolio of the Fund and provide the reports requested by FTIS;
- analyse the source of funds required for buy-back of shares or other purposes;
- analyse all actions that FTIML considers advisable or necessary to undertake in order to implement the IPS of the Fund regarding investments and securities; and
- prepare materials for any reports required by FTIS.

The delegation of the administration services allows FTIML, among others, to:

- manage the relationship with Romanian Central Depositary regarding its shareholders register functions;

- keep all the books, records, agreements, forms, papers, files and other corporate documents required by Romanian law;
- calculate and publish the Fund's net asset value and the net asset value per share;
- monitor the compliance with the regulations in force, except for the services of regulatory compliance monitoring of the delegated activities;
- receive notices, correspondence, telegrams, telex messages, telephonic advice or other representations and communications for account of the Fund;
- keep with due diligence the Fund documents and information entrusted to it;
- co-ordinate the preparation and dispatch of statements, reports, notices, announcements, proxies, minutes and other documents to shareholders, investors and to the Board of Nominees;
- co-operate at drafting of the entire documentation for calling the GSM of the Fund;
- draft the annual budget;
- co-operate at drafting the IPS;
- propose the conclusion of the financial audit agreement;
- propose the change of the location of the Fund's registered office;
- co-operate at the organisation of the GSM and of the meeting of the Board of Nominees;
- provide for any legal filings and publications and file any tax returns;
- maintain contact with all supervisory, regulatory, tax or other state authorities or Fund-related professional organisations in Romania, complying with any information request from these authorities (including the current reports);
- co-operate at the preparation of the annual reports, accounts, financial reports, financial statements and of any other documents for investors or for the relevant authorities in accordance with applicable laws, regulations or the Constitutive Act;
- manage investor queries and send responses and other relevant documents to the investors;
- perform public relations activities;
- perform marketing activities (such as investor road-shows, group and one-on-one meetings with institutional investors, participate in various global and regional emerging and frontier market conferences, organise Analyst and Investor Days events).

### **Brexit potential impact on the activity of the Fund**

Brexit would have a potential impact on the activity of the Fund considering the delegation of management functions presented above. However, in case that Brexit will be effective starting with 29 March 2019, the AIFM prepared a plan for avoiding any potential risks and the plan involves the termination of delegation agreement from FTIS to FTIM and the transfer of all Investment Manager's delegated activities back to the AIFM, that opened a branch in Bucharest for rendering portfolio management functions and administrative services. The Bucharest Branch of FTIS was already established and CCSF is expected to send a notification to FSA announcing that FTIS Bucharest Branch renders services under AIFM Directive in Romania in February 2019.

### **The Fund's shareholders rights**

The rights of the Fund's minority shareholders are adequately protected according to the relevant domestic legislation.

The Fund is committed to communicate with its shareholders effectively and actively and ensure that all shareholders have equal access to public information.

According to the provision of the Constitutive Act in force (*Annex 4* to this report), each share issued by the Fund which is rightfully owned and paid in by a shareholder carries the following rights: (i) voting right at the GSM, (ii) right to elect and revoke the members of the Board of Nominees as well as to elect and revoke the Sole Director and (iii) right to participate in the distribution of profits.

Currently, the Constitutive Act does not specify any further special conditions on such rights than those specified by the law.

The Romanian legislation imposes various restrictions regarding the unpaid shares and as a result, as long as the Romanian state has unpaid shares, it has no voting rights for those unpaid shares and has no right to receive dividends or return of capital in relation to them.

With respect to the right to receive dividends, the Constitutive Act sets out that the Fund's net profit shall be distributed based on the resolution of the GSM, each shareholder being entitled to receive dividends proportionally with the number of paid in shares held in the Fund's share capital. Pursuant to Law 24/2017, the payment of dividends shall be carried out no later than 6 months from the date of the GSM approving the dividend distribution.

Other than as presented above, no rights, preference or restrictions are attached to the shares. Pursuant to the Companies' Law, as a rule, the shares issued by a company entitle each holder to equal rights. Such rights mainly refer to the shareholders' involvement in the operations of a company and the resulting benefits and are regulated by the applicable laws. Shareholders must exercise their rights in good faith, without breaching the interest of other shareholders or that of the company. The Fund ensures a fair treatment of investors and, there is no preferential treatment for any investor.

The Fund is committed to encourage shareholders to participate in GSMs, to fully exercise their rights, and to raise questions concerning items debated during such meetings. GSMs enable and encourage dialogue between the shareholders and the Fund and its representatives. The Fund encourages its shareholders to take part in meetings, and those who cannot attend are able to vote in absence by sending the votes to the Fund's headquarters, using the voting bulletin for the votes by correspondence made available by the Fund at the headquarters and/ or on the Fund's website.

Furthermore, the Fund ensures that its shareholders have access to relevant material information, so as to allow them to fully exercise their rights. The Fund has a dedicated section on its website (*Investor Relations - GSM Documentation*) that can be easily identified and accessed. This information typically includes: the time and place of meetings; information on how to exercise voting rights, including the proxy process with relevant forms; meeting agendas, as well as detailed documents relating to specific agenda items and draft of shareholders resolutions.

The Investment Manager has established a dedicated investor relations team. This experienced team is responsible for handling relationships with both private and institutional investors locally and abroad.

In conclusion, currently the Fund observes the one paid share, one vote, and one dividend principle. There are no shares conferring the right to more than one vote or preference shares.

Shareholders holding at least 5% of the paid in share capital may ask for calling of a GSM. Such shareholders have also the right to add new items on the agenda of a GSM, provided such proposals are accompanied by a justification or a draft resolution proposed for approval and copies of the identification documents of the shareholders who make the proposals.

Proposals with respect to adding new items on the agenda of such GSM can be submitted at the Fund's headquarters, or by e-mail having attached an extended electronic signature, in compliance with Law 455/2001 on digital signature.

Likewise, the shareholders holding at least 5% of the paid in share capital are entitled to propose revised versions of resolutions for the items listed on the agenda or proposed by other shareholders to be added on the agenda of such GSM.

The shareholders may attend in person or may be represented in the GSMs either by their legal representatives or by representatives having a special proxy, based on the special proxy template made available by the Fund. Such proxy template may be obtained from the Fund's headquarters and/ or can be found on the Fund's website, under the respective GSM section item.

The shareholders of the Fund, regardless of the stake of the share capital held, may submit written questions with respect to the items on the agenda of the GSMs. The shareholders may also send such questions by e-mail. The answers will be provided during the GSM based on public information or non-public and non-material information.

Should the questions require elaborate answers, a Q&A (questions and answers) form will be made available on the Fund's website. The disclosure of commercially sensitive information that could result in a loss or competitive disadvantage for the Fund will be avoided when providing the answers, in order to protect the interest of our shareholders.

A shareholder who was absent at a GSM or has voted against a certain resolution and has requested that its vote against the resolution is registered in the minutes of that GSM is entitled to challenge such resolution within 15 days as of its publication in the Official Gazette of Romania, Part IV. Also, claims regarding an absolute nullity of a shareholder resolution may be filed at any time.

#### **Fees, charges and expenses which are directly or indirectly borne by investors**

Please see section “*Key Financial Highlights*” for more details regarding the total expense ratio of the Fund and section “*Financial Statements Analysis*” more information regarding the Sole Director remuneration.

The brokerage fees and other costs incurred by investors in acquiring the Fund’s shares vary depending on the specific contractual agreements concluded between the investors and the intermediaries.

#### **Potential increase of the share capital of the Fund**

The share capital of the Fund can be increased with the approval of the EGM, in accordance with the provisions of the Romanian law:

- a) by issuing new shares in exchange for cash contributions, based on the offering documentation approved according to legislation in force;
- b) by incorporation of reserves, except for legal reserves and of the reserves created out of the revaluation of the patrimony, as well as of the benefits and issuing premiums.

The share capital increase shall be registered at the Trade Register Office, on the basis of the decision made by the Fund’s GSM.

The share capital cannot be increased by increasing the nominal value of existing shares or by issuing new shares if there are unpaid existing shares in the share capital of the Fund.

#### **The depositary of the Fund**

The Fund has appointed BRD – Groupe Societe Generale SA as its depositary and custodian, to hold and transfer the Fund's assets, and to certify the Fund NAV, and the computation of the AIFM fees through a depositary and custody agreement which entered into force on 20 May 2016 for a three-year term.

The Depositary has the following obligations under the agreement in place:

- Physically safeguards all the Fund’s financial instruments which can be physically delivered or registered or held in an account directly or indirectly in the name of the Depositary and are transferable securities including those which embed derivatives, money market instruments or units of collective investment undertakings (the Custody Assets);
- Verifies the ownership of, and maintain records on, all assets which do not qualify as Custody Assets and which, in accordance with applicable national law, are only directly registered in the name of the Fund with the issuer itself or its agent, such as a registrar or a transfer agent, based on the documents supplied by the Fund, as well as on external evidence (the Non-Custody Assets);
- Keeps in custody the Custody Assets belonging to the Fund, separately from the Depositary’s assets or other funds’ assets, and registers them separately, thus as to be identifiable as the Fund’s property;
- Settles the transactions with Custody Assets and Non-Custody Assets of the Fund in and from the Fund’s accounts, according to the instructions received from the Fund and in accordance with the applicable Central Depositary’s regulations;
- Collects the interests and other income related to the Custody Assets and exercises the rights conferred by such Custody Assets, in accordance with the proper instructions received from the Fund. The Depositary assists the Fund in recovering the difference of tax on dividends withheld by the issuers (in case of investments abroad or in Romania), according to the tax treaties in force;
- Certifies the existence and the value of the net assets, and the unit value of the net assets, and transmits it to the Fund and to the FSA, within the terms, form, conditions and regular intervals established by the regulations;
- Makes the payment of the equivalent value of the financial instruments or participation interests purchased by the Fund, makes the payment of all the financial duties, including the payment of interests, taxes, fees and other operational costs of the Fund, makes payments for any other purposes, according to the proper instructions received from the Fund;

- Validates and certifies the calculation of the AIFM for the fees owed by the Fund to it;
- Provides proxy voting services upon request and according to the instructions received;
- Carries out any other activities provided by laws and regulations as part of its responsibility.

Liability in case of safe-keeping of Custody Assets:

- In case of loss of a Custody Asset by the Depositary or by a third party to whom the custody was delegated by the Depositary, the Depositary shall be liable to the Fund in the conditions set forth by Article 21 (12) and (13) of AIFM Directive as such were transposed by Article 20 (13) and (14) of Law 74/2015, as well as by Articles 100 and 101 of EU Regulation 231/2013. In such conditions, unless the Depositary proves the existence of an exoneration cause set forth by the EU Regulation 231/2013, the Depositary shall return to the Fund identical Custody Asset or a custody asset with a corresponding value within maximum five business days upon the Fund's or the AIFM's request;
- In case of other damages produced by the Depositary in connection with safe-keeping of Custody Assets other than losses of such Custody Assets, the Depositary shall not be liable towards the Fund for its actions or inactions in relation to these obligations as long as they respect the legal provisions and the damages are not due to the Depositary's negligence, fraud, breach of agreement, bad faith or wilful default.

Liability in case of safe-keeping of Non-Custody Assets and other duties of the Depositary:

- With respect to all duties other than the safe-keeping of Custody Assets, the Depositary shall not be liable towards the Fund for its actions or inactions in relation to these obligations, as long as they respect the legal provisions, and, in addition, the Depositary shall not bear any prejudice or expense resulting from such action or inaction, except in the case where these are due to the Depositary's negligence, fraud, breach of agreement, bad faith or wilful default.
- The Depositary shall not be liable for the incompleteness or illegality of any investment made by third parties on behalf of the Fund's account and received by the Depositary from them or in case the investment is no longer valid or is fraudulent, either by reason of invalidity, forgery, falsity, incompleteness or otherwise except in so far as such situation results from the negligence, wilful default, bad faith, breach of agreement or fraud on the part of the Depositary.
- The Depositary shall not be liable to the Fund or any third party for any indirect consequential or special damages, including loss of profits or business opportunity, arising in connection with the agreement.
- Except as set out in the agreement concluded with the Fund and applicable law, the Depositary expressly disclaims all obligations to the Fund.

### **The auditor of the Fund**

The auditor of the Fund for the year ended 31 December 2018 is Deloitte Audit SRL, registered with the Trade Registry under no. J40/6775/1995, having Sole Registration Code 7756924, member of the Chamber of Financial Auditors of Romania and registered in the Public Registry of Financial Auditors of ASPAAS with number 25 and the duration of the financial audit agreement is for the period starting with 26 October 2017 and 31 August 2020.

### **The Foreign Account Tax Compliance Act**

FATCA is a United States federal law that requires United States persons, including individuals who live outside the United States, to report their financial accounts held outside of the US, and requires foreign financial institutions to report to the Internal Revenue Service about their US clients. Romania, like most of the European countries, concluded an intergovernmental agreement to facilitate the implementation of FATCA requirements.

The Fund complies with all reporting requirements imposed by FATCA provisions.

### **Packaged retail and insurance-based investment products**

Packaged retail investment and insurance products are at the core of the retail investment market. In order to tackle any potential shortcomings, the EU has adopted a regulation on PRIIPs, which obliges those who produce or sell investment products to provide investors with key information documents.

The key information documents for Fondul Proprietatea are published on the webpage of the Fund.

## Market Abuse Regulation

EU Regulation 596/2014 on market abuse, repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC and Directive 2014/57/EU on criminal sanctions for market abuse were published in the Official Journal of the European Union on 12 June 2014 and apply as of 3 July 2016.

The Market Abuse Regulation aims at enhancing market integrity and investor protection. AIFM updated the internal regulations applicable to the Fund in order to implement the Market Abuse Regulation.

## Gender and nationality diversity

The Fund, FTIS and FTIML support gender diversity and promotion of women in management positions.

While there are currently no female members in the Board of Nominees, FTIS and FTIML have women involved in the management of the Fund.

Also, there are people involved in the management of the Fund from more than 8 different nationalities, this being in line with the diversity of the shareholders of the Fund.

## Leverage under AIFMD considerations

The leverage definition under AIFM Directive is wider than the traditional gearing definition applied. In accordance with the Regulation (EU) 231/2013 leverage is any method which increases the Fund's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of Fund's exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Fund's positions (including all holdings like ordinary shares) after deduction of cash balances and cash equivalents, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and cash equivalents and after certain hedging and netting positions are offset against each other if applicable.

The Fund may not utilise its short-term borrowing facility for investment purposes nor is the Investment Manager using derivatives to hedge any risks as of 31 December 2018. The use of Financial Derivative Instruments is permitted.

The maximum incremental level of leverage which the AIFM is entitled to employ on behalf of the Fund for AIFMD monitoring and reporting purposes is 50% which, considering 100% of long assets held in the portfolio, relates to a ratio of 1.5 (or 150%) for both the gross method and the commitment method.

***There was no change to the level of leverage applied for AIFMD monitoring and reporting purposes since 1 January 2018.***

***Therefore, the actual level of leverage recorded under the requirements of AIFMD for 31 December 2018 is 1.00 (or 100.00%) using the "commitment" method and 0.98 (or 98.02%) of the "gross" method. The ratio for the gross method is below 1 given that cash and cash equivalents are deducted as required by the relevant regulation.***

## Treatment of corporate information

The members of the Board of Nominees and all employees of FTIS/ FTIML shall keep confidential any documents and information acquired in the performance of their duties.

## General Data Protection Regulation

The GDPR was approved and adopted by the EU Parliament in April 2016. The regulation took effect on 25 May 2018. The Fund has fully implemented GDPR.

## Conflicts of interests

FTIS and FTIML adopted operating solutions suitable to facilitate the identification and adequate handling of any situations in which a member of the Board of Nominees or an employee of FTIS/ FTIML has an actual or potential conflict between the interest of the Fund and his/ her own or on behalf of third parties. FTIS/ FTIML adopt operating solutions suitable for the adequate handling of any issues arising from related party transactions.

## Financial Statements Analysis

The audited financial statements for the year ended 31 December 2018, prepared in accordance with IFRS and applying the FSA Norm 39/2015 with subsequent amendments, are included in full in Annex 1 to this report. The captions in the Statement of Financial Position and Statement of Comprehensive Income presented in the Annual Report may differ from the ones included in the IFRS financial statements due to other regulatory requirements.

This section provides an overview of the Fund's financial position and performance for the year ended 31 December 2018. The analysis presents the main developments during 2018, for more details regarding the comparative amounts please see the corresponding section in Annex 1 IFRS Financial Statements.

### Statement of Financial Position

RON million	31 December	31 December	31 December	31 December
	2018	2017	2016	2018 vs. 31 December 2017 (%)
	Audited	Audited	Audited	
Cash and current accounts	19.6	19.2	5.8	
Deposits with banks	187.1	1,276.7	305.3	
Treasury bills	49.6	46.3	781.4	
Government bonds	131.6	195.9	328.6	
Dividend receivables	137.0	-	-	
Equity investments	9,337.4	9,278.2	9,992.2	
Other assets	1.5	10.7	20.8	
<b>Total assets</b>	<b>9,863.8</b>	<b>10,827.0</b>	<b>11,434.1</b>	<b>-8.9%</b>
Payables	14.8	15.2	27.1	
Other liabilities	20.6	21.6	21.0	
<b>Total liabilities</b>	<b>35.4</b>	<b>36.8</b>	<b>48.1</b>	<b>-3.8%</b>
Total equity	9,828.4	10,790.2	11,386.0	-8.9%
<b>Total liabilities and equity</b>	<b>9,863.8</b>	<b>10,827.0</b>	<b>11,434.1</b>	<b>-8.9%</b>

### Overview

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).

### Equity investments

#### Classification and measurement of equity investments

Starting 1 January 2014, Fondul Proprietatea applies the Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities, the Fund being an investment entity. As a result, the Fund classifies and measures its investments in subsidiaries and associates as financial assets at fair value through profit or loss.

Starting 1 January 2018, the Fund adopted IFRS 9 and classified all its equity investments (other than subsidiaries and associates) as equity investments at fair value through profit or loss (the default option under IFRS 9). Additional disclosures and detailed analysis and comparison between the measurement category and the carrying

amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 are included in the Fund's annual IFRS Financial Statements for the year ended 31 December 2018.

The equity investments at fair value through profit or loss are initially recognised at fair value and the transaction costs are recorded in profit or loss. They are subsequently measured at fair value with all changes in fair value accounted for through profit or loss. Equity investments at fair value through profit or loss are not subject to impairment testing.

### Valuation

As at 31 December 2018 substantially all the equity investments of the Fund were carried at fair value.

*Listed shares* are measured at fair value using quoted prices for that instrument at the reporting date.

The fair value of *unlisted shares* is determined and approved by the Fund's Sole Director using valuation techniques in accordance with International Valuation Standards, based on independently appraised valuation reports.

The holdings in companies in liquidation, dissolution, bankruptcy or with negative shareholders' equity, companies in insolvency or reorganisation are valued at nil.

As a special note, following the additional regulatory requirements issued by ANRE for consultation purposes on 18 January 2019 and approved in Order 10/ 1 February 2019, the value of the Fund's holding in 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.

For more details, please see section *Analysis of the Portfolio of the Fund - Differences between the IFRS financial statements and NAV reporting at 31 December 2018*.

## Statement of Comprehensive Income

RON million	2018 Audited	2017 Audited	2016 Audited
Gross dividend income	776.2	740.4	353.1
Net unrealised gain/ (loss) from equity investments at fair value through profit or loss	225.3	222.8	(377.8)
Interest income	9.8	11.9	7.9
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	17.9
Net realised gain/ (loss) from disposal of non-current assets held for sale	-	330.6	(127.5)
Net realised gain on disposal of equity investments classified as available for sale	-	38.5	926.0
Impairment losses on equity investments classified as available for sale	-	(8.0)	(122.4)
Other income/ (expenses), net*	2.9	0.9	(0.5)
<b>Net operating income</b>	<b>1,018.9</b>	<b>1,372.1</b>	<b>676.7</b>
Administration fees recognised in profit or loss	(46.8)	(63.0)	(70.6)
Other operating expenses	(26.5)	(34.5)	(61.5)
<b>Operating expenses</b>	<b>(73.3)</b>	<b>(97.5)</b>	<b>(132.1)</b>
Finance costs	(0.3)	(0.2)	(0.3)
<b>Profit before income tax</b>	<b>945.3</b>	<b>1,274.4</b>	<b>544.3</b>
Income tax expense	(10.2)	15.5	(97.3)
<b>Profit for the year</b>	<b>935.1</b>	<b>1,289.9</b>	<b>447.0</b>
Other comprehensive income	-	(85.4)	100.7
<b>Total comprehensive income for the year</b>	<b>935.1</b>	<b>1,204.5</b>	<b>547.7</b>

\* 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 Sarii 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	2016 Audited
<b>Recognised in profit or loss</b>	<b>46.8</b>	<b>63.1</b>	<b>70.6</b>
Base fee	41.8	46.8	46.8
Distribution fee for buy-back programmes	-	-	13.5
Distribution fee for return of capital/ dividends	5.0	16.3	10.3
<b>Recognised in other comprehensive income</b>	<b>13.7</b>	<b>15.0</b>	-
Distribution fee for buy-back programmes	13.7	15.0	-
<b>Total administration fees</b>	<b>60.5</b>	<b>78.1</b>	<b>70.6</b>

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 main categories of other operating expenses are detailed in the table below:

### Other Operating Expenses

RON million	2018 Audited	2017 Audited	2016 Audited
FSA monthly fees	9.3	10.2	10.7
Transaction costs	1.4	8.4	33.2
Depository fees	0.6	0.7	0.8
Other expenses	15.2	15.2	16.8
<b>Other operating expenses</b>	<b>26.5</b>	<b>34.5</b>	<b>61.5</b>

During 2018 the **other expenses** caption comprised mainly legal and litigation assistance expenses, Board of Nominees remuneration and related expenses, portfolio valuation expenses and investor relation expenses.

### Statement of Cash Flows

RON million	2018 Audited	2017 Audited	2016 Audited
<b>Cash flows from operating activities</b>			
Dividends received (net of withholding tax)	629.2	737.6	351.3
Proceeds from disposal of equity investments	173.0	1,231.9	2,116.7
Disposals/ maturity of treasury bills and bonds	130.6	1,505.7	611.0
Interest received	11.2	13.6	4.6
Amounts collected from the depository Bank of the Fund's GDRs	4.5	7.1	3.7
Acquisitions of treasury bills and bonds	(151.6)	(501.1)	(1,645.7)
Suppliers and other taxes and fees paid	(114.3)	(130.4)	(127.1)
Other receipts/ (payments), net	(3.4)	(4.4)	(4.1)
<b>Net cash flows from operating activities</b>	<b>679.2</b>	<b>2,860.0</b>	<b>1,310.4</b>

RON million	2018 Audited	2017 Audited	2016 Audited
<b>Cash flows from financing activities</b>			
Short term bank loans drawings	-	237.0	-
Acquisition of treasury shares	(1,369.7)	(819.2)	(674.2)
Dividends paid (net of withholding tax)	(469.8)	-	(0.1)
Payments to shareholders related to the return of capital	(7.5)	(910.5)	(512.5)
Payment in relation with lost litigations	-	-	(10.7)
Payment of interest and fees related to the short-term bank loans	(0.3)	(0.2)	(0.3)
Repayment of short-term bank loans	-	(237.0)	-
<b>Net cash flows used in financing activities</b>	<b>(1,847.3)</b>	<b>(1,729.9)</b>	<b>(1,197.8)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year	1,441.2	311.1	198.5
<b>Cash and cash equivalents at the end of the year</b>	<b>273.1</b>	<b>1,441.2</b>	<b>311.1</b>
	<b>31 December 2018 Audited</b>	<b>31 December 2017 Audited</b>	<b>31 December 2016 Audited</b>
Cash and current accounts	19.6	19.2	5.8
Bank deposits with original maturities of less than three months	187.1	1,275.8	305.3
Treasury bills and government bonds with original maturities of less than three months	66.4	146.2	-
	<b>273.1</b>	<b>1,441.2</b>	<b>311.1</b>

During 2018 **the proceeds from disposal of equity investments** were related to the disposal of the entire holdings in Conpet SA and Palace SA and partial disposals of BRD – Groupe Societe Generale SA and Nuclearelectrica SA.

**Acquisition of treasury shares** represent the acquisition cost and the brokerage fees related to the acquisition of own shares bought back by the Fund within the buy-back programmes carried during each period, through buying ordinary shares on the BVB and GDRs on the LSE.

**Dividends paid** included the net payments to shareholders regarding the dividend distribution of RON 0.0678 per share approved by shareholders during the 26 April 2018 GSM, with payment date 29 June 2018.

### Related Party Transactions

The transactions with related parties were performed in the normal course of business. For more details, please see Annex 1 “IFRS Financial Statements” Note 20.

## Subsequent Events

### Impact of New Regulatory Requirements in the Energy Sector

Following the adoption of EGO 114/2018 on 28 December 2018, in February 2019 ANRE issued the following regulations:

- Order 10/ 1 February 2019 regarding 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. The methodology would be applied for the period 1 March 2019 – 28 February 2022.
- Order 11/ 6 February 2019 regarding the methodology for the calculation of regulated electricity prices by suppliers of last resort to final consumers.

According to the new regulatory provisions, the electricity producers operating nuclear or hydro production units would be required to sell up to 65% of their expected output on the regulated market, at prices approved by ANRE based on a cost plus 5% methodology. Also, according to the methodology, the obligation to sell firm quantities of electricity based on regulated contracts would be determined by ANRE in the ascending order of the prices established according to the methodology. For March 2019 - December 2019 period, the 65% limit would not be applied. The companies in the Fund's portfolio that could face the biggest impact from the new regulations are Hidroelectrica SA and Nuclearelectrica SA.

At the date of this report uncertainties regarding the regulatory requirements for the energy companies still exist, mainly driven by the additional decisions ANRE should issue in the following period, regarding the level of regulated prices and quantity of the electricity to be sold through regulated contract by each producer.

### Signatures:

14 February 2019

Johan Meyer

Permanent Representative

Franklin Templeton International Services S.à r.l. acting in the capacity of Sole Director of Fondul Proprietatea SA

Prepared by

Catalin Cadaru

Financial Reporting Manager

Franklin Templeton Investment Management Limited United Kingdom Bucharest Branch, acting as Investment Manager on behalf of Fondul Proprietatea SA

# Annex 1

## FONDUL PROPRIETATEA SA

### ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS") and applying the Financial Supervisory Authority ("FSA") Norm no. 39/ 28 December 2015, regarding the approval of the accounting regulations in accordance with IFRS, applicable to the entities authorised, regulated and supervised by the FSA – Financial Investments and Instruments Sector ("Norm 39/2015")

(This is a translation from the official Romanian version)

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Fondul Proprietatea S.A.

### Report on the Audit of the Financial Statements

#### Opinion

1. We have audited the financial statements of Fondul Proprietatea S.A. (the "Fund"), with registered office in 78-80 Buzesti street, Bucharest, identified by unique tax registration code 18253260, which comprise the statement of financial position as at December 31, 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, including a summary of significant accounting policies and notes to the financial statements.
2. The financial statements as at December 31, 2018 are identified as follows:
  - Total Equity 9,828,445,858 RON
  - Net profit for the financial year 935,091,985 RON
3. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and applying Financial Supervisory Authority ("FSA") Norm no. 39 / 28 December 2015, regarding the approval of the accounting regulations in accordance with IFRS, applicable to the entities authorized, regulated and supervised by the FSA - Financial Investments and Instruments Sector (referred to herein as "FSA Norm no. 39 / 2015").

#### Basis for Opinion

4. We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named "the Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), in accordance with ethical requirements relevant for the audit of the financial statements in Romania including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
<p><b><u>Valuation of equity investments</u></b></p> <p>Refer to note 15 to the financial statements. The Fund's investment in equity investments represents 95% of the total assets of the Fund. This was a key area of focus in our audit due to the complexity involved in valuing some of these investments, the significance of the professional judgments and estimates included in the valuation.</p> <p>The determination of fair value for the Level 3 equity investments, representing 76% of the Fund's total equity investments, involves significant professional judgments and a high degree of estimates made by the independent valuers appointed by the Fund. These valuations have been performed as of September 30, 2018.</p> <p>These investments represent participations held by the Fund in unlisted Romanian companies, with a significant part of them being state owned companies.</p> <p>Accordingly, valuation and accounting of equity investments is considered to be a key audit matter.</p>	<p>We have assessed the key controls over the valuation process of the Fund's equity investments. Our testing of the design, implementation and operating effectiveness of the key controls provided a basis for us to continue with the planned nature, timing and extent of sample analyzed in our detailed audit procedures.</p> <p>For the material listed equity investments, we have assessed the frequency of the trading in order to identify illiquid equity securities and we have assessed the accuracy of the closing share market price.</p> <p>For a sample of unlisted equity investments with significant valuation inputs, we involved our own internal valuation specialists to critically assess the valuation methodology, assumptions and observable inputs used by the external valuers. We have also assessed the Fund management's analyses for the period subsequent to the date of the valuation reports (i.e. from 30 September 2018 to 31 December 2018), in order to identify significant events which may have a significant impact on the fair value of the unlisted equity investments. We have also assessed the accuracy of the changes in fair value that have been reflected in the financial statements.</p> <p>We have also considered whether the financial statements appropriately reflect all material disclosures in relation to equity investments. We assessed the presentation of the fair value hierarchy policy and disclosures regarding significant unobservable inputs against disclosures of IFRS 13 <i>Fair Value Measurement</i>.</p>

## **Reporting Requirements Concerning the Annual Sole Director's Report**

6. The Sole Director is responsible for preparation and presentation of the other information. The other information comprises the Sole Director's Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and the annual Sole Director's Report.

In connection with our audit of the financial statements for the year ended December 31, 2018, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Sole Director's Report we read it and report if this has been prepared, in all material respects, in accordance with the provisions of FSA Norm 39 / 2015, article no. 8-13.

On the sole basis of the procedures performed within the audit of the financial statements, in our opinion:

- a) the information included in the Sole Director's Report for the financial year for which the financial statements have been prepared is consistent, in all material respects, with these financial statements; and
- b) the Sole Director's Report has been prepared, in all material respects, in accordance with the provisions of FSA Norm 39 / 2015, article no. 8-13;

Moreover, based on our knowledge and understanding concerning the Fund and its environment gained during the audit on the financial statements prepared as at December 31, 2018, we are required to report if we have identified a material misstatement in the Sole Director's Report. We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

7. Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and applying FSA Norm no. 39 / 2015 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
8. In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.
9. Those charged with governance are responsible for overseeing the Fund's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

10. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

11. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
  - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
  - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
  - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
12. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
13. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
14. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on Other Legal and Regulatory Requirements**

15. We have been appointed by the General Assembly of Shareholders on October 26, 2017 to audit the financial statements of Fondul Proprietatea S.A. for the financial year ended December 31, 2018, following the tender process organized by the Sole Director of the Fund. The uninterrupted total duration of our commitment is 12 years, covering the financial years ended December 31, 2007 until December 31, 2018.

# Deloitte.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Fund that we issued the same date we issued this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- We have not provided for the Fund the non-audit services referred to in Article 5 (1) of EU Regulation No. 537 / 2014.

The engagement partner on the audit resulting in this independent auditor's report is Irina Dobre.

Irina Dobre, Audit Director

*For signature, please refer to the original Romanian version.*

*Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 3344*

On behalf of:

**DELOITTE AUDIT S.R.L.**

*Registered with the Authority for the Public Oversight of the Statutory Audit Activity under number 25*

Bucharest, Romania  
February 14, 2019

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

	<i>Note</i>	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Gross dividend income	6	776,233,923	740,360,617
Net gain from equity investments at fair value through profit or loss	7	229,752,209	221,324,058
Interest income		9,759,337	11,919,865
Other income, net		3,548,807	376,178
Reversal of impairment losses on receivables, net		181,374	36,378,838
Net foreign exchange (loss)/ gain		(594,477)	570,507
Realised gain from disposal of non-current assets held for sale	15	-	330,594,143
Impairment losses on equity investments classified as available for sale		-	(8,000,000)
Gain on disposal of equity investments classified as available for sale, net		-	38,527,851
<b>Net operating income</b>		<b>1,018,881,173</b>	<b>1,372,052,057</b>
<b>Operating expenses</b>	8	<b>(73,294,555)</b>	<b>(97,492,044)</b>
<b>Finance costs</b>	9	<b>(330,667)</b>	<b>(152,997)</b>
<b>Profit before income tax</b>		<b>945,255,951</b>	<b>1,274,407,016</b>
Income tax	10	(10,163,966)	15,489,023
<b>Profit for the period</b>		<b>935,091,985</b>	<b>1,289,896,039</b>
<b>Other comprehensive income</b>			
Net change in fair value of available for sale equity investments		-	315,822,981
Deferred tax on other comprehensive income		-	(18,059,165)
Decrease in fair value reserve following the disposal of available for sale equity investments		-	(383,125,871)
<b>Total other comprehensive income</b>		<b>-</b>	<b>(85,362,055)</b>
<b>Total comprehensive income for the period</b>		<b>935,091,985</b>	<b>1,204,533,984</b>
<b>Basic and diluted earnings per share</b>	11	<b>0.1236</b>	<b>0.1434</b>

The annual financial statements were authorised for issue on 14 February 2019 by:

Franklin Templeton International Services S.à r.l. acting in the capacity of Sole Director of  
 Fondul Proprietatea SA  
 Johan Meyer  
 Permanent Representative

Franklin Templeton Investment Management Limited United Kingdom Bucharest Branch, acting as  
 Investment Manager on behalf of Fondul Proprietatea SA  
 Catalin Cadaru  
 Financial Reporting Manager

The notes on pages 82 to 123 are an integral part of these annual financial statements.

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

	<i>Note</i>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Assets</b>			
Cash and current accounts	12	19,647,401	19,173,567
Deposits with banks	12	187,116,149	1,276,669,452
Treasury bills	13	49,636,197	46,277,947
Government bonds	13	131,613,207	195,923,820
Dividends receivable	14	137,018,231	-
Equity investments	15	9,337,440,399	9,278,201,345
Other assets	4 (b)	1,324,379	10,710,812
<b>Total assets</b>		<b>9,863,795,963</b>	<b>10,826,956,943</b>
<b>Liabilities</b>			
Payable to shareholders	17 (a)	19,657,190	20,705,311
Other liabilities and provisions	17 (b)	15,692,915	16,007,479
<b>Total liabilities</b>		<b>35,350,105</b>	<b>36,712,790</b>
<b>Equity</b>			
Share capital	18 (a)	4,543,838,477	4,664,852,363
Other reserves related to the unpaid share capital	18 (b)	189,182,422	189,182,422
Fair value reserve on available for sale financial assets, net of deferred tax	18 (c)	-	4,248,175,069
Other reserves	18 (d)	297,678,692	254,954,179
Treasury shares	18 (e)	(1,414,500,848)	(218,255,507)
Retained earnings		6,212,247,115	1,651,335,627
<b>Total equity</b>		<b>9,828,445,858</b>	<b>10,790,244,153</b>
<b>Total liabilities and equity</b>		<b>9,863,795,963</b>	<b>10,826,956,943</b>

The notes on pages 82 to 123 are an integral part of these annual financial statements.

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018**

(all amounts are in RON unless otherwise stated)

	Share capital	Other reserves related to the unpaid share capital	Fair value reserve on available for sale financial assets, net of deferred tax	Other reserves	Treasury shares	Retained earnings	Total attributable to the equity holders of the Fund
<b>Balance as at 1 January 2018</b>	<b>4,664,852,363</b>	<b>189,182,422</b>	<b>4,248,175,069</b>	<b>254,954,179</b>	<b>(218,255,507)</b>	<b>1,651,335,627</b>	<b>10,790,244,153</b>
Changes on initial application of IFRS 9 (see Note 3(a))	-	-	(4,248,175,069)	-	-	4,248,175,069	-
<b>Restated balance as at 1 January 2018</b>	<b>4,664,852,363</b>	<b>189,182,422</b>	<b>-</b>	<b>254,954,179</b>	<b>(218,255,507)</b>	<b>5,899,510,696</b>	<b>10,790,244,153</b>
Profit for the period	-	-	-	-	-	935,091,985	<b>935,091,985</b>
Coverage of losses from cancellation of treasury shares	-	-	-	75,624,623	-	(75,624,623)	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>75,624,623</b>	<b>-</b>	<b>859,467,362</b>	<b>935,091,985</b>
<b>Transactions with owners, recorded directly in equity</b>							
Dividends declared	-	-	-	-	-	(499,976,344)	<b>(499,976,344)</b>
Transfer to legal reserves	-	-	-	46,754,599	-	(46,754,599)	-
Acquisition of treasury shares	-	-	-	-	(1,398,169,596)	-	<b>(1,398,169,596)</b>
Cancellation of treasury shares	(121,013,886)	-	-	(80,910,369)	201,924,255	-	-
Distributions for which the statute of limitation occurred	-	-	-	1,255,660	-	-	<b>1,255,660</b>
<b>Total transactions with owners recorded directly in equity</b>	<b>(121,013,886)</b>	<b>-</b>	<b>-</b>	<b>(32,900,110)</b>	<b>(1,196,245,341)</b>	<b>(546,730,943)</b>	<b>(1,896,890,280)</b>
<b>Balance as at 31 December 2018</b>	<b>4,543,838,477</b>	<b>189,182,422</b>	<b>-</b>	<b>297,678,692</b>	<b>(1,414,500,848)</b>	<b>6,212,247,115</b>	<b>9,828,445,858</b>

The notes on pages 82 to 123 are an integral part of these annual financial statements.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts are in RON unless otherwise stated)

	Share capital	Other reserves related to the unpaid share capital	Fair value reserve on available for sale financial assets, net of deferred tax	Other reserves	Treasury shares	Retained earnings	Total attributable to the equity holders of the Fund
<b>Balance as at 1 January 2017</b>	<b>9,168,314,117</b>	-	<b>4,333,537,124</b>	<b>585,468,652</b>	<b>(654,145,163)</b>	<b>(2,047,223,082)</b>	<b>11,385,951,648</b>
<b>Comprehensive income for the period</b>							
Profit for the period	-	-	-	-	-	1,289,896,039	1,289,896,039
<b>Other comprehensive income</b>							
Net change in fair value of available for sale equity investments	-	-	315,822,981	-	-	-	315,822,981
Decrease in fair value following the disposal of available for sale equity investments	-	-	(383,125,871)	-	-	-	(383,125,871)
Deferred tax on other comprehensive income	-	-	(18,059,165)	-	-	-	(18,059,165)
Coverage of the cumulated accounting losses	(2,317,038,572)	-	-	(156,118,900)	-	2,473,157,472	-
<b>Total other comprehensive income</b>	<b>(2,317,038,572)</b>	-	<b>(85,362,055)</b>	<b>(156,118,900)</b>	-	<b>2,473,157,472</b>	<b>(85,362,055)</b>
<b>Total comprehensive income for the period</b>	<b>(2,317,038,572)</b>	-	<b>(85,362,055)</b>	<b>(156,118,900)</b>	-	<b>3,763,053,511</b>	<b>1,204,533,984</b>
<b>Transactions with owners, recorded directly in equity</b>							
Decrease of the nominal value of the shares	(1,007,408,074)	-	-	-	46,980,596	-	(960,427,478)
Transfer to legal reserves	-	-	-	64,494,802	-	(64,494,802)	-
Acquisition of treasury shares	-	-	-	-	(830,417,713)	-	(830,417,713)
Cancellation of treasury shares	(989,832,686)	-	-	(241,474,222)	1,219,326,773	-	(11,980,135)
Distributions for which the statute of limitation occurred	-	-	-	2,583,847	-	-	2,583,847
<b>Total transactions with owners recorded directly in equity</b>	<b>(1,997,240,760)</b>	-	-	<b>(174,395,573)</b>	<b>435,889,656</b>	<b>(64,494,802)</b>	<b>(1,800,241,479)</b>
Presentation adjustment related to the unpaid share capital (see Note 18(b))	(189,182,422)	189,182,422	-	-	-	-	-
<b>Balance as at 31 December 2017</b>	<b>4,664,852,363</b>	<b>189,182,422</b>	<b>4,248,175,069</b>	<b>254,954,179</b>	<b>(218,255,507)</b>	<b>1,651,335,627</b>	<b>10,790,244,153</b>

The notes on pages 82 to 123 are an integral part of these annual financial statements.

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018**

(all amounts are in RON unless otherwise stated)

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Cash flows from operating activities</b>		
Dividends received (net of withholding tax)	629,191,080	737,600,467
Proceeds from disposal of equity investments	173,047,862	1,231,878,640
Disposal/ maturity of treasury bills and bonds	130,614,054	1,505,745,830
Interest received	11,217,848	13,556,969
Amounts collected from the depository Bank of the Fund's GDRs	4,518,246	7,088,990
Acquisition of treasury bills and bonds	(151,605,451)	(501,089,955)
Suppliers and other taxes and fees paid	(114,297,470)	(130,374,830)
Other payments, net	(3,475,977)	(4,382,615)
<b>Net cash flows from operating activities</b>	<b>679,210,192</b>	<b>2,860,023,496</b>
<b>Cash flows from financing activities</b>		
Short term bank loans	-	237,000,000
Acquisition cost of treasury shares	(1,369,777,763)	(819,215,106)
Dividends paid (net of withholding tax)	(469,767,740)	(37,825)
Payments to shareholders related to the return of capital	(7,507,550)	(910,534,840)
Payment of interest and fees related to the short term bank loans	(275,556)	(152,997)
Repayment of short term bank loans	-	(237,000,000)
<b>Net cash flows used in financing activities</b>	<b>(1,847,328,609)</b>	<b>(1,729,940,768)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>(1,168,118,417)</b>	<b>1,130,082,728</b>
Cash and cash equivalents at the beginning of the period	1,441,188,216	311,105,488
<b>Cash and cash equivalents at the end of the period as per the Statement of Cash Flows</b>	<b>273,069,799</b>	<b>1,441,188,216</b>

**Reconciliation of Statement of Cash Flows with the equivalent items reported in the Statement of Financial Position**

	31 December 2018	31 December 2017
Cash and current accounts (see Note 12)	19,647,401	19,173,567
Bank deposits with original maturities of less than three months (see Note 12)	187,106,218	1,275,849,317
Treasury bills and government bonds with original maturities of less than three months	66,316,180	146,165,332
	<b>273,069,799</b>	<b>1,441,188,216</b>
Interest accrued on bank deposits (see Note 12)	9,931	820,135
Treasury bills and government bonds with original maturities of more than three months and less than one year	115,647,130	95,835,365
Fair value changes related to the government securities with original maturities of less than three months	(713,906)	201,070
<b>Total cash and current accounts, deposits with banks, treasury bills and government bonds as per Statement of Financial Position</b>	<b>388,012,954</b>	<b>1,538,044,786</b>

The notes on pages 82 to 123 are an integral part of these annual financial statements.

## 1. General information

Fondul Proprietatea SA (referred to as “Fondul Proprietatea” or “the Fund”) was incorporated as a joint stock company and is operating as an undertaking for collective investment, in the form of a closed end investment company, established in accordance with Law no. 247/2005 on the reform in the field of property and justice and other adjacent measures, as subsequently amended (“Law 247/2005”) and registered in Bucharest on 28 December 2005. The address of the Fund’s registered office is 78 - 80, Buzești Street, 7th Floor, District 1, Bucharest.

Starting 1 April 2016, Fondul Proprietatea is an alternative investment fund as defined by Alternative Investment Fund Managers Directive and by Romanian legislation.

The Fund undertakes its activities in accordance with Law 24/2017 on issuers of financial instruments and market operations, Law 74/2015 regarding Alternative Investment Fund Managers, Law 247/2005, Law 297/2004 regarding the capital market, as subsequently amended and Companies Law 31/1990 republished as subsequently amended and it is an entity authorised, regulated and supervised by the FSA, as an issuer. Until 2013, FSA was known as the National Securities Commission (“CNVM”).

In accordance with its Constitutive Act, the main activity of the Fund is the management and administration of its portfolio.

The Fund was established to allow the payment in shares equivalent to the compensation payable in respect of abusive expropriations undertaken by the Romanian State during the communist period, when properties were not returned in kind. Beginning with 15 March 2013, the date when Government Emergency Ordinance no. 4/2012 entered into force, the compensation process was suspended. In January 2015 the Law no. 10/2015 on amending Title VII of Law no. 247/2005 entered into force confirming that the Romanian State will no longer use the compensation scheme using Fondul Proprietatea shares.

The Fund is managed by Franklin Templeton International Services S.à r.l. (“FTIS”) as its Sole Director and Alternative Investment Fund Manager (“AIFM”) under the Directive 2011/61/EU on Alternative Investment Fund Managers and local implementation regulations. The initial FTIS’ mandate for a period of two years commenced on 1 April 2016 and expired on 31 March 2018. On 14 February 2018, the Fund’s shareholders approved the renewal of FTIS’ mandate for another two years starting with 1 April 2018 under a new Management Agreement which became effective starting with the same date (i.e. 1 April 2018). Under both agreements FTIS has delegated the role of Investment Manager as well as certain administrative functions to Franklin Templeton Investment Management Limited United Kingdom, Bucharest Branch (“FTIML” or “Investment Manager”) for the entire duration of its mandate as AIFM.

Starting with 29 September 2010 until 31 March 2016, the Sole Director and the Investment Manager of the Fund was FTIML.

Since 25 January 2011, Fondul Proprietatea has been a listed company on the spot regulated market managed by the Bucharest Stock Exchange in Tier I shares of the Equity Sector of the market (renamed as of 5 January 2015 as Premium Tier shares), under ISIN number ROFPTAACNOR5 with the market symbol “FP”.

Since 29 April 2015, the Fund’s Global Depositary Receipts (“GDR”) have been listed on the London Stock Exchange – Specialist Fund Market, under ISIN number US34460G1067, with the market symbol “FP.”. The Bank of New York Mellon has been appointed by the Fund to act as depositary bank in relation to the GDR facility. The GDR facility is limited to one-third of the Fund’s subscribed share capital under the Romanian securities regulations, each GDR representing 50 shares, and the currency of the GDRs is the US dollar.

## 2. Basis of preparation

### (a) Statement of compliance

These financial statements are the annual statutory financial statements of Fondul Proprietatea for the year ended 31 December 2018 prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and applying the FSA Norm 39/2015. These financial statements are available starting with 15 February 2019, on the Fund's official webpage, [www.fondulproprietatea.ro](http://www.fondulproprietatea.ro), and at the Fund's registered office.

The Fund is an investment entity and does not consolidate its subsidiaries as it applies IFRS 10, IFRS 12 and IAS 27 (Investment Entities). In consequence, the Fund does not prepare consolidated financial statements, the separate financial statements being the Fund's only financial statements. The Fund has reassessed the criteria for being an investment entity for the year ended 31 December 2018 and continues to meet them.

### (b) Basis of measurement

These annual financial statements have been prepared on a fair value basis for the main part of the Fund's assets (equity investments, treasury bills and government bonds, respectively), and on the historical cost or amortised cost basis for the rest of the items included in the financial statements.

### (c) Functional and presentation currency

These annual financial statements are prepared and presented in Romanian Lei (RON), which is the Fund's functional and presentation currency. All financial information presented in RON has been rounded to the nearest unit.

### (d) Foreign currency

Transactions in foreign currency are translated into the functional currency of the Fund at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated into the functional currency at the exchange rate at the date of the transaction and are not subsequently remeasured.

The exchange rates of the main foreign currencies, published by the National Bank of Romania at 31 December 2018 were as follows: 4.6639 RON/EUR, 4.0736 RON/USD and 5.1931 RON/GBP (31 December 2017: 4.6597 RON/EUR, 3.8915 RON/USD and 5.2530 RON/GBP).

### (e) Use of estimates

The preparation of the annual financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information and critical judgements in applying accounting policies with significant areas of estimation uncertainty that have the most significant impact on the amounts recognised in these annual financial statements, are included in the following notes:

- Note 4 – Risk management;
- Note 15 – Equity investments;
- Note 16 – Deferred tax;
- Note 19 – Contingencies.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

### 3. Significant accounting policies

Except for the changes related to the adoption of IFRS 9 Financial Instruments (“IFRS 9”) described below, the accounting policies applied in these annual financial statements have been applied consistently to all years presented in these annual financial statements.

#### (a) Adoption of IFRS 9

IFRS 9 replaces the existing guidance in IAS 39 “Financial Instruments: Recognition and Measurement” and includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Fund adopted IFRS 9 with the date of initial application 1 January 2018. The Fund holds the following types of financial instruments that fall under the scope of IFRS 9: equity investments, government bonds, treasury bills, cash and current accounts, deposits with banks and other assets and liabilities. Following the analysis performed, the Fund decided to classify starting with the date of initial application of IFRS 9, all its equity investments as equity investments at fair value through profit or loss (the default option under IFRS 9). This is consistent with the Fund’s business model of managing the performance of its portfolio on a fair value basis with the objective to maximize the returns to shareholders and the increase of the net asset value per share via investments mainly in Romanian equities and equity-linked securities.

There was no change in the carrying amounts of financial assets and liabilities upon transition to IFRS 9 on 1 January 2018 compared to their previous measurement in accordance with IAS 39. The classification and the carrying amount of the financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are presented below:

Instrument type	IAS 39 (31 December 2017)		IFRS 9 (1 January 2018)	
	Measurement category	Carrying amount	Measurement category	Carrying amount
Subsidiaries and associates	Fair value through profit or loss	271,735,746	Fair value through profit or loss	271,735,746
Equity investments at fair value through profit or loss	Fair value through profit or loss	1,619,774,750	Fair value through profit or loss	1,619,774,750
Other equity investments	Available for sale	7,386,690,849	Fair value through profit or loss	7,386,690,849
Cash and current accounts and deposits with banks	Loans and receivables	1,295,843,019	Amortised cost	1,295,843,019
Treasury bills	Fair value through profit or loss	46,277,947	Fair value through profit or loss	46,277,947
Government bonds	Fair value through profit or loss	195,923,820	Fair value through profit or loss	195,923,820
Other financial assets	Loans and receivables	1,647,570	Amortised cost	1,647,570
Other liabilities	Other financial liabilities at amortised cost	(35,000,138)	Other financial liabilities at amortised cost	(35,000,138)

As result of the adoption of IFRS 9, as at 1 January 2018 (the date of initial application), the fair value reserve on available for sale financial assets net of the related deferred tax in total amount of RON 4,248,175,069 was transferred to retained earnings.

In accordance with the transitional provisions of IFRS 9, the Fund through its Sole Director, FTIS, chose to not restate prior periods.

### 3. Significant accounting policies (continued)

#### (b) Subsidiaries and associates

Subsidiaries are entities controlled by the Fund. The Fund controls an investee when the Fund is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Associates are those entities in which the Fund has significant influence over the financial and operating policies, but not control or joint control. The existence of significant influence is assessed, in each reporting year, by analysing the ownership structure of the companies in which the Fund holds 20% or more of the voting power of the investee, their articles of incorporation and the Fund's power to participate in the financial and operating policy decisions of the investee.

However, the Fund does not exercise significant influence in several companies in which it holds between 20% and 50% of the voting power, where the Fund's rights as minority shareholder are protective in nature, and not participative and where the major shareholder, or a group of shareholders holding majority ownership of the investee, operate without regard to the views of the Fund.

Also, in situations where the Fund holds less than 20% of the voting power of an investee, but it is a significant shareholder and demonstrates that it has significant influence through Board representation and participates in the policy making decisions, the investee is considered an associate.

As at 31 December 2018 and 31 December 2017, there were three portfolio companies which met the criteria for classification as subsidiaries and two portfolio companies which met the criteria for classification as associates. The lists of subsidiaries and associates as at 31 December 2018 and 31 December 2017 are disclosed in Note 20 (b) and (c).

#### (c) Financial assets and liabilities

##### *1. Accounting policies applicable starting 1 January 2018*

##### *(i) Recognition*

The Fund recognises financial assets and liabilities on the date it becomes a party to the contractual provisions of the instrument. The Fund applies trade date accounting.

Financial assets and liabilities are recognised initially at fair value plus, in case of financial assets and financial liabilities not measured at fair value through profit or loss, any directly attributable transaction costs (including brokerage fees).

Mergers of portfolio companies are recognised at the date when the merger is registered with the Trade Register.

##### *(ii) Classification*

- *Financial assets at fair value through profit or loss*

As result of the adoption of IFRS 9, as at 1 January 2018 the Fund classified all its equity investments as equity investments at fair value through profit or loss (the default option under IFRS 9).

Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are recorded in profit or loss. Subsequent measurement is at fair value and all changes in fair value are accounted for through profit or loss. Financial assets at fair value through profit or loss are not subject to the review for impairment.

- *Financial assets and liabilities at amortised cost*

Financial assets and liabilities are measured at amortised cost using the effective interest method, less any impairment losses (of financial assets). Financial assets and liabilities at amortised cost include cash and current accounts, deposits with banks, dividends receivable, payables to shareholders, amounts due to service suppliers and other receivables and payables.

### 3. Significant accounting policies (continued)

#### (c) Financial assets and liabilities (continued)

##### (ii) Classification (continued)

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

- *Financial assets reclassified as non-current assets held for sale*

See accounting policy 3(d) for details.

##### (iii) Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Fund derecognises a financial liability when its contractual obligations are discharged, cancelled or have expired.

##### (iv) Offsetting

Financial assets and liabilities are offset, and the net amount is presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

##### (v) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence, in the most advantageous market to which the Fund has access at that date.

When available, the Fund measures the fair value of an equity instrument using quoted prices in an active market for that instrument at the reporting date. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair values of equity instruments that are not traded in an active market are determined and approved by the Fund's Sole Director, based on independently appraised valuation reports, using valuation techniques in accordance with International Valuation Standards.

The Fund uses a variety of methods and makes assumptions that are based on the market conditions existing at each reporting date. Valuation techniques used are recognised as standard within the industry and include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and other valuation techniques commonly used by market participants, making maximum use of observable market inputs and relying as little as possible on entity-specific inputs. Some of the inputs to these models may not be observable in the market and are therefore estimated based on various assumptions.

The valuation techniques selected incorporate all the factors that market participants would consider in pricing a transaction.

The output of a valuation model is always an estimate/ an approximation of a fair value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Therefore, where appropriate, the valuations are adjusted to reflect additional factors, including model risk, liquidity risk and counterparty risk.

### 3. Significant accounting policies (continued)

#### (c) Financial assets and liabilities (continued)

##### (vi) *Identification and measurement of impairment*

The Fund recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or on other receivables. No impairment loss is recognised for the Fund's investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Fund recognises lifetime expected credit losses when there has been a significant increase in credit risk since the initial recognition of the instrument. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Fund measures the loss allowance for that financial instrument at an amount equal to 12 months expected credit losses. The Fund's assessment of whether lifetime expected credit losses should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime expected credit losses represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 months expected credit losses represents the portion of lifetime expected credit losses that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

##### *II. Accounting policies applicable before 1 January 2018*

The same accounting policies mentioned above at point 3 (c) (I) (i), (iii), (iv) and (v) were applicable before 1 January 2018, except for the ones detailed below.

#### *Classification of financial assets and liabilities*

- *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss were initially recognised at fair value and transaction costs were recorded in profit or loss. Subsequent measurement was at fair value and all changes in fair value were accounted for through profit or loss. Financial assets at fair value through profit or loss were not subject to the review for impairment.

The Fund being an investment entity has classified and measured its investments in subsidiaries and associates as financial assets at fair value through profit or loss. If an investment no longer met the criteria for classification as a subsidiary or associate, the Fund would continue to classify and measure it as a financial asset at fair value through profit or loss. The other equity investments were classified as available for sale financial assets.

The Fund's investments in government bonds and in short-term treasury bills could also be classified as financial assets at fair value through profit or loss.

- *Available for sale financial assets*

##### *Debt instruments*

The Fund's investments in treasury bills could be classified as available for sale financial assets.

##### *Equity investments*

The Fund's investments in equity instruments, other than subsidiaries and associates and equity investments previously classified as subsidiaries and associates were classified as available for sale financial assets and were measured at fair value through other comprehensive income. Changes therein, other than impairment losses, were recognised in equity (other comprehensive income).

The equity investments of the Fund were valued as follows:

- at fair value, determined by reference to published closing prices on the stock exchange where shares were traded (listed and liquid securities), or assessed, using valuation techniques in accordance with International Valuation Standards (unlisted securities);

### 3. Significant accounting policies (continued)

#### (c) Financial assets and liabilities (continued)

- at the values considered to be equivalent to fair value, being the values used in the calculation of the net asset value of the Fund, determined in accordance with the regulations issued by the FSA/CNVM and reported monthly (equity instruments that did not have a quoted price in an active market and whose fair value was not available). These were estimated as follows:
  - fair values internally assessed using assumptions that were based on market conditions existing at each reporting date;
  - using the shareholders' equity as per the most recently available annual financial statements of the issuers (adjusted with the dividends declared by that issuer, if the case), proportionally with the stake held by the Fund;
  - valued at nil, for holdings in companies in liquidation, dissolution, bankruptcy or with negative shareholders' equity, companies in insolvency or reorganisation.

- *Loans and receivables*

Loans and receivables included cash and current accounts, deposits with banks, dividends receivable and other receivables.

- *Other financial liabilities at amortised cost*

Other financial liabilities were measured at amortised cost using the effective interest method. Other financial liabilities at amortised cost included payables to shareholders, balances due to brokers, amounts due to service suppliers and other payables.

#### ***Identification and measurement of impairment***

At each reporting date, the Fund assessed whether there was objective evidence that financial assets are impaired. Financial assets were impaired when objective evidence demonstrates that a loss event had occur after the initial recognition of the asset, and that the loss event had an impact on the future cash flows of the asset, that could be estimated reliably. The impairment losses recorded by the Fund mainly related to the equity investments available for sale.

#### *Financial assets carried at amortised cost*

Impairment losses on assets carried at amortised cost were measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in the impairment loss is reversed through profit or loss.

#### *Available for sale financial assets – equity investments*

Impairment losses on available for sale equity investments were recognised by transferring the cumulative loss that had been recognised in equity (other comprehensive income) to profit or loss, which was calculated as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent year, the fair value of an impaired equity investment increased, the recovery would be recognised in equity (other comprehensive income). For assessing which equity investments were impaired, the Fund considered all relevant factors, such as: significant or prolonged decline in fair value below cost, market and industry conditions, to the extent that they influenced the recoverable amount of the investment, financial conditions and near-term prospects of the issuer, any specific adverse events that could influence the issuer's operations, recent losses of the issuer, qualified independent auditor's report on the issuer's most recent financial statements, etc.

### 3. Significant accounting policies (continued)

#### (d) Non-current assets held for sale

An asset is classified as a non-current asset held for sale and presented separately in the statement of financial position when the following criteria are met: the Fund is committed to selling the asset, an active plan of sale has commenced, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale is expected to be completed within twelve months without significant changes to the plan. According to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* the instruments in the scope of IFRS 9 *Financial Instruments* continue to be measured according to this standard after the reclassification as non-current assets held for sale. The disclosures in the financial statements for non-current assets held for sale are in accordance to IFRS 5.

There were no assets in the Fund's portfolio classified as non-current assets held for sale as at 31 December 2018 and 31 December 2017.

#### (e) Cash and current accounts and deposits with banks

Cash and current accounts include petty cash and current accounts held with banks. Deposits with banks include deposits with original maturities of less than one year. Cash and current accounts and deposits with banks are carried at amortised cost, which approximate their fair value.

Deposits with banks, Government bonds and treasury bills with original maturities of less than three months are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### (f) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effect. The share capital accounting presentation and measurement are generally following the legal requirements. Due to the complexity of the legal framework and necessary approvals with respect to share capital transactions, only successful completion of the legal steps can trigger the accounting recognition.

#### (g) Treasury shares

The Fund recognises the treasury shares (repurchases of own shares) at trade date as a deduction to shareholders' equity. Treasury shares are recorded at acquisition cost, including brokerage fees and other transaction costs directly related to the acquisition.

The GDRs bought back by the Fund are accounted for exactly as the own ordinary shares repurchased, as a deduction to shareholders' equity. This is the result of the application of substance over form principle, due to the fact that buy-back via GDRs is only a technical/ legal form of the transaction, the substance of the transaction being that the Fund buys back its own shares, giving the same rights to both the holders of the Fund's ordinary shares and to the holders of the Fund's GDRs, to take part in the buy-back programmes carried out by the Fund.

The cancellation of treasury shares is performed in accordance with the shareholder's approval after all legal requirements are fulfilled. At cancellation, the treasury shares balance is netted off against the share capital and reserves.

The cancellation of treasury shares may trigger gains or losses, depending on the treasury shares' acquisition value as compared to their nominal value. The gains or losses resulted from the cancellation of the treasury shares are directly recognised within the shareholders' equity and distinctively presented in the notes to the financial statements.

#### (h) Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are estimated by discounting the expected future cash outflows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### 3. Significant accounting policies (continued)

#### (i) Dividend income

Dividend income related to listed equity investments is recognised in profit or loss on the ex-dividend date. Dividend distributions from unlisted equity investments are recognised in profit or loss as dividend income when declared, at the date when the dividend distribution is approved by the General Shareholders Meeting (“GSM”) of the respective company.

When the Fund receives or chooses to receive dividends in the form of additional shares rather than cash, the dividend income is recognised for the amount of the cash dividend alternative, with the corresponding debit treated as an additional investment.

When bonus shares are received with no cash alternative and if only certain shareholders are granted additional shares, these are measured at fair value and a corresponding amount of dividend income is recognised. However, if all shareholders receive bonus shares in proportion to their shareholdings, no dividend income is recognised as the fair value of the Fund’s interest is unaffected by the bonus share issue.

For overdue dividend receivables, the Fund initiates legal recovery measures (conciliation, litigations, etc.). The Fund is entitled to charge penalties for overdue amounts from net dividends, applying the legal penalty interest rate according to the legislation in force. Penalty income on dividends is recognised when collection is virtually certain.

Dividend income is presented gross of dividend withholding taxes, which are separately recognised as income tax expense. Dividend withholding taxes are calculated in accordance with the provisions of the Romanian Fiscal Code.

#### (j) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

Interest income relates to current accounts, deposits held with banks, treasury bills and government bonds. In case of financial assets at fair value through profit or loss, the Fund’s accounting policy is to record the accrued interest income separately from the changes in fair value.

#### (k) Gains and losses from disposal of equity investments

Gains and losses from the disposal of equity investments are recognised in profit or loss at the date of derecognising the financial asset and are calculated as the difference between the consideration received (including any new asset obtained less any new liability assumed) and the carrying amount of the financial asset at the disposal date.

The realised gains and losses from the disposal of equity investments classified as financial assets at fair value through profit or loss are presented in the statement of comprehensive income under the caption “Net gain from equity investments at fair value through profit or loss”, together with the unrealised gains and losses from the change in the fair value of these instruments.

The realised gains and losses from the disposal of equity investments classified as non-current assets held for sale are presented in the statement of comprehensive income under the caption “Realised gain from disposal of non-current assets held for sale”.

Before 1 January 2018, the initial date of the adoption of IFRS 9, the Fund had equity investments classified as available for sale financial assets that were measured at fair value through other comprehensive income. In such cases, the gains and losses from the disposal of equity investments were recognised in profit or loss at the date of derecognising the financial asset and were calculated as the difference between the carrying amount of the financial asset at the disposal date and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been previously recognised in other comprehensive income.

### 3. Significant accounting policies (continued)

#### (l) Foreign currency gains and losses

Foreign currency gains and losses are recognised in profit or loss on a net basis and include the realised and unrealised foreign exchange differences. The Fund's investments and most part of its transactions are denominated in RON.

#### (m) Expenses

All expenses are recognised in profit or loss on an accrual basis.

#### (n) Income tax

Income tax expense comprises current and deferred tax. Current tax also includes dividend withholding taxes.

Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in equity (other comprehensive income), in which case it is recognised in equity (other comprehensive income).

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the reporting year. Current tax for current and prior years is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior years exceeds the amount due for those years, the excess is recognised as an asset.

The deferred tax is the amount of future income taxes expected to be payable (recoverable) in respect of taxable temporary differences.

Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Deferred tax liabilities are the amounts of income taxes payable in future years in respect of taxable temporary differences.

Deferred tax assets are the amounts of income taxes recoverable in future years in respect of: (a) deductible temporary differences; and (b) the carry forward of unused tax losses. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, which intend to settle current tax liabilities and assets on a net basis or whose tax assets and liabilities will be realised simultaneously.

Deferred tax is measured at the tax rates that are expected to be applied in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The effect on deferred tax of any changes in tax rates is charged to profit or loss, except to the extent that it relates to items previously recognised in equity (other comprehensive income), which are recognised in equity (other comprehensive income).

During 2018 and 2017, the applicable standard tax rate was 16%. The applicable dividend withholding tax was nil in case of holdings over 10% of the total share capital of the issuer, held for an uninterrupted period of at least one year and 5% in case of the other holdings.

#### (o) Distributions to shareholders

According to the Fund's cash distribution policy, the distributions to shareholders may comprise dividend distributions and returns of capital, subject of corporate approvals, legal provisions in force and financial sources.

Dividends declared by the Fund are recorded as dividend payable at the date when these are approved by the Fund's GSM, as this is the date when from legally point of view, the Fund's liability to shareholders arises.

Returns of capital declared by the Fund are recorded as payable at the date when all legal requirements and substantive conditions stipulated in the Fund's GSM resolution approving the respective distribution are met.

### 3. Significant accounting policies (continued)

#### (o) Distributions to shareholders (continued)

According to the provisions of the legislation in force, the statute of limitation occurs three years after the date when the respective distribution commenced except for specific instances that are individually assessed. Starting with the date when the statute of limitation occurred, the shareholders are no longer entitled to collect the respective distribution.

At the date when the statute of limitation for distributions occurs, the Fund records the value of the outstanding uncollected distribution through retained earnings or reserves, as applicable.

#### (p) Basic and diluted earnings per share

Basic and diluted earnings/ (loss) per share is calculated by dividing the profit or loss for the year by the weighted average number of ordinary paid shares in issue during the year, excluding the average number of ordinary shares purchased by the Fund and held as treasury shares.

The weighted average number of ordinary shares outstanding during the year is the number of ordinary paid shares outstanding at the beginning of the year, adjusted by the number of ordinary shares bought back during the year (based on their settlement date) multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the reporting year.

As at 31 December 2018 and 31 December 2017, none of the Fund's issued shares or other instruments had dilutive effect, therefore basic and diluted earnings per share are the same.

#### (q) Board of Nominees members' benefits

The Fund has no employees, but from the benefits point of view, the members of the Board of Nominees have the same fiscal treatment as employees, as they have mandate agreements (as opposed to labour agreements). During the normal course of business, the Fund makes payments due to the state health and social security funds related to the remuneration of the members of the Board of Nominees in accordance with the regulations in force. Such costs are recognised in profit or loss as part of the remunerations.

All members of the Board of Nominees are members of the pension plan of the Romanian State. The Fund does not operate any pension plan or post-retirement benefits plan and therefore has no obligations regarding pensions.

#### (r) Standards and interpretations effective in the current year

The following new standards, amendments to the existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union ("EU"), applicable to the Fund, are effective for the current reporting period:

- IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

Except for IFRS 9, the Fund considers that the adoption of these standards, revisions and interpretations has not led to any material change in its annual financial statements.

The Fund adopted IFRS 9 with the date of initial application 1 January 2018. The adoption of IFRS 9 had no impact on the measurement basis of the financial assets and liabilities (see *Note 3 (a)* for further details).

### 3. Significant accounting policies (continued)

#### (s) Standards and interpretations issued by the IASB and adopted by the EU but not yet effective

As at the reporting date the following new standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU, applicable to the Fund, were in issue but not yet effective:

- IFRS 16 “Leases” – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23 “Uncertainty over Income Tax Treatments” – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The Fund analysed the impact of the adoption of IFRS 16 and the other standards mentioned above and anticipates that none of these will have a material impact on its annual financial statements in the year of initial application. The Fund will apply these standards starting with their effective date.

#### (t) Standards and interpretations issued by the IASB but not yet adopted by the EU

As at the reporting date, IFRSs as adopted by the EU do not significantly differ from regulations adopted by the IASB except for the following standards and amendments to the existing standards, which are applicable to the Fund and which were not endorsed as at the reporting date of these financial statements:

- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015 -2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

The Fund estimates that the adoption of these new standards and amendments to the existing standards will have no material impact on its annual financial statements in the year of initial application.

### 4. Risk management

The Fund’s investment portfolio comprises listed and unlisted equity investments.

The Fund’s investing activities expose it to various types of risks that are associated with the financial instruments and with the markets in which it invests. The most important types of financial risks to which the Fund is exposed are market risk, credit risk and liquidity risk.

The management of the Fund implemented financial risk management procedures consistent with those applied globally by FTIS.

#### (a) Market risk

Market risk is the risk that changes in market prices and rates, such as equity prices, interest rates and foreign exchange rates will affect the Fund’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(all amounts are in RON unless otherwise stated)

## 4. Risk management (continued)

**(a) Market risk (continued)***(i) Equity price risk*

Equity price risk is the risk that the value of an equity instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to its issuer or factors affecting all instruments traded in the market.

Equity price risk arises from changes in the value of equity investments and is the primary risk impacting the Fund. Diversification across securities and industries, to the possible extent, is the primary technique for mitigating equity price risk. The companies in which the Fund holds equity instruments operate in different industries. The Fund has concentrated exposures to the “Power utilities: generation”, “Power and gas utilities: distribution and supply” and “Oil and gas” sectors.

The Fund’s exposure to industries is detailed below:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Power utilities: generation	4,058,549,777	3,795,340,343
Power and gas utilities: distribution, supply	1,696,000,000	1,896,000,000
Oil and gas	1,693,400,875	1,671,896,731
Infrastructure	1,172,803,600	1,080,590,262
Heavy industry	277,129,000	259,839,000
Aluminium	224,484,919	238,333,015
Banks	190,965,914	285,646,454
Postal services	6,700,000	35,000,000
Others	17,406,314	15,555,540
	<b><u>9,337,440,399</u></b>	<b><u>9,278,201,345</u></b>

As at 31 December 2018, the Fund has equity investments of RON 2,282,401,486 listed on the Bucharest Stock Exchange, which are included in the BET-BK index (31 December 2017: RON 2,393,216,543).

For the listed liquid investments, a ten per cent increase in the BET-BK index at 31 December 2018 would have impact the profit or loss and increase equity by RON 273,204,517 (31 December 2017: RON 264,943,722 out of which the impact on profit or loss would be RON 183,196,524 and the impact on other comprehensive income would be RON 81,747,197).

An equal change in the opposite direction as at 31 December 2018 would have impact the profit or loss and decrease equity by RON 273,204,517 (31 December 2017: RON 264,943,722 out of which impact on profit or loss would have been RON 183,196,524 and impact on other comprehensive income would have been RON 81,747,197).

This analysis assumes that all other variables remain constant.

*(ii) Interest rate risk*

The Fund places cash into fixed rate bank deposits and short-term government securities with fixed interest rates and original maturities of up to one year. Any potential reasonable movement in interest rates would have an immaterial effect on the Fund.

At the reporting date the interest rate profile of the Fund’s interest-bearing financial instruments was:

<b>Fixed rate instruments</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Bank deposits with original maturities of less than three months	187,106,218	1,275,849,317
Treasury bills	49,305,782	46,186,986
Government bonds	129,768,275	190,022,923
	<b><u>366,180,275</u></b>	<b><u>1,512,059,226</u></b>

The above balances of fixed rate instruments do not include the related accrued interest.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

## 4. Risk management (continued)

**(a) Market risk (continued)***(iii) Currency risk*

The Fund's exposure to currency risk is not significant. The Fund held current accounts with banks and receivables and payables denominated in foreign currencies (EUR, USD and GBP), but the balances were immaterial during the reporting period.

During 2018, the local currency depreciated compared to the EUR (from 4.6597 RON/EUR at 31 December 2017 to 4.6639 RON/EUR at 31 December 2018) and compared to the USD (from 3.8915 RON/USD at 31 December 2017 to 4.0736 RON/USD at 31 December 2018) and appreciated compared to the GBP (from 5.2530 RON/GBP at 31 December 2017 to 5.1931 RON/GBP at 31 December 2018).

The Fund's exposure to currency risk was as follows:

<b>RON</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Monetary assets</b>		
Petty cash	198	973
Current accounts with banks	19,643,101	19,166,449
Deposits with banks	187,116,149	1,276,669,452
Treasury bills	49,636,197	46,277,947
Government bonds	131,613,207	195,923,820
Dividends receivable	137,018,231	-
Other financial assets	-	1,647,570
	<b>525,027,083</b>	<b>1,539,686,211</b>
<b>Monetary liabilities</b>		
Other financial liabilities	(32,692,204)	(33,286,515)
	<b>492,334,879</b>	<b>1,506,399,696</b>
<b>EUR (in RON equivalent)</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Monetary assets</b>		
Current accounts with banks	1,775	3,130
<b>USD (in RON equivalent)</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Monetary assets</b>		
Current accounts with banks	930	1,289
<b>Monetary liabilities</b>		
Other financial liabilities	(489,816)	(1,294,602)
	<b>(488,886)</b>	<b>(1,293,313)</b>
<b>GBP (in RON equivalent)</b>		
<b>Monetary assets</b>		
Current accounts with banks	1,397	1,726
<b>Monetary liabilities</b>		
Other financial liabilities	-	(419,021)
	<b>1,397</b>	<b>(417,295)</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

## 4. Risk management (continued)

**(a) Market risk (continued)***(iii) Currency risk (continued)*

A ten percent strengthening of the RON against the EUR, USD and GBP respectively as at 31 December 2018 and 31 December 2017 would have the following impact on profit or loss (the analysis assumes that all other variables remain constant), impact expressed in RON:

<b>Profit / (loss)</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
EUR	(178)	(313)
USD	48,889	129,331
GBP	(140)	41,730

As at 31 December 2018 and 31 December 2017, the Fund did not hold any equity investment denominated in a currency other than RON.

**(b) Credit risk**

Credit risk is the risk of financial loss to the Fund if counterparties to financial instruments fail to meet their contractual obligations, and arises principally from cash and deposits with banks, treasury bills, government bonds and other receivables.

*(i) Cash and deposits with banks*

The Fund's maximum exposure to credit risk from cash and deposits with banks was RON 206,763,352 at 31 December 2018 (31 December 2017: RON 1,295,842,046). Cash and deposits with banks are held with the following banks:

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Cash and deposits held with banks</b>		
BRD - Groupe Societe Generale	73,482,658	206,980,370
Unicredit Bank	44,603,734	228,496,332
Banca Comerciala Romana	44,357,360	236,967,376
ING Bank	44,317,134	287,260,773
Citi Bank	1,450	197,369,145
Raiffeisen Bank	1,016	138,768,050
	<b>206,763,352</b>	<b>1,295,842,046</b>

Current accounts and deposits are held with banks in Romania. The management of the Fund implemented a formal policy regarding bank counterparty risks and limits. The Fund only establishes new deposits with financial institutions where the institution or the institution's corporate parent has a credit rating "investment grade" (BBB- or better). The counterparty credit risk is also diversified by allocating the cash and cash equivalents across several banks. The selection of financial institutions as deposit takers was made and the exposure limits were decided upon based on their credit ratings.

All current accounts and deposit balances are assessed to have low credit risk as they are held with reputable banking institutions.

*(ii) Treasury bills*

The Fund's maximum exposure to credit risk from treasury bills was RON 49,636,197 as at 31 December 2018 (31 December 2017: RON 46,277,947). These items are assessed to have low credit risk being issued by the Ministry of Public Finance of Romania.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

## 4. Risk management (continued)

**(b) Credit risk (continued)***(ii) Treasury bills (continued)*

As of 31 December 2018, the Fund held the following discount treasury bills, denominated in RON:

ISIN	Value as at 31 December 2018	No. of units	Yield to maturity	Maturity date
ROX16RE0GF33	24,825,390	5,000	3.00%	27-Mar-2019
ROX16RE0GF33	24,810,807	5,000	3.25%	27-Mar-2019
<b>Total</b>	<b>49,636,197</b>			

As of 31 December 2017, the Fund held the following discount treasury bills, denominated in RON:

ISIN	Value as at 31 December 2017	No. of units	Yield to maturity	Maturity date
RO1718CTN013	13,293,337	2,670	0.75%	25-Jul-2018
RO1718CTN0C3	32,984,610	6,600	1.87%	10-Jan-2018
<b>Total</b>	<b>46,277,947</b>			

*(iii) Government bonds*

The Fund's maximum exposure to credit risk from government bonds was RON 131,613,207 as at 31 December 2018 (31 December 2017: RON 195,923,820). These items are assessed to have low credit risk being issued by the Ministry of Public Finance of Romania.

As at 31 December 2018, the Fund held the following government bonds, denominated in RON:

ISIN	Value as at 31 December 2018	No. of units	Coupon rate	Maturity date
RO1519DBN037	66,010,933	13,000	2.50%	29-Apr-2019
RO1619DBN035	65,602,274	13,000	1.35%	25-Feb-2019
<b>Total</b>	<b>131,613,207</b>			

As at 31 December 2017, the Fund held the following government bonds, denominated in RON:

ISIN	Value as at 31 December 2017	No. of units	Coupon rate	Maturity date
RO1418DBN040	195,923,820	37,978	3.25%	17-Jan-2018
<b>Total</b>	<b>195,923,820</b>			

*(iv) Other assets*

As at 31 December 2018, the Fund has no significant credit risk from other assets.

As at 31 December 2017, the Fund had a net receivable of RON 1,612,518 from the Romanian Central Depository in relation to 2015 return of capital to shareholders for which the payment invalidation date was on 2 July 2018 when the remaining balance was fully paid back to the Fund by Central Depository.

As at 31 December 2018, the Fund has a receivable from dividends of RON 137,018,231 from Hidroelectrica SA which was cashed in January 2019.

The Fund had no significant credit risk from dividends receivable as at 31 December 2017.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

## 4. Risk management (continued)

**(c) Liquidity risk**

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. The following tables present the split of the Fund's financial assets and financial liabilities by residual maturities:

	Less than 1 month	1 to 3 months	3 to 12 months	No fixed maturity	Total
<b>31 December 2018</b>					
<b>Financial assets</b>					
Cash and current accounts	19,647,401	-	-	-	19,647,401
Deposits with banks	187,116,149	-	-	-	187,116,149
Treasury bills	-	49,636,197	-	-	49,636,197
Government bonds	-	65,602,274	66,010,933	-	131,613,207
Dividends receivable	137,018,231	-	-	-	137,018,231
Equity investments at fair value through profit and loss	-	-	-	9,337,440,399	9,337,440,399
	<b>343,781,781</b>	<b>115,238,471</b>	<b>66,010,933</b>	<b>9,337,440,399</b>	<b>9,862,471,584</b>
<b>Financial liabilities</b>					
Other financial liabilities	33,182,020	-	-	-	33,182,020
	<b>33,182,020</b>	-	-	-	<b>33,182,020</b>
<b>31 December 2017</b>					
<b>Financial assets</b>					
Cash and current accounts	19,173,567	-	-	-	19,173,567
Deposits with banks	1,276,669,452	-	-	-	1,276,669,452
Treasury bills	32,984,610	-	13,293,337	-	46,277,947
Government bonds	195,923,820	-	-	-	195,923,820
Equity investments at fair value through profit and loss	-	-	-	1,891,510,496	1,891,510,496
Equity investments available for sale	-	-	-	7,386,690,849	7,386,690,849
Other financial assets	1,647,570	-	-	-	1,647,570
	<b>1,526,399,019</b>	-	<b>13,293,337</b>	<b>9,278,201,345</b>	<b>10,817,893,701</b>
<b>Financial liabilities</b>					
Other financial liabilities	35,000,138	-	-	-	35,000,138
	<b>35,000,138</b>	-	-	-	<b>35,000,138</b>

The Fund's equity investments include unlisted instruments issued by companies domiciled in Romania which may be considered illiquid and listed but not liquid instruments (respectively 76% of total equity investments as at 31 December 2018 and 74% of total equity investments as at 31 December 2017). Liquidity can vary during over time and from market to market and some investments may take longer to sell. As a result, the Fund may not be able to sell some of its investments in these instruments within the time constraints imposed by its own liquidity requirements, or to respond to specific events such as deterioration in the credit worthiness of any particular issuer. As a closed ended investment fund, liquidity risks attributable to the Fund are less significant than for an open-ended fund. Not all shares listed on the Bucharest Stock Exchange are considered liquid due to insufficient volumes of transactions. The Fund prudently manages liquidity risk by maintaining sufficient liquid assets to finance current liabilities.

#### 4. Risk management (continued)

##### **(d) Taxation risk**

The Fund had to conform to European Union legislation from 1 January 2007 when Romania became a member of the European Union.

Interpretation of the text and practical implementation procedures of the EU tax regulations could vary, and there is a risk that certain transactions, for example, could be viewed differently by the tax authorities as compared to the Fund's treatment.

Furthermore, the Romanian Government has several agencies that are authorised to conduct audits (controls) of companies operating in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. It is likely that the Fund will continue to be subject to regular controls as new laws and regulations are issued.

The frequent changes of Romanian tax legislation without respecting the transparency rules also increase the uncertainty and tax risk.

##### **(e) Operating environment**

While uncertainty still exists within the European political environment regarding the direction of fiscal policies, responding central bank action and outcome of the Brexit, equity markets will be exposed to continued volatility, especially with regards to countries with strong ties to Europe. Commodity markets may as well experience prolonged volatility given uncertainty regarding global trade relationships and increasing protectionism.

Both political uncertainty and fluctuation in commodity prices, particularly in the energy sector, can have an impact on the Romanian economy and consequently on the Fund's portfolio companies. Management cannot predict all developments with an impact on the Romanian economy and consequently what effect, if any, they could have on the performance of the Fund and its financial statements. Management cannot reliably estimate the effects on the Fund's financial statements of any further deterioration in the liquidity of the financial markets and devaluation of financial assets influenced by the increased volatility in the equity and currency markets.

##### **(f) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Fund's processes, service providers, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all the Fund's operations.

The Fund's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Fund's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

##### **(g) Capital management**

The Fund's policy is to maintain a strong capital base to maintain shareholders' confidence and to sustain future developments.

The Fund's shareholders' equity comprises share capital, reserves and retained earnings, net of treasury shares. The shareholders' equity was RON 9,828,445,858 at 31 December 2018 (31 December 2017: RON 10,790,244,153).

The Fund was not subject to externally imposed capital requirements.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

(all amounts are in RON unless otherwise stated)

## 5. Financial assets and financial liabilities

**Accounting classifications and fair values**

The table below presents the carrying amounts and fair values of the Fund's financial assets and financial liabilities:

	<b>Other financial assets at amortised cost</b>	<b>Fair value through profit or loss</b>	<b>Other financial liabilities at amortised cost</b>	<b>Total carrying amount</b>	<b>Fair value</b>	
<b>31 December 2018</b>						
Cash and current accounts	19,647,401	-	-	19,647,401	19,647,401	
Deposits with banks	187,116,149	-	-	187,116,149	187,116,149	
Treasury bills	-	49,636,197	-	49,636,197	49,636,197	
Government bonds	-	131,613,207	-	131,613,207	131,613,207	
Dividends receivable	137,018,231	-	-	137,018,231	137,018,231	
Equity investments	-	9,337,440,399	-	9,337,440,399	9,337,440,399	
Other financial liabilities	-	-	(33,182,020)	(33,182,020)	(33,182,020)	
	<b>343,781,781</b>	<b>9,518,689,803</b>	<b>(33,182,020)</b>	<b>9,829,289,564</b>	<b>9,829,289,564</b>	
	<b>Loans and receivables</b>	<b>Available for sale</b>	<b>Fair value through profit or loss</b>	<b>Other financial liabilities at amortised cost</b>	<b>Total carrying amount</b>	<b>Fair value</b>
<b>31 December 2017</b>						
Cash and current accounts	19,173,567	-	-	-	19,173,567	19,173,567
Deposits with banks	1,276,669,452	-	-	-	1,276,669,452	1,276,669,452
Treasury bills	-	-	46,277,947	-	46,277,947	46,277,947
Government bonds	-	-	195,923,820	-	195,923,820	195,923,820
Equity investments	-	7,386,690,849	1,891,510,496	-	9,278,201,345	9,278,201,345
Other financial assets	1,647,570	-	-	-	1,647,570	1,647,570
Other financial liabilities	-	-	-	(35,000,138)	(35,000,138)	(35,000,138)
	<b>1,297,490,589</b>	<b>7,386,690,849</b>	<b>2,133,712,263</b>	<b>(35,000,138)</b>	<b>10,782,893,563</b>	<b>10,782,893,563</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

## 6. Gross dividend income

	<b>Year ended</b> <b>31 December 2018</b>	<b>Year ended</b> <b>31 December 2017</b>
Hidroelectrica SA	363,264,046	337,188,756
OMV Petrom SA	113,270,962	106,763,221
CN Aeroporturi Bucuresti SA	91,193,113	82,955,766
Nuclearelectrica SA	53,693,617	19,044,047
Societatea Nationala a Sarii SA	42,337,557	13,760,169
Alro SA	39,010,085	6,863,554
BRD Groupe Societe Generale SA	36,314,743	18,515,323
Engie Romania SA	20,232,568	13,308,134
E-Distributie Banat SA	7,694,517	8,922,811
E-Distributie Dobrogea SA	4,269,700	6,604,280
CN Administratia Porturilor Maritime SA	4,054,315	11,008,413
Electrica Furnizare SA	-	34,807,451
SDEE Transilvania Nord SA	-	22,115,631
SDEE Transilvania Sud SA	-	21,708,184
SDEE Muntenia Nord SA	-	19,336,885
Conpet SA	-	13,843,476
Others	898,700	3,614,516
	<b>776,233,923</b>	<b>740,360,617</b>

The dividend income was subject to 5% Romanian withholding tax in 2018 and 2017. In cases where the relevant shareholding of the Fund was above 10% of total share capital of the paying company, for at least one year prior to the dividend distribution date, a withholding tax exemption was applied.

## 7. Net gain from equity investments at fair value through profit or loss

	<b>Year ended</b> <b>31 December 2018</b>	<b>Year ended</b> <b>31 December 2017</b>
Unrealised net gain from equity investments at fair value through profit or loss	225,307,490	222,752,094
Realised net gain/(loss) from disposal of equity investments at fair value through profit or loss	4,444,719	(1,428,036)
<b>Total</b>	<b>229,752,209</b>	<b>221,324,058</b>

As a result of the application of IFRS 9 starting 1 January 2018, the Fund changed its accounting policies classifying all its equity investments at fair value through profit or loss, thus all changes in fair value in 2018 were accounted for through profit or loss. Before 1 January 2018, only Fund's subsidiaries and associates and equity investments previously classified as subsidiaries and associates were classified at fair value through profit and loss, all other Fund's investments in equity instruments being classified as available for sale financial assets and measured at fair value through other comprehensive income.

The unrealised net gain from equity investments at fair value through profit or loss for the year ended 31 December 2018 was mainly generated by the change in fair value for the holding in Hidroelectrica SA, as result of the good profitability and cash flows achieved by this company. Before 1 January 2018 this investment was classified as equity investment available for sale, any change in fair value being recorded in other comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

**7. Net gain from equity investments at fair value through profit or loss (continued)**

The unrealised net gain from equity investments at fair value through profit or loss for the year ended 31 December 2017 was mainly generated by the change in fair value for the holding in OMV Petrom SA, as a result of the increase of this company's share price during the year.

The realised gain from disposal of equity investments at fair value through profit or loss for the year ended 31 December 2018 was calculated as the difference between the proceeds from the disposal and the fair value of the equity investments disposed of at the last annual financial statements date and was generated by the disposal of the entire holdings in Conpet SA and Palace SA and by the partial disposals of the holdings in BRD Groupe Societe Generale SA and Nuclearelectrica SA.

The realised net loss from disposal of equity investments at fair value through profit or loss for the year ended 31 December 2017 was generated by the disposal of the entire Fund's holding in Primcom SA and was calculated as the difference between the proceeds from the disposal and its fair value at the disposal date.

This caption does not include the realised net gain or loss from the equity instruments at fair value through profit or loss, which were reclassified as non-current assets held for sale (see *Note 15 (iv) Reclassification to non-current assets held for sale* for further details).

**8. Operating expenses**

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Administration fees	46,761,881	63,049,843
Third party services	11,935,929	11,765,181
FSA monthly fees	9,278,307	10,214,108
Intermediaries and other fees related to disposal of portfolio holdings	1,393,640	8,433,839
BON remunerations and related taxes	1,447,380	1,445,075
Depositary bank fee	636,761	698,373
Other operating expenses	1,840,657	1,885,625
	<b><u>73,294,555</u></b>	<b><u>97,492,044</u></b>

The administration fees in 2018 included the base fee of RON 41,768,231 (2017: RON 46,780,186) and the distribution fee of RON 4,993,650 related to the dividend distribution performed in 2018 (2017: RON 16,269,657 related to the returns of capital performed in 2017).

Starting with the financial statements for the year ended 31 December 2017, the distribution fees related to buy-backs is recognised directly in equity together with the underlying shares. Thus, in 2018, the distribution fee of RON 13,753,586 (2017: RON 15,067,165) related to the buy-backs was recognised directly in equity as buy-backs acquisition cost.

The total administration fees for 2018 amount RON 60,515,467 (2017: RON 78,117,008) (see *Note 20 (a) Related parties* for further details).

The administration fees are invoiced and paid on a quarterly basis.

Third party services in 2018 mainly included legal and litigation assistance of RON 5,356,834 (2017: RON 6,166,250), valuation services in relation to the Fund's portfolio of RON 1,561,427 (2017: RON 162,441), investor's relations expenses of RON 1,271,660 (2017: RON 1,209,900), expenses related to the Board of Nominees such as accommodation, transport and insurance costs of RON 683,880 (2017: RON 695,582) and also, the financial auditor's fees.

The audit fees are recorded in the year when the services are provided. The financial auditor of Fondul Proprietatea for the years 2018 and 2017 was Deloitte Audit SRL.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
(all amounts are in RON unless otherwise stated)**8. Operating expenses (continued)**

The total audit fees for the audit of the 2018 annual statutory financial statements, prepared in accordance with IFRS amount approximately to RON 523,246, including VAT. In addition, during 2018 Deloitte Audit SRL provided other assurance and non-audit services specifically requested by the Financial Supervisory Authority, for a total fee of RON 111,049, including VAT.

The total audit fees for the audit of the 2017 annual statutory financial statements, prepared in accordance with IFRS amount approximately to RON 469,718, including VAT. In addition, during 2017 Deloitte Audit SRL provided other assurance and non-audit services specifically requested by the Financial Supervisory Authority, for a total fee of RON 390,869, including VAT.

During 2018 and 2017, the FSA fee was 0.0078% per month applied on the total net asset value.

Intermediaries and other fees related to the disposal of portfolio holdings for the year ended 31 December 2018 mainly include expenses recorded in relation to the consultancy services for the potential disposals of certain unlisted holdings and the brokerage fees for the partial disposal of holdings in Nuclearelectrica SA and BRD - Groupe Societe Generale SA and the disposal of the entire holding in Conpet SA and Palace SA on the open market.

Intermediaries and other fees related to the disposal of portfolio holdings for the year ended 31 December 2017 mainly include expenses recorded in relation to the partial sale of the investment in OMV Petrom SA, through a secondary public offering and to the disposal of entire holdings in Electrica subsidiaries.

Remunerations and related taxes included the remunerations paid to the members of the Board of Nominees as well as the related taxes and contributions payable to the Romanian State budget (see *Note 20 Related parties* for further details).

**9. Finance cost**

On 4 July 2016, the Fund contracted a revolving committed credit facility for a maximum amount of RON 1 billion from BRD - Groupe Societe Generale SA. The initial availability period of the facility was for one year and on 10 May 2017 it was extended for a subsequent year, respectively until 4 July 2018. On 29 June 2018, the Fund extended the existing credit facility concluded with BRD - Groupe Societe Generale SA for a period of two years, until 29 June 2020.

The permitted use of the credit facility is for general corporate and operational use, and has a new maximum committed amount of RON 400,000,000. The Fund may access, subject to the bank's approval and in accordance with the provisions of the credit facility agreement, additional financing in excess of the committed amount, without exceeding a total amount of RON 600,000,000 at any given time.

The finance costs of RON 330,667 for the year ended 31 December 2018 comprise the commitment fee on undrawn amounts from the credit facility.

The finance costs of RON 152,997 for the year ended 31 December 2017 comprise the interest expense on the amount of RON 237,000,000 drawn from the credit facility on 27 June 2017 and repaid on 25 July 2017. The amount drew was used for the funding of June 2017 return of capital to shareholders.

There are no outstanding amounts from the credit facility as at 31 December 2018 and 31 December 2017.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

## 10. Income tax

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Current tax expense</b>		
Current tax (16%)	-	-
Withholding tax on dividends received from portfolio companies	(10,163,966)	(2,570,142)
	<b>(10,163,966)</b>	<b>(2,570,142)</b>
<b>Deferred tax related to:</b>		
Equity investments	-	226,577,749
Fiscal loss	-	(208,518,584)
	-	<b>18,059,165</b>
<b>Income tax</b>	<b>(10,163,966)</b>	<b>15,489,023</b>

The effective tax rate used to calculate the deferred tax position of the Fund was 16% (standard tax rate).

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Reconciliation of effective tax rate</b>		
Net profit for the period	935,091,985	1,289,896,039
Income tax	(10,163,966)	15,489,023
<b>Profit excluding income tax</b>	<b>945,255,951</b>	<b>1,274,407,016</b>
<b>Income tax using the standard tax rate (16%)</b>	<b>(151,240,952)</b>	<b>(203,905,123)</b>
<i>Impact on the income tax expense of:</i>		
Taxation applied on dividend income	114,033,462	115,887,556
Non-taxable income	234,051,729	558,274,595
Profit appropriation to legal reserves	7,480,736	10,174,695
Elements similar to revenues (taxable equity items)	(33,816,425)	(10,266,210)
Non-deductible expenses	(211,972,904)	(481,847,390)
Fiscal result impact in the current period	31,300,388	9,111,734
Deferred tax movement during the period	-	18,059,166
<b>Income tax</b>	<b>(10,163,966)</b>	<b>15,489,023</b>

As at 31 December 2018 there is no tax on profit due or to be recovered from the State Budget by the Fund. As at 31 December 2017, the Fund had overpayments to be recovered from the State Budget related to the tax on profit of RON 7,330,440 which were fully compensated in 2018 with other taxes due by the Fund to State Budget.

See *Note 16 Deferred tax* for details regarding the deferred tax computation and recognition.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

### 11. Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit for the period by the weighted average number of ordinary paid shares in issue during the period, excluding the average number of ordinary shares purchased by the Fund and held as treasury shares (based on their settlement date). As at 31 December 2018 and 31 December 2017, none of the Fund's issued shares or other instruments had dilutive effect, therefore basic and diluted earnings per share are the same.

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Profit for the period	935,091,985	1,289,896,039
Weighted average number of ordinary shares	7,564,813,111	8,995,904,682
<b>Basic and diluted earnings per share</b>	<b>0.1236</b>	<b>0.1434</b>

### 12. Cash and current accounts and deposits with banks

	<b>31 December 2018</b>	<b>31 December 2017</b>
Petty cash	198	973
Current accounts with banks	77,148	80,094
Distributions bank accounts	19,570,055	19,092,500
<b>Cash and current accounts</b>	<b>19,647,401</b>	<b>19,173,567</b>

	<b>31 December 2018</b>	<b>31 December 2017</b>
Bank deposits with original maturities of less than three months	187,106,218	1,275,849,317
Interest accrued on bank deposits	9,931	820,135
<b>Deposits with banks</b>	<b>187,116,149</b>	<b>1,276,669,452</b>

The cash held in the distributions bank accounts can only be used for payments to shareholders. Such payments are subject to a general statute of limitation, respectively the shareholders may request the payments only within a three-year term starting with the distribution payment date, except for specific instances that are individually assessed.

### 13. Treasury bills and government bonds

During 2018 and 2017, the Fund acquired discount treasury bills denominated in RON, issued by the Ministry of Public Finance of Romania. The treasury bills balance as at 31 December 2018 amounted to RON 49,636,197 (31 December 2017: RON 46,277,947) and comprises treasury bills with remaining maturities of less than one year, with implicit interest rates (based on the yield to maturity for the respective issue) ranging between 3.00% – 3.25% per year (31 December 2017: interest rate ranging between 0.75% – 1.87% per year).

During 2018 and 2017, the Fund acquired coupon government bonds, denominated in RON, issued by the Ministry of Public Finance of Romania. The government bonds as at 31 December 2018 amounted to RON 131,613,207 (31 December 2017: RON 195,923,820) and have remaining maturities of less than one year and coupon rates ranging between 1.35% and 2.50% per year (31 December 2017: coupon rate of 3.25% per year).

### 14. Dividends receivable

The dividend receivable balance as at 31 December 2018 amounted to RON 137,018,231 (31 December 2017: nil) and comprises the special dividend approved during December 2018 by the shareholders of Hidroelectrica SA, in addition to the annual dividend. The payment of this special dividend was performed by Hidroelectrica SA in January 2019.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
(all amounts are in RON unless otherwise stated)**15. Equity investments**

In accordance with Law 247/2005, as amended by Government Emergency Ordinance no. 209/2005, the Fund received, at its establishment on 28 December 2005, shares in 117 companies as a contribution in kind from the Romanian State, as sole shareholder.

In June 2007, Government Emergency Ordinance no. 81/2007 for the acceleration of the procedure for granting compensations for the property abusively nationalised came into force, in accordance with which:

- 32 new shareholdings were added to the Fund's portfolio as a contribution in kind to its share capital (21 shareholdings in companies already in the portfolio and 11 shareholdings in companies not previously in the portfolio);
- 39 shareholdings were removed from the Fund's portfolio and transferred back to the Romanian State.

The valuation of the shares contributed by the Romanian State in December 2005 and June 2007 was performed in October 2007 by an independent valuer (Finevex SRL Constanta), who followed the valuation methodology set forth by Law 247/2005. The value of the shareholdings, as determined by the valuer, represented the cost (initial value) of the equity investments.

Initially, Law 247/2005 included a specific mechanism, whereby each time an in-kind share capital increase in a state-owned company occurred, Fondul Proprietatea was to receive shares in those companies as payment of the unpaid share capital of the Fund. Thus, an off-set mechanism was created to ensure the payment of the unpaid participations of the Romanian State in Fondul Proprietatea.

Beginning with 15 March 2013, the date when Government Emergency Ordinance no. 4/2012 entered into force, the compensation process was suspended, but the payment mechanism was maintained. In January 2015, Law 10/2015 entered into force, repealing the above payment mechanism. Law 10/2015 also repealed the provisions regarding the ability of the Romanian State to adjust the share capital of the Fund according to the unfolding of the compensation procedures.

Before 1 January 2018, the Fund's investments in subsidiaries and associates and equity investments previously classified as subsidiaries and associates were classified and measured at fair value through profit or loss while the other Fund's investments in equity instruments were classified as available for sale financial assets and measured at fair value through other comprehensive income.

As a result of the application of IFRS 9 starting 1 January 2018, the Fund changed its accounting policies classifying all its equity investments at fair value through profit or loss. The Fund through its Sole Director, FTIS elected to not restate prior periods.

Substantially all equity instruments of the Fund are valued at the fair value as follows:

- At fair value, determined by reference to published closing prices on the stock exchange where shares are traded (listed securities) or assessed using valuation techniques in accordance with International Valuation Standards (unlisted securities);
- Valued at nil, for holdings in companies in liquidation, dissolution, bankruptcy, insolvency, judicial reorganisation or with negative shareholders' equity.

The movement in the carrying amounts of equity investments in 2018 and 2017 is presented below:

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

## 15. Equity investments (continued)

	Equity investments at fair value through profit or loss	Equity investments available for sale	Total equity investments
<b>1 January 2018</b>	<b>1,891,510,497</b>	<b>7,386,690,848</b>	<b>9,278,201,345</b>
Reclassification following the adoption of IFRS 9 (see Note 3 (a))	7,386,690,848	(7,386,690,848)	-
Net gain from equity investments at fair value through profit or loss (i)	229,752,209	-	<b>229,752,209</b>
Subscriptions to share capital increase of portfolio companies (ii)	2,498,120	-	<b>2,498,120</b>
Disposals (iii)	(173,011,275)	-	<b>(173,011,275)</b>
<b>31 December 2018</b>	<b>9,337,440,399</b>	<b>-</b>	<b>9,337,440,399</b>
	Equity investments at fair value through profit or loss	Equity investments available for sale	Total equity investments
<b>1 January 2017</b>	<b>2,086,956,567</b>	<b>7,905,226,677</b>	<b>9,992,183,244</b>
Reclassification to non-current assets held for sale (iv)	(414,390,000)	(752,031,841)	<b>(1,166,421,841)</b>
Net change in fair value of available for sale equity investments (recorded in other comprehensive income)	-	315,822,981	<b>315,822,981</b>
Net gain from equity investments at fair value through profit or loss (i)	222,752,094	-	<b>222,752,094</b>
Subscriptions to share capital increase of portfolio companies (ii)	2,720,000	33,580	<b>2,753,580</b>
Disposals (iii)	(6,528,164)	(74,360,549)	<b>(80,888,713)</b>
Impairment losses	-	(8,000,000)	<b>(8,000,000)</b>
<b>31 December 2017</b>	<b>1,891,510,497</b>	<b>7,386,690,848</b>	<b>9,278,201,345</b>

*(i) Net gain from equity investments at fair value through profit or loss*

The net gain from equity investments at fair value through profit or loss for the year ended 31 December 2018 was mainly generated by the positive change in fair value for the holding in Hidroelectrica SA (2017: by the change in fair value for the holding in OMV Petrom SA).

*(ii) Subscriptions to share capital increase of portfolio companies*

During 2018, the Fund contributed cash to the share capital increase of Zirom SA with a total amount of RON 2,350,000 and to the share capital increase of Hidroelectrica SA with a total amount of RON 148,120.

During 2017, the Fund contributed cash to the share capital increase of Zirom SA with a total amount of RON 2,720,000. In December 2016, the Fund contributed cash to the share capital increase of Hidroelectrica SA with a total amount of RON 33,580, but the registration with the Trade Register was finalised and recorded in 2017.

*(iii) Disposals*

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

During 2017, the Fund sold its entire holding in Oil Terminal SA, Banca Transilvania SA, Primcom SA and Cetatea SA as well as, a part of its holding in BRD Groupe Societe Generale SA.

For the disposals of non-current assets held for sale see note 15 (iv) below.

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## 15. Equity investments (continued)

*(iv) Reclassification to non-current assets held for sale*

There were no financial instruments classified as non-current assets held for sale as at 31 December 2018 and 31 December 2017.

As at 30 June 2017, based on the assessment made by the Fund, all the criteria for classifying as held-for-sale the holdings in SDEE Muntenia Nord SA, SDEE Transilvania Sud SA, SDEE Transilvania Nord SA and Electrica Furnizare SA required by IFRS 5 were met and consequently these holdings were reclassified from equity investments available for sale category to non-current assets held for sale. The disposal transaction of Fund's holdings in the subsidiaries of Electrica SA was completed on 1 November 2017. The total value of the transaction amounted to RON 752,031,841.

During September 2017, the Fund publicly announced that it had taken the decision to proceed with the partial sale of the investment in OMV Petrom SA through an accelerated book-build offering. Consequently, the Fund reclassified, in accordance with IFRS 5 requirements, the part of the holding in OMV Petrom SA subject to the book-build offering, from equity investments at fair value through profit or loss category to non-current assets held for sale. The offering was completed in September 2017. The realised loss from the disposal of the non-current assets held for sale represents the difference between the total proceeds from the disposal (RON 399,850,000) and the fair value at the reclassification date of the non-current assets held for sale disposed of (RON 414,390,000).

**Portfolio**

As at 31 December 2018 and 31 December 2017 the Fund's portfolio comprised the following holdings:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Hidroelectrica SA	3,885,000,000	3,566,000,000
OMV Petrom SA	1,693,400,875	1,619,774,750
CN Aeroporturi Bucuresti SA	861,000,000	774,000,000
E-Distributie Banat SA	472,000,000	545,000,000
Engie Romania SA	445,000,000	472,000,000
E-Distributie Muntenia SA	389,000,000	419,000,000
E-Distributie Dobrogea SA	288,000,000	342,000,000
Societatea Nationala a Sarii SA	250,000,000	233,000,000
Administratia Porturilor Maritime SA	244,000,000	230,000,000
Alro SA	224,484,919	238,333,015
BRD Groupe Societe Generale SA	190,965,914	285,646,454
Nuclearelectrica SA	173,549,777	197,340,343
Enel Energie Muntenia SA	58,000,000	61,000,000
Enel Energie SA	44,000,000	57,000,000
Zirom SA	27,129,000	26,839,000
Romaero SA	25,971,482	30,168,893
Aeroportul International Traian Vuia Timisoara SA	20,000,000	22,000,000
Complexul Energetic Oltenia SA	-	32,000,000
Conpet SA	-	52,121,980
Other	45,938,432	74,976,910
<b>Total equity investments</b>	<b>9,337,440,399</b>	<b>9,278,201,345</b>

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 (all amounts are in RON unless otherwise stated)

**15. Equity investments (continued)**

Except for the Fund's investments in subsidiaries (i.e. Alcom SA, Comsig SA, Zirom SA), associates (i.e. Societatea Nationala a Sarii SA, Plafar SA) and equity investments previously classified as associates (i.e. OMV Petrom SA), all other investments were classified as equity investments available for sale as at 31 December 2017.

There was no change in the carrying amounts of financial assets and liabilities upon transition to IFRS 9 on 1 January 2018 compared to their previous measurement category in accordance with IAS 39.

None of the equity investments are pledged as collateral for liabilities.

**Fair value hierarchy**

The Fund classifies the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurement, the levels of the fair value hierarchy being defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below presents the classification of the financial instruments carried at fair value by fair value hierarchy level, based on the inputs used in making the measurement:

<b>31 December 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equity investments	2,282,401,486	-	7,055,038,913	9,337,440,399
Treasury bills	49,636,197	-	-	49,636,197
Government bonds	131,613,207	-	-	131,613,207
	<b>2,463,650,890</b>	<b>-</b>	<b>7,055,038,913</b>	<b>9,518,689,803</b>

<b>31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equity investments	2,393,216,543	-	6,884,984,802	9,278,201,345
Treasury bills	46,277,947	-	-	46,277,947
Government bonds	195,923,820	-	-	195,923,820
	<b>2,635,418,310</b>	<b>-</b>	<b>6,884,984,802</b>	<b>9,520,403,112</b>

The table below presents the movement in Level 3 for the equity investments during 2018 and 2017:

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
<b>Opening balance</b>	<b>6,884,984,802</b>	<b>7,592,183,120</b>
Net unrealised gain recognised in profit or loss	170,238,933	38,267,392
Subscriptions to share capital increase of portfolio companies	2,498,120	2,753,580
Disposals	(2,682,942)	(758,903,839)
Net change in fair value recorded in other comprehensive income	-	10,684,549
Transfers in/ (out) of Level 3	-	-
<b>Closing balance</b>	<b>7,055,038,913</b>	<b>6,884,984,802</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
(all amounts are in RON unless otherwise stated)**15. Equity investments (continued)**

The level in the fair value hierarchy within which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, that financial instrument is classified on Level 3. Assessing the significance of an input to the fair value measurement in its entirety requires significant judgment, considering factors specific to the asset. The Fund considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.

For Level 3, the equity investments valuations were performed using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs, which ensures that the underlying data is accurate, and that appropriate inputs were used in the valuation. As the valuation reports were prepared as at 30 September 2018 (for 31 December 2017: as at 30 September 2017), based on financial information available for the companies under valuation at the respective dates, the Fund's management has analysed the period between the date of the valuation reports and the reporting date.

Except for fiscal measures adopted through Emergency Government Ordinance no. 114 issued on 28 December 2018 and related order issued in February 2019 by Romanian Energy Regulatory Authority (i.e. ANRE) regarding the pricing methodology for electricity sold by the producers on the basis of regulated contracts and the electricity quantities sold by producers to the suppliers of last resort, there was no other information known or available to the Fund's management which may have significant impact on the fair values of the equity investments as at the reporting date, as they are presented in these annual financial statements. The Fund's management has assessed the potential impact of these changes on the portfolio companies on a best estimates basis and included in these financial statements the necessary adjustments for the energy producers based on estimated amounts resulted from various potential scenarios related to the regulated energy market. The Fund's management assessed that the impact on energy suppliers and distributors will not be significant.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Fund believes that a third-party market participant would consider these factors in pricing a transaction.

As a result of strong volatility in the capital markets and severe restrictions in the credit markets both globally and in Romania, notwithstanding any potential economic stabilisation measures that may be put into place by the Romanian State, economic uncertainties arose surrounding the continual availability and cost of credit for the Fund's counterparties, the future development of the market and demand for goods and services they produce.

These economic uncertainties are expected to continue in the foreseeable future and consequently, there is a possibility that the assets of the Fund are not recovered at their carrying amounts in the ordinary course of business. A corresponding impact on the Fund's profitability cannot be estimated reliably as of the date of these annual financial statements.

For the financial investments classified as Level 1, the Fund had adequate information available with respect to active markets, with sufficient trading volume, for obtaining accurate prices.

As at 31 December 2018, unlisted equity investments and listed illiquid equity investments with a total carrying amount of RON 7,055,038,913 (31 December 2017: RON 6,884,984,802 out of which RON 3,908,505,337 represented the total net change in fair value recognised in equity), were classified as Level 3 of the fair value hierarchy.

The following table sets out information about the significant unobservable inputs used at 31 December 2018 and 31 December 2017 in measuring equity instruments classified as Level 3 in the fair value hierarchy:

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## 15. Equity investments (continued)

Financial assets	Fair value as at 31 December 2018	Valuation technique	Unobservable inputs range (weighted average)	Relationship of unobservable inputs to fair value
<b>Total</b>	<b>7,055,038,913</b>			
Unlisted equity instruments	6,726,365,118	Market approach - comparable companies (based on EBITDA multiple)	EBITDA multiple ranging from 4.66 - 10.58 (8.31)  Discount for lack of marketability: 15%-20% (15.02%)	The higher the EBITDA multiple, the higher the fair value.  The lower discount for lack of marketability, the higher the fair value.
Unlisted equity instruments	280,045,000	Income approach - discounted cash flow method	Weighted average cost of capital: 12.12% or 13.58% or 13.96% (13.60%)  Discount for lack of marketability: 12% or 15% or 17% (15.16%)  Discount for lack of control: 0% or 18% or 25% (22.51%)  Long-term revenue growth rate: 2% (2%)	The lower the weighted average cost of capital, the higher the fair value.  The lower the discount for the lack of marketability, the higher the fair value.  The lower the discount for the lack of control, the higher the fair value.  The higher the long-term revenue growth rate, the higher the fair value.
Unlisted equity instruments	6,700,000	Market approach - comparable companies (based on Price /Earnings multiple)	Price/Earnings value: 13.43 (13.43)  Discount for lack of marketability: 24.4% (24.4%)	The higher the Price /Earnings multiple, the higher the fair value.  The lower the discount for the lack of marketability, the higher the fair value.
Unlisted equity instruments	1,467,000	Market approach - comparable companies (based on Price/Book value multiple)	Price/Book value: 0.3 (0.3)  Discount for lack of marketability: 15% (15%)	The higher Price/ Book value multiple, the higher the fair value.  The lower discount for lack of marketability, the higher the fair value.
Unlisted equity instruments	0	Market approach - comparable companies (based on Revenue multiple)	Revenue multiple: 0.53 (0.53)	Irrespective of the evolution of the unobservable inputs, the value of this investment is zero due to the negative equity value of this company generated by a high level of net debts.
Listed illiquid equity instruments	40,461,795	Bucharest Stock Exchange reference price	These shares are traded infrequently and have little price transparency. Fair values for these equity instruments were considered to be those used in the calculation of the net asset value of the Fund, in accordance with the regulations issued by the FSA.	

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

(all amounts are in RON unless otherwise stated)

### 15. Equity investments (continued)

Financial assets	Fair value as at 31 December 2017	Valuation technique	Unobservable inputs range (weighted average)	Relationship of unobservable inputs to fair value
<b>Total</b>	<b>6,884,984,802</b>			
Unlisted equity instruments	6,488,000,000	Market approach - comparable companies (based on EBITDA multiple)	EBITDA multiple ranging from 4.46 - 10.93 (8.35) Discount for lack of marketability: 15% (15%)	The higher the EBITDA multiple, the higher the fair value. The lower discount for lack of marketability, the higher the fair value.
Unlisted equity instruments	261,829,000	Income approach - discounted cash flow method	Weighted average cost of capital: 12.69% or 13.24% or 13.82% (13.30%) Discount for lack of marketability: 12% or 15% or 17% (15.18%) Discount for lack of control: 0% or 18% or 26% (23%) Long-term revenue growth rate: 1.5% (1.5%)	The lower the weighted average cost of capital, the higher the fair value. The lower the discount for the lack of marketability, the higher the fair value. The lower the discount for the lack of control, the higher the fair value. The higher the long-term revenue growth rate, the higher the fair value.
Unlisted equity instruments	35,000,000	Market approach - comparable companies (based on Price /Earnings multiple)	Price/Earnings value: 13.34 (13.34) Discount for lack of marketability: 24.4% (24.4%)	The higher the Price/ Earnings multiple, the higher the fair value. The lower the discount for the lack of marketability, the higher the fair value.
Unlisted equity instruments	32,000,000	Market approach - comparable companies (based on Revenue multiple)	Revenue multiple: 0.78 (0.78) Discount for lack of marketability: 15% (15%)	The higher the Revenue multiple, the higher the fair value. The lower the discount for the lack of marketability, the higher the fair value.
Unlisted equity instruments	2,441,000	Market approach - comparable companies (based on Price/Book value multiple)	Price/Book value: 0.46 (0.46) Discount for lack of marketability: 15% (15%)	The higher Price/ Book value multiple, the higher the fair value. The lower discount for lack of marketability, the higher the fair value.
Listed illiquid equity instruments	43,734,433	Bucharest Stock Exchange reference price	These shares are traded infrequently and have little price transparency. Fair values for these equity instruments were considered to be those used in the calculation of the net asset value of the Fund, in accordance with the regulations issued by the FSA/ CNVM.	
Unlisted equity instruments	21,980,369	Fair values for these equity instruments were considered to be those used in the calculation of the net asset value of the Fund, in accordance with the regulations issued by the FSA/ CNVM, primarily based on the value of the shareholders' equity of the issuer extracted from its latest annual financial statements.		

As at 31 December 2018 and 31 December 2017, the Fund's investments in companies in insolvency, liquidation, judicial reorganisation, dissolution, bankruptcy or with negative shareholders' equity are valued at nil.

Significant unobservable inputs are the following:

*Revenue multiple:* is a tool used to appraise businesses based on market comparison to similar public companies. Revenue based business value estimation may be preferred to earnings multiple valuation whenever there is uncertainty regarding some of a company's expenses. The most common tendency is to value a firm based on its sales whenever this number is the most direct indication of a company's earning capacity.

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## 15. Equity investments (continued)

*EBITDA multiple:* represents the most relevant multiple used when pricing investments and it is calculated using information from comparable public companies (similar geographic location, industry size, target markets and other factors that valuers consider to be reasonable). The traded multiples for comparable companies are determined by dividing the enterprise value of a company by its EBITDA and further discounted for considerations such as the lack of marketability and other differences between the comparable peer group and specific company.

*Discount for lack of marketability:* represents the discount applied to the comparable market multiples to reflect the liquidity differences between a portfolio company relative to its comparable peer group. Valuers estimate the discount for lack of marketability based on their professional judgement after considering market liquidity conditions and company-specific factors.

*Discount for lack of control:* represents the discount applied to reflect the absence of the power of control considered under the discounted cash flow method, in order to derive the value of a minority shareholding in the equity of subject companies.

*Weighted average cost of capital:* represents the calculation of a company's cost of capital in nominal terms (including inflation), based on the Capital Asset Pricing Model. All capital sources (shares, bonds and any other long-term debts) are included in a weighted average cost of capital calculation.

*Price/Earnings multiple ("P/E"):* Price/Earnings ratio is a market prospect ratio that calculates the market value of an investment relative to its earnings by comparing the market price per share by the earnings per share. It shows what the market is willing to pay for an investment based on its current earnings. Investors often use this ratio to evaluate what an investment's fair market value should be by predicting future earnings per share.

*Price/Book value multiple:* often expressed simply as price-to-book, this multiple measures a company's market price in relation to its book value (net assets). It reflects how many times the book value per share investors are ready to pay for a share. The Price/Book value multiple varies dramatically between industries. A company that requires more assets (e.g. a manufacturing company with factory space and machinery) will generally post a significantly lower price to book than a company whose earnings come from the provision of a service (e.g. a consulting firm).

## 16. Deferred tax

	<b>Deductible temporary differences</b>	<b>Related deferred tax asset, out of which:</b>	<b>Recognised deferred tax asset</b>	<b>Not recognised deferred tax asset</b>
<b>31 December 2018</b>				
Fiscal loss carried forward	3,719,128,842	595,060,615	-	595,060,615
	<b>Deductible temporary differences</b>	<b>Related deferred tax asset/ (liability), out of which:</b>	<b>Recognised deferred tax asset/ (liability)</b>	<b>Not recognised deferred tax asset</b>
<b>31 December 2017</b>				
Equity investments	(210,096,993)	(33,615,519)	(33,615,519)	-
Fiscal loss carried forward	3,914,756,220	626,360,995	33,615,519	592,745,476
	<b>3,704,659,227</b>	<b>592,745,476</b>	<b>-</b>	<b>592,745,476</b>

The effective tax rate used to calculate the deferred tax position of the Fund was 16% (standard tax rate).

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## 16. Deferred tax (continued)

The movement in the deferred tax position is presented in the tables below:

2018	Balance as at 1 January 2018	Reversed through profit or loss	Balance as at 31 December 2018	
Equity investments	(33,615,519)	33,615,519	-	
Fiscal loss carried forward	33,615,519	(33,615,519)	-	
	-	-	-	
2017	Balance as at 1 January 2017	Recognised in profit or loss	Recognised in equity (other comprehensive income)	Balance as at 31 December 2017
Equity investments	(242,134,103)	226,577,749	(18,059,165)	(33,615,519)
Fiscal loss carried forward	242,134,103	(208,518,584)	-	33,615,519
	-	<b>18,059,165</b>	<b>(18,059,165)</b>	-

As at 31 December 2018 the net deferred tax position is nil as the Fund did not recognise any deferred tax asset or deferred tax liability.

As at 31 December 2017 the Fund recognised in profit or loss a deferred tax asset for the unused tax losses carried forward, only to the level of the deferred tax liability recognised in other comprehensive income arising from the taxable temporary differences on equity investments.

## 17. Liabilities

**(a) Payable to shareholders**

The payable to shareholders as at 31 December 2018 in amount of RON 19,657,190 (31 December 2017: RON 20,705,311) comprises the outstanding amounts due to shareholders related to the returns of capital of RON 10,329,583 (31 December 2017: RON 20,705,311) and to the dividends balance due to shareholders in total amount of RON 9,327,607 (31 December 2017: nil).

The movement during the period is presented in the table below:

	Year ended 31 December 2018	Year ended 31 December 2017
<b>Opening balance</b>	<b>20,705,311</b>	<b>20,208,049</b>
Gross distributions payable to shareholders started during the period	499,976,344	924,046,244
Less dividend withholding tax due to State Budget	(21,004,100)	-
Payments related to the distributions to shareholders performed from the Fund's dedicated bank accounts	(478,488,590)	(910,534,840)
Payments related to 2015 return of capital performed directly by Central Depository from the amount transferred by the Fund in their account in 2015	(276,115)	(10,430,295)
Distributions for which the statute of limitation occurred	(1,255,660)	(2,583,847)
<b>Closing balance</b>	<b>19,657,190</b>	<b>20,705,311</b>

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## 17. Liabilities (continued)

**(b) Other liabilities and provisions**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Administration fees	10,776,338	11,752,658
Payables related to treasury shares under settlement	1,027,752	-
Provision for litigations	856,247	856,247
Financial Supervisory Authority fees	778,414	829,634
Intermediaries and other transactions fees related to disposal of portfolio holdings	489,816	1,236,632
Tax on dividends due to State Budget	495,092	-
Other liabilities	1,269,256	1,332,308
	<b><u>15,692,915</u></b>	<b><u>16,007,479</u></b>

## 18. Shareholders' equity

**(a) Share capital**

The following changes in the share capital were recorded during 2018:

- On 29 June 2018, the paid share capital of the Fund decreased by RON 82,424,588 following the cancellation of 158,508,824 treasury shares acquired by the Fund, respectively 90,849,151 shares repurchased within the seventh buy-back programme and 67,659,673 shares repurchased within the eighth buy-back programme.
- On 28 December 2018, the paid share capital of the Fund decreased by RON 38,589,298 following the cancellation of 74,210,188 treasury shares acquired by the Fund during the eighth buy-back programme.

The following changes in the share capital were recorded during 2017:

- On 18 January 2017, the paid in share capital of the Fund decreased by RON 605,345,483 following the cancellation of 712,171,156 treasury shares acquired by the Fund during the sixth buy-back programme.
- On 24 March 2017, the subscribed share capital decreased by RON 2,820,742,609 following the reduction of the nominal value of the shares as follows:
  - (i) the subscribed share capital decreased from RON 8,562,968,634.10 to RON 6,245,930,062.52 following the reduction of the par value of the shares from RON 0.85 to RON 0.62 to cover the cumulated accounting losses stated in 2015 financial statements, according to the 31 October 2016 General Shareholders' Meeting ("GSM") resolution (total impact on the share capital of RON 2,317,038,572);
  - (ii) the subscribed share capital decreased from RON 6,245,930,062.52 to RON 5,742,226,025.22 following the reduction of the shares from RON 0.62 to RON 0.57 to perform a special distribution to shareholders, respectively a special return of capital of 0.05 RON per share, proportionally with their participation to the paid share capital (total impact on the share capital of RON 503,704,037).
- On 16 June 2017, the subscribed share capital of the Fund decreased from RON 5,742,226,025.22 to RON 5,238,521,987.92 following the reduction of the nominal value of the shares from RON 0.57 to RON 0.52 per share and the return to shareholders of RON 0.05 per share, proportionally with their participation to the paid share capital (total impact on the share capital of RON 503,704,037).
- On 29 November 2017, the paid in share capital of the Fund decreased by RON 384,487,203.36 following the cancellation of 739,398,468 treasury shares acquired by the Fund during the seventh buy-back programme carried out during 2016 and 2017.

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**18. Shareholders' equity (continued)**
**(a) Share capital (continued)**

The movements in the share capital components are presented below:

	<b>Paid share capital</b>	<b>Unpaid share capital</b>	<b>Total share capital</b>
<b>31 December 2016</b>	<b>8,859,073,619</b>	<b>309,240,498</b>	<b>9,168,314,117</b>
Coverage of the cumulated accounting losses	(2,233,361,731)	(83,676,841)	<b>(2,317,038,572)</b>
Decrease of the nominal value of the shares	(971,026,839)	(36,381,235)	<b>(1,007,408,074)</b>
Cancellation of treasury shares	(989,832,686)	-	<b>(989,832,686)</b>
<b>Total as per Trade Registry evidence</b>	<b>4,664,852,363</b>	<b>189,182,422</b>	<b>4,854,034,785</b>
Presentation adjustment related to the unpaid share capital	-	(189,182,422)	<b>(189,182,422)</b>
<b>31 December 2017</b>	<b>4,664,852,363</b>	<b>-</b>	<b>4,664,852,363</b>
Cancellation of treasury shares	(121,013,886)	-	<b>(121,013,886)</b>
<b>31 December 2018</b>	<b>4,543,838,477</b>	<b>-</b>	<b>4,543,838,477</b>

The table below presents the shares balance and their nominal value:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Number of shares in issue	9,101,963,266	9,334,682,278
Number of paid shares	8,738,150,916	8,970,869,928
Number of unpaid shares	363,812,350	363,812,350
Nominal value per share (RON)	0.52	0.52

The shareholder structure as at 31 December 2018 was as follows:

<b>Shareholder categories *</b>	<b>% of subscribed share capital</b>	<b>% of paid share capital</b>
The Bank of New York Mellon (depository bank for the Fund's GDRs)	28.82%	30.01%
Romanian institutional investors	16.77%	17.47%
Romanian private individuals	15.60%	16.24%
Foreign institutional investors	15.35%	15.98%
Foreign private individuals	2.42%	2.52%
Romanian State	0.07%	0.08%
Treasury shares	17.00%	17.70%
Unpaid shares	3.97%	-
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Depozitarul Central SA

\* this structure does not reflect the share capital decrease which was effective starting with 28 December 2018, as its implementation with Depozitarul Central SA was completed on 22 January 2019

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
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**18. Shareholders' equity (continued)**
**(b) Other reserves related to the unpaid share capital**

Unpaid share capital represents the nominal value of certain contributions due to the Fund by the Romanian State, represented by the Ministry of Public Finance as shareholder, which were initially recorded as paid share capital (based on Law 247/2005) and in 2011 were considered unpaid following the final results of several litigations that took place in the past. Holders of unpaid shares are not entitled to vote or to receive dividends or other cash distributions, until the matters are legally clarified.

Due to the fact that there are no clear provisions regarding the unpaid share capital in the special legislation related to the Fund and that according to the general framework provided by the Companies' Law the deadline for the payment by the Romanian State represented by Ministry of Public Finance of the unpaid share capital expired, the Fund recorded a presentation adjustment as at 31 December 2017 for the entire balance of unpaid share capital against other reserves.

This adjustment was recorded in the financial statements only for presentation purpose, while the actual cancellation of the unpaid share capital in the accounting will follow the legal requirements and will be booked only after the successful completion of the necessary legal steps.

The receivable related to the unpaid amounts from the Romanian State is fully impaired.

**(c) Fair value reserve on available for sale financial assets, net of deferred tax**

The fair value reserve of RON 4,248,175,069 as at 31 December 2017 comprising the cumulative net change in the fair value of the available for sale financial assets, recognised in other comprehensive income, net of the related deferred tax recognised through equity, was transferred to retained earnings on 1 January 2018, the date of initial application of IFRS 9, respectively the date from which the Fund classified all its equity investments as equity investments at fair value through profit or loss.

**(d) Other reserves**

	<b>31 December 2018</b>	<b>31 December 2017</b>
Legal reserve	377,333,401	330,578,802
Losses from cancellation of treasury shares	(80,910,369)	(256,073,589)
Distributions for which the statute of limitation occurred	1,255,660	2,583,847
Gains from cancellation of treasury shares	-	177,865,119
	<u><b>297,678,692</b></u>	<u><b>254,954,179</b></u>

As required by the Romanian Companies' Law, a minimum 5% of the profit for the year must be transferred to the legal reserve until the reserve equals 20% of the issued share capital. The legal reserve cannot be used for distributions to shareholders. As at 31 December 2018, an amount of RON 46,754,599, representing 5% of the 2018 profit (profit before current profit tax of RON 935,091,985), was transferred to the legal reserve. As at 31 December 2017, an amount of RON 64,494,802, representing 5% of the 2017 profit (profit before current profit tax of RON 1,289,896,039), was transferred to the legal reserve.

Losses from cancellation of treasury shares comprise the negative reserves related to the losses on the cancellation of treasury shares acquired at an acquisition value higher than the nominal value. This amount may be covered from the retained earnings and other equity elements, in accordance with the resolution of the General Shareholders Meeting.

The Fund's share nominal value decreased below its market price starting January 2017, situation which did not change up to the date of these financial statements. All acquisitions after this date in 7th, 8th and 9th buy-back programmes were made at an acquisition price higher than the nominal value and consequently all related cancellations of treasury shares from these buybacks generated negative reserves. During the year ended 31 December 2017, a negative equity reserve of RON 256,073,589 was recorded on the cancellation of 739,398,468 shares acquired in the 7th buy-back programme according to shareholders' resolution no. 3/3 May 2017.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
 (all amounts are in RON unless otherwise stated)

**18. Shareholders' equity (continued)**
**(d) Other reserves (continued)**

The Fund's Sole Director proposed to shareholders and the shareholders approved the coverage of the losses from cancellation of treasury shares (negative reserves) in amount of RON 256,073,589 at 26 April 2018 General Shareholders' Meeting 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 changes in the negative reserves recorded as result of the losses from cancellation of treasury shares during the year ended 31 December 2018:

<b>1 January 2018</b>	<b>256,073,589</b>
Coverage of negative balance according to Resolution of 26 April 2018 shareholders' meeting	(256,073,589)
Negative equity reserve arising on the cancellation of the remaining balance of shares acquired during 7 <sup>th</sup> buy-back programme (recorded on 29 June 2018) according to shareholders' share capital decrease resolution no. 4/26 September 2017	31,068,596
Negative equity reserve arising on the partial cancellation of the shares acquired during 8 <sup>th</sup> buy-back programme (recorded on 29 June 2018) according to shareholders' share capital decrease resolution no. 4/26 September 2017	24,396,485
Negative equity reserve arising on the cancellation of the remaining balance of shares acquired during 8 <sup>th</sup> buyback programme (recorded on 28 December 2018) according to shareholders' share capital decrease resolution no. 2/ 4 September 2018	25,445,288
<b>31 December 2018</b>	<b>80,910,369</b>

Gains from cancellation of treasury shares comprise the reserves related to the net gain on the cancellation of treasury shares acquired at an acquisition value lower than the nominal value.

**(e) Treasury shares**

The buy-back transactions can only be applied to fully paid shares or GDRs corresponding to the shares of the Fund. All buy-back programmes carried out by the Fund are aimed at decreasing the share capital, in accordance with the shareholders' approval. The implementation of the buy-back programmes is subject to the availability of the necessary cash.

During 2018 the Fund continued the ninth buy-back programme started on 14 November 2017.

The table below summarises the details regarding the ninth buy-back programme, respectively the buy-back programme valid during 2018:

	<b>GSM date approving the buy-back programme</b>	<b>Starting date</b>	<b>Completion date</b>	<b>Acquisition price range as approved by GSM</b>
<b>Ninth buy-back programme</b>	26-Oct-2017	14-Nov-2017	31-Dec-2018	RON 0.2 - 2 per share

The movement in the number of treasury shares (including the equivalent shares of GDRs bought-back) during 2018 and 2017 is presented in the table below:

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 (all amounts are in RON unless otherwise stated)

**18. Shareholders' equity (continued)**
**(e) Treasury shares (continued)**

	Number of shares as at 1 Jan 2018	Acquisitions	Cancellations	Number of shares as at 31 Dec 2018
Seventh buy-back	90,849,151	-	(90,849,151)	-
Eighth buy-back	141,869,861	-	(141,869,861)	-
Ninth buy-back	19,159,328	1,468,833,241	-	1,487,992,569
	<b>251,878,340</b>	<b>1,468,833,241</b>	<b>(232,719,012)</b>	<b>1,487,992,569</b>

	Number of shares as at 1 Jan 2017	Acquisitions	Cancellations	Number of shares as at 31 Dec 2017
Sixth buy-back	712,171,156	-	(712,171,156)	-
Seventh buy-back	79,336,721	750,910,898	(739,398,468)	90,849,151
Eighth buy-back	-	141,869,861	-	141,869,861
Ninth buy-back	-	19,159,328	-	19,159,328
	<b>791,507,877</b>	<b>911,940,087</b>	<b>(1,451,569,624)</b>	<b>251,878,340</b>

The movement in the treasury shares carrying amounts during 2018 and 2017 is presented in the table below:

	Carrying amount as at 1 Jan 2018	Cost of treasury shares acquired/ (cost adjustments)	Cancellation of treasury shares	Carrying amount as at 31 Dec 2018
Seventh buy-back	78,310,155	-	(78,310,155)	-
Eighth buy-back	123,615,960	(1,860)	(123,614,100)	-
Ninth buy-back	16,329,392	1,398,171,456	-	1,414,500,848
	<b>218,255,507</b>	<b>1,398,169,596</b>	<b>(201,924,255)</b>	<b>1,414,500,848</b>

	Carrying amount as at 1 Jan 2017	Cost of treasury shares acquired	Cancellation of treasury shares	Decrease of the nominal value of the shares	Carrying amount as at 31 Dec 2017
Sixth buy-back	590,746,115	-	(590,746,115)	-	-
Seventh buy-back	63,399,048	689,974,069	(628,580,657)	(46,482,304)	78,310,155
Eighth buy-back	-	124,114,252	-	(498,291)	123,615,960
Ninth buy-back	-	16,329,392	-	-	16,329,392
	<b>654,145,163</b>	<b>830,417,713</b>	<b>(1,219,326,773)</b>	<b>(46,980,596)</b>	<b>218,255,507</b>

**(f) Dividend distribution**

During the 26 April 2018 GSM, the Fund's shareholders approved the distribution of a gross dividend of RON 0.0678 per share, in relation to 2017 statutory profits.

The shareholders registered in the shareholders' registry with the Central Depository on 11 June 2018 have the right to receive a gross dividend of RON 0.0678 per share, proportionally with their participation in the paid share capital of the Fund. The payment started on 29 June 2018 and by 31 December 2018, shareholders had collected over 98% of the total distribution.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**  
(all amounts are in RON unless otherwise stated)**18. Shareholders' equity (continued)****(g) Profit appropriation**

As per these 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 for 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 9<sup>th</sup> 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 9<sup>th</sup> buy-back programme.

**19. Contingencies****Litigations**

As at 31 December 2018, the Fund was involved in certain litigations, either as defendant or claimant. According to the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets the Fund considers that there are no litigations which may have significant effects on the Fund's financial position or profitability.

**Other contingencies**

Other contingencies of the Fund included the receivables from World Trade Center Bucuresti SA, as detailed below.

Title II, Article 4 of Government Emergency Ordinance no. 81/2007 stipulated the transfer of receivables from World Trade Center Bucuresti SA from the Authority for State Assets Recovery to the Fund, amounting to USD 68,814,198 (including the original principal and related interest and penalties) on 29 June 2007.

Between 2008 and 2010 the Fund recovered from World Trade Center Bucuresti SA, USD 510,131, EUR 148,701 and RON 8,724,888. Given the uncertainties regarding the recoverability of the amounts due by World Trade Center Bucuresti SA, the above amounts were recognised on receipt basis in the Fund's financial statements.

In August 2013, World Trade Center Bucuresti SA filed a claim against the Fund asking the Fund to pay back all the amounts received through the enforcement procedure during 2010 and 2011 (EUR 148,701, USD 10,131 and RON 8,829,663).

On 7 July 2016, the Bucharest Court admitted the claim filed by World Trade Center Bucuresti SA and obliged Fondul Proprietatea to pay back the amounts recovered from the enforcement procedure (EUR 148,701, USD 10,131 and RON 8,829,663) and the related legal interest calculated for these amounts. During the period from July to August 2016, the Fund performed the payment of these amounts and the related legal interest to World Trade Center Bucuresti SA. The Court decision is irrevocable.

The amounts recovered from the enforcement procedure were originally accounted for by the Fund as contributions of the Romanian State to the share capital of the Fund, decreasing the receivable related to the unpaid capital. Consequently, these amounts are to be recovered by the Fund from the Romanian State (being accounted for as a receivable over this shareholder of the Fund, for which an impairment adjustment was recorded), while the legal interest was recorded as an expense with provisions for litigations.

The next hearing for the file started by the Fund against the Romanian State, represented by Ministry of Public Finance, for recovering the contributions of the Romanian State to the share capital of the Fund, was set for 9 April 2019 and the file is in the first stage.

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## 20. Related parties

**(a) Key management***(i) Board of Nominees ("BON")*

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
Total BON gross remuneration, <i>out of which</i> :	1,447,380	1,200,000
- Net remuneration paid to BON members	846,720	851,150
- Related taxes and contributions payable to State Budget	600,660	348,850
Contributions payable to State Budget by the Fund	-	245,075
<b>Total Fund's cost with BON remuneration</b>	<b>1,447,380</b>	<b>1,445,075</b>

Following the taxation changes regarding salaries and other income assimilated to salaries starting 1 January 2018, respectively the transfer of the social contributions from employers to employees, the Fund's shareholders approved during 14 February 2018 GSM, the increase of the gross remuneration paid to the Board of Nominees starting with 1 January 2018, so that the net remuneration of Board of Nominees members to remain the same as in December 2017.

There were no loans to or other transactions between the Fund and the members of the Board of Nominees neither in 2018 nor in 2017.

There are no post-employment, long term or termination benefits related to the remuneration of the members of the Board of Nominees.

*(ii) Sole Director and Investment Manager*

FTIS is the Sole Director and Alternative Investment Fund Manager of the Fund starting with 1 April 2016. The initial mandate was for a two-year period and this was renewed for another two years starting with 1 April 2018. The role of Investment Manager and certain administrative functions have been delegated by FTIS to FTIML.

The transactions carried out between the Fund and FTIS were the following:

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
<b>Transactions</b>		
Administration fees	60,515,467	78,117,008

In 2018, an amount of RON 122 was reimbursed by FTIS to the Fund as sundry costs (2017: nil).

The transactions carried out between the Fund and FTIML were the following:

	<b>Year ended 31 December 2018</b>	<b>Year ended 31 December 2017</b>
<b>Transactions</b>		
Rent expense charged to the Fund	75,655	70,265
Operating cost charged to the Fund	26,304	24,398
	<b>101,959</b>	<b>94,663</b>

During 2018, the Fund also recorded RON 1,330,771 representing expenses incurred by FTIML on its behalf (2017: RON 1,583,604). These expenses were primarily related to promotional activities for the Fund (investor relations). The recharge of these expenses to the Fund followed the provisions of the management agreement in place at the respective moment and was subject to Board of Nominees' approval.

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 (all amounts are in RON unless otherwise stated)

## 20. Related parties (continued)

**(a) Key management (continued)***(ii) Sole Director and Investment Manager (continued)*

The outstanding liabilities owed by the Fund were as follows:

Amounts due to:	31 December 2018	31 December 2017
FTIS	10,776,338	11,752,658
FTIML	193,877	69,752
	<b>10,970,215</b>	<b>11,822,410</b>

There are no other elements of compensation for key management besides those described above.

**(b) Subsidiaries**

The Fund had the following subsidiaries, all of which are incorporated in Romania:

	31 December 2018	31 December 2017
<b>Ownership interest</b>		
Zirom SA	100%	100%
Alcom SA	72%	72%
Comsig SA	70%	70%

During 2018, the Fund participated in the cash share capital increase of Zirom SA, subscribing 235,000 new shares, at the nominal value of RON 10 per share (in total of RON 2,350,000).

In December 2018, the shareholders of Alcom SA approved the distribution of a special dividend having the payment date in January 2019. The Fund recorded the dividend receivable from Alcom SA of RON 1,338,735 in January 2019, on the ex-dividend date, according with its accounting policy.

During 2017, the Fund participated in the cash share capital increase of Zirom SA subscribing 272,000 new shares respectively, at the nominal value of RON 10 per share (in total of RON 2,720,000).

In April 2017, the shareholders of Comsig SA approved the dissolution of the company. As at the reporting date of these financial statements, Comsig SA is in administrative liquidation process.

The fair value of investments in subsidiaries is presented in the table below:

	31 December 2018	31 December 2017
Zirom SA	27,129,000	26,839,000
Alcom SA	12,832,632	9,906,746
Comsig SA	-	-
	<b>39,961,632</b>	<b>36,745,746</b>

As at 31 December 2018, the Fund has no commitment or intention to provide financial or other support to its subsidiaries, including commitments or intentions to assist the subsidiaries in obtaining financial support.

**(c) Associates**

As at 31 December 2018 and 31 December 2017 the Fund had two associates, both incorporated in Romania:

	31 December 2018	31 December 2017
<b>Ownership interest</b>		
Societatea Nationala a Sarii SA	49%	49%
Plafar SA	49%	49%

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20. Related parties (continued)

**(c) Associates (continued)**

During 2018, the Fund recorded a dividend receivable from Societatea Nationala a Sarii SA of RON 42,337,557. As at 31 December 2018, the balance due by Societatea Nationala a Sarii SA to the Fund amounted RON 6,389 and comprised the outstanding dividend receivable of RON 6,378 and the penalties for delay payment of dividends of RON 11. The outstanding balance due by Societatea Nationala a Sarii SA to the Fund is fully impaired.

During 2017, the Fund recorded and collected from Societatea Nationala a Sarii SA a dividend of RON 13,760,169.

21. Subsequent events

**Share capital increase of CN Aeroporturi Bucuresti SA**

During December 2018 the shareholders of CN Aeroporturi Bucuresti SA approved a share capital increase, where the Fund contribution was in amount of RON 67,292,520. This amount has been considered in the fair value of this participation included in these financial statements. The actual payment of the contribution was done by the Fund during January 2019 and the legal registration of this share capital increase with the Trade Registry is expected in the upcoming period, which does not require any adjustments to the information included in these financial statements.

## Annex 2

## Statement of Assets and Obligations of Fondul Proprietatea SA as at 31 December 2018, prepared in accordance with CNVM Regulation 4/2010 (Annex no. 4)

Item	29 December 2017			31 December 2018			Differences RON
	% of the net asset	% of the total asset	Currency RON	% of the net asset	% of the total asset	Currency RON	
<b>I. Total assets</b>	<b>100.3372%</b>	<b>100.0000%</b>	<b>10,826,827,868.09</b>	<b>100.3458%</b>	<b>100.0000%</b>	<b>10,254,794,184.46</b>	<b>(572,033,683.63)</b>
1 <b>Securities and money market instruments, out of which:*</b>	24.3997%	24.3177%	2,632,840,979.68	24.0176%	23.9350%	2,454,476,486.94	(178,364,492.74)
1.1. securities and money market instruments admitted or traded on a regulated market from Romania, out of which:	24.3997%	24.3177%	- 2,632,840,979.68	24.0176%	23.9350%	- 2,454,476,486.94	(178,364,492.74)
1.1.1 listed shares traded in the last 30 trading days	22.4907%	22.4152%	- 2,426,855,059.71	22.6042%	22.5265%	- 2,310,030,648.67	(116,824,411.04)
1.1.2 listed shares not traded in the last 30 trading days	0.0936%	0.0932%	- 10,095,916.20	0.1256%	0.1251%	- 12,832,631.77	2,736,715.57
1.1.3 Government bonds	1.8154%	1.8093%	- 195,890,003.77	1.2878%	1.2834%	- 131,613,206.50	(64,276,797.27)
1.1.4 allotment rights not admitted at trading on a regulated market	-	-	-	-	-	-	-
1.2. securities and money market instruments admitted or traded on a regulated market from a member state, out of which:	-	-	-	-	-	-	-
1.2.1 listed shares traded in the last 30 trading days	-	-	-	-	-	-	-
1.2.2 listed shares not traded in the last 30 trading days	-	-	-	-	-	-	-
1.3. securities and money market instruments admitted on a stock exchange from a state not a member or negotiates on another regulated market from a state not a member, that operates on a regular basis and is recognized and opened to the public, approved by the Financial Supervisory Authority ("FSA.")	-	-	-	-	-	-	-
2 New issued securities	-	-	-	-	-	-	-
3 Other securities and money market instruments mentioned at art. 187 letter a) of the Regulation no.15/2004, out of which:	63.4009%	63.1879%	- 6,841,241,262.82	72.4656%	72.2156%	- 7,405,575,340.14	564,334,077.32
- shares not admitted at trading on a regulated market	63.4009%	63.1879%	- 6,841,241,262.82	72.4656%	72.2156%	- 7,405,575,340.14	564,334,077.32
4 Bank deposits, out of which:	11.8307%	11.7910%	1,276,587,197.95	1.8309%	1.8246%	187,116,148.99	(1,089,471,048.96)
4.1. bank deposits made with credit institutions from Romania	11.8307%	11.7910%	- 1,276,587,197.95	1.8309%	1.8246%	- 187,116,148.99	(1,089,471,048.96)
- in RON	11.8307%	11.7910%	- 1,276,587,197.95	1.8309%	1.8246%	- 187,116,148.99	(1,089,471,048.96)
- in euro	-	-	-	-	-	-	-
4.2. bank deposits made with credit institutions from an EU state	-	-	-	-	-	-	-
4.3. bank deposits made with credit institutions from an non-EU state	-	-	-	-	-	-	-
5 Derivatives financial instruments traded on a regulated market	-	-	-	-	-	-	-
6 Current accounts and petty cash out of which:	0.1777%	0.1771%	19,173,642.78	0.1923%	0.1916%	19,647,401.47	473,758.69
- in RON	0.1777%	0.1771%	- 19,167,497.50	0.1923%	0.1916%	- 19,643,299.83	475,802.33
- in euro	0.0000%	0.0000%	EUR 671.64	0.0000%	0.0000%	EUR 380.61	1,775.13
- in USD	0.0000%	0.0000%	USD 331.35	0.0000%	0.0000%	USD 228.23	929.72
- in GBP	0.0000%	0.0000%	GBP 328.61	0.0000%	0.0000%	GBP 268.97	1,396.79
7 Money market instruments, others than those traded on a regulated market, according to art. 101 par. (1) letter g) of Law no. 297/2004 regarding the capital market, with subsequent additions and amendments, out of which:	0.4289%	0.4274%	- 46,273,974.68	0.4857%	0.4840%	- 49,636,197.39	3,362,222.71
- Treasury bills with original maturities of less than 1 year	0.4289%	0.4274%	- 46,273,974.68	0.4857%	0.4840%	- 49,636,197.39	3,362,222.71
8 Participation titles of OCIU and/or UCITS (A.O.P.C./ O.P.C.V.M.)	-	-	-	-	-	-	-
9 Other assets out of which:	0.0993%	0.0989%	- 10,710,810.18	1.3537%	1.3492%	- 138,342,609.53	127,631,799.35
- net dividend receivable from Romanian companies	-	-	-	1.3408%	1.3362%	- 137,018,230.51	137,018,230.51
- receivable representing the amount transferred to Central Depository for 2015 return of capital and not yet paid to / collected by shareholders until the end of the period	0.0150%	0.0149%	- 1,612,518.00	-	-	-	(1,612,518.00)
- tax on dividends to be recovered from the State Budget	0.0068%	0.0067%	- 730,314.00	0.0082%	0.0082%	- 838,000.00	107,686.00
- tax on profit to be recovered from the State Budget	0.0679%	0.0677%	- 7,330,440.00	-	-	-	(7,330,440.00)
- intangible assets	0.0070%	0.0070%	- 756,603.69	0.0033%	0.0033%	- 336,522.13	(420,081.56)
- advance payments for intangible assets	0.0002%	0.0002%	- 19,332.26	-	-	-	(19,332.26)
- other receivables out of which:	0.0001%	0.0001%	- 15,720.00	-	-	-	(15,720.00)
- in RON	0.0001%	0.0001%	- 15,720.00	-	-	-	(15,720.00)
- prepaid expenses	0.0023%	0.0023%	- 245,882.23	0.0015%	0.0015%	- 149,856.89	(96,025.34)
<b>II. Total liabilities</b>	<b>0.3372%</b>	<b>0.3363%</b>	<b>36,409,534.29</b>	<b>0.3458%</b>	<b>0.3447%</b>	<b>35,350,104.78</b>	<b>(1,059,429.51)</b>
1 Liabilities in relation with the payments of fees due to the investment management company (S.A.I.)	0.1066%	0.1063%	- 11,506,104.96	0.1054%	0.1051%	- 10,776,338.36	(729,766.60)
2 Liabilities related to the fees payable to the depository bank	0.0004%	0.0004%	- 50,031.96	0.0005%	0.0005%	- 49,303.67	(728.29)
3 Liabilities related to the fees payable to intermediaries	0.0111%	0.0111%	- 1,197,286.95	0.0048%	0.0048%	- 489,816.18	(707,470.77)
4 Liabilities related to commissions and other bank services	-	-	-	-	-	-	-
5 Interest payable	-	-	-	-	-	-	-
6 Liabilities related to issuance costs	-	-	-	-	-	-	-
7 Liabilities in relation with the fees/commissions to FSA	0.0072%	0.0072%	- 776,109.30	0.0075%	0.0075%	- 778,414.45	2,305.15
8 Liabilities related to audit fees	-	-	-	0.0020%	0.0020%	- 203,055.52	203,055.52
9 Other Liabilities, out of which:	0.2119%	0.2113%	- 22,880,001.12	0.2256%	0.2248%	- 23,053,176.60	173,175.48
- liabilities to the Fund's shareholders related to the dividend distribution	-	-	-	0.0912%	0.0911%	- 9,327,606.80	9,327,606.80
- liabilities related to the return of capital	0.1918%	0.1912%	- 20,705,310.85	0.1011%	0.1007%	- 10,329,582.90	(10,375,727.95)

**FONDUL PROPRIETATEA SA**

Item	29 December 2017				31 December 2018				Differences RON
	% of the net asset	% of the total asset	Currency	RON	% of the net asset	% of the total asset	Currency	RON	
- provisions	0.0079%	0.0079%	-	856,247.22	0.0084%	0.0083%	-	856,247.22	-
- liabilities related to buybacks under settlement	0.0000%	0.0000%	-	-	0.0101%	0.0100%	-	1,027,752.33	1,027,752.33
- remunerations and related contributions	0.0004%	0.0004%	-	40,065.00	0.0005%	0.0005%	-	50,055.00	9,990.00
- tax on dividends payable to State Budget	-	-	-	-	0.0048%	0.0048%	-	495,092.04	495,092.04
- other liabilities out of which:	0.0118%	0.0118%	-	1,278,378.05	0.0095%	0.0094%	-	966,840.31	(311,537.74)
- in RON	0.0070%	0.0070%	-	762,042.01	0.0095%	0.0094%	-	966,840.31	204,798.30
- in USD	0.0009%	0.0009%	USD 25,007.00	97,314.74	-	-	-	-	(97,314.74)
- in GBP	0.0039%	0.0039%	GBP 79,768.00	419,021.30	-	-	-	-	(419,021.30)
<b>III. Net Asset Value (I - II)</b>	<b>100.0000%</b>	<b>99.6637%</b>		<b>10,790,418,333.80</b>	<b>100.0000%</b>	<b>99.6553%</b>		<b>10,219,444,079.68</b>	<b>(570,974,254.12)</b>

\* = Includes also the value of holdings in companies admitted to trading on AeRo market (alternative regulated market)

**Note:** the difference of RON 391 million between the Total Assets as at 31 December 2018 of RON 10,254.79 million presented in this Annex and the Total assets as at 31 December 2018 of RON 9,863.79 million as reported in the IFRS statutory financial statements for the year ended 31 December 2018 represents the fair value adjustment of the holding in Hidroelectrica SA following the impact of the fiscal measures approved through EGO 114/2018 and related ANRE Order 10/1 February 2019 regarding the methodology for the calculation of the electricity prices and quantities sold by producers based on regulated contracts. In this Annex, the Fund's holding in Hidroelectrica SA is valued at RON 4,276 million while in the IFRS statutory financial statements for the year ended 31 December 2018 the Fund's holding in Hidroelectrica SA was adjusted to RON 3,885 million. For more details see page 25 from the Annual Sole Director's report for 2018.

**Unitary Net Asset Value**

Item	31 December 2018	29 December 2017	Differences
<b>Net Asset Value</b>	10,219,444,079.68	10,790,418,333.80	(570,974,254.12)
Number of outstanding shares	7,250,158,347	8,718,991,588	(1,468,833,241)
Unitary net asset value	1.4095	1.2375	0.1720

**DETAILED STATEMENT OF INVESTMENTS AS AT 31 DECEMBER 2018**
**Securities admitted or traded on a regulated market in Romania, out of which:**
**1.1 listed shares traded in the last 30 trading days**

Issuer	Symbol	Date of the last trading session	No. of shares held	Nominal value	Share value	Total value	Stake in the issuer's capital	Stake in Fondul Proprietatea total asset	Stake in Fondul Proprietatea net asset	Evaluation method
Alro Slatina SA	ALR	31/Dec/2018	72,884,714	0.5	3.0800	224,484,919.12	10.21%	2.1891%	2.1966%	Closing price
BRD-Groupe Societe Generale SA	BRD	31/Dec/2018	16,751,396	1	11.4000	190,965,914.40	2.40%	1.8622%	1.8687%	Closing price
IOR SA	IORB	28/Dec/2018	2,622,273	0.1	0.1100	288,450.03	2.02%	0.0028%	0.0028%	Reference price - Average price
Mecon SA	MECP	11/Dec/2018	60,054	11.6	22.8000	1,369,231.20	12.51%	0.0134%	0.0134%	Reference price - Average price
OMV Petrom SA	SNP	31/Dec/2018	5,663,548,078	0.1	0.2990	1,693,400,875.32	9.99%	16.5133%	16.5704%	Closing price
Romaero SA	RORX	24/Dec/2018	1,311,691	2.5	19.8000	25,971,481.80	18.87%	0.2533%	0.2541%	Reference price - Average price
Nuclearelectrica SA	SNN	31/Dec/2018	21,268,355	10	8.1600	173,549,776.80	7.05%	1.6924%	1.6982%	Closing price
<b>Total</b>						<b>2,310,030,648.67</b>		<b>22.5265%</b>	<b>22.6042%</b>	

**1.2 listed shares but not traded in the last 30 trading days**

Issuer	Symbol	Date of the last trading session	No. of shares held	Nominal value	Share value	Total value	Stake in the issuer's capital	Stake in Fondul Proprietatea total asset	Stake in Fondul Proprietatea net asset	Evaluation method
Alcom SA	ALCQ	10/Feb/2017	89,249	2.5	143.7846	12,832,631.77	71.89%	0.1251%	0.1256%	Shareholders' equity as of 31 December 2017 per share
<b>Total</b>						<b>12,832,631.77</b>		<b>0.1251%</b>	<b>0.1256%</b>	

**FONDUL PROPRIETATEA SA**
**Instruments mentioned at art. 187 letter a) of the Regulation no.15/2004, out of which:**

## Unlisted shares

Issuer	No. of shares held	Date of acquisition *	Acquisition price (total price of acquisition of shares)**	Share value	Total value	Stake in the issuer's capital	Stake in Fondul Proprietatea total asset	Stake in Fondul Proprietatea net asset	Company status	Evaluation method
Aeroportul International Mihail Kogalniceanu - Constanta SA	23,159	19/Jul/2005	1,490,898	63.3447	1,466,999.91	20.00%	0.0143%	0.0144%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
Aeroportul International Timisoara - Traian Vuia SA	32,016	19/Jul/2005	2,652,588	624.6876	19,999,998.20	20.00%	0.1950%	0.1957%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
BAT Service SA	194,022	19/Jul/2005	656,686	0.0000	0.00	33.00%	0.0000%	0.0000%	Bankruptcy	Priced at zero
CN Administratia Canalelor Navigabile SA	203,160	19/Jul/2005	15,194,209	71.8800	14,603,140.80	20.00%	0.1424%	0.1429%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
CN Administratia Porturilor Dunarii Fluviale SA	27,554	19/Jul/2005	675,810	63.3599	1,745,818.68	20.00%	0.0170%	0.0171%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
CN Administratia Porturilor Dunarii Maritime SA	21,237	19/Jul/2005	1,351,671	189.1104	4,016,137.56	20.00%	0.0392%	0.0393%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
CN Administratia Porturilor Maritime SA	2,658,128	19/Jul/2005	65,511,444	91.7939	243,999,935.82	19.99%	2.3794%	2.3876%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
CN Aeroporturi Bucuresti SA***	2,875,443	5/Feb/2010	131,168,263	299.4321	860,999,935.92	20.00%	8.3961%	8.4251%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
Complexul Energetic Oltenia SA****	27,387,940	31/May/2012	670,353,852	0.0000	0.00	21.55%	0.0000%	0.0000%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
Comsig SA	75,655	19/Jul/2005	132,633	0.0000	0.00	69.94%	0.0000%	0.0000%	Administrative liquidation	Priced at zero
E-Distributie Banat SA	9,220,644	19/Jul/2005	141,578,929	51.1894	471,999,233.97	24.12%	4.6027%	4.6186%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
E-Distributie Dobrogea SA	6,753,127	19/Jul/2005	114,760,053	42.6469	287,999,931.86	24.09%	2.8084%	2.8182%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
E-Distributie Muntenia SA	3,256,396	19/Jul/2005	107,277,263	119.4572	388,999,948.25	12.00%	3.7933%	3.8065%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
Enel Energie Muntenia SA	444,054	19/Jul/2005	2,833,769	130.6147	57,999,979.99	12.00%	0.5656%	0.5675%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
Enel Energie SA	1,680,000	19/Jul/2005	26,124,808	26.1904	43,999,872.00	12.00%	0.4291%	0.4306%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
Engie Romania SA	2,390,698	19/Jul/2005	62,610,812	186.1381	444,999,983.39	11.99%	4.3394%	4.3544%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
Gerovital Cosmetics SA	1,350,988	19/Jul/2005	340,996	0.0000	0.00	9.76%	0.0000%	0.0000%	Bankruptcy	Priced at zero
Hydroelectrica SA	89,396,405	19/Jul/2005	3,107,849,696	47.8319	4,275,999,904.32	19.94%	41.6976%	41.8418%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
Plafar SA	132,784	28/Jun/2007	3,160,329	21.9604	2,915,989.75	48.99%	0.0284%	0.0285%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
Posta Romana SA	14,871,947	19/Jul/2005	84,664,380	0.4505	6,699,812.12	6.48%	0.0653%	0.0656%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
Romplumb SA	1,595,520	28/Jun/2007	19,249,219	0.0000	0.00	33.26%	0.0000%	0.0000%	Bankruptcy	Priced at zero
Salubriserv SA	43,263	19/Jul/2005	207,601	0.0000	0.00	17.48%	0.0000%	0.0000%	Judicial reorganisation	Priced at zero
Simtex SA	132,859	28/Jun/2007	3,059,858	0.0000	0.00	30.00%	0.0000%	0.0000%	Judicial reorganisation	Priced at zero
Societatea Nationala a Sarii SA	2,005,884	28/Jun/2007	76,347,715	124.6333	249,999,942.34	48.99%	2.4379%	2.4463%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
World Trade Center Bucuresti SA	198,860	19/Jul/2005	42,459	0.0000	0.00	19.90%	0.0000%	0.0000%	Insolvency	Priced at zero
World Trade Hotel SA	17,912	19/Jul/2005	17,912	0.0000	0.00	19.90%	0.0000%	0.0000%	Unlisted companies, in function	Priced at zero (lack of annual financial statements for the year-ended 31 December 2017)
Zirom SA	5,912,083	28/Jun/2007	58,908,072	4.5887	27,128,775.26	100.00%	0.2645%	0.2655%	Unlisted companies, in function	Fair value / share (Value based on valuation report as at 30 September 2018)
<b>Total</b>			<b>4,698,221,925</b>		<b>7,405,575,340.14</b>		<b>72.2156%</b>	<b>72.4656%</b>		

**Legend:**

\* = where the date of acquisition is shown as earlier than Fondul Proprietatea's date of incorporation (28 December 2005), the date of acquisition refers to the date of publishing in the Official Gazette of Law no. 247 / 19 July 2005, which determined that these investments would be transferred to Fondul Proprietatea on its future incorporation.

\*\* = The acquisition price includes the initial value of Fondul Proprietatea's final portfolio of shares contributed by the Romanian State in December 2005 and June 2007 determined based on the valuation performed in October 2007 by an independent valuer (Finevex SRL Constanta) and the subscriptions to share capital increase of portfolio companies, if the case, (both in cash and in form of free of charge shares received) less the disposals (if the case). Fondul Proprietatea did not perform any acquisition of unlisted shares from its incorporation date until now.

\*\*\* = company resulting from the merger of CN "Aeroportul International Henri Coanda - Bucuresti" S.A. and S.N. "Aeroportul International Bucuresti Banasa - Aurel Vlaicu" S.A.

\*\*\*\* = company resulting from the merger of Complexul Energetic Turceni S.A., Complexul Energetic Craiova S.A., Complexul Energetic Rovinari S.A., Societatea Nationala a Lignitului Oltenia S.A.

## Bonds or other debt instruments issued or guaranteed by the state or central public administration authorities

## Treasury bills with discount

Series and number of the issue	No. of instruments	Date of acquisition	Maturity date	Initial value	Daily interest	Cumulative interest	Current value	Stake in Fondul Proprietatea total asset	Stake in Fondul Proprietatea net asset	Intermediary Bank	Evaluation method
ROX16RE0GF33	5,000	4/Oct/2018	27/Mar/2019	24,650,780.50	2,054.23	174,609.75	24,825,390.25	0.2421%	0.2429%	CITI Bank	Acquisition price cumulated with the related interest since the acquisition date
ROX16RE0GF33	5,000	19/Oct/2018	27/Mar/2019	24,655,001.25	2,225.80	155,805.89	24,810,807.14	0.2419%	0.2428%	CITI Bank	
<b>Total</b>							<b>49,636,197.39</b>	<b>0.4840%</b>	<b>0.4857%</b>		

## Government bonds

Issuer	ISIN code	No. of instruments	Date of acquisition	Coupon date	Due Date	Initial Value	Daily interest	Cumulated interest	Cumulated discount/premium	Market price / Reference composite price	Current value	Stake in FP total assets	Stake in FP net asset	Evaluation method
Ministry of Finance	RO1519DBN037	13,000	27/Nov/2018	29/Apr/2019	29/Apr/2019	65,000,000.00	4,452.05	1,099,657.53	-	99.8635%	66,010,932.53	0.6437%	0.6459%	Fair value (reference composite price published by Reuters, including the cumulated interest)
Ministry of Finance	RO1619DBN035	13,000	27/Nov/2018	25/Feb/2019	25/Feb/2019	65,000,000.00	2,404.11	745,273.97	-	99.7800%	65,602,273.97	0.6397%	0.6419%	
<b>Total</b>								<b>1,844,931.50</b>			<b>131,613,206.50</b>	<b>1.2834%</b>	<b>1.2878%</b>	

## Bank deposits

Name of the bank	Starting date	Maturity date	Initial value	Daily interest	Cumulative interest	Current value	Stake in Fondul Proprietatea total asset	Stake in Fondul Proprietatea net asset	Evaluation method
Unicredit Bank	31/Dec/2018	7/Jan/2019	44,600,000.00	2,725.56	2,725.56	44,602,725.56	0.4349%	0.4364%	Bank deposit value cumulated with the daily related interest for the period from starting date
BRD - Groupe Societe Generale	31/Dec/2018	3/Jan/2019	44,300,000.00	1,845.83	1,845.83	44,301,845.83	0.4320%	0.4335%	
BRD - Groupe Societe Generale	31/Dec/2018	3/Jan/2019	9,606,217.76	437.62	437.62	9,606,655.38	0.0937%	0.0940%	
Banca Comerciala Romana	31/Dec/2018	3/Jan/2019	44,300,000.00	2,461.11	2,461.11	44,302,461.11	0.4320%	0.4335%	
ING Bank	31/Dec/2018	3/Jan/2019	44,300,000.00	2,461.11	2,461.11	44,302,461.11	0.4320%	0.4335%	
<b>Total</b>			<b>187,106,217.76</b>	<b>9,931.23</b>	<b>187,116,148.99</b>	<b>1.8246%</b>	<b>1.8309%</b>		

## Evolution of the net asset and the net asset unitary value in the last 3 years

	30 December 2016	29 December 2017	31 December 2018
Net Asset	11,427,351,380.47	10,790,418,333.80	10,219,444,079.68
NAV/share	1.1865	1.2375	1.4095

Franklin Templeton International Services S.à r.l acting in the capacity of Sole Director of Fondul Proprietatea SA

Johan Meyer  
Permanent representative

Franklin Templeton Investment Management Limited United Kingdom Bucharest Branch, acting as Investment Manager on behalf of Fondul Proprietatea SA

Marius Nechifor  
Compliance Officer

BRD Groupe Societe Generale

Claudia Ionescu  
DirectorVictor Strâmbei  
Manager Depository  
Department

## Annex 3

### Statement of persons responsible

Provisions of Accounting Law no. 82/1991, Art.30 and  
FSA Regulation no. 5/2018, Art.223, par. A (1), letter c

The annual financial statements for the financial year 31 December 2018 prepared for:

Entity: Fondul Proprietatea SA

Address: Bucharest, District 1, 78–80, Buzești Street, 7th Floor

Trade Registry Number: J40/21901/28.12.2005

Form of property: 22 (joint ownership with public capital under 50%, domestic and foreign public and private capital companies)

CAEN code and name: 6430 “Trusts, funds and similar financial entities”

Sole Registration Code: 18253260

The undersigned, Johan Meyer, Permanent Representative with Franklin Templeton International Services S.à r.l as Sole Director of Fondul Proprietatea SA, and Cadaru Catalin, Financial reporting manager, undertake the responsibility for the preparation of the annual financial statements as at 31 December 2018 and confirm that:

- a) the accounting policies used for the preparation of the annual financial statements are in compliance with the applicable accounting regulations;
- b) the annual financial statements give a true and fair view of the financial position and performance (including the assets, liabilities and profit or loss) and of other information regarding the business conducted;
- c) the company is conducting its business on a going concern basis;
- d) the Annual Administrator’s Report of Franklin Templeton International Services S.à r.l regarding the management and administration of Fondul Proprietatea SA for the year 2018, includes an accurate overview of the developments and performance of Fondul Proprietatea SA, as well as a description of the main risks and uncertainties related to the business.

Franklin Templeton International Services S.à r.l. acting in the capacity of Sole Director of  
Fondul Proprietatea SA  
Johan Meyer  
Permanent Representative

Franklin Templeton Investment Management Limited United Kingdom Bucharest Branch, acting as  
Investment Manager on behalf of Fondul Proprietatea SA  
Catalin Cadaru  
Financial Reporting Manager

## Annex 4

# The Constitutive Act of Fondul Proprietatea SA in force as at 31 December 2018

updated as at 28 December 2018

### CHAPTER I

#### Name of the company, legal form, headquarters and duration

#### ARTICLE 1

##### Name of the Company

- (1) The name of the Company is "Fondul Proprietatea" - S.A.
- (2) All invoices, offers, orders, tariffs, prospectuses and other documents used in business, issued by the Company shall indicate the name, the legal form, the registered office, the registration number with the Commercial Registry and the sole registration code (CUI), the subscribed share capital, and the paid share capital".

#### ARTICLE 2

##### Legal form of the company

- (1) "Fondul Proprietatea" - S.A., hereinafter referred to as Fondul Proprietatea, is a Romanian legal person, set up as a joint-stock company.
- (2) Fondul Proprietatea is organized, operates and ceases its activity under the provisions of Law No. 247/2005 on property and justice reform, and additional measures, as further amended and completed, of Law No. 297/2004 on the capital market, as further amended and completed, and of Company Law No. 31/1990, republished, as further amended and completed.
- (3) Fondul Proprietatea is set up as an undertaking for collective investment (A.O.P.C.), of the closed-end-type, as defined by Art. 114 (1) letter b) of Law No. 297/2004, as further amended and completed and qualifies as an Alternative Investment Fund as defined by Law no. 74/2015 regarding the alternative investment fund managers that implemented in Romania Directive 2011/61/EU on alternative investment fund managers, as amended.

#### ARTICLE 3

##### Company headquarters

- (1) The registered office of Fondul Proprietatea is located in Bucharest, 78-80 Buzesti Street, floor 7th, Sector 1; the headquarters may be changed to any other location in Romania, by decision of the asset management company (Alternative Investment Fund Manager), according to article 21 paragraph (3) xii).
- (2) The Company may set up secondary headquarters such as branches, representative offices, working points or other units with no legal personality, under the terms provided by law.

#### ARTICLE 4

##### Company duration

The duration of Fondul Proprietatea is unlimited.

**CHAPTER II**  
**Purpose and business object of the company**

**ARTICLE 5**  
**Company purpose**

The purpose of Fondul Proprietatea is the management and administration of the portfolio.

**ARTICLE 6**  
**Business object**

- (1) Fondul Proprietatea has as main object of activity the management and administration of the portfolio.
- (2) The main domain of activity of Fondul Proprietatea is the one described by CAEN Code 643 – mutual funds and other similar financial entities, and the main activity is financial investments - CAEN Code 6430.
- (3) The business object of Fondul Proprietatea is the following:
  - a) management and administration of the portfolio;
  - b) other additional and adjacent activities, according to the regulations in force.

**CHAPTER III**  
**Share capital, shares**

**ARTICLE 7**  
**Share capital**

- (1) The subscribed share capital of Fondul Proprietatea is in the amount of RON 4,733,020,898.32, divided in 9,101,963,266 ordinary, nominative shares, having a nominal value of RON 0.52 each. The capacity as shareholder of Fondul Proprietatea is attested by a statement of account issued by Depozitarul Central SA.
- (2) The identification data of each shareholder, the contribution to the share capital of each shareholder, the number of shares to which a shareholder is entitled to and the participation quota out of the total share capital are included in the shareholders' register kept by a computerized system by the Central Depository.

**ARTICLE 8**  
**Share capital increase and decrease**

- (1) The extraordinary general meeting of the shareholders shall decide, under the conditions of the law, on the share capital increase and decrease of Fondul Proprietatea, in accordance with the provisions of art. 12 (3) letter c) and d) of this constitutive act.
- (2) The share capital may be increased, in accordance with the provisions of the law, by:
  - a) by issuing new shares in exchange for cash contributions;
  - b) incorporating reserves, except for the legal reserves and of the reserves created out of the re-evaluation of the patrimony, as well as of the benefits and issuing premiums.
- (3) The share capital increase stated for in paragraph 2 shall be registered at the Trade Register Office, on the basis of the decision made by the General Meeting of the Shareholders of Fondul Proprietatea,
- (4) Any share capital decrease shall be performed in accordance with the provisions of the law.

- (5) The share capital may be decreased by:
- decreasing the number of shares;
  - decreasing the nominal value of shares; and
  - other means provided by the law.
- (6) In case the Alternative Investment Fund Manager notices that, due to accrued losses, the amount of the net assets, established as the difference between the total assets and total liabilities of Fondul Proprietatea, is less than half of the value of the subscribed share capital, Fund Manager is bound to call the extraordinary general meeting of the shareholders, which will decide if Fondul Proprietatea requires to be dissolved. In case the extraordinary general meeting of the shareholders does not decide the dissolution of Fondul Proprietatea, then Fondul Proprietatea is bound to proceed, at the latest by the termination of the fiscal year subsequent to the one in which the losses were determined, to a share capital decrease with an amount at least equal to that of the losses which could not be covered by reserves, in case in this time the net assets of Fondul Proprietatea were not reconstituted up to a value at least equal to half of the share capital.
- (7) Share capital decrease shall be performed only after two months as of the publication in the Official Gazette of Romania, Part IV, of the resolution of the extraordinary general meeting of the shareholders.

## **ARTICLE 9**

### **Shares**

- The shares of Fondul Proprietatea are nominative, of equal value, issued in dematerialized form, established by registration in the account, and grants equal rights to their holders under the conditions provided by art. 11.
- The nominal value of a share is RON 0.52.
- The shares are indivisible with respect to Fondul Proprietatea, acknowledging only one holder for each share. In case a share becomes the property of more persons, Fondul Proprietatea / the Central Depository is not bound to register the transfer as long as those persons will not appoint a sole representative to exercise the rights arising from the share.
- The partial or total transfer of the shares amongst the shareholders or third parties is done according to the terms, conditions and procedure provided by law.
- Fondul Proprietatea may buy back its own shares in accordance with the conditions laid down in legislation in force.
- The right to dividends are held by the shareholders registered in the shareholders' register, according to the provisions of Law No. 297/2004, as further amended and completed, as well as the regulations issued for the implementation thereof.

## **ARTICLE 10**

### **Bonds**

Fondul Proprietatea is authorized to issue bonds in accordance with the provisions of the law. Fondul Proprietatea is not allowed to conclude loan agreements for investment reasons.

## **ARTICLE 11**

### **Rights and obligations arising from shares**

- Each share fully paid by the shareholders, according to the law, grants them the right to vote in the general meeting of the shareholders, according to the provisions of paragraph (2), the right to elect and to be elected in the management bodies, the right to take part in the profit distribution, according to the provisions of this constitutive act and the legal dispositions, respectively other rights provided by the constitutive act.

- (2) The shares issued by Fondul Proprietatea grant the right to vote, each share grants **one voting right**.
- (3) Holding one share implies the rightful adhesion to this constitutive act.
- (4) The rights and obligations follow the shares in case ownership thereof passes to another person.

**CHAPTER IV**  
**General meeting of the shareholders**

**ARTICLE 12**  
**General meetings of the shareholders**

- (1) The general meeting of the shareholders may be ordinary and extraordinary.
- (2) The ordinary general meeting of the shareholders has the following competencies, duties and functions:
  - a) to discuss, approve and amend the annual financial statements after reviewing the reports of the Alternative Investment Fund Manager and financial auditor;
  - b) to establish the distribution of the net profit and to establish the dividends;
  - c) to appoint the members of the Board of Nominees (“BoN”) and to cancel their appointment;
  - d) to appoint the Alternative Investment Fund Manager in accordance with the law and to cancel its appointment;
  - e) to appoint and cancel the appointment of the financial auditor and to set the minimum duration of the financial audit agreement;
  - f) to set the level of the remuneration of the members of the Board of Nominees, the Alternative Investment Fund Manager and of the financial auditor for financial audit services for the ongoing fiscal year;
  - g) to rule over the management of the Alternative Investment Fund Manager and to evaluate his/her performances and to discharge him/her from its management,
  - h) to decide on the action in a court of law against the Alternative Investment Fund Manager or, as the case may be, against the financial audit, for damages caused to Fondul Proprietatea;
  - i) to approve the strategies and the development policies of Fondul Proprietatea;
  - j) to establish the annual income and expenditure budget for the following financial year;
  - k) to decide upon the pledge, lease or the creation of the movable securities or mortgages on the assets of Fondul Proprietatea;
  - l) to decide on any other aspects regarding Fondul Proprietatea, according to the legal duties.
- (3) The extraordinary general meeting of the shareholders is entitled to decide on the following:
  - a) set-up or closing of some secondary units: branches, agencies, representative offices or other such units with no legal personality;
  - b) share capital increase;
  - c) share capital decrease or re-completion thereof by issuing new shares;
  - d) conversion of shares from one category to another;
  - e) conversion of a category of bonds to another category or to shares;
  - f) issue new bonds;
  - g) approves the admission for trading and nominates the regulated market on which the shares of Fondul Proprietatea will be traded;

- h) 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 of Fondul Proprietatea, less receivables;
- i) change of the management system of Fondul Proprietatea;
- j) limitation or cancellation of the preference right of the shareholders;
- k) approves the Investment Policy Statement;
- l) any other amendment of the constitutive act or any other resolution requiring the approval of the extraordinary general meeting of the shareholders, according to applicable law or to this Constitutive Act.

### ARTICLE 13

#### Summoning the general meeting of the shareholders

- (1) The general meeting of the shareholders is called by the Alternative Investment Fund Manager whenever required. Prior to the convocation of the general meeting of the shareholders, the Alternative Investment Fund Manager shall communicate to the Board of Nominees the intention to call the general meeting and shall introduce on the list of matters for the meeting all matters requested by the Board of Nominees.
- (2) The ordinary general meeting of the shareholders meets at least once a year, within 4 months from the end of the financial year.
- (3) The date of the meeting may not be less than 30 days from the publication of the convocation in the Official Gazette of Romania, Part IV.
- (4) The general meeting of the shareholders, either ordinary or extraordinary, shall be called whenever required, according to the legal provisions in force and with the dispositions of the constitutive act, by publication of the calling notice in the Official Gazette of Romania, Part IV, and a national daily newspaper or in a local newspaper largely read in the locality where the HQ of the company resides at least 30 days prior to the proposed date of meeting.
- (5) One or more shareholders, individually or jointly, representing at least 5% of the share capital of Fondul Proprietatea, may request the Alternative Investment Fund Manager by a written address signed by the holder(s) to introduce in the agenda new matters, within 15 days of the publication of the calling notice.
- (6) The calling notice, any other matter added to the agenda at the request of the shareholders or of the Board of Nominees, the annual financial statements, the annual report of the Alternative Investment Fund Manager, the report of the Board of Nominees as well as the proposal to distribute dividends are made available to the shareholders, at the headquarters of Fondul Proprietatea at the date of convocation of the general meeting, and are also published on the internet page, for free access to information by the shareholders. Upon request, copies of these documents shall be issued to the shareholders.
- (7) The calling notice includes the place, hour and date of the general meeting of the shareholders, as well as the agenda, expressly mentioning all matters that will be subject to debate and all matters required by the applicable law.
- (8) In case the agenda includes proposals to amend the constitutive act, the notice shall include the full text of the proposals. In case the agenda includes the appointment of the members of the Board of Nominees, the notice shall mention that the list including information regarding the name, the residence and professional training of the persons proposed for the position of member of the Board of Nominees is available to the shareholders, to be further reviewed and completed by shareholders.
- (9) The notice for the first general meeting of the shareholders may provide also the day and hour of the second meeting, having the same agenda as the first, in order to cover the situation in which the first meeting cannot take place if the quorum is not being met.
- (10) The general meeting of the shareholders shall meet at the headquarters of Fondul Proprietatea or in another place

indicated in the notice.

- (11) The Board of Nominees may request to the Alternative Investment Fund Manager the calling of the general meeting, and if the Fund Manager does not observe the written request of the Board of Nominees within 5 working days from receiving it, the Board of Nominees may call upon the general meeting of the shareholders by following the same procedures as set out in this Article.
- (12) The chairperson of Board of Nominees may request to the Alternative Investment Fund Manager the calling of the general meeting according to article 16 paragraph (4) second sentence.
- (13) The Alternative Investment Fund Manager immediately call the general meeting of the shareholders, upon written request of the shareholders, individually or jointly, representing at least 5% of the share capital, in case the request includes dispositions that fall under the responsibility of the general meeting of shareholders.
- (14) In the case provided by paragraph (13), the general meeting of the shareholders shall be called within at most 30 calendar days and shall meet within at most 60 calendar days as of the date when the Alternative Investment Fund Manager received the request of the shareholders.
- (15) In the situation provided by paragraphs (13) and (14), in case the Alternative Investment Fund Manager does not call the general meeting of shareholders, the shareholders who requested the calling of the general meeting may request the same to the Board of Nominees. Should the Board of Nominees is also not responding to their request in 10 working days from the receipt of the request, the court of law from the headquarters of Fondul Proprietatea, by summoning the Alternative Investment Fund Manager, may authorize the calling of the general meeting by the shareholders which formulated the request

## **ARTICLE 14**

### **Organization of the general meeting of the shareholders**

#### **I. Quorum and voting rights**

- (1) Upon the first calling, for the validity of the deliberations of the ordinary general meeting of the shareholders it is required that the shareholders representing at least a fourth of the total shares with right to vote to attend. The decisions of the ordinary general meeting of the shareholders are taken with the majority of votes.
- (2) In case the ordinary general meeting of the shareholders cannot operate due to lack of quorum under paragraph (1), the meeting that will meet upon a second convocation may deliberate on the items included in the agenda of the first meeting, irrespective of the met quorum, taking decision by majority of the expressed votes.
- (3) For the validity of the deliberations of the extraordinary general meeting of the shareholders the following are required:
  - a) upon the first convocation, the attendance of the shareholders representing at least a fourth of the shares having voting rights, and the decisions are taken with majority of votes held by the shareholders attending or being represented;
  - b) upon the second convocation, the general meeting of the shareholders may deliberate on the items included in the agenda of the first meeting in the presence of the shareholders representing at least one fifth of the total number of the shares having voting rights, taking decisions by majority of votes held by the shareholders attending or being represented.
- (4) The attendance of shareholders representing at least 50% of the total number of the voting rights, both at the first and the second convocation, is required for the validity of deliberations of the extraordinary general meeting of the shareholders to adopt a decision regarding:
  - (i) a share capital increase,
  - (ii) the anticipated dissolution of Fondul Proprietatea, made under the conditions of the law.
- (5) For the validity of the deliberation of the extraordinary general meeting of shareholders regarding a share capital decrease, the attendance of the shareholders representing:

- (i) at least a fourth of the shares having voting rights upon the first convocation, and
  - (ii) at least one fifth of the total number of the shares having voting rights, upon the second convocation is required.
- (6) The decision to amend the main business object of Fondul Proprietatea, to decrease or increase the share capital, to change the legal form, to merge, de-merge or dissolve, is taken with a majority of at least two thirds of the voting rights related to the shares having voting rights of the shareholders attending or being represented.

## II. Procedure of the meetings

- (7) On the day and hour established in the convocation, the general meeting of the shareholders shall be opened by the permanent representative of the Alternative Investment Fund Manager or, in its absence, by the one holding its place. A legal representative of the Alternative Investment Fund Manager or a person appointed by the legal representative of the Fund Manager shall be the chairman of the meeting. The members of the Board of Nominees shall participate at the meetings, as well.
- (8) The general meeting shall elect, from amongst the attending shareholders, 1 up to 3 secretaries, who will check the attendance list of the shareholders, indicating the share capital represented by each of them, the minutes drawn up by the technical secretary to determine the number of the submitted shares and the fulfillment of the formalities requested by law and by the constitutive act for holding the general meeting of the shareholders.
- (9) A minute of the meeting, signed by the president and by Secretaries, shall determine the fulfillment of the calling formalities, the date and place of the general meeting of the shareholders, attending shareholders, the members of the Board of Nominees present, the number of shares, a summary of the debates, the decisions taken, and upon request of the shareholders, the statements made thereby in the meeting.
- (10) The documents referring to the convocation and the shareholders' attending list shall be attached to each minute.
- (11) The permanent representative of the Alternative Investment Fund Manager may appoint, from amongst the employees of the Alternative Investment Fund Manager, one or more technical secretaries, to fulfill their duties according to the legal provisions.
- (12) The decisions of the general meetings of the shareholders are drawn-up based on the minutes and is signed by the permanent representative of the Alternative Investment Fund Manager or by a person appointed thereby. The minutes shall be recorded in the general meetings of the shareholders' register.
- (13) Considering the extremely large number of shareholders of Fondul Proprietatea the shareholders may participate in person, by proxy with a special power of attorney or may express their voting right by correspondence or by electronic voting; the procedures and forms for the proxy, correspondence and electronic voting shall be set by the Alternative Investment Fund Manager, in accordance with the applicable legislation and are made available to the shareholders at least by the date of publishing of convening notice for general meeting of shareholders.
- (14) Considering the introduction of the voting right by correspondence, which right may be exercised and it is recommended to be exercised by any of the shareholders, the statutory quorum that needs to be met for the valid holding of any type of general meeting of the shareholders is calculated by including the votes deemed validly sent by correspondence.
- (15) Also in the case of the vote by correspondence, each shareholder is entitled to pronounce himself in writing, with respect to the issues included in the agenda, casting a vote "for", "against" or "abstained". The expressed votes that are not cancelled are considered.
- (16) All shareholders who, at the reference date, are registered in the shareholders' register, kept according to the law, have the right to participate to the general meetings of the shareholders.
- (17) In order to ensure the effective and real possibility of all shareholders to be informed on the contents of the documents and the proposals of the ones requiring the organization of the general meeting of the shareholders, by care of the Alternative Investment Fund Manager, such will be available, at the headquarters of Fondul Proprietatea, as well as on the internet page of Fondul Proprietatea, at least 30 days prior to the date provided for holding the meeting. In the case the calling of the general meeting is made by the Board of Nominees, the

Alternative Investment Fund Manager has the obligation to fulfil all the above-mentioned formalities at the request of the Board of Nominees. In case the communication with the shareholder is not realized in this way, for objective reasons, the Board of Nominees may announce in the calling notice a different address than the registered address of Fondul Proprietatea, where the above-mentioned documents will be made public on the website of Fondul Proprietatea, in accordance with the applicable legislation.

- (18) In the ads informing on the convocation of the general meeting of shareholders of Fondul Proprietatea it will be indicated, by the Alternative Investment Fund Manager the reference date in relation to which the shareholders will be entitled to participate and vote. Also, the date by when the shareholders may send their votes, as well as the procedure for voting by correspondence, regarding any of the issues subject to approval shall also be set. If the calling of the general meeting is made at the request of the Board of Nominees the above mentioned duties shall be fulfilled by the Board of Nominees. The deadline by when votes by correspondence may be registered at least 5 working days subsequent to the date of publication of the informative material and is prior to the convocation date of the general meeting of the shareholder by at least 48 hours.
- (19) The votes of the shareholders will be sent electronically or by letter to the headquarters of Fondul Proprietatea, in a clear and precise form, noting "for", "against" or "abstained" in relation to each issue subject to approval for which the shareholder intends to cast a vote.
- (20) The votes transmitted electronically shall be cancelled if they do not observe the procedure set by the Alternative Investment Fund Manager drawn up according to the Financial Supervisory Authority regulations and such votes will not be taken into consideration in calculating the attending quorum.

### **III. Exercising the voting right in the general meeting of the shareholders**

- (21) The shareholders may be represented in each general meeting by other shareholders or by third parties subject to evidence that voting authority has been delegated by the shareholder for that particular general meeting.
- (22) The decisions of the general meetings of the shareholders are taken by open vote, except for the cases the law or this constitutive act does not provide differently.
- (23) Only the shareholders registered in the company shareholders' register at the reference date established by the Alternative Investment Fund Manager or the Board of Nominees, as the case may be, when calling the general meeting of the shareholders shall be entitled to participate to the meeting and vote after proving their identity.
- (24) Secret vote is compulsory for electing and revoking the Alternative Investment Fund Manager, the members of the Board of Nominees, the financial auditors and for taking some measures/decisions regarding the liability of the Alternative Investment Fund Manager or of the members of the Board of Nominees and of the financial auditors of Fondul Proprietatea.
- (25) The procedures referring to the secret vote, where applicable will be approved by the Alternative Investment Fund Manager and will be made public on the website of Fondul Proprietatea at the date of convening notice at least by the date of publishing of convening notice for general meeting of shareholders.
- (26) The decisions of the general meeting of the shareholders are binding for all shareholders, even for the absent shareholders or who voted against or abstained.
- (27) The shareholders who do not have capacity to act, as well as the legal entities may be represented by their legal representatives who, in their turn, may grant power of attorney to other persons for that particular general meeting of the shareholders.

**CHAPTER V**  
**The Board of Nominees**

**ARTICLE 15**  
**Organisation**

- (1) The ordinary general meeting of the shareholders shall appoint the Board of Nominees, formed of 5 members, and shall establish their remuneration.
- (2) Any shareholder will have the right to make proposals on the members of the Board of Nominees. The members of the Board of Nominees may be shareholders of Fondul Proprietatea or other persons designated by the shareholders and they must have the proper experience and knowledge in order to be able to receive the Alternative Investment Fund Manager reports and of the consultants and, based on the information received, judge the merits of the management of Fondul Proprietatea within the limits of the objectives and principles set by the investment policy as well as by the applicable laws and regulations. Also, the members of the Board of Nominees have to be qualified properly in order to decide (if there is need with the support of an independent consultant) if the transactions proposed by the Alternative Investment Fund Manager needing the approval of the Board of Nominees are made to the advantage of the shareholders.
- (3) The mandate of the members of the Board of Nominees is of 3 years, period to be extended by right, by the first meeting of the General Meeting of the Shareholders.
- (4) The Board of Nominees elects from amongst its members a chairman of the Board.

**ARTICLE 16**  
**Functioning**

- (1) The meetings of the Board of Nominees are held at least once every quarter, however they may be called upon whenever needed. The call for the meeting of the Board of Nominees is made by the chairman, any of its members or upon the request of the Alternative Investment Fund Manager. The Board of Nominees shall meet in at most 7 days as of the calling.
- (2) The Chairperson of the Board of Nominees or, during his/her absence, a member of the Board of Nominees appointed through vote by the other members to chair the meeting, ensures the proper unfolding of the meetings. The meetings of the Board of Nominees shall be held at the headquarters of Fondul Proprietatea or at such other location as may be agreed among the members of the Board of Nominees or by means of electronic communications (e.g. telephone, videoconference).
- (3) The Board of Nominees takes valid decisions provided the absolute majority of its members. The members of the Board of Nominees may be represented to the meetings of the Board of Nominees only by other members of the Board of Nominees on the basis of a special written empowerment, presented in its original form at the beginning of the meeting. One member of the Board of Nominees may represent only one absent member. The decisions of the Board of Nominees shall be taken with the absolute majority of the votes of its members and are signed by all the members which participated to the meeting. If some of the members of the Board of Nominees have been represented, the empowerment will be annexed to the minute of the meeting.
- (4) If the absolute majority condition cannot be fulfilled to have the quorum for taking a decision, the chairperson of the Board of Nominees shall give notice for a second meeting of Board of Nominees, having the same agenda as the first, in order to discuss this agenda. If the absolute majority condition cannot be fulfilled to have the quorum for taking a decision for three consecutive times, the chairperson of the Board of Nominees shall ask the Alternative Investment Fund Manager to convoke the general meeting of the shareholders in order to properly decide on the respective decisions; in case that the Alternative Investment Fund Manager does not convoke it, any of the members of the Board of nominees will be in his right to convoke the general meeting.
- (5) In case of vacancy of the seat of one or more members of the Board of Nominees, the general meeting of the shareholders shall immediately convoke for the appointment of new members. For the period in time by the

decision of the general meeting, the other members of the Board of Nominees will nominate members ad interim to fulfil the vacant positions. The decision of the Board of Nominees on nominating members ad interim will be communicated to the Alternative Investment Fund Manager, the auditor and will be filed with the Trade Register.

## **ARTICLE 17**

### **Attributions of the Board of Nominees**

The Board of Nominees has the followings duties and functions:

- (1) Following the information received from the Alternative Investment 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;

- (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 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 of Fondul Proprietatea, less receivables;
- (17) Recommends to the General Meeting of the Shareholders the termination of the management contract 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 of proposal of Alternative Investment Fund Manager, recommends to the Extraordinary General Meeting of the Shareholders the appointment of the public offer intermediate, as well as on his 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.

## ARTICLE 18

### **The obligations of the members of the Board of Nominees**

- (1) The members of the Board of Nominees have diligence and loyalty duties towards the shareholders of Fondul Proprietatea.
- (2) The members of the Board of Nominees are held liable towards the general meeting of the shareholders of Fondul Proprietatea, in accordance with the mandate rules. The decisions of the members of the Board of Nominees will be taken after due enquiries into the relevant circumstances existing at the specific moment at which such decisions have been taken.
- (3) The members of the Board of Nominees cannot disclose the confidential information and the commercial secrets of Fondul Proprietatea, to which those persons have access. Such obligation remains in force as well as after the termination of the mandate.
- (4) If a member of the Board of Nominees has, directly or indirectly, adverse interest to the interest of Fondul

Proprietatea, in a certain operation, that member must give notice of such situation to the other members and to the internal auditors and not take part in any deliberation regarding that operation.

- (5) The same obligation must be observed by the member of the Board of Nominees, who acknowledges that in a certain operation, his/her wife or husband, relative or related persons by the 4th grade inclusive are interested.
- (6) The prohibitions stipulated in paragraphs (4) and (5) regarding the participation, deliberation and voting of the members of the Board of Nominees, are not applicable if the vote refers to:
  - a) the offer of shares or obligations of Fondul Proprietatea for subscription, to a member of the Board of Nominees or to the persons mentioned in paragraph (5);
  - b) the granting by a member of the Board of Nominees or by the persons mentioned in paragraph (5) of a loan or establishing a guarantee in favour of Fondul Proprietatea.
- (7) The member of the Board of Nominees not observing the provisions of paragraphs (4) and (5) is held liable for the damages caused to Fondul Proprietatea.
- (8) It is forbidden the crediting by the Fondul Proprietatea of the members of the Board of Nominees, through operations such as:
  - a) granting loans;
  - b) granting financial facilities for or after the conclusion by Fondul Proprietatea with the members of delivery operations of goods, providing of services or performance of works;
  - c) direct or indirect guarantee, in whole or in part, of any loans granted to the member of the Board of Nominees, concomitant or after granting the loan;
  - d) direct or indirect guarantee, in whole or in part, of performance by the members of any other personal obligation of those towards third parties;
  - e) direct or indirect guarantee, in whole or in part, of any receivables having as object a loan granted by a third party to the members of the Board of Nominees or other personal service of those members.
- (9) The provisions of paragraph (8) are applicable and the operations in which the husband or wife, relatives or related persons by the 4th grade inclusive of the members of the Board of Nominees are interested; also, if the operation concerning a civil or a commercial company at which one of the persons above mentioned is director or holds, solely or together with one of the persons above mentioned, a quota of at least 20% of the value of the subscribed share capital.
- (10) The provisions of paragraph (8) are not applicable for the case when the operation is concluded by Fondul Proprietatea during its current business, and the clauses of the operations are not more favourable to the persons specified in paragraphs (8) and (9) than the ones usually practiced by Fondul Proprietatea towards third parties
- (11) The Board of Nominees shall promptly decide on all requests for approval from the Alternative Investment Fund Manager within a reasonable time frame to allow the Alternative Investment Fund Manager to comply with its own obligations.

## **CHAPTER VI**

### **Provisions regarding the company's management**

#### **ARTICLE 19**

##### **Organisation**

- (1) Fondul Proprietatea has appointed FRANKLIN TEMPLETON INTERNATIONAL SERVICES S.à r.l., a société à responsabilité limitée qualifying as an alternative investment fund manager under Article 101-1 of the Luxembourg Act of 17 December 2010 concerning undertakings for collective investment, as amended from time to time, whose registered office is located at 8A rue Albert Borschette, L-1246 Luxembourg and registered with the Luxembourg

Register of Commerce and Companies under number B 36.979, as its alternative investment fund manager, referred to throughout this document as the Alternative Investment Fund Manager. In addition, FRANKLIN TEMPLETON INTERNATIONAL SERVICES S.à r.l. is also Fondul Proprietatea's Sole Director and is represented in its capacity as sole director in Romania by the individuals as permanent representatives (in Romanian language "reprezentanti permanenti persoane fizice") appointed by FRANKLIN TEMPLETON INTERNATIONAL SERVICES S.à r.l., upon its appointment as Fund Manager by the shareholders, and in accordance with Article 153<sup>13</sup> of Companies' Law no. 31/1990.

- (2) The Alternative Investment Fund Manager is elected by the general meeting of the shareholders, with the observance of the legal provisions and of this constitutive act.
- (3) The mandate of the AIFM is of 2 years. The AIFM will call an Ordinary General Meeting of Shareholders to be held at least 6 months before the expiry of the mandate of the AIFM and will ensure that the agenda for such meeting will include points granting the options to (i) approve the renewal of the AIFM's mandate and (ii) appoint a new AIFM in accordance with the legal provisions in force, with the shareholders being granted the opportunity to propose candidates for such position; the agenda will also include provisions for the authorization of the negotiation and execution of the relevant investment management agreement and fulfilment of all relevant formalities for the authorization and legal completion of such appointment.
- (4) The legal entity appointed as Alternative Investment Fund Manager of Fondul Proprietatea must expressly accept such position, by executing the management agreement and must have in place professional liability insurance.
- (5) The Investment Management Agreement can be modified or replaced in accordance with article 12 and 14, with the approval of the shareholders. Any replacement document or addendum of the Investment Management Agreement will be signed on behalf of Fondul Proprietatea by the chairman of the Board of Nominees or by a member of the Board of Nominees empowered by the chairman.

## **ARTICLE 20**

### **Functioning**

The Alternative Investment Fund Manager shall appoint a natural person as its permanent representative. The Alternative Investment Fund Manager can change the permanent representatives in accordance with the applicable law. All changes will be registered with the Trade Registry.

## **ARTICLE 21**

### **Attributions of the Alternative Investment Fund Manager**

- (1) The management of Fondul Proprietatea is ensured by the Alternative Investment Fund Manager, which fulfils the necessary and useful operations for the fulfilment of the company's business object, except of the operations reserved by the law for the general meeting of the shareholders and has all the obligations attributed to it by the applicable law.
- (2) The Alternative Investment Fund Manager exercises its attributions under the control of the general meeting of the shareholders and the monitoring of the Board of Nominees, according to article 17.
- (3) In addition to the duties provided by the applicable law, the Alternative Investment Fund Manager shall propose for the prior approval of the Board of Nominees and further, of the general meeting of the shareholders of Fondul Proprietatea, the general strategy in accordance with the investment policy of Fondul Proprietatea and it is responsible for the implementation of the investment policy and for achieving a proper balance between the profits and the risks related to the Fondul Proprietatea portfolio. The Alternative Investment Fund Manager undertakes to inform the Board of Nominees regularly, and as and when required by the Board of Nominees, about any significant changes in the activities of Fondul Proprietatea and within the structure of its portfolio.
- (4) In excess of the duties provided by the applicable law, the Alternative Investment Fund Manager shall be liable to:
  - i) establish a reference date for shareholders entitled to vote within the general meeting, under the law, and draft

- the text of the announcement on the convocation of the general meeting, after obtaining the prior approval of the Board of Nominees and after it added to the agenda the matters requested by the Board of Nominees;
- ii) upon the written request of any shareholder submitted before the date of the general meeting of the shareholders, to give responses after obtaining the prior approval of the Board of Nominees, regarding the aspects concerning the business of Fondul Proprietatea;
  - iii) ensure that, if requested by any of the shareholders, a copy of or extract of the minutes of the general meeting shall be given to them and also, after the announcement of the ordinary annual general meeting of the shareholders is published, make available to the shareholders the financial statements of the company and the reports of the Fund Manager and of the company's financial auditors,
  - iv) prepare the annual financial statements, draft the annual activity report, examine the financial auditors' report, present them to the Board of Nominees before submitting such documents to the general meeting of the shareholders and make proposals on the distribution of the profit to the general meeting of the shareholders, after obtaining the prior approval of the Board of Nominees;
  - v) manages the relationship with the Central Depository with regard to its shareholders register functions,
  - vi) prepare an annual report on the management and the business policy of Fondul Proprietatea, to be presented to the Board of Nominees for approval prior to its submission to the general meeting of the shareholders;
  - vii) proposes for the prior approval of the Board of Nominees and further, of the general meeting of the shareholders, of the yearly income and expenditure budget and business plan;
  - viii) approves the outsourcing of certain activities, within the limits of the approved budget, respectively the delegation of the performance of certain activities, subject to the observance of the applicable legislation;
  - ix) based on the proposal of the Board of Nominees to submit to the approval of the extraordinary general meeting of shareholders 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 of Fondul Proprietatea, less receivables;
  - x) execute contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of Fondul Proprietatea, whose value does not exceed, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of Fondul Proprietatea, less receivables, without the approval of the ordinary or extraordinary general shareholders' meeting;
  - xi) propose to the ordinary general meeting of the shareholders the conclusion of the financial audit agreement according to the legal provisions in force, upon obtaining the prior approval of the Board of Nominees, as well as approve the procedure of internal audit and the audit plan;
  - xii) decide the relocation of the registered office, provided that the registered office shall at all times be registered in Romania;
  - xiii) make available to the Board of Nominees the reports, as well as other necessary documents for exercising the monitoring duties, in accordance with art. 17 paragraph (11);
  - xiv) inform at once the Board of Nominees of any litigation or infringement of legislation regarding Alternative Investment Fund Manager, any operation which might be an infringement to the investment policy and about the plans/ correction measures for approaching these matters;
  - xv) ask for the calling of the general meeting which shall decide properly whenever an issue appears on which the Board of Nominees has a disagreement with the Alternative Investment Fund Manager, which cannot be resolved amiably;
  - xvi) proposes to Board of Nominees the recommendation for the Extraordinary General Meeting of the Shareholders for the appointment of the investment firm/investment bank who shall manage a public offer, 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.

(5) For the avoidance of any doubt, in fulfilling the obligations listed under paragraph (4) of this Article 21, the

Alternative Investment Fund Manager acts mainly in its capacity as sole director according to the applicable Romanian legislation.

## **ARTICLE 22**

### **The obligations of the Alternative Investment Fund Manager**

- (1) The Alternative Investment Fund Manager has a diligence and loyalty duty towards Fondul Proprietatea. Such duty is exercised taking into consideration the interest of the shareholders generally, and not of some of them.
- (2) The Alternative Investment Fund Manager is held liable towards Fondul Proprietatea, according to the law. The decisions of the Alternative Investment Fund Manager are taken after due enquiries regarding the relevant circumstances existing at the moment of which those decisions are taken.
- (3) The Alternative Investment Fund Manager cannot disclose confidential information or commercial secrets of Fondul Proprietatea, to which it has access. Such obligation remains also after the termination of the mandate.
- (4) If the Alternative Investment Fund Manager, respectively its permanent representative and its employees, have in a certain operation, directly or indirectly, adverse interest to the interest of Fondul Proprietatea, the Fund Manager must give notice to the internal auditors and Board of Nominees of this issue and not take part in any deliberation concerning the specific situation.
- (5) The same obligation must be observed by the Alternative Investment Fund Manager, respectively by its permanent representative and its employees if, in a certain operation, is being aware that an affiliate of the Alternative Investment Fund Manager or the wife or husband, relatives or related persons by the 4<sup>th</sup> grade inclusive of the representative and its employees, are interested.

## **ARTICLE 23**

### **Representation of Fondul Proprietatea**

- (1) In relations with third parties, Fondul Proprietatea is represented by the Alternative Investment Fund Manager, respectively by its permanent representative.
- (2) The Alternative Investment Fund Manager may delegate the representative powers, in accordance with the applicable law.

## **CHAPTER VII**

### **The audit of Fondul Proprietatea**

## **ARTICLE 24**

### **The internal auditors and the financial audit**

- (1) The financial statements of Fondul Proprietatea are subject to financial audit. Also, Fondul Proprietatea shall organise its internal audit in accordance with the legal provisions in force.
- (2) An internal audit department shall be organised within Fondul Proprietatea, having attributions of objective examinations of the company's aggregate business, for the purpose of providing an independent evaluation of the risk management, control and leading development of the company. The Alternative Investment Fund Manager can decide that internal audit work can be outsourced, in which case it will run on a contractual basis, according to article 3 of Decision of Romanian Chamber of Auditors no. 88/2007, with subsequent amendments.
- (3) The internal audit is independent of the management of Fondul Proprietatea, and the internal auditors shall objectively exercise this activity.
- (4) The internal audit shall evaluate and shall propose the improvement of the risk management, the control and internal rules within Fondul Proprietatea.

- (5) The internal auditors shall not be subject of any interference in determining the purpose of the internal audit and in exercising their activity.
- (6) The internal auditors shall have an impartial, correct attitude and shall avoid the conflicts of interest.
- (7) The internal audit shall transmit the plans of the internal audit activity and the necessary resources, inclusive the significant interim changes, to the Board of Nominees for information, as well as to the Alternative Investment Fund Manager for approval within the limits of its competencies.
- (8) The internal audit shall establish the policies and procedures for exercising the internal audit activity within Fondul Proprietatea, comprising amongst others, the analysis of the decisions taken by the company's management and the control of their compliance with the statutory requirements and/or with other documents approved by the general meeting of the shareholders.
- (9) The internal audit shall coordinate its activity with the financial auditor, in order to ensure the proper fulfilment of the audit objectives and to minimize any duplication of attributions.
- (10) The internal audit shall give quarterly reports to the Board of Nominees of Fondul Proprietatea and the Alternative Investment Fund Manager regarding the purpose of the internal audit activity, authority, responsibility and performance according to its plan. The reports shall include also the significant risks and aspects of the control and management, as well as other necessary problems or as requested by the Board of Nominees and the Alternative Investment Fund Manager.
- (11) The internal audit shall verify if the management of Fondul Proprietatea has taken appropriate measures concerning the reported significant risks or if the Alternative Investment Fund Manager has accepted the risk of not taking any measure and shall inform the Board of Nominees and the general meeting of the shareholders if the Alternative Investment Fund Manager has accepted the reported significant risks.
- (12) The internal audit shall establish the procedures for monitoring the implementation of the measures taken by the management of Fondul Proprietatea.
- (13) The internal auditors shall notify the Board of Nominees and the Alternative Investment Fund Managers with respect to any flaws in the management or breaches of the legal provisions or of the constitutive act, where such are identified by the internal auditors; the significant cases shall be notified to the general meeting of the shareholders.
- (14) The internal auditors shall take into consideration the complaints of the shareholders when drafting the reports addressed to the general meeting of the shareholders.
- (15) The attributions, duties and the functioning way of the internal auditors, as well as their rights and obligations are completed with the legal provisions in this area.

**CHAPTER VIII**  
**Business of Fondul Proprietatea**

**ARTICLE 25**  
**Financing its own business**

For the fulfilment of the business object and in accordance with the attributions established, Fondul Proprietatea uses the financial sources established pursuant to the law, banking credits and other financial sources. Fondul Proprietatea is not allowed to conclude loan agreements for investment reasons.

**ARTICLE 26**  
**Financial year**

The financial year begins on 1<sup>st</sup> of January and terminates on 31<sup>st</sup> December of each year.

**ARTICLE 27**  
**Accounting evidence and annual financial statements**

- (1) The accounting is kept in Romanian language and in national currency.
- (2) Fondul Proprietatea must draft the annual financial statements according to legal provisions in force.

**ARTICLE 28**  
**Calculation and distribution of the profit**

- (1) The result of the financial year is determined at the end of the year and represents the final balance of the profit and loss account.
- (2) The profit of Fondul Proprietatea after the payment of the profit tax shall be distributed according to the decision of the general meeting of the shareholders and to the legal provisions in force.
- (3) Fondul Proprietatea creates legal reserves and other reserves, pursuant to the law.
- (4) The payment of dividends owed to the shareholders is made by Fondul Proprietatea, according to the law.
- (5) The dividends are distributed between the shareholders proportional with the number of held shares.
- (6) In case of loss of the net asset, the general meeting of the shareholders shall analyse the causes and decide properly, according to the law.

**ARTICLE 29**  
**Registries**

Fondul Proprietatea shall maintain, by care of the Alternative Investment Fund Manager and internal auditors, all registries provided by the law. The shareholders registry is kept by the Central Depository.

**CHAPTER IX**  
**Association, change of the legal form, dissolution and liquidation, litigation**

**ARTICLE 30**  
**Association**

- (1) Fondul Proprietatea may set-up, solely or together with other Romanian or foreign natural persons or legal entities, other companies or legal entities, according to the law and to this constitutive act.
- (2) The conditions for the participation of Fondul Proprietatea at the setting-up of new legal entities shall be regulated by the constitutive acts, which to be approved by the general meeting of the shareholders.

**ARTICLE 31**  
**Dissolution**

- (1) The dissolution of Fondul Proprietatea shall take place in the following cases:
  - a) impossibility of performing the company's business object;
  - b) declaring the company's nullity;

- c) by decision of the extraordinary general meeting of the shareholders, in accordance with article 14 paragraphs (4) and (5);
  - d) as consequence of losses, if the net asset value, determined as difference between the total asset and company's debts, represents less than half of the value of the subscribed share capital and if, not later than the termination of the financial year subsequent to the one during which the losses have been ascertained, the general meeting of the shareholders fails to decrease the share capital with an amount at least equal with the one of losses which could not be covered from reserves or to reconstitute the company's net asset up to the value at least equal with half of the subscribed share capital.
  - e) opening of the bankruptcy procedure;
  - f) the number of shareholders reduces under the legal minimum;
  - g) other causes provided by the law or by this constitutive act.
- (2) The dissolution of Fondul Proprietatea cannot take place before the finalisation of the procedures for granting indemnities to the rightful persons.
- (3) The dissolution decision of Fondul Proprietatea must be registered with the commercial registry and published in the Official Gazette of Romania, Part IV.

### **ARTICLE 32** **Liquidation**

- (1) The dissolution of Fondul Proprietatea has as consequence the opening of the liquidation procedure.
- (2) The liquidation of Fondul Proprietatea and distribution of the patrimony are made in accordance with the law.

### **ARTICLE 33** **Calculation method of the net asset**

The calculation method of the net asset is made according to the legal provisions in force.

### **ARTICLE 34** **Prudential rules concerning the investment policy**

- (1) The investment policy is established by the Alternative Investment Fund Manager, with the observance of the investment limitation provided by the legal provisions in force and of this Constitutive Act.
- (2) Fondul Proprietatea shall be subject to the investment restrictions provided under Law No. 247/2005 on property and justice reform, and additional measures, as further amended and completed, of Law No. 297/2004 on the capital market, as further amended and completed as well as any other applicable law or regulation.
- (3) Subject to the terms of this Constitutive Act, of the IMA and the applicable law, all decisions in relation to the acquisition of, disposal of, and exercise of all rights and obligations in relation to the assets of Fondul Proprietatea shall be at the sole discretion of the Alternative Investment Fund Manager.
- (4) Prudential rules concerning the investment policy will be by approved by the shareholders through Investment Policy Statement.

### **ARTICLE 35** **Conditions for the replacement of the depository**

- (1) Fondul Proprietatea shall conclude a deposit agreement with a depository legal entity authorised and supervised by the Financial Supervisory Authority, which performs the deposit operations of securities, as well as any operations

in connection with those. The activities to be developed by the depository and the conditions for its replacement shall be provided in the deposit agreement.

- (2) The deposit agreement shall mandatorily include clauses related to the replacement of the depository and rules for ensuring shareholders' protection in such situations, as well as other mandatory clauses in accordance with the applicable regulations.

#### **ARTICLE 36**

##### **Identity, requirements regarding the qualification, professional experience and integrity of the management members**

- (1) The Alternative Investment Fund Manager, respectively its permanent representative shall cumulatively fulfil with the minimum requirements regarding the integrity, qualification and professional experience provided in the legislation and in other specific provisions; the identity of the Alternative Investment Fund Manager is the one registered with the National Office of Trade Registry, based on the decision of the general meeting of the shareholders regarding its election.

#### **ARTICLE 37**

##### **Litigations**

The litigations of any type shall be amiably resolved and if this is not possible, they shall be solved by the competent arbitral or judicial courts.

#### **CHAPTER X**

##### **Final provisions**

#### **ARTICLE 38**

##### **Final provisions**

The provisions of this constitutive act are completed by the provisions of Company Law No. 31/1990, republished, as further amended and completed, and other applicable legal provisions in force as well as by the provisions of the capital market legislation governing the issuers whose shares are admitted on trading.

## Annex 5 Compliance with the corporate governance requirements

Compliance with the provisions of the Corporate Governance Code issued by the BVB

Code Provisions	Complies	Does not comply/partially complies	Reason for non-compliance
A.1. The Fund has internal regulation which includes terms of reference/ responsibilities for Board and key management functions of the Fund.	✓		
A.2. Provisions for the management of conflict of interest are included in the internal regulation. In any event, the members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	✓		
A.3. The Board of Nominees has five members.	✓		
A.4. All members of the Board of Nominees are non-executive. Four members of the Board of Nominees are independent. Each independent member of the Board of Nominees submitted a declaration that he is independent at the moment of his nomination for election or re-election as well as when any change in his status arises, by demonstrating the ground on which he is considered independent in character and judgement in practice.	✓		
A.5. A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/ her mandate.	✓		
A.6. Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board.	✓		
A.7. The Fund has appointed a Board secretary responsible for supporting the work of the Board.	✓		
A.8. The annual report informs on whether an evaluation of the Board has taken place under the leadership of the chairman or the Nomination and Remuneration Committee and, if it has, summarize key action points and changes resulting from it. The Fund has a policy regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.	✓		
A.9. The annual report contains information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	✓		
A.10 The annual report contains information on the precise number of the independent members of the Board of Nominees.	✓		
A.11. The Board of Nominees set up the Nomination and Remuneration Committee formed of non-executives, which will lead the process for the AIFM appointments and make recommendations to the Board. The majority of the members of the Nomination and Remuneration Committee are independent.	✓		
B.1 The Board of Nominees set up the Audit and Valuation Committee, all members being non-executive and the majority of them being independent. The majority of members, including the chairman, have proven an adequate qualification relevant to the functions and responsibilities of the committee. The chairman of the Audit Committee has proven adequate auditing or accounting experience.	✓		
B.2. The Audit and Valuation Committee is chaired by an independent non-executive member.	✓		
B.3. Among its responsibilities, the Audit and Valuation Committee undertakes an annual assessment of the system of internal control.	✓		
B.4. The assessment considers the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the Audit and Valuation Committee, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and submission of relevant reports to the Board.	✓		
B.5. The Audit and Valuation Committee reviews conflicts of interests in transactions of the Fund and its subsidiaries with related parties.	✓		
B.6. The Audit and Valuation Committee evaluates the efficiency of the internal control system and of the risk management system.	✓		
B.7. The Audit and Valuation Committee monitors the application of statutory and generally accepted standards of internal auditing. The Audit and Valuation Committee receives and evaluates the reports of the internal audit team.	✓		
B.8. The Audit and Valuation Committee provides the Board annual or ad-hoc reports.	✓		

Code Provisions	Complies	Does not comply/partially complies	Reason for non-compliance
B.9. No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the Fund with shareholders and their related parties.	✓		
B.10. The Fund has in place a related party transaction procedure.	✓		
B.11. The internal audits are carried out by a separate structural division and by retaining an independent third-party entity.	✓		
B.12. To ensure the fulfilment of the core functions of the internal audit activities, all reports are provided to the Board via the Audit and Valuation Committee.	✓		
C.1. The Fund has published a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review.	✓		
D.1. In addition to information required by legal provisions, the Fund includes on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:	✓		
D.1.1. Principal corporate regulations: the Constitutive Act, general shareholders meeting procedures;	✓		
D.1.2. Professional CVs of the members of its governing bodies, Board member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;	✓		
D.1.3. Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non-compliance with the Code of BVB;	✓		
D.1.4. Detailed information related to general meetings of shareholders;	✓		
D.1.5. Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions;	✓		
D.1.6. The name and contact data of a person who should be able to provide knowledgeable information on request;	✓		
D.1.7. Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.	✓		
D.2. The Fund has an annual cash distribution policy, as a set of directions the Fund intends to follow regarding the distribution of net profit. The annual cash distribution policy is published on the corporate website.	✓		
D.3. The Fund has adopted a policy with respect to forecasts. The forecast policy is published on the corporate website.	✓		
D.4. The rules of general meetings of shareholders do not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.	✓		
D.5. The external auditors should attend the shareholders' meetings when their reports are presented there.	✓		
D.6. The management of the Fund presents to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	✓		
D.7. Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the management of the Fund. Accredited journalists may also participate in the general meeting of shareholders, unless the management of the Fund decides otherwise.	✓		
D.8. The quarterly and semi-annual financial reports include information in both Romanian and English regarding the key drivers influencing the activity of the Fund.	✓		
D.9. The Fund organises at least four meetings/ conference calls with analysts and investors each year. The information presented on these occasions is published on the Fund's website.	✓		
D.10. If the Fund supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the Fund part of its business mission and development strategy, it publishes the policy guiding its activity in this area.	✓		

## Compliance with the principles of corporate governance by the entities authorised, regulated and supervised by the Financial Supervisory Authority

## Rules for the application of the principles of corporate governance

	Complies	Does not comply/partially complies	Reason for non-compliance
1. The Fund defined in its instruments of incorporation and internal policies the responsibilities of the corporate bodies on the implementation and compliance with the principles of corporate governance.	✓		
2. The internal policies lay down the corporate governance structures, functions, competences and responsibilities of the non-executive and executive management/ senior management.	✓		
3. The annual report of the Fund has a dedicated chapter that describe the relevant events in connection with the application of the principles of corporate governance, occurring over the financial year.	✓		
4. The Fund has a communication strategy with the parties concerned to ensure proper information.	✓		
5. The structure of the management assures a balance between executive and non-executive members so that no person or small group of persons influences the decision-making process.	✓		
6. The Board of Nominees is convened at least every three months to monitor the performance of the Management of the Fund.	✓		
7. The non-executive and the executive management/ senior management regularly reviews the policies on the financial reporting, internal control and risk management system adopted by the Fund.	✓		
8. In fulfilling its duties, the Board of Nominees is assisted by consultative committees for information on various topics subject to decision-making.	✓		
9. The consultative committees submit to the Board of Nominees works/ reports on the topics entrusted by it.	✓		
10. There are internal procedures/ policies/ regulations of the Fund for the selection of applications for the persons of the executive management/ senior management, appointment of new persons or renewal of the existing mandates.	✓		
11. The management of the Fund ensures the continuous professional training of the executive management/ senior management so that it efficiently performs its tasks.	✓		
12. Key functions are established so as to maintain the organisational structure of the Fund compliant with the applicable regulations.	✓		
13. The Board of Nominees regularly reviews the efficiency and update of the internal control system of the Fund to ensure a rigorous management of the risks to which the Fund is exposed.	✓		
14. The Audit and Valuation Committee makes recommendations to the Board of Nominees on the selection, appointment and replacement of the financial auditor, and on the terms and conditions of his remuneration.	✓		
15. The management reviews at least once a year and ensures that the remuneration policies are consistent with an efficient risk management.	✓		
16. The remuneration policy of the Fund is set out in the internal regulations regarding the implementation and compliance with the principles of corporate governance.	✓		
17. The Board of Nominees has adopted a procedure for the identification and proper settlement of any conflict of interest.	✓		
18. The executive management/ senior management, as appropriate, informs the Board of Nominees of any conflict of interest and does not participate in the decision-making process which is related to the state of conflict.	✓		
19. The Board of Nominees analyses at least once a year the efficiency of the risk management system of the Fund.	✓		
20. The Fund has procedures for the identification, assessment and management of the significant risks to which it is, or it is likely to be, exposed.	✓		
21. The Fund's management has in place clear action plans for business continuity and for any emergency situations.	✓		

## Annex 6

### Management Agreement in force as at 31 December 2018

MANAGEMENT AGREEMENT  
DATED 14 FEBRUARY 2018

FONDUL PROPRIETATEA S.A.  
and  
FRANKLIN TEMPLETON INTERNATIONAL SERVICES S.À R.L  
THIS AGREEMENT is made on 14 February 2018

#### BETWEEN:

**FRANKLIN TEMPLETON INTERNATIONAL SERVICES S.À R.L.**, a société à responsabilité limitée qualifying as an alternative investment fund manager (“AIFM”) under Article 101-1 of the Luxembourg law of 17 December 2010 on undertakings for collective investment, as amended (“UCI Act”), whose registered office is located at 8A rue Albert Borschette, L-1246 Luxembourg and which is registered with the Luxembourg Registre de Commerce et des Sociétés under number 36.979 and in the Register kept by the Romanian Financial Supervisory Authority (the “Fund Manager”) (“Administrator” in Romanian language) duly represented by Mr. Craig Blair and Mr. Mike Sommer; and

**FONDUL PROPRIETATEA S.A.** of Buzesti St. 78-80, 1st District, Bucharest municipality, Romania (the “Customer”/ the “Fund”/ “FP”) duly represented by Mr. Sorin Mîndruțescu.

#### WHEREAS:

- (A) The Customer wishes to appoint the Fund Manager as the AIFM of the Customer on the terms and subject to the conditions of this Management Agreement.
- (B) The Fund Manager wishes to accept such appointment, on the terms and subject to the conditions of this Management Agreement.
- (C) The Customer is set up as an undertaking for collective investment (A.O.P.C.) of the closed-end type, as defined under Article 114(1) letter b) of the Law 297/2004 qualifies as an alternative investment fund within the meaning of the Directive 2011/61/EU of the EU Parliament and of the Council on Alternative Investment Fund Managers, as amended (the “AIFMD”) and Law 74/2015 on managers of alternative investment funds in Romania (“AIFM Law”). The Customer wishes to appoint the Fund Manager as its AIFM in the meaning of the AIFM Law and to entrust it with certain functions accordingly, including, without limitation, all functions relating to risk management and portfolio management.
- (D) The Fund Manager qualifies as an AIFM under Chapter 2 of the Luxembourg law of 12 July 2013 on alternative investment fund managers (the “AIFM Act”), and is entitled to carry out services in Romania in accordance with the AIFM Law being registered with the registry kept by the Romanian Financial Supervisory Authority and is authorised to carry out the management of a fund such as the Customer (including, without limitation, risk management and portfolio management).
- (E) The general assembly of shareholders of the Customer approved on 26 September 2017 and 14 February 2018 the appointment of the Fund Manager as the external alternative investment manager and sole director of the Customer subject to the terms and conditions of this Management Agreement.

## 1. INTERPRETATION

- 1.1 In this Management Agreement, unless the context otherwise requires, it is agreed that:
- (a) words in the singular include the plural, words in the plural include the singular, words importing the masculine gender include the feminine, and words importing the feminine gender include the masculine;
  - (b) headings and paragraphs are for the purpose of organization only and shall not be used to interpret this Management Agreement;
  - (c) references to “this Management Agreement” include its Recitals and Annexes (which are incorporated herein by reference and are integrated within the body of this Management Agreement) and this Management Agreement, unless otherwise stated;
  - (d) references in this Management Agreement to Recitals, Sections, Articles, Clauses, Sub-Clauses and Annexes are to the preamble, recitals, sections, articles, clauses and sub-clauses of, and Annexes to, this Management Agreement, unless otherwise stated; and
  - (e) references to any provisions of legislation, delegated legislation, regulations or rules shall be construed as references to such provisions as replaced, re-enacted, extended or amended from time to time (whether before or after the date hereof).
- 1.2 Notwithstanding anything to the contrary in this Management Agreement, the Parties agree that none of the limitations of liability or responsibility which the Parties may agree vis-à-vis each other pursuant to this Management Agreement or otherwise may be construed as a limitation of the obligations, liabilities or responsibilities imposed by the Compulsory Rules.

## 2. DEFINITIONS

In this Management Agreement, the following capitalised terms shall, unless the context otherwise requires or it is otherwise provided, have the following meanings:

**Account** means the account maintained by the depositary and sub-custodian(s), as the Customer has notified in writing to the Fund Manager;

**Affiliate** means, with respect to any person, any other person directly or indirectly controlling, directly or indirectly controlled by, or under common control with such person;

**AIFM** means an alternative investment fund manager.

**AIFM Act** means the Luxembourg Act of 12 July 2013 on alternative investment fund managers for implementing the AIFMD;

**AIFMD** means Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on alternative investment fund managers;

**AIFM Law** means Law no. 74/2015 on managers of alternative investment funds implementing the AIFMD in Romania;

**AIFM Rules** means the set of rules formed by (a) the AIFMD, (b) the Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing the AIFMD, (c) any binding guideline or other delegated act and regulation issued from time to time by the EU relevant authorities pursuant to any national laws and regulations (such as the AIFM Act or AIFM Law), and (d) any national laws and regulations enacted in connection with the implementation of the rules listed in paragraphs (a) to (c) above which are applicable to this Management Agreement;

**Associated Company** (when used in relation to the Fund Manager) means any company which is an Affiliate of the Fund Manager;

**BoN** means the Board of Nominees (“Comitetul Reprezentantilor” in Romanian language) which monitors the activity of the Fund Manager, appointed by the GSM and under direct supervision of the GSM;

**BoN Review Report** has the meaning ascribed to such term in clause 9.6;

**Calculation Period** means a calendar quarter, each consisting of a three-month period; the four calendar quarters that make up the year shall be: January, February and March (the first quarter, or Q1); April, May and June

(the second quarter, or Q2); July, August and September (the third quarter, or Q3); and October, November and December (the fourth quarter, or Q4);

**Central Depository** means a legal person established as a joint-stock company, authorised and supervised by the FSA, performing deposit, registration, clearing and settlement services for transactions with financial instruments and related activities;

**CNVM** means the Romanian National Securities Commission, having the duties established in the Government Emergency Ordinance no. 25/2002 on the approval of the By-laws of the National Securities Commission; in April 2013 the CNVM was reorganized as the FSA;

**Companies Law** means Law no. 31/1990 on companies;

**Compulsory Rules** means prescriptive rules of law (referred to in Luxembourg law as "règles d'ordre public" and in Romania as "reguli de ordine publica") from which the Parties may not be relieved by way of agreement, whether or not these rules result from the AIFM Rules and irrespective of their national or EU origin and nature;

**Constitutive Act** means the Articles of Incorporation of the Customer;

**Control** means, in relation to any person, the power of another person, directly or indirectly, to secure that the affairs of such person are conducted in accordance with the wishes of that other person, (a) by means of the holding of shares or the possession of voting power in relation to that or any other person, or (b) by virtue of any powers conferred by the constitutional or corporate documents, or by contract or any other document or other legal relationship, or by applicable law, regulating that or any other person;

**CSSF** means Commission de Surveillance du Secteur Financier, the Luxembourg financial supervisory authority;

**Customer** means „Fondul Proprietatea” S.A., a closed - end investment company established in 2005 by the Romanian Government in accordance with, among others, Law no. 247/2005, and operating in accordance with the Constitutive Act;

**Damages** mean any and all losses, claims, liabilities, damages, taxes or expenses;

**Delegate** means any entity to which the Fund Manager delegates or outsources any of its obligations under this Management Agreement, including, without limitation, the Investment Manager;

**Data Protection Laws** mean the set of rules formed by (a) the Data Protection Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data, (b) Law 677/2001 on protection of individuals with regard to the processing of personal data and on the free movement of such data implementing in Romania Directive 95/46/EC, (c) any binding guideline or other delegated act and regulation issued from time to time by the EU relevant authorities or competent national authorities pursuant to any national laws and regulations (such as Law 677/2001) and (d) any national laws and regulations enacted in connection with the implementation of the rules listed under (a) to (c) above or other legislation which replaces or amends the same, which are applicable to this Management Agreement including, without limitation, and as of the date of its application, Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (the "General Data Protection Regulation");

**DCM** has the meaning ascribed to such term in clause 9.2;

**Depository** is the entity or branch of an entity registered with the FSA, authorised to hold and safeguard financial assets of collective investment undertakings in accordance with the provisions of the AIFM Law, appointed by the Customer and in the deposit of which are entrusted for safekeeping all assets of the Customer;

**Discount** means, in respect of a day, an amount calculated by subtracting the closing price of the Fund's shares on the Bucharest Stock Exchange on REGS for such day from the NAV per share then most recently published by the Fund Manager and dividing the result by such most recently published NAV per share;

**Discount Objective** has the meaning ascribed to such term in the IPS;

**Dispute** has the meaning ascribed to such term in clause 19.2(a);

**EGM** means the Extraordinary General Meeting of the Customer's Shareholders;

**EU Markets in Financial Instruments Rules** means:

- (a) Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC;
- (b) Commission Directive 2006/73/EC of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive; and
- (c) Commission Regulation (EC) No 1287/2006 of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards record-keeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive,

and, as of their application date:

- (i) Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II);
- (ii) the Commission Delegated Directive 2017/593 of 7 April 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to the safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits; and
- (iii) Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (MIFIR);

**Force Majeure Event** means, in relation to any party, any act, event or circumstance, the cause of which is not of such party's making nor within that party's reasonable control, including without limitation (to the extent not of that party's making nor within that party's reasonable control) act of God, war, hostilities (whether or not war has been declared), terrorist acts, acts of any civil or military authority, governmental or regulatory direction or restriction, suspension or withdrawal of licences or consents from other reasons than the negligence of the Fund Manager, currency restrictions, market conditions affecting the execution or settlement of transactions or the value of assets, failure or breakdown in communications, the failure of any relevant exchange or clearing house, riot, insurrection, civil commotion, public demonstration, sabotage, acts of vandalism, fire, flood, earthquake, extreme weather conditions, epidemic or pandemic, explosion, aircraft crashes or things falling from aircraft, release of ionising radiation or contamination by radioactivity, chemical or biological contamination, the order of any court or governmental or regulatory authority, delay in transportation or communications, breakage of or accidental damage to equipment, any strike, lock-out or other industrial trade dispute (not involving solely the employees of that party), structural shift or subsidence;

**FSA** means the Romanian Financial Supervisory Authority, having the duties established in the Government Emergency Ordinance no. 93/2012;

**FundManager's Group** means the Fund Manager and its Associated Companies.

**GEO no. 81/2007** means the Emergency Government Ordinance no. 81/2007 for the acceleration of the procedure on granting damages in relation to assets abusively taken;

**GEO no. 32/2012** means the Emergency Government Ordinance no. 32/2012;

**GSM** means the General Meeting of the Customer's Shareholders;

**Indemnified Party** means the Customer, its officers (but not the Sole Director), employees, agents and representatives;

**Investment Manager** means a member of the Fund Manager's Group qualified or capable of undertaking the functions with which it has been entrusted pursuant to the delegation agreement including investment management.

**IPS** means the "Investment Policy Statement", i.e. the investment objectives and parameters governing investment decisions over the Portfolio which the Fund Manager has proposed and the GSM has approved;

**Law no. 297/2004** means the Capital Market Law no. 297/2004;

**Law no. 24/2017** means Law no. 24/2017 on issuers of financial instruments and market operations;

**Law no. 247/2005** means the Law no. 247/2005 regarding the property and judicial reform, as well as adjacent measures;

**Management Agreement** means this Management Agreement entered into between the Customer and the Fund Manager;

**Member State** means the Member States of the European Union and the other States which belong to the European Economic Area;

**MiFID II Directive 2014/65/EU** of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU;

**NAV** means the net asset value of the Customer, which is determined according to CNVM Regulation no. 4/2010;

**NAV Objective** has the meaning ascribed to such term in the IPS;

**New Appointment Date** means, in relation to the appointment of a new fund manager and sole director, or, in the event the Customer becomes an internally managed alternative investment fund, new directors of the Customer being appointed following termination of this Management Agreement, the later of: (i) the date when the new or, if decided by the Customer, interim, fund manager and sole director, or, as the case may be, new directors, are registered with the Trade Registry or any other competent authority as per the applicable legal provisions; and (ii) the date when the FSA issues its approval in relation to the appointment of the new, or, if decided by the Customer, interim, sole director and fund manager as the case may be, new directors, if such approval is legally required and, (iii) the date when all other mandatory legal requirements for the replacement of the Fund Manager have been satisfied, and, in each of the cases under paragraphs (i), (ii) and (iii), being effective on the date that the Fund Manager received notice (or ought reasonably to have received notice) of the event;

**April GSM** has the meaning ascribed to such term in clause 9.3;

**OGM** means the Ordinary General Meeting of the Customer's Shareholders;

**Party** means any of the Customer or the Fund Manager;

**Performance Objectives** has the meaning ascribed to such term in clause 9.1;

**Performance Report** has the meaning ascribed to such term in clause 9.4;

**Portfolio** means the portfolio of assets of the Customer, including uninvested cash designated from time to time by the Customer as subject to the management of the Fund Manager pursuant to this Management Agreement;

**Reporting Period** has the meaning ascribed to such term in clause 9.4;

**RMS** has the meaning ascribed to such term in Annex 2 (Specific duties and obligations);

**Sole Director** means the legal person appointed by the GSM to manage the Customer, within the limits provided by the applicable Romanian law, the Constitutive Act and the decisions of the GSM. For the purposes of this Management Agreement, any reference to the Sole Director is a reference to the Fund Manager;

**Soft Dollar Practices** mean arrangements under which assets or services, other than execution of securities transactions, are obtained by a fund manager from or through a broker in exchange for the fund manager directing to the respective broker trades concluded on behalf of the undertaking for collective investment managed by that fund manager;

**Termination Notice** means a termination notice given by the Customer or the Fund Manager, as per clause 13;

**Termination Notice Date** means the date when a Termination Notice is given, as per clause 13;

**Trading Day** means any day on which trading in shares may be carried out on Bucharest Stock Exchange, in accordance with the rules of the Bucharest Stock Exchange.

### 3. SCOPE OF THIS MANAGEMENT AGREEMENT

The scope of this Management Agreement is to appoint the Fund Manager as the Sole Director of the Customer and AIFM of the Customer and to establish the parties' rights and obligations in relation to each such appointment.

#### 4. APPOINTMENT OF THE FUND MANAGER

By this Management Agreement, the Customer appoints the Fund Manager as the Sole Director of the Customer and also as its alternative investment fund manager.

#### 5. ACCEPTANCE OF APPOINTMENT

The Fund Manager accepts its appointment as Sole Director of the Customer and as alternative investment fund manager upon the terms of this Management Agreement.

#### 6. OBLIGATIONS OF THE FUND MANAGER, MANAGEMENT SCOPE AND OBJECTIVES

- 6.1. The obligations and the competencies of the Fund Manager as Sole Director and alternative investment fund manager of the Customer are set forth by the Companies Law, Law no. 297/2004, Law no. 24/2017 and the related regulations, as well as the Constitutive Act, the AIFM Rules (which may be subject to further amendments according to the law), and the provisions of this Management Agreement. The Fund Manager undertakes to comply at all times with all AIFM Rules and any other applicable law.
- 6.2. The Fund Manager shall exercise its obligations and duties in accordance with the decisions of, and under the control of, the general meeting of the shareholders and the monitoring of the BoN.
- 6.3. In addition to the duties provided by applicable law, the Fund Manager shall propose for the prior approval of the BoN and further, of a GSM, the general strategy in accordance with the investment policy of the Customer. The Fund Manager shall be solely responsible for the implementation of the investment policy in respect of the Portfolio and for achieving a proper balance between the profits and the risks related to the Portfolio.
- 6.4. The Fund Manager shall inform periodically in accordance with the applicable legislation and clause 11 of this Management Agreement the BoN on any significant changes affecting the activities of the Customer and within the structure of the Portfolio.
- 6.5. In addition to any duties or obligations imposed by any applicable law and the Constitutive Act, the Fund Manager shall be liable to:
  - 6.5.1. identify, analyse, quantify, manage and mitigate all risks affecting the Customer, the Portfolio and all other risk management functions provided by the AIFM Rules and prepare an annual report for the Customer indicating how risks affecting the Customer have been identified, analysed, quantified, managed or mitigated. As of MiFID II effective date, an annual report on execution quality (i.e., demonstration that efforts have been made and all sufficient steps have been taken to meet the Best Execution Policy standards, as defined in Art.10.5.1. and amended to meet the MiFID II requirements) along with relationships with execution brokers, breakdown of orders types and execution venue fee arrangement shall be presented by the Fund Manager;
  - 6.5.2. carry out all portfolio management functions provided in the AIFM Rules;
  - 6.5.3. establish a reference date for shareholders entitled to vote within the GSM, under the law, and draft the text of the announcement to convene the GSM, after obtaining the prior approval of the BoN and after adding to the agenda the matters requested by the BoN;
  - 6.5.4. upon the written request of any shareholder submitted before the date of the GSM, provide answers, after obtaining the prior approval of the BoN, in connection with the aspects concerning the business of the Customer;
  - 6.5.5. ensure that, if requested by any of the shareholders, a copy of the minutes of the GSM shall be given to them and also, after the calling of the annual OGM is published, make available to the shareholders the financial statements of the company and the reports of the Fund Manager and of the company's financial auditors;
  - 6.5.6. prepare the annual financial statements, the annual activity report, the semi-annual report, and the quarterly reports (preparing each of the foregoing in accordance with the law and regulations in force at the applicable time), the Performance Report, examine the financial auditors' report, present all such

- reports to the BoN before submitting such documents to the GSM for approval, and making proposals on the distribution of the profit, after obtaining the prior approval of the BoN, if required;
- 6.5.7. manage the relationship with the Central Depository with regard to its shareholders register functions;
  - 6.5.8. prepare an annual report on the management and the business policy of the Customer, to be presented to the BoN for approval prior to its submission to the GSM;
  - 6.5.9. propose for the prior approval of the BoN and further, of the GSM, the annual income and expenditure budget and business plan;
  - 6.5.10. approve the outsourcing of certain activities, within the limits of the approved budget, respectively delegate the performance of certain activities, subject to the corporate approvals required under the Constitutive Act, to the observance of all conditions and limitations regarding delegation included in the AIFM Rules and in this Management Agreement and to the prior endorsement by the CSSF or other applicable competent authorities, where required by applicable legislation;
  - 6.5.11. based on the proposal of the BoN, submit to the approval of the EGM the execution of contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets (in Ro. "active imobilizate") of the Customer whose value exceeds, individually or cumulatively during a financial year, 20% of the total value of the non-current assets, less any receivables;
  - 6.5.12. execute contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of the Customer (whose value does not exceed, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of the Customer, less any receivables, as well as any other operations permitted by the Constitutive Act and the applicable law, without prior approval of the OGM or the EGM);
  - 6.5.13. subject to the provisions of the Constitutive Act, IPS and applicable legislation, take all decisions at its sole discretion in relation to the acquisition of, disposal of, and exercise of all rights and obligations in relation to the assets of the Customer;
  - 6.5.14. propose to the GSM the conclusion of the financial audit agreement according to the legal provisions in force, upon obtaining the prior approval of the BoN, as well as approving the procedure of internal audit and the audit plan;
  - 6.5.15. change the location of the registered office of the Customer, with the prior notification of BoN, provided that the registered office shall at all times be registered in Romania;
  - 6.5.16. prepare and make available to the BoN the reports, information as well as any other documents necessary for exercising the monitoring duties, as may be required by the BoN in line with the Constitutive Act and any applicable legislation including, for the avoidance of any doubt, the AIFM Rules;
  - 6.5.17. inform at once the BoN on any litigation or infringement of legislation regarding the Fund Manager, on any operation which might be an infringement to the investment policy and about the plans/correction measures for addressing these matters;
  - 6.5.18. ask for the calling of the GSM in order for the latter to decide whenever an issue appears on which the BoN has a disagreement with the Fund Manager, which cannot be resolved amicably by the two bodies;
  - 6.5.19. propose to BoN the recommendation for the EGM for the appointment of the investment firm/investment bank who shall manage a public offer, as well as on its remuneration, when it will become necessary that such a company be appointed related to the admission to trading of the Customer on another market than the Bucharest Stock Exchange and the London Stock Exchange;
  - 6.5.20. duly notify the FSA or other regulatory authorities in any relevant Member State and inform the shareholders of the Customer according to the provisions of the AIFM Rules of any major holding and control of non-listed companies acquired by the Customer;
  - 6.5.21. perform all the duties and obligations to which it is required by, and otherwise comply with, the AIFM Rules applicable to it in connection with its appointment as the AIFM of the Customer; and
  - 6.5.22. any other responsibilities set according to the Constitutive Act and any applicable legislation.

The following activities to be carried out by the Fund Manager based on the aforementioned paragraphs qualify for the purpose of AIFM Rules as administration activities, respectively (a) legal and fund management accounting services in the case of sub-clauses 6.5.3, 6.5.6, 6.5.8, 6.5.9, 6.5.10, 6.5.11, 6.5.12, 6.5.14, 6.5.15, 6.5.18 and 6.5.19; (b) customer inquiries in the case of sub-clauses 6.5.4, 6.5.5, 6.5.16 and 6.5.17, and (c) maintenance of unit/ shareholder register in the case of sub-clause 6.5.7.

- 6.6. The Fund Manager shall perform its duties under this Management Agreement in line with the Customer's or the shareholders of the Customer's best interest in accordance with the AIFM Rules and the highest standards of professional conduct and integrity, including without limitation with respect to responding to public offerings or other corporate actions relating to the securities in the Portfolio.
- 6.7. Without limiting the generality of the foregoing (and so that none of the following provisions shall be deemed to limit the generality of any other of the following provisions), the Fund Manager undertakes to do the following:
- (a) at all times make all reasonable efforts to avoid conflicts of interest, provided that the Customer understands that the services the Fund Manager provides to the Customer are not exclusive and that the Fund Manager may provide similar services to other customers. Where a conflict arises, the Fund Manager will promptly disclose this to the Customer and use all reasonable efforts to resolve the conflict fairly;
  - (b) will not perform any transaction in relation to the Portfolio knowingly and intentionally acting as agent for any of the Fund Manager's or other clients of its Associated Companies unless the Fund Manager shall have obtained the prior written consent of the Customer to such transaction, having given the Customer all material information relating thereto;
  - (c) shall comply with all applicable laws and regulations, including without limitation the AIFM Rules insofar as they are relevant to this Management Agreement, the Fund Manager's performance of its functions under it in any countries in which it performs its duties and carries out its activities pursuant to this Management Agreement and shall procure that all its employees and Delegates, and shall use all reasonable steps to procure that all its agents, shall comply with such laws, regulations and rules as are applicable to them in relation to their involvement with the affairs of the Customer;
  - (d) shall not enter into any transaction in relation to the Portfolio where the officers or employees of the Fund Manager, the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3 for the purposes of this Management Agreement are aware or ought reasonably to be aware that the Fund Manager or any Associated Company has a material interest in such transaction, unless it obtains the prior written consent of the Customer to such transaction, having first given the Customer all material information relating thereto, and for the purposes of this paragraph a "material interest" means a direct or indirect pecuniary interest, whether present or expected (other than a pecuniary interest consisting of a normal commission, rate or price differential or similar remuneration receivable in the ordinary course of business for effecting securities, deposit or foreign exchange transactions) which might reasonably be expected to influence a person, knowingly having that interest, to enter into or refrain from entering into such transaction;
  - (e) shall account to the Customer for all advantages and benefits received by the Fund Manager, the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3 from third parties resulting from bulk dealing involving the assets in the Portfolio and other securities and investments as are attributable (using a pro rata basis of calculation) to the assets in the Portfolio; and
  - (f) shall account to the Customer for all allowances, rebates, discounts and refunds received (if any) in respect of any transaction involving the assets of the Portfolio from commission brokerage or other charges which are made to the Fund Manager, the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3 in any transaction and will not authorise any other person on behalf of the Customer to retain such.
- 6.8. The Fund Manager shall at all times use reasonable efforts to be expected of a diligent professional investment manager acting in good faith to stay informed of all facts concerning rights arising in respect of securities held in the Portfolio and in this regard shall in particular monitor on a continuing basis all sources of information reasonably available, including without limitation press reports and screen-based information services.

- 6.9. The Fund Manager agrees to communicate whenever necessary or desirable with the Depository to ensure a full flow of information in respect of rights arising in relation to the securities and cash held in the Portfolio.
- 6.10. All foreign exchange transactions relating to the Account shall be carried out at competitive rates by the Fund Manager using a third party bank (which may include the Depository, if a bank).
- 6.11. When entering into transactions on behalf of the Customer in accordance with this Clause 6, the Fund Manager will (and shall procure that the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3 will) ensure that brokers' and dealers' terms of business and terms and conditions with other third parties entered into with or by the Fund Manager, the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3 and applicable to transactions in listed securities for the Portfolio (whether or not such terms and conditions are specifically intended to apply to transactions for the Portfolio) do not:
- (a) disapply or waive best execution or other regulatory protections normally applicable to professional clients (as defined in the applicable EU Markets in Financial Instruments Rules) for the Customer; or
  - (b) confer liens, rights of retention or security over the Portfolio or any assets or monies of the Customer (except (i) in respect of margin for on exchange margined transactions or (ii) in respect of non-fulfilment of the obligations of the Customer under such agreement with brokers and dealers, but only if the part of the Portfolio subject to such liens, rights of retention or security is not disproportionate with the Customer's obligations and it is market practice to confer them or (iii) as otherwise permitted under this Management Agreement or as otherwise consented to in writing by the Customer or as may be required by applicable laws); or
  - (c) allow the Customer's monies or assets to be mixed with, set off against obligations or utilised for the benefit of any other person except where that is in accordance with standard market practice; or
  - (d) give any representations or warranties on the Customer's behalf without the Customer's prior written consent other than representations or warranties given in the ordinary course of business and which the Fund Manager has reason to believe are true and correct; or
  - (e) confer any onerous and unusual obligations on the Customer.
- 6.12. In relation to the Portfolio's management function, the Fund Manager will perform the day-to-day management of the Customer's assets in order to implement the Customer's investment objective, policy and strategy as such are described in the IPS, as well as the portfolio management duties and obligations constituting portfolio management under the AIFM Rules in each case, in consideration of the Customer's specific features including without limitation those described in Annex 2 (Specific duties and obligations).
- 6.13. Without prejudice to Clause 6.5.1, in relation to the Customer's and the Portfolio's risk management function, the Fund Manager will establish, implement, regularly (at least annually) review, and as the case may be, adapt such risk management system (including the liquidity management system) which is necessary in order to identify, measure, manage and monitor appropriately all risks (including the liquidity risk) which are relevant to the Customer's investment strategy and to which the Customer is or may be exposed, as well as the risk management duties and obligations to which the Fund Manager is compelled by the AIFM Rules in view of the Customer's specific features, including without limitation those described in Annex 2 (Specific duties and obligations).
- 6.14. In addition to the duties and obligations listed in this Clause 6, the Fund Manager will perform the duties and obligations, which are described in Annex 2 (Specific duties and obligations) in consideration of the Customer's specific features.
- 6.15. In the performance of its duties and obligations under this Management Agreement and the AIFM Rules, the Fund Manager will observe and comply with the provisions of the Constitutive Act and the IPS, as well as with any requests from the BoN or instructions contained in resolutions of the Customer's shareholders which do not conflict with the Fund Manager's duties or obligations under applicable law or any Compulsory Rules.
- 6.16. The Fund Manager may delegate part (but not all) of its duties under this Management Agreement, including the investment management functions, in each case in accordance with Clause 14.3 to an Associated Company duly authorised under applicable law to carry out the relevant activities, as well as terminate at

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any time such delegation without the prior approval of the Customer in respect of such termination, provided that the Fund Manager notifies to the Customer reasonably in advance of such termination.

6.17. The Fund Manager will maintain at all times the capital requirements and insurance required under AIFM Rules.

## **7. AUTHORIZED TRANSACTIONS**

The transactions to be effected in relation to the Portfolio are subject to the legal regulations in force, including the Companies Law no. 31/1990, Law no. 297/2004, Law no. 24/2017 the AIFM Rules and other applicable regulations, as well as Law no. 247/2005, GEO no. 81/2007, the Constitutive Act as well as any other applicable legislation or regulation replacing, amending or completing the same.

## **8. ASSET CUSTODY AND THE DEPOSITARY**

- 8.1. The Fund Manager will place the assets of the Customer in custody according to all applicable legal provisions, including without limitation the AIFM Law and the AIFM Rules. The Depositary will be appointed by the Fund Manager after consultation with the BoN, with sufficient time in advance, on the identity of the proposed Depositary and the terms and conditions of its appointment.
- 8.2. The relationship between the Customer (acting through the Fund Manager) and the Depositary shall be governed by a written depositary agreement and the Fund Manager shall ensure that such agreement includes clauses addressing those matters and imposing those obligations, which are required by the applicable AIFM Rules, Romanian legislation applicable to the Customer, the Constitutive Act and the IPS.
- 8.3. All payments due for receipt by the Customer, such as dividends, interests, sale proceeds, or any with other title, shall be paid directly to the Depositary and in the Customer's account opened at the Depositary. The Fund Manager shall not be entitled at any time and in any form to hold cash or other assets from the Portfolio belonging to the Customer in any form.

## **9. 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.
- 9.3. For the purpose of reviewing the performance of the Fund Manager each year (including, but not limited to, whether the Performance Objectives have been achieved), each year in April the Customer will hold a GSM, starting in April 2019 (the "April GSM").
- 9.4. Not later than 30 days before the deadline for publication of the April GSM documentation as required by the law, the Fund Manager must submit to the BoN a report on activities and performance of the Fund Manager (and each Delegate) in the relevant period (the "Performance Report"). The first Reporting Period shall be 1 January 2018 until 31 December 2018 and every subsequent year shall be from 1 January until 31 December of the next year (the "Reporting Period"). The first Reporting Period will be 1 January 2018 – 31 December 2018. The period 1 July – 31 December 2017 will be reflected in the annual report prepared according to legislation in force, reflecting the activity of Franklin Templeton International Services S.à r.l. as Fund

Manager of the Customer pursuant to the previous Management Agreement (in force between 1 April 2016 and 31 March 2018).

9.5. The Performance Report must include, among others:

- (a) the report on the fulfilment of the Discount Objective (as such term is defined in the IPS);
- (b) the report on the fulfilment of the NAV Objective (as such term is defined in the IPS);
- (c) the report on the fulfilment of the obligations regarding DCM as mentioned above at Clause 9.2;
- (d) a summary of the regulatory issues affecting the performance during the Reporting Period;
- (e) a summary of market conditions affecting the performance during the Reporting Period;
- (f) such 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.

9.6. Following receipt of the Performance Report, the BoN must prepare and submit for the information of shareholders at the April GSM a review of the Performance Report (the “BoN Review Report”), evaluating the performance of the Fund Manager, as well as any other factors that it considers to be relevant for the decision of the April GSM regarding the continuation or termination of this Management Agreement and the Fund Manager’s mandate.

9.7. The Performance Report, together with the BoN Review Report will be reviewed by the shareholders in the April GSM. The agenda of each April GSM will allow the shareholders the opportunity to vote on (i) the continuation or termination of this Management Agreement and the Fund Manager’s mandate, any proposed termination ensuring the simultaneous termination of the Fund Manager's mandate and this Management Agreement and (ii) the procedure for the selection of a new Sole Director and Fund Manager, in case the shareholders vote for the termination of this Management Agreement and of the Fund Manager’s mandate. Such procedure will be prepared by the Fund Manager and agreed with the BoN before its inclusion in the language of the draft resolution of the April GSM.

## 10. FUND MANAGER REMUNERATION AND EXPENSES

10.1. As remuneration for its services under this Management Agreement, the Fund Manager shall receive the fees set forth in Annex 1 (Fees). The Fund Manager shall provide the Customer with a valid certificate of tax residence for the relevant year under applicable Romanian tax provisions, before issuing any invoices to the Customer for such fees. Unless expressly stated otherwise, the fees and any other amounts payable to the Fund Manager under this Agreement are quoted exclusive of any sales, value-added, purchase or turnover tax as may be applicable in any relevant jurisdiction, including any value-added tax chargeable under or pursuant to Romanian value-added tax laws and regulations or relevant EU Directives.

10.2. Save as expressly provided otherwise in this Management Agreement, all costs and expenses incurred by the Fund Manager or the Investment Manager in the performance of their functions shall not be for the account of the Customer, but shall be borne by the Fund Manager or the Investment Manager. However, the Investment Manager may issue invoices to recharge expenses incurred by it related to any activities delegated to it pursuant to Clause 14.3 directly to the Customer, with the prior consent of the Fund Manager and of the BoN.

10.3. The Customer shall bear, or shall reimburse the Fund Manager (and in respect of the Investment Manager, for onward payment by the Fund Manager subject to Clause 10.2 above), where the Fund Manager or the Investment Manager has incurred them in advance, the following expenses:

- (a) expenses related to the payment of fees owed to the Depositary;
- (b) expenses related to intermediaries;
- (c) expenses related to taxes and fees owed to the FSA or other public authorities, according to applicable legislation, as well as expenses or charges imposed to the Customer by any tax authority related to the expenses in this clause or otherwise applicable to the running of the business of the Customer;
- (d) expenses related to the financial audit performed on the Customer and any other audits or valuations required by the legislation in force applicable to the Customer;

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- (e) expenses related to the admission to trading of the financial instruments issued by the Customer, and any subsequent issues or offerings; expenses with intermediaries and professional advisors in relation to arranging and maintaining the listing;
  - (f) expenses related to investor relations and public relations in the interest of protecting and promoting the Customer's image and that of its securities;
  - (g) expenses related to ongoing reporting and disclosure obligations according to legislation in force;
  - (h) expenses related to the organising of any GSM and communications with the shareholders and to the payment of fees for registrar services and services related to distributions to shareholders;
  - (i) expenses related to the payment of taxes and fees owed to the Bucharest Stock Exchange, London Stock Exchange and any other exchange on which the financial instruments of the Customer or global depository receipts or depository interests corresponding to shares of the Customer shall be admitted to trading;
  - (j) expenses related to the registration with the Trade Registry or documents issued by the Trade Registry;
  - (k) expenses related to the payment of fees owed to the banks for banking services performed for the Customer;
  - (l) expenses related to appointing legal advisers and other advisors to act on behalf of the Customer;
  - (m) expenses related to contracts with external service providers existing as of execution of this Management Agreement until the expiry or termination of the contract;
  - (n) expenses related to remuneration, transport and accommodation of the members of the BoN (in relation to their services and attendance at meetings, in accordance with the Constitutive Act, the mandate agreements and any applicable internal regulations) and for independent persons (not employees of the Fund Manager or of the Investment Manager) acting as representatives of the Customer on the corporate bodies of companies in the Portfolio, where appropriate;
  - (o) expenses relating to printing costs for the Customer's documentation;
  - (p) other expenses with an annual value that does not exceed €100,000 related to the activity of the Customer; and
  - (q) other expenses approved by the BoN for the Customer in accordance with the Constitutive Act (if their annual value exceeds €100,000).
- 10.4. Save as provided above, the Fund Manager (and the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3) shall be liable for the following out of pocket expenses incurred when performing its duties hereunder, including, but not limited to:
- (i) expenses in connection with mailing and telephone, except for letters to shareholders;
  - (ii) expenses in connection with business travel and accommodation, except the expenses related to all investor relations activities, GSM and BoN meetings;
  - (iii) expenses in connection with salaries, bonuses and all other remunerations granted by the Fund Manager (or the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3) to its employees and collaborators; and
  - (iv) all other expenses necessary to the functioning of the Fund Manager (or the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3).
- 10.5. In performing its obligations under this Management Agreement, the Fund Manager shall not use (and shall procure that the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3 will not use) Soft Dollar Practices. All transactions in connection to the Portfolio shall be consistent with the principle of best execution.
- 10.5.1. An overview of Best Execution Policy at the level of the Fund Manager's Group can be found at: [http://www.franklintempleton.co.uk/en\\_GB/adviser/company/regulatory-information](http://www.franklintempleton.co.uk/en_GB/adviser/company/regulatory-information). The Customer confirms that it has read and understood the Best Execution Policy Overview – as available on the specified address at the date of this agreement. Notwithstanding the foregoing, the Customer considers and the Fund Manager agrees that the Best Execution Policy must be read and understood together with all applicable requirements imposed under MiFID II regulation in force. The Customer agrees that the Fund Manager may trade outside of a regulated market or multilateral trading facility.

- 10.5.2. In effecting transactions for the Portfolio companies, the Fund Manager will at all times comply with the Fund Manager's Group Best Execution Policy, as specified in Art.10.5.1 above, and in particular will act in the best interests of the Customer and comply with any applicable obligations regarding best execution under the applicable regulations in force.
- 10.6. Any director's fees and other fees received by the Fund Manager's or any officers, employees, agents, representatives or delegates of any Associated Company who acts as a Delegate in accordance with clause 14.3 from any of the Portfolio companies will be either paid over to the Customer or deducted from the management fee. For the avoidance of doubt, the reference to "fees" in the previous sentence does not apply to payments by Portfolio companies to arrange commercially reasonable insurance coverage on behalf of such persons for any liabilities arising from acting as a director or officer of the Portfolio company's board and, where Portfolio companies fail to arrange such insurance, this shall be arranged by the Fund Manager, the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3, acting on behalf of the Fund, at the Fund's expense. The Fund Manager undertakes to observe at all times and otherwise follow the remuneration rules and guidelines applicable in accordance with the AIFM Rules.
- 10.7. The Fund Manager shall not (and shall procure that the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3 will not) claim any lien, right of retention, security interest or set-off over the Portfolio or any assets or moneys in it.

## **11. PROVISION OF INFORMATION TO THE CUSTOMER AND ITS REPRESENTATIVES**

- 11.1. In addition to the obligations under Clause 9, the Fund Manager will provide the Customer with such analysis of performance and periodical tabular presentations in connection to the Portfolio as reasonably requested by the Customer. At least twice in a calendar year the Fund Manager will make a presentation to the Customer in respect of the Portfolio for the previous six months and the Customer may request any documents with a view to discussing market factors, the Portfolio and the operation of this Management Agreement.
- 11.2. The Fund Manager shall provide to the Customer, quarterly and/or upon request, written documents/presentations evidencing the transactions entered into between the Fund Manager, on behalf of the Customer, and third parties in connection with the Portfolio.
- 11.3. The Fund Manager shall keep accurate and detailed records of all investments, receipts, disbursements and other transactions relating to the Portfolio, which it shall send to the Customer in a monthly report.
- 11.4. The Fund Manager shall supply on demand to the Customer copies of all accounts entries and other records relating to the Portfolio. The Fund Manager will extend its normal working hours as and when reasonably requested by the Customer and will provide, without unnecessary delay, all necessary facilities and assistance to the Customer's auditors and other authorised representatives, including representatives of its shareholders and/or of the BoN, to audit and verify records of the Fund Manager relating to the securities, papers and other assets in the Portfolio, according to the applicable legislation. The scope of the audit shall not be limited by the Fund Manager and may include the examination of the Fund's accounting system, procedures, records, internal controls, and any other documents or information in the Fund Manager's possession to the extent relevant to the Customer (and subject to redaction to the extent required to respect the confidentiality of other clients) that the Customer or the auditor deems necessary acting reasonably to verify in order to facilitate formulation by the Customer of any opinion on the costs, both direct and indirect, or other amounts billed to the Customer and the performance of the Portfolio and the Fund Manager. The Fund Manager shall co-operate as necessary and facilitate the performance of any such audits, including securing for the aforementioned auditors and other authorised representatives assistance from the Fund Manager's compliance officer and internal auditors.
- 11.5. The Fund Manager shall report to the Customer within two business days of its discovery of any non-compliance with or breach of the provisions of this Management Agreement (including the Annexes) and shall take all steps required to make good such non-compliance as soon as possible.
- 11.6. The Fund Manager will liaise as necessary with the Depositary to enable the Depositary, on the Customer's behalf, to fulfil any obligations to disclose shareholdings in companies in which the Portfolio is invested in accordance with relevant legislation and will provide timely information to the Depositary for this purpose.

## 12. CONFIDENTIALITY AND ACTS WITH FISCAL CONSEQUENCES

12.1. The Fund Manager will, except only in so far as:

- (a) otherwise required by laws or regulations; or
- (b) necessary for effecting settlement and the performance of operations with the Depositary and any sub-custodian for the assets of the Portfolio; or
- (c) reasonably required for the proper performance of the services and for the enforcement of its rights and obligations under this Management Agreement; or
- (d) otherwise permitted in writing by the Customer; or
- (e) necessary for the purpose of setting up foreign exchange facilities (disclosure in this case shall be limited to credit and compliance departments of the banks),

ensure that all matters relating to the Portfolio and the Customer will be kept strictly confidential. Before the Fund Manager discloses confidential information under paragraph (a) above, it shall inform the Customer to this end. The Fund Manager shall procure that the Delegate provides to the Customer a confidentiality undertaking in the relevant delegation agreement in respect of all matters relating to the Portfolio, its role as a Delegate, in form and substance acceptable to the BoN.

- 12.2. The Fund Manager shall not disclose information relating to the Portfolio and the Customer to other companies of the Fund Manager's Group (except for the Investment Manager in its capacity as, and to the extent required for its role as, a Delegate) who carry on to a material extent any activities other than investment management outside those members of staff engaged in investment management functions, except in circumstances permitted in Clause 12.1. (a)- (d). The Fund Manager shall (and shall procure that the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3 will) in any event operate confidentiality procedures which oblige its staff only to disclose information relating to the Portfolio and the Customer within the Fund Manager (or the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3) on a "need to know" basis and to observe strictest confidentiality in relation to price sensitive information.
- 12.3. The Fund Manager shall not (and shall procure that the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3 will not) knowingly take or omit to take any action which might prejudice the interests of the Customer with respect to the applicable tax legislation. Without prejudice to the generality of the foregoing, the Fund Manager may (i) create any new taxable presence of the Customer, (ii) subject the Customer to new tax filing or reporting obligations, or (iii) expose the Customer to any significant tax charge outside the ordinary course of business, in each case only if the Fund Manager, after due diligence and careful investigation, considers it to be in the best interests of the Customer.

## 13. TERMINATION

- 13.1 This Management Agreement may be terminated according to its provisions and the applicable legislation.
- 13.2. The Customer may unilaterally and at its sole discretion terminate this Management Agreement, at any time, on three months' prior written notice to the Fund Manager, based on an OGM resolution for approving the simultaneous termination of the mandate and of this Management Agreement. For the avoidance of any doubt, termination of the mandate and this Management Agreement in accordance with this Clause 13.2 will not entitle the Fund Manager to any Damages or the payment of any amounts other than the fees to be paid in accordance with Clause 13.6 below. This is without prejudice to Clause 17.4(c) but, for the avoidance of any doubt, such Clause 17.4(c) will never extend to Damages for termination in accordance with this Clause 13.2.
- 13.3 The Fund Manager may terminate this Management Agreement and resign its mandate as Sole Director with six months' prior written notice. Not later than five business days following the Termination Notice Date, but subject to timely approval of the GSM agenda by the BoN, the Fund Manager will call the OGM having on the agenda the approval of the procedure for the selection of a new Sole Director and Fund Manager. Such procedure will be prepared by the Fund Manager and agreed with the BoN before its submission to an OGM for approval.

- 13.4 The Fund Manager may terminate this Management Agreement and resign its mandate as Sole Director by as much prior written notice to the Customer as is reasonably practicable, if:
- (a) the termination has been required by, or as a result of, a binding decision issued by any competent regulatory authority; or
  - (b) if material obligations under this Management Agreement can no longer be fulfilled due to changes in the applicable law compared to the date of signing this Management Agreement, provided that the Fund Manager has used reasonable endeavours to comply with or (if it is not possible for the Fund Manager to do so) to propose a reasonable alternative arrangement involving an Affiliate which would comply with the relevant law, in accordance with Clause 14.4 below, but despite those efforts compliance would not be possible; or
  - (c) if the Customer becomes the subject of any definitive winding up order.
- 13.5 In any event a Termination Notice is sent (except under Clause 13.4) or in the event of expiry of this Management Agreement, the Fund Manager shall (except to the extent otherwise required in writing by the Customer) continue to carry out all such acts as it is empowered and required to do by any part of this Management Agreement until the New Appointment Date provided that this obligation is subject to the continuing satisfaction of the following conditions:
- (a) the terms of this Management Agreement (including, without limitation, all authorisations from the Customer to the Fund Manager and all terms of remuneration and indemnity in favour of the Fund Manager) shall continue to apply;
  - (b) the shareholders at GSM approve resolutions proposed by the Fund Manager to ratify and approve, to the extent legally possible:
    - (i) the Fund Manager's mandate as sole director and fund manager of the Customer, with effect until the New Appointment Date and
    - (ii) all legal acts (including decisions and contracts) concluded, adopted and issued on behalf of the Customer by the Fund Manager and any implementation acts, facts and operations based on such, including the management of the Customer under a unitary system, but, in each case, without prejudice to any grounds for termination given by the Customer in any prior Termination Notice and to any rights of the Customer under Clause 17 hereunder; for the avoidance of any doubt, the condition under this paragraph (b) will not apply in the event that the ratification from the GSM is requested for acts performed by the Manager in breach of its legal and/or contractual obligations as Fund Manager and Sole Director;
  - (c) the BoN shall use all reasonable endeavours to ensure that the New Appointment Date occurs as soon as possible; and
  - (d) the mandate as Sole Director does not end between the Termination Notice Date and the New Appointment Date, unless such ending is caused by deliberate actions of the Fund Manager, in which case the condition under this paragraph (d) will not apply.
- 13.6 Termination of this Management Agreement shall not terminate rights and obligations which are capable of surviving termination, including in particular, duties of the Fund Manager to report to the Customer, to provide information to the Customer and to keep matters confidential and for the Customer to indemnify the Fund Manager in accordance with Clause 17.4(c), which, for the avoidance of any doubt, will never extend to Damages for termination in accordance with this Clause 13. Transactions in progress shall be dealt with in accordance with the Customer's instructions or, in the absence of such instructions, having regard to the best interests of the Portfolio.
- 13.7. In the event a Termination Notice is sent, the Fund Manager shall be paid in respect of its services hereunder on a pro rata basis with the duration of the provision of these services in accordance with Clause 13.5 above, in compliance with the Annex 1 (Fees), up to the New Appointment Date. For the avoidance of doubt, in such a case, the Fund Manager's, pro rata remuneration will be for a period of at least 3 months (regardless of whether the New Appointment Date is sooner).

- 13.8. In case of:
- (i) fraud, wilful default or negligence by the Fund Manager in performing the obligations assumed under this Management Agreement; or
  - (ii) material breach by the Fund Manager of obligations assumed under this Management Agreement that may bring a serious loss to the Customer and that, if capable of remedy, have not been remedied within 10 business days of a notice of breach, this Management Agreement may be terminated by the Customer with full right with immediate prior notice but without any court intervention.
- 13.9. In no circumstances shall the Fund Manager be obliged to continue its mandate as a Fund Manager and compliance with this Management Agreement beyond the date twelve months from the Termination Notice Date, unless otherwise expressly agreed in writing by the Parties or required by law.

#### **14. AMENDMENT OF THIS MANAGEMENT AGREEMENT, ASSIGNMENT OF RIGHTS AND DELEGATION**

- 14.1. This Management Agreement may be amended at any time by an addendum signed by the legal representatives of the Fund Manager and of the Customer, with the prior approval of the GSM and the endorsement of the FSA, if required by applicable law.
- 14.2. This Management Agreement is concluded in consideration of the person of the Fund Manager and is personal to the Fund Manager. The Fund Manager shall not be entitled to assign or to transfer any of its rights or obligations hereunder save as expressly provided in this Management Agreement.
- 14.3. (a) The Fund Manager may delegate to an Associated Company performance on its behalf of the portfolio management functions as well as administration and marketing activities which the Fund Manager has agreed to render to the Customer, subject in each case to entering into a delegation agreement, which has received the prior written approval of the BoN and which the Fund Manager has ensured that it is in compliance with the AIFM Rules. The performance of each Delegate of the delegated obligations and duties shall be on the terms and be subject to the conditions contained in this Management Agreement, and shall be without prejudice to the obligations and responsibilities of the Fund Manager to the Customer under this Management Agreement.
- (b) The Fund Manager shall be responsible for the acts or omissions of the Investment Manager (and each other Delegate, if any) in performing such functions, activities and services, and despite any such delegation, shall remain primarily liable for its obligations under this Management Agreement. Any such delegation by the Fund Manager shall not involve any additional cost to the Customer, unless expressly authorised in writing by the Customer, and the appointment of each Delegate shall be subject to the prior written approval of the BoN and the prior endorsement of any regulatory authority required by applicable legislation.
- (c) The Fund Manager shall not delegate functions so that it is no longer the Customer's manager and to the extent that it becomes a letter-box entity within the meaning of AIFM Rules.
- (d) The Fund Manager shall procure that each Delegate does not delegate any functions delegated to it according to this Management Agreement without the BoN's prior written approval and the endorsement of any regulatory authority required by applicable law. This Clause 14 shall apply, mutatis mutandis, to any such delegation by a Delegate, and the Fund Manager shall continue to remain liable towards the Customer with respect to any such further delegation.
- 14.4 To the extent that changes in applicable law or regulation following the signing of this Management Agreement impose requirements on the Fund Manager in the performance of this Management Agreement with which the Fund Manager cannot comply, the Fund Manager undertakes to use reasonable endeavours to continue performance of the services to the extent legally possible and, to the extent not legally possible, to procure that a reputable Affiliate shall agree to provide the same services on substantially the same terms to the Customer. For the avoidance of any doubt, the appointment of such Affiliate, as well as the implementation of any amendments to this Management Agreement or any other alternative arrangement proposed by the Fund Manager are subject to consent by the Customer, at its full discretion and nothing in this Management Agreement shall be construed as an expressed prior consent in this respect.

## 15. DURATION OF THIS MANAGEMENT AGREEMENT

15.1. Subject to the provisions of Clause 13, the duration of this Management Agreement and of the Fund Manager and the Sole Director mandates contained in this Management Agreement is for a period of two years, simultaneously starting on 1 April 2018.

## 16. COMMUNICATIONS, INSTRUCTIONS, NOTIFICATIONS

- 16.1. Subject to a GSM resolution to the contrary, as regards the relationship between the Customer and the Fund Manager/ Sole Director under or in relation to this Management Agreement, any reference in this Management Agreement to the Customer shall be deemed a reference to the BoN acting as the representative of the Customer towards the Fund Manager/ Sole Director. For the avoidance of doubt, any right or benefit of the Customer under this Management Agreement in relation to or against the Fund Manager/ Sole Directors shall be exercised by the BoN acting in the name and on behalf of the Customer.
- 16.2. All notifications and other communications from the Customer shall be made by BoN to the Fund Manager.
- 16.3. For the purpose of any communication between the Customer and the Fund Manager in relation to this Management Agreement, the Customer shall be represented by BoN.
- 16.4. The Fund Manager shall be entitled to rely on any notification or communication given by the BoN above without further enquiry, provided the instruction, notification or communication is given in one of the ways permitted in this Management Agreement and provided that oral instructions may not be relied upon by the Fund Manager.
- 16.5. All notices or any other communication to be given under this Management Agreement must be in writing, in Romanian or English, and must be: (i) personally delivered; (ii) delivered by fax; (iii) sent by courier with return receipt; or (iv) by e-mail.
- 16.6. The Parties details for transmitting notifications or any other communications related to the present Management Agreement are the following:

(a) If addressed to the Fund Manager:

Address:

Premium Point Building

78-80 Buzești Street, 7th -8th floor, Bucharest

District 1, Postal Code 011017

Fax: (021) 200 96 31/32

To the attention of: Mr. Grzegorz Maciej Konieczny / Mr. Johan Meyer

(b) If addressed to the Customer:

At the contact details provided by the representative of the Customer.

## 17. PARTIES' LIABILITIES

17.1. The Fund Manager is liable for any Damages suffered by the Customer as a result of:

- (a) any actual or alleged act, error, omission, misleading statement or breach of fiduciary duty or other duty committed in the performance of, or failure to perform its administrative functions as Sole Director of the Customer in accordance with the Constitutive Act, the provisions of the Companies Law, the Law No. 297/2004, Law no. 24/2017 and the Romanian Civil Code;
- (b) infringement of the applicable legislation;
- (c) infringement of the Customer's internal rules, including the investment restrictions under the IPS;
- (d) fraud;
- (e) wilful default in performing this Management Agreement;

- (f) negligence in the performance of this Management Agreement's obligations; or
- (g) material breach of this Management Agreement.

For avoidance of doubt, the Fund Manager's liability under this clause 17.1 shall not exclude or limit its liability for death or personal injury caused by the Fund Manager's negligence; or fraud or fraudulent misrepresentation.

- 17.2. The Fund Manager's liability towards the Customer and its investors shall not be affected by any delegation. The Fund Manager shall also be liable for the negligence, wilful default, fraud or material breach of this Management Agreement by its Delegates, or its or their employees. The Fund Manager shall exercise all due care in its selection, use and monitoring of Delegates and shall indemnify and hold harmless the Customer from and against any Damages suffered or incurred by the Customer and caused by any failure to exercise all due care. The Fund Manager shall make reasonable efforts to resume normal performance of the services following, and to mitigate the consequences of, an event beyond its and its Delegates' reasonable control.
- 17.3. The Fund Manager shall not be liable for the actions of brokers (not being Associated Companies of the Fund Manager) save to the extent that the Fund Manager has acted negligently in selecting, contracting or monitoring or using such persons. Without prejudice to clause 6.11 above, in selecting a broker for a particular transaction, the Fund Manager shall attempt to obtain best execution for the Customer. Notwithstanding this responsibility, the Fund Manager will pursue counterparties on the Customer's behalf and account to the Customer for all recoveries against such counterparties.
- 17.4. (a) The Fund Manager agrees to indemnify and hold harmless each Indemnified Party from and against any and all Damages, to which the Indemnified Party may become subject under law, including allegations of negligence or breach of fiduciary duty, or otherwise, insofar as such Damages are caused by or arise out of: (i) the wilful misconduct of the Fund Manager or any of its Delegates (or its or their employees); (ii) the breach by the Fund Manager or any of its Delegates (or its or their employees) of any representation or warranty made to the Customer relating to the services hereunder or in respect of any AIFM Rules; (iii) the breach or non-fulfilment by the Fund Manager or any of its Delegates (or its or their employees) of any obligation pursuant to this Management Agreement or the investment restrictions under the IPS; (iv) any untrue statement of a material fact contained in information furnished to an Indemnified Party by the Fund Manager or any of its Delegates (or its or their employees) or the omission to state a material fact necessary in order to make the statements not misleading in light of the circumstances under which they were made; (v) the breach by the Fund Manager or any of its Delegates (or its or their employees) of any fiduciary duty or infringement of applicable law.
- (b) The Fund Manager shall indemnify and shall hold harmless each Indemnified Party for all Damages incurred by an Indemnified Party, in connection with any investigation, claim, action, suit, proceeding, demand or judgment, which is subject to any of the indemnities in this Clause 17.
- (c) Save to the extent arising from Fund Manager's or its employees' negligence, fraud, wilful default or breach of this Management Agreement, the investment restrictions under the IPS or the applicable legislation or that of any of its employees or Delegates, Associated Companies or their respective employees, the Customer agrees to indemnify the Fund Manager from and against Damages arising from following the Customer's specific instructions (including, for the avoidance of doubt, informed decisions of the GSM in addition to instructions from the BoN), provided that:
- (i) the Fund Manager notifies the Customer in writing by fax or email (to such fax or email address as the BoN shall have notified the Fund Manager), as soon as reasonably practicable, but no later than 3 business days after becoming aware of the relevant Damage;
  - (ii) the Fund Manager does not make any admission of liability or agree to any settlement or compromise of any claim for which indemnity is sought without the prior written consent of the Customer;
  - (iii) on a prompt and timely basis the Fund Manager shall have provided all such documents, information and assistance and have done all such acts and things as the Customer may have reasonably required in order to assist the Customer in relation to such claims; and
  - (iv) the Fund Manager will provide evidence that it has taken all reasonable steps necessary to mitigate such Damages, including by advising the Customer in writing against such instructions, prior to the notification mentioned at point (i) above.

- 17.5. Subject to observance of clause 6.17, the Fund Manager will maintain the following insurance:
- (a) Professional Liability to provide against, any failure to duly perform this Management Agreement if that failure is due to a wrongful act, negligent act, error, omission for an insured amount of at least €50 million;
  - (b) Fidelity Bond to provide against any failure to account to the Customer for any money or investments if that failure is due to: (i) dishonest or fraudulent act of any employee; (ii) forgery of instructions, cheques, security or currency and damage caused to office premises and contents due to burglary or vandalism; and (iii) electronic and computer crime for an insured amount of at least €50 million.
- 17.6. Upon request of the Customer, the Fund Manager shall provide to the Customer evidence that the premium for each insurance described in Clause 17.5 above has been paid.
- 17.7. The Fund Manager's liability towards the Customer and the shareholders shall not be affected by the fact that the Fund Manager has delegated functions to a third party, or by any further sub-delegation.

## 18. FORCE MAJEURE

- 18.1 If a party (the "Affected Party") is, or could reasonably be expected to be, materially prevented, hindered or delayed from performing any of its obligations under this Management Agreement by reason of a Force Majeure Event, such obligations of the Affected Party and any corresponding or related obligations of the other party shall remain in effect but shall be suspended without liability and without having occurred by virtue of the Force Majeure Event a breach of this Management Agreement for a period equal to the duration of the Force Majeure Event, provided that:
- (i) as soon as reasonably practicable after the start of the Force Majeure Event, to the extent permitted by the applicable law, the Affected Party notifies the other party in writing of the act, event or circumstance relied on, the date on which such act, event or circumstance commenced and the effect of the Force Majeure Event on the Affected Party's ability to perform its obligations under this Management Agreement; and
  - (ii) the Affected Party makes all reasonable efforts to mitigate the effects of the Force Majeure Event on the performance of its obligations under this Management Agreement and to the extent permitted by the applicable law furnishes written reports every 10 Business Days to the other party on its progress in doing so, and to the extent permitted by the applicable law provides any information relating to the Force Majeure Event and its effects that the other party may reasonably request.
- 18.2 Immediately after the end of the Force Majeure Event, the Affected Party, to the extent permitted by the applicable law, shall notify the other party in writing that the Force Majeure Event has ended and shall resume performance of its obligations under this Management Agreement.
- 18.3 No party shall be released from any of its obligations under this Management Agreement as a result of a Force Majeure Event, including, without limitation, the Customer's obligations to any counterparty or broker for any transaction effected by the Fund Manager pursuant to this Management Agreement, and this Management Agreement shall remain in effect for the duration of the Force Majeure Event.
- 18.4 If any Force Majeure Event shall substantially impair the ability of the Fund Manager to carry out its duties under this Management Agreement, the Customer shall be entitled to appoint a replacement manager until such event is rectified. If the Fund Manager remains unable to deliver (whether through Delegates or outsourcees or otherwise) substantially all its services under this Management Agreement after three months from the appointment of the relevant replacement manager have elapsed, the Customer shall be entitled to terminate the appointment of the Fund Manager on immediate notice.
- 18.5 For the avoidance of doubt, no Party may rescind, terminate or treat as void, voidable or unenforceable this Management Agreement on the basis of any non-performance by any other Party arising from a Force Majeure Event.

## 19. APPLICABLE LAW AND JURISDICTION

- 19.1. This Management Agreement is governed by and shall be construed in accordance with the laws of England & Wales.
- 19.2. Dispute Resolution
- (a) Any dispute or difference arising out of or in connection with this Management Agreement, including without limitation any disputes regarding its valid conclusion, existence, interpretation, nullity, breach, amendment, termination in any way of this Management Agreement (each a “Dispute”), that cannot be resolved by amicable negotiations within a reasonable period of time from the notice served by any of the Parties relating to the potential Dispute shall be finally resolved by the LCIA (London Court of International Arbitration) under the LCIA Rules of Arbitration. The Party requesting the initiation of the arbitration proceedings shall serve the other Party with a written notice that such proceedings will be initiated.
  - (b) The place of the arbitration shall be London, the language of the arbitration shall be English, and the tribunal shall consist of three (3) arbitrators appointed in accordance with the LCIA Rules.
  - (c) Any award of the arbitral tribunal rendered in accordance with this clause shall be final and binding on the Parties.
  - (d) The award shall be voluntarily executed by the Parties in any jurisdiction, or else award enforcement proceedings may be instituted in any court in the country where the recognition of such arbitration award is requested.
  - (e) In the event of a Dispute, the Party prevailing in such Disputes shall be entitled to recover all expenses, including without limitation reasonable legal fees and expenses and arbitral and court-related costs, incurred in ascertaining such Party’s rights under this Management Agreement and preparation of application and enforcement of such Party’s rights, as determined by the arbitration tribunal, whether or not it was necessary for such Party to institute any enforcement proceedings to achieving the enforcement of its rights.
- 19.3. Notwithstanding the above, the Fund Manager acknowledges that any decision of the Customer to terminate the Fund Manager’s mandate as Sole Director will take effect pursuant to the provisions of Clause 13 above.

## 20. REPRESENTATIONS AND WARRANTIES

- 20.1. The Fund Manager represents and warrants to the Customer that at all times:
- (i) the Fund Manager has full power and authority to execute, deliver and to carry out the terms of this Management Agreement and that this Management Agreement constitutes a legal, valid and binding obligation of the Fund Manager;
  - (ii) the Fund Manager is duly incorporated in Luxembourg and has received relevant authorisations to passport its investment management services into Romania in accordance with the AIFMD and it has at the time of entering into this Management Agreement at least the minimum level of capital and own funds required under the AIFM Rules;
  - (iii) the Fund Manager has the legal capacity, as per the law applicable in its home country and Romania, as the case may be, and has received all relevant authorisations and approvals by each relevant authority to provide investment management and other services of the type contemplated under this Management Agreement to an entity such as the Customer;
  - (iv) the Fund Manager has special knowledge and skill relevant to the services for which it is engaged under this Management Agreement;
  - (v) neither the Fund Manager, the Investment Manager nor any Associated Company who acts as a Delegate in accordance with clause 14.3 is the subject of any regulatory or governmental actions, claims or investigations relevant to its investment management activities which could impair its ability to carry out the terms of this Management Agreement;

- (vi) neither the Fund Manager nor any of its subsidiaries, Associated Companies, divisions or other affiliates involved with the affairs of the Customer has ever had its registration revoked, suspended or its activities restricted;
- (vii) each of the Fund Manager, the Investment Manager and any Associated Company who acts as a Delegate in accordance with clause 14.3 maintains adequate back up and disaster recovery systems and procedures, conflicts of interest policies, risk management policies and any other policies or procedures required by the applicable legislation with respect to the activity carried out by the Fund Manager, the Investment Manager or any Associated Company who acts as a Delegate in accordance with clause 14.3 as regards the Customer;
- (viii) each of the Fund Manager, the Investment Manager and any Associated Company who acts as a Delegate in accordance with clause 14.3 takes investment decisions solely with reference to the interests of the respective funds it manages;
- (ix) its financial statements and the financial statements of the Investment Manager are subject to regular audit by financial auditors; and
- (x) to the best of the Fund Manager's knowledge, neither the execution, delivery, nor performance of this Management Agreement by the Fund Manager will violate any law, statute, order, rule, or regulation of, or judgment, order or decree by, any federal, state, local, or foreign court or governmental authority, domestic or foreign, to which the Fund Manager is subject nor will the same constitute a breach of, or default under, provisions of any agreement or contract to which it is a party or by which it is bound.

The Fund Manager shall notify the Customer forthwith of any event or matter, which would, if these warranties were repeated, render them untrue, inaccurate or misleading.

- 20.2. Subject to Clause 22.2., the Fund Manager shall promptly notify the Customer in writing of changes in the Portfolio managers primarily responsible for the Portfolio or in senior staff responsible for setting the investment and business policy of the Fund Manager and of the Investment Manager. The Fund Manager will provide on annual basis, within 30 days from the beginning of the calendar year, a list with portfolio managers, the main persons with responsibilities in respect to the Portfolio, and senior staff responsible for setting the business and investment policy within the Fund Manager and the Investment Manager. In case of a need to change a portfolio manager or a main person with responsibilities in respect of the Portfolio, the replacement shall have equal or superior qualifications and professional experience and similar time allocation for the Customer.
- 20.3 By this Management Agreement, the Customer represents and certifies that it is the legal owner of the assets comprised in the Portfolio, as at the signing date of this Management Agreement.
- 20.4. The Customer warrants that on the date this Management Agreement is signed, the Portfolio is free from any charge, lien, pledge or encumbrance other than those resulting from normal custody and settlement arrangements or through action or omission of the Investment Manager under its previous mandate as fund manager with the Customer. If the Customer shall create in the future or be informed about the creation of any charge, lien, pledge or encumbrance (other than through action of the Fund Manager) which may affect the Fund Manager's freedom to trade in such securities, it undertakes that it will inform the Fund Manager of such action as soon as reasonably practicable.
- 20.5. The Customer, in the form of its BoN and shareholders, represents that it took all reasonable steps to approve and execute all such documents and to give all authorizations and consents as are reasonably necessary to have the necessary capacity and authority to enter into this Management Agreement. This representation is subject to all information publicly available as regards the corporate decisions taken by the Customer as of its incorporation.

## 21. DATA PROTECTION

- 21.1 The Fund Manager stores on its computer system and processes personal data in connection with the implementation of its mandate. The Customer authorises the Fund Manager to perform such data processing and recognises that the Fund Manager is free to use the data, but only for the purposes of performing this Management Agreement and of the implementation of its mandate in accordance with the law.

- 21.2. The Fund Manager will act as data controller within the meaning of the Data Protection Laws in relation to any personal data supplied to it in connection with this Management Agreement and for the purposes indicated in Clause 21.1 above. Each Party undertakes to comply with its obligations under the Data Protection Laws in relation to such personal data it process in relation to this Management Agreement including amongst others, to observe all the applicable formalities concerning notifying/consulting with the competent data protection authority, as well as concerning informing and obtaining the relevant consent from the data subjects, where required and as incumbent upon it under the Data Protection Laws. Notwithstanding the generality of the foregoing, the Customer acknowledges and agrees that personal data relating to its investors being natural persons may be transferred to the Fund Manager and may be processed as imposed by the applicable legal provisions by the Fund Manager as if such data related to the Customer itself, with the exception that in this particular case the Customer shall be the data controller (within the meaning of the Data Protection Laws) acting in accordance with conditions currently provided in the notification registered by it with the National Supervisory Authority for Personal Data Processing under no. 18668, as such would be amended from time to time, whilst the Fund Manager shall only act as its data processor (within the meaning of the Data Protection Laws). In this particular case, the Fund Manager undertakes to only act based on the Customer's instructions and to observe and apply the security measures provided by the Data Protection Laws (including to apply the adequate technical and organizational measures in order to protect the data against accidental or unlawful destruction, loss, alteration, disclosure or unauthorized access, notably if the respective processing involves the data's transmission within a network, as well as against any other form of illegal processing). Specifically in consideration of the General Data Protection Regulation, and with effect from the application date of the General Data Protection Regulation, in case it will act as data processor, the Fund Manager undertakes to: (a) process the personal data only on documented instructions from the Customer, including with regard to transfers of personal data to a third country or an international organisation, unless required to do so by Union or Member State law to which the Fund Manager is subject; in such a case, the Fund Manager shall inform the Customer of that legal requirement before processing, unless that law prohibits such information on important grounds of public interest; (b) ensure that persons authorised to process the personal data have committed themselves to confidentiality or are under an appropriate statutory obligation of confidentiality; (c) take all measures required pursuant to Article 32 of the General Data Protection Regulation; (d) respect the conditions referred to in the General Data Protection Regulation for engaging another processor; (e) take into account the nature of the processing, assist the Customer by appropriate technical and organisational measures, insofar as this is possible, for the fulfilment of the Customer's obligation to respond to requests for exercising the data subject's rights laid down in the General Data Protection Regulation; (f) assist the Customer in ensuring compliance with the obligations pursuant to Articles 32 to 36 of the General Data Protection Regulation taking into account the nature of processing and the information available to the processor; (g) at the choice of the Customer, delete or return all the personal data to the Customer after the end of the provision of services relating to processing, and to delete existing copies unless Union or Member State law requires storage of the personal data; (h) make available to the Customer all information necessary to demonstrate compliance with the obligations laid down in this article and allow for and contribute to audits, including inspections, conducted by the Customer or another auditor mandated by the Customer; with regard to this last point, the Fund Manager shall immediately inform the Customer if, in its opinion, an instruction infringes the General Data Protection Regulation or other Union or Member State data protection provisions.
- 21.3. Subject to applicable provisions of the Data Protection Laws, the data provided to the Fund Manager acting as data processor shall not be shared by the Fund Manager with third-parties other than the persons designated by the Customer and the companies or persons whose involvement is necessary to carry out all or part of the Fund Manager's duties and obligations contemplated under this Management Agreement (consisting in the Fund Manager's "parent" company, the Investment Manager, and the Fund Manager's Affiliates, any Delegates, subcontractors and/or outside service providers) and in accordance with the Fund Manager's internal procedures. In this context, the Customer acknowledges and agrees that personal data related to it or the investors may be transmitted, stored and processed on systems located outside of Romania, in the European Union, which systems are or may be operated by the Fund Manager or third parties indicated above in this Clause 21.3. In case such data will be envisaged to be transmitted, stored and processed in other countries than those mentioned in this clause, the Fund Manager shall observe the applicable provisions of the Data Protection Laws, including, if necessary, the registration of this transfer

with the National Supervisory Authority for Personal Data Processing, before any transmission, storage and processing in the said additional countries takes place.

21.4. Data is kept for the duration of the contractual relationship and may be kept for the maximum period legally possible, if any, following the termination of this relationship.

## 22. TRANSITORY AND FINAL PROVISIONS

- 22.1. If any of the provisions of this Management Agreement is held to be invalid or unenforceable, or impossible to perform, such invalidity, unenforceability or impossibility shall not affect any other provisions of this Management Agreement, and this Management Agreement shall be construed and enforced as if such invalid, unenforceable or impossible to perform provisions had not been included.
- 22.2. For the duration of this Management Agreement the Fund Manager undertakes to inform the BoN in advance of any proposed change, replacement or dismissal of the permanent representatives designated for Fondul Proprietatea. The Fund Manager will ensure and procure that the permanent representatives devote, at all times, the necessary time for the management of the Portfolio.

## 23. SIGNATORIES

This Management Agreement will be signed in the English and Romanian language and executed in 3 originals, one for the Fund Manager and two for the Customer.

This Management Agreement is executed as of the date mentioned on its cover page:

by FONDUL PROPRIETATEA SA as duly represented by:

\_\_\_\_\_  
Name: Sorin Mihai MÎNDRUȚESCU

Position: Chairman of the Board of Nominees

Execution date: 14 February 2018

on the one part;

and by FRANKLIN TEMPLETON INTERNATIONAL SERVICES S.À R.L. as represented by:

\_\_\_\_\_  
Name: Craig BLAIR

Position: Director

Execution date: 14 February 2018

and

\_\_\_\_\_  
Name: Mike SOMMER

Position: Director

Execution date: 14 February 2018

on the other part.

## Annex 1 - Fees

The fees due to the Fund Manager in accordance with Clause 10 of this Management Agreement shall be calculated in RON and invoiced and paid in Euro by the Customer in compliance with the following: the amount calculated in RON will be converted into Euro using the official exchange rate for RON to Euro published by National Bank of Romania in the last banking day of the period invoiced.

The fees shall be calculated as (i) a Base Fee, and (ii) a Distribution Fee, in each case as set out below and in respect of each Calculation Period.

### 1. Base Fee

A base fee (the “**Base Fee**”) shall be calculated as follows:

Base Fee Rate multiplied by the notional amount, multiplied by the number of calendar days during the applicable Calculation Period divided by 365,

where:

the “**Base Fee Rate**” = 60 basis points per year;

1 basis point = 0.0001; and

the “**notional amount**” is the market capitalization of the Customer, which is defined as:

- (a) the number of the Customer’s paid shares considered on daily basis, minus
- (b) the weighted average over the applicable Calculation Period of the number of the Customer’s settled own shares together with the number of the Customer’s equivalent ordinary shares represented by Global Depositary Receipts (“FP GDRs”), in each case where those shares or FP GDRs are held by the Customer as treasury shares,
- (c) then multiplying the resulting number by the weighted average market price of the Customer’s shares calculated for the applicable Calculation Period.

The “**weighted average market price**” shall be computed based on the daily average market prices of the Customer’s shares and corresponding daily volumes, as published by Bucharest Stock Exchange REGS section.

If the number of shares relevant for the computation of the Base Fee described above in (a) and (b) changes over the Calculation Period, the Base Fee will be an aggregation of the computation for each sub-period.

“**Sub-period**” is defined as the number of days between two trading dates. The calculation in each sub-periods starts on the settlement date of the first transaction (or the beginning of the mandate) and shall end on the date prior to the settlement date of the next transaction (or the end of the mandate).

For each day in a Calculation Period for which the Base Fee is to be calculated, when the Discount is below or equal to 20%, but above 15%, an additional Base Fee Rate of 5 basis points per year shall become payable (i.e. the Base Fee Rate referred to in the calculation above shall become 65 basis points per year for the applicable days in the relevant period).

For each day in a Calculation Period for which the Base Fee is to be calculated, when the Discount is equal or below 15%, a further additional Base Fee Rate of 5 basis points per year shall become payable (i.e. the Base Fee Rate referred to in the calculation above shall become 70 basis points per year for the applicable days in the relevant period).

As the Base Fee (including any additional fee determined under the previous two paragraphs) is computed using the number of days in a calendar year (365 days), the Base Fee Rate used for non-trading days will be the rate applied for the prior trading day.

## 2. Distribution Fee

It is recognized that distributions beneficial to shareholders would reduce the notional amount upon which the Base Fee is calculated. To reward the Fund Manager for arranging such distributions, a fee shall be calculated as follows (an amount so calculated in respect of a particular period a "Distribution Fee"): 100 basis points of distributions made available from 1 April 2018 up to and including 31 March 2020.

"Distributions" means:

- (i) repurchases of Fund shares;
- (ii) repurchases of Fund GDRs and/or Depository Interests ("DI");
- (iii) dividends; and
- (iv) returns of share capital.

The calculation of the Distribution Fee shall be made when such distributions become available to shareholders. In case of a repurchase of own shares or of FP GDRs, the calculation of the Distribution Fee shall be made at the date when the own shares repurchase transactions or FP GDRs transactions are settled (i.e. settlement date).

For FP GDRs transactions, the Distribution fee will be computed taken into account the official exchange rate published by the National Bank of Romania for the date of settlement of FP GDRs transactions.

Any failure on the part of any shareholder to collect, or to take the necessary steps to facilitate the receipt of the distributions made available will not result in any adjustment of the calculation of the Distribution Fee due to the Fund Manager.

## 3. Payments

- (a) The Base Fee shall be paid by the Customer quarterly, based on the invoices to be issued by the Fund Manager within twenty (20) business days following the end of the quarter for which payment is to be made.
- (b) The Distribution Fee shall be paid by the Customer quarterly, based on the invoices to be issued by the Fund Manager within twenty (20) business days following the end of the quarter for which the Distribution Fee was calculated.
- (c) The invoices for the Base Fee and the Distribution Fee shall be submitted to the Depository.
- (d) The Fund Manager shall provide to the BoN quarterly and on an annual basis and upon reasonable request of the BoN a detailed report regarding the fees collected under this Management Agreement, in the form reasonably required by the BoN.
- (e) The payment of each fee shall be done within 30 business days of the receipt of the applicable invoice.

## 4. Verification

The payment of the Base Fee and the Distribution Fee shall be arranged only after the verification and certification by the Depository of the correctness of the following amounts used in the calculation of those fees: the notional amount, the value of distributions, and all the other items used in calculation of the fees, as well as the methods for determining the fees.

## Annex 2 – Specific duties and obligations

Without prejudice to the obligations of the Fund Manager specified in the Management Agreement, the below is a non-exhaustive list of additional specific duties and obligations the Fund Manager undertakes to provide.

### - Portfolio Management services

The Fund Manager shall provide portfolio management services to the Customer as mentioned in Clause 6 of the Management Agreement.

### - Risk Management services

The Fund Manager shall provide risk management services to the Customer in order to assess the exposure of the Customer to market, liquidity and counterparty risks and the exposure of the Customer to all other relevant risks, including operational risks which may be material for the Customer, subject to and in accordance with the terms and provisions of this Management Agreement, the applicable AIFM Rules and any applicable circular to be issued by the CSSF (the "CSSF Circular"), and the risk management systems implemented by the Fund Manager, as may be amended and supplemented from time to time (the "RMS").

The Fund Manager shall have and perform the following powers and duties:

1. in addition to the obligations in Clause 6 of the Management Agreement, to prepare, in the manner and with the level of detail prescribed by the AIFM Rules, the CSSF Circular and the AIFM Law, for submission to the Customer compliance reports at regular intervals in relation to the RMS in accordance with procedures agreed from time to time between the Customer and the Fund Manager;
2. to provide to the Customer in the frequency and the form stipulated in the RMS from time to time by the Customer, such information as is required by the Customer to comply with the risk management process requirements of the applicable law.

In addition, the Fund Manager shall at least:

- i. implement an appropriate, documented and regularly updated due diligence process when investing on behalf of the Fund, according to the investment strategy, the objectives and risk profile of the Fund;
- ii. ensure that the risks associated with each investment position of the Customer and their overall effect on the Customer's portfolio can be properly identified, measured, managed and monitored on an on-going basis, including through the use of appropriate stress testing procedures;
- iii. ensure that the risk profile of the Customer shall correspond to the size, portfolio structure and investment strategies and objectives of the Customer as laid down in the applicable legislation, Constitutive Act and IPS.

The Fund Manager shall set a maximum level of leverage which it may employ on behalf of the Customer as well as the extent of the right to reuse collateral or guarantee that could be granted under the leveraging arrangement (if any), taking into account all elements as required by the applicable legislation including the AIFM Rules, Constitutive Act and IPS.

### - Administration Functions

The Fund Manager shall have and perform the following duties:

1. Managing the relationship with the Central Depository with regard to its shareholders register functions – the only entity that has the right to keep the register of shareholders under Romanian legislation.
2. Keeping all the books, records, agreements, forms, papers, files and other corporate documents required by Romanian law.
3. Determining and issuing the net asset value of the Fund as well as the net asset value per share of the Fund.
4. Monitoring the compliance with the regulations in force.

5. Receiving any and all notices, correspondence, telegrams, telex messages, telephonic advice or other representations and communications received for account of the Fund.
6. Keeping with due diligence and caring any and all such Fund documents and information entrusted to it.
7. Providing and supervising facilities and services for the preparation and dispatch of statements, reports, notices, announcements, proxies, minutes and other documents to the shareholders and the BoN.
8. Co-operating at the drafting of the entire documentation for calling the General Meeting of Shareholders of the Fund.
9. Drafting the annual budget.
10. Drafting the Investment Policy Statement.
11. Proposing the conclusion of the financial audit agreement.
12. Proposing the change of the location of the registered office of the Fund.
13. Providing appropriate conference rooms for meetings of the BoN and the shareholders of the Fund.
14. Providing for any legal filing and publications and file any tax returns.
15. Maintaining contacts with all supervisory, regulatory, tax or other state authorities or Fund-related professional organisations in Romania, complying with any information request from these authorities and advising the Fund thereof (including the current reports).
16. Co-operating at the establishment of the annual reports, accounts, financial reports, financial statements and of any other documents, which have to be sent to Investors or to the relevant authorities in accordance with applicable laws, regulations or the Constitutive Act.
17. Dealing with investor queries and sending correspondence and all other documents to the investors.
18. Public Relations activities.

The Fund Manager, in its capacity as Sole Director, shall undertake in the name of the Customer the necessary administrative work required by the applicable legislation and the Constitutive Act and the IPS. The Fund Manager, in its capacity as Sole Director, shall have and perform the following powers and duties:

- i. to establish the books and records of the Customer in compliance with the legal provisions and the accounting practices in force at the relevant time in Romania and to keep them in Romania where all accounting documents shall be available at any time;
- ii. to determine the net asset value of the Customer as well as the net asset value per share of the Customer in accordance with Romanian legal provisions in force and the relevant provisions of the Constitutive Act;
- iii. to properly fulfil its legal obligations regarding the establishment of the annual accounts, financial reports and of any other documents which have to be sent to shareholders or to the relevant authorities in accordance with applicable laws, regulations or the Constitutive Act;
- iv. to take care, at the expenses of the Customer, of the dispatch of the correspondence, the financial reports and all other documents to the shareholders and to the relevant authorities;
- v. to prepare the financial statements and reports in accordance with the provisions of Romanian regulations and of the countries where the Customer is registered;
- vi. to co-operate, as necessary, with the Customer's auditors, the Romanian authorities and the authorities in the countries where the Customer is registered.

#### - **Marketing**

The Fund Manager is in charge of marketing the shares of the Customer globally. For the avoidance of doubt, the Fund Manager must carry out any notification or other formalities contemplated in Articles 29 and 30 of the AIFM Act or the equivalent provisions in legislation in another relevant Member State, where required in view of the marketing of the Customer's shares in any Member State which has implemented the AIFMD, as defined in the AIFM Act.

## Annex 7

# Investment Policy Statement in force as at 31 December 2018

### Resolution no. 1 / 14 February 2018 of the Shareholders' Extraordinary General Meeting of FONDUL PROPRIETATEA S.A.

Headquarters: 78-80 Buzești St, 7th floor, sector 1, Bucharest, Romania,  
Registered with the Trade Registry under number J40/21901/2005, fiscal registration code 18253260

Today, 14 February 2018, 11:00 o'clock (Romanian time), the shareholders of Fondul Proprietatea S.A. (**"the Fund"**) have met during the Shareholders' Extraordinary General Meeting (**"EGM"**) of the Fund, at its first summoning, at "Radisson Blu" Hotel, 63-81 Calea Victoriei Street, Atlas Room, 1st District, Bucharest, 010065, Romania, the EGM being opened by its Chairman, namely Mr. Johan Meyer, in his capacity of permanent representative of Franklin Templeton International Services S.À R.L., 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 B36.979, registered with the Romanian Financial Supervisory Authority under number PJM07.1AFIASMDLUX0037/10 March 2016, in its capacity of alternative investment fund manager and sole director of Fondul Proprietatea S.A. (**"Sole Director"**).

Whereas:

- The convening notice of the EGM was published on the Fund's website ([www.fondulproprietatea.ro](http://www.fondulproprietatea.ro)) on 15 December 2017, in the Official Gazette of Romania, Part IV, number 4758 of 19 December 2017 and in "Adevărul" newspaper no. 7862 of 19 December 2017;
- The provisions of Companies' Law no. 31/1990, republished, with its subsequent amendments and supplementations (Law no. 31/1990);
- The provisions of Law no. 24/2017 on issuers of financial instruments and market operations (Issuers' Law);
- The provisions of Emergency Government Ordinance no. 32/2012 on undertakings for collective investment in transferable securities and investment management companies, as well as for the amendment and supplementation of Law no. 297/2004;
- The provisions of CNVM Regulation no. 1/2006 on issuers and operations with securities, with its subsequent amendments and supplementations (Regulation no. 1/2006);
- The provisions of CNVM Regulation no. 6/2009 on exercising certain rights of shareholders within general meetings of companies, with its subsequent amendments and supplementations (Regulation no. 6/2009);
- The provisions of Regulation of the Financial Supervisory Authority no. 4/2013 regarding depositary receipts (Regulation no. 4/2013);
- The provisions of Article 21 of CNVM Regulation no. 4/2010 on the registration with CNVM and the operation of the company "Fondul Proprietatea" S.A., as well as on trading the shares issued by this company.

Following debates, the Fund's shareholders decide as follows.

- I. The approval of the new Investment Policy Statement, as described in the supporting materials and in the annex herein. If approved by the shareholders, the new Investment Policy Statement will be in force starting with 1 April 2018. It is however hereby acknowledged that if the new Investment Policy Statement will not be approved by shareholders, this will represent a positive feedback from shareholders on implementing the investment options described under point (1) of EGM agenda, and the Fund Manager will make further proposals for changing the necessary documents and implementing such options for the shareholders' approval in future assemblies.

This item is adopted with 4,270,241,456 votes representing 99.20% of the total votes held by the present or represented shareholders, in accordance with Article 14 (3) letter (a), second paragraph of the Constitutive Act corroborated with Article 115 (2), first paragraph of Law no. 31/1990. The votes were recorded as follows:

- 4,270,241,456 votes „for”;
- 3,115,801 votes „against”;
- 28,411,226 abstains;
- 1,301,085 votes annulled;
- 1,522,102 votes „not given”.

II. In accordance with Article 1292 of Regulation no. 1/2006, the approval of 14 March 2018 as the Ex – Date, computed in accordance with the provisions of Article 2 paragraph (2) letter f1) of Regulation no. 1/2006, and 15 March 2018 as the Registration Date, computed in accordance with the provisions of Article 86 paragraph (1) of Issuers’ Law.

As they are not applicable to this EGM, the shareholders do not decide on the date of the guaranteed participation, as defined by Article 2 letter f1) of Regulation no. 6/2009, and on the Payment Date, as defined by Article 2 letter g) of Regulation no. 6/2009.

This item is adopted with 4,273,426,616 votes representing 99.27% of the total votes held by the present or represented shareholders, in accordance with Article 14 (3) letter (a), second paragraph of the Constitutive Act corroborated with Article 115 (2), first paragraph of Law no. 31/1990. The votes were recorded as follows:

- 4,273,426,616 votes „for”;
- 1,644,696 votes „against”;
- 27,687,350 abstains;
- 1,695,646 votes „not given”.

III. The empowerment, with authority to be substituted, of Johan Meyer to sign the shareholders’ resolutions and the amended and restated form of the Constitutive Act, as well as any other documents in connection therewith, and to carry out all procedures and formalities set out by law for the purpose of implementing the shareholders’ resolutions, including formalities for publication and registration thereof with the Trade Registry or with any other public institution.

This item is adopted with 4,272,538,831 votes representing 99.25% of the total votes held by the present or represented shareholders, in accordance with Article 14 (3) letter (a), second paragraph of the Constitutive Act corroborated with Article 115 (2), first paragraph of Law no. 31/1990. The votes were recorded as follows:

- 4,272,538,831 votes „for”;
- 2,568,387 votes „against”;
- 27,687,350 abstains;
- 1,659,740 votes „not given”.

This decision is drafted and signed on behalf of the shareholders by:

\_\_\_\_\_  
Johan Meyer  
Chairman

\_\_\_\_\_  
Vlad Neacșu  
Meeting secretary

\_\_\_\_\_  
Valeriu Ioniță  
Technical secretary

*Annex – The New Investment Policy Statement as described in the supporting materials and during the Shareholders’ Extraordinary General Meeting of the Fund of 14 February 2018*

## INVESTMENT POLICY STATEMENT OF FONDUL PROPRIETATEA SA

### I. PURPOSE OF THE INVESTMENT POLICY STATEMENT

This investment policy statement (hereinafter referred to as the “Investment Policy Statement” or “IPS”) sets the prudential rules concerning the investment policy of Fondul Proprietatea S.A. (hereinafter referred to as “Fondul Proprietatea” or “FP”) and presents the investment goals, objectives and the decision-making process for selecting investments in accordance with the investment objectives.

The IPS provides criteria against which investment results will be measured and serves as a review document to monitor, evaluate and compare the performance of the Fund Manager on a regular basis.

The IPS shall be reviewed when needed by the Fund Manager together with the Board of Nominees, in accordance with the provisions of FP’s Constitutive Act and the applicable legal provisions.

The IPS is set forth within the legal framework established by Title VII of Law 247/2005 and any related and ancillary legislation in force, and, in accordance with FP’s Constitutive Act, the Extraordinary General Shareholders’ Meeting is responsible for approval of the IPS.

### II. ROLES, RESPONSIBILITIES AND PROCEDURES

**A. Fund Manager.** The Fund Manager is appointed by the General Shareholders Meeting and performs its activity based on a Management Agreement entered into between Fondul Proprietatea and the Fund Manager (hereinafter referred to as the “IMA”).

The Fund Manager has the power to make all decisions concerning the investments to be made by Fondul Proprietatea, in accordance with the restrictions provided in this IPS, the Constitutive Act of Fondul Proprietatea, the IMA and applicable laws and regulations.

**B. Board of Nominees.** The Board of Nominees monitors the activity of the Fund Manager and represents the shareholders in relation to the Fund Manager. The exact roles and responsibilities of the Board of Nominees are detailed in the Constitutive Act of Fondul Proprietatea.

**C. General Shareholders Meeting.** The General Shareholders Meeting is the supreme corporate body of Fondul Proprietatea. Certain transactions performed by Fondul Proprietatea require the prior approval of the General Shareholders Meeting, in accordance with the Constitutive Act and the applicable legislation.

### III. INVESTMENT OBJECTIVES AND PERFORMANCE OBJECTIVES

#### A. 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.

#### B. Performance Objectives

##### a. Discount Objective

The discount between the closing price for each Trading Day on the Bucharest Stock Exchange (the “**Trading Day**”) of the shares issued by FP 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 (as defined in the IMA) (the “**Discount Objective**”).

## b. NAV Objective

The Fund Manager should achieve a level of Adjusted NAV per Share (as defined below) higher than the reported NAV as at the end of the previous Reporting Period (term used herein as defined in the IMA) (the “NAV Objective”). For the avoidance of doubt, the term “previous Reporting Period”, when applied to a first Reporting Period under the IMA, is to be understood as being the last Reporting Period derived from either the current or the previous IMA.

The adjusted NAV (the “Adjusted NAV”) for a given date will be calculated as the sum of:

- (i) the reported NAV as at the end of the Reporting Period;
- (ii) any distributions to shareholders, being either dividend or non-dividend ones (i.e. in this last case following reductions of the par value of the shares and distribution of the decreasing amount to the shareholders), implemented after the end of the previous Reporting Period, and
- (iii) any Distribution Fee (as defined in the IMA) and any transaction and/or distribution costs relating to either dividend or non-dividend distributions including buy-backs of shares and/or Global Depositary Receipts (“GDRs”) and/or depositary interests executed, through daily acquisitions or public tenders, after the end of the previous Reporting Period.

The Adjusted NAV per Share will be 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 (the “Adjusted NAV per Share”).

## C. General principles for achieving the objectives

The Board of Nominees and the General Shareholders Meeting will review the performance of the Fund Manager, on an annual basis, for the period of time established as the Reporting Period (as defined and further detailed in the IMA).

A Discount Control Mechanism (“DCM”) will be applied by the Fund Manager, as set out below, in order to seek to meet the Discount Objective. In the absence of investment opportunities offering better returns for shareholders, or if the discount to NAV per share is wider than 15% for more than 50% of the Trading Days in any 3 month financial quarter, the Fund Manager will use all or a significant part of the proceeds from annual dividends, additional special cash distributions performed by portfolio companies and the cash inflows from the disposal of portfolio companies to implement measures aimed at maximizing cash returns to shareholders and fulfilling the Performance Objectives. Discount management techniques to meet the Performance Objectives and apply the DCM may include (but are not limited to) the following:

- recommendation of buy-back programs of FP’s shares and GDRs and/or depositary interests corresponding to shares of the Fund to shareholders for approval, subject to compliance with the Constitutive Act and all applicable legislation.
- dividend distributions, subject to profit positions at year end and necessary cash availability.
- reduction of the nominal value of shares, accompanied by cash distribution to shareholders, subject to the compliance with all applicable corporate and regulatory approvals.
- execution of buy-back programs via (i) trading on the regular market on which FP’s shares or GDRs and/or depositary interests corresponding to shares of the Fund are listed and/or (ii) public tender offers, in each case subject to available liquidity, compliance with the Constitutive Act and all applicable legislation, and receipt of all necessary regulatory approvals.
- increasing investor demand for the shares and GDRs, with the aim of increasing the market price, by:
  - maintaining a transparent cash distribution policy: on an annual basis the Fund Manager will propose to shareholders the distribution of at least 100% of the dividends or other cash distributions received from the Fund’s portfolio companies plus the interest on cash less operating expenses and taxes and less compulsory allocations to reserves subject of the regulations in force;
  - increasing the share of listed companies in the portfolio and their transparency;
  - building good communication through active investor relations work; and
  - supporting initiatives to make the Romanian capital market more attractive for investors.

In order to achieve the objectives in the IPS, the Fund Manager should pay attention to:

- clarity of the Fund Manager's investment strategy and how it contributes to achieving the main investment objectives;
- active engagement with the portfolio companies in order to increase their value, and
- constructive communication and interaction with the Board of Nominees.

#### **D. Risk management**

The Fund Manager is responsible for proper balancing of risk and expected returns.

The Fund Manager should implement appropriate tools and processes in order to monitor operational and investment risks and to respond to developments in a timely fashion.

#### **IV. INVESTMENT LIMITS AND RESTRICTIONS**

The investment policy will observe the prudential limits of investments provided for by the applicable laws and regulations in force and the Constitutive Act of FP.

Under normal market conditions, the Fund should have at least 80% of its net assets invested in Romanian equity and equity-linked securities.

Investments limits, include but are not limited to the following:

- up to 10% of its assets invested in listed shares or money market instruments issued by one single issuer, except of the government securities
- up to 20% of its assets invested in unlisted securities or money market instruments except of the government securities and bonds and other cases permitted by law\*
- up to 10% of assets invested in bank deposits with one single bank
- up to 10% of assets invested in financial instruments issued by entities belonging to the same group of companies
- up to 10% of assets invested in UCITS units or other collective investment scheme units
- exposure to the counterparty risk in a transaction with derivatives traded out of the regulated markets may not exceed 10% of assets, irrespective of the counterparty of the transaction, while the global exposure of derivatives may not exceed 15% of the total allocation of net assets
- not less than 20% of assets investments in listed securities, UCITS units or other collective investment scheme units (meeting certain conditions) and newly issued securities

*\* Shares received from Romanian State on the basis of Law No. 247/2005 are exempted from the general rules on allocation. Where the Fund acquires further securities in the same issuer as securities received from Romanian State, the general rules on allocation shall apply to the newly acquired securities only. For the calculation of the ownership limit for securities not admitted to trade, shall be excluded from the value of assets not admitted to trade the value of securities not admitted to trade owed from the Romanian State on the basis of Law No. 247/2005. Therefore, any part of the current Fondul Proprietatea Portfolio (as it has been set up, on securities not admitted to trade owed from the Romanian State on the basis of Law No. 247/2005 and including the modifications made by GEO No. 81/2007) shall be exempted from the general rules on allocation. However, any new acquisition made by the Fund shall observe the general rules on allocation. Until decrease of its participation in the relevant listed issuers, the Fund is prohibited to acquire further securities in the same issuer as securities received from Romanian State, except for the exercise of the subscription rights related to the Fund's preference rights where the excess of the relevant investment limit should not last for more than 120 calendar days.*

All investment restrictions are available on Fondul Proprietatea website, Investment Policy Statement Section.

#### **V. ADDITIONAL GUIDELINES**

Subject to applicable legal provisions in force and the FP Constitutive Act, all decisions regarding sector and security selection, portfolio construction, timing of buy or sell transactions and choice of venue and structure of transaction are delegated to the Fund Manager.

Subject to the applicable legal provisions and FP's Constitutive Act, the Fund Manager on behalf of the Fund, may buy, sell, exchange, exercise all rights, has a good and valid title to sell and transfer any rights and to enter into conditional contractual liabilities. This includes, without limitation, the power to enter into derivatives and to negotiate and execute loan agreements, repurchase agreements and/ or securities lending agreements, to purchase GDRs or depositary interests corresponding to shares of the Fund in accordance with the legal applicable provisions in force and FP's Constitutive Act, also taking into account the cases when a prior approval of the Extraordinary General Shareholders Meeting is needed.

Transactions which involve a broker acting as a "principal", where the broker is also the investment manager (or an affiliate of such investment manager) who makes the transaction (or an affiliate of such investment manager) are not permitted.

Transactions should be executed at the lowest possible cost (including commissions, efficiency of execution and the impact of the market) and best execution should be provided at all times.

### **Cash allocation**

Cash allocation is made by the Fund Manager, based on market conditions. It should be aimed at reducing risks to the Portfolio.

### **Valuation**

Valuation of assets shall be made in accordance with the legislation and regulations in force and in accordance with the internal regulations of Fondul Proprietatea.

## **VI. LIMITATIONS OF MANAGEMENT**

The Fund Manager assumes the management over the Customer and its entire Portfolio, subject to the terms of the IPS and the IMA.

The Fund Manager is subject to the limitations set out by this IPS, the Constitutive Act of Fondul Proprietatea and the existing applicable legal provisions in force.

The Fund Manager can delegate the management of the portfolio and the administrative activities according to legislation and regulations in force and the limitations included IMA and the Constitutive Act.

## **VII. LIQUIDITY**

The Fund Manager shall maintain adequate liquidity in order to at least meet the following requirements:

- cover the operating and tax expenses of FP;
- cover the capital expenditure requirements for the on-going activities of FP;
- ensure appropriate funds for dividend or return of capital payments and share and/or GDR buy-backs (where such actions have been approved by shareholders).

## **VIII. TIME HORIZON**

The duration of Fondul Proprietatea is not limited in time.

## **IX. TAX CONSIDERATIONS**

The FP is established as a commercial undertaking and is subject to corporate tax in accordance with the Romanian Fiscal Code. In managing the investment portfolio and seeking to achieve the objectives, the Fund Manager shall have due regard to the potential impact of tax legislation and regulations.

## **X. CONSTRAINTS**

The FP shall not invest in any other type of asset class, except those specifically mentioned in the applicable legislation and the Constitutive Act. The use of derivatives is permitted subject to the limitations contained in applicable legislation in force. Short selling of securities is prohibited.

Borrowing is allowed only in accordance with the applicable legislation and regulations and FP's Constitutive Act.

## **XI. POLICY REVIEW**

The IPS shall be reviewed on regular basis by the Fund manager and Board of Nominees in order to ensure that it remains consistent with overall objectives of FP.

Any changes to the investment policy proposed by the Fund Manager and/or the Board of Nominees shall be approved by the General Shareholders Meeting, with observance of investment limits provided in the applicable legislation in force.



**FONDUL**  
PROPRIETATEA

**Fondul Proprietatea SA**  
Premium Point (7th Floor)  
78-80 Buzesti Street, 1st District  
Bucharest 011017  
Romania