

**Sole Director's Proposal for the Coverage of the Negative Reserve incurred during
the financial year ended 31 December 2018**

Overview and accounting treatment

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

Upon completion of all the legal and regulatory requirements (i.e. registration of the share capital decrease with the Trade Registry being the last one, marking also the moment when the cancellation becomes effective), the treasury shares are cancelled and netted off against the share capital and other reserves.

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

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

Negative reserve incurred during 2018

The table below shows the changes in the negative reserves recorded during the year ended 31 December 2018:

	<i>Amounts in RON</i>
1 January 2018 (audited)	256,073,589
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 th 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 th buy-back programme (recorded on 29 June 2018) according to shareholders' share capital decrease resolution no. 4/26 September 2017 ¹	24,396,485
Negative equity reserve arising on the cancelation of the remaining balance of shares acquired during 8 th buyback programme (recorded on 28 December 2018) according to shareholders' share capital decrease resolution no. 2/ 4 September 2018 ¹	25,445,288
31 December 2018 (audited)	80,910,369

¹Total negative equity reserve arising on the cancelation of the shares acquired during 8th buyback programme amounts to RON 49,841,773 (out of which RON 24,396,485 was recorded on 29 June 2018 and RON 25,445,288 was recorded on 28 December 2018) - the detailed calculation is presented in the table below.

The table below shows additional details on the calculation of the negative reserves booked during 2018:

		Buy-back programme 7	Buy-back programme 8	Total
Number of shares cancelled during 2018	(1)	90,849,151	141,869,861	232,719,012
Total acquisition cost at trade price (excluding transaction costs) (RON)	(2)	81,480,768	122,347,450	203,828,218
Total costs directly related to transactions (RON), out of which:	(3)	1,371,845	1,764,942	3,136,787
• <i>Brokerage fees</i>		16,296	24,469	40,765
• <i>Financial Supervisory Authority fees</i>		39,404	51,452	90,856
• <i>Stock Exchanges' fees (Bucharest Stock Exchange and London Stock Exchange)</i>		26,981	35,948	62,929
• <i>Central Depository fees</i>		5,582	7,289	12,871
• <i>Distribution fees paid to the Sole Director in relation with the buy-backs performed</i>		1,282,387	1,641,312	2,923,699
• <i>Other professional fees</i>		1,195	4,472	5,667
Total buy-back cost impacting the equity of the Fund (trade price plus directly related transaction cost) (RON)	(4)=(2)+(3)	82,852,613	124,112,392	206,965,005
Less the impact of the Fund's share Nominal Value decrease (RON) ¹	(5)	(4,542,458)	(498,291)	(5,040,749)
Accounting value of the treasury shares cancelled (RON)	(6)=(4)+(5)	78,310,155	123,614,101	201,924,256
Correspondent Nominal Value at the cancellation date (NV = RON 0.52 per share) (RON)	(7)=(1)*NV	47,241,559	73,772,328	121,013,887
Negative equity reserve arising on the cancellation of shares (RON)	(8)=(7)-(6)	(31,068,596)	(49,841,773)	(80,910,369)

¹For shares subject to cancellation during 2018 and in balance on 16 June 2017 (the date when the Fund's share nominal value decreased by RON 0.05 per share): 90,849,151 shares from 7th buy-back programme and 9,965,829 shares from 8th buy-back programme.

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

Sole's Director Proposal for covering the negative reserve

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

The retained earnings caption as per the Fund's audited statement of financial position as at 31 December 2018 amounts to RON 6,212,247,115 and includes:

• 2016 unallocated profit that remained available to the Fund	350,309,767
• 2017 unallocated profit that remained available to the Fund	725,424,893
• Retained earnings resulted from transition to IFRS 9 starting with 1 January 2018	4,248,175,069
• Profit for the year ended 31 December 2018 less the mandatory transfer to legal reserves	888,337,386
	<u>6,212,247,115</u>

Considering the above, the Fund's Sole Director proposes to shareholders during the 4 April 2019 annual shareholders' meeting that the negative reserves in amount of RON 80,910,369 (as stated in the notes to the annual audited statutory IFRS financial statements and detailed in the table above) resulted from the cancellation of the remaining balance of shares acquired during the 7th buy-back programme and from cancellation of shares acquired during the 8th buy-back programme to be covered from 2016 unallocated profit remained under unallocated retained earnings.