

**BOARD OF NOMINEES ANNUAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

**I. THE ROLE OF THE BOARD OF NOMINEES**

***INTRODUCTION:***

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

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

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

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

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

- (1) Following the information received from the Alternative Investment Fund Manager 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 the shareholders the prior approval or rejection of the execution of contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of Fondul Proprietatea, whose value exceeds, individually or cumulatively during a financial year, 20% of the total value of the non-current assets, less receivables;

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

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

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

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

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

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

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

## ***SHORT PRESENTATION OF THE BOARD OF NOMINEES' ACTIVITY FOR 2019:***

### **Composition of the Board of Nominees**

The structure of the Board of Nominees as at 31 December 2019 was the following:

<b>Name</b>	<b>Position</b>	<b>Mandate until</b>
Mr. Piotr Rymaszewski	Chairman	5 April 2021
Mr. Mark Henry Gitenstein	Member	29 September 2022
Mr. Steven Cornelis van Groningen	Member	14 April 2021
Mrs. Vivian Nicoli	Member	29 September 2022
Mr. Julian Rupert Francis Healy	Member	5 April 2021

Considering the fact that the previous mandates for Mr. Mîndruțescu and Mr. Gitenstein ended in August and September 2019, during 4 September 2019 General Shareholders' Meeting ("GSM") shareholders decided to appoint two members in the Board of Nominees of Fondul Proprietatea, as follows:

- Mr. Mark Henry Gitenstein starting with 29 September 2019 and
- Mrs. Vivian Nicoli starting with 29 September 2019

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

During this period, the Alternative Investment Fund Manager and Sole Director of Fondul Proprietatea was Franklin Templeton International Services S.à r.l. (the "*Fund Manager*"). The Fund Manager was assisted on the matters of portfolio management and administration services by Franklin Templeton Investment Management Ltd. UK, Bucharest Branch.

### **Meetings & Relevant Decisions**

In accordance with the provisions of Article 16 of the Constitutive Act of the Fund adopted by the Extraordinary General Shareholders Meeting Decision no. 5 of 29 November 2010 and the provisions of Chapter III of the Regulation for organization and functioning of the Board of Nominees approved by the Board of Nominees' Decision no. 2 of 14 October 2010, as subsequently amended, there were fifteen (15) meetings of the Board of Nominees in 2019, as follows:

- **14 February 2019 – meeting** (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Steven van Groningen, Mr. Julian Healy, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **1 March 2019 – meeting** (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **3 April 2019 – meeting** (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Steven van Groningen, Mr. Julian Healy, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)

- **16 April 2019 – conference call** (Members of the Board joining the conference call: Mr. Julian Healy – Chairman of the meeting, Mr. Steven van Groningen and Mr. Mark Gitenstein)
- **14 May 2019 – meeting** (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **27 June 2019 – meeting** (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **7 August 2019 – ad-hoc conference call** (Members of the Board joining the conference call: Mr. Julian Healy – Chairman of the conference call, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **8 August 2019 – ad-hoc conference call** (Members of the Board joining the conference call: Mr. Julian Healy – Chairman of the conference call, Mr. Sorin Mîndruțescu, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **13 August 2019 – conference call** (Members of the Board joining the conference call: Mr. Piotr Rymaszewski – Chairman of the conference call, Mr. Julian Healy, Mr. Piotr Rymaszewski, Mr. Steven van Groningen and Mr. Mark Gitenstein)
- **3 September 2019 – meeting** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairman of the meeting, Mr. Julian Healy, Mr. Steven van Groningen, and Mr. Mark Gitenstein)
- **4 September 2019 – meeting** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairman of the meeting, Mr. Julian Healy, Mr. Steven van Groningen, and Mr. Mark Gitenstein)
- **10 September 2019 – ad-hoc conference call** (Members of the Board joining the conference call: Mr. Piotr Rymaszewski – Chairman of the meeting, Mr. Julian Healy, Mr. Steven van Groningen, and Mr. Mark Gitenstein)
- **16 September 2019 – conference call** (Members of the Board joining the conference call: Mr. Piotr Rymaszewski – Chairman of the meeting, Mr. Julian Healy, Mr. Steven van Groningen, and Mr. Mark Gitenstein)
- **14 November 2019 – meeting** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mrs. Vivian Nicoli and Mr. Mark Gitenstein)
- **18 December 2019 – meeting** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mrs. Vivian Nicoli and Mr. Mark Gitenstein)

During 2019, the Board of Nominees issued a total number of sixty-one (61) resolutions. Among such, the most important ones referred to:

- ✓ The approval of the steps needed for the implementation of Brexit plan, in case of a non-deal Brexit
- ✓ The approval of the updated EU Data Privacy Policy;
- ✓ The approval of the Sole Director’s proposals for amending the Constitutive Act of Fondul Proprietatea;
- ✓ The approval of the Sole Director’s proposal with respect the decrease of the subscribed registered share capital of Fondul Proprietatea;
- ✓ The approval of the Review Report of the Board of Nominees for the period 1 January 2018 – 31 December 2018 prepared in relation to the Performance Report presented by the Fund Manager for the financial year ended 31 December 2018;

- ✓ The approval of the 2018 Annual Report of the Board of Nominees;
  - ✓ The prior approval of the Sole Director's 2018 Annual Activity Report;
  - ✓ The approval of the proposal of the Sole Director of Fondul Proprietatea with respect to the negative reserves coverage incurred in 2018 financial year derived from the cancelation of the Fund's treasury shares;
  - ✓ The approval of the proposal of the Sole Director of Fondul Proprietatea with respect to the net profit allocation registered for the financial year ended 31 December 2018, and the prior approval of the value of the gross dividend;
  - ✓ The recommendation for shareholders to approve the continuation of its mandate as Alternative Investment Fund Manager and Sole Director;
  - ✓ The appointment of new members of the Consultative Committees;
  - ✓ The approval recommendation for shareholders for the renewal of the mandate of Fund Manager for another two (2) years term starting with 1 April 2020;
  - ✓ The recommendation for shareholders' approval for the appointing of the financial auditor for 2020 financial year;
  - ✓ The recommendation for shareholders' approval of amending the Investment Policy Statement of the Fund;
  - ✓ The approval of amending several procedures, guidelines and policies;
  - ✓ The approval of the costs related to signing different arrangements for rendering various services to the Fund;
  - ✓ The approvals regarding General Shareholders Meetings held during 2019;
  - ✓ The prior approval of the buyback programmes of the own shares issued by the Fund;
  - ✓ The prior approval of Fondul Proprietatea's 2020 budget;
- The approval of certain expense categories reclassifications/ reallocations in the Fund's 2019 Budget.

## ***SHORT PRESENTATION OF THE CONSULTATIVE COMMITTEES OF FONDUL PROPRIETATEA***

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

- The Audit and Valuation Committee of Fondul Proprietatea ("AVC")
- The Nomination and Remuneration Committee of Fondul Proprietatea ("NRC")

### ***➤ Overview of the activity performed by the Audit and Valuation Committee of Fondul Proprietatea during 2019***

#### ***Introduction:***

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

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

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

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

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

### Composition of the Audit and Valuation Committee

As at 31 December 2019, the structure of the Audit and Valuation Committee was the following:

<u>Name</u>	<u>Position</u>	<u>Mandate until</u>
Mr Julian Rupert Francis Healy	Chairman	5 April 2021
Mr. Mark Henry Gitenstein	Member	29 September 2022
Mr. Steven Cornelis van Groningen	Member	14 April 2021
Mrs. Vivian Nicoli	Member	29 September 2022
Mr. Piotr Rymaszewski	Member	5 April 2021

During 2019, there were six (6) meetings of the Audit and Valuation Committee, as follows:

- **13 February 2019 – meeting** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman, Mr. Steven van Groningen and Mr. Piotr Rymaszewski)
- **11 March 2019 – conference call** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman, Mr. Steven van Groningen and Mr. Piotr Rymaszewski)
- **3 April 2019 – meeting** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman, Mr. Piotr Rymaszewski and Mr. Sorin Mîndruțescu)
- **27 June 2019 – meeting** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman and Mr. Piotr Rymaszewski)
- **3 September 2019 – meeting** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman, Mr. Steven van Groningen and Mr. Piotr Rymaszewski)
- **18 December 2019 – meeting** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairman, Mr. Steven van Groningen, Mrs. Vivian Nicoli and Mr. Piotr Rymaszewski)

### ➤ *Overview of the activity performed by the Nomination and Remuneration Committee of Fondul Proprietatea during 2019*

#### *Introduction*

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

The responsibilities of the Nomination and Remuneration Committee are:

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

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

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

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

The Nomination and Remuneration Committee consists of 5 non-executive members. The majority of the members of the Nomination and Remuneration Committee should be independent.

### *Composition of the Nomination and Remuneration Committee*

As of 31 December 2019, the structure of the Nomination and Remuneration Committee was the following:

<b>Name</b>	<b>Position</b>	<b>Mandate until</b>
Mr. Steven Cornelis van Groningen	Chairman	14 April 2021
Mr. Mark Henry GITENSTEIN	Member	29 September 2022
Mr. Julian Rupert Francis Healy	Member	5 April 2021
Mrs. Vivian Nicoli	Member	29 September 2022
Mr. Piotr Rymaszewski	Member	5 April 2021

During 2019, there were seven (7) meetings of the Nomination and Remuneration Committee, as follows:

- **13 February 2019 – meeting** (Members of the NRC joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **1 March 2019 – meeting** (Members of the NRC joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **3 April 2019 – meeting** (Members of the NRC joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **14 May 2019 – conference call** (Members of the NRC joining the conference call: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)



- **27 June 2019 – meeting** (Members of the NRC joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- **18 July 2019 – conference call** (Members of the NRC joining the conference call: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Piotr Rymaszewski, Mr. Steven van Groningen and Mr. Mark Gitenstein)
- **14 November 2019 – meeting** (Members of the NRC joining the meeting: Mr. Julian Healy, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)

## II. THE OPINION OF THE BOARD OF NOMINEES REGARDING ANNUAL REPORT FOR THE YEAR END 31 DECEMBER 2019:

### *ANNUAL ACTIVITY REPORT PRESENTED BY THE SOLE DIRECTOR*

This section provides an overview on the main elements of the Fund’s financial position and performance for the financial year ended 31 December 2019.

#### Statement of Financial Position

RON million	31 December 2019 Audited	31 December 2018 Audited
Cash and current accounts	31.9	19.6
Deposits with banks	338.4	187.1
Treasury bills	-	49.6
Government bonds	137.3	131.6
Dividend receivables	-	137.0
Equity investments	11,413.1	9,337.4
Other assets	0.3	1.5
<b>Total assets</b>	<b>11,921.0</b>	<b>9,863.8</b>
Payables	16.7	14.8
Other liabilities	32.8	20.6
<b>Total liabilities</b>	<b>49.5</b>	<b>35.4</b>
<b>Total equity</b>	<b>11,871.5</b>	<b>9,828.4</b>
<b>Total liabilities and equity</b>	<b>11,921.0</b>	<b>9,863.8</b>

The cash and cash equivalents of the Fund in 2019 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 increase in **equity investments** of RON 2,075.7 million during 2019 is mainly due to the increase in fair value of Hidroelectrica SA (RON 1.0 billion) and OMV Petrom SA (RON 838.2 million), partially netted off by the disposal of BRD – Groupe Societe Generale SA shares (RON 200.9 million).

## Statement of Comprehensive Income

RON million	2019 Audited	2018 Audited
Net unrealised gain from equity investments at fair value through profit or loss	2,260.3	225.3
Gross dividend income	942.9	776.2
Net realised gain from equity investments at fair value through profit or loss	9.9	4.5
Interest income	9.9	9.8
(Impairment losses)/ Reversal of impairment losses on receivables, net	(10.3)	0.2
Other income, net*	3.4	2.9
<b>Net operating income</b>	<b>3,216.1</b>	<b>1,018.9</b>
Administration fees recognised in profit or loss	(50.3)	(46.8)
Other operating expenses	(25.6)	(26.5)
<b>Operating expenses</b>	<b>(75.9)</b>	<b>(73.3)</b>
Finance costs	(0.4)	(0.3)
<b>Profit before income tax</b>	<b>3,139.8</b>	<b>945.3</b>
Income tax expense	(9.9)	(10.2)
<b>Profit for the year</b>	<b>3,129.9</b>	<b>935.1</b>
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>3,129.9</b>	<b>935.1</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).

The **net unrealised gain from equity investments at fair value through profit or loss** for 2019 of RON 2,260.3 million was mainly generated by Hidroelectrica SA (RON 1.0 billion, increase in fair value of 25.8% as a result of the company's strong performance) and OMV Petrom SA (RON 838.2 million, increase in share price of 49.5%).

**Gross dividend income** for 2019 included the dividend income earned from the Fund's portfolio companies, mainly Hidroelectrica SA (RON 558.2 million), OMV Petrom SA (RON 152.9 million), CN Aeroporturi Bucuresti SA (RON 93.0 million), Societatea Nationala a Sarii SA (RON 37.4 million), Alro SA (RON 33.3 million), Nuclearelectrica SA (RON 26.7 million), BRD Groupe Societe Generale SA (RON 18.3 million) and Engie Romania SA (RON 16.4 million). From the total gross dividend income for the year ended 31 December 2019 a total amount of RON 259.3 million represented special cash distributions.

The **net realised gain from disposal of equity investments at fair value through profit or loss** for 2019 was generated by the disposal of the holding in BRD Groupe Societe Generale SA.

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

The net **impairment losses** of RON 10.3 million are mainly related to the impairment adjustment recorded for the outstanding dividend receivables from CN Aeroporturi Bucuresti SA of RON 10.7 million.

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

RON million	2019	2018
	Audited	Audited
<b>Recognised in profit or loss</b>	<b>50.3</b>	<b>46.8</b>
Base fee	43.9	41.8
Distribution fee for dividends	6.4	5.0
<b>Recognised in other comprehensive income</b>	<b>4.4</b>	<b>13.7</b>
Distribution fee for buy-back programmes	4.4	13.7
<b>Total administration fees</b>	<b>54.7</b>	<b>60.5</b>

**The Board of Nominees has reviewed the financial information and related statements set out above and is satisfied that they correctly reflect in all material aspects the activity of the Fund during 2019.**

### **FINANCIAL REPORT OF AUDITORS**

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

The audit opinion contains an unqualified audit opinion on the Fund’s annual financial statements for the year ended 31 December 2019.

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

### **Profit appropriation proposal**

According to the annual financial statements prepared in accordance with the IFRS the Fund recorded a net profit for the financial year ended 31 December 2019 of RON 3,129,870,912. 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 2019 financial year in amount of RON 3,129,870,912 is as follows:

- RON 156,493,546 to legal reserves;
- RON 439,856,227 to dividends;
- RON 236,026,121 to other reserves (to be used to cover the negative reserves that will arise from cancellation of shares acquired during the 10<sup>th</sup> buy-back programme);
- RON 2,297,495,018 unallocated profit that remains available to the Fund’s shareholders.

### **Coverage of the Negative Reserves**

The Fund recognises the treasury shares (repurchases of own shares and Global Depository Receipts (“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 share acquisition date).

The total negative reserves recorded by the Fund as at 31 December 2018 of RON 80,910,369 were related to the partial cancellation of the shares acquired within the seventh buy-back programme and the cancellation of all the shares acquired within the eighth buy-back programme. During the 4 April 2019 Annual GSM, the shareholders approved the coverage of the negative reserves in amount of RON 80,910,369, as recorded in the annual audited IFRS financial statements of the Fund, from 2016 profit remained under unallocated retained earnings.

The table below shows the movement of the negative reserves during 2019:

	<i>All amounts in RON</i>
<b>Opening balance of the negative reserve as at 1 January 2019 (audited)</b>	<b>80,910,369</b>
Coverage of negative reserves according with OGM Resolution no. 2/ 4 April 2019	(80,910,369)
Negative equity reserve arising on the cancelation of the shares acquired within the 9th buyback programme according to EGM resolution no. 2/ 4 April 2019 (on 15 October 2019)	640,744,712
<b>Closing balance of the negative equity reserve at 31 December 2019 (audited)</b>	<b>640,744,712</b>

The table below shows additional details on the negative reserve booked during 2019:

<b>Negative reserve recorded during 2019</b>		<b>Buy-back programme 9</b>
Number of shares cancelled during 1 January – 31 December 2019	(1)	1,487,992,569
Total costs (including transaction costs and other costs), representing the accounting value of the shares cancelled (RON)	(2)	1,414,500,848
Correspondent Nominal Value at the cancelation date (NV = RON 0.52 per share) (RON)	(3)=(1)*NV	773,756,136
<b>Negative equity reserve on the cancelation (RON)</b>	<b>(4)=(3)-(2)</b>	<b>(640,744,712)</b>

During the 4 April 2019 GSM the shareholders also approved the allocation to other reserves of RON 640,744,712 to be available for covering the negative reserves that would be recorded when the cancellation of the shares acquired during the ninth buy-back programme is effective, as follows:

- RON 233,482,390 representing the non-distributable amount from the 2018 audited profit
- RON 407,262,322 from the 2017 profit remained under unallocated retained earnings

The actual coverage of this negative reserve using the amount of RON 640,744,712 transferred to other reserves will be subject to shareholders' approval during the 2020 Annual GSM.

The table below shows additional details on the estimated negative reserve that will arise upon the cancelation of the treasury shares in balance as at 31 December 2019:

<b>Negative reserve that will arise on cancellation of the treasury shares in balance as at 31 December 2019</b>		<b>Buy-back programme 10</b>
Number of shares to be cancelled	(1)	403,812,443
Total costs as at 31 December 2019 (including transaction costs and other costs), representing the accounting value of the shares to be cancelled in the future (RON)	(2)	446,008,591
Correspondent nominal value (NV = RON 0.52 per share) as at 31 December 2019 (RON)	(3)=(1)*NV	209,982,470
<b>Estimated negative reserve to be booked on cancellation (RON)</b>	<b>(4)=(3)-(2)</b>	<b>(236,026,121)</b>

During the 28 April 2020 Annual GSM, the Fund's Sole Director would propose the cancellation of the 403,812,443 treasury shares repurchased within the tenth buy-back programme and would also recommend shareholders to allocate RON 236,026,121 from 2019 audited profit to other reserves to be available for covering the related negative reserves. The actual coverage of this negative reserve using the amount of RON 236,026,121 transferred to other reserves will be subject to shareholders' approval during the annual shareholders' meeting subsequent to the completion of all cancellation steps.

Article 75 from Norm no. 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 2019, the Fund's equity elements that could be used to cover the negative reserve are sufficient and include retained earnings, reserves and share capital.

### **2019 BUDGET COMPARED TO ACTUAL RESULTS**

The Board of Nominees asked the Fund Manager to analyse the significant variances in the main categories of income and expenses of Fondul Proprietatea by comparing the budget for the year ended 31 December 2019 (approved by shareholders on 14 November 2018) to the audited actual results for the same period.

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

Together with the approval of 2019 Budget in November 2018, the shareholders granted the Fund Manager the power to:

- exceed the expenses budgeted for investment management and administration fees;
- exceed the expenses budgeted for commissions and fees (FSA fees and Depositary bank fees), to the extent arising from the Fund's actual average NAV, the value of assets under custody and/ or volume of portfolio and buy-back trades in 2019 being higher than the ones assumed in the 2019 Budget;
- incur on behalf of the Fund all expenses necessary (e.g. intermediary fees of brokers or investment banks, market authorities' fees, lawyers, public notaries, other advisors costs, as well as other related expenses, commissions or fees) related to the execution of acquisitions and disposals of equity investments or participation in share capital increases of portfolio companies;

- incur on behalf of the Fund all expenses related to the buy-back of the Fund's shares or the equivalent global depository receipts corresponding to shares of the Fund and their subsequent cancellation (after the approval by shareholders), under any buy-back programme approved by shareholders;
- incur on behalf of the Fund any expenses related to bank loans/ credit facilities contracted by the Fund, with Board of Nominees approval;
- incur on behalf of the Fund any expenses related to the potential change of the Fund Manager and Sole Administrator of the Fund (expense incurred by the Board of Nominees);
- incur on behalf of the Fund any expenses resulting from the implementation of any regulation applicable to the Fund.

even if this will result in exceeding the total expenses approved in the 2019 Budget.

A detailed breakdown of the figures has been included in **Annex 1**. According to the main assumptions of the 2019 Budget, there are certain categories of income and expenses which cannot be budgeted, such as: foreign exchange gains and losses, revenues and expenses from impairment adjustments, fair value changes, gains or losses and other expenses related to disposal of financial instruments, and other items of income/ expenses. Consequently, this actual vs. budget analysis presents an overview of the non-budgeted items and a detailed explanation for the budgeted items.

#### **A. Total net actual results**

The table below presents an overview of the budgeted/ non-budgeted profit for 2019:

<b>RON million</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Budgeted items	473.1	872.0	398.9
Non-budgeted items	-	2,257.9	2,257.9
<b>Total profit for the period</b>	<b>473.1</b>	<b>3,129.9</b>	<b>2,656.8</b>

The *actual net profit* of the Fund for the year ended 31 December 2019 was RON 3,129.9 million, while the actual net profit corresponding to the budgeted items amounts to RON 872.0 million. The main difference is due to the non-budgeted items and relates to the *net gain from equity instruments at fair value through profit or loss* amounting to RON 2,270.2 million (mainly generated by Hidroelectrica SA, as a result of the valuation update of the Fund's holding in this company, and by OMV Petrom SA, as a result of the positive share price evolution of this company).

#### **B. Variances for the net budgeted profit**

##### **Net result overview**

The *actual net profit* was RON 872.0 million, compared to a budgeted profit of RON 473.1 million. The main contributor to the actual result recorded for 2019 was the *net dividend income* (annual dividends and special dividends) amounting to RON 933.0 million (70% higher compared to the budgeted amount of RON 547.8 million).

##### **Income from current activity**

Actual total income from current activity for the year ended 31 December 2019 is 72% higher than budgeted mainly due to distribution of special dividends made by portfolio companies in amount of RON 226 million. In addition, a significant portion of dividend income has been estimated based on actual dividends collected during 2018 (information available at the time the 2019 Budget was being prepared) which were lower than the actual dividends collected during 2019 (mainly higher 2018 profits recorded by the portfolio companies). The assumption used for the

2019 Budget preparation was discussed and agreed with the investment management team and the conclusion was that this is the best approach to follow for estimating dividend income.

The table below presents additional details and explanations for the differences between the budgeted and actual net dividend income received from the portfolio companies:

Portfolio company	Actual net dividend	Budgeted net dividend	Variance	Reason for variance
<b>All amounts in RON</b>				
Hidroelectrica SA	558,165,909	226,245,815	331,920,094	Increase of dividends in 2019 due to (1) the increase of the 2018 profit and (2) the distribution of special dividends in December 2019 (RON 199.4 million).
OMV Petrom SA	145,270,008	107,607,413	37,662,595	Increase of dividends in 2019 due to the increase of the 2018 profit.
CN Aeroporturi Bucuresti SA	93,039,412	61,193,113	31,846,299	Increase of dividends in 2019 due to (1) the increase of the 2018 profit and (2) the distribution of special dividends in September 2019 (RON 5 million) and December 2019 (RON 20 million <sup>1</sup> ).
Societatea Nationala a Sarii SA	37,428,152	23,618,980	13,809,172	Increase of dividends in 2019 due to a higher 2018 profit as compared to the company's budgeted profit based on which the budgeted dividend was estimated.
Nuclearelectrica SA	25,391,669	18,478,987	6,912,682	Increase of dividends in 2019 due to the increase of the 2018 profit.
Alro SA	33,349,130	39,010,085	(5,660,955)	Interim dividends based on the portfolio company's interim financial statements as at 30 September 2018. No additional dividends were approved during the annual GSM of the portfolio company.
BRD Groupe Societe Generale SA	17,391,113	34,499,006	(17,107,893)	Decrease of dividends in 2019 due to the disposal of shares held in the portfolio company during 2018 (subsequent to the budget preparation) and 2019.
Engie Romania SA	16,411,668	20,232,567	(3,820,899)	Decrease of dividends in 2019 due to a decrease of the distribution ratio.
Other	6,550,331	16,917,234	(10,366,903)	Negative impact mainly due to no distribution approved by shareholders for E-Distributie Banat SA and E-Distributie Dobrogea SA in 2019.
<b>TOTAL</b>	<b>932,997,392</b>	<b>547,803,200</b>	<b>385,194,192</b>	

In addition, *interest income* was higher by RON 9.5 million in 2019, arising from deposits with banks and from short-term government securities held during the period. The related cash inflows were mainly collected from special dividends received from Hidroelectrica SA, Nuclearelectrica SA and CN Aeroporturi Bucuresti SA at the end of 2018 and from disposal of the entire holding in BRD – Groupe Societe Generale SA. The collection of special dividends and disposal of equity investments were not budgeted according to the assumptions for the 2019 Budget.

### **Expenses from current activity**

<sup>1</sup> Considering the portfolio company's decision to call for a GSM and reduce the total distribution of special dividends, an impairment adjustment has been booked for the remaining balance of RON 10.7 million and in the actual vs. budget analysis this impairment adjustment has been presented under the non-budgeted items.

During the year ended 31 December 2019, the *actual expenses from current activity* amount to RON 81.9 million.

The main component of *third-party services expenses* relates to the fees due to the Fund Manager. The budgeted and actual expenses with investment management and administration fees were adjusted by adding the distribution fee for buy-backs recognised directly in other comprehensive income. A corresponding presentation adjustment was included in order to reconcile the actual net results to the Fund's accounting records.

During 2019, the total investment management and administration fees were higher by RON 9.2 million. Additional details on the total investment management and administration fees are presented in the table below.

<i>All amounts in RON</i>	<b>Actual</b>	<b>Budgeted</b>	<b>Variance</b>	<b>Reason for variance</b>
<b>Recognised in profit or loss</b>	<b>50,297,447</b>	<b>42,753,893</b>	<b>7,543,554</b>	
Base fee	43,874,259	39,209,906	4,664,353	Due to increase of Fund's average closing share price in the last 7 months (June-December) to RON 1.1329 per share as opposed to the average share price used in the 2019 Budget of RON 0.9230 per share.
Distribution fee for dividends	6,423,188	3,543,987	2,879,201	Due to higher distribution to shareholders during 2019 as compared to the budgeted figure. The 2019 Budget included an assumption for the distribution to shareholders of RON 0.05 per share, while the actual distribution during 2019 was RON 0.0903 per share.
<b>Recognised in other comprehensive income</b>	<b>4,402,209</b>	<b>2,780,076</b>	<b>1,622,133</b>	
Distribution fee for buy-back programmes	4,402,209	2,780,076	1,622,133	Due to public tender offer in relation to the 10 <sup>th</sup> buy-back programme for the acquisition of 150 million shares. The tender offer was not budgeted as per assumptions used for the 2019 Budget preparation.
<b>Total administration fees</b>	<b>54,699,656</b>	<b>45,533,969</b>	<b>9,165,687</b>	

The increase in investment management and administration fees was partially offset by lower legal costs (by RON 3.8 million) and lower other third-party service providers' costs (by RON 2.9 million, mainly lower portfolio transactions expenses and lower expenses with third-party consultancy).

Other savings recorded for *third-party services expenses* relate to:

- Portfolio holdings valuation expenses, mainly due to a lower number of portfolio companies valued for the half-year reporting as compared to the assumption for the 2019 Budget which included the valuation for all portfolio companies;
- GSM organisation expenses, as a result of fewer GSMs held during 2019 (4 meetings) while in the 2019 Budget the expenses were budgeted for 6 meetings.

*Commissions and fees (including FSA fees)* were higher than budgeted mainly due to higher FSA fees as a result of:



- a higher total Net Asset Value “NAV” recorded by the Fund, based on which the monthly fees are calculated;
- the public tender offer performed within the 10<sup>th</sup> buy-back programme (1% fee of the tender offer’s total value charged by FSA).

*Investor relations expenses* were lower by RON 1.2 million than the budgeted amount due to team’s efforts to pass on some of the costs for investor relations activities (roadshows, Investor Days, etc.) to brokers and other third parties.

*Public relations expenses* were lower by RON 0.7 million than the budgeted amount mainly due to: better fees obtained by renegotiating with several service providers (PR agency, media monitoring agency, conference organisers) and a smaller number of press events organised than anticipated (e.g. no press trips to London Investor Days due to change of the event’s format and less GSMs held this year).

*Bank fees and distribution to shareholders fees (including Depositary fees)* were higher than budgeted mainly due to higher custodian fees as a result of a higher total value of the Fund’s holdings during the period, based on which the fees are calculated.

*Other expenses* have also been lower by RON 1 million than budgeted as a result of lower expenses with transportation and accommodation for taking part in Board meetings and GSMs and with advisory services, both in relation to the Board of Nominees.

#### ***Information on expense reallocations in 2019 Budget***

In the Fund’s 2019 Budget a reallocation between *Expenses with utilities* and *rent expenses* and *Other expenses* was performed as a result of actual expenses exceeding budgeted figures, mainly due to higher electricity costs and impact of a negative foreign exchange effect (higher actual EUR/RON exchange rate than estimated in the 2019 Budget).

### **III. PORTFOLIO INVESTMENT OF THE FUND:**

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

The investment objective of the Fund is the maximization of returns to shareholders and the increase of the net asset value per share via investments mainly in Romanian equities and equity-linked securities. Details of the investment policy can be found in the Investment Policy Statement and Constitutive Act.

**The Board of Nominees considers that during 2019 the Fund Manager was in compliance with the applicable investment policy adopted by the Fund.**

#### ***BOARD OF NOMINEES OPINION REGARDING PORTFOLIO INVESTMENTS AND THE PERCENTAGE REPRESENTED BY EACH TYPE OF INVESTMENT AT THE END OF 2019***

The Board holds frequent and detailed discussions on managing the Fund to maximize shareholder value. This includes developing a consistent approach for appropriate actions aimed at reducing the discount at which the Fund's shares and GDRs are traded on the Bucharest Stock Exchange and the London Stock Exchange, respectively. In particular, the Board noted that there was a decrease in the discount and the Board continues to be supportive of the implementation of various Discount Control Mechanism techniques including daily buyback programmes, tender offers, returns of capital and dividends, because the Fund's shares continue to trade at a level above that of the discount objective. The Board also discusses at its meetings with the Fund Manager potential strategies for unlocking the value of the individual unlisted investments. However, past performance is not a guarantee of future performance which can be influenced by various factors, as set out by the Fund Manager in the Performance Report.

### ***BOARD OF NOMINEES OPINION REGARDING THE SIGNIFICANT TRANSACTIONS OF THE FUND FOR 2019***

During 2019 the Fund sold the entire holding in BRD – Groupe Societe Generale SA and contributed to the share capital increases performed by E-Distributie Banat SA and Zirom SA.

The Board of Nominees considers that these transactions were in the interest of the shareholders.

### ***BOARD OF NOMINEES OPINION REGARDING KEY PORTFOLIO VALUATIONS DURING THE PERIOD***

The Sole Director updated the valuations for 19 unlisted holdings as inputs to those companies' valuations, representing 100% of the unlisted portfolio. KPMG Advisory and Darian DRS were selected to assist during the valuation process.

The valuation date was 30 September 2019, but the valuations considered the subsequent developments until 31 December 2019, such as the distribution of special dividends by Hidroelectrica SA, CN Aeroporturi Bucuresti SA and Administratia Porturilor Dunarii Maritime SA, the share capital increase performed by Zirom SA and the changes in the regulatory framework for energy companies – the repelling of most of the provisions of EGO no. 114/2018.

The most important impact is represented by increase in the fair value of Hidroelectrica SA with RON 1.0 billion. The full list of valuation reports impact for 2019 is included in Annex 2.

In terms of listed holdings, the most significant impact relates to OMV Petrom SA share price increase by 49.5% (net positive impact of RON 838.2 million during the period).

**The Board of Nominees considers that the valuations were carried out in accordance with the valuation methodology and international standards.**

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

The Board of Nominees has reviewed the internal audit reports prepared by Fondul Proprietatea's internal auditor, BDO Audit SRL and been informed about the internal audit performed by FTI Internal Audit team, for the year ended 31 December 2019.

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

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

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

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

No material compliance exceptions have been reported in 2019.

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

## **V. THE GENERAL EVALUATION OF THE ACTIVITY OF THE FUND MANAGER FOR 2019**

The most notable activities during 2019 include:

- Completion of the tenth buy-back programme for 403.8 million shares. The total value of the programme excluding transaction costs was RON 439.0 million, and the average share price was RON 1.0872 per share;
- Update of the Fund's Annual Cash Distribution Policy;
- Gross dividend distribution of RON 642.3 million to shareholders for the 2018 financial year;
- Completion of the sixth tender offer of 150 million shares (90.1 million in the form of shares and 59.9 million in the form of GDRs), at a purchase price of RON 1.21 per share and the USD equivalent of RON 60.50 per GDR, executed in order to accelerate the tenth buy-back programme;
- Continued efforts to promote the Fund and raise its visibility, as well as the visibility of the Romanian capital market, the local companies (listed or candidates for being listed), and of Romania in general, in the key financial centers in the United States of America, and Europe;
- 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 2019:
  - The new Investment Policy Statement, in force starting 29 June 2019;

- The distribution of a gross dividend of RON 0.0903 per share for the 2018 financial year, as proposed by the Sole Director;
- Approval of the eleventh buy-back programme to repurchase a maximum number of 800 million shares, between 1 January 2020 - 31 December 2020.

**The Board of Nominees considers actions aiming at the increase of NAV per share and the decrease of the discount level taken by the Fund Manager and Investment Manager were well received by investors during 2019.**

## **VI. RECOMMENDATIONS FOR SHAREHOLDERS:**

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

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

### *The Board of Nominees* **REVIEW REPORT**

Pursuant to the Management Agreement in place starting with 1 April 2018 (“**Management Agreement**”) in force for reporting period, the Fund Manager is obliged to submit to the Board of Nominees a report on its performance and of its Fund Manager (as defined below) (“**Performance Report**”).

The reporting period covered by the Performance Report was 1 January 2019 - 31 December 2019 (the “**Reporting Period**”).

The Performance Report should include:

- a) reporting on the fulfilment of the Discount Objective as defined in the Investment Policy Statement (“**IPS**”);
- b) reporting on the fulfilment of the NAV Objective, as defined in the IPS;
- c) reporting on the fulfilment of obligations regarding Discount Control Mechanisms (“**DCM**”);
- 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.

The Fund Manager presented its Performance Report to the NRC and BoN during meetings that took place on 25 and 26 February 2020.

In accordance with its obligations under clause 9.6 of the Management Agreement in force, the BoN has reviewed the Performance Report and is submitting this Review Report for the information of shareholders of the Fund at their annual meeting on 28 April 2020. This Review Report covers the contents of the Performance Report and an evaluation of the performance of

the Fund Manager, as well as any other factors considered relevant by the BoN to the decision of the shareholders at the GSM regarding the continuation or termination of the Management Agreement and the Fund Manager's mandate.

## **1) CONTENTS OF THE PERFORMANCE REPORT**

The BoN considers that the Performance Report has been prepared with due care and contains all material relevant information.

## **2) EVALUATION OF THE FUND MANAGER'S PERFORMANCE**

### *The Discount Objective*

As set out in the Performance Report, the Discount range for the Fund during the Reporting Period was 18.68% – 43.24%, closing the year at 23.05%. The Discount Objective, as defined in the IPS, is to achieve a discount level of less than 15% during at least 2/3 of the trading days in the Reporting Period. The average Discount for the Reporting Period was 29.38%.

The Discount Objective has, therefore, not been achieved.

During the Reporting Period, the Fund Manager undertook a number of actions aimed at reducing the Discount level and increasing demand for the Fund's shares. These actions are described on pages –12-17 of the Performance Report and include the distribution of RON 1.08 billion to shareholders through dividend distributions and buy-backs (including a tender offer), as set out on pages 14 and 15 of the Performance Report. The BoN supports these efforts by the Fund Manager to address the Discount level and increase demand for the Fund's shares. The BoN believes in employing diverse instruments to create liquidity for making cash distributions (including proceeds from portfolio disposals and dividends received from investee companies and the prudent use of a credit facility). The BoN continues to encourage the Fund Manager to make increased efforts to convert liquid portfolio investments into cash, given the Fund's persistent deep discount.

The BoN believes that recent fiscal and regulatory changes, as well as the absence of listings of state-owned enterprises on the Bucharest Stock Exchange, have been significant factors in the Fund Manager's failure to achieve the Discount Objective.

### *The NAV Objective*

As set out in the Performance Report, the Adjusted NAV per share (as defined in the IPS) as at 31 December 2019 was RON 1.8298 and was higher than the NAV per share as at 31 December 2018, which was RON 1.4095.

The NAV Objective, as defined in the IPS, is to ensure that the Adjusted NAV per share at the end of the Reporting Period was higher than the NAV per share as at 31 December 2018 (i.e. the end of the previous reporting period) and this has been achieved.

In the Performance Report, the Fund Manager has described factors contributing to the NAV evolution during the Reporting Period and also the most important actions it has undertaken to protect and enhance the value of portfolio companies.

The BoN continues to support appropriate shareholder activism implemented by the Fund Manager on behalf of the Fund at companies in which it has minority stakes and which are controlled by the Romanian State or other dominant investors in order to ensure that the companies are managed for the best interest of the shareholders. The BoN fully agrees with the Fund Manager's robust and consistent approach to corporate governance and its commitment to trying to ensure the recruitment of independent and qualified professional management teams and competent boards of directors at portfolio companies.

### **3) DCM ACTIVITIES**

The BON has noted the account of DCM activities by the Fund Manager, in relation to its obligations under the Management Agreement in force, as set out in the Performance Report.

### **4) REGULATORY AND MARKET FACTORS AND OTHER MATTERS**

The Performance Report provides summary descriptions of the other factors (regulatory, market and other) which the Fund Manager considers have had an impact on its performance in seeking to fulfil the two Objectives set out in the IPS. The Fund Manager conducts an on-going detailed analysis of the potential impact of the various sovereign risk factors. The BoN considers that the Fund Manager has set out a fair account of these factors and in appropriate detail and that all of them are relevant and useful for an assessment of the Fund Manager's performance in the Reporting Period.

The BON notes the Fund Manager's comments, on pages 36 and 45 of the Performance Report, on the impact of the Emergency Government Ordinance 114 (OUG 114) throughout 2019. The Fund Manager's efforts to limit the impact of the OUG 114 at the portfolio level have been reflected in the performance of the underlying companies which have continued to perform well financially.

### **5) SUMMARY CONCLUSION**

Based on all relevant information available to it, the BoN considers that the Performance Report provides a fair and materially accurate account of the Fund Manager's performance during the Reporting Period in respect of the two above IPS Objectives and in respect of its fulfilment of its obligations as regards DCMs.

The BoN emphasizes that, in accordance with the Management Agreement and IPS in force, the Fund Manager's performance in the Reporting Period is being evaluated in this Review Report against the two above IPS Objectives and as regards its DCM obligations and not as measured against other possible benchmarks such as, for example, Romanian and frontier stock market indices or global stock market indices.

Based on its review of the Performance Report and its regular meetings and interaction with the Fund Manager, the BoN considers that the performance of the Fund Manager has been creditable during the Reporting Period and evaluates the Fund Manager's efforts and actions positively.

**Mr. Piotr RYMASZEWSKI – Chairman**

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**Mr. Julian Rupert Francis HEALY – Member**

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**Mr. Mark Henry GITENSTEIN – Member**

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**Mr. Steven Cornelis van GRONINGEN – Member**

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**Mrs. Vivian NICOLI – Member**

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## Annex 1

### 2019 Adjusted Actual vs. Budgeted Results

	Budget 2019	Reallocations	Budget 2019 (after reallocations)	Actual 2019	Variance	
	RON	RON	RON	RON	RON	%
<b>I. INCOME FROM CURRENT ACTIVITY</b>	<b>551,866,938</b>	-	<b>551,866,938</b>	<b>946,840,735</b>	<b>394,973,797</b>	<b>72%</b>
<b>Budgeted income</b>	<b>551,866,938</b>	-	<b>551,866,938</b>	<b>946,840,735</b>	<b>394,973,797</b>	<b>72%</b>
Net dividend income	547,803,200	-	547,803,200	932,997,392	385,194,192	70%
BNY Melon income	3,696,915	-	3,696,915	3,976,288	279,373	8%
Interest income	366,823	-	366,823	9,867,055	9,500,232	>100%
<b>II. EXPENSES FROM CURRENT ACTIVITY</b>	<b>81,843,437</b>	-	<b>81,843,437</b>	<b>81,850,467</b>	<b>7,030</b>	<b>0%</b>
<b>Budgeted expenses</b>	<b>81,843,437</b>	-	<b>81,843,437</b>	<b>81,850,467</b>	<b>7,030</b>	<b>0%</b>
Third-party services providers' expenses*	63,166,922	-	63,166,922	63,770,033	603,111	1%
Commissions and fees (including FSA fees)**	9,823,633	-	9,823,633	12,681,207	2,857,574	29%
Investor relations expenses	2,275,280	-	2,275,280	1,089,683	(1,185,597)	-52%
Public relations expenses	1,534,660	-	1,534,660	799,980	(734,680)	-48%
Board of Nominees remunerations	1,447,380	-	1,447,380	1,407,175	(40,205)	-3%
Bank fees and distribution to shareholders fees (including Depositary fees)	671,147	-	671,147	728,162	57,015	8%
Finance costs	640,000	-	640,000	437,667	(202,333)	-32%
Amortisation expenses	420,402	-	420,402	175,150	(245,252)	-58%
Insurance expenses	347,123	-	347,123	290,322	(56,801)	-16%
Rent expenses	74,202	5,000	79,202	75,906	(3,296)	-4%
Expenses with utilities	25,960	5,000	30,960	27,568	(3,392)	-11%
Other expenses	1,416,728	(10,000)	1,406,728	367,614	(1,039,114)	-74%
<b>III. ADJUSTED GROSS PROFIT/ (LOSS)***</b>	<b>470,023,501</b>	-	<b>470,023,501</b>	<b>864,990,268</b>	<b>394,966,767</b>	<b>84%</b>
Distribution fee and other costs related to buy-backs - presentation adjustments	3,041,904	-	3,041,904	6,975,979		
<b>IV. GROSS PROFIT/ (LOSS)</b>	<b>473,065,405</b>	-	<b>473,065,405</b>	<b>871,966,247</b>	<b>398,900,842</b>	<b>84%</b>
Income tax	-	-	-	-	-	n/a
<b>V. NET PROFIT/ (LOSS)</b>	<b>473,065,405</b>	-	<b>473,065,405</b>	<b>871,966,247</b>	<b>398,900,842</b>	<b>84%</b>
<b>VI. CAPITAL EXPENDITURE</b>	<b>514,359</b>	-	<b>514,359</b>	-	<b>(514,359)</b>	<b>n/a</b>
Intangible assets	514,359	-	514,359	-	(514,359)	n/a

#### Note

For presentation purposes:

\*Third-party service providers' expenses include also the amounts representing distribution fees related to buy-backs which, according to the accounting policy, are recognised in other comprehensive income during the period.

\*\*Commissions and fees expenses include also other costs related to buy-backs (such as, brokerage fees and regulatory fees) which, according to the accounting policy, are recognised in other comprehensive income during the period.

\*\*\*The gross profit has been adjusted with the distribution fees related to buy-backs and other related costs which are recognised in other comprehensive income.



**2019 Actual vs. Budgeted - Detail of Third-party Services Providers' Expenses**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	
	<b>2019</b>	<b>2019</b>		
	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>%</b>
<b>Third-party service providers' expenses</b>	<b>63,166,922</b>	<b>63,770,033</b>	<b>603,111</b>	<b>1%</b>
Investment management and administration fees	45,533,969	54,699,656	9,165,687	20%
Legal and litigation assistance (including stamp duty expenses for litigations)	8,970,567	5,212,985	(3,757,582)	-42%
Portfolio holdings valuation	1,833,270	1,297,291	(535,979)	-29%
GSM organisation	1,071,000	566,000	(505,000)	-47%
Tax compliance and tax advisory expenses	641,644	343,396	(298,248)	-46%
Software maintenance and support fees	440,702	180,590	(260,112)	-59%
External audit	524,888	496,583	(28,305)	-5%
Trade Register and Official Gazette expenses	261,800	2,060	(259,740)	-99%
Internal audit	187,425	178,500	(8,925)	-5%
Other third-party service providers' expenses	3,701,657	792,972	(2,908,685)	-79%

**Annex 2**

**Table of unlisted holdings valuation at 31 December 2019 vs. 31 December 2018**

No.	Portfolio company	Value in 31 Dec 2019 IFRS financial statements (RON million)	Value in 31 Dec 2018 IFRS financial statements (RON million)	Difference (RON million)	Difference (%)
1	Hidroelectrica SA	4,886.5	3,885.0	1,001.5	+25.8%
2	CN Aeroporturi Bucuresti SA	1,022.9	861.0	161.9	+18.8%
3	E-Distributie Banat SA	519.3	472.0	47.3	+10.0%
4	Engie Romania SA	512.4	445.0	67.4	+15.1%
5	E-Distributie Muntenia SA	428.5	389.0	39.5	+10.2%
6	E-Distributie Dobrogea SA	321.5	288.0	33.5	+11.6%
7	Societatea Nationala a Sarii SA	275.4	250.0	25.4	+10.2%
8	CN Administratia Porturilor Maritime SA	248.7	244.0	4.7	+1.9%
9	ENEL Energie Muntenia SA	41.7	58.0	(16.3)	-28.1%
10	Zirom SA	31.7	27.1	4.6	+17.0%
11	ENEL Energie SA	26.3	44.0	(17.7)	-40.2%
12	CN Administratia Canalelor Navigabile SA	14.9	14.6	0.3	+2.1%
13	Aeroportul International Timisoara - Traian Vuia SA	13.9	20.0	(6.1)	-30.5%
14	Posta Romana SA	11.5	6.7	4.8	+71.6%
15	CN Administratia Porturilor Dunarii Maritime SA	4.2	4.0	0.2	+5.0%
16	CN Administratia Porturilor Dunarii Fluviale SA	1.7	1.7	-	-
17	Plafar SA	1.7	2.9	(1.2)	-41.4%
18	Aeroportul International Mihail Kogalniceanu - Constanta SA	1.4	1.5	(0.1)	-6.7%
19	Complexul Energetic Oltenia SA	-	-	-	-
	<b>TOTAL</b>	<b>8,364.2</b>	<b>7,014.5</b>	<b>1,349.7</b>	<b>+19.2%</b>