

# Fondul Proprietatea – Performance Report

1 January – 31 December 2019



# Performance report

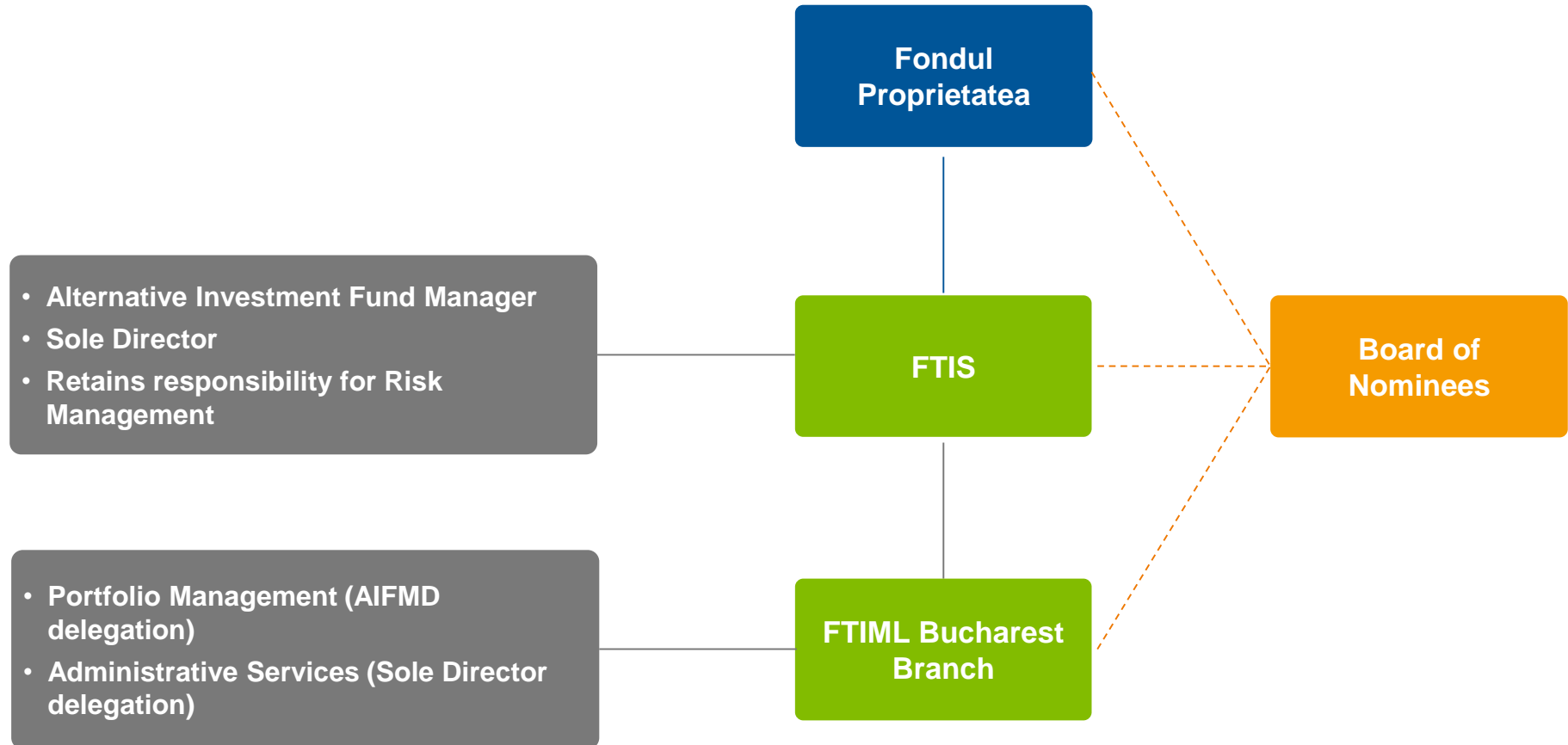


# Content of the Performance Report – in accordance with the IMA in force

## Reporting period: 1 January – 31 December 2019

- The report on the fulfillment of the Discount Objective
- The report on the fulfillment of the Net Asset Value (“NAV”) Objective
- The report on the fulfillment of the obligations regarding Discount Control Mechanism (“DCM”)
- Summary of the regulatory issues affecting the performance during the Reporting Period
- Summary of market conditions affecting the performance during the Reporting Period
- Other matters as the Fund Manager wishes to bring to the attention of the shareholders in relation to its activities and performance in the relevant period

# Fondul Proprietatea Structure



# Primary roles and responsibilities of FTIS S.à r.l. – Management Company



## Responsibilities of the AIFM

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- Risk Management
- Investment Management (Oversight of delegated portfolio management to FTIML Branch)
- Valuation of unlisted assets of portfolio
- Due Diligence on the Depositary (BRD Groupe Societe Generale)
- Reporting obligations - AIFMD Annex IV reporting



## Responsibilities of the Sole Director

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- Responsibility to call & chair GSMs, implement shareholder decisions
- Prepare Performance report for shareholders
- Administration oversight (activity delegated back to FTIML Branch)
- Reporting obligations - annual financial statements; the annual activity report; the semi-annual report; the quarterly reports; the performance report; the monthly NAV



## FTIS interaction with FTIML Bucharest

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- Attendance at GSM meetings
- Participate in BoN meetings
- Participate in weekly Management meetings
- Regular one to one meetings with the Investment Manager
- Regular risk management meetings
- Regular meetings with fund accounting
- Regular meetings on legal activities

- FTIS Sarl's primary responsibility is to monitor and highlight any material issues in respect of the risk management of Fondul Proprietatea, the oversight of portfolio management delegated to Franklin Templeton Investment Management Limited, new regulatory developments and any other matter which we believe should be brought to the attention of the Board of Nominees or of shareholders.
- During 2019 we have ensured that policies, controls and procedures in the major area of delegation and service provision – investment management – are adequate and effective.
- We have ensured that policies, controls and procedures in the major areas of risk management of Fondul Proprietatea, including portfolio risks (market, counterparty and issuer risks, etc.), operational risk and liquidity risk, are adequate and effective.
- There are no matters for 2019 to raise to the attention of the Board of Nominees or to shareholders.

# Investment strategy and performance objectives



## Investment Objective

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



## Investment Strategy

- No new investments until the discount narrows significantly
- Active management and engagement with current portfolio companies to increase their value
- Continuing with buy-back programs of own shares (share repurchases and/or public tender offers) and cash distributions to shareholders (100% of dividends or other cash distributions received from portfolio companies plus interest on cash less operating expenses and applicable taxes, and less compulsory allocation to reserves, in accordance with regulations in force)



## Performance Objectives (IPS)<sup>1</sup>

- Discount of 15% or less for at least two thirds of the trading days between 1 January – 31 December 2019
- Higher adjusted NAV per share than the NAV per share reported as at the end of the previous Reporting period, i.e. NAV per share as at 31 December 2018<sup>2</sup> (RON 1.4095 per share)

1. For the Reporting period 1 January – 31 December 2019.

2. The adjusted NAV for a given date is calculated as the sum of: (1) the reported NAV as at the end of the reporting period, (2) any distributions to shareholders, being either dividend or non-dividend ones (i.e. in this case following reductions of the par value of the shares and distribution of the decreasing amount to shareholders) implemented after the end of the previous reporting period, and (3) any distribution fees (as defined in the IMA), and any transaction costs and / or distribution costs relating to either dividend or non-dividend distributions including buy-backs of shares and/or GDRs, and/or depository interests executed through daily acquisitions or public tenders, after the end of the previous Reporting Period. The adjusted NAV per share is equal to the adjusted NAV divided by: the total number of the Fund's paid shares, less treasury shares (FP ordinary shares bought back) and less equivalent in FP ordinary shares of FP GDRs acquired and not yet converted into FP ordinary shares, on the last day of the reporting period.

# NAV, Share price and GDR performance



## Cumulative Performance

	2011	2012	2013	2014	2015	2016	2017	2018	2019	Since Performance Inception <sup>1</sup>
NAV (RON)	(0.47)%	8.91%	13.29%	1.39%	(0.60)%	7.33%	13.10%	19.94%	31.23%	136.47%
Ordinary Share Price (RON)	(30.32)%	38.30%	61.34%	14.53%	(4.06)%	4.90%	21.46%	9.90%	49.05%	256.56%
GDR (USD)	N/A	N/A	N/A	N/A	N/A	1.15%	35.88%	(1.94)%	41.41%	74.38%



## Average Annual Discount

2011	2012	2013	2014	2015	2016	2017	2018	2019	Start 2019	End 2019
55.67%	50.09%	40.74%	30.87%	29.12%	32.08%	28.05%	29.54%	29.38%	35.46%	23.05%

Source: BVB, LSE, Bloomberg, FP NAV reports.

Note: The discount is calculated based on the latest published NAV available for the day of the calculation.

The Performance Inception date for the NAV is 31 December 2010, for the Share Price is 25 January 2011, and for the GDRs is 29 April 2015.

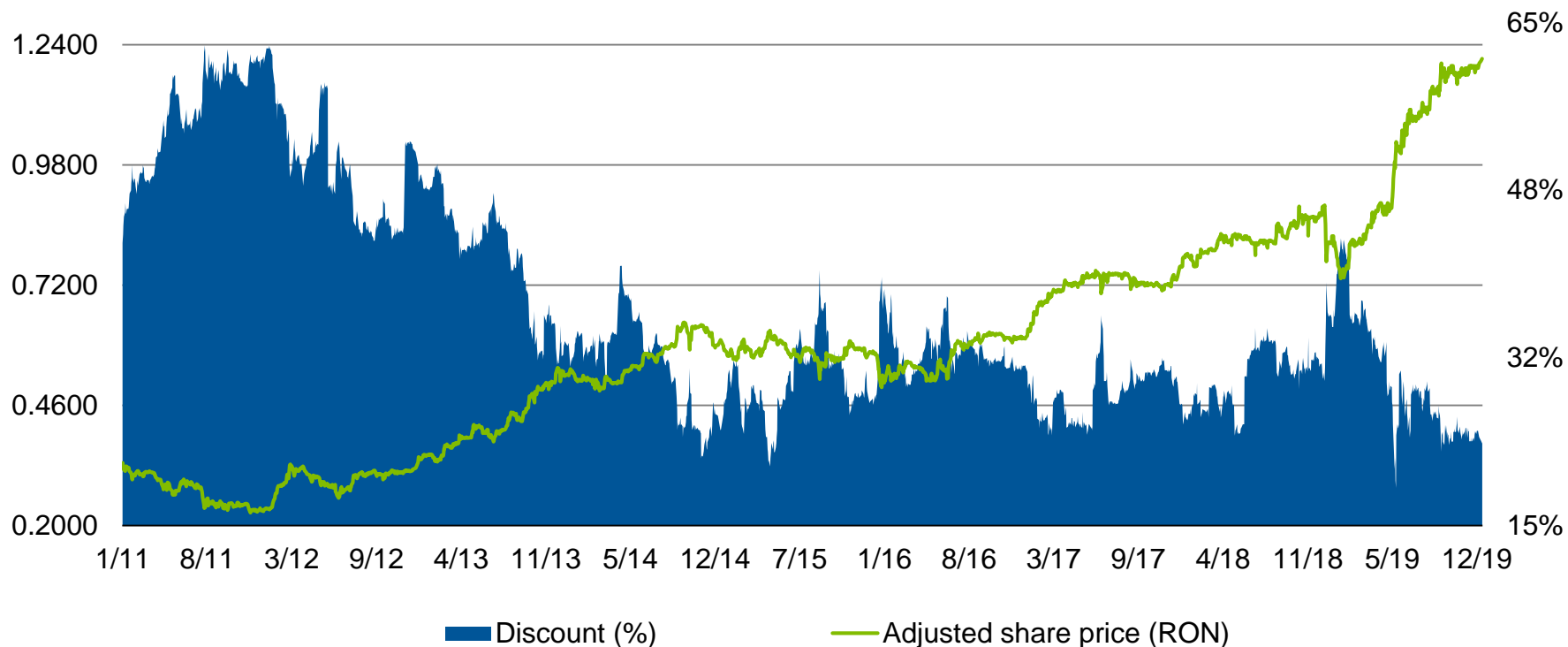
1. As at 31 December 2019.



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



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



Source: BVB, Bloomberg, for the period 25 January 2011 – 30 December 2019.

# Report on the Discount objective





## Objective

The discount between the closing price for each trading day on the BSE, of the shares issued by the Fund and the latest reported NAV per share at the date of calculation should be equal to or lower than 15% in at least two thirds of the trading days during the reporting period 1 January – 31 December 2019.



## Monthly Monitoring – 31 December 2019

In the period 1 January – 31 December 2019, discount was higher than 15%, for both shares and GDRs. However, the discount decreased from 35.46% at the beginning of the year to 23.05% at the end of 2019 and recorded a historical low of 18.68% during 2019.



## Discount Evolution

**Discount at the Start of the Reporting Period – 3 January 2019**

35.46%

**Discount as at 31 December 2019**

23.05%

**Average for the Reporting Period 3 January – 31 December 2019**

29.38%

**Discount Range for the Reporting Period 3 January – 31 December 2019**

18.68% – 43.24%

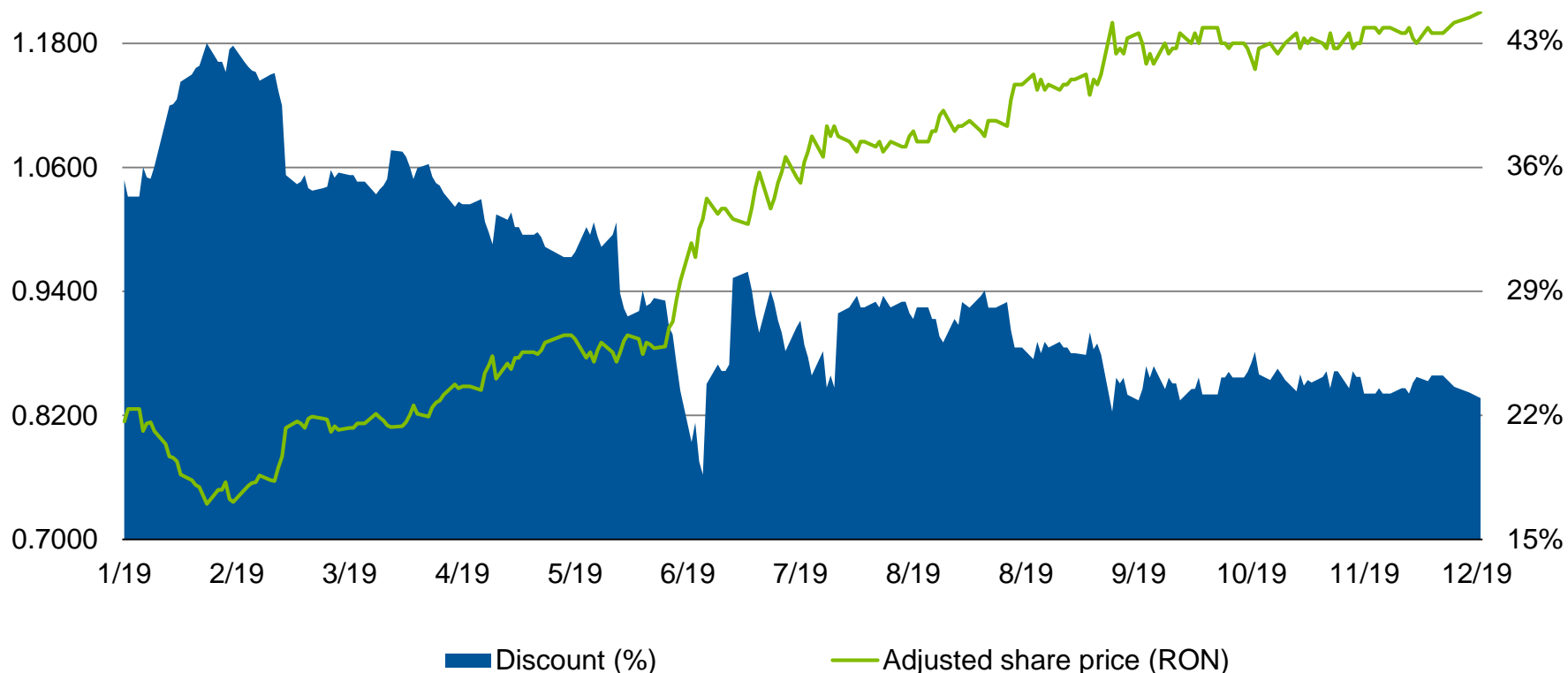
Source: Fondul Proprietatea Report.

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

# FP share price and Discount evolution



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



Source: BVB, Bloomberg, for the period 3 January – 30 December 2019.



Distributed RON 1.08 billion to the Fund's shareholders during 1 January – 31 December 2019 via:

- **Annual Dividend Distribution:**

Gross distribution to shareholders of **RON 642.3 million** or RON 0.09030 per share – payment started on 1 July 2019

- **Buy-backs:**

Executed the 10<sup>th</sup> buy-back programme (1 January 2019 – 31 December 2019) through a tender offer for 150 mn shares (July – August 2019) and daily share repurchases of up to 25% of the average daily trading volume for the last 20 trading sessions. The total acquisition cost at trade price (excluding transaction costs) of the buy-back program was **RON 439.0 million**

- **Total amount distributed**

(including buy-backs and dividend distributions) is **RON 1,081.3 million**, i.e. 9.11% of the Fund's NAV as at 31 December 2019



**Investor Relations:**

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

# Creating liquidity at the portfolio level<sup>1</sup>

	RON
Total Value of Disposals	200,898,504
Dividends Received (Collected)	922,323,252
Credit Facility (Committed) <sup>2</sup>	45,000,000
<b>Total</b>	<b>1,168,221,756</b>

Source: Fund's periodical reports.

1. For the Reporting Period: 1 January – 31 December 2019.

2. Maximum committed amount of RON 45 million, plus the possibility to 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 245,000,000 at any given time.

# Distributions to shareholders

RON	Distributions to shareholders in the period 1 January – 31 December 2019 (excluding related costs)	Expenses related to distributions recorded in the period 1 January – 31 December 2019	Total	% of the NAV as at 31 December 2018	% of the average market capitalization during the period
Buyback program 10	439,032,611	6,975,980	446,008,591	4.36%	6.10%
July 2019 dividend distribution	642,318,809	6,444,815	648,763,624	6.35%	8.87%
<b>Total</b>	<b>1,081,351,421</b>	<b>13,420,795</b>	<b>1,094,772,215</b>	<b>10.71%</b>	<b>14.96%</b>

Source: Fund's periodical reports.

# Share buybacks

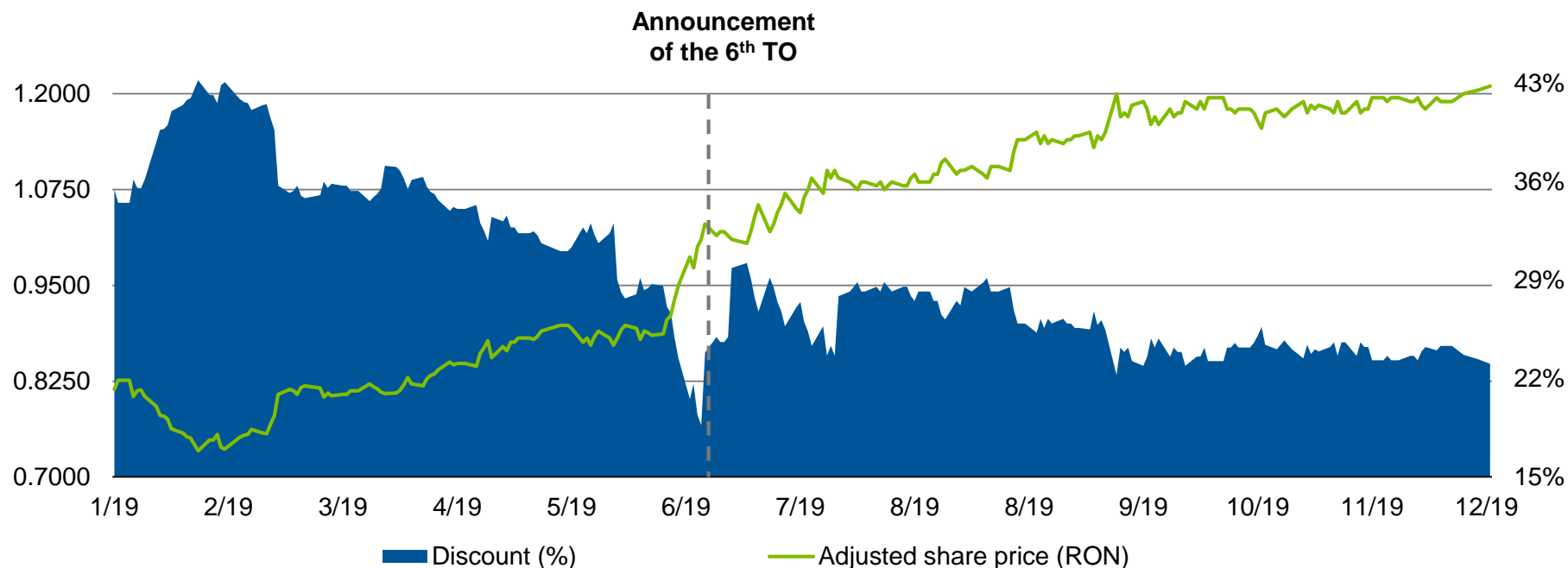
Program	Period	Status	No. of shares repurchased	Average share price (RON/share)	Acquisition cost of shares repurchased, excluding transaction costs (RON)	Broker	Cancellation of shares <sup>1</sup>
Tenth	1 January – 31 December 2019	Finalized	403,812,443	0.9198	439,032,611.41	Auerbach Grayson, BCR	The cancellation of shares will be subject to shareholders' approval in 2020

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



# Tender offer

Tender Offer	Announcement date	Tender price (RON/share)	FP pre-announcement share price (RON/share)	Premium to pre-announcement share price (%)	Discount of offer price to NAV (%) <sup>1</sup>	Take-up rate (%)
Sixth	15 Jul 2019	1.2100	1.0550	14.69%	16.00%	53.47%



Source: Investment Manager current reports and Tender offer documentation, BVB for the period 1 January – 31 December 2019.  
1. Latest NAV available at the date of the Tender offer announcement: 31 May 2019 NAV.



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

- 368 Investor Meetings

- 76 Investor Conference Calls

- 31 Investor Conference and Roadshows

- 146 participants to the Romania Investor Days in London event, 27 – 28 February 2019

- 118 participants to the FP Investor Days event, 5 – 6 September 2019

- 4 Results conference calls with analysts and investors



Investors that attended the Romania Investor Days in London and FP 2019 Investor Days events have assets under management of over EUR 2,500 billion.

# Report on the NAV objective





## Objective

The Adjusted NAV per share as at 31 December 2019, to be higher than the NAV per share as at 31 December 2018 (RON 1.4095 per share)



## Monthly Monitoring – 31 December 2019

The Adjusted NAV per share as at 31 December 2019 is higher than the NAV per share as at 31 December 2018

NAV Objective	Amount RON	Comments
<b>Total NAV as at 31 December 2019</b>	<b>11,871,445,440</b>	
Dividend gross distribution from 2018 profit	642,318,809	Dividend distribution of RON 0.0903 per share with Ex-date 7 June 2019, Registration date 10 June 2019 and Payment date 1 July 2019
Costs related to buy-backs after 31 December 2018	2,573,770	Fees related to tenth buy-back programme after 31 Dec 2018, excluding the distribution fees for buy-backs
Distribution fees for buy-backs performed after 31 December 2018	4,402,209	Distribution fees for tenth buy-back programme, after 31 December 2018
Distribution fees for cash distributions after 31 December 2018	6,423,188	Distribution fee for the dividend distribution from 2018 profits
Costs related to the returns of capital and dividends after 31 December 2018	24,556	Fees charged by the Central Depository and Paying Agent for the payments performed for returns of capital and dividends
<b>Total Adjusted NAV as at 31 December 2019</b>	<b>12,527,187,972</b>	
Number of Fund's paid shares, less treasury shares and GDRs held as at 31 December 2019	6,846,345,904	
<b>Adjusted NAV per share as at 31 December 2019</b>	<b>1.8298</b>	
<b>NAV per share as at 31 December 2018</b>	<b>1.4095</b>	
<b>Difference</b>	<b>0.4203</b>	
<b>%</b>	<b>29.82%</b>	

Source: FP Report.

Note: The adjusted NAV for a given date is calculated as the sum of: (1) the reported NAV as at the end of the reporting period, (2) any distributions to shareholders, being either dividend or non-dividend ones (i.e. in this case following reductions of the par value of the shares and distribution of the decreasing amount to shareholders) implemented after the end of the previous reporting period, and (3) any distribution fees (as defined in the IMA), and any transaction costs and / or distribution costs relating to either dividend or non-dividend distributions including buy-backs of shares and/or GDRs, and/or depository interests executed through daily acquisitions or public tenders, after the end of the previous Reporting Period. The adjusted NAV per share is equal to the adjusted NAV divided by the total number of the Fund's paid shares, less treasury shares (FP ordinary shares bought back) and less equivalent in FP ordinary shares of FP GDRs acquired and not yet converted into FP ordinary shares, on the last day of the reporting period.

# Attribution to NAV performance for the period 1 January – 31 December 2019



## Top Performers

Company	Status	Weight in total NAV <sup>1</sup>	Change in NAV performance	Change in NAV per share (RON)
Hydroelectrica SA	Unlisted	41.2%	11.44%	0.1612
OMV Petrom SA	Listed	21.3%	9.62%	0.1356
CN Aeroporturi Bucuresti SA	Unlisted	8.6%	2.39%	0.0337
Nuclearelectrica SA	Listed	2.6%	1.52%	0.0214
Engie Romania SA	Unlisted	4.3%	0.82%	0.0116



## Bottom Performers

Company	Status	Weight in total NAV <sup>1</sup>	Change in NAV performance	Change in NAV per share (RON)
Alro SA	Listed	1.4%	(0.20)%	(0.0028)
ENEL Energie SA	Unlisted	0.2%	(0.17)%	(0.0024)
ENEL Energie Muntenia SA	Unlisted	0.4%	(0.16)%	(0.0022)
Aeroportul International Timisoara - Traian Vuia SA	Unlisted	0.1%	(0.05)%	(0.0007)
Plafar SA	Unlisted	0.0%	(0.01)%	(0.0002)
<b>TOTAL NAV PER SHARE CHANGE</b>				<b>0.3244</b>

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

1. NAV report as at 30 December 2019.

# List of disposals

Company	Status	Disposal type	Stake sold (%)	Proceeds on disposals (RON)	Disposal date
BRD Groupe Societe Generale SA	Listed	Market sale	2.40%	200,898,504	March - June 2019
<b>Total</b>				<b>200,898,504</b>	

Source: Fund's periodical reports.

# Changes in the valuations of portfolio companies (I)

Company	Status	Value of FP holding as at 1 Jan '19	Contribution in cash to share capital increase	Disposals	Net changes in fair value gain / (loss)	Value of FP holding as at 31 Dec '19	Comments
Aeroportul internat. M. Kogalniceanu - Constanta SA	Unlisted	1,467,000	-	-	(73,200)	1,393,800	-
Aeroportul internat. Timisoara – T. Vuia SA	Unlisted	20,000,000	-	-	(6,100,000)	13,900,000	-
Alcom SA	Listed – Illiquid	12,832,632	-	-	(1,338,735)	11,493,897	-
Alro SA	Listed – Liquid	224,484,919	-	-	(53,934,688)	170,550,231	-
BAT Service SA	Unlisted	-	-	-	-	-	Removed from Trade Register in October 2019
BRD GSG SA	Listed – Liquid	190,965,914	-	(200,898,504)	9,932,589	-	Sold during March - June 2019
CN Administratia Canalelor Navigabile SA	Unlisted	14,603,160	-	-	296,680	14,899,840	-
CN Administratia Porturilor Dunarii Fluviale SA	Unlisted	1,745,820	-	-	(68,100)	1,677,720	-
CN Administratia Porturilor Dunarii Maritime SA	Unlisted	4,016,138	-	-	228,442	4,244,580	-
CN Administratia Porturilor Maritime SA	Unlisted	244,000,000	-	-	4,700,000	248,700,000	-

Source: Fund Manager.

# Changes in the valuations of portfolio companies (II)

Company	Status	Value of FP holding as at 1 Jan '19	Contribution in cash to share capital increase	Disposals	Net changes in fair value gain / (loss)	Value of FP holding as at 31 Dec '19	Comments
CN Aeroporturi Bucuresti SA	Unlisted	861,000,000	-	-	161,900,000	1,022,900,000	-
Complexul Energetic Oltenia SA	Unlisted	-	-	-	-	-	-
Comsig SA	Unlisted	-	-	-	-	-	-
E-Distributie Banat SA	Unlisted	472,000,000	-	-	47,300,000	519,300,000	-
E-Distributie Dobrogea SA	Unlisted	288,000,000	-	-	33,500,000	321,500,000	-
E-Distributie Muntenia SA	Unlisted	389,000,000	-	-	39,500,000	428,500,000	-
Enel Energie Muntenia SA	Unlisted	58,000,000	-	-	(16,300,000)	41,700,000	-
Enel Energie SA	Unlisted	44,000,000	-	-	(17,700,000)	26,300,000	-
Engie Romania SA	Unlisted	445,000,000	-	-	67,400,000	512,400,000	-
Gerovital Cosmetics SA	Unlisted	-	-	-	-	-	-

Source: Fund Manager.



# Changes in the valuations of portfolio companies (III)

Company	Status	Value of FP holding as at 1 Jan '19	Contribution in cash to share capital increase	Disposals	Net changes in fair value gain / (loss)	Value of FP holding as at 31 Dec '19	Comments
Hidroelectrica SA	Unlisted	3,885,000,000	-	-	1,001,500,000	4,886,500,000	-
IOR SA	Listed – Illiquid	288,450	-	-	209,782	498,232	-
Mecon SA	Listed – Illiquid	1,369,231	-	-	(348,313)	1,020,918	-
Nuclearelectrica SA	Listed – Liquid	173,549,777	-	-	129,736,966	303,286,742	-
OMV Petrom SA	Listed – Liquid	1,693,400,875	-	-	838,205,116	2,531,605,991	-
Plafar SA	Unlisted	2,916,000	-	-	(1,241,200)	1,674,800	-
Posta Romana SA	Unlisted	6,700,000	-	-	4,800,000	11,500,000	-
Romaero SA	Listed – Illiquid	25,971,482	-	-	4,459,749	30,431,231	-
Romplumb SA	Unlisted	-	-	-	-	-	-
Salubriserv SA	Unlisted	-	-	-	-	-	-

Source: Fund Manager.

# Changes in the valuations of portfolio companies (IV)

Company	Status	Value of FP holding as at 1 Jan '19	Contribution in cash to share capital increase	Disposals	Net changes in fair value gain / (loss)	Value of FP holding as at 31 Dec '19	Comments
Simtex SA	Unlisted	-	-	-	-	-	-
Societatea Nationala a Sarii SA	Unlisted	250,000,000	-	-	25,400,000	275,400,000	-
World Trade Center Bucuresti SA	Unlisted	-	-	-	-	-	-
World Trade Hotel SA	Unlisted	-	-	-	-	-	-
Zirom SA	Unlisted	27,129,000	6,300,000	-	(1,723,600)	31,705,400	Cash contributions to Zirom share capital increases performed during the year in total amount of RON 6,300,000 (630,000 new shares at the nominal value of 10 RON per share)
<b>Total</b>		<b>9,337,440,399</b>	<b>6,300,000</b>	<b>(200,898,504)</b>	<b>2,270,241,487</b>	<b>11,413,083,382</b>	

Source: Fund Manager.

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

## Hidroelectrica

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- Intervened in several litigations on behalf of the company (claims filed against the regulator, claims filed against third parties).
- Worked with company's Directorate to continue improving the company's profitability.
- Challenged ANRE order establishing the methodology for setting the prices and quantities for the regulated market.
- Challenged ANRE decision establishing the prices and quantities for the regulated market regarding Hidroelectrica.
- Successfully advocated for the repeal of 114/2018 GO. In January 2020, the Government approved a GO that partially repeals GO 114/2018.
- Continued to advocate for the IPO of the company.
- Proposed the distribution by the company of special dividends, approved in December 2019.

## OMV Petrom

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- Advocated for a better-defined dividend policy.
- Encouraged management to continue with investor relations efforts and to participate to more investor events and management road-shows.
- Continued to actively support a fair and balanced taxation regime for the oil and gas sector.
- Presented the risks developing in the gas market, where some of the major consumers continued to face financial difficulties.
- Advocated for legislative changes that could allow the company to take a favorable final decision regarding investments in the Black Sea perimeter.

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

## Bucharest Airports

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- Worked with company's interim Boards and interim General Managers to continue improving the company's profitability through cost management and initiatives aimed at opening new routes and enhancing non-aeronautical revenues.
- Continued to support proper implementation of Corporate Governance legislation through ongoing litigations.
- Provided balanced opinions and challenged some of the assumptions behind planned capital expenditure projects.
- Continued to push for the listing of the company.
- Worked closely with the management and the board in order to successfully finalize the share capital increase with the land contributed by the Ministry of Transport which was evaluated at a fair value.
- Proposed the distribution by the company of special dividends, approved in December 2019.

## Enel companies

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- Successfully advocated for the repeal of 114/2018 OUG. In January 2020, the Government approved a GO that partially repeals GO 114/2018.

## Engie Romania

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- Raised in a shareholders' meeting the issue of related management contracts between the company and majority shareholder which we deem to be poor corporate governance. As a result of our action, the management contract was not approved by shareholders. In 2017 we initiated legal actions against the management for related party contracts approved in the past. The litigation is ongoing.
- Challenged the merger of the company with 2 subsidiaries in the renewables sector. Following our action the company renounced to finalize the merger.

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

## Nuclearelectrica

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- Continued to oppose in the shareholders' meetings to the project to build nuclear reactors 3 and 4 which would have a negative impact to the company's value.
- Proposed the company to pay special dividends in 2019.

## Alro

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- Continued to actively engage with the management for improved corporate governance, better transparency and adoption of a more investor friendly attitude.
- Following shareholders' structure change and Board reshuffle, 2 persons proposed by Fondul Proprietatea were appointed as board members in 2019.

## Constanta Port

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- Supported the Board and the executive management in the ongoing effort to improve revenues from renting land in the ports and keeping operating costs under control.
- Challenged in court the shareholders' decision approving the distribution as dividends of only 25% of the 2017 net profit. The matter is now with the Constitutional Court.
- Challenged in court the 2019 budget in connection with the 50% of revenues' rule, established by the Ports Law.
- Challenged in court the appointment of some board members whom we consider are in a situation of potential conflict of interest.
- Continued to advocate for the IPO of the company.

## Timisoara Airport

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- Pushed against initiatives:
  - to merge the airport with the airport in Arad and
  - to transfer land from the State to the company, which could not have been used efficiently

## Salrom

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- Worked closely with the management team to improve operations.
- Helped the company with legal advisory in different litigations.
- Continued to advocate for the IPO of the company.

# Report on the obligations regarding the Discount Control Mechanism





## According to Article 9 of the Management Agreement under AIFMD in force starting 1 April 2018:

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- “FUND MANAGER PERFORMANCE OBJECTIVES. ANNUAL REPORTING
  - 9.1. For the duration of this Management Agreement, the Fund Manager must manage the Portfolio in accordance with, and must comply with, all the obligations undertaken under the IPS and seek to achieve the objectives therein, including (without limitation) the Discount Objective and the NAV Objective (together the “Performance Objectives”). The Customer and the Fund Manager acknowledge and agree that there is no guarantee that the Performance Objectives will be achieved, and the Fund Manager does not warrant, undertake or represent that it will achieve them.
  - 9.2. The Fund Manager will call a BoN meeting to discuss the Discount Control Mechanism (“DCM”) strategy if the Discount stays above 15% for more than half of the Trading Days in any financial quarter of the Customer. In addition, if the Discount stays wider than 15% for more than half of the Trading Days in any two successive financial quarters of the Customer, the Fund Manager will call a GSM (which would be held no later than the end of the next quarter) at which the Fund Manager would propose, for the Customer’s shareholders’ approval, specific DCM measures pre-agreed with the BoN and which are in line with the IPS, unless such actions are already pending and soon to be implemented based on shareholder approvals obtained during the relevant preceding two quarter periods.”

# Discount control during Q1 2019 – Q4 2019 (the IMA in force)



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



The Board meetings took place on the following dates: 9 January, 14 February, 1 March, 3 April, 14 May, 27 June, 23 July, 8 August, 13 August, 3 September, 10 September, 16 September, 14 November, 18 December



## There were:

- 4 quarterly calculation periods (Q1 – Q4 2019), and
- 4 two-quarter valuation periods (Q4 2018 + Q1 2019, Q1 + Q2 2019, Q2 + Q3 2019, Q3 + Q4 2019)



# Ongoing DCM measures

## Cash distributions

- The Fund Manager proposed and shareholders approved a gross dividend distribution of RON 0.09030 per share, for FY 2018
- The payment started on 1 July 2019

## Share buybacks

- Execution of the 10<sup>th</sup> buy-back programme during 2019

## Investor relations activities

- Between 27 – 28 February, we organized in collaboration with WOOD & Co, the 2019 Romania Investor Days in London conference. 106 investors from 54 investment houses, and 40 representatives from 16 Romanian companies participated to 308 investor meetings organized during the conference
- Between 6 – 7 September, we organized in collaboration with WOOD & Co, the FP Investor Days event in Bucharest. 55 investors from 37 investment houses, and 63 representatives from 28 Romanian and other frontier markets companies participated in 343 investor meetings organized during the conference
- We participated in several regional and global emerging and frontier market conferences, as well as dedicated conferences for closed-end funds in United States, United Kingdom, Hungary, Austria, and Czech Republic
- Further promotion of the Fund through road-shows to United Kingdom, United States, Germany, and Sweden

## Tender offer

- Execution of the 6<sup>th</sup> Tender offer of 150 mn shares, in order to accelerate the 10<sup>th</sup> buy-back programme

## Asset disposals

- Ongoing discussions for selling unlisted stakes of the Fund

## Credit facility

- Revolving credit facility for a maximum amount of RON 45 mn from BRD - GSG SA
- The credit facility is available until June 2020

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

- Shareholders' approval for the 11<sup>th</sup> buy-back programme of 800 million shares, to be executed during 1 January – 31 December 2020

## Cash distributions to shareholders

- Dividend distribution for the 2018 FY has started on 1 July 2019
- Dividend distribution for the 2019 FY will be discussed with Board of Nominees and proposed to shareholders on 26 February 2020

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

- Execution of the 10<sup>th</sup> buy-back programme

## Maintaining a transparent cash distribution policy

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

## Increasing the share of the listed companies in the portfolio

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

## Building good communication through active investor relations work

- Proactive investor relations outreach through participation to regional and global emerging and frontier market conferences, as well as dedicated closed-end funds conferences

## Supporting initiatives to make the Romanian capital market more attractive for investors

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

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



## Regulatory issues affecting the performance during the Reporting Period

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

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



## Market conditions affecting the performance during the Reporting Period

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

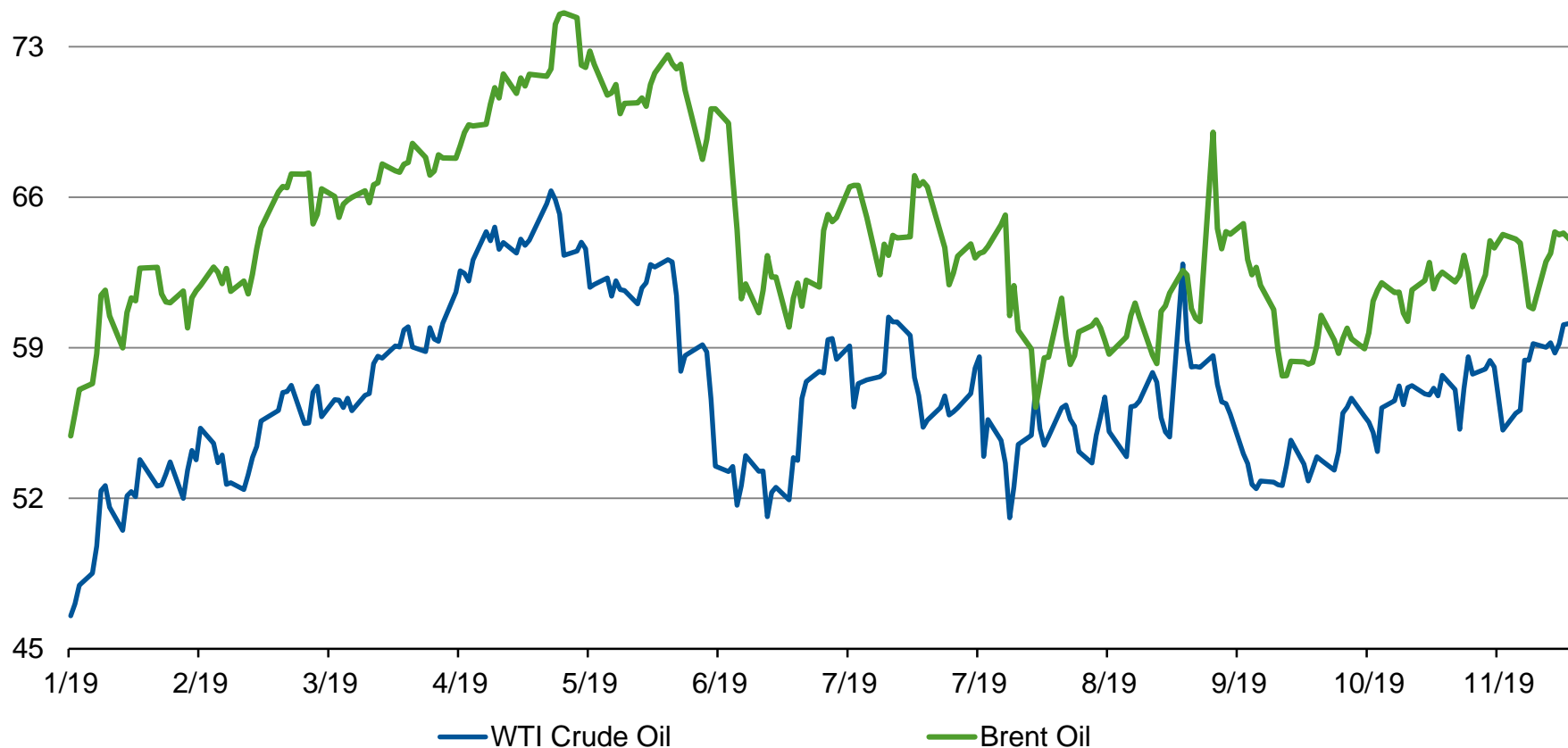
## Market conditions affecting the performance during the Reporting Period

- The Romanian judicial system and Romanian legislation continue to develop, and this may create an uncertain environment for investment and for business activity
- The Fund's investments are concentrated in a limited number of industry sectors
- Risks related to the oil, gas industry and electricity sectors
- Risks related to poor performance of poorly managed companies in the Fund's portfolio
- Potential difficulties in implementing the Fund's strategy related to the companies in its portfolio
- Risks related to the liquidity of investments held by the Fund
- Risks related to holdings in majority State-owned companies
- There are certain risks associated with an investment in developing markets, including Romania, which may be greater than risks inherent in more developed markets
- Risks relating to global events
- Frequent changes in tax legislation without respecting transparency rules



# Oil price volatility

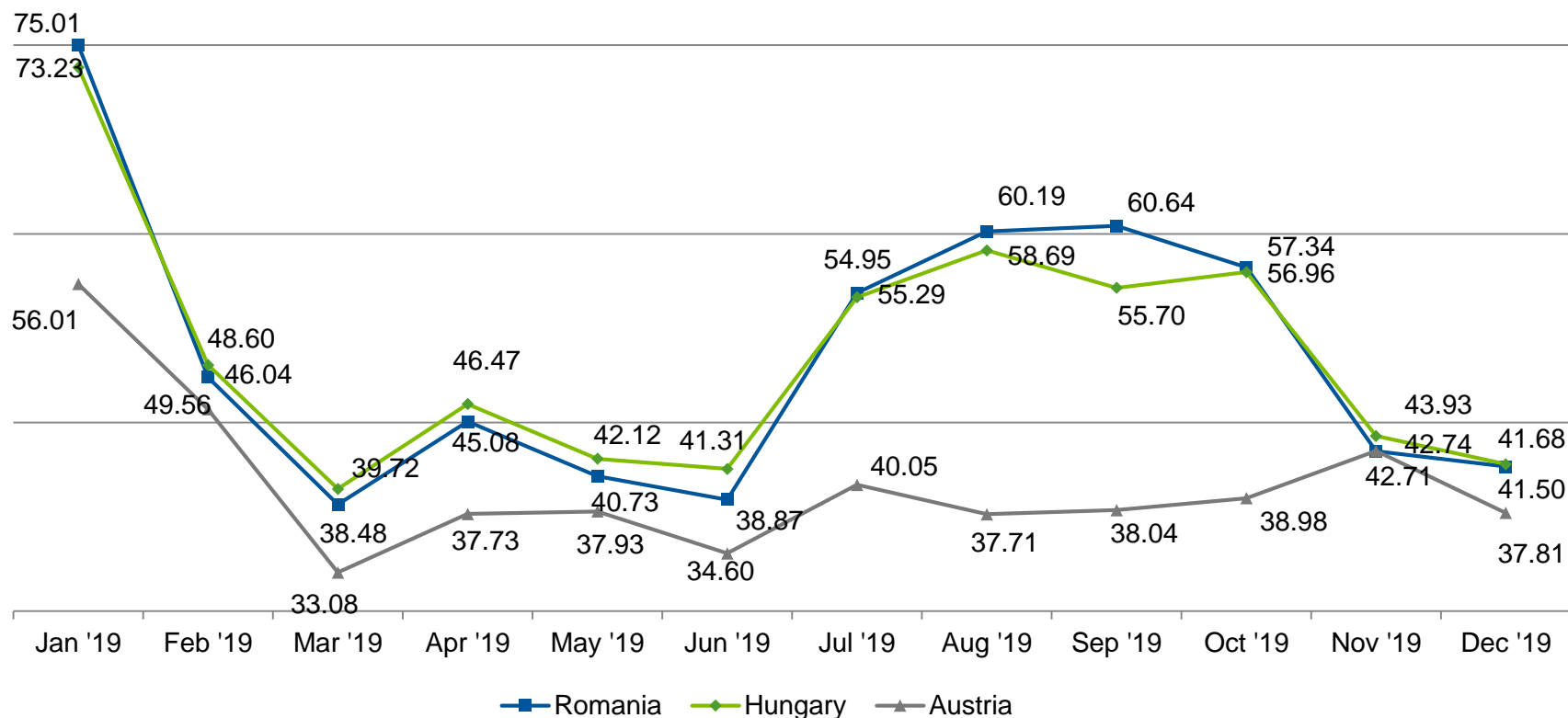
- 31.2% increase for WTI Crude Oil
- 20.2% increase for Brent Oil



Source: Bloomberg, for the period 1 January – 31 December 2019

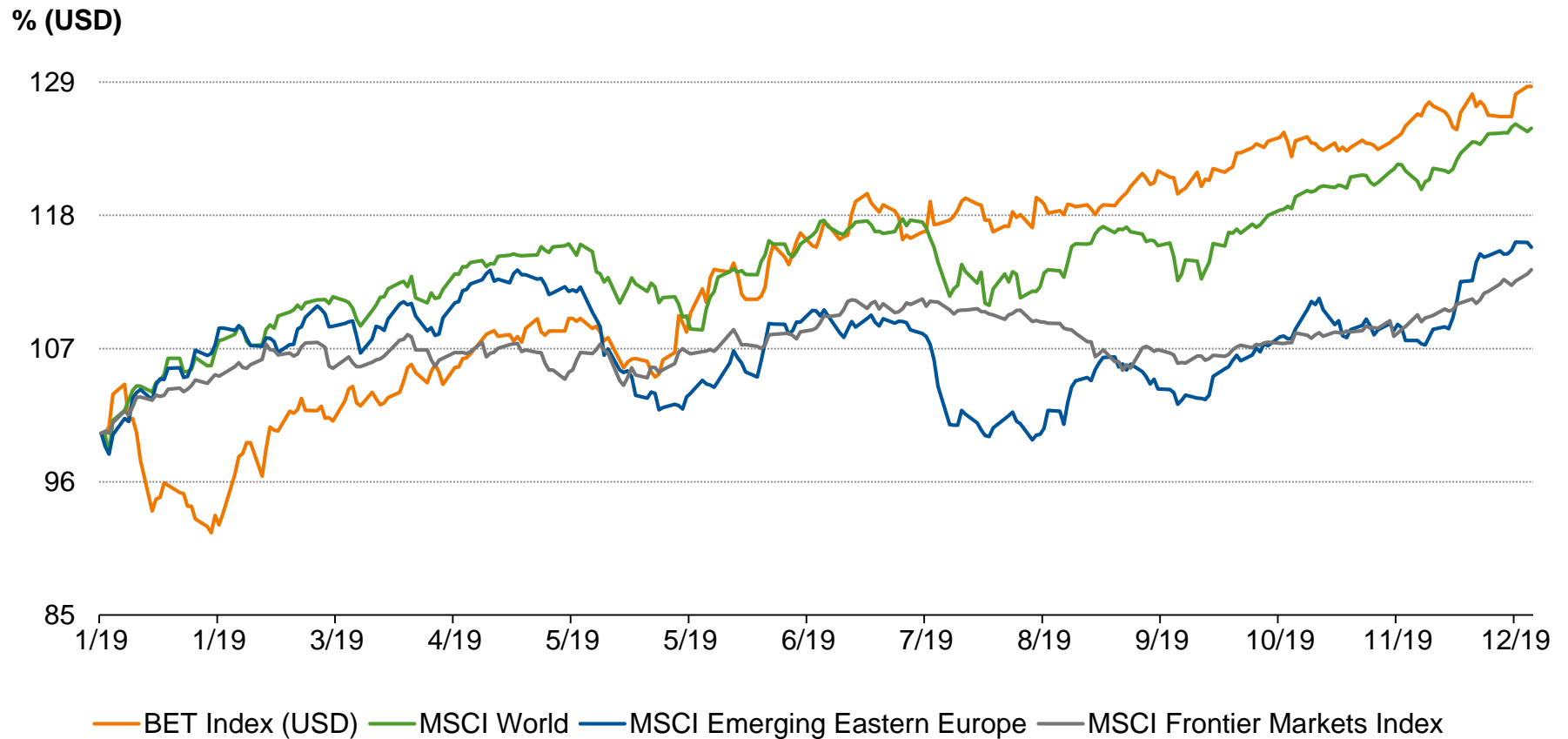
# Electricity prices

Average Wholesale Electricity Prices (EUR/MWh)



Source: LinkedIn EnergyLive charts.

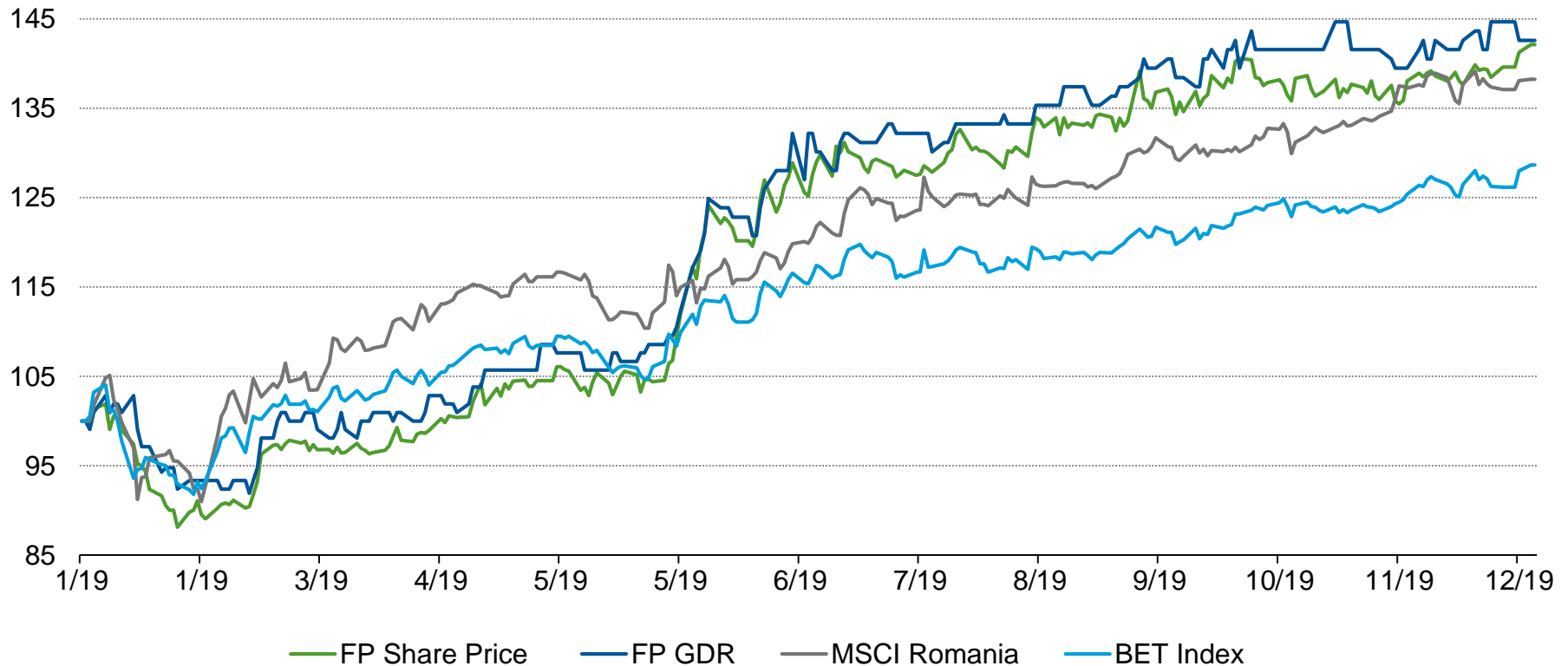
# Romania vs. MSCI Eastern Europe vs. Frontier Markets vs. World



Source: Bloomberg, for the period 1 January – 31 December 2019.

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

% (USD)



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

# Other developments during the Reporting Period



## Adoption of OUG 114/2018

- The adoption of OUG 114/2018 at the end of 2018 has created uncertainty in the energy markets in Romania and has impacted the profitability of Hidroelectrica and Nuclearelectrica by forcing the companies to sell electricity on the regulated market at a cost +5% price/MWh, which is significantly below the market price. Many of the provisions of the OUG 114 were repealed at the end of 2019.

## Hidroelectrica's IPO

- The IPO has been postponed due to delays in key decisions to be taken by the previous Government as the majority shareholder of the company: independent Board, professional management, and OUG 114
- Given the change in Government in Q4 2019, the Fund Manager has restarted discussions with the new Prime-Minister regarding the IPO of Hidroelectrica as well as other SOEs

## New Offshore law

- The definition of a proper legal framework surrounding the gas exploration in the Black Sea took a very long time. There are still changes expected to take place in 2020, but as a result of the lack of predictability, the key investment decisions for the project from OMV Petrom and Exxon Mobil were postponed

## Delay in the IPO of SOEs

- Although the Fund Manager has been in constant discussions with the previous Government to support further listings of SOEs in which the Fund is a minority shareholder, there has been no formal Government decision with regards to the IPOs of several companies in the Fund's portfolio
- The prime candidates for an IPO discussed with the new Government are: Hidroelectrica, Bucharest Airports and Constanta Port. For Salrom, the discussions is centered around the Fund selling its entire 49% stake in an IPO in 2020

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The Fund's headquarters are located at 78-80 Buzesti Street, 7th Floor, Bucharest, 1st District, 011017, Romania. Fund's Fiscal Identification Code is 18253260 and Trade Registry registration number is J40/21901/2005. The subscribed share capital is RON 3,959,264,762.44 and paid up share capital is RON 3,770,082,340.44.

Starting with 1 April 2016, in view of complying with the AIFMD, implemented in the Romanian legislation through Law no. 74/2015 on managers of alternative investment funds and Regulation no. 10/2015 on alternative investment fund management, Fondul Proprietatea SA, qualifying as an alternative investment fund, is managed by Franklin Templeton Investment Services S.À R.L. ("FTIS a société à responsabilité limitée qualifying as an alternative investment fund manager under article 5 of the Luxembourg law of 12 July 2013 on alternative investment fund managers, authorized by the Commission de Surveillance du Secteur Financier under no. A00000154/21 November 2013, whose registered office is located at 8a, rue Albert Borschette, L-1246 Luxembourg, registered with the Luxembourg register of commerce and companies under number B36.979, registered with the Romanian Financial Supervisory Authority under number PJM07.1AFIASMDLUX0037/10 March 2016.

This presentation herein is issued by Franklin Templeton Investment Management Limited ("FTIML"), registered with the FSA under no. PJM01SFIM/400005/14 September 2009, which is authorized and regulated in the UK by the Financial Conduct Authority, registered therein under the number 121779, registered as a foreign equivalent of an investment adviser with the US Securities Exchange Commission, acting through its Romanian branch having its registered office at Premium Point, 78-80 Buzesti Str., 7-8th floors, 1st. District, Bucharest, Romania.

FTIML acts herein as a delegate of FTIS with respect to the portfolio management functions as well as administration services over the Fund.



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