Sole Director's Proposal for the Coverage of the Negative Reserve incurred during the financial year ended 31 December 2019

Overview and accounting treatment

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

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

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

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

Negative reserve incurred during 2019

The table below shows the changes in the negative reserves recorded during the year ended 31 December 2019:

	Amounts in RON
1 January 2019 (audited)	**80,910,369**
Coverage of the negative balance existing as at 31 December 2018 from 2016 unallocated profit remained under retained earnings, according to Resolution no. 2 of 4 April 2019 ordinary shareholders' meeting	(80,910,369)
Negative equity reserve arising on the cancellation of shares acquired during the 9th buy-back programme (recorded on 15 October 2019) according to share capital decrease resolution no. 2 of 4 April 2019 extraordinary shareholders' meeting	640,744,712
31 December 2019 (audited)	**640,744,712**

The table below shows additional details on the calculation of the negative reserves booked during 2019:

All amounts in RON		**9th buy-back programme**
Period (trade dates)		14 Nov 2017 – 31 Dec 2018
Number of shares cancelled during 2019	(1)	1,487,992,569
Total acquisition cost at trade price (excluding transaction costs)	(2)	**1,386,721,945**
Total costs directly related to transactions, out of which:	(3)	**27,778,902**
• *Brokerage fees*		*616,156*
• *Financial Supervisory Authority fees*		*11,340,453*
• *Stock Exchanges' fees (Bucharest Stock Exchange and London Stock Exchange)*		*1,401,641*
• *Central Depositary fees*		*68,947*
• *Other professional fees*		*596,258*
• *Distribution fees paid to the Sole Director in relation with the buy-backs performed*		*13,755,446*
Total buy-back cost impacting the equity of the Fund (trade price plus directly related transaction cost)	(4)=(2)+(3)	**1,414,500,848**
Correspondent Nominal Value ("NV") at the cancelation date (NV = RON 0.52 per share)	(5)=(1)*NV	**773,756,136**
Negative equity reserve arising on the cancellation of shares	**(6)=(5)-(4)**	**640,744,712**

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

Sole's Director Proposal for covering the negative reserve

Although there is not an explicit legal or regulatory requirement to cover the negative balance arising out of the cancellation of equity instruments, it is to be noted that the Financial Supervisory Authority Norm 39/ 2015 specifically details how to present it in the financial statements and, further on, the sources that may be used for covering it, in accordance with the resolution of the general meeting of shareholders. From this perspective, and by applying a prudentially regulatory approach, the Sole Director believes there are reasonable arguments supporting the idea that these reserves should be covered and thus proposes to shareholders the coverage of the negative equity reserves balance as at 31 December 2019 of RON 640,744,712 (as stated in the notes to the annual audited statutory IFRS financial statements and detailed in the table above) from the amounts allocated to other reserves specially for this purpose according to the decision of 4 April 2019 General Shareholders' Meeting.

Franklin Templeton International Services S.À R.L., as Sole Director of FONDUL PROPRIETATEA S.A.

Johan Meyer
Permanent Representative