

Sole Director's Proposal for Profit Allocation

Overview

Fondul Proprietatea S.A. (“**Fondul Proprietatea**” or the “**Fund**”) reported an audited net profit of RON 5,012,644,707 in the financial statements for the year ended 31 December 2021, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (“**IFRS**”) and applying the Financial Supervisory Authority’s (“**FSA**”) Norm no. 39/28 December 2015, regarding the approval of the accounting regulations in accordance with IFRS, applicable to the entities authorised, regulated and supervised by the FSA – Financial Investments and Instruments Sector (“**Norm 39/2015**”).

According to Article 29 of the Romanian Accounting Law (“**Law 82/1991**”) and to Article 23 (1) from Norm 39/2015, the annual financial statements must be published together with the proposal to allocate the profit or cover the losses.

Accounting profit and distributable amount

Based on the Fund’s Annual Cash Distribution Policy (published on the Fund’s website), the distributable amounts are intended to be set at the level of 100% of the sum of (i) the Fund’s annual dividend income from portfolio companies, except special cash distributions, (ii) plus interest on cash balances, (iii) less expenses and taxation and (iv) less compulsory allocations to reserves according to the regulations in force, in each case for that year.

By applying the principles above-mentioned to the net profit for 2021, the calculation of the distributable amount would be as follows:

Audited Statement of Comprehensive Income for the Year ended 31 Dec 2021	Reported amounts, out of which: (RON)	Distributable amounts (RON)	Distributable amounts under exceptional conditions (RON)
Gross dividend income, <i>out of which</i> :	655,137,209	402,806,827	252,330,382
- <i>annual dividend distributions from portfolio companies</i>	402,806,827	402,806,827	
- <i>special dividends received from portfolio companies</i>	252,330,382		252,330,382
Net gain from equity investments at fair value through profit or loss	4,455,723,508		4,455,723,508
Interest income	13,706,414	13,706,414	
Other income, net	5,560,078		5,560,078
Net loss from other financial instruments at fair value through profit or loss	(4,489,102)		(4,489,102)
Net foreign exchange loss	(170,427)	(170,427)	
Net operating income	5,125,467,680	416,342,814	4,709,124,866
Operating expenses	(106,588,223)	(106,588,223)	
Finance costs	(91,250)	(91,250)	
Profit before income tax	5,018,788,207	309,663,341	4,709,124,866
Withholding tax on the dividend income	(6,143,500)	(6,143,500)	
Profit for 2021	5,012,644,707	303,519,841	4,709,124,866

However, the Annual Cash Distribution Policy does not limit additional cash distribution that can be recommended by the Sole Director, subject to available annual profits and/ or other distributable equity elements (e.g. retained earnings), financing sources, regulatory and corporate approvals and depending on the discount level, in accordance with the IPS and the Discount Control Mechanism.

Considering the high level of 2021 accounting profit (the highest accounting profit ever), the existing cash balance and that the Fund's Sole Director estimates a high level of future cash position based on the cash flow forecasting for the next period (estimated to be generated by a combination of disposals and dividend income), the Fund's Sole Director considers that the exceptional conditions are met and proposes to shareholders the distribution of a gross dividend per share of RON 0.1250 from **2021 accounting profit** calculated as follows:

- RON 303,519,841 from 2021 distributable amount calculated based on the Fund's Annual Cash Distribution Policy (see table above)
- RON 473,512,956 from 2021 distributable amounts under exceptional conditions calculated based on the Fund's Annual Cash Distribution Policy (see table above)

The table below details the calculation of the gross dividend per share:

Total Proposed dividend (RON)	(1)	777,032,797
Number of issued paid shares as at 1 Feb 2022		6,412,196,967
Less treasury shares in balance as at 1 Feb 2022		(195,934,595)
Number of shares entitled to receive dividends¹	(2)	6,216,262,372
Proposed gross dividend per share (RON)	(3)=(1)÷(2)	0.1250

The total dividend amount payable to shareholders (respectively the approved gross dividend per share multiplied by the number of shares entitled to receive dividends) if the dividend proposal is approved by the general shareholders meeting may be different compared to the amount stated above due to the fact that between 1 February 2022 and the record date of the distribution, additional treasury shares will be acquired by the Fund under the current buy-back programme. These treasury shares are not entitled to cash distribution and consequently will be deducted from the number of shares included in the distribution calculation above (i.e. the balance as at 1 February 2022). Any difference arising in the total distribution amount will remain available to the Fund under the retained earnings caption.

Under point 2 of the agenda of 20 April 2022 Extraordinary General Shareholders' Meeting, the Fund's Sole Director proposes the cancellation of the 194,371,754 treasury shares repurchased through the twelfth buy-back programme. The estimated negative reserve that would arise when the cancellation of these shares would be recorded amounts to RON 230,576,693². For prudential reasons, the Fund's Sole Director recommends that RON 230,576,693 from 2021 accounting profit to be allocated to other reserves in order to be available for covering the negative reserves (see point 7 of the agenda of 20 April 2022 Ordinary General Shareholders' Meeting). The actual coverage of this negative reserve using the said amount of RON 230,576,693 transferred to other reserves will be subject to shareholders' approval during the annual shareholders' meeting subsequent to the completion of all cancellation steps.

Also, as required by the Companies' Law no. 31/1990, a minimum 5% of the profit for the year must be transferred to the legal reserve until the reserve equals 20% of the issued share capital. As at 31 December 2021, only an amount of RON 133,041,538 representing 3% of the 2021 profit before income tax was necessary to be transferred to the legal reserve so that the legal reserve to reach the threshold of 20% of the issued share capital.

¹ Computed as the number of the fully paid shares less treasury shares as at 1 February 2022, the date when the Ministry of Public Finance transferred RON 189,182,422 to the Fund, as payment for all unpaid shares.

² For further details see the memo regarding the share capital decrease published on the Fund's website as supporting documentation for the annual General Shareholders Meeting held on 20 April 2022: www.fondulproprietatea.ro/Investor-Relations/GSM-information/GSM-documentation.

Sole's Director Proposal for profit allocation - summary

Considering all the above, the Sole Director's proposal for the allocation of the 2021 audited profit in amount of RON 5,012,644,707 is the following:

- RON 133,041,538 to legal reserves (mandatory transfer);
- RON 777,032,797 to dividends;
- RON 230,576,693 to other reserves (to be used to cover the negative reserves estimated to arise from cancellation of shares acquired during the 12th buy-back programme);
- RON 3,871,993,679 unallocated profit that remains available to the Fund's shareholders.

If the Fund's Sole Director proposals for 2021 profit allocation included on the agenda of 20 April 2022 General Shareholders' Meeting are approved by the shareholders, the remaining balance of Fund's unallocated retained earnings will be as follows:

Retained earnings components	Audited balance as at 31 Dec 2021	Amounts proposed for allocation, subject for 20 April 2022 GSM approval	Remaining unallocated balances
2017 unallocated profit	1,817,797	-	1,817,797
Retained earnings resulted from transition to IFRS 9 starting with 1 January 2018	4,248,175,069 ¹	-	4,248,175,069
2019 unallocated profit	958,267,688	-	958,267,688
Profit for the year ended 2021	5,012,644,707	(1,140,651,028)	3,871,993,679
Total retained earnings	10,220,905,261		9,080,254,233

¹As result of the adoption of IFRS 9, as at 1 January 2018, the fair value reserve on available for sale financial assets net of the related deferred tax in total amount of RON 4,248,175,069 was transferred to retained earnings. For further details on this accounting policy change see the Fund's statutory financial statements for the year ended 31 December 2018.

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

Johan Meyer
Permanent Representative