

Sole Director’s Proposal for the Coverage of the Negative Reserve incurred during the financial year ended 31 December 2023

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 legal and regulatory requirements (i.e. registration of the share capital decrease with the Trade Registry being the last one, also marking 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, Annex 1, article 75.

Negative reserve incurred during 2023

The table below shows the changes in negative reserves recorded during the year ended 31 December 2023:

	<i>Amounts in RON</i>
1 January 2023 (audited)	230,576,693
Coverage of the negative reserve balance from other reserves, according to Resolution no.2 of 21 April 2023 Ordinary General Shareholders’ Meeting	(230,576,693)
Negative equity reserve arising on the cancellation of shares acquired during the 13th buy-back programme (recorded on 12 October 2023) according to share capital decrease Resolution no. 2 of 21 April 2023 Extraordinary General Shareholders’ Meeting	908,845,064
31 December 2023 (audited)	908,845,064

The table below shows additional details on the calculation of the negative reserves booked during 2023:

<i>All amounts in RON</i>		13th Buy-back programme
Period		1 Jan 2022 – 31 Dec 2022
Number of shares cancelled during 2023	(1)	549,019,085
Total acquisition cost at trade price (excluding transaction costs)	(2)	1,157,219,004
Total costs directly related to transactions, out of which:	(3)	37,115,984
• <i>Brokerage fees</i>		231,782
• <i>Financial Supervisory Authority fees</i>		7,351,853
• <i>Stock Exchanges' fees (Bucharest Stock Exchange and London Stock Exchange)</i>		1,390,647
• <i>Central Depository fees</i>		82,447
• <i>Legal advisory</i>		184,202
• <i>Other professional fees</i>		9,045
• <i>Distribution fees paid to the Sole Director in relation with the buy-backs performed</i>		27,866,008
Total buy-back cost impacting the equity of the Fund (trade price plus directly related transaction cost)	(4)=(2)+(3)	1,194,334,988
Correspondent Nominal Value ("NV") at the cancellation date (NV = RON 0.52 per share)	(5)=(1)*NV	285,489,924
Negative equity reserve arising on the cancellation of shares	(6)=(5)-(4)	(908,845,064)

Article 75 of Annex 1 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 prudential 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 2023 of RON 908,845,064 (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 Resolution no. 3 of the Shareholders' Ordinary General Meeting which was held on 21 April 2023.

Franklin Templeton International Services S.à r.l. acting in the capacity of Sole Director and Alternative Investment Fund Manager of Fondul Proprietatea SA

Johan Meyer
Permanent Representative