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HIDROELECTRICA WILL UNFAIRLY BEAR THE BURDEN OF THE REGULATED ENERGY MARKET, RISKING TO LOSE UP TO RON 1 BILLION

Bucharest, 22 July 2019 – Fondul Proprietatea warns of the dire consequences for Hidroelectrica's profitability, and overall business performance, as a direct result of the implementation of ANRE Order no. 10/2019 (the "Order 10") regarding the regulated energy prices and quantities for electricity sold by the producers on the basis of regulated contracts, issued by National Regulatory Authority for Energy (ANRE). According to Order 10, Hidroelectrica, the most profitable state owned enterprise (SOEs), will bear the burden of the regulated energy market, thus being unfairly punished for having increased its efficiency.

Order 10, issued by ANRE on 1 February 2019, has prompted electricity producer Hidroelectrica to submit to shareholder vote at the upcoming General Shareholders' Meeting, on 23 July 2019, **the suspension of its previously approved energy trading strategy** as long as Order 10 and Government Emergency Ordinance no. 114/2018 ("GEO 114"), which Order 10 sets the methodology for being implemented are in force and to **reduce to only up to 35% of its next year expected annual production** the level of electricity to be contracted one year ahead through the centralized electricity markets administrated by OPCOM.

The proposed decision was deemed necessary by the company's management because **Order 10 is unclear as to the exact quantity Hidroelectrica could be obliged by ANRE to sell on the regulated market for the period from 1 January 2020– 28 February 2022**. The document only specifies quantity of up to 65% of its next year's expected production that Hidroelectrica could be required virtually in a discretionary manner to sell at regulated prices, with a profit margin of only 5%. To this day **ANRE has not clarified the electricity volumes** that Hidroelectrica and other concerned companies are required to provide for that period at a regulated price, leaving them in a **state of prolonged uncertainty**. A reply by ANRE to Hidroelectrica's request sent in May 2019, for an estimation of the energy quantity to be assigned by ANRE to the company to be sold through regulated contracts at regulated prices has failed to result in any clarifications being made.

Even though ANRE has not yet specified the quantity of energy that Hidroelectrica has to reserve for the regulated market for the period between 1 January 2020 and 28 February 2022, some of the severe risks the company faces in case it fails to deliver the required quantity are known:

- **A fine up to 10% of the previous year's turnover** for not delivering to suppliers of last resort (SoLR) the necessary quantity of energy for household consumers benefitting from regulated prices. Based on the estimated company turnover for 2019, of RON 3.5 billion, such a fine would amount to RON 350 million.
- **A hydrological risk**. In case of being compelled to sell 65% of its estimated energy on the regulated market and being unable to produce the estimated quantity due to the hydrological situation, Hidroelectrica will be obliged to buy more expensive energy from the competitive market and sell at a cheaper price in order to fulfill its contractual obligations on the regulated market.
- **Potential loss in revenues**. As a direct result of GEO 114 and Order 10, Hidroelectrica will be unable to offer a significant quantity of energy on the competitive markets managed by OPCOM, although

there is a price increase trend on these markets. Thus, Hidroelectrica will be unjustly deprived of potential revenue.

Commenting on the impact of Order 10 on Hidroelectrica, **Johan Meyer, CEO of Franklin Templeton Investments Management Limited UK Bucharest Branch and Portfolio Manager of Fondul Proprietatea** said: *“More than six months after coming into force, GEO 114 and the subsequent Order 10 issued by ANRE continues to wreak havoc on the Romanian energy market, introducing severe distortions in the electricity market. The most significant impact is being absorbed by companies such as Hidroelectrica which has made huge efforts in recent years to improve its efficiency and improve the operational and financial performance of the company. The lack of clarity brought by these unwelcome regulations has put Hidroelectrica in the situation where it is impossible to implement its business strategy as approved by shareholders and raises the risk that the company may again suffer losses such as in the times of the «smart guys». **If ANRE decides to request from the company the maximum quantity to be sold at regulated prices, that is 65% of its energy output, the company would stand to lose as much as RON 1 billion. While the benefits for household consumers remain insignificant, it is obvious that, as the country’s most profitable SOE, Hidroelectrica’s losses will be the loss of each and every Romanian. This uncertainty introduces not only massive negative consequences for the company’s financial performance but also for the proper functioning of the domestic wholesale electricity market.**”*

Fondul Proprietatea has previously underlined Order 10’s potential for creating severe imbalances in the Romanian energy market and urges again the Government and the energy regulator ANRE to engage in thorough consultations with industry stakeholders in order to avoid further painful consequences for Hidroelectrica, as they will have a ripple effect on the energy market, the State budget, and investor sentiment towards Romania.

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Notes to Editors

1. About Fondul Proprietatea

Launched in December 2005, Fondul Proprietatea (“the Fund”) was established to compensate Romanians whose properties were confiscated by the former communist government. An international tender was announced in December 2008, and Franklin Templeton Investments officially took over as investment manager and sole administrator of the Fund on 29 September 2010. The Fund is an alternative investment fund and its investment objective is the maximization of returns and per-share capital appreciation via investments mainly in Romanian equities and equity-linked securities. The Fund listed on the Bucharest Stock Exchange on 25 January 2011 and on the Specialist Fund Market of the London Stock Exchange by means of global depositary receipts (“GDRs”) on 29 April 2015.

The headquarters of Fondul Proprietatea SA are at 78-80 Buzesti Street, 7th Floor, Bucharest District 1, 011017, Romania. For more information on Fondul Proprietatea, please visit <http://www.fondulproprietatea.ro>.

2. About Franklin Templeton Investments

Franklin Resources, Inc. [NYSE:BEN] is a [global investment management](#) organization operating as Franklin Templeton Investments. Franklin Templeton Investments provides global and domestic investment management to retail, institutional and sovereign wealth clients in over 180 countries. Through specialized teams, the Company has expertise across all asset classes—including equity, fixed income, alternative and custom solutions. The Company's more than 600 investment professionals are supported by its integrated, worldwide team of risk management professionals and global trading desk network. With offices in 35 countries, the California-based company has more than 65 years of investment experience and over \$720.5.9 billion in assets under management as of 30 April 2019. For more information, please visit www.franklintempleton.co.uk.

Franklin Templeton established an office in Bucharest in May 2010, with a team of 32 employees, including 6 locally based investment professionals who are further supported by the over 40 portfolio managers and analysts of the wider Templeton Emerging Markets team.

Starting with 1 April 2016, in view of complying with the EU Directive 2011/61 on alternative investment fund managers, the 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 B 36.979, registered with the Romanian Financial Supervisory Authority ("FSA") under number PJM07.1AFIASMDLUX0037/10 March 2016.

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