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POLITICAL APPOINTMENTS AND THE CONTINUING VIOLATION OF CORPORATE GOVERNANCE IN STATE-OWNED COMPANIES THREATENS THEIR STABILITY AND RUNS COUNTER TO ROMANIA'S ECONOMIC INTERESTS

Bucharest, 2 August 2020 – Fondul Proprietatea (hereinafter “the Fund”) expresses its disappointment with the prolonged lack of implementation of corporate governance legislation in state-owned companies and urges the Ministry of Economy, Energy and Business Environment and the Ministry of Transports, Infrastructure and Communications to take immediate measures to ensure the rightful and effective application of GEO 109/2011 on corporate governance in companies in which they are shareholders. It is the second time the Fund raises a red flag on the topic of corporate governance in the last two weeks. The recurrent violations continue to threaten the long-term stability of the businesses and are against Romania’s economic interest, as well as that of Romanian citizens.

The ongoing lack of implementation of corporate governance legislation in state-owned companies is especially evident in eight of the Fund’s portfolio companies, but not limited to them: Complexul Energetic Oltenia SA, Societatea Nationala a Sarii SA Salrom, C.N. Aeroporturi Bucuresti SA, S.N. Aeroportul Timisoara-Traian Vuia S.A., C.N. Administratia Porturilor Maritime Galati, CN Administratia Porturilor Maritime S.A. Constanta, CN Administratia Porturilor Dunarii Fluviale Giurgiu and Plafar. Based on the Fund’s data, the appointment of over 90% of the Government’s representatives in the Administration Boards of these companies are non-conformant with corporate governance rules, as provided in GEO 109/2011, as appointees either lack political independence or relevant professional experience.

The implementation of the legislation on corporate governance (GEO 109/2011) at the level of the Administration Boards has been circumvented or openly violated in many more SOEs through appointments of politically connected individuals, repeated appointments of interim board members and managers as well as indefinite postponement of the selection processes for the appointment of Board members for full 4-year terms. In some instances, we have seen current board members participate in selection processes carried out by the board themselves, implying an obvious conflict of interest and lack of regard for corporate governance principles.

The Fund notes that frequent appointments that ignore proper selection procedures negatively impact the financial results of the companies, the motivation of the management and employees, the implementation of planned investments, as well as relations with unions or business partners. Over the long term, they inhibit the companies’ financial potential and create instability.

Commenting on the violation of corporate governance law in SOEs, **Johan Meyer, CEO of Franklin Templeton Investments and Portfolio Manager of Fondul Proprietatea** said: *“It is profoundly disappointing to see the appointment of politically connected board members and general managers continues to be a practice in Romanian state-owned companies. It should be clear by now that reversing this trend would translate into significant economic and social benefits, from reducing the risk of fraud and corruption to improving companies’ operational performance and increasing the profit for Romanian State, thus unlocking their full economic potential*

and making them truly competitive. We should not forget that SOEs are the property of all Romanians and should thus be organized and managed to maximize their profit in the interest of all citizens.

It is all the more disappointing that the disregard for corporate governance principles continues in the context in which the State needs SOEs to operate at its full potential in order to contribute to the local economy in a difficult period, through jobs, taxes and, wherever possible, dividends.

The government still has a great opportunity to break away from the damaging legacy of the past through the adherence to legislation and the implementation of sound governance practices that advance the interest of all citizens.”

The Fund's research further reveals that many of the appointments in the abovementioned eight companies are politically affiliated or politically supported, while the majority of candidates are without professional experience, or in a conflict of interest. Moreover, more than 70% of the Government's representatives have been recently re-appointed for interim mandates (50% for 4-month mandates), which prolongs the damaging practice of failing to organize professional selection processes for full 4-year terms, that would ensure stability, transparency and predictability in the company.

The Fund welcomes the recent statements made by the Minister of Public Finances on the need for professional management in SOEs and the ministry's determination to oversee the proper implementation of GEO 209/2011. Furthermore, to ensure the legislation on corporate governance is implemented in SOEs, the Fund demands the Ministry of Economy, Energy and Business Environment and the Ministry of Transports, Infrastructure and Communications takes or facilitates the following urgent measures:

- Eliminate political influence in the management of state-owned companies and encourage professionalism and high ethical business standards. This will decrease corruption-related risks, as integrity and reputation are key criteria in the selection and evaluation processes for management bodies.
- Establish and observe clear selection procedures for Administration Boards and executive management teams, for full 4-year terms. The measure will increase stability and allow the companies to plan and implement long-term investments.
- Establish clear processes and responsibilities regarding decision making, which will create predictability and increase transparency in the company. Over long term, it will vastly improve the responsibility of the management towards employees, shareholders and the company.
- Determine performance criteria for management bodies, thus ensuring the overall performance of the company which can be assessed transparently and independently.
- Implement a code of ethics with clear rules regarding conflicts of interests and promoting adequate pay based on performance and profitability for all employees, which will improve their motivation.
- Observe the provisions of GEO 109/2011 which prohibits ministries to interfere with the day to day management of the state-owned companies.

Ultimately, professional and transparent management of state-owned companies benefits the companies themselves, the state budget, and the economy in general. At the same time, it solidifies public trust in the Government's capacity to manage the economy responsibly, especially necessary at such a critical time. As such, the Fund urges the Government to fully and immediately implement the corporate governance legislation in all SOEs and thus assure SOEs' sustainable development.

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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. Following an international tender announced in December 2008, Franklin Templeton Investments was officially appointed 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 together with its subsidiaries as Franklin Templeton. Franklin Templeton’s goal is to deliver better outcomes by providing global and domestic investment management to retail, institutional and sovereign wealth clients in over 170 countries. Through specialized teams, the company has expertise across all asset classes, including equity, fixed income, alternatives and custom multi-asset 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 over 30 countries, the California–based company has more than 70 years of investment experience. 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.

This release 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. 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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