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FROM: Franklin Templeton Investments  
www.franklintempleton.co.uk

For more information, contact:

London: Dorine Johnson, +44.20.7073.8637, [djohnson@frk.com](mailto:djohnson@frk.com)

London: David Masters, Lansons, +44.20.7294.3687, [davidm@lansons.com](mailto:davidm@lansons.com)

Bucharest: Hortensia Nastase, Lowe PR, +40 213010051, [Hortensia.Nastase @ loweworldwide.com](mailto:Hortensia.Nastase@loweworldwide.com)

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## Franklin Templeton Opposes Proposed Restructuring Plan for Romanian State-Owned Energy Companies Electra and Hidroenergetica

### Mergers To Be Voted Upon at November 19 General Shareholders Meetings.

London, 18 November 2010 – Franklin Templeton Investment Management Limited, investment manager and sole administrator of the Fondul Proprietatea (“the Fund”), today announced that it would vote against the Romanian government’s proposed restructuring of its state-owned energy sector. Franklin Templeton’s concerns about the proposed restructuring are outlined in detail below.

The primary concerns are an overall lack of planning to make such a large restructuring project successful and also a high risk that the execution process, if not handled properly, will raise more problems in the future. The proposed restructuring would establish two national energy “champions”, Electra and Hidroenergetica, bringing together coal mines, thermo, hydro and nuclear power plants.

The first of the two new energy companies, **Electra**, would include nuclear power plant Nuclearelectrica, thermo power plants Turceni, Rovinari and Craiova, part of hydro power company Hidroelectrica and the mining firm Oltenia National Lignite Company. The second, **Hidroenergetica**, will include thermo power plants Electrocentrale Deva, Electrocentrale Bucuresti and the rest of the power hydro stations including Iron Gates (Portile de Fier) on the Danube River. Fondul Proprietatea is a shareholder in most of the companies involved in this project and therefore Franklin Templeton is focused on ensuring that any restructuring activity will be in the best interest of its shareholders.

The mergers will be decided upon at the General Shareholder Meetings of the companies scheduled for 19 November 2010.

Franklin Templeton has decided to vote against both merger plans for the following reasons:

- No business plan nor any post-merger restructuring plan for the two new companies has been presented by the Government so far. Given the complexities of combining the assets of the two companies, Franklin Templeton has doubts regarding the successful execution of the merger plan.
- Fondul Proprietatea is in litigation regarding the percentage stake held in one company involved in the merger, Nuclearelectrica. The company did some share capital increases in the past without allowing Fondul Proprietatea to participate, in contradiction with Romanian

laws. As such, we can only vote against a merger that does not consider the entire stake we would be entitled to in one of the assets merged.

- Three of the companies to be brought into the mergers are 100% owned by the State either directly or through the much less profitable Termoelectrica. As such, Fondul Proprietatea's shareholders would, in our view, get diluted.
- The future profitability of the two new companies is unclear and questionable. Some thermo power plants are earning profits based only on the trading of their CO2 emission certificates. They now get these certificates for free but starting in 2013 they will have to buy them. In addition, selling prices for some of these companies are under costs incurred, unpaid receivables are high, environment investments needed are in the range of hundreds of millions of euros and efficiency rates and capacity factors are low.
- Visibility over the merged companies is low, with at least one of them probably undergoing fixed assets revaluation by the end of this year, which can bring risks on the downside for Fondul Proprietatea's net asset value.
- Fear of a lack of transparency after the effective date of the merger, since it will be more difficult to understand how spending is done and how value is created, which will certainly diminish the attractiveness of the companies.

In addition, Romania's Ministry of Economy, to date, has opposed a shareholders agreement between Fondul Proprietatea and the Ministry, both entities being shareholders in the merged companies Hidroenergetica and Electra. The agreement would include, among other provisions, an obligation to list the companies on the Bucharest Exchange in the next 24 months, a two-tier management system, independent management and joint agreement on any budget or investment plans of the new companies.

**Greg Konieczny, Fund Manager of Fondul Proprietatea** commented: "Taking all issues into account we have no choice but to vote against the merger and use all means necessary to protect our rights. We are afraid that without a strong commitment and clear plan to restructure and privatize the new entities, the mergers may result in serious financial troubles for both Electra and Hidroenergetica within the next two years."

**Dr. Mark Mobius, Executive Chairman of Templeton Emerging Markets Group** said: "The proposed creation of Electra and Hidroenergetica to restructure and merge Romania's state-owned energy companies requires more comprehensive planning, transparency and sufficient minority shareholder protections. Given these concerns, the lack of a shareholders agreement between Fondul Proprietatea and the Ministry of Economy, and in order to protect the shareholders of Fondul Proprietatea, we cannot support the restructuring plan, and must vote against the proposal at the upcoming GSM."

Launched in December 2005, Fondul Proprietatea 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 won the Euro 3.4 billion<sup>1</sup> Fondul Proprietatea mandate in July 2009 after being selected from among seven global asset managers. Franklin Templeton officially took over as investment manager and sole administrator of the Fund on 29 September 2010. Franklin Templeton remains focused on listing the Fund on the Bucharest Stock Exchange in early 2011.

Franklin Templeton recently established an office in Bucharest, with a team of 23 employees, including 6 locally based investment professionals who are further supported by the 35 portfolio managers and analysts of the wider Templeton Emerging Markets team.

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<sup>1</sup> Source: Franklin Templeton Investments, 31 August 2010, NAV reporting based on CNVM (local regulator) standards.

Franklin Templeton Investment Management Limited is a subsidiary of Franklin Resources, Inc. [NYSE:BEN], a global investment management organization operating as Franklin Templeton Investments. Franklin Templeton Investments provides global and domestic investment management solutions managed by its Franklin, Templeton, Mutual Series, Fiduciary Trust, Darby and Bissett investment teams. The San Mateo, CA-based company has more than 60 years of investment experience and over USD 664 billion in assets under management as of 31 October 2010. For more information, please visit [www.franklintempleton.com/uk](http://www.franklintempleton.com/uk).

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