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### **FONDUL PROPRIETATEA WARNS ON THE 'BLACK LIST' OF SOEs THAT MAY BE EXEMPTED FROM THE LAW ON CORPORATE GOVERNANCE**

**Bucharest** – On June 6<sup>th</sup>, 2017, the Senate voted for a list of Romanian state-owned companies, including CE Oltenia (a supplier of one third of the country's electricity needs), to be exempted from the law on corporate governance. At the time of writing, the draft law was on its way to the Chamber of Deputies which is the final decision-making body approving this exemption. In addition, we are legitimately concerned that the list of companies exempted could be further supplemented with other SOEs.

The law on corporate governance is a crucial one as it aims to encourage the use of professional and politically-independent management as well as increased transparency in state-owned companies, with the final goal to improve their performance and overall economic growth for the country. Romania has suffered in the past from the results of bad politically-connected management, generating considerable losses for various companies and industries.

In the case of CE Oltenia, the inclusion on the list of exemptions was voted following the unfounded claim that "corporate governance has not produced the expected effects, the management process being hampered, without suppleness."

In this context, Greg Konieczny, Fondul Proprietatea CEO and Portfolio Manager, states:

- "We are extremely disappointed and concerned to see the MP's efforts to further expand the 'black list' of exempted state-owned companies from the law on corporate governance. This is a huge step backwards in the process of increasing the management quality of key SOEs for the benefit of Romania's economy as a whole.
- These exemptions will undermine the credibility of companies among foreign investors and will have a negative impact on the performance of the companies included on the list.

- If until now we witnessed a slowing pace in the implementation of corporate governance principles, or even a halt in it, these latest developments at Parliament level are undoubtedly a regression which could bring further significant damage to key SOEs. This is not simply just about principles; it affects state revenues and the citizens' pockets.
- Only taking into account the dividend from the companies in FP's portfolio at this moment, we can highlight that the increase in dividend received by the Romanian state was almost 12 times, from RON 117 million to RON 1.4 billion. This was achieved in just five years, starting with 2011, when corporate governance was implemented, until 2016.
- We note that CE Oltenia is a clear example of a company that is in dire need of vastly improved corporate governance, in order to continue its growth pattern – from record losses in 2015, reduced losses in 2016 and a small profit in Q1 2017 – and which requires substantial efforts from all actors involved. The effects of the draft law as it is now will be extremely damaging for the long-term stability and development of the company.
- Moreover, exempting companies such as CE Oltenia, and others, from corporate governance will increase their financing cost, as banks usually require higher interest from politically-run enterprises.
- Also, this 'black list' and its expansion could play a major role in undermining Romania's efforts to join the Organisation for Economic Co-operation and Development (OECD) and its capital market to be upgraded to emerging market status. It is a well-known fact that developed economies have very solid and consistently applied corporate governance structures.
- Thus, we particularly encourage the Chamber of Deputies to consider the harm that its vote could bring to companies such as CE Oltenia, but also, last minute additions to this 'black list' which are expected to include other companies from Fondul Proprietatea's portfolio, where corporate governance, based on efficiency, investments and profitability are the rule."

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Launched in December 2005, 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 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 has been trading on the Bucharest Stock Exchange since 25 January 2011 and has been listed on the Specialist Fund Market of the London Stock Exchange by means of global depositary receipts ("GDRs") on 29 April 2015.

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