

Fondul Proprietatea

**Commentary on the Potential Impact
on the Net Asset Value of the Fund
from the Emergency Government
Ordinance approved by the
Government of Romania on 21
December 2018**



This presentation is made solely to the intended recipient and should not be distributed to, or acted upon by, any other person. It is for general information only and reflects the personal views of the presenter and its estimations made based on public information. Nothing herein is intended to constitute advice on investment, legal or tax matters, any form of personal recommendation nor is it an offering, placement or an invitation to buy or sell shares in Fondul Proprietatea SA ("the Fund") or in any other issuer of securities mentioned herein or to initiate any kind of transaction whatsoever. Neither the Fund nor its Fund Manager and its delegates accept any liability of any kind for any losses arising from making use of such information. Furthermore, this presentation is not intended, and should not be construed, as marketing of the Fund in the meaning of the Directive 2011/61/EU on alternative investment fund managers ("AIFMD") in any member states of the European Economic Area. Any person considering an investment in the Fund or any other security mentioned herein should refer to the relevant issuer's prospectus and consult their own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of an investment in the securities. The Fund's prospectus contains important information on the potential risks involved in such an investment which are not included in this presentation. Read the prospectus before investing in the Fund. The prospectus, the latest annual report and semi-annual report can be found on the Fund website www.fondulproprietatea.ro. The distribution of this presentation in certain jurisdictions may be restricted by law and persons who come into possession of it are required to inform themselves about and to observe such restrictions and limitations. Neither the Fund nor its Fund Manager or any of its delegates accepts any liability to any person in relation to the distribution or possession of the presentation in or from any jurisdiction. The shares issued by the Fund and those issued by the Company have not been and will not be registered under the US Securities Act of 1933, as amended, or with any securities authority of any state or territory within the jurisdiction of the United States of America. The Fund's shares may not be offered, sold or delivered in the United States of America or to American citizens or nationals.

The information contained in this presentation is as of its date, unless otherwise indicated, and is not a complete analysis of every material fact regarding the market, and any industry sector, security, or portfolio. Statements of fact cited by the manager have been obtained from sources considered reliable but no representation, warranty or undertaking is made as to the completeness or accuracy of such information and no liability is accepted by the Fund, the Fund Manager or any of its delegates in relation therewith. Furthermore, no responsibility is accepted for updating any facts or assumptions in this document. Because market and economic conditions are subject to rapid change, opinions provided are valid only as of the date of the materials. Any forward-looking statements are based upon certain assumptions; actual events are difficult to predict and are beyond the control of the author, therefore actual events may differ from those assumed. References to particular securities are only for the limited purpose of illustrating general market or economic conditions, as such exist at the date of this presentation, and are not recommendations to buy or sell a security or an indication of the author's or any managed account's holdings. The Fund Manager's or its delegates' opinions are intended solely to provide insight into how the Fund Manager analyses securities and are not a recommendation or individual investment advice for any particular security, strategy or investment product. No information hereof is to be considered, under any circumstances, as an information provided in accordance with Article 23 of the AIFMD as such was transposed by Article 22 of Law no. 74/2015 on managers of alternative investment funds.

The price of shares and income from them can go down as well as up and you may lose some or all of your capital invested. The previous results of a fund or company do not account for future performances. Currency fluctuations will affect the value of foreign investments. All investments are subject to certain risks. Generally, investments offering the potential for higher returns are accompanied by a higher degree of risk. Stocks and other equities representing an ownership interest in a corporation have historically outperformed other asset classes over the long term but tend to fluctuate more dramatically over the shorter term. Small or relatively new companies can be particularly sensitive to changing economic conditions due to factors such as relatively small revenues, limited product lines, and small market share. Smaller company stocks have historically exhibited greater price volatility than larger company stocks, particularly over the short term. The significant growth potential offered by Emerging Markets remains accompanied by heightened risks when compared to developed markets, including risks related to market and currency volatility, adverse social and political developments, and the relatively small size and lesser liquidity of these markets.

The Fund's headquarters are located at 78-80 Buzesti Street, 7th Floor, Bucharest, 1st District, 011017, Romania. Fund's Fiscal Identification Code is 18253260 and Trade Registry registration number is J40/21901/2005. The subscribed share capital is RON 4,771,610,196.08 and paid up share capital is RON 4,582,427,774.08.

Starting with 1 April 2016, in view of complying with the AIFMD, implemented in the Romanian legislation through Law no. 74/2015 on managers of alternative investment funds and Regulation no. 10/2015 on alternative investment fund management, Fondul Proprietatea SA, qualifying as an alternative investment fund, is managed by Franklin Templeton Investment Services S.A. 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 presentation 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, acting through its Romanian branch having its registered office at Premium Point, 78-80 Buzesti Str., 7-8th floors, 1st. District, Bucharest, Romania.

FTIML acts herein as a delegate of FTIS with respect to the portfolio management functions as well as administration services over the Fund.



FRANKLIN TEMPLETON
INVESTMENTS

December 2018

Background and Main Provisions of the Emergency Government Ordinance

On 18 December 2018, the Minister of Public Finance published on its website a fiscal package to be passed through Emergency Government Ordinance (“OUG”), targeting the electricity, gas, telecom, banking and private pension fund sectors. The main provisions of OUG approved on 21 December 2018, with an impact on the Fund’s NAV are as follows:

- 2% Tax on turnover for companies in the electricity and gas sectors (versus 3% Tax on the electricity sector in the initial draft)
- Capping gas prices for households at RON 68 MW/h until February 2022 and for industrial consumers at a mix between RON 68 MW/h, import price, and storage cost
- Capping electricity prices for households and small enterprises (with less than 50 employees and revenues less than EUR 50 million) at a price to be set by the regulator (“ANRE”)
- Asset tax on banks: a progressive tax rate linked to the 3-month and 6-month quarterly ROBOR average
- Changes to the Pillar II Pension Funds:
 - option to transfer from Pillar II to Pillar I after at least 5 years of contributions to Pillar II
 - the reduction of the contribution fee from 2.5% to 1%
 - higher capital requirements for the Pillar II Pension Fund managers

2% Tax on Turnover for Companies in the Electricity Sector

Hidroelectrica – 35.38% of the Fund's NAV¹

mil RON	2017	H1 2018
Revenues	3,265.9	1,992.2
EBITDA	2,224.7	1,457.8
Net profit	1,349	984
Electricity sold (TWh)	14.7	9.2
Impact assuming @ 2% tax on Sales	65.3	39.8
%EBITDA	(2.9%)	(2.7%)
% Net profit	(4.8%)	(4.1%)



- The additional tax as approved by the Government would impact the entire electricity sector (generation, transportation, distribution, supply).
- We would expect the additional cost to be at least partially absorbed through a higher market price for electricity.
- In accordance with its trading strategy, Hidroelectrica generally sells forward (for the following year) a certain percentage of its production.

1. Source: FP Factsheet as at 29 November 2018.

2% Tax on Turnover for Companies in the Electricity Sector

Nuclearelectrica – 1.63% of the Fund's NAV¹

mil RON	2017	H1 2018
Revenues	1,897.29	968.62
EBITDA	872.50	487.34
Net profit	303.87	182.306
Electricity sold (TWh)	10.74	4.97
Impact of the 2% tax on Sales	37.95	19.37
%EBITDA	(4.35%)	(3.98%)
% Net profit	(12.49%)	(10.63%)

1. Source: FP 28 September 2018 Detailed Statement of Investments.

2% Tax on Turnover for Companies in the Electricity and Gas Distribution and Supply Sector

Electricity distribution companies

Company	%NAV ¹	Comments
E-Distributie Banat	5.46%	The companies operate in a regulated market, tariffs are set annually by the local regulator and allow the company to generate a certain rate of return over the asset base. Legislation for the next 5 years has been recently approved; in the past, new taxation introduced by the government has been passed through into the tariffs
E-Distributie Muntenia	4.20%	
E-Distributie Dobrogea	3.43%	

Electricity supply companies

Company	%NAV ²	Comments
Enel Energie Muntenia	0.62%	The companies operate on the liberalized market. As the entire market would be impacted by the new taxation, it is expected that new tax regime would translate into higher electricity prices.
Enel Energie	0.58%	

Gas distribution & supply companies

Company	%NAV ¹	Comments
Engie Romania	4.77%	For the distribution part, the company operates in a regulated market, tariffs are set annually by the local regulator. Legislation for the next 5 years is expected to be approved in the first part of 2019. On the supply side, for households, the final price is set based on a cost plus margin methodology.

1. Source: FP Factsheet as at 29 November 2018.

2. Source: FP 28 September 2018 Detailed Statement of Investments.

Electricity Price Cap for Households and Small Enterprises

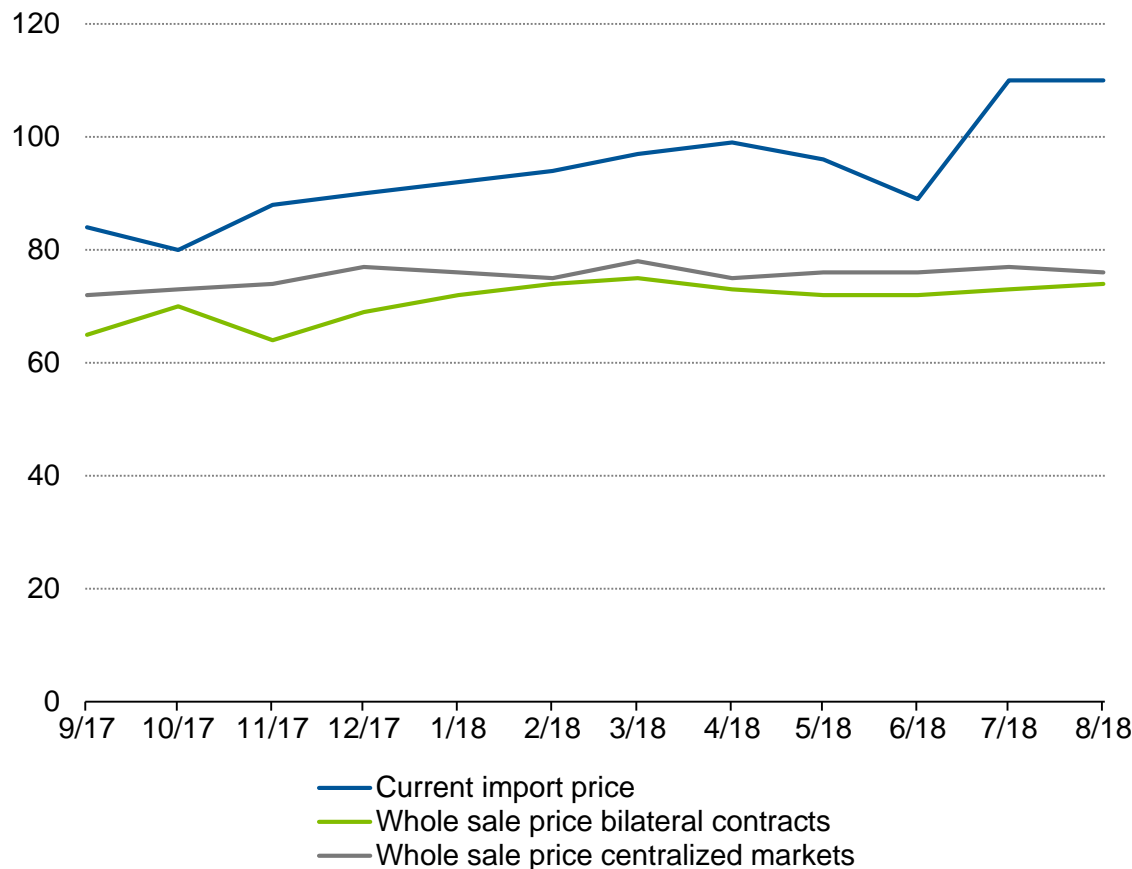
- The liberalization of the electricity markets has been completed at the end of 2017
- The price cap would impact the electricity generation companies (Hidroelectrica, Nuclearelectrica, and CE Oltenia) and will start on 1 March 2019 until 28 February 2022
- No details were provided on the price level, which will have to be set by the regulator (ANRE) at the beginning of each year. The methodology should be published in January 2019
- The regulated market accounts for 25-30% of the total electricity sold, as shown in the table below

	2016		2017		H1 2018	
	Free Market	Regulated Market	Free Market	Regulated Market	Free Market	Regulated Market
Quantity (TWh)	33.5	13.5	36.1	12.4	19.2	5.6
• Quantity sold on the regulated market by Hidroelectrica and Nuclearelectrica	-	4.1	-	1.7	-	0
Price (RON/MWh)	162.8	160.6	172.5	204.9	N/A	221.3

Source: ANRE

Gas Price Cap at RON 68/MWh – Potential impact on OMV Petrom

Gas Price evolution on the wholesale market¹



- Natural gas is mainly produced and commercialized in Romania by the two biggest producers of the country Romgaz and OMV Petrom.
- The average wholesale price for the gas on the centralized market (grey line) and through bilateral contracts (green line) varied between RON 66 – 78 / MhW in the last 12 months, as of August 2018. The proposal of the Government Ordinance is to cap this price at RON 68 / MWh until February 2022 for households and at a mix of RON 68/ MWh, import price, and cost of storage for industrial consumers
- Capping gas prices contradicts already approved Romanian legislation, as well as Romania's obligations as European Union member state to observe the free market principles and liberalize the gas market.

1. Source: ANRE August 2018 report.

Asset tax for banks

BRD GSG – 2.36% of the Fund's NAV¹

mil RON	2017	9mo 2018
Operating income	2,786	2,289
Result before Cost of Risk	1,313	1,185
Net profit	1,406	1,134
Equity	7,369	7,163
Total Assets	54,927	54,508
Impact assuming @ 0.3% tax rate ³	160	164 ²
% Equity	(2.2%)	(2.3%) ²
% Operating income	(5.8%)	(7.2%) ²
% Result before Cost of Risk	(12.2)%	(13.8%) ²
% Net profit	(11.4%)	(14.5%) ²

mil RON	Q1 2018	Q2 2018	Q3 2018	Q4 2018 ⁴
avg. 3M & 6M ROBOR	1.97	2.52	3.18	3.13
avg. (3M & 6M ROBOR less 150 reference rate)	0.47	1.02	1.68	1.63
avg. (3M & 6M ROBOR less monetary policy rate)	(0.17)	0.11	0.68	0.63

1. Source: FP Factsheet as at 29 November 2018.

2. Annualized data.

3. The calculations assumes the taxation is imposed annually; more clarifications are expected.

4. Until 20 December 2018.



- The tax rate would depend on the positive gap between the 3 –and 6-months money market rate and a reference rate proposed in the OUG of **2%**.
- As proposed, the tax rate applied to total assets, would be 10bps for a positive gap of up to 0.5%, 20bps for a positive gap between 0.51% -1.0% , 30 bps for a positive gap between 1.01% - 1.5% , 40bps for a positive gap between 1.51% -2% and 50bps for a positive gap higher than 2% .
- Currently the National Bank monetary policy rate is **2.5%**.

- The approved draft of the OUG included several provisions impacting the Pillar II Pension Funds, but did not include the initial proposal to allow contributors to the Pillar II Pension Funds to redeem their contribution:
 - Ability to transfer contributions from Pillar II to Pillar I (Government pension fund)
 - Reduction of the initial fee from 2.5% to 1.0%
 - Higher capital requirements for the Pillar II Pension Fund managers
 - Broadening the investment opportunities by allowing to invest in public private partnerships

- Overall, the impact of the Emergency Government Ordinance on the Fund's unlisted assets will depend on the level of the price cap for electricity generation companies and the degree to which some of the additional taxes will be passed through in the tariffs by the electricity and gas distribution companies. As mentioned on slide 6, the regulator should enact the methodology in January 2019 (exact timing is not yet known)
- The share prices of the listed companies in the Fund's portfolio have already reacted to the potential negative impact from the initial draft and have recovered part of the losses upon the approval of the amended OUG
- Furthermore, the unlisted companies in the Fund's portfolio are in the annual revaluation process and the updated valuations will be incorporated in the Net Asset Value report for December 2018, which will be published by 15 January 2019. Some of the Fund's largest unlisted assets, including Hidroelectrica, Bucharest Airports, and Salrom had a strong performance throughout the first 9 months of 2018 and this would be considered in the updated valuations.
- However, given that the measures detailed in this presentation were published and approved on very short notice and without public consultation, we are currently still assessing the extent of the impact of the OUG on these valuations. Moreover, as stated above, there are regulatory clarifications still required
- The Fund will carefully analyze all the proposals of EGO and is determined to take any necessary legal steps to defend the value of its portfolio companies

Fondul Proprietatea
Premium Point
Buzesti Street 78-80, 1st District
Bucharest 011017
www.fondulproprietatea.ro



FRANKLIN TEMPLETON
INVESTMENTS