

**BOARD OF NOMINEES ANNUAL REPORT  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

**I. THE ROLE OF THE BOARD OF NOMINEES**

***INTRODUCTION:***

The Board of Nominees (“*BoN*”) of Fondul Proprietatea SA (the “*Fund*” / “*Fondul Proprietatea*”) is a body created in accordance with the Fund’s Constitutive Act and with Article 224 para. (4) of National Security Commission’s Regulation no. 15/2004, which does not have an equivalent correspondence in the corporate body structure regulated by the Companies’ Law no. 31/1990 (“*For concluding the administration contract in case of an investment firm which is not self-managed, and also for verifying the unrolling of this contract, the general shareholding can appoint representatives*”).

The Board of Nominees consists of members appointed by the Ordinary General Shareholders’ Meeting (“*OGM*”) for a mandate of three (3) years, which upon expiry is automatically extended until the next OGM.

The members of the Board of Nominees shall be the persons designated by the Fund’s shareholders (and may themselves be shareholders) and shall hold adequate experience and qualifications to decide (if necessary, by assistance of an independent consultant) whether the transactions proposed by the Fund Manager, which require the approval of the Board of Nominees, are carried out for the benefit of the shareholders. The Board has a diligence and loyalty duty to the Fund, acting in the best interests of its shareholders.

The Board of Nominees shall meet at least quarterly. The convening of the meeting shall be made by the chairperson of the Board of Nominees (selected by the members thereof), by a member of the Board of Nominees or by the Fund Manager. The meeting of the Board of Nominees shall assemble within seven (7) days of convening. The resolutions of the Board of Nominees shall be passed statutorily with a quorum representing the majority of the total members thereof, with the vote of the majority of the voting rights held by the members of the Board of Nominees.

The main duties of the Board of Nominees are described in the Constitutive Act. The [current Constitutive Act](#) is published on the Fund’s website.

***SHORT PRESENTATION OF THE BOARD OF NOMINEES’ ACTIVITY FOR 2020:***

***Composition of the Board of Nominees***

The structure of the Board of Nominees as at 31 December 2020 was the following:

<b>Name</b>	<b>Position</b>	<b>Mandate expiring on</b>
Mr. Piotr Rymaszewski	Chairperson	5 April 2021

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Mrs. Ilinca von Derenthall	Member	26 November 2023
Mr. Mark Henry Gitenstein	Member	29 September 2022
Mr. Julian Rupert Francis Healy	Member	5 April 2021
Mr. Ciprian Lăduncă	Member	16 November 2023

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Considering the fact that the previous mandates for Mrs. Nicoli and Mr. van Groningen ended in September and November 2020, during 13 November 2020 General Shareholders' Meeting ("GSM") shareholders decided to appoint two members in the Board of Nominees of Fondul Proprietatea, as follows:

- Mrs. Ilinca von Derenthall starting with the acceptance date of the mandate and
- Mr. Ciprian Lăduncă starting with the acceptance date of the mandate

The mandates of the new members are for a period of three (3) years onwards.

During this period, the Alternative Investment Fund Manager and Sole Director of Fondul Proprietatea was Franklin Templeton International Services S.à r.l. (the "*Fund Manager*").

### Meetings & Relevant Decisions

In accordance with the provisions of Article 16 of the Constitutive Act of the Fund adopted by the Extraordinary General Shareholders Meeting Decision no. 5 of 29 November 2010 and the provisions of Chapter III of the Regulation for organization and functioning of the Board of Nominees approved by the Board of Nominees' Decision no. 2 of 14 October 2010, as subsequently amended, there were seventeen (17) meetings of the Board of Nominees in 2020, as follows:

- **6 February 2020 – ad-hoc conference call** (Members of the Board joining the conference call: Mr. Piotr Rymaszewski – Chairperson, Mr. Julian Healy, and Mrs. Vivian Nicoli)
- **26 February 2020 – meeting** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairperson, Mr. Steven van Groningen, Mr. Julian Healy, and Mrs. Vivian Nicoli)
- **4 March 2020 – conference call** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairperson, Mr. Steven van Groningen, Mr. Julian Healy, Mrs. Vivian Nicoli, and Mr. Mark Gitenstein)
- **2 April 2020 – video conference call** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairperson, Mr. Mark Gitenstein, Mr. Steven van Groningen, Mr. Julian Healy, and Mrs. Vivian Nicoli)
- **29 April 2020 – video conference call** (Members of the Board joining the conference call: Mr. Piotr Rymaszewski – Chairperson, Mr. Mark Gitenstein, Mr. Steven van Groningen, Mr. Julian Healy, and Mrs. Vivian Nicoli)
- **14 May 2020 – video conference call** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairperson, Mr. Mark Gitenstein, Mr. Steven van Groningen, Mr. Julian Healy, and Mrs. Vivian Nicoli)
- **11 June 2020 – video conference call** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairperson, Mr. Mark Gitenstein, Mr. Steven van Groningen, Mr. Julian Healy, and Mrs. Vivian Nicoli)
- **7 July 2020 – video conference call** (Members of the Board joining the conference call: Mr. Piotr Rymaszewski – Chairperson, Mr. Mark Gitenstein, Mr. Steven van Groningen, Mr. Julian Healy, and Mrs. Vivian Nicoli)

- **20 July 2020 – ad-hoc conference call** (Members of the Board joining the conference call: Mr. Piotr Rymaszewski – Chairperson, Mr. Mark Gitenstein, Mr. Steven van Groningen, Mr. Julian Healy, and Mrs. Vivian Nicoli)
- **2 September 2020 – video conference call** (Members of the Board joining the conference call: Mr. Piotr Rymaszewski – Chairperson, Mr. Steven van Groningen, and Mr. Julian Healy)
- **2 September 2020 – video conference call** (Members of the Board joining the conference call: Mr. Piotr Rymaszewski – Chairperson, Mr. Mark Gitenstein, Mr. Steven van Groningen, and Mr. Julian Healy)
- **23 September 2020 – video conference call** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairperson, Mr. Mark Gitenstein, Mr. Steven van Groningen, and Mr. Julian Healy)
- **14 October 2020 – ad-hoc conference call** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairperson, Mr. Mark Gitenstein, Mr. Steven van Groningen, and Mr. Julian Healy)
- **16 October 2020 – ad-hoc conference call** (Members of the Board joining the conference call: Mr. Piotr Rymaszewski – Chairperson, Mr. Mark Gitenstein, Mr. Steven van Groningen, and Mr. Julian Healy)
- **12 November 2020 – video conference call** (Members of the Board joining the conference call: Mr. Piotr Rymaszewski – Chairperson, Mr. Steven van Groningen, and Mr. Julian Healy)
- **19 November 2020 – video conference call** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairperson, Mr. Mark Gitenstein, Mr. Julian Healy, and Mr. Ciprian Lăduncă)
- **16 December 2020 – video conference call** (Members of the Board joining the meeting: Mr. Piotr Rymaszewski – Chairperson, Mrs. Ilinca von Derenthall, Mr. Mark Gitenstein, Mr. Julian Healy, and Mr. Ciprian Lăduncă)

During 2020, the Board of Nominees issued a total number of fourteen (14) decisions. Among such, the most important resolutions referred to:

- ✓ The prior approval of the Fund Manager’s Annual Activity Report of Fondul Proprietatea SA for the financial year ended 31 December 2019 including the auditor’s report;
- ✓ The approval of the proposal of the Fund Manager of Fondul Proprietatea with respect to the net profit allocation registered for the financial year ended 31 December 2019, and the prior approval of the value of the gross dividend;
- ✓ The approval of the proposal of the Fund Manager of Fondul Proprietatea with respect to the negative reserves coverage incurred in 2019 financial year derived from the cancelation of the Fund’s treasury shares;
- ✓ The prior approval of the proposal of the Fund Manager of Fondul Proprietatea for appointment of Deloitte Audit SRL as the financial auditor of the Fund for the audit of the financial statements for the financial year ended 31 December 2021, setting the duration of the financial audit agreement for the period starting with 31 August 2021 and until 30 June 2022 and the level of its remuneration at a maximum level (without VAT) of EUR 80,000 + GBP 9,800;
- ✓ The approval of the Annual Report of Board of Nominees, including the Review Report drafted by the Board of Nominees in relation to the Performance Report prepared by the Alternative Investment Fund Manager for the financial year ended on 31 December 2019;

- ✓ The approval of the continuation of its mandate as Alternative Investment Fund Manager and Sole Director and the approval of the Procedure to be observed for the selection of a new manager of Fondul Proprietatea S.A.;
- ✓ The approvals regarding General Shareholders Meetings held during 2020;
- ✓ The approval of the Fund Manager’s proposals for amending the Constitutive Act of Fondul Proprietatea;
- ✓ The approval of the Fund Manager’s proposal with respect the decrease of the subscribed registered share capital of Fondul Proprietatea;
- ✓ The prior approval of the Fund Manager’s proposal of amending the Investment Policy Statement of the Fund;
- ✓ The approval of amending several procedures, guidelines and policies;
- ✓ The approval, in accordance with the provisions of Article 10.3 letter (q) of the Management Agreement signed on 24 July 2019, of the costs to be triggered by the extension of the credit facility according to the indicative offer received on 10 June 2020, for a period of 2 years;
- ✓ The appointment of new members of the Consultative Committees;
- ✓ The approval of the Addendum for the termination of the Delegation Agreement signed between FTIS Luxembourg, as Sole Director and Alternative Investment Fund Manager and FTIML Bucharest Branch, as Investment Manager, pursuant to the implementation of the Brexit Plan at the level of FTI;
- ✓ The approval of the costs related to signing different arrangements for rendering various services to the Fund;
- ✓ The prior approval of the buyback programmes of the own shares issued by the Fund;
- ✓ The prior approval of Fondul Proprietatea’s 2021 budget;
- ✓ The approval of certain expense categories reclassifications/ reallocations in the Fund’s 2020 Budget.

## ***SHORT PRESENTATION OF THE CONSULTATIVE COMMITTEES OF FONDUL PROPRIETATEA***

At Fondul Proprietatea’s level, two permanent Consultative Committees are established, in accordance with the applicable legal provisions in force, namely:

- The Audit and Valuation Committee of Fondul Proprietatea (“AVC”)
- The Nomination and Remuneration Committee of Fondul Proprietatea (“NRC”)

### ***➤ Overview of the activity performed by the Audit and Valuation Committee of Fondul Proprietatea during 2020***

#### ***Introduction:***

A permanent Audit and Valuation Committee composed of five Board of Nominees members was established to provide assistance to the governing bodies of the Fund in the area of internal control and financial reporting. This committee reviews the annual financial statements and the proposal for profit distribution, as well as performs other activities under the new European audit regulation. In addition, the Audit and Valuation Committee analyses the proposal for appointing the independent financial auditor, who is appointed by shareholders at an OGM.

The Committee also supervises the Fund’s risk management strategy and its financial performance and assesses any issues brought to its attention by the internal auditor.

The Fund Manager reports to the Audit and Valuation Committee at least once a year on the internal audit plan and on any material relevant matters.

The Audit and Valuation Committee consists only of members of the Board and should be composed of at least three members. The majority of the members of the Audit and Valuation Committee should be independent. The majority of members, including the chairperson, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the committee should have relevant expertise concerning the application of the accounting principles or concerning the financial statutory audit, proved through supporting qualification documents in such fields.

The Audit and Valuation Committee must have the qualifications required by law in the area in which the Fund, as the audited entity, operates. The Chairperson of the Audit and Valuation Committee should be an independent non-executive member, being appointed by the members of the Audit and Valuation Committee or by the Board of Nominees.

### Composition of the Audit and Valuation Committee

As at 31 December 2020, the structure of the Audit and Valuation Committee was the following:

<u>Name</u>	<u>Position</u>	<u>Mandate expiring on</u>
Mr. Julian Rupert Francis Healy	Chairperson	5 April 2021
Mrs. Ilinca von Derenthall	Member	26 November 2023
Mr. Mark Henry Gitenstein	Member	29 September 2022
Mr. Ciprian Lăduncă	Member	16 November 2023
Mr. Piotr Rymaszewski	Member	5 April 2021

During 2020, there were six (6) meetings of the Audit and Valuation Committee, as follows:

- **25 February 2020 – meeting** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairperson, Mr. Steven van Groningen, Mrs. Vivian Nicoli and Mr. Piotr Rymaszewski)
- **29 April 2020 – video conference call** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairperson, Mr. Steven van Groningen, Mrs. Vivian Nicoli and Mr. Piotr Rymaszewski)
- **7 July 2020 – video conference call** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairperson, Mr. Mark Gitenstein, Mr. Steven van Groningen, Mrs. Vivian Nicoli and Mr. Piotr Rymaszewski)
- **2 September 2020 – video conference call** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairperson, Mr. Steven van Groningen, and Mr. Piotr Rymaszewski)
- **23 September 2020 – video conference call** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairperson, Mr. Mark Gitenstein, Mr. Steven van Groningen, and Mr. Piotr Rymaszewski)
- **16 December 2020 – video conference call** (Members of the AVC joining the meeting: Mr. Julian Healy – Chairperson, Mrs. Ilinca von Derenthall, Mr. Ciprian Lăduncă, and Mr. Piotr Rymaszewski)

## ➤ *Overview of the activity performed by the Nomination and Remuneration Committee of Fondul Proprietatea during 2020*

### *Introduction*

A permanent Nomination and Remuneration Committee composed of five Board of Nominees members was established at the level of Fondul Proprietatea, to provide assistance to the governing bodies of the Fund in the area of nomination and changes in remuneration, being independent from the Fund Manager.

The responsibilities of the Nomination and Remuneration Committee are:

- drafting an annual activity report for the evaluation of its activity,
- analysing the reasons for which the changing of the Fund Manager is required, if necessary, and enfoldng the process for the appointment of a temporary Fund Manager, if the Fund Manager is removed from its position.
- elaborating a remuneration policy,
- presenting to the Board of Nominees an analysis regarding the implementation of the management agreement, and proposals regarding the remuneration of the members of the Board of Nominees making sure that these proposals are in accordance with the remuneration policy adopted by Fondul Proprietatea;
- leading the process for Board appointments and making recommendations to the Board.

For the fulfilment of its responsibilities, the Committee shall adopt proposals and recommendations and submit them for implementation to the Sole Director of Fondul Proprietatea and to the Board of Nominees.

The Committee will have the obligation to present reports to the Board of Nominees periodically or on the terms established by the Board of Nominees.

The Nomination and Remuneration Committee shall assist the Fund Manager in fulfilling its responsibilities.

The Nomination and Remuneration Committee consists of 5 non-executive members. The majority of the members of the Nomination and Remuneration Committee should be independent.

### *Composition of the Nomination and Remuneration Committee*

As of 31 December 2020, the structure of the Nomination and Remuneration Committee was the following:

<b>Name</b>	<b>Position</b>	<b>Mandate expiring on</b>
Mr. Piotr Rymaszewski	Chairperson	5 April 2021
Mrs. Ilinca von Derenthall	Member	26 November 2023
Mr. Mark Henry Gitenstein	Member	29 September 2022
Mr. Julian Rupert Francis Healy	Member	5 April 2021
Mr. Ciprian Lăduncă	Member	16 November 2023

During 2020, there were five (5) meetings of the Nomination and Remuneration Committee, as follows:

- **25 February 2020 – meeting** (Members of the NRC joining the meeting: Mr. Steven van Groningen – Chairperson, Mr. Mark Gitenstein, Mr. Julian Healy, Mrs. Vivian Nicoli, and Mr. Piotr Rymaszewski)
- **11 June 2020 – ad-hoc video conference call** (Members of the NRC joining the meeting: Mr. Steven van Groningen – Chairperson, Mr. Mark Gitenstein, Mr. Julian Healy, Mrs. Vivian Nicoli, and Mr. Piotr Rymaszewski)
- **7 July 2020 – video conference call** (Members of the NRC joining the conference call: Mr. Steven van Groningen – Chairperson, Mr. Mark Gitenstein, Mr. Julian Healy, Mrs. Vivian Nicoli, and Mr. Piotr Rymaszewski)
- **26 August 2020 – video conference call** (Members of the NRC joining the conference call: Mr. Steven van Groningen – Chairperson, Mr. Mark Gitenstein, Mr. Julian Healy, Mrs. Vivian Nicoli, and Mr. Piotr Rymaszewski)
- **14 October 2020 – video conference call** (Members of the NRC joining the meeting: Mr. Steven van Groningen – Chairperson, Mr. Mark Gitenstein, Mr. Julian Healy, and Mr. Piotr Rymaszewski)

## II. THE OPINION OF THE BOARD OF NOMINEES REGARDING ANNUAL REPORT FOR THE YEAR END 31 DECEMBER 2020:

### *ANNUAL ACTIVITY REPORT PRESENTED BY THE FUND MANAGER*

This section provides an overview on the main elements of the Fund’s financial position and performance for the financial year ended 31 December 2020.

#### Statement of Financial Position

RON million	31 December 2020	31 December 2019
	<b>Audited</b>	<b>Audited</b>
Cash and current accounts	34.4	31.9
Deposits with banks	660.0	338.4
Treasury bills	-	-
Government bonds	380.3	137.3
Dividend receivables	-	-
Equity investments	9,246.7	11,413.1
Other assets	0.6	0.3
<b>Total assets</b>	<b>10,322.0</b>	<b>11,921.0</b>
Payables	19.8	16.7
Other liabilities	35.3	32.8
<b>Total liabilities</b>	<b>55.1</b>	<b>49.5</b>
Total equity	10,266.9	11,871.5

<b>Total liabilities and equity</b>	<b>10,322.0</b>	<b>11,921.0</b>
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Source: IFRS financial statements

The **cash and cash equivalents** of the Fund in 2020, included term deposits with banks, treasury bills and government bonds. All instruments are denominated in RON and have maturities of up to one year.

The increase in **liquid assets** by 111.7% during the year ended 31 December 2020 is mainly due to the cash inflows from the dividends collected from portfolio companies (RON 1,207.9 million) and the proceeds from disposal of equity investments of RON 920.6 million which were offset by the payments for the acquisition of own shares within the eleventh buy-back programme (RON 1,065.2 million), including the tender offers finalised in March, September and December and by the payments to shareholders regarding cash distributions in total amount of RON 398.0 million.

The net decrease in **equity investments** of RON 2,166.4 million during 2020 was mainly generated by:

- the decrease in the value of unlisted holdings by RON 787.9 million following the valuation update process at the end of the year, mainly generated by the decrease of CN Aeroporturi București SA (total impact RON 398.8 million), E-Distribuție companies (total impact RON 591.6 million) and Societatea Națională a Sării SA (total impact RON 74.2 million), partially netted off by the increase in value for Hidroelectrică SA (total impact RON 242.4 million);
- the disposal of 1.7 billion shares in OMV Petrom SA under an accelerated bookbuild offering and the disposal of the entire holding in Nuclearelectrică SA (total impact RON 920.6 million);
- the negative evolution of OMV Petrom SA share price, the largest listed holding (total impact RON 529.9 million, share price decrease of 18.7%).

## Statement of Comprehensive Income

<b>RON million</b>	<b>2020 Audited</b>	<b>2019 Audited</b>
Gross dividend income	1,218.7	942.9
Net unrealised gain/ (loss) from equity investments at fair value through profit or loss	(1,103.2)	2,260.3
Net realised gain/ (loss) from disposal of equity investments at fair value through profit or loss	(142.6)	9.9
Interest income	14.0	9.9
(Impairment losses)/ Reversal of impairment losses on receivables, net	(0.2)	(10.3)
Other income, net*	3.2	3.4
<b>Net operating (loss)/ income</b>	<b>(10.1)</b>	<b>3,216.1</b>
Administration fees recognised in profit or loss	(55.2)	(50.3)
Other operating expenses	(27.1)	(25.6)
<b>Operating expenses</b>	<b>(82.3)</b>	<b>(75.9)</b>
Finance costs	(0.1)	(0.4)
<b>(Loss)/ Profit before income tax</b>	<b>(92.5)</b>	<b>3,139.8</b>
Income tax expense	(10.5)	(9.9)
<b>(Loss)/ Profit for the year</b>	<b>(103.0)</b>	<b>3,129.9</b>
Other comprehensive income	-	-



**Total comprehensive income for the year** **(103.0)** **3,129.9**

Source: IFRS financial statements

\* Other income, net included mainly the net gain/ (loss) from revaluation of government securities at fair value, net foreign exchange gain/ (loss), annual income from the GDR depository bank and other operating income/ (expenses).

**Gross dividend income** for the year ended 31 December 2020 mainly included the dividend income earned from from E-Distribuție companies (RON 522.9 million), Hidroelectrica SA (RON 399.5 million) and OMV Petrom SA (RON 175.6 million).

The **net unrealised loss from equity investments at fair value through profit or loss** for 2020 of RON 1,103.2 million was generated by the negative change in fair value of the Fund's holdings as result of the negative impact of the COVID-19 pandemic on the economic activity and global capital markets. This was mainly related to the holdings in CN Aeroporturi București SA (RON 398.8 million), OMV Petrom SA (RON 331.0 million), E-Distribuție Banat SA (RON 246.6 million), E-Distribuție Muntenia SA (RON 200.7 million), and E-Distribuție Dobrogea SA (RON 144.3 million), partially netted off by the increase in Hidroelectrica SA fair value (RON 242.4 million) as a result of the company's strong performance.

The **net realised loss from disposal of equity investments at fair value through profit or loss** for 2020 was generated by the partial disposal of OMV Petrom SA holding (realised loss of RON 198.9 million) and by the disposal of the entire holding in Nuclearelectrica SA (realised gain of RON 56.3 million).

**Interest income** arose from deposits held with banks and from short-term government securities.

Additional details on the **administration fees** for 2020 and comparatives are presented below:

<b>RON million</b>	<b>2020</b>	<b>2019</b>
	<b>Audited</b>	<b>Audited</b>
<b>Recognised in profit or loss</b>	<b>55.2</b>	<b>50.3</b>
Base fee	49.0	43.9
Distribution fee for dividends	4.2	6.4
Performance fee	2.0	-
<b>Recognised in other comprehensive income</b>	<b>10.7</b>	<b>4.4</b>
Distribution fee for buy-back programmes	10.7	4.4
<b>Total administration fees</b>	<b>65.9</b>	<b>54.7</b>

Source: IFRS financial statements

The increase in the base fee in 2020 compared to 2019 was mainly as a result of the increase in the Fund's share price on BVB while the increase in the distribution fee for buy-back programmes was as a result of the three tender offers finalised in March, September and December 2020 (for 585.0 million shares in total) vs. only one tender in August 2019 (for 150 million shares).

The distribution fee for dividend distribution is lower in 2020 compared to 2019 as a result of the lower dividend per share distributed by the Fund in 2020.

The performance fees recorded in 2020 are as a result of the Fund's share price discount to NAV lowering below 15%/20% in certain trading days.

### **Other operating expenses**

The main categories of other operating expenses are detailed in the table below:

<b>RON million</b>	<b>2020</b>	<b>2019</b>
	<b>Audited</b>	<b>Audited</b>
FSA monthly fees	9.4	9.8
Transaction costs	5.5	1.5
Depository fees	0.6	0.7
Other expenses	11.6	13.6
<b>Other operating expenses</b>	<b>27.1</b>	<b>25.6</b>

Source: IFRS financial statements

In 2020, **other expenses** caption comprised mainly legal and litigation assistance expenses, Board of Nominees remuneration and related expenses, portfolio valuation expenses, expenses with external audit, investor relations expenses and PR expenses.

**The Board of Nominees has reviewed the financial information and related statements set out above and is satisfied that they correctly reflect in all material aspects the activity of the Fund during 2020.**

### ***OPINION OF THE EXTERNAL AUDITORS***

The Board of Nominees has reviewed Deloitte’s audit report, which is presented together with the statutory financial statements. The Board has had the opportunity to discuss the report in detail with Deloitte.

The audit opinion contains an unqualified audit opinion on the Fund’s annual financial statements for the year ended 31 December 2020.

The key audit matters included in the audit report are valuation and accounting of equity investments.

### **Coverage of the accounting losses and dividend distribution**

The Fund incurred an accounting loss of RON 102,978,968 for the financial year ended 31 December 2020. The accounting loss will be covered from 2016 unallocated profit, subject to shareholders’ approval.

Although there is no distributable profit as per the statutory annual financial statements for the year ended 31 December 2020, the Fund’s Sole Director remains committed to ensure an annual cash distribution to the Fund’s shareholders. Thus, once the coverage of the accounting loss mentioned above (which legally impedes any distribution) is approved by the Fund’s shareholders, the Sole Director’s proposal, subject to shareholders’ approval, is a cash distribution of RON 0.072 per share from 2016 and 2017 unallocated profits.

### **Coverage of the Negative Reserves**

The Fund recognises the treasury shares (repurchases of own shares and Global Depository Receipts (“GDRs”)) at trade date as a deduction to shareholders’ equity, in an equity reserve account. Treasury shares are recorded at acquisition cost, including brokerage fees, distribution fees and other transaction costs directly related to their acquisition.

Upon completion of all legal and regulatory requirements (i.e. registration of the share capital decrease with the Trade Registry being the last one, marking also the moment when the cancellation becomes effective), the treasury shares are cancelled and netted off against the share capital and/ or other reserves. The details on the accounting treatment to be applied for the registration and cancelation of treasury shares can be found in the FSA Norm 39/ 2015, article 75.

At the cancellation date, only a reallocation between the equity accounts is booked, without any impact on profit or loss or an additional total shareholders' equity decrease (as compared to the acquisition impact).

A negative reserve (equity element) arises upon cancellation of the shares acquired in a buy-back programme, if the acquisition value (trade price and related costs) is higher than the nominal value. However, as mentioned before, this does not generate an additional shareholder's equity decrease.

The total negative reserve recorded by the Fund as at 31 December 2019 of RON 640,744,712 was related to the cancellation of the shares acquired within the ninth buy-back programme. During the 28 April 2020 Annual GSM, the shareholders approved the coverage of these negative reserves, as recorded in the annual audited IFRS financial statements of the Fund, from other reserves allocated specifically for this purpose during the 2019 Annual GSM.

During 28 April 2020 Annual GSM, the shareholders approved the cancellation of the 403,812,443 treasury shares repurchased within the tenth buy-back programme, which was completed on 30 September 2020. The shareholders also approved the allocation RON 236,026,121 from 2019 audited profit to other reserves in order to be available for covering the related negative reserves. The actual coverage of this negative reserve using the amount of RON 236,026,121 transferred to other reserves will be subject to shareholders' approval during the 2021 annual shareholders' meeting.

The table below shows the changes in the negative reserves recorded during the year ended 31 December 2020:

<i>All amounts in RON</i>	
<b>Opening balance of the negative reserve as at 1 January 2020</b> <i>(audited)</i>	<b>640,744,712</b>
Coverage of negative reserves according with GSM Resolution no. 2/ 28 April 2020	(640,744,712)
Negative equity reserve arising on the cancelation of the 10th buyback programme shares according to EGM resolution no. 2/ 28 April 2020 (on 30 September 2020)	236,026,121
<b>Closing balance of the negative equity reserve at 31 December 2020</b> <i>(audited)</i>	<b>236,026,121</b>

Source: Fondul Proprietatea

The table below shows additional details on the estimated negative reserve that will arise upon the cancelation of the treasury shares in balance as at 31 December 2020:

<b>Negative reserve that would arise on cancelation of the treasury shares in balance as at 31 December 2020</b>		<b>Buy-back programme 11</b>
Number of shares to be canceled	(1)	797,961,287
Total costs (including transaction costs and other costs), representing the accounting value of the shares to be canceled in the future (RON)	(2)	1,086,443,209
Correspondent nominal value (NV = RON 0.52 per share) (RON)	(3)=(1)*NV	414,939,869
<b>Estimated negative reserve to be booked on cancelation (RON)</b>	<b>(4)=(3)-(2)</b>	<b>(671,503,340)</b>

Source: Fondul Proprietatea

During the 28 April 2021 Annual GSM, the Fund's Sole Director would propose the cancellation of the 797,961,287 treasury shares repurchased within the eleventh buy-back programme and would also recommend shareholders to allocate RON 671,503,340 from the balance of distributions for which the statute of limitation occurred and from the unallocated profit of the years 2017-2019 to other reserves in order to be available for covering the related negative reserve. The actual coverage of this negative reserve using the amount of RON 671,503,340 transferred to other reserves will be subject to shareholders' approval during the annual shareholders' meeting subsequent to the completion of all cancellation steps.

## **2020 BUDGET COMPARED TO ACTUAL RESULTS**

The Board of Nominees asked the Fund Manager to analyse the significant variances in the main categories of income and expenses of Fondul Proprietatea by comparing the budget for the year ended 31 December 2020 (approved by shareholders on 15 November 2019) to the audited actual results for the same period.

The result of this analysis has been reviewed by the Board of Nominees, which is satisfied with the explanations given for any significant variances.

Together with the approval of 2020 Budget in November 2019, the shareholders granted the Fund Manager the power to:

- exceed the expenses budgeted for investment management and administration fees;
- exceed the expenses budgeted for commissions and fees (FSA fees and Depositary bank fees), to the extent arising from the Fund's actual average NAV, the value of assets under custody and/ or volume of portfolio and buy-backs trades in 2020 being higher than the ones assumed in the 2020 Budget;
- incur on behalf of the Fund all expenses necessary (e.g. intermediary fees of brokers or investment banks, market authorities' fees, lawyers, public notaries, other advisors' costs, as well as other related expenses, commissions or fees) related to the execution of acquisitions and disposals of equity investments or participation in share capital increases of portfolio companies;
- incur on behalf of the Fund all expenses related to the buy-back of the Fund's shares or the equivalent global depositary receipts corresponding to shares of the Fund and their subsequent cancellation (after the approval by shareholders), under any buy-back programme approved by shareholders;
- incur on behalf of the Fund any expenses related to bank loans/ credit facilities contracted by the Fund, with Board of Nominees approval;
- incur on behalf of the Fund any expenses related to the potential change of the Fund Manager and Sole Director of the Fund (expense incurred by the Board of Nominees);
- incur on behalf of the Fund any expenses resulting from the implementation of any regulation applicable to the Fund.

even if this will result in exceeding the total expenses approved in the 2020 Budget.

A detailed breakdown of the figures has been included in **Annex 1**. According to the main assumptions of the 2020 Budget, there are certain categories of income and expenses which cannot be budgeted, such as: foreign exchange gains and losses, revenues and expenses from impairment

adjustments, fair value changes, gains or losses and other expenses related to disposal of financial instruments, and other items of income/ expenses. Consequently, this actual vs. budget analysis presents an overview of the non-budgeted items and a detailed explanation for the budgeted items.

**A. Total net actual results**

The table below presents an overview of the budgeted/ non-budgeted results for 2020:

<i>RON million</i>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Budgeted items	600.0	1,149.7	549.7
Non-budgeted items	-	(1,252.6)	(1,252.6)
<b>Total profit / (loss) for the period</b>	<b>600.0</b>	<b>(102.9)</b>	<b>(702.9)</b>

The *actual net result* of the Fund for the year ended 2020 was a loss of RON 102.9 million, while the budgeted result corresponding to the budgeted items was a profit of RON 600.0 million.

The main difference is due to the non-budgeted items which relate to the *net loss from equity instruments at fair value through profit or loss* amounting to RON 1,245.8 million, generated by the negative share price evolution of the Fund's listed holdings (mainly coming from OMV Petrom SA) and the valuation update of the unlisted holdings within the Fund's portfolio. The negative impact includes the influence of the current economic context of the Covid-19 pandemic and other market factors (e.g. oil prices) and special dividends from the portfolio companies.

**B. Variances for the net budgeted profit (please see Annex 1)**

**Net result overview**

The actual net profit was RON 1,149.7 million, compared to a budgeted profit of RON 600.0 million. The main contributor to the actual result recorded in 2020 was the net dividend income (annual dividends and special dividends) amounting to RON 1,208.1 million (almost double compared to the budgeted amount of RON 676.9 million).

**Income from current activity**

Actual total income from current activity for the year 2020 significantly exceeds the budgeted income mainly due to the distribution of special dividends in amount of RON 522.9 million made by the energy distribution companies.

The table below presents additional details and explanations for the differences between the budgeted and actual net dividend income received from the portfolio companies:

<b>Portfolio company</b>	<b>Actual net dividend</b>	<b>Budgeted net dividend</b>	<b>Variance</b>	<b>Reason for variance</b>
<b>All amounts in RON</b>				
E-Distributie companies	522,904,893	-	522,904,893	Special dividends distributed in February 2020, not included in the 2020 Budget.
Hidroelectrica SA	399,532,431	358,726,907	40,805,524	Increase due to special dividends distributed in May 2020 of RON 149.6 million, not included in the

Portfolio company	Actual net dividend	Budgeted net dividend	Variance	Reason for variance
				2020 Budget, partially offset by the lower annual dividends for 2019.
OMV Petrom SA	166,791,490	145,270,008	21,521,482	Increase of dividends in 2020 due to higher dividend per share distributed by the company for 2019
CN Aeroporturi Bucuresti SA	36,700,452	68,014,798	(31,314,346)	Decrease of dividends in 2020 due to (1) a lower profit in 2019 and (2) a decrease of the distribution ratio.
Nuclearelectrica SA	33,139,263	25,391,669	7,747,594	Increase of dividends in 2020 due to increase of 2019 profit.
Societatea Nationala a Sarii SA	19,803,298	37,428,150	(17,624,852)	Decrease of dividends in 2020 due to a lower distribution ratio.
Engie Romania	12,084,099	16,411,668	(4,327,569)	Decrease of dividends in 2020 due to decrease of 2019 profit.
ENEL Energie Muntenia SA	10,586,397	-	10,586,397	Special dividends approved during September 2020, not included in the 2020 Budget.
Other	6,592,013	25,736,043	(19,144,030)	Decrease is due to Alro SA which recorded a loss in 2019 and did not distribute dividends.
<b>TOTAL</b>	<b>1,208,134,336</b>	<b>676,979,243</b>	<b>531,155,093</b>	

In addition, *interest income* was higher by RON 12.0 million during 2020, arising from deposits with banks and from short-term government securities held during the period. The related cash inflows were mainly collected from special dividends received from Hidroelectrica SA and CN Aeroporturi București SA at the end of 2019 and from E-Distribuție Banat SA, E-Distribuție Dobrogea SA, E-Distribuție Muntenia SA during February 2020. The collection of special dividends was not budgeted according to the assumptions for the 2020 Budget.

#### **Expenses from current activity**

During the year ended 31 December 2020, the *actual expenses from current activity* amount to RON 98.2 million and exceed the budgeted expenses of RON 86.4 million. The negative variance is mainly due to the expenses resulting from the public tender offers performed within the 11<sup>th</sup> buy-back programme which are detailed in the following paragraphs.

*Third-party service providers' expenses* account for the majority of the Fund's total expenses. The main component of this category relates to the fees due to the Sole Director (a detailed breakdown of third-party service providers' expenses is shown in *Annex 2*).

The budgeted and actual expenses with investment management and administration fees were adjusted by adding the distribution fee for buy-backs recognised directly in other comprehensive income. A corresponding presentation adjustment was included in order to reconcile the actual net results to the Fund's accounting records.

During 2020, the total investment management and administration fees were higher by RON 15.6 million. Additional details on the negative variance are presented in the table below.

<i>All amounts in RON</i>	<b>Actual</b>	<b>Budgeted</b>	<b>Variance</b>	<b>Reason for variance</b>
<b>Recognised in profit or loss</b>	<b>55,232,615</b>	<b>46,989,459</b>	<b>8,243,156</b>	
Base fee	51,049,614	43,651,768	7,397,846	Due to increase of Fund's average closing share price during 2020 to RON 1.2469 per share vs. average share price used in the 2020 Budget of RON 1.0900 per share and due to the performance fees of RON 1.96 million during 2020 vs. nil performance fees budgeted.
Distribution fee related to dividend distribution	4,183,001	3,337,691	845,310	Due to higher actual dividend per share (RON 0.0642 vs. RON 0.05 – budgeted amount).
<b>Recognised in other comprehensive income</b>	<b>10,674,300</b>	<b>3,283,080</b>	<b>7,391,220</b>	
Distribution fee related to buy-backs	10,674,300	3,283,080	7,391,220	Due to public tender offers part of the 11 <sup>th</sup> buy-back programme, finalised in March, September and December 2020. In the 2020 Budget no tender offers were assumed to take place during the year.
<b>Total administration fees</b>	<b>65,906,915</b>	<b>50,272,539</b>	<b>15,634,376</b>	

The increase in investment management and administration fees was partially offset by lower costs with legal and litigation assistance during 2020 (by RON 4.9 million) and lower costs with GSM organisation (by RON 1.1 million).

In addition, *commissions and fees (including FSA fees)* were higher than budgeted mainly due to higher FSA fees as a result of the public tender offers performed within the 11<sup>th</sup> buy-back programme (1% fee of the tender offers' total value charged by FSA).

For the two expense categories, investment management and administration fees and commissions and fees (including FSA fees), the shareholders granted the Fund Manager the power to exceed the budgeted expenses (even if this will result in exceeding the total expenses approved in the 2020 Budget).

Given global restrictions as a result of the Covid-19 pandemic, savings were recorded in relation to PR expenses (such as conferences and PR events related expenses), IR expenses and expenses with BoN meetings.

### ***Information on expense reallocations***

In the Fund's 2020 Budget a reallocation between *Third-party service providers' expenses* and *Finance costs* was performed as a result of actual expenses exceeding budgeted figures, due to:

- *Finance costs* (related to the credit facility from BRD – Groupe Societe Generale SA) which are higher than 2020 budgeted expenses due to the increased commitment fee from 0.16% (according with the 2020 budget) to 0.20%, according with the agreement signed with BRD in June 2020;
- *External audit fee*: The actual external audit fee is higher than the budget due the impact of a negative foreign exchange effect (higher actual EUR/RON exchange rate than estimated in the 2020 Budget) and due to the transportation expenses, which according to the contract, have been billed separately based on the supporting documentation (related to the expenses incurred for London board meeting).

### **Capital Expenditure**

During the year ended 31 December 2020 the Fund made no investments in tangible or intangible assets.

## **III. PORTFOLIO INVESTMENT OF THE FUND:**

### ***BOARD OF NOMINEES OPINION REGARDING THE INVESTMENT POLICY OF THE FUND AND THE DEGREE OF COMPLIANCE WITH THE INVESTMENT POLICY AND ANY CHANGES AND ACTIONS THAT LEAD TO TARGETED RESULTS***

The investment objective of the Fund is the maximization of returns to shareholders and the increase of the net asset value per share via investments mainly in Romanian equities and equity-linked securities. Details of the investment policy can be found in the Investment Policy Statement and Constitutive Act.

**The Board of Nominees considers that during 2020 the Fund Manager was in compliance with the applicable investment policy adopted by the Fund.**

### ***BOARD OF NOMINEES OPINION REGARDING PORTFOLIO INVESTMENTS AND THE PERCENTAGE REPRESENTED BY EACH TYPE OF INVESTMENT AT THE END OF 2020***

The Board holds frequent and detailed discussions on managing the Fund to maximize shareholder value. This includes developing a consistent approach for appropriate actions aimed at reducing the discount at which the Fund's shares and GDRs are traded on the Bucharest Stock Exchange and the London Stock Exchange, respectively. In particular, the Board noted that there was a decrease in the discount and the Board continues to be supportive of the implementation of various Discount Control Mechanism techniques including daily buyback programmes, tender offers, returns of capital and dividends. The Board also discusses at its meetings with the Fund Manager potential strategies for unlocking the value of the individual unlisted investments. However, past performance is not a guarantee of future performance which can be influenced by various factors, as set out by the Fund Manager in the Performance Report.



## ***BOARD OF NOMINEES OPINION REGARDING THE SIGNIFICANT TRANSACTIONS OF THE FUND FOR 2020***

During 2020 the Fund sold:

- the entire holding of 7.1% (as at 31 December 2019) in Nuclearelectrica SA
- 1.7 billion shares in OMV Petrom SA under an accelerated bookbuild offering. The agreed selling price was RON 0.33 per share and the gross proceeds of the transaction amount to RON 561 million. The Fund's remaining participation in OMV Petrom SA after this transaction is of 6.9973% of its share capital.

Also during 2020, the Fund contributed to the share capital increases of some portfolio companies, as follow:

- In December 2019, the Fund subscribed to the share capital increase of Zirom SA with a cash contribution of RON 4.8 million which was effective on 8 January 2020, the date of registration with the Romanian Trade Register.
- On 15 September 2020, the Fund subscribed to the share capital increase of Nuclearelectrica SA with a cash contribution of RON 97,350 (9,735 shares at RON 10 per share). This was effective on 27 October 2020, the date of registration with the Romanian Central Depository.
- On 12 November 2020, the Fund subscribed to the share capital increase of Hidroelectrica SA with a cash contribution of RON 415,110, which was effective on 15 January 2021, at the registration date with the Romanian Trade Register.

The Board of Nominees considers that these transactions were performed in the interest of the shareholders.

## ***BOARD OF NOMINEES OPINION REGARDING KEY PORTFOLIO VALUATIONS DURING THE PERIOD***

The Fund Manager updated the valuations reports for 19 unlisted holdings which are the basis of the companies' valuations, representing 100% of the unlisted portfolio. KPMG Advisory and Darian DRS were selected to assist during the valuation process. The valuation date was 31 October 2020, but the valuations considered the subsequent developments until 31 December 2020. The valuation report for Alcom SA was also updated for year-end reporting.

The most important impact is represented by the decrease in the fair value of CN Aeroporturi București SA with RON 398.8 million and of Enel Distribuție Companies with RON 591.6 million, netted of by the increase in the fair value of Hidroelectrica SA with RON 242.4 million. The full list of valuation reports impact for 2020 is included in Annex 2.

In terms of listed holdings, the most significant impact relates to OMV Petrom SA share price decrease by 18.7% (net negative impact of RON 529.9 million during the period).

**The Board of Nominees considers that the valuations were carried out in accordance with appropriate valuation methodology and international standards.**

## **IV. BOARD OF NOMINEES OPINION REGARDING THE ANNUAL REPORT OF THE INTERNAL AUDITORS AND THE ANNUAL COMPLIANCE REPORT**

The Board of Nominees has reviewed the internal audit reports prepared by Fondul Proprietatea's internal auditor, Mazars and been informed about the internal audit performed by Franklin Templeton Investments Internal Audit team, for the year ended 31 December 2020.

The overall objective of the report of the internal auditors was to assess whether the key risks relating to Fondul Proprietatea's operations are being managed in an appropriate manner and in compliance with applicable regulatory requirements and FTI policies and procedures.

The reports have not identified any major deficiencies regarding the design and effectiveness of controls which were subject to the internal audit work.

The Board of Nominees received and reviewed the Annual Compliance Report prepared by the local compliance officer, addressing the management of the compliance risk within the company / fund.

The compliance report covered the activities performed by Franklin Templeton Investment Management Limited UK Bucharest Branch and Fondul Proprietatea in respect of compliance with applicable local rules and regulations and internal procedures.

No material compliance exceptions have been reported in 2020.

**In the opinion of the Board of Nominees, both the Annual Report of the Internal Auditors and the Annual Compliance Report have been prepared to an adequate standard.**

## **V. THE GENERAL EVALUATION OF THE ACTIVITY OF THE FUND MANAGER FOR 2020**

The most notable activities during 2020 include:

- Completion of the eleventh buy-back programme for 797.96 million shares. The total value of the programme excluding transaction costs was RON 1.07 billion, and the average share price was RON 1.3347 per share;
- Gross dividend distribution of RON 418.0 million to shareholders for the 2019 financial year;
- Completion of 3 tender offers for 585 million shares (374 million in the form of shares and 211 million in the form of GDRs), at a purchase price of RON 1.39 per share and the USD equivalent of RON 69.50 per GDR, executed in order to accelerate the eleventh buy-back programme;
- Continued efforts to promote the Fund and raise its visibility, as well as the visibility of the Romanian capital market, the local companies (listed or candidates for being listed), and of Romania in general, in online conferences and events;
- Key shareholders' approvals during 2020:
  - The cancelation of the shares bought-back by the Fund during 2019;
  - The new Investment Policy Statement, in force starting 23 July 2020;
  - The distribution of a gross dividend of RON 0.0642 per share for the 2019 financial year, as proposed by the Sole Director;
  - The approval of several changes of the Constitutive Act

- The appointment of two new Board of Nominees members
- The approval of the twelfth buy-back programme to repurchase a maximum number of 800 million shares, between 1 January 2021 - 31 December 2021.

**The Board of Nominees considers that the actions taken by the Fund Manager and Investment Manager to try to increase the NAV per share and lower the discount level were appropriate and consistent with the interests of the Fund's shareholders.**

## **VI. RECOMMENDATIONS FOR SHAREHOLDERS:**

In view of the proposed points of the agenda of the annual GSM, the Board of Nominees recommends to shareholders that they approve all the proposals of the Fund Manager submitted to this meeting.

Please note that this report is the annual report of the Board of Nominees prepared on the basis of Article 17 of the Constitutive Act of Fondul Proprietatea.

*The Board of Nominees*  
**REVIEW REPORT**

Pursuant to the Management Agreement in place starting with 1 April 2020 (“**Management Agreement**”) in force for reporting period, the Fund Manager is obliged to submit to the Board of Nominees a report on its performance and of its Fund Manager (as defined below) (“**Performance Report**”).

The reporting period covered by the Performance Report was 1 January 2020 - 31 December 2020 (the “**Reporting Period**”).

The Performance Report should include:

- a) reporting on the fulfilment of the Discount Objective as defined in the Investment Policy Statement (“**IPS**”);
- b) reporting on the fulfilment of the NAV Objective, as defined in the IPS;
- c) reporting on the fulfilment of obligations regarding Discount Control Mechanisms (“**DCM**”);
- d) a summary of the regulatory issues affecting the performance during the Reporting Period;
- e) a summary of market conditions affecting the performance during the Reporting Period;
- f) such other matters as the Fund Manager wishes to bring to the attention of the shareholders in relation to its activities and performance in the relevant period.

The Fund Manager presented its Performance Report to the NRC and BoN during meetings that took place on 22 February 2021.

In accordance with its obligations under clause 9.6 of the Management Agreement in force, the BoN has reviewed the Performance Report and is submitting this Review Report for the information of shareholders of the Fund at their annual meeting on 28 April 2021. This Review Report covers the contents of the Performance Report and an evaluation of the performance of the Fund Manager, as well as any other factors considered relevant by the BoN to the decision of the shareholders at the GSM regarding the continuation or termination of the Management Agreement and the Fund Manager’s mandate.

## **1) CONTENTS OF THE PERFORMANCE REPORT**

The BoN considers that the Performance Report has been prepared with due care and contains all material relevant information.

## **2) EVALUATION OF THE FUND MANAGER’S PERFORMANCE**

### *The Discount Objective*

As set out in the Performance Report, the Discount range for the Fund during the Reporting Period was 49,71% – 39,96%, closing the year at a record low of 9,71%. The Discount Objective, as defined in the IPS, is to achieve a discount level of less than 15% during at least than 2/3 of the trading days in the Reporting Period. The average Discount for the Reporting Period was 21,06 %.

The Discount Objective has, therefore, not been achieved.

During the Reporting Period, the Fund Manager undertook a number of actions aimed at reducing the Discount level and increasing demand for the Fund's shares. These actions are described on pages 12-17 of the Performance Report and include the distribution of RON 1.48 billion to shareholders through dividend distributions and buy-backs (including three tender offer), as set out on pages 14 and 15 of the Performance Report. The BoN supports these efforts by the Fund Manager to address the Discount level and increase demand for the Fund's shares. The BoN believes in employing diverse instruments to create liquidity for making cash distributions (including proceeds from portfolio disposals and dividends received from investee companies and the prudent use of a credit facility). The BoN continues to encourage the Fund Manager to make increased efforts to convert liquid portfolio investments into cash, given the Fund's persistent deep discount.

The BoN believes that COVID-19, as well as the delays of listings of state-owned enterprises on the Bucharest Stock Exchange, have been significant factors in the Fund Manager's failure to achieve the Discount Objective.

### *The NAV Objective*

As set out in the Performance Report, the Adjusted NAV per share (as defined in the IPS) as at 31 December 2020 was RON 1.7709 and was higher than the NAV per share as at 31 December 2019, which was RON 1.7339.

The NAV Objective, as defined in the IPS, is to ensure that the Adjusted NAV per share at the end of the Reporting Period was higher than the NAV per share as at the end of the previous reporting period (i.e. 31 December 2019) and this has been achieved.

In the Performance Report, the Fund Manager has described factors contributing to the NAV evolution during the Reporting Period and also the most important actions it has undertaken to protect and enhance the value of portfolio companies.

The BoN continues to support appropriate shareholder activism implemented by the Fund Manager on behalf of the Fund at companies in which it has minority stakes and which are controlled by the Romanian State or other dominant investors in order to ensure that the companies are managed for the best interest of the shareholders. The BoN fully agrees with the Fund Manager's robust and consistent approach to corporate governance and its commitment to trying to ensure the recruitment of independent and qualified professional management teams and competent boards of directors at portfolio companies.

### **3) DCM ACTIVITIES**

The BON has noted the account of DCM activities by the Fund Manager, in relation to its obligations under the Management Agreement in force, as set out in the Performance Report.

#### **4) REGULATORY AND MARKET FACTORS AND OTHER MATTERS**

The Performance Report provides summary descriptions of the COVID-19 pandemic as well as other factors (regulatory, market and others) which the Fund Manager considers have had an impact on its performance in seeking to fulfil the two Objectives set out in the IPS. The Fund Manager conducts an on-going detailed analysis of the potential impact of the various sovereign risk factors. The BoN considers that the Fund Manager has set out a fair account of these factors and in appropriate detail and that all of them are relevant and useful for an assessment of the Fund Manager's performance in the Reporting Period.

#### **5) SUMMARY CONCLUSION**

Based on all relevant information available to it, the BoN considers that the Performance Report provides a fair and materially accurate account of the Fund Manager's performance during the Reporting Period in respect of the two above IPS Objectives and in respect of its fulfilment of its obligations as regards DCMs.

The BoN emphasizes that, in accordance with the Management Agreement and IPS in force, the Fund Manager's performance in the Reporting Period is being evaluated in this Review Report against the two above IPS Objectives and as regards its DCM obligations and not as measured against other possible benchmarks such as, for example, Romanian and frontier stock market indices or global stock market indices.

Based on its review of the Performance Report and its regular meetings and interaction with the Fund Manager, the BoN considers that the performance of the Fund Manager has been creditable during the Reporting Period and evaluates the Fund Manager's efforts and actions positively.

**Mr. Piotr RYMASZEWSKI – Chairperson**

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**Mrs. Ilinca von DERENTHALL – Member**

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**Mr. Mark Henry GITENSTEIN – Member**

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**Mr. Julian Rupert Francis HEALY – Member**

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**Mr. Ciprian LĂDUNCĂ – Member**

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## Annex 1

### 2020 Adjusted Actual vs. Budgeted Results

	Budget 2020	Reallocations	Budget 2020 (after reallocations)	Actual 2020	Variance	
	RON	RON	RON	RON	RON	%
<b>I. INCOME FROM CURRENT ACTIVITY</b>	<b>682,698,421</b>	-	<b>682,698,421</b>	<b>1,226,469,790</b>	<b>543,771,369</b>	<b>&gt;100%</b>
<b>Budgeted income</b>	<b>682,698,421</b>	-	<b>682,698,421</b>	<b>1,226,469,790</b>	<b>543,771,369</b>	<b>&gt;100%</b>
Net dividend income	676,979,243	-	676,979,243	1,208,134,336	531,155,093	78%
BNY Mellon income	3,689,451	-	3,689,451	4,296,475	607,024	16%
Interest income	2,029,727	-	2,029,727	14,038,979	12,009,252	>100%
<b>II. EXPENSES FROM CURRENT ACTIVITY</b>	<b>86,356,861</b>	-	<b>86,356,861</b>	<b>98,245,253</b>	<b>11,888,392</b>	<b>14%</b>
<b>Budgeted expenses</b>	<b>86,356,861</b>	-	<b>86,356,861</b>	<b>98,245,253</b>	<b>11,888,392</b>	<b>14%</b>
Third-party service providers' expenses*	67,630,468	(3,300)	67,627,168	73,811,696	6,184,528	9%
Commissions and fees (including FSA fees)**	10,355,051	-	10,355,051	20,497,461	10,142,410	98%
Investor relations expenses	2,313,022	-	2,313,022	398,297	(1,914,725)	-83%
Public relations expenses	1,613,512	-	1,613,512	620,356	(993,156)	-62%
Board of Nominees remunerations	1,447,380	-	1,447,380	1,376,217	(71,163)	-5%
Bank fees and distribution to shareholders fees (including Depository fees)	768,931	-	768,931	624,854	(144,077)	-19%
Finance costs	73,200	3,300	76,500	76,500	-	0%
Amortisation expenses	251,762	-	251,762	161,372	(90,390)	-36%
Insurance expenses	355,020	-	355,020	324,046	(30,974)	-9%
Other expenses	1,548,515	-	1,548,515	354,454	(1,194,061)	-77%
<b>III. ADJUSTED GROSS PROFIT/ (LOSS)***</b>	<b>596,341,560</b>	-	<b>596,341,560</b>	<b>1,128,224,537</b>	<b>531,882,977</b>	<b>&gt;100%</b>
Distribution fee and other costs related to buy- backs - presentation adjustments	3,707,010	-	3,707,010	21,432,746	17,725,736	
<b>IV. GROSS PROFIT/ (LOSS)</b>	<b>600,048,570</b>	-	<b>600,048,570</b>	<b>1,149,657,283</b>	<b>549,608,713</b>	<b>&gt;100%</b>
Income tax	-	-	-	-	-	n/a
<b>V. NET PROFIT/ (LOSS)</b>	<b>600,048,570</b>	-	<b>600,048,570</b>	<b>1,149,657,283</b>	<b>549,608,713</b>	<b>&gt;100%</b>
<b>VI. CAPITAL EXPENDITURE</b>	<b>542,341</b>	-	<b>542,341</b>	-	<b>(542,341)</b>	<b>n/a</b>
Intangible assets	542,341	-	542,341	-	(542,341)	n/a

#### Note

#### Note

For presentation purposes:

\*Third-party service providers' expenses include also the amounts representing distribution fees related to buy-backs which, according to the accounting policy, are recognised in other comprehensive income during the period.

\*\*Commissions and fees expenses include also other costs related to buy-backs (such as, brokerage fees and regulatory fees) which, according to the accounting policy, are recognised in other comprehensive income during the period.

\*\*\*The gross profit has been adjusted with the distribution fees related to buy-backs and other related costs which are recognised in other comprehensive income.

**2020 Actual vs. Budgeted - Detail of Third-party Services Providers' Expenses**

	<b>Budget 2020</b>	<b>Reallocations</b>	<b>Budget 2020 (after reallocations)</b>	<b>Actual 2020</b>	<b>Variance</b>	
	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>RON</b>	<b>%</b>
<b>Third-party service providers' expenses</b>	<b>67,630,468</b>	<b>(3,300)</b>	<b>67,627,168</b>	<b>73,811,696</b>	<b>6,184,528</b>	<b>9%</b>
Investment management and administration fees	50,272,539		50,272,539	65,906,915	15,634,376	31%
Legal and litigation assistance (including stamp duty expenses for litigations)	8,973,838		8,973,838	4,077,673	(4,896,165)	-55%
Portfolio holdings valuation	1,694,965		1,694,965	1,630,453	(64,512)	-4%
GSM organisation	1,071,000		1,071,000	14,648	(1,056,352)	-99%
Tax compliance and tax advisory expenses	554,850		554,850	313,722	(241,128)	-43%
Software maintenance and support fees	296,935		296,935	216,638	(80,297)	-27%
External audit	507,489	50,000	557,489	530,863	(26,626)	-5%
Trade Register and Official Gazette expenses	261,800		261,800	1,320	(260,480)	-99%
Internal audit	187,425		187,425	85,866	(101,559)	-54%
Other third-party service providers' expenses	3,809,627	(53,300)	3,756,327	1,033,598	(2,722,729)	-71%



**Annex 2**

**Table of portfolio holdings valuation at 31 December 2020 vs. 31 December 2019**

No.	Portfolio company	Value in 31 Dec 2020 IFRS financial statements (RON million)	Value in 31 Dec 2019 IFRS financial statements (RON million)	Difference (RON million)	Difference (%)
1	Hidroelectrica SA	5,128.90	4,886.5	242.4	+4.96%
2	CN Aeroporturi Bucuresti SA	624.10	1,022.9	(398.8)	-38.99%
3	Engie Romania SA	538.8	512.4	26.4	+5.15%
4	E-Distributie Banat SA	272.7	519.3	(246.6)	-47.49%
5	CN Administratia Porturilor Maritime SA	235.8	248.7	(12.9)	-5.19%
6	E-Distributie Muntenia SA	227.8	428.5	(200.7)	-46.84%
7	Societatea Nationala a Sarii SA	201.2	275.4	(74.2)	-26.94%
8	E-Distributie Dobrogea SA	177.2	321.5	(144.3)	-44.88%
9	ENEL Energie SA	52.5	26.3	26.2	+99.62%
10	ENEL Energie Muntenia SA	43.1	41.7	1.4	+3.36%
11	Zirom SA	24.9	31.7	(6.8)	-21.45%
12	CN Administratia Canalelor Navigabile SA	17.8	14.9	2.9	+19.46%
13	Posta Romana SA	13.1	11.5	1.6	+13.91%
14	Alcom SA	8.8	11.5	(2.7)	-23.48%
15	Aeroportul International Timisoara - Traian Vuia SA	6.4	13.9	(7.5)	-53.96%
16	CN Administratia Porturilor Dunarii Maritime SA	5.2	4.2	1.0	+23.81%
17	Aeroportul International Mihail Kogalniceanu - Constanta SA	2.6	1.4	1.2	+85.71%
18	CN Administratia Porturilor Dunarii Fluviale SA	2.3	1.7	0.6	+35.29%
19	Plafar SA	1.9	1.7	0.2	+11.76%
20	Complexul Energetic Oltenia SA	-	-	-	-
	<b>TOTAL</b>	<b>7,585.1</b>	<b>8,375.7</b>	<b>(790.6)</b>	<b>-9.44%</b>