

# Fondul Proprietatea SA

PREPARED IN ACCORDANCE WITH LAW NO 297/2004,  
CNVM REGULATION NO 1/2006 AND FSA NORM NO 39/2015

(this is a translation from the official Romanian version)



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# Company Information

## The Company

- Fondul Proprietatea SA (“the Fund” or “Fondul Proprietatea” or “FP”) was incorporated on 28 December 2005 as a joint stock company operating as a closed-end investment company. The Fund is registered with the Bucharest Trade Register under the number J40/21901/2005 and has the sole registration code 18253260.
- The Fund’s Investment Objective is the maximisation of returns and per-share capital appreciation via investments mainly in Romanian equities and equity-linked securities.
- During the reported period, the Fund was managed by Franklin Templeton International Services S.à r.l. (“FTIS” or “AIFM”) as its Sole Director and AIFM under the Directive 2011/61/EU on Alternative Investment Fund Managers (“AIFM Directive”) and local implementation regulations, under the Management Agreement executed in 2015 (“2015 MA”) in order to comply with the AIFM Directive (FTIS mandate commenced on 1 April 2016). FTIS has delegated the role of Investment Manager as well as certain administrative functions to Franklin Templeton Investment Management Limited United Kingdom, Bucharest Branch (“FTIML”/ “Investment Manager”) for the entire duration of its mandate as AIFM. FTIML was the previous Sole Director and Fund Manager of Fondul Proprietatea (between 29 September 2010 and 31 March 2016).
- Since 25 January 2011, the Fund’s shares have been listed on the Bucharest Stock Exchange (“BVB”). Since 29 April 2015, the Fund’s global depository receipts (“GDRs”) have been listed on the Specialist Fund Market of the London Stock Exchange (“LSE”).

The following table shows a summary of the financial information of the Fund:

NAV* and share price developments	Notes	31 December 2017	31 December 2016	31 December 2015	Change % YE 2017 vs YE 2016
Total shareholders’ equity (RON million)		10,790.2	11,386.0	12,053.1	-5.2%
Total NAV (RON million)	a, m	10,790.4	11,427.4	12,087.8	-5.6%
NAV per share (RON)	a, m	1.2375	1.1865	1.1564	
NAV per share change in the period (%)	b	+4.3%	+2.6%	-4.6%	
NAV per share total return in the period (%)	h	+13.1%	+7.3%	-0.6%	
Share price as at the end of the period (RON)		0.8640	0.7950	0.8100	
Share price low (RON)	c	0.8000	0.6780	0.7250	
Share price high (RON)	c	0.9250	0.8100	0.9270	
Share price change in the period (%)	b	+8.7%	-1.9%	-9.6%	
Share price total return in the period (%)	i	+21.5%	+4.9%	-4.1%	
Share price discount to NAV as at the end of the period (%)	e	30.2%	33.0%	30.0%	
Average discount for the period (%)	e	28.0%	32.1%	29.1%	
Average daily share turnover (RON million)	d, k	6.9	6.7	8.1	+3.0%
GDR price as at the end of the period (USD)		11.4500	9.4000	9.9000	
GDR price low (USD)	f	9.4000	8.5000	9.4500	
GDR price high (USD)	f	11.4500	10.6500	11.5500	
GDR price change in the period (%)	b	+21.8%	-5.1%	-13.5%	
GDR price total return in the period (%)	b, j	+35.9%	+1.2%	-8.5%	
GDR price discount to NAV as at the end of the period (%)	e	28.0%	31.8%	29.0%	
Average GDR price discount for the period (%)	e	27.4%	30.0%	29.2%	
Average daily GDR turnover (USD million)	g, l	1.0	0.9	1.5	+11.1%

Source: Fondul Proprietatea

\*Net Asset Value (“NAV”) for the end of each period was computed in the last working day of the month.

## Notes:

- a. Prepared on the basis of local rules issued by the Romanian capital market regulator
- b. Compared to the end of the previous period
- c. Source: BVB - REGS market - Closing prices
- d. Source: BVB
- e. Share Price/ GDR Price discount to NAV as at the end of the period (%) is calculated as the discount between FP share closing price on BVB/ FP GDR closing price on LSE on the last trading day of the period and the NAV per share at the end of the period; the average discount is calculated according with the Investment Policy Statement ("IPS"), using the latest published NAV per share at the date of calculation.
- f. Source: LSE - Closing prices
- g. Source: Bloomberg
- h. The NAV per Share Total Return is calculated in RON by geometrically linking total returns for all intermediate periods when official NAV is published. Each total return for a single period is calculated using the following formula: the NAV per share at the end of the period plus any cash distribution during the period, dividing the resulting sum by the official NAV per share at the beginning of the period. The resulting single period total returns are geometrically linked to result in the overall total return. The Fund uses this indicator as it is directly related to the performance objectives of the Fund included in the IPS.
- i. The Share Price Total Return is calculated in RON by geometrically linking daily total returns. Daily total return is calculated as the closing price at the end of the day, plus any cash distributions on that day, dividing the resulting sum by the closing price of the previous day. The resulting single period total returns are geometrically linked to result in the overall total return. The Fund uses this indicator as it is directly related to the performance objectives of the Fund included in the IPS.
- j. The GDR Price Total Return is calculated in USD by geometrically linking daily total returns. Daily total return is calculated as the closing price at the end of the day, plus any cash distributions on that day, dividing the resulting sum by the closing price of the previous day. The resulting single period total returns are geometrically linked to result in the overall total return. The Fund uses this indicator as it is directly related to the performance objectives of the Fund included in the IPS.
- k. Including the tender offer carried by the Fund in March 2017, with a total value of RON 337.3 million (excluding transaction costs) for the 370.7 million shares acquired on BVB
- l. Including the tender offer carried by the Fund in March 2017, with a total value of USD 57.9 million (excluding transaction costs) for the 269.3 million shares equivalent to the GDRs acquired on LSE
- m. The difference in change (%) between total NAV and NAV per share is due to the change in the number of treasury shares during the period (own shares acquired through buy-backs, both ordinary shares and GDRs, are excluded from the number of shares used in the computation of NAV per share)

Share capital information	31 December 2017*	31 December 2016	31 December 2015
Issued share capital (RON)	4,854,034,784.56	9,168,314,116.70	10,074,080,745.90
Paid in share capital (RON)	4,664,852,362.56	8,859,073,619.20	9,746,649,630.90
Number of shares in issue	9,334,682,278	10,786,251,902	11,193,423,051
Number of paid shares	8,970,869,928	10,422,439,552	10,829,610,701
Nominal value per share (RON)	0.52	0.85	0.90

*\*Note: the following changes in the Fund's share capital took place in 2017:*

1. On 18 January 2017, the Trade Registry registered Resolution no. 7/11 October 2016 of the Fund's Extraordinary General Shareholders Meeting ("EGM") for approving the decrease of the subscribed share capital from RON 9,168,314,116.70 to RON 8,562,968,634.10, pursuant to the cancellation of 712,171,156 own shares acquired by the Fund during the sixth buy-back programme, endorsed by the Financial Supervisory Authority ("FSA") through the Endorsement no. 1/12 January 2017.
2. On 24 March 2017 the Trade Registry registered Resolution no 10/31 October 2016 of the Fund's EGM for approving the subscribed share capital decrease from RON 8,562,968,634.10 to RON 5,742,226,025.22, through the reduction of the nominal value of the shares from RON 0.85 to RON 0.62, for the coverage of the cumulated accounting losses as reflected in the Fund's financial statements as at 31 December 2015 in amount of RON 2,473,157,471.66 and through the reduction of the nominal value of the Fund's shares from RON 0.62 to RON 0.57, as a result of the approved shareholders cash distribution of RON 0.05 per share, endorsed by the FSA through Endorsement 79/22 March 2017.
3. On 16 June 2017 the Trade Registry registered Resolution no 1/28 February 2017 of the Fund's EGM for approving the subscribed share capital decrease from RON 5,742,226,025.22 to RON 5,238,521,987.92, through the reduction of the nominal value of the shares from RON 0.57 to RON 0.52, as a result of the approved shareholders cash distribution of RON 0.05 per share, endorsed by the FSA through Endorsement 362/12 June 2017.
4. On 29 November 2017, the Trade Registry registered Resolution no. 3/3 May 2017 of the Fund's EGM for approving the decrease of the subscribed share capital from RON 5,238,521,987.92 to RON 4,854,034,784.56, pursuant to the cancellation of 739,398,468 own shares acquired by the Fund during the seventh buy-back programme, endorsed by the Financial Supervisory Authority ("FSA") through the Endorsement no. 1166/23 November 2017

The following table shows a summary of the Fund's performance by each quarter of 2017:

NAV* and share price developments	Notes	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Total NAV (RON million)	a, g	10,790.4	10,605.9	10,570.3	10,689.5
Total NAV change in the period (%)		+1.7%	+0.3%	-1.1%	-6.5%
NAV per share (RON)	a, g	1.2375	1.2078	1.1953	1.1943
NAV per share total return in the period (%)	b, d	+2.5%	+1.1%	+4.2%	+4.9%
Share price as at the end of the period (RON)		0.8640	0.8450	0.8300	0.8880
Share price total return in the period (%)	b, e	+2.3%	+1.8%	-1.20%	+18.1%
Share price discount to NAV as at the end of the period (%)	c	30.2%	30.0%	30.6%	25.6%
GDR price as at the end of the period (USD)		11.45	11.05	10.40	10.50
GDR price total return in the period (%)	b, f	+3.6%	+6.3%	+4.6%	+18.0%
GDR price discount to NAV as at the end of the period (%)	c	28.0%	28.7%	30.5%	25.1%

Source: Fondul Proprietatea

\*Net Asset Value ("NAV") for the end of each period was computed in the last working day of the month.

#### Notes:

- Prepared on the basis of local rules issued by the Romanian capital market regulator
- Compared to the end of the previous period
- Share Price/ GDR Price discount to NAV as at the end of the period (%) is calculated as the discount between FP share closing price on BVB/ FP GDR closing price on LSE on the last trading day of the period and the NAV per share at the end of the period;
- The NAV per Share Total Return is calculated in RON by geometrically linking total returns for all intermediate periods when official NAV is published. Each total return for a single period is calculated using the following formula: the NAV per share at the end of the period plus any cash distribution during the period, dividing the resulting sum by the official NAV per share at the beginning of the period. The resulting single period total returns are geometrically linked to result in the overall total return. The Fund uses this indicator as it is directly related to the performance objectives of the Fund included in the IPS.
- The Share Price Total Return is calculated in RON by geometrically linking daily total returns. Daily total return is calculated as the closing price at the end of the day, plus any cash distributions on that day, dividing the resulting sum by the closing price of the previous day. The resulting single period total returns are geometrically linked to result in the overall total return. The Fund uses this indicator as it is directly related to the performance objectives of the Fund included in the IPS.
- The GDR Price Total Return is calculated in USD by geometrically linking daily total returns. Daily total return is calculated as the closing price at the end of the day, plus any cash distributions on that day, dividing the resulting sum by the closing price of the previous day. The resulting single period total returns are geometrically linked to result in the overall total return. The Fund uses this indicator as it is directly related to the performance objectives of the Fund included in the IPS.
- The difference in change (%) between total NAV and NAV per share is due to the change in the number of treasury shares during the period (treasury shares acquired through buy-backs, both ordinary shares and GDRs, are excluded from the number of shares used in the computation of NAV per share)

#### Share information

Primary listing	Bucharest Stock Exchange
Since	25 January 2011
Secondary listing	London Stock Exchange
Since	29 April 2015
Bucharest Stock Exchange symbol	FP
London Stock Exchange symbol	FP.
Bloomberg ticker on BVB	FP RO
Bloomberg ticker on LSE	FP/ LI
Reuters ticker on BVB	FP.BX
Reuters ticker on LSE	FPq.L
ISIN	ROFPTAACNOR5
Financial Supervisory Authority register no	PJR09SIIR/400006/18.08.2010
LEI CODE	549300PVO1VWBFH3DO07
CIVM registration no	AC-4522-2/13.12.2017

## Shareholder Structure (as at 31 December 2017)

Shareholder categories	% of subscribed share capital	% of paid-in share capital	% of voting rights
The Bank of New York Mellon (GDRs) <sup>2</sup>	35.62%	37.07%	38.14%
Foreign institutional shareholders	19.57%	20.36%	20.95%
Romanian private individuals	17.63%	18.35%	18.88%
Romanian institutional shareholders	17.37%	18.07%	18.59%
Foreign private individuals	3.15%	3.28%	3.38%
Romanian State represented by Ministry of Public Finance <sup>3</sup>	0.06%	0.06%	0.06%
Treasury shares <sup>4</sup>	2.70%	2.81%	
Unpaid shares <sup>5</sup>	3.90%	-	-

Source: Depozitarul Central SA ("Romanian Central Depository")

As at 31 December 2017, there were 6,522 shareholders and the total number of voting rights was 8,718,991,588.

## Largest Shareholders

Shareholder	Latest ownership disclosure	% of voting rights
Elliott Associates	24 November 2017	14.89%
City of London Investment Mgmt.	5 April 2016	5.04%
NN Group	27 March 2017	5.02%

Source: ownership disclosure submitted by shareholders

## Contact Details

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<sup>1</sup> The unpaid shares of the Romanian State, represented by the Ministry of Public Finance, and the treasury shares held by Fondul Proprietatea were not taken into consideration at the calculation of the total number of voting rights

<sup>2</sup> Fondul Proprietatea held no global depository receipts as at 31 December 2017

<sup>3</sup> The percentage represents the paid shares; the percentage of subscribed share capital of Romanian State represented by Ministry of Public Finance is 3.96%, including the unpaid shares

<sup>4</sup> 251,878,340 treasury shares acquired by the Fund in the seventh, eighth and ninth buy-back programmes, based on settlement date (187,099,090 ordinary shares acquired and 64,779,250 shares corresponding to GDRs acquired, converted into shares)

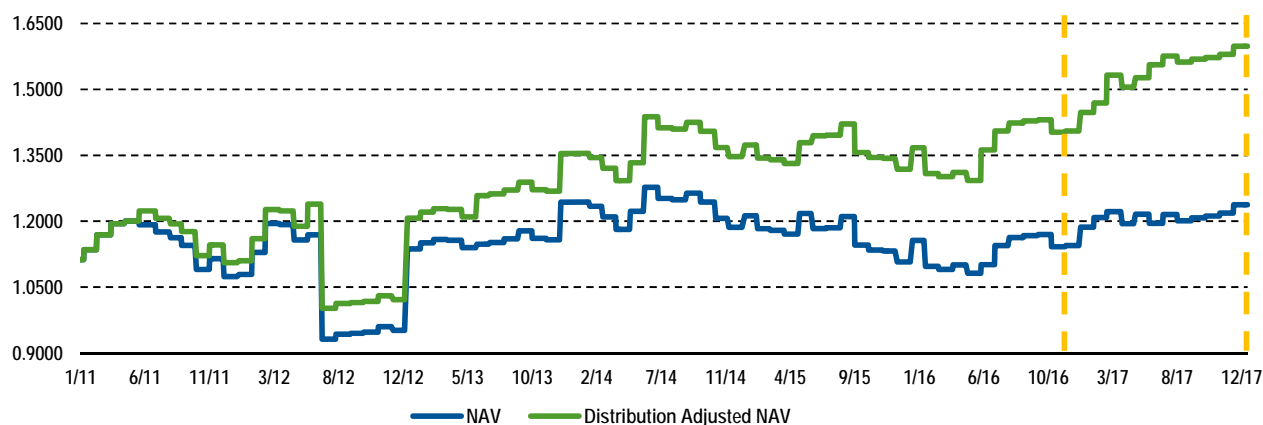
<sup>5</sup> Shares unpaid by Romanian State represented by Ministry of Public Finance

## Sole Director's Letter to Shareholders

Dear Shareholders,

Our focus throughout 2017 has remained unwavering on protecting and creating shareholder value for the Fund's shareholders through our active management approach, close supervision of the portfolio companies, and a constant focus on value-enhancing corporate actions. In 2017, the Fund's NAV per share total return was 13.1% and the Fund's share price cumulative performance was 21.5%. The discount of the Fund's share price to the NAV ranged between a high of 35.7%<sup>1</sup> and a low of 23.9%<sup>1</sup>, and ended the year at 29.1%<sup>1</sup>. On the LSE, the total return for the GDR was 35.9% and the discount varied between a high of 35.5%<sup>1</sup> and a record low of 22.4%<sup>1</sup>, and ended the year at 26.9%<sup>1</sup>. The GDRs traded at an average premium of 2.4% over the local shares for most of the year.

We are delighted about the positive returns we have been able to generate on the NAV and on the share price for our shareholders, but we are unhappy with the discount level. Reducing the discount to NAV below 15% remains one of our key objectives for 2018 and to that end, we will continue with the actions which are under our control such as share buy-backs and cash distributions. In order for this objective to be achieved, a better visibility on the timeline for the Initial Public Offerings of Hidroelectrica SA and Aeroporturi Bucuresti SA ("Bucharest Airports") will be key.



Source: Fondul Proprietatea, based on NAV reports submitted to FSA

In 2017, the BVB had a positive performance but underperformed the largest markets in Central Europe, in both local currency and EUR terms, as shown in the table below:

% change in 2017	in local currency	in EUR
WIG20 (Poland)	26.35%	33.32%
ATX (Austria)	30.62%	30.62%
BUX (Hungary)	23.04%	22.52%
PX (Czech Republic)	16.99%	23.79%
<b>BET-XT (Romania)</b>	<b>14.48%</b>	<b>11.42%</b>

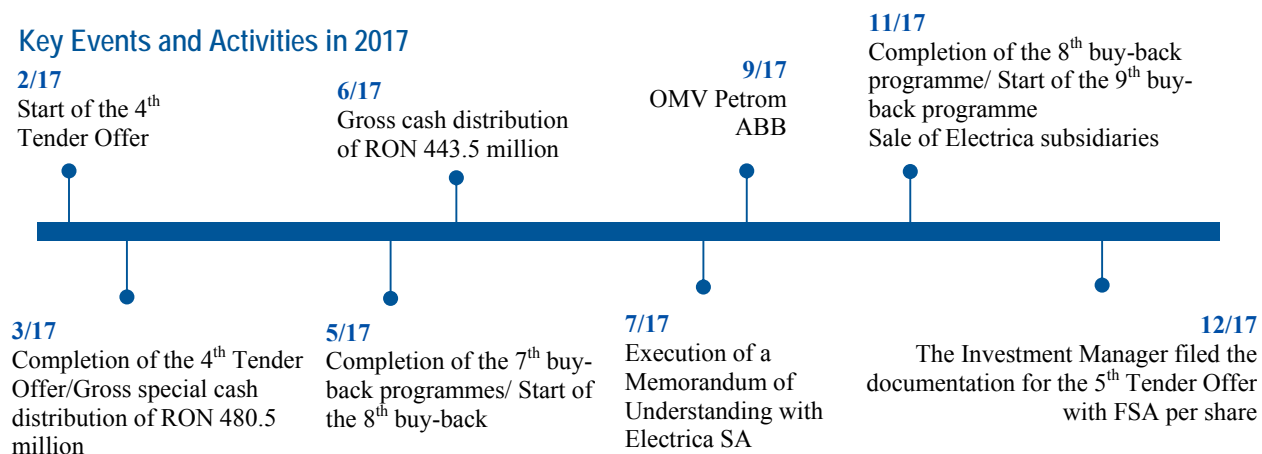
Source: Bloomberg

We provide details on the portfolio management on a monthly basis via Factsheets and also via the Quarterly Results Reports. We encourage you to read the full details given in the section *Analysis of the Portfolio of the Fund*.

<sup>1</sup> Calculated as the discount between FP share closing price on BVB/ FP GDR closing price on LSE using the latest available published NAV per share at the date of calculation



## Key Events and Activities in 2017



Some of the key highlights for 2017 are:

- Completion of the fourth tender offer of 640 million shares (370.7 million in the form of shares and 269.3 million in the form of GDRs), at a purchase price of RON 0.91 per share and the USD equivalent of RON 45.50 per GDR, executed in order to accelerate the seventh buy-back programme;
- Gross special distribution of RON 480.5 million to shareholders through the reduction of the nominal value of the Fund's shares from RON 0.62 per share to RON 0.57 per share;
- Completion of the seventh buy-back programme for 830.2 million shares. The total value of the programme excluding transaction costs was RON 744.5 million, and the average share price was RON 0.8967 per share;
- Gross distribution of RON 443.5 million to shareholders through the reduction of the nominal value of the Fund's shares from RON 0.57 per share to RON 0.52 per share;
- Execution of a Memorandum of understanding with Electrica SA for the disposal of the Fund's holdings in Electrica subsidiaries;
- Successful placement of 1.454 million shares held in OMV Petrom SA (2.6% of the total shares issued by the company and 20.4% of the Fund's holding in the company), via an accelerated bookbuilding process on the BVB;
- Disposal of the entire holdings in the Electrica subsidiaries for a total value of the transaction of RON 752.0 million. The Fund also collected the outstanding balance of dividends in amount of RON 97.9 million distributed by Electrica subsidiaries;
- Completion of the eight buy-back programme for 141.9 million shares. The total value of the programme excluding transaction costs was RON 122.3 million, and the average share price was RON 0.8624 per share;
- Start of the ninth buy-back programme for a maximum number of shares and/or equivalent GDRs corresponding to the Fund's shares computed so that inclusive of all the outstanding treasury shares (acquired during this programme and/or previous ones) will not exceed 20% of the issued share capital at the relevant time, which represents a total of 1,866.9 own shares as of 31 December 2017;
- 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 the key financial centres in the United States of America, Europe, and the Middle East;
- Record high participation from foreign institutional investors and analysts at the Romania Investor Days in London, and Fondul Proprietatea Analyst and Investor Days in Bucharest;
- Key shareholders' approvals during 2017:
  - The return of capital of RON 0.05 per share to shareholders, as proposed by the Sole Director;
  - The approval of a new mandate of FTIS as Alternative Investment fund manager and Sole Director of Fondul Proprietatea, starting 1 April 2018 and its key commercial terms;
  - Approval of the ninth buy-back programme to repurchase a maximum number of 20% of the issued share capital at the relevant time;



## Profit appropriation proposal

As per the statutory financial statements prepared in accordance with the IFRS, the Fund recorded a net profit for the financial year ended 31 December 2017 of RON 1,289,896,039. In accordance with the Companies law, the Fund is obliged to make transfers to the legal reserves until those reserves reach a value equivalent to 20% of the value of the issued share capital of Fondul Proprietatea. Following the 2017 transfer of RON 64,494,802, the value of those reserves is RON 330,578,801 (representing 7.09% of the issued share capital as at 31 December 2017).

The Fund's Sole Director proposal, subject for GSM approval in accordance with the legislation in force, for the appropriation of the net accounting profit for the 2017 financial year in an amount of RON 1,289,896,039 is as follows:

- RON 64,494,802 to legal reserve
- RON 591,087,324 to dividends;
- RON 634,313,913 remains available to the Fund's shareholders under retained earnings.

## Seven Year Anniversary of Listing on the Bucharest Stock Exchange

Seven years after the listing on the BVB on 25 January 2011, the Fund continues to be among the most actively traded companies:

- 2.0 billion shares were traded on the BVB last year, equivalent to 21.9% of the Fund's paid share capital as at 31 December 2017;
- The value of trading in Fondul Proprietatea shares exceeded RON 1.7 billion (EUR 368.7 million) in 2017. The total trading value since the listing exceeds RON 21.6 billion (EUR 4.6 billion);
- After seven years since its listing, the Fund continued to be among the most liquid stocks on BVB, with an average daily trading volume of 7.9 million shares, i.e. 21.6% of the total daily equities turnover on BVB.

## Two Year of Listing on the London Stock Exchange

On 29 April 2015 the Fund was listed on the Specialist Fund Market of the LSE, through Global Depository Receipts. During the second year of trading on LSE:

- 29.2 million GDRs were traded, representing 15.9% of the Fund's paid-in share capital as at 31 December 2017. The total value of the GDRs traded was USD 313.4 million/ RON 1,219.6 million.
- As at 31 December 2017, Fondul Proprietatea was the eleventh largest closed-end fund listed on LSE, based on its NAV.

## Performance Objectives

According with the Management Agreement currently in force, the first Reporting Period was from 1 July 2015 until 30 June 2016 and afterwards every subsequent year was defined from 1 July until 30 June of the next year (the "Reporting Period"). Consequently, the last reporting period ended 30 June 2017.

In accordance with the Fund's IPS, there are two performance objectives that the AIFM is aiming to achieve. The NAV objective refers to a higher adjusted NAV<sup>1</sup> per share in the last day of the Reporting Period, namely as at 30 June 2017, compared to the reported NAV per share as at 30 June 2015, i.e. higher than RON 1.1851 per share. The discount objective implies the discount between the closing price of the Fund's shares and the latest reported NAV per share to be equal to or lower than 15%, in at least 2/3 of the trading days in the Reporting Period from 1 July 2016 to 30 June 2017.

During the 26 September 2017 GSM, the shareholders approved the key commercial terms of the new Management Agreement and the reference to the new reporting period will be detailed in the new Management Agreement which will be subject to shareholders' approval in the 14 February 2018 GSM.

<sup>1</sup> The adjusted NAV for a given date is calculated as the sum of: (1) the reported NAV as at the end of the reporting period, (2) any returns to shareholders, following reductions of the share capital (return of nominal value) implemented after 30 June 2015, and (3) any distribution fee and any transaction costs relating to non-dividend distributions including buy-backs of shares and/ or GDRs executed after 30 June 2015. The adjusted NAV per share is equal to the adjusted NAV divided by: the total number of the Fund's paid shares, less treasury shares (FP ordinary shares bought back) and less equivalent in FP ordinary shares of FP GDRs acquired and not yet converted into FP ordinary shares, on the last day of the reporting period.

**Third reporting period – last reporting period****NAV Objective**

As at 30 June 2017, the adjusted NAV per share was 15.30% higher than the 30 June 2015 NAV per share of RON 1.1851.

<b>NAV Objective</b>	<b>Amount RON</b>	<b>Details</b>
<b>Total NAV as at 30 June 2017</b>	<b>10,570,251,408</b>	
Costs related to the 2015, 2016 and 2017 returns of capital after <b>30 June 2015</b> , until <b>30 June 2017</b>	57,414	Fees charged by the Central Depository and Paying Agent for the payments performed after 30 June 2015 (for the 2015; 2016 and 2017 returns of capital)
Costs related to buy-backs <b>after 30 June 2015</b> , until <b>30 June 2017</b>	14,883,473	Fees related to fifth buy-back programme after 30 June 2015, sixth and seventh buy-back programmes (including the FSA fees of 1% of the tender offer value) and eight buy-back programme starting 30 May 2017
Distribution fees after 30 June 2015, until <b>30 June 2017</b>	56,176,582	Distribution fees for distributions to shareholders after 30 June 2015
2016 Return of capital to shareholders	516,886,344	Payment started in June 2016
March 2017 Return of capital to shareholders	480,543,496	Effective as of 24 March 2017; payment date 27 March 2017
June 2017 Return of capital to shareholders	443,502,747	Effective as of 16 June 2017; payment date 30 June 2017
<b>Total Adjusted NAV as at 30 June 2017</b>	<b>12,082,301,465</b>	
Number of Fund's paid shares, less treasury shares and GDRs held as at <b>30 June 2017</b>	8,842,846,464	
<b>Adjusted NAV per share as at 30 June 2017</b>	<b>1.3664</b>	
<b>NAV per share as at 30 June 2015</b>	<b>1.1851</b>	
<b>Difference</b>	<b>0.1813</b>	
<b>%</b>	<b>15.30%</b>	

Source: Fondul Proprietatea

**Discount Objective**

In the period between 1 July 2016 and 30 June 2017 the discount to NAV was greater than 15%, for both shares and GDRs.

**Discount Evolution<sup>1</sup>**

<b>Discount at 30 June 2017</b>	<b>Minimum discount in the Reporting Period</b>	<b>Maximum discount in the Reporting Period</b>	<b>Average discount for the Reporting Period</b>
35.12%	23.85%	35.67%	29.17%

Source: Fondul Proprietatea

**Discount Objective – subsequent monitoring**

In the period between 1 July 2017 and 31 December 2017, the discount to NAV was greater than 15%, for both shares and GDRs.

**Discount Evolution<sup>1</sup>**

<b>Discount at 29 December 2017</b>	<b>Minimum discount in the Reporting Period</b>	<b>Maximum discount in the Reporting Period</b>	<b>Average discount for the Reporting Period</b>
29.1%	26.8%	34.3%	29.3%

Source: Fondul Proprietatea

<sup>1</sup> The daily discount is calculated in accordance with the IPS, i.e. the discount between the FP shares closing price on the BVB for each trading day and the latest reported NAV per share.

The AIFM and the Investment Manager will continue its efforts to reduce the discount to NAV as we firmly believe that the Fund's shares should be trading at a significantly lower discount than the current levels, given the quality of the underlying portfolio assets, our track record in working with the portfolio companies to improve efficiency and profitability, the attractive cash distribution yield for 2017 of over 11%<sup>1</sup>, the ongoing buy-back programmes and our transparency, disclosure, and proactive investor relations efforts.

### Investor Relations Update

In 2017, in our efforts to increase the visibility and the profile of the Fund, as well as the local capital market, and Romania, to a broader international institutional investor base, the Fund's management team participated to 16 regional and global emerging and frontier market conferences in London, Zurs, Budapest, New York, Stegersbach, and Prague, and met with over 170 investment professionals interested in finding out more details about the Fund and its equity story, and in receiving updates on the Fund, its corporate actions, and the main portfolio holdings, as well as on the Romanian macro-economic environment.

During the year, we also organised 16 road-shows in the United Kingdom, South Africa, US and UAE. During the road-shows, the Investment Manager participated in individual and group meetings with representatives of over 130 international institutional investment firms, both current shareholders and potential investors.

On 1 and 2 March we organised, in collaboration with WOOD & Company, the 4<sup>th</sup> edition of the "Romania Investor Days in London" event. 87 representatives from 50 international investments firm, with assets under management of over EUR 2,000 billion, and 46 representatives from 20 Romanian companies, listed or candidates for being listed, participated to the event.

The first part of the first day of the event featured presentations and speeches from the British Ambassador to Romania, the Ambassador of Romania to the United Kingdom, the Deputy Governor of the National Bank of Romania, the Chief Economist of WOOD & Company, the Manager of the Strategy and Financial Stability Directorate within the Financial Supervisory Authority, the Head of the Treasury from the Ministry of Public Finances, and the CEO of FTIML. During the event, over 162 individual and group meetings were held between the investors and the management teams of the Romanian corporates present at the conference.

On 19 April, we organized, in collaboration with Auerbach Grayson, Bucharest Stock Exchange, BCR and Erste Bank, the 4<sup>th</sup> edition of the Romania Investor Day in New York event. 41 investors from 29 investment management firms, with assets under management of over USD 2,000 billion, and 13 Romanian companies with 28 representatives participated to the event, and to the 127 company meetings, including 1-on-1, and group meetings. Also, during the event, we had a plenary session, with speeches from the Consul General of Romania to the United States of America, the Head of Treasury Ministry of Public Finances, and the Deputy Governor of National Bank of Romania.

Between 6 to 8 September, we organized the 10<sup>th</sup> edition of the Fondul Proprietatea Analyst and Investor Days event in Bucharest. 100 representatives from 67 local and foreign institutional investors (with over EUR 1,000 billion collectively in assets under management) participated to the event. Also, representatives of local authorities (Romanian National Bank, Regulatory Authority for Energy), as well as of the Romanian Government, International Monetary Fund, the US and UK Embassies in Romania, corporates, journalists and other related parties joined the event, bringing the total number of attendees to over 190. The investors had the opportunity to visit one of the most important assets in the Fund's portfolio, and also to be updated on the Romanian economy in general, on the energy sector and the local capital markets environment.

During the first day of the event, the guests visited the third largest asset in the Fund's portfolio – the Bucharest Airports company, namely the 2 airports of the company: Baneasa and Otopeni. The first half of the second day was dedicated to 3 panels on Romanian macroeconomics, energy sector and capital market, with speakers from the National Bank of Romania, International Monetary Fund, ING Bank, Romanian Regulatory Authority on Energy, OMV Petrom SA, Nuclearelectrica SA, A.T. Kearney, EBRD, BCR Pension Funds, BRD Asset Management, WOOD & Co, and Fondul Proprietatea. The US and UK ambassadors, and the Minister of Economy delivered speeches at the conference.

In the second part of the day and the entire day on 8 September, we organized together with WOOD & Company the Frontier Investor Days conference. 366 investor meetings – individual and group meetings - were organized

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<sup>1</sup> The cash distribution yield was calculated considering the March and June 2017 special cash distributions of RON 0.05 per share each and the average closing share price on BVB, for the period.

between the institutional investors and the 43 representatives of the 23 corporates present at the event, Romanian listed companies, but also foreign corporates from other Frontier markets: Georgia, Slovenia, and Croatia.

As part of our communication strategy to update the institutional investors and analysts covering Fondul Proprietatea on the Fund's results, the latest events involving the Fund and its portfolio companies, and the planned corporate actions, we organised the 2016 preliminary results, 2017 first quarter, 2017 first half, and 2017 third quarter results conference calls, where, on average, 40 investors and analysts participated.

Furthermore, during the year, we organised 56 additional meetings with analysts, brokers, current and prospective investors, as well as 36 conference calls with institutional investors, and analysts covering Fondul Proprietatea, interested in the latest developments regarding the Fund's corporate actions, and its portfolio companies.

During the year, in our efforts to update the retail investors on the latest developments regarding the Fund, we sent three letters to the Fund's shareholders in February, June, and December.

Communication between the Investment Manager and investors remains our top priority as we aim to ensure that investors are informed about the latest developments and obtain their feedback as we continue to focus on maximising shareholder value.

### Corporate Governance

Following the self-assessment conducted, the AIFM informs the shareholders and investors that the Fund is fully compliant with the provisions of the Corporate Governance Code of BVB, and with the FSA Regulation no. 2/2016 on the application of the principles of corporate governance by the entities authorised, regulated and supervised by the FSA.

### GDR Facility Update

The GDR facility is limited to one-third of the Fund's subscribed share capital under the Romanian securities regulations or 62,231,215 GDRs as at 31 December 2017, each GDR representing 50 shares. As at 31 December 2017, 35.62% of the Fund's issued shares were converted into GDRs, accounting for 38.14% of the voting rights.

The Bank of New York Mellon, the depositary bank of the GDRs, has notified that the total GDR holdings have reached the limit for GDR issuance, of one third of the Fund's issued share capital, according to regulations in force. As at 31 December 2017 there were 66,506,969 GDRs issued, representing 106.87% of the GDR facility.

### Overview of Buy-back Programmes

#### Overview of share buy-backs during the year ended 31 December 2017

During the year ended 31 December 2017, the Fund bought back a total number of 911,940,087 own shares in the seventh, eighth and ninth buy-back programmes (out of which 577,589,887 ordinary shares and 334,350,200 ordinary shares corresponding to GDRs), representing 8.5% of the total issued shares as at 31 December 2016, for a total acquisition value of RON 819,687,620, excluding transaction costs.

The total number of own shares (including GDR's) held by the Fund as at 31 December 2017 is 251,878,340 shares, having a total nominal value of RON 130,976,737 (RON 0.52 per share), which are in process of being cancelled or will be proposed to be cancelled during the next general meeting of shareholders.

In 2017, the Fund converted 6,687,004 of the GDRs acquired during the year into 334,350,200 ordinary shares.

As at 31 December 2017, the Fund held no global depository receipts.

The table below presents the details regarding the buy-back programmes ongoing during the period ended 31 December 2017:

Programme	Start date	End date	Limit	Status
7th	29-Sep-16	26-May-17	All the outstanding treasury shares (acquired during this programme and/ or previous ones) do not exceed 10% of the issued share capital at the relevant time	Finalised
8th	30-May-17	10-Nov-17		Finalised
9th	14-Nov-17	Valid for a maximum period of 18 months as of the date when this shareholders' resolution is published in the Official Gazette of Romania	All the outstanding treasury shares (acquired during this programme and/ or previous ones) do not exceed 20% of the issued share capital at the relevant time	On-going

## Share capital decreases processes occurred in 2017

The table below presents the summary of the share capital changes occurred in 2017:

Description of share capital process	Effective date	Subscribed share capital (RON)	Issued shares after implementation	Nominal value (RON)
Partial share cancellation after the sixth buy-back programme	18 January 2017	8,562,968,634.10	10,074,080,746	0.85
The share capital decrease for covering of the accounting losses and for cash distributions to shareholders	24 March 2017	5,742,226,025.22	10,074,080,746	0.57
The share capital decrease for annual cash distributions to shareholders	16 June 2017	5,238,521,987.92	10,074,080,746	0.52
Partial share cancellation for the seventh buy-back programme	29 November 2017	4,854,034,784.56	9,334,682,278	0.52
Partial share cancellation for the seventh buy-back programme and eight buy-back programme	Share capital is expected to be effective during 2018.	4,771,610,196.08	9,176,173,454	0.52

## 2017 Return of capital

During 2017 the Fund performed two cash distributions to shareholders in the form of Return of Capital:

### 1) 27 March cash distribution:

The FSA Endorsement no. 79/ 22 March 2017 of the new Constitutive Act reflecting the share capital decrease was received on 22 March 2017. On 24 March 2017, the Trade Registry registered the Resolution no. 10/2016 of the Fund's EGM for approving the subscribed share capital through the reduction of the nominal value of the Fund's shares from RON 0.85 to RON 0.57. In accordance with the Fund's accounting policy, the share capital decrease operation was recorded in the accounting system on the same day, at the Trade Registry registration date, of 24 March 2017 and incorporates two operations (coverage of accounting losses and distribution to shareholders).

Therefore, with effect from 24 March 2017, the new value of the Fund's subscribed share capital was RON 5,742,226,025.22, being divided into 10,074,080,746 shares with a nominal value of RON 0.57 per share. The value of the paid-in share capital of the Fund was RON 5,534,852,985.72, being divided into 9,710,268,396 shares with a nominal value of RON 0.57 per share.

The shareholders registered with the Romanian Central Depository as at 7 March 2017 have the right to receive RON 0.05 per share, proportionally with their participation in the paid-in share capital of the Fund. The payment of the capital return started on 27 March 2017 (the Payment Date), the next working day after the accounting operation for covering accounting losses was registered in the accounting books of the Fund.

By 31 December 2017, the shareholders have collected over 98.8% of the total distribution of RON 480.5 million.

### 2) 30 June cash distribution:

The FSA Endorsement no. 362/ 12 June 2017 of the new Constitutive Act reflecting the share capital decrease was received on 12 June 2017. On 16 June 2017, the Trade Registry registered the Resolution no. 1/28 February 2017 of the Fund's EGM for approving the subscribed share capital through the reduction of the nominal value of the Fund's shares from RON 0.57 to RON 0.52. In accordance with the Fund's accounting policy, the share capital decrease operation was recorded on the same day in the accounting system.

Therefore, with effect from 16 June 2017, the new value of the Fund's subscribed share capital is RON 5,238,521,987.92, being divided into 10,074,080,746 shares with a nominal value of RON 0.52 per share. The value of the paid-in share capital of the Fund is RON 5,049,339,565.92, being divided into 9,710,268,396 shares with a nominal value of RON 0.52 per share.

The shareholders registered with the Romanian Central Depository as at 12 June 2017 have the right to receive RON 0.05 per share, proportionally with their participation in the paid-in share capital of the Fund. The payment of the capital return started on 30 June 2017 (the Payment Date).

By 31 December 2017, shareholders have collected over 97.7% of the total distribution of RON 443.5 million.



**As an important notice to shareholders, the payment of the amounts due to the Fund's shareholders related to the 27 March 2017 and 30 June 2017 cash distributions is subject to the general statute of limitation. As such, the shareholders may request these payments only within a three year term with effect from the Payment Date, namely until 27 March 2020 for the 27 March 2017 cash distribution, and 30 June 2020 for the 30 June 2017 cash distribution.**

### Special dividends received by the Fund

Starting September 2017, several portfolio companies controlled by the Romanian state approved the distribution of special dividends, thus resulting the following gross amounts for the Fund in accordance with its shareholding:

Portfolio company	Gross amounts (RON million)
Hidroelectrica SA	130.6
Bucharest Airports SA	40.0
Conpet SA	5.2
Nuclearelectrica SA	10.0
CN Administratia Porturilor Dunarii Maritime SA	0.2
<b>Total</b>	<b>186.0</b>

The amounts above were fully collected by the Fund as at 31 December 2017.

For more details, please refer to the *Analysis of the activity of the Fund - Update on the largest 10 portfolio holdings* section.

### Strategic options for some portfolio companies and transactions announced by the Fund during 2017

#### Potential disposals of Fondul Proprietatea's holdings in Enel Romania and Engie Romania

In August, the Investment Manager of Fondul Proprietatea announced that it initiated a competitive process aimed at potential disposals of the Fund's holdings in E-Distributie Muntenia, E-Distributie Banat, E-Distributie Dobrogea, Enel Energie, Enel Energie Muntenia and Engie Romania. The process is managed by Ithuba Capital AG acting as the Fund's sole financial adviser in connection with the envisaged transactions.

#### Review of strategic options for Fondul Proprietatea holding's in Hidroelectrica SA

In September, the Investment Manager of Fondul Proprietatea announced that it is reviewing strategic options regarding its ownership interest in Hidroelectrica SA, and appointed Citigroup Global Markets Limited and UBS Limited as financial advisers in connection with the envisaged transaction.

#### Review of strategic options for Fondul Proprietatea holding's in Salrom SA

The Fund is reviewing strategic options regarding its stake in the Company, and has appointed UniCredit as financial advisor in connection with a possible transaction.

#### Sale of a package of OMV Petrom SA shares

During September the Fund sold 1.454 billion shares in OMV Petrom SA through an accelerated book building offer at an agreed selling price of RON 0.2750 / share, the gross proceeds of the transaction amounting to RON 399,850,000. The remaining holding in OMV Petrom SA is 9.9985% as at 31 December 2017.

Goldman Sachs International, WOOD & Company Financial Services, A.S. and Banca Comercială Română acted as Joint Bookrunners for this transaction.

#### Sale of Electrica subsidiaries

On 1 November 2017 the Investment Manager announced that the Fund sold its entire holdings in the subsidiaries of Societatea Energetică Electrica SA ("Electrica").

The total value of the transaction amounts to RON 752,031,841 and its details are described below:

- Electrica Furnizare SA was sold to Electrica and Societatea Filiala de Întreținere și Servicii Energetice Electrica Serv SA for an aggregated selling price of RON 167,079,881;
- Societatea de Distribuție a Energiei Electrice Transilvania Nord SA (SDEE Transilvania Nord SA) was sold to Electrica and Societatea de Distribuție a Energiei Electrice Muntenia Nord SA (SDEE Muntenia Nord SA) for an aggregated selling price of RON 201,702,667;

- SDDEE Muntenia Nord SA was sold to Electrica and Societatea de Distribuție a Energiei Electrice Transilvania Sud SA (SDEE Transilvania Sud SA) for an aggregated selling price of RON 209,744,928;
- SDEE Transilvania Sud SA was sold to Electrica and SDEE Transilvania Nord S.A. for an aggregated selling price of RON 173,504,365.

During November 2017, the Fund also collected the outstanding balance of the dividends in amount of RON 97.9 million distributed by the Electrica subsidiaries.

## Outlook for 2018

Romania has been the best performing economy in the European Union in 2017. Currently, the economy is estimated to have grown by 6.5%, a much faster pace than initially expected, driven mainly by domestic consumption. For 2018, the GDP is expected to maintain a solid growth momentum estimated at 4.8%, closer to the economy's real potential. The private consumption should continue to be the main driver of the GDP growth, stimulated by the increase in the minimum wage, public and private sector salaries and pensions.

The macroeconomic fundamentals continue to be positive – in 2017 the public debt was less than 40% of the GDP, and the budget deficit has been kept under control, below the 3% threshold. Unemployment continued to shrink to less than 5.0%. However, the high GDP growth rate along with the current strong fundamentals, and regional and global positive perspectives should be sustained by a more stable political environment.

Further increasing budgetary expenses and continuing to disregard the corporate governance legislation can result in a significant deterioration of the investors sentiment, with implications not only to the financial sector, but to the overall economy. It is important for the fight against corruption to continue, as it should lead to further governance improvement and increased efficiency of state institutions, which are the backbone to economic activity.

Sectors where we remain positive on growth potential are energy, transport, IT, banking, constructions, agriculture and healthcare. The IT and agriculture, for example, have an increasing share in the GDP, driven by the strong network infrastructure, low costs, and highly skilled workforce in the first and by further absorption of EU funds in the latter.

Listing companies on stock exchange represents the key driver in developing the local capital market. New companies on the stock exchange would not only boost the liquidity and attract new investors, but would also ensure a higher exposure of the pension funds to the local capital markets (their maximum exposure limit in equities is up to 35% vs. current equity exposure of around 20%), as well as continued growth of mutual funds sector. The new listings should contribute decisively to the upgrade of the local capital market to emerging market status from the current frontier one.

## Maximising Shareholder Value in 2018

As we look to generate further value for the Fund's shareholders and not only meet, but exceed the performance objectives included in the IPS (discount of 15% or less and a higher adjusted NAV per share), we will continue to actively manage the Fund, work closely with the Government to ensure the state controlled companies ("SOEs") in the Fund's portfolio continue the strong performance path registered in the past years, and the progress in the listing of the largest companies in the Fund's portfolio which are prepared for an Initial Public Offering: Hidroelectrica SA, and Bucharest Airports.

Economic growth and further efficiency gains should continue to enhance the profitability of these assets and contribute to a higher dividend income for the Fund. Furthermore, value-enhancing corporate actions, such as share buy-backs and cash distributions to shareholders, and continued promotion of the Fund and of the Romanian capital market, should allow the Fund's NAV to be better reflected in the share price.

We are confident that our active, bottom-up investment process will allow us to continue delivering the best long-term results for our shareholders and we look forward to the opportunities ahead for Fondul Proprietatea.



### General Shareholders Meeting

Last but not least, we would like to take this opportunity to invite shareholders to attend the Annual General Shareholders Meeting to be held in Bucharest on 26 April 2018, starting with 3pm, at “JW Marriott” hotel, “Salon Constanta” room, 90 Calea 13 Septembrie street, 5th district, where you will have the opportunity to receive the latest updates about the Fund.



Grzegorz Maciej Konieczny  
Permanent Representative of FTIS in relation  
to Fondul Proprietatea SA  
CEO of FTIML  
Director of Specialty Strategies for the  
Templeton Emerging Markets Group



Johan Meyer  
Permanent Representative of FTIS in relation  
to Fondul Proprietatea SA  
Co-CEO of FTIML  
Portfolio Manager, Emerging Markets

# Presentation and Activity of the Fund

## General Information

### Main activities of Fondul Proprietatea

Fondul Proprietatea is a Romanian legal entity, incorporated as a joint stock closed-end investment company. The Fund is registered with the FSA in the category “Other Organisations for Collective Investments – AOPC” and has been listed on the regulated market of BVB since 25 January 2011 and on the Specialist Fund Market of the LSE since 29 April 2015.

The main activities of the Fund according to the National Statistics Classification of Economic Activities in Romania (“CAEN”) and the Fund’s own Constitutive Act are the business of operating mutual funds and other similar financial entities (CAEN reference 643) and the main activity is financial investments (CAEN reference 6430).

Considering the legal requirements to implement the AIFM Directive the shareholders of the Fund approved, on 29 October 2015, the change of the management structure and the termination of FTIML mandate as Fund Manager and Sole Director, with the mutual consent of both parties, starting with 1 April 2016. Subsequent to the termination, the Fund appointed Franklin Templeton International Services S.à r.l as its Sole Director and AIFM under AIFM Directive and local implementation regulations, and executed a new Management Agreement in order to reach AIFM Directive compliance (FTIS mandate commenced on 1 April 2016). As part of the new management structure, FTIS delegated the role of Investment Manager and certain administrative functions to FTIML.

### Incorporation of the Fund

The Fund was incorporated by the Romanian state in 2005 as a joint stock company with the initial purpose of providing compensation to individuals whose real property assets were illegally confiscated by the Romanian State during the Communist regime, and which could no longer be returned in kind to those individuals.

The Fund’s original Constitutive Act was enacted by Government Decision no. 1481/2005 regarding the incorporation of Fondul Proprietatea, which established that the Fund would be an undertaking for collective investments organised as a closed-end investment company. However, the Fund was officially registered by CNVM (currently FSA) as a closed-end investment company only in 2010 (by CNVM Decision no. 34/18 August 2010).

The initial sole shareholder of the Fund was the Romanian state. Since the Fund’s launch, the shares have been awarded by the National Authority for Property Restitution to individuals legally entitled to receive compensation from the Romanian state and who chose to convert their compensation entitlements into shares issued by the Fund.

As a result of the compensation and conversion process, the Romanian state’s participation in the share capital of the Fund has decreased to 369,470,398 shares as at 31 December 2017, out of which 5,658,048 paid shares. However, the Romanian state’s participation in the share capital of the Fund increased during 2017 with 969,581 paid shares as a result of a correction made by Depozitarul Central SA (the correction refers to a double registration in shareholders’ register of one compensation title issued by National Authority for Restitution Property in December 2010).

Starting 15 March 2013, the date when Government Emergency Ordinance no. 4/2012 entered into force, the compensation process was suspended. In January 2015 the Law no. 10/2015 entered into force confirming that the Romanian state will no longer use the compensation scheme for Fondul Proprietatea shares in future.

### Investment policy and investment restrictions

The Fund’s investment objective as set out in the IPS is the maximisation of returns and per-share capital appreciation via investments mainly in Romanian equities and equity-linked securities.

The Fund’s IPS is drafted by the AIFM with the observance of the investment limits set forth in the applicable laws and regulations and in the Constitutive Act. According to the current IPS, the AIFM shall, in the absence of investment opportunities offering better returns for shareholders, use all or a significant part of the proceeds from dividends and disposal of portfolio companies to implement measures aimed at maximising cash returns to the Fund’s shareholders and fulfilling the Fund’s performance objectives.

According to the current Romanian legislation, the Fund may only invest in the following assets:

- (i) EU listed transferable securities and money market instruments;
- (ii) Non-EU listed transferable securities and money market instruments, subject to supervisory endorsement;
- (iii) Newly issued securities, in certain conditions;
- (iv) Units in undertakings for collective investment in transferable securities and/ or in other undertakings for collective investment, under certain conditions;
- (v) Deposits with credit institutions, reimbursable upon request, with a maturity of maximum 12 months, in certain conditions;
- (vi) Financial derivatives, in certain conditions; and
- (vii) Other non-listed money market instruments, under certain conditions.

The investments made by the Fund are subject to the following limits:

- a) the Fund may hold maximum 20% of its assets in unlisted transferable securities and money market instruments (except for government securities and bonds issued by the Romanian Ministry of Public Finance and for unlisted securities received by the Fund from the Romanian State at incorporation);
- b) the Fund cannot invest more than 10% of its assets in securities or money market instruments issued by the same issuer (except for government bonds and for securities received by the Fund at incorporation);
- c) the Fund cannot invest more than 10% of its assets in financial instruments issued by entities part of the same group;
- d) the Fund generally cannot invest more than 10% of its assets in units issued by collective investment undertakings;
- e) the current accounts and cash held by the Fund cannot exceed 20% of its assets (the threshold can be exceeded in certain circumstances);
- f) the amount of bank deposits with the same credit institution cannot represent more than 10% of the Fund's assets;
- g) exposure to the counterparty risk in one over-the-counter derivative transaction cannot exceed 10% of the Fund's assets, while the global exposure through derivatives cannot exceed 15% of the total allocation of net assets.

The Fund will inform investors of breaches to the investment policy by publishing current reports.

The investment policy of the Fund is established by the AIFM, with the observance of the investment limits provided by the legal provisions in force and of the Constitutive Act, and it is in line with the IPS as approved by shareholders.

The AIFM provides for analysis to the Fund's Board of Nominees the strategy in accordance with the investment policy before it is submitted for GSM approval. The Board of Nominees' opinion on the proposed strategy is presented to the AIFM and to the GSM.

The IPS sets the prudential rules concerning the investment policy of the Fund and presents the investment goals, objectives and the decision-making process for selecting investments in accordance with the investment objectives.

### **Employees of the Fund**

As at 31 December 2017 the Fund had no employees. Given that the Fund is administrated by the AIFM, it is not expected that the Fund will have any employees in the future.

### **Branches**

During 2017 the Fund had no branches.

### **Subsidiaries**

As at 31 December 2017, the Fund controlled the following companies, which under Romanian applicable laws qualify as subsidiaries of the Fund, all of which are incorporated and operate in Romania. In the Sole Director's opinion, none of these subsidiaries qualifies as a significant subsidiary.

<u>Name</u>	<u>Ownership interest</u>
Alcom SA	72%
Comsig SA	70%
Zirom SA	100%

None of the subsidiaries of the Fund holds shares in the Fund as at 31 December 2017, based on the information made available to the Fund.

During the year the Fund sold its entire holding in Primcom SA.

There was no corporate reorganisation of the Fund or its subsidiaries in 2017.

### **Governing Legislation**

The Fund operates in accordance with the provisions of the following main laws and regulations:

- Law no. 31/1990 regarding companies, with subsequent amendments (“Companies’ Law”);
- Law no. 82/1991 Accounting Law (“Law 82/1991”);
- Law no. 297/2004 regarding the capital market, with subsequent amendments (“Law 297/2004”);
- CNVM Regulation no. 15/2004 regarding the authorisation and operation of the investment management companies, of the undertakings for collective investments and of the depositaries;
- Government Decision no. 1481/2005 regarding the incorporation of Fondul Proprietatea;
- Law no. 247/2005 regarding the reforms in the sectors of justice and property as well as certain related measures, with subsequent amendments (“Law no. 247/2005”);
- CNVM Regulation no. 1/2006 regarding issuers and securities trading;
- Government Emergency Ordinance no. 81/2007 for the acceleration of the compensation procedure related to the real estate abusively confiscated, with subsequent amendments;
- CNVM Regulation no. 6/2009 on the exercise of certain rights of the shareholders in the general shareholders meetings of companies;
- CNVM Regulation no. 4/2010 regarding the registration with the CNVM and operation of Fondul Proprietatea, as well as trading of shares issued, with subsequent amendments (“Regulation 4/2010”);
- Commission Delegated Regulation (EU) no. 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision (“Regulation (EU) 231/2013”);
- Law no. 10/2015 on amending Title VII of Law no. 247/2005 regarding the reforms in the sectors of justice and property, as well as certain related measures, with subsequent amendments (“Law 10/2015”);
- Law no. 74/2015 on alternative investment fund managers (“Law 74/2015”);
- FSA Regulation no. 10/ 2015 regarding the alternative investment funds management (“Regulation 10/2015”);
- FSA Norm no. 39/ 2015, regarding the approval of the accounting regulations in accordance with IFRS, applicable to the entities authorised, regulated and supervised by FSA – Financial Investments and Instruments Sector (“FSA Norm 39/2015”);
- FSA Regulation no. 2/2016 on the application of the principles of corporate governance by the entities authorised, regulated and supervised by the FSA (“Regulation 2/2016”);
- Law 162/2017 regarding on the statutory audit of annual financial statements and annual consolidated financial statements and on amending other pronouncements

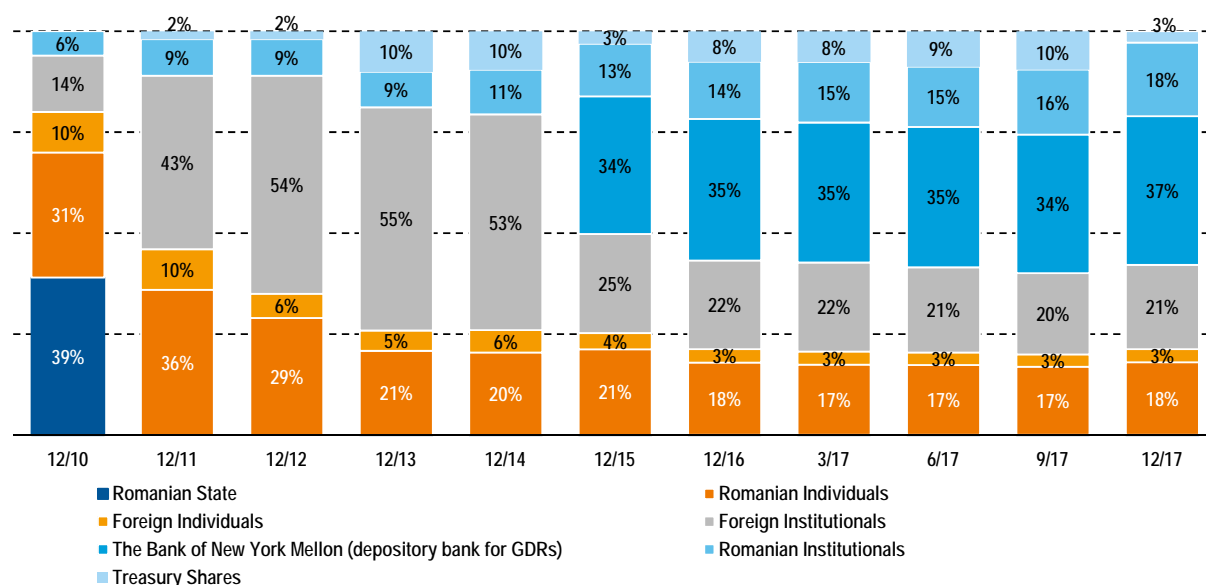
### **Changes in the Accounting regulation**

The Fund is implementing IFRS 9 ‘Financial instruments’, which will replace IAS 39 ‘Financial Instruments: Recognition and Measurement’ starting with 1 January 2018. Additional disclosures and expected impact compared to previously recognized amounts are included in the Fund’s annual IFRS financial statements for the year ended 31 December 2017 and further analysis will be provided in subsequent reports for 2018.

### **Shareholding and share capital changes**

#### ***Evolution of the shareholder structure***

The evolution of the shareholder structure during the last six years is illustrated by the following chart:



### Share capital changes during 2017

#### Share cancellation after the sixth buy-back programme

On 11 October 2016 the shareholders approved the cancellation of the remaining 712,171,156 shares repurchased by the Fund during the sixth buy-back programme during 2016. The FSA endorsed through Endorsement no. 1/ 12 January 2017, the decrease of the subscribed share capital of the Fund, following the cancellation of 712,171,156 shares repurchased by the Fund during the sixth buy-back programme in 2016. With effect from 18 January 2017, the Trade Registry registered the Resolution no. 7/ 11 October 2016 of the Fund's EGM for approving the decrease of the Fund's subscribed share capital from RON 9,168,314,116.70 to RON 8,562,968,634.10, being divided into 10,074,080,746 shares.

#### The share capital decrease for covering the accounting losses and for cash distributions to shareholders

In the 31 October 2016 GSM, the Fund's shareholders approved the decrease of the share capital from RON 8,562,968,634.10 to RON 5,742,226,025.22 by reducing the nominal value of the shares from RON 0.85 to RON 0.57 for covering the cumulated accounting losses in the amount of RON 2,473,157,471.66 using: RON 156,118,900.08 from Other reserves and RON 2,317,038,571.58 from the registered capital, and for distribution to shareholders of RON 0.05 per share.

The FSA endorsement of the new Constitutive Act reflecting the share capital decrease was received on 22 March 2017 and the resolution was registered with the Trade Registry on 24 March 2017 (the share capital decrease was effective starting with 24 March 2017).

#### The share capital decrease for annual cash distributions to shareholders

During 28 February 2017 GSM, the Fund's shareholders approved the decrease of the share capital from RON 5,742,226,025.22 to RON 5,238,521,987.92 by reducing the nominal value of the shares from RON 0.57 to RON 0.52 for distribution to shareholders of RON 0.05 per share.

The FSA endorsement of the new Constitutive Act reflecting the share capital decrease was received on 12 June 2017 and the resolution was registered with the Trade Registry on 16 June 2017 (the share capital decrease was effective starting with 16 June 2017).

#### Share cancellation of a part of the shares acquired during the seventh buy-back programme

On 3 May 2017 the shareholders approved the cancellation of 739,398,468 shares repurchased by the Fund during the seventh buy-back programme. The FSA endorsed through Endorsement no. 1166 / 23 November 2017, the decrease of the subscribed share capital of the Fund, following the cancellation of 739,398,468 shares repurchased by the Fund during the seventh buy-back programme. With effect from 29 November 2017, the Trade Registry registered the Resolution no. 3/ 3 May 2017 of the Fund's EGM for approving the decrease of the Fund's

subscribed share capital from RON 5,238,521,987.92 to RON 4,854,034,784.56, being divided into 9,334,682,278 shares.

### Share cancellation of a part of the shares acquired during the seventh buy-back programme and part of the shares acquired during the eight buy-back programme

On 26 September 2017 GSM the shareholders approved the decrease of the subscribed share capital of the Fund from RON 4,854,034,784.56 to RON 4,771,610,196.08 pursuant to the cancellation of 158,508,824 own shares (having a par value of RON 0.52) acquired by Fondul Proprietatea during the seventh and eight buy-back programmes.

The subscribed share capital decrease approved by shareholders on 26 September 2017 will take place on the basis of Article 207 paragraph 1 letter (c) of Law no. 31/1990 and will be effective after all of the following conditions are met:

- (i) the resolution is published in the Official Gazette of Romania, Part IV for at least two months (the resolution was published in the Official Gazette on 10 October 2017 and the two months period ended on 10 December 2017);
- (ii) FSA endorses the amendment of Article 7 paragraph (1) of the Constitutive Act of Fondul Proprietatea as approved by shareholders during this meeting, where required by applicable law or regulation (the request for endorsement was filed in after 11 December 2017 and FSA is expected to issue the endorsement);
- (iii) the share capital decrease approved by the shareholders on 3 May 2017 is effective (this share capital decrease was effective starting with 29 November 2017);
- (iv) the shareholders' resolution for approving this share capital decrease is registered with the Trade Registry (this last stage will take place after FSA endorsement).

As at 31 December 2017 two out of four conditions mentioned above were met and the process is still on-going.

### Evolution of the Fund's issued share capital since listing

The following table presents information with respect to the main events during the period from 1 January 2011 until 31 December 2017, which have changed the amount of the issued share capital of the Fund:

Date	Reason	Structure of the share capital after event			
		Issued share capital (RON)	Paid share capital (RON)	Issued shares (Shares)	Paid shares (Shares)
1 January 2011	Opening balance	13,778,392,208.00	13,778,392,208.00	13,778,392,208	13,778,392,208
24 February 2014	The cancelation of the shares acquired during the first buy-back programme	13,538,087,407.00	13,172,832,785.00	13,538,087,407	13,172,832,785
25 June 2014	The decrease for annual cash distributions to shareholders	12,861,183,036.65	12,515,396,724.25	13,538,087,407	13,174,101,815
26 September 2014	The cancelation of the shares acquired during the second buy-back programme	11,815,279,886.85	11,469,656,813.90	12,437,136,723	12,073,322,962
27 January 2015	The cancelation of the shares acquired during the third buy-back programme	11,575,064,733.65	11,229,443,001.15	12,184,278,667	11,820,466,317
31 May 2015	The decrease for annual cash distributions to shareholders	10,965,850,800.30	10,638,419,685.30	12,184,278,667	11,820,466,317
12 August 2015	The cancelation of the shares acquired during the fourth buy-back programme	10,074,080,745.90	9,746,649,630.90	11,193,423,051	10,829,610,701
14 March 2016	The cancelation of the shares acquired during the fifth buy-back programme	9,869,265,720.90	9,541,834,605.90	10,965,850,801	10,602,038,451
9 June 2016	The decrease for annual cash distributions to shareholders	9,320,973,180.85	9,011,732,683.35	10,965,850,801	10,602,038,451
26 October 2016	The partial cancelation of the shares acquired during the sixth buy-back programme	9,168,314,116.70	8,859,073,619.20	10,786,251,902	10,422,439,552
18 January 2017	The partial cancelation of the shares acquired during the sixth buy-back programme	8,562,968,634.10	8,253,728,136.60	10,074,080,746	9,710,268,396
24 March 2017	The decrease for covering accumulated accounting loss and for an extraordinary cash distributions to shareholders	5,742,226,025.22	5,534,852,985.72	10,074,080,746	9,710,268,396
16 June 2017	The decrease for annual cash distributions to shareholders	5,238,521,987.92	5,049,339,565.92	10,074,080,746	9,710,268,396
29 November 2017	The partial cancelation of the shares acquired during the seventh buy-back programme	4,854,034,784.56	4,664,852,362.56	9,334,682,278	8,970,869,928
31 December 2017	Closing balance	4,854,034,784.56	4,664,852,362.56	9,334,682,278	8,970,869,928

## Changes to the Constitutive Act

During 2017 there were several changes in the Constitutive Act of the Fund, as follows:

- Changes related to the articles referring to the share capital and the nominal value, as a result of the share capital decrease processes; and
- Changes for aligning the Constitutive Act to the Romanian Capital Markets Law no. 297/2004.

According to legislation in force, all the changes to the Constitutive Act enter into force after FSA endorsement.

## Management Agreement in force during 2017

During 2017, the management agreement in force was the Management Agreement concluded between the Fund and FTIS as AIFM on 2 November 2015, which entered into force on 1 April 2016 with a duration of 2 years.

The Management Agreement in force starting with 1 April 2016 is part of the plan for implementing AIFM Directive for Fondul Proprietatea – the plan involved the following actions:

- Shareholders approved the appointment of FTIS as sole director and alternative investment fund manager under AIFM Directive and local implementation regulations, and the execution of 2015 MA, in order to comply with the AIFM Directive requirements (FTIS' mandate started on 1 April 2016). Considering that the replacement of the AIFM with another entity from the group was proposed in order to comply with the AIFM Directive and the related national implementation laws and regulations, the shareholders approved the waiver of any selection procedure;
- The Board of Nominees approved the delegation of certain portfolio management and administrative activities from FTIS to FTIML.

According to the FSA Board Resolution from 27 January 2016, the Management Agreement executed between Fondul Proprietatea and an AIFM authorized in other European country does not require the FSA's endorsement prior to entering into force. Furthermore, for the Management Agreement executed for Fondul Proprietatea the FSA considers that the Commission de Surveillance du Sector Financier of Luxemburg, as the competent authority of the AIFM home state member, with oversight obligations in respect of the management performed by FTIS.

During 26 September 2017 GSM the Fund's shareholders approved:

- (1) the renewal of the mandate of Franklin Templeton International Services S.À R.L., as the alternative investment fund manager and sole director of the Fund for another two (2) years term starting with 1 April 2018 ("New Mandate"). The renewal of the mandate is conditional upon:
  - a. shareholders' approval of the key commercial terms of the New Mandate as per point 2 below; and
  - b. AIFM and Fondul Proprietatea execute until 1 March 2018 a management agreement covering the New Mandate.
- (2) the key commercial terms of the New Mandate, as described below:

<b>Base Fee per Year</b>	<ul style="list-style-type: none"> <li>• 0.60%</li> <li>• Discount 15% – 20%, + 0.05%, i.e. Base Fee Rate = 0.65%</li> <li>• Discount &lt; 15%, + 0.05%, i.e. Base Fee Rate = 0.70%</li> </ul>
<b>Consideration for the Base Fee</b>	<ul style="list-style-type: none"> <li>• Weighted average market capitalization of the Fund</li> </ul>
<b>Distribution Fee for all cash distributions (including buy-backs)</b>	<ul style="list-style-type: none"> <li>• 1.00% applied to the value of the distributions</li> </ul>
<b>Consideration for the Distribution Fee</b>	<ul style="list-style-type: none"> <li>• Share buy-backs</li> <li>• GDR buy-backs</li> <li>• Public tender buy-backs</li> <li>• Return of share capital</li> <li>• Dividends</li> </ul>
<b>Duration</b>	<ul style="list-style-type: none"> <li>• 2 years</li> </ul>
<b>Continuation vote</b>	<ul style="list-style-type: none"> <li>• Annually, each April</li> </ul>

The draft of the Management Agreement containing the key commercial points mentioned above is on the 14 February 2018 GSM. For further details please see *Subsequent events* section.



### Important GSM Resolutions during 2017

The main resolutions approved by shareholders during the **28 February GSM** were the following:

- The approval of the decrease of the subscribed share capital from RON 5,742,226,025.22 to RON 5,238,521,987.92 through the reduction of the par value of the shares of Fondul Proprietatea from RON 0.57 to RON 0.52. The decrease is motivated by the optimisation of the share capital of Fondul Proprietatea, involving the return to the shareholders of a part of their contributions, proportionally with their participation to the paid in share capital of the Fond; and
- The ratification and the approval of all GSM resolutions and of all legal acts concluded, adopted and issued in the name of Fondul Proprietatea through its Sole Director/ its AIFM between 6 September 2010 and 27 February 2017.

The main shareholders resolutions approved during the **annual GSM on 25 April** were the following:

- The approval of the Annual Activity Report of the Sole Director of Fondul Proprietatea for the financial year 2016, including the IFRS financial statements for the year ended on 31 December 2016, the approval of the auditor's report, and the ratification of all legal acts concluded, adopted or issued on behalf of Fondul Proprietatea through its sole director and/or its investment manager, as well as of any management/administration measures adopted, implemented, approved or concluded during 2016, and the discharge of the Sole Director (Franklin Templeton Investment Management Limited UK Bucharest Branch for period 1 January – 31 March 2016 and Franklin Templeton International Services S.à r.l. for period 1 April – 31 December 2016) for any liability for its administration during the 2016 financial year;
- The approval of the net profit allocation registered for the financial year 2016.

During the **EGM held on 3 May**, the shareholders approved with a high majority, the decrease of the subscribed share capital of the Fund from RON 5,238,521,987.92 to RON 4,854,034,784.56 pursuant to the cancellation of 739,398,468 own shares (having a par value of RON 0.52) acquired by Fondul Proprietatea during the seventh buy-back programme.

The main resolutions approved by shareholders during the **26 September GSM** were the following:

- The decrease of the subscribed share capital of Fondul Proprietatea from RON 4,854,034,784.56 to RON 4,771,610,196.08 pursuant to the cancellation of 158,508,824 own shares acquired by Fondul Proprietatea during the seventh and eighth buy-back programmes;
- The renewal of the mandate of Franklin Templeton International Services S.à r.L., as the alternative investment fund manager and sole director of Fondul Proprietatea for another two (2) years term starting with 1 April 2018, and its key commercial terms.

The main resolutions of the shareholders at the **26 October GSM** were the following:

- The approval of the ninth buy-back programme for a maximum number computed so that all the outstanding treasury shares (acquired during this programme and/or previous ones) will not exceed 20% of the issued share capital at the relevant time, at a price that cannot be lower than RON 0.2 / share or higher than RON 2 / share;
- The approval of the continuation of the current mandate of Franklin Templeton International Services S.à r.l. as the alternative investment fund manager and sole director of Fondul Proprietatea;
- The approval of the 2018 budget of Fondul Proprietatea;
- The appointment of Deloitte Audit SRL as the financial auditor of Fondul Proprietatea for the period 2017 - 2019.

### Credit Facility Agreement changes during 2017 and Issued Debt

On 4 July 2016 the Fund has contracted a revolving committed credit facility for a maximum amount of RON 1 billion from BRD Groupe Société Générale SA. The availability period of the facility was for one year with the possibility to extend it with the same period.

The purpose of the credit facility is for general corporate use, including share buy-backs and distributions to shareholders, but excluding investments.

On 10 May 2017, the Fund announced that it has decided to extend the existing credit facility of RON 1 billion with BRD - Groupe Société Générale SA with 1 year, until 4 July 2018, within the same terms and conditions.

In July 2017 the Fund fully repaid the RON 237 million previously drawn from the credit facility concluded with BRD Groupe Société Générale SA. The interest related to the drawing amounted to RON 152,997.

As at 31 December 2017, there are no outstanding amounts drawn from the credit facility.

The Fund had no bonds or other debt securities in issue during 2017.

## Buy-back Programmes

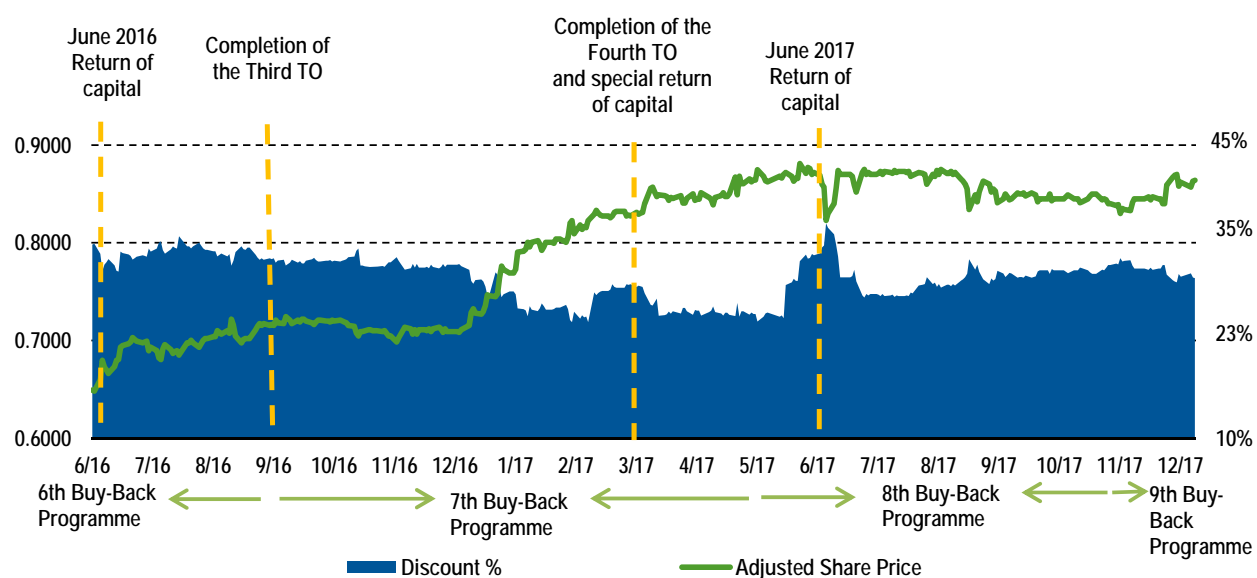
### Overview of share buy-back programmes since listing

The eight buy-back programmes were completed since listing. Please see below the details regarding the buy-back programmes performed by the Fund since 2011:

Programme	Period	No. of Shares repurchased (Million shares)	Tender offer	Cancellation of Shares
First	May-September 2011	240.3	N/A	Completed
Second	April-December 2013	1,100.9	October – November 2013	Completed
Third	March-July 2014	252.9	N/A	Completed
Fourth	October 2014-February 2015	990.8	November – December 2014	Completed
Fifth	February – July 2015	227.5	N/A	Completed
Sixth	September 2015 – September 2016	891.7	August – September 2016	Completed
Seventh	September 2016 – May 2017	830.2	February – March 2017	Partially canceled. Proposal for cancellation of remaining shares was approved by shareholders, and is in process to be completed during 2018.
Eight	May – November 2017	141.9	N/A	Proposal for cancellation approved by shareholders, and is in the process to be completed during 2018. The cancellation of the remaining shares in the eighth buy-back programme will be subject to shareholders approval during 2018.
Ninth	November 2017 - ongoing	19.2	N/A	The cancellation of the shares will be subject to shareholders approval during 2018.
<b>TOTAL</b>		<b>4,695.4</b>		

### Evolution of the discount and buy-back programmes

The chart below presents the evolution of the discount and the trading price by reference to the buy-back programmes and returns of capital implemented:



During the year ended 31 December 2017, the Fund bought back a total number of 911,940,087 own shares in the seventh, eighth and ninth buy-back programme (out of which 577,589,887 ordinary shares and 334,350,200 ordinary shares corresponding to GDRs), representing 8.5% of the total issued shares as at 31 December 2016, for a total acquisition value of RON 819,687,620, excluding transaction costs.

The total number of own shares (including GDR's) held by the Fund as at 31 December 2017 is 251,878,340 own shares, having a total nominal value of RON 130,976,737 (RON 0.52 per share), which are in process of being cancelled or will be proposed to be cancelled during the next general meeting of shareholders.

In 2017, the Fund converted 6,687,004 of the GDRs acquired during the period into 334,350,200 ordinary shares.

As at 31 December 2017, the Fund held no GDRs.

The table below shows a summary of the buy-back programmes during the year ended 31 December 2017 (information based on the transaction date):

Programme	Description	No of shares	Equivalent shares of GDRs	Total no of shares	% of the Fund's issued share capital*
6th	Opening balance as at 1 January 2017	712,171,156	-	712,171,156	
	Acquisitions	-	-	-	
	Cancelations	(712,171,156)	-	(712,171,156)	
	<b>Closing balance as at 31 December 2017</b>	-	-	-	<b>8.13%</b>
	<b>Weighted average share price (RON/share ; USD/share)</b>	<b>0.8156</b>	<b>10.5221</b>		
7th	Opening balance as at 1 January 2017	79,336,721	-	79,336,721	
	Acquisitions	463,817,448	287,093,450	750,910,898	
	Converted during the period	287,093,450	(287,093,450)	-	
	Cancelations	(739,398,468)	-	(739,398,468)	
	<b>Closing balance as at 31 December 2017</b>	<b>90,849,151</b>	-	<b>90,849,151</b>	<b>8.24%</b>
	<b>Weighted average share price (RON/share ; USD/share)</b>	<b>0.8956</b>	<b>10.7528</b>		
8th	Opening balance (30 May 2017)	-	-	-	
	Acquisitions	99,817,011	42,052,850	141,869,861	
	Converted during the period	42,052,850	(42,052,850)	-	
	<b>Closing balance as at 31 December 2017</b>	<b>141,869,861</b>	-	<b>141,869,861</b>	<b>1.41%</b>
	<b>Weighted average share price (RON/share ; USD/share)</b>	<b>0.8591</b>	<b>10.8805</b>		
9th	Opening balance (14 November 2017)	-	-	-	
	Acquisitions	13,955,428	5,203,900	19,159,328	
	Converted during the period	5,203,900	(5,203,900)	-	
	<b>Closing balance as at 31 December 2017</b>	<b>19,159,328</b>	-	<b>19,159,328</b>	<b>1.17%</b>
	<b>Weighted average share price (RON/share ; USD/share)</b>	<b>0.8414</b>	<b>10.7555</b>		
	<b>TOTAL balance of treasury shares as at 31 December 2017</b>	<b>251,878,340</b>	-	<b>251,878,340</b>	

\*Based on the share capital at the end of the programme (for 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> buy-back programmes) or at the end of the reporting period for the 9<sup>th</sup> buy-back programme.

#### Tender Offer within the seventh buy-back programme

On 27 January 2017 the Fund submitted for approval to the FSA, an application for a tender offer for the acquisition of own shares in relation to the seventh buy-back programme. The Fund engaged:

- WOOD & Company Financial Services, a.s. as intermediary in relation to the purchase of shares,
- Goldman Sachs International and WOOD & Company Financial Services, a.s. as dealer managers and
- The Bank of New York Mellon as tender agent in relation to the purchase of GDRs.

On 8 February 2017, the FSA approved the Fund's application for the public tender offer within the seventh buy-back programme for the acquisition of up to 640,000,000 shares – the Tender Offer Document can be found in Annex 5 to this report. The subscription period was from 15 February 2017 until 20 March 2017, and the purchase price was RON 0.91 per share and the USD equivalent of RON 45.50 per GDR. The Fund acquired all 640,000,000 shares (370,679,050 in the form of ordinary shares and 269,320,950 shares in the form of GDRs, respectively 5,386,419 GDRs) and resumed the acquisitions of treasury shares within the seven buy-back programme through daily buy-backs on 27 March 2017.

*Tender Offer within the ninth buy-back programme*

On 15 December 2017, the Fund submitted for approval to the FSA, an application for a tender offer for the acquisition of own shares in relation to the ninth buy-back programme. The Fund engaged:

- WOOD & Company Financial Services, a.s. as intermediary in relation to the purchase of shares,
- Jefferies International Limited and WOOD & Company Financial Services, a.s. as dealer managers and
- The Bank of New York Mellon as tender agent in relation to the purchase of GDRs.

Under this tender offer, the Fund intends to repurchase up to 1,200,000,000 shares (both in the form of shares and GDRs) from its shareholders.

The daily execution of the ninth buy-back programme with respect to shares on the BVB and GDRs on the LSE was suspended starting with 11 December 2017.

For further details please see *Subsequent events* section.

**Impact of buy-back programmes on the Fund's equity**

The Fund recognises the treasury shares (repurchases of own shares and/ or 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.

The table below presents the equity impact of the buy-back programmes ongoing during 2017:

	<i>- All amounts are in RON -</i>		
<b>Shares acquired in 2017</b>	<b>Buy-back program 7</b>	<b>Buy-back program 8</b>	<b>Buy-back program 9</b>
<b>Acquisition cost</b>	<b>681,189,100</b>	<b>122,347,450</b>	<b>16,151,070</b>
<b>Total costs directly related to transactions, out of which:</b>	<b>8,784,900</b>	<b>1,766,801</b>	<b>178,323</b>
Brokerage fees	310,826	24,469	3,230
FSA fees	5,873,267	53,099	7,045
Stock Exchange fees (BSE and LSE)	762,170	34,301	4,895
Central Depository fees	35,651	7,289	998
Other professional fees	520,598	4,471	683
Other costs	13,262,522	1,643,172	161,470
Interest costs	0	0	0
Distribution fees*	13,262,522	1,643,172	161,470
<b>Total buybacks impact on equity</b>	<b>701,954,135</b>	<b>124,114,251</b>	<b>16,329,392</b>

\* FTIS distribution fees related to buy-backs which are recognised directly in equity together with the underlying shares

Upon completion of all legal and regulatory requirements, 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 cancellation 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 additional total shareholders' equity decrease. A negative equity element arises upon cancellation of the shares acquired in a buy-back programme, where the acquisition price is higher than the nominal value, but this does not generate an additional shareholder's equity decrease. During the period, the nominal value decreased below the acquisition price first on 24 March 2017 when the share capital decrease was implemented. All subsequent acquisitions in 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> buy-back programmes were made at an acquisition price higher than the nominal value. The table below shows the negative reserve arising on cancellation of shares.

		<b>Buy-back program 7</b>	<b>Buy-back program 8</b>	<b>Buy-back program 9</b>
Number of shares cancelled during 2017	(1)	739,398,468	-	-
Total costs (including transaction costs and other costs) (RON)	(2)	682,500,639	-	-
Less the impact of Nominal Value decrease (RON)*	(3)	(41,939,847)	-	-
<b>Accounting value of the cancelled treasury shares as at 29 Nov 2017 (the cancellation date) (RON)</b>	<b>(4)=(2)+(3)</b>	<b>640,560,792</b>	-	-
Correspondent Nominal Value at the cancellation date (NV = RON 0.52 per share) (RON)	(5) = (1)*NV	384,487,203	-	-
<b>Negative equity reserve on the cancelation (RON)</b>	<b>(6)=(5)-(4)</b>	<b>(256,073,589)</b>		

		Buy-back program 7	Buy-back program 8	Buy-back program 9
Balance of shares to be cancelled	(1)	90,849,151	141,869,861	19,159,328
Total costs (including transaction costs and other costs) (RON)	(2)	82,852,612	124,114,252	16,329,392
Less the impact of Nominal Value decrease (RON)**	(3)	(4,542,458)	(498,291)	
<b>Estimated accounting value of the cancelled treasury shares as at 31 Dec 2017 (RON)</b>	<b>(4)=(2)+(3)</b>	<b>78,310,154</b>	<b>123,615,961</b>	<b>16,329,392</b>
Correspondent Nominal Value (NV = RON 0.52 per share) as at 31 December 2017 (RON)	(5) = (1)*NV	47,241,559	73,772,328	9,962,851
Estimated negative equity reserve on the cancellation date (RON)	<b>(6)=(5)-(4)</b>	<b>(31,068,595)</b>	<b>(49,843,633)</b>	<b>(6,366,541)</b>

\* for shares cancelled and in balance at each nominal value decrease in 2017: 1) 99,398,468 shares at 24 March 2017 and 2) 739,398,468 shares at 16 June 2017

\*\* for the shares in balance as at 16 June 2017 (for 7<sup>th</sup> buy-back program the remaining shares were 90,849,151 shares and for 8<sup>th</sup> buy-back program were 9,965,829 shares)

Article 75 from Norm 39/2015 mentions that the negative balance arising on the cancellation of equity instruments may be covered from retained earnings and other equity elements, in accordance with the resolution of the General Shareholders Meeting.

## Analysis of the Portfolio of the Fund

### Net Asset Valuation

The key performance indicator of the Fund is its Net Asset Value. The Fund is required to publish a monthly net asset value per share in accordance with local rules issued by the capital market regulator, no later than 15 calendar days after the reporting month end.

All NAV reports are published on the Fund's website at [www.fondulproprietatea.ro](http://www.fondulproprietatea.ro), together with the share price and discount information.

### NAV methodology

CNVM Regulation no. 4/2010, as subsequently amended, allows the NAV calculation based on best international practice suitable for a listed closed-end fund.

Listed securities are valued either at closing market prices if listed on regulated markets, or reference prices if listed on an Alternative Trading System ("ATS"). In case of shares listed on ATS the reference price is considered to be the average price.

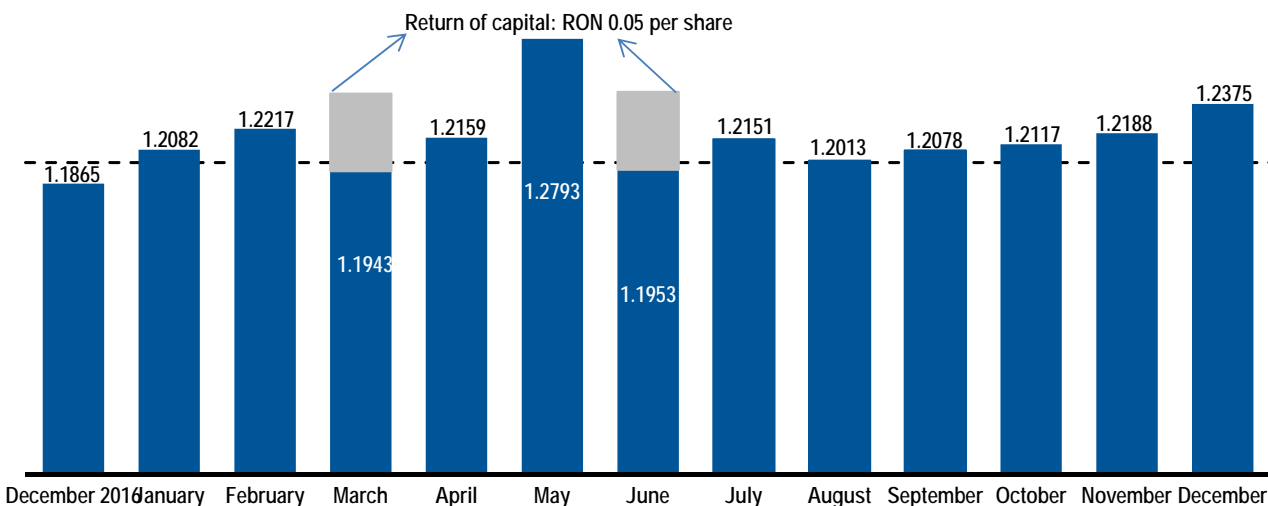
Illiquid or unlisted securities are valued using either the value of shareholders' equity, as per the latest available annual financial statements, proportionally with the stake held, or at fair value according to International Valuation Standards which permit fair valuation.

The shares in the companies under insolvency or reorganisation procedures are valued either at zero or at the value provided with the assistance of independent valuers, using the valuation methods in accordance with the International Valuation Standards. The shares in companies under a judicial liquidation procedure or any other liquidation procedures, as well as in companies under temporary or final suspension of operation, are valued at zero until the procedure is finalised.

The treasury shares acquired through buy-backs are excluded from the number of shares used in the NAV per share computation. Due to the fact that in substance the Fund's GDRs are similar to the ordinary shares to which they correspond, in the computation of the number of shares used in the calculation of the NAV per share, the equivalent number of shares corresponding to the GDRs bought back and held by the Fund as at NAV reporting date are also deducted, together with the number of ordinary own shares bought back and held.

## NAV per share (RON per share)

The following chart shows information on the monthly published NAVs per share for the period 31 December 2016 to 31 December 2017:



Source: Fondul Proprietatea, based on NAV reports submitted to the FSA, computed for the last working day of the month

The **grey section** within March and June, represents the impact of the 2017 cash distributions per share, approved by shareholders in October 2016 and in February 2017, and recorded in March and June 2017, following FSA's endorsement of the share capital decreases (Endorsement no. 79/ 22 March 2017 and no 362/12 June 2017), and following the registration at Trade Register on 24 March 2017, respectively 16 June 2017, which resulted in a corresponding reduction of the NAV per share.

During the **first quarter of 2017**, the NAV per share had an overall increase of 0.7% compared with the end of the previous year, mainly due to the positive share price evolution of the Fund's listed holdings, principally OMV Petrom SA (impact on the Fund's NAV of RON 295.4 million or RON 0.0307 per share) and due to the seventh buy-back programme carried out by the Fund during this period.

During the **second quarter of 2017**, the NAV per share had an increase of 0.1% compared with the end of the previous quarter, mainly due to the recording of 2016 dividend receivables from portfolio companies, and due to the seventh and eight buy-back programmes carried out by the Fund during this period and, netted off by the negative impact of the decrease in the share prices of certain listed holdings, principally OMV Petrom SA (impact on the Fund's NAV of RON 28.5 million or RON 0.0032 per share).

During the second quarter of 2017, only one update in the valuation of the Fund's unlisted holdings was performed, i.e. the valuation report for Posta Romana SA, with an impact of RON 2.0 million or RON 0.0002 per share as compared with 31 December 2016. The valuation was performed with the assistance of independent valuers, i.e. KPMG Advisory, in accordance with International Valuation Standards.

During the **third quarter of 2017**, the NAV per share had an overall increase of 1.0% compared with the end of the previous quarter, mainly due to special dividend receivables from portfolio companies, due to the positive share price evolution of the Fund's listed holdings, principally OMV Petrom SA (impact on the Fund's NAV of RON 18.8 million or RON 0.0021 per share) and due to the eight buy-back programme carried out by the Fund during this period, netted off by the negative impact arising from the updated valuation for the Fund's holdings in Electrica subsidiaries.

During the third quarter, only one update in the valuation of the Fund's unlisted holdings was performed for the Fund's holdings in Electrica subsidiaries. The valuation was performed at the transaction aggregated value stipulated in the Memorandum of Understanding concluded with Electrica SA on 14 July 2017. The previous total value of the holdings in Electrica subsidiaries was RON 877.4 million while the current value as per the aggregated value in the Memorandum of Understanding was RON 752.0 million. In addition, an amount of RON 97.9 million dividends receivable from Electrica subsidiaries is booked as at 30 September 2017. The overall impact is of RON 27.4 million or RON 0.0028 per share, as compared with 31 December 2016.

During the **last quarter of 2017** the NAV per share increased by 2.5%, mainly due to the update of the independent valuation of unlisted portfolio companies and due to the positive impact of the eighth and ninth buy-back programme carried out by the Fund during the quarter.

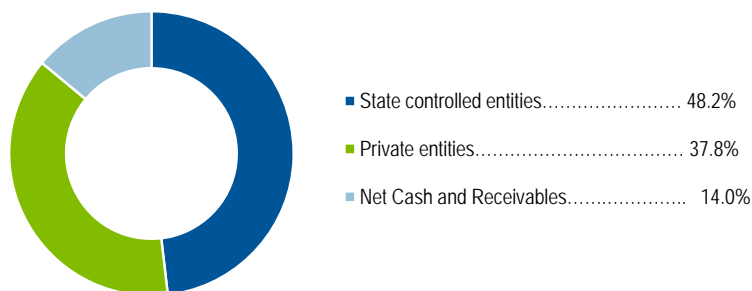
Valuation updates in accordance with International Valuation Standards for 16 unlisted holdings were prepared, representing 99.7% of the total unlisted portfolio, with the assistance of KPMG Advisory. The overall impact was an increase of RON 170.5 million or RON 0.0160 per share, compared to the 29 November 2017 NAV, as detailed in the table below:

No.	Portfolio company name	Value in 29 Dec 2017 NAV (RON million)	Value in 29 Nov 2017 NAV (RON million)	Impact on Total NAV (RON million)	% 29 Dec 2017 NAV vs. 29 Nov 2017 NAV	Impact on NAV per share <sup>1</sup> (RON)
1	Hydroelectrica SA	3,566.0	3,384.0	182.0	5.4%	0.0171
2	CN Aeroporturi Bucuresti SA	774.0	761.0	13.0	1.7%	0.0012
3	E-Distributie Banat SA	545.0	599.9	(54.9)	-9.2%	(0.0052)
4	Engie Romania SA	472.0	453.4	18.6	4.1%	0.0017
5	E-Distributie Muntenia SA	419.0	449.4	(30.4)	-6.8%	(0.0029)
6	E-Distributie Dobrogea SA	342.0	380.2	(38.2)	-10.0%	(0.0036)
7	Societatea Nationala a Sarii SA	233.0	181.0	52.0	28.7%	0.0049
8	CN Administratia Porturilor Maritime SA	230.0	216.0	14.0	6.5%	0.0013
9	ENEL Energie Muntenia SA	61.0	70.3	(9.3)	-13.2%	(0.0009)
10	ENEL Energie SA	57.0	75.5	(18.5)	-24.5%	(0.0017)
11	Posta Romana SA	35.0	45.0	(10.0)	-22.2%	(0.0009)
12	Complexul Energetic Oltenia SA	32.0	-	32.0	100.0%	0.0030
13	Zirom SA	26.8	25.5	1.3	5.1%	0.0001
14	Aeroportul International Timisoara - Traian Vuia SA	22.0	3.6	18.4	511.1%	0.0017
15	Aeroportul International Mihail Kogalniceanu - Constanta SA	2.4	1.7	0.7	41.2%	0.0001
16	Plafar SA	2.0	2.2	(0.2)	-9.1%	(0.0000)
<b>TOTAL</b>		<b>6,819.2</b>	<b>6,648.7</b>	<b>170.5</b>	<b>2.6%</b>	<b>0.0160</b>

### Investment Strategy and Portfolio Analysis

The Fund's Investment Objective is the maximisation of returns and per-share capital appreciation via investments mainly in Romanian equities and equity-linked securities. The equity exposure amounted to 86.0% of the Fund's NAV as at 29 December 2017. As at that date, the portfolio was composed of holdings in 37 companies (10 listed and 27 unlisted), a combination of privately held and state-controlled entities.

### Portfolio Structure – by Controlling Ownership



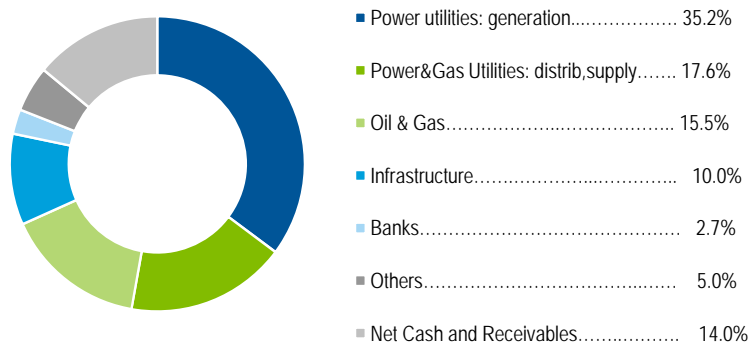
- Net cash and receivables includes bank deposits, current bank accounts, short-term treasury bills and bonds, dividend receivables, as well as other receivables and assets, net of all liabilities (including liabilities to shareholders related to the returns of capital) and provisions.

Source: Fondul Proprietatea, data as at 29 December 2017

<sup>1</sup> Computed based on the number of shares used in NAV per share computation as at 29 November 2017



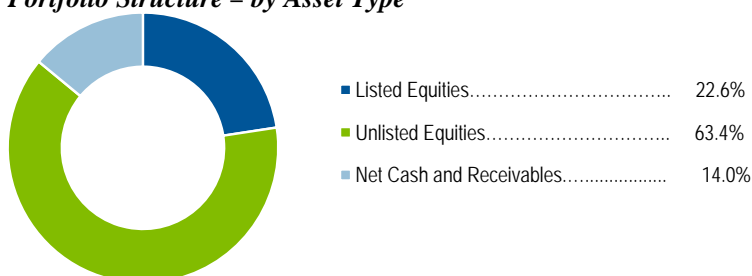
**Portfolio Structure - by Sector**



- The portfolio remains heavily weighted in power, oil and gas sectors (approx. 68.3% of the NAV), through a number of listed and unlisted Romanian companies

Source: Fondul Proprietatea, data as at 29 December 2017

**Portfolio Structure – by Asset Type**



Source: Fondul Proprietatea, data as at 29 December 2017

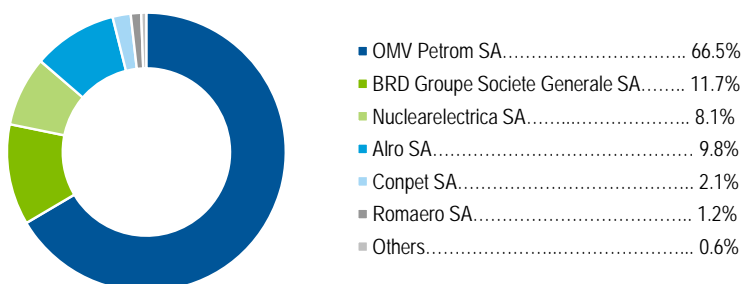
**Portfolio Structure – Unlisted holdings**



- The largest unlisted holding is Hidroelectrica SA (33.0% of the NAV)

Source: Fondul Proprietatea, data as at 29 December 2017; the chart reflects the company NAV value as a % in total NAV value of unlisted holdings

**Portfolio Structure – Listed holdings**



- The largest listed holding is OMV Petrom SA (15.0% of the NAV)

Source: Fondul Proprietatea, data as at 29 December 2017; the chart reflects the company NAV value as a % in total NAV value of listed holdings

**Top 10 equity investments**

No	Name	Fund's stake (%)	Value as at 29 December 2017 <sup>1</sup> (RON million)	% of NAV as at 29 December 2017 <sup>1</sup>
1	Hidroelectrica SA	19.94%	3,566.0	33.0%
2	OMV Petrom SA	9.99%	1,619.8	15.0%
3	CN Aeroporturi Bucuresti SA	20.00%	774.0	7.2%
4	E-Distributie Banat SA	24.12%	545.0	5.1%
5	Engie Romania SA	11.99%	472.0	4.4%
6	E-Distributie Muntenia SA	12.00%	419.0	3.9%
7	E-Distributie Dobrogea SA	24.09%	342.0	3.2%
8	BRD Groupe Société Générale SA	3.17%	285.6	2.6%
9	Alro SA	10.21%	238.3	2.2%
10	Societatea Nationala a Sarii SA	48.99%	233.0	2.2%
<b>Top 10 equity holdings</b>			<b>8,494.7</b>	<b>78.8%</b>
<b>Total equity holdings</b>			<b>9,278.2</b>	<b>86.0%</b>
<b>Net cash and receivables</b>			<b>1,512.2</b>	<b>14.0%</b>
<b>Total NAV</b>			<b>10,790.4</b>	<b>100.0%</b>

Source: Fondul Proprietatea, based on NAV reports submitted to FSA (29 December 2017 NAV report)

<sup>1</sup>Rounded to one decimal

**Key Portfolio Developments during the Period****Acquisitions and disposals***Participation in share capital increases*

On 27 July 2017 the Fund subscribed to the share capital increase of Zirom SA with a cash contribution of RON 2,720,000, which became effective as of 1 August 2017, the registration date at the Romanian Trade Register.

*Disposals*

During the year the Fund sold its entire holdings in Oil Terminal SA, Primcom SA, Cetatea SA, Banca Transilvania SA and in the subsidiaries of Societatea Energetică Electrica SA and part of its holdings in BRD Societe Generale and OMV Petrom (see section “Strategic options for some portfolio companies announced by the Fund during 2017”).

**Energy sector updates***Energy tariff changes*

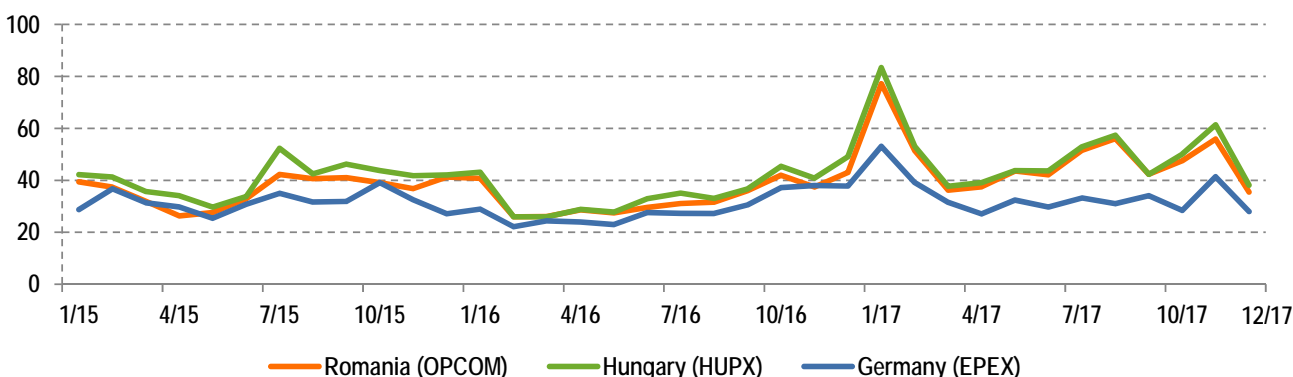
The proposed timetable for the gradual elimination of the regulated electricity prices for non-household consumers and for household consumers is according with the table below:

Starting date	Non-household consumers – % acquisition from the competitive market	Household consumers – % acquisition from the competitive market
01.01.2013	30	-
01.04.2013	45	-
01.07.2013	65	10
01.09.2013	85	10
01.01.2014	100	20
01.07.2014	100	30
01.01.2015	100	40
01.07.2015	100	50
01.01.2016	100	60
01.07.2016	100	70
01.01.2017	100	80
01.07.2017	-	90
31.12.2017	-	100

Source: ANRE webpage

**Electricity prices (EUR/ MWh)**

Source:



Bloomberg, Hidroelectrica SA

Note: Day Ahead Market – monthly average for base load

**Energy resources (thousand tonnes barrels of oil equivalent)**

	January - August 2017			January - August 2016			% change		
	Total	Production	Import	Total	Production	Import	Total	Production	Import
Net coal	4,788.3	4,291.5	496.8	4,316.0	3,821.6	494.4	10.90	12.30	0.50
Crude oil	10,166.8	3,136.5	7,030.3	10,080.4	3,280.0	6,800.4	0.90	(4.40)	3.40
Usable natural gas	8,288.3	7,580.4	707.9	7,634.2	6,768.4	865.8	8.60	12.00	(18.20)
Hidro, nuclear, and import energy	4,749.5	4,449.0	300.5	5,027.8	4,735.1	292.7	(5.50)	(6.00)	2.70
Import oil products	2,800.5	-	2,800.5	-	-	-	100.00	-	100.00
Others	440.2	-	440.2	2,984.1	-	2,984.1	(85.20)	-	(85.20)
<b>Total resources</b>	<b>31,233.6</b>	<b>19,457.4</b>	<b>11,776.2</b>	<b>30,042.5</b>	<b>18,605.1</b>	<b>11,437.4</b>	<b>4.0</b>	<b>4.6</b>	<b>3.0</b>

Source: National Institute of Statistics webpage

**Gas tariff changes**

Gas prices for industrial consumers have been fully liberalized since 1 January 2015, while prices for household consumers have also been fully liberalized on 1 April 2017.

**Update on the largest 10 portfolio holdings****Alro SA**

RON million	2015	2016	2017*	Budget 2017**	Budget 2018**
Turnover	2,422.8	2,302.8	2,466.0	2,417.2	2,595.8
Operating profit	185.9	166.7	396.8	270.2	280.4
Net profit/ (loss)	(0.02)	71.5	317.7	167.9	199.8
Dividends*	-	67.2	n.a.	-	-

Source: Consolidated IFRS financial statements

\*Individual IFRS Financial Statements

\*\*Budgeted figures do not include any change in the fair value of the derivative embedded in the electricity purchase contract concluded with Hidroelectrica SA. Budget refers to Alro SA individual financial statements. The amounts were converted from USD to RON using the RON/ USD National Bank of Romania exchange rate at budget publishing date (i.e. 23 March 2017/22 December 2017)

March/April: The company reported a consolidated net profit of RON 71.5 million compared to a very small loss last year. Turnover reached RON 2,302.8 million, down 4.9% y.o.y due to lower average yearly aluminium LME prices (USD 1,605 / tonne in 2016 vs. USD 1,661 / tonne in 2015) but also to changes in the mix of products sold. Gross margin for the period reached RON 367.7 million, down 9.3% y.o.y. and operating profit of RON 166.7 million, down 10.3% y.o.y.

April: the company shareholders approved the distribution of dividends corresponding to a pay-out ratio of 100% of the 2016 net profit, based on individual financial statements.

May: On a stand-alone basis, Alro reported for the first quarter of 2017, a net profit of RON 77.7 million, compared to RON 27.3 million during the similar period of the previous year. During the period, sales advanced by 12.3% y.o.y. to RON 633.6 million on the back of higher benchmark aluminum prices (average aluminum LME prices during the period advanced 22.1% y.o.y. to USD 1.851 per tonne), appreciation of the USD against the RON, as well as improved sales structure (during the period, the volume of processed aluminum sales increased by c. 2,000 tonnes compared to the similar period of the previous year). Operating profit for the period reached RON 103.7 million, up 4.6 times y.o.y.

August: For the first six months of the year, ALRO group reported a consolidated net profit attributable to the shareholders of the parent of RON 186.7 million compared to RON 35.2 million during the similar period of the previous year. Total sales advanced during H1 2017 by 14.5% y.o.y. to RON 1,378.2 million on the back of the 21.8% y.o.y. increase during the period of average benchmark aluminium LME prices to USD 1,880 / tonne. In volume terms, sales of processed aluminum products advanced by 3.4% y.o.y. to approximate 56.4 thousand tonnes, while sales of primary aluminum products decreased by 4.8% y.o.y. to approximate 62.2 thousand tonnes. For H1 2017, EBITDA reported by the group reached RON 291.6 million, up 113.2% y.o.y.

November: Shareholders approved the extension until November 2020 of the maturity of the USD 137 million credit line concluded on December 2015 for an initial period of two years by the company with a syndicate of banks. Shareholders also approved the increase of the facility with a new credit line worth USD 30 million to be used by the company for the issuance of letters of credit and letters of guarantee.

November: On a stand-alone basis, Alro reported for the first nine months of 2017, a net profit of RON 223.4 million, compared to RON 63.8 million during the similar period of the previous year. During the period, sales advanced by 18.0% y.o.y. to RON 1,861.8 million on the back of higher benchmark aluminum prices (average aluminum LME prices during the period advanced 24.2% y.o.y. to USD 1.924 per tonne) and improved sales volumes (during the period, the volume of processed aluminum sales increased by 7.4% y.o.y. to 62,361 tonnes while sales volumes of primary aluminium advanced by 1.0% y.o.y. to 115,156 tonnes). Operating profit for the period reached RON 273.5 million, up 2.5 times y.o.y.

February 2018: The company reported an unconsolidated net profit in 2017 of RON 317.7 million compared to RON 67.2 million in 2016. Turnover reached RON 2,466.0 million, up 15.9% y.o.y. on the back of the positive evolution of aluminium prices on international markets (average benchmark LME aluminium prices reached USD 1,969 / tonne in 2017 vs. USD 1,605 / tonne in 2016) and higher sales volumes of processed aluminium products which reached 82,000 tonnes (vs. 77,000 tonnes in 2016), more than offsetting the 3,000 tonnes decline to 151,000 tone registered in the volume primary aluminium sales. Gross profit for the year stood at RON 532.4 million, up 82.1% y.o.y. while operating profit reached RON 396,8 million, up 2.3 times compared to the 2016 level.

## BRD – Groupe Société Générale SA

RON million	2015*	2016	2017***	Budget 2016**	Budget 2017**
Operating income	2,595.2	2,777.6	2,785.9	Around 5% increase	Around 4% increase
Net operating profit	1,209.9	1,390.1	1,312.6	Around 5% increase	Around 5% increase
Net cost of risk	(658.2)	(483.5)	359.5	Further normalisation trajectory	Further normalisation trajectory
Net profit	467.2	763.5	1,414.6	n.a.	Improvements
Dividends	223.0	508.7	1,145.7****	-	-

Source: Consolidated IFRS financial statements

\*Restated values

\*\* Budgeted figures based on individual IFRS financial statements

\*\*\* Preliminary consolidated IFRS financial statements

\*\*\*\* Board proposal subject to GSM approval

March / April: The bank reported a consolidated net profit for the year 2016 of RON 763.5 million compared to a net profit of RON 467.2 million in 2015. The net banking income increased by 7.0% y.o.y. to RON 2,777.6 million driven by the improvement in the net interest income (+4.6% vs. 2015 to RON 1,586.5 million), higher net fee and commission income (+3.1% vs. 2015 to RON 772.7million) and the Visa Europe transaction gain recorded in the second quarter. According to the bank, excluding non-recurring elements, the net banking income advanced by 3.0% y.o.y. During the period, the general operating expenses marginally increased by 0.2% y.o.y. to RON 1,387.6 million, leading to a net operating profit of RON 1,390.1 million, representing an increase of 14.9% y.o.y. Net cost of risk decreased by 26.5% y.o.y. to RON 483.5 million. Shareholders approved the Board recommendations of a dividend per share of RON 0.73 corresponding to a pay-out ratio of 70% of the 2016 bank stand-alone net profit.

May: The bank reported a consolidated net profit for Q1 2017 of RON 329.9 million compared to a net profit of RON 72.9 million during the similar period of the previous year. The net banking income increased by 0.4% y.o.y to RON 650.1 million as the growth in net interest income exceeded the decrease in net fees and commissions. During the period, the general operating expenses decreased by 5.1% y.o.y. driven by lower Bank Deposit Guarantee and Resolution Fund contributions leading to a net operating profit of RON 266.0 million, up 9.6% y.o.y. During Q1 2017, the bank reported a positive net cost of risk of RON 124 million compared to a provision charge of RON 152 million in Q1 2016 on the back of recoveries on non-retail defaulted exposure coupled with the recognition of material insurance indemnities.

August: For the first six months of 2017 the bank reported a consolidated net profit attributable to equity holders of the parent of RON 744.1 million compared to a net profit of RON 378.0 million during the similar period of 2016. While reported net banking income decreased by 6.4% y.o.y. to RON 1,341.6 million, adjusting for significant non-recurring elements booked in the first half of 2016 (gain from available for sale securities and VISA Europe transaction which totalled RON 121.0 million), BRD Group's net banking income increased by 2.1% y.o.y. During the period general operating expenses increase by 2.1% y.o.y. to RON 720.4 million, leading to a net operating profit of RON 621.2 million, representing a decrease of 14.7% y.o.y. In the first half of 2017 the bank reported a positive net cost of risk of RON 269.8 million compared to a provision charge of RON 282.4 million during H1 2016, driven by the recognition of insurance indemnities, recoveries on non-retail defaulted portfolios and gains on sale of non-performing loans portfolios.

November: BRD Group's consolidated net profit for the first nine months of 2017 registered an increase of 75.8% yoy. to RON 1,065.5 billion as compared to RON 606.1 million in the same period of the last year. Reported net banking income for the period decreased by approximately 2.4% y.o.y. to RON 2,060.7 million, however adjusting for non-recurring items (gain of VISA transaction in 2016 and gains on Available for Sale instruments) net banking income advanced by 3.4% y.o.y. During the period general operating expenses of the bank increased by 3.0 % y.o.y. to RON 1,063.2 million, leading to a net operating profit of RON 997.4 million, representing a decrease of 7.5% y.o.y.. During the period, the Group registered a positive net cost of risk of RON 271.0 million compared to a provision charge of RON 361.8 million for the same period of the previous year due to the recognition of insurance indemnities, recoveries on non-retail defaulted portfolios and gain on sale of non-performing loans. At the end of September 2017, the bank's consolidated loan book and finance lease portfolio reached RON 30.7 billion, up nearly 7.7% year- to- date.

February 2018: The bank reported a preliminary 2017 consolidated net profit of RON 1,414.6 million, up 85.3% y.o.y. leading to return on equity of 20.1% compared to 11.8% in the previous year. Reported net banking income inched up 0.3% y.o.y. to RON 2,785.9 million and advanced by 4.9 % y.o.y. when adjusted for non-recurring items. During 2017, general operating expenses advanced by 6.2% y.o.y. on the back of higher rising labour costs and higher IT investments, leading to a net operating profit of RON 1,312.7 million, down 5.6% y.o.y. According to the bank, during the 4<sup>th</sup> quarter, it recorded an exceptional charge of RON 29 million corresponding to transformation costs anticipated over the next three years. Over the full year 2017, the bank generated a positive net cost of risk of RON 359.5 million compared to a provision charge of RON 483.5 million in 2016 driven by recoveries on non-retail customers, recognition of insurance indemnities, and gain on sale of non-performing loans portfolio. At the end of 2017, the bank's consolidated net loan book and finance lease portfolio reached RON 29.6 billion, up nearly 6.4% y.o.y.

February 2018: The bank announced that the Board of Directors will recommend shareholders to approve in the annual general shareholders meeting a total dividend corresponding to a pay-out ratio of 83% out of the bank's 2017 unconsolidated net profit. According to preliminary financial results, BRD – Groupe Société Générale SA reported on a stand-alone basis a net profit of RON 1,380.3 million, up. 89.5% y.o.y.

### CN Aeroporturi Bucuresti SA

RON million	2015	2016	H1 2016	H1 2017	Budget 2016	Budget 2017
Total revenue	783.4	910.3	416.0	497.0	842.9	983.2
Operating profit	213.5	276.6	145.7	176.9	127.4	225.7
Net profit	178.8	234.5	122.2	150.3	104.8	185.9
Dividends	137.1	214.8	n.a.	n.a.	55.4	95.9

Source: Financial statements prepared in accordance with applicable Romanian Accounting Regulations

March: The number of passengers serviced in the first 2 months of 2017 increased by 21.5% compared to the same period of 2016, reaching 1.66 million passengers. The numbers of aircraft movements increased by 8.3% to 18,069 while the cargo traffic increased by 4.5% to 5,010 tonnes.

April: Mr Bogdan Mandrescu was appointed as interim General Manager following the expiration of the mandate of Mr Liviu Radu on 18 April 2017. Mr Mandrescu is an interim member of the company's Board since 2016 and was briefly interim President of the Board during 2017.

May: The number of passengers serviced in the first 5 months of 2017 increased by 21.2% compared to the same period of 2016, reaching 4.75 million passengers.

June: the number of passengers increased by 16.6% in the first 6 months of 2017 compared to the same period from 2016, reaching 5.91 million passengers. The number of aircraft movements increased by 9% to 55,739.

August: During the first 6 months of 2017 total revenues increased 19.5% to RON 497 million and net profit increased 23% to 150.3 million, compared to the same period of 2016. The strong evolution was largely driven by the continued strong increase of passenger traffic, which reached 20.4% to 5.9 million passengers in the first 6 months of 2017.

September: Shareholders approved the distribution of an additional RON 200 million as special dividends, out of which RON 160 million to the Ministry of Transports and RON 40 million to Fondul Proprietatea.

December: The increasing trend in the number of passengers was maintained during the last quarter of 2017, as the total traffic for the entire year increased by 16.8%, to 12.8 million passengers.

### E-Distributie Banat SA

RON million	2015	2016	Budget 2016	Budget 2017
Operating revenue	635.2	557.8	491.6	483.6
Operating profit	181.5	107.8	175.6	233.3
Net profit	157.9	93.6	143.3	72.8
Dividends	69.7	37.0	-	-

Source: Financial statements prepared in accordance with applicable Romanian Accounting Regulations

January: Starting 1 January 2017, the regulated electricity distribution tariffs decreased on average by 9.0% (based on ANRE Order no. 108 published on 19 December 2016).

July: The company appointed a new board member proposed by Enel, Mrs Cinzia Bonfantoni, following the resignation of Mrs Mina Kolarova.

*Note: the comment below applies to all Fund's holdings in E-Distributie Muntenia SA, E-Distributie Banat SA, E-Distributie Dobrogea SA, Enel Energie SA, Enel Energie Muntenia SA and Engie Romania SA*

August: the Investment Manager of Fondul Proprietatea announced that it initiated a competitive process aimed at potential disposals of the Fund's holdings in E-Distributie Muntenia SA, E-Distributie Banat SA, E-Distributie Dobrogea SA, Enel Energie SA, Enel Energie Muntenia SA and Engie Romania SA. The process is managed by Ithuba Capital AG acting as the Fund's sole financial adviser in connection with the envisaged transactions.

December: Starting 1 January 2018, the regulated electricity distribution tariffs decreased on average by 0.9% (based on ANRE Order no. 113 published on 12 December 2017).

### E-Distributie Dobrogea SA

RON million	2015	2016	Budget 2016	Budget 2017
Operating revenue	541.3	480.3	420.6	414.1
Operating profit	136.3	84.8	129.7	184.0
Net profit	114.8	73.5	97.3	53.8
Dividends	50.0	27.4	-	-

Source: Financial statements prepared in accordance with applicable Romanian Accounting Regulations

January: Starting 1 January 2017, the regulated electricity distribution tariffs decreased on average by 6.4% (based on ANRE Order no. 109 published on 19 December 2016).

July: The company appointed a new board member proposed by Enel, Mrs Cinzia Bonfantoni, following the resignation of Mrs Mina Kolarova.

December: Starting 1 January 2018, the regulated electricity distribution tariffs increased on average by 2.0% (based on ANRE Order no. 111 published on 12 December 2017).



**E-Distributie Muntenia SA**

RON million	2015	2016	Budget 2016	Budget 2017
Operating revenue	1,030.9	921.7	753.4	848.7
Operating profit	256.3	178.5	189.9	417.4
Net profit	237.9	151.7	151.0	156.8
Dividends	-	-	-	-

Source: Financial statements prepared in accordance with applicable Romanian Accounting Regulations

January: Starting 1 January 2017, the regulated electricity distribution tariffs decreased on average by 8.4% (based on ANRE Order no. 107 published on 19 December 2016).

March: Georgios Stassis, Romania country manager of Enel, announced that its subsidiary Enel Investment Holding will pay EUR 401.0 million for an additional 13.57% stake in E-Distributie Muntenia and Enel Energie Muntenia following the exercise of the PUT option by SAPE. The amount paid by Enel was set by the International Court of Arbitration in February 2017.

July: The company registered the finalization of the transfer of shares (13.57% stake) from SAPE to Enel Investment Holding following the exercise of the PUT option by SAPE.

December: Starting 1 January 2018, the regulated electricity distribution tariffs increased on average by 0.8% (based on ANRE Order no. 112 published on 12 December 2017).

**Engie Romania SA**

RON million	2015	2016	Budget 2016*	Budget 2017*
Turnover	4,416.4	4,498.0	4,314.3	4,018.7
Operating profit	474.9	450.6	405.6	358.9
Net profit	378.5	363.8	328.7	289.4
Dividends**	-	110.9	-	-

Source: Consolidated IFRS financial statements

\*Budgeted figures are on a consolidated basis

\*\*Dividends are based on the separate IFRS financial statements

March: The company appointed two new board members, Razvan-Ionut Pataliu and Marius Viorel Stanciu, following the request coming from the Ministry of Energy. They replaced Vlad Vasiliu and Valeriu Stefan Ivan who were revoked.

April: Shareholders approved the mandate of the board of directors for another 4 years. The members of the board are: Eric Stab, Etienne Jacolin, Marleen Delvaux, Olivier Bloeyart, Razvan Ionut Pataliu, Aurelia Carmen Slate and Alexandru Georgescu Popescu.

April: According to ANRE Order no. 22/2017, with effect from 1 April 2017 the regulated supply tariffs for households were decreased on average by approximately 0.7%.

January 2018: According to ANRE Order no. 1/2018, with effect from 10 January 2018 the regulated supply tariffs for households were increased on average by approximately 6.1%.

**Hidroelectrica SA**

RON million	2015	2016	H1 2016	H1 2017
Turnover	3,183.2	3,338.0	1,615.8	1,705.1
Operating profit	1,127.4	1,540.3	748.3	844.4
Net profit	899.4	1,227.7	567.9	716.7
Dividends	675.1	1,035.7	-	-

Source: Financial statements prepared in accordance with applicable Romanian Accounting Regulations

April: Shareholders decided on 19 April to appoint Mr Dorin Liviu Nistoran, Ms Ioana Andreea Lambru, Mr Gheorghe Gabriel Gheorghe, Mr Laurentiu Dan Tudor, Mr Horia Marian Gambutean, Ms Andreea Negru Ciobanu and Ms Oana Truta (FTIML employee) as Board members for a 4 month mandate.

June: the Fund requested the revocation of Ms Ioana Andreea Lambru, Mr Laurentiu Dan Tudor, Mr Horia Marian Gambuteanu, Ms Andreea Negru Ciobanu as members of the Board following breaches of the Code of Ethics and the corporate governance principles while attempting to appoint new members of the directorate.



July: Shareholders appointed Mr. Radu Cojocaru, Mr Karoly Borbely and Ms Oana Truta as members of the Supervisory Board following resignations of some previous Board members.

July: The Fond requested the revocation of Mr Karoly Borbely as member of the Board following breaches of the Code of Ethics and the corporate governance principles while appointing new members of the directorate.

July: The supervisory Board appointed a new Directorate composed of Bogdan Nicolae Badea, Marian Bratu and Mihai Val Zdru. The Fond requested a litigation to be brought against the Supervisory Board members that appointed the Directorate by breaching the Code of Ethics and the corporate governance principles while appointing the new members of the Directorate.

September: the Investment Manager of Fondul Proprietatea announced that it is reviewing strategic options regarding its ownership interest in Hidroelectrica SA and appointed as financial adviser in connection with the envisaged transaction Citigroup Global Markets Limited and UBS Limited.

## OMV Petrom SA

RON million	2015	2016	9 months 2016	9 months 2017	Budget 2016	Budget 2017
Sales	18,145.0	16,246.9	11,953.0	14,293.5	10,764.0	13,487.0
Operating profit/ (loss)	(529.8)	1,469.3	1,141.0	2,450.2	62.0	1,851.0
Net profit/ (loss)	(689.7)	1,037.7	877.0	1,847.7	199.0	1,827.0
Dividends*	-	849.7	n.a.	n.a.	-	-

Source: Consolidated IFRS financial statements

\*Based on separate IFRS financial statements

February: OMV Petrom announced the start of an investment of EUR 60 million in a new polyfuels unit to be built in the Petrobrazi Refinery. Expected to be completed in 2019, the unit will allow conversion of LPG components into gasoline and middle distillates, which will allow for a shift in production of up to 50,000 tonnes of gasoline and middle distillates from LPG components.

February: The company's Executive Board presented a comprehensive strategy update, which includes a shift towards developing growth options by exploring internal opportunities but also regional expansion through acquisitions and partnerships. For more details please see the company's presentation on OMV Petrom Website.

May: The company reported the financial results for the first quarter of 2017. The highlights include: sales increased by 27.5% compared to the same period of 2016 to RON 4,652.6 million, operating profit increased by 130.9% compared to the same period of 2016 to RON 798.3 million and net profit increased to RON 618.1 million from RON 288.2 million. The increase of the Q1 2017 operating results were mainly due to increased oil prices and higher retail demand for fuels and were also supported by fiscal easing in Romania, in particular the elimination of the tax on special constructions starting January 2017.

July: Operations were resumed at the Brazi power plant on 5 July, following the closure for several months due to a steam turbine transformer in April 2017.

July: OMV Petrom announced that it has signed the contract for the sale of their wind powered electricity production assets, known as Dorobantu Wind Park. The buyer is Transeastern Power B.V. while the transaction value is EUR 23 million. The completion of the transaction is subject to procedural conditions, such as approval from the Competition Council, which is expected by the end of the year.

August: The company reported the financial results for the first half of 2017. The highlights include: sales increase by 25.4% compared to the same period of 2016 to RON 9,261.1 million, operating profit increase by 178.7% compared to the same period of 2016 to RON 1,577.3 million and net profit increased to RON 1,210.3 million from RON 408.3 million. The increase of the operating results were mainly due to higher sales revenue due to an increase of 36% of realized oil price, the elimination of the tax on special constructions starting 2017 and lower exploration expenses following lower write-offs of exploration assets.

October: The company published a trading update for Q3 2017, highlights include a 4.6% decline of hydrocarbon production to 166 thousand barrels of oil equivalent ("boe") per day, 3.3% decline of hydrocarbon sales to 14.6 million boe, 17.8% increase in average realized oil price to USD 44.05 and a strong increase of the indicator refining margin to 8.75% compared to 5.96% in Q3 2016.

October: The company announced that Mr Mihai Busuioc has resigned from the Supervisory Board of the Company. He had been appointed in April 2017 following the recommendation of the Ministry of Energy. Sevil Shhaideh was appointed as an interim member of the Supervisory Board as well as member of the Audit

Committee and member of the Presidential and Nomination Committee, following Mihai Busuioc's waiver of his mandate in the above mentioned positions.

November: The company reported the financial results for the 9-month period ended 30 September 2017. The highlights include: the sales increase by 19.6% compared to the same period of 2016 to RON 14,293.5 million, operating profit increase by 114.7% compared to the same period of 2016 to RON 2,450.2 million and net profit increased to RON 1,847.7 million. The increase of the operating results were mainly due to higher sales volumes supported by higher oil and natural gas prices, increased petroleum product sales volumes, partially offset by lower sales volumes of natural gas and electricity.

January 2018: *Recent events*: on 9 January 2018 the Supervisory Board of OMV Petrom decided to appoint Christina Verchere as the new President of the Executive Board and CEO. She is will replace Mariana Gheorghe, for the remaining term of the mandate granted to Mariana Gheorghe which was until 16 April 2019.

### Societatea Nationala a Sarii SA (Salrom)

RON million	2015	2016	H1 2016	H1 2017	Budget 2016	Budget 2017
Operating revenue	319.1	315.0	146.2	183.4	329.7	338.4
Operating profit	27.5	43.3	33.6	57.4	69.5	57.5
Net profit	15.8	30.1	26.0	47.8	57.3	48.2
Dividends	-	28.1	-	-	45.4	48.2

Source: Financial statements prepared in accordance with applicable Romanian Accounting Regulations

July: the Fund is reviewing strategic options regarding its stake in the Company, and has appointed UniCredit as financial advisor in connection with a possible transaction.

August: The company released the results for the first six months of 2017: revenues of RON 183.4 million (increased by 25.4% compared to the same period of 2016) operating profit of RON 57.4 million (increased by 70.8% compared to the same period of 2016) and net profit of RON 47.8 million (increased by 83.8% compared to the same period of 2016). The increase in revenues and profitability was due to the uplift in selling prices to the main clients and also to a better cost management although the overall quantities remained flat. The company is currently going through a restructuring which will lead to further improvements in profitability in the next years.

### Bankruptcies, insolvencies and reorganisations

The following companies from the Fund's portfolio are under bankruptcy, insolvency or reorganisation procedure:

- B A T Service SA (sole registration code 16086637) is a company in bankruptcy according to Buzau Court decision related to the file 4339/114/2009
- Forsev SA (sole registration code 1605710) is a company under insolvency procedure starting with 23 December 2015, according to the decision issued by the Mehedinti Court related to the file 7883/101/2015
- Gerovital Cosmetics SA (sole registration code 334493) is a company under bankruptcy procedure starting with 6 January 2010, according to the decision issued by the Bucharest Court related to the file 22491/3/2007
- Romplumb SA (sole registration code 2206334) is a company under bankruptcy procedure starting with 15 September 2017, according to the decision issued by the Maramures Court related to the file 729/100/2012 –
- Simtex SA (sole registration code 324490) is a company under judicial reorganisation procedure starting with 10 December 2008, according to the decision issued by the Bucharest Court related to the file 5768/3/2008
- Salubriserv SA (sole registration code 7774360) is a company in reorganization procedure according to the decision issued by the Mures Court related to the file 108/1371/2015 on 22 December 2016
- World Trade Center Bucharest SA (sole registration code 364354) is a company under insolvency procedure starting with 8 June 2010, according to the decision issued by the Bucharest Court related to the file 45619/3/2011 and
- Comsig SA (sole registration code 1225885) is a company under insolvency procedure according with the shareholders decision from 18 April 2017, based on which it was approved the voluntary dissolution of the company.

The holdings in these companies are reflected at zero in the NAV. Forsev SA is not reflected as a portfolio company: the Fund has recorded a receivable for the uncollected value of the shares in Forsev SA for which an impairment adjustment was recorded according to the provisions of the legislation in force, following the delisting of the company after RASDAQ market was closed.

## Risk Management

### Financial Risk Management

The Fund's investing activities expose it to various types of risks that are associated with the financial instruments and with the markets in which it invests. The most important types of financial risks to which the Fund is exposed to are: market risk, credit risk and liquidity risk. The management monitors the potential adverse effects associated with these risk factors on the financial performance of the Fund. Starting 29 September 2010 the Fund management implemented financial risk management procedures consistent with those applied globally by Franklin Templeton Investments.

#### *i) Market risk*

Market risk is the risk that changes in market prices and rates, such as equity prices, interest rates and foreign exchange rates will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable levels, while optimising return.

##### *Equity price risk*

Equity price risk is the risk that the value of an equity instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to the issuer or factors affecting all instruments traded in the market. Equity price risk arises from changes in the value of equity investments and is the primary risk impacting the Fund. Diversification across securities and industries, is the primary technique for mitigating equity price risk. The companies in which the Fund holds equity instruments operate in different industries. The Fund has concentrated exposures to the "Oil and gas", "Power and gas utilities: distribution and supply" and "Power utilities: generation" sectors.

##### *Interest rate risk*

Most of the assets are non-interest bearing. The interest bearing financial assets (deposits and government securities) generally have short-term maturities: deposits generally up to 3 months, treasury bills and government bonds up to 12 months. As a result, the Fund has a limited exposure to variations in interest rates.

##### *Foreign currency risk*

Fund's exposure to currency risk is insignificant. The Fund held current accounts, receivables and payables denominated in foreign currencies (EUR, USD or GBP), but the balances were immaterial during the reporting period. During 2017 the Fund did not hold any equity investment denominated in other currency than RON.

#### *ii) Credit risk*

Credit risk is the risk of financial loss to the Fund if counterparties to financial instruments fail to meet their contractual obligations, and arises principally from cash and deposits with banks, treasury bills, government bonds and other receivables.

For government securities held, the credit risk is assessed as low to moderate, given that the issuer is the Romanian State through the Ministry of Public Finance.

Cash held by the Fund that is not invested in portfolio companies or government securities may be placed in short-term bank deposits. The Sole Director implemented a formal policy regarding bank counterparty risks and limits. The Fund only establishes new deposits with financial institutions where the institution or the institution's corporate parent has a credit rating above investment grade (BBB- or better). The counterparty credit risk is also diversified by allocating the cash and cash equivalents across several banks. The selection of financial institutions as deposit takers was made and the exposure limits were decided upon based on their credit ratings. The Fund has no significant credit risk from dividend receivables as at 31 December 2017 and 31 December 2016.

#### *iii) Liquidity risk*

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure that it has sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. As a closed end investment fund, liquidity risks attributable to the Fund are less significant than for an open-end fund.

The Fund's equity investments include unlisted instruments issued by companies domiciled in Romania, which are not traded in a regulated market and generally may be considered be illiquid. Liquidity can vary during time and from market to market and some investments may take longer to sell. As a result, the Fund may not be able to sell

in short time certain investments in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the credit worthiness of any particular issuer.

Also, not all shares listed on BVB are considered liquid due to insufficient volumes of transactions. The Fund prudently manages liquidity risk by maintaining sufficient liquid assets to finance current liabilities. FTIML reviews liquidity at the time of making each investment decision and monitors the evolving liquidity profile of the portfolio regularly.

**iv) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Fund's processes, service providers, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Fund's operations. The Fund's objective in managing operational risk is to maintain a proper balance between limitation of financial losses and damage to the Fund's reputation with the overall cost effectiveness, avoiding control procedures that restrict initiative and creativity.

**v) Operating environment**

While uncertainty still exists within the European political environment regarding the direction of fiscal politics, responding central bank action and final outcome of the Brexit, equity markets will be exposed to continued volatility especially with regards to countries with strong ties to Europe. Commodity markets have stabilised to an extent and even recovered in some areas, but given uncertainty regarding global trade relationships and increasing protectionism further volatility can be expected.

Both political uncertainty and fluctuation in commodity prices, particularly in the energy sector, can have an impact on the Romanian economy and consequently also on the Fund's portfolio companies. Management cannot predict all developments which could have an impact on the Romanian economy and consequently what effect, if any, they could have on the performance of the Fund and its financial statements. Management cannot reliably estimate the effects on the Fund's financial position of any further deterioration in the liquidity of the financial markets and devaluation of financial assets influenced by the increased volatility in the equity and currency markets.

**vi) Risks arising from potential changes in the legislation governing the Fund**

The existence, operation and the initial structure of the Fund's portfolio are regulated by primary legislation, as well as by secondary legislation such as government decisions and FSA/ CNVM regulations. Hence, it may not be ruled out that the current legal framework might change so as to directly affect the Fund and its shareholders.

This risk is sustained by the legislative history of the past few years that reveals a series of laws which have changed also the Fund's portfolio composition. Such legal changes would have to be carried out in compliance with the constitutional principles regulating the guarantee of the private property.

Notwithstanding the general principle described above, the numerous instances where the relevant institutional structures have ruled on the unconstitutionality of certain laws, prove that the risk of legislative changes which may adversely affect the Fund and which may be passed in breach of the Constitution may not be ruled out.

**Internal Control and Risk Management**

FTIS and FTIML have implemented internal policies and procedures to ensure that timely and accurate disclosure regarding the Fund is made on all material matters, including the financial position, performance, ownership and governance of the Fund. In addition, strict internal rules, designed to protect the Fund's interests, have been established in the areas of financial reporting, internal control and risk management.

Pursuant to article 62 of Law 297/2004, FTIS and FTIML have established a Compliance department responsible for managing the compliance risk of the AIFM and of the Fund with the applicable legislation as well as with the internal policies and procedures. The registered Compliance Officer is part of Global Compliance team and member of Franklin Templeton International Compliance Department and reports directly to the Luxembourg Compliance Manager – Global Compliance.

The Compliance department is responsible for providing regulatory guidance, advice and compliance training to operational departments, assisting them in managing the reputational risk in relation to legal and regulatory requirements and codes of conduct and performing second level compliance controls.

The Fund, FTIS and FTIML are covered by relevant policies, procedures and global good standing practices already implemented within the Franklin Templeton Investment group as required by regulatory requirements.

FTIS has implemented a specific Risk Management Policy applicable to the Fund. The purpose of this policy document is to outline the main business processes in place and how they are applied for the Fund and to establish an effective risk framework which observes regulatory requirements, and thereby enhances the governance structure throughout the business.

The Sole Director oversees risk based on the Compliance Monitoring Plan. The risk assessment is a critical element of compliance oversight and monitoring program. The compliance monitoring programme is updated annually with the issues reported monthly by the executive management. The high risk areas are monitored at least annually to reflect the results of the final risk assessment for each year.

In respect of the portfolio monitoring activity, Franklin Templeton Investment Management Limited United Kingdom has implemented procedures and controls which are designed to ensure that all assets are managed prudently and in accordance with client mandates. In addition Franklin Templeton has a dedicated Investment Compliance team of specialists who are responsible for the rigorous day-to-day monitoring of all client accounts, including Fondul Proprietatea, against the agreed investment guidelines and constraints.

The front office trade management system has embedded compliance functionality which enables investment restrictions, regulatory and internal requirements to be included within the system. All trade orders (with the exception of foreign exchange trades and certain debt and derivative security trades) are automatically checked against the relevant investment restrictions in the system prior to trading.

Post trade compliance checks are automatically run overnight for all portfolios against the investment restrictions included within the trade management system. Any exceptions are investigated and cleared by Franklin Templeton Investment Compliance team. Investment restrictions that cannot be automated are reviewed periodically.

All active and passive breaches are reported to the relevant investment managers and operating departments. Corrective action is taken as necessary to address and resolve any issues. Trading errors are monitored by the Global Compliance department of Franklin Templeton.

The Global Compliance department of Franklin Templeton produces monthly reports which provide details on significant compliance matters and initiatives, updates on monitoring activities and current complaints and breaches. These reports are circulated to the relevant senior management.

The European and Middle East Risk Committee of Franklin Templeton provides the oversight framework for risk management processes and is made up of senior management from the business areas and key risk and control functions. Meeting quarterly, it reviews risk reports and input from business management and maintains a detailed register of risk items and resolutions.

The Board of Directors of FTIML United Kingdom and the Board of FTIS Lux provide oversight, being aware of the risk management practices and their deployment within the firm, staying apprised of significant risks and management responses.

Franklin Templeton's approach is to use a dedicated team of risk management specialists who are independent of the portfolio managers and provide robust risk and performance analytics and unbiased perspective on the risks and exposure in the portfolios.

### **Risk management systems**

The current risk profile of the Fund, including the risks the Fund is or may be exposed to, is described above in the Financial Risk Management section.

The AIFM of the Company has established a permanent risk management function to ensure that effective risk management policies and procedures are in place and to monitor the risks and compliance with risk limits. The AIFM has a risk management process document filed with the regulator of the AIFM and risk management policies which cover the risks associated with the Fund and the adequacy and effectiveness of this framework is reviewed and approved at least annually. Regular reporting is prepared and reviewed by the AIFM Senior Management.

For each relevant risk area, risk limits are set by the AIFM which take into account the objectives, strategy and risk profile of the Fund. These limits are monitored regularly as required by the nature of the risk area, and the sensitivity of the portfolio to key risks is undertaken periodically as appropriate to ascertain the impact of changes in key variables to the Fund.

An important part of the Fund's assets consist of unlisted securities. The portfolio also has a large exposure to the Oil and Gas and Energy sector. The principal risks in relation to the Fund are therefore market risk (including security price risk, interest risk and sector concentration risk) credit risk, and liquidity risk. Further details in

relation to the nature and extent of these risks are already described in more detail in the Financial Risk Management section of the IFRS Financial Statements, Annex 1 to this report.

Diversification and concentration limits are set for market risk and are monitored daily.

Amongst other measures considered regularly by the Investment Manager, the AIFM is assessing and monitoring market risk through relative Value at Risk (VaR) calculated using the Monte Carlo approach. VaR is a statistical risk measure that estimates the potential portfolio loss from adverse market moves in an ordinary market environment. VaR analysis reflects the interdependencies between risk variables, unlike a traditional sensitivity analysis. VaR can be defined as the predicted loss a portfolio can experience at a specified confidence level (e.g. 99%) over a given period of time (e.g. 20 days).

The VaR calculations are based on a confidence level of 99% with a holding period of not greater than 1 month (20 days) and a historical observation period of not less than 1 year (250 days). A 99% 1 month VaR means that the expectation is that 99% of the time over a 1 month period the Fund will lose less than this number in percentage terms. Therefore, higher VaR numbers indicate higher risk.

The AIFM uses the relative VaR methodology and calculates this figure for the portion of the portfolio that has observable prices in a regulated market (securities listed on the stock exchange). Relative VaR is simply the absolute VaR of the portfolio divided by the absolute VaR of the benchmark. The benchmark that is used is the one that is most representative of the AIF's strategy and likely risk exposures.

It is noted that the use of this VaR methodology, as any other statistical risk measure, has limitations. There is some probability that the loss could be greater than the VaR amounts and therefore the AIFM can neither guarantee that losses will not exceed the indicated VaR, nor that losses in excess of the VaR amounts will not occur more frequently. Risk statistics are subject to fluctuations and historical figures may not reflect current or future portfolio characteristics.

The AIFM assesses on a regular basis the sensitivity of the Fund's portfolio in relation to a general market drop of the MSCI Romania Index, the MSCI Emerging Markets index and the MSCI Frontier Markets Index.

Fund's equity trading activity is conducted on a Delivery versus Payment basis ("DVP") with approved counterparties only, minimising counterparty exposure. Any counterparty is subject to a review and approval process prior to any trading activity. The risk function of the AIFM prepares and assesses counterparty exposure reports regularly and reviews reporting provided by FTIs Counterparty Credit Committee. As of 31 December 2017 Fondul Proprietatea is subject to counterparty risk arising from cash balances held with banks.

***No risk limits set by the AIFM in coordination with the Board of the Company have been exceeded or were likely to be exceeded during 2017.***

### **Liquidity Risk**

As at 31 December 2017, no assets held by the Fund were subject to special arrangements arising from their illiquid nature.

There are no new arrangements for managing the liquidity/liquidity risk of the Fund.

The Fund's closed-end structure has relatively low liquidity requirements, reducing the impact of potential illiquidity in the portfolio. The risk function of the AIFM performs a regular assessment of the asset liquidity status using liquidity market data from different sources to ensure that the portfolio is sufficiently liquid in normal and exceptional market conditions.

Shares in the Fund are not redeemable and shareholders do not have the right to require their shares to be purchased by the Fund. Accordingly, the general liquidity management policies ensure that the Fund's portfolio is sufficiently liquid to meet the following main obligations:

- the Fund's operating and financing expenses: in practice, these expenses are typically covered by dividends received from the Fund's investments; and
- the possible need to repay borrowings at short notice, which would require to be met by the sale of liquidity assets.

If required, the Fund has access to a borrowing facility which is an additional mitigation factor for liquidity risk.

## Key Financial Highlights of the Fund

### Summary of net cash position % in NAV

RON million	31 Dec 2017	30 Sep 2017	30 Jun 2017	31 Mar 2017	31 Dec 2016
Current accounts*	19.2	22.8	58.4	36.2	5.8
Bank deposits	1,276.6	573.0	84.9	155.3	305.3
Treasury bills and short-term government bonds	242.2	145.3	84.9	149.1	1,110.0
Total liabilities**	(35.6)	(46.1)	(324.3)	(89.1)	(47.2)
<b>Net cash &amp; cash equivalents</b>	<b>1,502.4</b>	<b>695.0</b>	<b>(96.1)</b>	<b>251.5</b>	<b>1,373.9</b>
<b>Net Assets Value</b>	<b>10,790.4</b>	<b>10,605.9</b>	<b>10,570.3</b>	<b>10,689.5</b>	<b>11,427.4</b>
<b>% net cash &amp; cash equivalents in NAV</b>	<b>14.0%</b>	<b>6.6%</b>	<b>-0.9%</b>	<b>2.4%</b>	<b>12.0%</b>

\*Current accounts include also the distribution amount for March 2017, respectively June 2017 return of capital to shareholders transferred to the distribution current bank account

\*\*Total liabilities exclude provisions, and for 30 June 2017, include the outstanding loan amount

The table above shows the change in the net cash position of the Fund as a percentage of the NAV.

For more details regarding the decrease of **current accounts**, **bank deposits** and **treasury bills and short-term government bonds** and the increase of **total liabilities** during the year ended 31 December 2017, please see section *Financial Statements Analysis*.

### Total Expense Ratio

The total expense ratio of the Fund as at 31 December 2017 was 0.92%, and excluding transaction related expenses this was 0.84% (2016: 1.17%, and excluding transaction related expenses this was 0.87%). The ratio is calculated by dividing the relevant expenses by the average month-end NAV of the year. For the purpose of this calculation, expenses do not include foreign exchange losses, cost of equity investments disposed of, impairment adjustments, interest expenses, fair value adjustments, expenses with amortisation and provisions and income tax expenses.

The lower total expense ratio in 2017 is mainly due to the lower level of Fund's transaction related expenses and to the lower average NAV for 2017 (please see *Financial Statements Analysis* section for more details on the Fund expenses).

### Income from operating activity

The income from operating activity mainly comprises the gross dividend income, the changes in fair value of financial instruments at fair value through profit or loss, interest income and the net realised gains/ losses from transactions with financial instruments. The changes in fair value of the equity investments in the Fund portfolio are recognised either in profit or loss (in case of subsidiaries and associates) or in equity (in case of all the other equity instruments).

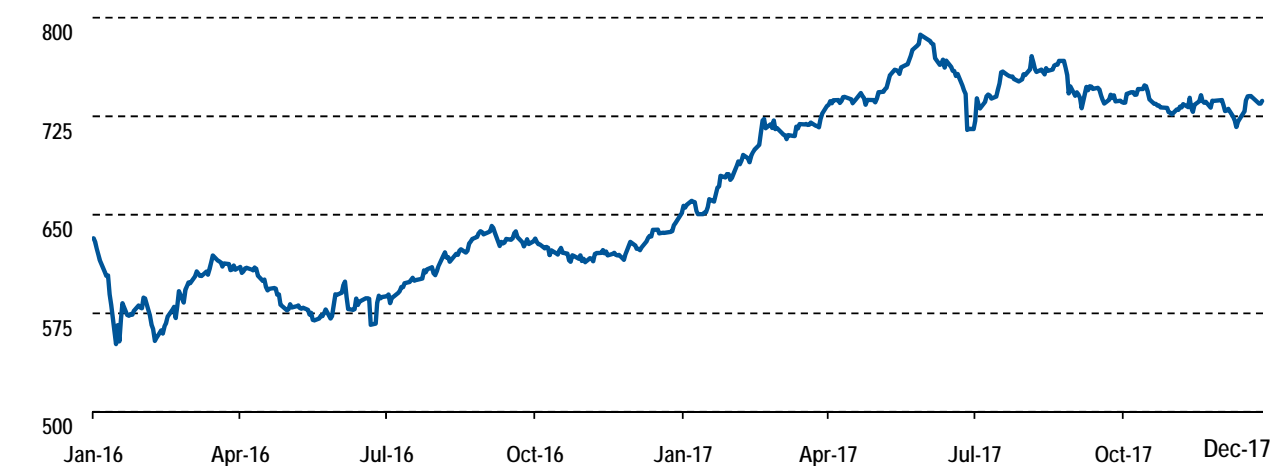
The income from operating activity is significantly influenced by the changes in the share price of listed portfolio companies, the performance of the portfolio companies and their decisions on dividend distributions, as well as by money market performance.

As at 31 December 2017 the Fund's exposure to Romanian equities accounted for 86.0%% of the NAV, the difference of 14.0% being represented by the net cash and receivables.

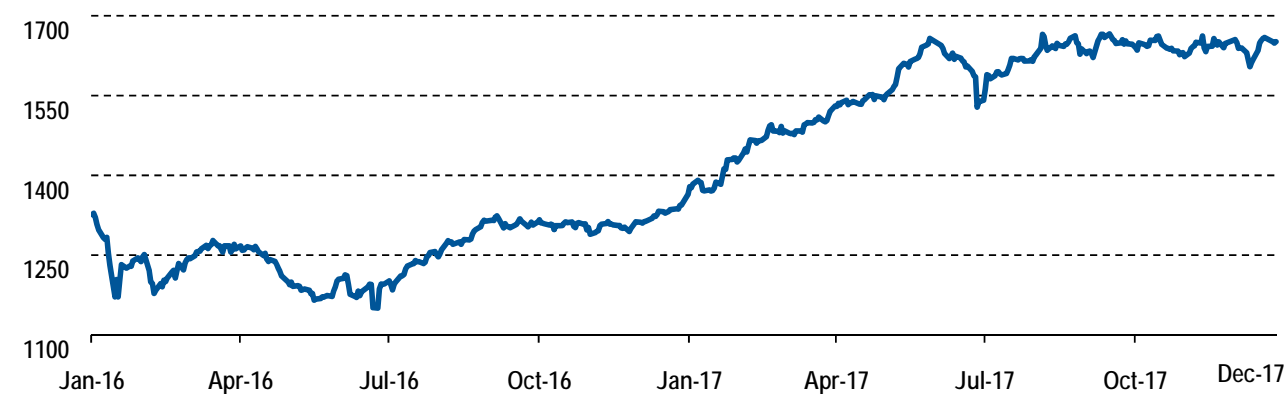
The BET-XT index, which reflects the performance of the top 25 most liquid stocks listed on the Tier 1 of the BVB, increased by 14.5% during 2017.

BET-BK index reflects the price evolution of the Romanian and foreign companies traded on BVB's regulated market. Its methodology takes into consideration the transactions on the main market segment ("Regular"). BET-BK index is a free float market capitalization weighted index of the most liquid companies listed at BVB's regulated market. BET-BK was designed to be used as a benchmark by asset managers and other institutional investors. The calculation methodology reflects the legal requirements and investment limits applying to investment funds.



**BET-XT Index evolution**

Source: Bloomberg

**BET-BK Index evolution**

Source: Bloomberg

Further information on the Fund's financial results can be found in the *Financial Statements Analysis* section.

**Capital Expenditure**

Capital expenditure comprises the costs for the acquisition or upgrade of the intangible assets of the Fund.

The intangible assets of the Fund include the website costs, the value of the licences, the implementation costs and the updates of the Fund's accounting and reporting software, net of the accumulated amortisation.

# Market for Securities Issued by the Fund

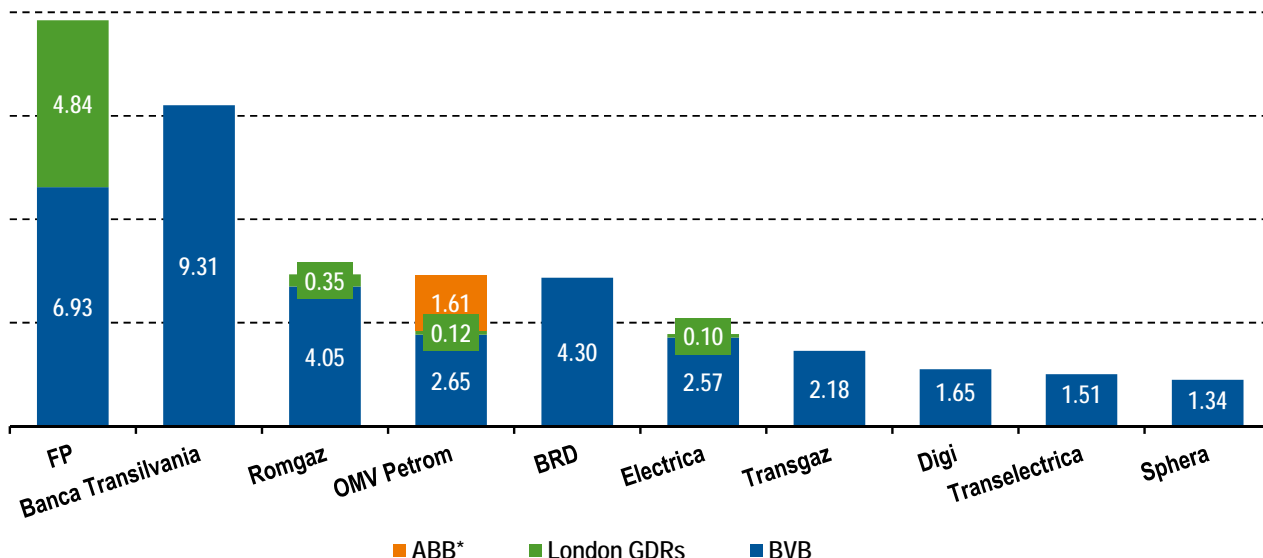
## Trading of the Fund's Shares

Since 25 January 2011, the Fund's shares have been listed in the Tier I category of the regulated market of the BVB under ISIN number ROFPTAACNOR5, and market symbol FP.

The shareholders' register of the Fund is maintained, in accordance with the provisions of the regulations in force, by an independent registrar, Depozitarul Central SA ("Central Depository"), with the registered office in Bucuresti, 34-36 Carol I Avenue, 3<sup>rd</sup>, 8<sup>th</sup> and 9<sup>th</sup> Floors, 2<sup>nd</sup> District.

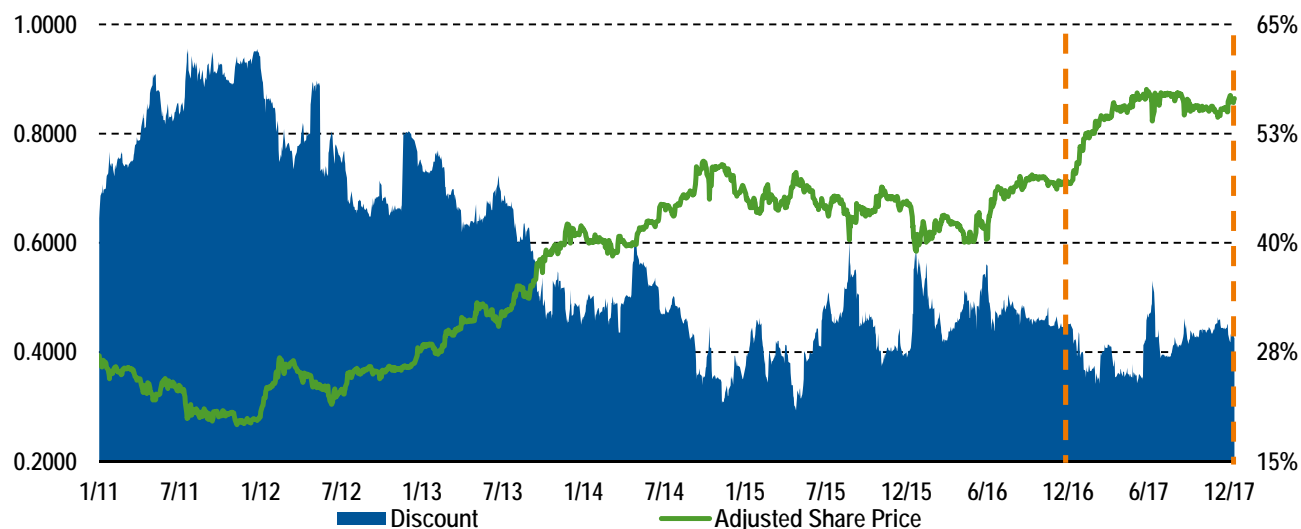
Starting 29 April 2015, the Fund's GDRs are listed on the Specialist Fund Market of the LSE under the market symbol "FP.". The Bank of New York Mellon was appointed by the Fund to act as depository bank in relation to the GDR facility.

Average Daily Turnover in 2017 (RON million)



Source: BVB, Bloomberg  
\*Accelerated bookbuilding offering

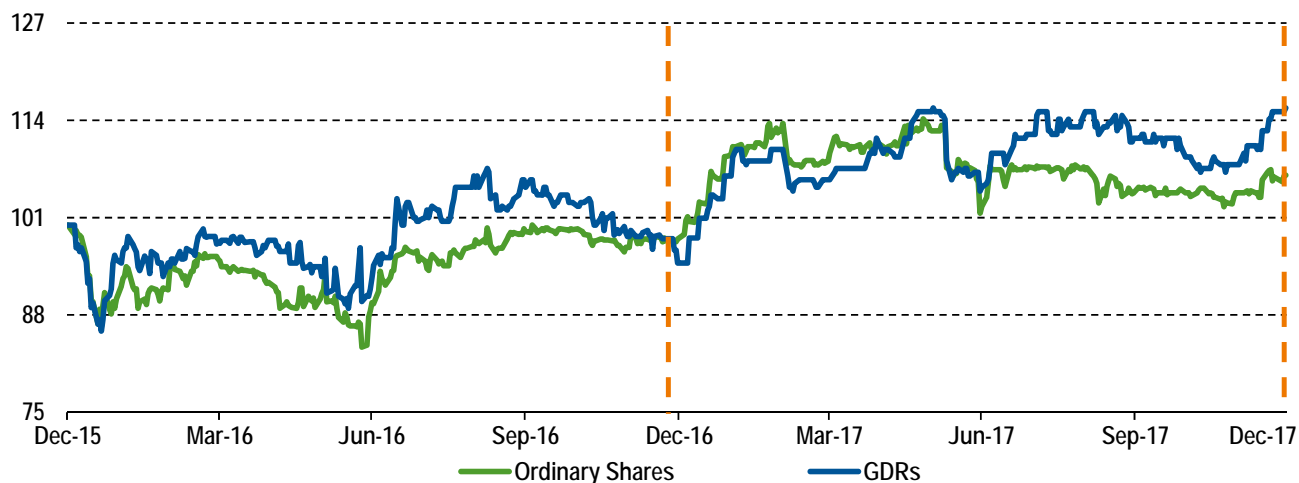
Fund's Share Price and Discount History (RON per share)



Source: BVB

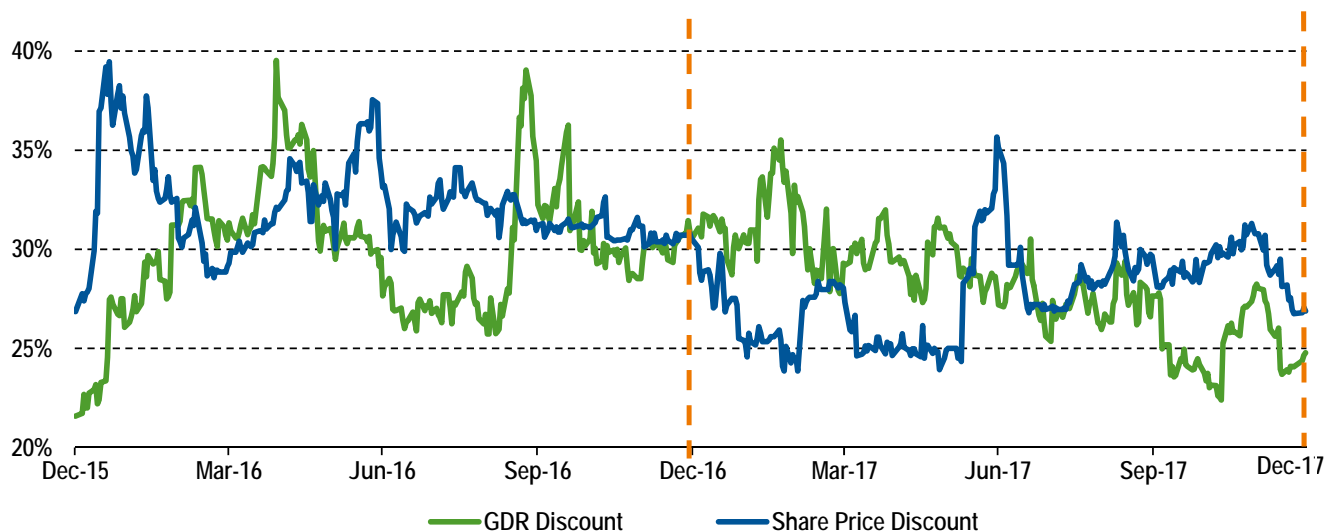
Note: The discount is calculated in accordance with the IPS i.e. the discount between the FP shares closing price on the BVB for each trading day and the latest published NAV per share at the date of calculation

**FP Share Price vs. FP GDR price (%)**



Note: As at 31 December 2017, FP GDRs were trading on LSE at a 3.15% premium to the FP share price on BVB.  
 Source: BVB, LSE, for the period 29 April 2015 – 31 December 2017

**FP Share Price Discount vs. FP GDR Price Discount (%)**



Source: BVB, Bloomberg, for the period 29 April 2015 – 31 December 2017

Note: The discount is calculated in accordance with the IPS i.e. the discount between the FP shares closing price on the BVB for each trading day and the latest published NAV per share at the date of calculation

**Distribution to Shareholders**

**Annual Cash Distribution Policy**

FTIS and FTIML remain committed to returning cash to shareholders on an annual basis (subject to applicable law and necessary approvals), and has amended the Fund’s Annual Cash Distribution Policy as follows:

*“In the absence of exceptional market conditions or circumstances, and subject to any restrictions under Romanian legal or tax regulations and subject to available funding, the Investment Manager intends to recommend a cash distribution related to each financial year equivalent to: 100% of the sum of the Fund’s dividend income from portfolio companies, plus interest on cash balances, less expenses and taxation and less*

*compulsory allocations to reserves according to the regulations in force, in each case for that year, but not less than RON 0.05 per share.*

*The cash distributions would be paid to shareholders in the form of a return of capital (by decreasing the nominal value per share) and / or in the form of dividends, in each case subject to any restrictions under Romanian legal or tax regulations.*

*In the case of dividend distributions (where permitted by applicable law), the distributable amount will be assessed based on audited financial information.*

*In the case of a return of capital, the distributable amount will be based on a best estimate according to the latest management accounts at the time of proposing the resolution.*

*Unpaid and treasury shares will not be entitled to receive cash distributions.”*

The Annual Cash Distribution Policy does not limit additional cash returns and share buy-backs that can be recommended by the Sole Director and by Investment Manager separately, subject to available funding and depending on the discount level, in accordance with the IPS.

The Annual Cash Distribution Policy is published on the Fund’s webpage.

## Distributions History

Key information on the Fund’s distributions history is included in the table below:

Description	Paid in	Gross distribution declared (RON)	Gross distribution per share (RON)	Total number of shares*	Status of distribution payment (%)	Deadline for distribution collection by shareholders
2006 Dividend	2007	36,076,046	0.00250	14,240,540,675		30 June 2012 (Status of limitation occurred)
2007 Dividend	2008	89,997,678	0.00660	13,644,179,910		30 June 2012 (Status of limitation occurred)
2008-2009 Dividend (aggregate)	2010	1,124,316,804	0.08160	13,778,392,208		11 October 2013 (Status of limitation occurred)
2010 Dividend	2011	432,729,046	0.03141	13,776,792,208		30 June 2014 (Status of limitation occurred)
2011 Dividend	2012	507,658,517	0.03854	13,172,250,055		30 June 2015 (Status of limitation occurred)
2012 Dividend	2013	536,437,206	0.04089	13,119,031,695		28 June 2016 (Status of limitation occurred)
Distribution - Return of capital	2014	601,325,852	0.05000	12,026,517,031		25 July 2017 (Status of limitation occurred)
Distribution - Return of capital	2015	534,322,868	0.05000	10,686,457,366	> 99%	29 June 2018
Distribution - Return of capital	2016	516,886,344	0.05000	10,337,726,877	> 99%	27 June 2019
Distribution - Return of capital	March 2017	480,543,496	0.05000	9,610,869,928	>98%	27 March 2020
Distribution - Return of capital	June 2017	443,502,747	0.05000	8,870,054,948	>97%	30 June 2020

\* Number of shares defined as (1) the number of shares in issue, less (2) any unpaid shares and less (3) any treasury shares acquired via buy-backs (in the form of ordinary shares or GDRs corresponding to ordinary shares) at the registration date decided upon by the GSM approving the dividend distribution or return of capital.

### *The return of capital to shareholders in March 2017*

The FSA Endorsement no. 79/ 22 March 2017 of the new Constitutive Act reflecting the share capital decrease was received on 22 March 2017. On 24 March 2017, the Trade Registry registered the Resolution no. 10/2016 of the Fund’s EGM for approving the subscribed share capital through the reduction of the nominal value of the Fund’s shares from RON 0.85 to RON 0.57. In accordance with the Fund’s accounting policy, the share capital decrease operation was recorded in the accounting system in the same day, at the Trade Registry registration date, of 24 March 2017 and incorporates two operations (first operation was the coverage of accounting losses and the second one was distributions to shareholders).

Therefore, with effect from 24 March 2017, the new value of the Fund's subscribed share capital was RON 5,742,226,025.22, being divided into 10,074,080,746 shares with a nominal value of RON 0.57 per share. The value of the paid-in share capital of the Fund was RON 5,534,852,985.72, being divided into 9,710,268,396 shares with a nominal value of RON 0.57 per share.

The shareholders registered with the Romanian Central Depository as at 7 March 2017 had the right to receive RON 0.05 per share, proportionally with their participation in the paid-in share capital of the Fund. The payment of the capital return started on 27 March 2017 (the Payment Date), the next working day after the accounting operation for covering accounting losses was registered in the accounting books of the Fund.

By 31 December 2017, shareholders have collected over 98.8% of the total distribution of RON 480.5 million.

#### ***The return of capital to shareholders in June 2017***

The FSA Endorsement no. 362/ 12 June 2017 of the new Constitutive Act reflecting the share capital decrease was received on 12 June 2017. On 16 June 2017, the Trade Registry registered the Resolution no. 1/28 February 2017 of the Fund's EGM for approving the subscribed share capital through the reduction of the nominal value of the Fund's shares from RON 0.57 to RON 0.52. In accordance with the Fund's accounting policy, the share capital decrease operation was recorded on the same date in the accounting system.

Therefore, with effect from 16 June 2017, the new value of the Fund's subscribed share capital is RON 5,238,521,987.92, being divided into 10,074,080,746 shares with a nominal value of RON 0.52 per share. The value of the paid-in share capital of the Fund is RON 5,049,339,565.92, being divided into 9,710,268,396 shares with a nominal value of RON 0.52 per share.

The shareholders registered with Romanian Central Depository as at 12 June 2017 have the right to receive RON 0.05 per share, proportionally with their participation in the paid-in share capital of the Fund. The payment of the capital return started on 30 June 2017 (the Payment Date).

By 31 December 2017, shareholders have collected over 97.7% of the total distribution of RON 443.5 million.

With effect from 2015, for the distribution to shareholders, the payments are performed through the Romanian Central Depository, according to the legislation in force, as follows:

- a) for shareholders having a custodian/ brokerage account, directly by the respective custodian bank or broker;
- b) for all other shareholders:
  - (i) by the Romanian Central Depository, through the Paying Agent, for bank transfers, when the supporting documentation required by the Romanian Central Depository, along with a payment request, have been submitted. The Paying Agent appointed by the Fund for the 2017 distributions is BRD Groupe Société Générale SA.
  - (ii) by the Paying Agent at any of its agencies for the cash payments or by bank transfer (when the supporting documentation required by the Paying Agent, along with a payment request, have been submitted to the Paying Agent).

**As an important notice to shareholders, the payment of the amounts due to the Fund's shareholders related to the 27 March 2017 and 30 June 2017 cash distributions is subject to the general statute of limitation. As such, the shareholders may request these payments only within a three year term with effect from the Payment Date, namely until 27 March 2020 for the 27 March 2017 cash distribution and 30 June 2020 for the 30 June 2017 cash distribution.**

#### ***Distribution to shareholders with payment dates in 2015 and 2016***

During 2015 and 2016 the Fund performed two cash distributions to shareholders:

##### ***1) 2015 cash distribution:***

During the 21 January 2015 GSM, the Fund's shareholders approved the return to shareholders of RON 0.05 per share, following the share capital decrease through the reduction of the nominal value of the Fund's share from RON 0.95 to RON 0.90.

The shareholders registered in the shareholders' registry with the Central Depository on 24 June 2015 have the right to receive RON 0.05 per share, proportionally with their participation in the paid-in share capital of the Fund. The payment started on 29 June 2015. By 31 December 2017, shareholders have collected 99.7% of the total distribution.

The payment of the amounts due to the Fund's shareholders related to the 2015 cash distributions is subject to the general statute of limitation. As such, the shareholders may request these payments only within a three year term with effect from the payment date, namely until 29 June 2018.

**2) 2016 cash distribution:**

During the 27 January 2016 GSM, the Fund's shareholders approved the return to shareholders of RON 0.05 per share, following the share capital decrease through the reduction of the nominal value of the Fund's share from RON 0.90 to RON 0.85.

The shareholders registered in the shareholders' registry with the Central Depository on 6 June 2016 have the right to receive RON 0.05 per share, proportionally with their participation in the paid-in share capital of the Fund. The payment started on 27 June 2016. By 31 December 2017, shareholders have collected 99.4% of the total distribution.

The payment of the amounts due to the Fund's shareholders related to the 2016 cash distributions is subject to the general statute of limitation. As such, the shareholders may request these payments only within a three year term with effect from the payment date, namely until 27 June 2019.

### Profit appropriation proposal

As per the statutory financial statements prepared in accordance with the IFRS, the Fund recorded a net profit for the financial year ended 31 December 2017 of RON 1,289,896,039. In accordance with the Companies law, the Fund is obliged to make transfers to the legal reserves until those reserves reach a value equivalent to 20% of the value of the issued share capital of Fondul Proprietatea. Following the 2017 transfer of RON 64,494,802, the value of those reserves is RON 330,578,801 (i.e. 7.09% of the issued share capital).

The Fund's Sole Director proposal, subject for GSM approval in accordance with the legislation in force, for the appropriation of the net accounting profit for the 2017 financial year in an amount of RON 1,289,896,039 is as follows:

- RON 64,494,802 to legal reserve
- RON 591,087,324 to dividends;
- RON 634,313,913 remains available to the Fund's shareholders under retained earnings.

# Corporate Governance of the Fund

## Overview

The Fund has a clear and transparent corporate governance framework concluded in 2011 that was updated and enhanced in the subsequent periods in order to meet new demands and opportunities. The framework is published on the Fund's website and presents clearly, for public reference, the main characteristics of the Fund's corporate governance structure, the functions of the Board of Nominees and of the Fund's Sole Director, as well as their powers and responsibilities.

In order to enhance shareholder confidence, the Fund has implemented a transparent decision making process, based on clear rules. This contributes to the protection of shareholders' rights, improving the overall performance of the Fund, offering better access to capital and risk mitigation.

### **Compliance with the provisions of the Corporate Governance Code issued by BVB**

The Fund lends great importance to the principles of good corporate governance and, coinciding with its listing at the start of 2011, has adhered to the BVB Code of Corporate Governance.

In September 2015 BVB issued the new Corporate Governance Code applicable starting 4 January 2016. Following the self-assessment conducted by the Fund, the AIFM informs the shareholders and investors that the Fund is fully compliant with the provisions of the new Corporate Governance Code of BVB.

For more details regarding the compliance with the provisions of the new Corporate Governance Code of BVB please see *Annex 6 Compliance with the corporate governance requirements*.

### **Compliance with the provisions of the principles of corporate governance by the entities authorised, regulated and supervised by the FSA**

In March 2016 the FSA issued Regulation no. 2/2016 on the application of the principles of corporate governance by the entities authorised, regulated and supervised by the FSA. Following the self-assessment conducted by the Fund, the AIFM informs the shareholders and investors that the Fund is fully compliant with the provisions of the principles of corporate governance applicable to the entities authorised, regulated and supervised by the FSA.

For more details regarding the compliance with the requirements provisions of the principles of corporate governance by the entities authorised, regulated and supervised by the Financial Supervisory Authority, please see *Annex 6 Compliance with the corporate governance requirements*.

## Corporate Governance of the Fund

### **Corporate bodies**

In September 2010, a one-tier system of governance was implemented at the Fund's level, as a result of the implementation of the rules established by the Government Ordinance no. 81/2007. Although the Fund is currently administrated under a one-tier system, the role of the Board of Nominees is similar to the role of a Supervisory Board, with a few exceptions.

Since adopting the one-tier system, the Fund is administrated by the Sole Director.

The powers and duties of the above mentioned bodies are described in a number of official documents:

- The Constitutive Act of the Fund which is included in Annex 4 to this report and is also available on the Fund's website, together with all the shareholders resolutions that modified the Constitutive Act;
- The Management Agreement, signed between the Fund and FTIS, available on the Fund's website;
- The IPS approved by shareholders in April 2014 and the new IPS approved by shareholders in October 2015, both also available on the Fund's website; and
- Other internal regulations.



**Commitment to Follow the Principles of Corporate Governance**

In accordance with best corporate governance practice, the Fund is managed in a climate of transparency, based on open discussions between FTIS, FTIML and the Board of Nominees.

FTIS, FTIML, their employees and the members of the Board of Nominees have a duty of care and loyalty towards the Fund. Hence, FTIS, FTIML and the Board of Nominees pass their resolutions as required for the welfare of the Fund, primarily in consideration of the interests of shareholders and investors.

The Fund implemented all recommendations of the new Corporate Governance Code of BVB and it has in place the following policies:

- The Annual Cash Distribution Policy;
- The Nomination and Remuneration Policy;
- The Forecast Policy; and
- The Policy regarding Related Parties Transactions.

**General Shareholders Meeting**

Any GSM shall be convened by the Sole Director whenever necessary, with the prior approval of the Board of Nominees, in accordance with the provisions of the law. The date of the meeting may not be less than 30 (thirty) calendar days after publishing the convening notice in the Official Gazette of Romania Part IV. The convening notice shall be published in the Official Gazette of Romania, Part IV, and in one of the widely distributed newspapers in Romania.

In exceptional cases, when the Fund's interest requires it, the Board of Nominees may convene the GSM. Any convening notice will be sent to BVB and FSA in accordance with the capital markets regulations. Any convening notice will also be published on the Fund's website in the GSM section, together with any explanatory document related to items included on the meeting agenda.

The annual financial statements are made available starting with the date of the convening notice of the Annual Ordinary General Shareholders Meeting ("OGM"), convened to resolve upon them.

**General Shareholders Meeting Organisation**

The GSM is usually chaired by one of the legal representatives of the Sole Director, who may designate another person to chair the assembly. The chairman of the Meeting designates two or more technical secretaries to verify the fulfilment of the formalities required by law for the carrying out of the Meeting and for drafting the minutes thereof.

The minutes, signed by the Chairman and by the technical secretaries, shall ascertain the fulfilment of the formalities relating to the convening notice, the date and place of the Meeting, the agenda, the shareholders present, the number of shares, a summary of the issues discussed, the resolutions passed and, upon the request of the shareholders, the statements made by such shareholders during the meeting.

The resolutions of the GSM shall be drafted pursuant to the minutes and shall be signed by the person empowered by the shareholders to do this. In observance of the capital market regulations, the resolutions of the GSM will be disseminated to BVB and FSA within 24 hours after the event. The resolutions will also be made available on the Fund's website under the respective GSM section.

**General Shareholders Meeting Main Duties**

The main duties of the OGM are the following:

- a) to discuss, approve and amend the annual financial statements after reviewing the reports of the AIFM and financial auditor;
- b) to establish the distribution of the net profit and to establish the dividends;
- c) to appoint the members of the Board of Nominees and to cancel their appointment;
- d) to appoint the AIFM in accordance with the law and to cancel its appointment;
- e) to appoint and cancel the appointment of the financial auditor and to set the minimum duration of the financial audit agreement;
- f) to set the level of the remuneration of the members of the Board of Nominees, the AIFM and of the financial auditor for financial audit services for the ongoing fiscal year;
- g) to rule over the management of the AIFM and to evaluate his/ her performances and to discharge him/ her from its management,

- h) to decide on the action in a court of law against the AIFM or, as the case may be, against the financial auditor, for damages caused to Fondul Proprietatea;
- i) to approve the strategy and the development policies of Fondul Proprietatea;
- j) to approve the annual budget for the following financial year;
- k) to decide upon the pledge, lease or creation of movable securities or mortgages on the assets of Fondul Proprietatea;
- l) to decide on any other aspects regarding Fondul Proprietatea, according to the legal duties.

The EGM is entitled to decide mainly upon:

- a) set-up or closing of some secondary units: branches, agencies, representative offices or other such units with no legal personality;
- b) share capital increase;
- c) share capital decrease or re-completion thereof by issuing new shares;
- d) conversion of shares from one category to another;
- e) conversion of a category of bonds to another category or to shares;
- f) issue new bonds;
- g) approval of the admission for trading and selection of the regulated market on which Fondul Proprietatea shares will be traded;
- h) the execution of contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of Fondul Proprietatea, whose value exceeds, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of Fondul Proprietatea, less receivables;
- i) change of the management system of Fondul Proprietatea;
- j) limitation or cancellation of the preference right of the shareholders;
- k) approval of the IPS;
- l) any other amendment of the Constitutive Act or any other resolution requiring the approval of the EGM.

During 2017, there were 7 GSMs, and 5 EGM resolutions and 7 OGM resolutions were issued.

EGM and OGM resolutions are published on the Fund's webpage.

### **Board of Nominees**

The Board of Nominees consists of five members appointed by the OGM in accordance with the provisions of the Constitutive Act in force.

The Board of Nominees has sufficient members in order to effectively supervise, scrutinise and evaluate the activity of the Sole Director and the fair treatment of all the shareholders.

The composition of the Board of Nominees is balanced so as to enable it to take well-informed decisions. The decision-making process is a collective responsibility of the Board, which remains fully liable for decisions taken within its field of competence.

An independent member is defined as one who does not maintain, nor has recently maintained, directly or indirectly, any business relationship with the Fund or persons linked to the Fund, or shareholders of the Fund, of such significance as to potentially influence them.

The Board of Nominees ensures that consultative committees (Nomination and Remuneration Committee and Audit and Valuation Committee) are constituted to examine specific topics chosen by the Board and to report to the Board. At least one independent Board of Nominees member sits on each such committee. The mandate of each member of the Board of Nominees imposes the same type of restrictions around confidentiality of information and the same type of reporting and consent requirements on the individual's ability to personally trade in the Fund's shares as the restrictions that are in place for the staff of FTIS and FTIML. Beginning with year 2016 the Fund implemented the annual evaluation of the members of the Board in order to fully comply with the BVB Corporate Governance Code.

The members of the Board of Nominees may be shareholders of the Fund.

**Composition of Board of Nominees and activities during 2017**

The structure of the Board of Nominees as at 31 December 2017 was the following:

<b>Name</b>	<b>Position</b>	<b>Mandate until</b>
Mr Sorin-Mihai Mîndruțescu	Chairman	30 September 2019
Mr Mark Gitenstein	Member	30 September 2019
Mr Julian Rupert Francis Healy	Member	5 April 2018
Mr Steven Cornelis van Groningen	Member	14 April 2018
Mr Piotr Rymaszewski	Member	5 April 2018

During 2017 there were no changes in the structure of the Board of Nominees. However, considering the fact that the mandates for Mr Rymaszewski, Mr Healy and Mr van Groningen end in April 2018, the shareholders are invited to express their votes during the 14 February 2018 GSM for appointing three members of the Board of Nominees. For further details please see *Subsequent Events*.

There were 14 meetings of the Board of Nominees in 2017, as follows:

- 17 January 2017 - conference call (Members of the Board joining the conference call: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein);
- 14 February 2017 – meeting (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Steven van Groningen and Mr. Mark Gitenstein);
- 3 March 2017 – meeting (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- 22 March 2017 – conference call (Members of the Board joining the conference call: Mr. Julian Healy – Chairman; Mr. Steven van Groningen, Mr. Piotr Rymaszewski);
- 24 April 2017 – meeting (Members of the Board joining the meeting: Mr Sorin Mîndruțescu – Chairman, Mr Julian Healy, Mr Steven van Groningen, Mr Piotr Rymaszewski and Mr Mark Gitenstein);
- 11 May 2017 – conference call (Members of the Board joining the conference call: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy and Mr. Mark Gitenstein);
- 31 May 2017 – conference call (Members of the Board joining the conference call: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein);
- 27 June 2017 – meeting (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein);
- 11 August 2017 – conference call (Members of the Board joining the conference call: Mr. Sorin Mîndruțescu – Chairman, Mr Julian Healy, Mr Piotr Rymaszewski and Mr Mark Gitenstein);
- 5 September 2017 – meeting (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein)
- 26 September 2017 – meeting (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein);
- 26 October 2017 – meeting (Members of the Board joining the meeting: Mr. Sorin Mîndruțescu – Chairman, Mr. Julian Healy, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein);
- 14 November 2017 – conference call (Members of the Board joining the conference call: Mr Sorin Mîndruțescu – Chairman, Mr. Julian Healy and Mr. Mark Gitenstein);
- 15 December 2017 – meeting (Members of the Board joining the meeting: Mr Julian Healy - Chairman, Mr. Steven van Groningen, Mr. Piotr Rymaszewski and Mr. Mark Gitenstein).

During 2017, the Board of Nominees issued a total number of 66 resolutions.

**Mr Sorin-Mihai Mîndruțescu** is the Chairman of the Board of Nominees. Mr Mîndruțescu has extensive experience in corporate finance and in the banking industry. From 1994 until 2001, he held various senior positions in a number of large Romanian credit institutions. From 2009 until 2012, Mr Mîndruțescu was Chairman of the Board of Directors of the American Chamber of Commerce Romania (AmCham). Currently, Mr Mîndruțescu is a managing director with Oracle Romania. Mr Mîndruțescu holds MBA qualifications from both The University of Edinburgh Management School and ENCP School of International Management in Paris. Mr Mîndruțescu is member of the Board of Nominees starting with 29 September 2010.

As at 31 December 2017, Mr Mîndruțescu held no shares issued by the Fund. Mr Mîndruțescu is an independent member.

**Mr Mark Gitenstein** is a senior counsel in the Government & Global Trade practice in Mayer Brown's Washington DC office. He was appointed in 2009 by President Barack Obama to serve as the United States Ambassador to Romania, completing his term of service at the end of 2012. As US Ambassador to Romania, he worked to strengthen relations with Romania on a variety of issues. He actively promoted deeper development of Romania's equity markets, as well as a fair and transparent business environment for all investors. He also encouraged greater private sector involvement in state owned enterprises, including the introduction of a corporate governance code for state owned enterprises. Before undertaking his ambassadorial role, Mr Mark Gitenstein spent two decades as a partner at Mayer Brown. Additionally, he was a non-resident senior fellow in governance studies at the Brookings Institution, where he specialised in issues related to national security and civil liberties. Before joining Mayer Brown, Mr Mark Gitenstein served for 17 years on the staff of the US Senate Judiciary and Intelligence committees, 13 of those years working for Senator Joe Biden. He is the author of *Matters of Principle*, an award winning book on his experience managing the Judiciary Committee staff during the confirmation battle over the nomination of Robert Bork to the Supreme Court. Mr Gitenstein serves as President of the Biden Foundation. Mr Gitenstein is member of the Board of Nominees starting with 23 April 2013.

As at 31 December 2017, Mr Gitenstein held no shares issued by the Fund. Mr Gitenstein is an independent member.

**Mr Julian Healy** has long and extensive experience of banking and investment management in emerging markets and particularly in Central and Eastern Europe. He is a Member of the Institute of Chartered Accountants in England and Wales. Mr Healy also acts as a non-executive director in a number of other companies. Mr Healy chairs the Audit and Valuation Committee. Mr Healy has been a member of the Board of Nominees since 5 April 2012.

As at 31 December 2017, Mr Healy held no shares issued by the Fund. Mr. Healy is an independent member.

**Mr Steven Cornelis van Groningen** has extensive experience in banking and is the President and CEO of Raiffeisen Bank SA Romania. Mr van Groningen previously held senior management positions in ABN AMRO Bank (in Romania, Russia and Hungary). Mr van Groningen is a former president of the Foreign Investors Council in Romania and former president of The Council of Banking Employers in Romania. Mr van Groningen is member of the Board of Nominees starting with 13 April 2012.

As at 31 December 2017 Mr van Groningen held 522,708 shares issued by the Fund. Mr van Groningen is an independent member

**Mr Piotr Rymaszewski** has experience in finance, turnaround, real estate and law. He is a CEO of Octava Asset Management Sp. z o.o. and Octava SA, a company listed on the Warsaw Stock Exchange. Starting with 2017 he is Independent Non-Executive Director in Digi Communications N.V., company listed on Bucharest Stock Exchange. Mr Rymaszewski also acts as a nonexecutive director of a number of both listed and unlisted companies, representing institutional investors. Mr Rymaszewski is member of the Board of Nominees since 5 April 2012.

As at 31 December 2017 Mr Rymaszewski held no shares issued by the Fund. Mr. Rymaszewski is an independent member.

### ***Duties of Board of Nominees***

The main duties of the Board of Nominees include:

- 1) Requesting, if necessary, the insertion of supplementary matters in the text of the GSM calling notice, following the information received from the AIFM with regard to the summoning of the OGM or EGM;
- 2) Receiving from the AIFM the answers to the written requests submitted by shareholders before the GSM date, on topics regarding Fund activity;
- 3) Receiving from the AIFM the annual financial statements, the annual activity report presented by the AIFM and the financial auditors' report, before being made available to shareholders and analysing them, in order to formulate an opinion to be presented to both the AIFM and to the GSM;
- 4) Receiving from the AIFM for analysis the annual report and the management policy of Fondul Proprietatea and presenting an opinion to the AIFM and to the GSM regarding such;
- 5) Receiving from the AIFM for analysis the annual budget, before it is submitted for approval to the GSM and presenting an opinion to the AIFM and to the GSM regarding such;
- 6) Receiving from the AIFM for analysis the strategy and the development policies of Fondul Proprietatea, before these are submitted for approval to the GSM, and presenting an opinion to the AIFM and to the GSM regarding such;

- 7) Receiving from the AIFM for analysis and approval the framework for carrying out Fondul Proprietatea operations, as well as any other Fondul Proprietatea regulations issued by AIFM according to legal provisions in force, capital market rules and regulations;
- 8) Receiving from the AIFM for analysis the proposal to the OGM for concluding the financial audit agreement and presenting an opinion to the AIFM and to the GSM regarding such;
- 9) Reviewing on a regular basis the IPS of Fondul Proprietatea and presenting an opinion to the GSM at any time it deems necessary, but in any case, at least once a year to the Annual OGM;
- 10) Receiving the internal auditor's report and presenting an opinion to the AIFM and to the GSM regarding such;
- 11) Monitoring the following, based on information and reports received from the AIFM:
  - the list of all portfolio investments and percentage breakdown by each investment type;
  - the list of major transactions implemented in the Fund portfolio for the period under review;
  - the total profit of the portfolio and comparison of profit with the appropriate market benchmark;
  - comparison of the obtained profit with the initial objective;
  - the extent of compliance with the investment policy, as well as any variations and actions taken to obtain the correct results;
  - the performance evaluation report.

The Board of Nominee shall draft and present to the GSM an annual report regarding the monitoring activity performed or a monitoring report for another period agreed by the GSM;

- 12) Representing the GSM in relation with the AIFM regarding the communication between the two corporate bodies, except for the cases expressly regulated by the Constitutive Act regarding the direct communication between the GSM and the AIFM;
- 13) Verifying the report of the AIFM and permanently overseeing the management of the Fund, verifying if the operations carried out by the AIFM are in compliance with the applicable law, the Constitutive Act or with any relevant decision of the GSM;
- 14) Calling upon the GSM, under the conditions of art. 13 paragraphs (11) and (14) of the Constitutive Act;
- 15) Participating to the GSM and presenting the reports in all cases provided by the Constitutive Act or with regard to any issue it deems to be relevant for the GSM;
- 16) Proposes to the general meeting of shareholders the prior approval or rejection of the execution of contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of Fondul Proprietatea, whose value exceeds, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of Fondul Proprietatea, less receivables;
- 17) Recommending to the GSM the termination of the management contract for the case when the Board of Nominees considers this is to the benefit of the shareholders;
- 18) Recommending to the GSM on any other issues the Board of Nominees considers relevant to the shareholders.
- 19) Recommending to the EGM the appointment of the public offer intermediate and his remuneration, following the proposal of the AIFM, when it becomes necessary that such a company is appointed, related to the admission to trading of Fondul Proprietatea;
- 20) Approving the delegation by the AIFM of certain activities. The delegation will be in force after the approval of FSA, where required by legislation in force;
- 21) Monitoring the AIFM performance in accordance with the Management Agreement.

For more details regarding the activity of the Board of Nominees during 2017, please see the annual activity report of the Board, available on the Fund's webpage in the *Investor Relations – GSM Information* section.

## Committees

### *Audit and Valuation Committee*

A permanent Audit and Valuation Committee composed of four 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 Sole Director reports to the Audit and Valuation Committee at least once a year on the audit plan and on any material relevant matters.

The Audit and Valuation Committee includes members that have the necessary expertise in the area of financial audit and accounting. As at 31 December 2017 the members of the Audit and Valuation Committee were Mr Julian Healy (as Chairman), Mr Steven van Groningen, Mr Sorin Mîndruțescu and Mr Piotr Rymaszewski.

#### *Nomination and Remuneration Committee*

A Nomination and Remuneration Committee composed of three Board of Nominees members was established to provide assistance to the governing bodies of the Fund in the area of nomination and changes in remuneration.

As at 31 December 2017 the Nomination and Remuneration Committee members were Mr Sorin Mîndruțescu (as Chairman), Mr Mark Gitenstein, and Mr Piotr Rymaszewski.

#### **The Sole Director**

The Sole Director of the Fund is Franklin Templeton International Services S.à r.l., a société à responsabilité limitée qualifying as an alternative investment fund manager under Article 101-1 of the Luxembourg Act of 17 December 2010 concerning undertakings for collective investment, as amended from time to time, whose registered office is located at 8A rue Albert Borschette, L-1246 Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B 36.979.

The Sole Director is appointed and/ or revoked by the OGM.

The duration of the mandate as the AIFM and Sole Director of the Fund is of 2 years.

The Sole Director issues decisions regularly and whenever necessary for the daily operations of the Fund.

Currently, the Fund is managed by FTIS as Sole Director. FTIS has delegated the role of Investment Manager as well as certain administrative functions to FTIML. For details regarding the delegated activities please read *Delegated management functions* section.

The Sole Director is responsible for the Fund's executive management. FTIS as Sole Director and AIFM, as well as FTIML as Investment Manager act in the best interests of the Fund and protect the general interests of the shareholders.

In June 2009, the Fund nominated Franklin Templeton Investment Management Limited United Kingdom as winner of the international tender procedure organised by the Fund for the selection of the Fund's Investment Manager and Sole Director.

With effect from 29 September 2010, Franklin Templeton Investment Management Limited United Kingdom, Bucharest Branch took over as the Sole Director of the Fund for a period of 4 years.

On 28 April 2014, the shareholders of the Fund approved the renewal of the mandate of the Fund Manager and Sole Director for two years beginning with 30 September 2014.

In order to comply with Law 74/2015 implementing the AIFM Directive, on 29 October 2015, the GSM approved the appointment of Franklin Templeton International Services S.à r.l., as the AIFM and Sole Director of the Fund for a mandate of two years starting 1 April 2016.

Neither FTIS nor FTIML had any agreement, understanding or family relationship with the shareholders responsible for appointing it to the position of Sole Director and Investment Manager. On 31 December 2017 neither FTIS nor FTIML held any shares issued by the Fund.

Franklin Templeton Investment Management Limited United Kingdom is authorised and regulated by the UK Financial Conduct Authority and is registered as a foreign investment adviser with the United States Securities and Exchange Commission.

Treating customers fairly is one of the core values of Franklin Templeton Investments ("FTI"). Preferential treatment among clients is strictly prohibited. Aiming to ensure fair treatment to any client or investor, FTI has developed and implemented a number of policies and procedures. Both FTIS and FTIML apply FTI global best practices to meet its regulatory obligations and comply with laws and regulations.

These include:

- Code of Ethics to which all employees are bound;

- Conflicts of Interest Policy to evidence compliance with the conflicts of interest requirements as set out in the European Markets in Financial Instruments Directive (“MiFID”) of 2004;
- Data Protection Policy to ensure that its business operations comply with the Data Protection Regulation;
- Anti-Bribery Policy to ensure that employees of FTIS and FTIML comply with the U.S. Foreign Corrupt Practices Act and applicable anti-bribery and anti-corruption regulations of the local jurisdictions where FTIS and FTIML operate;
- Compliance Manual, which sets the compliance framework, describing the generic compliance and regulatory requirements and the consequences of failure to comply;
- Personal Investments and Insider Trading Policy designed to prevent Franklin Templeton employees from engaging in prohibited insider trading and to fairly disclose non-public information;
- Gifts and Entertainment Compliance Policy, intended to deter providers of gifts or entertainment from seeking or receiving special favours from employees of Franklin Templeton;
- Regular staff training on compliance and related matters;
- Reinforcement of corporate values which focus on acting in the client’s best interests, with integrity and confidentiality.

### **The Main Duties of the Sole Director**

As provided by the Constitutive Act, the Management Agreement and the IPS, the main duties of FTIS performed under the control of the GSM and the monitoring of the Board of Nominees, are:

- fulfilling the necessary and useful operations to achieve the Fund’s business objective, except for the operations reserved by the law for the GSM, having all the obligations attributed to it by the applicable law;
- establishing a reference date for shareholders entitled to vote within the GSM, under the law, and drafting the text of the announcement on the convocation of the GSM, after obtaining the prior approval of the Board of Nominees and after adding to the agenda the matters requested by the Board of Nominees;
- giving responses on the aspects concerning the business of Fondul Proprietatea, upon the written request submitted by any shareholder before the date of the GSM, after obtaining the prior approval of the Board of Nominees;
- ensuring that a copy of or extract of the GSM minutes is given to any shareholder upon his request; making available to shareholders the financial statements of the Fund and the reports of the AIFM and of the financial auditors, after the announcement of the Annual OGM is published;
- preparing the annual financial statements, drafting the annual activity report, examining the financial auditors’ report, presenting them to the Board of Nominees before submitting such documents to the GSM and making proposals on the distribution of the profit to the GSM, after obtaining the prior approval of the Board of Nominees;
- managing the relationship with the Central Depository with regard to its shareholders register functions;
- preparing an annual report on the management and business policy of Fondul Proprietatea, to be presented to the Board of Nominees for approval prior to its submission to the GSM;
- proposing to the Board of Nominees for prior approval and further, to the GSM for final approval, the annual budget and business plan;
- proposing to the Board of Nominees for the prior approval and further, to the GSM for final approval, the general strategy in accordance with the IPS of Fondul Proprietatea;
- implementing the IPS and achieving a proper balance between the profits and the risks related to the Fondul Proprietatea portfolio;
- informing the Board of Nominees periodically on any significant changes in the activities and portfolio structure of the Fund;
- approving the outsourcing of certain activities, within the limits of the approved budget; delegating the execution of certain activities, with the prior endorsement of the FSA, where required by applicable legislation;
- submitting to the approval of the EGM the execution of contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of Fondul Proprietatea, whose value exceeds,



individually or cumulatively during a financial year, 20% of the total value of the non-current assets of Fondul Proprietatea, less receivables;

- entering into contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of Fondul Proprietatea, whose value does not exceed, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of Fondul Proprietatea, less receivables, without the approval of the general shareholders' meeting;
- proposing to the OGM the conclusion of the financial audit agreement according to the legal provisions in force, upon obtaining the prior approval of the Board of Nominees,
- approving the internal audit procedure and the internal audit plan;
- deciding on the relocation of the registered office, provided that the registered office shall at all times be registered in Romania;
- making available to the Board of Nominees the reports and other necessary documents for exercising the monitoring duties, in accordance with the Constitutive Act;
- informing at once the Board of Nominees of any litigation or infringement of legislation regarding the AIFM, any operation which might be an infringement to the IPS and about the plans/ correction measures for approaching these matters;
- calling the GSM to decide whenever an issue appears on which the Board of Nominees has a disagreement with the AIFM, which cannot be resolved amiably;
- proposing to the Board of Nominees the EGM recommendation for the appointment of the investment firm/ investment bank who shall manage a public offer, as well as its remuneration, when it becomes necessary that such a company is appointed related to the admission to trading of Fondul Proprietatea.

The Sole Director coordinates the strategy of the Fund.

The Sole Director ensures that the provisions of the relevant European and Romanian capital markets legislation are complied with and implemented by the Fund, as presented above within this section. Likewise, the Sole Director ensures the implementation and operation of an accounting, risk management and internal controlling system which meets the requirements of the Fund.

The employees of the Sole Director qualified as insiders and the persons closely related to them and to the Sole Director have the duty to report to the Sole Director and to the FSA any and all trading/ business performed for their own account with (i) shares or other securities issued by the Fund and admitted for trading on regulated markets; and/ or (ii) derivative financial instruments relating to securities issued by the Fund and/ or (iii) any other instruments relating thereto.

The Sole Director has the duty to disclose immediately to the Board of Nominees any material personal interests it may have in the transactions of the Fund as well as all other conflicts of interest.

Sole Director conducts all business according to the principle that it must manage any conflicts of interest fairly between itself and the Fund. The Franklin Templeton group has group-wide policies for managing conflicts of interest and ensuring the ethical conduct of its entire staff which apply to the Sole Director. These policies were designed to evidence compliance with the conflicts of interest requirements as set out in the European Markets in Financial Instruments Directive of 2004 and were also submitted to FSA during the course of the Sole Director's licensing application.

All business transactions between the Fund and the Sole Director as well as persons or companies closely related to them must comply with the normal industry standards and applicable corporate regulations.

During 2017, the Sole Director issued 59 resolutions on all matters requiring its approval in accordance with the Constitutive Act.

### **Permanent representatives of the Fund**

As at 31 December 2017, Craig Blair, Denise Voss, Mike Sommer, Grzegorz Maciej Konieczny, Johan Meyer, and Oana Valentina Truța are the permanent representatives of the Fund (for updates regarding permanent representatives of the Fund, please see *Subsequent Events* section).

**Grzegorz Konieczny** is CEO of FTIML Romania, Executive Vice President FTIML, and the Director of Specialty Strategies for the Templeton Emerging Markets Group. In this capacity, he focuses on Fondul Proprietatea (the largest closed-end investment fund in Romania and one of the largest London listed closed-end funds), additional specialised country and regional strategies, as well as private equity strategies, providing guidance and thought

leadership, coordinating appropriate resources and coverage as well as leveraging the group's expertise to add value across products within the strategies. Prior to joining Franklin Templeton in 1995, Mr. Konieczny was the director of Capital Market Transactions at Bank Gdanski, one of the largest financial institutions in Poland at the time. Mr. Konieczny holds a master's degree in economics and foreign trade from the University of Gdansk (Poland) and an investment advisor license from the Polish Securities and Exchange Commission. Mr. Konieczny speaks Polish, English and Russian.

As at 31 December 2017 Mr Konieczny held no shares issued by the Fund.

**Johan Meyer**, Co-CEO Romania Franklin Templeton Investment Management Limited UK Bucharest Branch, joined Franklin Templeton Investments in 2004. Prior to his role in Romania, he was Managing Director South Africa, and the Director of Africa Strategy for Templeton Emerging Markets Group. In this capacity, he was responsible for setting the overall strategy for his respective area, providing guidance and thought leadership, coordinating appropriate resources and coverage, and leveraging the group's expertise to add value across products within the strategy. Effective from 1 November 2016 he was appointed Co-CEO of Franklin Templeton Investment Management Limited UK Bucharest Branch and Co- Portfolio Manager of Fondul Proprietatea. Mr. Meyer holds Bachelors of Commerce and Bachelors of Commerce (Honours) degrees both with specialization in economics from the University of Pretoria. He speaks English and Afrikaans.

As at 31 December 2017, Mr Meyer held no shares issued by the Fund.

**Oana Valentina Truța** has experience in investment management and portfolio analysis. Ms Truța earned a bachelor's degree in Finance and Insurance from the Babes Bolyai University in Cluj-Napoca and a master's degree in Quantitative Economics and Finance from the same university. Prior to joining Franklin Templeton Ms Truța has acted as an investment analyst at Interdealer Capital Invest. She joined the Bucharest office of Franklin Templeton in 2010. As at 31 December 2017, Ms Truța held no shares issued by the Fund.

**Craig Blair** is a Director and Conducting Officer for FTIS in Luxembourg, where he has worked since 2004. During this period, Mr Blair held a number of roles within the organisation in the fund administration department. Mr Blair holds an MBA from Manchester Business School is a Member of the Chartered Institute of Management Accountants and holds a Law degree from Leicester University.

As at 31 December 2017, Mr Blair held no shares issued by the Fund.

**Denise Voss** is a conducting officer and director of FTIS, Franklin Templeton Investments' Luxembourg based management company, managing both UCITS (undertakings for the collective investment of transferable securities) and AIFs. Ms Voss joined Franklin Templeton Investments in 1995 where she served as a general manager of the Luxembourg subsidiary until December 2005. Between 2006 and 2013, she held the role of conducting officer of Franklin Templeton Investments' Luxembourg-domiciled UCITS. Prior to joining Franklin Templeton Investments, Ms Voss worked in the audit division of Coopers & Lybrand in Boston, USA and Luxembourg, for over nine years. Ms Voss holds a Massachusetts Certified Public Accountant license and obtained an undergraduate degree from Tufts University, as well as a master degree in accountancy from Bentley College. She is Chairman of the Association of the Luxembourg Fund Industry ("ALFI") and has been a member of the ALFI board of directors since 2007. Ms. Voss is also past chairman of the European Fund and Asset Management Association (EFAMA) Investor Education working group.

As at 31 December 2017 Ms Voss held no shares issued by the Fund.

**Mike Sommer** is a conducting officer and the Head of Risk Management of Franklin Templeton International Services S.à r.l., the Luxembourg-based UCITS Management Company and Alternative Investment Fund Manager of Franklin Templeton Investments, and is responsible for the implementation and ongoing execution of the risk management function. Being part of a global organisation he also provides advice to other Franklin Templeton entities with respect to regulatory risk management topics. Prior to his current role he worked within Franklin Templeton's Global Compliance Department which he joined in 2007. Mr. Sommer is an active member of ALFI risk management working groups where he leverages his 16 years of experience in the financial industry including roles in the external audit and banking sectors.

As at 31 December 2017 Mr Sommer held no shares issued by the Fund.

#### **Legal representatives of the Investment Manager**

At the date of this report, Grzegorz Maciej Konieczny, Johan Meyer, and Oana Valentina Truța are the legal representatives of the Investment Manager, each of them having full management powers in this regard.

Effective on 1 November 2016, Mr Johan Meyer was appointed as Co-CEO of FTIML and Co-Portfolio Manager of Fondul Proprietatea. Mr Meyer's focus is on supporting Mr. Grzegorz Maciej Konieczny, CEO of FTIML and PM of Fondul Proprietatea on portfolio side as a co-CEO and co-PM level.

Starting with 1 April 2018, Mr Johan Meyer will be the CEO of FTIML. For further details please see *Subsequent Events*.

### **The Remuneration of the Sole Director**

The fees due to FTIS in accordance with the 2015 MA, including the Base Fee and the Distribution Fee, are calculated in RON and paid EUR in compliance with the provisions below. The amount calculated in RON is converted into EUR using the official exchange rate for RON to EUR published by National Bank of Romania for the last day of the period invoiced.

#### **1. The Base Fee is calculated according to the following formula:**

*Base Fee Rate multiplied by the notional amount, multiplied by the number of calendar days during the applicable Calculation Period divided by 365*

where:

Base Fee Rate = 60 basis points per year;

1 basis point = 0.0001; and

Notional amount = the market capitalisation of the Fund, which is defined as:

- (a) the number of the Fund's paid shares considered on daily basis, minus
- (b) the weighted average over the applicable calculation period of the number of the Fund settled own shares together with the number of the Fund equivalent ordinary shares represented by GDRs, in each case where those shares or GDRs are held by the Fund as treasury shares
- (c) then multiplying the resulting number by the weighted average market price of the Fund's shares calculated for the applicable calculation period. The "weighted average market price" is computed based on the daily average market prices of the Fund's shares and corresponding daily volumes, as published by BVB on REGS section.

If the number of shares relevant for the computation of the Base Fee described above in (a) and (b) changes over the calculation period, the Base Fee is an aggregation of the computation for each sub-period.

For each day in a calculation period for which the Base Fee is to be calculated, when the Discount is below or equal to 20%, but above 15%, an additional Base Fee Rate of 5 basis points per year shall become payable (i.e. the Base Fee Rate referred to in the calculation above shall become 65 basis points per year for the applicable days in the relevant period).

For each day in a calculation period for which the Base Fee is to be calculated, when the Discount is equal or below 15%, a further additional Base Fee Rate of 5 basis points per year shall become payable (i.e. the Base Fee Rate referred to in the calculation above shall become 70 basis points per year for the applicable days in the relevant period).

As the Base Fee (including any additional fee determined under the previous two paragraphs) is computed using the number of days in a calendar year (365 days), the Base Fee Rate used for non-trading days is the rate applied for the prior trading day.

#### **2. The Distribution Fee is calculated as follows:**

- (a) 200 basis points of the total non-dividend distributions (including, without limitation, repurchases of own shares, repurchases of GDRs and returns of share capital) made available up to and including 31 March 2017;
- (b) 150 basis points of total non-dividend distributions (including, without limitation, repurchases of own shares, repurchases of GDRs and returns of share capital) made available from 1 April 2017 up to and including 30 September 2017; and
- (c) 100 basis points of total non-dividend distributions (including, without limitation, repurchases of own shares, repurchases of GDRs and returns of share capital) made available from 1 October 2017 up to and including 1 April 2018.

Reference is made to distributions being "made available" to clarify that any failure on the part of any shareholder to collect, or to take the necessary steps to facilitate the receipt of, these distributions does not result in any adjustment of the calculation of the Distribution Fee due to the AIFM. The calculation of the Distribution Fee is made when such distributions become available to shareholders (e.g. payment start date). In case of a repurchase of

own shares or of GDRs, the calculation of the Distribution Fee is made at the date when the own shares repurchase transactions or GDRs transactions are settled. For GDRs transactions, the Distribution fee is computed taking into account the official exchange rate published by the National Bank of Romania for the date of settlement of GDRs transactions.

### 3. Payments

(a) The Base Fee is paid by the Fund quarterly, based on the invoices to be issued by the AIFM within twenty (20) business days following the end of the quarter for which payment is to be made.

(b) The Distribution Fee is paid by the Fund quarterly, based on the invoices to be issued by the AIFM within twenty (20) business days following the end of the quarter for which the Distribution Fee was calculated.

(c) The invoices for the Base Fee and the Distribution Fee are submitted to the Depositary Bank.

(d) The AIFM provides to the Board of Nominees quarterly and on an annual basis and upon reasonable request of the Board of Nominees a detailed report regarding the fees collected under the 2015 MA, in the form reasonably required by the Board of Nominees.

(e) The payment of each fee is made within 30 business days of the receipt of the applicable invoice.

### 4. Verification

The payment of the Base Fee and the Distribution Fee is arranged by the AIFM only after the verification and certification by the Depositary Bank of the correctness of the following amounts used in the calculation of those fees: the notional amount, the value of distributions, and all the other items used in calculation of the fees, as well as the methods for determining the fees.

#### Remuneration Policy of the AIFM

In order to comply with Articles 21 (2) (e) and (21) (2) (f) of the AIFM Directive (Law 74/2015), details of the Remuneration Policy of the AIFM and amounts attributable to the Fund are available to existing shareholders upon request at the registered office of the AIFM.

#### Potential professional liability risks for AIFM

The AIFM will maintain at all times the capital requirements and insurance required under AIFM Directive and national legislation.

The AIFM has in place the following insurance:

(a) Professional liability to provide against any failure to duly perform the 2015 MA;

(b) Fidelity bond to provide against any failure to account to the Fund for any money or investments.

#### Delegated management functions

FTIS has delegated the role of Investment Manager as well as certain administrative functions to FTIML.

The delegation of the portfolio management allows FTIML, among others, to:

- manage the investment, realisation and reinvestment of the assets of the Fund with power at its discretion, to purchase, subscribe to, acquire or deal in investments and securities and to sell, redeem, exchange, vary or transpose the same, provided that FTIML observes and complies with the Constitutive Act, the IPS, any guidelines, directives and instructions given by FTIS, and all local laws and regulations the Fund is subject to and, if the case, any applicable FSA decisions;
- exercise all rights of voting conferred by the investments and securities of the Fund;
- enter into contracts in the name of the Fund in order to apply the investments policy and objectives;
- take appropriate arrangements in order to supervise the performance of the portfolio management activities by its staff;
- take reasonable steps to manage the risks associated with portfolio management;
- on receipt, give instructions to pay to and/ or deposit with the depositary bank of the Fund all moneys, investments and securities received by it on behalf of the Fund;
- participate, institute or join, at the Fund's costs, any proceeding or similar action including but not limited to any class action with respect to the assets of the Fund, except the legal actions in front of courts or arbitral courts (in respect of the latter FTIML being also authorised to engage on behalf of the Fund legal counsel to

provide legal representation), in accordance with the Constitutive Act, the IPS and the relevant legislation and regulations in force;

- present reports to the Board of Nominees of the Fund;
- cooperate with FTIS in view of distributing dividends and other non-dividend distributions and executing buy-back programmes and tenders, in each case subject to all necessary shareholder approvals and in compliance with applicable laws and regulations;
- evaluate the investments and the securities, price movements in respect of such investments and securities and other factors FTIML considers relevant for its management of the investment, realisation and re-investment of the assets of the Fund;
- analyse the progress of all investments and securities in the portfolio of the Fund and provide the reports requested by FTIS;
- analyse the source of funds required for buy-back of shares or other purposes;
- analyse all actions that FTIML considers advisable or necessary to undertake in order to implement the IPS of the Fund with regard to investments and securities; and
- prepare materials for any reports required by FTIS.

The delegation of the administration services allows FTIML, among others, to:

- manage the relationship with the Central Depository regarding its shareholders register functions;
- keep all the books, records, agreements, forms, papers, files and other corporate documents required by Romanian law;
- calculate and publish the Fund's net asset value and the net asset value per share;
- monitor the compliance with the regulations in force, except for the services of regulatory compliance monitoring of the delegated activities;
- receive notices, correspondence, telegrams, telex messages, telephonic advice or other representations and communications for account of the Fund;
- keep with due diligence the Fund documents and information entrusted to it;
- co-ordinate the preparation and dispatch of statements, reports, notices, announcements, proxies, minutes and other documents to shareholders, investors and to the Board of Nominees;
- co-operate at drafting of the entire documentation for calling the GSM of the Fund;
- draft the annual budget;
- co-operate at drafting the IPS;
- propose the conclusion of the financial audit agreement;
- propose the change of the location of the Fund's registered office;
- co-operate at the organisation of the GSM and of the meeting of the Board of Nominees;
- provide for any legal filings and publications and file any tax returns;
- maintain contact with all supervisory, regulatory, tax or other state authorities or Fund-related professional organisations in Romania, complying with any information request from these authorities (including the current reports);
- co-operate at the preparation of the annual reports, accounts, financial reports, financial statements and of any other documents for investors or for the relevant authorities in accordance with applicable laws, regulations or the Constitutive Act;
- manage investor queries and send responses and other relevant documents to the investors;
- perform public relations activities;
- perform marketing activities (such as investor road-shows, group and one-on-one meetings with institutional investors, participate in various global and regional emerging and frontier market conferences, organise Analyst and Investor Days events).

### The Fund's Shareholders Rights

The rights of the Fund's minority shareholders are adequately protected according to the relevant domestic legislation.

The Fund is committed to communicate with its shareholders effectively and actively and ensure that all shareholders have equal access to public information.

According to the provision of the Constitutive Act in force (Annex 4 to this report), each share issued by the Fund which is rightfully owned and paid in by a shareholder carries the following rights: (i) voting right at the GSM, (ii) right to elect and revoke the members of the Board of Nominees as well as to elect and revoke the Sole Director and (iii) right to participate in the distribution of profits.

Currently, the Constitutive Act does not specify any further special conditions on such rights than those specified by the law.

The Romanian legislation imposes various restrictions regarding the unpaid shares and as a result, as long as the Romanian state has unpaid shares, it has no voting rights for those unpaid shares and has no right to receive dividends or return of capital in relation to them.

With respect to the right to receive dividends, the Constitutive Act set out that the Fund's net profit shall be distributed based on the resolution of the GSM, each shareholder being entitled to receive dividends proportionally with the number of paid in shares held in the Fund's share capital. Pursuant to the Companies' Law, the payment of dividends shall be carried out no later than 6 months from the approval of the annual financial statements for the previous year, under penalty of default interest payment.

Other than as presented above, no rights, preference or restrictions are attached to the shares. Pursuant to the Companies' Law, as a rule, the shares issued by a company entitle each holder to equal rights. Such rights mainly refer to the shareholders' involvement in the operations of a company and the resulting benefits and are regulated by the applicable laws. Shareholders must exercise their rights in good faith, without breaching the interest of other shareholders or that of the company. The Fund ensures a fair treatment of investors and, there is no preferential treatment for any investor.

The Fund is committed to encourage shareholders to participate in GSMs, to fully exercise their rights, and to raise questions concerning items debated during such meetings. GSMs enable and encourage dialogue between the shareholders and the Fund and its representatives. The Fund encourages its shareholders to take part in meetings, and those who cannot attend are able to vote in absence by sending the votes to the Fund's headquarters, using the voting bulletin for the votes by correspondence made available by the Fund at the headquarters and/ or on the Fund's website.

Furthermore, the Fund ensures that its shareholders have access to relevant material information, so as to allow them to fully exercise their rights. The Fund has a dedicated section on its website (*the GSM Documentation section in the Investor Relations page*) that can be easily identified and accessed. This information typically includes: the time and place of meetings; information on how to exercise voting rights, including the proxy process with relevant forms; meeting agendas, as well as detailed documents relating to specific agenda items and draft of shareholders resolutions.

The Investment Manager has established a dedicated investor relations team. This experienced team is responsible for handling relationships with both private and institutional investors locally and abroad.

In conclusion, currently the Fund observes the one paid share, one vote, and one dividend principle. There are no shares conferring the right to more than one vote or preference shares.

Shareholders holding at least 5% of the paid in share capital may ask for calling of a GSM. Such shareholders have also the right to add new items on the agenda of a GSM, provided such proposals are accompanied by a justification or a draft resolution proposed for approval and copies of the identification documents of the shareholders who make the proposals.

Proposals with respect to adding new items on the agenda of such GSM can be submitted at the Fund's headquarters, or by e-mail having attached an extended electronic signature, in compliance with Law no. 455/2001 on digital signature.

Likewise, the shareholders holding at least 5% of the paid in share capital are entitled to propose revised versions of resolutions for the items listed on the agenda or proposed by other shareholders to be added on the agenda of such GSM.



The shareholders may attend in person or may be represented in the GSMs either by their legal representatives or by representatives having a special proxy, based on the special proxy template made available by the Fund. Such proxy template may be obtained from the Fund's headquarters and/ or can be found on the Fund's website, under the respective GSM section item.

The shareholders of the Fund, regardless of the stake of the share capital held, may submit written questions with respect to the items on the agenda of the GSMs. The shareholders may also send such questions by e-mail. The answers will be provided during the GSM based on public information or non-public and non-material information.

Should the questions require elaborate answers, a Q&A (questions and answers) form will be made available on the Fund's website. The disclosure of commercially sensitive information that could result in a loss or competitive disadvantage for the Fund will be avoided when providing the answers, in order to protect the interest of our shareholders.

A shareholder who was absent at a GSM or has voted against a certain resolution and has requested that its vote against the resolution is registered in the minutes of that GSM is entitled to challenge such resolution within 15 days as of its publication in the Official Gazette of Romania, Part IV. Also, claims regarding an absolute nullity of a shareholders resolution may be filed at any time.

### **Fees, charges and expenses which are directly or indirectly borne by investors**

Please see section "*Key Financial Highlights of the Fund*" for more details regarding the total expense ratio of the Fund and section "*Financial Statements Analysis*" more information regarding the Sole Director remuneration.

The brokerage fees and other costs incurred by investors in acquiring the Fund's shares vary depending on the specific contractual agreements concluded between the investors and the intermediaries.

### **Potential increase of the share capital of the Fund**

The share capital of the Fund can be increase with the approval of the EGM, in accordance with the provisions of the Romanian law:

a) by issuing new shares in exchange for cash contributions, based on the offering documentation approved according to legislation in force;

b) by incorporation of reserves, except for the legal reserves and the reserves set-up out of the revaluation of the patrimony, as well as out of the benefits and issuing premiums.

The share capital increase shall be registered at the Trade Register Office, on the basis of the decision made by the Fund's GSM.

The share capital cannot be increased by increasing the nominal value of existing shares or by issuing new shares as long as there are unpaid existing shares in the share capital of the Fund.

### **The depositary of the Fund**

The Fund has appointed BRD-Groupe Société Générale SA (the "Depositary Bank"/ the "Depositary") as its depositary and custodian, to hold and transfer the Fund's assets, and to certify the Fund NAV, and the computation of the AIFM fees through a depositary and custody agreement which entered into force on 20 May 2016 for a three-year term.

The Depositary has the following obligations under the agreement in place:

- Physically safeguards all the Fund's financial instruments which can be physically delivered or registered or held in an account directly or indirectly in the name of the Depositary and are transferable securities including those which embed derivatives, money market instruments or units of collective investment undertakings (the "Custody Assets");
- Verifies the ownership of, and maintain records on, all assets which do not qualify as Custody Assets and which, in accordance with applicable national law, are only directly registered in the name of the Fund with the issuer itself or its agent, such as a registrar or a transfer agent, based on the documents supplied by the Fund, as well as on external evidence (the "Non-Custody Assets");
- Keeps in custody the Custody Assets belonging to the Fund, separately from the Depositary's assets or other Funds' assets, and registers them separately, thus as to be identifiable as the Fund's property;
- Settles the transactions with Custody Assets and Non-Custody Assets of the Fund in and from the Fund's accounts, according to the instructions received from the Fund and in accordance with the applicable Central Depositary's regulations;

- Collects the interests and other income related to the Custody Assets and exercises the rights conferred by such Custody Assets, in accordance with the proper instructions received from the Fund. The Depositary assists the Fund in recovering the difference of tax on dividends withheld by the issuers (in case of investments abroad or in Romania), according to the tax treaties in force;
- Certifies the existence and the value of the net assets, and the unit value of the net assets, and transmits it to the Fund and to the FSA, within the terms, form, conditions and regular intervals established by the regulations;
- Makes the payment of the equivalent value of the financial instruments or participation interests purchased by the Fund, makes the payment of all the financial duties, including the payment of interests, taxes, fees and other operational costs of the Fund, makes payments for any other purposes, according to the proper instructions received from the Fund;
- Validates and certifies the calculation of the AIFM for the fees owed by the Fund to it;
- Provides proxy voting services upon the request and according to the instructions received;
- Carries out any other activities provided by the laws and regulations as part of its responsibility.

Liability in case of safe-keeping of Custody Assets:

- In case of loss of a Custody Asset by the Depositary or by a third party to whom the custody was delegated by the Depositary, the Depositary shall be liable to the Fund in the conditions set forth by Article 21 (12) and (13) of AIFM Directive as such were transposed by Article 20 (13) and (14) of Law 74/2015, as well as by Articles 100 and 101 of EU Regulation no. 231/2013. In such conditions, unless the Depositary proves the existence of an exoneration cause set forth by the EU Regulation no. 231/2013, the Depositary shall return to the Fund identical Custody Asset or a custody asset with a corresponding value within maximum five business days upon the Fund's or the AIFM's request;
- In case of other damages produced by the Depositary in connection with safe-keeping of Custody Assets other than losses of such Custody Assets, the Depositary shall not be liable towards the Fund for its actions or inactions in relation to these obligations as long as they respect the legal provisions and the damages are not due to the Depositary's negligence, fraud, breach of agreement, bad faith or wilful default.

Liability in case of safe-keeping of Non-Custody Assets and other duties of the Depositary:

- With respect to all duties other than the safe-keeping of Custody Assets, the Depositary shall not be liable towards the Fund for its actions or inactions in relation to these obligations, as long as they respect the legal provisions, and, in addition, the Depositary shall not bear any prejudice or expense resulting from such action or inaction, except in the case where these are due to the Depositary's negligence, fraud, breach of agreement, bad faith or wilful default.
- The Depositary shall not be liable for the incompleteness or illegality of any investment made by third parties on behalf of the Fund's Account and received by the Depositary from them or in case the investment is no longer valid or is fraudulent, either by reason of invalidity, forgery, falsity, incompleteness or otherwise except in so far as such situation results from the negligence, wilful default, bad faith, breach of agreement or fraud on the part of the Depositary.
- The Depositary shall not be liable to the Fund or any third party for any indirect consequential or special damages, including loss of profits or business opportunity, arising in connection with the agreement.
- Except as set out in the agreement concluded with the Fund and applicable law, the Depositary expressly disclaims all obligations to the Fund.

### **The auditor of the Fund**

The auditor of the Fund for the year ended 31 December 2017 is Deloitte Audit SRL, registered with the Trade Registry under no. J40/6775/1995, having Sole Registration Code 7756924, member of the Chamber of Financial Auditors of Romania and registered in the Public Registry of Financial Auditors and the duration of the financial audit agreement is for the period starting with 26 October 2017 and 31 August 2020.

### **The Foreign Account Tax Compliance Act ("FATCA")**

FATCA is a United States federal law that requires United States persons, including individuals who live outside the United States, to report their financial accounts held outside of the US, and requires foreign financial institutions to report to the Internal Revenue Service about their US clients.

Romania, like most of the European countries, concluded an intergovernmental agreement to facilitate the implementation of FATCA requirements.

The Fund start implementing FATCA in 2017.

**Packaged retail and insurance-based investment products (“PRIIPS”)**

Packaged retail investment and insurance products (PRIIPs) are at the core of the retail investment market. In order to tackle any potential shortcomings, the EU has adopted a regulation on PRIIPs, which obliges those who produce or sell investment products to provide investors with key information documents (KIDs).

The KIDs for Fondul Proprietatea are published on the webpage of the Fund and on the webpage of Franklin Templeton Romania.

**Market Abuse Regulation (“MAR”)**

Regulation No 596/2014 on market abuse, repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC and Directive 2014/57/EU on criminal sanctions for market abuse (CS MAD) were published in the Official Journal of the European Union on 12 June 2014 and applies as of 3 July 2016.

MAR aims at enhancing market integrity and investor protection.

AIFM updated the internal regulations applicable to the Fund in order to implement MAR.

**Gender and nationality diversity**

The Fund, FTIS and FTIML supports gender diversity and promotion of women in management positions.

While there are currently no female members of the Board of Nominees, the FTIS and FTIML have women involved in management of the Fund.

More than 45% of the members with key positions in FTIS and FTIML involved in management of the Fund are women and the overall proportion of women in the structure of FTIML is approximately 47%.

Also there are people involved in management of the Fund from more than 8 different nationalities, being in line with the diversity of the shareholders of the Fund.

**Leverage under AIFMD considerations**

The leverage definition under AIFM Directive is wider than the traditional gearing definition applied. In accordance with the Regulation (EU) 231/2013 leverage is any method which increases the Fund’s exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of Fund’s exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Fund’s positions (including all holdings like ordinary shares) after deduction of cash balances and cash equivalents, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and cash equivalents and after certain hedging and netting positions are offset against each other if applicable.

The Fund may not utilize its short term borrowing facility for investment purposes nor is the Investment Manager using derivatives to hedge any risks as of 31 December 2017. The use of Financial Derivative Instruments is permitted.

The maximum incremental level of leverage which the AIFM is entitled to employ on behalf of the Fund for AIFMD monitoring and reporting purposes is 50% which, considering 100% of long assets held in the portfolio, relates to a ratio of 1.5 (or 150%) for both the gross method and the commitment method. The leverage limits are set by the AIFM and are in line with the maximum leverage levels permitted in the Fund’s Constitutive Act.

*There was no change to the level of leverage applied for AIFMD monitoring and reporting purposes since 1 January 2017.*

*Therefore the actual level of leverage recorded under the requirements of AIFMD for 31 December 2017 is 1.00 (or 100.03%) using the “commitment” method and 0.98 (or 97.86%) of the “gross” method. The ratio for the gross method is below 1 given that cash and cash equivalents are deducted as required by the relevant regulation.*

### **Conflicts of Interests**

FTIS and FTIML adopted operating solutions suitable to facilitate the identification and adequate handling of any situations in which a member of the Board of Nominees or an employee of the FTIS/ FTIML has an actual or potential conflict of interest between the interest of the Fund and his/ her own or on behalf of third parties. FTIS/ FTIML adopt operating solutions suitable for the adequate handling of any issues arising from related parties transactions.

### **Treatment of Corporate Information**

The members of the Board of Nominees and all employees of FTIS/ FTIML shall keep confidential any documents and information acquired in the performance of their duties.

## Financial Statements Analysis

The audited financial statements for the year ended 31 December 2017, prepared in compliance with IFRS, are included in full in Annex 1 to this report.

This section provides an overview on the main elements of the Fund's financial position and performance for the period ended 31 December 2017.

### Statement of Financial Position

RON million	31 December	31 December	31 December	31 December
	2017	2016	2015	2017 vs. 31 December 2016 (%)
	Audited	Audited	Audited	
Cash and current accounts	19.2	5.8	0.6	
Deposits with banks	1,276.7	305.3	197.8	
Treasury bills	46.3	781.4	20.0	
Government bonds	195.9	328.6	59.0	
Equity investments	9,278.2	9,992.2	11,800.7	
Other assets	10.7	20.8	29.6	
<b>Total assets</b>	<b>10,827.0</b>	<b>11,434.1</b>	<b>12,107.7</b>	<b>-5.3%</b>
Payables	15.2	27.1	18.7	
Other liabilities	21.6	21.0	35.9	
<b>Total liabilities</b>	<b>36.8</b>	<b>48.1</b>	<b>54.6</b>	<b>-23.5%</b>
Total equity	10,790.2	11,386.0	12,053.1	-5.2%
<b>Total liabilities and equity</b>	<b>10,827.0</b>	<b>11,434.1</b>	<b>12,107.7</b>	<b>-5.3%</b>

The short term assets of the Fund included term **deposits with banks, government bonds and treasury bills** issued by the Ministry of Public Finance of Romania. All instruments are denominated in RON and have maturities of up to one year.

The overall increase in liquidity assets in 2017 is mainly due to the cash inflows from the disposal of portfolio companies (mainly in the subsidiaries of Electrica and part of OMV Petrom SA) in amount of RON 1,231.3 million and the dividends collected from portfolio companies during the period in amount of RON 737.6 million, net of tax. These were netted off mainly by the cash outflows in respect of the return of capital to shareholders (RON 910.5 million) and for funding the own shares acquired within the seven, eight and nine buy-back programmes (RON 819.2 million).

### Equity investments

#### *Classification and measurement of equity investments*

Starting 1 January 2014, Fondul Proprietatea applies the Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities, the Fund being an investment entity. As a result, the Fund classifies and measures its investments in subsidiaries and associates as financial assets at fair value through profit or loss. The other equity investments are classified as available for sale financial assets.

The equity investments at fair value through profit or loss are initially recognised at fair value and the transaction costs are recorded in profit or loss. They are subsequently measured at fair value with all changes in fair value accounted for through profit or loss. Equity investments at fair value through profit or loss are not subject to impairment testing.

The equity investments classified as available for sale are measured at fair value, with the changes in fair value recognised in other comprehensive income (equity). On derecognition of an available for sale equity investment, the cumulative gain or loss previously recognised in other comprehensive income is transferred to profit or loss.

Impairment losses on available for sale equity investments are recognised in profit or loss and are not reversed through profit or loss. If, in a subsequent period, the fair value of an impaired available for sale equity investment increases, it is recognised in other comprehensive income (equity).

The Fund is implementing IFRS 9 ‘Financial instruments’, which will replace IAS 39 “Financial Instruments: Recognition and Measurement” starting with 1 January 2018. Additional disclosures and expected impact compared to previously recognized amounts are included in the Fund’s annual IFRS financial statements for the year ended 31 December 2017 and further analysis will be provided in subsequent reports for 2018.

### Valuation

As at 31 December 2017 substantially all the equity investments of the Fund were carried at fair value.

*Listed shares traded in an active market* are measured at fair value, using quoted prices in the active market for that instrument at the reporting date. A market is considered active if transactions for the asset take place with sufficient frequency and volume to provide pricing information on an on-going basis.

The fair value of *unlisted shares* and *listed shares that are not traded in an active market*, for which sufficient information is available, is estimated with the assistance of independent valuers, using valuation techniques, in accordance with IFRS 13 Fair Value Measurement and the International Valuation Standards (over 99% of the total unlisted portfolio).

Equity investments that do not have a quoted price in an active market and whose fair value cannot be reliably estimated are measured at the values used in the calculation of the net asset value of the Fund, in accordance to the regulations issued by the FSA/ CNVM and reported on a monthly basis. These values are considered to be equivalent to fair value and this approach is applied to an insignificant part of the portfolio.

The net decrease of equity investments of RON 714.0 million for the year ended 31 December 2017 is mainly due to the disposal of certain portfolio companies (please see section *Key portfolio Developments during the period* - with total impact RON 1,247.3 million), which was offset by the net increase in the value of unlisted equity investment following the update valuations (please see section *Analysis of the portfolio of the Fund* - RON 170.5 million and by the increase in value of equity investments, mainly OMV Petrom SA (increase in share price of 9.6%).

### Statement of Comprehensive Income

RON million	2017	2016	2015
	Audited	Audited	Audited
Gross dividend income	740.4	353.1	569.3
Net realised gain / (loss) from disposal of non-current assets held for sale	330.6	(127.5)	-
Net unrealised gain/ (loss) from equity investments at fair value through profit or loss	222.8	(377.8)	(1,244.0)
Net gain on disposal of equity investments classified as available for sale	38.5	926.0	344.8
Reversal of impairment losses on receivables, net	36.4	17.9	17.6
Interest income	11.9	7.9	3.9
Net realised gain / (loss) from equity investments at fair value through profit or loss	(1.4)	-	3.2
Impairment losses on equity investments classified as available for sale	(8.0)	(122.4)	(90.5)
Other income/ (expenses), net*	0.9	(0.5)	1.8
<b>Net operating income/ (loss)</b>	<b>1,372.1</b>	<b>676.7</b>	<b>(393.9)</b>
Administration fees recognised in profit and loss	(63.0)	(70.6)	(68.3)
Other operating expenses	(34.5)	(61.5)	(56.8)
<b>Operating expenses</b>	<b>(97.5)</b>	<b>(132.1)</b>	<b>(125.1)</b>
Finance costs	(0.2)	(0.3)	(2.5)
<b>Profit/ (Loss) before income tax</b>	<b>1,274.4</b>	<b>544.3</b>	<b>(521.5)</b>
Income tax expense	15.5	(97.3)	(43.6)
<b>Profit/ (Loss) for the year</b>	<b>1,289.9</b>	<b>447.0</b>	<b>(565.1)</b>
Other comprehensive income	(85.4)	100.7	212.4
<b>Total comprehensive income for the year</b>	<b>1,204.5</b>	<b>547.7</b>	<b>(352.7)</b>

\* Other items of income/ (expense), net included mainly the net loss from revaluation of government securities through profit or loss, net foreign exchange gain / (loss) and other operating income/ (expenses).

**Gross dividend income** for the year ended 31 December 2017 comprised the dividend income earned from the Fund's portfolio companies, mainly from Hidroelectrica SA (RON 206.6 million), OMV Petrom SA (RON 106.8 million), CN Aeroporturi Bucuresti SA (RON 43.0 million), Electrica Furnizare SA (RON 34.8 million), Electrica Distributie Transilvania Nord SA (RON 22.1 million), Electrica Distributie Muntenia Nord SA (RON 19.3 million) and Electrica Distributie Transilvania Sud SA (RON 21.7 million).

The increase of gross dividend income compared with 2016 relates to the special dividends distributed in September – December 2017 by state controlled entities, namely Hidroelectrica SA and CN Aeroporturi Bucuresti SA, in amount of RON 130.6 million, and RON 40 million respectively.

**The net realised gain from disposal of non-current assets held for sale** for the year end 31 December 2017 is represented by:

- The net gain on disposal of Electrica subsidiaries in amount of RON 345.1 million, representing the difference between the proceeds from disposals (RON 752.0 million) and the carrying values of the equity investments as at disposal date (RON 752.0 million), plus the net unrealised gain related to the investments disposed, recycled from other comprehensive income to profit or loss upon their derecognition (RON 345.1 million)
- the difference between the total proceeds from the disposal of the partial sale of OMV Petrom SA holding (RON 399.9 million) and the fair value at the reclassification date of the non-current assets held for sale disposed of (RON 414.4 million).

The **net unrealised gain from equity investments at fair value through profit or loss** for 2017 of RON 222.8 million was mainly generated by OMV Petrom SA, as a result of the positive evolution of the share price for this company during the year end 31 December 2017 (RON 176.5 million, share price increase of 9.6%).

The **net gain on disposal of equity investments classified as available for sale** represents the difference between the proceeds from disposals and the carrying amount of the equity investments as at disposal date, plus the net unrealised gain related to these investments transferred from other comprehensive income to profit or loss upon their derecognition.

During 2017, the Fund sold its entire holdings in Oil Terminal SA, Banca Transilvania SA and Cetatea SA and part of its holding in BRD Groupe Societe Generale SA. The **net gain on disposal of these equity investments classified as available for sale** was RON 38.5 million, representing the difference between the gross proceeds from disposals (RON 74.9 million) and the carrying values of the equity investments as at disposal date (RON 74.4 million), plus the net unrealised gain related to these investments disposed, recycled from equity (other comprehensive income) to profit or loss upon their derecognition (RON 38.0 million).

The **reversal of impairment losses** for 2017 relates mainly to the receivable for the unpaid share capital amounts from the Romanian State represented by the Ministry of Public Finance. Following the reduction of the nominal value of the Fund's shares from RON 0.85 to RON 0.57 (registered on 24 March 2017) and from RON 0.57 to RON 0.52 (registered on 16 June 2017), the receivable for the unpaid amounts and the related impairment adjustment decreased accordingly, generating a positive impact in the profit or loss account of RON 36.4 million.

**Interest income** is related to the deposits held with banks and to the short-term government securities.

In performing the impairment test for the available for sale equity investments, the Fund considers all relevant factors, such as: significant or prolonged decline in fair value below cost, market and industry conditions, to the extent that they influence the recoverable amount of the equity investment, financial conditions and near-term prospects of the issuer, any specific adverse events that may influence the issuer's operations and recent losses of the issuer. **Impairment losses on equity investments classified as available for sale** caption for year ended 31 December 2017 relates to the holding in Posta Romana (RON 8.0 million).

The total **administration fees** expenses in 2017 included the base fee of RON 46.8 million (in 2016: RON 46.8 million) and the distribution fee for return of capital of RON 16.2 million (in 2016: RON 23.8 million out of which RON 13.5 million represented distribution fee related to the buy-backs). Starting 2017, the distribution fee related to buy-backs is recognised directly in equity together with the underlying shares (RON 15.1 million). This change was not applied retrospectively as the effect on the comparative amounts is not significant. The higher distribution fee in 2017 compared to 2016 was due to the fees invoiced for the higher distributions made available to the Fund's shareholders in 2017, respectively for the special return of capital performed in March 2017 of RON 0.05 per share for which the payment started on 27 March 2017.

The **other comprehensive income** mainly comprised the changes in fair value of equity investments classified as available for sale, net of related deferred tax, where applicable. As at 31 December 2017, the change in fair value of



these equity investments is of RON 315.8 million and the decrease in the fair value reserve due to the disposal of the equity investments available for sale during the year, is of RON 383.1 million, mainly generated following the disposal of Electrica subsidiaries.

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

### Other operating expenses

RON million	2017 Audited	2016 Audited	2015 Audited
Transaction costs	8.4	33.2	8.9
FSA monthly fees	10.2	10.7	11.5
Depository fees	0.7	0.8	1.3
Secondary listing expenses	-	-	16.6
Other expenses	15.2	16.8	18.5
<b>Other operating expenses</b>	<b>34.5</b>	<b>61.5</b>	<b>56.8</b>

**Intermediaries and other fees related to disposal of portfolio holdings** were lower in 2017 as compared to 2016, mostly as a result of the lower value of disposal transactions carried out by the Fund during 2017.

**Other expenses** mainly comprise litigation assistance and legal advisory expenses, Board of Nominees remuneration and related taxes, public relations and investor' relations expenses, internal and external audit expenses and GSM organisation related expenses.

### Statement of Cash Flows

RON million	2017 Audited	2016 Audited	2015 Audited
<b>Cash flows from operating activities</b>			
Proceeds from disposal of equity investments	1,231.9	2,116.7	465.8
Disposals/ maturity of treasury bills and bonds	1,505.7	611.0	529.6
Dividends received (net of withholding tax)	737.6	351.3	567.5
Interest received	13.6	4.6	5.5
Amounts collected from the depository Bank of the Fund's GDRs	7.1	3.7	-
Maturity/ (Creation) of bank deposits with original maturities of more than three months	-	-	25.0
Acquisitions of treasury bills and bonds	(501.1)	(1,645.7)	(416.1)
Suppliers and other taxes and fees paid	(130.4)	(127.1)	(126.9)
Subscriptions to share capital increase of portfolio companies	(2.7)	(4.3)	(2.6)
Other receipts/ (payments), net	(1.7)	0.2	(0.4)
<b>Net cash flows from operating activities</b>	<b>2,860.0</b>	<b>1,310.4</b>	<b>1,047.4</b>
<b>Cash flows from financing activities</b>			
Short term bank loans drawings	237.0	-	450.0
Acquisition of treasury shares	(819.2)	(674.2)	(392.3)
Payments to shareholders related to the return of capital	(910.5)	(512.5)	(522.8)
Payment in relation with lost litigations	-	(10.7)	-
Payment of interest and fees related to the short term bank loans	(0.2)	(0.3)	(2.5)
Dividends paid (including related taxes)	-	(0.1)	(3.3)
Repayment of short term bank loans	(237.0)	-	(450.0)
Payments to Central Depository in relation with 2015 return of capital to shareholders	-	-	(19.2)
<b>Net cash flows used in financing activities</b>	<b>(1,729.9)</b>	<b>(1,197.8)</b>	<b>(940.1)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,130.1</b>	<b>112.6</b>	<b>107.3</b>
Cash and cash equivalents at the beginning of the year	311.1	198.5	91.2
<b>Cash and cash equivalents at the end of the year</b>	<b>1,441.2</b>	<b>311.1</b>	<b>198.5</b>

	31 December 2017	31 December 2016	31 December 2015
Cash	19.2	5.8	0.6
Bank deposits with original maturities of less than three months	1,275.8	305.3	197.9
Treasury bills and government bonds with original maturities of less than three months	146.2	-	-
	<b>1,441.2</b>	<b>311.1</b>	<b>198.5</b>

During 2017 the **proceeds from disposal of equity investments** were related mainly to the disposal of the shares in several portfolio companies: entire holdings in Oil Terminal SA, Primcom SA, Cetatea SA, Banca Transilvania SA and entire holdings in the subsidiaries of Electrica and part of its holdings in BRD Societe Generale and OMV Petrom SA.

**Payments to shareholders related to the return of capital** in 2017, 2016 and 2015 included the payments related to the return of the RON 0.05 per share to the shareholders following the decrease of the Fund's share capital by reducing the nominal value of shares from RON 0.95 per share to RON 0.90 per share in 2015, from RON 0.90 per share to RON 0.85 per share in 2016 and from RON 0.62 to RON 0.57 in March 2017 and from RON 0.57 to RON 0.52 in June 2017.

**Short term bank loans drawings** in 2017 is represented by the amount of RON 237 million drawn on 27 June from the credit facility contracted from BRD-Groupe Société Generale SA which was entirely reimbursed on 25 July 2017 (**repayment of short term bank loans**) for funding the June 2017 distribution to shareholders.

**Payment of interest and fees related to the short term bank loans** comprise the interest expense on the amount drawn from this credit facility.

## Related Party Transactions

The transactions with the related parties were performed in the normal course of business of the Fund.

### (a) Subsidiaries

The Fund has the following subsidiaries, all of which are incorporated in Romania:

Subsidiary	Ownership interest 31 December 2017	Ownership interest 31 December 2016
Alcom SA	72%	72%
Comsig SA	70%	70%
Zirom SA	100%	100%

In April 2017, the shareholders of Comsig SA approved the dissolution of the company. As at the reporting date Comsig SA is in liquidation process.

In August 2017, the Fund participated in the cash share capital increase of Zirom SA subscribing 272,000 new shares respectively, at the nominal value of RON 10 per share (in total of RON 2,720,000).

In September 2017, the Fund sold its entire holding in Primcom SA.

### (b) Associates

The Fund has the following associates, all of them incorporated in Romania:

Associate	Ownership interest 31 December 2017	Ownership interest 31 December 2016
Societatea Nationala a Sarii SA	49%	49%
Plafar SA	49%	49%

During 2017, the Fund recorded and collected from Societatea Nationala a Sarii SA a dividend of RON 13,760,169.

The Fund did not carry out any transactions with its associates during 2017.

### (c) Sole Director

FTIS is both the alternative investment fund manager and sole director of the Fund. FTIS delegated the role of Investment Manager as well as certain administrative functions to FTIML.

The transactions carried *between the Fund and FTIS* were the following:

RON million	2017	2016
Administration fees	78.1	58.0

During 2017, the Fund recorded the following expenses payable to FTIS: administration fees RON 78.1 million, out of which base fees in amount of RON 46.8 million and the distribution fees in amount of RON 31.3 million

The transactions carried *between the Fund and FTIML* were the following:

RON million	2017	2016
Administration fees	-	12.6
Rental and Operating Expenses	0.1	0.1
<b>Total</b>	<b>0.1</b>	<b>12.7</b>

During 2017, the Fund also recorded RON 1.5 million representing expenses incurred by the FTIML on its behalf (2016: RON 1.5 million). These expenses were primarily related to promotional activities for the Fund (investor relations). The recharge of these expenses to the Fund followed the provisions of the management agreements and was subject to Board of Nominees' approval.

During 2016, the Fund recorded the following expenses payable to FTIML: Administration fees RON 12.6 million, out of which base fees in amount of RON 11.8 million and the distribution fees in amount of RON 0.8 million, rent expense RON 66.0 thousand and related operating costs RON 23.8 thousand.

The outstanding liabilities owed by the Fund were as follows:

RON million	31 December 2017	31 December 2016
FTIS	11.7	12.9
FTIML	0.1	0.2
<b>Total</b>	<b>11.8</b>	<b>13.1</b>

## Subsequent Events

### Tender Offer within the ninth buy-back programme

On 15 December 2017 the Fund submitted an application for endorsement of a tender offer to accelerate the ninth buy-back programme to the FSA for approval. Under this tender offer, the Fund intends to repurchase up to 1,200,000,000 shares from its shareholders, both in the form of shares and GDRs.

As such, the daily execution of the ninth buy-back programme, with respect to the shares on the Bucharest Stock Exchange and GDRs on the London Stock Exchange was suspended, starting with 11 December 2017.

Wood & Company Financial Services a.s. has been engaged as intermediary in relation to the purchase of shares. Jefferies International Limited and Wood & Company Financial Services a.s. have been engaged as dealer managers and The Bank of New York Mellon has been appointed as tender agent in relation to the purchase of the GDRs.

On 10 January 2018, the FSA approved the Fund's application for the tender offer. The subscription period is from 18 January 2018 until 23 February 2018, and the purchase price is RON 0.9350 per share and the USD equivalent of RON 46.75 per GDR.

### Corporate management changes starting with 1 April 2018

With effect from 1 April 2018 Johan Meyer will become sole lead portfolio manager for the Fund, continuing his role as legal representative of Franklin Templeton Investment Management Ltd. United Kingdom Bucharest Branch and permanent representative for the Fund.

Accordingly, from 1 April 2018 the management of the Fund will have the following structure:

- The AIFM remains as Franklin Templeton International Services S.à r.l., having as permanent representatives: Craig Blair, Denise Voss, Mike Sommer, Johan Meyer, and Oana Truța;
- The Investment Manager of the Fund remains as Franklin Templeton Investment Management Ltd. United Kingdom Bucharest Branch having Johan Meyer as CEO and legal representative and Oana Truța as legal representative.

### Approved GSM resolutions

The main resolutions of the Fund's shareholders at the 14 February 2018 GSM were the following:

- The approval of the new IPS in force starting with 1 April 2018;
- The approval of the new Management Agreement – to be in full force and effect starting with 1 April 2018;
- The appointment of three members in the Board of Nominees,
- The approval of the increase of the gross monthly remuneration for each member of the Board of Nominees from RON 20,000/month to RON to RON 24,123/month as a result of change in taxation legislation starting with 1 January 2018.

### New Management Agreement in force starting with 1 April 2018

During 14 February 2018 GSM, the shareholders approved the new Management Agreement that will enter in force on 1 April 2018, containing the following key commercial terms:

Base Fee per Year	<ul style="list-style-type: none"> <li>• 0.60%</li> <li>• Discount 15% – 20%, + 0.05%, i.e. Base Fee Rate = 0.65%</li> <li>• Discount &lt; 15%, + 0.05%, i.e. Base Fee Rate = 0.70%</li> </ul>
Consideration for the Base Fee	<ul style="list-style-type: none"> <li>• Weighted average market capitalization of the Fund</li> </ul>
Distribution Fee for all cash distributions (including buy-backs)	<ul style="list-style-type: none"> <li>• 1.00% applied to the value of the distributions</li> </ul>
Consideration for the Distribution Fee	<ul style="list-style-type: none"> <li>• Share buy-backs</li> <li>• GDR buy-backs</li> <li>• Public tender buy-backs</li> <li>• Return of share capital</li> <li>• Dividends</li> </ul>
Duration	<ul style="list-style-type: none"> <li>• 2 years</li> </ul>
Continuation vote	<ul style="list-style-type: none"> <li>• Annually, each April</li> </ul>

The new Management Agreement was executed on 14 February 2018.

### The appointment of three member of Board of Nominees

During 14 February 2018 GSM shareholders decided to appoint three members in the Board of Nominees of Fondul Proprietatea following the expiration of three mandates, as follows:

- Mr. Julian Rupert Francis Healy starting with on 5 April 2018;
- Mr. Piotr Rymaszewski starting with 5 April 2018 and
- Mr. Steven Cornelis Van Groningen starting with 14 April 2018.

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

### Signatures:

Franklin Templeton International Services S.à r.l acting in the capacity of Sole Director of Fondul Proprietatea

Oana Truta  
Permanent Representative

Prepared by  
Catalin Cadaru  
Financial Reporting Manager

14 February 2018

## **Annex 1**

### **FONDUL PROPRIETATEA SA**

#### **ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS") and applying the Financial Supervisory Authority ("FSA") Norm no. 39/ 28 December 2015, regarding the approval of the accounting regulations in accordance with IFRS, applicable to the entities authorised, regulated and supervised by the FSA – Financial Investments and Instruments Sector ("Norm 39/2015")

(This is a translation from the official Romanian version)

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To the Shareholders of  
Fondul Proprietatea S.A.

## INDEPENDENT AUDITOR'S REPORT

### Opinion

We have audited the financial statements of Fondul Proprietatea S.A. (the "Fund"), with registered office in 78-80 Buzesti street, Bucharest, identified by the unique tax registration code 18253260, which comprise the statement of financial position as at 31 December 2017, the statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

The financial statements as at December 31, 2017 are identified as follows:

Total Equity	10,790,244,153 RON
Net profit for the financial year	1,289,896,039 RON

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and applying Financial Supervisory Authority Norm no. 39 / 28 December 2015, regarding the approval of the accounting regulations in accordance with IFRS, applicable to the entities authorised, regulated and supervised by the FSA - Financial Investments and Instruments Sector (referred to herein as "FSA Norm no.39 / 2015").

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation (EU) No. 537/2014 of the European Parliament and the Council (forth named The "Regulation") and Law 162/2017 ("the Law"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
<p><b>Valuation of equity investments</b></p> <p>Refer to note 16 to the financial statements. The Fund's investment in equity investments represents 86% of the total assets of the Fund. This was a key area of focus in our audit due to the complexity involved in valuing some of these investments, the significance of the judgments and estimates included in the valuation, as well as the reflection of the changes in fair value in the financial statements.</p> <p>The determination of fair value for the Level 3 equity investments, representing 74% of the Fund's total equity investments, involves significant judgments and a high degree of estimates made by the independent valuers appointed by the Fund. These investments represent participations held by the Fund in unlisted Romanian companies, with a significant part of them being state owned companies.</p> <p>The valuation of a significant part of the unlisted equity investments has been performed as of 30 September 2017, by independent valuers appointed by the Fund. However this is not regarded as a delegation of responsibility for the valuations, ultimately responsible for the valuation is the Sole Director (referred here as "management") of the Fund.</p> <p>As required by IFRS, in the situation where a decrease in equity investments classified as Available for Sale ("AFS") occurs, management is required to make an assessment regarding whether the valuation decrease is a temporary one or is an impairment in nature. Depending on this assessment, the change in fair value of the equity investments is either reflected in other comprehensive income or in profit or loss.</p> <p>Accordingly, valuation and accounting of equity investments is considered to be a key audit matter.</p>	<p>We have assessed the key controls over the valuation process of the Fund's equity investments. Our evaluation of the design, implementation and operating effectiveness of the controls provided a basis for us to continue with the planned nature, timing and extent of our detailed audit procedures.</p> <p>For the material listed equity investments, we have assessed the frequency of the trading in order to identify illiquid equity securities and we have assessed the accuracy of the closing share market price.</p> <p>For a sample of unquoted equity investments with significant valuation inputs, we involved our own internal valuation specialists to critically assess the valuation methodology, assumptions and inputs used by the external valuers. The results of our independent analyses are consistent with the ones included in the valuation reports. We have also assessed the Fund management's analyses for the period subsequent to the date of the valuation reports (i.e. from 30 September 2017 to 31 December 2017), in order to identify significant events which may have a significant impact on the fair value of the equity investments. We have also assessed the accuracy of the changes in fair value that have been reflected in the financial statements.</p> <p>For a sample of AFS equity investments, we have analysed where a decrease in fair value occurred and we have assessed whether this has been properly accounted for in accordance with the IFRS requirements and the accounting policies of the Fund.</p> <p>We have also considered whether the financial statements appropriately reflect all material disclosures in relation to equity investments. We assessed the presentation of the fair value hierarchy policy and disclosures regarding significant unobservable inputs against disclosures of IFRS 13 <i>Fair Value Measurement</i>.</p>

## **Reporting Requirements Concerning the Annual Sole Director's Report**

The Sole Director is responsible for the preparation and presentation of the annual Sole Director's Report in accordance with the requirements of FSA Norm no. 39 / 2015, article no. 8-13, which does not contain material misstatements and for such internal control as management determines is necessary to enable the preparation of annual Sole Director's Report that is free from material misstatement, whether due to fraud or error.

The Sole Director's Report is presented from pages 1 to 74 and is not part of the financial statements.

Our opinion on the financial statements does not cover the annual Sole Director's Report.

In connection with our audit of the financial statements, we have read the Sole Director's Report accompanying the financial statements, presented from pages 1 to 74, and we report as follows:

- a) in the Sole Director's Report, we have not identified information which is not consistent, in all material respects, with the information presented in the financial statements attached;
- b) the Sole Director's Report identified above contains, in all material respects, the required information according to the provisions of FSA Norm no. 39 / 2015, article no. 8-13;
- c) based on our knowledge and understanding concerning the Fund and its environment gained during the audit of the financial statements prepared as at 31 December 2017, we have not identified information included in the annual Sole Director's Report that contains a material misstatement of fact.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and applying FSA Norm no. 39 / 2015 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with all relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on Other Legal and Regulatory Requirements**

We have been appointed by the General Assembly of Shareholders on October 26, 2017 to audit the financial statements of Fondul Proprietatea S.A. for the financial year ended December 31, 2017, following the tender organized by the Sole Director of the Fund during 2017. The uninterrupted total duration of our commitment is 11 years, covering the financial years ended 31 December 2007 until 31 December 2017.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Audit Committee of the Company that we issued the same date we issued and this report. Also, in conducting our audit, we have retained our independence from the audited entity.
- We have not provided for the Company the non-audit services referred to in Article 5 (1) of EU Regulation No.537 / 2014.

The engagement partner on the audit resulting in this independent auditor's report is Irina Dobre.

Irina Dobre, Audit Director

*For signature, please refer to the original Romanian version.*

*Registered with the Chamber of Financial Auditors in Romania under the certificate no. 3344/05.01.2010*

*On behalf of:*

**DELOITTE AUDIT S.R.L.**

*Registered with the Chamber of Financial Auditors in Romania under the certificate no. 25/25.06.2001*

Bucharest, Romania  
14 February 2018

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017**  
 (all amounts are in RON unless otherwise stated)

	<i>Note</i>	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
Gross dividend income	6	740,360,617	353,070,538
Realised gain/ (loss) from disposal of non-current assets held for sale	9	330,594,143	(127,542,995)
Net gain / (loss) from equity investments at fair value through profit or loss	7	221,324,058	(377,839,664)
Gain on disposal of equity investments classified as available for sale, net	8	38,527,851	925,976,144
Reversal of impairment losses on receivables, net	19(a)	36,378,838	17,917,700
Interest income		11,919,865	7,941,346
Net foreign exchange gain		570,507	871,278
Impairment losses on equity investments classified as available for sale	16	(8,000,000)	(122,383,338)
Other income / (expenses), net		376,178	(1,344,102)
<b>Net operating income</b>		<b>1,372,052,057</b>	<b>676,666,907</b>
<b>Operating expenses</b>	10	<b>(97,492,044)</b>	<b>(132,115,263)</b>
<b>Finance costs</b>	11	<b>(152,997)</b>	<b>(323,438)</b>
<b>Profit before income tax</b>		<b>1,274,407,016</b>	<b>544,228,206</b>
Income tax / (expense)	12	15,489,023	(97,258,350)
<b>Profit for the year</b>		<b>1,289,896,039</b>	<b>446,969,856</b>
<b>Other comprehensive income</b>			
Net change in fair value of available for sale equity investments	16	315,822,981	987,353,576
Deferred tax on other comprehensive income	17	(18,059,165)	95,361,591
Decrease in fair value reserve following the disposal of available for sale equity investments		(383,125,871)	(981,988,443)
<b>Total other comprehensive income</b>		<b>(85,362,055)</b>	<b>100,726,724</b>
<b>Total comprehensive income for the period</b>		<b>1,204,533,984</b>	<b>547,696,580</b>
<b>Basic and diluted earnings per share</b>	13	<b>0.1434</b>	<b>0.0440</b>

The annual financial statements were authorised for issue on 14 February 2018 by:

Franklin Templeton International Services S.à r.l. acting in the capacity of Sole Director of Fondul Proprietatea SA

Oana Truta  
Permanent Representative

Prepared by  
Catalin Cadaru  
Financial Reporting Manager

The notes on pages 87 to 127 are an integral part of these annual financial statements.

**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017**  
 (all amounts are in RON unless otherwise stated)

	<i>Note</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Assets</b>			
Cash and current accounts	<i>14</i>	19,173,567	5,781,621
Deposits with banks	<i>14</i>	1,276,669,452	305,337,134
Treasury bills	<i>15</i>	46,277,947	781,445,213
Government bonds	<i>15</i>	195,923,820	328,638,303
Equity investments	<i>16</i>	9,278,201,345	9,992,183,244
Other assets		10,710,812	20,728,167
<b>Total assets</b>		<b>10,826,956,943</b>	<b>11,434,113,682</b>
<b>Liabilities</b>			
Payable to shareholders	<i>18 (a)</i>	20,705,311	20,208,049
Other liabilities and provisions	<i>18 (b)</i>	16,007,479	27,953,985
<b>Total liabilities</b>		<b>36,712,790</b>	<b>48,162,034</b>
<b>Equity</b>			
Share capital	<i>19 (a)</i>	4,664,852,363	9,168,314,117
Other reserves related to the unpaid share capital	<i>19 (a)</i>	189,182,422	-
Fair value reserve on available for sale financial assets, net of deferred tax	<i>19 (b)</i>	4,248,175,069	4,333,537,124
Other reserves	<i>19 (c)</i>	254,954,179	585,468,652
Treasury shares	<i>19 (d)</i>	(218,255,507)	(654,145,163)
Retained earnings	<i>19 (f),(g)</i>	1,651,335,627	(2,047,223,082)
<b>Total equity</b>		<b>10,790,244,153</b>	<b>11,385,951,648</b>
<b>Total liabilities and equity</b>		<b>10,826,956,943</b>	<b>11,434,113,682</b>

The notes on pages 87 to 127 are an integral part of these annual financial statements.



## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are in RON unless otherwise stated)

	Share capital	Other reserves related to the unpaid share capital (see Note 19)	Fair value reserve on available for sale financial assets, net of deferred tax	Other reserves	Treasury shares	Retained earnings	Total attributable to the equity holders of the Fund
<b>Balance as at 1 January 2017</b>	<b>9,168,314,117</b>	-	<b>4,333,537,124</b>	<b>585,468,652</b>	<b>(654,145,163)</b>	<b>(2,047,223,082)</b>	<b>11,385,951,648</b>
<b>Comprehensive income for the period</b>							
Profit for the year	-	-	-	-	-	1,289,896,039	1,289,896,039
<b>Other comprehensive income</b>							
Net change in fair value of available for sale equity investments	-	-	315,822,981	-	-	-	315,822,981
Decrease in fair value reserve following the disposal of available for sale equity investments	-	-	(383,125,871)	-	-	-	(383,125,871)
Deferred tax on other comprehensive income	-	-	(18,059,165)	-	-	-	(18,059,165)
Coverage of the cumulated accounting losses	(2,317,038,572)	-	-	(156,118,900)	-	2,473,157,472	-
<b>Total other comprehensive income</b>	<b>(2,317,038,572)</b>	-	<b>(85,362,055)</b>	<b>(156,118,900)</b>	-	<b>2,473,157,472</b>	<b>(85,362,055)</b>
<b>Total comprehensive income for the period</b>	<b>(2,317,038,572)</b>	-	<b>(85,362,055)</b>	<b>(156,118,900)</b>	-	<b>3,763,053,511</b>	<b>1,204,533,984</b>
<b>Transactions with owners, recorded directly in equity</b> (see Note 19)							
Decrease of the nominal value of the shares	(1,007,408,074)	-	-	-	46,980,596	-	(960,427,478)
Transfer to legal reserves	-	-	-	64,494,802	-	(64,494,802)	-
Acquisition of treasury shares	-	-	-	-	(830,417,713)	-	(830,417,713)
Cancellation of treasury shares	(989,832,686)	-	-	(241,474,222)	1,219,326,773	-	(11,980,135)
Distributions for which the statute of limitation occurred	-	-	-	2,583,847	-	-	2,583,847
<b>Total transactions with owners recorded directly in equity</b>	<b>(1,997,240,760)</b>	-	-	<b>(174,395,573)</b>	<b>435,889,656</b>	<b>(64,494,802)</b>	<b>(1,800,241,479)</b>
Presentation adjustment related to the unpaid share capital (see Note 19)	(189,182,422)	189,182,422	-	-	-	-	-
<b>Balance as at 31 December 2017</b>	<b>4,664,852,363</b>	<b>189,182,422</b>	<b>4,248,175,069</b>	<b>254,954,179</b>	<b>(218,255,507)</b>	<b>1,651,335,627</b>	<b>10,790,244,153</b>

The notes on pages 87 to 127 are an integral part of these annual financial statements.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(all amounts are in RON unless otherwise stated)

	Share capital	Fair value reserve on available for sale financial assets, net of deferred tax	Other reserves	Treasury shares	Retained earnings	Total attributable to the equity holders of the Fund
<b>Balance as at 1 January 2016</b>	<b>10,074,080,746</b>	<b>4,232,810,400</b>	<b>527,397,886</b>	<b>(308,039,345)</b>	<b>(2,473,157,472)</b>	<b>12,053,092,215</b>
<b>Comprehensive income for the period</b>						
Profit for the year	-	-	-	-	446,969,856	446,969,856
<b>Other comprehensive income</b>						
Net change in fair value of available for sale equity investments	-	987,353,576	-	-	-	987,353,576
Decrease in fair value following the disposal of available for sale equity investments	-	(981,988,443)	-	-	-	(981,988,443)
Deferred tax on other comprehensive income	-	95,361,591	-	-	-	95,361,591
<b>Total other comprehensive income</b>	<b>-</b>	<b>100,726,724</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>100,726,724</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>100,726,724</b>	<b>-</b>	<b>-</b>	<b>446,969,856</b>	<b>547,696,580</b>
<b>Transactions with owners, recorded directly in equity</b> (see Note 19)						
Decrease of the nominal value of the shares	(548,292,540)	-	-	13,215,579	-	(535,076,961)
Transfer to legal reserves	-	-	22,348,493	-	(22,348,493)	-
Acquisition of treasury shares	-	-	-	(681,073,213)	-	(681,073,213)
Cancellation of treasury shares	(357,474,089)	-	35,722,273	321,751,816	-	-
Dividends for which the statute of limitation occurred	-	-	-	-	1,313,027	1,313,027
<b>Total transactions with owners recorded directly in equity</b>	<b>(905,766,629)</b>	<b>-</b>	<b>58,070,766</b>	<b>(346,105,818)</b>	<b>(21,035,466)</b>	<b>(1,214,837,147)</b>
<b>Balance as at 31 December 2016</b>	<b>9,168,314,117</b>	<b>4,333,537,124</b>	<b>585,468,652</b>	<b>(654,145,163)</b>	<b>(2,047,223,082)</b>	<b>11,385,951,648</b>

The notes on pages 87 to 127 are an integral part of these annual financial statements.

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017**  
 (all amounts are in RON unless otherwise stated)

	Year ended 31 December 2017	Year ended 31 December 2016
<b>Cash flows from operating activities</b>		
Disposal/ maturity of treasury bills and bonds	1,505,745,830	610,996,894
Dividends received (net of withholding tax)	737,600,467	351,347,029
Proceeds from disposal of equity investments	1,231,878,640	2,116,737,768
Interest received	13,556,969	4,625,646
Amounts collected from the depository Bank of the Fund's GDRs	7,088,990	3,745,192
Acquisition of treasury bills and bonds	(501,089,955)	(1,645,703,304)
Suppliers and other taxes and fees paid	(130,374,830)	(127,069,610)
Subscriptions to share capital increase of portfolio companies	(2,720,000)	(4,303,730)
Other (payments) / receipts, net	(1,662,615)	87,522
<b>Net cash flows from operating activities</b>	<b>2,860,023,496</b>	<b>1,310,463,407</b>
<b>Cash flows from financing activities</b>		
Short term bank loans drawings	237,000,000	-
Payments to shareholders related to the return of capital	(910,534,840)	(512,486,449)
Acquisition cost of treasury shares	(819,215,106)	(674,226,861)
Repayment of short term bank loans	(237,000,000)	-
Payment of interest and fees related to the short term bank loans	(152,997)	(323,438)
Dividends paid (including related taxes)	(37,825)	(47,297)
Payment in relation with lost litigations	-	(10,741,322)
<b>Net cash flows used in financing activities</b>	<b>(1,729,940,768)</b>	<b>(1,197,825,367)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,130,082,728</b>	<b>112,638,040</b>
Cash and cash equivalents at the beginning of the period	311,105,488	198,467,448
<b>Cash and cash equivalents at the end of the period as per Statement of Cash Flows</b>	<b>1,441,188,216</b>	<b>311,105,488</b>

**Reconciliation of Statement of Cash Flows with the equivalent items reported in the Statement of Financial Position**

	31 December 2017	31 December 2016
Cash and current accounts (see Note 14)	19,173,567	5,781,621
Bank deposits with original maturities of less than three months (see Note 14)	1,275,849,317	305,323,867
Treasury bills and government bonds with original maturities of less than three months	146,165,332	-
	<b>1,441,188,216</b>	<b>311,105,488</b>
Interest accrued on bank deposits (see Note 14)	820,135	13,267
Fair value changes related to the Government securities in balance	327,398	(6,854,904)
Treasury bills and government bonds with original maturities of more than three months and less than one year	95,709,037	1,116,938,420
<b>Total cash and current accounts, deposits with banks, Treasury bills and government bonds as per Statement of Financial Position</b>	<b>1,538,044,786</b>	<b>1,421,202,271</b>

The notes on pages 87 to 127 are an integral part of these annual financial statements.

## 1. General information

Fondul Proprietatea SA (referred to as “Fondul Proprietatea” or “the Fund”) was incorporated as a joint stock company and is operating as an undertaking for collective investment, in the form of a closed end investment company, established in accordance with Law no. 247/2005 on the reform in the field of property and justice and other adjacent measures, as subsequently amended (“Law 247/2005”) and registered in Bucharest on 28 December 2005. The address of the Fund’s registered office is 78 - 80, Buzești Street, 7th Floor, District 1, Bucharest.

Fondul Proprietatea is an alternative investment fund starting 1 April 2016.

The Fund undertakes its activities in accordance with Law 247/2005, Law 297/2004 regarding the capital market, as subsequently amended (“Law 297/2004”), Law 31/1990 regarding companies, republished as subsequently amended (“Law 31/1990”), and Law 74/2015 regarding Alternative Investment Fund Managers (“Law 74/2015”) and it is an entity authorised, regulated and supervised by the FSA, formerly known as the National Securities Commission (“CNVM”).

In accordance with its Constitutive Act, the main activity of the Fund is the management and administration of its portfolio.

The Fund was established to allow the payment in shares equivalent to the compensation payable in respect of abusive expropriations undertaken by the Romanian State during the communist period, when properties were not returned in kind. Beginning with 15 March 2013, the date when Government Emergency Ordinance no. 4/2012 entered into force, the compensation process was suspended. In January 2015 the Law no. 10/2015 on amending Title VII of Law no. 247/2005 regarding the reforms in the sectors of justice and property, as well as certain related measures, with subsequent amendments (“Law 10/2015”) entered into force confirming that the Romanian State will no longer use the compensation scheme using Fondul Proprietatea shares.

The Fund is managed by Franklin Templeton International Services S.à r.l. (“FTIS”) as its Sole Director and Alternative Investment Fund Manager (“AIFM”) under the Directive 2011/61/EU on Alternative Investment Fund Managers (“AIFM Directive”) and local implementation regulations, based on the Management Agreement executed in 2015 in order to comply with the AIFM Directive. FTIS mandate commenced on 1 April 2016. FTIS has delegated the role of Investment Manager as well as certain administrative functions to Franklin Templeton Investment Management Limited United Kingdom, Bucharest Branch (“FTIML” or “Investment Manager”) for the entire duration of its mandate as AIFM.

Starting with 29 September 2010 until 31 March 2016, the Sole Director of the Fund was FTIML.

Since 25 January 2011, Fondul Proprietatea has been a listed company on the spot regulated market managed by the Bucharest Stock Exchange in Tier I shares of the Equity Sector of the market (renamed as of 5 January 2015 as Premium Tier shares), under ISIN number ROFPTAACNOR5 with the market symbol “FP”.

Since 29 April 2015, the Fund’s Global Depositary Receipts (“GDR”) have been listed on the London Stock Exchange – Specialist Fund Market, under ISIN number US34460G1067, with the market symbol “FP.”. The Bank of New York Mellon has been appointed by the Fund to act as depositary bank in relation to the GDR facility. The GDR facility is limited to one-third of the Fund’s subscribed share capital under the Romanian securities regulations, each GDR representing 50 shares, and the currency of the GDRs is the US dollar.

## 2. Basis of preparation

### (a) Statement of compliance

These financial statements are the annual statutory financial statements of Fondul Proprietatea for the year ended 31 December 2017 prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and applying the FSA Norm no. 39/ 2015.

The Fund is an investment entity and does not consolidate its subsidiaries as it applies IFRS 10, IFRS 12 and IAS 27 (Investment Entities). In consequence, the Fund does not prepare consolidated financial statements, the separate financial statements being the Fund's only financial statements. The Fund has reassessed the criteria for being an investment entity for the year ended 31 December 2017 and continues to meet them.

### (b) Basis of measurement

These annual financial statements have been prepared on a fair value basis for the main part of the Fund's assets (equity investments, treasury bills and government bonds, respectively), and on a historical cost or amortised cost basis for the rest of the items included in the financial statements.

### (c) Functional and presentation currency

These annual financial statements are prepared and presented in Romanian Lei (RON), which is the Fund's functional and presentation currency. All financial information presented in RON has been rounded to the nearest unit.

### (d) Foreign currency

Transactions in foreign currency are translated into the functional currency of the Fund at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated into the functional currency at the exchange rate at the date of the transaction and not subsequently remeasured.

The exchange rates of the main foreign currencies, published by the National Bank of Romania at 31 December 2017 were as follows: 4.6597 RON/EUR, 3.8915 RON/USD and 5.2530 RON/GBP (31 December 2016: 4.5411 RON/EUR, 4.3033 RON/USD and 5.2961 RON/GBP).

### (e) Use of estimates

The preparation of the annual financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information and critical judgements in applying accounting policies with significant areas of estimation uncertainty that have the most significant impact on the amounts recognised in these condensed financial statements, are included in the following notes:

- Note 4 – Risk management;
- Note 16 – Equity investments;
- Note 17 – Deferred tax;
- Note 20 – Contingencies.

### 3. Significant accounting policies

The accounting policies applied in these annual financial statements have been applied consistently to all years presented in these annual financial statements.

#### (a) Subsidiaries and associates

Subsidiaries are entities controlled by the Fund. The Fund controls an investee when the Fund is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Associates are those entities in which the Fund has significant influence over the financial and operating policies, but not control or joint control. The existence of significant influence is assessed, in each reporting year, by analysing the ownership structure of the companies in which the Fund holds 20% or more of the voting power of the investee, their articles of incorporation and the Fund's power to participate in the financial and operating policy decisions of the investee.

However, the Fund does not exercise significant influence in a number of companies in which it holds between 20% and 50% of the voting power, where the Fund's rights as minority shareholder are protective in nature, and not participative and where the major shareholder, or a group of shareholders holding majority ownership of the investee, operate without regard to the views of the Fund.

Also, in situations where the Fund holds less than 20% of the voting power of an investee, but it is a significant shareholder and demonstrates that it has significant influence through Board representation and participates in the policy making decisions, the investee is considered an associate.

As at 31 December 2017, there were three portfolio companies which met the criteria for classification as subsidiaries (31 December 2016: four portfolio companies classified as subsidiaries) and two portfolio companies which met the criteria for classification as associates (31 December 2016: two portfolio companies classified as associates). The lists of subsidiaries and associates as at 31 December 2017 and 31 December 2016 are disclosed in Note 21 (b) and (c).

#### (b) Financial assets and liabilities

##### (i) Recognition

The Fund recognises financial assets and liabilities on the date it becomes a party to the contractual provisions of the instrument. The Fund applies trade date accounting.

Financial assets and liabilities are recognised initially at fair value plus, in case of financial assets and financial liabilities not measured at fair value through profit or loss, any directly attributable transaction costs (including brokerage fees).

Mergers of portfolio companies are recognised at the date when the merger is registered with the Trade Register.

##### (ii) Classification

See accounting policies 3(c), (d), (e) and (g).

##### (iii) Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Fund derecognises a financial liability when its contractual obligations are discharged, cancelled or have expired.

For equity investments, realised gains or losses on derecognition are determined using the weighted average cost method and for treasury bills and government bonds using the "first-in-first-out" ("FIFO") method.

### 3. Significant accounting policies (continued)

#### (b) Financial assets and liabilities (continued)

##### (iv) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

##### (v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

##### (vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence, in the most advantageous market to which the Fund has access at that date.

When available, the Fund measures the fair value of an equity instrument using quoted prices in an active market for that instrument at the reporting date. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair values of equity instruments that are not traded in an active market are determined with the assistance of independent valuers, using valuation techniques (for the main part of the portfolio).

The Fund uses a variety of methods and makes assumptions that are based on the market conditions existing at each reporting date. Valuation techniques used are recognised as standard within the industry and include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and other valuation techniques commonly used by market participants, making maximum use of observable market inputs and relying as little as possible on entity-specific inputs. Some of the inputs to these models may not be observable in the market and are therefore estimated based on various assumptions.

The valuation techniques selected incorporate all the factors that market participants would take into account in pricing a transaction.

The output of a valuation model is always an estimate/ an approximation of a fair value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Therefore, where appropriate, the valuations are adjusted to reflect additional factors, including model risk, liquidity risk and counterparty risk.

##### (vii) Identification and measurement of impairment

At each reporting date, the Fund assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset, that can be estimated reliably. The impairment losses recorded by the Fund mainly relates to the equity investments available for sale.

##### Financial assets carried at amortised cost

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in the impairment loss is reversed through profit or loss.



### 3. Significant accounting policies (continued)

#### (b) Financial assets and liabilities (continued)

(vii) *Identification and measurement of impairment (continued)*

##### *Available for sale financial assets – equity investments*

Impairment losses on available for sale equity investments are recognised by transferring the cumulative loss that has been recognised in equity (other comprehensive income) to profit or loss, which is calculated as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. If, in a subsequent year, the fair value of an impaired equity investment increases, the recovery is recognised in equity (other comprehensive income).

For assessing which equity investments are impaired, the Fund considers all relevant factors, such as: significant or prolonged decline in fair value below cost, market and industry conditions, to the extent that they influence the recoverable amount of the investment, financial conditions and near-term prospects of the issuer, any specific adverse events that may influence the issuer's operations, recent losses of the issuer, qualified independent auditor's report on the issuer's most recent financial statements, etc.

#### (c) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are recorded in profit or loss. Subsequent measurement is at fair value and all changes in fair value are accounted for through profit or loss. Financial assets at fair value through profit or loss are not subject to the review for impairment.

The Fund being an investment entity has classified and measured its investments in subsidiaries and associates as financial assets at fair value through profit or loss. If an investment no longer meets the criteria for classification as a subsidiary or associate, the Fund continues to classify and measure it as a financial asset at fair value through profit or loss. The other equity investments are classified as available for sale financial assets.

The Fund's investments in government bonds and in short-term treasury bills may also be classified as financial assets at fair value through profit or loss.

#### (d) Available for sale financial assets

##### *Debt instruments*

The Fund's investments in treasury bills may be classified as available for sale financial assets.

##### *Equity investments*

The Fund's investments in equity instruments, other than subsidiaries and associates and equity investments previously classified as subsidiaries and associates are classified as available for sale financial assets and are measured at fair value through other comprehensive income. Changes therein, other than impairment losses, are recognised in equity (other comprehensive income).

The equity investments of the Fund are valued as follows:

- at fair value, determined by reference to published closing prices on the stock exchange where shares are traded (listed and liquid securities), or assessed, using valuation techniques in accordance with International Valuation Standards (unlisted securities), with the assistance of independent valuers;
- at the values considered to be equivalent to fair value, being the values used in the calculation of the net asset value of the Fund, determined in accordance with the regulations issued by the FSA/CNVM and reported on a monthly basis (equity instruments that do not have a quoted price in an active market and whose fair value is not available). These are estimated as follows:
  - fair values internally assessed using assumptions that are based on market conditions existing at each reporting date;
  - using the shareholders' equity as per the most recently available annual financial statements of the issuers (adjusted with the dividends declared by that issuer, if the case), proportionally with the stake held by the Fund;

### 3. Significant accounting policies (continued)

#### (d) Available for sale financial assets (continued)

- valued at nil, for holdings in companies in liquidation, dissolution, bankruptcy or with negative shareholders' equity; companies in insolvency or reorganisation are valued either at nil or at the value estimated with the assistance of an independent valuer.

#### (e) Non-current assets held for sale

An asset is classified as a non-current asset held for sale and presented separately in the statement of financial position when the following criteria are met: the Fund is committed to selling the asset, an active plan of sale has commenced, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value and the sale is expected to be completed within twelve months without significant changes to the plan. According to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* the instruments in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* continue to be measured according to this standard after the reclassification as non-current assets held for sale. The disclosures in the financial statements for non-current assets held for sale are in accordance to IFRS 5.

There were no assets in the Fund's portfolio classified as non-current assets held for sale as at 31 December 2017 and 31 December 2016.

#### (f) Cash and current accounts and deposits with banks

Cash and current amounts include petty cash and current accounts held with banks. Deposits with banks include deposits with original maturities of less than one year. Cash and current accounts and deposits with banks are carried at amortised cost, which approximate their fair value.

Deposits with banks, Government bonds and treasury bills with original maturities of less than three months are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### (g) Other financial assets and liabilities

Other financial assets and liabilities are measured at amortised cost using the effective interest method, less any impairment losses (of financial assets).

#### (h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effect. The share capital accounting presentation and measurement are generally following the legal requirements. Due to the complexity of the legal framework and necessary approvals with respect to share capital transactions, only successful completion of the legal steps can trigger the accounting recognition.

#### (i) Treasury shares

The Fund recognises the treasury shares (repurchases of own shares) at trade date as a deduction to shareholders' equity. Treasury shares are recorded at acquisition cost, including brokerage fees and other transaction costs directly related to the acquisition.

The GDRs bought back by the Fund are accounted for exactly as the own ordinary shares repurchased, as a deduction to shareholders' equity. This is the result of the application of substance over form principle, due to the fact that buy-back via GDRs is only a technical/ legal form of the transaction, the substance of the transaction being that the Fund buys back its own shares, giving the same rights to both the holders of the Fund's ordinary shares and to the holders of the Fund's GDRs, to take part in the buy-back programmes carried out by the Fund.

The cancellation of treasury shares is performed in accordance with the shareholder's approval after all legal requirements are fulfilled. At cancellation, the treasury shares balance is netted off against the share capital and reserves.

### 3. Significant accounting policies (continued)

#### (i) Treasury shares (continued)

The cancellation of treasury shares may trigger gains or losses, depending on the treasury shares' acquisition value as compared to their nominal value. The gains or losses resulted from the cancellation of the treasury shares are directly recognised within the shareholders' equity and distinctively presented in the notes to the financial statements.

#### (j) Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are estimated by discounting the expected future cash outflows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

#### (k) Dividend income

Dividend income related to listed equity investments is recognised in profit or loss on the ex-dividend date. Dividend distributions from unlisted equity investments are recognised in profit or loss as dividend income when declared, at the date when the dividend distribution is approved by the General Shareholders Meeting ("GSM") of the respective company.

When the Fund receives or chooses to receive dividends in the form of additional shares rather than cash, the dividend income is recognised for the amount of the cash dividend alternative, with the corresponding debit treated as an additional investment.

When bonus shares are received with no cash alternative and if only certain shareholders are granted additional shares, these are measured at fair value and a corresponding amount of dividend income is recognised. However, if all shareholders receive bonus shares in proportion to their shareholdings, no dividend income is recognised as the fair value of the Fund's interest is unaffected by the bonus share issue.

For overdue dividend receivables, the Fund initiates legal recovery measures (conciliation, litigations, etc.). The Fund is entitled to charge penalties for overdue amounts from net dividends, applying the legal penalty interest rate according to the legislation in force. Penalty income on dividends is recognised when collection is virtually certain.

Dividend income is presented gross of dividend withholding taxes, which are separately recognised as income tax expense. Dividend withholding taxes are calculated in accordance with the provisions of the Romanian Fiscal Code.

#### (l) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

Interest income relates to current accounts, deposits held with banks, treasury bills and government bonds. In case of financial assets at fair value through profit or loss, the Fund's accounting policy is to record the accrued interest income separately from the changes in fair value.

#### (m) Gains and losses from disposal of equity investments

Gains and losses from the disposal of equity investments are recognised in profit or loss at the date of derecognising the financial asset and are calculated as the difference between the carrying amount of the financial asset at the disposal date and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been previously recognised in other comprehensive income (in case of available for sale financial assets).

### 3. Significant accounting policies (continued)

#### (m) Gains and losses from disposal of equity investments (continued)

The realised gains and losses from the disposal of equity investments classified as financial assets at fair value through profit or loss are presented in the statement of comprehensive income under the caption "Net gain / (loss) from equity investments at fair value through profit or loss", together with the unrealised gains and losses from the change in the fair value of these instruments.

The realised gains and losses from the disposal of equity investments classified as non-current assets held for sale are presented in the statement of comprehensive income under the caption "Realised gain/ (loss) from disposal of non-current assets held for sale".

#### (n) Foreign currency gains and losses

Foreign currency gains and losses are recognised in profit or loss on a net basis and include the realised and unrealised foreign exchange differences. Most of the Fund's investments and transactions are denominated in RON.

#### (o) Expenses

All expenses are recognised in profit or loss on an accrual basis.

#### (p) Income tax

Income tax expense comprises current and deferred tax. Current tax also includes dividend withholding taxes.

Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in equity (other comprehensive income), in which case it is recognised in equity (other comprehensive income).

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the reporting year. Current tax for current and prior years is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior years exceeds the amount due for those years, the excess is recognised as an asset.

Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Deferred tax liabilities are the amounts of income taxes payable in future years in respect of taxable temporary differences.

Deferred tax assets are the amounts of income taxes recoverable in future years in respect of: (a) deductible temporary differences; and (b) the carry forward of unused tax losses. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, which intend to settle current tax liabilities and assets on a net basis or whose tax assets and liabilities will be realised simultaneously.

Deferred tax is measured at the tax rates that are expected to be applied in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The effect on deferred tax of any changes in tax rates is charged to profit or loss, except to the extent that it relates to items previously recognised in equity (other comprehensive income), which are recognised in equity (other comprehensive income).

During 2017 and 2016, the applicable standard tax rate was 16%. The applicable dividend withholding tax was nil in case of holdings over 10% of the total share capital of the issuer, held for an uninterrupted period of at least one year and 5% in case of the other holdings.

### 3. Significant accounting policies (continued)

#### (q) Distributions to shareholders

According to the Fund's policy, the distributions to shareholders may comprise dividend distributions and returns of capital.

Dividends declared by the Fund are recorded as dividend payable at the date when these are approved by the Fund's GSM, as this is the date when from legally point of view, the Fund's liability to shareholders arises.

Returns of capital declared by the Fund are recorded as payable at the date when all legal requirements and substantive conditions stipulated in the Fund's GSM resolution approving the respective distribution are met.

According to the provisions of the legislation in force, the statute of limitation occurs three years after the date when the respective distribution commenced. Starting with the date when the statute of limitation occurred, the shareholders are no longer entitled to collect the respective distribution.

At the date when the statute of limitation for distributions occurs, the Fund records the value of the outstanding uncollected distribution through retained earnings or reserves, as applicable.

#### (r) Basic and diluted earnings/ (loss) per share

Basic and diluted earnings/ (loss) per share is calculated by dividing the profit or loss for the year by the weighted average number of ordinary paid shares in issue during the year, excluding the average number of ordinary shares purchased by the Fund and held as treasury shares. The weighted average number of ordinary shares outstanding during the year is the number of ordinary paid shares outstanding at the beginning of the year, adjusted by the number of ordinary shares bought back during the year (based on their settlement date) multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the reporting year.

As at 31 December 2017 and 31 December 2016, none of the Fund's issued shares or other instruments had dilutive effect, therefore basic and diluted earnings/ (loss) per share are the same.

#### (s) Board members' benefits

The Fund has no employees, but from the benefits point of view, the members of the Board of Nominees have the same legal treatment as employees, as they have mandate agreements (as opposed to labour agreements). During the normal course of business, the Fund makes payments due to the state health and social security funds related to the remuneration of the members of the Board of Nominees in accordance with the regulations in force. Such costs are recognised in profit or loss together with the related remunerations.

All members of the Board of Nominees are members of the pension plan of the Romanian State. The Fund does not operate any pension plan or post-retirement benefits plan and therefore has no obligations regarding pensions.

#### (t) Standards and Interpretations effective in the current year

The following amendments to the existing standards and new interpretations issued by the International Accounting Standards Board ("IASB") and adopted by the European Union ("EU") effective for the current financial year are applicable to the Fund:

- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative - adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses - adopted by EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).

The Fund considers that the adoption of these standards, revisions and interpretations has not led to any material changes in its annual financial statements.

#### (u) Standards and Interpretations issued by the IASB and adopted by the EU but not yet effective

As at the reporting date of these financial statements the following standards, amendments to the existing standards and interpretations issued by the IASB and adopted by the EU, applicable to the Fund, were in issue but not yet effective:

- IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),

### 3. Significant accounting policies (continued)

#### (u) Standards and Interpretations issued by the IASB and adopted by the EU but not yet effective (continued)

- IFRS 16 “Leases” – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019).

With the exception of IFRS 9, the Fund anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on its annual financial statements in the year of initial application.

#### Adoption of IFRS 9 “Financial Instruments”

IFRS 9 replaces the existing guidance in IAS 39 “Financial Instruments: Recognition and Measurement” and includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Fund will adopt IFRS 9 with the date of initial application as of 1 January 2018. The Fund holds the following types of financial instruments that fall under the scope of IFRS 9: equity investments, government bonds, treasury bills, cash and current accounts, deposits with banks and other assets and liabilities. Following the analysis performed, the Fund decided to classify starting with the date of initial application of IFRS 9, all its equity investments as equity investments at fair value through profit or loss (the default option under IFRS 9).

The following table summarises the classification and measurement changes to the Fund’s financial instruments starting with 1 January 2018:

Instrument type	Original classification under IAS 39	New classification under IFRS 9
Subsidiaries and associates	Fair value through profit and loss	Fair value through profit and loss
Equity investments at fair value through profit and loss	Fair value through profit and loss	Fair value through profit and loss
Other equity investments	Available for sale	Fair value through profit and loss
Cash and current accounts and deposits with banks	Loans and receivables	Amortised cost
Treasury bills	Fair value through profit and loss	Fair value through profit and loss
Government bonds	Fair value through profit and loss	Fair value through profit and loss
Other financial assets	Loans and receivables	Amortised cost
Other liabilities	Other financial liabilities at amortised cost	Other financial liabilities at amortised cost

As result of the adoption of IFRS 9, as at 1 January 2018 (the date of initial application), the fair value reserve on available for sale financial assets net of the related deferred tax in total amount of RON 4,248,175,069 will be transferred to retained earnings.

The adoption of IFRS 9 will have no impact on the measurement basis of the financial assets and liabilities.

In accordance with the transitional provisions of IFRS 9, the Fund elected to not restate prior periods.



### 3. Significant accounting policies (continued)

#### (v) Standards and Interpretations issued by the IASB but not yet adopted by the EU

At the reporting date, IFRSs as adopted by the EU do not significantly differ from regulations adopted by the IASB except for the following standards, amendments to the existing standards and interpretations, which are applicable to the Fund and which were not endorsed as at the date of authorisation of these financial statements:

- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).

The Fund estimates that the adoption of these new standards and amendments to the existing standards will have no material impact on its annual financial statements in the year of initial application.

### 4. Risk management

The Fund’s investment portfolio comprises listed and unlisted equity investments.

The Fund’s investing activities expose it to various types of risks that are associated with the financial instruments and with the markets in which it invests. The most important types of financial risks to which the Fund is exposed are market risk, credit risk and liquidity risk.

The management of the Fund implemented financial risk management procedures consistent with those applied globally by Franklin Templeton Investments.

#### (a) Market risk

Market risk is the risk that changes in market prices and rates, such as equity prices, interest rates and foreign exchange rates will affect the Fund’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

##### (i) Equity price risk

Equity price risk is the risk that the value of an equity instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to its issuer or factors affecting all instruments traded in the market.

Equity price risk arises from changes in the value of equity investments and is the primary risk impacting the Fund. Diversification across securities and industries, to the possible extent, is the primary technique for mitigating equity price risk. The companies in which the Fund holds equity instruments operate in different industries. The Fund has concentrated exposures to the “Power utilities: generation”, “Power and gas utilities: distribution and supply” and “Oil and gas” sectors.

The Fund’s exposure to industries is detailed below:

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(all amounts are in RON unless otherwise stated)

**4. Risk management (continued)****(a) Market risk (continued)***(i) Equity price risk (continued)*

	<b>31 December 2017</b>	<b>31 December 2016</b>
Power utilities: generation	3,795,340,343	3,515,697,271
Power and gas utilities: distribution, supply	1,896,000,000	2,906,123,000
Oil and gas	1,671,896,731	1,861,146,234
Infrastructure	1,080,590,262	1,025,475,601
Banks	285,646,454	321,881,504
Heavy industry	259,839,000	206,512,000
Aluminium	238,333,015	85,275,115
Postal services	35,000,000	43,000,000
Others	15,555,540	27,072,519
	<b><u>9,278,201,345</u></b>	<b><u>9,992,183,244</u></b>

As at 31 December 2017, the Fund has equity investments of RON 2,393,216,543 listed on the Bucharest Stock Exchange, which are included in the BET-BK index (31 December 2016: RON 2,311,258,823).

For the listed liquid investments, a ten per cent increase in the BET-BK index at 31 December 2017 would have increased equity by RON 264,943,722 (31 December 2016: RON 248,771,155) out of which impact on other comprehensive income would be RON 81,747,197 (31 December 2016: RON 55,758,198) and impact on profit or loss would be RON 183,196,524 (31 December 2016: RON 193,012,957).

An equal change in the opposite direction as at 31 December 2017 would have decreased equity by RON 264,943,722 (31 December 2016: RON 248,771,155) out of which impact on other comprehensive income would be RON 81,747,197 (31 December 2016: RON 55,758,198) and impact on profit or loss would be RON 183,196,524 (31 December 2016: RON 193,012,957).

This analysis assumes that all other variables remain constant.

*(ii) Interest rate risk*

The Fund places cash into fixed rate bank deposits and short-term government securities with fixed interest rates and original maturities of up to one year. Any potential reasonable movement in interest rates would have an immaterial effect on the Fund.

At the reporting date the interest rate profile of the Fund's interest-bearing financial instruments was:

<b>Fixed rate instruments</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Bank deposits with original maturities of less than three months	1,275,849,317	305,323,867
Treasury bills	46,186,986	780,835,666
Government bonds	190,022,923	318,145,700
	<b><u>1,512,059,226</u></b>	<b><u>1,404,305,233</u></b>

The above balances of fixed rate instruments do not include the related accrued interest.

*(iii) Currency risk*

The Fund's exposure to currency risk is not significant. The Fund held current accounts with banks and receivables and payables denominated in foreign currencies (EUR, USD and GBP), but the balances were immaterial during the reporting period.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(all amounts are in RON unless otherwise stated)

**4. Risk management (continued)****(a) Market risk (continued)***(iii) Currency risk (continued)*

During 2017, the local currency depreciated compared to the EUR (from 4.5411 RON/EUR at 31 December 2016 to 4.6597 RON/EUR at 31 December 2017) and appreciated compared to the USD (from 4.3033 RON/USD at 31 December 2016 to 3.8915 RON/USD at 31 December 2017) and compared to the GBP (from 5.2961 RON/GBP at 31 December 2016 to 5.2530 RON/GBP at 31 December 2017).

The Fund's exposure to currency risk was as follows:

<b>RON</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Monetary assets</b>		
Petty cash	973	984
Current accounts with banks	19,166,449	5,777,046
Deposits with banks	1,276,669,452	305,337,134
Treasury bills	46,277,947	781,445,213
Government bonds	195,923,820	328,638,303
Other financial assets	1,647,570	12,078,624
	<b>1,539,686,211</b>	<b>1,433,277,304</b>
<b>Monetary liabilities</b>		
Other financial liabilities	(33,286,515)	(26,954,936)
	<b>1,506,399,696</b>	<b>1,406,322,368</b>
<b>EUR (in RON equivalent)</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Monetary assets</b>		
Current accounts with banks	3,130	1,010
<b>Monetary liabilities</b>		
Other financial liabilities	-	(16,978,256)
	<b>3,130</b>	<b>(16,977,246)</b>
<b>USD (in RON equivalent)</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Monetary assets</b>		
Current accounts with banks	1,289	1,002
<b>Monetary liabilities</b>		
Other financial liabilities	(1,294,602)	(2,496,039)
	<b>(1,293,313)</b>	<b>(2,495,037)</b>
<b>GBP (in RON equivalent)</b>		
<b>Monetary assets</b>		
Current accounts with banks	1,726	1,579
<b>Monetary liabilities</b>		
Other financial liabilities	(419,021)	-
	<b>(417,295)</b>	<b>1,579</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(all amounts are in RON unless otherwise stated)

**4. Risk management (continued)****(a) Market risk (continued)***(iii) Currency risk (continued)*

A ten percent strengthening of the RON against the EUR, USD and GBP respectively as at 31 December 2017 and 31 December 2016 would have the following impact on profit or loss (the analysis assumes that all other variables remain constant), impact expressed in RON:

<b>Profit / (loss)</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
EUR	(313)	1,697,725
USD	129,331	249,504
GBP	41,730	(158)

As at 31 December 2017 and 31 December 2016, the Fund did not hold any equity investment denominated in a currency other than RON therefore there would be no impact on equity of a ten percent strengthening or depreciation of the RON against the foreign currencies.

**(b) Credit risk**

Credit risk is the risk of financial loss to the Fund if counterparties to financial instruments fail to meet their contractual obligations, and arises principally from cash and deposits with banks, treasury bills, government bonds and other receivables.

The Fund's maximum exposure to credit risk from cash and deposits with banks was RON 1,295,842,046 at 31 December 2017 (31 December 2016: RON 311,117,771). Cash and deposits with banks are held with the following banks:

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Cash and deposits held with banks</b>		
ING Bank	287,260,773	33,117,340
BCR	236,967,376	79,160,558
Unicredit Bank	228,496,332	43,101,294
BRD - Groupe Societe Generale	206,980,370	108,932,497
Citi Bank	197,369,145	46,805,019
Raiffeisen Bank	138,768,050	1,063
	<b>1,295,842,046</b>	<b>311,117,771</b>

Current accounts and deposits are held with banks in Romania. The management of the Fund implemented a formal policy regarding bank counterparty risks and limits. The Fund only establishes new deposits with financial institutions where the institution or the institution's corporate parent has a credit rating above investment grade (BBB- or better). The counterparty credit risk is also diversified by allocating the cash and cash equivalents across several banks. The selection of financial institutions as deposit takers was made and the exposure limits were decided upon based on their credit ratings.

*(ii) Treasury bills*

The Fund's maximum exposure to credit risk from treasury bills was RON 46,277,947 as at 31 December 2017 (31 December 2016: RON 781,445,213).

As of 31 December 2017, the Fund held the following discount treasury bills, denominated in RON:

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(all amounts are in RON unless otherwise stated)

**4. Risk management (continued)****(b) Credit risk (continued)***(ii) Treasury bills (continued)*

ISIN	Value as at 31 December 2017	No. of units	Interest rate	Maturity date
RO1718CTN013	13,293,337	2,670	0.75%	25-Jul-18
RO1718CTN0C3	32,984,610	6,600	1.87%	10-Jan-18
<b>Total</b>	<b>46,277,947</b>			

As of 31 December 2016, the Fund held the following discount treasury bills, denominated in RON:

ISIN	Value as at 31 December 2016	No. of units	Interest rate interval	Maturity date
RO1617CTN017	274,957,072	55,000	0.30% - 0.36%	18-Jan-17
RO1617CTN033	196,928,823	39,400	0.33% - 0.38%	06-Feb-17
RO1617CTN066	74,917,911	15,000	0.42%	05-Apr-17
RO1617CTN074	107,834,239	21,600	0.42% - 0.45%	08-May-17
RO1617CTN090	49,868,827	10,000	0.64%	29-May-17
RO1617CTN0B7	16,993,726	3,400	0.35%	08-Feb-17
RO1617CTN0E1	59,944,615	12,000	0.36% - 0.56%	20-Mar-17
<b>Total</b>	<b>781,445,213</b>			

*(iii) Government bonds*

The Fund's maximum exposure to credit risk from government bonds was RON 195,923,820 as at 31 December 2017 (31 December 2016: RON 328,638,303).

As at 31 December 2017, the Fund held the following government bonds, denominated in RON:

ISIN	Value as at 31 December 2017	No. of units	Coupon rate	Maturity date
RO1418DBN040	195,923,820	37,978	3.25%	17-Jan-18
<b>Total</b>	<b>195,923,820</b>			

As at 31 December 2016, the Fund held the following government bonds, denominated in RON:

ISIN	Value as at 31 December 2016	No. of units	Coupon rate	Maturity date
RO0717DBN038	223,271,166	21,000	6.75%	11-Jun-17
RO1217DBN046	105,367,137	10,000	5.90%	26-Jul-17
<b>Total</b>	<b>328,638,303</b>			

*(iv) Other assets*

As at 31 December 2017, the Fund has a net receivable from the Romanian Central Depository in relation to 2015 return of capital to shareholders for an amount of RON 1,612,518 (31 December 2016: RON 12,042,813). As at 31 December 2017, the Fund had overpayments to be recovered from the State Budget related to income tax of RON 7,330,440 (31 December 2016: RON 7,330,440). The Fund has no significant credit risk from dividends receivable as at 31 December 2017 and 31 December 2016.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(all amounts are in RON unless otherwise stated)

**4. Risk management (continued)****(c) Liquidity risk**

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. The following tables present the split of the Fund's financial assets and financial liabilities by residual maturities:

	Less than 1 month	1 to 3 months	3 to 12 months	No fixed maturity	Total
<b>31 December 2017</b>					
<b>Financial assets</b>					
Cash and current accounts	19,173,567	-	-	-	19,173,567
Deposits with banks	1,276,669,452	-	-	-	1,276,669,452
Treasury bills	32,984,610	-	13,293,337	-	46,277,947
Government bonds	195,923,820	-	-	-	195,923,820
Equity investments at fair value through profit and loss	-	-	-	1,891,510,496	1,891,510,496
Equity investments available for sale	-	-	-	7,386,690,849	7,386,690,849
Other financial assets	1,647,570	-	-	-	1,647,570
	<b>1,526,399,019</b>	<b>-</b>	<b>13,293,337</b>	<b>9,278,201,345</b>	<b>10,817,893,701</b>
<b>Financial liabilities</b>					
Other financial liabilities	35,000,138	-	-	-	35,000,138
	<b>35,000,138</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,000,138</b>
<b>31 December 2016</b>					
<b>Financial assets</b>					
Cash and current accounts	5,781,621	-	-	-	5,781,621
Deposits with banks	305,337,134	-	-	-	305,337,134
Treasury bills	274,957,072	273,867,164	232,620,977	-	781,445,213
Government bonds	-	-	328,638,303	-	328,638,303
Equity investments at fair value through profit and loss	-	-	-	2,086,956,567	2,086,956,567
Equity investments available for sale	-	-	-	7,905,226,677	7,905,226,677
Other financial assets	12,078,624	-	-	-	12,078,624
	<b>598,154,451</b>	<b>273,867,164</b>	<b>561,259,280</b>	<b>9,992,183,244</b>	<b>11,425,464,139</b>
<b>Financial liabilities</b>					
Other financial liabilities	41,962,841	-	-	-	41,962,841
	<b>41,962,841</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,962,841</b>

The Fund's equity investments include unlisted instruments and listed but not liquid instruments (respectively 74% of total equity investments as at 31 December 2017 and 76% as at 31 December 2016) which are not traded in a regulated market and generally may be considered to be illiquid. As a result, the Fund may not be able to quickly sell some of its investments in these instruments in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the credit worthiness of any particular issuer. As a closed ended investment fund, liquidity risks attributable to the Fund are less significant than for an open ended fund. Not all shares listed on the Bucharest Stock Exchange are considered liquid due to insufficient volumes of transactions. The Fund prudently manages liquidity risk by maintaining sufficient liquid assets to finance current liabilities.

#### 4. Risk management (continued)

##### (d) Taxation risk

The Fund had to conform to European Union legislation from 1 January 2007 when Romania became a member of the European Union.

Interpretation of the text and practical implementation procedures of the EU tax regulations could vary, and there is a risk that certain transactions, for example, could be viewed differently by the tax authorities as compared to the Fund's treatment.

Furthermore, the Romanian Government has a number of agencies that are authorised to conduct audits (controls) of companies operating in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. It is likely that the Fund will continue to be subject to regular controls as new laws and regulations are issued.

##### (e) Operating environment

While uncertainty still exists within the European political environment regarding the direction of fiscal politics, responding central bank action and the possibility of a future breakup of the European Union, equity markets will be exposed to continued volatility, especially with regards to countries with strong ties to Europe. Commodity markets have stabilised to an extent and even recovered in some areas, but given uncertainty regarding global trade relationships and increasing protectionism, further volatility can be expected.

Both political uncertainty and fluctuation in commodity prices, particularly in the energy sector, can have an impact on the Romanian economy and consequently the Fund's portfolio companies. Management cannot predict all developments which could have an impact on the Romanian economy and consequently what effect, if any, they could have on the performance of the Fund and its financial statements. Management cannot reliably estimate the effects on the Fund's financial statements of any further deterioration in the liquidity of the financial markets and devaluation of financial assets influenced by the increased volatility in the equity and currency markets.

##### (f) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Fund's processes, service providers, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Fund's operations.

The Fund's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Fund's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

##### (g) Capital management

The Fund's policy is to maintain a strong capital base so as to maintain shareholders' confidence and to sustain future developments.

The Fund's shareholders' equity comprises share capital, fair value reserve, other reserves and retained earnings, net of treasury shares. The shareholders' equity was RON 10,790,244,153 at 31 December 2017 (31 December 2016: RON 11,385,951,648). There is no significant difference between the Fund's shareholders' equity presented in these annual financial statements and the net asset value calculation in accordance with the regulations issued by the FSA.

The Fund was not subject to externally imposed capital requirements.

#### 5. Financial assets and financial liabilities

##### Accounting classifications and fair values

For financial instruments not measured at fair value such as cash and current accounts, deposits with banks, dividends, other financial assets and other financial liabilities, the Fund assessed that their carrying amount is a reasonable approximation of their fair value.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

(all amounts are in RON unless otherwise stated)

**5. Financial assets and financial liabilities (continued)****Accounting classifications and fair values (continued)**

The table below presents the carrying amounts and fair values of the Fund's financial assets and financial liabilities:

	<b>Loans and receivables</b>	<b>Available for sale</b>	<b>At fair value through profit or loss</b>	<b>Other financial liabilities at amortised cost</b>	<b>Total carrying amount</b>	<b>Fair value</b>
<b>31 December 2017</b>						
Cash and current accounts	19,173,567	-	-	-	19,173,567	19,173,567
Deposits with banks	1,276,669,452	-	-	-	1,276,669,452	1,276,669,452
Treasury bills	-	-	46,277,947	-	46,277,947	46,277,947
Government bonds	-	-	195,923,820	-	195,923,820	195,923,820
Equity investments	-	7,386,690,849	1,891,510,496	-	9,278,201,345	9,278,201,345
Other financial assets	1,647,570	-	-	-	1,647,570	1,647,570
Other financial liabilities	-	-	-	(35,000,138)	(35,000,138)	(35,000,138)
	<b>1,297,490,589</b>	<b>7,386,690,849</b>	<b>2,133,712,263</b>	<b>(35,000,138)</b>	<b>10,782,893,563</b>	<b>10,782,893,563</b>

	<b>Loans and receivables</b>	<b>Available for sale</b>	<b>At fair value through profit or loss</b>	<b>Other financial liabilities at amortised cost</b>	<b>Total carrying amount</b>	<b>Fair value</b>
<b>31 December 2016</b>						
Cash and current accounts	5,781,621	-	-	-	5,781,621	5,781,621
Deposits with banks	305,337,134	-	-	-	305,337,134	305,337,134
Treasury bills	-	209,958,296	571,486,917	-	781,445,213	781,445,213
Government bonds	-	-	328,638,303	-	328,638,303	328,638,303
Equity investments	-	7,905,226,677	2,086,956,567	-	9,992,183,244	9,992,183,244
Other financial assets	12,078,624	-	-	-	12,078,624	12,078,624
Other financial liabilities	-	-	-	(46,429,231)	(46,429,231)	(46,429,231)
	<b>323,197,379</b>	<b>8,115,184,973</b>	<b>2,987,081,787</b>	<b>(46,429,231)</b>	<b>11,379,034,908</b>	<b>11,379,034,908</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
 (all amounts are in RON unless otherwise stated)

**6. Gross dividend income**

	<b>Year ended</b> <b>31 December 2017</b>	<b>Year ended</b> <b>31 December 2016</b>
Hidroelectrica SA	337,188,756	134,644,264
OMV Petrom SA	106,763,221	-
CN Aeroporturi Bucuresti SA	82,955,766	27,413,946
Electrica Furnizare SA	34,807,451	24,523,212
SDEE Transilvania Nord SA	22,115,631	27,959,777
SDEE Transilvania Sud SA	21,708,184	26,344,928
SDEE Muntenia Nord SA	19,336,885	26,895,798
Nuclearelectrica SA	19,044,047	9,044,766
BRD Groupe Societe Generale SA	18,515,323	8,116,306
Conpet SA	13,843,476	3,827,813
Societatea Nationala a Sarii SA	13,760,169	-
Engie Romania SA	13,308,134	-
CN Administratia Porturilor Maritime SA	11,008,413	14,076,910
E-Distributie Banat SA	8,922,811	16,815,423
Alro SA	6,863,554	-
E-Distributie Dobrogea SA	6,604,280	12,044,439
Banca Transilvania SA	-	16,687,884
Enel Energie SA	-	2,089,651
Others	3,614,516	2,585,421
	<b>740,360,617</b>	<b>353,070,538</b>

The dividend income was subject to 5% withholding tax in 2017 and 2016. In accordance with the Romanian Fiscal Code, in cases where the relevant shareholding of the Fund was larger than 10% of total issued shares of the portfolio company, for at least one year prior to the dividend distribution date, no withholding tax was due.

**7. Net gain / (loss) from equity investments at fair value through profit or loss**

	<b>Year ended</b> <b>31 December 2017</b>	<b>Year ended</b> <b>31 December 2016</b>
Unrealised net gain/ (loss) from equity investments at fair value through profit or loss	222,752,094	(377,839,664)
Realised net loss from disposal of equity investments at fair value through profit or loss	(1,428,036)	-
<b>Total</b>	<b>221,324,058</b>	<b>(377,839,664)</b>

The unrealised net gain from equity investments at fair value through profit or loss for the year ended 31 December 2017 (year ended 31 December 2016: unrealised net loss) was mainly generated by the change in fair value for the holding in OMV Petrom SA, as a result of the increase (during 2016: decrease) of this company's share price during the year.

The realised net loss from disposal of equity investments at fair value through profit or loss was calculated as the difference between the proceeds from the disposal and the fair value of the equity investments disposed of at disposal date. In September 2017, the Fund sold its entire holding in Primcom SA.

This caption does not include the realised net gain or loss from the equity instruments at fair value through profit or loss, which were reclassified as non-current assets held for sale (see *Note 9 Realised gain/ (loss) from disposal of non-current assets held for sale* for further details).



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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
(all amounts are in RON unless otherwise stated)

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**8. Gain on disposal of equity investments available for sale, net**

During 2017, the Fund sold its entire holdings in Oil Terminal SA, Banca Transilvania SA and Cetatea SA and part of its holding in BRD Groupe Societe Generale SA. The net gain on disposal of these equity investments was RON 38,527,851, representing the difference between the gross proceeds from disposals (RON 74,896,672) and the carrying values of the equity investments as at disposal date (RON 74,360,549), plus the net unrealised gain related to these investments disposed, recycled from equity (other comprehensive income) to profit or loss upon their derecognition (RON 37,991,728).

During 2016, the Fund sold its entire holdings in Romgaz SA, E.ON Distributie Romania SA and E.ON Energie Romania SA and part of its holdings in Banca Transilvania SA and BRD Groupe Societe Generale SA. The net gain on disposal of these equity investments was RON 925,976,144, representing the difference between the proceeds from disposals (RON 1,355,481,374) and the carrying values of the equity investments as at disposal date (RON 1,411,493,673), plus the net unrealised gain related to the investments disposed, recycled from other comprehensive income to profit or loss upon their derecognition (RON 981,988,443).

This caption does not include the net gain or loss of equity instruments available for sale, which were reclassified as non-current assets held for sale (see *Note 9 Realised gain/(loss) from disposal of non-current assets held for sale* for further details).

**9. Realised gain/(loss) from disposal of non-current assets held for sale**

On 14 July 2017 the Fund has publicly announced that it has signed a Memorandum of Understanding with Electrica SA for the disposal of its holdings in SDEE Muntenia Nord SA, SDEE Transilvania Sud SA, SDEE Transilvania Nord SA and Electrica Furnizare SA (“Electrica subsidiaries”). Consequently, the Fund reclassified, in accordance with IFRS 5 requirements, its holdings in Electrica subsidiaries, as non-current assets held for sale. The Fund’s holdings in Electrica subsidiaries were sold to Electrica SA together with all the rights attached to them under the applicable law, including the right to receive dividends, except for those related to the financial year ending on 31 December 2016 in total amount of RON 97,968,151, which were collected by the Fund during November 2017, as already approved by the General Meeting of Shareholders of the Electrica subsidiaries on 17 May 2017. The transaction was completed in November 2017 and the aggregated value of the transaction amounted to RON 752,031,841. The net gain on disposal of these non-current assets held for sale was RON 345,134,143, representing the difference between the proceeds from disposals (RON 752,031,841) and the carrying values of the equity investments as at disposal date (RON 752,031,841), plus the net unrealised gain related to the investments disposed, recycled from other comprehensive income to profit or loss upon their derecognition (RON 345,134,143).

During September 2017, the Fund publicly announced that it had taken the decision to proceed with the partial sale of the investment in OMV Petrom SA (respectively 1,454,000,000 shares representing approximately 2.6% of OMV Petrom SA’s share capital) through an accelerated bookbuild offering. Consequently, the Fund reclassified, in accordance with IFRS 5 requirements, the part of the holding in OMV Petrom SA subject to the bookbuild offering, as non-current assets held for sale. The offering was completed in September 2017 and the gross proceeds received from the disposal amounted to RON 399,850,000. The realised loss from the partial sale of the investment in OMV Petrom SA was RON 14,540,000, representing the difference between the total proceeds from this disposal (RON 399,850,000) and the fair value at the reclassification date of this investment as non-current assets held for sale (RON 414,390,000).

The realised loss from the disposal of the non-current assets held for sale for the year ended 31 December 2016 in amount of RON 127,542,995 represents the difference between the proceeds from the partial disposal through an accelerated bookbuild offering of OMV Petrom SA (RON 760,885,431) and the fair value at the reclassification date of the non-current assets held for sale disposed of (RON 888,428,426).

There were no equity investments classified as non-current assets held for sale as at 31 December 2017 and 31 December 2016.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
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**10. Operating expenses**

	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
Administration fees	63,049,843	70,609,840
Third party services	11,765,181	12,365,174
FSA monthly fees	10,214,108	10,739,051
Intermediaries and other fees related to disposal of portfolio holdings	8,433,839	33,203,453
Remunerations and related taxes	1,445,075	1,410,173
Depositary bank fee	698,373	813,139
Penalties	-	1,312,439
Other operating expenses	1,885,625	1,661,994
	<b><u>97,492,044</u></b>	<b><u>132,115,263</u></b>

The total administration fees in 2017 included the base fee of RON 46,780,186 (2016: RON 46,804,234) and the distribution fee of RON 16,269,657 (2016: RON 23,805,606 out of which RON 13,469,409 represented distribution fee related to the buybacks). Starting 2017, the distribution fee related to buybacks (RON 15,067,165) is recognised directly in equity together with the underlying shares. This change was not applied retrospectively as the effect on the comparative amounts is not significant. The higher distribution fee in 2017 compared to 2016 was due to the fees invoiced for the higher distributions made available to the Fund's shareholders in 2017, respectively for the special return of capital performed in March 2017 of RON 0.05 per share for which the payment started on 27 March 2017.

The administration fees are invoiced and paid on a quarterly basis.

Third party services mainly include legal consulting services, notary fees, services related to the promotional activities of the Fund, valuation services in relation to the Fund's portfolio and also, the financial auditor's fees.

The audit fees are recorded in the year when the services are provided. The financial auditor of Fondul Proprietatea for the years 2017 and 2016 was Deloitte Audit SRL.

The total audit fees for the audit of the 2017 annual statutory financial statements, prepared in accordance with IFRS amount approximately to RON 469,718, including VAT. In addition, during 2017 Deloitte Audit SRL provided other assurance and non-audit services specifically requested by the Financial Supervisory Authority, for a total fee of RON 390,869, including VAT.

The total audit fees for the audit of the 2016 annual statutory financial statements, prepared in accordance with IFRS, were approximately RON 455,712, including VAT. In addition, in 2016 Deloitte Tax SRL provided tax advisory services, for total fees of RON 20,356, including VAT.

The FSA's monthly fees slightly decreased due to the decrease of the Fund's total net asset value, on which these fees are calculated. During 2017 and 2016, the FSA fee was 0.0078% per month applied on the total net asset value.

Intermediaries and other fees related to the disposal of portfolio holdings for the year ended 31 December 2017 mainly include expenses recorded in relation to the partial sale of the investment in OMV Petrom SA, through a secondary public offering and to the disposal of entire holdings in Electrica subsidiaries.

Intermediaries and other fees related to the disposal of portfolio holdings for the year ended 31 December 2016 mainly include expenses recorded in relation to the partial sale of the investment in OMV Petrom SA, through a secondary public offering, the partial disposal of holdings in Banca Transilvania SA and BRD - Groupe Societe Generale SA and the disposal of the entire holding in Romgaz SA on the open market.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
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**10. Operating expenses (continued)**

Remunerations and related taxes included the remunerations paid to the members of the Board of Nominees and to the special administrator appointed for Hidroelectrica SA (a portfolio company in insolvency until 21 June 2016) as required by the insolvency legislation in force as well as the related taxes and contributions payable to the Romanian State budget, as follows:

	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
Members of the Board of Nominees	1,200,000	1,200,000
Special administrator appointed in portfolio companies in insolvency	-	7,531
Contributions to social security fund	184,390	139,788
Contributions to health insurance fund	60,685	62,854
	<b><u>1,445,075</u></b>	<b><u>1,410,173</u></b>

The depositary bank fee mainly decreased due to the decrease of the Fund's total net asset value on which part of these fees are calculated and due to the decrease in the custody fees for the Fund's listed portfolio as a result of the decrease of the listed portfolio amount following the disposals of listed participations during the year.

**11. Finance cost**

On 4 July 2016, the Fund contracted a revolving committed credit facility for a maximum amount of RON 1 billion from BRD - Groupe Societe Generale SA. The initial availability period of the facility was for one year and on 10 May 2017 it was extended for a subsequent year, respectively until 4 July 2018. The purpose of this credit facility is for general corporate use, including share buy-backs, but excluding the purchase of investments.

On 27 June 2017 the Fund drew for the first time an amount of RON 237,000,000 from the total credit facility which was used for the funding of June 2017 return of capital to shareholders. On 25 July 2017, the Fund reimbursed the entire amount drew from the credit facility contracted from BRD-Groupe Societe Generale SA and the related interest. The finance costs included in the Statement of Comprehensive Income for the year ended 31 December 2017 comprise the interest expense on the amount drawn from this credit facility.

In 2016, the finance costs category comprised the commitment fee on undrawn amounts from the credit facility concluded by Fondul Proprietatea with Citibank Europe Plc, Dublin – Romania Branch which was terminated on 8 July 2016 with the mutual consent of both parties.

There are no outstanding amounts from the credit facility as at 31 December 2017 and 31 December 2016.

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**12. Income tax**

	Year ended 31 December 2017	Year ended 31 December 2016
<b>Current tax expense</b>		
Current tax (16%)	-	-
Dividend withholding tax	(2,570,142)	(1,896,759)
	<u>(2,570,142)</u>	<u>(1,896,759)</u>
<b>Deferred tax related to:</b>		
Equity investments	226,577,749	(228,172,318)
Fiscal loss	(208,518,584)	132,810,727
	<u>18,059,165</u>	<u>(95,361,591)</u>
<b>Income tax / (expense)</b>	<u><u>15,489,023</u></u>	<u><u>(97,258,350)</u></u>

The effective tax rate used to calculate the deferred tax position of the Fund was 16% (standard tax rate).

	Year ended 31 December 2017	Year ended 31 December 2016
<b>Reconciliation of effective tax rate</b>		
Net Profit for the period	1,289,896,039	446,969,856
Income tax / (expense)	15,489,023	(97,258,350)
<b>Profit excluding income tax</b>	<u>1,274,407,016</u>	<u>544,228,206</u>
<b>Income tax using the standard tax rate (16%)</b>	<b>(203,905,123)</b>	<b>(87,076,513)</b>
<i>Impact on the income tax expense of:</i>		
Taxation applied on dividend income	115,887,556	54,594,527
Elements similar to revenues (taxable equity items)	(10,266,210)	(128,074,289)
Profit appropriation to legal reserves	10,174,695	3,575,759
Non-taxable income	558,274,595	823,055,594
Non-deductible expenses	(481,847,390)	(869,610,466)
Fiscal result impact in the current period	9,111,734	201,638,628
Deferred tax movement during the period	18,059,166	(95,361,590)
<b>Income tax / (expense)</b>	<u><u>15,489,023</u></u>	<u><u>(97,258,350)</u></u>

The net deferred tax liability on equity investments recorded through the equity reserve during 2017 was of RON 18,059,165 (2016: net deferred tax liability decrease recorded through the equity reserve in amount of RON 95,361,591).

See *Note 17 Deferred tax* for details regarding the deferred tax computation and recognition.

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**13. Basic and diluted earnings per share**

Basic earnings per share (“EPS”) is calculated by dividing the profit for the period by the weighted average number of ordinary paid shares in issue during the period, excluding the average number of ordinary shares purchased by the Fund and held as treasury shares based on their settlement date. As at 31 December 2017 and 31 December 2016, none of the Fund’s issued shares or other instruments had dilutive effect, therefore basic and diluted earnings/ (loss) per share are the same.

	Year ended 31 December 2017	Year ended 31 December 2016
Profit for the period	1,289,896,039	446,969,856
Weighted average number of ordinary shares	8,995,904,682	10,158,242,746
<b>Basic and diluted earnings per share</b>	<b>0.1434</b>	<b>0.0440</b>

**14. Cash and current accounts and deposits with banks**

	31 December 2017	31 December 2016
Petty cash	973	984
Current accounts with banks	80,094	77,514
Distributions bank accounts	19,092,500	5,703,123
<b>Cash and current accounts</b>	<b>19,173,567</b>	<b>5,781,621</b>

	31 December 2017	31 December 2016
Bank deposits with original maturities of less than three months	1,275,849,317	300,761,789
Overnight deposit related to the distribution bank account	-	4,562,078
Interest accrued on bank deposits	820,135	13,267
<b>Deposits with banks</b>	<b>1,276,669,452</b>	<b>305,337,134</b>

The overnight deposits and cash held with the distributions bank accounts can only be used for payments to shareholders. Such payments are subject to a general statute of limitation, respectively the shareholders may request the payments only within a three-year term starting with the distribution payment date.

**15. Treasury bills and government bonds**

During 2017 and 2016, the Fund acquired discount treasury bills denominated in RON, issued by the Ministry of Public Finance of Romania. The treasury bills balance as at 31 December 2017 amounted to RON 46,277,947 (31 December 2016: RON 781,445,213) and comprises treasury bills with remaining maturities of less than one year, with implicit interest rates (based on the yield to maturity for the respective issue) ranging between 0.75% – 1.87% per year (31 December 2016: interest rate ranging between 0.30% – 0.64% per year).

During 2017 and 2016, the Fund acquired coupon government bonds, denominated in RON, issued by the Ministry of Public Finance of Romania. The government bonds as at 31 December 2017 amounted to RON 195,923,820 (31 December 2016: RON 328,638,303) and have remaining maturities of less than one year and coupon rate of 3.25% per year (31 December 2016: coupon rates ranging between 5.90% and 6.75% per year).

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
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**16. Equity investments**

In accordance with Law 247/2005, as amended by Government Emergency Ordinance no. 209/2005, the Fund received, at its establishment on 28 December 2005, shares in 117 companies as a contribution in kind from the Romanian State, as sole shareholder.

In June 2007, Government Emergency Ordinance no. 81/2007 for the acceleration of the procedure for granting compensations for the property abusively nationalised came into force, in accordance with which:

- 32 new shareholdings were added to the Fund's portfolio as a contribution in kind to its share capital (21 shareholdings in companies already in the portfolio and 11 shareholdings in companies not previously in the portfolio);
- 39 shareholdings were removed from the Fund's portfolio and transferred back to the Romanian State.

The valuation of the shares contributed by the Romanian State in December 2005 and June 2007 was performed in October 2007 by an independent valuer (Finevex SRL Constanta), who followed the valuation methodology set forth by Law 247/2005. The value of the shareholdings, as determined by the valuer, represented the cost (initial value) of the equity investments.

Initially, Law 247/2005 included a specific mechanism, whereby each time an in kind share capital increase in a state owned company occurred, Fondul Proprietatea was to receive shares in those companies as payment of the unpaid share capital of the Fund. Thus, an off-set mechanism was created to ensure the payment of the unpaid participations of the Romanian State in Fondul Proprietatea.

Beginning with 15 March 2013, the date when Government Emergency Ordinance no. 4/2012 entered into force, the compensation process was suspended, but the payment mechanism was maintained. In January 2015, Law 10/2015 entered into force, repealing the above payment mechanism. Law 10/2015 also repealed the provisions regarding the ability of the Romanian State to adjust the share capital of the Fund according to the unfolding of the compensation procedures.

The equity investments of the Fund are classified either as financial assets at fair value through profit or loss or as available for sale financial assets. The equity instruments of the Fund are valued as follows:

- Either at fair value, determined by reference to published closing prices on the stock exchange where shares are traded (listed and liquid securities), or assessed, using valuation techniques in accordance with International Valuation Standards (unlisted securities), with the assistance of independent valuers;
- Or at the values used in the calculation of the net asset value of the Fund, in accordance with the regulations issued by the FSA/ CNVM (in case of the equity investments that do not have a quoted price in an active market and whose fair value could not be reliably estimated) which are subject to impairment testing. These values are considered to be equivalent to fair value and this approach is applied to an insignificant part of the portfolio (less than 1% of the portfolio).

The movement in the carrying amounts of equity investments in 2017 and 2016 is presented below:

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**16. Equity investments (continued)**

	Equity investments at fair value through profit or loss	Equity investments available for sale	Total equity investments
<b>1 January 2017</b>	<b>2,086,956,567</b>	<b>7,905,226,677</b>	<b>9,992,183,244</b>
Subscriptions to share capital increase of portfolio companies	2,720,000	33,580	2,753,580
Disposals	(6,528,164)	(74,360,549)	(80,888,713)
Impairment losses	-	(8,000,000)	(8,000,000)
Reclassification to non-current assets held for sale (see Note 9)	(414,390,000)	(752,031,841)	(1,166,421,841)
Net change in fair value of available for sale equity investments (recorded in other comprehensive income)	-	315,822,981	315,822,981
Net gain from equity investments at fair value through profit or loss	222,752,094	-	222,752,094
<b>31 December 2017</b>	<b>1,891,510,497</b>	<b>7,386,690,848</b>	<b>9,278,201,345</b>
	Equity investments at fair value through profit or loss	Equity investments available for sale	Total equity investments
<b>1 January 2016</b>	<b>3,349,024,657</b>	<b>8,451,679,962</b>	<b>11,800,704,619</b>
Subscriptions to share capital increase of portfolio companies	4,200,000	70,150	4,270,150
Disposals	-	(1,411,493,673)	(1,411,493,673)
Impairment losses	-	(122,383,338)	(122,383,338)
Reclassification to non-current assets held for sale (see Note 9)	(888,428,426)	-	(888,428,426)
Net change in fair value of available for sale equity investments (recorded in other comprehensive income)	-	987,353,576	987,353,576
Net loss from equity investments at fair value through profit or loss	(377,839,664)	-	(377,839,664)
<b>31 December 2016</b>	<b>2,086,956,567</b>	<b>7,905,226,677</b>	<b>9,992,183,244</b>

***Subscriptions to share capital increase of portfolio companies***

During 2017, the Fund contributed cash to the share capital increase of Zirom SA with a total amount of RON 2,720,000.

In December 2016, the Fund contributed cash to the share capital increase of Hidroelectrica SA with a total amount of RON 33,580, but the registration with the Trade Register was finalised and recorded in 2017.

***Disposals***

During 2017, the Fund sold its entire holding in Oil Terminal SA, Banca Transilvania SA, Primcom SA and Cetatea SA as well as, a part of its holding in BRD Groupe Societe Generale.

The Fund's holdings in SDEE Muntenia Nord SA, SDEE Transilvania Sud SA, SDEE Transilvania Nord SA, Electrica Furnizare SA and part of the holding in OMV Petrom SA were reclassified as non-current assets held for sale during 2017, the disposal transactions being also completed in 2017 (for more details see Note 9).

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**16. Equity investments (continued)**
**Impairment losses**

During 2017, the Fund recorded impairment losses in amount of RON 8,000,000 for the Fund's holding in Posta Romana SA.

During 2016, the Fund recorded impairment losses in amount of RON 122,383,338, the most significant being the impairment loss for the Fund's holding in Complexul Energetic Oltenia SA (RON 62,840,000), Nuclearelectrica SA (RON 44,264,535) and Posta Romana (RON 12,894,726).

**Portfolio structure**

The structure of the Fund's portfolio was the following:

	31 December 2017	31 December 2016
<b>Equity investments at fair value through profit or loss</b>		
OMV Petrom SA	1,619,774,750	1,857,680,048
Societatea Nationala a Sarii SA	233,000,000	181,000,000
Zirom SA	26,839,000	25,512,000
Primcom SA	-	10,225,757
Other	11,896,746	12,538,762
	<b>1,891,510,496</b>	<b>2,086,956,567</b>
<b>Equity investments available for sale</b>		
Hidroelectrica SA	3,566,000,000	3,384,000,000
CN Aeroporturi Bucuresti SA	774,000,000	761,000,000
E-Distributie Banat SA	545,000,000	599,900,000
Engie Romania SA	472,000,000	453,400,000
E-Distributie Muntenia SA	419,000,000	449,400,000
E-Distributie Dobrogea SA	342,000,000	380,200,000
BRD Groupe Societe Generale SA	285,646,454	301,317,857
Alro SA	238,333,015	85,275,115
Administratia Porturilor Maritime SA	230,000,000	216,000,000
Nuclearelectrica SA	197,340,343	131,697,271
Enel Energie Muntenia SA	61,000,000	70,300,000
Enel Energie SA	57,000,000	75,500,000
Posta Romana SA	35,000,000	43,000,000
Conpet SA	52,121,980	-
Complexul Energetic Oltenia SA	32,000,000	-
Romaero SA	30,168,893	21,708,486
SDEE Muntenia Nord SA	-	255,200,000
SDEE Transilvania Sud SA	-	246,200,000
SDEE Transilvania Nord SA	-	208,300,000
Electrica Furnizare SA	-	167,723,000
Other	50,080,164	55,104,948
	<b>7,386,690,849</b>	<b>7,905,226,677</b>
<b>Total equity investments</b>	<b>9,278,201,345</b>	<b>9,992,183,244</b>

None of the equity investments are pledged as collateral for liabilities.



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**16. Equity investments (continued)**
**Fair value hierarchy**

The Fund classifies the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurement, the levels of the fair value hierarchy being defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below presents the classification of the financial instruments carried at fair value by fair value hierarchy level, based on the inputs used in making the measurement:

**As at 31 December 2017:**

	Level 1	Level 2	Level 3	Total
Equity investments	2,393,216,543	-	6,884,984,802	9,278,201,345
Treasury bills	46,277,947	-	-	46,277,947
Government bonds	195,923,820	-	-	195,923,820
	<u>2,635,418,310</u>	<u>-</u>	<u>6,884,984,802</u>	<u>9,520,403,112</u>

**As at 31 December 2016:**

	Level 1	Level 2	Level 3	Total
Equity investments	2,400,000,124	-	7,592,183,120	9,992,183,244
Treasury bills	781,445,213	-	-	781,445,213
Government bonds	328,638,303	-	-	328,638,303
	<u>3,510,083,640</u>	<u>-</u>	<u>7,592,183,120</u>	<u>11,102,266,760</u>

The table below presents the movement in Level 3 equity investments for 2017 and 2016:

	12 months ended 31 December 2017	12 months ended 31 December 2016
<b>Opening balance</b>	<u>7,592,183,120</u>	<u>7,272,679,522</u>
Net gain/(loss) recognised in profit or loss	38,267,392	(80,074,041)
Net change in fair value recorded in other comprehensive income	10,684,549	1,032,207,489
Subscriptions to share capital increase of portfolio companies	2,753,580	4,270,150
Disposals	(758,903,839)	(636,900,000)
Transfers in/(out) of Level 3	-	-
<b>Closing balance</b>	<u>6,884,984,802</u>	<u>7,592,183,120</u>

The level in the fair value hierarchy within which the fair value measurement is classified is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, that financial instrument is classified as Level 3. Assessing the significance of a particular input to the fair value measurement in its entirety requires significant judgment, considering factors specific to the asset. The Fund considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.



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**16. Equity investments (continued)**

For Level 3, a majority of the equity investments valuations were performed with the assistance of independent valuers, based on financial information provided by the Fund, using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs, which ensures that the underlying data is accurate, and that appropriate inputs were used in the valuation.

As the valuation reports were prepared as at 30 September 2017 (31 December 2016: as at 30 September 2016), based on financial information available for the companies under valuation at the respective date, the Fund's management has analysed the period between the date of the valuation reports and the reporting date. There was no information known or available to the Fund's management which may have significant impact on the fair values of the equity investments as at the reporting date, as they are presented in these financial statements.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Fund believes that a third party market participant would take into account these factors in pricing a transaction.

As a result of strong volatility in the capital markets and severe restrictions in the credit markets both globally and in Romania, notwithstanding any potential economic stabilisation measures that may be put into place by the Romanian State, economic uncertainties arose surrounding the continual availability and cost of credit for the Fund's counterparties, the future development of the market and demand for goods and services they produce. These economic uncertainties are expected to continue in the foreseeable future and, as a consequence, there is a possibility that the assets of the Fund are not recovered at their carrying amounts in the ordinary course of business. A corresponding impact on the Fund's profitability cannot be estimated reliably as of the date of these financial statements.

For the equity investments classified as Level 1, the Fund had adequate information available with respect to active markets, with sufficient trading volume, for obtaining accurate prices.

As at 31 December 2017, unlisted equity investments and listed illiquid equity investments with a total carrying amount of RON 6,884,984,802 (31 December 2016: RON 7,592,183,120), were classified as Level 3 of the fair value hierarchy. Out of this, an amount of RON 3,908,505,337 represents the total net change in fair value recognised in equity (other comprehensive income) as at 31 December 2017 (31 December 2016: RON 4,243,179,925). Out of the total value of the equity investments classified as Level 3 of the fair value hierarchy, 99% were assessed with the assistance of an independent valuer, using valuation methods in accordance with the International Valuation Standards and 1% were determined based on values used in the calculation of the net asset value of the Fund as at that date, calculated in accordance with the regulations issued by the FSA/CNVM.

The following table sets out information about the significant unobservable inputs used at 31 December 2017 and 31 December 2016 in measuring equity instruments classified as Level 3 in the fair value hierarchy:

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**16. Equity investments (continued)**

Financial assets	Fair value as at 31 December 2017	Valuation technique	Unobservable inputs range (weighted average)	Relationship of unobservable inputs to fair value
<b>Total</b>	<b>6,884,984,802</b>			
Unlisted equity instruments	6,488,000,000	Market approach - comparable companies (based on EBITDA multiple)	EBITDA multiple ranging from 4.46 - 10.93 (8.35) Discount for lack of marketability: 15% (15%)	The higher the EBITDA multiple, the higher the fair value. The lower discount for lack of marketability, the higher the fair value.
Unlisted equity instruments	261,829,000	Income approach - discounted cash flow method	Weighted average cost of capital: 12.69% or 13.24% or 13.82% (13.30%) Discount for lack of marketability: 12% or 15% or 17% (15.18%) Discount for lack of control: 0% or 18% or 26% (23%) Long-term revenue growth rate: 1.5% (1.5%)	The lower the weighted average cost of capital, the higher the fair value. The lower the discount for the lack of marketability, the higher the fair value. The lower the discount for the lack of control, the higher the fair value. The higher the long-term revenue growth rate, the higher the fair value.
Unlisted equity instruments	35,000,000	Market approach - comparable companies (based on Price /Earnings multiple)	Price/Earnings value: 13.34 (13.34) Discount for lack of marketability: 24.4% (24.4%)	The higher the Price /Earnings multiple, the higher the fair value. The lower the discount for the lack of marketability, the higher the fair value.
Unlisted equity instruments	32,000,000	Market approach - comparable companies (based on Revenue multiple)	Revenue multiple: 0.78 (0.78) Discount for lack of marketability: 15% (15%)	The higher the Revenue multiple, the higher the fair value. The lower the discount for the lack of marketability, the higher the fair value.
Unlisted equity instruments	2,441,000	Market approach - comparable companies (based on Price/Book value multiple)	Price/Book value: 0.46 (0.46) Discount for lack of marketability: 15% (15%)	The higher Price/ Book value multiple, the higher the fair value. The lower discount for lack of marketability, the higher the fair value.
Listed illiquid equity instruments	43,734,433	Bucharest Stock Exchange reference price - Average price	These shares are traded infrequently and have little price transparency. Fair values for these equity instruments were considered to be those used in the calculation of the net asset value of the Fund, in accordance with the regulations issued by the FSA/ CNVM.	
Unlisted equity instruments	21,980,369	Fair values for these equity instruments were considered to be those used in the calculation of the net asset value of the Fund, in accordance with the regulations issued by the FSA/ CNVM, primarily based on the value of the shareholders' equity of the issuer extracted from its latest annual financial statements.		

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**16. Equity investments (continued)**

Financial assets	Fair value as at 31 December 2016	Valuation technique	Unobservable inputs range (weighted average)	Relationship of unobservable inputs to fair value
<b>Total</b>	<b>7,592,183,120</b>			
Unlisted equity instruments	7,270,749,000	Market approach - comparable companies (based on EBITDA multiple)	EBITDA multiple ranging from 4.22 to 11.4 (7.77) Discount for lack of marketability: 15% (15%)	The higher the EBITDA multiple, the higher the fair value. The lower discount for lack of marketability, the higher the fair value.
Unlisted equity instruments	208,669,000	Income approach - discounted cash flow method	Weighted average cost of capital: 11.29% or 12.05% or 12.18% (12.06%) Discount for lack of marketability: 12% or 14.6% or 17% (14.87%) Discount for lack of control: 0% or 18% or 26.50% (23%) Long-term revenue growth rate: 1.5% (1.5%)	The lower the weighted average cost of capital, the higher the fair value. The lower the discount for the lack of marketability, the higher the fair value. The lower the discount for the lack of control, the higher the fair value. The higher the long-term revenue growth rate, the higher the fair value.
Unlisted equity instruments	43,000,000	Market approach - comparable companies (based on Price /Earnings multiple)	Price/Earnings value: 14.75 (14.75) Discount for lack of marketability: 24.4% (24.4%)	The higher the Price /Earnings multiple, the higher the fair value. The lower the discount for the lack of marketability, the higher the fair value.
Unlisted equity instruments	1,696,000	Market approach - comparable companies (based on Price/Book value multiple)	Price/Book value: 0.48 (0.48) Discount for lack of marketability: 15% (15%)	The higher Price/ Book value multiple, the higher the fair value. The lower discount for lack of marketability, the higher the fair value.
Listed illiquid equity instruments	46,026,408	Bucharest Stock Exchange reference price - Average price	These shares are traded infrequently and have little price transparency. Fair values for these equity instruments were considered to be those used in the calculation of the net asset value of the Fund, in accordance with the regulations issued by the FSA/ CNVM.	
Unlisted equity instruments	22,042,712	Fair values for these equity instruments were considered to be those used in the calculation of the net asset value of the Fund, in accordance with the regulations issued by the FSA/ CNVM, primarily based on the value of the shareholders' equity of the issuer extracted from its latest annual financial statements.		

Significant unobservable inputs are the following:

*Revenue multiple:* is a tool used to appraise businesses based on market comparison to similar public companies. Revenue based business value estimation may be preferred to earnings multiple valuation whenever there is uncertainty regarding some of a company's expenses. The most common tendency is to value a firm based on its sales whenever this number is the most direct indication of a company's earning capacity.

*EBITDA multiple:* represents the most relevant multiple used when pricing investments and it is calculated using information from comparable public companies (similar geographic location, industry size, target markets and other factors that valuers consider to be reasonable). The traded multiples for comparable companies are determined by dividing the enterprise value of a company by its EBITDA and further discounted for considerations such as the lack of marketability and other differences between the comparable peer group and specific company.

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**16. Equity investments (continued)**

*Discount for lack of marketability:* represents the discount applied to the comparable market multiples to reflect the liquidity differences between a portfolio company relative to its comparable peer group. Valuers estimate the discount for lack of marketability based on their professional judgement after considering market liquidity conditions and company-specific factors.

*Discount for lack of control:* represents the discount applied to reflect the absence of the power of control considered under the discounted cash flow method, in order to derive the value of a minority shareholding in the equity of subject companies.

*Weighted average cost of capital:* represents the calculation of a company's cost of capital in nominal terms (including inflation), based on the Capital Asset Pricing Model. All capital sources (shares, bonds and any other long-term debts) are included in a weighted average cost of capital calculation.

*Price/Earnings multiple ("P/E"):* the Price/Earnings ratio is a market prospect ratio that calculates the market value of an investment relative to its earnings by comparing the market price per share by the earnings per share. It shows what the market is willing to pay for an investment based on its current earnings. Investors often use this ratio to evaluate what an investment's fair market value should be by predicting future earnings per share.

*Price/Book value multiple:* often expressed simply as price-to-book, this multiple measures a company's market price in relation to its book value (net assets). It reflects how many times the book value per share investors are ready to pay for a share. The Price/Book value multiple varies dramatically between industries. A company that requires more assets (e.g. a manufacturing company with factory space and machinery) will generally post a drastically lower price to book than a company whose earnings come from the provision of a service (e.g. a consulting firm).

**17. Deferred tax**

	<b>Deductible temporary differences</b>	<b>Related deferred tax asset/(liability), out of which:</b>	<b>Recognised deferred tax asset/(liability)</b>	<b>Not recognised deferred tax asset</b>
<b>31 December 2017</b>				
Equity investments	(210,096,993)	(33,615,519)	(33,615,519)	-
Fiscal loss carried forward	3,914,756,220	626,360,995	33,615,519	592,745,476
	<b>3,704,659,227</b>	<b>592,745,476</b>	<b>-</b>	<b>592,745,476</b>
<b>31 December 2016</b>				
Equity investments	(1,513,338,145)	(242,134,103)	(242,134,103)	-
Fiscal loss carried forward	3,971,704,557	635,472,729	242,134,103	393,338,626
	<b>2,458,366,412</b>	<b>393,338,626</b>	<b>-</b>	<b>393,338,626</b>

The effective tax rate used to calculate the deferred tax position of the Fund was 16% (standard tax rate).

The movement in the deferred tax position is presented in the tables below:

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**17. Deferred tax (continued)**

	<b>Balance at 1 January 2017</b>	<b>Recognised in profit or loss</b>	<b>Recognised in equity (other comprehensive income)</b>	<b>Balance at 31 December 2017</b>
Equity investments	(242,134,103)	226,577,749	(18,059,165)	(33,615,519)
Fiscal loss carried forward	242,134,103	(208,518,584)	-	33,615,519
	-	<b>18,059,165</b>	<b>18,059,165</b>	-

	<b>Balance at 1 January 2016</b>	<b>Recognised in profit or loss</b>	<b>Recognised in equity (other comprehensive income)</b>	<b>Balance at 31 December 2016</b>
Equity investments	(109,323,376)	(228,172,318)	95,361,591	(242,134,103)
Fiscal loss carried forward	109,323,376	132,810,727	-	242,134,103
	-	<b>(95,361,591)</b>	<b>95,361,591</b>	-

As at 31 December 2017 and 31 December 2016, the net deferred tax position is nil due to the fact that the Fund recognised a deferred tax asset for the unused tax losses carried forward, only to the level of the deferred tax liability arising from the taxable temporary differences. The deferred tax is recognised either in profit or loss or other comprehensive income, depending on the nature of the corresponding item.

**18. Liabilities**
**(a) Payable to shareholders**

The payable to shareholders caption comprises the amounts due to shareholders related to the returns of capital in total amount of RON 20,705,311 (31 December 2016: RON 20,208,049).

The movement during the period is presented in the table below:

	<b>2017</b>	<b>2016</b>
<b>1 January</b>	<b>20,208,049</b>	<b>22,972,691</b>
Distributions started during the period	924,046,244	516,886,344
Payments performed during the period	(910,534,840)	(512,486,449)
Payments related to 2015 return of capital performed directly by Central Depository from the amount transferred by the Fund in their account in 2015	(10,430,295)	(7,164,536)
Distributions for which the statute of limitation occurred	(2,583,847)	-
<b>31 December</b>	<b>20,705,311</b>	<b>20,208,049</b>

**(b) Other liabilities and provisions**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Administration fees	11,752,658	12,907,804
Intermediaries and other transactions fees related to disposal of portfolio holdings	1,236,632	11,654,707
Provision for litigations	856,247	856,247
Financial Supervisory Authority fees	829,634	861,361
Payables related to treasury shares under settlement	-	287,824
Other liabilities	1,332,308	1,386,042
	<b>16,007,479</b>	<b>27,953,985</b>

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**18. Liabilities (continued)**
**(b) Other liabilities and provisions (continued)**

Intermediaries and other transactions fees related to the disposal of portfolio holdings mainly comprise brokerage fees as well as the legal consulting, notary fees, marketing and promotional services and miscellaneous out of pocket expenses incurred by the intermediaries according to their agreements.

**19. Shareholders' equity**
**(a) Share capital**

The following changes in the share capital were recorded during 2017:

- On 18 January 2017, the paid in share capital of the Fund decreased by RON 605,345,483 following the cancellation of 712,171,156 treasury shares acquired by the Fund during the sixth buy-back programme.
- On 24 March 2017, the subscribed share capital decreased by RON 2,820,742,609 following the reduction of the nominal value of the shares as follows:
  - (i) the subscribed share capital decreased from RON 8,562,968,634.10 to RON 6,245,930,062.52 following the reduction of the par value of the shares from RON 0.85 to RON 0.62 in order to cover the cumulated accounting losses stated in 2015 financial statements, according to the 31 October 2016 General Shareholders' Meeting ("GSM") resolution (total impact on the share capital of RON 2,317,038,572);
  - (ii) the subscribed share capital decreased from RON 6,245,930,062.52 to RON 5,742,226,025.22 following the reduction of the shares from RON 0.62 to RON 0.57 in order to perform a special distribution to shareholders, respectively a special return of capital of 0.05 RON per share, proportionally with their participation to the paid share capital (total impact on the share capital of RON 503,704,037).
- On 16 June 2017, the subscribed share capital of the Fund decreased from RON 5,742,226,025.22 to RON 5,238,521,987.92 following the reduction of the nominal value of the shares from RON 0.57 to RON 0.52 per share and the return to shareholders of RON 0.05 per share, proportionally with their participation to the paid share capital (total impact on the share capital of RON 503,704,037).
- On 29 November 2017, the paid in share capital of the Fund decreased by RON 384,487,203.36 following the cancellation of 739,398,468 treasury shares acquired by the Fund during the seventh buy-back programme carried out during 2016 and 2017.

The movements in the share capital components are presented below:

	Share capital paid-in	Share capital unpaid	Total share capital
<b>31 December 2015</b>	<b>9,746,649,631</b>	<b>327,431,115</b>	<b>10,074,080,746</b>
Decrease of the nominal value of the shares	(530,101,923)	(18,190,617)	<b>(548,292,540)</b>
Cancellation of treasury shares	(357,474,089)	-	<b>(357,474,089)</b>
<b>31 December 2016</b>	<b>8,859,073,619</b>	<b>309,240,498</b>	<b>9,168,314,117</b>
Coverage of the cumulated accounting losses	(2,233,361,731)	(83,676,841)	<b>(2,317,038,572)</b>
Decrease of the nominal value of the shares	(971,026,839)	(36,381,235)	<b>(1,007,408,074)</b>
Cancellation of treasury shares	(989,832,686)	-	<b>(989,832,686)</b>
<b>Total as per Trade Registry evidence</b>	<b>4,664,852,363</b>	<b>189,182,422</b>	<b>4,854,034,785</b>
Presentation adjustment related to the unpaid share capital	-	(189,182,422)	<b>(189,182,422)</b>
<b>31 December 2017</b>	<b>4,664,852,363</b>	<b>-</b>	<b>4,664,852,363</b>

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**19. Shareholders' equity (continued)**
**(a) Share capital (continued)**

Unpaid share capital represents the nominal value of certain contributions due to the Fund by the Romanian State, represented by the Ministry of Public Finance as shareholder, that were recorded in previous years as paid in share capital (based on Law 247/2005) and subsequently were considered unpaid following the final results of several litigations that took place in the past. Holders of unpaid shares are not entitled to vote or to receive dividends or other cash distributions, until the matters are legally clarified.

Due to the fact that there are no clear provisions regarding the unpaid share capital in the special legislation related to the Fund and that according to the general framework provided by the Companies' Law the deadline for the payment by the Romanian State represented by Ministry of Public Finance of the unpaid share capital expired, the Fund recorded a presentation adjustment as at 31 December 2017 for the entire balance of unpaid share capital against other reserves. This adjustment was recorded in the financial statements only for the presentation purpose, while the actual cancellation of the unpaid share capital in the accounting will follow the legal requirements and will be booked only after the successful completion of the necessary legal steps.

The Fund recorded an impairment adjustment for the entire receivable related to the unpaid amounts from the Romanian State. Following the reduction of the nominal value of the Fund's shares on 24 March 2017 and 16 June 2017, the receivable related to the unpaid amounts from the Romanian State and the related impairment adjustment decreased accordingly and had an impact in profit or loss account of RON 36,381,235.

The below table presents the balances of number of shares and their nominal value as result of the above changes:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Number of shares in issue	9,334,682,278	10,786,251,902
Number of paid shares	8,970,869,928	10,422,439,552
Number of unpaid shares	363,812,350	363,812,350
Nominal value per share (RON)	0.52	0.85

The shareholder structure as at 31 December 2017 was as follows:

<b>Shareholder categories</b>	<b>% of subscribed share capital</b>	<b>% of paid-in share capital</b>
The Bank of New York Mellon (depository bank for the Fund's GDRs)	35.62%	37.07%
Foreign institutional investors	19.57%	20.36%
Romanian institutional investors	17.63%	18.35%
Romanian private individuals	17.37%	18.07%
Foreign private individuals	3.15%	3.28%
Romanian State	0.06%	0.06%
Treasury shares	2.70%	2.81%
Unpaid shares	3.90%	-
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Depozitarul Central SA

**(b) Fair value reserve on available for sale financial assets, net of deferred tax**

The fair value reserve of RON 4,248,175,069 as at 31 December 2017 (31 December 2016: RON 4,333,537,124) is comprised of the cumulative net change in the fair value of the available for sale financial assets recognised in other comprehensive income, until the investments are derecognised or impaired, net of the related deferred tax recognised through equity.



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**19. Shareholders' equity (continued)**
**(c) Other reserves**

	<b>31 December 2017</b>	<b>31 December 2016</b>
Legal reserve	330,578,802	266,084,000
Gains from cancellation of treasury shares	177,865,119	199,085,096
Losses from cancellation of treasury shares	(256,073,589)	-
Distributions for which the statute of limitation occurred	2,583,847	-
Part of 2006 and 2007 profits allocated to other reserves	-	120,299,556
	<b>254,954,179</b>	<b>585,468,652</b>

As required by the Romanian Companies' Law, a minimum 5% of the profit for the year must be transferred to the legal reserve until the reserve equals 20% of the issued share capital. The legal reserve cannot be used for distributions to shareholders.

As at 31 December 2017, an amount of RON 64,494,802, representing 5% of the 2017 profit (profit before current profit tax of RON 1,289,896,039), was transferred to the legal reserve. As at 31 December 2016, an amount of RON 22,348,493, representing 5% of the 2016 profit (profit before current profit tax of RON 446,969,856), was transferred to the legal reserve.

Gains from cancellation of treasury shares comprise the reserves related to the net gain on the cancellation of treasury shares acquired at an acquisition value lower than the nominal value. This amount may be used for corporate actions in accordance with the applicable legislation.

Losses from cancellation of treasury shares comprise the reserves related to the losses on the cancellation of treasury shares acquired at an acquisition value higher than the nominal value. This amount may be covered from the retained earnings and other equity elements, in accordance with the resolution of the general meeting of shareholders.

On 24 March 2017, the Fund used the entire amount of RON 120,299,556 representing 2006 and 2007 profits allocated to reserves and an amount of RON 35,819,344 from the gains from cancellation of treasury shares to cover its accumulated accounting losses stated in the 2015 financial statements, according to the 31 October 2016 GSM resolution.

**(d) Treasury shares**

The buy-back transactions can only be applied to fully paid shares or GDRs corresponding to the shares of the Fund. All buy-back programmes carried out by the Fund are aimed at decreasing the share capital, in accordance with the shareholders' approval.

The implementation of the buy-back programmes is subject to the availability of the necessary cash.

The table below summarises the buy-back programmes performed during 2017:

<b>Programme</b>	<b>GSM date approving the buy-back programme</b>	<b>Starting date</b>	<b>Completion date</b>	<b>Acquisition price range as approved by GSM</b>
<b>Seventh buy-back</b>	29-Oct-2015	29-Sep-2016	26-May-2017	0.2 - 2 RON per share
<b>Eighth buy-back</b>	11-Oct-2016	30-May-2017	10-Nov-2017	0.2 - 2 RON per share
<b>Ninth buy-back</b>	26-Oct-2017	14-Nov-2017	ongoing	0.2 - 2 RON per share

The maximum number of shares that can be repurchased within the seventh buy-back and within the eighth buy-back has to be computed so that all the outstanding treasury shares acquired during the respective programme and/or with the previous ones, do not exceed 10% of the issued share capital at the relevant time.



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**19. Shareholders' equity (continued)**
**(d) Treasury shares (continued)**

The maximum number of shares that can be repurchased within the ninth buy-back has to be computed so that all outstanding treasury shares acquired during this programme and/or with the previous ones, do not exceed 20% of the issued share capital at the relevant time.

The movement in the number of treasury shares (including the equivalent shares of GDRs bought-back) during 2017 and 2016 is presented in the below tables:

2017	Treasury shares number - opening balance	Acquisitions during 2017	Cancellations during 2017	Treasury shares number - closing balance
Sixth buy-back	712,171,156	-	(712,171,156)	-
Seventh buy-back	79,336,721	750,910,898	(739,398,468)	90,849,151
Eighth buy-back	-	141,869,861	-	141,869,861
Ninth buy-back	-	19,159,328	-	19,159,328
	<b>791,507,877</b>	<b>911,940,087</b>	<b>(1,451,569,624)</b>	<b>251,878,340</b>

2016	Treasury shares number - opening balance	Acquisitions during 2016	Cancellations during 2016	Treasury shares number - closing balance
Fifth buy-back	227,572,250	-	(227,572,250)	-
Sixth buy-back	149,649,624	742,120,431	(179,598,899)	712,171,156
Seventh buy-back	-	79,336,721	-	79,336,721
	<b>377,221,874</b>	<b>821,457,152</b>	<b>(407,171,149)</b>	<b>791,507,877</b>

The movement in the buy-back programmes balances during 2017 and 2016 is presented in the below tables:

2017	Opening balance	Acquisition of treasury shares	Cancellation of treasury shares	Decrease of the nominal value of the shares	Closing balance
Sixth buy-back	590,746,115	-	(590,746,115)	-	-
Seventh buy-back	63,399,048	689,974,069	(628,580,657)	(46,482,304)	78,310,155
Eighth buy-back	-	124,114,252	-	(498,291)	123,615,960
Ninth buy-back	-	16,329,392	-	-	16,329,392
	<b>654,145,163</b>	<b>830,417,713</b>	<b>(1,219,326,773)</b>	<b>(46,980,596)</b>	<b>218,255,507</b>

2016	Opening balance	Acquisition of treasury shares	Cancellation of treasury shares	Decrease of the nominal value of the shares	Closing balance
Fifth buy-back	186,541,855	-	(186,541,855)	-	-
Sixth buy-back	121,497,490	617,674,165	(135,209,961)	(13,215,579)	590,746,115
Seventh buy-back	-	63,399,048	-	-	63,399,048
	<b>308,039,345</b>	<b>681,073,213</b>	<b>(321,751,816)</b>	<b>(13,215,579)</b>	<b>654,145,163</b>

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**19. Shareholders' equity (continued)****(e) Return of capital to shareholders*****Return of capital from March 2017***

At the 31 October 2016 GSM, the Fund's shareholders approved the special return to shareholders of RON 0.05 per share, following the share capital decrease through the reduction of the nominal value of the Fund's share. The shareholders' resolution was published in the Official Gazette of Romania on 16 November 2016 and the endorsement by the FSA of the new Constitutive Act reflecting the share capital decrease was received on 22 March 2017. On 24 March 2017, the Trade Registry registered the 31 October 2016 GSM Resolution for approving the subscribed share capital decrease.

The shareholders registered in the shareholders' registry with the Central Depository on 7 March 2017 (the Registration Date) have the right to receive RON 0.05 per share, proportionally with their participation in the paid in share capital of the Fund. The payment started on 27 March 2017 and by the end of 31 December 2017, shareholders had collected almost 99% of the total distribution of RON 480,543,496.

***Return of capital from June 2017***

At the 28 February 2017 GSM, the Fund's shareholders approved the return to shareholders of RON 0.05 per share, following the subscribed share capital decrease from RON 5,742,226,025.22 to RON 5,238,521,987.92 through the reduction of the nominal value of Fund's share from RON 0.57 to RON 0.52. The shareholders resolution was published in the Official Gazette of Romania on 13 March 2017 and the endorsement by the FSA of the new Constitutive Act reflecting the share capital decrease was received on 16 June 2017.

The shareholders registered in the shareholders' registry with the Central Depository on 12 June 2017 have the right to receive RON 0.05 per share, proportionally with their participation in the paid in share capital of the Fund. The payment started on 30 June 2017 and by the end of 31 December 2017, shareholders had collected almost 98% of the total distribution of RON 443,502,747.

**(f) Coverage of prior years' accumulated accounting losses**

According to the shareholders' resolution of the 31 October 2016 GSM, the cumulated accounting losses as stated in the 2015 financial statements for an amount of RON 2,473,157,472 were covered from other reserves (RON 156,118,900) and from registered share capital (RON 2,317,038,572), through the decrease of the subscribed share capital of the Fund from RON 8,562,968,634.10 to RON 6,245,930,062.52 by reducing the par value of the shares from RON 0.85 to RON 0.62. The subscribed share capital decrease and respectively the coverage of the accounting losses have been recorded in the accounting on 24 March 2017, respectively the date when the Trade Registry registered the 31 October 2016 GSM Resolution for approving the subscribed share capital decrease based on the FSA endorsement received on 22 March 2017.

**(g) Profit appropriation**

As per these annual financial statements, prepared in accordance with the IFRS, the Fund recorded a net profit for the financial year ended 31 December 2017 of RON 1,289,896,039. The Fund's Sole Director proposal, subject for GSM approval in accordance with the legislation in force, for the appropriation of the net accounting profit for the 2017 financial year in an amount of RON 1,289,896,039 is as follows:

- RON 64,494,802 to legal reserve;
- RON 591,087,324 to dividends;
- RON 634,313,913 unallocated profit that remains available to the Fund's shareholders.

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## 20. Contingencies

### Litigations

As at 31 December 2017, the Fund was involved in certain litigations, either as defendant or claimant. According to the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets the Fund considers that there are no litigations which may have significant effects on the Fund's financial position or profitability.

### Other contingencies

Other contingencies of the Fund included the receivables from World Trade Center București SA, as detailed below.

Title II, Article 4 of Government Emergency Ordinance no. 81/2007 stipulates the transfer of receivables from World Trade Center București SA from the Authority for State Assets Recovery to the Fund, amounting to USD 68,814,198 (including the original principal and related interest and penalties) on 29 June 2007.

During 2008 through 2010, the Fund recovered from World Trade Center București SA, USD 510,131, EUR 148,701 and RON 8,724,888. Given the uncertainties regarding the recoverability of the amounts due by World Trade Center București SA, the above amounts were recognised as received in the Fund's financial statements.

In August 2013, World Trade Center București SA filed a claim against the Fund asking the Fund to pay back all amounts received through the enforcement procedure during 2010 and 2011 (EUR 148,701, USD 10,131 and RON 8,829,663). The amounts recovered from the enforcement procedure were originally accounted for by the Fund as contributions of the Romanian State to the share capital of the Fund, decreasing the receivable related to the unpaid capital.

Consequently, these amounts are to be recovered by the Fund from the Romanian State (being accounted for as a receivable over this shareholder of the Fund, for which an impairment adjustment was recorded), while the legal interest was recorded as an expense with provisions for litigations.

On 7 July 2016, the Bucharest Court admitted the claim filed by World Trade Center București SA and obliged Fondul Proprietatea to pay back the amounts recovered from the enforcement procedure (EUR 148,701, USD 10,131 and RON 8,829,663) and the related legal interest calculated for these amounts. During the period from July to August 2016, the Fund performed the payment of these amounts and the related legal interest to World Trade Center București SA. The Fund appealed the decision and the Court set the next hearing for 26 February 2018.

The related file started by the Fund against the Romanian State being represented by Ministry of Public Finance for recovering the contributions of the Romanian State to the share capital of the Fund is currently suspended until a final Court decision is taken in relation with the file mentioned above.

## 21. Related parties

### (a) Key management

	Year ended 31 December 2017	Year ended 31 December 2016
<b>Remunerations</b>		
Members of the Board of Nominees	1,200,000	1,200,000

There were no loans to or other transactions between the Fund and the members of the Board of Nominees during 2017 or 2016.

FTIML was both the Fund Investment Manager and Sole Director of the Fund until 31 March 2016. Starting with 1 April 2016, considering the legal requirements to implement the AIFM Directive, the mandate of FTIML was terminated and FTIS was appointed as Sole Director and Alternative Investment Fund Manager. FTIS delegated the role of investment manager as well as certain administrative functions to FTIML.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
 (all amounts are in RON unless otherwise stated)

**21. Related parties (continued)**
**(a) Key management (continued)**

The transactions carried out between the Fund and FTIS were the following:

<b>Transactions</b>	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
Administration fees	78,117,008	58,041,993

The transactions carried out between the Fund and FTIML were the following:

<b>Transactions</b>	<b>Year ended 31 December 2017</b>	<b>Year ended 31 December 2016</b>
Administration fees	-	12,567,847
Rental expense	70,265	65,977
Operating cost	24,398	23,761
	<b>94,663</b>	<b>12,657,585</b>

During 2017, the Fund also recorded RON 1,583,604 representing expenses incurred by FTIML on its behalf (2016: RON 1,520,423). These expenses were primarily related to promotional activities for the Fund (investor relations). The recharge of these expenses to the Fund followed the provisions of the management agreements and was subject to Board of Nominees' approval.

The outstanding liabilities owed by the Fund were as follows:

<b>Amounts due to:</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
FTIS	11,752,658	12,907,804
FTIML	69,752	193,120
	<b>11,822,410</b>	<b>13,100,924</b>

There are no other elements of compensation for key management besides those described above.

**(b) Subsidiaries**

The Fund had the following subsidiaries, all of which are incorporated in Romania:

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Ownership interest</b>		
Zirom SA	100%	100%
Alcom SA	72%	72%
Comsig SA	70%	70%
Primcom SA	0%	75%

In April 2017, the shareholders of Comsig SA approved the dissolution of the company. As at the reporting date of these financial statements, Comsig SA is in administrative liquidation process.

In August 2017, the Fund participated in the cash share capital increase of Zirom SA subscribing 272,000 new shares respectively, at the nominal value of RON 10 per share (in total of RON 2,720,000).

In September 2017, the Fund sold its entire holding in Primcom SA.

In March and August 2016, the Fund participated in the cash share capital increases of Zirom SA subscribing 300,000 and 120,000 new shares respectively, at the nominal value of RON 10 per share (in total of RON 3,000,000 and RON 1,200,000 respectively).

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**  
 (all amounts are in RON unless otherwise stated)

**21. Related parties (continued)**
**(b) Subsidiaries (continued)**

On 5 July 2016, Primcom SA finalised the registration within the Romanian Central Depository of its share capital decrease by RON 18,768.90 through the cancellation of 187,689 shares according with the resolution of the General Shareholders Meeting held on 17 March 2016. The number of shares owned by Fondul Proprietatea in Primcom SA, respectively 1,275,032 shares did not change, but the holding percentage increased from 68% to 75%.

The fair value of investments in subsidiaries is presented in the table below:

	<b>31 December 2017</b>	<b>31 December 2016</b>
Zirom SA	26,839,000	25,512,000
Alcom SA	9,906,746	10,133,492
Comsig SA	-	248,269
Primcom SA	-	10,225,757
	<b><u>36,745,746</u></b>	<b><u>46,119,518</u></b>

As at 31 December 2017, the Fund has no commitment or intention to provide financial or other support to its subsidiaries, including commitments or intentions to assist the subsidiaries in obtaining financial support.

During 2017, the Fund did not record or receive any dividends from its subsidiaries while during 2016 the Fund recorded and received a dividend of RON 1,719,653 from Comsig SA.

**(c) Associates**

As at 31 December 2017 and 31 December 2016 the Fund had two associates, all of them incorporated in Romania:

	<b>31 December 2017</b>	<b>31 December 2016</b>
<b>Ownership interest</b>		
Societatea Nationala a Sarii SA	49%	49%
Plafar SA	49%	49%

During 2017, the Fund recorded and collected from Societatea Nationala a Sarii SA a dividend of RON 13,760,169.

The Fund did not carry out any transactions with its associates during 2016.

**22. Subsequent events**
**Tender Offer within the ninth buy-back programme**

On 15 December 2017 the Fund submitted an application for endorsement of a tender offer to accelerate the ninth buy-back programme to the FSA for approval. Under this tender offer, the Fund intends to repurchase up to 1,200,000,000 shares from its shareholders, both in the form of shares and GDRs.

As such, the daily execution of the ninth buy-back programme, with respect to the shares on the Bucharest Stock Exchange and GDRs on the London Stock Exchange was suspended, starting with 11 December 2017.

Wood & Company Financial Services a.s. has been engaged as intermediary in relation to the purchase of shares. Jefferies International Limited and Wood & Company Financial Services a.s. have been engaged as dealer managers and The Bank of New York Mellon has been appointed as tender agent in relation to the purchase of the GDRs.

On 10 January 2018, the FSA approved the Fund's application for the tender offer. The subscription period is from 18 January 2018 until 23 February 2018, and the purchase price is RON 0.9350 per share and the USD equivalent of RON 46.75 per GDR.

## Annex 2

## Statement of Assets and Obligations of Fondul Proprietatea SA as at 29 December 2017, prepared in accordance with CNVM Regulation 4/2010 (Annex no. 4)

Item	30 December 2016				29 December 2017				Differences Lei
	% of the net asset	% of the total asset	Currency		% of the net asset	% of the total asset	Currency		
<b>I. Total assets</b>	<b>100.4203%</b>	<b>100.0000%</b>	<b>11,475,358,724.04</b>		<b>100.3372%</b>	<b>100.0000%</b>	<b>10,826,827,868.09</b>		<b>(648,530,855.95)</b>
<b>1 Securities and money market instruments, out of which:*</b>	<b>24.6421%</b>	<b>24.5389%</b>	<b>2,815,929,874.99</b>		<b>24.3997%</b>	<b>24.3177%</b>	<b>2,632,840,979.68</b>		<b>(183,088,895.31)</b>
1.1. securities and money market instruments admitted or traded on a regulated market from Romania, out of which:	24.6421%	24.5389%	2,815,929,874.99		24.3997%	24.3177%	2,632,840,979.68		(183,088,895.31)
1.1.1 listed shares traded in the last 30 trading days	21.6780%	21.5873%	2,477,213,080.14		22.4907%	22.4152%	2,426,855,059.71		(50,358,020.43)
1.1.2 listed shares not traded in the last 30 trading days	0.0887%	0.0883%	10,133,492.11		0.0936%	0.0932%	10,095,916.20		(37,575.91)
1.1.3 Government bonds	2.8754%	2.8633%	328,583,302.74		1.8154%	1.8093%	195,890,003.77		(132,693,298.97)
1.1.4 allotment rights not admitted at trading on a regulated market	-	-	-		-	-	-		-
1.2. securities and money market instruments admitted or traded on a regulated market from a member state, out of which:	-	-	-		-	-	-		-
1.2.1 listed shares traded in the last 30 trading days	-	-	-		-	-	-		-
1.2.2 listed shares not traded in the last 30 trading days	-	-	-		-	-	-		-
1.3. securities and money market instruments admitted on a stock exchange from a state not a member or negotiates on another regulated market from a state not a member, that operates on a regular basis and is recognized and opened to the public, approved by the Financial Supervisory Authority ("FSA".)	-	-	-		-	-	-		-
2 New issued securities	-	-	-		-	-	-		-
3 Other securities and money market instruments mentioned at art. 187 letter a) of the Regulation no.15/2004, out of which:	66.0359%	65.7595%	7,546,147,063.97		63.4009%	63.1879%	6,841,241,262.82		(704,905,801.15)
- shares not admitted at trading on a regulated market	66.0359%	65.7595%	7,546,147,063.97		63.4009%	63.1879%	6,841,241,262.82		(704,905,801.15)
4 Bank deposits, out of which:	2.6721%	2.6609%	305,335,161.21		11.8307%	11.7910%	1,276,587,197.95		971,252,036.74
4.1. bank deposits made with credit institutions from Romania	2.6721%	2.6609%	305,335,161.21		11.8307%	11.7910%	1,276,587,197.95		971,252,036.74
- in RON	2.6721%	2.6609%	305,335,161.21		11.8307%	11.7910%	1,276,587,197.95		971,252,036.74
- in euro	-	-	-		-	-	-		-
4.2. bank deposits made with credit institutions from an EU state	-	-	-		-	-	-		-
4.3. bank deposits made with credit institutions from a non-EU state	-	-	-		-	-	-		-
5 Derivatives financial instruments traded on a regulated market	-	-	-		-	-	-		-
6 Current accounts and petty cash out of which:	0.0506%	0.0504%	5,781,686.46		0.1777%	0.1771%	19,173,642.78		13,391,956.32
- in RON	0.0506%	0.0504%	5,778,094.78		0.1777%	0.1771%	19,167,497.50		13,389,402.72
- in euro	0.0000%	0.0000%	EUR 222.45	1,010.17	0.0000%	0.0000%	EUR 671.64	3,129.64	2,119.47
- in USD	0.0000%	0.0000%	USD 232.92	1,002.32	0.0000%	0.0000%	USD 331.35	1,289.45	287.13
- in GBP	0.0000%	0.0000%	GBP 298.18	1,579.19	0.0000%	0.0000%	GBP 328.61	1,726.19	147.00
7 Money market instruments, others than those traded on a regulated market, according to art. 101 par. (1) letter g) of Law no. 297/2004 regarding the capital market, with subsequent additions and amendments, out of which:	6.8382%	6.8099%	781,436,770.50		0.4289%	0.4274%	46,273,974.68		(735,162,795.82)
- Treasury bills with original maturities of less than 1 year	6.8382%	6.8099%	781,436,770.50		0.4289%	0.4274%	46,273,974.68		(735,162,795.82)
8 Participation titles of OCIU and/or of UCITS (A.O.P.C./ O.P.C.V.M.)	-	-	-		-	-	-		-
9 Other assets out of which:	0.1814%	0.1806%	20,728,166.91		0.0993%	0.0989%	10,710,810.18		(10,017,356.73)
- receivable representing the amount transferred to Central Depository for 2015 return of capital and not yet paid to / collected by shareholders until the end of the period	0.1054%	0.1049%	12,042,812.70		0.0150%	0.0149%	1,612,518.00		(10,430,294.70)
- tax on dividends to be recovered from the State Budget	0.0061%	0.0060%	692,489.00		0.0068%	0.0067%	730,314.00		37,825.00
- tax on profit to be recovered from the State Budget	0.0641%	0.0639%	7,330,440.00		0.0679%	0.0677%	7,330,440.00		-
- intangible assets	0.0048%	0.0048%	548,806.76		0.0070%	0.0070%	756,603.69		207,796.93
- advance payments for intangible assets	-	-	-		0.0002%	0.0002%	19,332.26		19,332.26
- other receivables	0.0003%	0.0003%	35,811.24		0.0001%	0.0001%	15,720.00		(20,091.24)
- in RON	0.0003%	0.0003%	35,811.24		0.0001%	0.0001%	15,720.00		(20,091.24)
- in EUR	-	-	-		-	-	-		-
- in USD	-	-	-		-	-	-		-
- prepaid expenses	0.0007%	0.0007%	77,807.21		0.0023%	0.0023%	245,882.23		168,075.02
<b>II. Total liabilities</b>	<b>0.4201%</b>	<b>0.4184%</b>	<b>48,007,343.57</b>		<b>0.3372%</b>	<b>0.3363%</b>	<b>36,409,534.29</b>		<b>(11,597,809.28)</b>
1. Liabilities in relation with the payments of fees due to the investment management company (S.A.I.)	0.1119%	0.1114%	12,782,412.56		0.1066%	0.1063%	11,506,104.96		(1,276,307.60)
2. Liabilities related to the fees payable to the depository bank	0.0006%	0.0006%	66,204.54		0.0004%	0.0004%	50,031.96		(16,172.58)
3. Liabilities related to the fees payable to intermediaries	0.0561%	0.0558%	6,406,659.99		0.0111%	0.0111%	1,197,286.95		(5,209,373.04)
4. Liabilities related to commissions and other bank services	-	-	-		-	-	-		-
5. Interest payable	-	-	-		-	-	-		-
6. Liabilities related to issuance costs	-	-	-		-	-	-		-
7. Liabilities in relation with the fees/commissions to FSA	0.0073%	0.0073%	833,574.93		0.0072%	0.0072%	776,109.30		(57,465.63)
8. Liabilities related to audit fees	-	-	-		-	-	-		-
9. Other Liabilities, out of which:	0.2443%	0.2433%	27,918,491.55		0.2119%	0.2113%	22,880,001.12		(5,038,490.43)
- liabilities related to the return of capital	0.1768%	0.1761%	20,208,048.75		0.1918%	0.1912%	20,705,310.85		497,262.10
- provisions	0.0075%	0.0075%	856,247.22		0.0079%	0.0079%	856,247.22		-



**FONDUL PROPRIETATEA SA**

Item	30 December 2016				29 December 2017				Differences
	% of the net asset	% of the total asset	Currency	Lei	% of the net asset	% of the total asset	Currency	Lei	
- liabilities related to buybacks under settlement	0.0025%	0.0025%	-	287,823.53	-	-	-	-	(287,823.53)
- remunerations and related contributions	0.0003%	0.0003%	-	31,950.00	0.0004%	0.0004%	-	40,065.00	8,115.00
- other liabilities out of which:	0.0572%	0.0569%	-	6,534,422.05	0.0118%	0.0118%	-	1,278,378.05	(5,256,044.00)
- in RON	0.0558%	0.0556%	-	6,374,591.32	0.0070%	0.0070%	-	762,042.01	(5,612,549.31)
- in USD	0.0009%	0.0009%	USD 25,007.00	107,612.62	0.0009%	0.0009%	USD 25,007.00	97,314.74	(10,297.88)
- in euro	0.0005%	0.0005%	EUR 11,499.00	52,218.11	-	-	EUR	-	(52,218.11)
- in GBP	0.0000%	0.0000%	GBP	-	0.0039%	0.0039%	GBP 79,768.00	419,021.30	419,021.30
<b>III. Net Asset Value (I - II)</b>	<b>100.0000%</b>	<b>99.5816%</b>		<b>11,427,351,380.47</b>	<b>100.0000%</b>	<b>99.6637%</b>		<b>10,790,418,333.80</b>	<b>(636,933,046.67)</b>

\* = Includes also the value of holdings in companies admitted to trading on AeRo market (alternative regulated market)

**Unitary Net Asset Value**

Item	29 December 2017	30 December 2016	Differences
<b>Net Asset Value</b>	10,790,418,333.80	11,427,351,380.47	(636,933,046.67)
Number of outstanding shares	8,718,991,588	9,630,931,675	(911,940,087)
Unitary net asset value	1.2375	1.1865	0.0510

**DETAILED STATEMENT OF INVESTMENTS AS AT 29 DECEMBER 2017**

Securities admitted or traded on a regulated market in Romania, out of which:

1.1 listed shares traded in the last 30 trading days

Issuer	Symbol	Date of the last trading session	No. of shares held	Nominal value	Share value	Total value	Stake in the issuer's capital	Stake in Fondul Proprietatea total asset	Stake in Fondul Proprietatea net asset	Evaluation method
Alro Slatina SA	ALR	29/Dec/2017	72,884,714	0.5	3.2700	238,333,014.78	10.21%	2.2013%	2.2087%	Closing price
BRD-Groupe Societe Generale SA	BRD	29/Dec/2017	22,143,136	1	12.9000	285,646,454.40	3.17%	2.6383%	2.6472%	Closing price
Conpet SA	COTE	29/Dec/2017	524,366	3.3	99.4000	52,121,980.40	6.05%	0.4814%	0.4830%	Closing price
IOR SA	IORB	29/Dec/2017	2,622,273	0.1	0.3000	786,681.90	2.81%	0.0073%	0.0073%	Reference price - Average price
OMV Petrom SA	SNP	29/Dec/2017	5,663,548,078	0.1	0.2860	1,619,774,750.31	9.99%	14.9608%	15.0112%	Closing price
Palace SA	PACY	29/Dec/2017	5,832,482	0.1	0.4600	2,682,941.72	15.42%	0.0248%	0.0249%	Reference price - Average price
Romaero SA	RORX	29/Dec/2017	1,311,691	2.5	23.0000	30,168,893.00	20.99%	0.2786%	0.2796%	Reference price - Average price
Nuclearelectrica SA	SNN	29/Dec/2017	27,408,381	10	7.2000	197,340,343.20	9.09%	1.8227%	1.8288%	Closing price
<b>Total</b>						<b>2,426,855,059.71</b>		<b>22.4152%</b>	<b>22.4907%</b>	

1.2 listed shares but not traded in the last 30 trading days

Issuer	Symbol	Date of the last trading session	No. of shares held	Nominal value	Share value	Total value	Stake in the issuer's capital	Stake in Fondul Proprietatea total asset	Stake in Fondul Proprietatea net asset	Evaluation method
Alcom SA	ALCQ	10/Feb/2017	89,249	2.5	111.0012	9,906,746.10	71.89%	0.0915%	0.0918%	Shareholders' equity as of 31 December 2016
Meccon SA	MECP	4/Oct/2017	60,054	11.6	3.1500	189,170.10	12.51%	0.0017%	0.0018%	Fair value (Last trading price)
<b>Total</b>						<b>10,095,916.20</b>		<b>0.0932%</b>	<b>0.0936%</b>	

**FONDUL PROPRIETATEA SA**
**Instruments mentioned at art. 187 letter a) of the Regulation no.15/2004, out of which:**

## Unlisted shares

Issuer	No. of shares held	Date of acquisition *	Acquisition price (total price of acquisition of shares)**	Share value	Total value	Stake in the issuer's capital	Stake in Fondul Proprietatea total asset	Stake in Fondul Proprietatea net asset	Company status	Evaluation method
Aeroportul International Mihail Kogalniceanu - Constanta SA	23,159	19/Jul/2005	1,490,898	105.4017	2,440,997.97	20.00%	0.0225%	0.0226%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
Aeroportul International Timisoara - Traian Vuia SA	32,016	19/Jul/2005	2,652,588	687.1564	21,999,999.30	20.00%	0.2032%	0.2039%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
BAT Service SA	194,022	19/Jul/2005	656,686	0.0000	0.00	33.00%	0.0000%	0.0000%	Bankruptcy	Priced at zero
CN Administratia Canalelor Navigabile SA	203,160	19/Jul/2005	15,194,209	77.0272	15,648,845.95	20.00%	0.1445%	0.1450%	Unlisted companies, in function	Fair value / share (Shareholders' equity as of 31 December 2016 adjusted with dividends declared/ share)
CN Administratia Porturilor Dunarii Fluviale SA	27,554	19/Jul/2005	675,810	127.5586	3,514,749.66	20.00%	0.0325%	0.0326%	Unlisted companies, in function	Fair value / share (Shareholders' equity as of 31 December 2016 adjusted with dividends declared/ share)
CN Administratia Porturilor Dunarii Maritime SA	21,237	19/Jul/2005	1,351,671	132.6352	2,816,773.74	20.00%	0.0260%	0.0261%	Unlisted companies, in function	Fair value / share (Shareholders' equity as of 31 December 2016 adjusted with dividends declared/ share)
CN Administratia Porturilor Maritime SA	2,658,128	19/Jul/2005	65,511,444	86.5270	229,999,841.46	19.99%	2.1244%	2.1315%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
CN Aeroporturi Bucuresti SA ***	2,875,443	5/Feb/2010	131,168,263	269.1759	773,999,957.42	20.00%	7.1489%	7.1730%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
Complexul Energetic Oltenia SA****	27,387,940	31/May/2012	670,353,852	1.1683	31,997,330.30	21.55%	0.2955%	0.2965%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
Comsig SA	75,655	19/Jul/2005	132,633	0.0000	0.00	69.94%	0.0000%	0.0000%	Liquidation	Priced at zero
E-Distributie Banat SA	9,220,644	19/Jul/2005	141,578,929	59.1065	544,999,994.59	24.12%	5.0338%	5.0508%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
E-Distributie Dobrogea SA	6,753,127	19/Jul/2005	114,760,053	50.6432	341,999,961.29	24.09%	3.1588%	3.1695%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
E-Distributie Muntenia SA	3,256,396	19/Jul/2005	107,277,263	128.6698	418,999,822.04	12.00%	3.8700%	3.8831%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
Enel Energie Muntenia SA	444,054	19/Jul/2005	2,833,769	137.3706	60,999,964.41	12.00%	0.5634%	0.5653%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
Enel Energie SA	1,680,000	19/Jul/2005	26,124,808	33.9285	56,999,880.00	12.00%	0.5265%	0.5282%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
Engie Romania SA	2,390,698	19/Jul/2005	62,610,812	197.4318	471,999,809.40	11.99%	4.3595%	4.3742%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
Gerovital Cosmetics SA	1,350,988	19/Jul/2005	340,996	0.0000	0.00	9.76%	0.0000%	0.0000%	Bankruptcy	Priced at zero
Hydroelectrica SA	89,381,593	19/Jul/2005	3,107,701,576	39.8963	3,565,994,848.81	19.94%	32.9367%	33.0478%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
Plafar SA	132,784	28/Jun/2007	3,160,329	14.9867	1,989,993.97	48.99%	0.0184%	0.0184%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
Posta Romana SA	14,871,947	19/Jul/2005	84,664,380	2.3534	34,999,640.07	25.00%	0.3233%	0.3244%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
Romplumb SA	1,595,520	28/Jun/2007	19,249,219	0.0000	0.00	33.26%	0.0000%	0.0000%	Bankruptcy	Priced at zero
Salubriserv SA	43,263	19/Jul/2005	207,601	0.0000	0.00	17.48%	0.0000%	0.0000%	Judicial reorganisation	Priced at zero
Simtex SA	132,859	28/Jun/2007	3,059,858	0.0000	0.00	30.00%	0.0000%	0.0000%	Judicial reorganisation	Priced at zero
Societatea Nationala a Sarii SA	2,005,884	28/Jun/2007	76,347,715	116.1582	232,999,874.85	48.99%	2.1521%	2.1593%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
World Trade Center Bucuresti SA	198,860	19/Jul/2005	42,459	0.0000	0.00	19.90%	0.0000%	0.0000%	Insolvency	Priced at zero
World Trade Hotel SA	17,912	19/Jul/2005	17,912	0.0000	0.00	19.90%	0.0000%	0.0000%	Unlisted companies, in function	Priced at zero (lack of annual financial statements for the year-ended 31 December 2016)
Zirom SA	5,677,083	28/Jun/2007	56,558,072	4.7276	26,838,977.59	100.00%	0.2479%	0.2487%	Unlisted companies, in function	Fair value / share (Value as per independent valuator's report as at 30 September 2017)
<b>Total</b>			<b>4,695,723,805</b>		<b>6,841,241,262.82</b>		<b>63.1879%</b>	<b>63.4009%</b>		

**Legend:**

\* = where the date of acquisition is shown as earlier than Fondul Proprietatea's date of incorporation (28 December 2005), the date of acquisition refers to the date of publishing in the Official Gazette of Law no. 247 / 19 July 2005, which determined that these investments would be transferred to Fondul Proprietatea on its future incorporation.

\*\* = The acquisition price includes the initial value of Fondul Proprietatea's final portfolio of shares contributed by the Romanian State in December 2005 and June 2007 determined based on the valuation performed in October 2007 by an independent valuer (Finevex SRL Constanta) and the subscriptions to share capital increase of portfolio companies, if the case,

(both in cash and in form of free of charge shares received) less the disposals (if the case). Fondul Proprietatea did not perform any acquisition of unlisted shares from its incorporation date until now.

\*\*\* = company resulting from the merger of CN "Aeroportul International Henri Coanda - Bucuresti" S.A. and S.N. "Aeroportul International Bucuresti Baneasa - Aurel Vlaicu" S.A.

\*\*\*\* = company resulting from the merger of Complexul Energetic Turceni S.A., Complexul Energetic Craiova S.A., Complexul Energetic Rovinari S.A., Societatea Nationala a Lignitului Oltenia S.A.



**FONDUL PROPRIETATEA SA**
**Bonds or other debt instruments issued or guaranteed by the state or central public administration authorities**
**Treasury bills with discount**

Series and number of the issue	No. of instruments	Date of acquisition	Maturity date	Initial value	Daily interest	Cumulative interest	Current value	Stake in Fondul Proprietatea total asset	Stake in Fondul Proprietatea net asset	Intermediary Bank	Evaluation method
RO1718CTN013	6,600	23/Nov/2017	10/Jan/2018	32,919,630.48	1,709.99	61,559.63	32,981,190.11	0.3046%	0.3057%	CITI Bank	Acquisition price cumulated with the related interest since the acquisition date
RO1718CTN0C3	2,670	25/Sep/2017	25/Jul/2018	13,267,355.49	276.40	25,429.08	13,292,784.57	0.1228%	0.1232%	Banca Comerciala Romana	
<b>Total</b>							<b>46,273,974.68</b>	<b>0.4274%</b>	<b>0.4289%</b>		

**Government bonds**

Issuer	ISIN code	No. of instruments	Date of acquisition	Coupon date	Due Date	Initial Value	Daily interest	Cumulated interest	Cumulated discount/premium	Market price / Reference composite price	Current value	Stake in FP total assets	Stake in FP net asset	Evaluation method
Ministry of Finance	RO1418DBN040	10,000	2/Aug/2017	17/Jan/2018	17/Jan/2018	50,000,000.00	4,452.06	1,544,863.02	0.00	100.0700%	51,579,863.02	0.4764%	0.4780%	Fair value (reference composite price published by Reuters, including the cumulated interest)
Ministry of Finance	RO1418DBN040	6,000	25/Sep/2017	17/Jan/2018	17/Jan/2018	30,000,000.00	2,671.23	926,917.81	0.00	100.0700%	30,947,917.81	0.2858%	0.2868%	
Ministry of Finance	RO1418DBN040	6,378	24/Nov/2017	17/Jan/2018	17/Jan/2018	31,890,000.00	2,839.52	985,313.63	0.00	100.0700%	32,897,636.63	0.3039%	0.3049%	Fair value (reference composite price published by Reuters, including the cumulated interest)
Ministry of Finance	RO1418DBN040	3,600	6/Dec/2017	17/Jan/2018	17/Jan/2018	18,000,000.00	1,602.74	556,150.69	0.00	100.0700%	18,568,750.69	0.1715%	0.1721%	
Ministry of Finance	RO1418DBN040	12,000	11/Dec/2017	17/Jan/2018	17/Jan/2018	60,000,000.00	5,342.47	1,853,835.62	0.00	100.0700%	61,895,835.62	0.5717%	0.5736%	
<b>Total</b>											<b>195,890,003.77</b>	<b>1.8093%</b>	<b>1.8154%</b>	

**Bank deposits**

Name of the bank	Starting date	Maturity date	Initial value	Daily interest	Cumulative interest	Current value	Stake in Fondul Proprietatea total asset	Stake in Fondul Proprietatea net asset	Evaluation method	
Unicredit Tiriac Bank	2/Nov/2017	3/Jan/2018	50,000,000.00	1,736.11	100,694.44	50,100,694.44	0.4627%	0.4643%	Bank deposit value cumulated with the daily related interest for the period from starting date	
Banca Comerciala Romana	2/Nov/2017	3/Jan/2018	103,700,000.00	4,061.58	235,571.83	103,935,571.83	0.9600%	0.9632%		
Raiffeisen Bank	11/Dec/2017	11/Jan/2018	72,700,000.00	3,029.17	57,554.17	72,757,554.17	0.6720%	0.6743%		
Unicredit Tiriac Bank	13/Dec/2017	3/Jan/2018	89,800,000.00	3,118.05	53,006.94	89,853,006.94	0.8299%	0.8327%		
ING BANK	13/Dec/2017	3/Jan/2018	89,800,000.00	2,743.89	46,646.11	89,846,646.11	0.8299%	0.8327%		
Banca Comerciala Romana	15/Dec/2017	15/Jan/2018	44,400,000.00	1,850.00	27,750.00	44,427,750.00	0.4103%	0.4117%		
ING BANK	18/Dec/2017	8/Jan/2018	85,100,000.00	2,482.08	29,785.00	85,129,785.00	0.7863%	0.7889%		
CITI Bank	18/Dec/2017	8/Jan/2018	85,100,000.00	2,600.27	31,203.33	85,131,203.33	0.7863%	0.7890%		
Unicredit Tiriac Bank	20/Dec/2017	3/Jan/2018	88,500,000.00	2,704.17	27,041.67	88,527,041.67	0.8177%	0.8204%		
Banca Comerciala Romana	21/Dec/2017	11/Jan/2018	88,500,000.00	3,318.75	29,868.75	88,529,868.75	0.8177%	0.8204%		
BRD Groupe Societe Generale	21/Dec/2017	3/Jan/2018	112,200,000.00	2,337.50	21,037.50	112,221,037.50	1.0365%	1.0400%		
CITI Bank	22/Dec/2017	3/Jan/2018	112,200,000.00	3,116.66	24,933.33	112,224,933.33	1.0365%	1.0400%		
ING BANK	22/Dec/2017	3/Jan/2018	112,200,000.00	5,921.66	47,373.33	112,247,373.33	1.0368%	1.0403%		
BRD Groupe Societe Generale	27/Dec/2017	4/Jan/2018	66,200,000.00	1,287.23	3,861.67	66,203,861.67	0.6115%	0.6135%		
Raiffeisen Bank	28/Dec/2017	4/Jan/2018	66,000,000.00	733.34	1,466.67	66,001,466.67	0.6096%	0.6117%		
BRD Groupe Societe Generale	29/Dec/2017	3/Jan/2018	9,449,316.59	86.62	86.62	9,449,403.21	0.0873%	0.0876%		
<b>Total</b>						<b>1,276,587,197.95</b>	<b>11.7910%</b>	<b>11.8307%</b>		

**Evolution of the net asset and the net asset unitary value in the last 3 years**

	31 December 2015	30 December 2016	29 December 2017
Net Asset	12,093,456,192.73	11,427,351,380.47	10,790,418,333.80
NAV/share	1.1570	1.1865	1.2375

Franklin Templeton Investment Management Ltd United Kingdom Bucharest Branch, acting as Investment Manager on behalf of FONDUL PROPRIETATEA SA

BRD Groupe Societe Generale

Oana Truta  
Legal representative

Marius Nechifor  
Compliance Officer

Claudia Ionescu  
Director

Victor Strâmbei  
Manager Depository Department

## Annex 3

### Statement of persons responsible

Provisions of Art.30 of Accounting Law no. 82/1991 and  
CNVM Regulations no. 1/2006, Art.112<sup>1</sup>, par. 1, letter c

The semi-annual financial statements as at 31 December 2017 prepared for:

Entity: Fondul Proprietatea SA

Address: Bucharest, District 1, 78–80, Buzeşti Street, 7th Floor

Trade Registry Number: J40/21901/28.12.2005

Form of property: 22 (joint ownership with public capital under 50%, domestic and foreign public and private capital companies)

CAEN code and name: 6430 “Trusts, funds and similar financial entities”

Sole Registration Code: 18253260

The undersigned, Oana Truta, Permanent Representative with Franklin Templeton International Services S.à r.l as Sole Director, and Cadaru Catalin, Financial reporting manager, undertake the responsibility for the preparation of the annual financial statements as at 31 December 2017 and confirm that:

- a) The accounting policies used for the preparation of the annual financial statements are in compliance with the applicable accounting regulations;
- b) The annual financial statements give a true and fair view of the financial position and performance and of other information regarding the conducted business;
- c) The company is conducting its business on the going concern basis;
- d) The Annual Administrator’s Report of Franklin Templeton International Services S.À R.L regarding the management and administration of Fondul Proprietatea SA for the year 2017, includes an accurate overview of the developments and performance of Fondul Proprietatea SA, as well as a description of the main risks and uncertainties related to the business.

**Franklin Templeton International Services S.à r.l acting in the capacity of Sole Director of Fondul Proprietatea SA**

Oana Truta  
Permanent Representative

Catalin Cadaru  
Financial Reporting Manager

## Annex 4

# Constitutive Act in force updated as at 31 December 2017

### CHAPTER I

#### Name of the company, legal form, headquarters and duration

#### ARTICLE 1

##### Name of the Company

- (1) The name of the Company is "Fondul Proprietatea" - S.A.
- (2) All invoices, offers, orders, tariffs, prospectuses and other documents used in business, issued by the Company shall indicate the name, the legal form, the registered office, the registration number with the Commercial Registry and the sole registration code (CUI), the subscribed share capital, and the paid share capital".

#### ARTICLE 2

##### Legal form of the company

- (1) "Fondul Proprietatea" - S.A., hereinafter referred to as Fondul Proprietatea, is a Romanian legal person, set up as a joint-stock company.
- (2) Fondul Proprietatea is organized, operates and ceases its activity under the provisions of Law No. 247/2005 on property and justice reform, and additional measures, as further amended and completed, of Law No. 297/2004 on the capital market, as further amended and completed, and of Company Law No. 31/1990, republished, as further amended and completed.
- (3) Fondul Proprietatea is set up as an undertaking for collective investment (A.O.P.C.), of the closed-end-type, as defined by Art. 114 (1) letter b) of Law No. 297/2004, as further amended and completed and qualifies as an Alternative Investment Fund as defined by Law no. 74/2015 regarding the alternative investment fund managers that implemented in Romania Directive 2011/61/EU on alternative investment fund managers, as amended.

#### ARTICLE 3

##### Company headquarters

- (1) The registered office of Fondul Proprietatea is located in Bucharest, 78-80 Buzesti Street, floor 7th, Sector 1; the headquarters may be changed to any other location in Romania, by decision of the asset management company (Alternative Investment Fund Manager), according to article 21 paragraph (3) xii).
- (2) The Company may set up secondary headquarters such as branches, representative offices, working points or other units with no legal personality, under the terms provided by law.

#### ARTICLE 4

##### Company duration

The duration of Fondul Proprietatea is unlimited.

**CHAPTER II**  
**Purpose and business object of the company**

**ARTICLE 5**  
**Company purpose**

The purpose of Fondul Proprietatea is the management and administration of the portfolio.

**ARTICLE 6**  
**Business object**

- (1) Fondul Proprietatea has as main object of activity the management and administration of the portfolio.
- (2) The main domain of activity of Fondul Proprietatea is the one described by CAEN Code 643 – mutual funds and other similar financial entities, and the main activity is financial investments - CAEN Code 6430.
- (3) The business object of Fondul Proprietatea is the following:
  - a) management and administration of the portfolio;
  - b) other additional and adjacent activities, according to the regulations in force.

**CHAPTER III**  
**Share capital, shares**

**ARTICLE 7**  
**Share capital**

- (1) The subscribed share capital of Fondul Proprietatea is in amount of RON 4,854,034,784.56, divided in 9,334,682,278 ordinary, nominative shares, having a nominal value of RON 0.52 each. The capacity as shareholder of Fondul Proprietatea is attested by a statement of account issued by Depozitarul Central SA.
- (2) The identification data of each shareholder, the contribution to the share capital of each shareholder, the number of shares to which a shareholder is entitled to and the participation quota out of the total share capital are included in the shareholders' register kept by a computerized system by the Central Depository.

**ARTICLE 8**  
**Share capital increase and decrease**

- (1) The extraordinary general meeting of the shareholders shall decide, under the conditions of the law, on the share capital increase and decrease of Fondul Proprietatea, in accordance with the provisions of art. 12 (3) letter c) and d) of this constitutive act.
- (2) The share capital may be increased, in accordance with the provisions of the law, by:
  - a) by issuing new shares in exchange for cash contributions;
  - b) incorporating reserves, except for the legal reserves and of the reserves created out of the re-evaluation of the patrimony, as well as of the benefits and issuing premiums.
- (3) The share capital increase stated for in paragraph 2 shall be registered at the Trade Register Office, on the basis of the decision made by the General Meeting of the Shareholders of Fondul Proprietatea,
- (4) Any share capital decrease shall be performed in accordance with the provisions of the law.
- (5) The share capital may be decreased by:
  - a) decreasing the number of shares;
  - b) decreasing the nominal value of shares; and

- c) other means provided by the law.
- (6) In case the Alternative Investment Fund Manager notices that, due to accrued losses, the amount of the net assets, established as the difference between the total assets and total liabilities of Fondul Proprietatea, is less than half of the value of the subscribed share capital, Fund Manager is bound to call the extraordinary general meeting of the shareholders, which will decide if Fondul Proprietatea requires to be dissolved. In case the extraordinary general meeting of the shareholders does not decide the dissolution of Fondul Proprietatea, then Fondul Proprietatea is bound to proceed, at the latest by the termination of the fiscal year subsequent to the one in which the losses were determined, to a share capital decrease with an amount at least equal to that of the losses which could not be covered by reserves, in case in this time the net assets of Fondul Proprietatea were not reconstituted up to a value at least equal to half of the share capital.
- (7) Share capital decrease shall be performed only after two months as of the publication in the Official Gazette of Romania, Part IV, of the resolution of the extraordinary general meeting of the shareholders.

## **ARTICLE 9**

### **Shares**

- (1) The shares of Fondul Proprietatea are nominative, of equal value, issued in dematerialized form, established by registration in the account, and grants equal rights to their holders under the conditions provided by art. 11.
- (2) The nominal value of a share is RON 0.52.
- (3) The shares are indivisible with respect to Fondul Proprietatea, acknowledging only one holder for each share. In case a share becomes the property of more persons, Fondul Proprietatea / the Central Depository is not bound to register the transfer as long as those persons will not appoint a sole representative to exercise the rights arising from the share.
- (4) The partial or total transfer of the shares amongst the shareholders or third parties is done according to the terms, conditions and procedure provided by law.
- (5) Fondul Proprietatea may buy back its own shares in accordance with the conditions laid down in legislation in force.
- (6) The right to dividends are held by the shareholders registered in the shareholders' register, according to the provisions of Law No. 297/2004, as further amended and completed, as well as the regulations issued for the implementation thereof.

## **ARTICLE 10**

### **Bonds**

Fondul Proprietatea is authorized to issue bonds in accordance with the provisions of the law. Fondul Proprietatea is not allowed to conclude loan agreements for investment reasons.

## **ARTICLE 11**

### **Rights and obligations arising from shares**

- (1) Each share fully paid by the shareholders, according to the law, grants them the right to vote in the general meeting of the shareholders, according to the provisions of paragraph (2), the right to elect and to be elected in the management bodies, the right to take part in the profit distribution, according to the provisions of this constitutive act and the legal dispositions, respectively other rights provided by the constitutive act.
- (2) The shares issued by Fondul Proprietatea grant the right to vote, each share grants one voting right.
- (3) Holding one share implies the rightful adhesion to this constitutive act.
- (4) The rights and obligations follow the shares in case ownership thereof passes to another person.

**CHAPTER IV**  
**General meeting of the shareholders**

**ARTICLE 12**  
**General meetings of the shareholders**

- (1) The general meeting of the shareholders may be ordinary and extraordinary.
- (2) The ordinary general meeting of the shareholders has the following competencies, duties and functions:
- a) to discuss, approve and amend the annual financial statements after reviewing the reports of the Alternative Investment Fund Manager and financial auditor;
  - b) to establish the distribution of the net profit and to establish the dividends;
  - c) to appoint the members of the Board of Nominees (“BoN”) and to cancel their appointment;
  - d) to appoint the Alternative Investment Fund Manager in accordance with the law and to cancel its appointment;
  - e) to appoint and cancel the appointment of the financial auditor and to set the minimum duration of the financial audit agreement;
  - f) to set the level of the remuneration of the members of the Board of Nominees, the Alternative Investment Fund Manager and of the financial auditor for financial audit services for the ongoing fiscal year;
  - g) to rule over the management of the Alternative Investment Fund Manager and to evaluate his/her performances and to discharge him/her from its management,
  - h) to decide on the action in a court of law against the Alternative Investment Fund Manager or, as the case may be, against the financial audit, for damages caused to Fondul Proprietatea;
  - i) to approve the strategies and the development policies of Fondul Proprietatea;
  - j) to establish the annual income and expenditure budget for the following financial year;
  - k) to decide upon the pledge, lease or the creation of the movable securities or mortgages on the assets of Fondul Proprietatea;
  - l) to decide on any other aspects regarding Fondul Proprietatea, according to the legal duties.
- (3) The extraordinary general meeting of the shareholders is entitled to decide on the following:
- a) set-up or closing of some secondary units: branches, agencies, representative offices or other such units with no legal personality;
  - b) share capital increase;
  - c) share capital decrease or re-completion thereof by issuing new shares;
  - d) conversion of shares from one category to another;
  - e) conversion of a category of bonds to another category or to shares;
  - f) issue new bonds;
  - g) approves the admission for trading and nominates the regulated market on which the shares of Fondul Proprietatea will be traded;
  - h) the execution of contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of Fondul Proprietatea, whose value exceeds, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of Fondul Proprietatea, less receivables;
  - i) change of the management system of Fondul Proprietatea;
  - j) limitation or cancellation of the preference right of the shareholders;
  - k) approves the Investment Policy Statement;
  - l) any other amendment of the constitutive act or any other resolution requiring the approval of the extraordinary general meeting of the shareholders, according to applicable law or to this Constitutive Act.

**ARTICLE 13****Summoning the general meeting of the shareholders**

- (1) The general meeting of the shareholders is called by the Alternative Investment Fund Manager whenever required. Prior to the convocation of the general meeting of the shareholders, the Alternative Investment Fund Manager shall communicate to the Board of Nominees the intention to call the general meeting and shall introduce on the list of matters for the meeting all matters requested by the Board of Nominees.
- (2) The ordinary general meeting of the shareholders meets at least once a year, within 4 months from the end of the financial year.
- (3) The date of the meeting may not be less than 30 days from the publication of the convocation in the Official Gazette of Romania, Part IV.
- (4) The general meeting of the shareholders, either ordinary or extraordinary, shall be called whenever required, according to the legal provisions in force and with the dispositions of the constitutive act, by publication of the calling notice in the Official Gazette of Romania, Part IV, and a national daily newspaper or in a local newspaper largely read in the locality where the HQ of the company resides at least 30 days prior to the proposed date of meeting.
- (5) One or more shareholders, individually or jointly, representing at least 5% of the share capital of Fondul Proprietatea, may request the Alternative Investment Fund Manager by a written address signed by the holder(s) to introduce in the agenda new matters, within 15 days of the publication of the calling notice.
- (6) The calling notice, any other matter added to the agenda at the request of the shareholders or of the Board of Nominees, the annual financial statements, the annual report of the Alternative Investment Fund Manager, the report of the Board of Nominees as well as the proposal to distribute dividends are made available to the shareholders, at the headquarters of Fondul Proprietatea at the date of convocation of the general meeting, and are also published on the internet page, for free access to information by the shareholders. Upon request, copies of these documents shall be issued to the shareholders.
- (7) The calling notice includes the place, hour and date of the general meeting of the shareholders, as well as the agenda, expressly mentioning all matters that will be subject to debate and all matters required by the applicable law.
- (8) In case the agenda includes proposals to amend the constitutive act, the notice shall include the full text of the proposals. In case the agenda includes the appointment of the members of the Board of Nominees, the notice shall mention that the list including information regarding the name, the residence and professional training of the persons proposed for the position of member of the Board of Nominees is available to the shareholders, to be further reviewed and completed by shareholders.
- (9) The notice for the first general meeting of the shareholders may provide also the day and hour of the second meeting, having the same agenda as the first, in order to cover the situation in which the first meeting cannot take place if the quorum is not being met.
- (10) The general meeting of the shareholders shall meet at the headquarters of Fondul Proprietatea or in another place indicated in the notice.
- (11) The Board of Nominees may request to the Alternative Investment Fund Manager the calling of the general meeting, and if the Fund Manager does not observe the written request of the Board of Nominees within 5 working days from receiving it, the Board of Nominees may call upon the general meeting of the shareholders by following the same procedures as set out in this Article.
- (12) The chairperson of Board of Nominees may request to the Alternative Investment Fund Manager the calling of the general meeting according to article 16 paragraph (4) second sentence.
- (13) The Alternative Investment Fund Manager immediately call the general meeting of the shareholders, upon written request of the shareholders, individually or jointly, representing at least 5% of the share capital, in case the request includes dispositions that fall under the responsibility of the general meeting of shareholders.

- (14) In the case provided by paragraph (13), the general meeting of the shareholders shall be called within at most 30 calendar days and shall meet within at most 60 calendar days as of the date when the Alternative Investment Fund Manager received the request of the shareholders.
- (15) In the situation provided by paragraphs (13) and (14), in case the Alternative Investment Fund Manager does not call the general meeting of shareholders, the shareholders who requested the calling of the general meeting may request the same to the Board of Nominees. Should the Board of Nominees is also not responding to their request in 10 working days from the receipt of the request, the court of law from the headquarters of Fondul Proprietatea, by summoning the Alternative Investment Fund Manager, may authorize the calling of the general meeting by the shareholders which formulated the request

## ARTICLE 14

### Organization of the general meeting of the shareholders

#### I. Quorum and voting rights

- (1) Upon the first calling, for the validity of the deliberations of the ordinary general meeting of the shareholders it is required that the shareholders representing at least a fourth of the total shares with right to vote to attend. The decisions of the ordinary general meeting of the shareholders are taken with the majority of votes.
- (2) In case the ordinary general meeting of the shareholders cannot operate due to lack of quorum under paragraph (1), the meeting that will meet upon a second convocation may deliberate on the items included in the agenda of the first meeting, irrespective of the met quorum, taking decision by majority of the expressed votes.
- (3) For the validity of the deliberations of the extraordinary general meeting of the shareholders the following are required:
- a) upon the first convocation, the attendance of the shareholders representing at least a fourth of the shares having voting rights, and the decisions are taken with majority of votes held by the shareholders attending or being represented;
  - b) upon the second convocation, the general meeting of the shareholders may deliberate on the items included in the agenda of the first meeting in the presence of the shareholders representing at least one fifth of the total number of the shares having voting rights, taking decisions by majority of votes held by the shareholders attending or being represented.
- (4) The attendance of shareholders representing at least 50% of the total number of the voting rights, both at the first and the second convocation, is required for the validity of deliberations of the extraordinary general meeting of the shareholders to adopt a decision regarding:
- (i) a share capital increase,
  - (ii) the anticipated dissolution of Fondul Proprietatea, made under the conditions of the law.
- (5) For the validity of the deliberation of the extraordinary general meeting of shareholders regarding a share capital decrease, the attendance of the shareholders representing:
- (i) at least a fourth of the shares having voting rights upon the first convocation, and
  - (ii) at least one fifth of the total number of the shares having voting rights, upon the second convocation is required.
- (6) The decision to amend the main business object of Fondul Proprietatea, to decrease or increase the share capital, to change the legal form, to merge, de-merge or dissolve, is taken with a majority of at least two thirds of the voting rights related to the shares having voting rights of the shareholders attending or being represented.

#### II. Procedure of the meetings

- (7) On the day and hour established in the convocation, the general meeting of the shareholders shall be opened by the permanent representative of the Alternative Investment Fund Manager or, in its absence, by the one holding its place. A legal representative of the Alternative Investment Fund Manager or a person appointed by the legal representative of the Fund Manager shall be the chairman of the meeting. The members of the Board of Nominees shall participate at the meetings, as well.



- (8) The general meeting shall elect, from amongst the attending shareholders, 1 up to 3 secretaries, who will check the attendance list of the shareholders, indicating the share capital represented by each of them, the minutes drawn up by the technical secretary to determine the number of the submitted shares and the fulfillment of the formalities requested by law and by the constitutive act for holding the general meeting of the shareholders.
- (9) A minute of the meeting, signed by the president and by Secretaries, shall determine the fulfillment of the calling formalities, the date and place of the general meeting of the shareholders, attending shareholders, the members of the Board of Nominees present, the number of shares, a summary of the debates, the decisions taken, and upon request of the shareholders, the statements made thereby in the meeting.
- (10) The documents referring to the convocation and the shareholders' attending list shall be attached to each minute.
- (11) The permanent representative of the Alternative Investment Fund Manager may appoint, from amongst the employees of the Alternative Investment Fund Manager, one or more technical secretaries, to fulfill their duties according to the legal provisions.
- (12) The decisions of the general meetings of the shareholders are drawn-up based on the minutes and is signed by the permanent representative of the Alternative Investment Fund Manager or by a person appointed thereby. The minutes shall be recorded in the general meetings of the shareholders' register.
- (13) Considering the extremely large number of shareholders of Fondul Proprietatea the shareholders may participate in person, by proxy with a special power of attorney or may express their voting right by correspondence or by electronic voting; the procedures and forms for the proxy, correspondence and electronic voting shall be set by the Alternative Investment Fund Manager, in accordance with the applicable legislation and are made available to the shareholders at least by the date of publishing of convening notice for general meeting of shareholders.
- (14) Considering the introduction of the voting right by correspondence, which right may be exercised and it is recommended to be exercised by any of the shareholders, the statutory quorum that needs to be met for the valid holding of any type of general meeting of the shareholders is calculated by including the votes deemed validly sent by correspondence.
- (15) Also in the case of the vote by correspondence, each shareholder is entitled to pronounce himself in writing, with respect to the issues included in the agenda, casting a vote "for", "against" or "abstained". The expressed votes that are not cancelled are considered.
- (16) All shareholders who, at the reference date, are registered in the shareholders' register, kept according to the law, have the right to participate to the general meetings of the shareholders.
- (17) In order to ensure the effective and real possibility of all shareholders to be informed on the contents of the documents and the proposals of the ones requiring the organization of the general meeting of the shareholders, by care of the Alternative Investment Fund Manager, such will be available, at the headquarters of Fondul Proprietatea, as well as on the internet page of Fondul Proprietatea, at least 30 days prior to the date provided for holding the meeting. In the case the calling of the general meeting is made by the Board of Nominees, the Alternative Investment Fund Manager has the obligation to fulfil all the above-mentioned formalities at the request of the Board of Nominees. In case the communication with the shareholder is not realized in this way, for objective reasons, the Board of Nominees may announce in the calling notice a different address than the registered address of Fondul Proprietatea, where the above-mentioned documents will be made public on the website of Fondul Proprietatea, in accordance with the applicable legislation.
- (18) In the ads informing on the convocation of the general meeting of shareholders of Fondul Proprietatea it will be indicated, by the Alternative Investment Fund Manager the reference date in relation to which the shareholders will be entitled to participate and vote. Also, the date by when the shareholders may send their votes, as well as the procedure for voting by correspondence, regarding any of the issues subject to approval shall also be set. If the calling of the general meeting is made at the request of the Board of Nominees the above mentioned duties shall be fulfilled by the Board of Nominees. The deadline by when votes by correspondence may be registered at least 5 working days subsequent to the date of publication of the informative material and is prior to the convocation date of the general meeting of the shareholder by at least 48 hours.
- (19) The votes of the shareholders will be sent electronically or by letter to the headquarters of Fondul Proprietatea, in a clear and precise form, noting "for", "against" or "abstained" in relation to each issue subject to approval for which the shareholder intends to cast a vote.

- (20) The votes transmitted electronically shall be cancelled if they do not observe the procedure set by the Alternative Investment Fund Manager drawn up according to the Financial Supervisory Authority regulations and such votes will not be taken into consideration in calculating the attending quorum.

### **III. Exercising the voting right in the general meeting of the shareholders**

- (21) The shareholders may be represented in each general meeting by other shareholders or by third parties subject to evidence that voting authority has been delegated by the shareholder for that particular general meeting.
- (22) The decisions of the general meetings of the shareholders are taken by open vote, except for the cases the law or this constitutive act does not provide differently.
- (23) Only the shareholders registered in the company shareholders' register at the reference date established by the Alternative Investment Fund Manager or the Board of Nominees, as the case may be, when calling the general meeting of the shareholders shall be entitled to participate to the meeting and vote after proving their identity.
- (24) Secret vote is compulsory for electing and revoking the Alternative Investment Fund Manager, the members of the Board of Nominees, the financial auditors and for taking some measures/decisions regarding the liability of the Alternative Investment Fund Manager or of the members of the Board of Nominees and of the financial auditors of Fondul Proprietatea.
- (25) The procedures referring to the secret vote, where applicable will be approved by the Alternative Investment Fund Manager and will be made public on the website of Fondul Proprietatea at the date of convening notice at least by the date of publishing of convening notice for general meeting of shareholders.
- (26) The decisions of the general meeting of the shareholders are binding for all shareholders, even for the absent shareholders or who voted against or abstained.
- (27) The shareholders who do not have capacity to act, as well as the legal entities may be represented by their legal representatives who, in their turn, may grant power of attorney to other persons for that particular general meeting of the shareholders.

## **CHAPTER V The Board of Nominees**

### **ARTICLE 15 Organisation**

- (1) The ordinary general meeting of the shareholders shall appoint the Board of Nominees, formed of 5 members, and shall establish their remuneration.
- (2) Any shareholder will have the right to make proposals on the members of the Board of Nominees. The members of the Board of Nominees may be shareholders of Fondul Proprietatea or other persons designated by the shareholders and they must have the proper experience and knowledge in order to be able to receive the Alternative Investment Fund Manager reports and of the consultants and, based on the information received, judge the merits of the management of Fondul Proprietatea within the limits of the objectives and principles set by the investment policy as well as by the applicable laws and regulations. Also, the members of the Board of Nominees have to be qualified properly in order to decide (if there is need with the support of an independent consultant) if the transactions proposed by the Alternative Investment Fund Manager needing the approval of the Board of Nominees are made to the advantage of the shareholders.
- (3) The mandate of the members of the Board of Nominees is of 3 years, period to be extended by right, by the first meeting of the General Meeting of the Shareholders.
- (4) The Board of Nominees elects from amongst its members a chairman of the Board.

## ARTICLE 16

### Functioning

- (1) The meetings of the Board of Nominees are held at least once every quarter, however they may be called upon whenever needed. The call for the meeting of the Board of Nominees is made by the chairman, any of its members or upon the request of the Alternative Investment Fund Manager. The Board of Nominees shall meet in at most 7 days as of the calling.
- (2) The Chairperson of the Board of Nominees or, during his/her absence, a member of the Board of Nominees appointed through vote by the other members to chair the meeting, ensures the proper unfolding of the meetings. The meetings of the Board of Nominees shall be held at the headquarters of Fondul Proprietatea or at such other location as may be agreed among the members of the Board of Nominees or by means of electronic communications (e.g. telephone, videoconference).
- (3) The Board of Nominees takes valid decisions provided the absolute majority of its members. The members of the Board of Nominees may be represented to the meetings of the Board of Nominees only by other members of the Board of Nominees on the basis of a special written empowerment, presented in its original form at the beginning of the meeting. One member of the Board of Nominees may represent only one absent member. The decisions of the Board of Nominees shall be taken with the absolute majority of the votes of its members and are signed by all the members which participated to the meeting. If some of the members of the Board of Nominees have been represented, the empowerment will be annexed to the minute of the meeting.
- (4) If the absolute majority condition cannot be fulfilled to have the quorum for taking a decision, the chairperson of the Board of Nominees shall give notice for a second meeting of Board of Nominees, having the same agenda as the first, in order to discuss this agenda. If the absolute majority condition cannot be fulfilled to have the quorum for taking a decision for three consecutive times, the chairperson of the Board of Nominees shall ask the Alternative Investment Fund Manager to convoke the general meeting of the shareholders in order to properly decide on the respective decisions; in case that the Alternative Investment Fund Manager does not convoke it, any of the members of the Board of nominees will be in his right to convoke the general meeting.
- (5) In case of vacancy of the seat of one or more members of the Board of Nominees, the general meeting of the shareholders shall immediately convoke for the appointment of new members. For the period in time by the decision of the general meeting, the other members of the Board of Nominees will nominate members ad interim to fulfil the vacant positions. The decision of the Board of Nominees on nominating members ad interim will be communicated to the Alternative Investment Fund Manager, the auditor and will be filed with the Trade Register.

## ARTICLE 17

### Attributions of the Board of Nominees

The Board of Nominees has the followings duties and functions:

- (1) Following the information received from the Alternative Investment Fund Manager with regard to the summoning of the ordinary and/or extraordinary general meeting of the shareholders requests, if it deems necessary, the insertion of supplementary matters in the text of the calling notice of the general meeting of shareholders;
- (2) Receives from the Alternative Investment Fund Manager the information in connection with the answers to the written requests submitted before the date of the general meeting of the shareholders, by the shareholders on topics regarding Fondul Proprietatea' s activity;
- (3) Receives from the Alternative Investment Fund Manager the annual financial statements, the annual activity report presented by the Alternative Investment Fund Manager and the financial auditors' report, before being made available to the shareholders and analyses them, being able to formulate an opinion to be presented to both the Alternative Investment Fund Manager and the general meeting;
- (4) Receives from the Alternative Investment Fund Manager for analysis the annual report and the management policy of Fondul Proprietatea and presents an opinion to the Alternative Investment Fund Manager and to the general meeting of the shareholders regarding such;

- (5) Receives from the Alternative Investment Fund Manager for analysis the yearly income and expenditure budget before it is submitted to the approval of the general meeting of shareholders and presents an opinion to the Alternative Investment Fund Manager and to the general meeting of the shareholders regarding such;
- (6) Receives from the Alternative Investment Fund Manager for analysis the strategy in accordance with the Fondul Proprietatea's investment policy before to be submitted to the approval of the general meeting of the shareholders and presents an opinion to the Alternative Investment Fund Manager and to the general meeting of the shareholders;
- (7) Receives from the Alternative Investment Fund Manager for analysis and approves the framework for carrying out Fondul Proprietatea's operations, as well as any other Fondul Proprietatea's regulations issued by Alternative Investment Fund Manager according to legal provisions in force, capital market rules and regulations;
- (8) Receives from the Alternative Investment Fund Manager for analysis the proposal to the ordinary general meeting of the shareholders for the conclusion of the financial audit agreement and presents an opinion to the Alternative Investment Fund Manager and to the general meeting of the shareholders;
- (9) Reviews on a regular basis the investment policy of Fondul Proprietatea and presents an opinion to the Alternative Investment Fund Manager and to the general meeting of the shareholders as any time it deems necessary, but in any case, at least once a year to the annual ordinary meeting;
- (10) Receives the report of the internal auditor and presents an opinion to the Alternative Investment Fund Manager and to the general meeting of the shareholders;(11) Monitors the following, based on information and reports received from the Fund Manager:
  - the list of all portfolio investments and percentage breakdown by each investment type;
  - a list of major transactions occurring in the Fondul Proprietatea portfolio for the period under review;
  - the total profit of the portfolio and comparison of profit with the appropriate market benchmark;
  - comparison of the obtained profit with the initial objective;
  - the extent of compliance with the investment policy, including, specifically, the degree to which any performance objectives set out therein are achieved, as well as any variations and actions taken to achieve such objectives and improve investment results;
  - the performance evaluation report.

The Board of Nominee shall draft and present to the general meeting of the shareholders an annual report regarding the monitoring activity performed or a monitoring report for another period agreed by the general meeting of shareholders;

- (12) Represents the general meeting of the shareholders in relation with the Alternative Investment Fund Manager from the communication point of view between the two corporate bodies, except for the cases expressly regulated by this constitutive act as a direct communication between the general meeting and the Alternative Investment Fund Manager;
- (13) Verifies the report of the Alternative Investment Fund Manager and the exercise of the permanent monitoring over the management of Fondul Proprietatea by the Alternative Investment Fund Manager, and verifies if the operations carried on by the Alternative Investment Fund Manager are in compliance with the applicable law, the constitutive act and/or with any relevant decision of the general meeting of the shareholders;
- (14) Under the conditions of art. 13 paragraphs (11) and (14) calls upon the general meeting of the shareholders;
- (15) Participates to the meetings of the general shareholders' meetings and presents in this meeting reports in all cases provided by this constitutive act or with regard to any issue it deems to be relevant for the shareholders;
- (16) Proposes to the general meeting of shareholders the prior approval or rejection of the execution of contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of Fondul Proprietatea, whose value exceeds, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of Fondul Proprietatea, less receivables;
- (17) Recommends to the General Meeting of the Shareholders the termination of the management contract for the case when the Board of Nominees is considered is to the benefit of the shareholders.

- (18) Recommends to the general meeting of the shareholders on any other issues the Board of Nominees is considered relevant to the shareholders.
- (19) Following of proposal of Alternative Investment Fund Manager, recommends to the Extraordinary General Meeting of the Shareholders the appointment of the public offer intermediate, as well as on his remuneration, when it will become necessary that such a company be appointed related to the admission to trading of Fondul Proprietatea.
- (20) Approves the delegation by the Alternative Investment Fund Manager of certain activities. The delegation shall be effective in accordance with the legal provisions in force.
- (21) Is responsible for monitoring the Alternative Investment Fund Manager performance of the Investment Management Agreement.

## ARTICLE 18

### The obligations of the members of the Board of Nominees

- (1) The members of the Board of Nominees have diligence and loyalty duties towards the shareholders of Fondul Proprietatea.
- (2) The members of the Board of Nominees are held liable towards the general meeting of the shareholders of Fondul Proprietatea, in accordance with the mandate rules. The decisions of the members of the Board of Nominees will be taken after due enquiries into the relevant circumstances existing at the specific moment at which such decisions have been taken.
- (3) The members of the Board of Nominees cannot disclose the confidential information and the commercial secrets of Fondul Proprietatea, to which those persons have access. Such obligation remains in force as well as after the termination of the mandate.
- (4) If a member of the Board of Nominees has, directly or indirectly, adverse interest to the interest of Fondul Proprietatea, in a certain operation, that member must give notice of such situation to the other members and to the internal auditors and not take part in any deliberation regarding that operation.
- (5) The same obligation must be observed by the member of the Board of Nominees, who acknowledges that in a certain operation, his/her wife or husband, relative or related persons by the 4th grade inclusive are interested.
- (6) The prohibitions stipulated in paragraphs (4) and (5) regarding the participation, deliberation and voting of the members of the Board of Nominees, are not applicable if the vote refers to:
  - a) the offer of shares or obligations of Fondul Proprietatea for subscription, to a member of the Board of Nominees or to the persons mentioned in paragraph (5);
  - b) the granting by a member of the Board of Nominees or by the persons mentioned in paragraph (5) of a loan or establishing a guarantee in favour of Fondul Proprietatea.
- (7) The member of the Board of Nominees not observing the provisions of paragraphs (4) and (5) is held liable for the damages caused to Fondul Proprietatea.
- (8) It is forbidden the crediting by the Fondul Proprietatea of the members of the Board of Nominees, through operations such as:
  - a) granting loans;
  - b) granting financial facilities for or after the conclusion by Fondul Proprietatea with the members of delivery operations of goods, providing of services or performance of works;
  - c) direct or indirect guarantee, in whole or in part, of any loans granted to the member of the Board of Nominees, concomitant or after granting the loan;
  - d) direct or indirect guarantee, in whole or in part, of performance by the members of any other personal obligation of those towards third parties;
  - e) direct or indirect guarantee, in whole or in part, of any receivables having as object a loan granted by a third party to the members of the Board of Nominees or other personal service of those members.
- (9) The provisions of paragraph (8) are applicable and the operations in which the husband or wife, relatives or related persons by the 4th grade inclusive of the members of the Board of Nominees are interested; also, if the

operation concerning a civil or a commercial company at which one of the persons above mentioned is director or holds, solely or together with one of the persons above mentioned, a quota of at least 20% of the value of the subscribed share capital.

- (10) The provisions of paragraph (8) are not applicable for the case when the operation is concluded by Fondul Proprietatea during its current business, and the clauses of the operations are not more favourable to the persons specified in paragraphs (8) and (9) than the ones usually practiced by Fondul Proprietatea towards third parties
- (11) The Board of Nominees shall promptly decide on all requests for approval from the Alternative Investment Fund Manager within a reasonable time frame to allow the Alternative Investment Fund Manager to comply with its own obligations.

## **CHAPTER VI**

### **Provisions regarding the company's management**

#### **ARTICLE 19**

##### **Organisation**

- (1) Fondul Proprietatea has appointed FRANKLIN TEMPLETON INTERNATIONAL SERVICES S.à r.l., a société à responsabilité limitée qualifying as an alternative investment fund manager under Article 101-1 of the Luxembourg Act of 17 December 2010 concerning undertakings for collective investment, as amended from time to time, whose registered office is located at 8A rue Albert Borschette, L-1246 Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B 36.979, as its alternative investment fund manager, referred to throughout this document as the Alternative Investment Fund Manager. In addition, FRANKLIN TEMPLETON INTERNATIONAL SERVICES S.à r.l. is also Fondul Proprietatea's Sole Director and is represented in its capacity as sole director in Romania by the individuals as permanent representatives (in Romanian language "reprezentanti permanenti persoane fizice") appointed by FRANKLIN TEMPLETON INTERNATIONAL SERVICES S.à r.l., upon its appointment as Fund Manager by the shareholders, and in accordance with Article 15313 of Companies' Law no. 31/1990.
- (2) The Alternative Investment Fund Manager is elected by the general meeting of the shareholders, with the observance of the legal provisions and of this constitutive act.
- (3) The mandate of the AIFM is of 2 years. The AIFM will call an Ordinary General Meeting of Shareholders to be held at least 6 months before the expiry of the mandate of the AIFM and will ensure that the agenda for such meeting will include points granting the options to (i) approve the renewal of the AIFM's mandate and (ii) appoint a new AIFM in accordance with the legal provisions in force, with the shareholders being granted the opportunity to propose candidates for such position; the agenda will also include provisions for the authorization of the negotiation and execution of the relevant investment management agreement and fulfilment of all relevant formalities for the authorization and legal completion of such appointment.
- (4) The legal entity appointed as Alternative Investment Fund Manager of Fondul Proprietatea must expressly accept such position, by executing the management agreement and must have in place professional liability insurance.
- (5) The Investment Management Agreement can be modified or replaced in accordance with article 12 and 14, with the approval of the shareholders. Any replacement document or addendum of the Investment Management Agreement will be signed on behalf of Fondul Proprietatea by the chairman of the Board of Nominees or by a member of the Board of Nominees empowered by the chairman.

#### **ARTICLE 20**

##### **Functioning**

The Alternative Investment Fund Manager shall appoint a natural person as its permanent representative. The Alternative Investment Fund Manager can change the permanent representatives in accordance with the applicable law. All changes will be registered with the Trade Registry.

**ARTICLE 21**

## Attributions of the Alternative Investment Fund Manager

- (1) The management of Fondul Proprietatea is ensured by the Alternative Investment Fund Manager, which fulfils the necessary and useful operations for the fulfilment of the company's business object, except of the operations reserved by the law for the general meeting of the shareholders and has all the obligations attributed to it by the applicable law.
- (2) The Alternative Investment Fund Manager exercises its attributions under the control of the general meeting of the shareholders and the monitoring of the Board of Nominees, according to article 17.
- (3) In addition to the duties provided by the applicable law, the Alternative Investment Fund Manager shall propose for the prior approval of the Board of Nominees and further, of the general meeting of the shareholders of Fondul Proprietatea, the general strategy in accordance with the investment policy of Fondul Proprietatea and it is responsible for the implementation of the investment policy and for achieving a proper balance between the profits and the risks related to the Fondul Proprietatea portfolio. The Alternative Investment Fund Manager undertakes to inform the Board of Nominees regularly, and as and when required by the Board of Nominees, about any significant changes in the activities of Fondul Proprietatea and within the structure of its portfolio.
- (4) In excess of the duties provided by the applicable law, the Alternative Investment Fund Manager shall be liable to:
  - (i) establish a reference date for shareholders entitled to vote within the general meeting, under the law, and draft the text of the announcement on the convocation of the general meeting, after obtaining the prior approval of the Board of Nominees and after it added to the agenda the matters requested by the Board of Nominees;
  - (ii) upon the written request of any shareholder submitted before the date of the general meeting of the shareholders, to give responses after obtaining the prior approval of the Board of Nominees, regarding the aspects concerning the business of Fondul Proprietatea;
  - (iii) ensure that, if requested by any of the shareholders, a copy of or extract of the minutes of the general meeting shall be given to them and also, after the announcement of the ordinary annual general meeting of the shareholders is published, make available to the shareholders the financial statements of the company and the reports of the Fund Manager and of the company's financial auditors,
  - (iv) prepare the annual financial statements, draft the annual activity report, examine the financial auditors' report, present them to the Board of Nominees before submitting such documents to the general meeting of the shareholders and make proposals on the distribution of the profit to the general meeting of the shareholders, after obtaining the prior approval of the Board of Nominees;
  - (v) manages the relationship with the Central Depository with regard to its shareholders register functions,
  - (vi) prepare an annual report on the management and the business policy of Fondul Proprietatea, to be presented to the Board of Nominees for approval prior to its submission to the general meeting of the shareholders;
  - (vii) proposes for the prior approval of the Board of Nominees and further, of the general meeting of the shareholders, of the yearly income and expenditure budget and business plan;
  - (viii) approves the outsourcing of certain activities, within the limits of the approved budget, respectively the delegation of the performance of certain activities, subject to the observance of the applicable legislation;
  - (ix) based on the proposal of the Board of Nominees to submit to the approval of the extraordinary general meeting of shareholders the execution of contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of Fondul Proprietatea, whose value exceeds, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of Fondul Proprietatea, less receivables;
  - (x) execute contracts for acquiring, selling, exchanging or for creating pledges, having as subject non-current assets of Fondul Proprietatea, whose value does not exceed, individually or cumulatively during a financial year, 20% of the total value of the non-current assets of Fondul Proprietatea, less receivables, without the approval of the ordinary or extraordinary general shareholders' meeting;
  - (xi) propose to the ordinary general meeting of the shareholders the conclusion of the financial audit agreement according to the legal provisions in force, upon obtaining the prior approval of the Board of Nominees, as well as approve the procedure of internal audit and the audit plan;

- (xii) decide the relocation of the registered office, provided that the registered office shall at all times be registered in Romania;
  - (xiii) make available to the Board of Nominees the reports, as well as other necessary documents for exercising the monitoring duties, in accordance with art. 17 paragraph (11);
  - (xiv) inform at once the Board of Nominees of any litigation or infringement of legislation regarding Alternative Investment Fund Manager, any operation which might be an infringement to the investment policy and about the plans/ correction measures for approaching these matters;
  - (xv) ask for the calling of the general meeting which shall decide properly whenever an issue appears on which the Board of Nominees has a disagreement with the Alternative Investment Fund Manager, which cannot be resolved amiably;
  - (xvi) proposes to Board of Nominees the recommendation for the Extraordinary General Meeting of the Shareholders for the appointment of the investment firm/investment bank who shall manage a public offer, as well as on its remuneration, when it will become necessary that such a company be appointed related to the admission to trading of Fondul Proprietatea.
- (5) For the avoidance of any doubt, in fulfilling the obligations listed under paragraph (4) of this Article 21, the Alternative Investment Fund Manager acts mainly in its capacity as sole director according to the applicable Romanian legislation.

## **ARTICLE 22**

### **The obligations of the Alternative Investment Fund Manager**

- (1) The Alternative Investment Fund Manager has a diligence and loyalty duty towards Fondul Proprietatea. Such duty is exercised taking into consideration the interest of the shareholders generally, and not of some of them.
- (2) The Alternative Investment Fund Manager is held liable towards Fondul Proprietatea, according to the law. The decisions of the Alternative Investment Fund Manager are taken after due enquiries regarding the relevant circumstances existing at the moment of which those decisions are taken.
- (3) The Alternative Investment Fund Manager cannot disclose confidential information or commercial secrets of Fondul Proprietatea, to which it has access. Such obligation remains also after the termination of the mandate.
- (4) If the Alternative Investment Fund Manager, respectively its permanent representative and its employees, have in a certain operation, directly or indirectly, adverse interest to the interest of Fondul Proprietatea, the Fund Manager must give notice to the internal auditors and Board of Nominees of this issue and not take part in any deliberation concerning the specific situation.
- (5) The same obligation must be observed by the Alternative Investment Fund Manager, respectively by its permanent representative and its employees if, in a certain operation, is being aware that an affiliate of the Alternative Investment Fund Manager or the wife or husband, relatives or related persons by the 4th grade inclusive of the representative and its employees, are interested.

## **ARTICLE 23**

### **Representation of Fondul Proprietatea**

- (1) In relations with third parties, Fondul Proprietatea is represented by the Alternative Investment Fund Manager, respectively by its permanent representative.
- (2) The Alternative Investment Fund Manager may delegate the representative powers, in accordance with the applicable law.



**CHAPTER VII**  
**The audit of Fondul Proprietatea**

**ARTICLE 24**  
**The internal auditors and the financial audit**

- (1) The financial statements of Fondul Proprietatea are subject to financial audit. Also, Fondul Proprietatea shall organise its internal audit in accordance with the legal provisions in force.
- (2) An internal audit department shall be organised within Fondul Proprietatea, having attributions of objective examinations of the company's aggregate business, for the purpose of providing an independent evaluation of the risk management, control and leading development of the company. The Alternative Investment Fund Manager can decide that internal audit work can be outsourced, in which case it will run on a contractual basis, according to article 3 of Decision of Romanian Chamber of Auditors no. 88/2007, with subsequent amendments.
- (3) The internal audit is independent of the management of Fondul Proprietatea, and the internal auditors shall objectively exercise this activity.
- (4) The internal audit shall evaluate and shall propose the improvement of the risk management, the control and internal rules within Fondul Proprietatea.
- (5) The internal auditors shall not be subject of any interference in determining the purpose of the internal audit and in exercising their activity.
- (6) The internal auditors shall have an impartial, correct attitude and shall avoid the conflicts of interest.
- (7) The internal audit shall transmit the plans of the internal audit activity and the necessary resources, inclusive the significant interim changes, to the Board of Nominees for information, as well as to the Alternative Investment Fund Manager for approval within the limits of its competencies.
- (8) The internal audit shall establish the policies and procedures for exercising the internal audit activity within Fondul Proprietatea, comprising amongst others, the analysis of the decisions taken by the company's management and the control of their compliance with the statutory requirements and/or with other documents approved by the general meeting of the shareholders.
- (9) The internal audit shall coordinate its activity with the financial auditor, in order to ensure the proper fulfilment of the audit objectives and to minimize any duplication of attributions.
- (10) The internal audit shall give quarterly reports to the Board of Nominees of Fondul Proprietatea and the Alternative Investment Fund Manager regarding the purpose of the internal audit activity, authority, responsibility and performance according to its plan. The reports shall include also the significant risks and aspects of the control and management, as well as other necessary problems or as requested by the Board of Nominees and the Alternative Investment Fund Manager.
- (11) The internal audit shall verify if the management of Fondul Proprietatea has taken appropriate measures concerning the reported significant risks or if the Alternative Investment Fund Manager has accepted the risk of not taking any measure and shall inform the Board of Nominees and the general meeting of the shareholders if the Alternative Investment Fund Manager has accepted the reported significant risks.
- (12) The internal audit shall establish the procedures for monitoring the implementation of the measures taken by the management of Fondul Proprietatea.
- (13) The internal auditors shall notify the Board of Nominees and the Alternative Investment Fund Managers with respect to any flaws in the management or breaches of the legal provisions or of the constitutive act, where such are identified by the internal auditors; the significant cases shall be notified to the general meeting of the shareholders.
- (14) The internal auditors shall take into consideration the complaints of the shareholders when drafting the reports addressed to the general meeting of the shareholders.
- (15) The attributions, duties and the functioning way of the internal auditors, as well as their rights and obligations are completed with the legal provisions in this area.

**CHAPTER VIII**  
**Business of Fondul Proprietatea**

**ARTICLE 25**  
**Financing its own business**

For the fulfilment of the business object and in accordance with the attributions established, Fondul Proprietatea uses the financial sources established pursuant to the law, banking credits and other financial sources. Fondul Proprietatea is not allowed to conclude loan agreements for investment reasons.

**ARTICLE 26**  
**Financial year**

The financial year begins on 1st of January and terminates on 31st December of each year.

**ARTICLE 27**  
**Accounting evidence and annual financial statements**

- (1) The accounting is kept in Romanian language and in national currency.
- (2) Fondul Proprietatea must draft the annual financial statements according to legal provisions in force.

**ARTICLE 28**  
**Calculation and distribution of the profit**

- (1) The result of the financial year is determined at the end of the year and represents the final balance of the profit and loss account.
- (2) The profit of Fondul Proprietatea after the payment of the profit tax shall be distributed according to the decision of the general meeting of the shareholders and to the legal provisions in force.
- (3) Fondul Proprietatea creates legal reserves and other reserves, pursuant to the law.
- (4) The payment of dividends owed to the shareholders is made by Fondul Proprietatea, according to the law.
- (5) The dividends are distributed between the shareholders proportional with the number of held shares.
- (6) In case of loss of the net asset, the general meeting of the shareholders shall analyse the causes and decide properly, according to the law.

**ARTICLE 29**  
**Registries**

Fondul Proprietatea shall maintain, by care of the Alternative Investment Fund Manager and internal auditors, all registries provided by the law. The shareholders registry is kept by the Central Depository.

**CHAPTER IX**  
**Association, change of the legal form, dissolution and liquidation, litigation**

**ARTICLE 30**  
**Association**

- (1) Fondul Proprietatea may set-up, solely or together with other Romanian or foreign natural persons or legal entities, other companies or legal entities, according to the law and to this constitutive act.

- (2) The conditions for the participation of Fondul Proprietatea at the setting-up of new legal entities shall be regulated by the constitutive acts, which to be approved by the general meeting of the shareholders.

### **ARTICLE 31**

#### **Dissolution**

- (1) The dissolution of Fondul Proprietatea shall take place in the following cases:
- a) impossibility of performing the company's business object;
  - b) declaring the company's nullity;
  - c) by decision of the extraordinary general meeting of the shareholders, in accordance with article 14 paragraphs (4) and (5);
  - d) as consequence of losses, if the net asset value, determined as difference between the total asset and company's debts, represents less than half of the value of the subscribed share capital and if, not later than the termination of the financial year subsequent to the one during which the losses have been ascertained, the general meeting of the shareholders fails to decrease the share capital with an amount at least equal with the one of losses which could not be covered from reserves or to reconstitute the company's net asset up to the value at least equal with half of the subscribed share capital.
  - e) opening of the bankruptcy procedure;
  - f) the number of shareholders reduces under the legal minimum;
  - g) other causes provided by the law or by this constitutive act.
- (2) The dissolution of Fondul Proprietatea cannot take place before the finalisation of the procedures for granting indemnities to the rightful persons.
- (3) The dissolution decision of Fondul Proprietatea must be registered with the commercial registry and published in the Official Gazette of Romania, Part IV.

### **ARTICLE 32**

#### **Liquidation**

- (1) The dissolution of Fondul Proprietatea has as consequence the opening of the liquidation procedure.
- (2) The liquidation of Fondul Proprietatea and distribution of the patrimony are made in accordance with **the law**.

### **ARTICLE 33**

#### **Calculation method of the net asset**

The calculation method of the net asset is made according to the legal provisions in force.

### **ARTICLE 34**

#### **Prudential rules concerning the investment policy**

- (1) The investment policy is established by the Alternative Investment Fund Manager, with the observance of the investment limitation provided by the legal provisions in force and of this Constitutive Act.
- (2) Fondul Proprietatea shall be subject to the investment restrictions provided under Law No. 247/2005 on property and justice reform, and additional measures, as further amended and completed, of Law No. 297/2004 on the capital market, as further amended and completed as well as any other applicable law or regulation.
- (3) Subject to the terms of this Constitutive Act, of the IMA and the applicable law, all decisions in relation to the acquisition of, disposal of, and exercise of all rights and obligations in relation to the assets of Fondul Proprietatea shall be at the sole discretion of the Alternative Investment Fund Manager.
- (4) Prudential rules concerning the investment policy will be by approved by the shareholders through Investment Policy Statement.

### **ARTICLE 35**

#### **Conditions for the replacement of the depository**

- (1) Fondul Proprietatea shall conclude a deposit agreement with a depository legal entity authorised and supervised by the Financial Supervisory Authority, which performs the deposit operations of securities, as well as any operations in connection with those. The activities to be developed by the depository and the conditions for its replacement shall be provided in the deposit agreement.
- (2) The deposit agreement shall mandatorily include clauses related to the replacement of the depository and rules for ensuring shareholders' protection in such situations, as well as other mandatory clauses in accordance with the applicable regulations.

### **ARTICLE 36**

#### **Identity, requirements regarding the qualification, professional experience and integrity of the management members**

- (1) The Alternative Investment Fund Manager, respectively its permanent representative shall cumulatively fulfil with the minimum requirements regarding the integrity, qualification and professional experience provided in the legislation and in other specific provisions; the identity of the Alternative Investment Fund Manager is the one registered with the National Office of Trade Registry, based on the decision of the general meeting of the shareholders regarding its election.

### **ARTICLE 37**

#### **Litigations**

The litigations of any type shall be amiably resolved and if this is not possible, they shall be solved by the competent arbitral or judicial courts.

## **CHAPTER X**

### **Final provisions**

### **ARTICLE 38**

#### **Final provisions**

The provisions of this constitutive act are completed by the provisions of Company Law No. 31/1990, republished, as further amended and completed, and other applicable legal provisions in force as well as by the provisions of the capital market legislation governing the issuers whose shares are admitted on trading.

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## Annex 5 Major contracts concluded by Fondul Proprietatea during 2017

### Annex 5.1 Tender Offer Document

**with respect to a proposed tender offer to purchase for cash up to 640,000,000 fully paid up ordinary shares of Fondul Proprietatea S.A., in the form of Shares and GDRs representing such Shares at a purchase price of RON 0.91 per Share and the US dollar equivalent of RON 45.50 per GDR**

This document has been approved by the Romanian Financial Supervisory Authority (the "FSA") as a tender offer document (the "Tender Offer Document") in accordance with Romanian Law no. 297/2004 on capital markets as further amended (the "Capital Markets Law") and Regulation no. 1/2006 on issuers and operations with securities issued by the Romanian National Securities Commission, as further amended ("Regulation no. 1/2006").

This Tender Offer Document has been approved by the FSA but has not been, and will not be, approved by or notified to the United Kingdom Financial Conduct Authority or any other competent authority of the European Economic Area.

This Tender Offer Document relates to a tender offer (the "Tender Offer") by Fondul Proprietatea S.A., a joint stock company incorporated under the laws of Romania (the "Bidder" or the "Issuer", as applicable) for existing fully paid up ordinary shares with, on the date hereof, a nominal value of RON 0.85 each in its share capital (the "Shares"). The Shares are subject to a reduction of nominal value which may occur prior to the expiry of the Tender Offer. The Tender Offer comprises a tender offer for up to 640,000,000 Shares in the form of Shares and/or global depository receipts which represent the Shares (the "GDRs" and, together with the Shares, the "Securities"). The Shares are admitted to trading on the spot regulated market operated by Bursa de Valori Bucuresti S.A. (the "Bucharest Stock Exchange" or "BSE") under the market symbol "FP". The GDRs have no nominal value and are admitted to trading on the Specialist Fund Market (the "SFM") of the London Stock Exchange (the "LSE") under the market symbol "FP". One GDR represents an interest in 50 Shares.

The purchase price (the "Purchase Price") of the Securities is equal to RON 0.91 per Share and the USD equivalent of RON 45.50 per GDR, respectively. Investors tendering GDRs should note that the Purchase Price for the GDRs will be paid in US dollars at the exchange rate commercially available to the Bidder, at the Bidder's absolute discretion, for exchanging one RON into USD on the Trade Date provided that such rate shall be no higher than the rate for exchanging one RON into USD published by the National Bank of Romania at 1:00 p.m. (Eastern European Time) on the Trade Date plus 0.5 per cent. (the "Exchange Rate"). No assurance can be given as to the National Bank of Romania US Dollar/RON exchange rate that will be published at 1:00 p.m. (Eastern European Time) on the Trade Date.

**The Tender Offer will commence on 15 February 2017 and will expire at 12:00 p.m. (Eastern European Time) / 10:00 a.m. (Greenwich Mean Time) on 20 March 2017 (the "Expiration Deadline") (the "Offer Period").** Please note that Euroclear Bank N.V./S.A. ("Euroclear") and Clearstream Banking, Société Anonyme ("Clearstream" and, together with and Euroclear, the "Clearing Systems"), their respective participants and the brokers or other securities intermediaries through which GDRs are held will establish their own cut-off dates and times for the tender of the GDRs, which will be earlier than the Expiration Deadline. The Tender Offer may be extended at any time without cause, subject to publication of a supplement to this Tender Offer in accordance with applicable law.

The Tender Offer is being made to holders of Shares and GDRs resident in the United States in reliance on, and in compliance with, Section 14(e) of the U.S. Securities Exchange Act of 1934 (the "Exchange Act") and Regulation 14E thereunder.

#### Dealer Managers

Goldman Sachs International

WOOD & Company Financial Services a.s.

The date of this Tender Offer Document is 8 February 2017

THE APPROVAL VISA ON THE TENDER OFFER DOCUMENT SHALL NOT BE CONSTRUED AS A GUARANTEE OR ANY KIND OF ASSESSMENT BY THE FSA WITH RESPECT TO THE OPPORTUNITY, ADVANTAGES OR DISADVANTAGES, PROFIT OR RISKS INVOLVED IN ACCEPTING THE TENDER OFFER, WHICH IS SUBJECT TO THE APPROVAL DECISION. THE APPROVAL DECISION CERTIFIES ONLY THE COMPLIANCE OF THE TENDER OFFER DOCUMENT WITH THE LEGAL REQUIREMENTS AND THE NORMS ADOPTED FOR THE APPLICATION THEREOF.

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**IMPORTANT INFORMATION ABOUT THIS TENDER OFFER DOCUMENT**

**The information contained in this Tender Offer Document is addressed exclusively to the holders of Shares and GDRs (each an "Investor").** The tender and purchase of Securities will be carried out exclusively in accordance with the procedures set forth in this Tender Offer Document and pursuant the Capital Markets Law and Regulation no. 1/2006.

**If you do not wish to tender your Shares or GDRs, you need not take any action.**

This Tender Offer does not constitute an offer to buy or the solicitation of an offer to sell Securities in any circumstances in which such Tender Offer or solicitation is unlawful. In those jurisdictions where the laws require this Tender Offer to be made by a licensed broker or dealer, this Tender Offer shall be deemed to be made on behalf of the Bidder by one or more registered brokers or dealers licensed under the laws of such jurisdiction. The Bidder is not making this Tender Offer to, and will not accept any tendered Securities from, any Investor in any jurisdiction where it would be illegal to do so.

Investors who desire to tender all or any portion of their Shares or GDRs, or both, as the case may be, should carefully read and follow the procedures outlined under Section 12 "Participation in the Tender Offer".

In order to be validly submitted for tender, Shares tendered in the Tender Offer must be blocked by the relevant Investor in the relevant account at the Authorised Participant (as defined below) or the relevant custodian of the Investor (as the case may be) from the date the relevant tender of Shares is made until the earlier of the Trade Date and the date on which the Investor validly withdraws its tender, as applicable.

GDRs tendered in the Tender Offer will be blocked in the relevant account at the relevant Clearing System from the date the relevant tender of Securities is made until the earlier of the time of completion of settlement for GDRs in the Tender Offer and the date on which the Investor validly withdraws its tender, as applicable, it being understood, however, that the Clearing Systems may impose their own cut off times with respect to the ability of Investors to revoke their instructions to tender.

Developing markets such as Romania are subject to greater risks than more developed markets. As a result, tendering Investors should familiarise themselves with such risks as well as make their own assessment of the merits and risks involved in participating in the Tender Offer, including investment, tax, legal and accounting matters.

**None of Goldman Sachs International ("Goldman Sachs"), WOOD & Company Financial Services a.s. ("WOOD & Co." or the "Intermediary" and, together with Goldman Sachs, the "Dealer Managers") or The Bank of New York Mellon as GDR tender agent (the "GDR Tender Agent") and GDR depositary (the "GDR Depositary") (nor their respective directors, officers, employees or affiliates) makes any representation whatsoever regarding this Tender Offer Document or the Tender Offer, and none of the Bidder, its Board of Nominees or management, the Intermediary, the Dealer Managers, the GDR Tender Agent or the GDR Depositary (nor their respective directors, officers, employees or affiliates) makes any recommendation to any Investor as to whether to tender or refrain from tendering Shares or GDRs.** No person has been authorised to make any recommendation on behalf of the Bidder, its Board of Nominees or management, the Intermediary, the Dealer Managers, the GDR Tender Agent or the GDR Depositary as to whether Investors should tender or refrain from tendering their Shares or GDRs pursuant to this Tender Offer or to make any representation or to give any information in connection with this Tender Offer other than as contained herein. If made or given, any such recommendation, representation or information must not be relied upon as having been authorized by the Bidder, its Board of Nominees or management, the Intermediary, the Dealer Managers, the GDR Tender Agent or the GDR Depositary. Investors are urged to evaluate carefully all information in this Tender Offer Document, the Acceptance Form and other related materials and consult their own investment and tax advisors and make their own decisions as to whether to tender or refrain from tendering their Securities.

Neither the delivery of this Tender Offer Document nor any purchase of Securities will, under any circumstances, imply that the information contained in this Tender Offer Document is current as of any time subsequent to the date the Tender Offer Document or, without prejudice to the Bidder's obligations under the Capital Markets Law and Regulation 1/2006, that there has been no change in the information since the date of this Tender Offer Document or in the affairs of the Issuer since the date of this Tender Offer Document.

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The Bidder accepts responsibility for the information contained in this Tender Offer Document. To the best of the Bidder's knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Tender Offer Document is in accordance with the facts and does not omit anything likely to affect the import of such information. None of the Dealer Managers or the Intermediary accepts any responsibility whatsoever for the contents of this Tender Offer Document or for any other statement made or purported to be made by it or any of them or on its or their behalf in connection with the Issuer or the Securities. Each of the Dealer Managers and the Intermediary accordingly disclaims, to the fullest extent permitted by applicable law, all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Tender Offer Document or any such statement.

The Dealer Managers have been engaged by the Bidder to act as dealer managers with respect to the Tender Offer. The Bidder has also entered into an intermediation agreement with the Intermediary in respect of the tender of Shares. In addition, the Bidder has engaged The Bank of New York Mellon to act as GDR Tender Agent with respect to GDRs tendered in the Tender Offer. Investors tendering Shares pursuant to this Tender offer will be required to tender through the Intermediary or Authorised Participants (as defined below). Investors tendering GDRs will be required to tender through the relevant Clearing System to the GDR Tender Agent. The Dealer Managers, the Intermediary and their respective affiliates may contact and communicate with Institutional Investors (as defined below) regarding the Tender Offer and will not take any action in relation to, nor have any liability or responsibility for, communications with Retail Investors (as defined below) regarding the Tender Offer.

Investors should be aware that the sale of Securities and receipt of the Purchase Price pursuant to this Tender Offer may have certain tax consequences, and are urged to consult at their own expense their tax advisors with respect to those consequences in considering this Tender Offer.

To the extent permissible under applicable securities laws, each of the Dealer Managers, the Intermediary and their affiliates may from time to time purchase, or enter into arrangements to purchase, Shares or GDRs either as principal or agent before and during the Offer Period. The Bidder does not intend to purchase Shares or GDRs, other than as disclosed in the Tender Offer Document or pursuant to this Tender Offer, during the period in which this Tender Offer is open for submission of tenders. In addition, in accordance with and pursuant to Rule 14e-5(b) of the Exchange Act, affiliates of the Bidder that do not comprise the Bidder's consolidated group and over which the Bidder does not exercise control and their respective nominees or brokers (acting as agents) may from time to time make purchases of, or arrangements to purchase, Shares or GDRs other than pursuant to the Tender Offer, before or during the Offer Period, so long as those acquisitions or arrangements comply with the provisions of the exemption provided under Rule 14e-5 of the Exchange Act. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Information about such purchases will be disclosed as and if required by applicable securities laws.

Questions and requests for information in respect of the tendering procedures for GDRs may be directed to the GDR Tender Agent at the following e-mail address: [drglobaltransactions@bnymellon.com](mailto:drglobaltransactions@bnymellon.com).

This Tender Offer Document shall be made available, as follows:

- (a) in hard copy at the Bidder's registered office, respectively 78-80 Buzesti Street (7th floor), District 1, Postal Code 011017, Bucharest, Romania, telephone +4021.200.96.00, starting with the date of publication of the Tender Offer announcement; and
- (b) in electronic form, on the website of the Bucharest Stock Exchange ([www.bvb.ro](http://www.bvb.ro)), as well as on the Bidder's website ([www.fondulproprietatea.ro](http://www.fondulproprietatea.ro)).

### *Currencies*

In this Tender Offer Document, all references to "**RON**" are to the lawful currency of Romania, all references to "**US dollar**" and "**USD**" are to the lawful currency of the United States.

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**TENDER OFFER RESTRICTIONS**

**Notice to Investors in the United Kingdom**

The communication of the Tender Offer, this Tender Offer Document and any other documents or materials relating to the Tender Offer is not being made, and such documents and/or materials have not been approved, by an authorised person for the purposes of section 21 of the Financial Services and Markets Act 2000. Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The Tender Offer and the communication of such documents and/or materials are only addressed to and directed at persons in the United Kingdom who (i) are persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), (ii) are persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (iii) are otherwise persons to whom the Tender Offer and/or such documents and/or materials may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). Neither the Tender Offer nor the Tender Offer Document must be acted on or relied on in the United Kingdom, by persons who are not relevant persons. The Tender Offer is available only to relevant persons in the United Kingdom and will be engaged in only with such persons.

**Notice to Investors in the United States**

The Tender Offer is being made to Investors resident in the United States in reliance on, and compliance with, Section 14(e) of the Exchange Act and Regulation 14E thereunder.

Neither the United States Securities and Exchange Commission (the "SEC") nor any U.S. state securities commission or regulatory authority has approved or disapproved of this Tender Offer, passed upon the fairness or merits of this Tender Offer or determined whether this Tender Offer Document is accurate or complete. Any representation to the contrary is a criminal offence in the United States.

The Tender Offer is being made for the securities of a Romanian company and is subject to Romanian disclosure requirements, which are different from certain U.S. disclosure requirements. U.S. Investors should be aware that this Tender Offer Document has been prepared in accordance with the format and style of a Romanian tender offer document, which differ from the format and style of a U.S. tender offer document.



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### 1. TIMETABLE OF EXPECTED EVENTS

The times, dates and events shown in this table are subject to change at the absolute discretion of the Bidder:

TIME AND DATE	EVENT
<b>T-26 Business Days</b>	<p>Announcement of the Tender Offer</p> <p>Publication of the Tender Offer Document</p>
<b>T-22 Business Days</b>	Commencement of the Offer Period
<b>T</b>	<p>Expiration Deadline at 12:00 p.m. (Eastern European Time) / 10:00 a.m. (Greenwich Mean Time) – deadline for submission of tenders of Shares and/or GDRs</p> <p><i>Please note that Euroclear and Clearstream ( together with Euroclear, the "Clearing Systems"), their respective participants and the brokers or other securities intermediaries through which GDRs are held will establish their own cut-off dates and times for the tender of the GDRs, which will be earlier than the Expiration Deadline</i></p> <p>Allocation Date - announcement of the allocation ratio</p>
<b>T+1 Business Day</b>	Trade Date - announcement of the Exchange Rate; execution of trades with respect to the Shares accepted for purchase after allocation
<b>T+2 Business Day</b>	<p>Payment of the Purchase Price by the Bidder for GDRs accepted for purchase by the Bidder after application of the allocation ratio, in US dollars to the GDR Tender Agent.</p> <p>The GDR Tender Agent will, as soon as practicable on or after [T+2 Business Days] but no later than [T+3 Business Days], (i) pay that price to the Clearing Systems for further distribution to Investors who have validly tendered GDRs in the Tender Offer and whose GDRs have been accepted for purchase in the Tender Offer and (ii) instruct the Clearing Systems to transfer the corresponding GDRs to the account indicated by the Bidder for this purpose.</p>
<b>T+3 Business Days</b>	<p>Shares Settlement Date - Payment of the Purchase Price by the Bidder to Investors for Shares accepted for purchase after allocation, in RON, and receipt by the Bidder of the corresponding Shares as part of settlement (<i>delivery versus payment in the clearing and settlement system of Depozitarul Central S.A. (the "Central Depository")</i>)</p> <p>Announcement of completion of the Tender Offer (<i>upon completion of settlement procedures in relation to trades with respect to Shares and GDRs accepted for purchase by the Bidder after allocation</i>)</p>

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## 2. RISK FACTORS AND OTHER CONSIDERATIONS

Before making a decision with respect to the Tender Offer, Investors should carefully consider, in addition to the other information contained in this Tender Offer Document, the following:

**Blocking of Securities.** When considering whether to tender Securities pursuant to the Tender Offer, Investors should take into account that restrictions on the transfer of Securities by Investors will apply from the time of such tender or submission. An Investor must, on tendering Shares in the Tender Offer, agree that the relevant Shares will be blocked in the relevant account at the Authorised Participant (as defined below) or the relevant custodian of the Investor (as the case may be) from the date the relevant tender of Shares is made until the Trade Date or until the Investor validly withdraws its tender, as applicable. An Investor must, on tendering GDRs in the Tender Offer, agree that the relevant GDRs will be blocked in the relevant account at the relevant Clearing System from the date the relevant tender of GDRs is made until the earlier of the time of completion of settlement of the Tender Offer and the date on which the Investor validly withdraws its tender, as applicable, it being understood, however, that the Clearing Systems may only permit Investors to withdraw their instructions to tender until the applicable Clearing System's own cut off times.

**Responsibility for complying with the procedures of the Tender Offer.** Investors are responsible for complying with all the procedures for tendering Securities required pursuant to this Tender Offer. None of the Bidder, the Intermediary, the Dealer Managers, the GDR Tender Agent nor the GDR Depositary assumes any responsibility for informing Investors of irregularities with respect to any tender instruction made in connection with the Tender Offer.

**Compliance with offer restrictions.** Investors are referred to the offer restrictions and the acknowledgements, representations, warranties and undertakings which Investors will be deemed to make on tendering Securities in the Tender Offer. Non-compliance with these could result in, among other things, the unwinding of trades and/or civil or criminal liability.

**Taxation.** Investors should be aware that the sale of Securities and receipt of the Purchase Price pursuant to this Tender Offer may be subject to fiscal taxes, fees and commissions of the brokers, intermediaries, relevant market institutions involved and bank transfer fees. The Bidder is not responsible for withholding or payment of and will not withhold or pay any taxes or other governmental charges or fiscal duties in relation to the Purchase Price payable to Investors. The Bidder is neither responsible for the payment of any transaction fees and charges nor other charges and commissions payable by Investors who have sold Securities pursuant to the Tender Offer. Consequently, Investors should consult at their own expense their tax advisors with respect to those consequences in considering this Tender Offer.

**Other purchases of Securities.** Whether or not the purchase of any Securities pursuant to the Tender Offer is completed, the Bidder and its respective affiliates may, to the extent permitted by applicable law (including Rule 14e-5 under the Exchange Act), acquire (from time to time after the Tender Offer) securities in the Issuer, including through open market purchases, privately negotiated transactions, tender offers, exchange offers or otherwise. Such purchases may be on such terms and at such prices as the parties may determine, which may be more or less than the prices to be paid pursuant to the Tender Offer and could be for cash or other consideration or otherwise on terms more or less favourable than those contemplated by the Tender Offer.

**Proportionate interest of the Issuer's major shareholders may increase following the Tender Offer.** Should the Issuer's major shareholders decide not to tender Securities held by them in the Tender Offer, while other Investors tender Shares or GDRs representing the Maximum Number of Shares, the major shareholders' respective proportionate equity interest as a percentage of the Issuer's outstanding share capital will increase following the cancellation of the Securities acquired by the Bidder in the Tender Offer and the corresponding share capital decrease.

**The Issuer will publish its financial results for the year ended 31 December 2016 and continue to publish monthly net asset value ("NAV") reports during the Offer Period.**

The Issuer is expected to publish financial data during the Offer Period. In particular, the Issuer expects to publish during such period:

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- (i) its preliminary and final financial results for the year ended 31 December 2016. The preliminary financial results will be published on 15 February 2017; the final annual financial results will be available on the Issuer's website at the time of convening the Issuer's annual shareholders' meeting (see below);
- (ii) its monthly NAV reports at the end of January and February 2017. The NAV report for January 2017 will be published no later than 15 February 2017 and the NAV report for February 2017 will be published no later than 15 March 2017; and
- (iii) its NAV report in the event of a share capital decrease. The related NAV Reports with respect to the share capital decreases approved by shareholders on 11 October 2016 and 31 October 2016 must be published within 15 days as of the registration of the relevant general shareholders' meeting resolution with the Trade Registry (more information related to such decreases may be found on the Issuer's website at <http://www.fondulproprietatea.ro/investor-relations/gsm-information>). The NAV Report for the share capital decrease approved on 11 October 2016 was published on 1 February 2017.

While the Bidder expects that such financial results and the NAV report for January 2017 will reflect a situation broadly in line with the one shown in the NAV report for December 2016, published by the Issuer on 13 January 2017 (and the NAV Report for the share capital decrease approved on 11 October 2016 and published on 1 February 2017), there is no certainty whether this will be the case or whether the additional NAV reports, for February 2017 and arising at the time of the share capital decrease, will reflect such a situation. All financial information and NAV reports of the Issuer are publicly available and can be found on the Issuer's website ([www.fondulproprietatea.ro](http://www.fondulproprietatea.ro)).

**The Issuer will convene its annual shareholders meeting during the Offer Period.**

The Issuer envisages, as per its financial calendar available on <http://www.bvb.ro/FinancialInstruments/Details/FinancialInstrumentsDetails.aspx?s=FP> to have the annual shareholders' meeting on 25 April 2017 ("Annual GSM"). The Annual GSM must be convened with at least 30 calendar days' notice and, at which, it will decide, among others, on the approval of the annual financial results for the period ended 31 December 2016. The summoning of the Annual GSM is envisaged to be made on or about 7 March 2017, therefore within the Offer Period. At the time of the convening, the Issuer must also make available on its website, as part of the Annual GSM documentation, a copy of the relevant annual financial results.

### 3. THE ISSUER

The company whose Securities are being offered for repurchase under the Tender Offer is Fondul Proprietatea S.A., identified according to the following data:

<b>Legal form:</b>	Joint stock company, registered and operating under Romanian law as an alternative investment fund (as defined by Law 74/2015 regarding alternative investment fund managers)
<b>Registered office:</b>	78-80 Buzesti Street (7th floor), District 1, Postal Code 011017, Bucharest, Romania
<b>Fiscal code:</b>	18253260
<b>Registration number at the Trade Registry:</b>	J40/21901/2005
<b>Main business object:</b>	NACE code 6430 - financial investments
<b>Share capital:</b>	<b>Subscribed share capital</b> (as registered with the FSA and Central Depository, as at 2 February 2017): <b>RON 8,562,968,634.10</b> , divided into <b>10,074,080,746</b> ordinary shares, issued in dematerialized form, with each share having a nominal value of <b>RON 0.85</b> and granting equal rights to its owner.

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	<p><b>Paid up share capital</b> (as registered with the FSA and Central Depository, as at 2 February 2017): <b>RON 8,253,728,136.60</b> divided into <b>9,710,268,396</b> ordinary shares, issued in dematerialized form, with each share having a nominal value of <b>RON 0.85</b> and granting equal rights to its owner.</p> <p>The difference between subscribed and paid up share capital (that is to say, unpaid share capital) represents the net value of certain contributions due from the Romanian State represented by the Ministry of Public Finance, as shareholder, to the Issuer. The holders of unpaid shares are not entitled to participate in the Tender Offer with respect to such unpaid shares.</p> <p><b>The following are expected changes in subscribed and paid up share capital during the Offer Period:</b></p> <p>Decrease of Issuer's subscribed share capital as a result of reduction in par value</p> <p>On <b>31 October 2016</b>, the extraordinary general shareholders' meeting of the Issuer approved the decrease of the Issuer's subscribed share capital from RON 8,562,968,634.10 to RON 5,742,226,025.22 by the reduction of the nominal value of the shares of the Issuer from RON 0.85 to RON 0.57 for the purpose of (i) covering some accounting losses; and (ii) the distribution to shareholders of the amount of 0.05 RON per share. Full details of the resolution can be found on the Issuer's website at <a href="http://www.fondulproprietatea.ro/investor-relations/gsm-information/gsm-decisions">http://www.fondulproprietatea.ro/investor-relations/gsm-information/gsm-decisions</a>.</p> <p>This decrease will be effective after the following conditions are satisfied: (i) the shareholders' resolution approving the share capital decrease is published in the Official Gazette of Romania, Part IV for at least two months; (ii) the FSA endorses the amendment of the Constitutive Act of the Issuer as approved by the shareholders during such shareholders' meeting, and (iii) the shareholders' resolution approving the share capital decrease of 31 October 2016 is registered with the Trade Registry. The Issuer expects these conditions to be satisfied in March 2017.</p> <p>Since the decrease in the share capital above-mentioned is a reduction in the nominal value of the shares, only the subscribed and paid up share capital will be affected, while the number of issued and paid up shares will remain the same. After this share capital decrease is effective, the FSA is required to issue a new securities registration certificate reflecting the changes in the subscribed and paid up share capital and the Central Depository is also required to register the changes, registration which can occur within the Offer Period.</p>
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According to the shareholders' structure evidenced by the Central Depository at 2 February 2017, the share capital of the Issuer was held by legal entities, excluding the GDR Depository (42.37 per cent) and by natural persons (21.35 per cent). Another 36.28 per cent of the Issuer's share capital was held in the form of GDRs through The Bank of New York Mellon, as GDR Depository.

The Issuer was incorporated on 28 December 2005 as a joint stock company and was subsequently authorized by the National Securities Commission as a closed-end investment company. The Issuer is registered with the

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FSA under number PJR09SIIR/400006/18.08.2010. Following the implementation of Directive 2011/61/EU (the "AIFM Directive") on alternative investment fund managers into Romanian legislation through Law 74/2015, the Issuer qualifies as an alternative investment fund.

The business object of the Issuer is portfolio management. The Issuer's investment objective consists of the maximisation of returns and per-share capital appreciation through investments mainly in Romanian equities and equity-linked securities.

In order to comply with the Law 74/2015 implementing the AIFM Directive, on 29 October 2015, the general meeting of the Issuer's shareholders approved the appointment of Franklin Templeton International Services S.À R.L., a société à responsabilité limitée, qualified as an alternative investment fund manager under the laws of Luxembourg, as the alternative investment fund manager and as the sole director of the Issuer for a mandate of two years as of 1 April 2016.

The Issuer's contact details are the following:

Address: 78-80 Buzesti Street (7th floor), District 1,  
Postal Code 011017, Bucharest, Romania.

Web: [www.fondulproprietatea.ro](http://www.fondulproprietatea.ro)

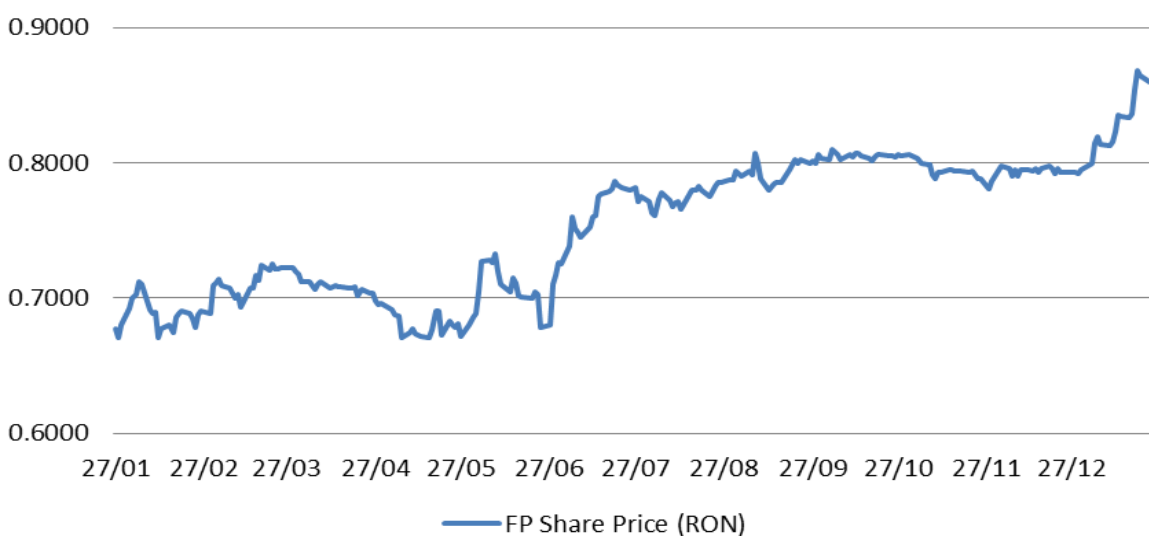
E-mail: [investor.relations@fondulproprietatea.ro](mailto:investor.relations@fondulproprietatea.ro)

Telephone: +40 21 200 9600

Fax: +40 21 200 9631/32

The Shares are admitted to trading on the spot regulated market operated by the Bucharest Stock Exchange and the GDRs are admitted to trading on the SFM of the LSE.

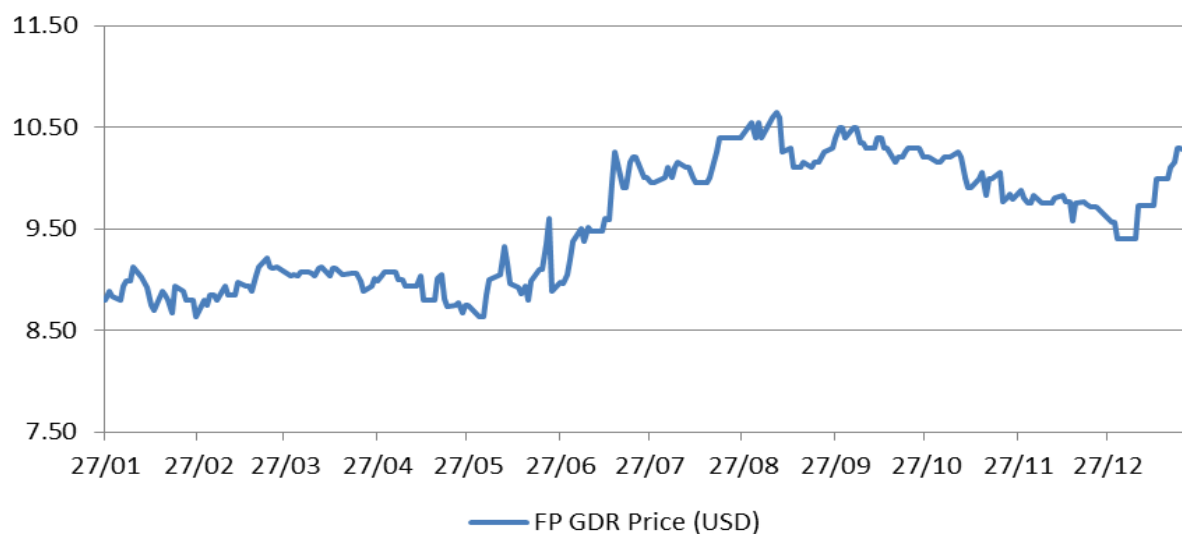
The following chart shows the evolution of the price of the Shares, expressed in RON, during the last 12 months prior to, and including, 26 January 2017 (being the trading date immediately preceding the date of submission of this Tender Offer Document to the FSA):



Source: BSE

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The following chart shows the evolution of the price of the GDRs, expressed in USD, during the last 12 months prior to, and including, 26 January 2017 (being the trading date immediately preceding the date of submission of this Tender Offer Document to the FSA):



Source: LSE

The closing price of the Shares and GDRs on 26 January 2017 (being the trading date immediately preceding the date of submission of this Tender Offer Document to the FSA) was RON 0.8640 per Share and USD 10.2500 per GDR, respectively.

#### 4. THE BIDDER

Please refer to Section 3 ("*The Issuer*") above.

#### 5. PERSONS ACTING IN CONCERT WITH THE BIDDER

The Bidder is not aware of the existence of any persons acting in concert with it in relation to the Issuer. "Persons acting in concert" has the meaning ascribed under the Capital Markets Law.

#### 6. NUMBER OF THE ISSUER'S SHARES HELD BY THE BIDDER (IN THE FORM OF SHARES OR GDRS)

According to the statements of account issued by the Central Depository and by BRD Groupe Société Générale (the Bidder's custodian), as at 2 February 2017 the Bidder holds 99,398,468 Shares (99,148,468 in the form of Shares and 250,000 in the form of GDRs (i.e. 5,000 GDRs)).

#### 7. NUMBER AND CLASS OF SECURITIES SUBJECT TO THE TENDER OFFER

The Bidder intends to acquire through the Tender Offer up to 640,000,000 fully paid Shares in the form of Shares and/or GDRs (which, for the avoidance of any doubt, do not include Shares or GDRs already owned by the Bidder on the date of this Tender Offer Document) (the "Maximum Number of Shares").

If an Investor is a holder of both Shares and GDRs, the Investor may (but is not obligated to) tender all of its Securities, or any portion or combination of Securities, using the appropriate procedures described below for each type of Security (please refer to Section 12 "Participation in the Tender Offer"). Alternatively, an Investor may choose to tender none of its Securities (in which case no action on such Investor's part is required), or tender only one type of security (Shares or GDRs) even if the Investor holds both types of Securities.

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The following table provides information with respect to the Securities as at 2 February 2017:

Securities types	Identification Codes/Numbers	Listing Venue	Number of fully paid up Securities
Shares	ISIN: ROFPTAACNOR5 Trading symbol: FP	Bucharest Stock Exchange	9,710,268,396*
GDRs	Common Code: 121643294 ISIN: US34460G1067 CUSIP: 34460G 106 SEDOL: BWV69Y7 Trading symbol: FP.	Specialist Market of the London Stock Exchange	73,105,672

## 8. PURPOSE OF THIS TENDER OFFER

This Tender Offer is part of the buy-back programme authorized by the resolution of the extraordinary general meeting of shareholders of the Bidder no. 9 held on 29 October 2015 and published with the Official Gazette of Romania, Part IV, no. 6682 on 26 November 2015 the purpose of which is the decrease of the Bidder's share capital. The buy-back programme has been authorised for a period of 18 months from 26 November 2015.

After the closing of the Tender Offer, the Bidder intends to cancel the GDRs purchased in the Tender Offer in exchange for the underlying Shares and subsequently, subject to approval of the shareholders, cancel all the purchased Shares (whether initially purchased in the form of Shares or GDRs) and decrease its share capital by the corresponding nominal value, at the time of cancellation of such cancelled Shares.

## 9. PURCHASE PRICE UNDER THE TENDER OFFER

### 9.1 The Purchase Price

The price per Share to be paid by the Bidder within the Tender Offer is RON 0.91 per Share and the USD equivalent of RON 45.50 per GDR, as applicable (the "Purchase Price"). The Purchase Price for the Shares will be paid in RON. The Purchase Price for the GDRs will be paid in US dollars at the Exchange Rate. No assurance can be given as to the National Bank of Romania US Dollar/RON exchange rate that will be published on the Trade Date.

### 9.2 The method of determining the Purchase Price

The Purchase Price in RON was established according to the Capital Markets Law and Regulation no. 1/2006. According to the provisions of Regulation no. 1/2006, the price in a tender offer of shares should be equal to at least the higher of:

- (a) the highest price paid by the relevant bidder and the persons acting in concert therewith for shares during a period of 12 months preceding the date of submission to the FSA of the relevant tender offer document. In this Tender Offer, the highest price paid by the Bidder for Shares during the 12 month period ending on 26 January 2017 (the "Relevant Period") is RON 0.8700 per Share; and
- (b) the volume weighted average price for shares, for a period of 12 months preceding the date of the submission to the FSA of the relevant tender offer document. In this Tender Offer, the volume weighted average price per Share for the Relevant Period is 0.7701 RON per Share.

The highest price paid by the Bidder for GDRs during the Relevant Period is USD 10.1000 per GDR, while the volume weighted average price per GDR for the same period is USD 9.5538 per GDR.



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### 9.3 Offer Value

The total Purchase Price payable under the Tender Offer (the "Offer Value") will be equal to the number of purchased Shares (in the form of Shares or GDRs) in the Tender Offer multiplied by the applicable Purchase Price in RON.

The Bidder may, at its sole discretion increase the Purchase Price during the Tender Offer according to the procedure described in Section 11 "Amendment of the Tender Offer" of this Tender Offer Document. In this situation, any Investors who have validly accepted the Tender Offer before the amendment of the Purchase Price will receive the increased Purchase Price.

### 10. TENDER OFFER PERIOD

This Tender Offer will be open for a period of twenty-three (23) Business Days. The Tender Offer will commence on 15 February 2017 and will expire on the Expiration Deadline, which is at 12:00 p.m. (Eastern European Time) / 10:00 a.m. Greenwich Mean Time on 20 March 2017 (the "Offer Period").

"Business Day" means a day on which banks are open for business in Romania, the UK and the US. For the avoidance of any doubt, 20 February 2017 is not a Business Day and, as a consequence, no tender of Securities will be accepted on such day.

The Clearing Systems, their respective participants and the brokers or other securities intermediaries through which GDR holders hold their GDRs will establish their own cut-off dates and times for the tender and/or revocation of the GDRs, which will be earlier than the Expiration Deadline.

The Offer Period may be extended by the Bidder according to the procedure described in Section 11 "Amendment of the Tender Offer" of this Tender Offer Document. Throughout its duration, the Tender Offer is irrevocable, and may not be terminated by, the Bidder. On expiry of the Expiration Deadline, the Tender Offer becomes obsolete.

### 11. AMENDMENT OF THE TENDER OFFER

During the Offer Period, the Bidder may amend the initial terms and conditions of the Tender Offer, provided that:

- (a) the FSA approves the amendment to the Tender Offer Document;
- (b) the amendment terms do not lead to less favourable conditions for Investors; and
- (c) the amendment shall be made available to Investors through publication of an announcement under the same procedure as that used for the publication of the Tender Offer Document.

Any request to amend the Tender Offer Document must be submitted to the FSA for approval not later than one (1) Business Day prior to the Expiration Deadline.

Any amendment to the Tender Offer Document once approved by the FSA is valid from the date of its publication.

In the event of an increase in the Purchase Price, all Investors who have agreed to tender their Securities to the Bidder pursuant to the terms of the Tender Offer shall receive the increased Purchase Price in respect of all Securities actually purchased by the Bidder.

The Bidder reserves the right, at any time or from time to time, to postpone the Expiration Deadline (as a result of an amendment to the Tender Offer Document or otherwise) to a later date and time as announced by the Bidder, subject to applicable law (including Rule 14e-1 under the Exchange Act) and, in any case, without extending the Offer Period beyond 50 Business Days. During any postponement of the Expiration Deadline (as a result of an amendment to the Tender Offer Document or otherwise), all Securities previously tendered in the Tender Offer will remain subject to the Tender Offer and may, subject to the terms and conditions to the consummation of the Tender Offer, be accepted for purchase by the Bidder. If the Bidder postpones the Expiration Deadline (as a result of an amendment to the Tender Offer Document or otherwise), the Bidder will

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provide written notice of such change to the GDR Tender Agent and will disseminate a supplement to this Tender Offer Document or issue a press release, as necessary.

## 12. PARTICIPATION IN THE TENDER OFFER

### 12.1 General

Investors who desire to tender all or any portion of their Securities pursuant to this Tender Offer must follow the procedures set forth in this Section.

Section 13(e) of the Exchange Act and Rule 14e-4 promulgated thereunder make it unlawful for any person acting alone or in concert with others, directly or indirectly, to tender securities for such person's own account unless at the time of tender and at the Expiration Deadline such person has a "net long position" in a number of securities that is equal to or greater than the amount tendered and will deliver or cause to be delivered such securities for the purpose of tendering to the Bidder within the period specified in this Tender Offer. Rule 14e-4 also provides a similar restriction applicable to the tender or guarantee of a tender on behalf of another person. A tender of securities made pursuant to any method of delivery set forth in this Tender Offer will constitute the tendering Investor's acceptance of the terms and conditions of this Tender Offer, as well as the tendering Investor's representation and warranty to the Bidder that (i) such Investor has a "net long position" in a number of securities at least equal to the securities being tendered within the meaning of Rule 14e-4, and (ii) such tender of securities complies with Rule 14e-4. The Bidder's acceptance for purchase of Shares and GDRs tendered pursuant to this Tender Offer will constitute a binding agreement between the tendering Investor and the Bidder upon the terms and subject to the conditions of this Tender Offer and, including the participating Investor's representation that the Investor has a net long position in the Shares or GDRs, as the case may be, being tendered for purchase within the meaning of Rule 14e-4 and that the request to tender such Shares or GDRs, as the case may be, complies with Rule 14e-4.

### 12.2 Participation of Investors tendering Shares

The Tender Offer for Shares shall be carried out exclusively through the trading systems operated by the BSE.

Institutional Investors may tender their Shares (i) through the Intermediary, during its regular business hours of each Business Day within the Offer Period, from Monday to Friday; and (ii) at the registered office of any Eligible Participant, during the regular business hours of the respective Eligible Participant on each Business Day within the Offer Period, from Monday to Friday.

Retail Investors may tender their Shares only at the registered office of any Eligible Participant, during the regular business hours of such Eligible Participant on each Business Day within the Offer Period, from Monday to Friday.

For the purposes of this Tender Offer Document:

**"Eligible Participants"** means any intermediaries (other than the Intermediary), which are investment firms or credit institutions qualified as participants to the trading system of the BSE, and which (a) have signed and submitted to the Intermediary an irrevocable and unconditional undertaking (the **"Engagement Letter"**) to observe the terms and conditions of the Tender Offer and applicable laws and (b) have been granted access to the market segment of the BSE used for the Tender Offer.

**"Institutional Investors"** means "qualified investors" as such term is defined under the Capital Markets Law.

**"Retail Investors"** means Investors other than Institutional Investors.

Investors may tender their Shares in the Tender Offer in accordance with the terms of this Tender Offer Document by filling in and signing the share purchase agreement (the **"Acceptance Form"**) made available to interested Investors by the Intermediary or any Eligible Participant (the Intermediary together with the Eligible Participant, the **"Authorised Participants"**) at their respective registered offices and by delivering before the Expiration Deadline, all necessary documents, at the respective registered offices.

Signed and completed Acceptance Forms may be submitted with any Authorised Participant only prior to the Expiration Deadline.

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Each Investor tendering Shares in the Tender Offer may only tender such number of Shares in respect of which it is a registered owner on the date of submission of the Acceptance Form to any Authorised Participant in the Tender Offer. Each Authorised Participant undertakes to verify, upon receiving each Acceptance Form, with the accompanying documents that the number of Shares proposed to be tendered by each Investor as set out in the Acceptance Form does not exceed the number of Shares held at that time by the respective Investor, which are registered in an account opened with the respective Authorised Participant or with the relevant custodian of the Investor (as the case may be). Each Authorised Participant may only validate the tenders made by an Investor and place the corresponding sell order into the trading system of the BSE after it has performed the above described verifying process. Each Authorised Participant is liable for any loss or damages caused to the Bidder or any third parties, directly or indirectly, by the failure to comply with the above described process in respect of the tenders validly submitted to such Authorised Participant.

If an Investor has concluded a valid brokerage contract with an Authorised Participant, such Investor may send to the respective Authorised Participant a standard sale order in respect of the Shares proposed to be sold in the Tender Offer, without being required to submit any other additional documentation except for the evidence of ownership of the Shares in the form of a statement of account issued by its custodian. In such case, the relevant Authorised Participant will fill in the Acceptance Form on behalf of the respective Investor.

If an Investor has not concluded a valid brokerage contract with an Authorised Participant, the Acceptance Form must be accompanied by any other documents requested by the Authorised Participant for the purpose of carrying out its duty to comply with "know your client" rules, based on applicable regulation and its internal policies and requirements for client identification.

Documents in a language other than Romanian or English, submitted by an Investor must be accompanied by a translation thereof into Romanian or English.

If (a) an Acceptance Form contains factual or legal errors or is not accompanied by the required documentation and/or (b) any Shares intended to be sold in the Tender Offer by an Investor (i) are restricted in any way from transfer and such restriction is registered with the Central Depository, the Authorised Participant or the relevant custodian of the Investor (as the case may be) and/or (ii) are expressed to be subject to any options or other rights in favour of a third party and/or (iii) are not held in an account of the Investor and/or (iv) the number of Shares indicated in the Acceptance Form exceeds the number of Shares actually held by the Investor, the relevant Acceptance Forms shall be deemed null and void for the entire number of shares mentioned in it and shall not be validated by the Authorised Participant.

Immediately after the validation of an Acceptance Form from an Investor, the relevant Authorised Participant will block the Shares tendered by that Investor. Each Authorised Participant is required to take all the necessary measures to ensure an effective blocking of the tendered Shares into the relevant accounts opened by the Investor with the respective Authorised Participant. If the Investor holds the Shares, which are tendered, through a custodian, the Investor shall instruct its custodian to block the tendered Shares until the Trade Date (as defined below). Each custodian of the Investors tendering Shares in the Tender Offer is required to take all necessary measures to ensure an effective blocking of the tendered Shares into the relevant accounts opened by the Investor with the respective custodian. Consequently such Investor will not be able to transfer, dispose of, or otherwise deal in, the Shares that have been tendered, except where it has validly submitted a tender withdrawal request (a "**Revocation Form**") (see Section 12.4 "Withdrawal of tenders").

Any tendered Shares that are not withdrawn and that are not accepted for purchase under the Tender Offer as a result of the pro-rata allocation will be unblocked by the Authorised Participant/custodian after acceptance of the tendered Shares on the Allocation Date (as defined below).

All tendered Shares that are not withdrawn and that are accepted in the Tender Offer shall be unblocked on the Allocation Date for transfer immediately prior to and for the purpose of the registration of the trades in the trading system of the BSE.

Each Authorised Participant must inform Investors tendering their Shares through such Authorised Participant of the terms and conditions of the Tender Offer and each of them is exclusively liable for carrying out the trades in connection with this Tender Offer in compliance with this Tender Offer Document and the FSA regulations.

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For the avoidance of doubt, the Authorised Participants are liable also for the completion of the settlement of the trades carried out pursuant to the orders collected, validated and registered by such Authorised Parties in the BSE systems and corresponding payments to Investors.

By tendering their Shares through an Authorised Participant, each Investor tendering Shares will be deemed to represent, warrant and agree as follows:

- (a) It understands and agrees that tenders of Shares pursuant to the procedures described in this Tender Offer Document and acceptance of such Shares for purchase by the Bidder will constitute a binding agreement between the Investor tendering Shares and the Bidder, upon the terms and subject to the conditions of this Tender Offer.
- (b) It represents and warrants that it has full power and authority to tender, sell, assign and transfer the Shares tendered hereby and all distributions relating thereto and that when such tendered Shares are accepted for purchase and payment by the Bidder, the Bidder will acquire good, marketable and unencumbered title thereto and to all distributions, free and clear of all liens, charges, claims, interests, rights of third parties, encumbrances and restrictions of any kind and not subject to any adverse claim or right, and together with all rights attached thereto.
- (c) It represents and warrants that it has read this Tender Offer Document and the related materials and agrees to all of the terms of this Tender Offer. All authority conferred or agreed to be conferred shall not be affected by, and shall survive, the death or incapacity of the Investor, and any obligation of the Investor hereunder shall be binding upon the heirs, executors, administrators, trustees in bankruptcy, personal and legal representatives, successors and assigns of the Investor.
- (d) It understands that the Bidder will pay the Purchase Price for each of the Shares accepted for purchase upon the terms and subject to the conditions set forth in this Tender Offer Document.
- (e) It recognizes that under certain circumstances set forth in this Tender Offer Document, the Bidder may amend this Tender Offer.
- (f) It represents, warrants and undertakes that it has observed the laws of all relevant jurisdictions, obtained all requisite governmental, exchange control or other required consents, complied with all requisite formalities in connection with any tender of any Shares, in any jurisdiction and that it has not taken or omitted to take any action in breach of the terms of this Tender Offer Document or the related materials or which will or may result in the Bidder or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with this Tender Offer or tender of Shares in connection therewith.
- (g) It is not a person to whom it is unlawful to make an invitation pursuant to the Tender Offer under applicable securities laws and it has complied with all laws and regulations applicable to it for the purposes of its participation in the Tender Offer.
- (h) It confirms and agrees that it will indemnify and hold harmless the Bidder, the GDR Tender Agent, the Dealer Managers, the Intermediary, the GDR Depositary and each of their affiliates, employees, directors and officers and each person, if any, who controls the Bidder, the GDR Tender Agent, the Dealer Managers, the Intermediary and the GDR Depositary within the meaning of Section 15 of the U.S. Securities Act of 1933 or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including, without limitation, legal fees and other expenses incurred by any of them in connection with any suit, action or proceeding or any claim asserted, as such fees and expenses are incurred), arising out of or, in connection with any breach by the Investor of any of the representations, warranties and agreements hereunder.
- (i) If the Investor is in the United Kingdom, it is (i) a person having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), (ii) a high net worth entity falling within Article 49(2)(a) to (d) of the Order, or (iii) otherwise a person to whom the Tender Offer may otherwise lawfully be communicated.

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- (j) It represents, warrants and confirms that: (a) it is not a Sanctioned Person (as defined below) (other than solely by virtue of its or its controlling persons' inclusion in: (1) the most current "**Sectoral Sanctions Identifications**" list (which as of the date hereof can be found at: [http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/ssi\\_list.aspx](http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/ssi_list.aspx) (the "**SSI List**"), (2) Annexes III, IV, V and VI of Council Regulation No.833/2014, as amended by Council Regulation No.960/2014 (the "**EU Annexes**"), or (3) any other list maintained by a Sanctions Authority, with similar effect to the SSI List or the EU Annexes); (b) it is not acting on behalf, or for the benefit, of a Sanctioned Person; and (c) it will not use, directly or indirectly, the proceeds received by it from the sale of its securities pursuant to this Tender Offer for the purpose of financing or making funds available directly or indirectly to or for the benefit of any Sanctioned Person, to the extent such financing or provision of funds would be prohibited by Sanctions.

For the purposes of this Tender Offer Document:

- (i) a "**Sanctioned Person**" means any person: (a) that is or (to the extent ownership or control subjects it to the relevant sanctions under applicable law or regulatory guidance) is owned or controlled by a person that is, described or designated in (1) the most current "Specially Designated Nationals and Blocked Persons" list (which as of the date hereof can be found at: <https://www.treasury.gov/ofac/downloads/sdnlist.pdf>) or (2) the most current "Consolidated list of persons, groups and entities subject to EU financial sanctions" (which as of the date hereof can be found at: [http://eeas.europa.eu/cfsp/sanctions/consol-list/index\\_en.htm](http://eeas.europa.eu/cfsp/sanctions/consol-list/index_en.htm)); or (b) that is otherwise the subject of any Sanctions;
- (ii) "**Sanctions**" means any economic, financial or trade sanctions, laws, regulations, or restrictive measures (including, for the avoidance of doubt, any sanctions or measures relating to any particular embargo or asset freezing) enacted, administered, imposed or enforced from time to time by the US, including the OFAC Regulations, the United Nations, the European Union, each Member State of the European Union, Switzerland, the United Kingdom or the competent governmental agencies or official institutions of any of these countries and organizations, each as amended, supplemented or substituted from time to time; and
- (iii) a "**Sanctions Authority**" means (a) the Security Council of the United Nations; and (b) the respective governmental institutions and agencies of the US, the United Kingdom, the European Union or a Member State of the European Union including, without limitation, the Office of Foreign Assets Control of the US Department of the Treasury, the United States Department of State, the United States Department of Commerce and Her Majesty's Treasury, or (c) any other equivalent governmental or regulatory authority, institution or agency which administers economic, financial or trade sanctions.
- (k) It acknowledges that the GDR Tender Agent, the Intermediary, the Dealer Managers and the GDR Depository make no representation as to the truth or accuracy of any information available with respect to the Issuer, in the public domain, in this Tender Offer Document or otherwise, or to the sufficiency of any such information, to enable it to determine whether to tender or refrain from tendering its Shares pursuant to this Tender Offer.
- (l) It acknowledges that the Bidder, the GDR Tender Agent, the Dealer Managers, the Intermediary and the GDR Depository will rely upon the truth and accuracy of the foregoing acknowledgements, agreements, representations, warranties, undertakings and directions.

None of the Bidder, its Board of Nominees or management, the Dealer Managers or the Intermediary or any other person is or will be obligated to give any notice of any defect or irregularity in any tender, and none of them will incur any liability for failure to give any such notice.

### 12.3 Participation of Investors tendering GDRs

Investors who intend to tender all or any portion of their GDRs pursuant to this Tender Offer Document must follow the procedures set forth in this Section 12.3 "Participation of Investors tendering GDRs". An Investor holding GDRs (or a direct participant of Euroclear or Clearstream, as the case may be, holding GDRs on behalf of such Investor) must tender through either Euroclear or Clearstream, as the case may be.

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GDRs tendered in the Tender Offer will be blocked in the relevant account at the relevant Clearing System from the date the relevant tender of Securities is made until the time of completion of settlement of the Tender Offer or until the Investor validly withdraws its tender (see Section 12.4 "Withdrawal if tenders").

Please note that the Clearing Systems, their respective participants and the brokers or other securities intermediaries through which GDRs are held will establish their own cut-off dates and times for the tender and/or withdrawal of the GDRs, which will be earlier than the Expiration Deadline. Investors should contact the broker or other securities intermediary through which they hold GDRs to determine the cut-off dates and times that apply to them.

By tendering their GDRs through the submission of an electronic instruction in accordance with the requirements of Euroclear or Clearstream, as applicable, each Investor tendering GDRs will be deemed to represent, warrant and agree as follows:

- (a) Effective upon acceptance for purchase and payment for tendered GDRs, it irrevocably constitutes and appoints the GDR Tender Agent as its true and lawful agent and attorney-in-fact (with full knowledge that the GDR Tender Agent also acts as the agent of the Bidder) with respect to such GDRs, with full powers of substitution and revocation (such power of attorney being deemed to be an irrevocable power coupled with an interest) to (i) present such GDRs and all evidences of transfer and authenticity to, or transfer ownership of, such GDRs on the account books maintained by the Clearing Systems or the GDR Depository to, or upon the order of, the Bidder, and (ii) receive all benefits and otherwise exercise all rights of beneficial ownership of such GDRs, all in accordance with the terms and conditions of this Tender Offer.
- (b) It understands and agrees that tenders of GDRs pursuant to the procedures described in this Tender Offer Document and acceptance of such GDRs for purchase by the Bidder will constitute a binding agreement between the Investor tendering GDRs and the Bidder, upon the terms and subject to the conditions of this Tender Offer. For purposes of this Tender Offer, it understands that validly tendered GDRs will be deemed to have been accepted for purchase by the Bidder if, as and when the Bidder gives oral or written notice thereof to the GDR Tender Agent.
- (c) It represents and warrants that it has full power and authority to tender, sell, assign and transfer the GDRs (including the underlying Shares) tendered hereby and all distributions relating thereto and that when such tendered GDRs are accepted for purchase and payment by the Bidder, the Bidder will acquire good, marketable and unencumbered title thereto and to all distributions, free and clear of all liens, charges, claims, interests, rights of third parties, encumbrances and restrictions of any kind and not subject to any adverse claim or right, and together with all rights attached thereto. It will, upon request, execute and deliver any additional documents deemed by the GDR Tender Agent or by the Bidder to be necessary or desirable to complete the sale, assignment or transfer of the GDRs validly tendered hereby or to evidence such power and authority.
- (d) It represents and warrants that it has read this Tender Offer Document and the related materials and agrees to all of the terms of this Tender Offer. All authority conferred or agreed to be conferred shall not be affected by, and shall survive, the death or incapacity of the Investor, and any obligation of the Investor hereunder shall be binding upon the heirs, executors, administrators, trustees in bankruptcy, personal and legal representatives, successors and assigns of the Investor.
- (e) It understands that the Bidder will pay the Purchase Price for each of the GDRs accepted for purchase upon the terms and subject to the conditions set forth in this Tender Offer Document.
- (f) It recognizes that under certain circumstances set forth in this Tender Offer Document, the Bidder may amend this Tender Offer.
- (g) It understands that the delivery and surrender of any GDRs is not effective, and the risk of loss of the GDRs does not pass to the GDR Tender Agent, until receipt by the GDR Tender Agent of those GDRs.
- (h) It hereby requests that any GDRs not accepted for purchase that are held through Euroclear or Clearstream be unblocked.

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- (i) It represents, warrants and undertakes that it has observed the laws of all relevant jurisdictions, obtained all requisite governmental, exchange control or other required consents, complied with all requisite formalities in connection with any tender of any GDRs, in any jurisdiction and that it has not taken or omitted to take any action in breach of the terms of this Tender Offer Document or the related materials or which will or may result in the Bidder or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with this Tender Offer or tender of GDRs in connection therewith.
- (j) It is not a person to whom it is unlawful to make an invitation pursuant to the Tender Offer under applicable securities laws and it has complied with all laws and regulations applicable to it for the purposes of its participation in the Tender Offer.
- (k) It confirms and agrees that it will indemnify and hold harmless the Bidder, the GDR Tender Agent, the Dealer Managers, the Intermediary, the GDR Depository and each of their affiliates, employees, directors and officers and each person, if any, who controls the Bidder, the GDR Tender Agent, the Dealer Managers, the Intermediary and the GDR Depository within the meaning of Section 15 of the U.S. Securities Act of 1933 or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including, without limitation, legal fees and other expenses incurred by any of them in connection with any suit, action or proceeding or any claim asserted, as such fees and expenses are incurred), arising out of or, in connection with any breach by the Investor of any of the representations, warranties and agreements hereunder.
- (l) If the Investor is in the United Kingdom, it is (i) a person having professional experience in matters relating to investments falling within Article 19(5) of the Order, (ii) a high net worth entity falling within Article 49(2)(a) to (d) of the Order, or (iii) otherwise a person to whom the Tender Offer may otherwise lawfully be communicated.
- (m) It represents, warrants and confirms that: (a) it is not a Sanctioned Person (other than solely by virtue of its or its controlling persons' inclusion in: (1) the most current SSI List (which as of the date hereof can be found at: [http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/ssi\\_list.aspx](http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/ssi_list.aspx), (2) the EU Annexes, or (3) any other list maintained by a Sanctions Authority, with similar effect to the SSI List or the EU Annexes); (b) it is not acting on behalf, or for the benefit, of a Sanctioned Person; and (c) it will not use, directly or indirectly, the proceeds received by it from the sale of its securities pursuant to this Tender Offer for the purpose of financing or making funds available directly or indirectly to or for the benefit of any Sanctioned Person, to the extent such financing or provision of funds would be prohibited by Sanctions.
- (n) It acknowledges that the GDR Tender Agent, the Intermediary, the Dealer Managers and the GDR Depository make no representation as to the truth or accuracy of any information available with respect to the Issuer, in the public domain, in this Tender Offer Document or otherwise, or to the sufficiency of any such information, to enable it to determine whether to tender or refrain from tendering its Shares in the form of GDRs pursuant to this Tender Offer.
- (o) It acknowledges that the Bidder, the GDR Tender Agent, the Dealer Managers, the Intermediary and the GDR Depository will rely upon the truth and accuracy of the foregoing acknowledgements, agreements, representations, warranties, undertakings and directions.

None of the Bidder, its Board of Nominees or management, the Intermediary, the Dealer Managers or the GDR Tender Agent or any other person is or will be obligated to give any notice of any defect or irregularity in any tender, and none of them will incur any liability for failure to give any such notice.

#### 12.4 Withdrawal of tenders

Tenders submitted in the Tender Offer may be withdrawn by Investors no later than the Expiration Deadline, it being understood, however, that in relation to GDRs, the Clearing Systems may impose their own cut off times with respect to the ability of Investors to withdraw their instructions to tender. Investors that hold through an intermediary are advised to check with such entity when it would require receipt of instructions to revoke a tender of GDRs in the Offer in order to meet the deadline. For the avoidance of doubt, any Investor who does

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not exercise any such right of revocation in the manner specified above shall be deemed to have maintained its tender and its original instruction will remain effective.

Investors may withdraw their tender by filling in a Revocation Form at the unit where the tender was submitted.

### 13. ALLOCATION

The Bidder shall determine those Securities that will be accepted for purchase under the Tender Offer on the Business Day falling on the Expiration Deadline (the "Allocation Date").

The total number of Shares tendered and not withdrawn in the Tender Offer (in the form of Shares and GDRs) by Investors ("Aggregated Tendered Shares") will be determined by aggregating (i) the total number of Shares tendered and not withdrawn in the form of Shares and (ii) the total number of Shares tendered and not withdrawn in the form of GDRs (noting that each GDR represents 50 Shares). The total number of Shares tendered and not withdrawn in the form of Shares will be the sum of Shares corresponding to the sale orders entered by the Authorised Participants in the market for special operations – POF - of the BSE, by 6:00 p.m. (Eastern European Time) on the last day of the Offer Period. The total number of Shares tendered in the form of GDRs will be the number of GDRs tendered and not withdrawn by the Expiration Deadline, as communicated by the GDR Tender Agent, multiplied by 50.

If the Aggregated Tendered Shares exceed the Maximum Number of Shares, the tendered and not withdrawn Shares and GDRs will be purchased by the Bidder on a pro-rata basis according to the number of Shares validly tendered and not withdrawn by each of the tendering Investors (including Shares in the form of GDRs) (with adjustments where necessary to avoid the purchase of a fractional Security from any Investor). The allocation ratio will be calculated by dividing the Maximum Number of Shares by the Aggregated Tendered Shares.

The allocation ratio will be made public on the Allocation Date, including via the Bucharest Stock Exchange electronic system and Regulatory Information Service in the United Kingdom.

Any Investor, which validly tenders Securities in the Tender Offer, will sell such number of Shares, tendered in the form of Shares and/or GDRs, as accepted for tender by the Bidder following the pro-rata allocation and possible adjustments.

As a first step, in the case of Shares tendered and not withdrawn in the form of GDRs through the GDR Tender Agent, the allocation ratio will be applied to the number of Shares in the form of GDRs communicated by the GDR Tender Agent (which, for this purpose will be deemed as a single instruction to tender GDRs). If the resulting number of Shares allocated to the number of GDRs tendered through and communicated by the GDR Tender Agent after the pro-rata allocation is not a whole number which is a multiple of 50, the number of Shares allocated to the GDR Tender Agent shall be rounded down to the immediately lower whole number which is also a multiple of 50. Any remaining Shares as a result of such rounding down will be allocated to Investors tendering Shares as described below.

As a second step, in the case of Investors tendering Shares in the Tender Offer, if the resulting number of Shares allocated to such Investor after the pro-rata allocation is not a whole number, the number of Shares allocated to the relevant Investor shall be rounded down to the immediately lower whole number.

For the purpose of allocating any remaining Shares resulting from the rounding down related to the two steps described above, Investors who validly tendered Shares shall be ranked in decreasing order of the number of Shares for which they validly tendered and which were not withdrawn and, if one or more Investors tendered the same number of Shares they will be ranked in increasing order based on the time stamp in the Bucharest Stock Exchange electronic system associated with their trading order. The remaining Shares shall be then allocated on the basis of one per Investor (but so that the number of Shares allocated in aggregate to an Investor does not exceed the number of Shares initially tendered by such Investor), starting with the largest allocation, until the remaining Shares are fully allocated.

For the avoidance of doubt, an Investor owning more than the Maximum Number of Shares is entitled to tender in the Tender Offer up to the total number of Shares held by such Investor and such number of Shares will be considered in the total number of Shares tendered in the Tender Offer when assessing the pro-rata allocation. The number of Shares that will be sold under this Tender Offer by the respective Investor shall be calculated by



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applying the allocation ratio to the number of Shares tendered in the Tender Offer. Acceptances are not allowed for fractional Securities.

The Clearing Systems and participants in those systems will make appropriate adjustments to the number of GDRs accepted for purchase in the Tender Offer (rounding up or down, as appropriate) so as to avoid the acceptance of fractional GDRs for purchase in the Tender Offer. If any validly tendered and not withdrawn GDRs are not purchased under this Tender Offer, such GDRs will be unblocked by the relevant Clearing System on the account of the Investor tendering GDRs.

## **14. PAYMENT**

### **14.1 General**

Investors validly tendering Securities in the Tender Offer in accordance with the terms of this Tender Offer Document shall receive the Purchase Price corresponding to the number of Securities accepted for tender, less any taxes or other governmental charges, fiscal duties, any commissions and transaction fees charged by the brokers, intermediaries, relevant market institutions or any applicable bank transfer fees. No Investor will be entitled to any payment of accrued or other interest with respect to the Purchase Price under any circumstances.

The Bidder shall not be liable for the payment of any transaction fees and charges or other charges and commissions payable by Investors who have sold Securities pursuant to the Tender Offer.

The Bidder is not responsible for withholding or payment of and will not withhold or pay any taxes or other governmental charges or fiscal duties in relation to the Purchase Price payable to Investors who have sold Securities in the Tender Offer. Each Investor should seek independent advice from its legal, tax or financial advisors and shall duly comply with any tax obligations which may arise in respect of the income derived in connection with the Securities sold pursuant to the Tender Offer.

### **14.2 Payment for Shares**

The trades for Shares in the Tender Offer will take place on the Business Day immediately following the Expiration Deadline (the "Trade Date"). The settlement of the trades relating to the Shares in the Tender Offer shall occur on the second Business Day following the Trade Date (the "Shares Settlement Date"). Payment of the Purchase Price by the Bidder to Investors for Shares accepted for purchase after allocation shall be made in RON, as part of settlement (delivery versus payment in the clearing and settlement system of the Central Depository).

For the avoidance of any doubt, in case of Investors that have elected in the corresponding Acceptance Form to receive payment other than by bank transfer, the Authorised Participants (through which such Investors tendered their Shares) shall transfer the corresponding Purchase Price received from the Bidder no later than the Business Day immediately following the Shares Settlement Date.

Each Investor will receive payment of the Purchase Price corresponding to the number of Shares accepted for tender pursuant to the Tender Offer in accordance with the option specified by the Investor in the Acceptance Form, less any taxes or other governmental charges, fiscal duties, any commissions and transaction fees charged by the brokers, intermediaries, relevant market institutions or any applicable bank transfer fees.

### **14.3 Payment for GDRs**

The Bidder will, no later than two (2) Business Days following the Expiration Deadline, remit the aggregate Purchase Price for all GDRs to be purchased by the Bidder pursuant to the Tender Offer in US dollars to the GDR Tender Agent. The GDR Tender Agent will, as soon as practicable, pay that price to the Clearing Systems for further distribution to the Investors who have validly tendered GDRs in the Tender Offer and whose GDRs have been accepted for purchase in the Tender Offer pro-rata to the number of GDRs validly tendered by the relevant tendering Investor. The Purchase Price for GDRs accepted for tender, after deduction or payment of any taxes or other governmental charges, fiscal duties, any commissions and transaction fees charged by the brokers, intermediaries, relevant market institutions or

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any applicable bank transfer fees, shall be paid to Investors through the procedures of the relevant Clearing System. Investors tendering GDRs will not receive any other form of compensation during this period of time or in the event of a delay in the delivery of the corresponding Purchase Price to the Investors (subject to Rule 14e-1(c) under the Exchange Act).

## **15. THE SOURCE AND SIZE OF THE BIDDER'S FUNDS FOR THE PAYMENT OF THE PURCHASE PRICE**

The Bidder will use its own funds to pay the Purchase Price in connection with this Tender Offer. The Bidder has deposited with the Intermediary's account the guarantee of 30 per cent of the Offer value, required in accordance with Regulation no. 1/2006.

## **16. GENERAL INFORMATION**

### **16.1 Authorisations and purpose**

The Tender Offer has been authorized by the resolution of the extraordinary general shareholders' meeting of the Bidder no. 9 of 29 October 2015 published with the Official Gazette of Romania Part IV no. 6682 dated 26 November 2015 and is part of the buy-back programme whose purpose is the decrease of the Bidder's share capital.

After the closing of the Tender Offer, the Bidder intends to cancel the GDRs purchased in the Tender Offer in exchange for the underlying Shares and subsequently cancel all the purchased Shares (whether initially purchased in the form of Shares or GDRs) and decrease its share capital by the corresponding nominal value of such cancelled Shares.

### **16.2 Availability of the Tender Offer Document**

The Tender Offer Document shall be made available to the public free of charge, as follows:

- (a) In hard copy, at the Bidder's registered office, respectively 78-80 Buzesti Street (7th floor), District 1, Postal Code 011017, Bucharest, Romania, telephone +4021.200.96.00, starting with the date of publication of the Tender Offer announcement; and
- (b) in electronic form, on the website of the Bucharest Stock Exchange ([www.bvb.ro](http://www.bvb.ro)), as well as on the Bidder's website ([www.fondulproprietatea.ro](http://www.fondulproprietatea.ro)).

### **16.3 Intermediary**

The Bidder has entered into an intermediation agreement dated 27 January 2017 with the Intermediary for the purposes of the Tender Offer. Institutional Investors tendering Shares pursuant to the Tender Offer will be required to tender Shares through the Intermediary or any Eligible Participant, while Retail Investors tendering Shares will be required to tender Shares through any Eligible Participant.

### **16.4 GDR Tender Agent**

The Bidder has entered into a GDR tender agent agreement dated on or around the announcement of this Tender Offer Document with The Bank of New York Mellon for the purposes of the Tender Offer. Investors tendering GDRs pursuant to this Tender Offer will be required to tender GDRs to The Bank of New York Mellon in its capacity as GDR Tender Agent.

### **16.5 Dealer Managers**

The Bidder has engaged Goldman Sachs and Wood & Co. to act as Dealer Managers. The Bidder has entered into a dealer manager agreement dated on or around the announcement of this Tender Offer Document with the Dealer Managers.

The Dealer Managers and their respective affiliates may contact and communicate with Institutional Investors regarding the Tender Offer and may request brokerage houses, custodians, nominees, fiduciaries and others to forward this Tender Offer Document and related materials to such Institutional Investors.

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**Bidder**

**Intermediary**

**Fondul Proprietatea SA**

**WOOD & Company Financial Services a.s.**

**Johan MEYER**

**Bogdan Campianu**

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**Franklin Templeton International Services  
S.À R.L., as Sole Director of FONDUL  
PROPRIETATEA S.A.**

## Annex 6 Compliance with the corporate governance requirements

### Compliance with the provisions of the Corporate Governance Code issued by the BVB

Code Provisions	Complies	Does not comply/partially complies	Reason for non-compliance
A.1. The Fund has internal regulation which includes terms of reference/ responsibilities for Board and key management functions of the Fund.	X		
A.2. Provisions for the management of conflict of interest are included in the internal regulation. In any event, the members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	X		
A.3. The Board of Nominees has five members.	X		
A.4. All members of the Board of Nominees are non-executive. Four members of the Board of Nominees are independent. Each independent member of the Board of Nominees submitted a declaration that he is independent at the moment of his nomination for election or re-election as well as when any change in his status arises, by demonstrating the ground on which he is considered independent in character and judgement in practice.	X		
A.5. A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/ her mandate.	X		
A.6. Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board.	X		
A.7. The Fund has appointed a Board secretary responsible for supporting the work of the Board.	X		
A.8. The annual report informs on whether an evaluation of the Board has taken place under the leadership of the chairman or the Nomination and Remuneration Committee and, if it has, summarize key action points and changes resulting from it. The Fund has a policy regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.	X		
A.9. The annual report contains information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	X		
A.10 The annual report contains information on the precise number of the independent members of the Board of Nominees.	X		
A.11. The Board of Nominees set up the Nomination and Remuneration Committee formed of non-executives, which will lead the process for the AIFM appointments and make recommendations to the Board. The majority of the members of the Nomination and Remuneration Committee are independent.	X		
B.1 The Board of Nominees set up the Audit and Valuation Committee, all members being non-executive and the majority of them being independent. The majority of members, including the chairman, have proven an adequate qualification relevant to the functions and responsibilities of the committee. The chairman of the Audit Committee has proven adequate auditing or accounting experience.	X		
B.2. The Audit and Valuation Committee is chaired by an independent non-executive member.	X		
B.3. Among its responsibilities, the Audit and Valuation Committee undertakes an annual assessment of the system of internal control.	X		
B.4. The assessment considers the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the Audit and Valuation Committee, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and submission of relevant reports to the Board.	X		
B.5. The Audit and Valuation Committee reviews conflicts of interests in transactions of the Fund and its subsidiaries with related parties.	X		
B.6. The Audit and Valuation Committee evaluates the efficiency of the internal control system and of the risk management system.	X		
B.7. The Audit and Valuation Committee monitors the application of statutory and generally accepted standards of internal auditing. The Audit and Valuation Committee receives and evaluates the reports of the internal audit team.	X		
B.8. The Audit and Valuation Committee provides the Board annual or ad-hoc reports.	X		

Code Provisions	Complies	Does not comply/partially complies	Reason for non-compliance
B.9. No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the Fund with shareholders and their related parties.	X		
B.10. The Fund has in place a related party transaction procedure.	X		
B.11. The internal audits are carried out by a separate structural division and by retaining an independent third-party entity.	X		
B.12. To ensure the fulfilment of the core functions of the internal audit activities, all reports are provided to the Board via the Audit and Valuation Committee.	X		
C.1. The Fund has published a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review.	X		
D.1. In addition to information required by legal provisions, the Fund includes on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:	X		
D.1.1. Principal corporate regulations: the Constitutive Act, general shareholders meeting procedures;	X		
D.1.2. Professional CVs of the members of its governing bodies, Board member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;	X		
D.1.3. Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non-compliance with the Code of BV/B;	X		
D.1.4. Detailed information related to general meetings of shareholders;	X		
D.1.5. Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions;	X		
D.1.6. The name and contact data of a person who should be able to provide knowledgeable information on request;	X		
D.1.7. Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.	X		
D.2. The Fund has an annual cash distribution policy, as a set of directions the Fund intends to follow regarding the distribution of net profit. The annual cash distribution policy is published on the corporate website.	X		
D.3. The Fund has adopted a policy with respect to forecasts. The forecast policy is published on the corporate website.	X		
D.4. The rules of general meetings of shareholders do not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.	X		
D.5. The external auditors should attend the shareholders' meetings when their reports are presented there.	X		
D.6. The management of the Fund presents to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	X		
D.7. Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the management of the Fund. Accredited journalists may also participate in the general meeting of shareholders, unless the management of the Fund decides otherwise.	X		
D.8. The quarterly and semi-annual financial reports include information in both Romanian and English regarding the key drivers influencing the activity of the Fund.	X		
D.9. The Fund organises at least four meetings/ conference calls with analysts and investors each year. The information presented on these occasions is published on the Fund's website.	X		
D.10. If the Fund supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the Fund part of its business mission and development strategy, it publishes the policy guiding its activity in this area.	X		

## Compliance with the provisions of the principles of corporate governance by the entities authorised, regulated and supervised by the Financial Supervisory Authority

Rules for the application of the principles of corporate governance	Complies	Does not comply/partially complies	Reason for non-compliance
1. The Fund defined in its instruments of incorporation and internal policies the responsibilities of the corporate bodies on the implementation and compliance with the principles of corporate governance.	X		
2. The internal policies lay down the corporate governance structures, functions, competences and responsibilities of the non-executive and executive management/ senior management.	X		
3. The annual report of the Fund has a dedicated chapter that describe the relevant events in connection with the application of the principles of corporate governance, occurring over the financial year.	X		
4. The Fund has a communication strategy with the parties concerned to ensure proper information.	X		
5. The structure of the management assures a balance between executive and non-executive members so that no person or small group of persons influences the decision-making process.	X		
6. The Board of Nominees is convened at least every three months to monitor the performance of the Management of the Fund.	X		
7. The non-executive and the executive management/ senior management regularly reviews the policies on the financial reporting, internal control and risk management system adopted by the Fund.	X		
8. In fulfilling its duties, the Board of Nominees is assisted by consultative committees for information on various topics subject to decision-making.	X		
9. The consultative committees submit to the Board of Nominees works/ reports on the topics entrusted by it.	X		
10. There are internal procedures/ policies/ regulations of the Fund for the selection of applications for the persons of the executive management/ senior management, appointment of new persons or renewal of the existing mandates.	X		
11. The management of the Fund ensures the continuous professional training of the executive management/ senior management so that it efficiently performs its tasks.	X		
12. Key functions are established so as to maintain the organisational structure of the Fund compliant with the applicable regulations.	X		
13. The Board of Nominees regularly reviews the efficiency and update of the internal control system of the Fund to ensure a rigorous management of the risks to which the Fund is exposed.	X		
14. The Audit and Valuation Committee makes recommendations to the Board of Nominees on the selection, appointment and replacement of the financial auditor, and on the terms and conditions of his remuneration.	X		
15. The management reviews at least once a year and ensures that the remuneration policies are consistent with an efficient risk management.	X		
16. The remuneration policy of the Fund is set out in the internal regulations regarding the implementation and compliance with the principles of corporate governance.	X		
17. The Board of Nominees has adopted a procedure for the identification and proper settlement of any conflict of interest.	X		
18. The executive management/ senior management, as appropriate, informs the Board of Nominees of any conflict of interest and does not participate in the decision-making process which is related to the state of conflict.	X		
19. The Board of Nominees analyses at least once a year the efficiency of the risk management system of the Fund.	X		
20. The Fund has procedures for the identification, assessment and management of the significant risks to which it is, or it is likely to be, exposed.	X		
21. The Fund's management has in place clear action plans for business continuity and for any emergency situations.	X		



**FONDUL**  
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