



30% Discount to NAV; NAV Discount Narrowing

As of December 31, 2014, the net asset value [NAV] of the fund's underlying investments was Ron1.21 per share. At the current stock price of Ron0.86, this approximates to a discount of -30% to its NAV. Since the stock's listing in January 2011, the NAV discount has continuously come down [from a high of 60% to 30% currently] due to a change in the shareholding structure and various corporate actions [more details below]. Additionally, there are a number of catalysts in the near-term like the London listing, disposal of unlisted investments, buybacks/dividends, numerous capital market changes, etc. that are likely to bring the NAV discount to below -10% over the next one year, in our view. Furthermore, the underlying investment companies are themselves very attractively valued which should result in a likely 10%-15% increase in NAV annually. We are initiating coverage on Fondul with a twelve-month price target of Ron1.09 which represents 33% total return potential including the 6% current dividend yield. Our price target represents 10% discount to the fund's current NAV. When we recently spoke with management, they pointed out that there is no capital gains tax in Romania if the shareholding in the underlying company is greater than 10%. Fondul has a 10% or higher ownership in all of its top 10 holdings which accounts for over 76% of the NAV.

London Listing to be a Major Catalyst

Fondul's secondary listing on the London Stock Exchange sometime in the first half of this year should be a major catalyst for the stock, in our opinion. It is interesting to note that the average closed-end country fund on the LSE trades at low-single-digit NAV discount vs. -30% for Fondul. Additionally, once listed, Fondul will be the 3rd largest closed-end fund on the LSE [market cap. of US\$3.2 bn]. Although the company's NAV discount has narrowed in anticipation of the listing, we expect the discount to reduce further as the company's presence on the LSE and a still substantially high NAV discount vs. the other LSE stocks is bound to get noticed by astute investors. [See more details on this later in the report]. The initial plan for the secondary listing on the LSE was for December 2014 using Depositary Interests [DIs]. DIs were originally selected over Global Depositary Receipts [GDRs], to facilitate easier trading of the existing shares on the London Stock Exchange [LSE], without requiring a separate instrument to be listed on the LSE. Investors also would have been able to buy or sell via the London or Bucharest markets with settlement during the normal T+2 cycle. However, on November 26, 2014, the Romanian FSA rejected the draft regulation that would have enabled the London listing using DIs. The company now plans to list through the GDR route [dual listings through GRDs are currently permitted in Romania] by the first half of this year.

| | |
|------------------|----------|
| Target Price | RON 1.09 |
| Current Price | RON 0.86 |
| Upside Potential | 27% |

Deep Value Matrix

30% Discount to NAV

5.8% Dividend Yield

0.7x P/B; 7.7x P/E

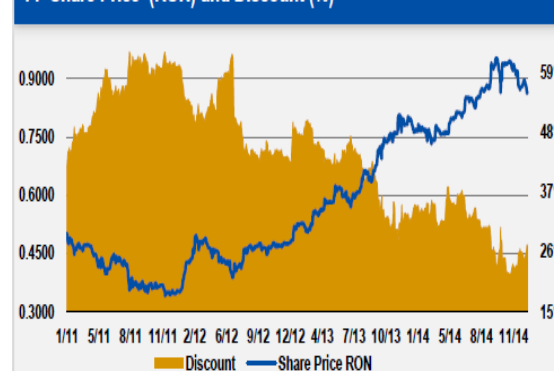
Company Profile / Data

| | | |
|---------------------|-------------|-----------|
| Market Cap. | RON 12bn | (\$3bn) |
| Shares Outstanding | 10.9 bn | |
| Free Float (FF %) | 10.9/ 100% | |
| 52 Week Range (RON) | 0.73 / 0.96 | |
| Avg. Daily Value | RON 22mn | (\$5.6mn) |

Performance Chart



FP Share Price² (RON) and Discount (%)



Sandy Mehta, CFA (1) 617-848-8279

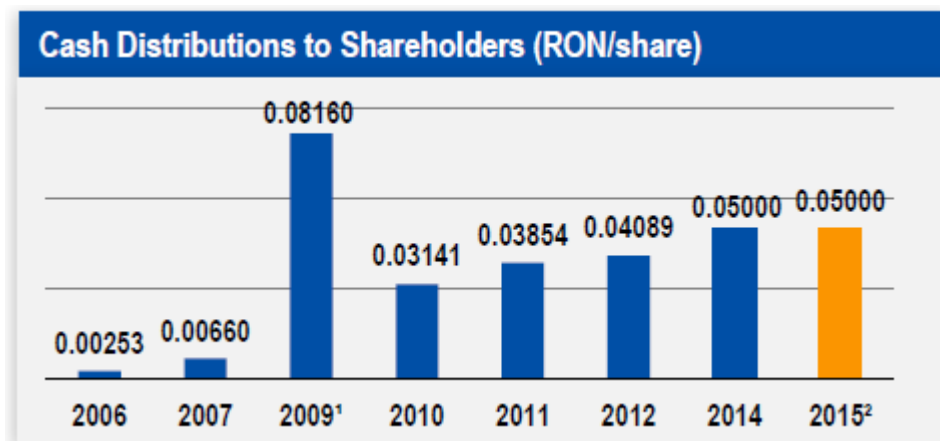
Vijay Lohia, CFA (1) 617-996-9260

Templeton Manages the Fund

One of the key concerns for investors investing in an emerging market economy is the corporate governance. In this regard, it is very reassuring to know that Fondul's investment portfolio is solely managed by Franklin Templeton Investment Management Ltd. [FTIM] who was appointed by the fund through an extraordinary general meeting of shareholders on September 06, 2010. FTIM has extensive global experience in managing the operations of similar closed-end funds in other developed and emerging markets. The fund manager has a local team consisting of investment analysts and a range of administrative service staff covering accounting, NAV calculation, investor relations, public relations, legal and regulatory compliance matters. Each department is supported by the global resources of the Franklin Templeton Investments Group. In particular, the investment team has the support of more than 40 investment professionals in the Templeton Emerging Markets Group. The various actions taken by the FTIM since its appointment, like pushing for board changes at the underlying investment companies, realigning management's compensation structure, stock buybacks, etc, have definitely added value to company's shareholders which is evident from the fact that the NAV discount has narrowed significantly over the last few years.

6% Dividend Yield; Fully Covered by Cash Flow

The company has an excellent track record of returning cash to shareholders through dividends and buyback's. Since 2010, dividends have increased at a 12.3% CAGR and the current dividend of Ron5 cents per share approximates to a 5.8% dividend yield [dividends are paid annually]. The next dividend payment [6% yield] is coming up in April and the stock is very well placed for a dividend capture trade in our view. Since its listing in January 2011, the company has made total dividend payments of Ron2.0 bn which approximates to 17.3% of company's current market cap. We expect Ron5 cents in dividends for 2015 and expect dividends to increase over time driven by increased dividend payments received by Fondul from the underlying investment companies and divestment of its stake in the various unlisted companies. **Importantly, all dividend payments have been fully covered from the fund's income from the underlying investments.** In 2014, the company paid Ron5 cents as a "return of capital" rather than the normal dividend distribution which does raise a red flag initially. However, when we spoke with management, they clarified that the payment was fully covered by dividends received from underlying investment companies and they had to distribute cash to shareholders through the return of capital route to comply with regulatory requirements [see details later in the report].



We are initiating coverage on Fondul with a twelve-month price target of Ron1.09 which represents 33% total return potential including the 6% current dividend yield. Our price target represents 10% discount to the fund's current NAV. When we recently spoke with management, they pointed out that there is no capital gains tax in Romania if the shareholding in the underlying company is greater than 10%. Fondul has a 10% or higher ownership in all of its top 10 holdings which accounts for over 76% of the NAV.

We expect Ron5 cents in dividends for 2015 and expect dividends to increase over time driven by increased dividend payments received by Fondul from the underlying investment companies and divestment of its stake in the various unlisted companies. Importantly, all dividend payments have been fully covered from the fund's income from the underlying investments.

| Listed Companies | Ticker | % stake | Total value | % of NAV | Valuation method |
|--|--------|---------|------------------|---------------|-------------------------------|
| OMV Petrom SA | SNP | 18.99% | 4,289.5 | 32.3% | Mark to market |
| Romgaz S.A. | SNG | 10.00% | 1,337.4 | 10.1% | Mark to market |
| BRD-Groupe Societe Generale SA | BRD | 3.64% | 241.0 | 1.8% | Mark to market |
| Nuclearelectrica SA | SNN | 9.72% | 215.8 | 1.6% | Mark to market |
| Banca Transilvania SA | TLV | 2.93% | 149.9 | 1.1% | Mark to market |
| Conpet SA | COTE | 29.70% | 147.6 | 1.1% | Mark to market |
| Alro Slatina SA | ALR | 10.21% | 83.1 | 0.6% | Mark to market |
| Others | | | 59.8 | 0.5% | |
| Total Listed | | | 6524.0 | 49.1% | |
| Unlisted Companies | | | | | |
| Hidroelectrica SA | | 19.94% | 2,185.8 | 16.5% | Independent valuator's report |
| ENEL Distributie Banat SA | | 24.12% | 641.6 | 4.8% | Independent valuator's report |
| Enel Distributie Muntenia SA | | 12.00% | 465.6 | 3.5% | Independent valuator's report |
| GDF Suez Energy Romania | | 12.00% | 461.4 | 3.5% | Independent valuator's report |
| ENEL Distributie Dobrogea SA | | 24.09% | 397.4 | 3.0% | Independent valuator's report |
| CN Aeroporturi Bucuresti SA ** | | 20.00% | 330.8 | 2.5% | Independent valuator's report |
| E.ON Moldova Distributie SA | | 22.00% | 276.3 | 2.1% | Independent valuator's report |
| Electrica Distributie Muntenia Nord SA | | 21.99% | 235.4 | 1.8% | Independent valuator's report |
| Electrica Distributie Transilvania Sud SA | | 21.99% | 207.0 | 1.6% | Independent valuator's report |
| Electrica Distributie Transilvania Nord SA | | 22.00% | 201.8 | 1.5% | Independent valuator's report |
| E.ON Gaz Distributie SA | | 12.00% | 165.2 | 1.2% | Independent valuator's report |
| Societatea Nationala a Sariei SA | | 48.99% | 142.1 | 1.1% | Independent valuator's report |
| E.ON Energie Romania SA | | 13.39% | 133.9 | 1.0% | Independent valuator's report |
| CN Administratia Porturilor Maritime SA | | 19.99% | 132.6 | 1.0% | Independent valuator's report |
| Electrica Furnizare SA *** | | 22.00% | 126.5 | 1.0% | Independent valuator's report |
| Others | | | 379.2 | 2.9% | |
| Total Unlisted | | | 6,482.28 | 48.8% | |
| | | | | | |
| Total [listed+unlisted] | | | 13,006.32 | 98.0% | |
| Cash & Receivables | | | 269.60 | 2.0% | |
| Total NAV [Ron Mn] | | | 13,275.9 | 100.0% | |
| Shares o/s | | | 10,916.0 | | |
| NAV/Share | | | 1.22 | | |

The company has bought back 2.2 bn shares outstanding in the last two years which approximates to 17% of the total shares outstanding. In 2013, management bought back 1.1 bn shares [8.3% of the total shares outstanding] and in 2014 it bought back 1.15 bn shares [9.5% of the total shares outstanding].

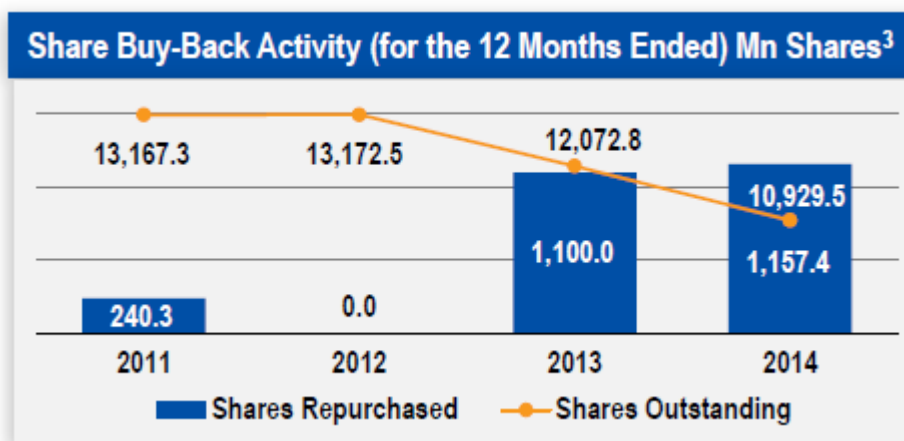
The fund's No. 1 holding, OMV Petrom [ESNP_RO], is trading at very compelling metrics of 0.8x P/B, 5.9x P/E [FY2015], 3.5x EV/EBITDA and net debt to equity of 0.25x. One can easily expect 10%-15% increase in the NAV from an increase in value of these underlying investments.

Top 15 Funds on LSE

| Fund | Symbol | Listing Currency | Total NAV (USD mn) | Premium / Discount to NAV (%) | % Listed (approximately) |
|-----------------------------------|--------|------------------|--------------------|-------------------------------|--------------------------|
| Scottish Mortgage | SMT | GBP | 4.68 | 2.7% | 97 |
| Alliance Trust | ATST | GBP | 4.03 | -12.5% | 100 |
| Fondul Proprietatea | FP | USD | 3.73 | -27.0% | 46 |
| F&C Investment Trust | FRCL | GBP | 3.69 | -6.1% | 99 |
| RIT Capital Partners | RCP | GBP | 3.33 | -3.9% | 98 |
| HICL Infrastructure Company | HICL | GBP | 2.97 | 17.2% | 101 |
| Templeton Emerging Markets UK | TEM | GBP | 2.77 | -11.1% | 93 |
| New Europe Property Investment | NEPI | EUR | 2.52 | 48.7% | 0 |
| Witan | WTAN | GBP | 2.19 | 1.0% | 101 |
| Mercantile Investment Trust | MRC | GBP | 2.16 | -11.8% | 89 |
| Kennedy Wilson Europe Real Estate | KWE | GBP | 2.15 | 5.0% | 0 |
| 3i Infrastructure | 3IN | GBP | 2.03 | 12.7% | 7 |
| Murray International | MYI | GBP | 1.97 | 4.2% | 87 |
| Caledonia Investments | CLDN | GBP | 1.94 | -14.5% | 97 |
| NB Global Floating Rate Income | NBLS | GBP | 1.82 | -0.6% | 0 |

17% Share Buyback in the Last 2 Years

In addition to normal dividend distributions to shareholders, which itself have increased over the years, management has been aggressively buying back its stock over the last few years. The company has bought back 2.2 bn shares outstanding in the last two years which approximates to 17% of the total shares outstanding. In 2013, management bought back 1.1 bn shares [8.3% of the total shares outstanding] and in 2014 it bought back 1.15 bn shares [9.5% of the total shares outstanding]. So including Ron9 cents dividends distributed in the last two years, the total returns to shareholders works out to 27%. We expect stock buybacks to be a regular feature as management looks to narrow the stock's discount to its underlying NAV.



Underlying Investments Trading at Attractive Deep Value Metrics

While the stock is trading at a noticeable -30% discount to its NAV, the underlying investments remain pretty attractively valued, in our view. The fund's top 10 holdings account for ~76% of the total NAV. The top 20 holdings are trading at an average price to book of 1.0x, EV/EBITDA of 4.3x, P/E of 11.4x and net debt/equity of -0.03 [i.e. net cash]. The fund's No. 1 holding, OMV Petrom [ESNP_RO], is trading at very compelling metrics of 0.8x P/B, 5.9x P/E [FY2015], 3.5x EV/EBITDA and net debt to equity of 0.25x. One can easily expect 10%-15% increase in the NAV from an increase in value of these underlying investments. We also expect value creation when some of the unlisted investments get sold off

while others are IPO'd.

Top 20 Portfolio Holdings – Key Financial Ratios

| | Top 20 Holdings ¹ | % Stake ¹ | Net Debt/Equity | P/BV | EV/EBITDA | P/E |
|----|--|----------------------|-----------------|------|-----------|--------|
| 1 | OMV Petrom SA | 19 | 0.00 | 0.94 | 3.45 | 6.50 |
| 2 | Hidroelectrica SA ² | 20 | 0.08 | 0.63 | 5.92 | 14.69 |
| 3 | Romgaz SA | 10 | (0.11) | 1.4 | 3.64 | 13.00 |
| 4 | ENEL Distributie Banat SA | 24 | (0.37) | 1.08 | 4.67 | 12.46 |
| 5 | ENEL Distributie Muntenia SA | 12 | (0.39) | 1.01 | 5.72 | 14.75 |
| 6 | GDF Suez Energy Romania SA | 12 | 0.02 | 0.95 | 4.70 | 7.54 |
| 7 | ENEL Distributie Dobrogea SA | 24 | (0.24) | 1.06 | 4.93 | 11.79 |
| 8 | E.ON Moldova Distributie SA ⁴ | 22 | 0.00 | 0.89 | 6.16 | 18.04 |
| 9 | Electrica Distributie Muntenia Nord SA | 22 | (0.21) | 0.97 | 7.22 | 10.64 |
| 10 | CN Aeroporturi Bucuresti SA | 20 | 0.10 | 0.69 | 6.89 | 19.99 |
| 11 | Nuclearelectrica SA | 10 | 0.15 | 0.28 | 3.99 | 4.74 |
| 12 | BRD Groupe Societe Generale SA | 4 | 0.00 | 1.08 | 0.00 | 0.00 |
| 13 | Electrica Distributie Transilvania Nord SA | 22 | 0.07 | 2.53 | 4.69 | 14.75 |
| 14 | Electrica Distributie Transilvania Sud SA | 22 | 0.07 | 0.84 | 4.44 | 12.58 |
| 15 | E.ON Gaz Distributie SA ⁴ | 12 | 0.12 | 1.06 | 7.08 | 20.30 |
| 16 | Banca Transilvania SA | 3 | 0.00 | 1.47 | 0.00 | 11.24 |
| 17 | E.ON Energie Romania SA | 13 | (0.06) | 1.37 | 4.09 | 4.35 |
| 18 | Compet SA | 30 | (0.44) | 0.65 | 1.74 | 11.38 |
| 19 | Complexul Energetic Ottenia SA | 22 | 0.34 | 0.10 | 4.41 | 121.19 |
| 20 | SN a Sarai Salom SA | 49 | 0.00 | 0.91 | 3.96 | 10.43 |
| | Average | | (0.04) | 1.00 | 4.39 | 17.02 |
| | Weighted Average ³ | | (0.03) | 0.96 | 4.33 | 11.42 |

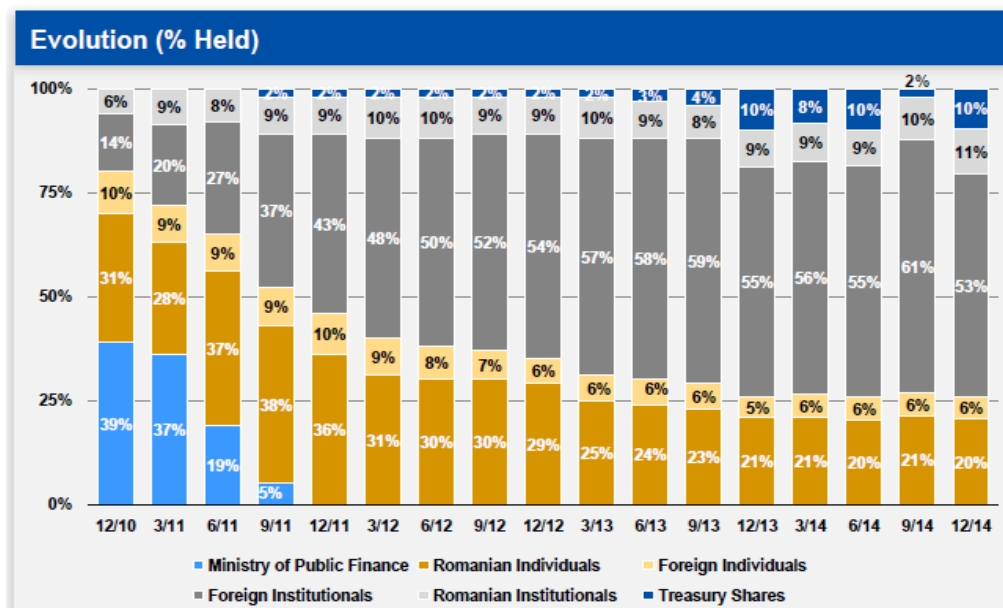
| No. | Portfolio Company | Status | Majority Shareholder | % Stake ¹ | NAV as at 28 November 2014 (EUR mn) | % in NAV as at 28 November 2014 |
|---------------------------|--|------------|----------------------|----------------------|-------------------------------------|---------------------------------|
| 1 | OMV Petrom SA | Listed | OMV | 19.0% | 1,016.4 | 32.2 |
| 2 | Hidroelectrica SA | Insolvency | Romanian State | 19.9% | 475.8 | 15.1 |
| 3 | Romgaz SA | Listed | Romanian State | 10.0% | 296.2 | 9.4 |
| 4 | ENEL Distributie Banat | Unlisted | Enel Group | 24.1% | 129.6 | 4.1 |
| 5 | ENEL Distributie Muntenia | Unlisted | Enel Group | 12.0% | 106.9 | 3.4 |
| 6 | GDF Suez Energy Romania | Unlisted | GDF Suez | 12.0% | 91.4 | 2.9 |
| 7 | ENEL Distributie Dobrogea | Unlisted | Enel Group | 24.1% | 85.7 | 2.7 |
| 8 | E.ON Moldova Distributie SA ² | Unlisted | E.ON Group | 22.0% | 78.1 | 2.5 |
| 9 | Electrica Distributie Muntenia Nord SA | Unlisted | Electrica Group | 22.0% | 66.9 | 2.1 |
| 10 | CN Aeroporturi Bucuresti SA | Unlisted | Romanian State | 20.0% | 65.0 | 2.1 |
| Top 10 Portfolio Holdings | | | | | 2,412.0 | 76.5 |
| NAV | | | | | 3,159.2 | 100.0 |
| NAV Per Share (EUR) | | | | | 0.2681 | |

Evolution of Shareholding Structure

FP's shareholding structure has evolved over the years with the stock trading at a massive discount of 60% to its NAV at the time of listing in January 2011. This was driven by very low volumes initially as the government held more than 40% stake in the company. Later that year, the government resumed the restitution process by awarding shares to individuals who had lost their assets during the communist regime. This created further selling pressure on the stock as the claimants started cashing out. The shareholding structure has undergone changes over the last few years and looks much better now with foreign individuals and institutions having the largest holding and Romanian individuals owing just 20% of total shares outstanding. As a result of this, and various other measures discussed above, the NAV discount

FP's shareholding structure has evolved over the years with the stock trading at a massive discount of 60% to its NAV at the time of listing in January 2011. This was driven by very low volumes initially as the government held more than 40% stake in the company.

has continued to come down over the years.



Declining Share of Unlisted Investments in the Portfolio

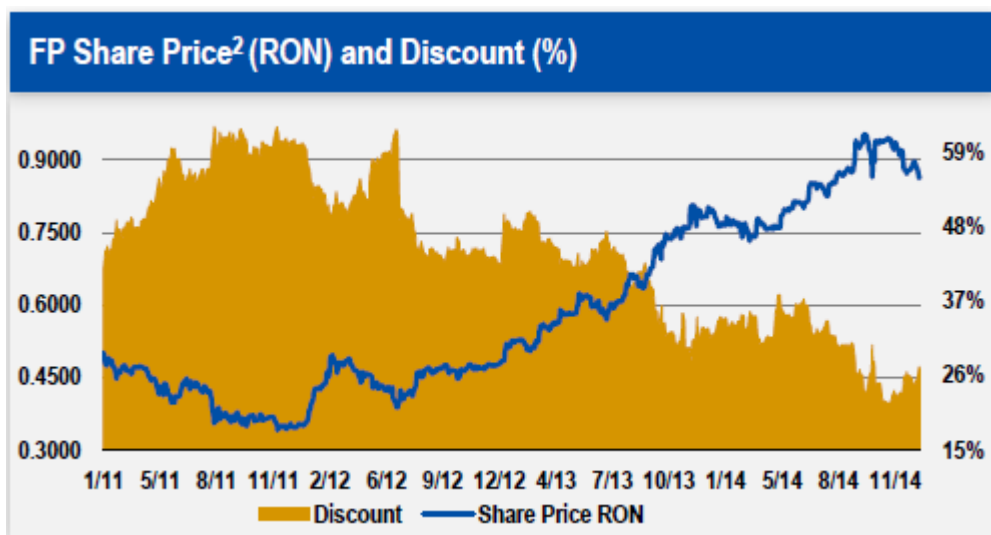
As a part of its mandate to bring the NAV discount below 15%, the fund manager's objective is to increase the listed part of the portfolio to 100%. The fund currently has 54 portfolio companies of which 17 are listed and 37 unlisted. Unlisted companies comprise approximately 45% of the total portfolio NAV. The share of unlisted companies has been coming down over the past couple of years and there are plans to get them further down by selling out some of these assets and listing the remaining on the stock exchanges. Management plans to dispose its stake in all the unlisted power and gas distribution companies which currently comprise of 23% of total NAV over the next 12-18 months. This will increase transparency and make the portfolio more liquid and easy to value.

Fund Manager Fee Aligned with Market Cap Expansion

The fund manager's [FTIM] compensation is structured in such a way that it aligns their personal interests with that of the fund's ordinary shareholders. FTIM receives a base fee of 0.6% of the average quarterly market cap of the fund. Additionally, it receives a distribution fee of 2% of the total non-dividend distributions which is applicable from September 2014 to October 2015 and 2% thereafter. Non-dividend distributions include share buy-backs, public tender buy-backs, reduction of the share capital, etc. The fund manager's performance is reviewed each year at the GSM and shareholders have the right to vote on the continuance of the mandate of the fund manager. In April 2014, the fund's shareholders had approved the extension of FTIM's contract for 2 more years.

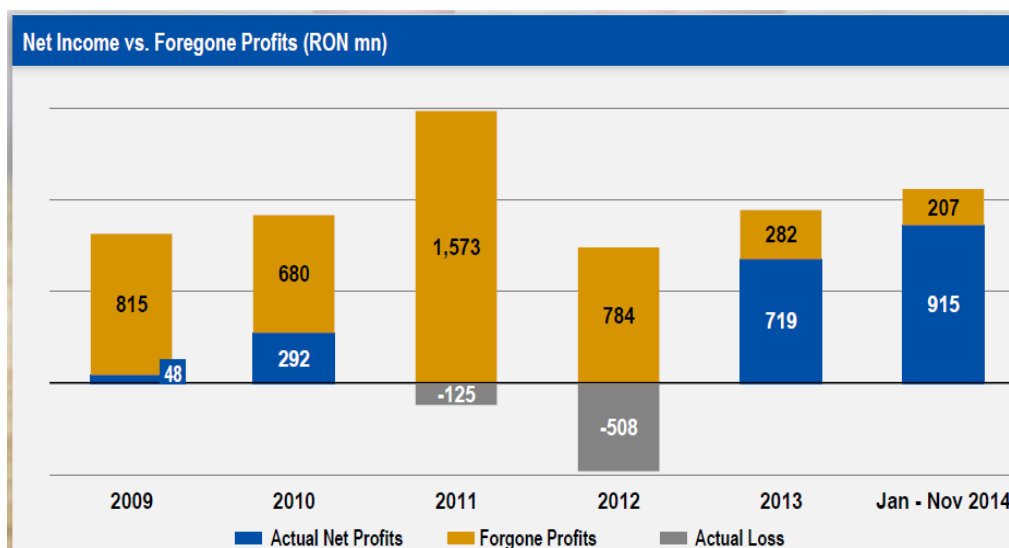
The fund manager's performance is reviewed each year at the GSM and shareholders have the right to vote on the continuance of the mandate of the fund manager. In April 2014, the fund's shareholders had approved the extension of FTIM's contract for 2 more years.

The company has turned profitable since the last two years and is generating positive free cash flow. The company is now only selling 30% of electricity in the regulated market and expects to sell 100% to the free market by 2017. The company had 28% market share in Romanian power generation in 2013. The company was initially planning an IPO [dual listing in Bucharest and London] in June 2014 which got delayed due to pending litigations and insolvency proceedings. Management now anticipates an IPO in late 2015 or early 2016. The fund manager [FTIM], expects Ron170 mn in dividends from Hydroelectrica [25% of the total dividends received from underlying investments in 2014] after its IPO.



Turnaround @ Hidroelectrica [15% of NAV] from Insolvency

Hidroelectrica was placed into insolvency in June 2012 as the company was incurring losses, burning cash and owed a huge amount of money to creditors. This resulted from extreme mismanagement where the company had entered into bilateral contracts with energy traders which saw them selling electricity at 50%-60% discount to the market price. The company burned cash by incurring unnecessary CAPX and paid very high staff salaries. Unfavorable regulatory environment like high water tax, low electricity prices and poor hydrological conditions also contributed to the company's downfall. However, the company has shown an amazing turnaround since then as a result of key changes in the management team. The amount due to creditors has gone down from over Ron4 bn in 2012 to around Ron1.3 bn currently. The company has turned profitable since the last two years and is generating positive free cash flow. The company is now only selling 30% of electricity in the regulated market and expects to sell 100% to the free market by 2017. The company had 28% market share in Romanian power generation in 2013. The company was initially planning an IPO [dual listing in Bucharest and London] in June 2014 which got delayed due to pending litigations and insolvency proceedings. Management now anticipates an IPO in late 2015 or early 2016. The fund manager [FTIM], expects Ron170 mn in dividends from Hydroelectrica [25% of the total dividends received from underlying investments in 2014] after its IPO.



Investor Activism at the Underlying Investment Companies

From the time of getting the mandate to manage Fondul's fund in 2011, FTIM has acted as an activist investor at a number of underlying investment companies which has created value for the fund's shareholders. Net profits of the Fund's top 20 holdings have increased by 44.4% from 2011 to 2013, and dividends received have increased by 36.7% from 2011 to 2014. At Transelectrica, the fund manager was instrumental in bringing about a change in the compensation of the board members to align it with shareholder interest. In short, the board members were granted phantom options as their variable remuneration which was linked to share price performance. The stock has done well since then as a result of the improvement in the company's net profits. [See chart below].

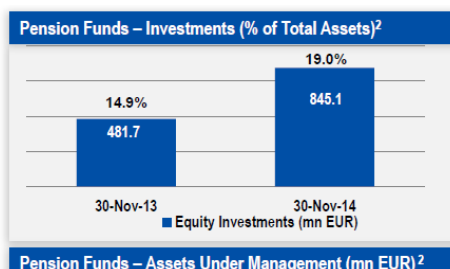
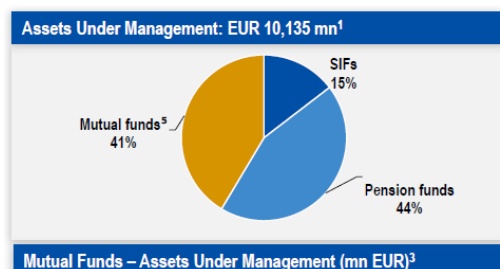


At another investment company, Constanta Port [APM], the fund manager vigorously pushed for changes in the board and there was a visible improvement in results post their appointment in November 2012.

| RON mn | 2011 | 2012 | 2013 | % YoY | 30.06.2013 | 30.06.2014 |
|--------------------|-------|-------|-------|--------|------------|------------|
| Operating revenues | 244.3 | 269.6 | 285.9 | +6.1% | 132.4 | 137.1 |
| Operating profit | 51.0 | 46.3 | 76.6 | +65.6% | 33.7 | 50.0 |
| Net Income | 42.3 | 35.6 | 65.0 | +82.8% | 29.7 | 41.0 |

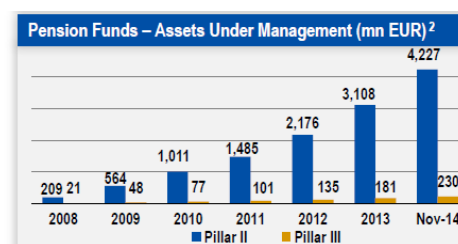
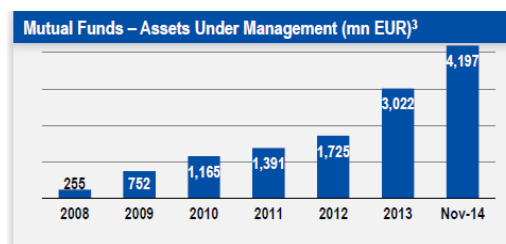
Growing Local Institutional Investor Base

The Romanian capital markets continue to evolve with growing local institutional investor base. Assets under management for the mutual funds have increased steadily over the years from Euro255 mn in 2008 to over Euro 4.2 bn currently. Similarly, pension funds continue to increase their exposure to the equity markets. While their assets under management have grown from Euro209 mn in 2008 to Euro 4.2 bn currently, their investments have increased from 14.9% [as a % of total assets] in 2013 to 19% currently.



The Romanian capital markets continue to evolve with growing local institutional investor base. Assets under management for the mutual funds have increased steadily over the years from Euro255 mn in 2008 to over Euro 4.2 bn currently. Similarly, pension funds continue to increase their exposure to the equity markets. While their assets under management have grown from Euro209 mn in 2008 to Euro 4.2 bn currently, their investments have increased from 14.9% [as a % of total assets] in 2013 to 19% currently.

Thus foreign investors are fully exposed to currency movements of the Romanian Leu [Bloomberg symbol RON; 3.88 to the USD; 4.50 to the EUR]. RON has been essentially flat versus the Euro YTD in 2015, as well as the year 2014. Against the US\$, the picture is a lot different. YTD in 2015, the RON is down -4.6% versus the USD, and down -14.3% in 2014, after appreciating +3.7% in 2013.



Currency Risk – Important Factor for US\$ Investors

Fondul is domiciled in Romania, as are all of the underlying investments. **Thus foreign investors are fully exposed to currency movements of the Romanian Leu** [Bloomberg symbol RON; 3.88 to the USD; 4.50 to the EUR]. **RON has been essentially flat versus the Euro YTD in 2015, as well as the year 2014.** Against the US\$, the picture is a lot different. **YTD in 2015, the RON is down -4.6% versus the USD, and down -14.3% in 2014, after appreciating +3.7% in 2013.** Given that the RON has been flat versus the Euro suggests that the weakness versus the US\$ is not so much about RON weakness, but general broad-based US\$ strength. In that respect, many currencies globally are experiencing similar weakness against the dollar.

Clearly, as can be seen from the chart below, investors have lumped in the Romanian currency with the broader Eastern European country basket, which in turn has been negatively impacted by the issues plaguing the Russian currency. Many of the Eastern European nations have close economic ties with Russia, in addition to the geographic proximity. Importantly, Romania does not have such linkages with Russia, and only 4% of its exports are with that country. In fact, Russia is not even one of Romania's top 10 trading partners. **So we feel that with a one-year view, the RON has clearly over-shot versus the US\$ and will add to USA clients returns on Fondul's stock, while conceding that the 3-6 month view is much more difficult a call and it is a risk for clients to assess.** If investors can hedge it would make sense to do so in the very short-term, but we presume that is not a practical proposition and it would be prohibitively expensive especially in today's market environment.

Importantly, as detailed in this report, Romania appears to have its economic house in order, and key metrics such as GDP growth, inflation, budget and current-account deficit, foreign currency reserves, etc. do not support the recent fall in the currency. It is clear that the RON's actions are not about Romania per se, but Romania being perhaps a decent house in a bad neighborhood, and investors are shooting first and not bothering to ask any questions. In this regard, the steep slide in the Russian ruble has snowballed in the past several months coinciding with the steep fall in oil prices. Interestingly, on November 27, 2014, the day of the OPEC meeting in Vienna where the group took no action to counter weak oil prices, Brent was trading at \$78, and the Ruble was \$47. Since that day of the OPEC "non announcement", Brent has declined as much as -42% [to a low of \$45], while the Ruble has plunged -38% to today's level. For what it's worth, we believe that Brent has already seen its recent lows. Our view is based on the surge in news related to supply-side cuts in the past couple weeks; there appears to be cascading announcements of huge CAPX, expense, and labor cuts. The market is reacting rapidly to the steep plunge in oil, and a significant supply-side response is well and truly underway. If this is correct, this should likely ease the pressure on the Ruble, and other currencies such as the RON which have been caught up in the downdraft may decouple and trade on its own merits.



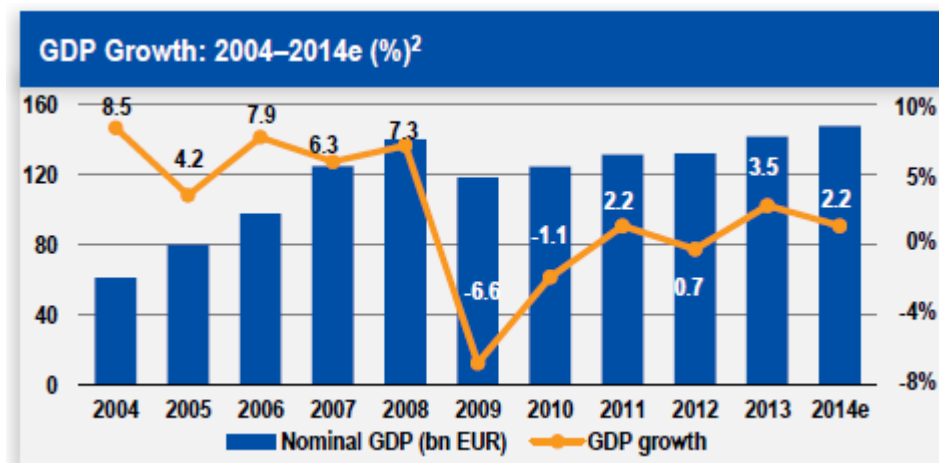
<HELP> for explanation.

1) Settings 2) Pricing Hours World Currency Rates
 Currency Basket EMEA Base USD Quote Market
 Pricing Contributed Calculate via USD View Historical % OHLC

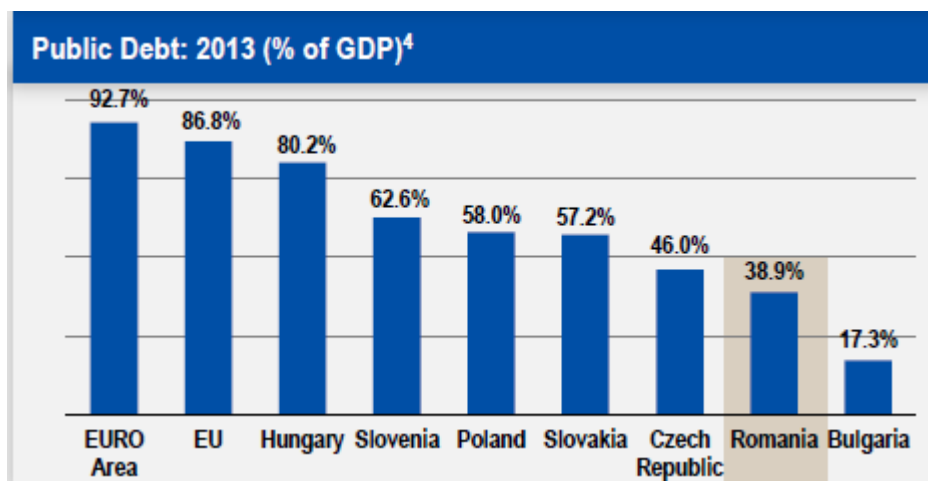
| Name | Price | Net Chg | Time | 10% | 50% | 1M% | 3M% | 6M% | YTD% |
|-----------------------------|---------|---------|------|--------|--------|---------|---------|---------|--------|
| 10) Iceland Krona (BGN) | 131.75 | -0.07 | 8:21 | +0.053 | -0.091 | -3.863 | -8.083 | -12.751 | -3.188 |
| 11) Bulgarian Lev (BGN) | 1.6829 | -0.0016 | 8:21 | +0.095 | -0.107 | -4.968 | -8.117 | -13.691 | -3.946 |
| 12) Hungarian Forint (BGN) | 271.31 | -0.27 | 8:21 | +1.00 | +2.153 | -5.433 | -10.586 | -15.746 | -3.564 |
| 13) New Romanian Leu (BG) | 3.8734 | -0.0046 | 8:21 | +1.19 | -0.034 | -5.631 | -9.741 | -14.863 | -4.425 |
| 14) Polish Zloty (BGN) | 3.6981 | -0.0059 | 8:21 | +1.60 | +2.289 | -5.760 | -9.516 | -16.892 | -4.178 |
| 15) Israeli Shekel (BGN) | 3.9308 | -0.0112 | 8:21 | +2.85 | -0.120 | -6.649 | -4.508 | -13.069 | -8.17 |
| 16) Czech Koruna (BGN) | 24.0016 | -0.0805 | 8:21 | +3.35 | +0.047 | -6.029 | -8.781 | -14.959 | -4.745 |
| 17) South African Rand (BG) | 11.4667 | -0.0469 | 8:21 | +4.09 | +8.46 | +9.25 | -4.070 | -7.796 | +9.06 |
| 18) Turkish Lira (BGN) | 2.3338 | -0.0165 | 8:21 | +7.07 | -1.003 | -8.23 | -3.754 | -9.761 | +0.51 |
| 19) Russian Ruble (BGN) | 64.5759 | -6.244 | 8:21 | +9.67 | +8.88 | -13.829 | -35.973 | -45.855 | -5.946 |

Romanian Economy

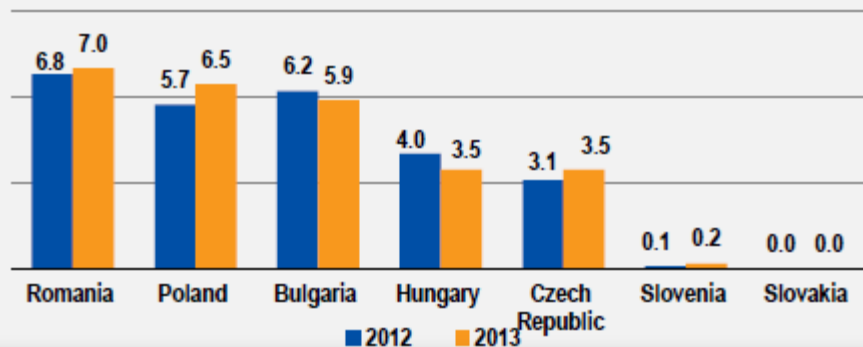
Overall, the Romanian economy remains relatively stable and continues to show improvement in the broader macro-economic variables. Romania joined the European Union on January 01, 2007 and initially hoped to adopt the Euro in 2014, but with the deepening of the Euro crisis and with its own problems, such as a low workforce productivity, postponed its adoption plans indefinitely. Until 2008, Romanian economic growth was among the fastest in Europe [officially 8.4% in 2008 and more than three times the EU average]. However, the economy took a hit during the 2009 financial crisis but has recovered since then with improvement in the GDP growth numbers [3.5% growth in 2013 and 3% expected in 2014].



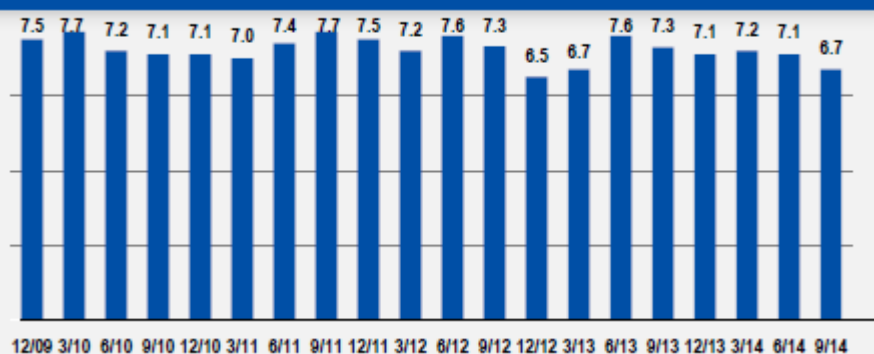
The country's public debt remains the second lowest in the Eastern European economies at 38.9% vs. 92.7% for the Euro Area. The current account deficit continues to come down from a high of 13.4% in 2007 to 1.1% in 2013 while the budget deficit has come down from 8.5% in 2009 to 2.5% in 2013. The inflation rate also remains quite comfortable at 1.26%.



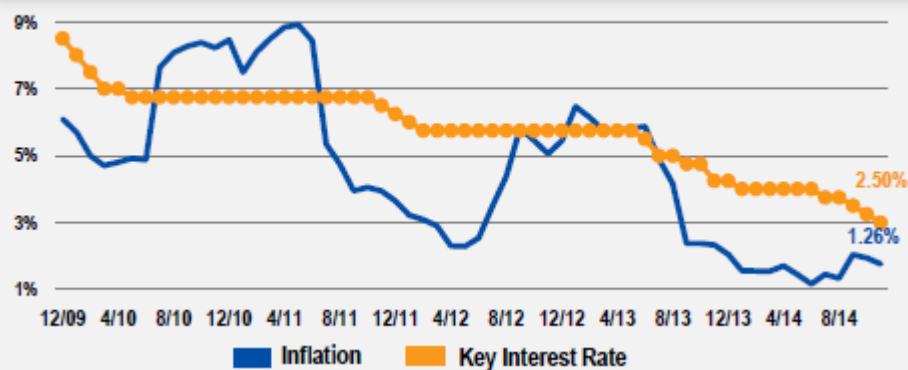
Foreign Currency Official Reserves: 2012–2013¹ (months of imports)



Quarterly Unemployment: 2009–2014 (%)¹



Inflation vs. Key Interest Rate (%)¹



The company plans a secondary listing in London which was first expected to happen in December 2014. However, the regulators rejected changes to the local regulation. There seems to be two possible scenarios now: either the company overcomes the regulators' concerns over the draft regulations or takes advantage of new regulations introduced that allow secondary listings via GDR [Global Depositary Receipt]. The latter requires more paperwork which means the IPO may get delayed.

Catalysts

London Listing

The company plans a secondary listing in London which was first expected to happen in December 2014. However, the regulators rejected changes to the local regulation. There seems to be two possible scenarios now: either the company overcomes the regulators' concerns over the draft regulations or takes advantage of new regulations introduced that allow secondary listings via GDR [Global Depositary Receipt]. The latter requires more paperwork which means the IPO may get delayed. Whichever route the company eventually takes remains to be seen, but we remain confident that the IPO will certainly happen within the next few months and would significantly boost the stock price. At the GSM held On January 20, 2015, management said that it plans the London listing by April-May of this year.

Robust IPO Pipeline to Unlock Value

The company has an outstanding track record of many successful IPOs in the past. In October 2013, the Ministry of Economy sold 15% stake in Romgaz, in a highly successful IPO on the Bucharest Stock Exchange which also included a GDR issue in London. Just after two months in December 2013, Fondul sold its entire 14.99% stake in Transgaz [TGN_RO] at RON 172/share via an accelerated book building process which was oversubscribed multiple times. Investment in Hidroelectrica which comprises 15% of NAV is a great turnaround story [filed for bankruptcy in June 2012 to cancel or renegotiate loss-making contracts] and continues to make good progress with an IPO expected in late 2015/early 2016. Some of the other IPO's in the pipeline include CE Oletina, Administratia Porturilor Maritime [Constanta Port – Romania's largest seaport], Aeroporturi Bucuresti [Bucharest Airport] and Salrom. This will provide greater visibility to the underlying assets and is likely to result in a further reduction in the NAV discount.

Development of the Romanian Capital Market

The Romanian capital markets are currently undergoing numerous capital market changes which will provide easier access to foreign investors to invest in the locally-listed stocks. This is very positive for Fondul's underlying listed investments as the fund's London listing will improve the visibility of its underlying investments thereby increasing the possibility of them getting re-rated as they remain high quality and inexpensive.

Development of the Romanian Capital Market - The 8 Barriers

The Great Barriers Shift Task force, dedicated to creating a modern, international capital market in Romania, identified 8 barriers which make the Romanian capital market difficult to access and trade:

- Access to the local market – opening an account can take up to 6 months while in other CEE countries it takes up to few hours
- Fiscal registration – lengthy, time-consuming and expensive process
- Investors' corporate rights – difficult participation and voting process
- Dividend payment – the process is not aligned to European standards; shareholders should receive their dividends automatically instead of going through different procedures
- Excessive costs related to the trading activity – the market access costs' are very high and discouraging for the international investors
- Vague fiscal treatment regarding transactions on the capital market – the value of the market transactions is negatively impacted by the fiscal treatment
- Primary market – current listing and IPO procedures are inflexible and too formal
- Bonds market – old and inflexible regulation environment

Proposals for legislative changes to eliminate the 8 barriers are now in force.

Disposing Unlisted Investments

Unlisted companies comprise approximately 45% of the total portfolio NAV. The share of unlisted companies has been coming down over the past couple of years and there are plans to get them further down by selling out some of these assets and listing the remaining on the stock exchanges. Management plans to dispose its stake in all the unlisted power and gas distribution companies which currently comprise of 23% of total NAV over the next 12-18 months. This will increase transparency and make the portfolio more liquid and easy to value.

Rebound in Oil Prices

Currently, energy assets comprise approximately 45% of the fund's total assets. This is both a risk as well as catalyst for the stock, in our view. While nobody can predict the movement in the oil prices in the near-term, our in-house view on oil is that it has likely bottomed out. While it might linger on at the current levels for some time, it will eventually rebound to \$70-80 levels in 12-18 months, in our view. This will be a positive catalyst for the energy stocks in the fund's portfolio.

Liberalization of Energy Markets

The Romanian energy market liberalization should help the profitability of the energy companies in the fund's portfolio. Gas prices for non-households are already fully liberalized while the subsidy for the households is likely to run until 2021 and fully liberalized thereafter.

Recent Results

For the nine months ended September, the company reported an 8% increase in the revenues from financial assets to Ron669.8 mn which represent dividend income earned from the fund's portfolio companies. The company disposed financial assets [represents proceeds from sales of portfolio company holdings which include Transelectrica, Transilvania Com and Severnav] worth Ron979.1 mn which resulted in an 84% YoY increase in overall revenues to Ron1699.4 mn. Total expenses increased 77% Yoy to Ron690.9 mn while the net income increased by 84% YoY to Ron984.5 mn. Excluding the asset sales, net income was up 4.8% YoY. As of October 31, 2014, the fund's NAV stood at Ron1.20 per share vs. the stock price of Ron0.94, implying a 22.1% discount.

Any future plans especially to enhance shareholders return like return of capital or more listings could be delayed or even completely rejected by the regulators thereby affecting the stock prices.

Given that the RON has been flat versus the Euro suggests that the weakness versus the US\$ is not so much about RON weakness, but general broad-based US\$ strength. In that respect, many currencies globally are experiencing similar weakness against the dollar.

Income Statement

| RON million | Quarter 3 2013 | Quarter 3 2014 | 9 month period ended 30 September 2013 | 9 month period ended 30 September 2014 |
|--|-------------------|-------------------|---|---|
| | Unaudited | Unaudited | Unaudited | Unaudited |
| Revenues from current activity, out of which: | 49.8 | 246.8 | 924.6 | 1,699.4 |
| Revenues from financial assets | 15.0 | 20.0 | 619.8 | 669.8 |
| Interest income | 10.4 | 8.4 | 31.1 | 16.8 |
| Reversal of impairment adjustments & provisions | 23.6 | 0.2 | 24.6 | 30.2 |
| Revenues from disposal of financial assets | 0.2 | 216.7 | 248.0 | 979.1 |
| Revenues from foreign exchange differences | - | 0.1 | 0.1 | 1.4 |
| Other income from current activity | 0.6 | 1.4 | 1.0 | 2.1 |
| Expenses from current activity, out of which: | 29.2 | 307.7 | 389.4 | 690.9 |
| Expenses from disposal of financial assets | 0.2 | 277.4 | 319.1 | 605.6 |
| Expenses from foreign exchange differences | - | 0.1 | 0.1 | 2.2 |
| Depreciation, provisions, losses from receivables and sundry debtors | 11.1 | 0.1 | 12.7 | 2.1 |
| Commissions and fees | 4.3 | 9.0 | 15.7 | 23.1 |
| Other expenses from current activity* | 13.6 | 21.1 | 41.8 | 57.9 |
| Gross profit / (loss) | 20.6 | (60.9) | 535.2 | 1,008.5 |
| Income tax expense | - | 9.1 | - | 24.0 |
| Net profit / (loss) | 20.6 | (70.0) | 535.2 | 984.5 |

* Other expenses from current activity include bank charges and utilities expenses, salary costs, third party expenses as well as duties and other taxes.

Risks

Regulatory Risks

Regulatory risks remain one of the key risks for the company as seen in the past. Events reported in the past include: failure to approve cancellation of shares repurchased [till date] for the first time in May 2011 though the request was submitted with the regulators in May 2012, rejecting introduction of a variable fee on excess distribution though strongly approved at the shareholders meeting, etc. Any future plans especially to enhance shareholders return like return of capital or more listings could be delayed or even completely rejected by the regulators thereby affecting the stock prices.

Currency Risk

Fondul is domiciled in Romania, as are all of the underlying investments. Thus foreign investors are fully exposed to currency movements of the Romanian Leu [Bloomberg symbol RON; 3.88 to the USD; 0.222 to the EUR]. RON has been essentially flat versus the Euro YTD in 2015, as well as the year 2014. Against the US\$, the picture is a lot different. YTD in 2015, the RON is down -4.6% versus the USD, and down -14.3% in 2014, after appreciating +3.7% in 2013. Given that the RON has been flat versus the Euro suggests that the weakness versus the US\$ is not so much about RON weakness, but general broad-based US\$ strength. In that respect, many currencies globally are experiencing similar weakness against the dollar.

Further Delay in London Listing

The initially planned listing on LSE has already been delayed due to regulatory rejection. In the past, the company failed to go ahead with its planned secondary listing in Poland as the regulators did not approve of the regulatory changes required to establish the link between the two countries. If the company fails to take the alternative GDR route and does not list, it may weaken the investor confidence in the stock and affect stock price.

Political Risk

Though Romania looks much more invest-able unlike some years ago, political risk including delays in implementation of the reforms, arbitrary taxation on portfolio companies was reported in the historical past. Any negative news on the country could meaningfully impact the stock prices.

High Energy Exposure

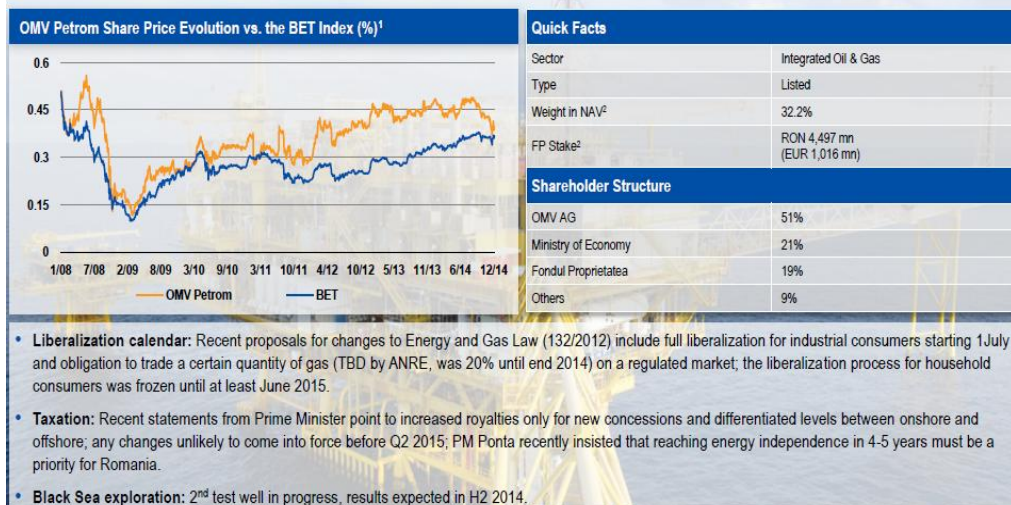
One of our main concerns with Fondul is its high exposure to energy assets which currently comprise 45% of the NAV. While oil looks to have bottomed out from its lows of \$45, any further decline in oil prices from current levels will put pressure on the fund's underlying energy assets.

Key Underlying Investments

OVM Petrom [SNP RO; US\$ 5bn Mkt. Cap; 35% of NAV]

Fondul currently has a 19% stake in the company which is valued at Ron4 bn or ~35% of its total NAV. Petrom is an integrated oil and gas company majority owned by the OMV Group [Austrian listed company; OMV_AV] with a 51% stake. The other key holder is the Romanian Ministry of Economy with a 20.64% stake. Petrom is the second largest natural gas producer in Romania with a 47% market share. The company derives 48% of its revenues from Refining & Marketing activities, 40% from Exploration & Production and the remaining 12% from Gas & Power. The stock remains cheap and very attractively valued in our view. The company has proven oil & gas reserves of 775m boe in Romania and Kazakhstan, annual refining capacity of 4.5m tonnes and a network of over 800 filling stations. The company's current exploration in the Black Sea deepwater [a 50/50 JV with ExxonMobil] looks promising and can result in value creation if successful. In 2012, the company published results from the first test well which indicated 1.5-3.0 tcf of gas. This asset alone could yield around 6 bcm/year, versus OMV Petrom's current gas production of around 5 bcm/year according to the fund manager FTIM. In its most recent investor presentation, management noted that the 2nd test well is in progress with results expected in H2 2014. A final investment decision is expected in 2016 with production starting from 2019.

OMV Petrom – Update



OMV Petrom vs. Peer Companies

Current Market Cap: EUR 4,998 mn¹

| Petrom vs. Peer Companies ² | P/E | | | P/B | | | EV/EBITDA | | | EV/Sales | | |
|--|------|--------|--------|------|------|-------|-----------|------|-------|----------|------|-------|
| | 2012 | 2013 | 2014e | 2012 | 2013 | 2014e | 2012 | 2013 | 2014e | 2012 | 2013 | 2014e |
| Petrom | 5.2 | 4.9 | 6.3 | 0.9 | 0.9 | 0.8 | 2.8 | 2.6 | 2.8 | 0.9 | 0.9 | 1.0 |
| Romgaz | 12.3 | 13.1 | 8.1 | 1.5 | 1.5 | 1.4 | 5.7 | 5.4 | 4.0 | 2.7 | 2.8 | 2.3 |
| OMV | 4.7 | 5.9 | 7.3 | 0.6 | 0.6 | 0.6 | 2.8 | 3.0 | 3.5 | 0.4 | 0.3 | 0.4 |
| MOL | 5.6 | 11.2 | 11.7 | 0.6 | 0.6 | 0.6 | 4.1 | 4.5 | 5.1 | 0.4 | 0.4 | 0.5 |
| PGNIG | 11.0 | 8.4 | 9.3 | 1.0 | 0.9 | 0.9 | 7.0 | 4.9 | 4.7 | 1.2 | 1.0 | 1.0 |
| Hellenic Petroleum | 4.9 | (10.1) | (22.2) | 0.5 | 0.5 | 0.5 | 7.4 | 16.4 | 10.8 | 0.3 | 0.3 | 0.3 |
| Repsol YPF | 9.4 | 10.5 | 11.5 | 0.7 | 0.7 | 0.7 | 5.0 | 4.8 | 5.5 | 0.6 | 0.5 | 0.5 |
| Statoil | 6.5 | 8.1 | 9.8 | 1.1 | 1.1 | 1.2 | 1.5 | 1.9 | 2.4 | 0.6 | 0.7 | 0.8 |
| Mean | 7.5 | 6.5 | 5.2 | 0.8 | 0.8 | 0.8 | 4.5 | 5.5 | 4.9 | 0.9 | 0.9 | 0.8 |
| Median | 6.0 | 8.3 | 8.7 | 0.8 | 0.8 | 0.8 | 4.5 | 4.7 | 4.4 | 0.6 | 0.6 | 0.7 |

Hydroelectrica [Unlisted; 15% of NAV]

Fondul has a 20% stake in the company which approximates to 15% of its total NAV. Hidroelectrica is a government owned hydroelectric company and one of the biggest producers of electricity in Romania with 28% total power generation in Romania in 2013. The company was placed into insolvency in June 2012 as the company was incurring losses, burning cash and owed a huge amount of money to creditors. This resulted from extreme mismanagement where the company had entered into bilateral contracts with energy traders which saw them selling electricity at 50%-60% discount to the market price. The company burned cash by incurring unnecessary CAPX and paid very high staff salaries. Unfavorable regulatory environment like high water tax, low electricity prices and poor hydrological conditions also contributed to the company's downfall. However, the company has shown amazing turnaround since then as a result of key changes in the management team. The amount due to creditors has gone down from over Ron4 bn in 2012 to around Ron1.3 bn currently. The company has turned profitable since the last two years and is generating positive free cash flows. The company is now only selling 30% of electricity in the regulated market and expects to sell 100% to the free market by 2017. The company 28% market share in Romanian power generation in 2013. The company was initially planning an IPO [dual listing in Bucharest and London] in June 2014 which got delayed due to pending litigations and insolvency proceedings. Management now anticipates an IPO in late 2015 or early 2016. The fund manager [FTIM], expects Ron170 mn in dividends from Hydroelectrica [25% of the total dividends received from underlying investments in 2014] after its IPO.

Hidroelectrica – Valuation

Current Market Cap: EUR 2,386 mn¹

Based on 2014 Multiples

| | P/E | | | | P/B | | | | EV/EBITDA | | | |
|--------------------|----------------------|------------------|------|-----------------------|------|------|---------------------------|-------|-----------|---------------------------|------|-------|
| | 2011 | 2012 | 2013 | 2014e | 2011 | 2012 | 2013 | 2014e | 2011 | 2012 | 2013 | 2014e |
| Hidroelectrica | 1,634.4 | N/A ² | 14.7 | 42.8 | 0.6 | 0.7 | 0.6 | 0.6 | 13.6 | 16.8 | 5.9 | 9.3 |
| RusHydro | 6.1 | - | 10.8 | 6.4 | 0.4 | 0.4 | 0.4 | 0.4 | 5.4 | 7.1 | 5.4 | 5.3 |
| Verbund | 14.0 | 12.7 | 8.5 | 22.9 | 1.1 | 1.1 | 1.1 | 1.0 | 9.8 | 7.7 | 5.8 | 11.1 |
| Aes Tiete | 7.7 | 7.2 | 7.4 | 6.1 | 3.3 | 3.6 | 3.3 | 3.0 | 4.6 | 4.4 | 4.5 | - |
| CEZ | 7.7 | 7.6 | 8.8 | 12.5 | 1.4 | 1.3 | 1.4 | 1.2 | 5.5 | 5.6 | 5.8 | 6.8 |
| EDF | 15.2 | 14.6 | 13.6 | 11.8 | 1.7 | 1.8 | 1.7 | 1.3 | 6.2 | 5.2 | 5.1 | 5.2 |
| RWE | 8.8 | 13.8 | - | 13.2 | 1.2 | 1.5 | 1.2 | - | 5.0 | 2.9 | 2.6 | - |
| Iberdrola | 11.0 | 12.3 | 13.0 | 14.6 | 0.9 | 1.0 | 0.9 | - | 8.2 | 7.5 | 8.0 | - |
| ENEA | 8.9 | 10.1 | 9.9 | 11.8 | 0.7 | 0.6 | 0.7 | 0.6 | 4.4 | 3.9 | 3.6 | 3.7 |
| Tauron | 7.5 | 6.4 | 7.1 | 10.2 | 0.6 | 0.6 | 0.6 | 0.5 | 5.1 | 4.0 | 4.2 | 4.7 |
| PGE | 8.0 | 10.8 | 9.5 | 12.8 | 1.0 | 1.0 | 1.0 | 0.9 | 4.8 | 3.9 | 4.8 | 5.3 |
| EDL Laos | 9.3 | 10.5 | - | 8.4 | 1.4 | 1.4 | 1.4 | - | 10.7 | 12.1 | - | - |
| Mean | 9.5 | 10.6 | 9.8 | 11.9 | 1.3 | 1.3 | 1.3 | 1.1 | 6.3 | 5.8 | 5.0 | 6.0 |
| Median | 8.8 | 10.7 | 9.5 | 11.8 | 1.1 | 1.1 | 1.1 | 1.0 | 5.4 | 5.2 | 4.9 | 5.3 |
| Value ³ | 31 May 2012 (RON mn) | | | 30 June 2012 (RON mn) | | | 31 December 2012 (RON mn) | | | 31 December 2013 (RON mn) | | |
| Hidroelectrica SA | 3 288.71 | | | 0.00 | | | 2 001.00 | | | 2 239.41 | | |
| | | | | | | | | | | 2 105.16 | | |

Hidroelectrica – Update

- Starting 25th of February 2014 the company is run by Remus Borza as judicial administrator and Gabriel Dumitrascu as special administrator
- Performance improvements continued in 2014: pre-tax profits of RON 1,073 mn in the first 11 months compared to RON 841 mn in the first 11 months of 2013
- Starting July 2014, the regulated market price increased by approx. 10 RON/MWh to 125 RON/MWh.
- Litigations with the traders are ongoing; claims from traders are worth more than RON 1.6 bn
- The company got the trading license in Hungary and begun trading in December 2014

Pre-tax profit (RON mn)



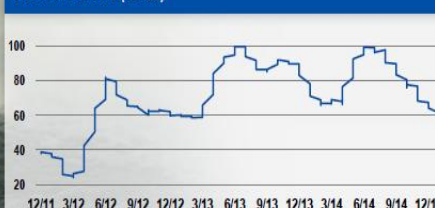
Quick Facts

| | |
|----------------------------|--|
| Sector | Electricity Producer |
| Type | Unlisted – In reorganization procedure |
| Weight in NAV ² | 15.1% |
| FP Stake ² | RON 2,105 mn (EUR 478 mn) |
| Market Share | 24% (2011); 23% (2012); 25% (2013) |
| Installed Capacity | 8,484 MW |

Shareholding Structure

| | |
|---------------------|-----|
| Ministry of Economy | 80% |
| Fondul Proprietatea | 20% |

Reservoir levels (%Full)¹



Romgaz [SNG RO/SNGR LI; US\$3.5 bn Mkt. Cap; 9% of NAV]

Fondul has a 10% stake in Romgaz which approximates to 9.4% of its total NAV. Romgaz is a market leader with over 50% market share in natural gas production and supply in Romania. The stock has done well since its IPO in November 2013 on the Bucharest stock exchange as well as the London stock exchange [GDR]. The IPO price was set at Ron30/share and the stock is up 25% since then including Ron 2.57cents in dividends. The company continues to be a beneficiary of liberalization selling all its gas to the industrial users at the market price. Household consumers, which represent 20% of the market, are currently under the government subsidy program but are expected to pay the market price from 2021.

Romgaz – Update

Romgaz Share Price Evolution vs. the BET Index (%)¹



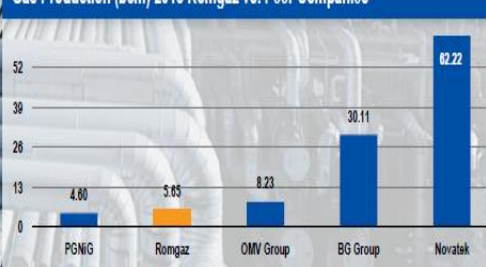
Quick Facts

| | |
|----------------------------|---------------------------|
| Sector | Oil & Gas |
| Type | Listed |
| Weight in NAV ² | 9.4% |
| FP Stake ² | RON 1,310 mn (EUR 296 mn) |

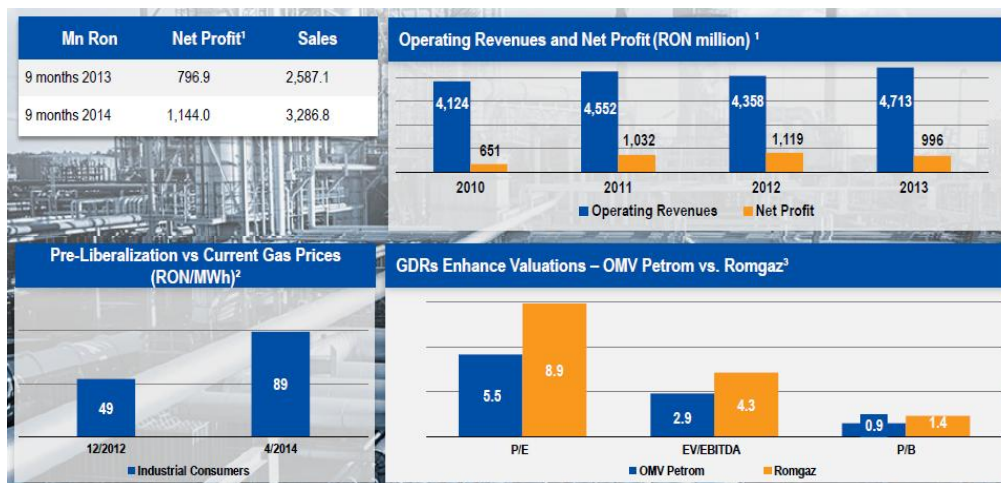
Shareholder Structure

| | |
|---------------------|-----|
| Ministry of Economy | 70% |
| Fondul Proprietatea | 10% |
| Others | 20% |

Gas Production (bcm) 2013 Romgaz vs. Peer Companies³



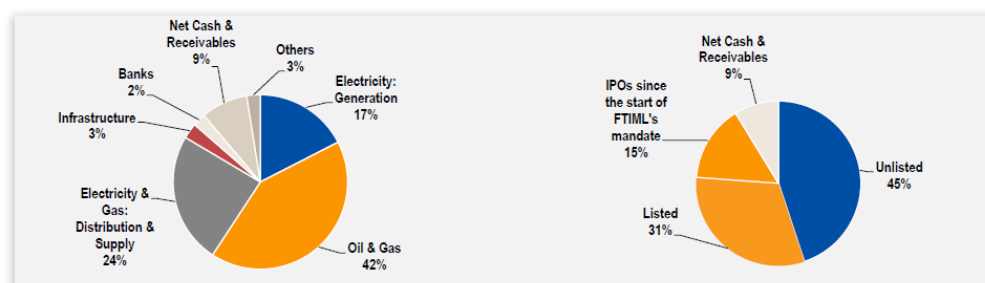
- Liberalization, taxation: issues applying to Petrom also apply to Romgaz
- Board composition: 2 of the current 7 Board members were recommended by FP, one in collaboration with EBRD; remuneration based on shadow options rejected by Department for Energy
- Reserves replacement: was reported as 70% in 2013, well above level achieved by Petrom; FRDs (filed redevelopment) could bring some benefits, not to the extent seen for Petrom; involvement in two projects in the Black Sea with 10% stakes (of which one is an option) is positive
- IR: company recently hired new IR Manager



Business Description

Fondul Proprietatea is a closed-end investment company established by the Romanian government in 2005 to provide restitution to Romanians who lost property under the former communist governments. Fondul is the second-largest listed firm on the Romanian stock exchange with a market cap of US\$3.0 bn. The fund's underlying investment companies remain profitable and generally operate in the oil & gas production, electricity generation and distribution utilities and other core infrastructure sectors of the economy. Additionally, most of these companies are the largest players in their industries and enjoys monopoly positions most of the times.

Portfolio Structure – 28 November 2014



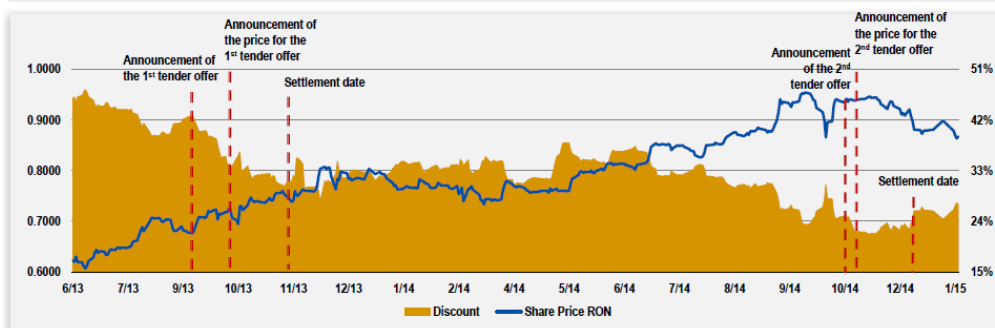
- As at 28 November 2014, the portfolio included stakes in 54 companies (17 listed and 37 unlisted)
- No new investments were made by the Fund in 2014.
- The Fund Manager's objective is to increase the listed part of the portfolio to 100%

Appendix:

Source: Company Reports

Buy-Back Programs

| Tender | Announcement date | Status | No. of shares to be repurchased | Tender price (RON/share) | FP pre-announcement share price (RON/share) | Premium to pre-announcement share price (%) | Discount of offer price to NAV (%) |
|--------|-------------------|-----------|---------------------------------|--------------------------|---|---|------------------------------------|
| First | 25 September 2013 | Completed | 600,000,000 | 1.00 | 0.7230 | 38.31% | 15.12% |
| Second | 20 October 2014 | Completed | 750,000,000 | 1.11 | 0.8965 | 23.81% | 10.76% |



Dividend Income – Top 20 Portfolio Companies

| Top 20 Holdings ¹ | DIVIDEND PAYOUT % | | | | FP NET DIVIDEND (RON mn) | | | |
|--|-------------------|------|------|------|--------------------------|----------------------|---------------------|---------------------|
| | 2013 ² | 2012 | 2011 | 2010 | 2014 | 2013 | 2012 | 2011 |
| 1 OMV Petrom SA | 36 | 40 | 47 | 46 | 331.4 | 319.0 | 353.1 | 201.6 |
| 2 Hidroelectrica SA | — | — | — | — | — | — | — | 52.5 |
| 3 Romgaz SA | 99 | 85 | 91 | 109 | 148.5 | 158.9 | 140.6 | 106.0 |
| 4 ENEL Distributie Banat SA | — | — | — | 56 | — | — | — | 20.2 |
| 5 ENEL Distributie Muntenia SA | — | — | — | — | — | — | — | — |
| 6 GDF Suez Energy Romania | 60 | 50 | — | 40 | 33.6 | 22.8 | — | 9.6 |
| 7 ENEL Distributie Dobrogea SA | — | — | — | 56 | — | — | — | 13.5 |
| 8 E.ON Moldova Distributie SA | — | — | — | — | — | — | — | — |
| 9 Electrica Distributie Muntenia Nord SA | 83 | 84 | 12 | — | 23.2 | 16.2 | 1.8 | — |
| 10 CN Aeroporturi Bucuresti SA | NA | 85 | 89 | 117 | NA | 9.1 | 9.4 | 9.9 |
| 11 Nuclearelectrica SA | 81 | 83 | — | — | 27.9 | 2.3 | — | — |
| 12 BRD Groupe Societe Generale | — | — | 25 | 25 | — | — | 3.6 | 2.1 |
| 13 Electrica Distributie Transilvania Nord SA | 83 | — | — | — | 11.7 | — | — | — |
| 14 Electrica Distributie Transilvania Sud SA | 83 | — | — | — | 12.7 | — | — | — |
| 15 E.ON Gaz Distributie SA | — | — | — | — | — | 29.9 | — | — |
| 16 Banca Transilvania SA | — | — | — | — | — | — | — | — |
| 17 E.ON Energie Romania SA | — | — | — | — | — | — | — | — |
| 18 Compet SA | 94 | 92 | 90 | 90 | 8.8 | 8.4 | 6.6 | 7.0 |
| 19 Complexul Energetic Ottenia SA ³ | — | 85 | N/A | N/A | — | 10.3 | N/A | N/A |
| 20 Societatea Nationala a Sarii Salrom SA | NA | 92 | 90 | 90 | NA | 9.3 | 0.1 | 0.8 |
| TOTAL (RON mn) | | | | | 597.8 | 586.2 | 515.2 | 423.2 |
| Total Dividends from Listed Companies (RON mn) | | | | | 538.6 | 373.9 | 450.1 | 304.0 |
| Total Dividends from Unlisted Companies (RON mn) | | | | | 131.2 | 275.8 ⁶ | 168.9 | 215.1 |
| Total Dividend Income (RON mn) | | | | | 669.8 | 649.7 | 619.0 | 519.1 |
| Dividend / Distribution per Share (RON) | | | | | 0.0500 ⁶ | 0.05000 ⁶ | 0.04089 | 0.03854 |
| Share Price (RON) | | | | | 0.9395 ¹⁰ | 0.7640 ⁷ | 0.6600 ⁴ | 0.5550 ⁸ |
| Yield | | | | | 5.32% | 6.54% | 6.20% | 6.94% |
| Yield for Romanian companies (BET) | | | | | 3.50% | 5.10% | 5.09% | 4.21% |

Note: Calculation based on the companies' financial statements.

7 An. at 28 April 2014



Source: Bloomberg

IMPORTANT GLOBAL DISCLAIMER, DISCLOSURES & RISK FACTORS

Value Investment Principals, VIP Global Research, and its affiliates, employees, principals, ("VIP") operates this website solely to provide general information to vendors, our commercial partners and current clients, and to assist the pursuit of qualified employment candidates. This website is not an offer to, or solicitation of, any potential clients or investors for the provision by VIP or its affiliates of investment management or investment advisory services, or any other related services. No material listed on this website is or should be construed as investment advice. Nothing on this website should be construed as an offer to sell, or a solicitation of an offer to buy, any security or other investment product or instrument. It is not guaranteed as to accuracy, nor is it a complete statement, of the financial products or markets referred to. Opinions are subject to change without notice. To the extent permitted by law, VIP does not accept any liability arising from the use of information on this website. Investments involve many risks and investors may lose money. Past performance does not guarantee future results. Investment products are not suitable for most investors. VIP research reports are for distribution only under such circumstances as may be permitted by applicable law. Nothing in VIP research reports report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. Any information in this website or any VIP research reports is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning VIP, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. VIP does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The opinions and recommendations herein do not take into account individual client circumstances, objective, needs, risk tolerance or risk parameters and not intended as recommendations of particular securities, financial instruments or strategies to particular clients. VIP research reports and Global Deep Value Report are periodic newsletter publications with general, non-specific materials.

Any information on this website or any VIP research report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this website or any VIP research report are subject to change without notice and may differ or be contrary to opinions expressed by other VIP research reports as a result of using different assumptions and criteria. Research will initiate, update and cease coverage solely at the discretion of VIP management. The analysis contained in this website or in any VIP research report is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. VIP is under no obligation to update or keep current the information contained herein. The compensation of the analyst who prepares any VIP research report is determined exclusively by research management and senior management. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in any VIP research report. Neither VIP nor any of its affiliates, nor any of VIP's or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Any prices stated in this website or any VIP research reports are for information purposes only and do not represent valuations for individual securities or other instruments. There is no representation that any transaction can or could have been effected at those prices and any prices do not necessarily reflect VIP's internal books and records and track record or theoretical model-based valuations and may be based on certain assumptions. Different assumptions, by VIP or any other source may yield substantially different results. From time to time, VIP, its employees and principals, Mr. Sandy Mehta, and other affiliates, may take long and short stakes in any of the stocks or securities written about in this website or any research reports. VIP and its employees, principals [VIP has been founded and majority owned by R.R. Nandwani] and affiliates do not make any representation or warranty with regard hereto, including, but not limited to, those of accuracy, completeness, reliability, timeliness, risk and/or infringement of rights of third parties. Additional information is available upon request. The information contained herein has been derived from information considered reliable but no independent verification has been made and can be made as to its accuracy or completeness. It does not constitute an offer or recommendation to buy or sell any security directly or indirectly mentioned herein. Opinions expressed are subject to change without notice. No part of this report may be reproduced without the prior written consent of VIP. All rights are hereby reserved, including all copyright protections under US and international laws.

*Value Investment
Principals Ltd.*

*Peninsula Centre –
Suite 804-805
67 Mody St,
TST - Kowloon
Hong Kong
www.vipglobalresearch.com*

*Sandy Mehta, CFA
sandy@vipglobalresearch.com
USA: (1) 617-848-8279
HK: (852) 64788613*

*Vijay Lohia, CFA
vijay@vipglobalresearch.com
Phone: (1) 617-996-9260*

*I, Sandy Mehta, CFA,
certify that the opinions
expressed in this report
accurately reflect my
personal views about the
subject and its
underlying securities. I
further certify that the
performance of stocks or
securities in this report
is not directly tied to my
compensation, though
my compensation is
based on firm
profitability, including
the investment research
and management
performance of Value
Investment Principals
Ltd. (VIP).*