

BOARD OF NOMINEES ANNUAL REPORT FOR 2015

I. THE ROLE OF THE BOARD OF NOMINEES

INTRODUCTION:

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

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

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

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

According to the Constitutive Act, the main duties of the Board of Nominees are:

- (1) Following the information received from the 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 (“**GSM**”);
- (2) Receives from the Fund Manager the information in connection with the answers to the written requests submitted before the date of the GSM, by the shareholders on topics regarding Fondul Proprietatea’s activity;
- (3) Receives from the Fund Manager the annual financial statements, the annual activity report presented by the Fund Manager and the financial auditors’ report, before being made available to the shareholders and analyzes them, being able to formulate an opinion to be presented to both the Fund Manager and the general meeting;
- (4) Receives from the Fund Manager for analysis the annual report and the management policy of Fondul Proprietatea and presents an opinion to the Fund Manager and to the GSM regarding such;
- (5) Receives from the Fund Manager for analysis the yearly income and expenditure budget before it is submitted to the approval of the GSM and presents an opinion to the Fund Manager and to the GSM regarding such;

(6) Receives from the Fund Manager for analysis the strategy in accordance with Fondul Proprietatea's investment policy before being submitted to the approval of the GSM and presents an opinion to the Fund Manager and to the GSM;

(7) Receives from the Fund Manager for analysis and approves the framework for carrying out Fondul Proprietatea's operations, as well as any other of Fondul Proprietatea's regulations issued by the Fund Manager according to legal provisions in force, capital market rules and regulations;

(8) Receives from the Fund Manager for analysis the proposal to the GSM for the conclusion of the financial audit agreement and presents an opinion to the Fund Manager and to the GSM;

(9) Reviews on a regular basis the investment policy of Fondul Proprietatea and presents an opinion to the GSM 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 Fund Manager and to the GSM;

(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, as well as any variations and actions taken to get 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) Represents the GSM in relation with the Fund Manager from the communication point of view between the two corporate bodies, except for the cases expressly regulated by the Constitutive Act as a direct communication between the general meeting and the Fund Manager;

(13) Verifies the report of the Fund Manager and the exercise of the permanent monitoring over the management of Fondul Proprietatea by the Fund Manager, and verifies if the operations carried on by the Fund Manager are in compliance with the applicable law, the Constitutive Act and/or with any relevant decision of the GSM;

(14) Under the conditions of art. 13 paragraphs (11) and (14) of the Constitutive Act, calls upon the GSM;

(15) Participates to the meetings of the GSM and presents in this meeting reports in all cases provided by the Constitutive Act or with regard to any issue it deems to be relevant for the shareholders;

(16) Proposes to the GSM the prior approval or rejection of any contract/document which may create binding obligations to Fondul Proprietatea, including without limitation buying, selling, exchanging, pledging of non-current assets of Fondul Proprietatea whose value exceeds, either individually or cumulatively during a financial year, 20% of the total value of the non-current assets, less any receivables;

(17) Recommends to the GSM the termination of the management contract in the case when the Board of Nominees considers it is to the benefit of the shareholders;

(18) Recommends to the GSM on any other issues the Board of Nominees considers relevant to the shareholders;

(19) Following a proposal of the Fund Manager, recommends to the GSM the appointment of the public offering intermediary, 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's securities;

(20) Approves the delegation by the Fund Manager of certain activities. The delegation will be in force after the approval of FSA, where required by legislation in force;

(21) Is responsible for monitoring the Fund Manager performance of the Investment Management Agreement.

The Constitutive Act also includes regulatory provisions with respect to the conflict of interest and confidentiality responsibilities of the members of the Board of Nominees.

Furthermore, the Board of Nominees will decide, within a reasonable period of time, upon any request submitted by the Fund Manager so as to permit the Fund Manager to perform its obligations.

SHORT PRESENTATION OF THE BOARD OF NOMINEES' ACTIVITY FOR 2015:

Meetings & Relevant Decisions

In accordance with the provisions of Article 16 of the Constitutive Act of the Fund adopted by the Extraordinary General Shareholders Meeting Decision no. 5 of 29 November 2010 and the provisions of Chapter III of the Regulation for organization and functioning of the Board of Nominees approved by the Board of Nominees' Decision no. 2 of 14 October 2010, as subsequently amended, there were 12 (twelve) meetings of the Board of Nominees in 2015, as follows:

- 22 January 2015 – meeting
- 12 February 2015 – conference call
- 13 March 2015 – conference call
- 31 March 2015 – meeting
- 30 April 2015 – meeting
- 30 July 2015 – meeting
- 25 June 2015 – meeting
- 12 August 2015 – conference call
- 15 September 2015 – meeting
- 29 October 2015 – meeting
- 12 November 2015 – conference call
- 10 December 2015 – meeting

During 2015, the Board of Nominees issued a total number of 73 (seventy-three) resolutions. Among such, the most important ones referred to:

- ✓ The approval of several agreements and addenda in relation to the secondary listing of Fondul Proprietatea on the London Stock Exchange;
- ✓ The prior approval of the AIFMD implementation plan for Fondul Proprietatea S.A. in view of the need to comply with the Directive 2011/61/EU on Alternative Investment Fund Managers and the related national implementation laws and regulations, as well as of the related waiver of any selection procedure for its implementation;
- ✓ The prior approval of appointing FRANKLIN TEMPLETON INTERNATIONAL SERVICES S.À R.L., (FTIS) as the Alternative Investment Fund Manager (AIFM) and Sole Director of Fondul Proprietatea SA, for a mandate of two years starting with 1 April 2016 and of the new Mandate Agreement between Fondul Proprietatea SA and FTIS effective as at 1 April 2016;
- ✓ The prior approval of the decrease of the share capital of the Fund;
- ✓ The prior approval of the buyback programmes of the own shares issued by the Fund;
- ✓ The approval of the convening notices in relation to the GSM held during 2015;
- ✓ The approval of the credit facility agreement and Addendum no. 1 signed with Citibank Europe Dublin – Romania Branch;
- ✓ The approval of signing different contracts for legal services;
- ✓ The approval of the waiver for the selection of different providers with respect to the activity performed by Fondul Proprietatea SA;
- ✓ The prior approval of the Fund's Sole Administrator Annual Report for 2014;
- ✓ The prior approval of the profit allocation for 2014;

- ✓ The prior approval of the amendments to the Fund's Constitutive Act;
- ✓ The prior approval of the Fund's Investment Policy Statement;
- ✓ The prior approval of the authorization of the sole administrator to execute any disposal acts over any holdings in the portfolio companies of Fondul Proprietatea S.A., which either individually or cumulatively during 2015 or 2016 financial year, for each year separately, exceed 20% of the total value of the non-current assets, less receivables;
- ✓ The prior approval of the amendments to the in force Investment Management Agreement;
- ✓ The prior approval of the continuation of the current mandate of FTIML Bucharest Branch as Fund Manager and Sole Director of Fondul Proprietatea;
- ✓ The prior approval of amending Fondul Proprietatea's budget for 2015;
- ✓ The prior approval of Fondul Proprietatea's 2016 budget;
- ✓ The prior approval of appointing Deloitte Audit SRL as the financial auditor of Fondul Proprietatea SA for 2015 and the audit contract;
- ✓ The approval of amending Fondul Proprietatea's internal procedures;
- ✓ The approval of amending the Internal Regulations of the Board of Nominees;
- ✓ The approval of reimbursement of the expenses incurred by Franklin Templeton Investment Management Ltd. United Kingdom Bucharest Branch on behalf of Fondul Proprietatea;
- ✓ The approval of amending the membership of the Consultative Committee of Fondul Proprietatea;
- ✓ The approval of amending the duties of the Audit and Valuation Committee of Fondul Proprietatea.

II. THE OPINION OF THE BOARD OF NOMINEES REGARDING YEAR END FINANCIAL REPORTING:

ANNUAL ACTIVITY REPORT PRESENTED BY THE FUND MANAGER

Starting with the annual financial statements for the year ended 31 December 2015, according to the FSA Norm 39/2015, IFRS are the official accounting regulations (the statutory basis of accounting) for the Fund.

Statement of Financial Position

| RON million | 31 December 2015 Audited | 31 December 2014 Audited |
|-------------------------------------|--------------------------------|--------------------------------|
| Cash and current accounts | 0.6 | 6.9 |
| Deposits with banks | 197.8 | 109.4 |
| Treasury bills | 20.0 | 162.8 |
| Government bonds | 59.0 | 31.7 |
| Equity investments | 11,800.7 | 12,927.7 |
| Deferred tax assets | - | 152.7 |
| Other assets | 29.6 | 9.5 |
| Total assets | 12,107.7 | 13,400.7 |
| Total liabilities | 54.6 | 52.8 |
| Total equity | 12,053.1 | 13,347.9 |
| Total liabilities and equity | 12,107.7 | 13,400.7 |

The overall decrease in liquid assets in 2015 was mainly caused by the funding of the buy-back programmes carried out by the Fund during this year (fourth, fifth and sixth buy-back programmes) and by the payment of the return of capital to shareholders started in June 2015, net of the dividends collected from portfolio companies and of the proceeds on disposal of portfolio holdings (mainly related to the holding in Romgaz SA).

The decrease of **equity investments** by RON 1,127.0 million in 2015 was mainly due to a 28.9% decrease of the OMV Petrom SA share price (negative impact of RON 1,269.5 million) and to the disposal of part of the holding in Romgaz SA (negative impact of RON 565.8 million), which were partially offset by the net increase in the value of unlisted equity investments following the update of the independent valuations (total net positive impact of RON 756.2 million), the most significant contributor being the holding in Hidroelectrica SA (RON 476.0 million).

Statement of Comprehensive Income

| RON million | 2015 Audited | 2014 Audited |
|---|-----------------|-----------------|
| Gross dividend income | 569.3 | 687.4 |
| Net losses from equity investments at fair value through profit or loss | (1,240.8) | (604.2) |
| Impairment losses on equity investments available for sale | (90.5) | (344.1) |
| Interest income | 3.9 | 20.9 |
| Gain on disposal of equity investments available for sale, net | 344.8 | 645.5 |
| Other items of income/ (expense), net* | 19.4 | 12.7 |
| Net operating income/ (loss) | (393.9) | 418.2 |
| Operating expenses | (125.1) | (113.6) |
| Finance costs | (2.5) | - |
| Profit/ (Loss) before income tax | (521.5) | 304.6 |
| Income tax (expense)/ benefit | (43.6) | 122.6 |
| Profit/ (Loss) for the year | (565.1) | 427.2 |
| Other comprehensive income | 212.4 | 7.2 |
| Total comprehensive income for the year | (352.7) | 434.4 |

* Other items of income/ (expense), net included the net foreign exchange gains/ (losses), the reversal of impairment losses on receivables and other income/ (expenses).

The main factor behind the significant accounting loss in 2015 was the unrealised negative net change in fair value related to equity investments classified at fair value through profit or loss in accordance with IFRS, principally concerning OMV Petrom SA, due to the negative evolution of the share price of this company in 2015.

Gross dividend income represents the dividend income earned from the Fund's portfolio companies, mainly from Hidroelectrica SA (RON 128.9 million), Romgaz SA (RON 121.4 million), OMV Petrom SA (RON 120.5 million) and Electrica Furnizare SA (RON 38.3 million). The decrease as compared to 2014 was mainly determined by the lower level of dividends approved for distribution by the Fund's portfolio companies, the most significant decrease being for OMV Petrom SA (a decrease of RON 210.9 million), which was partially offset by the dividends received from Hidroelectrica SA (RON 128.9 million).

The **net loss from equity investments at fair value through profit or loss** in 2015 and 2014 represent the net unrealised loss from the negative net change in fair value related to equity investments classified at fair value through profit or loss, principally OMV Petrom SA, due to negative evolution of the share price of this company in these years.

The most significant **impairment losses on equity investments available for sale** in 2015 were related to the holdings in Complexul Energetic Oltenia SA (RON 45.6 million), Nuclearelectrica SA (RON 36.2 million), and in Alro SA (RON 8.0 million). In 2014 the most significant impairment losses recorded were related to the holdings in Complexul Energetic Oltenia SA (RON 213.4 million), Nuclearelectrica SA (RON 94.8 million), and in Alro SA (RON 12.4 million).

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

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

During 2015, the Fund sold part of its holdings in Romgaz SA and Primcom SA and its entire holdings in Forsev SA, SIFI CJ Agro SA, Electroconstructia Elco Cluj SA and Petrotel Lukoil SA.

During 2014, the Fund sold its entire holdings in Erste Group Bank SA, Raiffeisen Bank SA, Resib SA, Severnav SA, Transelectrica SA, Transilvania Com SA, Turdapan SA and part of its holding in Conpet SA, Oil Terminal SA, and Romgaz SA.

The **other comprehensive income** comprised the changes in fair value of equity investments available for sale, net of related deferred tax, where applicable.

Operating expenses

| RON million | 2015 Audited | 2014 Audited |
|--|-----------------|-----------------|
| Investment management and administration fees | 68.3 | 56.5 |
| Secondary listing expenses | 16.6 | 5.6 |
| FSA monthly fees | 11.5 | 14.6 |
| Intermediaries fees and other expenses related to disposal of portfolio holdings | 8.9 | 13.7 |
| Depositary fees | 1.3 | 1.8 |
| Other operating expenses | 18.5 | 21.4 |
| Operating expenses | 125.1 | 113.6 |

Investment management and administration fees increased in 2015 as compared to 2014 mainly due to the distribution fees which were payable by the Fund, starting 20 March 2015, when the Amendment no. 2 to the current Investment Management Agreement in force, was partially endorsed by the FSA, but was also influenced by the change in the base fee rate starting September 2014 from 0.479% per year to 0.60% per year (when this Investment Management Agreement entered into force) and by the change in the notional value used in calculation of this fee.

The total investment management and administration fees in 2015 included the base fee in amount of RON 53.4 million (2014: RON 56.5 million) and the distribution fee in amount of RON 14.9 million (2014: nil).

Intermediaries' fees and other expenses related to disposal of portfolio holdings were lower in 2015 as compared to 2014, mainly as a result of the lower value of disposal transactions carried by the Fund during 2015.

FSA monthly fees decreased, mainly due to the decrease of the FSA fee rate from 0.1% per year to 0.0936% per year (i.e. 0.0078% per month) and due to the decrease of the Fund's total NAV on which these fees are based.

Other operating expenses included mainly litigation assistance and legal advisory expenses, valuation expenses, internal and external audit expenses and investor relations expenses.

The Board of Nominees has reviewed the above presented financial statements and is satisfied that they correctly reflect in all material aspects the activity of the Fund during 2015.

FINANCIAL REPORT OF AUDITORS

The Board of Nominees has reviewed Deloitte's audit report, which is presented together with the statutory financial statements. The Board has had the opportunity to discuss the report with Deloitte, and is pleased to note that the opinion is unqualified.

Coverage of 2015 Accounting Losses

On 28 December 2015, the FSA published the Norm no. 39/2015 approving IFRS as the statutory accounting basis (official accounting regulations) for the annual financial statements for the year ended 31 December 2015, although, during 2015 Romanian accounting regulations (CNVM Regulation no 4/2011, as subsequently amended) were the official accounting regulations.

Under IFRS, Fondul Proprietatea incurred an accounting loss of RON 565.1 million. The main factor behind the accounting loss in 2015 was the unrealised negative net change in fair value related to equity investments classified at fair value through profit or loss, principally related to OMV Petrom SA, as a result of the negative evolution of the share price of this company in 2015.

The current and retained accounting losses are expected to be covered from the accounting profits of future financial years.

Although due to this situation there will be no distributable profits according to the Fund's 2015 statutory annual financial statements (prepared under IFRS), the Fund Manager has already recommended, and the shareholders have approved (on 27 January 2016), a cash distribution of RON 0.05 per share (via the decrease of the share capital through the reduction of the nominal value of the Fund's shares) to the shareholders registered as such at the Registration Date (i.e. 6 June 2016), proportionally with their participation to the paid-up share capital of the Fund (the Ex-date is 3 June 2016). The payments to shareholders for this cash distribution are expected to start on 27 June 2016 (the Payment Date).

2015 BUDGET COMPARED TO ACTUAL RESULTS

The Board of Nominees asked the Fund Manager to analyse the significant variances for the main categories of income and expenses of Fondul Proprietatea S.A. (between the 2015 Budget and the actual results for the year ended 31 December 2015). The relevant budget is the 2015 Budget approved by shareholders on 19 November 2014 and the 2015 Revised Secondary Listing Budget ("2015 Revised SL Budget") approved by shareholders on 27 April 2015. In addition, the reallocations between expense categories in the 2015 Budget, according to the Fund Manager's Decision issued in December 2015, were taken into account.

According to FSA Norm 39/28 December 2015, starting with the annual financial statements for the year ended 31 December 2015, IFRS are the official accounting regulations (statutory basis of accounting) for the entities authorised, regulated and supervised by the FSA – Financial Investments and Instruments Sector, including Fondul Proprietatea. In consequence, this budget versus actual analysis for the year ended 31 December 2015 was prepared based on actual IFRS accounting records.

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

According to the approval of shareholders regarding the 2015 Budget reallocations / reclassifications among the expense categories may take place during the year with the condition that the total of these expenses (excluding non-budgeted expenses such as: foreign exchange losses, expenses with provisions and impairment adjustments, expenses with disposal of financial assets, etc.) will meet the overall budgetary limits approved by the GSM.

Together with the approval of the 2015 Budget, shareholders granted the Fund Manager the power to:

- exceed the expenses budgeted for investment management and administration fees;
- exceed the expenses budgeted for commissions and fees (FSA fees and Depositary bank fees), to the extent arising from the Fund's actual average NAV, the value of assets under custody and/ or volume of portfolio and buy-back trades in 2015 being higher than the ones assumed in the 2015 Budget;
- incur on behalf of the Fund all necessary expenses related to the execution of acquisitions and disposals of equity investments (e.g. intermediary fees of brokers or investment banks, market authorities fees, lawyers, public notaries, other advisors costs, as well as other expenses) or participation in share capital increases of portfolio companies;
- incur on behalf of the Fund all expenses related to the buy-back of the Fund's shares and their subsequent cancellation (after shareholders' approval, upon the completion of the programme), under any buy-back programme approved by shareholders.

even if this results in exceeding the total expenses approved in the 2015 Budget.

A detailed breakdown of the figures has been included in the **Annex**. In this analysis, certain categories of income and expenses in the statutory Income Statement (Statement of comprehensive income) have been reclassified (e.g. foreign exchange revenues and losses, as well as revenue and expenses related to the disposal of financial assets have been netted off) to aid the comparison. As certain categories of income and expense cannot be budgeted, such as foreign exchange gains and losses, impairment adjustments (revenues and expenses), fair value changes, gains or losses on disposal of equity investments or other income, they have been split into "budgeted" and "non-budgeted" categories for clarification.

Results

Net result

The *actual net loss* of the Fund for the year ended 31 December 2015 was RON 565.1 million, compared to the budgeted profit, of RON 468.4 million. The main factor behind the significant accounting loss in 2015 was the decrease of the market value of the holding in OMV Petrom SA (of RON 1.2 billion), as a result of the negative evolution of the share price of this company in 2015.

Income from current activity

Total actual *income from current activity* of RON 923.8 million in 2015 is 54% higher than the budgeted income of RON 598.3 million, mostly due to the non-budgeted income representing net gains on disposal of equity investments of RON 348.1 million (mainly related to the disposal of part of the holding in Romgaz SA).

However, *excluding the non-budgeted income*, actual income from current activity is lower than the budget by RON 25.1 million or 4%, as a result of lower dividend income from portfolio companies (most significant decrease being for OMV Petrom SA).

Expenses from current activity

During 2015, *actual total expenses from current activity* of RON 1,445.3 million are higher than the budgeted expenses of RON 129.9 million (including secondary listing budgeted expenses). The significant negative variance was mainly due to non-budgeted expenses of RON 1,329.2 million, including mainly the net unrealised loss from financial instruments at fair value through profit or loss of RON 1,244.6 million (mostly related to OMV Petrom SA, as mentioned above) and the net expenses with impairment adjustments and provisions of RON 73.2 million (mainly impairment adjustments for available for sale equity investments).

However, *excluding the non-budgeted expenses*, actual expenses from current activity were lower than the budget by RON 13.6 million or 10%.

Third parties service providers' expenses are lower than the budget by RON 5.4 million or 6% (taking into account also the reallocation of expenses from this category). A detailed breakdown of this category is shown in **Annex** (including reallocations between different expense categories in the 2015 Budget).

The main component of this expense category, the investment management and administration fees, were higher than estimated, mainly as a result of higher distribution fees in 2015. However, overall, the third party service providers' expenses were under the budget, in total and per each sub-category taken individually (after reallocations).

Actual *commissions and fees* of RON 11.6 million are lower by RON 3.3 million as compared to 2015 Budget. These mainly include the FSA fee which was lower than the budgeted expense due to the decrease of the FSA fee rate (from 0.1% per year to 0.0936% per year, i.e. 0.0078% per month) and to the decrease of the Fund's total NAV based on which this fee is calculated.

Secondary listing expenses were almost entirely incurred in the second quarter, as the secondary listing on LSE took place at the end of April. A detailed breakdown of this category is shown in the **Annex**.

The Secondary listing expenses were lower by RON 2.3 million than the budget, the explanations for the main variances being presented below:

- *Financial Advisor fees and expenses*, is the most important component of the Revised SL Budget (representing 41.5% of the total budget). The actual expenses in 2015 were slightly higher than the budget by RON 0.2 million, due to the appreciation of the GBP against RON, leading to a higher cost in RON equivalent than the budgeted amount;
- *Commissions and fees* include fees payable to the LSE and to the UK and Romanian capital market authorities. The actual amount was lower than the budget by RON 1.5 million, due to the fact that the 2015 Revised SL budget was prepared based on prudent assumptions in terms of market capitalisation and fees chargeable by the market authorities;

Finance costs are related to the committed credit facility of RON 500 million contracted from Citibank Europe Plc, Dublin – Romania Branch on 4 May 2015. The purpose of the credit facility is for general use, including distributions to shareholders, but excluding investments. It was intended to be a bridging loan. The Fund used the credit facility during 2015, but as at 31 December 2015 there was no outstanding balance.

Income tax expense, in amount of RON 43.6 million, comprises the current tax from dividend withholding tax of RON 1.8 million and the deferred tax in accordance with IFRS of RON 41.8 million.

Capital expenditure: During 2015, the Fund's accounting and reporting software was updated, in line with the changes in the regulatory requirements (e.g. the IFRS related updates) and with the new business requirements derived from the Fund's activity (e.g. the implementation of buy-backs via GDRs).

III. PORTFOLIO INVESTMENT OF THE FUND:

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

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

The Board of Nominees believes that the Fund Manager was in compliance during 2015 with the applicable investment policy adopted by the Fund. At the same time the Board shares the Fund Manager's view that at present the best way to implement the investment policy is to invest in the Fund's own shares.

BOARD OF NOMINEES OPINION REGARDING THE PORTFOLIO INVESTMENT AND THE PERCENTAGE ACCOMPANYING EACH TYPE OF INVESTMENT AT THE END OF 2015

The Board of Nominees holds frequent and detailed discussions on managing the Fund to maximize shareholder value. This includes developing a consistent approach for appropriate actions aimed at reducing the discount at which the Fund's shares are traded on the Bucharest Stock Exchange. In particular, the Board is supportive of the buyback programme, as the Fund's shares are trading at a deep discount and offer an attractive investment opportunity for the Fund and its non-selling shareholders. The Board also discusses at its meetings with the Fund Manager the potential strategies for unlocking value of the individual unlisted investments. The Board has established an Audit and Valuation Committee, part of the role of which is to consider on a regular basis the appropriate valuation methodology for valuing the individual unlisted investments. The Board also discusses regularly with the Fund Manager appropriate ways of establishing relevant long-term fund management performance evaluation measurements.

BOARD OF NOMINEES OPINION REGARDING THE SIGNIFICANT TRANSACTIONS OF THE FUND FOR 2015

The fund had one significant transaction within the investment portfolio during 2015:

- Placement of 16.0 million shares held in Romgaz SA (4.2% of the total shares issued by the company), via an accelerated book building process on the Bucharest Stock Exchange and the London Stock Exchange.

The Board of Nominees is supportive of profitable, cash-generating portfolio divestments and buy-back transactions aiming at the increase of NAV per share and the decrease of the discount level.

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

The Board of Nominees has reviewed the internal audit report prepared by Fondul Proprietatea's internal auditor, BDO and been informed about the internal audit performed by FTI, for the year 2015.

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

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

The Board of Nominees received and reviewed the Annual Compliance Report prepared by the Fund Manager's compliance department, addressing the management of the compliance risk within the company.

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

No material compliance exceptions have been reported in 2015; the compliance control, systems and processes have operated to an adequate level.

V. THE GENERAL EVALUATION OF THE ACTIVITY OF THE FUND MANAGER FOR 2015 (REPORTING PERIOD)

The Board of Nominees acknowledges the continuing promotion of the Fund to foreign and Romanian institutional investors undertaken by Franklin Templeton Investment Management Ltd UK Bucharest Branch, as Fund Manager and Sole Administrator of Fondul Proprietatea.

The most notable activities during 2015 included:

- Secondary listing of the Fund through GDRs on the Specialist Fund Market of the London Stock Exchange
- Completion of a fourth buy-back programme for 990.9 million shares (approximately 8.0 % of the Fund's paid share capital). The total value of the programme excluding transaction costs was RON 1,046.1 million and was executed at an average price per share of RON 1.0558
- Completion of the fifth buy-back programme for 227.6 million shares (approximately 2.0% of the Fund's paid share capital). The total value of the programme excluding transaction costs was RON 193.5 million and was executed at an average share price of RON 0.8501 per share;
- Start of the sixth buy-back programme for 891.8 million shares, equivalent to 8.2% of the Fund's paid-in share capital as at 31 December 2015;
- Placement of a part of the Fund's stake in Romgaz Distribution of RON 534.3 million to shareholders of the Fund via a return of capital;
- Close supervision of the insolvency process of Hidroelectrica and collaboration with the judicial administrator in charge of the Company's insolvency procedure (e.g. Hidroelectrica achieved record gross profits in 2015 of RON 1.1 billion);
- Continued advocacy for the listing of the largest SOEs in the Fund's portfolio (Hidroelectrica to be listed after the insolvency process ends);
- Ongoing involvement in the implementation of the corporate governance standards, accountability, and responsibility of the management of SOEs, as well as proposing the introduction of share option plans for the boards and management of SOEs;
- Receipt of shareholders' approval for the seventh buy-back programme to repurchase up to 10% of the issued share capital of the Fund at the relevant time;
- Receipt of shareholders' approval for the extension of the mandate of FTIML as Fund Manager of Fondul Proprietatea, starting 1 April 2016;
- Receipt of shareholders' approval for the AIFM Directive implementation plan;
- Receipt of shareholders' approval for changes in the Investment Policy Statement;
- Continued transparent reporting on the Fund to shareholders and the public through ongoing communication and disclosure about the Fund and its underlying companies.

VI. RECOMMENDATIONS FOR SHAREHOLDERS:

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

Please note that this report is the annual report prepared based on article 17 of the Constitutive Act and that based on article 9.5 of the IMA that entered into force on 30 September 2014 the Board of Nominees will receive the Performance Report from the Fund Manager (the deadline for receiving it is 31 August 2016), and the Board will prepare and submit for the information of shareholders at the October GSM a review of the Performance Report (the BoN Review Report), evaluating the performance of the Fund Manager, as well as any other factors that it considers to be relevant for the decision of the October GSM regarding the continuation or termination of the Management Agreement and the Fund Manager's mandate.

Mr. Sorin-Mihai MÎNDRUȚESCU, Chairman

Mr. Steven Cornelis van GRONINGEN, Member

Mr. Piotr RYMASZEWSKI, Member

Mr. Julian Rupert Francis HEALY, Member

Mr. Mark Henry GITENSTEIN, Member

Annex

2015 Budget versus Actual Results

| | Budget 2015 & 2015 Revised SL Budget | Reallocations | Budget 2015 & 2015 Revised SL Budget (after reallocations) | Actual 2015 | Variance | |
|---|--|---------------|--|----------------------|------------------------|--------------|
| | RON | RON | RON | RON | RON | % |
| I. INCOME FROM CURRENT ACTIVITY | 598,300,282 | - | 598,300,282 | 923,777,946 | 325,477,664 | 54% |
| Budgeted income | 598,300,282 | - | 598,300,282 | 573,204,627 | (25,095,655) | -4% |
| Gross dividend income | 598,270,331 | - | 598,270,331 | 569,303,345 | (28,966,986) | -5% |
| Interest income | 29,951 | - | 29,951 | 3,901,282 | 3,871,331 | 12926% |
| Non-budgeted income | - | - | - | 350,573,319 | 350,573,319 | n/a |
| Net gain on disposal of equity instruments | - | - | - | 348,092,928 | 348,092,928 | n/a |
| Other income | - | - | - | 1,839,111 | 1,839,111 | n/a |
| Foreign exchange gains (net) | - | - | - | 641,280 | 641,280 | n/a |
| II. EXPENSES FROM CURRENT ACTIVITY | 129,922,433 | - | 129,922,432 | 1,445,253,170 | 1,315,330,738 | 1012% |
| Budgeted expenses | 111,063,740 | - | 111,063,739 | 99,428,583 | (11,635,156) | -10% |
| Utility expenses | 41,947 | - | 41,947 | 24,837 | (17,110) | -41% |
| Rent expenses | 68,740 | - | 68,740 | 67,395 | (1,345) | -2% |
| Insurance expenses | 331,410 | (60,500) | 270,910 | 191,935 | (78,975) | -29% |
| Investors relations expense | 2,328,707 | - | 2,328,707 | 1,849,259 | (479,448) | -21% |
| PR expenses | 1,146,271 | - | 1,146,271 | 668,749 | (477,522) | -42% |
| Bank commission (including Depository fees and distribution fees) | 1,958,679 | - | 1,958,679 | 1,371,842 | (586,837) | -30% |
| Commissions and fees expenses (include FSA and Central Depository fees) | 14,901,293 | - | 14,901,293 | 11,595,354 | (3,305,939) | -22% |
| Remunerations and similar expenses | 900,000 | 50,000 | 950,000 | 950,000 | - | 0% |
| Social security contributions | 234,000 | 10,500 | 244,500 | 188,337 | (56,163) | -23% |
| Amortisation expenses | 884,967 | - | 884,967 | 291,902 | (593,065) | -67% |
| Third party service providers' expenses | 87,042,326 | (2,600,000) | 84,442,325 | 79,002,227 | (5,440,098) | -6% |
| Finance costs | - | 2,600,000 | 2,600,000 | 2,465,292 | (134,708) | -5% |
| Other expenses | 1,225,400 | - | 1,225,400 | 761,454 | (463,946) | -38% |
| Secondary listing expenses | 18,858,693 | - | 18,858,693 | 16,591,887 | (2,266,806) | -12% |
| Non-budgeted expenses | - | - | - | 1,329,232,700 | 1,329,232,700 | n/a |
| Net unrealised loss from financial instruments at fair value through profit or loss | - | - | - | 1,244,603,485 | 1,244,603,485 | n/a |
| Expenses with impairment adjustments and provisions, net | - | - | - | 73,158,829 | 73,158,829 | n/a |
| Expenses related to the disposal of equity investments | - | - | - | 10,117,056 | 10,117,056 | n/a |
| Net loss on sale of other financial instruments | - | - | - | 143,315 | 143,315 | n/a |
| Other expenses non-budgeted | - | - | - | 1,210,015 | 1,210,015 | n/a |
| III. GROSS PROFIT/ (LOSS) | 468,377,849 | - | 468,377,850 | (521,475,224) | (989,853,074) | -211% |
| IV. Income tax expenses | - | - | - | (43,641,076) | (43,641,076) | n/a |
| V. NET PROFIT/ (LOSS) | 468,377,849 | - | 468,377,850 | (565,116,300) | (1,033,494,150) | -221% |
| VI. CAPITAL EXPENDITURE | 349,450 | - | 349,450 | 250,926 | (98,524) | -28% |
| Intangible assets | 349,450 | - | 349,450 | 250,926 | (98,524) | -28% |

Detail of Third Party Services Providers' Expenses

| | Budget 2015 | Reallocations | Budget 2015 (after reallocations) | Actual 2015 | Variance | |
|--|-------------------|--------------------|---|-------------------|--------------------|------------|
| | LEI | LEI | LEI | LEI | LEI | % |
| Third party service providers' expenses | 87,042,326 | (2,600,000) | 84,442,326 | 79,002,227 | (5,440,099) | -6% |
| Investment management and administration fees | 64,378,974 | - | 64,378,974 | 68,323,328 | 3,944,354 | 6% |
| Legal and litigation assistance | 8,820,000 | - | 8,820,000 | 7,432,001 | (1,387,999) | -16% |
| Portfolio holdings valuation | 3,013,622 | - | 3,013,622 | 1,053,964 | (1,959,658) | -65% |
| GSM organisation | 525,000 | - | 525,000 | 412,953 | (112,047) | -21% |
| External audit | 557,580 | 130,000 | 687,580 | 673,756 | (13,824) | -2% |
| Tax compliance & tax advisory expenses | 541,356 | - | 541,356 | 380,010 | (161,346) | -30% |
| Software maintenance and support fees | 368,701 | - | 368,701 | 145,286 | (223,415) | -61% |
| Trade Register and Official Gazette expenses | 220,000 | - | 220,000 | 86 | (219,914) | -100% |
| Internal audit | 117,552 | 56,000 | 173,552 | 172,980 | (572) | 0% |
| Post-secondary listing commissions and fees | 345,483 | - | 345,483 | 43,105 | (302,378) | -88% |
| Post-secondary listing third party expenses | 5,861,098 | (2,600,000) | 3,261,098 | - | (3,261,098) | -100% |
| Other third party service providers' expenses | 2,292,960 | (186,000) | 2,106,960 | 364,757 | (1,742,203) | -83% |

Detail of Secondary Listing Expenses

| | Budget 2015 | Actual 2015 | Variance | | |
|-------------------------------------|-------------------|-------------------|--------------------|-------------|-------|
| | LEI | LEI | LEI | % | |
| Secondary Listing expenses | 18,858,693 | 16,591,887 | (2,266,806) | -12% | |
| Financial Advisor fees and expenses | 7,833,295 | 8,067,736 | 234,441 | 3% | 41.5% |
| Legal fees | 5,204,909 | 4,967,653 | (237,256) | -5% | 27.6% |
| Roadshow costs | 358,057 | 162,687 | (195,370) | -55% | 1.9% |
| PR expenses | 876,414 | 469,623 | (406,791) | -46% | 4.6% |
| Commissions and fees | 2,832,820 | 1,336,801 | (1,496,018) | -53% | 15.0% |
| Other expenses | 1,753,198 | 1,587,387 | (165,811) | -9% | 9.3% |