

The Board of Nominees
REVIEW REPORT

Pursuant to the Investment Management Agreement ('IMA') in force, the Fund Manager is obliged to submit to the Board of Nominees ('BoN') a report on its performance ("Performance Report") for the period between 1 July 2015 and 30 June 2016 ("Reporting Period").

During the Reporting Period there were two Fund Managers:

- (a) between 1 July 2015 and 31 March 2016, Franklin Templeton Investment Management Ltd. UK was the Fund Manager of Fondul Proprietatea SA ('the Fund') under a management agreement dated 29 April 2014, and
- (b) between 1 April 2016 and 30 June 2016, Franklin Templeton International Services S.à r.l. has been the Fund Manager pursuant to the Management Agreement dated 2 November 2015.

The Performance Report should include:

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

The Fund Manager submitted to the BoN the first draft of Performance Report on 28 July 2016 and the final version on 19 August 2016.

In accordance with its obligations under clause 9.6 of the IMA in force, the BoN has reviewed the Performance Report and is submitting this Review Report for the information of shareholders at the GSM on 31 October 2016. This Review Report covers the contents of the Performance Report and an evaluation of the performance of the Fund Manager, as well as any other factors considered relevant by the BoN to the decision of the shareholders at the GSM on 31 October 2016 regarding the continuation or termination of the Management Agreement and the Fund Manager's mandate.

1) CONTENTS OF THE PERFORMANCE REPORT

The BoN considers that the Performance Report has been diligently and professionally prepared and contains all material relevant information.

2) EVALUATION OF THE FUND MANAGER'S PERFORMANCE

(i) The Discount Objective

As set out in the Performance Report, the Discount range for Fondul Proprietatea SA during the Reporting Period was 25.9% - 40.1%. The Discount Objective, as defined in the IPS, was to achieve a discount level of no greater than 15% during no less than 2/3 of the trading days in the Reporting Period. The average Discount for the Reporting Period was 31.8%.

The Discount Objective, for both shares and GDRs, has not been achieved.

During the Reporting Period, the Fund Manager undertook a number of actions aimed at reducing the Discount level and increasing demand for Fondul Proprietatea SA's shares. These actions are described on pages 13 -18 of the Performance Report and include the listing of GDRs on the London Stock Exchange; so far, whilst it has brought in new investors and raised the international profile of Fondul Proprietatea SA, the GDR listing has not had a sustained positive effect on the Discount level.

The BoN recognizes and approves of the efforts of the Fund Manager to increase the attractiveness of Fondul Proprietatea SA's shares, whilst noting, however, the need to continue to apply rigorous DCMs in the future and stimulate greater demand for Fondul Proprietatea SA's shares.

The BoN is of the view that a key factor in maintaining market demand for the Fund's shares is a positive medium-term outlook on cash distributions. These, in turn, are linked to the Fund Manager's ability to extract cash proceeds from the portfolio investments. The BoN recognizes Fund Manager's to-date efforts in employing diverse instruments to create the liquidity necessary for maintaining expected cash distributions (portfolio disposals, dividend proceeds, the use of credit facility). At the same time the BoN is of the view that an increased effort should be made to convert liquid portfolio components into cash at the time of persisting deep share price discounts, such as the Fund has been experiencing since the last Performance Report. Coupled with a promise of a regular and consistent aggregate level of dividend and cash distributions to shareholders, such disposals will increase investors' return expectations and should result in a discount contraction.

The BoN believes that the challenging local operating environment and market conditions (including the absence of new listings on the Bucharest Stock Exchange and the underperformance against developed stock markets of Romanian and other frontier and emerging markets stocks) have been contributing factors to the Fund Manager's failure to achieve the Discount Objective. In particular, delays and an uncertainty in government actions with respect to the listing of some of the portfolio companies has a negative impact on the portfolio liquidity.

(ii) The NAV Objective

As set out in the Performance Report, the Adjusted NAV per share (as defined in the IPS) as at 30 June 2016 was RON 1.1961 and was higher than the NAV per share (RON 1.1851 per share) as at 30 June 2015.

The NAV Objective, as defined in the IPS, was to ensure that the Adjusted NAV per share at the end of the Reporting Period was higher than the starting NAV and this has been achieved.

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

The BoN notes the significant negative impact the decline in the value of the OMV Petrom holding had on the Fund's NAV. The Board strongly believes that addressing this risk exposure should be one of the priorities of the Fund Manager.

The BoN continues to support appropriate shareholder activism implemented by the Fund Manager on behalf of Fondul Proprietatea SA at companies in which it has minority stakes and which are controlled by the Romanian State or other dominant investors. The BoN also strongly agrees with the Fund Manager's robust and consistent approach to corporate governance and to the recruitment of independent professional management teams at portfolio companies. The BoN considers that, at times, the regulatory environment continues to be difficult and presents challenges for the Fund Manager, as it seeks to protect and enhance the value of investments held by Fondul Proprietatea SA. Whenever appropriate and possible, members of the BoN have actively and vigorously supported the Fund Manager's actions through meetings and interaction with Romanian government officials and through communication with government institutions.

3. REGULATORY AND MARKET FACTORS AND OTHER MATTERS

The Performance Report provides summary descriptions of the other factors (regulatory, market and other) which the Fund Manager considers have had an impact on the its performance in seeking to fulfil the two Objectives set out in the IPS. The BoN considers that the Fund Manager has set out an account of these factors and matters in appropriate detail and that all of them are relevant and useful for an assessment of the Fund Manager's performance in the Reporting Period.

4. SUMMARY CONCLUSION

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

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

Based on its review of the Performance Report and its regular interaction and cooperation with the Fund Manager since 1 July 2015, the BoN considers that the performance of the Fund Manager has been creditable during the Reporting Period and evaluates the Fund Manager's efforts and actions positively.

