

To: Fondul Proprietatea S.A. Ordinary General Shareholders' Meeting

2015 BUDGET FOR FONDUL PROPRIETATEA S.A.

Items (RON)	2015 Budget	Revised 2014 Budget & Secondary listing budget	Variance (%)	2014 Forecast
I. INCOME FROM CURRENT ACTIVITY	598,300,282	631,913,581	-5%	1,105,412,269
<i>Budgeted income</i>	<i>598,300,282</i>	<i>631,913,581</i>		<i>688,350,282</i>
Dividend income	598,270,331	619,767,992	-3%	669,786,503
Interest income	29,951	12,145,589	-100%	18,563,779
<i>Non-budgeted income</i>	-	-		<i>417,061,987</i>
Revenue from reversal of impairment adjustments and provisions	-	-		30,028,585
Other income	-	-		1,439,758
Net gain on disposal of equity investments	-	-		385,593,644
II. EXPENSES FROM CURRENT ACTIVITY	111,063,740	97,387,907	14%	148,599,401
<i>Budgeted expenses</i>	<i>111,063,740</i>	<i>97,387,907</i>		<i>131,454,717</i>
Expenses with utilities	41,947	30,044	40%	30,044
Rent expenses	68,740	111,323	-38%	111,323
Insurance expenses	331,410	332,753	0%	332,753
Investor relations expenses	2,328,707	1,952,149	19%	1,952,149
PR expenses	1,146,271	698,692	64%	698,692
Bank charges and similar expenses (including Depositary fees and fees related to distributions to shareholders)	1,958,679	1,837,032	7%	1,909,575
Commissions and fees (including FSA and Central Depositary fees)	14,901,293	15,223,502	-2%	15,223,502
Board of Nominees remuneration	900,000	900,000	0%	900,000
Social security contributions	234,000	234,000	0%	234,000
Amortisation costs	884,967	296,852	198%	296,852
Third party service providers' expenses	87,042,326	54,921,772	58%	88,406,175
Other expenses	1,225,400	354,936	245%	864,800
Secondary listing expenses	-	20,494,852	-100%	20,494,852
<i>Non-budgeted expenses</i>	-	-	-	<i>17,144,684</i>
FX losses (net)	-	-	-	802,154
Net change in fair value of other financial instruments	-	-	-	2,711,631
Expenses related to disposal of equity investments	-	-	-	11,785,622
Expenses with provision and impairment adjustments	-	-	-	1,845,277
III. GROSS PROFIT	487,236,542	534,525,674	-9%	956,812,868
IV. Profit tax expenses	-	-	-	23,146,426
V. NET PROFIT	487,236,542	534,525,674	-9%	933,666,442
VI. INVESTMENTS	349,450	497,714	-30%	497,714
Intangible assets	349,450	497,714	-30%	497,714

The 2015 Budget of Income, Expenses and Capital Expenditures of Fondul Proprietatea S.A. (“the Fund” or “Fondul Proprietatea”) was prepared in August 2014, under the assumption that, starting 1 January 2015, the International Financial Reporting Standards (“IFRS”) will become the official accounting standards in Romania.

The 2014 Forecast includes the actual financial information for the 7 months period ended 31 July 2014 and a projection for the last 5 months of 2014.

The 2015 Budget and the 2014 Forecast were prepared using actual financial information available for the period up to 31 July 2014. They are based on the assumptions presented below.

This budget was approved by the Board of Nominees of the Fund on 24 September 2014.

PRINCIPAL 2015 BUDGET AND 2014 FORECAST ASSUMPTIONS

The main investment management assumptions:

Please note that the following assumptions used in the preparation of the 2015 Budget and of the 2014 Forecast are not necessarily the intended future course of actions in the management of Fondul Proprietatea.

- **Acquisitions and disposals of equity investments**

- For simplicity purposes, the 2015 Budget and the 2014 Forecast were prepared without taking into consideration the financial impact of potential changes in the portfolio (acquisition, disposals, participation in share capital increases of portfolio companies) during 2015 or in the period August to December 2014.

Franklin Templeton Investment Management Ltd United Kingdom, Bucharest Branch (“the Fund Manager” or “FTIML”) is actively managing Fondul Proprietatea according to the Investment Management Agreement (“IMA”) and an investment policy statement is in place. However, the planning and execution of acquisitions and disposals of equity investments requires careful preparation and timing, taking into account developments within financial markets and extraneous circumstances. The high volatility of the Romanian market and unpredictability of political and macroeconomic developments make it impossible to predict with reliable certainty when or if certain transactions will occur in the period extending 17 months forward from the date of preparation of the 2015 Budget.

Nevertheless, given that the Fund Manager is pursuing an active investment strategy, opportunities over the year may arise to acquire or dispose of some investments and the execution of such transactions is likely to incur some form of external third party costs and, in case of disposals, will generate gains or losses on disposal.

It is our view that budget revisions with each transaction related to acquisition or disposal of assets are impractical, inefficient and can negatively affect a potential transaction. Additionally, such transactions may be price sensitive and confidential. Given the highly competitive and dynamic nature of financial markets, any disclosure of planned transactions within the Fund’s portfolio may have a negative impact on the performance of the Fund and potential returns to its shareholders.

Consequently, we propose to shareholders to grant the Fund Manager the power to incur on behalf of the Fund expenses related to the execution of acquisitions and disposals of equity investments and participation in share capital increases of portfolio companies, even if this will result in exceeding the total 2015 budget of expenses. These expenses can include intermediary fees of brokers or investment banks, market authorities’ fees, lawyers, public notaries, other advisors costs, as well as other expenses.

- **Buy-back programmes**

- For simplicity purposes, the 2015 Budget and the 2014 Forecast were prepared without taking into consideration the financial impact of potential execution of new buy-back programmes in 2015.

On 28 April 2014 shareholders approved a fourth buy-back programme. Subject to availability of cash, the Fund Manager is authorised to repurchase up to 990,855,616 shares within the price range of RON 0.2 per share to RON 2 per share, such shares to be cancelled upon completion of the buy-back programme, following shareholders' approval.

The 2015 Budget and the 2014 Forecast were prepared based on the following additional assumptions:

- Shares acquired in the 2013 (second) buy-back programme are expected to be cancelled in the third quarter of 2014;
- Shares acquired in the third buy-back programme (started in April 2014), which was completed in July 2014, are expected to be cancelled in the first quarter of 2015;
- Fourth buy-back programme is expected to start in 2014 and to be completed in 2015, related shares being cancelled in 2015.

Any buyback of the Fund's shares and their subsequent cancellation may have an impact on Fund's expenses, if any new buybacks occur in 2015, such as FTIML fees for distributions (2% before 31 October 2015 or 1% starting with 1 November 2015), depositary trade settlement fees, other related fees and costs and profit tax expenses (if applicable).

Due to the fact that it is impossible to estimate reasonably these types of expenses in a period extending 17 months forward from the date of preparation of the 2015 Budget, and it is impractical to continually update the 2015 Budget, we propose to shareholders to grant the Fund Manager the power to incur any expenses related to any buy-back programmes approved by shareholders, even if this will result in exceeding the total expenses approved in the 2015 Budget.

- **Other investment assumptions**

The 2015 Budget and the 2014 Forecast have been prepared on the following assumptions:

- dividend income in 2015 is assumed to be similar to 2014 dividend income (the actual dividend income for the 7 months ended 31 July 2014 was used), excluding the dividends from the holdings entirely and partially sold in 2014;
- the portfolio structure will remain constant from 31 July 2014 through 2015;
- all cash available will be invested in bank deposits and short-term Government securities and the average annual interest rate in the last 5 months of 2014 and during 2015 is assumed to be 2.5%.

- **Secondary listing assumptions**

- For simplicity purposes, the 2015 Budget and the 2014 Forecast were prepared using the assumption that the secondary listing of the Fund on London Stock Exchange ("LSE") will be completed by 31 December 2014. They were prepared without taking into consideration any expenses related to the secondary listing that may be incurred in 2015.

Due to the fact that it is impossible to estimate reasonably the share of secondary listing related expenses that may be incurred in 2015, and it is impractical to continually update the 2015 Budget, we propose to shareholders to grant the Fund Manager the power to incur the expenses related to the secondary listing (in the limit of the Secondary listing budget approved by shareholders in April 2014), even if this will result in exceeding the total expenses approved in the 2015 Budget.

- **Other assumptions:**

- **Distributions to shareholders**

In 2015, an annual distribution to Fund's shareholders in the form of a return of capital is assumed to take place. The share capital of the Fund is expected to be reduced with RON 0.05 per share, and the resulting funds to be returned to shareholders. Based on our current understanding of Romanian tax laws, no Romanian tax will arise for the Fund or its shareholders. However, due to the uncertainty of Romanian tax law, we cannot guarantee that the tax treatment will not change as a result of an opinion issued by the Romanian Ministry of Public Finance, subsequent court decisions or future tax law changes. Distribution to shareholders is expected to start at the end of June 2015.

2015 distributions to shareholders are expected to be as follows: 75% in June, 20% in July, 3% in August and remaining 2% in September.

- **Receipt of dividends**

The collection of dividends from portfolio companies during 2015 is expected to be: 65% in June, 30% in July, 5% in August.

- **Fund Manager's investment management and administration fees**

For estimating the Base fees payable to the Fund Manager (0.6% per year), the average price of the Fund's shares during 2014 (until 31 July 2014) has been used as an estimate for the average Fund's share price during 2015.

At the GSM on 28 April 2014, shareholders approved a new Investment Management Agreement ("New IMA"), including a new structure of the fees payable by the Fund to the Fund Manager, a Base fee of 0.6% per year and a Distribution fee for distributions made by the Fund to shareholders (buybacks, return of capital). According to the New IMA, in case of distributions, the Fund Manager is entitled to receive a Distribution fee of 2% of the value of the distributions (before 31 October 2015) and 1% (starting 1 November 2015).

If the Fund's actual average share price during 2015 exceeds the price assumed for the 2015 Budget, or if additional distributions take place during 2015, FTIML's fees will be greater than budgeted. Due to the fact that it is difficult, if not impossible, to estimate reasonably these expenses, and it is impractical to continually update the 2015 Budget, we propose that shareholders grant the Fund Manager the power to exceed the expenses budgeted for investment management and administration fees, even if this will result in exceeding the total expenses approved in the 2015 Budget.

- **FSA and Depositary bank fees**

For estimating the monthly FSA regulator's fee (0.1% per year, based on NAV) and the depositary bank fee for certifying monthly NAV calculations, the average NAV during 2014 (until 31 July 2014) has been used as an estimate for the average NAV during 2015.

For estimating the depositary bank custody fee, the Fund's distribution of assets as at 31 July 2014 has been used as the basis for the Fund's structure during 2015.

If the Fund's actual average NAV, value of assets under custody and/or trades in 2015 exceed the ones assumed for the 2015 Budget, these commissions and fees will be greater than budgeted. Due to the fact that it is difficult, if not impossible, to estimate reasonably this type of expenses, and it is impractical to continually update the 2015 Budget, we propose that shareholders grant the Fund Manager the power to exceed the expenses budgeted for other commissions and fees (FSA fees and Depositary bank fees), to the extent that these arise from the Fund's actual average NAV, value of assets under custody and / or trades in Fund's portfolio or additional buybacks in 2015 being higher than those assumed in the 2015 Budget, even if this will result in exceeding the total expenses approved in the 2015 Budget.

- **Borrowing:** The Fund is not expected to take any loans from banks in 2015.

- **Foreign exchange rate**

The average RON/Euro exchange rate used in the preparation of the 2015 Budget was 4.4188 RON/Euro, being the National Bank of Romania official exchange rate as at 31 July 2014.

- **Taxation**

All taxes, contribution rates, and computation methodologies are based on laws in force as at 31 July 2014. Expenses include Romanian VAT of 24% where applicable. The activities of the Fund are exempt and therefore VAT on expenses is not recoverable.

- **Accounting Policy for Financial Instruments**

During 2015, all financial instruments will be accounted for at fair value through profit or loss in the statutory financial statements, assuming that, starting 1 January 2015, IFRS will become the official accounting standards in Romania.

DETAILED ANALYSIS OF BUDGETED INCOME, EXPENSES AND CAPITAL EXPENDITURES

1. Income from Current Activity

Dividend income. The most significant component of income from current activity in the 2015 Budget is dividend income (almost 100% of the total budgeted income).

In the 2015 Budget, the dividend income has been estimated based on 2014 actual dividends, less the dividends from holdings entirely and partially sold in 2014 (the actual dividend income for the period January to July 2014 has been used).

Interest income. This represents the second component of income in the 2015 Budget, but the level of interest income in 2015 is expected to be very low.

The large decrease in interest income in the 2015 Budget as compared to the 2014 Budget is mainly due to the estimated decrease in the average balance of interest bearing assets, cash available being expected to be used in 2015 for distributions to shareholders (including buybacks).

The interest income was estimated based on the following assumptions:

- Forecast cash flows for 2015: The main cash flows, besides the cash outflows related to cash expenses are cash inflows from the collection of portfolio dividends and cash outflows related to the distributions to the shareholders (including buybacks).
- All cash available will be invested in bank deposits or short-term Government securities.
- The average annual interest rate for interest bearing assets used for the preparation of 2015 Budget is assumed to be 2.5%.

It is important to note that these estimates may differ substantially from actual values depending on the changes in the asset allocation of the portfolio, investment and buybacks activity and trends in the money markets during 2015.

Foreign exchange gains or losses. Foreign exchange gains or losses were not forecast, as future exchange rates cannot be reasonably assessed.

Change in fair value of financial instruments. Change in fair value of equity investments were not forecast, as future stock prices cannot be reasonably assessed.

2. Expenses from Current Activity

In preparing the 2015 Budget expenses chargeable to the Fund, the Fund Manager analysed the provisions of the IMA, which set out the expenses chargeable to the Fund and had regard to the rules and best practice followed by Franklin Templeton and other global fund management firms for funds generally.

The expenses chargeable to Fondul Proprietatea that are not explicitly specified in the Investment Management Agreement, but are reasonably allocated to the Fund being exclusively for the benefit of the Fund and its shareholders and/or for protecting their interests, are, according to the Investment Management Agreement, only chargeable following the approval of the Board of Nominees.

Expenses from current activity overall are budgeted to increase by 14% in 2015 as compared to the 2014 Revised Budget including Secondary listing expenses, mainly due to the expected increase of Third party service providers' expenses, principally investment management and administration fees.

Investor relations expenses (increase of 19% as compared to the 2014 Budget). Investor relations expenses, representing approximately 2% of the 2015 budgeted expenses from current activity, include mainly estimated costs related to mailing and printing for shareholder communication and promotional activities, road-shows for promoting the Fund in the key financial centres in Europe, United States and Middle East, organisation of quarterly earnings announcement events, investor days, special events to promote the Fund, marketing and promotional materials, website hosting, maintenance and enhancements expenses.

Investor relations expenses are higher as compared to the 2014 Budget principally due to planned enhanced institutional investor promotional activity abroad, especially in United Kingdom and United States (road-shows and Investors' days).

PR expenses (increase of 64% as compared to the 2014 Budget). PR expenses, representing approximately 1% of the 2015 estimated expenses from current activity, include mainly estimated costs related to PR agency costs, media coverage monitoring, press conferences, other press events and private or public events on topics relevant to Fondul Proprietatea, advisor's costs and workshops for journalists.

The increase was due to additional advisory services, workshops for journalists, as well as other seminars, private and public events.

Rent and utility expenses. These represent the expenses for renting the Fund's office space and related costs. The decrease of rent expenses was due to the renegotiation of the lease agreement in 2014, upon its extension.

Insurance expenses. This category includes expenses related to the mandatory liability insurance for the members of the Board of Nominees.

Bank charges and similar expenses (increase of 7% as compared to the 2014 Budget). This category consists of all bank charges, including the depositary bank's fees and fees related to distributions to shareholders.

Commissions and fees (decrease by 2% as compared to the 2014 Budget). This category represents 13% of the Fund's budgeted expenses from current activity and includes mainly FSA monthly fees estimated based on NAV. Out of the total amount budgeted in this category, RON 14.76 million represents the total annual estimated FSA fee (0.1% of NAV per annum, computed monthly). The decrease as compared to the 2014 budgeted amount is due to the decrease in actual total average NAVs in 2014 (used for the preparation of this budget) compared to that used for 2014 Budget, mainly due to buybacks and distributions to shareholders.

Board of Nominees remuneration. For the 2015 Budget, these expenses include gross remuneration for the Board of Nominees members.

Social security contributions. This category covers social security, health fund and other contributions payable by the Fund. These were estimated according to the legal regulations in force, in respect of the remuneration of the Board of Nominees.

Amortisation costs (increased by 198% as compared to the 2014 Budget). Amortisation costs in the 2015 Budget relate to the Fund's accounting and reporting software implemented in 2013 (developed in 2014 to incorporate IFRS Module). The increase is due to the capitalisation of software development costs related to IFRS module and other developments of the software.

Third party service expenses (increase by 58% as compared to the 2014 Budget). This category of expenses is the main component of expenses in the Fund's 2015 Budget, representing approximately 78% of the total budgeted expenses from current activity.

Items (RON)	2015 Budget	Revised 2014 Budget	Variance (%)	2014 Forecast
Third party service providers' expenses:	87,042,326	54,921,772	58%	88,406,175
Investment management and administration fees	64,378,974	40,853,886	58%	75,105,307
Legal and litigation assistance (including stamp duty expenses for litigations)	8,820,000	8,820,000	0%	8,820,000
GSM organisation	525,000	525,000	0%	525,000
External audit	557,580	425,074	31%	425,074
Internal audit	117,552	117,552	0%	117,552
Tax compliance and tax advisory	541,356	352,160	54%	352,160
Portfolio holdings valuation	3,013,622	1,188,326	154%	1,188,326
Trade Register and Official Gazette expenses	220,000	220,000	0%	220,000
Software maintenance and support fees	368,701	217,873	69%	217,873
Post-secondary listing third party expenses	5,861,098	676,685	766%	-
Post-secondary listing commissions and fees	345,483	90,333	282%	-
Other third party service expenses	2,292,960	1,434,883	60%	1,434,883

This category of expenses includes various subcategories, as follows:

- ***Investment management and administration fees (increase by 58% as compared to the 2014 Budget).*** This is the main expense of the Fund, representing approximately 58% of the total budgeted expenses from current activity and was estimated according to the provisions of the new IMA concluded between the Fund and the Fund Manager:
 - Base fees payable to the Fund Manager (0.6% per year);
 - Distribution fees for distributions made by the Fund to shareholders (buybacks, return of capital): 2% of the value of distributions (before 31 October 2015) and 1% (starting 1 November 2015).

The increase of these fees compared to the 2014 Budget is mainly due to the fact that fees budgeted for 2015 were based on the average market capitalisation of the Fund which was higher in 2014 for the relevant period than in 2013, and due to the distribution fees as per New IMA.

- ***Legal and litigation assistance expenses (including stamp duty).*** These expenses, representing 8% of the total budgeted expenses from current activity, include legal services provided by external legal advisors, as well as legal representation expenses for litigations, and stamp taxes payable for litigation actions (litigations in which the Fund is involved to defend its interests).

- General Shareholders Meetings organisation expenses. This category includes expenses for the organisation of General Shareholder Meetings, such as hiring a venue, advertisement, copying documents, fees for registration of share capital changes and other organisational costs.
- Tax compliance and tax advisory expenses. The budgeted amount includes taxation compliance services relating to tax return filings and taxation advice for specific, one-off, complex tax issues.
- Portfolio valuation expenses (increase by 154% as compared to the 2014 Budget). These expenses are related to the valuation of certain unlisted equity investments of the Fund performed by external valuers, for IFRS reporting and NAV reporting purposes. The significant increase of these expenses was due mainly due to the change in IFRS reporting requirements related to fair valuation of equity investments.
- Trade Register and Official Gazette expenses was budgeted at the same level as for 2014, and are related to the fees charged by these institutions.
- Software maintenance and support fees. Maintenance and support fees in the 2015 Budget relate to the accounting and reporting software implemented in 2013 (developed in 2014 to incorporate IFRS Module), and to the support to be provided by the software developer in case of system audits.
- Post-secondary listing third party expenses. This category includes the ongoing expenses, which the Fund may incur following its listing on the LSE. This estimate includes the expenses related to the registrar and custodian services (the main category of expenses), brokerage services, the review of the Fund's semi-annual IFRS financial statements by the external auditor (if required), and PR and legal expenses estimated to be incurred post-secondary listing.
- Post-secondary listing commissions and fees. This category includes the annual maintenance fee which the Fund would incur following the listing on the LSE.
- Other third party services expenses (increase by 60% as compared to the 2014 Budget): In the 2015 Budget, this category includes principally expenses related to professional typesetter & printer for the annual report; notices required by legislation to be published in newspapers; liability insurance for Board members recommended by the Fund; expenses related to consultancy services; other portfolio related expenses; payroll services; translation; review of related parties transactions by the external auditor required by legislation (if applicable); voting by correspondence. The increase was mainly due to the contingency allowance for advisory services in 2015.

Profit tax expense. In the 2015 Budget the profit tax expense estimated is nil as budgeted deductible expenses are higher than budgeted taxable income for profit tax purposes. This is based on the assumption that the majority of portfolio holdings qualifies for the participation exemption and will therefore generate tax exempt income.

Should actual taxable income exceed budgeted, or actual expenses be lower than budgeted, to the extent that taxable profits are greater than zero, a profit tax liability of 16% will be incurred.

3. Capital Expenditure Budget

The 2015 Capital expenditure budget includes the allowance for any additional changes needed for the Fund's accounting and reporting software in 2015.

Special Note

Among the expense categories reclassifications / reallocations may take place during the year with the condition that the total of these expenses (excluding non-budgeted expenses such as: net change in fair value of financial instruments, foreign exchange losses, expenses with provisions and impairment adjustments, expenses with disposal of financial assets) will meet the overall budgetary limits approved by the General Shareholders Meeting, with the below exceptions.

As presented above, in the section „PRINCIPAL 2015 BUDGET AND 2014 FORECAST ASSUMPTIONS”, due to the fact that it is difficult, if not impossible, to estimate reasonably certain types of expenses, and it is impractical to continually update the 2015 Budget, we propose that shareholders grant 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 Depository 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 buybacks trades in 2015 being higher than the ones assumed in the 2015 Budget;*
- *incur on behalf of the Fund all expenses necessary (e.g. intermediary fees of brokers or investment banks, market authorities fees, lawyers, public notaries, other advisors costs, as well as other expenses) related to the execution of acquisitions and disposals of equity investments or participation in share capital increases of portfolio companies;*
- *incur on behalf of the Fund all expenses related to the buyback of the Fund’s shares and their subsequent cancellation (after the approval by shareholders upon the completion of the programme), under any buyback programme approved by shareholders;*
- *incur on behalf of the Fund in 2015 any expenses related to secondary listing on LSE (in the limit of the Secondary listing budget approved by shareholders in April 2014);*
- *incur on behalf of the Fund any expenses related to the potential change of the fund manager and sole administrator of the Fund;*
- *incur on behalf of the Fund any expenses resulting from the implementation of any new regulation applicable to the Fund.*

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

On a quarterly basis, the Board of Nominees will monitor the progress of the actual performance against the budget.

Details on such expenses incurred will be provided on a retrospective basis, as part of the Fund’s periodical reporting and in the annual report of the Fund Manager.