

BOARD OF NOMINEES ANNUAL REPORT FOR 2014

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 may be the Fund’s shareholders or the persons designated by the 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 requests for the summoning of ordinary and/or extraordinary general meetings of shareholders, if it deems necessary, the insertion of supplementary matters in the text of the calling notice of the general meeting of shareholders;
- (2) Receiving from the Fund Manager the information in connection with the answers to the written requests submitted before the date of the general meeting of shareholders, by the shareholders on topics regarding Fondul Proprietatea’s activity;
- (3) Receiving and analysing the annual financial statements, the annual Fund Manager’s activity report and the financial auditors’ report from the Fund Manager, before being made available to shareholders, and formulating an opinion to be presented to both the Fund Manager and the general meeting;
- (4) Receiving from the Fund Manager for analysis the annual report and the management policy of Fondul Proprietatea and presenting an opinion to the Fund Manager and to the general meeting of shareholders regarding such matters;
- (5) Receiving from the Fund Manager for analysis the yearly income and expenditure budget before it is submitted to the approval of the general meeting of shareholders and presenting an opinion to the Fund Manager and to the general meeting of shareholders regarding such matters;
- (6) Receiving from the Fund Manager for analysis the strategy in accordance with the Fondul Proprietatea’s Investment Policy before it is submitted for the approval of the general meeting of

shareholders and presenting an opinion on it to the Fund Manager and to the general meeting of shareholders;

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

(8) Receiving from the Fund Manager for analysis the proposal of the ordinary general meeting of shareholders for the conclusion of the financial audit agreement and presenting an opinion to the Fund Manager and to the general meeting of shareholders;

(9) Reviewing on a regular basis the Investment Policy of Fondul Proprietatea and presenting an opinion to the general meeting of shareholders at any time it deems necessary, but in any case, at least once a year to the annual OGM;

(10) Receiving the report of the internal auditor and presenting an opinion to the Fund Manager and to the general meeting of shareholders;

(11) Monitoring 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 profit achieved with the initial objective;
- the extent of compliance with the Investment Policy, as well as any variations and actions taken to achieve the targeted results;
- the performance evaluation report.

The Board of Nominees shall draft and present to the general meeting of shareholders an annual report regarding the monitoring activity performed or a monitoring report for another period as agreed by the general meeting of shareholders;

(12) Representing the general meeting of shareholders in relation to the Fund Manager from a 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) Verifying the report of the Fund Manager and the exercise of the permanent monitoring over the management of Fondul Proprietatea by the Fund Manager, and verifying 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 general meeting of shareholders;

(14) Under the conditions of art. 13 paragraphs (11) and (14) of the Constitutive Act calling the general meeting of shareholders;

(15) Participating in the general shareholders' meetings and presenting in such 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) Proposing to the general meeting of shareholders the prior approval or rejection of any contract/document which may create binding obligations on 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) Recommending to the general meeting of shareholders the termination of the management contract in the case when the Board of Nominees considers this is in the best interests of shareholders;

(18) Making recommendations to the general meeting of shareholders on any other issues that the Board of Nominees considers relevant to shareholders;

(19) Following such proposal of the Fund Manager, recommending to the Extraordinary General Meeting of Shareholders the appointment of the public offer intermediate, as well as his remuneration, when it will become necessary that such a company be appointed related to the admission to trading of Fondul Proprietatea;

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

(21) Being responsible for monitoring the Fund Manager's 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 2014:

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 10 (ten) meetings of the Board of Nominees in 2014, as follows:

1. 21 January 2014 – meeting
2. 06 March 2014 - meeting
3. 13 March 2014 – conference call
4. 29 April 2014 – meeting
5. 03 June 2014 – meeting
6. 24 June 2014 – meeting
7. 13 August 2014 – conference call
8. 24 September 2014 - meeting
9. 12 November 2014 – conference call
10. 18 November 2014 – meeting

During 2014, the Board of Nominees issued a total number of 70 (seventy) resolutions. Among such, the most important ones referred to:

- ✓ The approval of the convening notices in relation to the general meetings of shareholders held during 2014;
- ✓ The approval of reimbursement of the expenses incurred by Franklin Templeton Investment Management Ltd. United Kingdom Bucharest Branch ("FTIML") on behalf of Fondul Proprietatea;
- ✓ The approval of the execution of several framework agreements with independent evaluators for the valuation of the Fund's holdings in unlisted and listed companies;
- ✓ The approval of the contracts for audit and tax consultancy services;
- ✓ The approval of the contracts for legal services;
- ✓ The approval of the contracts with different service providers;
- ✓ The prior approval of the Fund's Sole Administrator Annual Report for 2013;
- ✓ The prior approval of the profit allocation for 2013;
- ✓ 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 new Investment Management Agreement;
- ✓ 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 prior approval of the secondary listing of the Fund's shares on the London Stock Exchange;
- ✓ The approval of Fondul Proprietatea's internal procedures;
- ✓ The approval of Fondul Proprietatea's 2015 budget.

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

ANNUAL ACTIVITY REPORT PRESENTED BY THE FUND MANAGER

Balance Sheet

RON million	31 December 2013	31 December 2014
	Audited	Audited
Intangible assets	0.8	0.8
Financial assets	10,490.6	9,075.2
Non-current assets – total	10,491.4	9,076.0
Current assets – total	454.1	319.5
Prepaid expenses	-	-
Payables within one year	31.2	41.4
Total assets less current liabilities	10,914.3	9,354.1
Provisions	29.3	15.1
Shareholders' equity	10,885.0	9,339.0

As at 31 December 2014, **intangible assets** included the value of the licenses and the implementation costs of the Fund's accounting and reporting software, net of accumulated amortization.

Financial assets include the Fund's listed and unlisted equity investments. According to Romanian Accounting Regulations, both listed and unlisted equity investments are valued at cost (or their initial value) less adjustments for impairment.

For listed investments, the impairment adjustment records any adverse difference between cost and closing price (an impairment adjustment is booked if closing price is lower than cost). For unlisted or illiquid listed equity investments, the impairment test compares the cost to the Fund's share of shareholders' equity as per the portfolio companies' latest available financial statements or using values assessed by independent valuers, and any adverse result is booked as impairment. In performing the impairment test, the financial information from the most recent financial statements of the companies is corroborated with the most recent publicly available qualitative and quantitative information regarding the assets.

During 2014, the value of financial assets decreased by RON 1,415.4 million mainly due to the disposals of the entire holdings in Transelectrica (total impact RON 156.2 million), Raiffeisen Bank (total impact RON 77.8 million), and Erste Group Bank (total impact RON 45.1 million), and also part of the holding in Romgaz (total impact RON 138.8 million), combined with the increase of the impairment adjustments for the holdings in OMV Petrom (RON 664.9 million), Nuclearelectrica (RON 94.6 million) and CE Oltenia (RON 213.2 million).

The decrease in **current assets** of RON 134.6 million was mainly due to the funding of the third and fourth buy-back programme (RON 1,188.7 million) and by the payment of the return of capital to shareholders that started on 25 July 2014 (RON 589.9 million), net of the proceeds from the disposals of portfolio holdings, mainly Romgaz, Transelectrica, Conpet, Raiffeisen Bank and Erste Group Bank (RON 1,080.2 million) and dividends collected from portfolio companies during the year (RON 682.1 million).

The provisions decreased by RON 14.2 million, due to the reversal of the provisions for taxes (related to the reserves for bonus shares received from portfolio companies that increased their share capital through incorporation of reserves in previous years), as a result of a change to the Romanian

Fiscal Code. With effect from 1 January 2014, no income tax has applied to the sale of equity instruments held in Romanian entities or entities resident in a country with which Romania has a tax treaty, where the holding represents at least 10% of the share capital of the issuer and has been held for an uninterrupted period of at least 1 year.

Income Statement

RON million	2013 Audited	2014 Audited
Revenues from current activity, out of which:	1,311.2	1,822.7
Revenues from financial assets	649.7	682.1
Interest income	36.2	20.9
Reversal of impairment adjustments and provisions	48.3	37.0
Revenues from disposal of financial assets	573.1	1,079.0
Revenues from foreign exchange differences	0.3	1.5
Other income from current activity	3.6	2.2
Expenses from current activity, out of which:	629.0	793.2
Expenses from disposal of financial assets	528.7	661.7
Expenses from foreign exchange differences	0.2	2.3
Depreciation, provisions, losses from receivables and sundry debtors	13.0	8.2
Commissions and fees	26.3	30.9
Other expenses from current activity *	60.8	90.1
Gross profit	682.2	1,029.5
Income tax expense	-	16.6
Net profit	682.2	1,012.9

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

Revenues from financial assets represent dividend income earned from the Fund's portfolio companies, mainly OMV Petrom RON 331.4 million, Romgaz RON 148.5 million and GDF Suez Energy Romania RON 33.6 million.

Interest income arose from deposits held with banks and from short-term government securities. The lower level of interest income during 2014 compared to 2013 is a reflection of both lower level of interest rates and a lower average level of interest bearing assets during 2014.

Revenues from disposal of financial assets represent the proceeds from the sales of portfolio holdings (mainly Transelectrica, Romgaz, Conpet, Raiffeisen Bank, Erste Bank in 2014), while the **expenses from disposal of financial assets** represent the cost of the investments disposed of.

Commissions and fees mainly include the Financial Supervisory Authority ("FSA") 0.1% per annum fee, calculated on the basis of the Fund's net asset value ("NAV"), amounting to RON 14.6 million in 2014 (2013: RON 15.1 million), and the depositary bank's fees of RON 1.8 million (2013: RON 1.8 million). During 2014 commissions and fees included also the intermediaries fees related to the disposals of equity investments, in the amount of RON 11.8 million (2013: RON 7.7 million) and FSA and Bucharest Stock Exchange ("BVB") fees related to the disposals in the amount of RON 2.0 million (2013: RON 1.3 million).

The **income tax expense** arising in 2014 is tax due, among others, from the cancellation of treasury shares bought back by the Fund in the first buy-back programme and the second buy-back programme, and from the decrease in the nominal value of the treasury shares held by the Fund on the date the return of capital was recorded, which were treated for tax purposes as taxable revenues. In 2014 the main non-taxable revenues constituted of dividends received from portfolio companies and

proceeds from the sale of securities of portfolio companies subject to the above mentioned holding exemption. On the other hand, the main non-tax-deductible expenses consisted of expenses related to the disposal of portfolio securities covered by the holding exemption.

Other expenses from current activity can be analyzed as follows:

RON million	2013 Audited	2014 Audited
FTIML investment management and administration fees	45.3	56.4
Remunerations and similar expenses	0.9	1.2
Stamp duties for litigations	0.1	0.1
Other expenses	14.5	32.4
Other expenses from current activity	60.8	90.1

During 2014, other expenses from current activity increased by RON 29.3 million, mainly due to the rise in FTIML investment management and administration fees (due to the increase of the Fund's share price upon which the fees are based and due to the change in the base fee rate effective from 30 September 2014, when the new IMA entered into force).

Other expenses included mainly litigation assistance and legal advisory expenses (including expenses related to portfolio transactions), other expenses related to capital market transactions (including withholding tax expenses, where applicable), investor relations expenses, expenses related to the valuation of the unlisted holdings, other advisory fees (for the Fund or Board of Nominees), expenses related to secondary listing and sponsorship expenses (the full amount of sponsorship expenses was deducted, according to the provisions of the Romanian Fiscal Code, from the corporate tax expense for 2014). The increase of this category of expenses was mainly due to the higher value of capital market transactions and advisory related costs.

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 2014.

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.

THE FUND MANAGER PROPOSAL FOR PROFIT ALLOCATION:

The Board of Nominees has reviewed the Fund Manager's 2014 profit allocation proposal.

The Fund's 2014 audited net profit was RON 1,012,898,265.

The Fund is obliged to make transfers of at least 5% of the Fund's profit to the legal reserves until those reserves reach a value equivalent to 20% of the value of the issued share capital of Fondul Proprietatea. Following the 2014 transfer of RON 51,476,313, the value of these reserves is RON 243,735,507 (being 2.1% of the issued share capital).

The Fund Manager proposes to keep the remaining RON 961,421,952 within unallocated retained earnings, due to the fact that, according to the official interpretation of the Financial Supervisory Authority on the definition of "net asset value" for the Fund, dividend distributions cannot be made to shareholders at the present time, because the Fund's shareholders' equity, calculated in accordance

with Romanian accounting regulations, of RON 9,339,030,996 is lower than the share capital of the Fund of RON 11,815,279,887.

According to the annual cash distribution policy, the Fund Manager has already recommended, and the shareholders have approved (on 21 January 2015), 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. Based on our current understanding of Romanian tax law, no Romanian tax will arise for the Fund or its shareholders on this distribution.

In the General Shareholders Meeting ("GSM") on 21 January 2015, shareholders approved the decrease of the Fund's share capital from RON 11,575,064,733.65 to RON 10,965,850,800.30 through the reduction of the nominal value of the Fund's shares from RON 0.95 to RON 0.90 and to distribute the difference of RON 0.05 per share to the Fund's shareholders registered with Central Depository on 24 June 2015, proportionally with their participation in the paid share capital of Fondul Proprietatea. The payment will start on 29 June 2015, provided that the decrease of the share capital mentioned above is effective by that time. The decrease of share capital is subject to the endorsement by the FSA.

The Board of Nominees has reviewed the Fund Manager's 2014 profit allocation proposal and recommends that shareholders vote in favour of it.

TOTAL PROFITS OF THE FUND FOR 2014 AND COMPARISON TO THE MARKET

Due to the unique genesis, structure and purpose of Fondul Proprietatea, there are no directly comparable companies or entities in Romania or in the Central Europe region, which offer a directly relevant comparison or benchmark for performance and profitability.

However, the table below contains income data for all companies in the MSCI Romania and BET Index, based on either Factsheet data or preliminary income statements as available on the BVB page (factsheet data and BVB data align very well, where both were available).

BET Index

Ticker	Name	Weight in BM	Income 2014	Weighted Income
B62BHV	Fondul Proprietatea SA	19.20	427.19	82.02
718041	OMV Petrom SA	19.95	2,102.67	419.55
539330	Banca Transilvania SA	15.34	448.10	68.75
BFTD6K	Societatea Nationala de Gaze Naturale Romgaz SA	15.75	1,434.45	225.94
B07GYB	BRD Groupe Societe Generale SA (Romania)	9.40	43.20	4.06
BNK007	SC Electrica SA	7.58	280.47	21.26
B29NM9	S.N.T.G.N. Transgaz SA	5.96	507.43	30.25
B18XCB	C.N.T.E.E. Transelectrica SA	4.13	370.02	15.28
BCZRRM	Societatea Nationala Nuclearelectrica SA	1.68	137.09	2.31
B3LQ5G	Bursa de Valori Bucuresti	1.00	11.90	0.12
	BET Index			869.54

MSCI Romania

Ticker	Name	Weight in BM	Income 2014	Weighted Income
539330	Banca Transilvania SA	32.44	448.10	145.36
BNK007	SC Electrica SA	18.09	280.47	50.74
718041	OMV Petrom SA	18.90	2,102.67	397.34
BFTD6K	Societatea Nationala de Gaze Naturale Romgaz SA	18.11	1,434.45	259.75
B07GYB	BRD Groupe Societe Generale SA (Romania)	12.46	43.20	5.38
	MSCI Romania			858.57

On the Bucharest Stock Exchange, the largest companies reported the following net profits according to the 2014 preliminary results reports (unaudited):

- OMV Petrom: profit of RON 2,100.0 million (consolidated IFRS results)
- BRD: profit of RON 43.2 million (separate IFRS results)
- Banca Transilvania: profit of RON 448.1 million (separate IFRS results)
- Romgaz: profit of 1,434.4 million (separate IFRS results)
- Nuclearelectrica: profit of 137.0 million (separate IFRS results)
- Transelectrica: profit of RON 370.0 million (separate IFRS results)

2014 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 (between the 2014 Budget and the actual results for the year ended 31 December 2014). The relevant budget is the 2014 Revised Budget, being the one approved by shareholders in November 2013, as amended by shareholders in April 2014, where an extra RON 1 million cost for energy market strategy consultancy services was provided for, and where the budget for the London secondary listing was approved. In addition, the reallocations

between expense categories in 2014 Budget, in accordance with the Fund Manager's decision were taken into account.

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 2014 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 General Shareholders Meeting.

Together with the approval of the 2014 Budget in November 2013, shareholders granted the Fund Manager the power to incur on behalf of the Fund:

- non-budgeted expenses related to the execution of acquisitions and disposals of investments;
- additional investment management and administration fees, if this is due to higher actual average FP share price than the one used in budget assumptions;
- additional Regulatory and Depositary fees, if this is due to higher actual average NAV and / or the value of assets under custody than budget assumptions; and,
- Non-budgeted expenses relating to buybacks.

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 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 profit* of the Fund for the year ended 31 December 2014 of RON 1,012.9 million was significantly higher than the budgeted profit of RON 534.5 million (taking into account also the Secondary Listing budgeted expenses). This was mainly due to non-budgeted gains on the disposal of equity investments.

Revenues from current activities

Total actual 2014 *income from current activity* of RON 1,158.8 million is 83% higher than the budgeted income of RON 631.9 million, mainly due to the *non-budgeted income* recorded in 2014, as follows:

- The non-budgeted net gains on disposal of equity investments of RON 417.3 million (mainly disposals of entire holdings in Transelectrica, Erste Group Bank, Raiffeisen Bank and part of holdings in Romgaz, Conpet).
- Higher actual dividend income, of RON 682.1 million, than the level budgeted, of RON 619.8 million;
- The non-budgeted revenues from reversal of impairment adjustments and provisions of RON 37.0 million;

Expenses from current activities

During 2014, actual *total expenses from current activity* of RON 129.2 million are higher than the budgeted expenses (including Secondary Listing budgeted expenses) of RON 97.4 million. The unfavorable variance was mainly due to *non-budgeted expenses* (RON 33.2 million).

Third party service providers' expenses were higher than budget by RON 14.9 million or 27%. A detailed breakdown of this category is given in the **Annex** (including reallocations between different expense categories in the 2014 Budget). The main contributor to this adverse variance is the investment management and administration fee, as the actual average FP share price was higher than the one used in the budget assumptions.

The main reallocations between expense categories in the 2014 Budget were into Portfolio evaluation expense and into Advisory services (WSE listing project).

- **Portfolio evaluation:** The actual portfolio valuation expenses were higher than the budgeted expenses, due to the following reasons:
 - For the 2013 year-end portfolio holdings valuation, only 20% of the expense were recorded in 2013, the remaining 80% (RON 482 thousand) being recorded in 2014, as an important part of the valuation service was performed at the beginning of 2014 when the review of the valuation performed by the auditors was completed;
 - For 2014 year-end portfolio holdings valuation, the valuation services were completed in 2014 (including auditors' review and conclusion on the final form of the valuation reports), so the expenses were recorded entirely in 2014.
- **Advisory services (WSE listing project):** In 2014, JP Morgan, the financial advisor for the WSE listing project, invoiced the Fund for certain services performed by their sub-advisors in 2012, related to this project. These expenses were not budgeted in 2014 budget.

Although *secondary listing expenses* are budgeted at RON 20.5 million, only RON 5.6 million has been expensed during year 2014 (please see **Annex**). This is due to the fact that on 26 November 2014, the Romanian Financial Supervisory Authority ("FSA") did not approve the Depository Interests ("DI") Regulation needed to complete the Fund's listing in London in December 2014, according to the mandate given by the Fund's shareholders in April 2014.

The **Income tax expense** arising in 2014 is tax due, among others, to the cancellation in 2014 of treasury shares bought back by the Fund in the first buy-back programme in 2011 and in the second buy-back programme in 2013 and to the decrease in the nominal value of the treasury shares held by the Fund on the date the return of capital was recorded, which were treated for tax purposes as taxable revenues. In 2014 the main non-taxable revenues constituted of dividends received from portfolio companies and proceeds from the sale of securities of portfolio companies subject to the holding exemption (for holdings higher than 10% of issued shares, held for more than 1 year). On the other hand, the main non-tax-deductible expenses constituted expenses related to the disposal of portfolio securities covered by the holding exemption.

Capital expenditure: During 2014, the IFRS module of the Fund's accounting and reporting software was implemented, and is used starting 1 January 2015.

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 long-term capital appreciation mainly via investment in Romanian equity 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 2014 with the applicable investment policy adopted by the Fund.

BOARD OF NOMINEES OPINION REGARDING THE PORTFOLIO INVESTMENT AND THE PERCENTAGE ACCOMPANYING EACH TYPE OF INVESTMENT AT THE END OF 2014

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 2014

The fund had three significant transactions within the investment portfolio during 2014:

- Placement of 19.2 million shares held in Romgaz SA (4.99% of the total shares issued by the company), via an accelerated book building process on the Bucharest Stock Exchange and London Stock Exchange;
- Placement of 9.9 million shares held in Transelectrica SA (13.50% of the total shares issued by the company), via an accelerated book building process on the Bucharest Stock Exchange;
- Placement of 2.0 million shares held in Conpet SA, via an accelerated book building process on the Bucharest Stock Exchange.

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

The Board of Nominees has reviewed the internal audit report prepared by Fondul Proprietatea's internal auditor, Ernst & Young and been informed about the internal audit performed by Franklin Templeton Investments, for the year 2014.

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 Franklin Templeton Investments 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.

V. THE GENERAL EVALUATION OF THE ACTIVITY OF THE FUND MANAGER FOR 2014 (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 2014 included:

- Completion of a third buy-back programme for 252.9 million shares (approximately 2.0% of the Fund's paid share capital) and the partial execution of the fourth buy-back programme for 990.9 million shares (approximately 8.0% of the Fund's paid share capital) via open-market buy-backs, as well as a tender offer for 750 million shares
- Placement of a part of the Fund's stake in Romgaz and Conpet, and the entire 13.50% stake in Transelectrica, as well as the sale of a number of smaller holdings in the Fund
- Distribution of RON 601.3 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 high profits in 2014 of RON 967 million)
- 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 secondary listing of the Fund on the London Stock Exchange ("LSE")
- Receipt of shareholders' approval for the fifth buy-back programme for 227.6 million shares (approximately 2.03% of the Fund's share capital)
- Receipt of shareholders' approval for the extension of the mandate of FTIML as Sole Administrator and Fund Manager of Fondul Proprietatea, starting 30 September 2014
- 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.

However, 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 new 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 2015), 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

2014 Budget versus Actual Results

	Revised Budget & Secondary listing Budget 2014	Reallocations	2014 Revised budget (after reallocations)	Actual 2014	Variance	
	RON	RON	RON	RON	RON	%
I. INCOME FROM CURRENT ACTIVITY	631,913,581	-	631,913,581	1,158,760,356	526,846,775	83%
Budgeted income	631,913,581	-	631,913,581	703,001,740	71,088,159	11%
Dividend income	619,767,992		619,767,992	682,104,761	62,336,769	10%
Interest income	12,145,589		12,145,589	20,896,979	8,751,390	72%
Non-budgeted income	-	-	-	455,758,616	455,758,616	n.a.
Revenue from reversal of impairment adjustments and provisions				36,985,540	36,985,540	n.a.
Other income				1,493,211	1,493,211	n.a.
Net gains on disposal of equity investments				417,279,865	417,279,865	n.a.
II. EXPENSES FROM CURRENT ACTIVITY	97,387,907	-	97,387,907	129,234,098	31,846,191	33%
Budgeted expenses	97,387,907	-	97,387,907	96,049,931	(1,337,976)	-1%
Utility Expenses	30,044		30,044	22,951	(7,093)	-24%
Rent expenses	111,323		111,323	86,289	(25,034)	-22%
Insurance expenses	332,753		332,753	193,511	(139,242)	-42%
Investors relations expense	1,952,149	(16,500)	1,935,649	1,411,277	(524,372)	-27%
PR expenses	698,692		698,692	640,959	(57,733)	-8%
Bank charges and similar expenses	1,837,032		1,837,032	1,860,404	23,372	1%
Commissions and fees	15,223,502		15,223,502	14,666,685	(556,817)	-4%
Remunerations and similar expenses	900,000		900,000	900,000	-	0%
Social security contributions	234,000		234,000	206,953	(27,047)	-12%
Amortisation expenses	296,852	16,500	313,352	313,142	(210)	0%
Third party service providers' expenses	54,921,772		54,921,772	69,856,711	14,934,939	27%
Other expenses	354,936		354,936	337,160	(17,776)	-5%
Secondary listing expenses	20,494,852		20,494,852	5,553,889	(14,940,963)	-73%
Non-budgeted expenses	-	-	-	33,184,167	33,184,167	n.a.
FX losses (net)				823,827	823,827	n.a.
Expenses regarding the 4th buyback programme				135,597	135,597	n.a.
Expenses related to the disposal of financial assets				16,541,166	16,541,166	n.a.
Expenses with provisions, impairment adjustments and fair value changes				12,562,233	12,562,233	n.a.
Sponsorship expenses				2,500,000	2,500,000	n.a.
Other expenses				63,148	63,148	n.a.
Legal services - consultancy for Board of Nominees				558,196	558,196	n.a.
III. GROSS PROFIT	534,525,674	-	534,525,674	1,029,526,258	495,000,584	93%
IV. Income tax expenses	-	-	-	(16,627,992)	(16,627,992)	100%
V. NET PROFIT	534,525,674	-	534,525,674	1,012,898,266	478,372,592	89%
VI. CAPITAL EXPENDITURE	497,714	-	497,714	390,417	(107,297)	-22%
Intangible assets	497,714		497,714	390,417	(107,297)	-22%

Detail of Third Party Services Providers' Expenses

	Revised Budget 2014	Reallocations	Revised budget (after reallocations)	Actual 2014	Variance	
	RON	RON	RON	RON	RON	%
Third party service providers' expenses	54,921,772	-	54,921,772	69,856,711	14,934,939	27%
Investment management and administration fees	40,853,886		40,853,886	56,479,028	15,625,142	38%
Legal and litigation assistance (including stamp duty expenses for litigations)	8,820,000	(355,000)	8,465,000	8,445,527	(19,473)	0%
GSM organization	525,000	56,500	581,500	581,112	(388)	0%
External audit	425,074		425,074	383,610	(41,464)	-10%
Internal audit	117,552		117,552	107,756	(9,796)	-8%
Tax compliance and tax advisory expenses	352,160		352,160	296,083	(56,077)	-16%
Portfolio evaluation	1,188,326	355,000	1,543,326	1,540,019	(3,307)	0%
Trade Register and Official Gazette expenses	220,000		220,000	1,144	(218,856)	-99%
Software and infrastructure annual maintenance and support fees	217,873		217,873	128,207	(89,666)	-41%
WSE annual maintenance fee	90,333	(90,333)				n.a
Post secondary listing expenses - third party expenses	676,685	(676,685)				n.a
Advisory services (WSE listing project)		965,000	965,000	964,357	(643)	0%
Total other third party services providers' expenses	1,434,883	(254,482)	1,180,401	929,868	(250,533)	-21%

Detail of Secondary Listing Expenses

	Secondary listing Budget 2014	Actual 2014	Variance	
	RON	RON	RON	%
Secondary listing expenses	20,494,852	5,553,889	(14,940,963)	-73%
Investment banking consortium fees and expenses	8,910,291	2,607,732	(6,302,559)	-71%
Legal fees	4,822,169	1,826,033	(2,996,136)	-62%
Roadshow costs	362,523	6,612	(355,911)	-98%
PR expenses	911,996	159,858	(752,138)	-82%
Commissions and fees	2,421,427	-	(2,421,427)	-100%
Other expenses	3,066,446	953,654	(2,112,792)	-69%