

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

2016 BUDGET FOR FONDUL PROPRIETATEA S.A.

Items (RON)	2016 Budget	2015 Budget & Revised Secondary listing budget	Variance (%)	2015 Forecast
I. INCOME FROM CURRENT ACTIVITY	567,477,342	598,300,282	-5%	570,913,700
<i>Budgeted income</i>	<i>567,477,342</i>	<i>598,300,282</i>	<i>-5%</i>	<i>569,094,018</i>
Dividend income	567,477,342	598,270,331	-5%	567,477,325
Interest income	-	29,951	-100%	1,616,693
<i>Non-budgeted income</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>1,819,682</i>
Other income	-	-	-	1,819,682
II. EXPENSES FROM CURRENT ACTIVITY	113,433,457	129,922,433	-13%	140,739,683
<i>Budgeted expenses</i>	<i>113,433,457</i>	<i>111,063,740</i>	<i>2%</i>	<i>117,070,452</i>
Third party services providers' expenses	91,517,283	87,042,326	5%	89,368,859
Commissions and fees (include FSA fees)	12,188,747	14,901,293	-18%	14,901,293
Bank fees and distributions to shareholders fees (including Depository fees)	1,953,737	1,958,679	0%	1,958,679
Investor relations expenses	2,304,860	2,328,707	-1%	2,328,707
Public relations and government relations expenses	1,543,774	1,146,271	35%	1,146,271
Board of Nominees & special administrators remunerations	1,218,000	900,000	35%	965,948
Social security contributions	255,960	234,000	9%	199,314
Amortisation expenses	558,978	884,967	-37%	884,967
Insurance expenses	330,525	331,410	0%	331,410
Rent expenses	68,560	68,740	0%	68,740
Expenses with utilities	25,684	41,947	-39%	41,947
Finance costs	-	-	-	3,648,917
Other expenses	1,467,349	1,225,400	20%	1,225,400
Secondary listing expenses	-	18,858,693	-100%	17,156,489
<i>Non-budgeted expenses</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>6,512,742</i>
Net foreign exchange losses	-	-	-	67,447
Net loss on disposal of equity investments	-	-	-	3,136,477
Expenses related to disposal of equity investments	-	-	-	833,743
Net change in fair value of other financial instruments	-	-	-	165,471
Expenses with provision and impairment adjustments, net	-	-	-	2,211,282
Other non-budgeted expenses	-	-	-	98,322
III. GROSS PROFIT	454,043,885	468,377,849	-3%	430,174,017
IV. Profit tax expenses	-	-	-	-
V. NET PROFIT	454,043,885	468,377,849	-3%	430,174,017
VI. INVESTMENTS	431,354	349,450	23%	349,450
Intangible assets	431,354	349,450	23%	349,450

The 2016 Budget of Income, Expenses and Capital Expenditures of Fondul Proprietatea S.A. (“the Fund” or “Fondul Proprietatea”) was prepared in August 2015, under the assumption that, starting 1 January 2016, the International Financial Reporting Standards (“IFRS”) will become the official accounting standards in Romania.

The 2015 Forecast includes the actual financial information for the 7 months period ended 31 July 2015 and a projection for the last 5 months of 2015.

The 2016 Budget and the 2015 Forecast were prepared using actual financial information available for the period up to 31 July 2015. They are based on the assumptions presented below.

This budget was approved by the Board of Nominees of the Fund on 15 September 2015.

PRINCIPAL 2016 BUDGET AND 2015 FORECAST ASSUMPTIONS

The main investment management assumptions:

Please note that the following assumptions used in the preparation of the 2016 Budget and of the 2015 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 2016 Budget and the 2015 Forecast were prepared without taking into consideration all the financial impact of potential changes in the portfolio (acquisition, disposals, participation in share capital increases of portfolio companies) during 2016 or in the period August to December 2015.

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 2016 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 2016 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 related expenses, commissions or fees.

- **Buy-back programmes**

- For simplicity purposes, the 2016 Budget and the 2015 Forecast were prepared without taking into consideration the financial impact of potential execution of new buy-back programmes in 2016.

On 27 April 2015, shareholders approved a sixth buy-back programme. Subject to availability of cash, the Fund Manager is authorised to repurchase up to 891,770,055 shares or the equivalent global depository receipts corresponding to shares of the Fund within the price range of RON 0.2 per share to RON 2 per share, such shares to be cancelled following shareholders' approval and FSA endorsement.

The 2016 Budget and the 2015 Forecast were prepared based on the following additional assumptions:

- Shares acquired in the fourth buy-back programme are expected to be cancelled in the third quarter of 2015;
- Fifth buy-back programme, started on 10 February 2015 and was completed on 31 July 2015. Related shares are expected to be cancelled in the first quarter of 2016;
- Sixth buy-back programme is expected to start in the third quarter of 2015 and to be completed in the third quarter of 2016. The shares acquired until 31 December 2015, are expected to be cancelled in the third quarter of 2016, and the shares acquired in 2016 are expected to be cancelled in 2017.

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 2016, such as FTIML fees for distributions, depository 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 2016 Budget, and it is impractical to continually update the 2016 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 2016 Budget.

- **Other investment assumptions**

The 2016 Budget and the 2015 Forecast have been prepared on the following assumptions:

- dividend income in 2016 was assumed to be similar to 2015 dividend income (the actual dividend income for the 7 months ended 31 July 2015 was used);
- the portfolio structure will remain constant from 31 July 2015 through 2016;
- In the preparation of 2016 Budget, the assumption used in case of estimated negative cash position (cash shortage) based on the budget assumptions, was that the cash required will be covered from sources not taken into account in these budget assumptions (e.g. disposals of portfolio holdings).

- **Borrowings**

For simplicity purposes, the 2016 Budget was prepared without taking into consideration the financial impact of potential bank loans / credit facilities that the Fund may contract in 2016 for purposes other than investments.

Any bank loan / credit facility contracted by the Fund would have an impact on Fund's expenses, such as interest expenses, commitment fees or other related fees and expenses.

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 2016 Budget, and it is impractical to continually update the 2016 Budget, we propose to shareholders to grant the Fund Manager the power

to incur any expenses related to bank loans / credit facilities contracted by the Fund with Board of Nominees approval, even if this will result in exceeding the total expenses approved in the 2016 Budget.

- **Other assumptions:**

- **Distributions to shareholders**

Following the official interpretation received from the FSA on computation methodology for the “net asset value” to be used by the Fund in the application of articles of Companies Law no. 31/1990 related to the distribution of profits to shareholders, dividend distributions cannot be made to shareholders at the present time, because the Fund’s shareholders’ equity calculated in accordance with Romanian Accounting Regulations is lower than the share capital of the Fund.

According with the Fund’s annual cash distribution policy, the Fund Manager remains committed to returning cash to shareholders on an annual basis.

In 2016, 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.

The 2016 distributions to shareholders related to this return of capital are expected to start on 30 June 2016.

- **Receipt of dividends**

The collection of dividends from portfolio companies during 2016 is expected to follow the previous years’ average collection pattern.

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

For estimating the Base fees payable to the Fund Manager the fee rate used was 0.6% per year and the average price of the Fund’s shares during 2015 (until 31 July 2015) has been used as an estimate for the average Fund’s share price during 2016.

For estimating the Distribution fees for non-dividend distributions made by the Fund to shareholders in 2016 (buybacks, return of capital), the fee rate of 2% of the value of non-dividend distributions has been used.

If the Fund’s actual average share price during 2016 exceeds the price assumed for the 2016 Budget, if additional distributions take place during 2016 or if fund manager fees rates are modified through shareholders’ decisions, 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 2016 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 2016 Budget.

- **FSA and Depositary bank fees**

For estimating the monthly FSA regulator’s fee (0.0936% per year, i.e. 0.0078% per month, based on month-end NAV) and the depositary bank fee for certifying NAV reporting, the average NAV during 2015 (until 31 July 2015) has been used as an estimate for the average NAV during 2016.

For estimating the depositary bank custody fee, the Fund’s distribution of assets as at 31 July 2015 has been used as the basis for the Fund’s structure during 2016.

If the Fund’s actual average NAV, value of assets under custody and/or trades in 2016 exceed the ones assumed for the 2016 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 2016 Budget, we propose that shareholders grant the Fund Manager the power to exceed the expenses budgeted for other commissions and fees (FSA fees and Depository 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 buybacks in 2016 being higher than those assumed in the 2016 Budget, even if this will result in exceeding the total expenses approved in the 2016 Budget.

- **Foreign exchange rate**

The average RON/Euro exchange rate used in the preparation of the 2016 Budget was 4.4070 RON/Euro, being the National Bank of Romania official exchange rate as at 31 July 2015.

- **Taxation**

All taxes, contribution rates, and computation methodologies are based on laws in force as at 31 July 2015. This Budget was prepared based on a VAT rate assumption of 24% (expenses include Romanian VAT where applicable). If the VAT rate is modified starting 1 January 2016 (i.e. to 20%) the corresponding expenses will include the Romanian VAT applicable, without being necessary to modify the 2016 Budget in this respect. The activities of the Fund are exempt and therefore VAT on expenses is not recoverable.

- **Accounting policy for financial instruments**

During 2016, all financial instruments will be accounted for at fair value (either at fair value through profit or loss or available for sale financial assets) in the statutory financial statements, assuming that, starting 1 January 2016, IFRS will become again the official accounting standards in Romania.

DETAILED ANALYSIS OF BUDGETED INCOME, EXPENSES AND CAPITAL EXPENDITURES

1. Income from Current Activity

Dividend income. The only component of income from current activity in the 2016 Budget is dividend income.

In the 2016 Budget, the dividend income has been estimated based on 2015 actual dividends (the actual dividend income for the period January to July 2015 has been used). The decrease of dividend income as compared to the 2015 Budget (by 5%) was determined mainly by the lower level of dividends approved for distribution by the Fund's portfolio companies in 2015 than in 2014.

Interest income. Interest income was assumed to be nil in 2016, as average cash position over 2016 is expected to be negative, based on the assumptions used in the preparation of 2016 Budget.

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

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

2. Expenses from Current Activity

In preparing the 2016 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 IMA, 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 decrease by 13% in 2016 as compared to the 2015 Budget including the 2015 Revised secondary listing expenses, mainly due to the 2015 Revised secondary listing expenses in total amount of RON 18.9 million included in the comparatives (2015).

Excluding the 2015 Revised secondary listing budget, the expenses from current activity overall are budgeted to increase by 2% in 2016 as compared to the 2015 Budget, mainly due to the increase of third party services providers' expenses.

Third party services providers' expenses (increase by 5% as compared to the 2015 Budget). This category of expenses is the main component of expenses in the Fund's 2016 Budget, representing approximately 81% of the total budgeted expenses from current activity.

Items (RON)	2016 Budget	2015 Budget	Variance (%)	2015 Forecast
Third party service providers' expenses:	91,517,283	87,042,326	5%	89,368,859
Investment management and administration fees	71,359,366	64,378,974	11%	72,892,746
Legal and litigation assistance (including stamp duty expenses for litigations)	10,521,334	8,820,000	19%	8,820,000
Portfolio holdings valuation	2,142,155	3,013,622	-29%	3,013,622
GSM organisation	744,000	525,000	42%	525,000
Tax compliance and tax advisory	539,911	541,356	0%	541,356
External audit	540,071	557,580	-3%	576,922
Software maintenance and support fees	442,300	368,701	20%	368,701
Trade Register and Official Gazette expenses	272,800	220,000	24%	220,000
Internal audit	195,300	117,552	66%	117,552
Post-secondary listing third party expenses	-	5,861,098	-100%	-
Post-secondary listing commissions and fees	-	345,483	-100%	-
Other third party service expenses	4,760,046	2,292,960	108%	2,292,960

This category of expenses includes various subcategories, as follows:

- **Investment management and administration fees (increase by 11% as compared to the 2015 Budget).** This is the main expense of the Fund, representing approximately 63% of the total budgeted expenses from current activity and was estimated according to the provisions of the IMA concluded between the Fund and the Fund Manager currently in force, as amended or proposed for amendment:
 - Base fees payable to the Fund Manager (0.6% per year);
 - Distribution fees for distributions made by the Fund to shareholders (non-dividend distributions, such as buybacks and returns of capital): 2% of the value of non-dividend distributions.

The increase of these fees as compared to the 2015 Budget is mainly due to the distribution fees, which are expected to increase in 2016, mainly as a result of higher expected distributions.
- **Legal and litigation assistance expenses (including stamp duties for litigations).** These expenses, representing 9% 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).

The increase of 19% as compared to 2015 Budget is mainly due to more legal advisory services expected in 2016, following the listing of the Fund on London Stock Exchange and due to changes in local legislation (e.g. Alternative Investment Fund Managers Directive).

- *Portfolio valuation expenses (decrease by 29% as compared to the 2015 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.
- *General Shareholders Meetings (“GSM”) 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. The increase is the result of the possibility to enhance the services during GSMs and to have more shareholders meetings during 2016 than in 2015.
- *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.
- *Software maintenance and support fees.* Maintenance and support fees in the 2016 Budget relate to the Fund’s accounting and reporting software, and to the support to be provided by the software developer in case of system audits.
- *Trade Register and Official Gazette* expenses are related to the fees charged by these institutions.
- *Post-secondary listing commissions and fees and third party expenses.* In the 2015 Budget post-secondary listing related fees and expenses were disclosed separately, while in the 2016 Budget these fees and expenses were presented in the expense categories corresponding to their nature.

Other third party services expenses (increase by 108% as compared to the 2015 Budget): In the 2016 Budget, the significant increase was due to the additional allowance for advisory and consultancy services. Other expenses included in this category are brokerage services; 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; other portfolio related expenses; payroll services; translation; review of related parties transactions by the external auditor required by legislation (if applicable); voting by correspondence.

Commissions and fees (decrease by 18% as compared to the 2015 Budget). This category represents 11% 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 11.9 million represents the total annual estimated FSA fee (0.0936% of NAV per annum). The decrease as compared to the 2015 budgeted amount is mainly due to the decrease in actual total average NAVs in 2016 (used for the preparation of this budget) compared to that used for 2015 Budget and due to the decrease of the fee percentage charged by FSA (0.0936% of NAV per year versus 0.1% of NAV per year in 2015).

Bank fees and distributions to shareholders fees. This category consists of all bank charges, including the depositary bank’s fees and all fees related to distributions to shareholders.

Investor relations expenses. Investor relations expenses, representing approximately 2% of the 2016 estimated expenses from current activity, are budgeted almost at the same level as in 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 and United States, organisation of quarterly earnings announcement events, investor days, special events to promote the Fund, marketing and promotional materials, website hosting, maintenance and enhancements expenses.

Public relations and government relations expenses (increase of 35% as compared to the 2015 Budget). Public relations and government relations expenses, representing approximately 1% of the 2016 estimated expenses from current activity, include mainly estimated costs related to PR agencies, media coverage monitoring services, press conferences, other press events and private or public events on topics relevant to Fondul Proprietatea, advisor's costs, workshops for journalists and Government Relations strategy costs.

The increase is due to more PR events and conferences budgeted for 2016, including follow-up events in UK, as a result of the listing on London Stock Exchange, which will increase the visibility of the Fund internationally.

Board of Nominees & special administrators remunerations. For the 2016 Budget, these expenses include gross remuneration for the Board of Nominees members (expected to increase to RON 20,000 per member per month after shareholders' approval) and the remuneration for a special administrator for a portfolio company.

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 and of the special administrator.

Amortisation expenses. Amortisation costs in the 2016 Budget are related to the Fund's accounting and reporting software.

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

Rent and utility expenses. These represent the expenses for renting the Fund's office space and related costs.

Profit tax expenses. In the 2016 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 2016 Capital expenditure budget includes the allowance for any additional changes needed for the Fund's accounting and reporting software in 2016.

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, losses on disposal of equity investments, 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 2016 BUDGET AND 2015 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 2016 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 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 buybacks trades in 2016 being higher than the ones assumed in the 2016 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 related expenses, commissions or fees) 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 or the equivalent global depositary receipts corresponding to shares of the Fund and their subsequent cancellation (after the approval by shareholders), under any buyback programme approved by shareholders;*
- *incur on behalf of the Fund any expenses related to bank loans / credit facilities contracted by the Fund, with Board of Nominees approval;*
- *incur on behalf of the Fund any expenses related to the potential change of the fund manager and sole administrator of the Fund (expense incurred by the Board of Nominees);*
- *incur on behalf of the Fund any expenses resulting from the implementation of any regulation applicable to the Fund.*

even if this will result in exceeding the total expenses approved in the 2016 Budget.

On a quarterly basis, the Board of Nominees will monitor the progress of the actual expenses 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.