FONDUL PROPRIETATEA

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

2014 BUDGET FOR FONDUL PROPRIETATEA S.A.

Items (Lei)	2014 Budget	2013 Budget	Variance (%)	2013 Forecast
I. INCOME FROM CURRENT ACTIVITY	**631,913,581**	**660,296,492**	**-4%**	**673,038,961**
Budgeted income	***631,913,581***	***660,296,492***		***655,806,442***
Dividend income	619,767,992	618,171,289	0%	619,767,994
Interest income	12,145,589	42,125,203	-71%	36,038,448
Non-budgeted income	**-**	**-**		***17,232,519***
Revenue from reversal of impairment adjustments and provisions	-	-		16,760,253
Other income	-	-		458,339
Fair value adjustments of financial instruments	-	-		13,927
II. EXPENSES FROM CURRENT ACTIVITY	**75,893,055**	**76,031,018**	**0%**	**170,781,346**
Budgeted expenses	***75,893,055***	***76,031,018***		***83,568,693***
Expenses with utilities	30,044	27,136	11%	28,091
Rent expenses	111,323	108,627	2%	103,740
Insurance expenses	332,753	312,165	7%	188,517
Investor relations expenses	1,952,149	1,926,504	1%	1,604,974
PR expenses	698,692	464,501	50%	400,000
Bank charges and similar expenses (including Depositary fees and fees related to distributions to shareholders)	1,837,032	1,851,433	-1%	1,885,973
Commissions and fees (including FSA and Central Depositary fees)	15,223,502	14,664,446	4%	15,175,205
Salaries and similar expenses	900,000	540,000	67%	779,052
Social security contributions	234,000	141,216	66%	173,589
Amortisation costs	296,852	317,838	-7%	137,682
Third party services providers' expenses	53,921,772	44,835,055	20%	52,257,237
Other expenses	354,936	80,000	344%	72,536
Secondary listing expenses	-	10,762,097	-100%	10,762,097
Non-budgeted expenses	**-**	**-**	**-**	***87,212,653***
FX losses (net)	-	-	-	133,401
Loss on disposal of equity investments	-	-	-	71,104,514
Costs related to disposal of equity investments	-	-	-	3,496,380
Expenses with provision and impairment adjustments	-	-	-	12,464,905
Other expenses	-	-	-	13,453
III. GROSS PROFIT	**556,020,526**	**584,265,474**	**-5%**	**502,257,615**
IV. Profit tax expenses	-	13,780,865	-100%	-
V. NET PROFIT	**556,020,526**	**570,484,609**	**-3%**	**502,257,615**
VI. INVESTMENTS	**497,714**	**918,032**	**-46%**	**561,272**
Intangible assets	497,714	561,272	-11%	561,272
Tangible assets	-	356,760	-100%	-

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The 2014 Budget of Income, Expenses and Capital Expenditures of Fondul Proprietatea S.A. ("the Fund" or "Fondul Proprietatea") was prepared in September 2013, under Romanian Accounting Regulations.

The 2013 Forecast includes the actual financial information for the 8 months period ended 31 August 2013 and a projection for the last 4 months of 2013.

The 2014 Budget and the 2013 Forecast were prepared using actual financial information available for the period up to 31 August 2013. They are based on the assumptions presented below.

This budget was approved by the Board of Nominees of the Fund in October 2013.

PRINCIPAL 2014 BUDGET AND 2013 FORECAST ASSUMPTIONS

The main investment management assumptions:

Please note that the following assumptions used in the preparation of the 2014 Budget and of 2013 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 2014 Budget and the 2013 Forecast have been 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 2014 or in the period September to December 2013.

  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 strategy 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 made it impossible to predict with reliable certainty when or if certain transactions will occur during 2014, in the period extending 16 months forward from the date of preparation of the 2014 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 2014 budget of expenses. These expenses can include intermediary fees of brokers or investment banks, lawyers, public notaries, other advisors costs, as well as other expenses.

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- **Buyback programmes**
  - For simplicity purposes, the 2014 Budget has been prepared without taking into consideration the financial impact of potential execution of a new buyback programme in 2014.

  Any buyback of the Fund's shares and their subsequent cancellation may have an impact on Fund's expenses, if any buybacks occur in 2014, such as FTIML fees for excess distribution (if approved by FSA in 2014 or before), depositary trade settlement fees, profit tax expenses and any other related expenses.

  Due to the fact that it is impossible to estimate reasonably these types of expenses in a period extending 16 months forward from the date of preparation of the 2014 Budget, and it is impractical to continually update the 2014 Budget, we propose to shareholders to grant the Fund Manager the power to incur the expenses related to any buyback programme approved by shareholders and executed in 2014, even if this will result in exceeding the total expenses approved in the 2014 Budget.

  - Own shares bought back in the 2011 buyback programme are expected to be cancelled in the last quarter of 2013.
  - The buyback programme started in 2013 is expected to be completed during 2014 and own shares bought back in this programme to be cancelled in 2015. This is not expected to have any impact on the profit tax expense in 2014.

- **Other investment assumptions**

  The 2014 Budget and the 2013 Forecast have been prepared on the following assumptions:

  - dividend income in 2014 will be similar to 2013 dividend income (the actual dividend income for the 8 months ended 31 August 2013 was used);
  - the portfolio structure will remain constant from 31 August 2013 through 2014;
  - all cash available will be invested in money market instruments and the average interest rate in the last 4 months of 2013 and during 2014 will be 3% (based on the average interest rates of Fund's bank deposits and Government securities for the period June to August 2013).

- **Secondary listing assumptions**

  The 2014 Budget and the 2013 Forecast have been prepared using the assumption that the Secondary listing will be completed in the 4th quarter 2013 and all expenses related to the secondary listing of the Fund on Warsaw Stock Exchange ("WSE") will be incurred in 2013.

- **Other assumptions:**
  - **Distributions to shareholders**

  In 2014, the Fund is expected to replace the annual dividend distribution with a return of capital to shareholders. 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 Funds or its shareholders. Distribution to shareholders is expected to start in June 2014.

  2014 distributions to shareholders are expected to be as follows: 25% in June, 70% in July, 2% in August and remaining 3% in September.

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- **Receipt of dividends**

The collection of dividends from portfolio companies during 2014 is expected to be: 85% in June, 10% in July, 3% in August, 2% in November.

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

For estimating the investment management and administration fees payable to the Fund Manager (0.479% per year), the average price of the Fund's shares during 2013 (until 31 August 2013) has been used as an estimate for the average Fund's share price rate in the last 4 months of 2013 and during 2014.

We assume that the investment management and administration fees will remain unchanged after September 2014.

At the GSM on 4 April 2012, shareholders approved a Second Addendum to the Investment Management Agreement ("IMA"), referring to an additional management fee payable by the Fund to the Fund Manager if excess distributions were made by the Fund to shareholders. According to this addendum, in case of excess distributions, the Fund Manager is entitled to receive an additional fee of 1.5% of the excess distribution (if distributions take place in 2012 and 2013) and 1% (after 2013, until the termination of the IMA). No such additional fees (whether by way of purchases of own shares for the purpose of cancellation, special dividends or other distributions) have been included in the 2014 Budget. This addendum was not endorsed by CNVM, currently Financial Supervisory Authority ("FSA").

If the Fund's actual average share price during 2014 exceeds the price assumed for the 2014 Budget, or if excess distributions take place during 2014, 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 2014 Budget, we propose that shareholders grant the Fund Manager the power to exceed the expenses budgeted for investment management and administration fees, to the extent that these arise from:

- the Fund's actual average share price in 2014 being higher than the one assumed for the 2014 Budget;
- excess distributions being made to shareholders in 2014, resulting in increased fees accruing in accordance with the Second Addendum to the Investment Management Agreement approved by shareholders on 4 April 2012;
- other changes in investment management and administration fees approved by shareholders

even if this will result in exceeding the total expenses approved in the 2014 Budget.

- **FSA and Depositary bank fees**

For estimating the monthly FSA fee (0.1% per year, based on Net Assets Value ("NAV") and the depositary bank fee for certifying monthly NAV calculations, the average NAV during 2013 (until 31 August 2013) has been used as an estimate for the average NAV rate in the last 4 months of 2013 and during 2014. For estimating the depositary bank custody fee, the Fund's portfolio structure as at 31 August 2013 has been used as the basis for the Fund's structure rate in the last 4 months of 2013 and during 2014.

If the Fund's actual average NAV over 2014 and / or the value of assets under custody exceed the ones assumed for the 2014 Budget and there are any trades, 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 2014 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 and / or the value of assets under custody in 2014 being higher than those assumed in the 2014 Budget, even if this will result in exceeding the total expenses approved in the 2014 Budget.

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- **Foreign exchange rate**

  The average Leu/Euro exchange rate used in the preparation of the 2014 Budget was 4.4367 Lei/Euro, being the National Bank of Romania official exchange rate as at 31 August 2013.

- **Taxation**

  All taxes, contribution rates, and computation methodologies are based on laws in force as at 31 August 2013. 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 2014, all financial instruments will be accounted for at cost less impairment adjustments in the financial statements prepared in accordance with Romanian Accounting Regulations (CNVM Regulation 4/2011) in force as at 31 August 2013.

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 2014 Budget is dividend income (approximately 98% of the total budgeted income).

In the 2014 Budget, the dividend income has been estimated on the assumption that 2014 dividends will be similar to 2013 actual dividends (the actual dividend income for the period January to August 2013 has been used).

Interest income (decrease by 71% as compared to the 2013 Budget). This represents the second major component of income in the 2014 Budget (approximately 2% of the estimated total income for the year 2014).

The large decrease in interest income in the 2014 Budget as compared to the 2013 Budget is mainly due to the estimated decrease in the average balance of money market instruments (which are expected to decrease mainly due to the buyback programme executed in 2013 and 2014) and to lower interest rates assumed for the 2014 Budget.

The interest income was estimated based on the following assumptions:

- Forecast cash flows for 2014: The main cash flows, besides those related to cash expenses and capital expenditure, are cash inflows from the collection of portfolio dividends, cash outflows related to the distributions to the shareholders and cash outflows related to the buybacks.
- All cash available will be invested in money market instruments.
- The average annual interest rate for money market instruments used for the preparation of 2014 Budget is 3% (based on the average interest rates of Fund's bank deposits and Government securities for the period June to August 2013).

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 2014.

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

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2. Expenses from Current Activity

In preparing the 2014 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 almost at the same level compared to 2013 Budget, which included the budget for secondary listing.

Investor relations expenses (increase of 1% as compared to the 2013 Budget). Investor relations expenses, representing approximately 3% of the 2014 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, North America and Asia, 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 2013 Budget principally due to planned enhanced institutional investor promotional activity in Romania and abroad and to the increasing number of institutional investors.

PR expenses (increase of 50% as compared to the 2013 Budget). PR expenses, representing approximately 1% of the 2014 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, the costs related to the implementation of public affairs programme and workshops for journalists.

The increase was due to additional conferences, seminars, private or public events, part of public affairs programme.

Rent and utility expenses. These represent the expenses for renting the Fund's office space and related costs. When the administration of the Fund was taken over by the Fund Manager in 2010, the office was relocated to Premium Point building, with an estimated 2014 monthly rental charge of approximately Euro 1,685 (plus VAT), plus services and property management and utilities charges.

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 (decrease of 1% as compared to the 2013 Budget). This category consists of all bank charges, including the depositary bank's fees and fees related to distributions to shareholders.

Commissions and fees (increase by 4% as compared to the 2013 Budget). This category represents 20% 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, Lei 15.1 million represents the total annual estimated FSA fee, calculated as NAV/12 x 0.1% per month. The increase as compared to the 2013 budgeted amount is due to the increase in actual NAVs in 2013 (used for the preparation of this budget) compared to that used for 2013 Budget, mainly due to the change in the valuation of the holding in Hidroelectrica.

Salaries and similar expenses (increase of 67% as compared to the 2013 Budget). For the 2014 budget, these expenses include gross remuneration for the Board of Nominees members. The increase was determined by the gross base salary increase, according with the GSM approval.

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In 2014, the Fund will have no employees.

Social security contributions (increase of 66% as compared to the 2013 Budget). 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. Amortisation costs in the 2014 Budget relate to the new accounting and reporting software implemented in 2013.

Third party services expenses (increase by 20% as compared to the 2013 Budget). This category of expenses is the main component of expenses in the Fund's 2014 Budget, representing approximately 71% of the total budgeted expenses from current activity.

Items (Lei)	2014 Budget	2013 Budget	Variance (%)	2013 Forecast
Third party services providers' expenses:	**53,921,772**	**44,835,055**	**20%**	**52,257,237**
Investment management and administration fees	40,853,886	33,145,574	23%	41,688,702
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%	224,208
External audit	425,074	435,636	-2%	435,636
Internal audit	117,552	117,552	0%	117,552
Tax compliance and tax advisory	352,160	322,386	9%	322,386
Portfolio evaluation	1,188,326	276,489	330%	276,489
Trade Register and Official Gazette expenses	220,000	220,000	0%	220,000
Software maintenance and support fees	217,873	374,778	-42%	83,874
Post Secondary listing third party expenses	676,685	282,354	140%	-
Post Secondary listing commissions and fees	90,333	-	100%	-
Other third party services expenses	434,883	315,286	38%	68,390

This category of expenses includes various subcategories, as follows:

- *Investment management and administration fees (increase by 23% as compared to the 2013 Budget)*. This is the main expense of the Fund, representing approximately 54% of the total budgeted expenses from current activity and was estimated according to the provisions of the Investment Management Agreement concluded between the Fund and the Fund Manager (0.479% per year). The increase of these fees compared to the 2013 Budget is mainly due to the fact that fees budgeted for 2014 were based on the average market capitalisation of the Fund which was higher in 2013 for the relevant period than in 2012.

- *Legal and litigation assistance expenses (including stamp duty).* These expenses, representing 12% 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.

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- *Tax compliance and tax advisory expenses (increase by 9% as compared to the 2013 Budget)*. 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*. These expenses are related to the valuation of certain unlisted equity investments of the Fund performed by external valuators, usually for IFRS reporting and NAV reporting purposes. The significant increase of these expenses was 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 2013, and are related to the fees charged by these institutions.
- *Software maintenance and support fees.* Maintenance and support fees in the 2014 Budget relate to the new accounting and reporting software implemented in 2013, 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 WSE. This estimate includes the expenses related to the review of the Fund's semi-annual IFRS financial statements by the external auditor, and the cost of translation of reports into Polish, and will be incurred if required by Polish market regulations or acknowledged best practice, and PR expenses estimated to be incurred post-secondary listing.
- *Post Secondary listing commissions and fees.* This category includes the annual maintenance fee which the Fund may incur following the listing on the WSE.
- *Other third party services expenses:* In the 2014 Budget, this category includes principally expenses related to professional typesetter & printer for the annual report; notices required by legislation to be published in newspapers; voting by correspondence; 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).

Profit tax expense. In the 2014 Budget the profit tax expenses estimated are nil as budgeted deductible expenses are higher than budgeted taxable income for profit tax purposes (dividend income from Romanian companies, the main Fund's revenues, are non-taxable income for profit tax computation, as taxes on dividends, where applicable, are withheld by Romanian companies distributing the dividends).

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

3. Capital Expenditure Budget

The 2014 Capital expenditure budget includes the implementation and development expenditures for a new IFRS Module of the accounting and reporting software, expected to be implemented in 2014, and an allowance for any additional changes needed for this software in 2014.

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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: 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 2014 BUDGET AND 2013 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 2014 Budget, we propose that shareholders grant the Fund Manager the power to:

- ***exceed the expenses budgeted for investment management and administration fees, to the extent arising from:***
  - ***the Fund's actual average share price in 2014 being higher than the one assumed for the 2014 Budget;***
  - ***excess distributions being made to shareholders in 2014, resulting in increased fees accruing in accordance with the Second Addendum to the Investment Management Agreement approved by shareholders on 4 April 2012;***
  - ***other changes in investment management and administration fees approved by shareholders;***
- ***exceed the expenses budgeted for other commissions and fees (FSA fees and Depositary bank fees), to the extent arising from the Fund's actual average NAV and / or the value of assets under custody in 2014 being higher than the ones assumed in the 2014 Budget;***
- ***incur on behalf of the Fund all expenses necessary (e.g. intermediary fees of brokers and investment banks, 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 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 2014 Budget.

Due to the fact that it is difficult, if not impossible, to estimate reasonably such expenses, and it is impractical to continually update the 2014 Budget, we propose that shareholders grant the Board of Nominees the power to incur on behalf of the Fund any expenses related to a potential process of selection a fund manager and sole administrator, following the approval of shareholders, even if this will result in exceeding the total expenses approved in the 2014 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.

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