



To: Fondul Proprietatea Ordinary General Meeting of Shareholders

2011 BUDGET FOR FONDUL PROPRIETATEA

Item (LEI)	BUDGET 2011	REVIZED BUDGET 2010	VARIANCE (%)
I. INCOME FROM CURRENT ACTIVITY	299,338,549	277,409,408	8%
Dividend income	209,279,125	173,185,020	21%
Interest income	90,020,934	104,185,900	-14%
Other income	38,490	38,488	0%
FX gains (net)	0	0	0%
II. EXPENSES FROM CURRENT ACTIVITY	92,336,771	78,329,058	18%
Expenses with materials, energy, utilities	32,575	167,005	-80%
Rent expenses	95,566	494,591	-81%
Insurance expenses	298,718	167,347	79%
Protocol expenses (Client/staff entertainment)	0	87,088	-100%
Marketing and PR expenses	836,403	0	100%
Transportation and business travel expenses	0	40,033	-100%
Social taxes and contributions	281,709	1,097,542	-74%
Taxes and assimilated items (include stamp duties for litigations)	8,000,000	8,940,000	-11%
Bank commissions (include Depositary fees)	1,469,958	663,286	122%
Commissions and fees (include CNVM and Central Depositary fees)	13,434,022	6,129,890	* 119%
Salaries and similar expenses (employees, management and Board members)	1,006,104	3,933,216	-74%
Expenses with selection commission fees	0	85,100	-100%
Depreciation and amortization expenses	0	108,814	-100%
Loss on disposal of fixed assets (net)	0	343,189	-100%
Third party services providers' expenses	66,881,716	33,115,839	* 102%
Other operating expenses	0	66,968	-100%
FX losses (net)	0	22,889,149	-100%
III. GROSS PROFIT	207,001,778	199,080,349	4%
IV. Profit tax expenses	0	4,143,253	-100%
V. NET PROFIT	207,001,778	194,937,097	6%
VI. INVESTMENTS	0	22,427	
Intangible assets	0	4,720	-100%
Tangible assets	0	17,707	-100%

* for comparability with 2011 Budget, the amount of Lei 6,111,833 representing CNVM fee has been reclassified in the 2010 Revised Budget from "Third party services providers' expenses" category to "Commissions and fees" category



SUBSTANTIATION OF THE 2011 BUDGET

The 2011 Budget of Fondul Proprietatea (“Fondul” or “Fondul Proprietatea”) was prepared in October 2010, under Romanian accounting standards, having as a reference point the actual financial information of Fondul for the 9 months period ended on 30 September 2010, based on the assumptions presented below.

The main assumptions used in the preparation of the budget are:

PLEASE NOTE THAT THESE ARE THE ASSUMPTIONS USED IN THE PREPARATION OF 2011 BUDGET, AND NOT THE INTENDED FUTURE COURSE OF ACTIONS IN THE MANAGEMENT OF FONDUL PROPRIETATEA

Portfolio assumptions

- During 2011, as well as in the period September – December 2010 Fondul Proprietatea will not make any new equity investments, will not dispose any of the portfolio investments and will not participate in the share capital increases of portfolio companies (if applicable).
- Dividend income in 2011 is expected to be similar with 2010 Dividend income (actual dividend income of the period January – September 2010 has been used)
- All cash available will be invested in money market instruments and the average interest rate during 2011 is expected to be 7%

Other assumptions:

- The dividend payout ratio is expected to be 100% for the financial year 2010 (after accounting for compulsory distribution to legal reserve) and the dividends are going to be gradually distributed, starting with May 2011, as follows: 80% in May 2011, 10% in June 2011, and remaining 10% equally in the period July – October 2011).
- Collection of dividends from portfolio companies is expected to be: 10% in May 2011, 30% in June 2011, and the remaining 60% equally in the period July – October 2011
- For the estimation of the monthly CNVM fee (0.1% per year), as well as for the estimation of the investment management and administration fee to Franklin Templeton (0,479% per year) and of the depositary fee (0,0007% per month), the September 2010 published CNVM NAV, in amount of Lei 13,396,918,469 has been used.
- Fondul Proprietatea will not be listed on any international stock exchange in 2011
- The average Leu/Euro exchange rate used in the preparation of the 2011 Budget is 4.2674, the exchange rate as at 30 September 2010



- All taxes and contribution rates and computation methodology will be the same as at 30 September 2010
- During 2011, all financial instruments will be accounting for at cost less impairment allowances in the financial statements prepared under Romanian accounting standards
- Expenses, where applicable, include 24% VAT

Please find below details regarding the main income and expenses categories and related assumptions. Please find additional details on budgeted income and expenses in the Appendix to the Budget paper.

1. INCOME

Dividend income (increase of 21% as compared to 2010 Revised budget). The most important component of income from the current activity in the 2011 budget is dividend income (approx. 70% of the estimated income).

In the 2011 Budget, the dividend income has been estimated on the assumption that 2011 dividends will be similar with 2010 actual dividends.

Interest income (decrease of 14% as compared to 2010 Revised budget). This represents the second major component of income in 2011 Budget (approx. 30% of the estimated income for the year 2011).

The interest income was estimated based on:

- Forecast cash flow evolution during 2011. The main cash flows, besides those related to cash expenses, are cash outflows related to dividends distribution to the shareholders of the Fund (dividends for the financial years 2010) and cash inflows from the collection of the dividends distributed by the companies in Fondul portfolio.
- All cash available will be invested in money market instruments
- Forecasted average interest rate during 2011 for money market instruments is estimated to be 7%.

The estimates may differ substantially from actual values depending on the evolution of the money market.

FX gains/losses. FX gains / losses cannot be forecasted as the exchange rate evolution during the year cannot be reasonably assessed.



2. EXPENSES

Expenses from the current activity, are expected to increase with 18% as compared to 2010 Revized budget.

Salaries and similar expenses (employees, management and Board members remunerations) (decrease of 74% as compared to 2010 Revized budget). They include the following categories:

- In 2011 Budget: gross remuneration for Body of Nominee members, including remuneration for participation in the specialized committees and severance, notice period salary expenses for the two employees currently in maternity leave.
- In 2010: Salaries of employees and management of the Fund, include meal vouchers and other salarial benefits, as well as compensation salaries (6 salaries for the employees and the management at the termination of their labor contracts) and Remunerations for the Supervisory Board and for the members of specialized committees (in the period in which Fondul was self-managed).

Social taxes and contributions (decrease of 74% as compared to 2010 Revized budget) .

Expenses regarding the social securities contribution, health fund contribution and other similar contributions owed by the employer. These were estimated according to the legal regulations in force on the basis of gross salaries / remunerations for employees, management and board members (in 2010) and of gross remuneration of Body of Nominee and severance and notice period salaries for the employees in maternity leave (in 2011).

Rent expenses (decrease of 81% as compared to 2010 Revized budget). These represent the expenses for renting Fondul office space. Starting with the date when the Fondul Proprietatea was taken over by Franklin Templeton, the office was relocated to Premium Point, the monthly rent being of approximately 1,500 euro per month.

Expenses with materials and assimilated items (decrease of 80% as compared to 2010 Revized budget). Include expenses with utilities (energy, water), expenses with fuels, materials and small inventory items.

Insurance expenses (increase of 79% as compared to 2010 Revized budget). In 2011, this category includes only expenses related to mandatory liability insurance for the members of the Body of Nominee.

Protocol expenses (Clients/staff entertainment expenses). In 2010 this category of expenses included client and staff entertainment expenses and office supplier (water, coffee, etc.). No such expenses in 2011 Budget.

Marketing and PR expenses. Marketing expenses estimated in 2011 Budget consist of estimated mailing and printing costs including quarterly shareholders mailing, printing of annual and quarterly reports, corporate brochure reprint, brochure for BSE listing, presentation printing for road shows, various giveaways and expenses related to roadshow for BSE listing and other promotion activities.

PR expenses include PR agency costs and additional PR expenses (national survey, round tables, media retreats, events press conferences).



Transportation and business travel expenses. In 2010, these types of expenses were a permanent component in the operational expenses category, being related mainly to the necessity to participate to different meetings (for example: General Meetings of the Shareholders) with the representatives of the companies where Fondul is shareholder. They included transportation, accommodation and allowances.

No such expenses in 2011 Budget.

Taxes and similar items (decrease of 11% as compared to 2010 Revized budget). This category of expenses represents 8.6% of Fondul's budgeted expenses and includes mainly the stamp taxes payable by Fondul Proprietatea for the litigations to defend its interests.

Much of the portfolio management activity for year 2011 will focus on asserting Fondul's rights and increasing control in respect of the existing portfolio companies, enforcing improvements in corporate governance standards within them, with a view to listing, and, where appropriate, engaging in shareholder activism against management, which activity is likely to involve significant costs for specialist legal advice and juridical stamp duty tax.

Bank commissions (increase of 122% as compared to 2010 Revized budget). In this category are included the expenses related to the services provided by the banks. The significant increase of this expenses category in 2011 was determined by including in the budget the depositary commission (0.0007% per month applied to the net assets value), in total value of approximatively Euro 24,000 per month (plus 24% VAT).

FX losses (net). This category of expenses cannot be forecasted (please see the "FX gains/losses" above)

Depreciation and amortization expenses. This category included depreciation and amortisation expenses estimated based on the provisions of the legislation in force for tangible and intangible assets. No such expenses in 2011 Budget.

Commissions and fees (increase of 119% as compared to 2010 Revized budget). This category represents 14.5% of Fondul's budgeted expenses and includes mainly CNVM monthly fees estimated based on Net Assets Value computed based on CNVM Regulations.

Third party services expenses (increase of 102% as compared to 2010 Revized budget). This category of expenses is the main component of expenses in Fondul 2011 Budget, representing 72.4% of the total expenses from the current activity. This category of expenses includes various subcategories, as follows:

- **Franklin Templeton investment management and administration fee.** It is the main expense of Fondul, representing 69.5% of the expenses from the current activity and it is estimated according to the provisions of the Investment Management Agreement between Fondul and Franklin Templeton (0.479% per year of the net assets value).
- **Legal and litigation assistance expenses – payable to external legal advisors:** These expenses, estimated at Lei 1.4 million are expenses related to the legal assistance provided by the external legal advisors (general legal advice and one-off specialist advice



in running the fund), but also legal representation expenses (especially litigations in which Fondul is involved).

- **Tax compliance and tax advisory expenses:** This category includes mainly tax compliance and advisory services fees for Fondul, including taxation services related to tax returns filling and advice for specific, one-off tax advisory services.
- **Organization of the General Meeting of the Shareholders expenses:** Include expenses for the organization of General Meeting of the Shareholders. These include rent expenses for the event hall, organization expenses, advertisement, copying documents, taxes for registration of share capital increases etc.
- **Postal, telecommunications and internet services expenses:** In 2010 this category included services of landline, mobile, fax, internal/international courier, internet services and date services for the current operation of the company. No such expenses in 2011 Budget.
- **Maintenance and repairs expenses:** In 2010 this category included mainly expenses related to the maintenance of the own car park. No such expenses in 2011 Budget.
- **Portfolio valuation expenses:** In 2010 Budget this category included portfolio valuation expenses, according to the contracts concluded with KPMG Romania, Darian DRS and JPA Audit & Consultanta for the valuation of the investments in Fondul portfolio in accordance with the international appraisal standards (for Fondul's listing). No such expenses in 2011 Budget.
- **Expenses compilation of separate and consolidated financial statements according to IFRS.** In 2010 Budget this category included expenses related to the compilation of Fondul's IFRS financials for year 2007 – 2009 (for Fondul's listing). No such expenses in 2011 Budget.
- **Other third party services expenses:** In 2011 Budget, this category includes mainly dividend distribution expenses, voting proxy charges, translation expenses, quarterly results presentations to media and analysts and investors' day for analysts and institutional investors costs.

Other operating expenses: In 2010 Budget this category included expenses related to possible donations and sponsorships, and other operating expenses, and expenses related net value of the disposed corporate assets. No such expenses in 2011 Budget.

Profit Tax Expenses: In 2011 Budget profit tax expenses estimated are nil as budgeted expenses are higher than budgeted income except for dividend income (that is non taxable income for profit tax computation, as taxes on dividends are withheld by companies distributing the dividends). Profit tax was estimated based on the estimated accounting gross profit and the non deductible expenses/ non taxable income applying the profit tax rate in force.

Among the expenses categories reclassifications/ reallocation may take place during the year with the condition that the total of these expenses to meet the budgetary limits approved by the General Meeting of Shareholders.



3. CAPEX BUDGET

There are no CAPEX (capital expenditures) budgeted in 2011, as the administration of Fondul is performed by Franklin Templeton Investment Management.

4. THE SENSITIVITY ANALYSIS ON THE MAIN CATEGORIES OF INCOME AND EXPENSES

Sensitivity elements for the income:

- **Dividend income**
 - (+/-): The final published financial results of portfolio companies in 2010 (basis for the dividend distribution for these companies)
 - (+/-): Dividend payout ratios decided upon by portfolio companies
- **Interest income**
 - (+/-): collection/supplementary payments (for example: participation in share capital increase, new investments etc) can affect the cash flows, and this can determine a change of the basis of estimation of interest income considered when preparing the budget;
 - (+/-): different evolution of the interest rates for the money market instruments, as compared to those estimated by Fondul Proprietatea;

Sensitivity elements for expenses

- (+/-): important fiscal changes (VAT rate, profit tax rate, income tax rate, social taxes etc) that can influence Fondul Proprietatea expenses;
- (-): the additional expenses elements that are generated by the current and future operations: admission to trading on the stock exchanges, secondary public offers, acquisitions and disposals of equity investments and other financial instruments etc.