



## ***BOARD OF NOMINEES ANNUAL REPORT FOR 2010***

### **I. THE ROLE OF BOARD OF NOMINEES**

#### ***INTRODUCTION:***

The Board of Nominees of SC Fondul Proprietatea (the “**Fund**”) is a body created in accordance with the Constitutive Act and with article 224 para. (4) of NSC Regulation 15 and Government Decision 1514/2008, which does not have an equivalent correspondence in the corporate body structure regulated by the Companies Law.

The Board of Nominees consists of members appointed by Ordinary General Shareholders Meeting (OGM) for a mandate of 3 years, upon the expiry of which is automatically extended until the next OGM. Furthermore, contrary to the provisions of the applicable law, the OGM may decide upon the mandate of the members of the Board of Nominees without including such matter on the agenda of the meeting.

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 qualification 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 to the benefit of the shareholders. It has a diligence and loyalty duty to the Fund, acting in the best interests of shareholders.

The Board of Nominees shall assemble 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) days as 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:

- (a) following receipt from the Fund Manager of the convening notice for OGM/EGM, requests, if necessary, the insertion of new items on the agenda which shall be included in the convening notice for the shareholders’ meeting;
- (b) receives from the Fund Manager the draft responses to the queries submitted in

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written by the shareholders prior to the date of the shareholders' meeting with respect to items on the agenda related to the Fund's activity;

- (c) receives from the Fund Manager the annual financial statements, the annual business report presented by the Fund Manager and the auditors' financial report, prior to being submitted to the approval of the shareholders, analyses the above mentioned documents and, if necessary, issues opinions in case it has objections thereon and presents such opinions to the Fund Manager and to the general meeting;
- (d) receives from the Fund Manager for analysis the annual report, the management policy and the business policy of the Fund and presents to the Fund Manager and the general meeting an opinion thereon;
- (e) receives from the Fund Manager for analysis the annual budget of profit and expenditures and the business plan prior to being submitted to the approval of the general meeting and presents to the Fund Manager and the general meeting an opinion thereon;
- (f) receives from the Fund Manager for analysis the general strategy, in accordance with the Fund's investment policy, prior to being submitted to the approval of the general meeting and presents to the Fund Manager and the general meeting an opinion thereon;
- (g) receives from the Fund Manager for analysis and approves any by-laws regulating the Fund's operations and any other regulation issued by the Fund Manager for the Fund, in accordance with the applicable law and the capital market regulations;
- (h) receives and analyses the Fund Manager's proposal to the OGM for the conclusion of the financial audit contract and presents to the Fund Manager and the general meeting an opinion thereon;
- (i) analyses systematically the Fund's investment policy and presents to the Fund Manager and to the general meeting an opinion thereon whenever it deems useful, at least once a year on the occasion of the OGM;
- (j) receives the statutory auditors' reports and presents to the Fund Manager and the general meeting an opinion thereon;
- (k) monitors, based on the information and reports received from the Fund Manager:
  - list of portfolio investments and the percentage representing each type of investments;
  - list of major transaction with assets from the Fund's portfolio for the period in review;
  - total portfolio profit and comparison of the profit against the adequate market benchmark;
  - comparison of the profit obtained against the initial objectives;
  - degree of implementation of the investments policy;
  - evaluation report on the performance of the activity,all of the above for the purpose of preparing and presenting to the general meeting, upon



request of the shareholders, but in any event not less than once a year, a report on the supervisory activity carried out by the Board of Nominees.

- (l) represents the general shareholders' meeting in relation with the Fund Manager with respect to all communication between the respective corporate bodies, save for where expressly regulated by the Constitutive Act that the general meeting and the Fund Manager shall communicate directly;
- (m) verifies the Fund Manager's report and supervises on a permanent basis the management of the Fund by the Fund Manager; to this extent, the Board of Nominees verifies the compliance of the operations carried out by the Fund Manager with the applicable law, with the Constitutive Act or with any relevant decision of the general shareholders' meeting;
- (n) under certain circumstances, convenes the general shareholders' meeting;
- (o) participates in the general shareholders' meetings and presents reports on all occasions expressly referred to in the Constitutive Act or on any matter which it deems useful to be presented to the general shareholders' meeting;
- (p) recommends to the general shareholders meeting the approval or rejection of any contract/document which may impose legal obligations upon the Fund, including but not limited to acquisition, sale, exchange or creation of security interests over the assets of the Fund which exceed 5% of the total net asset value of the Fund (calculated in accordance with the NSC regulations);
- (q) recommends to the general shareholders meeting the termination of the management contract, in case it deems such termination to be to the benefit of the shareholders;
- (r) recommends to the general shareholders' meeting any other aspects which it deems important to the shareholders;
- (s) upon the proposal of the Fund Manager, recommends to the EGM the appointment of the investment firm which shall carry out the public offer, as well as remuneration thereof, when such appointment shall be required for the admission to trading of the shares issued by the Fund.

The Constitutive Act also include 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.

This report was prepared for the period September 29 to December 31, 2010 because the changing of the administration system and the mandate of the current administration and Board of Representatives started to produce effects beginning with September 29, 2010.



***SHORT PRESENTATION OF BOARD OF NOMINEES' ACTIVITY:***

**Meetings - Short presentation of the agenda for each meeting**

In accordance with the provisions of Art. 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, from 29 September 2010 to 31 December 2010, there were 4 (four) meetings of the Board of Nominees, as follows:

1. on 14 October 2010,
2. on 26 October 2010,
3. on 18 November 2010,
4. on 07 December 2010.

The Agenda of the Board of Nominees' meeting on 14 October 2010 was:

1. Election of the Chairman of the Board of Nominees of S.C. Fondul Proprietatea S.A.;
2. Establishment of the Audit Committee and of the Nomination and Remuneration Committee (establishment, appointment of members, attributions of the committees, organization and operation, remuneration of members);
3. Presentations regarding S.C. OMV Petrom S.A. and S.C. Hidroelectrica S.A.;
4. Net asset value calculation;
5. Information addressed to the shareholders of S.C. Fondul Proprietatea S.A.;
6. Internal procedures and regulations of S.C. Fondul Proprietatea S.A.;
7. Expenses borne by S.C. Fondul Proprietatea S.A. according to the Investment Management Agreement;
8. Listing of S.C. Fondul Proprietatea S.A. on the Bucharest Stock Exchange;
9. Public relations strategy;
10. Liability insurance for the members of the Board of Nominees;
11. Employees of S.C. Fondul Proprietatea S.A.;
12. Legal status of the invoice issued by Schroder Investment Management Limited United Kingdom;
13. Other business.

The Agenda of the Board of Nominees' meeting on 26 October 2010 was:

1. Approving the Minute of the previous meeting of the Board of Nominees held on October 14, 2010;
2. Convening of the Extraordinary General Shareholders' Meeting (EGMS) and the Ordinary General Shareholders' Meeting (OGMS) of S.C. Fondul Proprietatea S.A for 29 November 2010 (the revenue and expenditure budget proposal for the year 2011 is addendum to the present convening notice);

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3. Note regarding the operating of the Consultative Committees of S.C. Fondul Proprietatea S.A. (postponed from the meeting held on 14 October 2010);
4. Note regarding the proposal for the authorisation and payment of Fondul Proprietatea's expenses according to the Global Corporate Authorization Programme - GCAP (postponed from the meeting held on 14 October 2010);
5. Note regarding the expenses chargeable to S.C. Fondul Proprietatea S.A. in respect with the Investment Management Agreement no. 7 of 25 February 2010 (postponed from the meeting held on 14 October 2010);
6. Other business.

The Agenda of the Board of Nominees' meeting held on 18 November 2010 was:

1. Approving the Minute for the previous meeting of the Board of Nominees held on October 26, 2010;
2. Briefing from Franklin Templeton Investment Management Ltd ("the Manager") regarding the strategy that the Manager will implement for S.C. Fondul Proprietatea S.A.;
3. The functioning of Consultative Committees of the S.C. Fondul Proprietatea S.A. (postponed from the meeting on October 26, 2010),
4. The new internal regulation for organization and functioning of procurement of goods and services made by S.C. Fondul Proprietatea S.A.;
5. Draft of the agreement which will be concluded with Deloitte Audit SRL for issuing a consent letter regarding the Prospectus of S.C. Fondul Proprietatea S.A.;
6. Note regarding the approval of payment for the services supplied by Franklin Templeton Investment to S.C. Fondul Proprietatea S.A. on 29 September 2010 and 30 September 2010;
7. Guidelines for the conduct of the general meetings of the shareholders of S.C. Fondul Proprietatea S.A. and for the exercise of the voting right by the shareholders;
8. Audit control issued by the Prime-Minister's audit team regarding the activity of SC Fondul Proprietatea SA.;
9. Other business.

The Agenda of the Board of Nominees' meeting held on 7 December 2010 was:

1. Approving the Minute of the Board of Nominees' previous meeting held on November 18, 2010;
2. Approval of the internal regulations regarding the Fondul's NAV calculation;
3. Other business.



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**Decisions - Short presentation of all decisions issued during 2010**

Pursuant to the provisions of Art. 16 paragraph (3) of the Constitutive Act of Fondul Proprietatea adopted by the Extraordinary General Shareholders Meeting Decision no. 5 of 29 November 2010 and the provisions of Art. 10 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, the Board of Nominees of S.C. Fondul Proprietatea S.A. issued 13 (thirteen) decisions from 29 September 2010 to 31 December 2010, as follows:

1. **Decision no. 1 of 14 October 2010** approving the election of the Chairman of the Board of Nominees of S.C. Fondul Proprietatea S.A.;
2. **Decision no. 2 of 14 October 2010** approving the Regulation of organization and functioning of the Board of Nominees of SC Fondul Proprietatea SA;
3. **Decision no. 3 of 14 October 2010** approving the liability insurance for the members of the Board of Nominees;
4. **Decision no. 4 of 26 October 2010** approving the Convening Notice of the Extraordinary General Shareholders' Meeting (EGMS) and the Ordinary General Shareholders' Meeting (OGMS) of S.C. Fondul Proprietatea S.A for November 29, 2010;
5. **Decision no. 5 of 26 October 2010** approving the procedure of authorisation and payment of the expenses made by Franklin Templeton Investment Limited United Kingdom on behalf of S.C. Fondul Proprietatea S.A. according to the Franklin Templeton Investment Limited's Global Corporate Authorization Programme – GCAP;
6. **Decision no. 6 of 26 October 2010** approving the expenses chargeable to S.C. Fondul Proprietatea S.A. in respect with the Investment Management Agreement no. 7 of 25 February 2010 concluded between S.C. Fondul Proprietatea S.A and Franklin Templeton Investment Limited United Kingdom;
7. **Decision no. 7 of 18 November 2010** approving the election of Ms. Monica George - Maurer as Chairman of the Board of Nominees' meeting on 18 November 2010;
8. **Decision no. 8 of 18 November 2010** approving the organising and functioning of two Consultative Committees within S.C. Fondul Proprietatea S.A, respectively the Audit Committee and the Nomination and Remuneration Committee;
9. **Decision no. 9 of 18 November 2010** approving the Internal regulations for organising and functioning of procurement of goods and services made by S.C. Fondul Proprietatea S.A.;



10. **Decision no. 10 of 18 November 2010** approving the draft of the agreement to be concluded by S.C. Fondul Proprietatea S.A. with Deloitte Audit SRL for issuing a consent letter in order for Fondul Proprietatea to use the information provided in the audit reports on the separate and consolidated financial statements for the years 2007, 2008 and 2009 in relation with the Prospectus for listing of S.C. Fondul Proprietatea S.A.;
11. **Decision no. 11 of 18 November 2010** approving the payment for the services supplied by Franklin Templeton Investment to S.C. Fondul Proprietatea S.A. on 29 September 2010 and 30 September 2010, as detailed in the invoice no. S43900080335/22.10.2010 issued by Franklin Templeton Investment Management Ltd. UK, and certified by Bancpost SA, as Fondul Proprietatea's depository;
12. **Decision no. 12 of 18 November 2010** approving the guidelines for the conduct of the general meetings of the shareholders of S.C. Fondul Proprietatea S.A. and for the exercise of the voting right by its shareholders;
13. **Decision no. 13 of 7 December 2010** approving the net asset value (NAV) calculation of S.C. Fondul Proprietatea S.A.



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

***ANNUAL ACTIVITY REPORT PRESENTED BY THE FUND MANAGER***

***Balance Sheet***

|  | <b>31 December<br/>2008</b> | <b>31 December<br/>2009</b> | <b>31 December<br/>2010</b> |
|--|-----------------------------|-----------------------------|-----------------------------|
|  | RON                         | RON                         | RON                         |
| Intangible assets                                | 2,606                       | 10,275                      | -                           |
| Tangible assets                                  | 763,583                     | 495,801                     | -                           |
| Financial assets                                 | 9,410,686,783               | 9,552,138,410               | 10,890,522,931              |
| <b>Non-current assets -<br/>Total</b>            | <b>9,411,452,972</b>        | <b>9,552,644,486</b>        | <b>10,890,522,931</b>       |
| <b>Current assets - Total</b>                    | <b>1,539,638,520</b>        | <b>2,666,765,775</b>        | <b>1,332,432,934</b>        |
| Prepaid expenses                                 | 1,035,143                   | 56,883                      | 31,004                      |
| Payables within one year                         | 9,179,453                   | 7,377,636                   | 69,287,395                  |
| <b>Total assets less current<br/>liabilities</b> | <b>10,942,947,182</b>       | <b>12,212,089,508</b>       | <b>12,153,699,474</b>       |
| Provisions                                       | 16,085,232                  | 15,062,518                  | 14,424,098                  |
| <b>Shareholders' equity</b>                      | <b>10,926,861,950</b>       | <b>12,197,026,990</b>       | <b>12,139,275,376</b>       |

The value of intangible and tangible assets was nil by the end of 2010 as the Fund disposed of most of these assets (either by sale or write off) due to its administration being taken over by the Fund Manager during the year. The new administrator is responsible for providing its own premises and equipment, and the residual assets of the Fund were no longer required following relocation to new premises.

Financial assets included the Fund's listed and unlisted equity investments. According to Romanian Accounting Standards, both listed and unlisted equity investments are valued at cost (or their initial value) less any adjustments for impairment. For listed investments, the impairment adjustment is any adverse difference between cost and quoted market closing price (if cost is higher than the market closing price). For unlisted or illiquid listed equity investments, the impairment test compares the cost to the investment's equity value per its latest financial statements, and any adverse result is booked as impairment. Impairment adjustments were recorded through the profit and loss account in 2006 and 2007, but have been accounted for through a separate impairment reserve<sub>8</sub>



## FONDUL PROPRIETATEA

within shareholders' equity since 2008. The value of financial assets increased by RON 1,338.4 million in 2010, and this was mainly due to the reversal of impairment adjustments for equity investments recorded in the previous years (mainly for OMV Petrom and Hidroelectrica).

The significant fall in the value of current assets during 2010 by RON 1,334.3 million was mainly accounted for by the gross RON 1,124.3 million dividend payments to shareholders which commenced in October 2010. Cash balances were higher as at 31 December 2009 as compared to 2008 for a variety of reasons, including the receipt of proceeds from financial asset sales and also because no dividends were paid out in that year. This had a positive impact on the total current assets balance in 2009.

The payables increased by RON 61.9 million during 2010. This rise was accounted for by the dividend payable to Fund's shareholders uncollected until year end, and also because of new liabilities arising in the Fund for the first time in 2010, following its registration with CNVM in August and the commencement of the Fund Manager's contract in September. This caption also includes tax liabilities, and RON 9.7 million of liabilities relating to contributions received from the significant shareholder of the Fund, the Ministry of Public Finance, which have not yet been converted into share capital.

### *Income Statement*

|  | <b>Financial year ended</b>         |                                     |                                     |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
|  | <b>31 December<br/>2008<br/>RON</b> | <b>31 December<br/>2009<br/>RON</b> | <b>31 December<br/>2010<br/>RON</b> |
| <b>Revenues from current activity,<br/>out of which:</b> | <b>524,086,340</b>                  | <b>1,320,362,566</b>                | <b>576,629,495</b>                  |
| Revenues from financial assets                           | 384,750,573                         | 118,165,267                         | 179,049,051                         |
| Interest income  | 84,453,833                          | 142,469,834                         | 131,466,209                         |
| Reversal of impairment adjustments<br>& provisions       | 11,475,624                          | 31,566,178                          | 217,362,939                         |
| Revenues from disposal of financial<br>assets            | -                                   | 980,237,872                         | -                                   |
| Revenues from foreign exchange<br>differences            | 43,355,391                          | 47,727,476                          | 47,734,665                          |
| Other income from current activity                       | 50,919                              | 195,939                             | 1,016,631                           |

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|  |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
| <b>Expenses from current activity, out of which:</b> | <b>43,088,135</b>  | <b>486,170,050</b> | <b>109,242,071</b> |
| Expenses from disposal of financial assets           | -                  | 428,742,731        | -                  |
| Expenses from foreign exchange differences           | 23,823,898         | 32,995,783         | 56,899,816         |
| Other expenses from current activity *               | 19,264,237         | 24,431,536         | 52,342,255         |
| <b>Gross profit</b>                                  | <b>480,998,205</b> | <b>834,192,516</b> | <b>467,387,424</b> |
| Income tax expense                                   | 13,296,780         | 104,054,192        | 11,203,603         |
| <b>Net profit</b>                                    | <b>467,701,425</b> | <b>730,138,324</b> | <b>456,183,821</b> |

\* *Other expenses from current activity includes commissions and fees, bank services expenses, depreciation, amortisation and provisions, interest expense, material and utilities expenses, salary costs, third party expenses as well as duties and other taxes.*

Revenues from financial assets represent dividend income earned from the Fund's portfolio companies. This income increased in 2010 compared with the previous year by RON 60.9 million due to higher level of dividend distributions paid by portfolio companies, although levels have not yet returned to 2008 values.

Interest income arises from deposits held with banks and from treasury bills. The slightly lower level of income in 2010 is a reflection of the level of deposits and treasury bills during 2010, with the payment of the dividend to shareholders starting in October 2010 having an adverse impact.

The large positive variance of the reversal of impairment adjustments in 2010 is mostly accounted for by the 2010 reversal of an impairment adjustment for RON 216.6 million in respect of equity investment in Hidroelectrica, which was originally booked in 2006 and 2007 through profit and loss account.

Revenues from disposal of financial assets (RON 980.2 million in 2009) represent the proceeds from the sales of portfolio company holdings, while the expenses from disposal of financial assets (RON 428.7 million) represent the cost or carrying value that these investments were held at prior to disposal. The pre-tax net gain in 2009 was RON 551.5 million, while there were no such sales in 2010 or 2008.

Other income from current activity includes principally penalties levied by the Fund for



late payment of dividends, litigation expenses recovered, and income on disposal of tangible assets.

Other expenses from current activity increased in 2010 by RON 27.9 million mainly due to new contracts becoming effective. These expenses include the fees payable following the August registration of the Fund with CNVM, and the commencement of the Bancpost depositary contract in the same month. The Fund Manager's contract became effective in late September. Other expenses also include salary costs of the Fund's employees, which principally relate to the period prior to the Fund Manager's contract's effective date.

**The Board of Nominees has reviewed the above presented financial statements and is satisfied that they correctly reflect the activity of the Fund during 2010.**

#### *FINANCIAL REPORT OF AUDITORS*

**The Board of Nominees has reviewed Deloitte's audit report, which is presented elsewhere together with the statutory financial statements. The Audit Committee has had the opportunity to discuss the report with Deloitte, and is pleased to note that the opinion is unqualified.**

#### *TOTAL PROFITS OF THE FUND FOR 2010 AND COMPARING PROFIT BENCHMARK OF THE MARKET APPROPRIATE*

Due to the unique structure and purpose of Fondul Proprietatea, there are no comparable companies in Romania or in the region for a relevant comparison of annual net profits. On the Bucharest Stock Exchange, the largest companies have obtained the following net profits according to the 2010 preliminary results:

- Petrom: RON 2.21 billion
- BRD: RON 533 million
- Transgaz: RON 368 million
- Transelectrica: RON 10 million
- Banca Transilvania: RON 98 million



### ***REVISED BUDGET COMPARED TO ACTUAL 2010 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 S.A. (“the Fund”) between the Revised 2010 Budget, approved by shareholders on 6 September 2010, and the actual Profit and loss account for the year ended 31 December 2010. The result of this analysis has been reviewed by the Board of Nominees, who are wholly satisfied with the explanations given for any significant variances.

A detailed breakdown of the relevant figures has been included in the Annex. For the purpose of this analysis, certain categories of income and expenses in the statutory Income Statement have been reclassified (e.g. foreign exchange revenues and losses have been netted off) to aid the comparison. As certain categories of income and expenses cannot usually be budgeted or forecast, in this analysis we have split them into “budgeted” and “non-budgeted” categories to make the distinction.

#### *Revenues from current activities*

Although actual total revenues from current activity (except for Revenues from foreign exchange differences) at RON 528.8m is significantly higher than the revised budget of RON 277.4m, most of this difference is due to the “non-budgeted” reversal of impairment adjustments and provisions of RON 217.4m. Actual “Budgeted” income is only 12% higher than the revised budget, mainly due to higher actual interest income.

#### *Expenses from current activities*

If net foreign exchange losses and other “non-budgeted” categories of expenses are excluded, the actual total expenses show a small overall positive variance of 6% lower than revised budget.

#### *Net result for the year*

The actual net profit after tax was RON 456.2m compared to the revised budget of RON 195.0m. This can be summarised as:



|  |              |
|--|--------------|
| Budgeted net profit (million RON)                                | 195.0        |
| Adjustments resulting in actual net profit:                      |              |
| Reversals of impairment adjustments and provisions               | 217.4        |
| Actual interest and dividend income higher than budget           | 33.2         |
| Net foreign exchange losses lower than budget                    | 13.7         |
| Other net items  | 4.0          |
| Higher tax charge arising due to larger gross profit than budget | <u>(7.1)</u> |
| Actual net profit (million RON)                                  | <u>456.2</u> |

*THE FUND MANAGER PROPOSAL FOR DIVIDENDS PAYMENT:*

**The Board of Nominees has reviewed the Fund Manager's formal proposal to shareholders on the distribution of 2010 profits, and has no comments to make other than to recommend that shareholders read the proposal carefully and take note of the impact of the proposed distribution on the reserves of the Fund. The Board of Nominees supports this proposed gross dividend distribution of RON 0.01569 / share, and recommends that shareholders vote in favour of it.**



### III. PORTFOLIO INVESTMENT OF THE FUND:

#### ***BOARD OF NOMINEES OPINION REGARDING THE INVESTMENT POLICY OF THE FUND AND THE DEGREE OF COMPLIANCE WITH INVESTMENT POLICY AND ANY CHANGES AND ACTIONS THAT LEADS TO ACCURATE RESULTS***

The investment objective of the Fund is long-term capital appreciation mainly via 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 2010 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 2010***

The Fund's portfolio included stakes in 83 companies (28 listed and 55 unlisted) in both privately and state controlled entities. The Fund's stakes in these companies ranged from less than 2% to 100%, accounting for more than 90% of the Fund's Net Asset Value. The unlisted portion of the portfolio accounted for 60% of the NAV, while listed shares amounted to 32% of the total Fund value. The net cash position, which included bank deposits, current accounts, treasury bills as well as other current asset, was 8% of the Fund's NAV.

The Fund's portfolio offered a unique exposure to the Romanian energy sector. The portfolio was heavily weighted towards the power generation and oil and gas sector (33% each of the NAV). The Fund's exposure to the power and gas utilities sectors (transport, distribution and supply) accounted for 19% of the NAV, while 3% of the Fund's assets were in the infrastructure sector. The portfolio exposure to other sectors accounted to 4% of the NAV.

**The Board of Nominees has ongoing discussions with the Fund Manager about the activities relating to managing the Fund and its investments. The Board of Nominees is satisfied that the Fund Manager has managed the Fund on a professional basis consistent with the terms of the Investment Management Agreement since 29 September 2010.**



***BOARD OF NOMINEES OPINION REGARDING THE SIGNIFICANT TRANSACTIONS OF THE FUND FOR 2010***

The fund did not carry out any transactions within the investment portfolio during 2010.

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

Board of Nominees has been informed of the internal audit report prepared by the Fondul Proprietatea's internal auditor, Ernst & Young referring to the period of time between the date of takeover of Fondul Proprietatea by Franklin Templeton Investments Management Limited as of September 29<sup>th</sup> 2010 and February 1<sup>st</sup> 2011.

The overall objective of the report 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 company's policies and procedures.

The report has not identified any major gaps regarding the design and effectiveness of controls subject to the internal audit mission.

However, in order to improve the internal control environment, the report includes a set of recommendations to be considered by the company's management on procedural field with low risk impact.

**V. THE GENERAL EVALUATION OF ACTIVITY OF FUND MANAGER FOR 2010**

Franklin Templeton Investment Management Ltd. UK- Bucharest Branch took over as Fund Manager and Sole Administrator of Fondul Proprietatea on 29 September 2010. The Fund Manager worked intensely to list the Fund on the Bucharest Stock Exchange and managed to successfully complete this objective on 25 January 2011. The listing on the BVB was a major event for the Fund, as well as the Romanian Capital Market and the financial community. The highlights of the Fund Manager's activity in 2010 are outlined below:

- Distribution of the RON 1.1 billion dividend (0.0816 RON/share) for 2008 and 2009 in October
- Approval of new regulations that permit the Fund to calculate the Net Asset Value using international standards in November
- Fondul Proprietatea became the first fund in Romania that publishes its Net Asset Value applying fair value principles

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- Approval of nominee accounts in December to facilitate brokerage service in preparation for the Fund's listing on the BVB
- Ongoing process to nominate Fund representatives on Boards of Directors of underlying portfolio companies
- Detailed analysis and active supervision of the portfolio companies
- Advising companies on measures to increase transparency, efficiency, and profitability
- Corporate governance practices applied to portfolio companies
- Increased transparency towards shareholders and prospective investors

**In conclusion, the Board of Nominees has considered all of the above categories of activity of the Fund for the period 29 September to 31 December 2010, and concludes that the Fund Manager has discharged all of its duties and met its objectives during this period.**

#### **VI. RECOMMENDATIONS FOR SHAREHOLDERS:**

**The Board of Nominees recommends that shareholders vote in favour of all motions presented at the General Shareholder Meeting.**

**Bogdan-Alexandru DRĂGOI, Chairman**

**Corin Ioan TRANDAFIR, Member**

**Cristian BUȘU, Member**

**Monica MAURER-GEORGE, Member**

**Sorin-Mihai MÎNDRUȚESCU, Member**



Annex

| Fondul Proprietatea<br>2010 Actual vs Revised Budget                          | Original budget<br>2010<br>LEI | Revised Budget<br>2010<br>LEI | Actual 2010<br>LEI<br>C | Variance<br>LEI     | %     |
|---|--------------------------------|-------------------------------|-------------------------|---------------------|-------|
| <b>I. INCOME FROM CURRENT ACTIVITY</b>  | <b>154.667.576</b>             | <b>277.409.408</b>            | <b>528.800.103</b>      | <b>251.390.695</b>  | 91%   |
| <b>Budgeted income</b>  | <b>149.962.304</b>             | <b>277.409.408</b>            | <b>311.437.164</b>      | <b>34.027.756</b>   | 12%   |
| Dividend income   | 60.487.543                     | 173.185.020                   | 179.049.051             | 5.864.031           | 3%    |
| Interest income   | 89.278.823                     | 104.185.900                   | 131.466.209             | 27.280.309          | 26%   |
| Other income  | 195.939                        | 38.488                        | 921.904                 | 883.416             | 2295% |
| <b>Non-budgeted income</b>  | <b>4.705.271</b>               | <b>-</b>                      | <b>217.362.939</b>      | <b>217.362.939</b>  |       |
| FX gains (net)  | 4.705.271                      | -                             | -                       | -                   |       |
| Reversal of provisions and impairment adjustments                             | -                              | -                             | 217.362.939             | 217.362.939         |       |
| <b>II. EXPENSES FROM CURRENT ACTIVITY</b>                                     | <b>57.656.869</b>              | <b>78.329.058</b>             | <b>61.412.679</b>       | <b>(16.916.379)</b> | -22%  |
| <b>Budgeted expenses</b>  | <b>57.656.869</b>              | <b>55.439.909</b>             | <b>52.115.587</b>       | <b>(3.324.322)</b>  | -6%   |
| Expenses with materials and utilities   | 198.696                        | 167.005                       | 183.037                 | 16.032              | 10%   |
| Rent expenses   | 553.941                        | 494.591                       | 562.790                 | 68.199              | 14%   |
| Insurance expenses  | 354.289                        | 167.347                       | 209.500                 | 42.153              | 25%   |
| Protocol expenses (Client/staff entertaining)                                 | 120.000                        | 87.088                        | 67.761                  | (19.327)            | -22%  |
| Transportation and business travel expenses                                   | 125.000                        | 40.033                        | 27.158                  | (12.875)            | -32%  |
| Salaries and assimilated expenses (for employees, management and BoD members) | 6.878.748                      | 3.933.216                     | 3.108.543               | (824.673)           | -21%  |
| Expenses with selection commission fees                                       | 85.100                         | 85.100                        | 94.000                  | 8.900               | 10%   |
| Social taxes and contributions  | 1.882.048                      | 1.097.542                     | 865.866                 | (231.676)           | -21%  |
| Taxes and assimilated items   | 5.358.701                      | 8.940.000                     | 8.152.016               | (787.984)           | -9%   |
| Bank commissions  | 149.831                        | 157.536                       | 130.168                 | (27.368)            | -17%  |
| Commissions and fees, including   | 3.310.218                      | 6.635.640                     | 6.004.697               | (630.943)           | -10%  |
| <i>CNVM fees</i>  | 2.997.462                      | 6.122.833                     | 5.373.143               | (749.690)           | -12%  |
| <i>Depository bank's fee</i>  | -                              | 505.750                       | 627.843                 | 122.093             | 24%   |
| Depreciation and amortization expenses  | 268.162                        | 108.814                       | 107.626                 | (1.188)             | -1%   |
| Loss on disposal of fixed assets (net)  | -                              | 343.189                       | 326.150                 | (17.039)            | -5%   |
| Third party services providers' expenses, including                           | 38.322.135                     | 33.115.839                    | 32.276.061              | (839.778)           | -3%   |
| <i>FTIML investment management and administration fees</i>                    | 27.843.910                     | 20.187.854                    | 18.305.781              | (1.882.074)         | -9%   |
| <i>Schroders's success fee</i>  | 6.975.510                      | 7.324.608                     | 7.373.840               | 49.232              | 1%    |
| <i>Portfolio valuation expenses</i>   | -                              | 1.925.831                     | 1.951.558               | 25.727              | 1%    |
| <i>Audit fees</i>   | 556.750                        | 1.075.402                     | 1.393.014               | 317.613             | 30%   |
| Other operating expenses  | 50.000                         | 66.968                        | 214                     | (66.754)            | -100% |
| <b>Non-budgeted expenses</b>  | <b>-</b>                       | <b>22.889.149</b>             | <b>9.297.092</b>        | <b>(13.592.057)</b> | -59%  |
| FX losses (net)   | -                              | 22.889.149                    | 9.165.151               | (13.723.998)        | -60%  |
| Expenses with provisions and adjustments for impairment of receivables        | -                              | -                             | 131.941                 | 131.941             |       |
| <b>III. GROSS PROFIT</b>  | <b>97.010.707</b>              | <b>199.080.349</b>            | <b>467.387.424</b>      | <b>268.307.075</b>  | 135%  |
| IV. Tax expenses  | 5.843.706                      | 4.143.253                     | 11.203.603              | 7.060.350           | 170%  |
| <b>V. NET PROFIT</b>  | <b>91.167.001</b>              | <b>194.937.097</b>            | <b>456.183.821</b>      | <b>261.246.724</b>  | 134%  |
| <b>VI. CAPITAL EXPENDITURE</b>  |                                | <b>22.427</b>                 | <b>22.427</b>           | -                   | 0%    |
| Intangible assets   | 106.250                        | 4.720                         | 4.720                   | -                   | 0%    |
| Tangible assets   | 425.000                        | 17.707                        | 17.707                  | -                   | 0%    |

Notes

- A** Depository fees, in amount of Lei 0.5m have been reclassified in the 2010 Revised Budget from "Bank commissions" category into "Commissions and fees" category (to better reflect the nature of these expenses)
- B** CNVM fees, in total amount of Lei 6.1m (2010 Original budget: Lei 3m) have been reclassified in the 2010 Revised Budget from "Third party services providers' expenses" category into "Commissions and fees" category (to better reflect the nature of these expenses)
- C** For comparability with budgeted figures, certain categories of income and expenses in the Profit and loss account 2010 have been reclassified (e.g. FX revenues / FX expenses have been netted off, Expenses / Revenues related with disposal of tangible/intangible assets have been netted off)