

To: **Bucharest Stock Exchange
Financial Supervisory Authority**

Current report according to Article 99 (s) of the Code of the Bucharest Stock Exchange Market Operator, Title II, Issuers and Financial Instruments

Events to be reported:

Supporting materials related to the 22 November 2013 Shareholders' Meetings

Franklin Templeton Investment Management Ltd. United Kingdom Bucharest Branch ("FTIML / the Fund Manager"), in its capacity of sole administrator and fund manager of the Fund would like to reiterate that the Fund Manager has convened the Shareholders' Extraordinary and Ordinary General Meeting for 22 November 2013 ("GSM").

The agenda of the meetings, along with the entire supporting materials can be accessed on the Fund's webpage at: <http://www.fondulproprietatea.ro/investor-relations/gsm-information/gsm-documentation>.

In addition, shareholders may find at <http://www.fondulproprietatea.ro/investor-relations/gsm-information/gsm-documentation> the recommendation of the Board of Nominees for the extension of the Fund Manager's mandate as sole administrator and fund manager of the Fund.

Considering the fact that the agenda for the GSM is a long one and a few points have the same object, please find below our voting recommendation for each point of the agenda:

A. Extraordinary General Meeting of Shareholders ("EGM"):

1. The approval of the EGM agenda: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda;*
2. The approval of the amendments of the Constitutive Act as imposed by Financial Supervision Authority¹: *the Fund Manager recommends shareholders to vote against this point*

¹ Items 2.5 and 11 on the agenda of EGM concern similar issues. The shareholder is entitled to vote as considered, but the recommendation of the Fund Manager is not to vote affirmatively for both indicated items.

Report date:

25 October 2013

Name of the issuing entity:

S.C. Fondul Proprietatea S.A. ("the Fund" / FP")

Registered office:

78-80 Buzesti St.,
7th floor, district 1,
Bucharest, postal code 011017

Phone/fax number:

Tel.: + 40 21 200 9600
Fax: + 40 21 200 9631

Sole Registration Code with the Trade Register Office:

18253260

Order number in the Trade Register:

J40/21901/2005

Subscribed share capital:

RON 13,778,392,208

Paid share capital:

RON 13,413,137,586

Regulated market on which the issued securities are traded:

Bucharest Stock Exchange

of the agenda because these proposals delete or amend reasonable and lawful text decided by the shareholders in April 2013 without a legal base in the Fund Manager's opinion;

3. The approval of the decrease of the subscribed share capital for distributions to shareholders: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda;*

4. The statement of the Board of Nominees regarding the discount policy: *this point is not a subject for shareholders' approval;*

5. The approval of the Investment Policy Statement: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda;*

6. The approval of the third buy-back programme: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda;*

7. Update regarding the secondary listing project: *this point is not a subject for shareholders' approval;*

8. The ratification and the approval of all resolutions taken by EGM between 6 September 2010 and 21 November 2013: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda;*

9. The approval of 10 December 2013 as the registration date²: *the Fund Manager recommends shareholders to vote against this point of the agenda because the proposal at point 12 of the agenda is more appropriate in the Fund Manager's opinion as it brings the 'rights date' closer to the 'pay date';*

10. The empowerment, with authority to be substituted, of Grzegorz Maciej Konieczny to sign EGM resolutions: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda;*

² Items 9 and 12 on the agenda of EGM concern similar issues. The shareholder is entitled to vote as considered, but the recommendation of the Fund Manager is not to vote affirmatively for both indicated items.

11. The approval of the amendment of the Constitutive Act for reducing the mandate of the Fund Manager from 4 years to 2 years³: *since this point relates to the Fund Manager's appointment, it is clear that the Fund Manager has a vested interest in this subject. However, the Fund Manager is obliged to act in the best interests of the Fund and therefore expresses the following opinion, along with its reasoning, which shareholders may consider or discount as they see fit.*

This point and point 9 of the OGM agenda arise from the same shareholder proposal and inter-relate; therefore the following comments refer to both. It is the Fund Manager's opinion that it would be in the best interests of the Fund for shareholders to vote against this point of the agenda and against point 9 of the OGM agenda, for the reasons summarised below.

Firstly, as frequently reported by the Fund Manager and acknowledged by the Board of Nominees in their recommendation for reappointment of the Fund Manager, the Fund Manager has been very active in dealing with third parties on behalf of the Fund to enhance the value of the Fund's investments and to protect its interests. This includes, for example:

- *exercising the Fund's shareholder rights to achieve positive influence on the behaviour of portfolio companies' management;*
- *working with the Government as co-shareholder to agree on long-term visions and collaboration in relation to portfolio companies; and*
- *lobbying regulators and the Government to improve the development of the capital markets and legislation, thereby improving the environment for the Fund, its portfolio companies, and its shareholders.*

These initiatives typically have a medium to long-term time horizon to reach their goal and often face initial resistance from third parties; therefore, if the Fund Manager was given

³ Items 2.5 and 11 on the agenda of EGM concern similar issues. The shareholder is entitled to vote as considered, but the recommendation of the Fund Manager is not to vote affirmatively for both indicated items.

only a short-term mandate, third parties may react differently and the ability of the Fund's Manager to influence third parties and achieve desired outcomes may be materially diminished.

Secondly, the early termination provisions in this proposal (see point 9 of OGM) are not normal for such a mandate and are unreasonable, since they are based on financial parameters which are outside the Fund Manager's control. The discount is dependent on the Fund's share price on the stock market and this is influenced by a wide variety of factors, including economic and political developments in Romania and the global markets, which the manager cannot be expected to control. Similarly, the Fund Manager is of course dedicated to increasing the NAV of the Fund, but the recent Hidroelectrica example shows that the Fund's NAV can undergo a sudden and material reduction (albeit on a temporary basis in that example) through no action or fault of the Fund Manager. The early termination of the manager has very serious repercussions for the Fund and should not be tied to notional parameters which do not necessarily reflect the real circumstances and the quality of the manager's performance. The Fund's existing Constitutive Act and legal framework already provide for the Board of Nominees to be selected by shareholders and to supervise the manager's performance on an ongoing basis, to report on this to shareholders, and to recommend the termination of the manager at any time if the Board sees justification. This is the correct and proportionate process for managing the performance of the manager and for identifying any need for termination in light of the real circumstances. In addition, any shareholder or group of shareholders holding 5% or more of the issue capital can propose a GSM resolution for termination of the manager's appointment. These proposed provisions would interfere with the existing framework without justification and without proportionality, which could bring operational instability to the Fund.

Thirdly, acting as manager to the Fund requires the commitment of significant resources by the management company. The Fund Manager did not have a presence in

Romania when it was first selected as manager of the Fund in the original tender process but has since engaged significant resources in setting up a Bucharest office, finding and engaging a talented group of employees, applying the benefit of its global infrastructure to this office, in addition to obtaining all the necessary Romanian licenses, permissions, etc. in order to perform the mandate. Other management companies of internationally-recognised quality may be reluctant to participate in a future tender, requiring such a level of investment in case of selection, where the mandate is for only 2 years and/or contains these early termination provisions.

Finally, consistent with the handling of the current renewal process, it is the Fund Manager's opinion that the decision for shareholders as to whether to renew or change the appointment of the Fund's manager needs to be considered 9-12 months in advance, in order to allow sufficient time for the very significant work required in holding a tender and arranging handover in case the shareholders eventually decided to appoint a new manager. Therefore, if the mandate was for 2 years, this process would need to start all over again only 12 months after the start of the mandate. Given the safeguards already in place through the oversight of the Board of Nominees (noted above), and the difficulties with third parties which uncertainty around the length of the manager's mandate may cause (noted above), and the not inconsiderable administrative burden and some cost on the Fund, its administrators and shareholders in working through this renewal process, it is undesirable to repeat this process on such a frequent basis, in the Fund Manager's opinion.

Therefore, in the opinion of the Fund Manager, it is in the best interests of the Fund for shareholders to vote against this point.

12. The approval of 10 December 2013 as the registration date, for all the points on the agenda, except for point 3 regarding the decrease of the subscribed share capital for which the registration date is 31 January 2014⁴: *the Fund*

⁴ Items 9 and 12 on the agenda of EGM concern similar issues. The shareholder is entitled to vote as considered, but the recommendation of the Fund Manager is not to vote affirmatively for both indicated items.

Manager recommends shareholders to vote in favour of this point of the agenda;

B. Ordinary General Meeting of Shareholders (“OGM”):

1. The approval of the OGM agenda: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda;*

2. The approval of the amendment of the Investment Management Agreement as imposed by Financial Supervision Authority: *the Fund Manager recommends shareholders to vote against this point of the agenda because these proposals delete or amend reasonable and lawful text decided by the shareholders in April 2013 without a legal base in the opinion of the Fund Manager;*

3. The approval of 2014 budget: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda;*

4. The appointment of Deloitte Audit as the financial auditor: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda;*

5. Approval regarding the management of Fondul Proprietatea beginning with 30 September 2014⁵:

5.1. The approval in principle of the extension of the mandate of Franklin Templeton as sole administrator and fund manager of Fondul Proprietatea for another mandate of 4 years starting with 30 September 2014: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda since the Fund Manager and the Board of Nominees are proposing the extension of the mandate;*

5.2. In case that point 5.1 of the agenda is approved by the shareholders and the replacing Investment Management Agreement will not be in force until 30 September 2014, the

⁵ Items 5 and 9 on the agenda of OGM concern similar issues. The shareholder is entitled to vote as considered, but the recommendation of the Fund Manager is not to vote affirmatively for both indicated items.

extension of the mandate/new mandate will be effective and exercised under the terms and conditions of the current Investment Management Agreement: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda since the Fund Manager and the Board of Nominees are proposing the extension of the mandate;*

5.3. In case that point 5.1 is not approved, the approval of starting a new selection for the appointment of a sole administrator and fund manager: *the Fund Manager recommends shareholders to vote against this point of the agenda since the Fund Manager and the Board of Nominees are proposing the extension of the mandate;*

6. The ratification and the approval of all OGM decisions and all of the legal acts (including decisions and contracts) concluded, adopted or issued on behalf of Fondul Proprietatea by Franklin Templeton Investment Management Limited United Kingdom, Bucharest Branch, as well as of any management/administration measures adopted and/or implemented by it, approved or concluded between 6 September 2010 and 21 November 2013, the ratification and the appointment of Franklin Templeton Investment Management Limited United Kingdom Bucharest Branch as Sole Administrator of SC Fondul Proprietatea SA and as Fund Manager and the ratification and the approval of the Investment Management Agreement signed on 25 February 2010 including all amendments thereto. The appointment of the Sole Administrator produces effects in accordance with the provisions of the Law 31/1990, beginning with the acceptance of the mandate: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda;*

7. The approval of 10 December 2013 as the registration date: *the Fund Manager recommends shareholders to vote in favour of this point of the agenda;*

8. The empowerment, with authority to be substituted, of Grzegorz Maciej Konieczny to sign the shareholders' resolutions: *the Fund Manager recommends shareholders to*

vote in favour of this point of the agenda;

9. The approval in principle of the renewal of the mandate of Franklin Templeton as sole administrator and fund manager of Fondul Proprietatea for a mandate of 2 years starting from 30 September 2014 under some short time objectives⁶: *This point and point 11 of the EGM agenda arise from the same shareholder proposal and inter-relate; please see the comments of the Fund Manager above in relation to point 11 of the EGM agenda and note the Fund Manager's interest in this subject. In light of those reasons given, it is the Fund Manager's opinion that it would be in the best interests of the Fund for shareholders to vote against this point of the agenda and against point 11 of the EGM agenda.*

The Fund Manager's voting recommendations contained herein are not binding in any way to the shareholders and should not be deemed under any circumstances as a supporting documentation/argument for substantiating one's vote, shareholders being free to decide on the manner they vote for each item on the agenda. The Fund Manager will implement and will comply with all the decisions taken by the shareholders, irrespective of its recommendations herein.

Franklin Templeton Investment Management Ltd United Kingdom Bucharest Branch, acting as Sole Administrator on behalf of S.C. FONDUL PROPRIETATEA S.A.

Adrian CIGHI

Legal Representative

⁶ Items 5 and 9 on the agenda of OGM concern similar issues. The shareholder is entitled to vote as considered, but the recommendation of the Fund Manager is not to vote affirmatively for both indicated items.