



## ADMINISTRATOR'S REPORT

For the financial year 2008

Annual report prepared in accordance with:	Law 297/2004, CNVM Regulation no. 1/2006
For the financial year:	2008
Date of the report:	24.03.2008
Name of the commercial company:	Fondul Proprietatea S.A.
Registered office:	Bucuresti, str. Apolodor nr. 17, sector 5
Telephone/ fax:	031/620 9100; 021/ 310 4110
Web/ Email:	<a href="http://www.fondulproprietatea.ro">www.fondulproprietatea.ro</a> ; <a href="mailto:office@fondulproprietatea.ro">office@fondulproprietatea.ro</a>
Unique registration number with the Trade Register:	18253260
Registered with the Trade Registry	J40/21901/2005
Regulated market on which the issued securities are traded:	Not applicable
Share Capital subscribed and paid in as at 31.12.2008	13,679,274,999 RON
The main features of the issued securities:	Common, nominative, of equal, undividable, dematerialized values, with the par value of 1 RON Voting rights as per the Articles of Association

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## 1. ANALYSIS OF THE BUSINESS OF THE COMMERCIAL COMPANY

### 1.1. General information

#### 1.1.1. Description of the main activity of the commercial company

Fondul Proprietatea S.A. (hereinafter "Fondul Proprietatea" or "FP") is a Romanian legal entity, incorporated as a joint venture, with mixed capital, falling under the category "Other Organizations of Collective Investments - AOPC". As of December 31, 2008, Fondul Proprietatea holds participations in 89 commercial companies.

The main activity is represented by portfolio management of assets held by FP as of the date of incorporation, according to the provisions of Law 247/2005 amended and completed by OUG 81/2007. In this respect, the strategy assumed by the management from the very beginning is to preserve the assets initially acquired and an active administration policy is to be implemented following the selection of the fund manager.

#### 1.1.2. The date of incorporation, general data, shareholder's structure

Based on Government Decision no. 1481 dated November 24th, 2005, there has been incorporated Societatea Comerciala Fondul Proprietatea S.A., a collective investment body under the form of a closed-end fund, with legal independence, in compliance with the legal regulations applicable to the entities defined at art. 114, paragraph (1), letter (b) of Law 297/2004 regarding the capital market, as revised.

Under Law 31/1990, as revised and amended by Law no. 441/2006, a new concept regarding the administration and management of the joint stock company was introduced. The new regulation adopts the principles of corporate governance and ensures the harmonization with the regulations in the EU countries. According to the European regulations and O.E.C.D recommendations in the field of corporate governance, it is essential that in a commercial company **the executive power be completely separated from the decision making power**, so that the decisions are made exclusively by the non executive administrators and the executive is ensured by the directors/board of directors.

Under Government Decision no. 1581/2007, regarding the amendment and completion of Government Decision no. 1481/2005 regarding the incorporation of Societatea Comerciala „Fondul Proprietatea” S.A., there were approved the new articles of association of Fondul Proprietatea, articles of association approved by the General Meeting of Shareholders as at 05.03.2008. The shareholders of Fondul Proprietatea have decided by the adoption of the new articles of association to implement various principles of good corporate governance by introducing the dualist administration system. Thus, currently, Fondul Proprietatea is administered under a dual system.

According to art.9, paragraph (4) of the articles of association of the Fund, the shares held in Fondul Proprietatea by the people entitled can be assigned in part or in full both between shareholders and to third parties. Under this article, there has been introduced the possibility for the people entitled to receive compensations to be able to dispose off the shares held in Fondul Proprietatea as compensation.

As at 31.12.2008, the share capital subscribed and paid amounts to RON **13,679,274,999**, split in 13,679,274,999 shares with the nominal value of 1 RON. The share capital subscribed and not paid in was of RON 561,265,676 at the same date. As at 16.02.2009, under the decision of the Supervisory Board, the share capital subscribed and not paid in was of RON 560,042,193, corresponding to a number of blocked shares of 560,042,193.

All the shares have a par value of 1 RON/share. Under Government Emergency Ordinance 81/2007, Art.



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- 12<sup>1</sup>. - (1) The shares issued by Fondul 'Proprietatea' give voting rights, under the conditions stated below:
- a) in case of an investment held by a shareholder representing up to 1%, including, of the share capital paid in of Fondul 'Proprietatea', each share entitles to a voting right;
  - b) in case of an investment held by a shareholder representing up to 3%, including, of the share capital paid in of Fondul 'Proprietatea', the shares representing up to 1%, including, of the share capital paid in give one voting right each and the shares representing between 1% and 3%, including, two shares entitle to one vote;
  - c) in case of an investment held by a shareholder representing up to 5%, including, of the share capital paid in of Fondul 'Proprietatea', the shares representing up to 1%, including, of the share capital paid in give one voting right each, the shares representing between 1% and 3%, including, two shares entitle to one vote and the shares representing between 3% and 5%, including, three shares entitle to one vote,
  - d) the investments held by a shareholder representing more than 5% entitle to the following voting rights: the shares representing up to 1%, including, of the share capital paid in give one voting right each, the shares representing between 1% and 3%, including, two shares entitle to one vote, the shares representing between 3% and %, including, three shares entitle to one vote and the shares representing more than 5% entitle to no voting rights.
- (2) The provisions of paragraph (1) are not applicable to the Ministry of Economy and Finance. “

Of the total number of shares belonging to the main shareholder (the Romanian State represented by the Ministry of Economy and Finance), 561,265,676 shares are not paid in (as at 31.12.2008); as a result these shares do not entitle to any voting right or to the right to receive dividends. The evolution of the share capital subscribed and not paid in (as at 31.12.2008) is presented below:

	- RON -
<b>Subscribed and not paid in share capital as at 31.12.2007</b>	<b><u>615,895,294</u></b>
<b>Payments made by MFP on the account of the share capital, of which:</b>	<b><u>54,629,618</u></b>
<b>Amounts resulted from the recovery of Romania's receivables from:</b>	<b><u>49,525,918</u></b>
- Syria	26,581,478
- Russia	13,658,010
- Congo	6,024,238
- Albania	1,704,378
- Guinea	1,557,814
Amounts resulted from the partial recovery of the receivable of Fondul Proprietatea from SC World Trade Centre Bucuresti SA	<b>539,770</b>
Amounts resulted from shares received free of charge from companies in the portfolio based on GEO 81/2007	<b>4,563,930</b>
<b>Subscribed and not paid in share capital as at 31.12.2008</b>	<b><u>561,265,676</u></b>

During 2009 (by February 16) Fondul Proprietatea had also received an amount of RON 1,223,483 from the Ministry of Economy and Finance for the subscribed share capital, so that the subscribed and not paid in share capital amounts to 560,042,193 as at 16.02.2009.

The shareholders' structure as at 31.12.2008 is the following:

<b>Shareholder category</b>	<b>Number of shareholders</b>	<b>Number of shares</b>	<b>Percentage (%)</b>
Ministry of Public Finance	1	10,028,844,825	70.42%
Legal entities (under 1%)	28	264,717,302	1.86%
Legal entities (over 1%)	1	394,769,023	2.77%
<b>Subtotal - Legal entities</b>	<b>30</b>	<b>10,688,331,150</b>	<b>75.06%</b>



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Individuals (under 1%)	2,000	2,221,882,560	15.60%
Individuals (over 1%)	3	1,330,326,965	9.34%
<b>Subtotal - Individuals</b>	<b>2,003</b>	<b>3,552,209,525</b>	<b>24.94%</b>
<b>TOTAL</b>	<b>2,033</b>	<b>14,240,540,675</b>	<b>100.00%</b>

The shareholding structure as at 28.02.2009 is the following:

Shareholder type	Number of shareholders	Number of shares	Percentage (%)
Ministry of Public Finance	1	9,723,918,277	68.28%
Legal entities (under 1%)	32	291,539,446	2.05%
Legal entities (over 1%)	1	394,769,023	2.77%
<b>Subtotal - Legal entities</b>	<b>34</b>	<b>10,410,226,746</b>	<b>73.10%</b>
Individuals (under 1%)	2,128	2,499,986,964	17.56%
Individuals (over 1%)	3	1,330,326,965	9.34%
<b>Subtotal - Individuals</b>	<b>2,131</b>	<b>3,830,313,929</b>	<b>26.90%</b>
<b>TOTAL</b>	<b>2,165</b>	<b>14,240,540,675</b>	<b>100.00%</b>

The records of the shares and shareholders are kept according to the law by S.C. Depozitarul Central S.A. The financial auditor of the company for the financial year ended 31.12.2008 is S.C. Deloitte Audit S.R.L.

### 1.1.3. Description of any merger or significant reorganization of the commercial company, of its subsidiaries or of the control companies, during the financial year

During the 2008 financial year there were no mergers or significant reorganizations at Fondul Proprietatea or at the companies controlled by Fondul. The subsidiaries of Fondul Proprietatea (companies controlled by more than 50%) as at 31.12.2008 are the following:

Item no.	Company	% investment in the share capital
1	Zirom SA	100.0%
2	Primcom SA	79.0%
3	Alcom SA	71.9%
4	Prestari Servicii SA	70.6%
5	Carom - Broker Asigurare SA	70.0%
6	Comsig SA	69.9%
7	Telerom Proiect SA	68.6%
8	Delfincom SA	65.5%
9	Romplumb SA	51.0%

### 1.1.3. Description of the acquisitions and/or purchases of assets

#### a) Analysis of the portfolio of Fondul Proprietatea as at 31.12.2008

##### a1) Management of the investments held

During 2008 there have been no significant changes in the portfolio of shares owned. Taking into account the strategic objective of Fondul Proprietatea of selecting a fund manager and of listing the shares on the local and/or international stock exchange, a conservative approach has been maintained with regard to the



management of the portfolio with the following tendencies:

- maintaining the existing participation in the companies in the portfolio;
- participation to the share capital increases of the companies in the portfolio (by contribution in cash);
- management of the existing liquidities (by using the fixed income instruments – term deposits) for the purpose of obtaining a high yield, as well as investments in low risk state securities (treasury bills with discount).

In 2008 (December) the stock held by FP in Petrom Aviation (3% of the share capital – the equivalent of 5,560,000 shares) was sold – as part of the public offer of takeover launched by Petrom SA. The transfer of the shares and the receipt of the consideration took place upon the closure of the public takeover offer, in February 2009. The sale price per share was of 0.243 RON.

The balance of liquidities (including bank deposits, current accounts and treasury bills with discount) increased from RON 592,174,579 (as at 31.12.2007) to RON 969,804,780 (as at 31.12.2008).

## a2) Portfolio Structure

The structure of the portfolio is presented below:

- RON -

Item no.	Name of company	% of the share capital as at 31.12.2008	Cost as at 31.12.2008	Market value of investment as at the date of appraisal	Date of appraisal
<b>Listed companies</b>					
1	Petrom SA	20.11%	5,714,197,261	5,408,000,000	30-iun.-08
2	Transelectrica SA	13.50%	262,614,413	283,000,000	30-iun.-08
3	Transgaz SA	14.99%	177,353,514	365,000,000	30-iun.-08
4	Alro SA	9.93%	168,858,817	507,000,000	30-iun.-08
5	Romaero SA	21.00%	58,533,949	57,400,000	30-nov.-08
6	Conpet SA	20.06%	40,829,884	63,452,000	30-iun.-08
7	Primcom SA	78.97%	20,489,158	48,985,691	31-aug.-08
8	Oil Terminal SA	10.00%	15,451,875	16,308,000	30-iun.-08
9	Severnav SA	39.11%	14,014,409	13,800,000	30-nov.-08
10	Azomures SA	7.69%	10,652,373	14,900,000	31-oct.-08
11	Delfincom SA	65.51%	6,225,070	14,527,000	30-iun.-08
12	Forsev SA	28.14%	3,780,366	7,286,000	31-aug.-08
13	Centrofam SA	17.34%	2,744,331	9,100,000	30-nov.-08
14	Palace SA	15.43%	1,860,419	n/a	n/a
15	Prestari Servicii SA	70.56%	1,035,339	12,762,000	31-aug.-08
16	Comcereal Cluj SA	11.36%	807,041	1,190,000	31-aug.-08
17	Petrom Aviation SA	3.00%	672,066	1,262,120	30-sep.-08
18	Bat Service SA	33.00%	656,686	n/a	n/a
19	Mecon SA	12.51%	484,544	3,492,000	30-sep.-08
20	Alcom SA	71.90%	471,052	26,157,097	31-iul.-08
21	IOR SA	2.82%	348,756	1,854,000	30-iun.-08
22	Mecanoenergetica SA	10.08%	256,275	1,021,000	31-aug.-08
23	Turdapan SA	44.07%	240,000	1,798,000	31-aug.-08
24	Telerom Proiect SA	68.63%	236,083	411,056	31-aug.-08
25	Transilvania Com SA	40.00%	177,010	5,214,000	30-sep.-08
26	Comcereal Fundulea SA	5.35%	170,530	712,231	30-iun.-08

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27	Vitacom SA	46.91%	148,075	552,000	30-nov.-08
28	Resib SA	2.88%	126,217	179,882	30-sep.-08
29	Comcereal Miercurea Ciuc SA	10.03%	64,817	234,000	31-aug.-08
	<b>Subtotal – listed companies</b>		<b>6,503,500,330</b>	<b>n/a</b>	<b>n/a</b>
<b>Companies not listed and suspended from trading</b>					
1	Hidroelectrica SA	19.94%	3,098,162,856	2,890,469,000	31-dec.-07
2	Nuclearelectrica SA	17.21%	967,926,936	991,696,873	31-dec.-07
3	CEZ Distributie SA	30.00%	424,594,334	696,400,000	31-dec.-07
4	Romgaz SA	14.99%	416,301,444	815,485,268	30-iun.-08
5	Complexul Energetic Turceni SA	24.93%	282,299,927	364,165,000	30-sep.-08
6	Complexul Energetic Craiova SA	24.98%	250,169,153	260,901,600	31-aug.-08
7	Electrica Distributie Muntenia Nord SA	22.00%	171,634,031	241,029,000	30-iun.-08
8	ENEL Distributie Banat SA	24.13%	156,203,772	230,300,000	31-dec.-07
9	E.ON Moldova Distributie SA	22.00%	150,738,991	n/a	n/a
10	Complexul Energetic Rovinari SA	23.73%	137,615,732	224,117,000	30-sep.-08
11	Electrica Distributie Transilvania Sud SA	22.00%	132,147,006	220,865,000	30-iun.-08
12	ENEL Distributie Dobrogea SA	24.09%	126,260,018	165,300,000	31-dec.-07
13	Aeroportul International Henri Coanda Bucuresti SA	20.00%	124,980,198	150,500,000	30-iun.-08
14	Electrica Distributie Transilvania Nord SA	22.00%	118,478,309	267,844,000	30-iun.-08
15	Enel Distributie Muntenia SA	12.00%	110,111,032	321,871,900	30-sep.-08
16	Posta Romana SA	25.00%	84,384,880	307,250,000	30-iun.-08
17	Societatea Nationala a Sarii SA	49.00%	76,347,715	80,315,595	30-iun.-08
18	E.ON Gaz Distributie SA	12.00%	63,569,622	n/a	n/a
19	Distrigaz Sud SA	12.00%	59,982,622	285,434,000	30-sep.-08
20	CN Administratia Porturilor Maritime SA	20.00%	52,621,414	65,594,800	30-iun.-08
21	Zirom SA	100.00%	36,030,702	52,900,000	30-iun.-08
22	Electromecanica Ploiesti SA	49.00%	21,436,245	n/a	n/a
23	Uzina Mecanica Bucuresti SA	36.60%	20,024,890	n/a	n/a
24	CN Administratia Canalelor Navigabile SA Aeroportul Intl' Bucuresti Baneasa - Aurel	20.00%	15,194,209	15,426,000	30-iun.-08
25	Vlaicu SA	20.00%	6,188,065	121,447,600	30-sep.-08
26	Plafar SA	49.00%	2,825,589	14,525,503	30-iun.-08
27	Petrotel - Lukoil SA	2.18%	2,787,316	16,142,000	31-aug.-08
28	Aeroportul Intl' Timisoara - Traian Vuia SA	20.00%	2,652,588	21,169,620	30-sep.-08
29	Laromet SA	6.52%	1,547,497	11,800,000	30-iun.-08
30	Aeroportul Intl' Mihail Kogalniceanu SA CN Administratia Porturilor Dunarii Maritime	20.00%	1,490,898	5,515,918	30-sep.-08
31	SA	20.00%	1,351,671	1,828,081	30-iun.-08
32	Carom - Broker Asigurare SA	70.00%	1,161,986	1,372,000	30-iun.-08
33	Carbid Fox SA - in insolventa	7.97%	927,357	-	30-sep.-08
34	CEZ Servicii SA CN Administratia Porturilor Dunarii Fluviale	12.00%	732,000	4,100,000	31-dec.-07
35	SA	20.00%	675,810	5,420,000	30-iun.-08
36	Gerovital Cosmetics SA	9.77%	340,996	n/a	n/a
37	Zamur Targu Mures SA	7.07%	319,724	2,839,000	30-iun.-08
38	Electroconstructia Elco Cluj SA Celuloza si Otel SA (absorbție a Remat	7.62%	319,656	366,100	30-iun.-08
39	Timis SA)	8.63%	230,675	767,995	31-oct.-08
40	Salubriserv SA	17.49%	207,601	5,000,000	30-iun.-08
41	Commotex SA	16.00%	193,500	353,000	30-iun.-08

42	Comsig SA	69.95%	132,633	1,670,500	30-iun.-08
43	Cetatea SA	20.44%	118,840	343,834	30-iun.-08
44	Retizoh SA	7.38%	64,560	70,392	30-sep.-08
45	World Trade Center Bucuresti SA	19.90%	42,459	-	30-iun.-08
46	Ciocarla SA	1.69%	37,125	414,160	30-iun.-08
47	Marlin SA	5.89%	34,014	95,900	30-iun.-08
48	World Trade Hotel SA	19.90%	17,912	n/a	n/a
49	Familial Restaurant SA	2.76%	2,454	n/a	n/a
50	CEZ Vanzare SA	30.00%	-	66,300,000	31-dec.-07
51	E.ON Gaz Romania SA	12.00%	-	n/a	n/a
52	E.ON Moldova Furnizare SA	22.00%	-	n/a	n/a
53	Electrica Furnizare Muntenia Nord SA	22.00%	-	19,566,000	30-iun.-08
54	Electrica Furnizare Transilvania Nord SA	22.00%	-	16,044,000	30-iun.-08
55	Electrica Furnizare Transilvania Sud SA	22.00%	-	17,981,000	30-iun.-08
56	ENEL Energie SA	12.00%	-	41,300,000	31-dec.-07
57	Enel Energie Muntenia SA	12.00%	-	n/a	n/a
58	Romplumb SA	51.00%	19,249,219	25,220,000	30-iun.-08
59	Simtex SA - in insolventa	30.00%	3,059,858	n/a	n/a
60	FECNE SA - in insolventa	12.12%	-	232,000	30-iun.-08
	<b>Subtotal – Unlisted companies</b>		<b>7,143,928,041</b>		
<b>89</b>	<b>TOTAL</b>	<b>n/a</b>	<b>13,647,428,370</b>	<b>n/a</b>	<b>n/a</b>

The Portfolio of the Fund has a high exposure to the following sectors:

- energy (oil, gases, power, heating) per the following subsectors: production, transport, supply, distribution;
- infrastructure and transports (port administrations, airports).

Also, there is a high portfolio concentration against a limited number of securities, of which the most significant are Petrom, Hidroelectrica and Nuclearelectrica. The financial assets mainly generated income from dividends.

Apart from the portfolio of financial investments, another important asset held is represented by the cash available in banks and treasury bills with discount; these represent about 8.8% of the total assets as at 31.12.2008 and generate interest income.

### b3) Analysis of the profitability of the portfolio

The main revenues obtained by FP during 2008 are represented by:

- revenues from investments (dividends);
- interest income.

A simplified annual yield of the portfolio per main two components is the following:

#### 1. Investments portfolio (no increases/decreases in the value of the investments have been taken into consideration besides the accounting ones)

The yield of dividends = Dividends received/ Net book value of the investments as at 31.12.2008, indicate a value of 4.05%. In the previous year, this calculated yield was of 1.53%

#### 2. Cash and cash equivalents (deposits and treasury bills)

**Simplified yield of cash and cash equivalents** = (Interest income + Net foreign exchange differences)/ The average balance of cash and cash equivalents indicate a level of 13.3% as against 9.9% in 2007.



The average balance of cash and cash equivalents represents the arithmetical mean of the cash and cash equivalents at the beginning and end of 2008. The net foreign exchange differences represent the difference between the foreign exchange difference and the foreign exchange expenses; this component has also been taken in the calculation taking into account that it refers (with small immaterial exceptions) to the impact in cash and cash equivalents.

**b4) Dividends due/received from the companies in the portfolio of Fondul Proprietatea**

The status of the dividends due and received pertaining to the financial years 2005-2007 is the following:

Financial year	Dividends due (net – RON)	Dividends received (net – RON)	Remaining to be received as at 31.12.2008 (RON)	Ratio realized
2005	122,538,072	94,297,552	28,240,521	76.95%
2006	204,878,363	204,813,515	64,848	99.97%
2007	382,745,578	381,601,093	1,144,485	99.70%
<b>TOTAL</b>	<b>710,162,013</b>	<b>680,712,159</b>	<b>29,449,853</b>	<b>95.85%</b>

**b5) Other significant aspects regarding the investments**

We draw attention to the following aspects regarding the companies in the portfolio:

- **S.C. Elcond S.A.** Zalau: is a company liquidated according to Law no. 26/1990 – Trade Registry. The Company was written off by the liquidator IZOINSOLV IPURL, which requested the listing with the Trade Registry of the mention regarding the liquidation of the Company. As at 29.04.2008, conclusion no. 1406 was pronounced, under which the delegate judge ordered the liquidation of the company, the conclusion remaining final and enforceable. As a result, this asset will cease to effect economic benefits and is to be written off. As at 31.12.2007, the investment was fully provisioned and in December 31, 2008 the investment was charged against income and adjustment for impairment was reversed to income. The investment of Elcond was recorded at a cost of 54,519 RON;
- **S.C. Simtex S.A.** – under insolvency procedure: the company is undergoing the insolvency procedure (file no. 5763/3/2008 on the roll of Bucharest Court – Commercial Section VII). As at 31.12.2007, the investment was fully provisioned and as at 31.12.2008 the adjustment for impairment was maintained;
- **FECNE** (formerly known as Kvaerner) – under insolvency procedure: a company undergoing judicial reorganization in accordance with the provisions of Law no. 85/2006 (file no. 23328/3/2008, on the roll of Bucharest Court – Commercial Section VII);
- **S.C. Carbid Fox S.A.** – under insolvency procedure: the company is undergoing the insolvency procedure (no. of new file 1137/1371/2007 on the roll of Commercial Court Mures);
- **S.C. Uzina Mecanica Bucuresti S.A. (Subsidiary of Compania Nationala Romarm) and S.C. Electromecanica S.A. Ploiesti (subsidiary of Compania Nationala Romarm)** – the investment has not been taken over from Romarm, the shareholder that needs to assign the quota of capital set by GEO 81/2007 refusing to carry out this operation, invoking a legislative flaw. The provisions of art.1 paragraph 2 Title II of Emergency Ordinance no.81/2007 state that the “transfer of the property right over the assets stated in paragraph (1) is **legally enforced as of the effective date of this Government Ordinance**, the administrators of the commercial companies, national corporations and national companies having the **obligation** to update automatically the registers of



the shareholders and shares. In the event where the registers of the shareholders of the commercial companies, national corporations and national companies are kept by the central depositor or by registry companies, the updating of the registry is made by the central depositor or by the registry company, as the case may be, based on the request of Fondul Proprietatea.”

- Also, art. 1 paragraph 1, point 2.23 states that 1,002,301 shares of S.C. Electromecanica Ploiești S.A. shall be transferred from the Authority for Selling State Assets (AVAS) to Fondul Proprietatea and art. 1 paragraph 1, point 2.24 states that 2,951,053 shares of Compania Națională Romarm the Uzina Mecanică București S.A subsidiary shall be transferred to Fondul Proprietatea.

Electromecanica and Uzina Mecanica Bucuresti are subsidiaries of Romarm, a company held 100% by AVAS. Given that the text of the ordinance states that these packages of stock shall be transferred from AVAS and not from Romarm, the companies refused to register Fondul Proprietatea as shareholder, although there have been several requests in this respect. Also, Fondul Proprietatea requested that AVAS as sole shareholder of Romarm should take all the necessary measures in order to order the general meetings of shareholders of Compania Națională Romarm the Uzina Mecanică București S.A. subsidiary and Electromecanica Ploiesti to give power of attorney to their boards to register Fondul Proprietatea both in the shareholders registry and with the National Office of Trade registry, the transfer becoming effective as of the effective date of GEO no. 81/2007 (the date of publication of the normative document in the official Gazette).

Fondul Proprietatea continued the actions aiming at taking over these investments by sending letters and notifications by legal executor as at 08.10.2008 to Compania Națională Romarm the Uzina Mecanică București S.A. subsidiary and to S.C. Electromecanica Ploiești S.A, with which FP requested the application of the provisions of GEO no.81/2007. The Companies refused to apply the provisions of GEO no. 81/2007 invoking a clerical error in the text of the normative act. Given that with the enforcement of Law no. 308/2008 Romarm, the sole shareholder of these companies, was returned to the portfolio of the Ministry of Economy, a new request was sent to the Ministry.

Also, given the reason invoked both by the companies (Uzina Mecanica Bucuresti and Electromecanica Ploiesti) and AVAS, Fondul Proprietatea, not being in a position to initiate a rectification of a normative act, sent as at 19.11.2008 a letter to the General Secretariat of the Government and Ministry of Economy and Finances, with which the amendment was requested based on Law no. 24/2000 regarding the legislative technique norms for the preparation of the normative acts, procedures of rectifying material error in art. 1 paragraph 1 point 2.23 and 2.24 of GEO no. 81/2007, in the sense that this text is to be read as follows:

*“From Compania Nationala Romarm S.A. are to be transferred to Fondul Proprietatea the following packages of shares:*

*2.23. S.C. Electromecanica Ploiești - S.A.- 1,002,301 shares*

*2.24. Compania Națională Romarm, Uzina Mecanică București S.A. subsidiary- 2,951,053 shares”.*

Fondul Proprietatea will take a legal action aiming at taking over these investments received based on GEO no. 81/2007, investments that have not been taken over so far due to a clerical error in the text of the aforementioned normative act.

- The demerger of various companies in the portfolio (other than the ones that span off in 2007): the provision of electricity law, which adopts the provisions of Directive 2003/54/EC of the European Parliament and of the Council, regarding the common norms of the domestic market of electricity and abrogating Directive 96/92/CE, establish the obligation of legal separation of the activity of distribution and power supply. As a result of the implementation of these provisions, in 2008



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Electrica Muntenia Sud SA was spun-off (after the completion of the privatization process – the buyer being Enel Group) in two new companies:

- a) Enel Energie Muntenia SA and
- b) Enel Distribuție Muntenia SA

- The merger of various companies in the portfolio with other companies – Under the Decision of the General Meeting of Shareholders dated 11.08.2008, there was approved the merger by absorption of S.C. Remat Timis S.A. by S.C. Celuloza si Otel S.A. Fondul Proprietatea held 22.23% of the share capital of S.C. Remat Timis S.A. and after the merger it received a number of 3,829 shares in S.C. Celuloza si Otel S.A. with the nominal value of 10 RON/share, representing 8.65% of the share capital. The project of merger by absorption of SC. Remat Timis S.A. (the absorbed company) by S.C. Celuloza si Otel S.A. (the absorbing company) was published in the Official Gazette, being also presented as an expert appraisal report prepared by an independent expert appraiser, under which the merger proposition is endorsed. The two companies have the same purpose of business – recycling of metal waste and the merger will allow an increase in flexibility and power to adapt to the market conditions, lower costs and expenses, as well as an increased efficiency of the managerial decision making process.

c) Subscriptions to the share capital of other companies

In 2008, FP contributed with cash to the capital increase (by exerting the preference right), that is by setting up share capital (in case of SC World Trade Hotel SA) in the total amount of 49,845,442 RON, as follows:

- Contribution in cash to the share capital increase made by:
  - o SC Electrica Distribuție Transilvania Sud SA: 11,926,700 lei;
  - o SC Electrica Distribuție Transilvania Nord SA: 11,926,760 lei;
  - o SC Electrica Distribuție Muntenia Nord SA: 11,926,700 lei;
  - o SC Enel Distribuție Muntenia SA: 14,047,370 lei.
- Contribution in cash to the share capital increase of SC World Trade Hotel SA: 17,912 RON.

The Fund's participation with contributions to the share capital of the aforementioned companies was made at a price per share equal to the nominal value.

#### 1.1.4. Description of the main results of assessing the activity of the Company

Further to the comparative analysis of the realization of the Income and Expenses Budget for the 2008 financial year as against the previous year, the following conclusions can be drawn:

- The profit before taxes and the influence of the adjustments (allocations/reversals) for impairment of financial assets increased from 197.4 million RON in 2007 to 479.4 million RON in 2008 (+143%)
- The turnover in 2008 increased by about 27.7% as against the prior period;
- Key income from: dividends, interests and FX differences (net: income minus expenses) increased from 252.0 million RON to 488.7 million RON (+94%);
- Net profit increased from 313.1 million RON in 2007 to 467.7 million RON in 2008 (+49.4%) (after the application of the changes regarding the accounting for the adjustments for loss of value of financial assets);
- The net profit made in 2008 exceeded by 13% the budgeted level (414 million RON).

We can conclude that the performance at operational level recorded significant increases; reporting net profit for the year 2008 was possible only further to the application of the accounting treatment regarding the recording of adjustments for impairment of fixed assets in the accounts of reserves and not in the account of result.

The execution of the income and expense budget for the financial year ended as at 31.12.2008 is

presented in the Annex. The main elements of the budget execution are:

- The turnover exceeded by about 13.7% the budget provisions, a significant contribution being made by the interest income (+37% as against the budgeted level – given the increase in the interest rates with term deposits and t-bills in Q3 and Q4 of 2008 as against the ones envisaged when substantiating the income and expense budget) and by the income from provisions and adjustments for impairment of fixed assets (not budgeted);
- Expenses from current activity include records below the budgeted level (generally, an exception being, for instance, FX differences expenses); thus, the current budgeted expenses (without provisions and adjustments for impairment) and without FX differences expenses amounted to RON 27.4 million whereas the level achieved amounted to RON 16.4 million lei;
- After the influence of the not budgeted elements and of applying the provisions regarding the reflection of the adjustments for impairment of the financial assets, the net profit realised, exceeded the budgeted level by about 13%.

## 1.2. General valuation elements

The execution of the income and expenses budget per key elements is the following:

-RON-

Key elements	Realized in	Current year 2008		Realisation ratio % as against:	
	2007	Budget	Realized	Realized 2007	Budget 2008
1	2	3	4	col.5=col.4/col.2	col.6=col.4/col.3
Net current income (incl.net FX differences *)	252,085,384	448,091,000	488,786,818	194%	109%
Current expenses (without FX differences **)	5,606,294	27,371,000	16,429,552	293%	60%
Gross result before tax and influence of adjustments for impairment of financial assets	197,394,765	420,720,000	479,406,007	243%	114%
Gross result	318,092,417	420,720,000	480,998,206	151%	114%
Net result	313,106,905	414,089,000	467,701,426	149%	113%

\*) The current income includes the following: income from dividends, from interests, net income from FX differences (income minus expenses), other operational income; Does not include the income from the reversal of the provisions and/or adjustments for impairment

\*\*) Current expenses (without FX differences): Include all the current expenses less the ones from FX differences and the ones related to provisions and adjustments for impairment (as at 2007).

### a) Profit

In 2008, the Fund reported net profit in the amount of about 467.7 million, by about +49.4% above as against the level made in 2007 and about +13% above as against the budgeted level.

### b) Turnover

In the case of FP, turnover represents, according to the accounting regulations, the total income from current activity. Fondul Proprietatea made total income from current activity in the amount of 524.1 million lei, of which:

Income from current activity in 2008, of which:	Amount (RON)	% of the total
Income from dividends	384,750,573	73.4%
Income from interests	84,453,833	16.1%

Income from FX differences	43,355,391	8.3%
Income from provisions and adjustments for impairment	11,475,624	2.2%
Other income from current activity	50,919	0.0%
<b>TOTAL</b>	<b>524,086,340</b>	<b>100.0%</b>

Structure of the current income according to the nature and comparison between the budgeted level and budget realized are presented below:

<b>Income from current activity in 2008, of which:</b>	<b>Budget 2008</b>	<b>Realized in 2008</b>	<b>Differences</b>	<b>Degree of realization (%)</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>col.4=col.3- col.2</b>	<b>col.5=(col.3/col.2) *100</b>
Income from dividends	379,324,000	384,750,573	5,426,573	101.4%
Income from interests	61,620,000	84,453,833	22,833,833	137.1%
Income from FX differences	20,105,000	43,355,391	23,250,391	215.6%
Income from provisions and adjustments for impairment	-	11,475,624	11,475,624	n/a
Other income from current activity	10,000	50,919	40,919	509.2%
<b>TOTAL</b>	<b>461,059,000</b>	<b>524,086,340</b>	<b>63,027,340</b>	<b>113.7%</b>

### c) Costs

The expenses from current activity amounted to 57,209,366 RON in the financial year 2008, as follows:

<b>Expenses from current activity in 2008, of which:</b>	<b>Amount (RON)</b>	<b>% of the total</b>
Operational expenses	16,429,552	38.1%
Expenses regarding the provisions, adjustments for impairment and losses from receivables	2,834,684	6.6%
Expenses from FX differences	23,823,898	55.3%
<b>TOTAL</b>	<b>43,088,134</b>	<b>100.0%</b>

The breakdown of operational expenses is presented below:

<b>Operational expenses in 2008, of which:</b>	<b>Amount (RON)</b>	<b>% of the total</b>
Expenses regarding the services executed by third parties, including post, telecommunications, internet, maintenance, repairs	7,484,495	45.6%
Personnel related expenses, administrators and selection commission	5,252,928	32.0%
Expenses regarding social contributions, taxes and other taxes	1,353,153	8.2%
Rent expenses	472,523	2.9%

Protocol, advertising and publicity	389,291	2.4%
Depreciation of tangible assets and amortization of intangible assets	322,000	2.0%
Travel and transport expenses	239,160	1.5%
Other taxes and similar payments	237,501	1.4%
Materials, utilities, etc	188,145	1.1%
Insurance premiums expenses	130,845	0.8%
Other operational expenses	359,511	2.2%
<b>TOTAL</b>	<b>16,429,552</b>	<b>100.0%</b>

#### d) liquidity (available in account, etc)

Cash and cash equivalents existing in accounts with banks as at 31.12.2008 (under the form of deposits and current accounts) are presented below:

-RON-	
<b>Cash in hand and bank accounts</b>	<b>December 31, 2008</b>
Deposits with banks in RON	409,327,239
Deposits with banks in foreign currencies	<u>161,329,233</u>
<b>Subtotal deposits</b>	<b>570,656,472</b>
Current accounts with banks in RON	3,143
Current accounts with banks in lei – destined to the payment of dividends	1,419,503
Current accounts with banks in foreign currency	64,967
Petty cash	<u>12,380</u>
<b>Subtotal current account, petty cash and advances</b>	<b>1,499,993</b>
<b>TOTAL</b>	<b>572,156,465</b>

The statement of cash flows is presented in detail in point 5.c of the report. The Fund has sufficient liquidities to cover its current expenses, but also for investment purposes.

As at December 31, 2008, the Fund has in the portfolio state securities (treasury bills) that can be easily converted into liquidities on the secondary market. The acquisition cost of these state securities is of 390.4 million RON and the nominal value of the treasury bills with discount is of 416.3 million RON.

#### 1.3. Assessment of the technical level of the commercial company

FP currently has the necessary technical equipment to operate under good conditions.

#### 1.4. Assessment of the technical-material supply activity (from domestic and import sources)

The supply with the materials and products necessary to perform the administrative activity is generally realized from domestic sources, and the total weight in the current expenses of the Company is low.

#### 1.5. Assessment of the trading activity

In December 2008, the Fund sold its investment held in SC Petrom Aviation SA (3% of the share capital – the equivalent of 5,560,000 shares) – as part of the public offer of takeover launched by Petrom SA. The



transfer of the shares and the receipt of the price upon the end of the public offer of takeover, in February 2009. The sale price per share was of 0.243 lei

#### **1.6. Assessment of the aspects related to the employees/staff of the commercial company**

##### **a) The number, education and training of the Company's employees as well as the ratio of the trade union members of the labour force**

As at 31.12.2008, the number of employees was 12, of which 11 employees with higher education and 1 employee with high school education. The average number of employees during 2008 was of 12. The administration of Fondul Proprietatea was run in 2008 by a Supervisory Board comprising 7 members and starting with May 19, 2008, by a Directorate comprising 3 members, as part of the dual administration system. The member of the Supervisory Board and the members of the Directorate are not employees of the Fund, but administrators, based on mandate agreements.

##### **b) Description of the rapports between manager and employees as well as of any conflicting elements that characterize those rapports**

The employees' activity is carried out in accordance with the established timetable, job description as well as the Internal Regulations specific to the Fund.

#### **1.7. Assessment of the aspects related to the impact of the basic activity of the issuer on the environment**

Not applicable.

#### **1.8. Assessment of the R&D activity**

Not applicable.

#### **1.9. Assessment of the activity of the commercial company with regard to the risk management**

Given the nature of its activity, the Fund is exposed to various risks that include: market risk, credit risk and risk of economic environment. Management pursues diminishing any of the adverse effects associated with these risk factors on the financial performance of the Fund.

##### **i) Operational risk**

Operational risk can be defined in various ways, but, in principle, is the risk of incurring losses because of the lack of adequacy of various processes, systems or persons, or for external reasons.

In the particular case of the Fund, we draw attention to this risk category, taking into account the following aspects:

- currently, the personnel structure of FP is understaffed considering the purpose of business. This situation is determined by the extension of the selection process of the fund manager, a process further to which, according to the selection documentation approved under GD 1514/2008, all the operations currently carried out by the personnel employed by the Fund are to be taken over by SAI (the fund manager). Under these circumstances, beside the resignation of the specialized staff, FP also encounters major difficulties in replacing that staff given the short notice offered. The fact the staff is reduced, improper considering the requirements, increases the operational risk.
- The lack of proper IT equipment and software corresponding to the activity performed. The imminence and also the uncertainties regarding the time of transferring the administration to SAI, of the responsibilities to the transferred, the high associated costs of the software specific to the Fund,



led to the FP's decision of postponing this investment. This postponement is due to the fact that the IT systems used are tailor made, being the same in all the funds administered by a SAI and very expensive, therefore it would have probably been an investment impossible to recover (amortize) before the appointment of SAI, which was understood to be imminent, in a very short while.

Thus, we consider that the operational risk to which the Fund is exposed is high, to the extent where at least the two components are not managed, either by accelerating the selection and appointment of SAI, or, if this is not possible, by tailoring the allocated resources to the needs.

## ii) **Market risk**

Market risk comprises FX risk, interest rate risk and price risk.

### **FX risk**

The Fund can make investments in financial instruments or enter into transactions denominated in foreign currency. As a consequence, the Fund is exposed to the risk that the variations of exchange rate have an adverse effect onto the foreign currency denominated net assets of the Fund.

The fund has cash and cash equivalents denominated in RON and foreign currency (mainly EUR). The management does not plan to hedge these cash and cash equivalents in a certain currency (RON or EUR). The Fund considers that its functional currency is RON. Within its own currency basket, it is planned that the cash and cash equivalents in RON represent about 85% of the total and the ones in EUR, the rest of 15%. Occasionally, there can be immaterial exposures related to other currencies as well as such as USD or GBP.

### **Interest rate risk**

Most of the financial assets of the Fund are not interest-bearing. The interest bearing financial assets have a due date or suffer a change of the interest rate within maximum three month. As a result, the Fund has a limited exposure to the variations in the interest rate. With regard to the short term financial instruments (treasury bills maturing within 12 months), the interest rate risk is limited given the intention of the fund to hold these titles to maturity and their short term maturity. The fund does not have borrowings or other significant interest bearing liabilities.

### **Price risk**

Price risk is the risk that the value of the securities fluctuate as a consequence of the changes on the capital market, changes determined by factors specific to an issuer or factors that influence the capital market as a whole. This risk took shape especially in the second part of 2008, given the massive drop of the stock exchange quotations for various securities also existing in the portfolio of the Fund. Although the Fund did not make transactions with such securities, it was necessary that in certain cases adjustments be made for impairment, which negatively influenced the reported equity.

## iii) **Credit risk**

The Fund is exposed to the credit risk corresponding to the financial instruments and banking investments, meaning the risk of incurring losses or of not realizing the estimated profits as a consequence of non compliance with the contract of the other party. In case of the treasury bills held, the credit risk is low given the issuer – Romanian State through Ministry of Public Finance. With regard to the exposure per banks, the risk is dispersed by allocating cash to several banks.



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**iv) Liquidity risk**

Prudent management of liquidity risk implies maintaining enough cash and equivalents. Given the nature of its business, the Fund aims at being flexible with regard to its financing possibilities, by maintaining deposits and current accounts with banks available to finance the current activity, future investments and adequate liquidities.

**v) Risk related to the economic environment**

Although Romania is an EU member country, the national economy continues to present the characteristics of an emerging market, such as: high current account deficit, the existence of the difference in competition conditions between Romania and other EU member states, a relatively undeveloped financial market, poor infrastructure, fluctuations in the FX rates and a poorly developed capital market.

Last but not least, the economic and financial international crisis has become manifest in Romania as well and has a negative impact on most of the sectors of the economy. The way in which this crisis affects the Fund is complex, given that the economic performance of the Fund is mainly influenced by the performance in the portfolio of the Fund.

**1.10. Prospects elements regarding the company's activity**

**a) Presentation and analysis of the trends, elements, events of uncertainty factors that affect or might affect the liquidity of the company, compared with last year period**

There are no elements that could significantly influence the liquidity as against last year, given the prudent investing policy of the Fund, mainly oriented to preserving the portfolio and placing the cash and cash equivalents in instruments with fixed income.

**b) Presentation and analysis of the effects on the financial situation of the capital, current or anticipated expenses, compared with last year period**

The income and expenses budget for the year 2009 is balanced from the point of view of current income and expenses. A breakdown of the substantiation is included in the budget proposal for the year 2009.

The capital expenses sated in the investment budget amount to 0.9 million RON and can be covered exclusively from own funds.

**c) Presentation and analysis of events, transactions, economic changes that significantly affect the income from the main activity**

The income from the main activity can be affected by the following factors:

- financial performance of the company in the portfolio and their dividend policy that influence the income from investments (dividends);
- evolution of the interest rate pertaining to the main currencies (LEU and EUR) in which the fund has placed cash equivalents – this influencing the forecast level of the income from interests;
- the evolution of the FX rate of the national currency as against EUR and USD, which can generate Income/expenses from various FX differences as against the ones stated in the Income and Expenses Budget (where estimates were made with regard to the evolution of the FX rate);
- any possible adjustments for impairment of the financial assets, which can generate supplementary income from the reversal of provisions.



## **2. TANGIBLE ASSETS OF THE COMMERCIAL COMPANY**

### **2.1. Statement of the locations and characteristics of the main productions capacities owned by the company**

The Fund does not own buildings. The main activity of the Fund is carried out in a rented space in Bucharest Financial Plaza (BFP), located in Bucharest, 15 Calea Victoriei St.

### **2.2. Description and analysis of the wear and tear of the properties of the commercial companies**

The expenses incurred with arranging the office space located in BFP have been capitalized. These are depreciated throughout the term of the lease agreement which expires in September 2009.

The Fund currently owns cars. The useful life is of 5 years. The rest of the property, plant and equipment are represented by furniture and office/IT equipment, with a reduced value as against the Fund's assets and a reduced degree of wear and tear. Property, plant and equipment are depreciated on a straight line basis throughout the estimated service life.

### **2.3. Presentation of the potential problems regarding ownership right on the tangible assets of the company**

Not applicable.

## **3. MARKET FOR SECURITIES ISSUED BY THE COMPANY**

### **3.1. Stating the markets from Romania and from other countries where securities issued by the company are traded**

Shares issued by FP are not accepted for trading on any stock exchange. The records of shares and shareholders is kept under the conditions of the law by independent registrar company S.C. Depozitarul Central S.A., with the registered office at Bucuresti, 25 Fagaras St, District 1.

### **3.2. Description of dividend policy of the company. Stating the due/paid/accumulated dividends in the last 3 years and, if the case, of the reasons for any diminution in dividends over the last 3 years**

Fondul Proprietatea was incorporated on December 28, 2005. The first financial year for which dividends were paid was the one ended on December 31, 2006.

The dividends pertaining to 2006 are paid through CEC Bank and the dividends pertaining to 2007, through BCR.

Fondul Proprietatea is subject to the provisions of Government Ordinance 64 /2001, which states the obligation of distributing as dividends, at least 50% of the net profit realized.

The status of the dividends declared and paid in is stated below:



- RON -

Financial year	Gross dividends declared	Gross dividends paid (including the tax on dividends withheld at source)	Balance of (net) outstanding dividends as at 31.12.2008	% of payment
2006	36,076,046	35,618,499	457,547	98.73%
2007	89,997,678	87,760,316	2,237,362	97.51%
<b>TOTAL</b>	<b>126,073,724</b>	<b>123,378,815</b>	<b>2,694,909</b>	<b>97.86%</b>

### 3.3. Description of any activities of the commercial companies of purchasing own shares.

Not applicable.

### 3.4. In the event where the Company has subsidiaries, mentioning the number and nominal value of the shares issued by the parent company and held by the subsidiaries.

The Companies in which Fondul Proprietatea holds majority or control positions (have a position of subsidiary) do not hold shares in Fondul Proprietatea, according to the information held by FP.

### 3.5. If the company issued bonds and/or other debt securities, presentation of the way the company pays its debt to the borrowers

Not applicable.

## 4. MANAGEMENT OF THE COMMERCIAL COMPANY

### 4.1. Presentation of the list of the Company's administrators and of the information requested for each administrator.

By May 19<sup>th</sup>, 2008, Fondul Proprietatea was administered by a Supervisory Board comprising 7 members. The members of the Supervisory Board during this period were the following:

Period 01.01.2008 – 05.03.2008 *)	Period 05.03.2008 – 15.12.2008	Period 15.12.2008 – 31.12.2008
Alexandru Paunescu - Chairman	Giovanni Ravasio – Chairman	Giovanni Ravasio – Chairman
Ingrid Zaarour - Member	Ingrid Zaarour – Member	Ingrid Zaarour – Member
Bogdan Huțucă - Member	Radu Francis Florescu - Member	Radu Francis Florescu - Member
Catalin Doică - Member	Catalin Doică – Member**)	Flavia Teodosiu – Member
Mircea Ursache – Member	Mircea Ursache – Member	Mircea Ursache – Member
Emanoil Neguț – Member	Ion Nicolae Chrissoveloni – Member	Ion Nicolae Chrissoveloni – Member
Jozsef Birtalan - Member	Jozsef Birtalan – Member	Jozsef Birtalan – Member

\*) during this period, the position of chairman of the Supervisory Board was occupied on a rotational basis by one member.

\*\*\*) as at 16.10.2008, Mr. Catalin Doica resigned from the position of member of the Supervisory Board. As at 15.12.2008 AGA (the General Meeting of Shareholders) approved the revocation of Mr. Catalin Doica and the appointment of Mrs. Flavia Teodosiu for the vacant position.



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As of May 19, 2008, Fondul Proprietatea is administered under a dualist system by a Directorate (comprising 3 members) under the supervision of the Supervisory Board (comprising 7 members).

The current Supervisory Board was elected under AGA Decision dated March 5, 2008 for a 4-year mandate and under AGA decision dated December 15, 2008. The mandate of the members of the Directorate is of 4 years, with an option to extend.

**a) CV (name, surname, age, qualification, professional experience, position and length of service)**

**Supervisory Board**

The members of the current Supervisory Board are the following:

- Giovanni Ravasio, Chairman
- Ion Nicolae Chrissoveloni, Member
- Mircea Ursache, Member
- Flavia Teodosiu, Member
- Radu Francis Florescu, Member
- Ingrid Zaarour, Member
- Jozsef Birtalan, Member

**Giovanni Ravasio** - was an advisor for the Romanian Prime Minister. He used to work for the European Commission, holding various positions in specialized departments. He was, in turns: councillor of the president, general director of the division for communitarian interventions and economic structures, general director of the budget department, general director of the audit department. In the period 1990-2001 he was general director for Economy and Finance in the European Commission. He holds a diploma in classical science from the College St Pierre from Uccle and one in economic sciences, after graduating Libere University in Brussels. He holds the President position of the Supervisory Board starting March 2008.

**Ion Nicolae Chrissoveloni** – is a businessman and shareholder of Fondul Proprietatea. He holds a degree in business administration from the State University Ohio, USA and a degree in mechanical engineering, obtained in Belfast, Northern Ireland. He has founded and runs a series of businesses in Bucharest. Thus, since June 2000 he is president and shareholder founder of Paynet Group. He is also president and shareholder founder of the company Chrissoveloni & CIE and a real-estate business: Imobiliara Chrissoveloni. He is a member of Supervisory Board starting March 2008.

**Mircea Ursache** – is a graduate of the Technical Academy in Bucharest (1979). He pursued post-graduate studies which he graduated with a paper called "National security through security and stability of the Romanian banking system" (2002). He was vice-president of Authority for Banking Assets Recovery and currently he is president of the Authority for State Assets Recovery (AVAS). He was president general director of SC World Trade Centre Bucharest SA, representative in General Assembly of World Trade Centre Association Washington. He obtained the honorary diploma from the GALLUP ROMANIA for management and is a member of the Management Council of National Confederation of Romanian Employers (CNPR). He is a member of Supervisory Board starting May 2008.

**Flavia Teodosiu** – attorney at law and advisor of the Bucharest Bar, a graduate of the Law School in Vienna and of the one with Bucharest University. She has built up her career based on a thorough probation period, working together with prestigious law firms: Victor Anagnoste law firm, "Popovici si Asociatii" law firm, "Schele und Partner" law firm – Germany and "Arent Fox, Plotkin & Kahn, PLLC" law firm - Washington DC. Since 1998, she is an advisor of the National Union of Bars in Romania. She has been appointed member of the Supervisory Board of Fondul Proprietatea in the General Meeting of Shareholders dated December 15, 2008.



**Radu Francis Florescu** – has a marketing and finance degree, obtained from Boston College, School of Business, USA. Most of his career has been on the financial market of New York. In 1990 he came back in Romania and got involved in communication business. At present he runs one of the most important advertising companies in the country - Saatchi & Saatchi and is a member in the management boards of some well-known organizations, such as: International Advertising Association, United Way, ASSEBUS etc. He is a member of the Supervisory Board since March 2008.

**Ingrid Zaarour** – she has a degree in legal sciences and has a post-graduate diploma in international law, obtained from the Law University of Bucharest. Starting 2000, she is a lawyer of the Bucharest bar. She was state secretary in the Administration and Internal Affairs Ministry, state secretary in Ministry of Economy and Finance and president of the National Authority for Restitution of Ownerships. She is a member in the Supervisory Board since December 2005.

**Jozsef Birtalan** - graduated Polytechnic Institute from Cluj-Napoca, with a mechanical engineer diploma and Economic Science University from Budapest, with a diploma of economist. In 1995, he obtained also the degree of master in management sciences. He was a state secretary in Communication Ministry, state secretary in Transport ministry, vice-president of the National Agency for Small and Medium Enterprises, member in the Board of Directors of SN ROMTELECOM SA, member of Board of Directors of SC Banca Comerciala Romana SA, member in the Supervisory Board of S.C. Banca Comercială Română S.A.. president of National Agency of Public Officers from the Ministry of Administration and Internal Affairs. He is a member in the Supervisory Board since August 2007.

### **Directorate**

The members of the Directorate are the following:

- Daniela Lulache, President of Directorate - CEO
- Mihai Darie, Member of Directorate – CFO
- Laura Constantin, Member of Directorate – Legal Director

**Daniela Lulache** - made part of the executive management of the Fund from the establishment, first as deputy general director. Starting May 2008, she is President of the Directorate and general Director of the company (CEO).

She has a relevant management experience, of over 10 years, illustrated by significant positions in string financial divisions: corporate financial consultant at Erste Financial Advisers Romania, CEO at Expandia Romania SA, coordinating director at AVAB, director of credit restructuring and recovery at Raiffeisen Bank SA. She has an economist qualification, with competences in marketing and transaction of companies. She is the president of the Directorate since May 2008.

**Mihai Darie** - he is a member of the Directorate of the Fund and also economic director. He has an economist qualification. He worked in banking industry, financial consulting and audit, having more than 9 years experience. Before working at Fondul Proprietatea, he was director within the Risk Division of Raiffeisen Bank, Senior Consultant in the Corporate Finance department in BDO Conti Audit – member of BDO Global and financial analyst with the Chamber of Commerce and Industry of Romania. He graduated from the Finance and Banking Faculty at Academy of Economic Studies Bucharest. Also, he graduated EMBA (Executive Master of Business Administration) Asebus program, in cooperation with University of Kennesaw USA, and also ACCA-UK (Association of Certified Chartered Accountants). Starting 2004 he holds the title of Chartered Financial Analyst (CFA) – member of CFA Institute and CFA Romania. He is a member of the Directorate starting May 2008.

**Laura Constantin** - member of the Directorate, as legal director. She graduated Law University – Bucharest and continued her studies, specialization private law. Following a competition organized by the European Integration Ministry, she obtained a position of councillor on European integration issues, in the law department of the Ministry of Public Finance. Subsequently, she was promoted, becoming councillor on legal issues – state secretary cabinet, in the same ministry. Starting October 2005, she was admitted in training in the legal service of the European Commission. She is a member of the Directorate since May 2008.

**b) Any agreement, convention or family connection between that person and another person, as a consequence of which that person was appointed as member of the executive management**

Not applicable.

**c) Participation of the administrators in the capital of the company**

As at 31.12.2008, the members of the Supervisory Board and members of the Directorate hold the following stakes in Fondul Proprietatea:

<b>No.</b>	<b>Surname and name</b>	<b>No. of shares</b>	<b>% of the share capital of Fondul Proprietatea</b>
1	Giovanni Ravasio	-	-
2	Ion Nicolae Chrissoveloni	16,988,670	0.1193%
3	Mircea Ursache	-	-
4	Flavia Teodosiu	-	-
5	Radu Francis Florescu	-	-
6	Ingrid Zaarour	-	-
7	Jozsef Birtalan	-	-
8	Daniela Lulache	-	-
9	Mihai Darie	-	-
10	Laura Constantin	-	-
<b>TOTAL</b>		<b>16,988,670</b>	<b>0.1193%</b>

**d) The list of the persons affiliated to the Company**

The list of the affiliated persons is included in the Annex.

**4.2. Presentation of the list of members of the executive management of the Commercial Company. For each, the presentation of the following information:**

**a) The term of holding office by the person part of the executive management**

The category of persons that are part of the executive management also includes members of the Directorate. The members of the Directorate have an administration contract signed with Fondul Proprietatea.

The members of the Directorate are:

- Daniela Lulache: Chairperson of the Directorate - CEO
- Mihai Darie: member – CFO
- Laura Constantin: member – legal director

Before being Chairperson of the Directorate, Daniela Lulache also was Deputy General Director. Laura Constantin had been Director of the Legal Department. As of May 18, 2008, the individual employment



contracts of the 2 persons have been suspended and administration agreements have been concluded for a period of 4 years.

The category of executive management includes also the following persons:

- Manuela Dinescu – Investors Relations Director
- Cristina Stihi – PR & Communication Director
- Tudor Iorgu –Administrative Director

The Directors of departments have concluded employment contracts on indefinite periods with the Company.

**b) any agreement, understanding or family relation between the respective person and another person, due to whom the former has been appointed member of the executive management.**

Not applicable.

**c) Investments of the members of the executive management in the share capital of the commercial company.**

No.	Surname and name	No. of shares	% of the share capital of Fondul Proprietatea
1	Manuela Dinescu	-	-
2	Cristina Stihi	-	-
3	Tudor Iorgu	-	-
<b>TOTAL</b>		-	-

**4.3. For all the persons presented in 4.1. and 4.2. statement of any litigations or administrative procedures in which they were involved in the last 5 years, referring to their activity in the issuer company, as well as the ones concerning the ability of that person to fulfil its tasks in the issuer's company**

Not applicable.



## 5. FINANCIAL STANDING

During 2008, Fondul Proprietatea reached the objectives set under the Income and Expenses Budget approved by the General Meeting of Shareholders at operational level.

The annual financial statements as at December 31, 2008 have been prepared in accordance with the provisions of CNVM Oder no. 75/2005 regarding the approval of the Accounting Regulations compliant with EEC Directive IV, applicable as of January 1, 2006. The financial statements are accompanied by the opinion of the independent auditor, Deloitte Audit SRL.

The financial auditor expressed an unqualified opinion both on the financial statements for 2008 and on the ones for the previous year.

### a) Balance sheet

	-RON-	
	<u>December 31, 2007</u>	<u>December 31, 2008</u>
<b>Non-current assets</b>		
Intangible assets	11,862	2,606
Property, plant and equipment	702,776	763,583
Financial assets	<u>13,248,072,373</u>	<u>9,410,686,783</u>
	<b>13,248,787,011</b>	<b>9,411,452,972</b>
<b>Current assets</b>		
Receivables	620,540,992	569,833,740
State securities	-	397,648,315
Cash in hand and bank accounts	<u>592,174,579</u>	<u>572,156,465</u>
	<b>1,212,715,571</b>	<b>1,539,638,520</b>
<b>Prepaid expenses</b>	2,167	1,035,143
<b>TOTAL ASSET</b>	<u><b>14,461,504,749</b></u>	<u><b>10,952,126,635</b></u>
Short term payables	4,892,673	9,179,453
Provisions for risks and charges	-	<u>16,085,232</u>
	<b>4,892,673</b>	<b>25,264,685</b>
<b>Capital and reserves</b>		
1. Share capital, of which:		
- capital subscribed and not paid in	615,895,294	561,265,676
- capital subscribed and paid in	<u>13,624,645,381</u>	<u>13,679,274,999</u>
	<b>14,240,540,675</b>	<b>14,240,540,675</b>
2. Reserves	38,242,608	(3,832,131,548)
3. Retained earnings	(133,111,549)	74,136,468
4. Result of the financial year (profit)	313,106,905	467,701,426
5. Allocation of profit	(2,166,563)	(23,385,071)
	14,456,612,076	10,926,861,950
<b>TOTAL EQUIY &amp; LIABILITIES</b>	<u><b>14,461,504,749</b></u>	<u><b>10,952,126,635</b></u>

**b) INCOME STATEMENT**

Name of caption	- RON -	
	2007	2008
<b>Direct operational income</b>		
Income from dividends	203,168,328	384,750,573
Income from interests	30,861,864	84,453,833
Other income from current activity	<u>64,434</u>	<u>50,919</u>
	<b>234,094,626</b>	<b>469,255,325</b>
<b>Income from net FX differences</b>		
Income from FX differences	46,818,792	43,355,391
Expenses from FX differences	<u>(28,828,034)</u>	<u>(23,823,898)</u>
	<b>17,990,758</b>	<b>19,531,493</b>
<b>Direct operational expenses</b>		
Expenses regarding third party services	(2,446,182)	(8,850,787)
Salaries and incentives	(2,025,709)	(5,252,928)
Social insurance	(356,557)	(1,353,153)
Materials	(310,882)	(146,726)
Amortization and depreciation	(227,752)	(322,000)
Other taxes and similar payments	(183,467)	(237,501)
Commissions and fees	(988)	(103,484)
Banking services and similar services	(11,454)	(120,365)
Utilities	(39,627)	(41,419)
Interest expenses	<u>(3,676)</u>	<u>(1,189)</u>
	<b>(5,606,294)</b>	<b>(16,429,552)</b>
<b>Other elements of income and expenses</b>		
Losses regarding investment related receivables	-	(64,600)
Financial investments assigned	(11,055,450)	-
Provisions and adjustments for impairment	(46,952,478)	(2,770,084)
Income from provisions and adjustments for impairment	<u>129,621,256</u>	<u>11,475,624</u>
	71,613,328	8,640,940
<b>Gross result from current activity</b>	<b>318,092,417</b>	<b>480,998,206</b>
Income tax	(4,985,512)	(13,296,780)
<b>Net result from current activity</b>	<b>313,106,905</b>	<b>467,701,426</b>

**c) Cash – Flow**

	<b>2007</b>	<b>-RON- 2008</b>
<b>Cash flows from operations</b>		
Suppliers and similar payments	(2,716,599)	(8,770,999)
Payments to employees and similar payments	(2,265,662)	(6,426,525)
Other receipts	31,189	32,346
Interests paid	(3,676)	(1,189)
Income tax paid	<u>(1,132,209)</u>	<u>(12,991,496)</u>
<b>Net cash from operations</b>	<b>(6,086,957)</b>	<b>(28,157,863)</b>
<b>Cash flows from investments</b>		
Dividends received	206,243,003	395,898,837
Interests received	28,807,654	71,256,895
Payments related to purchases of tangible and intangible assets	(682,324)	(392,081)
Receipts from sale of property, plant and equipment	33,245	18,573
Payments for purchases of state securities	-	(390,456,918)
Payments for increases in the share capital of investments	<u>(41,242,054)</u>	<u>(49,845,442)</u>
<b>Net cash from investments</b>	<b>193,159,524</b>	<b>26,479,864</b>
<b>Cash flows from financing activities</b>		
Receipts for increasing the share capital paid in of FP	28,052,256	50,065,688
Financial lease payments	(22,300)	(24,465)
Dividends paid	<u>(35,465,984)</u>	<u>(87,912,831)</u>
<b>Net cash from financing activities</b>	<b>(7,436,028)</b>	<b>(37,871,608)</b>
<b>Net increase in cash and cash equivalents</b>	<b>179,636,540</b>	<b>(39,549,607)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>394,547,281</b>	<b>592,174,579</b>
FX differences pertaining to the cash and cash equivalents in foreign currencies	17,990,758	19,531,493
<b>Cash and cash equivalents at the end of the year</b>	<b>592,174,579</b>	<b>572,156,465</b>

**d) Allocation of profit**

The profit for 2007 in the amount of 313,106,905 RON, was distributed as follows:

- the amount of 2,166,563 RON to legal reserves;
- the amount of 133,111,549 RON to cover the retained losses from the adjustment of accounting errors;
- the amount of 89,997,678 RON to dividends (representing 50% of the net profit after covering the



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loss carried forward)

- the amount of 87,831,115 RON to other reserves, for own financing sources.

From the profit of 2008 of 467,701,426 RON, the amount of 23,385,071 RON was allocated to the legal reserve and the rest of 444,316,355 RON represents profit not distributed as at the date of AGA.

#### e) Off balance sheet elements

As at December 31, 2008, the Fund is involved in a series of transactions and litigations for which it did not record the assets resulting from the rights of the Fund listed below, given the uncertainty regarding the realization of those assets:

- 1) Fondul Proprietatea is currently involved in various litigations, of which, the ones with material impact are the ones involving the claims for penalties (legal interest) from the companies that were late in paying the dividends pertaining to 2005 in most cases and 2006 (the dividends were paid by the respective companies further to the Fund's winning the litigations in court).

The claims formulated by Fondul Proprietatea SA are in accordance with and based on the provisions of Law 31/1990, as revised, and, as a result, all these amounts should be considered due and paid to the Fund. These amounts will be recorded as income as received.

- 2) Status of the receivable from the privatization of Banca Comerciala Româna SA to a strategic investor.

As at 27.12.2006, the amount of 88,394,758.44 EUR was transferred to the Fund, representing 4% of the value receipted from the Romanian State from the sale of the stock held in Banca Comercială Română S.A. According to the text of the law, the Fund should have received "4% of the shares of S.C. B.C.R. S.A.", that is 242,495,438.5 EUR (4% of the total shares of Banca Comercială Română, at the price paid by Erste Bank der Oesterreichischen Sparkassen AG : 7.65 Euro/share).

As at the date of approval of these financial statements, there still is no solution favourable to the Fund in this respect and the management continues to make efforts to support such a request. In case of a favourable solution, the Fund would receive the difference of 154,100,680.06 EUR and this amount would cover the share capital subscribed and not paid in by the majority shareholder and/or would be used for purposes regarding an increase in the share capital, according to the date of receipt and the difference between the amount received and the level of the capital subscribed and not paid in as at that date.

- 3) The amounts to be transferred to Fondul Proprietatea as receipted are the following:
  - a. "3% of the amounts received by the institutions involved in the privatization process from the sale of the shares held in S.C. Romtelecom S.A. until such time as the entire investment is sold".
  - b. "20% of the amounts obtained from the privatization of S.C. Romtelecom S.A."
  - c. "9.9% of the amounts obtained from the privatization of Casa de Economii și Consemnațiuni C.E.C. – S.A."

These amounts are to be recorded in the accounts as increase in the share capital related to the majority shareholder only as receipted.

- 4) The amounts resulted from the recovery of Romania's receivables from the foreign trade and international economic cooperation conducted before December 31, 1989, the amounts resulted from the recovery of the rights deriving from the trade agreements and related governmental payments and banking technical arrangements, after deducting 3%, are not determined as total certain value.



Amounts from these categories have been recorded in the accounts of the Fund as receipted, but the management of the Fund cannot estimate the total amount receivable.

As these amounts are receipted, they will mainly be used for the purposes of covering the capital subscribed and not paid in by the majority shareholder.

- 5) The amounts resulted from the recovery of the receivable held by the fund against World Trade Centre Bucuresti: The provisions of art. 4 of Title II Other measures aiming at accelerating the procedure of granting reparations related to the abusively confiscated buildings, of Government Emergency Ordinance no. 81/2007 regarding the acceleration of the procedure of granting reparations related to the abusively confiscated buildings (published in the Official Gazette of Romania, Part I, no. 426 dated 29.06.2007), establish the legal and free transfer of the receivable from S.C. World Trade Centre Bucuresti S.A. from the Authority for State Assets Sale (AVAS) to Fondul Proprietatea, as of the effective date of GEO no.81/2007, that is 29.06.2007, together with all the related accessories accumulated by the date of the transfer.

As at 01.10.2007, Handover Protocol no.633 was concluded between AVAS and Fondul Proprietatea, based on which FP took over all the documents regarding the receivable from S.C. World Trade Centre Bucuresti S.A.. Fondul Proprietatea sent Notification no. 643/04.10.2007 to the assigned debtor, S.C. World Trade Centre Bucuresti S.A. regarding the assignment of receivable made under art. 4 of Title II of GEO no. 81/2007. Also, FP obtained the approval for registering the receivable with the Electronic Archive for Collateral Registration (AEGRM), legally assigned free of charge from AVAS to Fondul Proprietatea.

The consolidated balance of the receivable is of 68,814,198.35 USD as at the date of the transfer. As at the date of approval of these financial statements, there still is no certain solution of cashing the receivable. In 2008, the assigned debtor paid to Fondul Proprietatea the amount of 200,000 USD. The amounts received in 2008 were utilized to partially cover the share capital subscribed and not paid in by the majority shareholder, Ministry of Public Finance.

Given the amount of the receivable under scrutiny as against the market value of the SC World Trade Centre București SA business, as well as the position of shareholder of Fondul Proprietatea in this company, efforts are made to identify a solution of fully recover the receivable.

Taking into account these facts, amounts are recorded in the accounts as received, according to their destination, as at December 31, 2008, they being recorded in off balance sheet accounts.



## 6. NON FINANCIAL INFORMATION

### 6.1. Status of litigations in progress

As at 31.12.2008 Fondul Proprietatea is involved in 38 lawsuits. The prior conciliation procedure for other 7 files regarding the recovery of the dividends pertaining to the financial years 2005 and 2006 from the companies in the portfolio has been started, files subject to resolution in court at the beginning of 2009.

The litigations in which Fondul Proprietatea is involved can be grouped, according to their object, per various categories, such as: corporate lawsuits (actions aiming at cancellation of AGA decisions); claims (recovery of dividends); civil lawsuits (claims); lawsuits based on Law 10.

Most of the lawsuits initiated by Fondul Proprietatea aiming at the recovery of the dividends not paid by companies in the portfolio or at cancelling AGA decisions which violate the Fund's entitlement to receive dividends, have been won.

The litigations started in 2006 and 2007, initiated as a result of failure to pay the dividends for the years 2005 and 2006, continued in 2008, a part of them being completed.

Fondul Proprietatea started the litigation against Transelectrica in 2006 to recover the dividends pertaining to the financial year 2005. The action was admitted in the first instance court and as at 05.05.2008 Transelectrica transferred to Fondul Proprietatea the amount of 2.569.245 RON, representing dividends for the financial year 2005. Fondul Proprietatea appealed the decision requesting that the court obligate Transelectrica to also pay the related interest calculated as of the due date of the obligation to pay the dividends.

As part of the litigation started in 2006 against Romgaz and Ministry of Economy and Trade regarding the recovery of the dividends due to the Fund for the financial year 2005, under Decision dated 18.03.2008 the Commercial Section of the High Court of Cassation and Justice rejected the appeal of Fondul Proprietatea. As a result of issuance of GEO no.81/2007, according to which the companies stated in the Annex to Law no. 247/2005 that transferred the dividends for the years 2005 and 2006 to the state budget or the budgets of the public institutions involved must transfer the corresponding part to Fondul Proprietatea within 60 days of the effective day of the ordinance, Fondul Proprietatea took another legal action to recover the dividends for the year 2005 from Romgaz, litigation which is currently judged by the first instance court.

Another legal action taken by Fondul Proprietatea in 2006 is against the Henri Coanda International Airport. In the first instance court, Bucharest Court allowed the action and the defendant Henri Coandă International Airport paid during the trial the amount corresponding to the dividends due for the year 2005, in the amount of 2,604,068 RON. The litigation is currently in the phase of appeal by Fondul Proprietatea, which requested also the interests related to the dividends for the year 2005, that had been paid by the airport with delay.

Fondul Proprietatea has four lawsuits regarding the investment in Conpet:

- File no. 3715/105/2007 – The Fund sued Conpet requesting the cancellation of AGA decision regarding the distribution of the dividends related to the 2006 financial year, as FP considered itself to have been harmed by establishing the payment of the dividends in its favour for a reduced quota of 10% and not for 16% as the Fund is listed in the Shareholders' Registry. This file is suspended pending the resolution of File no. 33317/3/2007.
- File no. 33317/3/2007 - Fondul Proprietatea is a defendant in this file and AVAS is plaintiff. Thus,



the purpose of this file is the claim of AVAS regarding a package of 524,366 shares issued by Conpet and held by Fondul Proprietatea. Fondul Proprietatea's defence against AVAS is based on the registration in the shareholders' registry in its favour of the stock claimed by AVAS, a registration made in accordance with Law no. 247/2005. This file is currently judged by the first instance Court.

- File no. 3722/105/2008 – the object of this file is the cancellation of the Decision of AGOA (Ordinary General Shareholders Assembly) of Conpet S.A. of 18.04.2008. Fondul Proprietatea sued Conpet in first instance court requesting the cancellation of AGOA Decision regarding the distribution of the dividends for the year 2007, as FP considered itself harmed by the allocation in its favour of a reduced quota of 14% instead of 20% as listed in the Shareholders' Registry based on Law no. 247/2005 and GEO no. 81/2007. This file is currently judged by the first instance court.
- File no. 43918/3/2007 – Claim regarding a package of shares issued by Conpet and owned by Fondul Proprietatea. The file is legally related to the aforementioned File no. 33317/3/2007, both having the same parties, case and object and they are to be correlated.

With the lawsuit vs. S.C. Conpet S.A. in 2006, Fondul Proprietatea, as shareholder of S.C. Conpet S.A., requested that Prahova Court acknowledge the partial nullity of AGOA Decision, that is of art.2, points a, b and c, according to which it had been approved the exclusion of the shareholder Fondul Proprietatea from the benefit of awarding the dividends due for the financial year 2005 and the payment of such dividends to the shareholder Ministry of Economy and Finance. Fondul Proprietatea won this litigation in the High Court of Cassation and Justice and Conpet paid the dividends for the financial year 2005 and the Fund is to take a separate legal action regarding the interests related to the dividends for the year 2005, which were paid by the Company with delay.

Following are other categories of litigations involving Fondul Proprietatea:

- Litigations versus various individuals, with Fondul Proprietatea as defendant, regarding real estate claims based on Law no. 10/2001 or reparations based on law no. 247/2005;
- Files in which Fondul Proprietatea is intervenient in own interest or intervenient in the interest of one of the parties (supporting companies in the portfolio in various litigations);
- Files requesting the acknowledgement of the absolute nullity of various mortgage contracts, as well as the writing off of those contracts from the Land Registry (e.g.: S.C. FECNE S.A.);
- Litigations against individuals that claim damages in cash from Fondul Proprietatea, although the relevant entity with responsibilities in this regard is the National Authority for Returning Properties; Fondul Proprietatea invokes the lack of the capacity to act as a defendant;
- Litigations versus individuals who request that Fondul Proprietatea make the conversion of the reparation titles in shares; again, FP invokes the lack of capacity to act as defendant as Law no. 247/2005 clearly establishes that the National Authority for Restitution of Properties orders that Depozitarul Central make the translation of the claims titles in shares in Fondul Proprietatea.

With regard to the litigations initiated by individuals against the Fund, in legal practice, the courts of laws have constantly allowed that Fondul Proprietatea does not have the legal capacity to act in the administrative procedure of establishing and granting the claims under the conditions of special Law - Title VII of Law no. 247/2005. Thus, the legal actions taken by individuals against Fondul Proprietatea requesting reparations have been rejected, as the Fund lacks the legal capacity to act as defendant.

As a result of the issuance of GEO no.81/2007 regarding the companies mentioned in Annex to Law no.247/2005 that have transferred the dividends for the years 2005 and 2006 to the state budget or budgets of the public institutions involved, shall transfer the corresponding part of the dividends to Fondul Proprietatea; in 2008 various litigations were started against the following companies in the portfolio with regard to recovering the dividends due to the Fund pertaining to the financial years 2005 and 2006: Complex Energetic Craiova, Complex Energetic Rovinari, Complex Energetic Turceni, Transgaz, ACN Constanta, Carom and Imprimeria Nationala. As a result of the mandatory prior conciliations regulated by



the Civil Procedure Code, the following companies paid the dividends for 2005 due to the Fund: Complex Energetic Craiova, Complex Energetic Rovinari, Complex Energetic Turceni, Administratia Canalelor Navigabile Constanta and Imprimeria Nationala. The Fund started legal actions regarding claims to recover the dividends pertaining to 2005 against Carom and Transgaz and to recover the dividends for 2006 against Carom. Also, legal actions have been taken against Complex Energetic Craiova, Complex Energetic Rovinari, Complex Energetic Turceni and Imprimeria Nationala the recover the dividends for the year 2005.

#### **Starting the legal procedure against the BCR receivable**

As at 27.12.2006, the Fund received the amount of 88,394,758.44 EUR, representing 4% of the value received by the Romanian State from selling the package held in Banca Comercială Română S.A. According to the text of the law, the Fund should have received a value representing "4% of the shares of S.C. B.C.R. S.A.", that is 242,495,438.5 EUR (4% of the shares held in Banca Comercială Română, at the price paid by Erste Bank der Oesterreichischen Sparkassen AG : 7.65 Euro/share).

As at the date of approving these financial statements, there still is no solution favourable to the Fund in this respect, the management of the Fund continuing its efforts to support this request. In case of a favourable solution, the Fund should receive the difference of 154,100,680.06 EUR and this amount would cover the share capital subscribed and not paid in by the majority shareholder and/or increase the share capital according to the date of receipt and the difference between the amount received and the level of the capital subscribed and not paid in as at that date.

For the purpose of recovering this amount, Fondul Proprietatea submitted as at 01.10.2008 a request to sue with Bucharest Court – Commercial Section, against the defendants Ministry of Economy and Finance and AVAS. Fondul Proprietatea represented in this litigation by Boștină & Asociații law firm.

#### **Status of the investment in SN Nuclearelectrica SA**

Efforts were continued to resolve the case of the investment held by Fondul Proprietatea in the share capital of S.N. Nuclearelectrica S.A., based on law no. 247/2005, a situation which involves two components:

- I. Implementation of the provisions of Emergency Ordinance no.69/2008 regarding the updating of the investment in the share capital held by "Fondul Proprietatea" - S.A. in National Corporation "Nuclearelectrica" - S.A.
- II. The claim regarding a number of 7,267,365 shares issued by Nuclearelectrica

Thus, both Ministry of Economy and Finance and, subsequently, Ministry of Economy were requested an amiable settlement of the dispute. Mention must also be made that in the event where this dispute cannot be settled in a amiable manner, Fondul Proprietatea will use all the legal means to protect the interests of its shareholders, also considering the option of taking a legal action.

### **7. INFORMATION REGARDING THE IMPORTANT EVENTS OCCURRED SUBSEQUENTLY TO THE END OF THE FINANCIAL YEAR**

#### **Events related to the process of selection of the fund administrator**

See Section 8 point g.

#### **Amendment and completion of CNVM order no. 75/2005**

On March 11, 2009, CNVM Order 11 was published to amend and complete CNVM Order 75/2005. The impact of these changes is presented in the annual financial statements.



## 8. OTHER SIGNIFICANT EVENTS IN THE ACTIVITY OF THE FUND

### a) Selection of the appraisers and appraisal of the portfolio.

As per law no 247/2005, art 7 paragraph 2 letter j, regarding the property and justice reformation, as well as some adjacent measures, with the subsequent modifications and addenda, for obtaining the authorization as AOPC from The National Securities Commission, The Fund Property has to lay down a prospectus that complies with the Regulation no 809/2004 regarding the implementation of the Directive no 2003/71/EC regarding the information that should be encompassed within the prospectus, as well as the configuration, references to other information, prospectus publication and advertisement dissemination. As per law no 297/2004 art 99, paragraph 1 the placements companies has to apply for the transaction on a regulated market, within 90 working days from obtaining the authorization.

The necessary documentation for the quotable matriculation request, includes a listing prospectus/ presentation document out of which the main figure is the portfolio. A value of the net asset established by an independent appraiser, as per IVS will be applied and difficult to challenge by The Securities National Commission (which has to approve the prospectus) as well as by the BVB Registration Commission (which has to approve the admission). In addition, the unitary value of the net asset for a placement company it is the main benchmark depending on which it is valued by an investor through its transaction price. So that, through the Decision of the Supervision Council no 127/21.11.2007 it was approved the beginning of the acquisition procedure through open auction, for the selection of two appraisers authorised by the National Association of the Romanian Appraisers and registered at the National Commission of Securities, who should assess the assets of the Property Fund as per the ANEVAR standards (which includes IVS). Through the Decision of the Supervisory Board, it was approved the drafts of the contract signed with S.C. PricewaterhouseCoopers S.R.L and S.C. Darian Rom Swisse S.R.L., the winning appraisers as a result of the selection procedure. So far, the evaluation reports have been completed for a significant number of companies in the portfolio (details are included in the financial statements).

### b) Selection of the financial consultant

The provisions of art.7, paragraph 2 of GEO no.81/2007 regarding the acceleration of the procedure of granting compensations for the property abusively confiscated by the state that "By the date of approving under a Government Decision of the regulation regarding the organization of the international tender for designating the administration company and of the technical documentation of the tender, Fondul Proprietatea has the obligation of selecting the necessary financial and legal consultants for the selection of the administration company". Decision no.134/13.12.2007 of the Supervisory Board approved: the commencement of the selection of the financial consultant under the competitive dialogue procedure, the participation announcement, as well as the Regulation that presents the general framework for performing the process of selecting the international financial consultant of the Fund based on the competitive dialogue procedure. The selection procedure was publicly announced by the participation announcement published in the following publications: Bursa, Capital, Ziarul Financiar, Săptămâna Financiară, as well as in the Financial Times and The Economist. Given the decision of the Appraisal Commission and of the Supervisory Board, the proposal of Schrodgers (UK) was designated winner. The Contract was signed on 28.05.2008. The main mission of the consultant is to provide advice on structural problems and problems regarding corporate governance. Together with the legal adviser, Allen & Overy (British law firm) will support the selection process of the fund manager.



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**c) Depository Contract**

According to the provisions of art. 7, paragraph 2, letter c of Law no. 247/2005, as at the time when Fondul Proprietatea is registered with the National Commission of Securities, as another collective securities placement organization (AOPC), of a special purpose type, designated to grant compensations for the properties that cannot be returned in kind, as distinctly from other categories of AOPC mentioned in the regulations of the National Commission of Securities, one of the documents that must be submitted is the depository contract signed with an authorized depository, in original form authenticated.

Decision of the Supervisory Board no. 202/24.07.2008 approved the commencement of the procedure of acquisition through open tender, as well as the awarding documentation for the selection of a credit institution authorized by the National Bank of Romania, in accordance with the banking legislation, or a branch in Romania of a credit institution authorized in another member state, endorsed by the National Securities Commission for the depository activity, to which all the Fund's assets will be entrusted, in accordance with the provisions of Law no. 297/2004 regarding the capital market.

On August 20, 2008, the tender procedure for the selection of the depository was completed. Further to the evaluation of the proposals, the Appraisal Commission declared winner the proposal submitted by Bancpost. Thus, Fondul Proprietatea concluded with Bancpost a contract regarding the depository activity, aiming at preserving under safety conditions all the Fund's assets, ensuring a permanent control from the point of view of compliance with the laws with regard to the Fund's operations, in accordance with the legal provisions in effect, of the Articles of Association of the Fund and of its regulations (as the case may be) and the custody activity for the Fund's assets.

**d) Tender for the selection of the services regarding the preparation of the IFRS standalone and consolidated financial statements**

The preparation of the IFRS standalone and consolidated financial statements is essential given that the issue prospectus should include the financial information in a generally accepted and easy to understand format for the potential foreign investors who might subscribe as part of the Secondary Public Offer.

Thus, providing in the issue prospectus only the statutory financial statements (CNVM Order 75/2005) could impede on the process of attracting foreign investors, as part of the public offer organized by the Ministry of Finance for listing.

Moreover, the legal provisions in effect state the obligation of preparing consolidated financial statements for the entities authorized or regulated by CNVM that meet certain criteria. Thus, by extension, Fondul Proprietatea must prepare consolidated financial statements. The law provides for the preparation of the financial statements either in accordance with IFRS, or in accordance with the provisions of EEC Directive VII.

With a view to the preparation of the IFRS standalone financial statements (2006 & 2007) and IFRS consolidated financial statements (2007), Fondul Proprietatea performed a procedure of acquisition of services, namely a tender.

Further to the acquisition procedure, the proposal submitted by KPMG was declared winner and a contract was signed with regard to the preparation of the IFRS standalone financial statements of Fondul Proprietatea for the financial years ended 31.12.2006 and 31.12.2007 and the preparation of the IFRS consolidated financial statements for the year ended 31.12.2007. Currently, these are about to be completed, the process involving the Fund's adopting various IFRS accounting policies for the first time.



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**e) Selection of the insurance company for the insurance policy of the managers**

The provisions of art. 15312, paragraph 4 of Law no. 31/1990 regarding the commercial companies provide for the legal obligation of the members of the Supervisory Board and members of the Directorate to conclude a civil liability insurance policy for the managers. The proposal of AON Romania Broker de Asigurare – Reasigurare, which presented an AIG insurance policy, was declared winner. Thus, a legal civil liability insurance policy was concluded for the administrators and executive directors (members of the Supervisory Board and of the Directorate) with the insurance company AIG Romania S.A..

**f) PR and Communication**

In its third year of existence, the image of Fondul Proprietatea is deficient for both the domestic and foreign public. Although its prospects and potential are recognized, the content of the initial project is still not recognized (what it actually is and who works to achieve its main purposes).

Once the dualist management system is adopted, the directorate decided that a serious plan structured on public communication needed to be prepared. Based on such a plan, the management was to decide on the regulation of the internal and external conduct aiming at the management of information. One more reason for this was the prospects of a very busy period in the evolution of the Fund: preparation of the documentation for the selection of the fund administrator, commencement of the selection process together with taking the necessary steps for listing.

The preparation of the strategic communication plan took into account the key elements necessary for such a work to be rapidly implemented: documenting and objectivity.

With regard to the two current main activities, in the field of communication and public relations: relation with the press and internet page, the following can be mentioned:

1. The relation with the press was significantly improved. A determinant factor was consistency in public appearances. The points of view of various journalists with big public exposure were confronted and clarified.
2. The structure of the internet page was changed to one closer to the corporate model. The identity of the organization began to take shape, which positively influenced the stability of the brand.
3. The communication with the shareholders and the press was made more efficient, by means of the new internet page – a clearer order of information, increased quality of the information per profile, a presentation more applied to the purposes of the organisation.
4. Imposing the internet page as the main source – trustworthy and prompt – of information on Fondul Proprietatea.

**g) Events related to the process of selecting the fund manager**

Following Decision of Prime Minister no.67/28.03.2008, a commission was set up comprising five members: Sebastian Vladescu, Bogdan Dragoi, Catalin Doica, Nicolae Cinteza, Crenguta Leaua; the commission will carry out the process of selecting the administration company of "Fondul Proprietatea" - S.A. Thus,, according to the provisions of Decision 67/2008, the supervisory board of "Fondul Proprietatea" - S.A. will establish together with the members of the aforementioned commission, concrete ways, terms and conditions under which the commission will operate.

The provisions of Art. 12, paragraph 2 of Title VII of Law 247/2005 state: "The administration company will be selected further to an international tender; the regulation regarding the organization of the tender and the competence of the tender commission is to be established under Government Decision. The administration Company will be designated in compliance with the provisions of Law no. 297/2004



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regarding the capital market, as revised, as well as the regulations of the National Commission of Securities issued with regard to its application.

According to Art. 7, paragraph 1 of Title II, GEO 81/2007 "...the Government will approve under a decision the regulation regarding the organization of the international tender for designating the administration company and the technical documentation of the tender, documents to be prepared by Fondul Proprietatea."

Fondul Proprietatea sent on 19.09.2008, to the Ministry of Economy and Finance and the Prime Minister the English version of the Regulation regarding the organization of the international tender for designating the administration company and the technical documentation of the tender, prepared together with Schrodgers – the financial advisor, Allen&Overy – the international legal advisor and with the law firm Tuca, Zbarcea si Asociatii, and the request of initiating the Government Decision to approve these documents. Also, FP sent the letters from the financial advisor, international legal advisor and law firm, with which the latter support the provisions of the Regulation regarding the organization of the international tender for designating the administration company and the technical documentation of the tender. Also, these letters confirm the agreement between the attached documents and the legal provisions in effect and the best international practices in the field.

Government Decision no.959/15.09.2008 (regarding the competencies of the commission that will select the administration company of "Fondul Proprietatea" - S.A.) changed the initial legislative framework and established in art. 1, as competence of the Selection Commission the preparation of the draft regulation regarding the organization of the international tender and of the technical documentation, together with the selected consultants.

Government Decision no.1514/19.11.2008 (published in the Official Gazette of Romania on December 3, 2008) approved the Regulation regarding the organization of the international tender for designating the administration company of S.C. "Fondul Proprietatea" SA and the Technical Documentation of the tender, according to which the administration company will take over both the mandate of sole administrator of the Company and the one of administrating the investments.

On December 11, 2008, Fondul Proprietatea published in the domestic and international press the request for proposals for selecting the administrator, the deadline for submitting the proposals initially being January 15, 2009. The deadline for the submission of the initial proposals for the selection of the administrator of Fondul Proprietatea was extended until January 22, 2009.

Under Decision of Prime Minister no. 123/21.01.2009 regarding the amendment of the annex to the Decision of Prime Minister no. 67/2008 regarding the set-up of the commission that will carry out the process of selecting the administration company of "Fondul Proprietatea" - S.A., the members of the Selection Commissions was changed, by the appointment of the following members: Enache Jiru – chairman, Galina Narcisa Oprea – member, Dinu Marin – member, Nicolae Cintează – member, Bogdan Alexandru Drăgoi – member. Art. II of Decision no.123/2009 states that "within 10 days of the effective date of this decision, the commission stated in the annex will make an evaluation regarding the process of selecting the administration company of "Fondul Proprietatea" - S.A. and shall present the Government with the related proposals."

Before the deadline for submitting the proposals, that is 22.01.2009, the following proposals had been submitted: AVIVA Investors Global Services Limited, Blackrock, Credit Suisse & OTP, FINAG Holding GmbH, Franklin Templeton Investments, ING Invest Management, Morgan Stanley and Julius Baer. As at February 13, 2009, the Selection Commission suspended the selection procedure for 15 business days.



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As at March 6, 2009, the selection Commission decided to extend the selection process until such time as the Romanian Government communicates the decision regarding the conclusions to be communicated by the Commission.

The selection commission pointed out that the extension of the suspension had been mainly determined by the fact that, given the complexity of the mandate given by the Romanian Government, it was necessary that the solutions identified by the Commission be verified also by other institutions with relevant responsibilities in the field.



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9. ANNEXES

**Annex 1 – List of the commercial companies and companies controlled by Fondul Proprietatea as at 31.12.2008**

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<b>No.</b>	<b>Company</b>	<b>Percentage of share capital held %</b>
1	Zirom SA	100.0%
2	Primcom SA	79.0%
3	Alcom SA	71.9%
4	Prestari Servicii SA	70.6%
5	Carom - Broker Asigurare SA	70.0%
6	Comsig SA	69.9%
7	Telerom Proiect SA	68.6%
8	Delfincom SA	65.5%
9	Romplumb SA	51.0%



**Annex 2– List of the affiliated persons to the commercial company as at 31.12.2008**

<b>No.</b>	<b>Affiliated companies</b>	<b>Related party</b>	<b>% of affiliate</b>
1	CN Administratia Porturilor Maritime SA Constanta	Transport Ministry	80.00%
2	CN Administratia Canalelor Navigabile SA	Transport Ministry	80.00%
3	CN Administratia Porturilor Dunarii Fluviale SA	Transport Ministry	80.00%
4	CN Administratia Porturilor Dunarii Maritime SA	Transport Ministry	80.00%
5	Aeroportul International Bucuresti Baneasa - Aurel Vlaicu SA	Transport Ministry	80.00%
6	Aeroportul International Henri Coanda Bucuresti SA	Transport Ministry	80.00%
7	Aeroportul International Mihail Kogalniceanu - Constanta SA	Transport Ministry	60.00%
8	Aeroportul International Timisoara - Traian Vuia SA	Transport Ministry	80.00%
9	Alcom SA	n/a	n/a
10	Bat Service SA	n/a	n/a
11	Carom - Broker Asigurare SA	n/a	n/a
12	CEZ Distributie SA	Electrica SA	18.99%
13	CEZ Vanzare SA	Electrica SA	37.00%
14	CEZ Servicii SA	Electrica SA	37.00%
15	Complexul Energetic Craiova SA	Ministry of Economy	72.89%
16	Complexul Energetic Rovinari SA	Ministry of Economy	76.27%
17	Complexul Energetic Turceni SA	Ministry of Economy	75.07%
18	Comsig SA	n/a	n/a
19	Conpet SA	Ministry of Economy	58.72%
20	Delfincom SA	n/a	n/a
21	Distrigaz Sud SA	Ministry of Economy	37.00%
22	E.ON Gaz Distributie SA	Ministry of Economy	37.00%
23	E.ON Gaz Romania SA	Ministry of Economy	37.00%
24	E.ON Moldova Distributie SA	Electrica SA	27.00%
25	E.ON Moldova Furnizare SA	Electrica SA	27.00%
26	Electrica Distributie Muntenia Nord SA	Electrica SA	78.00%
27	Electrica Furnizare Muntenia Nord SA	Electrica SA	78.00%
28	Electrica Muntenia Sud SA (ENEL)	Electrica SA	23.57%
29	Electrica Distributie Transilvania Nord SA	Electrica SA	78.00%
30	Electrica Furnizare Transilvania Nord SA	Electrica SA	78.00%
31	Electrica Distributie Transilvania Sud SA	Electrica SA	78.00%
32	Electrica Furnizare Transilvania Sud SA	Electrica SA	78.00%
33	Electromecanica Ploiesti SA	n/a	n/a
34	ENEL Distributie Banat SA	Electrica SA	24.87%
35	ENEL Distributie Dobrogea SA	Electrica SA	24.90%
36	ENEL Energie SA	Electrica SA	37.00%
37	Forsev SA	n/a	n/a
38	Hidroelectrica SA	Ministry of Economy	80.06%
39	IOR SA	Ministry of Economy	86.70%
40	Nuclearelectrica SA	Ministry of Economy	90.28%
41	Oil Terminal SA	Ministry of Economy	59.62%



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42	Petrom SA	Ministry of Economy	20.64%
43	Petrom Aviation SA	SC Petrom SA	69.37%
44	Plafar SA	Ministry of Economy	51.00%
45	Posta Romana SA	Ministry of Communication	75.00%
46	Prestari Servicii SA	n/a	n/a
47	Primcom SA	n/a	n/a
48	Romaero SA	Ministry of Economy	51.90%
49	Romgaz SA	Ministry of Economy	85.01%
50	Romplumb SA	Ministry of Economy	45.03%
51	Societatea Nationala a Sarii SA	Ministry of Economy	51.00%
52	Severnav SA	n/a	n/a
53	Simtex SA	Ministry of Economy	30.91%
54	Telerom Proiect SA	n/a	n/a
55	TRANSELECTRICA SA	Ministry of Economy	76.50%
56	TRANSGAZ SA	Ministry of Economy	75.01%
57	Transilvania Com SA	n/a	n/a
58	Turdapan SA	n/a	n/a
59	Uzina Mecanica Bucuresti SA	n/a	n/a
60	Vitacom SA	n/a	n/a
61	Zirom SA	n/a	n/a

**Annex 3 – Execution of the 2008 Budget**

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Captions	Year 2007		Year 2008	
	Realized	Budgeted	Realized	Variation
1	2	3	4	5
<b>I. INCOME FROM CURRENT ACTIVITY</b>	<b>410,534,674</b>	<b>461,059,000</b>	<b>524,086,340</b>	<b>63,027,340</b>
<b>Budgeted income, of which:</b>	<b><u>280,913,418</u></b>	<b><u>461,059,000</u></b>	<b><u>512,610,716</u></b>	<b><u>51,551,716</u></b>
Income from dividends	203,168,328	379,324,000	384,750,573	5,426,573
Income from interests	30,861,864	61,620,000	84,453,833	22,833,833
Income from sale of investments	-	-	-	-
Income from FX differences	46,818,792	20,105,000	43,355,391	23,250,391
Other income from current activity	64,434	10,000	50,919	40,919
<b>Non budgeted income, of which:</b>	<b>129,621,256</b>	<b>-</b>	<b>11,475,624</b>	<b>11,475,624</b>
Income from adjustment for impairment of financial assets	129,621,256	-	1,592,199	1,592,199
Income from the reversal of provisions	-	-	9,883,425	9,883,425
<b>II. EXPENSES FROM CURRENT ACTIVITY</b>	<b><u>92,442,257</u></b>	<b><u>40,339,000</u></b>	<b><u>43,088,134</u></b>	<b><u>(2,749,134)</u></b>
Budgeted expenses, of which:	34,434,328	40,339,000	40,253,450	85,550
Materials (energy, water, materials, small tools, fuel)	350,509	255,000	188,145	66,855
Rents	570,431	625,000	472,523	152,477
Insurance premiums	21,258	1,169,000	130,845	1,038,155
Protocol, advertising and publicity	114,926	995,000	389,291	605,709
Travel and transport	137,957	398,000	239,160	158,840
Social insurance, contributions and other taxes	356,557	1,476,000	1,353,153	122,847
Other taxes and similar payments	183,467	195,000	237,501	(42,501)
Bank services and similar payments	11,454	125,000	120,365	4,635
Commissions, fees and contributions *)	988	-	103,484	(103,484)
Expenses regarding the personnel and administrators, of which:	2,025,709	4,945,000	4,487,028	457,972
Benefits for administrators – mandate agreements	859,020	3,600,000	3,409,011	190,989
Expenses regarding the personnel employed – employment contracts	1,166,689	1,345,000	1,078,017	266,983
Benefits for the selection commission	-	763,000	765,900	(2,900)
Depreciation/amortization of tangible/intangible assets	227,752	330,000	322,000	8,000
Interests	3,676	3,000	1,189	1,811
FX differences	28,828,034	12,968,000	23,823,898	(10,855,898)
Financial investments assigned	-	-	-	-
Services executed by third parties, including postal services, telecommunications, internet maintenance, repairs	1,565,985	13,659,000	7,484,495	6,174,505
Other expenses, including donations, sponsorships	35,625	175,000	134,473	40,527
Other operational expenses	-	2,258,000	-	2,258,000
<b>Non budgeted expenses, of which:</b>	<b><u>58,007,928</u></b>	<b>-</b>	<b><u>2,834,684</u></b>	<b><u>(2,834,684)</u></b>
Expenses regarding the adjustments for impairment of financial assets	8,923,604	-	-	-
Provisions for receivables in dispute or doubtful	38,028,874	-	806,084	(806,084)
Provisions for risks and charges	-	-	1,964,000	(1,964,000)
Losses from investment related receivables	11,055,450	-	64,600	(64,600)
<b>III. GROSS RESULT</b>	<b>318,092,417</b>	<b>420,720,000</b>	<b>480,998,206</b>	<b>60,278,206</b>
IV. Income tax	4,985,512	6,631,000	13,296,780	(6,665,780)
<b>V. NET RESULT</b>	<b>313,106,905</b>	<b>414,089,000</b>	<b>467,701,426</b>	<b>53,612,426</b>

\*) audit fees reclassified as expenses with third parties