

FONDUL PROPRIETATEA S.A.

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2008

To the shareholders of
Fondul Proprietatea S.A.
Bucharest, Romania

INDEPENDENT AUDITOR'S REPORT

Report on the Consolidated Financial Statements

1. We have audited the accompanying consolidated financial statements of Fondul Proprietatea S.A. and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurances about the consolidated financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

- 7 This report is made solely to the Group's shareholders, as a body. Our audit work has been undertaken so that we might state to the Group's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

For signature, please refer to the original Romanian binding version.

Deloitte Audit S.R.L.
Bucharest, Romania
October 31, 2010

FONDUL PROPRIETATEA S.A.

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

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FONDUL PROPRIETATEA S.A.**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)**

	<i>Note</i>	Year ended 31 December 2008	Year ended 31 December 2007
Gross dividend income	6	205,261,875	227,642,629
Interest income	7	84,453,833	28,005,444
Impairment losses on equity investments	18	(239,690,824)	(243,513,025)
Impairment losses on dividends receivable	16	9,427,066	(38,378,599)
Gains/ (Losses) on disposal of equity investments	8	-	32,398,995
Share of profit in associates (net of income tax)		180,097,743	155,034,650
Net foreign exchange gains	9	19,531,493	17,990,758
Net investment income/ (loss)		259,081,186	179,180,852
Personnel expenses	10	(6,606,081)	(2,382,266)
Other operating expenses	11	(11,736,611)	(3,159,592)
Operating expenses		(18,342,692)	(5,541,858)
Profit/ (Loss) before tax		240,738,494	173,638,994
Income tax (expense)/ credit	12	(14,727,606)	3,115,784
Profit/ (Loss) for the year		226,010,888	176,754,778
Attributable to:			
Equity holders of the Fund		226,010,888	176,754,778
Minority interest		-	-
Basic and diluted earnings/ (loss) per share		0.02	0.01

The financial statements were authorised for issue on 4 November 2010 by:

Grzegorz Maciej Konieczny
as Legal Representative on behalf of
Franklin Templeton Investment Management Limited United Kingdom Sucursala Bucuresti
acting in the capacity of Sole Director of S.C. Fondul Proprietatea S.A.

The notes on pages 7 to 59 are an integral part of these consolidated financial statements.

FONDUL PROPRIETATEA S.A.**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)**

	<i>Note</i>	31 December 2008	31 December 2007
Assets			
Cash	13	1,499,993	492,149
Deposits with banks	14	578,716,223	593,729,763
Treasury bills	15	397,648,315	-
Dividends receivable	16	498,321	4,224,515
Receivables in respect of equity contributions	17	78,317,588	129,014,506
Equity investments	18	6,943,683,104	7,754,784,363
Investment in associate	19	3,215,539,060	3,154,915,485
Deferred tax assets	20	112,395,964	-
Other assets	21	1,944,183	864,059
Total assets		11,330,242,751	11,638,024,840
Liabilities			
Deferred tax liabilities	20	-	25,762,021
Other liabilities	22	11,143,453	4,888,027
Total liabilities		11,143,453	30,650,048
Equity			
Share capital	23	13,757,592,587	13,757,592,587
Fair value reserve on available-for-sale financial assets	23	49,996,775	572,381,895
Other reserves	23	149,458,794	38,242,608
Accumulated losses		(2,637,948,858)	(2,760,842,298)
Total equity		11,319,099,298	11,607,374,792
Total liabilities and equity		11,330,242,751	11,638,024,840

The notes on pages 7 to 59 are an integral part of these consolidated financial statements.

FONDUL PROPRIETATEA S.A.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)**

	Share capital	Fair value reserves on available-for-sale financial assets	Other reserves	Accumulated losses	Total attributable to the equity holders of the Fund
Balance at 31 December 2006	13,757,592,587	729,625,561	3,607,605	(152,569,600)	14,338,256,153
Net change in fair value of available-for-sale equity investments	-	434,410,777	-	-	434,410,777
Transfers from equity investments to investments in associates	-	(621,605,618)	-	-	(621,605,618)
Share of income and expense recognised directly in the equity of associates (net of income tax)	-	-	-	70,461,921	70,461,921
Income tax on income and expense recognised directly in equity	-	29,951,175	-	-	29,951,175
Income and expense recognised directly in equity	-	(157,243,666)	-	70,461,921	(86,781,745)
Profit for the year	-	-	-	176,754,778	176,754,778
Transfers to other reserves	-	-	34,635,003	(34,635,003)	-
Dividends declared	-	-	-	(36,076,047)	(36,076,047)
Acquisition of associate from entities under common control	-	-	-	(2,784,778,347)	(2,784,778,347)
Balance at 31 December 2007	13,757,592,587	572,381,895	38,242,608	(2,760,842,298)	11,607,374,792

FONDUL PROPRIETATEA S.A.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)**
(all amounts are in RON unless otherwise stated)

	Share capital	Fair value reserves on available-for-sale financial assets	Other reserves	Accumulated losses	Total attributable to the equity holders of the Fund
Balance at 31 December 2007	13,757,592,587	572,381,895	38,242,608	(2,760,842,298)	11,607,374,792
Net change in fair value of available-for-sale equity investments	-	(621,887,047)	-	-	(621,887,047)
Share of income and expense recognised directly in the equity of associates (net of income tax)	-	-	-	98,096,419	98,096,419
Income tax on income and expense recognised directly in equity	-	99,501,927	-	-	99,501,927
Income and expense recognised directly in equity	-	(522,385,120)	-	98,096,419	(424,288,701)
Loss for the year	-	-	-	226,010,888	226,010,888
Transfers to other reserves	-	-	111,216,186	(111,216,186)	-
Dividends declared	-	-	-	(89,997,681)	(89,997,681)
Balance at 31 December 2008	<u>13,757,592,587</u>	<u>49,996,775</u>	<u>149,458,794</u>	<u>(2,637,948,858)</u>	<u>11,319,099,298</u>

The notes on pages 7 to 59 are an integral part of these consolidated financial statements.

FONDUL PROPRIETATEA S.A.**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)**

	Year ended <i>Note</i> 31 December 2008	Year ended 31 December 2007
Cash flows from operating activities		
Dividends received (net of withholding tax)	178,328,251	206,243,003
Maturity of bank deposits maturing in more than three months	-	80,987,686
Interest received	71,256,895	28,807,654
Realised foreign exchange gains on cash and cash equivalents	12,941,854	15,661,993
Acquisition of treasury bills	(390,456,918)	-
Creation of bank deposits maturing in more than three months	(92,248,546)	-
Cash contributions to equity investments	18 (49,845,382)	(41,242,054)
Dividends received from associates	217,570,587	-
Income tax paid	(12,991,496)	(1,132,209)
Suppliers paid	(8,757,490)	(2,715,301)
Salaries and related taxes paid	(6,426,525)	(2,265,662)
Net cash from/ (used in) operating activities	(80,628,770)	284,345,110
Cash flows from investing activities		
Proceeds from sale of property and equipment	18,573	33,245
Acquisition of property and equipment	(392,079)	(682,327)
Net cash used in investing activities	(373,506)	(649,082)
Cash flows from financing activities		
Cash contributions to share capital	23 50,065,688	28,052,299
Dividends paid	23 (87,912,834)	(35,465,985)
Net cash flows used in financing activities	(37,847,146)	(7,413,686)
Net increase/ (decrease) in cash and cash equivalents	(118,849,422)	276,282,342
Cash and cash equivalents at 1 January	592,167,702	313,556,595
Effect of exchange rate fluctuations on cash and cash equivalents held	1,014,676	2,328,765
Cash and cash equivalents at 31 December	474,332,956	592,167,702

FONDUL PROPRIETATEA S.A.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)
(all amounts are in RON unless otherwise stated)**

Cash and cash equivalents comprise:

	31 December 2008	31 December 2007
Cash	<i>13</i> 1,499,993	492,149
Bank deposits with original maturities of less than three months	<i>14</i> <u>472,832,963</u>	<u>591,675,553</u>
	<u>474,332,956</u>	<u>592,167,702</u>

The notes on pages 7 to 59 are an integral part of these consolidated financial statements.

FONDUL PROPRIETATEA S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (all amounts are in RON unless otherwise stated)

1. Reporting entity

Fondul Proprietatea S.A. (referred to as “Fondul Proprietatea” or “the Fund”) is an undertaking for collective investments, in the form of a closed end investment company, established in accordance with Law 247/2005 and Government Decision 1481/2005 and registered in Bucharest on 28 December 2005. During the reporting period, the address of the Fund’s registered office was 17 Apolodor St., Sector 5, Bucharest. The headquarters were located at 15 Calea Victoriei, Sector 5, Bucharest. The Fund was a state controlled entity.

The consolidated financial statements of the Fund as at and for the year ended 31 December 2008 comprise the Fund and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates.

The Fund undertakes its activity in accordance with Law 247/2005 regarding the reform in property and justice, as well as certain adjacent measure, as amended, Law 297/2004 regarding the securities market, as amended, and Law 31/1990 regarding companies, as republished and amended.

In accordance with its statute, the main activity of the Fund is the management and administration of its portfolio, so as to grant compensations in respect of properties that cannot be returned in kind, through free of charge transfer of the Fund’s shares from the State to the entitled persons, as well as other additional and adjacent activities, according to the regulations in force.

The Fund was established to allow the payment through equivalent of compensations in respect of abusive expropriations undertaken by the Romanian State, when properties were not returned in kind.

Following the fulfilment of the stages stipulated by law, a part of the holders of compensation rights are entitled to receive conversion rights and thus become shareholders of Fondul Proprietatea.

FONDUL PROPRIETATEA S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (all amounts are in RON unless otherwise stated)

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs/ IFRS).

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for equity investments that are quoted on an active market, which are measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Romanian Lei (RON), which is the Group's functional currency. All financial information presented in RON has been rounded to the nearest unit.

(d) Use of estimates

The preparation of financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 4 – financial risk management;
- Note 18 – valuation of equity investments;
- Note 20 – recognition of deferred tax assets; and
- Note 24 – contingencies.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)**

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account, when applicable.

The list of subsidiaries at 31 December 2008 is disclosed in note 25.

Given materiality considerations, investments in subsidiaries are not consolidated but accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement, as available-for-sale financial assets (see accounting policy 3c below).

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. The existence of significant influence is determined by analysing the ownership structure of the companies in which the Group holds 20 per cent or more of the voting power of the investee, their articles of incorporation and the Group's power to participate in the financial and operating policy decisions of the investee. The Group does not exercise significant influence in a number of companies in which it holds between 20 and 50 percent of the voting power, where the Fund has failed to obtain representation on the investee's board of directors, the Fund's rights as minority shareholder are protective in nature, and not participative and the major shareholder, or a group of shareholders holding majority ownership of the investee, operates without regard to the views of the Fund.

Associates are accounted for using the equity method and are recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group (i.e. the Romanian State) are accounted for at the date of the transfers of interests. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the entities' IFRS financial statements. Any difference between the cost of the interests received by the Group (as determined in accordance with G.E.O. 81/2007; see accounting policy 3(c)(i)) and the carrying amounts of the net assets acquired is recognised directly in equity.

Similarly, transfers of investments in associates from entities that are under the control of the shareholder that controls the Group (i.e. the Romanian State) are accounted for at the date of the transfers of interests. The investments in such associates are recognised at the Fund's share in the carrying amount of the net assets of the associates, recognised previously in the associates' IFRS financial statements. Any difference between the cost of the interests received by the Group (see accounting policy 3(c)(i)) and the carrying amounts of the net assets acquired is recognised directly in equity.

(b) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

The exchange rates of the main foreign currencies at 31 December 2008 were as follows: 3.9852 RON/EUR and 2.8342 RON/USD (31 December 2007: 3.6102 RON/EUR and 2.4564 RON/USD).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)**

3. Significant accounting policies (continued)

(c) Financial assets and liabilities

(i) Recognition

The Group recognises financial assets and liabilities on the date it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are recognised initially at fair value plus any directly attributable transaction costs, except for the investments in equity securities whose fair value cannot be reliably measured, which are recognised initially at cost.

The cost of equity investments which are contributed in kind by the Romanian State to the Fund's share capital is determined in accordance with the provisions of Law 247/2005, as amended by Government Emergency Ordinance (G.E.O.) 81/2007, as follows:

- for the shares received at the Fund's establishment in December 2005, the cost is equal to:
 - the weighted average price of the last 90 trading days, provided that the last of the 90 trading days is not more than 60 days prior to 24 November 2005, for companies listed on a stock exchange and whose trading volume over the last 90 trading days represented at least 0.3% of their share capital;
 - the book value of the shareholders' equity at 31 December 2004, determined in accordance with statutory financial statements, multiplied by the Fund's shareholding, for unlisted companies and for listed companies whose trading volume over the last 90 trading days represented less than 0.3% of their share capital;
- for the shares received in June 2007, in accordance with Government Emergency Ordinance 81/2007, the cost is equal to:
 - the weighted average price of the last 90 trading days prior to 29 June 2007, for companies listed on a stock exchange and whose trading volume over the last 90 trading days represented at least 0.3% of their share capital;
 - the book value of the shareholders' equity at 31 December 2006, determined in accordance with statutory financial statements, multiplied by the Fund's shareholding, for unlisted companies and for listed companies whose trading volume over the last 90 trading days represented less than 0.3% of their share capital;
- for the additional shares received in companies owned by the Romanian State (through the Fund and State authorities) and to which the State has made contributions in kind, which are received by the Fund so as not to dilute its shareholding in such companies, the cost for the Fund is determined at the par value of the shares received.

3. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(ii) Classification

See accounting policies 3(d), (e), and (f).

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument at the reporting date. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for an equity security is not active, the Group tries to establish fair value using a valuation technique (net assets).

3. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(vi) Fair value measurement (continued)

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets are measured at a bid price and liabilities are measured at an asking price.

(vii) Identification and measurement of impairment

At each balance sheet date the Group assesses whether there is objective evidence that financial assets are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against the financial assets. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on equity investments carried at fair value are recognised by transferring the cumulative loss that has been recognised directly in equity to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. If, in a subsequent period, the fair value of an impaired equity investment increases, the recovery is recognised directly in equity.

Impairment losses on equity investments carried at cost (as their fair value cannot be reliably measured) are measured as the difference between the carrying amount and the book value of the companies' net assets, as management considers this to be the best estimate under its passive management approach.

3. Significant accounting policies (continued)

(c) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

Losses are recognised in profit or loss and are not reversed.

In determining that equity investments are impaired, the Group considers all relevant factors, such as significant or prolonged decline in fair value below cost, market and industry conditions, to the extent that they influence the recoverable amount of the investment, financial conditions and near-term prospects of the issuer, including any specific adverse events that may influence the issuer's operations, recent losses of the issuer, qualified independent auditor's report on the issuer's most recent financial statements etc.

(d) Cash and deposits with banks

Cash includes notes and coins on hand and current accounts held with banks.

Deposits with banks include deposits with original maturities of less than three months and deposits with original maturities of more than three months and less than one year.

Cash and deposits with banks are carried at amortised cost in the balance sheet.

Deposits with banks with original maturities of less than three months are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(e) Held to maturity

The Group's investments in Treasury bills are classified as held-to-maturity investments.

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

FONDUL PROPRIETATEA S.A.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)**

3. Significant accounting policies (continued)

(f) Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets.

(i) Equity investments carried at fair value

Subsequent to initial recognition, equity investments (other than those described at section (ii) below) are measured at fair value and changes therein, other than impairment losses, are recognised directly in equity.

When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

(ii) Equity investments carried at cost

Investments in equity securities that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured using a valuation technique (net assets), are carried at cost, subject to impairment testing.

(g) Other financial assets and liabilities

Other financial assets and liabilities are measured at amortised cost using the effective interest method, less any impairment losses (if the case).

3. Significant accounting policies (continued)

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income” in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative period are as follows:

- buildings 20-40 years
- plant and equipment 3-12 years
- fixtures and fittings 5-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

3. Significant accounting policies (continued)

(i) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effect.

(k) Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(l) Dividend income

Dividend income relating to quoted equity investments is recognised in the income statement on the ex-dividend date. Income distributions from unquoted equity investments are recognised in the income statement as dividend income when declared.

When the Group receives or chooses to receive dividends in the form of additional shares rather than cash, the dividend income is recognised for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

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3. Significant accounting policies (continued)

(l) Dividend income (continued)

When bonus shares are received with no cash alternative and only certain shareholders are granted additional shares, the shares received are measured at fair value and a corresponding amount of dividend income is recognised. However, if all shareholders receive bonus shares in proportion to their shareholdings, no dividend income is recognised as the fair value of the Group's interest should be unaffected by the bonus issue.

For late dividend payments, the Group initiates legal recovery measures (conciliation, litigations etc.). The Group is entitled to charge penalties for overdue net dividends; the penalty rate is equal to the legal interest rate (the National Bank of Romania's money market rate). Penalty income on dividends is recognised in the financial year when cashed in.

Dividend income is presented gross of dividend withholding taxes, which are recognised as income taxes.

(m) Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

Interest income relates to current accounts, deposits held with banks and treasury bills.

(n) Foreign currency gains and losses

Foreign currency gains and losses are reported on a net basis and include realised and unrealised foreign exchange differences.

(o) Expenses

All expenses are recognised in the income statement on an accrual basis.

(p) Income tax

Income tax expense comprises current and deferred tax. Current tax includes also dividend withholding taxes.

Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. Significant accounting policies (continued)

(p) Income tax (continued)

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends by the Group are recognised at the same time as the liability to pay the related dividend is recognised.

The effect on deferred tax of any changes in tax rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

The applicable tax rates are 16% (standard tax rate) and 10% (dividend withholding tax).

(q) Employee benefits

(i) Pensions and other post retirement benefits

The Fund, in the normal course of business, makes payments to the Romanian State on behalf of its employees. All employees of the Fund are members of the Romanian State pension plan. The Fund does not operate any other pension scheme or post retirement benefit plan and, consequently, has no obligation in respect of pensions. In addition, the Fund is not obliged to provide further benefits to its employees.

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3. Significant accounting policies (continued)

(q) Employee benefits (continued)

(ii) Termination benefits

Termination benefits are recognised as an expense when the Fund is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Fund has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(r) New standards and interpretations not yet adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IAS 1 (revised) *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income).

The Group intends to present a single statement of comprehensive income in its financial statements for the year ended 31 December 2009.

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013). The Standard could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.
- IFRS 1 (revised) *First-time Adoption of IFRS* (effective for annual periods beginning on or after 1 July 2009);
- IFRS 3 (revised) *Business Combinations* (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IFRS 1 *First-time Adoption of IFRS*- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IFRS 1 *First-time Adoption of IFRS* - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010);

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3. Significant accounting policies (continued)

(r) New standards and interpretations not yet adopted (continued)

- Amendments to IFRS 2 *Share-based Payment* - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010);
- Amendments to IAS 24 *Related Party Disclosures* - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011);
- Amendments to IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009);
- Amendments to IAS 32 *Financial Instruments: Presentation* – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010);
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009);
- Amendments to various standards and interpretations *Improvements to IFRSs (2009)* resulting from the annual improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010);
- Amendments to various standards and interpretations *Improvements to IFRSs (2010)* resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011);
- IFRIC 17 *Distributions of Non-Cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009);
- IFRIC 18 *Transfers of Assets from Customers* (effective for transfer of assets from customers received on or after 1 July 2009);
- Amendments to IFRIC 14 *IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction* - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011);
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of these standards, revisions and interpretations, except for IAS 1 (revised) and IFRS 9, will have no material impact on the financial statements of the Entity in the period of initial application.

4. Financial risk management

The Group's investment portfolio comprises quoted and unquoted equity investments.

The Group's investing activities expose it to various types of risks that are associated with the financial instruments and market in which it invests. The most important types of financial risks to which the Group is exposed are market risk, credit risk and liquidity risk.

Due to the specific nature of the Fund's activities following its establishment in December 2005, involving clarifications on legal matters resulting from the transfers of shares from the State, rather than effective trading with the respective shares, a passive risk management approach has been adopted by the Fund in this period with no formal risk policies and procedures in place.

By 31 December 2008, the Fund Manager, which should manage the distribution of the equity investments and mitigate financial risks, has not been appointed.

(a) Market risk

Market risk is the risk that changes in market prices, such as equity prices, interest rates and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. By 31 December 2008, management had not established formal guidelines regarding market risks.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Financial risk management (continued)

(a) Market risk (continued)

(i) Equity price risk

Equity price risk is the risk that the value of an equity instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to its issuer or factors affecting all instruments traded in the market.

Equity price risk arises from available-for-sale equity securities received as contribution in kind.

The companies in which the Group holds equity securities operate in different industries. The Group's exposure to industries was as follows:

	31 December 2008	31 December 2007
Electricity, gas, steam and hot water supply	5,623,810,930	5,860,338,888
Extraction of crude petroleum and natural	416,301,444	416,275,934
Manufacture of basic metals	146,109,892	666,215,730
Land transport	260,219,036	266,567,620
Supporting and auxiliary transport activities	199,337,389	245,349,380
Post and telecommunications	84,384,880	84,384,880
Other	213,519,533	215,651,931
	<u>6,943,683,104</u>	<u>7,754,784,363</u>

The Group has equity investments of RON 474,559,993 at 31 December 2008 (31 December 2007: RON 1,158,609,941) which are listed on the Bucharest Stock Exchange at either BSE or RASDAQ segment. For such investments, a ten percent increase in the BET-C plus a ten percent increase in the RASDAQ-C at the reporting date would have increased equity by RON 22,276,036 after tax (2007: RON 203,179,779); an equal change in the opposite direction would have decreased equity by RON 22,276,036 after tax (2007: RON 203,179,779). The analysis is performed on the same basis for 2007.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk

The Group places cash into bank deposits and treasury bills.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments based on notional amounts was:

	31 December 2008	31 December 2007
Fixed rate instruments		
Bank deposits with original maturities of less than three months	472,832,963	591,675,553
Bank deposits with original maturities of more than three months and less than one	97,823,509	-
Treasury bills	390,456,918	-
	<u>961,113,390</u>	<u>591,675,553</u>

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FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)****4. Financial risk management (continued)****(a) Market risk (continued)***(iii) Currency risk*

The Group is exposed to currency risk on current accounts and deposits held with banks that are denominated in foreign currencies, i.e. euro (EUR) and U.S. dollars (USD).

The local currency depreciated compared to the EUR (from 3.6102 RON/EUR at 31 December 2007 to 3.9852 at 31 December 2008) and compared to the USD (from 2.4564 RON/EUR at 31 December 2007 to 2.8342 at 31 December 2008).

The Group's exposure to currency risk was as follows:

	31 December 2008	31 December 2007
RON		
Monetary assets		
Petty cash	12,380	1,272
Current accounts with banks	1,422,646	390,898
Bank deposits with original maturities of less than three months	409,327,239	316,188,880
Interest accrued on bank deposits	6,906,846	1,608,508
Treasury bills	397,648,315	-
Dividends receivable	498,321	4,224,515
Receivables in respect of equity contributions	78,317,588	129,014,506
Other receivables	142,851	149,419
	894,276,186	451,577,998
Monetary liabilities		
Other liabilities	(9,179,453)	(4,888,027)
	(9,179,453)	(4,888,027)
	885,096,733	446,689,971

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Financial risk management (continued)

(a) Market risk (continued)

(iii) Currency risk (continued)

	31 December 2008	31 December 2007
EUR		
Monetary assets		
Current accounts with banks	64,967	26,654
Bank deposits with original maturities of less than three months	63,505,723	275,486,673
Bank deposits with original maturities of more than three months and less than one	97,823,509	-
Interest accrued on bank deposits	1,152,906	445,703
	<u>162,547,105</u>	<u>275,959,030</u>
Monetary liabilities	-	-
	<u>162,547,105</u>	<u>275,959,030</u>
	31 December 2008	31 December 2007
USD		
Monetary assets		
Current accounts with banks	-	73,324
	<u>-</u>	<u>73,324</u>
Monetary liabilities	-	-
	<u>-</u>	<u>73,324</u>

A 10 percent strengthening of the RON against the following currencies at 31 December would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

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4. Financial risk management (continued)**(a) Market risk (continued)***(iii) Currency risk (continued)*

	31 December 2008	31 December 2007
Profit or loss		
EUR	(16,254,711)	(27,595,903)
USD	-	(7,332)
	<u>(16,254,711)</u>	<u>(27,603,235)</u>

(b) Credit risk

Credit risk is the risk of financial loss to the Group if counterparties to financial instruments fail to meet their contractual obligations, and arises principally from cash and deposits with banks, treasury bills, dividends receivable and receivables in respect of equity contributions.

(i) Cash and deposits with banks

The Group's maximum exposure to credit risk from cash and deposits with banks was RON 580,203,836 at 31 December 2008 (31 December 2007: RON 594,220,640).

Cash and deposits are held with the following banks:

	31 December 2008	31 December 2007
Cash and deposits held with		
B.R.D. - Groupe Societe Generale S.A.	171,509,807	319,402,915
B.C.R. S.A.	171,609,418	202,194,202
Raiffeisen Bank S.A.	155,951,226	72,256,164
C.E.C. Bank S.A.	57,202,568	367,359
Bancpost	23,930,817	-
	<u><u>580,203,836</u></u>	<u><u>594,220,640</u></u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (all amounts are in RON unless otherwise stated)

4. Financial risk management (continued)

(b) Credit risk (continued)

(i) Cash and deposits with banks (continued)

By 31 December 2008, management has not established a formal policy regarding bank counterparty risks.

(ii) Treasury bills

The Group's maximum exposure to credit risk from treasury bills was RON 397,648,315 at 31 December 2008 (31 December 2007: nil).

(ii) Dividends receivable

The Group's maximum exposure to credit risk from dividends receivable was RON 498,321 at 31 December 2008 (31 December 2007: RON 4,224,515).

Dividend income is recognised in the income statement on the ex-dividend date (quoted equity securities) or on the date dividends are declared (unquoted equity securities).

In 2006, several companies paid dividends for the year ended 2005 to the State authorities from which the Fund received its shareholdings at its establishment, instead of making such payments to the Fund, as shareholder at the date when the dividends were declared. The Fund initiated legal proceedings to recover such dividends. At 31 December 2007 and 31 December 2008, the Group recognised impairment losses on such dividends for which recoverability was not certain.

(iii) Receivables in respect of equity contributions

The Group's maximum exposure to credit risk from receivables in respect of equity contributions was RON 78,317,588 at 31 December 2008 (31 December 2007: RON 129,014,506).

The receivables in respect of equity contributions represent the amount that should be disbursed by the majority shareholder of the Fund (the Romanian State, represented by the Ministry of Economy and Finance) for the subscribed share capital to be fully paid in.

Management does not expect the majority shareholder to fail to meet its obligations.

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(all amounts are in RON unless otherwise stated)****4. Financial risk management (continued)****(c) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of the Group's financial assets and financial liabilities:

	Less than 1 month	1 to 3 months	3 to 12 months	No fixed maturity
31 December 2008				
Financial assets				
Cash	1,499,993	-	-	-
Deposits with banks	3,433,106	476,369,828	98,913,289	-
Treasury bills	-	-	397,648,315	-
Dividends receivable	498,321	-	-	-
Receivables in respect of equity contributions	-	-	-	78,317,588
Equity investments	-	-	-	6,943,683,104
Other receivables	142,851	-	-	-
	5,574,271	476,369,828	496,561,604	7,022,000,692
Financial liabilities				
Other liabilities	9,179,453	-	-	-
	9,179,453	-	-	-
	Less than 1 month	1 to 3 months	3 to 12 months	No fixed maturity
31 December 2007				
Financial assets				
Cash	492,149	-	-	-
Deposits with banks	458,266	593,271,497	-	-
Dividends receivable	4,224,515	-	-	-
Receivables in respect of equity contributions	-	-	-	129,014,506
Equity investments	-	-	-	7,754,784,363
Other receivables	149,419	-	-	-
	5,324,349	593,271,497	-	7,883,798,869
Financial liabilities				
Other liabilities	4,888,027	-	-	-
	4,888,027	-	-	-

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4. Financial risk management (continued)

(c) Liquidity risk (continued)

Given the specific nature of the receivables in respect of equity contributions (see note 17), management cannot estimate their maturity or whether the Fund will receive cash and cash equivalents or other types of assets on their derecognition.

The Group's equity investments include unquoted securities, which are not traded in an organised public market and which generally may be illiquid. As a result, the Group may not be able to liquidate quickly some of its investments in these instruments at an amount close to its fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the credit worthiness of any particular issuer.

The Group's quoted equity securities are listed on the Bucharest Stock Exchange. However, not all quoted shares are considered liquid due to insufficient volumes of transactions.

(d) Taxation risk

On 1 January 2007 Romania became a member of the European Union ('EU') and therefore has to apply detailed and complex rules on the basis of the EU Treaties, Regulations and Directives. The Group has to conform to EU legislation from 1 January 2007 and, therefore, it has prepared to apply the changes arising from the EU legislation. These changes have been implemented, however the tax authorities have up to 5 years to audit the way these changes were implemented.

Interpretation of the text and practical implementation procedures of the newly enforced EU tax regulations could vary, and there is a risk that certain transactions, for example, could be viewed differently by the tax authorities as compared to the Group's treatment.

Furthermore, the Romanian Government has a number of agencies that are authorized to conduct audits (controls) of companies operating in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. It is likely that the Group will continue to be subject to regular controls as new laws and regulations are issued.

(e) Operating environment

The process of risk repricing during 2007 and 2008 in the international financial markets severely affected the performance of those markets, including the Romanian financial market, and fostered heightened uncertainty with regard to economic developments going forward.

The ongoing global credit and liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, lower level and difficult access to the capital market funding and lower liquidity levels across the Romanian banking sector.

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4. Financial risk management (continued)

(e) Operating environment (continued)

Such ongoing fears that the deteriorating financial conditions could contribute, at a later stage to a further retrenchment in confidence, prompted a coordinated effort of governments and central banks to adopt special measures aimed at countering a vicious circle of growing risk aversion and to helping minimise the effects of the financial crisis and finally restoring normal market functioning.

Management is unable to predict all developments which could have an impact on the Romanian financial sector and consequently what effect, if any, they could have on these financial statements.

Management is unable to reliably estimate the effects on the Group's financial statements of any further deterioration in the liquidity of the financial markets, devaluation of financial assets influenced by the illiquid credit market conditions and the increased volatility in the currency and equity markets.

(f) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

(g) Capital management

Management's policy is to maintain a strong capital base so as to maintain shareholders' confidence, to sustain future development and ultimately to ensure the financial resources necessary to grant compensations in respect of abusive expropriations during the communist regime.

The Group's capital (shareholders' equity attributable to equity holders of the Fund) comprises share capital, fair value and other reserves and retained earnings. The shareholders' equity attributable to equity holders of the Fund was RON 11,319,099,298 at 31 December 2008 (31 December 2007: RON 11,607,374,792).

Until the selection of the Fund Manager, the Group has undertaken passive portfolio management.

The Group is not subject to externally imposed capital requirements.

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5. Financial assets and financial liabilities**Accounting classifications and fair values**

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

	Loans and receivables	Held to maturity	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 2008						
Cash	1,499,993	-	-	-	1,499,993	1,499,993
Deposits with banks	578,716,223	-	-	-	578,716,223	578,716,223
Treasury bills	-	397,648,315	-	-	397,648,315	396,449,541
Dividends receivable	498,321	-	-	-	498,321	498,321
Receivables in respect of equity contributions	78,317,588	-	-	-	78,317,588	Not available
Equity investments at fair value	-	-	474,599,993	-	474,599,993	474,599,993
Equity investments at cost	-	-	6,469,083,111	-	6,469,083,111	Not available
Other receivables	142,851	-	-	-	142,851	142,851
Other liabilities	-	-	-	(9,179,453)	(9,179,453)	(9,179,453)
	659,174,976	397,648,315	6,943,683,104	(9,179,453)	7,991,326,942	Not available

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(all amounts are in RON unless otherwise stated)**

5. Financial assets and financial liabilities (continued)

Accounting classifications and fair values (continued)

	Loans and receivables	Held to maturity	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 2007						
Cash	492,149	-	-	-	492,149	492,149
Deposits with banks	593,729,763	-	-	-	593,729,763	593,729,763
Dividends receivable	4,224,515	-	-	-	4,224,515	4,224,515
Receivables in respect of equity contributions	129,014,506	-	-	-	129,014,506	Not available
Equity investments at fair value	-	-	1,158,609,941	-	1,158,609,941	1,158,609,941
Equity investments at cost	-	-	6,596,174,422	-	6,596,174,422	Not available
Other receivables	149,419	-	-	-	149,419	149,419
Other liabilities	-	-	-	(4,888,027)	(4,888,027)	(4,888,027)
	727,610,352	-	7,754,784,363	(4,888,027)	8,477,506,688	Not available

At 31 December 2007 and 31 December 2008, management estimated that the dividends receivable for which no impairment losses were recognised would be collected within a short period of time and therefore their carrying amount approximated fair value.

Receivables in respect of equity contributions and equity investments carried at cost do not have reliably measurable fair values.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (all amounts are in RON unless otherwise stated)

6. Gross dividend income

	Year ended 31 December 2008	Year ended 31 December 2007
Petrom S.A.	-	100,240,906
Alro Slatina S.A.	42,959,523	27,574,180
Romgaz S.A.	38,685,776	35,151,211
Enel Distributie Banat S.A.	29,471,961	-
Distrigaz Sud S.A.	22,759,383	7,671,707
Transgaz S.A.	17,046,229	18,192,680
Enel Distributie Dobrogea S.A.	13,219,626	-
Complexul Energetic Rovinari S.A.	9,103,431	178,337
Aeroportul International Henri Coanda Bucuresti S.A.	8,438,384	6,365,360
Complexul Energetic Turceni S.A.	8,166,104	3,029,678
Transelectrica S.A.	3,562,277	14,545,961
Imprimeria Nationala S.A.	2,340,125	7,119,436
Posta Romana	3,564,118	4,382,076
Conpet	2,340,125	1,347,891
Other	3,604,813	1,843,206
	<u><u>205,261,875</u></u>	<u><u>227,642,629</u></u>

Gross dividend income is subject to 10% dividend withholding tax.

7. Interest income

Interest income amounting to RON 84,453,833 in 2008 (2007: RON 28,005,444) arises from deposits held with banks and from treasury bills.

FONDUL PROPRIETATEA S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (all amounts are in RON unless otherwise stated)

8. Gains / (Losses) on disposal of equity investments

In 2007, the Fund transferred back to the Romanian State thirty-nine shareholdings, in accordance with the provisions of Government Emergency Ordinance 81/2007 (see note 20). The equity investments were transferred at their initial cost to the Fund and previously recognised impairment losses were recognised as gains on disposal of equity investments, amounting to RON 43,454,445.

During 2007, Nuclearelectrica S.A. transferred non-core assets to the Navodari Local Council. The transfer was structured as a demerger with a consequent decrease in the share capital of Nuclearelectrica S.A. The Fund recognised the related decrease in the carrying amount of its equity investment in Nuclearelectrica S.A. as a loss on disposal, amounting to RON 11,055,450.

No disposal of equity investments occurred in 2008.

9. Net foreign exchange gains

	Year ended 31 December 2008	Year ended 31 December 2007
Realised foreign exchange gains	12,941,854	15,661,993
Unrealised foreign exchange gains	6,589,639	2,328,765
	<u>19,531,493</u>	<u>17,990,758</u>

10. Personnel expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Salaries	5,252,928	2,025,709
Salary related contributions	1,353,153	356,557
	<u>6,606,081</u>	<u>2,382,266</u>

Salaries include compensation paid to administrators (members of the Fund's Supervisory Board).

11. Other operating expenses

	Year ended 31 December 2008	Year ended 31 December 2007
Third party services	8,078,349	1,737,642
Other operating expenses	3,658,262	1,421,950
	<u>11,736,611</u>	<u>3,159,592</u>

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12. Income tax expense

	Year ended 31 December 2008	Year ended 31 December 2007
Current tax expense		
Current tax (16%)	13,296,780	4,985,512
Dividend withholding tax (10%)	40,086,884	22,764,265
	<u>53,383,664</u>	<u>27,749,777</u>
Deferred tax expense/ (benefit)		
Impairment losses on equity investments	(38,341,818)	(32,009,373)
Provisions for restructuring	(314,240)	-
Unused tax losses	-	1,143,812
	<u>(38,656,058)</u>	<u>(30,865,561)</u>
Total income tax expense/ (benefit)	<u><u>14,727,606</u></u>	<u><u>(3,115,784)</u></u>

The effective tax rates used to calculate the deferred tax position of the Group for the years ended 31 December 2007 and 31 December 2008 were 16% (standard tax rate).

FONDUL PROPRIETATEA S.A.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12. Income tax expense (continued)

	Year ended 31 December 2008	Year ended 31 December 2007
Reconciliation of effective tax rate		
Profit/ (Loss) for the year	226,010,888	176,754,778
Income tax expense/ (benefit)	14,727,606	(3,115,784)
Profit/ (Loss) excluding income tax	240,738,494	173,638,994
Income tax using the standard tax rate (16%)		
	38,518,159	27,782,239
Effect of:		
Lower tax rate on dividend income	(14,512,073)	(13,658,556)
Higher tax rate on profits in associates	21,757,059	-
Change in temporary differences in investments in associates for which no deferred tax asset was recognised	(28,815,639)	(24,805,544)
Profit appropriation to legal reserve	(701,997)	(346,650)
Impairment losses on dividends receivable	(1,508,331)	6,140,576
Loss on decrease in Nuclearelectrica share capital	-	1,768,872
Other non-deductible expenses	(9,572)	3,279
Total income tax expense/ (benefit)	14,727,606	(3,115,784)
Income tax recognised directly in equity		
Equity investments carried at fair value	(99,501,927)	(29,951,175)
	(99,501,927)	(29,951,175)

FONDUL PROPRIETATEA S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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13. Cash

	31 December 2008	31 December 2007
Petty cash	12,380	1,272
Current accounts with banks	1,487,613	490,877
	<u>1,499,993</u>	<u>492,149</u>

The current accounts held with banks are not pledged as collateral for liabilities.

14. Deposits with banks

	31 December 2008	31 December 2007
Bank deposits with original maturities of less than three months	472,832,963	591,675,553
Bank deposits with original maturities of more than three months and less than one	97,823,509	-
Interest accrued on bank deposits	8,059,751	2,054,210
	<u>578,716,223</u>	<u>593,729,763</u>

The deposits held with banks are not pledged as collateral for liabilities.

15. Treasury bills

The Group acquired treasury bills with an acquisition price of RON 390,456,918. The accrued interest for treasury bills at 31 December 2008 is RON 7,191,397.

	31 December 2008	31 December 2007
Treasury bills with original maturities of more than three months and less than one	390,456,918	-
Interest accrued on Treasury bills	7,191,397	-
	<u>397,648,315</u>	<u>-</u>

FONDUL PROPRIETATEA S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(all amounts are in RON unless otherwise stated)****16. Dividends receivable**

	31 December 2008	31 December 2007
Dividends receivable		
Romgaz S.A.	18,510,456	18,510,456
Transgaz S.A.	9,634,993	9,634,993
Imprimeria Nationala S.A.	-	7,685,153
Complexul Energetic Rovinari S.A.	-	2,697,838
Transelectrica S.A.	-	2,569,246
Other dividends receivable	1,134,328	1,505,428
	<u>29,279,777</u>	<u>42,603,114</u>
Impairment loss allowance		
Romgaz S.A.	(18,510,456)	(18,510,456)
Transgaz S.A.	(9,634,993)	(9,634,993)
Imprimeria Nationala S.A.	-	(6,029,884)
Complexul Energetic Rovinari S.A.	-	(2,697,838)
Other dividends receivable	(636,007)	(1,505,428)
	<u>(28,781,456)</u>	<u>(38,378,599)</u>
	<u><u>498,321</u></u>	<u><u>4,224,515</u></u>

In 2006, several companies paid dividends for the year ended 31 December 2005 to the State authorities from which the Fund received its shareholdings at its establishment, instead of making such payments to the Fund, as a shareholder at the date when the dividends were declared. The Group initiated legal procedures to recover such dividends, together with any related interest (see also note 24).

In 2008, the Group recognised impairment losses of RON 204,714 (2007: RON 38,378,599) on such dividends for which recoverability was not certain and reversed losses of RON 9,631,780 (2007: nil) following their recovery.

17. Receivables in respect of equity contributions

The receivables in respect of equity contributions are non-interest bearing financial assets representing the consideration that should be paid (in cash or in kind) by the majority shareholder of the Fund (the Romanian State, represented by the Ministry of Economy and Finance) for the subscribed share capital to be fully paid in.

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17. Receivables in respect of equity contributions (continued)

In accordance with Law 247/2005 (as amended by Government Emergency Ordinance 209/2005), these receivables are derecognised subject to the majority shareholder making:

- cash contributions, representing the following types of amounts to be received by the State:
 - the recovery of certain foreign trade receivables;
 - the sale to a strategic investor of 4% of B.C.R. S.A. shares;
 - the initial trading on a domestic or foreign stock exchange of 3% of Romtelecom S.A.;
 - 20% of the amounts received in respect of the privatisation of Romtelecom S.A.;
 - 9.9% of the amounts received in respect of the privatisation of C.E.C. S.A.; or
- contributions in kind of other types of assets (to be decided upon in the future).

The receivables in respect of equity contributions amounted to RON 78,317,588 at 31 December 2008 (31 December 2007: RON 129,014,506).

Given the specific nature of the receivables in respect of equity contributions, their fair value cannot be measured reliably at 31 December 2007 or 31 December 2008.

18. Equity investments

In accordance with Law 247/2007, as amended by Government Emergency Ordinance 209/2005, the Fund received, at its establishment on 28 December 2005, shares in one hundred and seventeen companies as contribution in kind from the Romanian State, as sole shareholder.

In June 2007, Government Emergency Ordinance 81/2007 came into force, in accordance with which:

- thirty-two new shareholdings were added to the Fund's portfolio as contribution in kind to its share capital (twenty-one shareholdings in companies already in the portfolio and eleven shareholdings in companies not previously in the portfolio);
- thirty-nine shareholdings were removed from the Fund's portfolio and transferred back to the State.

FONDUL PROPRIETATEA S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(all amounts are in RON unless otherwise stated)****18. Equity investments (continued)**

The valuation of the shares contributed by the Romanian State in December 2005 and June 2007 was performed in October 2007 by an independent valuer (Finevex S.R.L. Constanta), who followed the valuation methodology set forth by Government Emergency Ordinance 81/2007. The value of the shareholdings, as determined by the valuer, represents the cost of the equity investments.

Equity investments are available-for-sale financial assets and are carried at fair value, except for the investments whose fair value cannot be reliably measured, which are carried at cost less impairment.

Fair values at 31 December 2007 and 31 December 2008 were determined by reference to published price quotations on the Bucharest Stock Exchange, where applicable. Equity investments quoted on the Bucharest Stock Exchange, which are not traded in an active market, and unquoted securities are carried at cost less impairment.

At 31 December 2007 and 31 December 2008, no fair values could be determined using valuation techniques as the range of reasonable fair value estimates was significant and the probabilities of the various estimates could not be reasonably assessed.

The movement in the carrying amounts of equity investments is as follows:

	Equity investments at fair value	Equity investments at cost	Total equity investments
31 December 2006	3,875,081,272	5,671,182,575	9,546,263,847
Contribution in kind - G.E.O. 81/2007	13,452,235	1,320,504,953	1,333,957,188
Equity investments transferred back to the State - G.E.O. 81/2007	-	(186,425,134)	(186,425,134)
Transfers to associates	(3,164,028,594)	-	(3,164,028,594)
Other contributions in kind	-	3,932,700	3,932,700
Cash contributions to companies in portfolio	-	41,242,054	41,242,054
Loss on decrease in Nuclearelectrica S.A. share capital	-	(11,055,450)	(11,055,450)
Transfer between	(305,749)	305,749	-
Impairment losses	-	(243,513,025)	(243,513,025)
Changes in fair value	434,410,777	-	434,410,777
31 December 2007	1,158,609,941	6,596,174,422	7,754,784,363

FONDUL PROPRIETATEA S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)****18. Equity investments (continued)**

	Equity investments at fair value	Equity investments at cost	Total equity investments
31 December 2007	1,158,609,941	6,596,174,422	7,754,784,363
Shares contributions in kind by the State	-	631,230	631,230
Cash contributions to companies in portfolio	-	49,845,382	49,845,382
Transfer between categories	177,353,514	(177,353,514)	-
Impairment losses	(239,476,415)	(214,409)	(239,690,824)
Changes in fair value	(621,887,047)	-	(621,887,047)
31 December 2008	474,599,993	6,469,083,111	6,943,683,104

In 2007, the shares of Carbid - Fox S.A. Tarnaveni were delisted from the Bucharest Stock Exchange and consequently they were transferred from the "equity investments at fair value" category to the "equity investments at cost" category (see "transfer between categories" above).

In 2008, the shares of Transgaz S.A. started to be traded on the Bucharest Stock Exchange. As their market was active in 2008, they were transferred to the "equity investments at fair value" category from the "equity investments at cost" category (see "transfer between categories" above).

In 2008, Hidroelectrica S.A., Electrica Distributie Muntenia Nord S.A. and Romgaz S.A. (2007: Hidroelectrica S.A.) received ownership titles over several plots of land, which were treated as contributions in kind made by the Romanian State to the share capital of these companies. In accordance with Law 247/2005, as amended, the Fund received additional shares in these companies, so that its shareholding would not be diluted, and such shares were recognised at par value against the receivables in respect of equity contributions (see "shares contributions in kind by the State" above).

FONDUL PROPRIETATEA S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(all amounts are in RON unless otherwise stated)****18. Equity investments (continued)**

The structure of the Group's portfolio is the following:

	31 December 2008	31 December 2007
Equity investments at fair value		
Transgaz S.A.	215,283,640	-
Transelectrica S.A.	108,847,332	395,808,480
Alro Slatina S.A.	89,282,474	609,388,312
Other	61,186,547	153,413,149
	474,599,993	1,158,609,941
Equity investments at cost		
Hidroelectrica S.A.	2,761,181,429	2,760,645,619
Nuclearelectrica S.A.	581,846,011	581,846,011
Romgaz S.A.	416,301,444	416,275,934
CEZ Distributie S.A.	414,080,000	414,080,000
Complexul Energetic Turceni S.A.	282,299,927	282,299,927
Complexul Energetic Craiova S.A.	250,169,153	250,169,153
Electrica Muntenia Nord S.A.	165,223,950	153,227,340
Complexul Energetic Rovinari S.A.	137,615,732	137,615,732
E.ON Moldova S.A.	131,073,011	131,073,011
Aeroportul International Henri Coanda Bucuresti S.A.	124,980,198	124,980,198
Electrica Muntenia Sud S.A.	90,180,075	96,063,662
Posta Romana S.A.	84,384,880	84,384,880
Transgaz S.A.	-	177,353,514
Other	1,029,747,301	986,159,441
	6,469,083,111	6,596,174,422
	6,943,683,104	7,754,784,363

Future changes in the structure of equity investments are to be determined by the Fund Manager.

Equity investments are not pledged as collateral for liabilities.

FONDUL PROPRIETATEA S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (all amounts are in RON unless otherwise stated)

19. Investment in associate

In accordance with G.E.O. 81/2007, in 2007 the Fund received from the Romanian State shareholdings granting significant influence over a number of companies and recognised losses of RON 2,784,778,347 directly in equity in accordance with accounting policy 3 (a) (iii).

Summary financial information for such associates, not adjusted for the percentage ownership held by the Group, is as follows:

	2008	2007
Ownership	20%	20%
Total assets	28,917,311,407	24,691,060,422
Total liabilities	12,927,559,740	9,002,768,605
Revenues	20,567,224,480	7,829,807,397
Expenses	19,671,661,359	7,806,554,921
Profit / (Loss)	895,563,121	770,933,118

In 2008, the Group's share of profit in its associate for the year was RON 180,097,744 (2007: RON 155,034,650) and its share of income and expense recognised directly in the equity of the associate was RON 98,096,419 (2007: RON 70,461,921). At 31 December 2008, investments in associates represented RON 3,215,539,060 (31 December 2007: RON 3,154,915,485).

The fair value of the shares held in Petrom S.A. was RON 2,061,794,564 at 31 December 2008 (31 December 2007: RON 5,661,391,702).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20. Deferred tax assets and liabilities

	31 December 2008	31 December 2007
<i>Temporary differences deductible (taxable)</i>		
Impairment losses on equity investments	760,030,739	(520,394,381)
Changes in fair values of equity investments	(59,519,967)	681,407,017
Provisions	1,964,000	-
	<u>702,474,772</u>	<u>161,012,636</u>
Deferred tax assets/ (liabilities) at 16%	112,395,964	25,762,021
	<u>112,395,964</u>	<u>25,762,021</u>

The Group did not recognise deferred tax assets on deductible temporary differences arising from investments in associates of RON 2,509,987,049 (31 December 2007: RON 2,586,895,204) as it was not probable that such temporary differences would reverse in the foreseeable future.

The effective tax rates used to calculate the deferred tax position of the Group for the years ended 31 December 2007 and 31 December 2008 were 16% (standard tax rate).

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21. Other assets

	31 December 2008	31 December 2007
Prepaid expenses	1,035,143	-
Property and equipment	766,189	714,640
Guarantees on leased premises	132,859	132,859
Other assets	9,992	16,560
	<u>1,944,183</u>	<u>864,059</u>

22. Other liabilities

	31 December 2008	31 December 2007
Current income tax	4,158,587	3,853,303
Dividends payable	2,694,909	610,062
Provisions	1,964,000	-
Other liabilities	2,325,957	424,662
	<u>11,143,453</u>	<u>4,888,027</u>

Provisions were recognised in 2008 in relation to the changes in the Fund's corporate governance structures following the appointment of the Fund Manager.

FONDUL PROPRIETATEA S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(all amounts are in RON unless otherwise stated)****23. Shareholders' equity****(a) Share capital**

At 31 December 2008, the authorised and issued share capital comprised 14,240,540,675 ordinary shares (31 December 2007: 14,240,540,675 shares), at a nominal value of RON 1 per share. At 31 December 2008, 482,948,088 ordinary shares (31 December 2007: 482,948,088 shares) were not recognised as either receivables in respect of equity contributions and share capital, given the fact that in August 2010 the shareholders have approved the cancelation of these shares.

No changes occurred in the number of shares issued between the establishment date and 31 December 2008.

The share capital of the Fund has not been fully paid in by the Romanian State at 31 December 2008. The movements in share capital components are presented below:

	Share capital paid in	Share capital not paid in	Total share capital
31 December 2006	9,320,741,189	4,436,851,398	13,757,592,587
Contribution in kind - G.E.O. 81/2007	4,505,731,473	(4,505,731,473)	-
Equity investments transferred back to the State - G.E.O. 81/2007	(229,879,580)	229,879,580	-
Other contributions in kind	3,932,700	(3,932,700)	-
Cash contributions	28,052,299	(28,052,299)	-
31 December 2007	13,628,578,081	129,014,506	13,757,592,587
Shares contributed in kind by the State	631,230	(631,230)	-
Cash contributions	50,065,688	(50,065,688)	-
31 December 2008	13,679,274,999	78,317,588	13,757,592,587

The Fund's ordinary shares paid by shareholders give mainly the following rights:

- to cast votes in the General Shareholders' Meetings;
- to elect or be elected to the governance bodies;
- to participate in profit appropriations.

Shares not paid in (78,317,588 shares at 31 December 2008 and 129,014,506 shares at 31 December 2007) do not entitle their holder to vote or to receive dividends.

The Fund's ordinary shares are not redeemable.

FONDUL PROPRIETATEA S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (all amounts are in RON unless otherwise stated)

23. Shareholders' equity (continued)

(b) Fair value reserves on available-for-sale financial assets

The fair value reserves of RON 49,996,775 at 31 December 2008 (31 December 2007: RON 572,381,895) comprise the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

(c) Other reserves

	31 December 2008	31 December 2007
Legal reserve	29,159,238	5,774,167
Other reserves	120,299,556	32,468,441
	<u>149,458,794</u>	<u>38,242,608</u>

As required by the Romanian law, a minimum 5% of the statutory profit for the year must be transferred to the legal reserve. Such annual transfers must be discontinued when the reserve equals 20% of the issued share capital. The legal reserve cannot be used for distributions to shareholders.

Other reserves are created through appropriations of statutory net profits and are used or distributed in accordance with decisions taken by general shareholders' meetings.

(d) Dividends

In 2008, the Fund declared dividends of RON 0.0065 per share, totalling RON 89,997,681 (2007: RON 0.0026 per share; RON 36,076,047), of which RON 87,912,834 were paid by 31 December 2008 (31 December 2007: RON 35,465,985).

24. Contingencies

As at 31 December 2008 the Group was involved in certain litigations and transactions claiming recovery of assets resulting from the Group's rights that have not been recognised in the financial statements due to uncertainties regarding such assets:

- 1 The Fund is involved in several litigations regarding delay penalties requested from companies which have not paid dividends to the Fund for the year 2005 (some of the dividends have since been paid to the Fund pursuant to the Fund winning the law suits). Such litigations are yet to be resolved.

The claims filed by the Fund are in compliance with the provisions of Law 31/1990 as republished and further amended and these amounts should be due and paid to the Fund. These amounts shall be recognized as revenues when they are collected.

FONDUL PROPRIETATEA S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (all amounts are in RON unless otherwise stated)

24. Contingencies (continued)

- 2 The amounts to be received from the privatization of BCR S.A. to a strategic investor:

In December 2006, the Fund received a cash contribution of EUR 88,394,758 (RON 301,788,543) representing 4% of the amount paid by Erste Bank Austria to the Romanian State in respect of the privatisation of Banca Comerciala Romana S.A. (B.C.R. S.A.). In accordance with the statement of the legislative text, the Fund was entitled to receive as a cash contribution “the amounts received from the sale to the strategic investor of 4% of B.C.R. S.A.’s shares”. The Fund interpreted this provision of “4% of the share capital of B.C.R. S.A.”, to represent EUR 242,495,438 (RON 966,392,820 equivalent; i.e. 4% of B.C.R.’s total shares issued to which the price paid by Erste Bank Oesterreichischen Sparkassen AG of 7.65 EUR/share is applied)

As at the date when these financial statements were approved a favourable resolution has not been met and management continue its proceedings in this respect. The difference of EUR 154,100,680 (RON 614,122,030 equivalent) is to be used to pay the majority shareholder’s not paid-in share capital and/ or the share capital.

In order to recover the respective amount, on 1 October 2008, the Fund has filed a court action to the Bucharest County Court – Commercial section having as defendants the Ministry of Economy and Finance and the Authority for State Assets Recovery (“AVAS”).

The litigation is currently in process.

- 3 The Fund shall receive the following amounts from the Romanian State:
- 3% of the amounts collected by the institutions involved in the privatization of Romtelecom S.A. until the entire participation are sold;
 - 20% of the amounts resulting from the privatization of Romtelecom S.A.;
 - 9.9% of the amounts resulting from the privatisation of C.E.C. S.A.

These amounts shall be recorded as an increase in share capital by the majority shareholder once they are collected or to cover the subscribed and not paid-in share capital.

- 4 The amounts resulting from collection of receivables from foreign trade and economic operations carried out by Romania before 31 December 1989 and amounts resulting from ownership recovery resulting from commercial agreements and governmental payments and appropriate technical banking agreements, after a deduction of 3%, are not currently measurable.

The Fund could not estimate the total amounts to be collected and these amounts will be recognized when collected.

Once the amounts are collected, they will be used to cover first the subscribed and not paid-in share capital by the majority shareholder.

- 5 The receivables from World Trade Center Bucharest S.A.:

Section II, Article 4 of Government Emergency Ordinance (G.E.O.) nr. 81/2007 stipulates the transfer from AVAS to the Fund of receivables from World Trade Center Bucharest

FONDUL PROPRIETATEA S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (all amounts are in RON unless otherwise stated)

24. Contingencies (continued)

S.A. amounting to USD 68,814,198 (including the original principal and related interest and penalties) at 29 June 2007.

On 1 October 2007 the reception minute no. 633 was concluded between AVAS and the Fund based on which all documents related to the receivable due from World Trade Center Bucharest S.A. were transferred to the Fund. On 4 October 2007, the Fund notified World Trade Center Bucharest S.A. regarding the cession of the receivables. Meanwhile, the transfer was registered with the Electronic Archive for Pledges.

In 2008, World Trade Center Bucharest S.A. paid USD 200,000 to the Fund. In accordance with G.E.O. 81/2007, the cash receipt reduced the balance of the receivables in respect of equity contributions.

Given the uncertainties regarding their recoverability, the World Trade Center Bucharest S.A. receivables were not recognised as an asset at 31 December 2008.

At the date these financial statements were approved, the recoverability of these receivables was not certain.

25. Group entities

Subsidiaries

The Fund has the following subsidiaries, all of which are incorporated in Romania:

	31 December 2008	31 December 2007
Ownership interest		
Alcom S.A. Timisoara	72%	72%
Carom - Broker de Asigurare S.A. Bucuresti	70%	70%
Comsig S.A. Sighisoara	70%	70%
Delfincom S.A. Bucuresti	66%	66%
Prestari Servicii S.A. Bucuresti	71%	71%
Primcom S.A. Bucuresti	79%	79%
Romplumb S.A. Baia Mare	51%	51%
Telerom Proiect S.A. Bucuresti	69%	69%
Zirom S.A. Giurgiu	100%	100%

FONDUL PROPRIETATEA S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)**

25. Group entities (continued)**Subsidiaries (continued)**

The total assets, liabilities, revenues and expenses for subsidiaries are presented in the table below:

	Total assets	Total liabilities	Revenues	Expenses	Profit / (Loss)
2008					
Alcom S.A. Timisoara	1,621,717	991,532	6,141,242	5,890,037	245,437
Carom - Broker de Asigurare S.A. Bucuresti	1,877,064	89,279	1,639,155	1,277,431	290,587
Comsig S.A. Sighisoara	222,043	11,915	149,152	125,188	23,964
Delfincom S.A. Bucuresti	14,764,704	652,208	3,644,455	3,908,273	(263,818)
Prestari Servicii S.A. Bucuresti	1,208,881	610,509	1,376,790	1,701,764	(324,974)
Primcom S.A. Bucuresti	44,318,095	449,797	4,414,729	2,047,899	1,930,117
Romplumb S.A. Baia Mare	47,766,839	34,009,677	40,242,641	40,237,190	(25,583)
Telerom Proiect S.A. Bucuresti	1,126,184	498,608	2,708,110	2,634,865	51,635
Zirom S.A. Giurgiu	36,932,915	221,896	9,763,357	9,710,786	52,571

FONDUL PROPRIETATEA S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)**

25. Group entities (continued)**Subsidiaries (continued)**

	Total assets	Total liabilities	Revenues	Expenses	Profit / (Loss)
2007					
Alcom S.A. Timisoara	1,712,043	1,327,294	4,916,908	4,889,930	19,886
Carom - Broker de Asigurare S.A. Bucuresti	1,779,983	121,673	1,406,223	1,202,458	161,237
Comsig S.A. Sighisoara	198,690	12,507	108,291	106,328	1,963
Delfincom S.A. Bucuresti	16,066,511	618,606	7,314,020	4,693,200	2,143,183
Prestari Servicii S.A. Bucuresti	1,411,884	813,512	1,084,065	1,350,073	(266,008)
Primcom S.A. Bucuresti	43,963,551	563,794	5,916,026	2,427,304	2,863,262
Romplumb S.A. Baia Mare	52,385,040	5,772,336	51,410,135	51,365,732	(21,420)
Telerom Proiect S.A. Bucuresti	1,170,385	594,445	2,510,067	2,474,277	28,301
Zirom S.A. Giurgiu	37,308,685	470,584	9,669,162	8,682,111	987,051

FONDUL PROPRIETATEA S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (all amounts are in RON unless otherwise stated)

26. Related parties

(a) Parent

At 31 December 2005, the Romanian State was the sole shareholder of the Fund. By 31 December 2007, the shareholders' structure was as follows:

Shareholders	No of shareholders	No of shares	Amount	% held
The Romanian State	1	12,012,950,786	12,012,950,786	87.32%
Individuals	3,024	1,737,616,107	1,737,616,107	12.63%
Companies	3	7,025,694	7,025,694	0.05%
	3,028	13,757,592,587	13,757,592,587	100%

At 31 December 2008, the shareholders' structure was as follows:

Shareholders	No of shareholders	No of shares	Amount	% held
The Romanian State	1	9,545,896,737	9,545,896,737	69.39%
Individuals	2,003	3,552,209,525	3,552,209,525	25.82%
Companies	29	659,486,325	659,486,325	4.80%
	2,033	13,757,592,587	13,757,592,587	100%

The Romanian State controls the Fund and is represented by the Ministry of Economy and Finance.

At 31 December 2008, the Fund had receivables in respect of equity contributions from the Romanian State amounting to RON 78,317,588 (31 December 2007: RON 129,014,506).

FONDUL PROPRIETATEA S.A.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)**

26. Related parties (continued)

(b) Key management personnel

	31 December 2008	31 December 2007
Salaries		
Members of the Supervisory Board	2,504,418	859,020
Directors	904,593	763,602
	<u>3,409,011</u>	<u>1,622,622</u>

There were no loans to or other transactions between the Group and its management in 2007 or 2008.

FONDUL PROPRIETATEA S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)****26. Related parties (continued)****(c) State-controlled entities**

	Year ended 31 December 2008	Year ended 31 December 2007
Gross dividend income		
Romgaz S.A.	38,685,776	35,151,211
Transgaz S.A.	17,046,229	18,192,680
Complexul Energetic Rovinari S.A.	9,103,431	178,337
Aeroportul International Henri Coanda Bucuresti S.A.	8,438,384	6,365,360
Complexul Energetic Turceni S.A.	8,166,104	3,029,678
Posta Romana S.A.	3,564,118	4,382,076
Transelectrica S.A.	3,562,277	14,545,961
Conpet S.A.	2,340,125	1,347,891
Administratia Porturilor Maritime SA	1,448,782	-
Complexul Energetic Craiova S.A.	1,079,249	652,626
Administratia Porturilor Dunarii Fluviale S.A.	518,120	27,714
Oil Terminal S.A.	465,944	121,681
Aeroportul International Timisoara - Traian Vuia S.A.	281,974	15,427
Societatea Nationala a Sarii SA	131,997	-
Administratia Canalelor Navigabile S.A.	19,569	263,660
Imprimeria Nationala S.A.	-	7,119,436
Aeroportul International Bucuresti Baneasa - Aurel Vlaicu S.A.	-	48,367
Administratia Porturilor Dunarii Maritime S.A.	-	33,947
	94,852,079	91,476,052

FONDUL PROPRIETATEA S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)****26. Related parties (continued)****(c) State-controlled entities (continued)**

	Year ended 31 December 2008	Year ended 31 December 2007
Impairment losses on dividends receivable		
Recognised		
Conpet S.A.	(194,556)	(441,450)
Romgaz S.A.	-	(18,510,456)
Transgaz S.A.	-	(9,634,993)
Imprimeria Nationala S.A.	-	(6,029,884)
Complexul Energetic Rovinari S.A.	-	(2,697,838)
Complexul Energetic Craiova S.A.	-	(565,927)
Administratia Canalelor Navigabile S.A.	-	(189,805)
Complexul Energetic Turceni S.A.	-	(148,326)
	<u>(194,556)</u>	<u>(38,218,679)</u>
Reversed		
Imprimeria Nationala S.A.	6,029,884	-
Complexul Energetic Rovinari S.A.	2,697,838	-
Complexul Energetic Craiova S.A.	565,927	-
Administratia Canalelor Navigabile S.A.	189,805	-
Complexul Energetic Turceni S.A.	148,326	-
	<u>9,631,780</u>	<u>-</u>
	<u><u>9,437,224</u></u>	<u><u>(38,218,679)</u></u>

FONDUL PROPRIETATEA S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)****26. Related parties (continued)****(c) State-controlled entities (continued)**

	Year ended 31 December 2008	Year ended 31 December 2007
Dividends received (net of withholding tax)		
Romgaz S.A.	34,817,198	31,636,090
Transgaz S.A.	15,341,606	16,373,412
Posta Romana S.A.	3,564,118	3,943,868
Aeroportul International Henri Coanda Bucuresti S.A.	8,438,384	5,728,824
Complexul Energetic Turceni S.A.	8,314,430	2,726,710
Complexul Energetic Rovinari S.A.	10,890,926	160,503
Transelectrica S.A.	5,775,295	13,091,365
Administratia Porturilor Maritime SA	1,303,904	-
Complexul Energetic Craiova S.A.	1,537,251	587,363
Conpet S.A.	1,911,556	1,213,102
Administratia Porturilor Dunarii Fluviale S.A.	518,120	24,943
Oil Terminal S.A.	200,000	109,513
Societatea Nationala a Sariei SA	118,797	-
Administratia Canalelor Navigabile S.A.	209,374	237,294
Imprimeria Nationala S.A.	7,685,153	4,752,223
Aeroportul International Bucuresti Baneasa - Aurel Vlaicu S.A.	-	43,530
Administratia Porturilor Dunarii Maritime S.A.	-	30,552
Aeroportul International Timisoara - Traian Vuia S.A.	-	13,884
	<u>100,626,112</u>	<u>80,673,176</u>

FONDUL PROPRIETATEA S.A.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
(all amounts are in RON unless otherwise stated)****26. Related parties (continued)****(c) State-controlled entities (continued)**

	31 December 2008	31 December 2007
Dividends receivable		
Romgaz S.A.	18,510,456	18,510,456
Transgaz S.A.	9,634,993	9,634,993
Conpet S.A.	636,007	441,450
Aeroportul International Timisoara - Traian Vuia S.A.	253,777	-
Oil Terminal S.A.	219,350	-
Imprimeria Nationala S.A.	-	7,685,153
Complexul Energetic Rovinari S.A.	-	2,697,838
Transelectrica S.A.	-	2,569,246
Complexul Energetic Craiova S.A.	-	565,927
Administratia Canalelor Navigabile S.A.	-	189,805
Complexul Energetic Turceni S.A.	-	148,326
	29,254,583	42,443,194
Impairment loss allowance		
Romgaz S.A.	(18,510,456)	(18,510,456)
Transgaz S.A.	(9,634,993)	(9,634,993)
Conpet S.A.	(636,007)	(441,450)
Imprimeria Nationala S.A.	-	(6,029,884)
Complexul Energetic Rovinari S.A.	-	(2,697,838)
Complexul Energetic Craiova S.A.	-	(565,927)
Administratia Canalelor Navigabile S.A.	-	(189,805)
Complexul Energetic Turceni S.A.	-	(148,326)
	(28,781,456)	(38,218,679)
	473,127	4,224,515

FONDUL PROPRIETATEA S.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (all amounts are in RON unless otherwise stated)

27. Subsequent events

In June 2009, Franklin Templeton Investment Management Ltd United Kingdom was selected as Fund Manager and Sole Director of Fondul Proprietatea. The fund management contract was signed in February 2010. In September 2010, Franklin Templeton Investment Management Ltd United Kingdom Sucursala Bucuresti took over effectively the management of Fondul Proprietatea.

In March 2010, the National Securities Commission (NSC) issued Regulation 4/2010 regarding the Fund's registration with NSC, its functioning and the trading of its shares. At the date these financial statements were authorised for issue, the Fund was in the process of listing its shares to the Bucharest Stock Exchange.

In August 2010, in accordance with Law 142/2010, the share capital of the Fund was decreased to RON 13,757,592,587, through the cancellation of 482,948,088 shares unpaid by the Romanian State, represented by the Ministry of Public Finance. In September 2010, the share capital was increased to RON 13,778,392,208 following contributions made by the State.

By 22 September 2010, the State's share in Fondul Proprietatea decreased to 44.718%.

Through Government Ordinance 18/2010 regarding the revision of 2010 state budget, the Government decided to request from a number of companies in the portfolio of the Ministry of Economy, Commerce and Business Environment to donate significant amounts to the state budget, in order to cover the macroeconomic deficit this year. In accordance with this ordinance, Romgaz S.A. may donate, following the agreement of its majority shareholders, up to RON 400 million in 2010. This donation would decrease Romgaz S.A. shareholders' equity.

Through Government Emergency Ordinance 91/2010 regarding the allocation of amounts from the recovery of Romania's foreign currency rights, the Government decided not to transfer additional amounts to Fondul Proprietatea, resulting from the foreign trade and economic cooperation carried out by Romania before 31 December 1989 and from recovery of rights resulting from commercial and governmental payment agreements and the related technical banking arrangements.