FONDUL PROPRIETATEA

To: Fondul Proprietatea S.A. Ordinary General Shareholders Meeting

2012 BUDGET FOR FONDUL PROPRIETATEA S.A.

Items (Lei)	2012 Budget	2011 Budget	2011 Revised Budget	Variance (%)
		Note 1	*Note 2*	
I. INCOME FROM CURRENT ACTIVITY	**529,530,294**	**299,338,549**	**299,338,549**	**77%**
Dividend income	509,465,353	209,279,125	209,279,125	143%
Interest income	20,064,941	90,020,934	90,020,934	-78%
Other income	-	38,490	38,490	-100%
Foreign exchange gains (net)	-	-	-	n/a
II. EXPENSES FROM CURRENT ACTIVITY	**67,837,205**	**92,336,771**	**92,336,771**	**-27%**
Utility Expenses	26,391	32,575	32,575	-19%
Rent expenses	104,935	95,566	95,566	10%
Insurance expenses	300,000	298,718	298,718	0%
Marketing and investors relations expenses	1,764,074	415,723	1,513,128	17%
PR expenses	429,375	420,680	420,680	2%
Other taxes and similar expenses	-	-	-	n/a
Bank charges and similar expenses	1,903,595	1,525,434	1,525,434	25%
Commissions and fees	16,183,381	13,434,022	13,434,022	20%
Salaries and similar expenses	603,134	1,006,104	1,006,104	-40%
Social security contributions	158,894	281,709	281,709	-44%
Amortisation expenses	151,270	-	-	n/a
Third party services providers' expenses	46,212,156	74,826,240	73,707,498	-37%
Other expenses	-	-	21,337	-100%
III. GROSS PROFIT	**461,693,089**	**207,001,778**	**207,001,778**	**123%**
IV. Profit tax expenses	19,140,216	-	-	n/a
V. NET PROFIT	**442,552,873**	**207,001,778**	**207,001,778**	**114%**
VI. INVESTMENTS	**680,715**	**-**	**-**	**n/a**
Intangible assets	680,715	-	-	n/a
Tangible assets	-	-	-	-

Note 1: For comparison with the 2012 Budget, in the 2011 Budget, Lei 8,000,000 stamp duty expenses for litigations have been reclassified from the "Other taxes and similar expenses" category to the " Third party services providers' expenses - Legal expenses" category, while Lei 54,896 dividend distribution expenses have been reclassified from " Third party services providers' expenses - Other expenses" to "Bank charges and similar expenses". Besides, Marketing and PR expenses were presented separately.

Note 2: In 2011, following Board of Nominee approval, certain expense categories have been increased with a corresponding decrease in other categories. The budget for Marketing and investor relations was increased by EUR 257,160 equivalent. This covers promotional activities, shareholder communication (including printing and mailing costs) and website expenses. Within "Third party services providers' expenses", external audit costs were increased by EUR 18,000 (plus 24% VAT) equivalent for the audit of 2010 annual separate IFRS financials statements. Additionally, EUR 5,000 was allocated to sponsorship expenses (part of "Other expense" category). All of these expenses have been reclassified from "Investment management and administration fees" within "Third parties services providers' expenses". The total 2011 expense budget remained the same after these reallocations.

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The 2012 Budget of Fondul Proprietatea S.A. ("the Fund" or "Fondul Proprietatea") was prepared in September 2011, under Romanian Accounting Regulations. The Budget has been prepared using actual financial information available for period up to 31 August 2011. The Budget is based on the assumptions presented below.

The 2012 Budget does not include any expenses related to the proposed secondary listing of the Fund, which is expected to take place during 2012. The budget for expenses for the secondary listing will be submitted for shareholders' approval

This budget was approved by the Board of Nominee of the Fund in October 2011.

PRINCIPAL 2012 BUDGET ASSUMPTIONS

The main portfolio assumptions:

- The 2012 Budget has been prepared using the assumption that during 2012, as well as in the period September – December 2011 the Fund will not acquire any new equity investments, will not dispose any of the portfolio investments and will not participate in any share capital increases of portfolio companies;
- The 2012 Budget has been prepared using the assumption that dividend income in 2012 will be similar to 2011 dividend income (the actual dividend income for the period January to August 2011 has been used);
- The 2012 Budget has been prepared using the assumption that the distribution of assets will remain constant from 31 August 2011 through 2012;
- The 2012 Budget has been prepared using the assumption that all cash available will be invested in money market instruments and the average interest rate during 2012 will be 4.5% (equal to the average 2011 bank deposit interest rate).

PLEASE NOTE THAT THE FOLLOWING ASSUMPTIONS USED IN THE PREPARATION OF THE 2012 BUDGET ARE NOT NECESSARILY THE INTENDED FUTURE COURSE OF ACTIONS IN THE MANAGEMENT OF FONDUL PROPRIETATEA S.A.

Franklin Templeton Investment Management Bucharest Branch ("the Fund Manager") is actively managing Fondul Proprietatea according to the Investment Management Agreement and an investment strategy is in place. However, the planning and execution of acquisitions and disposals of equity investments requires careful preparation and timing, having regard to the financial markets and extraneous circumstances. The high volatility of the Romanian market and unpredictability of political and macroeconomic developments makes it impossible to predict with reliable certainty that certain transactions will occur or certain income will be received in a period extending 16 months forward from the date of 2012 Budget preparation.

Currently no definitive commitment had been made to conclude any particular transaction and, accordingly, the Fund Manager has adopted the financially prudent approach of considering that the portfolio will remain unchanged and that estimated portfolio yields will be maintained as at the reference date (in our case: 31 August 2011). This approach is used by Franklin Templeton in developing estimates for the other funds it manages, and this it is a generally accepted market practice.

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Moreover, given the highly competitive and dynamic nature of financial markets any disclosure of planned transactions within the Fund's portfolio may have a negative impact on the performance of the Fund and returns to its shareholders.

Other assumptions include:

- The dividend payout ratio is expected to be 100% of the distributable revenue profits for the financial year 2011, computed according to the Fund's dividend policy stated in the 2010 listing prospectus ("*distributable revenue profits will be calculated as dividend income from investments and interest earned on cash deposits, less expenses and taxation"*), after accounting for compulsory transfer to legal reserve (5% of gross profit). 2011 dividends are expected to be distributed from June 2012, as follows: 60% in June, 38% in July and remaining 2% equally in the period August to September);
- Collection of dividends from portfolio companies during 2012 is expected to be: 45% in June, 10% in July, 10% October, 25% in November, 10% in December;
- For estimating the monthly CNVM fee (0.1% per year, calculated on the basis of NAV) and the depositary bank fee for certifying monthly NAV calculations, the average NAV during 2011 (until 31 August 2011) has been used as an estimate for the average NAV during 2012;
- For estimating the investment management and administration fee payable to the Fund Manager (0.479% per year), the average price of the Fund's shares during 2011 (until 31 August 2011) has been used as an estimate for the average Fund's share price during 2012;
- For estimating the depositary bank custody fee, the Fund's distribution of assets as at 31 August 2011 has been used as the basis for the Fund's structure during 2012;
- The average Leu/Euro exchange rate used in the preparation of the 2012 Budget was 4.2228 Lei/Euro, being the exchange rate as at 31 August 2011.
- All taxes and contribution rates and computation methodologies are based on laws in force as at 31 August 2011;
- During 2012, all financial instruments will be accounted for at cost less impairment adjustments in the financial statements prepared in accordance with Romanian Accounting Regulations;
- Expenses include Romanian VAT of 24% where applicable. The activities of the Fund are exempt and therefore VAT on expenses is not recoverable;
- It is assumed that the Fund's shares acquired under the buyback programme will be cancelled in the first quarter of 2012;

The following section includes details on the budgeted income and expenses.

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DETAILED ANALYSIS OF BUDGETED INCOME AND EXPENSES

1. Income From Current Activity

Dividend income (increase of 143% as compared to the 2011 Budget). The most important component of income from current activity in the 2012 Budget is dividend income (approximately 96% of the total budgeted income).

In the 2012 Budget, the dividend income has been estimated on the assumption that 2012 dividends will be similar to 2011 actual dividends (the actual dividend income for the period January to August 2011 has been used).

The 2012 dividend income budget is much higher than the 2011 budget as portfolio companies distibuted higher dividends in 2011 than they did in 2010. The 2011 budget had been prepared on the basis of actual dividend income up to September 2010.

Interest income (decrease of 78% as compared to the 2011 Budget). This represents the second major component of income in 2012 Budget (approximately 4% of the estimated total income for the year 2012). The decrease in interest income in the 2012 Budget as compared to the 2011 Budget is due to the forecast decrease in the average balance of money market instruments for 2012, following the distributions of dividends, acquisitions of equity investments and to the decrease of interest rates for bank deposits during 2011.

The interest income was estimated based on the following:

- Forecast cash flows for 2012. The main cash flows, besides those related to cash expenses, are cash outflows related to dividends distributed to the shareholders of the Fund (dividends for the financial year 2011) and cash inflows from the collection of portfolio dividends.
- All cash available will be invested in money market instruments
- Estimated average annual interest rate during 2012 for money market instruments will be 4.5% (based on the average 2011 bank deposit interest rate).

It is important to note that these estimates may differ substantially from actual values depending on the actual changes in the equity part of the portfolio and on the trends in the money markets.

Foreign exchange gains or losses. Foreign exchange gains or losses cannot be forecast as future exchange rates can not be reasonably assessed.

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2. Expenses From Current Activity

In preparing the 2012 Budget expenses chargeable to the Fund, the Fund Manager analysed the provisions of the Investment Management Agreement, which set out the expenses chargeable to the Fund and had regard to the rules and best practice followed by Franklin Templeton and other global fund management firms for funds generally.

The expenses chargeable to Fondul Proprietatea that are not explicitly specified in the Investment Management Agreement, but are reasonably allocated to the Fund being exclusively for the benefit of the Fund and its shareholders and/or for protecting their interests, are, according to the Investment Management Agreement only chargeable following the approval of the Board of Nominees.

Expenses from current activity overall are expected to decrease by 27% as compared to the 2011 Budget.

Marketing and investor relations expenses (increase of 17% as compared to the 2011 Revised Budget). Marketing and investor relations expenses, representing approximately 3% of the 2012 budgeted expenses from current activity, include mainly estimated costs related to mailing and printing for shareholder communication and promotional activities, road-shows for promoting the Fund (road-shows are intended to be organised in the key financial centres in Europe, USA, Canada and Asia), organisation of quarterly earnings events, investors days, special events to promote the Fund, marketing and promotional materials and various giveaways, website hosting, maintenance and development expenses and Fund's rebranding campaign.

Marketing and investor relations expenses increased as compared to the 2011 Revised Budget principally due to enhanced promotional efforts to international and local institutional investors. Also higher expenses have been budgeted due to a substantial increase in the number of shareholders of Fund (10,690 shareholders as at 31 August 2011 compared to 5,385 shareholders as at 31 December 2010)

PR expenses (increase of 2% as compared to the 2011 Revised Budget). PR expenses, representing approximately 1% of the 2012 estimated expenses from current activity, include mainly estimated costs related to PR agency, media coverage monitoring, press conferences, press briefings, workshops for journalists.

Rent expenses and Utility Expenses. These represent the expenses for renting the Fund's office space and related costs. Since the administration of the Fund was taken over by the Fund Manager, the office was relocated to Premium Point, with an estimated 2012 monthly rental charge of approximately Euro 1,670 (plus VAT), plus services and property management and utilities charges.

These expenses are approximately 3% higher than in the 2011 Budget due to the annual adjustment of these expenses with Eurozone Consumer Price Index, according to the sublease agreement concluded between the Fund and the Fund Manager.

Insurance expenses. This category includes expenses related to the mandatory liability insurance for the members of the Board of Nominee.

Bank charges and similar expenses (increase of 25% as compared to the 2011 Revised Budget). This category consists of all bank charges, including depositary bank fees and dividend distribution fees. The increase in this expense category in 2012 Budget is mainly due to a rise in depositary fees due to an increase in NAV as well as the new depositary contract with ING Bank effective August 2011.

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Commissions and fees (increase of 20% as compared to the 2011 Budget). This category represents 24% of the Fund's budgeted expenses from current activity and includes mainly CNVM monthly fees estimated based on Net Assets Value ("NAV") computed based on CNVM Regulations.

Out of the total amount budgeted of Lei 16,183,381, Lei 16,082,265 represents the estimated CNVM fee payable monthly, calculated as NAV/12 x 0.1% per month. The increase as compared to the 2011 budgeted expense is due to the increase of the NAV.

Salaries and similar expenses (decrease of 40% as compared to the 2011 Budget). These expenses include gross remuneration for the Board of Nominee members, as well as severance and notice period salary expenses for the one remaining Fund's employee, who is currently on maternity leave. The termination cost was previously provided for therefore the actual expense in 2012 may be minimal.

Social security contributions (decrease of 44% as compared to the 2011 Budget): Expenses regarding the social security contributions, health fund contribution and other similar contributions owed by the employer. These were estimated according to the legal regulations in force, on the basis of gross salaries / remunerations for the Fund's employee and board members.

Amortisation expenses. Amortisation expenses in the 2012 Budget refer to the new integrated software to be implemented during 2012.

Third party services expenses (decrease of 37% as compared to the 2011 Revised Budget). This category of expenses is the main component of expenses in the Fund's 2012 Budget, representing approximately 68% of the total budgeted expenses from current activity.

Items (Lei)	2012 Budget	2011 Budget	2011 Revised Budget	Variance (%)
Third party services providers' expenses:	**46,212,156**	**74,826,240**	**73,707,498**	**-37%**
Investment management and administration	35,746,100	64,171,239	62,957,249	-43%
Legal and litigation assistance (including stamp duty expenses for litigations)	8,400,000	9,400,000	9,400,000	-11%
GSM organization	500,000	200,000	200,000	150%
External audit	392,720	423,326	518,574	-24%
Internal audit	117,552	117,552	117,552	0%
Tax compliance and tax advisory	328,600	291,037	291,037	13%
Portfolio evaluation	261,814	-	-	n/a
Trade Register and Official Gazette	105,000	-	-	n/a
Software maintenance and support	136,143	-	-	n/a
Other third party services	224,227	223,086	223,086	1%

This category of expenses includes various subcategories, as follows:

- ***Investment management and administration fees (decrease of 43% as compared to the 2011 Budget)***. This is the main expense of the Fund, representing 53% of the total budgeted expenses from current activity and was estimated according to the provisions of the Investment Management Agreement concluded between the Fund and the Fund Manager (0.479% per year). The decrease of these fees as compared to the 2011 Budget is due to the fact that 2011 budgeted fees were estimated based on 30

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September 2010 NAV, while 2012 budgeted fees were estimated based on estimated market capitalisation of the Fund (using the average share price of the Fund in 2011, until 31 August 2011).

- ***Legal and litigation assistance expenses (including juridical stamp taxes) (decrease of 11% as compared to the 2011 Budget).*** These expenses, representing 12% of the total budgeted expenses from current activity, relate to the legal assistance provided by the external legal advisors (general legal advice and one-off specialist advice in running the Fund), but also legal representation expenses (litigations in which the Fund is involved) and stamp taxes payable by the Fund for the litigations to defend its interests.

  Stamp duty expenses for litigations have been presented initially in the 2011 Budget as part of “Other taxes and similar expenses”. They have been reclassified in the "Third party services providers’ expenses - Legal expenses" category for comparison with the 2012 Budget.

- ***General Shareholders Meetings organization expenses (increase of 150% as compared to the 2011 Budget)*:** This category includes expenses for the organization of General Shareholders Meetings. These include rent expenses for the event hall, organization expenses, advertisement, copying documents, taxes for registration of share capital increases etc. These expenses have increased as compared to the 2011 Revised Budget principally due to the increase of the number of shareholders.

- ***Tax compliance and tax advisory expenses (increase of 13% as compared to the 2011 Budget)*:** This category has been estimated based on the assumption that the 2012 fees will be similar to the actual fees incurred in 2011 for the tax compliance for the Fund. The budgeted amount includes taxation compliance services relating to tax return filings and taxation advice for specific, one-off, complex tax issues

- ***Portfolio valuation expenses.*** These expenses are related to the valuation of unlisted equity investments of the Fund to be performed by external valuators, for NAV reporting purposes.

- ***Software maintenance and support fees:*** Maintenance and support fees related to the new integrated software are expected to be covered by a maintenance contract with the supplier of the software.

- ***Other third party services expenses:*** In the 2012 Budget, this category includes mainly: professional typesetter & printer expenses for the annual report, publications in newspapers required by legislation (reports or availability of reports, tender announcements), other portfolio related expenses, payroll services provider’s cost, translation expenses, review of related parties transactions required by legislation (if applicable).

Profit Tax Expenses. These include only the profit tax expense related to the own shares acquired in the buyback programme, intended to be cancelled in the first quarter of 2012 (profit tax expense related to the gain on the cancellation of buybacks). Except for this expense, in the 2012 Budget the profit tax expenses estimated are nil as budgeted expenses are higher than budgeted income except for dividend income (that is non taxable income for profit tax computation, as taxes on dividends are withheld by companies distributing the dividends). Profit tax was estimated based on the estimated accounting gross profit and the non deductible expenses/ non taxable income applying the profit tax rate in force. Should actual interest income exceed budgeted, or actual expenses be lower than budgeted, to the extent that taxable profits are greater than zero, a corporate income tax liability of 16% will be incurred.

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Among the expenses categories reclassifications/ reallocations may take place during the year with Board of Nominee approval, with the condition that the total of these expenses (excluding non-budgeted expenses such as: Foreign exchange losses, expenses with provisions and impairment adjustments) to meet the budgetary limits approved by the General Shareholders Meeting.

3. Capital Expenditure Budget

The Fund is currently using for accounting purposes a basic accounting application, Ciel Conta, which has been used by the Fund since its inception in 2005. Ciel Conta is a simple accounting software, usually used for bookkeeping by small companies with simple operational activities. This software appears to have met the administration and reporting needs of the Fund during the passive management period before September 2010, but it is inadequate for an entity of the size and complexity of the Fund under active management.

The capital expenditure budgeted for 2012 refers to an integrated software solution specialised for investment funds and compliant with Romanian accounting and capital market legislation intended to be implemented in the first half of 2012.

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