



FONDUL PROPRIETATEA

Closed-end investment fund

BUY

28 September 2012

Last close RON 0.5280

Target price **RON 0.7939**

Company Update

RIC: FP.BX	BQ: FP RO	
Target price	RON 0.7939	€ 0.1759
Previous	RON 0.6579	€ 0.1457
Total stock return	50%	

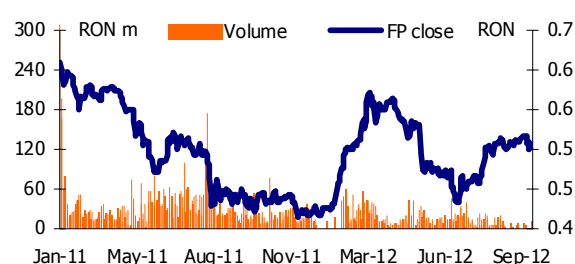
Valuation			
TP discount to reported NAV			-16%
Last close discount to reported NAV			-44%
Per share	2011	2012B	2012 F
EPS	0.0406	0.0330	0.0411
DPS	0.0385	0.0313	0.0390
DY	7.3%	5.9%	7.4%

(RON m)	Reported Value (E)	AFR Bottom Value	% Δ *	AFR Fair Value
Traded shares, o/w	5,719	5,719	10%	6,274
Listed - majors	5,581	5,581	12%	6,230
Listed - other	138	138	-68%	44
Unlisted shares, o/w	6,304	4,180	31%	8,240
Unlisted (privately controlled)	2,094	1,665	-21%	1,665
Unlisted (state controlled)	4,142	2,515	59%	6,575
Portfolio value	12,023	9,899	21%	14,515
Total assets	12,816	10,692		15,307
NAV**	12,675	10,648		15,263
NAV/share	0.9450	0.7939		1.1380

Trading data	1w	1m	12m	YTD
Abs. Performance	-3%	1%	18%	23%
H L 52w	0.6050	0.4151		
Mkt. cap.(b)	RON 7.3	€ 1.6		

Shareholding	
Shares outstanding (m)	13,412.8
Manchester Securities Corp	13.3%
Beresford Energy Corporation	1.9%
The Royal Bank of Scotland	5.4%
Beresford Energy Corporation	4.8%
City of London	4.3%
Fondul Proprietatea	1.8%

*Δ% AFR Fair value vs. Reported value; **as reported on August, 2012



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Dividend distribution in doubt

We update our view on Fondul Proprietatea with a **BUY** recommendation and a **target price of RON 0.7939 per share** revealing an **upside potential of 50%** against current trading levels and a **16% discount to reported NAV**.

In June, Hidroelectrica filed for insolvency, and according to CNVM regulation, the value of Hidroelectrica in FP's reported NAV was written-off from RON 3.3b to RON 0, which led to a NAV of RON 12.5b (-20.3% M/M and RON 1.3b lower than FP's share capital), and to a lower share price discount to reported NAV (from 61.3% to 51% if 29th of June closing price is considered). We remind that AFR TP considers Hidroelectrica at zero value, therefore our valuation was not affected by this event.

One major implication of Hidroelectrica's insolvency is that dividends distribution out of 2012 net profit is put at risk next year, due to Romanian law which states that FP is not allowed to distribute dividends if NAV is below the share capital. **FP could distribute dividends, but only if Hidroelectrica exits insolvency until the end of the year**, which is highly unlikely in our view. According to Remus Borza, head of Euro Insol, Hidroelectrica's judicial administrator, a realistic deadline for the company's exit from insolvency is end of June 2013. FP is trying to by-pass the dividends distribution through a share buy-back programme approved by the shareholders in April, which cannot be currently implemented, due to Ioana Sfiraiala, who blocked the registration of the shareholders' decision.

In H1'12 Fondul Proprietatea cashed in RON 618.1m as dividends (+19.1% Y/Y and 5.4% lower than our estimate). Adding the budgeted figure of RON 20m as interest revenue (51% lower Y/Y) and deducting the expenses, FP's dividend per share for 2012 would reach RON 0.039/share, implying a DY of 7.4% if current market price is considered.

In June 2012 FP sold its entire stake of 11.13% in Azomures in the takeover bid initiated by Ameropa Holding, AZO's main shareholder, at RON 2.22/share, from which a **pre-tax profit of RON 107m** was realised. The AZO stake was an inherited one. However, in active management Franklin Templeton was not equally successful, as in Q2'12 it sold part of its stakes FP had acquired one year ago in Erste Group Bank AG and Raiffeisen Bank International AG, from which a **RON 94.2m loss** was realised.

In April 2012 shareholders approved in principle FP's listing on Warsaw Stock Exchange. FP decided that the best way to achieve the secondary listing is through a technical listing, i.e. the admission and introduction to trading on WSE, based on a Listing Memorandum followed by the facilitation of liquidity on WSE. The technical listing should be concluded in about 13 weeks since the publication of the decision in the Official Gazette. The **Polish regulator and depositary confirmed that they are able to establish the link with the Central Depositary from Romania**. However, **CNVM seems to lag the necessary approvals needed for the link between the two depositories to be achieved**.



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Investment case

Fondul Proprietatea target price: RON 0.7939/share

We update our view on Fondul Proprietatea with a **BUY recommendation** and a **target price of RON 0.7939 per share** revealing an **upside potential of 50%** against current trading levels and a **16% discount to reported NAV**.

Our fundamental valuation provides a price range delimited by a bottom value (RON 0.7939 per share) and a fair value (RON 1.138 per share). We kept unchanged our valuation methodology and AFR NAV is computed based on the detailed portfolio as of H1'12, on the August 2012 NAV, financial results for 2011 for the unlisted companies and on closing prices as of September 27th for all BSE and Vienna-listed companies that have been traded in the last 30 trading days.

The AFR Bottom NAV has been increased by 20.7% from our last report, due to: 9% increase of local listed companies value, 21% increase of the unlisted companies value, 28% increase of the market value of listed banks on international markets (Erste Group Bank AG and Raiffeisen Bank International AG) and 45% increase in cash & cash equivalents as of end of August 2012 vs. end of April 2012.

Hidroelectrica filed for insolvency on the 15th of June with the Bucharest Court and on the 20th of June Hidroelectrica's insolvency request was approved by the Bucharest Court. **In June, according to CNVM regulation, the value of Hidroelectrica in reported FP's NAV was written-off from RON 3.3b to RON 0**, which led to a NAV of RON 12.5b (-20.3% M/M and RON 1.3b lower than FP's share capital), and to a lower share price discount to reported NAV (from 61.3% to 51% if 29th of June closing price is considered). **One major implication of Hidroelectrica's insolvency is that dividends distribution out of 2012 net profit is put at risk next year**, due to Romanian law which states that FP is not allowed to distribute dividends if NAV is below the share capital. **FP could distribute dividends, but only if Hidroelectrica exits insolvency until the end of the year**, which is highly unlikely in our view. According to Remus Borza, head of Euro Insol, Hidroelectrica's judicial administrator, a realistic deadline for the company's exit from insolvency is the end of June 2013. **Another strategy could be the decrease of the share capital** if the buy-back programme of 1.1b FP shares representing 7.9% in FP's paid share capital is followed (currently the implementation of the programme is delayed due to Ioana Sfiraiala, which blocked the registration of the shareholders' decision). Nevertheless, the news had a short-term negative impact on FP's share price as FP share price lost 9.8% in one week, after which the price recovered, sustained by foreign investors' acquisitions.

In H1'12 Fondul Proprietatea **cashed in RON 618.1m as dividends** (19.1% higher Y/Y and 5.4% lower than our estimate). Adding the budgeted figure of RON 20m as interest revenue (51% lower Y/Y) and deducting the expenses, **FP's dividend per share for 2012 would reach RON 0.039/share, implying a DY of 7.4%** if current market price is considered.

In April 2012 shareholders approved in principle FP's listing on Warsaw Stock Exchange and appointed the Consortium formed of JP Morgan, Unicredit and KBC Securities as intermediaries. FP decided that the best way to achieve the secondary listing is through a technical listing, i.e. the admission and introduction to trading on WSE, based on a Listing Memorandum followed by the facilitation of liquidity on WSE. The expenses related to the listing were budgeted at RON 10.8m. The technical listing should be concluded in about 13 weeks since the publication of the decision in the Official Gazette. **The Polish regulator and depositary confirmed that they are able to establish the link with the Central Depositary from Romania. However, CNVM seems to lag the necessary approvals needed for the link between the two depositories to be achieved.** We suppose the delay is due to the fact that CNVM's income will be lowered following FP's dual listing.

Trasngaz SPO for the listing of 15% in the company's share capital is supposed to take place in October 2012 (the initial June deadline was postponed for September). S&P has recently downgraded Transgaz from "BB+" to "BB" due to uncertainties in the energy regulation area that could affect the company's competitiveness.

The IPOs for the sale of stakes in State-owned companies were delayed for 2013. Thus, **Romgaz's IPO** for the sale of a 15% stake in the company's share capital was scheduled for March 2013 (previously, the plan envisaged carrying out the IPO by October 2012), **Hidroelectrica's IPO** was scheduled for the end of October 2012 but it was delayed until the judicial reorganisation is finalised (we expect the IPO to take place in 2014), **Nuclearelectrica's IPO** was scheduled to take place in the spring of 2013 and the deadline for submitting intermediary offers is the 28th of September (the first tender for the selection of an IPO



intermediary was called off in May, due to lack of interest, considering that investors are not eager to put money into stocks of nuclear energy companies).

In August 2012 Romanian Government approved the **sale of a 13.6% stake in Enel Distributie Muntenia and Enel Energie Muntenia** to Enel Investment Holding B.V. for €375m and the transaction should be finalised in two months. The privatisation contract concluded in June 2007 stipulates that Electrica SA has a put option for selling 13.6% to Enel (the rest of 10% stake is earmarked to employees) at a price that cannot be lower than the acquisition price paid by Enel (the put option can be exercised until the end of 2012). Also, **in the case that the majority shareholder of Enel Distributie Muntenia and Enel Energie Muntenia would have decided to sell its participation to a third party, FP would have had the right to sell its stake at the same price as Enel. Therefore, the State's put option exercise impact on FP is not material.**

In March 2012 the Government approved the BSE listing of the 15% stakes in Electrica Distributie Nord, Electrica Distributie Transilvania Nord and Electrica Distributie Transilvania Sud (all the three power distributors are 78% owned by Electrica and 22% by Fondul Proprietatea). However, following the discussions with IMF representatives **in June 2012, the Ministry of Economy decided to change the privatisation strategy** at the three companies as follows: the share capital of the three power distribution companies will increase by 100%, with Electrica and Fondul Proprietatea having pre-emptive rights to maintain their stakes (the shares not subscribed by Electrica and FP will be annulled). Following the share capital increase, 3 IPOs will be launched, through which the State will put up for sale half of its participation, i.e. 39%, while the rest will be 22% owned by FP. The sale of majority packages from Electrica's three distribution companies was scheduled for mid-2013 at the latest.

In June 2012 FP sold its entire stake of 11.13% in Azomures in the takeover bid initiated by Ameropa Holding, AZO's main shareholder, at RON 2.22/share, from which a **pre-tax profit of RON 107m** was realised. The AZO stake was an inherited one. However, in active management Franklin Templeton was not equally successful, as in Q2'12 it sold part of its stakes FP had acquired one year ago in Erste Group Bank AG and Raiffeisen Bank International AG, from which a **RON 94.2m loss** was realised.

Since listing, FP's number of shares traded on BSE reached 15b (on regular and deal markets), which represents 112% of the paid share capital. Average daily traded volume (on regular and deal market) stood at 36.2 m shares, implying an average daily traded turnover of RON 18.7m (€4.1m) or 50.9% of average total traded turnover on BSE.

During 30 December 2011 – 2 March 2012, when it reached a maximum of RON 0.605, FP **outperformed BET-NG index**, as **FP's share price hiked 42%**, while BET-NG increased by 14.2%. This evolution can be explained by **the State's diminishing control in FP** (from 38.9% to 2.7%) and due to **voting rights restriction cancellation**. Afterwards, FP went on a severe downtrend until the 26th of June, declining 27.3%, due to a mix of factors: negative evolution of the world stock markets, price adjustment for dividend (ex-date was 10th of May), political turmoil and finally due to Hidroelectrica's insolvency. Since then FP shares price recovered, sustained by the increase of foreign investors' holdings from 50.08% at the end of June 2012 to 52.02% at the end of August 2012.

YTD Fondul Proprietatea went up 23%, while BET-NG declined 7.4%. Forward looking, FP has, on one hand, an upside potential stemming from FP's listing on WSE, but on the other, FP might face a downward evolution, due to the fact that dividends distribution out of the 2012 net profit is put at risk next year.



Financials

Profit&Loss Account at H1'12

For H1'12 FP posted a **net profit of RON 573.9m** (+5.7% Y/Y), on the back of 42.8% Y/Y higher revenues of RON 847.8m and 5 times higher expenses of RON 273.5m. **Revenues from financial assets increased by 20.4% Y/Y to RON 618.1m**, due to a higher level of dividend distributions from portfolio companies (of which +46.8% Y/Y to RON 446.2m from listed companies).

Interest income from bank deposits and treasury bills halved to RON 14m, due to lower interest levels compared to the similar period last year.

FP registered a pre-tax net gain from disposal of financial assets of RON 13m (+124.1% Y/Y), related to the entire stake of 11.1% in Azomures (RON 129.9m) and to the partial disposal of the holdings in Erste Group Bank AG and Raiffeisen Bank International AG (RON 57.8m). FP took a pre-tax profit of RON 107m from AZO investment, which was partially offset by the RON 94.2m loss from the Erste Group Bank AG and Raiffeisen Bank International AG investments.

Expenses for depreciation, provisions and losses from receivables were 4 times higher to RON 47.7m and are referred to the impairment adjustment related to Hidroelectrica 2010 dividend and related penalties (following Hidroelectrica's insolvency).

Fees to Franklin Templeton, the FP's manager, declined 15.3%, following the change in calculation base (the management and administration fee of 0.479% per year was based on FP's NAV until FP's listing on the 25th of January 2011, while afterwards was based on FP's market capitalisation).

Profit & Loss Account			
(RON m)	H1'12	% Δ	H1'11
Dividend income	618.1	20.4%	513.2
Income from assets disposal	207.8	N/M	9.7
Income from provisions	5.6	-80.6%	28.8
FX gains/losses	0.1	-96.5%	1.5
Interest income	14.0	-52.2%	29.2
Other income	2.3	-79.6%	11.4
Total revenues	847.8	42.8%	593.7
Expenses for assets disposal	194.9	N/M	4.0
Personnel expenses	0.3	-37.5%	0.5
Commissions and fees	9.1	1.3%	9.0
Fees to Franklin Templeton	17.1	-15.3%	20.2
Depreciation, provisions and losses	47.7	307.4%	11.7
Other expenses	4.4	-70.5%	14.8
Total operating expenses	273.5	463.7%	48.5
Income tax	0.4	-79.8%	2.0
Net profit	573.9	5.7%	543.1

Source: Fondul Proprietatea

Balance Sheet at H1'12

In H1'12 the value of **financial assets increased by RON 800m compared to FY'11**, mainly due to the reversal of impairment adjustments for the OMV Petrom investment (from the end of 2012 until the end of June 2012 SNP's market price increased 29.31%, which is translated into a RON 968m), partially offset by the increase of impairment adjustments for Transelectrica and BRD – GSG investments (TEL and BRD declined by 30% and 17.2%, respectively). Also, the increase of financial assets was partially offset by the sale of 11.1% stake in Azomures (RON 22.8m) and part of the holdings in Erste Bank AG (RON 130.3m) and Raiffeisen Bank AG (RON 41.7m), which led to reversal of the related impairment adjustments of RON 84.6m and RON 45.4m, respectively.

The significant increase of 116.5% in current assets was mainly due to the cash inflows from dividend receivables (RON 509.1m) and from the disposal of the entire holding in Azomures and part of the holdings in Raiffeisen Bank and Erste Bank AG (RON 187.6m).

The significant increase of other payables from RON 15m to RON 417m is related to dividends payable to shareholders related to 2011 profits.



Balance Sheet					
(RON m)	H1'12	% Δ (H/H)	FY'11	H1'11	% Δ (Y/Y)
Non-current assets	11,428	7.5%	10,628	12,003	-4.8%
Current assets	1,189	116.5%	549	1,046	13.7%
Cash and equivalents	926	211.5%	297	702	31.9%
Short term investments	140	-28.6%	196	16	781.4%
Receivables	123	119.4%	56	328	-62.6%
Total assets	12,617	12.9%	11,177	13,049	-3.3%
Current liabilities	426	909.0%	42	245	73.6%
Trade payables	9	-66.5%	28	23	-60.3%
Other payables	417	N/M	15	219	90.1%
Long term liabilities	15	4.3%	14	14	4.3%
Provisions	15	4.3%	14	14	4.3%
Other non-current liabilities	0	0.0%	0	0	0.0%
Total liabilities	441	681.3%	56	260	69.8%
Shareholders' equity	12,176	9.5%	11,121	12,790	-4.8%
Share capital	13,778	0.0%	13,778	13,778	0.0%
Reserves	-2,139	-31.6%	-3,128	-1,571	36.1%
Impairment for financial assets	2,393	-29.2%	3,379	1,794	33.4%
Retained earnings	83	12.0%	74	74	12.0%
Trasury shares	120	0.0%	120	35	N/M
Total liabilities and equity	12,617	12.9%	11,177	13,049	-3.3%

Source: Fondul Proprietatea

August 2012 NAV

Reported NAV for August 2012 reached RON 12.7b, 0.2% higher M/M (NAVPS of RON 0.9450) and 12% lower compared to FY'11. The main reason for the 12% decrease in the NAV was Hidroelectrica's insolvency (the value of Hidroelectrica in reported FP's NAV was written-off from RON 3.3b to RON 0) which was partially offset by the positive evolution of OMV Petrom's share price (from the beginning of the year until the end of August SNP's market price gained 32.8%, from RON 0.29/share to RON 0.385/share, which is translated into a RON 1,1b positive impact).

Unlisted shares accounted for 49.6% of total assets (RON 6.4b, -0.7% M/M).

Cash and deposits declined 11.3% M/M to RON 487m (3.8% of total assets), as Fondul Proprietatea started to distribute dividends related to 2011 earnings, while T-bills advanced 10% M/M to RON 290m.

According to reported August 2012 NAV, FP posted for the first eight months of 2012 a net profit of RON 574m.

Reported NAV									
(RON m)	Aug-12	% Δ (M/M)	% Δ (Y/Y)	H1'12	Q1'12	FY'11	9M'11	Aug-11	H1'11
Long term financial assets	6,333	0.1%	-32.6%	6,327	9,157	9,163	9,396	9,398	9,394
Listed shares	18	86.9%	15.0%	23	12	13	14	16	12
Unlisted shares	6,315	0.0%	-32.7%	6,304	9,146	9,151	9,382	9,382	9,382
Short term financial assets	6,386	-0.7%	5.7%	6,611	6,869	5,293	5,289	6,039	7,037
Receivables	16	-66.2%	-93.8%	122	52	57	210	252	327
Cash	2	-70.1%	-45.0%	31	2	2	2	5	30
Listed shares	5,593	0.3%	3.4%	5,418	6,348	4,752	4,721	5,411	5,991
Government securities	290	10.2%	N/M	140	199	168	49	0	16
Bank deposits	485	-10.4%	30.5%	896	269	314	307	372	673
Total assets	12,719	-0.3%	-17.6%	12,938	16,026	14,457	14,685	15,437	16,431
Total liabilities	29	-68.8%	-59.4%	426	20	42	55	72	245
Share capital	13,778	0.0%	2.8%	13,778	13,778	13,778	13,778	13,406	13,778
Revaluation differences	498	6.0%	-81.9%	321	3,409	3,072	3,288	2,753	3,382
Period result	574	-0.1%	4.6%	574	-2	536	535	549	543
Reserves	-2,259	0.0%	57.8%	-2,259	-1,785	-3,060	-3,060	-1,432	-1,606
NAV	12,675	0.2%	-17.4%	12,497	15,992	14,401	14,616	15,350	16,171
NAVPS (RON)	0.9450	0.2%	-17.5%	0.9318	1.1923	1.0742	1.0903	1.1450	1.1755

Source: Fondul Proprietatea



Valuation

Valuation methodology

Our fundamental valuation provides a price range delimited by a bottom value (RON 0.7939 per share) and a fair value (RON 1.138 per share).

We kept unchanged our valuation methodology and AFR NAV is computed based on the detailed portfolio as of H1'12, on the August 2012 NAV and the financial results for 2011 for the unlisted companies. We have filled in closing prices as of September 27th for all BSE and Vienna-listed companies that have been traded in the last 30 trading days.

For **AFR Bottom NAV** valuation, we have applied the following methodology:

- BSE and Vienna Stock Exchange market values as of 23rd of September for the listed companies, except for those with negative shareholders equity or not traded in the last 30 days, which we valued at zero;
- Relative valuation method based on LFY EPS, EBITDA and BV peers multiples for the privately held unlisted portfolio companies, as well as sum-of-parts to reach their fair realisable values;
- Zero value for the state-controlled companies operating within the power sector.

For **AFR Fair NAV** valuation, we have applied the following methodology:

- AFR-Target Prices for the listed companies that are covered by us (SNP, BRD, TLV, TEL and TGN), while for the rest we have used BSE and Vienna Stock Exchange market values as of 23rd of September for the listed companies, except for those with negative shareholders equity or not traded in the last 30 days, which we valued at zero;
- Relative valuation method based on LFY EPS, EBITDA and BV peers multiples for the unlisted portfolio companies, as well as sum-of-parts to reach their fair realisable values.

We use AFR Bottom Value NAV for target price.



Portfolio companies valuation								
(RONm)	Market cap	FP's stake	Reported Value (E)	Market value	AFR Fair Value	% Δ *	Portfolio weight**	Sector
Listed - total								
OMV Petrom	22,261	20%	4,477	4,477	4,932	10%	45%	Oil&Gas
Transgaz	2,249	15%	337	337	420	25%	3%	Gas transport
Alro	1,599	10%	163	163	163	0%	2%	Aluminium production
Transelectrica	896	13%	121	121	124	3%	1%	Power transmission
BRD - Group Societe Generale	5,143	4%	185	185	193	4%	2%	Banking
Raiffeisen Bank International AG	25,549	1%	142	142	142	0%	1%	Banking
Erste Group Bank AG	31,383	0%	98	98	98	0%	1%	Banking
Conpet	309	30%	92	92	92	0%	1%	Oil transport via pipelines
Primcom	33	56%	18	18	18	0%	0%	Real estate
Romaero	63	21%	13	13	13	0%	0%	Air/spacecraft machinery
Oil Terminal	93	8%	8	8	8	0%	0%	Cargo handling
Banca Transilvania	1,986	3%	58	58	66	13%	1%	Banking
Other listed (14 companies)	79		7	7	5	-28%	0%	
Total			5,719	5,719	6,274	10%	58%	
	FY'11 BV	FP's stake	Reported Value	AFR Bottom Value	AFR Fair Value	% Δ *	Portfolio weight**	Sector
Unlisted - privately controlled								
Enel Distributie Banat	1,847	24%	446	485	485	9%	5%	Power distribution
Enel Distributie Dobrogea	1,251	24%	301	270	270	-11%	3%	Power distribution
Enel Distributie Muntenia	2,867	12%	344	285	285	-17%	3%	Power distribution
E.ON Moldova Distributie	1,817	22%	400	209	209	-48%	2%	Power distribution
Enel Energie Muntenia	310	12%	37	38	38	1%	0%	Power supply
Enel Energie	121	12%	15	20	20	36%	0%	Power supply
E.ON Energie Romania	511	13%	68	0	0	-100%	0%	Gas supply
E.ON Gaz Distributie	1,195	12%	143	109	109	-24%	1%	Gas distribution
GDF Suez Energy Romania	2,830	12%	340	250	250	-26%	3%	Gas supply
Total			2,094	1,665	1,665	-21%	17%	
Unlisted - state controlled								
Romgaz	8,648	15%	1,297	1,884	1,884	45%	19%	Gas E&P
Hidroelectrica	0	20%	0	0	2,405	N/M	0%	Hydro power generation
Nuclearelectrica	5,120	10%	498	0	450	-10%	0%	Nuclear power generation
Complexul Energetic Oltenia	4,993	22%	1,075	0	758	-30%	0%	Thermal Power Generation
Electrica Distributie Muntenia Nord	1,250	22%	275	0	160	-42%	0%	Power distribution
Electrica Distributie Transilvania Sud	921	22%	203	0	139	-31%	0%	Power distribution
Electrica Distributie Transilvania Nord	859	22%	189	0	149	-21%	0%	Power distribution
CN Aeroporturi Bucuresti	1,612	20%	322	347	347	8%	4%	Airports services
A.I. M. Kogalniceanu	25	20%	5	4	4	-13%	0%	Airports services
Aeroportul International Traian Vuia	32	20%	6	11	11	77%	0%	Airports services
CN Administratia Porturilor Maritime	337	20%	67	129	129	91%	1%	Ports services
CNA Porturilor Dunarii Maritime	10	20%	2	3	3	33%	0%	Ports services
CNA Porturilor Dunarii Fluviale	18	20%	4	8	8	133%	0%	Ports services
CNA Canalelor Navigabile	78	20%	16	21	21	34%	0%	Ports services
Societatea Nationala a Sarii	177	49%	87	108	108	24%	1%	Salt extraction
Posta Romana	386	25%	96	0	0	-100%	0%	Postal services
Total			4,142	2,515	6,575	59%	25%	
Other unlisted								
19 companies	165		68	0	0	-100%	0%	
PORTFOLIO VALUE			12,023	9,899	14,515		100%	

Source: FP, Thomson Reuters, AFR estimates, * % Δ AFR Fair value vs. Reported value; ** weight based on AFR Bottom Value

Note: Reported value (E) estimates according to the official methodology: last close (listed) and FY'11 or FY'10 BV (unlisted)



Valuation summary

AFR NAV estimations			
(RONm)	Reported Value (E)	AFR Bottom value	AFR Fair value
Traded shares, o/w	5,719	5,719	6,274
Listed - majors	5,581	5,581	6,230
Listed - other	138	138	44
Unlisted shares, o/w	6,304	4,180	8,240
Unlisted - majors (privately controlled)	2,094	1,665	1,665
Unlisted - majors (state controlled)	4,142	2,515	6,575
Unlisted- other	68	0	0
Portfolio value	12,023	9,899	14,515
Cash	487		
Other assets	306		
Total assets	12,816	10,692	15,307
Liabilities	44		
Reported NAV *	12,675		
AFR NAV		10,648	15,263
No of shares (m)	13,413		
NAV/share (reported)	0.9450		
AFR NAV/share		0.7939	1.1380
Upside/downside potential		50%	116%

Source: Fondul Proprietatea; Thomson Reuters Knowledge; AFR estimates;

*reported NAV as of August 31, 2012

Note: Reported value (E) based on last close (listed) and BV as reported (unlisted)

AFR Bottom Value emerges at RON 0.7939 implying a 16% discount to reported NAV and an upside potential of 50% against current trading levels.

The AFR Bottom NAV has been increased by 20.7% from our last report, due to: 9% increase of local listed companies value, 21% increase of the unlisted companies value, 28% increase of the market value of listed banks on international markets (Erste Group Bank AG and Raiffeisen Bank International AG) and 45% increase in cash&cash equivalents as of end of August 2012 vs. end of April 2012.

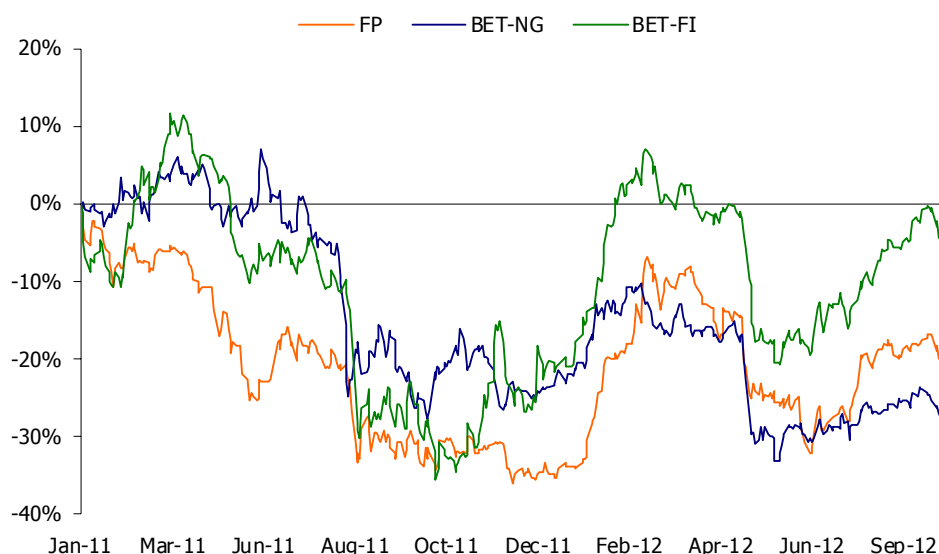
AFR Fair Value reaches RON 1.138 implying a 20% premium to the reported NAV.

Recent developments in trading and fundamentals

The graph below shows that during 30 December 2011 – 2 March 2012 (when it reached a maximum of RON 0.605) FP **outperformed BET-NG index**, as **FP's share price hiked 42%**, while BET-NG increased by 14.2%. This evolution can be explained by **the State's diminishing control in FP** on one hand and, on the other by the fact that on 12th of January CNVM approved FP's new By-laws, according to which **the restrictions of the voting rights** related to the number of shares owned by FP' shareholders **were waived** (currently the principle of one paid share being equal to one voting right is applied).

Afterwards, FP went on a severe downtrend until the 26th of June, declining 27.3%, due to a mix of factors: negative evolution of the world stock markets, price adjustment for dividend (ex-date was 10th of May), political turmoil and finally due to Hidroelectrica's insolvency. Since then FP shares price recovered, sustained by the increase of foreign investors' holdings from 50.08% at the end of June 2012 to 52.02% at the end of August 2012.

YTD Fondul Proprietatea went up 23%, while BET-NG declined 7.4%. Forward looking, FP has, on one hand, an upside potential stemming from FP's listing on WSE, but on the other, FP might face a downward evolution, due to the fact that dividends distribution out of the 2012 net profit is put at risk next year.



Source: BSE (unadjusted for dividends)

On the 14th of September US hedge fund Elliott Associates raised its stake in FP to 15.2% of paid share capital. Elliott controls its FP holdings through its affiliates Manchester Securities Corp. (with 13.6% of voting rights) and Beresford (with 1.9% of voting rights).

On the 20th of September, City of London sold a stake of 1.31% to The Royal Bank of Scotland through a deal transaction. Following the transaction, City of London diminished its stake from 5.6% of paid capital to 4.3%, whereas The Royal Bank of Scotland increased its stake from 4.1% to 5.24%.

The current shareholding structure is as follows:

Shareholding structure (20th of September)			
	No of shares	Paid share capital (%)	Voting rights (%)
Manchester Securities Corp	1,785,911,298	13.31%	13.56%
Beresford Energy Corporation	251,700,500	1.88%	1.91%
The Royal Bank of Scotland	722,665,627	5.39%	5.49%
Beresford Energy Corporation	649,631,627	4.84%	4.93%
City of London	576,062,100	4.29%	4.37%
Fondul Proprietatea	240,304,801	1.79%	0.00%
Others	9,186,504,213	68.49%	69.74%
Total	13,412,780,166	100.00%	100.00%

Source: Fondul Proprietatea, BSE

In April 2012, the shareholders approved the distribution of a gross dividend of RON 0.03854/share, payable starting with the 29th of June 2012, of which 24% was distributed until 30th of June.

In H1'12 Fondul Proprietatea cashed in RON 618.1m as dividends (19.1% higher Y/Y and 5.4% lower than our estimate). Adding the budgeted figure of RON 20m as interest revenue (51% lower Y/Y) and deducting the expenses, FP's dividend per share for 2012 would reach RON 0.039/share, implying a DY of 7.4% if current market price is considered. However, **dividends distribution out of 2012 net profit is put at risk next year following Hidroelectrica's insolvency** due to Romanian law which states that FP is not allowed to distribute dividends if NAV is below the share capital. **FP could distribute dividends, but only if Hidroelectrica exits insolvency until the end of the year**, which is highly unlikely in our view. According to Remus Borza, head of Euro Insol, Hidroelectrica's legal administrator, a realistic deadline for the company's exit from insolvency is the end of June 2013. **Another strategy could be the decrease of the share capital** if the buy-back programme of 7.9% in FP's paid share capital is followed.



Dividends to be collected from portfolio companies (RON)			
Listed companies	2010	2011	2012
OMV Petrom	0	201,623,005	353,125,036
Transgaz	22,975,350	50,768,117	52,515,091
Alro	11,166,668	13,460,900	19,375,860
Transelectrica	494,761	1,147,845	10,884,733
BRD - Group Societe Generale	0	2,038,853	3,559,220
Raiffeisen Bank International AG	0	4,498,766	3,849,941
Erste Group Bank AG	0	3,338,348	0
Conpet	3,810,281	6,984,786	6,612,533
Primcom*	1,731,351	19,910,221	0
Romaero	0	52,525	0
Oil Terminal	37,391	172,289	138,868
IOR SA	186	88	691
Banca Transilvania	0	0	0
Total listed	40,215,988	303,995,743	450,061,973
Unlisted companies			
Romgaz	87,829,620	106,010,598	140,639,003
Hidroelectrica	6,501,711	52,478,623	0
Enel Distributie Banat	0	20,161,712	0
Enel Distributie Dobrogea	0	13,529,334	0
CN Aeroporturi Bucuresti	6,584,070	9,932,510	9,415,274
GDF Suez Energy	0	9,600,000	0
AIT Traian Vuia	353,329	1,536,108	1,687,638
SN a Sarai	0	754,995	0
CN Administratia Porturilor Maritime	0	0	6,570,224
CN Administratia Porturilor Dunarii Fluviale	368,363	564,468	693,950
CN Administratia Porturilor Dunarii Maritime	18,210	193,493	200,775
CN Administratia Canalelor Navigabile	244,827	174,677	525,946
Electrica Furnizare Transilvania Sud	0	88,801	0
Complexul Energetic Rovinari	124,947	20,711	6,457,434
CE Turceni	0	0	0
Electrica Distributie Muntenia Nord	0	0	1,801,112
Ciocarla	24,433	15,753	2,525
Complexul Energetic Craiova	114,721	7,828	27,834
E.ON Gaz Romania	24,651,074	0	0
E.ON Gaz Distributie	11,416,966	0	0
Complexul Energetic Rovinari (2005)	567,525	0	0
Carom-Broker	27,636	0	0
Retizoh	4,443	0	0
Commetex	1,188	0	0
Total unlisted	138,833,063	215,069,611	168,021,715
TOTAL	179,049,051	519,065,354	618,083,688
DPS FP	0.0314	0.0385	0.0390
DY FP		7.3%	7.4%
Payout ratio FP		95.4%	95.0%

Source: BSE

*It includes the dividend from Delfincom, which merged with Primcom

During May-September 2011 period FP repurchased 240m shares at an average price of RON 0.5/share, in order to **support FP's price** during the market's pullback and to reduce the share price discount to NAV. In April 2012 FP's shareholders approved the cancellation of these shares through a share capital decrease of RON 120m, but the registration of this decision with the Trade Register Office was blocked at the request of Ioana Sfaraiala, one of FP's shareholders. Also, shareholders approved a second buy-back programme of 1.1b FP shares at a price range between RON 0.2 – 1.5, representing 7.9% in FP's share capital, which will subsequently be cancelled after the programme is completed. **FP would need approximately RON 595m** at current market price, but the implementation of the programme is delayed due to Ioana Sfaraiala, which blocked the registration of the shareholders' decision. The execution of the buy-back programme is subject to the availability of cash and the 25% of the daily trading volume restriction.

In April 2012 shareholders approved in principle FP's listing on Warsaw Stock Exchange and appointed the Consortium formed of JP Morgan, Unicredit and KBC Securities as intermediaries. FP decided that the best way to achieve the secondary listing is through a technical listing, i.e. the admission and introduction to trading on WSE, based on a Listing Memorandum followed by the facilitation of liquidity on WSE. The expenses related to the listing were budgeted at RON 10.8m. The technical listing should be concluded in about 13 weeks since the publication of the decision in the Official Gazette. The **Polish regulator and depositary confirmed that they are able to establish the link** with the Central Depositary from Romania. However, **CNVM seems to lag the necessary approvals needed for the link between the two**



depositories to be achieved. We suppose the delay is due to the fact that CNVM's income will be lowered following FP's dual listing.

In June 2012 FP sold its entire stake of 11.13% in Azomures in the takeover bid initiated by Ameropa Holding, AZO's main shareholder, at RON 2.22/share, from which a **pre-tax profit of RON 107m** was realised. Also, it sold part of its stakes in Erste Group Bank AG and Raiffeisen Bank International AG, from which a **RON 94.2m loss** was realised.

In May 2012 FP received 3.79m TLV shares as a result of a share capital increase from incorporation of reserves and share premium.

In H1'12 two mergers were completed. On 31st of January Primcom SA merged with Delfincom SA and Prestari Servicii SA. In May 2012 Complexul Energetic Craiova was registered at the Trade Register Office, following the merger between Complexul Energetic Turceni SA, Complexul Energetic Craiova SA, Complexul Energetic Rovinari SA and Societatea Nationala a Lignitului Oltenia SA.

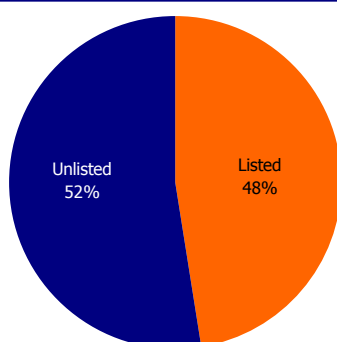
Portfolio review

On 30th of June the Fund's portfolio structure was comprised of 70 companies, out of which 26 are listed (48% of the reported value) and 44 unlisted (52%).

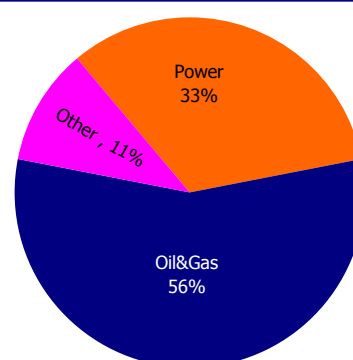
OMV Petrom accounts for 78% in total listed portfolio, while Transgaz and BRD Group Societe Generale stakes account for 6% and 3%, respectively.

Romgaz accounts for 21% in total unlisted portfolio, CE Oltenia for 17%, while Nuclearelectrica and Enel Distributie Banat stakes account for 8% and 7%, respectively.

Portfolio structure: listed vs. unlisted

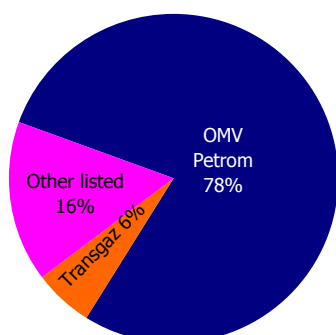


Portfolio structure by sector

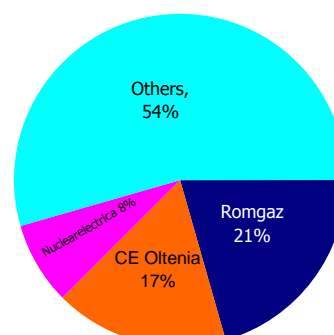


Source: AFR, based on shareholders equity reported by FP in H1'12 for the unlisted stakes and market prices for listed stakes

Listed portfolio structure



Unlisted portfolio structure



Source: AFR, based on shareholders equity reported by FP in H1'12 for the unlisted stakes and market prices for listed stakes

Romgaz

According to the latest IMF Letter of Intent made public on the 8th of June 2012, **Romgaz's IPO** for the sale of a 15% stake in the company's share capital was scheduled for March 2013.



Company update – September 2012

Previously, the plan envisaged carrying out the IPO by October 2012. The additional time will be needed for a valuation of the company's natural gas reserves.

On 11th of September 2012, the High Court of Cassation and Justice irrevocably rejected FP's 2nd appeal in the file regarding the donation made by Romgaz to the state budget. We remind investors that on the 30th of November 2010 GSM the Ministry of Economy, Romgaz's main shareholder, approved a donation of RON 400m to the Romanian State, concluded in December 2010. FP requested the annulment of this decision as the decision breached minority shareholders rights.

With a total output of 5.6bcm in 2011, Romgaz accounted for 51% of total domestic natural gas production, being followed by OMV Petrom, with a 46% stake.

In H1'12 Romgaz reported net sales of RON 2.2b (+10.1% Y/Y), an operating profit of RON 681m (+12% Y/Y) and a net profit of RON 557.7m (+14.3% Y/Y).

The main catalyst for Romgaz is the liberalisation of Romania's gas market, which is expected to boost company's profitability. Both sales and profit are expected to increase. Following the IMF agreement, in July 2012 the Romanian Government approved a schedule for the gradual elimination of regulated prices for natural gas and for the alignment of domestic gas prices to the international price level by the end of 2014 for industrial consumers and by the end of 2018 for households. The first price increase for industrial consumers is due in December 2012 (+5%) and industrial gas prices will be increased gradually every quarter until the end of 2014, implying an annual growth of 14% in 2013 and 19% in 2014. The first price increase for individuals will become effective in July 2013 (+8%), with prices increasing by 2%-5% every quarter.

Gas prices gradual elimination schedule (non-households)			
Date	Convergence level	Internal production price (RON/MWh)	Final price increase
Dec-12	35%	49	5%
2012 total increase		5%	
Apr-13	40%	55	5%
Jul-13	47%	63	5%
Oct-13	51%	68	3%
2013 total increase		14%	
Jan-14	55%	72	4%
Apr-14	71%	89	5%
Jul-14	91%	109	5%
Oct-14	100%	119	4%
2014 total increase		19%	

Source: ANRE

Gas prices gradual elimination schedule (households)			
Date	Convergence level	Internal production price (RON/MWh)	Final price increase
Dec-12	33%	46	0%
2012 total increase		0%	
Apr-13	33%	46	0%
Jul-13	36%	49	8%
Oct-13	37%	50	2%
2013 total increase		10%	
Jan-14	38%	51	2%
Apr-14	41%	52	2%
Jul-14	44%	53	3%
Oct-14	46%	55	3%
2014 total increase		10%	
Jan-15	47%	56	2%
Apr-15	49%	59	3%
Jul-15	52%	62	4%
Oct-15	54%	64	3%
2015 total increase		13%	
Jan-16	56%	67	3%
Apr-16	60%	72	3%
Jul-16	64%	77	3%
Oct-16	66%	79	3%
2016 total increase		13%	
Jan-17	69%	82	2%
Apr-17	73%	87	2%
Jul-17	78%	93	5%
Oct-17	81%	97	3%
2017 total increase		13%	
Jan-18	83%	99	3%
Apr-18	89%	106	3%
Jul-18	97%	115	3%
Oct-18	100%	119	3%
2018 total increase		13%	

Source: ANRE

Our base case yields a fair value of RON 12,566.7m on a relative basis, which translates into a value of RON 1,884.11m for the 14.99% stake owned by FP.



Romgaz							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Net profit, LFY	1,031.7	X	12.18		12,566.7		31.1%
EBITDA, LFY	1,867.6	X	6.75	12,606.4	12,683.3		32.3%
Net debt, LFY	-76.9						
Book Value, LFY	9,584.2	X	1.05		10,063.4		5.0%
AFR Equity Value					12,566.7	9,584.2	31.1%
Peers, LFY	Ticker	Country	Mkt cap		P/E	EV/EBITDA	P/B
Gazprom OAO	GAZP	RUS	\$119,133m		2.76	2.71	0.48
BG Group plc	BG.	GBR	\$68,893m		16.29	8.93	2.34
MOL	MOL	HUN	\$8,856m		12.18	6.75	1.12
PGNiG SA	PGN	POL	\$7,389m		14.55	13.3	0.97
OMV Petrom SA	SNP	ROU	\$6,345m		5.93	3.16	1.05
Median of peers					12.18	6.75	1.05

Source: Reuters Knowledge, Bloomberg, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates

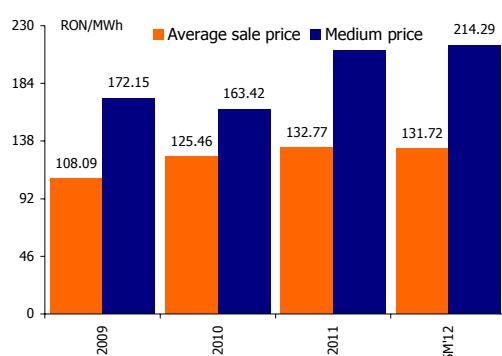
Hidroelectrica

Hidroelectrica's IPO was scheduled for the end of October 2012 but it was delayed until the judicial reorganisation is finalised. We expect the IPO to take place in 2014.

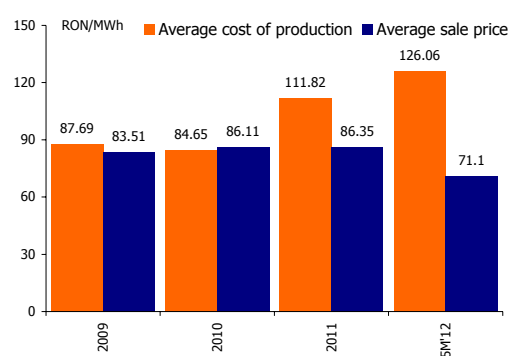
Hidroelectrica filed for insolvency on the 15th of June with the Bucharest Court and on the 20th of June Hidroelectrica's insolvency request was approved by the Bucharest Court. **In June, according to CNVM regulation, the value of Hidroelectrica in reported FP's NAV was written-off from RON 3.3b to RON 0**, which led to a NAV of RON 12.5b (-20.3% M/M and RON 1.3b lower than FP's share capital), and to a lower share price discount to reported NAV (from 61.3% to 51% if 29th of June closing price is considered). **One major implication of Hidroelectrica's insolvency is that dividends distribution out of 2012 net profit is put at risk next year**, due to Romanian law which states that FP is not allowed to distribute dividends if NAV is below the share capital. **FP could distribute dividends, but only if Hidroelectrica exits insolvency until the end of the year**, which is highly unlikely in our view. According to Remus Borza, head of Euro Insol, Hidroelectrica's judicial administrator, a realistic deadline for the company's exit from insolvency is the end of June 2013.

According to Euro Insol, during 2009 – 5M'12 Hidroelectrica sold 45.1TWh through bilateral contracts and 13.5TWh on the regulated market, implying foregone profits of RON 2.7b and RON 200m, respectively.

Bilateral agreements prices vs. market prices



Cost of production vs. sale price on regulated market



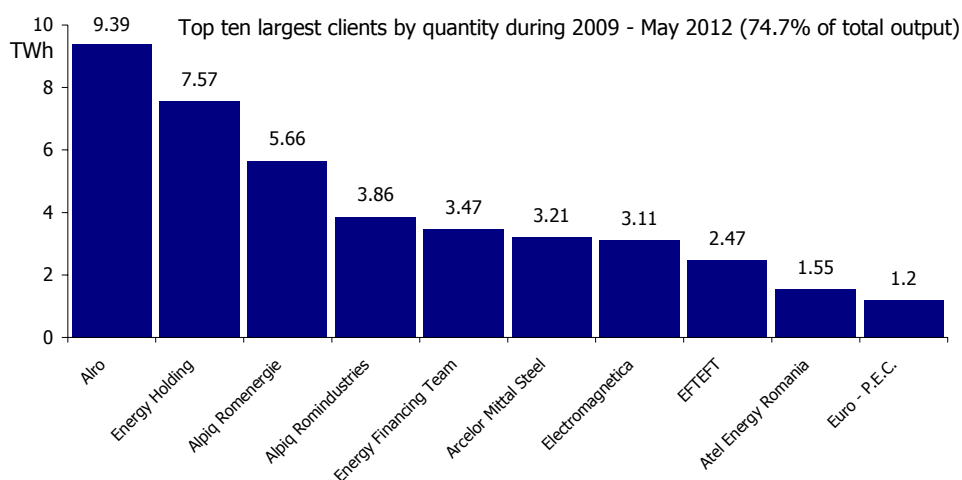
Source: Euro Insol

In H1'12 Hidroelectrica reported net sales of RON 1.3b (-23% Y/Y), an EBITDA of RON 509.1m (-2.8% Y/Y), while bottom line turned negative to losses of RON 46m from a net profit of RON 23.3m registered at H1'11. In the first seven months of 2012 Hidroelectrica's total output reached 8.3TWh and, given the unfavourable hydrological forecast for August-December period, is estimated to reach 13.2TWh for 2012 (-12.3% Y/Y).



In April the European Commission launched five distinct investigations to determine if Hidroelectrica had purchased or sold electricity at preferential prices to various electricity traders, industrial companies and electricity producers. In case those tariffs breached EU state aid rules by lowering operating costs of beneficiaries then the **privileged counterparties may be fined and might have to refund** the money they obtained. According to the Official Journal of the European Union, with regards to the annual supply of 3TWh of electricity contract concluded between Hidroelectrica and Alro Slatina in 2005 and successively amended in 2010, **Alro** (and possibly other member of Alro group) **was granted an undue advantage in the form of being supplied electricity at prices below the market**. Moreover, given that Hidroelectrica is State-owned, and the potential aid can be associated with a loss of profit for Hidroelectrica, **the loss of profit can be imputable to the State**. The potential aid is unlikely to be found compatible with the EU state aid rules. According to Council Regulation 659/1999, all unlawful aid can be subject to recovery from the recipient.

The most important catalyst for Hidroelectrica is the renegotiation of bilateral contracts, which will be translated into higher profit margins for the company. **During 2009 – May 2012 period Hidroelectrica's total production reached 55.5TWh, of which 81.1% was sold through bilateral contracts.**



In July 2012 the energy contracts with Europec, Energy Holding, Alpiq Romindustries, Alpiq Romenergie, EFT Romania and EFT AG were denounced. Also, the negotiations between Hidroelectrica and Alro, Electromagnetica, Elsid and Electrocarbon were concluded, which led to higher contract prices and lower contracted volumes. Thus, during 2012-2018 period Hidroelectrica will deliver 3TWh/year to Alro (in H2'12 the average price is set to RON 181.3/MWh and starting with 2013 the price will be set according to a formula that will consider the aluminium price on LMSE, but the price will not be lower than RON 171.98/MWh or higher than RON 205/MWh). During 2012 – 30th of April 2014, Electromagnetica will receive 0.8TWh/year (in 2012 the average price is RON 188.7/MWh, while starting with 2013 the price will be set according to OPCOM prices). During 2012 – 31st of March 2013, Elsid and Electrocarbon will receive 0.25TWh and 0.2TWh, respectively (at RON189/MWh).

Also, another catalyst for Hidroelectrica is the increase in electricity prices, following the market's liberalisation. Following the IMF agreement, in July 2012 the Romanian Government approved a schedule for gradual elimination of regulated prices for electricity. The first stage of liberalising the prices for non-household consumers started on the 1st of September 2012 (15%-20% of the quantity of energy will be acquired from the competitive market quarterly), whereas the power for household consumers will be partially acquired from the competitive market starting with the 1st of July 2013 for household consumers (10% of the quantity of energy will be acquired from the competitive market bi-annually). The deadlines are the end of 2013 for non-household consumers and the end of 2017 for household consumers.



Power prices gradual elimination schedule		
Date	Competitive market share (non-households)	Competitive market share (households)
Sep-12	15%	0%
Jan-13	30%	0%
Apr-13	45%	0%
Jul-13	65%	10%
Sep-13	85%	10%
Jan-14	100%	20%
Jul-14		30%
Jan-15		40%
Jul-15		50%
Jan-16		60%
Jul-16		70%
Jan-17		80%
Jul-17		90%
Dec-17		100.00%

Source: ANRE

Our valuation yields to a fair value of RON 12,063.1m on a relative basis, which translates into a value of RON 2,405m for the 19.94% stake owned by FP.

Hidroelectrica							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Installed capacity(MW)	6,423	X	0.5		12,063.1		-28.3%
EBITDA, LFY	899.1	X	5.25	4,715.5	2,274.7		-86.5%
Net debt, LFY	2,440.8						
Book value, LFY	16,529.0	X	0.76		12,479.4		-25.8%
			AFR Equity Value		12,063.1	16,822.4	-28.3%
Peers, LFY	Ticker	Country	Installed cap (MW)	Mkt cap	EV/MW	EV/EBITDA	P/B
Tractebel Energia SA	TBLE3	BRA	25,436	\$10,383m	0.0	8.1	3.9
RusGidro OAO	HYDR	RUS	5,200	\$7,931m	1.3	5.2	0.5
CESP - Companhia Energetica	CESP6	BRA	9,000	\$3,397m	0.0	4.4	0.7
NHPC Limited	NHPC	IND	11,900	\$4,374m	1.0	5.3	0.8
			Median of peers		0.5	5.2	0.8

Source: Reuters Knowledge, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates

Nuclearelectrica

Nuclearelectrica's IPO was scheduled to take place in the spring of 2013 and the deadline for submitting intermediary offers is the 28th of September. The first tender for the selection of an IPO intermediary was called off in May, due to lack of interest, considering that investors are not eager to put money into stocks of nuclear energy companies. The IPO is supposed to be realised through a share capital increase of 11.08%, out of which 1.08% to be subscribed by Fondul Proprietatea, whereas the rest of 10% to be available for trading on BSE.

Nuclearelectrica has two power reactors with an installed capacity of 707 MW each generating about 19.2% of country's power production (11.7TW in 2011). By 2016, the company plans to invest EUR 4.0bn in two new nuclear power units (3&4) with generation capacities of 720MW each. For this project Energonuclear was established in 2008, with Nuclearelectrica being the main shareholder. However, no investor has expressed interest in joining the nuclear project. The deadline for expressing interest expired on 15th of September. So far Nuclearelectrica has two partners for the project, i.e. Enel and the steel producer ArcelorMittal Galati. Yet, it still holds some 85% in the project company after other four partners pulled out of the venture (CEZ, RWE, Iberdrola and GDF Suez). It is unclear if Nuclearelectrica would be ready to start the project with only the two remaining partners.

The most important catalysts for Hidroelectrica are the increase in electricity prices, following the market's liberalisation and the increase in capacity production after 3&4 reactors will be commissioned.

Our valuation yields to a fair value of RON 4,627.1m on a relative basis, which translates into a value of RON 449.8m for the 9.72% stake owned by FP.



Nuclearelectrica							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Net capacity	1,305.0	X	3.3		19,668.4		148.7%
EBITDA, LFY	560.4	X	9.9	5,527.9	3,074.5		-61.1%
Net debt, LFY	2,453.4						
Book value, LFY	7,909.5	X	0.6		4,627.1		-41.5%
					4,627.1	7,909.5	-41.5%
Peers, LFY	Ticker	Country	Net capacity (MW)	Mkt cap	EV/Capacity	EV/EBITDA	P/B
Electricite de France SA	EDF	FRA	72,678	\$39,860m	1.0	5.0	1.0
Korea Electric Power	KEP	JPN	19,921	\$15,951m	2.1	10.8	0.3
Shikoku Electric Power	9507	JPN	1,922	\$2,598m	4.6	21.0	0.6
Hokuriku Electric Power	9505	JPN	1,863	\$2,641m	4.6	9.0	0.6
					3.3	9.9	0.6

Source: Reuters Knowledge, World Nuclear Association, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates

Complexul Energetic Craiova

In May 2012 Complexul Energetic Craiova was registered at the Trade Register Office, following the merger between the coal-fired power plants Complexul Energetic Turceni SA, Complexul Energetic Craiova SA, Complexul Energetic Rovinari SA and the lignite-producing company Societatea Nationala a Lignitului Oltenia SA. The merger was approved by the General Shareholders Meeting of these companies on the 30th of April 2012.

CE Oltenia will be listed on BSE or a majority stake of the company's share capital will be sold to a strategic investor no later than 24 months from the registration of the new company at the Trade Register Office (according to the Memorandum of Understanding between FP and the Ministry of Economy, Trade and Business Environment signed on the 29th of November 2011).

Complexul Energetic Oltenia is the largest integrated coal fired power producer in Romania with an installed capacity of 3,570MW and a total coal (lignite) production capacity of 30 million tons/year. The main shareholders of the newly created company are Ministry of Finance (77.2%), Fondul Proprietatea (21.53%) and Termoelectrica (0.9%). The company estimated to have a 31% market share in electricity generation in 2012.

In 2011 the domestic power production increased by 2.1%, mainly on the back of 18.9% higher thermal production, which replaced the 25.3% drop in hydro. Thermal power production accounted for 54.6% of total domestic production, of which a large part is coal based. Nevertheless, despite its significant presence on the market, the coal plants are less efficient than other producing units. For example, the coal power plants have an efficiency of only 30% to 35% while Petrom Brazi gas powered plant operates at 60%. Compared to the Brazi plant, Complexul Energetic Oltenia is obsolete.

Following a €500m investment finalised by OMV Petrom, on the 1st of August 2012 Brazi gas-fired power plant started full commercial operation. Brazi plant has an installed capacity of 860MW and is estimated to cover 8% in total domestic power production market. Although according to the Energy Law the unit had to operate utilising a basket gas price (70% domestic gas price and 30% imported), an Emergency Ordinance was published in the Official Gazette on the 4th of September 2012 through which the basket gas price obligation for gas-fired power generators that use gas from their own production was cancelled. Practically OMV Petrom and Romgaz are exempted by the law, which is applied to the rest of power production companies, which will have significantly higher raw material expenses. The price at which OMV Petrom sells the extracted gas is regulated by ANRE and was of \$162/th cbm in 2011, while the imported gas had a price of \$442/th cbm.

Thus, Petrom's Brazi unit has a significant advantage above both other gas and coal fired plants which will impact Complexul Energetic Oltenia financials by reducing both their sales volume and their profitability.

China Huadian Engineering Co Ltd. will invest approximately €1b in a 500MW lignite power generation unit in Rovinari. The investment is estimated to become operational in 2015. Representatives of the Ministry of Economy and Complexul Energetic Oltenia are working on the steps necessary for the preparation and signing of the memorandum of understanding with the Chinese partner who have won the selection organised for building the new power group of 500 MW.



Company update – September 2012

CE Oltenia cannot be viewed as an attractive company, since massive investments for modernisation are needed in order to comply with the EU environmental requirements.

For FY'12 the company budgeted net sales of RON 3.2b RON (-20.1% Y/Y) and a net profit of RON 95.8m (-46.8% Y/Y).

Our valuation yields to a fair value of RON 3,518.7m on a relative basis, which translates into a value of RON 757.6m for the 21.5% stake owned by FP.

Complexul Energetic Oltenia						
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value Premium/Discount
Net profit, LFY	179.9	X	8.65		1,556.0	-68.8%
EBITDA, LFY	857.8	X	5.78	4,958.1	3,518.7	-29.5%
Net debt, LFY	1439.4					
Book value, LFY	4,991.3	X	1.21		6,039.5	21.0%
AFR Equity Value					3,518.7	4,991.3 -29.5%
Peers, LFY	Ticker	Country		Mkt cap	P/E	EV/EBITDA P/B
Edison SpA	EDN	ITA		\$3,445m	-	8.14 0.38
Tata Power Company	TATAPOWER	IND		\$4,631m	-	7.63 2.00
Irkutskenergo OAO	IRGZ	RUS		\$2,239m	-	4.80 1.35
Neyveli Lignite Corp	NEYVELILIG	IND		\$2,726m	10.35	5.78 1.21
TAURON Polska Energia	TPE	POL		\$2,642m	6.95	3.88 0.54
Median of peers					8.65	5.78 1.21

Source: Reuters Knowledge, Ziarul Financiar, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates

Power and gas distribution and supply companies

On the 6th of March 2012 Franklin Templeton announced the appointment of Citigroup Global Markets Ltd as the exclusive intermediary for the sale of 13 stakes in unlisted power and gas distribution and supply companies (E.ON Moldova Distributie, E.ON Gaz Distributie, E.ON Energie Romania, Enel Distributie Muntenia, Enel Energie Muntenia, Enel Distributie Banat, Enel Distributie Dobrogea, Enel Energie, GDF Suez Energy Romania, Electrica Distributie Muntenia Nord, Electrica Distributie Transilvania Nord, Electrica Distributie Transilvania Sud and Electrica Furnizare). According to the detailed portfolio as of H1'12, the stakes are valued by FP at RON 2.8b (€611m). Please notice that, according to FP's dividend policy, **gains on disposals of equity investments are not normally distributed as dividends.**

In August 2012 Romanian Government approved the **sale of a 13.6% stake in Enel Distributie Muntenia and Enel Energie Muntenia** to Enel Investment Holding B.V. for €375m and the transaction should be finalised in two months. According to Directive 2003/54/EC concerning common rules for the internal market in electricity, the activities of distribution and supply were separated and Electrica Muntenia Sud was split into Enel Distributie Muntenia (which provides distribution services) and Enel Energie Muntenia (which provides supply services). In 2008, Enel S.p.A. purchased 50% of Electrica Muntenia Sud and increased its stake in the company to 64.4% through a share capital increase. On 28th of December 2009, the entire stake of Enel S.p.A. was transferred to Enel Investment Holding B.V. Enel Distributie Muntenia and Enel Energie Muntenia are currently 64.4% owned by Enel Investment Holding B.V. (64.4%), Electrica (23.6%) and Fondul Proprietatea (12%).

The privatisation contract concluded in June 2007 stipulates that Electrica SA has a put option for selling 13.6% to Enel (the rest of 10% stake is earmarked to employees) at a price that cannot be lower than the acquisition price paid by Enel (the put option can be exercised until the end of 2012). Also, **in the case that the majority shareholder of Enel Distributie Muntenia and Enel Energie Muntenia would decide to sell its participation to a third party, FP has the right to sell its stake at the same price as Enel. Therefore, the State's put option exercise has no impact on FP's cash.**

In March 2012 the Government approved the BSE listing of 15% stakes in Electrica Distributie Nord, Electrica Distributie Transilvania Nord and Electrica Distributie Transilvania Sud (all the three power distributors are 78% owned by Electrica and 22% by Fondul Proprietatea). However, following the discussions with IMF representatives **in June 2012, the Ministry of Economy decided to change the privatisation strategy** as follows: the share capital of the three power distribution companies will increase by 100%, with Electrica and Fondul Proprietatea



having pre-emptive rights to maintain their stakes (the shares not subscribed by Electrica and FP will be annulled). Following the share capital increase, 3 IPOs will be launched, through which the State will put up for sale half of its participation, i.e. 39%, while the rest will be 22% owned by FP. The sale of majority packages from Electrica's three distribution companies was scheduled for mid-2013 at the latest.

In June 2012 ANRE (The National Authority for Energy Regulation) approved higher electricity distribution tariffs for 2012, implying higher revenues for these companies.

Distribution tariffs for privately-controlled power distribution companies									
RON/MWh	Enel Distributie Banat			Enel Distributie Dobrogea			Enel Distributie Muntenia		
	2011	2012	% Δ (Y/Y)	2011	2012	% Δ (Y/Y)	2011	2012	% Δ (Y/Y)
High Voltage	21	21	0.0%	21	21	0.0%	8.92	10.49	17.6%
Medium Voltage	42	42	0.0%	42	42	0.0%	26.44	31.11	17.7%
Low Voltage	129.66	139	7.2%	123.72	139	12.4%	115.85	136.32	17.7%

Source: ANRE

Distribution tariffs for state-controlled power distribution companies									
RON/MWh	ED Transilvania Sud			ED Muntenia Nord			ED Transilvania Nord		
	2011	2012	% Δ (Y/Y)	2011	2012	% Δ (Y/Y)	2011	2012	% Δ (Y/Y)
High Voltage	21	21	0.0%	15.3	18	17.6%	20.96	21	0.2%
Medium Voltage	38.53	41.98	9.0%	38.49	42	9.1%	42	42	0.0%
Low Voltage	114.77	123.27	7.4%	136.28	139	2.0%	88.64	101.42	14.4%

Source: ANRE

The next regulatory period starts in 2013. The current regulatory period allows a rate of return of 7% for State-owned distribution companies, 10% for private distribution companies and 8.6% for gas distribution companies.

The main catalysts for the gas&power distribution and supply companies are the market's liberalisation, the increase in power and gas consumption and higher profit margins due to higher RAB.



Electrica Distributie Muntenia Nord							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/ Discount
Net profit, LFY	67.4	X	10.28		693.0		-44.9%
EBITDA, LFY	109.5	X	5.00	547.45	725.6		-42.3%
Net debt, LFY	-178.1						
Book value, LFY	1257.8	X	1.01		1,270.4		1.0%
			AFR Equity Value		725.6	1,257.8	-42.3%
Electrica Distributie Transilvania Nord							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/ Discount
Net profit, LFY	29.1	X	10.28		299.2		-61.5%
EBITDA, LFY	141.5	X	5.00	707.3	675.8		-13.0%
Net debt, LFY	31.4						
Book value, LFY	776.6	X	1.01		784.4		1.0%
					675.8	776.6	-13.0%
Electrica Distributie Transilvania Sud							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/ Discount
Net profit, LFY	19.6	X	10.28		201.2		-78.2%
EBITDA, LFY	139.6	X	5.00	697.9	631.4		-31.4%
Net debt, LFY	66.5						
Book value, LFY	921.0	X	1.01		930.2		1.0%
			AFR Equity Value		631.4	921.0	-31.4%
Enel Distributie Banat							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/ Discount
Net profit, LFY	220.5	X	10.28		2,266.3		72.6%
EBITDA, LFY	316.1	X	5.00	1,580.5	2,010.3		53.1%
Net debt, LFY	-429.8						
Book value, LFY	1313.1	X	1.01		1,326.2		1.0%
			AFR Equity Value		2,010.3	1,313.1	53.1%
Enel Distributie Dobrogea							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/ Discount
Net profit, LFY	108.9	X	10.28		1,119.0		-10.6%
EBITDA, LFY	186.4	X	5.00	932.0	1,079.7		-13.7%
Net debt, LFY	-147.7						
Book value, LFY	1251.1	X	1.01		1,263.6		1.0%
			AFR Equity Value		1,119.0	1,251.1	-10.6%
Enel Distributie Muntenia							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/ Discount
Net profit, LFY	50.5	X	10.28		518.8		-81.9%
EBITDA, LFY	212.5	X	5.00	1,062.5	2,376.7		-17.1%
Net debt, LFY	-1314.3						
Book value, LFY	2867.0	X	1.01		2,895.6		1.0%
			AFR Equity Value		2,376.7	2,867.0	-17.1%
Peers, LFY	Ticker	Country		Mkt cap	P/E	EV/ EBITDA	P/B
Electricite de France SA	EDF	FRA		\$39,860m	10.28	5.00	1.01
Iberdrola SA	IBE	ESP		\$28,761m	8.00	6.68	0.69
ENEA SA	ENA	POL		\$2,291m	9.27	3.04	0.70
Luz del Sur S.A.A.	LUSURC1	PER		\$1,479m	12.82	9.05	2.92
Electricite de Strasbourg	ELEC	FRA		\$869m	11.21	3.43	2.42
			Median of peers		10.28	5.00	1.01

Source: Reuters Knowledge, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates



Company update – September 2012

E.ON Gaz Distributie							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Net profit, LFY	230.5	X	9.94		2,291.1		91.9%
EBITDA, LFY	0.0	X	3.62	0.0	-21.4		-101.8%
Net debt, LFY	21.4						
Book value, LFY	1194.2	X	0.76		907.6		-24.0%
			AFR Equity Value		907.6	1,194.2	-24.0%
GDF Suez Energy Romania							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Net profit, LFY	209.6	X	9.94		2,083.0		-26.4%
EBITDA, LFY	380.9	X	3.62	920.7	563.5		-80.1%
Net debt, LFY	858.5						0.0%
Book value, LFY	2173.5	X	0.76		2,151.0		-24.0%
			AFR Equity Value		2,083.0	2,830.3	-26.4%
Peers, LFY	Ticker	Country		Mkt cap	P/E	EV/EBITDA	P/B
Enagas SA	ENG	ESP		\$4,842m	10.24	7.95	2.01
Transgaz SA	TGN	ROU		\$674m	6.10	3.18	0.76
Severomoravska	BAASMPY	CZE		\$620m	17.14	3.62	3.39
Lietuvos Dujos AB	LDJ1L	LTU		\$358m	9.94	4.73	0.46
Latvijas Gaze AS	GZE1R	LVA		\$278m	9.13	2.29	0.68
			Median of peers		9.94	3.62	0.76

Source: Reuters Knowledge, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates

Compania Nationala Aeroporturi Bucuresti

C.N. Aeroporturi Bucuresti posted for FY'11 net sales of RON 473.3m (+19.5% Y/Y) and a flat net profit of RON 52.6m.

Our valuation for **C.N. Aeroporturi Bucuresti** yields to a fair value of RON 1,735.7m on a relative basis, which translates into a value of RON 347.1m for the 20% stake owned by FP.

C.N. Aeroporturi Bucuresti							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Net profit, LFY	52.6	X	15.46		813.3		-83.7%
EBITDA, LFY	218.1	X	8.70	1,897.8	1,735.7		-65.1%
Net debt, LFY	162.1						
Book value, LFY	4,975.6	X	1.40		6,941.0		39.5%
AFR Equity Value					1,735.7	4,975.6	-65.1%
Peers, LFY	Ticker	Country		Mkt cap	P/E	EV/EBITDA	P/B
Aeroports de Paris SA	ADP	FRA		\$7,968m	17.14	9.87	1.72
Fraport AG	FRAG.DE	DEU		\$5,402m	17.45	9.91	1.48
Flughafen Zuerich AG	FHZN	CHE		\$2,507m	13.78	6.70	1.31
SAVE SpA	SAVE	ITA		\$493m	8.86	7.53	1.18
Median of peers					15.46	8.70	1.40

Source: Reuters Knowledge, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates



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Company specific regulatory disclosures

Disclosure checklist for companies mentioned & other price data information

Company	BSE	Rating	Price	Price date	Disclosure
Fondul Proprietatea SA	FP	BUY	0.5280	28/09/2012	NONE

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Major changes vs. previous research reports

Date of previous report	Previous vs. current market prices (RON)	Previous vs. current TP (RON)	Previous vs. current Rating
21/5/2012	0.4919 vs. 0.5280	0.6579 vs. 0.7939	BUY vs. BUY

Rating history for TRANSELECTRICA

Date	Rating	Share Price (RON)	Target Price (RON)
24/1/2011	Initiation – N/A	N/A	0.7987-1.0782
8/11/2011	Update - BUY	0.4440	0.6557
21/5/2012	Update - BUY	0.4919	0.6579
28/9/2012	Update - BUY	0.5280	0.7939

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FUNDAMENTAL RATING		
TRP > 12%	12% > TRP > -12%	TRP < -12%
BUY	HOLD	SELL

TRP: Total Return Potential



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