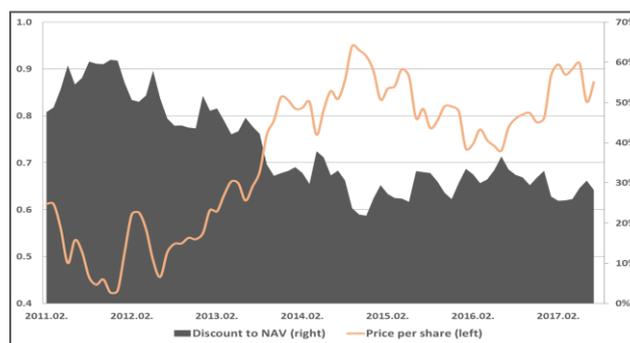


Fondul Proprietatea

Overweight

Target price (e-o-2017): RON 1.00

RON million	2015	2016	2017F
NAV	12,088	11,427	10,690
NAV per share	1.16	1.19	1.19
Discount to NAV	-30%	-33%	-25%
DIPS	0.05	0.03	0.06
EPS	-0.03	0.06	0.09
DPS	0.05	0.05	0.10
Dividend yield	6.2%	6.3%	10.9%
Distribution yield	11.7%	14.5%	18.4%
% of listed	38%	22%	28%



Share price close as of 15/09/2017	RON 0.86	Bloomberg	FP RO
Market cap. [RON mn/EUR mn]	7,585/1,723	Reuters	FP.BX
Daily turnover 12M [EUR million]	1.6	52 week range	RON 0.68-0.92

Noisy politics will not destroy excellent macro

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- **Investment story:** Generally our Romanian investment stories build on the strong macro and our vision that the capital market will be upgraded from Frontier to Emerging market. With Fondul Proprietatea an investor would have a fairly diversified Romanian exposure mainly focused on the energy sector. Currently we see 8 strong reasons to invest in the closed-end fund:

- 1) Romanian GDP growth rate was 4.8% in 2016 and 5.9% in Q2 thus we believe that this year's growth will be above 5%; meanwhile consumption boomed;
- 2) The government passed a memorandum to request the SOEs to pay-out 90% of the 2016 profits;
- 3) Fondul pays significant regular (RON 0.05 per share) dividend to its shareholders, giving a roughly 5-6% dividend yield;
- 4) Furthermore, the buy-back programmes stabilize the price and give partial protection against political and regulatory risks;
- 5) We assume that the company will be able to pay at least RON 0.05 per share special dividend from selling its 22% stake in Electrica's subsidiaries for RON 752 million, or RON 0.08 per share;
- 6) Hidroelectrica could be listed in 2018 H2 if the majority of shareholders support that process, which would drastically reduce the unlisted part of the portfolio, thus reducing the discount to the NAV. It is also possible that the Fund manager will sell the Hidroelectrica stake if the transaction price is above the current NAV, which would create shareholder value roughly the same as the IPO would;
- 7) Oil price trades are hovering between 45 and 55 dollars per barrel. We see low likelihood that the price would drastically break out from this range, but only downside seems to be also limited, thus we assume that Petrom (19% of the NAV) should not decline drastically soon;
- 8) Last but not least MSCI watchlist inclusion should be on the table after the Fund sells another portion of its Petrom stake or Hidroelectrica starts its float on the BVB.

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Closing Prices as of 15 September 2017

Romanian macro update

- The economy has had a strong performance recently and is expected to continue with a vivid growth rate in the near future. The favorable international environment coupled with strongly procyclical economic policymaking has led to a tightening in the labor market and the better-than-expected performance of the state budget. At the same time, the growth in inflation has so far remained muted.
- The most important question regarding the medium term outlook of macro fundamentals is the sustainability of high growth rates. The previous quick growth period prior to the 2009 crisis ended precisely because a large buildup of external imbalances had occurred. The big question is if and when the same situation might evolve. Minimum wage and consequently average wage growth exceeding the productivity growth of the economy has the potential to translate into bloated external deficits and loss of competitiveness. Consequently, oversized external obligations and a less competitive economy could lead eventually to a shortage of external funds to refinance amid a future steep drop in global risk appetite.
- We believe that the situation today is still within the limits of sustainability as reflected in the relatively strong current account figures. While arguably the current account has posted a deterioration over the recent couple of quarters, the fact that it happened is overwhelmingly due to the rise in the profitability of foreign-owned companies operating in Romania. Otherwise, the impact of rising consumption on imports has been counterbalanced by the increase in exports. In this manner, the immediate signs of unsustainability are missing yet.
- The procyclicality of the fiscal policy means that the reserves built in the budget and capable of absorbing the negative impact of a recession or a steep slowdown on revenues are thin and may lead to unwanted fiscal belt-tightening at the wrong time (exactly when a fiscal automatic stabilization is most needed). In this respect, the fact that budget revenues are kept from being cut back and the deficit hovers in the vicinity of 3% of GDP, or the upper limit of the EU rules, raises the probability of an ‘accident’. Hence, we foresee current policies contributing to the steep cyclicity of economic growth in the future. Inflation has been suppressed by favorable indirect tax measures recently, and is rising only gradually towards the 3% vicinity. Monetary policy is about to start taking back some of the support for the economy, though short rates could stay below inflation in the upcoming several quarters. Hence, economic fundamentals and economic policymaking could remain supportive of equities in the near-to-medium future, though current developments imply the possibility of a tough environment ahead.

MAJOR MACRO INDICATORS IN THE PAST YEARS

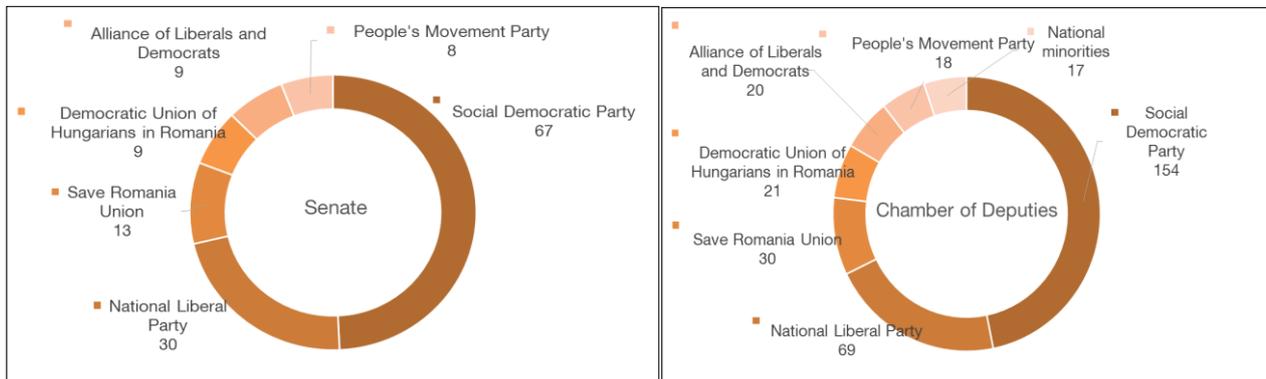
	2011	2012	2013	2014	2015	2016
Real GDP growth (%)	1.0%	0.7%	3.3%	3.1%	3.9%	4.9%
Inflation (%)	3.1%	5.0%	1.6%	0.8%	-0.9%	-0.5%
Unemployment rate (%)	7.3%	6.8%	7.0%	6.6%	6.6%	5.5%
Retail sales growth (%)	4%	-2%	5%	6%	14%	8%
Industrial output growth (%)	4%	5%	8%	4%	2%	4%
Private consumption growth (%)	1%	1%	4%	5%	7%	5%
Average net wages growth (%)	7%	6%	4%	6%	13%	11%
Trade balance as a % of GDP	-7%	-7%	-4%	-4%	-5%	-6%
Current account balance as a % of GDP	-5%	-5%	-1%	-1%	-1%	-2%
Budget balance as a % of GDP	-5%	-4%	-2%	-1%	-1%	-3%
Government debt as a % of GDP	34%	37%	38%	39%	38%	38%
Gross external debt as a % of GDP	70%	78%	71%	58%	56%	52%

Source: Bloomberg

Hunt or be hunted – Political landscape

- Romania is a representative democratic republic. Legislative power is vested in the government and the parliament, which consists of two chambers, namely the Chamber of Deputies and the Senate. The head of state is the president and the government is led by the prime minister. Currently, the president is Klaus Iohannis and the prime minister is Mihai Tudose. The president is elected directly for a maximum of two five-year terms. Members of parliament are chosen every four years in a party-list proportional representation electoral system. The country joined NATO in 2004 and the European Union in 2007. The local currency is the Romanian leu.
- In recent years, the political climate in Romania has not managed to attain long-lasting stability. Governments have followed one another at a swift pace, while significant protests have not been uncommon either. At the same time, Romania has been able to take advantage of its strategic geopolitical location by strengthening its ties with NATO, and macroeconomic performance has also exceeded the CEE average. In November 2014, Klaus Iohannis was elected president of Romania. Mr Iohannis, supported by the National Liberal Party (PNL), defeated Prime Minister Victor Ponta in the second round of voting. The Social Democratic Party (PSD) candidate Mr Ponta's defeat was quite surprising, as opinion polls had foreseen his victory, and can be partly attributed to the record turn-out. In May 2015, government minister Liviu Dragnea received a suspended sentence for attempting election fraud. Consequently, he resigned as Regional Development Minister. Later that year, however, he became leader of the Social Democratic Party. As such, he has had considerable influence over Romanian politics, especially since the PSD's election victory in 2016.
- In June 2015, an investigation began against Prime Minister Ponta on suspicion of forgery, tax evasion and money laundering, after which President Klaus Iohannis demanded his resignation. Mr Ponta refused, but some months later he resigned as a result of mass street protests over lax safety regulations at a nightclub where 32 people died in a fire. After Mr Ponta's resignation, President Iohannis appointed former European Commissioner Dacian Cioloş as Prime Minister. Mr Cioloş formed a technocratic cabinet, which governed for little more than a year between late 2015 and early 2017. The Cioloş cabinet faced significant opposition from the PSD and its allies and frequently changed in composition, which hindered its ability to govern stably and effectively. In December 2016, legislative elections were held throughout Romania.

SEAT DISTRIBUTION IN BOTH CHAMBERS OF THE ROMANIAN PARLIAMENT AFTER THE 2016 ELECTIONS



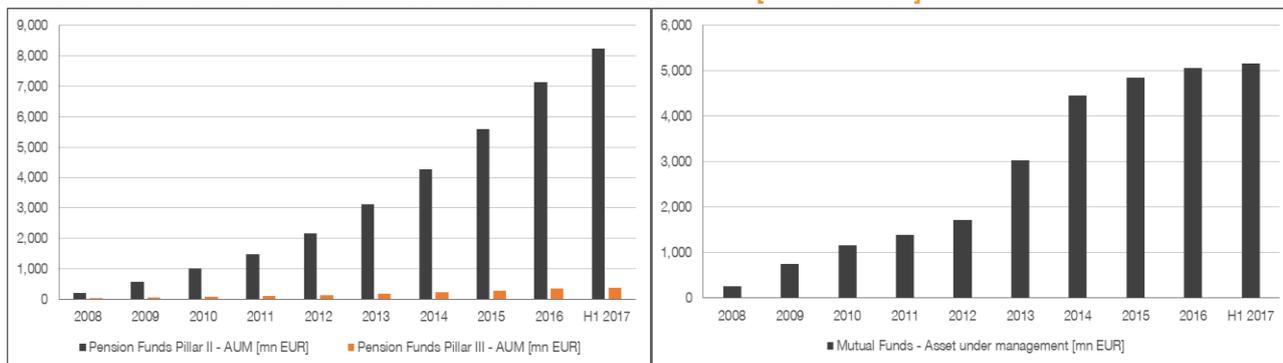
Source: Biroul Electoral Central

- In January 2017, the Social Democratic Party and the Alliance of Liberals and Democrats formed a governing coalition under Prime Minister Sorin Grindeanu. Soon after being sworn into office, the PSD–ALDE cabinet introduced and approved an ordinance regarding the amendment of the Penal Code of Romania and the pardoning of certain committed crimes, which was widely interpreted as the decriminalization of government corruption. Since this process lacked transparency and discourse, a series of mass protests – the largest in Romania's history, formed throughout the country,

with almost 600,000 people on the streets nationwide at its peak. This ultimately resulted in the withdrawal of the ordinance.

- Around four months later, tensions arose between Prime Minister Sorin Grindeanu and PSD leader Liviu Dragnea, which ultimately resulted in the loss of political support for the government on behalf of the PSD–ALDE coalition. Although Mr. Grindeanu did not resign, on June 21 a vote of no confidence against his cabinet was passed in the Parliament. On June 29, 2017 former Economy Minister Mihai Tudose took office as Prime Minister. The new Finance Minister Ionuț Mișa announced the abolition of the mandatory private pension funds and the introduction of turnover tax, both of which have since been retracted after significant uproar. Currently, the Tudose cabinet is working on considerable tax reforms to stabilize budget balance.
- Romania is in a crucial position for NATO due to its strategic geopolitical location, as it borders the Black Sea and is in close proximity to Russia. In 2010, Romania agreed to deploy important elements of a complex European missile defense system. The \$800 million missile shield base in Deveselu was activated in 2016. To further secure Romanian and NATO borders, the U.S. State Department agreed to the sale of seven Patriot missile defense systems for Romania. The potential sale, approved in July 2017, could be worth up to \$3.9 billion.
- **Bank tax:** A couple of weeks ago, one member of the opposition party in Romania leaked information that the government plans to impose a special levy on banks. Rumors stated that the banking tax would be between 0.2%-0.5% based on total assets, but these rumors were denied during the day. However, in our opinion a special charge cannot be ruled out totally in the mid-term if the budget gap widens substantially. Examples in Poland and Hungary show that the tax base is usually a modified asset base making up roughly 60-70% of total assets. As a result, even if there is a banking tax we do not expect it to remain in the initially leaked form, and bank share prices seem to reflect a 40-50% probability of the worst case currently.
- **Bottom line:** We view the current political environment as rather challenging, and with much uncertainty. The latest news regarding the Pillar II restructuring or the bank tax seems to be rather political noise than an imminent threat, but the fact that it is on the table at all does signal a red flag. Major changes in the current structure should have a negative impact on capital markets and sentiments.
- **The Sovereign Fund (FSDI),** which will start its operation in January and will include 27 state owned companies is also a millstone for the capital market's life, since control over the utility companies will shift from the energy to the finance ministry. We believe that this centralization will reduce CAPEX to the maintenance level in case of the energy companies, which might be a red flag in the long run. On the other hand, it also means that SOEs will pay out a great amount of cash from the balance sheet to plug the budget gap.

PENSION FUND & MUTUAL FUND ASSETS UNDER MANAGEMENT [MILLION EUR]

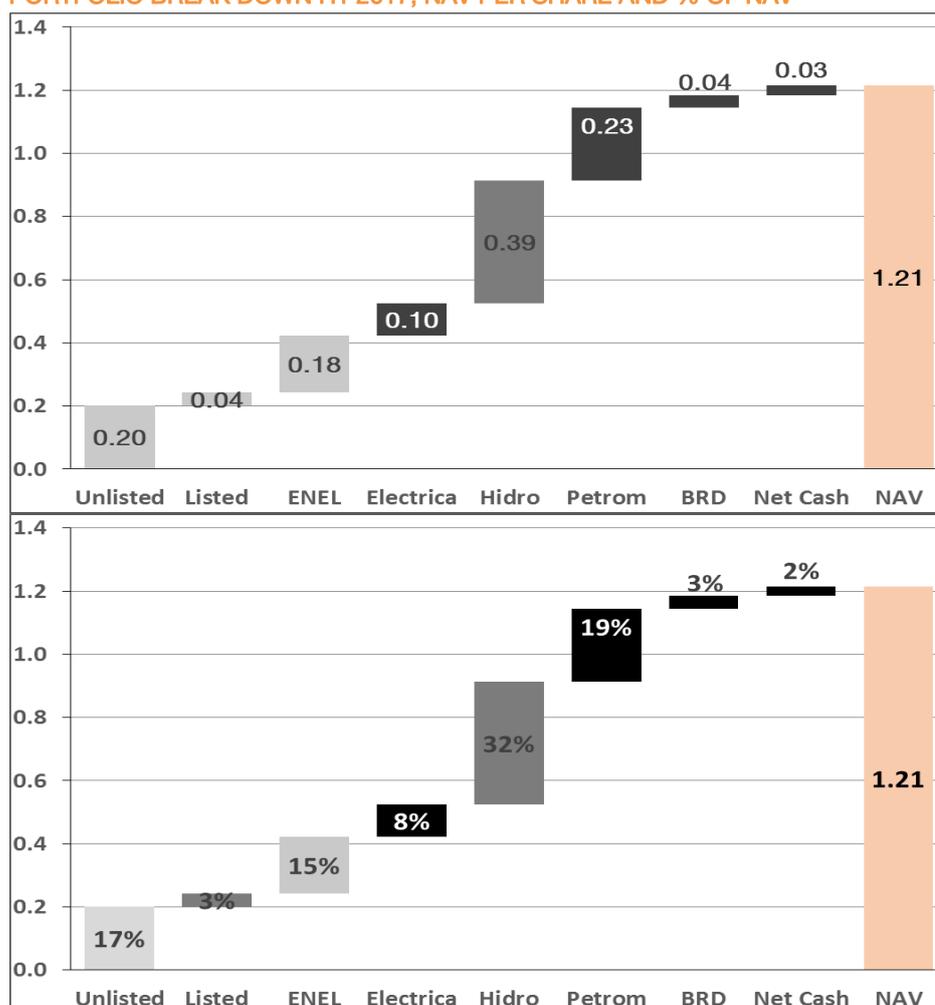


Source: Fondul Proprietatea

Portfolio breakdown

- Our investment thesis is linked to the dividend payment which the Fund receives from the portfolio companies, but on the other hand it is also related to the sale of these assets from which the special dividend is paid. A great example of a paradoxical situation was the Romgaz transaction in which the company reduced its stake to zero and received a great amount of cash; however, the annual dividend income declined by roughly RON 90 million or 15% of the total dividend income.
- As we highlighted earlier the Fund manager is committed to reducing the discount to NAV and thus sale assets – preferably non-core unlisted but also premium listed shares – until the discount reaches the 15% threshold. After that the Fund might start to be active on the buyer side as well.
- We specified 8 major groups in the portfolio of which net cash and other equivalents are the less significant. The unlisted portfolio excluding the ENEL, Electrica and Hidro stakes has a RON 0.20 per share value of which the Bucharest Airport, which seems to be an excellent investment, is RON 0.08 per share. We are positive about the Romanian banking sector and BRD has an attractive valuation compared to regional peers, but more or less the same holds for TLV, which will surely be included in the MSCI index one day.

PORTFOLIO BREAK DOWN H1 2017, NAV PER SHARE AND % OF NAV



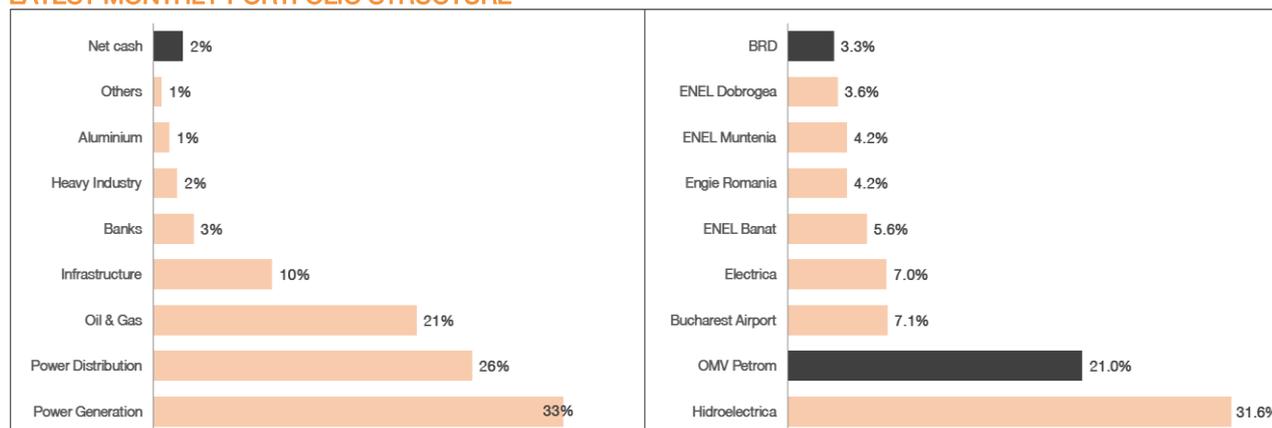
Source: Fondul Proprietatea

- **Power distributors:** ENEL distribution companies comprise a large value in the portfolio with RON 0.18 per share or 15% of the NAV, while the dividend received from these investments was low or zero, thus the sale of these assets with a fair price would

definitely create value and reduce holding discount. A transaction such as this seems to be not only reasonable but likely as well, since the company sold its E.ON stake recently, which has also not paid dividend during the past three years. Generally we can say that all distribution companies' stakes are up for sale. As Fondul reported they are having ongoing discussions with the controlling shareholder of **Engie** (4.3% of NAV) and will soon close a deal with the management of **Electrica** regarding the stake in the subsidiaries as well (8% of NAV). However, Electrica's subsidiaries paid a stable and significant dividend in past years, roughly RON 100 million per year, while the assets have a lower quality than ENEL's, thus a lower multiple should be used in the transaction.

- **OMV Petrom:** Fondul has sold part of its stake in Petrom via a secondary public offering on the Bucharest Stock Exchange and London Stock Exchange. Fondul set the price for its secondary public offering of a 6.4% stake in Petrom at RON 0.21 per share and USD 7.7 per GDR in October 2016. Fondul received approximately RON 765 million for the stake giving liquidity for buy-backs and special dividends. The transaction price was 14% lower compared to the closing price of Petrom's shares on October 4, before the Fund announced its intention to sell the stake.
- After the Fund reduced its holding in OMV Petrom, the remaining stake was around 12.6% or 19% of the NAV. We assume that the Fund will sell another part of its stake after the 360 day lock-up period ends since the price of the oil company rebounded from a very low level in the past year (RON 0.24 per share). On the other hand the fund manager has to be cautious with the sales since the unlisted portion of the assets was slightly lower than 70% in recent months, thus Electrica and ENEL sales should overtake the book building. With a book building like that, and all other factors remain stable, Romania might be included in the MSCI EM watchlist in June 2018, which will increase the market liquidity and the Fund's NAV as well.
- **Hidroelectricita:** The hydro power generator is the largest Romanian electricity producer, with a market share of around 25% and an EBITDA margin of around 63%, one of the largest in its sector. In June 2016 Hidroelectricita exited insolvency proceedings by the decision of the syndic judge. Fondul Proprietatea owns a 19.94% stake in Hidroelectricita, which is the largest component from the Fund's portfolio (32% of the NAV), while the Ministry of Economy owns the majority with the remaining 80% stake. The IPO of Hidroelectricita was on the agenda a long time ago, though due to corporate governance issues and political hesitance the company has been kept away from the capital market. We expect that Hidroelectricita will float as early as H2 2018. The company will not collect additional cash but the current shareholder will sell part of their stake. Local news reported that the State will sell 10%, while the fund will sell only 5% during the IPO. Listing of the hydro power generator could be a great milestone for Fondul since the listed portion of its portfolio would increase and in parallel with this the natural holding discount could decline.

LATEST MONTHLY PORTFOLIO STRUCTURE

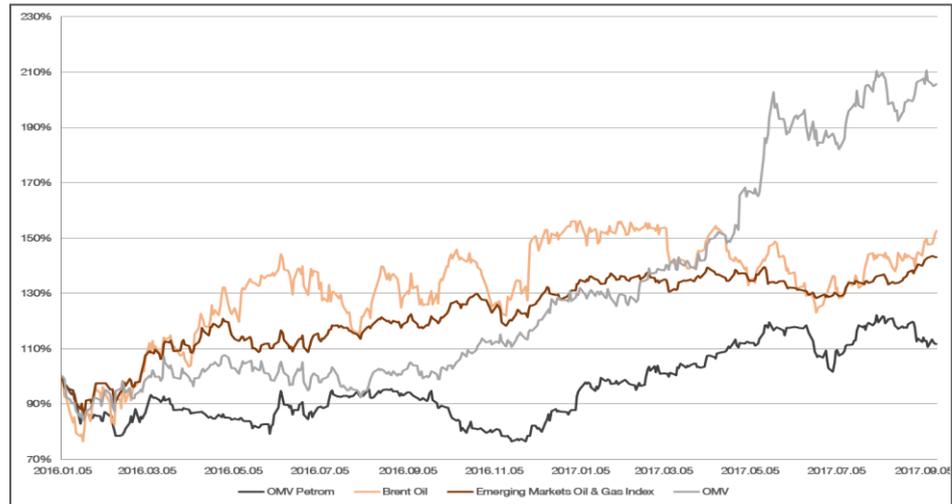


Source: Fondul Proprietatea

OMV Petrom

- **Company description:** Petrom, majority-owned by OMV, is an integrated oil & gas company in Romania with some activity in Kazakhstan and the Balkans. It produces ca. 180,000 boepd oil & gas, of which approximately 96% is related to Romania. The company also conducts refining and marketing activities.
- **Oil market:** It was nearly a year ago when OPEC, along with a few other countries, decided to temporarily cut production to alleviate the persisting oil glut. Since then, the participants of the agreement have signed a 9-month extension as the pact did not deliver what it was expected to. The high drawdowns started in late summer, but still more time is needed to achieve the targeted inventory levels, thus rumours have now been circulating about another 3-month extension, which should have a material impact on prices. The initial problem of the pact was that it related only to cut production and not to exports, which generally needs time to roll over to exports while depleting own inventories, thus basically the world remained well supplied after the accord was born. Up until the summer, inventories did not decrease, but after the Saudis had reduced their exports in line with their production, the seasonal crude withdrawal became more broad based and larger. This was especially visible in the US, where crude inventories have contra-seasonally shrank by 21 million barrels vs. the 5-yr average build of 25 million barrels.
- In our oil outlook we could not avoid expressing our opinion on the cartel's agreement as it has a potential to drag prices to the low USD 40's if a pessimistic scenario were to materialize and the exit from the pact were uncoordinated. However, our view is rather the opposite. We believe that there could be a potential 3-month extension until the middle of 2018 and then a coordinated exit from the pact. The reason behind the short extension is that the production cut has barely affected producer's exports, and so far the Saudis have been the only ones who have made a material reduction in exports. Therefore, it would be rational from the Saudis standpoint to wait until other participants also cut back on crude exports to achieve a broad based effect. As for the coordinated exit from the pact, we are of the view that participants would not benefit from another price plunge caused by the sudden and uncoordinated release of production quotas, thus a gradual, guided increase of production can be logically expected. How would this impact oil prices? Our base case scenario is that Brent should hover around 55 USD/bbl in 2017 and 55-60 USD/bbl for 2018 and 40-45 USD/bbl if the exit is harsh.
- **ABBs:** The Fund's portfolio was always heavy on energy sector components such as Romgaz, Nuclearelectrica or OMV Petrom. The weight of Petrom was extremely large compared to other components, thus the performance of Fondul was strongly correlated to the oil price drifts. Fondul sold a minor part of its stake in May 2013 for RON 0.39 per share giving ca. 9.3% discount versus the close price before the announcement. In this transaction the Fund sold ca. 632 million shares or a 1.1% stake from its total 20.10% holding, which was 33.7% of the total NAV. There was a 180 day lock-up period after the transaction but the Fund sold the second tranche in October 2016 when the Fund sold a 6.4% stake with a roughly 14% discount for RON 0.24 per share. The market value of this transaction was around RON 800 million, which is equal to RON 0.08 per share cash-in for Fondul. Fondul has committed to a 360 day lock-up for the second transaction.
- We assume the Fund will sell roughly half of the remaining holdings in Petrom, which is around a 6.3% stake or RON 919 million after the same discount as last time. On the other hand, the listed/unlisted ratio might be critical and the Fund could put the sales on hold until the unlisted part of the portfolio no longer declines. A Petrom transaction like that would give a RON 0.1 per share cash-in to Fondul's financing of not only the buy-back programme but the special dividend as well.

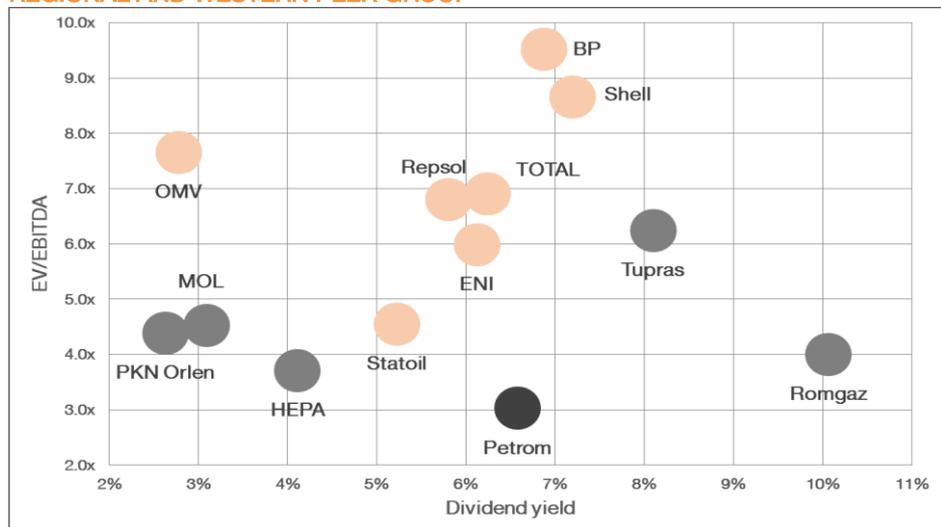
OMV PETROM PRICE PERFORMANCE VS. REGIONAL PEERS



Source: Fondul Propriateata

- Black Sea projects:** Not only is the terminal value of input oil price the main question which defines the fair value of the oil company, but the foreseeable future’s cash flow and investments are also key elements of the investment case. The upstream expansion with the development of the huge deep offshore reserves discovered with Exxon would be naturally supportive for cash flow. The company expects to deliver EUR 5bn overall Capex over the next five years, focused on Black Sea (Neptun) and Caspian expansion, while targeting a portfolio replacement rate of 100%. The Neptun decision is expected to be taken in 2H18E, while we await further clarity on royalties and export capacity.
- Relative Valuation:** The price of OMV Petrom increased as oil stabilized but not as much as its peers, which was most likely due to the overhang risk. Petrom trades around 3x EV/EBITDA, the cheapest in the peer group while paying stable dividend around 6.5% above the peer group’s average. It is an interesting question to consider what the fair spread between OMV and OMV Petrom is. Obviously the liquidity and the country risk is higher for the latter, but recently the valuation spread has widened. On the other hand, we see Petrom well-positioned to continue to consolidate its profitability fuelled by its integrated business model (downstream was 65% of 2016 Clean EBIT). With the integrated business model the company will be cash-flow positive at depressed oil prices such as USD 35 per bbl, which seems to be significantly below the current USD 45-52 per bbl price range where the fuel trades.

REGIONAL AND WESTERN PEER GROUP



Source: Bloomberg

PETROM'S KEY FINANCIAL DATA

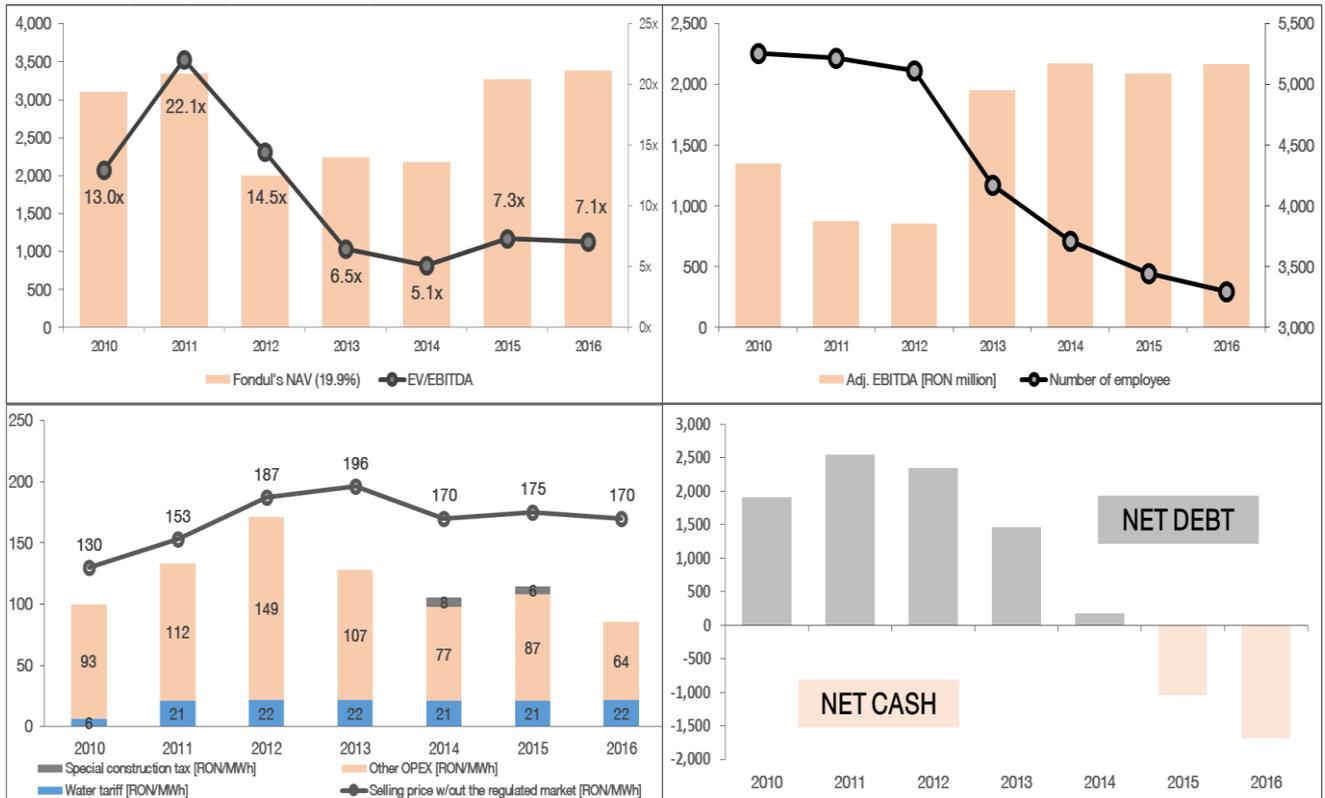
	2011	2012	2013	2014	2015	2016
Fondul's NAV	3,303	4,877	5,054	4,390	3,120	1,858
% Fondul's Stake	20%	20%	19%	19%	19%	13%
NAV per share [RON]	0.38	0.37	0.39	0.37	0.29	0.19
% of Fondul's NAV	35%	33%	31%	31%	25%	16%
Revenue [RON million]	22,614	26,258	24,185	21,541	18,145	16,247
EBITDA [RON million]	7,776	8,514	9,313	8,145	6,275	4,642
Profit [RON million]	4,318	3,953	4,821	2,103	-676	1,162
EPS [RON]	0.08	0.07	0.09	0.04	-0.01	0.02
Pay-out ratio	26%	43%	35%	27%	0%	73%
DPS [RON]	0.02	0.03	0.03	0.01	0.00	0.02
EBITDA margin	34.4%	32.4%	38.5%	37.8%	34.6%	28.6%
Profit margin	19.1%	15.1%	19.9%	9.8%	-3.7%	7.2%
Number of shares	56,644	56,644	56,644	56,644	56,644	56,683
Brent price [USD/bbl]	110	112	109	99	52	57
Petrom price [RON]	0.29	0.43	0.47	0.41	0.29	0.29
Dividend yield	6.9%	7.0%	6.4%	2.4%	-	5.3%
Market cap. [RON million]	16,427	24,357	26,623	23,224	16,427	16,155
Net debt [RON million]	7,715	7,436	6,070	352	974	-237
EV [RON million]	24,142	31,793	32,693	23,576	17,401	15,918
P/E	3.8x	6.2x	5.5x	11.0x	n.a	13.9x
EV/EBITDA	3.1x	3.7x	3.5x	2.9x	2.8x	3.4x
Net debt/EBITDA	1.0x	0.9x	0.7x	0.0x	0.2x	-0.1x

Source: OMV Petrom & Fondul Proprietatea

Hidroelectrica

- Company description:** Hidroelectrica is the largest Romanian electricity producer, with an installed capacity of 6,432 MW and a market share around 25%, which might drift slightly depending on the hydrological year. In 2012, the Bucharest Court admitted the request filed by Hidroelectrica to open the insolvency procedure. The management were acquitted for having created an organized crime group, but some members of the management were sentenced to five years in jail for abuse of power. After the dark years the reorganization process has started to bear fruit. Hidroelectrica has reduced its number of employees; meanwhile EBITDA has doubled. The company has the highest EBITDA margin in Romania at around 63% and one of the highest in its sector as well. In June 2016 Hidroelectrica exited insolvency proceedings by the decision of the syndic judge. Fondul Proprietatea owns a 19.94% stake in Hidroelectrica, which is the largest component from the Fund's unlisted portfolio, while the Ministry of Economy owns the majority with the remaining 80% stake.
- Corporate governance:** All litigations related to insolvency have been irrevocably ruled in favour of Hidroelectrica. In May, Hidro agreed with the intermediary syndicate (Morgan Stanley, RBI) to resume the obligation under the Engagement Letter regarding the IPO. In June, the company exited insolvency proceedings by the decision of the syndic judge. The listing of Hidro is still not certain as it might be included in the Sovereign Fund for Development and Investment (FSDI), which contains all profitable SOEs. The deadline to set up the FSDI was 1 July 2017.

HIDROELECTRICA'S KEY FINANCIAL DATA



Source: Hidroelectrica & Fondul Proprietatea

- IPO or exit:** The Romanian capital market has been dreaming about a Hidroelectrica float on the BVB since we started to cover the market, but the transition was delayed many times due to political ups and downs. The initial IPO method was to increase share capital, but since the company produces a great amount of cash each year the structure might change to partial exit (10%). On the 7th of September 2017 Fondul published that the fund is reviewing strategic options regarding Hidroelectrica, thus the

Fund appointed Citigroup and UBS as financial advisers in connection with envisaged transactions. We read the news as a very clear message to the government that the Fund will not hold its stake if the company isn't floated in the near future. The Fund used this negotiation power in case of Electrica this year as well. From the shareholder's point of view it is roughly equal to have an IPO or to sell the stake above the NAV to a third party investor, but the main question remains as to who would want to be in a minority position working together with the State.

- **Special dividend:** The Government is keen to receive a higher dividend from its holdings, thus a 100% pay-out or more for next year might be beneficial for both parties. Hidro will pay a dividend of around RON 675 million, which is ca. 75% of its past year's profit. The board of directors also approved an extra RON 655 million special dividend, which is RON 0.015 per share or 40% of the current net cash level. However, the company will remain with net cash, which has increased from RON 1 billion to RON 1.7 billion during 2016.

SPECIAL DIVIDEND SCENARIOS [RON MILLION AND RON]

Net debt/EBITDA	Distributable cash	FP's stake	Special DPS	Special DY
0.0x	1,695	338	0.04	4%
1.0x	3,861	770	0.09	10%
1.5x	4,944	986	0.11	12%
2.0x	6,027	1,202	0.13	15%

Source: Concorde

- We believe that the government and the fund will decide to take out this amount of cash before the IPO like GE did in case of the Prague-based Moneta Money bank. Furthermore, we assume that the company might increase its net debt to EBITDA ratio up to 1.0x, which is ca. half of the average of the peer group's level. Adding up these two components we arrive at ca. RON 3.8 billion distributable cash, of which Fondul would receive 0.8 billion leu or 0.09 per share. We assume that the government and Hidro's management will achieve this goal within two steps, but it is very likely that Fondul will be able to pay out a RON 0.05 special dividend this year again under any circumstances.
- Running four scenarios with a different net debt/EBITDA ratio we believe that Fondul will be able to pay-out a special dividend between RON 0.04-0.13 per share or 4%-15% calculating with the current price, before the IPO.
- **Bottom line:** Hidroelectrica is ready for any IPO, the operation is stable and cash flow has reduced the net debt level to net cash. We believe the government and Fondul should rather work together to create shareholder value and thus override the current troubles between the managements.
- We see eight important milestones which would create value for both parties:
 - 1) Pay-out the net cash from the company and reduce the budget deficit;
 - 2) Fondul should pay-out this cash to its shareholders (RON 0.04 per share);
 - 3) Electrica's board where the government has control should approve the FP-EL deal, thus the listed/unlisted ratio in the Fund's portfolio would be optimal;
 - 4) Fondul should sell another portion of its Petrom stake, since the price is drastically above the last ABB's price and the Fund is willing to reduce its energy exposure;
 - 5) With this portion of extra free float, the MSCI watchlist should be safe in June, if the government stabilizes the political news flow;
 - 6) After the MSCI watchlist inclusion Hidro IPO would have a higher multiple significantly closer to its western peers;
 - 7) Fondul should exit from Hidroelectrica, while the government should reduce its stake to the minimum control level;
 - 8) Hidroelectrica should have a net debt/EBITDA level of around at least 1x to reach an efficient financial structure in the long run.

HIDROELECTRICA KEY FINANCIAL DATA

Hidroelectrica	2011	2012	2013	2014	2015	2016
Revenue [RON million]	3,047	2,418	3,150	3,451	3,293	3,367
Adj. EBITDA [RON million]	874	854	1,955	2,172	2,092	2,166
EBITDA growth	-35%	-2%	129%	11%	-4%	4%
Net profit [RON million]	6	-508	719	942	899	1,267
Number of shares	445	448	448	448	448	448
EPS [RON]	0.0	-1.1	1.6	2.1	2.0	2.8
EBITDA margin	28.7%	35.3%	62.1%	62.9%	63.5%	64.3%
Profit margin	0.2%	-21.0%	22.8%	27.3%	27.3%	37.6%
Number of employees	5,218	5,115	4,172	3,711	3,448	3,296
Fondul's NAV (19.9%)	3,340	2,001	2,239	2,178	3,269	3,384
Market capitalisation [RON million]	16,752	10,035	11,231	10,923	16,394	16,971
Net debt [RON million]	2,542	2,339	1,462	173	-1,044	-1,695
Minority [RON million]	0	0	0	0	0	0
Enterprise value [RON million]	19,295	12,374	12,692	11,096	15,350	15,276
CAPEX	-1,466	-752	-278	-178	-27	-183
FCFF	-592	102	1,677	1,994	2,065	1,983
EV/EBITDA	22.1x	14.5x	6.5x	5.1x	7.3x	7.1x
P/E	n.a	n.a	15.6x	11.6x	18.2x	13.4x
Net debt/EBITDA	2.9x	2.7x	0.7x	0.1x	-0.5x	-0.8x
Installed capacity [MW]	6,443	6,470	6,464	6,443	6,435	6,432
Generated energy [TWh]	14.7	12.1	14.8	18.5	16.1	17.6
Market share	24%	20%	25%	29%	25%	27%
EV/TWh - EUR	312	228	195	137	211	192
Pay-out ratio	90%	0%	0%	0%	69%	75%
Dividend	263	0	0	0	646	675

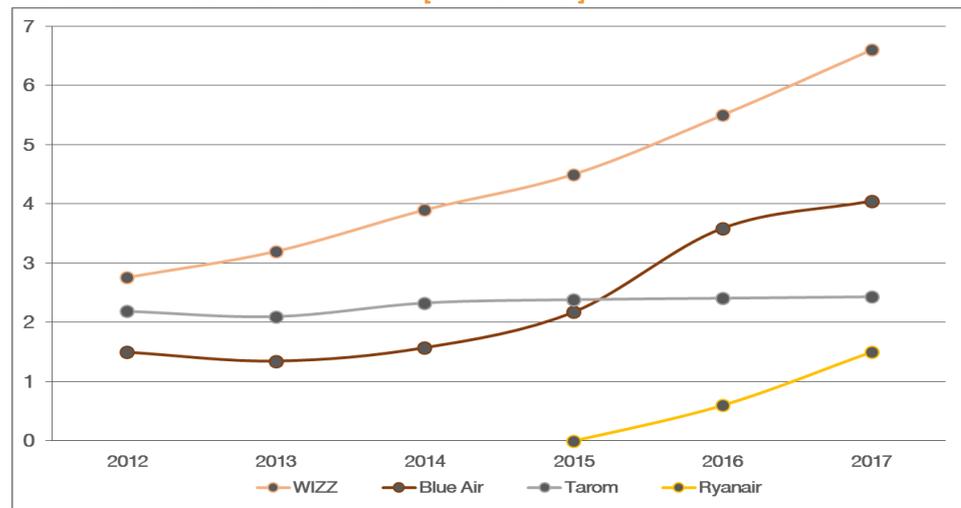
Source: Hidroelectrica & Fondul Proprietatea

Bucharest Airport



- Company description:** Bucharest Airport operates Romania’s two largest airports, namely Henri Coanda (OTP) and Aurel Vlaicu (BBU), which were set up in 2010 through the merger of the two companies. Henri Coanda Airport is situated 16.5 km from the centre of Bucharest, is serviced by 2 x 3.5 km runways and has maximum annual capacity of around 12 million passengers. BBU Airport is 8.5 km from the centre of Bucharest, is serviced by a 3.2 km runway and handles ca. 30,000 passengers per year. The two airports cumulatively accommodate 85% of the national air traffic, with more than 11 million passengers in 2016. Roughly 93% of the passenger traffic was international and only 7% was domestic. The Henri Coanda airport operates 43 airlines, transporting passengers to 100 destinations. The largest airline operator is Wizz Air, followed closely by Tarom and Blue Air. Fondul Proprietatea owns 20% of the company, while the remaining 80% is controlled by the Ministry of Economy.
- Market overview:** The three fastest growing airports in Europe are all in Romania as a result of strong macro fundamentals and low cost carriers which have entered the market in the past years. The annual growth of Bucharest Airport reached 18%, which is the largest year-on-year growth among the sizeable European airports. Currently, four dominant airlines compete on the Romanian aviation market (Wizz Air, Tarom, Blue Air, Ryanair) and we assume that their rivalry will result in a further increase in the number of take-offs and passengers in the next three years mainly due to the low cost airlines.
- Wizz Air** continued to increase its activity in Romania last year, carrying over 5.5 million passengers to and from Romanian airports, which is a roughly 23% y-o-y increase. Wizz Air currently operates from ten airports, and has been willing to introduce 15 new routes for 22 of its aircraft allocated to the Romanian market in order to connect the country with nine EU countries. In the past five years Wizz Air benefited from the growth of the market and increased its market share from 23% to 31% at the expense of Tarom, the national flag carrier of Romania, which has been operating in the market for more than 60 years.
- Tarom** was an easy target with its 23 aircraft flying to 79 destination for an average fare price of EUR 102, more than double Wizz Air’s average price. Also, the average age of its fleet is 17 years, and is capable of transporting only between 2.1 and 2.4 million passengers each year, so again half as many as Wizz.

HISTORICAL PASSENGER GROWTH [MILLION PAX]



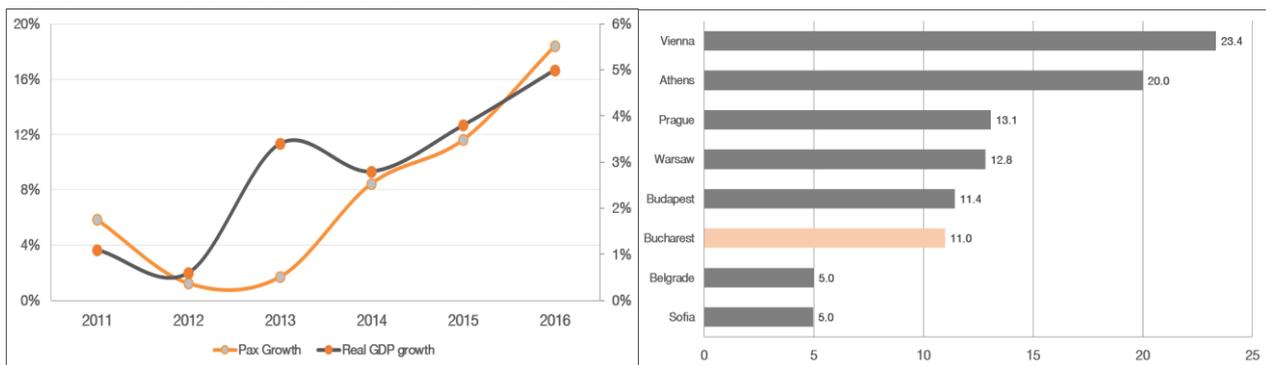
Source: OAG Schedules Analyser, local news

- Blue Air** the local low cost airline started to increase its capacity in recent years and has increased its market share from 11% to 19%. With its impressive pricing method (€56 average) the company was enabled to become the second-largest airline in Romania by

carrying 3.6 million customers (up by 65% y-o-y), behind Wizz Air but ahead of Tarom, which carried 2.1 passengers in 2016. The airline launched 30 new routes in 2016 and announced 24 new routes for this year, and expanded its fleet from 11 to 24 aircraft in the past two years. Blue Air is seeking to increase its capacity further with a target of 4.05 million pax in 2017, up by 13%. However, the airline market has very low barriers to entry.

- **Ryanair** smelled blood and allocated significant capacity to the market, shaking up the status quo. During the last two years, Ryanair ramped up its presence in Romania from less than 1% of seat capacity in 2013 to around 8% by 2016. Ryanair aims to be the largest airline in Romania by the end of 2020, however, we assume that achieving this will not be as easy as the company imagines. However, we assume that Ryanair will stimulate the Romanian market by dumping prices to increase its market share aggressively, which will increase the growth of the airports.
- Romania is a key market for LCCs since 1) the population of the country is larger than average CEE countries 2) and the penetration is very low, 3) while the annual GDP growth is above that in the CEE and far greater than the EU average.
- **Visionary growth forecast:** World annual traffic doubles every fifteen years. Due to historical time-series RPKs doubled up between 1985-2000 and 2000-2015. In line with this trend statisticians expect to reach an above 12 trillion level by 2030. The impressive expansion is all the more remarkable since there were several commodity and financial related crises in the past 45 years.
- Aircraft manufacturers expect to increase production to ca. 32,500 new passengers and 650 freighter aircraft by 2035 from the current 19,580 level, while roughly 7,000 will stay in service and approximately 40% will be replaced. Single-aisles represent 71% of units and wide-bodies represent 54% of the value. The implied growth seems to be a bit too ambitious at first glance, but past trends bear out this scenario to be a very likely option.
- Airbus reported (based on ICAQ data) that the air traffic market has doubled every 15 years since 1965 despite the many crises that the world was facing. Since Romania has a stable population but low penetration we assume that this drawback will decline in the next years due to the EU free travel and work area and strong GDP growth.

PAX GROWTH AND REAL GDP GROWTH & PASSENGER AIRPORTS NUMBER

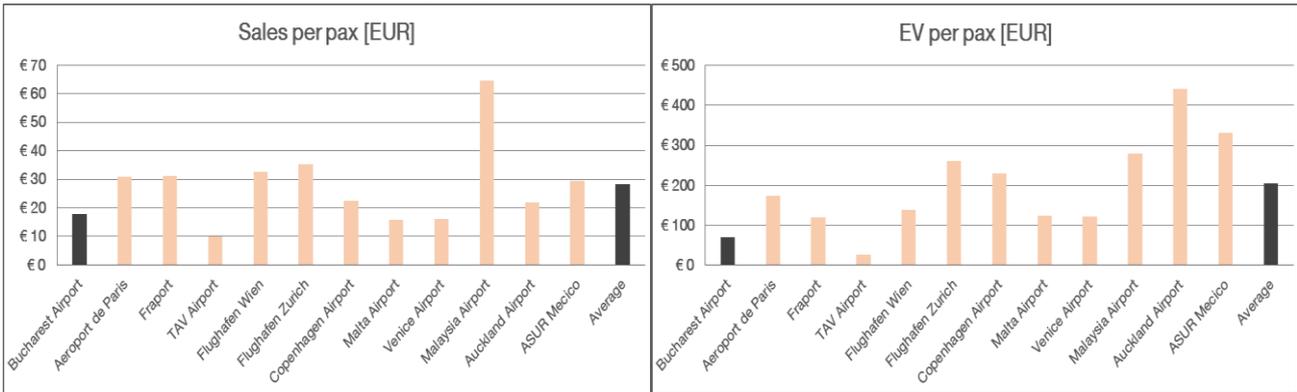


Source: Concorde, Bloomberg, ACI Europe traffic report

- **Development strategy:** As we mentioned above worldwide traffic is expected to double over the next 15 years and airports need to expand their capacity and infrastructure in order to meet the expected demand. Bucharest airport's capacity is around 12 million, while the current passenger number already reached 11 million and is expected to reach the threshold in 2018. Short-term measures include passenger flow optimization for growth capacity up to 13 million, but in the long term new development projects are deeply needed.

- **Development area:** Short-term development and modernization strategy started with € 122 million invested capital. Roughly €60 million was invested in the Finger Terminal (16,600 sqm), while the arrival terminal (2,500 sqm) investment was €62 million.
- A long-term new investment project will be developed in two stages with a duration of 48 months each. The company predicts a total budget for the development of around € 869 million and additional 25 boarding gates in the two new modules with a capacity of 1,500 pax/hour/flow per module.

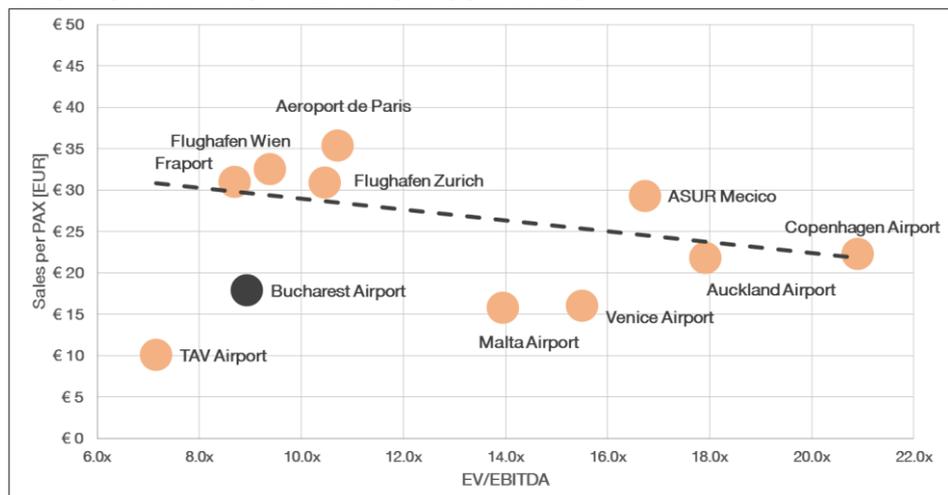
SALES PER PAX [EUR] & EV PER PAX [EUR]



Source: Concorde, Bloomberg

- **Valuation:** If we compare Bucharest Airport to others we focus on three multiples: 1) EV/EBITDA; 2) sales per passenger [EUR]; and 3) EV per passenger. With these multiples we can benchmark the company's efficiency, growth, and value. The western European airports have a higher sales per pax thus these are more efficient than the Romanian airport, however, the EV/EBITDA multiples of these airports are not significantly higher. On the other hand the exotics airports have high multiples mainly due to the larger EBITDA margin (58% vs. 43%).
- Regarding EV per pax the Romanian airport is the second cheapest after the Turkish TAV, which shows the potential if the passenger volume increases at the tempo of recent years. We see massive growth opportunities in the airport, but the capacity of the current infrastructure might be the cap.

VALUATION MATRIX OF THE AIRPORT COMPANIES



Source: Concorde, Bloomberg

- The airport is in a net cash position compared to the 2.1x average of the peer group. Local news reported that Romania's Transport Ministry wants to sell a 20-25% stake via IPO, while additional capital raised by the IPO would also stabilize the investment plan.

Obviously, the pricing of the IPO is one of the key issues but we appreciate the idea of investing into a long- term growth story, where we know exactly what the company will build from the capital and where it is easy to calculate the pay-back period and return on invested capital. However, we assume that the IPO is already late if the management wants to keep the current annual growth rate since the new infrastructure needs roughly 3-4 years to boost the capacity, while the current capacity is enough for only 2 years after a restructuring process.

BUCHAREST AIRPORT KEY DATA [RON MILLION]

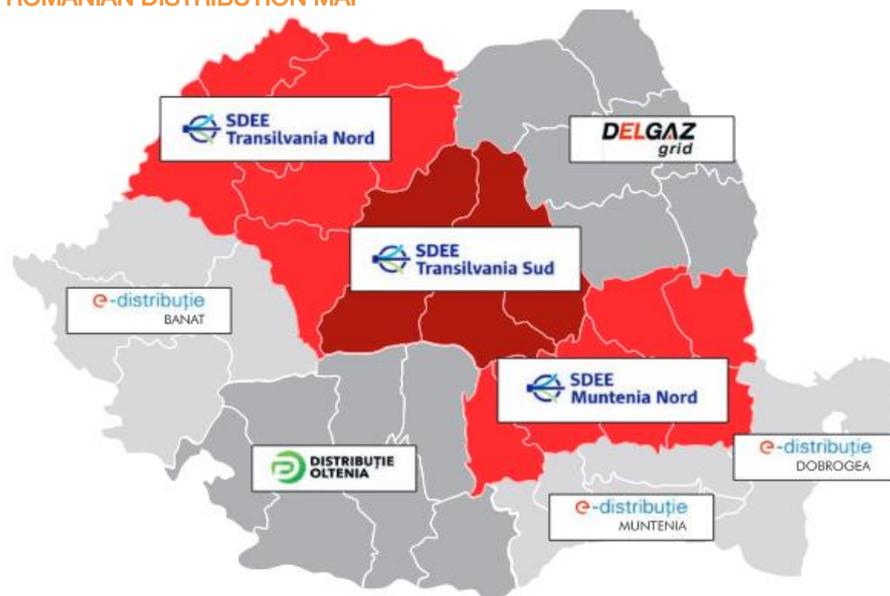
	2011	2012	2013	2014	2015	2016
Revenue [RON million]	502	556	583	672	756	912
EBITDA [RON million]	187	205	238	258	332	388
EBIT [RON million]	89	81	94	124	214	277
Net Income [RON million]	53	53	72	99	179	230
Dividend [RON million]	47	46	62	51	141	137
EPS [RON]	3.7	3.7	5.0	6.9	12.4	16.0
DPS [RON]	3.3	3.2	4.3	3.6	9.8	9.5
Pay-out ratio	90%	86%	86%	52%	79%	60%
Number of shares	14.4	14.4	14.4	14.4	14.4	14.4
Net debt [RON million]	162	275	203	23	-156	-335
NAV [RON million]	322	272	288	332	498	761
Market cap. [RON million]	1,612	1,360	1,438	1,661	2,489	3,805
EBITDA margin	37%	37%	41%	38%	44%	43%
EBIT margin	18%	15%	16%	19%	28%	30%
Profit margin	10%	10%	12%	15%	24%	25%
EV/EBITDA	9.5x	8.0x	6.9x	6.5x	7.0x	8.9x
P/E	31x	26x	20x	17x	14x	17x
Net debt/EBITDA	0.9x	1.3x	0.9x	0.1x	-0.5x	-0.9x
Revenue growth	26%	11%	5%	15%	12%	21%
ROE	1.1%	1.1%	1.0%	2.0%	4.0%	5.4%
PAX [million]	7.4	7.5	7.7	8.3	9.3	11.0
International	6.8	7.0	7.1	7.8	8.8	10.1
Domestic	0.6	0.6	0.6	0.5	0.5	0.9
Pax Growth	5.9%	1.2%	1.7%	8.5%	11.6%	18.4%
Population [million]	20.2	20.1	20.0	19.9	19.9	20.0
Penetration	37%	38%	38%	42%	47%	55%
Sales per Pax [EUR]	€ 16	€ 16	€ 17	€ 18	€ 18	€ 18
EV per Pax [EUR]	€ 57	€ 48	€ 49	€ 46	€ 56	€ 70
Real GDP growth	1.1%	0.6%	3.4%	2.8%	3.8%	4.8%
Inflation	5.8%	3.3%	4.0%	1.1%	-0.6%	-1.7%
Private consumption growth	0.7%	0.5%	4.0%	4.6%	7.1%	4.5%
Net wages growth	7.2%	5.8%	3.7%	6.0%	13.3%	11.4%

Sources: Company results and Concorde

Power distributors are non-core assets?

- Market overview:** Distribution companies carry low voltage electricity to consumers. Electricity distributors enjoy a regional natural monopoly position, thus their operation is restrained by the Romanian energy regulator ANRE. The main proxies in the distribution business is the Regulated Asset Base (RAB), which depends on the past and future CAPEX level and the regulated rate of return (RRR), which is set by ANRE.
- There are four major players on this regulated market for the eight Romanian territories. Electrica has the largest market share with its three subsidiaries (SDMN, SDTS, SDTN), but ENEL's three subsidiaries (Banat, Dobrogea, Muntenia) are more efficient (lower grid losses) and their assets generally have greater qualities. The remaining two territories are covered by CEZ under the name Distributie Oltenia and E.ON.
- Enel bought three areas in the south part of the country during the privatization in 2004-2005, while CEZ and E.ON purchased one territories as well. After the privatization the RRR for these territories was significantly above that of state owned Electrica's, but this trend has changed since Electrica's IPO. For a short period Electrica had above average RRR at 8.52% but after the IPO the regulator reduced this rate to the same level for every distribution company at 7.7% due to the reduction of the risk free rate.

ROMANIAN DISTRIBUTION MAP



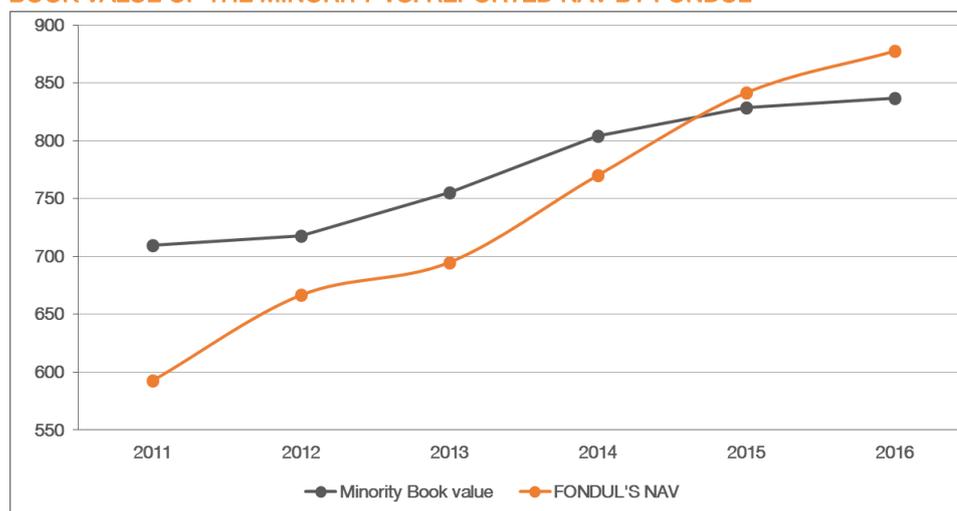
Sources: Electrica

- Fondul's holdings:** Fondul has a sizeable portfolio from these assets, roughly 27% of the Fund's NAV or RON 0.3 per share. The Fund has 22% in each of Electrica's subsidiaries, but not in the listed mother company. The Fund also owns 24% in two ENEL distributors and 12% in the third ENEL asset. Enel owns the majority of the three assets but SAPE has 25% in each as well. Fondul recently sold its minority stake in E.ON Distributie Romania to the major shareholder. Sadly, the price of the transaction was not public, thus it is not possible to establish a benchmark for future transactions.
- The stable and regulated business of these power distribution companies should go hand in hand with a high pay-out ratio and strong dividend income to the Fund, but this isn't the case for every holding, since the Fund has minority stakes and no influence.
- ENEL distribution companies** represent a large value in the Fund's portfolio with RON 0.16 per share or 15% of the NAV. The dividend received from these investments was low or zero in the past, despite the fact that the companies have a great amount of net cash on their balance sheets. For example, ENEL Muntenia has 2.3 billion leu net cash

or RON 0.26 per share if we divide this figure by the Fund's number of shares. The sales of these assets with a fair price would definitely create value and reduce holding discount, which is the preference of the fund manager, but it is not easy to value the net cash as the Fund has no control. Fondul sold its E.ON stake recently, which also hasn't been paying dividend in the past three years, thus making it possible to reach an agreement with ENEL sooner or later.

- Electrica:** As Fondul reported in March 2017, they are having ongoing discussions with the management of Electrica concerning the minority stakes in the subsidiaries (8% of NAV). This isn't a new story but rather a very long and unnecessary negotiation combat. Electrica went public in 2014 with a visionary CAPEX plan and above-average regulated rate of return (8.52%), however, the winds have changed and the fix return rate was cut to 7.7% and the CAPEX pipeline was also drastically reduced. Despite these negative impacts the company's earnings improved, thus it was rational to make an offer for the minority stake if the management believed in the future of the business. At the end of 2016 Electrica had more than RON 2.7 billion cash on its balance sheet, which is equal to ca. RON 8 per share or 60% of the market capitalization calculated with the current share price. As we highlighted before, Electrica destroys shareholder value by sitting on that huge amount of cash, thus a quick and mutually beneficial M&A deal is more than necessary for Electrica in addition to showing some positive development to disappointed shareholders. The three assets have a non-core status in Fondul's portfolio, thus they are available for sale at a fair price. But the deal is more important currently for Electrica since the subsidiaries were paying stable and significant dividend in the past years, roughly RON 100 per year.
- 2016 was not a strong year for Electrica as earnings declined by 18% y-o-y on an average basis, except for Furnizare, in which case earnings increased to RON 185 million from RON 151 million during the year. Between 2011 and 2014 the book value of the minority in Electrica's balance sheet had a higher value than the NAV of the Fund, but this has changed in the past two years.

BOOK VALUE OF THE MINORITY VS. REPORTED NAV BY FONDUL



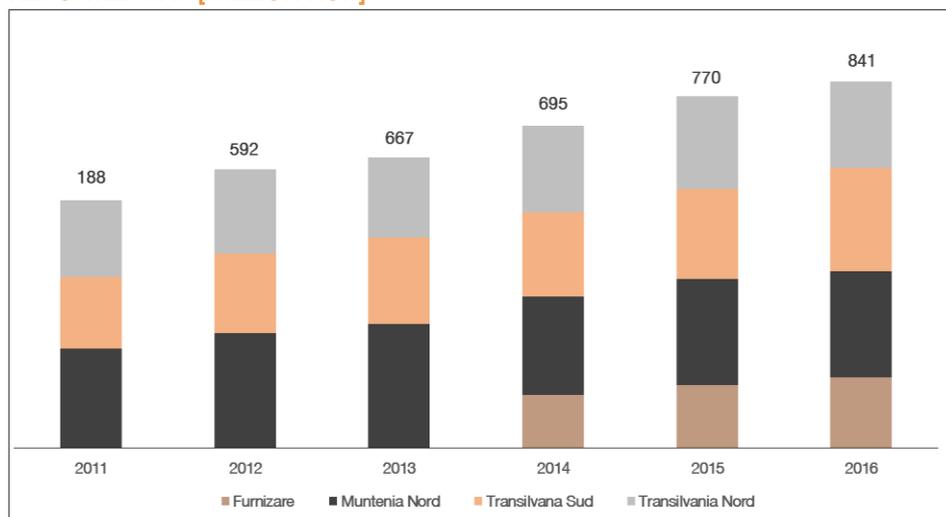
Sources: Fondul and Electrica

- Minority transaction:** Despondently, in the past year Fondul could not strike a deal with Electrica, due mainly to the different valuation assumptions. In March 2016 Fondul asked for RON 805 million, and offered to pay back RON 36 million received as dividends from the subsidiaries, hence the net cash value of the ask side was RON 769 million (EV/EBITDA: 3.3x, P/RAB: 0.8x). The spread between the bid and ask was around RON 85 million, which was approximately 10% of the transaction value, and roughly equal to the dividend, which was paid that year.
- In early May 2016 Fondul informed its shareholders that it had initiated a competitive process leading to potential disposals of the Fund's holdings in Electrica subsidiaries.

The marketing and sale process will be managed by Ithuba Capital AG, acting as sole financial advisor in connection with the envisaged transaction.

- In July 2016 the Fund had signed a Memorandum of Understanding (MOU) with Electrica for the disposal of the Fund’s holdings in Electrica subsidiaries. The aggregated value of the transaction would amount to RON 752 million. Shares would be acquired by Electrica together with all the rights attached to them under the applicable law, including the right to receive dividends, except for those for the financial year ending on 31 December 2016, which remain to be collected by the Fund. The parties plan to execute the transactional documents pertaining to the envisaged transaction after obtaining the necessary corporate and shareholding approvals at Electrica and Subsidiaries level, by 31 October 2017.
- The transaction still needs the greenlight from Electrica’s shareholders meeting but both the management team of Fondul and Electrica have disclosed having agreed to the MOU. The transaction is a clean win-win for both parties. Electrica would start to create shareholder value on that part of the cash, buying the minority stake vs. short-term government bonds yielding below 0.7%. Electrica will increase its profit after minorities by roughly 30% and pay more dividend from the core operation to the shareholders.
- This is also important and positive news for Fondul since: 1) the company receives RON 752 million cash, which is equal to RON 0.07 per share, thus we assume the Fund will pay a special dividend this year as it did in the past year (RON 0.05 per share); 2) the holding discount will narrow since the Fund is to sell 8.2% of its NAV and 12% of its unlisted holdings; 3) the unlisted portion of the portfolio increased and reached 70% in the past quarter, which is a significant threshold for the portfolio manager; nevertheless with this transaction the unlisted portion will decline to 64%, thus it is most likely that the Fund will be able to sell another Petrom stake after this transaction and lock-up of a past ABB.
- **Transaction pricing:** Pricing of the 22% in Electrica’s three distribution companies and the remaining subsidiary seems to be tough at first blink since the NAV in July 2017 stood at RON 877 million, while the transaction value was set significantly below, at RON 752 million. However the transaction value is net of dividend, which was RON 98 million thus the exit price including the dividends was RON 850 million, resulting in a 4% discount compared to the NAV. The value of the transaction was priced at 3.6x EV/EBITDA and 0.85x P/RAB. All in all, we assume the transaction is a win-win for the two listed companies and will spice up the investment cases. After a successful E.ON and Electrica deal we might be closer to seeing an ENEL one.

REPORTED NAV [MILLION RON]



Sources: Fondul Proprietatea

MAJOR MULTIPLES OF THE DISTRIBUTION COMPANIES

NAV [million RON]	2011	2012	2013	2014	2015	2016
ENEL Banat	317	445	573	640	624	600
ENEL Dobrogea	219	301	379	397	401	380
ENEL Muntenia	337	344	473	466	455	449
Electrica Muntenia Nord	238	275	296	236	254	255
Electrica Transilvana Sud	171	189	207	202	216	246
Electrica Transilvania Nord	184	203	192	206	222	208
RAB [million RON]						
ENEL Banat	1,773	1,801	1,795	1,844	1,833	1,801
ENEL Dobrogea	1,541	1,613	1,636	1,595	1,594	1,562
ENEL Muntenia	2,836	3,532	3,523	3,520	3,489	3,468
Electrica Muntenia Nord	1,312	1,408	1,434	1,490	1,561	1,583
Electrica Transilvana Sud	1,213	1,321	1,332	1,352	1,391	1,413
Electrica Transilvania Nord	1,166	1,261	1,292	1,335	1,423	1,528
EBITDA [million RON]						
ENEL Banat	317	292	335	323	316	239
ENEL Dobrogea	186	190	248	239	253	195
ENEL Muntenia	211	358	424	440	451	397
Electrica Muntenia Nord	142	166	147	272	290	227
Electrica Transilvana Sud	111	156	212	242	318	256
Electrica Transilvania Nord	120	162	206	255	314	269
EBITDA margin						
Enel Distributie Banat	32%	31%	40%	40%	42%	35%
Enel Distributie Dobrogea	40%	39%	49%	48%	50%	41%
Enel Distributie Muntenia	30%	41%	48%	50%	48%	43%
Electrica Muntenia Nord	22%	23%	19%	36%	38%	32%
Electrica Transilvana Sud	16%	25%	29%	30%	38%	32%
Electrica Transilvania Nord	19%	28%	29%	34%	37%	31%
EV/RAB						
Enel Distributie Banat	0.59x	0.81x	1.03x	1.04x	0.91x	0.78x
Enel Distributie Dobrogea	0.58x	0.70x	0.88x	0.88x	0.82x	0.72x
Enel Distributie Muntenia	0.62x	0.55x	0.81x	0.67x	0.57x	0.47x
Electrica Muntenia Nord	0.68x	0.74x	0.77x	0.61x	0.66x	0.68x
Electrica Transilvana Sud	0.75x	0.77x	0.78x	0.76x	0.72x	0.85x
Electrica Transilvania Nord	0.81x	0.78x	0.69x	0.74x	0.75x	0.74x
EV/EBITDA						
Enel Distributie Banat	4.8x	6.6x	6.4x	6.8x	5.6x	6.3x
Enel Distributie Dobrogea	4.1x	5.0x	5.0x	5.0x	4.4x	5.1x
Enel Distributie Muntenia	7.1x	4.6x	5.7x	4.6x	3.7x	3.6x
Electrica Muntenia Nord	6.3x	6.3x	7.5x	3.3x	3.6x	4.7x
Electrica Transilvana Sud	8.1x	6.5x	4.9x	4.2x	3.2x	4.7x
Electrica Transilvania Nord	7.8x	6.1x	4.4x	3.9x	3.4x	4.2x
RORA						
Enel Distributie Banat	15.8%	11.8%	13.3%	12.0%	11.6%	6.9%
Enel Distributie Dobrogea	9.6%	7.5%	10.7%	7.6%	10.1%	6.2%
Enel Distributie Muntenia	2.1%	5.7%	7.4%	8.2%	8.6%	5.9%
Electrica Muntenia Nord	5.5%	7.0%	9.2%	10.7%	11.7%	7.5%
Electrica Transilvana Sud	0.0%	0.0%	6.1%	8.7%	12.2%	8.8%
Electrica Transilvania Nord	0.0%	0.0%	6.1%	8.1%	12.6%	10.6%
Dividend yield						
Enel Distributie Banat	0%	0%	0%	3%	3%	1%
Enel Distributie Dobrogea	0%	0%	0%	3%	3%	2%
Enel Distributie Muntenia	0%	0%	0%	0%	0%	0%
Electrica Muntenia Nord	1%	6%	8%	10%	11%	8%
Electrica Transilvana Sud	0%	0%	6%	9%	12%	9%
Electrica Transilvania Nord	0%	0%	6%	8%	13%	11%

Sources: Fondul Proprietatea and Electrica

Shareholder distributions

- Regular dividend aka return on capital:** Fondul owns many assets in its portfolio which have a steady operation and high pay-out ratio. The Fund's goal is to pay-out these cash-in flows fully as dividend and keep a stable dividend distribution. However, due to tax optimization of the investors the Fund uses a return on capital method to pay-out cash to the investors. In the past four years the Fund paid-out RON 0.05 per share dividend per year, while the dividend income per share drifted slightly due to the sales of assets such as Romgaz or lack of dividend inflow in case of Petrom. We assume Petrom will be able to start to pay dividend, thus the dividend income will increase in 2017 from the very low level.
- As the Fund sold part of its portfolio the percentage of listed dividend payers sank, which was partly compensated by Hidroelectrica and Bucharest Airport. The sale of Electrica minorities would widen the gap, while ENEL assets do not matter in this case. All in all we assume that the Fund will be able to keep the current RON 0.05 per share dividend in the long run as well, resulting in a roughly 5-7% dividend yield.

DIVIDEND INFLOW AND OUTFLOW

	2011	2012	2013	2014	2015	2016	2017
OMV Petrom	202	353	319	331	121	0	107
Hidroelectrica	53	0	0	0	129	135	135
Bucharest Airport	10	9	9	12	10	27	41
BRD	2	4	0	0	0	8	18
Nuclearelectrica	0	0	2	28	7	9	9
Electrica Muntenia	0	2	16	23	25	27	19
Electrica Transilvania Sud	0	0	0	13	18	26	22
Electrica Transilvania Nord	0	0	0	12	17	28	22
Electrica Furnizare	0	0	9	20	38	25	35
Dividend Income [RON million]	519	619	650	682	567	350	490
<i>from Listed companies</i>	<i>59%</i>	<i>73%</i>	<i>58%</i>	<i>79%</i>	<i>44%</i>	<i>10%</i>	<i>30%</i>
<i>from Unlisted companies</i>	<i>41%</i>	<i>27%</i>	<i>42%</i>	<i>21%</i>	<i>56%</i>	<i>90%</i>	<i>70%</i>
Dividend income per share [RON]	0.06	0.05	0.05	0.06	0.05	0.03	0.06
<i>Pay-out ratio</i>	<i>54%</i>	<i>73%</i>	<i>99%</i>	<i>88%</i>	<i>94%</i>	<i>147%</i>	<i>91%</i>
Dividend payment per share [RON]	0.03	0.03	0.05	0.05	0.05	0.05	0.05
Share price at the end of the year	0.56	0.66	0.76	0.81	0.74	0.92	0.92
Dividend yield	7.6%	6.3%	6.4%	6.2%	6.8%	5.4%	5.4%

Sources: Fondul Proprietatea

- Special dividend:** When the Fund sells a significant part of its portfolio it pays the cash-out to its investors as a special dividend. Since 2013 there have been nine significant transactions of which only one (ENEL) was unlisted. For this reason we collected the others to get some colour on the pricing of past transactions, which could provide us with some minor but important information about future discounts as well.

HISTORICAL TRANSACTIONS

	Offered Stake	Discount	Placement price	Value [RON mn]	Cash per share	Date
OMV Petrom	1.1%	-9.3%	0.39	247	0.02	May 2013
Transgaz	15.0%	-9.7%	172	304	0.03	Dec 2013
Romgaz	5.0%	-5.9%	33.5	645	0.05	Jun 2014
Transelectrica	13.0%	-10.1%	21.5	213	0.02	Jul 2014
Conpet	23.6%	-7.8%	48.8	100	0.01	Nov 2014
Romgaz	4.1%	-8.2%	28.1	450	0.04	Oct 2015
Romgaz	5.8%	-7.9%	24.0	541	0.05	Apr 2016
OMV Petrom	6.4%	-13.9%	0.24	797	0.08	Oct 2016

Sources: Fondul Proprietatea

- Transactions:** As we mentioned the Fund reduced its Petrom holdings but it is also important to note that Fondul sold all of its Romgaz holdings in three tranches, and its stake in Transgaz and Transelectrica. The discount was the largest in case of Petrom

and Transelectrica, but on an average basis a roughly 9% discount was given to investors. If we divide the transaction value by the number of Fondul's share we receive RON 0.04 per share cash-in, which was paid out as special dividends.

- Buy-backs:** In the past six years the average discount to the NAV was above 38% but declined from 60% (Aug. 2011) to 29% (Aug. 2017). Still the 29% discount is very large and offers a great opportunity for the Fund to buy its own share. The reason behind the buy-back is simple: the low yield environment in Europe capped investment opportunities, thus there are a limited number of investments where one can earn a larger return on invested capital with a very low risk profile. Buy-backs reduce the discount as well, which is the main target of the fund manager since it has no mandate to purchase assets until the discount narrows to below 15%.

FONDUL PRICE PERFORMANCE AND BUY-BACK PERIODS



Sources: Fondul Proprietatea

- There have been seven buy-back programmes since 2011, where the fund bought 5% of its share capital per programme on an average basis, while the total value of these transactions was around RON 4.2 billion at an average price of RON 0.84 per share. Approximately 5% of the 8th buyback programme was completed, which is up to 10% of the used shares.
- In July 2016 Fondul contracted a revolving credit facility for a maximum committed amount of RON 1 billion from BRD, which was extended until July 2018. The purpose of this credit facility is for buybacks and distribution to shareholders.
- Since the Romanian market isn't very liquid and the ups and downs of the price of Fondul gave fine opportunities in the past, the Fund completed four tender offers between 2013 and 2017. We wish to highlight the increase of the allocation ratio and the reduction of the premium that the fund gave.

TENDER OFFERS

	Nov. 2013	Dec. 2014	Aug. 2016	Mar. 2017
Number of shares [million]	600	750	575	640
Purchased Value [RON million]	600	833	484	582
Buy-back programme	2nd	4th	6th	7th
% of the Buy-back programme	54%	76%	64%	61%
% of the NAV	4.4%	6.3%	4.1%	5.1%
Subscribed value [RON million]	10,519	11,223	5,581	5,579
Allocation ratio	5.7%	7.4%	8.7%	10.4%
Purchase price [RON]	1.00	1.11	0.84	0.91
Current price [RON]	0.81	0.94	0.74	0.86
Premium	23.2%	18.3%	14.1%	11.8%
NAV per share	1.20	1.20	1.00	1.13
Discount to NAV	32%	22%	26%	23%

Sources: Fondul Proprietatea

MSCI EM watchlist knocking on the door

- The Romanian capital market would like to be included on the Emerging Market watch list of institutions like MSCI, FTSE, S&P Dow Jones and STOXX. Currently three of the above- mentioned institutions assess Romania as a Frontier market due to the low free float of the currently listed companies, diminished total market liquidity and difficulty to carry out considerable investments in the country. To fulfil these, it is inevitable to increase the free float of the currently listed companies and to boost the privatisation process of state owned companies like Hidroelectrica or Bucharest Airport. The MSCI Emerging index is one of the major indexes in the region, which brings significant flows to the CEE markets and would definitely change the structure of the Romanian capital market.
- In September 2016 Romania was put on the FTSE Emerging Market Watchlist. Currently the country meets 8 of 9 criteria. The last criteria which Romania has to fulfil is the criteria to have sufficient broad market liquidity in order to support sizeable global investment. Bucharest Stock Exchange's (BVB) mid-term aim is to receive the Emerging Market status of MSCI. To achieve this target at least three companies have to fulfil the following criteria:
 - 1) full market capitalization has to be at least USD 1,375 million;
 - 2) free float adjusted market capitalization has to reach at least USD 687 million;
 - 3) annualized traded value ratio (ATVR) should be minimum 15% on a 3M and 12M basis.
- MSCI releases its results usually in June, thus we expect an inclusion as early as June 2018 after the Fund sells another roughly 5-6% of Petrom or Hidroelectrica, which should be listed. Currently three companies, TLV, BRD and Romgaz fully meet all MSCI criteria. Petrom is on the verge of meeting all requirements due to slightly lower FF adjusted market capitalisation and lower ATVR. Unfortunately, Electrica does not meet any of the MSCI requirements.

TOP EQUITIES WHICH MIGHT BE INCLUDED ON MSCI EM INDEX [USD BILLION]

	MCAP	MSCI FF	FF. MCAP	ATVR 3M	ATVR 12M
TLV	2.5	70%	1.78	19%	19%
Petrom	4.1	15%	0.61	13%	14%
Romgaz	3.2	30%	0.95	27%	21%
BRD	2.4	30%	0.71	32%	22%
Electrica	1.2	45%	0.53	9%	10%

Source: Bloomberg and Concorde's forecast

- The privatisation process of Hidroelectrica can help in fulfilling the requirements for inclusion on the index and achieving the upgrade of Romania to an Emerging Market member. We see 2018 as the closest date for the upgrade due to the delay of the IPO of Hidroelectrica, but Fondul and the SIFs might have other options.
- Since BRD fulfils the three criteria and hopefully the bank will maintain this performance until June, Fondul is not keen on selling any BRD shares since after the inclusion the bank should be worth more. However, since Petrom does not fulfil the criteria it should make strategic sense to sell a smaller part of the stake and thus reach a stable above the minimum free float adjusted market cap and traded value. With a transaction like that Petrom would be part of the EM index and the inflow might raise the price of the oil company, thereby providing a better opportunity for Fondul to exit.

ELEMENTS OF FONDUL'S PORTFOLIO WHICH MIGHT BE PART OF THE MSCI EM

	NAV	NAV per share	% of NAV	% of MCAP
OMV Petrom	2,018	0.24	19%	13%
BRD	342	0.04	3%	4%
Hidroelectrica	3,384	0.33	32%	20%

Source: Bloomberg and Fondul

Valuation

- The valuation of the closed-end fund differs from the classic method we usually use. Since Concorde covers all major companies on the Romanian market, we have full knowledge as to how much the portfolio components are worth separately. Therefore in our valuation we first use a 1) sum of the parts (SOTP) method and then a 2) shareholder distribution & DDM model, which is consistent with our investment story.
- In our SOTP valuation, which was summarized in the table below, one might acknowledge the different between the reported NAV values and Concorde's estimates. Every element of the portfolio was independently calculated (DCF or relative valuation), and we gave an additional sales discount, mainly due to the lack of marketability (DLOM). After calculating the portfolio value we adjusted with the net cash position of the Fund and reduced the value by the management expense, which was 0.6% of the NAV in the past two financial years. Our target price is ex-dividend, thus we subtracted the RON 0.05 per share return on capital but added the dividend yield to the upside line.

SOTP VALUATION MODEL

	Latest NAV	Percentage of NAV	Premium/Discount	Concorde Estimation
Listed companies	2,708	26%	3%	2,799
OMV Petrom	2,018	19%	5%	2,118
Nuclearelectrica	175	2%	-4%	169
BRD	342	3%	4%	355
Unlisted companies	7,596	69%	-12%	6,703
Hidroelectrica	3,384	32%	-13%	2,929
ENEL	1,575	15%	-1%	1,553
Electrica	877	8%	-14%	752
Bucharest Airport	761	7%	-8%	700
Engie Romania	453	4%	-5%	431
Porturilor Maritime	216	2%	-30%	151
Salrom	181	2%	3%	186
Portfolio value	10,304	98%	-8%	9,502
(+) Net cash	262	2%		262
(-) Management expense	0	0%		74
NAV	10,566	100%	-8%	9,691
Equity value per share				1.10
(-) Return on capital				0.10
Fair value per share				1.00
Current price				0.86
Upside w/ dividend yield				28%

Source: Concorde's forecast

- The second method focused on the distribution yield of the whole Fund, which comes from three lines: 1) regular dividend payment (ROC); 2) special cash distribution; and 3) buy-backs. After forecasting the above-mentioned three elements for the foreseeable future and using the stable RON 0.05 per share dividend for the terminal period we discounted the cash flow more or less like a classical DDM model.
- The dividend-irrelevance theory says that in an ideal market, with no taxes or bankruptcy costs, the dividend policy of the company is irrelevant. In line with this we make a clear distinction, namely, when Fondul completes buy-back programmes or pays dividend, only the cash flow to shareholders is taken into consideration. Taxes are also irrelevant in this case since Fondul has changed its distribution type (in 2013) from the classical cash dividend to return on capital method, since before 2016 the Romanian dividend withholding tax was 16% (currently 5%) vs. a return on capital method where no tax was withheld.

SHAREHOLDER DISTRIBUTION MODEL

	2015	2016	2017	2018	TV
Dividend income	0.05	0.03	0.05	0.05	0.05
Pay-out ratio	94%	147%	100%	100%	100%
Dividend payment per share	0.05	0.05	0.05	0.05	0.05
Special dividend per share	0.00	0.05	0.10	0.05	0.00
Buy-back per share	0.04	0.07	0.08	0.05	0.00
Total distributions	0.09	0.17	0.23	0.15	0.05
Distribution yield	10%	19%	27%	17%	6%
Risk free rate	4.0%	4.0%	4.0%	4.0%	4.5%
Sector beta	1.0	1.0	1.0	1.0	1.0
Cost of Equity	9.5%	9.5%	9.5%	9.5%	10.2%
Discount factor	0.0	0.0	1.0	0.9	0.8
PV of CF's	0.00	0.00	0.23	0.14	0.64
GDP growth rate	3.5%				
Management fee per share	0.01				
Equity value per share	1.00				
Current price	0.86				
Upside	16%				

Source: Concorde's forecast

- **Major risks:** Obviously a deteriorating macro environment could spoil the investment case, while political and regulatory risk is also remarkable. Furthermore, until Fondul exits from Petrom the oil price will have a huge impact on the current price of the Fund. We rate the management risk low as long as Franklin Templeton Investments is on board, but regarding the portfolio companies this type of risk is also large.
- It is interesting to speculate what would happen if Fondul reached the thresholds (discount to the NAV below 15%) and the management had a mandate for purchasing assets vs. the current mandate of selling only parts of the portfolio and paying out the cash as dividend. Certainly there are great investment opportunities in Romania with a high IRR, but that situation would be a totally different investment case; thus we assume that this is currently a risk for the dividend policy rather than an opportunity.
- **Recommendation:** We have maintained our target price of RON 1.00 per share giving ca. 28% upside. We keep our Overweight recommendation.

TOP EQUITY HOLDINGS [RON MILLION]

	2011	2012	2013	2014	2015	2016
OMV Petrom	3,340	4,877	5,054	4,390	3,120	1,858
Hidroelectrica	3,340	2,001	2,239	2,178	2,654	3,384
Romgaz	1,220	1,296	1,976	1,363	613	0
Bucharest Airport	322	272	288	332	498	761
BRD	272	206	229	222	307	301
Nuclearelectrica	507	648	307	212	176	132
Banca Transilvania	46	59	107	143	234	21
Transgaz	394	385	0	0	0	0
Transelectrica	172	126	156	0	0	0
Top 20 equity Holdings	12,873	13,519	13,934	12,534	11,434	9,908
% of total equity	92%	95%	95%	97%	97%	99%
Total equity Holdings	13,973	14,240	14,619	12,973	11,841	10,034
Net cash and receivables	493	739	394	264	247	1,394
NAV	14,465	14,979	15,014	13,237	12,088	11,427
NAV per share	1.08	1.14	1.24	1.21	1.16	1.19
Discount to the NAV	-60%	-52%	-33%	-26%	-30%	-33%

KEY PERFORMANCE INDICATORS

	2011	2012	2013	2014	2015	2016
NAV per share [RON]	1.08	1.14	1.24	1.21	1.16	1.19
Management exp. [RON mn]	32	34	45	57	68	71
as a % of NAV	0.22%	0.23%	0.30%	0.43%	0.57%	0.62%
EPS	0.04	0.04	0.35	0.04	-0.03	0.06
DPS	0.03	0.03	0.05	0.05	0.05	0.05
Dividend yield	7.6%	6.3%	5.9%	5.6%	6.2%	6.3%
Distribution yield	7.4%	5.2%	17.9%	18.2%	11.7%	14.5%
P/E	10.5x	12.8x	2.4x	24.8x	n.a	14.0x
P/NAV	0.40x	0.48x	0.67x	0.74x	0.70x	0.67x
% of listed shares	33%	42%	55%	49%	38%	22%

PROFIT AND LOSS [RON MILLION]

	2011	2012	2013	2014	2015	2016
Gross dividend	519	619	652	687	569	353
Net losses	0	0	422	-604	-1,241	-378
Impairment losses	31	6	-836	-344	-91	-122
Interest income	41	35	36	21	4	8
Gain on disposal	13	208	115	646	345	926
Other items	14	4	42	13	19	-110
NOI	618	872	432	418	-394	677
OPEX	-72	-305	-88	-114	-125	-132
Finance costs	0	0	0	0	-3	0
Tax expense	2	0	-382	123	-44	-97
Net profit	544	567	-39	427	-565	447
Other income	0	0	3,883	7	212	101
Adjusted net profit	544	567	3,844	434	-353	548
EPS	0.04	0.04	0.35	0.04	-0.03	0.06

TOP EQUITY HOLDINGS [RON MILLION]

	FY 2015	Q1 2016	H2 2016	9M 2016	FY 2016	Q1 2017	H2 2017
OMV Petrom	3,120	2,582	2,582	2,625	1,858	2,153	2,018
Romgaz	613	608	0	0	0	0	0
BRD	307	266	249	279	301	313	342
Banca Transilvania	234	234	12	12	21	18	0
Nuclearelectrica	176	146	138	135	132	184	175
Alro	96	86	75	89	85	106	123
Conpet	40	46	39	40	41	59	50
Hidroelectrica	2,654	2,654	2,654	3,269	3,384	3,384	3,384
Bucharest Airport	498	498	633	633	761	761	761
Engie Romania	446	446	446	446	453	453	453
ENEL	1,621	1,481	1,621	1,621	1,575	1,575	1,575
ELECTRICA	841	841	841	841	877	877	877
Salrom	177	177	177	177	181	181	181
Top 20	11,434	10,832	10,364	10,448	9,908	10,305	10,201
% of total equity	97%	96%	99%	98%	99%	99%	99%
Total equity Holdings	11,841	11,247	10,521	10,621	10,034	10,428	10,308
Net cash	247	194	1,284	736	1,394	262	262
NAV	12,088	11,440	11,805	11,357	11,427	10,690	10,570
NAV per share	1.16	1.10	1.14	1.17	1.19	1.19	1.22
Price per share	0.81	0.77	0.73	0.80	0.80	0.90	0.87
Discount to NAV	-30%	-30%	-37%	-31%	-33%	-25%	-28%

PROFIT AND LOSS [RON MILLION]

	FY 2015	Q1 2016	H2 2016	9M 2016	FY 2016	Q1 2017	H2 2017
Gross dividend	569	0	347	351	353	0	540
Net losses	-1241	-536	-541	-499	-378	296	159
Impairment losses	-91	-30	-41	-43	-122	19	21
Interest income	4	1	3	4	8	6	7
Gain on disposal	345	0	913	926	926	6	0
Other items	19	2	20	22	-110	-4	39
NOI	-394	-563	701	761	677	323	766
OPEX	-125	-19	-56	-90	-132	-40	-66
Finance costs	-3	0	0	0	0	0	0
Tax expense	-44	-4	-104	-101	-97	10	9
Net profit	-565	-586	541	571	447	293	709
Other income	212	-31	-189	-154	101	75	107
Adj. profit	-353	-617	352	417	548	368	816
EPS	-0.03	-0.06	0.03	0.04	0.06	0.04	0.09

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SUMMARY OF CONCORDE'S RECOMMENDATIONS

