

Company Update

Holding Companies

Romania

15 February 2012

Fondul Proprietatea

4Q11 RAS results back in the black

FP reported its 4Q11 results as well as its January 2012 official NAV. The latter was up mom, as the share prices of key listed holdings recovered. Profitability improved qoq in the RAS financials, while in IFRS, FP displayed a net loss of RON 29mn, largely due to impairment losses in equity investments.

■ **4Q11 P&L:** FP reported a 4Q11 RAS net profit of RON 8.5mn vs. a RON 7.8mn net loss in 3Q11. Important revenue contributors in 4Q11 were interest income (RON 6.6mn, up 22% qoq) and dividend income (RON 9.6mn). FP also recorded a net gain from asset sales of RON 3mn (RON 8.8mn for the FY, while the proceeds were RON 13.4mn). There were no such transactions in 2010. Revenues were up from RON 1.7mn in 3Q11 to RON 21.6mn, while most cost items showed declines.

■ **Main transactions in 4Q11:** FP increased its stake in Azomures (from 11.09% in Sep 2011 to 11.12% in Dec 2011), BRD Groupe SG (from 3.6% to 3.64%), BT (from 2.3% to 2.93%) and Conpet (from 29.6% to 29.7%).

■ **Official January 2012 NAV** reached RON 15.1bn (NAVPS of RON 1.129 up 4.7% mom and down 0.5% yoy). The listed shares portfolio increased by 14% mom, mainly due to mom price increases of 16.6% for Petrom and 7.5% for Transgaz. The cash and deposits figure decreased by 9.8% mom to RON 269mn (1.8% of total assets), while Treasury shares reached RON 197mn.

■ **Dividend proposal:** The fund manager intends to recommend for GSM approval a DPS of RON 0.038, 21% up yoy, which implies total dividends of RON 509.7mn, a payout ratio of 93.7% and a dividend yield of 7.2%. We were expecting a DPS of RON 0.036.

■ **Attractive valuation:** FP currently trades at a 53.4% discount to the January 2012 official NAV and at a 47.8% discount to our fair NAV (based on the Jan 2011 portfolio) vs. a 32.3% average for the SIFs (based on Sep 2011 portfolios). FP outperformed SIFs in Jan, which led to a narrowing valuation gap vs. SIFs compared to a month ago.

FAIR VALUE VS. OFFICIAL VALUATION

RON mn	Official valuation*	Fair value
Listed shares	5,496	5,434
Unlisted shares	9,151	8,381
Cash	269	513**
Other assets	252	268
Total assets	15,168	14,596
NAV	15,138	13,829
NAV/share (RON)	1.129	1.01
12M TP (RON)		0.91
P/NAV (x)	0.47	0.52
Discount to NAV (%)	53.4	47.8

*As at end January 2012; **Ex dividend

Source: FP, UniCredit Research estimates

Buy (prev. Buy)

Price on 14 February 2012	RON 0.53
Target price (prev. RON 0.91)	RON 0.91
Upside to TP	72.8%
Cost of equity	12.3%
12M High/Low (RON)	0.62/0.42

INVESTMENT HIGHLIGHTS

The largest stock by free float listed on the BSE
Exposure to Utilities, Oil & Gas and Infrastructure
Templeton AM ensures a better corporate governance and a more efficient portfolio restructuring

STOCK TRIGGERS

SPO on an international exchange
IPOs/SPOs for key holdings (Oil & Gas, Utilities)
A potential new share buyback program

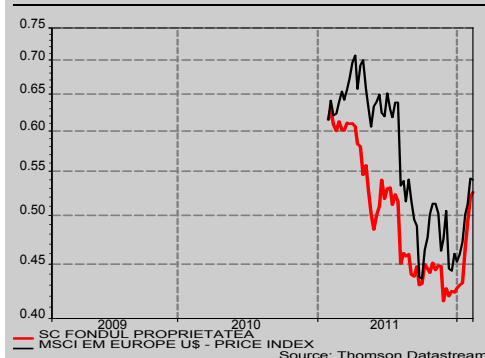
STOCK DATA

Reuters/Bloomberg	FP.BX/FP RO
Average daily volumes ('000)**	13,442
Free float (%)	96.8
Market capitalization (RON mn)	7,254.3
No. of shares in issue (mn)	13,413*
Shareholders	Romanian individuals 32.9%, Foreign individuals 9.2%, Romanian legal persons 9.2%, Foreign legal persons 44.3%, Treasury shares 1.74%, unpaid capital 2.7%

*Paid in capital; **6M average

UPCOMING EVENTS

AGM	25 April 2012
1Q12 results	15 May 2012
2011 IFRS consolidated results	29 June 2012



STOCK PERFORMANCE (CHG. %)

	1M	3M	6M
absolute	22.5	17.4	14.3
rel. to MSCI EME	7.6	10.9	10.6
rel. to BET Romania	6.8	5.4	5.9

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January 2012 official NAV up 5% mom

FP's official January 2012 NAV reached RON 15.1bn (NAVPS of RON 1.129, up 4.7% mom and down 0.5% yoy).

- **The listed shares portfolio increased by 14% mom**, as Petrom, with a 25.4% weight in NAV, closed up 16.6% mom, while there were share price increases at Transgaz (7.5% increase and 2.8% weight in NAV) and at the banks (their cumulated weight in NAV increased from 3.4% in December 2011 to 3.6%, while mom share price increases were 4.6% at BRD, 15.4% at BT, 24.7% at Erste, and 30.4% at Raiffeisen).
- **Unlisted shares accounted for 60.3% of total assets** (RON 9.1bn, flat mom).
- **Liquid assets up mom**: The cash and deposits figure decreased by 9.8% mom to RON 269mn (1.8% of total assets), while FP's exposure to T-bills was flattish mom at RON 197mn.
- **Top sector and holdings**: The Oil & Gas sector now has the highest weight in NAV (34.2%), followed by the Power Generation sector (whose weight decreased mom by 1.5pp to 32.6%). Petrom regained its position of largest holding, while Hidroelectrica now ranks second (22.1%).
- **The preliminary January 2012 net profit figure was RON 3.7mn.**

FP'S OFFICIAL NAV (IFRS)

RON mn	Jan-11	Mar-11	Jun-11	Sep-11	Dec -11	Jan-12	mom (%)	yoy (%)
LT financial assets, o/w	9,166	9,203	9,394	9,396	9,169	9,163	-0.1	0.0
Listed shares	21	58	12	14	19	12	-35.4	-42.9
Unlisted shares	9,145	9,145	9,382	9,382	9,151	9,151	0.0	0.1
Total fixed assets	9,166	9,203	9,394	9,396	9,169	9,163	-0.1	0.0
Receivables	3	15	327	210	55	56	0.9	n.m.
Cash	8	8	30	2	2	1	-26.4	-82.0
ST financial assets, o/w	6,541	7,294	6,680	5,076	5,295	5,948	12.3	-9.1
Listed shares	5,225	6,413	5,991	4,721	4,803	5,483	14.2	4.9
T-bills	265	284	16	49	196	197	0.5	-25.7
Deposits	1,051	598	673	307	296	268	-9.7	-74.5
Total current assets	6,552	7,318	7,037	5,289	5,352	6,005	12.2	-8.3
Total assets	15,718	16,521	16,431	14,685	14,522	15,168	4.4	-3.5
Total current liabilities	63	52	245	55	42	16	-62.6	-74.8
Total liabilities	77	66	260	69	56	30	-46.8	-61.1
Share capital	13,778	13,778	13,778	13,778	13,778	13,778	0.0	0.0
Revaluation reserve	3,501	3,273	3,382	3,288	3,345	4,013	20.0	14.6
Reserves	-2,146	-1,117	-1,606	-3,060	-3,249	-3,249	0.0	51.4
Retained earnings from previous years	507	507	74	74	47	591	n.m.	16.5
YTD net profit	1	14	543	535	544	4	n.m.	260.8
P/Official NAVPS (14 February 2012)	0.46	0.44	0.45	0.48	0.49	0.47	n.m.	n.m.
Discount to official NAV (%)	-53.6	-55.9	-55.2	-51.7	-51.2	-53.4	n.m.	n.m.
Net asset value	15,641	16,455	16,171	14,616	14,465	15,138	4.6	-3.2
NAV/share (RON)	1.1352	1.1942	1.1754	1.090	1.0788	1.1290	4.7	-0.5

Source: Fondul Proprietatea, UniCredit Research

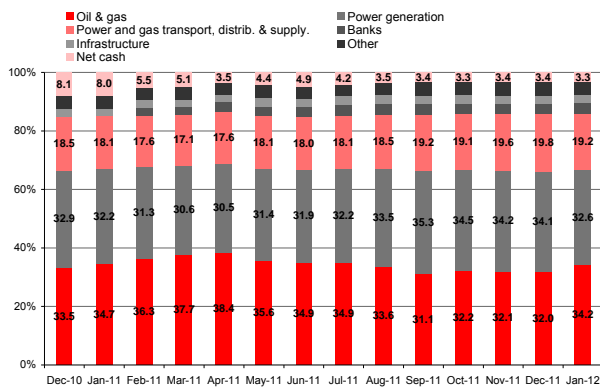
BREAKDOWN OF ASSETS

RON mn	Jan-11	Jun-11	Sep-11	Dec-11	Jan-12	mom (%)	yoy (%)
Portfolio of shares, o/w	14,391	15,385	14,117	13,973	14,646	4.8	1.8
Listed	5,246	6,003	4,735	4,822	5,496	14.0	4.8
Unlisted	9,145	9,382	9,382	9,151	9,151	0.0	0.1
Assets other than shares and cash	268.1	343.3	259	251	252	0.6	-5.8
Cash and deposits	1,058.8	702.7	309	298	269	-9.8	-74.6
% total assets	Jan-11	Jun-11	Sep-11	Dec-11	Jan-12	mom (pp)	yoy (pp)
Portfolio of shares, o/w	91.6	93.6	96.1	96.2	96.6	0.3	5.0
Listed	33.4	36.5	32.2	33.2	36.2	3.0	2.9
Unlisted	58.2	57.1	63.9	63.0	60.3	-2.7	2.1
Assets other than shares and cash	1.7	2.1	1.8	1.7	1.7	-0.1	0.0
Cash and deposits	6.7	4.3	2.1	2.1	1.8	-0.3	-5.0

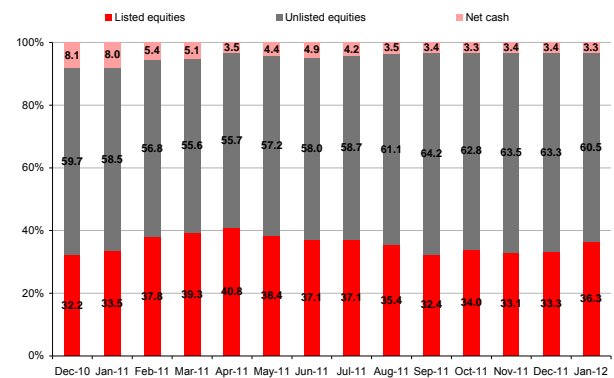
Source: Fondul Proprietatea, UniCredit Research

BREAKDOWN OF PORTFOLIO (AS A % OF OFFICIAL NAV)

Oil & Gas sector has the largest weight (34% of NAV in Jan 2012)



Unlisted holdings at 60.5% of NAV in Jan 2012



Source: Fondul Proprietatea, UniCredit Research

TOP 10 HOLDINGS (AS A % OF OFFICIAL NAV)

Company	Jan-11	Jun-11	Sep-11	Dec-11	Jan-12
1 Petrom	26.2	26.9	22.1	22.8	25.4
2 Hidroelectrica	21.0	20.7	22.9	23.1	22.1
3 Romgaz	8.0	7.6	8.4	8.4	8.1
4 Complexul Energetic Turceni	3.4	3.2	3.6	3.6	3.5
5 Nuclearelectrica	4.5	4.6	5.0	3.5	3.4
6 Transgaz	3.2	2.5	2.3	2.7	2.8
7 GDF Suez Energy Romania	1.9	2.1	2.3	2.3	2.2
8 Enel Distributie Muntenia	2.1	2.1	2.3	2.3	2.2
9 CN Aeroporturi Bucuresti	2.1	2.0	2.2	2.2	2.1
10 ENEL Distributie Banat	1.8	2.0	2.2	2.2	2.1
Sub-total	74.1	73.5	73.2	73.3	73.9

Source: Fondul Proprietatea, UniCredit Research

4Q11 results review

FP's portfolio down yoy: The decline was mainly due to impairments for Petrom and Nuclearelectrica (in the latter case to take into account equity contributions from the Romanian state in relation to the acquisitions of heavy water). However, the decline was partly offset by acquisitions: FP increased its stake in Azomures (from 11.09% in September 2011 to 11.12% in December 2011), BRD Groupe SG (from 3.6% to 3.64%), BT (from 2.3% to 2.93%) and Conpet (from 29.6% to 29.7%). As a result of the foregoing actions, FP's cash decreased to RON 297mn, down 4% qoq.

BALANCE SHEET

RON mn	RAS					IFRS unconsolidated				
	2010	3Q11	2011	qoq (%)	yoy (%)	2010	3Q11	2011	qoq (%)	yoy (%)
Non-current assets	10,891	10,829	10,628	-1.9	-2.4	10,862	10,680	10,732	0.5	-1.2
Financial investments o/w	10,891	10,829	10,628	-1.9	-2.4	10,862	10,680	10,732	0.5	-1.2
Equity investments, o/w	10,891	10,829	10,628	-1.9	-2.4	10,862	10,680	10,732	0.5	-1.2
Current assets	1,332	568	549	-3.3	-58.8	1,671	1,053	1,028	-2.3	-38.5
Cash and equivalents	1,072	309	297	-3.7	-72.3	1,078	309	298	-3.5	-72.3
ST fin. Investments	248	49	196	302.7	-21.0	248	49	196	302.7	-21.0
Receivables	12	210	56	-73.4	349.3	4	205	52	-74.4	n.m.
Other current assets	0	0	0	-61.4	-8.4	341	490	482	-1.7	41.3
Total assets	12,223	11,397	11,177	-1.9	-8.6	12,533	11,733	11,760	0.2	-6.2
Shareholders' equity, o/w	12,139	11,328	11,121	-1.8	-8.4	12,463	11,679	11,718	0.3	-6.0
Share capital	13,778	13,778	13,778	0.0	0.0	13,778	13,778	13,778	0.0	0.0
Reserves o/w	-2,146	-3,060	-3,128	2.2	45.8	2,174	1,275	1,490	16.9	-31.4
Impairment for loss in value	-2,369	-3,162	-3,379	6.8	42.6	1,951	1,172	1,240	5.8	-36.4
Retained earnings	507	610	591	-3.1	16.5	-3,489	-3,375	-3,431	1.7	-1.7
Treasury shares	0	0	-120	n.m.	n.m.	n.a.	n.a.	-120	n.m.	n.m.
LT liabilities, o/w	84	14	14	0.0	-83.0	0	0	n.a.	n.m.	n.m.
Provisions	14	14	14	0.0	-1.6	n.a.	n.a.	n.a.	n.m.	n.m.
Other non-current liabilities	69	0	0	n.m.	n.m.	n.a.	n.a.	n.a.	n.m.	n.m.
Current liabilities, o/w	69	55	42	-22.7	-39.1	70	55	42	-22.7	-39.2
Trade and other payables	26	28	28	-1.8	8.1	n.a.	n.a.	n.a.	n.m.	n.m.
Other current liabilities	44	26	15	-44.8	-66.6	n.a.	n.a.	n.a.	n.m.	n.m.
Total liabilities	84	69	56	-18.0	-32.6	70	55	42	-22.7	-39.2
Total liabilities and equity	12,223	11,397	11,177	-1.9	-8.6	12,533	11,733	11,760	0.2	-6.2

Source: Fondul Proprietatea, UniCredit Research

FP reported a 4Q11 RAS net profit of RON 8.5mn vs. a RON 7.8mn net loss in 3Q11. The figure was however much lower yoy, when FP booked a RON 216.3mn reversal in impairment adjustments and provisions, of which 99.6% was in relation to the holding in Hidroelectrica (initial impairments were booked in 2006-2007). The 4Q11 corresponding figure was much lower at RON 1.7mn. For the FY, the provision reversal was RON 30.5mn and most of it referred to 2005 dividend receivables from Trangaz (RON 9.6mn) and Romgaz (RON 18.7mn). Important revenue contributors in 4Q11 were interest income (RON 6.6mn, up 22% qoq but down 67.4% yoy) and dividend income (RON 9.6mn). FP also recorded a net gain from asset sales of RON 3mn (RON 8.8mn for the FY, while proceeds were RON 13.4mn). There were no such transactions in 2010. Revenues were up from a mere RON 1.7mn in 3Q11 to RON 21.6mn.

On the expenses side, RON 7mn was the management fee for Templeton (in 4Q10 and 2010 the figure was RON 32.1mn, calculated based on NAV). The FY11 management fee was up 75.4%, the calculation being based on the 4Q11 average MCAP. In 2011, FP also paid RON 15.6mn as commissions to the Romanian SEC and RON 1.6mn as depository fees.

Differences between IFRS and RAS financials: The major difference refers to the net line of provisions and impairments (RON 18.8mn in RAS and a negative RON 11.8mn in IFRS). The latter figure is comprised as follows: **1.** RON 28.3mn as a reversal of impairment losses on dividends receivable (an amount similar to RAS); **2.** RON 10mn of impairment losses on receivables in respect of equity contributions (RON 11.7mn in RAS), mostly in relation to amounts not paid from share capital; **3.** a RON 21.5mn reversal of impairment losses on disposed equity investments; **4.** RON 51.7mn impairment losses on equity investments. The amounts displayed at **3.** and **4.** do not appear in the RAS financials.

PROFIT AND LOSS ACCOUNT

RON mn	RAS								IFRS unconsolidated						
	4Q11	qoq (%)	4Q10	yoy (%)	2011	2010	yoy (%)	% dev. Budget	4Q11	qoq (%)	4Q10	yoy (%)	2011	2010	yoy (%)
Dividend income	9.6	n.m.	-30.2	n.m.	519.1	179.0	189.9	148.0	9.6	n.m.	-30.2	n.m.	522.4	181.2	188.2
Net income from provisions	1.7	n.m.	216.3	-99.2	18.8	217.1	-91.3	n.m.	-43.0	n.m.	216.3	n.m.	-11.8	0.0	n.m.
Net L/T financial investments gains	3.0	n.m.	0.0	n.m.	8.8	0.0	n.m.	n.m.	3.0	n.m.	0.0	n.m.	8.8	-29.3	n.m.
Net forex gain/(loss)	0.0	n.m.	3.1	-99.3	0.7	-9.2	n.m.	n.m.	0.0	n.m.	3.1	-99.3	0.7	-9.2	n.m.
Interest income	6.6	22.1	20.1	-67.4	41.1	131.5	-68.7	-54.3	6.6	22.1	20.1	-67.4	41.1	131.5	-68.7
Other operating revenues	0.6	179.8	0.9	-28.1	12.2	1.0	n.m.	n.m.	0.6	179.8	0.9	-28.1	12.2	1.0	n.m.
Total revenues	21.6	n.m.	210.1	-89.7	600.7	519.5	15.6	100.7	-23.1	n.m.	210.1	n.m.	573.4	275.2	108.3
Personnel expenses	-0.2	-74.9	-0.2	-20.2	-0.8	-4.1	-79.1	-34.1	-0.2	-57.6	-0.2	-10.1	-0.6	-4.1	-84.2
Fees and commissions	-4.0	-8.3	-3.7	7.1	-17.3	-6.1	182.0	15.6	0.0	n.m.	-3.7	n.m.	n.a.	n.a.	n.m.
Other operating expenses	-8.4	57.0	-21.5	-61.0	-37.0	-41.9	-11.8	n.m.	-12.4	-68.4	-21.5	-42.6	-54.2	-47.5	14.2
Total operating expenses	-12.5	21.1	-25.5	-50.7	-55.1	-52.1	5.8	-40.3	-12.5	21.1	-25.5	-50.7	-54.9	-51.6	6.5
Operating profit	9.0	n.m.	184.7	-95.1	545.6	467.4	16.7	163.6	-35.7	317.9	184.7	n.m.	518.5	223.7	131.8
Income tax	-0.5	n.m.	0.9	n.m.	-1.8	-11.2	-84.4	n.m.	6.6	n.m.	0.9	n.m.	-0.5	-8.7	-94.6
Net profit	8.5	n.m.	185.6	-95.4	543.8	456.2	19.2	162.8	-29.0	271.9	185.6	n.m.	518.1	215.0	140.9

Source: Fondul Proprietatea, UniCredit Research

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Fondul Proprietatea	-

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Company	Date	Rating	Currency	Target price
Fondul Proprietatea	13/05/2011	BUY	RON	0.91
Fondul Proprietatea	25/02/2011	BUY	RON	0.94
Fondul Proprietatea	26/01/2011	BUY	RON	0.99

Overview of our ratings

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Note on what the evaluation of equities is based:

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A **Buy** is applied when the expected total return over the next twelve months is higher than the stock's cost of equity.

A **Hold** is applied when the expected total return over the next twelve months is lower than its cost of equity but higher than zero.

A **Sell** is applied when the stock's expected total return over the next twelve months is negative.

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Company valuations are based on the following valuation methods: Multiple-based models (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, historical valuation approaches, discount models (DCF, DVM, DDM), break-up value approaches or asset-based evaluation methods. Furthermore, recommendations are also based on the Economic profit approach. Valuation models are dependent on macroeconomic factors, such as interest rates, exchange rates, raw materials, and on assumptions about the economy. Furthermore, market sentiment affects the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries. Our recommendations and target prices derived from the models might therefore change accordingly. The investment ratings generally relate to a 12-month horizon. They are, however, also subject to market conditions and can only represent a snapshot. The ratings may in fact be achieved more quickly or slowly than expected, or need to be revised upward or downward.

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Instrument level:

Core hold: We recommend holding the respective instrument for investors who already have exposure.

Sell: We recommend selling the respective instrument for investors who already have exposure.

Buy: We recommend buying the respective instrument for investors who already have exposure.

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