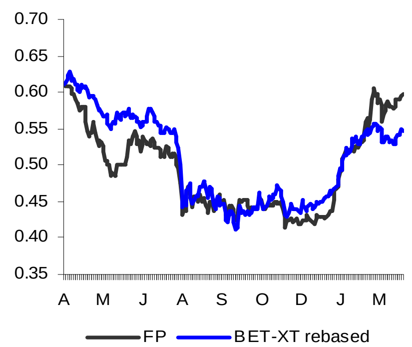
Company Update
Fondul Proprietatea

April 05, 2012

Closed-end Investment Funds/Romania

Buy

Price 03.04.12	0.593
Price target	0.850
Volatility risk	High
Year high/low	0.395/0.614
Currency	RON
RON/EUR	4.38
GDR rate	n.a.
Shares outstanding eoy	13,172.3
Market capitalisation (total shares) in EUR mn	1,822.03
Free float	100%
Free float in EUR mn	1,822.03
Avg. daily turnover (6m) in EUR mn	3.20
Index	n.a.
ISIN code	ROFPTAACNOR5
Bloomberg	FP RO
Reuters	FP.BX
www.fondulproprietatea.ro	



Source: Raiffeisen Capital&Investment

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Stars are aligned for a lower discount

Despite the powerful rally over the past months enjoyed by Fondul Proprietatea's (FP) shares and the 10% compression of the discount to NAV, we expect a further narrowing of the discount. One can not ignore the presence of several congruent forces whose consequences should undeniably be a further discount compression. The first is the listing/privatization program of the government which now seems to have a momentum of its own. After the disappointing OMV Petrom offer, the SPO for a 15% percent in Transelctrica has been completed successfully. The next in line is Transgaz's SPO, followed by Romgaz's IPO and then Hidroelectrica's IPO (where a syndicate has just been selected to lead the offer). Just by listing the two mentioned companies, the weight of listed shares in FP's portfolio will increase from currently 47% to 71%. The second reason for being upbeat on a narrower discount is the proposal from FP's largest shareholder to change the structure of the fees paid to the manager. The new structure would encourage asset disposals and returning cash to shareholders, aiming to unlock value. It seems that the manager has already started to act in line with this suggestion by proposing a large buy-back program and appointing an advisor to assist it to divest stakes in several large unlisted companies. Moreover, the outlook and the corporate governance standards of state-owned companies seem to brighten under the pressure exerted by IMF and Franklin Templeton itself. Thus, the removal of regulated electricity prices for non-households will start in 2013 and Hidroelectrica began to renegotiate some of the below market supply contracts. In addition, a new law with the exact purpose of improving corporate governance and protect the rights of minority shareholders came into force. And finally, with state's stake dropping to almost zero, one of the factors that negatively impacted the share price in 2011, the constant distribution of shares to entitled individuals, has vanished.

Valuation and recommendation: We apply a Sum-Of-The-Parts (SOTP) method to assign a value to FP's NAV. We mark to market listed shares (the surge in their prices being the main reason of this update), while for the unlisted stakes we apply different valuation methods. For the majority of unlisted companies we left the valuations unchanged, the exception being those companies where we used peer group comparison. The reason for not updating all unlisted shares valuations is the lack of additional info provided by these companies. We get a value of RON 13.3 bn for FP's shares portfolios and a NAV of RON 13.9 bn. These values translate into a unitary NAV of RON 1.06 per share (based on the outstanding number of shares) which implies a discount of around 44% based on the current share price. In order to get the fair value we apply the same set of discounts, 15% for cash and listed shares and 25% for unlisted stakes. Thus, our new fair value/TP is RON 0.85 per share, up 11.9% compared to previous update on the back of a surge in equity markets. With a theoretical upside potential of 43.3%, we confirm our "buy" recommendation for FP shares.

Key figures

	RON mn	*EUR mn*
Portfolio	13,334.9	3,043.1
- Listed	6,280.5	1,433.2
- Not-Listed	7,054.4	1,609.9
Debt adj. for deferred taxes	-89.4	-20.4
Cash	522.0	119.1
NAV	13,946.4	3,182.6
NAV per share (RON/EUR)	1.06	0.24
Current price (RON/EUR)	0.593	0.136
Discount to NAV (%)	-44%	-44%
Current fair value	11,162.4	2,547.3
Target price (RON/EUR)	0.85	0.19

Source: Raiffeisen Capital&Investment estimates; Prices as of April 04, 2012, 6:30 CET+1

Raiffeisen CAPITAL&INVESTMENT

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Investment case

The privatization/listing program moved up a gear

Since our previous update in early December, FP shares have surged almost 40% while the discount of its shares to NAV has narrowed from 55% to 44%. The discount is still large, especially considering that we see in action several convergent forces which might lead to a further narrowing. The first and foremost reason of why FP was carrying a large discount to NAV was the high weight of unlisted shares in its portfolio, with investors cautious to attach too much value to these stakes. This was compounded by fact that these were minority stakes in state-owned companies. Since our update the privatisation/listing program of the Government has apparently moved up a gear. Just by listing Romgaz and Hidroelectrica where IPOs processes are under way, the weight of listed shares will increase from 47% to around 71%. Even though, the precautionary agreement with IMF who together with Franklin Templeton pushed for the listing and restructuring of state-owned companies, will not be renewed, we expect the Government to continue with its zeal for privatizations since the need for budgetary revenues will remain elevated.

The corporate governance standards and the outlook brightened for state-owned companies

Moreover, one can notice an undeniable improvement of the corporate governance standards and the outlook for the majority of state-owned companies under the pressure exerted by IMF and Franklin Templeton. First, a new law aimed at improving the corporate governance standards has been enacted and for some companies a process of selecting private management has started. Second, the profitability outlook for several companies, like Hidroelectrica, has brightened as the Government announced the removal of regulated electricity prices for non-households starting with 2013 and the company began to renegotiate some of its below the market supply contracts.

The largest shareholder proposed a change to management fee structure to stimulate returning cash to shareholders

A third reason for being upbeat on discount narrowing is the unexpected proposal from Manchester Securities (Elliot Associates), the largest shareholder with an equity interest of 13.9%, to change the management fee structure paid to Franklin Templeton so that to stimulate asset disposals and distributions to shareholders. The proposal was voted favourably on April 4. Thus, the manager will be entitled to a 1.5% fee based on special dividends or other cash returned to the shareholders like buy-backs. It is believed that such an approach will unlock value, lowering the discount. Inline with this suggestion, the manager proposed to launch a new buy-back program of up to 8.2% of FP's shares with the purpose of reducing the share capital. Unlike the previous buy-back program, this one is constrained only by the fund's liquidity and not by the reserves from its equity. Moreover, FP has recently announced that it appointed an investment bank to advise it in its attempt to divest the stakes in electricity and gas distribution and supply companies.

Starting with December 2011, the state's stake in FP has dropped to almost zero (based on paid number of shares), therefore, one of the main factors that exercised downward pressure on its share price in the second part of 2011, the constant distribution of shares to entitled individuals, has been removed.

Despite some setbacks, the project of a secondary listing to Warsaw Stock Exchange appears to gather momentum. Although there is no calendar for such a listing, the project received the go ahead from the shareholders in an (E)GSM on April 4.

Valuation

Our estimate for unitary NAV is RON 1.06

We use the same method to assign a value to FP's portfolio as we apply a Sum-of-the-Parts (SOTP) valuation. The shareholdings are those reported for end-2011, the latest available, while cash and debts positions are those from end-February. We mark to market listed stakes and we value separately the vast majority of the unlisted shares. For many companies among these unlisted shares, we still employ the same values as in our previous update (released in early December). The reason for this is the small amount of additional info released by these companies in order for us to update our valuations. Nevertheless, we updated the values for the companies whose valuations are based, partially or entirely, on trading multiples. We remind that we applied DCFs for energy producers, Romgaz and CNAB (Bucharest Airports), a model based on regulated return and/or EBITDA multiples for the electricity and gas distributors and comparative valuation based on industry metrics and/or historical financial indicators for other companies. For the small unlisted stakes, we rely on FP's own valuations. These small unlisted stakes account for only 1.3% of total portfolio.

Updating the prices of the listed shares, we get a value of RON 13.3 bn for FP's portfolio while taking into account the cash and debt (adjusted for deferred taxes) we reach a NAV of RON 13.9 bn. To get the per share NAV we adjust the issued number of shares with the number of shares bought during the first buy-back program and with the number of unpaid shares owned by Romanian State. Thus, our per share NAV is RON 1.06, up 11% versus the previous update value due to the higher prices of listed shares.

Fondul Proprietatea valuation table

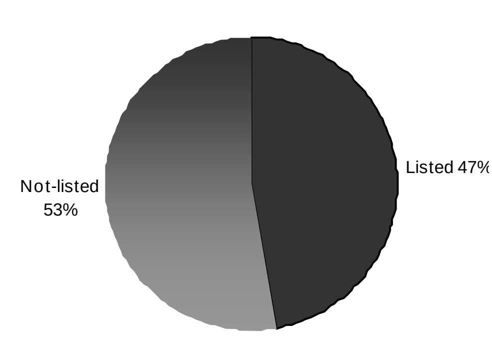
	RON mn	EUR mn
Portfolio	13,335	3,043
- Listed	6,280	1,433
- Not-Listed	7,054	1,610
Debt adj. for deferred taxes	-89	-20
Cash	522	119
NAV	13,946	3,183
NAV per share (RON/EUR)	1.06	0.24
Current price (RON/EUR)	0.59	0.14
Discount to NAV (%)	-44%	-44%
Discount for listed shares and cash	15%	15%
Discount for not-listed shares	25%	25%
Value of discounted portfolio	10,629	2,426
Net cash	611	139.5
Current fair value	11,162	2,547.3
Target price (RON/EUR)	0.85	0.19

Source: Raiffeisen Capital&Investment estimates; Prices as of April 04, 2012, 6:30 CET+1

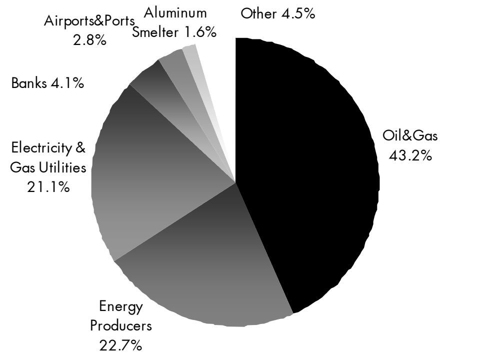
Only modest portfolio changes in 4Q 11 while listed stakes increased their weight

During the last quarter of 2011, FP's portfolio has barely changed, with the fund increasing slightly its exposure to Banca Transilvania (TLV) from an equity interest of 2.3% to 2.93% and to Azomures (AZO), owning now 11.12% of the company instead of 11.09% and divested its stake in the small unlisted company Zamur. Therefore, the features of FP's portfolio are the same. Oil&gas producers, energy generators and utilities have increased their weight from 86% to 87%, mainly on the back of a rise in OMV Petrom (SNP) share price. The rise of the equity market has lifted the weight of listed shares in total portfolio to over 47%, with SNP by far the most valuable stake in the overall portfolio, RON 4.67 bn, based on a share price of RON 0.41 as of March 29. The next largest listed stakes are Transgaz (TGN), BRD-GSG, Alro (ALR) and Transelectrica (TEL). These five companies have a combined weight of 91% in the listed portion of the portfolio.

Portfolio Structure: Listed vs. Not-Listed*



Portfolio Structure by Sector*

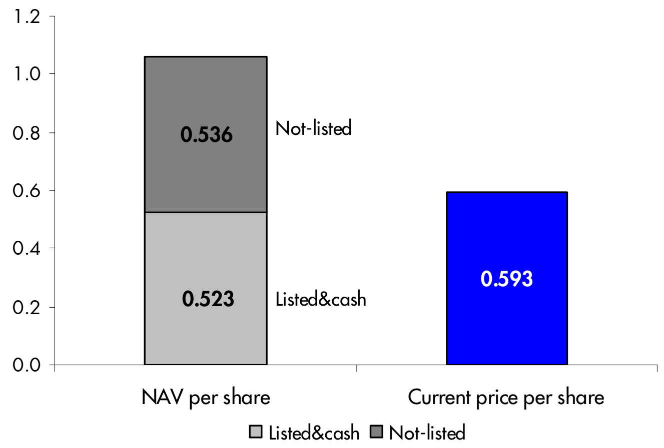


Source: Raiffeisen Capital&Investment estimates
** based on Raiffeisen Capital&Investment valuations*

Not-listed shares still heavily discounted by the market

The current market cap of FP is only 13% above the value of its listed shares portfolio plus net cash position (or NAV minus unlisted stakes). Viewed on a per share basis and assuming a fair discount of 15% for the listed stakes, it implies that investors attach only a value of RON 0.147 per share to the unlisted portfolio or put it other way, they apply a discount of 72.3% to them.

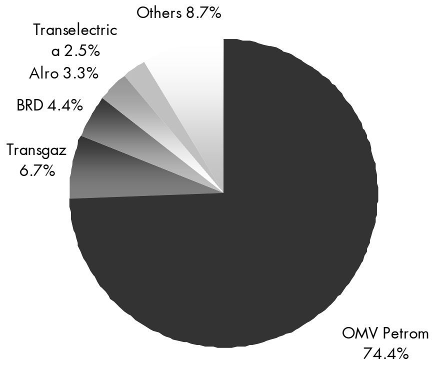
NAV per share versus price per share



Source: Company, Raiffeisen Capital&Investment estimates

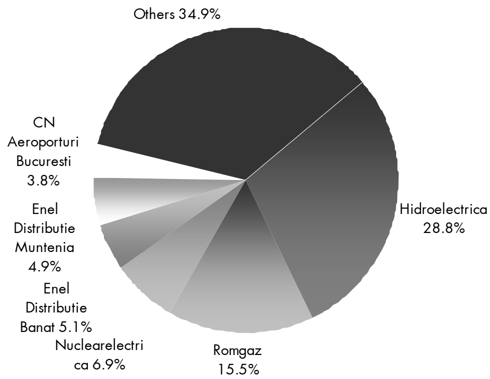
Hidroelectrica is the largest unlisted holding with a value of RON 2.04 bn, based on our valuation, followed by Romgaz with RON 1.09 bn, Nuclearelectrica with RON 494 mn and Enel Distributie Banat with RON 361 mn.

Listed Portfolio Structure



Source: Raiffeisen Capital&Investment estimates

Not-Listed Portfolio Structure*



Source: Raiffeisen Capital&Investment estimates

* based on Raiffeisen Capital&Investment valuation

Listed shares are marked to market

Listed companies: Listed shares valuations are based on closing prices as of March 29. For companies that have not been traded for the past 90 days, we applied a 50% discount to the last available trading price.

Valuation of FP stakes in Listed Companies, in RON mn

Company	Symbol	Sector	FP stake	FP stake Value	% of FP Portfolio
OMV Petrom	SNP	Oil&Gas Producer	20.1%	4,670.4	35.02%
Transgaz	TGN	Gas Transportation	15.0%	423.6	3.18%
BRD	BRD	Banks	3.6%	274.0	2.05%
Alro	ALR	Aluminium Smelter	10.2%	207.7	1.56%
Transelectrica	TEL	Energy Transmission	13.5%	158.4	1.19%
Raiffeisen Bank International	RBI	Banks	0.6%	123.5	0.93%
Azomures	AZO	Fertilizers Producer	11.1%	116.3	0.87%
Conpet	COTE	Oil&Gas	29.7%	92.5	0.69%
Erste Group	EBS	Banks	0.3%	92.1	0.69%
Banca Transilvania	TLV	Banks	2.9%	57.2	0.43%
Primcom	PRIB	Real Estate	79.0%	21.4	0.16%
Romaero	RORX	Machinery & Engineering	21.0%	16.4	0.12%
Oil Terminal	OIL	Oil&Gas	8.5%	8.4	0.06%
Delfincom	DELF	Real Estate	65.5%	4.3	0.03%
Severnav	SEVE	Machinery & Engineering	39.1%	3.2	0.02%
Prestari Servicii	PRVD	Services	70.6%	2.9	0.02%
Telerom Proiect	TEBV	IT&C design	68.6%	2.2	0.02%
Palace	PACY	Hotels	15.4%	1.7	0.01%
Alcom	ALCQ	Retail/Real Estate	71.9%	1.7	0.01%
IOR	IORB	Optical and photo production	2.8%	1.0	0.01%
Forsev	FORS	Metallurgy	28.1%	0.3	0.00%
Comcereal Cluj	COCL	Agriculture	11.4%	0.3	0.00%
Mecon	MECP	Metallurgy	12.5%	0.3	0.00%
Transilvania Com	TRVC	Real Estate	40.0%	0.2	0.00%
Comcereal Fundulea	CCFD	Agriculture	5.4%	0.1	0.00%
Mecanoenergetica	MEGU	Metallurgy	10.1%	0.1	0.00%
Turdapan	TUSB	Real Estate	44.1%	0.1	0.00%
Resib	RESI	Real Estate/Hotels	2.9%	0.0	0.00%
Romplumb	ROMR	Lead producer	51.0%	0.0	0.00%
Total				***6,280.5***	***47.1%***

Source: Bucharest Stock Exchange, Raiffeisen Capital&Investment estimates; Prices as of March 30, 2012, 6:30 CET+1

Unlisted stakes valuations are mostly left unchanged

Not-listed companies: For 14 companies out of the 27 that we value separately, the valuations are unchanged from our previous update from early December. The reason is that additional info provided since by these companies is not adequate to update our valuations. Nevertheless, we updated the values for the 13 companies whose valuations are based entirely or partially on trading multiples. All in all, the total value attached to these 27 companies account for almost

98% of total unlisted portfolio. We remind that we used different valuation tools, based on the available info and our opinion on the most appropriate method. We employed DCFs for the energy generators, Romgaz and Bucharest Airports a valuation relying on the regulated assets base and EBITDA multiples for energy and gas distributors and a comparative valuation based on industry metrics and trading multiples for the rest. We describe in more detail our methodology for unlisted shares in our previous report on FP from December 2 titled "Facelift".

Valuation of FP's Stakes in Not-Listed Companies, in RON mn

Company	Sector	Valuation method / Comparables Multiples Used	FP stake	FP stake Value	% of FP Portfolio
Hidroelectrica	Energy Producer	Discounted Cash Flow	19.9%	2,035.0	15.3%
Nuclearelectrica	Energy Producer	Discounted Cash Flow	9.7%	494.5	3.7%
TPP Turceni	Energy Producer	Discounted Cash Flow	24.8%	262.0	2.0%
TTP Craiova	Energy Producer	Discounted Cash Flow	24.4%	119.8	0.9%
TPP Rovinari	Energy Producer	Discounted Cash Flow	23.6%	113.2	0.8%
Romgaz	Oil&Gas Producer	Discounted Cash Flow	15.0%	1,093.5	8.2%
E.ON Moldova Distributie	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	22.0%	272.2	2.0%
Electrica Distributie Muntenia Nord	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	22.0%	174.9	1.3%
Electrica Distributie Transilvania Nord	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	22.0%	136.1	1.0%
Electrica Distributie Transilvania Sud	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	22.0%	149.0	1.1%
Enel Distributie Banat	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	24.1%	360.8	2.7%
Enel Distributie Dobrogea	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	24.1%	241.7	1.8%
Enel Distributie Muntenia	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	12.0%	344.4	2.6%
E.ON Moldova Furnizare (now part of E.ON Energie Romania)	Energy Supply	Regulated Profit on Energy Acquisition Cost	22.0%	52.4	0.4%
Electrica Furnizare (Electrica F. Munt. Nord& Electrica F. Trans. Nord& Electrica F. Tran. S.)	Energy Supply	Regulated Profit on Energy Acquisition Cost	22.0%	65.5	0.5%
Enel Energie Muntenia	Energy Supply	Regulated Profit on Energy Acquisition Cost	12.0%	66.6	0.5%
Enel Energie	Energy Supply	Regulated Profit on Energy Acquisition Cost	12.0%	37.3	0.3%
E.ON Gaz Distributie + E.ON Gaz Romania (now part of E.ON Energie Romania)	Gas Distribution&Supply	Regulated Return on Asset Base, EV/EBITDA	12.0%	115.5	0.9%
GDF Suez Energy Romania (incl. Distrigaz Sud Retele)	Gas Distribution&Supply	Regulated Return on Asset Base, EV/EBITDA	12.0%	218.8	1.6%
CN Aeroporturi Bucuresti	Airports	Discounted Cash Flow	20.0%	265.0	2.0%
Aeroportul International Timisoara Traian Vuia	Airports	Avg. PE, P/S, EV/EBITDA, P/Pax	20.0%	45.7	0.3%
Aeroportul International Mihail Kogalniceanu	Airports	Avg. PE, P/S, EV/EBITDA, P/Pax	20.0%	4.5	0.0%
CN Administratia Porturilor Maritime	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	47.3	0.4%
CN Administratia Porturilor Dunarii Maritime	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	2.6	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	5.6	0.0%
CN Administratia Canalelor Navigabile	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	5.8	0.0%
Posta Romana	Postal Services	P/Sales, discounted by 35%	25.0%	148.0	1.1%
Total				**6,877.9**	**51.6%**

Source: Raiffeisen Capital&Investment estimates

The values for the other small unlisted shares are those provided by FP in its end-2011 filing. The total amount allocated to these companies is RON 177 mn and accounts for 1.3% of FP's portfolio.

Valuation of 'Other' FP shareholdings, in RON mn

Company	*Sector*	*FP stake*	*FP stake Value*	*% of PF Portfolio*
Societatea Nationala a Sarii	Salt Production	48.99%	86.8	0.7%
Zirom	Titanium Processing	100.00%	57.8	0.4%
Salubriserv	Waste Collection	17.48%	7.6	0.1%
Carom - Broker de Asigurare	Life Insurance	70.00%	1.0	0.0%
Celuloza si Otel (absorbtie Remat Timis)	Recycling	8.62%	0.9	0.0%
Electroconstructia Elco Cluj	Electric installation services	7.61%	0.5	0.0%
Cetatea	Real Estate	20.43%	0.4	0.0%
Ciocarlia	Restaurants	1.68%	0.4	0.0%
Comcereal Miercurea Ciuc	Agriculture	10.03%	20.7	0.2%
Commetex	Retail	15.99%	0.2	0.0%
Comsig	Retail	69.94%	0.2	0.0%
World Trade Hotel	Hotels	19.90%	0.0	0.0%
Carbid Fox - in faliment	Chemicals	7.96%	0.0	0.0%
Bat Service - in dizolvare	Services	33.00%	0.0	0.0%
Gerovital Cosmetics in dizolvare	Cosmetics	9.76%	0.0	0.0%
World Trade Center Bucuresti	Real Estate Rental	19.90%	0.0	0.0%
Simtex - faliment	Textiles	30.00%	0.0	0.0%
Fecne - faliment	Metallurgy	12.12%	0.0	0.0%
Plafar - in insolventa	Health Care	48.99%	0.0	0.0%
Petrotel Lukoil	Oil & Gas	2.18%	0.0	0.0%
Total			**176.6**	**1.3%**

Source: Fondul Proprietatea, Raiffeisen Capital&Investment estimates

The fund's cash & equivalents as of end-February amounted to RON 522 mn while its official debt was only RON 19 mn. As we did previously, we adjusted the reported debt with our estimate for the deferred tax liability. Since the "inherited" cost of FP is above the current value of its portfolio, the fund is carrying a tax credit of RON 108 mn. All in all, we get a NAV of RON 13.9 bn for FP which, based on the adjusted outstanding number of shares, translates into a unitary NAV of RON 1.059. The number of shares we use to compute the unitary NAV is 13,172 mn since we excluded the shares repurchased under the first buy-back program and those subscribed but not paid by the state.

The discounts we apply to the NAV in order to get the fair value of the fund which is also our TP, are left unchanged. These are 15% for cash and listed shares and 25% for the unlisted shares.

We raise our TP to RON 0.85 per share and reiterate the "buy" rating

Based on the current share price of FP and our assessment of the NAV, the fund is carrying a discount of around 44%, significantly above our average discount of around 21%. Therefore, we confirm our "buy" rating for FP shares. Applying the two mentioned discounts, we get a fair value of RON 11.2 bn for FP and hike our TP from RON 0.76 to RON 0.85 for FP shares.

Risks:

- By far the most important one is the political risk with FP portfolio currently being more the 60% invested in companies whose majority owner is the Romanian state. While some of these companies are in evident need of restructuring, for others our valuation assumes that the Government takes politically and socially costly decisions in order to comply with regulations and EU requirements (such as the liberalization of the gas and energy prices)
- While FP's activism has started to change the way state owned companies treat minority shareholders and a new law to protect minority shareholders came into force, one can not rule out new decisions taken by the Government which might negatively impact this category of shareholders
- The information disclosed by FP and/or the companies in its portfolio has improved significantly but remains limited for a number of state-owned companies

- FP bears the risk of seeing its shareholding diluted in companies where the state is majority owner if the state decides on a share capital increase where it contributes in kind and if FP decides not to infuse cash (as could be the case for Nuclearelectrica)
- While the shares overhang risk has significantly diminished with state's ownership approaching zero, it can not be completely ignored since many individuals that redeemed their shares have not yet sold them
- In our opinion, Franklin Templeton's mandate is not really challenged by Mrs. Sfiraiala's legal actions, due to the lack of substance, one can not ignore completely this risk

Recent developments

Secondary Listing. FP received in February a request from a shareholder to call a (E)GSM where the secondary listing in Warsaw should be approved in principle. The manager will also be instructed to present a plan for the secondary listing on Warsaw Stock Exchange. The proposal was endorsed in an (E)GSM held on April 4. It is believed that a secondary listing will make FP more visible to institutional investors and widen the investors' base. The initial plan was to combine the secondary listing with an offer of up to 10% of its shares and the deadline was postponed several times due mainly to the opposition of the Romanian Securities Commission (CNVM) which is fearful that such a move will hurt domestic market.

The proposal to stimulate returning cash to shareholders. Manchester Securities (Elliot Associates), currently FP's largest shareholder with a stake of 13.9%, requested the calling of an (E)GSM where shareholders could vote on its proposal to amend the management fee paid to Franklin Templeton. The shareholder is proposing to amend the structure of the management fee so that the manager will be incentivized to divest a part of its assets and return cash to shareholders through special dividends. Thus, Manchester Securities is proposing the payment of a management fee of 1.5% of special dividends and other cash returned to shareholders (i.e. buy- backs) in 2012-2013 and 1% afterwards. Manchester Securities is arguing that this is the fastest way to decrease the unwarranted discount that FP shares are carrying to their NAV (the current management fee is 0.479% of FP's market cap). While we generally share the view that such a policy will narrow the discount, our concern remain the selling prices since this management fee structure might give to the manager the incentive to accept unwarranted prices. Besides, we believe that a large part of FP stakes is for the moment difficult to divest. The proposal was endorsed by the shareholders in the same (E)GSM with the secondary listing. City of London, the second largest shareholder with a stake of 8.5%, said before the (E)GSM that it would support the change in management fee but it would oppose to distributions of more than 25% of FP's NAV considering that higher distributions would hamper the ability of the fund to support the development of the Romanian capital market.

2011 dividend and buy-back program. The manager has proposed to pay a 2011 dividend of RON 0.03854, yielding currently 6.5%, and consistent with its stated dividend policy of paying out all its net profit from dividends and interest received. But, the manager proposed also the launching of another round of buy-backs, for up to 1.1 bn shares, span for a period of 18 months. The purpose of the program is to decrease the share capital and therefore to boost the unitary NAV (the decrease of the share capital is to be approved subsequently). The repurchase program will be constrained only by available liquidity and not also by the accounting regulations (the available reserves from its equity). The ex-dividend was set for May 10, 2012.

The SPOs & IPOs. After the failure of OMV Petrom's SPO in July 2011 which was feared that might impede other offers, the Government has just succeeded in selling another 15% stake in grid operator Transelectrica. It is hoped that this is a good omen for the Transgaz's 15% SPO, expected to come to the market in several months, Romgaz's 15% IPO where a consortium of investment banks was appointed and the 10% IPO of Hidroelectrica for which a syndicates has just been selected to manage the offer. In case of Romgaz the Government will sell a 15% stake to the market, while Hidroelectica's IPO is designed as a 10% share capital increase from outside investors (FP will have preemptive rights for another 2.49%). In January 2012, an updated version of the law stipulating that all state-owned companies from FP's portfolio should be listed came in to force. The law sets a deadline of December 2012 for the initiation of the listing procedures for all 19 companies from FPs portfolio, such as Hidroelectrica, Romgaz, CN Aeroporturi or Posta Romana.

Franklin Templeton's mandate challenged in the Court of Law. In December 2011, a Bucharest Court ruled to annul several resolutions of FP's Extraordinary GSM from the 6th of September 2010, as requested by Mrs. Sfiraiala, the plaintiff. This (E)GSM was the one which changed FPs bylaws to allow the fund to have an asset manager and which appointed Franklin Templeton at FP's helm. The Court based its decision on the fact that the (E)GSM was called without fulfilling all legal formalities, namely the convening notice was not published with at least 30 days before (E)GSM date. The manager has appealed to a superior Court and downplayed the importance of this ruling based on the fact that shareholders have confirmed it at a subsequent (E)GSM and voted favorably on the same resolutions. The downside risks to this view could be the fact that subsequent GSMs were called by Franklin Templeton whose appointment is allegedly in doubt. Mrs. Sfiraiala has also tried to suspend FP's convening notices for the (E)GSMs from April 4 and April 25 and to suspend resolutions of other past (E)GSMs but was rebuffed by the Court.

Fact Sheet

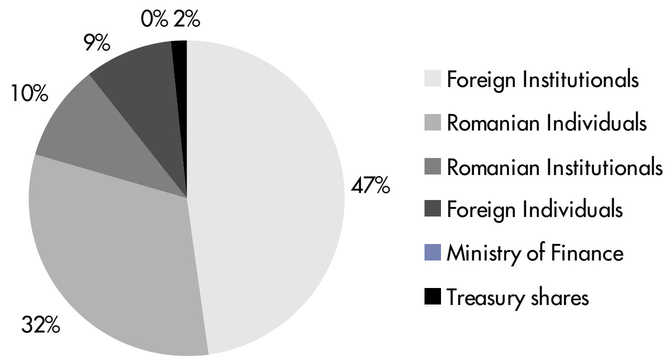
Company description

Fondul Proprietatea was established by the Romanian State with the purpose to redeem the owners that had been dispossessed abusively of their properties by the former communist regime and whose seized assets could not be returned in kind. FP was set up in 2005 as an investment company and almost 100% of its shares have been transferred to parties entitled to receive indemnities.

FP has a strong weight of energy shares (including oil exploration and gas and power production, supply and transportation), which come to represent 87% of its portfolio. The 20% stake held in the oil&gas producer Petrom (SNP) accounts for around 35% of its portfolio. Other sectors include transportation services (several airports and ports), banks, the aluminium producer Alro and the National Postal Services company.

The well-known fund manager Franklin Templeton has been selected in September 2010 at the helm of the fund.

Shareholder structure



Strengths/Opportunities

- Fondul Proprietatea is the most liquid stock on the Romanian Stock Exchange and the third largest capitalisation wise
- Franklin Templeton's appointment has turned Fondul Proprietatea into an active investor while the blocking of the establishment of the two Energy Giants has boosted its credentials
- Unique exposure to the Romanian energy sector
- The largest shareholder has proposed to change the management fee structure to stimulate asset disposals and returning cash to shareholders

Weaknesses/Threats

- The fund is exposed to the dilution risk in some of the State controlled companies (i.e. Nuclearelectrica)
- Part of the portfolio companies are state-owned and inefficiently run, with politically named management
- Large part of the portfolio companies are regulated and thus subject to regulatory risk

Publication schedule

Date	Publication
10.05.2012	Ex-dividend

Recommendation history

Date	Rating	Target Price	Price	Upside
16.08.2010	Buy	1.05	0.51	105.9%
12.01.2011	Buy	0.96	0.52	84.7%
02.12.2011	Buy	0.76	0.42	79.7%

Coverage universe recommendation overview

	buy	hold	reduce	sell	suspended	UR
Universe	43	50	4	3	23	6
Investment banking services	8	13	1	0	4	1

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