



Fondul Proprietatea

BUY

Unchanged

Price: RON 0.64

Price target: RON 0.81

(From RON 0.66)

NAV: RON 1.08

Time to reload

We continue to be BUYers of Fondul Proprietatea (FP) and upgrade our 12M price target (PT) to RON 0.81 per share (previously RON 0.66), providing 27% upside from the current level. After updating our valuation, based on the latest NAV data published at the end of June, we believe that investors should take advantage of the current 41% discount as there is scope for both the NAV to increase (following deregulations in the energy market) and the discount to contract (as the government is committed to listing).

Romania is committed to liberalising its energy market and FP continues to be the best way to play that. Romania has agreed with the IMF and the EC on a calendar for the liberalisation of the energy markets, and the increases in electricity and gas prices have been implemented according to the schedule so far. 87.8% of FP's portfolio is comprised of energy holdings (among which, only three are listed), which makes FP a unique and attractively valued vehicle through which to gain access to rising deregulated energy prices, as well as the benefits of broader market liberalisation.

Long-term catalyst for the stock remains the listings of its main holdings. Should the main IPOs planned by the government (Nuclearelectrica, Romgaz, Hidroelectrica and CE Oltenia, all set for the coming 3-12 months) finally happen, the Fund's listed component of the NAV could increase in our model from 40.8% to 75%, creating a strong argument for the current 40.7% discount to contract. Additionally, it should result in an improvement in the companies' corporate governance and an increase in the capitalisation of the domestic market (of some 30%, on our estimates, if all four IPOs happen). As the established proxy for the market, FP is leveraged to capture the benefits of these overall developments.

Buyback programme and dividends provide strong support for the fund's price and help to close the discount to NAV: the Fund is using its cash to buy back some 8% of its shares, which should lead to a 3% boost in the NAV per share, in our view. Additionally, the stock is set to offer a minimum 6% dividend yield, based on the 2013E profit, on our estimates.

Valuation. We have adjusted our NAV valuation by applying EU peer multiples (EV/EBITDA, PE, EV/capacity and EV/customer) to the main holdings' budgets for 2013E and derived a RON 14bn NAV (RON 1.08 per share), some 6.2% short of the Fund's official NAV.

Expected Events

2Q13 results

14 August 2013

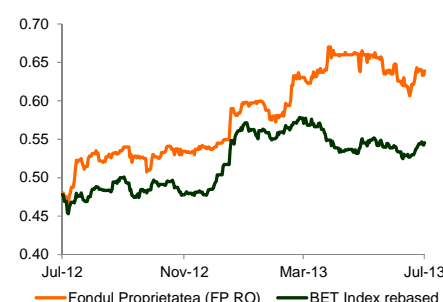
Key Data

Market Cap	EUR 1,920m
Free Float	100 %
Shares Outstanding	13,205m
Bloomberg Code	FP RO
Manager of the Fund:	Franklin Templeton
BET Index	4,416
EURRON	4.42

Price Performance

52-w range (RON)	0.47-0.67
52-w EUR Performance	48.4%
Relative EUR Performance	22.9%

Fondul Proprietatea price performance



	Wood valuation		Official NAV	
	RONm	EURm	RONm	EURm
Listed	5,721	1,293	14,050	3,175
Unlisted	7,360	1,663	8,418	1,903
Net cash	955	216	949	214
Total NAV	14,036	2,172	14,998	3,433
NAV per share	1.08		1.15	

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Closing Prices as of July 12, 2013

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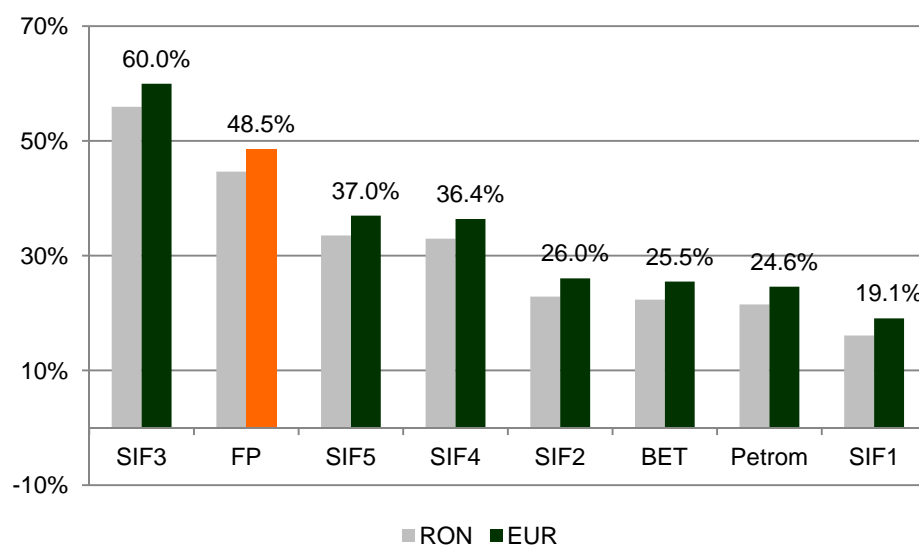
Investment case

We have updated our view on Fondul Proprietatea (FP), Romania's equity market flagship, and we have raised our 12M PT to RON 0.81 per share (previously RON 0.66), providing 27% upside from the current level and keeping us BUYers of the stock.

Over the past 12 months, the stock has managed an impressive 48.5% rally in EUR terms (44.7% in RON), almost twice as much as the domestic BET index, but still offers some 41% discount to our NAV (versus 33.6% on average for the SIFs), and we believe that some important short- and medium-run catalysts should stem from:

- ✓ **Energy market liberalisation:** the Fund's holdings continue to be concentrated in energy stocks (gas and electricity producers and distributors account for some 87.8% of the NAV), with the government's proven commitment to liberalising the market underpinning the yet-to-be-seen long-term benefits.
- ✓ **Changing proportions:** given the progress in market liberalisation, and the IMF and EU Commission's unwavering commitment, the government is moving forward with the privatisations. After the success of the Transgaz SPO in April, four IPOs are on the starting blocks and should hit the market in the coming 3-12 months (Nuclearelectrica, Romgaz, Hidroelectrica and CE Oltenia). Should all these materialise successfully, the listed component of FP's portfolio would increase to 75.4% (from 40.8% currently), creating significant scope for its discount to NAV to compress.
- ✓ **Buyback support:** the Fund's policy of using its cash to buy back its shares and cancel them (currently, it has a net cash position of RON 955m) is both a great way to close the discount to NAV and also provides good support for the stock in times of volatile markets.
- ✓ **Dividend yield to stay above 6%:** we expect the Fund to continue to generate a dividend yield of above 6% from paying out the dividends it receives from the companies in the portfolio.

FP: share price performance vs. RO market



Source: Bloomberg, Wood Research

Why are we still bullish?

Fondul Proprietatea continues to be the best proxy for the Romanian equity market, in our view, as well as for the whole Romania story, among the very few European Union Frontier markets. With significant holdings in the most important domestically-listed names (Petrom, Transgaz, Transelectrica, or the banks) and in companies that are planned to be listed, the Fund provides a large (we estimate a EUR 3.2bn NAV) and liquid (with EUR 3m in average daily turnover, the Fund accounts for 53% of the total volume traded on the domestic market) alternative for getting exposure to Romania.

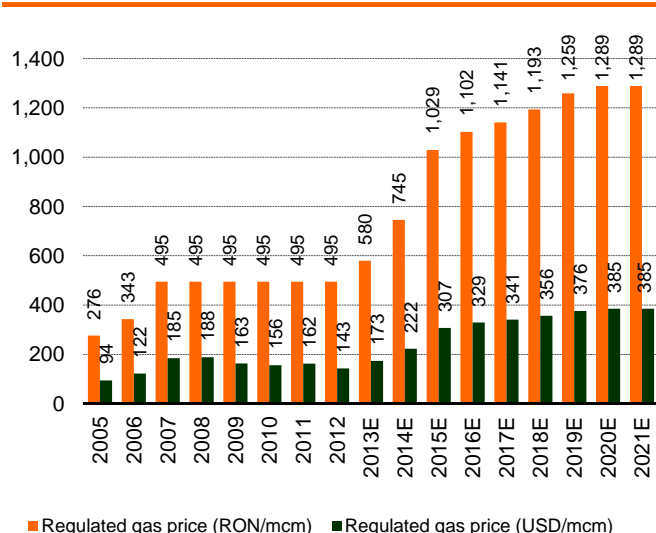
The most important arguments for us to consistently consider the stock among our preferred picks in Romania are:

- **The country is on track for a new precautionary agreement with the IMF.** After Romania successfully completed its second stand-by agreement with the IMF at the end of June, Romania, the IMF and the EU started talks on a new aid deal on 17 July. The negotiations are likely to take three months and the EU Econfin Council plans to make a final decision over the deal on 15 October. The new precautionary Stand-by Agreement would allow Romania to get access to cheap funding from the capital market, but it would also increase the pressure on the government to continue with structural reforms and privatisations. Furthermore, Romania faces around EUR 8bn in repayments to the IMF over the next two years.
- **The increased flows of the private pension funds should provide a strong catalyst.** As a proxy for the entire market, we believe that the Fund should also benefit from the development of the pension funds, which are still in a high growth phase (currently with AUM of EUR 2.5bn), after having been set up in 2008. The increase in the amounts available from the pension funds and their increased allocation towards equities (only at 11% at the moment) should provide a significant catalyst for the Fund as well (please see Appendix III of this report, where we have detailed the pension fund system and the Romanian equity market).
- **Energy market liberalisation provides both medium- and long-term catalysts for the NAV:** the recently implemented calendar for price liberalisation, which has been on track so far, should boost the profit of most of the energy companies in the portfolio.

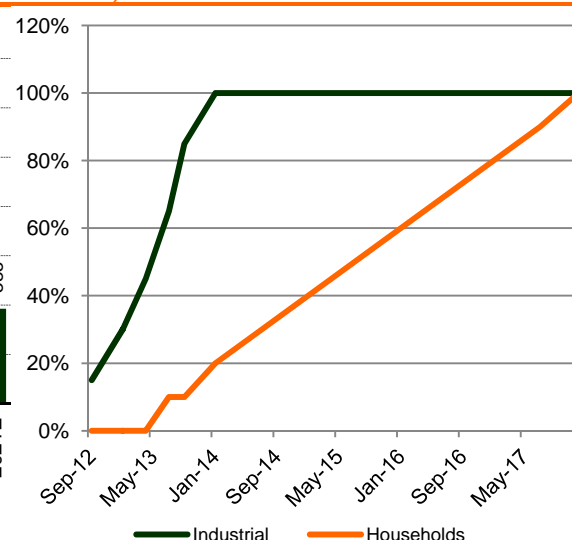
We believe that one of the main reasons for the 41% current discount to the official NAV is the fact that the market still does not have full confidence in the official NAV: some of the companies in the portfolio are still showing low profitability and the official valuation implies high P/Es and EV/EBITDAs. Our NAV has been below the official NAV historically.

However, the IMF and the EC have imposed a calendar for the liberalisation of energy prices in Romania and the liberalisation of the energy market is currently on track, with all changes implemented according to the schedule so far. Thus, we believe that some of the companies are likely to show improved profitability starting this year (e.g., Hidroelectrica already has a profit of RON 481m after 1H13 versus the RON 367m budgeted for the year and a loss of RON 508m reported last year). We believe that this should increase the market's confidence in the official NAV and a contraction in the discount at which the Fund trades to its NAV.

Gas market liberalisation calendar



Electricity market liberalisation calendar



Source: ANRE, Wood Research

- **IPOs and SPOs to unlock value in the NAV:** according to the agreement with the IMF and the European Commission, the RO government is planning to list minority stakes on the Bucharest Stock Exchange, or privatise the most important companies still owned by the state. In most of these companies, Fondul Proprietatea also holds a stake, so any listing should provide an easier exit opportunity for the Fund. It also would provide more visibility on the NAV and increased corporate governance for the companies in the portfolio as stock exchange rules provide increased protection for minority shareholders. However, the official listing calendar has suffered significant delays so far and we believe that more delays may be possible. The most immediate listings could be Nuclearelectrica and Romgaz.

IPO/SPO list

Company	Official calendar	Offering stake	Mkt value (EUR m)*	Seller	Comments
Transelectrica	SPO – April 2012	15.0%	37.62	RO state	Completed in March 2012
Transgaz	SPO – October 2012	15.0%	72.03	RO state	Completed in April 2013
Nuclearelectrica	IPO – 1Q13	10.0%	146.84	New shares	Expected in 3Q13
Romgaz	IPO – March 2013	15.0%	293.64	RO state	Expected in 4Q13
Posta Romana	Privatisation (Capital>50.0% Increase)	–	–	New shares	Expected in 2H13
CE Oltenia	IPO / Trade Sale – 2013	12.0/15.3%	111.1/138.94	New shares	
Hidroelectrica	IPO – October 2012	10.0%	227.34	New shares	Delayed by the insolvency proceedings
Admin. Porturilor Maritime	IPO – 2013	5.0%	3.85	RO state	
Admin. Canalelor Navigabile	IPO – 2013	5.0%	0.95	RO state	
Admin. Porturilor Dunarii Fluviale	IPO – 2013	5.0%	0.25	RO state	
Admin. Porturilor Dunarii Maritime	IPO – 2013	5.0%	0.05	RO state	

Source: Company data, Wood Research

*as estimated by the fund manager

- **Buyback lifts NAV and share price:** the 8% buyback programme, which the Fund started recently, should provide a catalyst for the NAV and our fair value (which could rise by an additional 3% if we take into consideration the number of shares after the buyback).

The Fund has purchased some 170m shares so far in the second buyback programme, or 15% of the 1.1bn shares to be repurchased in total. The programme started only in mid-April, after more than a one-year delay, which was caused by a dispute with one of the minority shareholders.

We base our valuation and dividend expectations on the official existing number of shares (13.025bn) but, if we adjust for the number of shares at the end of the programme (assuming it is completed by the next year's dividend date – likely to be set for mid-May),

our per-share valuation would increase by about 3%, while the dividend yield would increase to 6.6% from our current estimate of 6.2%.

In the longer term, we believe that the Fund is likely to maintain its policy of share buybacks and we believe that this is one of the best ways to increase the shareholders' benefits.

- **Dividend yield to stay above 6%:** Fondul Proprietatea generates most of its profit from the dividends it receives from the companies in its portfolio. Last year, this amounted to RON 619m and led to a RON 0.04 dividend per share. As all the companies in the portfolio set their dividends by the end of May, we already have a good picture of the 2013E dividends (to be paid in June 2014).

FP: P&L snapshot

RONm	2010	2011	2012	2013 budget
Total revenues, of which:	576.6	617.9	871.9	660.3
Dividends	179	519	619	618.2
Total costs	109.2	72.3	304.8	76
Net profit	456.2	543.8	567	570.5
DPS	0.0314	0.0385	0.0409	

Source: Company data, Wood Research

In its end of June 2013 NAV breakdown report, the Fund already posted a 1H13 bottom line of RON 514.6m (details to be published in the 2Q13 report due in mid-August). This is short of the RON 570.5m budget, due mainly to the sale of 1.1% in Petrom, which led to a RON 70m non-cash loss (the difference between the RON 0.39 selling price and the RON 0.5 acquisition price).

At this level (assuming no other major transaction by the year end), the stock offers a dividend yield of 6.2%, using the current number of shares, or 6.6% should the buyback be finished by the end of June 2014 (when the dividends for 2013 should be paid out).

Going forward, it is very important to note that any asset disposal will go through the P&L as a profit or a loss, based on the difference between the selling price and the original cost. At present, out of the liquid stakes, only the sale of a stake in Transgaz or Transilvania would be beneficial for the bottom line, while any disposal in Petrom or the banks would trigger a non-cash loss on the balance sheet (and thus reduce the dividend):

FP: P&L snapshot

RON	Cost price	Current price	No. shares	Potential profit/loss (RONm)
Petrom	0.5	0.427	10,758.65	-785.4
Transgaz	100.5	190.1	1.76	158.1
BRD	12.8	7.7	25.39	-129.5
Alro	2.4	1.55	72.88	-62.0
Transelectrica	26.5	13	9.90	-133.6
Raiffeisen	179.7	88.94	0.85	-77.5
Transilvania	1.1	1.27	64.20	10.9
Erste	156.8	94.03	0.40	-24.9

Source: Fondul Proprietatea, Wood Research

- **Secondary listing should enlarge investor base:** the planned listing on a secondary market should enlarge the investor base but it is still pending the approval of the FSA. The administrator of the Fund plans to list Fondul Proprietatea on a secondary market, as it already has the shareholders' mandate to list the fund in Warsaw. Additional markets (London) are not out of the question if the Warsaw market proves less supportive because of the pension funds reform. A double listing could provide a catalyst for the Fund given that it would give access to a more diverse investor base but is now being blocked by the lack of a connection between the Romanian and Polish settlement systems, and the FSA regulation to allow the connection is still pending at the moment.

- **Hidroelectrica insolvency a great success:** Hidroelectrica is the second-largest holding for FP (18% of the NAV), so its development has a significant impact on the Fund's price. While in insolvency for the past 12 months, the company has undergone a significant restructuring process, which has led to a restructuring of its portfolio of contracts, the optimisation of its costs and a reassessment of its investment projects. Under juridical administration, the company has cancelled the unprofitable contracts it had with energy traders (with 7.4 TWh being made available) and has renegotiated the contracts it had with the largest industrial consumers in Romania. Additionally, under pressure from the juridical administrator, the Romanian National Energy Regulator (ANRE) has requested that the company sell a lower quantity of energy on the regulated market and at a higher price. The company's headcount has been slashed by 13%. Altogether, Hidroelectrica should gain an additional RON 848m in revenues per year and has already reported a profit of RON 481m in 1H13 versus the RON 367m budgeted for the year and the loss of RON 508m reported last year).

Valuation snapshot

We have updated our valuation of Fondul Proprietatea and the companies in which it holds stakes in order to incorporate the latest development in the energy market in Romania (the liberalisation of prices, Hidroelectrica's new financial situation after exiting insolvency, new prospects for the tax regime) and the latest development in the Fund's NAV and its structure (buyback, selling of Petrom shares, dividends cashed in or paid out). We base our valuation on the NAV provided as of 30 June 2013.

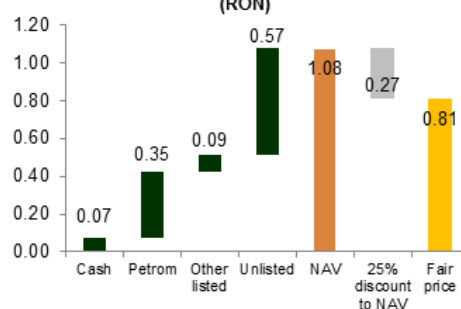
We now estimate the Fund's NAV at EUR 3,172m, or RON 1.08 per share.

To derive this value, we have:

- **Marked to market the Fund's listed holdings** (as provided at the end of June). We have excluded the own shares purchased in the buyback programme from the NAV calculation and also from the number of shares.
- **Derived the value of the unlisted holdings** by applying a mix of sector average EV/EBITDA, P/E and industry-specific ratios: EV/sales and EV/customer for infrastructure assets, EV/capacity for power producers, or EV/power distributed for electricity distributors.
- Included the RON 1.4bn of cash and receivables at the end of June, as well as the RON 435m of debt.

Fondul Proprietatea: valuation snapshot

Fondul Proprietatea: Value per share (RON)



Fondul Proprietatea valuation	RON m	Per share
Cash	955	0.07
Petrom	4,594	0.35
Other listed	1,127	0.09
Unlisted	7,360	0.57
NAV	14,036	1.08
25% discount to NAV	-3,509	-0.27
Fair price	10,527	0.81

Source: Wood Research, FP, Bloomberg, companies

Foreign-owned fund

After 2011's overhang, caused by the state restituting some 37% of the Fund, 2012 was marked by the continuous accumulation of the Fund by foreign institutional investors, which now control 57.7%, making FP a foreign-controlled fund right now:

Shareholders' structure

	Feb-11	Dec-11	Dec-12	Jun-13
Foreign Institutional	14.98%	43.30%	54.60%	57.70%
Domestic Retail	33.16%	35.90%	29.20%	23.90%
Domestic Institutional	5.59%	11.20%	9.90%	9.52%
Foreign Retail	9.48%	9.60%	6.30%	6.02%
State	36.80%	0.02%	0.02%	0.02%

Source: Company data, Wood Research

Main risks

✓ Politics

Having a portfolio composed of the core of Romania's energy production, distribution and transport companies, as well as several other important infrastructure companies (such as seaports, airports or the Post), the main risk related to FP has always been the political influence in most of its holding companies.

Templeton's team and management has been actively pushing decision-makers (many times alongside the IMF and the EU Commission) to improve regulations, liberalise markets and improve corporate governance, and notable progress has been made in cases like the gas market (where the liberalisation calendar is in place), or in the blocking of the creation of energy champions.

However, little progress can be noted in implementing private board members or independent managements in the state-owned companies.

✓ Mrs. Sfaraiala – a muted issue

One of FP's minority shareholders, Mrs. Ioana Sfaraiala, has sued FP continuously over the past three years and her actions have caused a significant drag on both the stock (mainly through the one-year delay to the start of the second buyback programme) and the overall perception of the Romanian legal system.

Furthermore, in October last year, the court admitted part of Mrs. Sfaraiala's request to annul some of the September 2010 Extraordinary General Shareholders Meeting resolutions based on a technical procedural argument regarding the administrative formalities required of the previous management of the Fund in terms of the calling of the meeting.

These resolutions relate to: 1) the approval of a new Constitutive Act; 2) the approval of the appointment of Franklin Templeton Investment Management Ltd United Kingdom Bucharest Branch as Sole Administrator of the Fund; 3) the revocation of the previous directorate and supervisory board; and 4) the appointment of the first members of the board of nominees.

Although it seems that that particular EGM (September 2010) had its technical flaws, the following AGMs reconfirmed Templeton as the manager and there is no danger of Templeton losing the management mandate.

The rationale behind Mrs. Sfaraiala's actions remain a mystery (with the speculation being about her motivation relating to financial compromise, political lobbying or simply advertising herself as a minority shareholders front speaker) but, going forward, although this minority shareholder could continue to pester the Fund's activities with continuous legal actions, we believe that the market impact of the legal debates is likely to be muted.

✓ **Templeton mandate ends next year**

Franklin Templeton's mandate as Fund manager ends in September next year (after starting one year later than initially planned, in 2010) but the Fund manager has indicated that it plans to lobby for a new mandate. Although an AGM decision on the matter is needed, we believe that there is a high likelihood that Templeton will stay on board as the complicated or challenging exercise of dealing with all the state-owned companies, the government and the regulators is a difficult task to be passed onto another manager.

The local Romanian regulator (CNVM) has not approved the list of additional fees voted on by the shareholders at the April 2012 AGM. The set of additional fees (to the current management fee) would have allowed Templeton to receive 1.5% of "excess distributions" (buybacks, special dividends, etc.), should those distributions be made during 2012 and 2013, and 1% thereafter.

The regulator explained its decision by saying that the amendment to the contract did not respect the regulation under which the tender for selecting Templeton as the Fund's manager was carried out, a decision that Templeton has contested in court.

Energy market snapshot

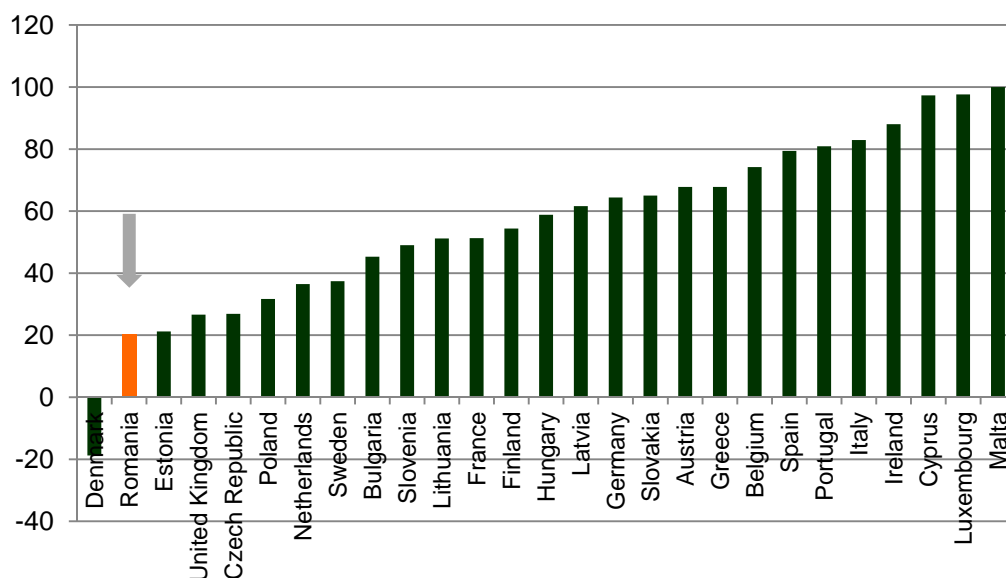
As 87.8% of Fondul's holdings are concentrated on the energy sector, in this section, we take a look at the structure of the Romanian electricity and gas markets, and their road towards liberalisation, with potential long-term positive effects on FP's holdings.

Energy sector overview

The Romanian energy sector is still one of the most interesting investment opportunities in Romania, in our view, and Fondul Proprietatea is still the best vehicle through which to gain exposure before the full listing of the power generators and distributors, we believe.

The Romanian energy sector differentiates itself from the regional energy market in that it is more **self-sustainable** (imports account for only 20% of consumption), it is based on a **well-balanced mix of energy sources**, and it is undergoing the price **liberalisation** and **restructuring** process with a lag to its regional peers.

Energy dependence 2010

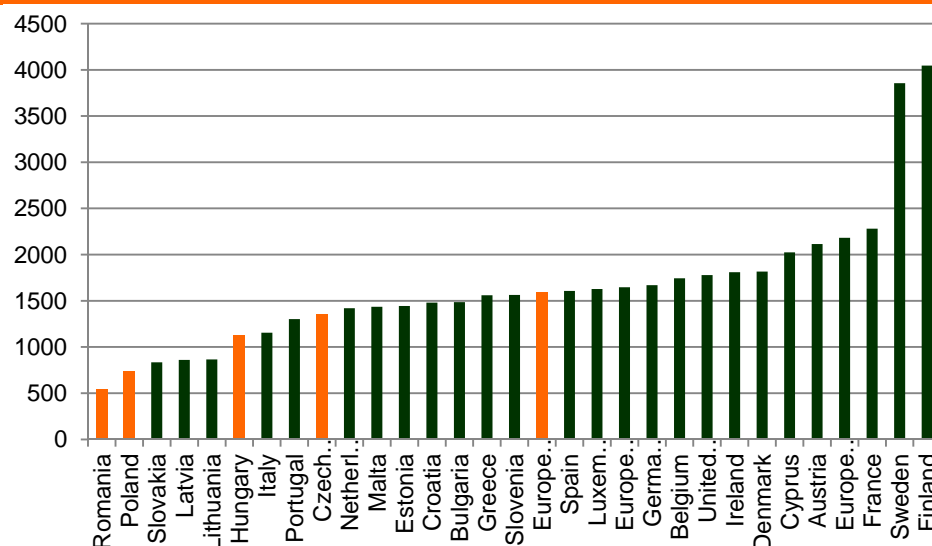


Source: energy.eu, Wood Research

The electricity sector

- ✓ **Further growth possible from a low base and on a favourable production mix:** with retail consumption of about 0.5 MWh per capita, Romania has the lowest retail consumption per capita in the EU (one-third of the average) and, hence, prospects for growth on the retail side. Additionally, a favourable production mix, with significant access to cheap energy production (hydro, nuclear), should allow for further growth on the industrial side after the shock of the liberalisation passes.

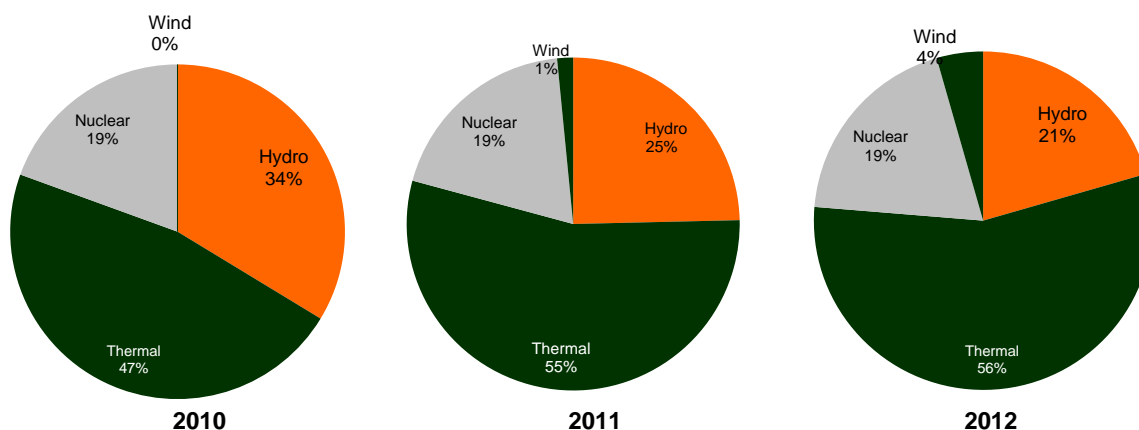
Romanian electricity consumption per capita (KWh per year)



Source: ANRE, Eurostat, Wood Research

- ✓ **Production mix dominated by low carbon producers:** Romania has a favourable structure in terms of fuel sources for energy generators, with half of the electricity produced by cheap emission-free generators. In a normal hydrological year, Hidroelectrica (hydro electricity producer – FP owns 20%) has produced as much as 35% of Romania's energy consumption, while Nuclearelectrica (nuclear electricity producer – FP owns 10%) has produced 20%. Newly-built wind farms accounted for 4% of the energy produced last year and the volume should increase to 8% this year, based on the data available at the end of 1H13. Coal-fired power plants account for 30-40% (Complexul Energetic Oltenia is the biggest producer, with integrated access to lignite coal mines – FP has a 15% stake), although costs are higher and significant investments are needed for coal-fired power plants. Gas-fired power plants account for 15% of the country's total production.

Romanian energy sector



Source: ANRE, Eurostat, Wood Research

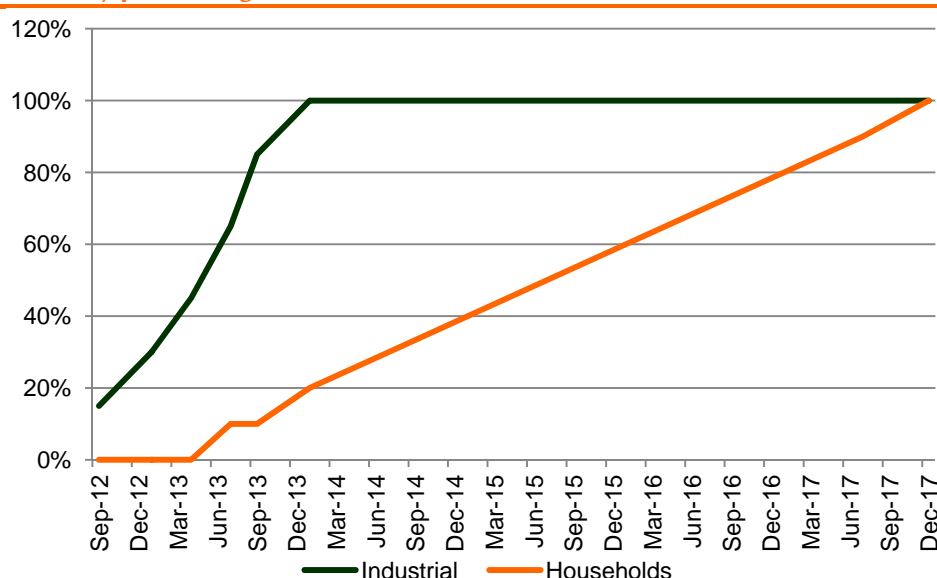
- ✓ **Price liberalisation on track:** in accordance with the IMF agreement and the EU regulations, Romania has started implementing a calendar for the liberalisation of the energy market. While the electricity market is more liberalised than the gas market, an approximate 40% of the electricity (at 2012 levels) was sold on the regulated market in 2012, at prices set by ANRE in order to cover costs. The volumes sold on the regulated market should decline rapidly, with industrial consumers reaching full liberalisation by the end of 2013 (currently, 75% of industrial consumers are not regulated). The liberalisation of household consumers should take place over a longer period, reaching 100% by the end of 2017, according to the official calendar.

Romanian electricity consumption breakdown by destination

TWh	2009	2010	2011	2012
Internal total consumption	49.92	52.03	53.74	52.36
Regulated households	10.99	11.25	11.59	12.02
Industrial:	30.59	32.19	34.22	33.96
Regulated	12.05	10.12	8.70	8.85
Non-regulated	18.54	22.07	25.52	25.11
Grid losses	0.99	1.12	1.07	1.02

Source: ANRE, Wood Research

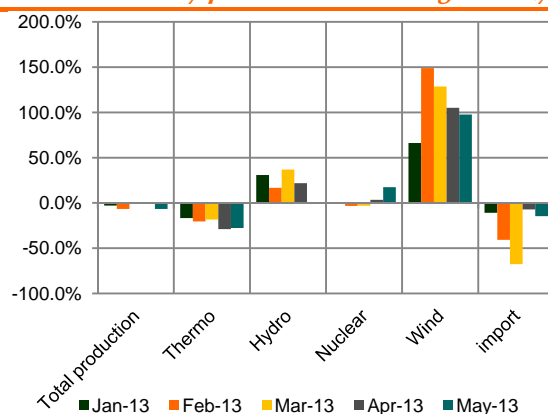
Electricity price deregulation schedule



Source: RO Government, Wood Research

- ✓ **Recent trends show a decline in consumption:** as seen already in the first five months of this year, the volume of electricity consumption has declined by 7.7%, mostly on the back of lower industrial consumption. We would expect this trend to continue in the short term on the back of an increase in energy prices and the discontinuation of the cheaper bilateral contracts by Hidroelectrica. In the second half of last year, it was also due to lower volumes produced by the cheap electricity producer Hidroelectrica, which had been affected by drought and insolvency. However, after the shock of this increase passes, we expect the system to rebalance and the benefits for the profitability of the energy producers to be much higher from price liberalisation than the eventual moderate decline in volumes sold.

Romania: electricity production volume growth (yoy)



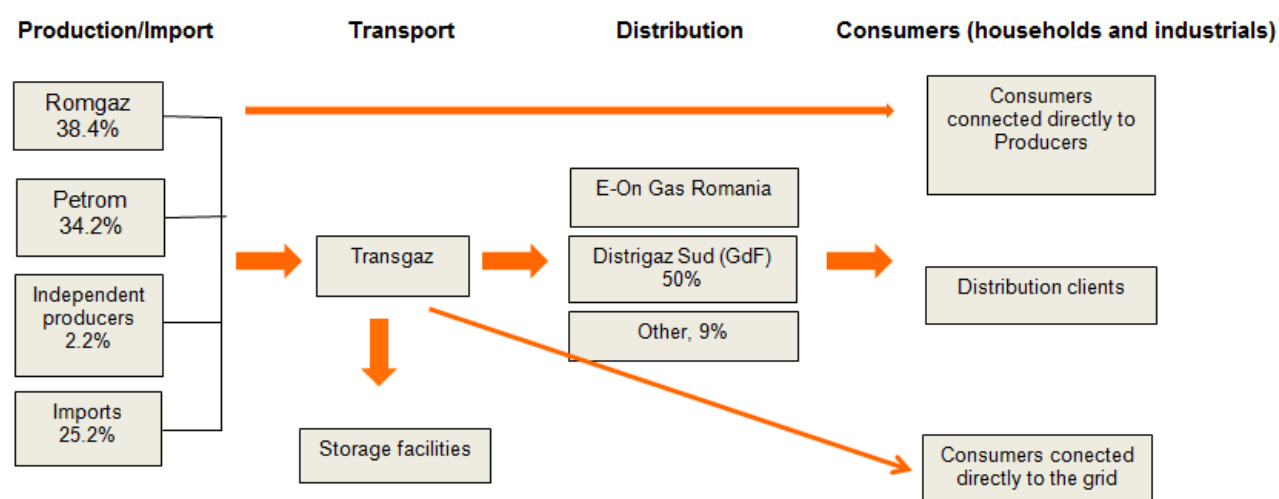
Source: ANRE, Eurostat, Wood Research

Snapshot: Romanian gas market

Romania's gas market is characterised by its relatively high independence and its need for liberalisation.

Romania is, by far, the largest producer of natural gas in CEE (109.5m MWh in 2012). The total annual consumption of natural gas stood at 144.6m MWh in Romania in 2012 (3.6% down yoy), with 75.7% covered by domestic production. Over the past five years, the domestic production of natural gas has represented, on average, 76% of the country's total demand, making Romania one of the most independent countries in the EU in terms of natural gas requirements.

Romanian gas market (end-2012)



Source: ANRE, Transgaz, Wood Research

Producers

The largest domestic producers are **Romgaz and Petrom** (covering some 97% of the total domestic production last year), while the main importers in the market are Romgaz, GdF, E.ON and Petrom.

Romanian natural gas consumption breakdown by source

MWh	2008	2009	2010	2011	2012
Total consumption	165.0	140.1	146.8	150.8	144.6
Domestic production	67.6%	85.3%	82.8%	74.8%	75.7%
Imported gas	32.4%	14.7%	17.2%	25.2%	24.3%

Source: ANRE, Wood Research

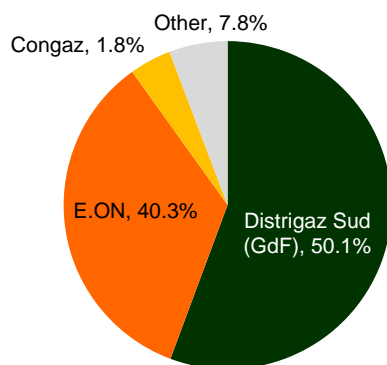
Transport

Transgaz is the sole operator of Romania's gas network and transports some 90% of the total gas consumed in Romania. The difference goes straight from the producers to the final consumers.

Distributors

There are some 20 distributors, but the market is dominated by Distrigaz Sud (which is controlled by Gaz de France) and Distrigaz Nord (owned by E.ON-Ruhrgas), which are distributors and suppliers of natural gas in the southern and northern parts of the country, respectively.

Romanian gas market distribution structure (2012)

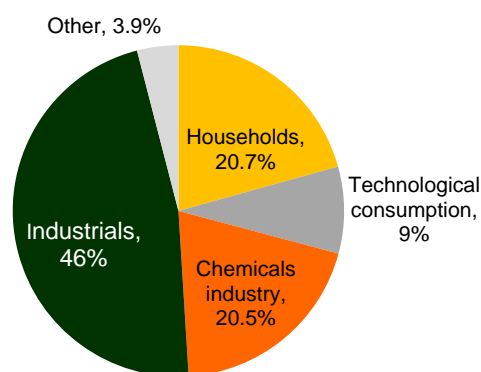


Source: ANRE, Wood Research

Consumers

As the ANRE data (see the pie chart below) show, the natural gas demand in Romania is driven by industrials (46% in 2012), households (20.7%) and the chemicals industry (20.5%).

Romanian gas market consumption structure (natgas supplied in 2012)



Source: ANRE, Wood Research

The outlook for gas demand is influenced by two positive factors: 1) the need to expand the distribution networks (especially in Romania's rural areas); and 2) improvements in living standards (from both the increased consumption of energy and the replacement of central heating with private appliances – boilers, etc.).

On the other hand, demand is pushed down by the modernisation of and improvements in the efficiency of the industrial sector, as well as gas market liberalisation, which brings with it potential increases in prices.

Gas market liberalisation and potential influence

As seen in the table below, Romania has the lowest gas prices in Europe as ANRE sets the price based on a basket of import price and domestic production. On top of these, the regulator determines the transmission and distribution and/or supply tariffs based on its revenue cap method (with different parameters for Transgaz and the distributors).

Romanian gas prices versus Europe

Households		Industrials	
Country	EUR/kWh	Country	EUR/kWh
Denmark	0.1166	Denmark	0.0934
Sweden	0.1134	Sweden	0.0658
Italy	0.0831	Slovenia	0.0611
Netherlands	0.0772	Netherlands	0.0609
Slovenia	0.0735	Portugal	0.0586
Portugal	0.0684	France	0.0523
Belgium	0.0646	Belgium	0.0517
Austria	0.063	Italy	0.0507
France	0.0622	Germany	0.0504
Germany	0.0615	Slovakia	0.048
Hungary	0.059	Luxembourg	0.047
Spain	0.059	Hungary	0.0453
Ireland	0.0573	Ireland	0.0452
Poland	0.0552	Czech Republic	0.0446
Czech Republic	0.054	Spain	0.0446
Luxembourg	0.0515	Poland	0.0436
Lithuania	0.0483	Austria	0.0406
Slovakia	0.0469	United Kingdom	0.0392
United Kingdom	0.0465	Latvia	0.0387
Bulgaria	0.0456	Lithuania	0.0385
Estonia	0.0425	Finland	0.0363
Latvia	0.0421	Bulgaria	0.0358
Romania	0.0301	Estonia	0.0342
		Romania	0.024

Source: energy.eu, Wood Research

According to the EU, domestically-produced gas prices need to be aligned with the international peer level. The deadline for adjusting these levels has been rolled over constantly, but the latest IMF-EU agreement was very insistent on this point and Romania has committed to liberalising its prices.

As illustrated in the table below, Romania plans to align its domestic producer prices to RON 119/MWh, by gradually adjusting both the industrials and household prices. For the former, the process is to start in December this year and end in October 2014, whilst the price hikes start as of July next year and extend until 4Q18 for the latter.

The regulator believes that European hub prices, rather than Russian contract prices, should be used as a benchmark for market prices and is targeting convergence to an approximate USD 380/mcm market price by the end of 2014 for industrials (70%+ of the market) and by the end of 2018 for households:

Romanian gas price convergence

Industrials				Households				Weighted average		
	convergence	MWh	RON/mcm		convergence	MWh	RON/mcm	RON/mcm	USD/mcm	Ch. %
Dec-12	35%	49	531	Dec-12		45.7	495	520	155.2	5.0%
Apr-13	40%	55.3	599	Apr-13		45.7	495	568	169.5	9.2%
Jul-13	47%	63.4	687	Jul-13	36%	48.5	525	638	190.5	12.4%
Oct-13	51%	68.3	740	Oct-13	37%	49.8	539	680	202.9	6.5%
Jan-14	55%	72	780	Jan-14	38%	50.6	548	710	212.0	4.5%
Apr-14	71%	89.4	968	Apr-14	41%	51.8	561	846	252.5	19.1%
Jul-14	91%	109	1,180	Jul-14	44%	53.5	579	1,000	298.6	18.2%
Oct-14	100%	119	1,289	Oct-14	46%	54.6	591	1,004	299.6	0.4%
Jan-15	100%	119	1,289	Jan-15	47%	56.1	608	1,084	323.7	8.0%
Apr-15	100%	119	1,289	Apr-15	49%	58.9	638	1,094	326.4	0.8%
Jul-15	100%	119	1,289	Jul-15	52%	62	671	1,104	329.4	0.9%
Oct-15	100%	119	1,289	Oct-15	54%	64.1	694	1,110	331.5	0.6%
Jan-16	100%	119	1,289	Jan-16	56%	67.1	727	1,120	334.4	0.9%
Apr-16	100%	119	1,289	Apr-16	60%	71.7	777	1,135	338.8	1.3%
Jul-16	100%	119	1,289	Jul-16	64%	76.5	828	1,151	343.5	1.4%
Oct-16	100%	119	1,289	Oct-16	66%	78.5	850	1,157	345.4	0.6%
Jan-17	100%	119	1,289	Jan-17	69%	82	888	1,169	348.8	1.0%
Apr-17	100%	119	1,289	Apr-17	73%	86.9	941	1,184	353.6	1.4%
Jul-17	100%	119	1,289	Jul-17	78%	93	1,007	1,204	359.5	1.7%
Oct-17	100%	119	1,289	Oct-17	81%	96.5	1,045	1,216	362.9	0.9%
Jan-18	100%	119	1,289	Jan-18	83%	99.2	1,074	1,224	365.5	0.7%
Apr-18	100%	119	1,289	Apr-18	89%	106.3	1,151	1,248	372.4	1.9%
Jul-18	100%	119	1,289	Jul-18	97%	115.1	1,247	1,276	380.9	2.3%
Oct-18	100%	119	1,289	Oct-18	100%	119	1,289	1,289	384.7	1.0%

Source: Wood Research

*numbers in grey already implemented

Valuation

We have updated our valuation of Fondul Proprietatea and the companies in which it holds stakes in order to incorporate the latest development in the energy market in Romania (liberalisation of prices, Hidroelectrica's new financial situation after exiting insolvency, new prospects for the tax regime) and the latest development of the Fund's NAV and its structure (buyback, selling of Petrom shares, dividends cashed in or paid out). We base our valuation on the NAV provided as of 30 June 2013.

We now estimate the Fund's NAV at EUR 3,172m, or RON 1.08 per share.

To derive this value, we have:

- **Marked to market the Fund's listed holdings** (as provided at the end of June). We have excluded the own shares purchased in the buyback programme from the NAV calculation and also from the number of shares.
- **Derived the value of the unlisted holdings by** applying a mix of sector average EV/EBITDA, P/E and industry-specific ratios: EV/sales and EV/customer for infrastructure assets, EV/capacity for power producers, or EV/power distributed for electricity distributors.
- Included the RON 1,335.9m of cash and receivables at the end of June, as well as the RON 423m in debt, representing dividends payable.

FP: NAV breakdowns

Fondul Proprietatea valuation	NAV (Wood valuation)			Official NAV		
	RON m	EUR m	Weight	RON m	EUR m	Weight
Equity holdings						
Unlisted portfolio						
Generators	3,372	762	24.0%	3,529	798	23.5%
Distributors	2,203	498	15.7%	2,931	662	19.5%
Oil & gas	1,488	336	10.6%	1,338	302	8.9%
Airports	227	51	1.6%	391	88	2.6%
Sea Ports	70	16	0.5%	150	34	1.0%
Post Office				81	18	0.5%
Total unlisted	7,360	1,663	52.4%	8,418	1,903	56.1%
NAV per share unlisted	0.57			0.65	0.15	
Listed portfolio						
Oil & gas	5,142	1,162	36.6%	4,959	1,121	33.1%
Power distributors	129	29	0.9%	129	29	0.9%
Financials	390	88	2.8%	381	86	2.5%
Other	60	14	0.4%	162	37	1.1%
Total listed	5,721	1,293	40.8%	5,631	1,273	37.5%
NAV per share listed	0.44			0.43	0.10	
Total equity holdings	13,081	2,956	93.2%	14,050	3,175	93.7%
NAV per share equity	1.00			1.08	0.24	
Cash	955	216	6.8%	949	214	6.3%
NAV per share Cash	0.07			0.07	0.02	
Total NAV	14,036	3,172		14,998	3,433	
NAV per share	1.08			1.15	0.26	

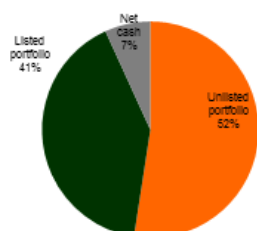
Source: Wood Research, company data

Portfolio valuation

The fund holds stakes in 66 companies, of which 24 are listed and 42 are unlisted. We are valuing the listed companies on the closing prices as of 12 June and we have individually valued some of the largest unlisted companies, while we have valued the smaller companies at zero, leaving upside to our valuation for the Fund.

The NAV structure is the following: 52.5% of the NAV is made up of unlisted companies, 40.8% listed stocks and 6.8% is represented by cash.

FP: portfolio breakdown by listing – fair value

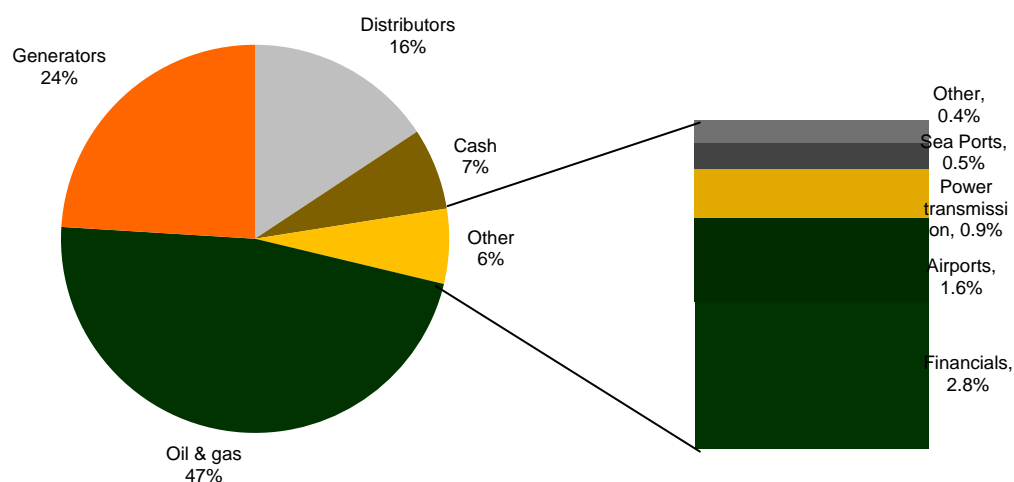


Fondul Proprietatea valuation	Fair value for unlisted, market value for listed			
	RON m	EUR m	RON per share	Weight
Unlisted portfolio	7,360	1,663	0.57	52.4%
Listed portfolio	5,721	1,293	0.44	40.8%
Net cash	955	216	0.07	6.8%
Total	14,036	3,172	1.078	100.0%

Source: Wood Research, company data, Bloomberg, companies

The fund is still heavily invested in oil and gas, which accounts for 47% of the NAV (with Petrom accounting for 32.7%). The power generation sector is the Fund's second-largest investment, with 24% of the Fund's NAV being invested in power generators. 16% is invested in power and gas distribution and supply, while the remainder is split into financials (2.8% of NAV), airports (1.6%), seaports and others.

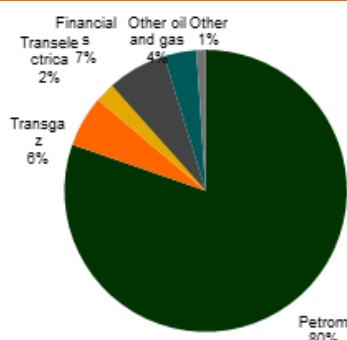
FP: portfolio breakdown by sector – fair value



Source: Wood Research, company data, Bloomberg, companies

The listed part of the portfolio is dominated by Petrom, in which the Fund owns 18.99% and which represents 32.7% of the Fund's portfolio. The Fund is also invested in power and gas transmission companies Transelectrica and Transgaz, which represent 0.9% and 2.4%, respectively. Banks, the only significant investments made by the administrator after taking control, represent 2.8% of our estimated NAV.

FP: portfolio breakdown by sector – listed companies (market value)



Listed portfolio	RONm	EURm	Weight
Petrom	4,594	1,038	32.7%
Transgaz	335	76	2.4%
Transselectrica	129	29	0.9%
Financials	390	88	2.8%
Other oil and gas	212	48	1.5%
Other	60	14	0.4%
Total Unlisted	5,721	1,293	40.8%
NAV per share listed (RON)	0.44		

Source: Wood Research, company data, Bloomberg, companies

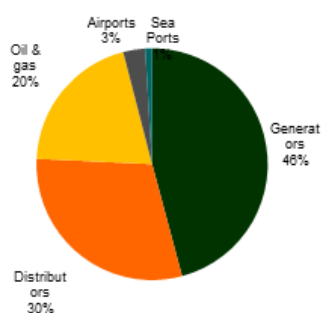
The unlisted part of the portfolio accounts for 52.4% of the NAV and is composed mainly of power generators (24.0%), electricity and gas distributors (15.7%), and gas producer Romgaz (10.6%).

Within the portfolio of unlisted companies, we value 22 of those most relevant to the total value of the Fund. The remaining companies, for which we do not have complete sets of financials and the value of which is relatively lower, are not included in our NAV estimate. They could serve as potential upside, but we have not yet quantified this.

Our basic valuation combines EV/EBITDA, P/E and industry-specific ratios: EV/sales and EV/customer for infrastructure assets, EV/capacity for power producers, or EV/power distributed for electricity distributors.

To the resulting values, **we have applied discounts** based on the different characteristics of the company or sector. Thus, for the power distributors, we have applied a discount of 30% due to the higher regulatory risk (e.g., Transgaz and Transselectrica, the listed regulated businesses in Romania, have traded historically at a 20% discount to their foreign peers) and due to the unlisted status of the stakes. For the airports, we have applied a 30% discount to account for the fact that: i) Romania is not yet a Schengen member; and ii) the transit business for Bucharest Airport is far lower than its peers (due to the lack of connections). For Complexul Energetic Oltenia, we have applied discounts due to the higher costs of production versus its peers, its high capex plan and the increasing burden of CO2 certificates.

FP: portfolio breakdown by sector – unlisted companies (fair value)



Unlisted portfolio	Total equity value		Restitution Fund stake		
	RON m	EUR m	RON m	EUR m	Weight
Generators	20,801	4,701	3,372	762	24.0%
Distributors	12,447	2,813	2,203	498	15.7%
Oil & gas	10,121	2,287	1,488	336	10.6%
Airports	1,283	290	227	51	1.6%
Sea Ports	427	97	70	16	0.5%
Total unlisted	45,079	10,188	7,360	1,663	52.4%
NAV per share (RON)	0.57				

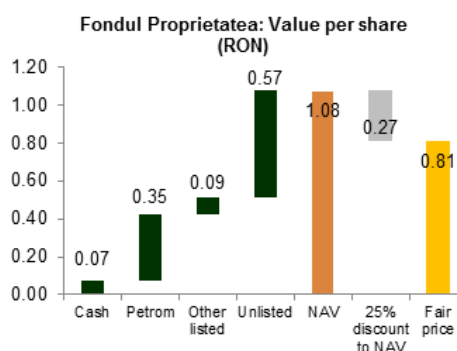
Source: Wood Research, company data, Bloomberg, companies

Price target – RON 0.81 per share (26.5% upside)

In order to reach our estimated 12M PT, we have applied a 25% discount to the above estimated NAV. We believe that the Fund should trade at a discount to its NAV, due mainly to the high proportion of unlisted shares in its portfolio, on which the visibility is lower and for which the corporate governance standards for a minority shareholder are below those for a listed company. Other potential reasons for a discount would be any taxation on dividends from the companies in the portfolio or if the Fund disposes of assets above costs, but we would note that this is less of a concern for the Fund given the high costs at which it has registered its stakes. Additionally, the administrative expenses could be a reason for a discount but we would also note that, in the case of FP, it would be

rather small given the large size of the Fund (e.g., in comparison with the SIFs, where the administrative costs are more of a hassle given the lower fund sizes).

Fondul Proprietatea: valuation snapshot



Fondul Proprietatea valuation	RON m	Per share
Cash	955	0.07
Petrom	4,594	0.35
Other listed	1,127	0.09
Unlisted	7,360	0.57
NAV	14,036	1.08
25% discount to NAV	-3,509	-0.27
Target price	10,527	0.81
Current price (COB 12 June)		0.64
Upside to price target (%)		26.5%

Source: Wood Research, company data, Bloomberg, companies

We would also note that the discount at which the Fund trades should be, in our view, lower than for the SIFs, which have traded historically at a 30-50% discount, mostly because of the corporate governance issues stemming from the limitation of ownership and voting rights.

FP vs. the SIFs

RONm	SIF1	SIF2	SIF3	SIF4	SIF5	FP
Net debt	111.7	5.7	-181.0	-14.0	-168.9	955.3
Total NAV	1,164.2	1,027.9	736.9	758.5	1,329.3	14,036.1
Mkt Cap	608.7	633.8	598.5	552.8	847.0	8,336.0
Discount	-47.7	-38.3	-18.8	-27.1	-36.3	-40.6
Avg daily turnover (EURm)	0.15	0.23	0.33	0.11	0.27	2.99

Source: Bloomberg, Wood Research

Romgaz

Snapshot

Romgaz is the largest natural gas producer (5.66bcm in 2012) and supplier in Romania. The company is active in the exploration, development and production of natural gas in Romania and currently has around 147 gas fields (the reserves were estimated by FP at c.93bcm lately). Romgaz also owns six underground storage (UGS) facilities, with 2.76bcm capacity. It also owns a power plant, so is active in electricity production (not a core business previously).

The natural gas production activities are performed primarily through two branches managing the 147 gas production fields located in the Transylvanian Basin and the Outside-Carpathian Area.

The firm supplied approximately 38.4% (c.5.2bcm) of Romania's total natural gas consumption in 2012. Romgaz is active in an oligopolistic market, sharing domestic production with Petrom.

Electricity production: at the beginning of 2013, Romgaz acquired CET Lornut (a 800MWh gas fired power plant) based on the conversion of the RON 650m receivables it had on Termoelectrica.

Financial snapshot

RONm	2009	2010	2011	2012
Operating revenues	3,562	4,124	4,552	4,339
EBITDA	1,292	1,498	2,060	2,127
Operating profit	717	906	1,265	1,432
Net profit	572	651	1,032	1,244
Net debt	-1,157	-998	-2,511	-2,667
Gas produced (mcm)		5,776	5,641	5,663

Source: Romgaz, Wood Research

What to watch out for

Gas price liberalisation

According to the timetable approved by the regulator (ANRE) and the government, and also endorsed by the IMF and the EU in June 2012, the Romanian gas prices for domestic gas producers should converge to a perceived European market price level (of around USD 380/mcm, or RON 1,290/mcm) by the end of 2018. The regulated price for producers stood at RON 495/mcm as of January 2013. The industrial tariff element (industrial consumption accounts for 70%+ of the market) should reach this level by the end of 2014 (already up 39% at RON 687/mcm), while the residential tariff component should see such an increase completed only gradually, within six years.

The first three price increases have already been put in place in 2013, raising the industrial component by 39%, the residential component by 6% and the total producers' price by 29%. The third component of the end-user price – the import price – fluctuates according to the market prices of oil and gas. The weight of the import price in the final price depends on the level of consumption and domestic production (typically around 25-30% lately).

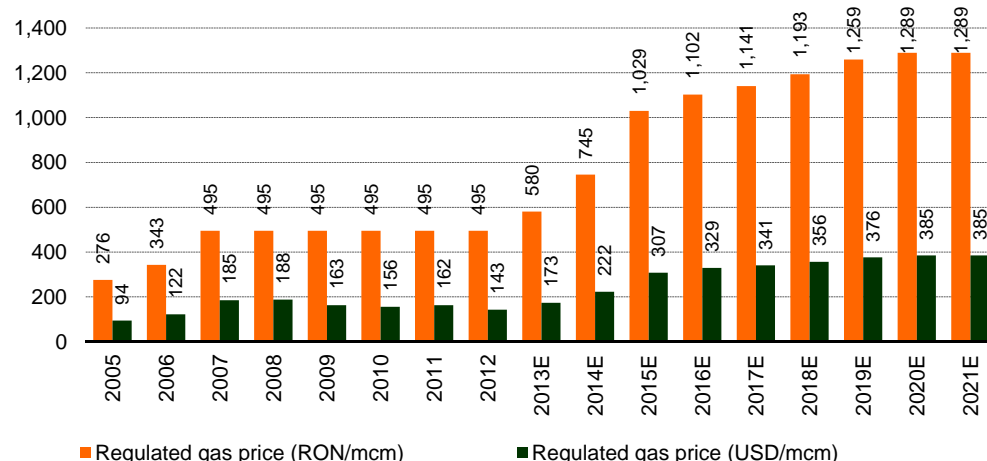
Romanian gas price convergence – on schedule

Industrials			Households			Weighted average			
convergence	MWh	RON/mcm	convergence	MWh	RON/mcm	RON/mcm	USD/mcm	Ch. %	
Dec-12	35%	49	531	Dec-12	45.7	495	520	155.2	5.0%
Apr-13	40%	55.3	599	Apr-13	45.7	495	568	169.5	9.2%
Jul-13	47%	63.4	687	Jul-13	36%	48.5	525	638	12.4%
Oct-13	51%	68.3	740	Oct-13	37%	49.8	539	680	6.5%
Jan-14	55%	72	780	Jan-14	38%	50.6	548	710	4.5%
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Jul-14	91%	109	1,180	Jul-14	44%	53.5	579	1,000	18.2%
Oct-14	100%	119	1,289	Oct-14	46%	54.6	591	1,004	0.4%
Jan-15	100%	119	1,289	Jan-15	47%	56.1	608	1,084	8.0%
Apr-15	100%	119	1,289	Apr-15	49%	58.9	638	1,094	0.8%
Jul-15	100%	119	1,289	Jul-15	52%	62	671	1,104	0.9%
Oct-15	100%	119	1,289	Oct-15	54%	64.1	694	1,110	0.6%
Jan-16	100%	119	1,289	Jan-16	56%	67.1	727	1,120	0.9%
Apr-16	100%	119	1,289	Apr-16	60%	71.7	777	1,135	1.3%
Jul-16	100%	119	1,289	Jul-16	64%	76.5	828	1,151	1.4%
Oct-16	100%	119	1,289	Oct-16	66%	78.5	850	1,157	0.6%
Jan-17	100%	119	1,289	Jan-17	69%	82	888	1,169	1.0%
Apr-17	100%	119	1,289	Apr-17	73%	86.9	941	1,184	1.4%
Jul-17	100%	119	1,289	Jul-17	78%	93	1,007	1,204	1.7%
Oct-17	100%	119	1,289	Oct-17	81%	96.5	1,045	1,216	0.9%
Jan-18	100%	119	1,289	Jan-18	83%	99.2	1,074	1,224	0.7%
Apr-18	100%	119	1,289	Apr-18	89%	106.3	1,151	1,248	1.9%
Jul-18	100%	119	1,289	Jul-18	97%	115.1	1,247	1,276	2.3%
Oct-18	100%	119	1,289	Oct-18	100%	119	1,289	1,289	1.0%

Source: Wood Research

*numbers in grey already implemented

Romanian regulated gas prices (RON/ths cm)



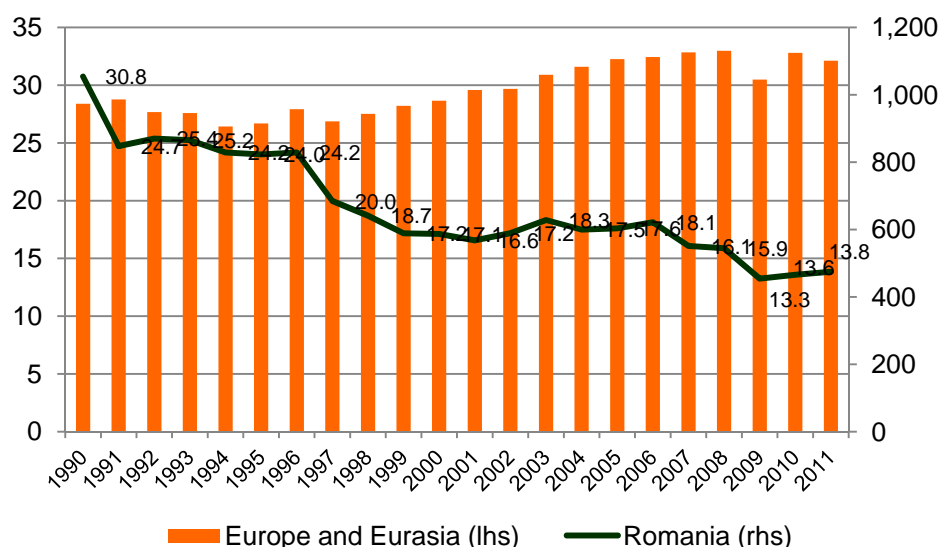
Source: ANRE, Wood Research

Drop in consumption

Ever since the fall of communism, there has been a significant downtrend in natural gas consumption in Romania. As the state-owned mammoths have been privatised, closed down or refurbished, the gas consumption has more than halved over the past 20 years. This downtrend should continue, in our view, following the price liberalisation.

Below, we present the trend in Romania's natural gas consumption versus Europe and Eurasia:

Natural gas consumption (bcm)



Source: BP, Wood Research

To counterbalance the negative effect of the market liberalisation, there are some potential positive influences on the demand side.

For the households, the key triggers are: i) the need to expand the distribution networks (especially in Romania's rural areas); and ii) improvements in living standards.

The demand from the industrials is related mainly to energy projects. Romania's electricity production based on gas sources is currently negligible.

Projects such as Petrom's Brazi power plant or Vimetco's ALUM Tulcea could provide some important support for demand.

Brazi is the most relevant project, with an 860 MWh capacity that is already in operation (from the second part of 2012). At full capacity, the power plant should need up to 1bcm/year gas, or roughly 7% of Romania's consumption in 2012.

Royalties scheme: the current fiscal regime, which was fixed for 10 years (from 2005-14) as part of Petrom's privatisation contract, is simple: it includes a flat royalty (on average, 7-8% on production) and the regular corporate income tax rate of 16%.

The ongoing gas market deregulation is to generate massive incremental revenues for the producers (should the full price convergence happen today, Romgaz would make some RON 4bn (USD 1.2bn) more revenues and profits annually).

As a temporary measure for 2014-15, the government has implemented a supplementary tax on gas production, splitting the upside stemming from higher gas prices 60/40% between the government and the producers. This, in effect, has still left considerable upside at the producers.

A new royalty regime is to replace the existing supplementary tax and royalty, the details of which are not known. We believe it may be tighter than the current 60/40% split, but that it should unlock significant value for the gas producers (on the other hand, most likely to tax oil production much more than currently).

State donation: in November 2010, Romgaz was forced by a government ordinance to donate RON 400m to the state budget. The Fund's management has contested the decision, which is pending a constitutional court ruling. The next hearing with the Bucharest Court is due on 24 September 2013 and the Fund might consider further international actions.

Listing: a consortium headed by Goldman Sachs is currently preparing a listing on BVB, with the latest indication pointing towards 4Q13. To get to the listing stage, we believe that two important milestones are required: 1) a reserves audit (currently underway by DeGolyer & MacNaughton); and 2) a clear fiscal regime (in particular, taxes and

royalties), which is under negotiation (the current fiscal regime expires at the end of 2014).

Expanding the boundaries: Romgaz controls 30% working interests in the Cybinka and Torzym exploration blocks in Poland, as well as 25% in the Svidnik, Medzilaborce and Snina exploration blocks in Slovakia.

The company also has a 10% working interest in the Rapsodia and Trident offshore exploration blocks in the Black Sea and is in talks to join an exploration block of Petrom in the Black Sea as well.

Valuation

Our valuation of Romgaz is a function of the size of its reserves (estimated by Fondul Proprietatea at 93bn cm; audited 2P still awaiting confirmation), selling prices and the fiscal regime (taxes and royalties). As none of the three is known for certain at the moment, we have considered two scenarios:

- **Value under previous price/fiscal regime:** we believe that, with the previous regulated prices and the old royalty regimes, Romanian reserves were worth a mere **USD 1.0-1.5/boe**, based on our simplified NAV calculation, implying a value of **USD 600-900m** for the Romgaz reserves (of c. 600m boe).
- **Value with price convergence and the temporary extra taxes.** Should the current supplementary taxes prevail and the price convergence be implemented, we believe the value of the reserves could increase to **USD 4.5-5.0/boe, implying a USD 2.7-3.0bn** value for the Romgaz reserves, a huge step up.

A flat 20% royalty (same for oil and gas) – our base case assumption for Petrom's modelling – could even further increase the value of gas (by shifting more value from oil to gas) raising gas's NAV to as high as **USD 6.5/boe**. Even a 25% flat royalty would yield a c.USD 6.0/boe NAV. However, in order to stay on the conservative side, we are not including this scenario in our valuation.

In other words, we believe that, in the new royalty regime, there is a fair chance to see a large boost for the value of gas resources – partially at the expense of oil valuation, due partially to the gas price deregulation – which could boost the value of Romgaz several-fold vs. the previous pricing and fiscal regime.

Storage, trading and power

The UGS assets of 2.76bcm should have material value (as high as USD 0.5-1.0bn, based on similar regional transactions, or even higher on new construction costs), but only as long as the regulator provides a fair regulated return on a fair RAB. This is currently not the case based on Romgaz's financials.

The gas trading/supply and the power generation business may have some value, but we believe these assets are probably not the key value drivers for the stock. The power plant is currently adding value by converting equity gas (which is being sold at a low price) to electricity (higher priced), but this value-add would gradually diminish as gas prices are being lifted.

Romgaz: valuation summary

RONm	Scenario 1	Scenario 2
Natural gas reserves (mboe)	544	
EV/reserves (USD/boe)	1.5	5.0
Resulting EV for reserves	816.0	2,720.0
Storage, trading and power	2.76bn cm storage, 800MW power plant	
Replacement value (USDm)	500.0	1,000.0
Discount applied	50%	50%
Resulting EV for storage, trading and power	250.0	500.0
Resulting total EV (USDm)	1,066.0	3,220.0
Resulting total EV (RONm)	3,612.7	10,912.6
Net debt (RONm)	-2,667.2	-2,667.2
Resulting value of the company (RONm)	6,279.9	13,579.8
Average (50:50)	9,929.9	
FP stake	15.0%	
Value of FP stake	1,488.5	

Source: Romgaz, Wood Research

Hidroelectrica

Snapshot

Hidroelectrica is the largest hydro power producer in Romania, operating over 250 hydropower plants and pumping stations, with a total installed capacity of 6,438 MWh. 2012 was a poor hydrological year (similar to 2011), with Hidroelectrica producing 11.8TWh, representing 22.8% of Romania's total output.

Financial snapshot

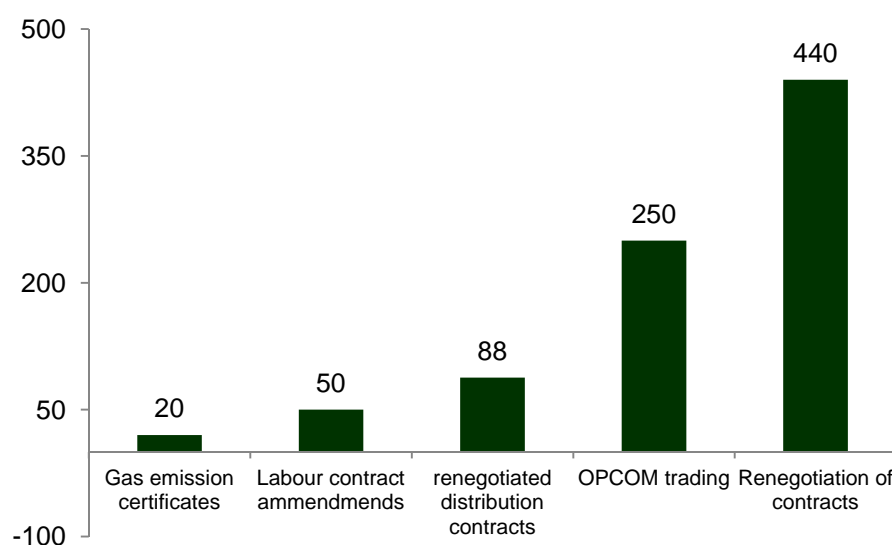
RONm	FY11	FY12	2013E	yoy	1Q12	1Q13	yoy
Revenues	3020.5	2401.0	2690.8	12%	571.1	665.0	16%
EBIT	161.2	-1.5	601.2	n.m.	56.59	125.6	122%
EBITDA	873.6	897.0	1529.2	70%	266.7	405.2	52%
Net profit	-129.4	-169.8	367.7	n.m.	4.5	112.8	n.m.

Source: Hidroelectrica, Wood Research

Insolvency's main benefits and what to watch for next

The insolvency agent estimates that, as a result of the insolvency procedures, the company's business has improved significantly, with a RON 848m positive impact from additional revenues (from contract renegotiations) and cost cutting. The company is now well on track to deliver on its budgeted RON 367m bottom line for the year, in our view.

Main financial benefits of insolvency (RONm)



Source: Hidroelectrica, Wood Research

- **Bilateral contracts cancelled or renegotiated:** six of the 10 long-term contracts were terminated by August 2012 and the annual amount of electricity made available as a result was 7.4 TWh. The rest of the contracts have been renegotiated.
- **Costs:** during the 12 months of insolvency, the headcount was slashed by 13%, with some RON 50m of personnel costs cut overall following renegotiations with the unions.
- **Prices:** the main reason for the company's low profitability is the fact that it was forced, in the past, to sell up to 70-80% of its production under bilateral contracts and on the regulated market, with prices set significantly below the OPCOM market prices. Fondul Proprietatea estimates that Hidroelectrica missed out on EUR 850m of profit in 2009-12.

Electricity sold versus the market

	2009	2010	2011	2012	2013 budget
TOTAL production	15.5	19.9	14.7	11.8	
OPCOM prices (RON/MWh)	155.4	156.3	221.2	217.2	
Avg price via bilateral contracts (RON/MWh)	102	122	130.9	137	0
Quantity sold (TWh)	11.7	14.9	12	2.3	0
Avg price on regulated mkt (RON/MWh)	83	86	86	72	125
Quantity sold (TWh)	3.4	4	3.8	4.1	3.9
Total forgone profits (RONm)	815	680	1573	784	

Source: Hidroelectrica, OPCOM, Wood Research

In 2013E, the company should sell 3.9 TWh of electricity (a decline from the 5.5 TWh imposed by ANRE in 2012 and the 4.1 TWh actually sold in 2012) on the regulated market at a price of RON 125/MWh (an increase from the RON 72/MWh imposed in 2012).

The company's real potential may only be fulfilled beyond 2017, when the market should be fully liberalised, according to the existing calendar.

Valuation

We value Hidroelectrica based on a blend of peer group multiples: EV/capacity, PE and EV/EBITDA.

We have used a peer group of eight companies in Europe. Although all of them use other sources for electricity production, as well as more complex activity (including, in most cases, distribution), for all of them hydro electricity production represents at least 20% of their total production capacity:

Hidroelectrica: peer group

Company	Country	Price (LCU)	Market cap (EURm)	PE 2013	PE 2014	EV/EBITDA 2013	EV/EBITDA 2014	Total capacity 2012	Of which hydro capacity	EV/capacity
Iberdrola	SP	3.9	23,731	9.7	9.6	6.8	6.7	46,040	21%	1.1
ENEL	IT	2.3	21,665	7.1	7.1	5.9	6.0	97,839	31%	1.0
Verbund	AS	14.4	5,001	15.3	16.1	8.5	10.2	9,837	75%	1.0
Endesa	SP	16.0	16,940	9.3	9.0	4.0	4.0	39,403	34%	0.7
EDP	PO	2.4	8,812	9.1	8.8	8.3	8.0	23,380	32%	1.3
Alpiq	SZ	115.6	2,544	12.7	14.1	9.0	10.0	6,441	43%	1.1
PPC	GR	6.1	1,415	8.2	6.9	5.2	5.0	12,804	24%	0.5
Fortum	FI	14.4	12,748	11.1	11.7	8.5	8.7	14,675	32%	1.4
Hydro producers average				10.3	10.4	7.0	7.3			1.1

Source: Bloomberg, Wood Research

In determining Hidroelectrica's value, we have used the RON 2.2bn net debt at the end of 2012 and we have applied the peer group's multiples to the 2013 budget. We note that this is a conservative approach and that the budget looks understated (for 1H13, the company already reported a RON 481m gross profit, 11% higher than the FY13 budget).

We have then applied an equal 33% weighting to each of EV/capacity, PE and EV/EBITDA multiples, and determined a RON 12.7bn equity value, or RON 2.5bn in the Fund's portfolio:

Hidroelectrica: valuation summary

RONm

Net debt end-2012	2214
NP (budget 2013)	387.7
EBITDA (budget 2013)	1529.2

	Weighting	Implied equity value (RONm)
PE 13E peer group	0.33	3,816
EV/EBITDA 13E peer group	0.33	8,530
EV/capacity peer group	0.33	25,815

Implied equity value (RONm) 12,733

FP's stake (RONm) 2,539

Source: Hidroelectrica, OPCOM, Wood Research

In its official NAV, Fondul Proprietatea values its 20% in Hidroelectrica at RON 2bn, based on a KMPG valuation made at the beginning of the year (when the Fund was allowed by the regulator to add the stake back into its portfolio), implying a RON 10bn (EUR 2.22bn) value for the whole company.

As the Fund explained recently, the stake's valuation will not be revised in the official NAV as a result of the company exiting insolvency procedures (as the company is due to list on the Bucharest Stock Exchange in the next 9-12 months).

Nuclearelectrica

Snapshot

Nuclearelectrica is the sole nuclear power producer in Romania, operating two units in Cernavoda and generating c.20.2% of Romania's electricity output in 2012. The plant was designed to have five units, with a capacity of 707 MW each.

Unit 1 was commissioned in 1996 and is designed to be operational until 2027. Unit 2 was launched in 2007 and became fully operational in 2008.

The company also produces the CANDU 6 Nuclear Fuel in its plant in Pitesti.

Fondul Proprietatea controls a stake of 9.7%, which is officially valued at RON 648m, or 4.3% of the NAV.

Financial snapshot

RONm	2010	2011	2012	2013E
Revenues	1554	1623	1690	2090
EBIT	184	169	158	438
EBITDA	565	556	554	838*
Net profit	4	83	21	132

Source: Nuclearelectrica, *Wood Research estimates

What to watch out for

- **Prices:** the main reason for the company's low profitability is the fact that it was historically forced to sell 60-70% of its production on the regulated market with the prices set significantly below the OPCOM market prices. FP estimates that Nuclearelectrica had foregone profits of EUR 160m in both 2011 and 2012 due to this quota.

Electricity sold versus market

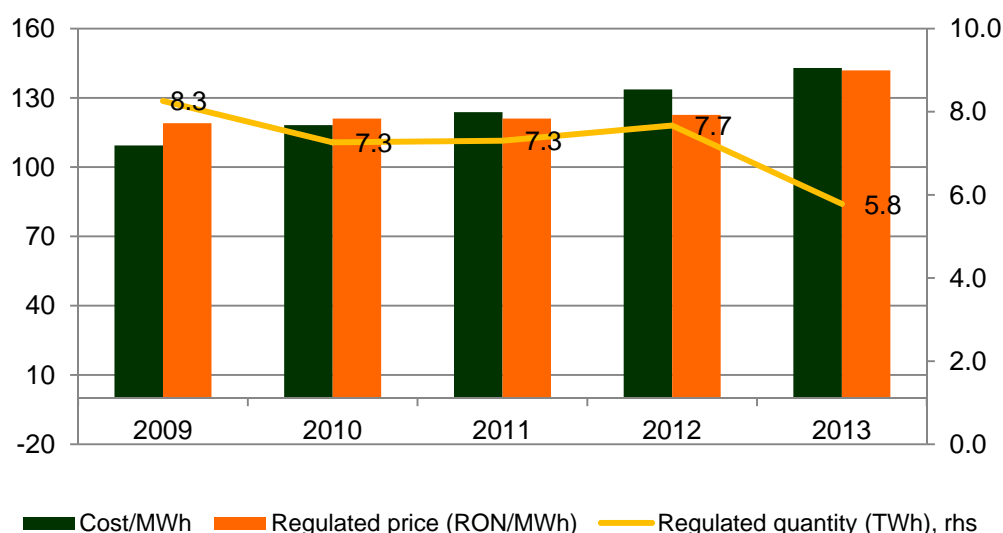
RON/MWh	2009	2010	2011	2012
Electricity produced	11.8	11.6	11.7	10.8.
Electricity sold, of which:	10.7	10.2	11.0	10.54
' Regulated market	70.0%	62.6%	62.4%	71.0%
' Free market	30.0%	37.4%	37.6%	30.0%
Regulated price	119	121	121	122.6
OPCOM price, of which:				
' PCCB	163.6	150.0	210.1	218.0
' PZU	155.4	156.3	221.2	217.5

Source: Nuclearelectrica, OPCOM, Wood Research

Essentially, as seen in the chart below, the company made a loss on each MWh sold over past two years and had to rely on the c.30% of production sold on the unregulated market to cover the losses and push the bottom line into the black.

Going forward, as part of the electricity market liberalisation calendar, Nuclearelectrica will be allowed to sell 50% of its production on the OPCOM market (c.5.3Twh vs. 7.5TWh in 2012). Additionally, the company's regulated price for 2013 was set at RON 141.9/MWh.

Nuclearelectrica costs vs. regulated prices



Source: OPCOM, Nuclearelectrica, Wood Research

- **FX debt:** 95% of the debt (amounting to RON 2.2bn at the end of 2012) was FX-denominated (mainly EUR). In times when the RON has depreciated (especially in 2010), the FX loss (albeit non-cash, coming from the debt revaluation) can almost entirely wipe out the operating performance.
- **Capacity expansion:** in 2008 a project company named EnergoNuclear was founded for the construction of reactors 3 and 4 (each with 720 MW, doubling existing capacity).
Nuclearelectrica is the main shareholder in the project, with an 85% stake. The project is currently on hold, awaiting partners to team up with, but without an incentive plan from the government, it will be difficult to move forward.
- **Heavy water issue is solved.** Nuclearelectrica transferred the RON 1.3bn worth of heavy water to the state reserve in April. The heavy water was purchased by Nuclearelectrica significantly above the market level and there was a risk that the state would like to use this for an in-kind capital increase.

Valuation

Similar to Hidroelectrica, we value Nuclearelectrica based on peer group multiples (PE, EV/EBITDA and EV/capacity – a 33% weighting each) applied to the 2013 company budget and RON 1.4bn net debt at the end of 2012.

Although the company focuses exclusively on nuclear power production (thus limiting the comparability), we have used a peer group of six companies in Europe, all of which have nuclear power production representing over 10% of the total production capacity:

Nuclearelectrica: peer group

Company	Country	Price	Market cap (EURm)	PE		EV/EBITDA		Total Capacity 2012	Of which Nuclear Capacity	EV/capacity
		(LCU)		2013	2014	2013	2014			
CEZ	CZ	483.1	10,005	6.7	7.7	5.3	5.6	16,155	25%	1.0
E.ON	GE	12.2	24,396	9.5	9.2	5.1	5.1	69,557	12%	0.7
BKW	SZ	30.6	1,308	8.9	8.0	5.0	4.8	2,918	27%	0.7
Fortum	FI	14.4	12,748	11.1	11.7	8.5	8.7	14,826	22%	1.4
Alpiq	SZ	115.6	2,544	12.7	14.1	9.0	10.0	6,441	12%	0.9
EDF	FR	19.925	36839	11.3	10.0	5.2	4.8	134,600	56%	0.6
Nuclear producers average				10.0	10.1	6.3	6.5			0.8

Source: Bloomberg, Wood Research

Applying this method results in an equity value of RON 3,365m for Nuclearelectrica and implies a RON 327m for FP's 9.7% stake. We note that, in our valuation, the EV/EBITDA and EV/capacity yield very similar numbers (c. RON 4bn), while the PE method results in

almost one-third of the value due to the financial losses budgeted as a result of the high portion of FX debt.

Nuclearelectrica: valuation summary

RONm

Net debt end 2012	1413
NP (budget 2013)	132
EBITDA (budget 2013)	838

	Weighting	Implied equity value (RONm)
PE 13E peer group	0.33	1,335
EV/EBITDA 13E peer group	0.33	4,309
EV/capacity peer group	0.33	4,418

Implied equity value (RONm)	3,365
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FP's stake (RONm)	327
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Source: Wood Research

In its official NAV, Fondul Proprietatea values the stake at RON 648m, while the IPO price range published by the government last month indicates RON 3,059m as the minimum (RON 11.2 per share) or RON 306m for the fund's stake.

CE Oltenia

Snapshot

Complexul Energetic Oltenia (CE Oltenia) is the largest integrated coal-fired power producer in Romania, with an installed capacity of 3,900 MW and average production of 18TWh annually. In 2012, the company had an estimated 31% market share in Romania's electricity production market, making it the largest single player. The company is estimated to produce some 17.5 TWh per year, with a normalised level of EUR 900m revenues, according to the company's estimates.

The company is one of the biggest employers in Romania, with over 18,000 people, of which 13,000 are involved in the mining activity.

The company was newly founded (in May 2012) by merging four entities: Complexul Energetic Turceni, Complexul Energetic Craiova, Complexul Energetic Rovinari and Societatea Nationala a Lignitului Oltenia.

CE Oltenia sources its own lignite for the electricity generation and mines some 30m tonnes annually (out of which: 25m tonnes are used internally for energy production and the rest is sold to other external customers). The company has 15 mining licence perimeters, with open pits exploitation technology achieved through ongoing excavation and dumping technology by using high capacity wheel bucket excavators, conveyor belts and dumping equipment. The audited lignite reserves were over 800m tonnes, with a total area of licensed perimeters of about 500 ha.

Fondul Proprietatea controls a 21.5% stake in the company and appoints one board member.

Financial snapshot

RONm	2010	2011	2012 (7M)	2013 budget
Revenues	3,166	4,027	3,347	6,081
EBIT	-25	348	44	249
EBITDA	n.a.	n.a.	411	799
Net profit	-127	180	118	151
RONm	Jun-12	Dec-12		
Total debt	254	1,732		
Cash	350	224		
Total assets	6,923	7,194		

Source: Company data, Wood Research

Valuation

In valuing CE Oltenia, we have used a peer group of 10 companies in Europe for which coal-fired power production represents 20% or more of the total production capacity.

Applying the same multiples as for Nuclearelectrica and Hidroelectrica (PE, EV/EBITDA and EV/capacity) results in a RON 4.7bn equity value.

CE Oltenia peer group

Company	Country	Price (LCU)	Market cap (EURm)	PE 2013 2014	EV/EBITDA 2013 2014	Total capacity 2012	Of which coal capacity	EV/capacity
Drax	GB	610.0	2,839	24.8 19.1	10.7 8.4	3,960	100%	0.6
Tauron	PD	4.3	1,770	7.6 11.0	3.9 4.2	5,243	93%	0.6
Enea	PD	13.9	1,428	9.3 13.1	3.0 3.4	3,178	91%	0.4
CEZ	CZ	483.1	10,005	6.7 7.7	5.3 5.6	13,964	50%	1.0
RWE	GE	22.5	13,848	5.7 7.1	3.8 4.1	51,977	45%	0.6
Alpiq	SZ	115.6	2,544	12.7 14.1	9.0 10.0	6,441	40%	0.9
PPC	GR	6.1	1,415	8.2 6.9	5.2 5.0	12,804	40%	0.5
E.ON	GE	12.2	24,396	9.5 9.2	5.1 5.1	70,111	27%	0.7
PGE	PD	14.5	6,310	8.8 10.4	3.6 3.8	13,100	26%	0.4
EVN	AS	9.7	1,745	10.5 8.2	8.3 7.9	1,994	20%	1.9
Thermo producers average				10.4 10.7	5.8 5.7			0.6

Source: Bloomberg, Wood Research

After running this peer multiple comparison, in determining the fair value of the company, we have applied a 50% discount due to the following issues: 1) CE Oltenia's costs in 2012 were RON 205 per MWh, while it has pencilled in RON 208 per MWh for 2013E in its budget. The company will sell some 13% of its 2013 production (2.5TWh) on the regulated market at RON 190.3/MWh and the rest on the free market (at around RON 160/MWh). This means that, for this year, meeting the budget might prove quite challenging; 2) the company is one of the largest employers in Romania and the mining activity has a reduced efficiency: CE Oltenia produces 30m tonnes of coal per annum – in comparison, CEZ in the Czech Republic mines 24m tonnes per year with 3,4000 miners, while PGE in Poland extracts 50m tonnes with roughly 7,000 miners. Furthermore, the cost base will be increased by the amounts CE Oltenia will have to pay for the CO2 certificates, which will kick in as of this and next year (c.1.1 CO2 certificate per MWh produced); and 3) the company has a heavy EUR 877m capex plan until 2018, versus EUR 385m of net debt at the end of last year.

As a result, in our model, we pencil in a RON 506m value for the 21.5% stake that FP holds in CE Oltenia, compared to the RON 880m in the official NAV:

CE Oltenia valuation summary

RONm		
Net debt end-2012	1,509	
NP (budget 2013)	151	
EBITDA (budget 2013)	799	
	Weighting	Implied equity value (RONm)
PE 13E peer group	0.33	1,567
EV/EBITDA 13E peer group	0.33	3,101
EV/capacity peer group	0.33	9,426
Equity value	4,703	
Discount factor	50%	
Implied equity value (RONm)	2,351	
FP's stake (RONm)	506	

Source: Wood Research

Distributors

Snapshot gas distributors

The gas distribution is a regulated activity in Romania, with the same watchdog (ANRE) as in the case of the production and transport.

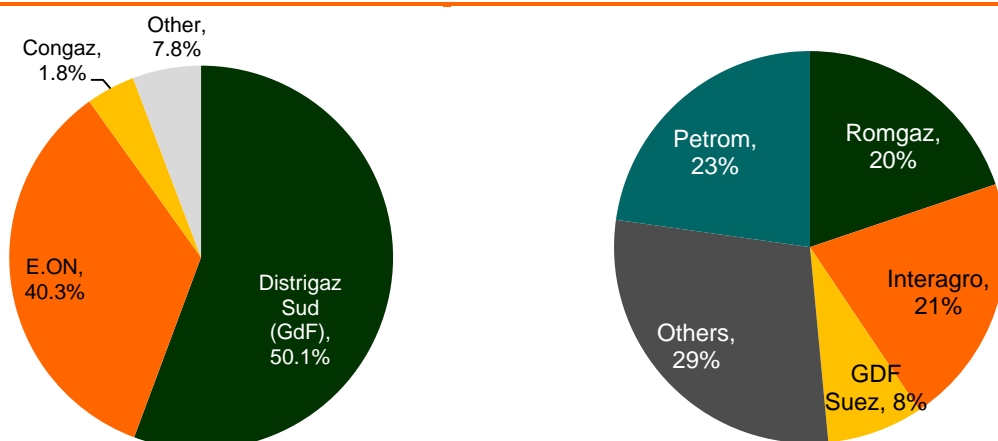
The activity is regulated based on five-year periods, whereby the regulator uses a revenue cap methodology to set the tariffs and the allowed rate of return for the companies (currently set at 8.6%). The tariffs are set at the beginning of April and revised yearly.

Romania's gas distribution grid has a relatively low penetration as, out of c.7m households (8.5m dwellings) in the country, only some 2.6m are connected to the gas distribution grid. This c.37% penetration compares to about 55-60% in the case of other CEE countries.

GDF Suez is the largest distributor of gas on the Romanian regulated market (with some 50% market share at the end of 2012) and an important player on the supply market as well (with an 8% market share). The company has some 1.3m customers and focuses on the southern part of the country.

E.ON gas provides distribution services for some 1.5 customers in the northern part of the country:

Romanian gas market distribution and supply structure: regulated vs. free market (2012)



Source: ANRE, Wood Research

GDF group controls 51% in **GDF Suez Romania** (FP owns a 12% stake) and paid some EUR 310m back in 2005 in the privatisation process.

The company also owns the licence to supply electricity and invested EUR 80m in a 48MW installed capacity wind farm project, which was commissioned in 2012. In December 2012, the company announced the acquisition of a second 50MW wind farm project that it intends to develop.

Financial snapshot: GDF Suez Romania

RONm	2010	2011	2012	2013 budget
Revenues	3,764	3,859	4,047	4,359
EBITDA	319	414	578	n.a.
EBIT	206	286	415	258
Net profit	199	234	358	302
Total debt	430	123	366	
Cash	366	82	433	
Total assets	4,204	4,180	4,937	

Source: GDF Suez, Wood Research

E.ON Gaz is controlled by E.ON Rhurgas (with 51% purchased back in the 2005 privatisation for EUR 304m), while Fondul Proprietatea owns a 12% stake.

Financial snapshot: E.ON gaz

RONm	2010	2011	2012	2013 budget
Revenues	816	819	775	833
EBITDA	311	354	206	227
EBIT	196	265	83	n.a.
Net profit	160	230	73	100
Total debt	10.73	22	62	
Cash	0.3	1.1	0.6	
Total Assets	1,396	1,577	1,913	

Source: E.ON, Fondul Proprietatea, Wood Research

Snapshot: electricity distributors

The electricity distribution system in Romania is split geographically into eight regions, each covered by a distribution company. Five out of eight electricity distribution companies were privatised in 2004-08 with major international players (Enel, E.ON, CEZ), while three are still state-owned. The fund held stakes in all of the distribution companies but sold CEZ Oltenia Distributie to CEZ in 2009.

After the unbundling process, the distributors are separated from the suppliers and are regulated using a revenue cap methodology. The profitability of the companies is determined using a formula, which, keeping it simple, regulates the EBIT to equal the Regulated Asset Base multiplied by a Rate of Return imposed by ANRE. The current rate of return is set at 8.52% for 2013 (versus 10% for 2008-12), which is an intermediary year and should be updated starting next year, when a new regulatory period starts.

Electricity distribution and supply companies and their shareholders

Distribution

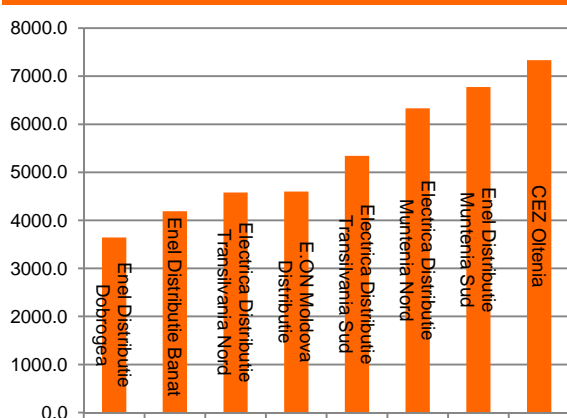
Enel Distributie Muntenia S	Enel Investment Holding - 64.4%, Electrica SA - 23.6%, Fondul Proprietatea 12%
Electrica Distributie Transilvania N	Electrica SA - 78%, Fondul Proprietatea - 22%
Enel Distributie Banat	Enel investment Holdings - 51.0%, Electrica - 24.9%, Fondul Proprietatea - 24.1%
Electrica Distributie Muntenia N	Electrica SA - 78%, Fondul Proprietatea - 22%
Electrica Distributie Transilvania S	Electrica SA - 78%, Fondul Proprietatea - 22%
Enel Distributie Dobrogea	Enel investment Holdings - 51.0%, Electrica - 24.9%, Fondul Proprietatea - 24.1%
E.ON Distributie Moldova	E.ON Energie Romania - 51%, Electrica - 27%, Fondul Proprietatea - 22%

Supply

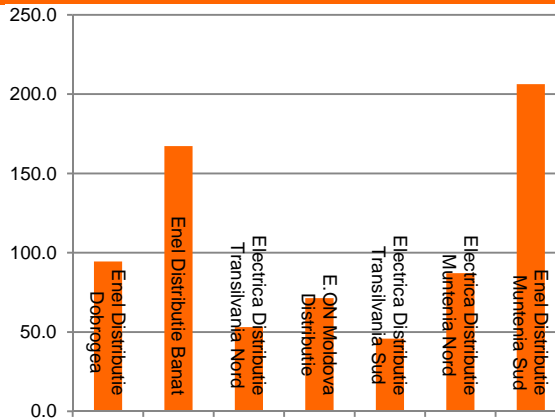
Enel Energie Muntenia S	ENEL - 64.4%, Electrica - 23.6%, Fondul Proprietatea - 12%
Electrica Furnizare Transilvania N	Electrica - 78%, Fondul Proprietatea - 22%
Electrica Furnizare Transilvania S	Electrica - 78%, Fondul Proprietatea - 22%
Electrica Furnizare Muntenia N	Electrica - 78%, Fondul Proprietatea - 22%
E.ON Furnizare Moldova	E.ON Romania - 51%, Electrica - 27%, Fondul Proprietatea - 22% (EBRD owns 9.8% on E.ON Romania)
Enel Energie	Enel Distribuzione - 51%, Electrica - 37%, Fondul Proprietatea - 12%

Source: Fondul Proprietatea, Wood Research

Quantity of energy distributed (2012)



Net profit (2012)



Source: Fondul Proprietatea, Wood Research

Electricity distributors: snapshot

(RONm)	Enel Distributie Banat			Enel Distributie Dobrogea		
	2011	2012	2013E	2011	2012	2013E
Revenues	621	637	629	488	509	475
EBITDA	314	292	316	186	190	219
EBIT	238	181	209	126	103	135
Net profit	220	167	169	109	95	104

(RONm)	E.ON Moldova Distributie			Enel Distributie Muntenia Sud		
	2011	2012	2013E	2011	2012	2013E
Revenues	661	689	674	816	967	1,002
EBITDA	189	213	225	211	358	497
EBIT	22	84	0	52	172	279
Net profit	7	71	86	50	206	231

(RONm)	Electrica Distributie Transilvania Nord		Electrica Distributie Muntenia Nord		Electrica Distributie Transilvania Sud	
	2011	2012	2011	2012	2011	2012
Revenues	566	605	700	736	635	664
EBITDA	141	180	151	183	140	177
EBIT	40	69	72	99	28	62
Net profit	29	53	67	87	20	46

Source: companies, Wood Research

Market overview

Most of the companies in the sector are owned by foreign players. The largest company (according to energy distributed), CEZ Oltenia, was bought by CEZ in 2005. The fund had a PUT option in the company, which has been exercised together with the state's stake in 2009. The price paid by CEZ at that time represented EUR 230m for the 30% stake, or EUR 560 per customer.

Enel has acquired three distribution and supply companies: Electrica Dobrogea in 2004 by paying an equivalent of EUR 111m for the entire company, Electrica Banat in 2005 by paying an equivalent EUR 111m for the entire company, and Electrica Muntenia Sud in 2007 by paying an equivalent EUR 1,383m for the entire company. The acquisitions took place by both direct purchases of shares and share capital increases. After the unbundling process, the distribution was separated from supply so that the three companies remained distribution only, while two new companies have been created (Enel Energie and Enel Energie Muntenia) for handling the supply of energy. The supply energy companies have a large turnover as they are the main sellers of energy but a low profit as they are allowed only a small margin over the regulated price. Additionally, they have a large cash position (resulting from the share capital increases) and low or null levels of debt. The state still has a PUT option in the case of Enel Muntenia and has asked to exercise it at a price of EUR 375m for its 13.6% stake.

E.ON acquired Electrica Moldova in 2005 for a total company value of EUR 196m. The acquisition also took place through the purchase of shares and a share capital increase, and, after the unbundling process, a new supply company has been created, handling both the supply of electricity and gas.

Three distribution companies are still controlled by the state via an entity called Electrica SA, which also owns the remaining state-owned shares in the already privatised electricity companies. The larger Electrica SA is to be listed on the Bucharest Stock Exchange in the coming months (official calendar: by October) and the state is planning to sell a 51% stake in the company via a share capital increase of 105%. The process is currently awaiting the selection of an intermediary. The three state-owned electricity distribution companies currently have the lowest operating profit per energy distributed among the Romanian electricity distributors.

Valuation

We value the electricity distributors based on a blend of peer group multiples: EV/EBITDA, P/E, EV/energy distributed and EV/customer. We are using the average of a peer group of 14 companies in Europe and Russia and, as the companies do not publish their regulated assets base, which would also allow for a comparison on P/RAB or return on RAB, and there is no consensus for 2013, we are basing our valuation on the 2012 numbers.

Electricity distributors: peer group

Company	Country	Market cap (EUR m)	P/E 2011	2012	EV/EBITDA 2011	2012	EV/MWh 2012
Western Europe							
Electricite de Strasbourg	FR	624	10.3	10.7	4.0	4.2	74.24
Emasz RT	HU	95	3.3	1.8	3.3	2.6	26.59
Societa Elettrica Sopracenerina	SZ	129	13.5	15.0	6.3	6.3	260.49
Energiedienst	SZ	912	10.6	12.4	4.6	5.7	81.75
EDP- Energias de Portugal	PO	8,659	7.7	8.6	8.1	8.4	
Elmu	HU	228	3.6	1.3	2.1	2.1	25.32
Western Europe Average			8.2	8.3	4.7	4.9	93.7
CIS							
Moscow Integrated Disco	RU	2,292		n.a.	5.4	6.5	
IDGC of Center and Volga	RU	327		9.1	3.2	3.8	
IDGC of Siberia	RU	186		9.3	3.7	2.8	
IDGC of Center	RU	354		3.5	2.7	2.7	
Lenenergo	RU	124		22.6	4.9	4.1	
IDGC of South	RU	40		1.7	18.2	5.0	
IDGC of Urals	RU	338		51.4	2.9	4.4	
IDGC of Volga	RU	236		4.3	3.4	2.7	
Russia Average				14.6	5.5	4.0	
Total power generation average				11.4	5.1	4.5	

Source: Bloomberg, Wood Research

In determining the value of the distributors in Fondul Proprietatea's portfolio, we are applying the average 2012 multiples of foreign peers to the EBITDA, net profit and net debt values as of the end of 2012 of the Romanian distributors.

Although the budget for 2013 is available in some cases, we prefer to stay on the conservative side (as most of the companies are budgeting for an increase in profit). We are also valuing the distributors using a multiple of EV/energy distributed of Western peers and an EV/customer of EUR 560, which is the reference set by the transaction in which CEZ acquired CEZ Oltenia from Fondul Proprietatea in 2009. We are calculating the value of the electricity distributors based on a blend of EV/EBITDA (30%), P/E (30%), EV/energy distributed (30%) and EV/customer (10%), and the value of gas distributors based on a blend of EV/EBITDA (33%), P/E (33%) and EV/customer (33%). We are also applying a 30% discount for the distributors due to the higher regulatory risk (e.g., Transgaz and Transelectrica, the listed regulated businesses in Romania, have traded

historically at a 20% discount to their foreign peers) and due to the unlisted status of the stakes.

Electricity distributors: valuation

Company	Implied value (RONm)				Weighted average value	FP stake	Value for FP stake	Official NAV value
	EV/EBITDA	EV/Energy	EV/client	PE				
Enel Distributie Dobrogea	1,022	1,835	1,918	1,080	1,373	24%	329	301
Enel Distributie Banat	1,727	2,377	2,771	1,910	2,081	24%	499	445
Electrica Distributie Transilvania Nord	635	1,878	2,917	606	1,227	22%	270	189
E.ON Moldova Distributie	913	2,040	3,880	815	1,518	22%	334	324
Electrica Distributie Transilvania Sud	602	2,179	2,626	523	1,254	22%	276	203
Electrica Distributie Muntenia Nord	965	2,935	3,506	996	1,819	22%	400	275
Enel Distributie Muntenia Sud	2,576	4,066	4,180	2,357	3,118	12%	374	344
E.ON Gaz Distributie	980	n.a.	4,117	834	1,370	12%	164	143
Gaz de France	2,561	n.a.	3,780	4,087	2,409	12%	289	340

Source: Wood Research, Fondul Proprietatea

CN Aeroporturi Bucuresti – Bucharest Airport

Snapshot

The company provides airports services for passengers, cargo and mail transportation, including administration, investments, and the maintenance of goods within its patrimony in order to ensure the safety and security of take-off/landing of aircraft and of the transfer of passengers, cargo and mail within the airport.

Bucharest Airport is the result of a merger of the two Bucharest airports: Henri Coanda Otopeni and Aurel Vlaicu Baneasa and, according to local media reports, the number of passengers increased by 1.3% to 7.5m last year (a c.70% market share of passenger transport in Romania).

There are 32 air carriers operating at the two airports (with two of them added last year, TAP Portugal and Flydubai), offering some 68 destinations currently.

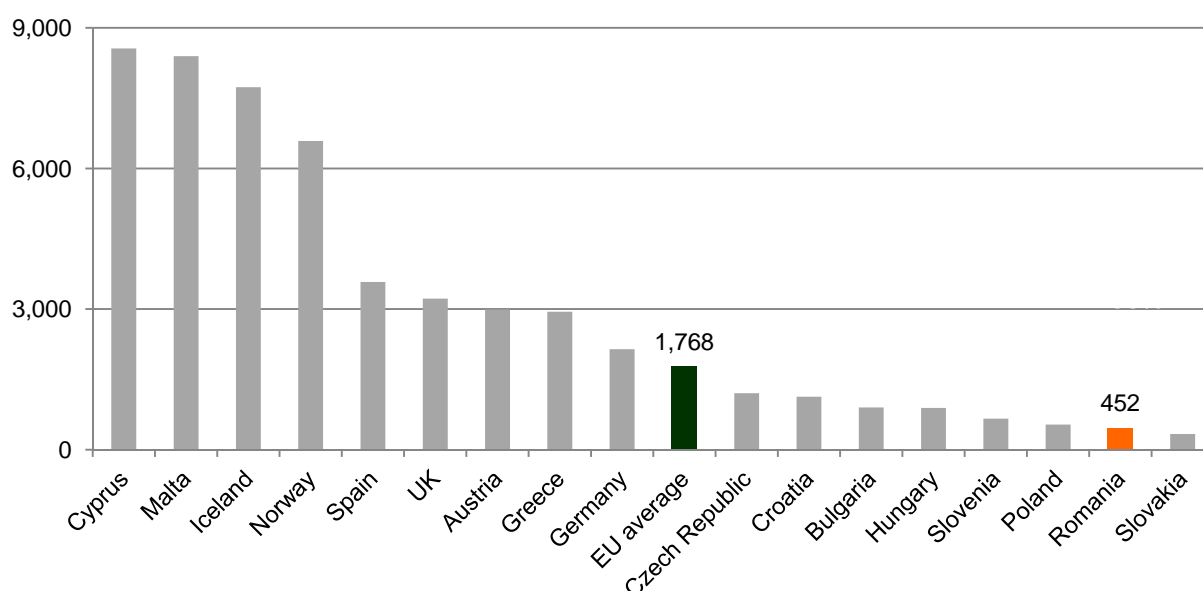
Bucharest Airport: financial snapshot

RONm	2010	2011	2012	2013 budget
Revenues	431	501	580	644
EBITDA	172	218	205	209
Net profit	54	89	71	38
LT debt	0	185	281	
ST debt	0	0	40	
Cash	62	23	47	
Total assets	7,704	5,742	5,777	

Source: Company data, Fondul Proprietatea, Wood Research

Currently, Romania has the lowest ratio of air passengers per 1,000 inhabitants in the EU (apart from Slovakia, where the data is distorted by the proximity of Vienna airport) of 452 passengers/1,000 inhabitants (at the end of 2011). This is four times below the EU average and only half of neighbouring Bulgaria:

Number of passengers per 1,000 inhabitants (2012)



Source: Eurostat, Wood Research

Due to the low base of passengers and the fact that Romania is set to enter the Schengen area as soon as next year, the company expects the number of passengers to increase to 8m for 2013E, to double over the next seven years and reach 14.8m by the end of 2020.

Valuation

In valuing Bucharest Airport, we have used the company's RON 274m net debt at the end of 2012 and the budget for 2013.

We have applied a blend of multiples from a peer group of five European airports: a 33% weighting for the PE (19.3x for 2013E) and 33% for EV/EBITDA (8.8x for 2013E), as well as a 33% weighting for a EV/passenger multiple determined based on the traffic in 2012.

Bucharest Airport: peer group

Company	Country	Price	Market cap	PE		EV/EBITDA		EV/Passenger
		(LCU)	(EURm)	2013	2014	2013	2014	(EUR/ passenger)
Wien	AS	44.5	935	13.9	12.2	7.0	6.7	73.2
Zurich	SZ	493.5	2,453	21.1	15.2	7.8	7.8	131.1
France	FR	75.7	7,488	20.2	18.2	9.5	9.0	119.9
Italy (Venice)	IT	12.5	691	21.7	20.1	9.3	8.6	74.4
Frankfurt	GE	48.2	4,438	19.7	16.8	7.9	7.5	85.5
Airports average				19.3	16.5	8.8	8.3	85.5

Source: Bloomberg, Wood Research

The result is a RON 1.6bn value for Bucharest Airport, to which we have applied a 30% discount in deriving our fair value of RON 1.13bn to account for the fact that: i) Romania is not yet a Schengen member; and ii) the transit business for Bucharest Airport is far lower than its peers (due to the lack of connections). Thus, we value FP's 20% stake at RON 227m versus RON 272m in the official NAV:

Bucharest Airport: valuation summary

RONm

Net debt end-2012	274
NP (budget 2013)	38
EBITDA (budget 2013)	209

	Weighting	Implied equity value (RONm)
PE 13E peer group	0.33	734
EV/EBITDA 13E peer group	0.33	1,556
EV/capacity peer group	0.33	2,579

Equity value	1,619
Discount factor	30%
Implied equity value (RONm)	1,133
FP's stake (RONm)	227

Source: Wood Research

Seaports

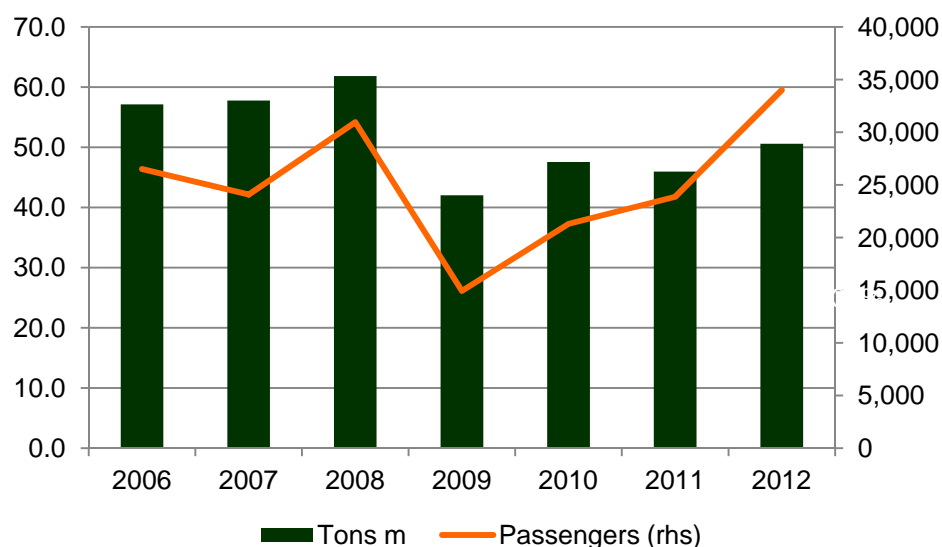
Snapshot

The company acts as the port authority for the Romanian maritime ports, Constanta, Midia and Mangalia, and for the Tomis Marina.

The Port of Constanta is located at the crossroads of the trade routes linking the markets of the landlocked countries from Central and Eastern Europe with the Transcaucasus, Central Asia and the Far East. It is the main Romanian port and it ranks among the top-10 European ports by traffic.

The port offers direct access from every terminal to the national and European railway network, through its own 300km long railway system, and is connected by pipelines to the major Romanian refineries and to the European network.

Traffic data



Source: Company data, Wood Research

Constanta seaport: snapshot

RONm	2009	2010	2011	2012
Revenues	210	219	222	270
EBITDA	41	35	62	81
EBIT	24	35	51	46
Net profit	12	25	42	36
LT debt	70	48	25	10
ST debt	19	23	23	17
Cash	35	9	8	11
Total Assets	1,000	1,028	1,167	1,142

Source: E.ON, Fondul Proprietatea, Wood Research

Valuation

In order to value the Constanta Port, we are using only the 2013E PE and EV/EBITDA of five peer companies, to which we apply the same 30% discount as in the case of Bucharest Airport. As there is no budget available, we apply these multiples to the 2012 numbers of the company and derive a RON 70m value for FP's 20% stake (versus RON 67.4m in the official NAV):

Constanta seaport: peer group

Company	Country	Price (LCU)	Market cap (EURm)	PE		EV/EBITDA	
				2013	2014	2013	2014
Hamburg	GE	17.3	1,250	20.1	17.6	4.4	4.2
GLOBAL-GDR REG	CC	13.6	1,357	13.5	11.3	6.8	6.1
Luka Kopper	SV	9.0	126	11.2	9.0	3.5	3.4
KUEHNE & NAGEL-R	SZ	110.1	1,150	21.4	18.9	12.6	11.4
Novorossiysk	RU	3.0	1,384	5.7	5.5	3.1	2.8
Seaports average				14.4	12.4	6.1	5.6

Source: Bloomberg, Wood Research

Constanta seaport valuation summary

RONm			
Net debt end-2012		16	
NP (2012)		36	
EBITDA (2012)		81	
	Weighting	Implied equity value (RONm)	
PE 13E peer group	50%	517	
EV/EBITDA 13E peer group	50%	478	
Equity value		498	
Discount factor		30%	
Implied equity value (RONm)		348	
FP's stake (RONm)		70	

Source: Wood Research

Appendix 1 – portfolio breakdown

FP: listed companies included in our valuation

Listed companies	Market	Ticker	Stake	Last price (RON)	Mkt Cap (RON m)	Fund's stake (RON m) (EUR m)	
Petrom	BVB	SNP RO	19.0%	0.43	22,855.4	4,593.9	1,038.2
Transgaz	BVB	TGN RO	15.0%	190	2,239.3	335.5	75.8
Transelectrica	BVB	TEL RO	13.5%	13	953.6	128.6	29.1
Oil Terminal SA	BVB	OIL RO	8.5%	0.14	78.6	6.6	1.5
Alro Slatina SA	BVB	ALR RO	10.2%	1.6	1,106.5	113.0	25.5
BRD	BVB	BRD RO	3.6%	7.7	5,370.4	195.5	44.2
Banca Transilvania	BVB	TLV RO	2.9%	1.3	2,782.6	81.5	18.4
Primcom Bucuresti SA	RASDAQ	PRIB RO	75.5%	13	27.7	20.9	4.7
Alcom Timisoara SA	RASDAQ	ALCQ RO	71.9%	31	3.8	2.8	0.6
Telerom Proiect Bucuresti SA	RASDAQ	TEBV RO	68.6%	4.3	4.2	2.9	0.6
Forsev Turnu Severin	RASDAQ	FORS RO	28.1%	0.73	2.5	0.7	0.2
IOR	RASDAQ	IORB RO	2.8%	0.30	27.9	0.8	0.2
Comcereal Fundulea	RASDAQ	CCFD RO	11.4%	2.9	3.2	0.7	0.2
Transilvania - Com SA	RASDAQ	TRVC RO	40.0%	5.2	1.0	0.4	0.1
Turdapan Turda SA	RASDAQ	TUSB RO	44.1%	2.5	0.9	0.4	0.1
Romplumb	RASDAQ	COCL RO	33.3%	3.0	14.4	4.8	1.1
Severnava	RASDAQ	SEVE RO	39.1%	2.3	11.6	4.5	1.0
Romaero	RASDAQ	RORX RO	21.0%	15	93.8	19.7	4.4
Conpet SA	RASDAQ	COTE RO	29.7%	36	311.7	92.6	20.9
Palace Sinaia SA	RASDAQ	PACY RO	15.4%	0.18	6.8	1.0	0.2
Mecon Brasov SA	RASDAQ	MECP RO	12.5%	1.3	0.6	0.1	0.0
Mecanoenergetica	RASDAQ	MEGU RO	10.1%	0.17	2.7	0.3	0.1
Resib Sibiu S.A.	RASDAQ	RESI RO	2.9%	0.08	2.5	0.1	0.0
Erste	VSE	EBS AV	0.1%	21	37,330.6	37.3	8.4
Raiffeisen	VSE	RBI AV	0.4%	20	17,654.6	75.9	17.2
Total						5,721	1,293
NAV per share						0.44	0.10
Petrom as a % of total						80.3%	

Source: Company data, Wood Research

FP: other unlisted companies (not included in our valuation)

BAT Service	33.00%	Laromet	6.52%
Carbid Fox Tarnaveni	7.97%	Marlin Ulmeni	4.78%
Carom Asigurari Bucuresti	70.00%	Petrotel Lukoil Ploiesti	2.18%
Cetate Suceava	20.43%	Plafar	49.00%
Ciocarla Ploiesti	1.69%	Retizoh Craiova	7.38%
Commetex Piatra Neamt	16.00%	Romplumb	51.00%
Comsig Sighisoara	69.95%	Salrom	49.00%
Elcond Zalau	5.11%	Salubriserv Targu Mures	17.49%
Electromecanica Ploiesti	49.00%	Simtex	30.00%
FECNE Bucuresti	12.12%	Telerom	68.63%
Familial Restaurant Iasi	2.76%	UM Bucuresti	36.60%
Celuloza si Otel	8.63%	World Trade Center CCIB Bucure	19.90%
S.C. Comcereal Miercurea Cluj S.A.	10.03%	Comcereal Turda	51.00%
Gerovital Cosmetics Bucuresti	9.77%	Zamur	7.07%
Constanta Airport	20.00%	Galati Port	20.00%
Timisoara Airport	20.00%	Giurgiu Port	20.00%
Posta Romana	20.00%	Zirom	100.00%
Forsev Turnu Severin	28.14%		

Source: Company data, Wood Research

FP: unlisted companies included in our valuation

	Stake	Implied valuation (RON m)	Fund's stake (RON m)	per share
Generators		20,801	3,372	0.26
Hidroelectrica	19.9%	12,733	2,539	0.19
Nuclearelectrica	9.7%	3,365	327	0.03
CE Oltenia	21.5%	4,703	506	0.04
Distributors		12,447	2,203	0.17
Electrica Distributie Muntenia Nord	22.0%	1,282	282	0.02
Electrica Distributie Transilvania Nord	22.0%	869	191	0.01
Electrica Distributie Transilvania Sud SA	22.0%	888	195	0.02
ENEL Distributie Banat SA	24.1%	1,485	358	0.03
ENEL Distributie Dobrogea SA	24.1%	978	236	0.02
ENEL Distributie Muntenia Sud SA	12.0%	2,215	266	0.02
E.ON Moldova Distributie	22.0%	1,073	236	0.02
E.ON Gaz Distributie	12.0%	1,308	157	0.01
GDF Suez Romania	12.0%	2,351	282	0.02
Oil & Gas		10,121	1,488	0.11
Romgaz	14.99%	10,121	1,488	0.11
Airports		1,619	227	0.02
Aeroportul Int. Bucuresti	20.00%	1,619	227	0.02
Seaports		498	70	0.01
Constanta Port	20.00%	498	70	0.01
Total		45,079	7,360	0.57
<i>NAV per share</i>	<i>Shares outstanding</i>		<i>0.57</i>	

Source: Company data, Wood Research

Appendix II – macro: green light for growth

Macro summary

Romania's economy: the economy is expected to rebound in 2013 to around 2.3% (up from our previous forecast of 1.6% amid a strong 1Q13 reading of 2.2% yoy growth), due to a better harvest and a potential increase in domestic demand in 2H13, an increase in the absorption of EU cohesion funds, which should help investments and net exports. In 2014, we expect growth of around 2.7% (vs. 3.5% previously), which is closer to its long-term growth potential of around 3.5-4%, although weak EU growth and austerity measures will make it difficult to reach that level in 2014. Growth disappointed last year, at 0.7%, amid a weak harvest and negative impacts from the EU debt crisis, low private lending growth (only a 1.5% increase) and the low absorption of EU cohesion funds.

Inflation: in June, the inflation rate rose slightly, by 5.4% yoy vs. 5.3% yoy in May, amid an increase in services prices. Inflation is expected to drop in 2H13 towards around 3% yoy at the end of the year amid the base effect and a better harvest, which should reduce food prices. However, inflation upside pressure will remain amid the liberalisation of the electricity and natural gas prices in 2013.

NBR actions: the NBR cut its interest rate at the beginning of July by 25bps to 5% and we believe it will cut another 75bps this year, considering a good harvest and that there is no significant weakening pressure on the RON, as CPI is expected to fall into the 1.5% to 3.5% inflation tolerance band.

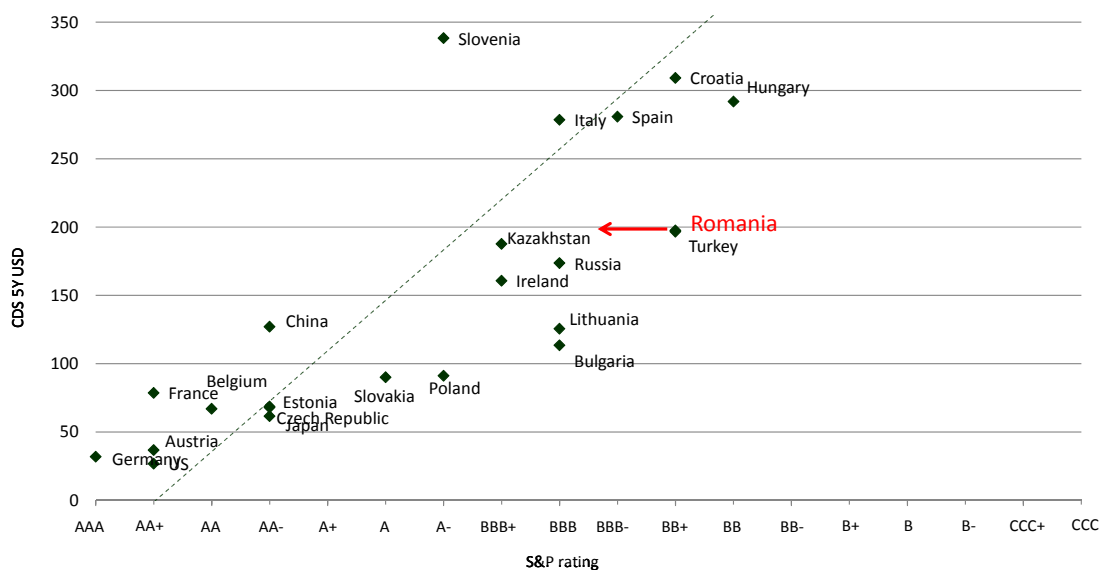
The RON: the RON has remained unchanged so far this year vs. the EUR, the sixth-best performance among the 24 EM currencies tracked by Bloomberg. It is important for the Romanian economy that the RON is not weakening fast or below 4.60-4.70 vs. the EUR as this would reduce consumer confidence as FX-denominated mortgages and loans (around two-thirds of the loan books) would be more difficult to be paid back. The central bank may also intervene if the RON strengthens too much (above 4.10-4.20 vs. the EUR), but we do not expect this to happen.

IMF deal: after Romania successfully completed its second stand-by agreement with the IMF at the end of June, Romania, the IMF and the EU started the talks on a new aid deal on 17 July. The negotiations are likely to take three months and the EU Econfin plans to make a final decision over the deal on 15 October. The new precautionary SBA would allow Romania to get access to cheap funding from the capital market, but would also increase the pressure on the government to continue with structural reforms and privatisations. Furthermore, Romania faces around EUR 8bn in repayments to the IMF over the next two years.

Current account deficit: the current account deficit (CAD) dropped from 4.5% in 2011 to 3.8% in 2012 and may shrink to 2.0% in 2013. So far in 2013, until May, the current account has shown a surplus of EUR 314m vs. a EUR 2.8bn deficit in 2012 in the same period, due mainly to a significant improvement in exports, while imports are shrinking. This increases the chances that the CAD will remain significantly below the level of 2012 (EUR 5bn). This reduces the pressure on the financing of the current account deficit significantly as it started to rely more on short-term portfolio flows and less on foreign direct investments. However, if Romania increases the absorption of EU funds, it should ease the financing of the deficit in the future further.

Budget deficit: Romania managed to escape the excessive deficit procedure in 2Q13, which had been opened in 2009 amid a budget deficit for 2012 that was under 3% and the outlook suggests that the deficit will stay below this crucial level. The budget deficit seems to be under control following the pension reforms and the implementation of the fiscal responsibility laws. We believe that the deficit will be around 2.7% of GDP in 2013E and 2014E.

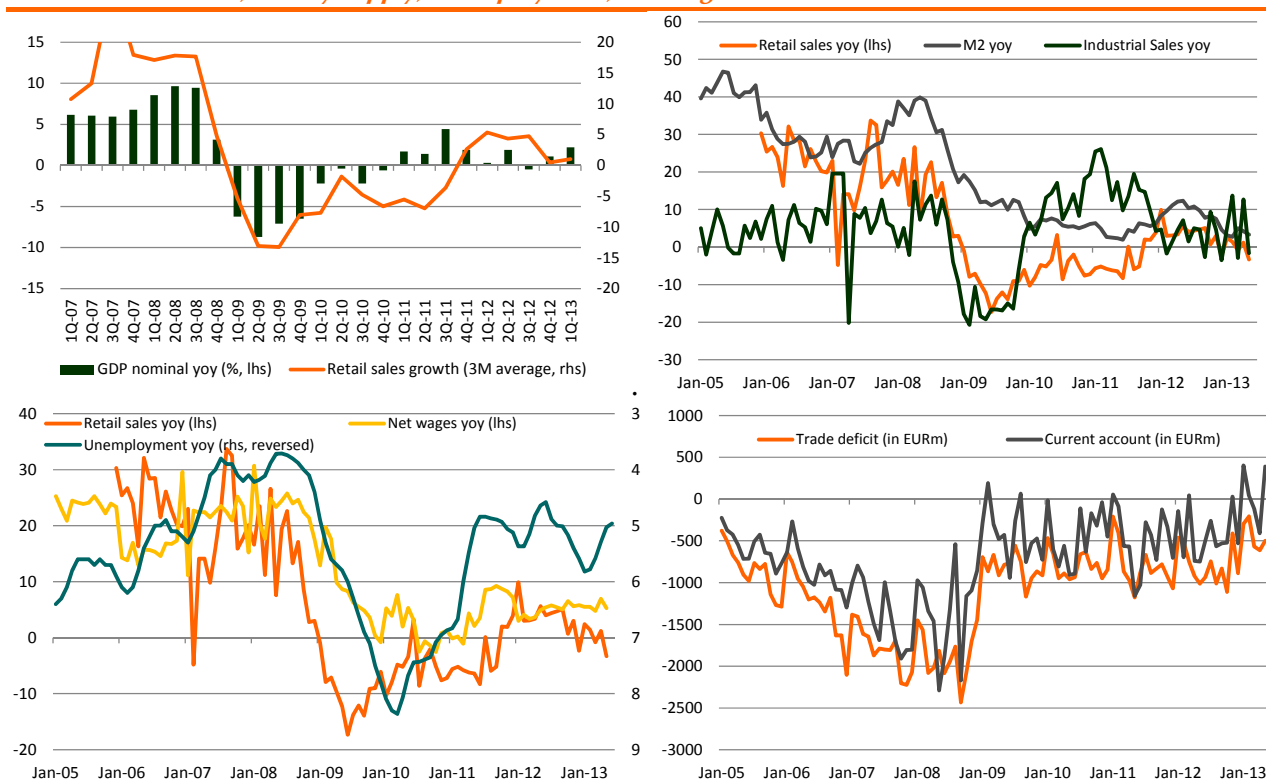
CDS scatter chart comparing CDS levels with the S&P credit rating



Source: CEIC, Bloomberg, Wood Research

CDS development: the improvement in the global financial markets since last July has significantly reduced Romanian CDS (from 450bps in July 2012 to around below 200bps in July 2013) supporting bond prices. The future development of bond yields, CDS and interest rates will also depend on potential rating changes. The S&P rating of BB+ is still lagging Fitch and Moody's ratings, which are at investment grade; we believe that, in the future, S&P might adjust to the others and announce an upgrade to in line with our CDS scatter chart. To achieve this goal, Romania should also continue with structural reforms to improve competitiveness, while building a track record of fiscal prudence, and continuing to reduce external debt.

Retail sales vs. GDP, money supply, unemployment, net wages and IP



Source: CEIC, Bloomberg, Wood Research

In the chart above (top left), we can see that retail sales are one major driver of GDP growth in Romania as domestic consumption is responsible for over 70% of the economy. Retail sales and industrial production have been quite volatile this year, while M2 money supply growth is slowing. Net wages are still rising significantly and they should increase even more in the coming months as inflation is falling, which should support retail sales.

The reduction in the trade deficit supported a reduction of the current account deficit, a trend that will hopefully continue and would reduce Romania's vulnerability amid any financial turmoil.

Key economic indicators

	2007	2008	2009	2010	2011	2012	2013F	2014F
Real GDP growth	6.3	7.7	-7.1	-1.4	2.4	0.7	2.3	2.7
CPI, avg	4.9	7.9	5.6	6.1	5.8	3.3	4.3	3.2
EURRON, avg	3.57	4.03	4.23	4.28	4.33	4.44	4.40	4.40
Current account balance, % of GDP	-13.4	-11.6	-4.2	-4.5	-4.4	-3.8	-2	-2.5
Fiscal balance, % of GDP	-2.9	-5.7	-9	-6.8	-5.5	-2.9	-2.7	-2.7
Unemployment rate, avg	4.1	4	6.3	7.6	5.3	5	5.3	5.2
Central Bank Rate, eop	7.5	10.25	8	6.25	6	5.25	4.15	4

F - Wood estimates

Source: Bloomberg, Wood Research

Appendix III – Romanian equity market perspectives

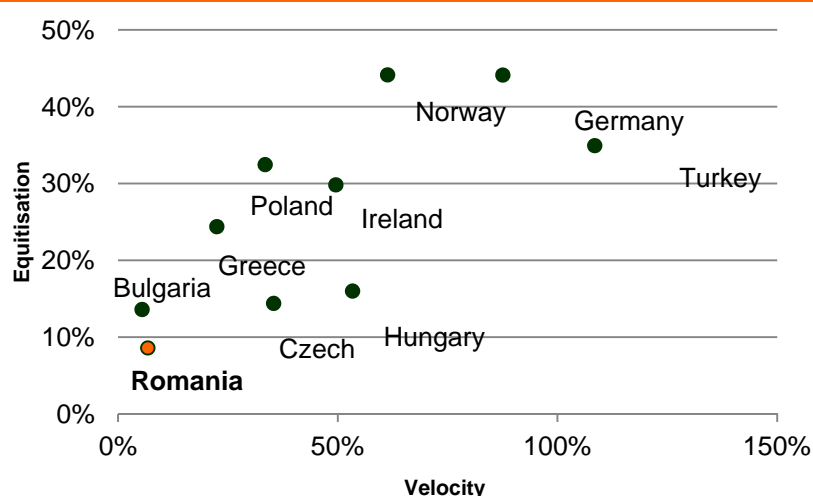
Low base

With a EUR 22.5bn domestic market capitalisation and an average EUR 7.7m average daily trading volume, the Bucharest Stock Exchange is currently among the smallest and least developed in Europe in terms of integration, market capitalisation and daily liquidity.

Having a 9% equitisation level (expressed as market cap to GDP) at the end of 2012, Romania is one of the least developed EU markets, far below even its CEE peers. The main reason for this significant underdevelopment is that the bourse has not yet been used as a real capital source and company privatisations have been sporadic so far.

In addition, the free float of the listed companies is limited and, as a result, the velocity of the market (expressed as turnover to market cap) is again far below that of the regional bourses:

Romanian's velocity and equitisation versus the region



Source: Company data, Wood Research

Although a full breakdown is not available anymore (as global accounts for trading have been implemented), the foreign investors' weight in the market was 25% at the end of 2010 (pre-FP listing) and we would estimate it at roughly one-third at this moment.

Pension funds as long-term drivers

Similar to Poland, Romania has carried out a pension reform, starting in 2008, based on a 3-pillar system.

While the system is still in an early phase, the funds have started to pick up the pace recently, becoming some of the most important players in the market. Despite the current turmoil in the Polish pension system, Romania seems committed to following the initial steps of the Polish pension funds.

Romanian pension fund system

Pillar I	Pillar II	Pillar III
Public system	Privately-managed	Privately-managed
Pay-as-you-go	Predefined contributions	Predefined contributions
	Mandatory for individuals <35 year-olds, Voluntary participation optional for 35-45	
	Guaranteed amounts	Individual accounts

Source: CSSPP, Wood Research

The current characteristics of the Romanian pension funds system are:

- The contribution is currently set at 4.0% for 2013 and should increase to 6% by the end of 2016, by 0.5% per year.
- The funds are managed privately and are allowed to invest in the equity market. The Romanian funds are not obliged to make any particular allocation to the domestic market.

Poland versus Romania

	Poland	Romania
Start year	1999	2008
Current gross contribution (%) of monthly salary)	2.8%	4.0%
Total number of participants (m)	16.2	5.9
Target	The transfers are to be cut to 2.3% after 1 April and gradually rise from 2012 onwards, to reach 3.5% in 2017	Contributions to increase by 0.5% per year to 6% by the end of 2016
Average gross salary (EUR)	884	500
Unemployment rate	13.5%	7.5%
Total AUM (EUR bn)	64	2.5
AUM as % of GDP	17%	1.9%
Number of funds	14	8
Equity allocation	38.5%	11%
Equity restrictions	Max. 47.5% of AUM and increasing by 2.5ppts annually; Up to 5% can be invested outside of Poland, but there are plans to increase it to 30% in the future	Max. 50% of AUM, no limit on how much to invest abroad

Source: Polish Financial Authority, CSSPP, Wood Research

Romanian pension fund evolution

	Jun-08	Dec-08	Jun-09	Dec-09	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12	Dec-12	May-13
No. of participants (RON m)	4,161	4,532	4,776	4,913	5,055	5,186	5,325	5,516	5,663	5,773	5,891
AUM	187	832	1,574	2,384	3,379	4,332	5,374	6,416	7,921	9,637	11,266
Semi-annual inflow (RON m)	397.8	656.8	663.1	646.2	822.1	803.8	1001.1	1064.2	1265.3	1330.6	
Equity as % of AUM	6.20%	1.70%	3.60%	9.30%	9.90%	12.20%	13.31%	10.72%	10.12%	11.18%	11.03%

Source: CSSPP, Wood Research

Currently, there are eight private pension funds, which are privately managed, with a total value of AUM of RON 11.3bn (EUR 2.5bn) at the end of May 2013. The allocation to equities is very limited, with only 11% of the assets being allocated into the stock exchange listed companies, despite the allowance to invest a maximum of 50% in equities.

Romania: pension funds allocation

RON m	AUM	Bank deposits	Fixed income	Equities	Other
ING	4,236	286	3,406	544	1
AZT VIITORUL TAU	2,618	314	2,027	213	63
ALICO	1,597	80	1,313	174	30
ARIPI	928	18	762	135	14
BCR	637	1	543	68	25
EUREKO	629	32	506	62	23
VITAL	327	9	283	23	12
BRD	300	34	242	24	-1
Total	11,271	7%	81%	11%	1%

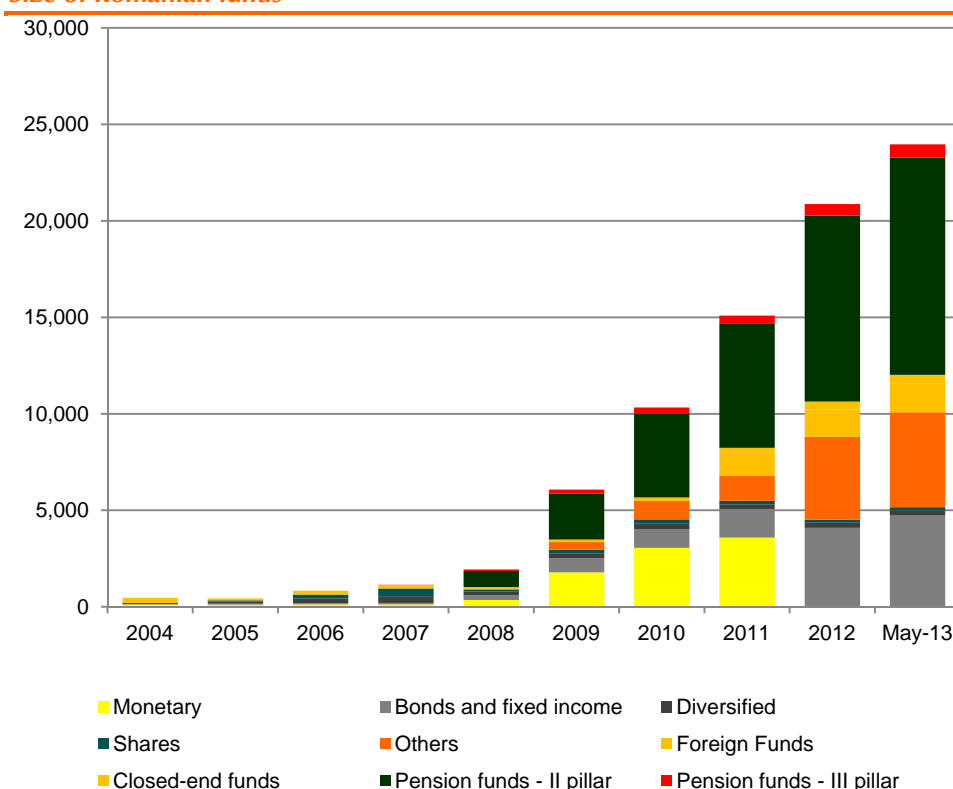
Source: CSSPP, Wood Research

Given the significant constant inflows from monthly contributions and given that the percentage contribution should increase, the number of participants with access to the system is increasing consistently. Also, the average salary is increasing, and we estimate that the pension funds should double in size by the end of 2014, reaching EUR 4bn, and could reach EUR 6bn by the end of 2016. This is expected to provide significant support for the local equities market, even assuming changes from the current low allocation to equities.

Development of the funds market in Romania

Besides the second pillar pension funds, on the Romanian market there are also open-end funds, closed-end funds and third pillar pension funds. However, the size of these has been much reduced versus the now much more developed second pillar pension funds. The only larger funds are monetary funds or other funds with a large allocation to fixed income instruments. While the equity invested funds should grow in size over the coming years, we still believe they will be outpaced by the growth in pension funds.

Size of Romanian funds



Source: AAF, CSSSP, Wood Research

MSCI upgrade not likely soon

There are two types of criteria that Romania would have to meet in order to be considered for an upgrade from a Frontier (current status) to an Emerging Market by the MSCI:

Size and liquidity requirements

Romania needs at least three companies to simultaneously fulfil the criteria below:

- ✓ A USD 1,033m market cap minimum
- ✓ A USD 516m free float market cap minimum
- ✓ 15% ATVR (MSCI's way of measuring liquidity)

Currently, there are three companies in the MSCI Romania: Banca Transilvania, OMV Petrom and BRD. Despite there being three members, none of them meet all of the abovementioned criteria. Banca Transilvania is the only one to meet both of the size criteria, but with only 9% ATVR (as of the end of June), it fails the liquidity requirement.

In fact, only Petrom is traded sufficiently, with 16% ATVR, but its free float market cap (taking into account the 5% free float, according to MSCI calculations) is not high enough. BRD meets the market size criteria, but its free float market cap and trading volume levels do not.

According to the rules, the MSCI will not accept Fondul as it excludes all mutual funds, trusts and most investment funds (similarly, the SIFs are not taken into account).

In order to meet the free float criteria, OMV Petrom and BRD would have to jump by 44% and 150%, respectively. On top of that, Banca Transilvania would have to increase its market cap by 22% and its trading volumes (together with BRD) would have to jump by 66%.

Please note that the minimal size criteria are updated every six months in semi-annual index revisions and would be increased if the Emerging Markets rise.

All of the criteria should be met before June 2014 (or every year in June after that) to qualify for a second round of testing:

Market accessibility criteria

The MSCI would start a year-long (at least) consultation with the market participants in order to see if Romania meets the following (non-quantifiable) criteria:

- ✓ Openness to foreign ownership – “Significant”
- ✓ Ease of capital inflows/outflows – “Significant”
- ✓ Efficiency of the operational framework – “Good and tested”
- ✓ Stability of the institutional framework – “Modest”

It is very difficult to judge if Romania already meets these criteria since they are not quantifiable. The MSCI would gather opinions from the market participants and try to judge if the criteria have been met.

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19/07/2013	RON 0.81
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