

Fondul Proprietatea

A safer Romanian boat

We reduce the fair value of Fondul Proprietatea (FP) to RON 0.90 per share, on the back of the update of: a) FP's portfolio (end December 2015 vs. end December 2014 previously), b) valuation of some of the unlisted holdings and c) listed portfolio's valuation by marking it to market as at 29 January 2016 (vs. 23 January 2015 previously). The latter had the most significant impact on FP's FV (our FV is calculated with 20% discount to our SOTP fair NAV). This is because the share prices of FP's first and fourth largest holdings (SNP and SNG, with cumulated weight of 28.2% in our fair NAV and 31.5% in the Dec 2015 official NAV) are down 33% and 31.7% respectively since our latest update on FP in the January 2015 Strategy report. FP currently trades at a 34.7% discount to its Dec 2015 NAV (32% to our fair value), which is way above the maximum 15% discount objective and the average discount at which other funds trade on LSE. Given the 19% upside potential, we maintain our BUY rating.

Key s/t drivers remain buybacks, cash distributions and IPOs/SPOs

FP's shareholders approved the **3rd cash distribution** of RON 0.05/share (yielding a nice 6.6% and translating into ca. RON 523m cash outflows in June). FP is doing also buy-backs constantly. While in the past the two actions have been share price supportive, this has not happened in the current risk-off environment (FP is 6.8% down YTD), especially given FP's decision to postpone for now the **3rd ABB** for 430m of own shares (733m own shares are still to be acquired within the 6th buyback, at ca. RON 560m cost using the current share price). On the deals' front, most imminent, to happen possibly in 1Q16 is the **buyout by Electrica** of FP's 22% stakes in each of the 3 electricity distribution and 1 supply companies (at NAV value, FP could cash RON 841m in total). **The sale of part of FP's 49% stake in Salrom via an IPO** (at NAV value, FP could cash in RON 177m for its stake) depends on the State approving the deal, possibly in 1H16. **The listings of Bucharest Airports or Constanta Port** are unlikely this year as the preparations are not very advanced (the State would sell minimum 5%, thus cash in RON 168m in total at valuations in FP's NAV). The largest potential deal, the **listing of 15% of Hidroelectrica**, targeted for Nov 2016, depends on the exit from insolvency in May-June and could bring ca. RON 2bn in the company's coffers (using the valuation in FP's Dec 2015 NAV). Being an election year, and given that in most cases the State is the seller (except in Electrica and Salrom's cases, where FP is the seller and in Hidroelectrica's case – a capital increase), the technocrat caretaker government could decide to leave the decision for the post-election government. We see little chances of the CE Oltenia's IPO to happen at all and of FP managing to sell its stakes in the other utility companies in 2016, (utilities, excluding Electrica subsidiaries are valued in FP's NAV at RON 2.7bn).

ABBs with some listed holdings also possible

FP is likely to seek to further divest part of its listed portfolio, especially in the absence of deals in the unlisted portfolio, and given that it needs to fund the buybacks and distributions. Most likely candidates are the liquid holdings in the oil&gas and/or banking sectors: In our view, an SNP deal is more likely in 2H16 at the earliest, when an expected oil price recovery should lead to SNP's share price rebound, while the SNG deal after April, when lock-up expires. Smaller holdings' disposals are possible.

Chart 1 Summary of Financial Data

	RON m		RON/share		% in NAV	
	Official valuation	Fair value	Official valuation	Fair value	Official valuation	Fair value
Listed shares	4,620	3,959	0.44	0.38	38.2	34.1
Unlisted shares	7,221	7,389	0.69	0.71	59.7	63.7
Total portfolio	11,841	11,348	1.13	1.09	98.0	97.9
Cash	198	198	0.02	0.02	1.6	1.7
Other assets	109	109	0.01	0.01	0.9	0.9
Total assets	12,148	11,655	1.16	1.12		
Fair NAV	12,088	11,595				
Fair NAV/share (RON)	1.1564	1.11				
Fair value/share (RON)		20.0				
TP (RON)		0.90				

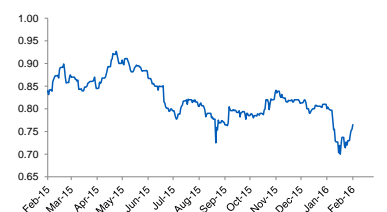
Source: Company, IPOPEMA Research

FONDUL PROPRIETATEA BUY

Unchanged

TP RON 0.90 from RON 1.00

Price as of 3 Feb 2016: RON 0.755



Key Ratios	2014	9M15
Operating margin	89.5%	79.2%
Net margin	88.0%	78.9%
EPS growth	48.5%	-52.2%
ROE	7.2%	4.7%

Share data	
Number of shares (m)	11,193.4
Market Cap (€m)	1,872.3
12M Avg daily volume (th)	9,576
12M Average daily turnover (€m)	1.8
52 W High / Low	0.93 \ 0.69
BET Weight (%)	20.8
Reuters	FP.BX
Bloomberg	FP RO

Performance	Abs.	vs. BET
1M	-6.8%	3.4%
3M	-9.6%	4.8%
12M	-10.3%	0.2%

Shareholders	Stake
Foreign Institutional shareholders	25.44
GDR holders, o/w	34.95
Elliot Associates	21.6%
Romanian institutional shareholders, o/w	13.5%
SIFs	1.8%
Individuals	26.1

Analyst

Adriana Marin +40 31 860 2336
marin@ipopema.com

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Highlights of the investment case

We reduce the fair value of Fondul Proprietatea (FP) to RON 0.90 per share, on the back of the update of: a) **FP's portfolio** (end December 2015 vs. end December 2014 previously), b) the **valuation of some of the unlisted holdings** (financials and market multiples for peers updated; we perform separate valuations for 14 out of the 38 unlisted companies, accounting for 91% of the unlisted portfolio fair value), and c) **the listed portfolio's valuation by marking it to market** as at 29 January 2016 (vs. 23 January 2015 previously). The latter had the most significant impact on FP's FV (our FV is calculated with a 20% discount to our SOTP fair NAV). This is because the share prices of FP's first and fourth largest holdings (SNP and SNG, with cumulated weight of 28.2% in our fair NAV and 31.5% in the December 2015 official NAV) are down 33% and 31.7% respectively since our latest update on FP in the last year's Strategy report. **Given the 19% upside potential, we maintain our BUY rating.**

FP's key attractions remain a) its exposure to the energy, infrastructure and banking sectors, making it a proxy of the Romanian economy; b) high quality management by Franklin Templeton (FT) and c) the attractive valuation (32% discount to our fair NAV and 35% to the latest official NAV as at December 2015). While discount reduced since the takeover of the management in Sept 2010, it remains higher than the target set in the new Investment Management Agreement (IMA) of up to 15%, and the discounts at which other funds trade. In our view, this is to a large extent due to a still high weight of the majority state owned unlisted holdings (ca. 60% of December 2015 NAV), with poor corporate governance practices and low profitability vis-à-vis their peers. We expect the valuation gap to be further reduced by unlocking the hidden value of the unlisted portfolio via listings and improved corporate governance practices, and we recognize FT's actions in the latter area (also in the area of improvement in regulations, relationship with the regulator and relevant ministries). FP's NAV and share price have been lately also suffering from the high exposure to the oil&gas sector, which in turn is suffering from less favorable sector environment. We see buybacks, distributions as well as the IPO pipeline as main catalysts, while political, regulatory and litigations as the main risks for FP's share price evolution.

Important upcoming events: a) news on whether **Electrica** buys out FP's stakes in the 3 distribution and one supply companies (deadline end 1Q16); b) the **IPO/ABB** pipeline that could reduce the weight of unlisted holdings in the NAV, help improving the respective company's financials and corporate governance and eventually potentially lead to the re-rating of FP's share price: **Salrom** - FP may sell part of its stake (possible in 2H16); **Hidroelectrica** - a rights issue, possible in 2H16, that could set a new benchmark for FP's holding based on market valuation; **Bucharest Airports and Constanta Port** - the state is to sell 5-15% stakes in 2017 the earliest; c) news on the **taxation changes in the energy sector** (royalty regime, other sector specific taxes, excises on fuels etc.) likely to be implemented as of January 2017, if approved in the Parliament in 2-3Q16; d) **future potential sales from listed holdings**: **SNP**: in March 2014, FP announced it may reduce its stake in SNP to below 15%; we consider a deal unlikely as long as the low oil price environment puts pressure on an already depressed share price; **SNG**: FP has a 6M lock up (until mid-April 2016) for the remaining 5.85% stake; **banking stocks** (BRD and TLV) are the next most liquid holdings, which FP may consider to sell (as a way to take some profit after the last year rally of their share price).

Cash distributions and buybacks to be funded with asset sales and/or Citibank credit line: With or without the EL and Salrom deals (to name the most likely ones to happen from the unlisted portfolio), and in the absence of other divestments of other liquid listed assets, FP may need to use the credit line from Citibank to fund the buybacks given that: a) its liquid assets in December 2015 were only RON 277m, of which RON 79m in Treasuries and b) the ca. 733m own shares still to be acquired are worth ca. RON 550m at the current share price. The next RON 0.05/share cash distribution outflow is largely matched by the dividend inflow from portfolio companies (RON 568m in the 2016 budget). Distributions to date (in 2014-2015) amounted to ca. RON 1.2bn, amounts spent for buybacks reached RON 2.8bn (by 29 January 2016) and in 2013-to date, FP cashed ca. RON 2.2bn from asset sales (of which RON 456m from the October 2015 ABB of a 4.15% stake in SNG).

Key risks: regulatory, political and litigations. The state as majority shareholder can interfere in the portfolio companies' capex and dividend policies as well as in the managements' activity; energy regulator (ANRE) sets the tariffs and volumes to be sold on the regulated market (gas and electricity for producers and distributors). Litigations with Mrs. Sfiraiala, while creating a seemingly never ending negative news flow, have no major impact on FP's activity and share price. FP's activity also depends on the relationship with the capital market's regulator FSA (sometimes bumpy), the most significant example being the delayed approval by the FSA of the secondary listing of FP shares on the London Stock Exchange.

Risks to our valuation: some of the key holdings face also some specific risks that might impact our fair valuations. The introduction of taxes or changes in prices/tariffs have also indirect impact on the demand (thus volumes) of the respective businesses. In **Hidroelectrica's** case, the main stock specific risks are: a) in relation to its ongoing litigations that led to the second entering into insolvency (amounts in dispute as per the judicial administrator at EUR 351mn maximum). b) hydrological situation, c) the risk that some of the restructuring measures in terms of staff, operations, capex etc. are overturned after the exit of insolvency. With regards to **CE Oltenia** we lack visibility on staff restructuring, spin off of certain mines, capex plans, as well on as the exact burden of the costs with the CO2 certificates. ANRE sets the tariffs and quantities of gas and electricity for the regulated market (**for utilities**) and wellhead gas prices and quantities in the consumption basket for households (**for SNP and SNG**). In case of utilities, where business model should be steady and predictable, the way the tariffs are set (sometimes with delays and without recognizing in full all eligible costs) is in practice not always very predictable, inducing volatility in their earnings. The Romanian government has also set various types of support schemes for the renewable energy producers that negatively impact some other players in the field, mostly thermal power producers and end consumers, as their cost is included in the end user prices. The government is also responsible for the arbitrary introduction or hikes of several taxes in the sector (the special construction tax, natural monopoly tax, windfall tax etc.) and has delayed significantly the implementation of **a new taxation for the oil&gas companies**, which in turn are causing delays in the auctioning of new concessions and/or could result also in companies' capex programs being delayed/resized, all the above having a negative impact on their production and costs.

Valuation summary

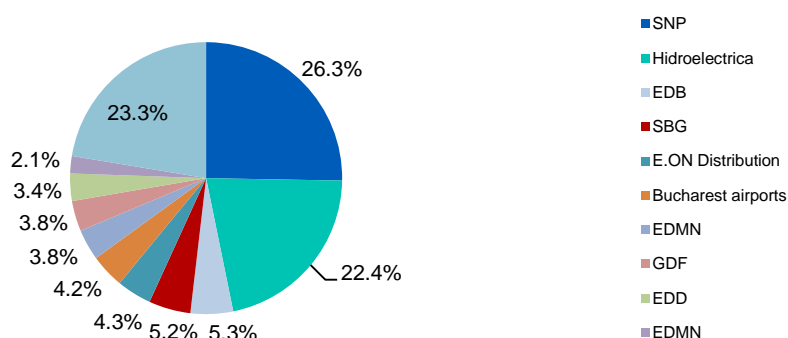
Official valuation methodology in brief. The listed companies traded in the previous 30 days are valued based on closing prices on the particular valuation day. Unlisted companies and listed companies that were not traded in the previous month may be valued either a) according to international valuation standards (at fair values) or b) based on the latest book values.

Chart 2: Recent revaluations in FP's portfolio (official valuation)

RON m	NAV impact	Value of the FP stake	
		Sep-15	Oct-15
Electrica Distributie Muntenia Nord	18.3	235.6	253.9
Electrica Distributie Transilvania Nord	14.0	201.6	215.6
Electrica Distributie Transilvania Sud	15.8	206.5	222.3
Electrica Furnizare	23.2	126.4	149.6
Total	71.3	770.1	841.4
RON m	NAV impact	Value of the FP stake	
		Nov-15	Dec-15
Bucharest Airports (CNAB)	165.6	332.3	497.8
Romanian Post	2.8	55.9	58.7
Constanta Port	132.6	132.6	175.1
Plafar	1.8	1.8	1.9
Hidroelectrica	476.0	2,178.1	2,654.1
Salrom	34.5	142.9	177.4
CE Oltenia	-45.6	108.5	62.8
Zirom	-16.1	39.3	23.3
Constanta airport	-0.7	2.3	1.6
Enel Distributie Banat	-16.5	640.5	624.0
Enel Distributie Dobrogea	4.3	396.9	401.2
Enel Distributie Muntenia	-10.4	465.8	455.4
GDF Suez Romania	-15.2	461.3	446.1
E.ON Distributie Romania	64.5	445.9	510.4
E.ON Energie Romania	-7.4	133.9	126.5
Enel Energie Muntenia	-1.1	65.1	64.0
Enel Energie	2.2	74.4	76.6
Total	679.5	5,677	6,357

Source: Company, IPOPEMA Research

Chart 3: Breakdown of portfolio official value: Top 10 holdings



Source: Bloomberg, IPOPEMA Research

IPOPEMA fair value calculations

We use an estimate of the December 2015 portfolio of shares (as in fact the actual portfolio was not reported yet, but apart from the SNG sale, no transaction was reported, thus we used the Dec 2015 NAV as reference). We mark to market the listed companies (14 out of the 48 total), using the share prices as of 29 January 2016 in the case of the largest holdings such as OMV Petrom (SNP), Romgaz (SNG), Nuclearelectrica (SNN) and the two Romanian banks (BRD Groupe SG (BRD) and Banca Transilvania (TLV)). For the other listed holdings we apply a 25% discount to their market cap as at 29 January 2016, due to more limited visibility.

We value the largest unlisted companies using the most appropriate and latest available financial or operational multiples for each sub-sector. We use either transaction multiples or peers' multiples based on operational indicators (from the latest available financials or budgeted figures): capacity and/or reserves, number of customers or number of passengers (depending on the sector), or financial multiples or combinations of the above (for peers, we use the 2016E median multiples vs. 2014E previously as per Bloomberg consensus on 29 January 2016). While this valuation approach does not fully reflect the potential (be it upside or downside) of these companies, in our view it is safer to use than DCF based valuations, that require a high number of variables on which we have limited visibility, as most of these companies are undergoing sizeable, but often changing capex and/or operational restructuring processes. The data on these key inputs for the DCF valuations is often lacking and/or scarce and/or contradictory. We are aware however, that the multiples based valuations also have their limitations, one key reason being that finding the right peers is a difficult exercise, as most of the companies in FP's portfolio in the energy sector are not vertically integrated as their peers are. However, as we generally applied hefty discounts to peers, we consider our valuations rather conservative.

A summary of the unlisted companies for which we computed fair values (14 out of the total 34, i.e. 91% of our fair value of the unlisted portfolio and 59.3% of the total value of the securities portfolio) and the valuation methods used are presented in the tables on the following two pages. Additional data on how we value individual holdings are presented later in this report. We use the official valuation for the other unlisted companies with a 20% discount to account for limited visibility.

To the total value of the portfolio of shares determined as SOTP, we add the cash and other assets and deduct the liabilities as at end December 2015. **The resulting fair NAV is RON 11,595mn or RON 1.11/share.**

We apply a 20% discount to the resulting fair NAV primarily for the holding status and high exposure to majority state-owned companies (up from 15% previously, as we consider that a longer time would be needed to close the valuation gap, in the absence of IPOs/SPOs and/or major ABBs). **Our resulting target price of RON 0.90/share is down from the previous fair value of RON 1.0/share (or RON 0.95 ex-cash distribution).**

Please note that our last update in the strategy report issued in January 2015 was only an update of the portfolio and mark to market of the listed holdings (no changes were made to the unlisted portfolio's valuations compared to the valuations in the October 2014 initiation of coverage report).

Chart 4: Summary of valuation methods for key holdings' fair values' calculations

	Valuation method (current)	Financials
Hydroelectrica	EV/Capacity, P/E, EV/EBITDA, simple average	Oct 2015 12TM and Oct 2015 BS, RAS, 20% discount to peers
CE Oltenia	EV/Capacity (25% w eight), P/sales (25%), EV/EBITDA (50%)	2015B P&L, 2014 BS, RAS, disc. to peers: 60% EV/cap, 35% fin. mult.
Unlisted power gencos		
EDM	P/E (25% w eight), EV/EBITDA (40%), EV/customer (35%)	2015B P&L and BS, RAS, 5% discount to peers
EDB	P/E (25% w eight), EV/EBITDA (40%), EV/customer (35%)	2015B P&L and BS, RAS, 5% discount to peers
EDD	P/E (25% w eight), EV/EBITDA (40%), EV/customer (35%)	2015B P&L and BS, RAS, 5% discount to peers
Enel Energie M	Official valuation	
Enel Energie	Official valuation	
Total Enels		
EDMN	P/E (25% w eight), EV/EBITDA (40%), EV/customer (35%)	12TM (9M15) P&L and 9M15 BS, IFRS, 30% discount to peers
EDTN	P/E (25% w eight), EV/EBITDA (40%), EV/customer (35%)	12TM (9M15) P&L and 9M15 BS, IFRS, 25% discount to peers
EDTS	P/E (25% w eight), EV/EBITDA (40%), EV/customer (35%)	12TM (9M15) P&L and 9M15 BS, IFRS, 25% discount to peers
Electrica Furnizare	Official valuation with a 20% discount	
Total Electricas		
E.ON RO Distributie	P/E (25% w eight), EV/EBITDA (40%), EV/customer (35%)	2015B P&L, 2014 BS, RAS, 20% discount to peers
E.ON Energie	P/E (20% w eight), EV/EBITDA (80%)	2015B P&L 2014 BS, RAS, 40% discount to peers
Total EON		
GDF Suez RO	P/E (30% w eight), EV/EBITDA (70%)	12TM (1H15) P&L, 2014 BS, RAS, 30% discount to peers
Total Utilities		
Bucharest Airport	EV/EBITDA (50% w eight), EV/passengers (25), EV/Sales (25%)	12TM (1H15) P&L, 2015 pax, 2014 BS, RAS, 20% discount to peers
Timisoara Airport	EV/EBITDA (50% w eight), EV/passengers (25), EV/Sales (25%)	2015B P&L, 2015 pax, 2014 BS, RAS, 50% discount to peers
Constanta Airport	EV/EBITDA (50% w eight), EV/passengers (25), EV/Sales (25%)	2015B P&L, 2015 pax 2014 BS, RAS, 60% discount to peers
Total airports		
Salrom	Official valuation with a 20% discount	
Romanian Post	Official valuation with a 20% discount	
Constanta Port	Official valuation with a 20% discount	

Source: Company, Bloomberg, IPOPEMA Research

Chart 5: Summary of the fair values for the key holdings vs. official values

Company	Value of FP stake (RON m)			as % in portfolio		Fair vs. official (%) of FVs revisions	
	FP stake (%)	Official value	Fair value	Official value	Fair value		
Petrom (oil&gas)	19.0	3,120.0	2,668.1	26.3	23.5	-14.5	-33.0
Romgaz (natgas)	5.9	613.3	534.4	5.2	4.7	-12.9	-60.0
BRD Groupe SG (financials)	3.6	307.2	254.9	2.6	2.2	-17.0	6.8
Banca Transilvania (financials)	2.9	211.6	196.8	1.8	1.7	-7.0	30.4
Nuclearelectrica (nuclear genco)	9.1	176.0	164.5	1.5	1.4	-6.5	-23.9
Other listed		192.3	140.7	1.6	1.2	-26.9	-4.9
Total listed shares		4,620	3,959	39.0	34.9	-14.3	-34.8
Hydroelectrica (hydro power)	19.9	2,654.1	2,896.0	22.4	25.5	9.1	17.6
CE Oltenia (thermal power)	21.6	62.8	53.2	0.5	0.5	-15.3	-62.3
Enel Distributie Banat (electricity distribution)	24.1	624.0	636.4	5.3	5.6	2.0	9.4
E.ON Distribution (electricity and gas distribution)	18.3	510.4	335.7	4.3	3.0	-34.2	-15.9
Enel Distributie Muntenia (electricity distribution)	12.0	455.4	477.8	3.8	4.2	4.9	33.3
GDF (gas&electricity distribution& supply)	12.0	446.1	523.7	3.8	4.6	17.4	24.9
Enel Distributie Dobrogea (electricity distribution)	24.1	401.2	455.0	3.4	4.0	13.4	20.0
Electrica D Muntenia Nord (electricity distribution)	22.0	253.9	269.9	2.1	2.4	6.3	-4.6
Electrica D Transilvania Sud (electricity distribution)	22.0	222.2	277.1	1.9	2.4	24.7	16.6
Electrica D Transilvania Nord (electricity distribution)	22.0	215.6	260.2	1.8	2.3	20.7	24.3
Electrica Furnizare (electricity supply)	22.0	149.6	149.6	1.3	1.3	0.0	69.9
E.ON ER (gas&electricity distribution& supply)	13.4	126.5	67.1	1.1	0.6	-46.9	-41.5
ENEL Energie (electricity supply)	12.0	76.6	76.6	0.6	0.7	0.0	3.2
ENEL Energie Muntenia (electricity supply)	12.0	64.0	64.0	0.5	0.6	0.0	-1.7
Bucharest airports	20.0	497.8	465.8	4.2	4.1	-6.4	45.7
Timisoara airport	20.0	3.9	14.5	0.0	0.1	268.5	-17.7
Constanta airport	20.0	1.6	2.3	0.0	0.0	46.1	5.1
Posta Romana	25.0	58.7	47.0	0.5	0.4	-20.0	-3.4
Salrom	49.0	177.4	141.9	1.5	1.3	-20.0	24.2
Constanta Port	20.0	175.1	140.1	1.5	1.2	-20.0	32.1
Other unlisted		43.6	34.9	0.4	0.3	-20.0	-89.4
Total unlisted shares		7,221	7,389	61.0	65.1	2.3	14.0
Total portfolio		11,841	11,348	100.0	100.0	-4.2	-9.6
Total cash		198	198				70.7
Other assets		109	109				-46.8
Total assets		12,148	11,655			-4.1	-9.5
Liabilities		43	43				4.0
Tax		17	17				13.9
NAV		12,088	11,595				-9.6
NAV/share (RON)		1.1564	1.1093				-5.5
Discount (%)			20.0				33.3
Fair price (RON)			0.90				-10.1

Source: Company, Bloomberg, IPOPEMA Research

Chart 6: Breakdown of portfolio fair value: by sector

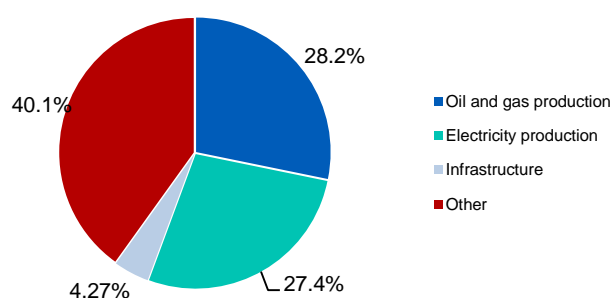
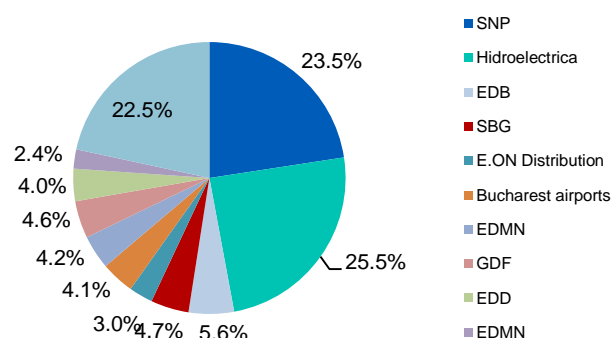


Chart 7: Breakdown of portfolio fair value: Top 10 holdings



Source: Company, Bloomberg, IPOPEMA Research

Latest Results & NAV reviews

3Q15 results review

In 3Q15, RAS profitability significantly deteriorated qoq mainly on lower dividend income but improved yoy. FP reported a RAS 3Q15 net profit of RON 114.5m, 70% down qoq (but favorably comparing to the RON 70m loss in 3Q14). The 3Q15 IFRS unconsolidated results showed a net loss of RON 343m vs. net profit of RON 579m in 2Q15 and RON 28m net loss in 3Q14 (restated).

- P&L:** FP reported a 3Q15 IFRS net loss of RON 343m and a RAS figure of RON 114.5m (in IFRS the value of the listed holdings is marked to market and was impacted by the share price declines of some of the largest holdings, mainly SNP and SNG). Dividend income was RON 134m in RAS, 69% down qoq (most dividends are booked in 2Q) with the largest contributors in 3Q15 being Romgaz (RON 121m) and Salrom (RON 10.2m). FP has not performed any asset sales in 3Q15 (while it booked losses from this activity of RON 61m 3Q14 and RON 3.2m in 2Q15). In IFRS, FP recorded a RON 775m loss from equity investments at fair value via P&L in 9M15 and a RON 448m loss in 3Q15 (vs. a RON 52m gain in 9M14, restated). There was a net interest expense of RON 0.8m in RAS, on lower interest rates for FI instruments and also the fact that FP paid some interest expenses on the credit line it took from Citibank (RON 500m, of which RON 350m drawn as at end September 2015 but fully repaid in October). The main cost item remains the management fee for Templeton (RON 14m, up 84% qoq that also includes the fee related to distributions that started to be accrued as of 20 March 2015); the commission to the FSA, at RON 2.9m (the fee was decreased from 0.1% p.a. to 0.0936%) and the depository fees of RON 0.3m.
- Changes in the portfolio in 2H15:** The value of the financial assets decreased in 9M15 mainly due to the impairment adjustments for investments in OMV Petrom (RON 451m). In 3Q15, FP made no asset disposals (the sale of a 4.15% stake in Romgaz was performed in October, while the sale of the entire stake in Petrotel Lukoil in November). FP also sold in an ABB 16m SNG shares (14.72m shares and 1.29m GDRs at RON 28.5/share and USD 7.32/GDR) for which obtained cash proceeds of RON 456m reducing its stake 5.85%. In August 2015, FP made a RON 1m cash contribution to the share capital increase of Zirom.
- FP's current assets** decreased by RON 96m and the payables by RON 136m in September 2015 vs. December 2014, mainly due to the repayment of ca. RON 100m from the credit facility from Citibank (the payables' decrease was also on the back of a RON 29m payment to shareholders in relation to cash distributions).

December 2015 NAV

FP's December 2015 official NAV was RON 1.1564/share, up 4.4% mom and 2% qoq but down 4.6% yoy. The portfolio of listed shares reached RON 4.62bn, down 3.5% mom, as a result of the mom decrease in the share prices of OMV Petrom by 4.3%, SNG by 4.4%, (first and now 4th largest holdings), partly offset by the increases in the share prices of the banking stocks (BRD by 6% and TLV by 3%). **The unlisted holdings' value was up 10.4% mom** up at RON 7.22bn and accounted for 59.4% of total assets. The increase was due to the fact that FP has updated and in most cases revised up the valuation of some of its unlisted holdings (with a RON 679.6m net positive influence). We would outline the **most significant upward revision of Hidroelectrica's stake value by RON 476m or 22% to RON 2,654m**, Bucharest Airports by 50% to RON 498m, while **the most significant downward revisions was again for CE Oltenia (by RON 45.6m or 42% to RON 62.8m).**

The liquid assets decreased by 9.7% mom to RON 277m, on the back of mom decrease in T-bills (RON 79m, down 51%) offsetting the 35.5% increase of the cash and deposits to RON 198m. The 2015 preliminary bottom line came in at a profit of RON 784.6m, 22.5% down yoy and above FP's budgeted figure of RON 487m. The December alone bottom line was a RON 8.4m loss, while the 4Q15 figure was a RON 313.6m net profit, 2.7x higher qoq (RON 51m loss in 4Q14).

Chart 8: FP's Official NAV evolution

Official NAV (RON m)	Dec-12	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Jun-15	Sep-15	Dec-15	mom	yoy (%)	qoq (%)
LT financial assets, o/w	8,152	6,386	6,252	6,253	6,246	6,486	6,486	6,483	7,232	10.3	11.5	11.6
Listed shares	35	10	10	24	9	7	11	11	11	0.0	45.2	0.0
Unlisted shares	8,116	6,375	6,241	6,229	6,236	6,478	6,474	6,471	7,221	10.4	11.5	11.6
Total fixed assets	8,152	6,386	6,252	6,253	6,246	6,486	6,476	6,483	7,232	10.3	11.5	11.6
Receivables	3	3	114	235	3	9	161	68	29	7.0	235.7	-58.0
Cash	2	6	1	1	1	7	0	9	1	-93.1	-90.6	-93.1
ST financial assets, o/w	6,861	8,680	7,934	8,998	8,519	6,792	6,364	5,865	4,887	-3.7	-28.1	-16.7
Listed shares	6,089	8,234	7,501	7,574	7,292	6,487	6,257	5,600	4,610	-3.5	-28.9	-17.7
T Bills	455	214	289	933	894	195	6	131	79	-50.8	-59.4	-39.7
Deposits	317	232	144	491	333	109	101	134	198	44.3	80.8	47.8
Total current assets	6,865	8,688	8,050	9,252	8,523	6,807	6,721	5,943	4,916	-3.8	-27.8	-17.3
Total assets	15,017	15,074	14,301	15,505	14,769	13,293	13,207	12,426	12,148	4.1	-8.6	-2.2
Total current liabilities	21	31	35	640	50	41	544	408	43	13.2	4.0	-89.4
Provisions	17	29	13	15	15	15	17	17	17	0.1	13.9	0.2
Total non current liabilities	17	29	13	15	15	15	17	17	17	0.1	13.9	0.2
Total liabilities	38	60	48	655	65	56	562	425	60	9.1	6.6	-85.8
Share capital	13,778	13,778	13,538	12,861	11,815	11,815	10,966	10,075	10,074	0.0	-14.7	0.0
Revaluation reserve	3,142	3,994	3,928	3,688	3,748	3,883	3,969	3,733	3,655	18.0	-5.9	-2.1
Reserves	-2,564	-3,493	-3,868	-3,496	-2,578	-4,157	-4,341	-3,973	-4,121	1.8	-0.9	3.7
Retained earnings prev. years	55	85	734	734	734	682	1,695	1,695	1,694	0.0	148.4	-0.1
YTD net profit	567	648	-79	1,064	985	1,013	357	471	785	0.0	-22.5	0.0
Shareholders' equity	14,979	15,014	14,253	14,850	14,703	13,237	12,646	12,000	12,087	4.1	-8.7	0.7
Discount to official NAV (%)	-31.2	-37.1	-33.8	-41.9	-41.6	-40.0	-38.7	-35.9	-37.1			
Net asset value	14,979	15,014	14,253	14,850	14,703	13,237	12,646	12,000	12,087	4.1	-8.7	0.7
NAV/share (RON)	1.1371	1.2436	1.1813	1.2518	1.2438	1.2125	1.1851	1.1342	1.1564	4.4	-4.6	2.0

Source: FP, IPOPEMA Research

2016 budget

Chart 9: FP's 2016 budget

RON m	2016B	2015B & revised	secondary listing B	yoy (%)	2015F	yoy (%)
Dividends received		567.5		598.3	567.5	0.0
Total revenues		567.5		598.3	570.9	-0.6
Commission and fees (including FSA fees)	-12.2			-14.9	-14.9	-18.2
BoN & special administrator remunerations	-1.2			-0.9	-1.0	26.1
Total operating expenses	-113.4			-129.9	-140.7	-19.4
Operating profit		454.0		468.4	430.2	5.5
Net profit		454.0		468.4	430.2	5.5
Capex		0.4		0.3	0.3	23.4
Third party costs, o/w		91.5		87.0	89.4	2.4
Templeton fee		71.4		64.4	72.9	-2.1
Legal fees		10.5		8.8	8.8	19.3
GSM organisation		0.7		0.5	0.5	41.7
Other		4.8		2.3	2.3	107.6

Source: FP, IPOPEMA Research

FP's 2016 budget has a RON 454m net profit target, up 5.5% vs. the 2015 forecast figure, but down 3% vs. the 2015 budgeted figure. FP budgeted RON 567.5m revenues (all dividend income) for 2016, flattish vs. the 2015 forecasted figure and opex of RON 113.4m, down 19.4% on the 2015 forecasted figure. On the expenses side, the biggest item would remain the management fee to Franklin Templeton estimated at RON 71.4m (a Base fee of 0.6% p.a. on market capitalization, calculated based on FP's average share price for the period 1 January-31 July 2015, and a 2% Distribution fee on buybacks and return of capital).

Latest developments

A new 2 year mandate to start on 1 April with an AIFMD compliant fund manager

A new 2Y mandate of Franklin Templeton (FT) started on 29 September 2014 and was confirmed in October 2015. The performance criteria for the 30 September 2014-30 June 2015 period were: a) the discount to NAV to be below 15% in at least 2/3 of the trading days of the period (not met, as discount ranged from 27% to 40%) and b) NAVPS to increase -met (NAVPS was up from RON 1.611 to RON 1.2952, adjusted for distributions, i.e. by 11.6%). The fund manager also signed a new IMA based on a new fee structure as follows: a 0.6% p.a. **Base Fee** payable quarterly on market capitalization (with 5-10bp additional fee as incentive if discount is between 15-20% and below 15% respectively) and a **Variable fee on exceptional distributions** (200bp by 31 March 2017, 150bp from 1 April to 30 September 2017 and 100bp from 1 October 2017 to 1 April 2018). In the previous IMA, there was no incentive as to the base fee and different variable fees were applied (150bp).

As of 1 April 2016, an AIFMD compliant (alternative FM), namely FT Investment Services (FTIS), registered in Luxembourg would be FP's new fund manager for 2Y. The actual portfolio management would still be made by the same local team in place since the beginning of the first mandate in September 2010. The IMA signed between FP and FTIS, as approved by the GSM resolution no. 8/29 October 2015 with effect as of 1 April 2016, does not require FSA's endorsement prior to its entering into force. Furthermore, FSA considers that the Commission de Surveillance du Sector Financier of Luxembourg ("CSSF"), as the competent authority of the AIFM's home state, has oversight obligations in respect to FP's management performed by FTIS, based on the notification sent from CSSF to FSA regarding the new IMA.

The new performance criteria are similar to the previous ones namely: a) the adjusted June 2016 NAVPS should be higher than the Reference June 2015 NAVPS of RON 1.1851; and b) the discount to NAV should be below 15% in at least 2/3 of the trading days of the period. Annually on each October, a GSM is to be held to analyse if the performance criteria was met (and if not, shareholders can vote on the continuation or not of the fund manager's mandate). At the first such GSM in October 2015, the shareholders extended the mandate, although not all performance criteria were met.

Relationship with the FSA- sometimes bumpy

The FSA endorsed with some amendments the Addendum 4/2 November 2015 to the IMA as follows: i) during next GSM FT has the obligation to identify and present to the shareholders alternative solutions which are to be correlated with the major objective of the collective portfolio management activity, namely the reinvestment of the funds resulting from the sale of the assets as well as an analysis showing the manner under which the share buy-backs and the returns of capital via cash distributions had the intended effect, i.e. the achievement or not of the objective declared by the fund manager, namely the decrease of the discount to NAV/share; and ii) the provisions regarding the retroactive payment of the distribution fees shall read as being applicable for distribution to shareholders made available at any time starting with the date the Addendum was endorsed by the FSA, and up to 31 March 2016 (while FT has charged a RON 14m Distribution fee starting 20 March 2015 for the period 20 March-30 September 2015). FP's fund manager stated several times that until the discount to NAV narrows, investment in own shares remain the most attractive and no other investments are to be made.

The amendments of the IMA required by the FSA represent a premiere in that they represent in our view an interference of the capital market's regulator in the management of the largest Romanian holding company (closed end fund).

Also the FSA initiated a litigation against FP, via which the FSA is seeking payment by FP of RON 958,686 (principal and interest) relating to the regulatory fees which would normally have been payable to the FSA, but which FP was required to pay instead to several FNI investors, in

accordance with a garnishment order issued by the Bucharest Court. The amount relates to a successful claim by the FNI investors against CNVM, the former FSA.

Share buybacks and cash distributions are main tools used to reduce the discount to NAV

FP's spending on buybacks totalled RON 2.4bn (for the period 2013-2015). Buybacks are running almost all the time, via regular market trades and ABBs. A summary of all buybacks performed to date is presented in the table below:

Chart 10: Summary of buybacks to date

	No. of shares (m)	Average price (RON/share)	Value (RON m)	% of capital	Period	Status
First	240	0.50	120	1.70	May -Sept 2011	Completed, shares cancelled
Second, o/w	1,101	0.87	963	7.99	Apr-Dec 2013	Completed, shares cancelled
via a tender offer	600	1.00	600	4.40	15 Oct-14 Nov 2013	6% allocation rate
Third	253	0.81	205	2.02	March-July 2014	Completed, shares cancelled
Forth, o/w	991	1.05	1,040	7.32	Initiated in Oct 2014	Completed, shares cancelled
via a tender offer	750	1.11	832	5.50	3 Nov -2 Dec 2014	7.4% allocation rate
Fifth	228	0.85	193	1.89	March 2015 -29 July 2015	Completed, shares yet to be cancelled
Sixth, o/w	892	0.89	789	7.54	Started on 9 Sept 2015	Approved by 27 April 2015 GSM
via a tender offer	430	0.90	387	4%	Suspended	
Seventh				max 10%		Approved by 29 Oct 2015 GSM
Sub total*	2,813	0.90	2,522			

Source: FP, IPOPEMA Research; * first 5 and 6th to date (by 29 Jan 2016 inclusive)

Chart 11: Details on the ABBs of own shares to date

					Prevailing market price on				Upside (%)
	Discount vs. NAV	Ref NAV	Date of announcement	Pricing announcement date	Announcement date	Pricing date	Price (RON/share)	Value (RON m)	vs. market
First ABB	-13.9%	Sep-13	25-Sep-13	10-Oct-13	0.74	0.74	1.00	600	35.6%
Second ABB	-8.0%	Oct-14	20-Oct-14	29-Oct-14	0.90	0.94	1.11	832	23.8%

Source: FP, IPOPEMA Research

The third ABB was suspended: in light of the major recent adjustments in stock market prices, FP has negatively surprised the market when it decided to suspend the third ABB for 430m of its own shares as part of the 6th buy-back programme (for which an application for approval with the FSA was submitted on 14 January 2016). The Fund Manager also indicated that is prepared to restart the process when market conditions are more supportive. The market was expecting the ABB to be made at a ca.15% discount to the latest available NAV (December 2015), or at ca. RON 1/share, which would have implied a much higher premium to the prevailing market price before the announcement (over 30%), compared to the premiums in the previous ABBs.

FP's cash distributions in 2014-2015 amounted to RON 1.2bn

The third share capital decrease from RON 9,869m to RON 9,321m via the reduction of the nominal value per share from RON 0.90 to RON 0.85 (the new number of shares would be 10,965,850,801) is ongoing (the initial nominal value was RON 1/share).

As a reminder, the decrease of the share capital will be effective after the following four conditions are met: (i) this resolution is published in the Official Gazette for at least two months; (ii) the FSA endorses the relevant amendment of FP's Constitutive Act; (iii) the share capital decrease approved by the shareholders on 29 October 2015 is effective and (iv) the GSM resolution for approving this share capital decrease is registered with the Trade Registry.

The third RON 0.05/share cash distribution is to be made proportionally with shareholders' participation to FP's paid-up share capital. Entitled shareholders are those registered on 6 June 2016 (ex-date is 3 June 2016) and the payment date was set for 27 June 2016.

FP needs assets sales to fund the buybacks and cash distributions

FP cashed in ca. RON 2bn from asset sales performed since 2013 to date: FP sold its entire stakes in Azomures (AZO), Transgaz (TGN), Transelectrica (TEL), Erste Bank (EBS) and Raiffeisen Bank International (RBI) as well as a 1.1% stake in OMV Petrom (SNP), 9.1% in Romgaz (in 2 ABBs), and 23.6% in Conpet (COTE). FP also sold several smaller holdings.

The only divestment made in 2015 was the ABB for 16m SNG shares (14.715m shares and 1.285m GDRs), from which FP cashed in RON 456m. The quantity was by 9.72% higher than initially announced and represented 4.15% of SNG capital or 41.5% of FP's holding in SNG prior to the transaction. The deal was performed at RON 28.5/share and USD 7.32/GDR, i.e. at discount of 6.4% to the share price prior to the deal announcement. As a reminder, FP also agreed to a 180 day lock up period for the remaining 5.85% stake. The offer was addressed solely to qualified investors and up to 150 natural or legal persons per Member State. The deal had a good timing as it was performed before the release of the 9M15 results and of the revised down 2015 budget, which triggered a slide in the share price; the further YTD share price decline was enhanced by negative sector macro news (the slump in the international gas price quotations).

On the other hand, FP seems to have missed the window of opportunity to reduce its SNP stake (it first announced its decision to reduce the stake from 19% to below 15% in March 2014, just before the start of the oil price slide that triggered also a slump in SNP's share price). In a hope to get the best price, FP convinced SNP's shareholders to approve a dual listing in London, but the process looks delayed by a disagreement between OMV (with a 51% stake in SNP) and the Romanian state (20.6%) as to the value that should be contributed by OMV as capital increase in order not to be diluted. According to local media sources, OMV agreed to contribute by ca. EUR 12.5m while the Romanian state values the stake at EUR 50m. As a reminder, this would be a capital increase via which the state is to receive shares in relation to a contribution in kind for the value of the land for which SNP received ownership titles since the privatisation.

Other deals (IPOs/SPOs, ABBs, asset sales)

Salrom: According to *Ziarul Financiar* daily, the Ministry of Economy (Salrom's majority shareholder) postponed again the decision of Salrom's IPO via which FP would sell part of its 49% stake. The decision was taken at Salrom's GSM held on 14 January 2016 and was preferred as alternative to the dismissal of the listing. In the GSM, the Ministry representative requested the board to present its position regarding the listing and together with the executive management, to submit a note to include the listing costs and calendar. The postponement was justified by the need to better prepare the company for the process. In our view the main reason for the postponement was to allow more time to the new Minister of Economy, Mr. Cristian Borc, to analyse the portfolio companies. The new Minister recently indicated that a Salrom listing would be beneficial for the company. As a reminder, the valuation of FP's 49% stake in Salrom was revised upwards in FP's December 2015 NAV by 24.2% or RON 34.5m to RON 177.4m (1.5% of NAV). Salrom is the salt mine operator with ca. RON 280m annual sales.

Bucharest Airport and Constanta Port: According to *Bursa* daily, quoting the Minister of Transportation Mr. Dan Costescu, FP officials have requested the Ministry to privatize companies from the portfolio via IPOs of minority stakes. Thus 10%-15% of the share capital of Bucharest Airports and Constanta Port could be sold via IPOs. The Ministry indicated that they are analysing the request and that part of the proceeds could be used for financing some of these companies' capex projects (EUR 800m total investment would be needed for the construction of a new terminal at Bucharest Airports). The FP request is not new, also it is no surprise that FP officials would like a higher stake to be sold via an IPO (vs. the 5% stake in the current privatisation strategy of these companies). As the preparations for the IPOs are much delayed (and not very advanced) and given the fact that we are in an elections year, we do not expect the IPOs to happen this year.

Hidroelectrica: the IPO is still possible if the company exits the insolvency in May-June (as indicated as possible by the judicial administrator) and provided there would be political will to get all the approvals in an election year on a smooth and speedy manner. In our view, the above implies a rather unlikely scenario of all things advancing with no hurdles. If it happens, the deal would be by far the

most important privatization ever in Romania, as it could bring the Romanian capital markets closer to its objective of an upgrade from Frontier to Emerging Market status by MSCI. The company does not need the cash from the IPO (designed as an 18% rights issue, 15% being the state's stake, the rest being the FP contribution, if it does not want to be diluted) thus the deal may be redesigned, to avoid the repeating of Electrica's example.

Electrica buying out FP: A new board at Electrica and a new Minister of Energy (a former EL's Supervisory Board (SB) member seemingly more supportive for a deal) make us to be reasonably confident that a deal might be closed by end March, the deadline set by EL's shareholders. At valuation in its NAV, FP could cash in RON 841m for its 22% stakes in EL's 4 subsidiaries.

Chart 12: IPOs, SPOs and ABBs pipeline

Company	Offering stake (%)	Value (EUR m)	Discount vs. ref. price (%)	Seller	Timing
Transelectrica SPO	15.0	38		Romanian State	Mar-12
Transgaz SPO	15.0	72		Romanian State	Apr-13
OMV Petrom ABB	5.0	57	9.3	FP	May-13
Nuclearelectrica IPO	10.0	63		New shares	Sep-13
Romgaz IPO	15.0	391		Romanian State	Nov-13
Transgaz ABB	15.0	68	9.7	FP	Dec-13
Romgaz ABB	5.0	146	5.9	FP	Jun-14
Electrica IPO	51.0	444		New shares	Jun-14
Transelectrica ABB	13.5	48	8.0	FP	Jul-14
Conpet ABB	23.6	48	8.0	FP	Nov-14
FP tender offer	5.5	187		FP buyer	Dec-14
Romgaz ABB	4.2	103	6.4	FP	Oct-15
Banca Transilvania	2.9	49	5.3	EBRD	Nov-15
Sub total completed deals		1,714			
Hidroelectrica IPO	15	443		New shares	2H16
CE Oltenia IPO	12.3	8		New shares	
Posta Romana	>50	27		New shares	2H16
Sub-total future deals		407			
Other	FP stake (%)	Value (EUR m)	Market cap (EUR m)		
Constanta Port	20	39	194		
Bucharest Airport	20	56	502		
Salrom	49	32	80		

Source: FP, IPOPEMA Research

With or without the EL deal, and in the absence of other divestments of other liquid listed assets, FP may need to use the credit line from Citibank to fund the buybacks given that: a) its liquid assets in December 2015 reached RON 277m, of which RON 79m in Treasuries and b) the ca. 733m own shares still to be acquired are worth ca. RON 560m at the current share price. Therefore, the RON 500m credit line was extended in December (but no drawings were made) with a potential further increase by RON 500m, if needed. The line would be available for drawings during the period 4 January-31 August 2016 and has final reimbursement date on 30 September the latest. The credit line is to be used for general corporate purposes including buybacks but excluding investments.

Distribution outflow is largely matched by dividend inflow from portfolio companies (RON 568m in the 2016 budget).

Dual listing finally happened: after years of delays, the trading of FP's GDRs (1GDR=50 shares) started on 29 April 2015 (technical listing). The listing led to a split of trading values between Bucharest and London, but to a lesser extent than initially feared by market participants and to date, failed to lead to a decline of the discount to NAV. The main positive was that the stock got the attention of new and large international funds unable to invest previously in FP shares due to compliance and/or liquidity reasons. Such funds entered the shareholding structure. **The GDR limit of 1/3 of FP's issued share capital was reached at end of January 2016.** Elliot Associates remains FP's largest shareholder with a ca. 20% stake in FP's capital (mostly via GDRs), and has

been the main liquidity provider for GDRs' trading; another significant GDR holder is East Capital. As at 6 January 2016, foreign institutional shareholders held 60.4% of FP's voting rights, while Romanian individuals, of which only part are the initial persons that got the shares as part of the restitution process held 21.95% of the voting rights.

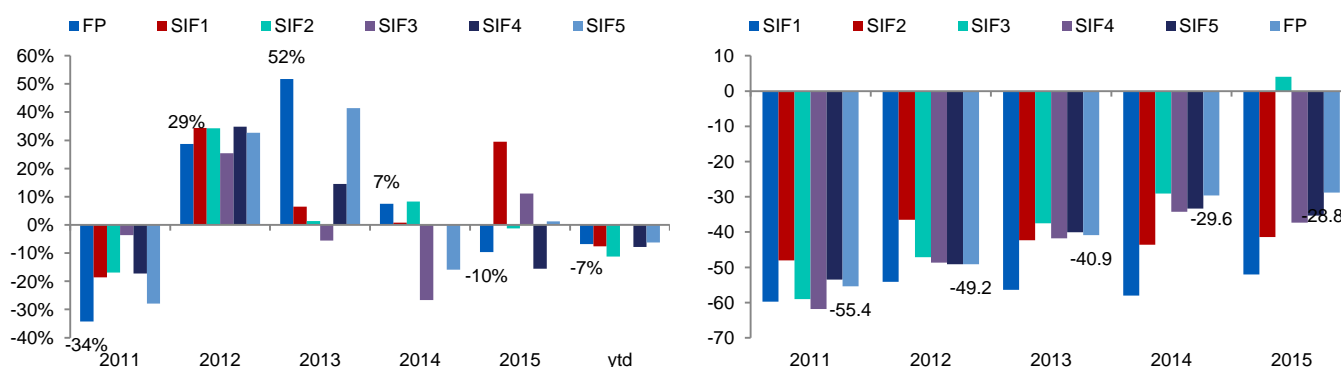
FP vs. the SIFs

Chart 13: FP and SIFs Official NAV as at end December 2015

RON m	SIF 1	SIF 2	SIF 3	SIF 4	SIF 5	FP
Total shares, o/w	1,529	1,358	1,022	937	1,687	11,841
Listed shares	1,356	1,125	856	740	1,134	4,620
Unlisted shares	172	232	165	197	553	7,221
T-Bills	0	0	0	0	0	79
Cash and deposits	151	96	9	18	7	198
as % of assets	8.1	6.2	0.8	1.4	0.4	38.5
Total assets	1,874	1,545	1,200	1,224	1,713	12,148
Liabilities	47	58	52	142	85	43
Provisions	52	61	51	8	50	17
2015 net profit	90	116	81	70	133	785
as % of FY budget	107.7	104.1	155.6	105.7	117.5	161.1
NAV	1,827	1,487	1,148	1,082	1,627	12,087
NAVPS (RON)	3.3295	1.4450	0.5255	1.3408	2.8048	1.1564
mom (%)	2.2	1.1	0.5	0.3	0.8	4.4
yoy (%)	13.9	11.6	7.7	6.2	5.4	-4.6
qoq (%)	3.5	3.0	3.1	-2.4	2.0	2.0
Current price (RON)	1.560	0.698	0.275	0.686	1.584	0.755
Discount to official NAV (%)	-53.1	-51.7	-47.8	-48.8	-43.5	-34.7
2015E DPS w/ 2014 payout (RON)	0.067	0.025	0.019	0.032	0.168	0.050
DPS (RON m)	36.9	25.4	41.0	26.0	97.6	559.7
2015E DY (%)	4.3	3.5	6.8	4.7	10.6	6.6

Source: FP, SIFs, IPOPEMA Research; share prices on 3 February 2016

Chart 14: FP vs. SIFs: share price performance comparisons Chart 15: FP vs. SIFs: Discounts to NAVs' comparisons



Source: Companies, Bloomberg, IPOPEMA Research

FP share price: FP under-performed the BET index by 8.5pp in 2015 (it declined by 9.6% in 2015 after increases by 7.5% in 2014 and 51.7% in 2013); FP's share price is also down YTD by 6.8% (3 February 2016); the average daily turnover was EUR 1.8m on the BVB and EUR 1.34m on the LSE (1 July-12 Nov 2015). The minimum share price from listing to date of RON 0.415 was reached on 28 November 2011, while the maximum price of RON 0.9535 was reached on 3 October 2014 (the closing price in the first day of listing on 25 January 2011 was RON 0.6495/share).

Key holdings – Valuations and latest news

Power generation

Hidroelectrica

Latest developments

The key takeaways from an interview in *Bursa* daily with Mr. Remus Borza, the CEO of Euroinsol, and the judiciary administrator of Hidroelectrica are presented below:

- **Hidroelectrica closed the FY2015** with a preliminary pre-tax profit of RON 1.1bn, down 4.3% yoy on RON 3.18bn sales, down 6.5% yoy. The sales decline was caused by a 13.5% yoy decline in production to 15.9TWh (30% market share in total electricity production). The pre-tax profit was achieved in the context of: a) mild increases in the electricity price in 2015 and of the overall electricity consumption in Romania (by ca. 4% for 9M15), b) cost reductions (from RON 184/MWh in 2012 to ca. RON 110/MWh (RON 78/MWh excluding the impact of the special construction tax) and c) ca. RON 100m profit from trading activities. The 2015 profit was by 3.5x higher vs. the 2010 figure that was achieved with the record high electricity production of 19.8TWh (the cumulated profit in the 3 years in which the company was in insolvency was RON 3.1bn). In 2015, Hidroelectrica approved a 5 year capex program of EUR 1.3bn;
- **Electricity to regulated consumers: *The electricity price for regulated consumers (mostly households) from hydro sources was increased by ANRE by 5.5% yoy*** and the one from nuclear sources by 2.57% in 2016. As a result ***Hidroelectrica is to sell 2,697,703 MWh*** of electricity to such customers ***at an average price of RON 120.55/MWh***, while Nuclearelectrica 1,454,562 MWh, 35.4% down yoy (14.42% of the scheduled production) at RON 162.71/MWh (Tg tariff of RON 4.04/Wh excluded). The two companies would obtain ***in 2016 revenues*** from selling electricity on the regulated market of ***RON 325.2m (Hidroelectrica)*** and RON 236.7m (Nuclearelectrica) vs. RON 367.6m and RON 276m respectively in 9M15 (at SNN FY sales are estimated at ca. RON 357.3m). ***For the 9M15 period Hidroelectrica sold 24% of its electricity on the regulated market***, while for Nuclearelectrica the figure was 21% (2015E 21.4%).
- **Exit from insolvency:** “Hidroelectrica would definitely exit insolvency by 20 June 2016”, according to Mr. Borza: the company is to settle in February the 9 legal actions still pending at Bucharest Court while by May, the appeals to these 9 actions would also be settled at the Bucharest Appellate Court; otherwise, Hidroelectrica would automatically reenter in insolvency. The contracts with energy traders and several industrial producers sanctioned by the Competition Council (see details below) at prices below production costs led to lost profits for Hidroelectrica for the period 2006-2012 of ca. EUR 1bn, of the total EUR 4bn losses from other damaging contracts (also with equipment suppliers - EUR 1bn loss).
- **The Competition Council investigation:** the council concluded the investigation on the long-term contracts signed between Hidroelectrica on one hand and energy traders and local industrial producers (including Alro, Elsid and Electrocarbon) on the other hand, and fined the companies with EUR 37m in total of which EUR 4.6m was the fine applied to Hidroelectrica. The fines were applied as the companies breached the transparency and open market principles in relation to contracts in the period 2003-2012 (most contracts were signed in 2003-2004 should have been valid by 2012 but were extended in 2009-2010 until 2018-2019). Hidroelectrica was also in breach of the obligation to sell its electricity on an exchange. As Hidroelectrica acknowledged that the Competition Council decision was correct, the fine was reduced to 0.6% of Hidroelectrica's 2014 sales figure.
- **IPO:** Exit from insolvency is a pre-condition for the IPO launch. Mr. Borza indicated that Hidroelectrica's IPO should only take place in Bucharest and should raise minimum EUR

500m (an amount that would value Hidroelectrica's 100% of equity at EUR 3.3bn vs. ca. EUR 3bn (RON 13.3bn) implied valuation from FP's December 2015 NAV or EUR 2.7bn. The company does not need the proceeds from the IPO (it had RON 1.2bn cash and equivalents in December 2015), but the IPO is needed to "defend it from any post – insolvency interference and political influence in its management". Also there are discussions to change the structure of the IPO to avoid Electrica model (i.e. of having too much cash in the company that cannot be spent fast on capex). As a reminder, in January 2015, the company signed contracts with Deloitte as auditor and with Horvath&Partners for drafting the listing prospectus. The proposal for the IPO period is 10-20 November 2016. Mr. Borza expects that 2/3 of the IPO proceeds to be from foreign investors.

- **Industrial water:** Hidroelectrica intends to sue the Romanian State at the European Court of Justice as Romania is one of the few European states for which the water is taxed and moreover at high levels (EUR 0.25/000cm vs. EUR 0.15/mcm in France). According to Mr. Borza, only in Italy, France and two cantons in Switzerland the water is taxed, while an EU Directive actually stipulates that taxation of water for agriculture and energy uses is forbidden. In the last 4 years, Hidroelectrica paid over EUR 400m to Apele Romane; in 2014-2015, the water represented ca. 25% of Hidroelectrica's costs, vs. the 1% limit stipulated in the initial protocol signed in 2010 (EUR 83m paid in 2015);
- **Litigation with ANRE on direct exports:** Mr. Borza hopes that ANRE would not appeal against the favorable court decision stating that the company can directly export its electricity based on its supply license. As a reminder, ANRE interpretation was that electricity producers should sell all their energy on OPCOM and export only via trading companies.
- **Capex:** plans for 2015-2020 are of EUR 1.3bn: EUR 200m investment at Racovita group already commissioned (30MW installed capacity); EUR 160m investment at Siriu-Surdut tunnel to be commissioned in 2017 (the plant of 50MW capacity is to be connected to the electricity network in 2018 following EUR 350m capex); EUR 46m investment to be commissioned in one month at Hateg (12 MW); EUR 200m for 2 units on the Jiu river to be commissioned in May 2017 (Dumitra-21MW) and November 2017 (Bumbesti-41MW); EUR 333m capex for the revamping of Rastolita unit to be commissioned in November 2016 (24MW); EUR 75m revamping of Stejaru unit (contract signed last year); and in process to be signed, an EUR 80m revamping contract for Vidraru unit.

Chart 16: Key financials Hidroelectrica

RON m	2011	2012	2013	2014	2015B	Oct-15	12TM	2015P
Sales	3,021	2,403	3,083	3,406	2,991	2,699	3,915	3,180
EBITDA	895	906	2,008	2,190	1,635	1,762	2,173	
EBIT	161	-322	1,016	1,208	654	963	1,214	
Net profit	7	-508	719	942	505	799	949	924
Net debt	2,429	2,215	1,318	-2	n.a	-721	-773	
Book value	16,529	16,079	16,737	17,680		17,780	17,780	

Source: Hidroelectrica, FP, IPOPEMA Research; 12TM net debt as at Nov 2015

Our fair value calculations

In valuing Hidroelectrica we used the 12TM (October 2015) financials and November 2015 net cash figure. They were used as proxy, or better said instead of 2015 estimates. Previously we used the 1H14TTM P&L data and 2013 net debt as proxy for 2014E (the data available at the time when we initiated coverage on FP – end October 2014). We continue to determine Hidroelectrica's fair value as the simple average of fair values based on EV/Capacity, EV/EBITDA and P/E. We use the 2016E median multiples of the peers as per Bloomberg consensus on 29 January 2016 (vs. the 2014E multiples previously) to which we apply 20% discounts (for unlisted status and sector regulatory and litigation risks).

The new fair value of FP's 19.94% stake in Hidroelectrica is RON 2,896m, by 9% higher than the official valuation in FP's NAV as at end December 2015 and by 17.6% revised up vs. our previous fair value.

The outcome of the valuation of FP's stake in Hidroelectrica and the key assumptions are depicted in the next two tables:

Chart 17: Summary of Hidroelectrica's fair value calculation

	Capacity	EBITDA	Net profit	Sales	Book
Hidroelectrica indicator (MM/RON m)	6,072	2,173	924	3,180	17,780
Hidroelectrica indicator (% of revision)	0.0	10.8	23.9	4.7	3.7
Reference 2016E multiples (EV/Capacity, EV/EBITDA, P/E)	0.76	9.1	12.7	2.02	0.81
Discount to peers' median multiples (%)	20	20	20	20	20
Discounted multiple (x)	0.607	7.311	10.199	1.619	0.648
EV (RON m)	16,713	15,888	8,651	5,150	10,756
Oct 2015 net debt (RON m)	-773	-773	-773	-773	-773
FP stake (%)	19.94	19.94	19.94	19.94	19.94
Equity value (RON mn)	17,486	16,661	9,424	5,923	11,529
Fair value of FP stake (RON m)	3,487	3,322	1,879	1,181	2,299
Difference vs. official valuation (%)	31.4	25.2	-29.2	-55.5	-13.4
Final fair value of FP stake (RON m)	2,896				
Official valuation (RON m)	2,654				
Difference (%)	9.1				
% of fair value revision	17.6				

Source: Hidroelectrica, FP, Bloomberg (median multiples based on consensus and share prices as at 29 January 2016), IPOPEMA Research

FP has revised several times the valuation of the stake in its NAV, recently mostly upwards to reflect the continuous improvement in the company's activity (efforts in reducing costs, prioritize capex, eliminate disadvantageous contracts etc.) as depicted in the table below:

Chart 18: Hidroelectrica's official valuation in FP's NAV

RON m	May-12	Jun-12	Dec-12	Dec-13	Feb-14	Dec-14	Dec-15
Hidroelectrica	3,289	0	2,001	2,239	2,105	2,178	2,654

Source: FP, IPOPEMA Research

Hidroelectrica's valuation relative to peers using our fair value

Hidroelectrica looks attractive vs. its hydro peers, in EV/EBITDA and EV/Capacity terms (2015E are at Hidroelectrica in fact 2015 budgeted figures, very conservative, compared to the preliminary results displayed in the media, while 2016E are 12TM data (October 2015)). The company is less attractive in EV/Sales terms. We refer to Hidroelectrica's multiples calculated based on our fair value.

Chart 19: Hidroelectrica vs. peer companies: Financial and operational multiples' comparison

	Price (EUR)	Mcap (EUR m)	P/E (x)			EV/EBITDA (x)			EV/Capacity (EUR m)			EV/Sales (x)		
			2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E
CEE peers														
CEZ (Czech R)	15.3	8,242	7.7	8.4	10.1	5.6	5.7	5.9	0.84	0.81	0.80	2.0	1.9	1.9
Enea (PL)	17.7	18,777	18.8	16.2	15.2	8.2	7.5	7.4	2.63	2.43	2.43	1.1	1.1	1.1
PGE (PL)	3.1	5,838	8.5	22.1	8.6	3.0	3.7	4.8	0.44	0.51	0.59	0.8	1.0	1.2
Tauron (PL)	0.6	1,075	3.7	3.9	6.1	3.1	3.6	4.8	0.49	0.53	0.43	0.6	0.7	0.8
Energa (PL)	3.1	823	5.3	6.8	8.9	3.0	3.4	3.8	1.24	1.21	1.21	0.64	0.69	0.70
Median CEE peers			7.7	8.4	8.9	3.1	3.7	4.8	0.84	0.81	0.80	0.83	0.99	1.11
European majors														
E.ON (GE)	9.4	18,885	10.7	11.7	12.3	5.9	7.1	7.8	1.27	1.33	1.33	0.42	0.47	0.46
RWE (GE)	12.9	7,410	6.1	7.1	11.9	5.7	5.7	4.4	0.76	0.70	0.34	0.75	0.73	0.52
EDF (FR)	12.0	23,118	5.6	5.9	6.7	3.8	3.8	4.0	0.47	0.49	0.49	0.88	0.90	0.92
Enel (IT)	3.8	35,432	11.6	11.9	12.2	6.1	6.2	6.4	1.19	1.19	1.19	1.22	1.26	1.27
Median European majors			8.4	9.4	12.0	5.8	5.9	5.4	1.0	0.9	0.8	0.81	0.82	0.72
Hydro peers														
Ayem Enerji (TR)	4.1	48	5.1	-2.8	18.7	13.0	14.2	8.4	0.85	0.85	0.85	4.22	4.27	3.43
Akenerji (TR)	0.9	205	-2.7	-2.1	-4.3	28.7	10.5	10.0	1.58	1.51	1.51	2.63	1.86	1.77
RusHydro (RU)	0.6	3,063	6.1	6.2	7.9	4.4	5.7	5.2	0.15	0.14	0.14	0.93	1.22	1.14
Verbund (AU)	10.6	1,899	19.1	15.4	18.3	7.8	6.9	7.5	0.57	0.54	0.54	2.20	2.22	2.28
Fortum (FH)	13.6	12,837	12.0	17.6	20.3	9.6	9.4	10.4	1.45	0.92	0.92	3.65	3.04	3.14
Alpiq (SW)	106.0	2,643	45.6	41.4	33.2	10.1	9.4	9.8	0.86	0.67	0.67	0.63	0.72	0.73
Median hydro peers			9.1	10.8	18.5	9.9	9.4	9.1	0.85	0.76	0.76	2.42	2.04	2.02
Nuclearelectrica (RO)			13.6	10.6	9.1	3.9	3.0	2.9	0.36	0.32	0.32	1.29	1.11	1.12
CE Oltenia (RO)			-0.4	339.2	-0.5	-47.9	3.7	12.0	0.69	0.69	0.69	0.98	0.95	0.97
Hidroelectrica (RO)			15.4	28.8	15.7	6.6	8.4	6.3	0.53	0.53	0.53	4.26	4.85	4.32
Hidro premium vs. hydro peers median (%)			70.3	166.3	-15.1	-32.7	-10.8	-30.8	-38.2	-30.5	-30.5	76.4	138.0	113.6

Source: Companies, FP, Bloomberg (multiples based on consensus and share prices as at 29 Jan 2016), IPOPEMA Research

The company's profit margins are also higher than the margins of most of its peers. We should mention however that all these companies are in general vertically integrated (they have also distribution activities, while in generation, they usually have a mix of resources). Hidroelectrica is only a power genco (a pure hydro power play, while those in the hydro peers' section, are in fact companies where power generation is predominantly from hydro sources but not only). This partly explains the profitability margin differentials.

Chart 20: Hidroelectrica vs. peer companies: profit margins' comparisons

	EBITDA margin (%)			Net margin (%)		
	2014	2015E	2016E	2014	2015E	2016E
CEE peers						
CEZ (Czech R)	35.1	33.3	32.2	14.6	13.3	11.2
Enea (PL)	13.3	14.7	14.9	4.3	5.4	5.8
PGE (PL)	27.8	26.6	24.4	10.3	4.1	10.8
Tauron (PL)	19.4	18.5	16.7	6.5	6.4	4.1
Energa (PL)	21.4	20.3	18.7	5.9	5.1	3.9
Median CEE peers	21.4	20.3	18.7	6.5	5.4	5.8
European majors						
E.ON (GE)	7.1	6.5	5.9	1.5	1.4	1.4
RWE (GE)	13.2	12.8	11.8	2.4	2.2	1.3
EDF (FR)	23.3	23.6	22.8	5.6	5.3	4.7
Enel (IT)	20.1	20.2	19.9	4.0	4.0	3.9
Median European majors	16.7	16.5	15.8	3.2	3.1	2.7
Hydro peers						
Ayen Enerji (TR)	32.6	30.1	40.7	10.9	-20.4	2.4
Akenerji (TR)	9.2	17.7	17.8	-19.6	-18.6	-8.7
RusHydro (RU)	21.3	21.2	22.0	8.5	11.9	8.7
Verbund (AU)	28.2	32.3	30.2	3.5	4.6	4.0
Fortum (FH)	37.9	32.3	30.3	22.2	20.0	17.9
Alpiq (SW)	6.3	7.7	7.4	0.7	1.1	1.3
Median hydro peers	24.7	25.6	26.1	6.0	2.8	3.2
Nuclearelectrica (RO)	33.5	36.6	38.3	7.4	9.3	11.0
CE Oltenia (RO)	-2.1	25.9	8.1	-27.0	0.0	-18.8
Hidroelectrica (RO)	64.3	54.7	55.5	27.6	16.9	29.1
Hidroelectrica vs. hydro peers'	39.6	29.1	29.4	21.7	14.0	25.9

Source: Companies, FP, Bloomberg (consensus as at 29 Jan 2016), IPOPEMA Research

CE Oltenia

Latest developments

According to *Ziarul Financiar* daily, quoting the new CEO of CE Oltenia, Mr. Laurentiu Ciobotarica, the company might close the **FY 2015 with a RON 895m loss, of which EBIT is RON -725m**. The total loss would be by RON 68m higher than announced earlier in the year as a result of a need to put aside more provisions for bad receivables from two companies RAAN Drobeta (in bankruptcy) and Termo Craiova (for the latter, the Appellate Court might declare bankruptcy on 17 February 2016). CE Oltenia has to recover RON 383m from RAAN and RON 299m from Termo Craiova and to date has put aside provisions for bad receivables of only RON 345m and RON 269m respectively.

In December 2015, CE Oltenia acquired ca 1.6m of CO2 certificates at the EUR 7.94/certificate value in the National Investment Plan (NIP) or for a total of ca. EUR 12.5m. In total in 2015 CE Oltenia acquired ca. 6m CO2 certificates. The rest of 7.85m CO2 certificates for the electricity produced in 2015 (14.95 TWh) is to be acquired from the market by 30 April 2016 (in December 2015, the company had a RON 241m worth of deficit for these certificates).

In December 2015, CE Oltenia also registered a RON 107m net loss from the transfer of some mines (Berbesti) to CET Govora.

The CO2 certificates' costs and provisions for bad receivables have been the items that have impacted most CE Oltenia's financials (as a reminder, in 2014 CE Oltenia booked RON 356.2m in

provisions for bad receivables for a RON 400m total to be cashed from CET Brasov, RAAN Drobeta Turnu Severin, Olchim, CET Govora, CET Oradea and Termoficare Craiova) as well as RON 344.3m for the acquisition of CO2 certificates. Adjusted EBITDA (after eliminating the impact of these two items) would have been RON 302.3m and adjusted EBIT RON 61.8m vs. the reported negative losses of RON 53m and RON 639m respectively.

Mr. Ciobotarica stated also that the plan is to return to profits in 2017 following a restructuring plan to be drafted in co-operation with a consultant. While several government officials keep mentioning that the company is to have its IPO in 2016 (via a 15.3% rights issue, of which 12% would be the State's stake), we are of the opinion (shared by FP and some government officials) that a deep restructuring would be needed before even considering the start of an IPO, thus we see an IPO unlikely also in 2017 and even in 2018. FP should contribute with ca. RON 77m in the ongoing other share capital increases of CE Oltenia in order not to be diluted (otherwise its stake would decline to 17.7%). We expect FP to challenge the capital increase at CE Oltenia (as it did in the case of Nuclearelectrica). The State is to receive shares worth of RON 277m representing its contribution in kind with the value of some pieces of land for which the company received ownership titles.

In 2015, CE Oltenia reduced its staff by ca. 3,000 to 15,000 employees, of which 1,000 via spin offs of some mines and for the rest taking the burden of redundancy payments also. Around 25% of the capacity of its power plants (3,950MW, of which currently only 3,570MW operational) could be permanently closed at some point if no environmental capex is performed. Also some additional mines could be closed or divested (according to a restructuring plan drafted under the supervision of the previous CEO Laurentiu Ciurel, who was finally dismissed in December 2015 due to his pending legal issues).

Chart 21: Key financials CE Oltenia

RONm	2012 (7M)	2013	2014	2015B	12TM	2015 prel.
Sales	2,237	2,649	2,566	2,643	2,595	2,893
EBITDA	410	543	-53	684	209	
EBIT	44	-28	-639	98	-387	-725
Net profit	118	5	-694	0.7	-487	-895
Net debt	1,509	1,838	2,275	n.a.	n.a.	
Book value	5,482	5,143	5,398			

Source: CE Oltenia, FP, IPOPEMA Research; 2015 preliminary results (Bursa daily)

Our fair value calculations

In valuing CE Oltenia we used the 2015 preliminary sales data from the media, the 2014 net debt and 1H15 TTM other P&L data. They were used as proxy, or better said instead of 2015 estimates. Previously we used the 2014 budgeted P&L data and 2013 net debt – the data available at the time when we initiated coverage on FP). We replaced EV/Sales with P/sales and the new valuation based on EV/EBITDA is closed to nil, given the very weak profitability of the company. We applied a 60% discount to the 2016E EV/Capacity median multiple of a very narrow and imperfect selection of peers (unchanged from the previous report) and a 35% discount to the 2016E financial multiple medians based on Bloomberg consensus (25% discount previously). The details are displayed in the next table:

Chart 22: Reference 2016E multiples* used in CE Oltenia's valuation

EV/EBITDA (x)	EV/capacity (EURm/MW)	P/Sales (x)	Discount vs.peers' medians (%)		Weights in valuation (%)		
			EV/capacity	Financial multiples	P/sales	EV/EBITDA	EV/Capacity
5.1	0.4	0.3	60.0	35.0	25.0	50.0	25.0

Source: Bloomberg (*median multiples based on consensus and share prices as at 29 Jan 2016), IPOPEMA Research

The outcome of valuation of FP's stake in CE Oltenia is depicted in the table on the next page. **The new fair value of FP's 21.55% stake is RON 53.2m, by 15.3% lower than the official valuation in FP's NAV as at end December 2015 and by 62.3% revised down vs. our previous fair value. The figure is also way below the company's 2014 book value.**

Chart 23: Summary of CE Oltenia's fair value calculation

RON m	Mcap	EV	FP stake	Official valuation	% of deviation	% of revision	2014 Book
Based on EV/capacity	408.2	2,683	88.0				
Based on EV/EBITDA (2015B)	2.9	2,278	0.6				
Based on P/Sales (2015P)	573.8	2,849	123.7				
Weighted average	246.9	2,522	53.2	62.8	-15.3	-62.3	1,080

Source: CE Oltenia, FP, Bloomberg, IPOPEMA Research

We see further downside risk to the valuation given the likely weak results to be recorded in 2015 by the company and the gloomy outlook (also of the coal fired power plants in general). These factors has been also the reason why FP has revised downwards several times the valuation of the stake in its NAV, as depicted in the table below:

Chart 24: CE Oltenia's official valuation in FP's NAV

RON m	Jun-12	Sep-13	Dec-13	Jun-14	Nov-15	Dec-15
	1,075	880	322	120	108	63

Source: FP, IPOPEMA Research

CE Oltenia's valuation relative to peers using our fair value

CE Oltenia looks unattractive in most multiple terms (2015E are at CE Oltenia in fact 2015 budgeted figures, while 2016E are 12TM based on 1H15 financials). We refer to CE Oltenia's multiples calculated based on our fair value. The company's profit margins are also lower than peers' margins. We should mention however that all these companies are in general vertically integrated (have also distribution activities, while in generation, they are predominantly coal fired). CE Oltenia is only a power genco (with lignite fired plants only). This partly explains the profitability margin differentials.

Chart 25: CE Oltenia vs. peer companies: Financial and operational multiples' comparisons

Peers	Mcap (EUR m)	P/E (x)			EV/EBITDA (x)			EV/capacity (EUR 000/MW)			EV/sales (x)		
		2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E
CEZ (Czech R)	8,242	7.7	8.4	10.1	5.6	5.7	5.9	836	811	798	1.96	1.91	1.89
PGE (Poland)	5,838	8.5	22.1	8.6	3.0	3.7	4.8	445	507	586	0.83	0.99	1.17
Tauron (Poland)	1,075	3.7	3.9	6.1	3.1	3.6	4.8	495	533	428	0.61	0.67	0.80
RWE (Germany)	7,410	6.1	7.1	11.9	5.7	5.7	4.4	762	704	340	0.75	0.73	0.52
PPP (Greece)	807	6.5	5.3	6.9	5.5	5.3	5.5	444	434	398	0.97	0.95	1.03
Drax (UK)	1,345	11.2	20.3	57.1	4.9	6.7	7.9	375	388	52	0.46	0.41	0.41
Median		7.1	7.8	9.3	5.2	5.5	5.1	470	520	413	0.79	0.84	0.91
CE Oltenia	-0.4	339.2	-0.5	-47.9	3.7	12.0	691	691	691	0.98	0.95	0.97	
CE Oltenia vs. median (%)	n.m.	n.m.	n.m.	n.m.	-32.5	135.4	47.1	32.8	67.3	24.0	14.1	6.6	

Source: Companies, FP, Bloomberg (multiples based on consensus & share prices on 29 Jan 2016), IPOPEMA Research

Chart 26: CE Oltenia vs. peer companies: profit margins' comparisons

Peers	EBITDA margin (%)			Net margin (%)		
	2014	2015E	2016E	2014	2015E	2016E
CEZ (Czech R)	35.1	33.3	32.2	14.6	13.3	11.2
PGE (Poland)	27.8	26.6	24.4	10.3	4.1	10.8
Tauron (Poland)	19.4	18.5	16.7	6.5	6.4	4.1
RWE (Germany)	13.2	12.8	11.8	2.4	2.2	1.3
PPP (Greece)	17.5	18.0	18.8	2.1	2.6	2.0
Drax (UK)	9.3	6.1	5.2	3.8	1.8	0.6
Median	18.5	18.2	17.7	5.1	3.4	3.1
CE Oltenia	-2.1	25.9	8.1	-27.0	0.0	-18.8
CE Oltenia vs. median (pp)	-20.5	7.7	-9.7	-32.2	-3.3	-21.8

Source: Companies, FP, Bloomberg (consensus as at 29 January 2016), IPOPEMA Research

Electricity distribution and supply

FP owns stakes in 7 out of the 8 electricity distribution companies in Romania (it sold its stake in the 8th, CEZ Romania) with a cumulated value in the December 2015 NAV of RON 2,628m (22.2% of NAV) or RON 2,712m (our cumulated fair value, 23.4% of our fair NAV). Of these companies, 3 are Electrica subsidiaries, 3 are Enel subsidiaries and 1 is an E.ON subsidiary, which is in fact an electricity and gas distributor.

FP also owns stakes in 3 electricity supply companies (2 subsidiaries of Enel and 1 of Electrica) with a cumulated value in the Dec 2015 official NAV of RON 290m (2.4% weight in NAV). We value these holdings at the FP's valuation in the NAV.

FP has recently updated the valuations of these companies (in October 2015 for all Electrica's subsidiaries by RON 71.3m to RON 841.4m and in December 2015 for all the other electricity utilities, some downwards, some upwards, by a net positive RON 35.6m to RON 2,222m).

Latest developments

These companies are in most cases cash rich and with decent profitability ratios, being under the energy market regulator (ANRE) scrutiny. **ANRE reduced the RRR on RAB from 8.5% to 7.7%** (at the beginning of last year, a measure announced in late 2014 after the Electrica's IPO). This action was a change operated during not at the beginning of a regulatory period) – in the second year of the 5Y regulatory period that started in January 2014. For gas distribution, the RRR remained at 8.43% for the period 2013-2017.

In December 2015, ANRE came with another negative surprise, i.e. it aggressively cut the distribution tariffs for all distributors by 7% to 16% (for the low voltage tariff on a cumulated basis). The negative corrections were justified by lower inflation rates, higher distributed volumes, lower energy prices for grid losses (OTC) (by 1.8%-2.9% yoy) and a lower regulated rate of return than the initial estimates: The Electrica subsidiaries had the lowest cuts (by 7% to RON 167.7/MWh for Electrica Distribution Transilvania Nord (EDTN), by 10.7% to RON 172/MWh for Electrica Distribution Transilvania Sud (EDTS) and by 14% to RON 171.4/MWh for Electrica Distribution Muntenia Nord (EDMN)). For comparison, the electricity distribution tariffs for Enel companies were reduced by between 12.7% and 15.9% yoy, of E.ON Distributie Romania by 9.9% and of CEZ Romania by 12.7% (as detailed in the table below). The electricity prices for OTC recognized in the tariffs were also reduced by 3.5%-3.8% yoy.

Chart 27: Changes in the tariffs of the electricity distributors

Tariffs (RON/MWh)	CEZ	E.ON	EDMN	EDTS	EDTN	EDB	EDM	EDD
High voltage	22.6	18.7	15.9	21.2	19.9	18.6	10.2	19.3
Medium voltage	43.1	41.4	36.7	42.4	44.3	38.0	30.5	38.5
Low voltage	118.6	128.1	118.8	108.4	103.5	113.5	113.8	126.8
Total	184.2	188.3	171.4	172.0	167.7	170.1	154.4	184.6
Reactive energy (RON/kVAWh)	0.057	0.059	0.059	0.059	0.059	0.059	0.059	0.058
Price of electricity for own consumption (RON)	191.3	196.2	196.4	195.8	195.8	195.2	195.3	192.8
yoy (%)	CEZ	E.ON	EDMN	EDTS	EDTN	EDB	EDM	EDD
High voltage	-11.1	-9.4	-13.8	-9.4	-5.5	-15.8	-16.4	-12.4
Medium voltage	-11.0	-9.3	-14.4	-9.6	-6.5	-15.2	-16.0	-12.5
Low voltage	-13.6	-10.1	-14.3	-11.4	-7.7	-15.0	-15.8	-12.7
Total	-12.7	-9.9	-14.3	-10.7	-7.1	-15.2	-15.9	-12.7
Reactive energy (RON/kVAWh)	-3.9	-2.0	1.9	-3.0	-2.0	-3.5	-3.8	-3.7
Price of electricity for own consumption	-3.8	-3.5	-1.8	-2.9	-2.0	-3.6	-3.7	-3.6

Source: Companies, FP, IPOPEMA Research

The distributors initiated litigations against ANRE (and according to *Ziarul Financiar* daily, for Enel's subsidiaries, the court rejected their requests, with the possibility of appeals). Electrica (EL)

also filed several lawsuits against ANRE (for the annulment and the suspension of orders regarding the distribution tariff methodology as well as to partially suspend and to annul the specific electricity distribution tariffs and the price for reactive electricity set via the ANRE Order No. 171/2015). As a reminder, previously, the distribution tariffs could have been changed in real terms by maximum 10% and by 7% for the weighted average tariff, while ANRE's decision 165 (December 2015) eliminated the lower bound of the variation range for declines (but maintained them for increases).

The elimination of the limits for downward tariffs' reduction leads to a lack of predictability for distributors' revenues with a potential negative impact on capex also. This, coupled with tariffs reductions are likely to put under pressure their profitability in 2016. However, in the case of Electrica, one-off gains from de-consolidation of some of the maintenance subsidiaries following their bankruptcy/insolvency and increased efficiency could partly offset these cuts. Moreover, Electrica subsidiaries remain companies with high payout ratios, thus Electrica holding can in turn distribute a high proportion of profits as dividends (85% assumed in the IPO prospectus). Capex for increasing RAB and cut some opex is key to ensure on a longer run the profitability of the electricity distributors. By end Sept 2015, Electrica subsidiaries were lagging way behind the 2015 budgeted capex figures, partly because there has been a disagreement between the company and ANRE as to the capex to be made (and eventually, the 2015 capex budget was approved in July 2015, below the values in the IPO prospectus, but a tad higher than the figure recognized by the regulator for the inclusion in the RAB).

Potential deals in sight

The buyout by EL of FP stakes in EL's subsidiaries: with the recent changes in EL's board and in the government (a former EL's Supervisory Board member was appointed as Minister of Energy), we expect smoother negotiations between EL and FP on a buyout by EL of FP stakes. As a reminder, the transaction was requested by a group of private investors (NN pension funds, Newtyn investment funds and EBRD, with a cumulative 15% stake in EL). The negotiations should end on 31 March 2016 and the offered price should be published irrespective of the outcome.

Enel subsidiaries: FP has been trying to sell the holding in all utilities in its portfolio for some time, to date with no success. We do not expect news on this front in the near future given that Enel has not changed its plans for its Romanian subsidiaries (as a reminder, in 2015 Enel has given up plans to sell them; FP has tag along rights in the 2 Enel Muntenia subsidiaries (Enel Energie Muntenia (supply) and Enel Distribution Muntenia Nord (EDMN)), i.e. it can sell its participations at the same price as Enel). On the other hand, Enel has several ongoing litigations with SAPE, a company formed from the spin-off of Electrica's subsidiaries in the privatized distributors. First SAPE is requesting penalties for damages of EUR 1.2bn for allegedly Enel not fulfilling its investment commitments as per the privatization contracts of Electrica Muntenia Sud. A new hearing was set for 29 February 2016. In another file, SAPE is seeking to oblige Enel to pay EUR 521.6m for a Put Option clause for the period 31 Dec 2012 to the actual payment date. The option refers to Electrica's obligation to sell (now SAPE's) and Enel's obligation to buy partly or in full a 23.57% stake in the former Electrica Muntenia Sud. The disagreement refers as to how the price of the option should be calculated. According to Enel's officials quoted in the local media, a final decision by Arbitrators in Paris Court is expected in mid-November 2016 the earliest.

E.ON companies: FP challenged the business strategy consultancy contracts between E.ON Distributie Romania and E.ON Energie Romania on one hand and their majority shareholder E.ON Romania SRL on the other hand. FP has the right to start litigations against the companies' board members and managers of these companies for approving, concluding and performing these agreements (FP estimated the cumulated value of damages caused by these agreements at RON 34.4m in 2014).

In the tables below, we present the key financial data based on which we determined the updated fair values of FP's stakes in the electricity distributors.

Chart 28: Key financials of the Romanian electricity distribution companies in FP's portfolio

RON m	Sales	EBITDA	EBIT	Net profit	Net debt	Book value	Financials
Enel Distributie Muntenia	837	444	244	212	-1,994	3,511	2015B
ENEL Distributie Banat	542	295	188	162	-1,190	2,120	2015B
ENEL Distributie Dobrogea	453	224	155	159	-589	1,452	2015B
E.ON Distributie Romania	1,448	368	217	180	-45	3,265	2015B
Electrica Distributie Transilvania Nord	821	259	154	127	56	1,319	12TM 9M15 P&L, 9M15 BS
Electrica Distributie Transilvania Sud	839	280	166	134	39	1,426	12TM 9M15 P&L, 9M15 BS
Electrica Distributie Muntenia Nord	869	253	162	122	-129	1,577	12TM 9M15 P&L, 9M15 BS

Source: Companies, FP, IPOPEMA Research

Chart 29: Key financials of the Romanian electricity distribution companies in FP's portfolio (2014 data)

	EV/RAB	RON m							EBIT/RAB (%)
		RAB	Sales	EBITDA	EBIT	Net profit	Net debt	Book value	
Enel Distributie Muntenia	1.7	2,487	888	440	246	241	-1,877	4,126	9.9
Enel Distributie Banat	2.0	1,433	601	323	188	172	-1,039	2,476	13.1
Enel Distributie Dobrogea	1.7	1,143	493	239	103	88	-467	1,585	9.0
E.ON Distributie Romania	0.6	2,928	748	201	50	37	-45	3,265	1.7
Electrica Distributie Transilvania	0.9	1,336	751	225	125	104	52	1,275	9.4
Electrica Distributie Transilvania Sud	1.0	1,343	817	211	98	70	105	1,318	7.3
Electrica Distributie Muntenia Nord	0.7	1,490	876	232	147	127	-168	1,908	9.9

Source: Companies, FP, IPOPEMA Research

Our fair value calculations for the electricity distributors in FP's portfolio

We determined the fair values of FP's stakes in the distribution companies as **weighted average of the fair values based on EV/EBITDA (40% weight in total valuation), EV/Customer (35% weight) and P/E (25% weight)** (vs. 50/50 weights previously of FVs based on EV/EBITDA and EV/Customer). We used a **reference 2016E EV/EBITDA median of peers of 9x** as per Bloomberg consensus (previously we used a 2014E multiple of 8x) and a reference 2016E P/E of 15.2. For the **EV/customer multiple we used as reference EUR 118 (RON 536)**, the value paid by E.ON to Electrica for a 17% stake in E.ON Distributie Moldova and a 2.4% stake in E.ON Energie Romania (the transaction price appeared in the *Bursa* daily in March 2014). The price was way below the EUR 558 amount paid in September 2009 to FP and Electrica by CEZ for 100% of CEZ Distributie (a majority stake was sold).

To all these reference multiples, we applied some discounts to account for unlisted status and regulatory sector risks. We applied different discounts as follows: the lowest of 5% for Enel subsidiaries and the highest of 25-30% for Electrica subsidiaries (vs. 20% discounts previously), while for the E.ON unit, the discount used was 20% (10% previously). While most of the distributors have net cash (Enel and Electrica subsidiaries mostly), or low gearing, we believe the decision-making process is faster and less bureaucratic at the privatized entities. This, together with the profit margin differentials (see also the last table from this section) made us to apply different (lower) discounts for them. We used higher discounts than in the previous report to account in some way for the expected decline in profitability as a result of ANRE actions.

Chart 30: Reference 2016E multiples* used in the valuation of electricity distribution companies

Reference 2016E multiples	P/E (x)	EV/EBITDA	E.ON transaction		Discounts	Weights in valuation (%)		
			Reference	EV/customer (RON)		P/E	EV/EBITDA	EV/ customer
Enel Distributie Muntenia	15.2	9.0		536	5	25	40	35
Enel Distributie Banat					5			
Enel Distributie Dobrogea					5			
E.ON Distributie Romania					20			
Electrica Distributie Transilvania					25			
Electrica Distributie Transilvania					25			
Electrica Distributie Muntenia Nord					30			

Source: Companies, Bloomberg (*median consensus and share prices on 29 Jan 2016), FP, IPOPEMA Research

Chart 31: Summary of fair value calculations for FP's stakes in the Romanian electricity distribution companies

RON m	FP stake (%)	Value of FP stake based on				Official valuation	% of deviation	% of revision
		P/E	EV/EBITDA	EV/customer	Average			
Enel Distributie Muntenia	12.0	366	693	311	478	455	4.9	33.3
Enel Distributie Banat	24.1	562	893	396	636	624	2.0	9.4
Enel Distributie Dobrogea	24.1	552	600	220	455	401	13.4	20.0
E.ON Distributie Romania	18.3	400	492	111	336	510	-34.2	-15.9
Electrica Distributie Transilvania Nord	22.0	317	370	94	260	216	20.7	24.3
Electrica Distributie Transilvania Sud	22.0	334	406	89	277	222	24.6	16.6
Electrica Distributie Muntenia Nord	22.0	284	378	136	270	254	6.3	-4.6
Total electricity distribution					2,712	2,683	1.1	10.8

Source: Companies, FP, Bloomberg (median consensus and share prices as at 29 January 2016), IPOPEMA Research

Based on Electrica's market capitalization as at 2 February of RON 3.98bn, FP's 22% stakes in the 4 Electrica subsidiaries are worth RON 875m (Electrica subsidiaries in which FP has no stakes, that are mostly maintenance subsidiaries are mostly loss making and/or in insolvency/liquidation or bankruptcy).

Chart 32: FV calculation of Electrica's subsidiaries based on EL's Market cap

RON m	EDMN	EDTS	EDTN	Electrica Furnizare	EL Serv	Total EBITDA
9M15 EBITDA	217.6	236.4	222.5	116.1	-28.0	764.6
% weight	28.5%	30.9%	29.1%	15.2%	-3.7%	100.0%
Mcap by subsidiary	1,132	1,230	1,158	604	-146	3,978
FP stakes (22%)	249	271	255	133	-32	875
IPOPEMA fair values	270	277	260	150		957
Official valuations	254	222	216	150		841

Source: Electrica, IPOPEMA Research

The 2015E multiples of the electricity distributors are in fact the 2015 RAS budgeted figures for both P&L and balance sheet at Enel companies, the 2015 budgeted figures for P&L and the 2014 net debt at E.ON (also in RAS), while for Electrica's subsidiaries we used the 12TM based on the 9M15 IFRS financials (9M15 net debt). They were used as proxy, or better said instead of 2015 estimates. Previously we used 1H14 TM P&L figures and 1H14 net debt for the Electrica subsidiaries, 2014 budgeted figures (P&L) and 2013 net debt figures for E.ON and 2014 budgeted financials (both P&L figures and net debt) at Enel subsidiaries (the ones available at the time when we initiated coverage on FP).

As the next two tables show, we have a mixed bag here in terms of how the profit margins of the Romanian companies are vs. the ones of the peers. Please be aware that most of the peers are not

purely distributors (some also have some generation and transportation activities), while we included the Romanian Transelectrica (TEL) only because it is a Romanian utility company (but does only transportation, not distribution of electricity). All the above makes comparisons NOT on a like to like basis and partly explain the profit margin differentials (the EBITDA margins of all Romanian electricity utilities are higher than the medians of the CEE peers, mostly in the case of Enel subsidiaries and to a lower extent for Electrica's). In the case of net profit margins, we note that E.ON margins are lower than the CEE median values, while those of Enel and Electrica subsidiaries are higher the CEE median (especially in the case of Enel's subsidiaries).

Electricity distributors' valuation relative to peers using our fair values

The Romanian electricity distributors look appealing mainly in EV/EBITDA terms (mostly Electrica subsidiaries) relative to the CEE peers' medians, while the Enel subsidiaries look less appealing in P/E and EV/Sales terms (we refer to their multiples calculated based on our fair values).

Chart 33: Key financials and implied multiples using our fair values

RAS figures (RON m)	EDM			EDB			EDD			E.ON		
	2013	2014	2015B	2013	2014	2015B	2013	2014	2015B	2013	2014	2015B
Sales	892	888	837	625	601	542	509	493	453	727	748	1448
EBITDA	424	440	444	335	323	295	248	239	224	216	201	368
EBIT	221	246	244	203	188	188	149	103	155	74	50	217
Net profit	267	241	212	191	172	162	134	88	159	68	37	180
Net debt	-1,516	-1,877	-1,994	-810	-1,039	-1,190	-351	-467	-589	154	-45	-45
Book	3,885	4,126	3,511	2,204	2,476	2,120	1,479	1,585	1,452	1,298	3,265	
Dividends	0	0	0	0	86	0		44		0	0	0
Fair values	3,981			2,637			1,889			1,830		
EV	2,466	2,104	1,987	1,828	1,598	1,447	1,538	1,422	1,300	1,898	1,867	2,010
P/E	14.9	16.5	18.8	13.8	15.3	16.3	14.1	21.5	11.9	27.0	49.5	10.2
EV/EBITDA	5.8	4.8	4.5	5.5	4.9	4.9	6.2	5.9	5.8	8.8	9.3	5.5
EV/Sales	2.8	2.4	2.4	2.9	2.7	2.7	3.0	2.9	2.9	2.6	2.5	1.4

IFRS figures (RON m)	EDMN				EDTN				EDTS			
	2013	2014	2015B	12TM (9M15)	2013	2014	2015B	12TM (9M15)	2013	2014	2015B	12TM (9M15)
Sales	805	876	755	869	714	751	649	821	742	817	737	839
EBITDA	206	232	274	253	184	225	271	259	183	211	279	280
EBIT	127	147	166	162	87	125	146	154	73	98	142	166
Net profit	106	127	139	122	55	104	120	127	53	70	110	134
Net debt	-246	-168	-129	-129	23	52	51	56	93	105	90	39
Book	1,952	1,908		1,577	1,261	1,275		1,319	1,313	1,318	-	1,426
Dividends	106	112	111		53	76	96		57.9	80	88	
Fair values	1,227				1,183				1,259			
EV	981	1,059	1,098	1,098	1,206	1,235	1,234	1,239	1,352	1,365	1,349	1,299
P/E	11.5	9.6	8.8	10.1	21.4	11.4	9.8	9.3	23.9	18.0	11.4	9.4
EV/EBITDA	4.8	4.6	4.0	4.3	6.6	5.5	4.6	4.8	7.4	6.5	4.8	4.6
EV/Sales	1.2	1.2	1.5	1.3	1.7	1.6	1.9	1.5	1.8	1.7	1.8	1.5

Source: Companies, FP, IPOPEMA Research

Legend: Enel Distributie Muntenia (EDM); Enel Distributie Banat (EDB); Enel Distributie Dobrogea (EDD); E.ON Distributie Romania (E.ON); Electrica Distributie Muntenia Nord (EDMN); Electrica Distributie Transilvania Nord (EDTN); Electrica Distributie Transilvania Sud (EDTS).

Chart 34: Electricity utilities vs. peer companies: Financial multiples' comparisons

	Price (LC) Mcap (EUR m)		P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
			2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E
EDF (France)	12.0	23,118	11.5	9.2	6.4	5.2	4.7	4.1	1.2	1.1	0.9
EDP (Portugal)	3.2	11,763	13.0	13.8	12.7	9.0	8.7	8.6	2.0	2.0	1.9
Endesa (Spain)	17.8	18,809	25.8	16.7	15.1	12.7	9.6	9.4	1.7	1.4	1.4
Iberdrola (Spain)	6.4	40,860	15.4	16.2	15.9	8.5	8.8	8.6	1.8	2.0	2.0
Energia (Poland)	3.1	823	5.5	7.0	5.8	3.9	4.4	4.0	0.8	0.9	0.7
Enea (Poland)	2.7	1,171	7.7	7.0	7.9	4.6	5.2	5.2	0.9	1.1	1.0
Electrica (Romania)	2.5	873	14.0	14.5	11.5	2.7	2.7	2.9	0.5	0.5	0.5
Transelectrica (Romania)	6.1	445	4.4	6.6	7.0	2.2	3.0	3.0	0.6	0.8	0.8
Enagas (Spain)	26.7	6,374	14.0	15.3	15.2	9.8	11.3	11.6	7.7	8.5	8.7
United Utilities (UK)	12.5	8,555	19.5	18.6	19.6	11.5	11.8	12.7	6.7	7.1	7.4
Severn Trent (UK)	28.7	6,754	21.7	22.4	21.8	10.9	11.3	12.1	4.8	5.1	5.7
National Grid (UK)	12.9	48,454	17.0	15.6	16.0	10.4	10.5	11.1	3.8	3.7	4.0
SNAM (Italy)	5.2	18,081	13.8	13.4	16.5	10.1	10.4	11.8	8.0	8.2	9.2
Terna (Italy)	4.9	9,917	15.0	14.6	18.1	10.1	10.6	12.0	7.6	7.9	8.6
Median CEE			7.9	8.8	8.0	3.3	3.8	3.8	0.7	0.8	0.8
Median all			14.0	14.5	15.2	9.4	9.2	9.0	1.9	2.0	2.0
			2014	2015B or TM		2014	2015B or TM		2014	2015B or TM	
Enel Distributie Muntenia	3,981	16.5	18.8			4.8	4.5		2.4	2.4	
ENEL Distributie Banat	2,637	15.3	16.3			4.9	4.9		2.7	2.7	
ENEL Distributie Dobrogea	1,889	21.5	11.9			5.9	5.8		2.9	2.9	
E.ON Distributie Romania	1,830	49.5	10.2			9.3	5.5		2.5	1.4	
Electrica Distributie Transilvania Nord	1,183	11.4	9.3			5.5	4.8		1.6	1.5	
Electrica Distributie Transilvania Sud	1,259	18.0	9.4			6.5	4.6		1.7	1.5	
Electrica Distributie Muntenia Nord	1,227	9.6	10.1			4.6	4.3		1.2	1.3	
Average ENEL		17.8	15.7			5.2	5.1		2.6	2.6	
Average Electrica		13.0	9.6			5.5	4.6		1.5	1.4	
Discounts vs. all median (%)											
Average ENEL		26.8	7.7			-44.6	-44.9		38.5	30.9	
Average Electrica		-7.2	-33.9			-41.3	-50.3		-21.2	-28.9	
E.ON Distributie Romania		n.m.	-30.0			-1.6	-40.6		31.1	-31.1	

Source: Companies, FP, Bloomberg (consensus and share prices as at 29 January 2016), IPOPEMA Research

Chart 35: Electricity utilities vs. peer companies: profit margins' comparisons

	EBITDA margin (%)			Net margin (%)		
	2014	2015E	2016E	2014	2015E	2016E
EDF (France)	23.3	23.6	22.8	5.8	5.6	5.0
EDP (Portugal)	22.0	23.2	22.5	5.7	5.5	5.7
Endesa (Spain)	13.3	14.7	14.9	4.4	5.4	5.8
Iberdrola (Spain)	21.3	23.0	23.6	6.7	7.5	7.7
Energia (Poland)	21.4	20.3	18.7	9.1	7.8	6.0
Enea (Poland)	18.9	21.6	18.9	9.3	9.9	6.1
Electrica (Romania)	17.0	16.5	18.0	5.7	5.3	6.6
Transelectrica (Romania)	28.0	26.3	25.4	12.9	11.4	10.6
Enagas (Spain)	78.2	75.6	75.1	32.1	33.6	35.0
United Utilities (UK)	57.8	60.0	58.0	17.2	19.8	19.1
Severn Trent (UK)	43.8	45.3	47.2	11.1	11.8	13.4
National Grid (UK)	36.1	35.4	36.1	13.3	14.0	14.8
SNAM (Italy)	79.3	78.5	77.6	30.2	32.6	31.2
Terna (Italy)	75.6	74.6	71.5	26.6	28.5	26.3
Median CEE	21.3	21.2	20.2	9.3	8.6	7.3
Median all	25.6	25.0	24.5	10.2	10.7	9.1
	2014	2015B or TM		2014	2015B or TM	
Enel Distributie Muntenia	49.5	53.1		27.1	25.3	
ENEL Distributie Banat	53.8	54.4		28.7	29.8	
ENEL Distributie Dobrogea	48.5	49.4		17.8	35.2	
E.ON Distributie Romania	26.9	25.4		4.9	12.4	
Electrica Distributie Transilvania Nord	29.9	31.5		13.8	15.4	
Electrica Distributie Transilvania Sud	25.9	33.4		8.6	15.9	
Electrica Distributie Muntenia Nord	26.5	29.1		14.5	14.0	
Average ENEL	50.6	52.3		24.5	30.1	
Average Electrica	27.4	31.4		12.3	15.1	
Margins vs. CEE median (pp)						
Average ENEL	29.3	31.1		15.3	21.5	
Average Electrica	6.1	10.2		3.1	6.5	
E.ON Distributie Romania	5.5	4.2		-4.3	3.8	

Source: Companies, FP, Bloomberg (consensus as at 29 January 2016), IPOPEMA Research

Gas and electricity supply

FP owns stakes in 2 gas and electricity supply companies in Romania with a cumulated value in the December 2015 NAV of RON 573m (4.7% of NAV) or RON 591m (our cumulated fair value, 5.1% of our fair NAV). Of these companies, one is a GDF Suez (now Engie) subsidiary and the other is an E.ON subsidiary.

Chart 36: Key financials of the Romanian gas and electricity supply utilities in FP's portfolio

RON m	GDF Suez Energy				E.ON Energie		
	2013	2014	12TM (1H15)	2015B	2013	2014	2015B
Sales	4,127	4,337	4,541	4,441	4,559	4,725	4,971
EBITDA	730	839	849	540	229	112	128
EBIT	519	561	571	262	227	109	125
Net profit	447	442	447	279	224	94	110
Net debt	67	-175	-175	-175	368	223	223
Shareholders' equity	3,546	3,738	3,738	3,738	711	804	804

Source: Companies, FP, IPOPEMA Research

Our fair value calculations for the gas and electricity supply companies in FP's portfolio

We determined the fair values of FP's stakes in these companies as weighted average of the fair values based on EV/EBITDA (70% weight in total valuation) and P/E (30% weight) (vs. 70%/30% weights previously). We used as **reference the 2016E peers' median multiples** as per Bloomberg consensus (previously we used 2014E multiples). As to the financials of the two companies that we used to determine the fair values, they have been also updated with the most recently available (1H15 TM RAS P&L and 2014 net debt for GDF Suez Romania and 2015 RAS budgeted P&L and 2014 net debt for E.ON Energie Romania (they were used as proxy, or better said instead of 2015 estimates). For GDF, the 2016 estimates are in fact the 2015 budgeted figures. Previously we used 2014 budgeted figures (P&L) and 2013 net debt figures for the financials of the two companies (the ones available at the time when we initiated coverage on FP).

To all these reference multiples, we applied some discounts to account for unlisted status and regulatory sector risks. We applied different discounts as follows: the lowest of 30% for GDF and the highest of 40% for E.ON (vs. 25% and 40% respectively the previous discounts). We used a lower discount at GDF for its better profit margins and the fact that it has net cash vs. the net debt position of E.ON.

Chart 37: Reference 2016E multiples* used in the valuation of gas & electricity supply companies

Reference 2016 multiples	P/E (x)	EV/EBITDA (x)	Discounts (%)	Weights in valuation (%)	
				P/E	EV/EBITDA
GdF Suez Energy Romania	14.2	7.0	30	30	70
E.ON Energie Romania	14.2	7.0	40	30	70

Source: Companies, FP, Bloomberg (*median consensus and share prices as at 29 January 2016), IPOPEMA Research

Chart 38: Summary of fair value calculations for FP's stakes in the Romanian gas and electricity supply companies

RON m	FP stake (%)	Value of FP stake based on			Official valuation	% deviation	% of revision	P/BV (x)
		P/E	EV/EBITDA	Average				
GdF Suez Energy Romania	12.0	534	519	524	446	17.4%	24.9%	1.2
E.ON Energie Romania	13.4	126	42	67	126	-46.9%	-41.5%	0.6
Sub-total				591	573	3.2%	41.0%	

Source: Companies, FP, Bloomberg (median consensus and share prices as at 29 January 2016), IPOPEMA Research

Gas and electricity supply companies' valuation relative to peers using our fair values

The Romanian gas and electricity supply companies in FP's portfolio look appealing mainly in EV/EBITDA and EV/Sales terms relative to the peers' median multiples. In our opinion, the much higher implied discount in the case of E.ON Energie is justified by its lower profit margins. We refer to their implied multiples calculated based on our fair values.

Chart 39: Gas and electricity supply companies vs. peers: Financial multiples' comparisons

	Price (EUR)	Mcap (EUR m)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)			P/BV (x)		
			2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E
Gas Natural SDG SA (Spain)	18.02	18,027	13.1	12.2	11.8	7.3	6.7	6.6	1.5	1.4	1.3	1.3	1.2	1.2
Iren (Italy)	1.36	1,606	17.2	12.4	12.0	6.4	6.0	6.0	1.2	1.3	1.3	1.0	1.0	0.9
Hera (Italy)	2.58	3,843	25.3	20.6	20.8	7.7	7.4	7.4	1.4	1.4	1.4	1.7	1.6	1.6
SNAM SpA (Italy)	5.17	18,081	16.3	15.3	16.4	11.3	11.2	11.8	9.0	8.8	9.2	2.7	2.4	2.3
Median			16.7	13.8	14.2	7.5	7.1	7.0	1.5	1.4	1.4	1.5	1.4	1.4
			2014 12TM (1H15)	2015B		2014 12TM (1H15)	2015B		2014 12TM (1H15)	2015B		2014 12TM (1H15)		
GDF Suez Energy (Romania)			9.9	9.8	15.7	5.0	4.9	7.8	1.0	0.9	0.9	1.2	1.2	
E.ON Energie (Romania)			5.3	4.6		6.5	5.7		0.2	0.1		0.6	0.6	
Discounts vs. Median (%)														
E.ON Gaz Distribuție (Romania)			-41.1	-29.4	9.9	-33.6	-30.3	11.0	-33.9	-33.4	-30.4	-21.9	-17.4	
E.ON Energie (Romania)			-68.1	-67.1		-13.6	-20.0		-89.5	-89.5		-58.3	-55.9	

Source: Companies, FP, Bloomberg (consensus and share prices as at 29 January 2016), IPOPEMA Research

Chart 40: Gas and electricity supply companies vs. peers: Profit margins' comparisons

	EBITDA margin (%)			Net margin (%)			ROE (%)		
	2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E
Gas Natural SDG SA (Spain)	13.0	12.4	12.2	5.8	5.6	5.7	10.5	10.2	10.1
Iren (Italy)	9.9	10.9	10.9	3.0	4.4	4.5	5.3	7.7	7.5
Hera (Italy)	9.5	9.7	9.5	3.2	3.9	3.9	6.9	7.8	7.6
SNAM SpA (Italy)	57.0	55.3	53.1	30.2	32.6	31.2	17.0	16.0	13.9
Median	11.5	11.6	11.6	4.5	5.0	5.1	8.7	9.0	8.8
	2014 12TM (1H15)	2015B		2014 12TM (1H15)	2015B		2014 12TM (1H15)	2015B	
GDF Suez Energy (Romania)	19.3	18.7	12.2	10.2	9.8	6.3	12.1	12.0	7.5
E.ON Energie (Romania)	2.4	2.6		2.0	2.2		12.4	13.7	
Discounts vs. median (pp)									
GDF Suez Energy (Romania)	7.9	7.0	0.6	5.7	4.8	1.2	3.4	3.0	
E.ON Energie (Romania)	-9.1	-9.1		-2.5	-2.8		3.7	4.7	

Source: Companies, FP, Bloomberg (consensus as at 29 January 2016), IPOPEMA Research

Airports

FP owns stakes in 3 airports in Romania, the only ones considered strategic and being majority owned by the Ministry of Transportation (the others are owned by the local municipalities). The 3 airports have a cumulated value in FP's December 2015 NAV of RON 503m (4.2% of NAV) or RON 482.6m (our cumulated fair value). FP owns stakes of 20% in each of these airports (the rest being owned by the Ministry of Transportation).

Latest developments

Bucharest Airports (CNAB) registered in 2015, on its two airports Henri Coanda Otopeni (AIHCB) and Baneasa - Aurel Vlaicu (AIBB AV), a record high number of passengers of 9.28m, 11.6% up yoy. Aircraft movements were also up 6.4% yoy to 108,566. Of these figures, 9.27m passengers and 97,218 aircraft movements were recorded at the Otopeni Airport. The growth rates were higher than the European averages. 31 airlines that transport passengers to 70 destinations operate currently on Otopeni Airport. The current infrastructure could cope with ca. 12-15m passengers with some additional investments, according to company's management. The Master Plan for Transportation (still to be approved by EU) provides for the largest capex at this airport. According to Mr. Dan Costea, the Minister of Transportation quoted in *Bursa* daily recently, RON 800m capex would be needed for a 5-7 years-time span to build a new terminal to cope with higher traffic.

The International Airport Mihail Kogalniceanu Constanța recorded the highest yoy growth rates in 2015 but from a very low base, i.e. by 107% to 78,556 passengers and by 126% to 2,227 aircraft movements. The airport's draft capex plan for 2016 is of RON 12.7m, of which RON 10m from the state budget.

The International Airport Traian Vuia Timisoara recorded also a significant increase in the traffic data, to 924,459 passengers by 26% yoy, above the previous peak of 853,347 passengers recorded in 2011. The number of flights also went up by 13% yoy to 11,661. Wizzair has a 60% market share here followed by Lufthansa and the national airline Tarom.

Chart 41: Key financials of the Romanian airports in FP's portfolios

RON m	Sales	EBITDA	EBIT	Net profit	Net debt	Book	Pax m	Period
Bucharest airports	692.1	236.9	170.3	136.6	9.6	4,064.4	9.3	1H15TM P&L, 2014 ND
Timisoara airport	33.2	0.7	0.7	0.5	3.3	19.7	0.9	2015B P&L, 2014 ND
Constanta airport	18.6	0.3	0.3	0.0	-1.6	18.4	0.1	2015B P&L, 2014 ND

Source: Companies, FP, IPOPEMA Research; ND=net debt

Our fair value calculations for the airports in FP's portfolio

We determined the fair values of FP stakes in these companies as weighted average of the fair values based on EV/EBITDA (50% weight in total valuation), EV/Sales (25%) (P/Sales previously) and EV/Passengers (25%). The previous weights were 50%/30%/20% respectively. As Constanta and Timisoara airports have been either loss making or barely breaking-even, we could not use a valuation based on P/E multiples. We used as **reference the 2016E median multiples for a selection of peers (European airports)** as per Bloomberg consensus (previously we used 2014E multiples).

The financials of the three companies that were used to determine their fair values were also updated with the most recently available (1H15 TM RAS P&L and 2014 net debt for Bucharest Airports and 2015 RAS budgeted P&L and 2014 net debt for other two airports (they were used as proxy, or better said instead of 2015 estimates). For CNAB, the 2016 estimates are in fact the 2015 budgeted figures. Previously we used 1H14 TM P&L and 1H14 net debt at CNAB and 2014

budgeted figures (P&L) and 2013 net debt figures for the other two airports (these were the financials available at the time when we initiated coverage on FP. For all airports we used the 2015 traffic data (including for peers).

To all these reference multiples, we applied some discounts to account mainly for unlisted status. We applied different discounts as follows: the lowest of 20% for Bucharest Airports and the highest of 60% for Constanta Airport, with a 50% discount for Timisoara Airport (vs. the previous discounts of 30%, 60% and 50% respectively). We used a lower discount at Bucharest Airports for its better profit margins and higher traffic figures (normal for the airport of the country's capital).

Chart 42: Reference 2016E multiples* used in the valuation of Romanian airports

2016E reference multiples	EV/Sales (x)	EV/EBITDA (x)	EV/pax (EUR)	Discount (%)	Weights in valuation (%)		
					EV/Sales	EV/EBITDA	EV/pax
Bucharest airports	3.7	9.3	111.5	20	25	50	25
Timisoara airport				50	25	50	25
Constanta airport				65	25	50	25

Source: Companies, FP, Bloomberg (*median multiples and share prices as at 29 Jan 2016), IPOPEMA Research

Chart 43: Summary of fair value calculations for FP's stakes in the Romanian airports

RON m	FP stake (%)	Fair value of PF stake based on					Official values	% deviation	Previous FVs	P/BV (x)	
		EV/sales	EV/EBITDA	EV/pax	Average					Official	Fair value
Bucharest airports	20.0	411	350	752	466		498	-6.4	320	0.6	0.6
Timisoara airport	20.0	12	0	46	14		4	268.4	18	1.0	3.7
Constanta airport	20.0	5	1	3	2		2	47.6	2	0.4	0.6
Total airports					483		503	-4.1	339		

Source: Companies, FP, Bloomberg (median consensus and share prices as at 29 January 2016), IPOPEMA Research

Romanian airports' valuation relative to peers using our fair values

Bucharest Airports looks fairly appealing vs. its peers mainly in terms of implied P/E and EV/sales multiples calculated based on our fair value (using 12TM 1H15 data). The company is less attractive in EV/EBITDA and especially EV/passenger terms, the latter multiple as well as profit margin differentials showing in fact how much upside potential can be unfolded with increasing traffic data to be achieved via clever capex.

The other two airports have low weights in FP's NAV and even using our conservative valuations, are not particularly attractive relative to peers. Differences in size (these airports are practically very tiny compared to the Western airports we used as peers, as there are no CEE listed airports) largely explain the weaker profit margins and stretched multiples.

Chart 44: Romanian Airports vs. peers: Financial and operational multiples' comparisons

	Price (LC)	Mcap (EUR m)	P/E (x)			EV/Sales			EV/EBITDA			EV/Pax		
			2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E
TAV Havalimanlari Holding (TR)	61.0	118.2	10.1	9.2	7.5	3.1	2.8	2.4	8.9	6.3	5.1	36.9	28.7	26.9
Western Europe														
Aeroports de Paris (FR)	104.4	10,326.5	23.1	23.2	21.1	2.1	4.5	4.4	11.0	11.0	10.7	131.7	136.6	139.4
Fraport AG Frankfurt (GR)	55.8	5,154.2	19.1	18.8	16.8	2.6	3.1	3.0	10.0	9.4	9.0	132.5	131.6	132.3
Flughafen Zuerich (SW)	679.4	4,171.6	17.2	21.4	20.6	1.3	5.2	5.2	8.0	10.4	9.6	134.6	179.8	177.6
Flughafen Wien (AU)	81.1	1,702.3	17.5	17.8	16.0	1.6	3.2	3.0	7.8	8.0	7.4	86.7	93.5	90.7
Save Group (IT)	12.6	695.6	26.0	22.3	19.8	2.0	5.6	5.3	14.6	13.2	11.7	82.9	84.8	89.1
Median all			18.3	20.1	18.3	2.1	3.9	3.7	9.4	9.9	9.3	109.2	112.6	111.5
Bucharest airports			2014	2015B	1H15 TTM	2014	2015B	1H15 TTM	2014	2015B	1H15 TTM	2014	2015B	
Timisoara airport			23.6	52.6	17.1	3.6	3.5	3.4	9.1	10.0	9.9	281.0	251.8	
Constanta airport			n.m.	n.m.		3.0	2.3		15.2	103.1		103.0	82.0	
			n.m.	n.m.		0.5	0.5		2.8	35.3		264.3	127.7	
Discounts to median (%)			2014	2015B	1H15 TTM	2014	2015B	1H15 TTM	2014	2015B	1H15 TTM	2014	2015B	
Bucharest airports			28.7	161.5	-6.9	75.8	-9.2	-9.4	-3.7	0.9	6.2	157.3	123.7	
Timisoara airport			n.m.	n.m.		43.6	-40.8		61.3	n.m.		-5.7	-27.1	
Constanta airport			n.m.	n.m.		-75.1	-86.0		-70.4	n.m.		142.0	13.4	

Source: Companies, FP, Bloomberg (consensus and share prices as at 29 January 2016), IPOPEMA Research

Chart 45: Romanian Airports vs. peers: Profit margins' comparisons

	EBITDA margin (%)			Net margin (%)			No. of passengers (m)	
	2014	2015	2016E	2014	2015	2016E	2014	2015
TAV Havalimanlari Holding (TR)	45.3	44.9	46.1	24.5	20.8	22.6	94.9	102.5
Western Europe								
Aeroports de Paris (FR)	39.7	40.4	41.2	14.4	15.3	16.2	92.7	95.4
Fraport AG Frankfurt (GR)	33.2	32.7	33.0	10.6	10.5	11.3	59.6	61.0
Flughafen Zuerich (SW)	54.3	50.1	53.9	21.4	21.5	22.3	25.5	26.3
Flughafen Wien (AU)	39.7	40.6	41.2	13.1	14.6	15.6	22.5	22.8
Save Group (IT)	39.9	42.7	45.4	18.2	18.9	19.0	10.6	11.0
Median all	39.8	41.6	43.3	16.3	17.1	17.6	42.5	43.7
	2014	2015B	12TM (1H15)	2014	2015B	12TM (1H15)		
Bucharest airports	39.8	34.9	34.2	15.3	6.6	19.7	7.6	7.9
Timisoara airport	19.4	2.2		-6.3	1.5		0.8	0.8
Constanta airport	18.3	1.5		0.00	0.02		0.1	0.1
Discounts to median (pp)	2014	2015B	12TM (1H15)	2014	2015B	12TM (1H15)		
Bucharest airports	0.0	-6.7	-9.1	-1.0	-10.4	2.1		
Timisoara airport	-20.4	-39.4		-22.5	-15.5			
Constanta airport	-21.5	-40.1		-16.3	-17.0			

Source: Companies, FP, Bloomberg (consensus as at 29 January 2016), IPOPEMA Research

FP financials

Chart 46: FP 2015-9M15 financials

Balance sheet (RON m)	RAS			IFRS unconsolidated		
	2013	2014	9M15	2013	2014	9M15
Non-current assets	10,491	9,076	8,349	14,312	12,928	12,046
Financial investments o/w	10,491	9,076	8,348	14,312	12,928	12,046
Equity investments	10,491	9,076	8,348	14,312	12,928	12,046
Current assets	454	320	343	455	473	344
Cash and equivalents	238	116	143	238	116	143
ST fin. Investments	214	195	131	214	195	131
Receivables	3	9	69	0	0	39
Other current assets	0	0	0	4	162	31
Total assets	10,946	9,396	8,692	14,767	13,401	12,390
Shareholders' equity, o/w	10,885	9,339	8,267	14,725	13,348	11,970
Share capital	13,778	11,815	10,074	13,778	11,815	10,074
Reserves o/w	-2,532	-2,981	-3,770	4,326	4,631	4,440
Impairment for loss in value	2,870	3,628	4,345	0	0	0
Retained earnings	734	1,695	2,166	-2,284	-1,908	-2,340
Treasury shares	-1,095	-1,190	-204	-1,095	-1,190	-204
Total liabilities	60	56	425	42	53	420
Total liabilities and equity	10,946	9,396	8,692	14,767	13,401	12,390

P&L (RON m)	RAS			IFRS unconsolidated		
	2013	2014	9M15	2013	2014	9M15
Dividend income	650	650	567	652	687	569
Net income from provisions	35	35	29	-376	-929	-11
Net fin. investm. gains	44	44	-3	115	646	0
Net forex gain/(loss)	0	0	0	36	21	0
Net loss from equity investments at FV via P&L			0	0	-1	-775
Interest income	36	36	1	4	-6	0
Other operating revenues	4	4	3			3
Total revenues	769	769	597	432	418	-213
Total opex	-87	-87	-124	-88	-114	-93
Operating profit	682	682	473	343	305	-306
Income tax	0	0	-2	-382	123	-127
Net profit	682	682	471	-39	427	-432

Main dividend contributors RON m	9M15	2014	2013	2012
OMV Petrom	128.9	331.4	319.0	353.1
Romgaz	121.4	148.5	158.9	140.6
Hidroelectrica	120.5	0.0	0.0	0.0
Electrica Furnizare	38.3	19.6	0.0	0.0
Electrica Distributie Muntenia Nord	24.7	23.2	16.2	4.2
GDF Suez Energy Romania	24.0	33.6	29.9	0.0
Enel Distributie Banat	20.7	0.0	0.0	0.0
Electrica Distributie Transilvania Sud	17.6	12.7	0.0	0.0
Electrica Distributie Transilvania Nord	16.7	11.7	0.0	0.0
Enel Distributie Dobrogea	10.5	0.0	0.0	0.0
Salrom	10.2	19.8	9.3	0.1
Bucharest Aiports (CNAB)	10.2	0.0	9.1	9.4
Nuclearelectrica	8.2	33.2	0.0	0.0
Enel Energie	7.4	0.0	0.0	0.0
Administratia Porturilor Maritime	6.5	10.1	5.4	6.6
Administratia Canalelor Navigabile	0.2	0.2	0.9	0.5
Transgaz	0.0	0.0	37.6	52.5
Transelectrica	0.0	22.0	4.0	10.9
Conpet	0.0	8.8	8.4	6.6
Oltenia EC	0.0	0.0	12.3	6.5
Raiffeisen International	0.0	0.0	4.4	4.1
Traian Vuia Timisoara airport	0.0	0.0	0.7	1.7
Others	13.8	0.3	33.9	0.0
Total	569.3	675.1	650.0	595.0
FY budgeted dividend income	598.3	619.8	618.2	509.5
Sub-total as % budgeted figure	95.2	108.9	105.1	116.8

Source: Company, IPOPEMA Research

This document has been prepared by:

IPOPEMA Securities S.A.
ul. Prózna 9
00-107 Warszawa
www.ipopema.pl

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The date stated on the front page is the date of the publication of this document. The price used throughout the recommendation to calculate adequate ratios is the "last" price stated on the front page of this report.

The definitions of terms used in the recommendation include:

NII – Net interest income – interest income minus interest expense
Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense
LLP – loan loss provisions – an expense set aside as an allowance for bad loans
NPL – non-performing loan – loans that are in default or close to be in default
Cost/Income – operating expenses divided by total banking revenue
ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity
ROA – return on assets – net income (or adjusted net income) divided by the average assets
EBIT – earnings before interests and tax
EBITDA – earnings before interests, tax, depreciation and amortization
EPS – earnings per share – the net income (or adjusted net income) divided by the number of shares outstanding
P/E – price to earnings ratio – price divided by earnings per share
PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time
CAGR – compound annual growth rate
BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding
P/BV – price to book value - price divided by the BVPS
DPS – dividend per share – dividend of a given year divided by the number of shares outstanding
DY – dividend yield – dividend of a given year divided by the current price
DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends
TP – target price, calculated based on valuation methods outlined in the document

The author has no conflict of interest with the company that is the subject of this document.

Investors should be aware that flexible part of the author's compensation may depend on general financial performance of IPOPEMA Securities S.A.

IPOPEMA Research - Distribution by rating category (Oct 1 – Dec 31, 2015)

	Number	%
Buy	14	65%
Hold	2	12%
Sell	4	24%
Total	17	100%

Rating History – Fondul Proprietatea

Date	Recommendation	Target Price	Last Price
28/10/2014-initiation of coverage	BUY	RON 1.14	RON 0.94
27/01/2015	BUY	RON 1.0	RON 0.867
08/02/2016	BUY	RON 0.90	RON 0.763