

March 3, 2015

Fondul Proprietatea

Increased visibility through LSE listing could reduce the discount to NAV but cash returns guarantee it

We updated our view on Fondul Proprietatea with a target price of RON 1.1159 per share and a BUY recommendation.

* As the current 27% discount to NAV is below the management agreement objective of 15%, the Fund will continue to pour cash into investors' pockets.

* Last year the Fund distributed some RON 1.9b. Accordingly, the discount to NAV reduced from 33% at 2013-end to 26% at 2014-end.

* **This year at least RON 1.6b to be returned to shareholders via buy-backs and share capital reduction.**

** **RON 0.05 per share distribution is expected by June-end via the reduction of the nominal value of the Fund's shares to RON 0.90 (6% DIVY).** The Fund manager recommended and the shareholders approved (on 21 January 2015) a cash distribution of RON 0.05 per share (RON 609m).

** **The fifth buy-back programme started on 10 February 2015.** The programme refers to the acquisition of a maximum number of 227,572,250 shares and needs some RON 198m to be completed if last close considered.

** **The sixth buy-back programme to be approved.** On 27 April GSM, shareholders are convened to approve the buy-back of 891,770,055 shares or GDRs/ DIs equivalent. At the last close, the sixth buy-back would require some RON 775m.

* **The exit from Electrica subsidiaries is expected in H1'15.** Price negotiations are ongoing and the Fund expects a conclusion to be reached by the end of Q1'15. We see Electrica stakes fairly priced in the Fund's NAV.

* **The Fund manager expects to reduce further the discount to NAV through Q2'15 LSE listing.** Trading in London is planned to be achieved via the use of GDRs or DIs.

* **In the medium term, the Fund looks trapped as minority in Enel, E.ON, GDF Suez subsidiaries. RON 2,679m (21% of NAV) stuck in.** Enel halted the Romanian market exit as the group managed to reduce the debt burden following the successful completion of several transactions. E.ON and GDF Suez did not consider either withdrawing from Romania or buying out the Fund's minority stakes.

* **The chances for an IPO this year are small** as no firm privatisation calendar has been presented up to now. Hidroelectrica 15% IPO is expected in H1'16 (offering value EUR 350m).

* **Posta Romana privatisation might take place at the end of H1'15.** The Fund that owns 25% in Posta Romana, values the respective stake at RON 56m.

Romania
Closed-end investment fund

BUY

BQ: FP RO RIC: FP.BX

Last close RON 0.8690

Target price o/w **RON 1.1159**

Upside/downside 28%

52 - Week range RON 0.757 | RON 0.960

Market cap (m) RON 10,588 € 2,383

Shares outstanding (m) 12,184

Valuation (RONm)	Reported NAV	Estimated NAV	Δ%
Traded shares, o/w	6,133	5,826	-5%
OMV Petrom	4,056	3,853	-5%
Romgaz	1,289	1,224	-5%
Unlisted shares, o/w	6,478	5,919	-9%
Hidroelectrica	2,178	2,008	-8%
Enel Distributie Banat	640	551	-14%
Enel Distributie Muntenia	466	376	-19%
GDF Suez Energy Romania	461	438	-5%
E.ON Distributie Romania	441	365	-17%
Enel Distributie Dobrogea	397	382	-4%
CN Aeroporturi Bucuresti	332	300	-10%
Electrica Distributie Muntenia N	236	224	-5%
Electrica Distributie Transilvania S	206	196	-5%
Electrica Distributie Transilvania N	202	192	-5%
Portfolio value*	12,611	11,746	-7%
Total cash & equivalents	236		
Cash & bank deposits	77		
Gov't securities	159		
Total assets*	13,009		
Liabilities	57		
NAV**	12,813		
Estimated NAV		12,087	-6%
No of shares (m)	10,831		
NAV/share**	1.1829		
Premium/discount to NAV	-27%		

* Adjusted for last close; ** As of 31 January 2015



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Investment case

As the current 27% discount to NAV is below the management agreement objective of 15%, the Fund will continue to pour cash into investors' pockets.

Last year the Fund distributed some RON 1.9b. Accordingly, the discount to NAV reduced from 33% at 2013-end to 26% at 2014-end. The Fund sold a 5% stake in Romgaz, the entire stake in Transelectrica and divested the largest part of its Conpet holding. The Fund raised RON 957m through the three transactions, while 2014 total revenues from disposal of financial assets stood at RON 1,079m (+88% Y/Y). Dividend income earned from the portfolio companies, mainly from OMV Petrom (RON 331m), Romgaz (RON 148m) and GDF Suez Energy Romania (RON 34m), reached RON 682m (+5% Y/Y).

This year at least RON 1.6b to be returned to the shareholders via buy-backs and share capital reduction.

RON 0.05 per share distribution expected by June-end via the reduction of the nominal value of the Fund's shares to RON 0.90 (6% DIVY). The Fund manager has already recommended and the shareholders approved (on 21 January 2015) a cash distribution of RON 0.05 (RON 609m) per share via the decrease of the share capital through the decrease of the nominal value of the Fund's shares to RON 0.90.

The fifth buy-back programme started on 10 February 2015. The fifth buy-back programme refers to the acquisition of a maximum number of 227,572,250 shares. The buy-back started on 10 February 2015 and needs some RON 198m to be completed if last close considered.

The sixth buy-back programme to be approved. On 27 April GSM, shareholders are convened to approve the buy-back of 891,770,055 shares or GDRs/ DIs equivalent. At the last close, the sixth buy-back would require some RON 775m.

The exit from Electrica subsidiaries is expected in H1'15. Price negotiations are ongoing and the Fund expects a conclusion to be reached by the end of Q1'15. While in Electrica's books, FP's minority interests have been recorded at RON 837m as of September-end 2014, the Fund values Electrica's stakes at RON 770m (0.92x BV). As Electrica is currently valued at 0.7x FY'14eBV (post-money) and at 1.0x FY'14e BV (pre-money), probably the price negotiations are taking place within RON 600m - RON 850m range. We see Electrica stakes fairly priced in the Fund's NAV.

The Fund manager expects to reduce further the discount to NAV through Q2'15 LSE listing. Trading in London is planned to be achieved via the use of Global Depositary Receipts (GDRs) or Depositary Interests (DIs) as an alternative. Recent changes in the FSA regulations allow any company listed in Romania to be dual-listed in London through GDRs. However, in the case of DIs, regulatory changes are still required. As listing through GDRs requires a prospectus, Q2'15 was set as listing deadline.

In the medium term, the Fund looks trapped as minority in Enel, E.ON, GDF Suez subsidiaries. RON 2,679m (21% of NAV) stuck in. Enel halted the Romanian market exit as the group managed to reduce the debt burden following the successful

completion of several transactions. E.ON and GDF Suez did not consider either withdrawing from Romania or buying out the Fund's minority stakes.

The chances for an IPO this year are small as no firm privatisation calendar has been presented up to now. Hidroelectrica 15% IPO is expected in H1'16 (offering value EUR 350m). The last term put forward for the company's insolvency exit is H2'15. The management see the IPO possible in Q4'15, while the Fund suggests H1'16.

Posta Romana privatisation might take place at the end of H1'15. The Ministry for Information Society has accepted the non-binding offer of the Belgian postal operator, bpost, to acquire 51% in Posta Romana. Following the due diligence process, bpost is expected to submit a binding offer at the end of H1'15. The Fund that owns 25% in Posta Romana, values the respective stake at RON 56m.

Below we provide a summary of the main holdings (>90% of NAV in total) highlighting the key catalysts/ risks and the exits potential that can fund further returns of capital.

OMV Petrom (SNP RO) - 31% of NAV

Brent price expected within USD 50-60/bbl range in 2015, more than 40% below 2014 average. According to the company's representatives, USD1/bbl crude price decrease negatively impacts E&P EBIT by EUR 20m. **NEGATIVE**

CAPEX reduction to reduce hydrocarbon production in 2015. CAPEX is expected to decrease by 25-35% to EUR 0.7-1.1b, thus reducing hydrocarbon production by 2-4% Y/Y in 2015. **NEGATIVE**

Dividend payout ratio expected to reduce. Although the company declared that the distribution of dividends will continue, we expect a lower payout ratio compared with 2013 level of 36%. For 2014, OMV Petrom reported a net profit of RON 2,103m. At a payout of 30%, FP's dividend income from OMV Petrom will reduce to RON 120m (-64% Y/Y). **NEGATIVE**

We do not expect any OMV Petrom stake reduction this year. In March 2014, FP announced reviewing strategic options to reduce its stake in OMV Petrom to below 15%. Given the unfavourable crude price environment, OMV Petrom is currently traded around RON 0.37/share. We do not expect SNP RO stake reduction to 15% this year as in the Fund's books OMV Petrom is recorded at an acquisition value of RON 0.502/share and a divestment would trigger significant losses. **NEGATIVE**

The new fiscal regime expected to have a neutral impact on oil&gas sector's profitability. Fiscal changes will be implemented at the beginning of 2016 as the royalty agreements and the temporary taxes expire. The new royalty regime will affect only the new concessions, while for the existing ones they will remain unchanged. It is likely that the Romanian government will set different rates for the new onshore and offshore concessions and increase the taxes on upstream profits to offset the windfall tax that expires at the end of 2015. Overall, we expect a neutral impact on the sector's profitability and investments climate. **NEUTRAL**

Gas discoveries could raise OMV Petrom capitalisation by 35%-70% by the end of

the decade. The main catalyst for OMV Petrom is its 50/50 JV with ExxonMobil in the Black Sea, Neptun Deep with an estimate of the potential gas discovery of 42-84 bcm (250-500 mboe). Pre-appraisal of Domino-1 well results in the Neptun Block enabled an initial estimate of the potential gas production of approximately 6 bcm per year (40 mboe per year). The discovery could boost OMV Petrom's annual hydrocarbon production by 60% by the end of the decade. As of 2014-end, OMV Petrom reported 690 mboe of 1P hydrocarbon reserves. Given that OMV Petrom is currently traded at 31x 1P reserves, the potential reserves discoveries could raise the SNP RO capitalisation by 35%-70% by 2019. **POSITIVE**

OMV Petrom: Financial summary

	2013A	2014A	2015E	2016E		2013A	2014A	2015E	2016E
Income statement (RONm)					Trading multiples *				
Sales	24,185	21,541	20,456	20,028	P/E	4.4	10.1	16.8	8.5
EBITDA	9,312	8,145	5,430	7,090	P/B	0.8	0.8	0.8	0.7
EBIT	5,958	3,338	1,987	3,427	P/Sales	0.9	1.0	1.0	1.1
EBT	5,699	2,909	1,494	2,952	EV/EBITDA	2.9	3.3	4.9	3.8
Net profit	4,821	2,103	1,258	2,483	DIVY	8%	3%	2%	4%
Balance sheet (RONm)					Per share data				
Total assets	40,047	43,125	44,272	46,356	EPS	0.09	0.04	0.02	0.04
Net debt	35	595	1,681	670	BVPS	0.47	0.48	0.49	0.52
Equity	26,671	27,042	27,604	29,707	DPS	0.03	0.01	0.01	0.01
Cash flow (RONm)					Key ratios				
Operating CF	8,048	6,830	3,706	5,488	Payout ratio	36%	30%	30%	30%
Investing CF	-4,895	-5,658	-4,100	-4,100	ROA	12%	5%	3%	5%
Financing CF	-2,412	-1,312	307	-377	ROE	18%	8%	5%	8%
Δ in cash	742	-140	-86	1,011	Leverage	50%	59%	60%	56%
Cash - eop	1,408	1,268	1,182	2,193	Gearing	0%	2%	6%	2%

Source: OMV Petrom, Swiss Capital estimates; * Based on last close

Hidroelectrica (unlisted) - 17% of NAV

15% IPO expected in H1'16 (offering value EUR 350m). The last term put forward for the company's insolvency exit is H2'15. The management see the IPO possible in Q4'15, while the Fund suggests H1'16. **NEGATIVE**

2014 net profit of RON 967m hit a new record on a good hydrological year. For 2014, Hidroelectrica posted a net profit of RON 967m (+34% Y/Y) mainly due to increased volumes to 18.1TWh (+24% Y/Y) on a good hydrological year. The realised price on the bilateral contracts market stood at RON 175.1/MWh (-11% Y/Y). Hidroelectrica sold 12.8TWh on the competitive market and 5.3TWh on the regulated market at a price of RON 119.4/MWh (32% below the bilateral contract market average price of RON 176.6/MWh). The amounts due to creditors declined to RON 775m from RON 1,962m at the end of 2013. As the company is still under insolvency procedures, we expect no dividends for the year. **NEUTRAL**

Under normal hydrological conditions we see 2015 net profit at RON 760 (-21% Y/Y). Under normal hydrological conditions, Hidroelectrica output would stand around 16.5TWh (-9% Y/Y). 2015 average price on the bilateral contracts market hovers around RON 169.3/MWh (-4% Y/Y). The volumes to be delivered on the regulated

market have been set at 4.15TWh (-22% Y/Y) at an average price of RON 120.2/MWh (+1% Y/Y and 29% below the bilateral contracts prices). **NEGATIVE**

Under normal hydrological conditions, the removal of the regulated prices would allow Hidroelectrica to get a net profit of more than RON 900m starting with 2018. Hidroelectrica has the obligation to sell energy on the regulated market until the removal of the regulated prices in 2017. The regulator (ANRE) stipulates the regulated quantities and prices at the end of each year for the entire following year. **POSITIVE**

Hidroelectrica: Financial summary

	2011A	2012A	2013A	2014E		2011A	2012A	2013A	2014E
Income statement (RONm)					Valuation multiples*				
Sales	3,020	2,402	3,083	3,406	P/E	N/M	NEG	15.2	11.3
EBITDA	893	924	1,987	2,190	P/B	0.7	0.7	0.7	0.6
EBIT	161	-322	1,016	1,228	P/Sales	3.6	4.5	3.5	3.2
EBT	39	-488	902	1,198	EV/EBITDA	12.5	12.1	5.6	5.1
Net profit	6	-508	719	967	DIVY	0%	0%	0%	0%
Balance sheet (RONm)					Per share data				
Total assets	20,950	20,323	19,530	19,318	EPS	0.01	NEG	2.39	3.21
Net debt	2,424	2,885	1,530	245	BVPS	36.80	35.80	55.43	58.64
Equity	16,489	16,040	16,697	17,664	DPS	0.00	0.00	0.00	0.00
Cash flow (RONm)					Key ratios				
Operating CF	877	1,043	1,236	1,564	Payout ratio	0%	0%	0%	0%
Investing CF	-1,466	-748	-237	-279	ROA	0%	-2%	4%	5%
Financing CF	239	420	-979	-782	ROE	0%	-3%	4%	5%
Δ in cash	-350	715	20	503	Leverage	27%	27%	17%	9%
Cash - eop	77	55	75	578	Gearing	15%	18%	9%	1%

Source: Hidroelectrica, Swiss Capital estimates; * Based on Fondul Proprietatea valuation

Romgaz (SNG RO) – 10% of NAV

Stabilised production. In 2014, the company's natural gas output stood at 5.66 bcm (+0.2% Y/Y), the fourth consecutive year of stabilised production. **POSITIVE**

P50 (2P) reserves of about 2 bcm and 2C (contingent) reserves of about 5 bcm have been confirmed by 2014-end. Romgaz owned some 406 mboe of 1P gas reserves as of end-2013 (~11 years of current production), while 2P reserves amounted to 492 mboe. In February this year, Romgaz announced negotiations to take over 32.5% of two offshore blocks from Sterling Resources. Romgaz also owns 10% in two Black Sea blocks operated by Lukoil (72%) and Vanco (18%) and has the option to buy 10% in the Pelican offshore block operated by OMV Petrom and ExxonMobil. **NEUTRAL**

Households gas market liberalisation to resume this year. According to the regulator, households gas market liberalisation will resume this year. In case the gas price for industrials will go above RON 85-90/MWh level by 2018, the regulator intends to postpone liberalisation for 2021, otherwise the deadline is set for 2017-end as initially agreed. In addition, the regulator proposes that prices rise to be made annually in April and not at the beginning of each quarter as initially agreed. The households gas price could increase by 9% to RON 58/MWh in July this year. Please be reminded that last year the regulator announced the postponement of the households gas market liberalisation until June 2021 (vs. 2017-end as initially agreed) and froze the regulated

gas price at RON 53.3/MWh until July 2016. **POSITIVE**

Gas demand not expected to recover in 2015. Last year, the gas consumption decreased by 4% Y/Y mainly on declining demand from the chemical industry and mild winter. Romgaz delivered volumes inched up by 0.6% Y/Y due to increased sales to households (on lowering imports) and to Iernut power plant. **NEUTRAL**

The new fiscal regime expected to have a neutral impact on gas sector's profitability. Changes will be implemented starting the beginning of 2016 as the royalty agreements and the temporary taxes expire. The new royalty regime will affect only the new concessions, while for the existing concessions they will remain unchanged. It is likely that the Romanian government will set different rates for the new onshore and offshore concessions and increase the taxes on upstream profits to offset the windfall tax that expires at the end of 2015. Overall, we expect a neutral impact on the sector's profitability and investments climate. **NEUTRAL**

Romgaz: Financial summary

	2013A	2014A	2015E	2016E		2013A	2014A	2015E	2016E
Income statement (RONm)					Trading multiples*				
Sales	3,894	4,493	4,598	4,856	P/E	12.9	8.9	8.3	8.0
EBITDA	1,973	2,511	2,531	2,689	P/B	1.4	1.3	1.3	1.3
EBIT	1,191	1,734	1,786	1,879	P/Sales	3.3	2.9	2.8	2.6
EBT	1,301	1,788	1,828	1,913	EV/EBITDA	5.1	4.0	4.0	3.8
Net profit	996	1,434	1,535	1,607	DIVY	8%	10%	10%	11%
Balance sheet (RONm)					Per share data				
Total assets	10,477	10,812	11,503	12,234	EPS	2.58	3.72	3.98	4.17
Net debt	-2,534	-2,869	-2,673	-2,459	BVPS	24.11	25.26	25.86	26.49
Equity	9,293	9,737	9,967	10,208	DPS	2.57	3.16	3.39	3.54
Cash flow (RONm)					Key ratios				
Operating CF	1,687	2,411	2,405	2,555	Payout ratio	99.5%	85.0%	85.0%	85.0%
Investing CF	-802	-1,085	-1,382	-1,463	ROA	10%	13%	13%	13%
Financing CF	-1,060	-991	-1,219	-1,305	ROE	11%	15%	15%	16%
Δ in cash	-176	335	-197	-213	Leverage	13%	11%	15%	20%
Cash - eop	2,534	2,869	2,673	2,459	Gearing	-27%	-29%	-27%	-24%

Source: Romgaz, Swiss Capital estimates; * Based on last close

Gas&Power utilities – 27% of NAV

The Fund first announced the intention to exit from the power&gas distribution /supply portfolio companies in 2012 when it appointed an advisor to help it sell the stakes. Today, these investments represent approximately 27% of NAV (RON 3,449m).

Electrica subsidiaries – 6% of NAV

The exit from Electrica subsidiaries is expected in H1'15. FP's stakes in Electrica subsidiaries, collectively representing 6% of NAV, have the most visible exit. Price negotiations are ongoing and the Fund expects to make an announcement in this respect by the end of Q1'15. While in Electrica's books, FP's minority interests have been recorded at RON 837m as of September-end 2014, the Fund values Electrica's stakes at RON 770m (0.92x BV). As Electrica is currently valued at 0.7x FY'14eBV (post-money) and at 1.0x FY'14e BV (pre-money), probably the price negotiations are taking place within RON 600m - RON 850m range. We see Electrica stakes fairly priced in the Fund's NAV. **POSITIVE**

Enel, E.ON, GDF Suez subsidiaries – 21% of NAV

Enel halted the Romanian market exit. Enel agreed to halt the sale of the group's assets in Romania as it managed to reduce the debt burden following the successful completion of several transactions. Enel would continue with the sale of generation assets in Slovakia. The company's Board of Directors will decide upon plans within the group's new strategy and will give more details in March. **NEGATIVE**

E.ON and GDF Suez did not consider either withdrawing from Romania or buying out the Fund's minority stakes. **NEGATIVE**

In the medium term, the Fund looks trapped as minority in Enel, E.ON, GDF Suez subsidiaries. RON 2,679m (21% of NAV) stuck in. NEGATIVE

Trading multiples (based on 2014 financial figures)

	Swiss Capital				Fondul Proprietatea			
	P/E	EV/EBITDA	P/B	P/RAB	P/E	EV/EBITDA	P/B	P/RAB
Enel Distributie Banat	13.8x	4.6x	1.3x	1.7x	15.1x	5.3x	1.4x	1.8x
Enel Distributie Dobrogea	12.9x	5.1x	1.3x	1.4x	12.6x	4.9x	1.3x	1.4x
Enel Distributie Muntenia	12.9x	5.0x	1.3x	1.3x	15.3x	6.3x	1.5x	1.5x
Enel Energie Muntenia	12.5x	1.6x	1.6x	N/A	14.4x	2.9x	1.8x	N/A
Enel Energie	11.8x	3.0x	1.6x	N/A	9.7x	1.2x	1.3x	N/A
E.ON Distributie Romania	11.3x	5.5x	0.6x	N/A	12.9x	6.2x	0.7x	N/A
E.ON Energie Romania	9.5x	7.5x	1.5x	N/A	7.6x	6.0x	1.2x	N/A
GDF Suez Energy Romania	11.0x	5.8x	1.0x	N/A	10.9x	5.8x	1.0x	N/A
Electrica Distributie Muntenia Nord	10.1x	3.8x	N/A	0.7x	10.1x	3.8x	N/A	0.7
Electrica Distributie Transilvania Sud	16.9x	4.0x	N/A	0.7x	16.9x	4.0x	N/A	0.7
Electrica Distributie Transilvania Nord	17.7x	3.4x	N/A	0.7x	17.7x	3.4x	N/A	0.7
Electrica Furnizare	6.7x	3.5x	N/A	N/A	6.7x	3.5x	N/A	N/A
Median	12.2x	4.3x	1.3x	1.0x	12.8x	4.5x	1.3x	1.1x

Source: Swiss Capital estimates, Fondul Proprietatea

Other stakes – 6% of NAV

The chances for an IPO this year are small. Excluding Hidroelectrica, the other candidates for IPOs are Complexul Energetic Oltenia, Aeroporturi Bucuresti, Administratia Porturilor Maritime Constanta (Portul Constanta) and Societatea Nationala a Sarii (Salrom). According to the Fund's manager, Complexul Energetic Oltenia is rather closer to the insolvency than to the IPO as the needed cost cutting and restructuring have not been implemented. As regarding the other candidates, no firm privatisation calendar has been presented for this year. **NEGATIVE**

Posta Romana privatisation might take place in H2'15. In the case of Posta Romana, Romania's Ministry for Information Society has accepted the non-binding offer of the Belgian postal operator, bpost, to acquire 51% in the company. In February 2015, the Romanian privatisation committee has found that bpost's non-binding offer meets the requirements and allowed the company to proceed further. Following the due diligence process, bpost will be able to submit a binding offer to acquire the majority stake in Posta Romana in H2'15. Belgium's bpost was the sole investor to express interest in Posta Romana at the end of September last year, after a failed attempt of privatisation in 2013, when no investors showed interest. The Fund that owns 25% in Posta Romana, values the respective stake at RON 56m. **POSITIVE**

Trading multiples (based on 2014 financial figures)

	Swiss Capital			Fondul Proprietatea		
	P/E	EV/EBITDA	P/B	P/E	EV/EBITDA	P/B
Complexul Energetic Oltenia	NEG	42.2x	0.1x	NEG	42.3x	0.1x
CN Aeroporturi Bucuresti	15.0x	6.6x	0.7x	15.8x	7.0x	0.8x
Portul Constanta	15.0x	2.1x	1.5x	17.3x	2.4x	1.7x
Salrom	9.3x	4.0x	1.1x	8.3x	3.4x	1.0x
Posta Romana	12.0x	3.0x	1.1x	11.3x	2.9x	1.0x

Source: Swiss Capital estimates, Fondul Proprietatea

Portfolio update

RON 242m NAV increase from holdings valuation update

Valuation update

At the end of 2014, KPMG Romania and Ernst & Young Service performed the valuation update on 20 unlisted holdings representing 99.5% of the total unlisted portfolio. The overall impact on December 2014 NAV was an increase of RON 242m (RON 0.0205 per share) as compared to November 2014 NAV.

Portfolio companies: Valuation update

(RONm)		Value in Dec NAV	Value in Nov NAV	Impact on NAV	Value change
1	Hidroelectrica	2,178	2,105	73	3%
2	ENEL Distributie Banat	641	573	67	12%
3	ENEL Distributie Muntenia	466	473	-7	-2%
4	GDF Suez Energy Romania	461	404	57	14%
5	E.ON Distributie Romania	441	511	-69	-14%
6	ENEL Distributie Dobrogea	397	379	18	5%
7	CN Aeroporturi Bucuresti	332	288	45	16%
8	Electrica Distributie Muntenia Nord	236	296	-61	-20%
9	Electrica Distributie Transilvania Sud	207	192	15	8%
10	Electrica Distributie Transilvania Nord	202	207	-5	-2%
11	Societatea Nationala a Sarii (Salrom)	143	114	29	25%
12	E.ON Energie Romania	134	131	3	2%
13	Portul Constanta	133	70	63	91%
14	Electrica Furnizare	126	88	38	44%
15	Complexul Energetic Oltenia	109	120	-12	-10%
16	ENEL Energie	74	74	0	0%
17	ENEL Energie Mutenia	65	65	0	0%
18	Posta Romana	56	61	-5	-8%
19	Zirom	39	44	-4	-10%
20	Plafar	2	5	-3	-63%
Total		6,441	6,199	242	4%

Source: Fondul Proprietatea

Portfolio structure *

By Sector	% of NAV
Oil & Gas	41.01%
Electricity & Gas: distribution, supply	26.92%
Electricity: generation	19.54%
Infrastructure	3.98%
Banks	3.13%
Heavy Industry	1.47%
Aluminum	0.65%
Postal services	0.44%
Others	0.20%
Net Cash & Receivables*	2.66%

By Asset

Listed Equities	46.86%
Unlisted Equities	50.48%
Net Cash & Receivables*	2.66%

Source: Fondul Proprietatea; * As of 30 January 2015

Top 10 Holdings *

Company name	% of NAV
OMV Petrom	30.37%
Hidroelectrica	17.00%
Romgaz	10.38%
ENEL Distributie Banat	5.00%
ENEL Distributie Muntenia	3.64%
GDF Suez Energy Romania	3.60%
E.ON Distributie Romania	3.45%
ENEL Distributie Dobrogea	3.10%
CN Aeroporturi Bucuresti	2.59%
BRD Groupe Societe Generale	1.90%
Total	81.03%

Divestments

In 2014, the Fund posted revenues from disposal of financial assets of RON 1,079m (+88% Y/Y). In June, the Fund sold a stake of 5% in Romgaz at a discount of around 6%. It sold its entire 13% stake in TEL at a discount of 8% in July and divested the largest part of its COTE holding at a similar discount in November. The Fund raised RON 957m through the three transactions.

Shareholding structure update*

As of October 2014, Elliott Associates held 19.73% of the total voting rights

Foreign institutional investors	53.72%
Romanian private individuals	20.75%
Romanian institutional investors	11.48%
Foreign private individuals	5.68%
Ministry of Public Finance	0.04%
Treasury shares	8.33%
Total	100.00%

Source: Fondul Proprietatea; * As of 30 January 2015

Valuation

Fondul Proprietatea: NAV estimate

(RONm)	NAV* 3-Mar-15	Estimated NAV	Estimated vs. Reported NAV
Traded shares*, o/w	6,133	5,826	-5%
OMV Petrom	4,056	3,853	-5%
Romgaz	1,289	1,224	-5%
Nuclearelectrica	209	198	-5%
BRD - Group Societe Generale	248	235	-5%
Banca Transilvania	164	156	-5%
Alro	82	78	-5%
Unlisted shares , o/w	6,478	5,919	-9%
Hidroelectrica	2,178	2,008	-8%
Enel Distributie Banat	640	551	-14%
Enel Distributie Muntenia	466	376	-19%
GDF Suez Energy Romania	461	438	-5%
Enel Distributie Dobrogea	397	382	-4%
E.ON Distributie Romania	441	365	-17%
Electrica Distributie Muntenia Nord	236	224	-5%
CN Aeroporturi Bucuresti	332	300	-10%
Electrica Distributie Transilvania Nord	202	192	-5%
Electrica Distributie Transilvania Sud	206	196	-5%
E.ON Energie Romania	134	157	17%
Complexul Energetic Oltenia	108	103	-5%
Electrica Furnizare	126	120	-5%
Portfolio value	12,611	11,746	-7%
Cash&equivalents o/w	236		
Cash & bank deposits	77		
Government securities	159		
Other assets	162		
Total assets	13,009	12,144	
Liabilities	57		
NAV (adjusted for the last close)	12,952	12,087	-7%
<i>No of shares (m)</i>	<i>10,831</i>		
NAV/share (RON)- adjusted for last close	1.1958	1.1159	-7%
Last price (RON/share)	0.8690		
Discount to NAV	-27%		

Source: Fondul Proprietatea, Swiss Capital estimates; * The latest reported NAV adjusted for last close

Valuation methodology

* **Listed companies.** We valued the listed companies at last close to which a sale discount of 5% was applied.

* **Unlisted companies.** We valued the unlisted companies at relative value to which a sale discount of 5% was applied.

Fondul Proprietatea: Portfolio valuation

(RONm)	FP's stake	Acquisition value	Market value (@last close)	FP's valuation methodology	Swiss Capital value	Swiss valuation methodology	Discounted value*	Discount/Premium to Reported value	Reported NAV weight	Estimated NAV weight
Listed - total										
OMV Petrom	19.0%	5,397	4,056	Last close	4,056	Last close	3,853	-5%	31%	32%
Romgaz	10.0%	278	1,289	Last close	1,289	Last close	1,224	-5%	10%	10%
Nuclearelectrica	9.7%	968	209	Last close	209	Last close	198	-5%	2%	2%
BRD - Group Societe Generale	3.6%	326	248	Last close	248	Last close	235	-5%	2%	2%
Banca Transilvania	2.9%	69	164	Last close	164	Last close	156	-5%	1%	1%
Alro	10.2%	176	82	Last close	82	Last close	78	-5%	1%	1%
Conpet	6.1%	14	32	Last close	32	Last close	30	-5%	0%	0%
Oil Terminal	6.3%	10	3	Last close	3	Last close	3	-5%	0%	0%
Romaero	75.5%	59	23	Last close	23	Last close	22	-5%	0%	0%
Primcom	69.0%	25	14	Last close	14	Last close	14	-5%	0%	0%
Other		27	13		13		12	-5%	0%	0%
Total		7,349	6,133				5,826	-5%	47%	48%
	FP's stake	Acquisition price	Reported value	FP's valuation methodology	Swiss Capital value	Swiss valuation methodology	Discounted value*	Discount/Premium to Reported value	Reported NAV weight	Estimated NAV weight
Unlisted - privately controlled										
Enel Distributie Banat	24.1%	142	640	Fair value	580	Relative value	551	-14%	5%	5%
Enel Distributie Dobrogea	24.1%	115	397	Fair value	402	Relative value	382	-4%	3%	3%
Enel Distributie Muntenia	12.0%	107	466	Fair value	396	Relative value	376	-19%	4%	3%
Enel Energie Muntenia	12.0%	3	65	Fair value	56	Relative value	53	-18%	1%	0%
Enel Energie	12.0%	26	74	Fair value	90	Relative value	86	15%	1%	1%
E.ON Distributie Romania	18.3%	170	441	Fair value	384	Relative value	365	-17%	3%	3%
E.ON Energie Romania	13.4%	46	134	Fair value	165	Relative value	157	17%	1%	1%
GDF Suez Energy Romania	12.0%	63	461	Fair value	461	Relative value	438	-5%	4%	4%
Electrica Distributie Muntenia Nord	22.0%	165	236	Fair value	236	Relative value	224	-5%	2%	2%
Electrica Distributie Transilvania Sud	22.0%	126	206	Fair value	206	Relative value	196	-5%	2%	2%
Electrica Distributie Transilvania Nord	22.0%	113	202	Fair value	202	Relative value	192	-5%	2%	2%
Electrica Furnizare	22.0%	18	126	Fair value	126	Relative value	120	-5%	1%	1%
Total		1,093	3,449				3,139	-9%	27%	26%
Unlisted - state controlled										
Hidroelectrica	19.9%	3,108	2,178	Fair value	2,113	Relative value	2,008	-8%	17%	17%
Complexul Energetic Oltenia	21.6%	670	108	Fair value	108	Relative value	103	-5%	1%	1%
CN Aeroporturi Bucuresti	20.0%	131	332	Fair value	315	Relative value	300	-10%	3%	2%
Portul Constanta	20.0%	65	133	Fair value	115	Relative value	109	-18%	1%	1%
Salrom	49.0%	76	143	Fair value	161	Relative value	153	7%	1%	1%
Posta Romana	25.0%	85	56	Fair value	59	Relative value	56	1%	0%	0%
Other		80	78		55		52	-34%	1%	0%
Total		4,215	3,029				2,780	-8%	23%	23%
PORTFOLIO VALUE		12,657	12,611				11,746	-7%		

Source: Fondul Proprietatea, Swiss Capital estimates

* Discounted value : 5% sale discount

DISCLOSURE SECTION

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Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A **"STRONG BUY"** recommendation indicates that upside is more than 30%.

A **"BUY"** recommendation indicates that upside is between 15% and 30%.

A **"NEUTRAL"** recommendation indicates that upside or downside is less than 15%.

A **"SELL"** recommendation indicates that downside is more than 15%.

Company Specific Regulatory Disclosures

The following disclosures relate to relationships between Swiss Capital SA and companies covered by the Research Division of Swiss Capital and mentioned in this research.

Mentioned companies

Company	BSE	Rating	Price	Price date	Disclosure
Fondul Proprietatea	FP	BUY	0.8690	2/03/2015	NONE

Rating history for Fondul Proprietatea

Date	Rating	Share Price (RON)	Target Price (RON)
6/02/2012	Resume coverage – STRONG BUY	0.5200	0.7499
28/06/2012	Update - NEUTRAL	0.4400	0.4572
20/09/2012	Update – STRONG BUY	0.5400	0.7325
6/02/2013	Update - BUY	0.5980	0.6899
6/03/2013	Update – BUY	0.6200	0.7427
18/07/2013	Update – STRONG BUY	0.6335	0.8900
11/12/2013	Update – BUY	0.8130	0.9430
24/09/2014	Update – BUY	0.9300	1.0666
3/03/2015	Update – BUY	0.8690	1.1159

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