

September 20, 2012

## Fondul Proprietatea

### Harvest Romanian gas market liberalisation from both OMV Petrom and Romgaz pipes

We update our view on Fondul Proprietatea with a STRONG BUY recommendation and a target price of RON 0.7325 per share revealing an upside potential of 36% against current trading levels and a discount of 22% to reported NAV.

Our investment case bases entirely on the domestic gas market liberalisation that we believe would be best played via FP RO that harvests both OMV Petrom and Romgaz pipes. OMV AV that owns 51% of SNP RO could be an alternative to FP RO but returns less. SNP RO lacks the liquidity to make it a viable trading choice.

\* Gas prices for domestic producers are scheduled to add 159% by 2019. Domestic gas market liberalisation is scheduled to start in December 2012. The Romanian Government presented a memorandum for a gradual domestic gas price convergence to RON 119/MWh (+159% vs. current regulated prices). We believe there will be a smoother than scheduled market liberalisation with the gas prices for domestic producers increasing at a CAGR of 10% over the next seven years start until a convergence price of RON 89/MWh (+93% vs. current regulated prices) will be reached in 2019.

Playing the Romanian gas market liberalisation through the stock exchanges turns attention to OMV AV and FP RO. With an average daily traded turnover of EURO 0.16m in 2012 (regular and deal market combined), SNP RO lacks the liquidity to make it a viable trading alternative.

We believe FP RO is a far more appealing play than OMV AV on the following rationales:

\* Higher dividend payout: An investor will get a higher payout from the Romanian gas market liberalisation profits if plays FP RO instead of OMV AV. With payout ratios ranging from 32% for OMV AV, to 47% for OMV Petrom, to 85% for Romgaz and to 100% for Fondul Proprietatea, a FP RO investor gets in hands 11% of any additional profits that the gas market liberalisation could bring, while an OMV AV investor could obtain only 4%. If Romgaz's payout reduces to 50%, FP RO investor still gets 8.5% in hands. Based on 2011 dividends and current market prices, OMV AV and FP RO dividend yields stand at 4% and 7% respectively.

\* Higher price gain potential: For OMV AV, consensus 12-month target price stands at EUR 27.7/share, in line with the last close of EUR 27.8/share. For FP RO, consensus target price stands at RON 0.67/share, 24% higher than the last close. FP RO currently trades at a 43% discount to NAV. We believe Romgaz IPO scheduled for Q1'13 and a successful restructuring of Hidroelectrica will potentiate FP RO share price.

Romania  
Closed-end investment fund

## STRONG BUY

BQ: FP RO RIC: FP.BX

Last close	RON 0.5400	
<b>Target price</b>	<b>RON 0.7325</b>	
52 - Week range	RON 0.4151	RON 0.6050
6m daily avg turnover (m)	RON 5.3	€ 1.2
Market cap (m)	RON 7,440	€ 1,652
Reported NAV (m)	RON 12,675	€ 2,815
Shares outstanding (m)	13,778	

Valuation (RONm)	Reported Value	Bear Case	Base Case	Bull Case
<b>Traded shares, o/w</b>	<b>5,859</b>	<b>5,859</b>	<b>7,232</b>	<b>7,232</b>
<b>OMV Petrom</b>	<b>4,653</b>	<b>4,653</b>	<b>6,026</b>	<b>6,026</b>
Other majors	1,196	1,196	1,196	1,196
<b>Unlisted shares, o/w</b>	<b>6,304</b>	<b>0</b>	<b>1,844</b>	<b>7,251</b>
Privately-controlled	2,094	0	0	1,923
State-controlled o/w	4,141	0	1,844	5,327
<b>Romgaz</b>	<b>1,296</b>	<b>0</b>	<b>1,844</b>	<b>1,844</b>
Other unlisted	69	0	0	0
<b>Portfolio value</b>	<b>12,163</b>	<b>5,859</b>	<b>9,076</b>	<b>14,482</b>
Cash & bank deposits	487			
Other assets	306			
Total assets	12,719			
Liabilities	44			
<b>Reported NAV</b>	<b>12,675</b>			
<b>NAV estimates</b>		<b>6,608</b>	<b>9,825</b>	<b>15,231</b>
No of shares (m)*	13,413			
NAV/share (reported)	0.9450			
<b>Price/share (last close)</b>	<b>0.5400</b>			
<b>NAV/share estimates</b>		<b>0.4926</b>	<b>0.7325</b>	<b>1.1356</b>
Upside/downside potential		-9%	36%	110%
Premium/discount to NAV	-43%	-48%	-22%	20%

\* as reported on 31 August 2012



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For analysts certification and other disclosures refer to the Disclosure Section at the end of this report.

## Investment case

We update our view on Fondul Proprietatea with a **STRONG BUY** recommendation and a **target price of RON 0.7325** per share revealing an **upside potential of 36%** against current trading levels and a discount of 22% to reported NAV.

Our target price derives from the base case that counts in OMV Petrom stake at RON 6,026m (+29% vs. last close), Romgaz stake at RON 1,844m (+42% vs. reported value), other listed stakes at last close and other unlisted-stakes at zero. *Please find attached our latest report on OMV Petrom. Please see our Romgaz DCF valuation on page 9 of the current report.*

**Our investment case bases entirely on the domestic gas market liberalisation that we believe would be best played via FP RO that harvests both OMV Petrom and Romgaz pipes. OMV AV that owns 51% of OMV Petrom could be an alternative to FP RO but returns less. SNP RO lacks the liquidity to make it a viable trading choice.**

*Domestic gas market liberalisation is scheduled to start in December 2012. Under EU and IMF pressures and the lobby of OMV Petrom, the Romanian Government presented a memorandum for a gradual domestic gas price convergence to RON 119/MWh (+159% vs. current regulated prices) by the end of 2014 for non-households gas consumers and by 2018 year-end for households. Based on the Government memorandum on gas prices liberalisation, over 2013 -2019 period, the average gas price for domestic producers is scheduled to increase at a CAGR of 15%. We believe there will be a smoother than scheduled market liberalisation with the gas prices for domestic producers increasing at a CAGR of 10% over the next seven years until a convergence price of RON 89/MWh (+93% vs. current regulated prices) will be reached in 2019. Currently, the regulated price for domestic producers is set at RON 46/MWh. Please see "A note on the Romanian gas market liberalisation" on page 16 of the current report.*

There are two gas producers in Romania sharing about 50% of the domestic market each: Romgaz and OMV Petrom. Fondul Proprietatea, holding 20% in OMV Petrom and 15% in Romgaz, has a total exposure on the Romanian gas market of 17.5%. Out of the rest of 82.5% , 53% is reaped by the Ministry of Economy (85% of Romgaz and 21% of OMV Petrom), 25.5% is harvested by OMV AG (51% of OMV Petrom) and 4% by Others (8% of OMV Petrom).

Playing the Romanian gas market liberalisation through the stock exchanges turns attention to OMV AV that owns 51% of OMV Petrom and to FP RO. With an average daily traded turnover of EUR 0.16m in 2012 (regular and deal market combined), SNP RO lacks the liquidity to make it a viable trading alternative.

We believe FP RO is a far more appealing play than OMV AV on the following rationales:

\* **Higher dividend payout:** An investor will get a higher payout from the Romanian gas market liberalisation profits if plays FP RO instead of OMV AV. With payout ratios ranging from 32% for OMV AV, to 47% for OMV Petrom, to 85% for Romgaz and to 100% for Fondul Proprietatea, a FP RO investor gets in hands 11% of any additional

## FP RO Update

September 20, 2012

Swiss Capital

profits that the gas market liberalisation could bring, while an OMV AV investor could obtain only 4%. If Romgaz's payout reduces to 50%, FP RO investor still gets 8.5% in hands. Based on 2011 dividends and current market prices, OMV AV and FP RO dividend yields stand at 4% and 7% respectively.

\* **Higher price gain potential:** For OMV AV, consensus 12-month target price stands at EUR 27.7/share. The median estimate is in line with the last close of EUR 27.8/share. 8 analysts offering 12-month target prices for FR RO have a median target of RON 0.67/share. The median estimate is 24% higher than the last close of RON 0.54/share. Fondul Proprietatea currently trades at a 43% discount to NAV. We believe Romgaz IPO scheduled for Q1'13 and a successful restructuring of Hidroelectrica will potentiate FP RO share price. Assuming Hidroelectrica reorganisation would bring the company's margins in line with the peers, we computed an implied equity value based on a hypothetical "restructured" EBITDA and EAT. As such, if for LFY Hidroelectrica's profitability (EBITDA and EAT margins respectively) would have been in line with the peers, the company's implied equity value would have stood at RON 7,867m, 53% under the LFY book value. Please find details at page 12 of the current report. Currently, the Fund reports the stake in the company at zero.

## Valuation

### Fondul Proprietatea: NAV estimates

(RONm)	Reported Value	Bear Case	Base Case	Bull Case
<b>Traded shares, o/w</b>	<b>5,859</b>	<b>5,859</b>	<b>7,232</b>	<b>7,232</b>
Listed - majors o/w	5,849	5,849	7,222	7,222
<b>OMV Petrom</b>	<b>4,653</b>	<b>4,653</b>	<b>6,026</b>	<b>6,026</b>
Listed - other	10	10	10	10
<b>Unlisted shares, o/w</b>	<b>6,304</b>	<b>0</b>	<b>1,844</b>	<b>7,251</b>
Unlisted - majors (privately controlled)	2,094	0	0	1,923
Unlisted - majors (state controlled) o/w	4,141	0	1,844	5,327
<b>Romgaz</b>	<b>1,296</b>	<b>0</b>	<b>1,844</b>	<b>1,844</b>
Unlisted- other	69	0	0	0
<b>Portfolio value</b>	<b>12,163</b>	<b>5,859</b>	<b>9,076</b>	<b>14,482</b>
Cash & bank deposits	487			
Government securities	290			
Other assets	16			
<b>Total assets*</b>	<b>12,719</b>	<b>6,652</b>	<b>9,869</b>	<b>15,275</b>
Liabilities	44			
<b>Reported NAV *</b>	<b>12,675</b>			
<b>NAV estimates</b>		<b>6,608</b>	<b>9,825</b>	<b>15,231</b>
<i>No of shares (m)</i>	<i>13,413</i>			
Reported NAV/share	0.9450			
<b>Price/share (last close)</b>	<b>0.5400</b>			
<b>NAV/share estimates</b>		<b>0.4926</b>	<b>0.7325</b>	<b>1.1356</b>
<b>Upside/downside potential</b>		<b>-9%</b>	<b>36%</b>	<b>110%</b>
Premium/discount to NAV	-43%	-48%	-22%	20%

Source: Swiss Capital estimates; Fondul Proprietatea

## Risk/reward snapshot

### Target Price: RON 0.7325 (derived from base case)

<b>Bear Case RON 0.4926</b>	<b>48% Disc to NAV</b>	- Listed stakes valued at RON 5,859m based on last close - Unlisted - privately controlled stakes counted in at zero - Unlisted - state controlled stakes counted in at zero
	<b>9% Downside potential</b>	
<b>Base Case RON 0.7325</b>	<b>22% Disc to NAV</b>	- Listed stakes valued at RON 7,232m based on our target price of RON 0.529/share for OMV Petrom and on the last close for the rest - Unlisted - privately controlled stakes valued at zero - Unlisted - state controlled stakes counted in at RON 1,844m representing our estimated value of the Fund's participation in Romgaz
	<b>36% Upside potential</b>	
<b>Bull Case RON 1.1356</b>	<b>20% Premium to NAV</b>	- Listed stakes valued at RON 7,232m based on our target price of RON 0.529/share for OMV Petrom and on the last close for the rest

<b>110% Upside potential</b>	- Unlisted - privately controlled stakes valued at RON 1,923m on a relative basis
	- Unlisted - state controlled stakes valued at RON 5,327m on a relative basis

**Unlisted - privately controlled companies (16.5% of reported NAV)**

**The State decision to exercise its put option in the case of Electrica Muntenia Sud has no effect on FP's cash coffers. More, given the Enel's increased majority stake, we believe Citibank's mandate to sell the Fund's 12% participation gained difficulty. Of course, there is also the possibility for Enel to buy the 12% holding of Fondul Proprietatea in Electrica Muntenia Sud, but this option has always been there.**

**In our bear/base cases, we value the Fund's stake in unlisted-privately controlled portfolio companies at zero as we believe Citibank's mandate to sell the Fund's participation gained difficulty.**

**In our bull case, we value the Fund's stake in unlisted-privately controlled portfolio companies at RON 1,923m (-8% vs. Reported Value) on a relative basis.**

**The State decision to exercise its put option in the case of Electrica Muntenia Sud-facts and effects**

**The facts:** At the beginning of August, the Government approved the selling of 13.7% of State's stake in Electrica Muntenia Sud to Enel, a transaction estimated at EUR 375m by the State. Fondul Proprietatea holds 12.00% of Enel Distributie Muntenia and Enel Energie Muntenia (the companies resulted from Electrica Muntenia Sud unbundling) and Enel Investment Holding owns 64.43% of the company.

In 2008, Enel purchased 50% of Electrica Muntenia Sud for EUR 395m and increased its stake to 64.43% by injecting another EUR 425m in the company. In 2010, Enel disbursed an additional EUR 38m (an adjustment following 2009 results) to Electrica. After the unbundling, Enel Distributie Muntenia provides the distribution services and Enel Energie Muntenia provides the supply activity.

**Electrica's options:** The privatisation agreement from 2007 contains clauses referring to Electrica's put option for selling 13.57% to Enel as the other 10% of its 23.57% stake refers to the State company employees' rights. The estimated exercise price of EUR 375m (RON 1,713m) renders a total value of Electrica Muntenia Sud of about EUR 2,737m (RON 12,507m).

**Fondul Proprietatea's options:** The privatisation agreement contains specific references granting the Fund "tag -along" rights: should Enel intend to sell its controlling participation to a third party, the Fund shall have the right to sell all its shares on substantially the same terms and conditions as Enel. More, Citibank has a mandate from FP to sell its stakes in Enel Distributie Muntenia and Enel Energie Muntenia.

**The effects on FP of Electrica's decision to exercise its put option:** No matter how much many would like to see Fondul Proprietatea's stake of 12% in the former Electrica Muntenia Sud (currently Enel Distributie Muntenia and Enel Energie Muntenia) turning into EUR 328m (RON 1,501m) cash, based on the privatisation clauses, it does not happen as soon as Electrica exercises its put option. From the agreement, the Fund has a put option in the case Enel sells its controlling participation to a third party, not in the case Enel buys an additional stake in Electrica Muntenia Sud. More, given the Enel's increased majority stake, we believe Citibank's mandate to sell the Fund's 12% participation gained difficulty. Of course, there is also

the possibility that Enel to buy the 12% holding of Fondul Proprietatea in Electrica Muntenia Sud. However, this option has always been there.

**We believe the State expected decision to exercise its put option in the case of Electrica Moldova will have no effect on FP's cash coffers. More, given the E.ON's increased majority stake, we believe Citibank's mandate to sell the Fund's participation will gain difficulty. Of course, there is also the possibility that E.ON to buy the holding of Fondul Proprietatea in Electrica Moldova spun-off companies. However, this option has always been there.**

**The State expected decision to exercise its put option in the case of Electrica Moldova early next year – intentions, facts and effects**

**The intentions:** The Romanian unit of German energy company E.ON AG wants to complete talks with the government on buying the state-held minority stake in Electrica Moldova by early next year, announced Frank Hajdinjak, the unit's chief executive officer. Fondul Proprietatea holds 22% of E.ON Moldova Distributie, 13.4% of E.ON Energie Romania and 12% of E.ON Gaz Distributie (the companies resulted from Electrica Moldova unbundling). E.ON Romania owns 51% in each of the companies above.

**The facts:** In 2005, E.ON paid EUR 31.4m (subsequently increased by EUR 0.84m based on the adjustment mechanism in the contract) for 24.6% of Electrica Moldova and increased the share capital by EUR 68.6m. In 2007 the distribution and supply operations were separated into two distinct legal entities. E.ON Moldova Distributie provides the distribution services and E.ON Moldova Furnizare provides the supply services.

**Electrica's options:** The privatisation agreement of electric power supply and distribution subsidiary Electrica Moldova contains clauses referring to both put and call options. E.ON offered to buy the State's remaining stake in the unit in 2010 and failed to reach an agreement so far, Hajdinjak said, without disclosing the amount it offered. In January, E.ON initiated an arbitration request at the Paris-based Arbitration Court against Electrica after offering to buy the state's entire 27% stake in its local unit. Electrica said it could only sell a 17% stake because the rest should be reserved for employees.

**Fondul Proprietatea:** Currently, the Fund is not considered party to the Electrica Moldova privatisation agreement. A court ruling, which has not occurred to date, might be necessary to decide on whether any put and call options could be granted to the Fund.

The privately-controlled portfolio companies are presented in the table below. Please note that in some cases, LFY book value does not correspond to the reported value because FP adjusted the shareholders equity with the value of dividends distributed.

Portfolio companies	FP's stake	Reported Value (RONm)	NAV weight	Controlling entity	Sector
1 Enel Distributie Banat	24.1%	445	3.5%	Enel Investment Holding (51%)	Power distribution
2 Enel Distributie Dobrogea	24.1%	301	2.4%	Enel Investment Holding (51%)	Power distribution
3 Enel Distributie Muntenia	12.0%	344	2.7%	Enel Investment Holding (64.4%)	Power distribution
4 E.ON Moldova Distributie	22.0%	400	3.2%	E.ON Romania (51%)	Power distribution
5 Enel Energie Muntenia	12.0%	37	0.3%	Enel Investment Holding (64.4%)	Power supply
6 Enel Energie	12.0%	15	0.1%	Enel Investment Holding (51.1%)	Power supply
7 E.ON Energie Romania	13.4%	68	0.5%	E.ON Romania (51%)	Power supply
8 E.ON Gaz Distributie	12.0%	143	1.1%	E.ON Romania (51%)	Gas distribution
9 GDF Suez Energy Romania	12.0%	340	2.7%	Romania Gas Holding (51%)	Gas supply
<b>Total</b>		<b>2,094</b>	<b>16.5%</b>		

Source: Fondul Proprietatea

**Enel Distributie Banat:**

**Relative valuation**

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Reported Value	Premium/Discount*
Net profit, LFY	220.5	X	9.6		2,116.4		14.6%
EBITDA, LFY	313.7	X	5.5	1,709.6	2,139.4		15.9%
Net debt, LFY	-429.8						
Book value, LFY	1,846.2	X	1.5		2,769.3		50.0%
				<b>Equity Value**</b>	<b>2,139.4</b>	<b>1,846.2</b>	<b>15.9%</b>

\* Premium/Discount to reported value; \*\* Median of Implied Equity Values

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst

**Enel Distributie Dobrogea:**

**Relative valuation**

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Reported Value	Premium/Discount*
Net profit, LFY	108.9	X	9.6		1,045.0		-16.5%
EBITDA, LFY	185.6	X	5.5	1,011.3	1,159.0		-7.4%
Net debt, LFY	-147.7						
Book value, LFY	1,251.1	X	1.5		1,876.7		50.0%
				<b>Equity Value**</b>	<b>1,159.0</b>	<b>1,251.1</b>	<b>-7.4%</b>

\* Premium/Discount to reported value; \*\* Median of Implied Equity Values

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst

**Enel Distributie Muntenia:**

**Relative valuation**

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Reported Value	Premium/Discount*
Net profit, LFY	50.5	X	9.6		484.5		-83.1%
EBITDA, LFY	211.3	X	5.5	1,151.8	2,466.1		-14.0%
Net debt, LFY	-1314.3						
Book value, LFY	2,869.0	X	1.5		4,303.4		50.1%
				<b>Equity Value**</b>	<b>2,466.1</b>	<b>2,867.0</b>	<b>-14.0%</b>

\* Premium/Discount to reported value; \*\* Median of Implied Equity Values

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst

**E.ON Moldova Distributie:**

**Relative valuation**

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Reported Value	Premium/Discount*
Net profit, LFY	7.2	X	9.6		69.2		-96.2%
EBITDA, LFY	189.2	X	5.5	1,031.0	1,033.8		-43.1%
Net debt, LFY	-2.8						
Book value, LFY	1,817.1	X	1.5		2,725.7		50.0%
				<b>Equity Value**</b>	<b>1,033.8</b>	<b>1,817.1</b>	<b>-43.1%</b>

\* Premium/Discount to reported value; \*\* Median of Implied Equity Values

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst



**Enel Energie Muntenia:**

**Relative valuation**

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Reported Value	Premium/Discount*	
Net profit, FY'10	2.6	X	<b>9.6</b>		25.0		-91.9%	
EBITDA, FY'10	-0.8	X	<b>5.5</b>	0.0	344.2		11.1%	
Net debt, FY'10	-344.2							
Book value, FY'10	311.2	X	<b>1.5</b>		466.8		50.6%	
					<b>Equity Value**</b>	<b>344.2</b>	<b>309.9</b>	<b>11.1%</b>

\* Premium/Discount to reported value; \*\* Median of Implied Equity Values

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst

**Enel Energie:**

**Relative valuation**

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Reported Value	Premium/Discount*	
Net profit, FY'10	-32.4	X	<b>9.60</b>		0.0		-100.0%	
EBITDA, FY'10	-5.9	X	<b>5.45</b>	0.0	212.5		75.4%	
Net debt, FY'10	-212.5							
Book value, FY'10	164.3	X	<b>1.50</b>		246.5		103.4%	
					<b>Equity Value **</b>	<b>212.5</b>	<b>121.2</b>	<b>75.4%</b>

\* Premium/Discount to reported value; \*\* Median of Implied Equity Values

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst

**E.ON Energie Romania:**

**Relative valuation**

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Reported Value	Premium/Discount*	
Net profit, FY'10	-95.4	X	<b>9.3</b>		nm			
EBITDA, FY'10	-41.0	X	<b>7.5</b>	nm	nm			
Net debt, FY'10	-31.9							
Book value, FY'10	703.9	X	<b>1.8</b>		1,267.1		147.9%	
					<b>Equity Value**</b>	<b>703.9</b>	<b>511.1</b>	<b>37.7%</b>

\* Premium/Discount to reported value; \*\* Minimum of reported BV and implied BV

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst

**E.ON Gaz Distributie:**

**Relative valuation**

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Reported Value	Premium/Discount*	
Net profit, FY'10	159.6	X	<b>9.3</b>		1,484.0		24.3%	
EBITDA, FY'10	310.9	X	<b>7.5</b>	2,331.8	2,325.7		94.8%	
Net debt, FY'10	6.1							
Book value, FY'10	963.1	X	<b>1.8</b>		1,733.6		45.2%	
					<b>Equity Value**</b>	<b>1,733.6</b>	<b>1,194.2</b>	<b>45.2%</b>

\* Premium/Discount to reported value; \*\* Median of Implied Equity Values

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst

**GDF Suez Energy Romania:**

**Relative valuation**

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Reported Value	Premium/Discount*	
Net profit, LFY	209.6	X	<b>9.3</b>		1,948.9		-31.1%	
EBITDA, LFY	270.1	X	<b>7.5</b>	2,025.6	1,963.2		-30.6%	
Net debt, LFY	62.4							
Book value, LFY	2,830.3	X	<b>1.8</b>		5,094.5		80.0%	
					<b>Equity Value **</b>	<b>1,963.2</b>	<b>2,830.3</b>	<b>-30.6%</b>

\* Premium/Discount to reported value; \*\* Median of Implied Equity Values

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst



Romgaz (10.2% of reported NAV)

In our bear case, we value the Fund's stake in Romgaz at zero as the company's IPO could be further postponed anytime. For now, the IPO has been rescheduled for Q1'13.

In our base/bull cases, we value the Fund's stake in Romgaz at RON 1,844m (+42% vs. Reported Value) on a DCF basis.

Romgaz: DCF valuation

(RON'000)	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F	2018 F	2019 F
EBIT	1,016,281	1,060,468	1,088,745	725,768	1,049,743	1,414,810	1,826,633	2,311,654
Plus: Depreciation	633,225	705,475	765,225	812,225	859,225	906,225	953,225	978,975
Less: Tax on EBIT	(227,339)	(247,013)	(267,651)	(238,036)	(292,291)	(352,145)	(418,990)	(497,290)
Capital expenditure	(814,906)	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)
(Increase)/decrease in working capital	(74,452)	(17,202)	(112,280)	(148,847)	(169,471)	(187,336)	(206,986)	(225,411)
<b>Free cash flow</b>	<b>532,809</b>	<b>601,729</b>	<b>574,040</b>	<b>251,110</b>	<b>547,206</b>	<b>881,555</b>	<b>1,253,883</b>	<b>1,667,929</b>
WACC	11.3%	11.3%	11.3%	12.0%	12.0%	12.0%	12.0%	12.0%
Present value of FCFF	518,170	485,747	416,348	162,615	316,395	455,103	577,962	686,439
Cumulative net present value of FCFF	518,170	1,003,918	1,420,266	1,582,881	1,899,276	2,354,379	2,932,341	3,618,780
Growth Rate		1.0%						
Terminal value	15,314,619							
Net present value of terminal value	6,302,757							
<b>Enterprise value</b>	<b>9,921,537</b>							
Minus: Latest net debt (net cash)	(2,379,615)							
Plus: Dividends due for distribution	0							
<b>Value of equity</b>	<b>12,301,152</b>							
<b>WACC assumptions</b>								
Risk free rate	5.3%	5.3%	5.3%	6.0%	6.0%	6.0%	6.0%	6.0%
Market risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Beta leveraged	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Cost of debt	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Cost of equity	11.3%	11.3%	11.3%	12.0%	12.0%	12.0%	12.0%	12.0%
Beta unleveraged	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Debt/(Debt+Equity mv)	0%	0%	0%	0%	0%	0%	0%	0%

Source: Romgaz, Swiss Capital estimates

Romgaz: Key DCF assumptions

\* By 2019, we expect the gas price for domestic producers to reach RON 89/MWh, 95% over the current regulated price and 25% under the 2019 convergence price proposed by ANRE. As such, we see the gas price increasing at a CAGR of 10% over the next seven years starting with 2013. Please see "A note on the Romanian gas market liberalisation" at the end of the current report.

\* We expect annual gas volumes sales at 5.79b cbm, flat compared with 2011 levels;

\* From 2013 onwards, we expect imported gas volumes sold at 0.76b cbm – the average volume of 2009-2012. In 2012, in line with the company's representatives, we expect the respective volumes sales to decrease by 48% Y/Y to 0.54b cbm. As regarding the imported gas price we assumed it flat at RON 1650/1000 cbm - the 2012 budgeted price. Please note that for FY'12 we expect the net turnover to decrease by 20% Y/Y as the imported gas volumes are budgeted to decrease.

\* We expect annual gas volumes stored at 2.72b cbm, flat compared with 2011 levels;

\* Starting from 2013, we expect gas storage tariffs to increase in line with the inflation from RON 11.17/MWh in 2012. Please note that the gas storage current tariff of RON 11.17/MWh is unchanged from the 1<sup>st</sup> of July 2009;

\* We see personnel costs increasing by 3% per year over 2015-2019 period;

\* We see royalty fee increasing by 178% from 2015 onwards. Currently, the royalty fee represents 7% of the gas sales at a reference price of RON 495/1000 cbm;

\* From 2015 onwards, we expect the gas fields development quota to increase at the levels established by the law in force, respectively at 35% of the gas sales at a reference price of RON 495/1000 cbm. For example, in 2012, Romgaz budgeted the gas development quota at RON 446m despite the fact that, accordingly to the legislation in force, the respective expense should have been budgeted at RON 800m. Because Romgaz's budgeted total expenses growth should not be higher than the total revenues growth, the company's representatives reduced the development quota from RON 800m to RON 446m;

\* Starting with 2015, we expect annual third parties expenses at RON 200m. For 2012, Romgaz budgeted the respective costs at RON 172m;

\* Over 2013-2019, we expect capex of RON 900m per year;

\* Given the company's cash flow generation power within the context of gas market liberalisation, we assume the payout ratio at 85%, flat compared with 2012 budgeted level.

### Romgaz: P&L (RAS unconsolidated)

(RON '000)	2010	2011	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F	2018 F	2019 F
Net turnover	3,574,216	4,211,150	3,661,024	4,275,911	4,517,892	4,779,232	5,167,322	5,598,102	6,076,268	6,607,032
EBITDA	1,497,814	2,060,072	1,649,506	1,765,944	1,853,970	1,537,993	1,908,968	2,321,035	2,779,858	3,290,630
EBITDA margin	41.9%	48.9%	45.1%	41.3%	41.0%	32.2%	36.9%	41.5%	45.7%	49.8%
EBITDA growth	15.9%	37.5%	-19.9%	7.1%	5.0%	-17.0%	24.1%	21.6%	19.8%	18.4%
EBIT	905,585	1,264,505	1,016,281	1,060,468	1,088,745	725,768	1,049,743	1,414,810	1,826,633	2,311,654
EBIT margin	25.3%	30.0%	27.8%	24.8%	24.1%	15.2%	20.3%	25.3%	30.1%	35.0%
EBT	892,161	1,320,667	1,068,428	1,118,886	1,137,587	774,610	1,098,585	1,463,652	1,875,475	2,360,496
EBT margin	25.0%	31.4%	29.2%	26.2%	25.2%	16.2%	21.3%	26.1%	30.9%	35.7%
Net profit	651,208	1,031,749	829,424	858,266	857,929	520,555	792,694	1,099,351	1,445,282	1,852,700
Net profit margin	18.2%	24.5%	22.7%	20.1%	19.0%	10.9%	15.3%	19.6%	23.8%	28.0%
Net profit growth	13.8%	58.4%	-19.6%	3.5%	0.0%	-39.3%	52.3%	38.7%	31.5%	28.2%

Source: Romgaz; Swiss Capital estimates

### Romgaz: Balance Sheet (RAS unconsolidated)

(RON '000)	2010	2011	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F	2018 F	2019 F
Long term assets	5,432,049	6,232,972	6,414,653	6,609,178	6,743,952	6,831,727	6,872,502	6,866,276	6,813,051	6,734,076
Inventories	1,094,656	531,654	611,782	638,628	673,493	798,668	804,026	809,538	815,214	821,061
Receivables	1,387,548	1,614,103	1,558,572	1,698,843	1,834,751	1,981,531	2,199,499	2,441,444	2,710,003	3,008,103
Cash	1,010,923	2,518,137	2,379,615	2,296,630	2,178,265	2,019,728	1,928,387	1,912,180	1,975,213	2,106,683
<b>Total assets</b>	<b>8,944,972</b>	<b>10,927,921</b>	<b>10,994,377</b>	<b>11,275,712</b>	<b>11,465,489</b>	<b>11,669,485</b>	<b>11,846,406</b>	<b>12,076,050</b>	<b>12,365,220</b>	<b>12,727,352</b>
Short term debt	13,230	6,803	0	0	0	0	0	0	0	0
Long term debt	0	0	0	0	0	0	0	0	0	0
Current liabilities	468,408	929,933	878,779	1,031,373	1,092,460	1,218,371	1,276,388	1,341,127	1,413,504	1,497,731
Long term liabilities	324,537	406,981	406,981	406,981	406,981	406,981	406,981	406,981	406,981	406,981
Shareholders funds	8,138,798	9,584,203	9,708,617	9,837,358	9,966,048	10,044,132	10,163,037	10,327,941	10,544,734	10,822,640
<b>Equity &amp; liabilities</b>	<b>8,944,972</b>	<b>10,927,921</b>	<b>10,994,377</b>	<b>11,275,712</b>	<b>11,465,490</b>	<b>11,669,484</b>	<b>11,846,406</b>	<b>12,076,049</b>	<b>12,365,220</b>	<b>12,727,352</b>

Source: Romgaz; Swiss Capital estimates

### Romgaz: Cash Flow (RAS unconsolidated)

(RON '000)	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F	2018 F	2019 F
Profit before taxes	1,068,428	1,118,886	1,137,587	774,610	1,098,585	1,463,652	1,875,475	2,360,496
(-) Income tax	(292,620)	(239,128)	(260,730)	(279,510)	(254,353)	(306,227)	(364,680)	(430,640)
(+) Depreciation	633,225	705,475	765,225	812,225	859,225	906,225	953,225	978,975
(+) Δ Provisions	53,617	(21,491)	(18,927)	25,457	(51,537)	(58,074)	(65,512)	(77,156)
(-) (Increase)/ Decrease in working capital	(74,452)	(17,202)	(112,280)	(148,847)	(169,471)	(187,336)	(206,986)	(225,411)
<b>Cash flow from operations</b>	<b>1,388,198</b>	<b>1,546,540</b>	<b>1,510,875</b>	<b>1,183,935</b>	<b>1,482,449</b>	<b>1,818,241</b>	<b>2,191,522</b>	<b>2,606,265</b>
Capital expenditures/long term investments	(814,906)	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)
<b>Cash flow from investing</b>	<b>(814,906)</b>	<b>(900,000)</b>	<b>(900,000)</b>	<b>(900,000)</b>	<b>(900,000)</b>	<b>(900,000)</b>	<b>(900,000)</b>	<b>(900,000)</b>
Cash surplus (deficit) generated before financing	573,291	646,540	610,875	283,935	582,449	918,241	1,291,522	1,706,265
Increase (decrease) in debt	(6,803)	0	0	0	0	0	0	0
Equity changes	0	0	0	0	0	0	0	0
Dividends paid	(705,010)	(729,526)	(729,240)	(442,472)	(673,790)	(934,448)	(1,228,490)	(1,574,795)
Increase (decrease) in other liabilities	0	0	0	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(711,813)</b>	<b>(729,526)</b>	<b>(729,240)</b>	<b>(442,472)</b>	<b>(673,790)</b>	<b>(934,448)</b>	<b>(1,228,490)</b>	<b>(1,574,795)</b>
<b>Total change in cash</b>	<b>(138,522)</b>	<b>(82,985)</b>	<b>(118,365)</b>	<b>(158,537)</b>	<b>(91,341)</b>	<b>(16,207)</b>	<b>63,033</b>	<b>131,470</b>
Cash Balance - Beginning of Period	2,518,137	2,379,615	2,296,630	2,178,265	2,019,728	1,928,387	1,912,180	1,975,213
Cash Balance - End of Period	2,379,615	2,296,630	2,178,265	2,019,728	1,928,387	1,912,180	1,975,213	2,106,683

Source: Romgaz; Swiss Capital estimates

Romgaz: Ratios

	2010	2011	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F	2018 F	2019 F
<b>Per Share Data</b>										
EPS	17.00	26.94	21.65	22.41	22.40	13.59	20.69	28.70	37.73	48.37
EPS growth		58%	-20%	3%	0%	-39%	52%	39%	31%	28%
BVPS	212.5	250.2	253.5	256.8	260.2	262.2	265.3	269.6	275.3	282.5
DPS	15.30	24.24	18.41	19.05	19.04	11.55	17.59	24.40	32.07	41.11
DPS growth		58%	-24%	3%	0%	-39%	52%	39%	31%	28%
<b>Profitability</b>										
Net profit margin	18.2%	24.5%	22.7%	20.1%	19.0%	10.9%	15.3%	19.6%	23.8%	28.0%
RoavgA	7.2%	10.4%	7.6%	7.7%	7.5%	4.5%	6.7%	9.2%	11.8%	14.8%
RoavgE	7.9%	11.6%	8.6%	8.8%	8.7%	5.2%	7.8%	10.7%	13.8%	17.3%
<b>Asset management</b>										
Inventory turnover (Days)	152	78	90	78	78	78	78	78	78	78
Days sales outstanding	184	203	205	205	205	205	205	205	205	205
Payables days	11	9	9	9	9	9	9	9	9	9
<b>Leverage and liquidity</b>										
Total liab/equity	0.10	0.14	0.13	0.15	0.15	0.16	0.17	0.17	0.17	0.18
EBIT/Interest exp	541.5	1152.5	2674.4	nm	nm	nm	nm	nm	nm	nm
Total Debt&Liab/ Assets	0.09	0.12	0.12	0.13	0.13	0.14	0.14	0.14	0.15	0.15
Current ratio	7.3	5.0	5.2	4.5	4.3	3.9	3.9	3.8	3.9	4.0
Quick ratio	5.0	4.4	4.5	3.9	3.7	3.3	3.2	3.2	3.3	3.4
<b>Valuation multiples</b>										
P/E	18.9	11.9	14.8	14.3	14.3	23.6	15.5	11.2	8.5	6.6
P/BV	1.5	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.1
P/Sales	3.4	2.9	3.4	2.9	2.7	2.6	2.4	2.2	2.0	1.9
EV/EBITDA	6.6	4.8	6.0	5.6	5.4	6.5	5.2	4.3	3.6	3.0
EV/Sales	2.8	2.4	2.7	2.3	2.2	2.1	1.9	1.8	1.6	1.5

Source: Romgaz; Swiss Capital estimates

Hidroelectrica (0% of reported NAV)

In our bear/base cases, we count in the Fund's stake in Hidroelectrica at zero.

In our bull case, after the company's restructuring considered, we value the Fund's stake in Hidroelectrica at RON 1,569m (-53% vs. Book Value) on a relative.

In September, Hidroelectrica's creditors voted the interim judicial administrator's success fee as follows:

- \* EUR 2.5m – EUR 3m, if the reorganisation period ends until the 1<sup>st</sup> of January 2013;
- \* EUR 2m- EUR 2.3m if the reorganisation period ends over the 1<sup>st</sup> of January 2013- the 1<sup>st</sup> of July 2013 period;
- \* EUR 1.5m if the reorganisation period ends over the 1<sup>st</sup> of July 2013- the 1<sup>st</sup> of January 2014 period;
- \* EUR 1m if the reorganisation period ends after the 1<sup>st</sup> of January 2014;

**Hidroelectrica:** Assuming Hidroelectrica's reorganisation would bring the company's margins in line with the peers, we computed an implied equity value based on a **hypothetical "restructured" EBITDA and EAT**. As such, if for the LFY Hidroelectrica's profitability (EBITDA and EAT margins respectively) would have been in line with the peers, the company's implied equity value would have stood at RON 7,867m, 53% under the LFY book value. The "restructured" EBITDA and EAT are computed based on the median of peers margins (80% and 18% respectively) applied to Hidroelectrica's LFY net turnover.

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount*
"Restructured" EAT	537.7	X	9.3		4,973.4		-70.4%
"Restructured" EBITDA	2,422.5	X	4.3	10,295.7	7,866.7		-53.3%
Net debt, LFY	2,429.0						
Book value, LFY	16,828.8	X	0.9		14,304.5		-15.0%
				<b>Equity Value**</b>	<b>7,866.7</b>	<b>16,828.8</b>	<b>-53.3%</b>

\* Premium/Discount to book value; \*\* Median of Implied Equity Values

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst

Peers, LFY	Ticker	Country	P/E	EV/EBITDA	P/B
RusGidro	HYDR	RUS	8.7	5.7	0.5
NHPC	533098	IND	7.8	5.6	0.8
AES Tiete	GETI4	BRA	9.8	2.9	4.5
Energetica Sao Paulo	CESP6	BRA	77.3	1.7	0.9
<b>Median of peers</b>			<b>9.3</b>	<b>4.3</b>	<b>0.9</b>

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst

Peers margins (LFY)	EBITDA margin	EAT margin
RusGidro	45%	9%
NHPC	98%	18%
AES Tiete	80%	45%
Energetica Sao Paulo	42%	8%
<b>Median of peers</b>	<b>80%</b>	<b>18%</b>
<b>Hidroelectrica</b>	<b>30%</b>	<b>0%</b>

Source: Thomson One Research Analyst

Please note that the actual Hidroelectrica FY'11 EBITDA and EAT stood at RON 894.7m and RON 6.4m respectively. Based on the actuals, Hidroelectrica's implied equity value stands at RON 1,374m, 92% under the LFY book value.

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount*
"Restructured" EAT	6.4	X	9.3		59.6		-99.6%
"Restructured" EBITDA	894.7	X	4.3	3,802.6	1,373.6		-91.8%
Net debt, LFY	2,429.0						
Book value, LFY	16,828.8	X	0.9		14,304.5		-15.0%
				<b>Equity Value**</b>	<b>1,373.6</b>	<b>16,828.8</b>	<b>-91.8%</b>

\* Premium/Discount to book value; \*\* Median of Implied Equity Values

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst

Nuclearelectrica (5.8% of reported NAV)

In our bear/base cases, we count in the Fund's stake in Nuclearelectrica at zero following the intermediaries' lack of interest in the offering.

In our bull case, we value the Fund's stake in Nuclearelectrica at RON 489m (-2% vs. Reported Value) on a relative basis.

Nuclearelectrica:  
Relative valuation

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Reported Value	Premium/Discount*
Capacity (MW)	1,414	X	\$2.15m	10,482.3	8,833.5		72.5%
Net profit, LFY	95.0	X	11.5		1,092.9		-78.7%
EBITDA, LFY	549.1	X	5.5	3,020.2	1,371.5		-73.2%
Net debt, LFY	1,648.8						
Book value, LFY	7,909.5	X	1.1		8,700.5		69.9%
				<b>Equity Value**</b>	<b>5,036.0</b>	<b>5,119.6</b>	<b>-1.6%</b>

\* Premium/Discount to reported value; \*\* Median of Implied Equity Values

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst

Peers, LFY	Ticker	Country	P/MW	P/E	EV/EBITDA	P/B
Electricite de France	EDF	FRA	\$2.15m	11.5	5.5	1.1

Source: Swiss Capital estimates; Fondul Proprietatea; Thomson One Research Analyst

Other state-controlled portfolio companies (17.8% of reported NAV)

In our bear/base cases, we count in the Fund's stake in the respective companies at zero.

In our bull case, we value the Fund's stake in the thirteen companies at RON 1,425m (-39% vs. Reported Value) on a relative basis.

Portfolio companies	FP's stake	Reported Value (RONm)	NAV weight	Controlling entity	Sector
1 Complexul Energetic Oltenia	25.0%	1,075	8.5%	Ministry of Economy (74.6%)	Thermal power generation
2 Electrica Distributie Muntenia Nord	22.0%	275	1.6%	Electrica (78.0%)	Power distribution
3 Electrica Distributie Transilvania Sud	22.0%	203	1.5%	Electrica (78.0%)	Power distribution
4 Electrica Distributie Transilvania Nord	22.0%	189	1.5%	Electrica (78.0%)	Power distribution
5 CN Aeroporturi Bucuresti	20.0%	322	2.5%	Ministry of Transportation (80.0%)	Airports services
6 Aeroportul Int M. Kogalniceanu	20.0%	5	0.0%	Ministry of Transportation (60.0%)	Airports services
7 Aeroportul Int Traian Vuia	20.0%	6	0.1%	Ministry of Transportation (80.0%)	Airports services
8 CN Admin Porturilor Maritime	20.0%	67	0.5%	Ministry of Transportation (60.0%)	Ports services
9 CN Admin Porturilor Dunarii Maritime	20.0%	2	0.0%	Ministry of Transportation (80.0%)	Ports services
10 CN Admin Porturilor Dunarii Fluviale	20.0%	4	0.0%	Ministry of Transportation (80.0%)	Ports services
11 CN Admin Canalelor Navigabile	20.0%	16	0.1%	Ministry of Transportation (80.0%)	Ports services
12 Societatea Nationala a Sarii	49.0%	87	0.7%	Ministry of Economy (51.0%)	Salt extraction
13 Posta Romana	25.0%	96	0.8%	Ministry of Communication (75.0%)	Postal services
<b>Total</b>		<b>2,347</b>	<b>17.8%</b>		

Source: Fondul Proprietatea

Fondul Proprietatea: Portfolio valuation

(RONm)	FP's stake	Reported value	Reported NAV weight*	Market value (@last close)	Swiss Capital value	Upside/downside vs. last close	Estimated NAV weight
<b>Listed - total</b>							
<b>OMV Petrom</b>	<b>20.1%</b>	<b>4,653</b>	<b>36.7%</b>	<b>4,653</b>	<b>6,026</b>	<b>29%</b>	<b>47.4%</b>
Transgaz	15.0%	354	2.8%	354	354	0%	3.6%
Transelectrica	13.5%	126	1.0%	126	126	0%	1.3%
Alro	10.2%	166	1.3%	166	166	0%	1.7%
BRD - Group Societe Generale	3.6%	207	1.6%	207	207	0%	2.1%
Banca Transilvania	2.9%	61	0.5%	61	61	0%	0.6%
Erste Group Bank AG	0.1%	32	0.3%	32	32	0%	0.3%
Raiffeisen Bank International AG	0.4%	110	0.9%	110	110	0%	1.1%
Conpet	29.7%	88	0.7%	88	88	0%	0.9%
Oil Terminal	8.5%	9	0.1%	9	9	0%	0.1%
Romaero	21.0%	18	0.1%	18	18	0%	0.2%
Primcom	75.5%	26	0.2%	26	26	0%	0.3%
Other listed companies		10	0.1%	10	10	0%	0.1%
<b>Total</b>		<b>5,859</b>	<b>46.2%</b>	<b>5,859</b>	<b>7,232</b>	<b>23%</b>	<b>59.6%</b>
	FP's stake	Reported value	Reported NAV weight*	Market value	Relative value	Upside/downside vs. reported value	Estimated NAV weight
<b>Unlisted - privately controlled</b>							
Enel Distributie Banat	24.1%	445	3.5%	N/A	516	16%	5.3%
Enel Distributie Dobrogea	24.1%	301	2.4%	N/A	279	-7%	2.8%
Enel Distributie Muntenia	12.0%	344	2.7%	N/A	296	-14%	3.0%
E.ON Moldova Distributie	22.0%	400	3.2%	N/A	227	-43%	2.3%
Enel Energie Muntenia	12.0%	37	0.3%	N/A	41	11%	0.4%
Enel Energie	12.0%	15	0.1%	N/A	26	75%	0.3%
E.ON Energie Romania	13.4%	68	0.5%	N/A	94	38%	1.0%
E.ON Gaz Distributie	12.0%	143	1.1%	N/A	208	45%	2.1%
GDF Suez Energy Romania	12.0%	340	2.7%	N/A	236	-31%	2.4%
<b>Total</b>		<b>2,094</b>	<b>16.5%</b>	<b>N/A</b>	<b>1,923</b>	<b>-8%</b>	<b>19.6%</b>
<b>Unlisted - state controlled</b>							
<b>Romgaz*</b>	<b>15.0%</b>	<b>1,296</b>	<b>10.2%</b>	<b>N/A</b>	<b>1,844</b>	<b>42%</b>	<b>18.8%</b>
<b>Hidroelectrica *</b>	<b>19.9%</b>	<b>0</b>	<b>0.0%</b>	<b>N/A</b>	<b>1,569</b>	<b>nm</b>	<b>16.0%</b>
<b>Nuclearelectrica*</b>	<b>9.7%</b>	<b>498</b>	<b>3.9%</b>	<b>N/A</b>	<b>489</b>	<b>-2%</b>	<b>5.0%</b>
Complexul Energetic Oltenia	25.0%	1,075	8.5%	N/A	555	-48%	0.0%
Electrica Distributie Muntenia Nord	22.0%	275	2.2%	N/A	0	nm	0.0%
Electrica Distributie Transilvania Sud	22.0%	203	1.6%	N/A	0	nm	0.0%
Electrica Distributie Transilvania Nord	22.0%	189	1.5%	N/A	0	nm	0.0%
<b>CN Aeroporturi Bucuresti</b>	<b>20.0%</b>	<b>322</b>	<b>2.5%</b>	<b>N/A</b>	<b>342</b>	<b>6%</b>	<b>3.5%</b>
Aeroportul Int M. Kogalniceanu	20.0%	5	0.0%	N/A	0	-97%	0.0%
Aeroportul Int Traian Vuia	20.0%	6	0.1%	N/A	10	60%	0.0%
<b>CN Admin Porturilor Maritime</b>	<b>20.0%</b>	<b>67</b>	<b>0.5%</b>	<b>N/A</b>	<b>108</b>	<b>60%</b>	<b>1.1%</b>
CN Admin Porturilor Dunarii Maritime	20.0%	2	0.0%	N/A	2	0%	0.0%
CN Admin Porturilor Dunarii Fluviale	20.0%	4	0.0%	N/A	4	0%	0.0%
CN Admin Canalelor Navigabile	20.0%	16	0.1%	N/A	16	0%	0.0%
<b>Societatea Nationala a Sarii</b>	<b>49.0%</b>	<b>87</b>	<b>0.7%</b>	<b>N/A</b>	<b>95</b>	<b>10%</b>	<b>1.0%</b>
Posta Romana	25.0%	96	0.8%	N/A	15	-85%	0.0%
<b>Total</b>		<b>4,141</b>	<b>32.7%</b>	<b>N/A</b>	<b>5,327</b>	<b>29%</b>	<b>45.3%</b>
<b>Other unlisted</b>							
Other companies		69	0.5%	N/A	0	-100%	0.0%
<b>PORTFOLIO VALUE</b>		<b>12,163</b>		<b>N/A</b>	<b>14,482</b>	<b>19.1%</b>	

Source: Fondul Proprietatea, Reuters Thomson One Research Analyst, Swiss Capital estimates



## A note on the Romanian gas market liberalisation

### 2013-2019 Domestic producers gas price assumptions

	H1'12A	2012F	2013F	2014F	2015A	2016A	2017F	2018F	2019F
<b>RON/MWh*</b>	46	46	50	54	58	64	72	80	89
<b>RON/1000 cbm*</b>	495	495	538	582	626	697	777	865	964
Y/Y		0%	9%	8%	8%	11%	11%	11%	11%
<b>USD/1000 cbm*</b>	146	146	163	182	202	225	251	280	312
Y/Y		0%	11%	11%	11%	11%	11%	11%	11%

Source: Swiss Capital estimates; \* Average gas price for domestic producers

**We assume the gas price will increase at a CAGR of 10% over the next seven years starting with 2013 until a convergence price of RON 89/MWh will be reached in 2019.**

Currently, the average regulated price for domestic producers is set at RON 495/1000 cbm (RON 46/MWh or USD 146/1000 cbm), while H1'12 imported gas price stood at USD 478/1000 cbm (RON 149/MWh).

Under EU and IMF pressures and OMV Petrom lobby, the Romanian Government presented a memorandum for a gradual domestic gas price convergence to RON 119/MWh (USD 380/1000 cbm) by the end of 2014 for non-households gas consumers and by 2018 year-end for households. Domestic gas market liberalisation is scheduled to start in December 2012. Please see "Timetable for the gradual elimination of regulated prices for natural gas" on page 18. The National Energy Regulatory Authority has to monitor the results of phasing out the regulated prices for final customers and to propose to the Government, depending on the results, the recommended prices until full converge to the agreed price of RON 119/MWh is realised.

Based on the Government memorandum on gas prices liberalisation and taking into account that households gas consumption weights around 20% in total, over 2013 - 2019 period, the average gas price for domestic producers is scheduled to increase, in RON terms, at a CAGR of 15% as presented below.

### Domestic producers gas price (based on the timetable for the gradual elimination of regulated prices for natural gas)

	H1'12A	2012F	2013F	2014F	2015A	2016A	2017F	2018F	2019F
<b>RON/MWh*</b>	46	46	57	88	107	110	113	117	119
<b>RON/1000 cbm*</b>	495	495	614	957	1,175	1,204	1,239	1,284	1,304
Y/Y		0%	24%	56%	23%	2%	3%	4%	2%
<b>USD/1000 cbm*</b>	146	156	192	306	376	385	396	410	417
Y/Y		7%	23%	60%	23%	2%	3%	4%	2%

Source: Swiss Capital estimates; ANRE, \* avg gas price for domestic producers

But, how reasonable is the convergence price of RON 119/MWh aimed at by the regulator, we try to understand below.

There is no comment on, it is fair that gas domestic producers should have equally profitable prices both inside the country and when selling abroad. This would imply a convergence price for Romanian gas producers at netback parity with export prices at the EU members' borders. But there is no unitary gas price in Europe. Europe is a two-

tier pricing system with significant differences between the “spot” prices in North West European member states and oil-indexed prices in Central and Eastern European member state.

Europe is currently the main battleground for gas pricing. In America gas prices are set by the fundamentals of supply and demand (known as gas-on-gas competition or hub prices) which means they are currently low. In Asia gas is mainly bought and sold at prices set by contracts linked directly to (currently high) oil prices. Europe is somewhere in the middle.

For example, in Q1’12, the average wholesale gas price in Europe varied from EUR 25.6/ MWh (average hub prices) to EUR 35.2/ MWh (average Russian imported price at the EU members borders). In RON terms this translates into RON 111/MWh for hub gas prices and RON 153/MWh for imported prices respectively (at the average Q1’12 rate of 4.35 RON/EUR).

**Q1’12 Average wholesale gas price in Europe**

(EUR/MWh)	HUB	LTC1	LTC2	LTC3	LTC4	LNG	Other
UK	24.3	20.1			24.3	20.7	
Belgium	24.2	24.2			24.2	24.2	
Italy	31.8	37.4	36.5	32.3	33.2	34.0	
Spain		26.1		28.1		25.4	
Germany	24.3	29.3	27.7				
France	25.1					31.2	
Greece		36.2				32.4	
Portugal						21.3	
Netherlands	23.9						
Estonia			33.1				
Latvia			31.7				
Lithuania			38.7				
Poland							28.8
Czech Republic			37.4				
Slovakia			31.0				
Austria	25.5						
Hungary			30.1				
Slovenia			43.0	36.9			
Bulgaria			42.1				
Romania			36.0				
<b>Avg price (EUR/MWh)</b>	<b>25.6</b>	<b>28.9</b>	<b>35.2</b>	<b>32.4</b>	<b>27.2</b>	<b>27.0</b>	<b>28.8</b>
<b>Avg price (RON/MWh)</b>	<b>111.3</b>	<b>125.6</b>	<b>153.2</b>	<b>141.1</b>	<b>118.5</b>	<b>117.6</b>	<b>125.3</b>

at RON/EUR: 4.35 (Q1’12 avg)

Source: European Commission "Quarterly report on European gas markets", Jan-Mar 2012"

LTC prices are import prices (domestic prices not taken into account)

LTC1 border prices for for gas from Norway

LTC2 border prices for for gas from Russia

LTC3 border prices for for gas from Algeria

LTC4 border prices for for gas from the Netherlands

Other regulated prices net of transmission charges as of 16.03.2012

In a liberalised market, with hub gas prices as market prices, Romanian gas producers would have been delivering gas at European borders at an average price of RON 111/MWh in Q1’12. However, Romania does not have gas to export. To cover the annual domestic consumption, Romania imports about 3bcm of natural gas per year, while OMV Petrom and Romgaz produce about 5 bcm per year each. Therefore, makes sense that a tax (the equivalent of an export tax) to exist in order to stanch the

natural gas flow out of domestic borders. In principle, the tax should cover the difference between the average Russian gas price at Romanian borders and the average hub prices in Europe. This difference, for example, stood at RON 45/MWh in Q1'12. Netting back the RON 45/MWh hypothetical tax (leaving aside any transportation tariffs netback), in a liberalised market, the domestic gas price at Romanian producers' gate would have stood at RON 66/MWh in Q1'12 or 44% above the regulated price in the same period.

We do not think that by 2019 the current two-tier gas pricing in Europe will disappear. But we do believe the hub prices and oil-indexed prices differential will gradually lower with oil price weighting less in the Russian gas.

Over the last 5 years, oil-indexed Russian gas at the German's borders averaged USD 369/bbl (USD 399/bbl at Romania's borders) while Brent price hovered around USD 90/bbl. Looking forward, average benchmark crude looks set to rise towards USD 100/bbl pressing up the Russian gas price. However, EU's current LNG regasification capacity of 150 bcm is expected to double by 2020. That will make Gazprom, which supplies a quarter of all Europe's gas, more receptive to its European customers' laments. Our best guess for 2019 is that the hub prices will remain about flat compared with 2012, while the Russian gas differential will halve. That will imply a netback gas price at Romanian producers' gates of about RON 89/MWh by 2019 or 95% over the current regulated price and 25% under the 2019 convergence price proposed by the ANRE.

Timetable for the gradual elimination of regulated prices for natural gas

Date	Non- households			Households		
	Convergence level	Internal production price (RON/MWh)	Scheduled consumers price increase	Convergence level	Internal production price (RON/MWh)	Scheduled consumers price increase
1-Dec-12	35%	49	5%	33%	45.7	0%
1-Apr-13	40%	55.3	5%	33%	45.7	0%
1-Jul-13	47%	63.4	5%	36%	48.5	8%
1-Oct-13	51%	<b>68.3</b>	3%	37%	<b>49.8</b>	2%
<b>2013 scheduled price increase</b>			<b>18%</b>			<b>10%</b>
1-Dec-14	55%	72	4%	38%	50.6	2%
1-Apr-14	71%	89.4	5%	41%	51.8	2%
1-Jul-14	91%	109	5%	44%	53.3	3%
1-Oct-14	100%	<b>119</b>	4%	46%	<b>54.6</b>	3%
<b>2014 scheduled price increase</b>			<b>18%</b>			<b>10%</b>
1-Dec-15				47%	56.1	2%
1-Apr-15				49%	58.9	3%
1-Jul-15				52%	62	4%
1-Oct-15				54%	<b>64.1</b>	3%
<b>2015 scheduled price increase</b>						<b>12%</b>
1-Dec-16				56%	67.1	3%
1-Apr-16				60%	71.7	3%
1-Jul-16				64%	76.5	3%
1-Oct-16				66%	<b>78.5</b>	3%
<b>2016 scheduled price increase</b>						<b>12%</b>
1-Dec-17				69%	82	2%
1-Apr-17				73%	86.9	2%
1-Jul-17				78%	93	5%
1-Oct-17				81%	<b>96.5</b>	3%
<b>2017 scheduled price increase</b>						<b>12%</b>
1-Dec-18				83%	99.2	2%
1-Apr-18				89%	106.3	2%
1-Jul-18				97%	115.1	5%
1-Oct-18				100%	<b>119</b>	3%
<b>2018 scheduled price increase</b>						<b>12%</b>

Source: ANRE

Source: ANRE

## DISCLOSURE SECTION

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#### Mentioned companies

Company	BSE	Rating	Price	Price date	Disclosure
Fondul Proprietatea	FP	STRONG BUY	0.5400	19/09/2012	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

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