

21 June 2012



Fondul Proprietatea

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Date: June 2012

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Hidroelectrica – Insolvency request admitted by the Court

- On 15 June 2012 Hidroelectrica filled a request for insolvency with the Bucharest Court
- The Fund Manager acknowledged on 18 June 2012 from the Romanian Courts Website Portal, Hidroelectrica's request to file for insolvency, in light of the company's financial situation related to short-term liquidity issues
- According to a statement released on the company's website, the request for insolvency is due to:
 - The 10% reduction of the company's turnover in 2011, because of the drought registered in Romania in 2011 and in the beginning of 2012;
 - The losses from foreign exchange differences and the RON depreciation registered last year;
 - The reduction by more than 27% of the cash flows in 2012;
 - The increase of the outstanding debts (> 90 days period) to RON 470 mil (aprox. EUR 105.3 mil);
 - The loss in 2011 on the financial operations (RON 121 mil, aprox. EUR 27 mil) and 2012 (RON 112 mil, aprox. EUR 25 mil).
- The insolvency request was admitted by the Bucharest Court on 20 June 2012
- The Court appointed EURO INSOLV SPRL as interim judicial administrator
- The Creditors' meeting was set for 29 August 2012
- The next Court hearing was set for 12 December 2012 where the judicial administrator will present the measures undertaken

Hidroelectrica – Selected Financial Information

Indicator	2009 (Lei mn)	2010 (Lei mn)	2011 (Lei mn)
Fixed assets	22,601.97	19,667.19	20,339.08
Current assets, out of which:	387.30	476.47	611.86
Cash and current account	28.14	99.89	77.15
Total assets	22,989.89	20,144.46	20,962.32
Equity, out of which:	16,554.59	16,822.35	16,529.01
State patrimony	73.36	73.36	39.21
Long term liabilities, out of which:	4,385.01	1,280.02	1,507.59
Long term financial debt	804.00	1,200.33	1,418.92
Current liabilities, out of which:	1,795.64	1,728.95	2,639.16
Short term financial debt	677.01	701.06	1,099.02
Turnover	2,420.80	3,273.70	3,020.59
Operational expenses	2,304.23	2,784.28	2,885.89
Operational profit/loss	161.96	502.78	161.16
EBITDA	789.51	1,349.89	873.58
Interest expenses	69.13	85.42	102.93
Net Profit/ loss	48.38	292.37	6.44
Average staff number	5,233	5,227	5,218

Source: Company reports

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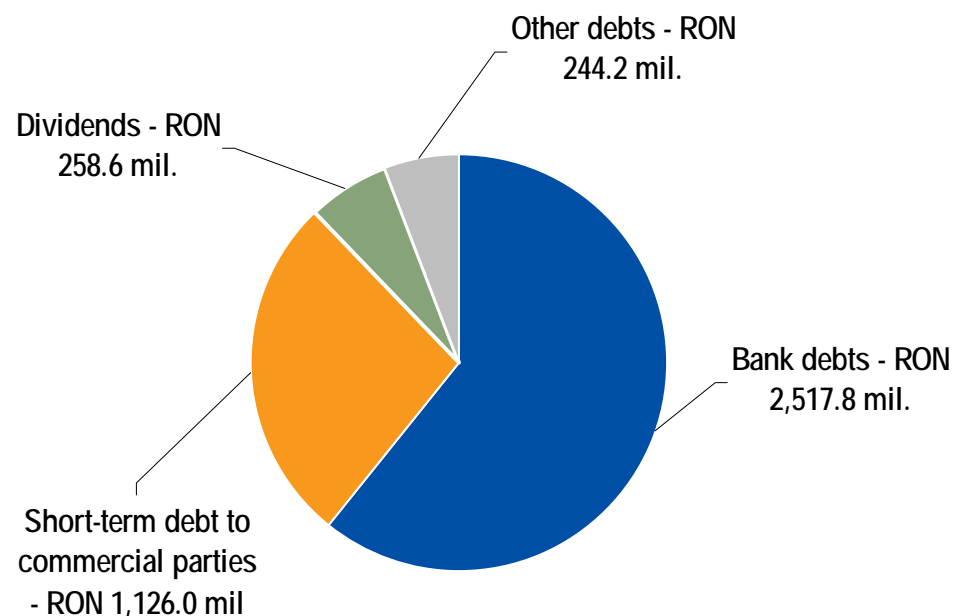


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Hidroelectrica – Main creditors as at 31.12.2011*

Dividends	RON mil.
Fondul Proprietatea	52.4
MECMA	206.2

Bank debts	RON mil.
BRD Groupe Societe Generale	393.9
ING Bank	359.1
UniCredit	306.2
Citi / Citibank Europe	283.3
IBRD	217.5
BCR	187.8
RBS Bank	124.5
EFG	89.7
Banca Transilvania	94.1
Alpha Bank	80.0
Libra Bank	13.2
UBS	7.7
EBRD	7.6



Short-term debt to commercial parties	RON mil.
Apele Române (water tariffs)	209.2
SOEs	172.1
OMV Petrom	21.2
Suppliers of fixed assets	519.2
Others	204.1

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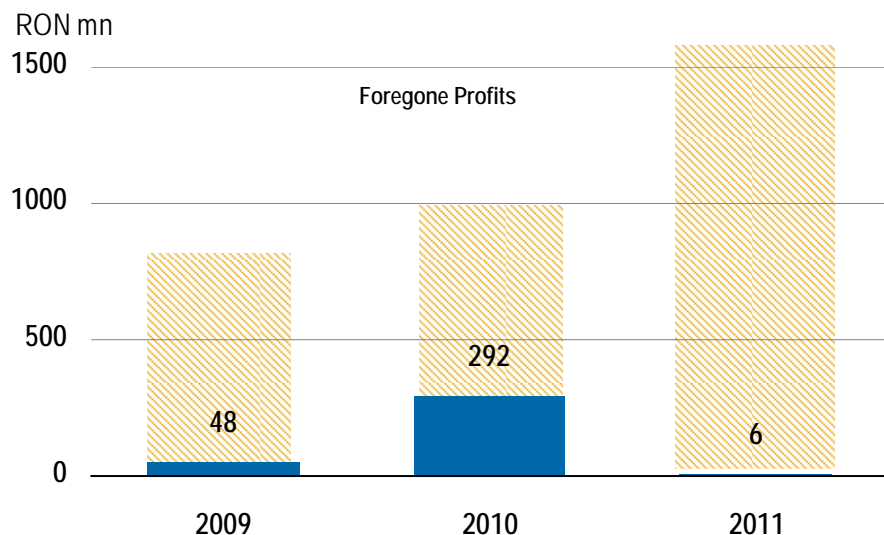


Source: 2011 financial statements

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Hidroelectrica–Foregone Profits

Hidroelectrica Net Income¹



OPCOM Market Prices²

Year	Average Price (lei / MWh)
2009	155.35
2010	156.31
2011	221.23

- In 2009, Hidroelectrica sold 11.7 TWh through bilateral contracts at an average selling price of 102 lei/MWh
= **foregone profits of EUR 133 mn (RON 559 mn)**
- In 2009, Hidroelectrica sold 3.4 TWh on the regulated market at an average price of 83 lei/MWh
= **foregone profits of EUR 61 mn (RON 256 mn)**
- In 2010, Hidroelectrica sold 14.9 TWh through bilateral contracts at an average selling price of 122 lei/MWh
= **foregone profits of EUR 100 mn (RON 420 mn)**
- In 2010, Hidroelectrica sold 4 TWh on the regulated market at an average price of 86 lei/MWh
= **foregone profits of EUR 62 mn (RON 260 mn)**
- In 2011, Hidroelectrica sold 12 TWh through bilateral contracts at an average selling price of 130.9 lei/MWh
= **foregone profits of EUR 248 mn (RON 1,066 mn)**
- In 2011, Hidroelectrica sold 3.8 TWh on the regulated market at an average price of 86 lei/MWh
= **foregone profits of EUR 118 mn (RON 507 MN)**

Assumed selling price of 150 lei/MWh for 2009 and 2010 and 220 lei/MWh in 2011. 1 euro=4.2 lei for 2009 and 2010 and 1euro=4.3 lei for 2011

1. Source: Company Reports.

2. Source: OPCOM Annual Reports.

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Insolvency Law no. 85/2006 – Main Provisions (I)

Participants in the Insolvency Procedure

■ The syndic judge

- issues the decision for opening the insolvency proceedings;
- judges the contestations filed during the progress of the proceedings;
- appoints the temporary judicial administrator, until the appointment of the permanent judicial administrator by the Creditors' Meeting;
- if necessary, cancels the company's right to conduct its activities;
- removes the judicial administrator when requested.

■ The judicial administrator – appointed by the Creditors' Meeting

- fulfills the actions related to the insolvency proceedings;
- manages the company after the right to conduct activities is cancelled;
- produces the final reorganization plan of the company's activity;
- supervises the operations for the administration of the company's assets;
- brings to court actions for the cancellation of any fraudulent acts concluded by the company to the prejudice of the creditors' rights;
- preserves or denounces contracts concluded by the debtor;
- verifies the claims and, whenever necessary, formulates objections to them, and draws up the claim records.

■ The special administrator - appointed by the general meeting of the debtor's shareholders

- represents the company's interests;
- may propose the reorganization plan on behalf of the company;
- may file contestations and manage the debtor's activity;
- manages the activity of the company after the confirmation of the reorganization plan;
- its duties can be reduced after the debtor's right to conduct activities is cancelled.

Insolvency Law no. 85/2006 – Main Provisions (II)

Participants in the Insolvency Procedure

■ The Creditors' Meeting

- appoints the judicial administrator and sets its remuneration;
- sets the Creditors' Committee;
- approves the reorganisation plan.

■ Creditors' Committee (3 or 5 members elected by the Creditors' Meeting from the creditors)

- drafts its own reports proposing measures required to be taken during the progress of the proceedings etc.;
- may request the annulment of certain transfers made by the company against the creditor's interests.

Insolvency Law no. 85/2006 – Main Provisions (III)

Proposal of a reorganization plan

The reorganization plan may be proposed:

- (i) by the debtor
- (ii) by the judicial administrator or
- (iii) by the company's creditors which hold together at least 20% of the total value of receivables

The reorganization plan must be voted by the Creditors' Meeting and then confirmed by the syndic judge. After the plan has been confirmed, the debtor's activity shall be organized in accordance with the plan. The creditors' receivables and rights may be amended as provided by the plan.

Closing the insolvency procedure

The procedure can be closed at any moment during the insolvency procedure should the company pay its outstanding debts or if the debtors agree for the company to be taken out of insolvency.

Insolvency Law no. 85/2006 – Advantages / Disadvantages

Advantages of the Insolvency Procedure

- suspension of the judicial and extrajudicial proceedings to recover the receivables from the debtor or by selling its assets;
- suspension of delay interests, penalties and interest for unsecured receivables;
- termination of existing contractual agreements;
- termination of employment agreements without following the collective dismissal procedure;
- initiation of court actions by the debtor without paying court fees;
- reorganization plan proposed by the company to improve cash flow.

Disadvantages / Risks of the Insolvency Procedure

- limited powers to run the company if debtor's right to conduct activities is cancelled (BoD is dissolved at appointment of special administrator);
- judicial administrator has extensive powers to run the company's activity if debtor's right to conduct activities is cancelled;
- company reputation can be negatively affected;
- risk of complications with existing contractual arrangements
- risk of bankruptcy if company is not managed properly during the administration stage.

Cancellation of the administration right

- The syndic judge may order the cancellation of the debtor's administration right, in which case all acts, legal operations and payments made by the debtor must be performed through the judicial administrator. No such cancellation has been requested in relation to Hidroelectrica to date.

Hidroelectrica's Insolvency – Impact

Impact on the Company's current projects

- Delay of the Initial Public Offering scheduled for this year
- Delay in the appointment of the professional management and independent Board

Impact on Fondul Proprietatea

- Following the Court decision, the company's value in the Fund's NAV will be adjusted to RON 0 until the finalization of the insolvency procedure, according to CNVM regulation no. 4/2010. As at 31 May 2012, the value of the holding in Hidroelectrica was RON 3,288.71 million, i.e. 20,98 % of the total NAV
- For the Fund's outstanding dividend receivable from Hidroelectrica's 2010 profits and the related penalty interest for the delay in payment, in the total amount of RON 46.87 million, an impairment adjustment will be recorded
- No impact is envisaged on the corporate actions planned until the end of 2012 (i.e. secondary listing on the Warsaw Stock Exchange, buy-back program, and dividends payable starting 29 June 2012)
- It is important that total NAV of the Fund stays above the share capital in issue in future years in order to be able to pay dividends

Fund Manager's View

- Following the Bucharest Court's decision that has a material effect on the Fund's NAV (as reported on 18 June) the Fund Manager is faced with a new situation and intends to closely monitor the activities of the judicial and special administrators of Hidroelectrica
- We will endeavor to do our best to ensure that there is a timely implementation of a reorganisation plan that will generate long term benefits for the company and its shareholders
- We believe that the reorganisation plan should focus on improving the cash flow by increasing revenues and reducing expenses
- The Fund Manager will work to protect the Fund's interests throughout the insolvency proceedings and would like to see Hidroelectrica emerging from this process as soon as possible

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