

Last reported NAVPS received a boost due to market good advance; extra-fuel due announcement for 90% payout for state companies; new tender offer to be run at an estimated target price within a range of RON 0.86-1/share

NAV Update – 9M'16 Holdings&January NAV

BUY	
Previous Rating: BUY	
TARGET PRICE 12M (RON)	0.9900
Previous Target price	0.8700
SHARE PRICE (RON)	0.8930

Performance	1M	6M	12M	YTD
Absolute (%)	9.71%	14.78%	17.04%	12.33%
Relative - BET(%)	4.03%	7.12%	-2.53%	4.65%

RIC	FP.BX
Bloomberg	FP.RO
Index listed	BET, BET-FI, BET-XT, BET-TR

Market Cap (RON m)	8,996.15
Market Cap (EUR m)	1,803.00
Shares Out (m)	10,074.08
52 Week Range (RON)	0.6400 / 0.8990
% from 52 Week range	39% / 0.67%
Avg daily volume 6M (shares)	8,754,220

Shareholders	(%)
The Bank of New York Mellon	36.28
Foreign Institutional Investors	21.48
Romanian Private Investors	16.76
Romanian Institutional Investors	13.72

Valuation is much higher due to market conditions in January. We update our NAVPS with a TP of RON 0.99/share. Main reasons for increase in TP are the positive evolution of the listed side portfolio, and the slight RON 173m revaluation of the unlisted side companies. Our valuation methodology remains largely unchanged, simple but straightforward: i) listed holdings – last closing price, considered in our numbers at February 06 ii) for major unlisted companies – various scenarios were used, including some official Fund valuation numbers, as of September 2016, due to not disclosed yet official valuation as of December 2016, but we added some RON 173m change in valuation for unlisted side as shown by 18th January reported NAVPS - CE Oltenia, that needs restructuring, and where the case for small unlisted holdings with less visibility upon reported numbers and irrelevant peer comparison upon their business models iii) companies in insolvency or under litigation, priced at zero. We apply a discount of 25% on top of derived NAVPS for lack of visibility upon IPOs, which gives a high weight of unlisted companies and low visibility of some holdings. Detailed financials availability for some of the unlisted side are also in short supply, and we used only estimates, in lack of actual data. We have chosen the most conservative view, and thus our FY'17E NAVPS stands at some RON 12.68bn, implying RON 0.99/share (+10% against last closing).

Share price triggers. Medium-to-long term share price triggers will remain determined by similar actions run so far like selling assets, buy-backs/tender offers, tax free cash distributions; no new investments will be made until existing discounts will lower. New tender offer price is expected until results for FY'16 year will be announced, which we estimate around RON 0.86-1/share.

YTD BSE turnover performance – second largest turnover and generated approx 35% of financial sector traded value in 2016, and YTD generate a turnover of EUR 27m, which implies a daily average turnover of some EUR 3.4m, and also the price appreciation was quite abrupt, now the stock being traded around RON 0.9/share. NAVPS in January is mostly influenced by listed shares price evolution and we have reckoned by taking guidance from 18 January reported NAVPS, that some RON 173m were added to the valuation of the unlisted side. Unfortunately, full year results and detailed statement of investments is not yet available, so we have no view upon potential breakdown, but we included this difference in our NAVPS update.

Still trading at a discount – efforts to increase exposure on listed side remain noteworthy, but subdued by politics: 2016 Hidroelectrica IPO faded away, but is highly expected in H2'17; Salrom remains also a solid IPO candidate having a natural monopoly position on RO market; corporate governance on SOEs speeding-up. Ports vs. Airports – what's next in pipeline.

Politics heavyweight on any state decisions upon new/secondary listings - currently, politics are not very clear for the moment, but rather look quite disturbed, as the political turmoil that flood Romania deepened as president Klaus Iohannis attacked the ruling party for not doing enough to stem the biggest protests since the fall of communism - while early elections would be "too much," Iohannis told parliament the government's reversal of controversial measures seen as weakening anti-corruption efforts and the potential dismissal of the minister are "too little." Social Democrat leader Liviu Dragnea ruled out seeking a suspension of the president and said he hopes "peace" can be found. Earlier during February, the current government repealed a controversial law upon justice issues, which was severely unwelcomed by population and has led to prolonged street protests.

BET relative vs. Peers: Even with noteworthy efforts to increase exposure on listed side, the Fund activity seemed to be subdued by politics for the time being, as discount to NAVPS is still in place and the much debated IPO for Hidroelectrica faded away, with rumors for a potential public profile through a listing, coming as early as 2018, as the current political turmoil, makes investors send some dull signals for the next 3M on the BSE, eyeing more on the external markets that are waiting for the trajectory to follow on Fed decision to keep interest rates unchanged and how monetary policy of major central banks will apply this year. Despite the market overall is now trading at discounts against major neighbors (20% discount on average against WIG20 Index, PX Index on P/BV) which we continue to view less volatile during current environment turnaround; BET seems to show a flat profile for the year, as the lack of liquidity and major triggers remain bearish next, as the year started with some political turmoil. 2017 (forward) P/E and P/BV for BET are also putting BET at a discount against major indexes like WIG20, BUX and PX, while economy is again seen moving better vs. peers, denoting a cheap profile for the market.

08 February 2017

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Last reported NAVPS received a boost due to market good advance; extra-boost due announcement for 90% payout for state companies

New tender offer to be run at a target price within RON 0.86-1/share

One of largest listed funds in the world with NAVPS around USD 3bn as of August 2016, and among top 5 largest funds listed on the LSE, pioneering local capital market drivers and growing institutional investor base – good start in January led market price close to RON 0.90/share, close to our target price and improved NAVPS conditions, 18 January (last reported NAVPS) at 29% to market cap (unadjusted). The market was influenced the most due to state decision for publicly owned companies to pay a mandatory quota of 90% as dividends.

NAVPS remains embarked in energy&oil&gas unlisted&listed stocks – RO gas and electricity market to be fully deregulated starting 2018E – stable-to-positive sector outlook, no major changes except prices on power market increased substantially in January due to weather conditions.

Yearly cash contribution capped at RON 0.05 presuming a good yield availability; so far reaching approx. RON 1.7bn in cash distributions (excl. buy-backs), in the past 3Y, with avg. annual yield of 6% - FY'17 to carry double distribution in March and June.

Acceleration measures of the 7th buy-back program led again to a tender offer which is currently under approval by FSA, and we expect a price within a range of RON 0.86-1/share.

Investment objective: maximization of returns and per-share capital appreciation through investments mainly in equity and equity-linked securities.

YTD BSE turnover performance – second largest turnover and generated approx 35% of financial sector traded value in 2016, and YTD generate a turnover of EUR 27m, which implies a daily average turnover of some EUR 3.4m, and also the price appreciation was quite abrupt, now the stock being traded around RON 0.9/share. NAVPS in January is mostly influenced by listed shares price evolution and we have reckoned by taking guidance from 18 January reported NAVPS, that some RON 173m were added to the valuation of the unlisted side. Unfortunately, full year results and detailed statement of investments is not yet available, so we have no view upon potential breakdown, but we included this difference in our NAVPS update.

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Politics heavyweight on any state decisions upon new/secondary listings - currently, politics are not very clear for the moment, but rather look quite disturbed, as the political turmoil that flood Romania deepened as president Klaus Iohannis attacked the ruling party for not doing enough to stem the biggest protests since the fall of communism - while early elections would be "too much," Iohannis told parliament the government's reversal of controversial measures seen as weakening anti-corruption efforts and the potential dismissal of the minister are "too little." Social Democrat leader Liviu Dragnea ruled out seeking a suspension of the president and said he hopes "peace" can be found. Earlier during February, the current government repealed a controversial law upon justice issues, which was severely unwelcomed by population and has led to prolonged street protests.

New portfolio disposals only should market conditions allow – OMV Petrom partial sale via a secondary public offering was completed in Q4'16, despite improper crude oil market conditions, the stake was sold at a 14% discount.

Fondul Proprietatea remains one of the largest listed funds in the world with NAVPS around USD 3bn as of January 2017, and among top 5 largest funds listed on the LSE, encouraging and developing local capital market drivers and growing institutional investor base.

With its NAVPS embarked in the energy&oil&gas unlisted&listed stocks, we keep a stable-to-positive sector outlook for the RO gas and electricity market which is expected to be fully deregulated starting 2018E.

Strengthening of management team by appointment of Mr. Johan Meyer as co-CEO of Franklin Templeton Investment Management Ltd. UK Bucharest Branch and CoPortfolio Manager of Fondul Proprietatea SA, to support Mr. Grzegorz Maciej Konieczny, CEO of FTIML Bucharest and PM of Fondul Proprietatea, on portfolio side as both co-CEO and co-PM level.

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2016 BSE turnover performance – third largest turnover and generated approximately 35% of financial sector traded value, after TLV top pick, which generates premiums above peers due to lack of ROE normalization through a rich cash dividend, and Romgaz, the latter driven by the Fund ABO. TLV weights very few currently in the NAVPS (0.18% stake), as some extended thoughts that even after somewhat ROE normalization via a dividend for this year, premiums against peers will still be available, forcing the stock to become quite expensive on a relative basis, unless a general market decline. Meanwhile, the stock was still gaining ground, with threshold breaching slightly above RON 2.4/share, at the end December 2016.

2017 had a very good start, with market liquidity up to RON 710m - Bucharest Stock Exchange kicked off 2017 with new heights in January, being the best first month of the year in terms of value traded on the main market for shares since 2012. According to BVB data, the total trading value for equities went up by nearly 25% in January compared to December 2016 and 12% compared to the first month of 2016, to RON 710m, BSE website detailed. Compared with main peer markets, Romania’s main index posted an increase of 6.11%, Hungary increased by 1.49%, Czech Republic was up 1.18%, Bulgaria rose by 2.66%, while Austria added only 2.22%.

Romania is getting closer to meet not only the criteria of FTSE Russell, but also those of MSCI, according to BVB website, as currently three companies are already fulfilling the criteria asked by MSCI emerging markets – which will attract new funds locally.

Romgaz, OMV Petrom and Banca Transilvania are now fulfilling the free float market cap criteria and also the trading volume. Hidroelectrica IPO would benefit even more the market, as expectations are for the stock to be a large cap, with both a dividend payer and growth profile.

Current MSCI markets classification per country

MSCI ACWI & FRONTIER MARKETS INDEX										
MSCI ACWI INDEX						MSCI EMERGING & FRONTIER MARKETS INDEX				
MSCI WORLD INDEX			MSCI EMERGING MARKETS INDEX			MSCI FRONTIER MARKETS INDEX				
DEVELOPED MARKETS			EMERGING MARKETS			FRONTIER MARKETS				
Americas	Europe & Middle East	Pacific	Americas	Europe, Middle East & Africa	Asia	Americas	Europe & CIS	Africa	Middle East	Asia
Canada United States	Austria Belgium Denmark Finland France Germany Ireland Israel Italy Netherlands Norway Portugal Spain Sweden Switzerland United Kingdom	Australia Hong Kong Japan New Zealand Singapore	Brazil Chile Colombia Mexico Peru	Czech Republic Egypt Greece Hungary Poland Qatar Russia South Africa Turkey United Arab Emirates	China India Indonesia Korea Malaysia Philippines Taiwan Thailand	Argentina	Croatia Estonia Lithuania Kazakhstan Romania Serbia Slovenia	Kenya Mauritius Morocco Nigeria Tunisia WAEMU ²	Bahrain Jordan Kuwait Lebanon Oman	Bangladesh Pakistan ³ Sri Lanka Vietnam
MSCI STANDALONE MARKET INDEXES ¹										
				Saudi Arabia		Jamaica Trinidad & Tobago	Bosnia Herzegovina Bulgaria Ukraine	Botswana Ghana Zimbabwe	Palestine	

Source: MSCI.com

Accession criteria by type of market

Classification size and liquidity	Number of companies	Company Size (USD m)	Security Float Size (USD m)	Liquidity (ATVR*)
Frontier	2	516	<50	2.50%
Emerging	3	1,032	516	15.00%
Developed	5	2,065	1,033	20.00%

Classification, mkt accesibility	Openness to foreign ownership	Ease of capital flows	Operational efficiency*	Stability of instituional framework*
Frontier	Some	Partial	Modest	Modest
Emerging	Significant	Significant	Good	Modest
Developed	High	High	High	High

Source: MSCI.com

Previous Tender Offer price for the acceleration of the 6th buy-back program seems to have disappointed – investors were more pleased by higher cash balance in the NAVPS instead

6th buy-back program history: FP reported the start-up of the sixth buy-back program since September 9, 2015 for 891.8m shares or equivalent in GDRs, representing a stake of 7.54% in the share capital, at a price range varying between RON 0.2/share and RON 2/share – 68% to be repurchased on the BVB and 32% on the LSE. The acceleration of the 6th buy-back via a tender offer was approved by FSA on 27 of July for a price of RON 0.8420, and it caused the stock to decline upon announcement, as expectations for a higher price seem to have been building for a long time. We believe that a price of at least RON 0.9/share or closer to the reported NAVPS, which was slightly above RON 1.1 on average for the last 12 months, would have changed the picture. Recall that the acceleration of the sixth buy-back program was cancelled on January 25, mostly due to market volatility at the beginning of the year, under global market's turmoil, which caused buy-backs to resume on 28 January.

7th buy-back program waiting in pipeline – intensified Fund activity during past 3M but market reaction remained fashionably modest – January was a very good month for the FP shares

7th buy-back program was approved on 29th of October 2015 for a maximum of 10% starting from the effective date of the cancellation of the shares repurchased during the 5th buy-back program. This program was estimated to last for 18M following publication within the Official Gazette, for a price range between RON 0.2 and 2. This buy-back program is also conditioned by existing liquidity.

Seventh buy-back program stands out for 366.45m shares, following 179.6m shares supplementary number of shares following reduction in share capital by similar value; the tender offer for the acceleration of the seventh buy-back, the Fund intends to purchase some 640m shares (both in the form of shares and GDRs) was reported on 27 January with 10 business days according to regulation in force for approval by FSA and announcement of final tender price, which we expect within a range of RON 0.86-1/share. At such range, the value of the tender offer would be RON 550-640m. Taking into consideration NAVPS reporting as of 18th January, the funds has available some RON 565m only in bank deposits, which is some 89% of the higher end of our estimated range, and some RON 835.6m in T-bonds position, no amounts withdrawn from the credit facility and we do not estimate any other withdrawal to be done for this tender, but we do see that first cash payment to be done by leveraging the fund because of dividends flow from portfolio companies coming much later during the year.

Dividend yields at a 90% payout for major listed state-owned companies

Net profit	9M'16	9M'15	Q4'15	FY'15	FY'16E	Payout -90%	Mkt cap	DIVY
SNG	714	975	219	1,194	933	840	10,599	7.9%
TGN	358	384	105	489	463	416	3,768	11.1%
TEL	213	305	55	360	269	242	2,258	10.7%
EL	466	428	-65	363	401	361	4,802	7.5%
SNN	65	131	18	149	82	74	1,734	4.3%

Source: IEBATRUST

Mkt cap (+)	1%	2%	3%	Dividend yield matrix				Curent
SNG	10,705	10,811	10,917	7.85%	7.77%	7.69%	SNG	7.9%
TGN	3,805	3,843	3,881	10.94%	10.84%	10.73%	TGN	11.1%
TEL	2,280	2,303	2,325	10.61%	10.50%	10.40%	TEL	10.7%
EL	4,850	4,898	4,946	7.45%	7.37%	7.30%	EL	7.5%
SNN	1,751	1,768	1,786	4.24%	4.20%	4.16%	SNN	4.3%
SNN	1,716	1,699	1,682	4.33%	4.37%	4.42%	SNN	4.3%
EL	4,754	4,706	4,658	7.60%	7.67%	7.75%	EL	7.5%
TEL	2,235	2,213	2,190	10.82%	10.93%	11.04%	TEL	10.7%
TGN	3,730	3,692	3,655	11.16%	11.28%	11.40%	TGN	11.1%
SNG	10,493	10,387	10,281	8.00%	8.09%	8.17%	SNG	7.9%
Mkt cap (-)	-1%	-2%	-3%					

Source: IEBATRUST

In Q4'16, Fondul run successfully an SPO in OMV Petrom for a 6% stake, at a 14% discount. The SPO and crude oil hike turned positive for OMV Petrom liquidity, and indirectly for FP NAVPS via its remaining 13% stake, with SNP shares trading now near RON 0.3 target price – RON 0.2850 current market price.

Major impact in 18 January NAVPS had the shares of OMV Petrom, that hiked 6% against the end of 2016 and Nuclearelectrica which soared by 5% against similar time period, following the rise in the power prices due to cold weather. Conpet also rose 6%, while Oil Terminal added 2%. BRD and Banca Transilvania instead were poor performers as banking stocks depreciated by around 5%-to-6% during the mentioned timeframe. OMV shares recovered substantially following SPO in October, which benefited NAVPS during December-January – another sale of OMV Petrom shares is unlikely due to the fact that the funds has reached its limit of 20% in NAVPS invested in listed entities. An IPO would be needed in order for listed shares weight to be higher in NAVPS and allow for the Fund Manager to run some new SPOs.

Cumulative performance (%)	1-Mo	3-Mo	6-Mo	9-Mo	1-Yr	2-Yr	3-Yr	Since per incept
NAV RON	3.67	1.43	3.67	12.79	7.33	3.29	2.65	32.84
Ordinary Share Price RON	1.15	-1	9.5	10.2	4.9	0.32	4.85	79.22
GDR RON	-2.48	-1.72	8.15	13.91	4.85	N/A	N/A	0.53
NAV USD	2.49	-6.72	-2.06	2.65	3.54	-4.26	-6.56	-2.39
Ordinary Share Price USD	-0.01	-8.95	3.45	0.3	1.2	-7.01	-4.56	29.34
GDR USD	-3.59	-9.62	2.17	3.67	1.15	N/A	N/A	-7.46

Average annual discount	2011	2012	2013	2014	2015	2016	Current discount
Ordinary Share Price	55.67%	50.09%	40.74%	30.87%	29.12%	32.08%	33.00%
GDR	—	—	—	—	29.51%	29.98%	31.81%

Source: IEBATRUST, Fondul Proprietatea

Fund investment objective is the maximization of returns and per-share capital appreciation through investments mainly in equity and equity-linked securities, allowing for new investments when discount to NAVPS will lower. The discount control mechanism is represented by buy-back programs of shares and GDRs, via daily buy-backs or tender offers, reduction of the nominal value of shares and cash distributions, but also increasing investors demand for shares and GDRs, mainly through a transparent cash distribution policy and a tilt toward listed structure of portfolio.

Turning back to the needed IPOs, Salrom is also a solid candidate, having a natural monopoly position on RO market; corporate governance on SOEs is also speeding-up, making room for a further brainstorming with respect to cash needs financing, while ports vs. airports are still boiling next in pipeline, but remain with needy management and corporate governance principles.

Enforcement of annual cash dividend distribution policy

Immediately after the tender offer start, the Fund announced investors of its intentions to distribute an annual cash of RON 0.05/share –cash distributions reach approximately the RON 1.8bn threshold, in the last 3Y, with an average annual yield of 6%, with a cumulated cash distribution yield would be around a heavyweight 21%. October 31 OGSM should approve another RON 0.05/share in cash distribution for 2017 with payment date of 27 March 2017 (additional) and its annual cash distribution of similar value in June 2017.

Distributions Since the Start of FTIML' s Mandate

Distribution Type	Financial Year	Paid in	Gross Distribution/Share (RON)	Net Distribution/Share (RON)*
Dividend	2008-2009 (aggregate)	2010	0.08160	0.06854
Dividend	2010	2011	0.03141	0.02638
Dividend	2011	2012	0.03854	0.03237
Dividend	2012	2013	0.04089	0.03435
Return of Capital	-	2014	0.05000	0.05000
Return of Capital	-	2015	0.05000	0.05000
Return of Capital**	-	2016	0.05000	0.05000
Total			0.34244	0.31164

Source: IEBATRUST, Fondul Proprietatea

OMV Petrom news flow top pick after last autumn elections – all eyes upon in 2017

OMV Petrom announced that for 2016 intends to distribute some 30% of net income as dividends should the free cash flow before dividend payment allows it. For FY'15, OMV Petrom had a zero payout and given the CAPEX for 2016 as well as crude oil price evolution we viewed less likely for such criterion to be accomplished, but this opinion was drawn after H1'16 results, ahead of crude oil price hike. Now we changed our opinion due to better financials throughout the year, precisely due to the crude oil price improvement and better FX, which should allow for a minimum payment of 30%.

Ahead of FY'15, OMV Petrom carried a payout of around 36%, due to high investments required for the Black Sea and production field redevelopment. Major price triggers for OMV Petrom upcoming next 6-8 months' time horizon, balancing through elections' period, are the liberalization of gas prices, which is expected in Q1'17, current upstream, both offshore and offshore, taxation side (no changes for on-shore side, while for off-shore some capex deductions will be allowed, while the government also considers the introduction of some 20% tax on profits made on available exports – this side is less clear

and by June 2017 we should have first news, but we view as less likely for such tax to be imposed due to cash burden size), and news upon Black Sea exploration – commercial viability assessment to continue, first production expected beyond 2020. We might add the disposal of part of Downstream Gas assets, and in general of non-core assets, like the Dorobantu Wind Park (production cost of EUR 90m), which should uphold cash-flow to partially support its capex. With respect to the gas price liberalization calendar, some rumors in the market pointed to a certain cap of the gas selling price, carrying no longer a gas calendar, but is against all principles that have been promoted so far, including the idea of a modern, fully utilizable trading platform which should allow for increased visibility upon gas contracts running currently on the market.

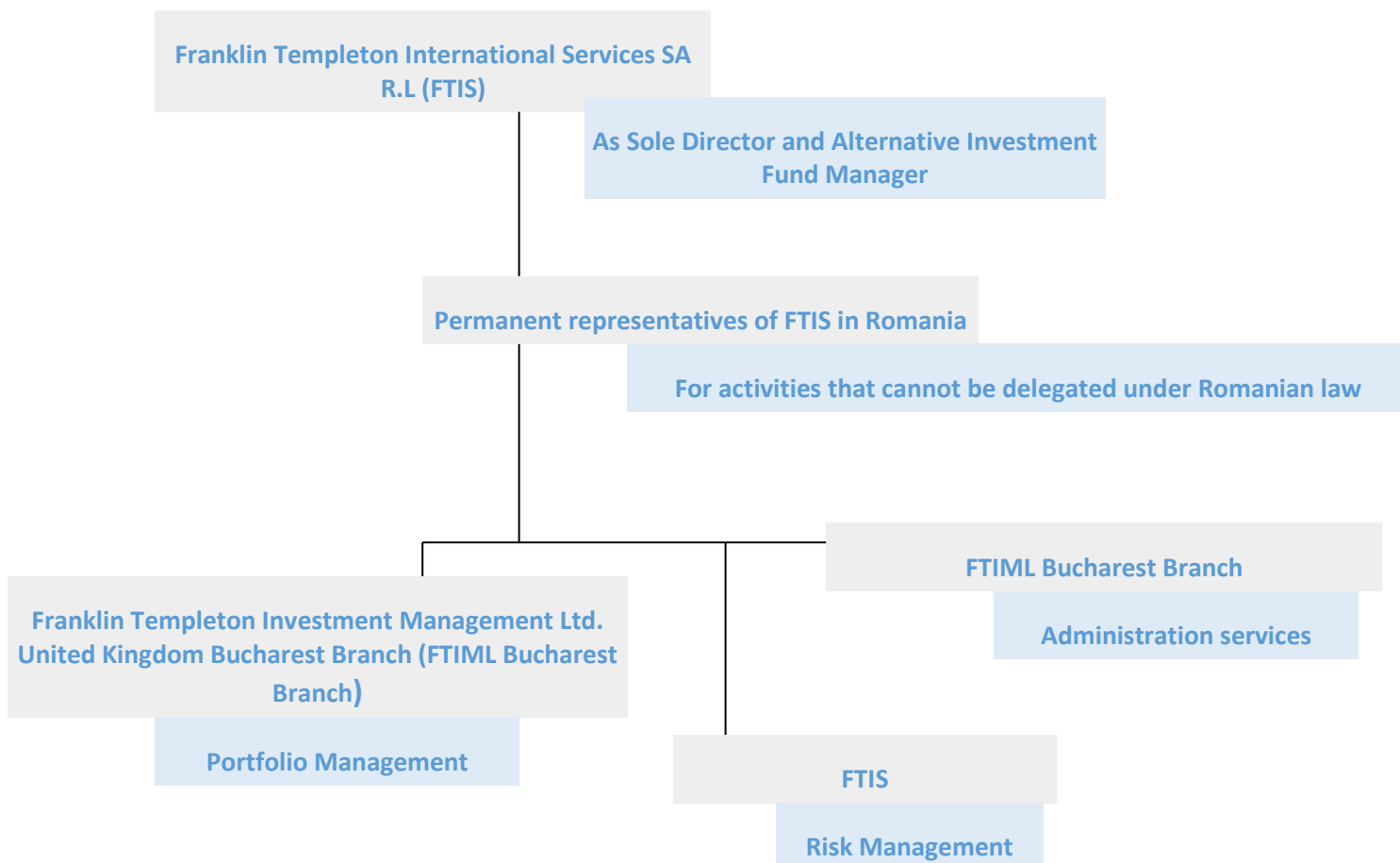
OMV Petrom will publish strategy update for 2021 and 2016 preliminary results on February 16.

2Y new mandate starting April 1st with AIFM compliant manager

On October 29th, 2015, shareholders were summoned for O&E GSM and approved a couple of several major issues, among which the appointment of an entity from the Franklin Templeton International Group which is headquartered in Luxembourg, to manage the assets of the Fund starting April 1st, 2016, since that entity can manage the assets of Fondul Proprietatea, given that FP was placed under alternative investment funds category. Franklin Templeton was registered in Romania as unincorporated subsidiary without share capital, with a final deadline to align to the requirements of the law by May 2016. To detail, some changes in the Management of the Fund as a result of implementation of AIFM Directive (Directive 2011/61/EU on Alternative Investment Fund Managers).

Fund Manager received a 2Y mandate starting 1st April, 2016 and changed to FTIS (Franklin Templeton International Services S.A.R.L) under the AIFM Directive and local implementation regulations, and executed a new Investment Management Agreement in order to reach AIFM Directive compliance. FTIS will delegate the role of investment manager and certain administrative functions to FTIML (Franklin Templeton Investment Management Limited United Kingdom, Bucharest Branch). Furthermore, FSA considers that Commission de Surveillance du Sector Financier of Luxembourg, as the competent authority of the AIFM home state member, has oversight obligations in respect to the management performed by FTIS, based on the notification sent regarding the new IMA.

Strengthening of management team by appointment of Mr. Johan Meyer as co-CEO of Franklin Templeton Investment Management Ltd. UK Bucharest Branch and CoPortfolio Manager of Fondul Proprietatea SA, to support Mr. Grzegorz Maciej Konieczny, CEO of FTIML Bucharest and PM of Fondul Proprietatea, on portfolio side as both co-CEO and co-PM level.



Source: Fondul Proprietatea, IEBATRUST

Investment objective: maximization of returns and per-share capital appreciation through investments mainly in equity and equity-linked securities

Continuation with buy-back programs (share repurchase and /or public tender offers) and cash distributions to shareholders will remain as main tasks on the Fund agenda in order to minimize the NAVPS discount.

Top down approach - enforcing corporate governance in portfolio companies to increase visibility upon activity and future developments

In a top down-approach, the Fund has created some changes with respect to the corporate governance of the companies where in top management which at the end has benefited some increased visibility upon business operations of each company and overall market. The Fund disclosed that some 11 companies in NAVPS which carry professional management, are suspected to be politically influenced, despite carrying also an independent BOD, number that we view quite high (Electrica, Ports, Salrom currently searching for a CEO, etc).

We think that FY'17 budget could be upward revised considering that it took under consideration a lower payout for the dividend income stream – 2017 budget sees dividend income at RON 333m, down 41% vs. 2016 budget and a drop of RON 10m vs. H1'16 booked dividend income; net profit is expected to reach RON 226.69m, half vs. H1 2016; now the state owed companies are expected to pay some 90% of FY'16 net profits in dividends

Medium< triggers and NAVPS value unlock potential delivered by the value creation of the major unlisted stakes in the portfolio; Hidroelectrica IPO expected in H2'17 – similar picture to H1'16

Electrica's subsidiaries' exit multiples, do not seem that bad, but Electrica looks like a tough negotiator

On November 10, 2015, shareholders of Electrica approved the resumption of negotiations with FP regarding the sale of its minority stakes in its distribution subsidiaries, i.e EDMN (21.99%), EDTN (22%), EDTS (21.99%) and Electrica Furnizare (22%) – the total price to be paid to Fondul Proprietatea for these stakes was supposed to consider the economic arguments of such acquisitions, while at the end of the negotiation process, the Board was required to make public the offered price, either accepted or not by Fondul Proprietatea – the negotiation process ended by 31 March 2016. The deal with Electrica failed – FP asked for RON 875m while Electrica offered RON 790m.

In more detail, the price offered was actually at RON 684m (18% discount against RON 841m February NAVPS value), excluding RON 106m that FP would have to transfer to Electrica in the form of dividends from EL subsidiaries. Moreover, to make the transaction more attractive and underline the Fund's willingness to reach an agreement, Fondul lowered the price asked to RON 805m (incl. some RON 36m in the form of dividends), net for Electrica at RON 769m. The price offered by Electrica (RON 684m) values the subsidiaries at following multiples: EV/EBITDA 2.9x, P/E at 6x, and P/RAB at 0.6x. Discussions may resume but only after the appointment of a new CEO of Electrica, which was announced in the past couple of days, in the person of Dan Catalin Stancu, former strategy and corporate development director from E.ON, who also maintained various positions with Electrica Group for a cumulated period of 19 years previously. Enel and Engie stakes of 22% each, for first one, and 12% for latter, are also under ongoing discussions with controlling shareholders.

So far, the state has shown a lot of endeavor for getting listed a good part of its minority stakes either on the local stock exchange either via a dual listing, but minimal steps have been taken so far and future outlook in this regard seems also less appealing - elections are waiting on 11th December. We view as more likely the listing of Hidroelectrica, somewhere in H1'17, despite, in a more optimistic tone, H2'16 raised a lot of expectations in this regard. Currently, the state has started the selection procedures for electing six members for the Supervisory Board for Hidroelectrica, procedure open until 20 October.

CE Oltenia seems rather like a long target as for the moment it is only a restructuring target; August NAVPS sets the value of a 22% stake at RON 62.84m, which puts full stake in the entire company at RON 285.64m (EUR 65m).

E.ON stake disposal already occurred - the market welcomed the transaction

E.ON stake was disposed at end June 2016, 5.6% of NAVPS at end-March) that were last valued at EUR 130m (RON 536.88m in NAVPS at end-March). The stock price positively reacted to the news, as this was one of the unlisted stakes that the Fund was trying to sell for a long time, and eventually the parties reached a positive conclusion. The cash inflow supported the acceleration of the 6th buy-back program, altogether with the execution of the credit facility with BRD.

Hidroelectrica – chances for an IPO this year faded away mainly on upcoming elections; Dividend helpful profitability available under lower existing turnover, showing the effects of previous years' business restructuration and cost reoptimization. No change in valuation for the time being

Electricity generated in 2015 vs 2014: 15.9 TWh vs 18.4 TWh.

IPO process: Listing consortium is Morgan Stanley and Raiffeisen.

Due to IPO value, Hidroelectrica listing would also help BVB to make additional steps in achieving the MSCI criteria in order to reach emerging market status compared to its current frontier condition. IPO estimated around EUR 500m.

Insolvency exit in June increased expectations for an IPO this year, but upcoming elections postponed hopes for next year or even 2018, according to some officials

Brief operations overview: largest hydropower producer in the country (around 25% of total consumption in a normal hydrological year) and main system services supplier (slightly higher than 70% market share in FY'14 and maintained for FY'15 in our assumption). Electricity generated in 2015 and 2014 18.46TWh and 16.13TWh; sales were higher at was 18.68TWh and 17.11TWh, with output gap covered through external acquisitions through bilateral contracts, when production is lower than expected, but also to cover its own consumption needs – however, these own needs were halved by end-2015 slightly above 1%, compared to almost 3% during FY'09-'11. This electricity is produced by making use of 256 number of powerplants and 5 pumping stations, with an installed capacity of 6,464MW (17.5TWh delivered output).

Financials side – earnings remain appealing: FY'15P pre-tax profit was at RON 1.1bn (-4.3% Y/Y) with sales at RON 3.2bn (-6.5% Y/Y). FY'15 electricity produced was at 16.13TWh (-13% Y/Y). Despite the lower production Y/Y, Hidroelectrica managed to achieve comparable net profits (RON 0.9bn in FY'15 and RON 0.94bn in FY'14), mostly on the back strict cost containment – on of the benefits brought by the insolvency process – production cost was at RON 184/MWh FY'12 to ca. RON 110/MWh (asset tax excluded – to be cancelled starting FY'17). Unit generation cost was highest in FY'12, reaching RON 163.7MWh, with net profitability negative at RON 508m. In FY'10, electricity produced was at 19.85TWh, but bottom line was at only RON 0.29bn, despite the production cost landed at RON 85/MWh. Hidroelectrica intends to sue the Romanian State at the European Court of Justice with respect to the water tariff – some EUR 100m are paid annually for such tariff (around 25% of production cost). For FY'16, Hidroelectrica has to sell on the regulated segment of the market some 2.69TWh at an average price of RON 120.55/MWh (+5.5% Y/Y), implying revenues of RON 324.28m.

In H1'16, sales were at RON 1.61bn, down 13% Y/Y, but gross profit reached RON 754m due to cost control measures.

CEC Bank and Telekom Romania Communications are also on the IPO agenda

Mircea Ursache, FSA vicepresident has recently declared that the Romanian state is also interested in an IPO in CEC Bank and Telekom Romania Communications – companies that are not in the portfolio of Fondul, but would instead improve banking sector exposure on BSE and give exposure to one of safest sector locally, with growth rates that contributed significantly to the growth rate of GDP for this year, and one of the sectors currently not covered on the BSE. In CEC Bank and Telekom Romania Communications could be available a 20-25% stake each, and SPOs in Romgaz and OMV Petrom, for 4% and 7% stake respectively should be expected. The state controls CEC Bank entirely and 45.9% in Telekom Romania Communications. We view as less likely an IPO in Telekom Romania, due to unclear status of the unsettled debts between OTE, major shareholder, and former Romtelecom/Cosmote; also both fixed and mobile operators carry quite large

losses, which, at first glance, from the data available from OTE, seem to be quite heavy. Telekom Romania Communications Q2'16 revenues reached EUR 150m with proforma EBITDA at EUR 15m, a drop of 0.7% Y/Y, and EBITDA margin down to 10.2% vs. 15% in Q1'16 and 17.3% in Q2'15. However, in terms of revenues, certain stability can be observed, and second quarter seems to have been better in terms of wholesale and fixed business services (EUR 29.9m and EUR 16.4m), but on a yearly basis, only the wholesale business seems to be on plus (EUR 29.9m vs. EUR 28.3m), while retail fixed services are plummeting by 8.2% Y/Y to EUR 76.6m. Operating profitability is negative at EUR 38m for 6M'2016 due to high depreciation on increased CAPEX program and restructuration costs, bad debts provisions and marketing expenses, mostly accumulating in the second quarter.

CEC Bank instead could be a much faster new IPO on the market – entirely owned by the state, with very scarce publicly available financials; for 2015, net profit was at RON 11m, up 43% Y/Y and no negative bottom lines recorded during financial crisis period. The evolution was supported by quite vivid credit activity, as net loans jumped in 2015 by 12.5% Y/Y to RON 13.4bn.

Posta Romana - significant improvements on corporate governance process, IPO expected in 2017, according to company CEO

Posta Romana appears to be a target for listing since various privatizations by state failed, last efforts being with the Belgian postal operator bpost that failed to submit an offer at the deadline of 15 September, 2015.

Ministry of Communications and Information Society declared as must a strategic development plan with mandatory investments required in upgrading operational processes and establishing a dividend policy.

We consider that a strategic viewpoint implied will also clarify IPO timeframe, but we view less likely an IPO to take place in the next two years due to the complex and lengthy development implied by the restructuration of the operational processes in the light provided by officials. Recently, company CEO stated that state intentions are for an IPO to take place in 2017, and management is eager to view the company listed.

Salrom IPO rather undecided – another delayed IPO profile

Salrom, was also a listing target with a delayed deadline, while the Airports and Ports available in the portfolio carry also significantly delayed target dates. Recent Salrom shareholders' assembly, held on 13 (15) September does not confirm that a potential IPO was on the agenda instead, and no public comments upon the topic were made either. For the moment we define an IPO for Salrom as a long term objective for the state.

Company	Offering size	Offering Size Value (EUR Mn)	FP stake Value (EUR Mn)	Total Market Cap	Status of Government Decision	FP expected IPO timing
Hidroelectrica	15%	611.6	813.1	4,077.8	approved	H2 2016/2017
CE Oltenia	12%-15.3%	9.6/12.6	15.5	71.7	approved	suspended - needs restructuration
Posta Romana	>50%	>37.5	14.4	72.2	not taken yet	n/a
Constanta Port	n/a	n/a	52	260.1	not taken yet	n/a
Bucharest Airports	n/a	n/a	157.3	786.6	not taken yet	n/a
Salrom	n/a	n/a	46.7	89.1	postponed	n/a

Source: Fondul Proprietatea, IEBATRUST

H1'16 Financial Results – bottom line positively affected by disposal of equity investments – 2016 preliminary results will be published on February 16

P&L bottom line of RON 540m was mainly supported by RON 913m net gain on disposal of equity investments available for sale (computed as selling price less net book value plus net unrealized gain/loss from other comprehensive income transferred to P&L once the assets were derecognized due to sale). The Fund sold entirely its stakes in Romgaz, E.ON Distributie Romania, E.ON Energie Romania and in part in Banca Transilvania and BRD-GSG.

Net unrealized loss from equity investments at FV through P&L was at RON 541.34m mainly generated from the negative net change in FV of OMV Petrom, due to drop in price, while the dividend income was at RON 346.92m, down 20% Y/Y, due to zero dividends from OMV Petrom and Engie Romania.

During first 6M of 2016, the largest impairment booked was for Nuclearelectrica (RON 38.4m), due to significant and prolonged decline in FV of an equity investment below its cost. Impairment losses on AVFS can be reversed if a subsequent increase in FV can be objectively related to an event and only after impairment loss was recognized in P&L, which we view less likely for the future given current price development.

Nuclearelectrica closing as of 31 March 2014 was RON 8.07/share, putting the value of the 9.09% stake held at RON 257.09m, vs a price of RON 5.02/share at end June 2016 (-38% loss) and current market price is RON 4.95.

In July 2016, FP contracted from BRD a revolving credit facility for a maximum committed amounts of RON 1bn from BRD meant for general corporate use, including buy-backs, and replacing the financing agreement concluded previously by the Fund with Citibank Europe Plc. Availability period of the facility is for one year with the possibility to extend it for another year.

October 31 SGA had on the agenda, among other items, the coverage of accounting losses of 2015 worth RON 2.47bn by using a share capital decrease in amount of RON 2.31bn and RON 156.12m decrease in value of other reserves, which cumulatively will concomitantly decrease the nominal value of one share to RON 0.62. After March 2017 RON 0.05 proposed cash distribution, the nominal value of one share will be RON 0.57 with share capital reaching RON 5.74bn split into 10.07bn shares. Meanwhile, Fondul also cancelled some 712m shares, which has increased the number of shares for the acceleration of the 7th buy-back to 640m.

January NAVPS – full of cash to deploy in settling the tender offer, credit facility reinforced up to RON 1 bn, but not necessary yet

January NAVPS showed an increase of 1% MoM and 9% Y/Y to RON 0.1199/share, due to 5% MoM increase in the value of listed shares to RON 2.6bn, while the EOP market price jumped by 7% MoM and 17% Y/Y

Bank deposits and Tbonds plus cash and receivables cumulated some RON 1.4bn (12% of NAVPS).

Factsheet December 2016

Sector	% NAV
Power utilities: generation	30.8%
Power & Gas utilities	25.4%
Oil&Gas	16.7%
Infrastructure	9.0%
Banks	2.8%
Heavy Industry	1.8%
Aluminium	0.8%
Postal services	0.4%
Others	0.2%

Security name	% NAV
Hidroelectrica SA	29.6%
OMV Petrom SA	16.3%
CN Aeroporturi Bucuresti SA	6.7%
E-Distributie Banat SA	5.3%
Engie Romania SA	4.0%
E-Distributie Muntenia SA	3.9%
E-Distributie Dobrogea SA	3.3%
BRD Groupe Societe Generale SA	2.6%
Electrica Distributie Muntenia Nord S	2.2%
Electrica Distributie Transilvania Sud	2.2%
Total	76.0%

Asset	% NAV
Listed	22%
Unlisted	66%
Net cash& receivables	12%

Source: Fondul Proprietatea, IEBATRUST

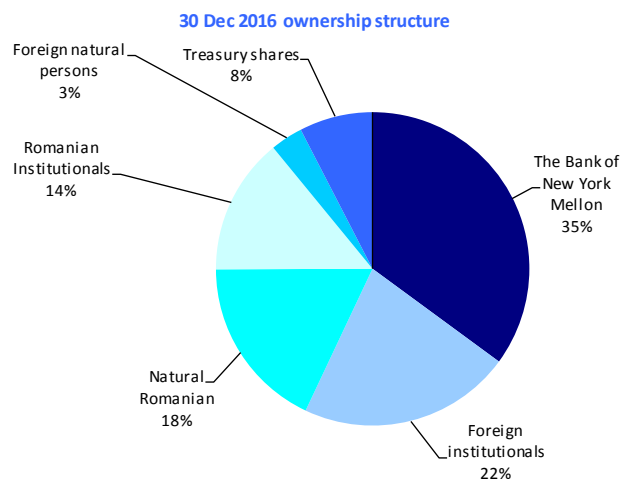
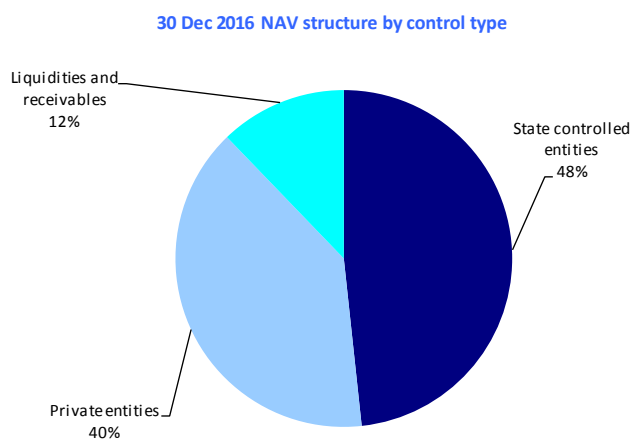
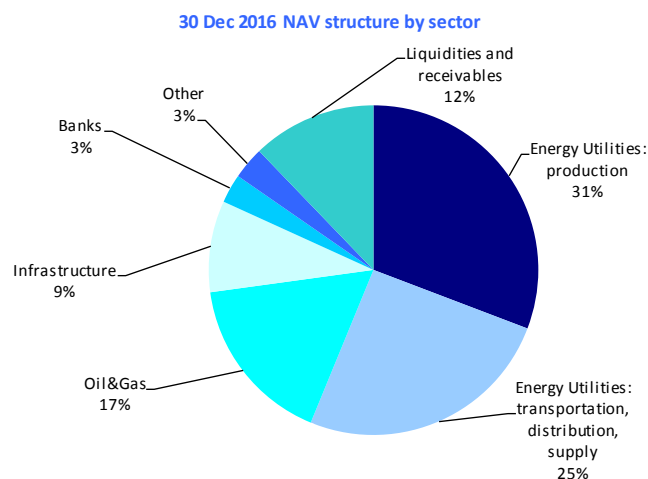
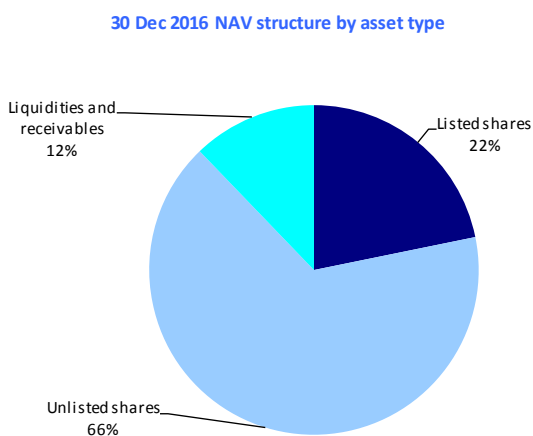
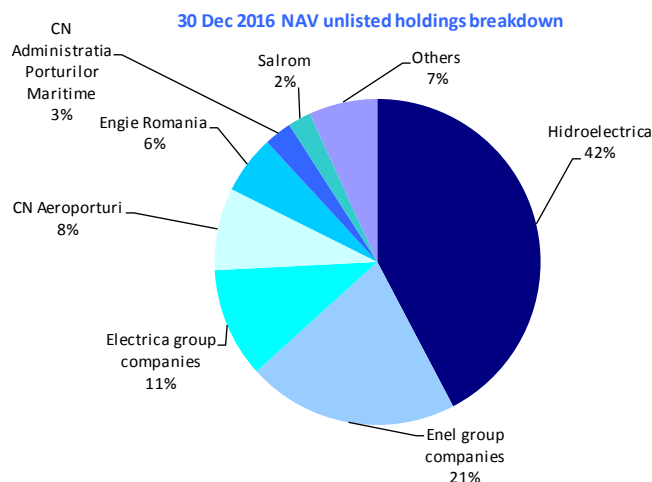
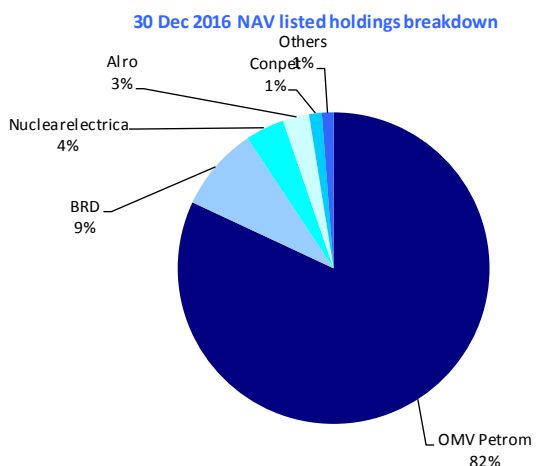
Portfolio remains tilted toward unlisted side (66%), oil&gas sector lowered weight to 22%, while power&gas utilities hold a cumulated weight of 56%. Largest weights in NAVPS are Hidroelectrica (30%) and OMV Petrom (16%).

Fondul Proprietatea NAVPS breakdown and major unlisted stakes monthly official valuation:

NAV breakdown	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	MoM (%)	Y/Y (%)
Listed shares	3,999	3,925	4,026	3,015	3,015	3,148	3,342	3,396	3,247	2,225	2,248	2,487	2,602	5%	-35%
weight in NAV (%)	38%	35%	35%	26%	26%	27%	28%	28%	29%	20%	20%	22%	23%		
weight in unlisted (%)	55%	54%	56%	42%	42%	43%	45%	46%	44%	30%	31%	33%	34%		
Unlisted shares	7,221	7,221	7,221	7,224	7,224	7,373	7,374	7,374	7,374	7,374	7,372	7,546	7,546	0%	5%
other financial assets	0	0	0	0	0	0	0	0	0	0	0	0	0	n/a	n/a
Account receivables	28	28	30	354	354	523	306	307	306	126	20	20	11	-47%	-62%
Bank deposits	159	125	125	608	608	573	792	686	155	317	364	305	565	85%	256%
Cash&bank deposits	271	236	215	835	835	688	885	956	484	1,395	1,442	1,421	1,406	-1%	418%
Tbonds	101	102	90	226	226	81	81	160	321	1,072	1,072	1,110	836	-25%	724%
Reserves & Retained Earnings	1,387	1,288	1,571	1,520	1,520	2,484	2,672	2,720	2,036	1,884	1,875	2,259	2,963	31%	114%
Account payable	20	11	14	23	23	27	29	10	29	43	14	26	25	-2%	24%
other debt	27	26	27	23	23	53	30	26	25	25	25	21	14	-36%	-49%
Provisions	10	12	12	12	12	12	1	1	1	1	1	1	1	0%	-92%
NAV	10,444	11,362	11,440	11,389	11,389	11,805	11,993	11,991	11,357	11,052	11,043	11,427	11,526	1%	10%
NAV/share	1.098	1.091	1.100	1.101	1.101	1.145	1.163	1.163	1.170	1.142	1.145	1.187	1.199	1%	9%
EoP price	0.730	0.740	0.771	0.748	0.736	0.726	0.775	0.794	0.803	0.806	0.786	0.795	0.854	7%	17%
(%) discount to NAV	-33%	-32%	-30%	-32%	-33%	-37%	-33%	-32%	-31%	-29%	-31%	-33%	-29%		
Companies in portfolio, o/w	48	48	48	47	47	45	45	45	45	45	45	45	45		
Admitted to trading on regulated market	8	8	8	7	7	7	7	7	7	7	7	7	7		
Admitted to trading on an Aero market	6	6	6	6	6	6	6	6	6	6	6	6	6		
Companies not admitted to trading	34	34	34	34	34	32	32	32	32	32	32	32	32		
Hidroelectrica	2,654	2,654	2,654	2,654	2,654	3,269	3,269	3,269	3,269	3,269	3,269	3,269	3,269		
weight in unlisted NAV portion (%)	37%	37%	37%	37%	37%	44%	44%	44%	44%	44%	44%	43%	43%		
weight in NAV (%)	25%	23%	23%	23%	23%	28%	27%	27%	29%	30%	30%	29%	28%		
vs. listed shares m-t-m value (%)	66%	68%	66%	88%	88%	104%	98%	96%	101%	147%	145%	131%	126%		
Enel Distributie Banat	624	624	624	624	624	624	624	624	624	624	624	624	624		
E.ON Distributie Romania	510	510	510	510	510	0	0	0	0	0	0	0	0		
Bucharest Airports (CNAB)	498	498	498	498	498	632	632	632	632	632	632	632	632		
Enel Distributie Muntenia	455	455	455	455	455	455	455	455	455	455	455	455	455		
Engie Romania	446	446	446	446	446	446	446	446	446	446	446	446	446		
Enel Distributie Dobrogea	401	401	401	401	401	401	401	401	401	401	401	401	401		
Electrica Distributie Muntenia Nord SA	254	254	254	254	254	254	254	254	254	254	254	254	254		
Electrica Distributie Transilvania Sud SA	222	222	222	222	222	222	222	222	222	222	222	222	222		
Electrica Distributie Transilvania Nord SA	216	216	216	216	216	216	216	216	216	216	216	216	216		
Salrom	177	177	177	177	177	177	177	177	177	177	177	177	177		
Constanta Port	175	175	175	175	175	211	211	211	211	211	211	211	211		
Electrica Furnizare	150	150	150	150	150	150	150	150	150	150	150	150	150		
E.ON Energie Romania	127	127	127	127	127	0	0	0	0	0	0	0	0		
Total Top 20 Holdings in NAV	6,909	6,909	6,909	6,909	6,909	7,058	7,058	7,058	7,058	7,058	7,058	7,058	7,058		
weight in unlisted NAV portion (%)	96%	96%	96%	96%	96%	96%	96%	96%	96%	96%	96%	94%	94%		
weight in NAV (%)	66%	61%	60%	61%	61%	60%	59%	59%	62%	64%	64%	62%	61%		
vs. listed shares m-t-m value (x)	1.73	1.76	1.72	2.29	2.29	2.24	2.11	2.08	2.17	3.17	3.14	2.84	2.71		

Source: Fondul Proprietatea, IEBATRUST

December 2016 reported&implied portfolio breakdown:



Source: Fondul Proprietatea, IEBATRUST

FP Valuation Summary

FP's portfolio has a distinctive mix being comprised of all major Romanian energy companies (both public and private), utilities and transportation/infrastructure companies listed and non-listed entities.

For our base case scenario, we value FP using a sum-of-parts methodology employing almost (less conservative) a similar methodology to the official one. However, we also exercise a best case scenario incorporating different valuation methods for the companies in the portfolio. Our current NAVPS (base case) exercise incorporates:

- ◆ listed holdings – last closing price, considered in our numbers at February 06.
- ◆ for major unlisted companies – various scenarios were used, including some official Fund valuation numbers, were the case for the small unlisted holdings with less visibility upon reported numbers and irrelevant peer comparison upon their business models
- ◆ companies in insolvency or under litigation, priced at zero. In the end, we apply a discount of 25%, due to low visibility upon IPOs, the fund's holding nature and for the high weight of unlisted companies and low visibility of some holdings and their low marketability as well. We derive a fair value for Fondul Proprietatea of RON 12.68bn and a NAVPS of RON 0.99.

We also run a best case scenario, a NAVPS valuation exercise incorporating an optimistic and most probable scenario for the long-term including:

- ◆ listed holdings – last closing price, considered in our numbers at February 06, for listed stocks
- ◆ a relative valuation (average of EV/EBITDA and P/BV multiples) on major unlisted holdings, while
- ◆ for the rest unlisted small stakes holdings including (CE Oltenia due to restructuring process), we incorporate FP December reported values. Our best scenario exercise returns a fair value of RON 13.38bn and a NAVPS of RON 1.04.

Table. Official methodology versus IEBA’s valuation approach

	Official	IEBA	Alternative scenario
Listed holdings	The market capitalization of listed holdings at the date of statement	Last closing price	Last closing price
	No trades within last 30 days, then shareholder's equity or fair value	Last closing price	For the remaining smaller listed entities, we apply the maximum value between the latest Equity (i.e.2015) and their market capitalization, either last valuation reported by the Fund as of December 2016
Unlisted holdings	Shareholder's equity or fair value	Shareholder's equity or fair value, either last Fund official valuation for less visible entities	For the major unlisted holdings, we apply a relative valuation without any discounts (an optimistic scenario). The relative valuation incorporates the median value produced by applying peers' EV/EBITDA and P/BV multiples
Companies in liquidation / bankruptcy / negative equity	At zero	At zero	At zero

Source: Fondul Proprietatea, IEBATRUST

Table. FY17E NAVPS

Portfolio - RON m	No of companies	IEBA NAV 17E	% of total	Fair Value Based on EV/EBITDA (1)	% of total	Fair Value Based on P/BV (2)	% of total	Fair Value Based on Median (1)-(2)	% of total	Blended Value - IEBA NAV 17E & Fair Value Median
Listed in BVB holdings	13	3,758	30%	3,758	28%	3,758	25%	3,758	27%	3,758
OMV Petrom		3,076	24%	3,076	23%	3,076	21%	3,076	22%	3,076
Nuclearelectrica		166	1%	166	1%	166	1%	166	1%	166
BRD		294	2%	294	2%	294	2%	294	2%	294
Banca Transilvania		20	0%	20	0%	20	0%	20	0%	20
Alro		101	1%	101	1%	101	1%	101	1%	101
Romaero		26	0%	26	0%	26	0%	26	0%	26
Conpet		49	0%	49	0%	49	0%	49	0%	49
Oil Terminal		4	0%	4	0%	4	0%	4	0%	4
Non-listed companies	32	7,547	60%	8,305	62%	9,617	65%	8,948	64%	8,247
Hydroelectrica	1	3,269	26%	3,269	24%	3,198	22%	3,234	23%	3,251
CE Oltenia	1	63	0%	14	0%	1,107	8%	560	4%	312
Electricity Utilities	10	2,463	19%	3,323	25%	2,917	20%	3,120	22%	2,791
Airports	3	637	5%	761	6%	1,668	11%	1,214	9%	926
Gas Distribution	1	446	4%	492	4%	336	2%	414	3%	430
Posta Romana	1	59	0%	34	0%	115	1%	62	0%	60
Ports	4	233	2%	209	2%	71	0%	140	1%	186
Other	11	378	3%	205	2%	205	1%	205	1%	291
Total	45	11,305	89.1%	12,063	90%	13,375	91%	12,706	90%	12,006
(-) Provisions on the portfolio		0.86	0.0%	1	0.0%	1	0.0%	0.86	0.0%	0.86
Other investments and receivables		847	6.7%	847	6.3%	847	5.7%	847	6.0%	847
Cash		570	4.5%	570	4%	570	3.9%	570	4.1%	570
(-) Debt (liabilities)		39	0.3%	39	0.3%	39	0.3%	39	0.3%	39
NAV		12,682	100%	13,441	100%	14,752	100%	14,084	100%	13,383
Per share**		1.319		1.40		1.53		1.465		1.392
(+/-) Discount		25%		25%		25%		25%		25%
Shareholders' value		9,512		10,081		11,064		10,563		10,037
Shareholders' value per share		0.989		1.05		1.15		1.099		1.044
Upside/downside (%)		10%						22%		16%
Cash distribution Yield at last price		5.6%						5.6%		5.6%
Cumulated cash distribution (excl. tender)		19%						19%		19%
Cash distribution 2014 - RON 591.02m										
Cash distribution 2015 - RON 601.32m										
Cash distribution 2016 - RON 548.29m										

* Balance sheet NAV ac. to official valuation method, incorporating m-t-m value for listed holdings.

Source: Fondul Proprietatea, IEBATRUST

Our recommendation

Given our NAVPS17E at RON 12.68bn, standing at the conservative side with higher potential for upward revisions and a higher discount of 25% due to high unlisted stakes in the portfolio, resulting to a shareholder's value per share of RON 0.99, we set our rating at BUY. We see FP as a value play and a long-term investment case.

Targeted NAVPS in the long run

Additionally, we run a NAVPS valuation exercise that incorporates an optimistic and a higher upside potential scenario including: i) February 06 market capitalization for listed stocks ii) for the remaining smaller listed entities, we apply the maximum value between the latest Equity (i.e. 2015) and their market capitalization, either last valuation reported by the Fund as of June 2016, last official breakdown available for the statement of investments iii) for the major unlisted holdings, we apply a relative valuation with some specific discounts.

The relative valuation incorporates the median value produced by applying peers' EV/EBITDA and P/BV multiples. The stand alone P/BV relative multiples exercise produces much higher valuation for the entire portfolio than EV/EBITDA, almost double, boosting NAVPS to RON 1/share, significantly above our core NAVPS17E. For the rest unlisted holdings that carry very low visibility we used the last official reported value by the Fund, as of June 2016. Some RON 173m difference in value of unlisted shares vs. June 2016 was included as observed in January 2017 reported NAV.

Table. Analytical valuation metrics in our best current scenario

Relative and implied valuation (RON m)	EBITDA '15	x Peers EV/EBITDA (17-18E)	Discount (%)	EV	- net Debt (E) '15	Fair value (1)	FP fair value	T.Equity (E) '15	x Peers P/BV (17-18E)	Discount (%)	Fair value (2)	Median Fair value (1) & (2)	% of FP	IEBA Fair value (2017E)	Potential based on Relative (1) + (2)	Valuation method
Portfolio Valuation at different methodologies						11,132	12,260				13,170			11,132	12,706	
Listed in BVB holdings						3,758.1	3,758.1				3,758.1			3,758.1	3,758.1	
OMV Petrom						3,076.4	3,076.4				3,076.4	19%	3,076.4	3,076.4		Ref price/closing price
Nuclearelectrica						165.8	165.8				165.8	9%	165.8	165.8		Ref price/closing price
Alro						101.3	101.3				101.3	10%	101.3	101.3		Ref price/closing price
Romaero						26.0	26.0				26.0	21%	26.0	26.0		Ref price/closing price
BRD -GSG						294.5	294.5				294.5	4%	294.5	294.5		Ref price/closing price
Banca Transilvania						20.3	20.3				20.3	0%	20.3	20.3		Ref price/closing price
Other						73.9	73.9				73.9		73.9	73.9		Ref price/closing price
Un-Listed						7,373.6	8,502.3				9,411.8			7,373.6	8,948.3	
Electricity producers																
Hidroelectrica	2,076.0	7.2x	0%	16,074.8	-319.4	16,394.2	3,269.0	17,900.0	1.2x	25%	16,040.4	16,217.3	19.9%	3,269.0	3,233.7	Fair value - DCF method
Complexul Energetic Oltenia	-133.7	6.0x	0%	n/m	2,275.0	62.8	62.8	5,398.0	1.3x	25%	5,136.8	2,599.8	21.6%	62.8	560.3	Official FP September NAV reported values
Gas																
Engie Romania	716.1	5.5x	0%	3,925.3	-175.0	4,100.3	491.6	3,738.0	1.0x	25%	2,803.5	3,451.9	12.0%	446.1	413.9	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Electricity distribution & supply																
Electrica Distributie Muntenia Nord	289.6	5.5x	0%	1,587.4	-129.0	1,716.4	377.4	1,577.0	1.6x	25%	1,940.8	1,828.6	22.0%	253.9	402.1	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Electrica Distributie Transilvania Sud	318.1	5.5x	0%	1,743.7	39.0	1,704.7	375.0	1,426.0	1.6x	25%	1,755.0	1,729.8	22.0%	222.3	380.6	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Electrica Distributie Transilvania Nord	313.5	5.5x	0%	1,718.4	56.0	1,662.4	365.7	1,319.0	1.6x	25%	1,623.3	1,642.9	22.0%	215.6	361.4	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Electrica Furnizare	150.5	5.5x	0%	825.0	-520.0	1,345.0	295.9	166.1	1.6x	25%	204.5	774.7	22.0%	149.6	170.4	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
ENEL Distributie Dobrogea	252.9	5.5x	0%	1,386.3	-589.0	1,975.3	475.8	1,452.0	1.6x	25%	1,787.0	1,881.1	24.1%	455.4	453.2	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
ENEL Distributie Banat	315.8	5.5x	0%	1,731.1	-1,190.0	2,921.1	704.6	2,120.0	1.6x	25%	2,609.1	2,765.1	24.1%	624.0	666.9	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Enel Distributie Muntenia	451.4	5.5x	0%	2,474.3	-1,994.0	4,468.3	536.2	3,511.0	1.6x	25%	4,321.0	4,394.7	12.0%	455.4	527.4	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Enel Energie Muntenia	27.5	5.5x	0%	150.7	-825.0	975.7	117.1	382.3	1.6x	25%	470.5	723.1	12.0%	64.0	86.8	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Enel Energie	46.7	5.5x	0%	256.0	-367.0	623.0	74.8	452.4	1.6x	25%	556.8	589.9	12.0%	76.6	70.8	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Post/Courier services																
Posta Romana	6.5	2.5x	0%	16.3	-17.6	33.8	8.5	339.9	2.7x	50%	458.9	246.4	25.0%	58.7	61.6	Blend - Multiples/EV/EBITDA at par, P/BV with 50% discount
Airports																
CN Aeroporturi Bucuresti	340.4	11.2x	0%	3,803.3	9.3	3,794.0	758.8	4,064.4	2.7x	25%	8,263.2	6,028.6	20.0%	632.5	1,205.7	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Aeroportul Mihail Kogalniceanu	0.3	11.2x	0%	3.4	0.1	3.3	0.7	18.4	2.7x	25%	37.4	20.3	20.0%	1.6	4.1	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Aeroportul Timisoara Traian Vuia	0.7	11.2x	0%	7.8	0.9	6.9	1.4	19.7	2.7x	25%	40.1	23.5	20.0%	2.6	4.7	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Ports																
Administratia Porturilor Constanta	150.1	6.4x	0%	965.4	35.4	930.0	185.9	34.7	3.3x	25%	85.1	507.5	20.0%	211.3	101.5	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Administratia Canalelor Navigabile	12.9	6.4x	0%	83.0	-17.8	100.8	20.2	85.4	3.3x	25%	209.4	155.1	20.0%	17.3	31.0	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Administratia Porturilor Dunarii	2.4	6.4x	0%	15.4	-0.5	15.9	1.2	10.6	3.3x	25%	26.0	20.9	7.7%	1.2	1.6	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Administratia Porturilor Dunarii Fluviale	1.1	6.4x	0%	7.1	-1.9	9.0	1.8	20.1	3.3x	25%	49.2	29.1	20.0%	3.0	5.8	Blend - Multiples/EV/EBITDA at par, P/BV with 25% discount
Other						204.9	377.9				204.9	204.9		377.9	204.9	Official FP September NAV reported values

Source: Fondul Proprietatea, IEATRUST, Bloomberg

Relative valuation: Peers of major unlisted companies

Airports	Company name	Country	Mkt Cap	YTD 1 Year		EV/EBITDA			P/BV		Net debt/EBITDA				
				(in EUR m)	%	%	Median 17-18E	17E	18E	Median 17-18E	17E	18E	Median 17-18E	17E	18E
				FLU AV Equity	FLUGHAFEN WIEN	AUSTRIA	2,187	11%	34%	8.17	8.4	7.9	1.88	2.0	1.8
FHZN SW Equity	FLUGHAFEN ZU-REG	SWITZERLAND	5,740	5%	37%	11.78	11.8	11.8	2.68	2.7	2.7	0.86	0.8	0.9	
SAVE IM Equity	SAVE SPA	ITALY	1,039	8%	62%	14.17	14.8	13.6	4.64	4.7	4.6	2.97	2.8	3.1	
Weighted median & applied multiples				7%	39%	11.17			2.71			1.15			
Ports	Company name	Country	Mkt Cap	YTD 1 Year		EV/EBITDA			P/BV		Net debt/EBITDA				
				(in EUR m)	%	%	Median 17-18E	17E	18E	Median 17-18E	17E	18E	Median 17-18E	17E	18E
				HHFA GR EQUITY	HAMBURGER HAFEN	GERMANY	1,367	6%	52%	6.28	6.5	6.1	2.43	2.5	2.4
NMTP RM Equity	NOVOROSSIYSK	RUSSIA	2,163	8%	76%	5.72	5.5	5.9	3.67	4.6	2.7	1.59	1.8	1.4	
GLPR LI Equity	GLOBAL-GDR REG S	CYPRUS	833	16%	55%	8.54	8.7	8.4	3.61	4.1	3.1	4.01	4.3	3.7	
Weighted median & applied multiples				9%	64%	6.43			3.27			1.75			
Hydro and Alternative power produce	Company name	Country	Mkt Cap	YTD 1 Year		EV/EBITDA			P/BV		Net debt/EBITDA				
				(in EUR m)	%	%	Median 17-18E	17E	18E	Median 17-18E	17E	18E	Median 17-18E	17E	18E
				EOAN GR Equity	E.ON SE	GERMANY	13,925	4%	-13%	4.05	4.1	4.0	3.63	3.7	3.6
EDF FP Equity	EDF	FRANCE	19,100	-6%	-22%	2.96	2.8	3.1	0.54	0.5	0.5	2.49	2.4	2.6	
ELE SM Equity	ENDESA	SPAIN	20,317	-5%	17%	7.40	7.4	7.4	2.18	2.2	2.2	1.49	1.5	1.5	
ENA PW Equity	ENEA	POLAND	1,047	7%	-7%	4.10	4.1	4.1	0.35	0.4	0.3	2.52	2.3	2.8	
GAS SM Equity	GAS NATURAL SDG	SPAIN	18,358	2%	15%	7.52	7.6	7.4	1.22	1.2	1.2	3.10	3.1	3.1	
PGE PW Equity	PGE SA	POLAND	4,742	4%	-22%	3.87	3.8	4.0	0.48	0.5	0.5	1.34	1.1	1.6	
VER AV Equity	VERBUND AG	AUSTRIA	5,123	-3%	40%	9.64	8.6	10.7	0.99	1.0	1.0	3.43	3.4	3.5	
ENEL IM Equity	ENEL SPA	ITALY	39,386	-7%	11%	6.31	6.4	6.2	1.10	1.1	1.1	2.50	2.5	2.5	
IBE SM Equity	IBERDROLA SA	SPAIN	38,069	-5%	-4%	8.80	9.0	8.7	0.96	1.0	0.9	3.69	3.7	3.7	
PPC GA Equity	PUBLIC POWER COR	GREECE	617	-8%	-5%	5.00	5.0	5.0	0.10	0.1	0.1	4.89	4.7	5.1	
RWE GR EQUITY	RWE AG	GERMANY	7,355	3%	-1%	3.45	3.5	3.4	1.01	1.0	1.0	2.99	2.9	3.1	
CPLE6 BZ Equity	COPEL-PREF B	BRAZIL	2,284	19%	39%	5.25	5.4	5.1	0.58	0.6	0.6	2.73	2.8	2.7	
CSMG3 BZ Equity	COPASA MG- ORD	BRAZIL	1,710	23%	253%	5.53	6.0	5.0	0.89	0.9	0.9	1.87	2.1	1.7	
Weighted median & applied multiples				-3%	5%	6.43			1.31			2.87			
Electricity producers	Company name	Country	Mkt Cap	YTD 1 Year		EV/EBITDA			P/BV		Net debt/EBITDA				
				(in EUR m)	%	%	Median 17-18E	17E	18E	Median 17-18E	17E	18E	Median 17-18E	17E	18E
				MVV1 GR EQUITY	MVV ENERGIE AG	GERMANY	1,434	3%	3%	7.52	7.7	7.4	1.14	1.2	1.1
ELE SM EQUITY	ENDESA	SPAIN	20,317	-5%	17%	7.40	7.4	7.4	2.18	2.2	2.2	1.49	1.5	1.5	
EDF FP EQUITY	EDF	FRANCE	19,100	-6%	-22%	2.96	2.8	3.1	0.54	0.5	0.5	2.49	2.4	2.6	
AKENR TI EQUITY	AKENERJI ELEKTRI	TURKEY	159	2%	-1%	15.75	18.2	13.3	0.54	0.5	0.6	14.46	16.1	12.8	
EDP PL EQUITY	EDP	PORTUGAL	9,818	-7%	-10%	8.08	8.1	8.0	1.07	1.1	1.0	4.26	4.4	4.2	
PPC GA EQUITY	PUBLIC POWER COR	GREECE	617	-8%	-5%	5.00	5.0	5.0	0.10	0.1	0.1	4.89	4.7	5.1	
DRX LN EQUITY	DRAX GROUP PLC	BRITAIN	1,760	-2%	50%	9.05	11.0	7.1	0.90	0.9	0.9	0.94	0.8	1.1	
EVN AV EQUITY	EVN AG	AUSTRIA	2,008	0%	13%	6.34	6.4	6.3	0.77	0.8	0.8	2.08	2.2	2.0	
Weighted median & applied multiples				-5%	-1%	6.00			1.27			2.47			
Power supply & distribution	Company name	Country	Mkt Cap	YTD 1 Year		EV/EBITDA			P/BV		Net debt/EBITDA				
				(in EUR m)	%	%	Median 17-18E	17E	18E	Median 17-18E	17E	18E	Median 17-18E	17E	18E
				EOAN GR EQUITY	E.ON SE	GERMANY	13,925	4%	-13%	4.05	4.1	4.0	3.63	3.7	3.6
ACE IM EQUITY	ACEA SPA	ITALY	2,434	-1%	-7%	5.72	5.6	5.8	1.43	1.5	1.4	2.59	2.5	2.7	
IRE IM EQUITY	IREN SPA	ITALY	1,954	-2%	18%	6.28	6.3	6.2	0.99	1.0	1.0	3.24	3.3	3.1	
ENEL IM EQUITY	ENEL SPA	ITALY	39,386	-7%	11%	6.31	6.4	6.2	1.10	1.1	1.1	2.50	2.5	2.5	
RWE GR EQUITY	RWE AG	GERMANY	7,355	3%	-1%	3.45	3.5	3.4	1.01	1.0	1.0	2.99	2.9	3.1	
Weighted median & applied multiples				-3%	4%	5.48			1.64			2.96			
Gas supply & distribution	Company name	Country	Mkt Cap	YTD 1 Year		EV/EBITDA			P/BV		Net debt/EBITDA				
				(in EUR m)	%	%	Median 17-18E	17E	18E	Median 17-18E	17E	18E	Median 17-18E	17E	18E
				GAS SM EQUITY	GAS NATURAL SDG	SPAIN	18,358	2%	15%	7.52	7.6	7.4	1.22	1.2	1.2
AYGAZ TI EQUITY	AYGAZ AS	TURKEY	978	8%	28%	9.36	9.5	9.2	1.36	1.4	1.3	0.58	0.5	0.7	
CNA LN EQUITY	CENTRICA PLC	BRITAIN	14,731	-2%	19%	7.10	7.2	7.0	6.02	6.4	5.7	1.48	1.6	1.3	
Weighted median & applied multiples				1%	17%	7.39			3.30			2.33			
Gas producer	Company name	Country	Mkt Cap	YTD 1 Year		EV/EBITDA			P/BV		Net debt/EBITDA				
				(in EUR m)	%	%	Median 17-18E	17E	18E	Median 17-18E	17E	18E	Median 17-18E	17E	18E
				SIA LN EQUITY	SOCO INTL PLC	BRITAIN	564	-9%	-11%	4.56	5.4	3.7	0.71	0.7	0.7
PMO LN EQUITY	PREMIER OIL PLC	BRITAIN	477	8%	157%	4.71	5.3	4.1	0.78	0.8	0.8	4.13	4.8	3.5	
ENQ LN EQUITY	ENQUEST PLC	BRITAIN	611	7%	264%	4.34	4.7	3.9	0.62	0.6	0.6	3.30	3.6	3.0	
SIA LN EQUITY	SOCO INTL PLC	BRITAIN	564	-9%	-11%	4.56	5.4	3.7	0.71	0.7	0.7	-1.08	-1.1	-1.0	
Weighted median & applied multiples				-1%	101%	4.53			0.70			1.25			

Source: Fondul Proprietatea, IEATRUST, Bloomberg

Please observe relevant disclosures at the end of the report

SSIF IEBA TRUST Research Department Email: research@iebatrust.ro February 8, 2017

RECOMMENDATION SYSTEM

SSIF IEBA TRUST uses a Relative recommendation system. Such system indicates that each stock is rated on a basis of the excess return, measured by the relative value of the target (calculated) price and the current price, over a 12 months period of time.

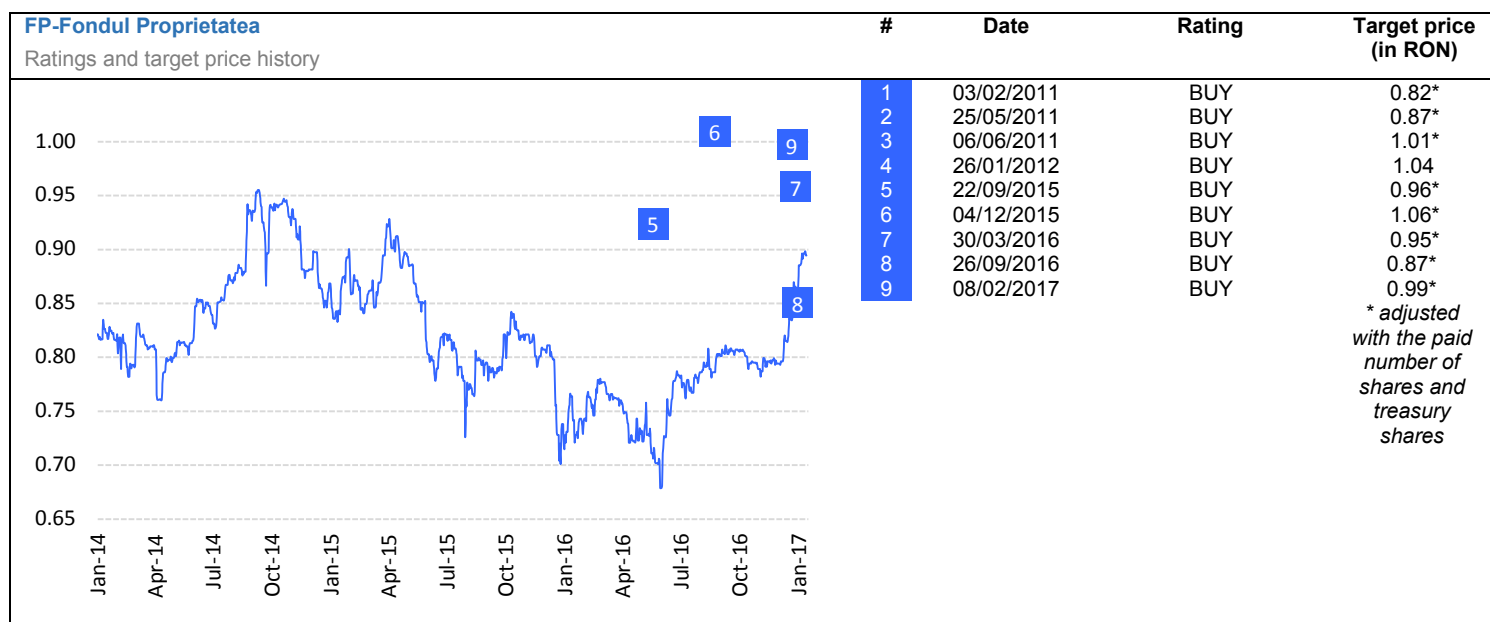
The range of recommendations for each stock consists of 4 elements: Buy (B), Accumulate (A), Hold (H), Reduce (R).

SSIF IEBA TRUST RATINGS

BUY	The stock is expected to generate potential excess return over 15%
ACCUMULATE	The stock is expected to generate potential excess return of 5 to 15%
HOLD	The stock is expected to generate potential excess return of -5% to 5%
REDUCE	The stock is expected to generate potential excess return below -5%

Excess return: Target price/current price – 1

For the cases of Initial Public Offering, the above-mentioned recommendation system is not applied. In such cases, the recommendation is based on the comparison between the price of the Offering, and the fair value estimated by SSIF IEBA TRUST.



Measures Definitions

IEBA Net Income	Adjusted Net Income for one-off items	
Net Cash Flow from operations	EBITDA (+/-) other provisions (+/-)(Increase)/Decrease in Working Capital	
FCF Equity	Net Cash Flow from operations (-) CAPEX	
Net debt	Total short-term and long-term bank debt (-) cash	
EV	Market Cap (avg historic or current) + book value of minorities + Net debt	
FCFPS	FCF Equity	Diluted no of shares
EPS (or IEBA)	Reported (or IEBA) Net Income	Diluted no of shares
BVPS	Total Equity	Year end no of shares
P/E (or IEBA)	Share Price (avg historic or current)	Reported (or IEBA) EPS

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P/E IEBA at 52wks High	52 weeks High price (avg historic or current)	IEBA EPS / Diluted IEBA Earnings Per Share
P/BV	Share Price (avg historic or current)	BVPS
ROE	Reported Net Income	Average Total Equity
ROCE	Reported Net Income	Average (Total debt + Total Equity)
EV/EBITDA	EV (with avg historic or current)	Reported EBITDA
EV/EBITDA (x) at 52wks High	EV using 52 weeks High market cap (avg historic or current)	Reported EBITDA
EBITDA/Net financials	Reported EBITDA	Net financials: Net interest (+/-) Net financials
EV/CE (x)	EV (with avg historic or current)	CE: Total bank debt + Total Equity
FCF Yield	FCFPS	Share Price (avg historic or current)
Dividend Yield	DPS	Share Price (avg historic or current)
Dividend Payout	Dividend	Reported Net Income

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