

# Country Report Romania

## Reform to perform



- GDP growth remains at appealing rates
- C/A deficit will continue to be high but more stable
- Current market sentiment does not allow for positive short-term outlook for equities
- Liquidity developed in promising fashion
- Floating of other utilities and Property Fund remain a main challenge

# Country Report

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**Prices as of January 17, 2008**

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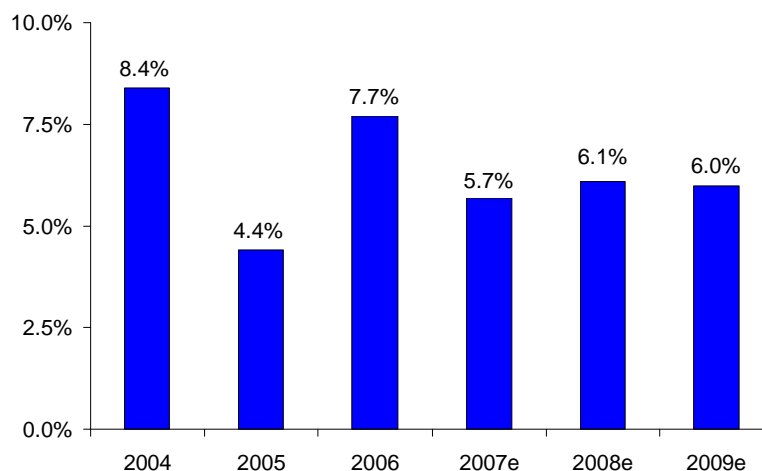
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## Summary

Despite the adverse effects generated by either local conditions (severe drought) or the international context (US sub-prime mortgage loan crisis), the Romanian economy may have grown at an estimated rate of 5.7% in 2007 and could grow by as much as 6.1% in 2008, remaining an attractive opportunity for long-term investors. Economic growth was strongly supported in 2007 by investments in the construction sector, which exhibited one of the highest annual increase rates in the EU (over 30%).

## GDP development



Source: National Forecast Commission, BCR

Recently, the current account deficit reduced speed and, according to our estimation, it should be more stable in 2008. The main reason behind Romania's soaring current account deficit resides in the disproportion between national savings and investments - namely the high and increasing investments supported by imports on one hand and the low savings on the other hand. The development of the current account deficit was strongly influenced in recent years by the trade balance deficit, which has also shown signs of deceleration recently. An adjustment of the current account deficit as % of GDP will take place no sooner than 2009, and will be triggered by the trade balance reversal when high-value exports have reached the optimum level.

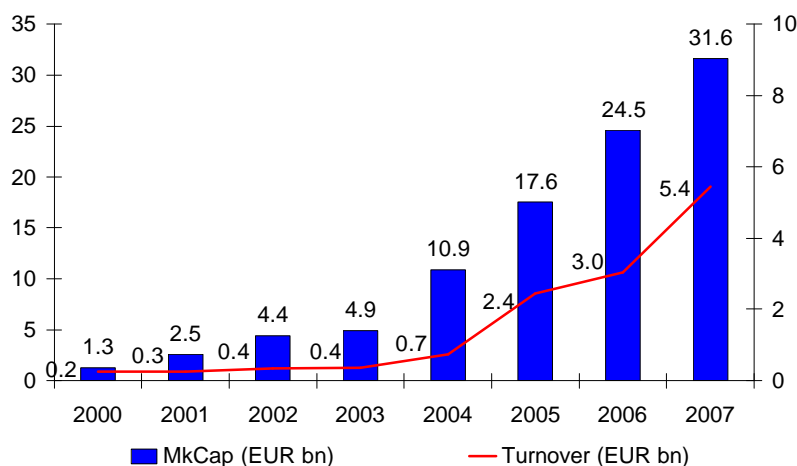
The central bank missed the 2007 inflation target following the negative agriculture supply shock and RON depreciation. Disinflation is likely to resume only in the second part of 2008, but our estimation assumes normal weather conditions, stable pressure from the international environment and a tougher monetary policy from the central bank. Better coordination between monetary and fiscal policy is also required in 2008.

The negative international context and the greater anxiety regarding the dynamic of emerging economies, especially for countries with high current account deficits, made the equity market one of the most expensive in the CEE region. In these circumstances, it was not a surprise that the indices recorded a significant decrease of about 10% in October and November. However, the Bucharest Stock Exchange (BSE) closed the year at prices comparable with the end of September; the return of the indices in 2007 was at least reasonable for a market that recorded high price increases in the last few years, backed by the same major listed companies (given the lack of important IPOs).

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A continuation of the downward trend in January (with a decrease of over 11% in the first eight trading sessions) was unexpected in a market that experienced a January effect in the last two years. However, this dynamic was in line with the trend seen in other CEE markets, and we do not have any particular fundamental reasons to explain this development.

## Market capitalization and turnover development



Source: Bucharest Stock Exchange, BCR

After this correction, the main companies on the Bucharest Stock Exchange (BSE) have reached value levels comparable to Poland and the Czech Republic, with P/E 2008 and P/E 2009 at 12.5 and 10.9, respectively. We believe that the corporate growth potential of the Romanian companies is at least comparable with CEE peers and that this scenario is not necessarily optimistic. It suffices to look at the real convergence indicators, where the level of GDP per capita (PPS) was only 35.9% of the EU 25 average in 2006. We consider this indicator relevant in showing the long-term growth potential of local companies in a stable macroeconomic environment.

The liquidity of the BSE increased by about 70% y/y in 2007, but this dynamic was based on the same listed companies. The only IPO last year was launched in November by national gas transporter Transgaz; the offer was oversubscribed 28 times. This major success proves that there is very positive market sentiment for new major companies on the BSE. In spite of this, in light of the parliamentary elections scheduled for the end of this year, we do not believe that other major IPOs among state-owned companies (like Romgaz, Hidroelectrica or Nuclearelectrica) will occur earlier than in 2009. Also, we do not anticipate an SPO by the Ministry of the Economy and Finance for a stake in Property Fund in 2008. This offer would have a huge impact on the investibility of the Romanian capital market.

However, the good news of the last year was the improvement of eligible candidates for the MidCap and SmallCap segments of the Romanian market, as a result of the significant increase in the visibility of a few dozen listed companies on the Rasdaq market. Given the high valuation of the main companies listed on the regulated market, the interest of many investors focused on the interesting companies floated on the Rasdaq. There was enough of an increase in the average daily turnover of this market (from EUR 1mn in 2006 to EUR 5.2mn in 2007) to induce a jump in the capitalization and liquidity of these newly discovered companies, which had been almost anonymous until 2006.

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## General information

<b>Official Name</b>	Romania
<b>Form of government</b>	Republic
<b>Parliament</b>	Two-chamber Parliament: Chamber of Deputies and Senate
<b>Area</b>	238,392 km <sup>2</sup> (12th in Europe and 82st in world)
<b>Population</b>	21.57mn (2006)
<b>Location</b>	Romania is situated in the southeastern part of Central Europe, in the northern part of the Balkan Peninsula; Romania borders Hungary and Serbia to the west, Ukraine and Moldova to the northeast, and Bulgaria to the south; Romania has a stretch of sea coast along the Black Sea, and the eastern and southern Carpathian mountains run through its center; also, the river Danube runs through Romania (1,075 km).
<b>Language</b>	Romanian (the mother tongue of around 90% of the country's population)
<b>Capital</b>	Bucharest (population around 2mn)
<b>Administrative distribution</b>	41 counties, 265 towns, 2686 communes
<b>Major cities</b>	Iasi (321,580 inhabitants), Cluj-Napoca (318,027 inhabitants), Timisoara (317,651 inhabitants), Constanta (310,526 inhabitants), Craiova (304,142 inhabitants)
<b>Currency</b>	Leu (RON), with its fractional coin, the "ban"
<b>Time zone</b>	East European time zone (GMT + 2 hours)
<b>Important events</b>	Romania joined NATO on March 29, 2004, and the European Union (EU) on January 1, 2007.



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## Romania: Key macroeconomic indicators

	2000	2001	2002	2003	2004	2005	2006	2007e	2008e	2009e
Nominal GDP (Loc. Curr., mn)	80,380	116,770	151,480	197,600	246,400	288,048	342,418	392,000	441,699	489,738
Population (mn)	22.435	22.408	21.794	21.713	21.659	21.610	21.570	21.500	21.440	21.380
GDP per capita (Loc. Curr.)	3,583	5,211	6,951	9,101	11,376	13,329	15,875	18,233	20,602	22,906
Real GDP (growth y/y %)	2.1	5.7	5.1	5.2	8.4	4.4	7.7	5.7	6.1	6.0
Private Consumption (growth y/y %)	14	11.2	6.2	8.5	12.9	9.1	12.6	9.6	8.8	7.8
Fixed Capital Formation (growth y/y %)	5.5	10.1	8.2	8.6	10.8	13.0	16.1	24.5	18.0	14.0
Nominal Wages (Loc. Curr.)	284	422	532	664	818	967	1,150	1,386	1,584	1,742
Nominal Wages (growth y/y %)	47.8	48.6	26.1	24.8	23.3	18.1	18.9	20.5	14.3	10.0
Retail sales (growth y/y %)	-7.0	1.9	7.9	11.2	12.8	17.6	24.0	20.0	18.5	17.5
Industrial production (y/y %)	7.1	8.4	4.3	3.1	5.3	2.0	7.1	6.4	6.0	5.9
CPI (y/y, year-end%)	40.7	30.3	17.8	14.1	9.3	8.6	4.9	6.6	5.4	4.5
Unemployment (%)	10.5	8.8	8.4	7.4	6.3	5.9	5.2	4.4	4.3	4.2
Exports fob (Loc Curr, mn)	22,640.6	32,984.8	45,905	58,553	76,687	80,563	91,110	98,700	112,057	126,124
Imports cif (Loc. Curr., mn)	28,726.8	45,177.5	59,114	73,721	98,245	108,821	132,554	169,093	198,637	223,571
Trade balance fob-fob(% of GDP)	-4.8	-7.4	-5.7	-7.7	-8.8	-9.8	-12.1	-14.6	-16.1	-16.4
Foreign direct investment (% of GDP)	2.8	2.9	2.5	3.7	8.5	6.5	9.4	5.5	5.2	4.2
Current account balance (% of GDP)	-3.7	-5.6	-3.3	-5.8	-8.4	-8.7	-10.3	-13.7	-14.7	-14.7
Govt. budget balance (% of GDP)	-3.6	-3.2	-2.6	-2.2	-1.1	-0.8	-1.6	-2.4	-2.7	-2.7
Public debt (% of GDP)	22.7	23.2	23.8	23.6	22.9	19.3	18.2	18.9	19.9	20.6
Foreign debt to GDP (%) w o intercompany lending	28.1	30.2	29.2	28.9	30.3	33.1	34.6	39.0	43.4	46.8
Central bank intervention rate, year-end	35.00	35.00	20.40	20.41	17.00	7.50	8.75	7.50	8.00	7.00
Short term interest rate (3 months) year-end	53.00	36.62	20.47	22.31	17.56	7.63	8.58	8.38	8.20	7.10
Loc. Curr./USD year-end	2.5926	3.1597	3.3500	3.2595	2.9067	3.1078	2.5676	2.4560	2.5926	2.8333
Loc. Curr./EUR year-end	2.4118	2.7881	3.4919	4.1117	3.9663	3.6771	3.3817	3.6083	3.5000	3.4000

Source: National Institute of Statistics, BCR Research

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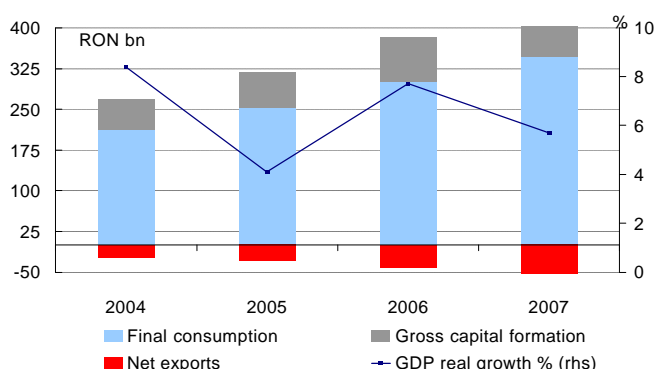
## Macroeconomy

### Mixed picture in 2007

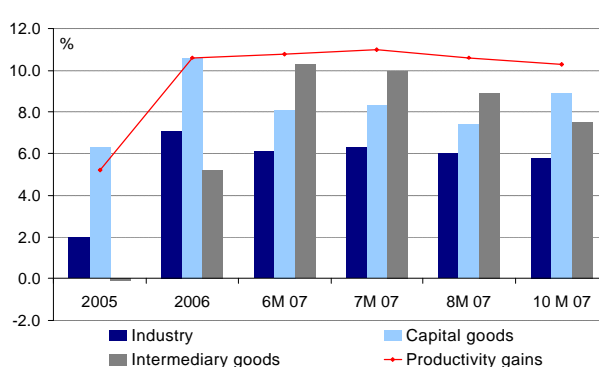
Despite adverse effects generated either by local conditions (severe drought) or the international context (US sub prime mortgage loans crisis), the Romanian economy could grow in 2007 at an estimated rate of 5.7% and remains an attractive opportunity for long-term investors. The important growth differential as compared to EU average creates the conditions for a successful catching-up strategy.

Gross capital formation picked up the pace in 2007 (+32% in Q3) and this will certainly play a significant role in further increasing productivity gains which maintained at high level in 2007.

### GDP development



### Capital goods maintained high growth rates



Source: NIS, BCR Research

Despite tougher competition from EU (open market), industry has remained pretty high (+5.8% in the first 10 months) with capital and intermediary goods in pole position. Production of transport means (road transport and other than road transport), an industry with important potential for exports, was one of the most dynamic (+16.6%) during January-October 2007.

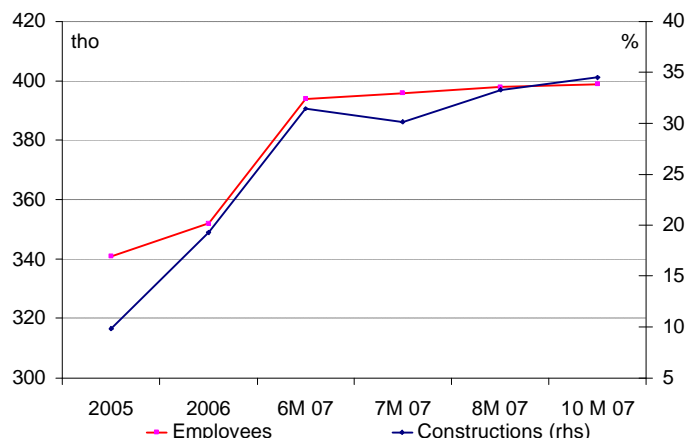
### Strong constructions activity is likely to continue in the following years

Constructions boomed in 2007, Romania being an attractive location in this respect. This helped the production of intermediary goods which picked up the pace in 2007. At the same time, payrolls in constructions increased by 13% and this had also a positive impact on registered unemployment rate.

Constructions are expected to maintain a high level in the following years, considering the strong demand for residential buildings and the imperative need for infrastructure modernisation.

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## Construction boomed in 2007

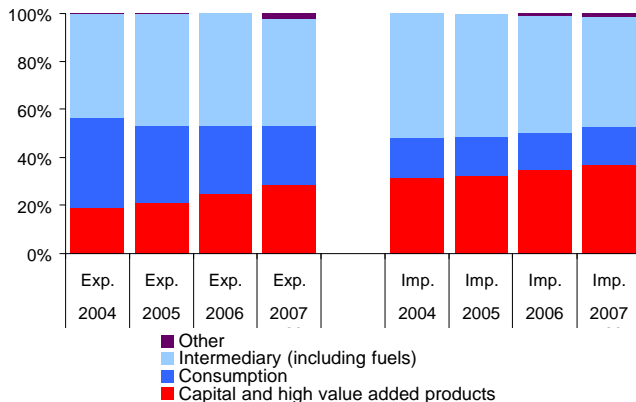


Source: NIS, BCR Research

## Romania continued to attract significant FDIs in 2007; more green field investments expected in the coming years

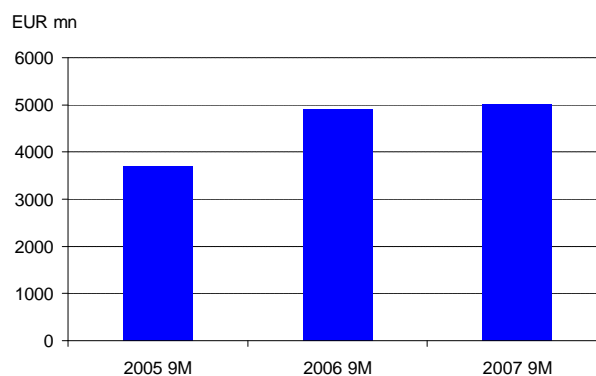
The Romanian economy continued to attract significant amounts of FDIs in the first 9 months (EUR 5bn in 2007 as compared to EUR 4.9 bn in 2006 and EUR 3.7bn in 2005). For the whole year 2007, our estimations indicate FDIs comparable with the previous year, excluding one-off transaction Erste - BCR.

## Improving structure of imports & exports



Source: NIS, NBR, BCR Research

## FDI (net inflow) in 9M07



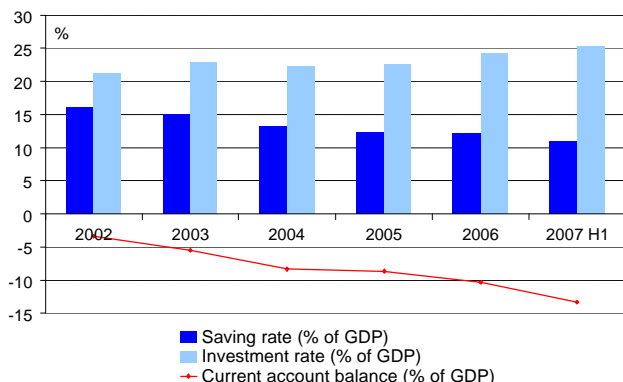
A new bill regarding investments is now pending and has yet to be endorsed by the Romanian Parliament. The new framework will give further support also to FDIs with positive impact on exports capacities. Thus long term C/A receipts will be more easily secured, while the external imbalance diminishes gradually. Currently, 76% of the Romanian exports in manufacturing are generated by FDIs.

Capital goods and high value added products consolidated their share in total exports and imports as compared to 2006.



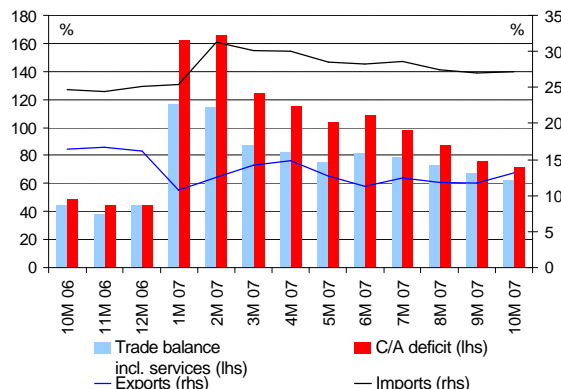
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## C/A deficit, investments and savings



Source: NBR, BCR Research

## Trade balance, exports, imports & C/A deficit



### Current account deficit will continue to be high, but more stable

The main reason behind Romania's soaring current account deficit resides in the disproportion between national savings and investments, namely the high and increasing investments supported by imports on one hand and the low savings on the other. The development of the current account deficit has been strongly influenced in recent years by the trade balance deficit that has widened constantly.

Current account deficit slowed down at the end of October 2007 (+71.8% as compared to +76.5% during January-September 2007). Trade deficit (FOB - FOB), the traditional driver of Romania's external imbalance, lost some speed to 64.4% in the first 10 months (as compared to 77% at the end of H1 2007).

The slow down of the current account deficit could continue in the next months based on RON recent depreciation and the base effect. For the end of 2007 we estimate a current account deficit of around 14% of GDP. According to our estimation, the adjustment of the current account as % of GDP will take place no sooner than 2009 and this will be triggered by trade balance reversal when high value added exports will have reached the optimum level (more than 40%). This adjustment should be accompanied by a good increase in productivity, making Romanian exports more competitive on external markets.

### Remittances from Romanians working abroad eased the current account deficit in 2007

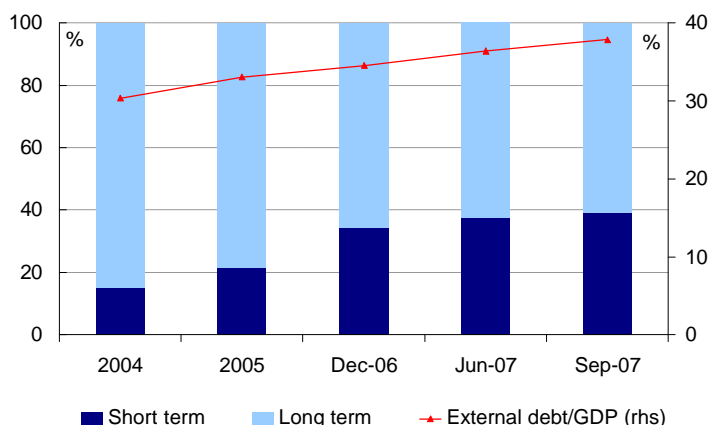
Romania has benefited during the last years from major remittances of Romanians working abroad, reaching EUR 5.3 billion in 2006 according to official statistics. However, the flow of remittances is currently increasing at a slower pace (35% during the first ten months of 2007, 40% in 2006 and 170% in 2005) and this might indicate the proximity of a turning point. Most of these capital inflows (82% in 2006) come from Romanians that have been working abroad for more than one year in countries like Spain, Italy and Great Britain. Current transfers might increase significantly in December when workers usually come back home for winter holidays.

### Low external debt but on the rise

Total external debt (without inter-company lending) grew by around EUR 9bn in the first 9 months), standing at EUR 43bn. Attractive interest margins in Romania as compared to peer countries in the region stood behind the growth in short term external debt.

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## External debt structure (without inter-company lending)



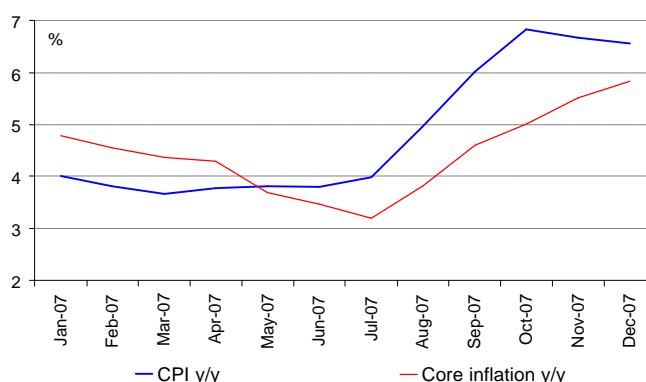
Source: NBR, BCR Research

Lower indebtedness ratio (estimated at around 37% of GDP as of end-September 2007) as compared to the 4 peer countries in the region (Czech Republic, Slovakia, Poland and Hungary), and a negligible public debt pose no great problems to Romania and suggests that external debt should remain manageable. However, the rise in the short term component (due to non-residents deposits) is very likely to induce high volatility in the FX rate during some periods.

### 2007 inflation exceeded target following RON depreciation and negative agricultural supply shock

Inflation rate stood at 6.6% y/y in 2007, being pushed up mainly by the prices of food products (+9.1% y/y) and services (+8.5% y/y). Severe drought effects started to be felt as of July and this had a higher than expected negative impact on volatile prices and on core inflation. In August RON began to depreciate leading to a rise in the tariffs of some services.

### CPI and core inflation (y/y)



Source: NBR, BCR Research

The second major adverse effect upon inflation came from the depreciation of the national currency in the context of international turmoil that affected the financial markets. This development confirmed the unsustainable nature of the rapid nominal appreciation of RON in the previous period that was not accompanied by a change in Romania's economic fundamentals.

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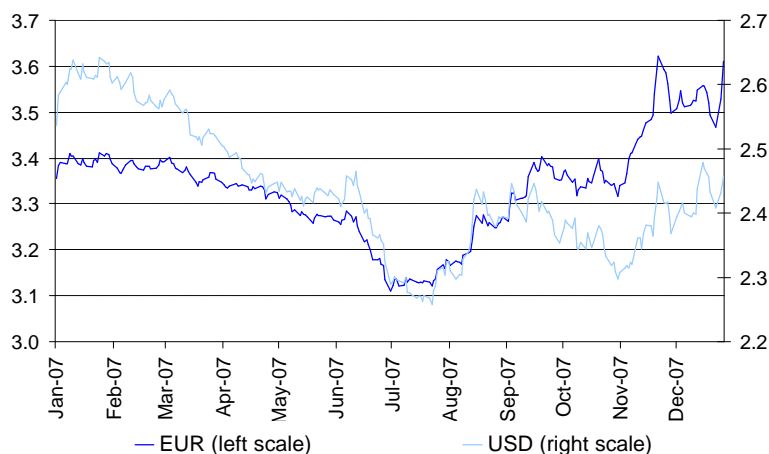
## RON depreciated on negative sentiment of short-term investors

The present RON/EUR exchange rate is more linked to economic fundamentals as compared to that from early July 2007. In fact, the strong appreciation in the first part of 2007 was virtually related to short term investors' higher appetite for placing hot money and an attractive interest rate differential.

The downward revision of Romania's outlook by S&P in late autumn generated basically by the swelling current account deficit brought the national currency to 3.68 against EUR.

Although there were clear signals even from early 2007 that the Romanian C/A deficit was likely to increase further on this year to more than 13% of GDP, short term investors seemed to pay less attention to that, and continued to maintain a high profile on the Romanian market (even the political turmoil in May didn't have any negative effects on the FX rate). The current increased sensitiveness of short term investors in the aftermath of US sub prime mortgage loans crisis made them overreact in a negative way towards the region in general and Romania in particular.

## FX rate development



Source: NBR

## Consolidated budget shifted to deficit at the end of November, following the same pattern from previous years

The increased current expenditures (+3.5 pp of GDP in one month) following a rise in pensions and salaries of the state employees and also larger capital expenditures (+0.6 pp of GDP in November) following investments in infrastructure led to a deficit of the consolidated state budget of 1.1% of GDP in the first 11 months. Before that, low monthly surpluses alternated with insignificant deficits of the budget.

The MoF considers that the 2007 budget deficit would be 2.4% of GDP from an initial estimation of 2.7% and warned that all ministries are to be closely monitored so as to avoid squandering public money. This move was in line with the recent Central Governor statement who called for a more efficient mix of policies, pointing also to the risks of a too lax fiscal policy.

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## Political overview

The current Parliament's structure is the result of the last parliamentary elections, which took place in November 2004. The presidential election was held simultaneously with the legislative election. The leader of the Democratic Party (PD), Traian Basescu, was elected president, whereas the leader of the National Liberal Party (PNL), Calin Popescu Tariceanu, was appointed prime minister.

Last year, the political situation gradually deteriorated, as a result of the conflicts between the president and the prime minister and between the PD and the PNL, which were in government from 2004 to 2007. Currently, Romania has a government with minority support in the Parliament formed by the National Liberal Party and the Democratic Union of Hungarians in Romania (UDMR).

The political crisis reached the first critical point in April 2007, when the Social Democrat Party (PSD), the former ruling party until 2004, moved to dismiss the president. All parliamentary parties, excepting the PD and the new Liberal Democratic Party (PLD), which includes former PNL members, supported this move and the parliamentary action was a success. The suspension passed and opened the way for a national referendum on impeaching the president. The referendum was held on May 19, 2007, and, as a result, Basescu regained his position as president.

In June 2007, the PD initiated a motion of censure in order to dismiss the Executive Tariceanu. However, this motion was rejected, as the PSD and the Greater Romania Party (PRM) chose not to express their votes. In September 2007, another motion of censure was initiated in order to bring the Tariceanu government down. This time, the initiators were the Social Democrats, which decided to no longer support the PNL-UDMR cabinet, as they had done so far. The motion of censure was rejected again and the Tariceanu executive remained in place.

As a result of the failure of the last no-confidence motions and with the parliamentary elections scheduled for the end of this year, there are low chances of the government being dismissed and, consequently, we cannot speak about early elections. However, the current situation does not mean greater stability. The political situation will continue to remain uncertain, as a few corruption scandals (in which some ministers from the current cabinet were involved) contribute to the confused environment. This situation prolongs the political deadlock, as the minority government depends on the support of the opposition parties to pursue its political agenda.

We expect the cabinet to struggle in getting laws passed, prolonging the political standstill in the EU newcomer. In this context, important governmental projects, like the Property Fund, are threatened with postponement until 2009.

On November 25, Romanian citizens were expected to vote in both European parliamentary elections and on changing the election law to a uninominal vote system. Only a fourth of the eligible population was present at the ballot boxes. The results were as follows: the Democrat Party – 28.8%, the Social Democrat Party – 23.1%, the Liberal Party – 13.5%, the Liberal Democrat Party – 7.8% and the Democratic Union of Hungarians in Romania – 5.5%. The referendum failed since the required quorum was not reached. The introduction of a uninominal vote is supported by both the president and by the parties, but in different variants.

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The results of the European parliamentary elections will have consequences for the domestic parties, all of which are unhappy with their scores. The election confirmed the relative equilibrium between representatives of the Democrat Party, the Social Democrat Party and the Liberal Party, which will complicate the political decision-making in 2008. Moreover, on December 3, 2007, representatives of the Democratic Party and Liberal Democratic Party announced the merger of the two parties. Consequently, a new political party was formed, the Democratic Liberal Party (PDL), which supports the presidential policy. Talks of a merger first appeared more than a year ago, but were restarted after the European election, in an attempt to build a well positioned party before this year's parliamentary elections.

## Mergers and Acquisitions

The value of M&A deals concluded last year is assessed at over EUR 4.3bn, with the takeover of a 75% stake in The Rompetrol Group (TRG) by KazMunaiGaz as the major deal. In 2006, the M&A market was valued at EUR 6bn, of which EUR 3.75bn was due to the closing of Romanian Commercial Bank's privatization with Erste Bank.

Among the most dynamic sectors in the M&A market was insurance, with four companies changing owners last year. The great interest in this sector is due to its significant growth potential, estimated at about 500% for the coming ten years. The end of the year was dominated by the acquisitions of some companies with activities in the IT and telecommunication fields.

The real estate sector was also very dynamic, with demand pressure in all market segments. The major 2007 deal was the acquisition of the Polus Center mall by Immoeast for EUR 185mn. Two other important transactions were the acquisition of the Americahouse office building by Ixis Corporate & Investment Bank for EUR 120mn and the acquisition of S-Park by Immoeast for EUR 110mn.

Regarding last year's privatizations, the value of the concluded deals was some USD 1.35bn. The main contribution came from the closing of the Electrica Muntenia Sud privatization, worth EUR 820mn. Also, in June, Al Arrab Contracting Co acquired a 62.8% stake in Electroputere Craiova, a manufacturer of electric motors, generators and transformers.

Another very important deal was the privatization of Automobile Craiova, with Ford Motor Company as the buyer. On September 12, Ford signed a contract for the acquisition of a 72.4% stake in the former state-owned factory for EUR 57mn. However, the conclusion of this transaction has been frozen, as the European Commission has initiated an investigation of the deal, due to competition concerns. With its takeover bid for the Automobile Craiova plant, Ford has committed to making direct investments worth EUR 675mn and boosting the number of employees to around 9,000 (as compared with 4,000 at present). Ford plans to reach a vertical integration of 60%, which means that more than half of the vehicle components will be produced in Romania. The setting up of a Ford car factory in Romania would be an important driver for the national economy and a major one for the southeastern countryside, which foreign investors have "avoided" so far.

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## The most important deals in Romania in 2007\*

Target company	Sector	Date	Seller	Buyer	Stake	Deal Value (EUR mn)
Centrul Medical Unirea	Healthcare	Feb-07	Individual	3TS Capital Partners	47%	>10
Ardaf Bucuresti	Insurance	Feb-07	Individual	PPF Investments	70.8%	42.6
La Fantana	Water Cooler	Mar - 07	Tender SA			
		May-07	Oresa Ventures	Innova Capital	85.0%	35.0
Fiba Software	Software	May-07	Individuals	Asseco	70.0%	5.9
Net Consulting	IT services	May-07	Individuals	Asseco	70.0%	9.8
Digital Cable System	Telecom	May-07	Individuals	AIG New Europe Fund II	100.0%	45.0
Electroputere Craiova**	Electric locomotive producer	Jun-07	Authority for State Assets Recovery (AVAS)	AI Arrab	62.8%	120
Ceramica Iasi	Construction Materials	Jun-07	Employees' Association	Advent International	65.8%	22.1
				Tiger Global Management		
Neogen	Internet	Jun-07	Individual	Wouwer Investeringer	>20%	6.0
eJobs	Internet	Jun-07	Individual	Tiger Global Management	30.0%	4.2
Romar	Healthcare	Jun-07	Individuals	RC2	33.0%	3.0
Tina R.	Clothes retailer	Jun-07	Individuals	Middle Europe Investment	49.0%	3.0
			Axis Investments Ltd			
Kandia-Excelent	Food	Jun-07	Meinl Bank AG	Cadbury Schweppes	93.3%	99.4
		Jun-07	Individual	Delaco		
Romprest Service	maintenance & security services	Jul-07	LLC	Detaco LLC 3i	20%-30%	n/av
			Romanian American Enterprise Fund			
		Jul-07	Westerham Holding BV			
Domo	Electronics and home appliances retailer		Founders	Equest Investments Balkans	75.0%	62.5
Albinuta	Retail	Jul-07	Maxima LT	Profi	n.a.	7.5
Astra Bucuresti	Insurance	Jul-07	Nova Trade	Uniq	23.0%	n/av
Loulis	Food	Jul-07	Loulis International Foods Enterprises LTI	Leipnik Lundenburger Invest Viena	60.0%	34.0
The Rompetrol Group	Oil & Gas	Aug-07	Rompetrol Holding	KazMunaiGas	75.0%	1980.0
Covalact	Diary Products	Aug-07	Employees' Association	SigmaBleyzer	70.0%	7.0
Petrocom D&V Iasi	Retail telecom	Sep-07	Individual	Vodafone Romania	100.0%	3.5
			Individual			
	Asset Management Company	Sep-07	Romanian-American Enterprise Fund (RAEF)	Aviva	99.8%	n/av
Certinvest						
Automobile Craiova**	Car producer	Sep-07	Authority for State Assets Recovery (AVA)	Ford Motor Company	72.4%	57.0
Petromservice	Oil & Gas	Sep-07	Petromservice	Petrom	100.0%	328.5
Evolution Med	Healthcare	Sep-07	Individuals	Romar	100.0%	n/av
Depomures	Chemicals	Oct-07	Azomures Tg Mures	Gaz de France International	50.0%	14.0
BT Asigurari	Insurance	Oct-07	Banca Transilvania	Groupama	90.0%	90.0
Artima Retail Investment C	Food retailer	Oct-07	Enterprise Investors	Carrefour Romania Global Finance	100.0%	55.0
Gecad Technologies	Software	Nov-07	Individual	3TS Cisco Growth Fund III	117%	2.0
DTH Television Gr.	Telecom	Nov-07	Individuals	Livermore Investments	15.0%	9.6
Asirom Bucuresti	Insurance	Nov-07	Interagro	Wiener Stadische Versicherung AG	50.2%	75.7
Elpreco Craiova	Construction Materials	Dec-07	Broadhurst	CRH	99.1%	70-75
Romsys Bucuresti	IT services	Dec-07	Individual	New Frontier Holding	100.0%	10-20
BitDefender	Software	Dec-07	Individuals	Private investors	<7%	4.8
Dial Telecom Romania	Telecom	Dec-07	n.a.	Digital Cable System	100.0%	6.0

\*Without real estate deals;

\*\*Deal includes the investment duties assumed by the buyers;

Source: IntelliNews; Financial publications

The Romanian M&A market still has significant growth potential, due to the high fragmentation of most sectors. The expectations are high, especially taking into account that, after Romania's accession to the EU, a consolidation process will take place in many markets. However, the high prices that local entrepreneurs are already claiming for their businesses have become a major impediment for major deals in the future. This issue is most often voiced by private equity funds that are looking for eligible local companies.



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While the main targets last year were companies operating in sectors such as construction, financial services, retail, IT and telecommunications, the 2008 stars are likely to be producers of construction materials, retail, media, pharma distributors and food & beverage firms.

Regarding this year's privatizations, the government plans include drug producer Antibiotice Iasi and the largest Romanian chemical producer, Oltchim Ramnicu Valcea. Also, in the coming years, major transactions are expected to take place in the power generation sector, but these will depend on the willingness to privatize such state-owned companies. Important privatizations should occur this year among thermo power producers (Turceni, Craiova and Rovinari), but political instability could again postpone a strategic decision until after the parliamentary elections.

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## Capital Market developments

### 2007 - Year of Rasdaq market

2007 was certainly the year of the Rasdaq market. As the most liquid shares listed on the regulated market of the Bucharest Stock Exchange were traded at high multiples, some investors allocated significant amounts for investments in MidCaps or even SmallCaps from the Rasdaq market. In this context, Rasdaq's average daily turnover climbed last year to EUR 5.2mn against only EUR 1mn exhibited in 2006. This was enough to induce a jump in share prices for many interesting companies which had recorded in the past a level of average daily liquidity below EUR 5,000. In the context of high interest for Rasdaq issuers, the composite index of this market exhibited in 2007 a 96.5% y/y increase, and the market capitalization more than doubled to EUR 7bn.

#### BSE Quickfacts

##### MkCap (Dec 31, 2007)

RON mn	85,962
EUR mn	24,601

##### Turnover 2007

RON mn	13,803
EUR mn	4,152

##### Avg daily turnover 2007

RON mn	55.2
EUR mn	16.6

Source: BSE, BCR Research

#### BSE - Rasdaq market Quickfacts

##### MkCap (Dec 31, 2007)

RON mn	24,410
EUR mn	6,986

##### Turnover 2007

RON mn	4,254
EUR mn	1,288

##### Avg daily turnover 2007

RON mn	17.0
EUR mn	5.2

Source: BSE, BCR Research

On the regulated market of the BSE, we have seen an increasing correlation with foreign markets - and especially CEE markets. During the first half of 2007, the stock exchange posted growing parameters, with acceleration in terms of shares price increases and daily turnover in May-July. Some decreases occurred in the first half of August, but by the end of the month, indices recovered the "losses". September posted the year's lowest daily turnover and higher volatility, due to reduced interest of foreign investors, which give the BSE its stability. Early October brought hope that the BSE would rise, but not for long, as, starting October 10, the unfavorable conditions from the international financial markets quickly impressed a downward trend on the Romanian capital market. Decreases were emphasized by negative news, especially the overshooting of target inflation for 2007 and the change (from stable to negative) of L/T foreign debts by Standard & Poor's. In this context, investors became pessimistic, prompting high volatility on the BSE, with price slumps and day-to-day (even intra-day) jumps.

### Listed companies on BSE

(December 31, 2007)

#### Regulated market

BSE First Tier	20
BSE Second Tier	38
BSE Third Tier	1
BSE International Tier	0
<b>Total BSE - Regulated market</b>	<b>59</b>

#### BSE - Rasdaq market

Tier I-R	9
Tier II-R	11
Tier III-R	1,999
<b>Total BSE - Regulated market</b>	<b>2,019</b>

#### Unlisted market

Total	36
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Source: Bucharest Stock Exchange, BCR Research

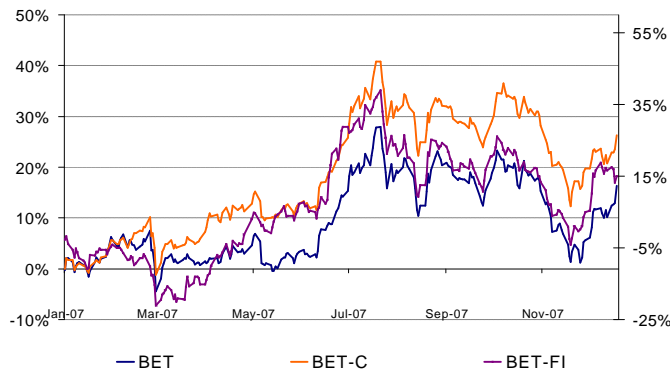
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In spite of the autumn correction, the closing prices of the year were at levels comparable with the end of September. However, the BSE managed to end the year with satisfactory returns, with the BET and BET-FI exhibiting y/y increases of 22.1% and 24.9% y/y, respectively, whereas the BET-C recorded a 32.6% advance.

## Index performances

Year	BET	BET-C	BET-FI	RASDAQ-C
2000	21.5%	8.1%	n.a.	-20.6%
2001	38.6%	-4.8%	118.4%	20.3%
2002	119.8%	127.0%	122.7%	26.9%
2003	30.9%	26.0%	33.2%	21.7%
2004	101.0%	103.5%	115.7%	39.0%
2005	50.9%	38.2%	175.2%	-1.1%
2006	22.2%	28.5%	32.4%	33.9%
2007	22.1%	32.6%	24.9%	96.5%

Source: Bucharest Stock Exchange, BCR Research

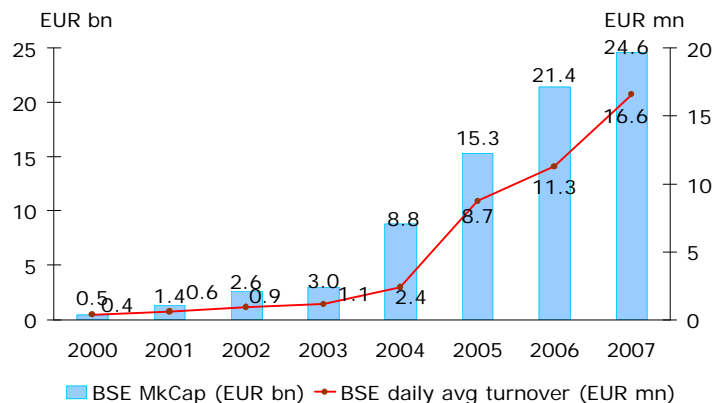


## BET index composition (January 2008)

Company	Ticker	Weight
Banca Transilvania	TLV	19.83%
BRD-GSG	BRD	19.66%
Petrom	SNP	19.52%
Rompetrol Rafinare	RRC	11.11%
Impact	IMP	6.68%
Transelectrica	TEL	6.61%
Biofarm	BIO	5.57%
SSIF Broker	BRK	5.27%
Antibiotice	ATB	3.99%
Turbomecanica	TBM	1.76%

Source: Bucharest Stock Exchange, BCR Research

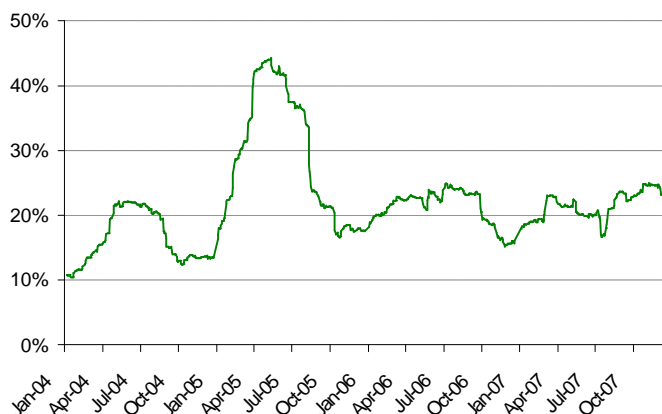
## BSE - regulated market



## Market volatility

Last year, the volatility of share prices did not exceed the level recorded in 2006, especially in the first half of the year, when the standard deviation posted values in the range of 18-23%. Starting mid-July, the BSE recorded increasing volatility, with a bottom of 16.7% and a top of 24.9%.

## Rolling Annualized Standard Deviation of BET Daily Returns (January 1, 2004-December 31, 2007)



Source: BCR Research

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## BSE launched its first derivative products in September

The Romanian derivatives market is underdeveloped, with a small variety of products and support assets.

Until September 2007, transactions with derivatives could be realized only on the Sibiu-based Monetary, Financial and Commodity Stock Exchange. In early September, the BSE launched its first derivative products, futures on the BET index, followed by derivatives on the BET FI. Interest in the new products has been very low (only 64 contracts worth RON 0.5mn last year), with investors preferring to trade on the BMFMS, where there is reasonable liquidity. We would mention that the BSE has changed the computation methodology for the indices to allow them to be solid underlyings for derivatives and structured products. Thus, the BET and BET FI are free float capitalization-weighted indices, while the BET C is a capitalization-weighted index.

As regards the BMFMS, the value of transactions recorded last year was EUR 3.3bn, up 20% y/y. The number of contracts decreased by 18% to 3.5mn, out of which almost 90% were contracts with derivatives on SIF Moldova and SIF Oltenia shares.

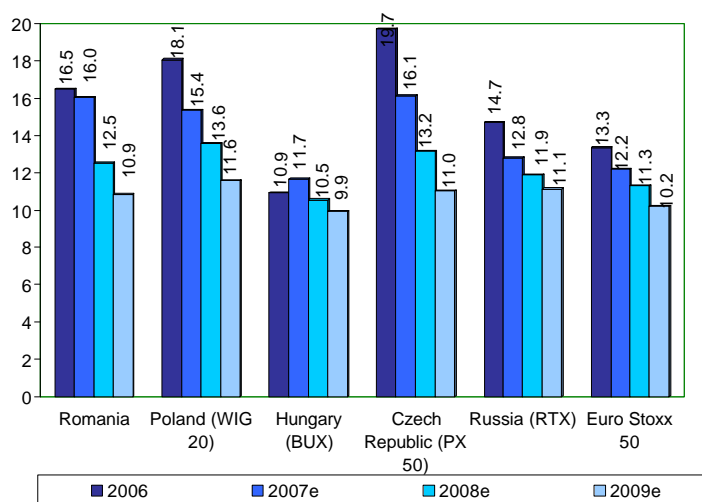
The competition between the two stock exchanges is to get stronger from now on, especially as the Warsaw Stock Exchange, Morgan Stanley and an American investment fund have joined BMFMS's shareholder structure. BMFMS's objective is to attract the Warsaw Stock Exchange as strategic operator, in order to benefit from its expertise and financial resources for the development of the derivative market, as well as the launch of a new equity spot market.

## Romanian market, from demanding to challenging levels in half-year

After the significant increase of the share prices recorded in the last few years, the BSE became far from cheap during the first half of last year. A lot of positive visions were priced in, and the main companies were traded above their regional peers.

However, the situation changed significantly after the downward trend continued in the first eight trading sessions of 2008, when the BET and BET C indices adjusted their values by about 11.5%, while the BET FI decreased by almost 16%. At a P/E 2008 of 12.5 and P/E 2009 of 10.9 (based on JCF consensus data), the Romanian market is currently valued at comparable levels with the Polish and Czech markets. This would mean that the corporate growth outlook is seen as at least comparable with other CEE markets.

## Regional valuation comparison (P/E January 10, 2008)



Source: JCF consensus data

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However, the valuation scenario is highly sensitive to the interest of foreign funds in the BSE. On one hand, this is influenced by the prospects of the Romanian economy (which is not lacking in risks) in the minds of investors. On the other hand, decisions among institutional investors are influenced by the market sentiment for emerging countries, which are to a great extent an unpredictable variable, just as in the case of the sub-prime crisis.

However, one positive aspect is that the reduced depth of the BSE and the improvement in the coming years of the domestic investor base (both in terms of individuals and institutional investors) could sustain share demand, with a positive influence on price development.

## **BSE structure**

The key deficient of the Romanian capital market is the lack of important companies listed on the BSE (especially from sectors such as utilities, telecoms and agriculture). However, by the end of 2009, the Romanian capital market will have a very different structure, as a result of two key factors - the floating of new major companies on the BSE and the discovery of new issuers listed on the Rasdaq market, which became significantly visible in the last two years (the most successful examples come from the construction and oil & gas services sectors). As regards the new listings, the state-owned utilities, as well as other companies from the Property Fund's portfolio will significantly change the BSE's structure.

## **BSE Market Capitalization (without Rasdaq market) Sector Classification; December 31, 2007**

<b>Sectors</b>	<b>EUR mn</b>	<b>Weight</b>
Oil&gas (including specified services)	9,030.4	36.4%
Banks	7,400.9	29.8%
Financial Investment Companies	3,076.9	12.4%
Others	2,665.7	10.7%
Utilities	839.1	3.4%
Pharmaceuticals	584.1	2.4%
Real estate	286.2	1.2%
Chemicals	259.3	1.0%
Tourism	236.6	1.0%
Other financial services	166.2	0.7%
Consumer goods	147.6	0.6%
Retailer	76.9	0.3%
Fertilizers	54.8	0.2%

*Source: BSE, BCR Research*

Last year, about 36% of the BSE's market capitalization (without the Rasdaq) was generated by the oil & gas sector (including services), followed by banks and financial investment companies (SIFs). Sectors such as utilities and pharmaceuticals contributed with proportions less than 4% of the total BSE market capitalization.

## **Rasdaq market reorganization not finished yet**

The reorganization of the Rasdaq market is still far from complete. The BSE representatives' intention is to create a new tier on the regulated market, called Rasdaq Start, which will consist of about 400 issuers picked from the Rasdaq market based on two criteria, market capitalization and turnover. Their transfer to the regulated market will be free of charge, but the companies have to assume the transparency standards of the regulated market. The other companies from the Rasdaq market and the eligible

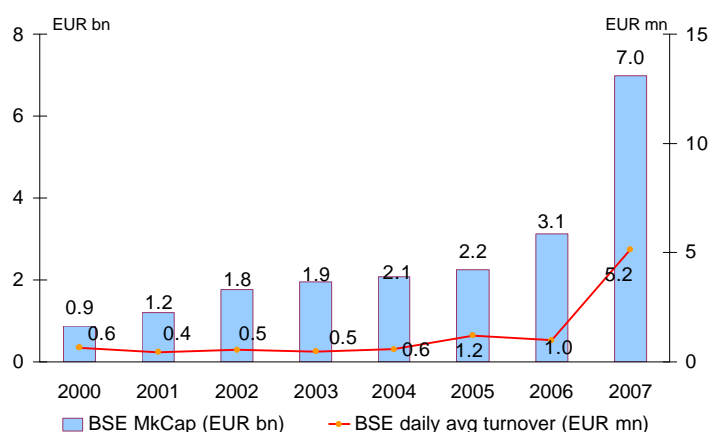
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companies that will not assume a transparency standard will be traded on the Alternative Trading System (ATS). At the end of 2007, there were 2,019 issuers listed on the Rasdaq market.

## Rasdaq to improve representativeness of equity market

In the last year, many unknown Rasdaq-listed companies (like real estate developers and construction material producers) caused investor interest, in spite of reduced information about these issuers. The main names on the list are Prebet Aiud, Concefa Sibiu, Macofil Targu Jiu, Cemacon Zalau and Ceramica Iasi. A similar scenario was seen in the case of companies from oil & gas services, i.e. Armax Gaz Medias, Condmag Brasov, Dafora Medias and Prospectiuni Bucuresti. In contrast with the construction material sector, these companies were visible a longer time ago. In this respect, it is worth mentioning that Condmag's shares have already been transferred to the regulated market this year, whereas the other three have already taken the necessary steps in order to list on the BSE.

## BSE - Rasdaq market



Source: Bucharest Stock Exchange, BCR Research

There are other successful stories in terms of visibility as a measure of increasing investor interest. Such a list would include important companies like Albalact Alba Iulia (a dairy producer), Iproeb Bistrita (a manufacturer of insulated wire and cable) and Imotrust Arad (a real estate developer).

As a consequence, significant increases of capitalization and turnover were seen for a few new discovered companies that became eligible for the SmallCap and MidCaps categories last year. The process is pending for many companies, but an investment decision should take into account the high volatility of their shares prices, low management transparency and lack of information.

## Top capitalization and top liquidity

After the jump recorded on the Rasdaq market in the last year, the top market capitalization is very different compared with 1-2 years ago. The same observation could be made in the case of daily liquidity, where firms that were almost invisible for investors in the past became visible. In this context, we try to provide useful guidance in terms of the capitalization and liquidity of the main listed companies in accordance with thresholds established based on the size of the local equity market.

At the end of 2007, 16 companies had a market capitalization of over EUR 200mn, out of which four issuers had capitalization of over EUR 1bn. It is worth emphasizing that the first two companies account for about 43% of the total market value of companies listed on the BSE (including the Rasdaq market). These companies are Petrom and



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BRD, with weights of 25.5% and 17.7%, respectively. Another 32 companies had capitalizations between EUR 75mn and EUR 200mn, thus representing the MidCap category of the Romanian market. In the case of SmallCaps, with capitalizations between EUR 20mn and EUR 75mn, we identified 70 companies. The first 25 companies listed hold a weight of about 77% in the BSE and BSE-Rasdaq market capitalization.

## Market capitalization (Dec 31, 2007) (BSE and Rasdaq market)

	No of listed companies
More or equal to EUR 200mn	16
Between EUR 75mn and EUR 200mn	32
Between EUR 20mn and EUR 75mn	70

Source: BCR Research

As regards turnover, only seven companies had average daily turnover over EUR 1mn, these companies being the five financial investment companies (SIFs) and the two banks (Banca Transilvania and BRD). For 12 companies, the daily liquidity was between EUR 0.2mn and EUR 1mn.

Although the five SIFs prevail in terms of liquidity, together having a weight of 38.6% in the total BSE and Rasdaq transaction value, their weight in the total BSE capitalization (including Rasdaq) accounts for just 9.7%.

## Top 25 by market capitalization (December 31, 2007)

Company	Ticker	Sector	Market	Free Float	Price Performance 2007	2007 average daily turnover (EUR)	% MkCap	MkCap (EUR mn)
Petrom	SNP	Oil & Gas	BSE - Tier 1	6.2%	-12.0%	838,237	25.5%	8,056.6
BRD-GSG	BRD	Banks	BSE - Tier 1	11.4%	51.4%	1,308,277	17.7%	5,584.3
Alro	ALR	Materials - Aluminium	BSE - Tier 1	5.9%	87.4%	95,347	5.6%	1,756.7
Banca Transilvania	TLV	Banks	BSE - Tier 1	70.5%	38.4%	1,275,020	5.0%	1,573.8
Transelectrica	TEL	Utilities	BSE - Tier 1	10.0%	18.4%	391,263	2.7%	839.1
SIF Transilvania	SIF3	Investment Companies	BSE - Tier 1	84.1%	55.7%	1,306,214	2.3%	725.1
SIF Oltenia	SIF5	Investment Companies	BSE - Tier 1	81.2%	22.9%	2,433,087	2.3%	720.6
Romp petrol Rafinare	RRC	Oil & Gas	BSE - Tier 2	25.6%	25.7%	646,502	2.1%	664.2
SIF Banat Crisana	SIF1	Investment Companies	BSE - Tier 1	75.4%	8.9%	1,420,229	1.8%	557.6
SIF Muntenia	SIF4	Investment Companies	BSE - Tier 1	54.6%	31.0%	1,078,512	1.8%	556.6
SIF Moldova	SIF2	Investment Companies	BSE - Tier 1	89.6%	6.4%	2,177,694	1.6%	517.0
Impact Developer & Contractor	MP	Real estate developer	BSE - Tier 1	60.8%	70.9%	296,728	0.9%	286.2
Antibiotice	ATB	Pharmaceuticals	BSE - Tier 1	36.9%	19.2%	116,392	0.8%	266.9
Banca Comerciala Carpatica	BCC	Banks	BSE - Tier 1	30.0%	10.5%	59,584	0.8%	242.8
Prospectiuni	PRSN	Oil & Gas services	BSE - Rasdaq	16.5%	686.0%	242,725	0.8%	242.6
Connord	COSC	Real estate developer	BSE - Rasdaq	14.1%	726.3%	90,490	0.7%	223.3
Biofarm	BIO	Pharmaceuticals	BSE - Tier 1	63.9%	100.3%	214,506	0.6%	177.6
T.M.K. - Artrom	ART	Steel pipeline producer	BSE - Tier 2	7.3%	196.3%	45,034	0.5%	168.5
Asigurare - Reasigurare Astra	ATRA	Insurance	BSE - Rasdaq	0.3%	100.0%	2,873	0.5%	165.1
SSIF Broker	BRK	Financial services	BSE - Tier 1	85.1%	200.9%	412,214	0.5%	159.9
Oil Terminal	OIL	Oil & Gas services	BSE - Tier 1	22.8%	246.7%	43,876	0.5%	158.3
Mechel	COS	Materials - Steel	BSE - Tier 2	4.5%	25.2%	3,148	0.4%	141.9
Dafora	DAFR	Oil & Gas services	BSE - Rasdaq	33.7%	113.1%	202,351	0.4%	140.7
Zentiva	SCD	Pharmaceuticals	BSE - Tier 2	25.1%	-28.7%	186,437	0.4%	139.6
TMK-Resita	SROY	Materials - Steel & Iron	BSE - Rasdaq	0.5%	268.3%	318	0.4%	139.5

Note 1: Statistics include both BSE and BSE-Rasdaq market;

Note 2: In performing the price evolution analysis, the adjusted prices after the last corporate action were taken into consideration;

Note 3: In computing the market capitalization, the share capital increases in progress were taken into consideration;

Note 4: Free float is computed both on companies' releases and on media sources;

Source: Bucharest Stock Exchange; BCR Research computes

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## Top 25 by turnover (January 01, 2007 - December 31, 2007)

Company	BSE Ticker	Sector	Market	Free Float	Price Performance (YTD)	MkCap (EUR mn)	2007 Avg daily liquidity (EUR)
SIF Oltenia	SIF5	Investment Companies	BSE - Tier1	81.2%	22.9%	720.6	2,433,087
SIF Moldova	SIF2	Investment Companies	BSE - Tier1	89.6%	6.4%	517.0	2,177,694
SIF Banat Crisana	SIF1	Investment Companies	BSE - Tier1	75.4%	8.9%	557.6	1,420,229
BRD-GSG	BRD	Banks	BSE - Tier1	11.4%	51.4%	5,584.3	1,308,277
SIF Transilvania	SIF3	Investment Companies	BSE - Tier1	84.1%	55.7%	725.1	1,306,214
Banca Transilvania	TLV	Banks	BSE - Tier1	70.5%	38.4%	1,573.8	1,275,020
SIF Muntenia	SIF4	Investment Companies	BSE - Tier1	54.6%	31.0%	556.6	1,078,512
Petrom	SNP	Oil & Gas	BSE - Tier1	6.2%	-12.0%	8,056.6	838,237
Rompetrol Rafinare	RRC	Oil & Gas	BSE - Tier2	25.6%	25.7%	664.2	646,502
SSIF Broker	BRK	Financial services	BSE - Tier1	85.1%	200.9%	159.9	412,214
Transelectrica	TEL	Utilities	BSE - Tier1	10.0%	18.4%	839.1	391,263
Armax Gaz Medias	ARAX	Oil & Gas services	BSE - Rasdaq	57.3%	230.4%	61.4	303,227
Impact	IMP	Real estate developer	BSE - Tier1	60.8%	70.9%	286.2	296,728
Albalact Alba Iulia	ALBZ	F&B - milk producer	BSE - Rasdaq	42.4%	292.0%	134.5	253,208
Flamingo International	FLA	IT&C and electronics retailer	BSE - Tier2	35.4%	-2.8%	76.9	250,248
Prospectiuni Bucuresti	PRSN	Oil & Gas services	BSE - Rasdaq	16.5%	686.0%	242.6	242,725
Imotrust Arad	ARCV	Real estate developer	BSE - Rasdaq	28.0%	1609.6%	103.9	237,214
Biofarm	BIO	Pharmaceuticals	BSE - Tier1	63.9%	100.3%	177.6	214,506
Dafora Medias	DAFR	Oil & Gas services	BSE - Rasdaq	33.7%	113.1%	140.7	202,351
Iproeb Bistrita	IPRU	Insulated wire and cable	BSE - Rasdaq	69.3%	395.8%	95.1	187,470
Zentiva (former Sicomed)	SCD	Pharmaceuticals	BSE - Tier2	25.1%	-28.7%	139.6	186,437
Condmag	COMI	Oil & Gas services	BSE - Tier2	32.4%	52.6%	71.7	154,215
Alumil Rom Industry	ALU	Aluminium profiles	BSE - Tier2	20.1%	-22.2%	62.6	153,170
Rompetrol Well Services	PTR	Oil & Gas services	BSE - Tier2	42.2%	132.9%	67.7	135,517
Oltchim	OLT	Chemicals	BSE - Tier2	27.9%	151.6%	111.1	128,258

Note 1: Statistics include both BSE and BSE-Rasdaq market;

Note 2: In performing the price evolution analysis, the adjusted prices after the last corporate action were taken into consideration;

Note 3: In computing the market capitalization, the share capital increases in progress were taken into consideration;

Note 4: Free float is computed both on companies' releases and on media sources;

Note 5: The companies which recorded significant deals in 2007 were not taken into consideration

Source: Bucharest Stock Exchange; BCR Research computes

### Low level of BSE free float capitalization

One of the main characteristics of the Romanian market is the low level of free float capitalization of the main companies listed (Petrom has a weight in capitalization of 25.5%, but its free float is only 6.2%).

The most visible 16 companies selected according to our criteria (liquidity, sector outlook, market share, market interest, etc.) represented about 66% of total BSE capitalization (including the Rasdaq market) at the end of 2007, while their free float capitalization (EUR 5.4bn) represented 26% of those companies' capitalization (EUR 20.8bn). This shows that the Romanian market has low depth, even related to the capitalization of the main listed companies. In terms of daily turnover, those 16 companies represented roughly 65% of the total liquidity of the market.

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## Market capitalization and turnover for targeted research universe

Company	BVB Ticker	Sector	Free float	2007 Turnover (EUR mn)	2007 Average daily turnover (EUR mn)	MkCap 2007 (EUR mn)	Free Float MkCap (EUR mn)
SIF Banat Crisana	SIF1	Investment Companies	75.4%	352.2	1.4	557.6	420.4
SIF Moldova	SIF2	Investment Companies	89.6%	540.1	2.2	517.0	463.2
SIF Transilvania	SIF3	Investment Companies	84.1%	323.9	1.3	725.1	609.8
SIF Muntenia	SIF4	Investment Companies	54.6%	266.4	1.1	556.6	303.9
SIF Oltenia	SIF5	Investment Companies	81.2%	603.4	2.4	720.6	585.1
BRD-GSG	BRD	Banks	11.4%	323.1	1.3	5,584.3	639.3
Banca Transilvania	TLV	Banks	70.5%	306.0	1.3	1,573.8	1,109.1
Petrom	SNP	Oil & Gas	6.2%	207.0	0.8	8,056.6	500.6
Rompetrol Rafinare	RRC	Oil & Gas	25.6%	158.4	0.6	664.2	169.7
Antibiotice	ATB	Pharmaceuticals	36.9%	28.7	0.1	266.9	98.4
Biofarm	BIO	Pharmaceuticals	63.9%	51.1	0.2	177.6	113.6
Transelectrica	TEL	Utilities	10.0%	95.1	0.4	839.1	83.9
Flamingo International	FLA	IT&C and electronics retailer	35.4%	58.3	0.3	76.9	27.2
Impact Developer & Contractor	IMP	Real estate developer	60.8%	70.9	0.3	286.2	173.9
Turbomecanica	TBM	Engineering	50.5%	21.7	0.1	69.8	35.3
Albalact Alba Iulia	ALBZ	F&B - milk producer	42.4%	57.2	0.3	134.5	57.0
<b>Total Targeted Research Universe</b>				<b>3,464</b>	<b>14.1</b>	<b>20,807</b>	<b>5,391</b>
<b>Total BSE and BSE-Rasdaq market</b>				<b>5,440</b>	<b>21.8</b>	<b>31,586</b>	<b>n/a</b>
<b>Weight Targeted Research Universe</b>				<b>63.7%</b>	<b>64.8%</b>	<b>65.9%</b>	<b>n/a</b>

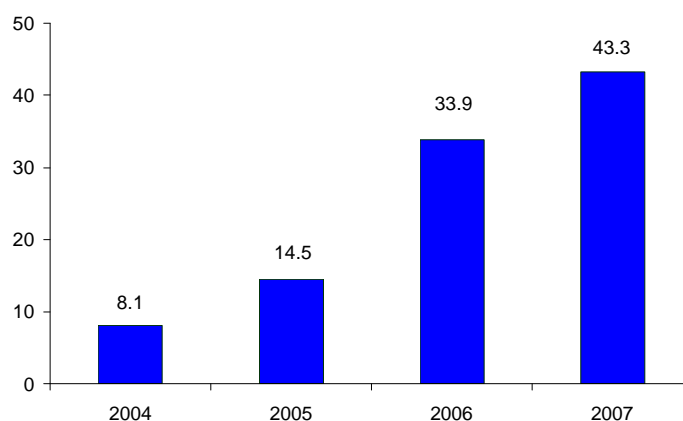
Source: Bucharest Stock Exchange; BCR Research computes

### Share capital increases worth over EUR 250mn in 2007

In the context of the lack of IPOs, more and more domestic companies have decided to finance themselves via shareholders who exercised their preemption rights during share capital increases made at issue prices significantly below market prices. Usually, the shares unsubscribed by shareholders are cancelled, so that they do not arrive on the market through public offerings. This pattern of funding was introduced by companies like Banca Transilvania and Impact and has been very successful on the Romanian market, with the amount raised from investors increasing significantly last year.

For instance, in 2007 Banca Transilvania collected from shareholders about EUR 43mn, as compared with only EUR 8mn in 2004. Although the result of the share capital increase initiated by Impact Developer & Contractor was below the company's expectations, it remains the most important share capital increase launched so far on the Romanian capital market, with the real estate developer raising EUR 46mn.

### Amounts raised by Banca Transilvania via capital increases (2004-2007, EUR mn)



Source: Company data, BCR Research

# Country Report

## Top 10 share capital increases through cash contributions in 2007

Company	Ticker	Sector	Cash contribution (RON mn)	Cash contribution (EUR mn)	Period of share capital increase
Impact Developer & Contractor	IMP	Real estate developer	156.0	46.1	Aug 27, 07 - Sep 25, 07
Banca Transilvania	TLV	Banks	135.6	43.3	May 29, 07 - Jun 29, 07
Dafora	DAFR	Oil & gas services	88.1	26.4	Mar 13, 07 - Apr 13, 07
Ceramica	CERE	Construction materials	46.3	12.8	Oct 23, 07 - Nov 23, 07
Biofarm	BIO	Pharmaceuticals	38.6	11.6	Oct 05, 07 - Nov 03, 07
Armax Gaz	ARAX	Oil & gas services	37.9	12.0	Jul 10, 07 - Aug 08, 07
Albalact	ALBZ	F&B - milk producer	37.2	11.2	Oct 01, 07 - Oct 31, 07
Banca Comerciala Carpatica	BCC	Banks	35.8	10.6	Dec 04, 06 - Jan 15, 07
Altur	ALT	Auto components producer	32.4	9.9	Jul 19, 07 - Aug 29, 07
Aker Braila	SNBB	Building and repairing of ship	31.6	9.4	Sep 19, 07 - Oct 19, 07

Source: Companx data, BCR Research

### IPO market

Initial public offerings continue to keep investors waiting. Last year, the national gas transporter, Transgaz, launched an IPO worth EUR 64mn, which was oversubscribed 28 times. Also, in December last year, Casa de Bucovina Suceava (with SIF Muntenia as the majority shareholder) launched an initial public offering worth about EUR 2.5mn.

### Major IPOs expected starting 2009

The huge success of the Transgaz IPO, state representatives announced that, by the end of 2008, might start the floating procedures of state-owned companies Nuclearelectrica (the operator of the nuclear power plant), Hidroelectrica (the operator of the Romanian hydro power system) and Romgaz Medias (a gas producer).. Stakes of 10% in each company have been earmarked by state representatives for the first stage of listing procedures.

### Potential IPOs to be launched by state-owned companies (2008-2009)

Company	Sector
Property Fund	Closed End Fund
Hidroelectrica	Utility
Nuclearelectrica	Utility
Romgaz	Utility
Tarom	Romanian Air transporter
CN Aeroporturi Bucuresti	Airport operator
Romtelecom	Telecommunications

Source: BCR Research

However, we believe that an acceleration of state-owned company listings will be seen starting in 2009, after the new government is appointed, after the next parliamentary elections scheduled for the end of 2008.

According to an emergency ordinance approved in July 2007 in order to complete the legal environment to compensate people who lost properties during the communist regime, all state-owned companies in which the Property Fund has minority stakes have to be floated on the BSE. According to this rule, the main companies that should come on the capital market are Nuclearelectrica, Hidroelectrica, Romgaz and CN Aeroporturi Bucuresti (an airport operator). Two other potential major IPOs could be represented by Tarom (the national air transporter) and Romtelecom (the former national fixed telecommunication operator). But, it is still uncertain if Romtelecom will launch an IPO in 2008 or 2009.

# Country Report

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Nevertheless, the most important IPO should be represented by the Property Fund, for which the Ministry of the Economy and Finance has to launch a secondary public offering for a stake to be established by the government. Our view is that an offer for a 10% holding would be worth a minimum of EUR 600mn. The floating of the Property Fund would have a huge impact on the investibility of the Romanian capital market, taking into account that its free float market capitalization is less than EUR 10bn.

## **Private companies to be pushed to go public**

The attractiveness of the Romanian market could increase as a result of private company IPOs. There is an increasing number of small and medium sized companies that have expressed their interest in going public, but nothing has materialized yet. Starting this year, the listing of private companies will be encouraged by two main factors. On one side, the compulsory pension funds will become operational; on the other side, in 2008, the Property Fund should begin to invest on the capital market. After the National Securities Commission (CNVM) approves the fund's investment policy, the Property Fund will be the major institutional investor active on the Romanian capital market, with its NAV set to be a few times greater than the NAV of all other pension funds in the coming 5-7 years.

Among the companies that could be listed in the coming two years, according to their representatives' statements, we would mention Altex and Domo (respectively, the first and the second household appliance and electronics retailers), RTC (a holding involved in stationary, distribution, IT&C and telecom), Romcolor 2000 (a leader in the master-batches sector), CG&GC (one of the most important providers of IT solutions), Softwin (an IT security solution producer), Mobexpert Group (a leader in the furniture market), Comcm (a real estate developer), Teraplast Bistrita and Adeplast Oradea (construction material producers) Aro Palace (tourism sector), Transylvania Leasing (leasing) and Contor Grup (water meters).

## **Capital market outlook**

Our forecasts regarding the dynamic of BSE turnover are significantly sensitive to the Property Fund's floating, an event estimated by us to take place in the second half of 2009. We considered a 2008 daily average value of transactions with Property Fund shares of EUR 8mn - pessimistic, given the conditions in which this closed-end fund will be fully operational. The fund will have a market value approximately twice as big as all of the five SIFs, which recorded 2007 average liquidity of EUR 8.4mn.

In addition, there are some important events that could improve the liquidity on the BSE. First of all is the 8% stake in Petrom, which has to be distributed to the entitled current and former employees. Also, the free float of Transelectrica will increase by 3.5% starting in March 2008. The new shares issued will be transferred to the owners of properties nationalized during the communist regime who have chosen this type of reimbursement. The same situation will occur with Transgaz, one year after its floatation on the BSE.

Even if the Romanian authorities announced major IPOs, we believe that these companies will not launch public offerings earlier than in 2009. In these circumstances, we estimated a positive influence of EUR 4mn per session on the stock exchange's liquidity generated by new issuers within 2010.

Our conservative assumptions regarding forecasting the total value of trades on the BSE (including the Rasdaq market) include an increase of turnover by 30% y/y in 2008, 25% y/y in 2009 and 20% y/y in 2010, without the influence of the few positive events mentioned above. In other words, we considered the same shares existing on the market as of December 2007, with no listings of new companies or increases of the free float of the companies already listed. This evolution would be a result of the general increase of the share prices and higher interest among investors.

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Taking into account all of these developments, it is expected that the capitalization will exceed EUR 75bn in December 2010, while the daily turnover could surpass EUR 60mn. Compared with the new 2010 targets from the BSE board (announced last autumn), which consist of a capitalization of EUR 100bn and daily liquidity of EUR 100mn, our forecast seems pessimistic.

The BSE targets can only be achieved with the listing of the Property Fund and other state-owned utility companies, as well as the floating of a few important foreign companies.

## BSE equity annual turnover (2008-2010) (EUR mn)

	2006	2007	2008e	2009e	2010e
The increase of annual BSE turnover due to favorable events* (1)	-	-	856.4	2,827.8	5,193.9
The increase of BSE liquidity without taking into account favorable events (%)	-	-	30%	25%	20%
The annual BSE turnover without the influence of favorable events (2)	3,042.8	5,440.1	7,072.2	8,840.2	10,608.3
<b>The BSE and Rasdaq turnover (1)+(2)</b>	<b>3,042.8</b>	<b>5,440.1</b>	<b>7,928.6</b>	<b>11,668.1</b>	<b>15,802.1</b>
<b>Average daily liquidity</b>	<b>12.3</b>	<b>21.8</b>	<b>32.0</b>	<b>47.0</b>	<b>63.7</b>
<b>The increase of BSE turnover (inclusively Rasdaq market) (%)</b>	<b>-</b>	<b>79%</b>	<b>46%</b>	<b>47%</b>	<b>35%</b>

*\*) Favorable events: the increasing of free float for Petrom by 8% (starting H2 2008), the increasing of free float of Transelectrica by 3.5% starting March 2008, the floating of Transgaz, the floating of Property Fund (starting H2 2009),*

## Dynamic of local and foreign investments Investment funds

Foreign investor activity on the Romanian capital market resulted last year in net purchases worth EUR 226mn, up 33% y/y. Their weights in total purchases and total sales were about 40% and 35%, respectively.

### Local and foreign investors (2007)

		Purchases		Sales	
		EUR mn	%	EUR mn	%
Residents	Natural persons	1,411	34%	1,745	42%
	Legal persons	1,060	26%	953	23%
<b>TOTAL</b>		<b>2,471</b>		<b>2,698</b>	
Non Residents	Natural persons	121	3%	113	3%
	Legal persons	1,539	37%	1,321	32%
<b>TOTAL</b>		<b>1,660</b>		<b>1,434</b>	
<b>TOTAL</b>		<b>4,132</b>		<b>4,132</b>	

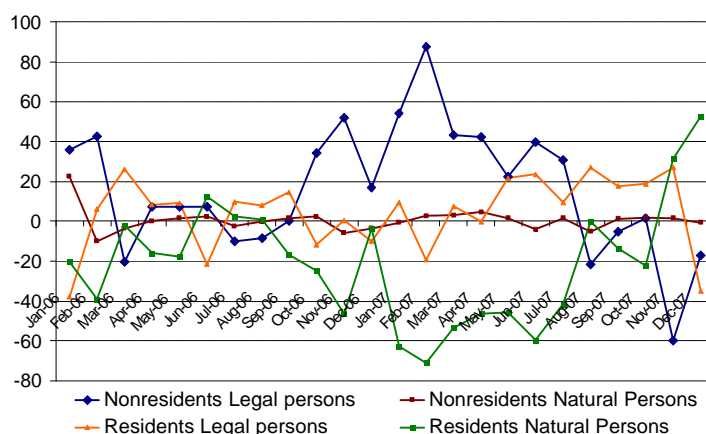
Source: Bucharest Stock Exchange

In spite of the fact that domestic investors have a majority share in BSE transactions, foreign investors induce share price trends. Thus, in August and November, when the BSE indices recorded slumps, non-resident activity resulted in net sales of EUR 26.7mn and EUR 58.2mn in the respective months. Local retail investors are, to a large extent, short-term investors, while non-residents mainly invest for the medium to long term.



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## Net purchases by type of investors (2007, EURmn)



Source: Bucharest Stock Exchange

While foreign investors intensified their acquisitions on the local market last year, the months exhibiting net purchases involved three quarters of the year. In the meantime, sales made by domestic natural persons significantly exceeded their purchases.

### Local investors active on BSE

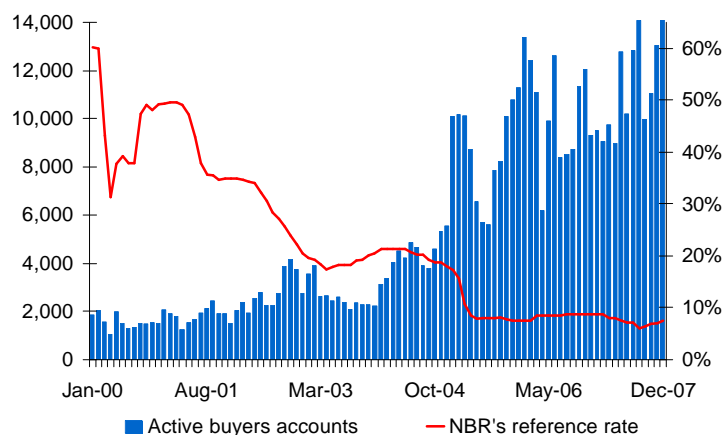
#### Retail investors

If in the first four months of 2007, the number of buyer accounts was below 10,000; starting in May, this threshold was significantly surpassed. December saw 21,696 buyer accounts, due to the registration of investors for the Transgaz IPO.

One of the objectives of the BSE board is to reach 300,000 active accounts by 2010, as compared with the current depth of the retail market of at most 50,000 active accounts. We believe the BSE's target could be achieved, assuming that important state-owned companies are floated. These potential issuers should heighten the appetite for equity investments and increase the depth of the market, making the absorption of new capital inflows possible.

Nevertheless, despite the significant increase of living standards, the population's consumption needs are still at high parameters and the amounts directed into listed shares and mutual funds do not bear relation to the amounts held in bank deposits.

### Development of active accounts



Source: Bucharest Stock Exchange, BCR Research

# Country Report

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## **Domestic funds**

### **Mutual funds**

Domestic mutual funds' net assets reached RON 954mn (EUR 270mn) as of December 2007. Despite the significant growth recorded last year, in terms of net assets and the number of funds, the industry is still significantly underdeveloped. The growth of net assets was mainly the result of the entrance to this market of new asset management companies affiliated with important banks and the launch of new funds by the existing players. At the end of the year, there were 41 mutual funds, as compared with 32 in 2006, 23 in 2005 and 19 in 2004. The value of shares held by mutual funds as of December 2007 was EUR 123mn, representing some 45% of mutual fund assets. Consequently, it is obvious that the local mutual funds do not have a significant impact on the share prices of the main issuers on the BSE.

In 2007, the Romanian mutual fund industry had a weight of 0.24% of GDP. With increasing wealth levels and pension reform, this could comfortably rise to some 3% over the coming years. In this scenario, within three years, the mutual funds could begin to make a relevant contribution to the share demand on the BSE.

### **Pension funds**

Romania is the last country from CEE to launch reform of the pension system, which consists of implementing compulsory pension funds (pillar II) and optional pension funds (pillar III).

Between September 17, 2007 and January 17, 2008 the employees below 35 years old and those between 35 and 45 years old willing to contribute to a compulsory pension fund have chose a mandatory pension fund to contribute to. There were recorded over 3.6mn subscriptions to the compulsory funds, above the official estimates of about 3.2mn.

The quantum of the contribution to compulsory pension funds for an employee is 2% of the gross wage in 2008, with a 0.5pps increase p.a. in the next eight years, to reach 6% in 2016.

As for pillar III, the first contributions were collected starting in June 2007. Any employee is able to become a member of such funds. Contributions will represent a maximum of 15% of gross wages, fiscally deductible up to EUR 200 per year for both the company and employee.

We see no major impact of pension funds on shares price dynamic and development of capital market this year. However, these funds will encourage the floating of private companies starting in 2009.

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## Investment vehicle in Romanian economy

### Financial Investment Companies

#### Key aspects about SIFs

- The five financial investment companies (SIFs) are some of the most important players on the Bucharest Stock Exchange (BSE), both as significant shareholders in listed companies and as companies listed on the regulated market.
- According to the law in force, there is a limit on holding over 1% of an SIF's share capital. If the stake of a shareholder who, acting alone or in a concerted manner, exceeds 1%, the additional shares have no voting rights. According to a CNVM regulation, funds managed by the same asset management company may not act in a concerted manner.
- Each SIF owns a few hundred holdings, but the most valuable assets are the minority stakes in BRD Société Générale and BCR (unlisted). Each SIF has a 6% stake in BCR (except SIF Oltenia, with a 6.12% stake) and at least a 5% stake in BRD. Also, the SIFs have other important holdings in Banca Transilvania and Bancpost (unlisted).
- In addition to the bank holdings, each SIF has a few valuable stakes, many unlisted and in which a majority stake is held (especially SIF Muntenia and SIF Transilvania), but mostly in companies listed on the Rasdaq market, which recorded a jump in terms of capitalization last year, as a result of increased investor interest.

#### Minorities SIFs holdings in banks (October 31, 2007)

	BCR	BRD-GSG	Banca Transilvania	Bancpost	Eximbank
SIF Banat Crisana	6.00%	4.60%	5.00%	5.15%	0.31%
SIF Moldova	6.00%	5.04%	4.16%	5.14%	0.31%
SIF Transilvania	6.00%	5.00%	0.39%	5.15%	0.31%
SIF Muntenia	6.00%	5.27%	-	-	-
SIF Oltenia	6.12%	5.34%	5.00%	5.15%	3.27%

Source: SIFs; BCR Research

#### Official assessment methodology of SIF holdings

In order to understand the characteristics of the SIFs' portfolios, one needs to understand the main aspects of the official assessment methodology of shares held by financial investment companies according to National Securities Commission Regulation no 15/2004.

- The shares listed on a regulated market (BSE or BSE Rasdaq market) and traded within the last three months are registered in Net Asset Value (NAV) using the 3-month weighted average price.
- The shares unlisted or listed but not traded within the past three months are registered based on equity taken from the last balance sheet statement reported to the Ministry of Finance. For banks, the equity is taken from reports to the National Bank of Romania (NBR). So, the companies in which SIFs hold over 50% of ordinary shares are registered at a value equal to a percentage of ownership multiplied by equity. For holdings smaller than 50%, discounts are applied as follows:

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- Discount of 15% for holdings between 33% and 50%
- Discount of 25% for holdings between 5% and 33%
- Discount of 50% for holdings smaller than 5%

In the case of banks and insurance companies, discounts do not apply, regardless of an SIF's holding. Companies declared bankrupt or with negative equity are valued at zero.

## Fair value of NAVs according to Sum of Parts Approach

- We divided the assets of financial investment companies into twelve categories.
- The values presented in the table below are in accordance with the National Securities Commission Regulation no 15/2004, considering adjustments in the case of assets from categories 4, 5, 6, 8 and 9.
- These adjustments were conservative, in order to avoid any possible overvaluation of SIF holdings, as well as to indicate the characteristics of the financial portfolios.

## Fair value of SIFs assets according to Sum of Parts Approach (October 31, 2007); EUR mn

Asset Category	SIF	SIF	SIF	SIF	SIF
	Banat	Crisana	Moldova	Transilvania	Muntenia
1 Current accounts and monetary investments (deposits, TBills)	30.1	11.7	28	4.5	25.5
2 Units at open end funds and other specialized funds (NON-UCITS)	0.2	1.5	0.0	4.3	0.0
3 Bonds (municipal and corporate)	1.6	0.3	2.1	10.8	0.0
4 BRD Groupe Societe Generale	250.6	274.7	272.6	287.1	291.0
5 Banca Transilvania	82.9	68.9	6.5	0	82.8
6 Other BSE (regulated market) holdings	50.2	61.4	207.5	2.6	214.8
7 BSE-Rasdaq market holdings	97.2	66.8	173.4	268.8	149.4
8 BCR (unlisted)	309.1	309.1	309.1	309.1	315.1
9 Bancpost (unlisted)	42.0	41.9	42.0	0.0	42.0
10 Eximbank (unlisted)	0.8	0.8	0.8	0	7.9
11 Other unlisted companies	34.4	7.0	71.0	56.4	18.5
12 Other holdings (companies unlisted but traded on the BSE, companies listed but not traded, small holdings on the BSE-regulated market)	1.6	9.1	16.6	12.2	12.4
<b>Total assets</b>	<b>900.6</b>	<b>853.1</b>	<b>1,129.60</b>	<b>955.80</b>	<b>1,159.4</b>
<b>Total liabilities</b>	<b>14.3</b>	<b>13.3</b>	<b>11.3</b>	<b>33</b>	<b>18.9</b>
<b>Net Assets Value (NAV) adjusted (fair value)</b>	<b>886.3</b>	<b>839.9</b>	<b>1,118.0</b>	<b>922.8</b>	<b>1,140.5</b>

Source: Financial Investment Companies; Computes: BCR Research

Category 1, 2, 3 - the same values used for recording these assets in the official NAV;

Category 4, 5, 6 - the value of stakes in BRD, Banca Transilvania and the other Bucharest Stock Exchange holdings (cat 6) are recorded at the price as of October 31, 2007, and not using the 3-month weighted average price, as in the official NAV;

Category 7 - shares listed on the BSE-Rasdaq market that were recorded at the official values (based on the weighted average prices);

Category 8 - the BCR stake was recorded at the price of EUR 6.5 per share, according to the offer made by Erste Bank to BCR employees in November 2006. This price was 15% less than the price paid by Erste Bank for a majority stake in BCR;

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Category 9 - the SIFs' holding in Bancpost was assessed at a P/BV 2006 of 3, which is conservative, given the valuation of Romanian banks listed on the BSE (BRD Societe Generale and Banca Transilvania);

Category 10 - the SIFs' holdings in Eximbank were recorded at official value, which would mean a P/Asset 2006 ratio of about 0.35, significantly below the value of the multiple of about 0.6 for listed banks on the BSE (BRD Societe Generale and Banca Transilvania);

Category 11 - unlisted companies are recorded at official values. This is a prudence valuation, taking into account that the fair value for most companies is greater than the value of shareholder equity. In this category, many valuable SIF assets are included, in addition to the minority holdings in banks. The official methodology is considered conservative in terms of the valuation of unlisted companies;

Category 12 - for other SIF holdings, official values were used.

## SIFs' key indicators

### Capitalization, Official Net Assets Value (NAV), Adjusted NAV, Fair value of shares

Indicator	SIF	SIF	SIF	SIF	SIF
	Banat	Crisana	Moldova	Transilvania	Muntenia
Official NAV* on October 31 (EUR mn)	647.0	571.6	861.1	708.2	879.6
Adjusted NAV on October 31 (EUR mn)	886.3	839.9	1118.3	922.8	1140.5
Market Capitalization on October 31 (EUR mn)	587.3	558.6	782.4	604.8	753.0
Official NAV per share on October 31(RON)	3.9325	3.6731	2.6303	2.9274	5.0575
Fair value of share on October 31 (RON)	5.3870	5.3975	3.4160	3.8144	6.5582
Share price on October 31 (RON)	3.5700	3.5900	2.3900	2.5000	4.3300
<b>Theoretical potential</b>					
<b>(Fair value of share/Share price)</b>	<b>51%</b>	<b>50%</b>	<b>43%</b>	<b>53%</b>	<b>51%</b>
Share price on December 21 (RON)	3.5500	3.4800	2.3200	2.4100	4.3400
<b>Price performance (December 21/October 31)</b>	<b>-0.56%</b>	<b>-3.06%</b>	<b>-2.93%</b>	<b>-3.60%</b>	<b>0.23%</b>

\*) Official values according to Regulation CNVM no 15/2004; Source: BCR Research

- The fair value of NAV per share showed a theoretical upside potential of about 50% as of October 31, 2007. The current situation is similar, since the regulated market and Rasdaq decreased proportionally to the BET FI in the last two months.
- Usually, closed-end funds like the five SIFs are traded with a discount related to their NAV per share (especially if they have illiquid assets in their portfolios). For this reason, the entire difference between adjusted NAV and capitalization (equivalent with the difference between fair value per share and current price) does not have to be seen as upside potential for the five SIF shares;
- The gap between official NAV and adjusted NAV (according to the Sum of Parts Approach) is mainly explained by the valuation of BCR holdings. In the official NAV, as of October 31, one BCR share was recorded at a price of RON 3.8/share (EUR 1.14/share), which would mean that BCR was valued at EUR 902.4mn, according to the official methodology.

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## Characteristics of SIF portfolios according to sum-of-parts approach

- The minority holdings in banks represent at least 55% of the adjusted asset value. The positive outlook for the SIFs is explained mainly by the development potential of Romania's banking system, as the sector has upside potential for years to come;
- The liquidity of SIF portfolios is limited, with SIF Oltenia having a significantly higher portion of valuable holdings in companies listed on the regulated market of the BSE;
- SIF Muntenia strongly benefited from the increase of the Rasdaq market, holding a lot in new MidCap companies recently discovered by investors. SIF Transilvania also has a valuable portfolio on the Rasdaq market, especially in companies from the tourism sector;
- Over time, SIF Transilvania and SIF Muntenia have adopted an investment policy consisting of investments in unlisted or Rasdaq-listed companies. SIFs employed this policy particularly in the case of companies in which majority stakes were already held. On the other hand, SIF Oltenia invested especially in companies listed on the BSE. These strategies largely explained the higher weights of stakes in sectors other than banking in the case of SIF Transilvania, SIF Muntenia and SIF Oltenia;
- There is no clear strategy regarding the SIFs' management portfolios in the long term or regarding the target structure of their portfolios as a strategic objective.

## Characteristics of SIFs portfolios reported to fair value of assets (October 31, 2007)

Indicator	SIF	SIF	SIF	SIF	SIF
	Banat	Moldova	Transilvania	Muntenia	Oltenia
Weight of BCR holding	34.3%	36.2%	27.4%	32.3%	27.2%
Weight of BCR and BRD Societe Generale holdings	62.1%	68.4%	51.5%	62.4%	52.3%
Weight of all minorities holdings in banks	76.1%	81.6%	55.9%	62.4%	63.7%
Weight of other holdings than banks	20.4%	16.9%	41.5%	35.6%	34.1%
Weight of Non Equity Assets Categories	3.5%	1.6%	2.7%	2.1%	2.2%

Source: BCR Research

## The Property Fund (Fondul Proprietatea)

In June 2007, an emergency ordinance regarding the Property Fund was approved, with the aim to speed up the procedure of granting compensation to the former owners of properties seized during the communist regime.

One of the main changes the new ordinance brings is related to the reimbursement procedures. Thus, ex-owners have the possibility to choose between receiving cash (but not more than RON 500,000 in two installments), receiving Property Fund shares for the entire amount or a mix between cash and shares. On November 20, the state started cash reimbursements, using as the main financial source the dividends received by the Ministry of the Economy and Finance from the Property Fund (some RON 27mn). As the value of cash reimbursement applications significantly exceeded this amount, the government also decided to supplement the funds with RON 33mn. In 2006, the Property Fund recorded a net profit worth RON 72mn, in the context of a passive investment strategy, collecting cash through dividends from its holdings and orienting exclusively to bank deposits.



# Country Report

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Regarding reimbursements via Property Fund shares, the process began over one year ago. In December, ex-owners' stake in the Property Fund's share capital reached 11.26% (i.e. some 3,028 persons from a maximum of 200,000), with the remaining stake in the hands of the Ministry of the Economy and Finance. There is no valuation regarding the total amount of compensation applied for by ex-owners.

The most important provision of the emergency ordinance is related to the significant improvement of the portfolio held by the Property Fund. This involved new stakes in Petrom (i.e. from 10.22% to 20.11%), in certain branches of Electrica, and in energy complexes (Turceni, Rovinari and Craiova). Also, the fund became a shareholder in new state-owned companies from the portfolio of the Authority for State Assets Recovery (AVAS). In the meantime, some stakes, mostly in companies that were in a difficult financial situation, were taken back by the state institutions. The Property Fund has three major stakes in listed companies, namely Petrom, Transelectrica and Transgaz, worth EUR 1.9bn at the end of December. We estimate that the value of the funds' assets is at least EUR 6bn, after the government increased a few main stakes from its portfolio. In the new context, the share capital of the fund (about EUR 4bn) has to increase after the valuation of its assets is completed.

The emergency ordinance also states that the Property Fund is to be floated on the BSE via a secondary public offering (the stake held by the Ministry of the Economy and Finance). The stake has to be established by the government, with our estimation being a level of 10-20% of the share capital. According to Property Fund representatives, the public offering could take place in 2008. However, given the political instability and low support from the Social Democrat Party for the Property Fund as a solution for reimbursing ex-owners, there is a major question mark regarding a reliable deadline for launching the public offer. Under these circumstances, we do not expect the SPO to take place earlier than in 2009, when Romania will have a new government as a result of the parliamentary elections scheduled for November 2008.

The Property Fund is a closed-end fund, in many ways similar to the five financial investment companies (SIFs). Currently, the Property Fund is under the management of the Ministry of the Economy and Finance, while in 2008 an international asset management company should be mandated for administrating the fund. The fund announced in early January that it has started the process of selecting a financial consultant whose main task will be the selection of the asset management company. The financial consultant will also draw up the fund's investment policy. A key aspect for the fund will be the delineation of its investment policy as NON-UCITS by the National Securities Commission (CNVM). Following this, it is to become the most important player on the Romanian capital market. The Property Fund will have a huge impact on the BSE, both as an issuer and as the main Romanian institutional investor.

## The main Property Fund holdings

Petrom	Oil&Gas
Transelectrica	National power grid
Transgaz	National gas transporter
Posta Romana	Postal services
Hidroelectrica	Hydro-power producer
Nuclearelectrica	Nuclear power producer
Romgaz	Natural gas producer
CE Turceni	Thermo power plant
CE Craiova	Thermo power plant
CE Rovinari	Thermo power plant
Electrica Muntenia Vest	Power distributor
Electrica Transilvania Nord	Power distributor
Electrica Transilvania Sud	Power distributor
CN Aeroporturi Bucuresti	Airport operator

Source: BCR Research

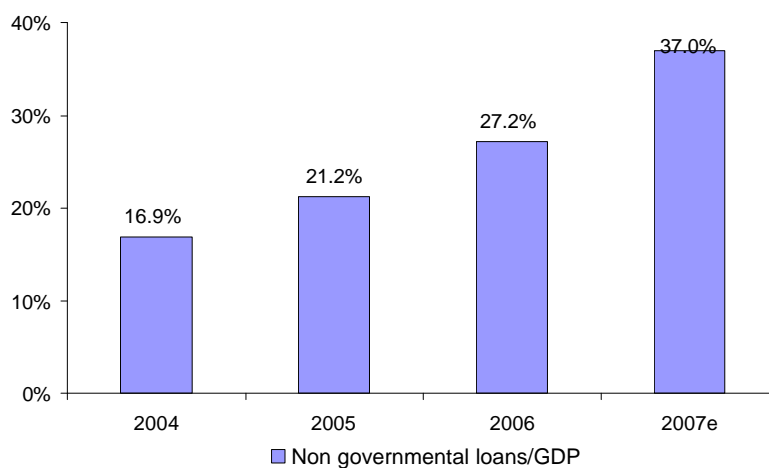
# Country Report

## Sectors to watch

### Banks

Non-governmental loans are estimated to have increased by 56% in 2007, compared to over 54% in 2006 and about 46% in 2005. Lending growth was only 18% in the first six months of the year. The main reason was that a large part of eligible individuals expected the new lending norms issued by banks after the central bank removed the service debt requirements for individuals starting with the beginning of 2007. On the other hand, it is also possible that some customer segments have already reached their upper limit of indebtedness, including the impact of a pre-accession investment cycle for middle-income households.

### Dynamic of financial intermediation



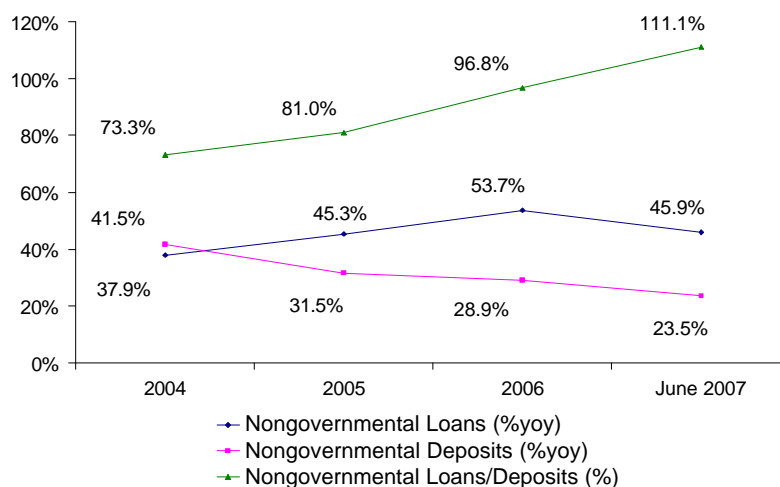
Source: NBR, BCR Research

Deposits from non-bank customers still play an important role in Romanian banks' funding, representing 58% of total liabilities and shareholder equity as of December 2006. However, the first six months of last year saw a continuation of the declining trend in deposits, so that in the middle of the year the value of loans exceeded the total value of deposits - particularly as an effect of the FX lending dynamic.

In spite of the sector's high dynamics in the last few years, its growth prospects continue to be favorable. The central bank estimated in a study issued last year that financial intermediation will reach 50% in 2014, but our forecasts are that the 40% threshold will already be exceeded at the end of 2008, given the increase of non-governmental loans of about 30%; in other words, this means a very good context for an increase in business volume in 2008 for the main banks competing on the market. Even in the initial scenario from the NBR, the growth outlook for the banking system should be attractive, as it would be equivalent with a CAGR of financial intermediation between 2008 and 2014 of 2.4%, backed by a CAGR of non-governmental loans of 13.5% in real terms. The annualized growth of financial intermediation between 2001 and 2006 was 3%.

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## Non-governmental loans and deposits



Source: NBR

In order to assess the potential increase of financial intermediation in Romania, comparisons with regional experiences between 2001 and 2006 are useful. During this time, Lithuania and Estonia experienced a CAGR of financial intermediation of 8-10%, Poland saw 1%, while the Czech Republic and Slovakia registered decreases of between 1% and 2%. A comparison with the dynamic of financial intermediation in Poland would perhaps be more relevant for Romanian banks. The estimates show that, until 2014, the potential of Romanian banks surpasses the dynamic recorded in the last five years by Poland's banking system.

On the retail side, the significant potential of local banks is shown by the level of retail loans per capita of about EUR 500 in Romania, compared to EUR 1,700 in Hungary and EUR 1,300 in Poland. However, one should not ignore the various risks regarding the over-indebtedness of some segments of the population and the low loan appetite of individuals from rural areas. On the corporate loans side, there is also a significant potential for an increase, given that less than 10% of Romanian companies have a loan at present. As the economy is more and more dependent on the development of SMEs, corporate lending dynamics provide a positive outlook for these companies' ability and availability to incur debt.

Regarding this lending context, we expect the implementation of BASEL II to improve risk management and to encourage the increase of financial intermediation.

In spite of the strong increase of non-governmental loans (CAGR 03-06: 45.1%), with retail loans representing the most dynamic component (CAGR 03-06: 73.6%), there is no signal of instability, at least for the short run. The high dynamic of lending did not significantly deteriorate the asset quality. Non-performing claims recognized in bank balance sheets were at levels below 1% during the last few years.

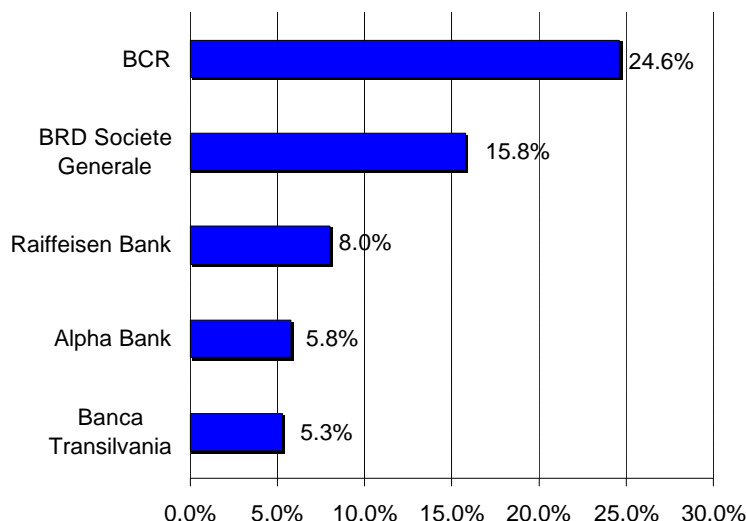
We expect the decline of the solvency ratio to continue in the next few years as a consequence of lending growth and banks' focus on ROE maximization. Nevertheless, the ROE value (around 17% in 2006) does not signal danger for the banking system. As a result of improving profitability and business portfolios, the banking sector is well capitalized, despite a certain downward trend in the solvency ratio.

The operators believe in the future potential of the sector. Thus, branch network expansion has become a strategic goal for banks more oriented toward improving their competitive advantages. In 2006, about 900 branches were opened at the sector level, and for 2007 we estimate another 1,000 to start operations in the market. Commercial

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banks focused further on the extension of their branch networks in urban areas, especially in towns with more than 250,000 inhabitants. From now on, more and more banks plan to extend their activities in small cities and rural localities as future steps for targeting new client segments.

## Top 5 banks by asset volume (September 2007)



Source: BCR Research; Note: Our estimations are based on Romanian Accounting Standards (RAS)

## Pharmaceuticals

The Romanian pharmaceutical market recorded growth of 14.8% during October 2006 - September 2007 compared to the same period of 2005/2006, reaching EUR 1.78bn.

On the retail market, pharmaceutical product sales registered an increase of 22.7% to EUR 1.5bn, whereas the hospital business segment registered a 13.9% drop to EUR 0.3bn. The reason for this evolution is the transfer of some national health programs from hospitals to the retail business line. Prescription drug sales went up by 23.2% to EUR 1.19bn, whereas OTC sales advanced 21.1% to EUR 0.31bn.

The results for 3Q07 confirmed the slowdown of pharma market growth, with increases of 20.1% posted at the end of June 2007 and 23.4% at the end of March 2007. According to research firm CEGEDIM, the estimated growth of the pharma market in 2007 is some 15%.

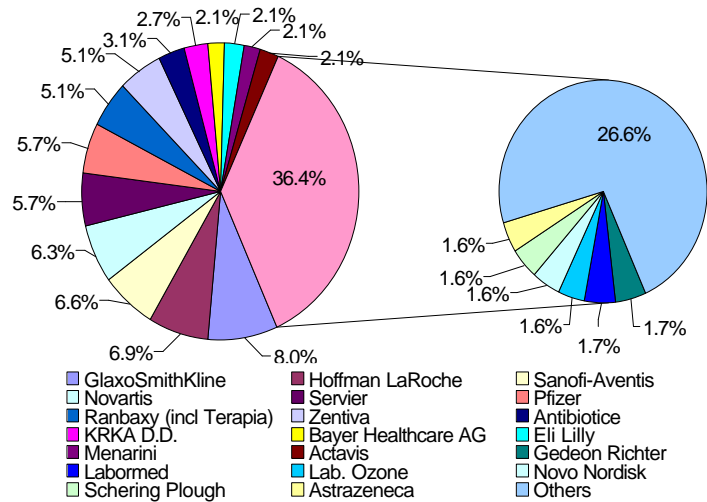
Drug consumption will be stimulated by the increase of living standards and purchasing power, an ageing population and rising health consciousness. However, there are a few factors, such as increasing competition on the market and the measures taken to reduce prices or supplements, that might affect the growth ratio. Consequently, it is expected that 2008 growth will not equal the 2007 level, but the increase will still be in double-digit terms in the coming years.

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## Pharmaceuticals market share July 2006 - June 2007 TOP 10 players

	Company	Sales (EUR mn)
I	GlaxoSmithKline	152.3
II	Hoffman LaRoche	131.7
III	Sanofi-Aventis	124.9
IV	Novartis	120.5
V	Servier	107.6
VI	Pfizer	107.6
VII	Ranbaxy (incl Terapia)	96.4
VIII	Zentiva	96.2
IX	Antibiotice	58.8
X	KRKA D.D.	51.9
XI	Others	854.1

Source: Cegedim



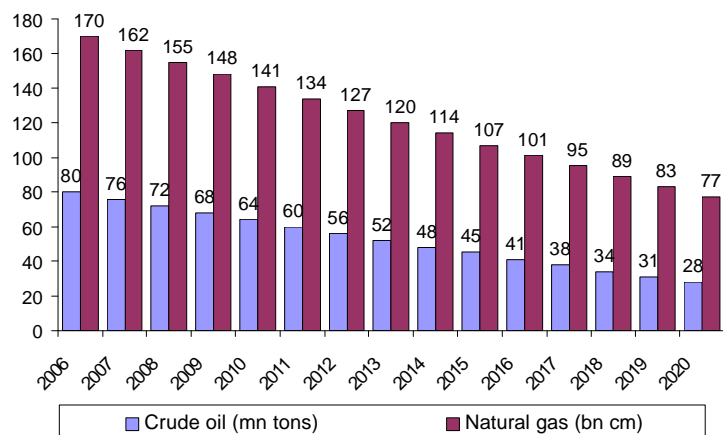
GlaxoSmithKline (including Europharm's results) holds the leading position on the market, with a share of 36.4%. Three other companies, Hoffman La Roche, Sanofi Aventis and Novartis hold market shares over 6%.

Major changes are expected to occur in the coming years related to the structure of the distribution business. In the context of the high fragmentation on the wholesale and retail markets, some players are becoming interested in mergers or acquisitions in order to consolidate their position. The main companies in these two distribution lines are A&D Pharma, Relad, Polisama, Fildas, Farmexpert and Gedeon Richter, with the latter entering the top tier due to the acquisition of some pharmacy chains within the last year.

## Oil & Gas sector

Romania has a wide range of resources, limited in quantity, but with important potential for the development of renewable resources. The chart below presents an estimate from the National Agency for Mineral Resources regarding domestic resources of natural gas and crude oil until 2020. This estimate took into consideration a crude oil replacement rate of 15-20% and a natural gas replacement rate of 15-30%, according to the national energy strategy.

### Estimated national reserves of crude oil and natural gas



Source: Romanian Energy Agency

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The oil & gas sector is represented by two important issuers listed on the BSE, Petrom and Rompetrol Rafinare Constanta.

Petrom owns two of the most important Romanian refineries, Arpechim and Petrobrazi, which together account for about half of domestic crude processing capacity.

Rompetrol Rafinare Constanta (Petromidia) is one of the most modern refineries in the Balkans and the largest refinery in Romania.

## Capacities and utilization

Refinery	Nameplate capacity (mn tons)	Processing capacity (mn tons)	2006 Utilization Rate
Arpechim	3.5	3.43	98.20%
Petrobrazi	4.5	3.42	76.10%
<b>Petrom (total)</b>	<b>8.0</b>	<b>6.85</b>	<b>85.80%</b>
<b>Petromidia</b>	<b>4.8</b>	<b>3.7</b>	<b>77.10%</b>

Source: Company data

## Favorable influence from Petrom reorganization expected in 2009

Petrom is the sole Romanian crude oil producer, while its natural gas production is roughly half of the country's output.

Last year in the Exploration & Production segment, Petrom achieved one of its strategic objectives, consisting of the acquisition of the maintenance and work-over activities provided so far by Petromservice (held by former employees of Petrom). As a result of this transaction (worth EUR 328.5mn), Petrom will have enough room to significantly increase the efficiency of its E&P business line, in spite of the significant increase of personnel expenses. The company estimates that, as a result of the integration of E&P services, a significant reduction of production costs (by 1.5 USD/boe) will be seen

Petrom is to improve its international E&P activities, as part of its plan to stabilize its production level at 210,000boe/day in Romania after 2010. In this respect, Petrom has an ambitious plan, referring to 70,000 boe/day and reaching a reserve replacement ratio of 70% in 2010 (from 33% in 2006).

Regarding the company's development in external markets, Petrom has already expressed its intention to acquire medium-size companies from Russia and the Caspian region that hold oil fields. At the same time, Petrom is in talks with international companies regarding cooperation in important production projects in the above-mentioned regions. Moreover, Petrom is looking to become a gas wholesaler in the region. In this respect, the company decided to enter the gas markets in Serbia, Bulgaria and Hungary.

On the refining side, the company is to fully focus on its main refinery, Petrobrazi, for which Petrom scheduled some EUR 1bn in investments (to be fully ready by the beginning of 2011). Petrom is looking to expand the capacity of Petrobrazi to 6mn tons and significantly improve the refining cost position, thus transforming Petrobrazi into the most efficient Romanian refinery. Regarding the turnaround interval, Petrom intends to stabilize within five years.

Regarding Arpechim, the company is considering selling this refinery, which is responsible for 25% of Romania's refinery capacity and the most important supplier for Olchim Rm. Valcea (the largest chemical factory in the country).

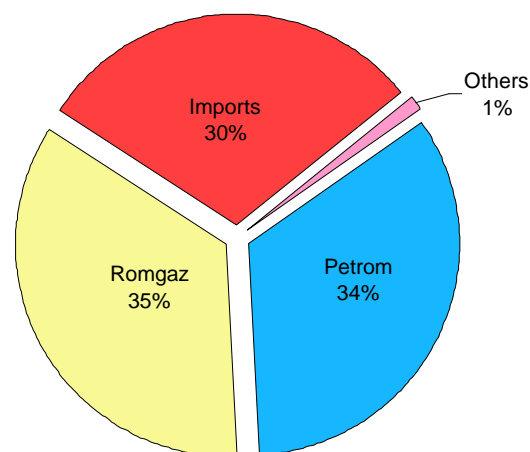


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Petrom announced its intention to sell the petrochemicals business line of Arpechim and transferred the petrochemical activities of its refinery to a newly set-up company called Petrochemicals Arges. There are significant chances that Petrom will come to an agreement with Oltchim, which has already submitted a non-binding offer to take over Petrochemicals Arges. This transaction has prompted Oltchim to seek state support (represented by AVAS - the Authority for State Assets Recovery, as the majority shareholder). Oltchim will be privatized next year and AVAS intends to turn the chemical factory into an integrated company, which has to receive its raw materials from Arpechim.

Petrom approved the construction of a gas-fired power plant, on which it is to spend about EUR 500mn. Approximately 20% of the power plant's capacity will be used to supply own consumption, while the rest will be distributed via the national power grid. The construction of the power plant will start in 2008 and full production capacity is likely to be delivered to the Romanian power grid by the end of 2010.

## Natural gas market, 2006



Source: Petrom

Regarding the gas business line in Romania, this should have a significant contribution to the company's profitability in 2008 and 2009, in the context of the convergence of domestic gas prices received by producers to the import (Russian) price level, which is approximately two times higher.

## Rompetro Rafinare - new favorable outlook after KazMunaiGaz took over The Rompetrol Group NV (TRG)

In August 2007, KazMunaiGaz (KMG), the national operator in the Oil & Gas sector of Kazakhstan, acquired 75% of TRG's shares. The enterprise value of the company based on the deal was USD 3.6bn, according to the press release issued when the transaction was announced. TRG officials stated that, through this transaction, the company will assure synergies equivalent with the Nabucco project, since it opens an oil supply corridor for Europe, which contributes to reducing the dependence on Russian oil. At the same time, the new majority shareholder of Rompetrol will create favorable financial conditions for oil resources from Kazakhstan.

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Based on the refining capability and retail infrastructure of Rompetrol Rafinare, the state-owned Kazakh company will have the opportunity to enter Western European markets for refined products.

Since KazMunaiGaz took over TRG, the Kazakh firm announced two major projects for the company. First, KMG is going to build (by September 2008) a marine terminal that will ensure the supply of crude oil from Kazakhstan to the Petromidia refinery. This terminal will have a capacity of 14mn tons per year and the total investment will surpass USD 90mn. Through the construction of this terminal, KMG expects that the cost of oil processed will fall by at least 3 USD/ton. The second project supposes investments worth over USD 500mn (EUR 330mn) in the coming 3-5 years, in order to raise the annual capacity of Rompetrol Rafinare to 5mn tons per year, as well as develop the retail network of the group. It is clear that under the new majority shareholder umbrella, Petromidia will benefit from this acquisition.

KazMunaiGaz intends to utilize TRG as a platform for future expansion, focusing on the development of its activities in high-growth markets in the Black Sea, Balkan and Mediterranean regions. In this respect, the takeover of Serbian oil company Nafta Industrija Srbije (NIS), which operates three refineries in Pancevo, Novi Sad and Belgrade, was announced as a strategic target for TRG, which is determined to offer the best price in the future auction.

## Utilities

By 2009, the utilities sector could become well represented on the BSE, especially as the most important state-owned companies from this sector will be floated, in accordance with provisions of legislation promoted by the Executive last year.

In addition to the national power grid operator, Transelectrica and the national gas transporter, Transgaz, other IPOs are expected to be launched by the operator of the hydro power system (Hidroelectrica) and the operator of the nuclear power system (Nuclearelectrica).

Regarding national gas producer Romgaz (which is responsible for 35% of domestic consumption), all of the necessary legal requirements to be listed have been met. However, the flotation of these companies could be delayed, due to the parliamentary elections this year and the Executive's announcement regarding the setting-up of a new national energy company, which should include important energy producer units that are currently held by Hidroelectrica and Nuclearelectrica. However, we see low chances of the new, integrated company coming into being.

## Overview

Company	Main Activity
Transelectrica	Power grid operator
Transgaz	National gas transporter
Nuclearelectrica	Operator of the nuclear power system
Hidroelectrica	Operator of the hydro power system
Romgaz	National gas producer

Source: BCR Research

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The dynamic of this sector is based on several core elements included in the new energy strategy approved by the Executive in September last year. The strategic medium- and long-term objectives refer to assuring Romania's energy resources, as well as the limitation of imports. About EUR 35bn is to be spent by 2020 to achieve these strategic objectives.

## The outlook of power produced in Romania between 2006 and 2020

TWh	Total power produced	Hydro	Nuclear	Thermo
2006	62.4	17.8	5.6	39.1
2007	62.7	16.0	7.0	39.7
2008e	65.5	18.0	10.8	36.7
2009e	67.7	19.5	10.8	37.4
2010e	70.6	21.7	10.8	38.1
2011e	72.2	22.3	10.8	39.1
2012e	74.5	23.0	10.8	40.7
2015e	89.5	26.0	21.6	41.9
2020e	100.0	32.5	21.6	45.9

Source: Romania's energy strategy

A large part of the investments (EUR 12.7bn) will be allotted to power producers, with all of the entities from this sector owned by state. Also, additional investments needed for achieving the environmental requirements are appraised at EUR 2.6bn, while investments required for increasing energy efficiency will amount to EUR 2.5bn. These will influence profitability and increase the amortization period of capital expenditures, which have to be achieved - especially by energy producers, which use coal, natural gas and black oil.

The prospects for power producers from the nuclear and hydro side are attractive and it is estimated that Romania's output will increase by 43% between 2006 and 2015. Regarding exports, they are expected to rise by 4.5 times during this period. The increase will be induced by putting the Cernavoda Nuclear Power Plant's reactors 3 and 4 into service. This will allow Romania to become one of the main electricity exporters in southeastern Europe.

### Transgaz biggest IPO yet on BSE

National gas transporter Transgaz launched the biggest IPO yet on the BSE between November 27 and December 7. The value of the offering was RON 226mn (about EUR 64mn) for a 10% stake, which was oversubscribed by 28 times, representing a major success for the Romanian capital market. A 75% stake is now held by the Ministry of the Economy and Finance, while the Property Fund owns a 15% stake.

Transgaz operates the national gas transport system and provides international transit services of Russian gas based on relationships with Gazprom and Bulgargaz. The company operates 690 gas pipelines, granted by the state according to a concession agreement available for 30 years, up to 2032. In order to use the National Transport System (NTS), the company pays royalties representing 10% from transport and transit revenues. The transport infrastructure includes 11,757km of domestic transport pipelines and three transit pipelines with a length of 562km. About 68% of the network is outdated, with a functional life exceeding the standard lifetime of 25 years. According to the company, between 1986 and 2006, 24% of this network was replaced or repaired.

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The national energy strategy approved by the government this year mentions that, between 2007 and 2013, CAPEX worth EUR 256mn is needed to revamp the NTS, while the investment through 2020 will amount to EUR 297mn. The government is to rehabilitate all pipelines used past their projected lifetime.

## **Future candidates for Bucharest Stock Exchange (BSE)**

### **Hidroelectrica - major plans to increase output by about 50% by 2015**

The operator of the national hydro power system provides about 28% of total electricity produced in Romania. This share is to be maintained in the coming years, according to a government estimate of the increase of hydro output by 46.5% between 2006 and 2015. In 2020, the quantity of electricity produced is estimated to be almost double the 2006 level. According to the energy strategy, between 2007 and 2020, investments to be made in new hydro power plants and revamping the existing facilities should amount to EUR 4.7bn. The company's investments will be directed towards new output facilities and renewable resources (wind, solar, biomass).

### **Nuclearelectrica to build two new reactors in partnership with strategic investors**

The Cernavoda nuclear plant currently produces 17-18% of the country's electricity, after the second reactor was completed earlier last year.

Nuclear power operator Nuclearelectrica has accepted the six firm bids submitted by investors interested in the construction of two new reactors with a capacity of 700 MW each. The companies selected in this project are Enel (Italy), Electrabel (Belgium), Iberdrola (Spain), CEZ (the Czech Republic), Arcelor Mittal (Romania) and RWE (Germany). The negotiations for setting up the company that would carry the nuclear project estimated currently at EUR 2.2bn will start by the end of November. The construction of the new units should be finished by 2015.

According to the provisions of the energy strategy, the initial public offering on the BSE will take place in 2008 for a stake of between 10% and 15%. According to the Ministry of the Economy and Finance, due to the listing and the partnerships in building new reactors, the government has already written off the company's debts owed to the state budget. The ministry mentioned that this decision, which has to be approved by Romania's Parliament, is in line with European Union rules regarding market competition.

### **New integrated Romanian energy company – just adventure for government?**

The Romanian government intends to set up a domestic energy giant, which would comprise various energy producers. The new company will include one of three energy complexes (Rovinari, Turceni and Craiova), but also units of Nuclearelectrica and Hidroelectrica, as well as other producers (like Electrocentrale Bucuresti or Termoelectrica's subsidiaries). All energy producers not selected for the new national company will be privatized.

So far, it is not clear what parts of Nuclearelectrica or Hidroelectrica will be included in the new company. It is also not clear if the last three state-owned electricity distributors (Electrica Muntenia Nord, Electrica Transilvania Nord, Electrica Transilvania Sud) will be included in this project, taking into account EU rules regarding the separation of production and transport activities. According to government officials, in November, KPMG is to finish a study regarding the entities that will be included in the national energy company.

The rationale behind this project, according to government officials, is to create a regional energy leader, powerful enough to take part in important infrastructure projects and create a mix of energy sources that would benefit customers. According to the Ministry of the Economy and Finance, the model for the new company will be CEZ. In

this matter, the minister mentioned that the Romanian entity would have a target capitalization of a few billion EUR and that it should play a major role in investments in the energy field in the region.

The government stated that the company will float on the BSE within one year of its establishment date. Two to three years later, private investors will be able to gradually become majority shareholders. According to Romanian PM Tariceanu, the Property Fund should own a 20% stake in the domestic energy giant and the state will remain an important minority shareholder.

Taking into account the controversy regarding this project and the minority support of the Executive in Parliament, we estimate that there is a low chance of the law regarding the establishment of this company being passed. This is especially the case, given the parliamentary elections scheduled for the next year.

### **New sectors to look at**

In addition to the sectors we have already described in detail in the May edition of our country report, this time we picked out companies with interesting prospects that are operating in sectors with growth potential. Our proposals refer to three new sectors: food & beverages, construction (developers and construction material producers) and oil & gas services.

### **Selection criteria**

To pick out the most representative companies in these sectors listed on both the Rasdaq market and the regulated market of the BSE, we made a selection based on the following criteria:

- Significant turnover and profit growth within the last few years and, especially, the potential for an attractive dynamic in the coming years;
- Reputation and position in a specific market;
- Fundamental aspects not yet reflected in the share price (real estate assets, ambitious business plan, etc.);
- Potential takeover targets;
- Reasonable depth of free float (at least 10%), with the possibility of its future increase.

In some cases, we made some exceptions to the criteria related to market capitalization (at least EUR 20mn) and turnover (minimum EUR 10,000/trading session, within the last 90 trading sessions). We believe that a smaller value of the two indicators is not a justifiable reason for not including a company in our short list, in the context of the high interest shown by investors for SmallCaps and MidCaps with strong prospects. In fact, last year, some Rasdaq-listed companies with capitalizations below EUR 20mn (or even EUR 10mn) recorded fast growth of turnover and share prices (in triple-digit terms).

### **Main risks**

There is a significant risk related to the companies listed on the Rasdaq market, consisting of a lack of information, due to the lax transparency standards.

The reduced turnover might also be inadequate for some investors, due to the risk of a significant increase/decrease of the share prices, in the context of a higher ask or bid volume as compared with current liquidity.

# Country Report

## Oil & Gas Services

Companies engaged in geological research services, with the intention to discover new reserves of crude oil and natural gas, or those involved in the rehabilitation or replacement of oil, gas and petroleum product pipelines should benefit from the favorable prospects for the sector's development in the coming years. Some oil & gas transport facilities have been functioning for over 30 years and thus require significant investments in order to be rehabilitated. For instance, 68% of the natural gas transport network is outdated, with a functional life that exceeds the standard lifetime of 25 years.

Moreover, Romania's commitment to several international projects (Nabucco, Constanta-Trieste) relating to the transport of natural gas and crude oil through pipelines will create good opportunities for Romanian transporters and companies that provide specialized services in this area.

## Overview

Specialized services in oil&gas sector*	Period	Sector	Investments (EUR mn)
Geological research works for discovering new gas reserves (about 10 km of seismic prospecting and about 50 km geological drilling)	2007-2010	Gas	270
Exploration drilling and putting into service of new wells	2007-2010	Gas	160
Rehabilitation of National Transport System of natural gas	2007-2020	Gas	297
Rehabilitation and developing of natural gas distribution network	2007-2015	Gas	300
Rehabilitation and revamping of oil pipelines	2007-2020	Oil	80
Rehabilitation and developing of equipments and transport facilities of Oil Terminal (including within Constanta – Trieste pipeline project)	2007-2020	Oil	100

\*According Romania's energy strategy between 2007 and 2020

Company	Ticker	Main Activity	MkCap (EURmn)	Free-float* (%)
Armax Gaz Medias	ARAX	Equipments and services for oil & gas	61.4	57.3%
Dafora Medias	DAFR	Drilling services	140.7	33.7%
Conmag Brasov	COMI	Construction of pipelines	71.7	32.4%
Conpet Ploiesti	COTE	Pipeline transporter of crude oil	126.4	21.2%
Oil Terminal Constanta	OIL	Storage and transportation of oil	158.3	22.8%
Prospectiuni Bucuresti	PRSN	Geological surveys for oil & gas exploration	242.6	16.5%
Rompetrol Well Services	PTR	Well services for the extraction of oil&gas	67.7	42.2%
Atlas Gip Ploiesti	ATGJ	Service supplier for oil&gas drilling operators	16.7	15.6%

\*Based on BSE reports and media sources

Prices as of December 21, 2007

Source: Company data, Reuters, BCR Research



# Country Report

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Geological research services and the exploration of oil and natural gas fields are linked to the available domestic reserves of crude oil and natural gas, which assure an important share of domestic consumption. Petrom is the sole Romanian crude oil producer; together with Romgaz, the two firms provide about 70% of consumed natural gas. Local output is on the wane, mainly due to the drop in reserves. The objective of both producers is to assure a higher replacement rate.

The sector is well represented on the capital market, but we have selected the most visible companies with the highest potential growth in the future. Many of the selected issuers are floated on the Rasdaq market, but some have already taken all of the necessary steps to join the regulated market of the BSE, i.e. Armax Gaz Medias (ARAX), Dafora Medias (DAFR) and Prospectiuni Bucuresti (PRSN).

## **Armax Gaz Medias**

With a 40% market share in 2006, Armax Gaz Medias is one of the national leaders in manufacturing equipment and instruments, metallic confections, spare parts, repairs and service provides for the gas and oil field. Currently, all of the company's products are sold on the local market, but Armax has already announced its intention to expand beyond Romania's borders (especially in the Russian and Middle Eastern markets).

Over half of its sales are generated by a local subsidiary of Perry Equipment Ltd Great Britain, making Armax highly sensitive to its activity. Other clients include Romgaz Medias, Petrom and Transgaz.

In late 2000, a local businessman acquired 40% of Armax and became the majority shareholder. At present, he is still the largest shareholder in the company, owning 36.3% of shares. The firm's equity structure also includes SIF Transilvania, with 5.06% of total shares.

Armax Gaz recently took all of the necessary steps to move from the Rasdaq market to the regulated market of the BSE.

## **Dafora Medias**

Dafora is one of the most important providers of drilling services for the oil & gas sector. The company's activity comprises a wide range of well services, namely performing all of the services linked to drilling projects, building construction, structure consolidation work, coating work, framework and platforms for buildings, the construction of subassemblies for oil rigs, complete repair work for drilling units and intervention equipment.

Dafora's main shareholder is businessman Gheorghe Calburean, with a holding of 48.2%. According to the latest reports, other shareholders include Julius Baer Investment Management LLC (10.7%) and Dafora Group Medias (7.5%). At present, the company's shares are traded on the Rasdaq market, but Dafora could be listed on the BSE starting in February of this year.

## **Condmag Brasov**

Condmag is the main pipeline contractor in Romania and specializes in the construction of oil and gas pipelines, as well as of water and other fluid main pipelines. The company is also engaged in pipeline material insulation, installations and equipment assembly, civil engineering and design and retail trade in self-owned shops. In 2006, Condmag had a market share of 15% in the construction pipeline market.

Until 1990, the company was the only specialized pipeline contractor within the former Romanian National Gas Company. Thus, Condmag is responsible for the construction of more than 90% of the gas transmission pipeline network in Romania (about

# Country Report

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12,000km). Also, Condmag built over 1,000km of main transmission pipelines for petroleum products. The company would strongly benefit from the Nabucco project, as 456km of natural gas pipelines will be built by Romania. Transgaz is one of the main costumers, with a weight of 26% in 2006 revenues. Alongside Transgaz, Romgaz is another important client for Condmag. In 2006, both companies contributed 64% of total sales. Among other clients for its main business line, we would mention Distrigaz Bucuresti, E.ON Targu Mures and Petrom.

With a 43.7% stake, the majority shareholder of Condmag is Dafora Medias. According to the latest reports, Julius Baer Investment Management LLC (6.5%), O.G.B.B. A. Van Herk B.V. (10.6%) and MEI - Roemenie & Bulgarije Fonds NV (6.8%) are shareholders.

## **Conpet Ploiesti**

Conpet is a natural monopoly in the national crude oil pipeline transport market, the only company carrying out such activities in Romania. The company's core business is the supply of domestic and imported crude oil and crude oil derivatives (rich gas, condensate and liquid ethane) to Romanian refineries. Conpet operates pumping stations, loading and unloading ramps, railway tanks and tank farms.

The transport network covers approximately 4,500km of pipelines divided as follows: about 2,150km for transport of crude oil, about 1,200km for transporting of imported crude oil and about 1,150km for transport of rich gas and liquid ethane.

The company is highly exposed to a single client, Petrom, which accounted for 73% of Conpet's revenues in 2006.

The majority shareholder is the Authority for State Assets Recovery (AVAS), with a 58.7% stake. Also, the Property Fund owns a 20.1% stake in Conpet.

## **Oil Terminal Constanta**

Oil Terminal Constanta is the largest operator on the sea coast, specializing in crude oil, petroleum and liquid chemical products, other products and raw material handling for import/export and transit. It has three storage farms through which the refined products are handled. The total storage capacity of Oil Terminal reaches 1.7mn cm, whereas its crude oil storage capacity is 0.55mn tons. The storage capacity of chemical products is 67,000cm. The highest vehicular capacity for crude oil is 24mn tons per year, while its oil product export capacity is 10mn tons per year.

Oil Terminal, which has the most important facilities in southeastern Europe, will represent Romania within the Constanta-Trieste pipeline project, which will cross Romania, Serbia, Croatia, Slovenia and Italy. The pipeline has to ensure the supply of oil from Kazakhstan and Azerbaijan for refineries in the north of Italy and Central Europe. The Romanian Executive intends to invest EUR 100mn by 2020 to rehabilitate and develop Oil Terminal's facilities.

Oil Terminal is majority-owned by the Authority for State Assets Recovery (AVAS), with a 59.6% stake. Other shareholders include Broadhurst Investments Limited (7.6%) and the Property Fund (10%).

## **Prospectiuni Bucuresti**

Prospectiuni is the only company in Romania that provides geological and geophysical surveys for oil & gas exploration. Prospektiuni is certified by the National Agency for Mineral Resources. Considering its main customers, Petrom and Romgaz (which accounted for 68.5% of the company's turnover in 2006), up to now the company has carried out its activity only on the domestic level. With a view to reducing its dependence

# Country Report

on the above-mentioned customers, Prospectiuni decided that, starting in 2008, it will expand its activities in external markets (Iraq, Dubai), looking for a weight of about 25% of total sales for international business. It is estimated that total sales will be doubled compared with the current year.

Prospectiuni's business should see a sustainable increase in the coming years, based on the projects of the two oil & gas companies (Petrom and Romgaz) to discover new reserves, in order to assure a reasonable replacement rate of their primary resources. In this respect, by 2010, the firm will be allotted about EUR 270mn for geological research work for discovering new reserves.

Prospectiuni's majority shareholder is Tender SA, with a stake of 71.7%, while SIF Muntenia (SIF4) holds 11.9% of the company's shares. At present, the company is going to transfer its shares from the Rasdaq market to the regulated market of the BSE.

## Rompetro Well Services

Rompetro Well Services specializes in well services for the extraction of crude oil and natural gas. The company has an active presence in high-potential areas, such as Kazakhstan, Iraq and Jordan. In 2000, the company was privatized with The Rompetrol Group, which acquired a 70.4% stake in the company. TGR decreased its participation in the company, holding at present 51% of the share capital. MEI - Roemenie & Bulgarije Fonds NV was reported to hold 6.76% of the company's share capital at the end of October.

The company's revenues are highly dependent on two major clients, Petrom (60%) and Romgaz (16%), which together account for 76% of the company's turnover. For the coming period, Rompetrol Well Services is going to expand its operations abroad, in order to limit its dependence on Petrom and Romgaz.

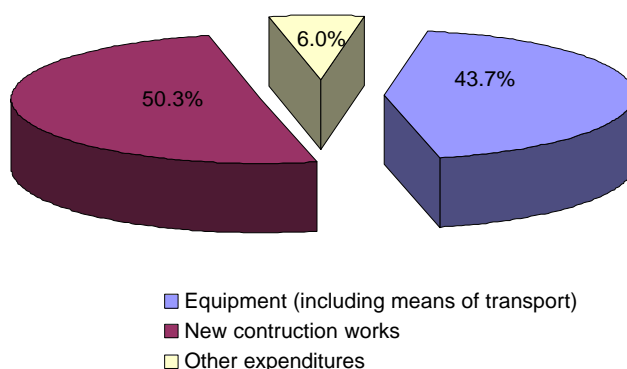
## Atlas Gip Ploiesti

Atlas Gip is a service supplier for oil and gas drilling operators. The company's main customers in the country are Petrom and Romgaz. It also supplies services to various companies involved in this sector in Algeria, Libya, Jordan and Iraq. Atlas Gip is 69.9% controlled by the local Tender SA. Its equity structure also includes domestic financial investment company SIF Muntenia (with 14.49%); small shareholders own the balance.

## Construction

Construction boomed in 2007, exhibiting a 34.1% increase y/y as of the end of November. According to estimates from main players, the market exceeded EUR 10bn last year; for the current year, their expectations indicate growth potential of over 20%.

## Investments in national economy by structure



Source: National Forecast Commission

# Country Report

The National Forecast Commission's guidance for the construction sector is a bit "pessimistic", indicating for 2008 an increase of 13.2%, with a slowing tendency for the next five years. Taking into account the high demand and the significant undersupply in all segments, we believe that construction will maintain a very high growth pace in the following years. In order to meet the current demand, over 2.5 times more residential and non-residential units should be built per year than at present. Certain macroeconomic risks may have a negative impact on demand, but even in these conditions the growth potential remains elevated.

Company	Ticker	Sector	Market capitalization (EUR mn)	Free-float (%)*
Comnord Bucuresti	COSC	Real estate developer	223.3	14.1%
Imotrust Arad	ARCV	Real estate developer	103.9	28.0%
Transilvania Constructii Cluj	COTR	Real estate developer	72.7	16.1%
Constructii Bihor	COBJ	Real estate developer	27.9	19.9%
		Real estate developer and other civil engineering works		
Concefa Sibiu	COFI		54.1	34.3%
Prefab Bucuresti	PREH	Concrete products for construction purposes	102.5	9.0%
Ceramica Iasi	CERE	Bricks, tiles and construction products in baked clay	109.2	34.1%
Cemacon Zalau	CEON	Bricks, tiles and construction products in baked clay	31.4	67.1%
Constructii Sibiu	CONR	Concrete products for construction purposes	8.7	11.9%
Macofil Targu Jiu	MACO	Mineral construction materials	n/av	25.0%

\*based on BSE reports and media sources

Prices as of December 21, 2007

In January-November 2007, new construction work rose by 32.3%, maintenance and current repairs by 37.8% and capital repairs by 35.6%. In terms of segments, non-residential building and infrastructure exhibited increases of 37.3% y/y and 34.6%, respectively, whereas in the residential business line, the growth was about 29%.

Issuer	Ticker	Sales 2006 (RON mn)	Sales 06/05	Sales 9M07/9M06 (%)	Net profit 2006 (RON mn)	Net Profit 06/05 (%)	Net profit 9M07/9M06 (%)	EBIT06 (RON mn)	EBIT Margin 2006
Comnord Bucuresti	COSC	196.9	40.2%	66.0%	9.5	-50.1%	238.7%	20.6	10.5%
Imotrust Arad	ARCV	2.2	104.7%	56.0%	4.2	9666.9%	265.0%	0.1	5.5%
Transilvania Constructii Cluj	COTR	29.0	4.9%	118.3%	3.0	23.8%	605.0%	3.2	11.1%
Constructii Bihor	COBJ	31.8	88.4%	61.2%	2.1	126.2%	352.7%	2.4	7.6%
Concefa Sibiu	COFI	50.6	20.6%	64.0%	1.1	60.8%	400.2%	1.4	2.8%
Prefab Bucuresti	PREH	91.4	23.0%	6.9%	8.5	-25.1%	15.7%	7.9	8.6%
Ceramica Iasi	CERE	37.5	3.3%	20.5%	6.1	-31.5%	101.9%	7.7	20.6%
Camacon Zalau	CEON	24.5	2.3%	30.2%	0.7	-71.5%	309.8%	0.5	2.0%
Constructii Sibiu	CONR	24.7	9.6%	15.8%	1.8	171.0%	-30.1%	2.1	8.7%
Macofil Targu Jiu	MACO	18.8	48.4%	n.a.	1.4	n.m.	n.m.	2.3	12.5%

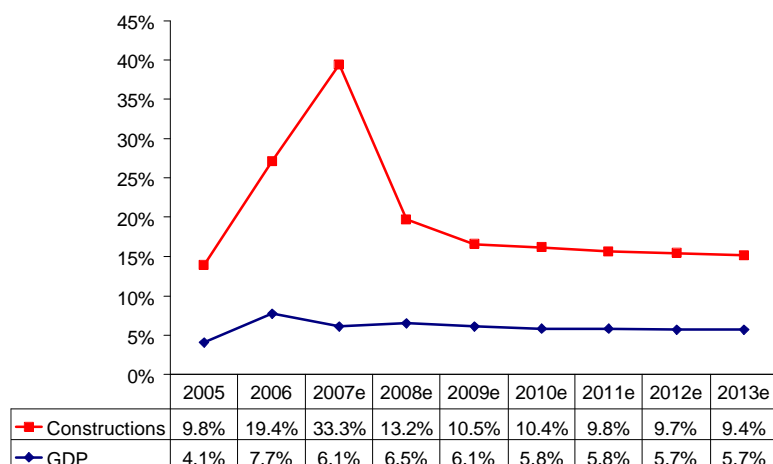
Source: Company data, BCR Research

In the context of last year's boom in construction, at the end of September 2007 - for the first time - construction surpassed agriculture in terms of contribution to the GDP increase.

Furthermore, according to the National Forecast Commission (NFC), new construction work had a greater than 50% weighting in total investments in the Romanian economy in the first semester of 2007.

# Country Report

## Construction sector versus GDP



Source: National Forecast Commission

## Real Estate Developers

The main developer listed on the capital market is Impact Constructor and Developer, which is also one of the BSE blue-chips. However, the Rasdaq market has a few developers that could be considered for an investment, due to their prospects and status as potential acquisition targets.

Comnord Bucuresti (COSC) is one of the main domestic developers, with a valuable real estate project portfolio. Comnord is part of a few important projects, of which Baneasa Residential, worth EUR 1.5bn, is the most important. The company will also invest about EUR 38.7mn in a residential project the in northwest part of Bucharest. Furthermore, Comnord is to invest (jointly with two other companies) in the construction of a commercial and office building in downtown Bucharest worth some EUR 45mn. In the first nine months of 2007, the company posted a EUR 7.3mn net profit, up three times y/y. Sales increased by 66% y/y, up to EUR 62mn.

Imotrust Arad (ARCV) is based in the western part of the country, where it has a strong presence. Among the company's projects, we would mention the development of a residential assembly near Arad, worth EUR 55mn, and another one in the city, the construction of an industrial park and some industrial warehouses. Imotrust recorded a 9M07 net profit of RON 15.6mn, 3.6 times higher y/y. The majority shareholder has a 65.7% stake, while MEI Roemenie en Bulgarije Funds NV was reported to hold a 5% stake in the share capital.

Transilvania Constructii Cluj (COTR) has a strong presence in Cluj, where the company is based. Transilvania Constructii is under the control of two natural persons that together hold some 61% of the share capital. SIF Banat Crisana owns an 18.4% stake. The company's sales were about RON 51.7mn for the first nine months of 2007, over two times higher y/y.

Constructii Bihor (COBJ), an Oradea-based company, is a real estate developer and construction materials producer. In 9M07, the company recorded a net profit increase of 4.5 times y/y to RON 4.5mn. The main shareholders are a local business man and STK Emergent, which hold 53.4% and 25% stakes, respectively.

# Country Report

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Concefa Sibiu (COFI), as the main member of the Concefa Group, is part of a few residential projects in the city of Sibiu. According to Concefa representatives, the group's current real estate investments are about EUR 10mn in three residential projects. The company posted 9M07 sales of RON 47.3mn, up by 64% y/y, with net profit up five times y/y to RON 3.43mn.

## **Construction materials and other construction activities**

Producers of construction materials have been among the most-traded companies on the Rasdaq market last year, with Prefab Bucuresti (PREH) and Ceramica Iasi (CERE) the favorites. Besides these two, our sector presentation covers three other issuers, Macofil Targu Jiu (MACO), Constructii Sibiu (CONR) and SCT Bucuresti (SCTB).

Prefab Bucuresti (PREH) is a manufacturer of concrete products for construction purposes. The company has posted significantly increasing results last year. According to the latest report, the majority shareholder is Romerica International Bucuresti, with a 78.2% stake. SIF Muntenia owns a 12.8% stake in Prefab. For the first nine months, sales have increased by 7% y/y to RON 74.7mn, whereas gross profit reached RON 8.04mn, up 16% y/y. Last year, the company attracted over RON 8.3mn through a share capital increase, with the proceeds destined for the funding of its CAPEX plan and working capital. Furthermore, the company intends to attract in 1Q08 an additional RON 24mn via a new share capital increase.

Ceramica Iasi (CERE) is one of the main Romanian producers of bricks, tile and construction products in baked clay, with a market share of 5-10%. The company was taken over in July by Advent International, an experienced global private equity company. As a result, Ceramica aims to play a leading role in the market in the coming years. The company posted 9M07 sales of RON 36mn, up 20% y/y, with net profit doubling to RON 10.9mn.

Cemacon Zalau (CEON) produces bricks, tile and construction products in baked clay. The company recorded in 9M07 a 30% y/y sales increase to RON 25.4mn, with net profit quadrupling to RON 3.75mn. This performance was induced by the increase of production capacities, as a result of investments in new equipment made last year. In October, the company announced further investments worth EUR 3.2mn, to be made until late 2008, financed via funds from profit reserves, a share capital increase and asset sales. Within the last year, three financial investors, SSIF Broker Cluj, Julius Baer International Equity Fund and MEI Roemenie & Bulgarije Fonds NV acquired significant stakes in Cemacon's share capital.

Macofil Targu Jiu (MACO), one of the recent discoveries on the Rasdaq market, is a producer of mineral construction materials with a strong position in the southwestern region. Recently, the Romanian Capital 2 (RC2) fund has joined the shareholding via the acquisition of a 24% stake. In 1H07, Macofil posted a 60% y/y increase of net profit, up to RON 0.36mn, with sales up 31% to RON 9.47mn.

Constructii Sibiu (CONR), a manufacturer of concrete products for construction purposes, is controlled by Sinecon and SIF Transilvania, with stakes of 48.6% and 39.5%, respectively. Constructii Sibiu started an important CAPEX plan last year aimed at increasing production capacity and improving its market position. The results of these investments are expected starting this year.



# Country Report

## Food and beverages

The sector is poorly represented on the capital market, with the main representative the dairy producer Albalact. We have also selected an edible oil producer, Argus Constanta (UARG), and two beer producers, Bere Azuga (BEGY) and Bermas Suceava (BRM).

Company	Ticker	Main activity	Mk Cap (EUR m n)	Free-float* (%)
Albalact Alba Iulia	ALBZ	Milk and dairy	134.5	42%
Argus Constanta	UARG	Edible oil	20.5	77%
Bermas Suceava	BRM	Beer	13.1	35%
Bere Azuga	BEGY	Beer	9.8	26%

\*based on BSE reports and media sources

\*\*Prices as of December 21, 2007

Issuer	Ticker	Sales 2006 (RON mn)	Sales 06/05	Sales 9M07/9M06 (%)	Net profit 2006 (RON m n)	Net Profit 06/05 (%)	Net profit 9M07/9M06 (%)	EBIT06 (RON mn)	EBIT Margin 2006
Albalact Alba Iulia	ALBZ	102.11	65%	64%	6.02	93%	106%	6.34	6%
Argus Constanta	UARG	108.78	-24%	10%	-10.74	39%	n.m.	-10.86	n.m.
Bere Azuga	BEGY	18.79	-9%	55%*	1.4	711%	n.m.	4.29	23%
Bermas Suceava	BRM	25.82	-19%	-6%	4.49	26%	-33%	5.40	21%

\*Based on semestrial financial results

Source: Company data, BCR Research

## Dairy market

The domestic dairy market (processed milk only) was worth about EUR 1bn last year, with the possibility to reach EUR 2bn in the next three years, according to sector representatives.

According to our estimates, processed milk output may increase by 20% per year in the next 10 years, to reach the EU average consumption of 65 l/capita. Domestic processed milk consumption in 2006 was only about 6.7 l/capita. We considered that, within the next 10 years, the average consumption of processed milk in the EU is to increase at an annualized rate of 2%. On the other hand, we assumed a gap of some 50% between domestic and EU average consumption after six years. In our view, an annualized growth rate of 20% should also be prompted by the entrance of some important funds to the sector. We would mention the takeover of Covalact by Sigma Bleyzer Southeast fund. This move shows that dairy producers with adequate production capacity, supported by logistics and marketing capability, could see significant business increases in the coming years.

## Albalact Alba Iulia (ALBZ)

Albalact is the fifth dairy producer in the domestic market, managing in the last three years to improve both its market position and product range. The main competitors are Friesland, Danone, La Dorna and Hochland.

Currently, Albalact manages three brands, Albalact, Fulga and Zuzu, covering both UHT and fresh milk. Last year, a new production plant, with a daily processing capacity of 200,000 liters, was to start operating, meaning an increase of 2.5 times Albalact's installed capacity. Furthermore, Albalact's shareholders agreed to build a new plant with a mixed production range (cheeses and other milk products, especially for

# Country Report

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children). The company also intends to develop a logistics center near Bucharest and to enlarge the capacity of its farms from the current 10,000 l/day to 60,000 liters/day in 2009.

## **Edible oil market**

The edible oil market was assessed last year at over EUR 200mn, corresponding to annual consumption of some 11-12 liters/capita, one of the highest levels in Europe. Due to Romania's consumption habits, producers expect a good 2008, with about a 5-10% increase for the sector. The main player on this market is the American-based company Bunge, with a 45% share.

## **Argus Constanta (UARG)**

Argus Constanta holds the second position in the edible oil market, with an 11.8% stake, managing last year to surpass Cargill. Argus currently runs at about 80% of its installed capacity, which is about 140,000 tons/year. The company already finished revamping its factory; thus, the CAPEX needs for the following years are lower. The only major investment should be related to entering the biofuel market, but this project was postponed by one year, at least. Because of this year's drought, Argus is to ensure some 15-20% of its staple products with imported raw sunflower oil. Company representatives estimate for 2007 a 20% y/y increase of sales to RON 130mn. The main shareholders are SIF Oltenia and the general manager of the company, with stakes of 11.9% and 11.3%, respectively.

## **Beer market**

Domestic beer consumption has grown significantly in recent years, but there is still reasonable potential for the coming years, in spite of the fact that Romania is already in line with the EU average beer consumption of about 81 liters/capita per year. The main players in this market are Heineken Romania, Inbev Romania, United Romania Breweries Bereprod (URBB) and Ursus Breweries, which cover over 70% of domestic beer sales.

Beer consumption amounted to some 17.8mn hectoliters in 2006, up 16% y/y. In 1H07, beer sales grew by 20% to 9.26mn hectoliters. Within the last year, there were significant changes concerning beer consumption customs, with premium beers and PET-packed beers preferred by consumers.

**Bermas Suceava (BRM)** has a strong presence in the eastern region of the country. The popularity of the company's three brands, Suceava Clasic, Calimani Premium and Bermas is due to the lower prices, which reflect the purchasing power in the region. The EBIT margin of about 21% in 2006 allows space for an increase of marketing expenses in the coming years. The company's main shareholders are the employees, with a 51.6% stake. The limited financial capability of shareholders is a major issue, given the competitiveness of the market.

**Bere Azuga (BEGY)** is interesting, especially taking into account its significant CAPEX plan for the next three years, worth EUR 20mn, aimed at increasing production capacity to 800,000 hl, as compared with the current 200,000 hl. Last year, Bere Azuga started production of PET-packed beer, which resulted in an increase of sales by 38% y/y in 9M07. The company's main shareholder is Moraru Valerii, who holds some 41% of the company, plus a 20% stake via Rombas Trans International.

## A&D Pharma

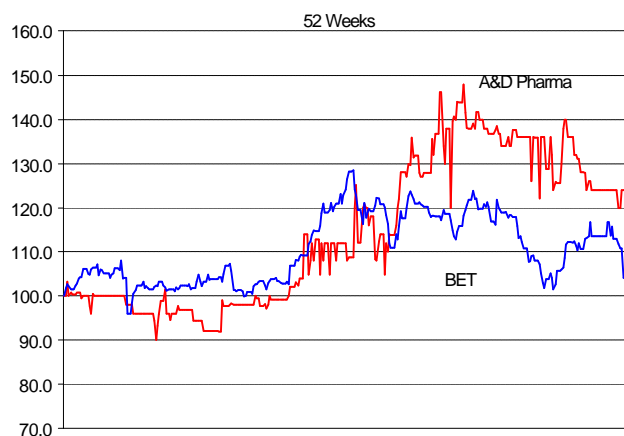
## Accumulate

ROMANIA / Pharmaceuticals

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GDR price (EUR)	14.0	Reuters	ADPHq.L	Free float	34.0%
Number of GDRs (mn)	33.3	Bloomberg	824278Z	Shareholders	Sograno B.V (59%)
Market cap. (EUR mn)	466.7	<b>Target price (EUR)</b>	<b>18.9</b>		
Enterprise value EUR mn)	525.4	Ex-dividend date	6/25/2007		
Average daily turnover 3M (pcs)	-	Index weight (BET)	-	Homepage:	www.adpharma.ro

EUR mn	2006	2007e	2008e	2009e
Total revenues	331.6	440.1	564.3	701.7
EBITDA	28.1	35.6	46.0	57.6
EBIT	23.3	28.9	38.0	48.6
Net profit	17.8	23.2	30.8	40.2
EPS (EUR)	0.53	0.69	0.93	1.21
CEPS (EUR)	0.86	0.93	1.16	1.47
BVPS (EUR)	8.40	9.68	10.42	11.38
Div/share (EUR)	0.11	0.19	0.24	0.31
EV/EBITDA (x)	18.3	14.7	11.3	8.8
P/E (x)	26.2	20.2	15.1	11.6
P/CE (x)	16.3	15.0	12.0	9.5
Dividend yield	0.8%	1.3%	1.7%	2.2%
Operating margin	7.0%	6.6%	6.7%	6.9%
Net margin	5.4%	5.3%	5.5%	5.7%

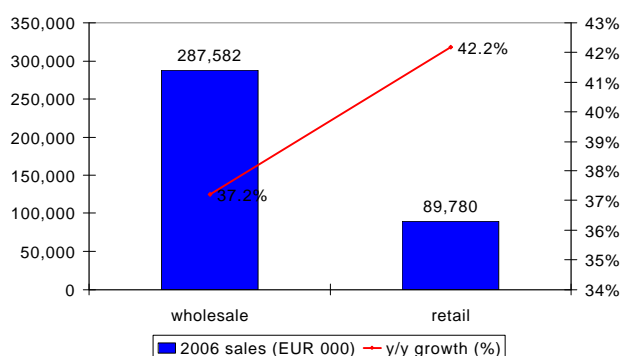


Performanc	12M	6M	3M	1M
in EUR	12.0%	2.9%	-18.1%	-12.5%

### Company description

A&D Pharma, the Dutch holding company that owns the largest integrated pharmaceutical wholesale and retail business in Romania, entered the London Stock Exchange in October 2006, following a EUR 136mn IPO. Exploiting opportunities in the fast advancing Romanian pharmaceutical market, A&D Pharma's market share steadily improved since its foundation in 1994 to reach 24% in the pharmacy segment of the wholesale market by end-2006; its number of pharmacies rose to 206 the same time. In the period between 2003 and 2006, the company's consolidated sales jumped from EUR 95.5mn to EUR 331.6mn, while net profit soared from EUR 4.2mn to EUR 17.8mn over the same period.

### Sales breakdown (2006)



Source: Company data

### Strength/Opportunities

- Excellent position in Romania, one of the most dynamically developing pharmaceutical markets in the region
- Know-how in building up and expanding a vertically integrated wholesale-retail business has potential to be successfully repeated in neighboring countries with a similar market environment.

### Weakness/Threats

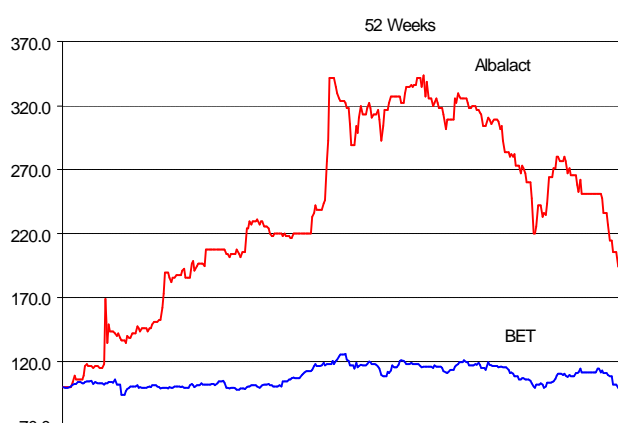
- A&D Pharma's business is heavily influenced by state regulatory measures, including limits on markups, which represent a key factor for the company's profitability margins.
- Bringing Romanian market practices closer to EU standards, along with high growth prospects of the pharmaceutical market, attract more foreign players into pharmaceutical wholesale and distribution, with resulting tightening competition and pressure on profitability.

## Albalact

### ROMANIA / Food & beverage

Share price (RON)	0.5	Reuters	ALBZ.BRQ	Free float	42.4%
Number of shares (mn)	652.7	Bloomberg	ALBZ RO	Shareholders	Ciurtin family (44.27%) Romanian Capital 2 (13.37%)
Market cap. (RON/EUR mn)	332.9 / 90.3	<b>Target price (RON)</b>	-		
Enterprise value RON/EUR mn)	350.0 / 95.3	Ex-dividend date	-		
Average daily turnover 3M (pcs)	565,484	Index weight (BET)	-	Homepage:	www.albalact.ro

RON mn	2004	2005	2006	1-3Q 2007
Total revenues	47.5	64.5	107.3	111.8
EBITDA	5.9	6.9	10.3	14.3
EBIT	3.8	4.3	6.3	8.5
Net profit	2.7	3.1	6.0	5.7
EPS (RON)	0.129	0.051	0.064	0.009
CEPS (RON)	0.232	0.094	0.106	-
BVPS (RON)	0.305	0.178	0.212	0.057
Div/share (RON)	0.000	0.000	0.000	-
EV/EBITDA (x)	3.8	7.2	6.3	-
P/E (x)	-	9.9	8.0	-
P/CE (x)	-	5.4	4.8	-
Dividend yield	0.0%	0.0%	0.0%	-
Operating margin	7.9%	6.7%	5.9%	7.6%
Net margin	5.6%	4.8%	5.6%	5.1%

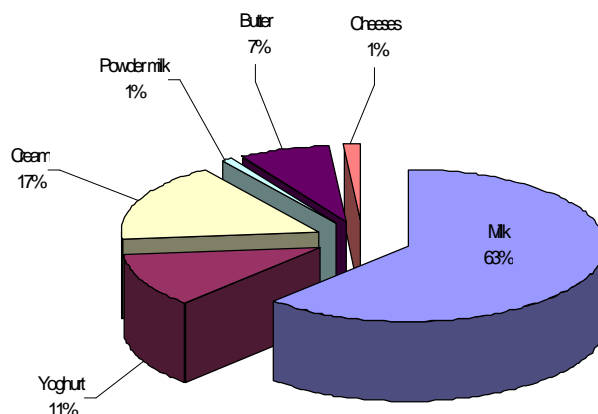


Performanc	12M	6M	3M	1M
in RON	87.3%	-41.8%	-38.3%	-25.9%
in EUR	72.4%	-50.8%	-43.5%	-29.4%

### Company description

Albalact is the No. 5 dairy producer on the domestic market. In the last three years, the company has improved both its market position and product range. Currently, Albalact has three brands, Albalact, Fulga and Zuzu, covering both UHT and fresh milk. The ambitious development program is still ongoing. Recently, the company inaugurated a new production plant, with a daily processing capacity of 200,000, resulting in an increase of 2.5 times its previous installed capacity. The company intends to further increase its production capacities and own production of raw milk. There is an ongoing investment in a logistics center near Bucharest, aimed at doubling the company's sales.

### Sales breakdown (2006)



Source: Company data

### Strength/Opportunities

- Growth potential in processed dairy market of some 20% p.a. in next ten years
- Successful share capital increase worth EUR 11.2mn
- Ambitious CAPEX plan aimed at increasing production capacities
- Skilled management
- Efficient and very aggressive marketing strategy
- Hypermarkets and supermarkets as main sales drivers
- Experience in attracting and managing EU funds
- Potential takeover target

### Weakness/Threats

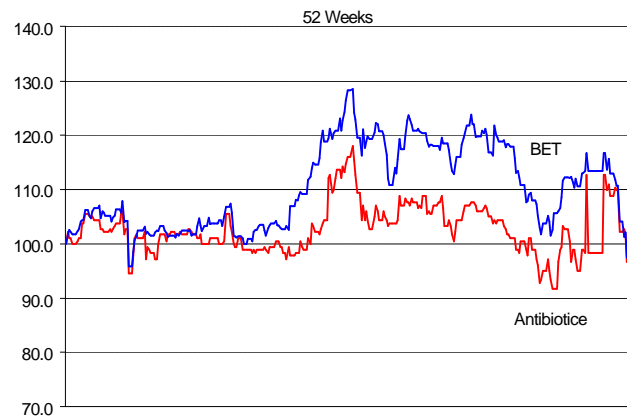
- High multiples
- Reduced transparency standards
- No information regarding intention to float on BSE regulated market
- Operational risk, due to very ambitious development plan
- Strong competition

## Antibiotice

### ROMANIA / Pharmaceuticals

Share price (RON)	1.8	Reuters	ATBE.BX	Free float	36.9%
Number of shares (mn)	455	Bloomberg	ATB RO	Shareholders	SIF Oltenia (10.1%)
Market cap. (RON/EUR mn)	818.8 / 222.0	<b>Target price (RON)</b>	-	Auth. State Assets Recovery	(53.02%)
Enterprise value RON/EUR mn)	831.5 / 225.8	Ex-dividend date	5/14/2007	Homepage:	w w w .antibiotice.ro
Average daily turnover 3M (pcs)	208,438	Index w eight (BET)	3.99%		

RON mn	2004	2005	2006	1-3Q 2007
Total revenues	139.8	164.9	193.4	150.5
EBITDA	23.9	41.4	40.9	34.3
EBIT	16.9	26.3	29.1	28.1
Net profit	12.4	19.7	23.8	23.2
EPS (RON)	0.031	0.043	0.052	0.051
CEPS (RON)	0.051	0.082	0.078	-
BVPS (RON)	0.187	0.194	0.244	0.418
Div/share (RON)	0.000	0.000	0.022	-
EV/EBITDA (x)	31.3	20.4	20.4	-
P/E (x)	58.6	41.6	34.3	-
P/CE (x)	-	22.1	23.1	-
Dividend yield	0.0%	0.0%	1.2%	-
Operating margin	12.1%	16.0%	15.0%	18.7%
Net margin	8.9%	11.9%	12.3%	15.4%

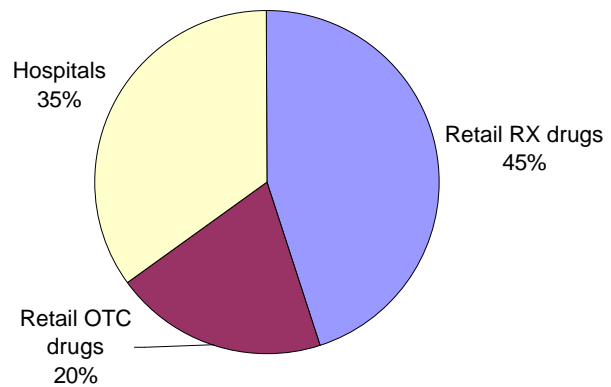


Performanc	12M	6M	3M	1M
in RON	-1.1%	-14.7%	-5.8%	4.0%
in EUR	-9.4%	-27.6%	-13.5%	-0.1%

### Company description

Antibiotice is the last state-owned pharma company, with a market share of 3.1% in July 2006 - June 2007. It was the ninth player on the domestic drug market in this period. Last year, the hospitals business line had a weight of 35% in sales, while the remaining 65% represents the retail market, which is split between Rx drugs (45%) and OTC drugs (20%). In 2006, Antibiotice exported its products to 39 countries and was the No. 2 supplier of nystatine worldwide, with a 25% market share. The auction for the privatization of the company is to take place on March 18, 2008 with the starting price established by the Authority for State Assets Recovery (AVAS) for the 53.02% stake of EUR 136mn. The equivalent price per share is EUR 0.56, thus valuing the company at EUR 256.5mn. The investors interested in acquiring the majority stake may submit their biddings up to March 17.

### Sales breakdown (2006)



Source: Company data

### Strength/Opportunities

- CAGR estimates for drug consumption of at least 15% in next five years
- Brand awareness, high quality standards
- High interest in takeover of majority stake
- Launch of significant new products with higher value-added in other therapeutic areas than anti-infectious drugs
- Opportunities from healthcare reform and introduction of private health insurance

### Weakness/Threats

- Strong competition from both local producers and multi-national players
- High dependence on public healthcare system, causing delays in payments
- Significant currency exposure
- Restructuring process after privatization

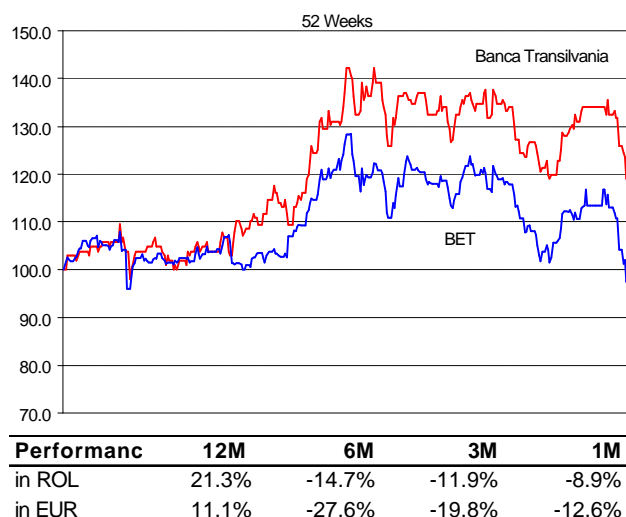
## Banca Transilvania

### ROMANIA / Banking & insurance

Share price (RON)	0.8	Reuters	BATR.BX	Free float	70.5%
Number of shares (mn)	6,110.5	Bloomberg	TLV RO	Shareholders EBRD (14.98%), SIFs (14.6%)	
Market cap. (RON/EUR mn)	4,980.1 / 1,350.4	<b>Target price (RON)</b>	-	Homepage: <a href="http://www.bancatransilvania.ro">www.bancatransilvania.ro</a>	
Average daily turnover 3M (pcs)	4,803,741.0	Ex-dividend date	-	Index w eight	19.8% (BET)

RON mn	2004	2005	2006 1-3Q	2007*
Total income	266.4	458.8	762.7	602.7
Operating profit	90.1	137.1	169.0	220.8
Profit before taxes	78.1	122.3	128.7	155.8
Net profit	60.8	108.6	114.4	133.5
EPS (RON)	0.046	0.046	0.029	0.022
BVPS (RON)	0.223	0.217	0.200	0.126
Div/share (RON)	0.000	0.000	0.000	-
P/E (x)	17.6	17.4	27.5	-
P/BV (x)	3.4	3.7	4.0	-
Dividend yield	0.0%	0.0%	0.0%	-
NIM ave. assets	7.3%	6.7%	5.4%	-
ROE	23.2%	26.1%	17.5%	17.5%
ROA	3.0%	2.8%	1.7%	1.4%
Cost/income ratio	66.2%	70.1%	77.8%	63.4%

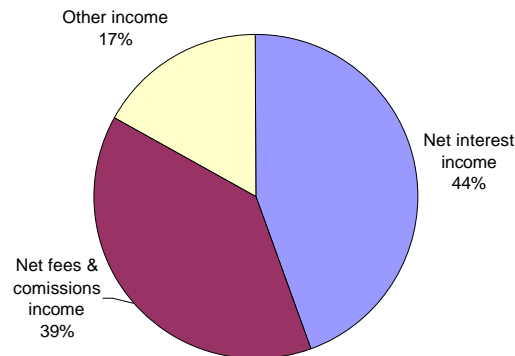
\* RAS



### Company description

Banca Transilvania became the fifth largest Romanian bank at the end of 2006 in terms of assets and now holds a market share of 5.2% (as of June 2007). The bank was listed on the BSE in 1997 and it used the capital market in order to finance its aggressive development. In October 2007, Banca Transilvania had a network of 412 branches and over 5,500 employees. The bank is focused on SMEs as its main business line, with ten specialized products launched in the last three years. In October 2007, the bank launched a division dedicated to doctors with the objective to offer loans worth EUR 1bn in the next three years. In 2008, Banca Transilvania will receive at least EUR 90mn from the sale of its insurance company BT Asigurari. Also next year, the bank will sell its 25% stake in another insurance company, Asiban.

### Operating income breakdown (1-3Q 2007)



Source: Company data

### Strength/Opportunities

- Upside potential of at least 20% p.a. for sector in next 3-4 years
- At least EUR 120mn from selling holdings in insurance sector to sustain aggressive development plan
- Rapid expansion in last few years, due to bold strategy and innovative specialized products
- Policy of annual bonus issues and share capital with cash is very attractive for domestic investors
- Last important Romanian retail bank with potential to be takeover target

### Weakness/Threats

- Net interest margin to decrease under continuous pressure from intensified competition
- Higher cost of risk as result of significant weight of SMEs in loan portfolio
- Strong competition - especially in mortgage loans, credit cards, developing payment system, co-financing EU funds

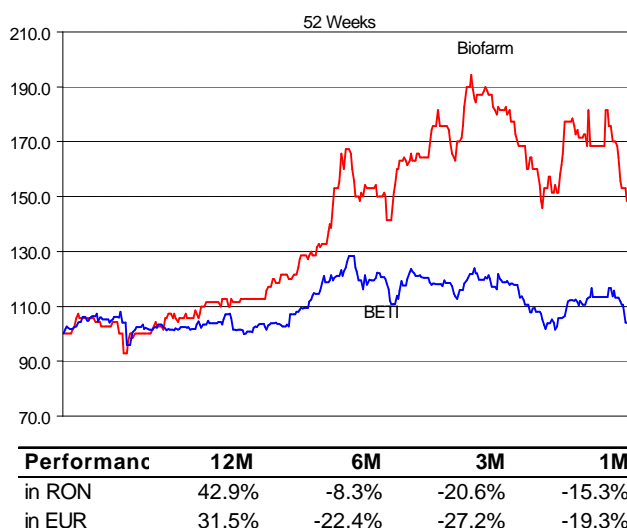


## Biofarm

### ROMANIA / Pharmaceuticals

Share price (RON)	0.5	Reuters	BIOF.BX	Free float	63.9%
Number of shares (mn)	977.6	Bloomberg	BIO RO	Shareholders	SIF Oltenia (15.09%)
Market cap. (RON/EUR mn)	488.8 / 132.2	<b>Target price (RON)</b>	-		SIF Moldova (10.98%)
Enterprise value RON/EUR mn)	466.5 / 125.6	Ex-dividend date	-		SIF Banat Crisana (10.0%)
Average daily turnover 3M (pcs)	-	Index weight (BET)	5.57%	Homepage:	w w w .biofarm.ro

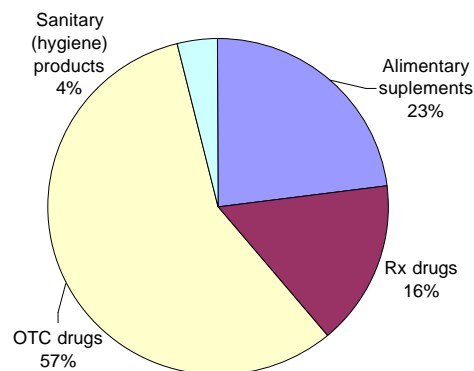
RON mn	2004	2005	2006	1-3Q 2007
Total revenues	36.8	53.0	56.9	45.6
EBITDA	11.3	16.0	18.3	17.7
EBIT	9.2	13.0	14.7	14.5
Net profit	8.7	11.7	12.7	11.6
EPS (RON)	0.031	0.033	0.027	0.020
CEPS (RON)	0.039	0.046	0.035	-
BVPS (RON)	0.158	0.154	0.146	0.140
Div/share (RON)	0.000	0.000	0.000	-
EV/EBITDA (x)	11.5	10.1	11.6	-
P/E (x)	16.0	15.3	18.5	-
P/C E (x)	12.9	11.0	14.3	-
Dividend yield	0.0%	0.0%	0.0%	-
Operating margin	25.1%	24.6%	25.8%	31.8%
Net margin	23.6%	22.1%	22.3%	25.5%



### Company description

Pharmaceutical manufacturer Biofarm is the market leader in syrups and solutions, with about a 15% market share (including foreign imports) by volume. The company is the only producer of pharmaceutical soft gelatin capsules. Approximately 80% of the company's sales are generated by OTC drugs and nutritional supplements, the remainder represented by Rx drugs and hygiene products. The company's mid- and long-term main objective is to increase the share of exports in total sales from the current roughly 5%. The relocation of its activities outside Bucharest is an important goal for the company. As a result, the land currently occupied will represent valuable non-core assets.

### Breakdown of sales (2006)



Source: Company data

### Strength/Opportunities

- CAGR estimates for drug consumption of at least 15% in next five years
- Expansion of sales operations abroad, starting with subsidiary in Ukraine in 2007; Russia, Belarus, Azerbaijan, Bulgaria and Moldova also targeted
- Significantly higher CAPEX plan starting in 2008 after concluding share capital increase worth over EUR 8mn
- Plans to extend product portfolio and take over distribution companies and pharmacy network
- GMP certificates for all pharmaceutical lines
- Status as potential acquisition target

### Weakness/Threats

- Strong competition from both local producers and multi-national players
- Investment needs in order to keep GMP licence
- Pressure from competition, especially in OTC market (main business line)
- Pessimistic forecasts regarding increase of domestic sales (in line with market growth)



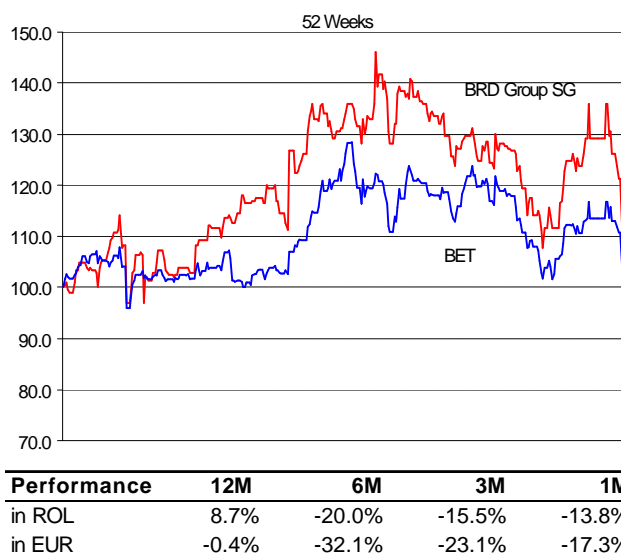
## BRD - Group SG

### ROMANIA / Banking & insurance

Share price (RON)	22.4	Reuters	BRDX.BB	Free float	11.4%
Number of shares (mn)	696.9	Bloomberg	BRD RB	Shareholders	SocGen (58.32%), SIFs (25.2%)
Market cap. (RON/EUR mn)	15,610.6 / 4,232.9	<b>Target price (RON)</b>	-	Homepage:	w w w .brd.ro
Average daily turnover 3M (pcs)	176,444.0	Ex-dividend date	-	Index w eight	19.7% (BET)

RON mn	2004	2005	2006 1-3Q	2007*
Total income	1,142.0	1,390.5	1,842.9	1,757.8
Operating profit	540.4	668.1	866.9	990.3
Profit before taxes	439.1	575.6	795.1	814.6
Net profit	322.6	495.5	701.0	682.2
EPS (RON)	0.231	0.711	1.006	0.979
BVPS (RON)	1.078	2.617	3.311	3.957
Div/share (RON)	0.126	0.309	0.367	-
P/E (x)	96.8	31.5	22.3	-
P/BV (x)	20.7	8.6	6.8	-
Dividend yield	0.6%	1.4%	1.6%	-
NIM ave. assets	7.2%	6.2%	4.9%	-
ROE	23.2%	29.8%	33.9%	26.8%
ROA	3.2%	3.1%	2.9%	2.2%
Cost/income ratio	52.7%	52.0%	53.0%	43.7%

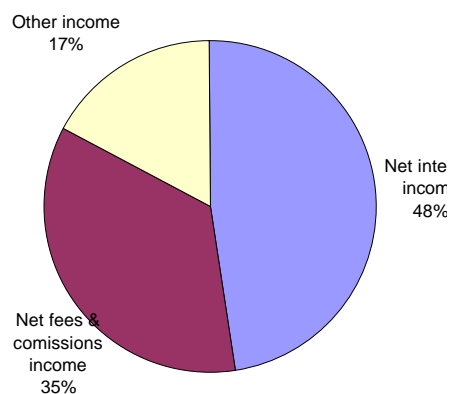
\* RAS



### Company description

BRD Groupe Société Générale is the second largest Romanian bank, with a market share of 16.2% in terms of assets as of June 2007. Société Générale took over the majority stake in BRD in 1998, after which the bank was listed with an SPO on the BSE in 2000. As a result of aggressively expanding its branch network in 2006, when 274 new units were opened, the bank strengthened its market position. At the end of September 2007, the bank had 2.3mn active clients and over 8,200 employees. The bank is one of the most efficient players on the market and the most profitable Romanian bank in terms of ROE.

### Total income breakdown (1-3Q 2007)



Source: Company data

### Strength/Opportunities

- Upside potential of at least 20% p.a. for sector in next 3-4 years
- Good cost control reflected in cost/income ratio, in spite of branch network expansion
- Ability to obtain attractive financial results in highly competitive market
- Strong retail client base and developed branch network for sustainable retail growth
- Innovative bank, launching new products - especially for retail and SMEs

### Weakness/Threats

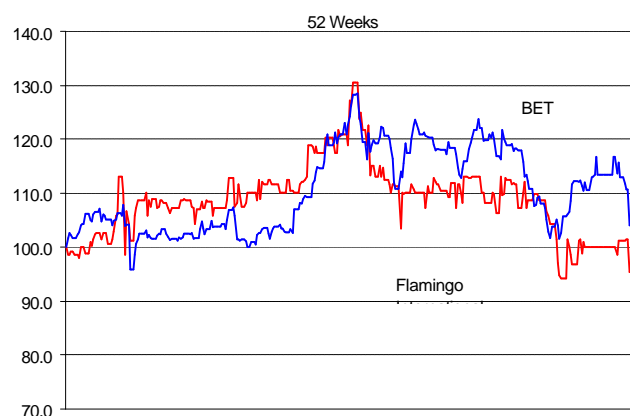
- Net interest margin will decrease under continuous pressure from competition
- Strong competition, especially in mortgage loans, credit cards, developing payment system, co-financing EU funds
- Lower market share in mortgage loans compared to other products

## Flamingo International

ROMANIA / IT&C, electronics and home appliances retailer

Share price (RON)	0.3	Reuters	FLAA.BX	Free float	35.4%
Number of shares (mn)	779	Bloomberg	FLA RO	Shareholders	Cinca Dragos Daniel (25.2%)
Market cap. (RON/EUR mn)	233.7 / 63.4	<b>Target price (RON)</b>		- Flanco Holding Limited (10.59%), QVT Fund (15.39%)	
Enterprise value RON/EUR mn)	309.0 / 85.6	Ex-dividend date		- Hansa Ida Europa Aktsia (8.27%), Gustavus (5.13%)	
Average daily turnover 3M (pcs)	-	Index weight (BET-C)	0.59%	Homepage:	www.flamingo.ro

RON mn	2004	2005	2006	1-3Q 2007
Total revenues	243.1	303.6	465.6	330.0
EBITDA	18.0	20.2	-35.5	0.5
EBIT	15.6	17.3	-44.1	-6.9
Net profit	17.2	10.0	-36.5	-13.7
EPS (RON)	0.256	0.019	-0.047	-0.018
CEPS (RON)	0.292	0.025	-0.036	-
BVPS (RON)	0.525	0.169	0.203	0.182
Div/share (RON)	0.000	0.000	0.000	-
EV/EBITDA (x)	2.1	9.8	-8.7	-
P/E (x)	1.2	15.7	-6.4	-
P/CE (x)	1.0	12.2	-8.4	-
Dividend yield	0.0%	0.0%	0.0%	-
Operating margin	6.4%	5.7%	-9.5%	-2.1%
Net margin	7.1%	3.3%	-7.8%	-4.1%

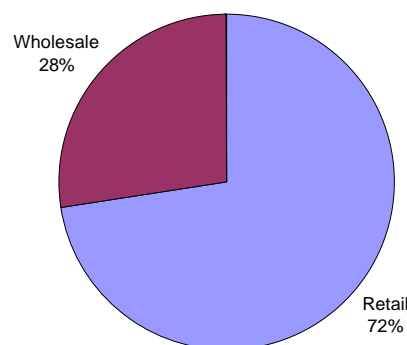


Performance	12M	6M	3M	1M
in RON	-13.0%	-33.3%	-18.3%	-13.0%
in EUR	-20.4%	-43.4%	-24.9%	-16.5%

### Company description

IT&C, electronics and home appliances retailer Flamingo International was listed on the BSE after an IPO in June 2005. At the end of 2005, Flamingo announced its merger with electronics retailer Flanco in a transaction that was concluded in May 2006. Currently, Flamingo stores are operated under three brands: Flanco World (large surface shops), Flamingo Computers (mid-size shops focused on IT&C activities) and Flanco (medium-size shops). In order to achieve its targets in terms of sales and profitability, the firm has a strategic objective to develop a large surface shop network up to a critical size - the target is 20 Flanco World stores at the end of 2007; another 10 new locations are to be opened in 2008.

### Sales breakdown (1-3Q 2007)



Source: Company data

### Strength/Opportunities

- Market expected to grow at accelerated pace of 10-15% p.a. until 2012, with fastest growth of IT&C segment and slowest in electronics
- New specialized management started last year
- Most delicate part of restructuring process is almost finished (47 unprofitable units were closed in 2007, personnel downsizing from 2,000 in January 2006 to 910 in September 2007)
- Sale of some real estate worth EUR 11.8mn will allow development of large surface shop network at faster pace

- Benefits from Flanco World network expansion starting in 2008
- Potential acquisition target

### Weakness/Threats

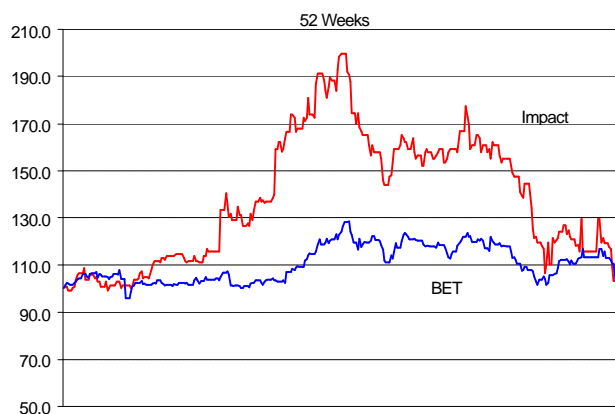
- Low margins in industry
- Financial results were systematically below consensus levels
- Pressure on operational expenses side induced by boom of real estate market, personnel costs

## Impact Developer & Contractor

ROMANIA / Real estate developer

Share price (RON)	0.4	Reuters	IMPT.BX	Free float	60.8%
Number of shares (mn)	2,000	Bloomberg	IMP RO	Shareholders	
Market cap. (RON/EUR mn)	742.0 / 200.6	<b>Target price (RON)</b>	-	Dan Ioan Popp (27.95%)	
Enterprise value RON/EUR mn)	845.8 / 231.3	Ex-dividend date	-	Carmen Sandulescu (11.29%)	
Average daily turnover 3M (pcs)	1,589,682	Index weight (BET)	6.68%	Homepage:	w w w .i m p a c t s a . r o

RON mn	2004	2005	2006	1-3Q 2007
Total revenues	111.5	165.4	117.5	69.9
EBITDA	19.6	13.6	22.8	13.7
EBIT	18.1	11.0	19.2	11.8
Net profit	18.9	10.7	18.3	14.9
EPS (RON)	0.038	0.013	0.018	0.013
CEPS (RON)	0.040	0.019	0.021	-
BVPS (RON)	0.179	0.154	0.144	0.291
Div/share (RON)	0.011	0.000	0.000	-
EV/EBITDA (x)	10.9	28.5	20.8	n.a.
P/E (x)	9.9	27.6	20.3	0.0
P/CE (x)	9.2	19.2	17.5	0.0
Dividend yield	3.0%	0.0%	0.0%	n.a.
Operating margin	16.2%	6.7%	16.4%	16.9%
Net margin	16.9%	6.5%	15.6%	21.4%

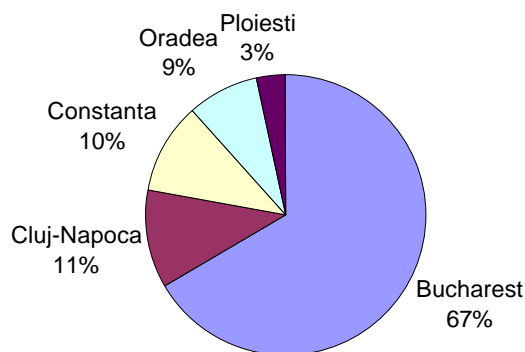


Performanc	12M	6M	3M	1M
in RON	-3.1%	-49.5%	-39.6%	-25.8%
in EUR	-10.7%	-57.3%	-44.7%	-29.3%

### Company description

Impact is a real estate developer that was focused on small residential projects until 2007. Starting this year, the firm adopted a new strategy based on developing large real estate projects, including residential, commercial, logistics, entertainment, hospitals, etc. The developer is preparing to launch three major projects (Ghencea, Greenfield II, Lomb) with a market value estimated at over EUR 3bn in partnership with other investors; a strategic alliance with Lehman Brothers was already announced. In this context, Impact launched inquiries in October for developing 100 real estate units in partnerships. The company raised EUR 46mn in September through a share capital increase, the largest so far on the Romanian capital market.

### Split of reported property value\* (04/07)



\*) Value of real estate assets according to DTZ Echinox study is EUR 206.7mn Source: Company data

### Strength/Opportunities

- High growth potential for all segments of real estate market
- After successful share capital increase, business plan for December 2008 could be achieved
- Partnership with Lehman Brothers will bring along access to know-how and financial resources
- Valuable stock of land lots for future projects
- Adjusted NAV of over EUR 200mn based on market value of company's real estate assets (April 2007)

### Weakness/Threats

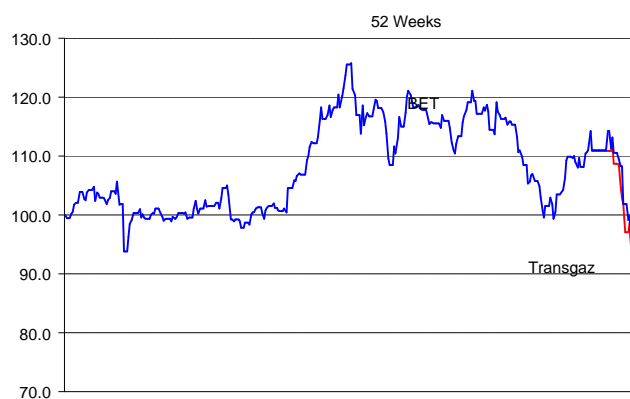
- Business risk regarding managing and financing of its three major real estate projects
- Insufficient experience and expertise in complex real estate projects
- Negative cash flow from operations so far, mainly due to company's policy of financing its clients
- Competition with other real estate developers is increasing and already affecting Impact's market share
- Significant exposure to currency risk and higher costs of manual labor in construction sector

## Transgaz

### ROMANIA / Gas transportation

Share price (RON)	286.0	Reuters	TGNRR.BX	Free float	10.0%
Number of shares (mn)	11.8	Bloomberg	TGN RO	Shareholders	Property Fund (14.99%)
Market cap. (RON/EUR mn)	2,971.2 / 803.4	<b>Target price (RON)</b>		- Ministry of Economy and Finance (75.01%)	
Enterprise value RON/EUR mn)	3,280.0 / 894.7	Ex-dividend date	1/0/1900		
Average daily turnover 3M (pcs)	-	Index w eight (BET)	-	Homepage:	www.transgaz.ro

RON mn	2004	2005	2006	1H 2007
Net sales	774.2	780.6	935.0	496.0
EBITDA	314.2	299.4	341.6	189.4
EBIT	159.7	138.2	176.3	110.2
Net profit	224.1	96.0	161.6	101.1
EPS (RON)	21.567	9.241	15.551	8.584
CEPS (RON)	n.a.	24.758	31.462	-
BVPS (RON)	208.046	211.656	219.739	192.170
Div/share (RON)	0.000	0.000	0.000	-
EV/EBITDA (x)	10.2	11.2	9.6	-
P/E (x)	13.3	30.9	18.4	-
P/CE (x)	n.a.	11.6	9.1	-
Dividend yield	0.0%	0.0%	0.0%	-
Operating margin	20.6%	17.7%	18.9%	22.2%
Net margin	28.9%	12.3%	17.3%	20.4%

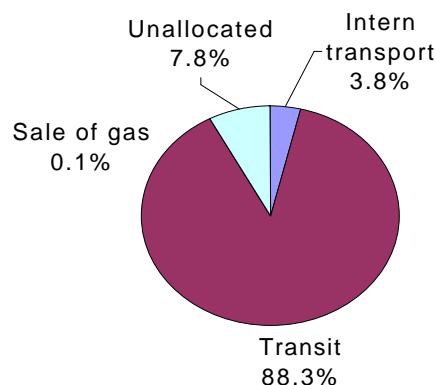


Performanc	12M	6M	3M	1M
in RON	-	-	-	-3.0%
in EUR	-	-	-	-6.8%

### Company description

Company description (680 characters including space)  
 Transgaz operates the national gas transport system and provides international transit services for Russian gas, based on relationships with Gazprom and Bulgargaz. The company has 690 gas pipelines, which are granted by the state according to concession agreements available for 30 years (up to 2032). The transport infrastructure includes 11,757km domestic transport pipelines and three transit pipelines with a length of 562km. About 68.5% of the network is outdated, with a functional life that exceeds the standard lifetime of 25 years. The government plan is that all pipelines used over their projected lifetime have to be rehabilitated by 2018. Transgaz is floated on the BSE following a EUR 63mn very successful launched at the end of 2007 which was oversubscribed by 28 times.

### EBIT breakdown (2006)



Source: Company data

### Strength/Opportunities

- Official methodology for intern transport tariff encourages long term CAPEX in transport infrastructure
- High stability of revenues from transit business for the next five years
- High margins from transit business which accounted for over 85% of company's EBIT in the last two years
- Major corporate growth opportunities in the scenario of implementation of Nabucco pipeline where the company is one of the partners
- Low debt favors the implementing of long term CAPEX plan
- The company's guidelines for 2008 are significant over 2007 figures

### Weakness/Threats

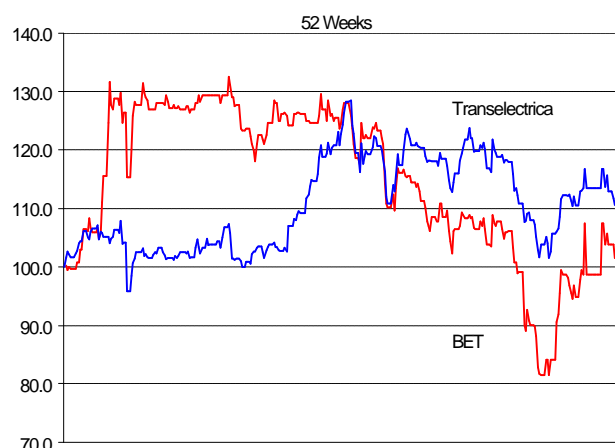
- High dependence by transit business
- Low margins (below 3%) from intern transport services induced by revenues cap methodology established by the regulatory authority (ANRGN)
- Low predictability of operating profit from transport services
- The outlook of revenues from transit services in the long run is highly dependent on the final decisions regarding routes of international transport pipelines

## Transelectrica

### ROMANIA / Utilities

Share price (RON)	33.5	Reuters	TSEL.BX	Free float	10.0%
Number of shares (mn)	73	Bloomberg	TEL RO	Shareholders	Romanian state (76.5%) Fondul Proprietatea (13.5%)
Market cap. (RON/EUR mn)	2,455.5 / 665.8	<b>Target price (RON)</b>	-		
Enterprise value RON/EUR mn)	3,041.1 / 839.0	Ex-dividend date	5/10/2007		
Average daily turnover 3M (pcs)	25,310	Index w eight (BET)	6.61%	Homepage:	w w w .transelectrica.ro

RON mn	2004	2005	2006	1H 2007
Net sales	1,060.8	1,765.6	2,503.8	1,105.0
EBITDA	280.1	340.5	440.1	155.9
EBIT	145.2	193.0	279.8	62.9
Net profit	86.6	126.8	294.1	96.6
EPS (RON)	1.313	1.922	4.012	1.318
CEPS (RON)	n.a.	4.157	6.199	-
BVPS (RON)	18.867	21.104	21.882	22.540
Div/share (RON)	0.108	0.290	1.470	-
EV/EBITDA (x)	12.0	11.4	6.9	-
P/E (x)	25.5	17.4	8.3	-
P/CE (x)	10.0	8.1	5.4	-
Dividend yield	0.3%	0.9%	4.4%	-
Operating margin	13.7%	10.9%	11.2%	5.7%
Net margin	8.2%	7.2%	11.7%	8.7%

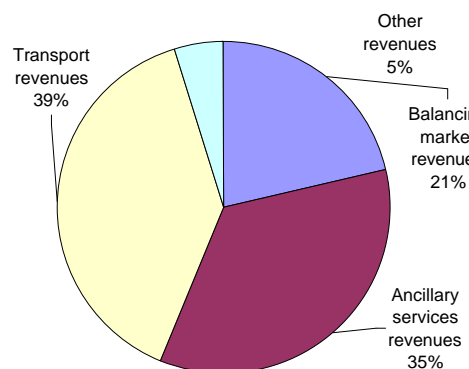


Performanc	12M	6M	3M	1M
in RON	-9.9%	-29.6%	-13.2%	-5.1%
in EUR	-17.5%	-40.3%	-20.3%	-8.9%

### Company description

Transelectrica is Romania's transmission system operator, which plays a key role in the Romanian electricity market. It manages and operates the electricity transmission system and provides electricity exchanges among central and southeastern European countries, as a member of UCTE and ETSO. Transelectrica is responsible for electricity transmission, system and market operation, and grid and market infrastructure development, ensuring the security of the Romanian power system. It also serves as the main link between electricity supply and demand, matching power generation with demand. Previously 100% state-owned, a stake of 10% was floated on the BSE in 2006, with an IPO worth EUR 34.5mn.

### Total operating income breakdown (1H07)



Source: Company data

### Strength/Opportunities

- Favorable outlook from increase of interconnection capacity of Romanian grid in coming years
- Romania's strategic objective to increase quantity of electricity produced by 47.5% between 2008 and 2015
- Transmission tariff methodology encourages long-term investments in electricity grid
- Low costs of long-term loans, due to government guarantees
- Free-float to increase by 3.5% starting March 2008

### Weakness/Threats

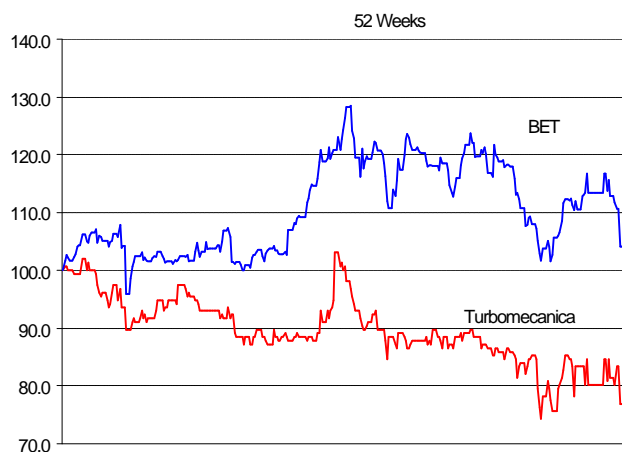
- Revenues cap methodology for transmission tariff induced high volatility of operating profit
- Long-term loans should substantially increase, in order to implement major CAPEX plan worth EUR 2bn by 2020 (according to national energy strategy)
- Low level of retained earnings (payout ratio of at least 50% as state-owned company)
- Regulatory risks regarding changing rules for computing transmission tariff
- Currency mismatch: loan payments in FX, revenues in RON

## Turbomecanica

### ROMANIA / Engineering & machinery

Share price (RON)	0.6	Reuters	TUBU.BX	Free float	50.5%
Number of shares (mn)*	369.4	Bloomberg	TBM RO	Shareholders	R. Viehmann (25.87%)
Market cap. (RON/EUR mn)	225.4 / 60.9	<b>Target price (RON)</b>	-		D. Ciorapciu (15.16%)
Enterprise value RON/EUR mn)	241.5 / 65.7	Ex-dividend date	5/11/2007		SIF Banat Crisana (8.45%)
Average daily turnover 3M (pcs)	210,061	Index weight (BET)	1.76%	Homepage:	w w w .turbomecanica.ro

RON mn	2004	2005	2006	1-3Q 2007
Total revenues	98.2	109.4	109.8	66.7
EBITDA	26.3	27.2	23.5	18.5
EBIT	22.2	23.0	18.9	13.7
Net profit	16.5	17.7	16.6	11.3
EPS (RON)	0.045	0.048	0.045	0.030
CEPS (RON)	0.056	0.059	0.057	-
BVPS (RON)	0.175	0.181	0.275	0.294
Div/share (RON)	0.992	1.090	0.030	-
EV/EBITDA (x)	8.0	7.7	9.6	-
P/E (x)	12.7	11.8	12.6	-
P/Ce (x)	10.1	9.5	9.9	-
Dividend yield	5.2%	5.7%	0.2%	-
Operating margin	22.6%	21.0%	17.2%	20.6%
Net margin	16.8%	16.2%	15.1%	16.9%

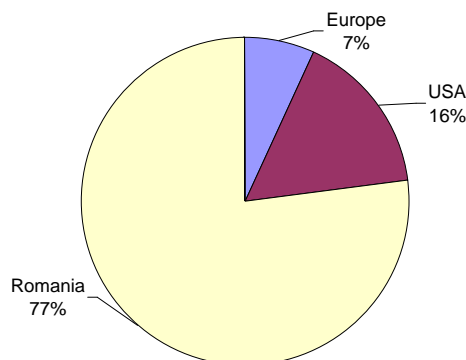


Performance	12M	6M	3M	1M
in RON	-27.6%	-26.1%	-16.3%	-13.1%
in EUR	-33.7%	-37.3%	-23.1%	-16.5%

### Company description

Turbomecanica is a manufacturer of components and subassemblies for turbojets and turbo shafts, as well as an overhauler/repairer of aero engines and dynamic components for PUMA helicopters. Its products comprise a wide range of aeronautic components (gears, cases, shafts, rotating parts, sheet metal components, aerodynamic control surfaces type parts, accessories for aeronautical engines, helicopter gearboxes and rotor heads, turbines and turbochargers, airframe components). The company operates on long-term contracts, both in domestic and foreign markets, also producing on specific requirements. Turbomecanica is also active in the areas of power generating systems and medical and military applications.

### Turnover breakdown (2006)



Source: Company data

### Strength/Opportunities

- Only jet and turbo engine manufacturer in Eastern Europe
- High margins
- Contracts with General Electric, Rolls-Royce, Pratt & Whitney and other strategic customers (Agusta)
- Positive influence of restructuring production process and portfolio products starting with 2008
- High quality standards
- Status as potential takeover target

### Weakness/Threats

- Significant dependence on domestic clients (National Defence Ministry and IAR Brasov)
- As happened in the last two years, 2007 sales and profit to reach same values y/y
- Long period for assimilating new components and subassemblies
- Major investments are needed to increase sales substantially in long run
- Significant currency exposure



## Petrom

## Accumulate

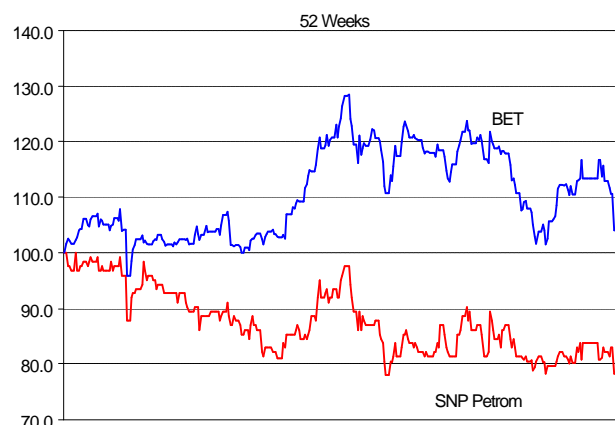
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### ROMANIA / Oil & gas

Share price (RON)	0.44	Reuters	SNPP.BX	Free float	6.2%
Number of shares (mn)	56,644	Bloomberg	SNP RO	Shareholders	OMV (51.01%)
Market cap. (RON/EUR mn)	25,150.0 / 6,819.6	<b>Target price (RON)</b>	<b>0.6080</b>		AVAS (20.647%)
Enterprise value RON/EUR mn)	23,100.0 / 6,251.5	Ex-dividend date	5/2/2007	Property Fund (20.11%), EBRD (2.03%)	
Average daily turnover 3M (pcs)	4,626,217	Index weight (BET)	19.52%	Homepage:	www.petrom.ro

RON mn	2006	2007e	2008e	2009e
Total revenues	13,416	11,337.1	11,676.0	11,336.5
EBITDA	3,597.4	3,045.4	3,724.4	4,176.9
EBIT	2,777.4	2,373.5	2,961.7	3,431.7
Net profit	2,285.5	2,171.0	2,512.9	3,007.3
EPS (RON)	0.040	0.038	0.044	0.053
CEPS (RON)	0.055	0.043	0.052	0.057
BVPS (RON)	0.218	0.237	0.259	0.285
Div/share (RON)	0.013	0.018	0.019	0.022
EV/EBITDA (x)	6.0	7.6	6.4	5.8
P/E (x)	11.0	11.6	10.0	8.4
P/CE (x)	8.1	10.4	8.6	7.7
Dividend yield	3.0%	4.0%	4.3%	5.0%
Operating margin	20.7%	20.9%	25.4%	30.3%
Net margin	17.0%	19.1%	21.5%	26.5%



Performance	12M	6M	3M	1M
in RON	-27.8%	-26.0%	-11.2%	-9.9%
in EUR	-33.9%	-37.2%	-18.5%	-13.5%

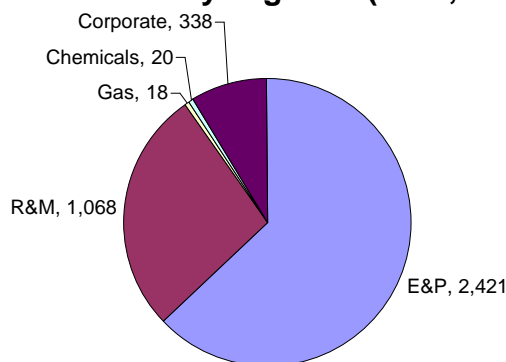
### Company description

Petrom is Romania's flagship integrated oil company and the sole crude oil producer, while its natural gas production is roughly half of the country's output. Petrom is also the leading refining, petrochemical and marketing company in Romania. Petrom is engaged in E&P activities in Romania, Kazakhstan and Russia, holding approximately 940mn boe proven hydrocarbon reserves, while 2P reserves are 1.435bn boe, mainly in Romania (smaller reserves in Kazakhstan/Russia). Roughly half of the domestic gas production (close to 6bcm) is provided by Petrom. The company owns two main refineries: Petrobrazi (nameplate primary dist. cap.: 4.5mn tons, Nelson: 8.8) and Arpechim (nameplate primary dist. cap.: 3.5mn tons, Nelson: 8.3). Petrom operates roughly 800 filling stations, of which some 200 are abroad. At the end of September 2007, 416 filling stations were running under the Full Agency system, out of 437 operational Petrom filling stations.

### Strength/Opportunities

- Big long-term benefits from restructuring done by OMV, with streamlined operations and improved efficiency
- Upstream portfolio is heavily profitable in current high crude oil price environment
- Ambitious 2010 objectives in E&P segment - stabilization of production level at 210,000boe/day in Romania and 70,000boe/day abroad, as well as reaching reserve replacement ratio of 70% (from 33% in 2006)
- Expansion of Petrobrazi's capacity to 6mn tons and significant improvement of refining cost position planned for 2010
- Positive impact on profitability from convergence in next two years of domestic gas price to import price

### Investments by segment (2007, RON mn)



Source: Company data

### Weakness/Threats

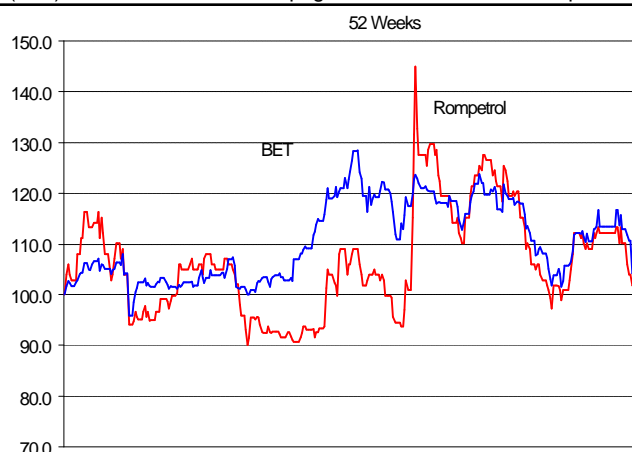
- Petrom still has high lifting costs, which can be cut marginally, as high investment costs counterbalance efficiency gains
- In USD terms, production costs are increasing, grabbing profits from high oil prices
- Downstream business is loss-maker, which can only change after 2009, when Petrobrazi refinery upgrade is accomplished
- Relatively low free float may discourage demand from large investors
- Government plans to assign 8% stake to former and current employees of Petrom could cause share overhang in short term

## Rompetrol Rafinare

### ROMANIA / Oil & gas

Share price (RON)	0.09	Reuters	ROMP.BX	Free float	25.6%
Number of shares (mn)	21,099.3	Bloomberg	RRC RO	Shareholders	SC Rompetrol SA (9.14%)
Market cap. (RON/EUR mn)	1,962.2 / 530.6	<b>Target price (RON)</b>	-	The Rompetrol Group N.V. (50.59%)	
Enterprise value RON/EUR mn)	2,939.8 / 819.7	Ex-dividend date	-	S.C. Rompetrol Financial Group (14.72%)	
Average daily turnover 3M (pcs)	9,921,300	Index weight (BET)	11.11%	Homepage:	www.rompetrol.ro

RON mn	2004	2005	2006	1-3Q 2007
Total revenues	-	4,320.2	5,405.5	4,465.4
EBITDA	-	405.2	313.2	308.7
EBIT	-	272.0	162.3	200.9
Net profit	-	186.0	-71.6	-29.4
EPS (RON)	-	0.009	-0.003	-
CEPS (RON)	-	0.015	0.004	0.015
BVPS (RON)	-	0.072	0.068	0.000
Div/share (RON)	-	0.000	0.000	0.000
EV/EBITDA (x)	-	neg.	9.4	n.a.
P/E (x)	-	10.6	-27.4	neg.
P/CE (x)	-	neg.	24.7	0.0
Dividend yield	-	0.0%	0.0%	0.0%
Operating margin	-	6.3%	3.0%	4.5%
Net margin	-	4.3%	-1.3%	-0.7%

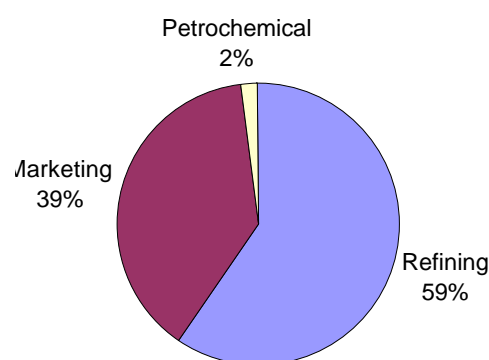


Performance	12M	6M	3M	1M
in RON	-7.9%	-12.3%	-19.1%	-15.5%
in EUR	-15.2%	-25.8%	-25.9%	-20.3%

### Company description

Rompetrol Rafinare is the second largest Romanian oil company, which operates the Petromidia refinery (4.8mn tons nameplate capacity), the only seaside refinery in the country. The company is a member of The Rompetrol Group (TRG), the majority stake (75%) in which was acquired in August by KazMunaiGaz (KMG), the national operator in the oil & gas sector of Kazakhstan. This transaction changed the outlook for Rompetrol Rafinare, the main company of the group. The refinery is the best quality unit in the country with a 9.0 Nelson complexity index and high (82%) white product yield. It also operates the marketing network of TRG in the country: 111 company-owned, company-operated (COCO) filling stations, 182 dealer-owned, dealer-operated (DODO) filling stations, over 50 express movable stations and six large depots.

### EBITDA breakdown (1-3Q 2007)



Source: Company data

### Strength/Opportunities

- Best quality Romanian refinery - export to Western Europe
- Significant potential for increase of marketing business profitability due to extensive development of domestic filling station network
- Flexible access to oil resources in Kazakhstan
- To build (Sep 2008) marine terminal aimed at ensuring supply of crude oil from Kazakhstan
- Benefits from expected increase of refinery capacity and utilization rate (77% in 2006)

### Weakness/Threats

- Rompetrol needs external capital to finance its upgrade program
- The expiry of the hybrid assets in September 2010 can result in a dilution
- The difficult structure of the entire Rompetrol holding can distract investors
- High transport cost on the domestic market due to the weak logistic and transport system

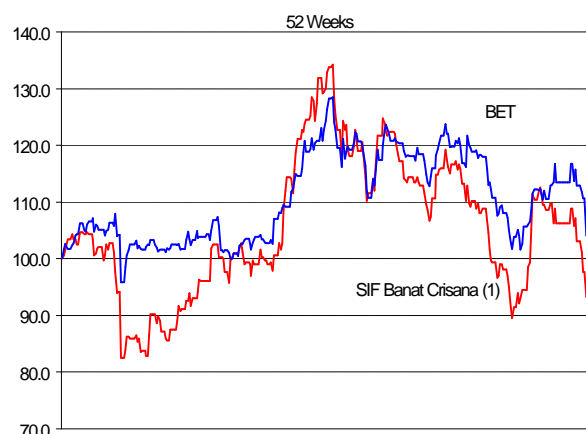
## SIF Banat Crisana (1)

### ROMANIA / Investment Fund

Share price (ROL)	2.9	Reuters	SIF1.BX	Free float	75.4%
Number of shares (mn)	548.85	Bloomberg	SIF1 RO	Shareholders	ING Bank NV (1.00%)
Market cap. (ROL/EUR mn)	1,586.2 / 430.1	<b>Target price (ROL)</b>	- Banca Trans. (7.51%), Ampelus Hldg (0.92%)		
Enterprise value ROL/EUR mn)	-	Ex-dividend date	5/14/2007	Julius Baer Investment Management (1.69%)	
Average daily turnover 3M (pcs)	1,192,792	Index weight (BET-FI)	17.95%	Homepage:	www.banat-crisana.com

RON mn	2004	2005	2006	1-3Q07
Total revenues	69.1	105.1	154.2	106.1
Dividend received	28.8	59.8	62.4	52.0
Disposal of financial investments	29.5	28.7	54.1	40.7
Net profit	40.3	50.4	83.1	78.9
NAV*	623.2	981.4	1,516.9	2,047.6
NAVS (ROL)	1.135	1.788	2.764	3.731
EPS (ROL)	0.073	0.092	0.151	0.144
Div/share (ROL)	0.050	0.050	0.060	-
P/E	39.53	31.56	19.14	-
P/NAVS	2.55	1.62	1.05	0.78
Dividend yield (%)	1.7%	1.7%	2.1%	-
Value of listed shares portfolio'	374.9	822.5	1,157.5	1,661.4
Value of unlisted shares portfolio	275.6	263.3	308.5	325.6

\*) According to Romanian National Securities Commission (CNVM) assessment methodology



Performance	12M	6M	3M	1M
in ROL	-11.3%	-33.7%	-21.7%	-19.3%
in EUR	-18.8%	-43.7%	-28.1%	-22.5%

### Company description

Based on the first privatization law, SIF Banat Crisana was set up in 1991 as Private Property Fund I. The initial portfolio of all financial investment companies resulted from the closing of the Privatization Program dedicated to the Romanian population. As a result of this process, SIFs lost most of their valuable holdings, excepting stakes in banks. In 1996, Private Property Fund I was turned into SIF Banat Crisana, practically becoming a joint stock company controlled by shareholders and under supervision of the National Securities Commission. The company was listed on the BSE in November 1999.

### Top 10 holdings (October 31, 2007)

Company	SIF's stake	Recorded value in assets* (RON mn)
BRD-GSG Bucuresti	4.6%	873.4
Banca Transilvania Cluj	5.0%	277.7
Banca Comerciala Romana	6.0%	180.6
Vrancart Adjud	74.7%	88.3
Biofarm Bucuresti	10.0%	48.0
Mittal Steel Hunedoara	11.0%	40.3
Constructii Transilvania	18.4%	38.9
Iamu Blaj	76.7%	29.9
Bancpost	5.2%	27.1
Calipso Oradea	87.1%	25.4

\*According to CNVM assessment methodology  
Source: Company data

### Strength/Opportunities

- Reasonable potential for significant revenue from selling holdings
- Low level of administrative costs
- Valuable assets in banking sector
- Significant potential to improve financial assets portfolio
- Positive image on capital market
- Low risk of conflict between management and important local shareholders

### Weakness/Threats

- Very large number of holdings, which involve difficulties in portfolio management and higher costs
- Low liquidity of portfolio
- Conservative management in terms of restructuring portfolio
- High weight of minority bank stakes in total assets means low impact from portfolio management decisions on NAV
- Reduced weight of dividends received from companies other than BCR and BRD (less than 20% of total dividends)

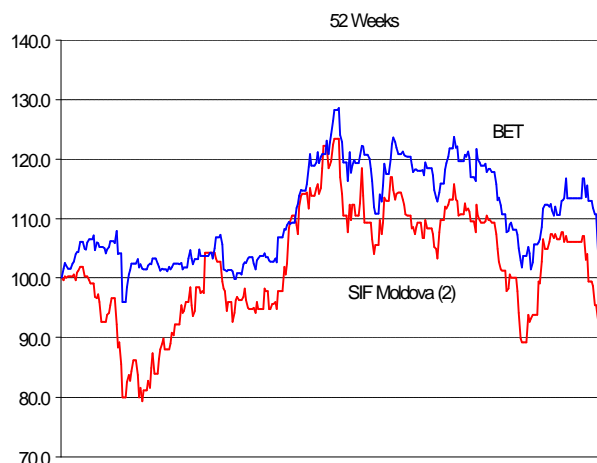
## SIF Moldova (2)

### ROMANIA / Investment Fund

Share price (ROL)	2.8	Reuters	SIF2.BX	Free float	89.6%
Number of shares (mn)	519.09	Bloomberg	SIF2 RO	Shareholders	
Market cap. (ROL/EUR mn)	1,474.2 / 398.6	<b>Target price (ROL)</b>	-	Danske Fund & affiliates (1.96%)	
Enterprise value RON/EUR mn)	-	Ex-dividend date	5/15/2007	Julius Baer & affiliates(1.72%)	
Average daily turnover 3M (pcs)	1,936,688	Index w eight (BET-FI)	16.60%	Homepage:	w w w .sifm.ro

RON mn	2004	2005	2006	1-3Q07
Total revenues	74.8	90.6	151.0	87.5
Dividend received	16.9	30.3	32.8	36.2
Disposal of financial investments	10.7	31.8	47.7	31.1
Net profit	45.7	48.6	48.3	56.0
NAV*	538.5	858.7	1,357.6	1,856.1
NAVS (RON)	1.037	1.654	2.615	3.576
EPS (RON)	0.088	0.094	0.093	0.108
Div/share (RON)	0.060	0.067	0.063	-
P/E	32.45	30.56	30.71	-
P/NAVS	2.76	1.73	1.09	0.80
Dividend yield (%)	2.1%	2.3%	2.2%	-
Value of listed shares portfolio'	306.1	737.0	1,079.3	1,588.2
Value of unlisted shares portfoli	179.7	197.5	244.6	246.5

\*) According to Romanian National Securities Commission (CNVM) assessment methodology



Performance	12M	6M	3M	1M
in ROL	-12.0%	-28.7%	-19.7%	-18.3%
in EUR	-19.4%	-39.5%	-26.2%	-21.5%

### Company description

Based on the first privatization law, SIF Moldova was set up in 1991 as Private Property Fund II. In 1996, Private Property Fund II was turned into a financial investment company, practically becoming a joint stock company controlled by shareholders and under supervision of the National Securities Commission. The quality of SIF Moldova's portfolio was strongly affected by a huge scandal in 1996, when the former president of the company warranted payments of important amounts representing the objects of promissory notes issued by private companies. The resolution of SIF Moldova, especially up to 2004, consisted in making financial investments in order to be able to pay the liabilities generated from these promissory notes. Thus, this financial investment company failed to improve the quality of its portfolio.

### Strength/Opportunities

- Valuable assets in banking sector
- Active management portfolio in last three years, especially in companies listed on BSE
- Investments plan on BSE worth RON 70mn per year in 2008 and 2009
- Intention to increase share capital in 2008 through bonus issue, due to capitalization of profit for 2007 and previous years
- First SIF that intends to raise capital from BSE in order to finance investment plan

### Top 10 holdings (October 31, 2007)

Company	SIF's stake	Recorded value in assets* (RON mn)
BRD-GSG Bucuresti	5.0%	955.5
Banca Transilvania Cluj	4.2%	230.9
Banca Comerciala Romana	6.0%	180.6
Mecanica Ceahlau Piatra	55.2%	55.0
Biofarm Bucuresti	11.0%	52.7
Mittal Steel Roman (Petrotub)	14.1%	50.2
Petrom Bucuresti	0.1%	43.6
Tesatoriile Reunite Bucuresti	71.2%	42.1
Bancpost	5.1%	26.9
Aerostar Bacau	11.2%	24.8

\*According to CNVM assessment methodology

Source: Company data

### Weakness/Threats

- Lower number of valuable holdings and lower potential of significant revenues from selling holdings compared to other four SIFs
- Low value of stakes in companies listed on BSE (other than BRD, Banca Transilvania)
- Low liquidity of portfolio
- High weight of minority bank stakes in total assets means low impact of portfolio management decisions on NAV
- Reduced weight of dividends received from companies other than BCR and BRD (less than 20% of total dividends)

## SIF Transilvania (3)

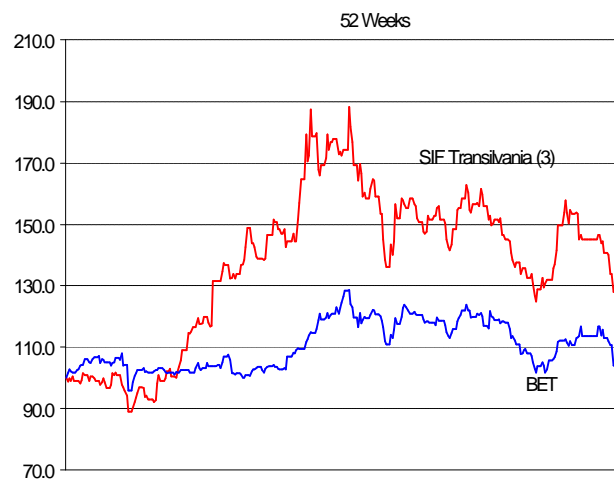
### ROMANIA / Investment Fund

Share price (RON)	1.9	Reuters	SIF3.BX	Free float	84.1%
Number of shares (mn)	1,092.14	Bloomberg	SIF3 RO	Shareholders	
Market cap. (RON/EUR mn)	2,107.8 / 570.0	<b>Target price (RON)</b>	-	Danske Fund & affiliates (2.00%)	
Enterprise value RON/EUR mn)	-	Ex-dividend date	-	Julius Baer & affiliates (1.54%)	
Average daily turnover 3M (pcs)	1,168,352	Index weight (BET-FI)	24.24%	Homepage:	www.transif.ro

RON mn	2004	2005	2006	1-3Q07
Total revenues	149.4	84.0	132.0	156.1
Dividend received	23.4	32.4	34.5	39.6
Disposal of financial investments	121.7	41.6	93.2	103.2
Net profit	81.4	37.8	53.2	104.2
NAV*	722.0	1,051.3	1,566.9	2,813.4
NAVS (RON)	0.661	0.963	1.435	2.576
EPS (RON)	0.075	0.035	0.049	0.095
Div/share (RON)	0.065	0.050	n/a	-
P/E	26.17	56.30	40.05	-
P/NAVS	2.95	2.03	1.36	0.76
Dividend yield (%)	3.3%	2.6%	-	-

Value of listed shares portfolio*	468.2	856.2	1,117.8	2,255.3
Value of unlisted shares portfolio	244.6	316.1	380.9	441.5

\* According to Romanian National Securities Commission (CNVM) assessment methodology



Performance	12M	6M	3M	1M
in RON	23.0%	-29.3%	-21.1%	-20.1%
in EUR	12.7%	-40.0%	-27.5%	-23.3%

### Company description

Based on the first privatization law, SIF Transilvania was set up in 1991 as Private Property Fund III. The initial portfolio of all financial investment companies resulted from the closing of the Privatization Program dedicated to the Romanian population. As a result of this process, SIFs lost the most valuable holdings, excepting stakes in banks. In 1996, Private Property Fund III was turned into SIF Transilvania, practically becoming a joint stock company controlled by shareholders and under supervision of the National Securities Commission. The company was listed on the BSE in November 1999. SIF Transilvania is the first financial investment company that did not distribute dividends for the previous year, as a result of the 2007 ESM decision regarding a share capital increase through capitalization of the 2006 net profit.

### Strength/Opportunities

- Significant revenue potential from selling holdings
- Valuable assets in banking sector
- Other valuable assets, especially in tourism sector
- Consistent strategy to consolidate holdings in tourism through an investment plan worth EUR 100mn in next three years
- Relevant potential to improve financial assets portfolio
- Positive image on capital market in context of adoption of bonus issue policy
- Active management in terms of restructuring portfolio

### Top 10 holdings (October 31, 2007)

Company	SIF's stake	Recorded value in assets* (RON mn)
BRD-GSG Bucuresti	5.0%	950.2
THR Marea Neagra	77.5%	309.6
Turism Felix	62.9%	305.6
Banca Comerciala Romana	6.0%	180.6
ARO-Palace	86.0%	89.3
COMCM Constanta	56.4%	80.0
Santierul Naval Orsova	50.0%	79.9
Independenta Sibiu	53.3%	73.5
THR Prahova	89.5%	52.9
Tratament Balnear	91.6%	41.1

\*According to CNVM assessment methodology

Source: Company data

### Weakness/Threats

- No exit from tourism sector, in spite of significant investments made in last few years
- High weight of minority bank stakes in total assets means low impact of portfolio management decisions on NAV
- Reduced weight of dividends received from companies other than BCR and BRD (less than 20% of total dividends)



## SIF Muntenia (4)

### ROMANIA / Investment Fund

Share price (RON)	2.0	Reuters	SIF4.BX	Free float	54.6%
Number of shares (mn)	807.04	Bloomberg	SIF4 RO	Shareholders	
Market cap. (RON/EUR mn)	1,606.0 / 435.5	<b>Target price (RON)</b>	-	Catalin Chelu and affiliates (0.95%)	
Enterprise value RON/EUR mn)	-	Ex-dividend date	5/14/2007	Julius Baer Investment Management(1.65%)	
Average daily turnover 3M (pcs)	1,888,266	Index weight (BET-FI)	17.99%	Homepage:	w w w .sifmuntenia.ro

RON mn	2004	2005	2006	1-3Q07
Total revenues	74.7	91.2	127.5	97.6
Dividend received	19.8	54.3	35.8	36.1
Disposal of financial investments	46.1	28.1	77.2	39.8
Net profit	42.9	52.4	72.0	63.3
NAV*	527.6	877.7	1,306.8	2,301.6
NAVS (RON)	0.654	1.088	1.619	2.852
EPS (RON)	0.053	0.065	0.089	0.078
Div/share (RON)	0.050	0.060	0.070	-
P/E	37.41	30.66	22.31	-
P/NAVS	3.04	1.83	1.23	0.70
Dividend yield (%)	2.5%	3.0%	3.5%	-

Value of listed shares portfolio<sup>†</sup> 387.8 749.1 979.8 1896.6

Value of unlisted shares portfolio 261.1 280.0 301.4 369.8

*\*) According to Romanian National Securities Commission (CNVM) assessment methodology*



Performance	12M	6M	3M	1M
in RON	9.9%	-34.1%	-21.3%	-19.4%
in EUR	0.7%	-44.1%	-27.8%	-22.6%

### Company description

Based on the first privatization law, SIF Muntenia was set up in 1991 as Private Property Fund IV. The initial portfolio of all financial investment companies resulted from the closing of the Privatization Program dedicated to the Romanian population. As a result of this process, SIFs lost the most of their valuable holdings, excepting stakes in banks. In 1996, Private Property Fund IV was turned into SIF Muntenia, practically becoming a joint stock company controlled by shareholders and under supervision of the National Securities Commission. The company was listed on the BSE in November 1999. SIF Muntenia is the only one of the five financial investment companies that is self-managed by an asset management company founded by the former employees of Private Property Fund IV.

### Top 10 holdings (October 31, 2007)

Company	SIF's stake	Recorded value in assets* (RON mn)
BRD-GSG Bucuresti	5.3%	998.6
Banca Comerciala Romana	6.0%	180.6
Prospectiuni Bucuresti	11.9%	119.2
Bucur Bucuresti	67.6%	110.6
Metav Bucuresti	27.8%	101.3
Romaero Bucuresti	25.9%	79.6
Semrom Muntenia Bucuresti	89.4%	65.3
Comaico Bucuresti	82.6%	53.1
Prefab Bucuresti	12.8%	50.4
Conpet Ploiesti	8.9%	39.4

*\*According to CNVM assessment methodology*

Source: Company data

### Strength/Opportunities

- Significant revenue potential from selling holdings (especially unlisted ones)
- Valuable assets in banking sector
- Other valuable assets, especially in unlisted companies from sectors such as foods, tourism, agriculture
- Relevant potential to improve financial assets portfolio in coming years

### Weakness/Threats

- Low liquidity of portfolio (even compared to other four SIFs)
- Higher level of administrative costs compared to other SIFs
- Very conservative management in terms of investment in listed shares
- High weight of minority bank stakes in total assets means low impact of portfolio management decisions on NAV
- Reduced weight of dividends received from companies other than BCR and BRD (less than 20% of total dividends)



## SIF Oltenia (5)

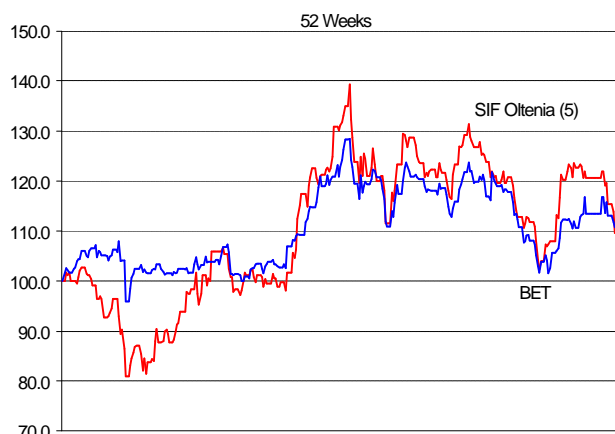
### ROMANIA / Investment Fund

Share price (ROL)	3.7	Reuters	SIF5.BX	Free float	81.2%
Number of shares (mn)	580.17	Bloomberg	SIF5 RO	Shareholders	Banca Transilvania (0.38%)
Market cap. (ROL/EUR mn)	2,135.0 / 577.3	<b>Target price (ROL)</b>	-	Catalin Chelu and affiliates (1.29%)	
Enterprise value ROL/EUR mn)	-	Ex-dividend date	5/11/2007	Julius Baer Investment Management (1.63%)	
Average daily turnover 3M (pcs)	1,726,495	Index weight (BET-FI)	23.22%	Homepage: <a href="http://www.sifolt.ro">www.sifolt.ro</a>	

RON mn	2004	2005	2006	1-3Q07
Total revenues	120.1	81.2	137.0	161.6
Dividend received	21.7	34.3	42.5	47.4
Disposal of financial investments	86.7	41.4	87.1	106.9
Net profit	69.5	54.7	78.9	107.8
NAV*	776.3	1,299.7	1,997.9	2,896.5
NAVS (ROL)	1.338	2.240	3.444	4.993
EPS (ROL)	0.120	0.094	0.136	0.186
Div/share (ROL)	0.065	0.060	0.070	-
P/E	30.72	39.06	27.06	-
P/NAVS	2.75	1.64	1.07	0.74
Dividend yield (%)	1.8%	1.6%	1.9%	-

Value of listed shares portfolio'	584.5	1,263.0	1,693.8	2,524.5
Value of unlisted shares portfolio	217.9	222.4	286.8	299.0

\*) According to Romanian National Securities Commission (CNVM) assessment methodology



Performance	12M	6M	3M	1M
in ROL	3.9%	-22.9%	-16.1%	-15.7%
in EUR	-4.8%	-34.6%	-23.0%	-19.1%

### Company description

Based on the first privatization law, SIF Oltenia was set up in 1991 as Private Property Fund V. The initial portfolio of all financial investment companies resulted from the closing of the Privatization Program dedicated to the Romanian population. As a result of this process, SIFs lost the most valuable holdings, excepting stakes in banks. In 1996, Private Property Fund V was turned into SIF Oltenia, practically becoming a joint stock company controlled by shareholders and under supervision of the National Securities Commission. The company was listed on the BSE in November 1999. In 2006, this SIF's management board and the main local shareholders had a public conflict that resulted in a new management structure. At present, two local businessmen have an important influence over the administration of SIF Oltenia.

### Top 10 holdings (October 31, 2007)

Company	SIF's stake	Recorded value in assets* (RON mn)
BRD-GSG Bucuresti	5.3%	1,014.4
Banca Transilvania Cluj	5.0%	277.6
Petrom Bucuresti	0.9%	263.7
Banca Comerciala Romana	6.1%	184.1
Automobile Craiova	22.0%	126.2
TMK Artrom Slatina	12.2%	105.5
Antibiotice Iasi	10.1%	88.0
Turism Felix Baile Felix	16.3%	78.9
Biofarm Bucuresti	15.1%	72.4
Mercur Craiova	85.5%	65.1

\*According to CNVM assessment methodology

Source: Company data

### Strength/Opportunities

- Significant revenue potential from selling holdings (especially listed companies)
- High value of stakes in companies listed on BSE
- Low level of administrative costs in recent years
- Valuable assets in banking sector; other important stakes in listed companies
- Relevant potential to improve financial assets portfolio in coming years
- Higher liquidity of portfolio compared to other SIFs

### Weakness/Threats

- High weight of minority bank stakes in total assets means low impact of portfolio management decisions on NAV
- Reduced weight of dividends received from companies other than BCR and BRD (less than 20% of total dividends)

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# Fact Sheet

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# Fact Sheet

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Company	Disclosure	Comment
A&D Pharma	--	--
Antibiotice	--	--
Banca Transilvania	--	--
Biofarm	--	--
BRD - Group SG	--	--
Flamingo	--	--
Impact	--	--
Transelectrica	--	--
Turbomecanica	--	--
SNP Petrom	--	--
Rompetrol Rafinarie	--	--
SIF Banat Crisana (1)	--	--
SIF Moldova (2)	--	--
SIF Transilvania (3)	--	--
SIF Muntenia (4)	--	--
SIF Oltenia (5)	--	--

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<b>Buy</b>	> +20% to target price
<b>Accumulate</b>	+10% < target price < +20%
<b>Hold</b>	0% < target price < +10%
<b>Reduce</b>	-10% < target price < 0%
<b>Sell</b>	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

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