Company Report – CLOSED END FUND – Romania – January 27, 2011

Fondul Proprietatea Initial Coverage: **Accumulate**

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Energizing long term drivers

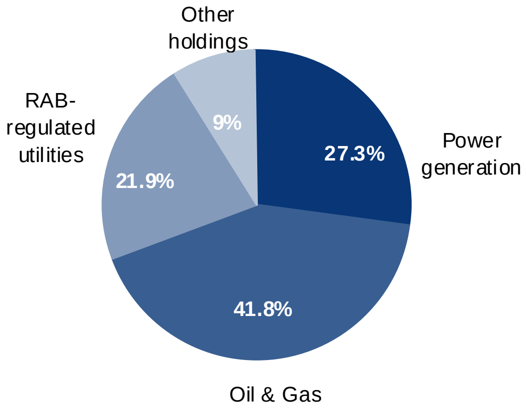
Key figures

Official NAV/share (RON)	1.1124
Market price (RON)	0.6495
Fair NAV/share Erste Group (RON)	1.0327
Target price (RON)	0.7200
Market capitalization (RON mn)	8,949
Official NAV (RON mn)	15,328

Shareholder structure

Ministry of Finance	38.9%
Free-float	61.1%
Reuters	FP.BX

Structure of equity portfolio



Source: Erste Group Research

Top 5 Holdings

Company	Fair value stake (EUR mn)	Weight in total assets
OMV Petrom	986.2	29.4%
Hidroelectrica	478.3	14.2%
Romgaz	286.7	8.5%
Nuclearelectrica	126.4	3.8%
CE Turceni	122.1	3.6%

Source: Erste Group Research

– We reached a fair NAV/share of RON 1.03, based on our conservative SOTP approach, to which we applied a 30% discount. We thus have a target price of RON 0.72/share and an Accumulate recommendation on the stock, which prices in the country's risk profile and the weaknesses of Fondul Proprietatea (PF) portfolio.

– Our target price will move upwards, corresponding to a lower discount in the case of concrete signs of improving governmental actions related to strategic companies from FP portfolio. On the other hand, the will of investors who acquired shares on the grey market to mark their capital gains should cap the upside potential of FP shares at least on the short term.

– The RON 1/share benchmark is fundamentally very sound. However, it is difficult to envisage in the medium/LT a fair NAV/share much above this psychological threshold if the main unlisted holdings like Hidroelectrica, Nuclearelectrica or Romgaz are not floated. This is essentially the main objective for Franklin Templeton during its 4-year initial mandate.

– The 20% stake in Petrom is the largest holding, with a contribution of RON 0.31 to our fair NAV/share, higher than the contribution of the power generation sector of RON 0.26/share. The RAB-regulated utilities also contribute just RON 0.21/share, but we are confident that this sector is a LT source of stability and sustainable growth of FP's assets.

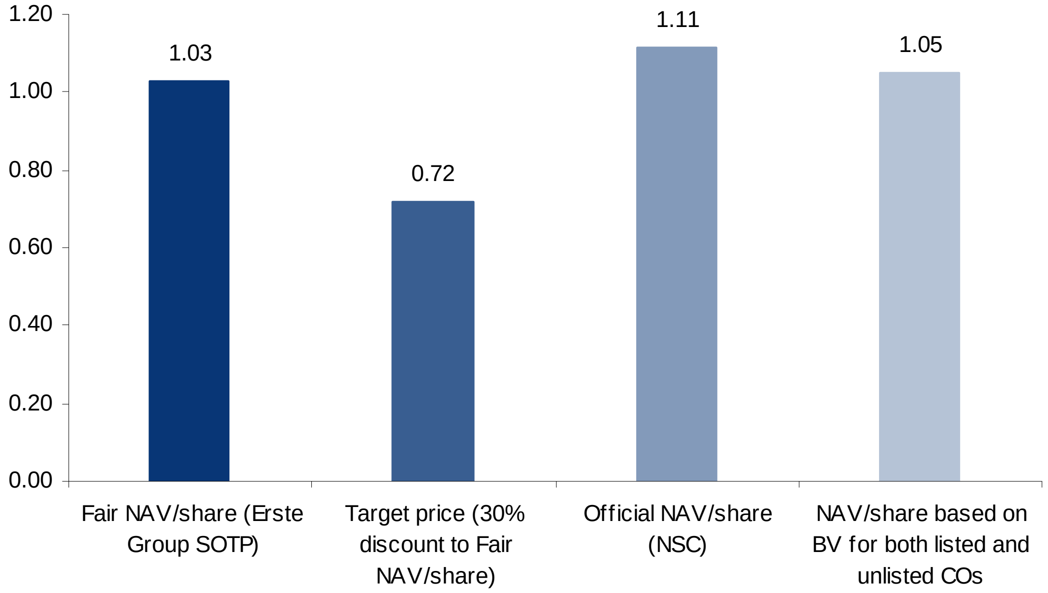
– Our view is that Petrom's outlook is supportive for the FP valuation in the long term, while in the case of the strategic unlisted holdings, such as the five power producers (especially Hidroelectrica and Nuclearelectrica), we are rather pessimistic. Arbitrary government policies aimed at keeping administered prices under control have strongly affected the profitability of such key companies. The power generation sector seems to be at a delicate juncture, with developments in this area decisively influencing the market sentiment of investors towards FP stock.

Company Report – **Fondul Proprietatea**

Investment case

As easy as it is to prove that the Fair NAV/share based on different approaches is inevitably close to RON 1/share, it is difficult to see Fondul Proprietatea (FP) NAV's substantially over this psychological threshold. All valuation tools used lead us to a NAV/share within a tight range around RON 1/share. We achieved a fair value of RON 1.03/share based on our conservative SOTP approach, while the Official NAV is RON 1.11/share. The latter is calculated using the last available closing price for the listed companies (where there is trading activity in the last 30 sessions) and shareholders equity value per latest financial statement or fair value assigned by fund manager, in the case of unlisted companies and listed ones that do not meet the abovementioned criteria. We also see as a relevant benchmark an Equity NAV/share of RON 1.05, based on shareholders equity for both listed and unlisted companies, as of the end of 2009.

Target price and key NAV per share (RON)



Source: Erste Group Research, Fondul Proprietatea

We have assigned FP shares a target price of RON 0.72/share, after applying a 30% discount to our Fair NAV/share. We would justify this discount with the country's risk profile and a few structural weaknesses of the fund's portfolio. Meanwhile, the pressures on the sale side (stemming from the investors who acquired shares on the gray market and are willing to mark their capital gains, as well as from the ex-owners' heirs willing to finally convert into cash their compensation rights) should cap the upside potential of FP shares in the medium term.

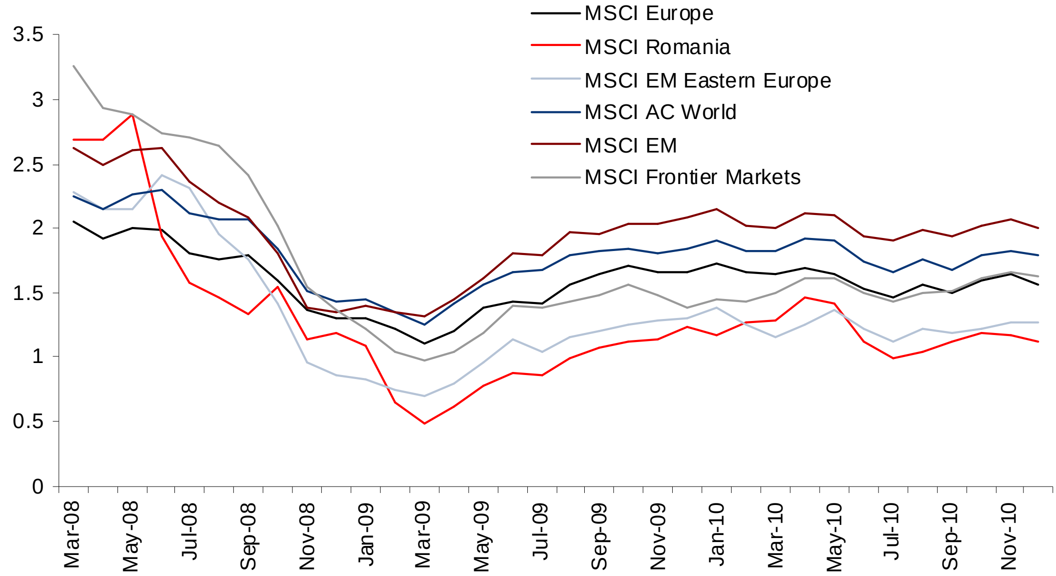
The status of a frontier equity market, together with Romania's non-investment grade BB+ sovereign rating (according to Standard & Poor's), translates into a discount, which is in accordance with the market sentiment related to the investment risk in Romania. On the other hand, there are a few FP portfolio characteristics that cannot be ignored. First of all, more than 50% of the fair NAV/share represents the contribution of unlisted stakes, with the non-public status of strategic companies in the portfolio a major problem in terms of maximizing their values in the long term. Another issue is the state's position as the majority shareholder in a lot of key companies, such as Hidroelectrica and Nuclearelectrica. The arbitrary government policies aimed at keeping tight control of the administered prices and different cross subsidy mechanisms for large industrial consumers strongly affect the profitability of these companies.

The third major weakness is connected to the first two and consists of the lack of exit alternatives. Exiting from the state-controlled companies will only come up after the respective companies' flotation, which however, is not comfortable for the government, as its discretionary control is lost.

Last but not least, we do not see any chance that FP will become a revenue stock, due to the relatively low dividend generation capacity of its portfolio and the dividend policy proposed by Franklin Templeton, i.e. to not distribute to shareholders capital gains from divestitures.

We believe that the 30% discount related to the Fair NAV/share is not exaggerated, if we bear in mind that the five SIFs were traded at more than 50% discounts related to their official NAVs a long period of time. Transactions with these closed-end funds cover more than half of the daily average turnover of the Romanian equity market, so SIFs are a mandatory reference for the future discounts at which FP will be traded. On the other hand, it is reasonable to assume that FP shares will be valued by the market at lower discounts compared to SIFs, due to at least three reasons: 1) the more attractive stock and portfolio profile, with FP's official NAV 2.2 times higher than the cumulate NAV of the SIFs; 2) Franklin Templeton's reputation and expertise in asset management in frontier and emerging markets; and 3) the lack of accumulation restrictions for FP shares compared to SIFs (i.e. the 1% ownership threshold for a group of shareholders acting in a concerted manner).

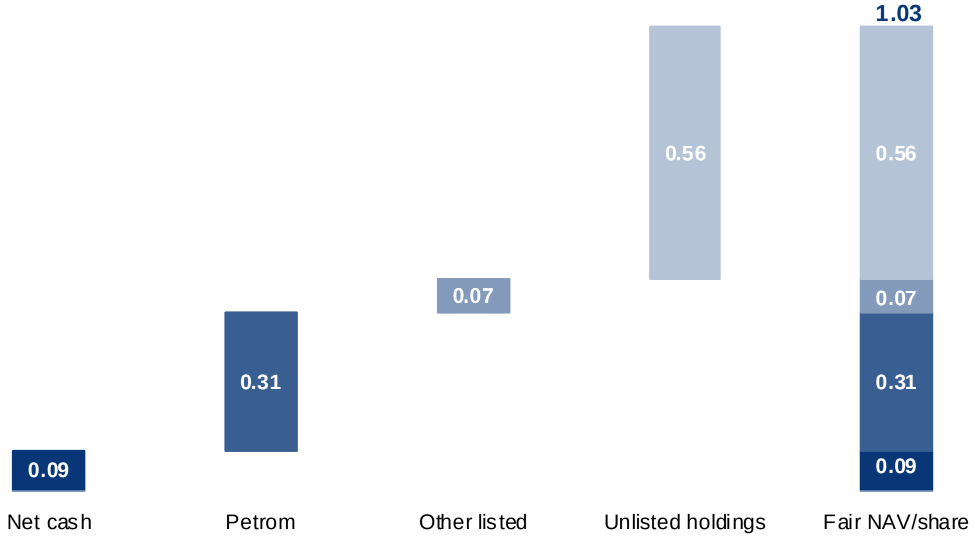
Pricing Benchmarks for Equity Markets by P/BV historical trends



Source: Datastream

At its Official NAV, FP would be valued in line with the Romanian equity market at a P/BV of about 1.1, which is supportive for FP's valuation, considering that frontier markets are assessed at a P/BV of 1.6, while in emerging markets the ratio is 2 (2010 multiple, based on consensus data). In this context, our target price for FP of RON 0.72 looks to be strongly sustained by the current (but also historical) valuation of equity markets with different risk profiles.

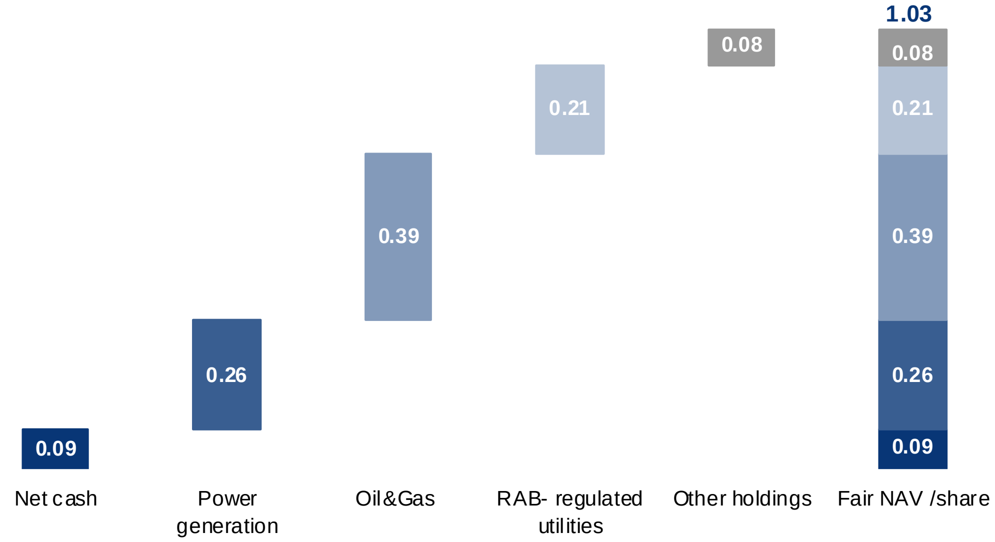
Fair NAV/share breakdown by companies' public status (RON)



Source: Erste Group Research

The 20% stake in Petrom is the largest holding, with a contribution of RON 0.31 to our fair NAV/share. The other listed shares contribute less than 10% to the Fair NAV/share, while unlisted holdings have a consistent weight of over 50%. As the chart above suggests, Petrom's share price development and the floating of key unlisted companies would clearly be the main LT driver for the Fair NAV/share in the years ahead.

Fair NAV/share breakdown by sector (RON)



Source: Erste Group Research

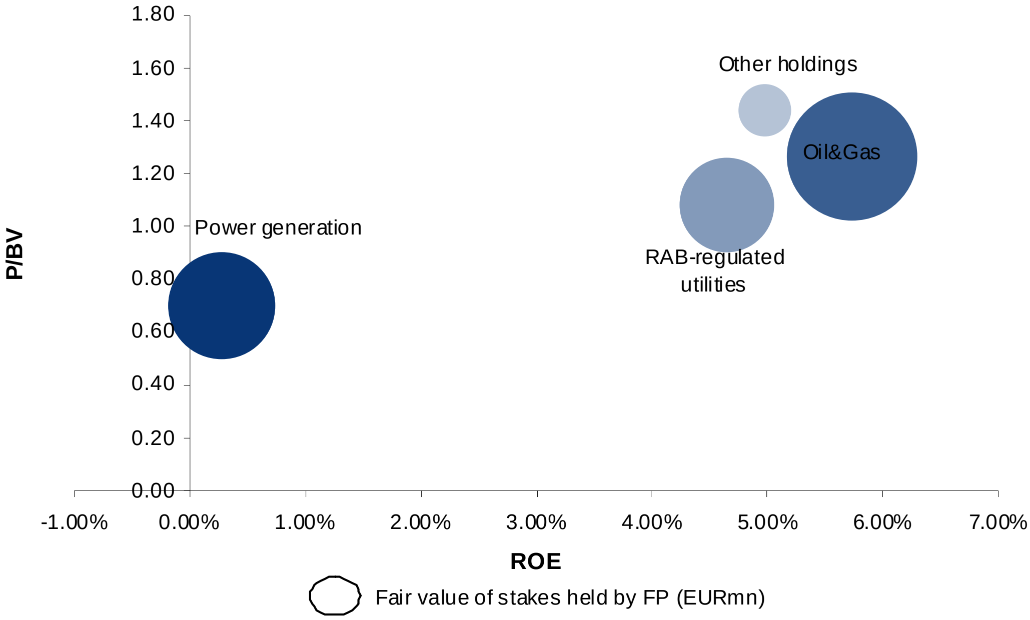
The fair values we assigned to the five power producers result in a contribution of only RON 0.26/share to our Fair NAV/share, which is inferior to Petrom's weight. This is why we believe that an improvement in the power generation sector outlook will be very supportive to the FP share price on the Bucharest Stock Exchange (BSE).

Gas producer Romgaz contributes RON 0.08 to our Fair NAV/share, with the oil & gas sector being the most representative in the FP portfolio.

The RAB-regulated utilities sector contributes only RON 0.21/share to the Fair NAV/share, but we are confident that this part of the portfolio (Transelectrica, Transgaz, seven power distribution grids, two gas distribution grids) will be a LT source of stability and sustainable, although slow, growth for fund assets. Regulated utilities represent the most defensive business model in utilities, which guarantees controlled profitability connected to the regulated assets base (RAB). These companies enjoy reasonable profitability, while indebtedness is very low, because one of the key methodology principles is to allow a profitability high enough in order to finance the CAPEX needs through own resources. On the other hand, the higher the CAPEX, the better the operating profitability, which translates into a sustainable growth story in the long term, especially considering the important capital expenditure needs of these companies.

The contribution of holdings in sectors other than energy is RON 0.08/share (less than 10% from Fair NAV/share), which would mean that FP has a clear profile of an investment vehicle in Romanian energy sector.

Aggregate sector valuation linked to profitability (P/BV vs. ROE)



Source: Erste Group Research

Aggregate sector multiples

Sector	EV/EBITDA 2009	P/E 2009	P/BV 2009
Power producers	16.2	210.5	0.7
Oil & Gas	5.1	17.4	1.2
RAB- regulated utilities	5.0	10.9	1.1
Other holdings	7.3	18.2	1.5

Source: Erste Group Research

We assigned fair values for unlisted companies in accordance with their profitability profile, as suggested by aggregate multiples computed for cross-checking. The multiples values look reasonable for all sectors, except for power producers, for which profitability is very weak. This is a major weakness of the FP portfolio and the main explanation for our conservative valuation of the power generation sector at 70% of the aggregate shareholder equity (of the five companies included). This is a direct consequence of the un-transparent and non-economic price policies, which are not open to market mechanisms. The main issue is that we do not see a substantial improvement of Nuclearelectrica and Hidroelectrica profitability in a few years from now, due to the pressure to keep the electricity price for captive consumers at low levels, as well as the arbitrary mechanisms encouraged by government to subsidize expensive thermo plants and large industrial consumers. On the other hand, in the case of the three lignite-fired power plants, CE Craiova, CE Rovinari and CE Turceni, their survival after 2012 is under serious question, given the environmental cost requirements of EUR 780mn to meet EU standards, as well as the probability of a full auctioning of CO_2 permits, starting in 2013, both of which create a huge risk of making production costs unsustainable.

Franklin Templeton's official objective is to manage a 100% listed holdings portfolio, but this ideal target is hard to achieve, at least within the initial 4 years mandate. It is obvious that the main management strategy of Franklin Templeton will be to convince the government to float important companies from FP's portfolio, such as Nuclearelectrica, Hidroelectrica and Romgaz, even if their profitability has a high sensitivity to the arbitrary governmental policies aimed at keeping administered prices under tight control. In spite of such a major inconvenience, the public status of these companies would force higher transparency and pressures on adopting corporate governance standards which would result in higher values for the FP stakes. The main explanation for the Franklin Templeton opposition to the government's plan to set up two national power generation companies is precisely the fact that the project would postpone the listing procedures for many years. On the other hand, the corporate profile of the two CO_2 -free electricity producers currently looks more attractive than the scenario of their "merger" with old thermo units, which require major CAPEX for modernization by 2012.

The only governmental commitment at the moment is the floating of Romgaz, with an IPO scheduled for December 2011. However, Templeton looks confident in its plan to halt the power generation sector reorganization plan by legal means. If this succeeds, discussion on the floating of Nuclearelectrica and Hidroelectrica will resume. In its battle with the government, the fund's manager could have a very strong ally in the World Bank, which also criticized the government's plan for the energy sector. The position of the World Bank is that the Romanian authorities should concentrate on developing Nuclearelectrica and Hidroelectrica as state-owned companies, while thermo producers should be privatized, considering their large capital expenditure needs in coming years.

Company overview

Fondul Proprietatea was set up in 2005 as a solution to reimburse the ex-owners of properties seized during communism which cannot be given back. The fund is organized as a closed end fund, operating on the basis of company law and capital market law. Initially 100% state owned, the fund is intended to gradually enter private control, as result of the continuing reimbursement process. Currently, the Ministry of Finance owns 38.8% of FP shares and has control of decision-making as long as its stake is above the 33% threshold.

The reimbursement of ex-owners is a two step process. First, reimbursement certificates for the value of the property are issued by the National Authority for Property Restitution as result of an assessment process. Secondly, the reimbursement certificates are converted into FP shares. Prior to the fund's listing, the conversion was made at the unit face value (RON 1). This process was halted 10 days prior to the listing date and will resume on the second week (on Monday), after the first 60 trading sessions. In that week, the conversion will be made at the weighted average price for the first 60 trading sessions, while starting with the next week, the weighted average price from the previous 60 trading sessions will be used within the conversion process.

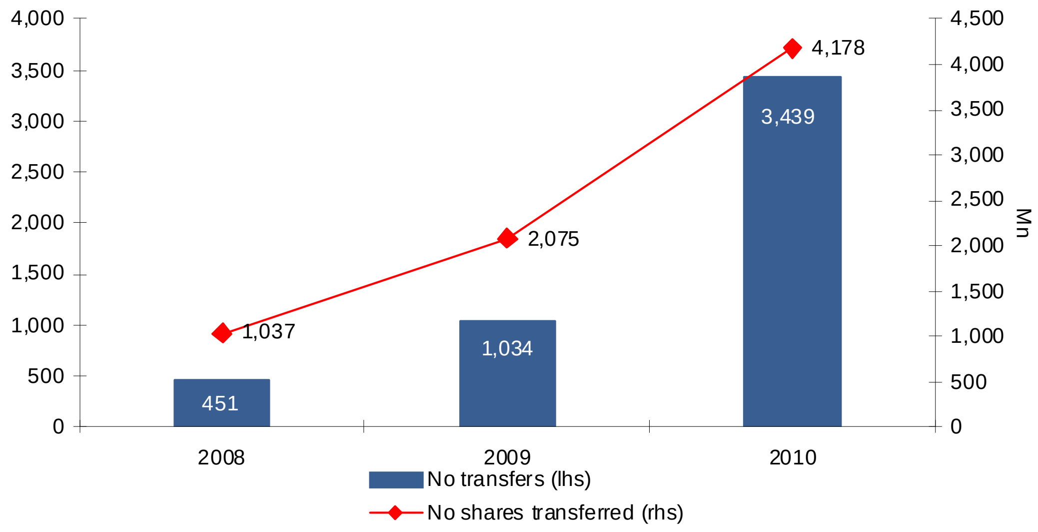
There is no official estimate regarding the total value of the compensation requests that should in the end translate into FP shares. What is certain is that there are thousands of such requests, and that the downsizing process of the state's stake in FP will continue. As long as the state holds control (over 33% stake), the voting rights for the shares exceeding 1% of FP share capital are restricted (of course, the restriction does not apply for the state). As we expect the shares to trade at a discount to the face value, we believe that the MoF holding will be "consumed" at a faster pace, at over 15% stake/year. In other words, FP will be held exclusively by ex-owners of the properties seized during communism and private investors by the end of 2012 at the latest.

Intense trading on the gray market

Given the major delay in the fund's floating, a large number of ex-owners and their successors sold the shares received at prices well below the face value of RON 1/share at which their compensation rights were converted. FP shares have been traded legally since March 2008, with transactions recorded at the Central Depository. This institution, which provides post transaction services on the local equity market, signed a contract with FP in order to carry out changes in the registry of shareholders.

As result of the high interest, 7,290mn shares have changed hands since March 2008 and 4,924 transfers were recorded at the Central Depositary**.** As the chart below shows, the bulk of transactions took place last year, with 3,439 concession contracts signed for as many as 4,178.3mn shares.

Transactions with FP shares (2008 - 2010)



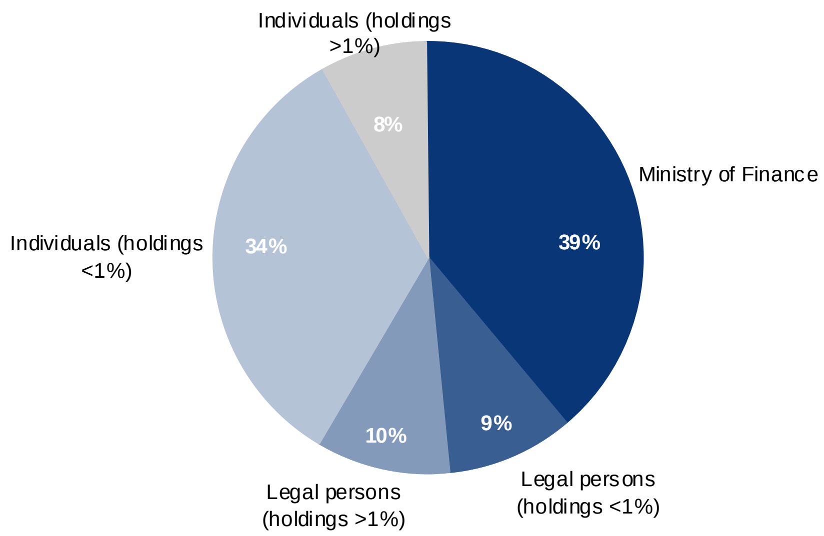
Source: Media

In order to sustain the share price, a buy back option of up to 10% of the shares is available up to March 1, 2012, as approved by the SGM from September 2010, with the purchase price ranging between RON 0.2-RON 1.5/share. The treasury shares shall be paid out of the distributable profit or the available reserves (except for the statutory reserves).

The fund's attractive profile and the significant discounts at which its shares were available on the gray market led some institutional players to accumulate important stakes in the fund's share capital. According to the media, the American investment fund Cartesian owned a 2.85% stake mid September, whereas other two institutional investors, Elliot Advisor and East Capital had stakes of more than 1%. Also, Wood & Co hold, in the name of its clients, over 4% of FP shares. The Romanian SIFs were also pretty active on the buy side. SIF 2 Moldova was the most determined, with a stake in FP exceeding 1% at the end of 2010. SIF Transilvania also owned 0.36% of fund's shares at the end of 2010.

There is no ownership threshold restriction for the accumulation of FP shares, as is the case for the five SIFs. This is expected to bode well for the concentration of the shareholder structure and, as a consequence, the discounts to the NAV will lower in the long run.

Shareholder structure



Source: Fondul Proprietatea

Fund's management

Since September 2010, FP is managed under a one tier system, by Franklin Templeton Investment Management (FT), a fully-owned subsidiary of Franklin Templeton Investments. FT was selected as the asset manager in June 2009, following an international tender procedure. In September 2009, FP's shareholders approved the financial offer of Franklin Templeton and, in February 2010, the Investment Management Agreement was signed. A few months later, in August 2010, the National Securities Commission (CNVM) authorized the registration of FP as a closed end fund. Finally, at the ESM from September 2010, FT was officially appointed as fund manager, its mandate effectively starting on September 29, 2010 for a 4 year period, with the possibility that it could be prolonged.

Administrative costs

We estimate a FP expense ratio in 2011 of about 0.5%, based on the budget figures. This looks reasonable from the point of view of management costs for an actively managed fund, but it is an open question as to how active the FP asset management can be, as there are quite poor exit alternatives for the companies comprising its historical holdings portfolio.

FT is remunerated with 0.379%/year on the notional amount for the administration of FP's portfolio and 0.1%/year on the notional amount for the administration of the fund. The notional amount is equal to the number of shares times the average market price for the last 90 trading sessions of the calendar year. Additionally, a monthly fee of 0.0007% of the average monthly NSC NAV is paid for depositary services, while EUR 85,000/month is paid for financial advisory services to Schroder Investment Management. NSC charges a monthly fee applied to the NAV (0.1% p.a.).

Portfolio management strategy

In order to bring added value to the portfolio, discussions are run by FT representatives with state authorities, with the aim of bringing as many major companies as possible from its portfolio to the stock exchange. This is, however, a long-lasting and difficult process, considering the track record of the local authority, with only two state-owned companies (Transelectrica and Transgaz) tapping the equity market in the Romanian stock exchange's history. In our view, not even the severe budgetary constraints the state has to deal with are reason enough for the authorities to urge privatizations via the equity market. Moreover, in the case of strategic national companies like Hidroelectrica or Nuclearelectrica, “public” status is uncomfortable for the government, as its discretionary control is harmed.

Having the state as a partner which holds a majority in most of the unlisted companies from its portfolio does not provide too much maneuvering room in terms of exit plans. This will be a natural cause for rather passive management for at least 3-4 years from now.

FP dilution risk should be considered in the case of many important companies, such as the three electricity complexes (CE Turceni, CE Rovinari, CE Craiova), postal services operator Posta Romana, international airport Aeroporturi Bucuresti. It is less likely that the state will further support their extensive CAPEX needs via subsidies, but will rather provide this support through share capital increases. FT representatives stated that, if only incremental value can be created, the fund exercises its preemption rights. The question remains, however, whether the fund has the financial resources for subscriptions in large share capital increases. In order to provide external equity financing to interesting companies, FP should divest from other companies, which is exactly what currently looks to be an impossible mission for Franklin Templeton.

As an investment policy, the manager's plan is to keep the fund rooted in Romania, with the strategy being to invest in domestic companies and foreign companies with operations in Romania. This option looks good because FP will have the clear profile of an investment vehicle in the Romanian economy.

Dividend policy

Fondul Proprietatea will not be attractive as a revenue-generating stock. The manager plans to propose to shareholders a “new” dividend policy, with the entire distributable profit to be allotted for dividends. This would mean the gross revenues from dividends and interest on bank deposits netted with expenses and taxes would pass through shareholders. Practically, the gains from disposals would be excluded when calculating the distributable profit. The proposal needs, however, the approval of shareholders.
Considering the gross revenues from dividends and interest from FP’s budget for FY11 without netting in expenses and taxes would result in a gross dividend of RON 0.02/share. Even in these circumstances, the dividend yield would be less than 3%, at a share price of RON 0.7/share.

As with all Romanian state-controlled companies, FP had to adhere to a payout ratio of at least 50% of the bottom line in the previous years. A gross DPS of RON 0.00659 was distributed for FY07 and a cumulated dividend of RON 0.0816/ share for FY 08 and FY09 was distributed by the company so far. The appealing DPS for 2008 and 2009 was at the bottom of the high interest among investors (especially institutional ones) in FP shares in the last few months, in spite of its shares being traded on the gray market.

Company Report – **Fondul Proprietatea**

Valuation summary. Key portfolio characteristics

The fund has stakes in 83 companies in its portfolio, out of which 29 are listed on the Bucharest Stock Exchange.

Listed companies

- Listed shares were included in the Property Fund's NAV at market values as of the date of the report. We did not assign for companies under Erste Group Research coverage (Petrom, Transelectrica, Transgaz) our target prices which are over the current market prices. This is a cautious approach in order to avoid any potential overvaluation source for the fund's assets. In this context we can say that our positive vision especially regarding Petrom (which is the most important fund's holding) is supportive for Official NAV/share and Fair NAV/share on the medium term.

Unlisted companies

Company	Sector	Valuation tool
Nuclearelectrica, Hidroelectrica, CE Turceni, CE Rovinari, CE Craiova	Power generation	-Depreciated Replacement Cost -Linear regression peer companies (EV/IC, EBITDA/IC) -Linear regression peer companies (EV/Output, EBITDA/Output)
E.ON Moldova, ENEL Muntenia, ENEL Banat, ENEL Dobrogea, Electrica Distributie Transilvania Nord, Electrica DistributieTransilvania Sud, Electrica Distributie Muntenia Nord, GDF Suez Energy Romania, E.ON Gaz Distributie	RAB- regulated utilities	-Regulated Asset Base (RAB)-based valuation; EV/RAB target multiple -Linear regression (EV/client, EBITDA/client) for cross cheching the fair values derived via RAB- based valuation
Romgaz	Oil & Gas	EV/boe 2p reserves (Petrom multiple)
Aeroporturi Bucuresti (Otopeni & Baneasa), Aeroportul Traian Vuia, Aeroportul Mihail Kogalniceanu	Other holdings / Airport	-EV/EBITDA,EV/Sales, P/BV, P/E peer companies
Administratia Porturilor Maritime, Administratia Canalelor Navigabile, Administratia Porturilor Dunarii Maritime, Administratia Porturilor Dunarii Fluviale	Other holdings / Port authorities	-EV/EBITDA, EV/Sales, P/BV, P/E peer companies
Posta Romana	Other holdings / Postal services	-EV/EBITDA,EV/Sales, P/BV, P/E peer companies

Source: Erste Group Research

- Unlisted companies were valued based on market multiples method. Considering the key parameters for the analyzed sectors, our approach was to value the most important unlisted companies using specific metrics, where available for relevant peer companies: EV/Electricity Output & EV/Installed Capacity (electricity production), EV/RAB & EV/Client (electricity & gas distribution grids), EV/boe 2p reserves (gas producer), EV/pax (airports)
- For the companies for which we did not use specific metrics, the fair value was computed based on EV/EBITDA, P/E, P/BV, at which their peers were traded.
- In some cases, given the special context or the lack of comparability between the business model of domestic companies and other companies from the sector, we decided to employ additional valuation tools. This is the case for the power generation companies, for which we have employed the Depreciated Replacement Cost method, in accordance with international valuation standards.
- The valuation tools used to assess the unlisted companies makes the fair value of FP's NAV sensitive to changes of investor sentiment regarding specific sectors and relevant peers.

Sum of the parts (SOTP) approach

Fair value of Property Fund assets according to Sum of Parts Approch			
No.	**Asset Category**	**Fair value (EUR mn)**	**Percentage from fair value of assets (%)**
1	Current accounts and monetary investments (deposits, TBills)	311.2	9.3%
2	Power generation	832.7	24.8%
3	Oil&Gas	1,272.9	37.9%
4	RAB- regulated utilities	667.9	19.9%
5	Other holdings	273.4	8.1%
Total assets		3,358.2	-
Total liabilities		19.6	-
Net Assets Value (NAV)		3,338.6	-
NAV/share (EUR)		0.24	
NAV/share (RON)		1.0327	

Source: Erste Group Research

We arrived at a fair value of NAV of EUR 3.3bn (RON 1.03/share), with a relatively well-balanced contribution from the three energy sectors.
35 companies were not included in our valuation exercise, given their unrepresentative impact on NAV but also due to the lack of relevant information related to these companies.

Asset categories

Categories of Non-Equity Assets:

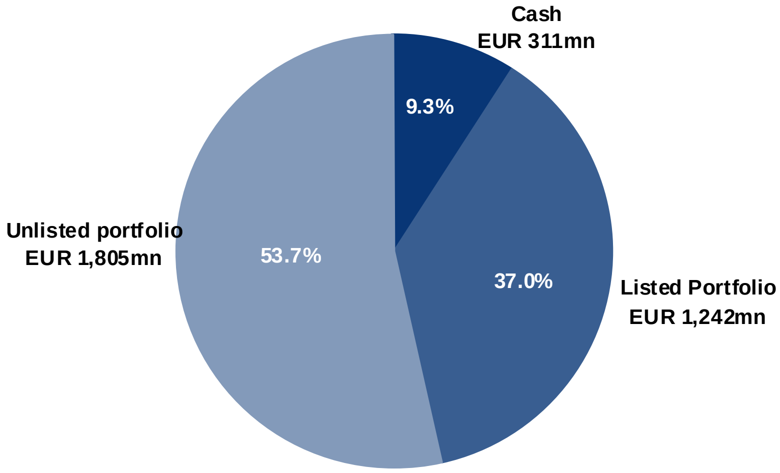
- Category 1 – Cash and low-risk fixed income monetary instruments (bank deposits, government securities) were considered at values from the last official NAV computation (November 2010).

Categories of Equity Assets:

-
- We grouped companies from the energy sector into three segments, with the last equity asset category including the non-energy holdings.
- The classification by sector does not account for differences between the listed/unlisted statuses of a company.
- Category 2: Power generation (Hidroelectrica, Nuclearelectrica, CE Turceni, CE Rovinari, CE Craiova)
- Category 3: Oil & Gas (Petrom, Romgaz)
- Category 4: RAB- regulated utilities (E.ON Moldova Distributie, Electrica Distributie Muntenia Nord, ENEL Distributie Muntenia, Electrica Distributie Transilvania Nord, Electrica Distributie Transilvania Sud, ENEL Distributie Banat, ENEL Distributie Dobrogea, E.ON Gaz Distributie, GDF Suez Energy Romania, Transelectrica and Transgaz). Using a RAB-based methodology to value electricity/gas distribution companies, we implicitly valued the supply companies resulting from the split of the old companies into two entities, one for distribution and one for supply activity, in line with EU directives
- Category 5: Non-energy sectors including other important companies (airports, port authorities, postal services)
- Category 6: Unlisted small companies, which were not included in the fair value of NAV due to their very low impact

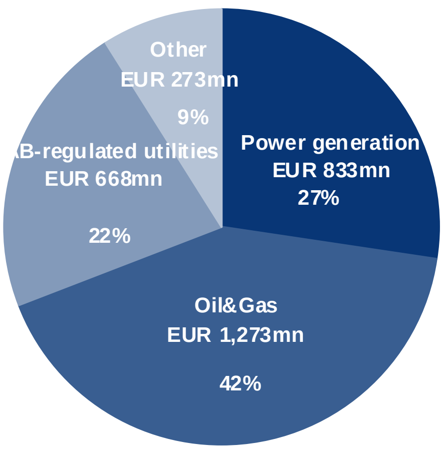
Fondul Proprietatea assets. Statistics

Structure of Fondul Proprietatea assets (fair values)



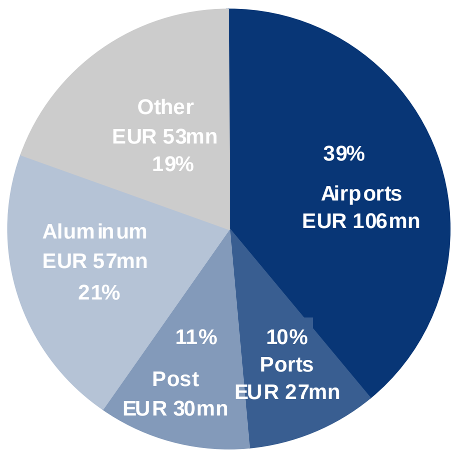
Source: Erste Group Research

Structure of equity portfolio by sector (fair values)



Source: Erste Group Research

Structure of non-energy portfolio (fair values)



Source: Erste Group Research

Company	Asset category	Value of Equity		Stake held by FP	Value in FP Portfolio		Weight in total assets
Fair value of unlisted holdings							
		EURmn	RONmn		EURmn	RONmn	
Electricity production							
Hidroelectrica	2	2,398	10,221	19.9%	478	2,039	14.2%
CE Turceni	2	493	2,100	24.8%	122	520	3.6%
CE Rovinari	2	229	976	23.6%	54	230	1.6%
CE Craiova	2	213	910	24.4%	52	221	1.5%
Nuclearelectrica	2	1,299	5,535	9.7%	126	539	3.8%
Gas production							
Romgaz	3	1,912	8,150	15.0%	287	1,222	8.5%
Electricity distribution & supply							
E.ON Moldova Distributie	4	241	1,028	22.0%	53	226	1.6%
Electrica Distributie Muntenia Nord	4	195	830	22.0%	43	183	1.3%
ENEL Distributie Muntenia	4	790	3,366	12.0%	95	404	2.8%
Electrica Distributie Transilvania Nord	4	194	827	22.0%	43	182	1.3%
Electrica Distributie Transilvania Sud	4	164	698	22.0%	36	154	1.1%
ENEL Distributie Banat	4	304	1,295	24.1%	73	312	2.2%
ENEL Distributie Dobrogea	4	218	927	24.1%	52	223	1.6%
Gas distribution and supply							
E.ON Gaz Distributie	4	310	1,320	12.0%	37	158	1.1%
GDF Suez Energy Romania	4	608	2,592	12.0%	73	311	2.2%
Airports							
Aeroporturi Bucuresti (Otopeni, Baneasa)	5	456	1,945	20.0%	91	389	2.7%
Aeroportul Traian Vuia - Timisoara	5	69	294	20.0%	14	59	0.4%
Aeroportul Mihail Kogalniceanu	5	6	25	20.0%	1	5	0.0%
Port operators							
Administratia Porturilor Maritime	5	101	429	20.0%	20	86	0.6%
Administratia Canalelor Navigabile	5	23	100	20.0%	5	20	0.1%
Administratia Porturilor Dunarii Maritime	5	5	23	20.0%	1	5	
Administratia Porturilor Dunarii Fluviale	5	5	23	20.0%	1	5	
Other unlisted							
Posta Romana	5	120	510	25.0%	30	128	0.9%
Societatea Nationala a Sarii	5	35	148	49.0%	17	73	0.5%
Total	-	-	-	-	1,805	7,692	53.7%

Source: Fondul Proprietatea, Erste Group Research

Company	Asset category	Specific Expertise	Capitalization		Stake held by PF	Value in FP Portfolio		Weight in total assets
Market value of holdings in listed companies								
			EURmn	RONmn		EURmn	RONmn	
OMV Petrom	3	Oil & Gas (E&P, R&M)	4,904	20,902	20.1%	986	4,203	29.4%
Alro Slatina	5	Aluminum production	578	2,463	9.9%	57	244	1.7%
Transgaz	4	Gas transmission	773	3,297	15.0%	116	436	3.5%
Transelectrica	4	Electricity transmission	347	1,477	13.5%	47	199	1.4%
Romaero	5	Parts and RMO for aircraft	20	84	21.0%	4	18	0.1%
Conpet	5	Crude oil transport	73	312	20.1%	15	63	0.4%
Azomures	5	Fertilizer producer	62	263	7.7%	5	20	0.1%
Oil Terminal	5	Oil handling	32	135	10.0%	3	14	0.1%
Severnav	5	Building and repair of ships	4	18	39.1%	2	7	0.0%
Other listed			34	144		8	32.02	0.2%
TOTAL	-	-	-	-	-	**1,242**	**5,236**	**37.0%**

Source: Bucharest Stock Exchange, Erste Group Research

TOP 25 holdings					
No	**Company**	**Asset category**	**Value of the stake held by FP (EURmn)**	**Stake held by FP**	**Weight in total assets**
1	OMV Petrom	3	986.2	20.1%	29.4%
2	Hidroelectrica	2	478.3	19.9%	14.2%
3	Romgaz	3	286.7	15.0%	8.5%
4	Nuclearelectrica	2	126.4	9.7%	3.8%
5	CE Turceni	2	122.1	24.8%	3.6%
6	Transgaz	4	115.9	15.0%	3.5%
7	ENEL Distributie Muntenia	4	94.8	12.0%	2.8%
8	Aeroporturi Bucuresti (Otopeni, Baneasa)	5	91.3	20.0%	2.7%
9	ENEL Distributie Banat	5	73.3	24.1%	2.2%
10	GDF Suez Energy Romania	4	73.0	12.0%	2.2%
11	Alro Slatina	5	57.4	9.9%	1.7%
12	CE Rovinari	2	54.0	23.6%	1.6%
13	E.ON Moldova Distributie	4	53.1	22.0%	1.6%
14	ENEL Distributie Dobrogea	4	52.4	24.1%	1.6%
15	CE Craiova	2	52.0	24.4%	1.5%
16	Transelectrica	4	46.8	13.5%	1.4%
17	Electrica Distributie Muntenia Nord	4	42.9	22.0%	1.3%
18	Electrica Distributie Transilvania Nord	4	42.7	22.0%	1.3%
19	E.ON Gaz Distributie	4	37.1	12.0%	1.1%
20	Electrica Distributie Transilvania Sud	4	36.0	22.0%	1.1%
21	Posta Romana	5	29.9	25.0%	0.9%
22	Administratia Porturilor Maritime	5	20.1	20.0%	0.6%
23	Societatea Nationala a Sarii	5	17.1	49.0%	0.5%
24	Conpet	5	14.7	20%	0.4%
25	Aeroportul Traian Vuia - Timisoara	5	13.8	20%	0.4%

Source: Erste Group Research

Fondul Proprietatea portfolio

No	Company	Specific expertize	Asset category	Stake held by FP
1	CE Craiova	Power generation	2	24.4%
2	CE Rovinari	Power generation	2	23.6%
3	CE Turceni	Power generation	2	24.8%
4	Hidroelectrica	Power generation	2	19.9%
5	Nuclearelectrica	Power generation	2	9.7%
6	OMV Petrom	Oil&gas	3	20.1%
7	Romgaz	Oil&gas	3	15.0%
8	GDF Suez Energy Romania	Gas distribution	4	12.0%
9	E.ON Gaz Distributie	Gas distribution	4	12.0%
10	E.ON Gaz Romania	Gas supply	4	12.0%
11	E.ON Moldova Distributie	Electricity distribution	4	22.0%
12	E.ON Moldova Furnizare	Electricity supply	4	22.0%
13	Electrica Distributie Muntenia Nord	Electricity distribution	4	22.0%
14	Electrica Furnizare Muntenia Nord	Electricity supply	4	22.0%
15	ENEL Distributie Muntenia	Electricity distribution	4	12.0%
16	ENEL Energie Muntenia	Electricity supply	4	12.0%
17	Electrica Distributie Transilvania Nord	Electricity distribution	4	22.0%
18	Electrica Furnizare Transilvania Nord	Electricity supply	4	22.0%
19	Electrica Distributie Transilvania Sud	Electricity distribution	4	22.0%
20	Electrica Furnizare Transilvania Sud	Electricity supply	4	22.0%
21	ENEL Distributie Banat	Electricity distribution	4	24.1%
22	ENEL Distributie Dobrogea	Electricity distribution	4	24.1%
23	ENEL Energie	Electricity supply	4	12.0%
24	Transelectrica	Electricity transmission	4	13.5%
25	Transgaz	Gas transmission	4	15.0%
26	Administratia Canalelor Navigabile	Port operator	5	20.0%
27	Administratia Porturilor Dunarii Fluviale	Port operator	5	20.0%
28	Administratia Porturilor Dunarii Maritime	Port operator	5	20.0%
29	Administratia Porturilor Maritime	Port operator	5	20.0%
30	Aeroporturi Bucuresti (Otopeni, Baneasa)	Airport	5	20.0%
31	Aeroportul Traian Vuia - Timisoara	Airport	5	20.0%
32	Aeroportul Mihail Kogalniceanu	Airport	5	20.0%
33	Alro Slatina	Aluminum production	5	9.9%
34	Azomures	Fertilizer production	5	7.7%
35	Comcereal Cluj Napoca	Wholesale of grains and seeds	5	11.4%
36	Comcereal Fundulea	Wholesale of grains and seeds	5	5.4%
37	IOR	Optical instruments	5	2.8%
38	Mecanoenergetica Gura Vaii	Manufacture of metal structures	5	10.1%

Company Report – **Fondul Proprietatea**

No	Company	Specific expertize	Asset category	Stake held by FP
39	Mecon Brasov	Manufacture of metal structures	5	12.5%
40	Oil Terminal	Oil handling	5	10.0%
41	Conpet	Oil transport grid	5	20.1%
42	Palace Sinaia	Hotels	5	15.4%
43	Posta Romana	Postal services	5	25.0%
44	Primcom Bucuresti	Renting and operating of own real estate	5	79.0%
45	Romaero	Manufacture of aircraft and spacecraft	5	21.0%
46	Societatea Nationala a Sarii	Salt production	5	49.0%
47	Severnav	Building and repairing of ships	5	39.1%
48	Telerom Proiect Bucuresti	Architectural and engineering activities	5	68.6%
49	Turdapan Turda	Bakery	5	44.1%
50	Romplumb	Lead production	6	51.0%
51	Alcom Timisoara	Retailer of food&beverage	6	71.9%
52	BAT Service Buzau	Transport by road	6	33.0%
53	Carbid-Fox Tarnaveni	Chemicals	6	8.0%
54	Carom Asigurari Bucuresti	Insurance	6	70.0%
55	Cetatea Suceava	Restaurants	6	20.4%
56	Ciocirlia Ploiesti	Restaurants	6	1.7%
57	Comcereal Miercurea Ciuc	Wholesale of grains and seeds	6	10.0%
58	Commetex Piatra Neamt	Wholesale of glassware	6	16.0%
59	Comsig Sighisoara	Retailer of food&beverage	6	69.9%
60	Delfincom	Real estate developer	6	65.5%
61	Electromecanica Ploiesti	Production and repair of rockets	6	49.0%
62	Electroconstructia Elco Cluj Napoca	Installation of electrical wiring and fittings	6	7.6%
63	Familial Restaurant Iasi	Restaurants	6	2.8%
64	FECNE Bucuresti	Manufacture of metal structures	6	12.1%
65	Forsev Drobeta Turnu Severin	Metallurgy	6	28.1%
66	Gerovital Cosmetics	Cosmetics and perfumery	6	9.8%
67	Laromet Bucuresti	Other non-ferrous metal production	6	4.2%
68	Marlin Ulmeni	Financial leasing	6	5.0%
69	Petrotel Lukoil Ploiesti	Manufacture of refined petroleum products	6	2.2%
70	Plafar	Retail drugs	6	49.0%
71	Prestari Servicii Bucuresti	Commerce and services	6	70.6%
72	Celuloza si Otel (absorbtion Remat Timis)	Recycling of metal waste and scrap	6	8.6%
73	Resib Sibiu	Letting of own property	6	2.9%
74	Retizoh Craiova	Other construction works	6	7.4%
75	Salubriserv Targu Mures	Sanitary engineering	6	17.5%
76	Simtex	Certifications in construction sector	6	30.0%
77	Transilvania Com	Retail sale of textiles	6	40.0%
78	Uzina Mecanica Bucuresti	Manufacture of weapons	6	36.6%
79	Vitacom Sf Gheorge	Retail sale of fruit and vegetables	6	46.9%
80	World Trade Center Bucuresti	Business center	6	19.9%
81	World Trade Hotel	Hotels	6	19.9%
82	Zamur Targu Mures	Sugar production	6	7.1%
83	Zirom	Titanium manufacturing	6	100.0%

Source: Fondul Proprietatea

Financial results

Income Statement

IFRS (RON mn)	2007	2008	2009
Gross dividend income	227.64	422.83	120.06
Interest income	28.01	84.45	142.47
Impairment losses on equity investments	-243.51	-3,892.09	-1.46
Impairment losses on dividends receivable	-38.38	9.43	0.00
Gain/Loss on disposal of equity investments	32.40	0.00	554.43
Net foreign exchange gains	17.99	19.53	14.73
Net investment income	**24.15**	**-3,355.85**	**830.23**
Personnel expense	2.38	6.61	13.51
Other operating expenses	3.16	11.74	9.33
Operating expenses	**5.54**	**18.34**	**22.84**
Profit/Loss before tax	**18.60**	**-3,374.19**	**807.40**
Income tax	-3.12	-569.66	106.35
Profit/Loss for the year	**21.72**	**-2,804.53**	**701.05**
Other comprehensive income			
Net change in farir value of available for sale equity investments	-240.00	-569.08	963.76
Income tax on other comprehensive income	-38.40	-91.05	154.20
Total other comprehensive income	**-201.60**	**-478.03**	**809.56**
Total comprehensive income for the period	**-179.88**	**-3,282.56**	**1,510.61**

Statement of Financial Position

IFRS (RON mn)	2007	2008	2009
Assets			
Financial assets	14,143.64	10,062.16	11,725.78
Deferred tax assets	0.00	696.78	542.18
Other assets	0.86	1.94	0.70
Total assets	**14,144.50**	**10,760.88**	**12,268.66**
Liabilities			
Deferred tax liabilities	17.31	0.00	0.00
Other liabilities	4.89	11.14	8.30
Total liabilities	**22.20**	**11.14**	**8.30**
Equity			
Share capital	13,757.59	13,757.59	13,757.59
Fair value reserve on available-for-sale financial assets	528.03	50.00	859.56
Other reserves	38.24	149.46	199.45
Accumulated loss	201.56	3,207.31	2,556.25
Total equity	**14,122.30**	**10,749.74**	**12,260.35**
Total liabilities and equity	**14,144.50**	**10,760.88**	**12,268.66**

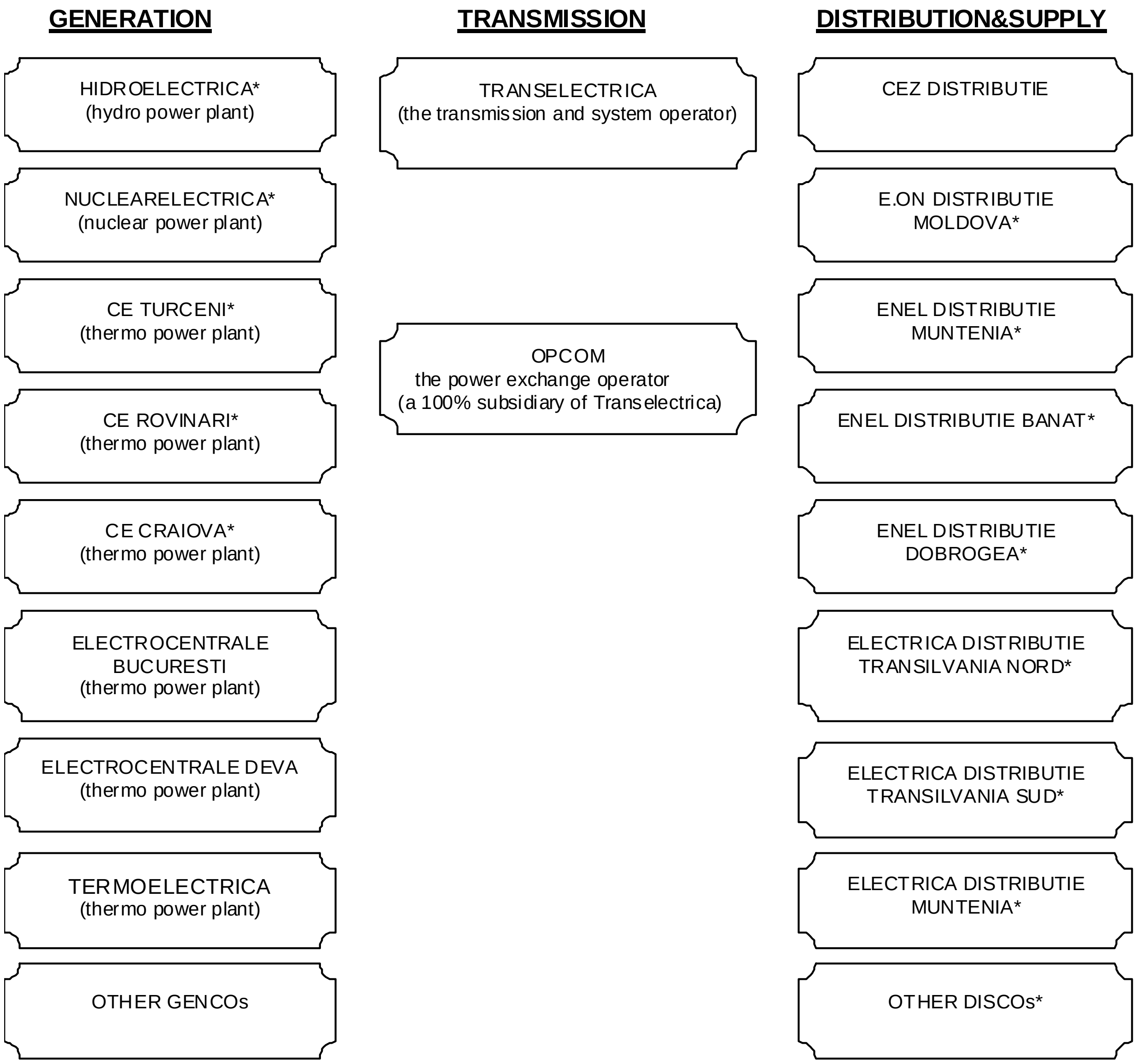
Source: FP listing prospectus

Overview of the electricity sector

The power sector is still considered to be one of the few industries where Romania could play a major role in Southeastern Europe. The country's main strengths are its well-diversified generation mix, with almost half of all power coming from hydro and nuclear sources, and its reasonable power export capabilities, which could capitalize on interconnected capacities with neighboring countries, estimated to be the equivalent of 10-15% of domestic consumption.

The Romanian power sector could, however, find itself in a very delicate position in the near future. Due to the postponement by more than five years of the privatization and restructuring of the thermo power plants, the Union for the Coordination of Transmission of Electricity (UCTE) sees a risk regarding the security of supply starting in 2015. Moreover, the World Bank drew attention, in a memorandum signed in July 2010, to the fact that the implementation of the current government plan to create two national power generation companies will confront Romania with a major security of supply risk, discouraging large private investments in the thermo generation segment.

Structure of the Romanian power sector



*) *Companies where Fondul Proprietatea is a minority shareholder*

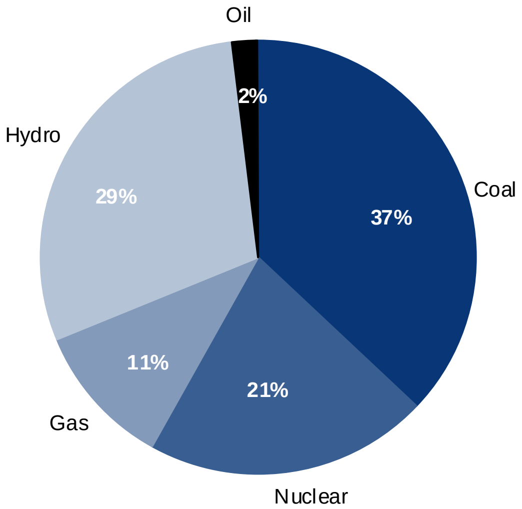
Power generation

About 80% of thermo power units are past their normal lifespan. Bearing in mind the concept of setting up a national energy company (former government) or two national energy companies (current government), Romanian authorities postponed restructuring measures for thermo producers, and there currently exist major delays in launching the investment program aimed at modernizing and revamping, especially if the environmental standards imposed by the EU are to be met by the end of 2012. The Ministry of Economy already tried to convince the European Commission to defer the deadline for achieving the environment standards assumed within accession negotiations.

Structure of production

The quantity of electricity produced in 2009 was 56.7 TWh, with the contribution from hydro and nuclear being 29% and 21%, respectively. The three lignite fired power plants where FP is shareholder (CE Turceni, CE Craiova and CE Rovinari) cover about 30% of electricity consumption.
In 2009, Romanian producers exported 3.2 TWh, -41% y/y, representing 6% of the quantity of electricity produced. Romania is a net electricity exporter, with annual exports exceeding imports between 2 TWh and 4 TWh in the last five years.

Electricity generation by energy sources (2009)



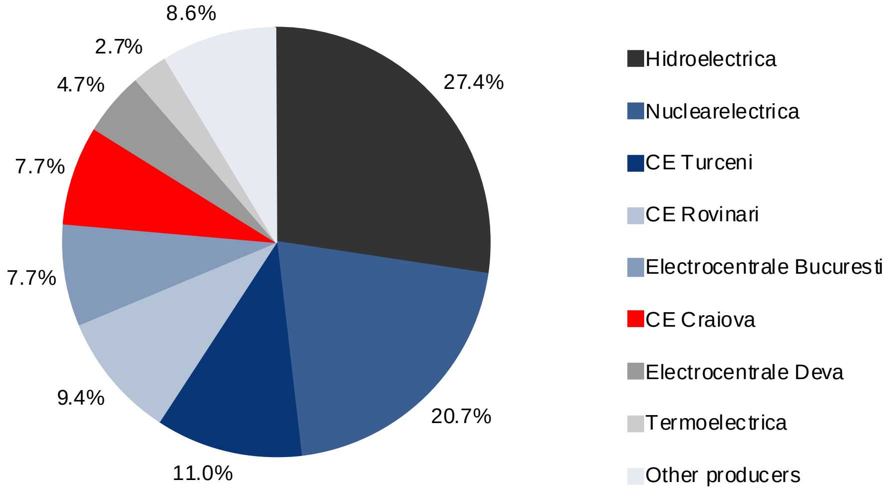
Source: ANRE

The main electricity producers output (TWh)

Power producer	2008	2009
Hidroelectrica	17.0	15.5
Nuclearelectrica	11.2	11.8
CE Turceni	7.7	6.2
CE Rovinari	5.9	5.4
Electrocentrale Bucuresti	5.8	4.4
CE Craiova	4.8	4.4
Electrocentrale Deva	3.8	2.6
Termoelectrica	1.5	1.6
Other producers	6.2	4.9
Total production	**64.0**	**56.7**

Source: ANRE

Electricity producers by market share (2009)

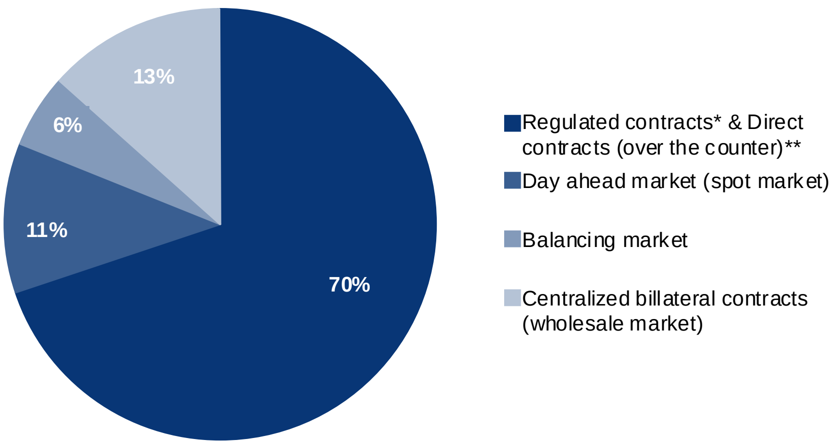


Source: ANRE

Electricity price

Nuclearelectrica and Hidroelectrica subsidize electricity price for general population, large industrial consumers and inefficient thermo plants. The postponement of the privatization of power producers has strongly affected market functionality, due to the commercial behavior of power producers, directly influenced by political decisions. The most flagrant example is the non-economic price policy of Hidroelectrica, which sells electricity through direct contracts at prices well below the wholesale power market price (on the centralized bilateral contracts market of OPCOM, the operator of the Romanian power exchange).

Breakdown of electricity produced by effective selling channel (2009)



Source: ANRE, Erste Group Research estimates
**) Contracts imposed by ANRE, which includes captive consumer consumption of 23TWh (40% of total electricity produced)*
***) Contracts signed between electricity producers, traders and large industrial consumers outside ANRE supervision*

In 2009, only 6.3TWh was sold on the wholesale market, while the spot market (the day-ahead market operated by OPCOM) traded the same quantity of electricity. Considering the 5.7% weight of the balancing market, it would seem that only 30% of the electricity produced in Romania is sold using transparent mechanisms. The rest is traded based on regulated contracts approved by the regulatory authority ANRE and direct contracts negotiated by producers with electricity suppliers, traders or final consumers, usually at prices below the quotations from the wholesale power market (especially in the case of Hidroelectrica).

Regulated contracts

Regulated contracts are mainly represented by those for captive consumers (population and small industrial consumers), but also by agreements signed between operators of the power market (mainly producers and transmission/distribution companies). The regulated consumption in 2009 was 30.3 TWh, equivalent to 53% of the total production. The size of the regulated segment seems unjustifiably high if it is taken into account that the population held only 36% of the regulated contracts (in value terms). We believe that, within a more functional market, the size of the other two regulated segments (other captive consumption and other regulated contracts) would be substantially lower.

Structure of regulated contracts (2009)

Segment	Quantity (TWh)	Weight in regulated contracts (%)
Population	11.0	36.3%
Other captive consumers (small industrial consumers)	12.0	39.6%
Other regulated contracts	7.3	24.1%

Source: ANRE, Fondul Proprietatea floating prospectus

Regulated contracts are signed for quantities and prices approved by the regulatory authority ANRE and which are not publicly transparent. The government and regulatory authority use regulated contracts in order to achieve two objectives: 1) keep the electricity price for the population at a low level (with Hidroelectrica and especially Nuclearelectrica as suppliers at prices well below the power market average) and 2) impose cross-subsidy mechanisms of expensive thermo producers which usually sells electricity to Hidroelectrica (3.2 TWh in 2009) and to transmission and distribution grid operators (power is purchased for covering their own technological consumption).

The electricity price for captive consumers is a weighted basket calculated based on the effective contribution of electricity producers at quantities and prices established by ANRE. From a total regulated consumption of captive consumers of 23 TWh in 2009, about half was covered by Nuclearelectrica (with 8 TWh, 70% of its production) and Hidroelectrica (with 3.9 TWh, 25% of its production), while the rest was provided by thermo power producers.
Nuclearelectrica and Hidroelectrica sold electricity on the regulated segment at a price well below the output price of thermo producers. In 2009, Hidroelectrica sold power to captive consumers at a price of RON 83.5/MWh (EUR 19.7/MWh), below even its production costs (excluding amortization) of RON 106 /MWh (EUR 25/MWh). In this respect, we have also to consider that the hydro power capability to meet peak load would be an important reason to justify a much higher price.
In the case of Nuclearelectrica there is not public information available in order to deduce the selling price within regulated contracts, but it should be close to the average selling price of RON 123 MWh (EUR 29.2/MWh), while its 2009 production cost was about RON 71/MWh (EUR 16.8/MWh). In comparison, CE Turceni sold in 2009 based on regulated contracts 2.5 TWh (40% of its production) at a price of RON 162.1/MWh (EUR 38.2/MWh).

Direct negotiated contracts

The World Bank and Competition Council condemn Hidroelectrica's policy of selling power at prices well below wholesale power market. In 2009, Hidroelectrica sold 11.6 TWh via direct contracts, without any transactions made on the centralized bilateral contracts market managed by OPCOM. The average price achieved by Hidroelectrica from direct contract with wholesale traders and final consumers was RON 102.8/MWh (EUR 24.3/MWh), much below the average price of RON 192.2/MWh (EUR 45.2/MWh) from the centralized bilateral contracts market.

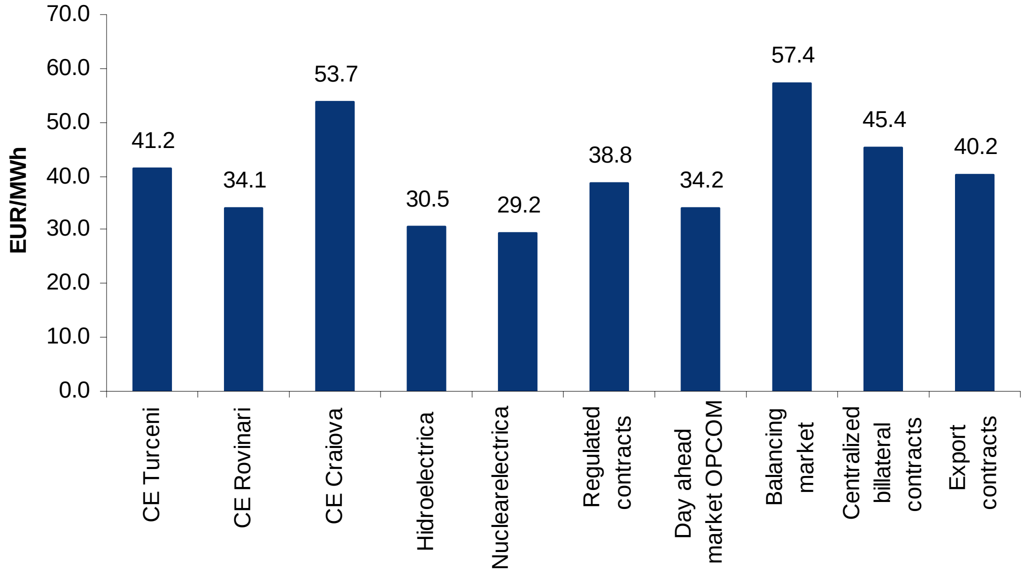
Hidroelectrica justified its long term selling agreements portfolio as a condition imposed by banks to provide LT financing. According to the media, there are 17 long-term direct contracts signed by Hidroelectrica, out of which almost half were extended up to 2017-2018. Hidroelectrica renegotiated the provisions of the prolonged contracts, thus achieving a 30% higher electricity price in 2010. According to Hidroelectrica's management, the new provisions will allow supplementary price increases in the coming years. Based on the CEO's statements, the average selling price achieved in 2010 is RON 130/MWh (EUR 30/MWh), while on the wholesale power market, agreements were signed last year at an average weighted price of RON 165/MWh. After the last negotiations in December 2010, Hidroelectrica achieved an increase of the 2011 average price for the portfolio of direct contracts by 8.5% y/y, up to RON 141/MWh.

One of the most controversial contracts was signed in 2010 with aluminum producer Alro for a quantity of 3 TWh per year at a price linked to the aluminum price on the London Metal Exchange. According to the media, the maximum monthly price achieved in 2010 by Hidroelectrica based on this contract was RON 120/MWh (EUR 28/MWh).

Many rumors circulated late last year after Hidroelectrica sold 1.75 TWh to ArcelorMittal Galati at a price of RON 130/MWh, while on the wholesale market of OPCOM there were two offers from two electricity traders at prices of RON 133/MWh and RON 159/MWh. The explanation provided by the company's CEO, who justifies the deal as an assumed subsidy for a large industrial consumer important for the national economy, does not leave us much hope for controlled and predictable profitability of Hidroelectrica in the medium term.

We believe that Nuclearelectrica and Hidroelectrica will remain captive in the coming years to the local market subsidy mechanisms. As result of the commercial practices supported by the government, the 2009 selling power price for Hidroelectrica and Nuclearelectrica was on average about EUR 30/MWh, substantially less than the wholesale power exchange price, as well as below the selling price of the lignite fired thermo producers where Fondul Proprietatea is a minority shareholder (CE Turceni, CE Rovinari and CE Craiova).

2009 average electricity price



Source: Companies, ANRE, Erste Group Research

The domestic market will continue to be controlled by internal producers, with imports being limited to about 10% by the power deficit in the Balkans and the relatively reduced interconnectivity of Romanian transmission grids with neighboring countries. On the other hand, this technical restriction will limit the potential for competitive Romanian producers to become relevant players in the region, supposing that Hidroelectrica and Nuclearelectrica were to have electricity available for sale in the region. However, this is not a topic for the coming years.

We do not see any important drivers for sustaining an improvement in profitability in the medium term in the case of Romanian power producers. Hidroelectrica's profitability is highly dependent on the hydrological year. In rainy years, the hydro output allows the company to sell on the wholesale power market a quantity of electricity which exceeds the obligations stemming from direct contracts. These contracts will continue to cover in non-transparent conditions more than 65% of the electricity produced in an average hydrological year over the coming five years, with an average selling price which will be systematically below the prices from the wholesale market.

Nuclearelectrica's profitability will also be highly sensitive to the quantity of electricity the company will be able to sell on the power exchange. In this respect, we do not see possible a substantial contraction of the 70% share owned by the regulated market in the total electricity sold by the company. In the case of thermo producers, their prices obviously look less competitive, the outlook being gloomy if we take into consideration the impact (on the production costs) of environment and modernization CAPEX, as well as CO_2 permits costs starting in 2013, with all of these raising a lot of question marks regarding the economic sustainability for a large number of old thermo units.

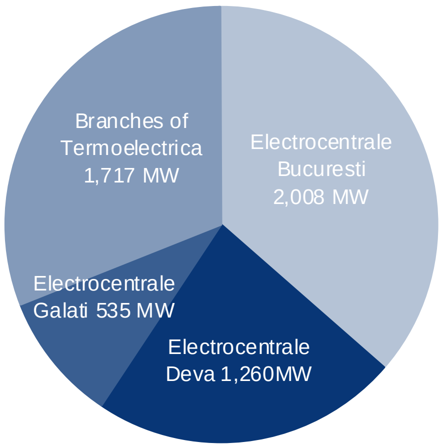
Power generation sector challenges

Thermo power generation

Many thermo units will not meet EU environment standards at the end of 2012. The great majority of existing thermal power plants are obsolete, have been in operation for more than 25 years, and cannot comply with the current emission limits (on SO_2, NOx and dust) imposed by the EU. All such units will have to be modified (improvement of dust collection apparatus and installation of flue gas desulphurization equipment) in order to meet these norms if it is intended to let them continue operating after 2012.

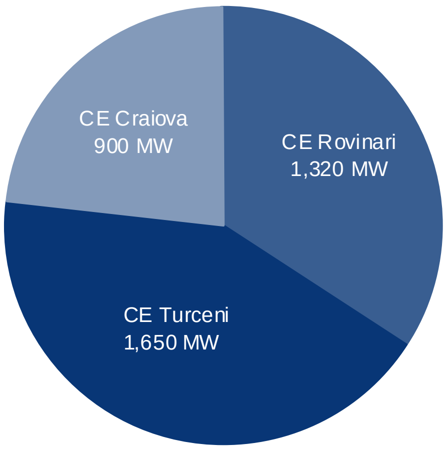
Electrocentrale Bucuresti and Electrocentrale Deva, held by Termoelectrica, together with the three electricity complexes (CE Craiova, CE Turceni and CE Rovinari) represent the largest part of the thermo segment. Termoelectrica has in its portfolio the oldest thermo power plants in Romania, with significant environmental issues which are likely to make it inevitable that they will be shut down by 2012. In a better position are the electricity complexes, which have their own lignite mines and provide over 30% of Romanian electricity output, playing a strategic role in assuring the security of supply.

Installed capacity in Termoelectrica



Source: Termoelectrica

Installed capacity in energy complexes* (MW)



Source: Electricity Complexes
**)Current operational capacity*

In the case of the energy complexes, environmental investments estimated at EUR 780mn will not bring any efficiency gains, while the impact on the generation costs of thermo producers will be consistent. Most likely there will be some lignite units shut down by 2012, due to the unsustainably high costs of the installation of FGD equipment. For the old coal-fired power plants, rehabilitation (associated with huge investments) in order to meet EU environmental standards is not efficient compared to investments in new state-of-the-art units. There are a lot of brownfield projects for building new plants on the sites of old units promoted in the last three years by thermo producers (especially Termoelectrica) but there is not yet even one major project in the implementation stage.

CO_2 permits costs starting 2013 will additionally threaten survival of old thermo units. It is not clear what will happen with CO_2 permits allocations after 2012. A full auctioning of CO_2 permits, as government officials indicate, would practically make coal power generation costs unsustainable. Power producers in Romania are granted 100% of their CO_2 allowances for free up to 2012, a gradual auctioning after this date not being assumed in the current legislation agreed with the European Commission.

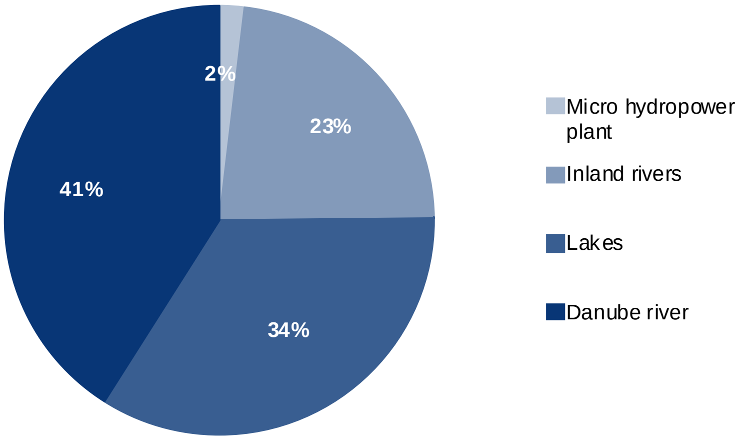
Petrom's CCGT will hold more than 10% of the power generation market. The aging coal/lignite plants and tightening CO_2 regime in Romania as well as impressive wind farms developments which will become operational starting next year will favor combined cycle gas turbine (CCGTs) development. Petrom is the first major player to speculate on the new market opportunities, with the oil and gas company due to put into operation a greenfield

CCGT plant with an installed capacity of 860 MW. The new plant will become operational in 2011, ensuring for Petrom at least 10% of the power market starting in 2012.

Hydro power generation

The rough equivalent of EUR 15bn was invested by Romania in the hydropower field between 1950 and 1990, creating hydropower stations with an installed capacity of 6,300 MW. As for the structure of energy production, the energy produced by capitalizing on the Danube's hydraulic potential at Iron Gates I and II power plants has the greatest importance (41%).

Hydro-energy by source



Source: Hidroelectrica

The current installed capacity corresponds to production, in an average year for weather conditions, of 16-17 TWh, representing less than 60% of Romania's hydro potential. The economic hydraulic potential that could possibly be developed would reach 30 TWh (consistent with an installed capacity of 15,000 MW). Romania's hydropower potential is comparable (among European countries) with Switzerland, where 90% of the potential is capitalized. In consequence, there are major opportunities in hydro generation, especially in the pumped storage generation technology, which is always available and provides significant flexibility with regard to start ups and shutdowns. The need for such power units will be significant, considering the impressive wind farm pipeline, due to the volatility of eolian power, which will require a back-up for securing the stability of the power provided in the transmission and distribution grids. Hidroelectrica announced its intention to build new hydro units worth EUR 3bn over the next five-seven years, out of which EUR 2bn will be oriented towards developing plants in partnerships with strategic investors, in joint venture projects where the Romanian company wants to hold a majority.

A strategic national project is Tarnita-Lapustesti pumped storage hydropower plant, with an installed capacity of 1,000 MW. The reason for building this power plant is that the commissioning of other nuclear units at the Cernavoda NPP, of 706.5 MW each, requires the existence in SEN of hydropower capacities to store energy during off-loads and provide it to the system at peak loads.

Nuclear power generation

The Minister of Economy was mandated by the government to begin negotiations with other strategic investors for the reduction of the state's majority participation in the joint company EnergoNuclear, a venture set to build nuclear reactors 3 and 4 at the Cernavoda plant. The project company is owned by Nuclearelectrica (60.15%), while the only private investors still partners in the project are ENEL and Arcelor Mittal. CEZ, GDF Suez, Iberdrola and RWE announced their withdrawal, the government having to convince other investors to join the project. According to the last official statements it is possible that the government will decide to reduce its contribution within this project by up to 25%.

Units 3 and 4, each with an installed capacity of 706.5 MW, are under preservation since 1992. The overall completion rate is almost 15% and 12%, respectively, representing mainly civil works for the reactor containment, turbine building and service buildings. The investment required for building reactors 3 and 4 is currently estimated by the Romanian government at EUR 4bn. The cost indication includes the value of fixed assets, the investment required for the transmission infrastructure and the increase in the cost of raw materials, equipment and work force in the last few years. The initial estimated commissioning date was 2014 for unit 3 and 2015 for unit 4, but the process will be delayed with at least two years by the negotiations between Romanian government and strategic investors.

The recovery investment pattern assumes that each shareholder in the project company will receive electricity produced by units 3 and 4 at a generation cost of the same proportion as their stakes in the share capital. The main risk for the owners of the project is rising construction costs and construction period. Recent years have witnessed worldwide substantial risks of plants costing more than the initially-forecasted price.

Wind power generation

Romania enjoys a very large wind-power potential of around 14,000 MW and an energy-generating capacity of 23 TWh, but transmission grid allows integration of about 3,000 MW wind farms. The Dobrogea region, which consists of Constanta and Tulcea counties, has the second-highest wind potential in Europe. There are currently three major wind projects owned by CEZ, Energias de Portugal and Enel, with a cumulative 464 MW installed capacity, which are close to becoming fully operational. According to cautious estimates, it will be a wind farms invasion in 2011, with projects with a 1,165 MW capacity. Starting this year, one of the largest eolian sites, with an installed capacity of 600 MW, will be built by Iberdrola in Constanta County. The concentration of wind farms to be registered in the Dobrogea area in the following years will lead to mandatory EUR 200mn investments in the electricity transmission network. According to TSO Transelectrica representatives, wind farms with an installed capacity of maximum 3,000 MW will be able to be integrated in the grid. This is much below the wind power potential as well as the amplitude of theoretical developments in different stages announced by investors.

Producing wind power is sustained by the green certificates subsidy mechanism. The owners of wind farms will receive two green certificates per 1 MWh of electricity produced up to 2017, and one certificate after that. The price achievable per certificate is between EUR 27 and EUR 55 up to 2025, which makes the investments in renewable power generation units sustainable. The financial support for promoting renewable energy will also have to be sustainable, as there is an impact on the increase of electricity price for final consumers, due to the fact that electricity suppliers are forced to transfer the cost with mandatory acquisition of green certificates into their output prices.

Wind farms mainly replacing old thermo power plants. New eolian power facilities production will effectively replace the old thermo power plants, which are outdated and do not comply with EU environment norms, while their rehabilitation, jointly with CO_2 permits costs starting 2013, is not financially sustainable in the majority of cases.

The most important greenfield/grownfield power generation projects in Romania							
Company	**Location/Status/Put in line date (accomplishment period)**	**Strategic partners**	**Project type**	**Power plant technology**	**Estimated Installed capacity (MW)**	**Estimated cost (mn EUR)**	**Cost per unit (EUR/kw)**
Nuclearelectrica	Cernavoda 3&4 units, not started, 5-6 years	ArcelorMittal, Enel	brownfield	2 reactors CANDU-6 x 720MW (IC)	1,414	4,000	2,829
Hidroelectrica	Tarnita, not started, 5-6 years	Not selected	greenfield	pump-storage hydropower plant	1,000	1,276	1,276
Hidroelectrica	Valcea, starting 2012, 5 years	Not selected	greenfield	hydropower	25	88	3,522
Hidroelectrica	Buzau, starting 2012, 5 years	Not selected	greenfield	microhydro* IC=88.27 MW	110	403	3,655
Hidroelectrica	Mures, starting 2012, 5 years	Not selected	greenfield	microhydro plants	39	308	7,927
Hidroelectrica	Alba&Cluj, starting 2012, 5 years	Not selected	greenfield	microhydro plants	149	305	2,045
Hidroelectrica	Somes, starting 2012, 6 years	Not selected	greenfield	microhydro plants	59	773	13,054
OMV Petrom	Brazi, in progress, 2011	without strategic partners	greenfield	combined cycle gas turbine (CCGT)	860	500	581
Interagro	a few cities, started, starting 2011	without strategic partners	greenfield	cogeneration steam-gas combined cycle	81	72	889
CE Rovinari	Rovinari, not started, 4 years	Not selected	brownfield	hard coal condensing	500	600	1,200
CE Craiova	Craiova II, not started, 4 years	Not selected	brownfield	cogeneration steam-gas combined cycle	200	272	1,360
CE Craiova	Isalnita, not started, 4 years	Not selected	brownfield	hard coal condensing	500	680	1,360
Electrocentrale Bucuresti	Bucuresti, not started, 42 months	Unit Investment NV, Dalkia International	brownfield	cogeneration steam-gas combined cycle	400	350	875
Electrocentrale Bucuresti	Bucuresti, not started, 2 years	Unit Investment NV, Dalkia International	brownfield	cogeneration steam-gas combined cycle	63	60	952
Termoelectrica	Braila, not started, n.a.	E.ON, ENEL	brownfield	hard coal condensing	800	1,000	1,250
Termoelectrica	Borzesti, not started, n.a.	GDF Suez	brownfield	CCGT, condensing type	400	310	775
Termoelectrica	Galati, not started, n.a.	Arcelor Mittal (?), Funjian Lonking (?)	brownfield	cogeneration steam-gas combined cycle	400	350	875
Termoelectrica	Doicesti, not started, n.a.	Mechel (?)	brownfield	hard coal condensing	250	n.a.	n.a.
CEZ	Dobrogea, in progress, 2010/2011	-	greenfield	wind farms	450	810	1,800
Energias de Portugal	Dobrogea, in progress, 2010/2012	-	greenfield	wind farms	228	410	1,798
ENEL	Dobrogea, in progress, 2010/2013	-	greenfield	wind farms	302	543	1,798
OMV Petrom	Dobrogea, in progress, 2011	-	greenfield	wind farms	45	81	1,800
RWE	Dobrogea, in progress, 2011	-	greenfield	wind farms	147	264	1,796
Verbund	Dobrogea, in progress, 2011	-	greenfield	wind farms	200	360	1,800
Iberdrola	Dobrogea, in progress, 2011	-	greenfield	wind farms	80	144	1,800
Iberdrola	Dobrogea, starting in 2011, proggresive up to 2017	-	greenfield	wind farms	600	1,080	1,800

Source: Ministry of Economy,Termoelectrica, Nuclearelectrica, Petrom, Ziarul Financiar, other media sources

**) micro hydro plant = IC < 10MW*

Government's project to set-up two national power generation companies

World Bank encourages the development of Hidroelectrica and Nuclearelectrica as state-owned companies and privatization of the thermo power producers. The government's intention to create Hidroenergetica and Electra, two national power generation companies, with Hidroelectrica and Nuclearelectrica as the core of the two new entities, has been criticized by unions, specialists, non-governmental organization and strategic investors. The World Bank has also tried to convince the government to cancel this plan, considering that its implementation will lead Romania towards a major security of supply risk in future years. From the point of view of the World Bank, it is not efficient that the new entities are forced to secure the financing resources required by the huge CAPEX needs of the old thermo plants, while major projects of Nuclearelectrica and Hidroelectrica are postponed. The restructuring plan will put pressure on the financial positions of Hidroelectrica and Nuclearelectrica, there being a serious question mark as to whether the creditors of the two companies will agree to become financial partners of the new entities. The World Bank maintains that it would be logical for Hidroelectrica and Nuclearelectrica to be kept under governmental control, which will secure for the state an almost 50% share of the power market, while the old thermo power plants should be privatized with strategic investors, a commendable approach, considering the massive investment which is required. On the other hand, there are many critics who see negative consequences with respect to the market, stemming from the future dominant position of Electra and Hidroenergetica, which will control about 80% of the power generation market. In this context, there are suspicions that a future oligopolistic electricity market will strongly discourage private investments in new units (especially thermo).

Franklin Templeton tries to stop the reorganization process, claiming the shareholders' approval. Therefore, Franklin Templeton obviously has many reasons to block the set-up of the new entities, which will include all five generation companies where FP is a shareholder. FP initiated lawsuits against the Ministry of Economy, contesting share capital increases at companies from its portfolio, the most delicate conflict being in the case of Nuclearelectrica, where FP's stake was reduced from 20% to 9.72% after share capital increases. As long as the shareholder structure of Nuclearelectrica is subject to litigation, from the point of view of Templeton, the current reorganization of the power sector is not technically possible. On the other hand, the completely un-transparent plans of the state plus the lack of a reliable business plan for the two new national companies does not practically allow Templeton any option other than to block the government's project.

Electra

Company	Energy sources	Key figures
Nuclearelectrica	nuclear power plant	IC 1,414 MW
CE Turceni	lignite fired power plant	IC 1,650 MW
CE Rovinari	lignite fired power plant	IC 1,320 MW
CE Craiova	lignite fired power plant	IC 900 MW
Hidroelectrica units	hydro power plants	RON 3.17bn (KPMG valuation)
SNL Oltenia	lignite producer	14.4mn tons production (2009)

Source: Companies, media, Fondul Proprietatea floating prospectus

Hidroenergetica

Company	Energy sources	Key figures
Hidroelectrica units	hydro power plants	RON 13.38bn (KPMG valuation)
Electrocentrale Bucuresti	co-generation thermo power plants	IC 2,008 MW
Electrocentrale Deva	hard coal power plant	IC 1,260 MW
Paroseni (Termoelectrica branch)	co-generation thermo power plants	3mn tons bituminous coal production
CN Huilei (few mines)	hard coal producer	14.4mn tons production (2009)

Source: Companies, media, Fondul Proprietatea floating prospectus

Electra will include Nuclearelectrica and the three thermo complexes (CE Turceni, CE Rovinari, CE Craiova) as well as a few power plants from Hidroelectrica together with SNL Oltenia (national lignite producer). The other company Hidroenergetica will include the largest part from Hidroelectrica, thermo producers (Electrocentrale Bucuresti, Electrocentrale Deva, Paroseni power plant held by Termoelectrica) and a part of Compania Nationala a Huilei (national hard coal producer).
According to government projections, Fondul Proprietatea will hold a 15.1% stake in Electra and a 15.9% stake in Hidroenergetica, respectively.

HIDROELECTRICA

Not listed

Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	80%	RONmn	10,221
Fondul Proprietatea	20%	EURmn	2,398

Source: FP Listing Prospectus, Erste Group Research

Company description

Hidroelectrica is the most important electricity producer, with a market share of between 23% and 35%, depending on the hydrological year. Thus, production exceeds 18 TWh during rainy years, as it was the case in 2010, which was however an exceptional one with a production of 19.7 TWh. The company is the main system services provider, gaining 65% of system services in 2009 for the secondary control reserves of the National Energy System and 80% of system services for the rapid tertiary reserve. The total installed capacity is 6,422.7 MW (pumping stations included).

The most valuable asset is Iron Gates I, the third-largest hydropower station in Europe, which was built by Romania and Serbia on the Danube River with an installed capacity of 2,100 MW (out of which half is held by Hidroelectrica and the rest by the Serbian government). Iron Gates I currently provides 10% of the national electricity output and 30% of the electricity produced by Hidroelectrica. The six hydro units at Iron Gates I (6*175=1,050 MW) were modernized, with the upgrade being finished in March 2007, and the equipment being operational for a new lifecycle of 30 years.

The commissioning of another two reactors at the Cernavoda NPP will require a new pumped storage power plant of 1,000 MW to be located at Tarnita-Lapusesti. This will supply peak electric energy for both domestic and foreign markets where there is a high demand for this type of product.

Hidroelectrica estimates 2010 net profit worth RON 400mn, due to a very good hydrological year, as well as a better selling price starting in 2010 for its direct contracts portfolio. However, its un-transparent and controversial commercial practices of selling electricity outside the wholesale market, will keep profitability well below potential up to 2018, which is the year of maturity for a part of these contracts.

SWOT analysis

Strengths & Opportunities:

- Largest Romanian power producer with about 30% market share
- The most sustainable energy source, with very long economic life of hydro power plants
- Pivotal role in the National Energy System
- Impressive wind farms pipeline will favor new pumped storage developments
- Tarnita-Lapusesti pumped storage could strongly consolidate company’s market position
- Opportunities to develop sustainable greenfield projects in partnerships in order to capitalize on country’s hydropower potential, which is more than 40% unused

Weaknesses & Threats:

- Non-transparent selling of more than 65% of the electricity produced based on direct contracts at prices below wholesale power market
- About 25% of production is sold on the regulated market at a price lower than production cost
- Cross subsidy of expensive thermo producers via acquiring electricity from these producers especially in weak hydrological years
- Government’s plan to create two national generation companies may postpone major hydro power projects with high value added in the LT

Selected financial figures (RONmn) and ratios

	2007	2008	2009
Sales	2,060.74	2,443.55	2,420.80
EBITDA	817.44	849.83	816.83
EBIT	142.66	206.59	161.96
Net profit	52.58	65.12	48.38
EBITDA margin	39.7%	34.8%	33.7%
EBIT margin	6.9%	8.5%	6.7%
Net margin	2.6%	2.7%	2.0%

	2007	2008	2009
Assets	19,471.97	19,946.95	22,989.89
Equity	13,840.87	13,877.82	16,481.23
Net financial debt	894.33	892.25	1,452.88
Net fin debt/EBITDA	1.09	1.05	1.78
Equity ratio	71%	70%	72%
ROE	0.4%	0.5%	0.3%
ROA	0.3%	0.3%	0.2%

Source: IntelliNews, FP Listing Prospectus

NUCLEARELECTRICA

Not listed

Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	90%	RONmn	5,535
Fondul Proprietatea	10%	EURmn	1,299

Source: FP Listing Prospectus, Erste Group Research

Company description

Nuclearelectrica was set up in July 1998, being organized into two branches: the Cernavoda Nuclear Power Plant branch, which operates units 1 & 2, and the Pitesti Nuclear Fuel Plant branch, which is a qualified manufacturer for CANDU-6 type nuclear fuel and covers all the demands of the two operational units from Cernavoda NPP.

Both reactors are CANDU-6, a natural uranium & heavy water type of 706.5 MW IC each, with the first put into service in December 1996, and the second in October 2007. The beginning of unit 2's commercial operation induced tariff stability on the regulated market, as it substantially improved the outlook for a secure electricity supply in Romania.

Unit 1 was operated in very good technical performance conditions in 2009, with an average gross capacity factor of 101.1%, ranking first among CANDU-6 reactors around the world. Unit 1 also ranked seventh out of 37 heavy reactors from the point of view of performance after being put into operation with a gross capacity factor of 89.07%.

The company benefits from a very experienced and highly professional staff, which is a very important requirement in the nuclear industry (the professional qualification and training procedures can last as long as six years).
At the end of last year, the European Commission approved the completion of units 3 and 4, which will be developed in partnership with strategic investors (GDF Suez, ENEL, RWE Power, Iberdrola, ArcelorMittal). They are already shareholders in the joint company EnergoNuclear where the state currently has a stake of 60.15%, too high compared to its financial capability. In this context, it is expected that, after negotiations with strategic investors, the Minister of Economy's contribution will substantially reduce, by up to 25%. The investment needs for building reactors 3 & 4 are currently estimated by the Romanian government at EUR 4bn.

SWOT analysis

Strengths & Opportunities:

- The second largest Romanian power producer, with over 11 TWh output per year
- Low age of asset base
- Very experienced and highly professional staff, which makes for manageable human resources needs for operation of units 3 and 4 after their commissioning
- Vertically integrated power plant with in-house production of nuclear fuel, which translates into a high cost efficiency
- Very good technical performance, with unit 1 being the most efficient CANDU-6 reactor around the world in 2009

Weaknesses & Threats:

- About 70% of production sold on the regulated market at a price much lower than the thermo producers
- The main governmental tool for keeping the electricity price for the general population at a low level, which "caps" the operating performance well below its potential

Selected financial figures (RONmn) and ratios

	2007	2008	2009
Sales	909.60	1,451.93	1,526.66
EBITDA	396.83	659.28	692.58
EBIT	187.63	320.54	325.31
Net profit	88.67	103.04	49.36
EBITDA margin	43.6%	45.4%	45.4%
EBIT margin	20.6%	22.1%	21.3%
Net margin	9.7%	7.1%	3.2%

	2007	2008	2009
Assets	8,850.60	9,626.11	9,963.22
Equity	5,986.07	6,897.00	7,253.75
Net financial debt	2,430.17	2,130.81	2,032.82
Net fin debt/EBITDA	6.12	3.23	2.94
Equity ratio	68%	72%	73%
ROE	1.5%	1.6%	0.7%
ROA	1.0%	1.1%	0.5%

Source: IntelliNews, FP Listing Prospectus

CE TURCENI

Not listed

Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	75%	RONmn	2,100
Fondul Proprietatea	25%	EURmn	493
Termoelectrica	1%		

Source: FP Listing Prospectus, Erste Group Research

Company description

CE Turceni is the largest power plant in Romania, with 1,980 MW installed capacity (six groups of 330 MW) and a current operational capacity of about 1,575 MW (5x 330 MW operational units, one group in rehabilitation). CE Turceni was built between 1978 and 1987 with Romanian technology under a Rateau-Schneider license for the turbines and a Babcock license for the boilers. Units 4 and unit 5 have been modernized in the framework program of the Romanian electricity sector in preparation for the interconnection to the UCTE. These units are fully capable of ensuring regulation as per UCTE rules and standards and have been tested on the occasion of the trial operation of the Romanian power system in order to demonstrate its suitability as a UCTE member.

Under the circumstances that a regional electricity market is developed in the Balkans, with all systems operating upon UCTE standards, CE Turceni could play an important role on the secondary markets (such as the capacity markets, reserve markets, usual physical contracts left aside), ensuring an important role for the stability of the whole regional network.

Turceni TPP is strategically placed in the middle of the lignite mining area, but also on an important interconnection node. There is a connection via a 400 kV line to the Iron Gates node that constitutes the interconnection point with the former Yugoslav power system. Export possibilities are important, as numerous electricity traders request offers at the Iron Gates interconnection point. CE Turceni owns its own lignite mines, which cover about 70% of the lignite used in production cycle. Jilt mining exploitation has a production capacity of 6mn tones lignite per year and Tehomir mining exploitation with a production capacity of 0.4mn tones lignite per year. The thermo power plant owns coal storage facilities of roughly 1mn tons, covering 30 days of rated consumption.

SWOT analysis

Strengths & Opportunities:

- Largest Romanian thermo producer
- Two units (unit 4 and unit 5) have been modernized by rehabilitation works finished in 2002 and 2006, respectively
- Installation of FDG equipment carried out in the proportion of 65% and 55%, respectively, for unit 4 and unit 5
- Important role in ensuring the stable functioning of Romanian and regional power network
- Strategic 400 kV connection with Iron Gates interconnection node would secure favorable export opportunities on the medium term
- 60% of lignite used in production cycle comes from its own mines, which are located close to the production site

Weaknesses & Threats:

- Environmental expenditure needs of EUR 456mn in order to meet EU standards by 2012 (according to the projects recorded at Ministry of Economy)
- Important CAPEX needs for modernization
- A full auctioning of CO_2 permits allocations starting in 2012 would make generation costs practically unsustainable

Selected financial figures (RONmn) and ratios

	2007	2008	2009
Sales	1,029.37	1,281.38	1,125.50
EBITDA	214.88	188.00	238.38
EBIT	100.24	65.87	30.17
Net profit	78.33	19.95	21.28
EBITDA margin	20.9%	14.7%	21.2%
EBIT margin	9.7%	5.1%	2.7%
Net margin	7.6%	1.6%	1.9%

	2007	2008	2009
Assets	1,867.51	2,712.99	2,790.74
Equity	1,387.40	2,114.52	2,138.59
Net financial debt	-37.00	41.01	89.26
Net fin debt/EBITDA	-0.17	0.22	0.37
Equity ratio	74%	78%	77%
ROE	5.6%	1.1%	1.0%
ROA	4.2%	0.9%	0.8%

Source: IntelliNews, FP Listing Prospectus

Company Report – **Fondul Proprietatea**

CE ROVINARI

Not listed			
Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	76%	RONmn	976
Fondul Proprietatea	24%	EURmn	229
Termoelectrica	1%		

Source: FP Listing Prospectus, Erste Group Research

Company description

CE Rovinari has an installed capacity of 1,320 MW, with four operational units of 330 MW, which were commissioned between 1976 and 1979. The annual quantity of electricity delivered in the transport grid is about 5-6 TWh. The Rovinari thermo power plant is the second largest in Romania and has the lowest production cost among all thermo power producers.

CE Rovinari owns three brown coal fields: Rovinari – Rovinari Est and Garla pits, Tismana – Tismana I and Tismana II surface pits, and Pinoasa. The brown coal is supplied from mining operations located at a depth of 2-6km and transported from opencast mines to the thermo power plant by coal belt conveyers; thus, the thermo power plant is unique in Romania, being placed very near the brown coal fields, which minimizes coal transportation costs.

Average yearly production of brown coal: 1.07mn tons – Rovinari field, 3mn tons – Tismana field and 1.43mn tons - Pinoasa field. The thermo power plant owns coal storage facilities of roughly 0.6mn tons, covering 13 days of rated consumption.

Ash and cinder are removed through hydraulic transportation using six pipes to an ash deposit located 5km from the power plant and having 15mn cubic meters storage capacity, of which roughly 7.5mn cubic meters are not yet available.

CE Rovinari intends to build, in partnership with a strategic partner, a new high-power unit with state-of-the-art technology of an overcritical parameter boiler burning coal dust. The new power plant is projected to have a 500 MW installed capacity, and to be located inside CE Rovinari instead of old units, which were withdrawn from use.

SWOT analysis

Strengths & Opportunities:

- The second largest Romanian thermo producers
- The lowest production costs among domestic thermo power producers, due to the full covering of its lignite production needs from its own mines, as well as the power plant location being very close to the production site

Weaknesses & Threats:

- Environment expenditure of EUR 150mn in order to meet EU standards by 2012 (according to the projects recorded at Ministry of Economy)
- Important CAPEX needs for modernization
- A full auctioning of CO_2 permits allocations starting in 2012 would make generation costs much less sustainable

Selected financial figures (RONmn) and ratios

	2007	2008	2009
Sales	811.55	957.31	845.41
EBITDA	139.19	73.71	76.11
EBIT	89.31	14.01	13.66
Net profit	79.27	1.04	5.64
EBITDA margin	17.2%	7.7%	9.0%
EBIT margin	11.0%	1.5%	1.6%
Net margin	9.8%	0.1%	0.7%

	2007	2008	2009
Assets	1,026.37	1,304.32	1,633.14
Equity	716.10	853.61	1,064.66
Net financial debt	-138.50	5.96	157.60
Net fin debt/EBITDA	-1.00	0.08	2.07
Equity ratio	70%	65%	65%
ROE	11.1%	0.1%	0.6%
ROA	7.7%	0.1%	0.4%

Source: IntelliNews, FP Listing Prospectus

CE CRAIOVA

Not listed			
Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	71%	RONmn	910
Fondul Proprietatea	24%	EURmn	213
Others (2 companies)	4%		

Source: FP Listing Prospectus, Erste Group Research

Company description

CE Craiova has an installed capacity of 930 MW. Isalnita power plant has an installed capacity of 630 MW and a current operational capacity of 600 MW, while Craiova II power plant has an installed capacity of 300 MW. The two entities are cogeneration power plants, with Craiova II, which produces thermal energy for Craiova city, being one of newest in Romania. Its two units were commissioned in 1987 and 1989, respectively.

Lignite costs represent about 70% of operating costs, with the main supplier being SN Lignitului, covering about 80% from production needs. The Craiova power plants are also supplied by lignite from its coal mine Prigoria, with a yearly production capacity of 0.65 tons of lignite. It is about 100km from the nearest plant - one of the reasons why CE Craiova is a more expensive producer compared to CE Turceni and CE Rovinari.

There are plans to add another hard coal condensing group of 500 MW at Isalnita power station at a cost of EUR 680mn which would be financed and operated in partnership with strategic investors. On the other hand, there is a plan to build a new cogeneration steam gas combined cycle with an IC of 200 MW at Craiova II at a cost of EUR 272mn, for which strategic partners (within a joint venture project) are to be attracted.

SWOT analysis

Strengths & Opportunities:

- Craiova II is one of the newest cogeneration power plants currently operational in Romania
- Important opportunities in heat generation, especially for the car manufacturer Ford and its suppliers

Weaknesses & Threats:

- Environmental expenditure needs of EUR 150mn in order to meet EU standards by 2012 (according to the projects recorded at the Ministry of Economy)
- Important CAPEX needs for modernization
- Higher production costs when compared to CE Turceni and CE Rovinari
- Only 10% of the coal consumed comes from its own mines.
- A full auctioning of CO_2 permits allocations starting in 2012 would make generation costs practically unsustainable

Selected financial figures (RONmn) and ratios

	2007	2008	2009
Sales	861.76	1,068.63	1,132.42
EBITDA	78.39	73.63	75.53
EBIT	10.72	4.39	-0.68
Net profit	8.33	3.62	0.34
EBITDA margin	9.1%	6.9%	6.7%
EBIT margin	1.2%	0.4%	-0.1%
Net margin	1.0%	0.3%	0.0%

	2007	2008	2009
Assets	1,243.49	1,393.16	1,581.24
Equity	1,082.96	1,080.57	1,097.46
Net financial debt	-14.86	2.66	131.55
Net fin debt/EBITDA	-0.19	0.04	1.74
Equity ratio	87%	78%	69%
ROE	0.8%	0.3%	0.0%
ROA	0.7%	0.3%	0.0%

Source: IntelliNews, FP Listing Prospectus

TRANSELECTRICA

Ticker	TEL	Market capitalization		3M daily turnover	
Erste Group rating	Accumulate	RONmn	1,477.06	RON	209,140
Target price (RON)	24	EURmn	346.56	EUR	49,035
Share price	20.15	Share price performance			
Free float	12.8%	1M	6M	12M	YTD
Main shareholders:		6%	23%	32%	6%
Ministry of Economy (73.6%); Fondul Proprietatea (13.5%); Others (12.8%)					

Source: Bucharest Stock Exchange, Erste Group Research

Company description

Transelectrica is the Romanian Transmission and System Operator (TSO), which 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 the transmission of electricity, system and market operations, grid and market infrastructure development and ensuring the security of the Romanian power system. It also serves as the main link between electricity supply and demand, and the matching of power generation to demand. The main driver of TSO's profitability is the transmission tariff. Transelectrica's tariffs have to be approved by the regulator ANRE, with the transmission tariff determined based on a Regulated Assets Base (RAB) mechanism. The regulatory formula allows controlled profitability determined as a product between the regulated rate of return and RAB.

We believe that the company has no alternative other than to implement an extensive CAPEX plan, worth about EUR 1.2bn, by 2017. Large investments are a must from the perspective of the national energy strategy objectives. Our estimates indicate that this substantial effort may be covered to a great extent by a sustainable transmission tariff increase of about 4%, while keeping the indebtedness level at a comfortable level, substantially below its peers. The management of interconnections with neighboring countries and electricity transit is one of Transelectrica's key responsibilities. The company's vision is to become the major operator for electricity transmission in Southeastern Europe, which would result in additional business opportunities.

SWOT analysis

Strengths & Opportunities:

- Operating profitability should be fuelled through RAB-based methodology on the back of a consistent CAPEX plan, over EUR 1.2bn by 2017
- Positive outlook of domestic power demand, which is supportive for the transmission tariff development
- More confidence in sustainable growth story after the approval by ANRE of a transmission tariff 10.4% higher y/y, which was far above expectations
- Favorable LT outlook for transit business based on strategic position of Romanian grid
- Low cost of LT loans, due to government guarantees
- Stable dividend policy as state-owned company

Weaknesses & Threats:

- Arbitrary regulatory regime with negative impact on the transmission tariff advance and operating profitability
- Low transparency of transmission tariff model parameters computed by regulator
- Grid management in order for new production units to be integrated (especially wind farms) will put pressure on operating performance
- Currency mismatch: loan payments in FX, revenues in RON

Selected financial figures (RONmn) and ratios

IFRS	2008	2009	2010e
Sales	2,988.07	2,551.64	2,750.47
EBITDA	457.73	355.73	354.83
EBIT	217.18	98.61	79.32
Net profit	50.37	18.25	14.12
EBITDA margin	15.3%	13.9%	12.9%
EBIT margin	7.3%	3.9%	2.9%
Net margin	1.7%	0.7%	0.5%

	2008	2009	2010e
Assets	4,020.42	3,844.74	4,042.01
Equity	1,934.57	1,904.83	1,913.30
Net financial debt	973.00	1,023.10	1,193.00
Net fin debt/EBITDA	2.13	2.88	3.36
Equity ratio	48%	50%	47%
ROE	2.6%	1.0%	0.7%
ROA	1.3%	0.5%	0.3%

Source: Transelectrica, Erste Group Research

Power producers valuation

Non-conventional tools for assessment of Romanian power generators

We employed Depreciated Replacement Cost and linear regressions based on the specific metrics EV/Installed capacity and EV/Output in order to value the five Romanian electricity producers. We consider these two solutions to be the most logical, considering the (many) uncertainties regarding the outlook for power producers, as well as the significant environmental and modernization investment needs, especially in the case of the three electricity complexes. All of these make the DCF valuation vulnerable, while a simple assessment of the local producers based on EV/EBITDA target multiple based on a group of peers is not appropriate due to the poor profitability profile of Romanian companies, as well as the environmental and modernization investment needs.

Specific metrics EV/IC and EV/Output

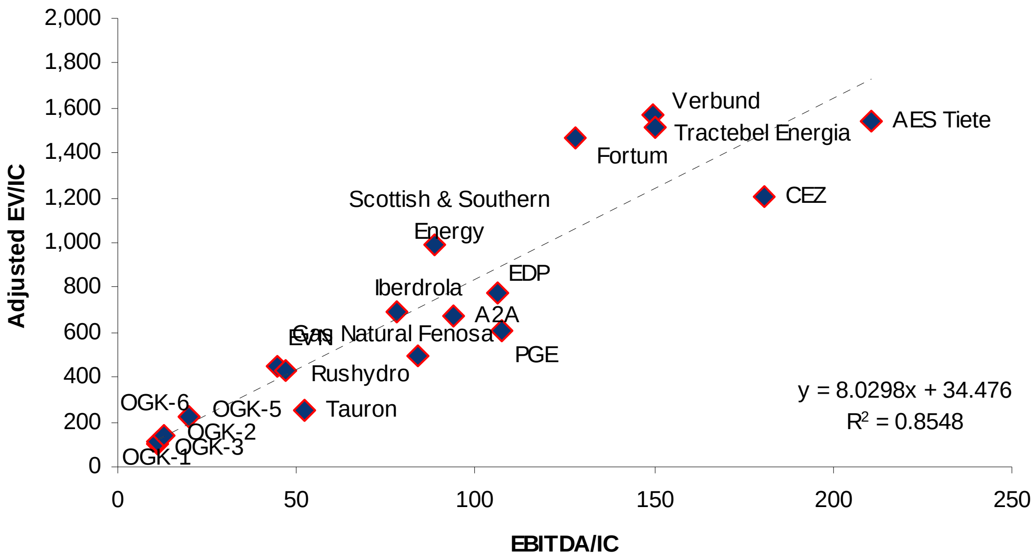
The valuation of power producers is strongly connected to the operating profitability per IC and per Output. We consider EV/IC and EV/Output as the most appropriate multiples for making comparisons between electricity producers. However, due to their different profitability constraints, the only way to use these multiples is to link them to other metrics, namely operating profitability per IC and per Electricity output.
The major issue in setting up a relevant peer group for Romanian electricity producers is that a lot of companies, especially from Europe, are not operating solely in power generation, their business being more complex and including other forms of business, such as heat generation, power supply and even gas distribution. In this context, due to the different business structures of these companies, an EV adjustment is mandatory so as to quantify in a reasonable way the weight of generation in operating profitability. That is why we adjusted the peer EV with the contribution of power generation to the EBITDA of the respective power producers.
We selected a representative peer group of power producers from Eastern & Western Europe, Russia and Brazil, covering a diverse generation mix of energy sources (hydro, nuclear, hard coal, gas, eolian).

Power producer	Installed Capacity (MW)	Output 2009 (TWh)	EBITDA 2009 (mn EUR)	Power generation contribution to EBITDA* (%)	EV 2010e (mn EUR)	Adjusted EV* (mn EUR)	Adjusted EV/IC (EUR/kW)	Adjusted EV/Output (EUR/MW)	EBITDA/IC (EUR/kW)	EBITDA/ Output (EUR/MWh)
CEZ	14,395	59.5	3,449.8	75%	23,006.7	17,349.4	1,205.2	291.6	180.7	43.7
PGE	12,400	53.8	1,845.0	72%	10,518.8	7,579.8	611.3	140.9	107.2	24.7
Tauron	5,600	18.6	598.0	49%	2,954.9	1,439.1	257.0	77.4	52.0	15.7
Verbund	7,687	29.9	1,251.5	92%	13,097.6	12,049.8	1,567.6	402.8	149.8	38.5
Fortum	13,940	65.3	2,292.0	78%	26,209.9	20,391.3	1,462.8	312.3	127.9	27.3
A2A	5,500	13.1	1,032.0	50%	7,364.1	3,682.0	669.5	281.1	93.8	39.4
Iberdrola	43,667	142.8	6,815.0	50%	60,422.4	30,211.2	691.9	211.6	78.0	23.9
EDP	20,623	54.3	3,363.0	65%	24,587.9	15,982.1	775.0	294.4	106.0	40.3
Scottish & Southern Energy	11,330	47.2	1,824.9	55%	20,380.3	11,209.2	989.3	237.5	88.6	21.3
Gas Natural Fenosa	17,861	54.1	4,817.0	31%	28,581.0	8,888.7	497.7	164.2	83.9	27.7
EVN	1,829	3.5	373.0	22%	3,704.0	814.9	445.5	234.4	44.9	23.6
Rushydro	25,426	81.6	1,186.9	100%	10,993.4	10,993.4	432.4	134.7	46.7	14.5
OGK-1	9,531	43.1	107.9	100%	971.8	971.8	102.0	22.6	11.3	2.5
OGK-2	6,999	47.2	141.1	100%	1,593.1	1,593.1	227.6	33.8	20.2	3.0
OGK-3	8,357	29.5	94.9	100%	945.8	945.8	113.2	32.0	11.4	3.2
OGK-5	8,747	39.1	176.1	100%	1,965.6	1,965.6	224.7	50.3	20.1	4.5
OGK-6	9,052	29.0	117.1	100%	1,288.5	1,288.5	142.3	44.5	12.9	4.0
Tractebel Energia	6,431	31.8	967.9	100%	9,753.9	9,753.9	1,516.7	307.1	150.5	30.5
AES Tiete	2,657	14.7	560.0	100%	4,104.0	4,104.0	1,544.6	279.1	210.8	38.1
Median	-	-	-	-	-	-	*611.3*	*211.6*	*83.9*	*23.9*

Source: Erste Group Research, Fact Set, www.oanda.com, Companies (websites, annual reports, investor presentations)
**) EV adjusted with generation's contribution to operating profitability; there are companies where EBITDA includes the impact of electricity supply/trading or impact of heat generation*

We developed two linear regressions and found a high correlation coefficient between EV/IC and EBITDA/IC on one side, and EV/Output and EBITDA/Output on the other side. We used the two regressions in order to compute the target values of EV/IC and EV/Output for the five Romanian power producers where Fondul Proprietatea is a minority shareholder.

Representative EV/IC regression with EBITDA/IC as independent variable



Source: Erste Group Research

Using EV/IC regression function, we found fair values for the Romanian companies highly sensitive to their weak profitability profile, and which are strictly connected to their non-commercial behavior, non-transparent governmental practices as well as with lower efficiency costs (in the case of the three lignite-fired power plants).

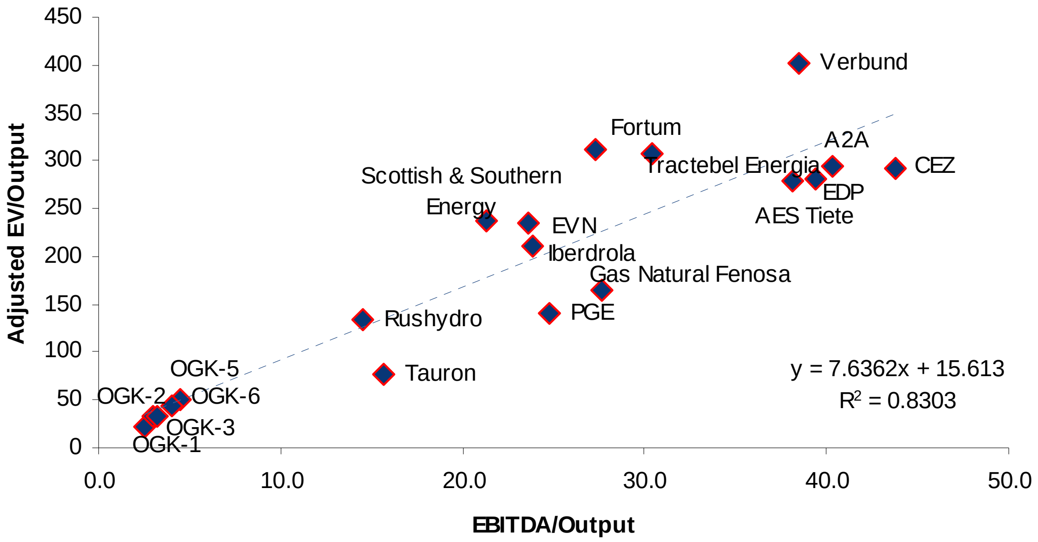
Valuation of Romanian power producers based on EV/IC peers regression

Power producer	Target EV/IC* (EUR/kW)	Installed Capacity** (MW)	EV (EUR mn)	Net debt (EUR mn)	Fair value of equity (EUR mn)
CE Turceni	308.2	1,650	508.6	21.1	487.5
CE Rovinari	143.7	1,320	189.7	37.3	152.5
CE Craiova	188.4	900	169.5	31.1	138.4
Hidroelectrica	277.8	6,423	1,784.1	343.6	1,440.5
Nuclearelectrica	962.7	1,414	1,361.2	480.8	880.4

Source: Companies, FP floating prospectus, Erste Group Research computes

*Notes: *) Based on (EV/IC)/(EBITDA/IC) peers regression; **) Current operational IC*

Representative EV/Output regression with EBITDA/Output as independent variable



Source: Erste Group Research

As expected, using EV/output regression we found fair values for Romanian power producers comparable to those derived from the first regression exercise.

Valuation of Romanian power producers based on EV/Output peers regression

Power producer	Target EV/Output* (EUR/kW)	Output 2009 (MW)	EV (EUR mn)	Net debt (EUR mn)	Fair value of equity (EUR mn)
CE Turceni	84.7	6.2	526.7	21.1	505.6
CE Rovinari	41.2	5.4	220.8	37.3	183.5
CE Craiova	46.8	4.4	204.3	31.1	173.2
Hidroelectrica	110.5	15.5	1,714.2	343.6	1,370.6
Nuclearelectrica	121.8	11.8	1,431.6	480.8	950.8

Source: Companies, FP floating prospectus, Erste Group Research computes

*Note: *) Based on (EV/Output)/(EBITDA/Output) peers regression*

Depreciated Replacement Cost (DRC) method

DRC valuation method provides fair values outside particular profitability constraints, with the advantages of catching the degree of obsolescence and environment investment needs of the local power producers. The depreciated replacement cost is equivalent with the cost of replacement of an asset, less deductions for physical deterioration and all relevant forms of obsolescence. We established an indicative fair value for Romanian electricity producers, analyzing the costs of the new generating capacity seen as a modern equivalent (MEA), less deductions as a result of depreciation impact. According to an official definition, MEA is a structure similar to an existing one and having the equivalent productive capacity, which could be built using modern materials, techniques and design.

Overnight capital cost. The cost of new generating capacities is strictly connected with the overnight capital cost concept which represents the cost of the project, if it could be built overnight. This does not include the interest cost of funds used during construction. Capital cost (or construction cost) includes: 1) engineering-procurement-construction costs (EPC) costs and 2) owner costs (land, cooling infrastructure, administration buildings, site works, project management, licenses, etc.). As overnight capital cost for the five Romanian producers, we used the official indications regarding the cost of building new units according to the table presented at page 25. In the case of Hidroelectrica, we worked with the equivalent cost per kW installed capacity indicated for building the strategic pumped storage hydro power plant from Tarnita Lapusesti, while for CE Craiova and CE Rovinari, we considered the cost per kW officially indicated for the brownfield projects of these companies. For CE Turceni, we assumed the same overnight capital costs considered for CE Rovinari.

Degree of obsolescence. Aging is computed as the ratio between the number of years in operation and the useful lifetime of each power unit. In the case of the three electricity complexes, we considered that they will continue to operate for another 15 years, starting in 2013, after their modernization. In 2013 all thermo units have to meet environmental restrictions imposed by the EU. Units already modernized were considered to have been put into operation at the date of their rehabilitation (in the case of units 4 and 5 from CE Turceni), while in the case of hydro power units and nuclear CANDU reactors, a useful lifetime of 70 years and 30 years, respectively, was considered.

Environmental expenses. Environmental expenses will not bring any efficiency gain and due to this reason we adjusted EV with these costs. On the other hand, this is a conservative approach in applying the DRC method, considering the particular context of the three Romanian lignite-fired power plants. In the case of the nuclear power plant operated by Nuclearelectrica, we considered as environmental expenses the estimated decommissioning cost of the two reactors. We took into account that these costs are not included in the production costs, as is the case for waste management expenses.

Valuation of power producers based on Depreciated Replacement Cost approach

Indicator/Power producer	CE Turceni	CE Rovinari	CE Craiova	Hidroelectrica	Nuclearelectrica
Installed capacity (MW)	1,650	1,320	900	6,423	1,414
Obsolescence (%)	51.4%	66.0%	56.7%	41.5%	25.0%
Overnight capital cost as of December 31, 2010 (EUR/Kw)	1,200.0	1,200.0	1,360.0	1,276.0	2,828.9
Overnight capital cost adjusted with depreciation (EUR/kw)	582.9	408.0	589.5	746.1	2,121.6
Enterprise value - EV(EUR mn)	961.7	538.6	530.5	4,792.0	3,000.0
Environment expenses* (EUR mn)	455.8	150.3	170.8	64.8	454.7
Adjusted EV (EUR mn)	505.9	388.3	359.7	4,727.2	2,545.3
Net debt (EUR mn)	21.1	37.3	31.1	343.6	480.8
Fair Value of Equity (EUR mn)	484.8	351.0	328.6	4,383.5	2,064.5

Source: Companies, ISPE, Ministry of Economy, Nuclear Enery Institute, media, Erste Group Research

Values achieved using the DRC approach would suggest that hydro power enjoys the highest sustainability, which can be explained through its very long economic life, reduced environmental impact and pivotal role in integrated energy systems.

Fair values of Romanian power producers. Key indicators

We finally established the fair values for Romanian companies as a weighted average of the computed three values based on EV/IC regression, EV/EBITDA regression and Depreciated Replacement Cost method. In this way, we effectively decided to link the fair value of Romanian companies mainly to their profitability profile and economic performance, which is consistent with our conservative valuation approach.

Fair value of power producers (EUR mn)

Valuation tool/Company	CE Turceni	CE Rovinari	CE Craiova	Hidroelectrica	Nuclearelectrica
1. (EV/IC)/(EBITDA/IC) peers regresion	487.5	152.5	138.4	1,440.5	880.4
2. (EV/Output)/(EBITDA/Output) peers regresion	505.6	183.5	173.2	1,370.6	950.8
3. Depreciated Replacement Costs approach	484.8	351.0	328.6	4,383.5	2,064.5
Fair value of equity (equal weight of each method)	492.6	229.0	213.4	2,398.2	1,298.6

Source: Erste Group Research

Key indicators	CE Turceni	CE Rovinari	CE Craiova	Hidroelectrica	Nuclearelectrica
Enterprise value (EUR mn)	513.7	266.3	244.5	2,741.8	1,779.4
Fair value of Equity (EUR mn)	492.6	229.0	213.4	2,398.2	1,298.6
Installed Capacity (MW)	1,650	1,320	900	6,423	1,414
2009 Output (TWh)	6.2	5.4	4.4	15.5	11.8
EBITDA (EUR mn)	56.3	18.0	17.8	192.8	163.4
EV/IC (EUR/Kw)	311.4	201.7	271.7	426.9	1,258.4
EV/Output (EUR/MWh)	82.6	49.7	56.0	176.7	151.4
EBITDA/IC (EUR/Kw)	34.1	13.6	19.8	30.0	115.6
EBITDA/Output (EUR/MWh)	9.0	3.4	4.1	12.4	13.9

Source: Companies, Erste Group Research

Cross check of valuation for power producers

The five power generators were valued at 32% of CEZ's EV, which is a measure of the weak profitability profile. We put together the five Romanian power producer companies in order to do some comparisons with CEZ, which we consider as an illustrative context for domestic companies.
In spite of the fact that the IC and output for Romanian producers were reported to CEZ as 81% and 73%, respectively, we assigned for the five domestic producers an EV which represents only 32% of the CEZ EV. This can be explained if we consider that the five Romanian power producers had a cumulative 2009 EBITDA representing only 17% of CEZ's operating profitability.

Romanian producers/CEZ	Installed Capacity* (MW)	Output 2009 (MW)	EBITDA 2009** (mn EUR)	EV 2010*** (mn EUR)
CEZ	14,395	59.5	2,602	17,349
All five Romanian producers	11,707	43.2	448.3	5,546
Romanian producers/CEZ ratios	81%	73%	17%	32%

Source: Erste Group Research

*Notes: *) Current operational IC for Romanian producers*

***) Only EBITDA from power generation&trading for CEZ*

****) CEZ's EV adjusted in line with generation weigh of 75.2% in 2009 EBITDA*

We tested our fair values by computing the usual multiples, finding, as expected, high values for the EV/EBITDA multiple, in spite of the fact that all companies were valued below their shareholder equity. We consider it very suggestive that, due to their profitability constraints, the five producers were valued below the book value per share.

Company	EV/Sales 2009	EV/EBITDA 2009	P/E 2009	P/BV 2009
CE Turceni	1.9	9.2	98.7	1.0
CE Rovinari	1.3	14.9	173.2	0.9
CE Craiova	0.9	13.8	n.m.	0.8
Hidroelectrica	4.8	14.3	211.4	0.6
Nuclearelectrica	5.0	11.0	112.2	0.8

Source: Companies, Erste Group Research

Transmission and system operator (TSO)

Transelectrica is the transmission and system operator of the Romanian Power System, with responsibilities for providing reliable and stable operations and securing access to the national electricity network under transparent and non-discriminatory conditions for all market participants.

The main functions carried out by Transelectrica on the electricity market are:

<u>Transmission service</u>
The end users of the transmission service include participants delivering electricity to the grid (electricity producers and energy importers) and companies taking over the electricity from the network (electricity suppliers, producers that export it and eligible consumers). Transelectrica's responsibility is to ensure the necessary electricity for covering electricity losses.

<u>System services</u>
The system services provided by Transelectrica consist of management the national grid by the dispatcher in terms of safety operations of the power system, while complying with the quality standards provided in the network technical code.

<u>Functional system services</u>
This refers to the power system management by the dispatcher and consists of activities carried out by Transelectrica aimed at the real-time balancing of electricity production and consumption. The internal resources used by the company for this purpose are i) personnel, usually employed by the National Dispatch Center, and ii) dispatching infrastructure used for the operational management of the grid. This is represented by the EMS-SCADA system and the telecommunication and remote control systems of the power stations. The allowable costs for these resources are covered through a part of the system's services tariff.

<u>Technological system services</u>
Services like power reserves, efficient co-generations and reactive energy are bought from electricity producers in order to maintain the safe operation of the power grid and the quality parameters of the electricity transmitted. Transelectrica re-invoices (without any profit) electricity suppliers and eligible consumers with the amounts corresponding to the technological system services acquired from power producers.

<u>Market administration services</u>
The company carries out market administration services through its subsidiary OPCOM, which operates the Romanian power exchange. Transelectrica does not retain any profit margin from these services, which also have an insignificant weight in terms of operating revenues and expenses.

<u>Balancing market services</u>
Transelectrica is also the operator of the balancing market, the aim of which is to enable a balance between electricity generation and consumption in real time, thus being the last trading platform used in order to achieve the equilibrium. The balancing market is a break-even activity for Transelectrica.

As a regulated natural monopoly, Transelectrica's tariffs have to be approved by ANRE. There are three categories of tariffs, with the most important, the transmission tariff, determined by ANRE based on a Regulated Assets Base (RAB) mechanism. The other two tariffs, for system services and market administration, are computed by employing pass-through logic.

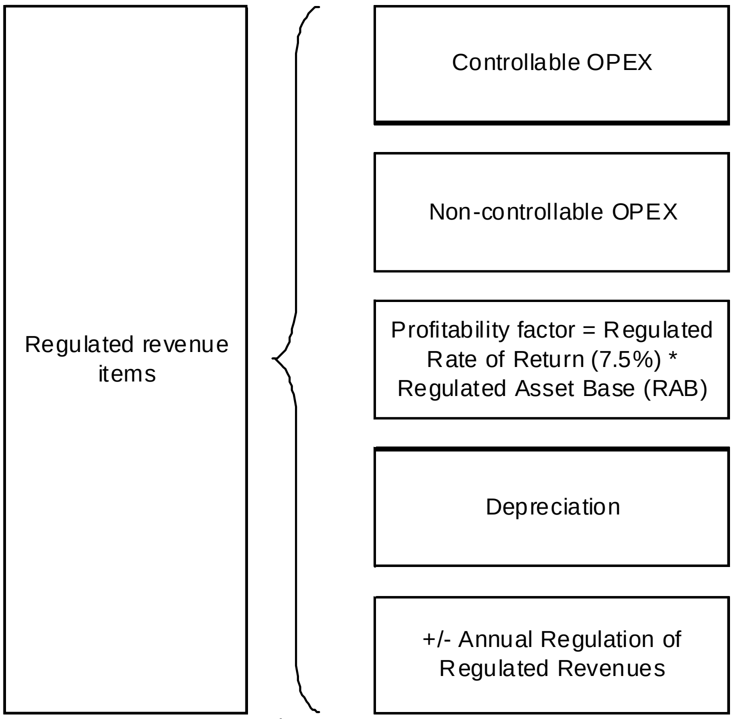
Key concepts of the RAB-based methodology

The revenues cap methodology for computing transmission service tariff was introduced on January 1, 2005, with a first regulatory period of three years (2005-07). The second regulatory period started on January 1, 2008, and will last five years, until 2012.

The regulatory authority annually sets regulated revenue that is then translated into a tariff based on the forecast of the electricity provided in the transport & distribution grids in the respective year of the regulatory period;

<u>Regulated Revenue = Controllable OPEX + Non-controllable OPEX + Regulatory return on RAB + Depreciation</u>

Regulated revenues algorithm



Source: Erste Group Research

- Controllable OPEX = raw materials, personnel expenses, services contracted from other companies for maintenance work and specialized services;
- X – efficiency factor imposed by ANRE in order to encourage higher efficiency of the TSO; this has the same value for all years of the current regulatory period (1.5% in the second regulatory period 2008-12);
- Uncontrollable OPEX = Uncontrollable specific OPEX + Other uncontrollable OPEX
  Uncontrollable specific OPEX = grid losses and own consumption, congestions expenses, inter TSOs transit (expenses induced by international transit)
  Other uncontrollable OPEX = employee taxes, royalty fees, extraordinary expenses as a result of court decisions, etc.
- Notes: – Minimum quality standard parameters of transmission services are also considered within the regulatory formula
  – There are realized annual corrections of the regulated revenues with forecast /realized revenues from the previous year

The methodology imposes a linear trend of regulated revenues covering all forecasted operating costs approved by ANRE and assuring controlled profitability, determined as the product of the regulated return times the value of the regulated asset base (RAB). These two items of the profitability factor are strictly controlled by the authority, with the rate of return being available for all years within a regulated period. This was established at 7.5% for 2008-12, compared to 6.5% in the first regulatory period. The RAB value is adjusted by the regulatory authority in connection with new assets put into operation and the assets removed from service.

Sustainable tariff development outlook on the long term

In spite of the non-transparent regulatory regime, 2011 tariff approval proves sustainability of TSO growth story. In previous years, the regulator's decisions were considered arbitrary and uncontrollable in respect of the transmission tariff approved, which was regularly well below the level required by Transelectrica, clear example that the RAB-based methodology is not in fact applied. However, the generous update of the 2011 tariff is confirmation of the key judgment sustaining our LT positive vision about Transelectrica. The company should enjoy good operating profitability in the long term, fuelled by a reasonable advance of the transmission tariff. Thus, the implementation of an extensive CAPEX plan worth EUR 1.2bn up to 2017 should be possible. These investments are strategic for achieving the country's objectives in the power sector. The major objectives assumed in the national energy strategy are to develop the interconnection capacities of the Romanian transmission grid (in line with the European Commission strategy to create an interconnected European power market) and integrate large scale renewable energy sources, as well as new thermo and nuclear generation units.

The approval by ANRE of a transmission tariff 10.4% higher y/y was far above expectations. According to the forecast scenario, an annualized 4% advance of the transmission tariff between 2012 and 2017 would suffice to fund the CAPEX needs identified by the company in its latest business plan. This development of the tariff can easily be absorbed by the power market, while the leverage would remain sustainable with a net debt/EBITDA of a maximum 3 up to 2017.

Power distribution grids

At the beginning of 2002, the nationwide distribution and supply company SC Electrica SA was reorganized as a group of companies, including eight regional electricity distribution and supply companies: Electrica Moldova, Electrica Dobrogea, Electrica Muntenia Nord, Electrica Muntenia Sud, Electrica Oltenia, Electrica Banat, Electrica Transilvania Nord and Electrica Transilvania Sud. Electricity distribution is the penultimate stage in the delivery of electricity to end users. The operational assets include 110kV power lines, medium-voltage (50 kV) power lines, electrical substations and pole-mounted transformers, low-voltage (less than 1000 V) distribution wiring and sometimes electricity meters.

Privatizations of natural gas and electricity distribution companies

Distribution company (initial name)	Buyer	Stake	Deal Value (EUR mn)	Value of 100% equity (EUR mn)	Privatization contract
Distrigaz Sud	Gaz de France	51.0%	310.3	608.43	Oct-04
Distrigaz Nord	E.ON Ruhrgas A.G.	51.0%	303	594.12	Oct-04
Electrica Banat	ENEL	51.0%	69.1	135.49	Jul-04
Electrica Dobrogea	ENEL	51.0%	42.7	83.73	Jul-04
Electrica Moldova	E.ON Ruhrgas A.G.	51.0%	100.8	197.65	Apr-05
Electrica Oltenia	CEZ	51.0%	151	296.08	Apr-05
Electrica Muntenia Sud	ENEL	64.4%	858	1,331.78	Jun-07
Electrica Oltenia*	CEZ	49.0%	375	765.31	Sep-09

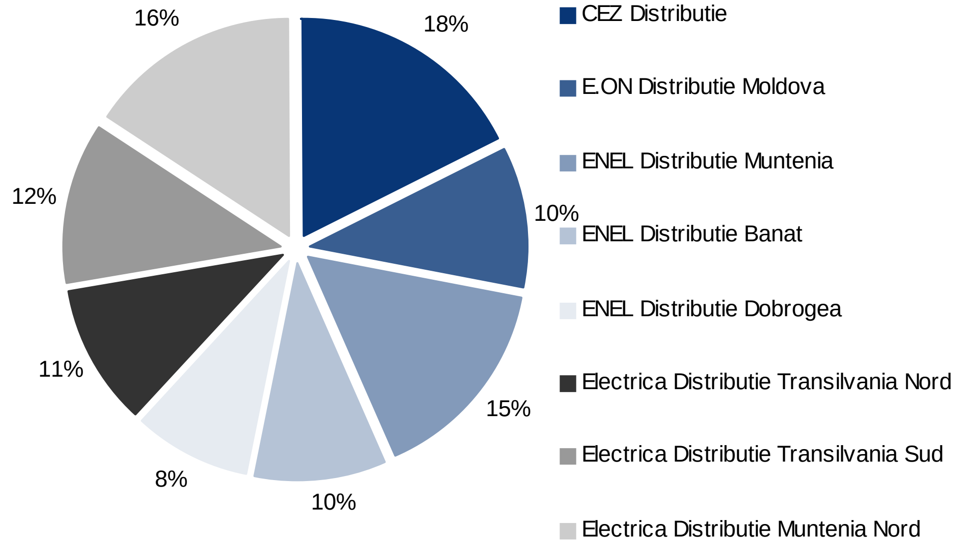
Source: IntelliNews, Media, Fondul Proprietatea floating prospectus

**) Fondul Proprietatea and Electrica sold their stakes to CEZ based on privatization contract provisions*

Distribution tariffs are computed under a RAB-regulated methodology

All privatization transactions assumed the acquisition of existing shares and capital increases with cash, such that the strategic investor could 'build' a majority stake of 51%. With the exception of CEZ Distributie, Fondul Proprietatea and state-owned holding company Electrica are currently minority shareholders in all four privatized distribution grids. In September 2009, based on privatization contract provisions, CEZ acquired the rest of a 49% stake in CEZ Distributie through a transaction worth EUR 375mn, which valued the largest distribution grid at EUR 765.3mn. The other three companies, Electrica Muntenia Nord, Electrica Transilvania Nord and Electrica Transilvania Sud are held by the state through the holding company Electrica

Power distribution market (2009)



Source: Fondul Proprietatea floating prospectus

65% of the distribution grid assets have exceeded their normal lifespan. About 30% of the equipments were put into operation in the 1960s. In these circumstances, it is no surprise that the own technological consumption of Romanian power grids is much greater than the EU average of about 7%. This would mean that there is significant room for efficiency improvements, which are highly sensitive to the speed of modernization of the power grids.

Distribution tariffs are regulated under a RAB-based methodology under the same principles described in the case of TSO Transelectrica. The annual efficiency factor established within the current regulatory period for controllable OPEX is higher than 1%. The regulated return established for the five privatized distribution grids is 10%, while for the three state-owned distribution grids the respective level was established at 7%.
Very low indebtedness (even zero in the case of four distribution grids) proves the sustainability of a RAB-regulated business model which allows reasonable profitability and secures a strong balance sheet.

CAPEX needs of all electricity grids companies between 2008 and 2020 are about EUR 3.4bn. As in the case of Transelectrica, operating profitability should be consistently fuelled through RAB-based methodology, on the back of CAPEX plans implemented in order to modernize and rehabilitate the power grids.

Power supply

According to EU directives, Romanian operators achieved legal vertical separation between electricity supply and electricity distribution in 2007. In this manner, Fondul Proprietatea became a shareholder in all new entities. The revenues of electricity supply companies from captive consumers are regulated, with the methodology allowing a 2.5% return on the electricity acquisition cost, which includes transmission, distribution, system services and settlement costs, plus other costs related to the supply service.

EV/RAB, the key multiple

EV/RAB is considered the most appropriate multiple for valuing the RAB regulated utilities, being also used as a key guidance within M&A deals. It reflects the regulatory environment in the transport/distribution utilities business. Regulated Asset Base is directly connected with the profitability outlook, due to the regulatory formula, which allows a controlled profitability determined as a product of the regulated return times the value of RAB.

We computed EV/RAB 2009, as well as the other multiples (EV/EBITDA, P/E, P/BV) for European regulated utilities wherever we could find the value of the regulated asset base from the end of 2009.

European RAB regulated peers

Company	Country	Regulated activity	Net debt/EBITDA 2009	EV/RAB 2009	EV/Sales 2011e	EV/EBITDA 2011e	P/E 2011e	P/BV 2011e
Elia	Belgium	Electricity transmission	4.1	0.86	3.3	9.6	16.3	0.9
Red Electrica de Espana	Spain	Electricity transmission	4.6	n.a.	6.2	8.8	11.3	2.8
Terna	Italy	Electricity transmission	3.7	1.34	7.3	9.9	15.2	2.3
Federal Grid Company	Russia	Electricity transmission	n.m.	0.91	4.0	6.8	11.7	0.6
Snam Rete Gas	Italy	Gas transmission & distribution	5.0	1.25	7.5	9.7	12.7	2.1
National Grid	UK	Electricty & gas transmission& distribution	4.4	1.45	2.7	8.2	11.0	2.1
REN	Portugal	Electricty & gas transmission	5.7	1.35	5.8	8.4	9.8	1.3
Transelectrica	Romania	Electricity transmission	2.9	0.95	1.0	6.4	14.4	0.7
Transgaz	Romania	Gas transmission	n.m.	1.32	2.5	7.5	15.7	1.2

Source: FactSet, Erste Group Research, companies websites

Valuation of electricity/gas distribution grids

We consider Romanian regulated utilities (including TSO Transelectrica) as being fairly valued at their RAB (i.e. EV=RAB) with no discount. Extremely low or even zero indebtedness (which is the case for the four power distribution grids) associated with stable profitability secured by the RAB regulated business model, led us to determine that, in principle, a discount is not justified.
There are two strengths of Romanian utilities compared with their peers which are supportive for their valuation: 1) indebtedness degree, any comparison between Romanian regulated utilities and their European peers being clearly in the favor of the domestic companies and 2) consistent long term CAPEX plans for grid modernization and rehabilitation, which will achieve reasonable tariffs and in consequence a good operating profitability.
The exit of FP and Electrica from CEZ Distributie in September 2009, which was done at an EV/RAB 2009 of 1.7, looks very encouraging from the perspective of the current valuation of Romanian RAB regulated companies.

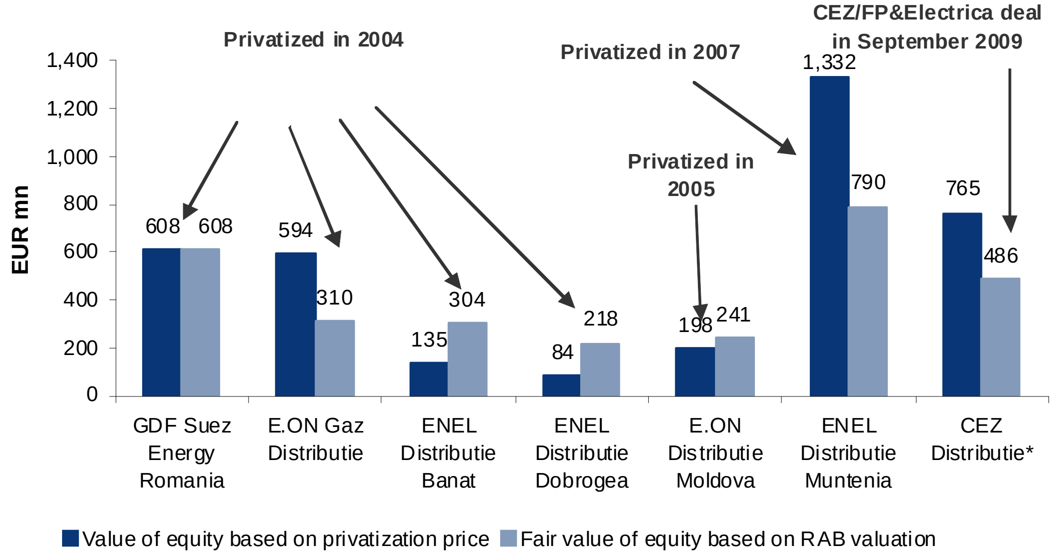
In the case of state-owned power distribution grids, we worked with a 30% discount related to RAB because these companies have a lower profitability. This is due to the 7% regulated return on RAB approved by ANRE, compared to 10% in the case of privatized distribution grids. On the other hand, we valued the two gas distribution grids at a 50% premium related to RAB, which we considered in accordance with their profitability, as well as with their oligopolistic positions on the regulated gas distribution market.

Fair value of electricity/gas distribution grids based on RAB approach

Company	Cash 2009 (RON mn)	Financial debt 2009 (RON mn)	RAB 2009e (RON mn)	Target EV/RAB	Target EV (RON mn)	Fair Value of Equity (RON mn)	Fair Value of Equity (EUR mn)
CEZ Distributie	412.6	0.0	1,657.5	1.0	1,657.5	2,070.0	485.7
E.ON Distributie Moldova	0.1	15.3	1,043.3	1.0	1,043.3	1,028.2	241.2
ENEL Distributie Muntenia	1,854.9	0.0	1,510.6	1.0	1,510.6	3,365.5	789.6
ENEL Distributie Banat	400.2	0.0	894.8	1.0	894.8	1,295.0	303.8
ENEL Distributie Dobrogea	228.4	0.0	698.9	1.0	698.9	927.3	217.6
Electrica Distributie Transilvania Nord	69.7	11.4	1,098.1	0.7	768.7	827.0	194.0
Electrica Distributie Transilvania Sud	38.1	99.1	1,084.7	0.7	759.3	698.3	163.8
Electrica Distributie Muntenia Nord	103.8	79.4	1,151.1	0.7	805.8	830.2	194.8
GDF Suez Energy Romania	142.5	437.3	1,924.3	1.5	2,886.4	2,591.6	608.1
E.ON Gaz Distributie	0.7	74.8	929.3	1.5	1,394.0	1,319.9	309.7

Source: www.securities.com, Fondul Proprietatea floating prospectus; www.cez.cz; Erste Group Research own calculations

Equity value at privatization price vs. fair value of equity based on RAB approach



Source: Erste Group Research;
*Note: *) According to transaction between FP&Electrica and CEZ based on privatization contract*

As in the case of CEZ Distributie, FP will most likely have an exit alternative from E.ON Moldova Distributie, because the privatization contract with E.ON contains clauses referring both to put and call options which can be activated up to 2012. In the case of power distribution grids privatized with ENEL, as well as the two gas distribution grids, the privatization contracts don't contain such put and call options.

Cross check of RAB-based valuation via other multiples

We tested our RAB-based valuation by computing the usual multiples, in order to check if the respective values are within a reasonable range. EV/EBITDA is seen as the most relevant multiple for comparisons within the sector, having the advantage of stripping out leverage and differences in accounting methods (especially in the case of cross-border comparisons). With only one company valued at an EV/EBITDA higher than 10, it cannot be suspected that Romanian distribution grids would be expensive at the fair value derived by RAB-based valuation. With the exception of the three state-owned distribution grids, values of P/E multiple are sustainable, which is also confirmed by the P/BV multiple.

Company	EV/Sales 2009	EV/EBITDA 2009	P/E 2009	P/BV 2009
CEZ Distributie	2.1	6.1	10.1	1.0
E.ON Distributie Moldova	1.7	7.3	19.2	1.3
ENEL Distributie Muntenia	3.0	8.0	12.0	1.2
ENEL Distributie Banat	1.7	4.4	8.6	1.1
ENEL Distributie Dobrogea	1.3	5.3	10.1	1.1
Electrica Distributie Transilvania Nord	2.0	8.5	59.2	1.1
Electrica Distributie Transilvania Sud	1.0	7.8	30.1	0.8
Electrica Distributie Muntenia Nord	1.3	10.7	33.7	0.8
GDF Suez Energy Romania	0.8	5.4	6.8	1.0
E.ON Gaz Distributie	1.9	6.9	12.1	1.5

Source: FP floating prospectus (EBITDA), Erste Group Research

Cross check of RAB-based valuation with EV/Client specific metric

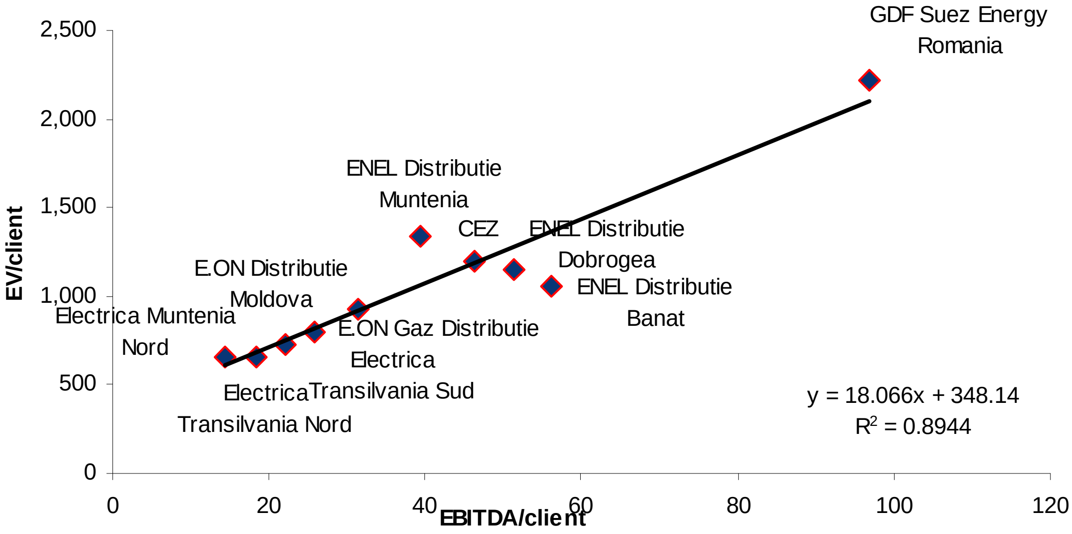
We have also checked the sustainability of the equity value discovered for the ten distribution companies based on RAB-based approach through another specific multiple, namely EV/Client. For this purpose, we computed a linear regression with EV/Client as a dependent variable and EBITDA 2009/Client as an independent factor.

The correlation factor between the two variables is over 0.8, which indicates a high interdependency between the enterprise value of a distribution gas/electricity operator and number of its clients which is consistent with its operational assets (RAB recognized by the regulator) and, consequently, with its profitability.

Company	Number of clients (mn)	EBITDA/Client (EUR)	EV/Client (EUR)
CEZ Distributie	1.380	46.2	1,201.1
E.ON Distributie Moldova	1.300	25.9	802.5
ENEL Distributie Muntenia	1.127	39.4	1,340.4
ENEL Distributie Banat	0.848	56.2	1,055.2
ENEL Distributie Dobrogea	0.608	51.3	1,149.6
Electrica Distributie Transilvania Nord	1.160	18.3	662.4
Electrica Distributie Transilvania Sud	1.039	22.1	730.5
Electrica Distributie Muntenia Nord	1.233	14.4	653.3
GDF Suez Energy Romania	1.300	97.0	2,220.3
E.ON Gaz Distributie	1.500	31.5	929.3

Source: Fondul Proprietatea floating prospectus, media, Erste Group Research

(EV/client)/(EBITDA/client)



Source: Erste Group Research

Financial results

	Sales (RONmn)		EBITDA (RONmn)		EBIT (RONmn)		Net profit (RONmn)		Equity (RONmn)		Net debt (RONmn)	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
E.ON Moldova Distributie	590	630	108	163	50	81	27	54	737	822	25	15
Electrica Distributie Muntenia Nord	615	611	164	107	96	28	76	25	1,031	1,056	-112	-104
Enel Distributie Muntenia	1,440	733	150	226	49	123	221	280	2,348	2,705	-1,773	-1,855
Electrica Distributie Transilvania Nord	508	496	93	112	41	21	24	14	754	768	-61	-58
Electrica Distributie Transilvania Sud	525	539	91	119	34	30	27	23	799	822	-72	-38
Enel Distributie Banat	507	526	181	218	107	140	-273	-400	1,000	1,152	-273	-400
Enel Distributie Dobrogea	385	391	111	141	58	85	64	92	705	807	-186	-228
E.ON Gaz Distributie	685	724	52	236	-54	127	-56	101	838	900	104	74
GDF Suez Energy Romania	3,738	3,629	341	564	149	447	129	380	2,261	2,522	562	295

Source: IntelliNews, Erste Group Research

Financial ratios

	EBITDA margin		EBIT margin		Net margin		ROE		ROA		Net debt/EBITDA	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
E.ON Moldova Distributie	18%	26%	9%	13%	5%	9%	7%	7%	3%	3%	0.2	0.1
Electrica Distributie Muntenia Nord	27%	17%	16%	5%	12%	4%	8%	2%	5%	2%	-0.7	-1.0
Enel Distributie Muntenia	10%	31%	3%	17%	15%	38%	14%	11%	9%	8%	-11.8	-8.2
Electrica Distributie Transilvania Nord	18%	23%	8%	4%	5%	3%	4%	2%	2%	1%	-0.7	-0.5
Electrica Distributie Transilvania Sud	17%	22%	7%	6%	5%	4%	4%	3%	2%	2%	-0.8	-0.3
Enel Distributie Banat	36%	41%	21%	27%	-54%	-76%	12%	14%	8%	10%	-1.5	-1.8
Enel Distributie Dobrogea	29%	36%	15%	22%	17%	24%	9%	12%	6%	8%	-1.7	-1.6
E.ON Gaz Distributie	8%	33%	-8%	17%	-8%	14%	-7%	11%	-5%	8%	2.0	0.3
GDF Suez Energy Romania	9%	16%	4%	12%	3%	10%	6%	16%	4%	10%	1.6	0.5

Source: IntelliNews, Erste Group Research

Oil & gas

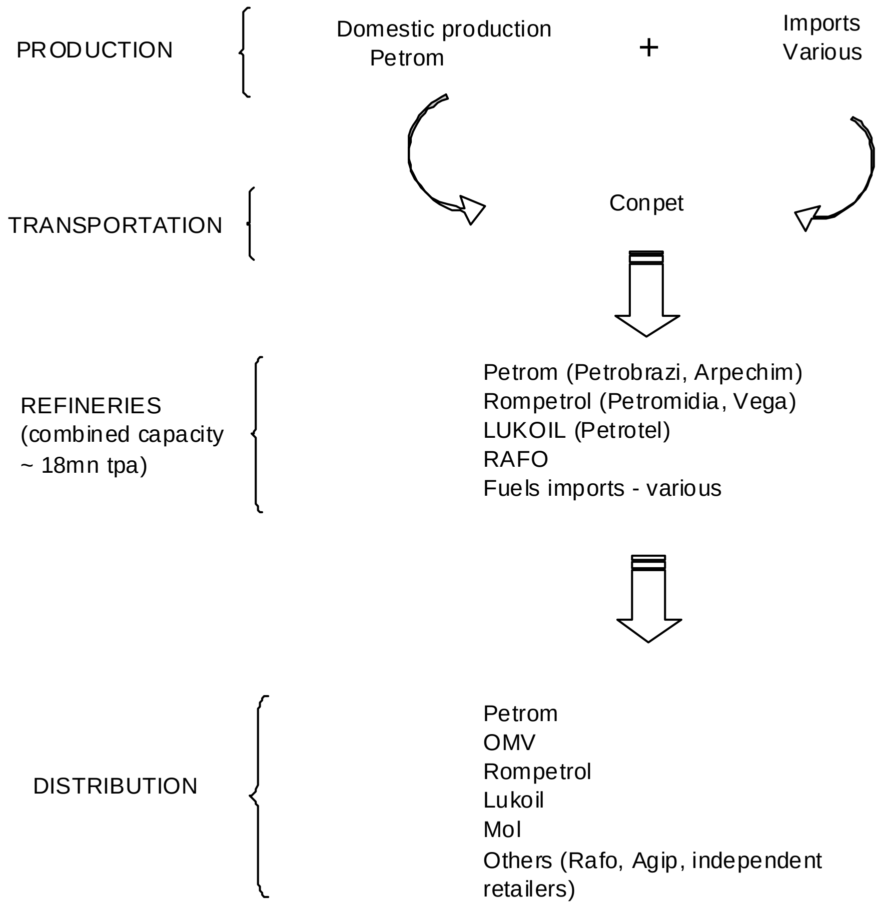
OIL …

Romania's own oil reserves are estimated at some 600mn bbl (according to the CIA World Factbook) and rank at number 43 in the world. Quoting the same source, oil production was 112,400 bbl/day in 2009 (ranked number 50 in the world), while oil consumption stood at 214,000bbl / day, with Romania holding the position of number 53 in the world by this indicator.

The country's oil reserves underwent a downward path over the last few decades, due to overexploitation, especially in the 1980s, whereas geological research in order to find new oil reserves was very weak. The oil reserves are Petrom's property, which pays a royalty amounting to between 3.5% and 13.5% of the total annual production, depending on both the type of hydrocarbon and the quantity extracted. The company managed to increase the reserve replacement rate (RRR) from only 11% in 2004 (privatization date) to 70% in 2009.

The transport of oil from exploration fields to refineries is carried out by Conpet via pipelines or railway. Conpet operates the national oil transportation system based on a concession agreement inked with the National Agency for Mineral Resources.

Major players on the Romanian oil market (up- and down- stream)



Source: Petrom

OMV PETROM

Ticker	SNP	Market capitalization		3M daily turnover	
Erste Group rating	Accumulate	RONmn	20,901.68	RON	1,236,385
Target price (RON)	0.38	EURmn	4,904.08	EUR	289,884
Share price	0.369	Share price performance			
Free float	8.2%	1M	6M	12M	YTD
Main shareholders:		10%	19%	36%	10%
OMV (51%), Ministry of Economy (20.6%), Fondul Proprietatea (20.1%), Others (8.2%)					

Source: Bucharest Stock Exchange, Erste Group Research

Company description

OMV 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. The company holds approximately 854mn boe proven reserves. In Romania, Petrom holds exploration licenses for 15 onshore and 2 offshore blocks. Most of Petrom's Romanian fields are in mature oil and gas producing areas, primarily in the southern part of the country (around the cities of Ploiesti and Pitesti).

The company operates some 9,100 oil & gas producing wells and 7 offshore production platforms in Black Sea. It also holds exploration and production rights in Kazakhstan (Komsomolskoe, Kultuk, TOC fields). Output in 2009 amounted to 68.29mn boe (-4% y/y).

Petrom is also the leading refining, petrochemical and marketing firm in Romania. The company owns two refineries, Petrobrazi and Arpechim, with installed capacities of 4.5mn t /year, and 3.5mn t/year, respectively. Arpechim refinery will be shutdown by 2012, while the refining capacity of Petrobrazi is to be adjusted to 4.2mn t/year, and a total of EUR 750mn capital expenses are scheduled for modernization and maintenance of this refinery in 2010-14. Petrom also operates over 800 filling stations in Romania and abroad.

The company will become vertically integrated on the gas business line after its greenfield combined cycle gas turbine (CCGT) with an installed capacity of 860 MW becomes operational (this year). This will have a positive impact on profitability, allowing the company to generate a much higher value added for a substantial part of its gas production.

SWOT analysis

Strengths & Opportunities:

- LT operational efficiency gains from restructuring done by OMV after five years intensive CAPEX plan
- Stabilization of RRR to 70% in 2009, natural decline of oil fields being largely mitigated
- Strong upstream profile with operating profitability highly sensitive to the crude oil price
- LT convergence of domestic gas price to import price
- Higher value added generated on the gas business line starting 2012 when its CCGT will hold more than 10% of the power generation market
- Lower indebtedness compared to peers
- A successful government SPO for the 9.8% government stake would more than double the free float

Weaknesses & Threats:

- Social pressures to hamper the convergence of the domestic gas price to import price
- Less favorable royalties regime starting in 2015 may threaten E&P profitability
- Small free float

Selected financial figures (RONmn) and ratios

IFRS	2008	2009	2010e
Sales	20,127.36	16,089.72	17,349.22
EBITDA	3,874.71	4,109.61	5,480.74
EBIT	1,204.93	1,620.48	3,053.46
Net profit	978.30	860.24	2,472.30
EBITDA margin	19.3%	25.5%	31.6%
EBIT margin	6.0%	10.1%	17.6%
Net margin	4.9%	5.3%	14.3%

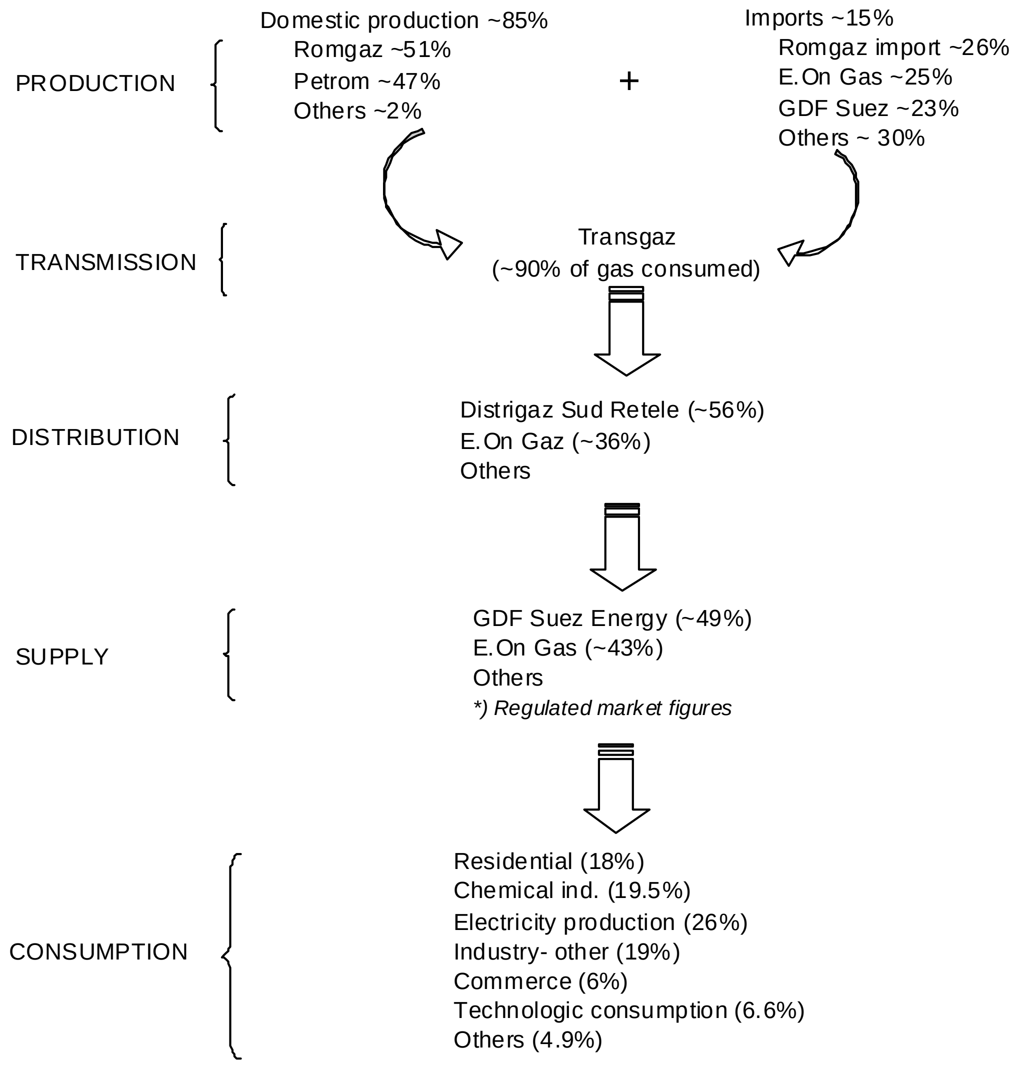
	2008	2009	2010e
Assets	28,917.31	30,526.64	33,700.50
Equity	16,944.88	16,179.53	18,651.83
Net financial debt	1,829.80	3,676.60	4,259.60
Net fin debt/EBITDA	0.47	0.89	0.78
Equity ratio	55%	53%	56%
ROE	6.2%	5.4%	14.2%
ROA	3.4%	2.8%	7.3%

Source: OMV Petrom, Erste Group Research

…& GAS

Romania has a long tradition in the natural gas market and was the first country worldwide to employ natural gas for industrial use. The sector underwent a restructuring process starting in the early 1990s, which culminated in the reorganization of the vertically integrated company Romgaz into five companies undertaking specific activities: Transgaz Medias for natural gas transmission, Depogaz Ploiesti for natural gas storage, Distrigaz Nord Targu Mures and Distrigaz Sud Bucuresti for the distribution and trading of natural gas, and the exploitation-production trading company Expogaz Medias. A year later, Expogaz and Depogaz, which are involved in exploration and production of natural gas and management of underground storage facilities, merged with Romgaz.
The gas market is divided into the competitive segment, where eligible consumers negotiate contractual terms with gas suppliers, and the regulated segment, where consumers pay regulated prices.

Gas market structure (2009)



Source: ANRE

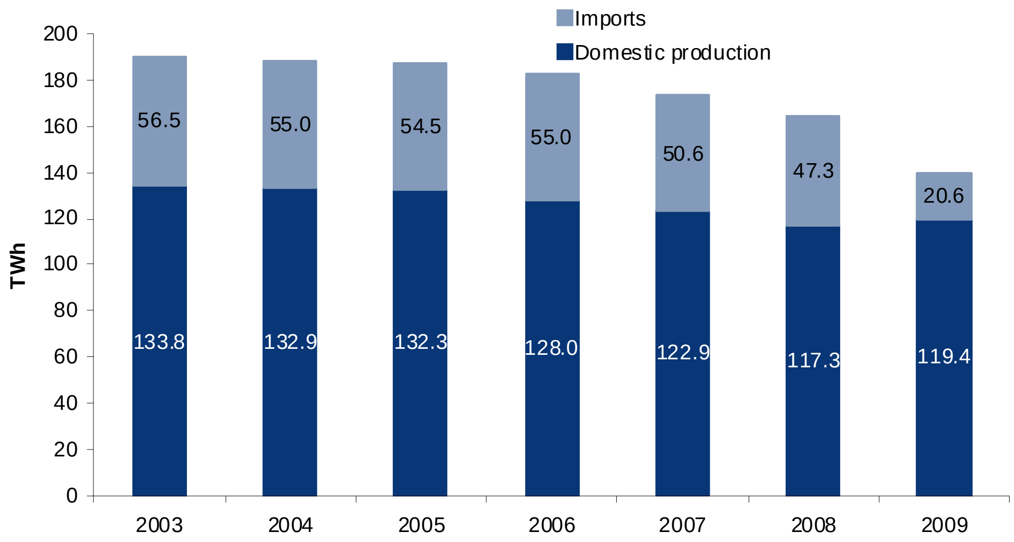
The market gradually began to open starting in 2011 and full opening was recorded in January 2007 for industrial consumers and July 2007 for households. As of the end of October 2010, the effective degree of opening was 57.2%.

Gas production

Romania's gas reserves followed a severe descending path as result of intensive exploitation (especially in the 1970s-80s) especially since the strategy of the authorities back then was to rely as little as possible on imports. The intensive exploitation was not accompanied by sustained investment in discovering new gas resources. The country's gas reserves (1p) are estimated at 141bcm (according to ANRE) and are sufficient for at maximum 15 years at the current production levels. Given this situation, while currently gas from domestic production covers 70%-85% of consumption with the reminder covered by Russian gas, in a few years imports are expected to cover the majority. In order to reduce dependence on Russian gas, interconnections with the gas transmission systems of neighboring countries are a priority. Starting in 2010, the NTS was interconnected with Hungary's NTS via Szeged-Arad pipeline, allowing the import of gas from other suppliers. Interconnection with Bulgaria's NTS is also on the agenda of the NTS operator, Transgaz.

Gas consumption stood at 140TWh in 2009, some 15% lower y/y, due to the significant decline of industrial sector gas demand as a direct result of the economic downturn. In the context of significantly lower consumption, the weight of imports in covering demand was halved (to some 15%). For FY10, our estimates are for a 6.5% advance in consumption y/y.

Gas consumption development (2003 – 2009)



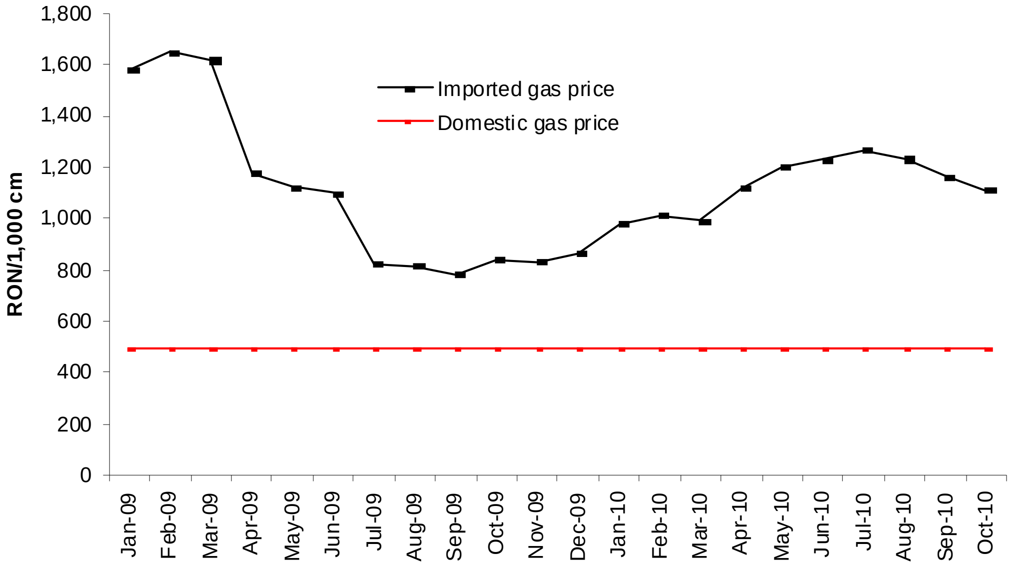
Source: ANRE

<u>Gas price mechanism</u>

Particular to Romania is the gas price computation for end users. The price is, at least theoretically, calculated by ANRE based on both domestic and imported gas prices, weighted with the percentage contribution of each source to cover local demand. Tariffs for gas transportation, distribution and supply margin are added in order to get the final price for consumers.

The price for domestic gas was kept at the same level in RON since mid 2008 (RON 495/1,000 cm) and is well below the imported gas price. This formula is to remain in place until the domestic gas price converges with the imported gas price but no official schedule was assumed by the authorities. We do not see this happening soon, given the social pressure for keeping gas price at low levels, especially considering that the Romanian population pays a price for gas (adjusted with the purchasing power) which is above the EU average.

Development of price for imported and domestic gas



Source: ANRE, Erste Group Research

Gas transmission system

The national transmission system (NTS), including over 13,000 km of gas pipes, ensures the transport of natural gas from local producers and import stations to distribution companies and also to some clients directly connected to it. NTS is operated by Transgaz, based on a 30-year concession agreement (until 2032), in exchange for a 10% royalty fee of gross revenue from the transport of natural gas paid to the national Agency for Mineral Resources.

Gas imports are carried out via two interconnection pipes (at Isaccea and Mediasu Aurit). Besides these pipes, another three traverse Romanian territory in the SE, these being used solely for the transit of Russian gas towards Bulgaria, Greece, Macedonia.

Interconnection with the NTS of neighboring countries is a priority for Romanian authorities, as this will offer flexibility and an alternative to direct imports from Russia. Starting in 2010, the NTS has been interconnected with Hungary's transmission system via the Szeged-Arad pipeline, with an annual capacity of 4.4 bcm/year.

Connection with Bulgaria's NTS, via the Russe-Giurgiu pipeline, is also on the Transgaz agenda. The pipe will have a length of 20 km and its construction will be partly financed with EU funds.

Transgaz is also one of six partners in the Nabucco project, holding 16.6% of project company shares. The Nabucco pipeline is supposed to provide access for Western European countries to the natural gas at the Caspian Sea. The import potential for Romania as result of Nabucco becoming operational is estimated at 2-5 bcm/year.

Gas distribution and supply companies

A total of 39 distribution and supply companies are operating on the regulated market, while on the wholesale market there are 90 distributors. Distribution and supply on the regulated segment is by far dominated by GDF Suez and E.ON Ruhrgas, which took over in October 2004 the main players, Distrigaz Sud and Distrigaz Nord, respectively. Following the privatization process, and in order to comply with EU regulations, the activity of the two companies was split between distribution and supply. Thus, the former Distrigaz Sud was split into Distrigaz Sud Retele (distribution) and GDF Suez Energy Romania (supply) while Distrigaz Nord became E.ON Gaz Distributie (distribution) and E.ON Gaz Romania (supply).

If GDF Suez has the dominant position in the Southern part of the country, the other major player E.ON (former Distrigaz Nord) supplies and distributes gas in more than 20 counties in the Northern half, in Transilvania, Moldova, Maramures and Banat.

The lengths of the gas pipeline system administrated by the two companies are 16,000 km and 18,000 km, respectively. While the operator of the Southern distribution and supply network has 1.3mn clients and own 56% market share, the “Northern” company has 1.3 and a 36% market share.

Privatizations of natural gas distribution companies

Company	Buyer	Stake	Deal value (EUR mn)	Value of 100% equity	Privatization date
Distrigaz Sud	Gaz de France	51%	310.3	608.43	Oct-04
Distrigaz Nord	E.ON Ruhrgas	51%	303	594.12	Oct-04

Source: IntelliNews, Media, Erste Group Research

Gas storage

Romania has eight underground storage deposits with a capacity of about 3bn cm / cycle, of which six are owned by Romgaz. The remaining two are operated by joint companies set up by Romgaz with private investors. The depletion of gas reserves has raised the importance of increasing gas storage facilities, both via the development of existing facilities and the building of new ones. The most ambitious project is the construction by Romgaz jointly with Russia’s Gazprom of an underground deposit with a capacity of over 2bcm at Margineni. Developing gas storage deposits in the salt cavities (resulting from salt exploitation) is an alternative that will be more and more considered in the coming years. Unlike the depleted deposits of natural gas, saline cavities have the advantage of more efficient and easy usage (the elasticity of salt being the main advantage). As a parenthesis, FP holds a 49% stake in the national company of salt Salrom and Romania ranks among the top 20 salt producers in the world (i.e. Romanian salt has a purity of 99%).

Regulated tariffs

The tariffs for the transmission, distribution, supply and storage services are approved by the Energy Authority (ANRE) based on a revenue cap methodology. According to this, the tariffs are set to allow these companies to cover operating expenses and earn a profit equal to a regulated rate of return (RoR) times the regulated asset base (RAB). For the current regulatory period, the regulated rate of return was set at 7.88% for transmission and storage activities and at 8.63% for distribution and supply.

(Further details on the revenue cap methodology mechanism are provided in the electricity supply and distribution chapter) Also, for consistency reasons, we have included the valuation of gas distribution companies in the same chapter with electricity distributors, as all these companies are evaluated based on the specific metric EV/RAB.

ROMGAZ

Not listed			
Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	85%	RONmn	8,150
Fondul Proprietatea	15%	EURmn	1,912

Source: FP Listing Prospectus, Erste Group Research

Company description

Romgaz is the largest Romanian gas producer (jointly with OMV Petrom), with 2p reserves estimated at about 430 mmboe. The annual output of the company in 2009 was around 61.2TWh, representing half of domestic production, and covering some 40% of demand. The company's reserves are in a severe decline due to the intensive exploitation and a lack of investment in the discovery of new gas reserves.

The company is operating more than 140 gas fields via an infrastructure consisting of more than 3,800 wells, 3,500 km of collection pipelines and 20 compression stations with a total installed power of 160,000 kW. The company owns six of the country's eight national storage facilities, with a total storage capacity of 2.55 bcm. The company also operates, in a joint venture with Depomures and Amgaz companies the Targu Mures and Nades depots. The asset base run by the company is obsolete, with large CAPEX being necessary in order to refresh it.

The gas is sold by the company at a "recommended" price, which has, however, been kept unchanged since mid-2008 at RON 495/1,000 cm, which is well below the imported gas price. From the perspective of gas price convergence, Romgaz should benefit the most, with a strong positive impact on both revenues and operating profit being expected.

The main risk for the company stems from the state's decisions in terms of dividend policy and even some donations to the state budget. Thus, for 2010, the company not only is forced to adhere to a 90% payout ratio (like all the state owned companies) but it also paid a RON 400mn donation to state budget. If the state will further face financial surprises, the company may continue to pay large amounts, to the detriment of capital expenditures.

SWOT analysis

Strengths & Opportunities:

- Largest natural gas producer in Romania
- LT convergence of nominal domestic gas price to import gas price
- Valuable underground facilities, strategic for future business flexibility
- Opportunity to enter the power market, thus becoming a vertically integrated gas company
- Low debt
- Corporate governance practices if the company becomes public after a successful IPO

Weaknesses & Threats:

- Severe decline of reserves
- Social pressures to hamper convergence to imported gas price
- Donations to state budget and 90% payout ratio may put pressure on company's capability to implement substantial CAPEX plans

Selected financial figures (RONmn) and ratios

	2007	2008	2009
Sales	3,271.66	3,280.21	3,193.50
EBITDA	1,061.42	1,061.94	1,291.97
EBIT	760.08	719.19	716.87
Net profit	509.56	537.30	572.46
EBITDA margin	32.4%	32.4%	40.5%
EBIT margin	23.2%	21.9%	22.4%
Net margin	15.6%	16.4%	17.9%

	2007	2008	2009
Assets	5,607.73	8,259.44	9,060.46
Equity	5,070.84	7,584.57	8,308.49
Net financial debt	-1,600.72	-1,022.12	-755.94
Net fin debt/EBITDA	321.13	471.64	688.88
Equity ratio	90%	92%	92%
ROE	10.0%	7.1%	6.9%
ROA	9.1%	6.5%	6.3%

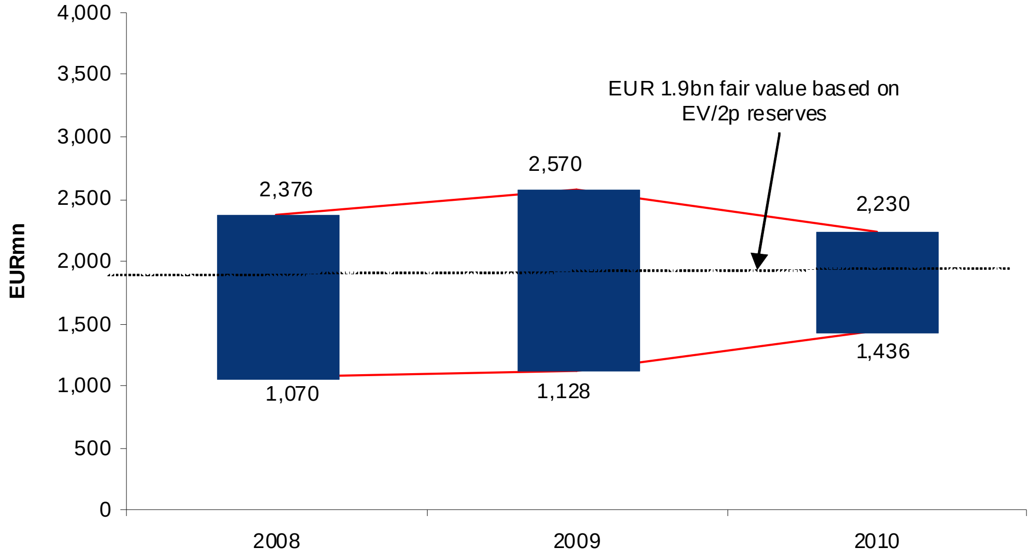
Source: IntelliNews, Listing prospectus, Erste Group Research

Valuation

We have valued Romgaz via specific metric EV/2p reserves, considering in this process the multiple available for OMV Petrom, which has a similar annual gas output. Our decision to employ the multiple available for only one company instead of a peer group was due to the fact that the Romanian peer reflects the sentiment of investors regarding the country. In the valuation steps we have made an adjustment of cash with the RON 400mn donation amount.

Thus, we have reached a fair value of equity of EUR 1.9bn (RON 8.1bn). This is also supported by the range of values obtained via peer group median vales of the following multiples P/BV, EV/Sales, EV/EBITDA and P/E.

Range of equity fair value based on peer group comparison



Source: Erste Group Research

Romgaz vs. peers

	P/E			EV/EBITDA			EV/Sales			P/BV		
	2008	2009	2010e	2008	2009	2010e	2008	2009	2010e	2008	2009	2010e
PGNIG	20.8	20.3	11.4	8.3	8.6	5.9	1.1	1.3	1.1	1.0	1.0	0.9
Petrom	10.5	16.4	8.5	3.1	4.3	4.6	0.6	1.1	1.5	0.6	0.9	1.1
Novatek OAO	27.3	39.5	24.5	3.5	10.0	11.8	1.7	4.5	5.7	7.4	9.2	6.6
Gazprom OAO	4.9	6.1	5.1	2.2	5.4	4.2	0.9	1.9	1.7	0.9	0.8	0.7
INA	17.2	57.7	28.9	9.6	7.7	9.4	0.6	1.0	1.7	3.0	2.9	2.8
Median peer group	*17.2*	*20.3*	*11.4*	*3.5*	*7.7*	*5.9*	*0.9*	*1.3*	*1.7*	*1.0*	*1.0*	*1.1*
Romgaz	8.9	11.2	15.8	3.5	4.4	7.2	1.1	1.8	2.3	0.6	0.8	1.0
Premium/discount	-48%	-45%	39%	2%	-43%	22%	29%	41%	35%	-37%	-20%	-14%

Source: FactSet, Erste Group Research

The discounts compared to peer companies in terms of P/E, EV/EBITDA and P/BV are an indication that we were conservative when evaluating Romgaz. On the other hand, the minuses related to this company, such as the obsolete asset base, mature gas fields, “recommended” lower selling price, and donation to state budget, are reasons for valuing this company at a discount compared to its peers.

TRANSGAZ

Ticker	TGN		Market capitalization		3M daily turnover	
Erste Group rating	Hold		RONmn	3,296.68	RON	334,684
Target price (RON)	287.7		EURmn	773.49	EUR	78,470
Share price	280		Share price performance			
Free float	11.5%		1M	6M	12M	YTD
Main shareholders:			5%	23%	53%	1%
Ministry of Economy (73.5%), Fondul Proprietatea (14.9%), Others (11.5%)						

Source: Bucharest Stock Exchange, Erste Group Research

Company description

Transgaz is the operator of the national transmission system (NTS), the company's main activity being the transport of natural gas from local producers and importers to distribution and supply companies and consumers directly connected to NTS. The other key activity is the international transit of natural gas, carried out via three dedicated pipelines.
The company has administrative control of the NTS based on a 30-year concession agreement (until 2032) in exchange for a 10% royalty fee on gross revenues from transport and international transit. While the transport of gas toward domestic consumers is regulated by the Energy Authority with tariffs set on annual basis within 5 year regulatory period, the international transit is run on the basis of three contracts denominated in USD and EUR.
Transgaz is one of the strongest dividend players on BSE, with a payout ratio of at least 50%, like all state-owned companies. For FY10, the company will pay out 90% of profit as dividends.

SWOT analysis

Strengths & Opportunities:

- Transparent RAB-based methodology used for computing internal transport tariffs, with positive impact on predictability of company's business
- Stable profitability fuelled by consistent CAPEX plan (the company is rewarded with a regulated rate of return on RAB)
- High stability of revenues from transit business with Gazprom and Bulgargaz in medium term
- Elevated margins from transit business
- Stable and sustainable dividend policy (payout ratio of at least 50% as state-owned company)
- Interconnections with neighboring countries NTSs and construction of Nabucco

Weaknesses & Threats:

- Double regulatory risk: the company is regulated by both the Romanian Energy Authority (which sets transport and capacity reservation tariffs) and the National Agency for Mineral Resources (sets the royalty fee for using the NTS)
- Uncertainty of transit business in the long run if Nabucco project is canceled and South Stream becomes operational and avoids Romania
- Transit contracts in FC, especially USD, inducing vulnerability of operating result to RON appreciation

Selected financial figures (RONmn) and ratios

IFRS	2008	2009	2010e
Sales	116.65	1,184.50	1,308.47
EBITDA	366.45	450.70	539.26
EBIT	191.98	250.08	328.32
Net profit	242.70	223.19	286.51
EBITDA margin	314.1%	38.0%	41.2%
EBIT margin	164.6%	21.1%	25.1%
Net margin	208.1%	18.8%	21.9%

	2008	2009	2010e
Assets	3,316.88	3,345.81	3,559.23
Equity	2,691.77	2,755.30	2,892.78
Net financial debt	-108.30	-72.60	-71.30
Net fin debt/EBITDA	-0.03	-0.02	-0.02
Equity ratio	81%	82%	81%
ROE	9.2%	8.2%	10.1%
ROA	7.3%	6.7%	8.0%

Source: Transgaz, Erste Group Research

OTHER COMPANIES - UNLISTED

Airports

Business description

Romania operates 16 airports, four of which are strategic for the government, namely the two Bucharest-based airports (Henri Coanda and Aurel Vlaicu), the airport Traian Vuia from Timisoara (in Western part of the country) and Mihail Koganiceanu from Constanta (in the South East part of Romania). Given their strategic status, the three companies operating these airports (i.e. the airports from Bucharest are under one umbrella) are 80% owned by the Ministry of Transportation. The other Romanian airports are under the administration of local councils.

Air passenger traffic in RO boomed in 2007 (+42% y/y) after the country's accession to the EU, a phenomenon also recorded in other countries, such as Hungary, the Czech Republic, Slovakia, Estonia, Lithuania and Latvia in their first year as EU members. The growth continued in 2008 whereas in 2009 a stagnation was seen, caused by the contracting economy and standard of living.

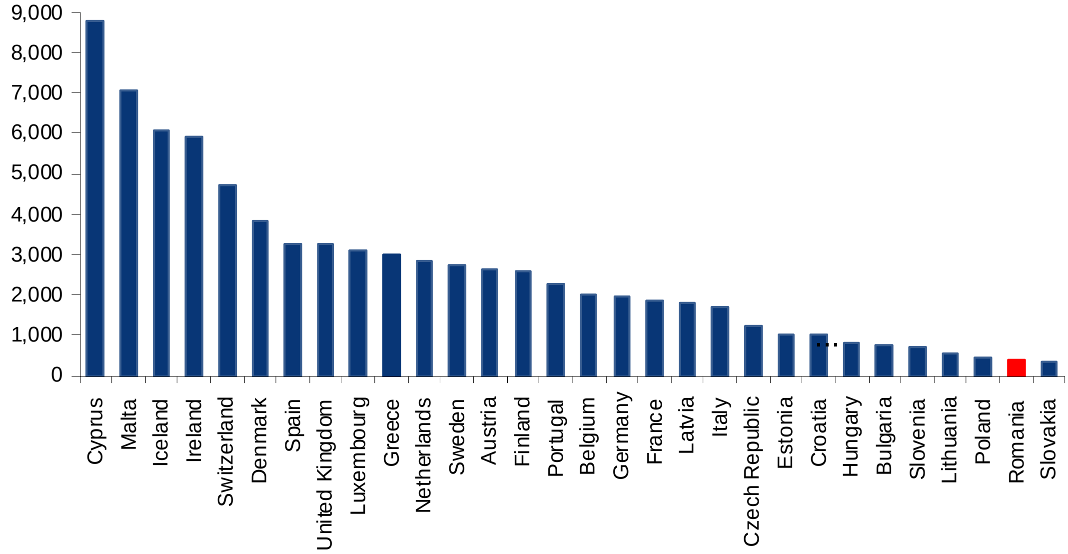
	2005	2006	2007	2008	2009
Number of passengers (mn)	4.34	5.5	7.83	9.08	9.09
y/y (%)		*26.7%*	*42.4%*	*16.0%*	*0.1%*
Aircraft movements (th)	105	121	134	150	160
y/y (%)		*15.2%*	*10.7%*	*11.9%*	*6.7%*

Source: Listing prospectus

In 2010, growth was resumed, especially at Romania's largest airport, Henri Coanda (Otopeni) where a 10% y/y advance in passenger traffic was recorded in the first ten months. Surprisingly, a shift from low cost to regular air transport was recorded in 2010, with the main explanation being the lower tariffs charged by the regular companies.

The potential for the coming years is substantial, given the low penetration of this type of transportation in Romania, but also the more active promotion of local tourism, which has an impressive (untapped) potential. In terms of the number of passengers/1,000 inhabitants, Romania lags well behind other European countries, with a ratio of approx. 370.

Passengers / 1,000 inhabitants



Source: EUROSTAT, Erste Group Research

AEROPORTURI BUCURESTI (Otopeni & Baneasa)

Not listed			
Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Transports	80%	RONmn	1,945
Fondul Proprietatea	20%	EURmn	456

Source: FP Listing Prospectus, Erste Group Research

Company Description

The company operates Romania's two largest airports located in Bucharest, namely Henri Coanda (Otopeni) and Aurel Vlaicu (Baneasa), jointly accommodating some 70% of national air traffic in 2009. It was set up late 2010 through the merger of the two companies that separately operated these airports. The plan is that by 2012-13, the traffic from Baneasa will be moved to Otopeni airport, once the ongoing enlargement and modernization works at the latter are finished. Smaller aircraft, of up to 10 seats, are to operate at Baneasa airport thereafter. Business traffic is expected to account for more than 80% of the total traffic at this airport in the future.
Henry Coanda airport is by far the largest civil airport, with a share of roughly 50% of the national air traffic in 2009. An impressive 10% increase in the number of passengers, to 4.2mn, was recorded in the first 10 months of 2010. Among the main airlines operating on Henri Coanda airport are Tarom, Aegean Airlines, Lufthansa, Austrian Airlines, etc. The third stage of a large investment program aimed at developing airport's infrastructure is ongoing, with the amounts scheduled for this phase being some EUR 150mn.
Low cost airlines mainly operate out of Aurel Vlaicu airport. The traffic at this airport increased by 6.6% y/y in January-October 2010, a lower increase when compared with Henry Coanda, which can be explained by the switch from low cost airlines to regular ones due to price cuts by the latter. The main airlines operating out of Aurel Vlaicu airport are Wizz Air and Blue Air, both low cost companies.
The joint traffic of the two airports is estimated at 7mn for 2010, whereas for this year a 5% increase y/y is expected, meaning 7.35mn passengers.

SWOT analysis

Strengths & Opportunities:
- Main civil airports, with strategic location in capital city
- Extensive CAPEX (EUR 150mn for Phase III of infrastructure development program) to sustain business development in the coming years
- Sustainable growth outlook for years ahead, based on convergence scenario of passenger traffic to CEE levels

Weaknesses & Threats:
- Insufficient processing capacity, considering expected traffic development
- Underdeveloped range of connected services (restaurants, duty-free), limiting the possibility of additional revenues
- Highly bureaucratic procedures for acquiring additional land in order to build new runway
- Dilution risk if CAPEX plan is funded via external equity financing

	2007	2008	2009
Sales	261.39	296.52	304.51
EBITDA	160.28	156.95	137.67
EBIT	104.91	78.94	57.80
Net profit	87.13	103.14	59.47
EBITDA margin	61.3%	52.9%	45.2%
EBIT margin	40.1%	26.6%	19.0%
Net margin	33.3%	34.8%	19.5%

	2007	2008	2009
Assets	1,655.53	1,706.17	1,694.96
Equity	881.96	941.56	1,054.83
Net financial debt	38.51	38.03	-17.60
Net fin debt/EBITDA	0.24	0.24	-0.13
Equity ratio	53%	55%	62%
ROE	9.9%	11.0%	5.6%
ROA	5.3%	6.0%	3.5%

Source: IntelliNews, Listing Prospectus, Erste Group Research

AEROPORTUL TRAIAN VUIA - TIMISOARA

Not listed

Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Transports	80%	RONmn	294
Fondul Proprietatea	20%	EURmn	69

Source: FP Listing Prospectus, Erste Group Research

Company description

Traian Vuia airport is Romania's third largest airport, accommodating 11% of passenger traffic in 2009. In November 2010, the airport was granted a certificate as an international airport, a condition for allowing the landing of aircraft from the non-Schengen area. In 2010, the average number of flights was 75-80/day, from only 20-25 five years ago, while the average number of passengers was 3,000/day, three times the level from 2005. For FY10, airport officials estimate a total number of passengers of 1.15mn (+15% y/y). For the period 2011-15, the company estimates that the passenger traffic will advance at a CAGR of 9%.

Selected financial figures (RONmn) and ratios

	2007	2008	2009
Sales	23.47	30.54	41.07
EBITDA	7.32	10.65	12.22
EBIT	3.25	5.81	5.66
Net profit	2.42	4.87	3.51
EBITDA margin	31.2%	34.9%	29.8%
EBIT margin	13.8%	19.0%	13.8%
Net margin	10.3%	16.0%	8.5%

	2007	2008	2009
Assets	118.71	141.82	162.28
Equity	18.50	22.09	24.69
Net financial debt	-1.94	-1.32	4.31
Net fin debt/EBITDA	-0.26	-0.12	0.35
Equity ratio	16%	16%	15%
ROE	13.1%	22.1%	14.2%
ROA	2.0%	3.4%	2.2%

Source: IntelliNews, Listing Prospectus, Erste Group Research

AEROPORTUL MIHAIL KOGALNICEANU - CONSTANTA

Not listed

Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Transports	60%	RONmn	25
Fondul Proprietatea	20%	EURmn	6
Constanta County Council	20%		

Source: FP Listing Prospectus, Erste Group Research

Company description

Mihail Kogalniceanu airport is located in the South Eastern part of the country, offering easy access for foreign tourists to the Black sea and Danube Delta. The number of passengers accommodated by this airport is, however, very low (below 100,000 tourists), with an increase in the number of passengers likely only in connection with a coherent and sound promotion of Romanian tourism abroad, as well as the improvement of services for tourists. The company runs a few projects aimed at substantially increasing business: i) "Air Constanta" – set up of a Constanta-based airliner; ii) "Cargo Box" – the aim is to increase cargo traffic via building a new terminal with a capacity of 10,000 tons/year; iii) "Cheap & Good" – aimed at increasing the number of low-cost airlines operating out of this airport. The long-term goal of the authorities is to transform Mihail Kogalniceanu airport into a strategic transit point between Europe and Asia for both passenger and cargo traffic.

Selected financial figures (RONmn) and ratios

	2007	2008	2009
Sales	20.09	13.30	14.07
EBITDA	1.09	2.57	1.30
EBIT	-0.06	0.48	0.10
Net profit	0.01	0.45	0.10
EBITDA margin	5.4%	19.3%	9.2%
EBIT margin	-0.3%	3.6%	0.7%
Net margin	0.0%	3.3%	0.7%

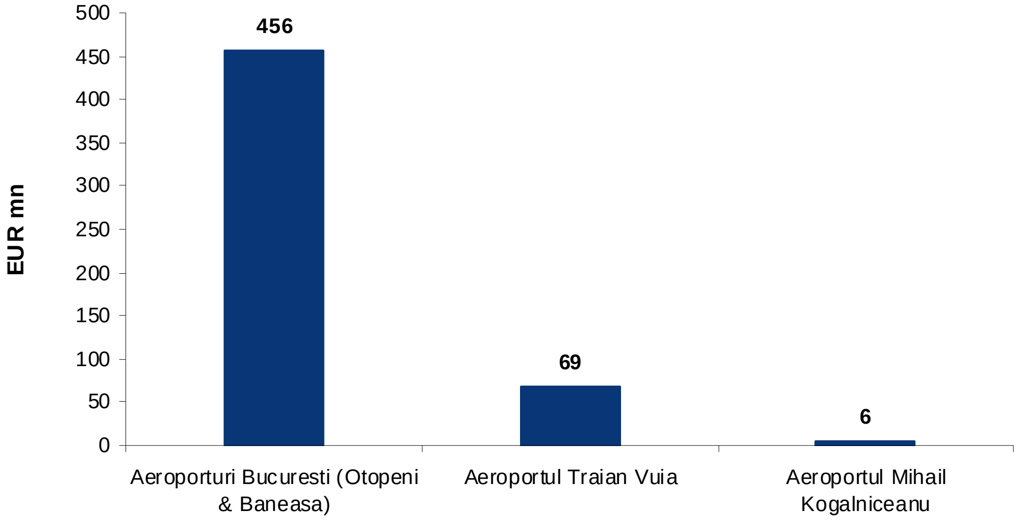
	2007	2008	2009
Assets	47.29	56.28	52.76
Equity	7.80	12.38	12.48
Net financial debt	-1.90	-1.75	-0.74
Net fin debt/EBITDA	-1.74	-0.68	-0.57
Equity ratio	16%	22%	24%
ROE	0.1%	3.6%	0.8%
ROA	0.0%	0.8%	0.2%

Source: IntelliNews, Listing Prospectus, Erste Group Research

Valuation

Given the recent setting up of Aeroporturi Bucuresti via the merger of the two companies that formerly operated the Bucharest based airports and thus the lack of historical financial figures for this company, we have decided to value the airports using a specific metric, namely EV/pax. A number of six peer companies were selected in order to determine a reference value of this multiple. Finally, our choice was for the minimum of the six values, a few reasons underlying our preference for the MIN: i) underdeveloped airport facilities such as restaurants, duty free, etc. ii) large investments needed in order to modernize and develop Romanian airports and iii) high reliance on state funds for development and modernization works.

Fair value of equity (EUR mn)



Source: Erste Group Research

<u>Romanian airports vs. peers</u>

We cross-checked the equity values derived via the specific metric through comparison of the multiples of the three companies with those of peer companies. We have considered multiples and ratios for 2010 only. For the three Romanian companies, we have considered their budgets for FY10.

	EV/ EBITDA	EV/Sales	P/BV	P/E	EBITDA margin	EBIT margin	ROE
Vienna Int. Airport	1263.62	10.73	18.92	3.93	17%	37%	226%
Aeroports de Paris	7099.78	11.80	21.98	3.84	13%	33%	185%
Fraport	3920.74	9.56	16.91	2.36	9%	25%	143%
TAV Havalimanlari Holding	2493.16	17.19	351.72	4.63	-7%	27%	333%
Unique	2695.42	9.79	17.83	5.00	16%	51%	154%
Save Aeroporto di Venezia	164.28	13.37	7.66	2.01	16%	15%	44%
Median Peer Group	*2594.29*	*11.26*	*18.38*	*3.88*	*15%*	*30%*	*170%*
Aeroporturi Bucuresti*	12.20	4.88	1.73	28.57	40%	17%	6%
Aeroportul Traian Vuia*	27.66	4.04	5.77	77.07	28%	11%	13%
Aeroportul Mihail Kogalniceanu*	9.61	0.92	1.19	n.m.	18%	n.m.	n.m.

*Source: FactSet, Erste Group Research, *) Official Gazette (2010 budgets)*

Port Authorities

Business description

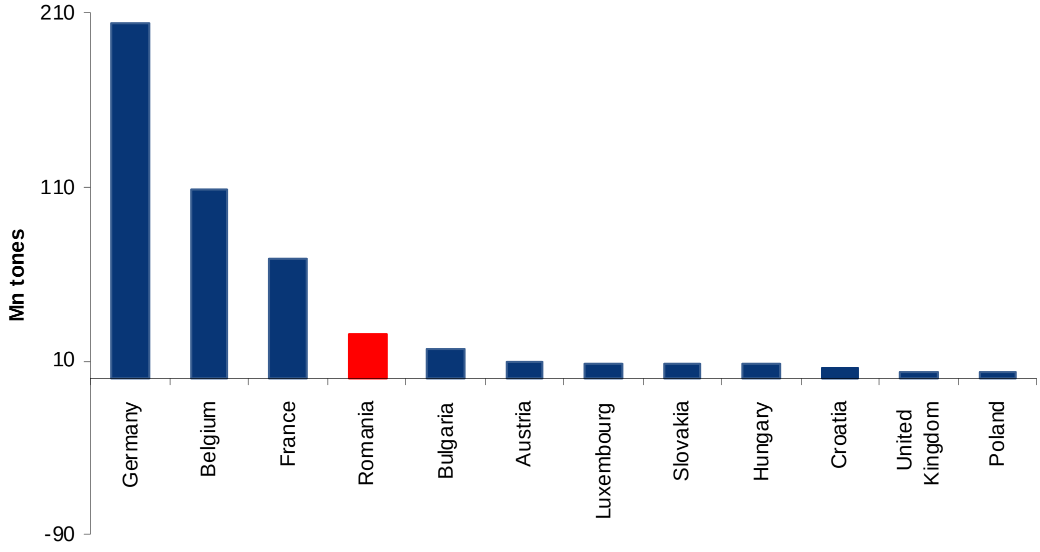
Fondul Proprietatea owns 20% stakes in four port authorities (Administratia Porturilor Maritime, Administratia Canalelor Navigabile, Administratia Dunarii Maritime & Administratia Dunarii Fluviale) having the administration of most of Romania's ports, both maritime and fluvial. Romanian ranks fourth (2009) in the EU in the inland waterway transport of goods, and 16th (2008) in terms of transport of goods by sea, according to Eurostat data. The waterway transport infrastructure includes 3 maritime ports, 6 fluvial-maritime ports and 26 fluvial ports. The inland waterway transport network has a length of 1,779 km, of which 1,075 km is the Danube's international navigation segment, 524 km Danube navigable branches and 91 km artificial navigable channels.

The country's potential in terms of waterway transport of goods is not fully exploited, with measures aimed at increasing the role of this type of transportation being considered by authorities.
The authorities plan to increase the role of the Danube for the transportation of goods, using the Constanta maritime port as the transit point from the Black Sea. Constanta port has a strategic location, at the point where the Danube-Black Sea channel flows into the sea, this channel, with a length of 64.4 km, providing a 400 km shortcut to Cernavoda port. Constanta port has connections with two Pan-European transport corridors: Corridor VII – Danube (inland waterway) and Corridor IV (rail road).

The goal of the authorities is for the maritime port of Constanta to become the second largest in Europe (after Rotterdam) and to be the Eastern gate for Europe. The waterway infrastructure from Romania, although not modernized, includes a large number of ports, especially on the Danube, which provides sound reasons for considering significant investments in order to consolidate this transportation type.

However, given the large funds needed and the budgetary constraints the state is facing we believe a period of at least 10 years to be realistic for achieving such ambitious objectives.

Inland waterways transport of goods (2009)



Source: Eurostat

ADMINISTRATIA PORTURILOR MARITIME

Not listed

Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Transports	60%	RONmn	429
Fondul Proprietatea	20%	EURmn	101
Constanta County Council	20%		

Source: FP Listing Prospectus, Erste Group Research

Company description

The company operates the Constanta maritime and fluvial port, located at the point that the Danube-Black Sea Canal flows into the Black Sea, as well as the satellite ports Midia and Mangalia, located 35 km and 38 km, respectively, from Constanta. The main port has 150 berths, of which 140 are functional, and an operational capacity of 100mn tons per year. The total traffic recorded a decline in 2009 by 32%, to 42mn tons. The decline continues in 2010 as well but at a significantly lower pace, with the economic downturn being the cause for this decline in volume.

Constanta port has the competitive advantage of being connected with the Danube, the company thus taxing the vessels coming from Danube-Black Sea channel.

Selected financial figures (RONmn) and ratios

	2007	2008	2009
Sales	177.35	220.04	209.79
EBITDA	61.84	61.90	57.71
EBIT	25.72	28.17	23.70
Net profit	13.53	12.05	12.37
EBITDA margin	34.9%	28.1%	27.5%
EBIT margin	14.5%	12.8%	11.3%
Net margin	7.6%	5.5%	5.9%

	2007	2008	2009
Assets	929.17	1,025.72	999.54
Equity	273.65	277.79	302.33
Net financial debt	72.84	74.91	54.72
Net fin debt/EBITDA	1.18	1.21	0.95
Equity ratio	29%	27%	30%
ROE	4.9%	4.3%	4.1%
ROA	1.5%	1.2%	1.2%

Source: IntelliNews, Listing Prospectus, Erste Group Research

ADMINISTRATIA CANALELOR NAVIGABILE

Not listed

Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Transports	80%	RONmn	100
Fondul Proprietatea	20%	EURmn	23

Source: FP Listing Prospectus, Erste Group Research

Company description

The company operates the inland navigable canals between the Danube and the Black Sea, including the Danube-Black Sea Canal, as well as the Northern branch Poarta Alba – Midia Navodari. The two channels were built in order to create a shortcut from Constanta to Danube.

A 29% decline of traffic was seen by the company in 2009, to 9.27mn tons, whereas in 2010 a surprising rebound was recorded, with the traffic up to early December exceeding the expectations for FY, mainly on the back of record international traffic.

Selected financial figures (RONmn) and ratios

	2007	2008	2009
Sales	26.35	36.64	36.15
EBITDA	4.63	6.75	7.48
EBIT	-0.39	1.43	2.12
Net profit	0.19	2.07	2.51
EBITDA margin	17.6%	18.4%	20.7%
EBIT margin	-1.5%	3.9%	5.9%
Net margin	0.7%	5.7%	7.0%

	2007	2008	2009
Assets	81.52	90.28	94.91
Equity	75.26	77.24	78.61
Net financial debt	-11.03	-10.02	-9.70
Net fin debt/EBITDA	-2.39	-1.48	-1.30
Equity ratio	92%	86%	83%
ROE	0.2%	2.7%	3.2%
ROA	0.7%	5.7%	7.0%

Source: IntelliNews, Listing Prospectus, Erste Group Research

ADMINISTRATIA PORTURILOR DUNARII MARITIME

Not listed			
Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Transports	80%	RONmn	23
Fondul Proprietatea	20%	EURmn	5

Source: FP Listing Prospectus, Erste Group Research

Company description

The port authority has control of the ports located on the maritime portion of Danube (i.e. where large sea-going vessels can navigate), along with the main ports Galati, Braila and Tulcea. All these three ports recorded a decline in traffic in 2008 and 2009. Thus, for Galati, which is the largest of them, the decline in these two years was of 11.81% (to 8.87mn tons) and 46% (to 4.76mn), respectively. Figures for the six months of 2010 indicate a recovery of business for Galati and Tulcea, and stagnation in the case of Braila port.

Selected financial figures (RONmn) and ratios

	2007	2008	2009		2007	2008	2009
Sales	8.79	9.37	9.33	Assets	22.72	21.23	25.49
EBITDA	0.92	0.65	1.07	Equity	6.72	6.73	8.44
EBIT	0.11	-0.04	0.23	Net financial debt	0.12	-0.30	-0.13
Net profit	0.00	0.01	0.16	Net fin debt/EBITDA	0.13	-0.46	-0.12
EBITDA margin	10.5%	6.9%	11.4%	Equity ratio	30%	32%	33%
EBIT margin	1.2%	-0.4%	2.5%	ROE	0.0%	0.2%	1.9%
Net margin	0.0%	0.1%	1.8%	ROA	0.0%	0.1%	0.6%

Source: IntelliNews, Listing Prospectus, Erste Group Research

ADMINISTRATIA PORTURILOR DUNARII FLUVIALE

Not listed			
Main shareholders:		Fair Value of Equity	
Ministry of Transports	80%	RONmn	23
Fondul Proprietatea	20%	EURmn	5

Source: FP Listing Prospectus, Erste Group Research

Company description

The company is the authority for the ports located along the upper Danube. The main ports are Bechet, Calarasi, Calafat, Cernavoda, Corabia, Drobeta Turnu-Severin, Giurgiu, Orsova, Oltenita, Moldova Veche, seven of which are part of the Trans-European Transport Network (TEN-T). The total handling capacity is 15 mn tons/ year.

Selected financial figures (RONmn) and ratios

	2007	2008	2009		2007	2008	2009
Sales	16.07	19.88	18.64	Assets	44.35	42.05	50.58
EBITDA	6.50	6.24	5.46	Equity	10.77	12.58	21.30
EBIT	5.78	5.01	3.86	Net financial debt	-5.64	-3.75	-3.27
Net profit	5.01	4.40	3.43	Net fin debt/EBITDA	-0.87	-0.60	-0.60
EBITDA margin	40.4%	31.4%	29.3%	Equity ratio	24%	30%	42%
EBIT margin	35.9%	25.2%	20.7%	ROE	46.5%	35.0%	16.1%
Net margin	31.2%	22.1%	18.4%	ROA	11.3%	10.5%	6.8%

Source: IntelliNews, Listing Prospectus, Erste Group Research

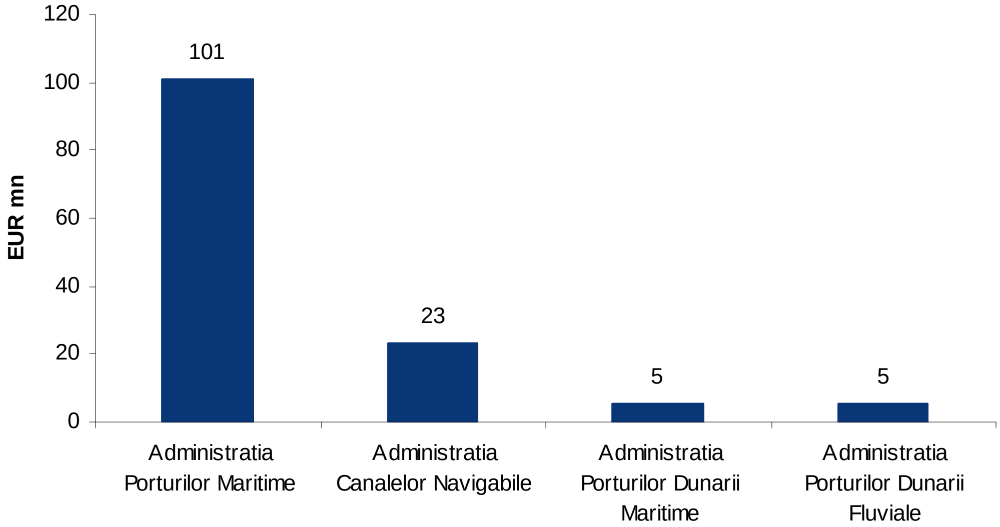
Valuation

We have valued the four companies based on peer group comparison, being aware of the differences in terms of the quality of the ports infrastructure, as well as the traffic structure (merchandise vs. passengers). In Romania, passenger transport via waterways is very low and we do not see any substantial advance in the years ahead.

In the absence of a lack of relevant data regarding the split of revenues and profits on the two main business lines, namely merchandise and goods traffic, for the valuedcompanies as well as selected peers, we could not implement a valuation via a specific metric.

Our option was to use the EV/Sales multiples, considering the fair values derived this way more representative than those obtained on the basis of profit and book value linked multiples.

Fair value of equity assigned for the four port authorities



Source: Erste Group Research

Port authorities vs. peers

We have decided to show multiples and ratios for 2010 only. For the four Romanian companies, we have considered their budgets for FY10.

	EV/ EBITDA	EV/Sales	P/BV	P/E	EBITDA margin	EBIT margin	ROE
Piraeus Port Authority	21.4	3.03	2.26	130.96	14%	2%	2%
Hutchinson Whampoa Ltd	11.78	2.33	1.37	26.10	20%	11%	5%
Median Peer Group	*16.59*	*2.68*	*1.82*	*78.53*	*17%*	*6%*	*3%*
Administratia Porturilor Maritime	8.75	2.33	1.37	35.20	20%	7%	4%
Administratia Canalelor Navigabile	15.71	3.03	1.27	363.38	19%	6%	0%
Administratia Porturilor Dunarii Maritime	24.55	2.33	2.66	200.48	9%	1%	1%
Administratia Porturilor Dunarii Fluviale	3.41	2.68	0.91	5.37	79%	27%	17%

Source: FactSet (2010 consensus), Erste Group Research, Official Gazette (2010 budgets)

COMPANIA NATIONALA POSTA ROMANA

Not listed				
Main shareholders:		Fair Value of Equity (Erste Group Research)		
Min. of Communications & & Information Technology	75%		RONmn	510.2
			EURmn	119.7
Fondul Proprietatea	25%			

Source: FP Listing Prospectus, Erste Group Research

Company description

Posta Romana is the national postal services provider, with the company operating over 7,000 post offices nationwide and employing around 36,000 personnel, and thus being the country's largest employer. The company own a monopoly on the distribution of correspondence <50g until 2013.Additional non-postal services are also provided by the company, such as direct marketing, cash transfers and cash collection, electronic mail services, and magazine subscriptions.
The company's main issue is, in our opinion, the very low computerization (only 1,200 units) resulting in poor productivity.
The company is undergoing a restructuring process, with the measures approved in the summer of 2010, the aim being that the gross profit will exceed RON 50mn in 2014. The restructuring measures were urged due to the RON 181mn loss from 2009, as it was the first time in the last 17 years that the company reported a negative result. The main cause for the poor result in 2009 was the decline of business in volume (-33% y/y), as well as that the payments for some contracts inked in 2008 were well above its financial capability.
As part of the reorganization and restructuring process, five profit centers were defined, each with its own budget. Partnerships with banks are considered, with the aim that the company launches its own financial products (economy accounts, financing and payment products). Optimizing the regional structure of the office network and implementation of an integrated IT system (worth EUR 10mn) are measures of the restructuring plan. We see unavoidable headcount cuts in this process.

SWOT analysis

Strengths & Opportunities

- Diversified range of services and long term-partnerships
- Monopoly on distribution of correspondence <50g until 2013
- Countrywide post office network
- Opportunities in terms of improving operating profitability from technological innovation and restructuring process
- Very strong brand (especially in countryside)

Weaknesses & Threats

- Obsolete and less-developed IT infrastructure, with only 17% of post offices computerized
- Workforce reform needed to increase productivity
- Competition with courier service suppliers to erode market share, especially in international mail market
- Starting January 2013, the company will have to compete in the segment of correspondence <50g as well

Selected financial figures (RONmn) and ratios

	2007	2008	2009
Sales	1,043.80	1,400.30	1,435.74
EBITDA	40.94	11.04	-163.74
EBIT	22.57	-11.32	-210.98
Net profit	25.48	0.03	-181.55
EBITDA margin	3.9%	0.8%	-11.4%
EBIT margin	2.2%	-0.8%	-14.7%
Net margin	2.4%	0.0%	-12.6%

	2007	2008	2009
Assets	796.59	1,329.19	1,235.34
Equity	405.97	853.30	677.97
Net financial debt	-147.00	-261.77	-129.15
Net fin debt/EBITDA	-3.59	-23.72	0.79
Equity ratio	51%	64%	55%
ROE	6.3%	0.0%	-26.8%
ROA	3.2%	0.0%	-14.7%

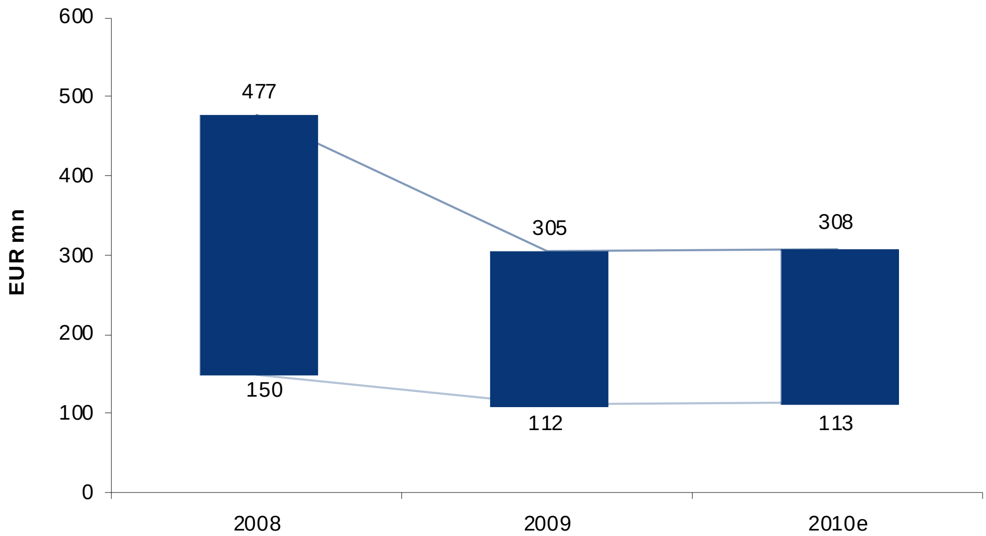
Source: IntelliNews, Listing prospectus, Erste Group Research

Valuation

We have valued Posta Romana via peer group comparison, with a set of six postal services companies being selected for this purpose. Given the poor profitability of the company and the obsolete asset base, which make multiples linked to profit and book value, respectively, less significant, our decision was to assign a fair value based on EV/Sales 2010 multiple.

Our choice was for the minimum level of this multiple (i.e. 0.4 corresponding to Deutsche Post) for the six peers, a few reasons underlying our decision: i) the poor profitability of the Romanian company; ii) the obsolete asset base; iii) the company is behind other national post operators in terms of product and service quality.

Fair value range (EUR mn)



Source: Erste Group Research

There is, however, a significant potential for this company that should not be ignored, mainly due to its nationwide presence and strong brand. But materializing these advantages means important investments in the coming 2-3 years in order not to lose market share. New opportunities should come from logistics services, hybrid mail, online postal services and Internet kiosks. Until such opportunities materialize and the company starts gaining profitability, we prefer to stick to our prudent stance on this company.

Posta Romana vs. peers

	EV/EBITDA 2010e	EV/Sales 2010e	P/BV 2010e	P/E 2010e	EBITDA margin 2010e	EBIT margin 2010e	ROE 2010e
Austrian Post	7.14	0.77	1.91	14.32	11%	6%	16%
United Parcel Service	10.90	1.67	9.47	20.65	15%	12%	40%
Deutsche Post AG	5.28	0.36	1.98	10.18	7%	4%	17%
FedEx Corp	6.19	0.75	2.14	18.25	12%	7%	11%
TNT	7.21	0.76	3.56	14.32	11%	7%	22%
Singapore Post Ltd.	12.04	4.40	7.77	14.32	37%	31%	70%
Median peer group	*7.18*	*0.36*	*26.00*	*14.32*	*11%*	*7%*	*17%*

Source: Fact Set, Erste Group Research

OTHER COMPANIES – LISTED

ALRO

Ticker	ALR	Market capitalization		3M daily turnover	
Erste Group rating	N.R.	RONmn	2,462.54	RON	22,341
Target price (RON)	-	EURmn	577.78	EUR	5,238
Share price	3.45	Share price performance			
Free float	5.8%	1M	6M	12M	YTD
Main shareholders:		13%	9%	20%	13%
Vimetco N.V. Amsterdam (84.19%), Fondul Proprietatea (9.9%), Others (5.8%)					

Source: Bucharest Stock Exchange, Erste Group Research

Company description

ALRO is the largest aluminum smelter in Central and Eastern Europe, and is part of the world's 7th aluminum producer, Vimetco. The product range is split into two main categories: primary aluminum products (wire rod, billets, slabs etc) and processed aluminum products (plates, sheets, coils). The production capacity is: 365,000 t of electrolytic Al, 300,000 t primary Al cast products and 135,000 t processed Al products. In 2007, the company took over alumina producer Alum Tulcea, thus securing a raw material supply.

Selected financial figures (RONmn) and ratios

RAS	2008	2009	Sep-10ttm
Sales	1,968.02	1,410.48	1,715.04
EBITDA	360.72	159.76	360.16
EBIT	265.12	61.91	264.82
Net profit	247.23	78.22	185.47
EBITDA margin	18.3%	11.3%	21.0%
EBIT margin	13.5%	4.4%	15.4%
Net margin	12.6%	5.5%	10.8%

	2008	2009	Sep-10ttm
Assets	2,440.20	2,271.86	2,238.24
Equity	1,547.42	1,433.38	1,430.93
Net financial debt	471.40	272.20	331.27
Net fin debt/EBITDA	1.31	1.70	0.92
Equity ratio	63%	63%	64%
ROE	16.0%	5.5%	13.0%
ROA	10.1%	3.4%	8.3%

Source: Alro, Erste Group Research

AZOMURES

Ticker	AZO	Market capitalization		3M daily turnover	
Erste Group rating	N.R.	RONmn	263.02	RON	73,364
Target price (RON)	-	EURmn	61.71	EUR	17,201
Share price	0.5	Share price performance			
Free float	16.5%	1M	6M	12M	YTD
Main shareholders:		4%	3%	68%	4%
Eurofert Investments (56.8%), Azomures Holding (19%), FP (7.7%), Others (16.5%)					

Source: Bucharest Stock Exchange, Erste Group Research

Company description

Azomures Targu Mures is Romania's largest fertilizers producer, with a focus on nitrous fertilizers. Azomures is the only Romanian manufacturer of melamine.

Known as an important fertilizer producer throughout the world, Azomures has one of the largest chemical plants in Europe, with an annual capacity of 1.8 mn tones of chemical fertilizer, 0.3 mn tones of liquid fertilizers and 16,000 tones of melamine.

Selected financial figures (RONmn) and ratios

RAS	2008	2009	Sep-10ttm
Sales	1,144.10	743.31	1,092.33
EBITDA	112.57	35.16	117.42
EBIT	95.29	16.08	99.08
Net profit	50.54	9.47	92.73
EBITDA margin	9.8%	4.7%	10.7%
EBIT margin	8.3%	2.2%	9.1%
Net margin	4.4%	1.3%	8.5%

	2008	2009	Sep-10ttm
Assets	610.70	625.28	701.36
Equity	391.18	400.65	490.08
Net financial debt	26.89	-86.71	n.a.
Net fin debt/EBITDA	0.24	-2.47	n.a.
Equity ratio	64%	64%	70%
ROE	12.9%	2.4%	18.9%
ROA	8.3%	1.5%	13.2%

Source: Azomures, Erste Group Research

OIL TERMINAL

Ticker	OIL	Market capitalization		3M daily turnover	
Erste Group rating	N.R.	RONmn	135.42	RON	35,846
Target price (RON)	-	EURmn	31.77	EUR	8,404
Share price	0.2325	Share price performance			
Free float	30%	1M	6M	12M	YTD
Main shareholders:		12%	20%	-6%	8%
Ministry of Economy (59.6%), Fondul Proprietatea (10%), Others (30.4%)					

Source: Bucharest Stock Exchange, Erste Group Research

Company description:

Oil Terminal is specialized in the handling of oil, liquid petroleum and petchem products at Constanta maritime port, being among the largest terminals in the SEE. The company operates a network of pipes with total lengths of 50 km and owns three large warehouses with storage capacity of 1.7mn cubic meters. Oil Terminal is one of the partners for the construction of PEOP, a pipeline aimed at transporting oil from the Caspian Sea to Central Europe and reducing dependence on Russia and the Middle East.

Selected financial figures (RONmn) and ratios

RAS	2008	2009	Sep-10ttm
Sales	134.57	127.48	126.44
EBITDA	16.82	15.24	19.45
EBIT	1.58	1.27	5.58
Net profit	1.03	0.74	3.42
EBITDA margin	12.5%	12.0%	15.4%
EBIT margin	1.2%	1.0%	4.4%
Net margin	0.8%	0.6%	2.7%

	2008	2009	Sep-10ttm
Assets	196.03	192.21	194.26
Equity	163.79	164.29	167.65
Net financial debt	n.a.	-1.40	n.a.
Net fin debt/EBITDA	n.a.	-0.09	n.a.
Equity ratio	84%	85%	86%
ROE	0.6%	0.4%	2.0%
ROA	0.5%	0.4%	1.8%

Source: OIL Terminal, Erste Group Research

CONPET

Ticker	COTE	Market capitalization		3M daily turnover	
Erste Group rating	N.R.	RONmn	311.67	RON	79,303
Target price (RON)	-	EURmn	73.13	EUR	18,593
Share price	36	Share price performance			
Free float	12.4%	1M	6M	12M	YTD
Main shareholders:		21%	38%	20%	20%
Ministry of Economy (58.7%), FP (20%), SIF Muntenia (8.9%), Others (12.4%)					

Source: Bucharest Stock Exchange, Erste Group Research

Company description:

Conpet is a natural monopoly, as it is the only company responsible for the transportation (via pipelines or in railway tanks) of domestic and imported crude oil (i.e. provides about 97% of revenues), as well as of rich gas, condensate and liquid ethane to refineries in Romania. The transportation network is operated based on a 30-year concession agreement inked in 2002 with ANRM in exchange for a 10% royalty applied to gross revenues from oil transport services. Conpet is one of the partners for the construction of PEOP (Pan European Oil Pipeline).

Selected financial figures (RONmn) and ratios

RAS	2008	2009	Sep-10ttm
Sales	316.11	316.58	336.39
EBITDA	110.62	66.57	n.a.
EBIT	78.69	23.49	47.94
Net profit	67.00	34.35	46.03
EBITDA margin	35.0%	21.0%	n.a.
EBIT margin	24.9%	7.4%	14.3%
Net margin	21.2%	10.8%	13.7%

	2008	2009	Sep-10ttm
Assets	627.31	618.71	n.a.
Equity	482.53	495.89	n.a.
Net financial debt	n.a.	-104.56	n.a.
Net fin debt/EBITDA	n.a.	-1.57	n.a.
Equity ratio	77%	80%	n.a.
ROE	13.9%	6.9%	n.a.
ROA	10.7%	5.6%	n.a.

Source: Conpet, Erste Group Research

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Treasury Domestic Sales	
Head: Markus Kaller	+43 (0)5 0100 - 84239
Corporate Sales AT	
Head: Christian Skopek	+43 (0)5 0100 - 84146
Mag. Martina Kranzl	+43 (0)5 0100 - 84147
Karin Rattay	+43 (0)5 0100 - 84112
Mag. Markus Pistracher	+43 (0)5 0100 - 84152
Günther Gneiss	+43 (0)5 0100 - 84145
Jürgen Flassak, MA	+43 (0)5 0100 - 84141
Antonius Burger-Scheidlin, MBA	+43 (0)5 0100 - 84624
Fixed Income Institutional Desk	
Head G7: Thomas Almen	+43 (0)5 0100 - 84323
Head Germany: Ingo Lusch	+43 (0)5 0100 - 84111
Fixed Income International & High End Sales Vienna	
Jaromir Malak/ Zach Carvell	+43 (0)5 100 - 84254
U. Inhofner/ P. Zagan/ C. Mitu	+43 (0)5 100 - 84254
Fixed Income International Sales London	
Antony Brown	+44 20 7623 4159

Company Report – **Fondul Proprietatea**

Fondul Proprietatea

Rating history

Date	Rating	Price	Target Price

Company	Disclosure
Fondul Proprietatea	

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Erste Group rating definitions

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

Distribution of ratings

	Coverage universe		Inv. banking-relationship	
Recommendation	**No.**	**in %**	**No.**	**in %**
Buy	41	25.5	7	43.8
Accumulate	44	27.3	5	31.3
Hold	48	29.8	3	18.8
Reduce	12	7.5	1	6.3
Sell	6	3.7	0	0.0
N.R./UND.REV./RESTR.	10	6.2	0	0.0
Total	**161**	**100.0**	**16**	**100.0**

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