Company Report – CLOSED END FUND – Romania – January 9, 2012

Fondul Proprietatea   Accumulate

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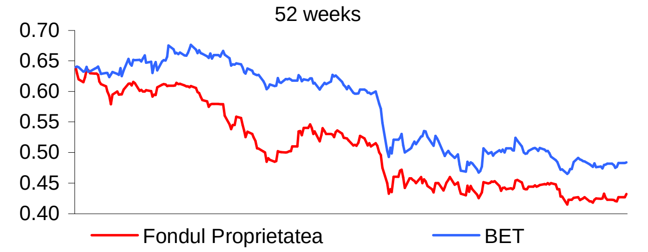
P&L key figures (RON mn)	2009	2010	1-3Q2011
Revenues from dividends	118.2	179.0	509.5
Revenues on disposals	980.2	0.0	9.9
Interest revenues	142.5	131.5	34.6
Total revenues	1320.4	576.6	595.9
Total fund operating expenses	23.6	52.0	42.5
Net profit	730.1	456.2	535.3
Indicator	**2009**	**2010**	**Last**
NAV (RON mn)	-	15,328.2	14,400.9
NAVS (RON)	-	1.11	1.0742
DPS (RON)	0.0816	0.03141	0.0346
Discount to NAVS	-	-	-60.0%
Dividend yield (2011e)			8.0%

Source: Fondul Proprietatea, Erste Group Research



Performance	12M	6M	3M	1M
in RON	-32.8%	-18.7%	0.0%	0.7%
in EUR	-34.0%	-21.7%	-0.7%	0.8%

Share price (RON) close as of 05/01/2012	0.4300	Reuters	FP.BX	Free float	83.9%
Number of shares (mn)	13,778.4	Bloomberg	FP:RO	Shareholders	MoF (1.5%)
Market capitalization (RON mn / EUR mn)	5,925 / 1,365	Div. Ex-date	12/05/11		Palade von Dusen Georgia (6.57%)
Enterprise value (RON mn / EUR mn)	na	**Target price**	**0.5100**	Homepage:	www.fondulproprietatea.ro

Far from a great bargain

- **We maintain our Accumulate rating for Fondul Proprietatea (FP) shares, while adjusting the target price from the previous RON 0.72 to RON 0.51. This was arrived at after applying a 48% discount to the Fair NAV/share of RON 0.98 derived from our conservative SOTP methodology. The discount we applied is in line with the discounts to NAVs at which a selected group of private equity funds is traded.**

- **Judgment on the fair discount for FP shares must consider the real liquidity of its portfolio, which is much weaker compared with that of a private equity fund. FP is effectively held captive by those unlisted companies that are primarily controlled by the government, which enforces discretionary management. This is one reason why it is understandable that there is a higher trading discount for FP than for most listed private equity funds with exposure to mature economies.**

- **The listing of Romgaz, Hidroelectrica and, to a lesser extent, Nuclearelectrica, is the key driver for a sustainable narrowing of the trading discount. Romgaz's IPO is scheduled for the middle of the next year, while the Hidroelectrica and Nuclearelectrica listings are at least likely to take place by 2013. Our view is that Romgaz's investment story is attractive enough, even assuming the delayed convergence of the domestic gas price. On the contrary, for hydro and nuclear power producers, a gradual switch to commercial practices for selling their output is required in order to be eligible for launching IPOs.**

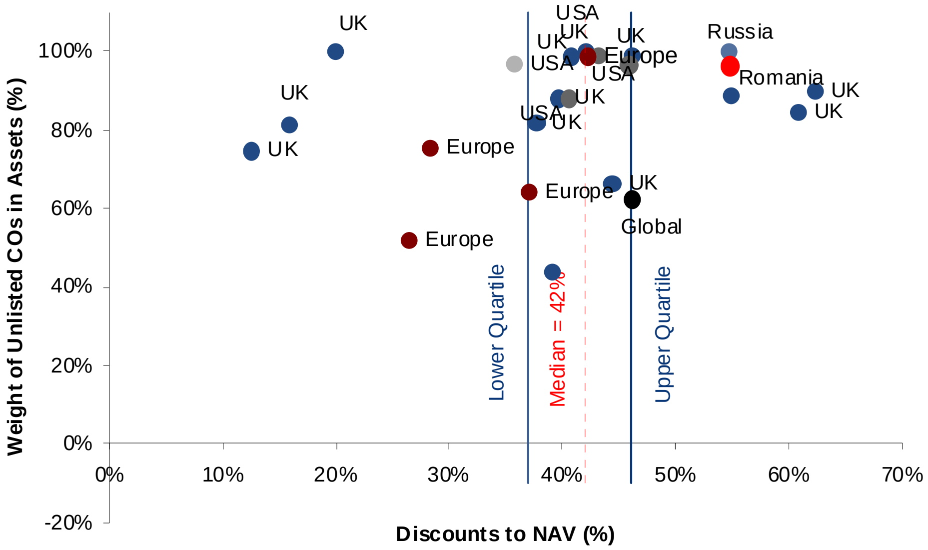
- **Increasing the institutional investors' stake (to 52%, from 19% before listing) is encouraging for the corporate profile of the fund, but the rapid advance of the reimbursement process (with more than a 35pp stake assigned to the heirs of ex-owners in 2011) will further cap the upside potential of the FP share price.**

- **The dividend yield expected on FY 11 of about 8% should be supportive for the share price in the ST.**

Investment case

Fondul Proprietatea (FP) shares are not quite a bargain at the moment. This conclusion is drawn from an in depth analysis of several, carefully selected, listed private equity funds which, in our view, are comparable with FP's current profile. We selected a number of representative private equity funds under Morningstar monitoring that provide exposure to mature economies. These publicly-traded private equity funds, with a minimum 50% weight of unlisted shares in their assets, are traded, on average, at more than a 40% discount to NAV. Note that the remaining portfolio of the selected private equity funds is represented by cash and equivalents. In the context of the weaker liquidity of the FP portfolio, it is difficult to accept that the 60% discount to NAV at which FP shares are currently traded is exaggerated.

Trading discounts for publicly traded private equity funds (December 2011)

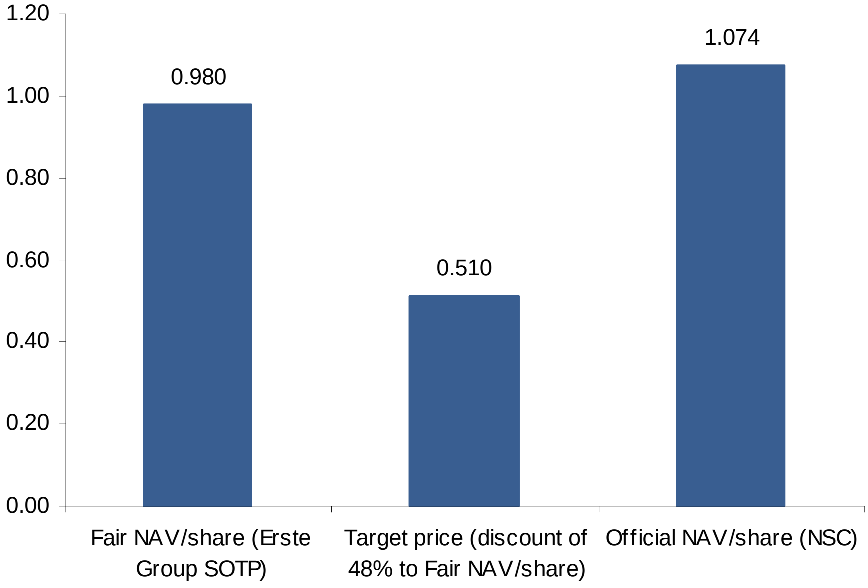


Source: Morningstar, Erste Group Research
Note 1: The private equity funds selected in FP peer group were presented in Appendix; Note 2: The Romanian private equity fund selected is Reconstruction Capital II (RC2) admitted on the AIM market of the London Stock Exchange in December 2005

Based on our SOTP methodology, we have assigned FP a target price of RON 0.51/share, after applying a 48% discount to the Fair NAV/share of RON 0.98. The fair discount considered for FP is in the upper quartile of the discounts at which the publicly listed private equity funds selected in the relevant peer group are currently traded.

The higher discount for FP than for most of the considered publicly traded private equity funds is not surprising, considering the real liquidity of the closed-end fund's portfolio. A private equity fund targets an exit strategy from the beginning of the investment cycle. These funds have a limited lifetime, in accordance with a clear investment/exit strategy, while in the case of FP, it is hazardous to elaborate on how its portfolio could look in three, five or ten years. Moreover, in contrast with a typical private equity fund, Franklin Templeton cannot influence the governmental management of the key state-owned companies, which can be discretionary, non-transparent and outside commercial practices (as is the case for Hidroelectrica and Nuclearelectrica).

Target price and key NAVs per share (RON)

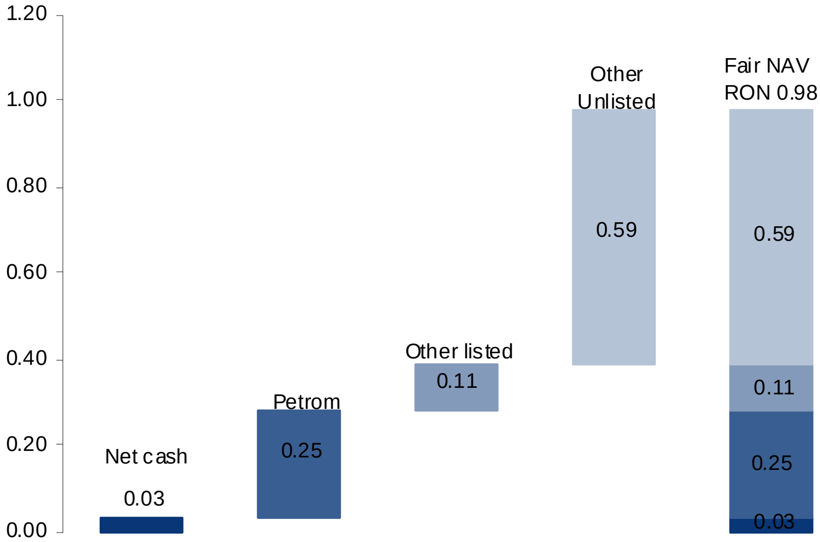


Source: Erste Group Research, Fondul Proprietatea

The listing of gas producer Romgaz and power producer Hidroelectrica, with a substantial improvement of their profitability profile, is the major driver for a narrowing of the trading discount. This is essentially the main objective for Franklin Templeton during its 4-year mandate, which will end in 2014. A listing of Romgaz and Hidroelectrica would make the unlisted shares account for less than 35% of FP's assets. This would mean a completely different picture for FP's portfolio, which is currently highly reliant on the unlisted holdings collection (almost 60% of total assets).

Unfortunately, in the case of Nuclearelectrica, there is a risk of dilution of the FP stake, as a result of a share capital increase initiated by the government. The stake in this company would thus no longer be a strategic one and the negative impact on NAV would be substantial. FP should contribute about EUR 36mn in the share capital increase in order to keep its 9.72% stake in the company; otherwise, its stake would shrink to 6.2%.

Fair NAV/share breakdown (RON)

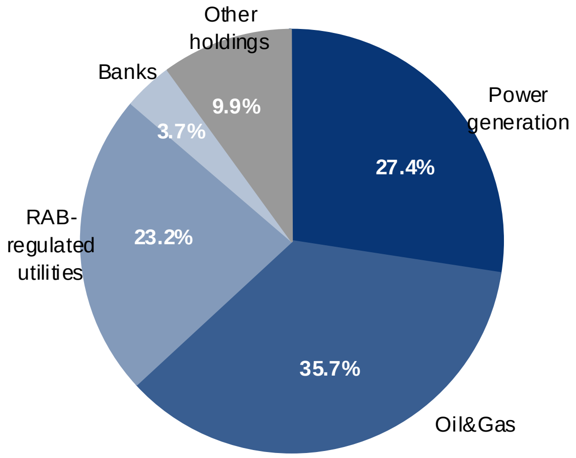


Source: Erste Group Research

Romgaz's IPO is scheduled for the middle of next year, while the Nuclearelectrica and Hidroelectrica listings are at least likely to take place by 2013. In the case of Romgaz, the IPO procedure was launched, with the selection of the broker already in progress. The commitment of the Romanian authorities within the current precautionary agreement with the IMF & EU to liberalize the power and gas market for non-residential consumers by 2013 would be supportive for the investment stories of these strategic national companies. We would like to mention that, under IMF pressure, there is currently a governmental ordinance draft in the approval stage regarding the listing of Nuclearelectrica and Hidroelectrica next year.

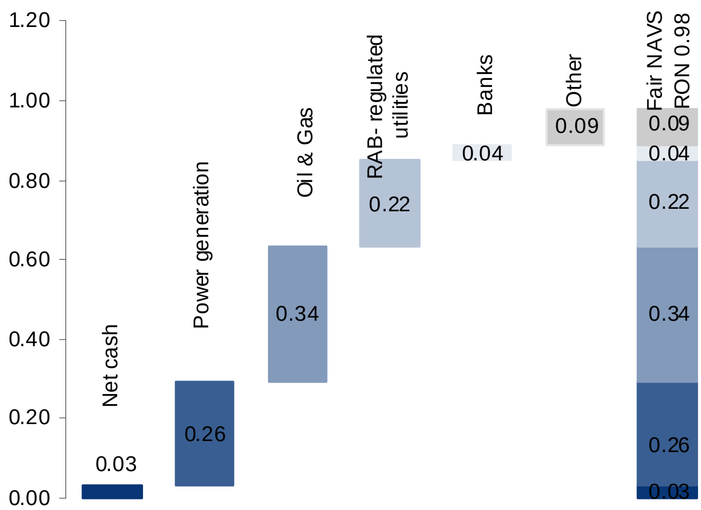
Romgaz's investment story is currently much more attractive compared with Hidroelectrica and Nuclearelectrica. The gas producer has very low indebtedness and enjoyed stable profitability of over EUR 100mn pa over the last few years. Our view is that, even assuming the delayed convergence of the domestic gas price to the import price by at least three years, the company's business model remains attractive enough for investors. On the contrary, the profitability of Nuclearelectrica and Hidroelectrica is very weak compared to their European peers. For instance, Hidroelectrica sells more than 20% of its electricity on the regulated market at a price below its production costs, while over 60% of its output is sold to electricity traders and final consumers at prices below the wholesale power market. That is why the values of specific profitability metrics (EBITDA/IC, EBITDA/Output) are well below the potential indicated by their specific cost structure. The two companies should be able to sell a much larger part of their output based on market mechanisms (using the spot and wholesale exchange market) in order to be 'eligible' for launching IPOs. A gradual opening of the hydro and nuclear power plants towards commercial practices under the current IMF and EU pressures remains a topical issue.

Structure of equity portfolio by sector (%)



Source: Erste Group Research

Fair NAV per share breakdown by sector

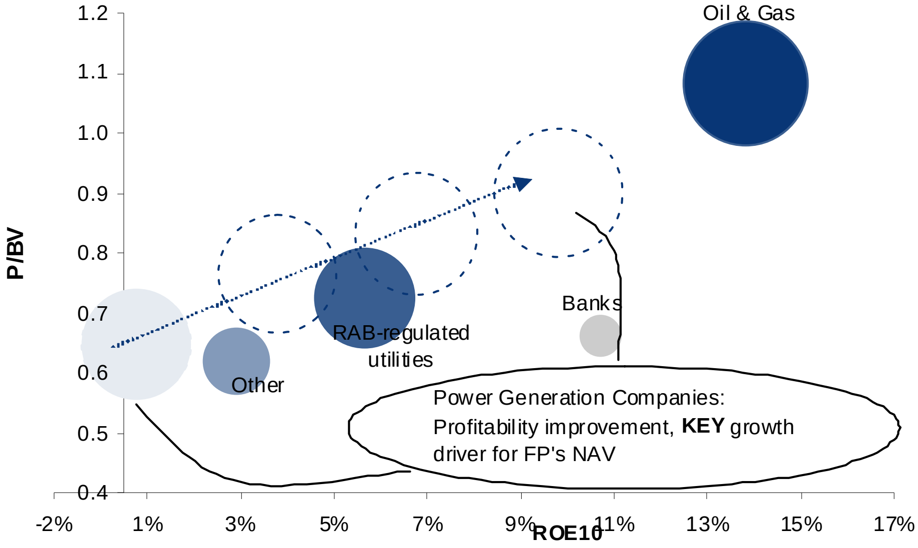


Source: Erste Group Research

Franklin Templeton signed the first strategic agreement with the Ministry of Economy on the setting up of an integrated thermo-generating complex. CE Oltenia will result from the merger of the three coal power producers CE Craiova, CE Turceni and CE Rovinari in which Fondul Proprietatea is a minority shareholder. FP will hold approx. 20% of the new company's shares. The agreement on the setting up of a thermo power complex came after Franklin Templeton blocked in court the government's plan to create two national integrated power companies via combining efficient hydro and nuclear units with old and inefficient thermo plants. The three lignite-fired power plants, which cover almost 30% of domestic power consumption, are in fact the most valuable part of the thermo generation sector in Romania. However, an exit strategy from the new thermo generation company is the most realistic option for FP, considering its huge modernization and environmental CAPEX needs and supplementary pressures on the generation costs coming from CO_2 auctioning starting with 2013.

Petrom shares can be considered cheap in the current oil environment. The company has a weight of about 25% in the fair value of FP's assets, and thus the market sentiment regarding this company is crucial for the closed-end fund's valuation. Petrom will report strong FY11 results, benefitting from the high oil prices, while the liberalization of the power & gas markets is a key profitability growth driver in the coming years. The gas and power business line will gradually generate higher value added starting with 2012, when Petrom's CCGT becomes the third national power producer (with about a 10% market share), replacing some of the old thermo units.

Aggregate sector valuation vs. profitability (P/BV vs. ROE 2010)



Source: Erste Group Research SOTP methodology
Note: Bubble size is the fair value/market cap of FP's stakes

Aggregate sector multiples (fair values)

Sector	EV/EBITDA 2010	P/E 2010	P/BV 2010
Power producers	14.2	104.7	0.6
Oil & Gas	3.8	9.2	1.1
RAB - regulated utilities	3.5	13.1	0.7
Banks	-	6.6	0.6
Other holdings	6.1	13.0	0.6

Source: Erste Group Research

We valued the unlisted companies from FP's portfolio based on specific valuation tools applied under a conservative approach detailed in our SOTP methodology. We arrived at fair values which, except for the oil & gas sector, would assess the respective sectors at 60-70% of their shareholders equity, which is conservative enough and in accordance with their weak profitability profiles.

The oil & gas sector, represented by Petrom & Romgaz, is the most valuable part of the FP portfolio. The power generation sector has reduced its weight in FP's assets compared to its potential, due to the low profitability of these companies. We valued Hidroelectrica and Nuclearelectrica at 60% and 70%, respectively, of their shareholder equity, while Romgaz was valued at a slight premium to its BV. The most important challenge for FP's valuation is the implementation of corporate governance standards at Nuclearelectrica and Hidroelectrica.

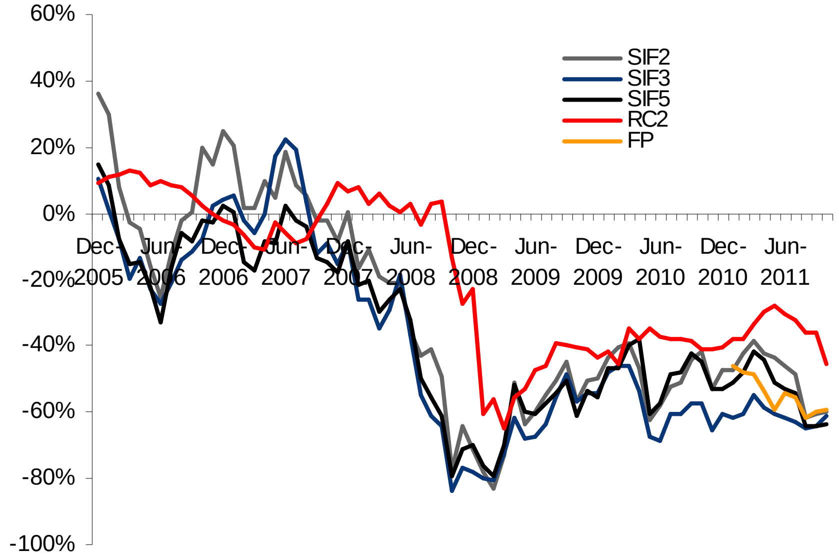
RAB-regulated utility sector is a LT source of sustainable growth for FP's NAV. Transmission and distribution power & gas grids enjoy reasonable and stable profitability, low indebtedness and a safe business model with controlled profitability guaranteed by a revenue cap (RAB-based) methodology for computing tariffs. In spite of this, Franklin Templeton is willing to exit from four power distribution grids and two gas distribution grids held by ENEL, E.ON and Suez Gas de France. The lack of any listing prospects for these companies makes the exit the most appropriate asset management option. Templeton cannot influence their dividend policy, in contrast with state-owned companies which, by law, have to distribute at least 50% of their profits as dividends. However, the negotiating power of Templeton with strategic investors is limited, with the exception of E.ON Moldova Distributie, where the privatization contract contains clauses referring both to put and call options that can be activated up to 2012.

Attractive dividend yield of about 8% is expected for 2011, but FP is far from a dividend stock. We see a 2011 dividend yield of a minimum of 7%, which should be quite supportive for the share price in the short term. Further good news is that dividends to be received by FP in 2012 (for FY11) are comparable with the level seen this year, as long as (with the exception of Hidroelectrica) key companies from FP's portfolio end 2011 with higher net profit y/y. However, substantial growth of dividends distributed by FP related to the FY10 level is unlikely, due to profitability constraints and CAPEX needs in most key companies (to a lesser extent in the case of Romgaz & Petrom). That is why we consider this closed-end fund to be far from the status of a revenue-generating stock.

Closed end fund overview

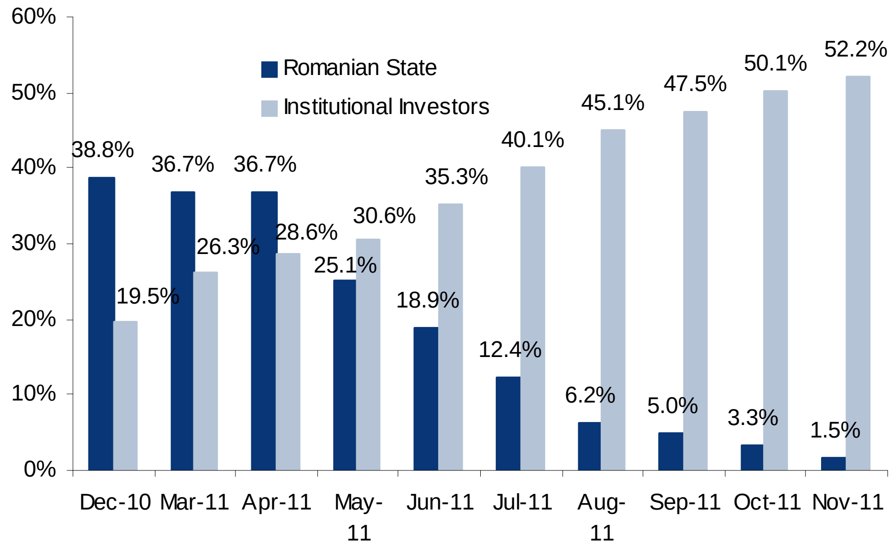
FP's share price adjusted from RON 0.6495 after the first trading session to about RON 0.427 currently (-35% to date), currently trading at a discount of 60% to NAV. It is expected that FP shares will be traded at higher discounts than the five SIFs, for which we see discounts narrowing to below 50% in 2012 for two main reasons: 1) improving portfolio liquidity (maximum 20% weight of unlisted stakes following the exit from BCR) and 2) increasing the ownership threshold from 1% to 5%. We believe that another reference for FP is the private equity fund Reconstruction Capital II (RC2), with about 60% exposure to Romanian companies. The fund raised EUR 135mn from the London market, starting in 2005, and has since been systematically traded at lower discounts than the closed-end funds listed on the Bucharest Stock Exchange (BSE). The reduced visibility and investability of the domestic equity market could be one reason to explain the weaker valuation of funds from the domestic market in comparison with an investment vehicle listed on a mature market.

Romanian funds discounts to NAV



Source: BSE, LSE, Erste Group Research

Development of stakes held by institutional investors and government in FP share capital

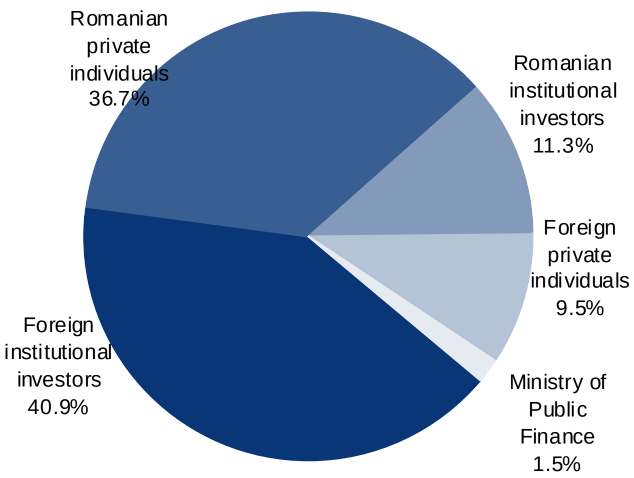


Source: Fondul Proprietatea, Erste Group Research

Pressure on the sale side coming from investors who acquired shares on the gray market and from the heirs of ex-owners partly explains the downward trend for FP shares. The rapid advance of the reimbursement process, with more than 35pp of the share capital assigned to the heirs of ex-owners starting in May, will further cap the upside potential of FP shares. Since listing, the equivalent of 72% of FP's share capital has been traded on the BSE, which, in our view, is not substantial enough to see diminishing pressure on the sell side in the ST.

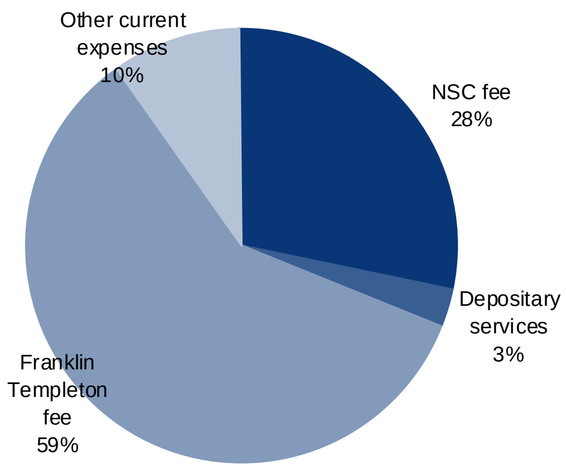
The government's stake gradually narrowed to only 1.5% as of the end of November, while the institutional investor holding advanced to 52%, from 19% of the share capital before listing. This proves that the corporate profile of the fund is attractive for foreign institutional investors and their interest for the stock is supportive for the market price in the medium/LT. Moreover, removing restrictions on voting rights as a result of the GSM of November 23 will strengthen the corporate profile of the closed-end fund.

Shareholders' structure (November 2011)



Source: Fondul Proprietatea

Fund operating expenses breakdown (1-3Q 11)



Source: Fondul Proprietatea, Erste Group Research

The annualized 2011 expense ratio is some 0.4% (approximated based on 1-3Q results), which looks reasonable. The management fee paid quarterly to Franklin Templeton, equal to 0.479% of the average capitalization in the period, is the most important operational expense of the fund. However, as can be seen, the monthly fee paid to the Romanian Securities Commission, representing 0.1% of the NAV, was half of the management fee, which is an anomaly. On the other hand, there are substantial fees paid to law firms representing Franklin Templeton in a lot of litigations initiated against the government in order to protect FP's interest in key companies from the portfolio.

Investment policy decisions in 2011 were focused on taking exposure to the banking sector, with the amount invested more than EUR 150mn. The current value of holdings in banks is around EUR 107mn, under the pressures of the prolonged turbulence from the financial markets. Another decision of the fund manager was to increase stakes in a few companies from the portfolio (Azomures, Alro, Conpet), which made sense considering their strong fundamentals. Any investment decision made by Franklin Templeton has, however, an almost neutral impact on the NAV structure. The major drivers of the fund's NAV and lowering trading discounts can be only a successful listing of the two major companies from the portfolio (Romgaz and Hidroelectrica), accompanied by adopting corporate governance standards as a result of Templeton's lobbying and IMF/EU pressure.

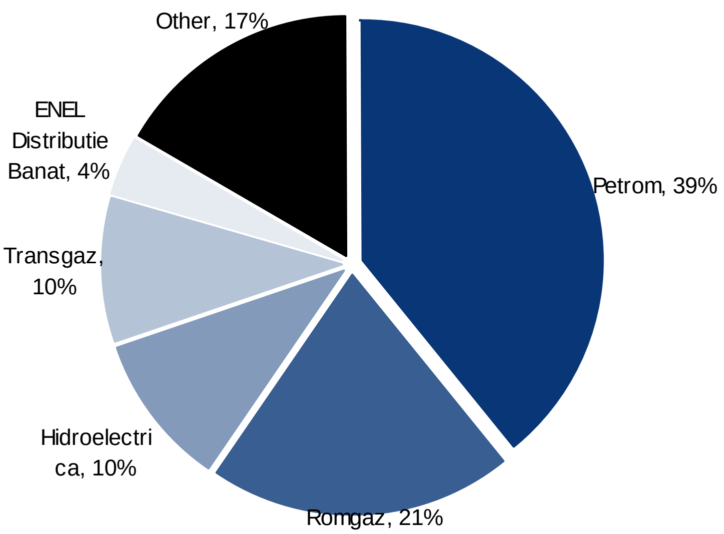
Investments made by Fondul Proprietatea in 1-3Q11

Ticker	Company	Sector	Stake purchased/ sold in 1-3Q11 (%)	Current stake in the company (%)
Acquisitions				
TLV	Banca Transilvania	Banks	2.3%	2.3%
BRD	BRD-Group Societe Generale	Banks	3.0%	3.6%
EBS	Erste Group Bank	Banks	0.3%	0.3%
RBI	Raiffeisen Bank International	Banks	0.6%	0.6%
AZO	Azomures	Fertilizers	3.4%	11.1%
ALR	Alro Slatina	Aluminum	0.3%	10.2%
COTE	Conpet	Oil transportation	9.6%	29.7%
Disposals				
CHAR	Comcereal Harghita	Grain storage and warehousing	10.0%	-
VITO	Vitacom Sfantu Gheorghe	Retail sale of fruits and vegetables	46.9%	-
RESI	Resib	Hotels	2.9%	-
OIL	Oil Terminal	Cargo handling	1.5%	8.5%

Source: Fondul Proprietatea, Erste Group Research

FP can distribute a dividend for FY11 at least 10% higher to the 2010 one, of some RON 0.0346, which would translate into a dividend yield of about 8%. FP reported net profit of RON 535.3mn for 1-3Q11, almost two times higher y/y, mainly on the back of 143% y/y higher dividends received this year. On the other hand, the interest revenue is substantially lower (-69% y/y), as a result of the dividend distributions (for the previous financial years), which thinned FP's cash in banks. The dividends and interest revenues from 1-3Q11 allows, as already mentioned, a dividend for FY11 comparable to the 2010 dividend (according to the dividend policy promoted by Franklin Templeton that the distributable profit to shareholders is equal to the gross revenues from dividends and interests netted with expenses and taxes). However, this would mean a cash outflow of RON 463mn, close to cash and cash equivalents as of the end of November (RON 484.5mn), putting serious pressure on FP's cash flow and subsequently on the fund's investment program flexibility.

Dividend revenues breakdown by payers (2011)



Source: Fondul Proprietatea, Erste Group Research

TOP 10 dividend payers

2009		2010		2011	
Company	**RON mn**	**Company**	**RON mn**	**Company**	**RON mn**
Romgaz	40.91	Romgaz	87.83	OMV Petrom	201.62
Transgaz	18.48	E.ON Gaz Distributie*	36.07	Romgaz	106.01
GDF Suez Energy	14.50	Transgaz	22.98	Hidroelectrica	52.48
Aeroportul Henri Coanda	10.13	Hidroelectrica	6.50	Transgaz	50.77
Conpet	7.12	Aeroportul Henri Coanda	5.87	ENEL Distributie Banat	20.16
Transelectrica	2.97	Conpet	3.81	Alro	16.02
CE Turceni	2.33	Primcom	1.73	Primcom	14.28
Primcom	1.52	Aeroportul Baneasa	0.71	ENEL Distributie Dobrogea	13.53
Electrica Furnizare Transilvania Sud	0.90	CE Rovinari	0.57	Aeroportul Henri Coanda	9.93
Aeroportul Traian Vuia	0.47	Transelectrica	0.49	Conpet	6.98

Source: Fondul Proprietatea, Erste Group Research
*Note: *) We added up dividend from E.ON Gaz Romania (the supply company)*

Under the above-mentioned scenario, the 2011 dividend yield would be about 8%, which should be supportive for the share price in the short term. We estimate dividends to be received by FP in 2012 (corresponding to FY11) to be comparable with the level seen this year, as long as (with the exception of Hidroelectrica) the key companies from the portfolio end 2011 with higher net profit y/y. However, excepting Petrom & Romgaz, we do not see stable major dividend players in FP's portfolio in the medium term, owing to the weak profitability profile of the key companies, as well as their impressive CAPEX needs, especially on the power generation side.

FP faces a dilution risk from strategic holdings over the LT. The CAPEX needs of the major companies from the FP portfolio, jointly with the dividend policy promoted by Franklin Templeton, will confront the closed-end fund with the risk of asset deterioration; for this reason, it is likely that investors will 'demand' an additional discount over the LT.

The rather aggressive dividend policy will cap FP's flexibility in providing external equity financing. Hidroelectrica, Nuclearelectrica, the integrated new thermo generation complex CE Oltenia (the result of the merger of the three lignite-fired power producers, CE Craiova, CE Rovinari and CE Turceni), postal services operator Posta Romana and international airport operator Aeroporturi Bucuresti are the most important companies with major CAPEX needs, unlikely to be partly financed by FP as a minority shareholder.

The strategic status of the Nuclearelectrica holding is under a serious question mark, owing to a new dilution threat. According to draft emergency ordinance, the MoEc will call on FP to contribute RON 155mn (EUR 36mn) to a share capital increase for Nuclearelectrica. The government contribution to the share capital increase is anticipated to be RON 1,442.5mn, recorded as reserves in shareholder equity, which in fact represents state budget subsidies starting in 2006 for the purchase of heavy water for reactors 3 and 4 from a 100% state-controlled company.

If FP does not subscribe to the share capital increase, then its holding will be diluted from 9.7% to 6.2%. The closed-end fund is not facing a dilution risk for the first time. The fund's stake adjusted from an initial 20% in 2005 to 9.7% currently as a result of the capital infusions made by the government up to 2006. Nuclearelectrica's capital is periodically fueled from the state budget in order to implement its nuclear program, to which FP has made no contribution so far. Franklin Templeton contested in court the corporate actions that resulted in the dilution of its stake but, as was the case in the past, the chances of a successful final verdict are limited, in our view.

Key P&L figures Romanian Accounting Standards (RAS)

Indicator (RON mn)	2009	2010	1-3Q2011
Revenues from dividends	118.2	179.0	509.5
Revenues on disposal of financial investments	980.2	0.0	9.9
Capital gains on disposal of financial investments	551.5	0.0	5.8
Provision reversals	31.6	217.4	28.8
Interest revenues	142.5	131.5	34.6
Total revenues	1320.4	576.6	595.9
Total fund operating expenses	23.6	52.0	42.5
Depreciations & provisions expenses	0.6	0.2	11.7
Total expenses	486.2	109.2	59.3
Gross profit	834.2	467.4	536.5
Income tax	104.1	11.2	1.2
Net profit	730.1	456.2	535.3

Source: Fondul Proprietatea, Erste Group Research

Official NAV - NSC norm no 4/2010

Indicator (RON mn)	Dec-10	Nov-11
Fixed assets, out of which	**9,175.9**	**9,163.3**
Tangible assets	0.0	0.0
Financial fixed assets, out of which	9,175.9	9,163.3
Listed shares	30.8	12.7
Unlisted shares	9,145.0	9,150.6
T-Bonds	0.0	0.0
Bank deposits	0.0	0.0
Municipal bonds	0.0	0.0
Corporate bonds	0.0	0.0
Mutual funds units (UCITS and NON-UCITS)	0.0	0.0
Other financial assets	0.1	0.0
Current assets, out of which	**6,235.9**	**5,293.4**
Receivables	6.0	56.6
Cash & equivalents	7.2	2.3
Short term financial investments, out of which	4,903.5	4,752.3
Listed shares	4,903.5	4,752.3
Unlisted shares	0.0	0.0
T-Bills	248.0	168.3
Bank deposits	1,071.3	313.9
Municipal bonds	0.0	0.0
Corporate bonds	0.0	0.0
Mutual funds units (UCITS and NON-UCITS)	0.0	0.0
Other financial assets	0.0	0.0
Derivatives financial instruments	**0.0**	**0.0**
Prepaid expenses	**0.0**	**0.0**
Total assets	**15,411.9**	**14,456.7**
Total liabilities	**69.3**	**41.6**
Provisions	**14.4**	**14.2**
Unearned revenue	**0.0**	**0.0**
Equity	**15,328.2**	**14,400.9**
Off-balance sheet	**0.0**	**0.0**
Net Assets Value (NAV)	**15,328.2**	**14,400.9**
NAV per share (RON)	**1.1124**	**1.0742**

Source: Fondul Proprietatea

Valuation summary - Erste Group SOTP methodology

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
Romgaz	Oil & Gas	-Specific metric: EV/boe 2p reserves peer companies
Aeroporturi Bucuresti (Otopeni & Baneasa), Aeroportul Traian Vuia, Aeroportul Mihail Kogalniceanu, Administratia Porturilor Maritime, Administratia Canalelor Navigabile, Administratia Porturilor Dunarii Maritime, Administratia Porturilor Dunarii Fluviale, Posta Romana	Other holdings / Airports, Port Authorities, Postal services	-Trading multiples - most appropriate (EV/EBITDA, EV/Sales, PE, P/BV)

Source: Erste Group Research

- Listed companies were included in the Property Fund's NAV at market values as of the date of the report.
- The lack of relevant guidance on the business of key unlisted companies, as well as uncertainties regarding their outlook, made the DCF valuation imperfect. The unlisted companies were therefore valued based on the 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 (electricity & gas distribution grids), EV/boe 2p reserves (gas producer).
- For the companies for which we did not use specific metrics, the fair value was computed based on the most appropriate market multiples (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.

Fair value of Property Fund assets according to Sum of Part Approach (SOTP)

No.	Asset Category	Fair value (EUR mn)	Percentage from fair value of assets (%)
1	Current accounts and monetary investments (deposits, TBills)	111.6	3.7%
2	Power generation	807.7	26.4%
3	Oil&Gas	1,052.4	34.4%
4	RAB- regulated utilities	683.5	22.4%
5	Banks	108.9	3.6%
6	Other holdings	291.5	9.5%
Total assets		3,055.6	-
Total liabilities		12.9	-
Net Assets Value (NAV)		3,042.7	-
NAV/share (EUR)		0.227	
NAV/share (RON)		0.980	

Source: Erste Group Research

Asset categories

<u>Non-equity assets</u>

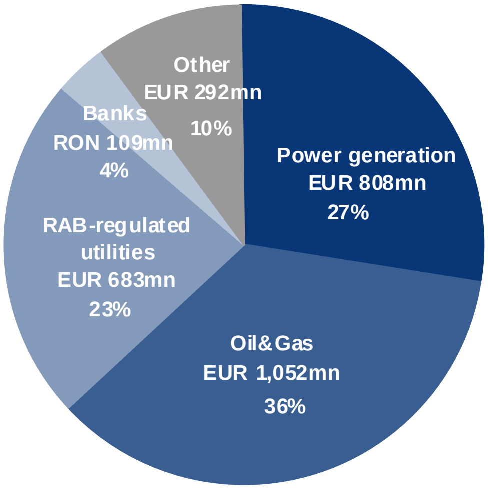
– Category 1 – Cash and low-risk fixed income monetary instruments (bank deposits, government securities) were considered at values from the last NAV report (November 2011).

<u>Categories of equity assets</u>

– We grouped companies from the energy sector into three segments, while from the non-energy part of the portfolio we separately highlight the banks.
– 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-regulated 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, in line with EU directives.
– Category 5: Banks.
– Category 6: Non-energy sectors including other important companies (airports, port authorities, postal services).
– Category 7: Unlisted small companies, which were not included in the fair value of NAV, due to their very low impact.

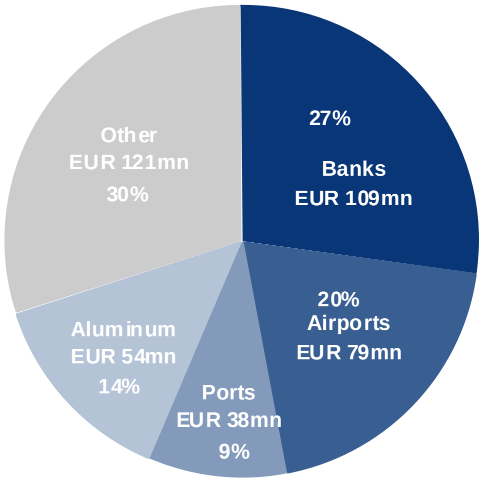
Statistics FP portfolio (fair values)

Structure of equity portfolio by sector (fair values)



Source: Erste Group Research

Structure of non-energy portfolio (fair values)



Source: Erste Group Research

Change in main unlisted holdings' fair value

Company	Former fair value* (EUR mn)	New fair value (EUR mn)
Electricity production		
Hidroelectrica	2,398	2,803
CE Turceni	493	270
CE Rovinari	229	180
CE Craiova	213	170
Nuclearelectrica	1,299	1,005
Gas production		
Romgaz	1,912	1,919
Electricity distribution & supply		
E.ON Moldova Distributie	241	247
Electrica Distributie Muntenia Nord	195	221
ENEL Distributie Muntenia	790	839
Electrica Distributie Transilvania Nord	194	182
Electrica Distributie Transilvania Sud	164	191
ENEL Distributie Banat	304	329
ENEL Distributie Dobrogea	218	250
Gas distribution and supply		
E.ON Gaz Distributie	310	343
GDF Suez Energy Romania	608	716
Other		
Aeroporturi Bucuresti (Otopeni, Baneasa)	456	351
Aeroportul Traian Vuia - Timisoara	69	39
Administratia Porturilor Maritime	101	152

Source: Erste Group Research

**) Fair value according to the initial coverage report (January 2011)*

Fair value of unlisted holdings							
Company	Asset category	Value of Equity		Stake held by FP	Value in FP Portfolio		Weight in total assets
		EURmn	RONmn		EURmn	RONmn	
Electricity production							
Hidroelectrica	2	2,803	12,109	19.9%	559	2,415	18.3%
CE Turceni	2	270	1,164	24.8%	67	289	2.2%
CE Rovinari	2	180	779	23.6%	43	184	1.4%
CE Craiova	2	170	736	24.4%	41	179	1.4%
Nuclearelectrica	2	1,005	4,342	9.7%	98	422	3.2%
Gas production							
Romgaz	3	1,919	8,289	15.0%	288	1,243	9.4%
Electricity distribution & supply							
E.ON Moldova Distributie	4	247	1,065	22.0%	54	234	1.8%
Electrica Distributie Muntenia Nord	4	221	953	22.0%	49	210	1.6%
ENEL Distributie Muntenia	4	839	3,626	12.0%	101	435	3.3%
Electrica Distributie Transilvania Nord	4	182	787	22.0%	40	173	1.3%
Electrica Distributie Transilvania Sud	4	191	826	22.0%	42	182	1.4%
ENEL Distributie Banat	4	329	1,421	24.1%	79	343	2.6%
ENEL Distributie Dobrogea	4	250	1,082	24.1%	60	261	2.0%
Gas distribution and supply							
E.ON Gaz Distributie	4	343	1,481	12.0%	41	178	1.3%
GDF Suez Energy Romania	4	716	3,093	12.0%	86	371	2.8%
Airports							
Aeroporturi Bucuresti (Otopeni, Baneasa)	6	351	1,517	20.0%	70	303	2.3%
Aeroportul Traian Vuia - Timisoara	6	39	169	20.0%	8	34	0.3%
Aeroportul Mihail Kogalniceanu	6	6	25	20.0%	1	5	0.0%
Port operators							
Administratia Porturilor Maritime	6	152	657	20.0%	30	131	1.0%
Administratia Canalelor Navigabile	6	18	80	20.0%	4	16	0.1%
Administratia Porturilor Dunarii Maritime	6	5	23	20.0%	1	5	0.0%
Administratia Porturilor Dunarii Fluviale	6	12	53	20.0%	2	11	0.1%
Other unlisted							
Posta Romana	6	52	225	25.0%	13	56	0.4%
Societatea Nationala a Sarii	6	137	590	49.0%	67	289	2.2%
Total	-	-	-	-	1,844	7,968	60.4%

Source: Fondul Proprietatea, Erste Group Research

Market value of holdings in listed companies*								
Company	Asset category	Specific Expertise	Capitalization		Stake held by PF	Value in FP Portfolio		Weight in total assets
			EURmn	RONmn		EURmn	RONmn	
OMV Petrom	3	Oil & Gas (E&P, R&M)	3,803	16,427	20.1%	765	3,303	25.0%
Alro Slatina	6	Aluminum production	537	2,320	10.1%	54	234	1.8%
Transgaz	4	Gas transmission	609	2,630	15.0%	91	394	3.0%
Transelectrica	4	Electricity transmission	295	1,275	13.5%	40	172	1.3%
BRD GSG	5	Banking	1,728	7,464	3.6%	62	269	2.0%
Erste Group Bank	5	Banking	5,082	21,951	0.3%	16	71	0.5%
Raiffeisen Bank	5	Banking	3,910	16,890	0.6%	22	94	0.7%
Banca Transilvania	5	Banking	363	1,568	2.3%	8.4	36	0.3%
Other listed			303	1,309		41	193	1.3%
TOTAL	-	-	-	-	-	**1,099**	**4,766**	**36.0%**

Source: Bucharest Stock Exchange, Erste Group Research

**) share price as of December 30, 2011*

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	764.74	20.1%	25.0%
2	Hidroelectrica	2	559.06	19.9%	18.3%
3	Romgaz	3	287.68	15.0%	9.4%
4	ENEL Distributie Muntenia	4	100.74	12.0%	3.3%
5	Nuclearelectrica	2	97.80	9.7%	3.2%
6	Transgaz	4	91.24	15.0%	3.0%
7	ENEL Distributie Banat	6	79.37	24.1%	2.6%
8	GDF Suez Energy Romania	4	85.93	12.0%	2.8%
9	Aeroporturi Bucuresti (Otopeni, Baneasa)	6	70.24	20.0%	2.3%
10	Societatea Nationala a Sarii	6	66.91	49.0%	2.2%
11	CE Turceni	2	66.79	24.8%	2.2%
12	BRD GSG	5	62.30	3.6%	2.0%
13	ENEL Distributie Dobrogea	4	60.34	24.1%	2.0%
14	Alro Slatina	6	54.07	10.1%	1.8%
15	E.ON Moldova Distributie	4	54.24	22.0%	1.8%
16	Electrica Distributie Muntenia Nord	4	48.56	22.0%	1.6%
17	CE Rovinari	2	42.56	23.6%	1.4%
18	Electrica Distributie Transilvania Sud	4	42.03	22.0%	1.4%
19	CE Craiova	2	41.47	24.4%	1.4%
20	Electrica Distributie Transilvania Nord	4	40.08	22.0%	1.3%
21	Transelectrica	4	39.86	13.5%	1.3%
22	E.ON Gaz Distributie	4	41.10	12.0%	1.3%
23	Administratia Porturilor Maritime	6	30.40	20.0%	1.0%
24	Raiffeisen Bank	5	21.71	0.6%	0.7%
25	Azomures	7	12.64	8%	0.4%

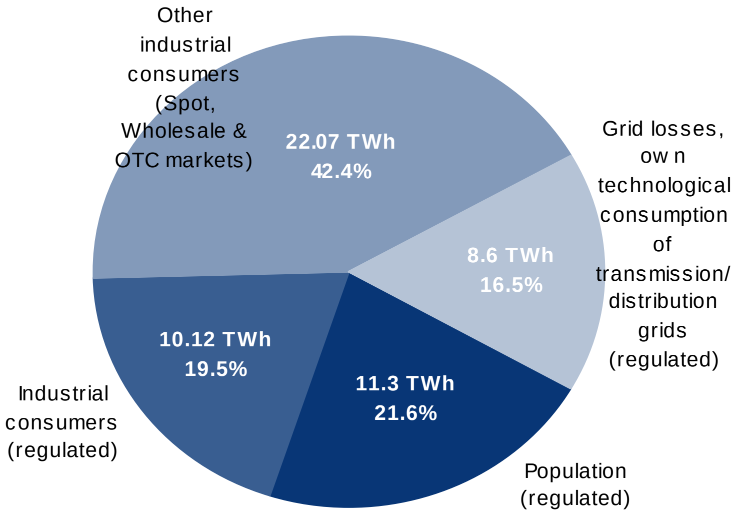
Source: Erste Group Research

Key developments in energy sector

Power generation

The power market continues to be untransparent and less open to market mechanisms. A maximum of 25% of electricity consumed is purchased on the spot market (the day-ahead market of OPCOM) and wholesale power market (centralized bilateral contracts of OPCOM). There are effectively two key functional issues of the industry that are targeted within the current precautionary agreement with the IMF: 1) the unreasonably large size of the regulated market (more than 50% of domestic consumption), while the population's weight is only 22%; 2) Hidroelectrica's practice of selling electricity via direct contracts at prices well below wholesale power market prices (minimum 12 TWh, representing 60-65% of its production and about 25% of domestic consumption).

Electricity consumption breakdown (2010)



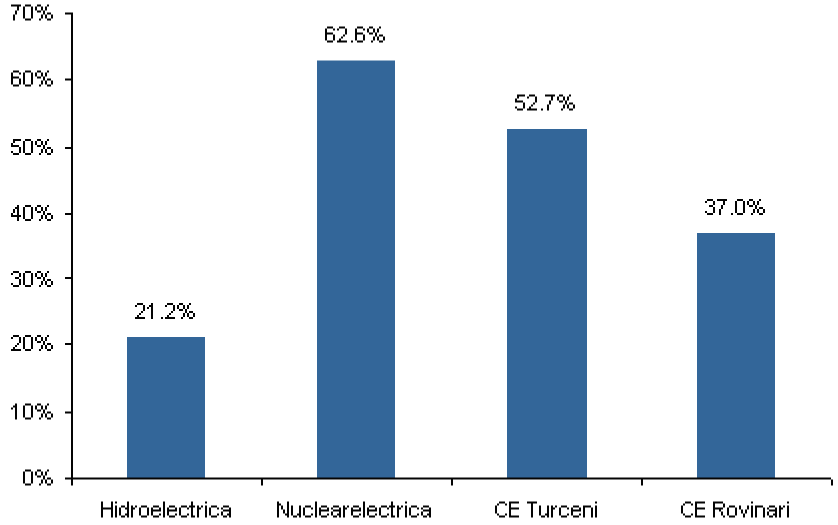
Source: Erste Group Research, ANRE

Implementing the structural reform agreed with IMF&EU should gradually limit the regulated market to population only. According to the commitment of the Romanian government, this process should last up to the end of 2013. Moreover, up to the end of 2015, households should pay, somehow, a market price, except for the vulnerable consumers, this category of consumers following to be defined by the government according to EU legislation.

The governmental policy to regulate a large part of the power market had two main objectives: 1) to keep electricity price for population and other non-residential consumers as comfortable as possible meantime with 2) securing the selling of the large part of thermo units output at regulated prices above their production costs.

Households' consumption is less than half of the regulated market. There is a substantial non-transparent component of the market, represented by direct contracts between power producers and transmission/distribution grids operators which are forced to purchase electricity for grid losses and their own technological consumption from the most expensive thermo producers at prices set by the regulator ANRE. Hidroelectrica and Nuclearelectrica buy and respectively sell electricity from/to thermo power producers at preferential prices in the favour of the last ones. All these contracts are practically indirect subsidies mechanisms for keeping alive the old thermo units that incur unsustainably elevated production costs.
Hidroelectrica and especially Nuclearelectrica are forced by the regulator ANRE to sell electricity on the regulated market at price well below wholesale power market as well as the regulated price recognized for the thermo producers.

Weight in production of the electricity sold on the regulated market (2010)

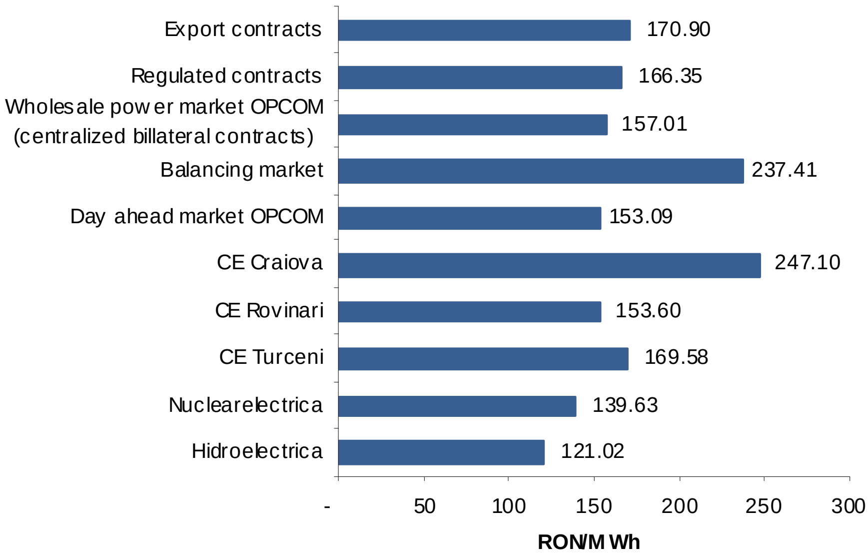


Source: Companies

In 2010, Nuclearelectrica sold 63% of the electricity produced on the regulated market at a price close to RON 100/MWh, while Hidroelectrica sold about 21% of its electricity at a regulated price of RON 86/MWh (lower than its production costs). In comparison, the lignite-fired power plant CE Rovinari sold 37% of its electricity at a price of RON 143/MWh, while the other two electricity complexes (CE Turceni, CE Craiova) sold electricity on the regulated market at prices even higher, due to their generation costs.

The consequences of the non-commercial practices are seen in the average selling price of Nuclearelectrica and Hidroelectrica, which are much lower in comparison with the prices achieved by thermo producers, as well as the average prices on the regulated market and wholesale power market.

Average price for electricity (2010) (RON/MWh)



Source: ANRE, Companies, Erste Group Research

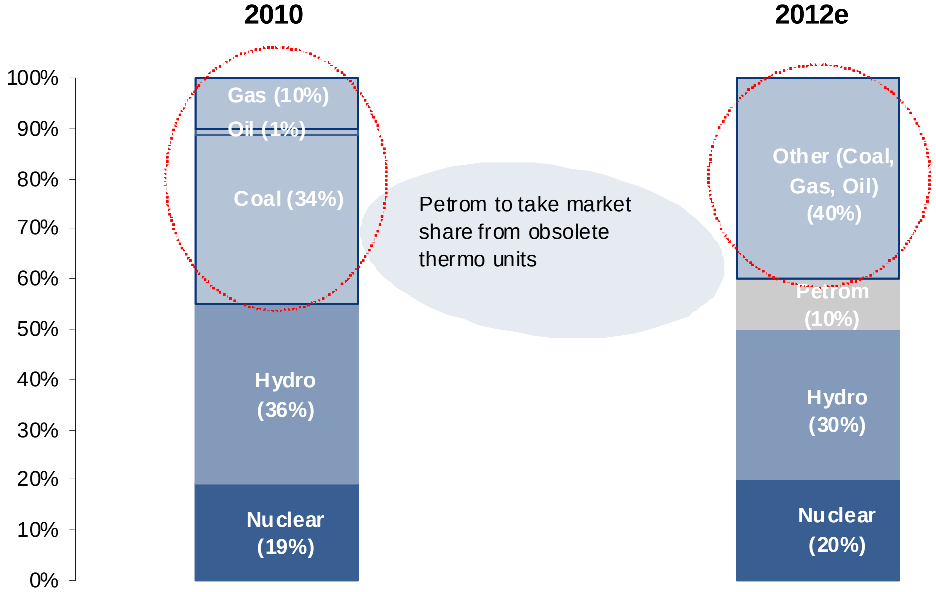
Hidroelectrica and Nuclearelectrica will be the only producers to benefit from the gradual reduction of the regulated market size. They will thus be able to sell a larger quantity of electricity on the wholesale market at prices above those on the regulated market.

An additional and major negative impact on Hidroelectrica's profitability stems from the well-known direct contracts portfolio, which covers 60-65% of its power production. Contracts are signed with consumers and electricity traders outside the power exchange and account for more than 60% of the electricity produced. The average 2010 selling price on this contract portfolio was RON 122/MWh, well below the wholesale power market (RON 157/MWh) and the average price on the regulated market (RON 166.4MWh). Preferential contracts are due between 2015 and 2018, but under pressure from the IMF and European Commission, there are hopes for a faster reduction of their weight in total production. On the other hand, Franklin Templeton's strategy of discouraging such uncommercial management decisions by taking legal action against the members of the boards of the respective companies could be one of the most efficient methods of fighting to improve the corporate governance standard. Franklin Templeton announced that, on November 8, 2011, it filed a summons against Hidroelectrica's board members, who approved in December 2010 the sale of electricity to ArcelorMittal Galati at below market price, thus causing major prejudices against the company.

Putting into commercial operation Petrom's CCGT, starting in 2012, will substantially support the structural reforms of the power market. Petrom's CCGT unit will replace the old thermo units, which cannot survive in the context of high modernization and environmental CAPEX needs, as well as the tightening CO_2 regime starting in 2013. Petrom's 860 MW CCGT will enjoy excellent entry market opportunities, catching about a 10% market share. It will play a crucial role in keeping the security of supply risk under control in future years.

The collateral effect of the new gas-fired power plant will be greater flexibility for the government in terms of reducing the size of the regulated market, while lowering the pressure on the electricity price. Nuclearelectrica and Hidroelectrica should benefit from better prices on the regulated market, together with a higher quantity of electricity sold on the wholesale power market (centralized bilateral market of OPCOM).

Electricity generation by source

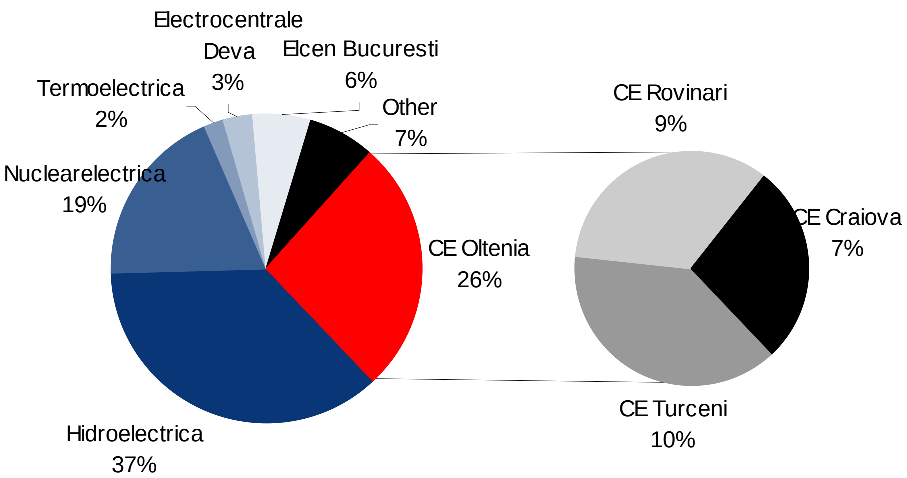


Source: ANRE, Erste Group Research

The Romanian government's strategy of setting up two national energy champions has been blocked by court rulings initiated by Franklin Templeton. As agreed with the IMF, the authorities are developing an alternative strategy. The listing of Nuclearelectrica and Hidroelectrica is a clear commitment from the Romanian government within the current precautionary agreement with the IMF. According to a draft of an emergency ordinance on this topic, the government will promote the launching of IPOs by the two power producers via the issue of new shares representing a 10% stake. However, we do not see as realistic a listing of Hidroelectrica and Nuclearelectrica earlier than 2013; by to that date, it is required that their profitability profile improve, supported by the market liberalization as imposed by the IMF & EU.

However, we cannot ignore the political risks regarding full implementation of the agreed liberalization of the energy market (2013, the deadline for residential consumers), considering that, in 2012, Romania will have a new government, as a result of the parliamentary elections scheduled for next year.

Power producers' market share in 2010 (%)



Source: Companies, ANRE, Erste Group Research

According to the new strategy, the thermo generators will be condensed into two integrated complexes. Under the current IMF agreement, the Ministry of the Economy and Franklin Templeton have agreed to create a thermo power complex, Oltenia, which will include the three lignite-fired power producers CE Turceni, CE Rovinari and CE Craiova, in which Fondul Proprietatea is a minority shareholder. Viable units of lignite producer CN Oltenia will also join the new entity. According to the last review of the agreement with the IMF, the government plan is to privatize the new integrated thermo producer with a strategic investor in about two years from inception, the alternative being an IPO on the Bucharest Stock Exchange (BSE). This decision was also agreed with Franklin Templeton in a memorandum signed in December.

An exit strategy from the new generation company is the most realistic option for FP. It is true that the three lignite-fired power plants, which cover almost 30% of domestic power consumption, account for the most valuable side of the thermo generation sector in Romania. However, their efficiency is threatened by the modernization and environmental CAPEX needs (the latter ones alone are estimated at about EUR 800mn by 2012). These will not bring any efficiency gains and, jointly with the impact of CO_2 permit costs starting in 2013, will put further pressure on the generation costs. As explained, the three power complexes were given an advantage by regulator ANRE via sales on the regulated market at prices much higher than the prices recognized for Nuclearelectrica and Hidroelectrica. Liberalizing the power market, as imposed by the IMF & EU, will narrow the possibility of selling on the regulated segment significant quantities of electricity at prices above the generation costs. In this context, an exit of FP from the new integrated thermo complex after the privatization with a strategic investor is the best option for Franklin Templeton, considering the major CAPEX needs and pressure on the new company's generation costs.

Romanian power producers' valuation

We have selected in the peer group of the five Romanian producers 19 power producers from Europe, Russia and Brazil, which enjoy much better profitability per kW of installed capacity and per MWh of electricity produced. The use of specific metrics like EBITDA/Output and EBITDA/IC is helpful for understanding the gap between the profitability of domestic power producers and their peers.

Power Producer	Core Country	Installed Capacity (MW)	Output 2010 (TWh)	EBITDA*/IC (EUR/Kw)	EBITDA*/Output (EUR/MWh)
CEZ	Czech Republic	15,018	63.3	163.8	38.9
PGE	Poland	12,200	52.7	92.5	21.4
Tauron	Poland	5,400	22.4	61.4	14.8
Verbund	Austria	8,115	31.1	129.4	33.8
Fortum	Finland	14,113	69.8	114.6	23.2
A2A	Italy	6,100	12.9	52.5	24.9
Iberdrola	Spain	45,000	154.1	77.0	22.5
EDP	Portugal, Spain	22,000	59.6	124.8	46.1
Scottish & Southern Energy	UK	11,290	47.7	91.0	21.6
Gas Natural Fenosa	Spain	17,328	58.4	53.4	15.9
EVN	Austria	1,787	3.7	29.4	14.4
Rushydro	Russia	26,092	70.7	65.8	24.3
OGK - 1	Russia	9,531	43.1	20.8	4.6
OGK - 2	Russia	8,707	47.6	13.9	2.5
OGK - 3	Russia	8,497	32.1	6.6	1.7
OGK - 5	Russia	8,772	45.1	29.7	5.8
OGK - 6	Russia	9,200	35.4	14.7	3.8
Tractebel Energia	Brazil	6,908	34.4	161.2	32.4
AES Tiete	Brazil	2,660	14.7	210.1	37.9
CE Turceni	Romania	1,650	5.8	28.6	8.1
CE Rovinari	Romania	1,320	4.8	21.4	5.9
CE Craiova	Romania	900	4.1	22.0	5.0
Hidroelectrica	Romania	6,438	19.3	50.8	16.9
Nuclearelectrica	Romania	1,414	10.2	94.1	13.0

Source: Erste Group Research, Companies

**) only EBITDA from power generation was considered*

The profitability of local thermo producers is comparable only with those of Russian thermo producers, while Hidroelectrica and Nuclearelectrica enjoy better profitability, even with the uncommercial practices imposed by the government. The profitability of the nuclear and hydro power producers is obviously substantially below their potential and well below the values recorded by their peers.

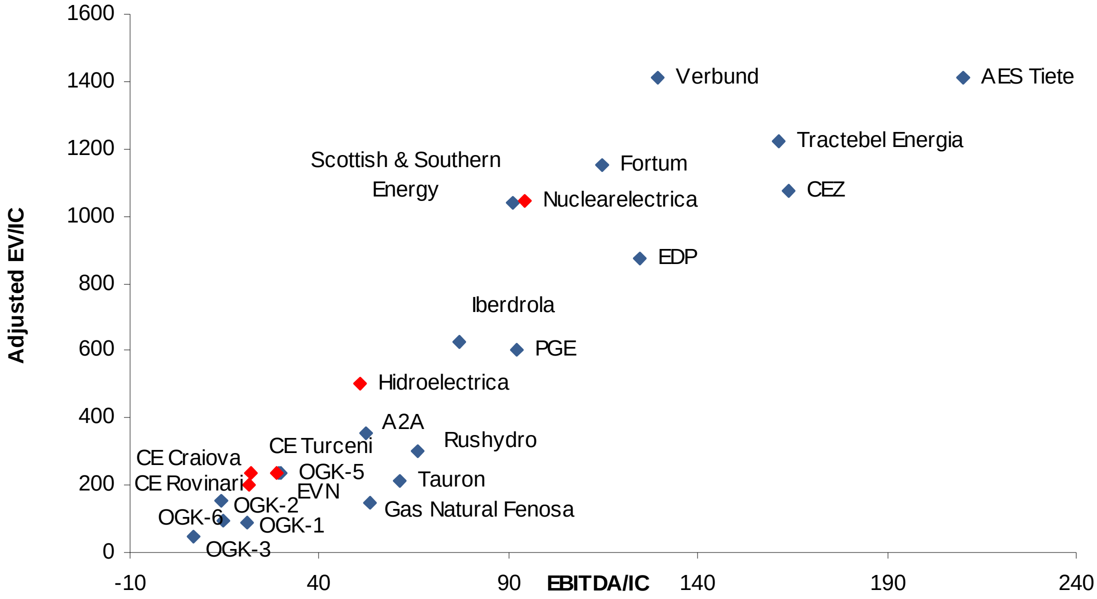
On the back of an excellent hydrological 2010, Hidroelectrica reached profitability of EUR 17/MWh, while Nuclearelectrica recorded a value of EUR 13/MWh, in comparison with a minimum of EUR 20/MWh for a large part of the selected peers.

We assigned fair values for the five Romanian producers in accordance with the profitability per specific metric (IC, power output) of their peers, but also based on the Depreciated Replacement Cost method. This was appropriate, due to the specific weaknesses of their profitability profile, which fails to reflect the strengths of their asset base.

Valuation tool/Company	CE Turceni	CE Rovinari	CE Craiova	Hidroelectrica	Nuclearelectrica
I. (EV/IC)/(EBITDA/IC) peers regresion	277.76	163.62	131.73	2,246.15	588.85
II. (EV/Output)/(EBITDA/Output) peers regression	203.29	104.23	91.40	1,962.54	485.05
III. Depreciated Replacement Cost approach	327.51	273.19	287.74	4,200.84	1,941.45
Fair value of equity (equal weight of each method)	269.52	180.35	170.29	2,803.18	1,005.12

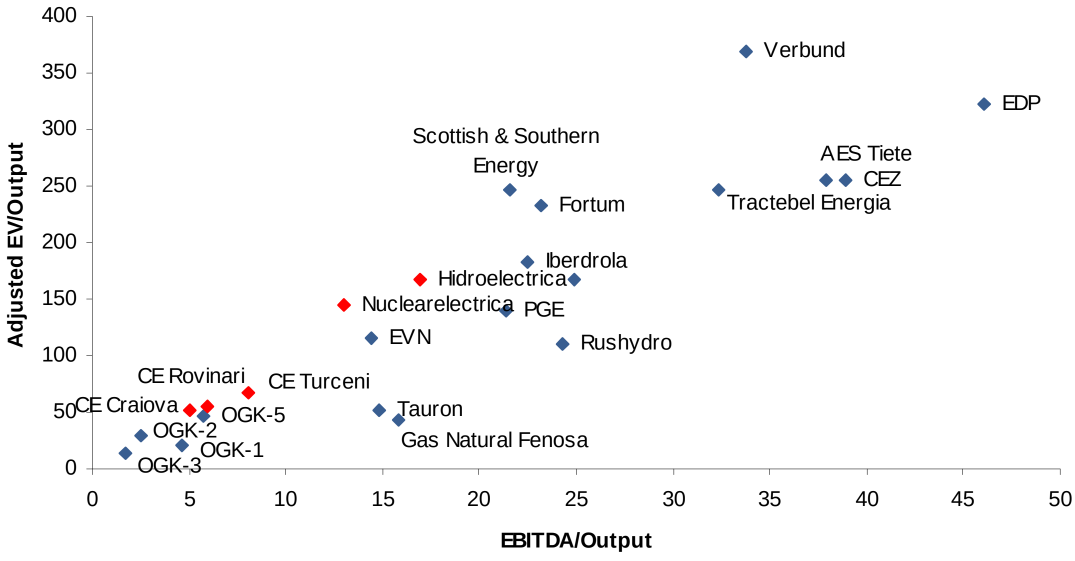
Source: Erste Group Research

I. EV/IC (EUR/kW) vs. EBITDA 2010/IC (EUR/kW)



Source: Erste Group Research

II. EV/Output 2010 (EUR/MWh) vs. EBITDA 2010/Output 2010 (EUR/MWh)



Source: Erste Group Research

III. Valuation of power producers using Depreciated Replacement Cost approach

Indicator/Power producer	CE Turceni	CE Rovinari	CE Craiova	Hidroelectrica	Nuclearelectrica
Installed capacity (MW)	1,650	1,320	900	6,438	1,414
Degree of obsolescence (%)	54.3%	68.0%	59.2%	43.0%	28.3%
Overnight capital cost as of December 31, 2011 (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)	548.6	384.0	554.8	727.9	2,027.3
Enterprise value - EV(EUR mn)	905.1	506.9	499.3	4,686.1	2,866.7
Environment expenses (EUR mn)	455.8	150.3	170.8	64.8	454.7
Adjusted EV (EUR mn)	449.3	356.6	328.5	4,621.3	2,412.0
Net debt (EUR mn)	121.8	83.4	40.8	420.4	470.5
Equity (EUR mn)	327.5	273.2	287.7	4,200.8	1,941.4

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

Consequently, fair values below the book value per share were assigned for the five power producers. Based on our valuation approach, Nuclearelectrica and Hidroelectrica were valued at 60% and 70%, respectively, of shareholder equity, which is suggestive of the current hidden-value status of these key companies in the FP portfolio. We believe that the conditions exist to push concrete progress regarding the liberalization of the power market, helped by the putting into commercial operation of Petrom's CCGT. The main gainers from the process will definitely be Hidroelectrica and Nuclearelectrica, but the positive impact on their profitability will be limited in the next two years, keeping the specific profitability metrics well below their peers from the European Union.

Company	EV/Sales 2010	EV/EBITDA 2010	P/E 2010	P/BV 2010
CE Turceni	1.58	8.31	-16.37	0.55
CE Rovinari	1.40	9.32	1,286.86	0.63
CE Craiova	0.81	10.30	2,987.13	0.67
Hidroelectrica	4.15	9.86	40.36	0.71
Nuclearelectrica	4.10	11.09	262.99	0.57

Source: Companies, Erste Group Research

We put together the five Romanian power producers in order to make some comparisons with CEZ, which we consider a counterpoint to the weak profitability of the domestic companies. Cumulative IC and power production in 2010 for the five producers had weights of 78% and 70%, respectively, as reported by CEZ, but their EBITDA was only 16% of CEZ's operating profitability. In accordance with this, when applying our valuation tools, we arrived at a cumulative EV for the Romanian producers representing 34% of CEZ's enterprise value.

Romanian producers vs. CEZ	Installed Capacity (MW)	Output 2010 (TWh)	EBITDA 2010 (EUR mn)	Adjusted EV 2011e (EUR mn)
CEZ*	15,018	63.3	3,518.8	16,636.1
All five Romanian producers	11,722	44.3	556.1	5,565.4
Romanian producers/CEZ	78%	70%	16%	33%

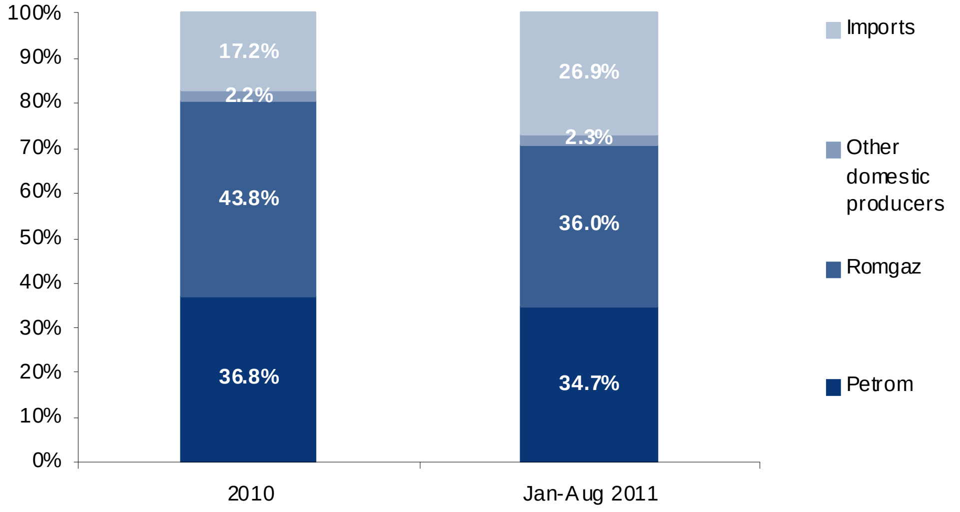
Source: Erste Group Research

*Notes: *)Only EBITDA from power generatin&trading for CEZ; CEZ's EV adjusted in line with generation business' weight in EBITDA*

Gas production

As is the case with the power market, the Romanian authorities assumed in negotiations with the IMF and EU the phasing out of regulated prices for gas in a two-step process: 1) by 2013 for non-households; and 2) by the end of 2015 for all consumers, with subsidy mechanisms for low-income inhabitants (this category to be defined by the authorities). From the FP portfolio, the best positioned to benefit from the convergence of the domestic gas price to the import price (currently, the latter is more than two times higher) are the two gas producers, Romgaz and Petrom, which jointly cover more than 90% of domestic production, in even weights.

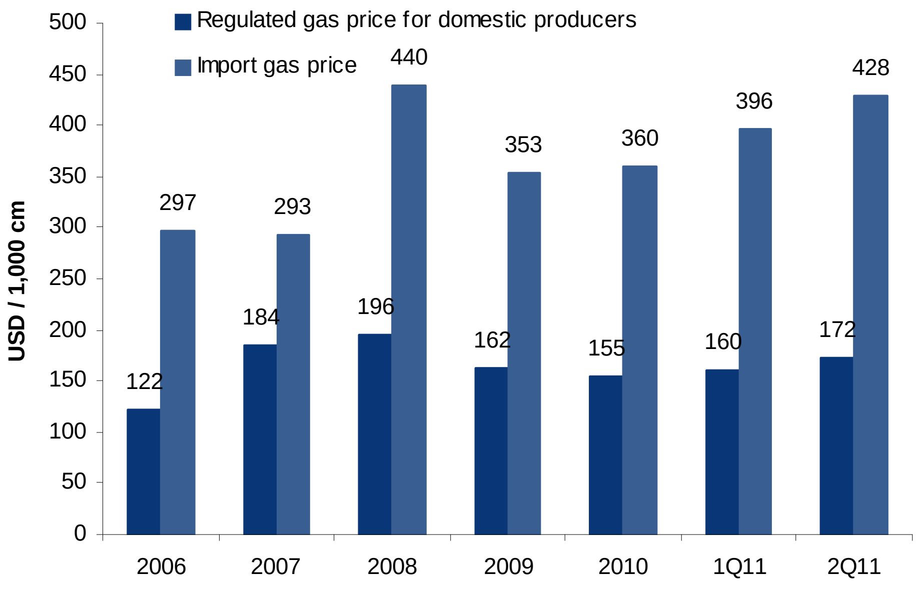
Main sources of natural gas for covering domestic production



Source: ANRE, Erste Group Research

The gas price for end customers is currently computed as a volume-weighted average of domestic and imported gas prices (basket price), to which transmission, distribution & supply tariffs are added. Domestic producers, covering roughly 83% of consumption last year and some 73% in January-August 2011, sell the gas at a regulated price (set by the Energy Authority) of RON 495/1,000cm (some USD 165/1,000 cm), whereas the average price of imported gas stood at around USD 428/1,000 cm this year.

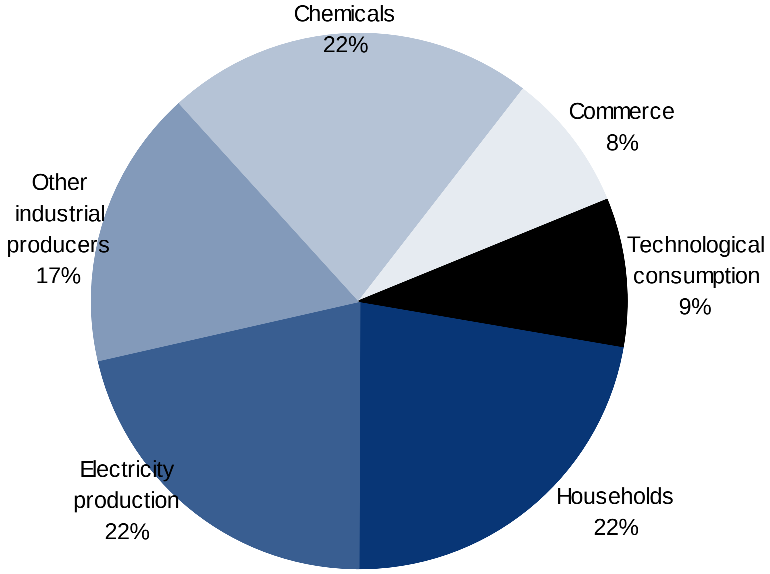
Import versus domestic gas price (USD/1,000 cm)



Source: Petrom, Erste Group Research

Although, theoretically, the price should be updated to reflect the weight of each source (domestic production and imports) in covering consumption, no such price adjustments were made in the last couple of years.
Under pressure from the IMF and EU, the price for end customers was raised by 10% starting in July 2011 and another 8% starting in October 2011, except for the general population and thermo plants (only for the gas corresponding to deliveries to the population). An additional 5% increase was already announced by the Energy Regulator starting in January 2012. Further increases next year, in the context of the global economic slowdown, would put significant pressure on the domestic industrial companies (weighing more than 60% in terms of total gas consumption), most of which need serious revamping in order to reduce energy and gas consumption.

Gas consumption breakdown (January – August 2011)

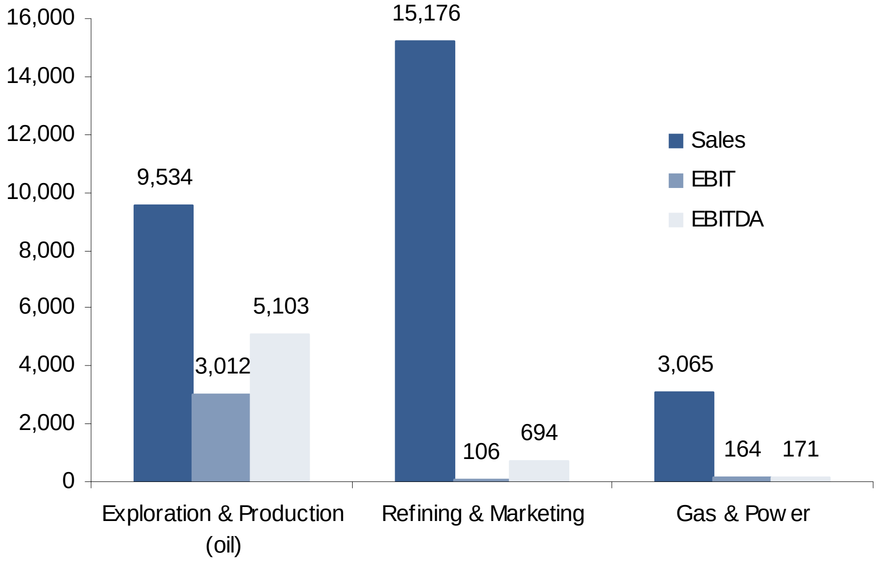


Source: ANRE, Erste Group Research

Given that an election year is ahead, we see rather poor chances for an aggressive gas price growth pace, especially for the general population, and for this reason we expect the phasing out of regulated gas prices to be carried out with a delay of at least three years to the schedule. Moreover, a few companies that are large employers in mono-industrial geographical areas are also large gas consumers, which makes it more difficult for there to be further (significant) gas price increases in 2012.

The gas price advance in the last few months was meant to counterbalance the higher import price, but not an increase of the domestic gas price. The two gas producers still sell the output at the price recommended by the Energy Authority. The effects of gas price deregulation will be more visible at Romgaz, given the company's sole focus on the gas market (exploration and storage), unlike Petrom, where the bulk of operating profit stems from the E&P business line; in terms of size, the profit from the G&E business line is currently less than 6% of the profit generated by the E&P.

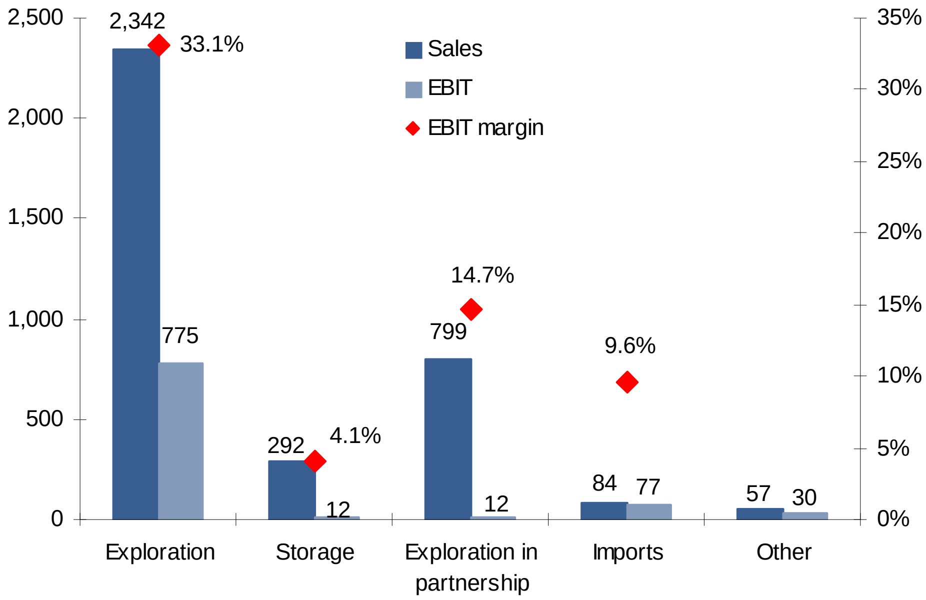
Petrom: key figures by business line (2010)



Source: Petrom, Erste Group Research

Even in the context of the state keeping the gas price for domestic producers at less than half the import price, Romgaz's operating margins from gas exploration (without considering exploration in partnership) stood at 33% in 2008 and 2010 and 24% in 2009. We draw attention to a particularity of this company, namely a so-called development reserve, a non-cash operating expense equal to up to 35% of revenues from gas production; the amount is aimed at investments and is not tax deductible. In our view, the discretion in setting the development reserves provides room for meeting certain profitability objectives and is also the main vulnerability in a forecasting scenario. For the first 10 months of 2011, the company announced 10.9% higher sales y/y (to RON 2.57bn) and 88% higher net profit (to RON 825mn), with a significant contribution to the profit jump most likely stemming from lower development reserve expenses incurred.

Romgaz: Key figures by business line (2010)



Source: Romgaz, Erste Group Research

Romgaz's valuation

We decided to value Romgaz via a specific metric, EV/2p boe reserves, which we link to the profitability of the company, computed as EBIT/2p boe reserves. A representative peer group of companies was selected and we have found that, in the case of these companies, there is a strong relationship between EV/2p boe reserves and EBIT/2p boe reserves. We have used the regression equation we derived in order to assign a fair value to Romgaz. We have also applied a discount (15%) in order to account for the fact that Romgaz operates only on the domestic market and sells at a low regulated price.

The multiples (P/E, EV/EBITDA and P/BV) computed with the fair value derived via the above-mentioned approach are below the peer group median (except for P/E10), supporting the valuation based on a specific metric approach. In terms of EV/Sales, Romgaz looks quite expensive, but when looking at this multiple, one must bear in mind that the regulated price phase-out process will have a large impact on the company's sales. In terms of the impact on operating profit, we believe it is difficult to quantify, because the cost structure will most likely see substantial changes once the price is deregulated (it is likely that the royalty for exploring gas reserves will undergo changes and that CAPEX will be much larger, due especially to the fact that the company has to deal with the pressing issue of its exploration fields being mature). In any case, keeping all things equal (in terms of production volume, royalty, development reserve, etc.), the deregulation of the gas price should result in almost triple the operating profit reported in 2010.

Peer group comparison

Company	P/E		EV/EBITDA		EV/Sales		P/BV	
	2009	2010	2009	2010	2009	2010	2009	2010
PGNIG	25.27	11.80	8.62	5.21	1.26	1.03	1.18	1.06
Petrom	16.40	6.93	4.33	3.79	1.11	1.18	0.87	1.03
Novatek OAO	37.69	23.85	10.00	12.56	4.49	5.93	8.78	6.29
Gazprom OAO	6.68	4.06	5.44	4.08	1.91	1.50	0.93	0.61
INA	nm	71.99	19.04	10.83	1.10	1.58	1.40	2.49
Median Peer Group	20.83	11.80	8.62	5.21	1.26	1.50	1.18	1.06
Romgaz	14.48	12.73	5.53	4.87	2.24	2.04	1.00	1.02
Prem/Disc to Peer Group	*-30%*	*8%*	*-36%*	*-7%*	*78%*	*36%*	*-15%*	*-4%*

Source: Fact Set, Erste Group Research

RAB-regulated utilities

With the exception of only one power distribution grid (CEZ Distributie), Fondul Proprietatea is a shareholder in all transmission & distribution companies in the electricity and gas business. The transmission companies Transelectrica and Transgaz are the only ones listed, with all distribution grids remaining unlisted. Four power distribution grids were privatized with E.ON and ENEL, while Suez Gas de France and E.ON hold majority stakes in the two gas distribution grids, covering more than 90% of the market. Only three power distribution companies are controlled by the government, which makes these eligible to become public companies.

Privatizations of electricity and gas distribution grids

Distribution company (name prior to privatization)	Buyer	Stake	Deal Value (EUR mn)	Value of 100% equity (EUR mn)	Privatization date
Distrigaz Sud	Gaz de France	51.0%	310.3	608.4	Oct-04
Distrigaz Nord	E.ON Ruhrgas A.G.	51.0%	303.0	594.1	Oct-04
Electrica Banat	ENEL	51.0%	69.1	135.5	Jul-04
Electrica Dobrogea	ENEL	51.0%	42.7	83.7	Jul-04
Electrica Moldova	E.ON Ruhrgas A.G.	51.0%	100.8	197.7	Apr-04
Electrica Oltenia	CEZ	51.0%	151.0	296.1	Apr-04
Electrica Muntenia Sud	ENEL	64.4%	858.0	1,331.8	Jun-04
Electrica Oltenia*	CEZ	49.0%	375.0	765.3	Sep-04

Source: Intellinews, Media

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

The lack of a listing outlook for the privatized power and gas grids makes Franklin Templeton willing to negotiate exit solutions from these companies with strategic investors. In order to progress with this process, the fund manager announced that investment bankers will be selected in the coming months. In all privatized distribution grids (four power grids and two gas grids), FP and the Romanian government are minority shareholders. This should be helpful for Franklin Templeton because it would make sense that the government exits jointly with FP from these companies. Even in these circumstances, we believe that the negotiating power of Franklin Templeton with strategic investors is limited, with the exception of the power grid held by E.ON (Moldova Distributie), where the privatization contract contains clauses referring both to put and call options that can be activated up to 2012.

We consider the transmission and distribution business in utilities as a LT source of stability and sustainable growth for FP assets. This is the most defensive business model in utilities, with a controlled profitability determined as a regulated return times the value of the regulated asset base (RAB). In a simple way, RAB are assets used for running the regulated activity (transmission/distribution) recognized by the regulatory authority.

Financial results

(RON mn)	Sales		EBITDA		EBIT		Net profit		Equity		Net debt	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
E.ON Moldova Distributie	630	626	163	282	81	190	54	165	822	1,003	15	-102
Electrica Distributie Muntenia Nord	611	596	107	106	28	27	25	27	1,056	1,082	-104	-126
Enel Distributie Muntenia	733	734	226	215	123	76	280	105	2,705	2,810	-1,855	-1,859
Electrica Distributie Transilvania Nord	496	510	112	107	21	14	14	9	768	777	-58	-11
Electrica Distributie Transilvania Sud	539	593	119	125	30	22	23	12	822	834	-38	-23
Enel Distributie Banat	526	556	218	239	140	160	151	148	1,152	1,313	-400	-462
Enel Distributie Dobrogea	391	408	141	160	85	107	92	100	807	908	-228	-266
E.ON Gaz Distributie	724	794	236	273	127	196	101	160	900	963	74	10
GDF Suez Energy Romania	3,629	3,764	564	328	447	206	380	199	2,522	2,701	295	66

Source: IntelliNews, Erste Group Research

Financial ratios

(RON mn)	EBITDA margin		EBIT margin		Net margin		ROE		ROA		Net debt/EBITDA	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
E.ON Moldova Distributie	26%	45%	14%	32%	9%	26%	7%	18%	3%	9%	0.1	-0.4
Electrica Distributie Muntenia Nord	17%	18%	5%	4%	4%	4%	2%	2%	2%	2%	-1.0	-1.2
Enel Distributie Muntenia	31%	29%	9%	5%	38%	14%	11%	4%	8%	3%	-8.2	-8.6
Electrica Distributie Transilvania Nord	23%	21%	4%	3%	3%	2%	2%	1%	1%	1%	-0.5	-0.1
Electrica Distributie Transilvania Sud	22%	21%	6%	4%	4%	2%	3%	1%	2%	1%	-0.3	-0.2
Enel Distributie Banat	41%	43%	28%	32%	29%	27%	14%	12%	10%	8%	-1.8	-1.9
Enel Distributie Dobrogea	36%	39%	22%	28%	24%	24%	12%	12%	8%	7%	-1.6	-1.7
E.ON Gaz Distributie	33%	34%	19%	29%	14%	20%	11%	17%	8%	11%	0.3	0.0
GDF Suez Energy Romania	16%	9%	12%	6%	10%	5%	16%	8%	10%	5%	0.5	0.2

Source: IntelliNews, Erste Group Research

These companies enjoy stable profitability, while indebtedness is very low. This is in accordance with one of the key methodology principles, namely that transmission tariffs approved by the regulator have to allow profitability high enough to finance CAPEX needs with own resources. In other words, the higher the CAPEX, the better the profitability, which should, in principle, translate into a sustainable growth story in the long term, considering the high capital expenditure needs for refurbishment and development of power and gas networks. The only (major) vulnerability of the business model in regulated utilities is how much the transmission and distribution tariffs are absorbable by the market, with these putting direct pressure on the final price of gas and electricity. However, in spite of the high regulatory risk, the profitability and effective indebtedness of the regulated utilities prove that they enjoy a friendly economic environment, allowing reasonable room for slow growth in the long term.

We used EV/RAB multiple as the key tool for valuing the RAB-regulated utilities, as this is connected with the profitability outlook. With the exception of Elia, European RAB-regulated utilities are traded at about a 20% premium to their RAB, which makes us confident to look for a conservative fair value for the Romanian power distribution grids at 10% and 30% discounts to RAB, respectively. The difference between the 10% discount considered for the four privatized power distribution grids and 30% discount considered for the three state-owned power grids is explained by the fact that ANRE approved differently regulated returns on RAB of 10% and 7%, respectively. These have a major impact on the profitability of the state-owned companies, which has to be reflected in their fair values. On the other hand, in the case of the valuation of the two gas distribution grids, we worked with a 50% premium to RAB, which we consider in accordance with their oligopolistic position on the regulated gas distribution market.

The low and even zero indebtedness of the Romanian RAB-regulated peers in comparison with their European peers, which are highly-geared companies, is another key reason to consider our judgments on the valuation side as reasonably conservative. On the other hand, as can be seen below, the values of usual trading multiples of the domestic regulated utilities are more than reasonable, considering the fair values assigned based on the RAB.

The value of electricity/gas distribution grids based on the RAB approach

Company	Cash 2010 (RON mn)	Financial debt 2010 (RON mn)	RAB 2010e (RON mn)	Target EV/RAB	Target EV (RON mn)	Fair Value of Equity (RON mn)	Fair Value of Equity (EUR mn)
E.ON Distributie Moldova	102.4	0.0	1,069.6	0.9	962.6	1,065.0	245.3
ENEL Distributie Muntenia	1,859.0	0.0	1,963.7	0.9	1,767.4	3,626.4	835.3
ENEL Distributie Banat	462.2	0.0	1,065.4	0.9	958.8	1,421.0	327.3
ENEL Distributie Dobrogea	265.8	0.0	906.7	0.9	816.0	1,081.8	249.2
Electrica Distributie Transilvania Nord	29.6	19.0	1,109.1	0.7	776.4	786.9	181.3
Electrica Distributie Transilvania Sud	23.0	0.0	1,146.7	0.7	802.7	825.7	190.2
Electrica Distributie Muntenia Nord	134.4	8.7	1,182.3	0.7	827.6	953.4	219.6
GDF Suez Energy Romania	363.7	430.0	2,106.3	1.5	3,159.5	3,093.2	712.5
E.ON Gaz Distributie	0.2	10.7	994.0	1.5	1,491.1	1,480.6	341.0

Source: Intellinews, Fondul Proprietatea, Erste Group Research

Romanian RAB-regulated utilities market multiples

Company	EV/Sales 2010	EV/EBITDA 2010	P/E 2010	P/BV 2010
E.ON Distributie Moldova	1.54	3.42	6.44	1.06
ENEL Distributie Muntenia	2.41	8.20	34.51	1.29
ENEL Distributie Banat	1.72	4.00	9.57	1.08
ENEL Distributie Dobrogea	2.00	5.11	10.86	1.19
Electrica Distributie Transilvania Nord	1.52	7.22	92.36	1.01
Electrica Distributie Transilvania Sud	1.35	6.43	69.21	0.99
Electrica Distributie Muntenia Nord	1.39	7.84	35.73	0.88
GDF Suez Energy Romania	0.84	9.62	15.51	1.15
E.ON Gaz Distributie	1.88	5.45	9.28	1.54

Source: Companies, Erste Group Research

European RAB-regulated peers

Company	Tara	EV/RAB	EV/EBITDA			PE			Randament div.		Net debt/EBITDA
		2010	2010	2011e	2012e	2010	2011e	2012e	2011e	2012e	2010
Elia system Operator	Belgium	0.57	10.51	9.66	9.82	13.38	14.97	14.82	4.8%	5.0%	6.23
Red Electrica de Espana	Spain	n.a.	9.50	7.98	7.42	11.58	9.94	8.93	6.5%	7.2%	4.74
Terna	Italy	1.22	9.41	8.77	9.09	11.87	14.37	14.37	7.7%	7.0%	4.32
Federal Grid Company	Russia	0.72	7.50	6.16	6.06	20.65	10.43	9.88	0.0%	61.0%	0.67
Snam Rete Gas	Italy	1.13	9.30	9.10	9.10	10.64	12.42	12.16	6.9%	7.2%	3.55
National Grid	UK	1.40	7.95	8.69	8.36	12.26	12.89	11.76	6.2%	6.5%	3.75
Redes Energeticas Nacionais	Portugal	1.18	8.28	7.41	7.12	9.86	8.63	7.67	8.2%	8.2%	4.59
Median peer group		1.15	9.30	8.69	8.36	11.87	12.42	11.76	6.5%	7.2%	4.32

Source: Erste Group Research, Fact Set

APPENDIX

HIDROELECTRICA

Not listed			
Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	80%	RONmn	12,109
Fondul Proprietatea	20%	EURmn	2,803

Source: 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 was the case in 2010, which was, however, an exceptional one, with production of 19.7 TWh.

On the contrary, 2011 was a drought year, with the company's profitability severely affected by its non-commercial practice of selling over 60% of its output based on direct contracts at prices well below the wholesale power market. Moreover, over 20% of its production is sold on the regulated market at a price below its production cost. Preferential contracts signed with electricity traders and direct consumers are due between 2015 and 2018, but under the current pressure from the IMF and European Commission, there are hopes for a gradual reduction of their weight in total production starting in 2012. The liberalization of the power market imposed by the IMF and EU for non-household consumers by 2013 is the main hope for a progressive improvement of profitability.

The total installed capacity is 6,438.7 MW (pumping stations included). The most valuable asset is Iron Gates I, with an installed capacity of 1,050 MW, which provides 10% of the national electricity output and 30% of the electricity produced by the company. The six hydro units at Iron Gates I (6*175 = 1,050 MW) were modernized in 2007, the equipment being operational for a new lifecycle of 30 years.

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. In consequence, there are major opportunities in hydro generation, especially in 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 in Dobrogea. A strategic national project of Hidroelectrica is being developed in partnership with foreign investors in the Tarnita-Lapustesti pumped storage hydropower plant, with an installed capacity of 1,000 MW. This will supply peak electric energy for both domestic and foreign markets, where there is high demand for this type of product.

The company has a pivotal role in the National Energy System, as the main system services provider in 2010 and covering 73% of the secondary control reserves and 84% of the rapid tertiary reserve.

Key figures (RON mn)	2008	2009	2010
Sales	2,443.55	2,420.80	3,273.70
EBITDA	849.83	816.83	1,377.01
EBIT	206.59	161.96	502.79
Interest expenses	74.90	69.13	85.42
Financial result	-126.41	-96.45	-112.54
Gross result	80.19	65.51	390.25
Net result	65.12	48.38	292.37
Non current assets	19,337.86	22,601.97	19,667.19
Inventories	54.09	58.29	79.47
Receivables	425.53	300.87	297.12
Cash	128.70	28.14	99.89
Trade payables	1,052.87	1,036.55	888.10
Total assets	19,946.95	22,989.89	20,144.46
Total shareholder equity	13,877.82	16,481.23	16,822.36
Bank debt	1,020.94	1,481.01	1,901.40
Total liabilities	5,959.17	6,398.93	3,220.13

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	18.58%	-0.93%	35.23%
EBITDA (y/y, %)	3.96%	-3.88%	68.58%
EBIT (y/y, %)	44.81%	-21.61%	210.45%
EBITDA margin	34.78%	33.74%	42.06%
EBIT margin	8.45%	6.69%	15.36%
Gross margin	3.28%	2.71%	11.92%
Net margin	2.66%	2.00%	8.93%
ROE	0.47%	0.29%	1.74%
ROA	0.33%	0.21%	1.45%
ROIC	0.35%	0.22%	1.53%
Current ratio	0.36	0.22	0.28
Quick ratio	0.32	0.18	0.23
Debt/(Debt+Equity)	6.85%	8.25%	10.16%
Equity ratio	69.57%	71.69%	83.51%
Net debt/EBITDA	1.05	1.78	1.31
EBITDA/ Interest Exp	11.35	11.82	16.12

Source: Intelli News, Erste Group Research

NUCLEARELECTRICA

Not listed			
Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	90%	RONmn	4,337
Fondul Proprietatea	10%	EURmn	1,005

Source:Erste Group Research

Company description

Nuclearelectrica was set up in July 1998 and is organized into two branches: the Cernavoda Nuclear Power Plant branch, which operates units 1 and 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 company benefits from very experienced and highly professional staff, which is a key requirement in the nuclear industry (the professional qualification and training procedures can last as long as six years).

Nuclearelectrica has a market share of about 18%, with annual production of about 10 TWh. 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. However, the commercial policy imposed by the government keeps the company's profitability well below potential, with over 60% of output sold on the regulated market at prices close to production costs. The power market reform assumed in the current precautionary agreement with the IMF should result in a higher quantity of electricity sold on the wholesale power exchange as a result of a gradual and substantial contraction of the regulated market starting in 2012.

Units 3 and 4, each with an installed capacity of 706.5 MW, have been undergoing preservation work since 1992. The overall completion rate is almost 15% and 12%, respectively, representing mainly civil work 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 government is again trying to convince foreign investors to join the project by March 2012; CEZ, GDF Suez, Iberdrola and RWE left the joint venture company due to government indecision regarding its effective contribution. Under the circumstances, it seems that the government will agree not to hold a majority stake in the joint venture company. ArcelorMittal Galati and ENEL are currently the only partners with the government for building reactors 3 and 4, which will be ready for commercial operation in 2017 at the earliest.

Key figures (RON mn)	2008	2009	2010
Sales	1,451.93	1,526.66	1,514.72
EBITDA	659.28	692.58	560.35
EBIT	320.54	325.31	179.30
Interest expenses	137.63	87.33	44.84
Financial result	-196.83	-261.46	-156.11
Gross result	123.71	63.85	23.19
Net result	103.04	49.36	16.09
Non current assets	8,148.96	7,953.95	9,039.42
Inventories	931.48	1,299.50	390.33
Receivables	144.79	209.91	386.23
Cash	394.28	494.70	474.41
Trade payables	142.39	116.48	145.51
Total assets	9,626.11	9,963.22	10,297.27
Total shareholder equity	6,897.00	7,253.75	7,562.12
Bank debt	2,525.09	2,527.52	2,490.41
Total liabilities	2,707.82	2,677.09	2,708.84

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	59.62%	5.15%	-0.78%
EBITDA (y/y, %)	66.14%	5.05%	-19.09%
EBIT (y/y, %)	70.84%	1.49%	-44.88%
EBITDA margin	45.41%	45.37%	36.99%
EBIT margin	22.08%	21.31%	11.84%
Gross margin	8.52%	4.18%	1.53%
Net margin	7.10%	3.23%	1.06%
ROE	1.49%	0.68%	0.21%
ROA	1.07%	0.50%	0.16%
ROIC	1.14%	0.53%	0.17%
Current ratio	3.67	6.26	3.13
Quick ratio	1.35	2.20	2.16
Debt/(Debt+Equity)	26.80%	25.84%	24.77%
Equity ratio	71.65%	72.81%	73.44%
Net debt/EBITDA	3.23	2.94	3.60
EBITDA/ Interest Exp	4.79	7.93	12.50

Source: Intelli News, Erste Group Research

CE TURCENI

Not listed			
Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	75%	RONmn	1,164
Fondul Proprietatea	25%	EURmn	270
Termoelectrica	1%		

Source: 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 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 under the program of the Romanian electricity sector in preparation for the interconnection to the UCTE. CE Turceni owns its own lignite mines, which cover about 70% of the lignite used in the production cycle.

Rehabilitation and environmental work is currently in progress for units 3 and 6. Installation of FDG equipment was finished for unit 4 and unit 5, while in the case of units 3 and 6 these will become operational by 2013. The modernization and environment CAPEX, together with the impact of CO2 permit costs starting with 2013, is expected to put substantial pressure on generation cost efficiency.

The government protects the company by securing the sale of more than 50% of output on the regulated market at prices above those recognized for hydro and nuclear power producers. The weight of electricity sold in 2010 on the wholesale power market was 19% of total production. In the context of lower production from hydro sources, CE Turceni produced a 35% higher quantity of electricity in 1-3Q11. Sales advanced almost 50% y/y, with net profit of RON 31mn (compared to a loss of RON 65mn in 9M10).

CE Turceni could play an important role on secondary markets (such as capacity markets, reserve markets, usual physical contracts excluded), ensuring 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 significant, as numerous electricity traders make offers at the Iron Gates interconnection point.

Under the current IMF precautionary agreement, the Ministry of the Economy and Franklin Templeton have agreed to create a thermo power complex, Oltenia, which will include CE Turceni, CE Rovinari and CE Craiova, in which Fondul Proprietatea is a minority shareholder.

Key figures (RON mn)	2008	2009	2010
Sales	1,281.38	1,125.50	1,043.71
EBITDA	188.00	238.38	198.37
EBIT	65.87	30.17	4.78
Interest expenses	2.78	4.60	2.43
Financial result	-19.65	5.74	-68.38
Gross result	46.22	35.92	-63.60
Net result	19.95	21.28	-69.30
Non current assets	2,293.38	2,326.85	2,769.32
Inventories	100.27	116.93	118.26
Receivables	264.02	281.02	237.80
Cash	54.55	65.11	63.98
Trade payables	81.92	157.39	210.39
Total assets	2,712.99	2,790.74	3,206.91
Total shareholder equity	2,114.52	2,138.59	2,108.24
Bank debt	95.55	154.37	585.99
Total liabilities	447.66	545.45	1,007.01

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	24.48%	-12.16%	-7.27%
EBITDA (y/y, %)	-12.51%	26.80%	-16.78%
EBIT (y/y, %)	-34.29%	-54.19%	-84.16%
EBITDA margin	14.67%	21.18%	19.01%
EBIT margin	5.14%	2.68%	0.46%
Gross margin	3.61%	3.19%	-6.09%
Net margin	1.56%	1.89%	-6.64%
ROE	0.94%	1.00%	-3.29%
ROA	0.74%	0.76%	-2.16%
ROIC	0.77%	0.83%	-2.36%
Current ratio	2.45	1.96	1.47
Quick ratio	1.86	1.47	1.05
Debt/(Debt+Equity)	4.32%	6.73%	21.75%
Equity ratio	77.94%	76.63%	65.74%
Net debt/EBITDA	0.22	0.37	2.63
EBITDA/ Interest Exp	67.73	51.79	81.65

Source: Intelli News, Erste Group Research

CE ROVINARI

Not listed			
Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	76%	RONmn	779
Fondul Proprietatea	24%	EURmn	180
Termoelectrica	1%		

Source: 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 4-6 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, which are supplied from mining 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. The company covers over 80% of the lignite used in production cycle from its own production.

Installation of FDG equipment was finished for unit 3 and unit 6, while units 4 and 5 will become operational by 2013. The company is attempting to draw EU funds in order to finance the acquisition of desulphurization equipment for units 4 and 5. The modernization and environment CAPEX, together with the impact of CO2 permit costs starting in 2013, is expected to put substantial pressure on generation cost efficiency.

CE Rovinari sold 37% of its output from 2010 on the regulated market at a price of RON 143/MWh, significantly over the price recognized by regulator ANRE for hydro and nuclear producers.The average selling price in 2010 was RON 153/MWh.

Under the current IMF precautionary agreement, the Ministry of the Economy and Franklin Templeton have agreed to create a thermo power complex, Oltenia, which will include CE Turceni, CE Rovinari and CE Craiova, in which Fondul Proprietatea is a minority shareholder.

Key figures (RON mn)	2008	2009	2010
Sales	957.31	845.41	794.63
EBITDA	73.71	76.11	119.13
EBIT	14.01	13.66	32.04
Interest expenses	1.94	3.83	20.74
Financial result	6.17	-2.92	-22.14
Gross result	20.18	10.74	9.90
Net result	1.04	5.64	0.59
Non current assets	1,047.03	1,426.71	1,753.94
Inventories	139.68	105.30	70.25
Receivables	72.02	73.42	89.94
Cash	44.40	26.41	68.09
Trade payables	96.82	103.51	46.30
Total assets	1,304.32	1,633.14	1,983.55
Total shareholder equity	853.61	1,064.66	1,229.59
Bank debt	50.36	184.01	425.39
Total liabilities	305.08	415.14	598.90

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	17.96%	-11.69%	-6.01%
EBITDA (y/y, %)	-47.04%	3.25%	56.52%
EBIT (y/y, %)	-84.31%	-2.49%	134.55%
EBITDA margin	7.70%	9.00%	14.99%
EBIT margin	1.46%	1.62%	4.03%
Gross margin	2.11%	1.27%	1.25%
Net margin	0.11%	0.67%	0.07%
ROE	0.12%	0.53%	0.05%
ROA	0.08%	0.35%	0.03%
ROIC	0.09%	0.38%	0.03%
Current ratio	1.20	0.89	1.20
Quick ratio	0.55	0.43	0.83
Debt/(Debt+Equity)	5.57%	14.74%	25.70%
Equity ratio	65.44%	65.19%	61.99%
Net debt/EBITDA	0.08	2.07	3.00
EBITDA/ Interest Exp	37.92	19.89	5.74

Source: Intelli News, Erste Group Research

CE CRAIOVA

Not listed			
Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	71%	RONmn	736
Fondul Proprietatea	24%	EURmn	170
Others (2 companies)	4%		

Source: Erste Group Research

Company description

CE Craiova has an installed capacity of 930 MW. The Isalnita power plant has an installed capacity of 630 MW and a current operational capacity of 600 MW, while the 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 the city of Craiova, one of the newest in Romania. Its two units were commissioned in 1987 and 1989, respectively. Installation of FDG equipment and other environmental capital expenditures, which has to be done by 2013 in order to meet EU standards, seems to be delayed.

The main lignite supplier is SN Lignitului, covering about 80% of production needs, the remaining being supplied by lignite from its coal mine Prigoria. 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.

The company enjoys a better selling price on the regulated market compared to the other lignite-fired producers, with a large part of the output being sold on the wholesale power exchange. This explains why the selling price of RON 247/MWh is double that of Hidroelectrica and significantly more than that of Nuclearelectrica, CE Turceni and CE Rovinari. The modernization and environment CAPEX, together with the impact of CO2 permits costs starting with 2013, is expected to put further major pressure on generation cost efficiency. A specific issue is the long receivables collection period, due to delayed payments made by the city of Craiova for the heating energy provided.

The company had plans to add another hard coal condensing group of 500 MW at the 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 was also 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.

Under the current IMF precautionary agreement, the Ministry of the Economy and Franklin Templeton have agreed to create a thermo power complex, Oltenia, which will include CE Turceni, CE Rovinari and CE Craiova, in which Fondul Proprietatea is a minority shareholder.

Key figures (RON mn)	2008	2009	2010
Sales	1,068.63	1,132.42	1,097.81
EBITDA	73.63	75.53	86.23
EBIT	4.39	-0.68	11.15
Interest expenses	0.16	2.78	6.19
Financial result	0.71	2.91	-7.01
Gross result	5.11	2.23	4.15
Net result	3.62	0.34	0.24
Non current assets	999.48	1,134.83	1,139.45
Inventories	101.37	126.72	156.23
Receivables	258.55	313.81	298.92
Cash	33.62	5.74	7.52
Trade payables	237.94	307.84	277.57
Total assets	1,393.16	1,581.24	1,602.25
Total shareholder equity	1,080.57	1,097.46	1,095.35
Bank debt	36.28	137.28	182.20
Total liabilities	296.09	475.25	491.93

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	24.01%	5.97%	-3.06%
EBITDA (y/y, %)	-6.08%	2.59%	14.17%
EBIT (y/y, %)	-59.02%	-115.46%	-1742.30%
EBITDA margin	6.89%	6.67%	7.85%
EBIT margin	0.41%	-0.06%	1.02%
Gross margin	0.48%	0.20%	0.38%
Net margin	0.34%	0.03%	0.02%
ROE	0.34%	0.03%	0.02%
ROA	0.26%	0.02%	0.02%
ROIC	0.32%	0.03%	0.02%
Current ratio	1.54	1.16	1.17
Quick ratio	1.14	0.83	0.77
Debt/(Debt+Equity)	3.25%	11.12%	14.26%
Equity ratio	77.56%	69.41%	68.36%
Net debt/EBITDA	0.04	1.74	2.03
EBITDA/ Interest Exp	462.49	27.18	13.92

Source: Intelli News, Erste Group Research

TRANSELECTRICA

Ticker	TEL	Market capitalization		3M daily turnover	
Erste Group rating	Accumulate	RONmn	1,275.47	RON	96,459
Target price (RON)	19.5	EURmn	295.27	EUR	22,330
Share price	17.4	Share price performance			
Free float	12.8%	1M	6M	12M	YTD
Main shareholders:		4%	-22%	-10%	n.a.
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 service, which is approved by the regulator ANRE based on a Regulated Assets Base (RAB) mechanism. The regulatory formula allows controlled profitability determined as a product of the regulated return (currently 7.5%) and regulated asset base (RAB). This means the higher the CAPEX, the better the profitability, which should translate into a sustainable growth story.

We believe that regulator ANRE has no alternative other than to allow the TSO to absorb, via the transmission tariff, an extensive CAPEX effort of about EUR 1.1bn by 2017, in order to achieve the national power strategy objectives. Our estimates indicate that this substantial CAPEX effort may be covered to a great extent by a sustainable transmission tariff increase of about 5.5% between 2012 and 2017, while keeping the indebtedness level at a comfortable level, substantially below its peers'.

After the weak FY09 and FY10, Transelectrica will enjoy an excellent FY11, on the back of an advance of the business in volume terms and especially the increase of the transmission tariff by 10.4%. In our view, a scenario with controlled profitability guaranteed by a methodology more than two times higher than EBIT, as in 2009 and 2010, is not at all repeatable. For the company to be profitable, it is required that it converge towards the allowed return on RAB (excluding the impact of correction factors applied from one year to another during a regulatory period of five years).

In this context, we believe that EBIT will stabilize at over RON 200mn starting in FY11, helped by the surprising 2011 transmission tariff growth.

Key figures (RON mn)	2008	2009	2010
Sales	1,924.51	2,485.13	2,545.72
EBITDA	443.78	350.32	351.00
EBIT	204.18	100.03	79.55
Interest expenses	57.92	40.29	30.98
Financial result	-53.51	-83.12	-56.88
Gross result	53.51	11.26	21.74
Net result	41.94	6.14	9.56
Non current assets	3,307.87	3,409.38	3,605.19
Inventories	34.33	35.07	38.73
Receivables	833.36	618.82	667.12
Cash	206.50	151.70	95.36
Trade payables	644.38	452.76	528.11
Total assets	4,383.78	4,218.67	4,454.48
Total shareholder equity	2,367.71	2,351.63	2,355.44
Bank debt	961.57	951.60	1,000.80
Total liabilities	1,997.15	1,856.21	2,096.29

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	-16.00%	29.13%	2.44%
EBITDA (y/y, %)	21.98%	-21.06%	0.19%
EBIT (y/y, %)	28.58%	-51.01%	-20.47%
EBITDA margin	23.06%	14.10%	13.79%
EBIT margin	10.61%	4.02%	3.13%
Gross margin	2.78%	0.45%	0.85%
Net margin	2.18%	0.25%	0.38%
ROE	1.77%	0.26%	0.41%
ROA	0.96%	0.15%	0.21%
ROIC	15.86%	0.17%	0.25%
Current ratio	1.28	1.17	1.06
Quick ratio	1.24	1.12	1.01
Debt/(Debt+Equity)	28.88%	28.81%	29.82%
Equity ratio	54.01%	55.74%	52.88%
Net debt/EBITDA	1.70	2.28	2.44
EBITDA/ Interest Exp	7.66	8.70	11.33

Source: Intelli News, Erste Group Research

OMV PETROM

Ticker	SNP	Market capitalization		3M daily turnover	
Erste Group rating	Accumulate	RONmn	16,426.79	RON	737,451
Target price (RON)	0.38	EURmn	3,802.76	EUR	170,718
Share price	0.29	Share price performance			
Free float	8.2%	1M	6M	12M	YTD
Main shareholders:		0%	-26%	-13%	n.a.
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 the country's output. The company holds approx. 832boe proven reserves and 1.17mn boe proved and probable reserves. In Romania, Petrom holds exploration licenses for 15 onshore and two 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 seven offshore production platforms in the Black Sea.

With a strong upstream profile, Petrom's operating profitability is highly sensitive to the crude oil price. Its annual production is about 4.6mn tons crude oil & LNG and 5.2 bcm gas. Following extensive CAPEX on the E&P side, the natural decline of oil & gas production stabilized to daily production of 184,000 boe/d (reserve replacement rate in Romania of about 70%).

The Arpechim refinery was shut down, 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 801 filling stations in Romania and abroad.

The company is investing EUR 500mn in the greenfield combined cycle gas turbine (CCGT), with an installed capacity of 860 MW, which will catch about 10% of the power market starting with 2012. It will enjoy very good market opportunities, practically replacing old thermo units with unsustainable generation costs. In this manner, Petrom will become partly vertically integrated on the gas business line. This will have a positive impact on profitability, allowing the company to generate much higher value added for a substantial part of its gas production (even if the government forces Petrom to partly use imported gas to fuel its CCGT, like any industrial consumer).

On the other hand, a positive and direct impact on the profitability of the gas and power business line should gradually come from the liberalization of the power & gas market, under pressure from the IMF and EU, and with the end of 2013 as the deadline assumed by the government for non-household consumers.

Key figures (RON mn)	2009	2010	1-3Q11
Sales	16,089.72	18,615.69	16,223.62
EBITDA	4,086.75	5,797.13	5,850.54
EBIT	1,620.48	2,985.51	3,754.07
Interest expenses	216.24	537.00	174.36
Financial result	-451.05	-380.19	-226.47
Gross result	1,169.42	2,605.32	3,527.60
Net result	833.28	2,189.65	2,920.80
Non current assets	25,940.19	27,725.36	29,171.03
Inventories	2,582.69	2,500.12	2,532.32
Receivables	1,047.74	1,397.98	1,484.30
Cash	384.00	1,588.60	745.69
Trade payables	2,295.41	3,453.35	2,661.93
Total assets	30,526.63	34,765.26	35,275.86
Total shareholder equity	16,190.83	18,459.04	20,426.01
Bank debt	2,997.97	3,857.05	2,878.24
Total liabilities	13,296.60	15,352.51	13,794.67

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	34.71%	-20.06%	15.70%
EBITDA (y/y, %)	14.04%	5.99%	41.85%
EBIT (y/y, %)	-36.60%	34.49%	84.24%
EBITDA margin	19.16%	25.40%	31.14%
EBIT margin	5.99%	10.07%	16.04%
Gross margin	5.61%	7.27%	14.00%
Net margin	4.45%	5.18%	11.76%
ROE	5.60%	5.15%	11.86%
ROA	3.10%	2.73%	6.30%
ROIC	3.73%	3.19%	7.79%
Current ratio	1.42	1.25	1.36
Quick ratio	0.72	0.55	0.82
Debt/(Debt+Equity)	10.25%	15.62%	17.28%
Equity ratio	55.29%	53.04%	53.10%
Net debt/EBITDA	0.13	0.50	0.25
EBITDA/ Interest Exp	135.56	18.90	10.80

Source: Intelli News, Erste Group Research

ROMGAZ

Not listed			
Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	85%	RONmn	8,289
Fondul Proprietatea	15%	EURmn	1,919

Source: Erste Group Research

Company description

Romgaz, jointly with Petrom, is Romania's main gas producer, with the cumulative output of the two companies accounting for over 95% of domestic natural gas production. Unlike Petrom, which produces both oil and natural gas, Romgaz is solely involved in the gas business. The company's 2p reserves, according to its representatives, are estimated at about 471 mmboe. Last year, the company's output amounted to 64.3 TWh, representing 53% of domestic production and covering some 44% of demand. In January-August 2011, gas production stood at 34.6 TWh, covering 49% of domestic production and some 36% of total consumption.

The gas is sold by the two companies at a regulated price, which has, however, been kept unchanged since mid-2008 at RON 495/1,000 cm, which is below 40% of the imported gas price. Keeping the domestic gas price at a level as low as possible meant allowing the authorities to maintain the final gas price to consumers at an affordable level. As already mentioned above, end customers pay a basket price, computed based on both the domestic and imported gas price and weighted with each source's contribution to covering consumption. Tariffs for transmission, distribution and supply are also added.

Romania assumed, in its negotiations with the IMF and EU, the phasing out of the regulated gas price by 2013 for industrial consumers and by 2015 for all consumers. As a result, the gas price for industrials was raised by 10% starting in July 1, 2011, followed by an additional 8% hike starting in October, while another 5% was announced by the Energy Authority starting in January 1, 2012. Owing to the fact that most of the largest industrial consumers are operating in non-industrial areas, a significant increase in the gas price in the next couple of years will generate large social pressures. This is the reason why we believe that gas price liberalization will take place with a delay of at least three years to the schedule assumed by authorities.

Even with a delay, Romgaz should strongly benefit from the gas price liberalization. Based on our calculations, and with all things being equal in terms of the royalty and wage levels, the maximum threshold for the development reserve (non-cash expenses representing the funds that the company is allowed to retain for funding development plans) and the company's operating profit might increase by almost 3x compared with 2010 EBIT. Removing the regulated gas price would also allow the company to fund the huge CAPEX needs, considering the severe decline in the company's natural gas reserves, due to intensive exploitation and a lack of investment in the discovery of new gas reserves.

Key figures (RON mn)	2008	2009	2010
Sales	3,280.21	3,193.50	3,574.22
EBITDA	1,061.94	1,291.97	1,497.81
EBIT	719.19	716.87	905.59
Interest expenses	2.25	1.88	1.67
Financial result	134.31	114.07	-13.20
Gross result	853.41	830.94	892.16
Net result	537.30	572.46	651.21
Non current assets	5,177.98	5,515.86	5,432.05
Inventories	524.69	1,076.18	1,094.66
Receivables	723.45	1,300.07	1,402.54
Cash	1,044.43	773.77	63.08
Trade payables	120.24	195.02	80.72
Total assets	8,259.44	9,060.46	8,944.97
Total shareholder equity	7,584.57	8,308.49	8,138.80
Bank debt	22.31	17.82	13.23
Total liabilities	422.81	471.51	485.81

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	0.26%	-2.64%	11.92%
EBITDA (y/y, %)	0.05%	21.66%	15.93%
EBIT (y/y, %)	-5.38%	-0.32%	26.32%
EBITDA margin	32.37%	40.46%	41.91%
EBIT margin	21.93%	22.45%	25.34%
Gross margin	26.02%	26.02%	24.96%
Net margin	16.38%	17.93%	18.22%
ROE	7.08%	6.89%	8.00%
ROA	6.51%	6.32%	7.28%
ROIC	8.91%	7.69%	8.72%
Current ratio	7.66	7.78	7.28
Quick ratio	6.36	5.41	5.01
Debt/(Debt+Equity)	0.29%	0.21%	0.16%
Equity ratio	91.83%	91.70%	90.99%
Net debt/EBITDA	-1.70	-0.89	-0.67
EBITDA/ Interest Exp	471.64	688.88	895.57

Source: Intelli News, Erste Group Research

TRANSGAZ

Ticker	TGN	Market capitalization		3M daily turnover	
Erste Group rating	Accumulate	RONmn	2,629.69	RON	225,660
Target price (RON)	235	EURmn	608.77	EUR	52,240
Share price	223.35	Share price performance			
Free float	11.5%	1M	6M	12M	YTD
Main shareholders:		9%	-6%	-20%	n.a.
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), with the company's main activity being the transportation 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 transport of natural gas to domestic consumers is regulated by the Energy Authority (ANRE), with tariffs set on an annual basis (i.e., the gas year starts July 1 and ends June 30, the next calendar year) on the basis of a revenue cap methodology. Theoretically, the tariffs should allow the company to cover the costs incurred from the regulated activity and earn a profit equal to the regulated rate of return (RRR) of 7.88% for the current regulatory period (a 5-year time frame that started mid-2007) times the regulated asset base (RAB), represented by assets employed in the regulated activity. The authority failed to update tariffs for the last couple of gas years. However, the company's result from this activity was helped by the high volume of gas transported.

The international transit with Gazprom and Bulgargas is run on the basis of three contracts denominated in USD and EUR, which puts the company at an advantage when the LC depreciates, especially against the USD, with revenues in this currency accounting for some two thirds of total revenues from transit.

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. Thus, the company faces a double regulatory risk: 1) the risk that tariffs for gas transportation are not set according to the methodology by ANRE and 2) the risk that the royalty fee will be raised. The royalty fee is recognized by the revenue cap methodology and thus, sooner or later, an increase should be transferred to the clients via tariffs.

Transgaz is one of the strongest dividend players on the BSE, with a payout ratio of at least 50%, like all state-owned companies. For FY10, the company paid out 90% of profit as dividends and we expect a similar level for FY11.

Key figures (RON mn)	2009	2010	1-3Q11
Sales	1,187.35	1,313.00	940.49
EBITDA	472.70	578.93	438.53
EBIT	345.15	443.66	327.93
Interest expenses	12.65	5.46	6.43
Financial result	16.13	7.84	11.89
Gross result	361.28	451.50	339.81
Net result	298.63	376.35	283.93
Non current assets	2,956.72	3,275.07	3,259.23
Inventories	34.96	27.65	39.53
Receivables	245.30	333.72	185.73
Cash	196.57	25.76	38.47
Trade payables	112.33	154.52	0.00
Total assets	3,434.89	3,835.59	4,025.13
Total shareholder equity	2,363.37	2,586.43	2,531.62
Bank debt	100.85	117.65	0.00
Total liabilities	1,040.23	1,217.92	1,462.08

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	7.81%	6.02%	10.58%
EBITDA (y/y, %)	6.42%	28.85%	22.47%
EBIT (y/y, %)	3.35%	23.11%	28.54%
EBITDA margin	32.76%	39.81%	44.09%
EBIT margin	25.03%	29.07%	33.79%
Gross margin	25.41%	30.43%	34.39%
Net margin	21.30%	25.15%	28.66%
ROE	10.90%	12.64%	14.55%
ROA	7.27%	8.69%	9.81%
ROIC	8.49%	9.55%	10.80%
Current ratio	1.72	1.42	1.56
Quick ratio	1.60	1.31	1.49
Debt/(Debt+Equity)	7.26%	4.09%	4.35%
Equity ratio	66.71%	68.80%	67.43%
Net debt/EBITDA	-0.43	-0.20	-0.14
EBITDA/ Interest Exp	22.12	37.38	105.99

Source: Intelli News, Erste Group Research

AEROPORTURI BUCURESTI (Otopeni & Baneasa)

Not listed				
Main shareholders:		Fair Value of Equity (Erste Group Research)		
Ministry of Transports	80%		RONmn	1,517
Fondul Proprietatea	20%		EURmn	351

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, with more than 7mn passengers in 2010. It was set up in late 2010 through the merger of the two companies that separately operated these airports. The plan is that, in the coming couple of years, the traffic from Baneasa will be moved to Otopeni, once the ongoing enlargement and modernization work 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 total traffic at this airport in the future.

Henri Coanda airport is by far the largest civil airport, with a share of roughly 50% of the national air traffic last year, similar to the previous year. The number of passengers at this airport significantly advanced from last year, by 10% y/y, to 4.9mn. Among the main airlines operating at the Henri Coanda airport are Tarom, Aegean Airlines, Lufthansa, Austrian Airlines, etc.

Low-cost airlines mainly operate out of Aurel Vlaicu airport. The traffic at this airport increased by 7.5% y/y in 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 in 1-3Q11 reached 5.7mn passengers, marking a 6% advance y/y. According to market representatives, an annual increase of 6.9% of the passenger number in Romania is envisaged for the period 2011-14, with the largest contribution coming from the two Bucharest-based airports.

Key figures (RON mn)	2008	2009	2010
Sales	296.52	304.51	396.81
EBITDA	156.95	137.67	164.75
EBIT	78.94	57.80	54.19
Interest expenses	0.00	0.23	0.19
Financial result	38.34	13.81	4.34
Gross result	117.28	71.61	58.53
Net result	103.14	59.47	42.55
Non current assets	1,501.74	7,482.35	7,536.40
Inventories	21.97	17.10	12.27
Receivables	56.38	81.48	92.90
Cash	90.38	75.83	62.11
Trade payables	11.95	131.12	172.26
Total assets	1,706.17	7,658.73	7,704.47
Total shareholder equity	941.56	5,038.55	4,972.86
Bank debt	128.41	12.37	0.00
Total liabilities	747.41	2,577.91	2,667.75

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	13.44%	2.70%	30.31%
EBITDA (y/y, %)	-2.08%	-12.28%	19.67%
EBIT (y/y, %)	-24.76%	-26.78%	-6.24%
EBITDA margin	52.93%	45.21%	41.52%
EBIT margin	26.62%	18.98%	13.66%
Gross margin	39.55%	23.51%	14.75%
Net margin	34.78%	19.53%	10.72%
ROE	10.95%	1.18%	0.86%
ROA	6.04%	0.78%	0.55%
ROIC	6.62%	0.80%	0.57%
Current ratio	1.46	1.14	0.87
Quick ratio	1.31	1.03	0.81
Debt/(Debt+Equity)	12.00%	0.24%	0.00%
Equity ratio	55.19%	65.79%	64.55%
Net debt/EBITDA	0.02	-0.46	-0.38
EBITDA/ Interest Exp		607.11	854.39

Source: Intelli News, Erste Group Research

ALRO

Ticker	ALR	Market capitalization		3M daily turnover	
Erste Group rating	N.R.	RONmn	2,319.78	RON	23,095
Target price (RON)	-	EURmn	537.02	EUR	5,346
Share price	3.25	Share price performance			
Free float	15.8%	1M	6M	12M	YTD
Main shareholders:		-2%	-13%	9%	n.a.
Vimetco N.V. Amsterdam (84.19%), Fondul Proprietatea (10%), Others (5.8%)					

Source: Bucharest Stock Exchange, Erste Group Research

Company description

Alro is the largest aluminum smelter in CEE. It is part of Vimetco Group, the seventh largest aluminum producer worldwide, with operations in China and Sierra Leone. Alro's primary aluminum facilities are located in Slatina, while the raw material (alumina) provider, Alum (which took over in 2007, following a backward vertical integration plan), is located in Tulcea.

The product range is split into two main categories: primary aluminum (Alro is the only domestic producer of primary aluminum and aluminum alloy) and processed aluminum. Most of the company's output is exported (in 2010, 65% of the primary aluminum production and 99% of its processed aluminum production), with the main export partners being EU countries, in order to avoid high transportation costs that could erode profitability margins.

The main challenge is keeping control of power acquisition costs, which represent more than 40% of total operational expenses. Currently, the company acquires the entire amount of electricity used for its industrial processes from Hidroelectrica, based on a direct (and controversial) contract (signed in 2005, renegotiated and extended up to 2018). The last contract signed with Hidroelectrica in 2010 is sufficiently protective for the company's health because Alro acquired a quantity of 3 TWh per year at a price linked to the aluminum price on the London Metal Exchange, which is very sensitive to its output price.

Under pressure from the IMF & EU for Hidroelectrica to cancel its direct contracts portfolio, Alro's business could become more vulnerable in the future if the company is forced to acquire electricity from the wholesale power market (the centralized bilateral contracts market of OPCOM, the operator of the Romanian power exchange). In this context, it is understandable that Alro plans to build its own gas-fired power plant with an IC of 250 MW, so as to have better control of the raw material cost. In the long run, the company aims to increase its production capacity for high added value products, particularly for products used in the aircraft industry and the automotive industry. In 2009, Alro received the NADCAP Performance Certificate for Heat Treatment and Testing of Aerospace Products Quality.

Key figures (RON mn)	2008	2009	2010
Sales	1,968.02	1,410.48	1,812.19
EBITDA	360.72	159.76	390.29
EBIT	265.12	61.91	289.45
Interest expenses	26.93	32.82	27.13
Financial result	45.53	22.95	-96.42
Gross result	310.65	84.87	193.03
Net result	247.23	78.22	159.78
Non current assets	1,613.27	1,529.25	1,458.17
Inventories	461.21	309.26	347.36
Receivables	277.49	122.41	188.75
Cash	78.91	295.38	300.55
Trade payables	146.10	98.93	84.40
Total assets	2,440.20	2,263.71	2,304.50
Total shareholder equity	1,547.42	1,433.38	1,459.25
Bank debt	550.31	567.58	630.17
Total liabilities	824.62	775.44	793.18

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	-3.79%	-28.33%	28.48%
EBITDA (y/y, %)	-39.17%	-55.71%	144.29%
EBIT (y/y, %)	-48.25%	-76.65%	367.50%
EBITDA margin	18.33%	11.33%	21.54%
EBIT margin	13.47%	4.39%	15.97%
Gross margin	15.79%	6.02%	10.65%
Net margin	12.56%	5.55%	8.82%
ROE	15.98%	5.46%	10.95%
ROA	10.13%	3.46%	6.93%
ROIC	11.16%	4.18%	8.32%
Current ratio	1.42	1.06	3.89
Quick ratio	0.62	0.61	2.28
Debt/(Debt+Equity)	26.23%	28.37%	30.16%
Equity ratio	63.41%	63.32%	63.32%
Net debt/EBITDA	1.31	1.70	0.84
EBITDA/ Interest Exp	13.39	4.87	14.39

Source: Intelli News, Erste Group Research

AZOMURES

Ticker	AZO	Market capitalization		3M daily turnover	
Erste Group rating	N.R.	RONmn	710.14	RON	277,741
Target price (RON)	-	EURmn	164.40	EUR	64,296
Share price	1.35	Share price performance			
Free float	24.1%	1M	6M	12M	YTD
Main shareholders:		-1%	68%	181%	n.a.
Eurofert Investments (56.8%), Azomures Holding (19%), FP (7.7%), Others (16.5%)					

Source: Bucharest Stock Exchange, Erste Group Research

Company Description

Azomures is Romania's largest fertilizer producer, with a production capacity of 2.47mn tons of chemical fertilizers, 0.66mn tons of liquid fertilizers and 18k tons of melamine. More than half its output is sold abroad, with the main destinations being Hungary, China, Turkey and Kenya (each at over 10% of exports, by value). Given the favorable context in 2010 and 1H11, a significant jump in the volume sold was seen over the last year and a half. Thus, exports advanced, in volume terms, by 56% in 2010 y/y and over 12% in 1H11 y/y, whereas, on the domestic market, advances of 17% in 2010 and 27% in 1H11 were seen. Except for liquid fertilizers, the capacity utilization rate in 1H11 was close to maximum. Locally, Azomures is the market leader, owning a market share of 45% in 2010, according to the company's estimates. The company holds a 90.42% stake in Chimpex, a chemical products handling company located at the Constanta harbor, providing a competitive advantage.

The company delivered impressive results for 1-3Q11, with a good performance in terms of fertilizer sales, supported by EUR 27.7mn in revenues from the sale of ERU (Emission Reduction Unit) certificates (granted to the company as result of a Joint Implementation project). As Azomures purchased and stored natural gas in 1H11 in order to use it in production after October, we believe that the 4Q11 results will also be strong, in spite of the 10% increase in the gas price starting in October. For the year ahead, we are not that optimistic, given the cereal over-production this year and the subsequent decline in the cereal price and thus lower purchasing power of farmers, which will put downward pressure on fertilizer prices in 2012. We expect FY12 results below those seen in FY11 and FY10.

There are significant investments of at least EUR 150mn (according to the available data) that the company must carry out in order to meet EU environmental standards by 2015. One must bear in mind that the specific environment of the company is pretty volatile, and in the context of the envisaged domestic gas price convergence to the imported gas price, significant investment for reducing gas consumption and raising efficiency is mandatory.

The company confirms that in November 2011 the grain and fertilizer trader Ameropa took over the majority stake from its main shareholders, Eurofert and Azomures Holdings, the deal price not being disclosed.

Key figures (RON mn)	2009	2010	1-3Q11
Sales	743.31	1,202.02	1,295.58
EBITDA	35.16	175.20	175.20
EBIT	16.08	157.94	344.89
Interest expenses	1.83	0.15	0.82
Financial result	-6.58	11.48	-7.09
Gross result	9.50	169.42	337.80
Net result	9.47	148.04	288.21
Non current assets	223.27	412.87	410.52
Inventories	191.06	150.87	369.07
Receivables	86.70	108.68	246.58
Cash	94.35	282.84	313.19
Trade payables	96.33	124.76	141.43
Total assets	625.28	976.74	1,371.21
Total shareholder equity	400.65	736.60	1,024.81
Bank debt	7.63	0.00	123.31
Total liabilities	134.87	156.85	292.11

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	39.42%	-35.03%	61.71%
EBITDA (y/y, %)	246.68%	-68.77%	398.32%
EBIT (y/y, %)	474.64%	-83.13%	882.31%
EBITDA margin	9.84%	4.73%	14.58%
EBIT margin	8.33%	2.16%	13.14%
Gross margin	7.64%	1.28%	14.09%
Net margin	4.42%	1.27%	12.32%
ROE	12.92%	2.36%	20.10%
ROA	8.28%	1.52%	15.16%
ROIC	9.43%	2.25%	27.03%
Current ratio	3.35	2.85	3.54
Quick ratio	0.89	1.39	2.56
Debt/(Debt+Equity)	12.78%	1.87%	0.00%
Equity ratio	64.05%	64.08%	75.41%
Net debt/EBITDA	0.24	-2.47	-1.61
EBITDA/ Interest Exp	35.06	19.23	1199.71

Source: Intelli News, Erste Group Research

POSTA ROMANA

Not listed			
Main shareholders:		Fair Value of Equity (Erste Group Research)	
Ministry of Economy	90%	RONmn	225
Fondul Proprietatea	10%	EURmn	52

Source: Erste Group Research

Company description

Posta Romana is a national provider of postal and non-postal services, including electronic mail services, magazine subscriptions, printing and insertion, direct marketing, counter collection and payment agency services. On the delivery services side, Posta Romana is the market leader, operating 80% of the national deliveries (the company owns a monopoly on the distribution of correspondence of <50g up to 2013), with 53% of international deliveries in 2010.

More than 50% of the annual counter collections are also made by Posta Romana as a result of its long-term partnerships with companies (Romtelecom, Electrica, Vodafone, Orange, etc.) and public institutions (the Ministry of Labor, Family and Social Protection -the main client, providing more than 36% of the company's turnover in 2010-, the Ministry of Administration and Interior, the Ministry of National Defense).

Posta Romana operates a territorial network of over 7,000 post offices (out of which 6,160 units are located in the countryside) and around 35,000 personnel, making it the largest Romanian employer.

Following the deep losses seen the last two years (RON 181mn in 2009, RON 121mn in 2010), the company is undergoing a restructuring program that targets gross profit of RON 50mn for FY14. According to the obligations assumed within the current precautionary agreement with the IMF, next year the Romanian government will look for a strategic partner to hold a 33% stake in Posta Romana, following a share capital increase.

The main challenge for Posta Romana is to stop and reverse the downward trend of its business in volume terms (-33% y/y in 2009, -10.4% y/y in 2010). In order to increase its efficiency, it is crucial that the company start to optimize its postal office network by implementing an integrated IT system (currently, only 17% of post offices are computerized). An ambitious project of the company is to form partnerships with banks, with the aim of launching personalized financial products (economy accounts, financing and payment products).

Key figures (RON mn)	2008	2009	2010
Sales	1,400.30	1,435.74	1,376.85
EBITDA	11.04	-163.74	-66.48
EBIT	-11.32	-210.98	-128.26
Interest expenses	1.41	3.77	2.91
Financial result	15.88	29.46	7.26
Gross result	4.56	-181.52	-121.00
Net result	0.03	-181.55	-121.03
Non current assets	883.75	926.60	910.86
Inventories	22.22	31.44	23.45
Receivables	119.03	114.04	121.10
Cash	300.24	158.36	49.37
Trade payables	86.77	199.20	158.51
Total assets	1,329.19	1,235.34	1,107.80
Total shareholder equity	853.30	677.97	558.41
Bank debt	38.47	29.22	77.69
Total liabilities	469.17	543.92	544.45

Source: Intelli News

Key ratios	2008	2009	2010
Sales (y/y %)	34.15%	2.53%	-4.10%
EBITDA (y/y, %)	-73.04%	-1583.59%	-59.40%
EBIT (y/y, %)	-150.15%	1764.03%	-39.21%
EBITDA margin	0.79%	-11.40%	-4.83%
EBIT margin	-0.81%	-14.70%	-9.32%
Gross margin	0.33%	-12.64%	-8.79%
Net margin	0.00%	-12.65%	-8.79%
ROE	0.00%	-26.78%	-21.67%
ROA	0.00%	-14.70%	-10.93%
ROIC	0.01%	-28.21%	-13.45%
Current ratio	1.05	0.66	0.39
Quick ratio	1.00	0.59	0.34
Debt/(Debt+Equity)	4.31%	4.13%	12.21%
Equity ratio	64.20%	54.88%	50.41%
Net debt/EBITDA	-23.72	0.79	-0.43
EBITDA/ Interest Exp	7.81	-43.45	-22.88

Source: Intelli News, Erste Group Research

Listed Private Equity Funds (FP Peer Group)

Fund	Exposure	Current discount (%)	% of Unlisted Holdings in Assets
3i Group	Europe ex-UK (48%), UK (29%), Asia inc Japan (14.7%), USA (8.1), Global (0.2%)	36.99%	64.40%
Aberdeen Development Capital ORD	UK (90%)	62.26%	90.00%
Aurora Russia	Russia(100%)	54.69%	100.00%
Avanti Capital ORD	UK (100%)	42.00%	100.00%
B.P.Marsh & Partners ORD	UK(99.2)	46.08%	99.20%
Candover Inv Tr	UK(31.9%), Benelux(14%), Spain (12.6%), Italy (4%), France (1.3%), Scandinavia (1.3%), Switzerland (1.3%)	44.33%	66.50%
Dunedin Enterprise Inv Tr	UK, Europe	40.72%	98.80%
Graphite Enterprise Trust	UK, Europe	39.65%	88.20%
HarbourVest Global Private Equ	USA (71%), Europe (23%), Asia inc Japan (3%), Global (3%)	43.06%	99.10%
Henderson Private Equity	UK (68.4), SUA (6%), Europe (24.2%), Global (1.4%)	19.86%	100.00%
HgCapital Trust	UK (42%), Scandinavia (24%), Germany (12%), Itally (9%), Europe (8%), Benelux (5%)	12.50%	74.80%
Ingenious Media Active Capital ORD	UK (84.6%)	60.70%	84.60%
Loudwater Trust Ltd	UK (90%)	37.60%	82.00%
NB Private Equity Partners Ltd Ord	America (67.9%), Europe (16.8%), Asia inc Japan (3.5%)	40.58%	88.20%
Northern Investors Inv Tr	UK (81.6%)	15.82%	81.60%
Oakley Capital Investments ORD	Europe (52%), UK (9.4%)	26.39%	52.00%
Pantheon Intl Participation	USA (50.3%), Europe (35.8%), Global (10.6%)	45.79%	96.70%
Princess Private Equity ORD	America (53.3%), Europe (34%), Global (9.7%)	35.69%	97.00%
Rapid Realisation ORD	Europe (45.9%), UK (26.3%), Australia (3.1%)	28.27%	75.40%
RECONSTRUCT CAP II	Romania (60.1%), Serbia (39.2%)	54.73%	96.40%
St Peter Port Capital	Global (86%)	46.08%	62.40%
Standard Life European Priv Eq	Europe, America	42.19%	98.80%
Strathdon Investment	UK (89%)	54.87%	89.00%
SVG Capital	UK (24%)	39.04%	44.00%

Source: Morningstar, Erste Group Research

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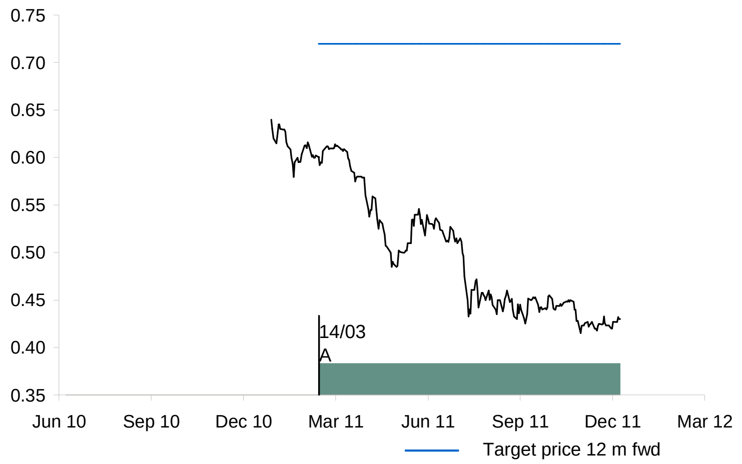
Fondul Proprietatea



Rating history

Date	Rating	Price	Target Price
14. Mar 11	Accumulate	0.60	0.72

Company	Specific disclosure(s) if applicable
Fondul Proprietatea	2

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Buy	> +20% to target price
Accumulate	+10% < target price < +20%
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Distribution of ratings

	Coverage universe		Inv. banking-relationship	
Recommendation	**No.**	**in %**	**No.**	**in %**
Buy	70	38.7	13	46.4
Accumulate	39	21.5	6	21.4
Hold	34	18.8	5	17.9
Reduce	12	6.6	2	7.1
Sell	5	2.8	1	3.6
N.R./UND.REV./RESTR.	21	11.6	1	3.6
Total	**181**	**100.0**	**28**	**100.0**

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