# FONDUL PROPRIETATEA

**Closed-end investment fund**

**24 January 2011**

**Price range: RON 0.7987 - RON 1.0782**

## Pre-listing Initiation of Coverage

| Valuation (RONm) | Reported Value (E) | AFR Bottom Value | Δ%* | AFR Target Value |
|---|---|---|---|---|
| **Listed - total** | **5,287** | **5,267** | **0%** | **5,896** |
| OMV Petrom | 4,181 | 4,181 | 0% | 4,796 |
| Transgaz | 499 | 499 | 0% | 507 |
| Alro | 240 | 240 | 0% | 240 |
| Transelectrica | 204 | 204 | 0% | 211 |
| Others | 163 | 143 | -12% | 143 |
| **Unlisted privately controlled** o/w | **1,574** | **2,175** | **38%** | **2,175** |
| Enel Distributie Banat | 278 | 450 | 62% | 450 |
| Enel Distributie Muntenia | 325 | 445 | 37% | 445 |
| GDF Suez Energy Romania | 303 | 427 | 41% | 427 |
| Enel Distributie Dobrogea | 194 | 294 | 51% | 427 |
| E.ON Moldova Distributie | 181 | 201 | 11% | 201 |
| **Unlisted state controlled** o/w | **7,532** | **2,314** | **-69%** | **5,535** |
| Romgaz | 1,246 | 1,581 | 27% | 1,581 |
| Hidroelectrica | 3,302 | 0 | -100% | 1,071 |
| Nuclearelectrica | 705 | 0 | -100% | 528 |
| Complexul Energetic Turceni | 530 | 0 | -100% | 754 |
| CN Aeroporturi Bucuresti | 322 | 442 | 37% | 442 |
| **Other unlisted** | **59** | **0** | -100% | **0** |
| **Portfolio value** | **14,452** | **9,756** | **-32%** | **13,607** |
| Cash | 1,078 | | | |
| Other assets | 254 | | | |
| Total assets | 15,784 | 11,089 | | 14,939 |
| Liabilities | 84 | | | |
| **Reported NAV **** | **15,328** | | | |
| **AFR NAV** | | **11,005** | | **14,856** |
| **NAV/share (reported)** | **1.1125** | | | |
| **AFR NAV/share** | | **0.7987** | | **1.0782** |
| *Discount to NAV* | | -28% | | -3% |
| **Shareholding** | | | | |
| Shares outstanding (m) | 13,778.4 | | | |
| Ministry of Finance | 38.9% | | | |
| Free float | 61.1% | | | |

Note: Reported value (E) estimates according to the official methodology

**Δ% AFR bottom value vs. Reported value; **as reported on December 31, 2010*

### Clamped in political manacles and trapped into the much promising but severely hampered power generation sector

Fondul Proprietatea is an investment company, managing the portfolio set up by the Romanian State to compensate people whose real estate assets have been abusively confiscated by the Romanian state during the Communist era. The Fund is managed by Franklin Templeton under a four-year mandate, under the control of the shareholders' meeting which the Ministry of Finance controls with 38.9%.

**AFR Bottom Value captures the absolute floor of realisable value of FP at RON 0.7987/share implying a discount of 28% to the reported NAV**
This discount to official NAV represents our (bottom-up) determination, in the most plausibly prudent manner, of all quantifiable risks to the Fund's investors. This treatment assigns a special weight to the State-controlled power market condemned to run at low profitability levels or close to breakeven. With no liquidity events at horizon to help the Fund marking some profits from the respective holdings, our bottom value quantifies the associated risk by valuing to zero all the State-controlled portfolio companies operating within the power sector.

**AFR Target Value indicates a reasonable expectation for the value of FP at RON 1.0782/share implying a discount of 3% to the reported NAV**
Our target value level encompasses a less hawkish treatment of the State-controlled power sector by assigning a value to it which would be plausible on a theoretical basis assuming an optimistic view on future developments. Also AFR covered listed companies are valued at AFR target prices. Our conclusion is that venturing beyond the realms of RON 1.08/share investors would enter speculative territory with no adequate fundamental support.

**Risks**

• **Risks from dominant State position.** The Romanian State's involvement with the FP from a dominant position entails risks which fall broadly in three main categories: direct expropriation of FP's portfolio assets, re-allocation of FP's holdings and conflict of FP manager's interests. These risks cannot be quantified in the Fund's valuation. It lies with the investors to judge and decide if they will cast a positive vote on the country's transition into a transparent, market economy with reduced State's role and politically-driven decision making.

• **Risks deriving from exposure to State-controlled power market.** FP's exposure to the State-controlled severely obsolete, heavily cross-subsidised and chronically unprofitable power market presents a major risk which is going to amplify in the medium term.

• **Trading risk.** Featuring a broad and diverse shareholding base and past extensive OTC trading at wide spread of prices between RON 0.2 and RON 0.6, FP's share price has all the chances to be very volatile at its initial trading sessions before stabilising to a level closer to the Fund's fundamentals.

**Daniela Mandru**
dmandru@alphabank.ro
T +40 21 455 7373



**Please read the important disclaimer in the last page**

## Contents

## Investment case

### Fondul Proprietatea price range RON 0.7987/share – RON 1.0782/share

Due to the particular characteristics of Fondul Proprietatea's listing (direct listing for trading of existing shares, no public offering, broad and diverse shareholding base, past extensive OTC trading at wide spread of prices between RON 0.2 and RON 0.6, unquantifiable State-related risks) for the purpose of this pre-listing initiation we will provide a price range delimited by a bottom value and a target value.

**AFR Bottom Value emerges at RON 0.7987 implying a discount of 28% to the reported NAV**

This discount to official NAV represents our (bottom-up) numerical determination, in the most plausibly prudent manner, of **all quantifiable risks** to the Fund's investors. This treatment assigns a special weight to the severely obsolete, heavily cross-subsidised and chronically unprofitable State-controlled power market which presents a major risk that is going to amplify in the medium term. Condemned to run at low profitability levels or close to breakeven reducing to nothing the dividends they could payout and with no liquidity events at horizon to help the Fund marking some profits from the respective holdings, **our bottom value quantifies the associated risk by valuing to zero all the State-controlled portfolio companies operating within the power sector**.

**AFR Target Value reaches RON 1.0782 implying a discount of 3% to the reported NAV**

Our conclusion is that venturing beyond the realms of RON 1.08 investors would enter speculative territory with no adequate fundamental support. Our target value level encompasses a less hawkish treatment of the State-controlled power sector by assigning a value to it which would be plausible on a theoretical basis assuming an optimistic view on future developments.

### Fund overview

Fondul Proprietatea is an investment company, managing the portfolio set up by the Romanian State to compensate people whose real estate assets have been abusively confiscated by the Romanian state during the Communist era. The Fund is managed by Franklin Templeton under a four-year mandate which may be terminated prior to the expiration, under the control of the shareholders' meeting were the Ministry of Finance has the numbers to impose its decisions (38.9%) and under the supervision of the Board of Nominees appointed by shareholders and currently chaired by a state secretary in the Ministry of Finance.

The Fund owns stakes in 83 companies out of which 28 are listed companies and 55 unlisted. According to the recently modified official valuation method the Fund's NAV stands at RON 15.33bn (or **RON 1.1125 per share**). The individual stakes' values are not disclosed.

According to the latest official disclosure, in terms of **sectors** exposure, the Fund is heavily weighted on oil & gas sector (43%) and power sector (47%), followed, at a significant distance, by the transportation sector (airports & ports) with a weight of 3%. Aluminium production sector represented by Alro, counts for 2% of the total portfolio value.

**Listed companies** account for an estimated 34% of reported NAV. OMV Petrom weights 27% in reported NAV, while Transgaz, Alro and Transelectrica stakes account for 3%, 2% and 1% respectively. Of the **unlisted, State-controlled companies**, Hidroelectrica weights 22% in reported NAV, while Romgaz, Nuclearelectrica and Complexul Energetic Turceni (TPP Turceni) stakes account for 8%, 5% and 3% respectively. **Unlisted, privately controlled companies** account for 10% of reported NAV. Each of Enet Distributie Muntenia, GDF Suez Energy Romania and Enel Distributie Banat accounts for 2% of the Fund's reported NAV.

There are no **shareholding** limitations in the Fund, but as long as the Ministry of Finance holds more than 33% of its share capital, the voting rights are restricted according to the stake owned. For example the number of shares exceeding 5% of the Fund's share capital has no voting rights attached. Anyway the restrictions start with holdings greater than 1% and they do not apply to the Ministry of Finance.

Main cash sources for the Fund are dividend income (in 2009 RON 120m), proceeds from sale of equity investments (in 2009 RON 980m) and interest income from treasury operations (in 2009 RON 135m from deposits interest). In the near future years the Fund intends to distribute 100% of its distributable profits.

## Risks

- **Risks from dominant State position**. The Romanian state's involvement with the Property Fund from a dominant position entails risks which fall broadly in three main categories: direct expropriation of FP's portfolio assets, re-allocation of FP's holdings and conflict of FP manager's interests. **These risks cannot be quantified in the Fund's valuation**. It lies with the investors to judge and decide if they will cast a positive vote on the country's transition into a transparent, market economy with reduced State's role and politically-driven decision making.
- **Risks deriving from exposure to State-controlled power market**. FP's exposure to the State-controlled severely obsolete, heavily cross-subsidised and chronically unprofitable power market presents a major risk which is going to amplify in the medium term. Condemned to run at low profitability levels or close to breakeven reducing to nothing the dividends they could payout and with no liquidity events at horizon to help the Fund marking some profits from the respective holdings, we value at zero, for our bottom value, all the state - controlled portfolio companies operating within the power sector. Our target value takes a more lenient approach by valuing to zero only the State-controlled portfolio companies operating within the power supply sector.
- **Trading risks**. From the beginning of 2010 up to now, as the listing became certain, the Fund's free float increased from 39.7% to the current level of 61.1%. Some of the investors are the former owners of the assets abusively confiscated by the Romanian state within the Communist era who received the shares for free while renouncing to their right to be compensated in cash (as long the claim did not exceed RON 0.5m). The others are those who bought FP shares on the OTC market at prices varying between RON 0.25-0.30 at the end of 2009 to 0.56 per share at the end of 2010. With such great differences between the upsides to diverse shareholders, the FP share price has all the chances to be very volatile at its trading inception before stabilising to a level, more close to the Fund's fundamentals.

## Opportunities

- **Purely economically driven power accumulating outside the State's interest**. For the time being, FP's manager Franklin Templeton is *de facto* appointed by and accountable to, the State. But as the Ministry of Finance's stake dilutes, things gradually change. Already, there is a critical power accumulation which, according to our estimates, at the end of December 2010 accounted for 23% of the voting rights, while the Ministry of Finance benefited a voting power of 41%. There is Malaxa family with an estimated voting power of 3%, followed by five investment funds (Cartesian, Wood&Co, East Capital, Elliot and SIF Moldova) with a cumulated voting power of 10%. There are also, other 170 legal entities in the Fund, cumulating 10% of the voting rights.
- **OMV Petrom upside potential**. The Fund's stake in OMV Petrom accounts for 27% of the reported NAV as at the end of December and, accordingly, any SNP price movement significantly weights on the Fund's NAV. In December 2010, we updated our view on Petrom with a BUY recommendation and a target price of RON 0.421 per share revealing an upside potential of 14.7% against current trading levels. Our target price mainly incorporates the additional value creation through expanding the G&P value chain to electrical power (Brazi power plant). G&P strategy, focused on firing the gas to generate power instead of selling it at half of the imported gas price, will partially free the SNP's growth potential locked into the capped domestic gas price. Oil price hovering around $90/bbl should also add to the company's fair value
- **Romgaz's listing** (IPO) announced for the end of this year. Going public should improve the company's corporate governance standards and transparency, positively affecting its fair value. The Ministry of Economy plans to sell 15% of Romgaz on the Bucharest Stock Exchange (BSE) by the end of this year.

- **Transgaz** and **Transelectrica increased free floats**. By the mid of the current year, the Ministry of Economy plans to sell on BSE additional 15% stakes in Transgaz and Transelectrica, increasing the companies' free floats to 26.5% and 27.8% respectively. The increased liquidity of Transgaz and Transelectrica should also positively impact the FP share price. *Please note that The Ministry plans also to sell 9.84% of OMV Petrom but in this case, OMV Austria, the company's main shareholder, is also considered among the buyers.*

## Risks analysis

### Risks from dominant State position

The Romanian State's involvement with the Property Fund from a dominant position entails risks which fall broadly in three main categories: direct expropriation of FP's portfolio assets, re-allocation of FP's holdings and conflict of FP manager's interests. Each of these has not been derived from theoretical risk analysis but from actual instances throughout the FP's history. There is nothing at the moment inducing us to rule out similar occurrences in the future. These risks cannot be quantified in the Fund's valuation. It lies with the investors to judge and decide if they will cast a positive vote on the country's transition into a transparent, market economy with reduced State's role and politically-driven decision making.

**1. State directly raiding FP-portfolio companies it controls to support the budget**

Recent example: RON 400 m *"donated"* by Romgaz to the State

In November 2010, the Ministry of Economy, the main shareholder of Romgaz, voted in favour of a donation of RON 400m to the State budget. Despite pending litigation stemming from FP contesting the legality of the decision, the said amount was disbursed in December 2010. Since the action, according to public statements of the Minister of Finance, was taken because the company did not succeed to cut its expenditures as required, **we cannot exclude further such moves in the future.**

**2. State discretionary re-allocation of FP holdings directly or through reorganisation of companies it controls**

Recent example: State re-shuffling FP holdings by re-organising the power generation sector

In 2009, the Ministry of Economy started the discussion regarding the reorganisation of the electricity production sector into two energy giants. After several delays, in October 2010, the government ratified the set up of the two energy companies: Electra and Hidroenergetica. Basically, the process implies simultaneously (i) spinning-off several Hidroelectrica subsidiaries that will merged with other power producers (thus, creating Electra); (ii) merging the rest of Hidroelectrica assets with two thermal power producers (thus creating Hidroenergetica).

Electra will be formed through the merger of Nuclearelectrica, Societatea Nationala a Lignitului Oltenia (The National Lignite Company), Complexul Energetic Turceni, Complexul Energetic Craiova and Complexul Energetic Craiova with Hidroelectrica's spun-off assets (namely Ramnicu Valcea, Sibiu, Targu Jiu and Hidroserv Ramnicu Valcea subsidiaries) accounting for 19.15% of Hidroelectrica's 2009 net asset value.

Hidroenergetica will be formed through the merger of the Hidroelectrica's remaining assets (accounting for 80.85% of Hidroelectrica net asset value as of end 2009) with two Termoelectrica subsidiaries – Electrocentrale Deva and Electrocentrale Bucuresti.

The Fund will receive 15.1% of Electra and 15.9% of Hidroenergetica once the two companies set up, while the Ministry of Economy will hold 84.4% in Electra and 63.8% in Hidroenergetica.

The reorganisation of the power generation sector gave course to legal proceedings of the Fund against Ministry of Economy since the plan did not acknowledge Fund's ownership rights in Nuclearelectrica, Hidroelectrica and the three thermal power plants. As a consequence, in January 2011, the Court suspended the Electra set-up. The Minister of Economy recently declared there is no deadline for the two giants set-up since a common ground with the Fund was not reached yet, but he pointed the discussions will restart after the Fund's listing.

In our opinion, the set up of Electra and Hidroenergetica will be reached against all oppositions which will do no more than delay the process.

Not-so-Recent example: FP's unrecoverd value from diminished and not allocated stakes stands at RON 781.3m

Law no. 247 established in 2005 that the Fund has to receive a 20% stake in Nuclearelectrica, a 20% stake in Hidroelectrica and a 25% stake in each of the three thermal power plants (Complexul Energetic Turceni, Complexul Energetic Rovinari and Complexul Energetic Craiova). By law, in case the State undergoes share capital increases to the respective companies, the Fund's stake should be maintained flat.

Currently, the Fund owns 9.73% of Nuclearelctrica, 19.94% of Hidroelectrica, 24.36% of TPP Craiova, 23.60% of TPP Rovinari and 24.79% of TPP Turceni due to subsequent share capital increases undergone and approved by the state. Please note that in the case of Nuclearelectrica, the legally binding 20% stake was never granted in full and the initial allotted participation of 11.24% was diminished by subsequent share capital increases to present 9.73%.

If assets value be considered, the Fund's unrecovered value from diminished and not allocated stakes in the above mentioned companies would amount to RON 781.3m (based on 2009 book values).

**3. Conflict of interests in Fund manager's role**

FP's manager Franklin Templeton is *de facto* appointed by and accountable to, the State. It was selected by the State-controlled GSM, is under control of the GSM and supervised by the FP's Board of Nominees (appointed by the State through the GSM).

At the same time, the Fund's manager has a fiduciary duty to protect the rights of all Fund's shareholders which means obliged to act against the State, as demonstrated by litigations directly against it (previous examples), or indirectly, through promoting corporate governance, transparency and profitability against portfolio companies' managements which are appointed by the State itself. One such conflict was recently demonstrated by the public confrontation between Hidroelectrica's (then) CEO and the FP's manager regarding the low profitability of the State-owned power generator.

Franklin Templeton's most challenging objective, as the Fund's manager, is to gradually move the structure of portfolio towards 100% listed companies and, accordingly, to encourage unlisted companies within the portfolio to improve their corporate governance standards with a view to eventually listing. All sounds good but the implementation lies within the State's discretion at the moment.

The things should gradually change, as the State becomes diluted and a purely economically driven power is accumulating outside the State's interest. Already, there is a critical power accumulation which, according to our estimates, at the end of December 2010 accounted for 23% of the voting rights, while the Ministry of Finance benefited a voting power of 41%. There is Malaxa family with an estimated voting power of 3%, followed by five investment funds (Cartesian, Wood&Co, East Capital, Elliot and SIF Moldova) with a cumulated voting power of 10%. There are also, other 170 institutionals in the Fund, cumulating 10% of the voting rights.

## Risks deriving from exposure to State-controlled power market

FP's exposure to the State-controlled severely obsolete, heavily cross-subsidised and chronically unprofitable power market presents a major risk which is going to amplify in the medium term. Our bottom value prices in this risk by valuing to zero all the State-controlled portfolio companies operating with the power sector.

FP's stakes in State-controlled power companies resumes to eleven companies, five operating within the power generation sector and the rest operating as power distribution and supply companies.

Already, the Fund itself valued at zero its stakes in three State-controlled **power suppliers** since their audited financial statements as of 31 August 2010 reflect negative shareholders equity. The companies most probably will fill for the insolvency procedures if receivables amounting to €170m are not recovered from CFR (The National Railway Company). The State-controlled power suppliers' insolvency will trigger a chain reaction putting to trouble the other three State-controlled **power distributors** as these ones, at their turn, will have to recoup cash for the distribution services they rendered to the former.

Let's go further to the state controlled portfolio companies operating within the **power generation** sector: Hidroelectrica, Nuclearelectrica, TPP Turceni, TPP Craiova and TPP Rovinari and which are going to be bundled in two giants.

In 2009, the state controlled power generation sector as a whole, including: the Fund's portfolio power generators mentioned above, the thermal power producers - Termolectrica and its subsidiaries (Electrocentrale Bucuresti, Deva, Galati) and the lignite and hard coal mines - The National Company of Lignite and The National Company of Hard Coal, generated an aggregate net turnover of RON 12,286m, an aggregate EBITDA of RON 1,429m (implying an EBITDA margin of 12%) and **an aggregate net loss of RON 952m** (implying a net profit margin of -8%). In 2008, a year before, the sector's aggregate net loss stood at the same level (please see the table next page).

Therefore, **viewed as a whole, the Romanian power generating sector is practically bankrupt**. The sector is artificially kept alive through the cross-subsiding mechanism where the less efficient thermal generators are cross-subsidised by the more efficient units of the sector.

Sector's privatisation has been always a sensitive political issue. The most viable generators (Hidroelectrica) that could have attracted the interests of private investors have been deemed of strategic importance and excluded from privatisation. Nuclearelectrica's capacity development project, set to double its installed capacity, attracted investors' interest in December 2008, but since then, the most palpable outcome is the fact that CEZ exited the endeavour in December 2010 increasing the state ownership interest in the project company to 60.15%. The thermal power plants do not attract investors given their outdated technology and significant need for investments.

More there is the issue of sector's reorganisation. The idea of the plan, which practically follows the European model of the combined power generation, is to create two companies with similar average costs and market shares that could survive and compete against each other. Many argued that under this plan, the less efficient thermal generators would be cross-subsidised by the more efficient units of the sector, but, in fact, this is the current status of the market.

We believe the set up of Electra and Hidroenergetica will be reached against all odds because this is the only solution to the sector's structural troubles. The thermal power generating sector, the main responsible for the "black holes" the industry produces as a whole and for the low profitability of the viable generating units which cross-subsidise them, cannot be simply closed down. At their turn, the thermal power plants sustain a big mining industry were 19,500 people work and which emerged on the country's big coal resources. Besides, the thermal power generators are the only ones able to ensure a constant power flow, while the hydro power generating is dependent on weather conditions which affect the waters levels (hydrological risk). Nuclear power could be an alternative, but the capacity development delays.

Unfortunately for FP, the bundling process implied by the reorganisation plan will bring in companies which display negative margins reducing to nothing the combined profitably of the resulted giants.

The **portfolio companies operating within the power generation sector already display very low profitability**. With a cumulated installed capacity of about 12,000 MW, if all power generating portfolio companies would have been bundled in a one big company, over 2007-2009 period, the resulting entity would been posted a median annual net profit of only RON 193m implying a net profit margin of 3%. Let's complete the aggregate picture with the **other entities that will merge** to set up Electra and Hidroenergetica: Electrocentrale Bucuresti, Electrocentrale Deva and Societatea Nationala a Lignitului (The Nationale Lignite Company). On a 3Y median basis, these companies posted an aggregate net profit margin of -3%.

Without considering any consolidation accounting principles and/or any synergies or lack of them resulted from merging the companies implied by the sector's reorganisation plan, if **Electra** and **Hidroenergetica** would have been set up since 2007, up to 2009 they would have been generated, on a 3Y median basis a net profit margin of 0%.

Further, the restructuring plan will be implemented gradually, generating rather an initial state of confusion and disorderliness as it has to deal with over 35,000 employees, with the sector's dependency on the quasi-bankrupt thermal power producers and with a large clientele benefiting from preferential prices setting. Consequently, for the medium term we see the combined profitability of the resulted giants degrading further, while on the longer term, the plan should start paying out. The restructuring will not eliminate the sector's outdated assets problems which, according to the Ministry of Economy necessitate investments of about €9.3b, but it will render legal the existing cross-subsidies and will reduce the State control, currently multiplied by the number of units operating within the sector, to only two command centres.

We do not see how the Fund will be able to avoid the Scylla sector's restructuring plan or the Charybdis of the already low profitability of the companies. Selling the stakes it owns within the sector to private investors could be an option but sector's privatisation, as we said, has been always a sensitive political issue and the final selling decision, if any, lies with the majority shareholder, the State.

Condemned to run at low profitability levels or close to breakeven reducing to nothing the dividends they could payout and with no liquidity events at horizon to help the Fund marking some profits from the respective holdings, we value at zero, for our bottom value, all the state - controlled portfolio companies operating within the power generation sector.

| Romanian power generation sector's profitability | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Sector's aggregate profitability** | | | | | | |
| Net turnover (RONm) | **11,247** | 10,093 | 11,053 | 11,247 | 12,901 | 12,286 |
| EBITDA (RONm) | **1,429** | 1,528 | 870 | 2,631 | 1,404 | 1,429 |
| *EBITDA margin* | 12% | 15% | 8% | 23% | 11% | 12% |
| EBIT (RONm) | **-194** | 69 | -491 | 1,216 | -194 | -351 |
| EBIT margin | -2% | 1% | -4% | 11% | -2% | -3% |
| Net profit (RONm) | **-343** | **-234** | **-343** | 798 | **-952** | **-952** |
| Net profit margin | -3% | -2% | -3% | 7% | -7% | -8% |
| **Portfolio companies** | | | | | | |
| **Hidrolelectrica (hydro)** | | | | | | |
| Net turnover (RONm) | 2,366 | 2,181 | 2,366 | 2,061 | 2,444 | 2,421 |
| EBITDA margin | 35% | 48% | 33% | 40% | 35% | 34% |
| EBIT margin | 7% | 14% | 3% | 7% | 8% | 7% |
| Net profit (RONm) | 56 | 14% | 56 | 53 | 65 | 48 |
| Net profit margin | 3% | 14% | 2% | 3% | 3% | 2% |
| **Nuclearelectrica (nuclear)** | | | | | | |
| Net turnover (RONm) | 910 | 606 | 664 | 910 | 1,452 | 1,527 |
| EBITDA margin | 44% | 44% | 40% | 44% | 45% | 45% |
| EBIT margin | 21% | 16% | 13% | 21% | 22% | 21% |
| Net profit (RONm) | 64 | 24 | 64 | 89 | 103 | 49 |
| Net profit margin | 7% | 4% | 10% | 10% | 7% | 3% |
| **Complexul Energetic Turceni (thermal)** | | | | | | |
| Net turnover (RONm) | 1,029 | 896 | 1,004 | 1,029 | 1,281 | 1,126 |
| EBITDA margin | 15% | 15% | 15% | 21% | 15% | 21% |
| EBIT margin | 6% | 6% | 6% | 10% | 5% | 3% |
| Net profit (RONm) | 42 | 46 | 42 | 78 | 20 | 21 |
| Net profit margin | 4% | 5% | 4% | 8% | 2% | 2% |
| **Complexul Energetic Craiova (thermal)** | | | | | | |
| Net turnover (RONm) | 862 | 680 | 812 | 862 | 1,069 | 1,132 |
| EBITDA margin | 9% | 12% | 11% | 9% | 7% | 7% |
| EBIT margin | 1% | 2% | 4% | 1% | 0% | 0% |
| Net profit (RONm) | 8 | 13 | 33 | 8 | 4 | 0 |
| Net profit margin | 1% | 2% | 4% | 1% | 0% | 0% |
| **Complexul Energetic Rovinari (thermal)** | | | | | | |
| Net turnover (RONm) | 845 | 706 | 918 | 812 | 957 | 845 |
| EBITDA margin | 10% | 20% | 10% | 17% | 8% | 9% |
| EBIT margin | 5% | 12% | 5% | 11% | 1% | 2% |
| Net profit (RONm) | 46 | 73 | 46 | 79 | 1 | 5 |
| Net profit margin | 5% | 10% | 5% | 10% | 0% | 1% |
| **Other sector's players** | | | | | | |
| **Electrocentrale Bucuresti (thermal)** | | | | | | |
| Net turnover (RONm) | 2,163 | 1,688 | 2,166 | 2,257 | 2,163 | 1,858 |
| EBITDA margin | 3% | 3% | 2% | 5% | -3% | 12% |
| EBIT margin | -3% | -3% | -4% | 0% | -9% | 4% |
| Net profit (RONm) | -95 | -156 | 26 | -95 | -346 | -43 |
| Net profit margin | -4% | -9% | 1% | -4% | -16% | -2% |
| **Electrocentrale Deva (thermal)** | | | | | | |
| Net turnover (RONm) | 895 | na | 754 | 815 | 974 | 1,007 |
| EBITDA margin | 3% | na | -4% | 6% | 0% | 9% |
| EBIT margin | -1% | na | -9% | 2% | -4% | 4% |
| Net profit (RONm) | -23 | na | -48 | 1 | -78 | 5 |
| Net profit margin | -3% | na | -6% | 0% | -8% | 1% |
| **Termoelectrica (thermal)** | | | | | | |
| Net turnover (RONm) | 674 | 402 | 692 | 674 | 640 | 723 |
| EBITDA margin | -33% | -37% | -59% | 120% | -21% | -33% |
| EBIT margin | -45% | -45% | -64% | 114% | -32% | -46% |
| Net profit (RONm) | -345 | -136 | -356 | 705 | -345 | -365 |
| Net profit margin | -51% | -34% | -51% | 105% | -54% | -51% |
| **Electrocentrale Galati** | | | | | | |
| Net turnover (RONm) | 327 | 1,689 | 303 | 327 | 330 | 327 |
| EBITDA margin | 7% | 3% | -30% | 38% | 7% | 7% |
| EBIT margin | 2% | -3% | -34% | 34% | 2% | 2% |
| Net profit (RONm) | 3 | -156 | -86 | 93 | 4 | 3 |
| Net profit margin | 1% | -9% | -28% | 28% | 1% | 1% |
| **Societatea Nationala a Lignitului (lignite mine)** | | | | | | |
| Net turnover (RONm) | 1,007 | 852 | 1,007 | 1,105 | 1,129 | 910 |
| EBITDA margin | 5% | 5% | 18% | 8% | 5% | 0% |
| EBIT margin | -2% | -3% | 13% | 1% | -2% | -7% |
| Net profit (RONm) | -22 | -22 | 103 | 16 | -30 | -70 |
| Net profit margin | -3% | -3% | 10% | 1% | -3% | -8% |
| **Societatea Nationala a Huilei (hard coal mine)** | | | | | | |
| Net turnover (RONm) | 396 | 392 | 366 | 396 | 461 | 409 |
| EBITDA margin | -53% | -38% | -53% | -52% | -69% | -140% |
| EBIT margin | -61% | -45% | -61% | -58% | -76% | -148% |
| Net profit (RONm) | -231 | -179 | -223 | -231 | -351 | -606 |
| Net profit margin | -61% | -46% | -61% | -58% | -76% | -148% |

*Source: Companies' annual reports; AFR estimates*

*Note: Please note that in 2007, the sector's aggregate net profit turned positive to RON 798m after the state cancelled Termolectrica's state budget liabilities of RON 1.5b while accounting for them as other operating income.*

### Trading risks

From the beginning of 2010 up to now, as the listing became certain, the Fund's free float increased from 39.7% to the current level of 61.1% out of which 19.5% is in the hands of the legal entities, while 41.6% is owned by 5,196 individuals.

Some of them are the former owners of the assets abusively confiscated by the Romanian state within the Communist era who received the shares for compensation while renouncing to their right to be reimbursed in cash (as long the claim did not exceed RON 0.5m). The others are those who bought FP shares on the OTC market at prices varying between RON 0.20-0.30 at the end of 2009 to RON 0.56 per share at the end of 2010.

With such great discrepancies between the upsides to diverse shareholders, the FP share price has all the chances to be very volatile at its trading inception before stabilising to a level, closer to the Fund's fundamentals.

## The Fund

### From compensating persons abusively expropriated by the Communist regime to portfolio management

Fondul Proprietatea ("the Fund" of "FP") was set up in November 2005 as a joint stock company to compensate people whose real estate assets have been abusively confiscated by the Romanian state during the Communist era. Officially registered as an investment company in August 2010, the current Fund's main business object and purpose is portfolio management. Nevertheless, the initial purpose of the Fund is still outstanding and shall be fully accomplished.

The initial sole shareholder of the Fund was the Romanian State represented by the Ministry of Finance. At the end of 2010, Ministry of Finance's participation in the Fund's share capital reached 38.9% as the former owners of nationalised assets were being offered shares in the Fund, diluting the State's initial 100% stake.

The National Authority for Property Restitution (NAPR - a body created through a Government Decision to manage the property restitution process) centralises all property claims and, for the owners entitled to compensation, issues titles called Reimbursement Certificates ("RC"). The RCs owners have two options:

- To swap them into the Fund shares (based on the nominal value of the Fund's shares), free of any costs or taxes, proportionally with the amount of the compensation granted (Value of RC / RON 1 = number of FP shares), or
- To cash-in the RCs as long as value does not exceed RON 0.5m. This option has been cancelled for two years starting with the 1st of July 2010

Once the Fund's listing entered the last stage, the number of FP shares to be granted for the reimbursement value became an issue since the share price will freely fluctuate on the market. So, NAPR decided to suspend the conversion procedures 10 business days prior to the first trading date and until the date falling on a Monday of the second week following the first 60 trading sessions of the Funds shares. After the conversion procedure is resumed, RCs will be converted into the Fund's shares based on the average market price of the last 60 trading days of the Fund.

### Management

The Fund is currently managed in a one-tier management system by the Sole Director approved on the 6th of September EGSM. Franklin Templeton Investment Management was selected to act as the investment manager of the Fund and its Sole Director for a period of four years. The current mandate may be automatically renewed unless the shareholders decide otherwise and may be terminated prior to the expiration.

Franklin Templeton's administration fee was agreed to 0.479% of the Fund's market capitalisation (based on the average market price of the last 90 trading days of the year).

The Sole Director acts under the control of the general shareholders' meeting (GSM) and supervision of the Board of Nominees.

The Board of Nominees is a body created in accordance with the Fund's articles of association and does not have an equivalent corporate structure regulated by the Companies' Law. The Board of Nominees consist of five members appointed for a mandate of three years and is currently chaired by Mr. Bogdan Dragoi, state secretary in Ministry of Finance. The Body of Nominees, named by the GSM, is tasked with general oversight of the Fund's investment manager and reports to the Fund's shareholders. The group's functions include also approval of the Fund's financial statements and its annual budget.

### Voting rights and shareholdings

There are no shareholdings limitations in the Fondul Proprietatea, but as long as the Ministry of Finance holds more than 33% of the Fund's share capital, the voting rights are restricted according to the stake owned as follows:

- for holdings ≤ 1% of share capital: every share gives the right to one vote;
- for holdings between 1% and 3% of share capital: up to 1% of share capital one vote for one share, between 1% and 3% of share capital one vote for every 2 shares;
- for holdings between 3% and 5% of share capital: up to 1% one vote for one share, between 1% and 3% one vote for every 2 shares, between 3% and 5% of share capital for every 3 shares one voting right;
- for holdings > 5% of share capital: the number of shares exceeding 5% of share capital have no voting rights attached;

*Please note that in the case of Ministry of Finance's holdings, the limitation of the voting rights above do not apply. Consequently, each share owned by the Ministry of finance gives one voting right to its owner.*

Regarding the right to receive dividends, there are no restrictions: each shareholder is entitled to dividends proportionally to the number of shares held.

According to our estimates, by the end of December 2010, the Fund's critical power outside the State's interests accounted for 23% of the voting rights, while the Ministry of Finance benefited a voting power of 41%. By the same date, 5,193 individuals with stakes less than 1% in the Fund cumulated 34% of the voting rights. However, this shareholding base is quite dispersed and we do not consider it as critical simply because we believe it is quite difficult to put together about 5,000 persons to get a consensus.

Shareholders base and voting rights as at December 31, 2010

| Shareholder | No. of shareholders | Voting power | Stake |
|---|---|---|---|
| Ministry of Finance | 1 | 41.28% | 38.88% |
| Malaxa | 1 | 2.83% | 5.95% |
| Cartesian | 1 | 2.00% | 2.77% |
| Wood&Co. | 1 | 1.96% | 2.70% |
| East Capital | 1 | 1.48% | 1.79% |
| Elliot | 1 | 1.48% | 1.79% |
| SIF Moldova | 1 | 1.06% | 1.00% |
| Individuals (stakes over 1%) | 2 | 2.12% | 2.00% |
| Institutionals (stakes under 1%) | 170 | 10.02% | 9.44% |
| Individuals (stakes under 1%) | 5,193 | 35.76% | 33.68% |
| **Total** | **5,372** | **100.00%** | **100.00%** |

*Source: AFR estimates*

*Please note that we based our estimations on the media news since the Fund is required to publish only holdings that reach, exceed or decrease below 5%, 10%, 15%, 20%, 25%, 33%, 50%, 75% and 90%.*

## Cash sources

### (1) Dividend income

Over 2007-2009 period, the Fund cashed dividends mainly from Petrom, Romgaz, Transgaz, Transelectrica and Alro.

In 2009 Petrom ceased the dividends distribution, substantially reducing the Fund's gross dividend income. On the 17th of May 2010, Petrom's CEO made public intentions of the company to start paying out dividends in 2011. We do not expect the intention to materialise this year since Petrom's share capital increase plan was abandoned and the company needs about €1b per year for investments. In our opinion, 2012 looks more feasible for Petrom to start paying dividends.

While Romgaz and Transgaz provide a rather stable dividend income stream, Transelectrica's distributable profits are heavily influenced by RON/EUR exchange rate.

In 2010, the government decided that state controlled companies will have to pay out 90% of their distributable profits as dividends.

Alro distributable profits are rather influenced by the economic cycles. Over 2007-2009 period the company's payout ratio stood, on a median basis, at 99%.

| The Fund's gross dividend income | | | |
|---|---|---|---|
| (RONm) | **2007** | **2008** | **2009** |
| Petrom | 100.2 | 217.6 | 0.0 |
| Romgaz | 35.2 | 38.7 | 40.9 |
| Alro | 27.6 | 43.0 | 18.9 |
| Transgaz | 18.2 | 17.0 | 18.5 |
| Transelectrica | 14.5 | 3.6 | 3.0 |
| Distrigaz Sud | 7.7 | 22.8 | 14.5 |
| Complexul Energetic Turceni | 3.0 | 8.2 | 2.3 |
| Complexul Energetic Craiova | 0.5 | 1.1 | 0.7 |
| Complexul Energetic Rovinari | 0.2 | 9.1 | 0.0 |
| Enel Distributie Banat | 0.0 | 29.5 | 0.0 |
| Enel Distributie Dobrogea | 0.0 | 13.2 | 0.0 |
| Others | 20.6 | 19.2 | 21.3 |
| **Total** | **227.6** | **422.8** | **120.1** |

*Source: Fondul Proprietatea*

### (2) Proceeds from sale of equity investments

In 2009, the Fund cashed in RON 980.2m as proceeds from sale of equity instruments related to the sale of its stakes in: Centrofarm (17.34%); CEZ Distributie (30%); CEZ Vanzare (30%); CEZ Servicii (12%) and Petrom Aviation (3%).

| The Fund's proceeds from sale of equity investments | | | |
|---|---|---|---|
| (RONm) | **2007** | **2008** | **2009** |
| | 0 | 0 | 980.2 |

*Source: Fondul Proprietatea*

### (3) Interest income

Interest income from banks deposits reached RON 135.3m in 2009. The Fund's 2009 bank deposits accumulated to RON 2,167.9m mainly on the back of proceeds from sale of equity investments of RON 980.2m and of treasury bills redemption (incl accrued interest of RON 7.2m) amounting to RON 397.6m. As at the end of 2010, the Fund's bank deposits stood at RON 1.07b

In 2008, the Fund's average interest rate reached 14.6% helped by the larger exposure to RON denominated deposits which carry higher rates.

| The Fund's interest income | | | |
|---|---|---|---|
| (RONm) | **2007** | **2008** | **2009** |
| Banks deposits | 593.7 | 578.7 | 2,167.8 |
| **Interest income** | **28.0** | **84.5** | **135.3** |
| Avg interest rate | 4.7% | 14.6% | 6.2% |
| Deposits ccy exposure | | | |
| RON | 54% | 72% | 45% |
| EUR | 46% | 28% | 55% |

*Source: Fondul Proprietatea*

## Dividend policy

The Fund distributed a gross dividend per share of RON 0.0066 in 2007 and an aggregate gross dividend per share (out of 2008 and 2009 net profits) of RON 0.0816. In 2008 there was no dividend paid. 2009 aggregate gross dividend implied a payout ratio of 98.8%

Up to 2008, the Fund's dividend policy assumed a 50% payout ratio. In the absence of exceptional market conditions or circumstances, for future years the Fund intends to distribute 100% of its distributable profits.

2010 results point to a gross dividend of RON 0.0157 if a payout ratio of 100% is considered.

## Investment policy restrictions and objectives

Pursuant to the articles of association, the Fund Manager decides upon the Fund's investment strategy and objectives, however subject to the limitations set out below and further subject to the approval of the general shareholders meeting in case of certain agreements on the Fund's assets whose value exceeds 5% of the Fund's asset value.

(1) The Fund may not hold more than 20% of its assets in non-listed securities and money markets instruments except for the non-listed securities transferred from the Romanian state to the Fund when set up and for the treasury bills and bonds issued by the Ministry of Finance;

(2) The value of the current accounts and of the cash held by the Fund shall not exceed 20% of its assets, although the weighting can temporarily (for 90 days) rise to 50% when the extra cash comes from divestments or matured investments. Also, the Fund's deposits with a bank cannot exceed 10% of its assets;

(3) The overall exposure to traded derivative financial instruments may not exceed 15% of its assets, while the exposure to non-traded derivative instruments may not exceed 10%;

(4) At least 20% of the Fund's assets should be securities listed on stock exchange;

(5) The Fund may not hold more than 10% of its assets in financial instruments issued by entities belonging to the same group;

(6) The Fund may not hold more than 10% of its assets in participation titles issued by the undertakings for collective investments in transferable securities (UNCITS) and/ or by the undertakings for collective investments (UCI);

(7) The Fund may hold money markets instruments only in financial institutions rated better than "investment grade" and may only invest in corporate bonds rated better than "investment grade"

(8) The Fund is not allowed to conclude loans agreements for investment purposes.

One of the most challenging objective of the Fund Manager is to gradually move the structure of portfolio towards 100% listed companies and, accordingly, the Fund Manager will encourage unlisted companies within the Portfolio to improve their corporate governance standards with a view to eventually listing. Furthermore, the Fund manager targets the diversification across the most attractive sectors and companies, at the same time aiming to reduce the current number of Portfolio Companies, by means of sale of existing holdings through public offerings or by direct disposal transactions with strategic investors or controlling shareholders.

## Fund's NAV official valuation method

Up to October 31, 2010 the Fund's NAV was determined based on a set of official rules provided by the Romanian National Securities Commission (NSC) and currently used by the SIFs (five closed-end investment funds listed on Bucharest Stock Exchange) for valuing their assets.

On the date of the Prospectus, the NSC applicable regulation did not provide for any derogation from the legal requirements of calculation of the NSC NAV by the Fund. As such, the Fund published a NAV per share of RON 0.9792. However, the Fund's November NAV reflects the modification approved in the meantime by NSC for valuing the Fund's assets. As you see from the table below, the new NSC regulation brings a 17.9% increase in the Fund's November NAV per share as compared with October.

**Reported NAV per share**

| | Number of Shares | Total NAV (RON m) | NAV per Share (RON) |
|---|---|---|---|
| 31-Dec-10 | 13,778,392,208 | 15,328.17 | 1.1125 |
| 30-Nov-10 | 13,778,392,208 | 15,901.86 | 1.1541 |
| 31-Oct-10 | 13,778,392,208 | 13,491.90 | 0.9792 |
| 30-Sep-10 | 13,778,392,208 | 13,396.92 | 0.9723 |

*Source: Fondul Proprietatea*

The NSC valuation methodology applicable only to the Fund comes with a set of exemptions from the assets' valuation methodology of the other five closed-end investment funds listed on Bucharest Stock Exchange (SIF1, SIF2, SIF3, SIF4, and SIF5).

Firstly, the listed securities and money market instruments are valued at exchange closing prices, rather than at a 90 day weighted average price. Secondly, unlisted shares can be valued using either shareholders equity as per latest financial statements or by using valuation methods in accordance with international valuation standards (fair value principles). In the case of SIFs, depending on their holding in each of the portfolio companies, discounts are applied to company's shareholders equity to account for minority stakes.

The Fund's reported NAV for December reflects the Fund's stakes in the unlisted shares at their shareholders equity as per latest financial statements with one exception, CN Aeroporturi Bucuresti which is valued at fair value as appraised by an independent valuator.

In the Prospectus, an independent valuation carried accordingly to the international valuation standards is provided by the Fund for each one of its assets. The purpose of the independent valuation was to establish the market value for the assets within the Fund's portfolio in view of its listing. The Fund selected the companies to perform the independent valuation among the companies certified by the Romanian National Association of Valuators (ANEVAR) and registered by NSC as authorised valuator. For example, KPMG Romania valued 15 companies from the Fund's portfolio.

Please note that while the Fund does not have the legal obligation to disclose its stake value in each company, but only the aggregate amount for all its participations, the latest available shareholders equity values for the portfolio's unlisted companies are dated as at the end of 2009. So, below we will present the Fund's portfolio structure based on 2009 shareholders equity value for the unlisted companies and on latest market price for the listed companies.

## Portfolio structure

The Fund owns stakes in 83 companies out of which 28 are listed companies and 55 unlisted.

Please note that while the Fund does not have the legal obligation to disclose its stake value in each company, but only the aggregate amount for all its participations, the latest available shareholders equity values for the portfolio's unlisted companies are dated as at the end of 2009. So, below we will present the Fund's portfolio structure based on 2009 shareholders equity value for the unlisted companies and on latest market price for the listed companies.

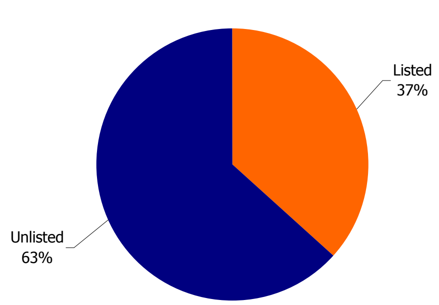
Listed companies account for 37% of total portfolio's estimated value, while the unlisted companies account for the rest (63%).

OMV Petrom, weights 79% in total listed portfolio, while Transgaz, Alro and Transelectrica stakes account for 9%, 5% and 4% respectively. The Fund holds stakes also in other listed companies. The most valuable is Conpet holding which represents about 1% of total listed portfolio.

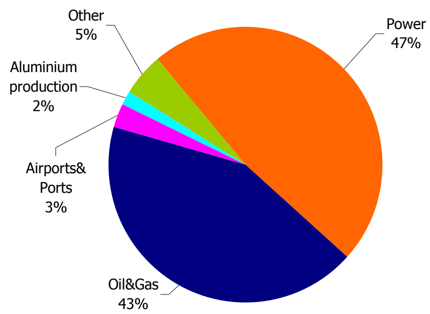
Hidroelectrica, weights 35% in total unlisted portfolio, while Romgaz, Nuclearelectrica and Complexul Energetic Turceni (TPP Turceni) stakes account for 14%, 8% and 6% respectively.

In terms of sectors exposure, the Fund is heavily weighted on oil&gas sector (43%) and power sector (47%), followed, at a significant distance, by the transportation sector (airports&ports) with a weight of 3%. Aluminium production sector, represented by Alro, counts for 2% of the total portfolio value.

**Portfolio structure: listed vs. unlisted**

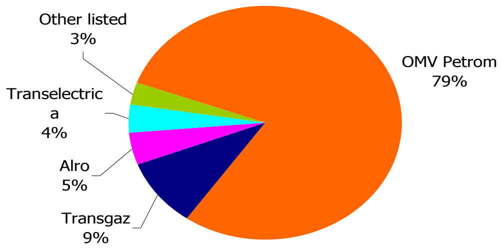


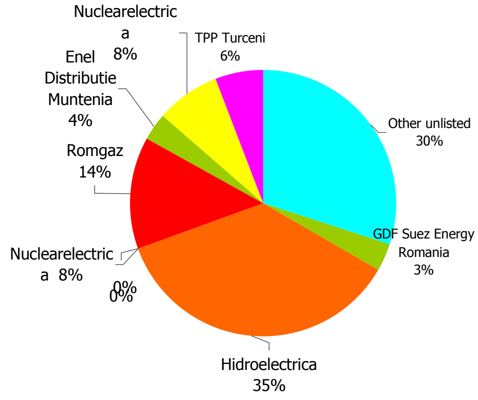

**Portfolio structure by sector**




*Source: AFR, *based on 2009 shareholders equity for the unlisted stakes and market prices for listed stakes*

| Listed portfolio structure | Unlisted portfolio structure |
|---|---|




*Source: AFR, *based on 2009 shareholders equity for the unlisted stakes and market prices for listed stakes*

### The current Fund's share capital misses RON 731.3m from the capital allocated by law in 2005

By law, to ensure the necessary financial resources to reimburse persons improperly expropriated by the communist regime, certain stakes in the State owned companies were allotted to set up the initial Fund's share capital corresponding to 14,240,540,675 shares with a nominal value of RON 1 per share. Additionally, the law stipulated that the amounts resulted from the sales of a 4% stake in BCR (Romanian Commercial Bank) and of a 3% stake in Romtelecom, as well as the amounts resulted from the recovery of Romanian state's receivables accumulated before December 1989 from cooperation and trade activities with diverse foreign states would be directed to the Fund as share capital increases as soon as the respective amounts would be cashed in.

At present, the Fund's share capital corresponds to 13,778,392,208 shares with a nominal value of RON 1, while some of the initial stakes in the State owned companies are lower than stipulated by law.

According to our estimates and to the Fund's data, the current Fund's share capital misses about RON 731.3m from the initial share capital allotted by law in 2005.

| The Fund's cancelled and unsubscribed share capital (RON) | |
|---|---|
| Cancelled subscribed and unpaid share capital | 462,148,467 |
| Unsubscribed share capital | 269,112,161 |
| **Total** | **731,260,628** |

*Source: Fondul Proprietatea, AFR estimates*

RON 462.1m correspond to the state subscribed and unpaid capital and subsequently cancelled and RON 269.1m represent the share capital the state has to subscribed as required by law no. 247/2005.

In September 2007, Fund's assets were valued at RON 13.3b by an authorised valuator. By law, the difference as compared with the initial share capital of RON 14.2m, in this case 966,690,992 shares with a nominal value of RON 1, were considered unpaid for and owed by the Romanian State. As at the end of August 2010, only RON 504,542,525 was paid in by additional transfers made by the Romanian State. On the 6th of September GSM this year, the State decided to cancel the rest, corresponding to a subscribed and unpaid capital of RON 462.1m to facilitate the 2008 and 2009 dividends distribution, impossible without a reconciliation of the Fund's share capital.

| Subscribed and unpaid share capital reconciliation | | |
|---|---|---|
| (RON) | | |
| **Initial share capital according to GO 1481/2005** | | **14,240,540,675** |
| Value of assets appraised by Finevex (2007) | | 13,273,849,683 |
| **Difference** | | **966,690,992** |
| Value of the share capital subscribed by subsequent contributions o/w | | **504,542,525** |
| | 2007 | 350,795,698 |
| | 2008 | 54,629,625 |
| | 2009 | 63,846,176 |
| | 2010 | 35,271,026 |
| **Subscribed and unpaid capital as at the end of August, 2010** | | **462,148,467** |
| **Subscribed and paid capital as at the end of December, 2010** | | **13,778,392,208** |

*Source: Fondul Proprietatea*

*Note: The capital subscribed by subsequent contributions over 2007-2010 period to reconcile the unpaid share capital came mainly from the sale of a 4% stake in the Romanian Commercial Bank in 2007 (RON 296.9m) and from the recovery of some foreign trade receivables.*

Law no. 247 established in 2005 that the Fund has to receive a 20% stake in Nuclearelectrica, a 20% stake in Hidroelectrica and a 25% stake in each of the three thermal power plants (Complexul Energetic Turceni, Complexul Energetic Rovinari and Complexul Energetic Craiova). By law, in case the State undergoes share capital increases to the respective companies, the Fund's stake should be maintained flat.

Currently, the Fund owns 9.73% of Nuclearelctrica, 19.94% of Hidroelectrica, 24.36% of TPP Craiova, 23.60% of TPP Rovinari and 24.79% of TPP Turceni due to subsequent share capital increases undergone and approved by the state. In this respect, the Fund filled legal actions against the State.

**The Fund's unsubscribed share capital**

| (RON) | Legally binding FP's stake | Current FP's stake | FY'09 Share capital | Unsubscribed Share capital |
|---|---|---|---|---|
| Nuclearelctrica | 20% | 9.73% | 2,536,823,610 | 260,531,785 |
| Hidroelectrica | 20% | 19.94% | 4,463,991,497 | 2,678,395 |
| TPP Craiova | 25% | 24.36% | 258,712,030 | 1,661,190 |
| TPP Rovinari | 25% | 23.60% | 234,082,478 | 3,277,155 |
| TPP Turceni | 25% | 24.79% | 458,874,696 | 963,637 |
| **Total** | | | | **269,112,161** |

*Source: Fondul Proprietatea (FP), AFR estimates*

Please note that in the case of Nuclearelectrica, the legally binding 20% stake was never granted in full and the initial allotted participation of 11.24% was diminished by subsequent share capital increases to 9.73%.

Furthermore, if assets value considered, the Fund's unrecovered value from diminished and not allocated stakes in the above mentioned companies, would amount to RON 781.3m (based on 2009 book values).

**The Fund's unrecoverd value**

| (RON) | Legally binding FP's stake | Current FP's stake | FY'09 Book Value | FP's unrecovered book value |
|---|---|---|---|---|
| Nuclearelctrica | 20% | 9.73% | 7,253,745,012 | 744,959,613 |
| Hidroelectrica | 20% | 19.94% | 16,554,587,790 | 9,932,753 |
| TPP Craiova | 25% | 24.36% | 1,097,463,297 | 7,046,812 |
| TPP Rovinari | 25% | 23.60% | 1,064,661,944 | 14,905,267 |
| TPP Turceni | 25% | 24.79% | 2,138,589,395 | 4,491,038 |
| **Total** | | | | **781,335,482** |

## Valuation

### Valuation methodology

Due to the particular characteristics of the listing of Fondul Proprietatea (direct listing for trading of existing shares, no public offering, broad and diverse shareholding base, past extensive OTC trading at wide spread of prices between RON 0.2 and RON 0.6, unquantifiable State-related risks) for the purpose of this pre-listing initiation we will provide a price range delimited by a bottom value and a target value.

Our **AFR Bottom NAV** captures the absolute floor of realisable value of the Fondul Proprietatea, according to our opinion, taking into consideration all quantifiable risks at the most conservative way. The AFR Bottom NAV consists, for the listed portfolio companies, of their current Bucharest Stock Exchange market values, except for those with negative shareholders equity, (Telerom Proiect, Prestari Servicii, Resib, Bat Service and Alcom) or not traded in the last 90 days, which we valued at zero.

For the unlisted portfolio companies we employed the relative valuation method based on LFY EPS, EBITDA and BV peers multiples, as well as sum-of-parts to reach their fair realisable values, with the exception of the following companies, in which FP's stakes were valued to zero:

- the three State-controlled power suppliers with negative equity (Electrica Furnizare Muntenia Nord, Electrica Furnizare Transilvania Nord and Electrica Furnizare Transilvania Sud) and which most probably will fill for the insolvency procedures on the back of unrecoverd receivables
- the three State-controlled power distributors Electrica Distributie Muntenia Nord, Electrica Distributie Transilvania Nord and Electrica Distributie Transilvania Sud) due to the chain reaction that the above mentioned power suppliers will trigger as the power distributors has to cash in from the former
- other unlisted (24 companies) due to their insignificant capitalization and lack of transparency
- the power generators which are included in the power re-organization plan due to the risks the FP's exposure to this sector implies (for a discussion on the State-controlled power sector and the attached risks please see chapter "Risk analysis")

AFR Bottom NAV aims to give a reliable estimation for a comfort level after accounting for worst-case scenaria with particular focus to the great profitability problem of the much-promising but severely hampered power sector.

Our **AFR Target NAV** indicates a reasonable expectation for the value of the Fondul Proprietatea, taking into account the expectations for the listed companies' evolution and a more optimistic view on the problematic State-controlled power generation and power distribution sectors. AFR Target NAV consists, for the listed portfolio companies which are covered by us, of their AFR-Target Prices. For the rest listed, their market value is used, except again for those with negative shareholders equity, (Telerom Proiect, Prestari Servicii, Resib, Bat Service and Alcom) or not traded in the last 90 days, which we valued at zero.

For the unlisted portfolio companies we employed the relative valuation method based on LFY EPS, EBITDA and BV peers multiples, as well as sum-of-parts to reach their fair realisable values, with the exception of the following companies, in which FP's stakes were valued to zero:

- the three power suppliers with negative equity (Electrica Furnizare Muntenia Nord, Electrica Furnizare Transilvania Nord and Electrica Furnizare Transilvania Sud)
- other unlisted (24 companies) due to their insignificant capitalisation

AFR Target NAV provides the upper limit of our FP's perceived value. It still quantifies profitability-attached risks, but assuming some realisable value for the State-controlled power generation and distribution sectors.

| Valuation methodology | AFR Bottom NAV* | AFR Target NAV* |
|---|---|---|
| **Portfolio** | | |
| Listed AFR covered | Mark-to-market | AFR-Target Price |
| Rest of listed | Mark-to-market or 0 | Mark-to-market or 0 |
| Unlisted (majors) | AFR-value or 0 | AFR-value |
| Other unlisted | 0 | 0 |

*In both bottom and target values are included the same cash/other assets and liabilities.

| Portfolio companies valuation | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (RONm) | Market cap | FP's stake | Reported Value (E) | Market value | AFR Target Value | % Δ * | Portfolio weight** | Controlling entity | Sector |
| **Listed - total** | | | | | | | | | |
| OMV Petrom | 20,788 | 20.1% | 4,181 | 4,181 | 4,796 | 15% | 43% | OMV (51%) | Oil&Gas |
| Transgaz | 3,332 | 15.0% | 499 | 499 | 507 | 1% | 5% | Ministry of Economy (73.5%) | Gas transport |
| Transelectrica | 1,510 | 13.5% | 204 | 204 | 211 | 4% | 2% | Ministry of Economy (73.7%) | Power transmission |
| Alro | 2,420 | 9.9% | 240 | 240 | 240 | 0% | 2% | Vimetco N.V. (84.2%) | Aluminium production |
| Conpet | 312 | 20.1% | 63 | 63 | 63 | 0% | 1% | Ministry of Economy (58.7%) | Oil transport via pipelines |
| Primcom | 29 | 79.0% | 23 | 23 | 23 | 0% | 0% | Property Fund (79%) | Real estate |
| Romaero | 105 | 21.0% | 22 | 22 | 22 | 0% | 0% | Ministry of Economy (51.9%) | Air and spacecraft machinery |
| Azomures | 264 | 7.7% | 20 | 20 | 20 | 0% | 0% | Eurofert Investments (56.8%) | Fertilisers production |
| Oil Terminal | 138 | 10.0% | 14 | 14 | 14 | 0% | 0% | Ministry of Economy (59.6%) | Cargo handling |
| Other listed (19 companies) | 144 | | 21 | 1 | 1 | 0% | 0% | | |
| **Total** | | | **5,287** | **5,267** | **5,896** | **12%** | **54.0%** | | |
| | FY'09 BV | FP's stake | Reported Value (E) | AFR Bottom Value | AFR Target Value | % Δ * | Portfolio weight** | Controlling entity | Sector |
| **Unlisted - privately controlled** | | | | | | | | | |
| Enel Distributie Banat | 1,152 | 24.1% | 278 | 450 | 450 | 62% | 5% | Enel Investment Holding (51%) | Power distribution |
| Enel Distributie Dobrogea | 807 | 24.1% | 194 | 294 | 294 | 51% | 3% | Enel Investment Holding (51%) | Power distribution |
| Enel Distributie Muntenia | 2,705 | 12.0% | 325 | 445 | 445 | 37% | 5% | Enel Investment Holding (64.4%) | Power distribution |
| E.ON Moldova Distributie | 822 | 22.0% | 181 | 201 | 201 | 11% | 2% | E.ON Romania (51%) | Power distribution |
| Enel Energie Muntenia | 309 | 12.0% | 37 | 45 | 45 | 21% | 0% | Enel Investment Holding (64.4%) | Power supply |
| Enel Energie | 197 | 12.0% | 24 | 19 | 19 | -19% | 0% | Enel Investment Holding (51.1%) | Power supply |
| E.ON Moldova Furnizare | 119 | 22.0% | 26 | 3 | 3 | -88% | 0% | E.ON Romania (51%) | Power supply |
| E.ON Gaz Distributie | 900 | 12.0% | 108 | 152 | 152 | 41% | 2% | E.ON Romania (51%) | Gas distribution |
| GDF Suez Energy Romania | 2,522 | 12.0% | 303 | 427 | 427 | 41% | 4% | Romania Gas Holding (51%) | Gas supply |
| E.ON Gaz Romania | 825 | 12.0% | 99 | 140 | 140 | 41% | 1% | E.ON Romania (51%) | Gas supply |
| **Total** | | | **1,574** | **2,175** | **2,175** | **38%** | **22%** | | |
| **Unlisted - state controlled** | | | | | | | | | |
| Romgaz | 8,308 | 15.0% | 1,246 | 1,581 | 1,581 | 27% | 16% | Ministry of Economy (85.0%) | Gas E&P |
| Hidroelectrica | 16,555 | 19.9% | 3,302 | 0 | 1,071 | -68% | 0% | Ministry of Economy (80.1%) | Hydro power generation |
| Nuclearelectrica | 7,254 | 9.7% | 705 | 0 | 528 | -25% | 0% | Ministry of Economy (90.3%) | Nuclear power generation |
| Complexul Energetic Turceni | 2,139 | 24.8% | 530 | 0 | 754 | 42% | 0% | Ministry of Economy (74.6%) | Thermal Power Generation |
| Complexul Energetic Craiova | 1,097 | 23.6% | 259 | 0 | 203 | -22% | 0% | Ministry of Economy (75.9%) | Thermal Power Generation |
| Complexul Energetic Rovinari | 1,065 | 23.6% | 251 | 0 | 199 | -21% | 0% | Ministry of Economy (75.9%) | Thermal Power Generation |
| Electrica Distributie Muntenia Nord | 1,056 | 22.0% | 232 | 0 | 156 | -33% | 0% | Electrica (78.0%) | Power distribution |
| Electrica Distributie Transilvania Sud | 822 | 22.0% | 181 | 0 | 157 | -13% | 0% | Electrica (78.0%) | Power distribution |
| Electrica Distributie Transilvania Nord | 768 | 22.0% | 169 | 0 | 153 | -10% | 0% | Electrica (78.0%) | Power distribution |
| Electrica Furnizare Transilvania Sud | 0 | 22.0% | 0 | 0 | 0 | 0% | 0% | Electrica (78.0%) | Power supply |
| Electrica Furnizare Muntenia Nord | 0 | 22.0% | 0 | 0 | 0 | 0% | 0% | Electrica (78.0%) | Power supply |
| Electrica Furnizare Transilvania Nord | 0 | 22.0% | 0 | 0 | 0 | 0% | 0% | Electrica (78.0%) | Power supply |
| CN Aeroporturi Bucuresti | 1,612 | 20.0% | 322 | 442 | 442 | 37% | 5% | Ministry of Transportation (80.0%) | Airports services |
| Aeroportul International M. Kogalniceanu | 12 | 20.0% | 2 | 4 | 4 | 74% | 0% | Ministry of Transportation (60.0%) | Airports services |
| Aeroportul International Traian Vuia | 25 | 20.0% | 5 | 15 | 15 | 209% | 0% | Ministry of Transportation (80.0%) | Airports services |
| CN Administratia Porturilor Maritime | 302 | 20.0% | 60 | 98 | 98 | 62% | 1% | Ministry of Transportation (60.0%) | Ports services |
| CN Administratia Porturilor Dunarii Maritime | 10 | 20.0% | 2 | 2 | 2 | -1% | 0% | Ministry of Transportation (80.0%) | Ports services |
| CN Administratia Porturilor Dunarii Fluviale | 17 | 20.0% | 3 | 9 | 9 | 157% | 0% | Ministry of Transportation (80.0%) | Ports services |
| CN Administratia Canalelor Navigabile | 65 | 20.0% | 13 | 16 | 16 | 23% | 0% | Ministry of Transportation (80.0%) | Ports services |
| Societatea Nationala a Sarii | 160 | 49.0% | 79 | 92 | 92 | 18% | 1% | Ministry of Economy (51.0%) | Salt extraction |
| Posta Romana | 678 | 25.0% | 169 | 55 | 55 | -68% | 1% | Ministry of Communication (75.0%) | Postal services |
| **Total** | | | **7,532** | **2,314** | **5,535** | **-69%** | **24%** | | |
| **Other unlisted** | | | | | | | | | |
| 24 companies | 326 | | **59** | **0** | **0** | **-100%** | **0%** | | |
| **PORTFOLIO VALUE** | | | | **9,756** | **13,607** | | **100%** | | |

*Source: Companies' annual reports, AFR estimates; Note: Reported value (E) estimates according to the official methodology: last close (listed Cos) and FY'09 BV (unlisted Cos)*

* % Δ AFR target value vs. Reported value; ** weight based on AFR Bottom Value

### Valuation summary

| AFR NAV estimations | | | |
|---|---|---|---|
| (RONm) | Reported Value (E) | AFR Bottom value | AFR Target value |
| **Traded shares, o/w** | **5,287** | **5,267** | **5,896** |
| Listed - majors | 5,124 | 5,124 | 5,754 |
| Listed - other | 163 | 143 | 143 |
| **Unlisted shares, o/w** | **9,165** | **4,490** | **7,710** |
| Unlisted - majors (privately controlled) | 1,574 | 2,175 | 2,175 |
| Unlisted - majors (state controlled) | 7,532 | 2,314 | 5,535 |
| Unlisted- other | 59 | 0 | 0 |
| **Portfolio value** | **14,452** | **9,756** | **13,607** |
| Cash | 1,078 | | |
| Other assets | 254 | | |
| **Total assets** | **15,784** | **11,089** | **14,939** |
| Liabilities | 84 | | |
| **Reported NAV *** | **15,328** | | |
| **AFR NAV** | | **11,005** | **14,856** |
| *No of shares (m)* | *13,778* | | |
| **NAV/share (reported)** | **1.1125** | | |
| **AFR NAV/share** | | **0.7987** | **1.0782** |
| Upside/downside potential | | -28% | -3% |

*Source: AFR estimates; *reported NAV as at December 31, 2010*
Note: Reported value estimates based on last close (listed Cos) and FY'09 BV (unlisted Cos)

**AFR Bottom Value emerges at RON 0.7987 implying a 28% discount to the reported NAV**

This discount to official NAV represents our (bottom-up) quantification, in the most plausibly prudent manner, of all the risks to the Fund. This treatment assigns a special weight to the State-controlled, severely obsolete, heavily cross-subsidised and chronically unprofitable power market which presents a major risk that is going to amplify in the medium term. Our bottom value, prices in this risk by valuing to zero all the State-controlled portfolio companies operating with the power sector.

Our bottom valuation reveals **high exposure** to **listed companies** driven by **OMV Petrom** holding and to the **oil & gas sector**, driven again by **OMV Petrom** holding but boosted further by **Romgaz** and **Transgaz** stakes. The Fund's stake in listed portfolio companies accounts for 48% of the AFR Bottom NAV, while unlisted portfolio companies account for 41% of the AFR Bottom NAV. The stake in privately-controlled unlisted companies account for 20% of our bottom value while State-controlled unlisted companies for 21%. Oil & gas accounts for 64% of the AFR Bottom NAV, power for 15% and airports & ports accounts for 5%.

**AFR Target Value reaches RON 1.0782 implying a 3% discount to the reported NAV**

Our conclusion is that, venturing beyond the realms of RON 1.08 investors would enter speculative territory with no adequate fundamental support. Our target value encompasses a less hawkish treatment of the State-controlled power sector by assigning a value to it which would be plausible on a theoretical basis assuming an optimistic view on future developments.

Our target value demonstrates increased exposure to power sector driven by the stakes in power generation portfolio companies, but OMV Petrom, Romgaz and Transgaz holdings maintain the Fund's exposure to oil & gas sector as dominant. The Fund's stake in unlisted portfolio companies accounts for 52% of the AFR Target NAV, while in listed ones for 39%. Privately controlled unlisted companies account for 15% of the target value and State-controlled unlisted ones for 38%. Oil & gas accounts for 52% of the AFR Target NAV, power for 33% and airports & ports accounts for 4%.

### Listed companies (AFR covered)

**OMV Petrom** [RIC: SNPP.BX; BQ: SNP RO] is engaged in the extraction, production and distribution of oil, natural gas and refined products. Its business divisions include the exploration and production of oil and gas; the refining and marketing activities, and the gas and power segment, focusing on gas sales and power generation. In 2009 the company's hydrocarbons production reached 68.3m boe out of which 49% represented crude and NGL production and 51% natural gas production.

In December 2010, we updated our view on Petrom with a BUY recommendation and a target price of RON 0.421 per share revealing an upside potential of 14.7% against last close.

Helped by a favourable crude price environment and by lower operating expenses, for 9M’10 SNP posted a consolidated EBIT of RON 2,012m (+41.0% Y/Y) and a net profit of RON 1,410.8m (+46.4% Y/Y).

Our target price incorporates the additional value creation through expanding the G&P value chain to electrical power (Brazi power plant and Dorobantu wind power park). Petrom’s 850MW gas-fired power plant from Brazi is on track and will become operational by the end of 2011. The plant will account for 8-9% of the Romania’s installed power capacity and will consume about 1.2b $m^3$ of natural gas per year (0.1b $m^3$ under what company is currently producing within a quarter). G&P strategy, focused on firing the gas to generate power instead of selling it at half of the imported gas price, will partially free the SNP’s growth potential locked into the capped domestic gas price. As regarding Dorobantu wind power park, the construction works started in Q3’10. Besides, as long as crude is up, SNP is a BUY. With OPEC's production kept flat at 2009 level and forecasts for 2011 world oil demand creeping upwards, crude seems poised to stay around $90/bbl during the cold season, averaging $85/bbl (+7.9% Y/Y) in 2011. For 2010, we expect to see SNP’s posting a net profit RON 1,473m (+77% Y/Y) and for 2011 we see it further up to RON 1,979 (+34% Y/Y).

The Fund’s OMV Petrom stake accounts for 38% of the AFR Bottom NAV, while at target price for 33% of the AFR Target NAV.

**Transgaz** [RIC: TGNM.BX; BQ: TGN RO] is the sole operator of the national natural gas transportation grid.

In November 2010, we updated our view on Transgaz with a HOLD recommendation and a target price of RON 287.1 per share revealing an upside potential of 1.4% against last close.

Transgaz is one of our favourite listed companies on BSE on four reasons. First, the company’s debt is low enough not to significantly influence the net result on the back of translation to RON of the foreign currency denominated liabilities. Second, at Transgaz, what is budgeted is usually realised - so there are very few negative surprises. Third, the company’s dividends are rewarding. Finally, conspicuously TGN trades at undemanding multiples against peers. For 2010 we estimate the company will reach its budgeted net profit implying a gross dividend per share of RON 26.58 and a dividend yield (at current market price) of 9.4%.

At market price, the Fund’s Transgaz stake accounts for 5% of the AFR Bottom NAV, while at target price for 3% of the AFR Target NAV.

**Transelecrica** [RIC: TSEL.BX; BQ: TEL RO] is the sole operator of the national power transmission grid.

In November 2010, we updated our view on Transelectrica with a HOLD recommendation and a target price of RON 21.35 per share revealing an upside potential of 3.6% against last close.

The most important thing to be known about Transelectrica is that the company's net profit is heavily influenced by RON/EUR exchange rate fluctuations. With long-term debts of RON 951.4m (as at the end of June, IFRS consolidated), out of which about 80% are EUR denominated, FX gains or losses from foreign currency denominated debt revaluation may have a major impact on company’s end line. In 2009, for example, while EUR closed the year up by 6.10% Y/Y against the RON, TEL posted FX losses of RON 62.7m. In 2010, EUR closing at RON 4.2848 (+1.3% Y/Y) should bring FX losses from foreign currency denominated debt of RON 22.2m. Since for 2011 there are expectations for RON appreciation against the EUR, , this time we expect to see FX gains from debt revaluation contributing to Transelectrica's end line. At the operational level, the higher average transportation tariff (+10.44% Y/Y) and higher volumes transported (+3%Y/Y, AFR estimations), mainly on the back of increasing power exports, should increase the company’s profits by 70% Y/Y.

The Fund's Transelectrica stake accounts for 2% of the AFR Bottom NAV, while at target price for 1% of the AFR Target NAV.

### Unlisted, privately controlled companies

Our market values of the unlisted, privately controlled companies correspond to our target values (they are the same) as our analysis reveals no liquidity risks for the Fund's investors. At market price, the Fund's cumulative stake in the unlisted privately controlled companies accounts for 20% of the AFR Bottom NAV, while at target price for 15% of the AFR Target NAV.

The median values implied by the selected peers multiples indicate premia to FY'09 book values for the Fund's stakes (> RON 100m) in the unlisted, privately controlled companies.

The unlisted-privately controlled companies are companies operating in power and gas sectors as suppliers and/or distributors and are controlled by Enel, E.ON and GDF.

Among them, the three power distributors controlled by Enel are by far the most profitable while being loaded with cash. For example, in 2009 Enel Distributie Muntenia posted RON 1.85b in cash. Enel's power distributors' 2009 net profit margins varied from 23.5% (Enel Distributie Dobrogea) to 38.2% (Enel Distributie Muntenia).

Romanian power and gas sectors' privatisation attracted first tier European investors, most of them interested in distribution and supply: **ENEL** (power distribution: Enel Distributie Banat, Enel Distributie Dobrogea; Enel Distributie Muntenia; power supply: Enel Energie Muntenia, Enel Energie); **E.ON** (power distribution: E.ON Moldova Distributie; power supply: E.ON Moldova Furnizare; gas distribution: E.ON Gaz Distributie; gas supply: E.ON Gaz Romania); **GDF** (gas supply: GDF Suez Energy Romania).

The State applied the same privatisation method. Initially, the State sold a a minority stake to each buyer, afterwards a share capital increase followed, where only the buyer had the right to participate, diluting the State's stake to less than 50%. The cash injected by the buyers was used in subsequent investments needed to upgrade the distribution grid. In 2007, distribution and supply activities had to be legally separated to comply with EU standards.

The privatisation agreement with Enel contains specific references granting the Fund "tag-along" rights: should Enel intend to sell its controlling participation to a third party, the Fund shall have the right to sell all its shares on substantially the same terms and conditions as Enel.

The privatisation agreement with E.ON contains clauses referring both to put and call options, but according to the Fund, a court ruling, which has not occurred to date, might be necessary to decide whether such put call options are exercisable in respect of the Fund's shareholding.

### Unlisted, State-controlled companies

At market price, the Fund's cumulative stake in the State-controlled companies accounts for 21% of the AFR Bottom NAV, while at target price for 38% of the AFR Target NAV.

With few exceptions (Romgaz, Complexul Energetic Turceni, CN Aeroporturi Bucuresti, CN Administratia Porturilor Maritime and Salrom), the median values implied by the selected peers multiples indicate discounts to FY'09 book values for the Fund's stakes (> RON 100m) in the unlisted, state-controlled companies.

There is no secret; in general, **State control** deters company's profitability negatively impacting their fair values. In this sense, the best example is the Fund's exposure to the power distribution sector.

The Fund's owns participations in four privately controlled power distribution companies and in three state controlled power distributors. Our valuation reveals big premium to book values in the case of the privately controlled stakes and big discounts in the case of state controlled power distribution companies on the back of significant differences when companies' earning powers considered. On a 2Y median basis (2008-2009), the privately controlled power distributors (Enel Distributie Banat, Enel Distributie Dobrogea, Enel Distributie Muntenia and E.ON Moldova Distributie) posted an aggregate EBITDA margin of 26% and an aggregate net profit margin of 20%. Over the same period, the state controlled power distributors (Electrica Distributie Muntenia Nord, Transilvania Sud and Transilvania Nord) posted a median aggregate EBITDA margin of 18% and an aggregate net profit margin of 6%.

However, when referring to the portfolio companies, the general statement regarding the state negative influence on companies' earning power has to be nuanced. Let's consider the biggest Fund's stakes in unlisted companies which are also state controlled: Romgaz and Hidroelectrica. While Romgaz is a profitable company by all standards, Hidroelectrica, at best, could be categorised as a big and dull company with a derisory net profit margin. So, state control is not the only factor negatively impacting the companies' profitability. There are also the **gas and power industry's characteristics** to be considered.

Gas production & exploration industry is rather a duopoly with Romgaz and OMV Petrom sharing equally about 98% of the market.

**Romgaz** is engaged in natural gas exploration and production. With a total output of 5.79 bcm, Romgaz accounted for 51.3% of 2009 total domestic natural gas production, followed by Petrom with a 46.3% stake. Ministry of Economy owns 85% of Romgaz. **By December this year, the Ministry of Finance plans to sell 15% of the Romgaz on the BSE.**

Despite the state control, Romgaz is one of the most profitable companies when compared with the domestic and international peers. For example, in 2009 Romgaz posted an EBITDA margin of 40.5% while the peers' median stood at 39.8%. To enlarge the picture, Gazprom's 2009 EBITDA margin reached 36.1%, while Petrom's margin stood at 25.5%.

Romgaz's growth potential stems from the future convergence of the domestic gas price (USD 160/1000m$^3$) to the imported gas which is about double. Yes, there is potential but not as big as expected. After all, domestic gas prices rise has to keep the pace with the domestic consumers' buying power increase. It's true, Romania is under EU pressure to liberalise further the market by letting domestic gas prices rise, but the new Szeged-Arad gas pipeline rather creates the premises for "liberalising" the imported gas prices. Romgaz already imported small NG volumes through the new pipeline and hopes becoming an active player on the Natural Gas Exchange of Vienna by June-July 2011. At the end of September, on Vienna Stock Exchange, natural gas was quoted at $278/1000m$^3$, while Romania imported gas from Gazprom at $357/1000m$^3$. The acquisition of natural gas from the Western markets could prove an alternative to the imports from Russia or it could help reduce the volumes bought from there, lowering the imported gas price in Romania and rendering domestic prices less misaligned. However, over 2012-2015 period, we expect the domestic gas price to increase, in USD terms, at an average of 10% per year.

The median value implied by the selected peers multiples indicates an equity value for Romgaz of RON 10,543m, implying a premium of 26.9% to FY'09 book value.

Our Romgaz's AFR value is the same for AFR Bottom NAV and for AFR Target NAV as our analysis reveals no liquidity risks to the Fund's investors. The Fund's Romgaz stake of RON 1,581m accounts for 14% of the AFR Bottom NAV and for 11% of the AFR Target NAV.

Turning to the power generation industry, while fragmented (split among thermal, hydro and nuclear power producers), it is also quasi-bankrupt, producing an annual loss of over RON 900m. The sector is artificially kept alive through the cross-subsiding mechanism where the less efficient thermal power generators are subsidised by the more efficient units of the sector.

**Hidroelectrica** is the country's hydro power generator and in 2009 contributed 27% of Romania's total power production. Ministry of Economy controls 80.1% of Hidroelectrica.

In 2009, the company posted an EBITDA margin of 33.7%, while the international peers' median stood at 60.3%. But what strikes at such a giant with a total installed capacity of 6,423 GW is its derisory net profit margin. On a 5Y median basis, Hidroelectrica's net profit margin lingered around 2.5%. At the international level, the 5Y median net profit margin of the industry is 21%. In 2009, Hidroelectrica posted a net profit margin of 2%, while the peers reached 29%. The company's low profitability owes to the cost for the acquisition of thermal power (about RON 600m per year or 25% of the companies net turnover) to mitigate the hydrological risks - the company acquires the most expensive power on the market (the thermal power) and sells it further at the cheapest prices on the market (the hydro power prices).

The median value implied by the selected peers multiples indicates an equity value for Hidroelectrica of RON 5,369m , implying a discount of 67.6% to FY'09 book value. We consider the discount justified as it reflects company's derisory earning power (ROA of 0.21%) relative to its installed capacity. For example, while the company plans capex of EUR 2.79m/MW, over the last five years, Hidroelectrica earned, on median, EUR 3,591/MW, **implying a payback period of over 700 years.**

According to the company's representatives, in 2010 Hidroelectrica's EBT reached a record level of RON 500m. Until the company will demonstrate the record level is not a one time event, our valuation embraces the conservative approach based on a normalised profitability. After all, on a 5Y median basis, Hidroelectrica's EBT stood at RON 66m, more than sevenfold lower compared with the 2010 record.

The Fund's Hidroelctrica stake accounts for 0% of the AFR Bottom NAV and for 7% of the AFR Target NAV.

**Nuclearelectrica** is the country's nuclear power generator and in 2009 contributed 20% of Romania's total power production.

In terms of EBITDA margin, Nuclearelectrica is far more profitable than the peers considered (5Y median of 44.03% vs. 27.89%). However, in terms of net profit margin, the company came under its peers (5Y median of 7.10% vs. 10.92%). The difference owes to oversized D&A expenses when compared to company's earning power, but also to FX losses from re-valuation of foreign currency denominated debt.

The median value implied by the selected peers multiples indicates an equity value for Nuclearelectrica of RON 5,436m, implying a discount of 25.1% to FY'09 book value. Not to place the company at disadvantage when compared with the European peers, free of FX fluctuations, we adjusted company's 2009 net profit by adding back the FX losses, after deducting the income tax expense.

The Fund's Nuclearelectrica stake accounts for 0% of the AFR Bottom NAV and for 4% of the AFR Target NAV.

**Complexul Energetic Turceni** is a fossil-fuelled power generator and in 2009 contributed 11% of Romania's total power production. The main fuel used is lignite secured from its mines in proportion of 70%.

The median of the values implied by the selected multiples indicates an equity value for CEN Turceni of RON 3,040.6m and a premium of 42.2% to the FY'09 book value. The premium justifies additional cash flows in from mining activity. Over 2006-2009 period, Turceni posted other operational revenues from mining activity averaging RON 450m per year. These cash flows allow the company to run with a halved EBITDA margin when compared with the international peers, but about double when compared with CEN Craiova and CEN Rovinari, the company's domestic peers.

The median value implied by the selected peers multiples indicates an equity value for CEN Turceni of RON 3,041m , implying a premium of 42.2% to FY'09 book value.

The Fund's CEN Turceni stake accounts for 0% of the AFR Bottom NAV and for 5% of the AFR Target NAV.

**Complexul Energetic Rovinari** is a fossil-fuelled power generator and in 2009 contributed 9% of Romania's total power production. The company owns Craiova II one of the newest power generating units Romania, with an installed capacity of 300 MW.

The median of the values implied by the selected peers multiples indicates an equity value for CEN Rovinari of RON 841.7m and a discount of 20.9% to the FY'09 book value. We consider the discount justified by the company's 5Y median EBITDA margin which stood at 9.95%, about one third of the peers' median margin.

At market price, the Fund's CEN Rovinari stake accounts for 0% of the AFR Bottom NAV, while at target price for 1% of the AFR Target NAV.

**Complexul Energetic Craiova** is a fossil-fuelled power generator and in 2009 contributed 8% of Romania's total power production. The company owns Craiova II one of the newest power generating units Romania, with an installed capacity of 300 MW.

The median of the values implied by the selected peers multiples indicates an equity value for CEN Craiova of RON 860.2m and a discount of 21.6% to the FY'09 book value. We consider the discount justified by the company's 5Y median EBITDA margin which stood at 9.10%, about one third of the peers' median margin.

The Fund's CEN Craiova stake accounts for 0% of the AFR Bottom NAV and for 1% of the AFR Target NAV.

FP's exposure to the transportation sector (airports&ports) basically boils down to Aeroporturi Bucuresti (airports) and Administratia Porturilor Maritime Constanta (ports) as the other Fund's stakes in the sector are insignificant.

**CN Aeroporturi Bucuresti.** In 2010 Aeroportul International Otopeni and Aeroportul International Baneasa merged into a new entity named Compania Nationala Aeroporturi Bucuresti. Fondul Proprietatea holds a 20% equity interest in this new company. Aeroportul International Otopeni is by far the largest and most technically advanced Romanian airport and is located in Bucharest In 2009, the airport's traffic dropped by 12% Y/Y to 4.48 m passengers. Aeroportul International Baneasa is the smaller airport of Bucharest and handles mostly low-cost flights. In 2009, the airport's traffic increased by 11% Y/Y to 2 m passengers. However, the main building/terminal built in early 50's can hardly cope with a higher level of traffic.

We employ sum-of-the parts method to value CN Aeroporturi Bucuresti, while for the parts we employ the relative valuation method. The median of the values implied by the selected peers multiples indicates an equity value for Aeroportul International Otopeni of RON 1,835.4m, implying a premium of 74% to the FY'09 book value justified by company's much higher earning power when compared with other international airports. The median of the values implied by the selected peers multiples indicates an equity value for Aeroportul International Baneasa of RON 374.6m, implying a discount of 90.6% to the FY'09 book value.

Our CN Aeroporturi Bucuresti's AFR value is the same for AFR Bottom NAV and for AFR Target NAV as our analysis reveals no liquidity risks to the Fund's investors. The Fund's Aeroporturi Bucuresti stake of RON 442m accounts for 4% of the AFR Bottom NAV and for 3% of the AFR Target NAV.

**Administratia Porturilor Maritime Constanta** is the harbour authority for four ports on the Black Sea seaside, out of which, the port of Constanta is among the top ten European ports. Constanta Port is connected with two Pan-European corridors: Corridor VII Danube and Corridor IV and has an annual handling capacity of 100m tonnes. In 2009, the volumes handled by Constanta Port decreased to 42m tonnes (-32% Y/Y).

The median of the values implied by the selected peees multiples indicates an equity value for Administratia Porturilor Maritime Constanta of RON 491.2m, implying a premium of 62.5% to the FY'09 book value.

Our Administratia Porturilor Maritime Constanta's AFR value is the same for AFR Bottom NAV and for AFR Target NAV as our analysis reveals no liquidity risks to the Fund's investors. The Fund's Administratia Porturilor Maritime Constanta stake of RON 98m accounts for 0.9% of the AFR Bottom NAV and for 0.7% of the AFR Target NAV.

The Fund owns also a 49% stake in Salrom and a 25% stake in Posta Romana.

**Societatea Nationala a Sarii (Salrom**) is the sole authorised salt producer in Romania. More than 80% of the salt produced is sold mainly on the domestic market mainly to chemical industry and roads defrosting.

The median of the values implied by the selected peers multiples indicates an equity value for Salrom of RON 188.4m, implying a premium of 17.6% to the FY'09 book value

Our AFR value for the company is the same for AFR Bottom NAV and for AFR Target NAV as our analysis reveals no liquidity risks to the Fund's investors. The Fund's Salrom stake of RON 92m accounts for 0.8% of the AFR Bottom NAV and for 0.6 % of the AFR Target NAV.

**Posta Romana** is the national postal services operator and the country's largest employer (35,520 employees in 2009). Posta Romana covers the whole country through a network of around 6,900 postal offices, out of which 6,000 located in rural area. The company's market share for services rendered in 2009 stood at: 80.1% for domestic mail services, 53.5% for international mail services; 49% for cash collection services and 14.2% fro domestic postal packages services. On the sector of mail delivery with weight of up to 50g, Posta Romana is a monopoly (reserved services).

The median of the values implied by the selected peers multiples indicates an equity value for Posta Romana of RON 218.5m, implying a discount of 67.8% to the FY'09 book value

Our AFR value for the company is the same for AFR Bottom NAV and for AFR Target NAV as our analysis reveals no liquidity risks to the Fund's investors. The Fund's Posta Romana stake of RON 55m accounts for 0.5% of the AFR Bottom NAV and for 0.4% of the AFR Target NAV.

## Unlisted companies' profitability

### Power generation sector: derisory net profit margins deemed to lower further

| Power generators' profitability | 3Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Aggregate profitability** | | | | | | |
| Net turnover (RONm) | **7,051** | 5,069 | 5,765 | 5,673 | 7,203 | 7,051 |
| EBITDA (RONm) | **1,844** | 1,666 | 1,374 | 1,647 | 1,844 | 1,899 |
| *EBITDA margin* | 27% | 33% | 24% | 29% | 26% | 27% |
| EBIT (RONm) | **531** | 555 | 297 | 531 | 611 | 530 |
| EBIT margin | 8% | 11% | 5% | 9% | 8% | 8% |
| Net profit (RONm) | **193** | 414 | 241 | 307 | 193 | 124 |
| Net profit margin | 3% | 8% | 4% | 5% | 3% | 2% |
| **Portfolio companies** | | | | | | |
| **Hidrolelectrica (hydro)** | | | | | | |
| Net turnover (RONm) | 2,421 | 2,181 | 2,366 | 2,061 | 2,444 | 2,421 |
| EBITDA margin | 35% | 48% | 33% | 40% | 35% | 34% |
| EBIT margin | 7% | 14% | 3% | 7% | 8% | 7% |
| Net profit (RONm) | 53 | 259 | 56 | 53 | 65 | 48 |
| Net profit margin | 3% | 12% | 2% | 3% | 3% | 2% |
| **Nuclearelectrica (nuclear)** | | | | | | |
| Net turnover (RONm) | 1,452 | 606 | 664 | 910 | 1,452 | 1,527 |
| EBITDA margin | 45% | 44% | 40% | 44% | 45% | 45% |
| EBIT margin | 21% | 16% | 13% | 21% | 22% | 21% |
| Net profit (RONm) | 89 | 24 | 64 | 89 | 103 | 49 |
| Net profit margin | 7% | 4% | 10% | 10% | 7% | 3% |
| **Complexul Energetic Turceni (thermal)** | | | | | | |
| Net turnover (RONm) | 1,126 | 896 | 1,004 | 1,029 | 1,281 | 1,126 |
| EBITDA margin | 21% | 15% | 15% | 21% | 15% | 21% |
| EBIT margin | 5% | 6% | 6% | 10% | 5% | 3% |
| Net profit (RONm) | 21 | 46 | 42 | 78 | 20 | 21 |
| Net profit margin | 2% | 5% | 4% | 8% | 2% | 2% |
| **Complexul Energetic Craiova (thermal)** | | | | | | |
| Net turnover (RONm) | 1,069 | 680 | 812 | 862 | 1,069 | 1,132 |
| EBITDA margin | 7% | 12% | 11% | 9% | 7% | 7% |
| EBIT margin | 0% | 2% | 4% | 1% | 0% | 0% |
| Net profit (RONm) | 4 | 13 | 33 | 8 | 4 | 0 |
| Net profit margin | 0% | 2% | 4% | 1% | 0% | 0% |
| **Complexul Energetic Rovinari (thermal)** | | | | | | |
| Net turnover (RONm) | 845 | 706 | 918 | 812 | 957 | 845 |
| EBITDA margin | 9% | 20% | 10% | 17% | 8% | 9% |
| EBIT margin | 2% | 12% | 5% | 11% | 1% | 2% |
| Net profit (RONm) | 5 | 73 | 46 | 79 | 1 | 5 |
| Net profit margin | 1% | 10% | 5% | 10% | 0% | 1% |

*Source: Companies' annual reports; AFR estimates*

Please note that, all portfolio power generation companies are state controlled entities.

On a 3Y median basis, the portfolio power generation companies posted an aggregate net turnover RON 7.051m; an aggregate EBITDA of RON 1,844m (implying an EBITDA margin of 27%); an aggregate operational profit of RON 531m (implying an EBIT margin of 8%) and an aggregate net profit of RON 193m (implying a net profit margin of 3%).

The huge difference between the 3Y median aggregate EBITDA and EBIT margins (27% vs. 8%), driven by D&A expenses, explains the oversized assets when compared with the companies' earning power or, reversing it, the derisory earning power when compared with the assets size. This can be observed especially in the case of Hidrolectrica and Nuclearelectrica.

What we noticed, and it's valid for all power generators presented above, over 2005-2009 period, employees expenses of these companies more than doubled. The champion of salaries expenses' boost is Complexul Energetic Craiova. The company's employees cost increased by 147% in five years and by 64% Y/Y in 2009.

We already detailed the median aggregate profitability of the Fund's power generators portfolio company. Let's complete the aggregate picture with the other entities (outside the Fund's portfolio) that will merge to set up Electra and Hidroenergetica: Electrocentrale Bucuresti, Electrocentrale Deva and Societatea Nationala a Lignitului (The Nationale Lignite Company).

On a 3Y median basis, the other power generators posted: an EBITDA margin of 6%, an EBIT margin of 1% and a net profit margin of -3%.

| Other power generators (parts of the Electra and Hidroenergetica set up plan) | | | | |
|---|---|---|---|---|
| | 3Y median | 2007 | 2008 | 2009 |
| **Aggregate profitability** | | | | |
| Net turnover (RONm) | **4,176** | 4,176 | 4,267 | 3,776 |
| EBITDA (RONm) | **261** | 261 | -11 | 319 |
| *EBITDA margin* | 6% | 6% | 0% | 8% |
| EBIT (RONm) | **37** | 37 | -256 | 53 |
| EBIT margin | 1% | 1% | -6% | 1% |
| Net profit (RONm) | **-108** | -77 | -453 | -108 |
| Net profit margin | -3% | -2% | -11% | -3% |
| | | | | |
| **Electrocentrale Bucuresti (thermal)** | | | | |
| Net turnover (RONm) | 2,163 | 2,257 | 2,163 | 1,858 |
| EBITDA margin | 5% | 5% | -3% | 12% |
| EBIT margin | 0% | 0% | -9% | 4% |
| Net profit (RONm) | -95 | -95 | -346 | -43 |
| Net profit margin | -4% | -4% | -16% | -2% |
| **Electrocentrale Deva (thermal)** | | | | |
| Net turnover (RONm) | 974 | 815 | 974 | 1,007 |
| EBITDA margin | 6% | 6% | 0% | 9% |
| EBIT margin | 2% | 2% | -4% | 4% |
| Net profit (RONm) | 1 | 1 | -78 | 5 |
| Net profit margin | 0% | 0% | -8% | 1% |
| **Societatea Nationala a Lignitului (lignite mine)** | | | | |
| Net turnover (RONm) | 1,105 | 1,105 | 1,129 | 910 |
| EBITDA margin | 5% | 8% | 5% | 0% |
| EBIT margin | -2% | 1% | -2% | -7% |
| Net profit (RONm) | -30 | 16 | -30 | -70 |
| Net profit margin | -3% | 1% | -3% | -8% |

*Source: Companies' annual reports; AFR estimates*

Without considering any consolidation accounting principles and/or any synergies or lack of them resulted from merging the companied implied by the sector's reorganisation plan, if Electra and Hidroenergetica would have been set up since 2007, up to 2009 they would have been generated, on a 3Y median basis a net profit margin of 0%.

## Power distribution sector: state control deters sector's profitability

Because, during 2007 power distribution and supply activities had to be legally separated to comply with EU standards, we refer to the aggregate profitability of the sector on a 2Y median basis.

| Power distributors' profitability | | | |
|---|---|---|---|
| | 2Y median | 2008 | 2009 |
| **Sector: aggregate profitability** | | | |
| Net turnover (RONm) | **4,248** | 4,570 | 3,927 |
| EBITDA (RONm) | **954** | 873 | 1,035 |
| *EBITDA margin* | 23% | 19% | 26% |
| EBIT (RONm) | **472** | 435 | 508 |
| EBIT margin | 11% | 10% | 13% |
| Net profit (RONm) | **596** | 554 | 638 |
| Net profit margin | 14% | 12% | 16% |
| **State controlled : aggregate profitability** | | | |
| Net turnover (RONm) | **1,647** | 1,648 | 1,647 |
| EBITDA (RONm) | **304** | 323 | 286 |
| *EBITDA margin* | 18% | 20% | 17% |
| EBIT (RONm) | **125** | 171 | 79 |
| EBIT margin | 8% | 10% | 5% |
| Net profit (RONm) | **95** | 128 | 62 |
| Net profit margin | 6% | 8% | 4% |
| **Enel and E.ON controlled : aggregate profitability** | | | |
| Net turnover (RONm) | **2,601** | 2,922 | 2,281 |
| EBITDA (RONm) | **649** | 550 | 748 |
| EBITDA margin | 26% | 19% | 33% |
| EBIT (RONm) | **347** | 264 | 429 |
| EBIT margin | 14% | 9% | 19% |
| Net profit (RONm) | **501** | 426 | 576 |
| Net profit margin | 20% | 15% | 25% |

*Source: Companies' annual reports; AFR estimates*

While the privately controlled companies run with a median net profit margin of 20%, the state controlled companies' margin linger around 6%.

## Power supply sector: a zero sum game play

Please note that, the Fund's power supply portfolio companies are incumbent suppliers (delivering to captive consumers).

Romanian incumbent power supply sector appears to be a zero sum play game: what flows in as supply services revenues, flows out as electricity acquisition costs and distribution services expenses. As a consequence, when some profits appear, the amounts are negligible. The fixed assets base is really insignificant and there is no long term debt. In terms of profitability, there is no difference among state and privately controlled power suppliers.

## Gas sector: an aggregate net profit margin of 10%

**Gas companies' profitability**

| | 3Y median | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| **Aggregate profitability** | | | | |
| Net turnover (RONm) | **10,491** | 8,691 | 11,025 | 10,491 |
| EBITDA (RONm) | **1,599** | 1,599 | 1,419 | 2,302 |
| *EBITDA margin* | 18% | 18% | 13% | 22% |
| EBIT (RONm) | **1,120** | 1,120 | 776 | 1,501 |
| EBIT margin | 13% | 13% | 7% | 14% |
| Net profit (RONm) | **832** | 832 | 653 | 1,196 |
| Net profit margin | 10% | 10% | 6% | 11% |
| **Gas exploration and production** | | | | |
| **Romgaz (state controlled)** | | | | |
| Net turnover (RONm) | 3,272 | 3,272 | 3,280 | 3,194 |
| EBITDA margin | 32% | 32% | 32% | 40% |
| EBIT margin | 22% | 23% | 22% | 22% |
| Net profit (RONm) | 537 | 510 | 537 | 572 |
| Net profit margin | 16% | 16% | 16% | 18% |
| **Gas distribution** | | | | |
| **E.ON Gaz Distributie** | | | | |
| Net turnover (RONm) | 1,037 | 987 | 1,037 | 1,111 |
| EBITDA margin | 11% | 11% | 8% | 33% |
| EBIT margin | 5% | 5% | -8% | 17% |
| Net profit (RONm) | 65 | 65 | -56 | 101 |
| Net profit margin | 7% | 7% | -5% | 9% |
| **Gas supply** | | | | |
| **E.ON Gaz Romania** | | | | |
| Net turnover (RONm) | 2,558 | 1,218 | 2,969 | 2,558 |
| EBITDA margin | 4% | 5% | -1% | 4% |
| EBIT margin | 6% | 7% | 0% | 6% |
| Net profit (RONm) | 75 | 75 | 44 | 142 |
| Net profit margin | 6% | 6% | 1% | 6% |
| **GDF Suez Energy Romania** | | | | |
| Net turnover (RONm) | 3,629 | 3,215 | 3,738 | 3,629 |
| EBITDA margin | 12% | 12% | 8% | 15% |
| EBIT margin | 7% | 7% | 4% | 12% |
| Net profit (RONm) | 182 | 182 | 129 | 380 |
| Net profit margin | 6% | 6% | 3% | 10% |

*Source: Companies' annual reports; AFR estimates*

On a 3Y median basis, the sector generated an aggregate net turnover of RON 10,491m an EBITDA margin of 18% and a net profit margin of 10%.

## Airports and ports sectors: an aggregate net profit margin of 18%

Fund's exposure to the transportation sector (airports&ports) basically boils down to Aeroporturi Bucuresti (airports) and Administratia Porturilor Maritime Constanta (ports). The other Fund's stakes in the sector are insignificant. Please note that, in 2010 Aeroportul International Otopeni and Aeroportul International Baneasa merged into a new entity named Compania Nationala Aeroporturi Bucuresti.

| Airports&ports' profitabilty | 3Y median | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| **Aggregate profitability** | | | | |
| Net turnover (RONm) | **578** | 473 | 578 | 605 |
| EBITDA (RONm) | **240** | 240 | 256 | 238 |
| *EBITDA margin* | 44% | 51% | 44% | 39% |
| EBIT (RONm) | **130** | 147 | 130 | 106 |
| EBIT margin | 22% | 31% | 22% | 18% |
| Net profit (RONm) | **101** | 101 | 104 | 72 |
| Net profit margin | 18% | 21% | 18% | 12% |
| **Aeroporturi Bucuresti (Otopeni airport)** | | | | |
| Net turnover (RONm) | 297 | 261 | 297 | 305 |
| EBITDA margin | 53% | 61% | 53% | 45% |
| EBIT margin | 27% | 40% | 27% | 19% |
| Net profit (RONm) | 87 | 87 | 103 | 59 |
| Net profit margin | 33% | 33% | 35% | 20% |
| **Aeroporturi Bucuresti (Baneasa airport)** | | | | |
| Net turnover (RONm) | 62 | 34 | 62 | 91 |
| EBITDA margin | 52% | 52% | 60% | 47% |
| EBIT margin | 37% | 47% | 37% | 27% |
| Net profit (RONm) | 0 | 1 | -11 | 0 |
| Net profit margin | 0% | 2% | -18% | 0% |
| **Administratia Porturilor maritime (Constanta port)** | | | | |
| Net turnover (RONm) | 210 | 177 | 220 | 210 |
| EBITDA margin | 28% | 35% | 28% | 28% |
| EBIT margin | 13% | 15% | 13% | 11% |
| Net profit (RONm) | 12 | 14 | 12 | 12 |
| Net profit margin | 6% | 8% | 5% | 6% |

*Source: Companies' annual reports; AFR estimates*

On a 3Y median basis, the sector generated an aggregate net turnover of RON 578m an EBITDA margin of 44% and a net profit margin of 18% mainly helped by the Otopeni's airport who run on a 3Y median net profit margin of 33% beating by far the international peers' median margin of 11%.

**Listed (AFR covered)**

| | Controlling entity | Sector |
|---|---|---|
| **OMV Petrom** | OMV (51%) | Oil&Gas |
| **Transgaz** | Ministry of Economy (73.5%) | Gas transport |
| **Transelectrica** | Ministry of Economy (73.7%) | Power transmission |

# OMV PETROM

Oil&Gas

| Shareholding structure | |
|---|---|
| OMV | 51.01% |
| Ministry of Economy | 20.64% |
| Property Fund | 20.11% |
| Free float | 8.24% |
| Shares outstanding (m) | 56,644 |

| | |
|---|---|
| Last close | RON 0.367 |
| **AFR Target price** | **RON 0.421** |
| **Upside potential** | **14.7%** |

## Business summary

OMV Petrom [RIC: SNPP.BX; BQ: SNP RO] is engaged in the extraction, production and distribution of oil, natural gas and refined products. Its business divisions include the exploration and production of oil and gas; the refining and marketing activities, and the gas and power segment, focusing on gas sales and power generation. In 2009 the company's hydrocarbons production reached 68.3m boe out of which 49% represented crude and NGL production and 51% natural gas production.

## Valuation methodology and considerations

We updated our view on Petrom with a BUY recommendation and a target price of RON 0.421 per share revealing an upside potential of 14.7% against current trading levels. We used a DCF model with a 5-year explicitly forecasted period after which a terminal free cash flow with a perpetual growth of 1% is employed.

Helped by a favourable crude price environment and by lower operating expenses, for 9M'10 SNP posted a consolidated EBIT of RON 2,012m (+41.0% Y/Y) and a net profit of RON 1,410.8m (+46.4% Y/Y).

Our target price incorporates the additional value creation through expanding the G&P value chain to electrical power (Brazi power plant and Dorobantu wind power park). Petrom's 850MW gas-fired power plant from Brazi is on track and will become operational by the end of 2011. The plant will account for 8-9% of the Romania's installed power capacity and will consume about 1.2b m3 of natural gas per year (0.1b m3 under what Company is currently producing within a quarter). G&P strategy, focused on firing the gas to generate power instead of selling it at half of the imported gas price, will partially free the SNP's growth potential locked into the capped domestic gas price. As regarding Dorobantu wind power park, the construction works started in Q3'10. Besides, as long as crude is up, SNP is a BUY. With OPEC's production kept flat at 2009 level and forecasts for 2011 world oil demand creeping upwards, crude seems poised to stay above $90/bbl during the cold season, averaging $85/bbl (+7.9% Y/Y) in 2011. For 2010, we expect to see SNP's posting a net profit RON 1,473m (+77% Y/Y) and for 2011 we see it further up to RON 1,979 (+34% Y/Y).

| **Peers, LFY** | **Ticker** | **Country** | **Mkt cap** | **P/E** | **EV/EBITDA** | **P/B** |
|---|---|---|---|---|---|---|
| ENI | ENI | ITA | $86,999m | 14.63 | 3.67 | 1.28 |
| Statoil | STL | NOR | $77,768m | 24.64 | 2.93 | 2.16 |
| BG Group | BG. | GBR | $70,702m | 20.21 | 10.23 | 2.84 |
| Repsol | REP | ESP | $37,608m | 17.71 | 6.55 | 1.28 |
| OMV | OMV | AUT | $12,867m | 16.54 | 4.00 | 1.07 |
| **Median of peers** | | | | **17.71** | **4.00** | **1.28** |
| OMV Petrom (**at market price**) | | | $6,597m | **15.19** | **7.75** | **1.48** |
| *Premium/Discount to peers* | | | | *-14%* | *94%* | *16%* |
| OMV Petrom (**at target price**) | | | | **17.43** | **8.79** | **1.70** |
| *Premium/Discount to peers* | | | | *-2%* | *120%* | *33%* |

*Source: Reuters Knowledge; AFR estimates*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| ENI | 29% | 30% | 29% | 29% | 25% | 25% |
| Statoil | 36% | 30% | 38% | 33% | 37% | 36% |
| BG Group | 47% | 53% | 49% | 45% | 47% | 47% |
| Repsol | 16% | 17% | 16% | 16% | 13% | 14% |
| | 15% | 17% | 15% | 15% | 13% | 14% |
| *Median of peers* | *29%* | *30%* | *29%* | *29%* | *25%* | *25%* |
| **OMV Petrom** | **25%** | **25%** | **27%** | **25%** | **21%** | **23%** |
| **Net profit margin** | | | | | | |
| ENI | 11% | 12% | 11% | 11% | 8% | 5% |
| Statoil | 8% | 8% | 10% | 8% | 7% | 4% |
| BG Group | 23% | 29% | 23% | 21% | 25% | 21% |
| Repsol | 6% | 6% | 6% | 6% | 4% | 3% |
| | 7% | 8% | 7% | 8% | 5% | 3% |
| *Median of peers* | *8%* | *8%* | *10%* | *8%* | *7%* | *4%* |
| **OMV Petrom** | **13%** | **13%** | **17%** | **14%** | **6%** | **11%** |

**9M'10 Results**

## OMV Petrom

For the first nine months of the year, SNP posted consolidated sales of RON 13,158m (+10.9% Y/Y) mainly driven by higher crude and refined products prices compared with a year ago. With COGS increasing at about the sales' growth pace, gross profit landed at RON 3.797m (+10.6% Y/Y). Cost reduction measures lowered by 11.1% Y/Y SG&A and other operating expenses.

Helped by a favourable crude price environment and by lower operating expenses, for 9M'10 SNP posted a consolidated EBIT of RON 2,012m (+41.0% Y/Y). EBIT margin advanced to 15.3% from 12.0% a year ago. However, the operational result was negatively affected by the impairment of Kazakh assets in Q3'10 amounting to RON 441m.

Net financial result landed negative to RON 308m (+45.2% Y/Y) mainly on the back of more than double net interest expenses compared with a year ago. Compared with the beginning of the year, company's long-term debts added RON 1,463.6m accumulating to RON 4,278m.

All in all, 9M'10 net profit landed at RON 1,410.8m (+46.4% Y/Y).

*Please note we are referring to the IFRS consolidated 9M'10 results.*

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 23% | 23% | 40% | 31% | 14% | 17% |
| ROE Tot Eqty | 13% | 13% | 19% | 13% | 8% | 10% |
| ROA Tot Assets | 8% | 8% | 13% | 8% | 4% | 5% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.1 | 2.5 | 2.1 | 1.1 | 0.8 | 0.7 |
| Curr Ratio | 1.8 | 3.2 | 2.8 | 1.8 | 1.5 | 1.2 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| EBIT/Int expense | 44.6 | 33.7 | 71.9 | nm | 55.6 | 11.5 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **10,505.2** | **12,003.3** | **16,374.8** | **19,806.5** | **22,243.0** |
| Tangible assets o/w | | 7,522.1 | 8,405.4 | 10,564.3 | 13,655.7 | 15,828.8 |
| Land and buildings | | 4,451.9 | 4,569.5 | 4,625.1 | 6,803.1 | 8,328.5 |
| **Current assets** | | **7,131.1** | **6,276.9** | **4,690.8** | **5,084.1** | **4,413.7** |
| Inventories | | **1,484.1** | **1,465.1** | **1,922.4** | **2,394.4** | **2,097.9** |
| Accounts Receivable | | 1,146.9 | 1,360.7 | 2,015.8 | 1,704.2 | 2,035.8 |
| Cash | | 4,500.0 | 3,451.0 | 752.6 | 261.4 | 280.0 |
| **Current liabilities** | | **2,230.9** | **2,257.2** | **2,580.0** | **3,446.0** | **3,561.3** |
| Short-term debt | | 478.3 | 0.0 | 0.0 | 300.5 | 182.8 |
| Accounts Payable | | 756.3 | 1,208.7 | 0.0 | 2,230.8 | 1,952.9 |
| **Long-term liabilities** | | **34.9** | **22.1** | **29.0** | **1,504.1** | **2,822.3** |
| Long-term debt | | 0.0 | 0.0 | 0.0 | 1,486.0 | 2,176.2 |
| **Shareholders funds** | | **10,727.1** | **12,324.7** | **13,184.1** | **13,568.6** | **14,056.1** |
| Share capital | | 5,600.1 | 5,664.4 | 5,664.4 | 5,664.4 | 5,664.4 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **10,760.2** | **13,078.3** | **12,284.4** | **16,750.7** | **12,842.4** |
| **Total operating expenses o/w** | | **9,089.0** | **10,638.4** | **10,520.3** | **16,090.4** | **12,008.9** |
| Raw materials expenses | | 2,278.8 | 3,650.8 | 3,157.7 | 5,112.3 | 2,401.8 |
| *% of total opex* | *30.0%* | *25.1%* | *34.3%* | *30.0%* | *31.8%* | *20.0%* |
| Employees expenses | | 1,537.4 | 1,745.3 | 1,657.8 | 2,329.0 | 2,344.3 |
| *% of total opex* | *16.4%* | *16.9%* | *16.4%* | *15.8%* | *14.5%* | *19.5%* |
| D&A | | 839.1 | 818.8 | 1,146.1 | 2,256.1 | 1,752.3 |
| *% of total opex* | *10.9%* | *9.2%* | *7.7%* | *10.9%* | *14.0%* | *14.6%* |
| Other operating expenses | | 3,285.6 | 3,673.9 | 3,747.6 | 4,137.1 | 3,989.1 |
| *% of total opex* | *34.5%* | *36.1%* | *34.5%* | *35.6%* | *25.7%* | *33.2%* |
| **EBITDA** | | **2,723.3** | **3,596.2** | **3,110.7** | **3,565.3** | **2,949.6** |
| *EBITDA margin* | *25.3%* | *25.3%* | *27.5%* | *25.3%* | *21.3%* | *23.0%* |
| **EBIT** | | **1,884.2** | **2,777.4** | **1,964.6** | **1,309.2** | **1,197.3** |
| *EBIT margin* | *16.0%* | *17.5%* | *21.2%* | *16.0%* | *7.8%* | *9.3%* |
| **Net financial result o/w** | | **(200.8)** | **(231.2)** | **185.0** | **296.3** | **500.2** |
| Interest expenses | | (55.9) | (38.6) | 0.0 | (23.6) | (104.1) |
| **EBT** | | **1,683.4** | **2,546.2** | **2,149.6** | **1,605.6** | **1,697.5** |
| *EBT margin* | *15.6%* | *15.6%* | *19.5%* | *17.5%* | *9.6%* | *13.2%* |
| **Net Profit (Loss)** | | **1,416.4** | **2,285.5** | **1,778.0** | **1,022.4** | **1,368.1** |
| *Net profit margin* | *13.2%* | *13.2%* | *17.5%* | *14.5%* | *6.1%* | *10.7%* |

*Note: Figures based on RAS individual statements*

# TRANSGAZ

Gas transportation

| **Shareholding structure** | |
|---|---|
| Ministry of Economy | 73.51% |
| Property Fund | 14.99% |
| Free float | 11.50% |
| Shares outstanding (m) | 11.77 |

| | |
|---|---|
| Last close | RON 283.0 |
| **AFR Target price** | **RON 287.1** |
| **Upside potential** | **1.4%** |

## Business summary

Transgaz [RIC: TGNM.BX; BQ: TGN RO] is the sole operator of the national natural gas transportation grid based on a concession agreement valid until 2032, in exchange for a 10% royalty fee. Gas transportation is a monopoly activity and the transport services tariffs are set by ANRE. For 2008-2012 period, the return on regulated asset base has been agreed at 7.88%.

In 2009, TGN transported 11.55bn m3 of gas, 15% lower compared with 2008.

## Valuation methodology and considerations

We updated our view on Transgaz with a HOLD recommendation and a target price of RON 287.1 per share revealing an upside potential of 1.4% against current trading levels. We used a DCF model with a 5-year explicitly forecasted period after which a terminal free cash flow with a perpetual growth of 1% is employed.

Transgaz is one of our favourite listed companies on BSE on four reasons. First, the company's debt is low enough not to significantly influence the net result on the back of translation to RON of the foreign currency denominated liabilities. Second, at Transgaz, what is budgeted is usually realised - so there are very few negative surprises. Third, the company's dividends are rewarding. Finally, conspicuously TGN trades at undemanding multiples against peers. For 2010 we estimate the company will reach its budgeted net profit implying a gross dividend per share of RON 26.58 and a dividend yield (at current market price) of 9.4%.

For 2011 we expect flat transported volume, at the 2010 level. For the moment, government cutting off the subsidies to fertilisers producers prevents us from expecting it higher. Adding in a 10% increase in the average transportation tariff, we see 2011 transportation revenues at RON 12bn (+10.0% Y/Y) and total operating revenues at RON 1.47bn (+6.2% Y/Y). We also expect 10% Y/Y higher operating expenses (excl D&A) pointing to an about 1.4% decrease in 2011 net profit under IFRS.

| **Peers, LFY** | **Ticker** | **Country** | **Mkt cap** | **P/E** | **EV/EBITDA** | **P/B** |
|---|---|---|---|---|---|---|
| Snam Rete Gas | SRG | ITA | $17,559m | 13.46 | 9.11 | 2.26 |
| Enagas | ENG | ESP | $4,994m | 12.31 | 8.37 | 2.32 |
| Vychodoceska | BAAVCPLY | CZE | $249m | 7.55 | 2.38 | 1.34 |
| Voronezhoblgaz | VOGZ | RUS | $68m | 10.28 | 5.77 | 0.97 |
| | | **Median of peers** | | **11.30** | **7.07** | **1.80** |
| Transgaz (**at market price**) | | | $1,057m | **11.16** | **6.85** | **1.41** |
| *Premium/Discount to peers* | | | | *-1%* | *-3%* | *-22%* |
| Transgaz (**at target price**) | | | | **11.32** | **6.95** | **1.43** |
| *Premium/Discount to peers* | | | | *0%* | *-2%* | *-21%* |

*Source: Reuters Knowledge; AFR estimates*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Snam Rete Gas | 79% | 80% | 78% | 81% | 79% | 76% |
| Enagas | 73% | 31% | 30% | 73% | 74% | 79% |
| Vychodoceska | 8% | 8% | 8% | 10% | 5% | 12% |
| Voronezhoblgaz | 50% | 58% | 50% | 37% | 55% | 50% |
| *Median of peers* | *62%* | *45%* | *40%* | *55%* | *65%* | *63%* |
| **Transgaz** | **34%** | **34%** | **37%** | **33%** | **33%** | **40%** |
| **Net profit margin** | | | | | | |
| Snam Rete Gas | 29% | 29% | 25% | 32% | 28% | 30% |
| Enagas | 29% | 12% | 12% | 29% | 30% | 33% |
| Vychodoceska | 4% | 3% | 4% | 7% | 3% | 8% |
| Voronezhoblgaz | 25% | 33% | 26% | 25% | 18% | 12% |
| *Median of peers* | *27%* | *21%* | *18%* | *27%* | *23%* | *21%* |
| **Transgaz** | **22%** | **18%** | **26%** | **22%** | **21%** | **25%** |

**9M'10 Results**

## Transgaz

For 9M'10, TGN posted a net profit of RON 284.2m (+50.1% Y/Y and +42.8% vs. Budget), while the operating revenues reached RON 941.7m (+13.3% Y/Y and +0.8% vs. Budget).

Despite the fact that for H2'10, the company's budget assumed an increase of transportation tariff of 10% which was not approved by the regulatory authority, operating revenues ended slightly above the budget. They were helped both by higher-than budgeted transported volumes and revenues from transit activity and by lower-than-budgeted technological consumption. For the period, TGN transported 8.35b m3 (+7.4% Y/Y and +1.5% vs. Budget). Transit revenues were higher on the back of domestic currency depreciation against EUR and USD.

9M'10 EBITDA reached RON 431.1m (+42.5 Y/Y) benefiting of a plus of RON 110.5m in operating revenues and of an adjustment of RON 18.5m in operating expenses which landed 3.4% lower compared with a year ago.

9M'10 net profit reached RON 284.2m (+50.1% Y/Y), with the respective margin landing at 31%.

*Please note we are referring to the RAS unconsolidated 9M'10 results.*

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 79% | 37% | 79% | 71% | 83% | 137% |
| ROE Tot Eqty | 13% | 13% | 20% | 14% | 11% | 13% |
| ROA Tot Assets | 9% | 7% | 11% | 9% | 7% | 9% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.3 | 0.7 | 0.8 | 1.7 | 1.6 | 1.3 |
| Curr Ratio | 1.4 | 0.9 | 0.9 | 1.8 | 1.7 | 1.4 |
| LT Debt/Tot Eqty | 0.1 | 0.2 | 0.1 | 0.1 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 18.0 | 12.1 | 18.0 | 22.2 | 16.9 | 27.3 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **1,790.5** | **1,906.2** | **2,035.7** | **2,681.2** | **2,956.7** |
| Tangible assets o/w | | 1,288.7 | 1,404.1 | 1,536.9 | 2,183.6 | 2,441.5 |
| Land and buildings | | 1,120.9 | 1,228.1 | 1,375.6 | 1,879.7 | 1,924.1 |
| **Current assets** | | **257.5** | **278.3** | **573.7** | **597.9** | **476.8** |
| Inventories | | **42.2** | **36.9** | **31.3** | **40.3** | **35.0** |
| Accounts Receivable | | 149.1 | 162.2 | 175.8 | 228.7 | 245.3 |
| Cash | | 66.2 | 79.3 | 366.6 | 216.7 | 196.6 |
| **Current liabilities** | | **287.9** | **294.2** | **311.2** | **347.8** | **336.9** |
| Short-term debt | | 82.8 | 66.2 | 74.4 | 72.3 | 59.3 |
| Accounts Payable | | 131.3 | 121.4 | 102.5 | 140.8 | 112.3 |
| **Long-term liabilities** | | **680.1** | **623.9** | **608.7** | **584.9** | **527.4** |
| Long-term debt | | 186.3 | 130.1 | 122.0 | 99.1 | 41.6 |
| **Shareholders funds** | | **1,033.6** | **1,198.3** | **1,566.9** | **2,188.0** | **2,363.4** |
| Share capital | | 103.8 | 103.8 | 117.7 | 117.7 | 117.7 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **770.1** | **909.0** | **1,038.9** | **1,119.4** | **1,187.4** |
| **Total operating expenses o/w** | | **589.8** | **675.9** | **780.4** | **857.4** | **874.9** |
| Raw materials expenses | | 174.8 | 183.3 | 159.7 | 214.8 | 171.7 |
| *% of total opex* | *25.1%* | *29.6%* | *27.1%* | *20.5%* | *25.1%* | *19.6%* |
| Employees expenses | | 123.2 | 141.3 | 175.3 | 208.2 | 224.5 |
| *% of total opex* | *22.5%* | *20.9%* | *20.9%* | *22.5%* | *24.3%* | *25.7%* |
| D&A | | 62.7 | 71.3 | 73.4 | 86.9 | 127.6 |
| *% of total opex* | *10.5%* | *10.6%* | *10.5%* | *9.4%* | *10.1%* | *14.6%* |
| Other operating expenses | | 182.5 | 200.5 | 243.0 | 338.8 | 338.3 |
| *% of total opex* | *31.1%* | *30.9%* | *29.7%* | *31.1%* | *39.5%* | *38.7%* |
| **EBITDA** | | **260.7** | **336.6** | **344.7** | **367.9** | **472.7** |
| *EBITDA margin* | *33.8%* | *33.8%* | *37.0%* | *33.2%* | *32.9%* | *39.8%* |
| **EBIT** | | **198.0** | **265.3** | **271.3** | **280.9** | **345.1** |
| *EBIT margin* | *26.1%* | *25.7%* | *29.2%* | *26.1%* | *25.1%* | *29.1%* |
| **Net financial result o/w** | | **(22.9)** | **21.0** | **(2.0)** | **4.2** | **16.1** |
| Interest expenses | | (16.3) | (14.7) | (12.2) | (16.6) | (12.6) |
| **EBT** | | **175.1** | **286.3** | **269.3** | **285.1** | **361.3** |
| *EBT margin* | *25.9%* | *22.7%* | *31.5%* | *25.9%* | *25.5%* | *30.4%* |
| **Net Profit (Loss)** | | **138.4** | **237.9** | **224.0** | **239.0** | **298.6** |
| *Net profit margin* | *21.6%* | *18.0%* | *26.2%* | *21.6%* | *21.4%* | *25.2%* |

*Note: Figures based on RAS unconsolidated statements*

# TRANSELECTRICA

Power transmission

| Shareholding structure | |
|---|---|
| Ministry of Economy | 73.69% |
| Property Fund | 13.50% |
| Free float | 12.81% |
| Shares outstanding (m) | 73.30 |

| | |
|---|---|
| Last close | RON 20.60 |
| **AFR Target price** | **RON 21.35** |
| **Upside potential** | **3.6%** |

## Business summary

Transelectrica [RIC: TSEL.BX; BQ: TEL RO] is a natural and legal monopoly. As the power transmission system operator, the company manages the grid and the dispatch infrastructure, the allocation of interconnection capacity and of green certificates. The company operates the balancing market platform and the trading platform for the centralised market and for green certificates through OPCOM. Power transmission is a monopoly activity and the transmission services tariffs are set by ANRE. For 2008-2012 period, the return on regulated asset base has been agreed at 7.5%.

## Valuation methodology and considerations

We updated our view on Transelectrica with a HOLD recommendation and a target price of RON 21.35 per share revealing an upside potential of 3.6% against current trading levels. We used a DCF model with a 5-year explicitly forecasted period after which a terminal free cash flow with a perpetual growth of 1% is employed.

The most important thing to be known about Transelectrica is that the company's net profit is heavily influenced by RON/EUR exchange rate fluctuations. With long-term debts of RON 951.4m (as at the end of June, IFRS consolidated), out of which about 80% are EUR denominated, FX gains or losses from foreign currency denominated debt revaluation may have a major impact on company's end line. In 2009, for example, while EUR closed the year up by 6.10% Y/Y, TEL posted FX losses of RON 62.7m. In 2010, EUR closing at RON 4.2848 (+1.3% Y/Y) should bring FX losses from foreign currency denominated debt of RON 22.2m. Since for 2011 there are expectations for RON appreciation against the EUR, we expect to see FX gains from debt revaluation contributing to Transelectrica's end line. At the operational level, the higher average transportation tariff (+10.44% Y/Y) and higher volumes transported (+3%Y/Y, AFR estimations) should increase the company's profits by 70% Y/Y.

| **Peers, LFY** | **Ticker** | **Country** | | **Mkt cap** | **P/E** | **EV/EBITDA** | **P/B** |
|---|---|---|---|---|---|---|---|
| National Grid | NG. | GBR | | $30,422m | 11.20 | 8.66 | 3.55 |
| Terna - Rete Elettrica | TRN | ITA | | $8,780m | 18.27 | 9.68 | 2.57 |
| Red Electrica de Espana | REE | ESP | | $6,778m | 15.11 | 5.54 | 3.48 |
| Elia System Operator | ELI | BEL | | $2,395m | 16.83 | 6.62 | 1.04 |
| Fluxys | FLUX | BEL | | $2,240m | 15.93 | 7.48 | 1.20 |
| | | | **Median of peers** | | **15.93** | **7.48** | **2.57** |
| Transelectrica (**at market price**) | | | | $479m | **246.11** | **6.59** | **0.64** |
| *Premium/Discount to peers* | | | | | *1445%* | *-12%* | *-75%* |
| Transelectrica (**at target price**) | | | | | **255.07** | **6.75** | **0.66** |
| *Premium/Discount to peers* | | | | | *1501%* | *-10%* | *-74%* |

*Source: Reuters Knowledge; AFR estimates*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| National Grid | 35% | 37% | 40% | 35% | 24% | 32% |
| Terna - Rete Elettrica | 71% | 66% | 69% | 73% | 71% | 74% |
| Red Electrica de Espana | 68% | 68% | 68% | 68% | 68% | 67% |
| Elia System Operator | 42% | 41% | 41% | 42% | 44% | 42% |
| Fluxys | 40% | 40% | 39% | 40% | 43% | 44% |
| *Median of peers* | *42%* | *41%* | *41%* | *42%* | *44%* | *44%* |
| **Transelectrica** | **16%** | **19%** | **17%** | **16%** | **15%** | **14%** |
| **Net profit margin** | | | | | | |
| National Grid | 13% | 13% | 15% | 14% | 6% | 10% |
| Terna - Rete Elettrica | 28% | 28% | 30% | 31% | 24% | 26% |
| Red Electrica de Espana | 23% | 20% | 21% | 23% | 25% | 27% |
| Elia System Operator | 11% | 11% | 11% | 11% | 14% | 11% |
| Fluxys | 17% | 17% | 18% | 17% | 19% | 15% |
| *Median of peers* | *17%* | *17%* | *18%* | *17%* | *19%* | *15%* |
| **Transelectrica** | **2%** | **5%** | **11%** | **2%** | **1%** | **0%** |

**9M'10 Results**

# Transelectrica

For 9M’10, Transelectrica transported 39.9 TWh (+3.4% Y/Y) helped by increasing domestic production and exports. For the first half of 2010, the volumes transported by the company were 0.1% lower compared with the same period of the previous year on the back of lower power production (-1.0% Y/Y) which has been lost the exports support (-68.3% Y/Y).

Meanwhile, the situation turned to TEL’s advantage with exports recovering fast and helped further by increasing industrial power consumption. Electrica closed a one year contract to supply 3 TWh to a Serbian company starting from September 2010.

9M’10 transmission revenues increased to RON 678.6m (+8.6% Y/Y) helped by higher volumes and by an advance of average transmission tariff of 5% Y/Y to RON 17.02/MWh. However, 9M’10 total operating revenues of RON 1,842.3m posted an increase of only 1.5% Y/Y due to a decline of 45.7% Y/Y in other revenues (cross-border revenues decreased 78.7% y/y from RON 73.1m a year ago to 11.6m due to the introduction of the new coordinated bilateral allocation as provided by EU regulations. 9M’10 operating costs (excl D&A expenses) landed about flat to RON 1,588.3m sending EBITDA 11.9% Y/Y to RON 254m. Adding in D&A expenses of RON 197.3m (+5.8% Y/Y), 9M’10 EBIT reached RON 56.7m (+39.7% Y/Y). However a financial loss of RON 41.6m (+156.5% Y/Y) mainly on the back of much higher FX losses pushed the EBT down 38% Y/Y to RON 15m and the 9M’10 net profit to RON 5.2m (-54.8% Y/Y).

*Please note we are referring to the RAS unconsolidated 9M'10 results.*

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 3% | 6% | 19% | 3% | 2% | 0% |
| ROE Tot Eqty | 2% | 4% | 13% | 2% | 2% | 0% |
| ROA Tot Assets | 1% | 2% | 7% | 1% | 1% | 0% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.2 | 1.1 | 1.4 | 1.4 | 1.2 | 1.1 |
| Curr Ratio | 1.3 | 1.1 | 1.5 | 1.4 | 1.3 | 1.2 |
| LT Debt/Tot Eqty | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 |
| LT Debt/Tot Assets | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| EBIT/Int expense | 3.5 | 4.7 | 5.4 | 3.2 | 3.5 | 2.5 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **4,183.6** | **2,906.0** | **3,161.1** | **3,293.6** | **3,409.4** |
| Tangible assets o/w | | 2,689.2 | 2,824.7 | 3,075.9 | 3,205.1 | 3,322.1 |
| Land and buildings | | 1,478.7 | 1,464.5 | 1,520.9 | 1,569.4 | 1,509.4 |
| **Current assets** | | **969.3** | **1,054.4** | **902.4** | **1,072.5** | **805.6** |
| Accounts Receivable | | 889.7 | 688.2 | 688.3 | 831.7 | 618.8 |
| Cash | | 55.5 | 341.1 | 184.6 | 206.5 | 151.7 |
| **Current liabilities** | | **865.9** | **726.3** | **624.0** | **835.6** | **689.0** |
| Short-term debt | | 48.3 | 58.5 | 101.2 | 124.6 | 158.5 |
| Accounts Payable | | 711.5 | 587.9 | 442.4 | 639.6 | 452.8 |
| **Long-term liabilities** | | **2,207.5** | **847.3** | **947.3** | **1,011.3** | **947.2** |
| Long-term debt | | 568.9 | 644.0 | 758.8 | 837.0 | 793.1 |
| **Shareholders funds** | | **1,884.4** | **2,208.8** | **2,355.4** | **2,361.6** | **2,357.1** |
| Share capital | | 659.7 | 733.0 | 733.0 | 733.0 | 733.0 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **1,710.4** | **2,454.7** | **2,291.0** | **2,923.5** | **2,485.1** |
| **Total operating expenses o/w** | | **1,585.5** | **2,226.7** | **2,189.9** | **2,751.4** | **2,417.7** |
| Raw materials expenses | | 1,043.6 | 1,689.0 | 1,613.1 | 2,057.3 | 1,756.2 |
| *% of total opex* | *73.7%* | *65.8%* | *75.9%* | *73.7%* | *74.8%* | *72.6%* |
| Employees expenses | | 71.1 | 85.1 | 109.7 | 139.6 | 141.5 |
| *% of total opex* | *5.0%* | *4.5%* | *3.8%* | *5.0%* | *5.1%* | *5.9%* |
| D&A | | 169.8 | 170.0 | 205.0 | 239.6 | 250.3 |
| *% of total opex* | *9.4%* | *10.7%* | *7.6%* | *9.4%* | *8.7%* | *10.4%* |
| Other operating expenses | | 245.0 | 264.6 | 270.1 | 284.7 | 249.8 |
| *% of total opex* | *11.9%* | *15.5%* | *11.9%* | *12.3%* | *10.3%* | *10.3%* |
| **EBITDA** | | **320.1** | **425.5** | **363.8** | **441.3** | **350.3** |
| *EBITDA margin* | *15.9%* | *18.7%* | *17.3%* | *15.9%* | *15.1%* | *14.1%* |
| **EBIT** | | **150.3** | **255.4** | **158.8** | **201.7** | **100.0** |
| *EBIT margin* | *6.9%* | *8.8%* | *10.4%* | *6.9%* | *6.9%* | *4.0%* |
| **Net financial result o/w** | | **(45.6)** | **71.8** | **(80.6)** | **(150.5)** | **(83.1)** |
| Interest expenses | | (31.8) | (47.4) | (49.7) | (58.0) | (40.3) |
| FX losses | | (17.1) | 100.7 | (51.4) | (125.6) | (62.4) |
| **EBT** | | **104.7** | **327.2** | **78.2** | **51.2** | **16.9** |
| *EBT margin* | *3.4%* | *6.1%* | *13.3%* | *3.4%* | *1.8%* | *0.7%* |
| **Net Profit (Loss)** | | **82.4** | **277.3** | **52.0** | **39.3** | **6.1** |
| *Net profit margin* | *2.3%* | *4.8%* | *11.3%* | *2.3%* | *1.3%* | *0.2%* |

*Note: Figures based on RAS unconsolidated statements*

**Unlisted, privately controlled**

| | Controlling entity | Sector |
|---|---|---|
| **Enel Distributie Banat** | Enel Investment Holding (51%) | Power distribution |
| **Enel Distributie Dobrogea** | Enel Investment Holding (51%) | Power distribution |
| **Enel Distributie Muntenia** | Enel Investment Holding (64.4%) | Power distribution |
| **E.ON Moldova Distributie** | E.ON Romania (51%) | Power distribution |
| **Enel Energie Muntenia** | Enel Investment Holding (64.4%) | Power supply |
| **Enel Energie** | Enel Investment Holding (51.1%) | Power supply |
| **E.ON Moldova Furnizare** | E.ON Romania (51%) | Power supply |
| **E.ON Gaz Distributie** | E.ON Romania (51%) | Gas distribution |
| **GDF Suez Energy Romania** | Romania Gas Holding (51%) | Gas supply |
| **E.ON Gaz Romania** | E.ON Romania (51%) | Gas supply |

# ENEL DISTRIBUTIE BANAT

Power distribution

| Shareholding structure | |
|---|---|
| Enel Investment Holding | 51.00% |
| Electrica | 24.87% |
| Property Fund | 24.13% |
| Shares outstanding (m) | 38.22 |

| | |
|---|---|
| Book value | RON 1,152.5 |
| **AFR value** | **RON 1,867.0** |
| **Premium** | **62.0%** |

## Business summary

Enel Distributie Banat is a joint stock company set up in 2002. Power distribution is a monopoly activity and the distribution services tariffs are set by ANRE. Currently, the rate of return on regulated assets for privately controlled power distributors is set at 10% for 2008-2012 period. For 2005-2007 period the rate stood at 12%. In 2009, total power distributed by Enel Distributie Banat amounted to 3,858 GWh (-3% Y/Y), representing a market share of 10%.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, Enel Distributie Banat would be valued at RON 1,993.9m, implying a premium to the FY'09 book value of 73.0%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 1,638.8m, implying a premium of 42.2%. Based on the median of peers P/B multiples, the company would be valued at RON 1,867.0m, implying a premium to the reported value of 62.0%. The median of the values implied by the selected multiples indicates an equity value for Enel Distributie Banat of RON 1,867.0m and a premium of 62.0% to the FY'09 book value. We consider the premium justified by the company's EBITDA and net profit margins which beat, by far, the international peers' median margins, especially over 2008-2009 period. When compared with state controlled distribution companies, Enel Distributie Banat's profitability proves the huge difference between the economically driven interests and the politicised ones.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 150.7 | X | **13.24** | | 1,993.9 | | 73.0% |
| EBITDA, LFY | 217.9 | X | **5.69** | 1,238.6 | 1,638.8 | | 42.2% |
| Net debt, LFY | -400.2 | | | | | | |
| Book value, LFY | 1,152.5 | X | **1.62** | | 1,867.0 | | 62.0% |
| | | | **AFR Equity Value** | | **1,867.0** | **1,152.5** | **62.0%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Eletropaulo | ELPL4 | BRA | $3,235m | 5.10 | 2.86 | 1.65 |
| Luz del Sur | LUSURC1 | PER | $1,232m | 12.17 | 7.69 | 3.27 |
| Lenenergo | LSNG | RUS | $1,122m | 14.30 | 5.73 | 0.74 |
| Prazska Energetika | BAAPRENG | CZE | $1,147m | 14.44 | 5.64 | 1.79 |
| Equatorial Energia | EQTL3 | BRA | $748m | 6.02 | 4.26 | 1.06 |
| Horizon Energy | HED | NZL | $64m | 14.39 | 8.20 | 1.59 |
| | | | **Median of peers** | **13.24** | **5.69** | **1.62** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Eletropaulo | 19% | 11% | 17% | 19% | 24% | 22% |
| Luz del Sur | 28% | 24% | 26% | 28% | 31% | 31% |
| Lenenergo | 28% | 25% | -2% | 28% | 28% | 37% |
| Prazska Energetika | 20% | 20% | 22% | 23% | 19% | 18% |
| Equatorial Energia | 11% | 13% | 12% | 11% | 3% | 3% |
| Horizon Energy | 46% | 42% | 45% | 48% | 48% | 46% |
| *Median of peers* | *24%* | *22%* | *19%* | *25%* | *26%* | *26%* |
| **Enel Distributie Banat** | **31%** | **17%** | **22%** | **31%** | **36%** | **41%** |

| **Net profit margin** | | | | | | |
|---|---|---|---|---|---|---|
| Eletropaulo | 9% | 2% | 4% | 9% | 13% | 12% |
| Luz del Sur | 14% | 11% | 12% | 14% | 15% | 17% |
| Lenenergo | 9% | -6% | -3% | 10% | 9% | 11% |
| Prazska Energetika | 11% | 10% | 12% | 15% | 11% | 11% |
| Equatorial Energia | 15% | 34% | 15% | 17% | 13% | 8% |
| Horizon Energy | 19% | 19% | 21% | 20% | 17% | 19% |
| *Median of peers* | *13%* | *10%* | *12%* | *14%* | *13%* | *12%* |
| **Enel Distributie Banat** | **21%** | **8%** | **14%** | **21%** | **23%** | **29%** |

**Financial summary**

# Enel Distributie Banat

In 2005, Enel Distribuzione purchased a stake of 24.6% in Electrica Banat and, in the same year, increased its holding in the company up to 51% through a share capital increase for a total value of € 69.1m. In 2007, power distribution and supply activities had to be legally separated to comply with EU standards. The spin off process of Electrica Banat was finalised in July 2007 with the resulting supply company subsequently renamed as Enel Energie and the distribution company subsequently renamed as Enel Distributie Banat. The split explains about halved net turnover of the Enel Distributie Banat over 2008-2009 as compared with 2005-2006 period. On the 28th of December 2009, the entire stake of Enel Distribuzione was transferred to Enel Investment Holding.

The company's main operating expenses accounts are other material costs (own technological consumption) and other operating expenses (mainly third parties expenses for maintenance and repair works), followed by personnel expenses.

In 2009 the net profit margin increased from 22.7% in 2008 to 28.6% on the back of RON 22.5 additional revenues from higher tariffs and helped further by revenues from provisions adjustments which increased by RON 19.7m in 2009 as compared with 2008. However, compared with state controlled distribution companies which in 2009 increased their personnel expenses by 16% Y/Y, on average, Enel Distributie Banat maintained about flat the respective costs (+1.7% Y/Y).

With no long-term debt, the company has no solvency issues and liquidity ratios improved over 2008-2009 period. Besides, company's cash account increased to RON 400.2m (+46.5% Y/Y).

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 31% | 18% | 31% | 41% | 30% | 39% |
| ROE Tot Eqty | 13% | 12% | 17% | 15% | 10% | 13% |
| ROA Tot Assets | 9% | 8% | 11% | 12% | 8% | 9% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 2.6 | 1.9 | 2.3 | 2.6 | 2.6 | 3.2 |
| Curr Ratio | 2.6 | 1.9 | 2.3 | 2.6 | 2.6 | 3.3 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 439.5 | 20.5 | 858.4 | nm | nm | nm |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **645.6** | **707.7** | **865.7** | **1,015.1** | **1,072.3** |
| Tangible assets o/w | | 639.2 | 700.0 | 842.0 | 993.5 | 1,052.7 |
| Land and buildings | | 518.5 | 526.1 | 639.7 | 765.6 | 808.8 |
| **Current assets** | | **486.1** | **601.6** | **449.0** | **413.6** | **561.0** |
| Accounts Receivable | | 167.8 | 222.4 | 146.3 | 133.4 | 139.5 |
| Cash | | 313.2 | 372.6 | 296.6 | 273.1 | 400.2 |
| **Current liabilities** | | **252.9** | **263.7** | **171.0** | **156.1** | **171.3** |
| Short-term debt | | 3.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounts Payable | | 195.5 | 213.7 | 142.4 | 131.2 | 146.9 |
| **Long-term liabilities** | | **46.4** | **0.0** | **0.0** | **0.0** | **0.0** |
| Long-term debt | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Shareholders funds** | | **722.9** | **868.5** | **1,078.3** | **1,176.0** | **1,152.5** |
| Share capital | | 463.5 | 463.5 | 382.2 | 382.2 | 382.2 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **1,008.7** | **1,004.6** | **769.8** | **506.8** | **526.4** |
| **Total operating expenses o/w** | | **949.6** | **879.2** | **633.4** | **418.2** | **407.4** |
| Other material costs | | 661.9 | 615.9 | 337.8 | 128.1 | 132.9 |
| *% of total opex* | *53.3%* | *69.7%* | *70.1%* | *53.3%* | *30.6%* | *32.6%* |
| Employees expenses | | 50.8 | 65.4 | 71.9 | 80.6 | 82.0 |
| *% of total opex* | *11.4%* | *5.4%* | *7.4%* | *11.4%* | *19.3%* | *20.1%* |
| D&A | | 98.3 | 56.7 | 64.2 | 74.0 | 77.6 |
| *% of total opex* | *10.4%* | *10.4%* | *6.4%* | *10.1%* | *17.7%* | *19.1%* |
| Other operating expenses | | 109.6 | 102.3 | 119.3 | 106.3 | 104.3 |
| *% of total opex* | *18.8%* | *11.5%* | *11.6%* | *18.8%* | *25.4%* | *25.6%* |
| **EBITDA** | | **172.4** | **217.9** | **240.9** | **181.0** | **217.9** |
| *EBITDA margin* | *31.3%* | *17.1%* | *21.7%* | *31.3%* | *35.7%* | *41.4%* |
| **EBIT** | | **74.1** | **161.2** | **176.7** | **106.9** | **140.3** |
| *EBIT margin* | *21.1%* | *7.3%* | *16.0%* | *23.0%* | *21.1%* | *26.6%* |
| **Net financial result o/w** | | **(1.5)** | **19.7** | **20.5** | **33.0** | **41.4** |
| Interest expenses | | (3.6) | (0.2) | 0.0 | 0.0 | 0.0 |
| **EBT** | | **72.6** | **180.9** | **197.3** | **140.0** | **181.7** |
| *EBT margin* | *25.6%* | *7.2%* | *18.0%* | *25.6%* | *27.6%* | *34.5%* |
| **Net Profit (Loss)** | | **84.9** | **145.6** | **158.1** | **114.9** | **150.7** |
| *Net profit margin* | *20.5%* | *8.4%* | *14.5%* | *20.5%* | *22.7%* | *28.6%* |

# ENEL DISTRIBUTIE DOBROGEA

Power distribution

| Shareholding structure | |
|---|---|
| ENEL Investment Holding | 51.00% |
| Electrica | 24.90% |
| Property Fund | 24.09% |
| Shares outstanding (m) | 27.14 |

| | |
|---|---|
| Book value | RON 806.6 |
| **AFR value** | **RON 1,218.7** |
| **Premium** | **51.1%** |

## Business summary

Enel Distributie Dobrogea is a joint stock company set up in 2002. Power distribution is a monopoly activity and the distribution services tariffs are set by ANRE. Currently, the rate of return on regulated assets for privately controlled power distributors is of 10% for the 2008-2012 period. For 2005-2007 period the rate stood at 12%. In 2009, total power distributed by Enel Distributie Dobrogea amounted to 3,349 GWh (-3% Y/Y), representing a market share of 8%.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, Enel Distributie Dobrogea would be valued at RON 1,218.7m, implying a premium to the FY'09 book value of 51.1%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 1,032.5m, implying a premium of 28.0%. Based on the median of peers P/B multiples, the company would be valued at RON 1,306.7m, implying a premium to the reported value of 62.0%. The median of the values implied by the selected multiples indicates an equity value for Enel Distributie Dobrogea of RON 1,218.7m and a premium of 51.1% to the FY'09 book value. We consider the premium justified by the company's EBITDA and net profit margins which beat, by far, the international peers' median margins, especially over 2008-2009 period. When compared with state controlled distribution companies, Enel Distributie Dobrogea's profitability proves the huge difference between the economically driven interests and the politicised ones.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 92.1 | X | **13.24** | | 1,218.7 | | 51.1% |
| EBITDA, LFY | 141.5 | X | **5.69** | 804.2 | 1,032.5 | | 28.0% |
| Net debt, LFY | -228.3 | | | | | | |
| Book value, LFY | 806.6 | X | **1.62** | | 1,306.7 | | 62.0% |
| | | | **AFR Equity Value** | | **1,218.7** | **806.6** | **51.1%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Eletropaulo | ELPL4 | BRA | $3,235m | 5.10 | 2.86 | 1.65 |
| Luz del Sur | LUSURC1 | PER | $1,232m | 12.17 | 7.69 | 3.27 |
| Lenenergo | LSNG | RUS | $1,122m | 14.30 | 5.73 | 0.74 |
| Prazska Energetika | BAAPRENG | CZE | $1,147m | 14.44 | 5.64 | 1.79 |
| Equatorial Energia | EQTL3 | BRA | $748m | 6.02 | 4.26 | 1.06 |
| Horizon Energy | HED | NZL | $64m | 14.39 | 8.20 | 1.59 |
| | | | **Median of peers** | **13.24** | **5.69** | **1.62** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Eletropaulo | 19% | 11% | 17% | 19% | 24% | 22% |
| Luz del Sur | 28% | 24% | 26% | 28% | 31% | 31% |
| Lenenergo | 28% | 25% | -2% | 28% | 28% | 37% |
| Prazska Energetika | 20% | 20% | 22% | 23% | 19% | 18% |
| Equatorial Energia | 11% | 13% | 12% | 11% | 3% | 3% |
| Horizon Energy | 46% | 42% | 45% | 48% | 48% | 46% |
| *Median of peers* | *24%* | *22%* | *19%* | *25%* | *26%* | *26%* |
| **Enel Distributie Dobrogea** | **26%** | **21%** | **24%** | **26%** | **29%** | **36%** |
| **Net profit margin** | | | | | | |
| Eletropaulo | 9% | 2% | 4% | 9% | 13% | 12% |
| Luz del Sur | 14% | 11% | 12% | 14% | 15% | 17% |
| Lenenergo | 9% | -6% | -3% | 10% | 9% | 11% |
| Prazska Energetika | 11% | 10% | 12% | 15% | 11% | 11% |
| Equatorial Energia | 15% | 34% | 15% | 17% | 13% | 8% |
| Horizon Energy | 19% | 19% | 21% | 20% | 17% | 19% |
| *Median of peers* | *13%* | *10%* | *12%* | *14%* | *13%* | *12%* |
| **Enel Distributie Dobrogea** | **15%** | **12%** | **15%** | **14%** | **17%** | **24%** |

**Financial summary**

# Enel Distributie Dobrogea

In 2005 Enel Distribuzione purchased a stake of 24.6% in Electrica Dobrogea and, in the same year, increased its holding in the company up to 51% through a share capital increase for a total value of € 42.7m. In 2007, power distribution and supply activities had to be legally separated to comply with EU standards. The spin off process of Electrica Dobrogea was finalised in July 2007 with the resulting supply company subsequently renamed as Enel Energie and the distribution company subsequently renamed as Enel Distributie Dobrogea. The split explains about halved net turnover of the Enel Distributie Dobrogea over 2008-2009 as compared with 2005-2006 period. On the 28th of December 2009, the entire stake of Enel Distribuzione was transferred to Enel Investment Holding.

The company's main operating expenses accounts are other material costs (own technological consumption) and other operating expenses (mainly third parties expenses for maintenance and repair works), followed by personnel expenses.

In 2009 the net profit margin increased from 16.5% in 2008 to 23.5% on the back of RON 9.5 additional revenues from higher tariffs and helped further by revenues from provisions adjustments which increased by RON 12.6m in 2009 as compared with 2008. However, compared with state controlled distribution companies which in 2009 increased their personnel expenses by 16% Y/Y, on average, Enel Distributie Dobrogea added to the respective costs 5.2.% Y/Y.

With no long-term debt, the company has no solvency issues and liquidity ratios improved over 2008-2009 period. Besides, company's cash account increased to RON 228.3m (+22.5% Y/Y).

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 30% | 25% | 33% | 30% | 23% | 33% |
| ROE Tot Eqty | 11% | 16% | 17% | 11% | 8% | 11% |
| ROA Tot Assets | 9% | 10% | 11% | 9% | 6% | 8% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 2.1 | 2.0 | 2.4 | 2.5 | 2.1 | 2.1 |
| Curr Ratio | 2.3 | 2.0 | 2.4 | 2.6 | 2.2 | 2.3 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 281.3 | 57.7 | 504.9 | nm | nm | nm |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **472.3** | **537.7** | **645.7** | **757.3** | **841.7** |
| Tangible assets o/w | | 465.8 | 533.2 | 624.2 | 737.1 | 822.3 |
| Land and buildings | | 372.3 | 382.4 | 471.0 | 532.9 | 582.1 |
| **Current assets** | | **368.1** | **432.6** | **304.7** | **293.4** | **356.5** |
| Accounts Receivable | | 130.2 | 173.4 | 125.0 | 95.0 | 106.9 |
| Cash | | 235.4 | 254.7 | 168.7 | 186.4 | 228.3 |
| **Current liabilities** | | **186.0** | **180.6** | **117.8** | **134.8** | **158.3** |
| Short-term debt | | 5.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounts Payable | | 145.5 | 144.3 | 99.4 | 119.5 | 143.4 |
| **Long-term liabilities** | | **40.1** | **0.0** | **0.0** | **0.0** | **0.0** |
| Long-term debt | | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Shareholders funds** | | **533.0** | **644.3** | **760.0** | **831.8** | **806.6** |
| Share capital | | 339.0 | 339.0 | 280.3 | 280.3 | 280.3 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **711.5** | **732.5** | **574.4** | **384.6** | **391.5** |
| **Total operating expenses o/w** | | **649.1** | **634.1** | **507.8** | **340.1** | **322.2** |
| Other material costs | | 436.1 | 436.4 | 277.3 | 117.3 | 108.9 |
| *% of total opex* | *54.6%* | *67.2%* | *68.8%* | *54.6%* | *34.5%* | *33.8%* |
| Employees expenses | | 41.7 | 53.2 | 59.4 | 65.1 | 68.5 |
| *% of total opex* | *11.7%* | *6.4%* | *8.4%* | *11.7%* | *19.1%* | *21.3%* |
| D&A | | 71.8 | 47.6 | 52.8 | 53.4 | 56.4 |
| *% of total opex* | *11.1%* | *11.1%* | *7.5%* | *10.4%* | *15.7%* | *17.5%* |
| Other operating expenses | | 67.6 | 64.0 | 85.7 | 89.5 | 84.7 |
| *% of total opex* | *16.9%* | *10.4%* | *10.1%* | *16.9%* | *26.3%* | *26.3%* |
| **EBITDA** | | **149.0** | **173.5** | **148.7** | **111.0** | **141.5** |
| *EBITDA margin* | *25.9%* | *20.9%* | *23.7%* | *25.9%* | *28.9%* | *36.1%* |
| **EBIT** | | **77.2** | **125.9** | **95.9** | **57.6** | **85.0** |
| *EBIT margin* | *16.7%* | *10.8%* | *17.2%* | *16.7%* | *15.0%* | *21.7%* |
| **Net financial result o/w** | | **2.4** | **14.2** | **15.7** | **22.0** | **26.3** |
| Interest expenses | | (1.3) | (0.2) | 0.0 | 0.0 | 0.0 |
| **EBT** | | **79.6** | **140.0** | **111.6** | **79.6** | **111.3** |
| *EBT margin* | *19.4%* | *11.2%* | *19.1%* | *19.4%* | *20.7%* | *28.4%* |
| **Net Profit (Loss)** | | **84.6** | **111.3** | **83.1** | **63.6** | **92.1** |
| *Net profit margin* | *15.2%* | *11.9%* | *15.2%* | *14.5%* | *16.5%* | *23.5%* |

# ENEL DISTRIBUTIE MUNTENIA

Power distribution

| Shareholding structure | |
|---|---|
| Enel Investment Holding | 64.43% |
| Electrica | 23.57% |
| Property Fund | 12.00% |
| Shares outstanding (m) | 27.14 |

| | |
|---|---|
| Book value | RON 2,705.2 |
| **AFR value** | **RON 3,706.5** |
| **Premium** | **37.0%** |

## Business summary

Enel Distributie Muntenia is a joint stock company set up in 2002. Power distribution is a monopoly activity and the distribution services tariffs are set by ANRE. Currently, the rate of return on regulated assets for privately controlled power distributors is of 10% for the 2008-2012 period. For 2005-2007 period the rate stood at 12%. In 2009, total power distributed by Enel Distributie Muntenia amounted to 6,017 GWh (+19% Y/Y), representing a market share of 15%.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, Enel Distributie Muntenia would be valued at RON 3,706.5m, implying a premium to the FY'09 book value of 37.0%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 3,138.4m, implying a premium of 16.0%. Based on the median of peers P/B multiples, the company would be valued at RON 4,382.4m, implying a premium to the reported value of 62.0%. The median of the values implied by the selected multiples indicates an equity value for Enel Distributie Muntenia of RON 3,706.5m and a premium of 37.0% to the FY'09 book value. We consider the premium justified by the company's 2009 net profit margin of 38.22% helped by interest revenues of RON 125.6m earned on the pile of RON 1,854.9m in cash that company owns.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 280.1 | X | **13.24** | | 3,706.5 | | 37.0% |
| EBITDA, LFY | 225.8 | X | **5.69** | 1,283.4 | 3,138.4 | | 16.0% |
| Net debt, LFY | -1854.9 | | | | | | |
| Book value, LFY | 2,705.2 | X | **1.62** | | 4,382.4 | | 62.0% |
| | | | **AFR Equity Value** | | **3,706.5** | **2,705.2** | **37.0%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Eletropaulo | ELPL4 | BRA | $3,235m | 5.10 | 2.86 | 1.65 |
| Luz del Sur | LUSURC1 | PER | $1,232m | 12.17 | 7.69 | 3.27 |
| Lenenergo | LSNG | RUS | $1,122m | 14.30 | 5.73 | 0.74 |
| Prazska Energetika | BAAPRENG | CZE | $1,147m | 14.44 | 5.64 | 1.79 |
| Equatorial Energia | EQTL3 | BRA | $748m | 6.02 | 4.26 | 1.06 |
| Horizon Energy | HED | NZL | $64m | 14.39 | 8.20 | 1.59 |
| | | | **Median of peers** | **13.24** | **5.69** | **1.62** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Eletropaulo | 19% | 11% | 17% | 19% | 24% | 22% |
| Luz del Sur | 28% | 24% | 26% | 28% | 31% | 31% |
| Lenenergo | 28% | 25% | -2% | 28% | 28% | 37% |
| Prazska Energetika | 20% | 20% | 22% | 23% | 19% | 18% |
| Equatorial Energia | 11% | 13% | 12% | 11% | 3% | 3% |
| Horizon Energy | 46% | 42% | 45% | 48% | 48% | 46% |
| *Median of peers* | *24%* | *22%* | *19%* | *25%* | *26%* | *26%* |
| **Enel Distributie Muntenia** | **10%** | **11%** | **9%** | **8%** | **10%** | **31%** |
| **Net profit margin** | | | | | | |
| Eletropaulo | 9% | 2% | 4% | 9% | 13% | 12% |
| Luz del Sur | 14% | 11% | 12% | 14% | 15% | 17% |
| Lenenergo | 9% | -6% | -3% | 10% | 9% | 11% |
| Prazska Energetika | 11% | 10% | 12% | 15% | 11% | 11% |
| Equatorial Energia | 15% | 34% | 15% | 17% | 13% | 8% |
| Horizon Energy | 19% | 19% | 21% | 20% | 17% | 19% |
| *Median of peers* | *13%* | *10%* | *12%* | *14%* | *13%* | *12%* |
| **Enel Distributie Muntenia** | **5%** | **5%** | **4%** | **3%** | **15%** | **38%** |

**Financial summary**

# Enel Distributie Muntenia

In 2008 Enel purchased a stake of 50% in Electrica Muntenia Sud for € 395m and, in the same year, increased its holding in the company up to 64.43% through a share capital increase amounting to € 425m. In 2007, power distribution and supply activities had to be legally separated to comply with EU standards. The spin off process of Electrica Muntenia Sud was finalised in July 2008 with the resulting supply company subsequently renamed as Electrica Furnizare Muntenia Sud and the distribution company subsequently renamed as Enel Distributie Muntenia. The split explains about halved net turnover of the Enel Distributie Muntenia in 2009 as compared with 2005-2008 period. On the 28th of December 2009, the entire stake of Enel Distribuzione was transferred to Enel Investment Holding.

The company's main operating expenses accounts are other material costs (own technological consumption) and other operating expenses (mainly third parties expenses for maintenance and repair works), followed by personnel expenses.

In 2009 the net profit margin increased from 15.3% in 2008 to 38.2% helped by interest revenues of RON 125.6m earned on the pile of cash of RON 1,854.9m that company owns. The cash represents the funds injected by the buyer (Enel) in 2008 to be used for upgrading the distribution network. However 2009 EBITDA margin, about threefold higher as compared with 2008 proves that the impressive 2009 net profit margin owes also to Enel's better management as compared to the state, the previous majority shareholder.

With no long-term debt and owning an impressive pile of cash, the company has no solvency or liquidity issues.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 37% | 37% | 28% | 23% | 81% | 103% |
| ROE Tot Eqty | 8% | 8% | 6% | 3% | 8% | 10% |
| ROA Tot Assets | 5% | 5% | 3% | 2% | 7% | 7% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.6 | 1.4 | 1.4 | 1.6 | 5.9 | 7.0 |
| Curr Ratio | 1.6 | 1.5 | 1.4 | 1.6 | 5.9 | 7.1 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | nm | nm | nm | nm | nm | nm |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **1,060.3** | **1,172.2** | **1,286.5** | **1,397.9** | **1,778.5** |
| Tangible assets o/w | | 1,054.4 | 1,166.9 | 1,282.8 | 1,397.3 | 1,777.2 |
| Land and buildings | | 722.8 | 763.2 | 893.3 | 958.1 | 1,120.7 |
| **Current assets** | | **365.5** | **447.9** | **493.4** | **1,974.8** | **2,151.1** |
| Accounts Receivable | | 285.2 | 298.9 | 336.6 | 196.9 | 266.9 |
| Cash | | 76.6 | 140.0 | 148.1 | 1,773.4 | 1,854.9 |
| **Current liabilities** | | **251.5** | **313.5** | **302.7** | **334.3** | **302.5** |
| Short-term debt | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounts Payable | | 193.5 | 194.3 | 218.2 | 276.8 | 268.8 |
| **Long-term liabilities** | | **62.1** | **21.4** | **15.8** | **0.0** | **0.0** |
| Long-term debt | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Shareholders funds** | | **871.5** | **900.2** | **1,330.9** | **2,842.7** | **2,705.2** |
| Share capital | | 191.3 | 191.3 | 191.3 | 271.4 | 271.4 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **1,392.5** | **1,514.8** | **1,720.1** | **1,440.5** | **732.7** |
| **Total operating expenses o/w** | | **1,324.8** | **1,479.1** | **1,715.5** | **1,447.0** | **655.5** |
| Other material costs | | 1,001.7 | 1,199.4 | 1,362.2 | 982.6 | 306.5 |
| *% of total opex* | *75.6%* | *75.6%* | *81.1%* | *79.4%* | *67.9%* | *46.8%* |
| Employees expenses | | 53.1 | 64.1 | 76.5 | 90.5 | 96.6 |
| *% of total opex* | *4.5%* | *4.0%* | *4.3%* | *4.5%* | *6.3%* | *14.7%* |
| D&A | | 65.5 | 73.2 | 81.0 | 100.8 | 102.8 |
| *% of total opex* | *5.0%* | *4.9%* | *5.0%* | *4.7%* | *7.0%* | *15.7%* |
| Other operating expenses | | 139.0 | 141.7 | 163.7 | 185.0 | 151.9 |
| *% of total opex* | *10.5%* | *10.5%* | *9.6%* | *9.5%* | *12.8%* | *23.2%* |
| **EBITDA** | | **156.4** | **134.6** | **133.4** | **150.2** | **225.8** |
| *EBITDA margin* | *10.4%* | *11.2%* | *8.9%* | *7.8%* | *10.4%* | *30.8%* |
| **EBIT** | | **90.9** | **61.4** | **52.4** | **49.5** | **122.9** |
| *EBIT margin* | *4.1%* | *6.5%* | *4.1%* | *3.0%* | *3.4%* | *16.8%* |
| **Net financial result o/w** | | **0.2** | **3.9** | **6.1** | **232.7** | **217.7** |
| Interest expenses | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest revenues | | 1.8 | 4.4 | 8.1 | 83.7 | 125.6 |
| **EBT** | | **91.1** | **65.3** | **58.5** | **282.2** | **340.7** |
| *EBT margin* | *6.5%* | *6.5%* | *4.3%* | *3.4%* | *19.6%* | *46.5%* |
| **Net Profit (Loss)** | | **70.6** | **53.2** | **43.6** | **220.6** | **280.1** |
| *Net profit margin* | *5.1%* | *5.1%* | *3.5%* | *2.5%* | *15.3%* | *38.2%* |

# E.ON MOLDOVA DISTRIBUTIE

Power distribution

| Shareholding structure | |
|---|---|
| E.ON Romania | 51.00% |
| Electrica | 27.00% |
| Property Fund | 22.00% |
| Shares outstanding (m) | 49.97 |

| | |
|---|---|
| Book value | RON 822.2 |
| **AFR value** | **RON 913.4** |
| **Premium** | **11.1%** |

## Business summary

E.ON Moldova Distributie is a joint stock company set up in 2002. Power distribution is a monopoly activity and the distribution services tariffs are set by ANRE. Currently, the rate of return on regulated assets for privately controlled power distributors is of 10% for the 2008-2012 period. For 2005-2007 period the rate stood at 12%. In 2009, total power distributed by E.ON Moldova Distributie amounted to 4.052GWh (-6% Y/Y), representing a market share of 10%.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, E.ON Moldova Distributie would be valued at RON 709.0m, implying a discount to the FY'09 book value of 13.8%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 913.4m, implying a premium of 11.1%. Based on the median of peers P/B multiples, the company would be valued at RON 1,332.0m, implying a premium of 62.0%. The median of the values implied by the selected multiples indicates an equity value for E.ON Moldova Distributie of RON 913.4m and a premium of 11.1% to the FY'09 book value. We consider the premium as justifed by the company's EBITDA margin which improved in 2009 landing about in line with the median of the international peers' margin.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 53.6 | X | **13.24** | | 709.0 | | -13.8% |
| EBITDA, LFY | 163.3 | X | **5.69** | 928.5 | 913.4 | | 11.1% |
| Net debt, LFY | 15.1 | | | | | | |
| Book value, LFY | 822.2 | X | **1.62** | | 1,332.0 | | 62.0% |
| | | | **AFR Equity Value** | | **913.4** | **822.2** | **11.1%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Eletropaulo | ELPL4 | BRA | $3,235m | 5.10 | 2.86 | 1.65 |
| Luz del Sur | LUSURC1 | PER | $1,232m | 12.17 | 7.69 | 3.27 |
| Lenenergo | LSNG | RUS | $1,122m | 14.30 | 5.73 | 0.74 |
| Prazska Energetika | BAAPRENG | CZE | $1,147m | 14.44 | 5.64 | 1.79 |
| Equatorial Energia | EQTL3 | BRA | $748m | 6.02 | 4.26 | 1.06 |
| Horizon Energy | HED | NZL | $64m | 14.39 | 8.20 | 1.59 |
| | | | **Median of peers** | **13.24** | **5.69** | **1.62** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| EBITDA margin | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Eletropaulo | 19% | 11% | 17% | 19% | 24% | 22% |
| Luz del Sur | 28% | 24% | 26% | 28% | 31% | 31% |
| Lenenergo | 28% | 25% | -2% | 28% | 28% | 37% |
| Prazska Energetika | 20% | 20% | 22% | 23% | 19% | 18% |
| Equatorial Energia | 11% | 13% | 12% | 11% | 3% | 3% |
| Horizon Energy | 46% | 42% | 45% | 48% | 48% | 46% |
| *Median of peers* | *24%* | *22%* | *19%* | *25%* | *26%* | *26%* |
| **E.ON Moldova Distributie** | **18%** | **na** | **8%** | **na** | **18%** | **26%** |

| Net profit margin | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Eletropaulo | 9% | 2% | 4% | 9% | 13% | 12% |
| Luz del Sur | 14% | 11% | 12% | 14% | 15% | 17% |
| Lenenergo | 9% | -6% | -3% | 10% | 9% | 11% |
| Prazska Energetika | 11% | 10% | 12% | 15% | 11% | 11% |
| Equatorial Energia | 15% | 34% | 15% | 17% | 13% | 8% |
| Horizon Energy | 19% | 19% | 21% | 20% | 17% | 19% |
| *Median of peers* | *13%* | *10%* | *12%* | *14%* | *13%* | *12%* |
| **E.ON Moldova Distributie** | **5%** | **na** | **2%** | **na** | **5%** | **9%** |

**Financial summary**

# E.ON Moldova Distributie

In 2005 E.ON Energie Romania purchased a stake of 24.6% in Electrica Moldova for € 31.4m and, in the same year, increased its holding in the company up to 51% through a share capital increase for a total value of € 68.6m. In 2007, power distribution and supply activities had to be legally separated to comply with EU standards. The spin off process of Electrica Moldova was finalised in April 2007 with the resulting supply company subsequently renamed as E.ON Moldova Furnizare and the distribution company subsequently renamed as E.ON Moldova Distributie. The split explains about halved net turnover of the E.ON Moldova Distributie over 2008-2009 as compared with the previous period. On the 31th of December 2009, E.ON Energie Romania merged with E.ON Gaz Romania Holding and all the stakes held by E.ON Energie Romania were transferred to the newly created company E.ON Romania.

The company's main operating expenses accounts are other material costs (own technological consumption) and other operating expenses (mainly third parties expenses for maintenance and repair works), followed by personnel expenses.

In 2009 the net profit margin increased from 4.6% in 2008 to 8.5% mainly on the back of higher revenues due to increased tariffs.

With no long-term debt, the company has no solvency issues and liquidity ratios improved in 2009 period.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 5% | na | 3% | na | 5% | 11% |
| ROE Tot Eqty | 3% | na | 3% | na | 3% | 7% |
| ROA Tot Assets | 2% | na | 2% | na | 2% | 3% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 0.9 | na | 1.1 | na | 0.8 | 0.9 |
| Curr Ratio | 0.9 | na | 1.2 | na | 0.8 | 0.9 |
| LT Debt/Tot Eqty | 0.0 | na | 0.0 | na | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | na | 0.0 | na | 0.0 | 0.0 |
| EBIT/Int expense | 20.9 | na | 20.5 | na | 45.2 | 20.9 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **na** | **1,015.2** | **na** | **1,179.6** | **1,248.9** |
| Tangible assets o/w | | na | 1,002.3 | na | 1,145.2 | 1,227.4 |
| Land and buildings | | na | 820.7 | na | 902.2 | 980.1 |
| **Current assets** | | **na** | **452.1** | **na** | **406.7** | **401.0** |
| Accounts Receivable | | na | 290.7 | na | 382.4 | 385.3 |
| Cash | | na | 125.7 | na | 1.3 | 0.1 |
| **Current liabilities** | | **na** | **389.1** | **na** | **500.0** | **432.4** |
| Short-term debt | | na | 0.2 | na | 26.6 | 15.3 |
| Accounts Payable | | na | 317.9 | na | 59.0 | 35.4 |
| **Long-term liabilities** | | **na** | **2.6** | **na** | **0.0** | **0.0** |
| Long-term debt | | na | 0.0 | na | 0.0 | 0.0 |
| **Shareholders funds** | | **na** | **802.1** | **na** | **991.0** | **822.2** |
| Share capital | | na | 638.4 | na | 499.7 | 499.7 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **na** | **1,076.2** | **na** | **589.9** | **630.1** |
| **Total operating expenses o/w** | | **na** | **1,064.1** | **na** | **551.0** | **567.6** |
| Other material costs | | na | 689.6 | na | 166.4 | 137.6 |
| *% of total opex* | *30.2%* | *na* | *64.8%* | *na* | *30.2%* | *24.2%* |
| Employees expenses | | na | 86.6 | na | 116.3 | 124.7 |
| *% of total opex* | *21.1%* | *na* | *8.1%* | *na* | *21.1%* | *22.0%* |
| D&A | | na | 52.6 | na | 58.1 | 82.3 |
| *% of total opex* | *10.5%* | *na* | *4.9%* | *na* | *10.5%* | *14.5%* |
| Other operating expenses | | na | 148.5 | na | 176.8 | 178.6 |
| *% of total opex* | *31.5%* | *na* | *14.0%* | *na* | *32.1%* | *31.5%* |
| **EBITDA** | | **na** | **85.6** | **na** | **108.3** | **163.3** |
| *EBITDA margin* | *18.4%* | *na* | *8.0%* | *na* | *18.4%* | *25.9%* |
| **EBIT** | | **na** | **33.0** | **na** | **50.2** | **81.0** |
| *EBIT margin* | *8.5%* | *na* | *3.1%* | *na* | *8.5%* | *12.9%* |
| **Net financial result o/w** | | **na** | **6.1** | **na** | **(4.4)** | **(5.7)** |
| Interest expenses | | na | (1.6) | na | (1.1) | (3.9) |
| **EBT** | | **na** | **39.1** | **na** | **45.8** | **75.3** |
| *EBT margin* | *7.8%* | *na* | *3.6%* | *na* | *7.8%* | *12.0%* |
| **Net Profit (Loss)** | | **na** | **22.3** | **na** | **27.2** | **53.6** |
| *Net profit margin* | *4.6%* | *na* | *2.1%* | *na* | *4.6%* | *8.5%* |

# ENEL ENERGIE MUNTENIA

Power supply

| Shareholding structure | |
|---|---|
| ENEL Investment Holding | 64.43% |
| Electrica | 23.57% |
| Property Fund | 12.00% |
| Shares outstanding (m) | 3.70 |

| | |
|---|---|
| Book value | RON 308.6 |
| **AFR value** | **RON 372.8** |
| **Premium** | **20.8%** |

## Business summary

Enel Energie Muntenia is a joint stock company set up in 2008 after the separation of distribution and supply activities of Electrica Muntenia Sud.

In 2009, total power distributed by Enel Energie Muntenia amounted to 4,875Wh, representing a market share of 12%.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, Enel Energie Muntenia would be valued at RON 177.6m, implying a discount to the FY'09 book value of 42.4%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 372.8m, implying a premium of 20.8% and refecting company's net debt position. Based on the median of peers P/B multiples, the company would be valued at RON 499.9m, implying a premium of 62.0%. The median of the values implied by the selected multiples indicates an equity value for Enel Energie Muntenia of RON 372.8 and a premium of 20.8% to the 2009 book value justified by the company's net cash position

**Relative Valuation**

| (RONm) | **Company data** | | **Multiples** | **Implied EV** | **Implied Equity Value** | **Book Value** | **Premium/ Discount** |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 13.4 | X | **13.24** | | 177.6 | | -42.4% |
| EBITDA, LFY | -20.7 | X | **5.69** | 0.0 | 372.8 | | 20.8% |
| Net debt, LFY | -372.8 | | | | | | |
| Book value, LFY | 308.6 | X | **1.62** | | 499.9 | | 62.0% |
| | | | **AFR Equity Value** | | **372.8** | **308.6** | **20.8%** |

| **Peers, LFY** | **Ticker** | **Country** | **Mkt cap** | **P/E** | **EV/EBITDA** | **P/B** |
|---|---|---|---|---|---|---|
| Eletropaulo | ELPL4 | BRA | $3,235m | 5.10 | 2.86 | 1.65 |
| Luz del Sur | LUSURC1 | PER | $1,232m | 12.17 | 7.69 | 3.27 |
| Lenenergo | LSNG | RUS | $1,122m | 14.30 | 5.73 | 0.74 |
| Prazska Energetika | BAAPRENG | CZE | $1,147m | 14.44 | 5.64 | 1.79 |
| Equatorial Energia | EQTL3 | BRA | $748m | 6.02 | 4.26 | 1.06 |
| Horizon Energy | HED | NZL | $64m | 14.39 | 8.20 | 1.59 |
| | | | **Median of peers** | **13.24** | **5.69** | **1.62** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Eletropaulo | 19% | 11% | 17% | 19% | 24% | 22% |
| Luz del Sur | 28% | 24% | 26% | 28% | 31% | 31% |
| Lenenergo | 28% | 25% | -2% | 28% | 28% | 37% |
| Prazska Energetika | 20% | 20% | 22% | 23% | 19% | 18% |
| Equatorial Energia | 11% | 13% | 12% | 11% | 3% | 3% |
| Horizon Energy | 46% | 42% | 45% | 48% | 48% | 46% |
| *Median of peers* | *24%* | *22%* | *19%* | *25%* | *26%* | *26%* |
| **Enel Energie Muntenia** | **na** | **na** | **na** | **na** | **na** | **-1%** |
| **Net profit margin** | | | | | | |
| Eletropaulo | 9% | 2% | 4% | 9% | 13% | 12% |
| Luz del Sur | 14% | 11% | 12% | 14% | 15% | 17% |
| Lenenergo | 9% | -6% | -3% | 10% | 9% | 11% |
| Prazska Energetika | 11% | 10% | 12% | 15% | 11% | 11% |
| Equatorial Energia | 15% | 34% | 15% | 17% | 13% | 8% |
| Horizon Energy | 19% | 19% | 21% | 20% | 17% | 19% |
| *Median of peers* | *13%* | *10%* | *12%* | *14%* | *13%* | *12%* |
| **Enel Energie Muntenia** | **1%** | **na** | **na** | **na** | **na** | **1%** |

**Financial summary**

# Enel Energie Muntenia

Romanian power supply activity concerns two types of final consumers: (1) captive- prices are regulated by ANRE and (2) eligible- prices are set through contracts signed with the company. The prices for captive consumers are set so that the supplier is able to cover the electricity acquisition costs (incl related expenses such as network services). The regulated profit is set at 2.5% of the power acquisition costs for captive consumers.

The company's main operating expenses accounts are other material costs (power acquisition costs) and other operating expenses (power distribution costs).

In 2009, the company posted a net profit margin of -0.7% and a net turnover of RON 1,919.5m.

The company' s 2009 total fixed assets amount RON 2.6m. With no long-term debt and a pile of cash of RON 372.8m the company has no solvency issues.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 36% | na | na | na | na | 36% |
| ROE Tot Eqty | 4% | na | na | na | na | 4% |
| ROA Tot Assets | 2% | na | na | na | na | 2% |
| **Financial Strenght** | | | | | | |
| Quick ratio | na | na | na | na | na | na |
| Curr Ratio | na | na | na | na | na | 1.7 |
| LT Debt/Tot Eqty | 0.0 | na | na | nm | nm | 0.0 |
| LT Debt/Tot Assets | 0.0 | na | na | nm | nm | 0.0 |
| EBIT/Int expense | na | na | na | nm | nm | nm |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **na** | **na** | **na** | **na** | **2.6** |
| Tangible assets o/w | | na | na | na | na | na |
| Land and buildings | | na | na | na | na | na |
| **Current assets** | | **na** | **na** | **na** | **na** | **755.3** |
| Accounts Receivable | | na | na | na | na | na |
| Cash | | na | na | na | na | 372.8 |
| **Current liabilities** | | **na** | **na** | **na** | **na** | **439.3** |
| Short-term debt | | na | na | na | na | 0.0 |
| Accounts Payable | | na | na | na | na | na |
| **Long-term liabilities** | | **na** | **na** | **na** | **na** | **0.0** |
| Long-term debt | | na | na | na | na | 0.0 |
| **Shareholders funds** | | **na** | **na** | **na** | **na** | **308.6** |
| Share capital | | na | na | na | na | 37.0 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **na** | **na** | **na** | **na** | **1,919.5** |
| **Total operating expenses o/w** | | **na** | **na** | **na** | **na** | **1,956.7** |
| Electricity costs | | na | na | na | na | 1,194.4 |
| *% of total opex* | | | | | | *61.0%* |
| Employees expenses | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| D&A | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| Distribution costs | | na | na | na | na | 637.2 |
| *% of total opex* | | | | | | *32.6%* |
| **EBITDA** | | **na** | **na** | **na** | **na** | **(20.7)** |
| *EBITDA margin* | | | | | | *-1.1%* |
| **EBIT** | | **na** | **na** | **na** | **na** | **(6.8)** |
| *EBIT margin* | | | | | | *-0.4%* |
| **Net financial result o/w** | | **na** | **na** | **na** | **na** | **na** |
| Interest expenses | | na | na | na | na | 0.0 |
| **EBT** | | **na** | **na** | **na** | **na** | **na** |
| *EBT margin* | | | | | | |
| **Net Profit (Loss)** | | **na** | **na** | **na** | **na** | **13.4** |
| *Net profit margin* | | | | | | *0.7%* |

# ENEL ENERGIE

Power supply

| Shareholding structure | |
|---|---|
| ENEL Investment Holding | 51.00% |
| Electrica | 37.00% |
| Property Fund | 12.00% |
| Shares outstanding (m) | 14.00 |

| | |
|---|---|
| Book value | RON 196.8 |
| **AFR value** | **RON 159.1** |
| **Discount** | **-19.2%** |

## Business summary

Enel Energie is a joint stock company set up in 2007 after the separation of distribution and supply activities of Enel Electrica Dobrogea and Enel Electrica Banat.

In 2009, total power distributed by Enel Energie amounted to 4,716Wh (-2% Y/Y), representing a market share of 11%.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, Enel Energie would be valued at RON 0.0m. Please note that we assessed the relative value at RON 0.0m on the back of the net loss posted by the company in 2009. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 159.1m, implying a discount of 19.2%, refecting company's net debt position. Based on the median of peers P/B multiples, the company would be valued at RON 318.8m, implying a premium of 64.2%. The median of the values implied by the selected multiples indicates an equity value for Enel Energie of RON 159.1 and a discount of 19.2% to the 2009 company's book value justified by the company's 2009 losses.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | -56.7 | X | **13.24** | | 0.0 | | -100.0% |
| EBITDA, LFY | -114.6 | X | **5.69** | 0.0 | 159.1 | | -19.2% |
| Net debt, LFY | -159.1 | | | | | | |
| Book value, LFY | 196.8 | X | **1.62** | | 318.8 | | 62.0% |
| | | | **AFR Equity Value** | | **159.1** | **196.8** | **-19.2%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Eletropaulo | ELPL4 | BRA | $3,235m | 5.10 | 2.86 | 1.65 |
| Luz del Sur | LUSURC1 | PER | $1,232m | 12.17 | 7.69 | 3.27 |
| Lenenergo | LSNG | RUS | $1,122m | 14.30 | 5.73 | 0.74 |
| Prazska Energetika | BAAPRENG | CZE | $1,147m | 14.44 | 5.64 | 1.79 |
| Equatorial Energia | EQTL3 | BRA | $748m | 6.02 | 4.26 | 1.06 |
| Horizon Energy | HED | NZL | $64m | 14.39 | 8.20 | 1.59 |
| | | | **Median of peers** | **13.24** | **5.69** | **1.62** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Eletropaulo | 19% | 11% | 17% | 19% | 24% | 22% |
| Luz del Sur | 28% | 24% | 26% | 28% | 31% | 31% |
| Lenenergo | 28% | 25% | -2% | 28% | 28% | 37% |
| Prazska Energetika | 20% | 20% | 22% | 23% | 19% | 18% |
| Equatorial Energia | 11% | 13% | 12% | 11% | 3% | 3% |
| Horizon Energy | 46% | 42% | 45% | 48% | 48% | 46% |
| *Median of peers* | *24%* | *22%* | *19%* | *25%* | *26%* | *26%* |
| **Enel Energie** | *4%* | **na** | **na** | **4%** | **5%** | **-2%** |
| **Net profit margin** | | | | | | |
| Eletropaulo | 9% | 2% | 4% | 9% | 13% | 12% |
| Luz del Sur | 14% | 11% | 12% | 14% | 15% | 17% |
| Lenenergo | 9% | -6% | -3% | 10% | 9% | 11% |
| Prazska Energetika | 11% | 10% | 12% | 15% | 11% | 11% |
| Equatorial Energia | 15% | 34% | 15% | 17% | 13% | 8% |
| Horizon Energy | 19% | 19% | 21% | 20% | 17% | 19% |
| *Median of peers* | *13%* | *10%* | *12%* | *14%* | *13%* | *12%* |
| **Enel Energie** | **2%** | **na** | **na** | **2%** | **5%** | **-3%** |

**Financial summary**

# Enel Energie

Romanian power supply activity concerns two types of final consumers: (1) captive- prices are regulated by ANRE and (2) eligible- prices are set through contracts signed with the company. The prices for captive consumers are set so that the supplier is able to cover the electricity acquisition costs (incl related expenses such as network services). The regulated profit is set at 2.5% of the power acquisition costs for captive consumers.

The company's main operating expenses accounts are other material costs (power acquisition costs) and other operating expenses (power distribution costs).

In 2009, company's net profit margin decreased to -3.1% from 0.75% in 2008, while the net turnover slightly advanced to RON 1,849.63m (+1.8% Y/Y).

The company' s total fixed assets amount RON 8.2m. With no long-term debt, the company has no solvency issues.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 15% | na | na | 15% | 59% | -40% |
| ROE Tot Eqty | 13% | na | na | 13% | 34% | -29% |
| ROA Tot Assets | 3% | na | na | 3% | 13% | -9% |
| **Financial Strenght** | | | | | | |
| Quick ratio | na | na | na | na | na | na |
| Curr Ratio | na | na | na | na | na | na |
| LT Debt/Tot Eqty | 0.0 | na | na | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | na | na | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | na | na | na | nm | nm | nm |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **na** | **na** | **0.0** | **0.0** | **8.2** |
| Tangible assets o/w | | na | na | na | na | na |
| Land and buildings | | na | na | na | na | na |
| **Current assets** | | **na** | **na** | **678.3** | **690.8** | **635.5** |
| Accounts Receivable | | na | na | na | na | na |
| Cash | | na | na | 179.1 | 142.4 | 159.1 |
| **Current liabilities** | | **na** | **na** | **453.8** | **392.8** | **414.1** |
| Short-term debt | | na | na | 0.0 | 0.0 | 0.0 |
| Accounts Payable | | na | na | na | na | na |
| **Long-term liabilities** | | **na** | **na** | **0.0** | **0.0** | **0.0** |
| Long-term debt | | na | na | 0.0 | 0.0 | 0.0 |
| **Shareholders funds** | | **na** | **na** | **160.7** | **243.5** | **196.8** |
| Share capital | | na | na | 140.0 | 140.0 | 140.0 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **na** | **na** | **903.1** | **1,817.6** | **1,849.6** |
| **Total operating expenses o/w** | | **na** | **na** | **na** | **1,790.6** | **1,964.3** |
| Electricity costs | | na | na | na | 938.0 | 946.5 |
| *% of total opex* | *50.3%* | | | | *52.4%* | *48.2%* |
| Employees expenses | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| D&A | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| Distribution costs | | na | na | na | 734.4 | 752.6 |
| *% of total opex* | *39.7%* | | | | *41.0%* | *38.3%* |
| **EBITDA** | | **na** | **na** | **6.3** | **27.3** | **(114.6)** |
| *EBITDA margin* | | | | | | |
| **EBIT** | | **na** | **na** | **38.5** | **99.5** | **(28.6)** |
| *EBIT margin* | *4.3%* | | | *4.3%* | *5.5%* | *-1.5%* |
| **Net financial result o/w** | | **na** | **na** | **na** | **na** | **na** |
| Interest expenses | | na | na | 0.0 | 0.0 | 0.0 |
| **EBT** | | **na** | **na** | **na** | **na** | **na** |
| *EBT margin* | | | | | | |
| **Net Profit (Loss)** | | **na** | **na** | **20.7** | **82.8** | **-56.7** |
| *Net profit margin* | *2.3%* | | | *2.3%* | *4.6%* | *-3.1%* |

# E.ON MOLDOVA FURNIZARE

Power supply

| **Shareholding structure** | |
|---|---|
| E.ON Romania | 51.00% |
| Electrica | 27.00% |
| Property Fund | 22.00% |
| Shares outstanding (m) | 13.87 |

| | |
|---|---|
| Book value | RON 118.6 |
| **AFR value** | **RON 14.3** |
| **Discount** | **-88.0%** |

## Business summary

E.ON Moldova Furnizare is a joint stock company set up in 2007 after the separation of distribution and supply activities of E.ON Moldova. in 2010, on the 2nd of November GSM, shareholders apporved the merger of E.ON Moldova Furnizare with E.ON Gaz Romania starting with the 31st of December, 2010.

In 2009, total power distributed by E.ON Moldova Furnizare accounted for a market share of 8%.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, E.ON Moldova Furnizare would be valued at RON 0.0m. Please note that on the back of the net loss posted by the company in 2009, we assessed the relative value at RON 0.0m . Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 14.3m, implying a discount of 88.0% and refecting company's net debt position. Based on the median of peers P/B multiples, the company would be valued at RON 192.1m, implying a premium of 62.0%. The median of the values implied by the selected multiples indicates an equity value for E.ON Moldova Furnizare of RON 14.3 and a discount of 88.0% to the FY'09 book value justified by the company's net cash position and losses posted in 2009.

**Relative Valuation**

| (RONm) | **Company data** | | **Multiples** | **Implied EV** | **Implied Equity Value** | **Book Value** | **Premium/ Discount** |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | -44.4 | X | **13.24** | | 0.0 | | -100.0% |
| EBITDA, LFY | -98.4 | X | **5.69** | 0.0 | 14.3 | | -88.0% |
| Net debt, LFY | -14.3 | | | | | | |
| Book value, LFY | 118.6 | X | **1.62** | | 192.1 | | 62.0% |
| | | | **AFR Equity Value** | | **14.3** | **118.6** | **-88.0%** |

| **Peers, LFY** | **Ticker** | **Country** | **Mkt cap** | **P/E** | **EV/EBITDA** | **P/B** |
|---|---|---|---|---|---|---|
| Eletropaulo | ELPL4 | BRA | $3,235m | 5.10 | 2.86 | 1.65 |
| Luz del Sur | LUSURC1 | PER | $1,232m | 12.17 | 7.69 | 3.27 |
| Lenenergo | LSNG | RUS | $1,122m | 14.30 | 5.73 | 0.74 |
| Prazska Energetika | BAAPRENG | CZE | $1,147m | 14.44 | 5.64 | 1.79 |
| Equatorial Energia | EQTL3 | BRA | $748m | 6.02 | 4.26 | 1.06 |
| Horizon Energy | HED | NZL | $64m | 14.39 | 8.20 | 1.59 |
| | | | **Median of peers** | **13.24** | **5.69** | **1.62** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Eletropaulo | 19% | 11% | 17% | 19% | 24% | 22% |
| Luz del Sur | 28% | 24% | 26% | 28% | 31% | 31% |
| Lenenergo | 28% | 25% | -2% | 28% | 28% | 37% |
| Prazska Energetika | 20% | 20% | 22% | 23% | 19% | 18% |
| Equatorial Energia | 11% | 13% | 12% | 11% | 3% | 3% |
| Horizon Energy | 46% | 42% | 45% | 48% | 48% | 46% |
| *Median of peers* | *24%* | *22%* | *19%* | *25%* | *26%* | *26%* |
| **E.ON Moldova Furnizare** | **-4%** | **na** | **na** | **-2%** | **-4%** | **-6%** |
| **Net profit margin** | | | | | | |
| Eletropaulo | 9% | 2% | 4% | 9% | 13% | 12% |
| Luz del Sur | 14% | 11% | 12% | 14% | 15% | 17% |
| Lenenergo | 9% | -6% | -3% | 10% | 9% | 11% |
| Prazska Energetika | 11% | 10% | 12% | 15% | 11% | 11% |
| Equatorial Energia | 15% | 34% | 15% | 17% | 13% | 8% |
| Horizon Energy | 19% | 19% | 21% | 20% | 17% | 19% |
| *Median of peers* | *13%* | *10%* | *12%* | *14%* | *13%* | *12%* |
| **E.ON Moldova Furnizare** | **0%** | **na** | **na** | **2%** | **0%** | **-3%** |

Financial summary

# E.ON Moldova Furnizare

Romanian power supply activity concerns two types of final consumers: (1) captive- prices are regulated by ANRE and (2) eligible- prices are set through contracts signed with the company. The prices for captive consumers are set so that the supplier is able to cover the electricity acquisition costs (incl related expenses such as network services). The regulated profit is set at 2.5% of the power acquisition costs for captive consumers.

The company's main operating expenses accounts are electricity acquisition costs).

In 2009, the company posted a net profit margin of -3.1%, down from 0.2% recorded in 2008, while the net turnover decreased by 1.9% to RON 1,448.6m. Please note that in 2008, the company's net turnover increased by 66% after the the separation of distribution and supply activities of E.ON Moldova.

The company' s 2009 total fixed assets amount RON 32.8m. With no long-term debt, the company has no solvency issues and the current ratios stand around 1.25x .

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 2% | na | na | 11% | 2% | -32% |
| ROE Tot Eqty | 1% | na | na | 10% | 1% | -37% |
| ROA Tot Assets | 0% | na | na | 3% | 0% | -6% |
| **Financial Strenght** | | | | | | |
| Quick ratio | na | na | na | na | na | na |
| Curr Ratio | 1.2 | na | na | 1.3 | 1.2 | 1.2 |
| LT Debt/Tot Eqty | 0.0 | na | na | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | na | na | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 3.1 | na | na | 122.0 | 3.1 | -16.5 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **na** | **na** | **19.9** | **22.7** | **32.8** |
| Tangible assets o/w | | na | na | na | na | na |
| Land and buildings | | na | na | na | na | na |
| **Current assets** | | **na** | **na** | **638.3** | **712.8** | **655.8** |
| Accounts Receivable | | na | na | na | na | na |
| Cash | | na | na | 65.0 | 4.3 | 14.3 |
| **Current liabilities** | | **na** | **na** | **495.7** | **570.7** | **568.2** |
| Short-term debt | | na | na | 7.1 | 16.7 | 0.1 |
| Accounts Payable | | na | na | na | na | na |
| **Long-term liabilities** | | **na** | **na** | **2.0** | **1.8** | **1.7** |
| Long-term debt | | na | na | 0.0 | 0.0 | 0.0 |
| **Shareholders funds** | | **na** | **na** | **160.5** | **162.9** | **118.6** |
| Share capital | | na | na | 138.7 | 138.7 | 138.7 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **na** | **na** | **889.8** | **1,476.4** | **1,448.6** |
| **Total operating expenses o/w** | | **na** | **na** | **905.2** | **1,538.8** | **1,547.5** |
| Electricity costs | | na | na | na | 1,426.7 | 1,395.3 |
| *% of total opex* | *91.4%* | | | | *92.7%* | *90.2%* |
| Employees expenses | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| D&A | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| Other operating expenses | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| **EBITDA** | | **na** | **na** | **(14.4)** | **(61.2)** | **(98.4)** |
| *EBITDA margin* | *-4.0%* | | | *-1.6%* | *-4.0%* | *-6.4%* |
| **EBIT** | | **na** | **na** | **18.3** | **2.7** | **(48.0)** |
| *EBIT margin* | *0.2%* | | | *2.1%* | *0.2%* | *-3.3%* |
| **Net financial result o/w** | | **na** | **na** | **na** | **na** | **na** |
| Interest expenses | | na | na | (0.2) | (0.9) | (2.9) |
| **EBT** | | **na** | **na** | **na** | **na** | **na** |
| *EBT margin* | | | | | | |
| **Net Profit (Loss)** | | **na** | **na** | **16.7** | **2.4** | **(44.4)** |
| *Net profit margin* | *0.2%* | | | *1.9%* | *0.2%* | *-3.1%* |

# E.ON GAZ DISTRIBUTIE

Gas distribution

| Shareholding structure | |
|---|---|
| E.ON Romania | 51.00% |
| Ministry of Economy | 37.00% |
| Property Fund | 12.00% |
| Shares outstanding (m) | 109.65 |

| | |
|---|---|
| Book value | RON 900.0 |
| **AFR value** | **RON 1,268.9** |
| **Premium** | **41.0%** |

## Business summary

E.ON Gaz Distributie is a joint stock company set up in 2000. Gas distribution is a regulated activity with an established rate of return on a regulated asset base. For current five year regulatory period (2008-2012), ANRE established the return on the regulated asset base at 8.63%.

In 2009, total gas volumes distributed by E.ON Gaz Distributie accounted for a market share of 35.6%.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, E.ON Gaz Distributie would be valued at RON 1,128.2m, implying a premium to the FY'09 book value of 25.4%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 1,540.6m, implying a premium of 71.2%. Based on the median of peers P/B multiples, the company would be valued at RON 1,268.9m, implying a premium of 41.1%. The median of the values implied by the selected multiples indicates an equity value for E.ON Gaz Distributie of RON 1,268.9m and a premium of 41.0% to the FY'09 book value justified by the company's improved net profitability in 2009.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 101.1 | X | **11.16** | | 1,128.2 | | 25.4% |
| EBITDA, LFY | 235.9 | X | **6.85** | 1,614.7 | 1,540.6 | | 71.2% |
| Net debt, LFY | 74.1 | | | | | | |
| Book value, LFY | 900.0 | X | **1.41** | | 1,268.9 | | 41.0% |
| | | | | **AFR Equity Value** | **1,268.9** | **900.0** | **41.0%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Snam Rete Gas | SRG | ITA | $17,559m | 13.46 | 9.11 | 2.26 |
| Enagas | ENG | ESP | $4,994m | 12.31 | 8.37 | 2.32 |
| Transgaz | TGN | ROU | $1,057m | 11.16 | 6.85 | 1.41 |
| Vychodoceska Plynarenska | BAAVCPLY | CZE | $249m | 7.55 | 2.38 | 1.34 |
| Voronezhoblgaz | VOGZ | RUS | $68m | 10.28 | 5.77 | 0.97 |
| | | | **Median of peers** | **11.16** | **6.85** | **1.41** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Snam Rete Gas | 79% | 80% | 78% | 81% | 79% | 76% |
| Enagas | 73% | 31% | 30% | 73% | 74% | 79% |
| Transgaz | 40% | 40% | 40% | 32% | 32% | 40% |
| Vychodoceska Plynarenska | 8% | 8% | 8% | 10% | 5% | 12% |
| Voronezhoblgaz | 21% | 21% | 21% | 23% | 21% | 18% |
| *Median of peers* | *40%* | *31%* | *30%* | *32%* | *32%* | *40%* |
| **E.ON Gaz Distributie** | **8%** | **-2%** | **6%** | **11%** | **8%** | **33%** |
| **Net profit margin** | | | | | | |
| Snam Rete Gas | 29% | 29% | 25% | 32% | 28% | 30% |
| Enagas | 29% | 12% | 12% | 29% | 30% | 33% |
| Transgaz | 16% | 13% | 19% | 13% | 21% | 16% |
| Vychodoceska Plynarenska | 4% | 3% | 4% | 7% | 3% | 8% |
| Voronezhoblgaz | 11% | 12% | 11% | 13% | 11% | 9% |
| *Median of peers* | *16%* | *12%* | *12%* | *13%* | *21%* | *16%* |
| **E.ON Gaz Distributie** | **3%** | **-6%** | **3%** | **4%** | **-8%** | **14%** |

**Financial summary**

# E.ON Gaz Distributie

In 2005 E.ON Ruhrgas acquired a 51% stake in Distrigaz Nord (30% a direct acquisition and 21% share capital increase) for a total value of €304m and changed its name in E.ON Gaz Romania. In 2007, power distribution and supply activities had to be legally separated to comply with EU standards. The spin off process of E.ON Gaz Romania was finalised in July 2007 with the resulting supply company subsequently named as E.ON Gaz Romania and the distribution company subsequently renamed as E.ON Gaz Distributie. The split explains about halved net turnover of the E.ON Gaz Distributie over 2008-2009 as compared with 2007. In 2008, E.ON Ruhrgas sold the 51% stake in E.ON Gaz Distributie to E.ON Romania.

The company's main operating expenses are the personnel costs which did not halved after the separation of distribution and supply divisions. In 2009, employees' expenses accounted for 44.3% of the company's net turnover.

In 2009 the net profit margin increased from -8.2% in 2008 to 14% helped by a higher net turnover (+5.8% Y/Y) and revenues from adjustments for provisions of about RON 50m. Please note that in 2008, the company posted expenses with adjustments for provisions of RON 91.5m.

With an interest coverage ratio greater than 18x, the company appear to have no solvency issues, but liquidity ratios worsened in 2009.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 20% | -33% | 78% | 0% | 20% | 36% |
| ROE Tot Eqty | 6% | -12% | 6% | 0% | 6% | 11% |
| ROA Tot Assets | 4% | -9% | 4% | 0% | 5% | 8% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.5 | 2.9 | 1.5 | 1.5 | 1.3 | 0.9 |
| Curr Ratio | 1.5 | 3.6 | 2.2 | 1.5 | 1.3 | 1.0 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 18.4 | -14.2 | 40.6 | 19.2 | -9.0 | 18.4 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **479.3** | **890.8** | **986.9** | **1,037.5** | **1,111.0** |
| Tangible assets o/w | | 447.0 | 852.3 | 943.4 | 1,011.2 | 1,093.3 |
| Land and buildings | | 377.5 | 750.6 | 813.1 | 861.2 | 957.8 |
| **Current assets** | | **904.2** | **1,293.8** | **275.9** | **186.4** | **153.5** |
| Accounts Receivable | | 687.1 | 842.6 | 263.6 | 175.2 | 142.0 |
| Cash | | 62.9 | 50.3 | 5.4 | 0.8 | 0.7 |
| **Current liabilities** | | **254.6** | **590.2** | **183.0** | **138.4** | **151.5** |
| Short-term debt | | 6.8 | 133.0 | 14.0 | 91.3 | 65.2 |
| Accounts Payable | | 185.5 | 305.3 | 18.8 | 13.1 | 23.2 |
| **Long-term liabilities** | | **28.1** | **20.2** | **15.3** | **13.6** | **9.6** |
| Long-term debt | | 28.1 | 20.2 | 15.3 | 13.6 | 9.6 |
| **Shareholders funds** | | **985.2** | **1,448.5** | **958.6** | **876.3** | **900.0** |
| Share capital | | 342.1 | 433.1 | 274.1 | 274.1 | 274.1 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **2,095.0** | **2,487.3** | **1,531.3** | **685.0** | **724.5** |
| **Total operating expenses o/w** | | **2,243.0** | **2,488.4** | **1,514.5** | **792.8** | **659.0** |
| Raw materials expenses | | 1,689.6 | 1,973.5 | 1,014.9 | 89.8 | 78.9 |
| *% of total opex* | *67.0%* | *75.3%* | *79.3%* | *67.0%* | *11.3%* | *12.0%* |
| Employees expenses | | 278.9 | 312.5 | 305.2 | 343.2 | 320.9 |
| *% of total opex* | *20.2%* | *12.4%* | *12.6%* | *20.2%* | *43.3%* | *48.7%* |
| D&A | | 51.5 | 49.7 | 84.5 | 106.5 | 109.1 |
| *% of total opex* | *5.6%* | *2.3%* | *2.0%* | *5.6%* | *13.4%* | *16.6%* |
| Other operating expenses | | 131.9 | 66.4 | 81.9 | 153.7 | 171.9 |
| *% of total opex* | *5.9%* | *5.9%* | *2.7%* | *5.4%* | *19.4%* | *26.1%* |
| **EBITDA** | | **-47.9** | **146.5** | **161.2** | **52.4** | **235.9** |
| *EBITDA margin* | *7.6%* | *-2.3%* | *5.9%* | *10.5%* | *7.6%* | *32.6%* |
| **EBIT** | | **-99.4** | **96.8** | **76.7** | **-54.1** | **126.8** |
| *EBIT margin* | *3.9%* | *-4.7%* | *3.9%* | *5.0%* | *-7.9%* | *17.5%* |
| **Net financial result o/w** | | **(22.5)** | **9.3** | **(4.1)** | **3.1** | **(7.3)** |
| Interest expenses | | (7.0) | (2.4) | (4.0) | (6.0) | (6.9) |
| **EBT** | | **-121.9** | **106.1** | **72.6** | **-51.0** | **119.4** |
| *EBT margin* | *4.3%* | *-5.8%* | *4.3%* | *4.7%* | *-7.4%* | *16.5%* |
| **Net Profit (Loss)** | | **-121.9** | **86.7** | **65.0** | **-56.3** | **101.1** |
| *Net profit margin* | *3.5%* | *-5.8%* | *3.5%* | *4.2%* | *-8.2%* | *14.0%* |

# GDF SUEZ ENERGY ROMANIA

Gas supply

| Shareholding structure | |
|---|---|
| Romania Gas Holding | 51.00% |
| Ministry of Economy | 37.00% |
| Property Fund | 12.00% |
| Shares outstanding (m) | 17.73 |

| | |
|---|---|
| Book value | RON 2,521.7 |
| **AFR value** | **RON 3,555.3** |
| **Premium** | **41.0%** |

## Business summary

GDF Suez Energy Romania is a joint stock company set up in 2000. Gas supply is a regulated activity with an established rate of return on a regulated asset base. For current five year regulatory period (2008-2012), ANRE established the return on the regulated asset base at 8.63%. In 2009, total gas volumes distributed by E.ON Gaz Romania accounted for a market share of 49.17% on the regulated market and of 10.84% on the competitive market.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, GDF Suez Energy Romania would be valued at RON 4,244.1m, implying a premium to the FY'09 book value of 68.3%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 3,383.8m, implying a premium of 34.2%. Based on the median of peers P/B multiples, the company would be valued at RON 3,555.3m, implying a premium of 41.0%. The median of the values implied by the selected multiples indicates an equity value for GDF Suez Energy Romania of RON 3,555.3m, implying a premium of 41.0% to the FY'09 book value.

**Relative Valuation**

| (RONm) | **Company data** | | **Multiples** | **Implied EV** | **Implied Equity Value** | **Book Value** | **Premium/ Discount** |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 380.4 | X | **11.16** | | 4,244.1 | | 68.3% |
| EBITDA, LFY | 537.3 | X | **6.85** | 3,678.6 | 3,383.8 | | 34.2% |
| Net debt, LFY | 294.8 | | | | | | |
| Book value, LFY | 2,521.7 | X | **1.41** | | 3,555.3 | | 41.0% |
| | | | **AFR Equity Value** | | **3,555.3** | **2,521.7** | **41.0%** |

| **Peers, LFY** | **Ticker** | **Country** | **Mkt cap** | **P/E** | **EV/EBITDA** | **P/B** |
|---|---|---|---|---|---|---|
| Snam Rete Gas | SRG | ITA | $17,559m | 13.46 | 9.11 | 2.26 |
| Enagas | ENG | ESP | $4,994m | 12.31 | 8.37 | 2.32 |
| Transgaz | TGN | ROU | $1,057m | 11.16 | 6.85 | 1.41 |
| Vychodoceska Plynarenska | BAAVCPLY | CZE | $249m | 7.55 | 2.38 | 1.34 |
| Voronezhoblgaz | VOGZ | RUS | $68m | 10.28 | 5.77 | 0.97 |
| | | | **Median of peers** | **11.16** | **6.85** | **1.41** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Snam Rete Gas | 79% | 80% | 78% | 81% | 79% | 76% |
| Enagas | 73% | 31% | 30% | 73% | 74% | 79% |
| Transgaz | 40% | 40% | 40% | 32% | 32% | 40% |
| Vychodoceska Plynarenska | 8% | 8% | 8% | 10% | 5% | 12% |
| Voronezhoblgaz | 21% | 21% | 21% | 23% | 21% | 18% |
| *Median of peers* | *40%* | *31%* | *30%* | *32%* | *32%* | *40%* |
| **GDF Suez Energy Romania** | **12%** | **na** | **na** | **12%** | **8%** | **15%** |
| **Net profit margin** | | | | | | |
| Snam Rete Gas | 29% | 29% | 25% | 32% | 28% | 30% |
| Enagas | 29% | 12% | 12% | 29% | 30% | 33% |
| Transgaz | 16% | 13% | 19% | 13% | 21% | 16% |
| Vychodoceska Plynarenska | 4% | 3% | 4% | 7% | 3% | 8% |
| Voronezhoblgaz | 11% | 12% | 11% | 13% | 11% | 9% |
| *Median of peers* | *16%* | *12%* | *12%* | *13%* | *21%* | *16%* |
| **GDF Suez Energy Romania** | **6%** | **na** | **na** | **6%** | **3%** | **10%** |

Financial summary

# GDF Suez Energy Romania

In 2005 Gas de France acquired a 51% stake in Distrigaz Sud (30% a direct acquisition and 21% share capital increase) for a total value of €310m. In 2006, the 51% stake in Distrigaz Sud has been transferred to Romania Gas Holding. In 2007, power distribution and supply activities had to be legally separated to comply with EU standards. The spin off process of Distrigaz Sud was finalised in March 2008 with the resulting supply company subsequently renamed as GDF Suez Energy Romania and the distribution company subsequently renamed as Distrigaz Sud Retele.

In 2009, company's net profit margin increased significantly to 10.5% from 3.5% in 2008 helped by 11% lower year-on-year total operating expenses, while the net turnover decreased to RON 3,629m (-3% Y/Y).

The company has no solvency or liquidity issues as the interest coverage ratios stand over 7.7x and the current ratios hover around 1.7x.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 39.19% | na | na | 39.19% | 19.42% | 61.89% |
| ROE Tot Eqty | 7.86% | na | na | 7.86% | 5.69% | 15.08% |
| ROA Tot Assets | 5.73% | na | na | 5.73% | 3.71% | 10.35% |
| **Financial Strenght** | | | | | | |
| Quick ratio | na | na | na | na | na | na |
| Curr Ratio | 1.71 | na | na | 1.87 | 1.49 | 1.71 |
| LT Debt/Tot Eqty | na | na | na | nm | nm | nm |
| LT Debt/Tot Assets | na | na | na | nm | nm | nm |
| EBIT/Int expense | 7.73 | na | na | 12.59 | 3.78 | 7.73 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **na** | **na** | **2,194.8** | **2,395.3** | **2,551.0** |
| Tangible assets o/w | | na | na | na | na | na |
| Land and buildings | | na | na | na | na | na |
| **Current assets** | | **na** | **na** | **1,204.0** | **1,142.7** | **1,239.6** |
| Accounts Receivable | | na | na | na | na | na |
| Cash | | na | na | 138.8 | na | 142.5 |
| **Current liabilities** | | **na** | **na** | **643.5** | **767.9** | **727.0** |
| Short-term debt | | na | na | 74.6 | 49.6 | 9.6 |
| Accounts Payable | | na | na | na | na | na |
| **Long-term liabilities** | | **na** | **na** | **216.2** | **436.2** | **428.0** |
| Long-term debt | | na | na | 213.4 | 435.2 | 427.7 |
| **Shareholders funds** | | **na** | **na** | **2,319.9** | **2,260.9** | **2,521.7** |
| Share capital | | na | na | 177.3 | 177.3 | 177.3 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **na** | **na** | **3,215.2** | **3,737.7** | **3,628.8** |
| **Total operating expenses o/w** | | **na** | **na** | **3,063.7** | **3,634.8** | **3,233.1** |
| Raw materials expenses | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| Employees expenses | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| D&A | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| Other operating expenses | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| **EBITDA** | | **na** | **na** | **372.1** | **317.1** | **537.3** |
| *EBITDA margin* | *11.6%* | | | *11.6%* | *8.5%* | *14.8%* |
| **EBIT** | | **na** | **na** | **229.4** | **149.2** | **446.7** |
| *EBIT margin* | *7.1%* | | | *7.1%* | *4.0%* | *12.3%* |
| **Net financial result o/w** | | **na** | **na** | **na** | **na** | **na** |
| Interest expenses | | na | na | (18.2) | (39.5) | (57.8) |
| **EBT** | | **na** | **na** | **na** | **na** | **na** |
| *EBT margin* | | | | | | |
| **Net Profit (Loss)** | | **na** | **na** | **182.4** | **128.6** | **380.4** |
| *Net profit margin* | *5.7%* | | | *5.7%* | *3.4%* | *10.5%* |

# E.ON GAZ ROMANIA

Gas supply

| Shareholding structure | |
|---|---|
| E.ON Romania | 51.00% |
| Ministry of Economy | 37.00% |
| Property Fund | 12.00% |
| Shares outstanding (m) | 63.57 |

| | |
|---|---|
| Book value | RON 825.4 |
| **AFR value** | **RON 1,163.7** |
| **Premium** | **41.0%** |

## Business summary

E.ON Gaz Romania is a joint stock company set up in 2007. Gas supply is a regulated activity with an established rate of return on a regulated asset base. For current five year regulatory period (2008-2012), ANRE established the return on the regulated asset base at 8.63%. In 2009, total gas volumes distributed by E.ON Gaz Romania accounted for a market share of 42.7% on the regulated market and of 5.8% on the competitive market.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, E.ON Gaz Romania would be valued at RON 1,581.5m, implying a premium to the FY'09 book value of 91.6%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 775.3m, implying a discount of 6.1%. Based on the median of peers P/B multiples, the company would be valued at RON 1,163.7m, implying a premium of 41.0%. The median of the values implied by the selected multiples indicates an equity value for E.ON Gaz Romania of RON 1,163.7m and a premium of 41.0% to the FY'09 book value.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 141.7 | X | **11.16** | | 1,581.5 | | 91.6% |
| EBITDA, LFY | 111.4 | X | **6.85** | 762.5 | 775.3 | | -6.1% |
| Net debt, LFY | -12.8 | | | | | | |
| Book value, LFY | 825.4 | X | **1.41** | | 1,163.7 | | 41.0% |
| | | | **AFR Equity Value** | | **1,163.7** | **825.4** | **41.0%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Snam Rete Gas | SRG | ITA | $17,559m | 13.46 | 9.11 | 2.26 |
| Enagas | ENG | ESP | $4,994m | 12.31 | 8.37 | 2.32 |
| Transgaz | TGN | ROU | $1,057m | 11.16 | 6.85 | 1.41 |
| Vychodoceska Plynarenska | BAAVCPLY | CZE | $249m | 7.55 | 2.38 | 1.34 |
| Voronezhoblgaz | VOGZ | RUS | $68m | 10.28 | 5.77 | 0.97 |
| | | | **Median of peers** | **11.16** | **6.85** | **1.41** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Snam Rete Gas | 79% | 80% | 78% | 81% | 79% | 76% |
| Enagas | 73% | 31% | 30% | 73% | 74% | 79% |
| Transgaz | 40% | 40% | 40% | 32% | 32% | 40% |
| Vychodoceska Plynarenska | 8% | 8% | 8% | 10% | 5% | 12% |
| Voronezhoblgaz | 21% | 21% | 21% | 23% | 21% | 18% |
| *Median of peers* | *40%* | *31%* | *30%* | *32%* | *32%* | *40%* |
| **E.ON Gaz Romania** | **4%** | **na** | **na** | **5%** | **-1%** | **4%** |
| **Net profit margin** | | | | | | |
| Snam Rete Gas | 29% | 29% | 25% | 32% | 28% | 30% |
| Enagas | 29% | 12% | 12% | 29% | 30% | 33% |
| Transgaz | 16% | 13% | 19% | 13% | 21% | 16% |
| Vychodoceska Plynarenska | 4% | 3% | 4% | 7% | 3% | 8% |
| Voronezhoblgaz | 11% | 12% | 11% | 13% | 11% | 9% |
| *Median of peers* | *16%* | *12%* | *12%* | *13%* | *21%* | *16%* |
| **E.ON Gaz Romania** | **6%** | **na** | **na** | **6%** | **1%** | **6%** |

Financial summary

# E.ON Gaz Romania

In 2005 E.ON Ruhrgas acquired a 51% stake in Distrigaz Nord (30% a direct acquisition and 21% share capital increase) for a total value of €304m and changed its name in E.ON Gaz Romania. In 2007, power distribution and supply activities had to be legally separated to comply with EU standards. The spin off process of E.ON Gaz Romania was finalised in July 2007 with the resulting supply company subsequently named as E.ON Gaz Romania and the distribution company subsequently renamed as E.ON Gaz Distributie. Please note that after the split off the distribution and supply activities, E.ON Gaz Romania's net turnover more than doubled, triggering the same movement at the level of total operating expenses. In 2008, E.ON Ruhrgas sold the 51% stake in E.ON Gaz Distributie to E.ON Romania.

We do not have the data, but as in the case of power supply activity, the company's main operating expenses should account for gas acquisition and distribution costs.

In 2009, company's net profit margin increased to 5.5% from 1.5% in 2008, while the net turnover decreased to RON 2,558m (-14% Y/Y).

The company’s total fixed assets are insignificant to RON 1.9m. With no debt the company has no solvency issues and current ratios stand above 2.0x.

| Financials | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 36% | na | na | 36% | 12% | 89% |
| ROE Tot Eqty | 12% | na | na | 12% | 6% | 17% |
| ROA Tot Assets | 6% | na | na | 6% | 3% | 13% |
| **Financial Strenght** | | | | | | |
| Quick ratio | na | na | na | na | na | na |
| Curr Ratio | 2.2 | na | na | 2.1 | 2.2 | 4.2 |
| LT Debt/Tot Eqty | na | na | na | nm | nm | nm |
| LT Debt/Tot Assets | na | na | na | nm | nm | nm |
| EBIT/Int expense | 32.5 | na | na | 324.2 | -1.4 | 32.5 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **na** | **na** | **0.6** | **0.6** | **1.9** |
| Tangible assets o/w | | na | na | na | na | na |
| Land and buildings | | na | na | na | na | na |
| **Current assets** | | **na** | **na** | **1,220.6** | **1,282.3** | **1,091.6** |
| Accounts Receivable | | na | na | na | na | na |
| Cash | | na | na | 73.8 | 13.3 | 12.8 |
| **Current liabilities** | | **na** | **na** | **576.6** | **596.0** | **259.1** |
| Short-term debt | | na | na | 48.1 | 204.3 | 0.0 |
| Accounts Payable | | na | na | na | na | na |
| **Long-term liabilities** | | **na** | **na** | **0.0** | **0.0** | **0.0** |
| Long-term debt | | na | na | 0.0 | 0.0 | 0.0 |
| **Shareholders funds** | | **na** | **na** | **639.9** | **683.6** | **825.4** |
| Share capital | | na | na | 158.9 | 158.9 | 158.9 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **na** | **na** | **1,217.6** | **2,969.4** | **2,557.7** |
| **Total operating expenses o/w** | | **na** | **na** | **1,156.6** | **3,012.1** | **2,451.7** |
| Raw materials expenses | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| Employees expenses | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| D&A | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| Other operating expenses | | na | na | na | na | na |
| *% of total opex* | | | | | | |
| **EBITDA** | | **na** | **na** | **61.9** | **-39.0** | **111.4** |
| *EBITDA margin* | *4.4%* | | | *5.1%* | *-1.3%* | *4.4%* |
| **EBIT** | | **na** | **na** | **81.1** | **-10.8** | **143.4** |
| *EBIT margin* | *5.6%* | | | *6.7%* | *-0.4%* | *5.6%* |
| **Net financial result o/w** | | **na** | **na** | **na** | **na** | **na** |
| Interest expenses | | na | na | (0.3) | (7.8) | (4.4) |
| **EBT** | | **na** | **na** | **na** | **na** | **na** |
| *EBT margin* | | | | | | |
| **Net Profit (Loss)** | | **na** | **na** | **74.8** | **43.7** | **141.7** |
| *Net profit margin* | *5.5%* | | | *6.1%* | *1.5%* | *5.5%* |

**Unlisted, State-controlled**

| | Controlling entity | Sector |
|---|---|---|
| **Romgaz** | Ministry of Economy (85.0%) | Gas E&P |
| **Hidroelectrica** | Ministry of Economy (80.1%) | Hydro power generation |
| **Nuclearelectrica** | Ministry of Economy (90.3%) | Nuclear power generation |
| **Complexul Energetic Turceni** | Ministry of Economy (74.6%) | Thermal Power Generation |
| **Complexul Energetic Craiova** | Ministry of Economy (75.9%) | Thermal Power Generation |
| **Complexul Energetic Rovinari** | Ministry of Economy (75.9%) | Thermal Power Generation |
| **Electrica Distributie Muntenia Nord** | Electrica (78.0%) | Power distribution |
| **Electrica Distributie Transilvania Nord** | Electrica (78.0%) | Power distribution |
| **Electrica Distributie Transilvania Sud** | Electrica (78.0%) | Power distribution |
| **Aeroportul International Otopeni** | Ministry of Transportation (80.0%) | Airports services |
| **Aeroportul International Baneasa** | Ministry of Transportation (80.0%) | Airports services |
| **CN Administratia Porturilor Maritime** | Ministry of Transportation (60.0%) | Ports services |
| **Societatea Nationala a Sarii** | Ministry of Economy (51.0%) | Salt extraction |
| **Posta Romana** | Ministry of Communication (75.0%) | Postal services |

# ROMGAZ

Natural gas exploration & production

| Shareholding structure | |
|---|---|
| Ministry of Economy | 85.01% |
| Property Fund | 14.99% |
| Shares outstanding (m) | 38.30 |

| | |
|---|---|
| Book value | RON 8,308.5 |
| **AFR value** | **RON 10,543.2** |
| **Premium** | **26.9%** |

## Business summary

Romgaz is a joint stock company set up in 2001. With a total output of 5.79 bcm in 2009, Romgaz accounted for 51.3% of total domestic natural gas production, followed by Petrom with a 46.3% stake. The company owns 6 underground storage facilities with a capacity of around 2.8 bcm, while total domestic storage facilities stand at 3.2 bcm. Over the past years Romgaz's production kept on lowering as the majority of its fields is mature, especially the largest ones, being exploited for more than 25-30 years. Romgaz entered the electricity generation sector in 2010, after the Ministry of Economy, Romgaz's majority shareholder, approved the swapping of receivables from a power generation company into equity.

**By the end of current year, the Ministry of Economy plans to sell 15% of the company on the BSE (IPO).**

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, Romgaz would be valued at RON 8,698.4m, implying a premium to the FY'09 book value of 4.7%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 10,543.2m, implying a premium of 26.9%. Based on the median of peers P/B multiples, the company would be valued at RON 12,287.9m, implying a premium of 47.9%. The median of the values implied by the selected multiples indicates an equity value for Romgaz of RON 10,543.2m and a premium of 26.9% to the FY'09 book value justified by the company's EBITDA margin which in 2009 stood above the peers' median even if among them we accounted for Gazprom also.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 572.5 | X | **15.19** | | 8,698.4 | | 4.7% |
| EBITDA, LFY | 1,292.0 | X | **7.75** | 10,016.3 | 10,543.2 | | 26.9% |
| Net debt, LFY | -526.9 | | | | | | |
| Book Value, LFY | 8,308.5 | X | **1.48** | | 12,287.9 | | 47.9% |
| | | | **AFR Equity Value** | | **10,543.2** | **8,308.5** | **26.9%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Gazprom | GAZP | RUS | $148,053m | 5.81 | 4.60 | 0.83 |
| BG Group | BG. | GBR | $70,702m | 20.21 | 10.23 | 3.07 |
| Novatek | NVTK | RUS | $32,987m | 37.84 | 19.13 | 8.62 |
| Petrom | SNP | ROU | $6,597m | 15.19 | 7.75 | 1.48 |
| Transgaz | TGN | ROU | $1,057m | 11.16 | 6.85 | 1.41 |
| | | | **Median of peers** | **15.19** | **7.75** | **1.48** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Gazprom | 42% | 42% | 44% | 37% | 44% | 36% |
| BG Group | 47% | 53% | 49% | 45% | 47% | 47% |
| Novatek | 46% | 59% | 46% | 47% | 46% | 44% |
| Petrom | 24% | 28% | 24% | 23% | 19% | 26% |
| Transgaz | 34% | 34% | 37% | 33% | 33% | 40% |
| *Median of peers* | *42%* | *42%* | *44%* | *37%* | *44%* | *40%* |
| **Romgaz** | **32%** | **32%** | **29%** | **32%** | **32%** | **40%** |
| **Net profit margin** | | | | | | |
| Gazprom | 26% | 22% | 28% | 27% | 23% | 26% |
| BG Group | 23% | 29% | 23% | 21% | 25% | 21% |
| Novatek | 29% | 36% | 29% | 30% | 29% | 29% |
| Petrom | 10% | 16% | 14% | 10% | 4% | 5% |
| Transgaz | 22% | 18% | 26% | 22% | 21% | 25% |
| *Median of peers* | *23%* | *22%* | *26%* | *22%* | *23%* | *25%* |
| **Romgaz** | **16%** | **12%** | **15%** | **16%** | **16%** | **18%** |

**Financial summary**

# Romgaz

In 2009, the company's 2009 sales amounted to RON 3,194m, (-2.6% Y/Y) while EBITDA stood at RON 1,292m with the respective margin landing at 40.5%. Deducting D&A expenses of RON 575.1m (+67.8% Y/Y), the operational profit ended about flat as compared with 2008 at RON 717m.

Mirroring outdated assets, expenditures for assets disposal are Romgaz's greatest operating expense account as in 2009 they reached RON 742.3m (26% of total operating expenses).

Loaded with a significant pile of cash ( RON 773.8m in 2009) and wtith long-term debt of only RON 12m, Romgaz is is far from any solvency or liquiduty issues.

In 2009 the company invested RON 1,054m in exploration, drilling and maintenance works.

According to a press release, Romgaz's 6M'10 top line rose 22% Y/Y to RON 1.87 b as the supplied quantity of gas was 19% higher on the same period of 2009. The growth in volume was driven by the sales to chemical producers, under the facility offered by the government to use only domestic gas instead of the basket between import and domestic. On the other hand, bottom line contracted 30% Y/Y to RON 225.7 m, Romgaz blaming a higher level of non-tax deductible expenses for this. Over the same period its gas production stood at 2.9 bcm.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 127% | 66% | 114% | 127% | 134% | 145% |
| ROE Tot Eqty | 8% | 8% | 11% | 10% | 7% | 7% |
| ROA Tot Assets | 7% | 7% | 10% | 9% | 7% | 6% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 5.4 | 2.9 | 4.0 | 6.5 | 6.4 | 5.4 |
| Curr Ratio | 7.4 | 3.5 | 5.2 | 7.4 | 7.7 | 7.8 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 230.0 | 56.3 | 155.2 | 230.0 | 319.4 | 382.2 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **2,408.2** | **2,822.8** | **3,195.8** | **5,178.0** | **5,515.9** |
| Tangible assets o/w | | 2,360.5 | 2,758.3 | 3,143.3 | 5,120.6 | 5,341.5 |
| Land and buildings | | 1,585.1 | 1,885.0 | 2,163.2 | 3,795.1 | 3,718.7 |
| **Current assets** | | **1,465.1** | **1,877.6** | **2,410.4** | **3,077.9** | **3,539.0** |
| Accounts Receivable | | 585.2 | 685.3 | 494.9 | 723.5 | 1,300.1 |
| Cash | | 637.3 | 765.9 | 1,624.1 | 1,044.4 | 773.8 |
| **Current liabilities** | | **417.9** | **359.1** | **327.4** | **401.6** | **455.0** |
| Short-term debt | | 151.4 | 173.3 | 109.3 | 164.0 | 234.9 |
| Accounts Payable | | 173.0 | 182.7 | 213.8 | 232.2 | 214.2 |
| **Long-term liabilities** | | **53.9** | **25.3** | **19.1** | **17.0** | **12.0** |
| Long-term debt | | 34.6 | 25.3 | 19.1 | 17.0 | 12.0 |
| **Shareholders funds** | | **3,289.6** | **4,174.0** | **5,070.8** | **7,584.6** | **8,308.5** |
| Share capital | | 382.7 | 382.7 | 382.9 | 383.0 | 383.0 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **2,241.3** | **3,053.5** | **3,271.7** | **3,280.2** | **3,193.5** |
| **Total operating expenses o/w** | | **1,905.4** | **2,567.0** | **2,816.9** | **2,976.5** | **2,845.0** |
| Cost of purchased goods | | 419.0 | 765.4 | 565.3 | 324.4 | 353.1 |
| *% of total opex* | *20.1%* | *22.0%* | *29.8%* | *20.1%* | *10.9%* | *12.4%* |
| Employees expenses | | 163.9 | 240.5 | 341.4 | 407.0 | 459.8 |
| *% of total opex* | *12.1%* | *8.6%* | *9.4%* | *12.1%* | *13.7%* | *16.2%* |
| D&A | | 262.9 | 212.0 | 301.3 | 342.7 | 575.1 |
| *% of total opex* | *11.5%* | *13.8%* | *8.3%* | *10.7%* | *11.5%* | *20.2%* |
| Other operating expenses o/w | | 849.6 | 1,056.6 | 1,232.1 | 1,374.0 | 1,193.1 |
| *% of total opex* | *43.7%* | *44.6%* | *41.2%* | *43.7%* | *46.2%* | *41.9%* |
| Expenditures for damages and assets disposal | | 560.7 | 734.1 | 854.8 | 939.2 | 742.3 |
| **EBITDA** | | **720.5** | **891.4** | **1,061.4** | **1,061.9** | **1,292.0** |
| *EBITDA margin* | *32.4%* | *32.1%* | *29.2%* | *32.4%* | *32.4%* | *40.5%* |
| **EBIT** | | **457.6** | **679.4** | **760.1** | **719.2** | **716.9** |
| *EBIT margin* | *22.3%* | *20.4%* | *22.3%* | *23.2%* | *21.9%* | *22.4%* |
| **Net financial result o/w** | | **15.2** | **48.1** | **27.6** | **134.3** | **114.1** |
| Interest expenses | | (8.1) | (4.4) | (3.3) | (2.3) | (1.9) |
| **EBT** | | **472.8** | **727.5** | **787.7** | **853.5** | **830.9** |
| *EBT margin* | *24.1%* | *21.1%* | *23.8%* | *24.1%* | *26.0%* | *26.0%* |
| **Net Profit (Loss)** | | **277.2** | **463.7** | **509.6** | **537.3** | **572.5** |
| *Net profit margin* | *15.6%* | *12.4%* | *15.2%* | *15.6%* | *16.4%* | *17.9%* |

# HIDROELECTRICA

Hydro power generation

| Shareholding structure | |
|---|---|
| Ministry of Economy | 80.06% |
| Property Fund | 19.94% |
| Shares outstanding (m) | 444.10 |

| | |
|---|---|
| Book value | RON 16,554.6 |
| **AFR value** | **RON 5,368.6** |
| **Discount** | **-67.6%** |

## Business summary

Hidroelectrica is a joint-stock company incorporated in 2000. The Company has an installed capacity of 6,423 MW and generates about 17,440 GWh in an average hydrological year. In 2009, Hidroelectrica generated 15,516 GWh representing 26.91% of Romania's total power production. In 2009 Hidroelectrica inaugurated a 33.9MW hydro-power plant at Movileni, on Siret river, the first hydro power plant drafted after 1989 and for which it paid about EUR 153.7m (EUR 4.54m/MW). For 2010-2015 period, Hidroelectrica planned capex of EUR 889.9m to add 319.3 MW to the installed capacity (about EUR 2.79m/MW). As at the end of 2009, Hidroelectrica reported 5,233 employees.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Not to price in only the FY'09 market evolution and company's profitability, we decided to value the company based on a 5Y median EBITDA and net profit as they reflect company's median performance along diverse market's conditions and regulatory bodies' policies. As regarding the shareholders equity and net debt position of the company, we consider them relevant as per LFY. Based on the median of peers P/MW multiples, Hidroelectrica would be valued at RON 10.146.8m, implying a premium to the FY'09 book value of 21.7%. Based on the median of peers EV/EBITDA multiples, Hidroelectrica would be valued at RON 5,368.6m, implying a discount of 67.6%. Based on the median of peers P/E multiples, Hidroelectrica would be valued at RON 718.8m, implying a discount of 95.7%. The median of the values implied by the selected multiples indicates an equity value for Hidroelectrica of RON 5,368.6m and a discount of 67.6% to the company's FY'09 book value. We consider the discount justified as it reflects company's derisory earning power relative to its installed capacity. According to the company's representatives, in 2010 Hidroelectrica's EBT reached a record level of RON 500m. Until the company will demonstrate the record level is not a one time event, our valuation embraces the conservative approach based on a normalised profitability. After all, on a 5Y median basis, Hidroelectrica's EBT stood at RON 66m, more than sevenfold lower compared with the 2010 record.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Installed capacity(MW) | 6,423 | X | **$1.07m** | | 20,146.8 | | 21.7% |
| EBITDA, 5Y median | 817.4 | X | **8.35** | 6,821.5 | 5,368.6 | | -67.6% |
| Net debt, LFY | 1,452.9 | | | | | | |
| Net profit, 5Y median | 56.0 | X | **12.84** | | 718.8 | | -95.7% |
| | | | **AFR Equity Value** | | **5,368.6** | **16,554.6** | **-67.6%** |

| Peers, LFY | Ticker | Country | Installed cap (MW) | Mkt cap | P/MW | EV/EBITDA | P/E |
|---|---|---|---|---|---|---|---|
| RusGidro | HYDR | RUS | 25,436 | $14,934m | $0.59m | 7.71 | 13.02 |
| NHPC | 533098 | IND | 5,295 | $7,226m | $1.36m | 8.98 | 14.60 |
| AES Tiete | GETI4 | BRA | 2,651 | $5,357m | $2.02m | 6.99 | 11.51 |
| Energetica de Sao Paulo | CESP6 | BRA | 7,455 | $5,755m | $0.77m | 13.87 | 12.65 |
| | | | **Median of peers** | | **$1.07m** | **8.35** | **12.84** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| RusGidro | 23% | 39% | 18% | 23% | 0% | 45% |
| NHPC | 78% | 74% | 78% | 81% | 81% | 76% |
| AES Tiete | 76% | 72% | 71% | 76% | 76% | 80% |
| Energetica de Sao Paulo | 21% | 24% | 18% | 21% | -123% | 41% |
| *Median of peers* | *50%* | *55%* | *45%* | *50%* | *38%* | *60%* |
| **Hidroelectrica** | **35%** | **48%** | **33%** | **40%** | **35%** | **34%** |
| **Net profit margin** | | | | | | |
| RusGidro | 7% | 11% | -7% | 7% | -19% | 27% |
| NHPC | 35% | 33% | 37% | 41% | 35% | 29% |
| AES Tiete | 44% | 46% | 44% | 42% | 43% | 47% |
| Energetica de Sao Paulo | -6% | -11% | -6% | 8% | -95% | 29% |
| *Median of peers* | *21%* | *22%* | *15%* | *24%* | *8%* | *29%* |
| **Hidroelectrica** | **3%** | **12%** | **2%** | **3%** | **3%** | **2%** |

## Financial summary

Hidroelectrica. Much of the company's operating revenues cover expenses with water and energy averaging RON 564m per year over. These expenses represent the amounts paid for the power the company acquires mainly from thermal power producers (especially from Termoelectrica) to mitigate the hydrologic risk ( to cover part of the volumes needed to secure its c\ients). In 2009, top three clients (all operating on competitive power market) were: Alro, Energy Holding and Ehol Distribution. The problem is the company buys power at thermal prices and sells it at hydro prices which are much lower. The difference mirrors energy expenses representing, on 5Ys average, 24% of the company's net turnover and a derisory median net profit margin of 2.6%. Oversized assets as compared with the company's earning power (5Ys median ROA of 0.29%) can be noticed also from the huge difference, driven by D&A expenses, between the company's 5Ys median EBITDA margin and EBIT margin ( 34.8% vs. 6.9%). Put it in other words, while the company plans capex of EUR 2.79m/MW, over the last five years Hidroelectrica earned, on median, EUR 3,591/MW, implying a payback period of over 700 years.

| **2009: Top 5 power suppliers** | | **Top 5 clients on competitive mkt** | | **Top 5 clients on captive mkt** | |
|---|---|---|---|---|---|
| Company | MWh | Company | MWh | Company | MWh |
| Termoelectrica | 900,709 | Alro | 2,955,280 | E.ON Moldova furnizare | 1,169,440 |
| CEN Turceni | 641,195 | Energy Holding | 2,256,099 | Enel Energie | 585,629 |
| ELCEN Deva | 499,857 | Ehol Distribution | 1,769,884 | Enel Energie Muntenia | 324,229 |
| OPCOM | 142,180 | EFT Romania | 1,005,070 | Muntenia Nord Furnizare | 288,814 |
| CEN Rovinari | 641,195 | Buzman Industries | 977,277 | CEZ Vanzare | 259,476 |
| **Tot. power acquired** | **2,463,213** | **Tot. cmpt mkt clients** | **11,697,676** | **Tot. capt mkt clients** | **3,399,899** |

## Financials

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 1% | 6% | 1% | 1% | 1% | 1% |
| ROE Tot Eqty | 0% | 2% | 0% | 0% | 0% | 0% |
| ROA Tot Assets | 0% | 1% | 0% | 0% | 0% | 0% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 0.4 | 0.6 | 0.6 | 0.4 | 0.3 | 0.2 |
| Curr Ratio | 0.4 | 0.7 | 0.6 | 0.4 | 0.4 | 0.2 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 1.9 | 12.6 | 4.5 | 1.9 | 1.6 | 1.7 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **19,676.4** | **18,518.9** | **18,921.8** | **19,337.9** | **22,602.0** |
| Tangible assets o/w | | 16,168.7 | 14,988.7 | 15,389.4 | 15,803.4 | 19,065.5 |
| Land and buildings | | 12,698.4 | 10,630.6 | 10,447.6 | 10,802.9 | 12,834.0 |
| **Current assets** | | **537.8** | **630.3** | **540.2** | **608.3** | **387.3** |
| Accounts Receivable | | 423.6 | 469.6 | 373.7 | 425.5 | 300.9 |
| Cash | | 34.7 | 117.3 | 118.0 | 128.7 | 28.1 |
| **Current liabilities** | | **735.5** | **1,025.8** | **1,210.4** | **1,708.1** | **1,795.6** |
| Short-term debt | | 108.6 | 269.0 | 455.7 | 567.8 | 677.0 |
| Accounts Payable | | 582.1 | 717.2 | 635.9 | 1,052.9 | 1,036.6 |
| **Long-term liabilities** | | **3,874.2** | **4,076.1** | **4,111.9** | **4,026.1** | **4,385.0** |
| Long-term debt | | 372.8 | 551.1 | 556.7 | 453.1 | 804.0 |
| **Shareholders funds** | | **15,327.9** | **13,783.6** | **13,891.1** | **13,951.2** | **16,554.6** |
| Share capital | | 3,971.9 | 3,984.5 | 4,454.6 | 4,457.3 | 4,464.0 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **2,181.2** | **2,365.8** | **2,060.7** | **2,443.5** | **2,420.8** |
| **Total operating expenses o/w** | | **1,904.4** | **2,399.8** | **1,943.8** | **2,401.6** | **2,304.2** |
| Energy expenses to mitigate the hydrologic risk | | 349.7 | 843.5 | 387.7 | 642.5 | 598.7 |
| *% of total opex* | *26.0%* | *18.4%* | *35.1%* | *19.9%* | *26.8%* | *26.0%* |
| Employees expenses | | 168.4 | 188.8 | 268.9 | 393.2 | 402.7 |
| *% of total opex* | *13.8%* | *8.8%* | *7.9%* | *13.8%* | *16.4%* | *17.5%* |
| D&A | | 743.2 | 713.6 | 674.8 | 643.2 | 654.9 |
| *% of total opex* | *29.7%* | *39.0%* | *29.7%* | *34.7%* | *26.8%* | *28.4%* |
| Other operating expenses | | 607.3 | 639.4 | 584.4 | 693.7 | 619.9 |
| *% of total opex* | *28.9%* | *31.9%* | *26.6%* | *30.1%* | *28.9%* | *26.9%* |
| **EBITDA** | | **1,040.9** | **785.6** | **817.4** | **849.8** | **816.8** |
| *EBITDA margin* | *34.8%* | *47.7%* | *33.2%* | *39.7%* | *34.8%* | *33.7%* |
| **EBIT** | | **297.7** | **72.1** | **142.7** | **206.6** | **162.0** |
| *EBIT margin* | *6.9%* | *13.7%* | *3.0%* | *6.9%* | *8.5%* | *6.7%* |
| **Net financial result o/w** | | **(23.6)** | **(16.1)** | **(76.3)** | **(126.4)** | **(96.4)** |
| Interest expenses | | (19.0) | (31.9) | (52.7) | (74.9) | (69.1) |
| **EBT** | | **274.2** | **56.0** | **66.3** | **80.2** | **65.5** |
| *EBT margin* | *3.2%* | *12.6%* | *2.4%* | *3.2%* | *3.3%* | *2.7%* |
| **Net Profit (Loss)** | | **258.6** | **56.0** | **52.6** | **65.1** | **48.4** |
| *Net profit margin* | *2.6%* | *11.9%* | *2.4%* | *2.6%* | *2.7%* | *2.0%* |

# NUCLEARELECTRICA

Nuclear power generation

| Shareholding structure | |
|---|---|
| Ministry of Economy | 90.28% |
| Property Fund | 9.72% |
| Shares outstanding (m) | 253.68 |

| | |
|---|---|
| Book value | RON 7,253.7 |
| **AFR value** | **RON 5,435.8** |
| **Discount** | **-25.1%** |

## Business summary

Nuclearelectrica is a joint-stock company incorporated in 1998. The company has two power reactors with an installed capacity of 707 MW each generating about 20% of country's power production (11,753 GW in 2009). The 1st reactor designed in 1976 was commissioned in 1995. The 2nd reactor was commissioned in 2007 and became fully operational in 2008. By 2016, the company plans to invest EUR 4.0bn in two new nuclear power units (3&4) with generation capacities of 700MWh each. In 2009, utilisation ratio for the company's power reactors stood at 91% for PWR 1 and at 100% for PWR 2. As at the end of 2009, Nuclearelectrica reported 2,165 employees.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Since the company's latest available financial statements are dated as at the end of 2009, we used peers multiples based on LFY EPS, EBITDA and BV (book value). Not to price in only the FY'09 market and company's profitability, we decided to value the company based on a 2Y median EBITDA and net profit as they reflect company's median performance since the second reactor became fully operational. As regarding the shareholders equity and net debt position of the company, we consider them relevant as per LFY.

Because there are no listed pure nuclear power generators, we approached proxies. At the end of 2008, Electricite de France (EDF) took over British Energy's eight nuclear power plants with a total installed capacity of about 10,000 MW, for $23.18b. Since, in the near future, a liquidity event of this type is not probable for Nuclearelectrica, we backed-up the above transaction's valuation multiples by the multiples the stock market implies for Electricite de France. EDF has an installed nuclear capacity of 63.13MW (65% of total installed capacity) and 87% of the company's total generated power is nuclear power. In terms of EBITDA margin, Nuclearelectrica is far more profitable than the peers considered below (5Y median of 44.03% vs. 28.28%). However, in terms of net profit margin, the company came 382 bps under its peers (5Y median of 7.10% vs. 10.92%). The difference owes to oversized D&A expenses when compared to company's earning power, but also to FX losses from re-valuation of foreign currency debt denominated. Please note that in 2009, Nuclearelectrica posted such FX losses of RON 225.2m. Not to put the company at disadvantage when compared with the European peers free of such FX fluctuations, we adjusted the 2009 net profit by adding back , after deducting the income tax expense, the FX losses. So, based on the median of peers P/E multiples, Nuclearelectrica would be valued at RON 5,435.8m, implying a discount of 25.1% to the FY'09 book value. Based on the median of peers EV/EBITDA multiples, Nuclearelectrica would be valued at RON 4,982.9m, implying a discount of 31.3%. Based on the median of peers P/B multiples, Nuclearelectrica would be valued at RON 16,788.9m, implying a premium of 131%. The median of the values implied by the selected multiples indicates an equity value for Nuclearelectrica of RON 5,435.8m and a discount of 25.1% to the FY'09 book value.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit adj, 2Ys median | 207.9 | X | **26.1** | | 5,435.8 | | -25.1% |
| EBITDA, 2Ys median | 675.9 | X | **10.4** | 7,015.8 | 4,982.9 | | -31.3% |
| Net debt, LFY | 2,032.8 | | | | | | |
| Book value, LFY | 7,253.7 | X | **2.3** | | 16,788.9 | | 131.5% |
| | | | **AFR Equity Value** | | **5,435.8** | **7,253.7** | **-25.1%** |

| Peers, LFY | Ticker | Country | Installed cap (MW) | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|---|
| Electricite de France | EDF | FRA | 96,780 | $80,705m | 15.0 | 6.8 | 2.1 |
| British Energy | not listed | UK | 11,960 | not listed | 37.3 | 14.0 | 2.5 |
| | | | **Median of peers** | | **26.1** | **10.4** | **2.3** |

*Source: Reuters Knowledge, Bloomberg, AFR Estimates*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Electricite de France | 32% | na | 33% | 41% | 31% | 30% |
| British Energy | 24% | 25% | 22% | 24% | 20% | 24% |
| *Median of peers* | *28%* | *25%* | *27%* | *32%* | *25%* | *27%* |
| **Nuclearelectrica** | **44%** | **44%** | **40%** | **44%** | **45%** | **45%** |
| **Net profit margin** | | | | | | |
| Electricite de France | 6% | 6% | 10% | 9% | 5% | 6% |
| British Energy | 16% | na | 17% | 16% | 12% | na |
| *Median of peers* | *11%* | *6%* | *13%* | *12%* | *9%* | *6%* |
| **Nuclearelectrica** | **7%** | **4%** | **10%** | **10%** | **7%** | **3%** |
| **Nuclearelectrica adj*** | **13%** | **4%** | **13%** | **14%** | **12%** | **16%** |

** Net profit margin adjusted for FX losses from re-valuation of foreign currency denominated debt*

## Financial summary

Nuclearelectrica is a profitable company without any liquidity or solvency problems. However, with total long term-debt amounting to RON 2,357m in 2009, mostly EUR denominated, Nuclearelectrica's end line profitability is heavily influenced by the exchange rate fluctuations through re-valuation of its foreign currency denominated debt. Please note that if the respective losses are added back to the net profit, after deducting the income tax expense, Nuclearelectrica's 5Ys median net profit margin increases from 7.10% to 12.92%. Also the company's end line profitability is negatively impacted by high D&A expenses owing to oversized assets when compared with the company's earning power in term of absolute values.

In December 2008, the state managed to finalise the negotiations with six foreign investors for setting-up EnergoNuclear, the project management company which will work up two new additional nuclear power units (700 MW each) set double Nuclearelectrica's power capacity by 2020. Initial EnergoNuclear's shareholding was split among the Romanian state, through Nuclearelectrica, with a stake of 51% , four foreign investors - Enel, CEZ, GDF Suez and RWE Power owning each a 9.15% interest in the company, Iberdrola and ArcelorMittal Romania with stakes of 6.2% each. However, since then, CEZ exited EnergoNuclear in December this year, increasing the state ownership interest in EnergoNuclear to 60.15%. In September 2010, the project company launched a tender to attract offers for engineering, design and building works for the development of the two units.

The investment needs estimated by the company for 2010-2014 period amount to RON 1,200m, out of which environmental investments are estimated at RON 360m. The funds necessary to modernise and rehabilitate the electricity production capacities include RON 735m to improve the nuclear safety according to the regulatory bodies' requirements and RON 88m to rehabilitate the exiting production capacity.

## Financials

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 2% | 1% | 2% | 2% | 2% | 1% |
| ROE Tot Equity | 1% | 1% | 2% | 1% | 1% | 1% |
| ROA Tot Assets | 1% | 0% | 1% | 1% | 1% | 0% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 0.8 | 0.4 | 0.3 | 0.8 | 1.3 | 2.2 |
| Curr Ratio | 2.6 | 0.9 | 0.8 | 2.6 | 3.7 | 6.3 |
| LT Debt/Tot Eqty | 0.4 | 0.5 | 0.5 | 0.4 | 0.3 | 0.3 |
| LT Debt/Tot Assets | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 |
| EBIT/Int expense | 3.7 | 11.9 | 42.3 | 3.5 | 2.3 | 3.7 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **6,699.3** | **7,840.8** | **7,761.8** | **8,149.0** | **7,953.9** |
| Tangible assets o/w | | 6,689.7 | 7,829.0 | 7,739.1 | 8,110.7 | 7,877.7 |
| Land and buildings | | 3,280.4 | 3,262.3 | 6,833.6 | 7,198.4 | 6,963.3 |
| **Current assets** | | **560.1** | **404.9** | **1,082.2** | **1,470.5** | **2,004.1** |
| Accounts Receivable | | 131.5 | 91.4 | 170.0 | 144.8 | 209.9 |
| Cash | | 97.8 | 42.2 | 180.1 | 394.3 | 494.7 |
| **Current liabilities** | | **621.4** | **515.1** | **418.6** | **400.1** | **320.2** |
| Short-term debt | | 100.1 | 92.8 | 183.6 | 217.8 | 171.0 |
| Accounts Payable | | 252.0 | 158.2 | 185.6 | 142.2 | 116.5 |
| **Long-term liabilities** | | **1,879.6** | **2,243.1** | **2,426.7** | **2,307.2** | **2,356.5** |
| Long-term debt | | 1,879.6 | 2,243.1 | 2,426.7 | 2,307.2 | 2,356.5 |
| **Shareholders funds** | | **3,930.8** | **4,190.8** | **5,986.1** | **6,897.2** | **7,253.7** |
| Share capital | | 1,233.8 | 2,601.1 | 2,536.8 | 2,536.8 | 2,536.8 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **606.5** | **664.2** | **909.6** | **1,451.9** | **1,526.7** |
| **Total operating expenses o/w** | | **542.2** | **638.6** | **762.8** | **1,175.2** | **1,286.1** |
| Raw materials expenses | | 56.6 | 67.1 | 89.1 | 100.8 | 154.3 |
| *% of total opex* | *10.5%* | *10.4%* | *10.5%* | *11.7%* | *8.6%* | *12.0%* |
| Employees expenses | | 108.0 | 124.0 | 168.2 | 229.2 | 251.2 |
| *% of total opex* | *19.5%* | *19.9%* | *19.4%* | *22.0%* | *19.5%* | *19.5%* |
| D&A | | 167.9 | 174.9 | 209.2 | 338.7 | 367.3 |
| *% of total opex* | *28.6%* | *31.0%* | *27.4%* | *27.4%* | *28.8%* | *28.6%* |
| Other operating expenses | | 149.5 | 215.9 | 174.6 | 351.3 | 370.2 |
| *% of total opex* | *28.8%* | *27.6%* | *33.8%* | *22.9%* | *29.9%* | *28.8%* |
| **EBITDA** | | **267.0** | **263.8** | **396.8** | **659.3** | **692.6** |
| *EBITDA margin* | *44.0%* | *44.0%* | *39.7%* | *43.6%* | *45.4%* | *45.4%* |
| **EBIT** | | **99.1** | **88.9** | **187.6** | **320.5** | **325.3** |
| *EBIT margin* | *20.6%* | *16.3%* | *13.4%* | *20.6%* | *22.1%* | *21.3%* |
| **Net financial result o/w** | | **(75.4)** | **(24.6)** | **(98.0)** | **(196.8)** | **(261.5)** |
| Interest expenses | | (8.3) | (2.1) | (53.8) | (137.6) | (87.3) |
| Net FX gains (losses) | | 0.0 | (25.6) | (46.4) | (88.4) | (225.2) |
| **EBT** | | **23.7** | **64.3** | **89.6** | **123.7** | **63.9** |
| *EBT margin* | *8.5%* | *3.9%* | *9.7%* | *9.9%* | *8.5%* | *4.2%* |
| **Net Profit (Loss)** | | **23.7** | **64.3** | **88.7** | **103.0** | **49.4** |
| *Net profit margin* | *7.1%* | *3.9%* | *9.7%* | *9.7%* | *7.1%* | *3.2%* |

# COMPLEXUL ENERGETIC TURCENI

Thermal power generation

| Shareholding structure | |
|---|---|
| Ministry of Economy | 74.63% |
| Property Fund | 24.79% |
| Termoelectrica | 0.58% |
| Shares outstanding (m) | 45.94 |

| | |
|---|---|
| Book value | RON 2,138.6 |
| **AFR value** | **RON 3,040.6** |
| **Premium** | **42.2%** |

## Business summary

Complexul Energetic Turceni is a joint-stock company incorporated in 2004. Turceni has an installed capacity of 2,310 MW split between seven generating blocks (PWG). Currently only six PWGs are operational (6x330 MW). The main fuel used is lignite secured from its mines in proportion of 70%. Jilt Sud and Jilt Nord lignite quarries were commissioned in 1977 and have an annual production capacity of 6,500 ths tonnes and reserves estimated at 285,800 ths tonnes. Tehomir lignite mine was commissioned in 1978 having an annual production capacity of 400 ths tonnes and lignite reserves estimated 1,520 tonnes. In 2009, Turceni generated 11% of Romania's total power production. As at the end of 2009, the company reported 4,140 employees.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, CEN Turceni would be valued at RON 342.9m, implying a discount to the FY'09 book value of 84.0%. Based on the median of peers EV/EBITDA multiples, CEN Turceni would be valued at RON 3,040.6m, implying a premium of 42.2%. Based on the median of peers P/B multiples, CEN Turceni would be valued at RON 4,801.1, implying a premium of 124.5%. The median of the values implied by the selected multiples indicates an equity value for CEN Turceni of RON 3,040.6m and a premium of 42.2% to the FY'09 book value. The premium justifies additional cash flows in from mining activity. Over 2006-2009 period, Turceni posted other operational revenues from mining activity averaging RON 450m per year. These cash flows allow the company to run with a halved EBITDA margin when compared with the international peers, but about double when compared with CEN Craiova and CEN Rovinari, the company's domestic peers.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 21.3 | X | **16.12** | | 342.9 | | -84.0% |
| EBITDA, LFY | 238.4 | X | **13.13** | 3,129.9 | 3,040.6 | | 42.2% |
| Net debt, LFY | 89.3 | | | | | | |
| Book value, LFY | 2,138.6 | X | **2.25** | | 4,801.1 | | 124.5% |
| | | | **AFR Equity Value** | | **3,040.6** | **2,138.6** | **42.2%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Huaneng Power Int | 600011 | CHN | $9,779m | 12.67 | 19.59 | 1.57 |
| Tata Power | 500400 | IND | $6,839m | 15.99 | 6.75 | 2.53 |
| Neyveli Lignite Corp | 513683 | IND | $4,441m | 16.24 | 9.41 | 1.96 |
| Inner Mongolia | 600863 | CHN | $3,085m | 50.31 | 16.85 | 5.95 |
| | | | **Median of peers** | **16.12** | **13.13** | **2.25** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Huaneng Power Int | 33% | 34% | 37% | 33% | 12% | 24% |
| Tata Power | 22% | 22% | 20% | 23% | 21% | 23% |
| Neyveli Lignite Corp | 47% | 47% | 51% | 52% | 38% | 42% |
| Inner Mongolia | 27% | 24% | 27% | 32% | 25% | 42% |
| *Median of peers* | *30%* | *29%* | *32%* | *32%* | *23%* | *33%* |
| **Complexul Energetic Turceni** | **15%** | **15%** | **15%** | **21%** | **15%** | **21%** |
| **Net profit margin** | | | | | | |
| Huaneng Power Int | 12% | 12% | 13% | 12% | -5% | 6% |
| Tata Power | 10% | 12% | 11% | 9% | 7% | 10% |
| Neyveli Lignite Corp | 23% | 23% | 21% | 30% | 20% | 26% |
| Inner Mongolia | 3% | 1% | 3% | 3% | -8% | 6% |
| *Median of peers* | *11%* | *12%* | *12%* | *10%* | *1%* | *8%* |
| **Complexul Energetic Turceni** | **4%** | **5%** | **4%** | **8%** | **2%** | **2%** |

**Financial summary**

# Complexul Energetic Turceni

The company has no liquidity or solvency problems. Having its own lignite mines, the raw materials costs are matched by other operating revenues from mining activity. However, starting with 2008, company's net profit margin deteriorated significantly on the back of higher employees and D&A expenses. While over 2005-2009 period, employees costs more than doubled (+112%), in 2009 the respective expenses increased by 24% as compared with 2008. In 2009, company's D&A expenses posted a 71% Y/Y increase.

The costs with assets disposal account for about half of the company's other operating expenses, the other half being directed to third parties contracted for equipment modernisation and maintenance works.

For 2010, CEN Turceni budgeted capex of RON 796.5m, out of which 99% will be allotted to the environmental investments. By 2013, the investments plans amount to EUR 800m and are aimed at bringing the company's installations in line with EU environmental standards.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 9% | 10% | 9% | 17% | 4% | 3% |
| ROE Tot Eqty | 4% | 4% | 4% | 6% | 1% | 1% |
| ROA Tot Assets | 2% | 2% | 2% | 4% | 1% | 1% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.3 | 1.2 | 1.3 | 1.3 | 1.9 | 1.5 |
| Curr Ratio | 1.7 | 1.5 | 1.6 | 1.7 | 2.5 | 2.0 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| EBIT/Int expense | 21.0 | 13.7 | 21.0 | 33.3 | 23.7 | 6.6 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **1,324.8** | **1,352.8** | **1,480.3** | **2,293.4** | **2,326.9** |
| Tangible assets o/w | | 1,319.2 | 1,345.0 | 1,467.0 | 2,277.6 | 2,307.6 |
| Land and buildings | | 496.9 | 559.9 | 718.2 | 1,012.1 | 1,003.4 |
| **Current assets** | | **507.4** | **411.3** | **386.4** | **418.8** | **463.1** |
| Accounts Receivable | | 400.4 | 291.9 | 246.1 | 264.0 | 281.0 |
| Cash | | 2.4 | 23.4 | 39.8 | 54.5 | 65.1 |
| **Current liabilities** | | **349.2** | **249.5** | **223.6** | **170.9** | **236.1** |
| Short-term debt | | 8.9 | 0.0 | 0.0 | 0.2 | 0.3 |
| Accounts Payable | | 204.9 | 103.4 | 147.2 | 82.0 | 157.4 |
| **Long-term liabilities** | | **180.5** | **141.5** | **61.2** | **151.3** | **195.9** |
| Long-term debt | | 0.0 | 2.1 | 2.8 | 95.4 | 154.1 |
| **Shareholders funds** | | **1,136.3** | **1,172.8** | **1,387.4** | **2,114.5** | **2,138.6** |
| Share capital | | 455.5 | 455.5 | 455.5 | 455.4 | 458.0 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **895.9** | **1,004.5** | **1,029.4** | **1,281.4** | **1,125.5** |
| Other operating revenues | | 54.6 | 437.4 | 414.1 | 494.0 | 458.9 |
| **Total operating expenses o/w** | | **1,131.8** | **1,407.5** | **1,387.1** | **1,734.7** | **1,595.1** |
| Raw materials expenses | | 540.6 | 667.4 | 691.2 | 800.6 | 663.1 |
| *% of total opex* | *47.4%* | *47.8%* | *47.4%* | *49.8%* | *46.1%* | *41.6%* |
| *Other material costs & energy expenses* | | 75.9 | 112.9 | 116.6 | 127.2 | 110.1 |
| *% of total opex* | | *6.7%* | *8.0%* | *8.4%* | *7.3%* | *6.9%* |
| Employees expenses | | 131.4 | 148.7 | 177.2 | 224.3 | 278.6 |
| *% of total opex* | *12.8%* | *11.6%* | *10.6%* | *12.8%* | *12.9%* | *17.5%* |
| D&A | | 80.1 | 87.9 | 114.6 | 122.1 | 208.2 |
| *% of total opex* | *7.1%* | *7.1%* | *6.2%* | *8.3%* | *7.0%* | *13.1%* |
| Other operating expenses o/w | | 184.4 | 227.2 | 242.8 | 328.4 | 342.9 |
| *% of total opex* | *17.5%* | *16.3%* | *16.1%* | *17.5%* | *18.9%* | *21.5%* |
| *Expenses with assets disposal* | | 67.3 | 89.0 | 100.8 | 144.2 | 158.9 |
| **EBITDA** | | **137.5** | **145.8** | **214.9** | **188.0** | **238.4** |
| *EBITDA margin* | *15.4%* | *15.4%* | *14.5%* | *20.9%* | *14.7%* | *21.2%* |
| **EBIT** | | **57.4** | **57.8** | **100.2** | **65.9** | **30.2** |
| *EBIT margin* | *5.8%* | *6.4%* | *5.8%* | *9.7%* | *5.1%* | *2.7%* |
| **Net financial result o/w** | | **0.0** | **(1.7)** | **(2.5)** | **(19.6)** | **5.7** |
| Interest expenses | | (4.2) | (2.7) | (3.0) | (2.8) | (4.6) |
| **EBT** | | **57.5** | **56.2** | **97.7** | **46.2** | **35.9** |
| *EBT margin* | *5.6%* | *6.4%* | *5.6%* | *9.5%* | *3.6%* | *3.2%* |
| **Net Profit (Loss)** | | **45.7** | **41.6** | **78.3** | **20.0** | **21.3** |
| *Net profit margin* | *4.1%* | *5.1%* | *4.1%* | *7.6%* | *1.6%* | *1.9%* |

**Revenues from mining activity*

# COMPLEXUL ENERGETIC CRAIOVA

Thermal power generation

| Shareholding structure | |
|---|---|
| Ministry of Economy | 75.85% |
| Property Fund | 23.60% |
| Termoelectrica | 0.55% |
| Shares outstanding (m) | 25.9 |

| | |
|---|---|
| Book value | RON 1,097.5 |
| **AFR value** | **RON 860.2** |
| **Discount** | **-21.6%** |

**Business summary**

Complexul Energetic Craiova is a joint-stock company incorporated in 2004. The Company has an installed capacity of 930 MW split between two generating blocks: Isalnita with an installed capacity of 630MW and Craiova II, one of the newest thermal power generating units in Romania, with an installed capacity of 300 MW. The company owns also Prigoria mining division. In 2009, Craiova generated 4,444 GW representing 8% of Romania's total power production. As at the end of 2009, the Company reported 2,412 employees.

**Valuation methodology and considerations**

We valued the Company using the relative valuation method. Based on the median of peers P/E multiples, CEN Craiova would be valued at RON 5.4m, implying a discount to the FY'09 book value of 99.5%. Based on the median of peers EV/EBITDA multiples, CEN Craiova would be valued at RON 860.2m, implying a discount of 21.6%. Based on the median of peers P/B multiples, CEN Craiova would be valued at RON 2,463.8m, implying a premium to the reported value of 124.5%. The median of the values implied by the selected multiples indicates an equity value for CEN Craiova of RON 860.2m and a discount of 21.6% to the FY'09 book value. We consider the discount justified by the company's 5Y median EBITDA margin which stood at 9.10%, about one third of the peers' median margin.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 0.3 | X | **16.12** | | 5.4 | | -99.5% |
| EBITDA, LFY | 75.5 | X | **13.13** | 991.7 | 860.2 | | -21.6% |
| Net debt, LFY | 131.5 | | | | | | |
| Book value, LFY | 1,097.5 | X | **2.25** | | 2,463.8 | | 124.5% |
| | | | **AFR Equity Value** | | **860.2** | **1,097.5** | **-21.6%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Huaneng Power Int | 600011 | CHN | $9,779m | 12.67 | 19.59 | 1.57 |
| Tata Power | 500400 | IND | $6,839m | 15.99 | 6.75 | 2.53 |
| Neyveli Lignite Corp | 513683 | IND | $4,441m | 16.24 | 9.41 | 1.96 |
| Inner Mongolia | 600863 | CHN | $3,085m | 50.31 | 16.85 | 5.95 |
| | | | **Median of peers** | **16.12** | **13.13** | **2.25** |

*Source: Reuters Knowledge*

**Industry profitability comparison**

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Huaneng Power Int | 33% | 34% | 37% | 33% | 12% | 24% |
| Tata Power | 22% | 22% | 20% | 23% | 21% | 23% |
| Neyveli Lignite Corp | 47% | 47% | 51% | 52% | 38% | 42% |
| Inner Mongolia | 27% | 24% | 27% | 32% | 25% | 42% |
| *Median of peers* | *30%* | *29%* | *32%* | *32%* | *23%* | *33%* |
| **Complexul Energetic Craiova** | **9%** | **12%** | **11%** | **9%** | **7%** | **7%** |
| **Net profit margin** | | | | | | |
| Huaneng Power Int | 12% | 12% | 13% | 12% | -5% | 6% |
| Tata Power | 10% | 12% | 11% | 9% | 7% | 10% |
| Neyveli Lignite Corp | 23% | 23% | 21% | 30% | 20% | 26% |
| Inner Mongolia | 3% | 1% | 3% | 3% | -8% | 6% |
| *Median of peers* | *11%* | *12%* | *12%* | *10%* | *1%* | *8%* |
| **Complexul Energetic Craiova** | **1%** | **2%** | **4%** | **1%** | **0%** | **0%** |

**Financial summary**

# Complexul Energetic Craiova

Raw material costs, as expected, are the company's main operating expenses account. In 2009, the main raw materials acquisitions were coal (78%) and gas (21%). The amount of coal acquired in 2009 stood at 6.2m tonnes. Company's main supplier of coal is Societatea Nationala a Lignitului Oltenia (The National Company of Lignite Oltenia) accounting for 80% of the company's coal acquisitions.

In 2009, the company's thin net profit margin deteriorated further on the back of boosted employees expenses which increased by 63% as compared with 2008. Please note that over 2005-2009 period, employees' costs rose by 147%.

With total debt standing at RON 137.3m in 2009 (5% of total assets and 8% of total equity), CEN Craiova has no solvency issues despite a 2009 operational loss. Liquidity ratios are tight, but manageable. Practically, the company operates at a breakeven level after deducting expenses with its outdated assets disposal amounting to RON 261.1m in 2009.

Over 2009-2012 period CEN Craiova plans to invest EUR 397m to bring the equipment in line with EU environmental standards.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 3% | 5% | 13% | 3% | 1% | 0% |
| ROE Tot Eqty | 1% | 1% | 3% | 1% | 0% | 0% |
| ROA Tot Assets | 1% | 1% | 2% | 1% | 0% | 0% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.1 | 1.1 | 1.3 | 1.4 | 1.1 | 0.8 |
| Curr Ratio | 1.5 | 1.4 | 1.6 | 1.9 | 1.5 | 1.2 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| EBIT/Int expense | 11.1 | 11.1 | 28.7 | 10.7 | 27.6 | -0.2 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **830.5** | **978.8** | **942.5** | **999.5** | **1,134.8** |
| Tangible assets o/w | | 830.1 | 978.4 | 942.1 | 999.1 | 1,134.4 |
| Land and buildings | | 464.0 | 611.8 | 578.7 | 578.6 | 554.7 |
| **Current assets** | | **334.8** | **344.0** | **300.9** | **393.5** | **446.3** |
| Accounts Receivable | | 251.1 | 270.7 | 211.1 | 258.6 | 313.8 |
| Cash | | 6.3 | 12.5 | 14.9 | 33.6 | 5.7 |
| **Current liabilities** | | **239.1** | **213.9** | **156.1** | **256.2** | **384.1** |
| Short-term debt | | 12.0 | 30.0 | 0.0 | 0.0 | 50.6 |
| Accounts Payable | | 209.8 | 171.3 | 144.1 | 237.9 | 307.8 |
| **Long-term liabilities** | | **2.7** | **0.7** | **0.8** | **37.3** | **88.7** |
| Long-term debt | | 0.0 | 0.0 | 0.0 | 36.3 | 86.7 |
| **Shareholders funds** | | **918.1** | **1,104.5** | **1,083.0** | **1,080.6** | **1,097.5** |
| Share capital | | 246.8 | 252.1 | 252.1 | 252.3 | 258.7 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **680.3** | **812.3** | **861.8** | **1,068.6** | **1,132.4** |
| **Total operating expenses o/w** | | **718.3** | **847.8** | **914.5** | **1,083.9** | **1,164.0** |
| Raw materials expenses | | 405.0 | 470.9 | 503.2 | 509.5 | 477.1 |
| *% of total opex* | *55.0%* | *56.4%* | *55.5%* | *55.0%* | *47.0%* | *41.0%* |
| *Other material costs & energy expenses* | | 58.8 | 97.8 | 102.8 | 118.0 | 103.0 |
| *% of total opex* | | *8.2%* | *11.5%* | *11.2%* | *10.9%* | *8.9%* |
| Employees expenses | | 51.6 | 59.4 | 66.1 | 78.2 | 127.6 |
| *% of total opex* | *7.2%* | *7.2%* | *7.0%* | *7.2%* | *7.2%* | *11.0%* |
| D&A | | 66.0 | 52.0 | 67.7 | 69.2 | 76.2 |
| *% of total opex* | *6.5%* | *9.2%* | *6.1%* | *7.4%* | *6.4%* | *6.5%* |
| Other operating expenses o/w | | 114.6 | 155.3 | 162.7 | 292.5 | 322.0 |
| *% of total opex* | *18.3%* | *16.0%* | *18.3%* | *17.8%* | *27.0%* | *27.7%* |
| Expenses with assets disposal | | 49.1 | 89.5 | 96.7 | 196.6 | 261.1 |
| **EBITDA** | | **82.4** | **87.5** | **78.4** | **73.6** | **75.5** |
| *EBITDA margin* | *9.1%* | *12.1%* | *10.8%* | *9.1%* | *6.9%* | *6.7%* |
| **EBIT** | | **16.4** | **35.5** | **10.7** | **4.4** | **-0.7** |
| *EBIT margin* | *1.2%* | *2.4%* | *4.4%* | *1.2%* | *0.4%* | *-0.1%* |
| **Net financial result o/w** | | **(1.5)** | **(1.2)** | **(0.6)** | **0.7** | **2.9** |
| Interest expenses | | (1.5) | (1.2) | (1.0) | (0.2) | (2.8) |
| **EBT** | | **15.0** | **34.3** | **10.1** | **5.1** | **2.2** |
| *EBT margin* | *1.2%* | *2.2%* | *4.2%* | *1.2%* | *0.5%* | *0.2%* |
| **Net Profit (Loss)** | | **13.0** | **32.5** | **8.3** | **3.6** | **0.3** |
| *Net profit margin* | *1.0%* | *1.9%* | *4.0%* | *1.0%* | *0.3%* | *0.0%* |

# COMPLEXUL ENERGETIC ROVINARI

Thermal power generation

| Shareholding structure | |
|---|---|
| Ministry of Economy | 75.85% |
| Property Fund | 23.60% |
| Termoelectrica | 0.55% |
| Shares outstanding (m) | 23.4 |

| | |
|---|---|
| Book value | RON 1,064.7 |
| **AFR value** | **RON 841.7** |
| **Discount** | **-20.9%** |

## Business summary

Complexul Energetic Rovinari is a joint-stock company incorporated in 2004. The company has an installed capacity of 1,320 MW split between four generating blocks (4 X 330MW) commissioned during '76-'79. Rovinari mining division, one of the three branches of the company, operates three quarries. In 2009, CEN Rovinari generated 5,353.9 GW representing 9% of Romania's total power production. As at the end of 2009, the company reported 4,103 employees.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, CEN Rovinari would be valued at RON 81.2m, implying a discount to the FY'09 book value of 92.4%. Based on the median of peers EV/EBITDA multiples, CEN Rovinari would be valued at RON 841.7m, implying a discount of 20.9%. Based on the median of peers P/B multiples, CEN Rovinari would be valued at RON 2,390.2m, implying a premium to the reported value of 124.5%. The median of the values implied by the selected multiples indicates an equity value for CEN Rovinari of RON 841.7m and a discount of 20.9% to the FY'09 book value. We consider the discount justified by the company's 5Y median EBITDA margin which stood at 9.95%, about one third of the peers' median margin.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 5.0 | X | **16.12** | | 81.2 | | -92.4% |
| EBITDA, LFY | 76.1 | X | **13.13** | 999.3 | 841.7 | | -20.9% |
| Net debt, LFY | 157.6 | | | | | | |
| Book value, LFY | 1,064.7 | X | **2.25** | | 2,390.2 | | 124.5% |
| | | | **AFR Equity Value** | | **841.7** | **1,064.7** | **-20.9%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Huaneng Power Int | 600011 | CHN | $9,779m | 12.67 | 19.59 | 1.57 |
| Tata Power | 500400 | IND | $6,839m | 15.99 | 6.75 | 2.53 |
| Neyveli Lignite Corp | 513683 | IND | $4,441m | 16.24 | 9.41 | 1.96 |
| Inner Mongolia | 600863 | CHN | $3,085m | 50.31 | 16.85 | 5.95 |
| | | | **Median of peers** | **16.12** | **13.13** | **2.25** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| EBITDA margin | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Huaneng Power Int | 33% | 34% | 37% | 33% | 12% | 24% |
| Tata Power | 22% | 22% | 20% | 23% | 21% | 23% |
| Neyveli Lignite Corp | 47% | 47% | 51% | 52% | 38% | 42% |
| Inner Mongolia | 27% | 24% | 27% | 32% | 25% | 42% |
| *Median of peers* | *30%* | *29%* | *32%* | *32%* | *23%* | *33%* |
| **Complexul Energetic Rovinari** | **10%** | **20%** | **10%** | **17%** | **8%** | **9%** |
| **Net profit margin** | | | | | | |
| Huaneng Power Int | 12% | 12% | 13% | 12% | -5% | 6% |
| Tata Power | 10% | 12% | 11% | 9% | 7% | 10% |
| Neyveli Lignite Corp | 23% | 23% | 21% | 30% | 20% | 26% |
| Inner Mongolia | 3% | 1% | 3% | 3% | -8% | 6% |
| *Median of peers* | *11%* | *12%* | *12%* | *10%* | *1%* | *8%* |
| **Complexul Energetic Rovinari** | **5%** | **10%** | **5%** | **10%** | **0%** | **1%** |

**Financial summary**

# Complexul Energetic Rovinari

Raw material costs are the company's main operating expenses account, but as CEN Rovinari operates also three coal querries, the lignite is mainly procurred from its own mines. In 2009, consumption of lignite accounted for 96% of the total raw material expenses.

In 2009, company's employees expenses increased by 20% as compared with 2008., while over 2005-2009 period, employees' costs rose by 105%.

With total debt standing at RON 184m in 2009 (7% of total assets and 11% of total equity), CEN Rovinari has no solvency issues Liquidity ratios are tight, and looks degrading further. The company operates very close to the breakeven level after deducting 2009 expenses with its outdated assets' disposal amounting to RON 90.7m (-32.3% Y/Y).

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 21% | 33% | 21% | 34% | 0% | 2% |
| ROE Tot Eqty | 7% | 13% | 7% | 11% | 0% | 1% |
| ROA Tot Assets | 5% | 9% | 5% | 8% | 0% | 0% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 0.9 | 0.9 | 0.9 | 2.2 | 0.5 | 0.4 |
| Curr Ratio | 1.1 | 1.1 | 1.1 | 3.0 | 1.2 | 0.9 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| EBIT/Int expense | 142.4 | 202.1 | 142.4 | 636.7 | 7.2 | 3.6 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **586.9** | **655.8** | **739.4** | **1,047.0** | **1,426.7** |
| Tangible assets o/w | | 582.0 | 646.1 | 728.1 | 1,026.0 | 1,403.8 |
| Land and buildings | | 343.5 | 407.2 | 496.7 | 665.2 | 801.6 |
| **Current assets** | | **270.0** | **240.5** | **285.8** | **256.1** | **205.1** |
| Accounts Receivable | | 128.9 | 104.5 | 76.1 | 72.0 | 73.4 |
| Cash | | 86.2 | 87.8 | 138.5 | 44.4 | 26.4 |
| **Current liabilities** | | **246.6** | **213.0** | **95.8** | **212.6** | **231.0** |
| Short-term debt | | 0.0 | 0.0 | 0.0 | 50.4 | 68.6 |
| Accounts Payable | | 132.8 | 93.1 | 61.2 | 96.8 | 103.5 |
| **Long-term liabilities** | | **14.6** | **2.3** | **77.9** | **64.2** | **158.2** |
| Long-term debt | | 0.0 | 0.0 | 0.0 | 0.0 | 115.4 |
| **Shareholders funds** | | **552.7** | **636.0** | **746.7** | **881.8** | **1,064.7** |
| Share capital | | 221.0 | 221.0 | 232.8 | 232.8 | 234.1 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **705.7** | **917.9** | **811.5** | **957.3** | **845.4** |
| Other operating income* | | 248.9 | 290.4 | 301.1 | 344.0 | 372.7 |
| **Total operating expenses o/w** | | **914.8** | **1,243.6** | **1,087.8** | **1,352.7** | **1,263.7** |
| Raw materials expenses | | 391.0 | 495.3 | 485.4 | 561.9 | 545.7 |
| *% of total opex* | *42.7%* | 42.7% | 39.8% | 44.6% | 41.5% | 43.2% |
| *Other material costs & energy expenses* | | 84.7 | 103.0 | 98.7 | 102.8 | 90.8 |
| *% of total opex* | | 9.3% | 8.3% | 9.1% | 7.6% | 7.2% |
| Employees expenses | | 119.7 | 141.7 | 162.3 | 204.7 | 245.9 |
| *% of total opex* | *14.9%* | *13.1%* | *11.4%* | *14.9%* | *15.1%* | *19.5%* |
| D&A | | 54.2 | 48.3 | 49.9 | 59.7 | 62.4 |
| *% of total opex* | *4.6%* | *5.9%* | *3.9%* | *4.6%* | *4.4%* | *4.9%* |
| Other operating expenses o/w | | 172.2 | 218.5 | 213.6 | 318.0 | 284.7 |
| *% of total opex* | *19.6%* | *18.8%* | *17.6%* | *19.6%* | *23.5%* | *22.5%* |
| *Expenses with assets disposal* | | 46.9 | 85.0 | 72.3 | 134.1 | 90.7 |
| **EBITDA** | | **138.5** | **91.4** | **139.2** | **73.7** | **76.1** |
| *EBITDA margin* | *10.0%* | *19.6%* | *10.0%* | *17.2%* | *7.7%* | *9.0%* |
| **EBIT** | | **84.3** | **43.0** | **89.3** | **14.0** | **13.7** |
| *EBIT margin* | *4.7%* | *11.9%* | *4.7%* | *11.0%* | *1.5%* | *1.6%* |
| **Net financial result o/w** | | **4.6** | **5.9** | **8.3** | **6.2** | **(3.5)** |
| Interest expenses | | (0.4) | (0.3) | (0.1) | (1.9) | (3.8) |
| **EBT** | | **88.9** | **49.0** | **97.6** | **20.2** | **10.1** |
| *EBT margin* | *5.3%* | *12.6%* | *5.3%* | *12.0%* | *2.1%* | *1.2%* |
| **Net Profit (Loss)** | | **73.5** | **46.4** | **79.3** | **1.0** | **5.0** |
| *Net profit margin* | *5.1%* | *10.4%* | *5.1%* | *9.8%* | *0.1%* | *0.6%* |

**Change in inventory (credit balance), mining activity revenues*

# ELECTRICA DISTRIBUTIE MUNTENIA NORD

Power distribution

| Shareholding structure | |
|---|---|
| Electrica | 78.00% |
| Property Fund | 22.00% |
| Shares outstanding (m) | 35.44 |

| | |
|---|---|
| Book value | RON 1,055.6 |
| **AFR value** | **RON 710.5** |
| **Discount** | **-32.7%** |

## Business summary

Electrica Distributie Muntenia Nord is a joint stock company set up in 2002. Power distribution is a monopoly activity and the distribution services tariffs are set by ANRE. Currently, the rate of return on regulated assets is 7%.

In 2009, total power distributed by Electrica Distributie Muntenia Nord amounted to 6,302 GWh (-12% Y/Y), representing a market share of 16%.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, Electrica Distributie Muntenia Nord would be valued at RON 326.3m, implying a discount to the FY'09 book value of 69.1%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 710.5m, implying a discount of 32.7%. Based on the median of peers P/B multiples, the company would be valued at RON 1,710.1m, implying a premium to the reported value of 62.0%. The median of the values implied by the selected multiples indicates an equity value for Electrica Distributie Muntenia Nord of RON 710.5m and a discount of 32.7% to the FY'09 book value. We consider the discount justified by the company's 5Y median EBITDA margin which stood at 16.12%, about two third of the peers' 5Y median margin.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 24.7 | X | **13.24** | | 326.3 | | -69.1% |
| EBITDA, LFY | 106.7 | X | **5.69** | 606.7 | 710.5 | | -32.7% |
| Net debt, LFY | -103.8 | | | | | | |
| Book value, LFY | 1,055.6 | X | **1.62** | | 1,710.1 | | 62.0% |
| | | | **AFR Equity Value** | | **710.5** | **1,055.6** | **-32.7%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Eletropaulo | ELPL4 | BRA | $3,235m | 5.10 | 2.86 | 1.65 |
| Luz del Sur | LUSURC1 | PER | $1,232m | 12.17 | 7.69 | 3.27 |
| Lenenergo | LSNG | RUS | $1,122m | 14.30 | 5.73 | 0.74 |
| Prazska Energetika | BAAPRENG | CZE | $1,147m | 14.44 | 5.64 | 1.79 |
| Equatorial Energia | EQTL3 | BRA | $748m | 6.02 | 4.26 | 1.06 |
| Horizon Energy | HED | NZL | $64m | 14.39 | 8.20 | 1.59 |
| | | | **Median of peers** | **13.24** | **5.69** | **1.62** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Eletropaulo | 19% | 11% | 17% | 19% | 24% | 22% |
| Luz del Sur | 28% | 24% | 26% | 28% | 31% | 31% |
| Lenenergo | 28% | 25% | -2% | 28% | 28% | 37% |
| Prazska Energetika | 20% | 20% | 22% | 23% | 19% | 18% |
| Equatorial Energia | 11% | 13% | 12% | 11% | 3% | 3% |
| Horizon Energy | 46% | 42% | 45% | 48% | 48% | 46% |
| *Median of peers* | *24%* | *22%* | *19%* | *25%* | *26%* | *26%* |
| **Electrica Distributie Muntenia Nord** | **16%** | **16%** | **11%** | **12%** | **27%** | **17%** |
| **Net profit margin** | | | | | | |
| Eletropaulo | 9% | 2% | 4% | 9% | 13% | 12% |
| Luz del Sur | 14% | 11% | 12% | 14% | 15% | 17% |
| Lenenergo | 9% | -6% | -3% | 10% | 9% | 11% |
| Prazska Energetika | 11% | 10% | 12% | 15% | 11% | 11% |
| Equatorial Energia | 15% | 34% | 15% | 17% | 13% | 8% |
| Horizon Energy | 19% | 19% | 21% | 20% | 17% | 19% |
| *Median of peers* | *13%* | *10%* | *12%* | *14%* | *13%* | *12%* |
| **Electrica Distributie Muntenia Nord** | **4%** | **9%** | **4%** | **3%** | **12%** | **4%** |

**Financial summary**

# Electrica Distributie Muntenia Nord

In 2007, power distribution and supply activities had to be legally separated to comply with EU standards. So, Electrica Muntenia Nord was split in two newly created entities: Electrica Distributie Muntenia Nord and Electrica Furnizare Muntenia Nord . The spin off process was finalised on the 1st of August 2007 and it explains about halved net turnover of the Electrica Distributie Muntenia Nord over 2008-2009 as compared with 2005-2006 period.

The company's main operating expenses accounts are other material costs (own technological consumption) and other operating expenses (mainly third parties expenses for maintenance and repair works), followed by personnel expenses.

In 2009 the net profit margin decreased from 12.4% in 2008 to 4% mainly on the back of adjustments for provisions expenses which increased by RON 20.8 as compared with 2008. However, personnel expenses which increased by 16.4% (Y/Y) wiped out another RON 16.6m from the company's 2009 operational profit.

With no long-term debt, the company has no solvency issues and liquidity ratios improved over 2008-2009 period.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 22% | 30% | 193% | 10% | 22% | 7% |
| ROE Tot Eqty | 6% | 14% | 6% | 4% | 7% | 2% |
| ROA Tot Assets | 3% | 8% | 3% | 2% | 5% | 1% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.0 | 0.8 | 1.0 | 0.9 | 1.6 | 1.6 |
| Curr Ratio | 1.0 | 0.8 | 1.0 | 0.9 | 1.6 | 1.6 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 16.4 | 37.9 | 16.4 | 12.3 | 40.0 | 11.6 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **1,012.5** | **1,078.4** | **1,116.6** | **1,305.8** | **1,377.9** |
| Tangible assets o/w | | 978.0 | 1,039.2 | 1,105.8 | 1,286.4 | 1,354.3 |
| Land and buildings | | 670.0 | 719.1 | 746.1 | 886.7 | 915.4 |
| **Current assets** | | **238.1** | **303.0** | **151.8** | **270.0** | **299.2** |
| Accounts Receivable | | 194.2 | 229.7 | 94.5 | 152.4 | 190.0 |
| Cash | | 41.2 | 68.7 | 51.0 | 111.8 | 103.8 |
| **Current liabilities** | | **283.0** | **302.4** | **161.5** | **164.0** | **183.3** |
| Short-term debt | | 3.7 | 21.0 | 0.0 | 0.0 | 0.0 |
| Accounts Payable | | 218.7 | 222.7 | 83.1 | 86.7 | 94.7 |
| **Long-term liabilities** | | **87.7** | **48.1** | **50.3** | **61.0** | **59.0** |
| Long-term debt | | 27.2 | 23.7 | 0.0 | 0.0 | 0.0 |
| **Shareholders funds** | | **774.0** | **793.9** | **788.7** | **1,031.0** | **1,055.6** |
| Share capital | | 325.8 | 325.8 | 299.8 | 354.4 | 354.4 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **1,155.2** | **1,192.8** | **972.3** | **614.6** | **611.5** |
| **Total operating expenses o/w** | | **1,049.1** | **1,166.7** | **952.5** | **528.0** | **618.4** |
| Other material costs | | 754.6 | 778.4 | 596.3 | 175.5 | 180.0 |
| *% of total opex* | *62.6%* | *71.9%* | *66.7%* | *62.6%* | *33.2%* | *29.1%* |
| Employees expenses | | 69.0 | 78.3 | 88.7 | 101.1 | 117.7 |
| *% of total opex* | *9.3%* | *6.6%* | *6.7%* | *9.3%* | *19.2%* | *19.0%* |
| D&A | | 63.4 | 76.5 | 76.2 | 67.3 | 79.0 |
| *% of total opex* | *8.0%* | *6.0%* | *6.6%* | *8.0%* | *12.8%* | *12.8%* |
| Other operating expenses | | 146.5 | 165.5 | 187.5 | 171.4 | 182.6 |
| *% of total opex* | *19.7%* | *14.0%* | *14.2%* | *19.7%* | *32.5%* | *29.5%* |
| **EBITDA** | | **186.3** | **135.8** | **115.5** | **163.5** | **106.7** |
| *EBITDA margin* | *16.1%* | *16.1%* | *11.4%* | *11.9%* | *26.6%* | *17.5%* |
| **EBIT** | | **122.8** | **59.3** | **39.4** | **96.2** | **27.7** |
| *EBIT margin* | *5.0%* | *10.6%* | *5.0%* | *4.0%* | *15.7%* | *4.5%* |
| **Net financial result o/w** | | **(2.1)** | **(2.0)** | **(2.7)** | **(1.6)** | **7.7** |
| Interest expenses | | (3.2) | (3.6) | (3.2) | (2.4) | (2.4) |
| **EBT** | | **120.7** | **57.3** | **36.7** | **94.6** | **35.4** |
| *EBT margin* | *5.8%* | *10.5%* | *4.8%* | *3.8%* | *15.4%* | *5.8%* |
| **Net Profit (Loss)** | | **105.3** | **45.6** | **28.7** | **76.4** | **24.7** |
| *Net profit margin* | *4.0%* | *9.1%* | *3.8%* | *2.9%* | *12.4%* | *4.0%* |

# ELECTRICA DISTRIBUTIE TRANSILVANIA NORD

Power distribution

| Shareholding structure | |
|---|---|
| Electrica | 78.00% |
| Property Fund | 22.00% |
| Shares outstanding (m) | 37.13 |

| | |
|---|---|
| Book value | RON 768.1 |
| **AFR value** | **RON 693.6** |
| **Discount** | **-9.7%** |

## Business summary

Electrica Distributie Transilvania Nord is a joint stock company set up in 2002. Power distribution is a monopoly activity and the distribution services tariffs are set by ANRE. Currently, the rate of return on regulated assets is 7%.

In 2009, total power distributed by Electrica Distributie Transilvania Nord amounted to 4,260 GWh (-5% Y/Y), representing a market share of 11%.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, Electrica Distributie Transilvania Nord would be valued at RON 184.8m, implying a discount to the FY'09 book value of 75.9%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 693.6m, implying a discount of 9.7%. Based on the median of peers P/B multiples, the company would be valued at RON 1,244.3.6m, implying a premium to the reported value of 62.0%. The median of the values implied by the selected multiples indicates an equity value for Electrica Distributie Transilvania Nord of RON 693.6m and a discount of 9.7% to the FY'09 book value.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 14.0 | X | **13.24** | | 184.8 | | -75.9% |
| EBITDA, LFY | 111.7 | X | **5.69** | 635.2 | 693.6 | | -9.7% |
| Net debt, LFY | -58.3 | | | | | | |
| Book value, LFY | 768.1 | X | **1.62** | | 1,244.3 | | 62.0% |
| | | | **AFR Equity Value** | | **693.6** | **768.1** | **-9.7%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Eletropaulo | ELPL4 | BRA | $3,235m | 5.10 | 2.86 | 1.65 |
| Luz del Sur | LUSURC1 | PER | $1,232m | 12.17 | 7.69 | 3.27 |
| Lenenergo | LSNG | RUS | $1,122m | 14.30 | 5.73 | 0.74 |
| Prazska Energetika | BAAPRENG | CZE | $1,147m | 14.44 | 5.64 | 1.79 |
| Equatorial Energia | EQTL3 | BRA | $748m | 6.02 | 4.26 | 1.06 |
| Horizon Energy | HED | NZL | $64m | 14.39 | 8.20 | 1.59 |
| | | | **Median of peers** | **13.24** | **5.69** | **1.62** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Eletropaulo | 19% | 11% | 17% | 19% | 24% | 22% |
| Luz del Sur | 28% | 24% | 26% | 28% | 31% | 31% |
| Lenenergo | 28% | 25% | -2% | 28% | 28% | 37% |
| Prazska Energetika | 20% | 20% | 22% | 23% | 19% | 18% |
| Equatorial Energia | 11% | 13% | 12% | 11% | 3% | 3% |
| Horizon Energy | 46% | 42% | 45% | 48% | 48% | 46% |
| *Median of peers* | *24%* | *22%* | *19%* | *25%* | *26%* | *26%* |
| **Electrica Distributie Transilvania Nord** | **12%** | **11%** | **8%** | **12%** | **18%** | **23%** |
| **Net profit margin** | | | | | | |
| Eletropaulo | 9% | 2% | 4% | 9% | 13% | 12% |
| Luz del Sur | 14% | 11% | 12% | 14% | 15% | 17% |
| Lenenergo | 9% | -6% | -3% | 10% | 9% | 11% |
| Prazska Energetika | 11% | 10% | 12% | 15% | 11% | 11% |
| Equatorial Energia | 15% | 34% | 15% | 17% | 13% | 8% |
| Horizon Energy | 19% | 19% | 21% | 20% | 17% | 19% |
| *Median of peers* | *13%* | *10%* | *12%* | *14%* | *13%* | *12%* |
| **Electrica Distributie Transilvania Nord** | **3%** | **4%** | **0%** | **1%** | **5%** | **3%** |

Financial summary

# Electrica Distributie Transilvania Nord

In 2007, power distribution and supply activities had to be legally separated to comply with EU standards. So, Electrica Transilvania Nord was split in two newly created entities: Electrica Distributie Transilvania Nord and Electrica Furnizare Transilvania Nord . The spin off process was finalised on the 1st of August 2007 and it explains about halved net turnover of the Electrica Distributie Transilvania Nord over 2008-2009 as compared with 2005-2006 period.

The company's main operating expenses accounts are other material costs (own technological consumption) and other operating expenses (mainly third parties expenses for maintenance and repair works), followed by personnel expenses.

In 2009 the net profit margin decreased from 4.8% in 2008 to 2.8% mainly on the back of D&A expenses which increased by RON 28.6 as compared with 2008 and personnel expenses which increased by 18% (Y/Y) wiping out RON 16.9m from the company's 2009 operational profit. However, the end line was helped by additional revenues from adjustments for provisions of RON 26.9m.

With no long-term debt, the company has no solvency issues and liquidity ratios improved over 2008-2009 period.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 7% | 13% | 18% | 4% | 7% | 4% |
| ROE Tot Eqty | 2% | 9% | 1% | 2% | 2% | 2% |
| ROA Tot Assets | 1% | 4% | 0% | 1% | 2% | 1% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 0.7 | 0.7 | 0.6 | 0.6 | 0.9 | 0.8 |
| Curr Ratio | 0.7 | 0.7 | 0.7 | 0.6 | 0.9 | 0.8 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 5.3 | 11.8 | 4.1 | 5.3 | 10.2 | 4.8 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **802.6** | **911.3** | **964.7** | **1,235.6** | **1,303.1** |
| Tangible assets o/w | | 772.3 | 883.9 | 955.6 | 1,223.8 | 1,291.9 |
| Land and buildings | | 500.9 | 578.0 | 622.3 | 825.4 | 860.7 |
| **Current assets** | | **234.7** | **241.8** | **135.0** | **171.7** | **168.3** |
| Accounts Receivable | | 184.3 | 192.0 | 99.0 | 92.5 | 95.1 |
| Cash | | 46.0 | 45.2 | 30.9 | 76.3 | 69.7 |
| **Current liabilities** | | **333.4** | **371.9** | **215.9** | **186.0** | **209.9** |
| Short-term debt | | 0.0 | 15.1 | 3.3 | 15.2 | 11.4 |
| Accounts Payable | | 273.1 | 286.3 | 143.9 | 130.8 | 147.9 |
| **Long-term liabilities** | | **94.2** | **57.1** | **107.2** | **101.1** | **74.5** |
| Long-term debt | | 0.0 | 21.1 | 0.0 | 0.0 | 0.0 |
| **Shareholders funds** | | **504.1** | **511.1** | **703.6** | **1,030.4** | **768.1** |
| Share capital | | 333.2 | 333.2 | 317.1 | 371.3 | 371.3 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **1,047.5** | **1,073.3** | **838.9** | **507.7** | **495.9** |
| **Total operating expenses o/w** | | **1,008.5** | **1,087.5** | **835.5** | **480.9** | **506.2** |
| Other material costs | | 720.9 | 762.8 | 521.8 | 141.2 | 138.4 |
| *% of total opex* | *62.5%* | *71.5%* | *70.1%* | *62.5%* | *29.4%* | *27.3%* |
| Employees expenses | | 62.0 | 71.2 | 80.5 | 93.7 | 110.6 |
| *% of total opex* | *9.6%* | *6.2%* | *6.5%* | *9.6%* | *19.5%* | *21.8%* |
| D&A | | 57.9 | 70.6 | 77.2 | 52.0 | 90.6 |
| *% of total opex* | *9.2%* | *5.7%* | *6.5%* | *9.2%* | *10.8%* | *17.9%* |
| Other operating expenses | | 132.8 | 157.0 | 149.7 | 155.4 | 145.1 |
| *% of total opex* | *17.9%* | *13.2%* | *14.4%* | *17.9%* | *32.3%* | *28.7%* |
| **EBITDA** | | **113.9** | **87.7** | **97.8** | **92.9** | **111.7** |
| *EBITDA margin* | *11.7%* | *10.9%* | *8.2%* | *11.7%* | *18.3%* | *22.5%* |
| **EBIT** | | **56.0** | **17.1** | **20.6** | **40.9** | **21.1** |
| *EBIT margin* | *4.3%* | *5.3%* | *1.6%* | *2.5%* | *8.1%* | *4.3%* |
| **Net financial result o/w** | | **(3.3)** | **(1.5)** | **(8.0)** | **(9.6)** | **0.1** |
| Interest expenses | | (4.8) | (4.2) | (3.9) | (4.0) | (4.4) |
| **EBT** | | **52.7** | **15.5** | **12.6** | **31.3** | **21.2** |
| *EBT margin* | *4.3%* | *5.0%* | *1.4%* | *1.5%* | *6.2%* | *4.3%* |
| **Net Profit (Loss)** | | **43.2** | **3.8** | **11.2** | **24.2** | **14.0** |
| *Net profit margin* | *2.8%* | *4.1%* | *0.4%* | *1.3%* | *4.8%* | *2.8%* |

# ELECTRICA DISTRIBUTIE TRANSILVANIA SUD

Power distribution

| Shareholding structure | |
|---|---|
| Electrica | 78.00% |
| Property Fund | 22.00% |
| Shares outstanding (m) | 42.40 |

| | |
|---|---|
| Book value | RON 822.4 |
| **AFR value** | **RON 715.3** |
| **Discount** | **-13.0%** |

## Business summary

Electrica Distributie Transilvania Sud is a joint stock company set up in 2002. Power distribution is a monopoly activity and the distribution services tariffs are set by ANRE. Currently, the rate of return on regulated assets is 7%.

In 2009, total power distributed by Electrica Distributie Transilvania Sud amounted to 4,627 GWh (-5% Y/Y), representing a market share of 12%.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, Electrica Distributie Transilvania Sud would be valued at RON 306.8m, implying a discount to the FY'09 book value of 62.7%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 715.3m, implying a discount of 13.0%. Based on the median of peers P/B multiples, the company would be valued at RON 1,332.2m, implying a premium to the reported book value of 62.0%. The median of the values implied by the selected multiples indicates an equity value for Electrica Distributie Transilvania Sud of RON 715.3m and a discount of 13.0% to the FY'09 book value.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 23.2 | X | **13.24** | | 306.8 | | -62.7% |
| EBITDA, LFY | 119.1 | X | **5.69** | 677.2 | 715.3 | | -13.0% |
| Net debt, LFY | -38.1 | | | | | | |
| Book value, LFY | 822.4 | X | **1.62** | | 1,332.2 | | 62.0% |
| | | | **AFR Equity Value** | | **715.3** | **822.4** | **-13.0%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Eletropaulo | ELPL4 | BRA | $3,235m | 5.10 | 2.86 | 1.65 |
| Luz del Sur | LUSURC1 | PER | $1,232m | 12.17 | 7.69 | 3.27 |
| Lenenergo | LSNG | RUS | $1,122m | 14.30 | 5.73 | 0.74 |
| Prazska Energetika | BAAPRENG | CZE | $1,147m | 14.44 | 5.64 | 1.79 |
| Equatorial Energia | EQTL3 | BRA | $748m | 6.02 | 4.26 | 1.06 |
| Horizon Energy | HED | NZL | $64m | 14.39 | 8.20 | 1.59 |
| | | | **Median of peers** | **13.24** | **5.69** | **1.62** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Eletropaulo | 19% | 11% | 17% | 19% | 24% | 22% |
| Luz del Sur | 28% | 24% | 26% | 28% | 31% | 31% |
| Lenenergo | 28% | 25% | -2% | 28% | 28% | 37% |
| Prazska Energetika | 20% | 20% | 22% | 23% | 19% | 18% |
| Equatorial Energia | 11% | 13% | 12% | 11% | 3% | 3% |
| Horizon Energy | 46% | 42% | 45% | 48% | 48% | 46% |
| *Median of peers* | *24%* | *22%* | *19%* | *25%* | *26%* | *26%* |
| **Electrica Distributie Transilvania Sud** | **13%** | **13%** | **8%** | **11%** | **17%** | **22%** |
| **Net profit margin** | | | | | | |
| Eletropaulo | 9% | 2% | 4% | 9% | 13% | 12% |
| Luz del Sur | 14% | 11% | 12% | 14% | 15% | 17% |
| Lenenergo | 9% | -6% | -3% | 10% | 9% | 11% |
| Prazska Energetika | 11% | 10% | 12% | 15% | 11% | 11% |
| Equatorial Energia | 15% | 34% | 15% | 17% | 13% | 8% |
| Horizon Energy | 19% | 19% | 21% | 20% | 17% | 19% |
| *Median of peers* | *13%* | *10%* | *12%* | *14%* | *13%* | *12%* |
| **Electrica Distributie Transilvania Sud** | **4%** | **7%** | **2%** | **3%** | **5%** | **4%** |

**Financial summary**

## Electrica Distributie Transilvania Sud

In 2007, power distribution and supply activities had to be legally separated to comply with EU standards. So, Electrica Transilvania Sud was split in two newly created entities: Electrica Distributie Transilvania Sud and Electrica Furnizare Transilvania Sud. The spin off process was finalised on the 1st of August 2007 and it explains about halved net turnover of the Electrica Distributie Transilvania Sud over 2008-2009 as compared with 2005-2006 period.

The company's main operating expenses accounts are other material costs (own technological consumption) and other operating expenses (mainly third parties expenses for maintenance and repair works), followed by personnel expenses.

In 2009 the net profit margin decreased from 5.1% in 2008 to 4.3% mainly on the back of D&A expenses which increased by RON 32.2 as compared with 2008 and personnel expenses which increased by 16% (Y/Y) wiping out RON 14.0m from the company's 2009 operational profit. However, the end line was helped by cost reductions with other material costs and third parties expenses and higher operating revenues resulted from increased tariffs.

With no long-term debt, the company has no solvency issues. Liquidity ratios slightly deteriorated in 2009.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 7% | 20% | 104% | 7% | 6% | 5% |
| ROE Tot Eqty | 3% | 14% | 3% | 3% | 3% | 3% |
| ROA Tot Assets | 2% | 8% | 2% | 2% | 2% | 2% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.0 | 1.0 | 1.0 | 1.1 | 1.3 | 0.9 |
| Curr Ratio | 1.0 | 1.0 | 1.0 | 1.1 | 1.3 | 0.9 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 98.6 | m | nm | 98.6 | 255.9 | 36.8 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **737.8** | **862.1** | **911.4** | **1,157.5** | **1,288.1** |
| Tangible assets o/w | | 730.6 | 828.5 | 905.0 | 1,145.5 | 1,276.1 |
| Land and buildings | | 452.1 | 547.5 | 598.1 | 752.9 | 815.8 |
| **Current assets** | | **282.5** | **326.6** | **170.5** | **190.9** | **159.5** |
| Accounts Receivable | | 212.9 | 260.0 | 119.8 | 117.0 | 117.8 |
| Cash | | 68.3 | 64.8 | 49.3 | 72.4 | 38.1 |
| **Current liabilities** | | **286.3** | **327.2** | **148.5** | **148.9** | **170.0** |
| Short-term debt | | 0.0 | 10.1 | 0.0 | 0.0 | 0.0 |
| Accounts Payable | | 232.0 | 248.1 | 19.6 | 58.6 | 63.3 |
| **Long-term liabilities** | | **81.8** | **48.2** | **55.1** | **67.8** | **79.5** |
| Long-term debt | | 0.0 | 20.0 | 0.0 | 0.0 | 0.0 |
| **Shareholders funds** | | **565.1** | **616.1** | **814.4** | **1,070.4** | **822.4** |
| Share capital | | 389.5 | 389.7 | 369.8 | 424.0 | 424.0 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **1,141.2** | **1,207.4** | **964.4** | **525.4** | **539.2** |
| **Total operating expenses o/w** | | **1,065.6** | **1,219.8** | **959.1** | **520.7** | **537.8** |
| Other material costs | | 759.3 | 866.8 | 584.0 | 173.6 | 161.2 |
| *% of total opex* | *60.9%* | *71.3%* | *71.1%* | *60.9%* | *33.3%* | *30.0%* |
| Employees expenses | | 60.1 | 69.1 | 77.5 | 87.2 | 101.2 |
| *% of total opex* | *8.1%* | *5.6%* | *5.7%* | *8.1%* | *16.7%* | *18.8%* |
| D&A | | 44.4 | 59.4 | 73.5 | 57.1 | 89.3 |
| *% of total opex* | *7.7%* | *4.2%* | *4.9%* | *7.7%* | *11.0%* | *16.6%* |
| Other operating expenses | | 146.8 | 167.7 | 191.2 | 169.9 | 161.8 |
| *% of total opex* | *19.9%* | *13.8%* | *13.7%* | *19.9%* | *32.6%* | *30.1%* |
| **EBITDA** | | **143.5** | **94.4** | **109.9** | **91.3** | **119.1** |
| *EBITDA margin* | *12.6%* | *12.6%* | *7.8%* | *11.4%* | *17.4%* | *22.1%* |
| **EBIT** | | **99.1** | **34.9** | **36.4** | **34.2** | **29.8** |
| *EBIT margin* | *5.5%* | *8.7%* | *2.9%* | *3.8%* | *6.5%* | *5.5%* |
| **Net financial result o/w** | | **(1.8)** | **(0.2)** | **(3.3)** | **(3.0)** | **1.6** |
| Interest expenses | | (0.0) | (0.0) | (0.4) | (0.1) | (0.8) |
| **EBT** | | **97.3** | **34.7** | **33.1** | **31.2** | **31.5** |
| *EBT margin* | *5.8%* | *8.5%* | *2.9%* | *3.4%* | *5.9%* | *5.8%* |
| **Net Profit (Loss)** | | **76.9** | **20.9** | **24.5** | **27.0** | **23.2** |
| *Net profit margin* | *4.3%* | *6.7%* | *1.7%* | *2.5%* | *5.1%* | *4.3%* |

# AEROPORTUL INTERNATIONAL OTOPENI

Airports services

| Shareholding structure | |
|---|---|
| Ministry of Transportation | 80.00% |
| Property Fund | 20.00% |
| Shares outstanding (m) | 14.38 |

| | |
|---|---|
| Book value | RON 1,054.8 |
| **AFR value** | **RON 1,835.4** |
| **Premium** | **74.0%** |

## Business summary

In 2010 Aeroportul International Otopeni and Aeroportul International Baneasa merged into a new entity named Compania Nationala Aeroporturi Bucuresti. Fondul Proprietatea holds a 20% equity interest in this new company. Aeroportul International Otopeni is by far the largest and most technically advanced Romanian airport. The airport located 20 km from Bucharest underwent several upgrades over the past years. In 2009, the airport's traffic dropped by 12% Y/Y to 4.48 m passengers.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Otopeni's EBITDA and net profit margins decreased considerably in 2009 as compared with the company's median, on the back of higher third parties expenses (related to the terminals' development and maintenence works) which posted an advance of 41% in 2009. Not to price in only FY'09 company's profitability, we decided to value the company based on a 3Y median EBITDA and net profit to better reflect company's earning power. As regarding the shareholders equity and net debt position of the company, we consider them relevant as per LFY.

Based on the median of peers P/E multiples, Aeroportul International Otopeni would be valued at RON 1,895.9m, implying a premium to the FY'09 book value of 79.7%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 1,470.9m, implying a premium of 39.4%. Based on the median of peers P/B multiples, the company would be valued at RON 1,835.4m, implying a premium of 74%. The median of the values implied by the selected multiples indicates an equity value for Aeroportul International Otopeni of RON 1,835.4m, implying a premium of 74% to the FY'09 book value justified by company's much higher earning power when compared with other international airports.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, 3Y median | 87.1 | X | **21.76** | | 1,895.9 | | 79.7% |
| EBITDA, 3Y median | 156.9 | X | **9.26** | 1,453.3 | 1,470.9 | | 39.4% |
| Net debt, LFY | -17.6 | | | | | | |
| Book value, LFY | 1,054.8 | X | **1.74** | | 1,835.4 | | 74.0% |
| | | | **AFR Equity Value** | | **1,835.4** | **1,054.8** | **74.0%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Aeroports de Paris | ADP | FRA | $8,094m | 22.05 | 9.43 | 1.84 |
| Fraport | FRA | DEU | $6,049m | 29.78 | 10.64 | 1.74 |
| Copenhagen Airports | KBHL | DNK | $2,228m | 19.84 | 9.15 | 3.82 |
| Flughafen Wien | FLU | AUT | $1,375m | 13.76 | 9.26 | 1.27 |
| Aeroporto di Venezia | SAVE | ITA | $535m | 21.76 | 7.34 | 1.46 |
| | | | **Median of peers** | **21.76** | **9.26** | **1.74** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| EBITDA margin | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Aeroports de Paris | 32% | 32% | 28% | 30% | 33% | 33% |
| Fraport | 25% | 25% | 25% | 23% | 26% | 24% |
| Copenhagen Airports | 52% | 49% | 54% | 61% | 52% | 52% |
| Flughafen Wien | 35% | 35% | 35% | 35% | 35% | 31% |
| Aeroporto di Venezia | 16% | 26% | 22% | 15% | 16% | 15% |
| *Median of peers* | *32%* | *32%* | *28%* | *30%* | *33%* | *31%* |
| **Aeroportul International Otopeni** | **53%** | **53%** | **61%** | **61%** | **53%** | **45%** |
| **Net profit margin** | | | | | | |
| Aeroports de Paris | 10% | 9% | 7% | 14% | 11% | 10% |
| Fraport | 9% | 8% | 10% | 9% | 9% | 7% |
| Copenhagen Airports | 24% | 24% | 25% | 38% | 24% | 21% |
| Flughafen Wien | 16% | 17% | 16% | 16% | 16% | 14% |
| Aeroporto di Venezia | 6% | 7% | 6% | 17% | 4% | 5% |
| *Median of peers* | *10%* | *9%* | *10%* | *16%* | *11%* | *10%* |
| **Aeroportul International Otopeni** | **33%** | **24%** | **37%** | **33%** | **35%** | **20%** |

**Financial summary**

# Aeroportul International Otopeni

In 2009, company's net turnover increased by 3% Y/Y to RON 304.5m, despite airport's traffic drop by 12% Y/Y to 4.5 m passengers. However the operational profit lost 27% Y/Y landing at RON 57.8m due to third parties expenses of RON 104.9m (+40.7% Y/Y). Interest income of RON 10m, helped the end line but could not recoup the EBIT decline. As such, 2009 net profit ended at RON 59.5m (-42.3% Y/Y), implying a net profit margin of 19.5%, down from 34.8% in 2008.

The company has no solvency or liquidity issues as there is no long term debt and the current ratios hover around 2.2x.

Company's investment plan of € 150m targets increasing terminals capacity to 6m passengers by 2012.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 42% | 13% | 57% | 34% | 66% | 42% |
| ROE Tot Eqty | 8% | 6% | 11% | 8% | 9% | 6% |
| ROA Tot Assets | 5% | 3% | 5% | 5% | 6% | 4% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.4 | 1.3 | 1.4 | 2.6 | 1.1 | 2.6 |
| Curr Ratio | 2.2 | 2.0 | 2.2 | 3.3 | 1.2 | 3.0 |
| LT Debt/Tot Eqty | 0.1 | 0.3 | 0.2 | 0.1 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| EBIT/Int expense | 348.3 | 441.8 | nm | nm | nm | 254.9 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **1,362.4** | **1,377.7** | **1,457.7** | **1,501.7** | **1,575.6** |
| Tangible assets o/w | | 999.8 | 1,016.9 | 1,095.6 | 1,104.7 | 1,177.9 |
| Land and buildings | | 527.3 | 612.6 | 789.5 | 745.7 | 819.5 |
| **Current assets** | | **121.9** | **148.6** | **197.7** | **168.7** | **118.6** |
| Accounts Receivable | | 41.0 | 31.7 | 41.6 | 56.4 | 71.2 |
| Cash | | 37.4 | 62.3 | 111.5 | 90.4 | 30.3 |
| **Current liabilities** | | **60.5** | **67.5** | **59.4** | **139.1** | **39.2** |
| Short-term debt | | 42.3 | 46.8 | 33.7 | 116.5 | 12.7 |
| Accounts Payable | | 13.4 | 17.2 | 15.7 | 12.4 | 16.6 |
| **Long-term liabilities** | | **521.3** | **477.9** | **454.5** | **350.1** | **338.2** |
| Long-term debt | | 182.9 | 139.6 | 116.3 | 12.0 | 0.0 |
| **Shareholders funds** | | **666.6** | **734.3** | **1,126.6** | **1,164.6** | **1,054.8** |
| Share capital | | 143.2 | 143.2 | 143.2 | 143.2 | 143.2 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **182.1** | **217.5** | **261.4** | **296.5** | **304.5** |
| **Total operating expenses o/w** | | **176.5** | **165.8** | **177.2** | **240.0** | **270.8** |
| Raw materials expenses | | 5.7 | 5.6 | 3.4 | 4.6 | 5.6 |
| *% of total opex* | *2.1%* | *3.2%* | *3.4%* | *1.9%* | *1.9%* | *2.1%* |
| Employees expenses | | 23.4 | 27.9 | 36.5 | 47.6 | 51.0 |
| *% of total opex* | *18.8%* | *13.3%* | *16.8%* | *20.6%* | *19.8%* | *18.8%* |
| D&A | | 67.6 | 61.7 | 55.4 | 78.0 | 79.9 |
| *% of total opex* | *32.5%* | *38.3%* | *37.2%* | *31.2%* | *32.5%* | *29.5%* |
| Other operating expenses | | 54.6 | 56.6 | 64.4 | 85.3 | 117.8 |
| *% of total opex* | *35.5%* | *30.9%* | *34.1%* | *36.3%* | *35.5%* | *43.5%* |
| **EBITDA** | | **95.9** | **132.6** | **160.3** | **156.9** | **137.7** |
| *EBITDA margin* | *52.9%* | *52.7%* | *61.0%* | *61.3%* | *52.9%* | *45.2%* |
| **EBIT** | | **28.3** | **70.9** | **104.9** | **78.9** | **57.8** |
| *EBIT margin* | *26.6%* | *15.6%* | *32.6%* | *40.1%* | *26.6%* | *19.0%* |
| **Net financial result o/w** | | **14.6** | **8.6** | **(3.6)** | **38.3** | **13.8** |
| Interest expenses | | (0.1) | 0.0 | 0.0 | 0.0 | (0.2) |
| **EBT** | | **42.9** | **79.5** | **101.3** | **117.3** | **71.6** |
| *EBT margin* | *36.6%* | *23.6%* | *36.6%* | *38.8%* | *39.6%* | *23.5%* |
| **Net Profit (Loss)** | | **42.9** | **79.5** | **87.1** | **103.1** | **59.5** |
| *Net profit margin* | *33.3%* | *23.6%* | *36.6%* | *33.3%* | *34.8%* | *19.5%* |

# AEROPORTUL INTERNATIONAL BANEASA

Airports services

| Shareholding structure | |
|---|---|
| Ministry of Transportation | 80.00% |
| Property Fund | 20.00% |
| Shares outstanding (m) | 14.38 |

| | |
|---|---|
| Book value | RON 3,973.2 |
| **AFR value** | **RON 374.6** |
| **Discount** | **-90.6%** |

## Business summary

In 2010, Aeroportul International Baneasa and Aeroportul International Otopeni merged into a new entity named Compania Nationala Aeroporturi Bucuresti. Fondul Proprietatea holds a 20% equity interest in this new company. Aeroportul International Baneasa is the smaller airport of Bucharest and handles mostly low-cost flights. In 2009, the airport's traffic increased by 11% Y/Y to 2 m passengers. However, the main building/terminal built in early 50's can hardly cope with a higher level of traffic.

## Valuation methodology and considerations

We valued the company using the relative valuation method. We do not imply an equity value based on book value multiples as, according to the Fund, the company's land is overvalued.

Based on the median of peers P/E multiples, Aeroportul International Baneasa would be valued at RON 317.6m, implying a discount to the FY'09 book value of 92.0%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 431.7m, implying a discount of 89.1%. The median of the values implied by the selected multiples indicates an equity value for Aeroportul International Baneasa of RON 374.6m, implying a discount of 90.6% to the FY'09 book value.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 14.6 | X | **21.76** | | 317.6 | | -92.0% |
| EBITDA, LFY | 43.1 | X | **9.26** | 398.8 | 431.7 | | -89.1% |
| Net debt, LFY | -32.9 | | | | | | |
| | | | **AFR Equity Value** | | **374.6** | **3,973.2** | **-90.6%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Aeroports de Paris | ADP | FRA | $8,094m | 22.05 | 9.43 | 1.84 |
| Fraport | FRA | DEU | $6,049m | 29.78 | 10.64 | 1.74 |
| Copenhagen Airports | KBHL | DNK | $2,228m | 19.84 | 9.15 | 3.82 |
| Flughafen Wien | FLU | AUT | $1,375m | 13.76 | 9.26 | 1.27 |
| Aeroporto di Venezia | SAVE | ITA | $535m | 21.76 | 7.34 | 1.46 |
| | | | **Median of peers** | **21.76** | **9.26** | **1.74** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Aeroports de Paris | 32% | 32% | 28% | 30% | 33% | 33% |
| Fraport | 25% | 25% | 25% | 23% | 26% | 24% |
| Copenhagen Airports | 52% | 49% | 54% | 61% | 52% | 52% |
| Flughafen Wien | 35% | 35% | 35% | 35% | 35% | 31% |
| Aeroporto di Venezia | 16% | 26% | 22% | 15% | 16% | 15% |
| *Median of peers* | *32%* | *32%* | *28%* | *30%* | *33%* | *31%* |
| **Aeroportul International Baneasa** | **50%** | **na** | **22%** | **52%** | **60%** | **47%** |
| **Net profit margin** | | | | | | |
| Aeroports de Paris | 10% | 9% | 7% | 14% | 11% | 10% |
| Fraport | 9% | 8% | 10% | 9% | 9% | 7% |
| Copenhagen Airports | 24% | 24% | 25% | 38% | 24% | 21% |
| Flughafen Wien | 16% | 17% | 16% | 16% | 16% | 14% |
| Aeroporto di Venezia | 6% | 7% | 6% | 17% | 4% | 5% |
| *Median of peers* | *10%* | *9%* | *10%* | *16%* | *11%* | *10%* |
| **Aeroportul International Baneasa** | **1%** | **na** | **2%** | **-32%** | **0%** | **16%** |

**Financial summary**

# Aeroportul International Baneasa

In 2009, company's net turnover increased by 48% Y/Y to RON 91.2m, helped by a traffic inrease of 11% Y/Y to 2 m passengers. However the operational profit added only 8% Y/Y landing at RON 24.7m inly on the back of higher adjustments for provisions expenses which increased from RON 0.8m in 2008, to RON 20m in 2009. The net profit ended at RON 14.6m from a loss of RON 0.1m in 2008, implying a net profit margin of 16%.

The company has no solvency or liquidity issues as there is no long term debt and the current ratios hover around 1.2x.

Company's fixed assets huge value (RON 5,918m) when compared with company's sales and earning power is explained by the value of the land owned by the airport. Aeroportul International Baeasa is located on the outskirts of northern Bucharest, a very coveted area during the real estate boom. During the boom the land was revalued trigerring a a significant increase in company's fixed assets value (from RON 1,922m in 2008 to RON 5.919m in 2008). The airport's fancy location implies also that a significant expansion of the company within the area is less probable. Nevertheless, the main building/terminal built in early 50’s can hardly cope with a higher level of traffic.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 41% | na | 94% | nm | -12% | nm |
| ROE Tot Eqty | 0% | na | 1% | -30% | 0% | 0% |
| ROA Tot Assets | 0% | na | 0% | -1% | 0% | 0% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.2 | na | 1.2 | 0.8 | 1.2 | 1.4 |
| Curr Ratio | 1.2 | na | 1.2 | 0.8 | 1.2 | 1.4 |
| LT Debt/Tot Eqty | 0.0 | na | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | na | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 1.1 | na | 1.2 | 0.9 | nm | nm |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **na** | **113.6** | **1,922.0** | **5,919.4** | **5,918.1** |
| Tangible assets o/w | | na | 77.8 | 253.9 | 4,251.0 | 4,249.4 |
| Land and buildings | | na | 0.0 | 0.0 | 4,185.4 | 4,202.4 |
| **Current assets** | | **na** | **13.2** | **22.9** | **48.7** | **47.8** |
| Accounts Receivable | | na | 8.3 | 19.4 | 39.4 | 14.9 |
| Cash | | na | 2.5 | 3.1 | 8.9 | 32.9 |
| **Current liabilities** | | **na** | **10.6** | **27.7** | **41.7** | **34.5** |
| Short-term debt | | na | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounts Payable | | na | 0.0 | 0.0 | 38.2 | 32.4 |
| **Long-term liabilities** | | **na** | **18.0** | **1,725.5** | **1,785.2** | **1,759.4** |
| Long-term debt | | na | 0.0 | 0.0 | 0.0 | 0.0 |
| **Shareholders funds** | | **na** | **47.7** | **36.6** | **4,139.5** | **3,973.2** |
| Share capital | | na | 0.6 | 0.6 | 0.6 | 0.6 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **na** | **23.4** | **34.2** | **61.8** | **91.2** |
| **Total operating expenses o/w** | | **na** | **20.1** | **23.5** | **54.2** | **79.2** |
| Raw materials expenses | | na | 1.8 | 1.1 | 1.6 | 2.9 |
| *% of total opex* | *4.2%* | | *9.0%* | *4.8%* | *3.0%* | *3.6%* |
| Employees expenses | | na | 4.3 | 5.5 | 7.8 | 9.3 |
| *% of total opex* | *17.9%* | | *21.4%* | *23.6%* | *14.4%* | *11.7%* |
| D&A | | na | 1.2 | 1.7 | 14.3 | 18.4 |
| *% of total opex* | *15.1%* | | *5.8%* | *7.1%* | *26.3%* | *23.2%* |
| Other operating expenses | | na | 8.3 | 13.3 | 26.4 | 15.2 |
| *% of total opex* | *45.1%* | | *41.6%* | *56.7%* | *48.7%* | *19.2%* |
| **EBITDA** | | **na** | **5.2** | **17.8** | **37.1** | **43.1** |
| *EBITDA margin* | *49.6%* | | *22.1%* | *51.9%* | *60.1%* | *47.2%* |
| **EBIT** | | **na** | **4.0** | **16.1** | **22.8** | **24.7** |
| *EBIT margin* | *32.0%* | | *17.1%* | *47.0%* | *36.9%* | *27.1%* |
| **Net financial result o/w** | | **na** | **(3.3)** | **(26.9)** | **(22.9)** | **(4.4)** |
| Interest expenses | | na | (3.4) | (17.2) | (0.0) | (0.0) |
| **EBT** | | **na** | **0.7** | **-10.8** | **-0.1** | **20.3** |
| *EBT margin* | *1.4%* | | *3.0%* | *-31.6%* | *-0.1%* | *22.3%* |
| **Net Profit (Loss)** | | **na** | **0.5** | **-10.8** | **-0.1** | **14.6** |
| *Net profit margin* | *1.1%* | | *2.3%* | *-31.6%* | *-0.1%* | *16.0%* |

# ADMINISTRATIA PORTURILOR MARITIME CONSTANTA

Ancillary services for water transportation

| Shareholding structure | |
|---|---|
| Ministry of Transportation | 60.00% |
| Property Fund | 20.00% |
| Constanta City Council | 20.00% |
| Shares outstanding (m) | 6.85 |

| | |
|---|---|
| Book value | RON 302.3 |
| **AFR value** | **RON 491.2** |
| **Premium** | **62.5%** |

## Business summary

Administratia Porturilor Constanta is the harbour authority for four ports on the Black Sea seaside, out of which, the port of Constanta is among the top ten European ports. Constanta Port is connected with two Pan-European corridors: Corridor VII Danube and Corridor IV and has an annual handling capacity of 100m tonnes. In 2009, the volumes handled by Constanta Port decreased to 42m tonnes (-32% Y/Y).

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, Administratia Porturilor Constanta would be valued at RON 155.5m, implying a discount to FY'09 book value of 48.6%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 591.2m, implying a premium of 67.5%. Based on the median of peers P/B multiples, the company would be valued at RON 544.2m, implying a premium of 80%. The median of the values implied by the selected multiples indicates an equity value for Administratia Porturilor Maritime Constanta of RON 491.2m, implying a premium of 62.5% to the FY'09 book value.

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 12.4 | X | **12.57** | | 155.5 | | -48.6% |
| EBITDA, LFY | 57.7 | X | **9.46** | 545.9 | 491.2 | | 62.5% |
| Net debt, LFY | 54.7 | | | | | | |
| Book value, LFY | 302.3 | X | **1.80** | | 544.2 | | 80.0% |
| | | | **AFR Equity Value** | | **491.2** | **302.3** | **62.5%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Forth Ports | FPT | GBR | $978m | 23.19 | 13.13 | 2.67 |
| Canal Shipping Agencies | CSAG | EGY | $249m | 28.16 | - | 3.88 |
| Braemar Shipping | BMS | GBR | $170m | 10.69 | 5.79 | 1.80 |
| Hellenic Carriers | HCL | GRC | $56m | 3.07 | 2.93 | 0.55 |
| Egyptian Transport | ETRS | EGY | $35m | 12.57 | 20.10 | 1.78 |
| | | **Median of peers** | | **12.57** | **9.46** | **1.80** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| EBITDA margin | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Forth Ports | 34% | 49% | 32% | 34% | -3% | 34% |
| Canal Shipping Agencies | -21% | -84% | -36% | -16% | -21% | -9% |
| Braemar Shipping | 14% | 15% | 14% | 15% | 14% | 13% |
| Hellenic Carriers | 67% | 72% | 64% | 76% | 58% | 67% |
| Egyptian Transport | 6% | 8% | 6% | 6% | 4% | 6% |
| *Median of peers* | *14%* | *15%* | *14%* | *15%* | *4%* | *13%* |
| **Administratia Porturilor Maritime** | **31%** | **31%** | **38%** | **35%** | **28%** | **28%** |
| **Net profit margin** | | | | | | |
| Forth Ports | 15% | 29% | 27% | 15% | -26% | 15% |
| Canal Shipping Agencies | 95% | 145% | 97% | 92% | 95% | 91% |
| Braemar Shipping | 9% | 10% | 9% | 10% | 9% | 8% |
| Hellenic Carriers | 37% | 53% | 35% | 59% | 37% | 31% |
| Egyptian Transport | 4% | 3% | -1% | 4% | 6% | 6% |
| *Median of peers* | *15%* | *29%* | *27%* | *15%* | *9%* | *15%* |
| **Administratia Porturilor Maritime** | **8%** | **11%** | **19%** | **8%** | **5%** | **6%** |

Financial summary

## Administratia Porturilor Maritime Constanta

In 2009, company's net turnover increased by 5% Y/Y to RON 209.8m. The operational profit declined to RON 23.7m (-16%Y/Y) and the net profit landed at RON 12.4m (+3% Y/Y).

However the operational profit lost 27% Y/Y landing at RON 57.8m due to third parties expenses of RON 104.9m (+40.7% Y/Y). Interest income of RON 10m, helped the end line but could not recoup the EBIT decline. As such, 2009 net profit ended at RON 59.5m (-42.3% Y/Y), implying a net profit margin of 19.5%, down from 34.8% in 2008.

The company has no solvency or liquidity issues as the interest coverage is higher than 5x and the current ratios hover around 4x.

Company's investment plan of € 150m targets increasing terminals capacity to 6m passengers by 2012.

Financials

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 9% | 28% | 27% | 9% | 8% | 9% |
| ROE Tot Eqty | 5% | 9% | 12% | 5% | 4% | 4% |
| ROA Tot Assets | 1% | 0% | 4% | 1% | 1% | 1% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 5.6 | 10.6 | 7.0 | 5.6 | 4.9 | 4.2 |
| Curr Ratio | 5.7 | 10.7 | 7.0 | 5.7 | 4.9 | 4.2 |
| LT Debt/Tot Eqty | 0.2 | 0.0 | 0.2 | 0.3 | 0.3 | 0.2 |
| LT Debt/Tot Assets | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| EBIT/Int expense | 5.4 | 6.8 | 9.5 | 5.3 | 4.1 | 5.4 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **8,298.4** | **529.5** | **579.4** | **573.7** | **579.9** |
| Tangible assets o/w | | 487.9 | 527.0 | 577.4 | 572.8 | 579.2 |
| Land and buildings | | 292.5 | 317.8 | 299.9 | 384.6 | 416.9 |
| **Current assets** | | **400.4** | **355.7** | **344.0** | **410.6** | **339.0** |
| Accounts Receivable | | 365.3 | 303.8 | 303.8 | 380.8 | 302.4 |
| Cash | | 31.5 | 48.3 | 36.3 | 27.4 | 34.6 |
| **Current liabilities** | | **37.3** | **50.6** | **60.6** | **83.2** | **80.5** |
| Short-term debt | | 0.0 | 9.1 | 19.3 | 21.3 | 19.2 |
| Accounts Payable | | 11.3 | 13.4 | 13.6 | 8.1 | 18.0 |
| **Long-term liabilities** | | **8,202.3** | **317.3** | **348.0** | **423.9** | **383.2** |
| Long-term debt | | 0.0 | 53.2 | 89.8 | 81.0 | 70.1 |
| **Shareholders funds** | | **213.6** | **263.2** | **273.7** | **277.8** | **302.3** |
| Share capital | | 68.3 | 68.5 | 68.5 | 68.5 | 68.5 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **165.4** | **172.0** | **177.3** | **220.0** | **209.8** |
| **Total operating expenses o/w** | | **166.8** | **161.1** | **187.2** | **214.6** | **205.9** |
| Energy and water expenses | | 23.1 | 23.5 | 25.1 | 28.3 | 22.7 |
| *% of total opex* | *13.4%* | *13.8%* | *14.6%* | *13.4%* | *13.2%* | *11.0%* |
| Employees expenses | | 31.5 | 36.6 | 43.9 | 59.8 | 57.4 |
| *% of total opex* | *23.5%* | *18.9%* | *22.7%* | *23.5%* | *27.9%* | *27.9%* |
| D&A | | 32.3 | 34.6 | 36.1 | 33.7 | 34.0 |
| *% of total opex* | *19.3%* | *19.4%* | *21.5%* | *19.3%* | *15.7%* | *16.5%* |
| Other operating expenses | | 66.7 | 53.6 | 73.9 | 78.8 | 79.7 |
| *% of total opex* | *38.7%* | *40.0%* | *33.3%* | *39.5%* | *36.7%* | *38.7%* |
| **EBITDA** | | **51.5** | **66.1** | **61.8** | **61.9** | **57.7** |
| *EBITDA margin* | *31.1%* | *31.1%* | *38.4%* | *34.9%* | *28.1%* | *27.5%* |
| **EBIT** | | **19.2** | **31.5** | **25.7** | **28.2** | **23.7** |
| *EBIT margin* | *12.8%* | *11.6%* | *18.3%* | *14.5%* | *12.8%* | *11.3%* |
| **Net financial result o/w** | | **3.9** | **5.8** | **(9.1)** | **(12.8)** | **(8.4)** |
| Interest expenses | | (2.8) | (3.3) | (4.9) | (6.8) | (4.4) |
| **EBT** | | **23.1** | **37.3** | **16.6** | **15.4** | **15.3** |
| *EBT margin* | *9.4%* | *14.0%* | *21.7%* | *9.4%* | *7.0%* | *7.3%* |
| **Net Profit (Loss)** | | **18.9** | **32.4** | **13.5** | **12.1** | **12.4** |
| *Net profit margin* | *7.6%* | *11.5%* | *18.9%* | *7.6%* | *5.5%* | *5.9%* |

# SOCIETATEA NATIONALA A SARII SALROM

Salt extraction

| Shareholding structure | |
|---|---|
| Ministry of Economy | 51.00% |
| Property Fund | 49.00% |
| | |
| Shares outstanding (m) | 4.09 |

| | |
|---|---|
| Book value | RON 160.2 |
| **AFR value** | **RON 188.4** |
| **Premium** | **17.6%** |

## Business summary

Salrom is the sole authorised salt producer in Romania. More than 80% of the salt produced is sold mainly on the domestic market mainly to chemical industry and roads defrosting. About 32% of total company's production is used in winter for roads defrosting. Total Romania's salt reserves are estimated at 400m tonnes and Salrom is entitled to extract salt in 9 locations in 7 counties throughout the country. In exchange for the national license, the company pays annual royalties equal to 2% of
its yearly salt production. In 2009, Salrom sold 1.7m tonnes (-18% Y/Y) on the domestic market. As at the end of 2009, the company recorded As at the end of 2009, the company recorded 1,922 employees.

## Valuation methodology and considerations

We valued the company using the relative valuation method. Based on the median of peers P/E multiples, Salrom would be valued at RON 7.6m, implying a discount to the FY'09 book value of 95.3%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 188.4m, implying a premium of 17.6%. Based on the median of peers P/B multiples, the company would be valued at RON 214.7m, implying a premium of 34.0%. The median of the values implied by the selected multiples indicates an equity value for Salrom of RON 188.4m, implying a premium of 17.6% to the FY'09 book value

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, LFY | 0.4 | X | **17.33** | | 7.6 | | -95.3% |
| EBITDA, LFY | 20.7 | X | **8.86** | 183.0 | 188.4 | | 17.6% |
| Net debt, LFY | -5.4 | | | | | | |
| Book value, LFY | 160.2 | X | **1.34** | | 214.7 | | 34.0% |
| | | | **AFR Equity Value** | | **188.4** | **160.2** | **17.6%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Compass Minerals Int | CMP | USA | $2,800m | 17.33 | 11.17 | 12.49 |
| Ridley Corporation | RIC | AUS | $378m | 13.12 | 8.86 | 1.34 |
| S & B Industrial Minerals | ARBA | GRC | $274m | 82.86 | 5.73 | 0.88 |
| | | | **Median of peers** | **17.33** | **8.86** | **1.34** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Compass Minerals Int | 25% | 25% | 24% | 21% | 27% | 33% |
| Ridley Corporation | 5% | 6% | 5% | 3% | 4% | 7% |
| S & B Industrial Minerals | 15% | 15% | 17% | 16% | 15% | 12% |
| *Median of peers* | *15%* | *15%* | *17%* | *16%* | *15%* | *12%* |
| **Societatea Nationala a Sarii Salrom** | **9%** | **7%** | **9%** | **9%** | **7%** | **11%** |
| **Net profit margin** | | | | | | |
| Compass Minerals Int | 9% | 4% | 8% | 9% | 13% | 17% |
| Ridley Corporation | 2% | 2% | 2% | 0% | 2% | 4% |
| S & B Industrial Minerals | 5% | 6% | 5% | 5% | 3% | 1% |
| *Median of peers* | *5%* | *4%* | *5%* | *5%* | *3%* | *4%* |
| **Societatea Nationala a Sarii Salrom** | **0%** | **0%** | **2%** | **0%** | **1%** | **0%** |

**Financial summary**

# Sociatatea Nationala a Sarii Salrom

In 2009, company's net turnover increased by 3% Y/Y to RON 188.4m, while sold production decreased by 20% Y/Y mainly due to the chemical industry's salt demand fall (-24% Y/Y)

Company's greatest expense account is represented by employees costs which in 2009 stood at RON 80.6m, flat as compared with 2008.

Company's 5Ys median operational profit stood at RON 2.5m, while the 5Ys median net profit hovers around RON 0.5m.

With no debt, the company has no solvency issues, while the liquidity ratios look improving to 2x.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 1% | 1% | 7% | 1% | 3% | 1% |
| ROE Tot Eqty | 0% | 0% | 2% | 0% | 1% | 0% |
| ROA Tot Assets | 0% | 0% | 2% | 0% | 1% | 0% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.7 | 1.4 | 1.9 | 1.7 | 1.5 | 1.8 |
| Curr Ratio | 2.1 | 1.8 | 2.5 | 2.3 | 1.8 | 2.1 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 27.1 | 7.1 | 70.8 | 191.0 | 27.1 | 18.3 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **95.3** | **131.5** | **131.5** | **131.8** | **124.7** |
| Tangible assets o/w | | 88.8 | 129.9 | 130.2 | 130.7 | 123.1 |
| Land and buildings | | 58.8 | 98.0 | 98.7 | 98.1 | 95.0 |
| **Current assets** | | **32.9** | **41.7** | **41.3** | **56.4** | **70.4** |
| Accounts Receivable | | 18.5 | 15.1 | 24.7 | 41.1 | 55.9 |
| Cash | | 5.6 | 15.9 | 4.8 | 5.1 | 5.4 |
| **Current liabilities** | | **17.8** | **16.4** | **17.7** | **31.1** | **34.3** |
| Short-term debt | | 0.0 | 0.0 | 0.0 | 0.6 | 0.0 |
| Accounts Payable | | 6.8 | 7.8 | 8.4 | 17.5 | 17.7 |
| **Long-term liabilities** | | **0.0** | **0.2** | **0.2** | **0.1** | **0.5** |
| Long-term debt | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Shareholders funds** | | **109.8** | **155.8** | **155.2** | **156.2** | **160.2** |
| Share capital | | 40.9 | 40.9 | 40.9 | 40.9 | 40.9 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **146.0** | **153.2** | **143.3** | **183.6** | **188.4** |
| **Total operating expenses o/w** | | **166.5** | **167.4** | **166.5** | **206.4** | **212.9** |
| Raw materials expenses | | 29.4 | 31.5 | 27.4 | 34.5 | 34.2 |
| *% of total opex* | *16.7%* | *17.7%* | *18.8%* | *16.5%* | *16.7%* | *16.1%* |
| Employees expenses | | 58.0 | 63.3 | 65.1 | 80.6 | 80.6 |
| *% of total opex* | *37.8%* | *34.8%* | *37.8%* | *39.1%* | *39.1%* | *37.8%* |
| D&A | | 8.1 | 8.3 | 11.0 | 11.0 | 17.3 |
| *% of total opex* | *5.3%* | *4.9%* | *5.0%* | *6.6%* | *5.3%* | *8.1%* |
| Other operating expenses | | 49.1 | 47.4 | 46.0 | 59.3 | 58.7 |
| *% of total opex* | *28.3%* | *29.5%* | *28.3%* | *27.6%* | *28.7%* | *27.6%* |
| **EBITDA** | | **9.5** | **13.8** | **12.6** | **13.4** | **20.7** |
| *EBITDA margin* | *8.8%* | *6.5%* | *9.0%* | *8.8%* | *7.3%* | *11.0%* |
| **EBIT** | | **1.4** | **5.5** | **1.5** | **2.5** | **3.4** |
| *EBIT margin* | *1.3%* | *1.0%* | *3.6%* | *1.1%* | *1.3%* | *1.8%* |
| **Net financial result o/w** | | **(0.7)** | **(1.2)** | **(0.4)** | **(0.6)** | **(0.8)** |
| Interest expenses | | (0.2) | (0.1) | (0.0) | (0.1) | (0.2) |
| **EBT** | | **0.8** | **4.2** | **1.1** | **1.9** | **2.6** |
| *EBT margin* | *1.0%* | *0.5%* | *2.8%* | *0.8%* | *1.0%* | *1.4%* |
| **Net Profit (Loss)** | | **0.3** | **2.8** | **0.5** | **1.1** | **0.4** |
| *Net profit margin* | *0.4%* | *0.2%* | *1.9%* | *0.4%* | *0.6%* | *0.2%* |

# POSTA ROMANA

Postal services

| Shareholding structure | |
|---|---|
| Ministry of Communication | 75.00% |
| Property Fund | 25.00% |
| | |
| Shares outstanding (m) | 58.37 |

| | |
|---|---|
| Book value | RON 678.0 |
| **AFR value** | **RON 218.5** |
| **Discount** | **-67.8%** |

## Business summary

Posta Romana is the national postal services operator and the country's largest employer (35,520 employees in 2009). Posta Romana covers the whole country through a network of around 6,900 postal offices, out of which 6,000 located in rural area. The company's market share for services rendered in 2009 stood at: 80.1% for domestic mail services, 53.5% for international mail services; 49% for cash collection services and 14.2% fro domestic postal packages services. On the sector of mail delivery with weight of up to 50g, Posta Romana is a monopoly (reserved services).

## Valuation methodology and considerations

We valued the company using the relative valuation method. Posta Romana's 2009 EBITDA and net profit margins decreased considerably in 2009 as compared with the company's median, on the back of higher third parties expenses (related to development and maintenence works) which posted an advance of 27% in 2009. Not to price in only FY'09 company's profitability, we decided to value the company based on a 3Y median EBITDA and net profit to better reflect company's earning power. As regarding the shareholders equity and net debt position of the company, we consider them relevant as per LFY.

Based on the median of peers P/E multiples, Posta Romana would be valued at RON 0.8m, implying a discount to the FY'09 book value of 99.9%. Based on the median of peers EV/EBITDA multiples, the company would be valued at RON 218.5m, implying a discount of 67.8%. Based on the median of peers P/B multiples, the company would be valued at RON 2,013.6m, implying a premium of 197.0%. The median of the values implied by the selected multiples indicates an equity value for Posta Romana of RON 218.5m, implying a discount of 67.8% to the FY'09 book value

**Relative Valuation**

| (RONm) | Company data | | Multiples | Implied EV | Implied Equity Value | Book Value | Premium/ Discount |
|---|---|---|---|---|---|---|---|
| Net profit, 3Ys median | 0.0 | X | **23.03** | | 0.8 | | -99.9% |
| EBITDA, 3 Ys median | 11.0 | X | **8.10** | 89.4 | 218.5 | | -67.8% |
| Net debt, LFY | -129.1 | | | | | | |
| Book value, LFY | 678.0 | X | **2.97** | | 2,013.6 | | 197.0% |
| | | | | **AFR Equity Value** | **218.5** | **678.0** | **-67.8%** |

| Peers, LFY | Ticker | Country | Mkt cap | P/E | EV/EBITDA | P/B |
|---|---|---|---|---|---|---|
| Deutsche Post | DPW | DEU | $22,329m | 77.36 | 7.82 | 2.01 |
| TNT | TNT | NLD | $10,288m | 26.38 | 8.38 | 3.61 |
| Oesterreichische Post | POST | AUT | $2,138m | 19.68 | 5.33 | 2.33 |
| Singapore Post | S08 | SGP | $1,782m | 13.90 | 10.27 | 7.83 |
| | | | **Median of peers** | **23.03** | **8.10** | **2.97** |

*Source: Reuters Knowledge*

## Industry profitability comparison

| **EBITDA margin** | **5Y median** | **2005** | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|---|---|
| Deutsche Post | 8% | 12% | 9% | 8% | 2% | 3% |
| TNT | 14% | 16% | 16% | 14% | 12% | 9% |
| Oesterreichische Post | 12% | 13% | 13% | 11% | 12% | 10% |
| Singapore Post | 44% | 44% | 45% | 43% | 42% | 44% |
| *Median of peers* | *13%* | *14%* | *14%* | *12%* | *12%* | *10%* |
| **Posta Romana** | **4%** | **9%** | **6%** | **4%** | **1%** | **-11%** |
| **Net profit margin** | | | | | | |
| Deutsche Post | 1% | 5% | 3% | 1% | -2% | 0% |
| TNT | 7% | 8% | 8% | 7% | 5% | 3% |
| Oesterreichische Post | 5% | 5% | 6% | 5% | 5% | 3% |
| Singapore Post | 31% | 30% | 32% | 32% | 31% | 31% |
| *Median of peers* | *6%* | *7%* | *7%* | *6%* | *5%* | *3%* |
| **Posta Romana** | **2%** | **4%** | **4%** | **2%** | **0%** | **-13%** |

**Financial summary**

# Posta Romana

In 2009, company's net turnover increased by 3% Y/Y to RON 1,435.7m. Ministry of Labour is the company's main client with 33.6% of its total net turnover as at the end of 2009.

In 2009 the company posted an operational loss of RON 211.1m mainly on the back of higher third parties expenses which advanced 27% Y/Y to RON 507.2m. However, with a headcount of over 35,000, Posta Romana is in a strong need of a restructuring. In 2009, the company's employees expenses reached RON 918.1m (+6.9% Y/Y) representing 55% of total operating costs.

Liquidity ratios deteriorated in 2009 going under 1x mainly explained by an about halved cash account to RON 158.4m . Posta Romana has no long term debt.

**Financials**

| | 5Y median | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| **Management Effectiveness** | | | | | | |
| ROC Tot LT CAP | 43.32% | 49.77% | 54.79% | 43.32% | 0.06% | -311.04% |
| ROE Tot Eqty | 6.28% | 7.61% | 8.06% | 6.28% | 0.00% | -26.78% |
| ROA Tot Assets | 3.20% | 4.64% | 4.83% | 3.20% | 0.00% | -14.70% |
| **Financial Strenght** | | | | | | |
| Quick ratio | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0.6 |
| Curr Ratio | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 0.7 |
| LT Debt/Tot Eqty | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt/Tot Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT/Int expense | 13.9 | 20.8 | 53.2 | 13.9 | -8.0 | -56.0 |
| **Balance Sheet (RONm)** | | | | | | |
| **Fixed assets** | | **372.5** | **386.1** | **405.9** | **883.7** | **926.6** |
| Tangible assets o/w | | 304.1 | 308.6 | 330.5 | 810.7 | 843.2 |
| Land and buildings | | 261.1 | 244.4 | 301.5 | 755.1 | 741.9 |
| **Current assets** | | **252.8** | **274.5** | **387.5** | **441.5** | **303.8** |
| Accounts Receivable | | 133.9 | 116.7 | 200.8 | 119.0 | 114.0 |
| Cash | | 97.3 | 134.8 | 166.8 | 300.2 | 158.4 |
| **Current liabilities** | | **222.5** | **240.2** | **366.4** | **419.3** | **462.6** |
| Short-term debt | | 0.0 | 0.0 | 19.3 | 38.5 | 29.2 |
| Accounts Payable | | 34.8 | 44.1 | 43.7 | 86.8 | 198.9 |
| **Long-term liabilities** | | **5.1** | **3.1** | **3.6** | **45.2** | **64.4** |
| Long-term debt | | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 |
| **Shareholders funds** | | **381.6** | **396.8** | **406.0** | **853.3** | **678.0** |
| Share capital | | 58.4 | 58.4 | 58.4 | 58.4 | 58.4 |
| **Income statement (RONm)** | | | | | | |
| **Net Turnover** | | **714.1** | **815.0** | **1,043.8** | **1,400.3** | **1,435.7** |
| **Total operating expenses o/w** | | **695.0** | **805.4** | **1,033.3** | **1,427.8** | **1,669.4** |
| Raw materials expenses | | 34.2 | 35.6 | 32.3 | 32.3 | 27.6 |
| *% of total opex* | *3.1%* | *4.9%* | *4.4%* | *3.1%* | *2.3%* | *1.7%* |
| Employees expenses | | 423.0 | 472.9 | 649.1 | 858.7 | 918.1 |
| *% of total opex* | *60.1%* | *60.9%* | *58.7%* | *62.8%* | *60.1%* | *55.0%* |
| D&A | | 24.5 | 23.3 | 18.4 | 22.4 | 47.2 |
| *% of total opex* | *2.8%* | *3.5%* | *2.9%* | *1.8%* | *1.6%* | *2.8%* |
| Other operating expenses | | 150.5 | 220.9 | 295.1 | 494.6 | 614.1 |
| *% of total opex* | *28.6%* | *21.7%* | *27.4%* | *28.6%* | *34.6%* | *36.8%* |
| **EBITDA** | | **64.0** | **49.8** | **40.9** | **11.0** | **-163.7** |
| *EBITDA margin* | *3.9%* | *9.0%* | *6.1%* | *3.9%* | *0.8%* | *-11.4%* |
| **EBIT** | | **39.5** | **26.6** | **22.6** | **-11.3** | **-211.0** |
| *EBIT margin* | *2.2%* | *5.5%* | *3.3%* | *2.2%* | *-0.8%* | *-14.7%* |
| **Net financial result o/w** | | **0.1** | **16.8** | **11.8** | **15.9** | **29.5** |
| Interest expenses | | (1.9) | (0.5) | (1.6) | (1.4) | (3.8) |
| **EBT** | | **39.6** | **43.4** | **34.4** | **4.6** | **-181.5** |
| *EBT margin* | *3.3%* | *5.5%* | *5.3%* | *3.3%* | *0.3%* | *-12.6%* |
| **Net Profit (Loss)** | | **29.0** | **32.0** | **25.5** | **0.0** | **-181.6** |
| *Net profit margin* | *2.4%* | *4.1%* | *3.9%* | *2.4%* | *0.0%* | *-12.6%* |

## DISCLOSURE APPENDIX

**Analyst Certification**
The research analyst(s) undersigned and responsible for the preparation of this report certify (-ies) that a) the views expressed in this report accurately reflect their (his/her) personal views about any and all of the securities or issuers mentioned in this report and b) no part of the analyst's compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this research report. Analysts receive compensation based upon various factors, including the quality of research, productivity, experience, individual reputation, competitive factors and feedback from clients.

**Company specific regulatory disclosures**

**Disclosure checklist for companies mentioned & other price data information**

| Company | BSE | Rating | Price | Price date | Disclosure |
|---|---|---|---|---|---|
| Fondul Proprietatea | FP | n.a. | 0.7987-1.0782 | 24/01/2011 | None |

1. Alpha Finance Romania and/or its affiliate(s) has acted as manager/co-manager/adviser in the underwriting or placement of securities of this company within the past 12 months
2. Alpha Finance Romania and/or its affiliate(s) has received compensation for investment banking services from this company within the past 12 months
3. Alpha Finance Romania makes a market in the securities of this company
4. Alpha Finance Romania and its affiliate(s) owns five percent or more of the total share capital of this company
5. The company and its affiliate(s) owns five percent or more of the total share capital of Alpha Finance Romania and its affiliates
6. Alpha Finance Romania has sent the research report to the company prior to publication for factual verification
7. Following 6, Alpha Finance Romania has changed the contents of the initially sent research report, with respect to: no change
8. Alpha Finance Romania has received compensation from the company for the preparation of this research report

**Major changes vs. previous research reports**

| Date of previous report | Previous vs. current market prices (RON) | Previous vs. current TP (RON) | Previous vs. current Rating |
|---|---|---|---|
| n.a. | n.a. | n.a. | n.a. |

**Rating history for FONDUL PROPRIETATEA**

| Date | Rating | Share Price (RON) | Target Price (RON) |
|---|---|---|---|
| 24/01/2011 | Pre-listing Report | n.a. | 0.7987-1.0782 |

**Regulatory disclosures**
**Alpha Finance Romania (AFR)** is a licensed Romanian brokerage company, a founding member of the Bucharest Stock Exchange and the Romanian Brokers' Association and the correspondent of S&P/IFC for Romania. Alpha Finance Romania has in effect management policies to identify and confront potential conflicts of interest that could arise in the research division of the company and/or its affiliates ("Chinese Walls").

| FUNDAMENTAL RATING | | |
|---|---|---|
| **TRP > 12%** | **12% > TRP > -12%** | **TRP < -12%** |
| **BUY** | **HOLD** | **SELL** |

TRP: Total Return Potential

**General disclaimer**

This report was prepared by Alpha Bank Romania – Equity Research Analyst, Daniela Mandru, on behalf of Alpha Finance Romania.

This report by no means provides investment advice as to any financial instruments contained herein. We aim to express our value judgements as to possible or existing investments, without any existing contractual obligation to our clients. We cannot assume any liability for any investments undertaken by our clients, since these investments will be a product of their own free will. The information contained in this report has been taken from sources, which we deem to be reliable. We do not represent that such information is accurate or complete and it should not be relied upon as such. All opinions and estimates expressed herein constitute our judgement as of this date and are subject to change without notice. Past performance is not indicative of future results. The opinions and recommendations herein do not take into account individual client circumstances, objectives or needs. This report is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments.



**Contacts**

SSIF ALPHA FINANCE ROMANIA SA

Calea Dorobantilor 237 B, Etaj 2, Sector 1, Bucharest 712811, Romania
Tel: +40 21 209 2233; Fax: +40 21 231 5332
www.alphafinance.ro

Email: office@alphafinance.ro

| Alpha Bank Romania Equity Research | Alpha Finance Romania Sales & Trading | Back Office | Internal Control |
|---|---|---|---|
| **Dimitris Hatzisarros** | **Marius Lupu** | **Lucretia Stefanescu** | **Valentina Turcescu** |
| E-mail: dhatzisarros@alphabank.ro | E-mail: m.lupu@alphafinance.ro | E-mail: l.stefanescu@alphafinance.ro | E-mail: v.turcescu@alphafinance.ro |
| Phone: +40 21 455-7375 | Phone: +40 21 455-9350 | Phone: +40 21 455-9358 | Phone: +40 21 455-9352 |
| **Daniela Mandru** | **Cerasela Rus** | | |
| E-mail: dmandru@alphabank.ro | E-mail: c.rus@alphafinance.ro | | |
| Phone: +40 21 455-7373 | Phone: +40 21 455-9359 | | |
| **Mihai Anghelescu** | **Emil Voinea** | | |
| E-mail: manghelescu@alphabank.ro | E-mail: e.voinea@alphafinance.ro | | |
| Phone: +40 21 455-7372 | Phone: +40 21 455-9351 | | |
| **Cosmina Visanescu** | | | |
| E-mail: cvisanescu@alphabank.ro | | | |
| Phone: +40 21 455-7374 | | | |