

**Sector: Financials**

# **Fondul Proprietatea: New KID On The Block**

We are just days ahead of the administrative listing of Fondul Proprietatea. Since 2006, when we first initiated our research on the stock, the fund has passed through many endeavours, each paving the way to the BVB's First Tier.

To make a long story short: 'Unique exposure to the Romanian energy sector, 72.6% upside potential of the trading price; gross dividend yield of 3.3% this year, possible IPOs and SPOs of (un)listed holdings in the fund's portfolio may unlock additional value, not included in our valuation'.

## **Valuation**

We set Fondul Proprietatea's TP at RON 0.86/share, based on a Fair NAV /share of RON 0.77 rolled-forward by one year, which confirms our Outperform recommendation on the stock.

The fund's Fair NAV is based on the SoTP valuation with a conservative approach, while the core value comes from the stakes held in three stocks that we extensively cover: OMV Petrom (29% in fair NAV), Hidroelectrica (19%) and Romgaz (7%).

Compared to the last OTC price, the Fair NAV, discounted by 25%, came in at a premium of 54%, which we expect to narrow post-listing. Early trading, we see high volatility for the stock.

## **Investment risks**

The Government decision to impose some state-owned companies to donate part of their cash increases the political risk of the fund and brings high uncertainty to the value of its holdings, which may lead to re-rating. The regulatory risk and the lower-than-expected economic growth weigh on the NAV valuation.

## **End-Dec NAV -3.6% m/m on lower valuation for some unlisted holdings**

The official end-Dec NAV figure lost 3.6% m/m due to the valuation of some unlisted stocks, now based on fair values from BVs before. The negative RON 683.2m adjustment to CN Aeroporturi Bucuresti (air transportation) explains c.95% of the total decrease of the unlisted stakes.

The ST financial investments rose 4.2% m/m, in line with the positive market trend over the month (BET index +3.4% m/m), still only partially compensating for the loss in the private holdings. Net cash dropped 3.8% m/m to RON 1.26bn (EUR 295m).

## **FY2010 NP -37.5% y/y (un-adjusted), gross divyield 3.3%**

The end-Dec NAV statement disclosed un-audited FY2010 NP of RON 456.3m (EUR 106.1m) against RON 239.2m at the end of Nov, due to the reversal of some RON 220m impairment provisions. The end-year bottom line came in 37.5% y/y lower (FY2009 unadjusted for financial assets divestitures), still 58% higher on an adjusted basis.

In line with the fund's dividend policy, we estimate the 2010 distributable profit to stand at RON 226m, leading to a RON 0.0164 gross DPS (payout ratio of 95%) and a dividend yield of 3.3% (based on the last OTC price).

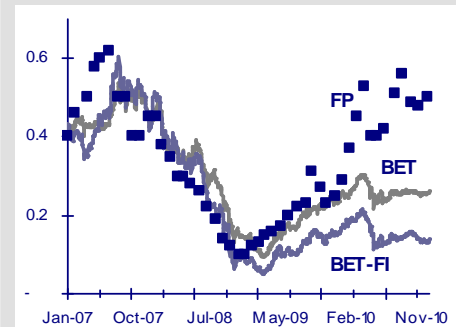
## **UPDATE NOTE**

**Target Price: RON 0.86**

**Recommendation:**

**Outperform**

### **FP trading on OTC vs BET and BET-FI\***



Source: BVB, [www.kmarket.ro](http://www.kmarket.ro) \* re-based

### **Key figures (EUR m)**

Total Portfolio, of which:	3,019
Listed shares, fair value	1,212
Unlisted shares, fair value	1,807
Net Cash 2010	295
Fair NAV	3,313
Fair NAV @ 25% discount	2,485
Fair NAV/sh. (EUR)	0.24
Fair NAV/sh. @ 25% disc. (EUR)	0.18
Fair NAV/sh. (RON)	1.03
Fair NAV/sh. @ 25% disc. (RON)	0.77
<b>12m TP (RON)</b>	<b>0.86</b>
Last OTC price (RON)	0.50
12m OTC price range (RON)	0.2-0.6
Volatility risk	High
Free float	61.1%
Shares outstanding (m)	13,778
Shareholding limit	none
Voting rights	capped

### **Shareholding Structure (end-Dec 2010)**

Ministry of Finance	38.9%
Other shareholders	61.1%

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## INVESTMENT CASE & RISKS

**We maintain the Outperform recommendation on Fondul Proprietatea and set a 12-month TP of RON 0.86 (72.6% upside from the last OTC price).**

Fondul Proprietatea (FP) was set up to enable the Romanian State to satisfy the claims of the former owners whose properties (such as houses, land and forests) were nationalised by the communist regime and whose property rights have not yet been settled in-kind or otherwise. At present, the main shareholder of FP is the Romanian Government with a 38.9% stake while private individuals account for about 42%. The Government meets the value of compensation claims by reallocating shares from its holding to eligible claimants.

The core value of the fund comes from the stakes held in OMV Petrom, Hidroelectrica, Romgaz and Transgaz – companies operating in the oil&gas and electricity sectors.

### **Exposure to strategic state assets – difficult to replicate**

Fondul Proprietatea is the only Romanian company to offer a broad exposure to the domestic energy industry. The main sectors covered by the fund are electricity (49%), oil (32%), gas (13%) and transportation (2%), according to our valuation. The portfolio is much diversified, as it includes companies in production/generation, distribution and supply.

Fondul Proprietatea may prove to be an investment opportunity difficult to replicate otherwise, given the large weight of unlisted holdings (60% of NAV in terms of value), some of them majority owned by the state and of strategic importance.

### **Thin signs of improvement in recent macro data**

The deteriorating sentiment and macro outlook in Romania in 2009 and 2010 put high pressure on the economy and asset quality. Natural gas and electricity consumption saw steep drops over the period, while utility companies were no longer defensive stocks.

The Government tried to alleviate the effects of the economic downturn by freezing tariffs (Transgaz) or interfering with the business of some majority-owned companies (Hidroelectrica, Romgaz, Transelectrica) in order to financially support other companies threatened in terms of survival. All these have translated into lower investments for these companies and higher political risk.

However, statistics at the end of 2010 show some improvement: industrial orders were up 24.9% y/y, jobless rate fell by about 100bps vs 2009, exports went up 26.1% y/y while imports advanced 18.5% y/y (end-Nov data).

The main economic factors that influence the valuation of Fondul Proprietatea are: a) magnitude of domestic growth; b) impact of expansionary fiscal policy and c) resilience of domestic demand.

Even though growth is expected to resume not until the second half of 2011, the economy recovery will inevitably lead to stronger business investments and better metrics for the fund.

Our analysis to assess the sensitivity of the Fair NAV to the GDP growth revealed that a 1.0% additional growth in GDP this year, leads to a 1.2% increase in the fund's NAV.

### **Technical listing on Jan 25 expected to improve liquidity**

It's been five years since we first issued a report on Fondul Proprietatea (Jan 27, 2006) and one and a half year since Franklin Templeton was appointed as the fund's manager. The fund's listing on January 25 is expected to improve market turnover, free-float and capitalisation while the main benefits for the fund are the higher visibility, the better transparency and improved liquidity. Furthermore, we see the opportunity for investors to control risk and combine Fondul Proprietatea shares with other investment targets, like SIFs, building a portfolio that would offer exposure to about 40% of Romania's 2009 GDP and provide diversification benefits. The fact that the fund has no shareholding limit makes this scenario more appealing.

### **Stock market to catch-up with other emerging markets**

We believe the Fondul Proprietatea shares will correlate with the domestic market and move on a positive trend, driven by the domestic stock market run to catch-up with its peers (relative to the historically high trading levels).

In 2010, the composite index advanced 14.3% y/y, slightly exceeding the average y/y growth for the main emerging markets neighbouring Romania. We expect this performance to continue in 2011, hence the high potential for price appreciation for the fund.

**2010e Gross Dividend yield of 3.3%**

The FY 2010 NP figure disclosed in the end-December NAV statement came in at RON 456.3m (EUR 106.1m), 37.5% y/y lower than the FY2009 NP of RON 730.1m – the latter unadjusted for financial assets divestitures. When adjusted for the asset sales, the 2009 bottom line stands at RON 288m.

Management disclosed that the FY 2010 NP was inflated by reversed provisions from assets impairment (which are not explicitly included in the distributable NP, according to the fund's stated dividend policy) so that we estimate FY 2010 NP before provisions to stand roughly at the level recorded on the first 11 months (c. RON 239m).

Consequently, we estimate a RON 0.0164 / share gross dividend to be received this year, at a 95% payout ratio, which leads to a gross dividend yield of 3.3% (based on the last OTC price of RON 0.5/sh).

**Main investment risks**

**Political risk** – significantly high due to the fact that some 40% of the total number of companies in Fondul Proprietatea portfolio are majority held by the state, accounting for 47.7% of Fair NAV. The state may appoint management based on political considerations, which directly affects the performance of the companies involved.

The state's decision to impose some majority-controlled companies to donate certain amounts to the state budget last year creates the precedent of a negative practice that may further apply in the future. This will negatively impact the value of the fund's holdings, hence lower NAV.

**Regulatory risk** – companies in Fondul Proprietatea's portfolio are subject to the rules in their sector. Risk lies in the form of the lower-than-required tariffs and changes in methodology.

**Oil, natural gas and energy prices** – a strong volatility of prices can negatively impact the financial metrics of the main companies in Fondul Proprietatea portfolio. OMV Petrom's hedge strategy and Hidroelectrica's long term contracts offer certain stability at their top lines.

**Low economic growth** – 2011-2012 economic growth may disappoint, which translates into lower volumes in the overall energy sector, hence poor profitability and eroded margins for the fund's holdings. This would negatively affect cash inflows and dividend yield.

**Corporate governance risk** – Some 61% of the fund's holdings are unlisted, of which almost half majority held by the state, which implies poor disclosure and significant corporate governance risk. No access to the financial data of the private holdings may prevent an independent fair valuation of the fund's assets. We expect the fund manager to impose higher standards to companies in portfolio and try to alleviate the negative effects of this risk.

**Two 'giant clouds' on the sky** – The Government's plans to restructure the energy sector and create two large electricity generation companies, Hidroenergetica and Electra, by merging the existing smaller players may significantly impact the fund's holdings involved in this restructuring process. The electricity sector amounts to 49% of FP's portfolio (EFG valuation). Fondul Proprietatea opposed and filed complaints into Court aimed to annul the merger plans. Currently the merger is suspended, hence our decision not to consider it in our valuation.

*For more details regarding the risks related to the investment in the Fondul Proprietatea shares, please refer to the Listing Prospectus.*

## VALUATION

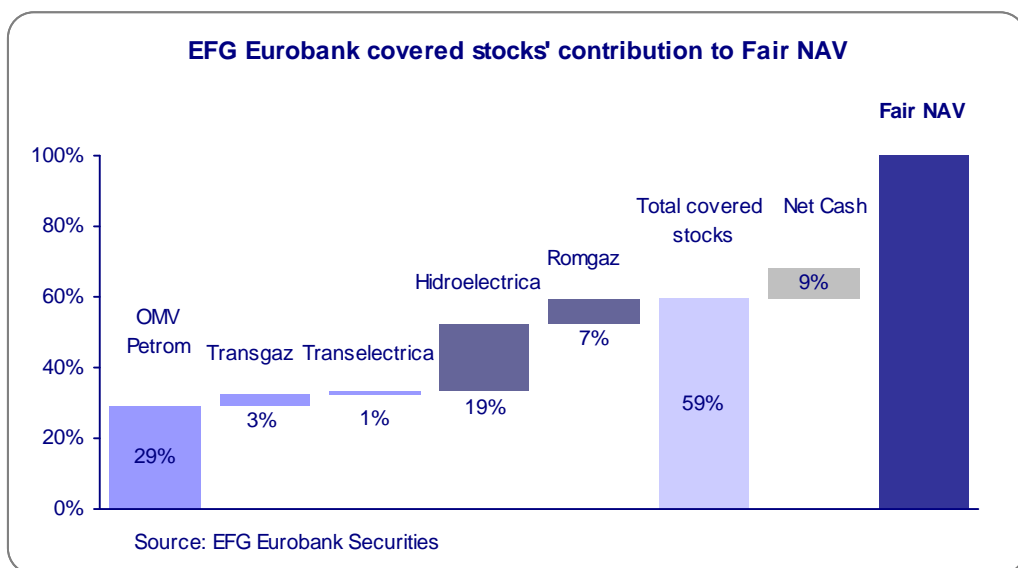
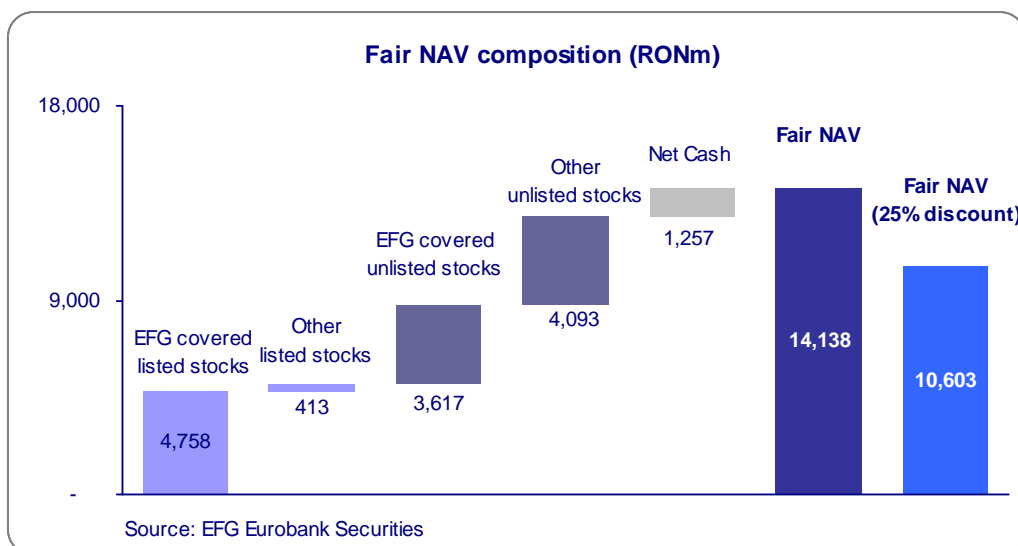
**SoTP valuation, conservatively discounted by 25%, results in a TP of RON 0.86/sh**

We have employed a SoTP valuation for the Fondul Proprietatea holdings, which resulted in a Fair NAV of RON 14.1bn (EUR 3.3bn) or RON 1.03/share. We have further applied a 25% discount to account for the low liquidity of the stock that led to a Fair NAV per share of RON 0.86.

The assessment came in 30.8% below the official NAV based on the Securities Commission's rules (as of Dec 2010) due to our more conservative approach regarding the unlisted stocks.

The portfolio of shareholdings for which we provide extensive valuation accounts for 59% of the Fair NAV and 63% of the fund's financial assets. We used the relative valuation for the other companies, focused mainly on EV/capacity, EV/EBITDA and P/BV multiples.

We derived the fair value of the listed stocks from our research universe (OMV Petrom, Transgaz and Transelectrica) using the DCF method, while for Hidroelectrica and Romgaz we performed a combined valuation between EV/capacity and EV/EBITDA. Nuclearelectrica is also assessed based on capacity multiples and EV/EBITDA average of its peers.



## SENSITIVITY ANALYSIS

**Worst / Best case scenarios point to a TP between RON 0.60 / RON 1.11/sh respectively**

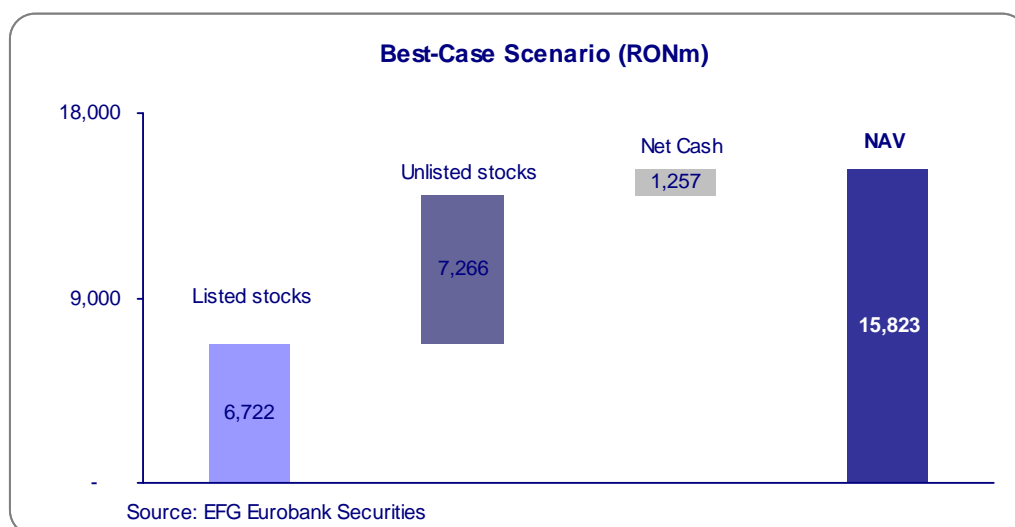
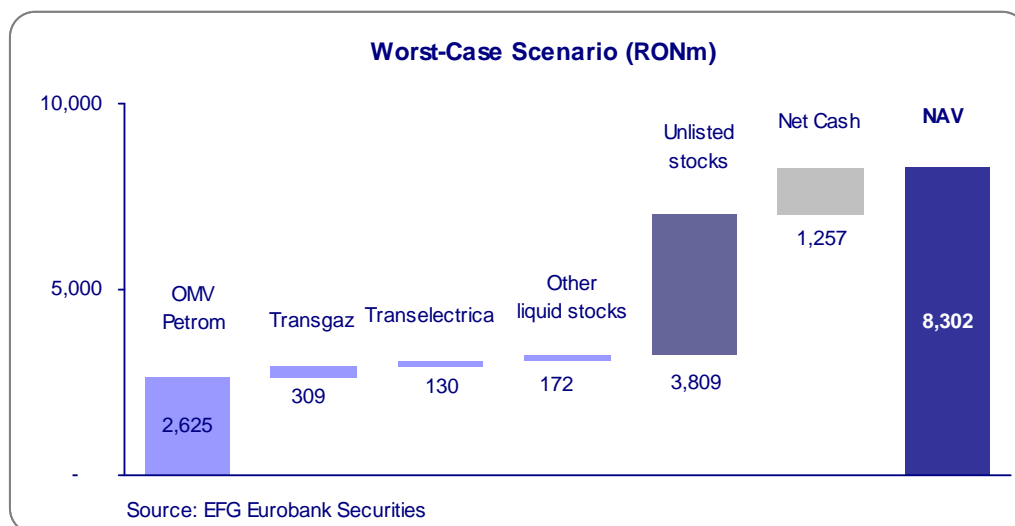
### Worst-case Scenario

We changed our base assumptions in order to evaluate the fund's net asset value in an adverse environment. For the most liquid listed holdings, we assumed stock market is down by 37.5% (relative range for the BVB's composite index last year) while the unlisted stocks were discounted by 70% (up from 50% in the base scenario).

The NAV estimate came in at RON 8.3bn (EUR 1.9bn) or RON 0.60/share, 41% below the base-case fair value.

### Best-case Scenario

In an optimistic view, we see stock market up 30% for all listed stocks this year while the 50% discount applied to unlisted in the base-case is relaxed to 40%. This valuation yields a total NAV of RON 15.8bn (EUR 3.7bn) and a NAV per share of RON 1.11.

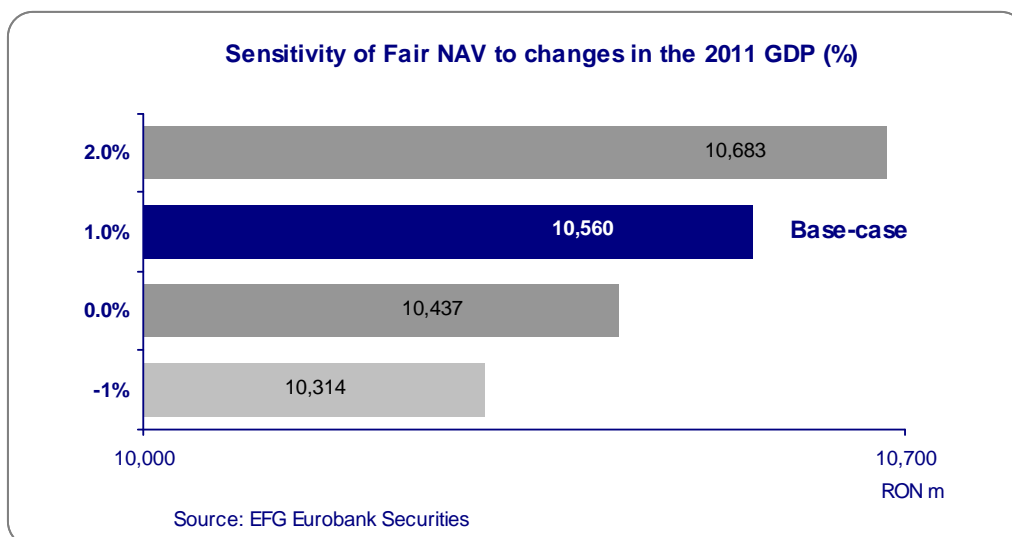


**2011 GDP additional growth of 1% increases the Fair NAV by 1.2%**

We ran a sensitivity scenario to assess the impact of Romania's GDP growth this year in the fund's Fair NAV. Our base scenario is built on a 1% growth assumption in 2011 GDP.

With assumptions for the economic growth between -1% and +2%, FP's NAV would range between RON 10.3bn and RON 10.7bn.

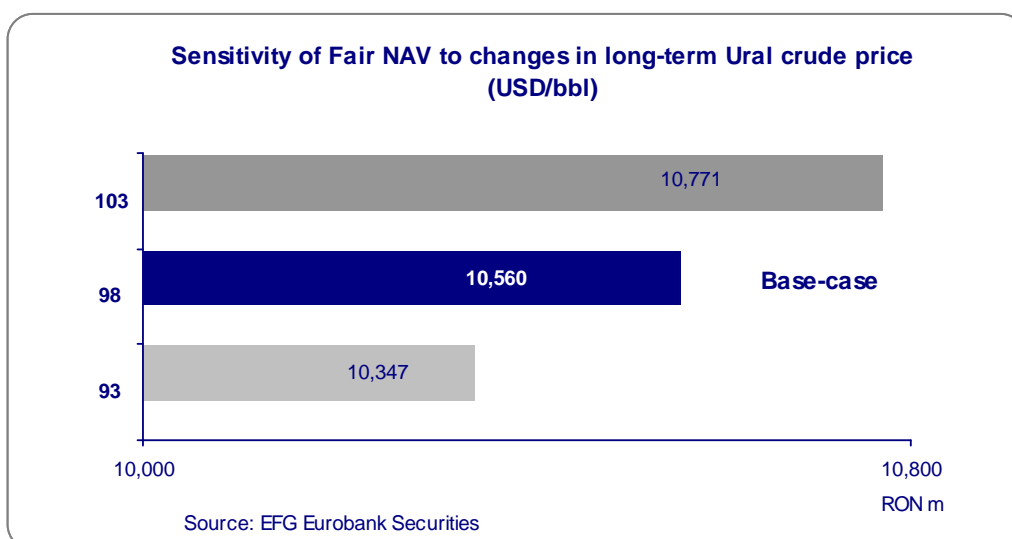
Worth mentioning is the fact that our sensitivity analysis takes into consideration only the EFG Eurobank Securities covered stocks, while for simplicity we have ignored the effects on the other companies in the fund's portfolio.



**Long term crude price higher by USD 5/bbl (+5.1% of the base-case price) moves the fund's Fair NAV by +2.0%**

We also performed a sensitivity analysis to see the extent the long-term Ural crude price influences OMV Petrom's fair value, hence the fund's Fair NAV. The base-case valuation of OMV Petrom is assessed on a long-term Ural crude price of USD 98/bbl.

The outcome for a step-up of USD 5/bbl in the LT Ural crude price (accounting for 5.1% of the base-case crude price) is an increase of 2.0% in the Fair NAV of the fund.





## EFG COVERED STOCKS VALUATION

EFG EUROBANK COVERED STOCKS VALUATION									RONm
Company	PF Stake	Valuation method	EFG Valuation*	% in Fair NAV	Marked-to-market	Official Valuation**	vs EFG	Auditor's Valuation	vs EFG
<b>Listed stocks</b>									
OMV Petrom	20.1%	DCF	4,103	29.0%	4,200	3,800	-7.4%	3,642	-11.2%
Transgaz	15.0%	DCF	450	3.2%	494	439	-2.5%	446	-0.9%
Transelectrica	13.5%	DCF	205	1.5%	208	181	-11.6%	185	-10.1%
<b>Total value of listed stocks</b>			<b>4,758</b>	<b>33.7%</b>	<b>4,902</b>	<b>4,420</b>	<b>-7.1%</b>	<b>4,273</b>	<b>-10.2%</b>
<b>Unlisted stocks</b>									
Hidroelectrica	19.9%	EV/Capacity EV/EBITDA	2,621	18.5%	n/a	2,465	-6.0%	2,675	2.1%
Romgaz	15.0%	EV/Reserves	996	7.0%	n/a	934	-6.2%	1,534	54.1%
<b>Total value of unlisted stocks</b>			<b>3,617</b>	<b>25.6%</b>		<b>3,399</b>	<b>-6.0%</b>	<b>4,210</b>	<b>16.4%</b>

Source: Company, EFG Eurobank Securities

\* DCF-derived values computed at Jan-2011

\*\* based on the Securities Commission's regulations

### OMV PETROM

#### The largest listed holding in Fondul Proprietatea portfolio, accounting for 29% in the fund's Fair NAV

The company is the most important CE/SEE oil&gas player, enjoying a strategic position in OMV group in terms of oil, natgas reserves and production as well. It also represents the sector's leading operator in Romania, as the sole crude producer, one of the two largest natgas producers (providing c. 49% of total natgas output), the largest retailer and targeting a 10% share on the energy market through its new CCGT gas-fired power plant.

We forecast for the next years the price of the domestic crude (Ural) to range between USD 90-95/bbl and total hydrocarbon production to stabilise to USD 186kboe/day (from USD 183kboe in 2010).

We further foresee a 5% annual increase in the domestic gas production price during 2011-2012 and 10-15% afterwards, to gradually move to the imports price level (domestic price convergence initially planned for Jan 2007, Romania's EU accession date). Overall, we estimate improved EBIT performance of the E&P and G&P segments, with the power plant in full operation starting with 2012 and Petrobrazi refinery upgraded to a 4.2mt operating capacity. We expect operating margins to improve as a result of the ongoing restructuring process on all business lines

The IFRS-based TP of OMV Petrom derived from the DCF method stands at RON 0.394/sh, assessed as of the end of 2011, c. 7% over the current trading level. The stock is also traded at large discount vs regional peers in terms of P/E and EV/EBITDA 2011e.

### TRANSGAZ

#### Second largest listed holding in portfolio, 3.2% in the fund's Fair NAV

Our DCF-derived valuation is based on the assumption of moderate growth rate for this year (+1%) and a rebound in 2012-2013 of 5% per year, that would partially recover the drop in transmitted quantity experienced in 2009 (-15% y/y). The Govt decision to suspend subsidies for chemical producers starting late 2010 does not support a higher growth pace in 2011. Positive revision of tariffs is expected starting H2/11.

The operating margin is estimated to hover around 21% this year and reach 19.4% in 2014, down from 26% in 2009 due to higher depreciation and personnel costs, only partially recovered through tariffs.

The DCF-derived TP stands at RON 259.9/share, 7% lower than the current market trading level.



**TRANSELECTRICA****Ranks fourth in the fund's listed portfolio and accounts for 1.5% in the Fair NAV**

Transelectrica is, by law, the only operator providing electricity transmission service and system service in Romania. Starting with 2005, the tariff for the transmission service is set based on the revenue cap methodology.

For the second regulatory period (2008-2012), ANRE approved an increase in the rate of return (WACC) to 7.5% from 6.5% previously, which positively influenced the initial target revenue based on which the transmission tariff is set. WACC is applied to the regulated asset base, currently recognized at the value of RON 2.7bn.

For the next 5 years, we see transmission tariff increasing by a CAGR of 3.9%, while the electricity transmitted volume advances by 4% in 2011 and 2012 and peters out to 2% by 2015. The core line margin is estimated to gradually improve to 10% in 2015 from 6.7% this year on the assumption that the regulator recognizes the bulk of the operating costs through tariffs.

Our DCF-derived TP stands at RON 22.86/share, c. 8.9% above market trading level.

**HIDROELECTRICA****The largest unlisted holding in Fondul Proprietatea portfolio, accounting for 18.5% of the fund's Fair NAV**

The company is the largest electricity producer in Romania with a market share of c.30% in 2010 total output.

We have derived the company's fair value using the relative valuation based on 2011e EV/MWh and EV/EBITDA price multiples. The result is a fair value per share of RON 29.6, broadly in line with the independent auditor's valuation performed last year.

Our main assumptions include normal hidraulicity this year and an energy production of 16.3 TWh, 17.5% lower y/y. We have incorporated a 10% increase in the cost of the energy basket triggered by the risk of a higher price paid to thermo electricity supplier. Consequently, this segment's margin decreased to 8.2% from 12.1% in 2010 which sent EBIT margin lower to 12.7%, down from 15.4% in 2010e.

**ROMGAZ****Accounts for 7.0% of Fondul Proprietatea Fair NAV, 2nd largest unlisted holding**

Romgaz is the largest natgas producer in Romania, accounting for 51% of the domestic output. In our forecast, this year's sales go down 8% y/y, due to lower volumes of sold production and imports of gas and we estimate bottom line to abate by 8% y/y in 2011. We also envisage capex of RON 900m, based on the management's plans to upgrade the natgas wells. NP was reported at RON 509m in 2010 (preliminary figure).

The Romanian state approved a RON 400m donation to the country's budget in 2010, which weakened the cash position of Romgaz - already on a downward trend as the 2009 NP was fully distributed to shareholders. In 2010, a 90% payout ratio is mandatory for state-owned companies. On the positive side, Romgaz indebtedness level is almost nil.

The planned sale of a 15% stake by the state through an IPO on the Bucharest Stock Exchange may have positive outcomes in terms of reporting transparency and corporate governance.

We valued Romgaz based on both Petrom E&P reserves and peers 2011e trading ratios. Our blended analysis points to a fair value per share of RON 174/sh, +7% vs the official valuation based on the Securities Commission's rules at Oct/10.

## OTHER COMPANIES IN FP's PORTFOLIO - VALUATION

**Conservative approach** Beside the stocks extensively covered in our valuation, we have assessed the value of the other holdings in the Fondul Proprietatea portfolio as follows:

- mark-to-market for the liquid listed stocks (traded in the last 3 months)
- zero-value awarded to illiquid listed stocks
- EV/Capacity and EV/EBITDA price multiples for Nuclearelectrica
- EV/Capacity, EV/EBITDA and P/BV price multiples for thermo power plants
- CEZ-deal derived value for DisCos (2009 P/BV 2.28x)
- P/E and EV/EBITDA for the airport companies
- 2010e P/BV for the other unlisted stocks.

A 50% discount rate was considered in our valuation to account for the poor transparency, the FP's minority shareholding and the risk of majority shareholder's involvement for those companies controlled by the state. For Nuclearelectrica we used a discount of 45% due to its high capacity utilisation rate (95%).

Our appraisal for both listed and unlisted stocks led, in total, to higher values when compared to the official valuation (based on the Securities Commission's rules). However, EFG assessment came in below the independent auditors', justified by our conservative approach.

OTHER HOLDINGS							RONm
Company	PF Stake	Valuation method	EFG Valuation	Official Valuation*	vs EFG	Auditor's Valuation	vs EFG
<b>Listed stocks</b>							
Alro	9.9%	mark-to-market	241	202	-16.3%	195	-18.9%
Conpet	20.1%	mark-to-market	64	47	-27.0%	58	-9.1%
Primcom	79.0%	mark-to-market	23	18	-21.6%	54	134.4%
Azomures	7.7%	mark-to-market	20	21	1.7%	18	-10.3%
Romaero	21.0%	mark-to-market	22	16	-27.5%	65	194.8%
Oil Terminal	10.0%	mark-to-market	14	15	9.8%	16	18.9%
Other listed stocks			28	-		56	
<b>Total value of listed stocks</b>			<b>413</b>	<b>319</b>	<b>-22.8%</b>	<b>464</b>	<b>12.4%</b>
<b>Unlisted stocks</b>							
Nuclearelectrica	9.7%	EV/Capacity EV/EBITDA	579	529	-8.7%	644	11.3%
Enel Distributie Banat	24.1%	P/BV	375	208	-44.4%	475	26.7%
Enel Distributie Muntenia	12.0%	P/BV	424	243	-42.5%	435	2.6%
Complexul Energetic Turceni	24.8%	EV/Capacity P/BV	423	397	-5.9%	401	-5.2%
GDF Suez Energy	12.0%	P/BV	109	227	107.7%	368	236.9%
Compania Nationala Aeroporturi Bucuresti	20.0%	P/E, EV/EBITDA	214	754	n/r	322	n/r
Enel Distributie Dobrogea	24.1%	P/BV	257	146	-43.3%	310	20.6%
Posta Romana	24.4%	P/BV	138	127	-8.1%	240	73.6%
Electrica Distributie Muntenia Nord	22.0%	P/BV	273	174	-36.3%	239	-12.5%
Electrica Distributie Transilvania Sud	22.0%	P/BV	214	136	-36.7%	227	6.1%
E.ON Moldova Distributie	22.0%	P/BV	203	136	-33.2%	226	11.4%
Electrica Distributie Transilvania Nord	22.0%	P/BV	198	127	-35.8%	221	11.9%
Complexul Energetic Craiova	25.0%	EV/Capacity, EV/EBITDA, P/BV	215	200	-6.7%	213	-0.7%
Complexul Energetic Rovinari	23.6%	EV/Capacity, EV/EBITDA, P/BV	214	188	-11.8%	201	-5.7%
Other unlisted stocks			258	407		892	
<b>Total value of unlisted stocks</b>			<b>4,093</b>	<b>4,000</b>	<b>-2.3%</b>	<b>5,416</b>	<b>32.3%</b>

Source: Company, EFG Eurobank Securities

\* based on the Securities Commission's regulations

## LISTED COMPANIES

## Sector: Oil & Gas

# OMV Petrom

**OMV Petrom is the largest listed holding in Fondul Proprietatea portfolio, accounting for 29% in the fund's Fair NAV.**

**The company is the leading CE/SEE oil&gas operator, with a strategic position in OMV group. In Romania, it is the sole crude producer, accounts for c. 49% of the natgas output, ranks 1<sup>st</sup> oil fuels retailer and targets a 10% share on the energy market.**

**Over the past years, management took swift decisions to mitigate the adverse economic environment and consolidate profitability.**

**Romanian state's intention to divest a 10% stake in SNP (to financial investors, OMV and/or to the public) aims to improve the free float and hence trading liquidity.**

### Profitability drivers

Main investment positives and profitability drivers include: (a) favourable crude oil price environment supporting upstream earnings generation, (b) power production of the new Brazi CCGT plant as of 2011, also to counteract the delay in the domestic natgas production price convergence to imports' level, (c) natgas production to provide additional benefits in 2013 at the earliest, (d) headcount restructuring - to save costs medium term (Petrom currently employs 26k vs 7k OMV), (e) improved operating profitability from the shutdown of loss-making Doljchim chemical plant and Arpechim refinery and focus on Petrobrazi operation, (f) entrance the renewable wind energy market this year.

### 2011 – 2013 Outlook

For the next years we assume price of the domestic crude (Ural) to range between USD 90-95/bbl and Petrom total hydrocarbon production to stabilise to USD 186kboe/day (from USD 183kboe in 2010). We foresee a 5% annual increase in the domestic gas production price in 2011-2012 (Parliamentary elections to take place in H2/2012) and 10-15% afterwards.

Overall, we forecast a 7.7% CAGR of EBIT on improved performance of E&P and G&P segments, with the CCGT plant in full operation in 2012 and Petrobrazi refinery upgraded to 4.2mt operating capacity.

### Investment risks

Major risk is the development of crude oil prices and refining margins on international markets; stronger RON vs USD might have mixed outcomes (negative impact on operating profitability but add FX gains); political drawbacks and weakness of the domestic economy can persist (GDP not to rebound in 2011 as predicted by the IMF and the govt, with lower fuels demand outcome).

### Valuation

The IFRS-based DCF valuation points to a TP of RON 0.394/sh, +7% against the current trading level, so we re-iterate our Market Perform recommendation. Quarterly earnings volatility can further be expected, on the back of possible impairments and one-offs primarily in the E&P segment. We believe Petrom might resume granting dividends starting with the fiscal year 2011, with a favourable impact on Fondul Proprietatea metrics in 2012.

**Last Price\*:** RON 0.369  
**Target Price:** RON 0.394

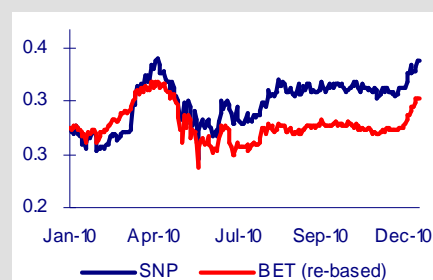
\*as of Jan 18, 2011

### Recommendation:

Maintained to

### Market Perform

#### SNP Share Price



Source: EFG Eurobank Securities

#### Share Statistics

Bloomberg Ticker	SNP RO		
Reuters Ticker	SNPP.BX		
Share price (RON)	0.369		
Share price (EUR)	0.09		
Price YTD 2011	10.12%		
High/Low price 12m (RON)	0.368/0.255		
Avg daily value 6m (EURm)	0.18		
Market cap. (EURm)	4,897.2		
Shares outstanding (m)	56,644		
Free float	6.2%		
IFRS estim.	2009	2010e	2011e
P/E	24.29	11.49	8.49
P/BV	1.29	1.16	1.02
P/Sales	1.30	1.17	1.13
EV/EBITDA	5.68	4.54	4.30

#### Shareholding structure\*

OMV Austria	51.01%
Romanian state	20.64%
Property Fund	20.11%
EBRD	2.03%
Other shareholders	6.21%

\* at Nov 30, 2010

#### Analyst

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## Company profile

OMV Petrom is the leading oil&gas player in CE/SEE, with a strategic position in the group: it accounted for 53% and 66% of OMV's crude and natgas output respectively and 72% of its proved reserves in 2009.

Petrom enjoys large scale of integration: E&P operations (68m boe hydrocarbon output – Romania's sole crude producer and c. 49% weight in the domestic natgas output), R&M (top retailer, 40% mkt share) and G&P (leading gas wholesaler last year, also targeting 10% of the local power market).

Due to significant investments, oil and gas Reserves Replacement Rate reached 70% at end-2009, from 11% in 2004.

## Investment case

The on-going modernization and restructuring process (which includes the upgrade of Petrobrazi refinery to process domestic crude, shutdown of inefficient Arpechim refinery and loss-making Doljchim chemical plant, alongside with revenues diversification by entering power generation) aims to provide strong returns even in challenging years.

Additional pros for the stock would include quite strong balance sheet (net LT liabilities / equity ratio estimated at 59% for end-2010, to gradually decline to 37% in 2015) and potential increase in the free float if the Romanian state fulfils its plan to divest a 10% stake in the company.

As main drawbacks we see the mature on-shore oil fields, unpredictable one-offs, possible delay in cost containment efforts, still weak macro environment, lag of fuel prices in case of crude price hikes.

## Financial Data

OMV Petrom: Consolidated Income Statement (IFRS)						
RON m	2008	2009	2010e	2011e	2012e	2013e
<b>Sales</b>	<b>20,127</b>	<b>16,090</b>	<b>17,821</b>	<b>18,427</b>	<b>18,652</b>	<b>18,223</b>
<b>Gross Profit</b>	<b>5,672</b>	<b>4,469</b>	<b>5,273</b>	<b>5,620</b>	<b>6,102</b>	<b>6,056</b>
<b>EBIT</b>	<b>1,205</b>	<b>1,620</b>	<b>2,728</b>	<b>3,430</b>	<b>3,816</b>	<b>3,977</b>
E&P	2,931	2,468	3,158	3,895	4,102	3,982
R&M	(1,800)	(618)	155	116	94	123
G&P	109	71	(3)	29	230	483
Others	(35)	(301)	(582)	(610)	(610)	(610)
<b>EBITDA</b>	<b>3,875</b>	<b>4,109</b>	<b>5,377</b>	<b>5,727</b>	<b>6,191</b>	<b>6,358</b>
Income from associates	4	6	7	7	7	7
Interest expense, net	(166)	(416)	(505)	(499)	(500)	(421)
Other financial revenues/ expenses	86	(41)	(51)	30	(51)	446
<b>Financial result</b>	<b>(76)</b>	<b>(451)</b>	<b>(548)</b>	<b>(462)</b>	<b>(544)</b>	<b>32</b>
<b>Profit/loss before income tax</b>	<b>1,129</b>	<b>1,169</b>	<b>2,180</b>	<b>2,968</b>	<b>3,272</b>	<b>4,009</b>
Income tax	(233)	(336)	(371)	(516)	(569)	(698)
<b>Net profit/loss</b>	<b>896</b>	<b>833</b>	<b>1,809</b>	<b>2,451</b>	<b>2,703</b>	<b>3,312</b>
<b>to own shareholders</b>	<b>978</b>	<b>860</b>	<b>1,819</b>	<b>2,461</b>	<b>2,712</b>	<b>3,320</b>
to minority interests	(83)	(27)	(10)	(10)	(9)	(8)

Source: OMV Petrom, EFG Eurobank Securities

OMV Petrom: Consolidated Balance Sheet (IFRS)						
RON m	2008	2009	2010e	2011e	2012e	2013e
<b>TOTAL NON-CURRENT ASSETS</b>	<b>22,812</b>	<b>25,228</b>	<b>27,376</b>	<b>29,930</b>	<b>31,660</b>	<b>33,040</b>
Inventories, net	2,759	2,583	2,851	2,948	3,078	3,189
Trade receivables, net	1,022	1,048	1,176	1,216	1,399	1,640
Other financial assets	999	227	216	237	240	264
Cash and equiv.	572	384	1,028	978	845	1,152
Other non-current assets	246	345	646	702	704	767
<b>TOTAL NON-CURRENT ASSETS</b>	<b>5,597</b>	<b>4,586</b>	<b>5,917</b>	<b>6,082</b>	<b>6,265</b>	<b>7,011</b>
Deferred tax asset	508	713	673	673	673	673
<b>TOTAL ASSETS</b>	<b>28,917</b>	<b>30,527</b>	<b>33,966</b>	<b>36,686</b>	<b>38,598</b>	<b>40,724</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>						
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>15,990</b>	<b>16,191</b>	<b>18,000</b>	<b>20,451</b>	<b>22,419</b>	<b>24,514</b>
Long term loans	1,468	2,810	4,546	4,688	4,604	3,989
Provisions	5,977	6,351	6,731	6,835	6,939	7,043
Other liabilities	369	406	423	427	432	436
<b>TOTAL LONG TERM LIABILITIES</b>	<b>7,814</b>	<b>9,567</b>	<b>11,700</b>	<b>11,951</b>	<b>11,975</b>	<b>11,468</b>
Short term loans	357	188	206	206	150	784
Trade payables	2,628	2,295	2,139	2,211	2,238	2,187
Provisions	1,124	1,039	1,039	1,039	1,039	1,039
Other liabilities	948	1,185	824	767	716	670
<b>TOTAL CURRENT LIABILITIES</b>	<b>5,057</b>	<b>4,707</b>	<b>4,207</b>	<b>4,224</b>	<b>4,144</b>	<b>4,681</b>
Deferred tax liability	57	62	59	60	60	61
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>28,917</b>	<b>30,527</b>	<b>33,966</b>	<b>36,686</b>	<b>38,598</b>	<b>40,724</b>

Source: OMV Petrom, EFG Eurobank Securities

OMV Petrom: DCF Valuation						
RON m	2010e	2011e	2012e	2013e	2014e	2015e
EBIT	2,728	3,430	3,816	3,977	4,485	4,512
NOPAT	2,265	2,833	3,152	3,285	3,705	3,727
+ Depreciation	2,648	2,297	2,375	2,381	2,411	2,465
- Changes in Working Capital	(267)	(276)	(280)	(273)	(288)	(304)
- Capital expenditures	(4,675)	(4,620)	(4,100)	(3,500)	(3,500)	(3,500)
<b>FCFF (Free Cash Flow to the Firm)</b>	<b>(30)</b>	<b>234</b>	<b>1,147</b>	<b>1,893</b>	<b>2,328</b>	<b>2,388</b>
Discounted FCFF @ WACC			1,147	1,719	1,916	1,781
<b>Present value of FCFF</b>		<b>6,563</b>				
Long-term growth rate (%)		0.2%				
WACC in stable phase (%)		9.4%				
Terminal Value		26,092				
<b>Present value of Terminal Value</b>		<b>19,457</b>				
Value of the firm		26,020				
+ Cash and marketable securities		978				
- Value of debt		4,688				
- Minority interest		(3)				
<b>Value of equity</b>		<b>22,313</b>				
No of shares (m)		56,644				
<b>12M target price (RON)</b>		<b>0.394</b>				

Source: Bloomberg consensus, EFG Eurobank Securities

## Sector: Natural gas transmission operator

# Transgaz

*Transgaz is the second largest listed holding in Fondul Proprietatea portfolio, accounting for 3.2% of the fund's Fair NAV. The company is Romania's sole licensed natural gas transmission operator providing c. 90% of the 2010e consumption. As partner of the Nabucco Consortium, Transgaz is expected to receive dividends as shareholder and cash in transit revenues as domestic transmission operator, once the project is put in place. Medium term, the stock remains sensitive to the regulatory risk, given low predictability of the transmission tariff experienced in the last couple of years.*

### Profitability drivers

**Nabucco project – LT: good prospects; MT: additional investments may be required** - TGN has a solid cash position of c. EUR 35m, which covers the total bank debt more than twice and supports the company to stay afloat during economic turbulences. Nevertheless, the company may be required to earmark more funds to NGPI, in addition to the EUR 8.7m already invested, which will further weigh on the company's cash wealth. TGN's total financial effort for this project is estimated to hover around EUR 1.4bn, 30% self-funded.

**FY2010 High payout ratio and constant tariffs may postpone investments in 2011** - As a state majority-owned company, TGN distributes 50% of the unconsolidated profits; however, given the state budget constraints last year, the majority shareholder set a 90% payout ratio for the FY2010, which leads to a dividend per share of RON 27, and a divyield of 9.7% at current price. Constant transmission tariff last year along with the high payout ratio may translate into investment budget constraints for TGN in 2011, with a negative impact on the regulated asset base, hence limited upside potential for tariff / revenues.

### 2011 – 2013 Outlook

We estimate a modest 1% increase in sales in 2011 given the unchanged transmission tariff and Govt decision to suspend subsidies for chemical producers. However, TGN is expected to resume growth in 2012 triggered by domestic economic growth and tariff's revision. RON appreciation over the period would weigh down on sales. The operating margin is estimated to hover around 21% this year, down from 26% in 2009 due to higher depreciation and personnel costs, not recovered through tariffs.

### Investment risks

Highly regulated business: 81% of the top line strongly depends on the regulated tariffs; FX risk: partially covered; low debt balance. Economic risk: 2009 transmitted quantity fell 15% y/y, reflecting the weak economic environment over the period. A slow economic recovery will harm TGN's profitability.

### Valuation

The DCF-derived TP stands at RON 259.9/share, hence our Market Perform recommendation is maintained.

**Last Price\*:** RON 280.0  
**Target Price:** RON 259.9

\*as of Jan 18, 2011

### Recommendation:

Maintained to

### Market Perform

### TGN Share Price



Source: EFG Eurobank Securities

### Share Statistics

<b>Bloomberg Ticker</b>	TGN RO		
<b>Reuters Ticker</b>	TGNM.BX		
<b>Share price (RON)</b>	280.0		
<b>Share price (EUR)</b>	65.8		
<b>Price YTD</b>	0.0%		
<b>High / Low Price 52W (RON)</b>	283/176.8		
<b>Avg Daily Value 6M (EUR)</b>	75,677		
<b>Market cap. (EURm)</b>	774.7		
<b>Shares outstanding (m)</b>	11.8		
<b>Free float (%)</b>	11.5%		
<b>IFRS est.</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>
<b>P/E</b>	17.24	11.42	15.25
<b>P/BV</b>	1.19	1.24	1.21
<b>P/Sales</b>	2.79	2.54	2.48
<b>EV/EBITDA</b>	6.52	6.17	6.85
<b>EPS (RON)</b>	16.24	24.52	18.36

### Ownership Structure

Ministry of Economy and Finance	73.5%
Property Fund	15.0%
Other shareholders	11.5%

### Analyst

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## Company profile

Based on a 30-year concession agreement with the state, Transgaz has exclusive rights to use the natural gas grid for which it pays an annual royalty of 10% of its sales. The transmission system consists of 13,110 km of pipelines with an annual capacity of about 40 bcm.

Starting 2004, transmission tariffs are set based on the revenue cap methodology that requires ANRE to pre-approve a set of key parameters related to transmission activity like the regulated asset base, required return and the expected economic efficiency.

Transgaz provides international transit services for Gazprom, negotiated under commercial terms, allowing the transport of Russian gas to Bulgaria, Turkey, Greece and other countries through 3 pipelines crossing Romania.

## Investment case

Transgaz is the sole licensed natural gas transmission operator in Romania. Its main activities are related to transmission and transit operations.

The main pros for the stock would be its constant dividend stream, low debt ratios, cash wealth, low FX sensitivity (natural hedge provided by transit revenues) and its takepart in the Nabucco project.

Drawbacks include the company's exposure to the regulatory risk and the limited transparency of the transit contract.

## Financial Data

TRANSGAZ FINANCIAL RESULTS (IFRS)						
BALANCE SHEET (RONm)	2008	2009	2010e	2011e	2012e	2013e
Available for sale financial assets	0	14	36	54	81	122
Property, plant and equipment	2,708	2,910	2,783	2,847	2,979	3,020
Intangible assets	10	11	17	20	22	28
TOTAL NON-CURRENT ASSETS	2,719	2,936	2,836	2,921	3,083	3,170
Cash and cash equivalents	302	197	180	158	79	99
Trade and other receivables	256	267	233	286	307	291
Inventories	40	35	34	42	44	47
TOTAL CURRENT ASSETS	598	499	447	485	430	438
TOTAL ASSETS	3,317	3,435	3,283	3,406	3,513	3,607
Share capital	559	559	559	559	559	559
Share premium	247	247	247	247	247	247
Public property reserve	1,266	1,266	1,266	1,266	1,266	1,266
Retained earnings	619	687	590	645	693	732
TOTAL SHAREHOLDERS' EQUITY	2,692	2,760	2,663	2,717	2,765	2,805
Long term loans	99	42	104	159	180	202
Provision for employee benefits	22	23	25	28	31	33
Deferred income	128	175	104	93	86	87
Deferred tax liability	18	89	26	27	29	29
TOTAL LONG TERM LIABILITIES	268	328	259	307	326	351
Trade and other payables	271	262	304	309	333	348
Current tax liabilities	15	26	27	20	18	15
Short term loans	72	59	28	53	70	88
TOTAL CURRENT LIABILITIES	357	347	360	382	422	452
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	3,317	3,435	3,283	3,406	3,513	3,607
INCOME STATEMENT (RONm)	2008	2009	2010e	2011e	2012e	2013e
Sales, of which:	1,117	1,182	1,296	1,331	1,428	1,457
Revenues from transmission & transit	1,117	1,182	1,296	1,331	1,428	1,457
Other income*	16	32	2	1	1	1
Total operating income	1,133	1,214	1,298	1,332	1,429	1,459
Own technological consumption	(213)	(149)	(163)	(185)	(206)	(225)
Materials and consumables used	(6)	(25)	(6)	(7)	(7)	(7)
Depreciation	(174)	(185)	(194)	(211)	(218)	(218)
Salary and other related expenses	(222)	(240)	(261)	(286)	(322)	(336)
Other employee benefits	(50)	(51)	(49)	(51)	(57)	(60)
Maintenance and repairs	(114)	(99)	(108)	(120)	(143)	(160)
Royalty expenses	(112)	(118)	(130)	(133)	(143)	(146)
Outside services	(16)	(21)	(21)	(23)	(29)	(31)
Taxes and other state dues	(13)	(7)	(16)	(16)	(19)	(20)
Other operating expenses	(22)	(15)	(19)	(27)	(36)	(36)
Total operating expenses	(941)	(907)	(966)	(1,060)	(1,182)	(1,241)
Operating Profit / (Loss)	192	307	333	272	247	218
Operating margin	17.19%	25.94%	25.68%	20.42%	17.30%	14.96%
EBITDA	366	491	527	482	465	436
EBITDA margin	32.82%	41.57%	40.62%	36.24%	32.58%	29.93%
Financial income	38	38	35	13	14	7
Financial expenses	(35)	(21)	(25)	(35)	(39)	(43)
Net income/ (Loss) before income tax	194	324	344	250	222	182
Income tax expense	48	(133)	(55)	(40)	(36)	(29)
Net profit/ (Loss)	243	191	289	210	187	153
Net margin	21.73%	16.18%	22.27%	15.80%	13.07%	10.48%
Transgaz: DCF Valuation (RONM)						
			2011e	2012e	2013e	2014e
EBIT			272	247	218	210
NOPAT			228	207	183	177
+ Depreciation			211	218	218	218
- Changes in Working Capital			56	(1)	(27)	30
- Capital Expenditure			(200)	(180)	(150)	(150)
FCFF			295	244	224	275
Discounted FCFF @ WACC				244	201	222
Present value of FCFF			668			
Long-term growth rate (%)			1.0%			
WACC in stable phase (%)			10.2%			
Terminal Value			3,032			
Present value of Terminal Value			2,447			
Value of the firm			3,115			
+ Cash and marketable securities			158			
- Value of debt			212			
Value of equity			3,060			
No of shares (m)			11.8			
12M target price, RON			259.9			

Source: Company data, EFG Eurobank Securities



## Sector: Bulk energy transmission operator

# Transelectrica

*Transelectrica is the fourth largest listed holding in the Fondul Proprietatea portfolio and accounts for 1.5% in the fund's Fair NAV. The company is the sole operator of Romania's energy transmission system.*

*Recent news regarding the 2011 transmission tariffs has positively surprised the market as the 10.4% adjustment exceeded the management guidance and also the threshold imposed by the regulator.*

*Medium term, the stock remains sensitive to the EUR/RON variation, given the company's significant unhedged debt position.*

### Profitability drivers

**2011-2013 investment program** – TEL halved its capital expenditures plans for the next three years, to RON 853m (EUR 203m), as released in the company's Business plan late last year. However, important projects in renewable energy announced for the next period imply significant investment efforts to develop the transmission grid.

**Domestic economy recovery** – The main drivers of the top line are tariffs and quantities. Tariffs are set by the regulator and are correlated with the pace the regulated asset base is growing while the volume is strongly related to the economic trend. According to the management, for every 1% increase in GDP, transmitted power rises by 0.4%.

### 2011 – 2013 Outlook

Management sees sales up 2.7% in 2011 and almost flat for the next two years (+0.9% and +2%, respectively); 2011-2013 core line is seen -11.4%, +5.9% and +31.9% y/y, respectively; financial losses weigh on the bottom line figures.

Following the recent tariff amendments, we have reviewed our estimates for this year's top line and also fine-tuned our expectations for 2011-2014. Beside the positive effect from the tariff increase, the 2011 top line also reflects the export contract with Serbia and a 0.4% growth in domestic consumption. For 2012-2014, the annual growth rate in transmitted quantity stands between 2-3%, while the annual tariff increase is petering out to 3%.

### Investment risks

**FX risk** – TEL's bottom line is mostly sensitive to domestic currency performance, given the company's high exposure to EUR and USD. Any depreciation of the domestic currency translates into losses in the P&L.

**Regulatory risk** – the bulk of TEL's revenues are regulated by ANRE, which implies a high regulatory risk for the stock. Transmission tariffs saw a positive trend in the last 5 years, still not fully recovering costs.

### Valuation

The DCF-derived TP stands at RON 22.86/sh from 18.11/sh before, hence the Market Perform recommendation. Going forward, we maintain our expectations regarding the high volatility in earnings for the next quarters given TEL's significant FC-denominated debt, moderate regulatory risk (high before) and turbulent economic environment.

**Last Price\*:** RON 21.00  
**Target Price:** RON 22.86

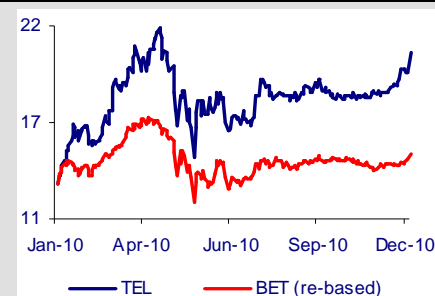
\*as of Jan 18, 2011

### Recommendation:

Maintained to

**Outperform**

### TEL Share Price



Source: EFG Eurobank Securities

### Share Statistics

<b>Bloomberg Ticker</b>	TEL RO		
<b>Share price (RON)</b>	21.00		
<b>Share price (EUR)</b>	4.94		
<b>High / Low Price 12mo (RON)</b>	21.9 / 14.5		
<b>Price YTD</b>	8.5%		
<b>Avg Daily Value 6mo (EUR)</b>	36,959		
<b>Market cap. (EURm)</b>	361.8		
<b>Shares outstanding (m)</b>	73.30		
<b>Free float (%)</b>	13.0%		
<b>IFRS est.</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>
<b>P/E</b>	84.33	842.07	11.02
<b>P/BV</b>	0.81	0.81	0.76
<b>P/Sales</b>	0.63	0.61	0.55
<b>EV/EBITDA</b>	7.10	8.12	5.91
<b>EPS (RON)</b>	0.25	0.02	1.90

### Ownership Structure

<b>Ministry of Economy</b>	73.50%
<b>Fondul Proprietatea</b>	13.50%
<b>Other shareholders, of which:</b>	13.00%
SIF Banat Crisana	0.03%
SIF Moldova (SIF2)	1.01%
SIF Oltenia (SIF5)	1.72%

Source: Company data

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## Company profile

Transelectrica is the only operator providing electricity transmission service in Romania.

The transmission tariff is set based on the revenue cap methodology. The regulated target revenue rises with the annual CPI and goes down as efficiency improves, such revenue forming the basis of the regulated income.

TEL is currently in the second regulatory period (2008-2012), with an approved rate of return (WACC) of 7.5% which applies to the regulated asset base recognized at the value of RON 2.7bn.

## Investment case

The main pros for the stock would be its strong market position, the constant payout ratio (at least 50% the un-consolidated NP) and the upward trend expected in the transmitted power, triggered by the energy projects announced in the renewable area.

Drawbacks include the FX exposure through its debt position and the regulated tariffs which deter the company to obtain higher operating margins. For the following couple of years, the company will probably trade at higher multiples, making it look less attractive, but this is due to the impressive investment programme that the company has undertaken.

We consider Transelectrica to be a solid, slow growth investment opportunity, with no major upside speculative potential, but with good prospects for a long-term steady growth.

## Financial Data

TRANSELECTRICA'S CONSOLIDATED FINANCIAL RESULTS (IFRS)						
BALANCE SHEET (RON m)	2008	2009	2010e	2011e	2012e	2013e
<b>TOTAL NON-CURRENT ASSETS</b>	<b>2,905</b>	<b>3,006</b>	<b>3,169</b>	<b>3,394</b>	<b>3,650</b>	<b>4,031</b>
Cash and cash equivalents	224	164	167	173	179	186
Receivables, net	848	634	653	723	770	814
Inventories, net	43	42	43	47	50	53
<b>TOTAL CURRENT ASSETS</b>	<b>1,115</b>	<b>839</b>	<b>863</b>	<b>943</b>	<b>999</b>	<b>1,053</b>
<b>TOTAL ASSETS</b>	<b>4,020</b>	<b>3,845</b>	<b>4,032</b>	<b>4,337</b>	<b>4,649</b>	<b>5,084</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,935</b>	<b>1,905</b>	<b>1,890</b>	<b>2,029</b>	<b>2,150</b>	<b>2,377</b>
Long term loans	1,011	947	995	1,064	1,149	1,241
Deferred income	153	231	349	366	385	404
<b>TOTAL LONG TERM LIABILITIES</b>	<b>1,184</b>	<b>1,215</b>	<b>1,344</b>	<b>1,431</b>	<b>1,534</b>	<b>1,645</b>
Short term loans	166	203	223	246	270	297
Commercial liabilities	718	511	562	618	680	748
<b>TOTAL CURRENT LIABILITIES</b>	<b>902</b>	<b>725</b>	<b>798</b>	<b>878</b>	<b>965</b>	<b>1,062</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>4,020</b>	<b>3,845</b>	<b>4,032</b>	<b>4,337</b>	<b>4,649</b>	<b>5,084</b>

Source: Company data, EFG Eurobank Securities for estimates

INCOME STATEMENT (RON m)						
	2008	2009	2010e	2011e	2012e	2013e
Sales from main activities	2,891	2,460	2,535	2,806	2,989	3,159
<i>Increase in sales</i>	<i>27.46%</i>	<i>-14.90%</i>	<i>3.07%</i>	<i>10.69%</i>	<i>6.50%</i>	<i>5.70%</i>
Other income	98	92	76	56	30	32
<b>Total operating income</b>	<b>2,988</b>	<b>2,552</b>	<b>2,611</b>	<b>2,862</b>	<b>3,019</b>	<b>3,191</b>
Salary and other related expenses	(214)	(203)	(214)	(226)	(237)	(246)
Expenses related to system services	(535)	(530)	(620)	(641)	(678)	(715)
Co-generation energy expenses	(483)	(479)	(535)	(553)	(585)	(616)
Balancing market expenses	(754)	(444)	(417)	(438)	(460)	(483)
Depreciation	(241)	(257)	(253)	(263)	(270)	(277)
Repairs and maintenance	(86)	(75)	(51)	(88)	(97)	(94)
Other operating expenses*	(458)	(466)	(456)	(463)	(476)	(503)
<b>Total operating expenses</b>	<b>(2,771)</b>	<b>(2,453)</b>	<b>(2,545)</b>	<b>(2,672)</b>	<b>(2,803)</b>	<b>(2,934)</b>
<b>Operating Profit / (Loss)</b>	<b>217</b>	<b>99</b>	<b>66</b>	<b>190</b>	<b>216</b>	<b>257</b>
<i>Operating margin</i>	<i>7.51%</i>	<i>4.01%</i>	<i>2.62%</i>	<i>6.77%</i>	<i>7.22%</i>	<i>8.13%</i>
<b>EBITDA</b>	<b>458</b>	<b>356</b>	<b>319</b>	<b>453</b>	<b>486</b>	<b>534</b>
<i>EBITDA margin</i>	<i>15.84%</i>	<i>14.46%</i>	<i>12.59%</i>	<i>16.13%</i>	<i>16.26%</i>	<i>16.92%</i>
Financial income	41	23	65	29	68	184
Financial expenses	(196)	(110)	(130)	(52)	(57)	(57)
<b>Net income/ (Loss) before income tax</b>	<b>63</b>	<b>12</b>	<b>2</b>	<b>166</b>	<b>227</b>	<b>384</b>
Income tax expense, current	(12)	6	(0)	(27)	(36)	(61)
Income tax expense, deferred	-	-	-	-	-	-
<b>Net profit/ (Loss)</b>	<b>50</b>	<b>18</b>	<b>2</b>	<b>140</b>	<b>191</b>	<b>322</b>
<i>Net margin</i>	<i>1.74%</i>	<i>0.74%</i>	<i>0.07%</i>	<i>4.98%</i>	<i>6.38%</i>	<i>10.20%</i>

Source: Company and EFG Eurobank Sec. for estimates, \*includes materials, own technological consumption, other opex

Transelectrica: DCF Valuation (RONm)					
	2011e	2012e	2013e	2014e	2015e
EBIT	190	216	257	302	349
NOPAT	160	181	216	254	293
+ Depreciation	263	270	277	285	292
- Changes in Working Capital	(86)	(85)	(80)	(83)	(87)
- Capital Expenditure	(227)	(210)	(276)	(276)	(276)
<b>FCFF (Free Cash Flow to the Firm)</b>	<b>110</b>	<b>157</b>	<b>138</b>	<b>180</b>	<b>223</b>
Discounted FCFF @ WACC		157	124	147	165
<b>Present value of FCFF</b>	<b>593</b>				
Long-term growth rate (%)	1.50%				
WACC in stable phase (%)	9.35%				
Terminal Value	2,881				
<b>Present value of Terminal Value</b>	<b>2,134</b>				
<b>Value of the firm</b>	<b>2,727</b>				
+ Cash and marketable securities	167				
- Value of debt	1,218				
- Minority interest	-				
+ Value of non-operating assets	-				
<b>Value of equity</b>	<b>1,676</b>				
No of shares (m)	73.3				
<b>12M target price, RON</b>	<b>22.86</b>				

Source: EFG Eurobank Securities

## UNLISTED COMPANIES

## Sector: hydro power generator

# Hidroelectrica

***Hidroelectrica is the largest electricity producer in Romania with a market share of c.30% in 2010 total output. The company accounts for 18.6% of the Fondul Proprietatea Fair NAV and ranks first in the fund's top unlisted holdings. The company's revenues in the competitive segment account for c. 80% of total sales while the regulated business covers the balance. Due to the high hydraulicity last year, the 2011 management guidance looks less attractive, under a 'normal' weather scenario: NP -77.6% y/y on 11.2% y/y lower revenues triggered by 21.3% y/y decrease in output.***

### Profitability drivers

The company's profitability is very sensitive to the energy selling price, the further increase in production capacity and also the weather forecasts.

The core line is also influenced by the demand in the aluminium and steel markets due to the large contracts with Alro and ArcelorMittal (together amounting to 35.4% of Hidroelectrica's total energy production in 2011). The long term contracts signed with most of its clients offer fair revenue predictability, at the expense of lower margin.

### 2011 Outlook

We estimate energy production to stand at 16.3 TWh this year, 17.5% lower y/y, assuming normal hydraulicity. We have incorporated a 10% increase in the cost of the energy basket triggered by the risk of a higher price paid to thermo electricity supplier. Consequently, this segment's margin decreased to 8.2% from 12.1% in 2010 which sent EBIT margin lower to 12.7%, down from 15.4% in 2010e. The 2011 net margin is seen at 6.7%, vs 9.5% in 2010e.

In the next 6 years, the company plans to invest some EUR 1bn to revamp 53.2% of the current production capacity and increase electricity generation by c. 1,733 GWh/year, or 10.6%.

### Investment risks

High political risk: influences both the energy acquisition prices from thermo electricity producer and the selling price to companies where the "national interest" prevails (see contracts signed with Alro and ArcelorMittal).

The economic and weather risks are also increasing uncertainty of cash flows and earnings.

### Valuation

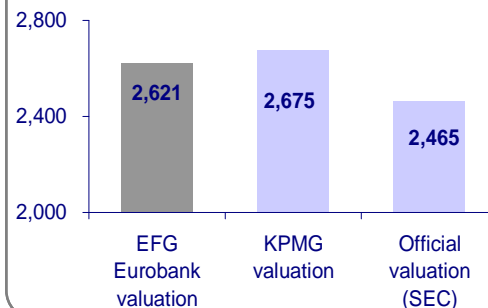
The TP is derived from peer analysis. Using 2011e EV/Installed Capacity and EV/EBITDA multiples, we end up with a fair value per share of RON 29.6/sh, in line with KPMG valuation performed last year and 6.3% above the official assessment.

### Valuation (RONm)

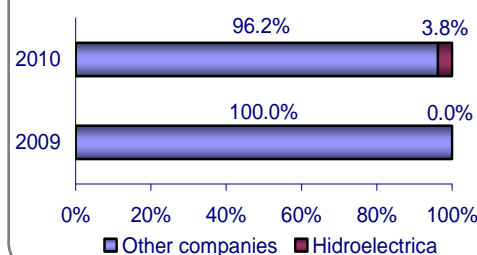
Method	EV\$/m/ MW	EV/EBITDA	P/BV
GenCos avg	1,440	6.7	4.0
Derived-value	27,735	21,944	67,671
Discount (%)	50.0%	50.0%	50.0%
Fair value (FV)	13,867	10,972	33,835
Weight (%)	75.0%	25.0%	0.0%
<b>FV of PF stake</b>	<b>2,621</b>		
% in Fair NAV	18.6%		
% in stated NAV	18.3%		

\*2011 price multiples

### Valuation review (RONm)



### Hidroelectrica's contribution to FP dividend inflows



### Ownership Structure

Ministry of Economy	80.06%
Fondul Proprietatea	19.94%

### Analyst

#### Simona Crutu

Equity Research Analyst

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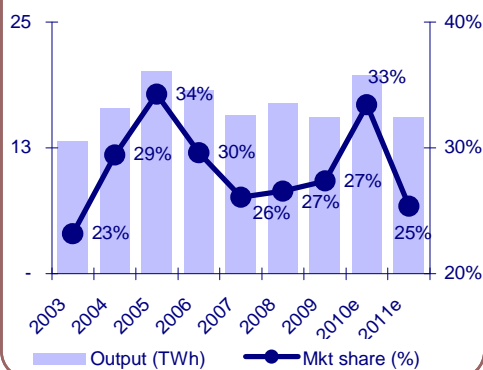
E-mail: scrutu@efgsec.ro

## Key figures

### Operating data

No of hydropower plants	250
Total capacity (MW)	6,423
Market share 2010e	33.4%
Capex 2010 (RONm)	1,460

Output / Mkt share 2003-2011e



## Company profile

Hidroelectrica was set up in 2000, further to the restructuring process of the domestic electricity sector in 1998. The company covers c. 30% of Romania's installed electricity generating capacity.

The business segment dedicated to captive consumers is regulated by ANRE and accounts for c.20% of the company's turnover. According to the management, this segment operates at breakeven, at best.

On the other hand, in the competitive segment, the company operates through commercial contracts (2010: 17) at an average price of RON 130/MWh (+30% y/y), more than half in force up until 2018.

In 2011, the main clients are: Alro (3TWh or c. 20% in Hidroelectrica's total output, price linked to LME's aluminium quotation) and ArcelorMittal (quantity 1.75TWh, 11.3% in total, RON 130/MWh).

## Financial Data

### Hidroelectrica: Income Statement (RAS)

RON m	2008	2009	2010e	2011e
<b>Sales</b>	<b>2,444</b>	<b>2,421</b>	<b>3,381</b>	<b>2,881</b>
Operating expenses	2,402	2,304	2,859	2,498
<b>EBIT</b>	<b>207</b>	<b>162</b>	<b>522</b>	<b>383</b>
EBITDA	787	836	1,460	1,071
Interest expenses	75	69	76	84
<b>Net Profit /(Loss)</b>	<b>65</b>	<b>48</b>	<b>323</b>	<b>193</b>

Source: Fondul Proprietatea Listing Prospectus, EFG Eurobank Securities

### Hidroelectrica: Profitability and liquidity ratios (RAS)

RON m	2008	2009	2010e	2011e
Current assets	608	387	398	419
of which Cash	129	28	34	41
Fixed assets	19,338	22,602	23,234	24,460
<b>Total assets</b>	<b>19,947</b>	<b>22,990</b>	<b>23,632</b>	<b>24,880</b>
Current Liabilities	1,708	1,796	2,141	2,553
of which Bank loans	568	677	807	962
Non-Current Liabilities	4,026	4,385	4,465	5,325
of which Bank loans	453	804	884	1,744
<b>Total liabilities</b>	<b>5,734</b>	<b>6,181</b>	<b>6,606</b>	<b>7,878</b>
<b>Shareholders' Equity</b>	<b>13,951</b>	<b>16,555</b>	<b>16,845</b>	<b>16,748</b>
<b>Total Liabilities and Equity</b>	<b>19,947</b>	<b>22,990</b>	<b>23,632</b>	<b>24,880</b>

Source: Fondul Proprietatea Listing Prospectus, EFG Eurobank Securities

### Hidroelectrica: Balance Sheet (RAS)

RON m	2008	2009	2010e	2011e
Sales growth	18.6%	-0.9%	39.7%	-14.8%
EBIT growth	44.8%	-21.6%	222.0%	-26.6%
EBITDA growth	n/a	6.2%	74.6%	-26.6%
Net Profit growth	23.8%	-25.7%	567.4%	-40.1%
EBIT margin	8.5%	6.7%	15.4%	13.3%
EBITDA margin	32.2%	34.6%	43.2%	37.2%
Net Profit margin	2.7%	2.0%	9.5%	6.7%
Effective tax rate	18.8%	26.2%	20.0%	20.0%
ROE	0.5%	0.3%	1.9%	1.2%
ROA	0.3%	0.2%	1.4%	0.8%
Divid payout ratio	0.0%	67.4%	90.0%	50.0%
Current ratio	0.4	0.2	0.2	0.2
Quick ratio	0.3	0.2	0.2	0.2
Net debt / Equity	0.28	0.26	0.26	0.32
LT liabilities / Equity	28.9%	26.5%	26.5%	31.8%

Source: Fondul Proprietatea Listing Prospectus, EFG Eurobank Securities

### Hidroelectrica: Key operating activity data

TWh	2008	2009	2010e	2011e
Total energy production	17.0	15.5	19.7	16.3
Total energy sold	19.8	18.7	23.7	19.6

Source: Fondul Proprietatea Listing Prospectus, EFG Eurobank Securities

## Sector: natural gas producer

# Romgaz

**Romgaz is currently the largest natgas producer in Romania, with a market share of 51% of total output and over 40% of total consumption. The company accounts for 6.9% of Fondul Proprietatea Fair NAV as its 2nd largest unlisted holding. The company's revenues are pegged on the gas domestic production price, which remained flat since 2008. Romgaz reported for 2010 preliminary sales +6% y/y and NP -11% y/y, and we estimate 2010 gross dividends -8% y/y (payout ratio 90%). We construe as positive the state's intention to float the company by selling a 15% stake on the BSE, as if achieved, it will increase transparency and hopefully corporate governance principles.**

### Profitability drivers

Convergence of natgas production price to imports level (the lag presently stands at c. 45%), even gradually, is positive for Romgaz. Also, the state's decision to sell a 15% stake on the BSE, if accomplished, will lead to improved financial and operations reporting transparency and increase investors' base.

### 2011 Outlook

For this year we estimate total sales down 8% y/y on the back of sold production and imports of gas lower by 3% and 10% y/y respectively (both in volume). We envisage no headcount reduction, while capex will amount to RON 900m according to mgt (at the 2010 level). Important to note that depreciation expenses are not tax deductible leading to effective tax rate over 30%. Overall, we see NP slowing down by 8% in 2011 (vs the 11% y/y decrease reported for 2010).

### Investment risks

Although ANRE regulatory authority claims that natgas price can be freely set by producers, price regulations for suppliers put a cap on gas production price and we believe it will not record a significant increase earlier than 2013. In addition, mature fields also push for higher capex to prevent natural decline of production. A 31% weight of sales to fertiliser producers might represent an additional risk, as apparently these survived only due to natgas supply at the low production price level; nevertheless, this drawback might be mitigated by the govt's policy to reduce imports and increase domestic production with the aim to maintain a comfortable natgas "basket" price for the economy.

The donation to the state in Q4/2010 has been contested by Franklin Templeton into Court and it signals that the govt's measures to make money in hard times can be aggressive. It also weakened the company's cash position, which negatively recorded a downward trend over the past years.

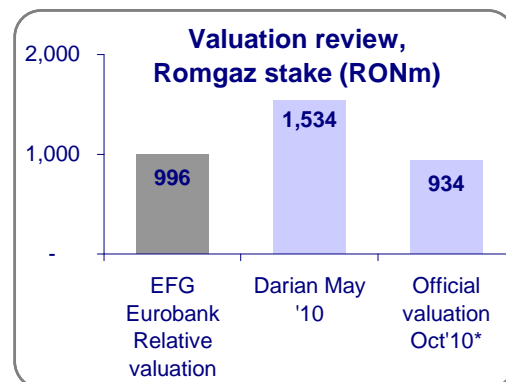
### Valuation

We valued Romgaz based on both Petrom E&P reserves and peers 2011e trading ratios. Our blended analysis points to a fair value of RON 174/sh, exceeding the level assessed using the Securities Commission's rules at Oct/10, by 7%.

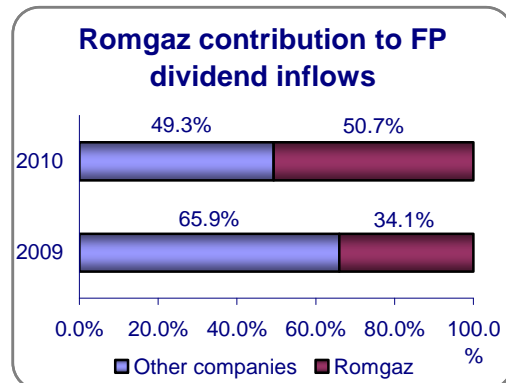
### Valuation (RONm)

Method	EV€/Reserves	EV/EBITDA	P/B
E&P Peers' avg	2.4	6.1	1.7
Discount %		40%	40%
Weight (%)	30%	35%	35%
Derived-value	7,387	4,734	7,915
<b>FV of PF stake</b>	<b>996</b>		
% in PF st. NAV	6.92%		
% in PF fair NAV	7.04%		

\*2011 price multiples



\* based on Securities Commission's rules



### Ownership Structure

Ministry of Economy	85.0%
Fondul Proprietatea	15.0%

### Analyst

**Manuela Ogrinja**

Equity Research Analyst

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## Key figures

### Operating data

No of production fields	153
Market share in natgas production	51.0%
Market share in natgas imports	26.5%
Capex 2010 (RONm)	860

## Company profile

Romgaz is the national (majority state-owned) natgas producer, with a 51% weight in the domestic output. In 2009, it accounted for 27% of natgas imports and 47% of the total domestic gas consumption. Through its two production branches, Romgaz operates over 153 production fields in Romania (generally mature, with a production period exceeding 25 years) comprising 3,600 wells with an annual output of 7bn m3. It also operates 6 underground storages with a 2,760m m3 capacity jointly, with tariffs falling under ANRE regulation.

In 2009, Romgas natgas sales were directed 20.4% to Interagro group (mainly involved in agriculture and fertilisers production – the latter partially halted following the state's decision to cease natgas supply at production prices) and 10.5% to Azomures (fertiliser producer); the balance was almost equally split between Electrocentrale Bucuresti (energy producer), GDF Suez Energy Romania (energy supplier) and E.ON Gaz Romania (energy distributor and supplier). Overall, the company's clients include 4 distribution companies, 11 suppliers and 13 eligible consumers. Warehousing services are mainly provided to OMV Petrom, GDF Suez Energy and E.ON Gaz Romania.

In Romania, Romgaz is partner in fifteen petroleum concessions with Wintershall AG, Amromco Energy, Aurelian Oil & Gas and Europa Oil & Gas for petroleum operations and with Schlumberger Logelco Inc. for rehabilitation works. Romgaz also makes efforts to expand gas and oil operations outside Romania - in 2008 it started cooperation in Slovakia and Poland for exploration programs.

The expected convergence of the natgas production price to the imports' price level represents the key growth driver for the company.

## Financial Data

### Romgaz: Income Statement (RAS)

RON m	2008	2009	2010e	2011e
<b>Sales</b>	<b>3,280</b>	<b>3,194</b>	<b>3,390</b>	<b>3,394</b>
Operating expenses	2,976	2,845	2,988	2,964
<b>EBIT</b>	<b>719</b>	<b>717</b>	<b>697</b>	<b>695</b>
EBITDA*	1,062	1,292	1,214	1,165
Interest expenses	2	2	1	1
<b>Net Profit /(Loss)</b>	<b>537</b>	<b>572</b>	<b>509</b>	<b>469</b>

Source: FP Listing Prospectus, company data, EFG Eurobank Securities

\* computed as EBIT+depreciation

### Romgaz: Balance Sheet (RAS)

RON m	2008	2009	2010e	2011e
Current assets	3,078	3,539	2,967	2,795
of which Cash	1,830	1,163	536	453
Fixed assets	5,178	5,516	5,691	5,893
<b>Total assets</b>	<b>8,259</b>	<b>9,060</b>	<b>8,664</b>	<b>8,694</b>
Current Liabilities	402	455	455	455
of which Bank loans	5	6	4	4
Non-Current Liabilities	17	12	8	8
of which Bank loans	17	12	8	8
<b>Total liabilities</b>	<b>419</b>	<b>467</b>	<b>463</b>	<b>463</b>
<b>Shareholders' Equity</b>	<b>7,585</b>	<b>8,308</b>	<b>7,831</b>	<b>7,843</b>
<b>Total Liabilities and Equity</b>	<b>8,259</b>	<b>9,060</b>	<b>8,664</b>	<b>8,694</b>

Source: FP Listing Prospectus, company data, EFG Eurobank Securities

### Romgaz: Profitability and liquidity ratios (RAS)

RON m	2008	2009	2010e	2011e
Sales growth	0.3%	-2.6%	6.2%	0.1%
EBIT growth	-5.4%	-0.3%	-2.8%	-0.3%
EBITDA growth	n/a	21.7%	-6.0%	-4.1%
Net Profit growth	5.5%	6.5%	-11.2%	-7.7%
EBIT margin	21.9%	22.4%	20.6%	20.5%
EBITDA margin	32.4%	40.5%	35.8%	34.3%
Net Profit margin	16.4%	17.9%	15.0%	13.8%
Effective tax rate	37.0%	31.1%	31.0%	31.0%
ROE	8.5%	7.2%	6.3%	6.0%
ROA	7.7%	6.6%	5.7%	5.4%
Dividend payout ratio	50.8%	102.4%	90.0%	90.0%
Quick ratio	7.7	7.8	6.5	6.1
Net debt / Equity	6.4	5.4	4.1	3.8
LT liabilities / Equity	net cash	net cash	net cash	net cash

Source: FP Listing Prospectus, company data, EFG Eurobank Securities

### Romgaz: Key operating data

bn m3	2008	2009	2010e	2011e
Production Natgas sales to:				
distributors	1.84	1.68	1.51	1.36
eligible consumers	3.74	3.88	4.07	4.07

Source: FP Listing Prospectus, company data, EFG Eurobank Securities



## BRIEF HISTORY OF THE FUND

Fondul Proprietatea was set up to enable the Romanian State to satisfy the claims of the former owners whose properties (such as houses, land and forests) were nationalised by the communist regime and whose property rights have not yet been settled in-kind or otherwise.

The former owners of nationalised assets who cannot receive their assets as such are being offered shares in the Fund or cash, if the amount of the compensation is below RON 0.5m.

### Legal Framework

- ⇒ The law 247/2005 provides the legal framework for the establishment of the Fund and amends the previous legislation on the restitution of property;
- ⇒ Government Decision 1481/2005 provides the establishment of the Fund as closed-end investment fund;
- ⇒ Emergency Ordinance 81/2007 issued to speed up the restitution process.

### Legal status

The Fund operates as a closed-end investment fund and is organised as a joint-stock company, initially owned 100% by the Romanian State, represented by the Ministry of Finance.

### How does the compensation process take place?

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 RC owners have two options:

- ⇒ they can swap them into Fondul Proprietatea shares, free of any costs or taxes, proportionally to the amount of the compensation granted (number of shares = Value of RC / weighted average market price), or
- ⇒ they can ask for the cash-in of the RC as long as its value does not exceed RON 0.5m
- ⇒ the option of converting the RCs into cash has been enforced by law in June 2007.

Conversion of RCs will be suspended at the FP floating, until the date falling on a Monday of the second calendar week after the first 60 trading sessions.

### Management of the Fund

The SGM held in Sept 2010 appointed Franklin Templeton Investment Management Ltd (UK) as the fund's sole administrator, for a 4-year mandate starting with Sept 29, 2010, that can subsequently be prolonged.

The SGM also approved the company's new bylaws, which stipulates that the administrator's activity is supervised by a Nominees Board made up of 5 members, with a 3-year mandate.

### Selected advisors

- **Asset manager: Franklin Templeton Investment Management Ltd**
- **Depository services provided by Bancpost.**

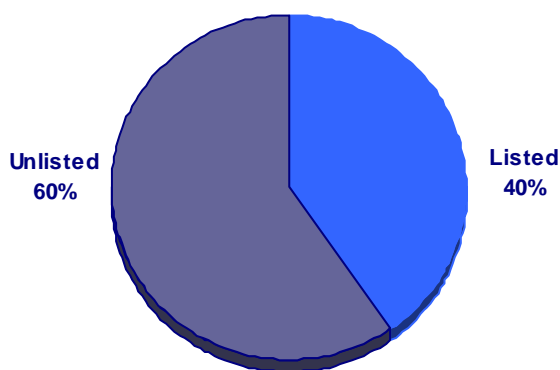
## PORTFOLIO ANATOMY

### Listed stocks represent 40% of FP portfolio

The fund portfolio is invested 40% in public companies based on our valuation (or 39% of the portfolio value assessed based on the Securities Commission's rules).

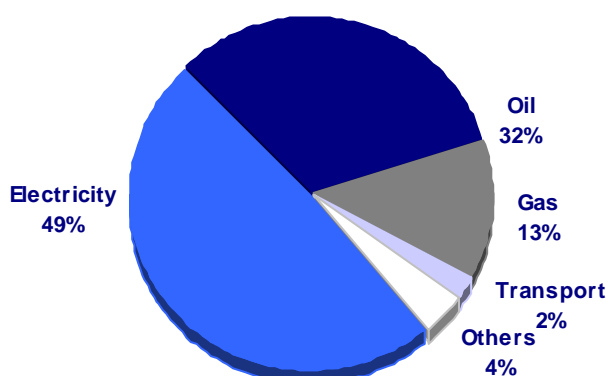
On activity sectors, the portfolio is split 49% on electricity (production, distribution and transport jointly), 32% on oil (with the largest weight OMV Petrom), 13% gas sector (production, distribution and transport), 2% transport (Bucharest Airports having the largest weight) and 4% represents other companies operating in different sectors (the largest is the Aluminum producer Alro).

**Portfolio Structure: Listed vs Unlisted\***



\* based on EFG Eurobank Securities Valuation

**Portfolio Structure by Sector\***



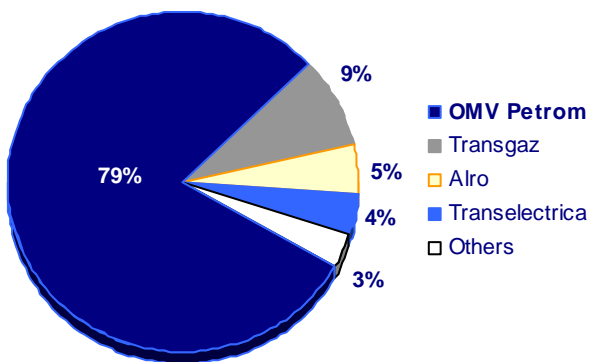
\* based on EFG Eurobank Securities Valuation

### OMV Petrom accounts for 79% of the listed portfolio, Hidroelectrica for 34% of unlisted

In the fund's listed portfolio, OMV Petrom (leading integrated oil&gas player in CE/SEE) is by far the most valuable holding, with a 79% weight according to our valuation. The fund's stake in Petrom amounts to 20%, and it will be the second largest shareholder after OMV if the Romanian state completes the announced divestiture of 9.7% from its actual 20.6% interest in the company.

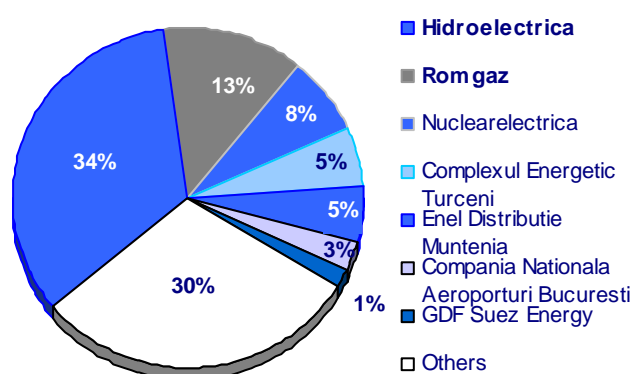
We might say that the unlisted portfolio is positively more fragmented compared to the listed one, though the weight of the country's top electricity producer Hidroelectrica may be deemed as large (34% of unlisted).

**LISTED Portfolio Structure\***

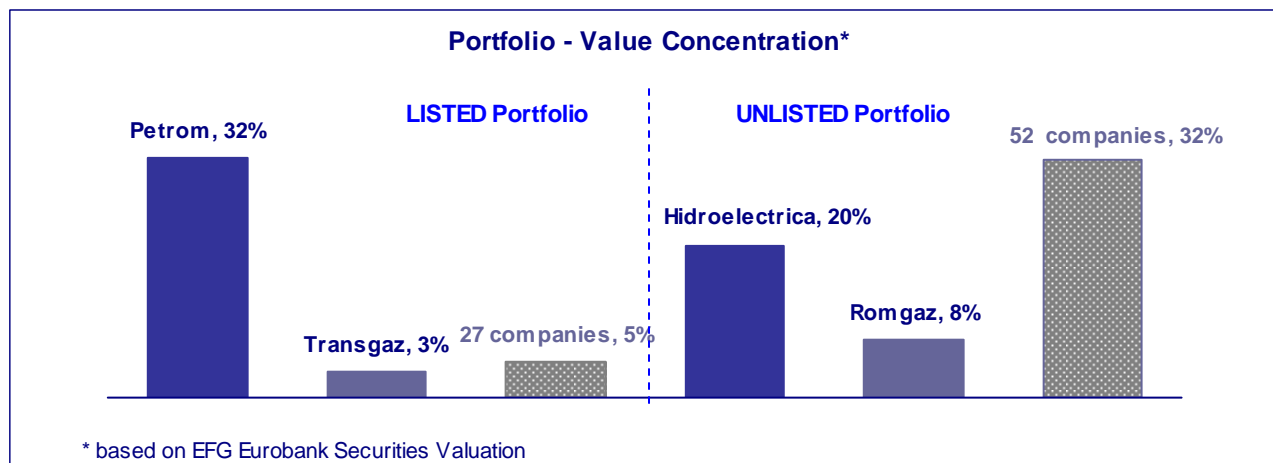


\* based on EFG Eurobank Securities Valuation

**UNLISTED Portfolio Structure\***



\* based on EFG Eurobank Securities Valuation



Overall, in terms of number of companies, two issuers (Petrom and Hidroelectrica) account for 52% of the value of the fund's portfolio, other 2 companies (Transgaz and Romgaz) weight 11% jointly, while 79 make the 37% balance.

**Controlled entities:  
0.3% of fund value**

The fund owns controlling interest in a number of 9 companies (or 0.3% of the portfolio value jointly), while the rest are minority interests.

**Significant interests in  
players of the  
Romanian power  
sector**

The fund has the largest exposure to the electricity market, with the 20% stake owned in Hidroelectrica accounting for over 24% of the total portfolio (at fair value). The fund also holds between 10% - 25% in nuclear/coal and other hydro generators, power distributors and suppliers in the sector; most of these companies are accounting for below 2% of FP portfolio each.

Based on our valuation, the cumulated value of the fund's shareholdings in the power sector stands at RON 6.3bn or 49% of total portfolio.

**ELECTRICITY SECTOR - Valuation Summary**

Company	Sector	Status	FP Stake	FAIR Value (RON m)	% of Fair	Official Value* (RON m)	% of Official
Hidroelectrica	Hydro power generation	unlisted	19.9%	2,620.8	20.3%	2,464.8	20.2%
Nuclearelectrica	Nuclear power generation	unlisted	9.7%	578.9	4.5%	528.8	4.3%
Enel Distributie Muntenia	Electricity distribution	unlisted	12.0%	423.7	3.3%	243.5	2.0%
Complexul Energetic Turceni	Electricity production & supply	unlisted	24.8%	422.5	3.3%	397.5	3.3%
Enel Distributie Banat	Electricity distribution	unlisted	24.1%	374.9	2.9%	208.5	1.7%
Electrica Distributie Muntenia Nord	Electricity distribution	unlisted	22.0%	273.4	2.1%	174.1	1.4%
Enel Distributie Dobrogea	Electricity distribution	unlisted	24.1%	256.9	2.0%	145.7	1.2%
Complexul Energetic Craiova	Electricity production & supply	unlisted	25.0%	214.8	1.7%	200.4	1.6%
Electrica Distributie Transilvania Sud	Electricity distribution	unlisted	22.0%	214.4	1.7%	135.6	1.1%
Complexul Energetic Rovinari	Electricity production & supply	unlisted	23.6%	213.6	1.7%	188.4	1.5%
Transelectrica	Electricity transport	listed	13.5%	205.2	1.6%	181.4	1.5%
E.ON Moldova Distributie	Electricity distribution	unlisted	22.0%	203.2	1.6%	135.7	1.1%
Electrica Distributie Transilvania Nord	Electricity distribution	unlisted	22.0%	197.5	1.5%	126.7	1.0%
Enel Energie Muntenia	Electricity supply	unlisted	12.0%	23.9	0.2%	27.8	0.2%
Enel Energie	Electricity supply	unlisted	12.0%	20.0	0.2%	17.7	0.1%
E.ON Moldova Furnizare	Electricity supply	unlisted	22.0%	11.8	0.1%	24.5	0.2%
Electrica Furnizare Transilvania Sud	Electricity supply	unlisted	22.0%	11.5	0.1%	6.7	0.1%
Electrica Furnizare Muntenia Nord	Electricity supply	unlisted	22.0%	8.9	0.1%	2.3	0.0%
Electrica Furnizare Transilvania Nord	Electricity supply	unlisted	22.0%	7.0	0.1%	4.9	0.0%
<b>Total</b>				<b>6,283</b>	<b>48.8%</b>	<b>5,215</b>	<b>42.8%</b>

Source: Company, EFG Eurobank Securities

\* based on the Securities Commission's rules

### A 20% stake held in the oil market leader OMV Petrom

The fund owns a significant stake in OMV Petrom, top player in the sector (sole crude producer in Romania, enjoying a 40% comfortable share on the domestic retail market). The stock accounts for 32% of the fund's portfolio, with a DCF-derived target price (as at Dec/11) showing roughly a 7% upside potential of its trading level.

### OIL SECTOR - Valuation Summary

Company	Sector	Status	FP Stake	FAIR Value (RON m)	% of Fair	Official Value* (RON m)	% of SEC
OMV Petrom	Oil & gas	listed	20.1%	4,103.2	31.9%	3,800.1	31.2%
Conpet	Crude oil supply	listed	20.1%	64.2	0.5%	46.9	0.4%
Oil Terminal	Oil services	listed	10.0%	13.7	0.1%	15.1	0.1%
Petrotel - Lukoil	Oil products manufacturing	delisted	2.2%	-	0.0%	-	0.0%
<b>Total</b>				<b>4,181</b>	<b>32.5%</b>	<b>3,862</b>	<b>31.7%</b>

Source: Company, EFG Eurobank Securities

\* based on the Securities Commission's rules

### 60% of the natgas exposure is related to Romgaz

As much as 13% of the fair portfolio value of FP is invested in the gas market. Of this slice, around 60% is represented by the interest held in Romgaz, the country's leading gas producer (51% of the domestic output roughly), controlled by the Romanian stake. Official plans are that by year-end, Romgaz becomes a public company and joins Transgaz on the Bucharest Stock Exchange (thus increasing the fund's listed investments in the sector). Question remains the Romanian state puts into practice its decision to divest 15% of the company by floating it.

### NATURAL GAS SECTOR - Valuation Summary

Company	Sector	Status	FP Stake	FAIR Value (RON m)	% of Fair	Official Value* (RON m)	% of SEC
Romgaz	Gas production & distribution	unlisted	15.0%	995.8	7.7%	934.1	7.7%
Transgaz	Gas transport	listed	15.0%	449.9	3.5%	438.8	3.6%
GDF Suez Energy	Gas distribution	unlisted	12.0%	109.2	0.8%	227.0	1.9%
E.ON Gaz Distributie	Gas distribution	unlisted	12.0%	42.3	0.3%	80.9	0.7%
E.ON Gaz Romania	Gas supply	unlisted	12.0%	37.2	0.3%	74.2	0.6%
<b>Total</b>				<b>1,634</b>	<b>12.7%</b>	<b>1,755</b>	<b>14.4%</b>

Source: Company, EFG Eurobank Securities

\* based on the Securities Commission's rules

### 2% exposure to the transportation sector

FP has a slight exposure to the transportation sector through its 2% shareholdings in four airports (2 located near Bucharest and the others in large cities as Timisoara and Constanta, western and SE Romania respectively) and in four port operating national companies. Bucharest Airports Company is the largest air transportation player in Romania (2009 market share of 71% in terms of airport traffic) and accounts for 5% of the fund's portfolio fair value.

### TRANSPORT SECTOR - Valuation Summary

Company	Sector	Status	FP Stake	FAIR Value (RON m)	% of Fair	Official Value* (RON m)	% of SEC
Compania Nationala Aeroporturi Bucuresti	Air transport	unlisted	20.0%	213.8	1.7%	754.2	6.2%
CN Administratia Porturilor Maritime	Water transport	unlisted	20.0%	36.1	0.3%	45.3	0.4%
CN Administratia Canalelor Navigabile	Water transport	unlisted	20.1%	9.9	0.1%	11.8	0.1%
Aeroportul International Timisoara - Traian Vuia	Air transport	unlisted	20.0%	14.0	0.1%	3.7	0.0%
CN Administratia Porturilor Dunarii Fluviale	Water transport	unlisted	20.0%	1.5	0.0%	2.8	0.0%
Aeroportul International Mihail Kogalniceanu	Air transport	unlisted	20.0%	0.6	0.0%	1.9	0.0%
CN Administratia Porturilor Dunarii Maritime	Water transport	unlisted	20.0%	0.9	0.0%	1.3	0.0%
<b>Total</b>				<b>277</b>	<b>2.1%</b>	<b>821</b>	<b>6.7%</b>

Source: Company, EFG Eurobank Securities

\* based on the Securities Commission's rules

## SHAREHOLDING STRUCTURE

### The Romanian state's shareholding down to 39% at Dec 2010

The fund was established as a closed-end entity, with the state initially as sole shareholder. In July 2010, following the Law no 142/2010 (which approved the Emergency Ordinance no 81/2007), the share capital was decreased by RON 483m to account for the capital unpaid by the Ministry of Finance and increased by RON 21m from the conversion of receivables from the state's foreign activities carried out before 1989. At July 2010, Ministry of Finance held a 52.8% stake in the fund.

The recently announced shareholding structure, as of end-2010, shows the Ministry of Finance holding a 38.9% stake (following compensations in the form of shares granted in December), with the balance of shares owned 19.5% by legal entities and 41.6% by individuals. Largest individuals reported at Nov 2010 were pre-WW2 successors Malaxa and Palade, with a 7.3% holding jointly.

Shareholding Structure (as on Dec 31, 2010)			
Shareholders	No of Shareholders	% of Share Capital	No of Shares (m)
<b>Ministry of Finance</b>	<b>1</b>	<b>38.9%</b>	<b>5,358</b>
<b>Other Legal entities</b>	<b>175</b>	<b>19.5%</b>	<b>2,685</b>
below 1%	170	9.4%	1,300
over 1%	5	10.1%	1,385
<b>Individuals, total</b>	<b>5,196</b>	<b>41.6%</b>	<b>5,736</b>
below 1%	5,193	33.7%	4,641
over 1%	3	7.9%	1,095
<b>TOTAL</b>	<b>5,372</b>	<b>100.0%</b>	<b>13,778</b>

Source: Company

Over Sept - Dec 2010, as much as 10.1% of the shares were transferred to new shareholders from the Ministry of Finance and trades on the OTC accounted for 13.1% of the share capital.

### Voting rights granted based on a special scheme

The fund's incorporation documents specify that as long as the Ministry of Finance holds over 33% of the total number of shares, the voting rights of shares owned by all other shareholders are granted based on a scheme with special thresholds.

Owners of stakes over 5% receive voting rights only for the shares falling below the 5% threshold, according to the table included below (we computed a 2.7% voting rights cap based on the total no of shares).

As of Nov 31, 2010, total number of voting rights stood at 12.79m.

Voting Rights Granting Scheme		
Stake owned		Voting rights granted
<b>up to 1% inclusively</b>		1 share = 1 Voting Right
<b>between 1% and 3%</b>	for 1% stake threshold:	1 share = 1 Voting Right
	between 1% and 3% thresholds:	2 shares = 1 Voting Right
<b>between 3% and 5%</b>	for 1% stake threshold:	1 share = 1 Voting Right
	between 1% and 3% thresholds:	2 shares = 1 Voting Right
	between 3% and 5% thresholds:	3 shares = 1 Voting Right
<b>over 5%</b>	for 1% stake threshold:	1 share = 1 Voting Right
	between 1% and 3% thresholds:	2 shares = 1 Voting Right
	between 3% and 5% thresholds:	3 shares = 1 Voting Right
	over the 5% threshold:	No Voting Right

Source: Company

### **EGM in Sept approved 10% shares redemption at most by March 2012**

The EGM held on Sept 6, 2010 approved the redemption of 1,375.76m shares at most, accounting for maximum 10.0% of the share capital, with deadline on March 2012, at a price ranging between RON 0.2 – RON 1.5 per share. Shares are to be purchased after the floating on the BVB and the goal is most likely to sustain the stock trading.

At the meeting organised with the research analysts in January 2011, the fund representatives stated that the date to start redemption was not set so far, the acquisition procedures would be disclosed to the public and no tender process would be organised to select a brokerage house.

### **Legal provisions regarding the share capital / general meetings**

Once the shareholding of the Ministry of Finance abates below 33%, the fund's EGM may decide to change the voting rule, as well as on the meetings' quorum. Presently, SGMs can be held with a quorum of 25% of the voting rights and decisions made with simple majority (50%) of the votes cast at the first call; no quorum and simple majority of the votes cast are respectively required for the 2<sup>nd</sup> call. EGMs require the same terms at the 1<sup>st</sup> call, while for the 2<sup>nd</sup> call they need a 20% quorum and decisions are made with majority.

### **Awaited cash contributions**

Also, according to the law, the fund is entitled to receive additional cash contributions to its share capital from the Romanian state, to the extent the privatisation process moves forward. The fund should receive:

- 3% of the amounts cashed-in by Romanian institutions involved in the privatisation process of Romtelecom, at every sale, until the entire stake of the Govt is sold
- 20% of the amounts received by the government from the Romtelecom privatisation.
- 9.9% of the amount received by the government from the Romanian Savings Bank privatisation (CEC).

## **MANAGEMENT / INVESTMENT POLICY**

### **Franklin Templeton: sole administrator, activity supervised by a 5-member Nominees Board**

The SGM held on Sept 6, 2010 appointed Franklin Templeton Investment Management Ltd (UK) as the fund's sole administrator. Its mandate lasts 4 years starting with Sept 29, 2010 and can be subsequently prolonged.

The SGM in Sept 2010 also approved the company's new by-laws, which stipulates that the administrator's activity is supervised by a Nominees Board made up of 5 members. Their mandate is for 3 years starting on Sept 29, 2010. The Nominees Board will put into practice the investment policy, observing the investment restrictions provided by the by-law.

Annual fees to be received by Franklin Templeton after the listing are based on the fund's market capitalization and include: 0.379% fee for portfolio management plus 0.1% for the fund administration.

### **Prudent investment restrictions imposed by law**

The Fund Manager decides upon investments accounting for up to 5% of the fund's total assets; higher value needs the shareholders' approval.

The recently approved bylaws also includes the following general allocation rules, as % of total assets, with respect to the fund's investments (these regard a target portfolio, as any portion of the initial portfolio is exempted from the general rules):

- max 20% exposure to unlisted securities and fixed income instruments, except for T-bills and T-bonds
- max 10% investments in financial instruments of one issuer
- max 10% exposure to securities issued by entities belonging to the same group
- max 20% in cash (the limit can be extended to 50% in some cases such as sales of financial assets, but the extension lasts for max 90 days); deposits in one banking entity cannot exceed 10% of the fund's assets
- max 10% exposure in transactions with derivatives traded outside regulated markets, with a 15% maximum global exposure to derivatives; the above limits cannot be exceeded for a period over 120 calendar days.



The revised bylaws also include provisions regarding minimum 20% of the fund's assets to be invested in domestic and international equities, including shares in IPOs and in securities and investment units in mutual funds.

Also, the fund can only invest in money market securities and corporate bonds of issuers rated higher than "Investment grade".

**Investment policy:  
decrease no of stocks  
and move towards a  
listed portfolio**

According to the Listing Prospectus, the Fund Manager will make efforts to:

- achieve portfolio diversification
- reduce the number of invested companies by selling to the public or by direct transactions with majority shareholders
- increase the number of listed companies in the fund portfolio, including floating some private issuers.

**Focused on protection  
of the value of  
investments**

The fund is extremely active on the management of the companies in its portfolio, though holding non-majority positives did not allow it to take effective measures. The fund is focused on improving the corporate governance of the companies controlled by the state, by using available legal tools to protect and enhance the value of its investments.

Specifically, in Romgaz case, the fund filed a legal complaint against the RON 400m donation and reportedly called a general meeting of the company's shareholders on Jan 17 to replace the state representatives who voted for the funds transfer. Although there are poor chances for positive outcomes, we believe the fund has the right attitude by signaling operations which favor majority shareholders and penalize minority ones, and might prevent similar actions to be taken by the state.

## DIVIDENDS

**The administrator to  
ask the SGM the  
distribution of  
dividends accounting  
for 100% of the  
"distributable NP"**

According to the Prospectus, in the next years the administrator intends to propose to the annual SGM to grant 100% of the distributable NP (in RAS terms), under the circumstance of no exceptional events. The administrator generally computes the "distributable NP" as income from dividends generated by the asset portfolio and interest on bank deposits, after deducting tax and other expenses and the legal reserve as well. Management stressed that realized capital gains will be used to finance portfolio investments. According to legal provisions in force, the legal reserve annual contribution accounts for 5% of the PBT and is mandatory until the legal reserve reaches 20% of the share capital (presently, the fund's legal reserve only accounts for 0.57% of the share capital, according to the Prospectus).

In 2008, the fund did not pay dividends to shareholders due to unrealized losses of its asset portfolio. The dividends from the fiscal year 2008 were granted jointly with those from the fiscal year 2009 (RON 0.0816/sh).

2010e gross DPS of  
RON 0.0164 and  
divyield of 3.3% based  
on last OTC price

Dividends Distribution				
RON m	2007	2008	2009	2010e
Net Profit	313.11	467.70	730.14	239.23
Legal reserve (5% of PBT)		23	37	13
NP distributable as dividends		444	694	226
Gross dividends	90	0	1,124	226
no of shares	13,625	13,679	13,778	13,778
Gross dividend per share (RON)	0.0066	0	0.0816	0.0164
Payout ratio (% of NP)	29%	0	94%	95%

Source: Company, EFG Eurobank Securities



**State-owned companies – min 90% payout ratio in 2010**

The FY 2010 NP stands at RON 456m (as disclosed in the end-December NAV statement), significantly higher vs RON 239m recorded during Jan-Nov. According to the management, the increase is mostly due to the reversal of assets impairment provisions, which are not explicitly included from the “distributable NP”. As such, we considered the 2010 distributable NP at the level recorded in the first 11 months, and arrived at a gross dividend of RON 0.0164 per share. This translates into a 2010 gross dividend yield of 3.3% (based on RON 0.5/sh last transaction price on the OTC market).

It is worthwhile to mention for FY2010, the state-owned companies are required to grant minimum 90% of the net profit after deducting the legal reserve as dividends (50% mandatory payout ratio before). Consequently, as long as the companies in the fund’s portfolio will gradually improve profitability and hence their payout ratios, higher cash inflows might be expected into the fund accounts with positive impact to its shareholders.

## OFFICIAL VALUATION

**Official valuation is based on the Securities Commission’s rules**

The NAV computation methodology is in line with the Securities Commission Regulation No. 15/2004, Regulation No. 4/2010 and Rules No 17/2010, with the following provisions:

**Net Asset Value = Total Assets – Liabilities – Accrued Income**

The listed holdings are valued as follows:

- last closing price for the securities / money market instruments traded in the past 30 days
- BV according to the last financial statement or the fair value in line with International Valuation Standards

For companies reporting changes in face value, distribution of bonus shares or other similar corporate actions the International Valuation Standards also apply.

The valuation of unlisted holdings is based on issuer’s equity according to its last financial statement or the fair value in line with International Valuation Standards, with the following discounts:

- zero discount for stakes in excess of 50%
- 15% discount for stakes between 33% and 50%
- 25% discount for stakes between 5% and 33%
- 50% discount for stakes below 5%.

For stakes in companies with negative equity or for companies under liquidation - valuation is zero.

Valuation of fixed income financial instruments admitted to trading on a regulated market is based on one of the following calculation methods, provided that such method is maintained at least one year:

- based on the last closing price of the main market section on the day for which the calculation is made
- based on the daily calculation of the interest for the time interval accrued from the date of the placement.

Valuation of fixed income financial instruments which are not admitted to trading is based on the daily calculation of interest accrued from the date of acquisition.

Appendix 1 shows the official NAV computation for Fondul Proprietatea as of December 31, 2010.

## FONDUL PROPRIETATEA vs SIFs

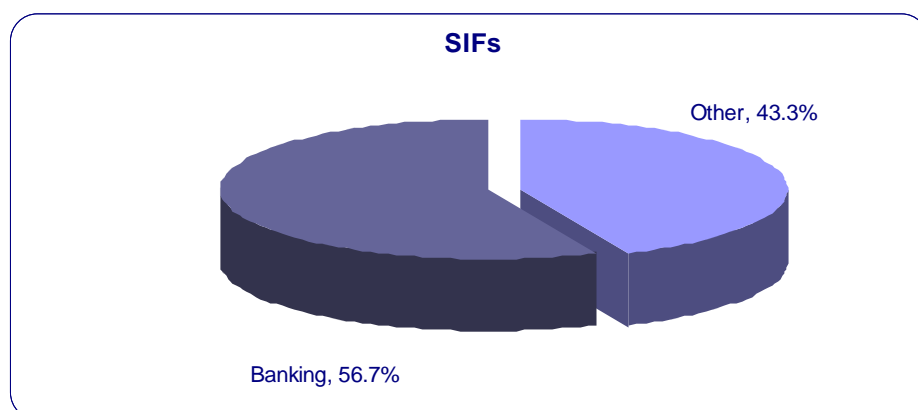
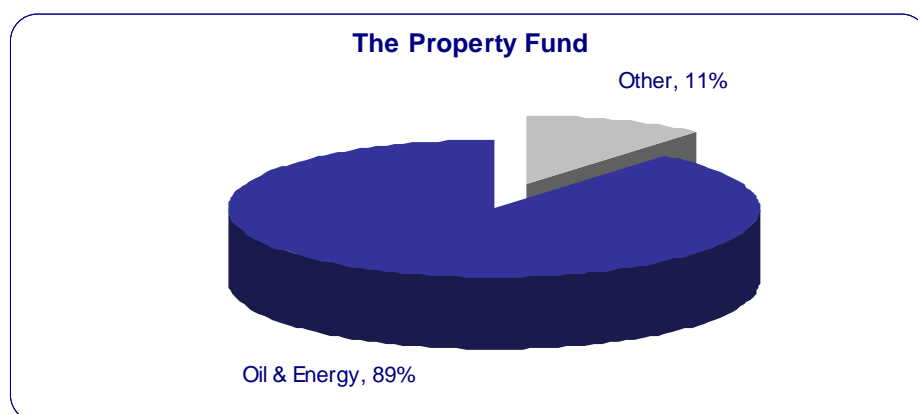
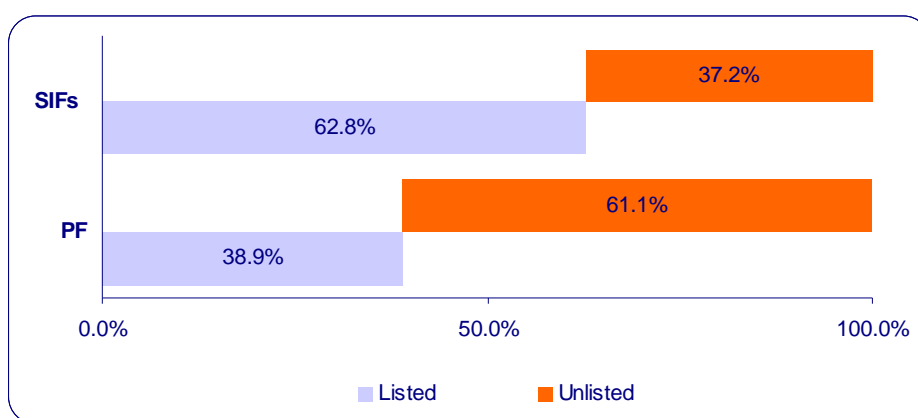
### Complementary holdings

We see Fondul Proprietatea and SIFs complementary holdings, providing diversification benefits and the opportunity of a unique macro play. By combining the two stocks, investors will get exposure to the Romanian banking and energy sectors, otherwise impossible to reach.

The financial and industry sectors (including energy-related business) account together for c.39% of 2009 GDP while more focused calculations show that sales of the most important companies in the two stocks' portfolios amount to c.20% of 2009 GDP.

### Dissimilar portfolio structures

The SIFs have c. 37% unlisted holdings, banking sector prevailing with c. 50% of total value (on avg, BCR and BRD), while FP holds more than 61% of its assets in private companies, and c. 90% of total holdings in the energy sector. However, the FP unlisted assets might decrease, as we expect the fund to push Govt to list minority stakes in companies included in the FP portfolio.



	SIFs	Property Fund
<b>Management company<sup>1)</sup></b>	BoD / Asset mgt company	Franklin Templeton
<b>Prevailing sector / % in GDP<sup>2)</sup></b>	Banking/financials / 15.1%	Energy / 23.7%
<b>Stock market</b>	BSE -First Tier	BSE -First Tier
<b>No of shareholders</b>	c. 6 mil	5,372
<b>No of companies<sup>3)</sup></b>	221	83
<b>Shareholding limit</b>	1%	none
<b>Voting rights cap<sup>4)</sup></b>	1.00%	2.67%
<b>Free float (%)<sup>3)</sup></b>	86%	61%
<b>Discount to fair NAV (%)<sup>5)</sup></b>	50.2%	42.1%
<b>Listed holdings valuation</b>	90-day weighted avg closing price	Last closing price / BV or Fair value
<b>Unlisted holdings valuation</b>	BV	BV or Fair value
<b>Mgt fees<sup>6)</sup></b>	Poor visibility (c. 0.5% on avg)	0.479%
<b>No of trades / Volume<sup>7)</sup></b>	9,029 / 7.5%	496 / 2.7%
<b>Investment strategy</b>	semi-passive	officially active, we expect passive
<b>Portf. manager experience</b>	domestic market	worldwide recognized

Source: Company, SIFs, EFG estimates; 1) Asset mgt for SIF4; 2) Financial sector (SIFs) and industry sector (PF) data % in GDP; 3) Avg for the five SIFs; 4) voting rights scheme for PF; 5) FP discount based on last OTC price; 6) PF: % in Mkt cap, 0.379% portf mgt fee, 0.1% fund administration fee; SIFs: % in crt mkt cap, 2008 official data ; 7) PF Dec 2010 data, Volume as % in total sh. capital;

#### Main differences

As our analysis reveals, Fondul Proprietatea trades at broadly same discount vs Fair NAV with the SIFs (considering the last OTC trades).

In terms of investment risks, we see higher political risk for the fund, while the regulatory risk prevails for both investments, given their exposure towards two highly regulated industries.

In terms of official valuation methods (SEC regulations), there are two main differences:

- Fondul Proprietatea uses last trading price for listed shares instead of 90-day weighted average for the SIFs
- The fund is allowed to use Fair NAVs instead of BV for the unlisted shareholdings, when deemed appropriate. The SIFs use only the latest available BV to derive the value of their holdings.

#### Write-downs accounting

As regards the financial assets write-downs, Fondul Proprietatea sets off the value of financial assets adjustments against the shareholders equity positions (reserve account), instead of charging the P&L (provisions expenses). Following CNVM decision in March 2009, reflecting the Fourth Council Directive 78/660/EEC provisions, the five SIFs may choose between the two methods (2009 data: SIF1, SIF3, SIF5 – B&S, SIF2 – mixed, SIF4 – P&L).

In addition, some important differences are found at the management level and shareholding structure.

#### Management may be one of the key differences

Franklin Templeton's appointment as fund manager may favor FP, as the market expects higher visibility, clearer investment strategy and performance-oriented management. On the other hand however, SIFs management may have mastered by now the domestic environment (including political, regulatory, social and economic factors), while the FP's newly appointed asset management company will have to cope with the domestic landscape.

#### The shareholding structure differs significantly

The FP's concentrated shareholders may point to a better decisional process, while the SIFs larger number of shareholders remains one of their main drawbacks.

On the flip side, the state's controlling stake in the FP induces a high political risk which may prevent the fund's manager to build long term (active) strategies.

<b>Net Asset Value official computation, CNVM regulation</b>		
<b>RON</b>	<b>Nov-10</b>	<b>Dec-10</b>
<b>1. Fixed Assets, out of which:</b>	<b>9,902,446,733</b>	<b>9,175,899,947</b>
1.1. Intangible Assets	0	0
1.2. Tangible Assets	0	0
<b>1.3. Financial Assets, out of which:</b>	<b>9,902,446,733</b>	<b>9,175,899,947</b>
1.3.1. Listed shares	36,048,756	30,800,181
1.3.2. Unlisted shares	9,866,313,140	9,145,014,928
1.3.3. T-Bills	0	0
1.3.4. CDs	0	0
1.3.5. Bank deposits	0	0
1.3.6. Municipal bonds	0	0
1.3.7. Corporate bonds	0	0
1.3.8. Newly issued securities	0	0
1.3.9. Titles in other funds	0	0
1.3.10. Other financial assets	84,837	84,837
<b>2. Current Assets, out of which:</b>	<b>6,128,796,448</b>	<b>6,235,948,392</b>
2.1. Inventories	0	0
2.2. Receivables	3,556,520	5,979,120
2.3. Cash	25,262,372	7,207,865
2.4. Short-term financial investments:	4,703,757,610	4,903,476,207
2.4.1. Listed shares	4,703,757,610	4,903,476,207
2.4.2. Unlisted shares	0	0
2.4.3. Municipal bonds	0	0
2.4.4. Corporate bonds	0	0
2.4.5. Titles in other funds	0	0
2.5. Newly issued securities	0	0
2.6. T-Bills	207,775,562	248,021,475
2.7. Bank deposits	1,188,444,384	1,071,263,726
2.8. CDs	0	0
2.9. Other current assets	0	0
<b>3. Derivatives</b>	<b>0</b>	<b>0</b>
<b>4. Prepaid expenses</b>	<b>30,927</b>	<b>31,004</b>
<b>5. Total Assets</b>	<b>16,031,274,108</b>	<b>15,411,879,343</b>
<b>6. Total Debts</b>	<b>115,290,018</b>	<b>69,287,396</b>
6.1. Bonds	0	0
6.2. Debt to credit / leasing companies	0	0
6.3. Advances from customers	0	0
6.4. Trade debt	19,022,295	25,529,058
6.5. Commercial notes	0	0
6.6. Debt to other entities in the group	0	0
6.7. Other debt	96,267,723	43,758,338
<b>7. Provisions</b>	<b>14,121,232</b>	<b>14,424,098</b>
<b>8. Accrued revenues</b>	<b>0</b>	<b>0</b>
<b>9. Shareholders' Equity</b>	<b>15,901,862,858</b>	<b>15,328,167,849</b>
9.1. Share capital	13,778,392,208	13,778,392,208
9.2. Share premia	0	0
9.3. Revaluation reserves	5,052,409,514	3,188,768,385
9.4. Reserves	-3,242,443,873	-2,146,209,927
9.5. Results carried forward	74,278,645	74,278,645
9.6. Current results	239,226,364	456,307,908
9.7. Profit distribution	0	-23,369,371
<b>10. Total Liabilities and Equity</b>	<b>16,031,274,108</b>	<b>15,411,879,343</b>
<b>11. Net Asset Value</b>	<b>15,901,862,858</b>	<b>15,328,167,849</b>
12. Number of issued shares	13,778,392,208	13,778,392,208
<b>13. NAV per share</b>	<b>1.1541</b>	<b>1.1125</b>
<b>14. No of companies in the portfolio</b>	<b>83</b>	<b>83</b>
14.1. Listed on the regulated market	28	28
14.2. Listed on the ATS	0	0
14.3. Unlisted companies	55	55

Source: FP's monthly reportings

## Appendix 2

## ELECTRICITY SECTOR OVERVIEW

### Sector fully liberalised (theoretically)

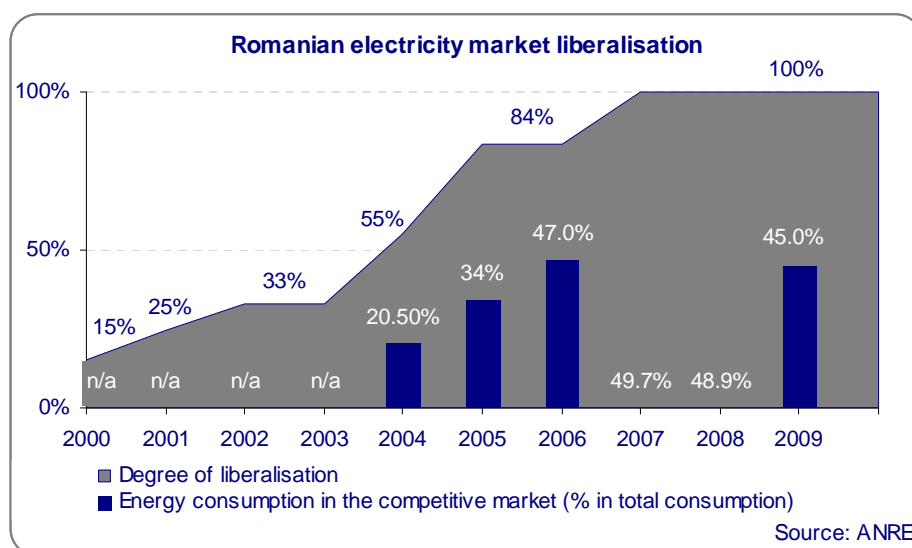
- Total installed energy production capacity in Romania amounts to 20.4 GWh, split as follows: 36% coal-fired power stations, 31% hydro-electric plants, 26% hydrocarbon-based power plants and c.7% nuclear energy
- Electricity volume strongly correlated with the economic growth. After the upward trend in 2000-2008, in 2009 the consumption severely dropped 9% y/y to 41.6TWh, while total energy generated in Romania decreased 11% y/y to 56.7 TWh
- Romania started the liberalisation process of the electricity market back in 2000 and reached a full opening-up in July 2007 (theoretically); however, some household consumers are still regulated due to various technical and economic reasons
- The bulk of domestic electricity production facilities need significant investments as the they were commissioned more than 20 years ago
- Thermo producers, such as Termoelectrica or the cogeneration companies need significant investments, mostly to meet environmental EU standards

### Electricity generation projects in the pipe

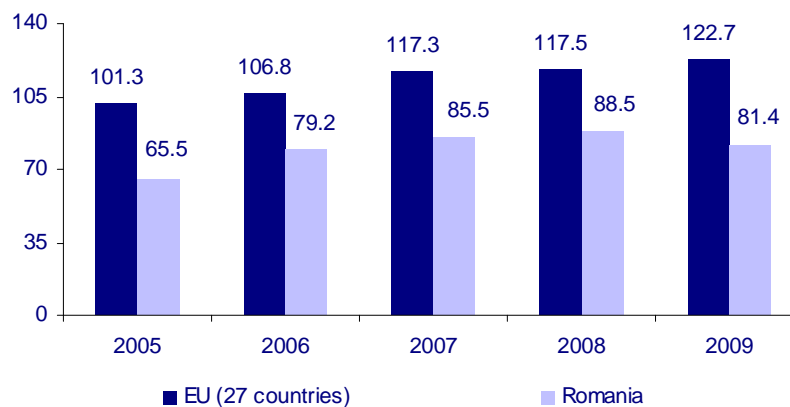
- For the next three year, the projects planned to increase the electricity generation capacity amount to 3,480 MW, or 17.1% vs current capacity. The wind projects have a cumulative installed capacity of 1,016 MW, most of them developed in Dobrogea region (W Romania)
- The largest investment is a new gas power plant carried out by OMV Petrom that is expected to be commissioned by 2012 and have an installed capacity of 860 MW
- In the near future, the nuclear segment is not expected to increase capacity, as the plans to build the third and fourth reactors of Cernavoda nuclear plant were delayed

### Two energy giants to be setup

- Late 2010, the Govt announced the details of the plan for the setup of two energy giants, Electra and Hidroenergetica, by spinning-off several Hidroelectrica subsidiaries that will further be merged with other smaller electricity producers (Electra). The rest of Hidroelectrica assets will be merged with two thermo electricity producers, namely Electrocentrale Deva and Electrocentrale Bucuresti and setup Hidroenergetica. The plans regarding the two companies were contested into Court, hence the delays in implementation.

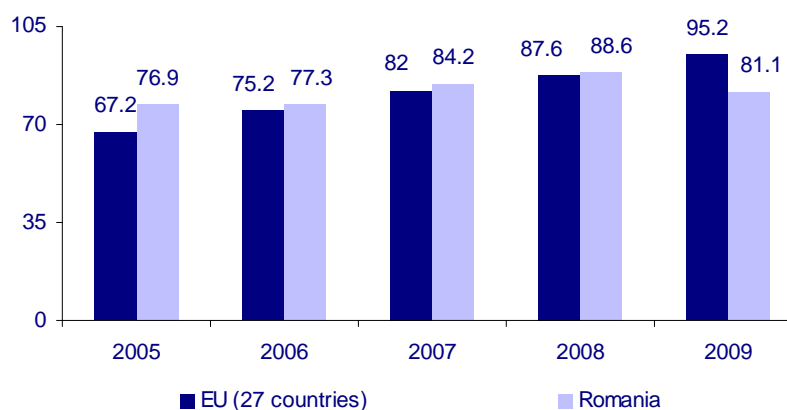


**Electricity prices for households (EUR/MWh)**



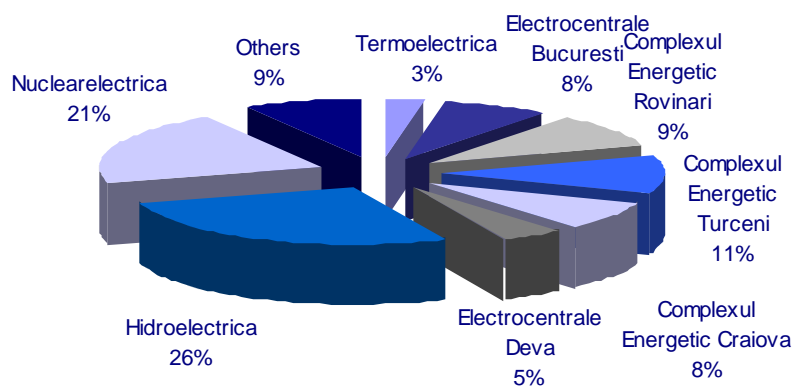
Source: Company

**Electricity prices for industrial consumers (EUR/MWh)**



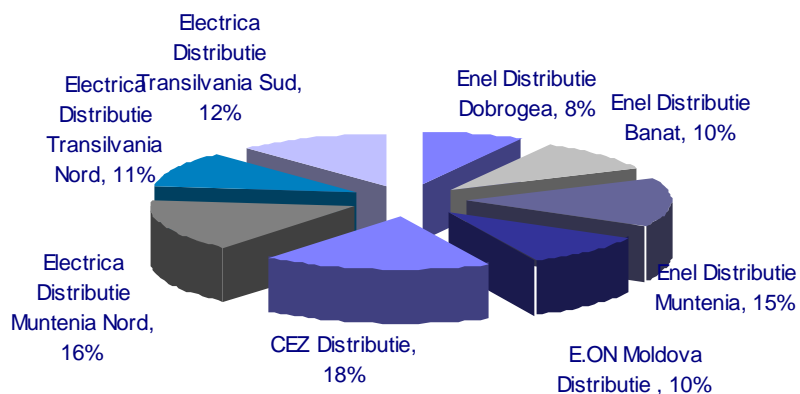
Source: Company

**Electricity generation by producer in 2009**



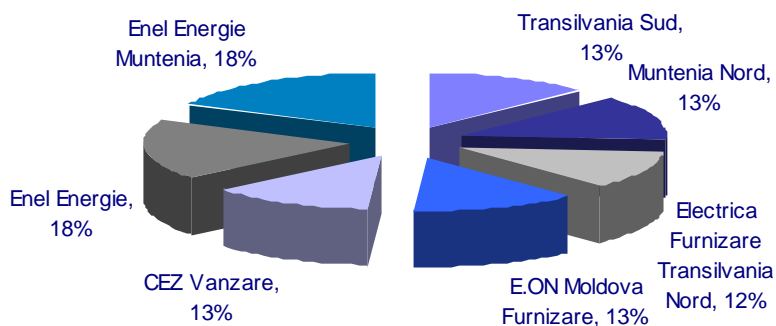
Source: Listing Prospectus

### Electricity distributors market share 2009



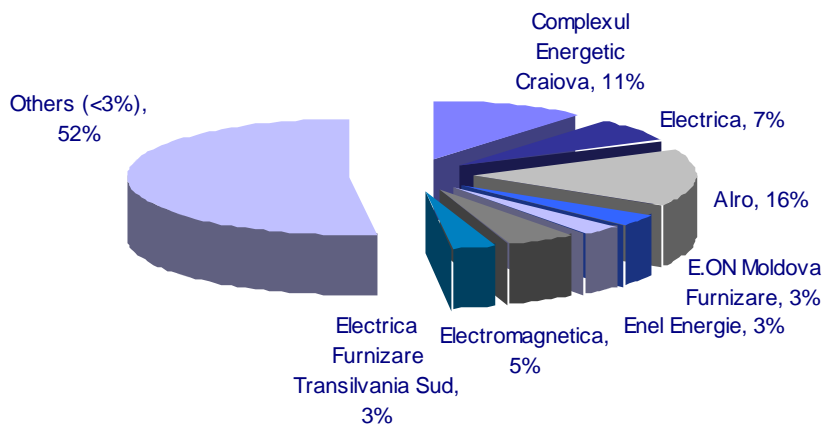
Source: Listing Prospectus

### Electricity suppliers on the regulated segment 2009



Source: Listing Prospectus

### Electricity suppliers on the competitive segment 2009



Source: Listing Prospectus



<b>Electricity retail market</b>			
<b>GWh</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Final local consumption</b>	<b>44,796</b>	<b>45,830</b>	<b>41,583</b>
<i>y/y</i>	<i>n/a</i>	<i>2.3%</i>	<i>-9.3%</i>
<b>Regulated market</b>	<b>22,534</b>	<b>23,416</b>	<b>23,046</b>
<i>% as of total</i>	<i>50.3%</i>	<i>51.1%</i>	<i>55.4%</i>
<i>y/y</i>	<i>n/a</i>	<i>3.9%</i>	<i>-1.6%</i>
- out of which:			
households	9,550	10,376	10,990
non-households	12,984	13,040	12,040
<b>Competitive market</b>	<b>22,262</b>	<b>22,414</b>	<b>18,536</b>
<i>% as of total</i>	<i>49.7%</i>	<i>48.9%</i>	<i>44.6%</i>
<i>y/y</i>	<i>n/a</i>	<i>0.7%</i>	<i>-17.3%</i>
- out of which:			
households	-	-	-
non-households	22,262	22,414	18,536

Source: ANRE

**Projected structure of  
the new energy holding**

<b>Shareholding structure for Electra and Hidroenergetica</b>		
	<b>Electra</b>	<b>Hidroenergetica</b>
Ministry of Economy	84.4%	63.8%
Fondul Proprietatea	15.1%	15.9%
Termoelectrica	0.3%	20.3%
National Co for Mines Closing and Conservation	0.1%	
Hidroelectrica	0.1%	

Source: Listing Prospectus

## Appendix 3

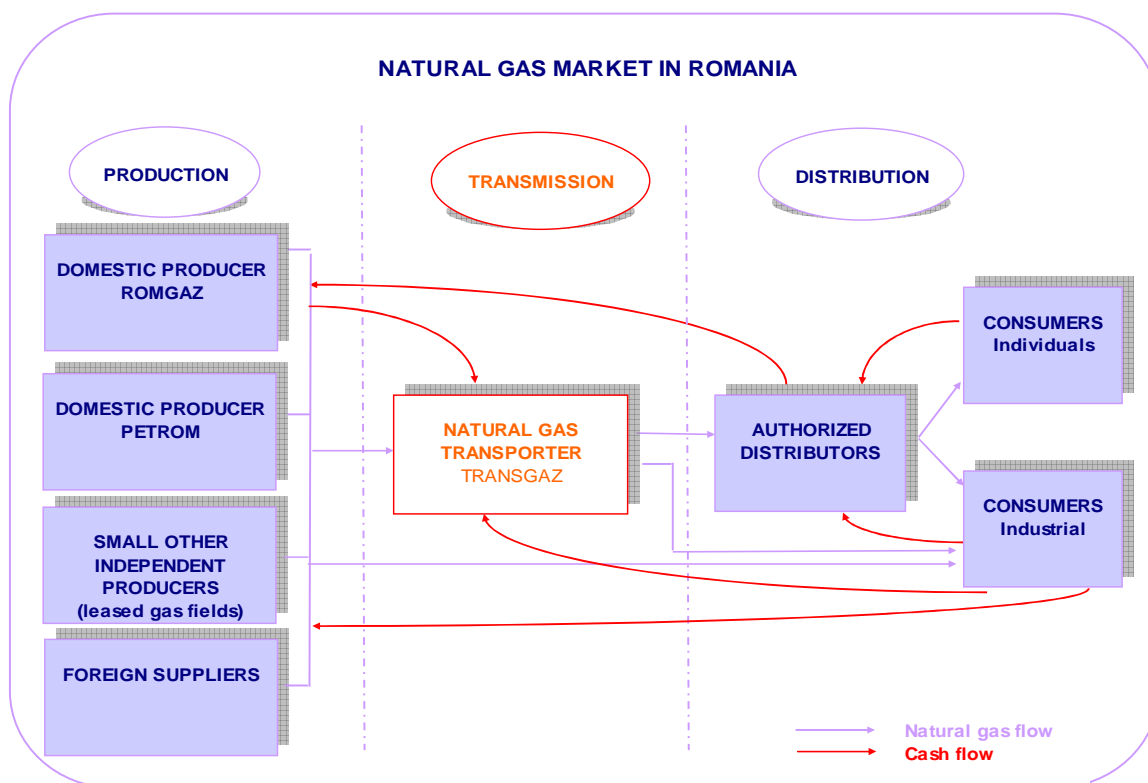
## GAS SECTOR OVERVIEW

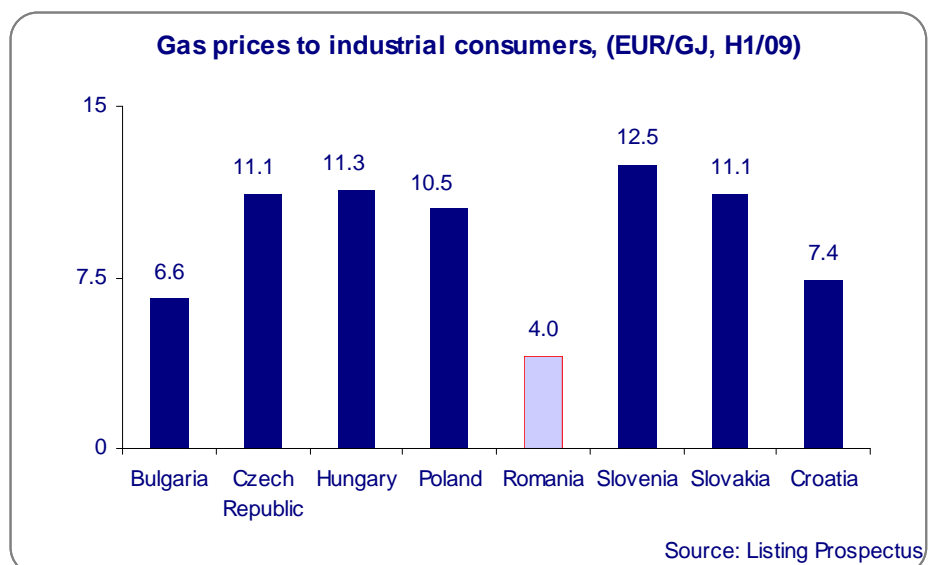
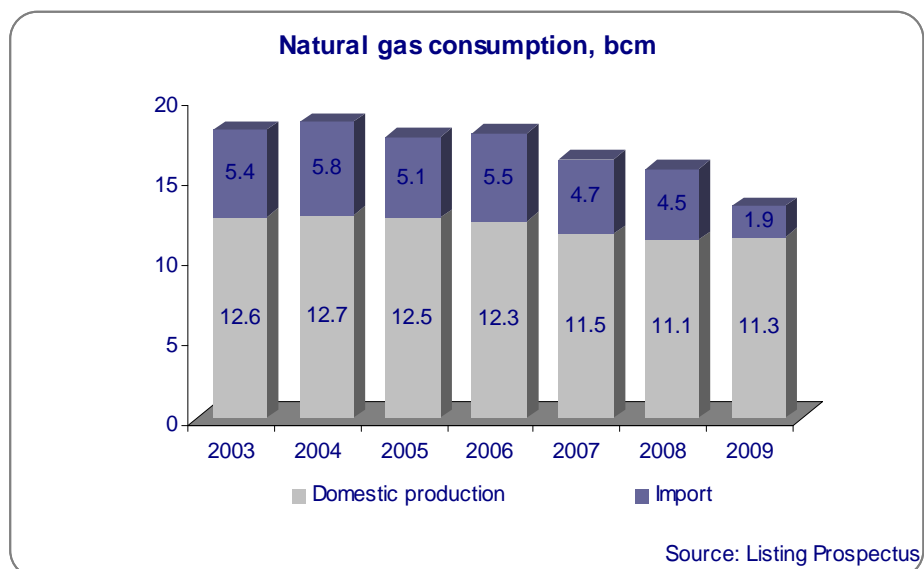
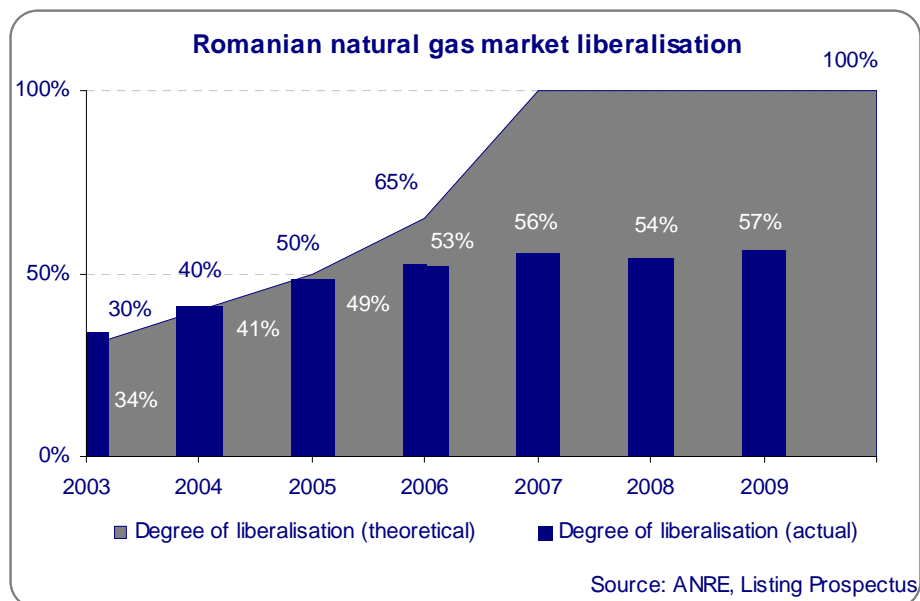
### Romania - largest CEE natgas producer

- Romania is the CE Europe's largest producer of natural gas, still a net importer with supplies mostly coming from Russia
- Total domestic production amounted to 11 bcm, which covered c. 85% of total domestic consumption. There are eight storage facilities amounting to 3.2 bcm of natgas; six of them are owned by Romgaz (2.8 bcm). The storage capacity is planned to be increased by 53.1% by 2015
- The natural gas reserves are estimated to hover around 141 bcm (900m boe), according to ANRE data
- Natural gas consumption has remained relatively stable over recent years, at around 150-160TWh, but dropped 15.0% y/y in 2009 to 140 TWh. For 2010 we estimate total consumption to rebound 6.5% to 149 TWh
- Imports amounted to 14.7% of total consumption in 2009, down from 28.7% in 2008. Gas imports are carried out through two interconnection pipes with a maximum capacity of 28bcm/year

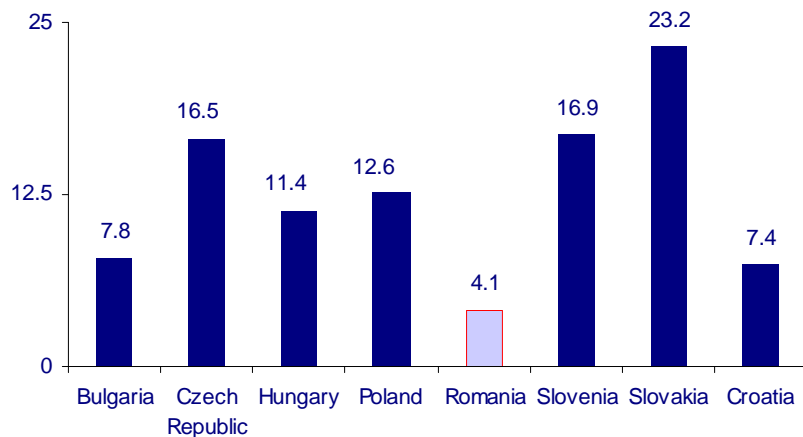
### Natgas production price should converge to imports level

- The price of gas to the end consumers is the lowest in the EU and CEE. Romania needs to align the domestic natural gas price to that traded in the EU, however no exact deadline is available
- In 2010, the Arad-Szeged pipeline, connecting Romania to the western European network, became operational
- Two main producers account for 99.1% of total domestic production: Romgaz (5.7 bcm, 51.8%) and OMV Petrom (5.2 bcm, 47.3%)
- The regulated market accounts for 43.5% of total market, with two main suppliers: GDF Suez Energy Romania (49%) and E.ON Gas Romania (43%)
- Transgaz operates two major pipelines dedicated to the transit activity which transport the Russian natural gas to Bulgaria, Turkey, Greece and Macedonia.



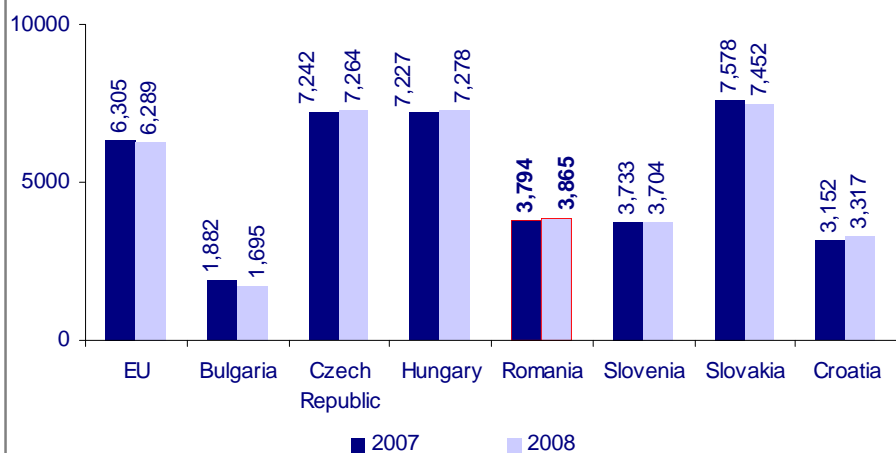


**Gas prices to domestic consumers, (EUR/GJ, H1/09)**



Source: Listing Prospectus

**Natural gas consumption (KWh/capita)**



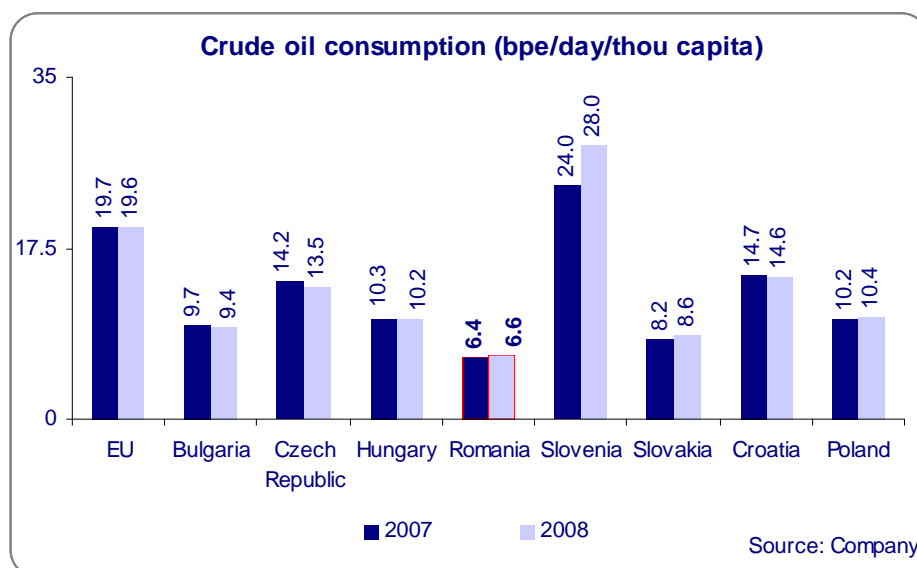
Source: Company

## Appendix 4 OIL SECTOR OVERVIEW

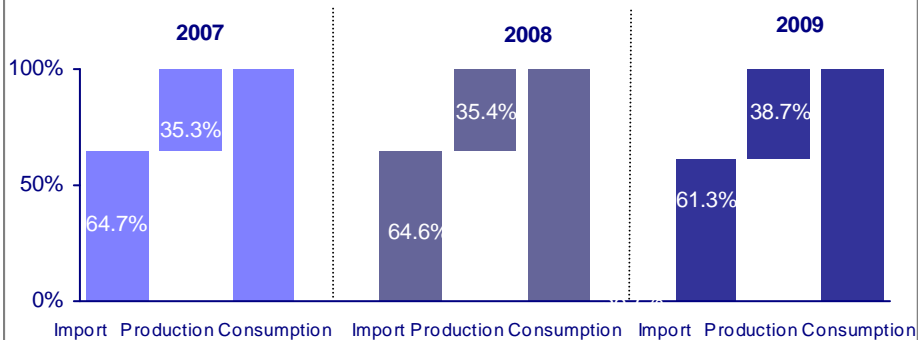
### Crude-rich country, still net importer

- Romania is the CE Europe's most oil-rich country, still a net importer with supplies coming mainly from Kazakhstan and Russia
- 10 refineries, 5 owned by three players which succeeded to improve operations (OMV Petrom, Rompetrol Rafinare and Petrotel-Lukoil), while all others are in a poor financial situation
- 2009 domestic oil demand stood at 11.1m tons of oil equivalent, down 13.5% y/y
- Romania's crude oil production is on downward trend and reached 4.4m tons in 2009, from 4.5m tons in 2008 and 6m tons in 2000, mainly due to the small additional oilfields discovered in the last years
- The oil reserves are estimated to hover around 480-1000m bbl, according to the Listing Prospectus citing different sources
- The reserve replacement rate has flattened to c.70% in 2008-2009
- OMV Petrom is the sole domestic crude oil producer; exploration facilities are located in Romania and Kazakhstan. The company's 2009 domestic oil production reached 86,420 boe/d, 3% lower y/y. Recently announced oil discoveries onshore and offshore still need to be appraised
- The oil sector includes services providers (an oil terminal company and an oil products pipes transportation company, both public entities majority owned by the state)
- The major changes in the sector were Petrom's privatization with OMV at the end of 2004 (that resulted in a price increase of the oil refined and petrochemical products in 2005 to a level close to the CEE one) and the acquisition of Rompetrol Rafinare by KazMunaiGaz in 2007
- Requirement for Romania to comply with EURO 5 standards starting with Jan 1, 2009 (2 years later than the EU countries) has forced the players to accelerate investments in technology; EURO 4 standards in Romania have been enforced on Jan 1, 2007, when Romania joined EU.

### OMV Petrom: sole crude producer, largest retailer

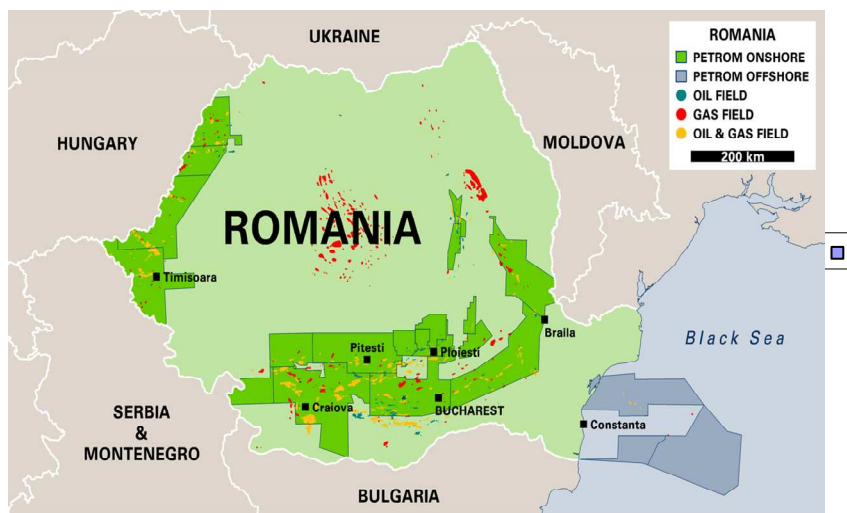


**Romania's crude oil consumption, production and imports  
('000 tons of oil equivalent/year)**



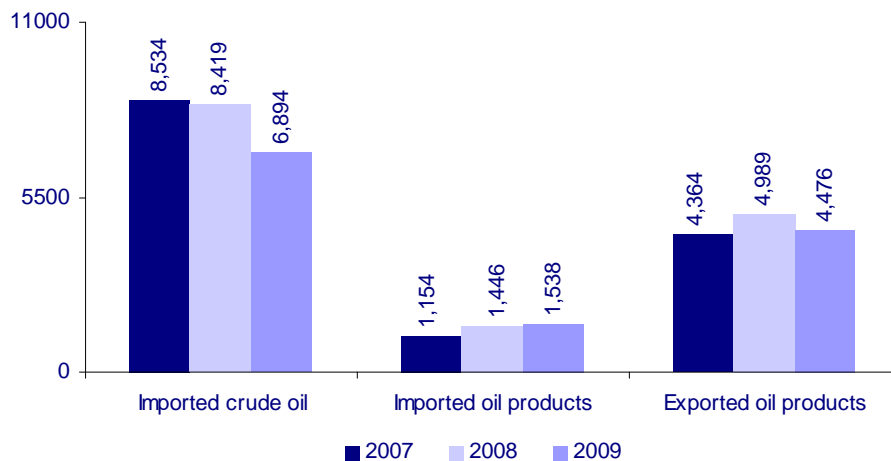
Source: Listing Prospectus

**Exploration fields - OMV Petrom**



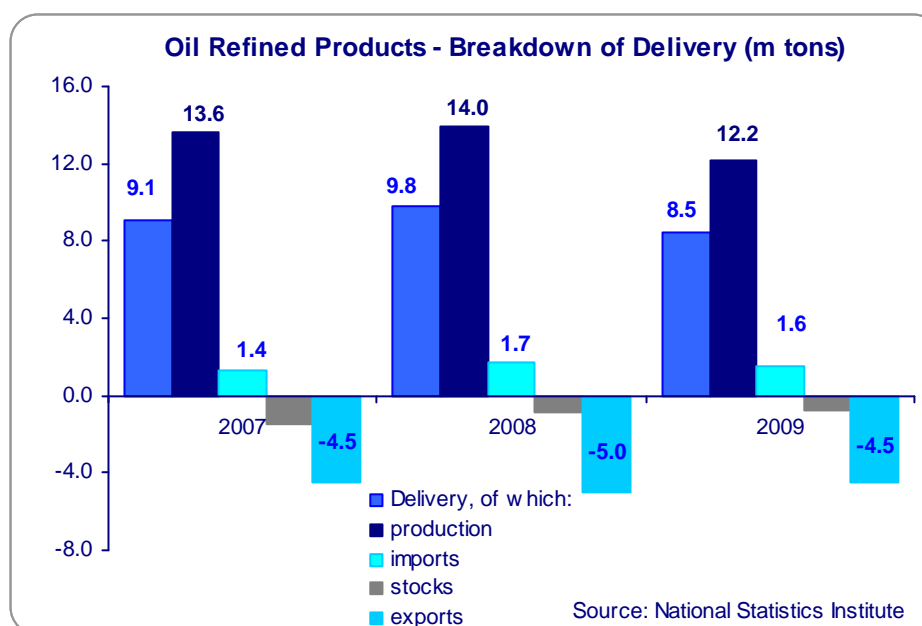
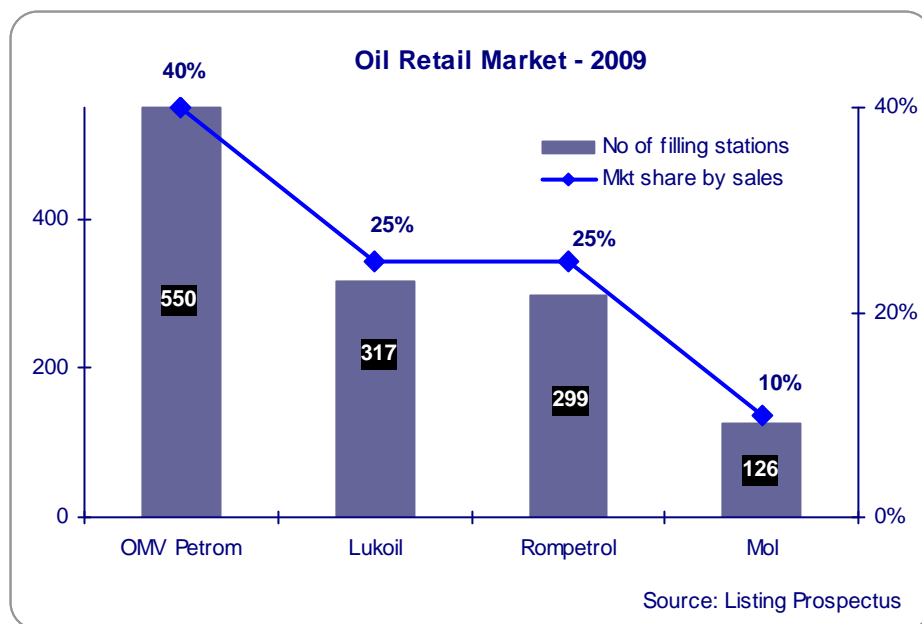
Source: OMV Petrom

**Crude oil refining, by physical units ('000 tons)**



Source: Listing Prospectus





## Appendix 5: Financial Results (RAS)

<b>Fondul Proprietatea: Balance Sheet (RAS)</b>				
<b>RON</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>6M 2010</b>
<b>Current Assets</b>	<b>1,212,715,571</b>	<b>1,539,638,520</b>	<b>2,666,765,774</b>	<b>2,877,886,278</b>
Cash and equivalents	592,174,579	572,156,465	2,151,216,927	2,226,598,282
Receivables	620,540,992	569,833,740	515,548,847	651,287,996
Inventory	0	0	0	0
Short term financial investments	0	397,648,315	0	0
<b>Fixed Assets</b>	<b>13,248,787,011</b>	<b>9,411,452,972</b>	<b>9,552,644,486</b>	<b>9,553,798,701</b>
Tangibles	702,776	763,583	495,801	434,103
Intangibles	11,862	2,606	10,275	12,322
Financial assets	13,248,072,373	9,410,686,783	9,552,138,410	9,553,352,276
Prepaid expenses	2,167	1,035,143	56,884	132,424
<b>Total Assets</b>	<b>14,461,504,749</b>	<b>10,952,126,635</b>	<b>12,219,467,144</b>	<b>12,431,817,403</b>
<b>Current Liabilities</b>	<b>4,892,674</b>	<b>9,179,453</b>	<b>7,377,636</b>	<b>9,163,505</b>
Trade payables	202,642	1,919,151	108,140	301,745
Bank loans	0	0	0	0
Other liabilities	4,690,032	7,260,302	7,269,496	8,861,760
<b>Long-term liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Liabilities</b>	<b>4,892,674</b>	<b>9,179,453</b>	<b>7,377,636</b>	<b>9,163,505</b>
<b>Shareholders' Equity</b>	<b>14,456,612,076</b>	<b>10,926,861,950</b>	<b>12,197,026,990</b>	<b>12,407,518,211</b>
Common stock	14,240,540,675	14,240,540,675	14,240,540,675	14,240,540,675
Unpaid	615,895,294	561,265,676	497,419,500	482,948,088
Paid-in	13,624,645,381	13,679,274,999	13,743,121,175	13,757,592,587
Share premia	0	0	0	0
Revaluation reserves	0	0	0	0
Reserves	38,242,608	(3,832,131,548)	(3,242,109,133)	-3,242,109,133
Results carried forward	(133,111,549)	74,136,468	504,964,040	1,198,595,448
Current results	313,106,905	467,701,426	730,138,324	210,491,221
Profit distribution	2,166,563	23,385,071	36,506,916	0
Accrued revenues, provisions	0	16,085,232	15,062,518	15,135,687
<b>Total Liabilities &amp; Equity</b>	<b>14,461,504,749</b>	<b>10,952,126,635</b>	<b>12,219,467,144</b>	<b>12,431,817,403</b>

Source: Company

**Fondul Proprietatea: Income Statement (RAS)**

RON	2007	2008	2009	6M 2009	6M 2010
<b>Operating revenues</b>	<b>410,534,674</b>	<b>524,086,340</b>	<b>1,320,362,566</b>	<b>194,568,382</b>	<b>267,749,209</b>
Financial holdings	203,168,328	384,750,573	118,165,267	117,163,061	173,185,462
Sale of financial assets	0	0	980,237,872	1,349,324	0
Services	0	0	0	0	0
Provisions, reactivated receivables	129,621,256	11,475,624	31,566,178	0	0
FX differences	46,818,792	43,355,391	47,727,476	14,612,858	41,103,388
Interest	30,861,864	84,453,833	142,469,834	61,418,149	53,421,869
Others	64,434	50,919	195,939	24,990	38,490
<b>Operating expenses</b>	<b>92,442,257</b>	<b>43,088,134</b>	<b>486,170,050</b>	<b>17,038,926</b>	<b>50,173,359</b>
Sale of financial assets	11,055,450	0	428,742,731	672,066	0
FX differences	28,828,034	23,823,898	32,995,783	5,222,028	40,790,968
Interest	3,676	1,189	2	2	210
Fees and commissions	988	103,484	311,821	130,291	2,880
Banking services	11,454	120,365	149,831	65,465	65,210
Depreciation, provisions, loss of receivables	47,180,230	3,156,684	643,984	177,189	82,078
Materials	310,882	146,726	144,163	67,816	107,071
Energy & water	39,627	41,419	45,977	20,314	19,254
Personnel	2,382,266	6,606,081	13,507,594	5,058,301	2,569,404
Outside services	2,446,182	8,850,787	8,805,531	5,455,575	2,594,784
Taxes and duties	183,468	237,501	822,633	169,879	3,941,500
Others	0	0	0	0	0
<b>Operating profit</b>	<b>318,092,417</b>	<b>480,998,206</b>	<b>834,192,516</b>	<b>177,529,456</b>	<b>217,575,850</b>
<b>Profit before Tax</b>	<b>318,092,417</b>	<b>480,998,206</b>	<b>834,192,516</b>	<b>177,529,456</b>	<b>217,575,850</b>
Income Tax	4,985,512	13,296,780	104,054,192	9,663,034	7,084,629
<b>Profit after Tax</b>	<b>313,106,905</b>	<b>467,701,426</b>	<b>730,138,324</b>	<b>167,866,422</b>	<b>210,491,221</b>

Source: Company

**Fondul Proprietatea: Cash Flow Statement (RAS)**

RON	2007	2008	2009
<b>Operating CF</b>	<b>(6,086,957)</b>	<b>(28,157,863)</b>	<b>(127,422,095)</b>
Increase/decrease in payables	(4,982,261)	(15,197,524)	(22,630,587)
Other receipts	31,189	32,346	179,939
Interest paid	(3,676)	(1,189)	(2)
Taxes paid	(1,132,209)	(12,991,496)	(104,971,445)
<b>Investing CF</b>	<b>193,159,524</b>	<b>26,479,864</b>	<b>320,311,516</b>
Dividends received	206,243,003	395,898,837	118,644,463
Interest received	28,807,654	71,256,895	139,629,788
Expenditure for purchase of PP&E	(682,324)	(392,081)	(23,563)
Proceeds from sale of PP&E	33,245	18,573	16,000
Proceeds from sale of financial assets	0		980,237,872
Expenditure for purchase of other firms' equity	(41,242,054)	(49,845,442)	0
Aquisition of govt securities		(390,456,918)	(918,193,044)
<b>Financing CF</b>	<b>(7,436,028)</b>	<b>(37,871,608)</b>	<b>62,789,387</b>
Receipts for share capital increase	28,052,256	50,065,688	63,846,176
Repayment of financial leases	(22,300)	(24,465)	0
Dividends paid	(35,465,984)	(87,912,831)	(1,056,789)
<b>Net increase in cash &amp; cash equivalents</b>	<b>179,636,540</b>	<b>(39,549,607)</b>	<b>255,678,809</b>
Cash and cash equivalents, Jan	394,547,281	592,174,579	572,156,465
Effect of exchange rate changes	17,990,758	19,531,493	14,731,693
Cash and cash equivalents, Dec	592,174,579	572,156,465	842,566,967

Source: Company

<b>Fondul Proprietatea: Consolidated Balance Sheet (IFRS)</b>		
<b>RON</b>	<b>2008</b>	<b>2009</b>
<b>Assets</b>		
Cash	1,499,993	1,483,261
Deposits with banks	578,716,223	2,167,824,861
Treasury bills	397,648,315	0
Dividends receivable	498,321	18,348
Receivables in respect of equity contributions	78,317,588	14,471,412
Equity investments	6,943,683,104	6,705,588,224
Investment in associate	3,215,539,060	3,255,975,424
Deferred tax assets	112,395,964	81,728,674
Other assets	1,944,183	700,128
<b>Total Assets</b>	<b>11,330,242,751</b>	<b>12,227,790,332</b>
<b>Liabilities</b>		
Other liabilities	11,143,453	8,303,427
<b>Total Liabilities</b>	<b>11,143,453</b>	<b>8,303,427</b>
<b>Shareholders' Equity</b>		
Share capital	13,757,592,587	13,757,592,587
Fair value reserve on available-for-sale financial assets	49,996,775	208,895,233
Other reserves	149,458,794	199,454,493
Accumulated losses	(2,637,948,858)	(1,946,455,408)
<b>Total Liabilities &amp; Equity</b>	<b>11,330,242,751</b>	<b>12,227,790,332</b>

Source: Company

<b>Fondul Proprietatea: Consolidated Income Statement (IFRS)</b>		
<b>RON</b>	<b>2008</b>	<b>2009</b>
<b>Net Investment Income /(Loss)</b>	<b>259,081,186</b>	<b>997,807,179</b>
Gross dividend income	205,261,875	120,055,158
Interest income	84,453,833	142,469,835
Impairment losses on equity investments	(239,690,824)	(1,455,233)
Impairment losses on dividends receivable	9,427,066	0
Gains/(losses) on disposal of equity investments	0	554,433,394
Share of profit in associates, net of tax	180,097,743	167,572,332
FX differences, net	19,531,493	14,731,693
<b>Operating expenses</b>	<b>18,342,692</b>	<b>22,837,062</b>
Personnel expenses	6,606,081	13,507,594
Other operating expenses	11,736,611	9,329,468
<b>Profit before Tax</b>	<b>240,738,494</b>	<b>974,970,117</b>
Income Tax	14,727,606	106,345,000
<b>Profit after Tax</b>	<b>226,010,888</b>	<b>868,625,117</b>
Other Comprehensive Income		
Net charge in fair value of available for sale equity investm	(621,887,047)	189,164,831
Income tax on other comprehensive income	99,501,927	(30,266,373)
Total comprehensive Income	(522,385,120)	158,898,458
<b>Profit/(loss) for the period</b>	<b>(296,374,232)</b>	<b>1,027,523,575</b>

Source: Company

<b>Fondul Proprietatea: Consolidated Cash Flow Statement (IFRS)</b>		
<b>RON</b>	<b>2008</b>	<b>2009</b>
<b>Operating CF</b>	<b>(80,628,770)</b>	<b>231,751,556</b>
Proceeds from the sale of equity instruments	0	980,237,872
Redemption of treasury bills	0	390,456,918
Interest received	71,256,895	139,629,790
Dividends received (net of withholding tax)	178,328,251	118,645,240
Realised FX gains on cash and equivalents	12,941,854	9,728,227
Creation of bank deposits maturing in over three months	(92,248,546)	(1,279,523,616)
Dividends received from associates	217,570,587	0
Income tax paid	(12,991,496)	(104,971,445)
Salaries and related tax paid	(6,426,525)	(11,532,332)
Supplier paid	(8,757,490)	(10,919,098)
Acquisition of treasury bills	(390,456,918)	0
Cash contributions to equity investments	(49,845,382)	0
<b>Investing CF</b>	<b>(373,506)</b>	<b>(7,561)</b>
Proceeds from sale of property and equipment	18,573	16,000
Acquisition of Property and equipment	(392,079)	(23,561)
<b>Financing CF</b>	<b>(37,847,146)</b>	<b>62,789,387</b>
Cash contributions to share capital	50,065,688	63,846,176
Dividends paid	(87,912,834)	(1,056,789)
<b>Net increase in cash and cash equivalents</b>	<b>(118,849,422)</b>	<b>294,533,382</b>
Cash and cash equivalents, Jan	592,167,702	474,332,956
Effect of exchange rate fluctuations on cash	1,014,676	(15,241)
<b>Cash and cash equivalents, Dec</b>	<b>474,332,957</b>	<b>768,851,097</b>

Source: Company

## Appendix 6: Macro Summary

Structure of the Economy					
	2008	2009	2010f	2011f	2012f
GDP (RON Billion)	503.96	491.27	510.00	525.00	574.00
GDP (EUR Billion)	136.91	114.00	120.00	125.00	140.00
GDP Growth (y/y % Change, constant prices)	7.30	-7.10	-1.50	1.00	3.00
GDP per capita (EUR 000)	6.36	5.31	5.61	5.85	6.57
Demographics and Employment					
Population (Million)	21.51	21.46	21.40	21.35	21.30
Unemployment Rate (%)	4.20	7.80	9.50	9.00	8.30
Prices and Inflation					
Consumer Price Inflation (% average)	7.90	5.60	6.00	5.50	4.50
Consumer Price Inflation (eop, % annual)	6.30	4.70	7.50	5.00	4.30
Fiscal Information					
Government Balance (% of GDP)	-5.40%	-8.30%	-6.50%	-5.30%	-5.00%
Monetary Data					
Money Supply (M2) Growth (%)	17.50	9.50	14.00	20.00	20.00
Foreign Exchange Rate (EUR/RON annual average)	3.68	4.24	4.25	4.20	4.10
Exports (EUR Billion)	33.70	29.20	37.00	41.00	44.00
Imports (EUR Billion)	52.00	36.00	43.30	46.50	54.00
Trade Balance (% of GDP)	(13.37)	(5.96)	(5.25)	(4.40)	(7.14)
Current Account (EUR Billion)	(15.88)	(5.20)	(6.60)	(6.88)	(9.10)
Current Account Deficit (% of GDP)	11.60	4.56	5.50	5.50	6.50
International Reserves (EUR Billion)	26.22	28.30	32.43	35.00	36.00
Debt and Resource Flows					
External Debt (EUR Billion)	73.10	78.66	85.00	90.00	110.00
External Debt (% of GDP)	53%	69%	71%	72%	79%
Foreign Direct Investment (EUR Billion)	9.50	4.80	3.00	3.50	5.00
Foreign Direct Investment (% of GDP)	6.94	4.21	2.50	2.80	3.57
Ratings	BB+ (Fitch), BB+ (S&P), Baa3 (Moody's)				

Sources : National Institute for Statistics, National Bank of Romania, EFG Eurobank Securities estimates



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