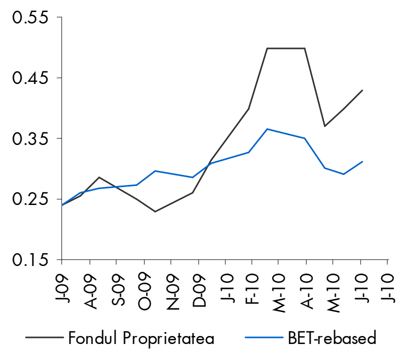
Company Report

August 16, 2010 **Closed-end Investment Funds/Romania**

Fondul Proprietatea

Buy

Price 13.08.10	RON 0.51
Price target	RON 1.05
Volatility risk	High
Currency	RON
RON/EUR	4.23
Market capitalisation in EUR mn	1,657.7
Free float	47.2%
Free float in EUR mn	781.8
Avg. daily turnover (12 m) in EUR mn	0.1
www.fondulproprietatea.ro	



Source: Raiffeisen Capital&Investment *based on end-of-month trading prices

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New star ready to shine

The Fund: Fondul Proprietatea (FP) was established by the Romanian State with the purpose to redeem the owners that had been dispossessed abusively of their properties by the communist regime and whose seized assets could not be returned in kind. FP was founded in 2005 as an investment company, with Ministry of Finance being the sole shareholder. Progressively, the ownership of its shares was transferred to individuals entitled to receive indemnities from the Romanian state. Currently, the Ministry of Finance holds a participation of 52.8% in FP's share capital with the remaining participation being held by a little over 4,000 private shareholders.

Investment case: Although FP is still unlisted, we believe the time is ripe now for this initiation of coverage as we see the administrative listing of the fund imminent. We expect this to happen in January 2011 and to bring along a significant re-rating of the stock price. In our view, besides the size and anticipated liquidity, FP has several traits that make it an attractive complement to a portfolio of Romanian/SEE assets. Among these: (i) the unique access to Romanian energy sector (including a generous list of appealing unlisted companies); (ii) the upcoming, long awaited, listing of the fund on the BVB; (iii) the (also overdue) official confirmation of Franklin Templeton as the asset manager expected in early September; (iv) the attractive dividend yield and, not least, (v) the generous upside from the current OTC prices.

Valuation and recommendation: We employ a sum-of-the parts (SOTP) valuation in order to reach a 12m TP for FP shares. We start by deriving the NAV of the fund as of today from which we move to a fair value of the shares, basically by applying a discount of 30% to NAV (cash excluded). To translate from the fair price to the 12m TP, we carry forward FP's NAV with the cost of equity (14.7%) and, subsequently, we again apply the discount. However, as we have to account for the fact that in a one-year time FP will be listed and it will have Franklin Templeton at its helm, the new discount is lower (20%). We set our 12m TP at RON 1.05 per share, which implies an upside of roughly 100% to the most recent OTC price (RON 0.51) and rate Fondul Proprietatea a "buy".

FP Key Figures	*RON mn*	*EUR mn*
Portfolio	13,022.0	3,075.6
- Listed	4,664.5	1,101.7
- Not-Listed	8,357.4	1,973.9
Debt	7.4	1.7
Cash	2,151.2	508.1
NAV	15,165.8	3,581.9
NAV per share (RON/EUR)	1.10	0.26
Current Fair Value	11,259.2	2,659.2
Current Fair Value per share (RON/EUR)	0.82	0.19
12-m Target Value	14,407.9	3,402.9
12-m Target Price (RON/EUR)	1.05	0.25

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Investment case

We initiate coverage of Fondul Proprietatea (FP) with a 12m target price (TP) of RON 1.05 and a "buy" recommendation. Although FP is still unlisted, we believe the time is ripe now for this initiation of coverage as we see the administrative listing of the fund imminent. We expect this to happen in January 2011 and to bring along a significant re-rating of the stock price.

In our view, besides the size (FP will be in top three stocks on the Bucharest Stock Exchange in terms of market capitalization) and anticipated liquidity, FP has several traits that make it an attractive complement to a portfolio of Romanian/SEE assets. Among these we mention (i) the unique access to the Romanian energy sector (including a generous list of appealing unlisted companies); (ii) the upcoming, long awaited, listing of the fund on the Bucharest Stock Exchange (BVB); (iii) the (also overdue) official confirmation of Franklin Templeton as the asset manager, expected in early September; (iv) the interesting dividend yield (with dividend payment to be decided by shareholders in early September as well) and, not least, (v) the generous upside from the current OTC prices.

FP offers investors exposure on the energy sector

Energy. FP mainly owns stakes in companies from electricity generation, oil&gas production and energy and gas distribution and transmission industries. Some of these companies are listed (e.g. OMV Petrom, Transgaz and Transelectrica) but most of them are unlisted and, thus, only accessible via FP. Among the latter we see Hidroelectrica (hydro power generator), Nuclearelectrica (nuclear power generator), Romgaz (gas production and storage) and the energy and gas distribution companies as interesting plays. All in all, the energy sector accounts for slightly more than 90% of NAV. Hence, while SIFs are mostly perceived as a play on the Romanian banking sector due to the large weight of the banking holdings, FP should be viewed as a play on the Romanian energy sector.

The procedure for an administrative listing has been started

Listing. The process of an administrative listing on BVB has just been started with the announcement for the selection of an intermediary. The listing is bound to take place within 90 working days from FP registration as a closed-end investment fund, expected anytime after the mid of August. Currently, transactions with FP shares take place through direct transfer in the Depository and involve a rather complicated procedure. Therefore, the listing is expected to bring further liquidity to the shares and to make FP investable to a broader category of investors. Because of the above, we see the mere listing of the fund as a major trigger for a re-rating in the stock price and we reflect this in our 12m TP through a reduction in the discount we apply to the NAV (excluding cash) now when calculating the fair value.

Franklin Templeton was selected as FP's asset manager

Franklin Templeton. In June 2009, Franklin Templeton has been selected as FP's manager. The appointment of the well-known external fund manager was the most eagerly anticipated event in FP's history, although it has yet to reach its conclusion. More than one year after winning the selection process, Franklin Templeton has not yet been formally appointed. The concluding formality needed is the official confirmation of Franklin Templeton by FP's shareholders within the General Shareholders Meeting (GSM) called for September 6, 2010. With the nomination of

Templeton as fund manager, FP is expected to become an active minority shareholder as, according to Templeton's statements, experienced staff will be appointed in the Board of the companies from FP's portfolio. We see the active stance of FP to be the main positive driver for the shares in the medium and long run, as it will put pressure on portfolio companies to boost efficiency.

A GSM has been called to approve the proposal for a dividend payment out of the 2008&2009 profits

Dividends. FP proposed the payment of a gross dividend per share in amount of RON 0.0822, corresponding to a payout ratio of 94.3% and a total gross amount of RON 1.13 bn, from the net profits of 2008 & 2009. The dividend adds a strong incentive for an investor as the dividend yield calculated using the most recent OTC price stands at 16%. Moreover, FP has proposed a shares buy-back program of up 10% of its shares at a price per share ranging between RON 0.2 – 1.5. The buy-back program will run between September 01, 2010 and March 01, 2011. Both of these two proposals are on the agenda of the September 6, 2010 GSM.

FP shares are carrying a hefty discount to NAV

Valuation. We apply a SOTP methodology to value FP. We mark-to-market the listed shares, while for the most important unlisted shareholdings we run different methodologies. We have chosen for each company a specific valuation method depending on the amount of information available and our judgment on the most appropriate method for the sector. In most of the cases we were able to employ just a comparative valuation, as most of the companies are rather opaque regarding their development plans. Still for the five energy producers we applied a simplified DCF model. To reach our fair value of RON 11.3 bn or RON 0.82 per share, we discounted FP's portfolio value by 30% (except for the cash position). On the other hand, to get our 12m TP we carry forward FP's portfolio and we apply a discount of only 20%, since FP should be listed in one year and have Franklin Templeton at its helm. This points to a 12m TP of RON 1.05 per share. Given the current price for FP shares of RON 0.51, we issue a "buy" rating for FP's shares.

For an overview of the risks involved by an investment in FP shares please refer to section 'Risks to our valuation' on page 11.

Valuation

FP was set up by the State to redeem those dispossessed by the communist regime

Fondul Proprietatea (FP) was established by the Romanian State with the purpose to redeem the owners that had been dispossessed abusively of their properties by the communist regime and whose seized assets could not be returned in kind.

Ministry of Finance is the largest shareholder but its stake would continue to decrease

FP was founded in 2005 as an investment company, with Ministry of Finance being the sole shareholder. Progressively, the ownership of its shares was transferred to individuals entitled to receive indemnities from the Romanian state. At present, the Ministry of Finance holds a participation of 52.8% in FP's share capital with the remaining participation being held by a little over 4,000 private shareholders.

The majority of FP's stakes is in state-owned companies, not transparent and with weak corporate governance. In most cases we lacked detailed information in order to perform an in-depth analysis and we tried to mitigate this by applying a conservative valuation.

Our valuation points to a total value of FP's stakes of RON 13.0 bn

In order to obtain a fair value for FP we used a sum-of-the parts (SOTP) method We mark-to-market the listed shares, while for the most important unlisted shareholdings we run different methodologies, discounted cash-flows for the energy producers and comparative valuation based on industry metrics and/or historical financial indicators for the remaining companies. According to our findings the value of FP's portfolio stands at RON 13.0 bn. By adding the sizeable cash position (mostly held in bank deposits) of RON 2.1 bn, and deducting the debt (RON 7.4 mn), we obtain a NAV of RON 15.2 bn for FP corresponding to a per share value of RON 1.1. In order to reach our fair value estimate for FP, we discount the value of the portfolio by 30% and add the net cash position which results in a fair value of RON 11.3 bn, meaning RON 0.82 per share.

Fondul Proprietatea Valuation Table

	RON mn	EUR mn
Portfolio	13,022.0	3,075.6
- Listed	4,664.5	1,101.7
- Not-Listed	8,357.4	1,973.9
Debt	7.4	1.7
Cash	2,151.2	508.1
NAV	**15,165.8**	**3,581.9**
NAV per share (RON/EUR)	**1.10**	**0.26**
Discount to Portfolio for Current Fair Value	30%	30%
Value of Discounted Portfolio	9,115.4	2,152.9
Net cash	2,143.8	506.3
Current Fair Value	**11,259.2**	**2,659.2**
Current Fair Value per share (RON/EUR)	**0.82**	**0.19**
Cost of equity	14.7%	14.7%
12-month Portfolio Value	14,936.2	3,527.7
Discount to Portfolio for 12-m Fair Value	20%	20%
Value of Discounted Portfolio	11,949.0	2,822.1
Net cash	2,458.9	580.8
12-m Target Value	**14,407.9**	**3,402.9**
12-m Target Price (RON/EUR)	**1.05**	**0.25**

Source: Raiffeisen Capital&Investment estimates

FP's portfolio is tilted toward energy sector

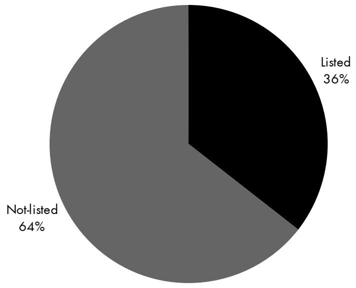
Fondul Proprietatea's portfolio is diversified in terms of the sectors the fund has exposure to, which range from the energy sector (production, supply, distribution, oil & gas) to transportation (airports, ports), services (National Post) and many others (chemicals, metallurgy, machinery, real estate etc.). However, FP's portfolio is heavily weighted on the energy sector as the stakes in oil & gas, energy producers and utilities companies make up for slightly over 90% of FP's portfolio value (based on the values resulted from our valuation). Thus, if the five investment companies (SIFs) listed on the Bucharest Stock Exchange are mostly a play on the Romanian banking sector due to the large weight of banking holdings (BCR, BRD-GSG and Banca Transilvania), Fondul Proprietatea should be viewed as a play on the Romanian energy sector.

For the purpose of our valuation we have divided FP's shareholdings into three different categories: (i) 'listed', which are valued based on the last trading price, (ii) 'not-listed' containing key shareholdings that are valued using a combination of methods and (iii) 'other', which comprises FP's shareholdings in smaller, less transparent companies, which were valued by applying a discount to the values provided by FP and represent just 0.8% of the fund's portfolio.

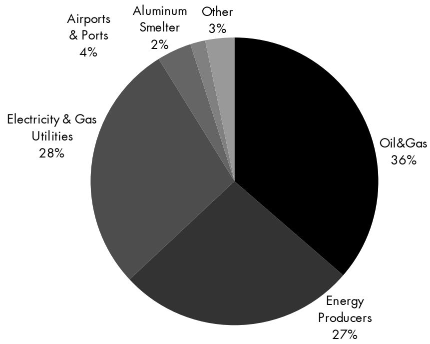
Listed shares account for 36% of the total portfolio

The value of FP's stakes in listed companies represents 36% of the overall portfolio, with the stake in OMV Petrom accounting for the bulk of the listed shareholdings (80%). The 20.1% equity interest in OMV Petrom (SNP) is the largest of FP's holdings, valued based on the last trading price of RON 0.326 (August 10), at RON 3.7 bn with a weight of roughly 28% in FP's portfolio value. The stakes in SNP, the utilities companies Trangaz (TGN) and Transelectrica (TEL) and the aluminum producer Alro (ALR) account for roughly 97% of the listed part of FP's portfolio.

*Portfolio Structure: Listed vs. Not-Listed**



*Portfolio Structure by Sector**

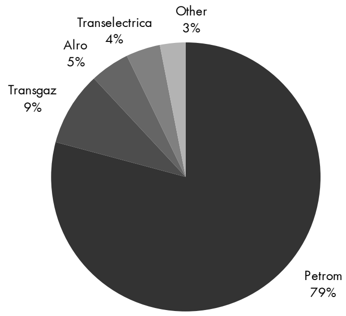


Source: Raiffeisen Capital&Investment estimates
** based on Raiffeisen Capital&Investment valuation*

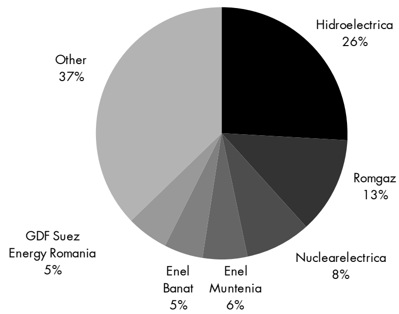
Hidroelectrica and Romgaz are the most valuable shareholdings after Petrom

The most valuable holdings out of the not-listed companies are the 19.9% stake in Hidroelectrica (RON 2.1 bn, 16.3% of FP portfolio), the 15% stake in the gas producer Romgaz (RON 1 bn, 7.9% of FP portfolio) and the 9.7% stake in nuclear producer Nuclearelectrica (RON 697 mn, 5.4% of FP portfolio). The remaining shareholdings represent each less than 5% of FP's portfolio value.

Listed Portfolio Structure



*Not-Listed Portfolio Structure**



Source: Raiffeisen Capital&Investment estimates
** based on Raiffeisen Capital&Investment valuation*

FP's cash position was RON 2.15 bn as of end-2009

At the end of 2009, FP had accumulated a total of RON 2.15 bn in cash, which is mostly held in bank deposits. FP's cash position grew constantly over the last two years as FP cashed in dividends (from Petrom, Romgaz, Alro) and disinvested some stakes (e.g. CEZ Distributie, Petrom Aviation). FP could not pay any dividends in the last two years because (i) its equity book value dropped below that of its share capital, after the write-down of some stakes and (ii) there were shares subscribed but unpaid by the State. In July 2010 it was decided that 482.9 mn of FP's subscribed but unpaid shares will be cancelled together with the corresponding receivables (RON 482.9 mn). Therefore, the Ministry of Finance would see its stake in FP reduced from 52.8% to 51.2%. The cancellation of the shares has a positive impact on our per share valuation, as the number of shares will be reduced from 14,240.5 mn to 13,757.6 mn.

Listed shares are marked-to-market

Listed companies: We have valued FP's stakes in the listed companies (a number of 27 companies) based on the last available trading prices. In the case of companies that have not been traded within the last 90 days, we applied a 50% discount to the last available trading price.

Valuation of FP stakes in Listed Companies, in RON mn

Company	Symbol	Sector	FP stake	FP stake Value	% of FP Portfolio
OMV Petrom	SNP	Oil&Gas Producer	20.1%	3,713.5	28.5%
Transgaz	TGN	Gas Transportation	15.0%	405.0	3.1%
Alro	ALR	Aluminium Smelter	9.9%	212.6	1.6%
Transelectrica	TEL	Energy Transmission	13.5%	184.1	1.4%
Conpet	COTE	Oil&Gas	20.1%	46.9	0.4%
Primcom	PRIB	Real Estate	79.0%	20.8	0.2%
Azomures	AZO	Fertilizers Producer	7.7%	20.2	0.2%
Romaero	RORX	Machinery & Engineering	21.0%	20.1	0.2%
Oil Terminal	OIL	Oil&Gas	10.0%	11.4	0.1%
Severnav	SEVE	Machinery & Engineering	39.1%	11.8	0.1%
Telerom Proiect	TEBV	IT&C design	68.6%	4.6	0.0%
Delfincom	DELF	Real Estate	65.5%	4.4	0.0%
Palace	PACY	Hotels	15.4%	2.7	0.0%
Prestari Servicii	PRVD	Services	70.6%	2.4	0.0%
IOR	IORB	Optical and photo production	2.8%	2.0	0.0%
Vitacom	VITO	Food	46.9%	0.3	0.0%
Mecon	MECP	Metallurgy	12.5%	0.3	0.0%
Transilvania Com	TRVC	Real Estate	40.0%	0.2	0.0%
Alcom	ALCQ	Retail/Real Estate	71.9%	0.2	0.0%
Turdapan	TUSB	Real Estate	44.1%	0.1	0.0%
Mecanoenergetica	MEGU	Metallurgy	10.1%	0.1	0.0%
Comcereal Cluj	COCL	Agriculture	11.4%	0.6	0.0%
Comcereal Fundulea	CCFD	Agriculture	5.4%	0.1	0.0%
Resib	RESI	Real Estate/Hotels	2.9%	0.0	0.0%
Comcereal M. Ciuc	CHAR	Agriculture	10.0%	0.0	0.0%
Forsev	FORS	Metallurgy	28.1%	0.0	0.0%
Bat Service	BATS	Road transport	33.0%	0.0	0.0%
Total				**4,664.5**	**35.8%**

Source: Fondul Proprietatea, Raiffeisen Capital&Investment estimates

If we had used our fair value estimates instead of the current market prices for the three covered companies (i.e. SNP, TGN and TEL), the total portfolio value would have increased by RON 564 mn, or in relative terms by 4%.

We valued separately the largest 23 out of the total 54 unlisted companies…

Not-listed companies: In order to value FP's stakes in not-listed companies we have selected the most important shareholdings (23 companies out of the total of 54 unlisted companies). We have chosen for each company a specific valuation method depending on the amount of information available (both financial and about the development strategy) and our judgment on the most appropriate method considering the sector characteristics. We applied a DCF valuation in the case of the energy producers and comparative valuation based on industry metrics and historical financial results for the remaining companies. For the comparative valuation we used specific peer companies mainly from CEE, acting in the same industry or having the same core activity as our respective players.

Valuation of FP's Stakes in Not-Listed Companies, in RON mn

Company	Sector	Valuation method / Comparables Multiples Used	FP stake	FP stake Value	% of FP Portfolio
Hidroelectrica	Energy Producer	Discounted Cash Flow	19.9%	2,126.3	16.3%
Nuclearelectrica	Energy Producer	Discounted Cash Flow	9.7%	697.0	5.4%
TPP Turceni	Energy Producer	Discounted Cash Flow	24.8%	343.3	2.6%
TTP Craiova	Energy Producer	Discounted Cash Flow	24.4%	170.4	1.3%
TPP Rovinari	Energy Producer	Discounted Cash Flow	23.6%	122.6	0.9%
Romgaz	Gas Producer	Avg. EV/1P Reserves, EV/Gas Prod.	15.0%	1,032.9	7.9%
E.ON Moldova*	Energy Supply & Distribution	Avg. EV/1MWh, EV/EBITDA	22.0%	252.1	1.9%
Electrica Muntenia Nord*	Energy Supply & Distribution	Avg. EV/1MWh, EV/EBITDA	22.0%	368.2	2.8%
Electrica Transilvania Nord*	Energy Supply & Distribution	Avg. EV/1MWh, EV/EBITDA	22.0%	261.7	2.0%
Electrica Transilvania Sud*	Energy Supply & Distribution	Avg. EV/1MWh, EV/EBITDA	22.0%	274.2	2.1%
Enel Banat*	Energy Supply & Distribution	Avg. EV/1MWh, EV/EBITDA	24.1%	427.6	3.3%
Enel Dobrogea*	Energy Supply & Distribution	Avg. EV/1MWh, EV/EBITDA	24.1%	309.2	2.4%
Enel Muntenia*	Energy Supply & Distribution	Avg. EV/1MWh, EV/EBITDA	12.0%	474.3	3.6%
E.ON Gaz Romania	Gas Supply & Distribution	Avg. PE, EV/EBIT, EV/EBITDA	12.0%	143.5	1.1%
E.ON Gaz Distributie	Gas Supply & Distribution	Avg. PE, EV/EBIT, EV/EBITDA	12.0%	131.2	1.0%
GDF Suez Energy Romania	Gas Supply & Distribution	Avg. PE, EV/EBIT, EV/EBITDA	12.0%	415.8	3.2%
Posta Romana	Postal Services	P/Sales, discounted by 30%	25.0%	186.6	1.4%
CN Aeroporturi Bucuresti **	Airports	Avg. PE, P/S, EV/EBITDA, P/Pax	20.0%	335.5	2.6%
Aeroportul Internat. Timisoara T. Vuia	Airports	Avg. PE, P/S, EV/EBITDA, P/Pax	20.0%	35.3	0.3%
Aeroportul Internat. M. Kogalniceanu	Airports	Avg. PE, P/S, EV/EBITDA, P/Pax	20.0%	5.0	0.0%
CN Administratia Porturilor Maritime	Ports	Avg. PE, P/S, EV/EBITDA, P/ Traffic	20.0%	107.4	0.8%
CN Admin. Porturilor Dunarii Maritime	Ports	Avg. PE, P/S, EV/EBITDA, P/ Traffic	20.0%	3.4	0.0%
CN Admin. Porturilor Dunarii Fluviale	Ports	Avg. PE, P/S, EV/EBITDA, P/ Traffic	20.0%	14.4	0.1%
CN Admin. Canalelor Navigabile	Ports	Avg. PE, P/S, EV/EBITDA, P/ Traffic	20.0%	19.7	0.2%
Total				**8,257.6**	**63.4%**

Source: Raiffeisen Capital&Investment estimates, Fondul Proprietatea

**including both the Distribution and the Supply legal entities*

***resulted from the merger between Otopeni and Baneasa Airports*

...for the rest we use FP's official values discounted by 50%

For the less significant stakes in not-listed companies we decided to use the official values provided by FP. These values were computed back in 2007-2008 by specialized valuators. As the valuations are not up-to-date and as they were performed in better economic environment we discount the official FP figures by 50%. We considered a null value for the companies that are currently under insolvency, under judicial reorganization or bankruptcy procedures. The cumulated value of these stakes stands at RON 100 mn.

Valuation of 'Other' FP shareholdings, in RON mn

Company	Sector	FP stake	FP stake Value,	% of FP Portfolio
Societatea Nationala a Sarii (Salrom)	Salt Production	49.0%	40.2	0.3%
Zirom	Titanium Processing	100.0%	26.5	0.2%
Romplumb	Lead Production	51.0%	12.6	0.1%
Petrotel Lukoil	Oil & Gas	2.2%	8.1	0.1%
Laromet	Metal Production	6.5%	5.9	0.0%
Salubriserv	Waste Collection	17.5%	2.5	0.0%
Zamur Tg. Mures	Sugar Production	7.1%	1.4	0.0%
Comsig	Retail	70.0%	0.8	0.0%
Carom - Broker de Asigurare	Life Insurance	70.0%	0.7	0.0%
Celuloza si Otel (took over Remat Timis)	Recycling	8.6%	0.4	0.0%
Electroconstructia Elco Cluj	Electric installation services	7.6%	0.2	0.0%
Commetex	Retail	16.0%	0.2	0.0%
Ciocarlia	Restaurants	1.7%	0.2	0.0%
Cetatea	Real Estate	7.6%	0.2	0.0%
Familial Restaurant	Restaurants	2.8%	0.0	0.0%
Marlin	Financial leasing	5.9%	0.0	0.0%
World Trade Hotel	Hotels	19.9%	-	0.0%
Carbid Fox (bankrupt)	Chemicals	8.0%	-	0.0%
Electromecanica Ploiesti	Military Equipment	49.0%	-	0.0%
Uzina Mecanica Bucuresti	Defense equipment	36.6%	-	0.0%
World Trade Center Bucuresti	Real Estate Rental	19.9%	-	0.0%
Plafar - (insolvency)	Health Care	49.0%	-	0.0%
Simtex - (juridicial reorganization)	Textiles	30.0%	-	0.0%
Gerovital Cosmetics SA (disolved)	Cosmetics	9.8%	-	0.0%
Fecne (juridicial reorganization)	Metallurgy	12.1%	-	0.0%
Total			**99.8**	**0.8%**

Source: Fondul Proprietatea, Raiffeisen Capital&Investment estimates

To get our fair value we apply a 30% discount to the whole portfolio, except for the cash position

In order to calculate FP fair value we decided to apply a 30% discount to the value of FP's portfolio (except for the cash position). We think that at this point a discount is necessary to account for (i) the fact that the shares are being traded on the OTC market, which implies a lower level of transparency and liquidity; (ii) the impact of the establishment of the two energy giants on the value of the energy producers from FP's portfolio, which at this moment is difficult to estimate; (iii) the existing legal disputes concerning FP's stakes in various companies (e.g. the Fund took the State into court regarding the dilution of its ownership in Nuclearelectrica, the nuclear electricity producer); and (iv) the fact that a significant part of Fondul Proprietatea's shareholdings are in state owned companies.

We reach a fair value for FP of RON 11.3 bn

After applying a 30% discount to FP's portfolio of shares we get a fair value of RON 11.3 bn or a fair value per share of RON 0.82. In order to reach our 12m TP we carry forward FP's NAV with the cost of equity of 14.7% and subsequently, we apply the discount. But, considering the fact that in a one-year time, FP will be listed and it will have Franklin Templeton at its helm, we view a discount of only 20% as more appropriate to compute the 12m TP. To get the per share values, we employed the new number of shares, resulted from the cancellation of the State's unpaid shares. Therefore, we set a 12m TP of RON 1.05 per share.

Being traded on the OTC market, we place FP shares in the "high risk" category, which according to our ratings methodology requires an upside greater than 20% for a "buy" recommendation. Since FP shares currently trade at RON 0.51, this implies an upside of roughly 100% to the currently reported market price. Therefore, we issue a "buy" recommendation for Fondul Proprietatea shares.

Risks to our valuation:

- The political risk is by far the most important risk investors are facing and it comes in different forms: (i) direct involvement in FP, with Ministry of Finance the largest shareholder and (ii) through some of the largest holdings of FP which are stakes in companies controlled by the State;
- The formation of the two energy giants would affect the values of the energy producers in FP's portfolio, as additional loss making companies are to be included in the new entities;
- We have considered FP's stake in Nuclearelectrica at 9.7% (as it is disclosed by FP); however, FP has contested in Court the dilution of its stake in Nuclearelectrica from 20% to 9.7% and it seems that FP has real chances of winning the legal debate and regain its full stake, which would add around RON 800 mn to its portfolio. That in turn would translate through our valuation model in an increase of about 5% in FP's fair value;
- Given the history of delays witnessed both in the official appointment of Templeton and in the listing of FP, there is a risk that the process could witness further delays going forward, in which case the materialization of the upside potential would also be delayed;
- For the smaller companies in FP's portfolio, we used the valuation provided by FP and performed in 2007-2008, which is based on the book value of these companies and does not reflect the actual performance of these companies. However, we remind readers that we aimed at mitigating this risk by applying a 50% discount to these valuations;
- Upside risks to our valuation might result from the amounts FP should receive from the privatization of certain assets like State's stakes in Romtelecom and the Saving House (CEC). FP has also a legal debate with the Ministry of Finance, requesting a higher amount from BCR's privatization. For valuation purposes, we did not take into account these contingent amounts;
- We value part of the companies using industry specific or comparative valuation, our valuation reflecting the performances of those companies in 2009;
- Romania's economy is expected to remain in recession in 2010 which would affect the performance of the companies in the portfolio and could affect our valuation;
- Up to now, the information disclosed by FP and/or companies from its portfolio has been limited. We expect this to improve once Franklin Templeton will commence its mandate as fund manager;
- With FP shares continuing to be transferred from the Ministry of Finance to those entitled to receive compensation, shares overhang risk can not be ignored, especially as there is no lock-up period. However, we see this risk as limited since, on the other hand, a large spectrum of investors, currently unable to invest in FP shares due to the unlisted status of the Fund, will have access to FP shares after its listing on the BVB;
- According to the existing legislation, the voting rights for stakes above 1% are restricted to different degrees until stakes reach 5%. This will stay in place until State's stake drops below 33%.

Electricity Market

FP has equity interests in almost all the important players on the power market

Fondul Proprietatea has a comprehensive exposure to the energy market. It owns stakes in the major energy producers (nuclear, hydro and coal), seven of the eight power distributors, the power transmission company and in some of the major power suppliers. The cumulated value of FP's stakes in companies active on the electricity market accounts for 46.2% of FP portfolio.

Valuation Summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
Hidroelectrica	Energy Producer	10,663.4	19.9%	2,126.3	16.3%
Nuclearelectrica	Energy Producer	7,163.2	9.7%	697.0	5.4%
TPP Turceni	Energy Producer	1,384.9	24.8%	343.3	2.6%
TTP Craiova	Energy Producer	699.7	24.4%	170.4	1.3%
TPP Rovinari	Energy Producer	519.4	23.6%	122.6	0.9%
Transelectrica	Energy Transmission	1,363.4	13.5%	184.1	1.4%
E.ON Moldova*	Energy Supply & Distribution	1,146.0	22.0%	252.1	1.9%
Electrica Muntenia Nord*	Energy Supply & Distribution	1,673.4	22.0%	368.2	2.8%
Electrica Transilvania Nord*	Energy Supply & Distribution	1,189.7	22.0%	261.7	2.0%
Electrica Transilvania Sud*	Energy Supply & Distribution	1,246.3	22.0%	274.2	2.1%
Enel Banat*	Energy Supply & Distribution	1,771.9	24.1%	427.6	3.3%
Enel Dobrogea*	Energy Supply & Distribution	1,283.6	24.1%	309.2	2.4%
Enel Muntenia*	Energy Supply & Distribution	3,952.1	12.0%	474.3	3.6%
Total				**6,010.9**	**46.2%**

*Source: Raiffeisen Capital&Investment estimates, * incorporating the legal entities providing both distribution and supply activities*

The total installed energy production capacity in Romania amounts to 20.4 TW. Almost 36% of this capacity corresponds to coal-fired power stations, 26% to hydrocarbon-based power plants, 31% to hydro-electric plants, while nuclear energy represents roughly 7% of total capacity.

In 2009, on the Romanian electricity market operated the following main players:

- 100 licensed energy generators
- one operator of the national energy grid – Transelectrica and one market operator, Opcom (managed by Transelectrica)
- eight regional energy distributors (3 of which are fully state owned);
- approximately 60 active energy suppliers.

In 2009, the total energy generated in Romania decreased by 11% compared to 2008, to 56.7 TWh. Electricity imports amounted to 0.68 TWh, down 27% yoy, while exports reached 3.15 TWh – a decrease of 41% yoy.

Romania's 2009 electricity consumption was 41.6 TWh, out of which 55% on the regulated market

Romania's energy consumption in 2009 amounted to 41.6 TWh, down 9% yoy. The consumption on the regulated market represented 55% of the total, with households accounting for 48% of this market (11 TWh). Consumers that have chosen their supplier (acting on the competitive market and formed mainly of industrial companies) accounted for 45% of the total electricity consumption, or 18.5 TWh. Starting with July 1, 2007, all electricity consumers are free to select their own supplier, and, as can be noted from above, the real market opening reached 45% in 2009.

The energy wholesale market comprises the bilateral contracts market (regulated and negotiated), the centralized market (where transparency is ensured through a bidding system), the balancing market and the day-ahead market.

Energy market segments

	Quantities	yoy growth	2009 average price	2008 average price	yoy growth
	TWh	%	RON/MWh	RON/MWh	%
Bilateral Negotiated Contracts	34.6	-1%	158.7	146.1	9%
Bilateral Regulated Contracts	30.3	4%	164.4	158.2	4%
Exports	3.2	-41%	na	na	na
Centralized Market for Contracts	6.3	-28%	192.5	177.0	9%
Day Ahead Market	6.3	22%	144.8	188.5	-23%
Balancing Market	3.2	-10%	243.1	278.1	-13%

Source: ANRE

Power Generators

Energy generators from FP's portfolio accounted for 76% of Romania's 2009 production

FP owns stakes in the most important local energy generators, which are still un-privatized. The generators where FP owns a stake (Hidroelectrica, Nuclearelectrica, CE Turceni, CE Rovinari and CE Craiova) have accounted in 2009 for 76% of the total energy produced in Romania and have a total installed generation capacity of 11,980 MW (58% of the national production capacity). FP's ownerships offer a mix between hydro power (Hidroelectrica), nuclear (Nuclearelectrica) and vertically-integrated coal-based energy producers (CE Turceni, CE Rovinari and CE Craiova). The state has several times voiced its intention to IPO some of these companies, but no material steps were taken so far. In terms of new production capacities, private players were more active on this segment and started green-field projects (i.e. Petrom is building an 860 MW gas power plant).

Summary of Key Figures for Power Generators

Producer	Installed Capacity (MW)	2009 Capacity Utilization	2009 EBITDA margin	FV derived from DCF (RON mn)	DCF Valuation EUR mn / 1 MW
Hidroelectrica	6,422	28%	33.4%	10,663	0.39
Nuclearelectrica	1,414	97%	45.4%	7,163	1.16
TPP Craiova	930	48%	6.6%	700	0.18
TPP Turceni	1,980	36%	12.9%	1,385	0.16
TPP Rovinari	1,320	46%	6.0%	519	0.09

Source: Raiffeisen Capital&Investment estimates

Market overview

The once vertically integrated Romanian Electricity Agency was split in the 90's

In1998, Romania started a process of restructuring the power sector. The first step was to effectively split the vertically integrated Romanian Electricity Agency (RENEL) into three separate entities: (i) Electrica (distribution and supply); (ii) Termoelectrica (generation of electricity from coal, gas and fuel oil thermal power plants, as well as district heating and related fuel supply) and (iii) Hidroelectrica (hydropower plants). These three companies were put under the umbrella of a holding company National Electricity Company (CONEL), which also managed the national transmission grid and provided system and market administration services. The nuclear power plant was also spun off into Nuclearelectrica in 1998. In the same year, the Regulatory Authority in the Energy Sector (ANRE) became an independent institution regulating the electricity market. In the next years, the power sector underwent several changes as CONEL was dissolved and each of the three companies within its organization was officially spun off. In the next years Termoelectrica was further split by divesting some generators into separate legal entities, which remained state-owned.

Simultaneously, the government issued several decisions designed to gradually liberalize the retail market. Currently, the retail market is fully liberalized as consumers can switch between suppliers and negotiate their contracts.

The majority of electricity distributors were privatized

The restructuring of the Romanian electricity market has led to the privatization of most of the distributors, and European regulations required the unbundling of supply and distribution operations. Nevertheless, the generators have remained state-owned. The new phase of the strategy for the restructuring of the energy sector implies the formation of two "energy giants" by merging several generators and mining companies.

"Two energy giants"

The Government wants to reorganize the hydro and thermo producers into two "energy giants"

In 2009 the Economy Ministry started the discussion regarding the reorganization of the power production sector into two energy giants. After several delays, on January 29, 2010, the government ratified the setup of two energy giants. This move has a significant impact on FP as all energy generators in its portfolio are to be included in one of the giants. According to a draft made public by the Government for the creation of the two giants, called ELECTRA and HIDROENERGETICA, Hidroelectrica assets will be split 20%/80% between the two energy giants. To be more precise, 20% of Hidroelectrica's assets (valued at a total of RON 16.1 bn by KPMG) will go to ELECTRA, while the second giant (HIDROENERGETICA) will be formed under the umbrella of Hidroelectrica's remaining assets.

ELECTRA will be formed by merging Nuclearelectrica, Societatea Nationala a Lignitului Oltenia (National Lignite Company), Turceni, Rovinari and Craiova Power Plants and 20% of Hidroelectrica assets (Ramnicu Valcea, Sibiu, Tg. Jiu and Hidroserv Rm. Valcea subsidiaries). HIDROENERGETICA will be formed by merging some thermo power plants (Electrocentrale Deva, Electrocentrale Bucuresti and a few subsidiaries of Termoelectrica) and a part of Compania Nationala a Huilei (National Coal Company) with approx. 80% of Hidroelectrica remaining assets.

Current status: Government officials estimate that the set-up of the two giants will be delayed by at least another two months (from July 1, 2010) as Hidroelectrica's employees' union has contested in Court the creation of the two companies. The creation of the two energy companies was contested in Court by Fondul Proprietatea as well due to the debate between the state and FP regarding FP's ownership in Nuclearelectrica. Additionally, the local Competition Council has to yet approve this move.

Shareholding Energy Giants

	Electra	*Hidroenergetica*
Ministry of Economy and Commerce	84.4%	63.8%
Fondul Proprietatea	15.1%	15.9%
Termoelectrica	0.3%	20.2%
National Company for Mines Closing and Conservation	0.1%	
Hidroelectrica	0.1%	

Source: Ministry of Economy and Commerce

Strengths and Weaknesses

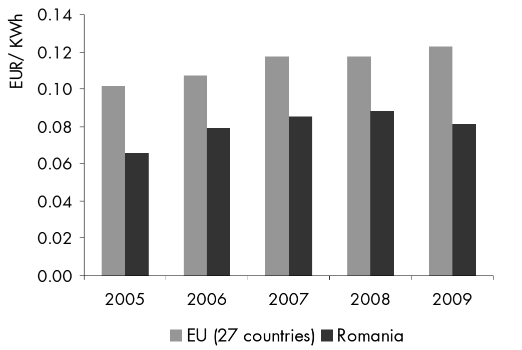
Strengths/Opportunities	Weaknesses/Threats
Economies of scale could be achieved if management is united	The new companies will remain state owned and the management appointment would remain a political choice
The new companies will have a stronger negotiation power with its customers	The new companies could be even less transparent than the current energy producers
So far the coal-based producers could not obtain financing as the amounts needed were very large compared to their cash-flows and even revenues, but through the new entities, the coal-based producers should obtain more easily financing for their investments needs	The long-term contracts signed by the initial companies (i.e. Hidroelectrica contract with the aluminum producer Alro) will be transferred to the new companies that will have a higher production cost than Hidroelectrica
	Increased possibility of siphoning of funds from the profitable companies to less profitable ones
	Delays in setting of the two 'giants' could hinder or put on stand-by the investment plans of the producers that will be part of the new entities

Regulated prices are below the European averages and convergence is expected in the medium term

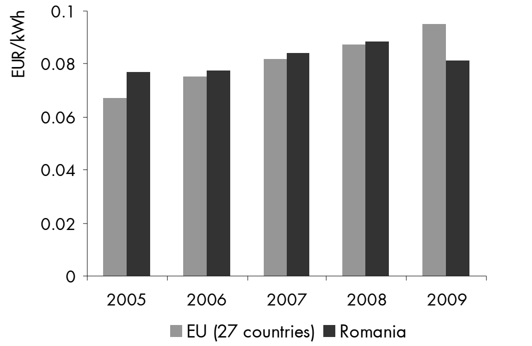
Electricity consumption and prices

According to data released by ANRE, in 2009, electricity consumption decreased by 9% yoy due to the economic slowdown. The increase in the ratio of consumption at regulated prices (from 51% to 55%) was the result of higher household consumption (+6% yoy) accompanied by lower demand from industrial end-users. Data from Eurostat shows that regulated prices are lower compared to EU averages, especially when we look at regulated prices paid by households. We expect electricity prices to converge to EU levels in terms of consumer prices, with electricity producers to benefit most from this increase. We expect prices increases on both the regulated market, where prices are established in accordance with ANRE regulations, and on the free market, where older long-term, low-priced contracts should gradually expire or will be renegotiated.

Power prices for households



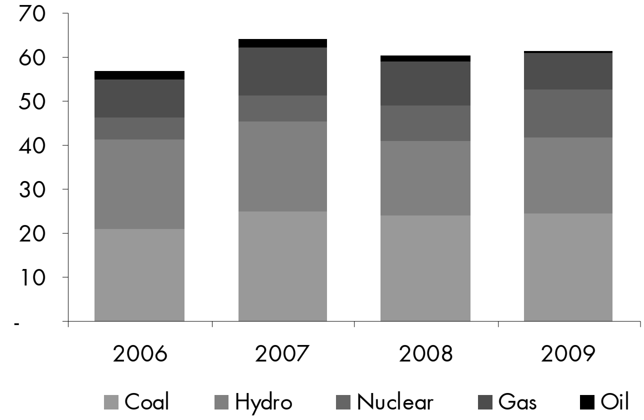
Power prices for industrial consumers



Source: Eurostat

The mix of primary sources for generators has changed in the last years with the shift toward nuclear (the second 700 MW reactor was started in 2007) and hydro power at the expense of coal and gas as primary sources.

Electricity generation by primary source, TWh



Source: ANRE

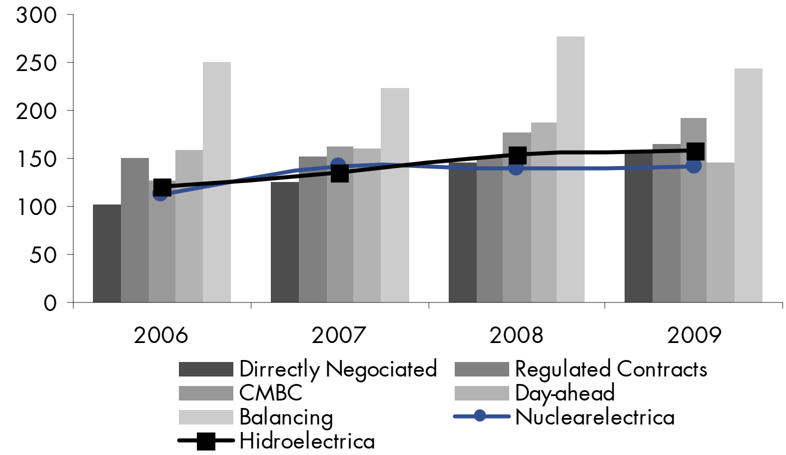
Directly negotiated contracts account for 45% of the electricity transactions

Electricity trading and market price history

More than 80% of the transactions with electricity (in term of physical volumes) either take place through regulated contracts or through directly negotiated bilateral contracts. It should be noted that since 2007, when regulated contracts accounted for 50% of the market and directly negotiated contracts for roughly 35%, the balance switched to more weight on directly negotiated contracts (approx. 45%).

The average price data indicates that there has been some degree of convergence between the various market mechanisms since 2006, as would be anticipated as the wholesale market matures. In 2009, electricity generators have sold 53% of the energy produced through regulated contracts, while the balance of 47% was sold on the open market. We expect the regulated element of the wholesale market to shrink, though at a slow pace.

Breakdown of electricity prices evolution, RON/MWh



Source: ANRE, average selling prices for Hidroelectrica and Nuclearelectrica are estimated by Raiffeisen Capital&Investment

Valuation of electricity generators

We valued the electricity generators with the help of DCF models

In order to value the Romanian electricity generators we used simplified DCF models. Although these companies are rather opaque and there are several issues with respect to their development strategy to be decided (mainly politically), we were able to run simplified DCF models. The hydro, nuclear and coal energy generation business models are rather standardized, due to their fixed costs base and the dependence of the variable costs on commodity prices like uranium and coal. In addition, to cross check our DCF findings and for informational purpose we used an international peer comparison.

As local coal-fired generators are required to make significant investments to comply with environmental norms and improve efficiency we have included these large investments in our DCF models and in the case of the peer group we have deducted the value of the required investment from the resulting value.

Hidroelectrica

Hidroelectrica, the largest energy producer in Romania, accounted in 2009 for 30% of total electricity generated, although it produced 8.8% less energy than in 2008 due to unfavorable weather and repair/upgrading works being done at some of its power plants. Hydro energy generation reached 15.5 TWh, implying capacity a utilization of 28% vs. 30% in 2008.

Hidroelectrica has an installed capacity of 6,422 MW but a capacity utilization of 30%

Hidroelectrica has a total capacity installed of 6,422 MW split between over 250 hydro plants, out of which some 220 are small (10 MW or less). Hidroelectrica has begun a process of divesting the small power plants, while the large scale plants will remain under its control. The main hydro plants (see table below) were built in the '70. Thus, the company is currently in the process of upgrading and revamping its facilities. This had a negative impact in the recent years on Hidroelectrica's utilization rate as several facilities were put offline for upgrading, repair and maintenance works.

Hidroelectrica Key Hydro plants

Power Plant	River	Installed Cap. (MW)	Turbines	Construction Year
Portile de Fier I	Danube	1,050.0	6x175	1971
Lotru Ciunget	Lotru	510.0	3x170	1972
Raul Mare Retezat	Raul Mare	335.0	2x167.5	1987
Mariselu	Somes	220.5	3x73.5	1977
Vidraru	Arges	220.0	4x55	1966
Portile de Fier II	Danube	216.0	8x27	1985
Stejaru	Bistrita	210.0	6x35	1960

Source: Hidroelectrica, Raiffeisen Capital&Investment estimates

Its hydro plants were commissioned in the 70's

In 2006, at Portile de Fier I started an upgrading and repair process, which currently is about 75% completed (to be 100% finalized in 2013). Lotru, the second largest power plant in Hidroelectrica's portfolio is undergoing an upgrading process as well (to be finalized in 2011). Lotru generation capacity is expected to increase by 10%, while the turbines efficiency could rise by 1%. The upgrading is expected to increase the life span of the power plants by 30-40 years.

The Government announced ambitious investment plans for 2009 – 2017 in the hydro sector, as Hidroelectrica is the producer of the cheapest energy available on the Romanian market and the existing hydro network captures only about half of Romania's hydro potential. Investments worth a total of EUR 2.4 bn are aimed at building new hydro plants and revamping existing facilities.

A medium term project of Hidroelectrica is the construction of a pumped-storage hydroelectricity plant

One of the most important investments that Hidroelectrica is planning is the construction of a pumped-storage hydroelectricity plant (at Tarnita-Lapustesti) with total installed capacity of 1,000 MW. This power plant will act as a capacity reserve. Presently, Hidroelectrica has to acquire electricity from the market at higher prices in order to cover the deficit when it is unable to meet its contractual obligations due to unfavorable weather. The building of a planned pumped-storage hydroelectricity power plant will allow a better cost control. The official cost estimate for the pumped-storage plant stands at EUR 1 bn and the project is estimated to be completed in two phases (2x500 MW) that stretch over seven years.

Outlook

Local energy prices are below the EU average (especially for households) and in the medium to long run we expect them to converge to EU levels. On the other hand, as electricity prices are a sensitive issue, we expect this process to be slow.

Hidroelectrica's profitability is hurt by some long-term contracts with large traders and consumers ...

In the last years, Hidroelectrica's profitability has been hurt by some long-terms contracts signed with large consumers and traders, through which the company sells electricity at prices below market prices. According to company officials, in 2009 and 2010, Hidroelectrica renegotiated some of these contracts and raised selling prices. Nevertheless, prices have remained lower than market prices. The company said it has to rely on these long term contracts in order to obtain more easily bank loans to finance its investments.

Even though the repairs will continue in the next years, keeping some capacities offline, we expect Hidroelectrica to obtain a higher utilization rate from the rehabilitated capacities and consequently higher profitability.

...but we expect a strengthening on the medium run

Overall, we expect Hidroelectrica's profitability to rise due to (i) the increase in power prices, (ii) unprofitable/low margin long term contracts expiration, and renegotiation, (iii) upgraded capacities that allow a higher utilization rate and (iv) a pumped-storage hydroelectricity plant that would improve cost efficiency.

Valuation

Our DCF points to a fair value of RON 10.7 bn or EUR 0.4 mn per MW of installed capacity

Our DCF valuation of Hidroelectrica yields a fair value of RON 10.7 bn. We have assumed an increase in the quantities produced by Hidroelectrica, based on a higher utilization rate as the upgrading and repair works are completed. We forecast quantities to increase at a CAGR of 7.5% between 2009 and 2014. At the same time, we expect higher selling prices as older contracts expire and are gradually renegotiated (2009-2014 selling prices to increase at a CAGR of 5.9%). With a significant fixed costs base (salaries, maintenance and depreciation) we do not expect the increase in revenues to be matched by a similar increase in costs.

Hidroelectrica DCF valuation

	2008	2009	2010e	2011e	2012e	2013e	2014e
Sales	2,608.2	2,466.2	2,916.3	3,354.4	3,698.3	4,000.0	4,243.6
yoy growth	*25.0%*	*-5.4%*	*18.3%*	15.0%	10.3%	8.2%	6.1%
EBITDA	849.8	816.8	1,050.8	1,294.0	1,477.0	1,629.9	1,740.5
EBITDA margin	*32.6%*	*33.1%*	*36.0%*	38.6%	39.9%	40.7%	41.0%
FCFF			590.6	798.1	955.1	1,086.7	1,182.8
WACC			13.2%	13.0%	12.8%	12.7%	12.2%
Disc. FCFF			554.2	662.9	702.9	709.6	688.2
PV of FCFF			1,920.0				
Terminal growth rate			2%				
TV			13,892.1				
PV of TV			10,224.5				
Net debt			1,481.0				
Fair Value (RON mn)			10,663.4				
FV / 1 MW (RON mn)			1.66				
FV / 1 MW (EUR mn)			0.39				

Source: Hidroelectrica, Raiffeisen Capital&Investment estimates

The DCF result corresponds to a value of EUR 0.4 mn per MW of installed capacity, which is heavily discounted when compared to Verbund ratio of EUR 1.7 mn per MW. Nevertheless, we consider the outcome is the result of a much less transparent development strategy and the heavy investments needed in upgrading as the majority of the generating capacities are at the end of a forty years life cycle.

International Peers

	EV/EBITDA		EV/Sales	
	2009	2010e	2009	2010e
Tractebel	8.0	7.2	5.0	4.3
CEMIG	7.2	5.2	2.1	1.8
Copel	6.0	5.9	1.9	1.7
RusHydro	8.3	6.8	3.7	3.0
Verbund	11.0	12.3	3.9	4.1
Average (mean)	**8.1**	**7.5**	**3.3**	**3.0**
Average (median)	**8.0**	**6.8**	**3.7**	**3.0**
Hidroelectrica implied value	**5,149**	**6,813**	**6,710**	**5,963**

Source: Bloomberg, prices as of August 11, Raiffeisen Capital&Investment estimates

The results of the peer comparison reveal much lower values compared to our DCF findings. This is justified by the fact that our model incorporates both higher energy selling prices and higher energy generation (higher utilization rate) which trading multiples valuation fails to capture.

Nuclearelectrica

Nuclearelectrica is the second largest producer and operates two 707 MW reactors

Nuclearelectrica is the second largest generator of electricity in Romania. In 2009 it produced 10.8 TWh, up 4.7% yoy, which represented 20% of the domestic energy production (up from 18% in 2008). The company operates two 707 MW reactors. The first unit was designed in 1976 and began production in 1995, while the second reactor was launched in late 2007 and became fully operational in 2008.

In late 2008, a public-private partnership (EnergoNuclear) was established for the development of the third and fourth reactors. At that time, it was decided that Nuclearelectrica will hold 51% of EnergoNuclear, while the balance would be split between CEZ (9.15%), ENEL (9.15%), GDF Suez (9.15%), RWE (9.15%), Iberdrola (6.2%) and Arcellor Mittal (6.2%). However, as the JV has accumulated a lot of delays and as Government officials declared that Nuclearelectrica's stake is being reconsidered (to 25% from 51%), we have not included the impact of the third and fourth reactors in our estimates.

Nuclearelectrica revenues received a major boost from the launch of the second reactor, which effectively doubled the company's generation capacity. Economies of scale and high utilization coefficients for both reactors translated in a significant increase in the EBITDA margin from 36% in 2006 to slightly over 43% in 2009.

Outlook

Capacity utilization is very high and the top line growth should come from the increase in prices

Over the medium term, we do not expect the growth rate of energy produced by Nuclearelectrica to be high due to the fact that in 2009 the utilization coefficient stood at 100.1 for the first reactor, while for the second it stood at 90.6. Over the long term, the main growth driver comes from the prospect of the third and fourth reactor, but given the unclear situation regarding Nuclearelectrica's participation in this project, we have not forecasted an increase in generation capacity. We expect more upside to come from an increase in electricity prices.

Valuation

DCF model points to a fair value of RON 7 bn

We used a DCF model to compute Nuclearelectrica Fair Value. Our DCF findings reveal a Fair Value of RON 7 bn for Nuclearelectrica. We have forecasted a CAGR of 1.2% for quantities of energy produced over 2009-2014 as the reactors are already running at high utilization rates. At the same time, we see selling prices climbing by a CAGR of 4.9% over the same forecasting period. The DCF result indicates a value of EUR 1.16 mn per 1 MW of installed capacity, which is much bigger than in the case of Hidroelectrica (EUR 0.4 mn), but which we consider to be justified due to the high utilization coefficient (over 90% versus around 30% at Hidroelectrica). Moreover, the utilization rate has historically been high and most likely will remain at high levels in the coming years as well.

Nuclearelectrica DCF valuation

	2008	2009	2010e	2011e	2012e	2013e	2014e
Sales	1,451.9	1,526.7	1,667.7	1,768.6	1,866.7	1,960.8	2,039.8
yoy growth	59.6%	5.1%	9.2%	6.1%	5.5%	5.0%	4.0%
EBITDA	233.0	203.3	283.3	338.1	390.3	438.9	474.5
EBITDA margin	16.0%	13.3%	17.0%	19.1%	20.9%	22.4%	23.3%
FCFF			515.6	585.4	652.6	716.1	766.8
WACC			12.1%	11.8%	11.6%	11.5%	11.0%
Disc. FCFF			486.1	493.5	492.8	485.2	467.9
PV of FCFF			2,425.5				
Terminal growth rate			2%				
TV			10,813.7				
PV of TV			6,599.4				
Net debt			2,032.8				
Fair Value (RON mn)			**6,992.1**				
FV / 1 MW (RON mn)			**4.93**				
FV / 1 MW (EUR mn)			**1.16**				

Source: Nuclearelectrica, Raiffeisen Capital&Investment estimates

Rovinari, Turceni and Craiova Thermal Power Plants

The three thermo plants generated 28% of Romania's electricity output with an installed capacity of 4,320 MW

In 2009, the thermo power plants (TPP) Rovinari, Turceni and Craiova generated roughly 28% of the total electricity produced in Romania, slightly lower than in the previous year (29%). Nevertheless, the three power plants reduced their production by 14% yoy in 2009 due to low demand and due to the fact that some capacities require heavy investments for revamping and to meet EU environmental standards that led to a low capacity utilization coefficient. Their total installed capacity stands at 4,320 MW, but the capacity utilization was rarely higher than 50% in the last two years and mostly in the 40-50% range.

Large investments needed to comply with EU standards

The companies did some upgrading works in the last years (i.e. slag deposits), but they still have to embark in significant investments to bring their installations in line with EU standards (i.e. desulphurization installations until 2012). Some of these investments will be EU co-financed, but the remaining balance would still hang heavily on their balance sheets. It is worth mentioning that most of the investments are aimed just at bringing the installations in line with EU environmental norms, and will not increase production capacity. The three thermo plants have their own mines from where they secure a large amount of the raw materials. Craiova TPP has the smallest proportion of raw materials secured from its own mines (about 10%), while Turceni TPP and Rovinari TPP obtain more than 70% of the raw materials from own mines.

Outlook

We are more conservative regarding the growth pace of the energy produced by the three coal-fired power plants and an increase in their selling prices as well. This is due to the significant investments needed in order to bring their installations at EU standards and also to increase efficiency. In addition, the three thermo plants sell their electricity at price levels that are above Nuclearelectrica and Hidroelectrica. Thus, we do not expect significant increases in their selling prices. We are positive regarding their access to raw materials – lignite, which is extracted from their own mines, as this should provide a good protection against increases in the prices of commodities.

Valuation

Valuation is based on DCF models with a longer forecasting period

We have used simplified DCF models in the case of all three producers. As the three TPP are required to make significant investments related to environmental issues in order to keep running we assumed these investments will be realized until 2012. Thus, our model incorporates significant capex expenditures for meeting environmental issues in 2010 – 2011 that will be financed mostly through bank loans. As the capex amounts are large compared to their cash-flows, we opted for a longer forecasting period (2010 – 2020) that would allow us to better capture their growth potential. We estimate that their profitability will increase significantly in the next years as a result of a higher utilization rate of their capacities after the completion of the environmental investments, but will remain below industry average. All three thermo producers voiced their intention to invest in new production capacities as well, through private – public partnerships. However, we decided not to include in our valuation any additional capex for capacity increases as these projects are uncertain. We estimate a lower growth rate in revenues at the three power plants also due to the fact that they already have the highest selling prices among the local producers.

We see lower top line growth as they already have the highest selling prices

We did not place any value on the coal reserves the companies own because these will be gradually used in the energy production, and thus, can not be considered excess assets.

DCF versus Relative Valuation

in RON mn	TPP Craiova	TPP Turceni	TPP Rovinari
DCF model	699.7	1,384.9	519.4
2009 EV/Sales of 1.9	771.5	1,124.1	464.6
2010e EV/Sales of 1.8	822.9	1,012.6	466.8

Source: Raiffeisen Capital&Investment estimates

In order to check our DCF findings we used a peer group comparison based on EV/Sales multiple (Table Power Generators Peers on page 25) to which we applied a discount of 25% to account for: (i) lower profitability of local producers, (ii) lower transparency and (iii) state ownership. Additionally, from the values derived using the EV/Sales multiples we deducted the value of the necessary capital expenses for meeting EU standards.

TPP Craiova DCF Valuation Table

	2008	2009	2010e	2011e	2012e	2013e	2014e	2015e	2016e - 2020e Avg.
Sales	1,088.3	1,163.3	1,214.2	1,297.9	1,413.1	1,497.9	1,617.7	1,747.1	2,085.2
yoy growth	17.6%	6.9%	4.4%	6.9%	8.9%	6.0%	8.0%	8.0%	5%
EBITDA	73.6	76.9	81.5	96.2	118.8	299.6	323.5	349.4	417
EBITDA margin	6.8%	6.6%	6.7%	7.4%	8.4%	20.0%	20.0%	20.0%	20%
FCFF			(17.8)	(446.6)	(427.6)	169.2	189.3	211.1	267.9
WACC			12.3%	10.6%	10.4%	9.9%	9.7%	9.3%	9.3%
Disc. FCFF			(15.7)	(351.6)	(304.4)	109.2	111.1	112.9	110.1
PV of FCFF			211.7						
Terminal growth rate			2%						
TV			1,769.5						
PV of TV			619.5						
Net debt			131.5						
Fair Value (RON mn)			**699.7**						
FV / 1 MW (RON mn)			**0.75**						
FV / 1 MW (EUR mn)			**0.18**						

Source: CE Craiova, Raiffeisen Capital&Investment estimates

TPP Turceni DCF Valuation Table

	2008	2009	2010e	2011e	2012e	2013e	2014e	2015e	2016e - 2020e Avg.
Sales	1,800.6	1,625.3	1,611.1	1,696.4	1,752.5	1,857.6	2,006.3	2,166.8	2,562.2
yoy growth	21.1%	-9.7%	-0.9%	5.3%	3.3%	6.0%	8.0%	8.0%	5%
EBITDA	126.5	208.9	208.7	231.6	256.8	371.5	401.3	433.4	512
EBITDA margin	7.0%	12.9%	13.0%	13.7%	14.7%	20.0%	20.0%	20.0%	20%
FCFF			110.2	(508.5)	(487.4)	259.4	284.4	311.3	377.8
WACC			13.0%	10.6%	10.4%	9.9%	9.7%	9.3%	9.3%
Disc. FCFF			97.4	(397.8)	(344.8)	166.3	165.8	165.4	154.4
PV of FCFF			624.5						
Terminal growth rate			2%						
TV			2,442.5						
PV of TV			849.6						
Net debt			89.3						
Fair Value (RON mn)			**1,384.9**						
FV / 1 MW (RON mn)			**0.70**						
FV / 1 MW (EUR mn)			**0.16**						

Source: CE Turceni, Raiffeisen Capital&Investment estimates

TPP Rovinari DCF Valuation Table

	2008	2009	2010e	2011e	2012e	2013e	2014e	2015e	2016e - 2020e Avg.
Sales	1,366.8	1,277.4	1,295.7	1,376.6	1,463.5	1,551.3	1,675.4	1,809.4	2,030.8
yoy growth	16.1%	-6.5%	1.4%	6.2%	6.3%	6.0%	8.0%	8.0%	5%
EBITDA	73.7	76.1	90.7	106.0	127.3	310.3	335.1	361.9	406
EBITDA margin	5.4%	6.0%	7.0%	7.7%	8.7%	20.0%	20.0%	20.0%	20%
FCFF			12.4	(687.0)	(669.1)	210.8	231.7	254.2	275.5
WACC			13.2%	13.0%	10.6%	10.4%	9.9%	9.7%	9.5%
Disc. FCFF			10.9	(537.4)	(473.3)	135.1	135.1	135.1	133.9
PV of FCFF			30						
Terminal growth rate			2%						
TV			1,860.8						
PV of TV			647.3						
Net debt			157.6						
Fair Value (RON mn)			**519.4**						
FV / 1 MW (RON mn)			**0.39**						
FV / 1 MW (EUR mn)			**0.09**						

Source: CE Rovinari, Raiffeisen Capital&Investment estimates

Local energy producers have a much lower profitability compared to their European peers. We believe that this is the result of a mix of factors: (i) old installations and low level of investments that led to a low percentage of capacities used; (ii) regulated selling prices below EU average; (iii) some older long-term contracts still running that were signed at low prices; and (iv) they are fully state-owned companies with a politically named management. As a result, there are significant differences between DCF and multiples based valuation on one hand, and EV/Sales, EV/EBITDA and book value multiple valuation on other hand (book value multiples indicate much higher value). We believe that the factors that lead to lower profitability, identified above, cannot persist over the medium to long term since (i) domestic prices will have to be aliened with European prices, (ii) the listing of these companies will have a positive impact on corporate governance and (iii) the companies will complete their investment plans. Our DCF better captures these elements and provides a more balanced estimation of value (valuation multiples indicate much lower or much higher values), which is why we choose to rely on DCF as the valuation method. Furthermore, European peers are generally vertically integrated energy companies with a mix of primary energy sources and thus enjoy higher margins. We present the peer group just for informational purpose as for deriving the value of the power generators in FP's portfolio we rely on the DCF results.

Peer Group

	EV/EBITDA		EV/Sales		P/BV	
	2009	2010e	2009	2010e	2009	2010e
CEZ	6.4	6.5	3.1	2.9	2.3	2.1
EDF	7.3	6.9	1.9	1.8	2.2	2.0
RWE	4.6	4.4	1.0	0.8	2.3	2.1
Iberdrola	8.8	8.2	2.4	2.4	1.1	1.1
Drax Group	3.7	3.5	0.9	0.9	1.4	1.1
Average (mean)	**6.2**	**5.9**	**1.8**	**1.8**	**1.8**	**1.7**
Average (median)	**6.4**	**6.5**	**1.9**	**1.8**	**2.2**	**2.0**
Values implied from multiples, RON mn						
Hidroelectrica	3,578	4,762	3,098	3,709	37,674	34,157
Nuclearelectrica	1,720	2,223	784	799	16,508	15,052
TPP Craiova	neg.	Neg.	915	1,659	920	738
TPP Turceni	neg.	neg.	1,410	1,301	2,435	2,090
TPP Rovinari	neg.	neg.	600	632	2,335	1,977

Source: Raiffeisen Capital&Investment estimates, Bloomberg, prices as of August 10, 2010

Power Supply and Distribution

FP currently holds stakes in seven out of the eight major power distributors on the local market. The eight regional distribution companies were separated from one entity, Electrica SA, in 2002. Five of the eight distribution companies have been privatized in the last six years, with FP and the state continuing to keep minority stakes in four of them. For the three distribution companies that have remained in the hands of the state so far there are no clear plans for privatization.

Summary of Key Figures for Power Utilities

RON mn	2009 Electricity distributed, TWh	2009 Market Share	2009 EBITDA	2009 EBITDA margin	Fair value estimate
E.ON Electrica Moldova	4.1	12.5%	142.2	7%	1,146.0
Electrica Muntenia Nord	6.3	19.4%	145.8	8%	1,673.4
Electrica Transilvania Nord	4.3	13.1%	124.0	7%	1,189.7
Electrica Transilvania Sud	4.6	14.2%	139.1	7%	1,246.3
Enel Banat	3.9	11.9%	203.6	14%	1,771.9
Enel Dobrogea	3.3	10.3%	127.1	10%	1,283.6
Enel Muntenia	6.0	18.5%	219.1	8%	3,952.1

Source: Raiffeisen Capital & Investment estimates, ANRE

Romania's eight regional power distributors were split from Electrica and five of them were privatized

The state applied the same privatization method in the case of four of the five energy distributors that have been through this process so far. A stake of around 25% was sold initially by Electrica to each buyer. Afterwards a share capital increase followed, where only the buyer had the right to participate, diluting the government's stake to less than 50%. The cash injected by the buyer was to be used in subsequent investments needed to upgrade the distribution grid. FP took over the stakes in these companies after the privatization process was completed.

Distribution and supply activities had to be separated

In 2007, the distribution and supply activities had to be legally separated. Following the separation, FP retained the same stake it previously held in the newly formed companies.

Privatization history

Enel Dobrogea, Banat & Muntenia

In 2005, Enel purchased 24.6% of Electrica Dobrogea and afterwards increased its stake to 51% through a capital increase. The total value of the transaction stood at EUR 42.7 mn. In the same year, Enel bought a 24% stake in Electrica Banat and performed a capital injection to reach a stake of 51%, for a total value of transaction of EUR 69.1 mn. When the distribution and supply activities were separated, there was a single entity created for the supply in both regions (Dobrogea and Banat), called Enel Energie.

In 2008, Enel purchased 50% of Electrica Muntenia Sud for EUR 395 mn and increased its stake to 64.4% by injecting another EUR 425 mn in the company. In 2010 an additional EUR 38 mn (an adjustment following 2009 results) were disbursed by Enel to Electrica. At present, FP owns 12% in the company, Enel 64.4% and Electrica 23.6%.

According to some management statements, Enel has some 2.5 mn customers and operates a 93,000 km long network, out of which around 50% is 50 years old. Also, the company plans to invest some EUR 700 mn in the upgrade and development of the power grid over the next five years and so far it invested in grid modernization EUR 330 mn.

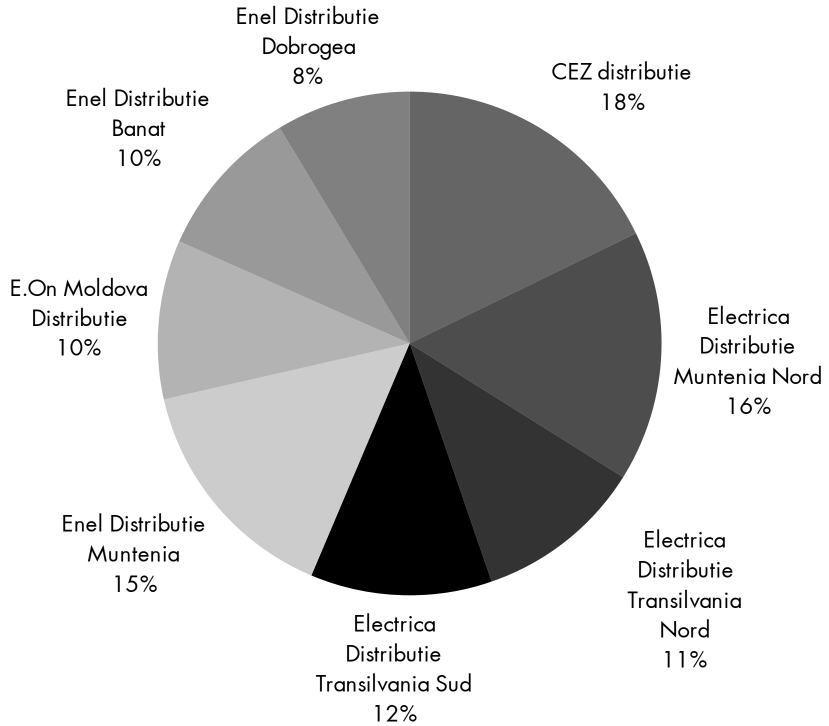
E.On Moldova Distributie & Furnizare
In 2005, E.On paid EUR 31.4 mn for 24.6% of Electrica Moldova and increased the share capital by EUR 68.6 mn. The shareholders of E.ON Moldova are currently E.On Energie with 51%, Electrica with 37.05% and Fondul Proprietatea with 11.95%. In 2007 the distribution and supply operations were separated.

CEZ Distributie and CEZ vanzare
In 2005 CEZ group took over 24.6% of Electrica Oltenia from state-owned Electrica for EUR 47.4 mn and increased its stake to 51% after a share capital increase worth EUR 103.6 mn. In September 2009 CEZ purchased the remaining 49% from FP (30%) and Electrica (19%) for EUR 375 mn. FP received EUR 229.6 mn for its participations in CEZ Distributie and CEZ Vanzare. The profit recorded by FP as a result of the stakes' sale is EUR 128.8 million.

Volumes and Pricing

The total client base of the distribution network comprises around 8.8 mn users and 39.5 TWh were distributed through the entire network in 2009. The quantity distributed fell by 7% yoy in 2009 and represented around 75% of the electricity volume produced over the same year.

Energy Distributors Market Share 2009



Source: ANRE

Distribution activity is regulated by local Authority using a revenue-cap methodology

The distribution activity is regulated, the tariffs to the final consumer being set by the National Authority in the Energy Sector (ANRE). The first regulatory period began in 2005 and lasted for three years, while the subsequent periods span over five years. The methodology allows for a regulated real return on assets above the costs agreed with the authority. In order to improve operational efficiency, the distributors are required to reduce controllable operating costs by 1% in real terms during the second regulatory period (2008-2012). Also, starting with the next regulatory period, the distributors assumed responsibility to reduce grid losses to 9.5% of the electricity volume that enters the grid.

The agreed return on assets is set using the before tax cost of capital and for the first regulatory period (of three years 2005-2007) it stood at 12% and was decreased to 10% for the current period (2008-2012). The distributors where the state holds a majority stake theoretically have a lower cost of capital and thus could see lower return on assets.

The supply to captive consumers is regulated, allowing for a return of 2.5% above acquisition costs

Legally, the power market opening degree is 100%, enabling the consumers to choose their supplier. However, at the end of 2009 the real opening degree of the market stood at around 45%, meaning that out of the total consumption of 41.6 TWh, 55% represented the consumption of captive consumers (out of which almost half is represented by households). The supply to captive consumers is regulated, allowing for a return of 2.5% above the power acquisition and related costs. The supply price to eligible consumers on the other hand is negotiated between the supplier and final consumer. The real opening degree of the market reached 50% in 2006 and has hovered around this percentage since then. We expect it to remain close to the current level over the coming years, which means that part of the suppliers' profit will remain capped. Some 90% of the energy supplied by each major supplier goes to captive consumers, meaning that around 90% of their business has its profit capped to 2.5% of energy cost.

The suppliers partially owned by FP provided in 2009 around 54% of the total energy supplied to final consumers and 87% of the energy to the regulated market (the remaining 13% as provided by CEZ).

Quantities distributed/supplied per company, TWh

Distribution	Energy distributed 2009	Supply	Supply to final consumers 2009	Out of which: Supply to regulated market	Out of which: Supply to competitive market
CEZ distributie	7.1	CEZ Vanzare	3.3	3.0	0.4
Electrica Distributie Muntenia Nord	6.3	Electrica Furnizare Muntenia Nord	3.3	3.0	0.2
Electrica Distributie Transilvania Nord	4.3	Electrica Furnizare Transilvania Nord	2.9	2.8	0.4
Electrica Distributie Transilvania Sud	4.6	Electrica Furnizare Transilvania Sud	3.3	3.0	0.6
Enel Distributie Muntenia	6.0	Enel Energie Muntenia	5.0	4.1	0.3
E.On Moldova Distributie	4.1	E.On Moldova Furnizare	3.3	3.0	0.6
Enel Distributie Banat	3.9	Enel Energie	4.6	4.1	0.6
Enel Distributie Dobrogea	3.3				
Total	39.5	Total	25.8	23.0	2.9

Source: ANRE

Most of the profit is generated by the distribution companies (see table below), while the supply side is currently posting losses or insignificant profits. Furthermore, there is a discrepancy in terms of profit between the state-owned companies and the privatized operators, as the latter post higher margins, as with the change in ownership their efficiency improved. Most of the companies have negative net debt and the most cash rich company is Enel Muntenia Nord, due to the equity injection performed by Enel at the acquisition time.

Financial data 2009

RON mn	Turnover	Sales growth 09/08	EBITDA	EBITDA margin	EBIT	Net profit	Net profit margin	BV	Net Debt
E.ON Electrica Moldova Distributie	630.1	7%	163.3	26%	81.0	53.6	9%	822.2	15.1
Electrica Muntenia Nord Distributie	611.5	-1%	106.7	17%	27.7	24.7	4%	1,055.6	-103.8
Electrica Transilvania Nord Distributie	495.9	-2%	111.7	23%	21.1	14.0	3%	768.1	-58.3
Electrica Transilvania Sud Distributie	539.2	3%	119.1	22%	29.8	23.2	4%	822.4	-38.1
ENEL Distributie Banat	526.4	4%	217.9	41%	140.3	151.0	29%	1,152.5	-400.2
ENEL Distributia Dobrogea	391.5	2%	141.4	36%	85.0	92.1	24%	806.6	-228.3
ENEL Distributie Muntenia	732.7	-49%	225.7	31%	122.9	280.0	38%	2,705.2	-1,854.9
Electrica Furnizare Muntenia Nord	1,326.2	3%	39.1	3%	32.0	18.4	1%	14.2	-7.1
Electrica Furnizare Transilvania Nord	1,175.6	2%	12.3	1%	11.0	0.6	0%	29.5	-1.3
Electrica Furnizare Transilvania Sud	1,335.1	-1%	20.0	1%	10.7	0.8	0%	40.3	30.4
E.ON Moldova Furnizare	1,456.7	-2%	-21.1	-1%	-21.4	-27.6	-2%	148.7	-14.2
ENEL Energie	1,849.6	2%	-28.6	-2%	-28.6	-46.7	-3%	196.8	-159.1
ENEL Energie Muntenia	1,919.5	182%	-6.6	0%	-6.8	13.4	1%	308.6	-372.8

Source: Romanian Trade Register

Strengths and Weaknesses

Strengths/Opportunities	Weaknesses/Threats
The existing distribution grid is outdated and requires significant investments that will translate into higher regulated asset base and thus higher regulated profit for the distributors.	The regulatory authority in the energy sector is under social and political pressure to keep prices low, and the regulatory methodology might be only partially applied for the distributors.
The distribution companies should be protected from swings in power consumption through the regulatory methodology that should ensure a certain return on assets.	The return on assets for the next regulatory period, starting in 2013, could be set at a lower level which would harm the regulated return.
The distribution activity is a government granted monopoly.	An increase of the operating costs above the level agreed with the regulatory authority would depress the bottom line.
The profit from supply to captive consumers is capped. The increase in real market opening would allow the suppliers to negotiate.	Delayed commissioning of investments (i.e. due to delays in obtaining land concessions from land owners) could lead to slower than predicted increase in tariffs.
We expect power consumption to rise in the long term in line with the GDP, which should enhance the profits from the supply activity.	The decrease in the number of captive consumers could put pressure on the margins earned from supply due to higher competition.

Valuation

We employ a peer comparison based on multiples such as EV/EBITDA and EV/MWh

We value the energy distributors and suppliers using a peer comparison. We value the distribution and supply business as one operation, as most European peers report their consolidated results, including both activities. Therefore, for the use of our valuation, we added the operating results (net profit, EBITDA and EBIT) and the net debt to arrive at the consolidated results of the supply and distribution businesses per region. In the case of the supplier Enel Energie, which covers both the Banat and Dobrogea regions, we split the figures equally between the regions.

We looked first at the fair value derived from the average EV/MWh for several listed power supply and distribution companies located in CEE. Thus, from the EV value resulting from the average EV/MWh for the peers multiplied with the quantities distributed in 2009 (the most recent available), we deducted the net debt at the end of 2009, to reach the estimated fair value.

Secondly, using to a large extent the steps outlined above, we computed the fair value using the average 2009 EV/EBITDA multiples for the same CEE peers. The EV/EBITDA multiple in question stands some 23% lower than the multiple for the major European utilities companies. We believe the discount is justified given the level of integration of the European peers, the lower regulatory risk and higher level of efficiency.

We assigned equal weight between the two methods described above to reach at our fair value estimates for the combined distribution and supply businesses per region.

CEE peer group

Company	Bloomberg Ticker	P/E		EV/EBITDA		EV/EBIT		EV/MWh, EUR
		2008	2009	2008	2009	2008	2009	2009
Prazska Energetika	PREN CP	8.3	8.4	5.7	5.5	7.2	7.2	127.0
ELMU	ELMU HB	6.8	9.2	4.2	5.8	5.6	9.3	70.3
EMASZ	EMASZ HB	5.5	5.4	5.1	6.4	7.8	11.6	61.2
Rytu Skirstomieji Tinklai	RST1L LH	neg.	neg.	5.5	5.7	neg.	neg.	81.5
Average		6.9	7.7	5.1	5.9	6.9	9.4	85.0
Median		6.8	8.4	5.3	5.8	7.2	9.3	75.9
Values implied from multiples, RON mn								
E.ON Electrica Moldova Distributie		334.8	199.8	690.6	834.9	516.5	557.5	1,457.1
Electrica Muntenia Nord SA Distributie		572.1	330.7	1,115.6	968.1	884.3	670.6	2,378.7
Electrica Transilvania Nord Distributie		170.5	112.3	615.5	788.6	361.0	360.7	1,590.8
Electrica Transilvania Sud Distributie		251.5	184.6	623.9	825.4	358.6	387.2	1,667.3
ENEL Distributie Banat		1,070.9	980.7	1,665.2	1,676.6	1,557.4	1,660.3	1,867.2
ENEL Distributia Dobrogea		719.4	528.2	1,134.0	1,055.0	1,046.3	970.3	1,512.3
ENEL Distributie Muntenia		2,108.9	2,254.3	3,333.3	3,515.5	3,009.0	3,315.5	4,388.7

Source: Companies, Bloomberg, prices as of August 10, 2010

European peer group

Company		P/E		EV/EBITDA		EV/EBIT	
		2008	2009	2008	2009	2008	2009
Acea	ACE IM	neg.	13.8	7.6	10.8	11.7	24.2
E.On	EOAN GY	8.5	8.9	9.3	6.6	44.6	9.5
Enel	ENEL IM	6.6	8.4	8.1	7.2	11.7	10.4
Hera	HER IM	19.5	14.6	7.7	7.1	13.1	12.6
RWE	RWE GR	8.7	8.4	5.7	4.6	8.1	6.2
Iride	IRE IM	nm	11.9	10.6	10.0	15.5	15.2
Average		10.8	11.0	8.2	7.7	17.4	13.0
Median		8.6	10.4	7.9	7.1	12.4	11.5

Source: Bloomberg, prices as of August 10, 2010

Valuation

RON mn	Electicity distributed 2009, TWh	EBITDA 2009	Fair value derived from EV/MWh	Fair value derived from EV/EBITDA	Fair value estimate
E.ON Electrica Moldova	4.1	142.2	1,457.1	834.9	1,146.0
Electrica Muntenia Nord	6.3	145.8	2,378.7	968.1	1,673.4
Electrica Transilvania Nord	4.3	124.0	1,590.8	788.6	1,189.7
Electrica Transilvania Sud	4.6	139.1	1,667.3	825.4	1,246.3
Enel Banat	3.9	203.6	1,867.2	1,676.6	1,771.9
Enel Dobrogea	3.3	127.1	1,512.3	1,055.0	1,283.6
Enel Muntenia	6.0	219.1	4,388.7	3,515.5	3,952.1

Source: Raiffeisen Capital&Investment estimates

Transelectrica

A monopoly, Transelectrica is in charge of electricity transmission and power system management

Electricity transmission is a natural and legal monopoly in Romania. Transelectrica transports some 67% of the amount of electricity consumed in economy. In terms of operational segments, Transelectrica provides three main services: (i) electricity transmission: (ii) power system management by dispatcher consisting of technological system services and functional system services and (iii) administration of the electricity market. The revenues from system and market balancing services, which account for some 60% of total turnover, are pass-through revenues and have no impact on the bottom line.

Transmission tariff charged is set based on a revenue cap methodology…

Starting 2005, the transmission tariff charged by the company is set based on a revenue cap methodology. The regulatory authority sets annual target revenue within a five-year framework (however, the first such framework extended over three years, 2005-2007). The regulated return on the asset base (RAB) has been agreed for the period 2008-2012 at 7.5%. The company is involved in an ambitious investment program (EUR 500 mn planned for 2008-2012) aimed at revamping its aging asset base, which will boost the RAB and thus the transmission profit. Moreover, we expect the investment needs to remain at a high level over the next regulatory period, which is positive given the direct relation between the regulated profit and the investments that boost the RAB.

…which is designed to protect against swings in quantities, but it is yet to be applied in full

The regulatory methodology is designed to protect the operator from swings in quantities transported, as the differences between estimated and realized revenues in the current year should be recovered during the following year. Year 2009 proved to be challenging as quantities transported dropped by 11% and interconnection revenues (which are associated with transportation) decreased by 36% to RON 96 mn, propelling the operating profit some 50% lower than the regulated profit. Despite the meager performance of the previous year, in 2010 tariffs were raised by only 5%. We believe that the power transmitted will decrease by 3% in 2010. In addition, interconnection revenues are expected some 90% lower yoy as exports fell and as the charging system of these revenues has changed. We expect the pressure to keep prices low will compel the regulator to limit the tariffs growth to 7% in 2011 and in 2012, despite the reduction in revenues, which will again depress the operating profit below the regulated. However, starting with the third regulatory period (2013) we expect Transelectrica will be successful in realizing its regulated profit.

We expect the decrease in revenues in 2010 to impact the operating profitability. In addition, some 95% of Transelectrica's loans are denominated in foreign currency, and RON expected depreciation in 2010 will generate significant FX losses, through the revaluation of the loans. As a state owned company, Transelectrica must distribute at least 50% of its profit under Romanian Accounting Standards as dividends. As an exception, for FY 2010, the minimum dividend pay-out ratio was heightened to 90%.

As a listed company, we value Transelectrica using the August 10, 2010 market price of RON 18.6 per share, implying a fair value of RON 1.36 bn and RON 184 mn for FP's stake. More details about the company and our valuation are available in our update of July 22. Our present recommendation for the stock is "hold" with a 12-month target price of RON 18.6, representing a 12-m fair value of RON 1.36 bn.

Financial statements (IFRS)

Income statement (RON mn)	*12/2007*	*12/2008*	*12/2009*	*12/2010e*	*12/2011e*	*12/2012e*
Consolidated sales	**2,384.4**	**2,988.1**	**2,551.6**	**2,549.7**	**2,727.7**	**2,916.0**
Changes in inventories	0.0	0.0	0.0	0.0	0.0	0.0
Own work capitalised	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	0.0	0.0	0.0	0.0	0.0	0.0
Total revenues	**2,384.4**	**2,988.1**	**2,551.6**	**2,549.7**	**2,727.7**	**2,916.0**
Material costs	0.0	0.0	0.0	0.0	0.0	0.0
Personnel expenses	-177.7	-214.3	-202.5	-207.3	-214.1	-222.1
Other operating expenses	-1,841.9	-2,316.1	-1,993.4	-2,046.1	-2,140.4	-2,234.0
EBITDA	**364.8**	**457.7**	**355.7**	**296.3**	**373.1**	**459.9**
Depreciation of PPE and intangibles	-189.3	-240.6	-257.1	-265.7	-278.1	-297.2
EBITA	**175.5**	**217.2**	**98.6**	**30.6**	**95.0**	**162.7**
Amortisation, impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**175.5**	**217.2**	**98.6**	**30.6**	**95.0**	**162.7**
Investment income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest income	-34.8	-29.5	-25.1	-30.6	-35.1	-52.4
Other financial result	-50.0	-125.0	-61.4	-38.4	12.9	7.3
Financial result	**-84.9**	**-154.6**	**-86.5**	**-69.0**	**-22.2**	**-45.2**
Earnings before taxes	**90.6**	**62.6**	**12.1**	**-38.4**	**72.8**	**117.6**
Taxes on income	-27.7	-12.2	6.1	0.0	-11.7	-18.8
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	**63.0**	**50.4**	**18.3**	**-38.4**	**61.2**	**98.7**
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net profit after minorities	**63.0**	**50.4**	**18.3**	**-38.4**	**61.2**	**98.7**

Balance sheet (RON mn)	*12/2007*	*12/2008*	*12/2009*	*12/2010e*	*12/2011e*	*12/2012e*
Current assets	**927.5**	**1,115.4**	**839.0**	**838.4**	**864.1**	**853.6**
Liquid funds	198.0	224.2	163.6	154.6	155.5	120.7
Receivables	689.7	848.3	633.9	640.4	662.7	684.5
Inventories	39.7	42.9	41.5	43.4	46.0	48.4
Other assets	0.0	0.0	0.0	0.0	0.0	0.0
Fixed assets	**2,749.8**	**2,905.0**	**3,005.7**	**3,140.0**	**3,324.2**	**3,489.1**
Property, plant & equipment	2,707.8	2,866.1	2,969.6	3,106.3	3,292.7	3,459.5
Intangible assets	36.3	33.1	30.4	28.0	25.8	23.8
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	5.7	5.7	5.7	5.7	5.7	5.7
Deferred tax assets	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total assets	**3,677.2**	**4,020.4**	**3,844.7**	**3,978.4**	**4,188.4**	**4,342.6**
Current liabilities	**650.0**	**893.0**	**722.1**	**787.2**	**878.7**	**940.5**
Long-term liabilities	**1,116.6**	**1,192.8**	**1,217.8**	**1,328.5**	**1,385.7**	**1,409.7**
Shareholders' equity	**1,910.6**	**1,934.6**	**1,904.8**	**1,862.7**	**1,923.9**	**1,992.4**
Minority interests	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Deferred tax liabilities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total liabilities	**3,677.2**	**4,020.4**	**3,844.7**	**3,978.4**	**4,188.4**	**4,342.6**

Cash flow statement (RON mn)	*12/2007*	*12/2008*	*12/2009*	*12/2010e*	*12/2011e*	*12/2012e*
Earnings before taxes	**61.6**	**32.3**	**-4.4**	**-38.4**	**72.8**	**117.6**
Taxes paid	0.0	0.0	0.0	0.0	-11.7	-18.8
Amortisation and depreciation	189.3	240.6	257.1	265.7	278.1	297.2
Other non-cash items	12.4	103.1	42.1	38.4	-12.9	-7.3
Cash flow from result	**263.4**	**376.0**	**294.9**	**265.6**	**326.4**	**388.6**
Change in working capital	-159.0	71.5	4.5	-1.5	11.5	-2.4
Operating cash flow	**104.4**	**447.6**	**299.4**	**264.1**	**337.9**	**386.2**
Capex PPE and intangible assets	-293.8	-400.3	-364.1	-400.0	-462.3	-462.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Disposal of fixed assets (total)	15.1	4.7	3.5	0.0	0.0	0.0
Other items (investments)	0.0	0.0	0.0	0.0	0.0	0.0
Investing cash flow	**-278.7**	**-395.6**	**-360.6**	**-400.0**	**-462.3**	**-462.0**
Dividend payments	-106.5	-27.5	-24.6	-3.7	0.0	-30.3
Other changes in equity	0.0	0.0	0.0	0.0	0.0	0.0
Change in interest-bearing financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Other items	-19.8	-86.1	52.0	-40.5	10.8	5.1
Change in NIBD	**-300.7**	**-61.7**	**-33.9**	**-180.0**	**-113.6**	**-100.9**

Source: Transelectrica, Raiffeisen Capital&Investment estimates

Financial ratios

Changes yoy	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Consolidated sales yoy	-4.8%	25.3%	-14.6%	-0.1%	7.0%	6.9%
EBITDA yoy	-17.1%	25.5%	-22.3%	-16.7%	25.9%	23.3%
EBITA yoy	-37.3%	23.8%	-54.6%	-69.0%	210.7%	71.2%
EBIT yoy	-37.3%	23.8%	-54.6%	-69.0%	210.7%	71.2%
EBT yoy	-73.8%	-30.9%	-80.7%	-417.3%	-289.5%	61.4%
Net profit after minorities yoy	-78.6%	-20.0%	-63.8%	-310.6%	-259.2%	61.4%

Margins	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Material costs margin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA margin	15.3%	15.3%	13.9%	11.6%	13.7%	15.8%
EBITA margin	7.4%	7.3%	3.9%	1.2%	3.5%	5.6%
EBIT margin	7.4%	7.3%	3.9%	1.2%	3.5%	5.6%
EBT margin	3.8%	2.1%	0.5%	-1.5%	2.7%	4.0%
Net margin	2.6%	1.7%	0.7%	-1.5%	2.2%	3.4%

Balance sheet (RON mn)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Net working capital	221.1	163.9	156.3	157.8	146.3	148.7
Net interest-bearing debt	891.0	952.7	986.6	1,166.6	1,280.3	1,381.2
Capital employed	2,999.6	3,111.5	3,055.0	3,184.0	3,359.6	3,494.3
Market capitalisation	2,932.1	806.3	989.6	1,216.8	1,216.8	1,216.8
Enterprise value	3,823.1	1,759.0	1,976.2	2,383.5	2,497.1	2,598.0

Financing (x)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Interest cover	7.5	8.1	8.8	7.8	9.1	8.0
Internal financing ratio	0.4	1.1	0.8	0.7	0.7	0.8
Net gearing	46.6%	49.2%	51.8%	62.6%	66.5%	69.3%
Quick ratio	1.4	1.2	1.1	1.0	0.9	0.9
Fixed assets cover	1.1	1.1	1.0	1.0	1.0	1.0
Capex / depreciation	1.6	1.7	1.4	1.5	1.7	1.6
Equity ratio	52.0%	48.1%	49.5%	46.8%	45.9%	45.9%

Profitability	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Return on assets	2.8%	2.6%	2.1%	0.0%	2.4%	3.5%
Return on equity	3.5%	2.6%	1.0%	-2.0%	3.2%	5.0%
Return on capital employed	3.5%	3.2%	2.7%	0.0%	2.9%	4.3%

Per share data (RON)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Weighted avg. no. of shares (mn)	73.3	73.3	73.3	73.3	73.3	73.3
EPS reported	0.86	0.69	0.25	-0.52	0.83	1.35
EPS pre-goodwill	0.86	0.69	0.25	-0.52	0.83	1.35
Adjusted EPS diluted	0.86	0.69	0.25	-0.52	0.83	1.35
Operating cash flow per share	1.42	6.11	4.08	3.60	4.61	5.27
Book value per share	26.06	26.39	25.99	25.41	26.25	27.18
Dividend per share	0.36	0.30	0.05	0.00	0.41	0.68
Payout ratio	41.9%	43.7%	20.1%	0.0%	49.5%	50.4%

Valuation (x)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
PE reported	46.6	16.0	54.2	-31.7	19.9	12.3
PE pre-goodwill	46.6	16.0	54.2	-31.7	19.9	12.3
Adjusted PE diluted	46.6	16.0	54.2	-31.7	19.9	12.3
Price cash flow	28.1	1.8	3.3	4.6	3.6	3.2
Price book value	1.5	0.4	0.5	0.7	0.6	0.6
Dividend yield	0.9%	2.7%	0.4%	0.0%	2.5%	4.1%
Free cash flow yield	-5.9%	6.4%	-6.2%	-11.2%	-10.2%	-6.2%
EV/sales	1.6	0.6	0.8	0.9	0.9	0.9
EV/EBITDA	10.5	3.8	5.6	8.0	6.7	5.6
EV/EBIT	21.8	8.1	20.0	77.9	26.3	16.0
EV/operating cash flow	36.6	3.9	6.6	9.0	7.4	6.7
Adjusted EV/CE	1.3	0.6	0.7	0.8	0.8	0.8
Adjusted EV/CE vs. ROCE/WACC				358.8	2.9	1.9

Source: Transelectrica, Raiffeisen Capital&Investment estimates

Oil & Gas Market

FP's exposure to the oil & gas sector is represented by stakes in Petrom, the largest integrated oil & gas company in the SEE, the state-owned gas producer and gas transporter and in other three gas supply & distribution companies. According to our valuation, the oil and gas sector accounts for 45% of FP's portfolio.

Valuation summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
OMV Petrom	Oil&Gas Producer	18,466.0	20.1%	3,713.5	28.5%
Romgaz	Gas Producer	6,890.3	15.0%	1,032.9	7.9%
Transgaz	Gas Transportation	2,703.3	15.0%	405.0	3.1%
GDF Suez Energy Romania (Distrigaz Sud)	Gas Supply & Distribution	3,465.2	12.0%	415.8	3.2%
E.ON Gaz Romania	Gas Supply & Distribution	1,196.2	12.0%	143.5	1.1%
E.ON Gaz Distributie	Gas Supply & Distribution	1,093.4	12.0%	131.2	1.0%
Total				**5,841.9**	**44.9%**

Source: Companies, Raiffeisen Capital&Investment estimates

Petrom

The largest integrated oil & gas group in SEE, with OMV having a 51% controlling stake

Petrom is the largest integrated oil & gas group in SEE. Petrom owns 1.25 bn boe of 2P hydrocarbon reserves, and Romanian production amounted to 180k boepd in 2009. Petrom S.A. operates 442 petrol stations in Romania and unconsolidated affiliates operate another 372 sites in Romania, Moldova, Bulgaria and Serbia. At the end of 2009, Petrom S.A. employed 27,470 people. It is majority owned by Austrian OMV (51%). Its other shareholders are the Romanian Ministry of Economy (20.6%), Fondul Proprietatea (20.1%) and EBRD (2%). The remaining 6.2% are free-floating shares.

Petrom owns the complete oil and a large part of gas reserves, having 2P reserves of 1.25 bn boe

Petrom has a leading position in Romanian E&P, owning the complete oil and a large part of gas reserves (2P reserves of 1.25 bn boe in total). Through the privatization contract, upstream royalties are low and fixed until 2014. SNP enjoys strong marketing presence in SEE, achieving a throughput of more than 4 mn litres per station annually. The petchem activities were recently sold to Romanian chemicals company Oltchim.

The company has halved its refining modernization investment plan (from EUR 1.5 bn to EUR 750 mn until 2014), mainly with the cancellation of a hydrocracker installation. Petrom intends to enter the power generation industry with the construction of an 860 MW gas-fired power plant by 2012. Further upside could come from new exploration licenses auctions in Romania and the possible capital increase that makes a further expansion in upstream likely.

Petrom plans the full integration of its oil production. On the other hand, the mature upstream assets and high fragmentation of resources (250 fields) create the tendency for permanent production decline and high opex.

The gas business still suffers from the Romanian price regulation that will continue to be in place at least until 2012. Moreover, low Romanian gas demand causes insufficient upstream performance (66 mn boe produced in 2009, compared to 69 mn boe in 2008).

Petrom benefits from know-how transfer from its core shareholder OMV. Furthermore, the headcount reduction (from 33k end-08 to 27k end-09) offers long-term savings potential. The company benefits in 2010 from RON weakness, through the refining margin and realized oil price. On the other hand further one-off costs stemming from the modernization process cannot be ruled out (Petrom recorded RON 752 mn in 4Q 09 due to tax review, etc.).

We value Petrom, FP's largest stake, based on the most recent market price

As a listed company, we value Petrom stake in FP portfolio using the August 10, 2010 market price of RON 0.326, suggesting a company fair value of RON 18.5 bn. More details about the company and our valuation are available in our update of August 10, 2010. Our current recommendation for the stock is "buy" with a 12-month target price of RON 0.4, representing a 12-month fair value of RON 22.6 bn.

Financial statements (IFRS)

Income statement (RON mn)	*12/2007*	*12/2008*	*12/2009*	*12/2010e*	*12/2011e*	*12/2012e*
Consolidated sales	**14,941.0**	**20,127.4**	**16,089.7**	**18,023.0**	**19,984.4**	**22,701.6**
Cost of sales	-10,005.9	-14,455.5	-11,620.3	-12,125.3	-13,512.5	-15,676.2
Gross profit	**4,935.1**	**5,671.8**	**4,469.4**	**5,897.8**	**6,471.9**	**7,025.4**
Other operating income	277.8	439.9	408.7	562.2	600.0	650.0
Selling expenses	-1,614.1	-1,240.7	-1,277.5	-1,052.2	-1,000.0	-1,050.0
Administrative expenses	-318.3	-208.1	-225.3	-215.7	-200.0	-180.0
Other operating expenses	-1,379.9	-3,457.9	-1,754.9	-1,278.2	-1,175.0	-1,080.0
EBITDA	**3,389.8**	**3,874.7**	**4,109.6**	**6,384.2**	**7,173.8**	**7,830.0**
Depreciation of PPE and intangibles	-1,489.2	-2,669.8	-2,489.1	-2,470.3	-2,477.0	-2,464.6
EBITA	**1,900.6**	**1,204.9**	**1,620.5**	**3,913.9**	**4,696.9**	**5,365.4**
Amortisation, impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**1,900.6**	**1,204.9**	**1,620.5**	**3,913.9**	**4,696.9**	**5,365.4**
Investment income	7.2	4.0	6.1	11.5	9.0	10.0
Net interest income	-23.1	-166.3	-416.0	-412.2	-288.9	-225.0
Other financial result	-44.9	86.2	-41.1	581.9	100.0	100.0
Financial result	**-60.7**	**-76.1**	**-451.1**	**181.2**	**-179.9**	**-115.0**
Earnings before taxes	**1,839.9**	**1,128.8**	**1,169.4**	**4,095.1**	**4,517.0**	**5,250.4**
Taxes on income	-299.0	-233.3	-336.2	-659.7	-722.7	-840.1
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	**1,540.9**	**895.6**	**833.3**	**3,435.5**	**3,794.3**	**4,410.3**
Minority interests	-7.8	82.7	27.0	-16.6	-22.0	-25.0
Net profit after minorities	**1,533.0**	**978.3**	**860.2**	**3,418.9**	**3,772.3**	**4,385.3**

Balance sheet (RON mn)	*12/2007*	*12/2008*	*12/2009*	*12/2010e*	*12/2011e*	*12/2012e*
Current assets	**6,568.9**	**5,597.3**	**4,586.4**	**4,883.3**	**5,352.3**	**7,103.1**
Liquid funds	1,340.6	634.4	444.3	461.0	185.2	1,068.5
Receivables	2,938.3	2,204.0	1,559.4	1,802.3	2,198.3	2,724.2
Inventories	2,289.9	2,758.9	2,582.7	2,620.0	2,968.8	3,310.4
Other assets	0.0	0.0	0.0	0.0	0.0	0.0
Fixed assets	**17,856.8**	**22,812.0**	**25,227.6**	**28,157.3**	**30,980.4**	**33,815.7**
Property, plant & equipment	15,113.6	19,167.7	21,430.6	24,451.9	27,351.9	30,251.9
Intangible assets	702.5	1,457.3	1,360.1	1,268.5	1,191.5	1,126.9
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	2,040.8	2,186.9	2,437.0	2,437.0	2,437.0	2,437.0
Deferred tax assets	**265.4**	**508.1**	**712.6**	**52.9**	**0.0**	**0.0**
Total assets	**24,691.1**	**28,917.3**	**30,526.6**	**33,093.6**	**36,332.7**	**40,918.8**
Current liabilities	**3,586.6**	**5,057.0**	**4,707.0**	**4,799.2**	**5,121.9**	**5,814.4**
Long-term liabilities	**5,310.2**	**7,813.8**	**9,566.7**	**8,633.8**	**8,133.8**	**7,933.8**
Shareholders' equity	**15,551.0**	**15,944.9**	**16,179.5**	**19,598.4**	**22,345.1**	**25,598.7**
Minority interests	**137.3**	**44.9**	**11.3**	**0.0**	**0.0**	**0.0**
Deferred tax liabilities	**106.0**	**56.8**	**62.1**	**62.1**	**731.9**	**1,572.0**
Total liabilities	**24,691.1**	**28,917.3**	**30,526.6**	**33,093.6**	**36,332.7**	**40,918.8**

Cash flow statement (RON mn)	*12/2007*	*12/2008*	*12/2009*	*12/2010e*	*12/2011e*	*12/2012e*
Earnings before taxes	**1,839.9**	**1,128.8**	**1,169.4**	**4,095.1**	**4,517.0**	**5,250.4**
Taxes paid	-278.5	-723.4	-293.9	0.0	0.0	0.0
Amortisation and depreciation	1,480.3	2,650.7	2,466.3	2,470.3	2,477.0	2,464.6
Other non-cash items	6,104.5	1,017.6	55.4	0.0	0.0	0.0
Cash flow from result	**9,146.1**	**4,073.8**	**3,397.2**	**6,565.4**	**6,994.0**	**7,715.0**
Change in working capital	-694.1	223.0	-671.1	-190.4	-412.1	-175.0
Operating cash flow	**8,452.0**	**4,296.8**	**2,726.2**	**6,375.0**	**6,581.9**	**7,540.0**
Capex PPE and intangible assets	-4,266.7	-5,718.3	-4,402.7	-5,400.0	-5,300.0	-5,300.0
Acquisitions	-83.2	-1,201.6	-8.7	0.0	0.0	0.0
Disposal of fixed assets (total)	150.1	1,178.2	141.5	0.0	0.0	0.0
Other items (investments)	-52.1	-61.4	198.7	0.0	0.0	0.0
Investing cash flow	**-4,251.8**	**-5,803.1**	**-4,071.2**	**-5,400.0**	**-5,300.0**	**-5,300.0**
Dividend payments	-1,423.0	-1,114.4	-14.7	0.0	-1,025.7	-1,131.7
Other changes in equity	0.0	0.0	0.0	-27.9	-22.0	-25.0
Change in interest-bearing financial assets	-1,945.2	53.8	-1.6	0.0	0.0	0.0
Other items	-4,910.9	50.7	-1.5	-122.5	0.0	0.0
Change in NIBD	**-4,078.9**	**-2,516.3**	**-1,362.8**	**824.6**	**234.2**	**1,083.3**

Source: Petrom, Raiffeisen Centrobank estimates

Financial ratios

Changes yoy	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Consolidated sales yoy	14.2%	34.7%	-20.1%	12.0%	10.9%	13.6%
EBITDA yoy	-76.6%	14.3%	6.1%	55.3%	12.4%	9.1%
EBITA yoy	-86.1%	-36.6%	34.5%	141.5%	20.0%	14.2%
EBIT yoy	-86.1%	-36.6%	34.5%	141.5%	20.0%	14.2%
EBT yoy	-86.3%	-38.6%	3.6%	250.2%	10.3%	16.2%
Net profit after minorities yoy	-88.4%	-36.2%	-12.1%	297.4%	10.3%	16.3%

Margins	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Gross margin	33.0%	28.2%	27.8%	32.7%	32.4%	30.9%
EBITDA margin	22.7%	19.3%	25.5%	35.4%	35.9%	34.5%
EBITA margin	12.7%	6.0%	10.1%	21.7%	23.5%	23.6%
EBIT margin	12.7%	6.0%	10.1%	21.7%	23.5%	23.6%
EBT margin	12.3%	5.6%	7.3%	22.7%	22.6%	23.1%
Net margin	10.3%	4.9%	5.3%	19.0%	18.9%	19.3%

Balance sheet (RON mn)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Net working capital	1,665.0	262.9	-377.3	-186.9	225.2	400.2
Net interest-bearing debt	-1,325.5	1,190.9	2,553.6	1,729.0	1,494.8	411.5
Capital employed	15,711.6	17,815.0	19,188.8	21,788.4	24,025.1	27,078.7
Market capitalisation	28,152.1	10,252.6	14,104.4	18,579.3	18,579.3	18,579.3
Enterprise value	26,821.2	10,975.9	16,806.0	20,445.0	20,210.8	19,127.4

Financing (x)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Interest cover	17.4	16.2	8.2	12.5	18.8	25.1
Internal financing ratio	2.0	0.8	0.6	1.2	1.2	1.4
Net gearing	-8.4%	7.4%	15.8%	8.8%	6.7%	1.6%
Quick ratio	1.2	0.6	0.4	0.5	0.5	0.7
Fixed assets cover	1.2	1.0	1.0	1.0	1.0	1.0
Capex / depreciation	3.9	3.8	2.3	2.8	2.8	2.8
Equity ratio	63.5%	55.3%	53.0%	59.2%	61.5%	62.6%

Profitability	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Return on assets	7.8%	4.1%	4.0%	12.2%	11.9%	12.1%
Return on equity	11.0%	6.2%	5.4%	19.1%	18.0%	18.3%
Return on capital employed	12.2%	6.5%	6.5%	18.9%	18.0%	18.3%

Per share data (RON)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Weighted avg. no. of shares (mn)	56,644.1	56,644.1	56,644.1	56,644.1	56,644.1	56,644.1
EPS reported	0.03	0.02	0.02	0.06	0.07	0.08
EPS pre-goodwill	0.03	0.02	0.02	0.06	0.07	0.08
Adjusted EPS diluted	0.03	0.02	0.02	0.06	0.07	0.08
Operating cash flow per share	0.15	0.08	0.05	0.11	0.12	0.13
Book value per share	0.27	0.28	0.29	0.35	0.39	0.45
Dividend per share	0.02	0.00	0.00	0.02	0.02	0.02
Payout ratio	70.2%	0.0%	0.0%	30.0%	30.0%	30.0%

Valuation (x)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
PE reported	18.4	10.5	16.4	5.4	4.9	4.2
PE pre-goodwill	18.4	10.5	16.4	5.4	4.9	4.2
Adjusted PE diluted	18.4	8.9	13.4	5.6	5.0	4.3
Price cash flow	3.3	2.4	5.2	2.9	2.8	2.5
Price book value	1.8	0.6	0.9	0.9	0.8	0.7
Dividend yield	3.8%	0.0%	0.0%	5.5%	6.1%	7.1%
Free cash flow yield	15.3%	-12.3%	-10.9%	5.2%	6.9%	12.1%
EV/sales	1.8	0.5	1.0	1.1	1.0	0.8
EV/EBITDA	7.9	2.8	4.1	3.2	2.8	2.4
EV/EBIT	14.1	9.1	10.4	5.2	4.3	3.6
EV/operating cash flow	3.2	2.6	6.2	3.2	3.1	2.5
Adjusted EV/CE	1.8	0.7	0.9	1.0	0.8	0.7
Adjusted EV/CE vs. ROCE/WACC				0.6	0.6	0.5

Source: Petrom, Raiffeisen Centrobank estimates

Gas Market overview

Romania's gas consumption was on a downward trend over the past years

Romania's gas consumption followed a downward path over the past five years which accelerated in 2009 in line with the plummeting economy. Thus, the 2009 consumption amounted to 140.06 TWh (13.1 bcm), declining by 15% yoy. The largest consumer was the electricity generation industry with a share of 22%, followed by the chemical industry (fertilizers producers) with a share of 20%, while households consumed just below 21% of the total.

In 2009, in an attempt to prop up the fertilizers producers, the government has decided that some eligible consumers (mainly chemicals producers) could supply themselves only with domestic gas, instead of the basket between domestic and import gas. As a result, consumption rebounded in 2010 and over January - May 2010 it went up by 11% yoy. The allowance is expected to be withdrawn by 4Q 2010.

The country's proven gas reserves are around 163 bcm

The official estimates for Romania's proven gas reserves are not agreeing, depending on the source. Thus, they amount to around 141 bcm (876 mn boe) according to ANRE, the market regulator or 185 bcm (1149 mn boe) according to a 2007 Governmental report. According to the same report, at the current production rate, Romania's reserves are expected to be exhausted in 15 years. We decided to use an average of the two estimates for Romania's gas reserves.

Romania's production has also been on a downward trend during the latest years, amounting to around 11 bcm in 2009 and covering around 85% of the country's needs. The decrease in production can be explained by lower demand and depleting gas reserves.

The market is to a large degree regulated, but consumers can change their supplier

Romanian gas market is an open market since mid-2007, as consumers are allowed to change their supplier. In December 2009, the real market opening stood at 56%. Still, the market remains to a large extent regulated, with prices subject to different degrees of regulations. The market is divided between the competitive segment, which comprises the transactions between the suppliers and eligible customers, and the regulated segment.

The gas market players comprise:

- The operator of the national gas grid – Transgaz
- Seven domestic gas producers – out of which Romgaz and Petrom account for 97% of the total
- Three operators of the underground storage facilities: Romgaz, Amgaz and Depomures
- 39 distributors and suppliers to captive consumers out of which GDG Suez Energy Romania and E.ON Gaz Romania control more than 90% of the market
- 90 suppliers on the wholesale market.

The regulated prices for final users include the following components: (i) distribution tariff; (ii) suppliers' margin for the regulated supply activities; and (iii) a fixed amount to cover the acquisition costs of the gas. The latter component is set by taking into account the following factors such as: the acquisition costs of the gas from domestic producers, the acquisition costs of the imported gas (mainly Russian gas), the weights between domestic and imported gas (known as the gas basket), the

USD/RON exchange rate and finally, the storage and transport tariffs. With the exception of the imported gas prices, all the other components are more or less subject to regulations.

The price for domestic producers has been kept at around USD 160/ 1.000 m^3

The prices for the domestic gas are set at USD 160/ 1,000 m^3 , while the imported gas prices is close to the European levels (currently at USD 360/ 1,000m^3).

With regard to the captive consumer, the responsibility for blending the domestic and imported gas to obtain the gas basket belongs to the supplier undertaking the regulated supplying activity. In the case of eligible consumers, the responsibility for achieving the mix falls into the supplier hands, only if he provided the entire quantity needed by the customer. Otherwise, if several suppliers deal with an eligible consumer, the consumer itself is responsible for obeying the basket.

Romgaz

It is the largest Romanian gas producer, with a 2009 output of 5.78 bcm, having also large storage facilities

Romgaz, in which FP has a 14.99% equity interest, is Romania's largest gas producer with a share of around 50% of Romania's total gas production. The company, where the State is the majority owner, is also one of the three licensed providers of gas storage facilities. Romgaz extracted in 2009 around 5.78 bcm but it expects a drop in production in 2010 to around 5.70 bcm. Over the past years Romgaz's production kept on lowering as the majority of its fields is mature, especially the largest ones, being exploited for more than 25-30 years. The company is currently operating around 153 reservoirs spread around the country, mainly in Transylvania and Moldova. Increasing the recovering factor and production optimization are the company's main stated objectives. Thus, according to its officials cited by the media, the planned 2010 capex will amount to around RON 1.2 bn (EUR 285 mn), with the vast majority directed to exploration of new reserves. Romgaz intends to drill 40 wells into new fields and 20 wells into mature fields. Another pursued line of development is the expansion of the storage capacity from the current level of 2.76 bcm. Romgaz is analyzing the possibility of developing an underground gas deposit at Margineni in the Eastern part of the country. The project whose feasibility study is to be completed by end-2010 is said to amount to around EUR 500 mn and it will have a storage capacity of 2 bcm. Gazprom is seen as a potential partner in this project.

Romgaz's profitability constrained by lower domestic gas prices and falling production

Romgaz's profitability is constrained by two factors: (i) declining production and higher upstream costs and (ii) on the other hand, gas prices for domestic producers have been kept constant at USD 160 / 1,000 m^3 (approx. RON 495 / 1,000 m^3). While the best hope for production is to reduce the declining rate, Romgaz's growth potential might come from the future convergence of the domestic gas price to that of imported gas (currently at around USD 360 / 1,000 m^3). Romania has been under pressure from EU to liberalize further the market by letting domestic gas prices rise. We remind that the company's secondary activity, gas storage, is also regulated with the charged tariffs being set by the Regulatory Authority in the Energy Sector (ANRE). Romgaz entered the electricity generation sector in 2010, after the Ministry of Economy, Romgaz's majority shareholder, approved the swapping of receivables from a power generation company into equity.

The company's 2009 sales amounted to RON 3.19 bn (EUR 760 mn), down 2.6% yoy while the operating result stood at RON 717 mn, almost flat on previous year, as operational expenses decreased 4.4% to RON 2.8 bn. Romgaz posted an EBITDA of RON 1.3 bn, up 21.5% yoy while net profit for the year stood at RON 572 mn, up 6.5% yoy. It worth mentioning that Romgaz has a high effective tax rate, 31% in 2009 and 37% in 2008.

Financial data 2009

in RON mn	*Turnover*	*Sales growth 09/08*	*EBITDA*	*EBITDA margin*	*EBIT*	*Net profit*	*Net margin*	*BV*	*Net Debt*
Romgaz	3,194	-3%	1292	40%	717	573	18%	8,308.5	– 756

Source: Romanian Trade Register

In a press release, Romgaz representatives said that 1H 10 top line rose 22% yoy to RON 1.87 bn as the supplied quantity of gas was 19% higher on the same period of 2009. The growth in volume was driven by the sales to chemical producers, under the facility offered by the government to use only domestic gas instead of the basket between import and domestic. On the other hand, bottom line contracted 30% yoy to RON 225.7 mn, Romgaz blaming a higher level of non-tax deductible expenses for this. Over the same period its gas production stood at 2.9 bcm.

Strengths and Weaknesses

Strengths/Opportunities	Weaknesses/Threats
The liberalization of domestic gas prices will boost profitability.	Decreasing production due to depleted gas reserves.
Efficiency can rise through better operating costs control.	Higher operating costs due to dispersed fields and required investments.
Storage development and exploitation of new fields adds further upside.	Management is currently appointed by the government.

Valuation

We valued separately production and gas storage segments, with the former's valuation based on some specific metrics

We apply a SOTP valuation to appraise Romgaz, by valuing separately the gas production segment and the storage assets. We assign a value to the company's underground gas storage assets by employing an industry metric related to capacity. We value each m^3 of storage capacity at EUR 0.1, in line with a past transaction involving Depomures, yielding a total value for these assets of EUR 276 mn or RON 1.1 mn. The gas production segment is valued using specific industry metrics and trading multiples of a peer company, namely Gazprom. We view the comparison with Gazprom as appropriate, given the fact that both companies are selling preponderantly to domestic market where prices are kept down by the authorities. We value Romgaz's production segment based on its proven reserves (the so called 1P reserves) and based on its effective production. By deducting from Romania's 1P gas reserves, assumed at 162 bcm, Petrom's gas reserves of 77 bcm, we estimate Romgaz's 1P gas reserves at 85 bcm or 528 mn boe. We get an estimation of the company's EV by applying to these reserves a multiple of 3.1 $/boe, slightly higher than the current Gazprom's EV/1P reserves of 2.4 $/boe. Simultaneously, by applying to Romgaz's 2010 expected gas production of 5.7 bcm a multiple of 45 $/boe, we arrive at another estimate for its EV. Gazprom's current EV/2010 production stands at around 44 $/boe. Averaging the values suggested by these methods, we get a fair value of the gas production segment of RON 5.8 bn and therefore a fair value of the whole Romgaz of RON 6.9 bn.

Gazprom vs. Romgaz metrics

	Gas production 2010e (bcm)	EV/Production 2010e ($/boe)	1P reserves (bcm)	EV/1P reserves ($/boe)
Gazprom	519.3	44	9,855	2.4
Romgaz	5.7	47	85	3.1

Insert Source: Bloomberg, Raiffeisen Capital&Investment estimates

Valuation (in RON mn)

Production segment	
Derived from EV/production	5,837
Derived form EV/1P reserves	5,715
Fair value production segment	**5,776**
Fair value storage assets	**1,114**
Fair value	**6,890**
FP stake, %	15.0%
FP stake	1,033

Source: Raiffeisen Capital&Investment estimates

Gas Distribution and Supply

FP currently owns 12% of the shares of E.On Gaz Romania, E.On Gaz Distributie and GDF Suez Energy Romania (formerly Distrigaz Sud). GDF Suez Energy Romania and E.On Gaz Romania are the main suppliers on the regulated market with a share of 49% and 43% respectively. On the free market, the two operators' share is much smaller, 11% for GDF Suez and 6% in the case of E.On.

Summary of Key Figures for Gas Utilities

RON mn	2009 market share Distribution	2009 EBITDA	2009 EBITDA margin	2009 Net profit	2009 Net margin	Fair value estimate
GDF Suez Energy Romania	56%	564.4	16%	380.4	10%	3,465.2
E.On Gaz Distributie	36%	235.9	33%	101.1	14%	1,093.4
E.On Gaz Romania	-	143.56	6%	141.74	6%	1,196.2

Source: Raiffeisen Capital&Investment estimates, Romanian Trade Register

The two distributors where FP has 12% stakes account for 92% of the market

The key players on the distribution market are Distrigaz Sud Retele – a division of GDF Suez Romania, and E.ON. Gaz Distributie – a division of E.ON. Gaz Romania. The two distribution companies accounted for 92% of the market in 2009: Distrigaz Sud Retele had a market share of 56%, while E.ON. Gaz Distributie had a share of 36%. Together they operate over 30,000 km of pipelines.

The gas market was fully opened in July 2007, but the real opening degree stood at 56% in December 2009, meaning that 56% of consumers (in volume terms) actively chose their supplier, the rest being considered captive consumers.

Distribution and supply on the regulated market are regulated through the revenue-cap methodology

The distribution and supply on the regulated market are themselves regulated, through the revenue-cap methodology, their tariffs being set by the Regulatory Authority in the Energy Sector (ANRE). The first regulatory period started in 2005 and lasted until the end of 2007, while the subsequent regulatory periods span over five years. The second phase started in 2008 and continues until the end of 2012.

The regulated revenues for gas distributors/suppliers are determined during the first year of each regulatory phase, by summing up the agreed operating expenses, the depreciation and the regulated return on assets (currently set at 8.63%) multiplied by the regulated asset base (RAB). The regulated revenues are updated during the regulatory period with the inflation rate minus an efficiency factor (set at 6% for the period 2008-2012), return on commissioned investments and other adjustments, including differences between realized and estimated revenues in the previous year.

The Privatization and Unbundling Process

Distrigaz Sud

The privatization process of Distrigaz Sud started in 2003, while the privatization conditions were settled between the Romanian State and Gaz de France in August 2004. In 2005, Gaz de France Group became the main stakeholder of Distrigaz Sud by acquiring 30% of its shares for EUR 128 mn and completing a share capital increase for an additional 21%. Its total stake added up to 51%, the transaction value amounting to EUR 311 mn.

Distrigaz Sud started the unbundling process in November 2006. As a result of the unbundling procedures, Distrigaz Sud Retele, which holds the distribution license, was separated from Distrigaz Sud. Distrigaz Sud kept the trading license and continued its activity as a natural gas supplier.

Distrigaz Nord

The privatization process of Distrigaz Nord was carried out in 2005, when a stake of 30% in the company was acquired for EUR 125 mn by E.ON Ruhrgas, a division of the German energy group E.ON. Afterwards, the buyer also increased the share capital of Distrigaz Nord by 21%. As a result, E.ON.'s total stake added up to 51%, or EUR 304 mn. Subsequently, in 2006 Distrigaz Nord changed its name to E.ON Gaz Romania.

Since July 1, 2007, the company has divided its distribution and supply activities and E.ON Gaz Distributie took over the distribution activity and E.ON Gaz Romania performs the supply.

Strengths and Weaknesses

Strengths/Opportunities	Weaknesses/Threats
The increase of the real market opening can boost suppliers' profitability.	Regulatory risk remains high.
Investments increase the RAB and the regulated return.	Consumption of gas has been on a decreasing trend for the last year (except for 2010).
Quantities transported rose over the first five months of 2010 by 11%, which we expect will influence positively the 2010 results.	Upside from cost reductions limited by regulation.

Valuation

We employ a peer comparison for the gas distributors using 2009 financial data

We value the gas distributors using a peer comparison of CEE and European gas distributors. We use the average 2009 PE, EV/EBIT and EV/EBITDA multiples to obtain a value for each of the companies. We compute our estimated fair value for these companies as the average between the figures derived from the above mentioned multiples.

Financial data 2009

RON mn	Turnover	Sales growth 09/08	EBITDA	EBITDA margin	EBIT	Net profit	Net profit margin	BV	Net Debt
GDF Suez Energy Romania	3,628.8	-3%	564.4	16%	446.7	380.4	10%	2,521.7	294.8
E.On Gaz Distributie	724.5	6%	235.9	33%	126.8	101.1	14%	900.0	74.1
E.On Gaz Romania	2,557.7	-14%	143.6	6%	143.4	141.7	6%	825.4	-12.8

Source: Romanian Trade Register

Peer Group

Company	Bloomberg Ticker	EV/EBITDA		EV/EBIT		P/E	
		2008	2009	2008	2009	2008	2009
Severomoravska Plynarenska	PLYK CP	10.5	5.6	14.2	6.5	21.2	8.7
Vychodoceska Plynarenska	VYPL CP	9.8	4.6	16.6	5.8	23.2	8.1
Gasanstalt Kaiserslautern	GAK GR	7.5	7.3	12.2	11.5	25.2	20.6
Latvijas Gaze	GZE1R LR	4.5	4.3	8.5	8.7	11.6	11.4
Lietuvos Dujos	LDJ1L LH	5.5	4.2	13.3	7.7	14.8	10.0
Average		7.6	5.2	12.9	8.0	19.2	11.8
Median		7.5	4.6	13.3	7.7	21.2	10.0
Values implied from multiples, RON mn							
GDF Suez Energy Romania		2,282.7	2,621.0	1,637.3	3,294.7	2,469.4	4,479.7
E.On Gaz Distributie		323.3	1,144.7	n.m.	944.9	n.m.	1,190.6
E.On Gaz Romania		n.m.	754.4	n.m.	1,165.1	839.1	1,669.2

Source: Companies, Bloomberg, prices as of August 10, 2010

Valuation

RON mn	2009 EBITDA	2009 EBIT	2009 Net profit	Fair value derived from EV/EBITDA	Fair value derived from EV/EBIT	Fair value derived from PE	Fair value estimate
GDF Suez Energy Romania	564.4	446.7	380.4	2,621.0	3,294.7	4,479.7	3,465.2
E.On Gaz Distributie	235.9	126.8	101.1	1,144.7	944.9	1,190.6	1,093.4
E.On Gaz Romania	143.56	143.4	141.74	754.4	1,165.1	1,669.2	1,196.2

Source: Raiffeisen Capital&Investment estimates

Transgaz

Transgaz is the natural gas transporter and grid operator

Transgaz is the second state-owned utility company listed on the Bucharest Stock Exchange. Natural gas transmission is a natural and legal monopoly in Romania, with Transgaz being the only company that holds a license for natural gas transmission. Transgaz transports some 90% of the amount of natural gas consumed in economy and in addition, it manages the transit activity, which is performed through dedicated pipelines. Transgaz is one of the partner companies in the Nabucco project, which aims to connect the European markets to the natural gas reserves of the Caspian Sea and Middle East.

Transmission tariff is based on a revenue cap methodology

Starting mid-2004, the transmission tariff charged by the company is set based on a revenue cap methodology. For the second regulatory period, which started in June 2007, the regulatory authority has reviewed the return on the regulated assets at 7.88% and has raised the regulated revenues with 30%. As warranted by the methodology, the persistent decrease in quantities transported since 2005 has led to consecutive rises in transportation tariff, in an effort to recover unrealized revenues from previous years. The Regulatory Authority in the Energy Sector (ANRE) delayed its decision regarding the tariffs for the regulatory year July 2010 – June 2011, but we expect the tariffs to be announced shortly. We see tariffs rising by 8% for the present regulatory year (which began on July 1, 2010) and 6% the following year.

Transit contracts are based on reservation of capacity

Transit contracts are based on reservation of capacity, which leaves the flow of transit revenues unaffected by changes in quantities transported. Some 75% of transit revenues are charged in USD, and USD appreciation against the RON is estimated to have a positive influence on this stream of revenues in 2010. Transit activity is highly profitable, with an operating margin above 70%.

Over the first five months of 2010 gas consumption went up by 11% yoy but we expect the allowance for chemicals producer to use only domestic gas instead of the basket of import and domestic gas to be withdrawn in 4Q 2010 which should slow down the gas consumption over the respective period. For 2010, we estimate gas consumption will come up by 7.5% yoy.

Over the last year, the company was successful in reducing operating costs, which allowed for a superior performance in 2009, despite the 15% yoy slump in quantities transported. With the expected rise in quantities in 2010 and higher transit revenues we anticipate strong results over the current year as well. Starting with the next regulatory period (mid. 2012) some of the upside from lower costs will fade, as the operating cost base must be again agreed with the regulatory authority

As a state owned company, Transgaz must distribute at least 50% of its profit under Romanian Accounting Standards as dividends. As an exception, for FY 2010, the minimum dividend pay-out ratio was heightened to 90%.

Transgaz is listed, therefore we mark –to-market FP's stake

As a listed company, we value Transgaz's stake in FP portfolio using the August 10, 2010 market price of RON 229.6 per share, implying a company fair value of RON 2.7 bn. Transgaz is included in our coverage universe and more details about the company and our valuation are available in our update of July 16, 2010. Our current recommendation for the stock is "buy" with a 12-month target price of RON 257.6, representing a 12-month fair value of RON 3 bn.

Financial statements (IFRS)

Income statement (RON mn)	*12/2007*	*12/2008*	*12/2009*	*12/2010e*	*12/2011e*	*12/2012e*
Consolidated sales	**1,035.9**	**1,116.6**	**1,181.9**	**1,360.3**	**1,452.3**	**1,476.9**
Changes in inventories	0.0	0.0	0.0	0.0	0.0	0.0
Own work capitalised	0.0	0.0	0.0	0.0	0.0	0.0
Other operating income	7.5	16.3	32.1	15.0	10.0	10.0
Total revenues	**1,043.4**	**1,132.9**	**1,214.0**	**1,375.3**	**1,462.3**	**1,486.9**
Material costs	-264.2	-218.5	-173.8	-192.3	-206.6	-225.4
Personnel expenses	-228.9	-272.3	-290.4	-305.1	-325.5	-347.1
Other operating expenses	-212.6	-275.8	-258.4	-342.4	-345.8	-343.2
EBITDA	**337.7**	**366.5**	**491.3**	**535.5**	**584.5**	**571.2**
Depreciation of PPE and intangibles	-167.1	-174.5	-184.7	-203.2	-202.5	-203.6
EBITA	**170.6**	**192.0**	**306.6**	**332.3**	**382.0**	**367.6**
Amortisation, impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**170.6**	**192.0**	**306.6**	**332.3**	**382.0**	**367.6**
Investment income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest income	-7.3	14.5	25.6	6.3	7.1	6.4
Other financial result	4.1	-12.1	-8.0	-1.6	0.5	-1.5
Financial result	**-3.2**	**2.4**	**17.7**	**4.8**	**7.6**	**4.9**
Earnings before taxes	**167.4**	**194.4**	**324.2**	**337.0**	**389.5**	**372.5**
Taxes on income	-27.5	48.3	-133.1	-55.6	-62.3	-59.6
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	**140.0**	**242.7**	**191.2**	**281.4**	**327.2**	**312.9**
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net profit after minorities	**140.0**	**242.7**	**191.2**	**281.4**	**327.2**	**312.9**

Balance sheet (RON mn)	*12/2007*	*12/2008*	*12/2009*	*12/2010e*	*12/2011e*	*12/2012e*
Current assets	**573.8**	**598.3**	**498.9**	**547.7**	**514.7**	**538.5**
Liquid funds	366.6	301.6	196.6	181.1	126.2	142.2
Receivables	175.8	256.4	260.7	318.9	337.6	344.6
Inventories	31.4	40.4	34.9	41.0	44.2	45.0
Other assets	0.0	0.0	6.7	6.7	6.7	6.7
Fixed assets	**2,658.8**	**2,718.5**	**2,935.9**	**3,029.7**	**3,030.9**	**2,960.7**
Property, plant & equipment	2,650.0	2,708.0	2,910.4	2,929.3	2,937.0	2,870.9
Intangible assets	8.7	10.1	11.1	85.9	79.5	75.4
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	0.0	0.5	14.4	14.4	14.4	14.4
Deferred tax assets	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total assets	**3,232.6**	**3,316.9**	**3,434.8**	**3,577.4**	**3,545.6**	**3,499.2**
Current liabilities	**322.9**	**357.5**	**346.6**	**400.0**	**361.7**	**343.7**
Long-term liabilities	**346.9**	**267.6**	**328.5**	**289.5**	**263.0**	**255.1**
Shareholders' equity	**2,562.8**	**2,691.8**	**2,759.7**	**2,887.8**	**2,920.9**	**2,900.4**
Minority interests	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Deferred tax liabilities	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total liabilities	**3,232.6**	**3,316.9**	**3,434.8**	**3,577.4**	**3,545.6**	**3,499.2**

Cash flow statement (RON mn)	*12/2007*	*12/2008*	*12/2009*	*12/2010e*	*12/2011e*	*12/2012e*
Earnings before taxes	**254.9**	**251.6**	**301.5**	**337.0**	**389.5**	**372.5**
Taxes paid	0.0	0.0	-52.5	-55.6	-62.3	-59.6
Amortisation and depreciation	0.0	0.0	187.0	203.2	202.5	203.6
Other non-cash items	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from result	**254.9**	**251.6**	**436.1**	**484.7**	**529.7**	**516.5**
Change in working capital	0.0	0.0	13.9	-25.4	-4.8	-7.6
Operating cash flow	**254.9**	**251.6**	**449.9**	**459.3**	**524.9**	**508.9**
Capex PPE and intangible assets	-140.1	-205.3	0.0	-297.0	-203.8	-133.5
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Disposal of fixed assets (total)	0.6	2.7	0.0	0.0	0.0	0.0
Other items (investments)	0.0	-0.4	0.0	0.0	0.0	0.0
Investing cash flow	**-139.6**	**-203.1**	**0.0**	**-297.0**	**-203.8**	**-133.5**
Dividend payments	-121.4	-110.1	-123.3	-153.3	-294.1	-333.4
Other changes in equity	261.4	0.0	0.0	0.0	0.0	0.0
Change in interest-bearing financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Other items	31.7	21.5	-361.2	-15.7	-8.3	-7.8
Change in NIBD	**287.1**	**-40.1**	**-34.6**	**-6.6**	**18.8**	**34.2**

Source: Transgaz, Raiffeisen Capital&Investment estimates

Financial ratios

Changes yoy	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Consolidated sales yoy	14.4%	7.8%	5.8%	15.1%	6.8%	1.7%
EBITDA yoy	-1.8%	8.5%	34.1%	9.0%	9.1%	-2.3%
EBITA yoy	-4.4%	12.5%	59.7%	8.4%	15.0%	-3.8%
EBIT yoy	-4.4%	12.5%	59.7%	8.4%	15.0%	-3.8%
EBT yoy	-14.7%	16.1%	66.8%	4.0%	15.6%	-4.4%
Net profit after minorities yoy	-14.6%	73.4%	-21.2%	47.2%	16.3%	-4.4%

Margins	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Material costs margin	-25.5%	-19.6%	-14.7%	-14.1%	-14.2%	-15.3%
EBITDA margin	32.6%	32.8%	41.6%	39.4%	40.2%	38.7%
EBITA margin	16.5%	17.2%	25.9%	24.4%	26.3%	24.9%
EBIT margin	16.5%	17.2%	25.9%	24.4%	26.3%	24.9%
EBT margin	16.2%	17.4%	27.4%	24.8%	26.8%	25.2%
Net margin	13.5%	21.7%	16.2%	20.7%	22.5%	21.2%

Balance sheet (RON mn)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Net working capital	-41.6	11.3	14.8	40.2	44.9	52.6
Net interest-bearing debt	-170.5	-130.4	-95.8	-89.2	-108.0	-142.2
Capital employed	2,758.9	2,862.9	2,860.4	2,979.7	2,939.1	2,900.4
Market capitalisation	3,231.9	1,436.4	1,848.5	2,749.2	2,749.2	2,749.2
Enterprise value	3,061.4	1,305.5	1,738.2	2,645.6	2,626.8	2,592.6

Financing (x)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Interest cover	46.1	24.0	58.0	80.1	165.1	1,062.8
Internal financing ratio	1.8	1.2	0.0	1.5	2.6	3.8
Net gearing	-6.7%	-4.8%	-3.5%	-3.1%	-3.7%	-4.9%
Quick ratio	1.7	1.6	1.3	1.3	1.3	1.4
Fixed assets cover	1.1	1.1	1.1	1.0	1.1	1.1
Capex / depreciation	0.8	1.2	0.0	1.5	1.0	0.7
Equity ratio	79.3%	81.2%	80.3%	80.7%	82.4%	82.9%

Profitability	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Return on assets	4.8%	8.0%	5.8%	8.2%	9.3%	8.9%
Return on equity	5.8%	9.2%	7.0%	10.0%	11.3%	10.7%
Return on capital employed	5.6%	9.4%	6.9%	9.8%	11.2%	10.7%

Per share data (RON)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
Weighted avg. no. of shares (mn)	11.8	11.8	11.8	11.8	11.8	11.8
EPS reported	11.89	20.61	16.24	23.90	27.79	26.58
EPS pre-goodwill	11.89	20.61	16.24	23.90	27.79	26.58
Adjusted EPS diluted	11.89	20.61	16.24	23.90	27.79	26.58
Operating cash flow per share	21.65	21.37	38.21	39.01	44.58	43.22
Book value per share	217.67	228.62	234.39	245.27	248.09	246.34
Dividend per share	9.66	10.47	13.02	24.98	28.32	27.06
Payout ratio	81.3%	50.8%	80.2%	104.5%	101.9%	101.8%

Valuation (x)	12/2007	12/2008	12/2009	12/2010e	12/2011e	12/2012e
PE reported	23.1	5.9	9.7	9.8	8.4	8.8
PE pre-goodwill	23.1	5.9	9.7	9.8	8.4	8.8
Adjusted PE diluted	23.1	5.9	9.7	9.8	8.4	8.8
Price cash flow	12.7	5.7	4.1	6.0	5.2	5.4
Price book value	1.3	0.5	0.7	1.0	0.9	0.9
Dividend yield	3.5%	8.6%	8.3%	10.7%	12.1%	11.6%
Free cash flow yield	3.6%	3.4%	24.3%	5.9%	11.7%	13.7%
EV/sales	3.0	1.2	1.5	1.9	1.8	1.8
EV/EBITDA	9.1	3.6	3.5	4.9	4.5	4.5
EV/EBIT	17.9	6.8	5.7	8.0	6.9	7.1
EV/operating cash flow	12.0	5.2	3.9	5.8	5.0	5.1
Adjusted EV/CE	1.2	0.6	0.7	1.0	0.9	0.9
Adjusted EV/CE vs. ROCE/WACC				1.2	1.1	1.1

Source: Transgaz, Raiffeisen Capital&Investment estimates

Transportation Sector

FP has an important exposure to the transportation sector through its 20% equity interest in four of Romania's largest airports and the four ports operators. While the air traffic proved resilient to the weak economic conditions, thanks to low cost flights, the cargo traffic through ports was impacted more by the downturn. Nevertheless, we expect them to be among the main beneficiaries of an economic recovery.

Valuation Summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
CN Aeroporturi Bucuresti *	Airports	1,677.4	20.0%	335.5	2.6%
Aeroportul Internat. Timisoara T. Vuia	Airports	176.5	20.0%	35.3	0.3%
Aeroportul Internat. M. Kogalniceanu	Airports	25.2	20.0%	5.0	0.0%
CN Administratia Porturilor Maritime	Ports	537.2	20.0%	107.4	0.8%
CN Administratia Porturilor Dunarii Maritime	Ports	16.9	20.0%	3.4	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	72.2	20.0%	14.4	0.1%
CN Administratia Canalelor Navigabile	Ports	98.6	20.0%	19.7	0.2%
Total				**520.8**	**4.0%**

Source: Raiffeisen Capital&Investment estimates

Airports

Around 2.9% of FP's assets are coming from stakes in four of the country's airports. These are the two Bucharest airports, Henri Coanda (Otopeni) and Aurel Vlaicu (Baneasa), which are Romania's largest ones, Timisoara airport (Traian Vuia), the third largest, and Constanta airport (Mihail Kogalniceanu). Recently, the two Bucharest airports were merged in one company called CN Aeroporturi Bucuresti.

Summary of Key Figures for Airports

RON mn	2009 Passengers (mn)	2009 Market Share	2009 Sales	2009 EBITDA margin	Fair value estimate
Aeroportul Henri Coanda- Otopeni	4.5	49%	304.5	45%	1,294
Aeroportul Aurel Vlaicu - Baneasa	2.1	23%	76.0	n.a.	383
Aeroportul Traian Vuia -Timisoara	1.0	11%	41.1	30%	177
Aeroporul Mihail Kogalniceanu - Constanta	0.1	1%	14.1	20%	25

Source: Companies, Raiffeisen Capital&Investment estimates

Romania's passengers air traffic has been on an upward trend since 2001

Romania's passengers air traffic has recorded an explosive growth starting with 2001 and managed to post a positive growth rate even in 2009. This growth was explained by both a growing economy and by the liberalization of Romanians' travel inside EU.

Although the current economic environment will slow down the growth in traffic, we believe that given the low ratio of air travels per capita, overall traffic will catch up with the European averages on the medium run. Other growth driver will probably be non-aviation revenues (i.e. connected revenues from duty-free stores, restaurants, etc).

Passengers Traffic

million passengers	2006	2007	2008	2009
Aeroportul Henri Coanda- Otopeni	3.5	5.0	5.1	4.5
Aeroportul Aurel Vlaicu - Baneasa	0.7	0.9	1.8	2.1
Aeroportul Traian Vuia -Timisoara	0.8	0.9	0.9	1.0
Aeroporul M. Kogalniceanu - Constanta	0.0	0.0	0.1	0.1

Source: Companies

FP has a 20% stake in each of the country's largest airports

FP has owned a 20% stake in each of the above mentioned airports. Starting with February 2010, the companies operating Otopeni and Baneasa airports, respectively Aeroportul International Henri Coanda and Aeroportul International Aurel Vlaicu were merged into a new entity named Compania Nationala Aeroporturi Bucuresti. FP will have a 20% equity interest in this new company. As each airport publishes its own traffic figures and results were reported separately in 2009, we continue to value each airport separately.

The Government had plans to list a 5% stake in all these airports but such plans were put on hold for the moment, and no further information regarding the timing and probability of this event is available.

Henri Coanda Airport (Otopeni)

Henri Coanda, Romania's airport, suffered the most in 2009, but traffic might rebound this year

Despite having suffered the most among the Romanian airports during the recent crisis, with traffic dropping 12% in 2009 to 4.48 mn passengers, Henri Coanda Airport is by far the largest and most technically advanced Romanian airport. The airport located 20 km from Bucharest underwent several upgrades over the past years, with the most recent following to be completed by end-2010. This will amount to EUR 150 mn and will increase its passengers processing capacity by 33%. While further investments will probably be required over the next years to increase its capacity and comply with different regulations, the airport can handle a doubling in traffic without requiring a new runway. The news flow from Tarom, the national airline, which said that during the first five months of 2010 it carried 33% more passengers, suggests that Henri Coanda's traffic might rebound in 2010. This development might be helped by the fact that Henri Coanda handles the bulk of the business travel in/from Romania.

Aurel Vlaicu Airport (Baneasa)

Bucharest's smaller airport is focused on low-cost flights, faring better than Otopeni in 2009

Aurel Vlaicu Airport (Baneasa) is the smaller airport of Bucharest and handles mostly low-cost flights. This latter feature is explaining the surge in its traffic figures. Thus, in 2001 Aurel Vlaicu posted a traffic metric of only 30k passengers which soared to 1.8 mn in 2008 and increased further to 2 mn in 2009. For 2010 a single digit growth rate of traffic is likely. The underlying reason for this raise was the growing number of Romanians working abroad, especially in Spain and Italy, with some putting their number at 2 mn. Aurel Vlaicu is located on the outskirts of northern Bucharest, a very coveted area during the real estate boom, meaning that a significant expansion will be a thorny issue. The main building/terminal built in early 50's can hardly cope with a higher level of traffic, which we believe will discourage the possible traffic increase. The previous government has flirted with the idea of closing the airport due to its vicinity to the residential area, but the current one has rejected such a proposal.

The leading airport in western Romania and country's third largest

Traian Vuia Airport (Timisoara)

Located in the western part of the country, Traian Vuia airport is well positioned to be the leading regional airport in the western part of Romania. The third largest Romanian airport, Train Vuia has undertaken several upgrades since 2004. The number of passengers travelling through this airport rose from 250k in 2002 to 890k in 2008 and to 957k in 2009. The resilience of the airport to the difficult economic conditions was proved once again during 1Q 10 when its traffic surged by almost 25% yoy. The airport could handle a 50% increase in traffic without major investments. One of the local airlines, Carpatair, uses the airport as its base.

It was designed to facilitate tourists flow to sea side resorts

Mihail Kogalniceanu Airport (Constanta)

Mihail Kogalniceanu used to be one of the largest among the Romanian airports and was designed to facilitate tourists flow to the Romanian sea side resorts. As the number of foreign tourists visiting Romania's sea-side remained anemic over the past years, Mihail Kogalniceanu's traffic was disappointing relative to the other airports. Thus, this metric declined to 50k in 2007 and then rebounded to 72k in 2008 and increased further to 93k in 2009. The increase from the past two years was due to the fact that a few low-cost carriers started to operate on Mihail Kogalniceanu. These low-cost flights will remain probably the main revenues driver in the near future since the prospects for the Romanian sea-side tourism remain grim. Due to its low capacity utilization the airport has a weak profitability.

Strengths and Weaknesses

Strengths/Opportunities	Weaknesses/Threats
Romania's air traffic statistics should converge on the medium run to EU's average.	Economic activity should remain depressed in the short term.
Aurel Vlaicu airport's value stands higher if we consider the real estate value	The number of Romanians working abroad, a big boost for air traffic recently, might drop due to difficult economic conditions.
Mihail Kogalniceanu's potential is linked to that of Romanian seaside resorts	Management continues to be appointed by the government.

We value the airports based on peers' trading multiples and an industry metric

Valuation

We value the four airport stakes by employing a comparative valuation, based, on one hand, on the trading multiples of several listed peers and secondly on a specific metric in this industry, namely the passengers' traffic. By averaging the values, suggested by the two variants of the comparative valuation we arrive at our fair value estimates for the four airports. For the first one, starting from the airports 2009 figures, we obtained an implied value for each trading multiple of our peer group: P/E, EV/EBITDA, EV/Sales and P/B. Similarly, by applying the average 2009 Price/passengers metric of our peer group to the 2009 figures reported by our airports we get the other implied value.

Financial data 2009

RON mn	Turnover	Sales growth 09/08	EBITDA	EBITDA margin	EBIT	Net profit	Net margin	BV	Net Debt
Aeroportul Henri Coanda- Otopeni	304.5	3%	137.7	45%	57.8	59.5	20%	1,054.8	- 17.6
Aeroportul Aurel Vlaicu - Baneasa*	76.0	11%	n.a	n.a.	n.a.	6.5	9%	n.a.	n.a.
Aeroportul Traian Vuia -Timisoara	41.1	34%	12.2	30%	5.7	3.5	9%	24.7	4.31
Aeroportul M. Kogalniceanu - Constanta	14.1	6%	2.9	20%	0.1	0.1	1%	12.5	- 0.74

*Source: Romanian Trade Register, * Raiffeisen Capital & Investment estimates*

International Peer Group

Company	Bloomberg Ticker	P/E		EV/EBITDA		EV/Sales		P/B		Price/ passenger, EUR
		2008	2009	2008	2009	2008	2009	2008	2009	2009
Aeroports de Paris	ADP FP	20.6	20.8	9.5	9.1	3.2	3.0	1.81	1.73	67
Save Venezia	SAVE IM	26.9	21.2	8.9	8.0	1.5	1.4	1.41	1.38	46
Flughafen Zurich	FHZN SW	17.8	19.9	7.5	7.9	3.7	3.9	1.50	1.34	71
Flughafen Wien	FLU AV	10.9	13.6	7.6	9.6	2.9	3.2	1.28	1.25	55
Fraport	FRA GR	22.0	25.3	10.6	11.5	3.1	3.3	1.52	1.50	75
Copenhagen Airports	KBHL DC	14.0	18.5	9.1	9.7	4.7	5.1	3.55	3.55	77
Average		18.7	19.9	8.9	9.3	3.2	3.3	1.8	1.8	65.3
Median		19.2	20.4	9.0	9.3	3.1	3.3	1.5	1.4	69.3
Values implied from multiples, RON mn										
Aeroportul Henri Coanda- Otopeni		1,929	1,183	1,413.6	1,298.4	964	1,028	1,737.5	1,890.4	1,238
Aeroportul Aurel Vlaicu - Baneasa		n.m.	129	335.0	n.a.	223	257	n.a.	n.a	574
Aeroportul Traian Vuia -Timisoara		91	70	90.0	109.3	93	132	40.8	44.3	264
Aeroporul Mihail Kogalniceanu - Constanta		8	2	23.7	27.5	43	47	22.9	22.4	26

Source: Raiffeisen Capital&Investment estimates, Bloomberg prices as of August 10

Valuation

RON mn	Fair value derived passengers metric	Fair value derived from trading multiples	Fair value estimate	FP stake, %	FP stake
Aeroportul Henri Coanda- Otopeni	1221	1236	1229	20%	246
Aeroportul Aurel Vlaicu - Baneasa	566	148	357	20%	71
Aeroportul Traian Vuia -Timisoara	261	77	169	20%	34
Aeroporul Mihail Kogalniceanu – Constanta	25	20	23	20%	5

Source: Raiffeisen Capital&Investment estimates

Ports

The ports suffered from the plunge in cargo traffic but they remain attractive on a longer view

FP's 20% ownership in each of the four port operators account for around 1% of FP's total assets. By far the most important one is Administratia Porturilor Constanta which is the harbour authority for the ports on the Romanian seaside. FP has an equity interest in both the maritime and river ports along the Danube through Administratia Porturilor Dunarii Maritime and through Administratia Porturilor Dunarii Fluviale respectively. The fourth holding is in the owner of the shipping channels, namely Administratia Canalelor Navigabile. While the plunge in world trade and the contraction of the Romanian economy took its toll on the volume of goods carried through the Romanian ports (in volume terms the 2009 dive was 29% according the official statistics), they continue to look attractive on a longer view, also due to the specific location of Romania

Summary of Key Figures for Ports

RON mn	2009 cargo traffic, mn. tons	2009 EBITDA	2009 EBITDA margin	Fair value, RON mn
Admin. Porturilor Constanta	42.0	57.7	27.5%	537.2
Admin. Porturilor Dunarii Maritine	7.6	1.1	11.4%	16.9
Admin. Porturilor Dunarii Fluviale	2.8	5.6	29.9%	72.2
Admin. Canalelor Navigabile	9.3	7.5	20.7%	98.6

Source: Companies, Raiffeisen Capital&Investment estimates

Administratia Porturilor Constanta

Port of Constanta, a top-ten European port, with a favourable location

Administratia Porturilor Constanta (APC) is the harbour authority for four ports on the Black Sea seaside, but the jewel of the crown is Port of Constanta which, size-wise, is a top ten European port. It poses a favourable geographical location, having connections with two Pan-European corridors: Corridor VII Danube and Corridor IV. The maritime port has an annual handling capacity of 100 mn tons and 156 berths, out of which 140 are operational while the overall level of its facilities are comparable with those of other important European ports. 18% of the total traffic is accounted for by the traffic originated in its capacity as a river port. The volume of cargo handled by the Port of Constanta dropped by 32% in 2009 to 42 mn, a level not seen for the past five years. The traffic will probably bottom up in 2010, as the yoy decline rate slowed to 3% in 1Q 10.

Administratia Porturilor Dunarii Maritime

The entity is the port authority for the three largest ports on the Danube

This institution acts as a port authority for the three ports along the Danube, namely: Galati, Braila and Tulcea. These ports offer access to Pan-European Corridor VII mentioned above (the inland waterway Rhine- Maine- Danube). The facilities offered by the three ports are at a satisfactory level, with Galati port recently having opened a new terminal meant to allow containers traffic. The volume of cargo handled by Administratia Porturilor Dunarii Maritime (APDM) in 2008 stood at 12.7 mn tons, down 11.7% yoy and the decline has been carried into 2009.

Administratia Porturilor Dunarii Fluviale

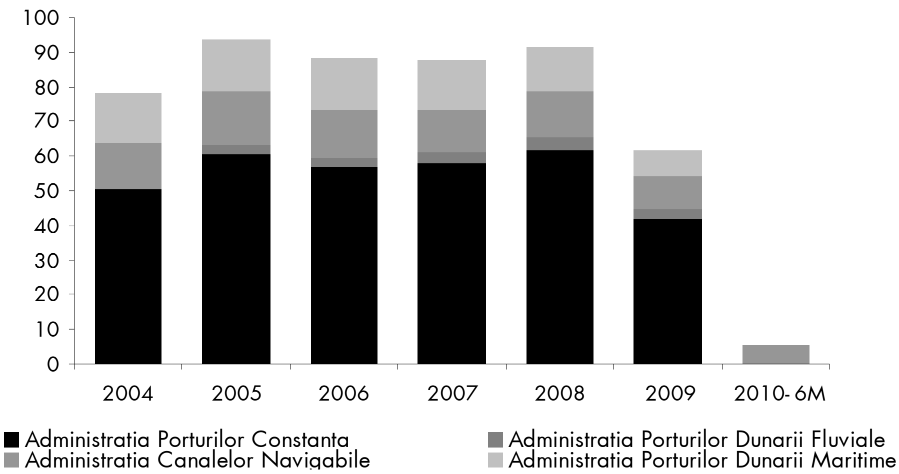
It comprises the smaller river ports along the Danube

The smaller river ports along the Danube are under the authority of this entity. These ten ports have an annual handling capacity of 15 mn tons and a total quay length of 16.2 km. There is a belief that the potential of these ports is aligned to Romania's agricultural potential.

Administratia Canalelor Navigabile

This entity is the owner of the shipping channel between the Danube and the ports on the Black Sea. The main channel with a length of 64 km was considered by the former communist regime as its most important accomplishment. It is shortcutting the ships' travelling from Black Sea to the river ports along the Danube. Besides the main channel which has a link with the Port of Constanta, there is a second branch which has at its ending point Midia Port. The cargo volume transiting through the channel in 2009 amounted to 9.3 mn tons, down 29% yoy while the 1H 10 figure stood at 5.1 mn tons.

Cargo Traffic by Port, mn tons



Source: Companies, Raiffeisen Capital&Investment estimates

Financial data 2009

RON mn	Turnover	Sales growth 09/08	EBITDA	EBITDA margin	EBIT	Net profit	Net margin	BV	Net Debt
Admin. Porturilor Constanta	209.8	-5%	57.7	28%	23.7	12.4	6%	302.3	54.7
Admin. Porturilor Dunarii Maritine	9.3	-1%	1.1	11%	0.2	0.2	2%	8.4	-0.1
Admin. Porturilor Dunarii Fluviale	18.6	-6%	5.6	30%	4.0	3.4	18%	21.3	-3.3
Admin. Canalelor Navigabile	36.1	-1%	7.5	21%	2.1	2.5	7%	78.6	-9.7

Source: Romanian Trade Register

Strengths and Weaknesses

Strengths/Opportunities	Weaknesses/Threats
Foreign trade should rebound more than the overall economy, after the brutal 2009 contraction.	Politically named management poorly incentivized to increase efficiency.
Favorable positioning supports long term growth.	Investments in upgrading needed.

Valuation

We applied a comparative valuation for the four ports

We apply a similar methodology to value the four ports from FP's portfolio. Thus, based on three trading multiples from a selected peer group and on the reported 2009 figures for our companies we get an average fair value. The values suggested by each multiple EV/Sales, EV/EBITDA and P/E are detailed below. The cumulated value assigned to the four ports is RON 725 mn, out of which FP's stake is RON 145 mn.

Peer Group

Company	Bloomberg Ticker	P/E		EV/EBITDA		EV/Sales	
		2008	2009	2008	2009	2008	2009
Piraeus Port Authority	PPA GA	67.6	-11.1	22.58	(14.5)	3.6	3.2
Thessalonik Port Authority	olth GA	24.3	29.3	8.13	9.1	1.4	1.5
Marina Portoroz	MAPG SV	n/a	n/a	10.68	12.5	4.0	4.3
Luka Koper	LKPG SV	15.0	-4.2	10.94	13.9	3.4	4.0
Forth Ports	FPT LN	22.5	22.9	3.75	15.0	4.6	4.8
Novorossiysk Sea Trade Port	NMTP RU	15.2	15.2	8.18	6.9	4.6	4.4
Average		28.9	22.5	12.4	11.5	3.6	3.7
Median		22.5	15.2	9.6	9.1	3.8	4.1
Values implied from multiples, RON mn							
Admin. Porturilor Constanta		349	279	712	607	736	725
Admin. Porturilor Dunarii Maritine Galati		0	4	8	12	34	35
Admin. Porturilor Dunarii Fluviale Giurgiu		127	77	80	67	75	72
Admin. Canalelor Navigabile		60	56	93	96	141	144

Source: Raiffeisen Capita l& Investment, Bloomberg prices as of August 10

Valuation

RON mn	2009 Sales	2009 EBITDA	2009 Net profit	Fair value derived from EV/Sales	Fair value derived from EV/EBITDA	Fair value derived from P/E	Fair value estimate
Admin. Porturilor Constanta	209.8	57.7	12.4	725.4	607.0	278.8	537.2
Admin. Porturilor Dunarii Maritine Galati	9.3	1.063	0.2	34.8	12.3	3.6	16.9
Admin. Porturilor Dunarii Fluviale Giurgiu	18.6	5.56	3.4	72.4	67.0	77.1	72.2
Admin. Canalelor Navigabile	36.1	7.48	2.5	144.1	95.5	56.2	98.6

Source: Raiffeisen Capital&Investment estimates

Other shareholdings

In our final section we have included the remaining stakes in FP portfolio, which include stakes in 50 companies. Among these, the aluminum smelter Alro, the national post company Posta Romana and the salt producer stand out.

Valuation summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
Alro	Aluminum Smelter	2,141.3	9.9%	212.6	1.6%
Posta Romana	Postal Services	746.3	25.0%	186.6	1.4%
Societatea Nationala a Sarii (Salrom)	Salt Production	82.0	49.0%	40.2	0.3%
Other shareholdings (47 companies)	Other	-	-	208.9	1.6%
Total				**648.3**	**5.0%**

Source: Raiffeisen Capital&Investments estimates

Posta Romana

The postal services operator has a headcount of 36,000 and a network of 6,900 offices

The Romanian national postal services operator where FP has a 25% stake is the country's largest employer with a headcount of around 36,000. The company is in a strong need of a restructuring, as its cost structure is significantly oversized and it has lost market share in the most dynamic segments of the market, parcels delivery and express shipping. The main reason for this state of facts was the frequent reshuffle of a politicized management. Posta Romana covers the whole country through a network of around 6,900 postal offices, but the modernizing of the company is an ongoing process. Posta Romana is the undisputed market leader on the letters dispatching segment but has missed out the growth of the more lucrative segment such as parcels delivery and express shipping. On the latter segments it has a market share of approximately 10%. The company has been trying to diversify away from its core business and to take advantage of its huge network. Such new targeted segments were debt collection for different partners and direct marketing.

Financial position started to deteriorated in 2008 and in 2009 posted a net loss of RON 182 mn

The financial position of Posta Romana has started to deteriorate in 2008 when operational expenses outgrew top line and the situation worsened in 2009 when the company faced stagnant revenues. Thus, its 2009 sales amounted to RON 1.44 bn, up 2.5% but operational loss skyrocketed from RON 11 mn to RON 211 mn. The company barely broke even in 2008 but reported a 2009 net loss of RON 182 mn (EUR 43 mn). According to company's statements personnel expenses accounted for around 55% of the total expenses. For 2010, based on a scenario of still flat revenues, Posta Romana is expecting a larger net loss of around RON 252 mn. According to the Ministry of Communication, Posta Romana's largest shareholder, the company has a target to return to a profit of RON 50 mn by 2014.

Strengths and Weaknesses

Strengths/Opportunities	Weaknesses/Threats
Plenty of room for efficiency improvement.	Job cuts could be a politically troublesome decision.
Non-core businesses provide growth opportunities.	The competition on the profitable market segments is intensifying.
	Further significant investments needed.

We assigned a value based on a comparative valuation

Valuation

We apply a comparative valuation to assign a value to Posta Romana. Our peer group is made up of companies which are far more profitable that is why we apply a 35% discount to the value inferred with the help of the trading multiple. The latter is the average 2009 EV/Sales of our peer companies. Therefore, starting from a value of RON 1,148 mn we assign a RON 746 mn fair value to Posta Romana.

Financial data 2009

RON mn	Turnover	Sales growth 09/08	EBITDA	EBITDA margin	EBIT	Net profit	Net margin	BV	Net Debt
Posta Romana	1,436	3%	-164	-11%	-211	-182	-113%	678.0	-129

Source: Romanian Trade Register

Peer Group

Company	Bloomberg Ticker	P/E		EV/Sales		Profit margin	
		2008	2009	2008	2009	2008	2009
Deutsche Post	DPW GR	-9.7	23.9	0.4	0.4	-3.1%	1.5%
TNT	TNT NA	12.2	17.6	0.8	0.9	5.8%	4.3%
Business Post	UKM LN	16.6	15.8	0.5	0.5	3.4%	3.3%
FedEx	FDX US	14.9	23.2	0.7	0.8	4.8%	3.3%
UPS	UPS US	19.2	29.2	1.4	1.6	6.8%	5.1%
Thiel Logistic	TGH GR	-34.2	-20.5	0.2	0.2	-0.2%	-0.5%
Kuehne & Nagel	KNIA GR	15.7	19.2	n/a	0.8	n/a	3.1%
Osterreichische Post	POST AV	11.8	17.1	0.5	0.5	4.9%	3.5%
Average		15.1	20.9	0.6	0.7	3.2%	2.9%
Median		15.3	19.2	0.5	0.6	4.8%	3.3%
Posta Romana Value implied from multiples, RON mn		n.a..	n.a.	1,030	1,148		

Source: Raiffeisen Capital&Investment estimates, Bloomberg prices as of August 10, 2010

Valuation

in RON mn	Sales 2009	Value derived from EV/Sales	Discount applied	Fair value
Posta Romana	1,436	1,148	35%	746

Source: Raiffeisen Capital&Investment estimates

Alro

Alro is the largest aluminum smelter in CEE

Alro is the largest aluminum smelter in Central and Eastern Europe (excluding CIS), involved in the production and trading of technical aluminum and primary aluminum alloys. The company is part of the international industrial and investment group Vimetco NV, operating in the aluminum industry. Vimetco's GDRs (global depositary receipts) are listed on the London Stock Exchange (LSE). Vimetco owns a stake of 84.2% in Alro, Proprietatea Fund owns 9.93% of the stock and Conef SA owns 3.8%. Alro's shares have been traded on the Bucharest Stock Exchange since 1996, the current free float standing at 2.1%.

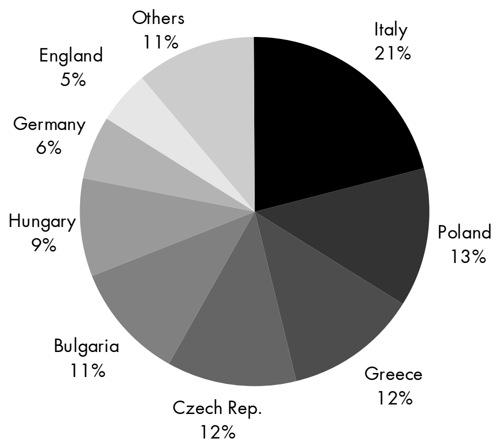
Alro also owns alumina producer Alum

Currently, Alro owns production capacities of 265,000 tons of electrolytic aluminum, 300,000 tons of primary aluminum cast products and 135,000 tons of processed aluminum products. Alro also owns the alumina producer Alum from Tulcea. In 2009 Alro produced over 190,000 tons of primary aluminum products and over 31,000 tons of processed aluminum products.

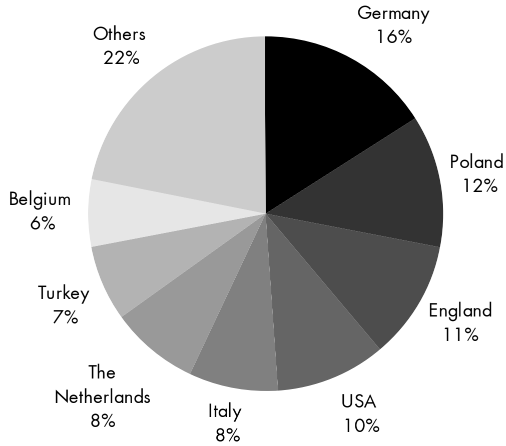
Headquartered in Olt county, Slatina, Alro's primary aluminum facilities currently consist of a smelter and processing plants, which include a cast house, hot and cold rolling mills and an extrusion line. Alro produces both primary aluminum products (wire rod, billets, slabs, foundry alloys and ingots) and processed aluminum products (plates of diverse aluminum alloys, sheets, coils, tread plates, embossed sheets and coils). Alro also manufactures calcined alumina and extruded products.

Over 77% of its primary aluminum products and 92% of its processed products are exported.

Exports of primary aluminum products



Exports of processed aluminum products



Source: Company Annual Report

During the last months of 2009, the aluminum quotation on the London Metals Exchange dropped by up to 56%, as mentioned in Alro's 2009 annual report. Even if prices of raw materials have also declined, the effects of the deteriorating market conditions had a large influence on Alro's financial results. Its revenues fell by 23%, down to RON 1,605 mn, and the net profit went down by 30% to RON 145 mn. As a result, Alro has recently implemented a radical cost reduction plan, focusing on the basic activities and services of the company and reducing the number of employees by 800, down to 2500.

Salrom

The National Company of Salt – Salrom – was established in 1997 and it is the only certified Romanian salt producer. Its majority stake (51%) is owned by the Romanian State – through the Ministry for Economy, while the Proprietatea Fund holds 49% of the shares.

Salrom is the only certified Romanian salt producer

The company's main activity is the exploitation and preparation of salt and other non-metallic substances. Its key product is salt (rock salt, salt solutions and recrystallized salt), but Salrom also extracts and processes limestone, graphite and mica minerals. The company produces and trades edible and industrial salt, tablets of salt for water softening, salt briquettes for animals breeding, edible salt products and bath salt. In addition, the company promotes both medical tourism and recreation in the vicinity of its salt mines. Headquartered in Bucharest, Salrom has seven production units and five deposits in Romania and operates its own distribution network throughout the country. Human consumption accounts for a small fraction of salt usage, whereas industrial use is far higher, particularly in the chemical industry as a source of soda and chlorine. Salrom's main clients are chemical plants, such as Oltchim and Uzinele Sodice Govora.

The total salt reserves in Romania are estimated at 400 mn tons and Salrom is entitled to extract salt in 9 locations in 7 counties throughout the country. In exchange for the national license, the company pays annual royalties equal to 2% of its yearly salt production.

Its 2009 sales amounted to RON 188 mn but net profit margin was below 1%

Salrom's overall salt production has decreased in 2009 by 20% compared to 2008, down to 2 mn tons from 2.5 mn. tons. The decline was mainly caused by the fall in the demand for PVC and chlorosodic products, which use salt solutions as raw material. Salrom sales jumped in 2008 by 28% to RON 184 mn, while sales in 2009 totalled RON 188 mn, 3% higher yoy. Its operating margin stood at 2% in 2009, in line with the results of the previous two years and the net profit margin stood below 1% in the period 2007-2009.

Fact Sheet

Company description

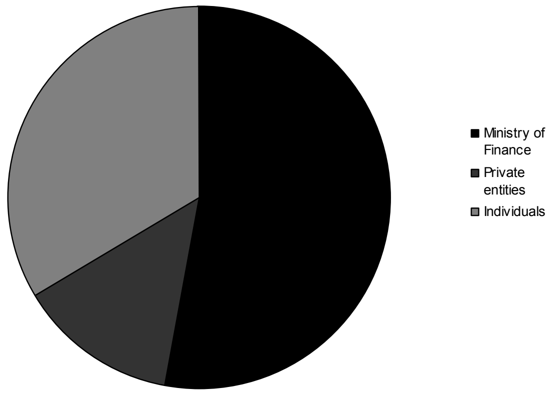
Fondul Proprietatea (FP) was established by the Romanian State with the purpose to redeem the owners that had been dispossessed abusively of their properties by the former communist regime and whose seized assets could not be returned in kind. FP was set up in 2005 as an investment company and so far 47.2% of its shares have been transferred to parties entitled to receive indemnities.

FP has a strong weight of energy shares (including oil exploration and gas and power production, supply and transportation), which come to represent 90% of its portfolio. The 20% stake held in the oil&gas producer Petrom (SNP) accounts for around 30% of its portfolio. Other sectors include transportation services (several airports and ports), the aluminium producer Alro and the National Postal Services company.

The well-known fund manager Franklin Templeton has been selected as manager, the shareholders approval being the one step remaining to be surpassed before it can take charge of management.

Currently, FP shares are trading on the OTC market, but an administrative listing on the Bucharest Stock Exchange is in preparation, which is expected to take place over the next three months.

Shareholder structure



Strengths/Opportunities

- Imminent listing on the main market of the local stock exchange is expected to improve liquidity and could lead to lower discount to NAV
- Franklin Templeton appointment is expected to improve the fund performance through more active participation in the management of the portfolio companies
- FP has contested in Court the dilution of its stake in Nuclearelectrica from 20% to 9.7%, which, if ruled in favor of FP, would boost its portfolio
- Large cash position (RON 2.15 bn at the end of 2010)
- Dividends expected to be paid from 2008&2009 profits
- Offers unique exposure onto the Romanian energy sector

Weaknesses/Threats

- The establishment of the two energy giants will impact the value of the energy producers from FP's portfolio, as additional, loss making companies will be included in the new entities
- Additional delays in appointing Franklin Templeton would also holdup the listing process
- Part of the portfolio companies are state-owned and inefficiently run
- Political risk is high both for the fund and for the portfolio companies where the state is the majority owner
- Franklin Templeton's level of decision over fund management is currently unknown as the management contract has not yet been signed

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