

Fondul Proprietatea

17 December 2010

Our top pick for Romania in 2011

Financial holding

Current price RON 0.48*

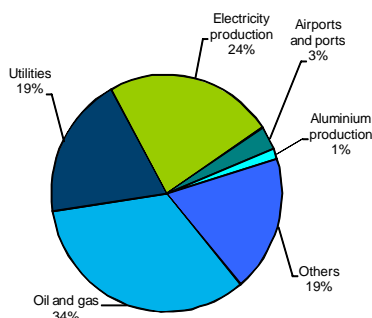
Buy

Romania

Fair value RON 0.94

Rating maintained

NAV per share: RON 1.15



	Net asset value		Official NAV		Fair values	
	RON m	RON/share	RON m	RON/share	RON m	RON/share
Listed shares	4,704	0.34	4,694	0.34		
Unlisted shares	9,902	0.72	8,423	0.61		
Cash	1,396	0.10	1,396	0.10		
Total assets	16,031	1.16	14,513	1.05		
Debt	115	0.01	-115	-0.01		
Deferred taxes	14	0.00	0	0.00		
Estimated NAV	15,902	1.15	14,398	1.04		
Adjustments to NAV (see page 7)			-1,413	-0.07		
Implied fair value			12,984	0.94		
Current estimated trading price			6,614	0.48		
Upside (%)						96.3%

*Estimated OTC price

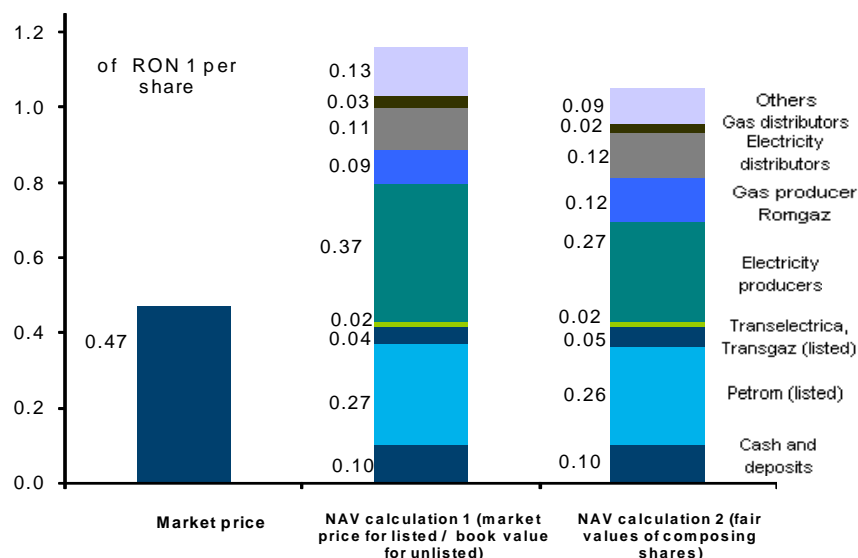
Source: KBC Securities

Franklin Templeton has submitted the prospectus for Fondul Proprietatea's listing on the Bucharest Stock Exchange to Romania's National Securities Commission, with the listing expected to take place on 25 January 2010. We believe the market already attributes a high probability to the fund's imminent listing. However, we also see some negatives: despite opposition from Franklin Templeton, the state recently gave the green light to the merger of several companies in the fund's portfolio and approved a controversial donation of RON 400m from Romgaz to the state budget. Our fair NAV for Fondul Proprietatea has been dragged down by a lower fair value estimate for Romgaz, a negative adjustment for the uncertain outcome of the litigation over a 10% stake in Nuclearelectrica, and dividend payments made by the fund in October. Our fair value has fallen to RON 0.94 per share, although this still implies 96.3% upside. We maintain our Buy rating.

Buy rating maintained

- **Fund to be listed in on 25 January:** According to the latest schedule, Franklin Templeton will submit FP's prospectus to the Bucharest Stock Exchange on 23 December 2010 (after the approval of the National Securities Commission), with the actual listing scheduled for around 25 January 2010.
- **Official NAV at RON 1.15 per share:** After changes in the regulation, the NAV has increased 18% m/m to RON 1.15 per share. The new NAV is calculated based on the latest closing price for listed companies and book value for unlisted while excluding a previously applied discount. The fund thus trades at a 58% discount to its November NAV.
- **Increasing risk of portfolio changes:** We see the risk of possible changes in the composition of the fund's portfolio (i.e. the merger of energy-related companies into Electra and Hidroenergetica). While this process should be value neutral if the state correctly matches the new stakes with the previous portfolio value, the government's lack of a clear plan for the merger creates additional risks.
- **State intervention in portfolio companies:** Despite the opposition of Franklin Templeton, the state approved a donation of RON 400m from Romgaz to the state budget. In addition, the state gave the go-ahead for the merger of energy companies before clarifying the situation of the fund's stake in Nuclearelectrica, which was diluted in 2006 and 2007 through share capital increases. This led to Templeton initiating a series of court actions.
- **Share buyback to sustain price:** At an EGM on 6 September, the fund's shareholders authorized Franklin Templeton to buy back up to 10% of the fund's share capital at a price between RON 0.2 and RON 1.5 per share. Templeton representatives recently stated that the clause could be activated if the price is low enough. We view the buy-back option as positive and expect it to go ahead, especially given the fund's high discount to NAV.
- **Still trading at a high discount to NAV:** Our valuation already takes into account the inefficient status of the firms in FP's portfolio. However, the latest available data suggest that OTC trades are currently taking place at RON 0.47 per share, or 50% below our NAV estimate of RON 0.93 per share. We believe the current discount is excessive and will continue to narrow, with the stock exchange listing being a catalyst.

Fondul Proprietatea: Current price vs our estimates (% of RON 1 per share)



Source: Fondul Proprietatea, KBC Securities

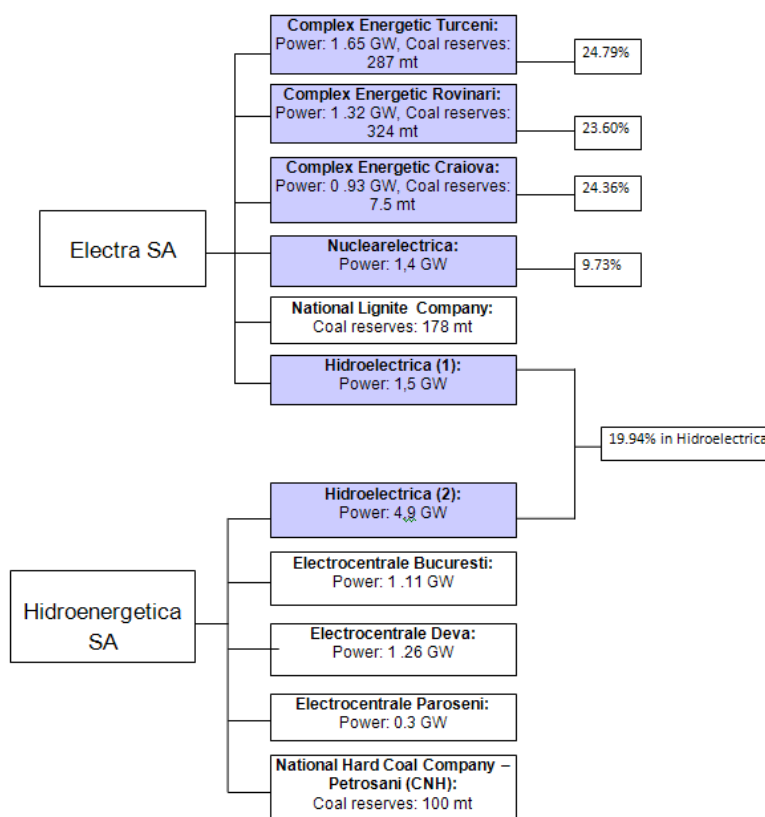
*quoted as nominal value of RON 1 per share

Creation of two integrated energy companies creates additional risks

At an EGM held in November 2010 the Romanian state agreed to the merger of several companies in Fondul Proprietatea's portfolio and some other state-owned companies into two integrated energy companies, Electra and Hidroenergetica. While the merger process should be value neutral if the correct conversion ratios are used, we see some risks attached to the low visibility on the companies being brought into the merger, the lack of any post-merger restructuring plan, and the dilutive effect, as the companies involved are 100%-owned by the state. However, the merger process is currently blocked after the Bucharest court rejected the establishment of Electra on technical grounds (i.e. the division of Hidroelectrica must be formally completed before a merger of some parts can take place). Also, some additional litigation exists from Fondul Proprietatea's side: the fund was supposed to hold a 20% stake in Nuclearelectrica but this has been eroded to the current 9.7% stake after a dilutive capital increase at Nuclearelectrica without pre-emptive rights. Through manager Franklin Templeton, Fondul Proprietatea has officially stated its opposition to the creation of state-owned energy giants Electra and Hidroenergetica after Romania's Ministry of Economy refused to sign up to a shareholders' agreement. Among other provisions, Fondul Proprietatea wanted the shareholders' agreement to include an obligation to list the companies on the Bucharest Stock Exchange in the next 24 months, a two-tier management system, independent management, and a joint agreement on any budget or investment plans of the new energy companies. According to merger decisions published in the Official Gazette, Fondul Proprietatea will hold 15.09% of Electra and 15.9% of Hidroenergetica. Hidroenergetica has been created by merging parts of Hidroelectrica (in which the Fund holds 20%) with two power plants (Electrocentrale Bucuresti and Electrocentrale Deva) in which Fondul Proprietatea does not have any ownership. As a result, its holding has been already diluted. The next step is for Hidroenergetica to merge with parts of Termoelectrica and National Hard Coal Company (CNH), which could further decrease Fondul Proprietatea's holding.

Current holdings in Electra and Hidroenergetica

Current Shareholding of Fondul Proprietatea:



Source: Fondul Proprietatea, KBC Securities

Romgaz cash “donation” creates negative precedent

Shareholders in state-controlled gas producer Romgaz approved a controversial RON 400m (€ 93m) donation to the state budget at an EGM held on 30 November 2010. The funds are likely to come from Romgaz’s cash holdings, which totalled RON 773m (€ 179m) as of December 2009. Fondul Proprietatea holds 15% of Romgaz’s shares, while Romania’s Ministry of Economy holds 85%. Through manager Franklin Templeton, Fondul Proprietatea voted against the donation proposal at the EGM and asked instead for the cash to be distributed as a special dividend to all entitled shareholders. After the vote, Fondul Proprietatea issued a statement announcing it would challenge the decision in court, as the EGM outcome did not represent the equal treatment of minority shareholders. However, the donation was first imposed by a government decision several months ago, thus we believe a positive court verdict is unlikely for Fondul Proprietatea. The fund could have received some RON 60m (€ 14m) from the special dividend, which would have boosted the fund’s budgeted dividend revenues by 29% for 2011.

Official NAV published

Fondul Proprietatea trades at a 58% discount to the official NAV of RON 1.15 per share. The official NAV increased from last month due to a change in regulation 4/2010 and is calculated by using the latest closing price for listed companies and the most recent book value for unlisted companies (previously a 15% discount had been applied). The fund started to publish its official NAV several months ago, applying Regulation 4/2010 issued by Romania's National Securities Commission (NSC). The NSC issued a new regulation on 25 November 2010, modifying the way in which Fondul Proprietatea calculates its NAV. Listed holdings traded during the last 30 days could be valued at the last closing price rather than using the old regulation which took into account the latest 90-days weighted average price. Unlisted holdings will be valued at book value or through the application of International Valuation Standards (IVS) at fair value. These changes could bring increased transparency as the NSC also stipulated that the fund should publish its NAV calculation in more detail.

Fondul Proprietatea: NAV history

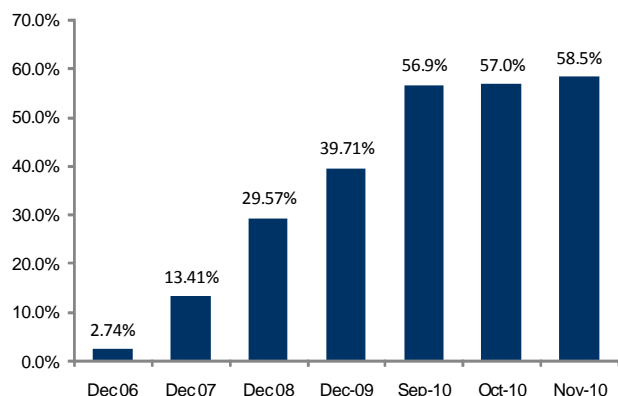
Month	NAV – RON m	NAV – € m	NAV/share – RON
May-10	14,869	3,458	1.0422
Jun-10	14,843	3,452	1.0423
Jul-10	14,643	3,405	1.0283
Aug-10	14,323	3,331	1.0410
Sep-10	13,397	3,116	0.9723
Oct-10	13,492	3,138	0.9792
Nov-10	15,902	3,698	1.1541

Source: Fondul Proprietatea. KBC Securities

100% profit distribution envisaged for 2010

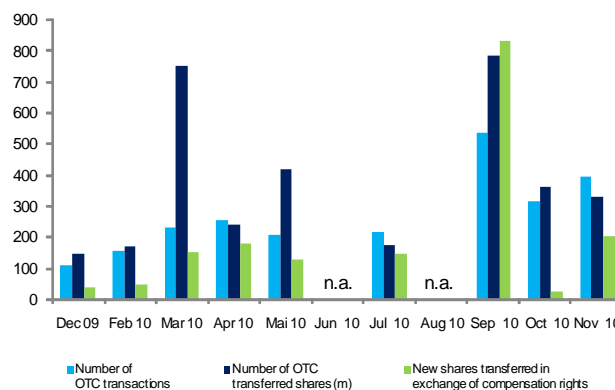
Franklin Templeton has announced it might propose a 100% payout ratio from Fondul Proprietatea's 2010 net income. Based on the budgeted net profit of RON 199.08m in 2010, this would imply a dividend yield of 3.1%. While this is lower than the 15% dividend yield on 2008&2009 net profit, we are positive about the dividend distribution as it will reduce the fund's discount to NAV. On the other hand, this level of dividend payout would put additional pressure on Fondul Proprietatea's cash position (which reached RON 1.40 bn after recent dividend payments of RON 1.12bn), especially in the context of the future share buy-back. Also, the € 600m capital increase at Petrom in 2011 will require a RON 516m contribution from Fondul Proprietatea to prevent dilution. We expect the fund's cash position to be replenished next year as many important holdings in the fund's portfolio are state-owned: these firms will be obliged to pay as much as 90% of their 2010 net profit as dividends. According to the budget approved at the November EGM, the fund's revenues should come in at RON 299m for 2011, or 8% higher than the RON 277m estimate for 2010. Net income is estimated at RON 207m (up 6% y/y) in 2011. We believe the budgeted figures are conservative: first, they are based on dividend revenues similar to those in 2010, but some of the companies in the fund's portfolio could improve their profitability and pay-out ratios; second, the fund could eventually liquidate some of its minority participations (e.g. sales of residual holdings in certain electricity utilities, as stipulated in privatization contracts with E.ON or ENEL or sale of stakes in smaller, unattractive companies), which could lead to additional cash inflows.

Fondul Proprietatea: Minorities participation



Source: Company data, KBC Securities

Fondul Proprietatea: Recent OTC share transactions



Source: Company disclosures, KBC Securities

Valuation methodology

To calculate Fondul Proprietatea's net asset value (NAV) we used our fair value estimates for Petrom, Transgaz, Transelectrica and the major unlisted shareholdings in electricity producers, distributors and suppliers, gas distributors and airports as well as gas producer Romgaz: these companies represent roughly 90% of the fund's portfolio. For the firms in Fondul Proprietatea's portfolio that are not in our coverage universe we used the most recent book values for the unlisted companies and the most recent market price for listed companies. We calculated the fund's fair value by applying a 10% 'fair' discount to the share portfolio to account for limited transparency and liquidity, adjusting for the effect of Romgaz donation and adding to this the fund's net cash position (adjusted for the dividend pay-out in September 2010).

Annex 1 – Fair value NAV

Fondul Proprietatea: NAV calculation (our fair values)

	% owned	RON m	% of NAV	RON per share
Total cash		1,396	9.7%	0.101
Share portfolio		13,117	91.1%	0.952
Listed		4,694	32.6%	0.341
Petrom	20.1%	3,645	25.3%	0.265
Transgaz	15.0%	479	3.3%	0.035
Transelectrica Bucuresti	13.5%	189	1.3%	0.014
Alro Slatina	9.9%	220	1.5%	0.016
Oil Terminal	10.0%	13	0.1%	0.001
Azomures Targu Mures	7.7%	19	0.1%	0.001
Others		129	0.9%	0.009
Unlisted		8,423	58.5%	0.611
Hidroelectrica	19.9%	2,297	16.0%	0.167
Romgaz	15.0%	1,588	11.0%	0.115
Nuclearelectrica	9.7%	392	2.7%	0.028
Complexul Energetic Turceni	24.8%	592	4.1%	0.043
Aeroportul International Henri Coanda**	20.0%	257	1.8%	0.019
Aeroportul International Bucuresti Baneasa**	20.0%	119	0.8%	0.009
Distrigaz Sud	12.0%	232	1.6%	0.017
E.ON Gaz Distributie	12.0%	97	0.7%	0.007
E.ON Moldova Distributie	22.0%	253	1.8%	0.018
E.ON Gaz Romania	12.0%	134	0.9%	0.010
ENEL Electrica Dobrogea Distributie	24.1%	217	1.5%	0.016
Electrica Transilvania Sud Distributie	22.0%	190	1.3%	0.014
ENEL Electrica Banat Distributie	24.1%	331	2.3%	0.024
Electrica Muntenia Nord Distributie	22.0%	214	1.5%	0.016
Electrica Transilvania Nord Distributie	22.0%	195	1.4%	0.014
Enel Distributie Muntenia SA	12.0%	307	2.1%	0.022
Posta Romana	25.0%	203	1.4%	0.015
Complexul Energetic Craiova	24.4%	132	0.9%	0.010
Complexul Energetic Rovinari	23.6%	254	1.8%	0.018
Others		419	2.9%	0.030
Total assets		14,513	100.8%	1.053
Debt		-115	-0.8%	(0.008)
Defferred taxes (RONm)		0	0.0%	0.000
Estimated NAV (RONm)		14,398	100.0%	1.045

Source: KBC Securities estimates, company data

*priced at COB 15 December 2010

** The two companies merged in 2010 to form Compania Nationala Aeroporturi SA

Fondul Proprietatea: Valuation summary (RON)

Portfolio value	13,117.2
- Discount for low transparency	-1,353.3
+ Cash	1,395.8
- Debt	-115.3
- Deferred taxes	0.0
- Corresponding part of Romgaz donation	-60.0
Implied fair value	12,984.4
Number of shares (m)	13,778.6
Implied fair value per share (RON)	0.94
Current estimated trading price	0.48
Upside (%)	96.3%

Source: KBC Securities

Annex 2 – Market news

Date	Event
December 2010	<p>According to a statement published on December 16, Fondul Proprietatea's November NAV stood at RON 15.9 bn (€ 3.7 bn) or RON 1.1541/share. The value is 18% higher m/m but is not directly comparable to historical values as it was calculated according to a new National Securities' Commission regulation issued in November. The new regulation said that listed securities and money market instruments are valued at exchange closing prices as opposed to a 90-day weighted average price according to the old regulation. Another important change is that shares that haven't been traded during the last 30 days as well as unlisted shares can be valued using either shareholders' equity from the latest financial statements or by using valuation methods in accordance with International Valuation Standards (fair value).</p>
December 2010	<p>According to Ziarul Financiar, shareholders of state-controlled gas producer Romgaz approved the controversial RON 400m (€ 93m) donation to the state budget at an EGM on 30 November 2010. The funds are likely to come from Romgaz's cash holdings, which totalled RON 773m (€ 179m) as of December 2009. Fondul Proprietatea is a minority shareholder in Romgaz with 15% of shares, while Romania's Ministry of Economy holds 85% of shares. Through manager Franklin Templeton, the fund voted against the proposal at the EGM and asked instead for the cash to be distributed as a special dividend to all entitled shareholders. After the vote, Fondul Proprietatea announced its intention to challenge the EGM decision in court, as it did not represent the equal treatment of minority shareholders. Fondul Proprietatea could have received some RON 60m (€ 14m) from the special dividend, which would have boosted the fund's budgeted dividend revenues by 29% for 2011.</p>
November 2010	<p>At a press conference, officials from Franklin Templeton presented the calendar for listing Fondul Proprietatea. The prospectus will be sent to the National Securities Commission (NSC) by the end of November 2010, while the NSC will approve the prospectus by 22 December 2010. The prospectus will be presented to Bucharest Stock Exchange on 23 December 2010. The actual listing is expected take place around 25 January 2011. According to Franklin Templeton executive vice-president Mr Grzegorz Konieczny, if the price drops too much the fund could use the buyback option to purchase up to 10% of the fund's shares. Regarding the setting up of the two integrated energy companies, Mr Konieczny said talks with the Ministry of Economy are ongoing. Fondul Proprietatea's administrator would like to convince the state to sign an agreement to list the two companies within 24 months and to accept a dual administrative system with independent management and common agreements regarding the budget or investments to be made by the two new companies.</p>
November 2010	<p>Romania's National Securities Commission issued a new regulation modifying the way Fondul Proprietatea calculates its NAV. The most important change relates to the way listed participations are calculated. The old regulation took into account the latest 90-days weighted average price, whereas the new regulation uses the closing of last day price. Unlisted stakes could be valued at book value or fair value.</p>
October 2010	<p>According to Bursa daily, Fondul Proprietatea called an EGM for 29 November 2010 to approve the budget for 2011. Budgeted net profit stands at RON 207.0m for 2011 versus RON 194.9m budgeted for 2010. The budget proposal includes regular dividends cashed-in by the fund from the companies in its portfolio, interest revenues on its cash position calculated at a 7% interest rate, a dividend distribution rate of 100% for 2010 profit and no major asset disposals or acquisitions. Fondul Proprietatea reported net profit of RON 210.5m at the end of 1H10, already above the budget for full-year 2010. The budget does not include any extraordinary items such as asset disposals (e.g. the possible sale of stakes in electricity distributors and suppliers by the Romanian state in 2011).</p>
September 2010	<p>Fondul Proprietatea published its official NAV calculated in accordance with the Romanian National Securities Commission's regulation 4/2010. NAV per share came in at RON 1.0283 for July, RON 1.0423 for June and RON 1.0442 for May 2010. NAV was calculated by KPMG and no further details were provided.</p>
August 2010	<p>According to a communiqué issued on August 5, Fondul Proprietatea has scheduled an EGM for 6 September 2010. The agenda of the EGM includes: approval of the fund's bylaws and the appointment of Franklin Templeton Investment Management as the sole manager of the fund; approval of the fund's listing on the Bucharest Stock Exchange and other international exchanges (within 90 days from the Fund's registration with the National Securities Commission); and the authorization of the fund to perform a share buyback amounting to a maximum of 1,375,759,258 shares (10% of total share capital). The EGM will decide upon replacing the existing governing bodies of the fund (namely the supervisory board and the directorate) with a new structure called the committee of representatives. The EGM will also vote on a proposal to distribute a gross dividend worth RON 0.0822/share from both 2008 and 2009 profits, which implies a 94% cumulative distribution rate. Calculated at an OTC price of RON 0.47/share the dividend yield would be 17.5%. The proposed registration date is 27 September 2010.</p>

- June 2010** According to a communiqué issued by Fondul Proprietatea, the Chamber of Deputies has approved amendments to Government Ordinance 81/2007 in the plenary session held on June 23. This will allow the cancellation of the state's unpaid shares (482 m shares) and the distribution of dividends from 2008 and 2009 profit.
- June 2010** According to daily Ziarul Financiar, utility companies E.ON and Enel could acquire the remaining minority shares in Romanian electricity distribution and supply entities from the state. E.ON and Enel already acquired the majority stakes in two distribution and supply companies in the privatization process organized by state-owned monopoly Electrica SA several years ago. The state currently holds 27% in E.ON Moldova (distribution and supply), 23.6% in Enel Muntenia Sud (distribution) and 37% in Enel Energie Muntenia SA (supply), while Fondul Proprietatea holds 22% in E.ON Moldova (distribution and supply) and another 12% in ENEL Energie Muntenia SA (both distribution and supply). The sale should take place in accordance with Put/Call options existing in the privatization contracts. The E.ON Moldova stake purchase is conditioned, according to the article, to the payment of debt the National Railway Company has towards E.ON Moldova.
- May 2010** Fondul Proprietatea announced it has filed all the necessary documents with Romania's National Securities Commission (NSC) in order to register as "Other Collective Investment Undertakings". The NSC has yet to issue an official resolution, after which the official NAV of the Fund (calculated according to Regulation no.4/03.03.2010) shall be published.
- March 2010** The National Securities Commission issued Regulation no. 4 covering the registration, functioning and rules for the calculation of net asset value for Fondul Proprietatea SA.
- February 2010** Romania's National Securities Commission (NSC) approved the contract assigning Franklin Templeton as administrator of Fondul Proprietatea. The NSC reiterated that its approval of the administration contract is conditional on the fund's current management registering the entity within 45 days. The NSC designated Fondul Proprietatea a closed-end fund under the 'Other Collective Investment Undertakings' category (i.e. non-UCITS): as such, the fund's representatives must complete a series of documents before the administration contract can come into effect.
- February 2010** During the ordinary shareholders meeting held on February 10, all seven members of the supervisory council were replaced, mostly by members of the ruling party PD-L. Also, shareholders approved further attempts to solve the problem of unpaid shares in the fund by direct conciliation with the Finance Ministry and again mandated the former president of the selection commission, Mr Enache Jiru, to sign the contract with Franklin Templeton. The final form of the administration contract was also approved, together with RAS 2009 financial statements and the 2010 budget.

Annex 3 – Valuation of companies

Hidroelectrica

Company data		FY Dec 31	2008	2009	2010F	2011F
HYDRO ENERGY PRODUCER		Operating revenues (RON m)	2,608.2	2,466.2	2,813.4	3,019.5
CAPACITY	6,335 MW	EBITDA (RON m)	849.8	816.8	1,200.0	1,409.4
Energy produced in 2009	15,110 GWh	margin (%)	32.6%	33.1%	42.7%	46.7%
Energy supplied in 2009	18,276 GWh	EBIT (RON m)	206.6	162.0	515.1	713.2
Utilization ratio (2009)	32.6%	Net profit (RON m)	65.1	48.4	351.8	500.8
		margin (%)	2.7%	2.0%	12.8%	17.0%
Fair value (RON m)	11,515.5	P/E (x)	176.8	238.0	32.7	23.0
		EV/EBITDA (x)	14.6	15.9	11.1	9.6
Shareholders structure:		P/Bk (x)	0.8	0.7	0.7	0.7
Economy Ministry	80.05%	P/S (x)	4.7	4.8	4.2	3.9
Fondul Proprietatea	19.95%	Dividends paid (RON m)	13.0	14.5	316.7	450.8
		Pay-out ratio (%)	20.0%	30.0%	90.0%	90.0%

Source: Company data, KBC Securities

Investment case

Hidroelectrica is a state-owned hydro electricity producer in Romania that supplies approximately 18TWh or 27% of the country's total electricity resources. Hidroelectrica has 12 main electricity generation assets and a total of 587 production groups, built between 1960 and 1990.

- Potential for energy prices to increase on the regulated market...**: Although Hidroelectrica is the cheapest electricity producer in Romania from the cost point of view, it also sells energy at very low prices. Around 18.6% of the firm's energy deliveries in 2009 went to energy suppliers for regulated end-users at a price of RON 72.6 (€ 16.7) per MWh. At present, energy regulator ANRE sets the price of energy received by regulated suppliers. However, price liberalization is expected in the next few years as the EU pushes for convergence towards a free market.
- ...and on the free market**: About 64.0% of Hidroelectrica's annual production went to energy traders and big industrial consumers at a price of RON 102.1 (€ 24.1) per MWh in 2009. The price of energy supplied to traders or big industrial consumers was negotiated through long-term contracts that should gradually expire. The average price of energy on Western markets stood at € 54.0 per MWh (German baseload price) in 2009. Only about 35% of Romania's energy is traded on the OPCOM market, at a price of € 34.3 per MWh.
- Prices already rise in 2010**: Hidroelectrica has recently renegotiated its long-term contract prices to an average RON 130 (€ 30) /MWh which is some 30% higher y/y while the production cost is estimated at some RON 90 (€ 21)/MWh. For example, there has been a renegotiation of the price of its long-term contract with aluminium producer Alro to € 31-37 per MWh for 2010 versus €20 per MWh in 2009. The firm has agreed a price of € 32 per MWh with ArcelorMittal but only for 2010. We expect more improvements in Hidroelectrica's selling price going forward.
- 9M10 profit already six times higher than 2009 profit**: Hidroelectrica's profit stood at RON 414m in the first nine months of 2010 versus RON 48m obtained in full-year 2009. This demonstrates the firm's very high sensitivity to the price of energy sold. We estimate that a 10% increase in prices will lead to a 353% increase in net profit and a 30% increase in EBITDA. While the firm's net profit is low, depreciation expenses are high: this led to EBITDA coming in at RON 816.8m (-3.8% y/y) in 2009.

- **Investments to bring additional cost savings:** Hidroelectrica spent RON 1.4bn on new investments (expected to increase production by about 5% by 2012) and the reconditioning of old investments (work carried out on 20% of capacities) in 2009. One of the largest investments planned for 2011 is the construction of a pumped storage hydro power plant at Tamita Lapustesti at a cost of € 1.16bn. The facility will provide better system services for the electricity network and will also allow Hidroelectrica to sell the resulted electricity, contribute to improved cost control and should lower the amount needed from external sources. Hidroelectrica bought about 2.4TWh of electricity to cover shortages from inefficient state-owned power plants at a price of RON 198.7 (€ 46.9) per MWh in 2009.
- **Low debt but exposed to €/RON exchange rate:** The company has a low level of debt, with net debt-to-equity at 8.8%. Credits are mostly €-denominated (close to 70%) which leaves the company exposed to €/RON movements. On the positive side, however, the company pays a low interest rate (5.5% last year) and as a result could easily access more credit for expansion of its activities.

Catalysts

- Potential increase in prices with market liberalization and the creation of new capacities should help the firm to achieve stronger margins. The firm has a high sensitivity to the price of energy sold.
- Romania is obliged to pursue EU directives for increasing green energy consumption.
- Potential for a significant increase in capacity (Romania's estimated hydro potential is double the current capacity).

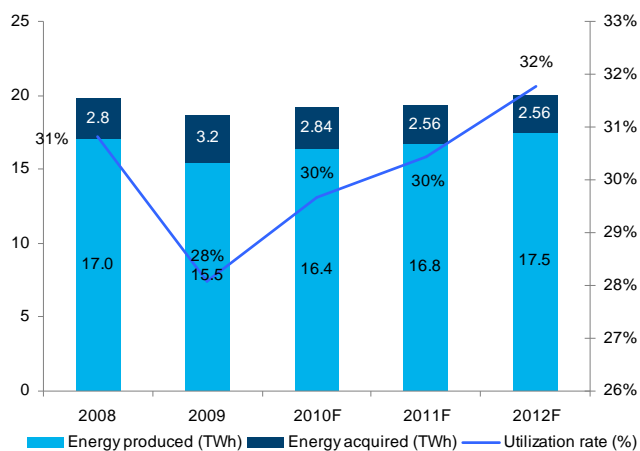
Risks

- The current economic situation in Romania favours maintaining low prices until the inflationary wave of VAT increases has passed. This could delay price liberalization, which represents a risk for Hidroelectrica.

Valuation

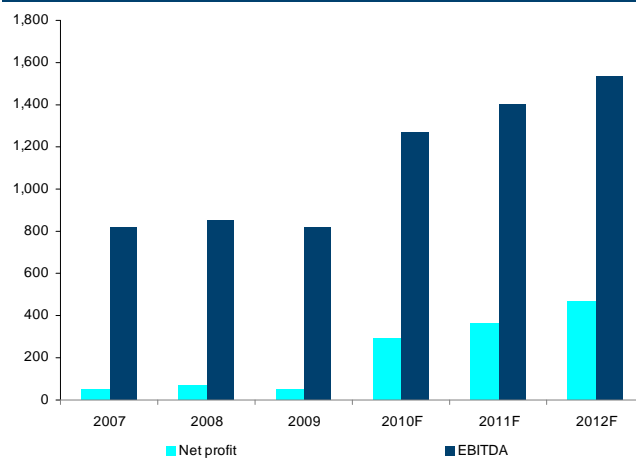
- Our sum-of-the-parts (SOTP) valuation puts Hidroelectrica's value at RON 14,185m, while our discounted cash flow (DCF) model suggests a value of RON 11,516m. (We use the latter in our NAV calculation for Fondul Proprietatea.) This puts Hidroelectrica at a 2011F EV/EBITDA of 9.6x, which implies a 13.1% premium to peers. We believe the premium is justified by the high growth potential resulting from increasing energy prices.

Hidroelectrica: Energy produced, acquired and utilization rate



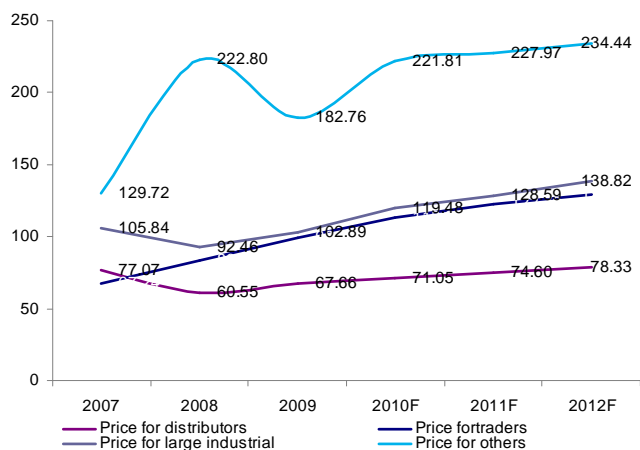
Source: company data, KBC Securities

Hidroelectrica: EBITDA and Net profit forecast



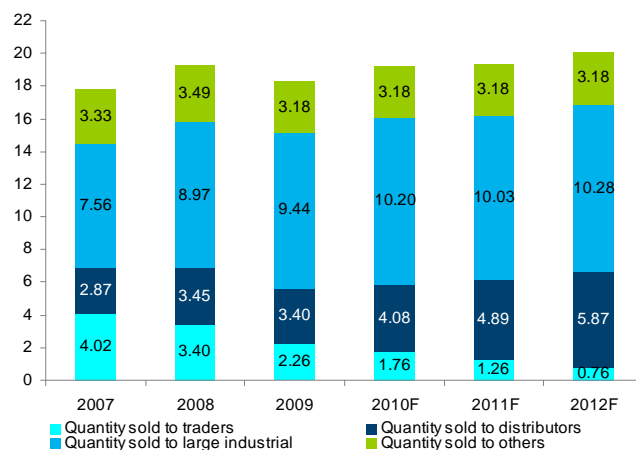
Source: company data, KBC Securities

Hidroelectrica: Prices of energy sold



Source: company data, KBC Securities

Hidroelectrica: structure of quantities sold



Source: company data, KBC Securities

Hidroelectrica: Two-stage FCFF valuation

RON m, unless stated otherwise	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
EBIT	515.1	713.2	857.7	943.4	1,009.5	1,070.0	1,112.8	1,146.2	1,180.6	1,216.0
Tax on EBIT	82.4	114.1	137.2	150.9	161.5	171.2	178.1	183.4	188.9	194.6
NOPLAT	432.7	599.1	720.4	792.5	847.9	898.8	934.8	962.8	991.7	1,021.4
Depreciation	684.9	712.3	740.8	770.4	801.2	833.3	866.6	901.3	937.3	974.8
Gross cash flow	1,117.6	1,311.4	1,461.2	1,562.9	1,649.2	1,732.1	1,801.4	1,864.1	1,929.0	1,996.3
Change in working capital	(120.0)	(80.0)	(50.0)	(30.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
Capital expenditure	(1,055.5)	(985.0)	(902.0)	(850.0)	(841.3)	(875.0)	(866.6)	(901.3)	(937.3)	(974.8)
Free cash flow	(57.9)	246.4	509.2	682.9	787.9	837.2	914.8	942.8	971.7	1,001.4
PV of free cash flow	(57.9)	225.4	425.9	522.3	551.0	535.4	535.1	504.3	475.3	448.0
Sum of PV of FCF (2010-19)	4,164.8									
PV of terminal value	8,803.5									
Enterprise value	12,968.3									
Net debt	1,452.9									
Equity value	11,515.5									

Source: KBC Securities estimates

Hidroelectrica: DCF assumptions

WACC calculation	For 2010-19	Term. value	Terminal value calculation	RON m
Risk-free rate	6.2%	5.0%	FCFF/(WACC-g)	19,680
Beta	100.0%	100.0%	PV of terminal value	8,804
Equity premium	4.5%	4.5%		
Cost of equity	10.7%	9.5%		
Debt premium	1.0%	1.0%		
Cost of debt	7.2%	6.0%		
Effective tax rate	16.0%	16.0%		
WACC	9.3%	7.7%		

Source: KBC Securities estimates

Romgaz

Company data					
		FY Dec 31	2007	2008	2009
Gas producer in Romania		Sales (RON m)	3,271.7	3,280.2	3,193.5
Estimated reserves (m. boe)	544.0	EBITDA (RON m)	1,061.4	1,145.5	1,292.0
Gas sold in 2009 (m c/m)	5,563.4	margin (%)	32.4%	34.9%	40.5%
		EBIT (RON m)	760.1	719.2	716.9
Fair value (RON m)	10,591	Net profit (RON m)	509.6	537.3	572.5
		margin (%)	15.6%	16.4%	17.9%
Shareholders structure:		P/E (x)	20.8	19.7	18.5
Economy Ministry	85.0%	EV/EBITDA (x)	8.5	8.4	7.6
Fondul Proprietatea	15.0%	EV/EBITDA adj for development quota	5.1	4.8	4.7
		P/Bk (x)	2.1	1.4	1.3
		P/S (x)	3.2	3.2	3.3
		Dividend pay-out (%)	n.a.	50.8%	51.2%

Source: Company data, KBC Securities

Investment case

Romania's Romgaz is a state-owned natural gas producer and is currently unlisted. The firm supplies approximately 40% (5.8bn cubic metres) of Romania's total natural gas consumption (13.2bn cubic metres in 2009, down 15% y/y). Romgaz has around 153 gas fields (we estimate reserves of 554mboe), six underground storage deposits (2.76bn cubic metres) and more than 3,500km of transmission pipelines. The company is active on an oligopolistic market, sharing domestic production with Petrom.

- Potential market liberalization:** The price of natural gas is regulated in Romania, thus Romgaz currently sells gas at a much lower price than the price paid by the Romanian state for imports from Gazprom: Romgaz realized a price of RON 434.5 (US\$ 142.6) per thousand cubic metres in 2009 versus an import price of US\$ 350. The Romanian gas market should be liberalized which will lead to natural gas prices converging with the EU average. However, the authorities have avoided giving a specific timeframe for the liberalization. The latest statements suggest the agreement of a liberalization calendar in 2011. Regulated prices for internal production were at a constant RON 45.71 per MWh in 2009, while import prices decreased by 40% y/y to RON 79.75 per MWh last year.
- Slightly higher extraction costs versus peers but healthy margins:** Romgaz reported a cost of RON 344.5 per cubic metre on gas extraction activity, which implies a margin of 18.8%. This figure includes a RON 123.5 per cubic metre development quota, which represents a non-cash expense. (Similar to depreciation, this is a non-deductible expense associated with investments such as unsuccessful explorations.) Despite costs being higher than peers and selling prices being kept low, Romgaz still managed to deliver a healthy margin of 18.8% on gas extraction in 2009.

- **Other activities to help improve margin:** Romgaz's turnover derives from gas extraction (74.7%), gas storage (7.7%) and sales of imported gas (13.9%). Romgaz posted a margin of 20.9% on imported gas sales and a negative margin of 14.0% on gas storage activity in 2009, as regulator ANRE failed to approve higher tariffs and the volumes extracted from storage depots were lower than expected. We expect ANRE to revise tariffs on storage activity upwards in the years ahead, which should lead to a positive margin for Romgaz. The company is the sole operator of underground gas storage facilities in Romania.
- **Cash rich, despite imposed "donation":** Romgaz had negative net debt of RON 1,143.9m at the end of 2009, as the company has almost no debt and is cash rich. As a result, we expect the recent EGM decision imposing a RON 400m donation from Romgaz to the state budget to have only a modest impact. Operating cash flow came in at a positive RON 637.8m in 2009, while cash outflow from investing stood at RON 513m. In addition, Romgaz has a high amount of receivables and inventory, with working capital at RON 1.9bn at the end of 2009.
- **Planned IPO should help reference pricing:** The Romanian government plans to list a 15% stake in Romgaz at an IPO next year. This should improve the visibility on Romgaz's financials and should create a market reference price for the company.
- **Significant increase in dividends expected:** Romgaz paid dividends worth RON 293m from 2009 profits, representing at a 51.2% payout rate. Romanian state-owned companies were obliged to pay out 50% of their net profit as dividends until 2010. However, the obligatory pay out level increases to 90% in 2011, which should lead to additional cash inflows for Fondul Proprietatea.
- **New investments to maintain production:** Romgaz plans to invest RON 1.2bn in 2010, approximately the same level as in 2009. The company plans to drill 40 new wells in 2010.

Catalysts

- The prospective liberalization of Romania's gas market should allow Romgaz to increase its gas prices. The EU is currently pushing for a liberalization calendar although no timeline has been disclosed.
- Gas consumption in Romania looks set to increase as more gas-fired power plants are scheduled to open (e.g. Petrom) and Romgaz's domestic production accounts for more than 40% of the country's total consumption.

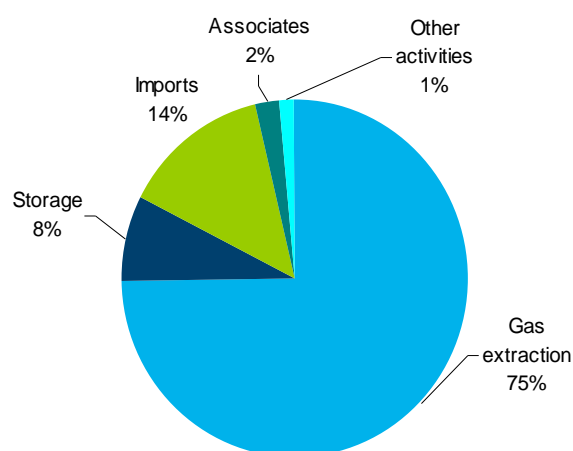
Risks

- The firm's gas fields are mature and no significant improvement in flow rates can be expected.
- Romania's fertilizer producers were allowed to buy cheaper domestic gas, from domestic production until October. The facility has not been renewed and this could pose a threat to Romgaz's selling volumes, although it could also be positive, as the change would allow the company to charge higher prices.

Valuation

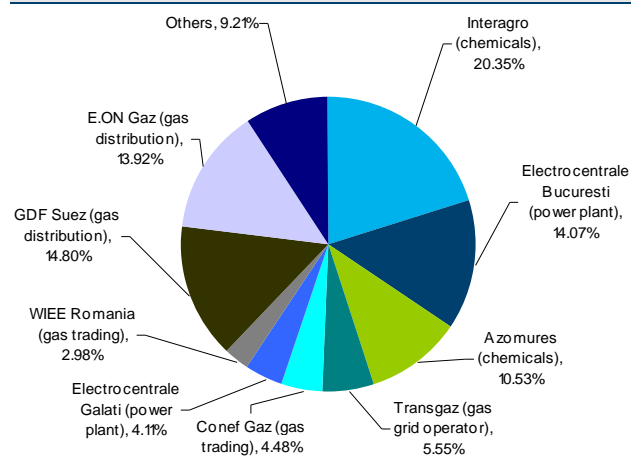
- Our sum-of-the-parts (SOTP) valuation puts Romgaz's value at RON 10,591m. This value implies a 2009 EV/EBITDA of 7.6x and a 2009 P/B of 1.3x.

Romgaz: Revenues breakdown



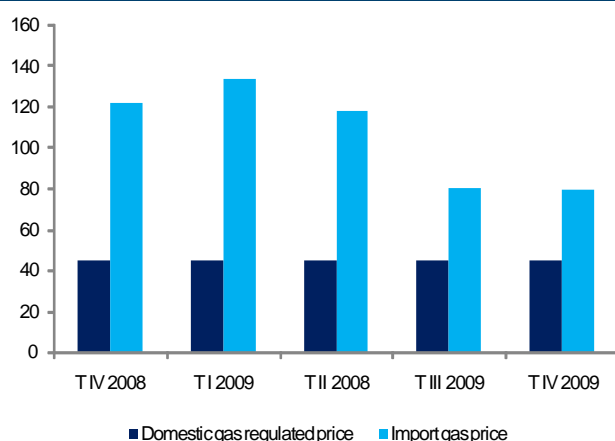
Source: company data, KBC Securities

Romgaz: split of revenues by customers



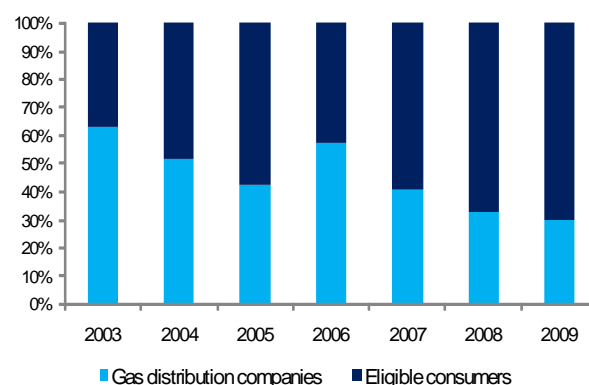
Source: company data, KBC Securities

Romgaz: selling price vs. import price (RON/MWh)



Source: company data, KBC Securities

Romgaz: Domestic gas deliveries



Source: company data, KBC Securities

Romgaz: SOTP valuation

Asset	Amount	Price per unit (US\$ m)	Value (US\$ m)	Total EV (US\$ m)	Net debt (US\$ m)	Fair value of equity (US\$ m)	(RON m)
Natural gas reserves	544 mboe	2.15	1,170	1,170			
Gas storage capacities	2,760 cm	290.0	800.4	800.4			
Transmission pipelines	3,467 km	0.26	892.4	892.4			
Total			2,862	2,862	-347	3,209	10,591

Source: KBC Securities estimates

Nuclearelectrica

Company data

NUCLEAR ENERGY PRODUCER		FY Dec 31	2008	2009	2010F	2011F
		Sales (RON m)	1,451.9	1,526.7	1,569.8	1,640.7
Capacity (MW)	1,412	EBITDA (RON m)	659.3	692.6	710.5	772.0
Energy produced in 2009 (MWh m)	11.8	margin (%)	44.1%	43.0%	42.8%	44.8%
Utilization ratio (2009)	96%	EBIT (RON m)	320.5	325.3	331.75	379.01
		Net profit (RON m)	103.0	49.4	183.90	243.59
Fair value (RON m)	4,027.3	margin (%)	7.1%	3.2%	11.1%	14.1%
		P/E (x)	39.1	81.6	12.1	10.6
Shareholders structure:		EV/EBITDA (x)	9.2	8.8	8.5	7.8
Economy Ministry	90.3%	P/Bk (x)	0.6	0.6	0.6	0.5
Fondul Proprietatea	9.7%	P/S (x)	2.8	2.6	2.6	2.5
		Pay-out ratio	0.0	0%	0%	0%

Source: Company data, KBC Securities

Investment case

Nuclearelectrica owns the sole nuclear power plant (NPP) in Romania, operating two reactors (installed power 706 MW each) commissioned in 1996 and 2007 respectively. The company has its own nuclear fuel plant and supplies about 21% of Romania's total energy consumption.

- **Fondul Proprietatea might double its stake in Nuclearelectrica:** Fondul Proprietatea initially held a 20% ownership of Nuclearelectrica. Its stake was diluted by two capital increases by in-kind contributions (i.e. heavy water) from the state to 9.7% and Fondul Proprietatea has sued the state to get back its initial holdings especially as the state prepares to integrate the company in Electra. The outcome of the litigation is not visible, so far.
- **Energy prices lower than the market but higher than Hidroelectricita:** Nuclearelectrica sells its energy at a price of around RON 125 per MWh (€30 per MWh). This is still significantly lower than EU market prices but is above the price charged by Hidroelectricita. We expect the company's electricity price to grow at a CAGR of 4.3% for 2009-2012.
- **High FX-denominated debt poses a threat:** Nuclearelectrica's financial result deteriorated significantly last year due to FX-denominated debt and RON depreciation versus €, which eroded net income by 52% y/y in 2009.
- **Capacity expansion delayed till 2018:** A project company, EnergoNuclear SA, was established in 2008 for the construction of reactors 3 and 4 (each 720 MW, doubling current capacity), with the Nuclearelectrica as majority shareholder (51%). Other stakeholders include major energy players such as CEZ, ENEL, GDF Suez, RWE and ArcelorMittal Romania. The construction phase is estimated to begin in 2018, with a significant delay as compared with the original plan (2016) and the total investment would reach €4bn, due to ongoing disagreements.

Catalysts

- Nuclearelectrica's production will increase once reactors 3 and 4 have been commissioned.
- Market liberalization will lead to higher prices. In addition, planned interconnections with neighbouring countries should allow more exports.

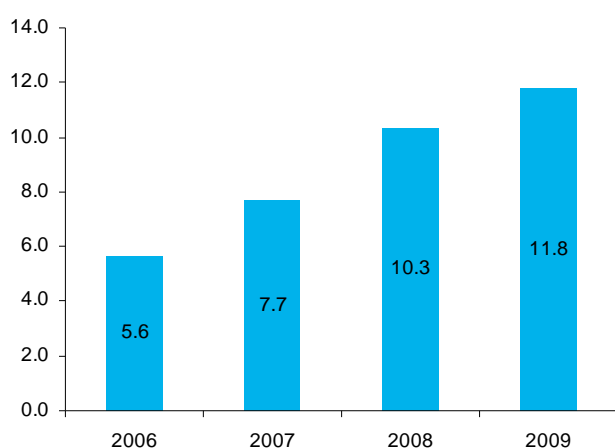
Risks

- The firm's debt burden could increase if the state maintains its 51% participation in the expansion project for the two additional reactors.
- Risks derived from exposure to FX-denominated debt

Valuation

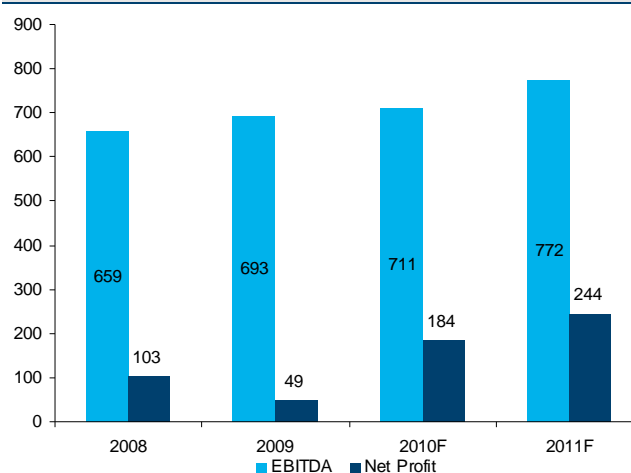
- Our discounted cash flow (DCF) model puts a value of RON 4,027.3m on Nuclearelectrica. This value implies a 2010 EV/EBITDA of 8.5x and a 2010 P/B of 0.6x.

Nuclearelectrica: Electricity production (MWh m)



Source: Nuclearelectrica, KBC Securities

Nuclearelectrica: EBITDA and Net profit forecast



Source: Nuclearelectrica, KBC Securities

Nuclearelectrica: Two-stage FCF valuation

RON m, unless stated otherwise	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
EBIT	331.8	379.0	406.4	414.6	422.8	431.3	465.8	498.4	523.3	549.5
Tax on EBIT	53.1	60.6	65.0	66.3	67.7	69.0	74.5	79.7	83.7	87.9
NOPLAT	278.7	318.4	341.4	348.2	355.2	362.3	391.3	418.7	439.6	461.6
Depreciation	378.8	397.7	417.6	438.5	460.4	483.4	507.6	533.0	559.6	587.6
Gross cash flow	657.4	716.1	759.0	786.7	815.6	845.7	898.9	951.6	999.2	1,049.2
Change in working capital	80.0	40.0	30.0	20.0	20.0	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Capital expenditures	(677.6)	(477.2)	(480.2)	(482.3)	(506.4)	(483.4)	(507.6)	(533.0)	(559.6)	(587.6)
Free cash flow	59.8	278.8	308.8	324.4	329.2	352.3	381.3	408.7	429.6	451.6
PV of free cash flow	57.3	255.7	259.7	250.3	232.9	228.6	226.9	223.1	215.1	207.4
Sum of PV of FCF (2009-19)	2,157.1									
PV of terminal value	3,903.1									
Enterprise value	6,060.2									
Net debt	2,032.8									
Equity value	4,027.3									

Source: KBC Securities estimates

Nuclearelectrica: DCF assumptions

WACC calculation	For 2010-19	Term. value	Terminal value calculation		RON m
Risk-free rate	6.2%	5.0%	FCFF/(WACC-g)	LT WACC is 7.9%, LT growth is 2.5%	8,499
Beta	100.0%	100.0%	<i>PV of terminal value</i>	<i>Using WACC of 9% to discount</i>	3,903
Equity premium	4.5%	4.5%			
Cost of equity	10.7%	9.5%			
Debt premium	1.0%	1.0%			
Cost of debt	7.2%	6.0%			
Effective tax rate	16.0%	16.0%			
WACC	9.0%	7.9%			

Source: KBC Securities estimates

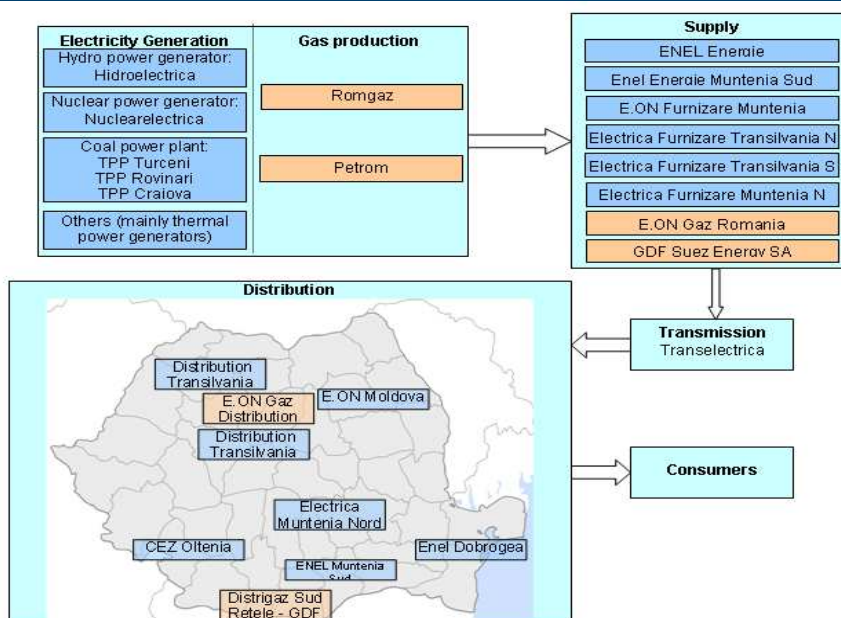
Electricity and gas distributors and suppliers

Company data

Company	Sales 09	Net profit 09	Fair value	P/E 09	P/Bk 09	EV/EBITDA 09
Distribution						
Enel Distributie Muntenia S	732.7	280.1	3,475.2	12.4	1.3	7.2
Electrica Distributie Transilvania N	495.9	14.0	888.4	63.6	1.2	7.4
Enel Distributie Banat	526.4	150.7	1,373.2	9.1	1.2	4.5
Electrica Distributie Muntenia N	611.5	24.7	971.38	39.4	0.9	8.1
Electrica Distributie Transilvania S	539.2	23.2	864.8	37.3	1.1	6.9
Enel Distributie Dobrogea	391.5	92.1	900.9	9.8	1.1	5.1
E.ON Distributie Moldova	630.1	53.6	1,149.0	21.4	1.4	7.1
GDF Suez Energy SA (Distrigaz Sud)	3,628.8	380.4	1,531.6	5.2	0.8	3.5
E.ON Gaz Distributie SA	724.5	101.1	798.8	7.9	0.9	3.7
Supply						
Enel Energie Muntenia S	1,919.5	13.4	4,003	n.a.	n.a.	n.a.
Electrica Furnizare Transilvania N	1,175.6	0.6	236.8	n.m.	8.0	19.2
Electrica Furnizare Transilvania S	1,335.1	0.8	302.3	n.m.	7.50	16.4
Electrica Furnizare Muntenia N	1,326.2	18.4	316.2	17.2	22.2	7.9
E.ON Furnizare Moldova	1,456.7	-25.6	294.0	n.m.	2.0	n.m.
Enel Energie	1,849.6	-46.7	368.7	n.m.	1.5	n.m.
E.ON Gaz Romania SA	2,557.7	141.7	1,781	12.6	2.16	12.3

Source: Company data, KBC Securities

Fondul Proprietatea: Evolution of minorities participation



Source: Fondul Proprietatea, KBC Securities

Five of Romania's eight electricity distributors and suppliers and both gas distributors and suppliers were privatized in 2004-2008 (see table on the following page). The buyers were E.ON, Enel, CEZ and GDF Suez. In recent years, distribution has been separated from supply, which has led to the formation of additional companies (though the shareholders remain the same).

- **Prices likely to remain regulated on the distribution side:** Electricity and gas distribution companies are natural monopolies and are in charge of the distribution grid. They are regulated using a methodology which allows them to recover total costs for grid maintenance plus a pre-established rate of return. Distributors are likely to remain regulated in the future, in line with EU norms.
- **Suppliers are currently regulated...:** Electricity and gas supply companies are allowed to sell energy to large consumers at negotiated prices while they have their prices regulated for small consumers using a methodology which allows the recovery of unit costs paid to producers/generators plus a margin (2.5% for electricity suppliers and 5% for gas suppliers). Suppliers should be able to sell their entire energy at free market prices and consumers to switch between suppliers. Although Romania's energy market is in theory 100% liberalized, households are still captive.
- **...but a slow market liberalization is taking place:** While distribution companies are achieving profitability roughly in line with that implied by the regulated methodology, suppliers do not have their tariffs aligned with the regulated profitability threshold, leaving some of them loss-makers. Suppliers of both gas and electricity are pushing for higher supply prices to end-users. Regulated prices apply not only to suppliers but further down the chain to producers/generators. A free electricity and gas market was part of Romania's negotiations when it joined the EU in 2007, but liberalization has not yet been completed.
- **Some distributors are cash rich:** The privatization methodology (roughly the same for all companies) involved selling a 25% stake from the state to a private investor and a cash subscription by the private investor to reach a 51% stake. As a result, some of the distributors are cash rich. For example, Enel Distribution Muntenia Sud had a negative net debt of RON 1.85bn, Enel Distribution Banat has a negative net debt of RON 0.4bn and Enel Distribution Dobrogea has a negative net debt of RON 0.18bn (as of 2009). As suppliers were created after privatization, separating them from distribution, they have no debt but also no cash position.
- **Reference market transaction at EV/EBITDA of 8.0x:** The stake held by Fondul Proprietatea in CEZ's distribution and supply companies was sold for €230m in 2009, at a P/B of 1.3x, an EV/EBITDA of 8.0x and 2.3x higher than the value at which the stake was registered in Fondul Proprietatea's portfolio.
- **Other potential transactions:** The state plans to sell its stakes in E.ON Moldova and Enel Muntenia Sud. According to official estimates, the sale might take place at prices which put the total value at €1.35bn for Enel and €0.2bn for E.ON. The sale will take place in accordance with the options existing in privatization contracts. While it is unclear if Fondul Proprietatea will sell together with the state, the sale could create further market references.

*Tariff methodology:
Distributors*

- The revenues of distributors are established by ANRE by adding normal operating expenses to a pre-established profitability. The profitability is calculated by using the formula: regulated profit = regulated asset base (RAB) x regulated rate of return (RoR). A certain cost efficiency target is imposed.
- For distributors, the regulated revenue cap methodology means that the companies act in a similar way to a bond. Besides the regulated profit (RAB x RoR), additional profits or losses could be incurred if the companies manage to reduce costs below the normalized regulated costs or costs are above this level.
- Current RoR is set at 10% for privatized distributors and 7% for state-owned electricity distributors. The RoR is set at 8.6% for gas distributors.

Tariff methodology: Suppliers

- Electricity suppliers have their prices regulated for the energy supplied to end consumers (with a 2% profit margin allowed), while they can freely negotiate the price with industrial consumers. While an end-user is allowed to switch from regulated supply prices to negotiated prices, in practice this situation does not occur as the regulated margin is low and consumers cannot obtain a better price from the supplier.

Valuation

- We value distribution companies as bond instruments because of the price-cap revenue methodology applied. We treat them as perpetual bonds with a cash flow represented by regulated EBIT discounted at current WACC. Supply companies are valued using a target EBITDA based on the regulated profit margin (2.5%) and a target EV/EBITDA based on a peer comparison.

Electricity & gas utilities companies: Acquisition price (RON m)

Company	Buyer	Date of acquisition	Ownership	Equivalent of 100% (€ m)	Cash infusion (€m)	Total acquisition value (€m)	Our current value RONm	Our current value estimate
Electrica Moldova	E.ON	2005	51.0%	127.5	68.6	196	830	1,443
Electrica Banat	Enel	2004	51.0%	73.2	38.0	111	470	1,373
Electrica Oltenia	CEZ	2005	51.0%	192.5	103.6	296	1,253	n/a
Electrica Muntenia Sud	Enel	2007	67.0%	790.0	593.0	1383	5,850	4,003
Electrica Dobrogea	Enel	2004	51.0%	73.2	38.0	111	470	901
Distrigaz Nord	E.ON	2005	51.0%	416.7	178.0	595	2,515	1,920
Distrigaz Sud	GDF Suez	2005	51.0%	426.7	183.0	610	2,579	1,937

Source: company data, KBC Securities estimates

Electricity & gas distribution companies: Valuation according to price-cap methodology (RON m)

Company	Regulated Asset Base as of 2009	Rate of Return	Implied operating result (RABxRoR)	WACC	Enterprise Value	Estimated equity value
Electrica Distributie Muntenia Nord	1,320	7.0%	92.4	10.7%	867.6	971.38
Enel Distributie Banat	1,036	10.0%	103.6	10.7%	973.0	1,373.2
Enel Distributie Dobrogea	761	10.0%	76.1	10.7%	714.5	900.9
Enel Distributie Muntenia Sud	1,726	10.0%	172.6	10.7%	1,620.3	3,475.2
Electrica Distributie Transilvania Nord	1,248	7.0%	87.4	10.5%	830.1	888.4
Electrica Distributie Transilvania Sud	1,258	7.0%	88.0	10.7%	826.8	864.8
E.ON Moldova Distributie	1,227	10.0%	122.7	10.5%	1,164.1	1,149.0
E.On Gaz Distributie	1,042	8.6%	89.9	10.3%	875.7	804.7
GDF Suez (Distrigaz Sud)	2,278	8.6%	196.6	9.8%	1,997.1	1,937.2

Source: company data, ANRE, KBC Securities estimates

Electricity & gas distribution companies: WACC Calculation

	Electrica Distributie Muntenia Nord	Enel Distributie Banat	Enel Distributie Dobrogea	Enel Distributie Muntenia Sud	Electrica Distributie Transilvania Nord	Electrica Distributie Transilvania Sud	E.ON Moldova Distributie	E.On Gaz Distributie	GDF Suez (Distrigaz Sud)
Risk free rate	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%	6.2%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Equity premium	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Cost of equity	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%
Debt premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Cost of debt	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Effective tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Debt	0.0%	0.0%	0.0%	0.0%	1.4%	0.0%	2.3%	8.3%	17.3%
Equity	100.0%	100.0%	100.0%	100.0%	98.0%	100.0%	97.7%	91.7%	82.7%
WACC	10.7%	10.7%	10.7%	10.7%	10.5%	10.7%	10.5%	10.3%	9.8%

Source: KBC Securities estimates, Company data

Electricity supply companies: Valuation according to EV/EBITDA multiple

Company	EBITDA 2009	Target EBITDA	Target EV/EBITDA	Enterprise value (RON m)	Estimated equity value (RON m)
ELECTRICA FURNIZARE TRANSILVANIA SUD	19.9	42.7	7.7	327.8	302.3
ELECTRICA FURNIZARE TRANSILVANIA NORD	12.3	30.7	7.7	235.5	236.8
ELECTRICA FURNIZARE MUNTENIA NORD	39.0	40.2	7.7	309.1	316.2
ENEL ENERGIE SA	-28.6	48.0	7.7	368.7	527.7
E.ON MOLDOVA FURNIZARE SA	-20.9	36.4	7.7	279.8	294.0
E.ON GAZ ROMANIA SA	143.5	143.5	7.7	1,102	1,115

Source: KBC Securities estimates, ANRE, Company data

Electricity supply peers

Company	Market cap (€ m)	Operating margin (12M)	EV/EBITDA 2009
Electricite de Strasbourg	820	14.6%	6.0
Emasz RT	223	7.3%	6.4
Societa Elettrica Sopracenerina	184	15.8%	8.7
Energiedienst	1,237	12.18%	11.5
EDP- Energias de Portugal	9053	16.15%	7.83
Elmu	568	7.4%	5.71
Prazska Energetika	1,073	14.0%	7.7
Electricite de Strasbourg	820	14.6%	6.0
Average			7.7

Source: KBC Securities estimates, Bloomberg

Coal-fired power plants: Turceni, Rovinari and Craiova

Company data	Turceni Power Plant			Rovinari Power Plant			Craiova Power Plant		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Sales (RON m)	1,029.4	1,281.4	1,125.5	811.5	957.3	845.4	861.8	1,068.6	1,132.4
EBITDA (RON m)	217.8	195.2	240.9	141.2	75.5	80.3	78.5	73.6	75.5
margin (%)	21%	15%	21%	17.4%	7.9%	9.5%	9.1%	6.9%	6.7%
EBIT (RON m)	100.2	65.9	30.2	89.3	14.0	13.7	10.7	4.4	-0.7
Net profit (RON m)	78.3	20.0	21.3	79.3	1.0	5.6	8.3	3.6	0.3
margin (%)	7.61%	1.56%	1.89%	9.8%	0.1%	0.7%	1.0%	0.3%	0.0%
Fair value (RON m)			2,388			1,075			540
P/E (x)	30.5	119.7	112.2	13.6	n.m.	190.5	64.9	149.2	n.m.
EV/EBITDA (x)	11.4	12.7	10.3	8.7	16.3	15.3	7.4	7.9	7.7
P/Bk (x)	1.7	1.1	1.1	1.5	1.3	1.0	0.5	0.5	0.5
P/S (x)	2.3	1.9	2.1	1.3	1.1	1.3	0.63	0.51	0.48
Dividend pay-out	n.a.	47%	0%	n.a.	1.4%	9.7%	n.a.	51%	43%
Equity	1,387	2,114	2,139	716	854	1,065	1,083	1,081	1,097
Assets	1,867	2,712	2,790	1,025	1,303	1,632	1,244	1,393	1,581
Debt	2.8	95.6	154.4	0.0	132.5	245.0	0.0	36.3	137.3
Debt-to-Assets	0%	4%	6%	0%	10%	15%	0%	3%	9%
Capacity (MW)	2,640	2,640	2,640	1,320	1,320	1,320	930	930	930
Electricity produced – MWh m		7.68	6.39		5.94	4.84		4.84	4.37
Weight of revenues from regulated market			40%			44%			36%

Source: Company data, KBC Securities

Investment case

The three power plants combined generate almost 30% of Romania's electricity output. The plants were commissioned between 1960 and 1980. The power plants are independent in terms of fuel sources, having their own coal mines with total coal reserves of 470m tonnes. Despite this, the plants need huge investments to reach EU environmental requirements, which will entail considerable efforts in the periods ahead.

- **Easy access to the main source of fuel:** The coal mines are in close vicinity to the power plants, which negates any risks related to coal prices. Nevertheless, having integrated mines increases the fixed costs of the power plants and exposes them to inefficiencies in the local mining system.
- **Sales on both the regulated and free markets:** All three entities sell to local distributors at regulated prices but an important part of their production – 60% on average as of 2009 – is sold on the free market (i.e. on the Bilateral Contracts Market, the Day-Ahead Market or the Balancing Market).
- **Most expensive producers:** Romania's three power plants are the most expensive in Romania in terms of selling prices. Turceni Power Plant sells energy at RON 183 per MWh (€43.2 per MWh) and Craiova Power Plant sells energy at RON 229 per MWh (€54.5 per MWh).
- **Large investments needed to meet EU standards:** The three entities started the investment programs necessary to meet EU standards in 2007. Total required investments stand at €1.2bn and investments will continue for another three years. In the last 10 years, only 10% of installed power capacity in traditional plants has been modernized in Romania.

Catalysts

- Modernization and rehabilitation could increase the energy efficiency of the plants.
- Grid operator Transelectrica plans to develop more interconnection lines for Romania's energy system, thereby creating export opportunities.

Risks

- Regulated tariffs in the energy production sector.
- Outdated equipment needs high investments.
- Coal is not an environment-friendly fuel and the three power plants need to make large investments to bring their facilities in line with EU environmental legislation.

Valuation

We value the three power plants using a sum-of-the-parts (SOTP) valuation, which takes into account the rebuild cost of each generator. Our SOTP valuation includes the investments needed to comply with EU standards. Our valuations imply an average EV/EBITDA of 11 x and average P/B of 0.9x for 2009.

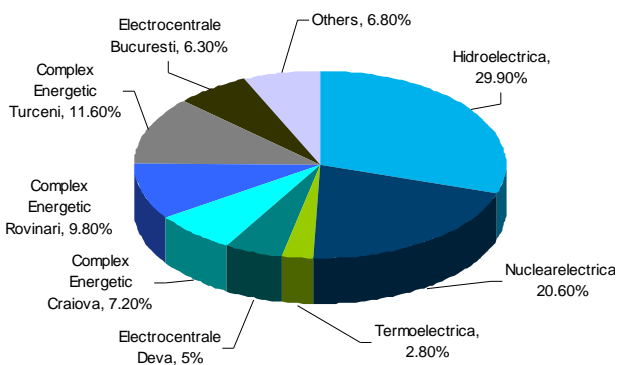
Coal-fired power plants: SOTP valuation

Company	Asset	Amount	Price per unit (US\$ m)	Value (US\$ m)	Total EV (US\$ m)	Net debt* (US\$ m)	Fair value of equity (US\$ m) (RON m)	
Turceni PP	Power generator	1.65 GW	0.50	833	833			
	Coal reserves	287mt	2.50	718	718			
	Total			1,551	1,551	-827	724	2,388
Rovinari PP	Power generator	1.32 GW	0.45	594	594			
	Coal reserves	324mt	1.11	360	360			
	Total			954	954	-628	326	1,075
Craiova PP	Power generator	0.93 GW	0.45	417	417			
	Coal reserves	7.5 mt	2.00	15	15			
	Total			432	432	-269	164	540

Source: KBC Securities estimates, Company data

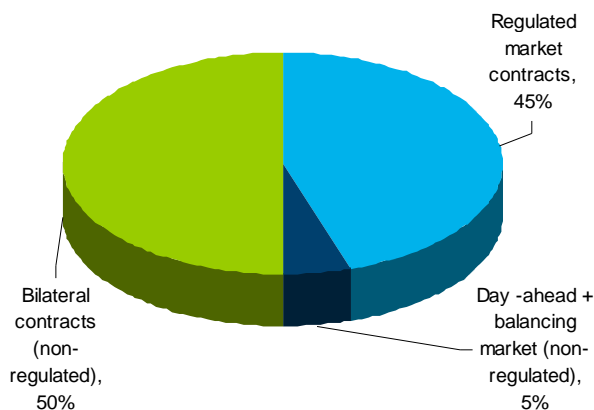
*including amounts to be spent for future investments

Electricity producers: 2009 market shares



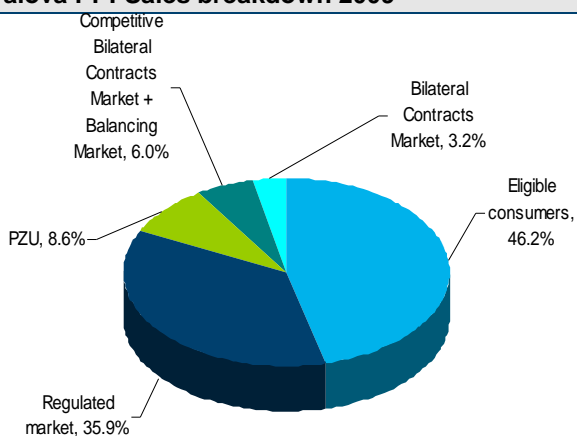
Source: Company data, KBC Securities

Turceni PP: Sales breakdown 2009



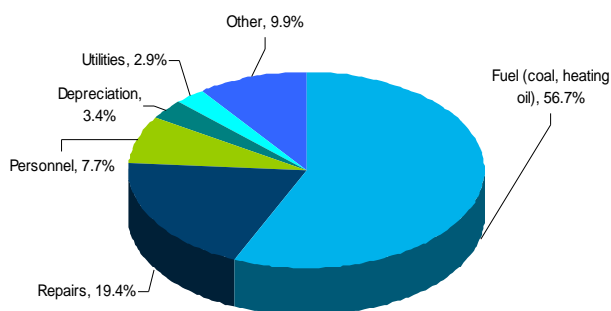
Source: Company data, KBC Securities

Craiova PP: Sales breakdown 2009



Source: Company data, KBC Securities

Rovinari PP: Structure of production costs 2009



Source: Company data, KBC Securities

Airports

	Henri Coanda Airport			Aurel Vlaicu Airport		
	2007	2008	2009	2007	2008	2009
Operating revenues (RON m)	282.1	318.9	328.6	39.6	77.1	103.9
EBITDA (RON m)	160.3	156.9	142.3	17.8	37.1	43.1
margin (%)	56.8%	49.2%	41.9%	44.8%	48.2%	41.5%
EBIT (RON m)	104.9	78.9	57.8	16.1	22.8	24.7
Net profit (RON m)	103.1	103.1	59.5	-10.8	-0.1	14.6
margin (%)	36.6%	32.3%	18.1%	-27.3%	-0.1%	14.0%
Fair value (RON m)	1,284.1			595.5		
EV/EBITDA (x)	8.3	8.4	9.2	33.4	15.8	13.1
P/Bk (x)	1.46	1.36	1.22	16.3	0.2	0.1
Number of passengers (m)	4.98	5.06	4.48	0.97	1.72	1.97

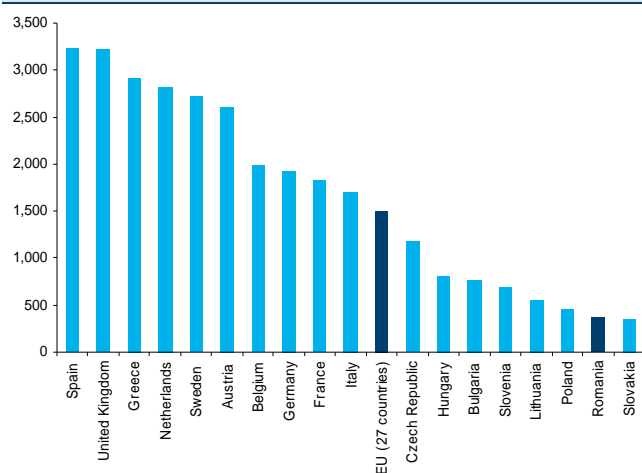
Source: Company data, KBC Securities

Investment case

Of Romania's 17 airports, four are part of Fondul Proprietatea's portfolio, the two biggest being the Bucharest-based airports Henri Coanda and Aurel Vlaicu. Henri Coanda is the largest international airport in Romania with roughly 4.5m passengers in 2009. Aurel Vlaicu is a low-cost airport also situated in Bucharest with approximately 2.0m passengers in 2009. As of 2009, the two airports in Bucharest – Henri Coanda and Aurel Vlaicu- merged into Compania Nationala Aeroporturi SA.

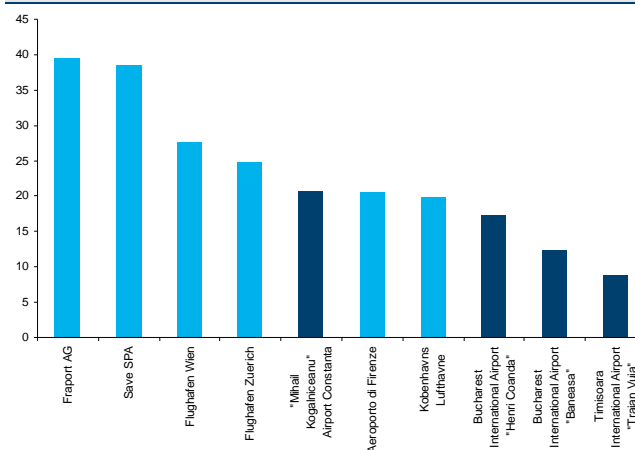
- **Number of passengers set to increase:** Romania currently has one of the lowest ratios of air passengers per inhabitant in the EU, with an average of 359 passengers/1,000 inhabitants in 2009 versus the EU average of 1,503 passengers/1,000 inhabitants.
- **Revenues per passenger should also increase:** The two main airports in Romania have a low level of operating revenues per passenger. Besides the forecast for an increase in air traffic, we believe the two Bucharest airports could derive additional revenues from connected services, which should drive the ratio of revenues per passenger more in line with the average of peers. This should create economies of scale and improve profitability margins at the two airports.
- **Significant investments at Henri Coanda Airport:** After investments of €60m carried out in the past two years, Henri Coanda International Airport is scheduled to open a second terminal in March 2011, which should increase total capacity from the current 4.5m passengers to 6.0m passengers until 2012. A more recent project is to move the low-cost flights currently handled by the smaller Aurel Vlaicu (Baneasa) airport to Henri Coanda by 2013, as the latter could be transformed into a specialized airport for business travel. This move could entail some additional investments for capacity expansion for Henri Coanda airport on some 650 ha for new hangars, terminals, a hotel and parking. The airport is currently working at full capacity, which leads us to believe that the increase in capacity should also lead to an increase in passenger numbers over the medium term, in line with the positive development of air traffic in Romania.

Number of passengers per 1,000 inhabitants



Source: Eurostat

Turnover per passenger at peer airports (€/pax)



Source: Bloomberg, KBC Securities

Catalysts

- Increase in air traffic in Romania as living standards increase.
- Higher revenues per passenger at the airports.
- Extension of airports through the construction of new terminals.
- Improved infrastructure for access to the airports.

Risks

- Decline in aviation industry on a global level due to the economic crisis.
- Costs of expansion and modernization of the airports.

Valuation

In order to value airports we employed a multiple-based approach by using EV/ no. of passengers ratio. The method values the Henri Coanda Airport's equity at RON 1,284m and the "Aurel Vlaicu" airport at RON 596m. The values imply a 2009 P/E of 21.7x for Henri Coanda and a P/E of 41.1x for Aurel Vlaicu. The EV/EBITDA multiples for 2009 stand at 9.0x and 13.2x, respectively.

Airports: Valuation based on EV/Number of passengers

Company	No of passengers(m)	Target EV/No of passengers (€/pax)	Resulting EV (€ m)	Resulting EV (RON m)	Net debt (RON m)	Fair value (RON m)
Bucharest International Airport "Henri Coanda"	4.50	78.27	299.40	1,266.46	-17.60	1,284.07
Bucharest International Airport "Baneasa"	2.00	78.27	133.07	562.87	-32.86	595.74
Timisoara International Airport "Traian Vuia"	0.89	78.27	59.21	250.48	4.31	246.17
"Mihail Kogalniceanu" Airport Constanta	0.09	78.27	6.19	26.17	-0.74	26.91

Source: KBC Securities estimates

Airports: Valuation based on EV/Number of passengers

Company	EV/No of passengers (€/pax)	Revenues / passenger (€/pax)	EBITDA margin (%)	EV/EBITDA
Fraport AG	89.6	39.5	28.8%	11.1
Aeroporto di Firenze	81.4	20.5	28.8%	11.5
Flughafen Wien	68.4	27.7	33.3%	9.2
Flughafen Zuerich	94.2	24.8	49.1%	8.3
Kobenhavns Lufthavne	86.5	19.9	52.0%	9.8
Save SPA	49.6	38.4	17.7%	8.0
AVERAGE	78.3	28.5	34.9%	9.7
Premium/Discount to peers				
Bucharest International Airport "Henri Coanda"	-15.0%	-39.4%	33.7%	-7.1%
Bucharest International Airport "Baneasa"	-15.0%	-56.9%	35.2%	36.4%
Timisoara International Airport "Traian Vuia"	-15.0%	-68.9%	-14.9%	113.5%
"Mihail Kogalniceanu" Airport Constanta	-15.0%	-27.5%	-41.5%	-5.3%

Source: KBC Securities estimates

Annex 3 – 2009 results for major unlisted companies

RON m										
Company	Net result	% (y/y)	EBIT	% (y/y)	EBITDA	% (y/y)	Sales	% (y/y)	Net debt	Total Assets
Electricity & gas distribution and supply										
Enel Distributie Muntenia S	280.1	26.9%	122.9	148.4%	225.8	50.3%	732.7	-49.1%	-1854.9	3,929.6
Electrica Distributie Transilvania N	14.0	-42.3%	21.1	-48.3%	111.7	20.2%	495.8	-2.3%	-58.3	1,471.5
Enel Distributie Banat	150.7	31.1%	140.3	31.2%	217.9	20.4%	526.4	3.9%	-400.2	1,633.3
Electrica Distributie Muntenia N	24.7	-67.7%	27.7	-71.2%	106.7	-34.7%	611.5	-0.5%	-103.8	1,677.1
Electrica Distributie Transilvania S	23.2	-14.3%	29.8	-12.7%	119.1	30.6%	539.2	2.6%	-38.1	1,447.5
Enel Distributie Dobrogea	92.1	44.7%	85.0	47.6%	141.5	27.5%	391.5	1.8%	-228.3	1,198.1
E.ON Distributie Moldova	53.6	97.2%	81.0	61.3%	163.3	50.9%	630.0	6.8%	15.1	1,649.8
GDF Suez Energy SA (Distrigaz Sud)	380.4	195.8%	446.7	199.5%	564.4	65.7%	3,628.8	-2.9%	294.8	3,792.5
E.ON Gaz Distributie SA	101.1	n.m.	126.8	n.m.	235.9	350.1%	724.5	5.8%	74.1	1,265.2
Enel Energie Muntenia S	22.0	-72%	n.a.	n.a.	n.a.	n.a.	1,919.5	182.5%	n.a.	757.9
Electrica Furnizare Transilvania N	0.6	-10.0%	11.0	278.3%	12.3	-22.2%	1,175.6	2.1%	-1.3	327.2
Electrica Furnizare Transilvania S	0.8	-91.5%	10.7	-36.5%	19.9	-30.1%	1,335.1	-1.4%	25.4	381.8
Electrica Furnizare Muntenia N	18.4	154.7%	32.0	97.4%	39.0	22.2%	1,326.2	3.5%	-7.1	392.5
E.ON Furnizare Moldova	-25.6	n.m.	-21.4	n.m.	-21.2	n.m.	1,456.7	-1.9%	-14.3	718.1
Enel Energie	-46.7	n.m.	-28.6	n.m.	-28.6	n.m.	1,849.6	1.8%	-159	644.9
E.ON Gaz Romania SA	141.7	224.6%	143.3	n.m.	143.5	n.m.	2,557.7	-13.9%	-12.8	1,093.5
Energy producers										
Complex Energetic Turceni	21.3	6.7%	30.2	-54.2%	238.4	26.8%	1,125.5	-12.2%	89.3	2,790.6
Complex Energetic Rovinari	5.6	442.5%	13.7	-2.5%	76.1	3.3%	845.4	-11.7%	157.5	1,633.1
Complex Energetic Craiova	0.3	-90.7%	-0.7	n.m.	75.5	2.6%	1,132.4	6.0%	131.6	1,581.2
Hidroelectrica SA	48.4	-25.7%	162.0	-21.6%	816.8	-3.9%	2,420.8	-0.9%	1,452.9	22,989.9
Romgaz	572.5	6.5%	716.9	-0.3%	1,292.0	12.8%	3,193.5	-2.6%	-1,143.9	9,060.4
Nuclearelectrica SA	49.4	-52.1%	325.3	1.5%	692.5	5.0%	1,526.7	5.1%	2,032.8	9,963.2
Airports										
Henri Coanda Airport (Bucharest)	59.5	-42.3%	57.8	-26.8%	142.3	-11.7%	304.5	2.7%	-17.6	1,694.3
Aurel Vlaicu Airport (Bucharest)	14.6	n.m.	24.7	46.1%	43.1	16.1%	91.2	33.6%	-32.9	5,967.5
Traian Vuia Airport (Timisoara)	3.5	-28.0%	5.7	-2.7%	12.2	14.7%	41.1	34.4%	4.3	91.3
Mihail Kogalniceanu Airport (Constanta)	0.1	-17.6%	0.1	-18.7%	2.9	11.8%	14.1	5.8%	-0.7	31.8

Source: KBC Securities estimates

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