

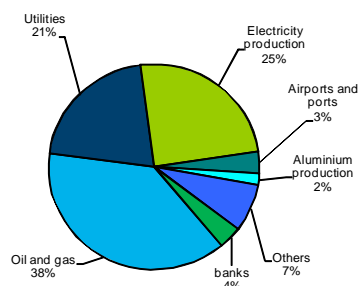
Fondul Proprietatea

09 December 2011

Financial holding

Romania

Reported NAV per share: RON 1.11



Current price* RON 0.43

Buy

Fair value RON 1.03

Rating maintained

Net asset value	Official NAV		Fair values	
	RON m	RON/share	RON m	RON/share
Listed shares	5,074	0.38	6,525	0.47
Unlisted shares	9,382	0.70	9,321	0.68
Cash	411	0.03	804	0.06
Total assets	14,999	1.12	16,650	1.21
Debt	41	0.00	-507	-0.04
Deferred taxes	14	0.00	-419	-0.03
NAV	14,945	1.11	15,724	1.14
Adjustments to NAV			-1,585	-0.12
Implied fair value			14,139	1.03
Closing price as of Dec 09, 2011			5,883	0.43
Upside (%)				139.5%

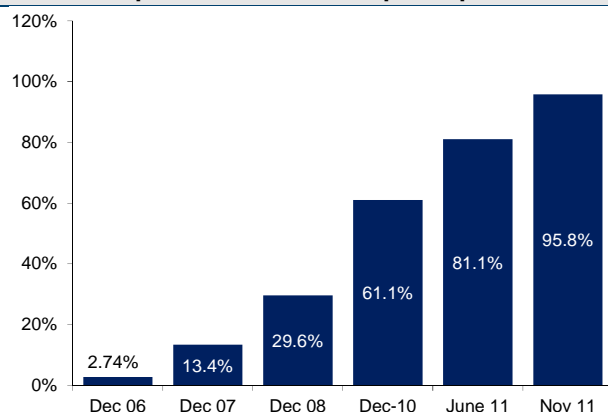
Source: KBC Securities

*priced at COB 09 Dec 2011

Buy rating maintained

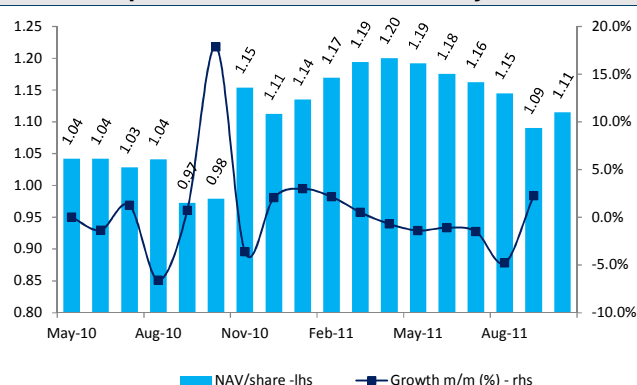
- **State ownership dropped significantly:** The fund's price has been on a downward trend recently, possibly due to an overhang from accelerated conversions of state owned shares into private hands. The state's ownership has come down from 38.9% in December 2010 to 4.2% in December 2011. We think that the selling pressure will decrease in the coming period as the process of conversion of claims into shares has ended.
- **High discount to NAV unjustified:** Fondul Proprietatea currently trades at a 61% discount to official NAV and a 60% discount to our estimated NAV. We see the discount as too high: the inefficiencies of firms in the portfolio have already been taken into account, while other issues that could potentially justify discounts like in the case of SIFs have been recently resolved (e.g. corporate governance, voting rights limitations, high operating expenses).
- **Full shareholding rights after last EGM:** The last EGM on 23 November 2011 has decided on lifting the voting rights limitations for the shareholders of the fund. Voting rights were previously progressively reduced as 1% ownership was exceeded for minority shareholders while the state had full voting rights. The change should allow a better involvement of shareholders in the life of the fund and should eliminate fears of corporate governance issues.
- **Significant listings expected:** The Romanian state plans to float minority stakes in the fund's most valuable companies in 2012, in accordance with the IMF agreement. The intermediary for the placements of 15% stakes in Transelectrica has been selected while the selection process for the intermediary to handle the sale of 15% in Transgaz and an IPO for a 15% stake in Romgaz is just taking place. IPOs of energy producers Hidroelectrica and Nuclearelectrica should follow. The listings should improve the liquidity of listed companies, while IPOs could solve some corporate governance issues as well as provide a reference price and an exit opportunity.
- **Hidroelectrica could show improved profitability:** According to official documents, the state has agreed with the IMF and EC to oblige Hidroelectrica to cancel its long term contracts signed at prices below the market reference. This should greatly improve the profitability of the company which is now being forced on some occasions to buy energy at high prices and sell it at low prices (e.g. in 2011 the company might show low profit due to adverse weather conditions which decrease production). While we expect this process to be rather gradual, we think that an improvement in the profitability should help in revealing the real value of the company which is the largest unlisted asset in the fund portfolio. The company's lack of profitability is, in our view, one of the reasons for the discount to NAV.
- **Potential exits from unlisted companies:** According to management, an exit from unlisted companies in the fund's portfolio is possible next year. The fund is looking to hire a consultant for an exit in one of the distributors of gas. The fund has a 12% participation in E.ON Gaz registered at RON 210m in the fund's balance sheet and a 12% participation in GDF Suez which is registered at RON 339m in the fund's balance sheet.
- **Dividend yield close to 10%:** The fund posted net profit of RON 535m for 9M11 versus a profit of RON 270m in 9M10. The increase in profit is due to higher dividends paid by companies in the Fund's portfolio (90% dividend distribution required for state owned companies) and the budget for next year points towards similar high dividend revenues and consequently also high profit (RON 442 budgeted). If the fund will pay 100% of its profit as dividends (according to the budget), the dividend yield will be 9.0%.

Fondul Proprietatea: Minorities participation



Source: Company data, KBC Securities

Fondul Proprietatea: Official NAV history



Source: Company disclosures, KBC Securities

Fondul Proprietatea: Dividends cashed-in

	2010 Profit	Div pay-out	2011 FP Net dividend	2010 FP Net dividend
OMV Petrom S.A.	2,190	46.0%	201.5	0.0
Hidroelectrica S.A.	292	90.0%	52.5	6.5
Romgaz S.A.	651	110.0%	106.0	87.8
Nuclearelectrica S.A.	13	0.0%	0.0	0.0
CE Turceni S.A.	-69	0.0%	0.0	0.0
Transgaz S.A.	376	90.0%	50.8	23.0
GDF Suez Energy Romania S.A.	148	0.0%	0.0	0.0
ENEL Distributie Muntenia S.A.	105	0.0%	0.0	0.0
CN Aeroporturi Bucuresti S.A.	55	90.0%	9.9	6.6
ENEL Distributie Banat S.A.	182	46.0%	20.2	0.0
CE Craiova S.A.	0	0.0%	0.0	0.1
CE Rovinari S.A.	1	0.0%	0.0	0.1
Alro S.A.	160	100.0%	13.5	11.2
BRD – Groupe Societe Generale S.A.	501	21.0%	2.1	0.0
Electrica Distributie Muntenia Nord S.A.	30	0.0%	0.0	0.0
E.ON Moldova Distributie S.A.	167	0.0%	0.0	0.0
ENEL Distributie Dobrogea S.A.	100	56.0%	13.5	0.0
Transelectrica S.A.	10	96.0%	1.2	0.5
Electrica Distributie Transilvania Sud S.A.	12	0.0%	0.0	0.0
Erste Group Bank AG	4,346	28.0%	3.3	N/A
Total	9,339			

Source: KBC Securities estimates, company data 2011

*priced at COB 09 Dec

Official NAV calculation

Fondul Proprietatea: Official NAV calculation – October 2011

	RONm	% of NAV	RON per share
Official NAV	15,359	100.0%	1.115
Split of NAV by type			
Listed shares	5,214	34.0%	0.378
Unlisted shares	9,642	62.8%	0.700
Cash and receivables	502	3.3%	0.036
Split of NAV by sector			
Cash and receivables	502	3.3%	0.036
Electricity production	5,297	34.5%	0.384
Oil&Gas	4,949	32.2%	0.359
Electricity distribution and transport	2,940	19.1%	0.213
Banks	524	3.4%	0.038
Infrastructure	455	3.0%	0.033
Aluminium	272	1.8%	0.020
Heavy industry	230	1.5%	0.017
Postal services	143	0.9%	0.010
Others	48	0.3%	0.003
Top holdings			
OMV Petrom SA	3,595	23.4%	0.261
Hidroelectrica SA	3,433	22.4%	0.249
Romgaz SA	1,255	8.2%	0.091
Nuclearelectrica SA	756	4.9%	0.055
Complexul Energetic Turceni SA	538	3.5%	0.039
Transgaz SA	401	2.6%	0.029
GDF Suez Energy Romania	349	2.3%	0.025
Enel Distributie Muntenia SA	347	2.3%	0.025
CN Aeroporturi Bucuresti SA	332	2.2%	0.024
ENEL Distributie Banat SA	326	2.1%	0.024
Others	4,029	26.2%	0.292
Current trading price	5,925		0.430
Discount of current trading price vs NAV			-61.4%

Source: KBC Securities estimates, company data

*priced at COB 09 Dec 2011

Annex 2 – Market news

Date	Event
November 2011	<p>An EGM that took place on 23 November at Fondul Proprietatea has approved the lifting of any voting restrictions in Fondul Proprietatea. Additional items on the agenda were the changes in the bylaws which allow administrator Franklin Templeton to decide regarding potential disposals and investments up to 20% of the assets, decrease in the share capital, voting for the budget and naming new auditor.</p>
November 2011	<p>According to a statement issued by Fondul Proprietatea, quoting a draft of Emergency Government Ordinance, the state wants to increase participation in the share capital of Nuclearelectrica (majority state owned nuclear power plant) with an amount of RON 1,442.5m which has been allocated from the state budget in the previous years for buying heavy water from Regia Autonoma pentru Activitati Nuclear, a state controlled company that produces this substance. According to Franklin Templeton, the administrator of the fund, this operation would lead to a dilution of the stake held by Fondul Proprietatea by RON 266m or a decrease of 1.8% in the NAV. According to the statement, Templeton will take legal actions to stop this process.</p>
November 2011	<p>According to Ziarul Financiar daily, quoting an official document released by the Ministry of Economy, the Romanian government held talks with IMF representatives regarding the state of Hidroelectrica's below-market-price contracts and regarding the sale of minority stakes in state-owned companies. According to the statement, Hidroelectrica should cancel all of its contracts signed below-market at the first possible term. This represents more than 66% of the entire energy produced by Hidroelectrica. In addition, the government will accelerate the sale of minority stakes in state-owned companies in Fondul Proprietatea's portfolio (i.e. Romgaz, Transelectrica, Transgaz, Hidroelectrica, Nuclearelectrica) and start the privatization of Oltechim and the remaining state-owned electricity distributors.</p>
October 2011	<p>Fondul Proprietatea has published on its website the budget for 2012, to be approved by the General Shareholders Meeting on 23 November. The company is planning to achieve in 2012 a net profit of RON 442.5m, double that which was budgeted for 2011. However, already at 6 months 2011, the fund has reported a net profit of RON 543.1m, which is more than double the budget for 2011. Additionally, at 9M2011, the company has disclosed a preliminary profit of RON 535.3m (according to the NAV statement for September). The main reason for the high profit this year is higher than expected dividend revenues registered in the first 6 months, with dividends from Petrom and Romgaz accounting for 60% of the total dividend revenues registered by the fund. Additionally, the Shareholders Meeting should vote on the possibility of the manager to sell up to 20% of the total assets value in one year without the consent of an EGM. Another change to be voted at the shareholders meeting concerns the payment of the administration commission by Templeton, from a yearly payment to a quarterly payment.</p>
August 2011	<p>According to a statement issued by Fondul Proprietatea, Franklin Templeton, the administrator of the fund, has decided to decrease the paid share capital of the fund from RON 13.78bn to RON 13.40bn. This is due to the fact that the state has not contributed to the share capital with shares worth RON 340.8m for Nuclearelectrica, RON 20.0m for Romarm and RON 11.7m for Electromecanica Ploiesti. The not-paid shares will be registered as "Subscribed unpaid share capital" and will be blocked until the situation is cleared. These shares represent approximately 2.7% of the fund shares.</p>
July 2011	<p>In a communique issued yesterday, Fondul Proprietatea manager Franklin Templeton Investments stated that it shall propose to the shareholders a secondary listing on the Warsaw Stock Exchange which could take place by 1Q2012. The listing should coincide with an offering of up to 10% of the existing Fund shares. The decision to propose a listing in Warsaw has been taken considering the benefits of increased visibility among international institutional investors, access from a broader investor base as well as broader coverage from international brokers. The statement also outlines that Fondul Proprietatea would be among top 15 largest companies on the WSE and listing costs are lower as compared to other markets considered such as London or Vienna. An EGM should be convened in August or September to decide on the listing, according to Bloomberg.</p>

May 2011	<p>According to news agency Mediafax quoting an official document, the Romanian government could impose a timeframe of up to 60 working days until compensations are resumed for those entitled to receive Fondul Proprietatea shares. The procedure to convert claims into the fund's shares was suspended between 11 January 2011 and 29 April 2011 to allow for the fund's listing. Conversion of claims resumed on 2 May 2011. According to the document, the 60-day term is justified to prevent a huge number of new shares entering the market and causing the price to collapse: from now on, the 60-day average price will be used to decide how many shares should be transferred to entitled owners. The document further argues that a lower share price would cause the state's ownership in the fund to decline too rapidly, which could endanger the compensation process. The National Agency for Property Restitution (ANRP) has received 1,450 requests for shares since conversion stopped in January and the agency estimates that some 1.5bn of shares now need to be transferred, or roughly 10% of Fondul Proprietatea's capital. ANRP said it had proposed an "extended timeframe" to the government in order to prevent distorting the capital markets, although the agency did not elaborate on the terms of the proposal.</p>
April 2011	<p>The requests of the Ministry of Finance regarding hiking the dividend from RON 0.01569/share to RON 0.03141/share as well as the election of a new member to the committee of representatives (the equivalent of a BoD in the fund's governance structure) have been approved in the AGM on 27 April 2011.</p>
April 2011	<p>The Romanian state could raise some € 2.2bn by listing a 36% stake in hydro power plant Hidroelectrica and some € 1.3bn from a 43% stake in nuclear power plant Nuclearelectrica, representatives of Fondul Proprietatea's manager Franklin Templeton stated at a press conference. Fondul Proprietatea is a minority shareholder in the two companies with a holding of 20% in Hidroelectrica and 10% in Nuclearelectrica. If the state decides to list the two companies Fondul Proprietatea's stakes would be diluted to 13% and 6% respectively, according to Mediafax sources.</p>
April 2011	<p>The EU Commission asked Romania to bring its national legislation on regulated end-user energy prices in line with EU rules, according to Mediafax news agency and a Bloomberg report. EU rules state prices are set primarily by supply and demand. The Commission will send "reasoned opinions" to Romanian authorities and if compliance with the legal obligations does not occur within two months, the Commission may take the case to the Court of Justice. The EU Commission targets both the electricity and the natural gas market in Romania.</p>
March 2011	<p>According to a communiqué published by the Index Committee of the Bucharest Stock Exchange, the shares of Fondul Proprietatea (FP) will be included in four exchange indices from 21 March 2011: the blue-chip BET and BET-XT indices, the composite BET-C index and the financial sector index BET-FI (alongside SIFs).</p>
January 2011	<p>According to various media sources, GDF Suez, Iberdrola and RWE intend to exit the project to build reactors 3 and 4 at Nuclearelectrica. The three groups claim current regulations in Romania are unfavourable for such an investment. However, the three groups said the project could be restarted at a later date. At the end of last year, CEZ also exited the project. As a result, the Romanian state now holds an 84.65% stake in the project, with Enel and ArcelorMittal holding the remaining shares.</p>
January 2011	<p>According to daily Ziarul Financiar quoting company representatives, state-owned gas producer Romgaz posted a 12% annual drop in preliminary net profit to RON 508.5m (€ 121m) for 2010, while revenues increased 6% y/y to RON 3,390m (€ 808.6m) for the year. In 2009, Romgaz sold some 6.2bn cubic metres of natural gas while the figure increased 4.8% y/y to 6.58bn cubic metres in 2010, supplied from both domestic production and imports. Romgaz reported a slight decline in domestic gas production in 2010, although the company estimates a 3% decline to 5.6bn cubic metres in 2011. Romgaz plans to invest some RON 900m (€ 214m) in 2011, with the funds directed primarily towards exploration works, revamping of mature gas wells and increasing gas storage capacities. Fondul Proprietatea holds a 15% stake in Romgaz.</p>

January 2011	<p>According to daily Ziarul Financiar, Fondul Proprietatea convened an EGM for the shareholders of natural gas producer Romgaz on 17 January 2011. The purpose of the EGM was to dismiss and take legal action against those board members who voted in favour of a RON 400m (€93m) donation to the state budget in November. Fondul Proprietatea lost some RON 60m (€ 14m) because the state chose to oblige Romgaz to make a donation instead of distributing a special dividend. Of the five members on Romgaz's board, three are state representatives. Franklin Templeton representatives said they are extremely concerned as the transfer has already occurred and they intend to make efforts to recover the funds.</p>
January 2011	<p>Franklin Templeton officials have stated their discontent about Hidroelectrica's decision to sell 1.7m MWh (10% of production) to ArcelorMittal Galati at a price of RON 130/MWh. Fondul Proprietatea's manager says this price is significantly lower than the average price of RON 170/MWh established on the OPCOM market. Templeton said it would take all necessary measures to protect minority rights in the case. The administrator believes this quantity should have been sold on the open market. Hidroelectrica's former CEO Mihai David said the Romanian state decided to sell this quantity to ArcelorMittal Galati as it wants to support Romania's metallurgical industry.</p>
January 2011	<p>Hidroelectrica's preliminary total revenues stood at RON 3.38bn (€ 0.8m, up 34% y/y) in 2010, according to board member and former CEO Mr Mihai David talking at a press conference on 5 January 2011. The state-owned electricity producer's pre-tax profit stood at RON 500m (€ 116.2m, up 663% y/y) in 2010. Total capital expenditures amounted to RON 1.46bn in 2010, the same level as 2009. Hidroelectrica's results can be attributed to higher energy production in 2010 (19.7 TWh, up 27% y/y) due to favourable weather conditions, as 2010 was a very good hydrological year. Hidroelectrica expects production at 15.5 TWh in 2011, close to what the company considers "normal" hydrological production. As a result, the company budgets revenues at RON 3bn (down 11.2% y/y) and pre-tax profit at RON 112m (down 77.6% y/y) in 2011. Capital expenditures are projected to increase 16% y/y to RON 1.7bn in 2011.</p>
December 2010	<p>According to a statement published on 16 December 2010, Fondul Proprietatea's NAV stood at RON 15.9bn (€ 3.7bn) in December, or RON 1.1541/share. The value is up 18% 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 stipulates that listed securities and money market instruments are valued at exchange closing prices as opposed to the 90-day weighted average price of the old regulation. Another important change is that shares that have not 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 (i.e. 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 the Bucharest Stock Exchange on 23 December 2010. The actual listing is expected to take place around 25 January 2011. According to Franklin Templeton's 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-day 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 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 5 August 2010, Fondul Proprietatea 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 of 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 profit, 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	<p>According to a communiqué issued by Fondul Proprietatea, the Chamber of Deputies approved amendments to Government Ordinance 81/2007 at the plenary session held on 23 June 2010. This will allow the cancellation of the state's unpaid shares (482m shares) and the distribution of dividends from 2008 and 2009 profit.</p>
June 2010	<p>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 in the privatization contracts. According to the article, the E.ON Moldova stake purchase is conditional on the payment of debt by the National Railway Company to E.ON Moldova.</p>
May 2010	<p>Fondul Proprietatea announced it has filed all the necessary documents with Romania's National Securities Commission (NSC) 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) will be published.</p>
March 2010	<p>The National Securities Commission issued Regulation no. 4 covering the registration, functioning and rules for the calculation of net asset value (NAV) for Fondul Proprietatea.</p>
February 2010	<p>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.</p>

Fondul Proprietatea

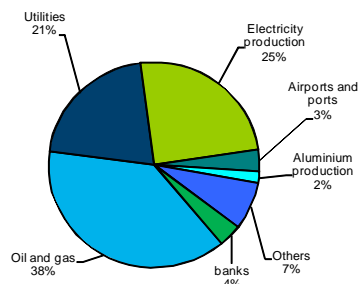
31 May 2011

Buy on weakness

Financial holding

Romania

Reported NAV per share: RON 1.20



Current price* RON 0.49

Buy

Fair value RON 1.03

Rating maintained

Net asset value	Official NAV		Fair values	
	RON m	RON/share	RON m	RON/share
Listed shares	6,724	0.49	6,525	0.47
Unlisted shares	9,217	0.67	9,321	0.68
Cash	804	0.06	804	0.06
Total assets	17,062	1.24	16,650	1.21
Debt	-507	-0.04	-507	-0.04
Deferred taxes	-14	0.00	-419	-0.03
NAV	16,540	1.20	15,724	1.14
Adjustments to NAV (see page 7)			-1,585	-0.12
Implied fair value			14,139	1.03
Closing price as of May 27, 2011			6,758	0.49
Upside (%)				109.2%

Source: KBC Securities

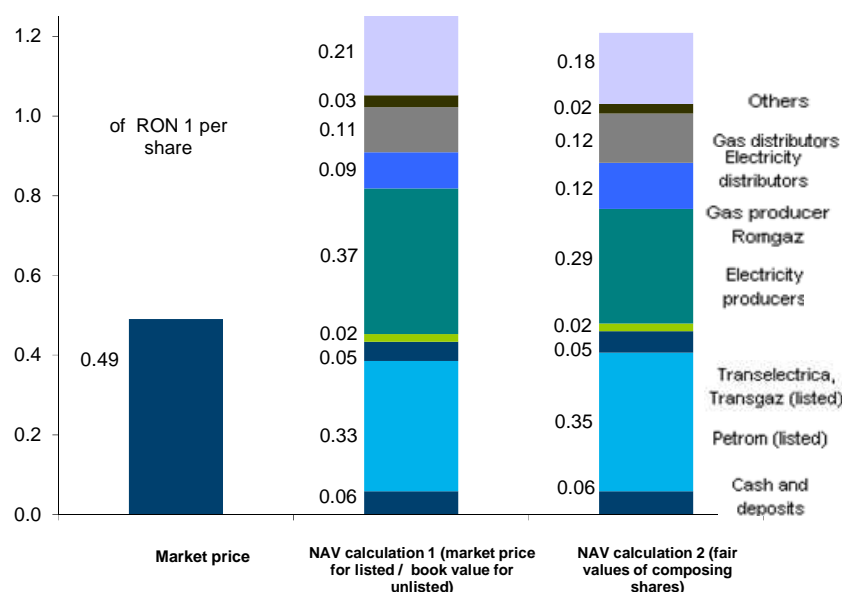
*priced at COB 27 May 2011

The fund's price has been dragged down recently by rising concerns about a potential overhang from newly issued shares. Despite this we see some positive signs, as we expect listings of the fund's stakes in energy companies such as Hidroelectrica, Nuclearelectrica and Romgaz to have a positive impact on NAV in 2011 and 2012. Also, the fund's manager has started to revamp the portfolio and is seeking further sector diversification. The fund's shares currently trade at a 59% discount to official NAV and a 57% discount to our estimate. Our fair value stands at RON 1.03 per share, implying 109.2% upside. We maintain our Buy rating on the stock.

Buy rating maintained

- **High discount to NAV unjustified:** Fondul Proprietatea currently trades at a 59% discount to official NAV and a 57% discount to our estimated NAV. We see the discount as too high: the inefficiencies of firms in the portfolio have already been taken into account, while other issues that could potentially justify discounts in the case of SIFs are either non-existent or close to being resolved (e.g. corporate governance, high operating expenses, voting rights limitations).
- **Selling pressure from new conversions provides buying opportunity:** The fund's share price has been under pressure and lost 25.3% since listing on 26 January 2011. We believe the selling activity was caused by concerns about a record number of shares (10.7% of capital) coming onto the market when compensations resumed on 2 May 2011. So far these fears have not been justified as the government decided to spread the conversion of claims received during the suspension period until the end of June 2011. Some 2% of the fund's capital has been converted since 2 May 2011.
- **Significant listings expected:** The Romanian state plans to float minority stakes in the fund's most valuable companies by 2012. The National Securities Commission has already approved the prospectus for the SPO of 9.8% in OMV Petrom, while offerings of 15% stakes in Transelectrica and Transgaz are also being prepared. An IPO for a 15% stake in Romgaz is scheduled for 2012 and 10% stakes in energy producers Hidroelectrica and Nuclearelectrica could follow. SPOs could improve the liquidity and increase the transparency of listed companies, while IPOs could solve some corporate governance issues as well as provide a reference price and an exit opportunity.
- **Full shareholding rights possible after state drops below 33%:** We expect the Romanian state's current 34.6% of shares in Fondul Proprietatea to drop below 33% by year-end 2011, reflecting the significant number of compensation claims that are likely to be approved in the months ahead. This should bring equal voting rights for all shareholders: voting rights are currently progressively reduced as 1% ownership is exceeded.
- **Dividend revenue to support bottom line:** The fund posted net profit of RON 14.1m for 1Q11 versus a loss of RON 23m in 1Q10. According to our calculations, the fund could receive up to RON 423.2m in dividends this year, which would ensure a profit similar to 2010 as long as no significant divestitures are made.
- **Rising exposure to banking sector:** Fondul Proprietatea's exposure to the banking sector is also gaining weight in the portfolio as the fund recently acquired shares in BRD, Raiffeisen and Erste Group. We view the move as positive in terms of both diversification and exposure to healthy banks.
- **Share repurchase program started:** The fund started its share repurchase program this month and bought back some 13.1m shares (1% of a maximum 1,378m shares) using some 5.5% of available funds (RON 120m in reserves). The acquired shares will be cancelled to reduce the share price discount to NAV.

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

State ownership in Fondul Proprietatea drops faster with new claim conversions

After a three-month pause that began shortly before the fund's listing on 26 January 2011, Fondul Proprietatea restarted claims conversions on 2 May 2011. Romania's National Authority for Property Restitution (ANRP) received claims amounting to some 1.5bn shares in the period. The state will grant shares to entitled owners at the average price of the last 60 trading sessions rather than the previous method of using the book value (RON 1/share). ANRP announced it has already fulfilled requests covering 296m shares (i.e. 2.15% of Fondul Proprietatea's shares). Although the deadline to resolve all requests was recently extended until the end of July 2011, the decline in state ownership has gained momentum and is already down to 34.6%. If the state's ownership falls below 33% shareholders would be able to change the current voting structure, which currently reduces voting rights progressively after a 1% threshold is attained and does not allow any voting rights for shares exceeding 5%. The number of compensation claims currently stands in the range of tens of thousands and it seems likely that the state's shares in the fund could be depleted faster than expected due to Fondul Proprietatea's currently significant discount to NAV. At present, the state's ownership is valued at only RON 2,500m (€ 600m). This suggests the state could soon find it difficult to bring additional contributions to the fund's capital in order to honour all compensation demands: according to media reports, only half of the current requests can be fulfilled with existing shares. So far, some 3,000 entitled owners have been compensated with 64% of Fondul Proprietatea's shares.

Listings of minority stakes of portfolio companies expected in 2011 and 2012

At the beginning of 2011, the Romanian state modified its plan to set up two integrated energy companies after a number of litigations instigated by workers' unions and Fondul Proprietatea. International lenders also declared their opposition to the plan. Alternatives are now being discussed by the Ministry of Economy, including the creation of two smaller companies by merging hardcoal and lignite mines with their beneficiaries – the coal-fired power plants Turceni, Rovinari and Craiova. Under this plan, electricity producers Hidroelectrica and Nuclearelectrica would not be included in the new entities although a minority stake in each would be sold on the stock market. This solution has been agreed with the IMF and the proceedings should start in 2012, when the IPO of gas producer Romgaz is also scheduled to take place. This could be good news for Fondul Proprietatea, as it would bring new reference market prices for the fund's portfolio holdings and increase the transparency of state-owned companies. There are also positive signals from private companies, as the Vimetco Group recently announced the launch of an SPO for 20% in aluminium producer Alro SA in which Fondul Proprietatea holds a 10% stake. The above-mentioned events would comply with the strategy announced by fund manager Franklin Templeton, namely to have as many of the fund's holdings listed on the stock exchange as possible.

Stable dividend inflow expected

According to data supplied by Fondul Proprietatea, the fund could receive dividend revenues amounting to RON 432m (€ 104m) this year. The fund has based this figure on the profit distribution proposals for the AGMs of firms in the portfolio. The largest amount (RON 202m/€ 49m, or 50% of all dividends) should come from OMV Petrom, whose shareholders have already approved the dividend distribution. The dividend from Transgaz is not yet certain as a new AGM was convened in June to discuss the possibility of reinvesting a higher proportion of earnings to fulfil current investment projects. There is also a question mark over Hidroelectrica: the firm posted a record pre-tax profit of RON 500m (€ 121m) for 2010 and Fondul Proprietatea holds a 20% stake.

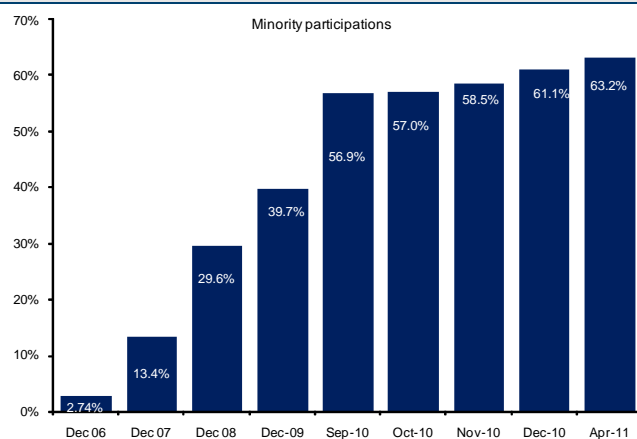
Fondul Proprietatea: Dividends expected from major holdings (as proposed in the AGM's)

RON m	Total	FP stake
Petrom profit	2,189.7	
<i>Petrom dividends</i>	<i>1,002.6</i>	<i>201.6</i>
BRD profit	533.0	
<i>BRD dividend</i>	<i>125.0</i>	<i>2.1</i>
Transelectrica profit	9.6	
<i>Transelectrica dividend</i>	<i>8.5</i>	<i>1.1</i>
Transgaz profit	376.4	
<i>Transgaz dividends</i>	<i>338.7</i>	<i>50.7</i>
<i>FP part from previous years' dividends</i>		<i>9.6</i>
Alro profit	159.8	
<i>Alro dividends</i>	<i>159.8</i>	<i>16.0</i>
Aeroporturi Bucuresti profit	52.8	
<i>Aeroporturi Bucuresti dividend</i>	<i>49.7</i>	<i>9.9</i>
Romgaz profit	651.2	
<i>Romgaz dividends</i>	<i>720.1</i>	<i>108.0</i>
Enel Banat Distributie profit	148.4	
<i>Enel Banat Distributie dividends</i>	<i>83.6</i>	<i>20.2</i>
Enel Distributie Dobrogea profit	99.6	
<i>Enel Distributie Dobrogea dividends</i>	<i>56.2</i>	<i>13.5</i>
Total dividends	2,544.2	432.9

Source: KBC Securities estimates, company data

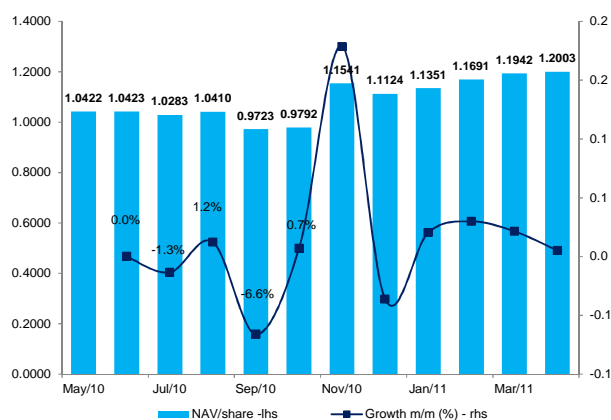
*priced at COB 27 May 2011

Fondul Proprietatea: Minorities participation



Source: Company data, KBC Securities

Fondul Proprietatea: Official NAV history



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 the contribution from Romgaz and adding to this the fund's net cash position.

Annex 1 – Fair value NAV

Fondul Proprietatea: NAV calculation (our fair values)				
	% owned	RON m	% of NAV	RON per share
Total cash		804	5.1%	0.058
Share portfolio		15,846	100.8%	1.150
Listed		6,525	41.5%	0.474
Petrom	20.1%	4,796	30.5%	0.348
Transgaz	15.0%	479	3.0%	0.035
Transelectrica Bucuresti	13.5%	254	1.6%	0.018
Alro Slatina	10.0%	272	1.7%	0.020
Oil Terminal	10.0%	15	0.1%	0.001
Azomures Targu Mures	8.8%	32	0.2%	0.002
BRD- Groupe Societe Generale	1.7%	200	1.3%	0.015
Erste Group Bank AG	0.3%	167	1.1%	0.012
Raiffeisen Bank International AV	0.4%	158	1.0%	0.012
Others		151	1.0%	0.011
Unlisted		9,321	59.3%	0.676
Hidroelectrica	19.9%	2,551	16.2%	0.185
Romgaz	15.0%	1,588	10.1%	0.115
Nuclearelectrica	9.7%	439	2.8%	0.032
Complexul Energetic Turceni	24.8%	592	3.8%	0.043
Aeroportul International Henri Coanda**	20.0%	257	1.6%	0.019
Aeroportul International Bucuresti Baneasa**	20.0%	119	0.8%	0.009
Distrigaz Sud	12.0%	232	1.5%	0.017
E.ON Gaz Distributie	12.0%	97	0.6%	0.007
E.ON Moldova Distributie	22.0%	253	1.6%	0.018
E.ON Gaz Romania	13.4%	96	0.6%	0.007
ENEL Electrica Dobrogea Distributie	24.1%	217	1.4%	0.016
Electrica Transilvania Sud Distributie	22.0%	190	1.2%	0.014
ENEL Electrica Banat Distributie	24.1%	331	2.1%	0.024
Electrica Muntenia Nord Distributie	22.0%	214	1.4%	0.016
Electrica Transilvania Nord Distributie	22.0%	195	1.2%	0.014
Enel Distributie Muntenia SA	12.0%	307	2.0%	0.022
Posta Romana	25.0%	203	1.3%	0.015
Complexul Energetic Craiova	24.4%	132	0.8%	0.010
Complexul Energetic Rovinari	23.6%	254	1.6%	0.018
Others		1,054	6.7%	0.076
Total assets		16,650	105.9%	1.208
Debt		-507	-3.2%	-0.037
Deferred taxes (RONm)		-419	-2.7%	-0.030
Estimated NAV (RONm)		15,724	100.0%	1.141

Source: KBC Securities estimates, company data

*priced at COB 27 May 2011

Fondul Proprietatea: Valuation summary (RON) □	
Portfolio value	15,845.5
- Fair discount applied	-1,584.6
+ Cash	804.2
- Debt	-507.4
- Deferred taxes	-418.8
Implied fair value	14,139.0
Number of shares (m)	13,778.4
Implied fair value per share (RON)	1.03
Current estimated trading price	0.49
Upside (%)	109.2%

Source: KBC Securities

Annex 3 – Valuation of companies

A. Electricity producers

Hidroelectrica

Company data						
Hydro energy producer		FY Dec 31	2008	2009	2010	2011F
		Operating revenues (RON m)	2,608.2	2,466.2	3,287.1	3,019.5
CAPACITY	6,335 MW	EBITDA (RON m)	849.8	816.8	1,377.0	1,409.4
Energy produced in 2009	20,479 GWh	margin (%)	32.6%	33.1%	41.9%	46.7%
Energy supplied in 2010	22,567 GWh	EBIT (RON m)	206.6	162.0	502.8	713.2
Utilization ratio (2009)	36.9%	Net profit (RON m)	65.1	48.4	292.4	500.8
		margin (%)	2.7%	2.0%	8.89%	17.0%
Fair value (RON m)	12,791.3	P/E (x)	196.4	264.4	43.8	25.5
		EV/EBITDA (x)	16.1	17.4	10.6	10.1
Shareholders structure:		P/Bk (x)	0.92	0.77	0.77	0.77
Economy Ministry	80.05%	P/S (x)	4.90	5.19	3.9	4.24
Fondul Proprietatea	19.95%	Dividends paid (RON m)	13.0	14.5	262.5	450.8
		Pay-out ratio (%)	20.0%	30.0%	90.00%	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.

- **State to sell 15% in Hidroelectrica:** Part of the IMF agreement, the state has agreed to sell some 15% stake in Hidroelectrica. This comes after the merger of electricity producers into Hidroenergetica and Energa has been blocked by lawsuits from labour unions and Fondul Proprietatea.
- **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 rose 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.
- **2010 profit 670% higher y/y:** Hidroelectrica's pre-tax profit stood at RON 500m in 2010 versus RON 65m obtained in full-year 2009. No detailed financials have been published yet. This demonstrates the firm's very high sensitivity to the price of energy sold. We estimate that a 10% increase in prices took place in 2010 leading 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 Tarnita 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).

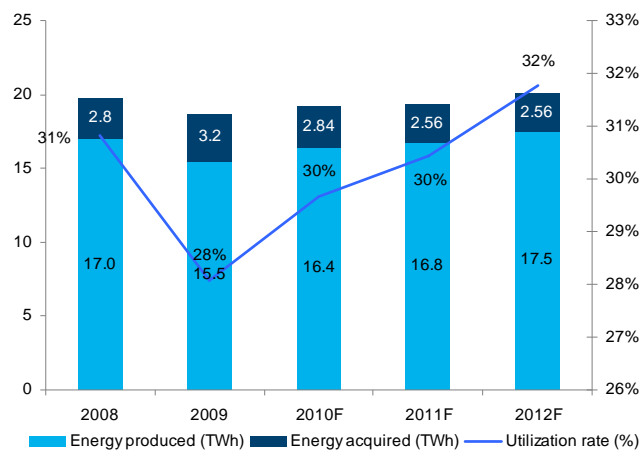
Risks

- 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

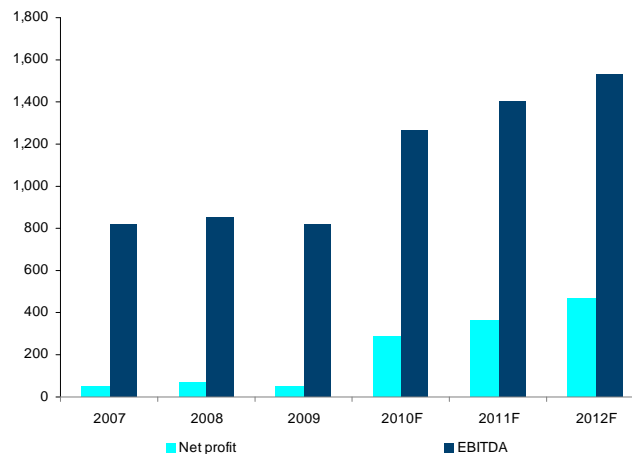
- Our sum-of-the-parts (SOTP) valuation puts Hidroelectrica's value at RON 14,185m, while our discounted cash flow (DCF) model suggests a value of RON 12,791m. (We use the latter in our NAV calculation for Fondul Proprietatea.) This puts Hidroelectrica at a 2011F EV/EBITDA of 10.1x, which implies a 21.2% 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



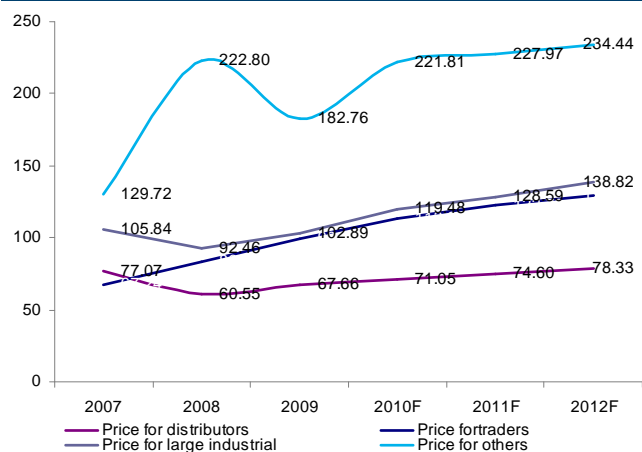
Source: company data, KBC Securities

Hidroelectrica: EBITDA and Net profit forecast



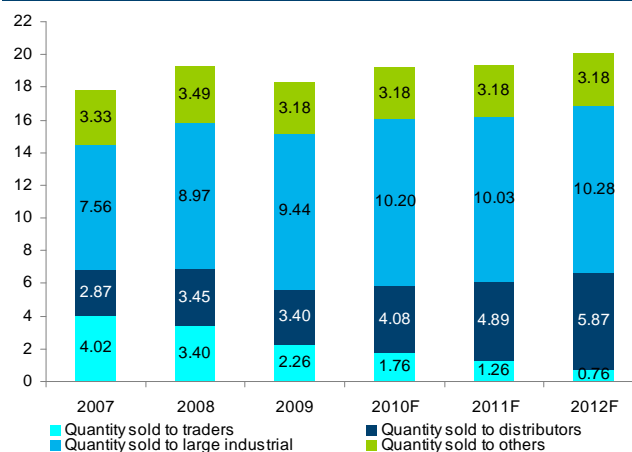
Source: company data, KBC Securities

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	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
EBIT	713.2	857.7	943.4	1,009.5	1,070.0	1,112.8	1,146.2	1,180.6	1,216.0
growth (%)	38.5%	20.2%	10.0%	7.0%	6.0%	4.0%	3.0%	3.0%	3.0%
Tax on EBIT	114.1	137.2	150.9	161.5	171.2	178.1	183.4	188.9	194.6
NOPLAT	599.1	720.4	792.5	847.9	898.8	934.8	962.8	991.7	1,021.4
Depreciation	712.3	740.8	770.4	801.2	833.3	866.6	901.3	937.3	974.8
Gross Cash Flow	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	-80.0	-50.0	-30.0	-20.0	-20.0	-20.0	-20.0	-20.0	-20.0
CAPEX	-985.0	-902.0	-850.0	-841.3	-875.0	-866.6	-901.3	-937.3	-974.8
Gross investments	-1,065.0	-952.0	-880.0	-861.3	-895.0	-886.6	-921.3	-957.3	-994.8
Free Cash Flow	246.4	509.2	682.9	787.9	837.2	914.8	942.8	971.7	1,001.4
PV of Free Cash Flow	246.4	465.7	571.1	602.6	585.5	585.1	551.5	519.8	489.9
Sum of PV of FCF (2011-19)	4,617.5								
PV of terminal value	9,626.6								
Enterprise value	14,244.2								
Net debt	1,452.9								
Equity value	12,791.3								

Source: KBC Securities estimates

Hidroelectrica: DCF assumptions

WACC calculation	For 2011-19	Term. value	Terminal value calculation		RON m
Risk-free rate	6.2%	5.0%	FCFF/(WACC-g)	LT WACC is 7.7%, LT growth is 2.5%	19,680
Beta	100.0%	100.0%	PV of terminal value	Using WACC of 9.3% to discount	9,627
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

Nuclearelectrica

Company data						
Nuclear energy producer		FY Dec 31	2008	2009	2010	2011F
		Sales (RON m)	1,451.9	1,526.7	1514.7	1,640.7
Capacity (MW)	1,412	EBITDA (RON m)	659.3	692.6	560.4	772.0
Energy produced in 2010 (MWh m)	11.6	margin (%)	44.1%	43.0%	37.0%	44.8%
Utilization ratio (2010)	96%	EBIT (RON m)	320.5	325.3	179.3	379.01
		Net profit (RON m)	103.0	49.4	16.1	243.59
Fair value (RON m)	4,512.2	margin (%)	7.1%	3.2%	1.1%	14.1%
		P/E (x)	43.8	91.4	280.4	18.5
Shareholders structure:		EV/EBITDA (x)	9.9	9.5	11.7	8.5
Economy Ministry	90.3%	P/Bk (x)	0.65	0.62	0.6	0.60
Fondul Proprietatea	9.7%	P/S (x)	2.8	2.6	3.0	2.5
		Pay-out ratio	0%	0%	90%	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 Hidroelectrica:** 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 Hidroelectrica. 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 Nuclearelectrica as majority shareholder (51%). Original stakeholders included major energy players such as CEZ, ENEL, Iberdrola, GDF Suez, RWE and ArcelorMittal Romania but recently, four of them (CEZ, RWE, Iberdrola, GDF Suez) decided to exit the project and sell their stakes to state-owned Nuclearelectrica. The state's holding in EnergoNuclear could thus reach some 84.7%. According to various state representatives, the project shall not be abandoned and the strategy that will be pursued is to attract new investors as the state cannot finance such a significant participation in the project. The construction phase of the third and fourth reactors was estimated to begin in 2018, with a significant delay as compared with the original plan (2016) and the total investment would reach € 4bn.

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.

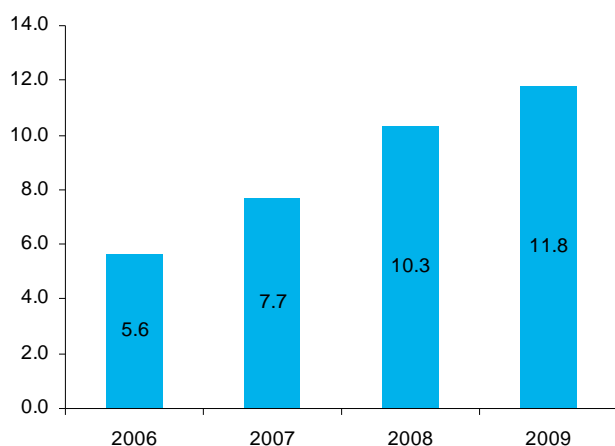
Risks

- 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

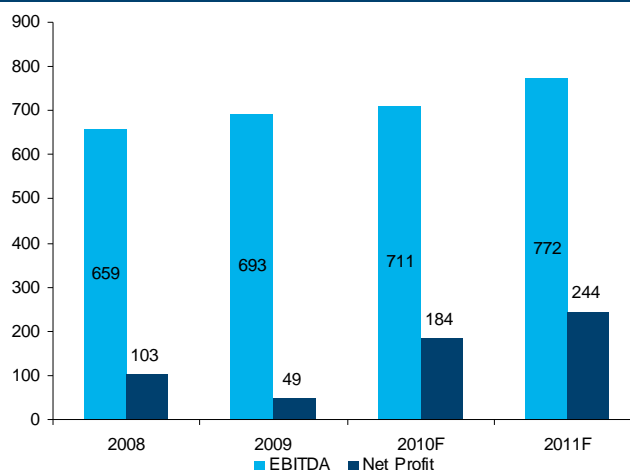
- Our discounted cash flow (DCF) model puts a value of RON 4,512.2m on Nuclearelectrica. This value implies a 2011 EV/EBITDA of 8.5x which implies 1.7% premium to peers.

Nuclearelectrica: Electricity production (MWh m)



Source: Nuclearelectrica, KBC Securities

Nuclearelectrica: EBITDA and Net profit forecast



Source: Nuclearelectrica, KBC Securities

Nuclearelectrica: Two-stage FCFF valuation

RON m, unless stated otherwise	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
EBIT	379.0	406.4	414.6	422.8	431.3	465.8	498.4	523.3	549.5
Tax on EBIT	60.6	65.0	66.3	67.7	69.0	74.5	79.7	83.7	87.9
NOPLAT	318.4	341.4	348.2	355.2	362.3	391.3	418.7	439.6	461.6
Depreciation	397.7	417.6	438.5	460.4	483.4	507.6	533.0	559.6	587.6
Gross cash flow	716.1	759.0	786.7	815.6	845.7	898.9	951.6	999.2	1,049.2
Change in working capital	40.0	30.0	20.0	20.0	-10.0	-10.0	-10.0	-10.0	-10.0
Capital expenditures	-477.2	-480.2	-482.3	-506.4	-483.4	-507.6	-533.0	-559.6	-587.6
Free cash flow	278.8	308.8	324.4	329.2	352.3	381.3	408.7	429.6	451.6
PV of free cash flow	278.8	283.2	272.9	253.9	249.3	247.4	243.2	234.5	226.1
Sum of PV of FCF (2011-19)	2,289.4								
PV of terminal value	4,255.6								
Enterprise value	6,545.0								
Net debt	2,032.8								
Equity value	4,512.2								

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%
Beta	100.0%	100.0%	PV of terminal value	Using WACC of 9% to discount
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 producers: Multiple-based comparison

	EV/EBITDA**			P/E**			P/B**		
	2009	2010E	2011F	2009	2010E	2011F	2009	2010E	2011F
RUSHYDRO-CLS	5.50	8.13	5.87	9.24	40.94	10.11	0.76	0.93	n/a
OGK 2 CLS	11.77	n/a	6.70	27.43	26.78	8.13	0.80	n/a	0.95
MOSENERGO-CLS	9.47	5.80	3.68	78.44	14.72	9.70	0.70	0.66	0.50
CENTRENERGO	n/a	21.54	11.54	n/a	93.00	18.65	1.95	2.72	2.64
DNIPROENERGO	130.40	n/a	7.48	n/a	41.65	13.68	2.20	n/a	2.51
ELEKTRIZITAT. LAUFENBURG	8.26	11.02	8.05	15.53	77.77	11.66	1.39	0.99	0.93
BORALEX INC -CL 'A'	11.23	15.82	8.38	23.66	24.03	84.56	1.08	0.89	0.89
ENERGIEDIENST HOLDING AG	9.05	7.74	9.00	15.92	14.60	16.10	1.63	1.47	1.66
OEST ELEKTRIZITATSWIRTS	n/a	n/a	14.22	n/a	n/a	30.19	4.52	11.45	4.75
RAETIA ENERGIE AG-PC	5.19	9.94	8.45	9.87	21.05	40.06	0.43	0.81	0.57
Total Average	26.53	11.68	8.32	28.37	41.69	22.53	1.67	2.73	1.85
Hidroelectrica	17.44	11.87	10.11	264.4	36.4	25.5	0.77	0.77	0.77
Premium/discount vs. peers	-26.9%	3.9%	21.2%	927.7%	-7.7%	5.2%	-50.0%	-69.0%	-55.1%
Nuclearelectrica	9.45	9.21	8.48	91.4	24.5	18.5	0.62	0.62	0.60
Premium/discount vs. peers	-60.4%	-19.4%	1.7%	255.3%	-37.7%	-23.7%	-59.8%	-75.1%	-64.9%

Source: KBC Securities, Bloomberg

*Multiples are based on IBES estimates

**Priced at 27 May 2011 closing prices

Coal-fired power plants: Turceni, Rovinari and Craiova

Company data									
	Turceni Power Plant			Rovinari Power Plant			Craiova Power Plan		
	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
<i>Weight of revenues from regulated market</i>			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.

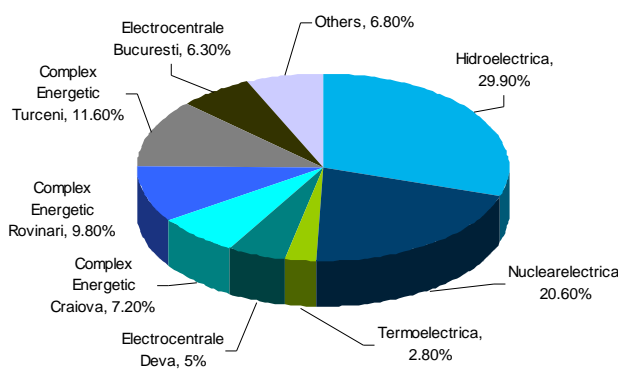
Coal-fired power plants: SOTP valuation

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

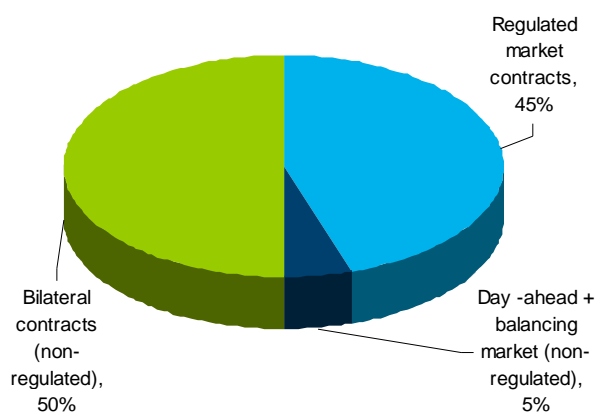
*including amounts to be spent for future investments

Electricity producers: 2009 market shares



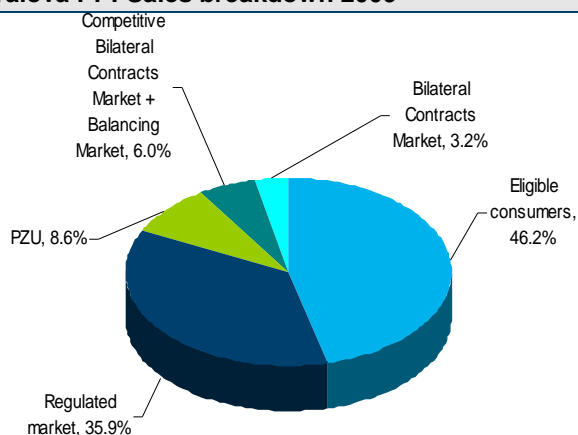
Source: Company data, KBC Securities

Turceni PP: Sales breakdown 2009



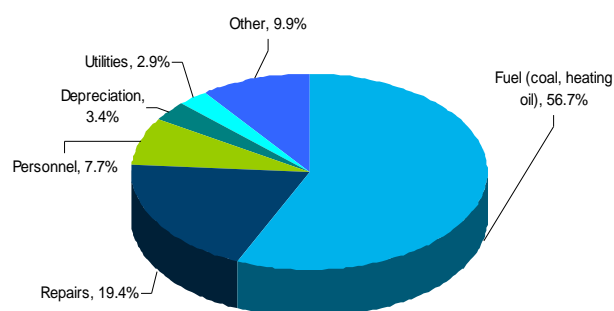
Source: Company data, KBC Securities

Craiova PP: Sales breakdown 2009



Source: Company data, KBC Securities

Rovinari PP: Structure of production costs 2009



Source: Company data, KBC Securities

B. Oil and gas producers

Petrom

Company data						
Oil&Gas producer in Romania		FY Dec 31	2009	2010	2011F	2012F
Crude oil reserves (m. boe)	595.0	Operating revenues (RONm)	16,090.0	18,616.0	22,424.0	22,264.0
Natural gas reserves (m. boe)	396.0	EBITDA (RONm)	4087.0	5797.0	7733.0	7550.0
Gas distribution network (km)	803	margin (%)	25.4%	31.1%	34.5%	33.9%
Gas stations	813	EBIT (RONm)	1620.0	2986.0	4760.0	4426.0
2 Refineries	97kbpd and 124kbpd	Net profit (RONm)	860.0	2201.0	3643.0	3549.0
Fuel storages	540,000 cm storage	margin (%)	5.3%	11.8%	16.2%	15.9%
Shareholders structure:		P/E (x)	26.3	10.3	6.2	6.4
		EV/EBITDA (x)	6.2	4.3	3.3	3.2
	OMV	P/Bk (x)	1.40	1.22	1.02	0.88
	Economy Ministry	P/S (x)	1.40	1.21	1.01	1.02
	Fondul Proprietatea	Dividends paid-out (RONm)	0.0	1,003.0	0.0	0.0
Free-float	8.24%	Pay-out ratio (%)	0.0%	45.6%	0.0%	0.0%

Source: Company data, KBC Securities

Investment case

Petrom is the largest oil and gas producer in Romania. Petrom has 832 mn boe proved reserves, produces 4.6m t of crude oil and NGL and 5.2bcm of gas. The company has integrated refining capacity and 813 filling stations.

- **Potential free float increase:** The Romanian government has approved the sale of a 9.8% stake in Petrom via the stock exchange. Despite the share overhang risk the move would lower the trading liquidity discount on the stock.
- **Brazi CCGT improves profitability:** Petrom is scheduled to inaugurate its 860MW CCGT at the Petrobrazi refinery in 2011. The power plant is expected to lower the energy costs of refining (up to 1.2 US\$/bbl), create stable consumption for the gas produced by E&P (up to 20% of production) and improve the pressure in the gas pipeline system, which limits flows in the summer period.
- **Stagnating hydrocarbon production beyond 2010:** Due to a very mature reserve base we believe Petrom will be unable to boost its production volumes beyond 2010 as the Mamu, Delta and Komsomolskoe fields reach their production plateau.
- **Mining tax regime to deteriorate beyond 2013:** Petrom pays a flat 9% royalty on its hydrocarbon production (fixed until 2013), which is highly favourable in an international comparison. We see an increasing risk of domestic price liberalization prompting the Romanian government to strengthen its tax policy on Petrom.
- **Capacity rationalization in refining:** OMV initiated the reduction of Petrom's refining capacities at Petrobrazi (from 6.0mtpa to 4.2mtpa) and offered to close Petrom's Arpechim unit. The closure of Arpechim had a positive impact on Petrom's margins in 1Q11 and we expect to see further profitability improvements from this side in the rest of 2011.

Investment case

- **Gas market regulation hurts profits:** Romanian domestic gas prices have remained at RON 495/mcm in the last two years, which is 60% below the current import price. Delays in market liberalization, increasing import quotas (40% in 1Q11) as well as the latest ANRE order obliging the companies to use import gas also for internal consumption, have cut deeply into gas trading margins and will have a negative impact on the profitability of the Brazi power plant, which is planned to start operations in 2H11.
- **Fairly valued:** A 2011F EV/EBITDA of 3.3x puts Petrom at a 34% discount to CEE peers. In our view the discount is warranted as Petrom appears to be slow in unlocking value from R&M restructuring and faces a decline in crude production.

Catalysts

- The prospective liberalization of Romania's gas market.
- Start of Brazi power plant.
- Potential exports of gas to neighbouring countries at higher prices.

Risks

- Risks of delays in liberalization of prices.
- Falling production.

Valuation

- Our DCF model puts the value of Petrom at RON 23,847m or RON 0.42 per share.

Romgaz

Company data					
Gas producer in Romania		FY Dec 31	2008	2009	2010
Estimated reserves (m. boe)	544.0	Sales (RON m)	3,280.20	3,193.50	3,574.21
Gas sold in 2009 (m c/m)	5,617	EBITDA (RON m)	1,958.6	1,990.4	2,049.5
		margin (%)	34.90%	62.33%	57.34%
		EBIT (RON m)	719.2	716.9	905.6
Fair value (RON m)	10,591	Net profit (RON m)	537.3	572.5	651.2
		margin (%)	16.40%	17.90%	18.22%
Shareholders structure:		P/E (x)	19.7	18.5	16.3
Economy Ministry	85.0%	EV/EBITDA (x)	8.4	7.6	
Fondul Proprietatea	15.0%	EV/EBITDA adj for development quota	4.8	4.7	4.7
		P/Bk (x)	1.4	1.3	1.3
		P/S (x)	3.2	3.3	3.0
		Dividend pay-out (%)	50.8%	51.2%	90.0%

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.

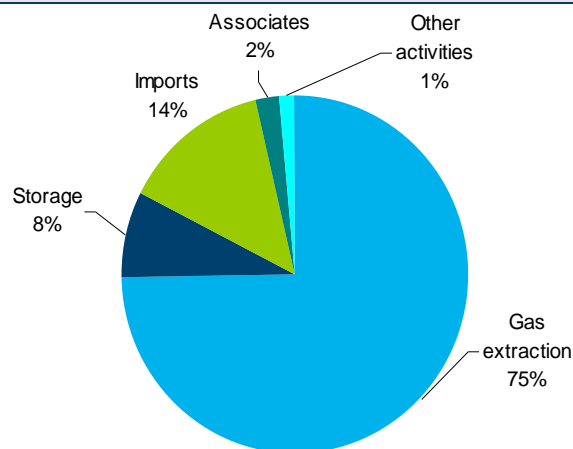
Risks

- 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

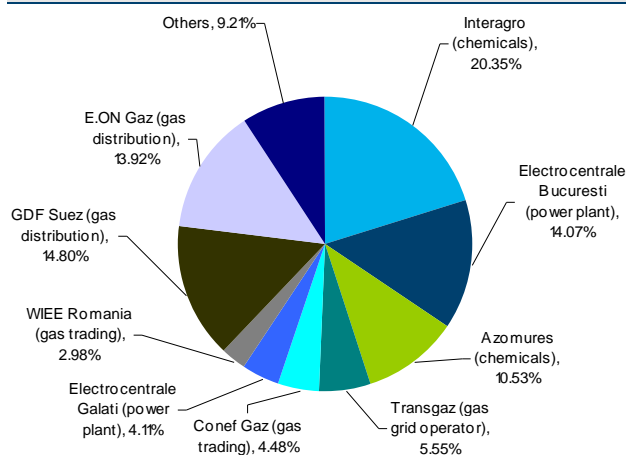
- Our sum-of-the-parts (SOTP) valuation puts Romgaz's value at RON 10,591m. This value implies a 2009 EV/EBITDA of 7.6x and a 2009 P/B of 1.3x.

Romgaz: Revenues breakdown



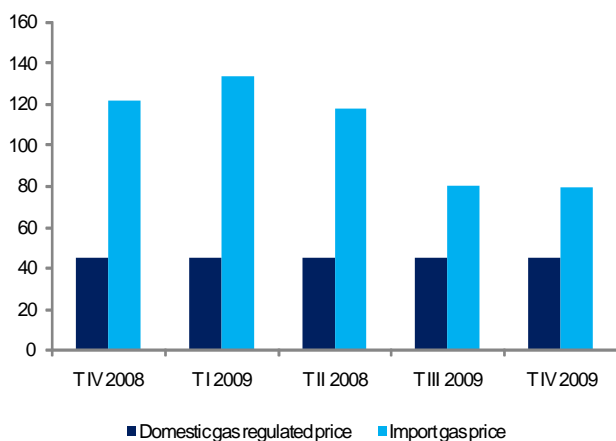
Source: company data, KBC Securities

Romgaz: split of revenues by customers



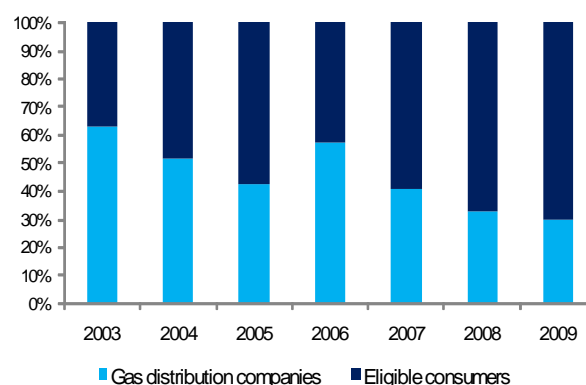
Source: company data, KBC Securities

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

C. Electricity and gas transmission

Transelectrica

Company data					
National Power Grid Operator		FY Dec 31	2010	2011F	2012F
Quantity of electricity transported in 2010	55.24	Sales (RON m)	2683.2	2299.8	2454.8
		EBITDA (RON m)	455.6	577.7	648.7
		margin (%)	17.0%	25.1%	26.4%
Fair value (RON m)	1,883.9	EBIT (RON m)	188.4	297.8	340.7
		Net profit (RON m)	104.0	249.0	257.5
Shareholders structure:		margin (%)	3.9%	10.8%	10.5%
		P/E (x)	14.93	6.23	6.03
Economy Ministry	73.7%	EV/EBITDA (x)	6.03	5.14	4.77
Fondul Proprietatea	13.5%	P/Bk (x)	0.77	0.77	0.73
Free float	12.8%	P/S (x)	0.58	0.67	0.63
		Dividend pay-out (%)	8%	41%	47%

Source: Company data, KBC Securities

Investment case

Romania's Transelectrica is the state-owned power grid operator. The company has its tariffs regulated by ANRE in accordance with the revenue cap methodology. The profit of the company is established by using the formula Profit = RAB (Regulated Asset Base) x RR (Regulated rate of return).

- **Consumption to pick-up:** We think that the electricity volumes in Romania are likely to continue their upward trend in 2011 and will be able to gain more momentum. This should be boosted by growing demand from local consumers as the economy should recover from recession as well as cross-border consumption as new demand is coming from foreign players (in the first quarter of the year, exports grew 292.9% y/y).
- **Recent tariff increase:** In 2010, the company has been given a higher tariff by the ANRE (+10%). The increase in tariff together with the increase in consumption has already been seen in 1Q10 profits which grew 219.3% y/y to RON 160.9m.
- **Potential sale of a package from the state:** As part of the IMF agreement, the state needs to sell a package of 15% in Transelectrica. The sale is to take place in 2011. While the sale could put pressure on the price of the company, we think that it is already priced in and that the improving financials should lead to a better result.

- **Connection fees to increase going forward:** Under IFRS, the company has reported in 2010 additional revenues from connecting additional users to the system. We think that additional connection revenues could be booked under IFRS as well.
- **Potential dividend play:** If the level of profitability is to stay as high as currently, we expect the company could report a 2011 dividend of RON 1.4 per share which implied a dividend yield of 6.5%.

Investment case

- **Trading at a discount to peers:** On a 2012F EV/EBITDA of 4.8x, Transelectrica trades at 43% below the median of peer companies. We see some of the discount justified by the higher risks coming from regulatory and potential sale of the package from the state but we see the current discount as being too high.

Catalysts

- Improved consumption for 2011 and further on to boosts the company's revenues and profitability.
- Increased exports to help boost the margins of the company.
- Potential increase in regulated rate of return.

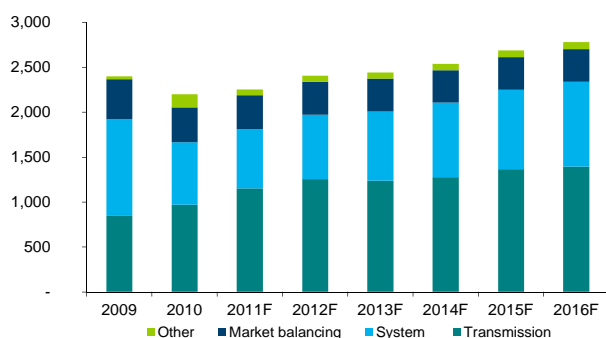
Risks

- The company is exposed to regulatory risk stemming from the fact that its tariffs are being set by ANRE.
- A potential drop in consumption could lead to lower profitability.

Valuation

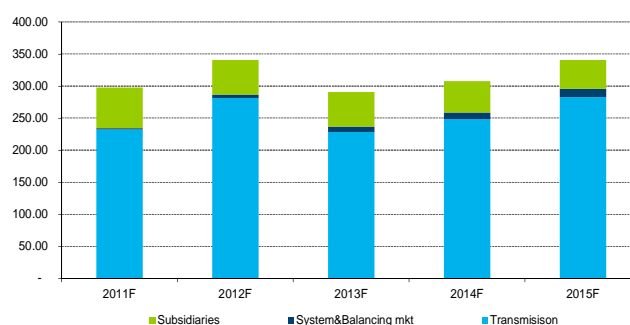
- Our DCF valuation model puts the fair value of the company at RON 27.28 per share while our DDM valuation model results in a value of RON 24.13 per share. Our fair value is calculated as an average of the two, respectively RON 25.7 per share.

Transelectrica: Revenues breakdown (RON m)



Source: Transelectrica, KBC Securities estimates

Transelectrica: EBIT forecast (RON m)



Source: Transelectrica, KBC Securities estimates

Consensus versus KBC forecasts

(RON m)	2011F			2012F			2013F		
	Consensus	KBC	Difference (%)	Consensus	KBC	Difference (%)	Consensus	KBC	Difference (%)
Total revenues	2,734.3	2,299.8	-15.9%	2,918.0	2,454.8	-15.9%	3,059.0	2,492.5	-18.5%
EBITDA	441.6	577.7	30.8%	501.9	648.7	29.3%	519.6	625.0	20.3%
EBIT	159.9	297.8	86.3%	204.9	340.7	66.3%	244.7	290.7	18.8%
Net result	112.2	249.0	122.0%	151.3	257.5	70.2%	192.0	183.6	-4.4%

Source: KBC Securities estimates; Bloomberg

Transgaz

Company data

Operator of the gas network in

Romania

		FY Dec 31	2010	2011F	2012F
Quantity of gas transported in 2010	544.0	Operating revenues (RONm)	1,356.4	1,459.7	1,548.8
		EBITDA (RONm)	578.9	612.7	637.3
		margin (%)	42.7%	42.0%	41.1%
Fair value (RON m)	3,200.1	EBIT (RONm)	443.7	380.2	395.9
		Net profit (RONm)	376.4	309.5	326.0
		margin (%)	27.7%	21.2%	21.0%
Shareholders structure:		P/E (x)	7.9	9.6	9.1
Economy Ministry	73.5%	EV/EBITDA (x)	5.1	5.2	4.9
Fondul Proprietatea	15.0%	P/Bk (x)	1.06	1.01	0.96
Others	11.5%	P/S (x)	2.19	2.03	1.92
		Dividends paid-out (RONm)	n/a	154.80	179.30
		Pay-out ratio (%)	n/a	50.0%	55.0%

Source: Company data, KBC Securities

Investment case

Romania's Transgaz is the operator of the national gas transmission system as well as transit pipelines operator. For the transmission side of the business, Transgaz has its revenues regulated by ANRE which is establishing tariffs based on a formula which divides revenues to the quantity of electricity estimated to be transported during the year. For the transit side of the business, revenues have been established through direct negotiations with clients (Gazprom and Bulgargaz).

- **Tariff could be increased in July 2011:** After ANRE having postponed Transgaz's tariff increase over the last 2 years, the company might receive a higher tariff this year. The hike in tariff should cover revenues not realized in the past 2 years which amount to approximately RON 94m. These revenues should be recovered if ANRE will actually decide on granting Transgaz a tariff increase this summer.
- **Expense cuts:** Transgaz has to keep expenses down (e.g. third party, maintenance). This is in line with the strategy also for other state-owned companies after cuts in the budgetary sector. While we doubt this could lead to an actual cut in expenses, we think it is likely at least to keep costs from rising significantly.
- **Dividend play:** Despite the recent refusal of the state regarding the proposal of Transgaz to pay dividends of 90% of its profit, we still think that the high profitability of the company could lead to high dividend yields in the future. We expect the dividend yield to reach 6.0% in 2012. The status of the current dividend is not yet known, with the possibility of Transgaz of still paying a dividend depending on the state's decision.

- **Low debt profile compared to peers:** Transgaz is much less indebted versus its foreign peers which should allow the company to further expand its investment program and to boost its profitability. The company has a net debt to EBITDA level of 0.34x in 2011.
- **1Q11 results in line with market consensus:** Transgaz's 1Q2011 net profit came in at RON 194.9m, up 3% y/y and 111.6% q/q. The result was in line with our forecast of RON 186.1m and slightly above market consensus.
- **Trading at a discount to peers:** On a 2011 EV/EBITDA of 5.2x, the company trades at an 42.4% discount to foreign peers. While some of the discount is justified by a higher risk profile of Transgaz due to possibility of ANRE cutting costs, we view the current discount as too high.

Catalysts

- Potential increase in tariffs in July 2011.
- Start of the Nabucco project.
- Investments to lead to lower costs.

Risks

- Regulatory risk as ANRE has postponed several times a sufficient increase in tariffs such as to cover costs.
- Uncertainty regarding dividends this year.

Valuation

- Our fair value of RON 271.8 per share is the average of our DCF model result (RON 266.1 per share) and DDM model result (RON 277.5 per share).

Utilities companies: Multiple-based comparison

	EV/EBITDA**			P/E**			P/B**		
	2010	2011F	2012F	2010	2011F	2012F	2010	2011F	2012F
Elia	10.2	9.5	10.1	8.5	15.0	15.5	0.8	0.8	0.8
Terna	10.3	9.7	9.4	16.1	15.9	17.0	2.6	2.6	2.6
Snam Rete Gas	9.6	9.1	8.6	12.9	12.5	12.1	2.1	2.0	1.9
Red Electrica de Espana	n.a.	n.a.	n.a.	12.6	10.9	10.1	3.0	2.7	2.4
Enagas	8.4	7.7	7.1	11.0	10.2	9.7	2.1	1.9	1.8
Average	9.6	9.0	8.8	12.2	12.9	12.9	2.1	2.0	1.9
Transelectrica	6.0	5.1	4.8	14.9	6.2	6.0	0.8	0.8	0.7
Transgaz	5.1	5.2	4.9	7.9	9.6	9.1	1.1	1.0	1.0
Premium/discount to peers									
Transelectrica	-37.3%	-43.3%	-45.9%	22.5%	-51.8%	-53.2%	-63.7%	-61.5%	-61.5%
Transgaz	-47.1%	-42.4%	-44.9%	-35.3%	-25.7%	-29.2%	-49.9%	-49.7%	-49.4%

Source: KBC Securities, Bloomberg

*Multiples are based on IBES estimates

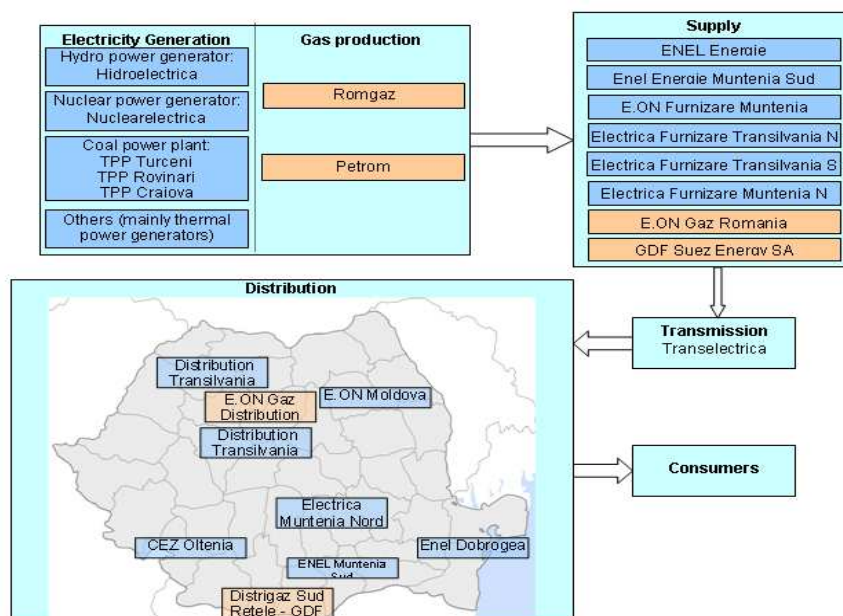
**Priced at 27 May 2011 closing prices

D. 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

Investment case

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)	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	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

E. 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

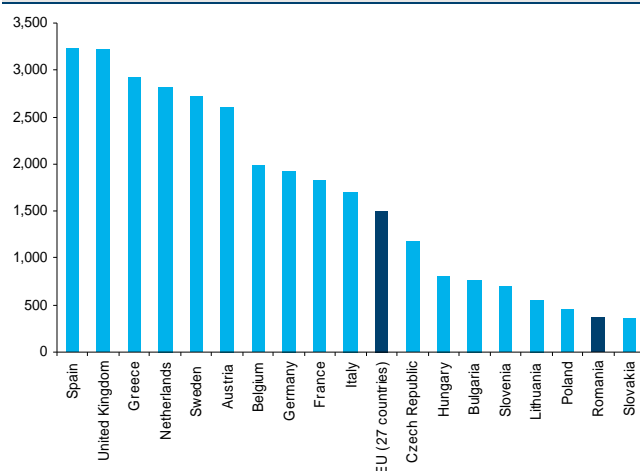
Source: Company data, KBC Securities

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.

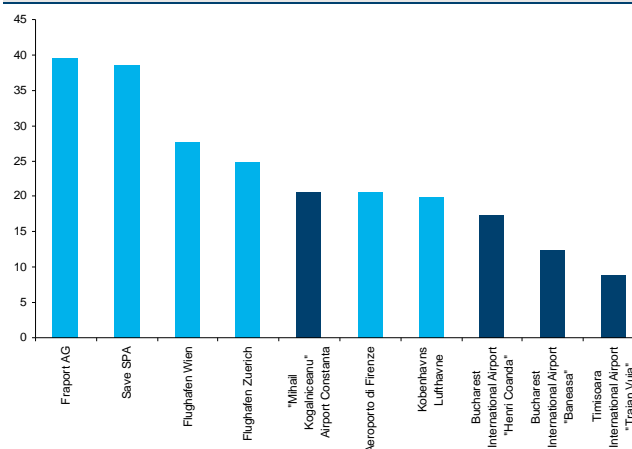
- **Number of passengers set to increase:** Romania currently has one of the lowest ratios of air passengers per inhabitant in the EU, with an average of 359 passengers/1,000 inhabitants in 2009 versus the EU average of 1,503 passengers/1,000 inhabitants.
- **Revenues per passenger should also increase:** 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
Bucharest International Airport "Henri Coanda"	66.5	17.3	46.7%	8.96
Bucharest International Airport "Baneasa"	66.5	12.3	47.2%	13.16
Timisoara International Airport "Traian Vuia"	66.5	8.8	29.7%	20.61
"Mihail Kogalniceanu" Airport Constanta	66.5	20.6	20.4%	9.14
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 4 – 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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