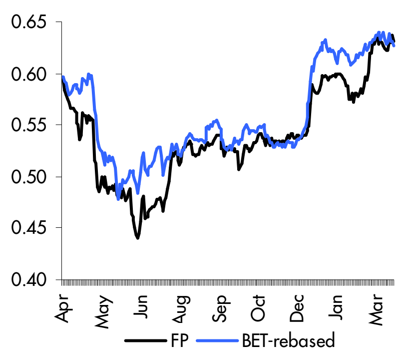
Company Update
Fondul Proprietatea

April 02, 2013 **Closed-end Investment Funds/Romania**

Buy

Price 01.04.13	0.64
Price target	0.89
Volatility risk	High
Year high/low	0.44/0.64
Currency	RON
RON/EUR	4.41
GDR rate	n.a.
Shares outstanding eoy	13,172.3
Market capitalisation (total shares) in EUR mn	1,944.73
Free float	100%
Free float in EUR mn	1,944.73
Avg. daily turnover (6m) in EUR mn	2.92
Index	n.a.
ISIN code	ROFPTAACNOR5
Bloomberg	FP RO
Reuters	FP.BX
www.fondulproprietatea.ro	



Source: Raiffeisen Capital&Investment

2013 can only be better

Over the past year, FP shares yielded around 12% (including the dividend) despite the scare from mid-2012 when Hidroelectrica entered insolvency. Investors' sentiment improved as the positives of the restructuring measures undertaken by Hidroelectrica emerged and as the main stake, OMV Petrom, rallied. We see some of the political risk to have abated as the new government has a strong parliamentary majority. One indication that the government is so far committed to reform and to comply with IMF requirements is the fact that the liberalization of the power and gas prices has eventually started after years of delay. This boosts the values of the energy and gas producers in FP's portfolio. Furthermore, the government initiated the procedures for the listing/privatization of Electrica Furnizare, CE Oltenia, Nuclearelectrica and Posta Romana (all from FP portfolio). These listings should help to lower the discount to NAV. As IMF has been one of the strongest allies of the FP manager so far, we thus find the possibility of Romania not extending its agreement with IMF worrisome.

While there were high hopes in 2012 regarding the secondary listing, the buy-back and the restructuring of the state owned companies, with the exception of Hidroelectrica, ironically, the year was a disappointment. We expect the knots to be untied this year. Beginning of March 2013 FP announced that it has won an important legal battle which allows it to start the repurchase program in a few days. If all 8% of its shares will be bought at the current price, the NAV per share would be boosted by around 4.5%.

Valuation and recommendation: We employ a Sum-Of-The-Parts (SOTP) valuation to assess the NAV. Listed shares are marked to market while for the non-listed shares we apply different valuation methodologies, such as simplified DCFs models or peers valuation. We attach a price tag of RON 14.5 bn to FP's shares portfolio which translates into an NAV of RON 15.2 bn. The higher value is mainly due to the appreciation of OMV Petrom's share price plus a higher valuation for Romgaz (and a lower cost of equity compared to the previous update, a tide which lifts all boats) and an increased value attached to gas and power utilities, mainly with the rise in peers' trading multiples. Our NAV per share stands now at RON 1.15. The discount to our NAV is around 44% which we deem as excessive as the current price values the unlisted part of the portfolio at 17% of our estimate. The fair value and the corresponding TP are obtained by applying a set of discounts. While the discount for the listed shares and cash is left at 15%, we decided to hike the percentage applied for the unlisted stakes from 25% to 30%. We get a fair value of RON 11.7 bn and a TP of RON 0.89 (cum dividend), 5% above the previous value. Consequently, we maintain our "buy" recommendation for FP shares.

Key figures

	RON mn	*EUR mn*
Portfolio	14,500.5	3,284.1
- Listed	6,376.5	1,444.2
- Not-Listed	8,124.0	1,839.9
Debt adj. for deferred taxes	102.8	23.3
Cash	769.6	174.3
NAV	15,167.3	3,435.1
NAV per share (RON/EUR)	1.15	0.26
Current price (RON/EUR)	0.640	0.145
Discount to NAV (%)	-44%	-44%
Current fair value	11,658.2	2,640.4
Target price (RON/EUR)	0.89	0.20

Source: Raiffeisen Capital&Investment estimates; Prices as of April 2, 2013, 6:30 CET+1

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Investment case

Discount to NAV remains excessive at around 44%

Since our update in early April 2012, FP shares have yielded around 12%, more than half of this due to the dividend paid. The performance could be viewed as decent considering the scare from the middle of 2012 when Hidroelectrica entered insolvency. Investors returned to the stock as they started to price in the positives of the restructuring measures undertaken by Hidroelectrica under insolvency and as the main stake, OMV Petrom, rallied. The discount to our NAV did not change too much, standing now at a hefty 44% according to our computations. While we consider that FP shares should carry a significant discount given its exposure to Romanian political risk through the large equity interest in state owned companies, we view the current discount as excessive as the current price implicitly values the unlisted part of the portfolio at 17% of our conservative, we believe, estimate.

There were high hopes at the beginning of 2012 with regard to listing and restructuring of state owned companies, but as the year unfolded, disappointment set in. Ironically, Hidroelectrica's restructuring under insolvency could be considered as a bright spot. The main reason for the slow progress on this front was in our opinion the fact that 2012 was an election year and a tumultuous one from a political point of view. The political risk has somewhat abated as the new government has parliamentary majority. Plus it seems committed to reform and to comply with IMF requirements, as proven by the liberalization of the gas and energy prices which has eventually started after years of delay (and which boosts the values of the gas and energy producers in FP portfolio). Furthermore, the government started the procedures for the listing/privatization of Electrica Furnizare, Nuclearelectrica, CE Oltenia and Posta Romana (all from FP portfolio). As IMF has been one of the strongest allies of the FP manager so far, we find the possibility of Romania not extending its agreement with IMF worrisome.

FP could be viewed also as a dividend play

In the current environment where investors are searching for yield, FP shares are among the most attractive on the Romanian market, given its predictable dividend policy. The current 2012 dividend yield is standing at around 6.4% and we expect a modest decrease in 2013 yield, with the 10% decrease of Petrom's dividends which account for almost 50% of FP's total dividend income. The dividend appeal of FP shares is enhanced now by the decrease in Romania's long term sovereign yields.

Given the discount to NAV, the buy-back will boost NAV per share

After being delayed for almost nine months, the buy-back program for 8% of its shares is about to be launched. FP has recently won a legal case against Mrs. Sfiraiala which was the reason for the postponement in launching the program. As long as FP will buy back its shares at a discount to NAV, the program will boost the NAV per share. If all 8% of its shares will be bought at a discount of 44%, the NAV per share will be boosted by around 4.5%.

Valuation

We assess FP's NAV the same way, based on a Sum-of-the Parts (SOTP) valuation, starting with the end-December portfolio. Listed shares are marked to market and for the unlisted portfolio we apply different valuation methodologies. We apply simplified DCFs for some, such as energy producers, including Hidroelectrica, and comparative valuation for other. For the power and gas distributors and suppliers we used to apply a valuation based on the regulated assets base but as the start of the third regulatory period has been delayed with one year (until 2014) and due to the monopoly tax, which is unclear whether it would be recognized in revenues or not, we decided to use only a comparative valuation.

We get an NAV per share of RON 1.15, up 8% compared to our previous update

Thus, we assign a value of RON 14.5 bn to FP's shares portfolio, 9% larger compared with the previous one of RON 13.3 bn, mainly because of higher values attached to OMV Petrom (higher share price) and Romgaz (liberalization of gas prices and higher estimates for reserves). With a net cash position of RON 753 mn and accounting for the deferred tax liability, this corresponds to a NAV of RON 15.2 bn and translates into a NAV per share of RON 1.15.

Fondul Proprietatea valuation table

	RON mn	***EUR mn***
Portfolio	14,500	3,284
- Listed	6,377	1,444
- Not-Listed	8,124	1,840
Debt adj. for deferred taxes	103	23
Cash	770	174
NAV	15,167	3,435
NAV per share (RON/EUR)	1.15	0.26
Current price (RON/EUR)	0.64	0.14
Discount to NAV (%)	-44%	-44%
Discount for listed shares and cash	15%	15%
Discount for not-listed shares	30%	30%
Value of discounted portfolio	11,107	2,515
Net cash	667	151.0
Current fair value	11,658	2,640.4
Target price (RON/EUR)	0.89	0.20

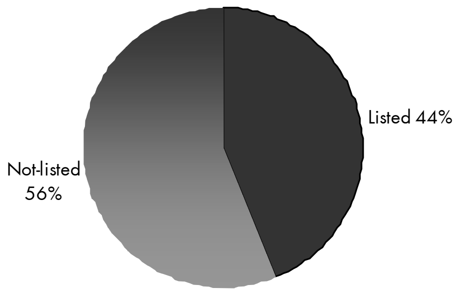
Source: Raiffeisen Capital&Investment estimates; Prices as of April 2, 2013, 6:30 CET+1

After the sale of the stake in Azomures and lowered exposure on Austrian banks, no major change in portfolio structure

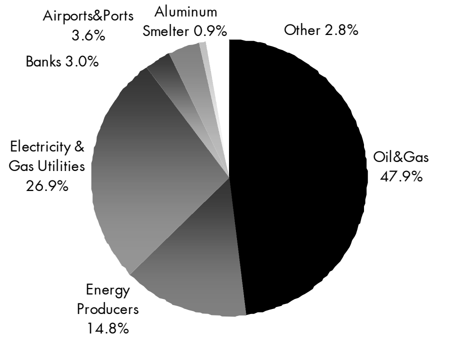
The composition of FP's portfolio has changed only slightly in the second half of 2012. The fund has stopped buying shares (since it expected the start of the buy-back program) and divested three main stakes. It sold its entire holding of fertilizers producer Azomures and significantly reduced its exposure to the two Austrian banks, Erste Group and Raiffeisen Bank International in 3Q 12. The gains from the sale of the stake in Azomures have been almost entirely wiped out by losses from the sale of the stakes in the two Austrian banks.

The weight of listed shares decreased at around 42% of its portfolio, from 45% in our previous update. While OMV Petrom (SNP) share rallied, other stakes like Transgaz (TGN), BRD-GSG, Transelectrica (TEL) and Alro (ALR) underperformed. SNP is by far the largest stake in FP's portfolio with a weight of 35%. Top 5 listed shares, i.e. SNP, TGN, BRD-GSG, ALR and TEL account for 41% of the total portfolio. Among the unlisted stakes, the largest is according to our valuation Romgaz, followed by Hidroelectrica. Despite being in insolvency, we still attach a hefty value to Hidroelectrica, though 33% below the previous one, due to lower production values and weaker financial standing. The group of gas and electricity suppliers and distributors account for 23% of FP's portfolio.

Portfolio Structure: Listed vs. Not-Listed*



Portfolio Structure by Sector*



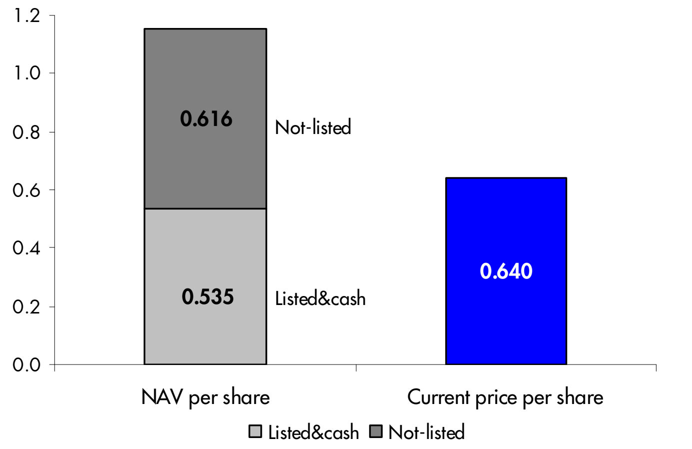
Source: Raiffeisen Capital&Investment estimates

** based on Raiffeisen Capital&Investment valuation*

Market discount for unlisted portfolio remains huge

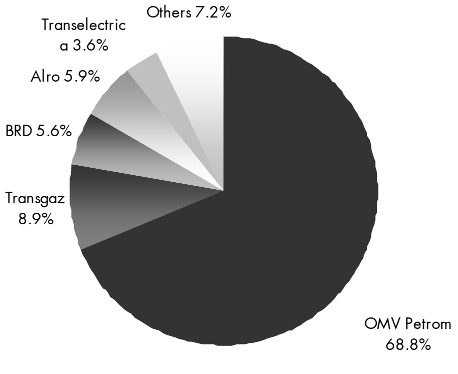
FP's current capitalization is only 20% above the value of its listed stakes portfolio plus the net cash position (or NAV excluding non-listed shares) and has fluctuated around it since the listing. Assuming a fair discount of 15% for the listed portion plus cash, it results that the market is attaching only a value of RON 0.184 per share for the unlisted shares portion, implying a huge discount of 70% for these stakes. It goes without saying the beneficial impact on FP's share price if more unlisted companies will be floated.

NAV per share versus price per share



Source: Company, Raiffeisen Capital&Investment estimates

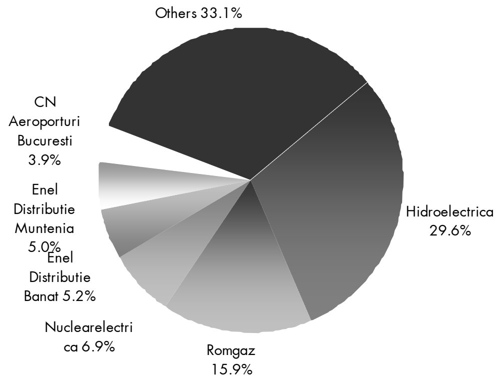
Listed Portfolio Structure



Source: Raiffeisen Capital&Investment estimates

** based on Raiffeisen Capital&Investment valuation*

Not-Listed Portfolio Structure*



Source: Raiffeisen Capital&Investment estimates

Listed shares are marked-to-market

Listed companies: The stakes in listed companies are valued based on the closing prices from March 29. Companies whose shares have not been traded for past 90 days are discounted by 50%.

Valuation of FP stakes in Listed Companies, in RON mn

Company	Symbol	Sector	FP stake	FP stake Value	% of FP Portfolio
OMV Petrom	SNP	Oil&Gas Producer	20.1%	5,130.3	35.39%
Transgaz	TGN	Gas Transportation	15.0%	379.2	2.62%
BRD	BRD	Banks	3.6%	223.2	1.54%
Transelectrica	TEL	Energy Transmission	13.5%	135.5	0.93%
Alro	ALR	Aluminium Smelter	10.2%	133.4	0.92%
Raiffeisen Bank International	RBI	Banks	0.4%	98.4	0.68%
Conpet	COTE	Oil&Gas	29.7%	100.3	0.69%
Banca Transilvania	TLV	Banks	2.9%	80.3	0.55%
Erste Group	EBS	Banks	0.1%	38.5	0.27%
Primcom	PRIB	Real Estate	75.5%	22.6	0.16%
Romaero	RORX	Machinery & Engineering	21.0%	15.7	0.11%
Oil Terminal	OIL	Oil&Gas	8.5%	7.4	0.05%
Severnav	SEVE	Machinery & Engineering	39.1%	3.9	0.03%
Telerom Proiect	TEBV	IT&C design	68.6%	1.6	0.01%
Alcom	ALCQ	Retail/Real Estate	71.9%	2.8	0.02%
Palace	PACY	Hotels	15.4%	1.1	0.01%
IOR	IORB	Optical and photo production	2.8%	1.1	0.01%
Forsev	FORS	Metallurgy	28.1%	0.3	0.00%
Comcereal Cluj	COCL	Agriculture	11.4%	0.3	0.00%
Transilvania Com	TRVC	Real Estate	40.0%	0.2	0.00%
Mecon	MECP	Metallurgy	12.5%	0.0	0.00%
Turdapan	TUSB	Real Estate	44.1%	0.1	0.00%
Mecanoenergetica	MEGU	Metallurgy	10.1%	0.1	0.00%
Resib	RESI	Real Estate/Hotels	2.9%	0.0	0.00%
Romplumb - in insolventa	ROMR	Lead producer	33.3%	0.0	0.00%
Total				**6,376.5**	**44.0%**

Source: Bucharest Stock Exchange, Raiffeisen Capital&Investment estimates; Stock prices as of April 1, 2013, 6:30 CET+1

We valued separately the largest 25 out of the total 44 unlisted companies…

Not-listed companies: We valued separately 25 companies which account for around 98% of non-listed stakes portfolio. The actual valuation method depends on the amount of public information available (which is usually low), industry and company particularities. We applied simplified DCFs for such companies as energy producers or a comparative valuation based on industry metrics or trading multiples for other stakes. We used to employ a methodology based on regulated asset base for power and gas distributors but due to higher regulatory risks (the one year delay in the start of the third regulatory period and the new monopoly tax), we rely now only on trading multiples. The fact that the cumulative value attached to these companies is now higher compared to the previous update should not come as a surprise. First of all, lower WACC backed by both reduced equity premiums and lower interest rates, is a powerful tide lifting all boats. Second, the prospects for some companies have theoretically improved markedly. For example, the gas prices liberalization which eventually started in February 2013 had a positive impact on Romgaz valuation.

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

Company	*Sector*	*Valuation method / Comparables Multiples Used*	*FP stake*	*FP stake Value*	*% of FP Portfolio*
Hidroelectrica	Energy Producer	Discounted Cash Flow	19.9%	1,365.7	9.4%
Nuclearelectrica	Energy Producer	Discounted Cash Flow	9.7%	433.4	3.0%
CE Oltenia	Energy Producer	Discounted Cash Flow	21.5%	342.4	2.4%
Romgaz	Oil&Gas Producer	Discounted Cash Flow	15.0%	1,818.9	12.5%
E.ON Moldova Distributie	Energy Distribution	Avg. EV/EBITDA, P/BV, discounted by 25%	22.0%	415.1	2.9%
Electrica Distributie Muntenia Nord	Energy Distribution	Avg. EV/EBITDA, P/BV, discounted by 25%	22.0%	313.4	2.2%
Electrica Distributie Transilvania Nord	Energy Distribution	Avg. EV/EBITDA, P/BV, discounted by 25%	22.0%	219.2	1.5%
Electrica Distributie Transilvania Sud	Energy Distribution	Avg. EV/EBITDA, P/BV, discounted by 25%	22.0%	215.9	1.5%
Enel Distributie Banat	Energy Distribution	Avg. EV/EBITDA, P/BV, discounted by 25%	24.1%	588.1	4.1%
Enel Distributie Dobrogea	Energy Distribution	Avg. EV/EBITDA, P/BV, discounted by 25%	24.1%	362.9	2.5%
Enel Distributie Muntenia	Energy Distribution	Avg. EV/EBITDA, P/BV, discounted by 25%	12.0%	359.6	2.5%
Electrica Furnizare (Electrica F. Munt. Nord& Electrica F. Trans. Nord& Electrica F. Tran. S.)	Energy Supply	P/Sales	22.0%	160.6	1.1%
Enel Energie Muntenia	Energy Supply	P/Sales	12.0%	41.5	0.3%
Enel Energie	Energy Supply	P/Sales	12.0%	42.7	0.3%
E.ON Gaz Distributie + E.ON Gaz Romania (now part of E.ON Energie Romania)	Gas Distribution&Supply	Avg. EV/EBITDA, P/BV, discounted by 25%	12.0%	217.3	1.5%
GDF Suez Energy Romania (incl. Distrigaz Sud Retele)	Gas Distribution&Supply	Avg. EV/EBITDA, P/BV, discounted by 25%	12.0%	454.8	3.1%
CN Aeroporturi Bucuresti	Airports	Discounted Cash Flow	20.0%	310.2	2.1%
Aeroportul International Timisoara Traian Vuia	Airports	Avg. PE, P/S, EV/EBITDA, P/Pax	20.0%	43.0	0.3%
Aeroportul International Mihail Kogalniceanu	Airports	Avg. PE, P/S, EV/EBITDA, P/Pax	20.0%	5.0	0.0%
CN Administratia Porturilor Maritime	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	138.0	1.0%
CN Administratia Porturilor Dunarii Maritime	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	0.0	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	12.3	0.1%
CN Administratia Canalelor Navigabile	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	13.8	0.1%
Posta Romana	Postal Services	P/Sales, discounted by 40%	25.0%	94.9	0.7%
Total				**7,968.5**	**55.0%**

Source: Raiffeisen Capital&Investment estimates

…for the rest we use FP's official figures

For 15 companies from FP's portfolio we rely on the valuation provided by FP itself. These are mainly small companies, same of them being in bankruptcy (and valued at zero). The combined value of these stakes is RON 155 mn, accounting for just 1.1% of the fund's portfolio.

Valuation of 'Other' FP shareholdings, in RON mn

Company	*Sector*	*FP stake*	*FP stake Value*	*% of PF Portfolio*
Societatea Nationala a Sarii	Salt Production	48.99%	98.0	0.7%
Zirom	Titanium Processing	100.00%	36.0	0.3%
Salubriserv	Waste Collection	17.48%	10.9	0.1%
Plafar	Health Care	48.99%	5.2	0.0%
Comsig	Retail	69.94%	1.7	0.0%
Carom - Broker de Asigurare	Life Insurance	70.00%	1.1	0.0%
Celuloza si Otel (absorbed Remat Timis)	Recycling	8.62%	1.0	0.0%
Electroconstructia Elco Cluj	Electric installation services	7.61%	0.5	0.0%
Cetatea	Real Estate	20.43%	0.4	0.0%
Ciocarlia	Restaurants	1.68%	0.4	0.0%
Commetex	Retail	15.99%	0.2	0.0%
World Trade Hotel	Hotels	19.90%	0.0	0.0%
Carbid Fox - in bankruptcy	Chemicals	7.96%	0.0	0.0%
Bat Service - in bankruptcy	Services	33.00%	0.0	0.0%
Gerovital Cosmetics in liquidation	Cosmetics	9.76%	0.0	0.0%
World Trade Center Bucuresti	Real Estate Rental	19.90%	0.0	0.0%
Simtex – in bankruptcy	Textiles	30.00%	0.0	0.0%
Fecne - in bankruptcy	Metallurgy	12.12%	0.0	0.0%
Petrotel Lukoil	Oil & Gas	2.18%	0.0	0.0%
Total			**155.5**	**1.1%**

Source: Fondul Proprietatea, Raiffeisen Capital&Investment estimates

Cash and cash equivalents of RON 770 mn at end-February

The cash & equivalents position as of February 2013 stood at RON 770, comprising mainly deposits and T-bills. The reported debt stood at RON 17 mn while the potential deferred tax liability is estimated by us at RON 78 mn. Thus, all in all, FP's NAV amounts according to our valuation at RON 15.2 bn which corresponds to a value per share of RON 1.15 (based on the subscribed number of shares less those bought back under the first repurchase program). It means that FP shares are carrying now a 44% discount to our NAV estimate.

We hiked the discount for the unlisted shares

We set our TP by applying a set of discounts to FP's portfolio, differentiated between listed and unlisted stakes. For the cash and listed stakes we continue to apply a 15% discount but we decided to increase the discount for the unlisted ones from 25% to 30%. The reasons for the higher discount are Hidroelectrica's insolvency, the delays recorded in the listing of state-owned companies and the difficulties encountered in improving the corporate governance standards of such entities.

Thus we get a fair value of RON 11.7 bn and we set a TP of RON 0.89, up 5% versus our previous one. The current TP suggests an upside potential of 39% from April 1 closing price. Consequently, we reiterate our "buy" recommendation for FP shares, considering the large discount carried to its NAV as undeserved.

Risks:

- Political risk is by far the most important risk faced by an investor in FP shares, with 60% of its portfolio being made up of stakes in companies whose majority shareholder is the Romanian state. Some of these companies have weak financial performances and need restructuring. For others, our valuation assumes that the Government takes or sticks to politically and socially costly decisions in order to comply with regulations and EU requirements (such as the liberalization of the gas and energy prices).
- Regulatory risk is also relevant for a FP investor since several portfolio companies are regulated. Romanian regulatory bodies do not have a good track record in applying the regulatory framework ad litteram.
- No renewing of the agreement with IMF is a risk in our opinion, since there will be less pressure on the Government to continue the restructuring process. With relatively good macroeconomic indicators and currently easy access to debt markets, the Government or even IMF might decide not to sign a new agreement.
- The information disclosed by FP and/or some companies from its portfolio has improved but is still limited.
- FP bears the risk of having to commit important amounts of cash so that its stakes in several companies are not diluted through the share capital increases undertaken (i.e. CE Oltenia, Nuclearelectrica).

Recent developments

Secondary listing. The secondary listing on Warsaw stock exchange has been delayed for more than a year, mainly due to the reticence of the local authorities which did not create the conditions for a link between the two depositaries in Bucharest and Warsaw. The local Securities Commission (CNVM) has published a draft legislation which regulates the way Central Depository operates. The proposed changes will theoretically allow for the establishment of a link with the Polish depository, the next needed step being the amendment to Central Depositary rule book which in its turn should be validated by CNVM. It seems that the decision would be postponed until after the establishment of the new Financial Supervisory Authority (FSA), planned for mid April. Thus, FP was forced to postpone the deadline for the secondary listing for six months until December 2013. Once all the regulatory approvals have been obtained, the secondary listing could take place rapidly since the manager is aiming initially only at a technical listing. Despite the fact that Mrs. Sfiraiala has attacked in the Court several issues related to the secondary listing, we do not think that these actions could delay the process.

The plan of returning extra cash to shareholders. The second repurchase program of 1.1 bn shares (around 8% of the outstanding shares) was announced in 2012 after the largest shareholder proposed the introduction of a new fee to stimulate divestments and returning cash to shareholders. The repurchased shares were intended to be cancelled, as was the intention for the shares from the first buy-back program. Both the start of the second repurchase program and the cancellation of the shares already bought back were put on hold due to the legal actions of Mrs. Sfiraiala who contested the GSM resolutions. At the beginning of March, FP has won an important case against Mr.Sfiraiala, the Court approving the registration with the Trade Registry of the GSM resolution which validated the buy-back program. The GSM decision has been published on April 10 in the Official Gazette, and the program should begin in the next days.

On the other hand, in February it was announced that CNVM did not endorse the amendment to the management contract which introduced the new fee on excess distributions to shareholders. The extra fee was set at 1.5% of special dividends and other returned cash (i.e. buy-backs) paid in 2012 and 2013 (and 1% in 2014) while the regular management fee is 0.479% of FP's market cap. CNVM based its decision on the fact that this fee was not part of Franklin Templeton's offer when it was selected at the helm of FP. If not enacted, the manager's incentive to return cash to shareholders is reduced.

Legal debates with Mrs. Sfiraiala. We remind that Mrs. Sfiraiala has won in Court in October 2012 a definitive decision to annul several resolutions of FP's GSM from September 2010 including the one which appointed Franklin Templeton at its helm. The Court has based its decision on the fact that this GSM has been called without fulfilling all legal formalities, namely the documents should have been published with at least 30 days before GSM date. Mrs. Sfiraiala has been trying to build a larger case against the manager, claiming that Franklin Templeton is not entitled to be considered the manager of FP. In the defense of Franklin Templeton is the fact that all GSM resolutions annulled have been reapproved at subsequent GSMs.

The litigant has started many actions against the fund, but FP won three very important ones. In two cases the litigations were blocking corporate actions, as the GSM decisions on the share repurchase program and on the budget for the secondary listing were attacked in court. Furthermore, on April 9, Fondul Proprietatea has informed that the Court ruled in its favour in one of the trials by rejecting the Litigant's claim that the annulment of certain shareholder resolutions approved in September 2010 should retrospectively affect the validity of shareholders' resolutions approved after this date. We consider that this Court decision could be a major breakthrough in the legal debate with Mrs. Sfiraiala and the beginning of the end for these litigations.

Manager's mandate not to be automatically extended. The largest shareholder, Manchester Securities, a subsidiary of Elliot Associates, has requested that the incoming GSM would amend FP's bylaws regarding the revocation and appointment of the asset manager. The shareholder proposed that the asset management mandate should not be automatically extended and that a GSM should be called 6 months prior to expiration of the mandate, so that shareholders could decide either on extension of the mandate for the incumbent manager or the initiation of a tender to select a new manager. Moreover, other proposal is that the asset manager could be revoked with the simple majority of the participating shareholders to a GSM, instead of two thirds of participating shareholders as the current bylaws stipulates. If enacted, these proposals should increase the pressure on Franklin Templeton to deliver. We remind that Franklin Templeton's current mandate expires in 2014.

Electricity Market

The power sector accounts for 34% of the portfolio

The stakes in companies from this sector are valued at RON 5 bn close to the value of our previous update.

Valuation Summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
Hidroelectrica	Energy Producer	6,848.9	19.9%	1,365.7	9.4%
Nuclearelectrica	Energy Producer	4,459.2	9.7%	433.4	3.0%
CE Oltenia	Energy Producer	1,590.1	21.5%	342.4	2.4%
Transelectrica	Energy Transmission	1,004.3	13.5%	135.5	0.9%
E.ON Moldova Distributie	Energy Distribution	1,886.9	22.0%	415.1	2.9%
Electrica Distributie Muntenia Nord	Energy Distribution	1,425.1	22.0%	313.4	2.2%
Electrica Distributie Transilvania Nord	Energy Distribution	996.4	22.0%	219.2	1.5%
Electrica Distributie Transilvania Sud	Energy Distribution	982.0	22.0%	215.9	1.5%
Enel Distributie Banat	Energy Distribution	2,438.1	24.1%	588.1	4.1%
Enel Distributie Dobrogea	Energy Distribution	1,506.4	24.1%	362.9	2.5%
Enel Distributie Muntenia	Energy Distribution	2,996.7	12.0%	359.6	2.5%
Electrica Furnizare (Electrica F. Munt. Nord& Electrica F. Trans. Nord& Electrica F. Tran. S.)	Energy Supply	729.8	22.0%	160.6	1.1%
Enel Energie Muntenia	Energy Supply	345.6	12.0%	41.5	0.3%
Enel Energie	Energy Supply	355.9	12.0%	42.7	0.3%
Total				**4,995.9**	**34.5%**

Source: Raiffeisen Capital&Investment estimates

Power sector update

Romania's Jan-Nov 2012 electricity consumption flat yoy

During the first eleven months of 2012, power production decreased by 6.4% yoy to 51.7 TWh, on the back of a 20% yoy drop in the energy delivered by hydro producers. Final consumption was almost flat at 42.1 TWh, driven by a 3.6% yoy rise in households' consumption despite slightly weaker consumption of non-households. Energy exports dropped by an impressive 64% yoy to 1 TWh.

We present below a summary of the traded quantities and their prices on the main segments of the wholesale power market.

Power – wholesale market segments

Components	Quantities Jan-Nov 2012	yoy	% of total traded volume	Average price Jan-Nov 2012	yoy
	TWh	%	%	RON/MWh	%
Bilateral Negotiated Contracts	48.2	-11%	52%	151.4	-7%
Bilateral Regulated contracts	21.6	-15%	23%	206.1	17%
Exports	1.5	-48%	2%	193.1	-2%
Centralized Market for Contracts	7.7	68%	8%	214.2	27%
Day Ahead Market	9.7	21%	10%	220.5	1%
Balancing Market – deficit	2.9	4%	3%	288.4	4%
Balancing Market – surplus	1.5	59%	2%	49.2	-12%
Total trading	92.9	-6%	100%	179.8	2%

Source: ANRE

Power Generators

The past year was an eventful one for the power generators from FP's portfolio. Beside Hidroelectrica's insolvency, the three coal-based generators, CE Turceni, CE Rovinari and CE Craiova, merged with their main coal supplier SNL Oltenia into a new vertically integrated entity CE Oltenia. The ownership structure of these companies remained unchanged as the planned public offers did not materialize for evident reasons in Hidroelectrica's case or due to sector related difficulties in Nuclearelectrica's case. These gencos where FP is a minority shareholder, generate around 75% of the total power produced in Romania.

Summary of Key Figures for Power Generators

Producer	Effective capacity (MW)	EBITDA margin 2012	FV derived from DCF (RON mn)	DCF Valuation EUR mn/MWh
Hidroelectrica	6,100	37.8%	6,849	0.25
Nuclearelectrica	1,414	31.9%	4,459	0.71
CE Oltenia	3,570	15.92%	1,590	0.10

Source: Raiffeisen Capital&Investment estimates

Valuation of electricity generators

The severe drought had a significant influence on the Romanian energy production in 2012, as Hidroelectrica recorded the lowest production in the past ten years and was forced to activate the force majeure clause. Despite the drop in Hidroelectrica's production, the coal-based producers have also recorded a decrease of 7% yoy in their production during the first eleven months of 2012 as industrial consumption eased and exports fell. The drop was partially generated by the starting of the operations by Petrom's gas-fired power plant and by increased production from wind farms.

The liberalization of electricity prices has started in September 2012

The government has approved in 2012 the official calendar for the liberalization of the power market through a gradual decrease of regulated market in favour of the competitive one, with two different schedules for households and regulated non-households. Thus, starting with September 2012, the weight of energy supplied to non-households from the competitive market has increased to 15% and it will continue to increase at a similar pace until it will reach 100% in January 2014. For regulated households, the first increase of the weight of energy supplied from the competitive market is scheduled to take place in July 2013 (to 10%) and it will increase at a slower speed until 100% would be fed by the competitive market in January 2018.

Electricity Market Liberalization Calendar

Date	% of energy from competitive market (non-households)	% of energy from competitive market (households)
September 1, 2012	15%	0%
January 1, 2013	30%	0%
April 1, 2013	45%	0%
July 1, 2013	65%	10%
September 1, 2013	85%	10%
January 1, 2014	100%	20%
July 1, 2014	100%	30%
January 1, 2015	100%	40%
July 1, 2015	100%	50%
January 1, 2016	100%	60%
July 1, 2016	100%	70%
January 1, 2017	100%	80%
July 1, 2017		90%
January 1, 2018		100%

Source: ANRE

Hidroelectrica

Bad management and poor hydrological conditions forced Hidroelectrica to enter insolvency in 2012

2012 was undoubtedly a reference year for Hidroectrica which unexpectedly sought the protection of insolvency law at the end of June. While initially blamed on the awful hydrological conditions and the FX losses incurred, there were other reasons for this outcome. The company's revenues were deprived by the bilateral contracts at preferential prices while the regulated prices were reduced in 2011 by 27% yoy by ANRE. The company was inefficient in terms of operating costs and was unprepared for a downturn in its fortunes. Moreover, Hidroelectrica's investments have proved to be very costly and barely added to its operating capacity.

Thus, a judicial administrator was appointed to lead the company through this process, whose proposed restructuring plan follows to be approved in the creditors meeting where the banks have the highest weight. The judicial administrator has seized the opportunity to restructure the company, the most notable action taken being the renegotiation of the bilateral contracts with the "smart guys". The initial realistic deadline for exiting insolvency was June 30, 2013 but more recent statements of the judicial administrator suggested that insolvency might be extended. The end of the insolvency procedure is conditioned by: (i) ongoing litigations contesting the preliminary table of creditors and (ii) financial issues, like restructuring of the bank loans. Moreover, the judicial administrator stated that the exit from insolvency by end of June 2013 is conditioned by the sale of its micro power plants, which should generate the needed cash to reimburse smaller creditors. Currently there are almost 20 legal claims filed against Hidroelectrica related to the insolvency procedure, contesting the termination of supply contracts or the force majeure clause. Total claims filed by "smart guys" against Hidroelectrica and rejected by the judicial administrator amount to around RON 900 mn.

After an exceptional year in 2010 from the hydrological and production point of view, the company's luck turned around in the second part of 2011 and Hidroelectrica was forced to activate the force majeure clause for the last quarter. Thus, its power production amounted to 14.7 TWh, down 26% yoy, implying a market share of 26% of domestic power generation. Average selling price increased by 15% yoy to 139 RON/MWh, limiting the fall in its sales. On the expenses side, the costs with power acquired from third parties surged by 55% yoy as both the quantity and the acquisition prices went up significantly. The other expenses driver in 2011 was the royalties paid for used water, as the government tripled the tax. Consequently, Hidroelectrica's revenues amounted to RON 3.04 mn bn, down 7% yoy while EBITDA decreased 35% yoy to RON 0.9 bn, suggesting an EBITDA margin of only 29%. The interest expenses and FX losses sank the bottom line, the company reporting (a revised) loss of RON 0.13 bn, compared to a net profit of RON 0.3 bn a year before.

Under insolvency, bilateral contracts with the "smart guys" were either terminated or renegotiated

In 2012 the hydrological conditions grew worse, the force majeure clause being activated in the first and third quarters. After entering insolvency procedure, the company started a series of measures aimed at improving its profitability, through rising its revenues and cutting the high operating costs. The most notorious was termination and the renegotiation of the bilateral contracts with the "smart guys". Thus, the six bilateral contracts which were terminated released an annual quantity of 7.4 TWh which previously carried an average price of only 131 RON/MWh. The four supply contracts which were renegotiated totaled an annual quantity of 3.7 TWh while the new selling prices were raised by an average of 40% to around 185-190 RON/MWh. The judicial administrator has also terminated the contracts to acquire power from thermo producers at prices above Hidroelectrica's selling prices. Moreover, the judicial administrator argued for a lift of the price on the regulated market and for a decrease of the quantity sold on this market.

On the expenses side, the actions taken were directed at cutting the costs of services and salaries, including personnel reductions. The investment contracts also came under scrutiny. Thus, by the end of 2012, the judicial administrator said that it obtained savings of RON 200 mn after renegotiating several contracts with its suppliers. Hidroelectrica started negotiations with the employees union for cutting jobs and salaries, measures which are expected to save RON 50 mn annually. FP has proposed Hidroelectrica to stop all the dual purpose investments (which benefited partly the community) and which added very little to the operating capacity.

Despite record low power output in 2012, EBITDA margin strengthened

Based on the preliminary figures released, Hidroelectrica's output for 2012 amounted to 11.8 TWh, down 20% yoy, a record low for the company. The average selling price has increased by 8% yoy to 150 RON/MWh, since prices for the regulated market went down by 27% yoy to 72 RON/MWh while prices for the competitive market jumped 25% yoy to 188 RON/MWh. The company has also reduced drastically the quantity of power acquired and managed to get significantly lower prices which helped the company to improve its EBITDA margin to 38%. Hidroelectrica posted revenues of RON 2.4 bn for 2012, down 21% yoy while EBITDA reached RON 914 mn, up 2% yoy while higher depreciation drove EBIT into negative territory. Despite a favourable evolution of the FX rate in 4Q 12, FX and interest expenses triggered a FY 2012 net loss (according to preliminary data) of RON 0.17 bn.

Hidroelectrica Business Model Assumptions

		2010	*2011*	*2012f*	*2013e*	*2014e*	*2015e*	*2016e*
Revenues	RON mn	3287.0	3046.6	2416.5	2985.0	4085.0	4327.6	4441.3
EBITDA	RON mn	1377.0	894.6	913.9	1552.2	2083.8	2604.5	2627.0
EBITDA margin	%	41.9%	29.4%	37.8%	52.0%	51.0%	60.2%	59%
Power generated	TWh	19.9	14.7	11.8	13.0	17.9	18.1	18.4
Power Sold	TWh	22.6	18.3	12.8	14.3	19.4	19.7	19.8
Power Avg. Selling Price	RON/MWh	121.0	139.0	150.1	177.5	184.9	193.7	197.7
Acquired Power avg. price	RON/MWh	156.3	187.5	121.9	137.7	152.9	160.5	167.0
Repair&Maintenance Works	RON/MWh	17.6	18.4	23.6	18.0	13.5	14.0	14.8
Salaries	RON/MWh	21.4	28.8	35.7	28.4	20.4	20.7	21.5

Source: Hidroelectrica, Raiffeisen Capital&Investment estimates

Modest increase in power prices after production returns to normal levels

We relied on Hidrolectrica's own estimate for 2013 power production, namely 13.0 TWh, since 2013 seems to be below the average year hydrologically-wise. Average price should increase by 18% yoy to 178 RON/MWh, driven by a 71% yoy increase of the regulated price to 124 RON/MWh and a lower quantity sold on this market. We expect that the restructuring measures taken during the insolvency coupled with Hidroelectrica's high operating leverage to trigger a rebound in the EBITDA margin to 52%. Therefore, we see 2013 revenues at RON 2.98 bn, up 24% yoy and a solid net profit of RON 0.44 bn. We expected previously that output in a normal hydrological year would go up on the medium run considering the planed investments, which should hike the capacity utilization. We still believe in this trend but taking place at a slower speed, as one downside of the insolvency is an increased risk aversion of banks to finance it which will delay its capex. The latest proposal for 2013 CAPEX is envisaging an amount of only EUR 100 mn. Thus, we see the output for a normal year getting to 17.6 TWh in 2014 and reaching 18.2 TWh in 2017. After the surge in 2013, we see the average price increasing at a CAGR of only 3.2% over 2013-2017, as Hidroelectrica will struggle to get higher prices on the competitive market while its production returns to normal levels.

We also accounted for the potential claims related to the opening of the insolvency procedure (mainly the termination of the supply contracts) and booked an extra charge of RON 360 mn in 2014, representing 40% of the claims.

Valuation

Hidroelectrica Fair Value estimated at RON 6.8 bn

We still value Hidroelectrica based on a DCF model which suggests an equity value of RON 6.8 bn, 33% below the value derived by us previously. Significantly lower output estimations through 2017, due to both hydrological constraints and a slower increase in operating capacity have dragged the valuation lower. On the other hand, lower risk premiums and cost of equity combined with higher assumptions for the power prices have acted in the opposite direction. The power output is forecast to inch up at a 2012-2017 CAGR of 10.6%. EBITDA margin will peak at 60% in 2015 and then it start to decrease slowly toward 57% by 2017. We left the long term growth rate unchanged at 2%.

Hidroelectrica DCF Valuation

RON mn	2013e	2014e	2015e	2016e	2017e
EBIT*(1-T)	555.4	954.0	1,356.5	1,339.2	1,369.3
Depreciation	928.1	948.0	989.6	1,032.7	1,072.5
Change in WC	-180.0	-170.0	-185.0	-200.0	-205.0
CAPEX	-696.6	-1,457.2	-1,509.0	-1,392.3	-1,330.0
FCFF	606.9	274.8	652.1	779.6	906.8
WACC	11.1%	11.0%	10.8%	10.6%	10.5%
Discounted FCFF	**560.7**	**228.8**	**489.7**	**529.3**	**557.2**

PV of FCFF	2,365.8
Terminal growth rate	2.0%
TV	10,894.2
PV of TV	6,694.5
Net debt - end 2012	2,211.4
Fair Value	**6,848.9**

Source: Raiffeisen Capital&Investment estimates

Nuclearelectrica

Nuclearelectrica's reactors are among the most efficient in the world

Nuclearelectrica with its two units is one of the most efficient generators of nuclear power, based on the capability factor (i.e. the percentage of actual production out of the maximum energy potential) which stands at around 95.3%. Late in 2011, the Government has published a draft ordinance which stipulated that the share capital of Nuclearelectrica would be increased with the value of the heavy water supplied for the Units 3 & 4 by the government institutions. These amounts, around RON 1.4 bn, have been booked as reserves. There were discussions to perform a share capital increase with these reserves, in which case FP's stake would have been diluted to 6.2% if it did not subscribe. Starting 2012, Nuclearelectrica has stopped receiving budget allocations to acquire heavy water and the government's intention seems to be to return the heavy water acquired so far for Reactors 3 and 4. Therefore, the dilution risk would be eliminated.

Nuclearelectrica's power sales for 2011 stood at 11.0 TWh, up 7% yoy at an average price of 137 RON/MWh, down 2%.yoy. Consequently, its sales increased 4% yoy to RON 1.6 bn while higher salaries and third party expenses reduced the EBITDA margin to 34% from 36%, a year before with EBITDA standing at RON 549 mn. Due to lower net FX losses of RON 29 mn versus RON 138 mn a year before, the bottom line expanded almost six times yoy to RON 95 mn.

Power output decreased slightly in 2012 while EBITDA might have contracted

During the first eleven months of 2012, Nuclearelectrica's power output has decreased by 2.4% and we expect that over the whole 2012, the net output fell by 1.8% to 10.8 TWh. Due to an increase in average price of 6% to 144 RON/MWh, we expect that its total revenues inched up by 1% to RON 1.68 bn while EBITDA margin decreased to 32% yoy. The main reason for the drop in EBITDA margin was higher expenses with power acquired and material costs. Higher estimated financial expenses, RON 135 mn compared to RON 43 mn a year before, triggered an estimated 94% plunge in net income to RON 6 mn.

Over the past year, nothing noteworthy happened with EnergoNuclear, the project company established to develop the Reactors 3 & 4. We remind that following the withdrawal of two partners, Nuclearelectrica has an equity interest of 84.6%. The most recent statements from the authorities hint that the government still intends to develop the two units and it is willing to attract other partners in order to reduce Nuclearelectrica's participation. Updated estimates provided by Nuclearelectrica for the total value of the project are in the region of EUR 6.7 bn. We consider that there will be further delays of this project and since there is a lot of uncertainty we do not to take it into consideration for valuation purposes.

Valuation

Nuclearelectrica Fair Value estimated at RON 4.5 bn

Our value assigned to Nuclearelectrica is based on a simplified DCF model. We lowered somewhat the expected power output which should stay close to the current production level considering that Nuclearelectrica is operating close to its maximum capacity. We have now higher expectations for the average price which should rise 18% yoy to 170 RON/MWh in 2013 on the back of jump in the price for the regulated market and a reduced quantity delivered on this market. Over 2013-2017, we expect average price increases at a CAGR of 5.0%, mainly on the back of a decrease in the quantity sold on the regulated market as we expect only modest increases for the prices on the competitive market. We have a lower valuation for Nuclearelectrica since we are more downbeat on the operating profitability of the company. To determine the value of FP's stake we use an equity stake of 9.7%, as the dilution risk due to the heavy water has receded (on the other hand, our valuation does not take into consideration the heavy water currently under Nuclearelectrica's property).

Nuclearelectrica DCF Valuation

RON mn	*2013e*	*2014e*	*2015e*	*2016e*	*2017e*
EBIT*(1-T)	344.3	421.2	473.7	581.2	623.5
Depreciation	403.7	375.4	381.8	353.4	360.0
Change in WC	-145.0	-145.0	-155.0	-165.0	-165.0
CAPEX	-280.0	-235.0	-225.0	-230.0	-230.0
FCFF	316.85	416.60	475.55	539.59	588.50
WACC	11.1%	11.0%	10.8%	10.6%	10.7%
Discounted FCFF	**292.7**	**346.8**	**357.2**	**366.4**	**361.1**

PV of FCFF	1,724.2
Terminal growth rate	2%
TV	7,070.2
PV of TV	4,338.3
Net debt - end 2010	2,016.0
Fair Value	**4,459.2**

Source: Raiffeisen Capital&Investment

CE Oltenia

CE Oltenia was set up through the merger of Turceni, Rovinari and Craiova power plants with a mining company

On May 31, 2012 the three power plants where FP was a minority shareholder, Turceni, Rovinari and Craiova, were merged together with the mining company SNLO into an integrated new company called CE Oltenia. FP has a 21.7% equity interest in the CE Oltenia, the rest being controlled by the state. The rationale is that SNLO is the main lignite provider for the three producers supplying 90% of lignite consumption for Craiova and around 20% for the other two (the rest being obtained from their own mines). Viewed from SNLO's perspective, almost 80% of its annual production of around 18 mn tons used to be supplied to the three gencos. According to the memorandum of understanding for the establishment of this company, there were synergies and cost cutting measures envisaged, including reducing personnel expenses. In maximum 25 months from the setting up of this company, CE Oltenia should be listed on the stock exchange (the Government has recently launched a tender to select the brokers for the IPO).

The new entity has an annual production of around 30 mn tons of lignite (out of which 85% are used internally) and it is expected that existing reserves are able to cover 40 years of normal operations. CE Oltenia has 13 units with a total installed capacity of 3900 MW (Turceni 5x 330 MW, Rovinari 4 x 330m and Craiova 2x315 MW + 2x150 MW). Turceni power plant has actually 6 units (1 being stopped for revamping) but it will operate with only 4 after 2014 due to environmental requirements (mainly related to sulfurous emissions). Therefore, from 2014 when tougher environmental emissions will come into force, CE Oltenia's installed capacity will drop to 3570 MW.

Environmental issues are of paramount importance for CE Oltenia, especially considering that the transitory periods for compliance with several environmental regulations are coming to an end. Therefore, large capital outflows are necessary just to make the thermo units environmentally compliant, with other significant amounts needed to increase their efficiency. For 4 units out of the 12 (2 at Turceni and 2 at Rovinari), the desulphurization equipment is already operational and for other 2 units (at Turceni), the installation process is almost completed. Craiova is the laggard from this point of view, the investments for these equipments having being started in 2012. Other investments are needed to comply with the regulations for slag evacuation.

Starting 2013 the company will not receive any free of charge CO2 permits

But, the biggest burden on P&L starting with 2013 will be the extra costs for acquiring C02 certificates to cover the significant emissions. The three gencos which formed CE Oltenia received from the government for the period 2007-2012, a total of 87.8 mn CO2 certificates, taking advantage of the exception granted to the country. Romania, together with other nine countries, have received from EU an extra permission to continue to allocate CO2 certificates free of charge for the period 2013-2020. Thus, the country could allocate a total of 71.4 mn certificates to the energy producers under certain conditions, compared to 208 mn certificates allocated to the energy producers for the previous period. The annual allocation could not exceed 70% of 2012 emission and should decrease every year toward zero by 2020. While there was hope that CE Oltenia will be among Romanian producers eligible to receive CO2 emission certificates, company's representatives have stated that no certificates would be allocated to them due to certain provisions in Romania's treaty for joining EU. This will have a major impact on the company's bottom line, alleviated only by the current depressed market price for these certificates.

CE Oltenia, through Turceni branch, is seeking non-reimbursable European funding for a carbon dioxide capture and storage project GETICA. This project would capture 1.5 mn tons of CO_2 (reducing by 85% the emissions of one of Turceni's units), which will be transported at a distance of 50 km and stored in deep saline geological formations. The company is hoping to get from European sources EUR 500 mn which would account for around half of the project value.

The company's CAPEX needs are significant and according to the management, the 2013-2014 environmental CAPEX is seen at EUR 209 mn while CAPEX for revamping existing units and building up new capacities is estimated at EUR 207. The company has long expressed its intention to develop new green /brown projects. The most advanced is the project to build a new more environment friendly unit at Rovinari plant with a capacity of 500 MW. CE Oltenia is planning to set up a project company and after several years of searching for a partner a Chinese company was selected. Despite management's statements that works for the new unit will start in late 2013 – early 2014, we still see low odds for the completion of this project.

We value CE Oltenia by summing up the values assigned independently to CE Turceni, CE Rovinari and CE Craiova; no value given to SNLO

Our valuation of CE Oltenia is obtained by summing up the values assigned independently to the former CE Turceni, CE Rovinari and CE Craiova. We do not assign a value to SNLO due to: (i) scarce public information, (ii) weak profitability, and (iii) 80% of former SNLO sales were toward Turceni, Rovinari and Craiova. Nevertheless, we took into account somewhat the merger with SNLO by assuming a lower cost for coal, mainly eliminating the transfer cost from SNLO to the thermo producers.

CE Turceni

In 2011 CE Turceni, like the other thermo producers, took advantage of Hidroelectrica's problems and raised its production by 29% to a record 7.9 TWh. Average price obtained was 200.4 RON /MWh, up 17% yoy. Thus, its operating revenues jumped by 34% yoy to RON 2.0 bn. Operating costs increased by 22% yoy to RON 1.8 bn, on the back of higher coal costs and a huge jump (from RON 8 mn to RON 150 nm) in expenses for CO2 emissions. EBITDA margin improved to 19% and despite financial losses, bottom line was black at RON 56 mn, compared to a loss of RON 69 mn for the previous year.

According to the latest data, the power generated by coal-based producers decreased by 7% yoy over the first eleven months of 2012. CE Oltenia said that during the seven months since establishment, total sales amounted to RON 2.2 bn, out of which RON 1.9 bn power sales which corresponded to a quantity of power of 9.5 TWh. Net profit stood at around RON 240 mn.

Coal based producers have benefited in 2011 and a to a lesser degree in 2012 from Hidroelectrica's low production

For 2012 we consider that CE Turceni, if it stayed independent, would have had annual power sales of 6.8 TWh, down 8% yoy. Total revenues would have declined by 3% yoy to RON 1.93 bn while total operating costs should have decreased by 6% to RON 1.69 bn, on the back of lower expenses with CO2 emissions. EBITDA margin would have improved to 23.4% and financial results would have swung to a positive RON 68 mn from a loss RON 90 mn, mainly thanks to FX gains from a Yen denominated loan. All in all, bottom line would have surged to RON 243 mn.

For 2013, we estimate that CE Turnceni's power production would drop by 3% yoy, the most of the three producers, as it will operate with only four units. Average price would increase by 12% yoy to RON 224.1 RON/MWh, driven by a 16% increase in regulated price approved by ANRE and a lower quantity delivered on this market. EBITDA margin will stay almost flat at 23.3% despite the jump in expenses for acquiring CO2 certificates. Net profit would drop to RON 164 mn.

CE Turceni Business Model Assumptions

		2010	**2011**	**2012f**	**2013e**	**2014e**	**2015e**	**2016e**
Revenues	RON mn	1477.4	1978.1	1928.0	2079.1	2112.3	2182.9	2235.6
EBITDA	RON mn	198.4	380.9	451.3	490.3	498.3	538.7	528.2
EBITDA margin	%	13.4%	19.3%	23.4%	23.6%	23.6%	24.7%	23.6%
Electricity								
Gross Power Production	GWh	6166.6	7945.0	7388.9	7167.2	7203.0	7347.1	7383.8
Avg. Selling Price	RON/MWh	171.5	200.4	200.8	224.1	224.5	227.1	229.9
Lignite								
Lignite consumption	'000 tons	8450.6	10887.7	10125.6	9821.8	9870.9	9766.3	9815.1
- Own mines	'000 tons	6239.4	7099.2	6957.2	7096.4	7096.4	7096.4	7096.4
- Third party (SNLO)	'000 tons	2211.3	3788.5	3168.3	2725.4	2774.5	2669.9	2718.7
Lignite cost								
- Own mines	RON/ton	55.8	50.2	51.2	52.2	53.2	54.3	55.4
- Third party (SNLO)	RON/ton	85.0	85.0	86.7	85.6	89.8	92.5	95.3
CO2 Certificates								
CO2 Certificates Allocated	Mn	5.6	5.6	5.6	0.0	0.0	0.0	0.0
CO2 Emissions	mn tons	5.8	7.3	6.7	6.2	5.5	5.4	5.4
CO2 Certificate Price	EUR	10.0	9.6	7.5	6.5	7.5	8.5	9.5
Specific Costs per MWh								
Lignite	RON/MWh	91.8	92.0	92.6	89.8	92.9	91.9	94.4
CO2 Certificates	RON/MWh	1.3	9.1	5.2	26.7	27.0	29.7	33.2
Personnel	RON/MWh	50.9	39.6	42.6	43.2	43.9	44.2	45.4

Source: CE Turceni, Raiffeisen Capital&Investment

Valuation

Our model suggests a value of RON 944 mn for CE Turceni

Our stand-alone valuation of CE Turceni based on a simplified DCF suggests a fair value of RON 944 mn, 11% below the previous one. The higher average realized prices and lower cost of equity were more than outweighed by the reduced profitability as we incorporated the fact that no free CO2 certificates will be received. We assume for the 2013-2017 period an average growth in production of only 0.1%, the lowest among the three producers while average realized price is expected to grow at a 2013-2017 CAGR of 1.0%. Due to their already high prices on the regulated market the coal-based producers will benefit less from the liberalization of electricity market.

CE Turceni DCF Valuation

RON mn	2013e	2014e	2015e	2016e	2017e
EBIT*(1-T)	221.3	220.8	247.6	232.7	244.2
Depreciation	226.9	235.4	244.0	251.2	258.3
Change in WC	-50.0	-40.0	-40.0	-42.5	-47.5
CAPEX	-375.0	-300.0	-300.0	-250.0	-250.0
FCFF	123.1	196.2	231.6	276.4	300.0
WACC	11.1%	11.0%	10.8%	10.6%	10.7%
Discounted FCFF	**21.4**	**96.7**	**113.8**	**129.9**	**125.8**
PV of FCFF	487.7				
Terminal growth rate	2.0%				
Terminal WACC	10.5%				
TV	2463.3				
PV of TV	1511.5				
Net debt - end 2010	1055.7				
Fair Value	**943.6**				

Source : Raiffeisen Capital&Investment

CE Rovinari

CE Rovinari's power sales for 2011 stood at 5.62 TWh, up 11% while its production increased by 16%. With the average price up 14% yoy to 181.2 RON / MWh, total revenues jumped 21% yoy to RON 1.46 bn. Due to higher costs with raw materials and CO2 emissions (as CE Turceni has covered also a deficit from past years), EBITDA margin remained modest but strengthened to 13% from 10% a year ago. Net profit increased from almost zero to RON 33 mn.

If CE Rovinari had continued independently for the whole 2012, we consider that it would have recorded a power production of 5.55 TWh, down 4% yoy and sales of 5.25 TWh. Average price stood probably at 183 RON /MWh, implying total revenues of RON 1.37 bn, down 6% yoy. With lower CO2 emission costs, EBITDA margin would have reached 17% while profit would have stood at RON 63 mn.

In our opinion CE Rovinari would produce in 2013 around 5.67 TWh, up 2% yoy, selling some 5.41 TWh. Average selling price would increase to 199.5 RON/TWh, sustained by a 16% rise of regulated prices. While revenues should jump 9% to RON 1.50 bn, EBITDA margin should plunge back to 13%, on higher CO2 emission costs, despite the current low carbon prices as the producer will have to buy all needed CO2 certificates from the market. Net profit would amount to RON 23 mn.

CE Rovinari Business Model Assumptions

		2010	2011	2012f	2013e	2014e	2015e	2016e
Revenues	RON mn	1,201.2	1,456.9	1,366.6	1,496.1	1,553.1	1,626.2	1,689.4
EBITDA	RON mn	119.0	195.9	233.7	199.8	208.5	228.7	222.8
EBITDA margin	%	9.9%	13.4%	17.1%	13.4%	13.4%	14.1%	13.2%
Electricity								
Gross Power Production	GWh	4,988.0	5,765.0	5,548.8	5,673.7	5,843.9	6,019.2	6,214.8
Avg. Selling Price	RON/MWh	158.4	181.2	182.5	199.5	203.3	208.9	213.2
Lignite								
Lignite consumption	'000 tons	6,492.0	7,317.2	7,113.6	7,273.6	7,491.8	7,716.6	7,967.4
- Own mines	'000 tons	5,940.9	6,435.5	6,208.5	6,318.9	6,447.4	6,451.4	6,534.0
- Third party (SNLO)	'000 tons	551.1	881.7	905.1	954.8	1,044.5	1,265.2	1,433.4
Lignite cost								
- Own mines	RON/ton	57.4	55.7	57.9	59.6	61.4	62.7	63.9
- Third party (SNLO)	RON/ton	85.0	85.0	86.7	85.6	89.8	92.5	95.3
CO2 Certificates								
CO2 Certificates Allocated	mn	4.8	4.8	4.8	0.0	0.0	0.0	0.0
CO2 Emissions	mn tons	4.7	5.3	5.0	4.9	4.4	4.3	4.4
CO2 Certificate Price	EUR	10.0	10.0	7.5	6.5	7.5	8.5	9.5
Specific Costs per MWh								
Lignite	RON/MWh	77.8	75.1	78.9	80.8	83.8	86.6	89.2
CO2 Certificates	RON/MWh	-0.9	3.1	1.0	24.9	25.2	26.9	30.0
Personnel	RON/MWh	55.4	48.2	50.9	49.3	48.8	48.3	47.7

Source: CE Rovinari, Raiffeisen Capital&Investment

Valuation

DCF points to a fair value of RON 388 mn for CE Rovinari, down 19% on our previous estimate

We value CE Rovinari with the same DCF based methodology which yields a fair value of RON 388 mn, some 19% below the value from the previous update. The same higher expenses with CO2 emissions are the main reason for this evolution, as we updated our valuation to the new reality of no free allocation. We consider that CE Rovinari will experience the fastest growth in output, at a 2012-2017 CAGR of 3%, since it has the lowest capacity utilization, close to 50%. After the jump from 2013, we expect its average price to rise at a 2013-2017 CAGR of 2.6% while EBITDA margin would improve gradually to reach 14.6% by 2017.

CE Rovinari DCF Valuation

RON mn	2013e	2014e	2015e	2016e	2017e
EBIT*(1-T)	52.8	54.3	65.3	54.9	81.5
Depreciation	137.0	144.0	151.0	157.5	164.0
Change in WC	-47.5	-35.0	-35.0	-35.0	-25.0
CAPEX	-175.0	-140.0	-140.0	-130.0	-130.0
FCFF	62.2	93.2	111.2	117.3	140.4
WACC	11.1%	11.0%	10.8%	10.6%	10.7%
Discounted FCFF	-30.3	19.3	31.0	32.1	55.5
PV of FCFF	107.6				
Terminal growth rate	2.0%				
Terminal WACC	10.8%				
TV	1,086.1				
PV of TV	666.4				
Net debt - end 2010	386.2				
Fair Value	**387.9**				

Source: Raiffeisen Capital&Investment

Craiova Power Plant

CE Craiova, the smallest and the least profitable of the three producers, has also benefited from Hidroelectrica's misery and increased its power output by 12% yoy in 2011 to 5.1 TWh. Power sales were 4.6 TWh while those of thermal energy stood at 675 TCal (it owns two cogeneration units). Total revenues jumped by 18% yoy to RON 1.38 bn, as average power price increased by 1.7% yoy to 246 RON/MWh. CE Craiova has the highest price among the three coal-based producers. EBITDA margin improved only modestly to 8.8% from 7.4%, as expenses also grew on the back of higher lignite and CO2 emission costs. Due to extremely high effective tax rate, i.e. 94%, the company's bottom line barely stayed positive.

In 2012, we estimate that CE Oltenia power production dropped by 8% yoy to 4.7 TWh, due to market conditions but also due to the start of some long due investments for desulphurization equipment. Average power price rose probably by 0.3% to 247 RON/MWh but total operating revenues contracted by 6% yoy to RON 1.30 bn. Due to higher CO2 emission costs, EBITDA margin shrank probably back to 7.2% which together with higher financial losses, would have turned bottom line negative.

We expect that CE Craiova average electricity price will increase by 5.5% yoy in 2013 to 260.5 RON/MWh, driven again by the 16% jump in regulated prices as approved by ANRE (we expect a small drop for the prices for competitive market). Combined with a 0.8% drop in power generated, we expect its total operating revenues to increase by 4.7% yoy to RON 1.36 bn. Due to higher CO2 emission costs, we expect that EBITDA margin would stay flat in 2013 and the bottom line would remain in red at RON 27 mn

CE Craiova Business Model Assumptions

		2010	2011	2012f	2013e	2014e	2015e	2016e
Revenues	RON mn	1,172.7	1,383.4	1,295.3	1,355.6	1,414.4	1,460.1	1,518.8
EBITDA	RON mn	86.3	122.1	93.9	103.3	133.0	162.4	160.9
EBITDA margin	%	7.4%	8.8%	7.2%	7.6%	9.4%	11.1%	10.6%
Electricity								
Gross Power Production	GWh	4,561.4	5,108.8	4,700.1	4,664.8	4,795.5	4,939.3	5,087.5
Avg. Selling Price	RON/MWh	242.3	246.4	247.0	260.3	260.4	262.3	263.4
Lignite								
Lignite consumption	'000 tons	6,648.8	7,477.1	6,878.9	6,827.3	7,018.5	7,229.1	7,445.9
- Own mines	'000 tons	730.0	730.0	730.0	300.0	0.0	0.0	0.0
- Third party (SNLO)	'000 tons	5,918.8	6,747.1	6,148.9	6,527.3	7,018.5	7,229.1	7,445.9
Lignite cost								
- Own mines	RON/ton	67.0	70.4	73.9	77.6	n.a.	n.a.	n.a.
- Third party (SNLO)	RON/ton	63.8	63.8	65.1	64.2	67.4	69.5	71.5
CO2 Certificates								
CO2 Certificates Allocated	mn	4.2	4.2	4.2	0.0	0.0	0.0	0.0
CO2 Emissions	mn tons	4.9	5.4	4.9	4.7	4.2	4.1	4.0
CO2 Certificate Price	EUR	10.00	9.63	7.45	6.50	7.50	8.50	9.50
Specific Costs per MWh								
Lignite	RON/MWh	93.5	94.3	96.6	94.9	98.7	101.7	104.7
CO2 Certificates	RON/MWh	8.1	12.5	5.6	31.5	32.9	34.9	37.2
Personnel	RON/MWh	29.4	27.6	29.3	26.9	26.6	26.2	25.9

Source: CE Craiova, Raiffeisen Capital&Investment

Valuation

We attach a price tag of RON 259 mn to CE Craiova on a stand-alone basis

We attach a value of RON 259 mn to CE Craiova on a stand alone basis which is 47% lower compared to the previous value used. Despite higher electricity prices through 2017, the weaker profitability caused by the higher assumptions for CO2 emission expenses have depressed the valuation. We consider that CE Craiova will post the slowest increase in average price (i.e. a 2013-2017 CAGR of 0.5%), since it already has the highest price. Power production is expected to rise by 2.2% annually through 2017, compared to the 2012 level while EBITDA margin is expected to improve to 11.5% by 2017

CE Craiova DCF Valuation

RON mn	*2013e*	*2014e*	*2015e*	*2016e*	*2017e*
EBIT*(1-T)	-13.5	11.1	36.0	30.3	41.3
Depreciation	116.8	121.8	126.4	130.6	134.2
Change in WC	-20.0	-15.0	-15.0	-10.0	-10.0
CAPEX	-215.0	-125.0	-115.0	-105.0	-90.0
FCFF	-91.7	23.0	62.4	65.9	95.5
WACC	11.1%	11.0%	10.8%	10.6%	10.7%
Discounted FCFF	**-121.7**	**-5.9**	**24.4**	**31.2**	**46.3**
PV of FCFF	-25.7				
Terminal growth rate	2.0%				
Terminal WACC	10.8%				
TV	907.4				
PV of TV	556.8				
Net debt - end 2010	272.5				
Fair Value	**258.6**				

Source: Raiffeisen Capital&Investment

Power Supply and Distribution

Summary of Key Figures for Distribution Companies

RON mn	Qty distr 2011 TWh	2011 EBITDA*	2011 EBITDA margin	2011 BV	Fair Value Estimate
E.ON Electrica Moldova Distributie	4.4	172.5	27%	1,817.1	1,886.9
Electrica Muntenia Nord Distributie	6.4	141.8	21%	1,257.8	1,425.1
Electrica Transilvania Nord Distributie	4.6	120.3	22%	859.1	996.4
Electrica Transilvania Sud Distributie	5.2	107.6	18%	921.0	982.0
ENEL Distributie Banat	4.2	294.1	50%	1,846.2	2,438.1
ENEL Distributia Dobrogea	3.6	171.4	37%	1,251.1	1,506.4
ENEL Distributie Muntenia	6.4	143.3	20%	2,867.0	2,996.7

Source: ISI Emerging Markets, ANRE, Raiffeisen Capital&Investment estimates
**EBITDA adjusted to exclude other income (incl. penalties) and expenses with donations, settlement of claims and assets sold*

Summary of Key Figures for Supply Companies

RON mn	Qty supplied 2011 TWh	2011 Sales	2011 EBITDA*	Fair value estimate
Electrica Furnizare	10.1	3890.0	n.a.	729.8
ENEL Energie	4.6	1897.2	-73.0	355.9
ENEL Energie Muntenia	4.1	1842.3	-23.4	345.6

Source: Source: ISI Emerging Markets, ANRE, Raiffeisen Capital&Investment estimates
**EBITDA adjusted to exclude other income (incl. penalties) and expenses with donations, settlement of claims and assets sold*

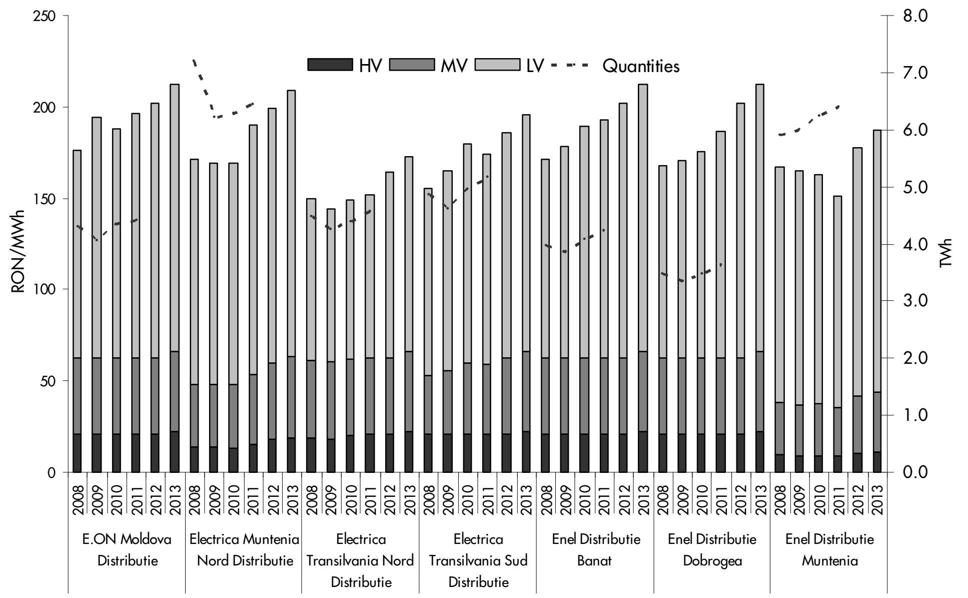
Distribution

In 2011 the total quantity distributed reached 42.3 TWh, up 3.6% yoy while over the first eleven months of 2012 domestic consumption was almost flat at 42 TWh. Distribution tariffs were raised mid-2012, so overall for 2012 we could see growing revenues.

Tariffs revised mid-2012 and beginning of 2013

We present below the tariffs (high, medium and low voltage) set by the Regulatory Authority in the Energy Sector (ANRE) for the distribution companies for the period 2008-2013 and the quantities distributed over 2008-2011 (still no data for FY 2012 from the local regulator).

Tariffs and quantities distributed



*Source: ANRE; *2012 tariffs set mid-2012*

Third regulatory period to start in 2014

We remind that distribution companies are regulated by the Tariffs Basket Cap methodology, which allows for a regulated real return on assets above the costs agreed with the authority. The return is set using the before tax cost of capital and stood over the second regulatory period (2008-2012) at 10% for private companies and 7% for the three remaining state-owned distributors. The current regulatory period ends in 2012 but the regulator decided to postpone the beginning of the third regulatory period until 2014, with 2013 as an intermediary year with the same tariffs as in 2012. For the intermediary year the regulator used a regulated return of 8.52%.

Beginning of 2012 Fondul Proprietatea hired an intermediary to lend it assistance in the sale of the distribution and supply companies in its portfolio. We believe the fund expected the state to exercise its put option in the case of Enel Distributie Muntenia and Enel Energie Muntenia and it was keen on a side deal to sell its stakes to Enel. In 2012 the state decided to exercise its option and valued its 13.6% stake for sale using the privatization agreement formula at EUR 521 mn. The amount was contested by Enel and according to the media the state-owned Electrica, the minority shareholder in Enel Distributie Muntenia and Enel Energie Muntenia, seeks for settlement with Enel in the Arbitrage Court of Paris. According to the media, the state selected beginning of April 2013 the law firm which should represent it in Paris. A court decision might come in around one year to one year and a half.

This is not the only case brought up in the Arbitrage Court of Paris by the state against the energy companies that acquired the power distribution and supply arms of Electrica. According to the media, beginning of 2013 state-owned Electrica, the minority shareholder in the privatized power distribution and supply companies alongside Fondul Proprietatea, sued Enel, CEZ and E.ON for penalties worth EUR 250 mn at the Arbitrage Court of Paris. Electrica claims the parties did not invest as stipulated in the privatization contracts the amounts used for the share capital increases which helped them acquire their majority stakes in the purchased entities. The companies in question received notifications and had 30 days to answer the allegations. For the cases against Enel Dobrogea and Enel Banat, where penalties requested amount to around EUR 40 mn, a final court decision is expected over the next two-three months.

Monopoly tax applied starting February 2013

Starting February 2013 the state decided on a new tax to be applied to the gas and power volumes transported and distributed, called the monopoly tax. For distributors the tax amounts to RON 0.75/MWh. It is unclear whether the tax would be included in tariffs or not. Furthermore, the head of the regulatory body was quoted in the media several times questioning the inclusion of the royalties in revenues and thus in tariffs. According to him, royalties should be paid by the distributors and not recognized in tariffs.

2011 Financial Data

RON mn	***Turnover***	***yoy***	***EBITDA***	***yoy***	***Net profit***	***BV***	***Qty distr. TWh***	***yoy***
E.ON Electrica Moldova Distributie	636.1	2%	172.5	-33%	7.2	1,817.1	4.4	2%
Electrica Muntenia Nord Distributie	685.7	15%	141.8	50%	67.4	1,257.8	6.4	3%
Electrica Transilvania Nord Distributie	535.4	5%	120.3	30%	29.1	859.1	4.6	4%
Electrica Transilvania Sud Distributie	598.5	1%	107.6	8%	19.6	921.0	5.2	5%
ENEL Distributie Banat	585.8	5%	294.1	32%	220.5	1,846.2	4.2	4%
ENEL Distributie Dobrogea	459.0	13%	171.4	20%	108.9	1,251.1	3.6	4%
ENEL Distributie Muntenia	705.9	-4%	143.3	-12%	50.5	2,867.0	6.4	2%

Source: ISI Emerging Markets, ANRE, Raiffeisen Capital&Investment

**EBITDA adjusted to exclude other income (incl. penalties) and expenses with donations, settlement of claims and assets sold*

Valuation

With the delay of the start of the third regulatory period, the introduction of the monopoly tax, the trials initiated by the state against the majority shareholders of the privatized entities, we decided to alter our valuation model for these operators and given the regulatory uncertainty, we prefer to rely more on multiples. We use the average between the fair value derived using P/B and

EV/EBITDA multiples while in our previous report we used also the value yielded by a simplified DCF model, based on the regulated return on assets.

Power distributors valued using EV/2011 EBITDA and P/2011 BV multiples

We looked at the multiples for several European regulated power and gas transmission and distribution companies. The average EV/2011 EBITDA multiple stands at 8.8 and the average P/2011 Book Value multiple comes close to 1.9. We applied a 25% discount to account for the regulatory risk to compute our fair value estimates. The fair values are higher than in our previous report on higher multiples, higher book values and in most cases stronger profitability.

Valuation of power distributors

RON mn	2011 EBITDA	2011 Book Value	Net debt	Fair value derived from EV/EBITDA	Fair value derived from P/B	Average fair value discounted by 25%
E.ON Electrica Moldova Distributie	172.5	1817.1	-82.8	1,597.4	3,434.3	1,886.9
Electrica Muntenia Nord Distributie	141.8	1257.8	-178.1	1,423.0	2,377.2	1,425.1
Electrica Transilvania Nord Distributie	120.3	859.1	22.3	1,033.5	1,623.6	996.4
Electrica Transilvania Sud Distributie	107.6	921.0	66.5	878.0	1,740.7	982.0
ENEL Distributie Banat	294.1	1846.2	-429.8	3,012.2	3,489.4	2,438.1
ENEL Distributie Dobrogea	171.4	1251.1	-147.7	1,652.6	2,364.6	1,506.4
ENEL Distributie Muntenia	143.3	2867.0	-1,314.3	2,572.6	5,418.6	2,996.7

*Source: Company data, Raiffeisen Capital&Investment; *EBITDA adjusted to exclude other income (incl. penalties) and expenses with donations, settlement of claims and assets sold*

Supply

Although domestic consumption rose by 3.3% in 2011, consumption on the regulated market contracted by 6% yoy to 20.3 TWh, mainly due to the 14% decrease in consumption of non-households. However over the first eleven months of 2012 the consumption of regulated consumers went up by 3% yoy to 18.9 TWh, accounting for close to 45% of domestic consumption. The evolution of consumption on the regulated segment impacts directly the main suppliers, given their direct exposure to this market. The power suppliers in FP's portfolio accounted over Jan-Nov 2012 for 46% of the total supply to final consumers and 87% of the supply to the regulated market (with 13% supplied by CEZ).

The supply to captive consumers is regulated, allowing for a return of 2.5% above the power acquisition and related costs. On the other hand the supply price to eligible consumers is negotiated between the supplier and final consumer. Between 80% to 90% of the energy supplied by each major supplier goes to captive consumers, which reflects the portion of the business that has its profit capped to 2.5% of energy cost.

After receiving the shareholders' approval in the GSM of November 2011, at the end of December 2011 E.ON Gaz Romania took over E.ON Moldova Furnizare and changed its name into E.ON Energie Romania.

The supply companies where the majority shareholder remains the state (Electrica Furnizare Muntenia Nord, Electrica Furnizare Transilvania Nord and Electrica Furnizare Transilvania Sud) have merged as of 22 July 2011 under a new entity, Electrica Furnizare.

2011 Financial Data

RON mn	Turnover	yoy	EBITDA	yoy	Net profit	BV	Qty supplied TWh	yoy
Electrica Furnizare	3,890.0	n.a.	n.a.	n.a.	n.a.	75.6	10.1	5%
ENEL Energie	1,897.2	-1%	-73.0	n.m.	-43.1	121.2	4.6	6%
ENEL Energie Muntenia	1,842.3	0%	-23.4	n.m.	-1.3	309.9	4.1	-6%

Source: ISI Emerging Markets, ANRE

**EBITDA adjusted to exclude other income (incl. penalties) and expenses with donations, settlement of claims and assets sold*

Power suppliers valued using P/2011 Sales multiples

Valuation

In our previous report we applied a valuation method using the regulated return on the energy acquisition costs. Given the lack of information regarding the energy acquisition costs for 2011, we apply now P/2011 sales multiples to value the electricity suppliers. We used the average P/Sales multiple for CEE utilities players of 0.38, to which we applied a discount of 50%, to account for the weak profitability.

Valutaion of power suppliers

RON mn.	*2011 Sales*	*Fair value derived from P/S*
Electrica Furnizare	3,890.0	729.8
ENEL Energie	1,897.2	355.9
ENEL Energie Muntenia	1,842.3	345.6

Source: Raiffeisen Capital&Investment estimates

Oil & Gas Market

FP has a high exposure to the oil & gas sector through its significant stakes in OMV Petrom, Romgaz, Transgaz and gas supply and distribution companies. Based on our valuation the oil&gas assets amount to RON 8 bn and have a weight of 55% in FP's portfolio. We have attached now a higher value to these companies mainly due to OMV Petrom's positive share performance and higher valuation for Romgaz. For the latter, lower cost of equity and higher assumptions for gas prices after the beginning of the gas market liberalization have been the main drivers of higher valuation.

Valuation Summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
OMV Petrom	Oil&Gas Producer	25,523.8	20.1%	5,130.3	35.4%
Romgaz	Oil&Gas Producer	12,134.2	15.0%	1,818.9	12.5%
Transgaz	Gas Transportation	2,531.4	15.0%	379.2	2.6%
E.ON Gaz Distributie + E.ON Gaz Romania	Gas Distribution&Supply	1,812.2	12.0%	217.3	1.5%
GDF Suez Energy Romania (incl. Distrigaz Sud Retele)	Gas Distribution&Supply	3,790.2	12.0%	454.8	3.1%
Total				**8,000.5**	**55.2%**

Source: Companies, Raiffeisen Capital&Investment estimates

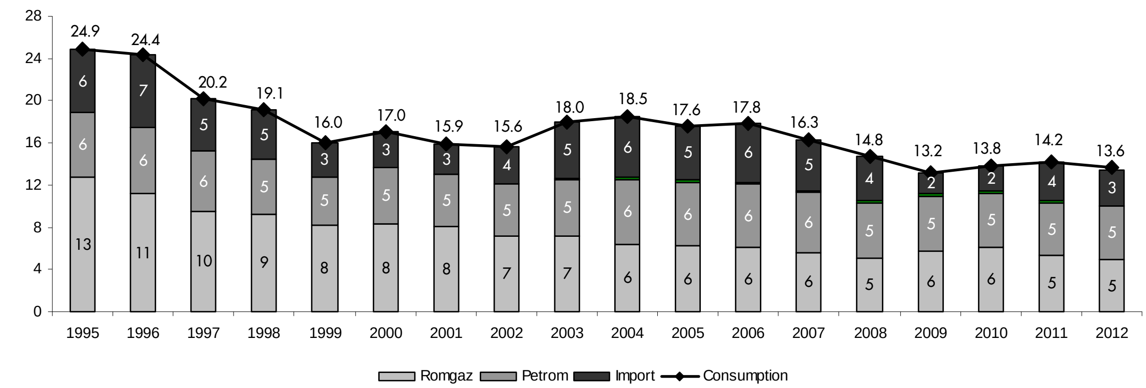
Gas Market overview

Romania's gas consumption increased in 2010 and 2011 but contracted in 2012

Romania's gas consumption followed a downward path over 2005-2009, the most dramatic fall, of 15%, being seen in 2009, fuelled by the plummeting economy. Over 2010 and 2011 gas consumption rebounded by 5% and 3%, respectively to reach 150.8 TWh. This rebound was driven by an increase in consumption from eligible consumers, such as fertilizers producers. In 2012, gas consumption contracted by 4% to 144.7 TWh, on the back of lower demand from both households and industrial consumers. The main gas consumers on the local market are energy producers, households and chemical producers, which, combined, accounted for 65% of total domestic consumption during 2012.

Romania's gas production has been on a downward trend over the last two decades, amounting to around 10.3 bcm in 2012.

Gas consumption and production sources, bcm



Source: ANRE, Government Paper on Strategy for the Energy Sector, Raiffeisen Capital&Investment

The country's proven gas reserves are around 143 bcm

The official estimates for Romania's proven gas reserves differ, depending on the source. Thus, they amount to around 141 bcm (939 mn boe) according to ANRE's 2009 Annual Report or 109 bcm according to the National Agency for Mineral Resources. According to our estimates, based on available information from Petrom and Romgaz, proven gas reserves (1P) amount to some 143 bcm, which, assuming a replacement rate of 0%, could be exhausted in 10 years.

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

In order to ensure fair access to the lower-priced domestic gas, suppliers must provide a regulated basket of import and domestic gas. The prices for captive consumers include the following regulated components: (i) distribution tariff; (ii) suppliers' margin for the regulated supply activities; and (iii) the acquisition cost of the gas. The acquisition cost of gas (the basket price) published by ANRE is apparently indicative, but it is actually followed by all operators. The indicative price for domestic gas remained unchanged since 2008 until the end of 2012 at 45.71 RON/MWh (495 RON/m^3 or 147 USD/m^3 with the exchange rate from the end of 2012) while the import gas prices were close to 130.8 RON/MWh in December 2012 (412 USD/1,000 m^3).

The Romanian gas market has been an open market since mid-2007, as consumers are allowed to change their supplier. At the end of December 2012 the real market opening reached 54.6%.

The price for domestic producers has been kept at around USD 160/ 1,000 m^3

The deregulation of the domestic gas price has been one of the tasks assumed by the government before Romania's adhesion to the EU. The gas price was supposed to be liberalized by January 2007 and actually the price did go up by some 60% in 2005 in RON terms (50% in USD terms). In 2006 and 2007 the price was raised again by 24% and 18% respectively in RON (41% and 34% in USD terms). The crisis effectively stopped the deregulation process, and the price remained constant starting 2008 in RON terms at RON 495/1000 bcm (RON 45.7/MWh). At the same time, the import price recovered from the 2009 dive at USD 270/1000 bcm in 3Q 2009 to reach USD 410/1000 bcm in 4Q 2012. This widened significantly the gap between the two prices (domestic gas price must almost triple to reach the level of the import price), which explains the controversy over the liberalization, given its expected impact on consumers. The process would have been probably further delayed if not for the pressure exercised by the IMF.

The government included in the power and gas law that passed on July 2012 a deadline for the finalization of the domestic gas price liberalization for the two main types of consumers, households and non-households. The price paid by non-households is due to be liberalized until the end of 2014, but the deadline can be prolonged to end-2015 if the raises endanger market stability. The deadline for households is end-2018. The first price increase for non-households took place on February 1, 2013 and the second on April 1, following the calendar approved by the Government, and they should be followed by quarterly price increments until the price reaches RON 119/MWh (from RON 45.7). For households, the first price increase is scheduled to take place in July 2013.

We present below the evolution of the domestic gas price assumed in the calendar issued by the Government for both types of consumers and a weighted average of the gas price for local producers assuming a 70%/30% split between industrial consumers and households (incl. thermal energy producers).

Average gas prices according to calendar approved, RON/MWh

	2011	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e
Industrial consumers (avg)	45.7	45.7	58.7	97.4	119.0	119.0	119.0	119.0	119.0
chg yoy		0.0%	28.4%	65.9%	22.2%	0.0%	0.0%	0.0%	0.0%
Households (avg)	45.7	45.7	47.4	52.6	60.3	73.5	89.6	109.9	119.0
chg yoy		0.0%	3.8%	10.9%	14.6%	21.9%	22.0%	22.7%	8.3%
Domestic gas price (70/30 split)	45.7	45.7	55.3	83.9	101.4	105.3	110.2	116.3	119.0
chg yoy		0.0%	21.0%	51.7%	20.8%	3.9%	4.6%	5.5%	2.3%

Source: ANRE website

Romgaz

It is the largest Romanian gas producer, with a 2011 output of 5.5 bcm, having also large storage facilities

The downward trend in Romgaz's production continued in 2011, the company producing 5.47 bcm (excluding its JVs), 2.7% less than a year before. Annual sales advanced by 18% yoy to RON 4.2 bn, on the back of both higher quantity of imported gas and surging import prices. Realized price of domestic gas increased to 467 RON/1.000 cm, as the company reduced the discounts offered but still remained below the domestic cap of 495 RON/1.000 cm. The company's net profit come in at a record RON 1.03 bn, up a whopping 58%. But, earnings quality was weak as the main net profit growth drivers were lower net expenses to build up development reserves and a reversal of receivables provisions. We remind that the former are non-cash depreciation-like expenses which Romgaz is required to make according to the law.

The process for the listing of a 15% stake in Romgaz has commenced almost one year ago when a consortium of investment banks was appointed to manage the process. The last letter of intent with IMF says that the listing should take place by autumn of 2013.

Financial data 2011

RON mn	Turnover	Sales growth 11/10	adj. EBITDA&DR	adj. EBITDA&DR margin	EBIT	Net profit	Net profit margin	BV	Net Debt
Romgaz	4,211	18%	1,880	66%	1,265	1,032	25%	9,584	-2,511

Source: Company

The company's 1H 12 sales amounted to RON 2.2 bn, up 10% yoy while net profit for the period stood at RON 558 mn, up 14% yoy.

Assumptions

		2010	2011	2012f	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e
Sales	RON mn	3,574	4,211	4,662	4,984	5,765	6,791	7,339	7,613	7,813	7,816	7,816
adj. EBITDA&DR	RON mn	1,958	1,880	2,045	2,332	2,913	3,237	3,558	3,709	3,813	3,817	3,822
EBITDA&DR margin	%	70.5%	65.7%	66.4%	66.6%	67.1%	59.5%	59.6%	59.6%	59.3%	59.3%	59.3%
E&P												
Gas production	bcm	5.6	5.5	5.4	5.2	5.1	5.0	4.9	4.9	4.8	4.7	4.7
Replacement rate	%	35%	150%	115%	55%	55%	55%	55%	55%	55%	50%	50%
Gas prices												
Net price for domestic gas	RON/1000 mc	431	467	481	573	739	961	1076	1140	1197	1215	1234
% of international prices	%	39%	37%	32%	41%	55%	75%	83%	87%	90%	91%	91%
CAPEX												
CAPEX/sales	%	28%	23%	22%	22%	22%	22%	23%	23%	23%	23%	23%
CAPEX	RON mn	773	647	1,019	1,079	1,254	1,511	1,651	1,732	1,797	1,817	1,817

Source: Romgaz, Raiffeisen Capital&Investment estimates

Valuation

Several changes in assumptions worked to lift our fair value estimate to RON 12.1 bn

We continue to value Romgaz with a long term DCF model and we performed several critical changes to several key assumptions. Thus, based on new information received (still limited), we consider that the company's 1P gas reserves stand as of end-2012 at 88.5 bcm (553 boe), based on an assumption of 2010 reserves of 85 bcm and a replacement rate above 100% reported for 2011 and 2012. Furthermore we lifted our assumptions for the replacement rate for the next years to 50% vs. 35%. And not lastly we incorporated the gas price liberalization. Our assumption for domestic gas prices is based on the liberalization calendar agreed by the government with IMF, but with some delays. Thus, we expect now that domestic prices will go up over 2012-2020 at a CAGR of 13%, compared to 9% previously, with the bulk of the increment taking place over 2013-2015. We assume that the domestic prices will settle at 91% of external prices from 2021 onwards. Moreover, we included the newly introduced 60% windfall tax on extra profits from gas prices liberalization (after the deduction of royalties and investments in upstream - max. 30% of additional revenues) and we assume that the tax will remain in force until the end of 2014 when we expect the government to double the royalties (to around 16% of revenues). We also trimmed our CAPEX projections which nevertheless are expected to remain elevated. We did not take into account the impact from the takeover of Iernut power plant. Adding in the lower cost of equity there is no surprise that our model implies now a significantly higher fair value for Romgaz of RON 12.1 bn, up 65% compared to our previous estimate.

Romgaz DCF Valuation

RON mn	***2013e***	***2014e***	***2015e***	***2016e***	***2017e***	***2018e***	***2019e***	***2020-36e avg.***	***2037-52e avg.***
EBIT*(1-T)	892	966	1,535	1,699	1,834	1,898	1,902	1,914	949
Depreciation&DR	1,208	1,307	1,453	1,572	1,579	1,614	1,632	1,147	1,307
CAPEX	-1,079	-1,254	-1,511	-1,651	-1,732	-1,797	-1,821	-1,565	-1,147
Change in WC	-517	-435	-589	-311	-127	-79	3	59	107
FCFF	504	584	888	1,310	1,553	1,636	1,717	1,555	1,216
WACC	13%	13%	13%	13%	13%	13%	13%	12%	12%
Disc. FCFF	460	472	635	829	870	811	753	288	33
PV of FCFF	10,250								
TV	0								
PV of TV	0								
Net Debt	-1884								
Fair Value	**12,134**								
FP's stake	**1,819**								

Source: Romgaz, Raiffeisen Capital&Investment estimates

Gas Distribution and Supply

FP owns stakes in the largest gas distributors (E.ON Gaz Distributie and GDF Suez Energy Romania) and the main gas suppliers on the regulated market. The suppliers GDF Suez Energy Romania and E.ON Energie Romania had a market share of 50% and 40% respectively of the regulated market in 2012. In the case of GDF Suez, the fully owned entity Distrigaz Sud Retele performs the distribution activity while the assets are recorded in GDF Suez Energy's balance sheet.

Summary of Key Figures for Gas Utilities

RON mn	***BV 2011***	***PPE 2011***	***EBITDA 2011***	***Net profit 2011***	***Fair Value***
GDF Suez Energy Romania (incl. Distrigaz Sud Retele)	2,830.3	2,306.6	499.1	344.9	3,790.2
E.On Energie Romania + E.On Gaz Distributie	1,704.9	1,145.0	238.6	38.8	1,812.2

Source: ISI Emerging Markets, Raiffeisen Capital&Investment estimates

**EBITDA adjusted to exclude other income (incl. penalties) and expenses with donations, settlement of claims and assets sold*

The supply and distribution activities are regulated by the revenue-cap methodology, which is designed to allow for a certain return on the regulated asset base. The return for the current regulatory period (2008-2012) is set at 8.63%. The same as for the power utilities, the start of the third regulatory period was delayed by one year until 2014. Plus, starting February 2013, a new tax of RON 0.75/MWh, called monopoly tax, is applied to the volumes distributed. At the moment it is not clear whether the tax would be included in tariffs or not.

Domestic gas price liberalization expected to weaken gas consumption

In February 2013 the process for the deregulation of the domestic gas price started. The price for industrial consumers is due to be liberalized by the end of 2014 and the price is scheduled to go up from RON 45.7/MWh to RON 119/MWh. Until now the price was raised twice, beginning of February and beginning of April. We expected this process to impact domestic gas consumption and implicitly the volumes supplied and distributed.

2011 Financial Data

RON mn	Turnover	yoy	EBITDA*	EBITDA 2010	Net profit	BV
Distrigaz Sud Retele	1,100	5%	150	111	135	205
GDF Suez Energy Romania	4,091	9%	275	319	210	2,830
E.On Gaz Distributie	800	1%	362	316	231	1,194
E.ON Energie Romania	4,261	73%	-212	-151	-192	511

Source: Source: ISI Emerging Markets

**EBITDA adjusted to exclude other income (incl. penalties) and expenses with donations, settlement of claims and assets sold*

Valuation

Gas distributors and suppliers valued using EV/2011 EBITDA and P/2011 BV multiples

Given the delay of the start of the third regulatory period, the introduction of the monopoly tax, and the start of the liberalization of the domestic gas price which could impact volumes, we perceive now a more elevated regulatory risk. As a result we decided to change our valuation method from a simplified DCF model based on regulated return on assets to the average value derived from EV/EBITDA and P/B multiples of CEE peers.

We value together the gas distribution and supply businesses of GDF and E.ON using a peer comparison with European power&gas distribution and supply companies. We use the 2011 EBITDA for the two gas utilities (cumulated for the distribution and supply companies) and the 2011 book value and the median multiples of several CEE gas utilities players (EV/2011 EBITDA of 8.3 and P/2011 BV of 2.3) to which we apply a 25% discount that we believe is justified by the high regulatory risk. The fair values are higher than in our previous report due to higher trading multiples of their peers.

Valuation Gas Distribution and Supply

RON mn	2011 EBITDA	2011 Book Value	Fair value derived from EV/EBITDA	Fair value derived from P/B	Average fair value discounted by 25%
E.On Energie Romania + E.On Gaz Distributie	150.0	1704.9	854.1	3,978.4	1,812.2
GDF Suez Energy Romania (incl. Distrigaz Sud Retele)	424.8	2830.3	3,502.7	6,604.4	3,790.2

Source: Raiffeisen Capital&Investment estimates

**EBITDA adjusted to exclude other income (incl. penalties) and expenses with donations, settlement of claims and assets sold*

Transportation Sector

Due to the 20% equity interest in the three airport companies and the four port operators, this sector remains significant for FP's portfolio.

Valuation Summary

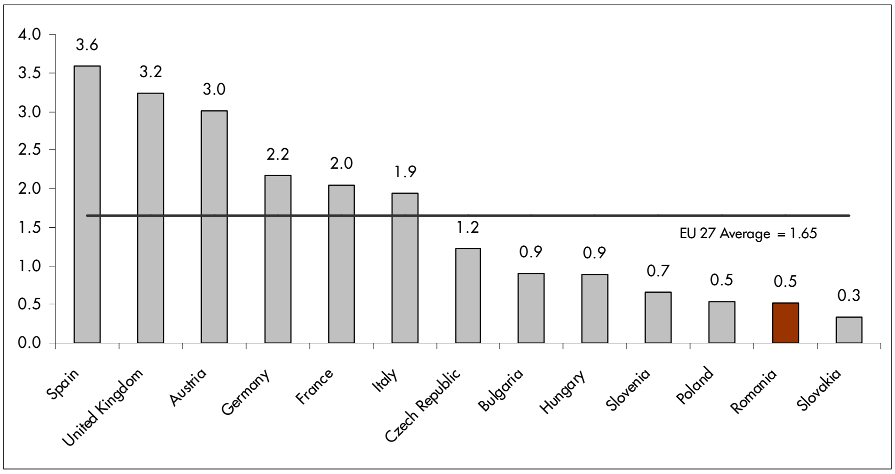
Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
CN Aeroporturi Bucuresti	Airports	1,550.8	20.00%	310.2	2.3%
Aeroportul Internat. Timisoara T. Vuia	Airports	215.1	20.00%	43.0	0.3%
Aeroportul Internat. M. Kogalniceanu	Airports	24.9	20.00%	5.0	0.0%
CN Administratia Porturilor Maritime	Ports	690.2	20.00%	138.0	1.0%
CN Administratia Porturilor Dunarii Maritime	Ports	0.0	20.00%	0.0	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	61.3	20.00%	12.3	0.1%
CN Administratia Canalelor Navigabile	Ports	69.0	20.00%	13.8	0.1%
Total				**522.2**	**3.8%**

Source: Raiffeisen Capital&Investment estimates

Airports

The traffic of the Romanian airports performed better than the overall economy for the past ten years through 2012, reflecting its relative underdevelopment relative to western peers. But, lately one could notice a trend of shrinking over-performance relative to GDP. Nevertheless, we consider that given the low penetration of aerial transport in Romania, as seen in the below graph, airports will continue to post robust traffic growth over the medium term.

Number of air passengers per inhabitant, 2011



Source: Eurostat, Raiffeisen Capital&Investment estimates

Passengers traffic figures

million passengers	2006	2007	2008	2009	2010	2011	2012
CN Aeroporturi Bucuresti	4.2	5.9	6.8	6.5	7.0	7.45	7.55
Aeroportul Traian Vuia -Timisoara	0.75	0.86	0.89	0.96	1.14	1.20	1.21
Aeroporul Mihail Kogalniceanu - Constanta	0.05	0.05	0.07	0.09	0.08	0.09	0.08

Source: Companies

Valuation

As we did previously, we value CN Aeroporturi Bucuresti with a DCF while for the other two companies, Aeroportul Traian Vuia – Timisoara and Aeroportul Mihail Kogalniceanu – Constanta, we apply a comparative valuation based on both trading multiples of listed peers and an industry metric. We also present the comparative valuation results for CN Aeroporturi Bucuresti. Our comparative valuation gives a 70% weight to the average peers' trading multiples (EV/Sales, EV/EBITDA and PE based on 2011 figures) and 30% to the price/passengers metric (based on the 2012 traffic figures).

Financial data 2011

RON mn	Turnover	Sales growth 11/10	EBITDA	EBITDA margin	EBIT	Net profit	Net margin	BV	Net Debt
CN Aeroporturi Bucuresti	474.3	8%	212.9	45%	88.5	52.6	11%	4,975.0	162.1
Aeroportul Traian Vuia -Timisoara	42.8	1%	19.9	46%	11.0	8.7	20%	40.2	-0.9
Aeroportul Mihail Kogalniceanu - Constanta	15.2	10%	2.3	15%	0.0	-0.1	-1%	12.4	-1.1

Source: Romanian Trade Register, adjusted CN Aeroporturi Bucuresti 2010 figures

Peer Group

Company	Bloomberg Ticker	P/E		EV/EBITDA		EV/Sales		Price/pax, EUR
		2010	2011	2010	2011	2010	2011	2012
Aeroports de Paris	ADP FP	21.8	18.1	10.5	10.0	3.5	3.9	73.8
Save Venezia	SAVE IM	19.7	14.0	10.5	9.6	1.9	1.9	51.6
Flughafen Zurich	FHZN SW	19.6	15.9	8.5	7.6	4.3	4.1	89.6
Flughafen Wien	FLU AV	12.9	10.3	10.0	8.1	3.2	2.9	44.0
Fraport	FRA GR	15.3	16.7	10.9	9.7	3.6	3.3	40.5
Copenhagen Airports	KBHL DC	20.7	24.8	13.0	12.2	6.7	6.5	108.0
Average		18.3	16.6	10.6	9.5	3.9	3.8	67.9
Median		19.6	16.3	10.5	9.6	3.6	3.6	62.7
Values implied from multiples, RON mn								
Aeroportul Henri Coanda- Otopeni		910.0	856.5	1,739.2	1,890.0	1,404.1	1,542.9	2,089.5
Aeroportul Traian Vuia –Timisoara		245.5	142.0	240.5	192.9	152.5	154.9	336.2
Aeroporul Mihail Kogalniceanu - Constanta		0.7	-1.8	29.5	23.6	50.1	55.7	22.7

Source: Raiffeisen Capital&Investment estimates, Bloomberg prices as of March 24, 2013

Valuation

RON mn	Fair value derived from passengers metric	Fair value derived from trading multiples	Fair value derived with DCF	Fair value estimate	FP stake, %	FP stake
CN Aeroporturi Bucuresti	2,089.5	1,429.8	1,550.8	1,550.8	20%	310.2
Aeroportul Traian Vuia -Timisoara	336.2	163.3	n.a.	215.1	20%	43.0
Aeroporul Mihail Kogalniceanu – Constanta	22.7	25.8	n.a.	24.9	20%	5.0

Source: Roiffeisen Capital&Investment estimates

CN Aeroporturi Bucuresti whose traffic grew by 1.3% yoy in 2012, we estimate would post sales of around RON 514 mn. The company operates the country's largest two airports. We expect for 2012 an EBITDA margin of around 44% and a net income of around RON 72 mn, up 36% yoy.

CN Aeroporturi Bucuresti is valued with a simplified DCF while for the other two we use comparables

Our valuation model for CN Aeroporturi Bucuresti suggests a fair value of RON 1,551 mn, some 17% higher compared to the previous update. The rationale for the higher value is a reduced cost of equity due to both reduced risk free rates and risk premium. Our valuation model assumes that traffic will grow at a 2012-2020 CAGR of 2.6%. Moreover, we assume that revenues per passenger will increase through 2020 at a CAGR of 2.2%. From the current level of 44%, we expect EBITDA margin to contract slightly to 42%. CAPEX projections used in our model are based on the assumption that the company's investment needs will decrease starting 2013, as the large investment project started in 2009 is completed.

CN Aeroporturi Bucuresti DCF Assumptions

		2010	2011	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e
Growth in pax	%	9.0%	5.9%	1.3%	1.0%	2.0%	3.2%	3.0%	3.0%	3.0%	2.9%	2.9%
Growth revenues per pax	%	1.7%	4.9%	2.7%	2.8%	2.7%	2.9%	2.9%	2.7%	2.5%	2.5%	2.5%
Staff expenses growth rate	%	30.6%	11.7%	9.5%	8.6%	3.9%	4.3%	5.0%	5.0%	4.8%	4.8%	4.8%
Other expenses to sales ratio	%	34.4%	31.2%	33.2%	32.0%	33.0%	33.0%	34.5%	35.0%	35.0%	35.0%	35.0%
CAPEX	RON mn	257	298	196	100	85	90	100	100	100	100	110

Source: CN Aeroporturi Bucuresti, Raiffeisen Capital&Investment estimates

CN Aeroporturi Bucuresti DCF valuation

RON mn	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020e
Sales	534	560	594	631	667	705	744	785
yoy growth	4%	5%	6%	6%	6%	6%	6%	5%
EBITDA	237	245	263	269	282	300	315	334
EBITDA margin	44%	44%	44%	43%	42%	42%	42%	42%
CAPEX	-100	-85	-90	-100	-100	-100	-100	-110
Change in WC	-25	6	-12	-4	8	-2	6	6
FCFF	93	146	138	141	164	168	189	194
WACC	11.3%	11.4%	11.5%	11.7%	11.8%	11.9%	11.9%	12.0%
Disc. FCFF	86	121	103	94	98	90	90	83
PV of FCFF	763							
TV growth rate	3.0%							
TV	2,229							
PV of TV	946							
Net Debt	159							
Fair Value	**1,551**							
FP's stake	**310**							

Source: CN Aeroporturi Bucuresti, Raiffeisen Capital&Investment estimates

Ports

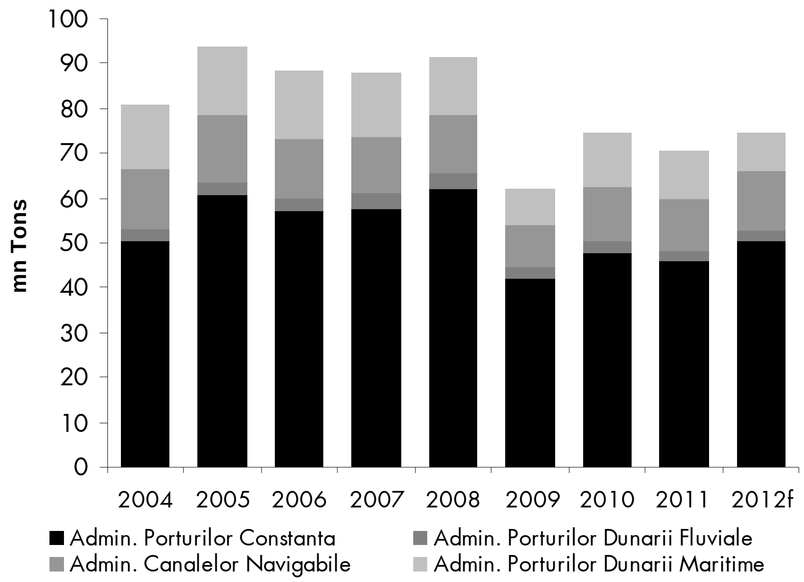
After a drop in 2011, the combined cargo traffic of the four port operators has rebounded in 2012 to the highest level since 2008. Their financial performance, as shown by their 2011 figures, seems to have improved further. The sales increased somewhat, but for us the most encouraging is the strengthening of the operating profitability as reflected by higher 2011 EBITDA margins. There was also an across the board improvement of the net profit margins.

Summary of Key Figures for Ports

RON mn	2011 cargo traffic, mn. tons	2011 EBITDA	2011 EBITDA margin	Fair value
Admin. Porturilor Constanta	50.3	85.9	38.6%	690.2
Admin. Porturilor Dunarii Maritine Galati	8.6	2.4	19.8%	0.0
Admin. Porturilor Dunarii Fluviale Giurgiu	2.4	7.0	38.0%	61.3
Admin. Canalelor Navigabile	13.3	8.8	24.3%	69.0

Source: Companies, Raiffeisen Capital&Investment estimates

Cargo Traffic by Port, mn tons



Source: Companies, Raiffeisen Capital&Investment estimates

Financial data 2011

RON mn	Turnover	Sales growth 11/10	EBITDA	EBITDA margin	EBIT	Net profit	Net profit margin	BV	Net Debt
Admin. Porturilor Constanta	222.4	2%	85.9	39%	53.00	53.0	19%	370.1 -	8.3
Admin. Porturilor Dunarii Maritine Galati	11.9	3%	2.4	20%	1.22	1.2	8%	10.4 -	2.0
Admin. Porturilor Dunarii Fluviale Giurgiu	18.5	4%	7.0	38%	4.99	5.0	22%	23.4 -	1.5
Admin. Canalelor Navigabile	36.0	-3%	8.8	24%	2.37	2.4	7%	80.4 -	0.9

Source: Romanian Trade Register

Valuation

We used to value the four companies with a comparative valuation, averaging the values implied by peers' 2011 EV/Sales, EV/EBITDA and P/E multiples. We use the same method, except for Administratia Porturilor Dunarii Maritime. For this company we decided to be on the safe side and to use the value assigned by FP itself, namely zero. The fund manager decided in October to value the company at zero since an enforceable decision of a Court required it to pay damages higher than the value of its equity (the decision could be appealed).

Peer Group

Company	Bloomberg Ticker	P/E		EV/EBITDA		EV/Sales	
2010		2010	2011	2010	2011	2010	2011
Piraeus Port Authority	PPA GA	62.0	66.8	18.5	17.4	4.4	4.9
Thessalonik Port Authority	olth GA	29.7	21.7	11.4	7.9	2.4	2.5
Bremer Lagerhaus Gesellschaft	BLH GR	8.2	n/a	5.2	4.6	0.7	n/a
Luka Koper	LKPG SV	17.2	286.6	7.4	5.9	2.4	2.1
Braemar Shipping Services	BMS LN	7.6	9.6	4.5	5.7	0.5	0.5
Novorossiysk Sea Trade Port	NMTP RU	12.6	12.6	11.0	8.2	7.2	4.3
Average		22.9	27.7	9.6	8.3	2.9	2.9
Median		14.9	21.7	9.2	6.9	2.4	2.5
Values implied from multiples, RON mn							
Admin. Porturilor Constanta		367.4	914.6	649.0	600.0	528.3	556.2
Admin. Porturilor Dunarii Maritime Galati		14.4	21.7	29.0	18.2	29.4	31.2
Admin. Porturilor Dunarii Fluviale Giurgiu		42.3	86.9	54.8	49.8	43.9	47.0
Admin. Canalelor Navigabile		22.0	56.2	71.3	61.2	88.8	89.5

Source: Raiffeisen Capital&Investment, prices as of March 24, 2013

Valuation

RON mn	2011 Sales	2011 EBITDA	2011 Net profit	Fair value derived from 2011 EV/Sales	Fair value derived from 2011 EV/EBITDA	Fair value derived from 2011 P/E	Fair value estimate
Admin. Porturilor Constanta	222.4	85.9	42.2	556.2	600.0	914.6	690.2
Admin. Porturilor Dunarii Maritime Galati	11.9	2.4	1.0	31.2	18.2	21.7	0.0
Admin. Porturilor Dunarii Fluviale Giurgiu	18.5	7.0	4.0	47.0	49.8	86.9	61.3
Admin. Canalelor Navigabile	36.0	8.8	2.6	89.5	61.2	56.2	69.0

Source: Raiffeisen Capital&Investment estimates

Posta Romana

Posta Romana's woes got worse in 2011, its sales decreasing for the second year in a row. Despite some cost cutting measures announced, operating profitability deteriorated further and net loss widened. The company is overstaffed, having around 32,000 employees and operating around 7,100 outlets and is losing market to more aggressive competitors. Its problems will worsen in 2013 as it will lose the monopoly on the mail delivery segment (with a weight of up to 50 g), its main business line.

The postal services operator was for the past two years on the list of companies which should have been privatized. According to the latest letter of intent signed with IMF, the state will cede the control to a strategic investor through a share capital increase by the end of June 2013.

Financial data 2011

RON mn	Turnover	Sales growth 11/10	EBITDA	EBITDA margin	EBIT	Net profit	Net profit margin	BV	Net Debt
Posta Romana	1265	-8%	-103	-8%	-190	-183	-14%	386	27

Source: Romanian Trade Register

Valuation

We hiked the discount applied to value Posta Romana

As we did previously, we value Posta Romana with a comparative valuation based on the 2011 EV/Sales trading multiple of peer group. As the companies from this panel are more profitable and have a better financial standing, we used to apply a discount of 35%. We decided to hike this discount to 40%, as the deterioration in the financial standing does not seem to abate. We get a fair value of RON 379 mn for Posta Romana, 36% lower than in the previous update.

Peer Group

Company	Bloomberg Ticker	P/E		EV/Sales		Profit margin	
		2010	2011	2010	2011	2010	2011
Deutsche Post	DPW GR	16.3	18.7	0.5	0.5	3%	2%
TNT	PNL NA	1.4	3.1	0.2	0.4	4%	5%
Business Post	UKM LN	19.0	18.0	0.5	0.5	3%	3%
FedEx	FDX US	21.8	16.8	0.8	0.7	4%	4%
UPS	UPS US	24.1	19.7	1.7	1.6	7%	8%
Thiel Logistic	TGH GR	n/a	25.3	0.1	0.1	0%	0%
Kuehne & Nagel	KNIA GR	16.6	n/a	0.6	0.6	3%	n/a
Osterreichische Post	POST AV	19.2	18.4	0.8	0.8	5%	5%
Average		16.9	17.2	0.6	0.7	4%	4%
Median		19.0	18.4	0.5	0.5	3%	4%
Posta Romana Value implied from multiples, RON mn		n.a.	n.a.	902.9	632.4		

Source: Raiffeisen Capital&Investment estimates, prices as of March 24, 2013

Valuation

RON mn	Sales 2011	Value derived from EV/Sales	Discount applied	Fair value
Posta Romana	1,265	632	40%	379

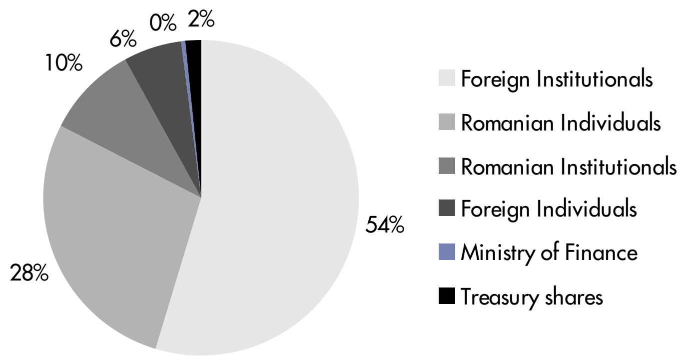
Source: Raiffeisen Capital&Investment estimates

Fact Sheet

Company description

Fondul Proprietatea was established by the Romanian State with the purpose to redeem the owners that had been dispossessed abusively of their properties by the former communist regime and whose seized assets could not be returned in kind. FP was set up in 2005 as an investment company and so far 97% of its shares have been transferred to parties entitled to receive indemnities.
FP has a strong weight of energy shares (including oil exploration and gas and power production, supply and transportation), which come to represent 88% of its portfolio. The 20% stake held in the oil&gas producer Petrom (SNP) accounts for around 35% of its portfolio. Other sectors include transportation services (several airports and ports), banks, the aluminium producer Alro and the National Postal Services company.
The well-known fund manager Franklin Templeton has been selected in September 2010 at the helm of the fund. The manager has started a strategy aimed at reducing the discount to NAV.

Shareholder structure



Strengths/Opportunities

- Fondul Proprietatea is the most liquid stock on the Romanian Stock Exchange and the second largest capitalisation wise
- Franklin Templeton's appointment has turned Fondul Proprietatea into an active investor while the blocking of the establishment of the two Energy Giants has boosted its credentials
- IMF is a strong ally, pushing for structural reforms which include privatization and restructuring of state-owned companies
- Unique exposure to the Romanian energy sector

Weaknesses/Threats

- Political risk is a sensitive issue for Fondul Proprietatea's shareholders, with 60% of its portfolio being made up of companies whose majority shareholder is the Romanian state
- Part of these companies are inefficiently run, with still politically named management
- Large part of the portfolio companies are regulated and thus subject to regulatory risk
- The privatization/listing track record of the Romanian authorities is not impressive

Recommendation history

Date	Rating	Target Price	Price	Upside
16.08.2010	Buy	1.05	0.51	105.9%
12.01.2011	Buy	0.96	0.52	84.7%
04.05.2012	Buy	0.85	0.59	43.0%

Coverage universe recommendation overview

	buy	hold	reduce	sell	suspended	UR
Universe	50	61	11	2	8	7
Universe %	36%	44%	8%	1%	6%	5%
Investment banking services	13	17	0	0	1	0
Investment banking services %	42%	55%	0%	0%	3%	0%

Source: Raiffeisen Centrobank, rounding differences may occur

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Sell: Sell stocks are expected to post a negative total return of more than -10% within a 12-month period.

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