

Company Update

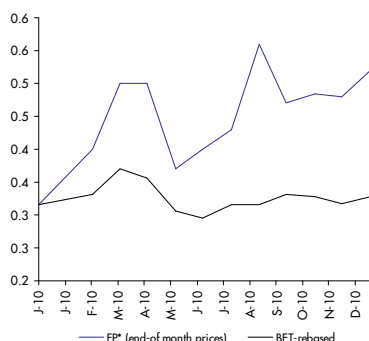
Fondul Proprietatea

January 12, 2011

Closed-end Investment Funds/Romania

Buy

Price 21.12.10	0.52
Price target	0.96
Volatility risk	high
Year high/low	0.37/0.56
Currency	RON
RON/EUR	4.26
GDR rate	n.a.
Shares outstanding eoy	13,757.59
Market capitalisation (total shares) in EUR mn	1,679.33
Free float	61.1%
Free float in EUR mn	1,026.07
Avg. daily turnover (12 m) in EUR mn	n.a.
Index	n.a.
ISIN code	ROFPTAACNOR5
Bloomberg	3406924ZRO
Reuters	n.a.
www.fondulproprietatea.ro	



Source: Raiffeisen Capital&Investment

History in the making

The Fund: Fondul Proprietatea (FP) was established by the Romanian State with the purpose to redeem the owners that had been dispossessed abusively of their properties by the communist regime and whose seized assets could not be returned in kind. FP was founded in 2005 as an investment company, with the Ministry of Finance being the sole shareholder. Progressively, the ownership of its shares was transferred to individuals entitled to receive indemnities from the Romanian state. Currently, the Ministry of Finance holds a participation of 38.9% in FP's share capital with the remaining participation being held by over 5,000 private shareholders.

Investment case: With the listing of FP on the main market of the Bucharest Stock Exchange now just two weeks away, we decided to review our initiation report from August 2010 as well as its portfolio valuation. We see the listing, a momentous event in itself, translating into lower discounts between the market price and NAV than previously witnessed on the OTC market. In our view, besides the size and anticipated liquidity, FP has several traits that make it an attractive complement to a portfolio of Romanian/SEE assets. Among these: i) the unique access to the Romanian energy sector (including a generous list of appealing unlisted companies), ii) a wider base of potential investors after the listing, iii) the recent confirmation of Franklin Templeton as the asset manager which should have a positive impact on some state-controlled companies through its active stance as minority shareholder, iv) the buy-back program voted by the shareholders, v) the generous upside of our TP from the latest OTC prices.

Valuation and recommendation: We employ a sum-of-the parts (SOTP) valuation in order to reach FP's NAV. The stakes in the listed companies (e.g. Petrom, Transgaz) were marked-to-market, while for the unlisted shareholdings we have chosen specific valuation methods depending on the amount of information available and our judgment on the most suitable method for each sector. We applied simplified DCF models for the energy producers and Romgaz and valuation models based on regulated return and/or EV/EBITDA multiples for electricity and gas distributors and suppliers. Our valuation yields a NAV per share of RON 1.02, to which we apply a 20% discount (cash excluded) to obtain our fair value of RON 0.84 per share.

To compute our 12m TP, we apply a discount of 20% to NAV and the result we carry forward with the cost of equity. We set our 12m TP at RON 0.96 which implies a hefty, 85% upside potential from the latest trading price (RON 0.52), therefore we reiterate our "buy" recommendation for the stock.

Key figures

RON	RON mn	EUR mn
Portfolio	12,728.9	2,986.5
- Listed	5,058.3	1,186.8
- Not-Listed	7,670.6	1,799.7
Debt	115.3	27.1
Cash	1,421.5	333.5
NAV	14,035.1	3,293.0
NAV per share (RON/EUR)	1.02	0.24
Current Fair Value	11,489.3	2,695.7
Current Fair Value per share (RON/EUR)	0.84	0.20
12-m Target Value	13,201.2	3,097.4
12-m Target Price (RON/EUR)	0.96	0.23

Source: Raiffeisen Capital&Investment estimates

Analyst: Alexandru Combei, CFA
 Tel.: +40 21 306 – 1239
 e-mail: alexandru.combei@raiffeisen.ro
 Analyst: Ionut Gutis
 Tel.: +40 21 306 – 1267
 e-mail: ionut.gutis@raiffeisen.ro
 Analyst: Iuliana Mocanu, CFA
 Tel.: +40 21 306 – 1202
 e-mail: iuliana-simona.mocanu@raiffeisen.ro
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Table of contents

Investment case	3
Valuation	5
The strategy under Franklin Templeton.....	12
Electricity Market	13
Power Generators	14
Power Supply and Distribution	25
Transelectrica.....	30
Oil & Gas Market.....	31
Petro rom	31
Romgaz.....	34
Gas Distribution and Supply.....	37
Transgaz	40
Transportation Sector	41
Airports.....	41
Ports	44
Other shareholdings.....	48
Posta Romana.....	49
Alro	51
Salrom	52

Investment case

With the listing of Fondul Proprietatea (FP) now two weeks away, we decided to review our initiation report from August 2010. The strong case in favour of the stock remains in place and after reassessing the valuation of its portfolio, we maintain the “buy” rating with a 12m target price (TP) of RON 0.96, which points to an 85% upside from the latest available OTC prices.

In our view, besides the size (FP will be in top three stocks on the Bucharest Stock Exchange in terms of market capitalization) and anticipated liquidity, FP has several traits that make it an attractive complement to a portfolio of Romanian/SEE assets. Among these we mention (i) the unique access to the Romanian energy sector (including a generous list of appealing unlisted companies); (ii) the imminent listing of the fund on the Bucharest Stock Exchange (BVB) that will widen the base of potential investors; (iii) the recent confirmation of Franklin Templeton as the asset manager which should positively impact some state-controlled companies from its portfolio through its active stance as minority shareholder; (iv) a buy-back program has been approved by the shareholders and, not least, (v) the generous upside from the latest OTC prices.

FP offers investors exposure on the energy sector

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

The listing will widen the base of potential investors

Listing. FP's shares will start trading on BVB on January 25, 2011 through an administrative listing. It has to be mentioned that FP's shares were traded OTC but compliance with a complicated procedure was needed (starting with December 21, 2010 and until the listing, the transactions with FP shares were halted by the Securities Commission). The listing is expected to bring further liquidity to the shares and make FP investable to a broader category of investors. Moreover, FP's listing will increase overall market capitalization weighted by free-float by around 80%

Franklin Templeton was appointed as FP's asset manager

Franklin Templeton. After months of delays, in September 2010 Franklin Templeton has been officially named FP's manager. With the nomination of Franklin Templeton at its helm, FP is expected to become an active minority shareholder. A more active stance is already visible if one takes a look at FP's position regarding the issue of establishing “the two energy giants”. Moreover, experienced staff will be appointed in the Board of the companies from FP's portfolio. We see the activism of FP to be one of the main positive drivers for the shares in the medium and long run, as it will put pressure on portfolio companies to boost efficiency.

A buy-back program has been approved

Buy-back. FP's shareholders have approved during September 2010 GSM a shares buy-back program of up 10% of its shares at a price per share ranging between RON 0.2 – 1.5. The buy-back program will run from the listing date until March 01, 2012.

FP shares are carrying a hefty discount to NAV

Valuation. We apply a SOTP methodology to value FP. We mark-to-market the listed shares, while for the most important unlisted shareholdings we run different methodologies. We have chosen for each company a specific valuation method depending on the amount of information available and our judgment on the most appropriate method for the sector. In some cases we were able to employ just a comparative valuation, as the companies are rather opaque regarding their development plans. However, for the five energy producers and Romgaz we applied a simplified DCF model while for the electricity and gas distributors we employed a

valuation model based on regulated return and/or EBITDA multiples. Thus we get a NAV of RON 14.04 bn or RON 1.02 per share, while to reach the fair value of RON 11.49 bn or RON 0.84 per share, we discounted FP's portfolio value by 20% (except for the cash position). By carrying forward both FP's portfolio and its cash position we reach a 12m TP of RON 0.96 per share. Given the latest indication about FP share price (from December 21, 2010) of RON 0.52, we issue a "buy" rating for FP's shares.

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

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

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

Our valuation points to a NAV per share of RON 1.02

Valuation

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

FP was founded in 2005 as an investment company, with the Ministry of Finance being the sole shareholder. Progressively, the ownership of its shares was transferred to individuals entitled to receive indemnities from the Romanian state. At present, the Ministry of Finance holds a participation of 38.9% in FP's share capital with the remaining participation being held by a little over 5,000 private shareholders.

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

In order to obtain a fair value for FP we used a sum-of-the parts (SOTP) method. We mark-to-market the listed shares, while for the most important unlisted shareholdings we run different methodologies, discounted cash-flows for the energy producers and Romgaz, a valuation model based on regulated return and/or EBITDA multiples for the electricity and gas distributors and comparative valuation based on industry metrics and/or historical financial indicators for the remaining companies. According to our findings the value of FP's portfolio stands at RON 12.7 bn. By adding the sizeable cash position (mostly held in bank deposits and T-bills) of RON 1.4 bn, and deducting the debt (RON 115.3 mn), we obtain a NAV of RON 14.04 bn for FP corresponding to a per share value of RON 1.02. In order to reach our fair value estimate, we discount the value of the portfolio by 20% and add the net cash position which results in a fair value of RON 11.5 bn, meaning RON 0.84 per share.

Fondul Proprietatea Valuation Table

	RON mn	EUR mn
Portfolio	12,728.9	2,986.5
- Listed	5,058.3	1,186.8
- Not-Listed	7,670.6	1,799.7
Debt	115.3	27.1
Cash	1,421.5	333.5
NAV	14,035.1	3,293.0
NAV per share (RON/EUR)	1.02	0.24
Discount to Portfolio for Current Fair Value	20%	20%
Value of Discounted Portfolio	10,183.1	2,389.2
Net cash	1,306.2	306.5
Current Fair Value	11,489.3	2,695.7
Current Fair Value per share (RON/EUR)	0.84	0.20
Cost of equity	14.9%	14.9%
12-month Portfolio Value	14,625.5	3,431.5
Discount to Portfolio for 12-m Fair Value	20%	20%
Value of Discounted Portfolio	11,700.4	2,745.2
Net cash	1,500.8	352.1
12-month Target Value	13,201.2	3,097.4
12-m Target Price (RON/EUR)	0.96	0.23

Source: Raiffeisen Capital&Investment estimates

FP's portfolio is tilted toward energy sector

Fondul Proprietatea's portfolio is diversified in terms of the sectors the fund has exposure to, which range from the energy sector (production, supply, distribution, oil & gas) to transportation (airports, ports), postal services (Posta Romana) and many others (chemicals, metallurgy, machinery, real estate etc.). However, FP's portfolio is heavily weighted on the energy sector as

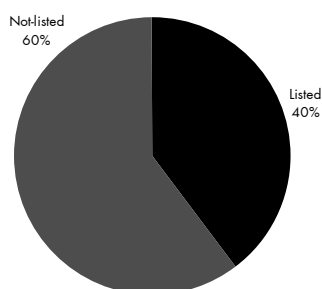
the stakes in oil & gas, energy producers and utilities companies make up for slightly over 90% of FP's portfolio value (based on the values resulted from our valuation). Thus, if the five investment companies (SIFs) listed on the Bucharest Stock Exchange are mostly a play on the Romanian banking sector due to the large weight of banking holdings (BCR, BRD-GSG and Banca Transilvania), Fondul Proprietatea can be viewed as a play on the Romanian energy sector.

For the purpose of our valuation we have divided FP's shareholdings into three different categories: (i) 'listed', which are valued based on the last trading price, (ii) 'not-listed' containing key shareholdings that are valued using a combination of methods and (iii) 'other', which comprises FP's shareholdings in smaller, less transparent companies, which were valued by applying a discount to the values provided by FP and represent just 0.7% of the fund's portfolio.

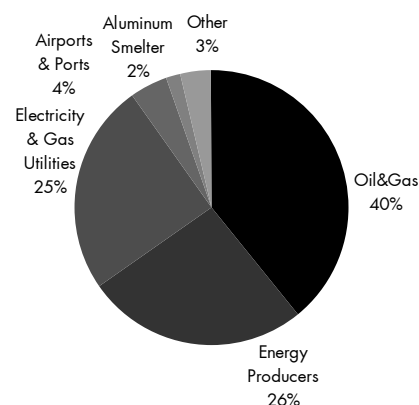
Listed shares account for 39.7% of the total portfolio

The value of FP's stakes in listed companies represents 39.7% of the overall portfolio, with the stake in OMV Petrom accounting for the bulk of the listed shareholdings (80%). The 20.1% equity interest in OMV Petrom (SNP) is the largest of FP's holdings, valued based on the last trading price of RON 0.360 (January 6), at RON 3.7 bn with a weight of roughly 31% in FP's portfolio value. The stakes in OMV Petrom, the utilities companies Transgaz (TGN) and Transelectrica (TEL) and the aluminium producer Alro (ALR) account for roughly 97% of the listed part of FP's portfolio.

Portfolio Structure: Listed vs. Not-Listed*



Portfolio Structure by Sector*



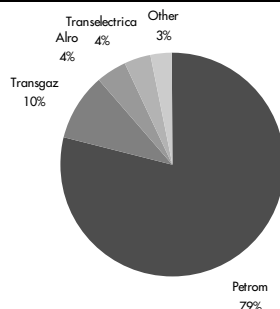
Source: Raiffeisen Capital&Investment estimates

* based on Raiffeisen Capital&Investment valuation

Hidroelectrica and Romgaz are the most valuable shareholdings after Petrom

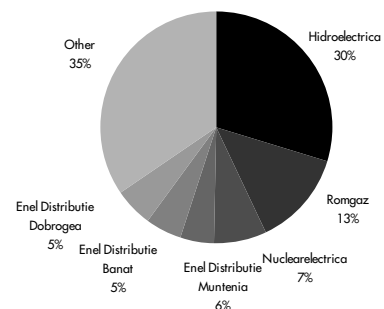
The most valuable holdings out of the not-listed companies are the 19.9% stake in Hidroelectrica (RON 2.3 bn, 17.7% of FP portfolio), the 15% stake in the gas producer Romgaz (RON 1 bn, 8.0% of FP portfolio) and the 9.7% stake in nuclear producer Nuclearelectrica (RON 538 mn, 4.2% of FP portfolio). The remaining holdings account each for less than 5% of FP's portfolio value.

Listed Portfolio Structure



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

Not-Listed Portfolio Structure*



Source: Raiffeisen Capital&Investment estimates

FP's cash position was RON 1.41 bn as of end-November 2010

As of end-November 2010, FP had accumulated a total of RON 1.41 bn in cash, which is mostly held in bank deposits and T-bills. FP's cash position has grown constantly over the last two years as FP cashed in dividends (from Petrom, Romgaz, Alro) and disinvested some stakes (e.g. CEZ Distributie, Petrom Aviation). A negative impact on the cash position was the payment in September 2010 of RON 1.13 bn as dividends from the 2008 & 2009 net profit. This was also the main reason for the decrease in NAV compared to our initiation report from August 2010.

Listed shares are marked-to-market

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

Valuation of FP stakes in Listed Companies, in RON mn

Company	Symbol	Sector	FP stake	FP stake Value	% of FP Portfolio
OMV Petrom	SNP	Oil&Gas Producer	20.1%	3,984.9	31.3%
Transgaz	TGN	Gas Transportation	15.0%	497.4	3.9%
Alro	ALR	Aluminium Smelter	9.9%	219.5	1.7%
Transelectrica	TEL	Energy Transmission	13.5%	204.7	1.6%
Conpet	COTE	Oil&Gas	20.1%	55.5	0.4%
Primcom	PRIB	Real Estate	79.0%	22.2	0.2%
Azomures	AZO	Fertilizers Producer	7.7%	20.2	0.2%
Romaero	RORX	Machinery & Engineering	21.0%	18.2	0.1%
Oil Terminal	OIL	Oil&Gas	10.0%	12.5	0.1%
Severnav	SEVE	Machinery & Engineering	39.1%	7.1	0.1%
Telerom Proiect	TEBV	IT&C design	68.6%	1.1	0.0%
Delfincom	DELF	Real Estate	65.5%	4.4	0.0%
Palace	PACY	Hotels	15.4%	4.1	0.0%
Prestari Servicii	PRVD	Services	70.6%	2.4	0.0%
IOR	IORB	Optical and photo production	2.8%	1.6	0.0%
Vitacom	VITO	Food	46.9%	0.4	0.0%
Mecon	MECP	Metallurgy	12.5%	0.4	0.0%
Transilvania Com	TRVC	Real Estate	40.0%	0.2	0.0%
Alcom	ALCQ	Retail/Real Estate	71.9%	0.2	0.0%
Turdapan	TUSB	Real Estate	44.1%	0.1	0.0%
Mecanoenergetica	MEGU	Metallurgy	10.1%	0.2	0.0%
Comcereal Cluj	COCL	Agriculture	11.4%	0.6	0.0%
Comcereal Fundulea	CCFD	Agriculture	5.4%	0.1	0.0%
Resib	RESI	Real Estate/Hotels	2.9%	0.0	0.0%
Comcereal M. Ciuc	CHAR	Agriculture	10.0%	0.0	0.0%
Forsev	FORS	Metallurgy	28.1%	0.0	0.0%
Bat Service	BATS	Road transport	33.0%	0.0	0.0%
Total				5,058.3	39.7%

Source: Bucharest Stock Exchange, Raiffeisen Capital&Investment estimates; Stock prices as of January 6, 2011

We valued separately the largest 30 out of the total 56 unlisted companies...

Not-listed companies: In order to value FP's stakes in not-listed companies we have selected the most important shareholdings (30 companies out of the total of 56 unlisted companies). We have chosen for each company a specific valuation method depending on the amount of information available (both financial and about the development strategy) and our judgment on the most appropriate method considering the sector characteristics. We applied a DCF valuation in the case of the energy producers and Romgaz, a model based on regulated assets base and EBITDA multiples for energy distributors and comparative valuation based on industry metrics and historical financial results for the remaining companies. For the comparative valuation we used specific peer companies mainly from CEE.

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
Hidroelectrică	Energy Producer	Discounted Cash Flow	19.9%	2,250.2	17.7%
Nuclearelectrică	Energy Producer	Discounted Cash Flow	9.7%	537.3	4.2%
TPP Turceni	Energy Producer	Discounted Cash Flow	24.8%	275.8	2.2%
TTP Craiova	Energy Producer	Discounted Cash Flow	24.4%	137.8	1.1%
TPP Rovinari	Energy Producer	Discounted Cash Flow	23.6%	121.1	1.0%
Romgaz	Gas Producer	Avg. EV/1P Reserves, EV/Gas Prod.	15.0%	1,013.5	8.0%
E.ON Moldova Distribuție	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	22.0%	219.6	1.7%
E.ON Moldova Furnizare	Energy Supply	Regulated Profit on Energy Acquisition Cost	22.0%	55.0	0.4%
Electrica Distribuție Muntenia Nord	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	22.0%	192.2	1.5%
Electrica Furnizare Muntenia Nord	Energy Supply	Regulated Profit on Energy Acquisition Cost	22.0%	26.7	0.2%
Electrica Distribuție Transilvania Nord	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	22.0%	187.2	1.5%
Electrica Furnizare Transilvania Nord	Energy Supply	Regulated Profit on Energy Acquisition Cost	22.0%	23.9	0.2%
Electrica Distribuție Transilvania Sud	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	22.0%	183.7	1.4%
Electrica Furnizare Transilvania Sud	Energy Supply	Regulated Profit on Energy Acquisition Cost	22.0%	20.3	0.2%
Enel Distribuție Banat	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	24.1%	370.7	2.9%
Enel Distribuție Dobrogea	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	24.1%	245.6	1.9%
Enel Distribuție Muntenia	Energy Distribution	Avg. Regulated Return on Asset Base, EV/EBITDA	12.0%	375.5	2.9%
Enel Energie Muntenia	Energy Supply	Regulated Profit on Energy Acquisition Cost	12.0%	69.0	0.5%
Enel Energie	Energy Supply	Regulated Profit on Energy Acquisition Cost	12.0%	38.3	0.3%
E.ON Gaz România	Gas Supply	EV/EBITDA	12.0%	64.5	0.5%
E.ON Gaz Distribuție	Gas Distribution	Regulated Return on Asset Base	12.0%	103.0	0.8%
GDF Suez Energy România	Gas Supply	EV/EBITDA	12.0%	120.7	0.9%
Distrigaz Sud Retele (100% owned by GDF Suez Energy)	Gas Distribution	Regulated Return on Asset Base	12.0%	189.4	1.5%
Posta Română	Postal Services	P/Sales, discounted by 30%	25.0%	200.5	1.6%
CN Aeroporturi București *	Airports	Avg. PE, P/S, EV/EBITDA, P/Pax	20.0%	371.5	2.9%
Aeroportul Internat. Timisoara T. Vuia	Airports	Avg. PE, P/S, EV/EBITDA, P/Pax	20.0%	43.7	0.3%
Aeroportul Internat. M. Kogălniceanu	Airports	Avg. PE, P/S, EV/EBITDA, P/Pax	20.0%	5.6	0.0%
CN Administrația Porturilor Maritime	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	101.3	0.8%
CN Admin. Porturilor Dunării Maritime	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	3.2	0.0%
CN Admin. Porturilor Dunării Fluviale	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	13.4	0.1%
CN Admin. Canalelor Navigabile	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	18.7	0.1%
Total				7,578.9	59.5%

Source: Raiffeisen Capital&Investment estimates

*resulted from the merger between Otopeni and Baneasa Airports

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

For the less significant stakes in not-listed companies we decided to use the official values provided by FP. Some of these values were computed back in 2007-2008 by specialized valuers. As the valuations are not up-to-date and as they were performed in better economic environment we discount the official FP figures by 50%. We considered a null value for the companies that are currently under insolvency, under judicial reorganization or bankruptcy procedures. The cumulated value of these stakes stands at RON 91 mn and represent 0.7% of FP total portfolio.

Valuation of 'Other' FP shareholdings, in RON mn

Company	Sector	FP stake	FP stake Value	% of FP Portfolio
Societatea Nationala a Sarii (Salrom)	Salt Production	49%	40.2	0.3%
Zirom	Titanium Processing	100%	26.5	0.2%
Romplumb	Lead Production	51%	12.6	0.1%
Petrotel Lukoil	Oil & Gas	2%	0.0	0.0%
Laromet	Metal Production	4%	5.9	0.0%
Salubriserv	Waste Collection	17%	2.5	0.0%
Zamur Tg. Mures	Sugar Production	7%	1.4	0.0%
Comsig	Retail	70%	0.8	0.0%
Carom - Broker de Asigurare	Life Insurance	70%	0.7	0.0%
Celuloza si Otel (took over Remat Timis)	Recycling	9%	0.4	0.0%
Electroconstructia Elco Cluj	Electric installation services	8%	0.2	0.0%
Commetex	Retail	16%	0.2	0.0%
Ciocarla	Restaurants	2%	0.2	0.0%
Cetatea	Real Estate	20%	0.2	0.0%
Familial Restaurant	Restaurants	3%	0.0	0.0%
Marlin	Financial leasing	5%	0.0	0.0%
World Trade Hotel	Hotels	20%	0.0	0.0%
Carbid Fox (bankrupt)	Chemicals	8%	0.0	0.0%
Electromecanica Ploiesti	Military Equipment	49%	0.0	0.0%
Uzina Mecanica Bucuresti	Defense equipment	37%	0.0	0.0%
World Trade Center Bucuresti	Real Estate Rental	20%	0.0	0.0%
Plafar - (insolvency)	Health Care	49%	0.0	0.0%
Simtex - (judicial reorganization)	Textiles	30%	0.0	0.0%
Gerovital Cosmetics (dissolved)	Cosmetics	10%	0.0	0.0%
Fecne (judicial reorganization)	Metallurgy	12%	0.0	0.0%
Retizoh	Constructions	7%	0.0	0.0%
Total			91.7	0.7%

Source: Fondul Proprietatea, Raiffeisen Capital&Investment estimates

To get our fair value we apply a 20% discount to the whole portfolio, except for the cash position

In order to calculate FP fair value we decided to lower the discount we apply to the value of FP's portfolio (except for the cash position) from 30% to 20%. We base this decision on the fact that Franklin Templeton was officially appointed at the helm of the fund and that the listing is now almost a certainty. Still, there are other facts that justify the discount: (i) the fact that a significant part of Fondul Proprietatea's shareholdings are in state owned companies; (ii) a large part of the portfolio is in unlisted companies; (iii) the difficulty to estimate the impact of the establishment of the two energy giants on the value of the energy producers from FP's portfolio; and (iv) the existing legal disputes concerning FP's stakes in various companies (e.g. the Fund took the State into court regarding the dilution of its ownership in Nuclearelectrica, the nuclear electricity producer).

We reach a fair value for FP of RON 11.49 bn

Using the valuation methods described above we reach a NAV of RON 14.04 bn or RON 1.02 per share. We apply the 20% discount to FP's portfolio of shares to get a fair value of RON 11.49 bn or RON 0.84 per share. In order to reach our 12m TP we carry forward FP's NAV with the cost of equity of 14.9% and subsequently, we apply again the 20% discount. As a result, we set our 12m TP at RON 0.96 per share.

According to our information, FP shares last traded at RON 0.52, which implies an upside of roughly 85% to our 12m target price. Therefore, we maintain our "buy" recommendation for Fondul Proprietatea shares.

Risks to our valuation:

- The political risk is by far the most important risk investors are facing and it comes in different forms: (i) direct involvement in FP, with Ministry of Finance the largest shareholder and (ii) through some of the largest holdings of FP which are stakes in companies controlled by the State;
- The formation of the two energy giants would affect the values of the energy producers in FP's portfolio, as additional loss making companies are to be included in the new entities;
- We have considered FP's stake in Nuclearelectrica at 9.7% (as it is disclosed by FP); however, FP has contested in Court the dilution of its stake in Nuclearelectrica from 20% to 9.7% and it seems that FP has real chances of winning the legal debate and regain its full stake, which would add around RON 550 mn to its portfolio. That in turn would translate through our valuation model in an increase of about 4% in FP's fair value;
- For the smaller companies in FP's portfolio, we used the valuation provided by FP and performed in 2007-2008, which is based on the book value of these companies and does not reflect the actual performance of these companies. However, we remind readers that we aimed at mitigating this risk by applying a 50% discount to these valuations and that the cumulated value of these stakes in the total portfolio is small;
- We value part of the companies using industry specific or comparative valuation, our valuation reflecting the performances of those companies in 2009. Romania's economy is expected to have remained in recession in 2010 which would have affected the performance of the companies in the portfolio and could affect our valuation;
- Up to now, the information disclosed by FP and/or companies from its portfolio has been limited. We expect this to improve since Franklin Templeton was appointed at the helm of the Fund;
- With FP shares continuing to be transferred from the Ministry of Finance to those entitled to receive compensation, shares overhang risk can not be ignored, especially as there is no lock-up period. However, we see this risk as limited since, on the other hand, a large spectrum of investors, currently unable to invest in FP shares due to the unlisted status of the Fund, will have access to FP shares after its listing on the BVB;
- According to the existing legislation, the voting rights for stakes above 1% are restricted to different degrees until stakes reach 5%. This will stay in place until State's stake drops below 33%.

The strategy under Franklin Templeton

The new managers have stated that their long term objective is to pursue capital appreciation through investments mainly in Romanian equities. On the other hand, on the short and medium term, the main direction will be enhancing the value of the inherited portfolio by turning FP into a more active investor. Thus, FP will try to take advantage of the fact that it has its own representatives in the Board of Directors in more than 20 companies from its own portfolio. There is no wonder that FP will focus on improving the corporate governance standards of the companies which are State controlled (i.e. streamlining decision-making process, accountability of managers for decisions taken) and it will make use of the available legal tools to protect the value of its portfolio. The first steps into this direction can be noticed during FP's opposition to the creation of the two energy champions and Romgaz' donation to the State's budget. Thus, Franklin Templeton has been vigorously against the formation of the energy companies Electra (to include part of Hidroelectrica, Nuclearelectrica and several coal-based generators) and Hidroenergetica (to include the largest part of Hidroelectrica and two thermo power producers). FP has argued that there is a high execution risk and a lack of planning and that it will lead to lower transparency. Therefore, an arsenal of legal tools has been used to block the merger of these companies. Similarly, in the case of the Romgaz's donation, the fund has voted against it in the GSM, it has offered alternative solutions (i.e. a special dividend) and it lobbied against it.

Franklin Templeton is expected to bring to FP its asset management expertise, tested for a long period of time in an emerging market environment. Franklin Templeton considers as the cornerstones of its management style the following: (i) value orientation, (ii) patient investment outlook and (iii) bottom-up approach. The manager envisages a thorough analysis and supervision of the portfolio companies and close cooperation with co-investors. On a medium term, the goal is to attain an optimal diversification of the portfolio across sectors and companies and to increase significantly the weight of the listed shares. Thus, for many companies from its portfolio a short to medium term goal is to list them on a stock exchange through an IPO. FP's portfolio has to obey the allocations stipulated by the local Securities Commission for a fund of this type. Thus, the maximum allocation for listed shares is 100% with the minimum set at 70%, while the maximum permitted allocation for listed EU shares is 10%. For non-listed shares, the maximum allocation is set at 20%.

FP's representatives have stated that their dividend policy targets a 100% pay-out ratio from the dividends received from their portfolio companies and interest earned on their cash positions. We remind that during September 2010 GSM, shareholders have approved a buy back program of up to 10% of FP's share capital after the listing. The price range for the buy-back program was set at RON 0.2 – 1.5 per share.

The fees that will be charged by Franklin Templeton for providing the management services were set at 47.9 bps applied to the average market capitalization of the fund over the last 90 trading days of the year. Therefore, the manager is incentivised to increase FP's market capitalization which might be considered as a first for a company listed on the Bucharest Stock Exchange.

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

Electricity Market

Fondul Proprietatea has a comprehensive exposure to the energy market. It owns stakes in the major energy producers (nuclear, hydro and coal), seven of the eight power distributors, the power transmission company and in some of the major power suppliers. The cumulated value of FP's stakes in companies active on the electricity market accounts for 43.5% of FP's portfolio.

Valuation Summary

Company Name	Sector	Fair Value (RON mn)	FP Stake, %	FP stake value (RON mn)	% of FP Portfolio
Hidroelectrica	Energy Producer	11,284.7	19.9%	2,250.2	17.7%
Nuclearelectrica	Energy Producer	5,528.1	9.7%	537.3	4.2%
TPP Turceni	Energy Producer	1,112.5	24.8%	275.8	2.2%
TTP Craiova	Energy Producer	565.8	24.4%	137.8	1.1%
TPP Rovinari	Energy Producer	513.1	23.6%	121.1	1.0%
Transelectrica	Energy Transmission	1,517.4	13.5%	204.7	1.6%
E.ON Moldova Distributie	Energy Distribution	998.0	22.0%	219.6	1.7%
E.ON Moldova Furnizare	Energy Supply	250.2	22.0%	55.0	0.4%
Electrica Distributie Muntenia Nord	Energy Distribution	874.0	22.0%	192.2	1.5%
Electrica Furnizare Muntenia Nord	Energy Supply	121.3	22.0%	26.7	0.2%
Electrica Distributie Transilvania Nord	Energy Distribution	851.1	22.0%	187.2	1.5%
Electrica Furnizare Transilvania Nord	Energy Supply	108.5	22.0%	23.9	0.2%
Electrica Distributie Transilvania Sud	Energy Distribution	835.4	22.0%	183.7	1.4%
Electrica Furnizare Transilvania Sud	Energy Supply	92.3	22.0%	20.3	0.2%
Enel Distributie Banat	Energy Distribution	1,536.2	24.1%	370.7	2.9%
Enel Distributie Dobrogea	Energy Distribution	1,019.5	24.1%	245.6	1.9%
Enel Distributie Muntenia	Energy Distribution	3,128.9	12.0%	375.5	2.9%
Enel Energie Muntenia	Energy Supply	574.8	12.0%	69.0	0.5%
Enel Energie	Energy Supply	319.2	12.0%	38.3	0.3%
Total				5,534.5	43.5%

Source: Raiffeisen Capital&Investment estimates

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

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

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

In the first nine months of 2010, the total energy generated in Romania increased by 2% compared to same period in 2009 to 42.79 TWh, after the drop in 2009, when the total energy generated in Romania decreased by 11% yoy to 56.7 TWh. Over 1-3Q 2010 electricity imports amounted to 0.68 TWh, up 33% yoy, while exports reached 2.15 TWh, down 17% yoy.

Romania's 1-3Q 2010 electricity consumption increased by 5% yoy

Romania's energy consumption in the first nine months of 2010 amounted to 32.3 TWh, up 4.6% yoy, following a decline of 9% yoy in 2009 to 41.6 TWh. Consumption on the regulated market represented 50% of the total, with households accounting for 52% of this market (8.4 TWh). Consumers that have chosen their supplier (mainly industrial companies) accounted for 50% of the total electricity consumption, or 16.2 TWh.

Starting with July 1, 2007, all electricity consumers are free to select their own supplier, and, as can be noted from above, the real market opening reached 50% in the first three quarters of 2010 compared to 45% in 2009.

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

Energy market segments

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

Source: ANRE

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

Power Generators

FP owns stakes in the most important local energy generators, which are state-owned. The generators where FP owns a stake (Hidroelectrica, Nuclearelectrica, CE Turceni, CE Rovinari and CE Craiova) have accounted in 2009 for 76% of the total energy produced in Romania and have a total installed generation capacity of 11,980 MW (meaning 58% of the national production capacity). FP's holdings offer a mix between hydro power (Hidroelectrica), nuclear (Nuclearelectrica) and vertically-integrated coal-based energy producers (CE Turceni, CE Rovinari and CE Craiova). The government has several times voiced its intention to IPO some of these companies, but very few material steps were taken so far. In terms of new production capacities, private players were more active on this segment and started green-field projects (i.e. Petrom is building an 860 MW gas power plant).

Summary of Key Figures for Power Generators

Producer	Installed Capacity (MW)	2009 Capacity Utilization	2009 EBITDA margin	FV derived from DCF (RON mn)	DCF Valuation EUR mn/MW
Hidroelectrica	6,422	28%	33.4%	11,211	0.41
Nuclearelectrica	1,414	97%	45.4%	5,528.1	0.92
TPP Craiova	930	48%	6.6%	565.8	0.14
TPP Turceni	1,980	36%	12.9%	1,112.5	0.13
TPP Rovinari	1,320	46%	6.0%	513.1	0.09

Source: Raiffeisen Capital&Investment estimates

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

Market overview

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

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

The majority of electricity distributors were privatized

The restructuring of the Romanian electricity market has led to the privatization of most of the power distribution companies. In order to comply with EU regulations the supply and distribution operations were unbundled. Nevertheless, the generators have remained state-owned. The new phase of the strategy for the restructuring of the energy sector implies the formation of two "energy giants" by merging several generators and mining companies.

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

"Two energy giants"

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

ELECTRA will be formed by merging Nuclearelectrica, Societatea Nationala a Lignitului Oltenia (National Lignite Company), Complexul Energetic Turceni (Thermo Power Plant), Complexul Energetic Rovinari (Thermo Power Plant), Complexul Energetic Craiova (Thermo Power Plant) and Hidroelectrica's spun-off assets- Ramnicu Valcea, Sibiu, Tg. Jiu and Hidroserv Rm. Valcea subsidiaries (accounting for 20% of Hidroelectrica net asset value). HIDROENERGETICA will be formed through the merger of the remaining Hidroelectrica assets (valued by KPMG at RON 13.38 bn and representing 80.85% of Hidroelectrica net asset value as of end-2009) with two Termoelectrica subsidiaries - Electrocentrale Deva and Electrocentrale Bucuresti (thermo power plants).

Current status: The creation of the two companies is currently on hold due to several legal issues. A Court rejected the proposal to register Electra at the Trade Register, as the merger of Hidroelectrica's assets and the other companies needs to be done in two phases. Thus, according to the Court decision, the divestiture of Hidroelectrica's assets needs to be done first and will be followed afterwards by the merger with the other companies, as opposed to the state's proposed action to do all steps simultaneously. In addition, the set up of the two companies was challenged in Court by Fondul Proprietatea due to the debate between the state and FP regarding the latter's ownership in Nuclearelectrica. The local Competition Council has to approve the establishment of the two companies.

Shareholding Energy Giants

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

Source: Ministry of Economy and Commerce

Strengths and Weaknesses

Strengths/Opportunities

Economies of scale could be achieved if management is united

The new companies will have a stronger negotiation power with its customers

So far the coal-based producers could not obtain financing as the amounts needed were very large compared to their cash-flows and even revenues, but through the new entities, the coal-based producers should obtain more easily financing for their investments needs

Weaknesses/Threats

The new companies will remain state owned and the management appointment would remain a political choice

The new companies could be even less transparent than the current energy producers

The long-term contracts signed by the initial companies (i.e. Hidroelectrica contract with the aluminium producer Alro) will be transferred to the new companies that will have a higher production cost than Hidroelectrica

Increased possibility of siphoning of funds from the profitable companies to less profitable ones

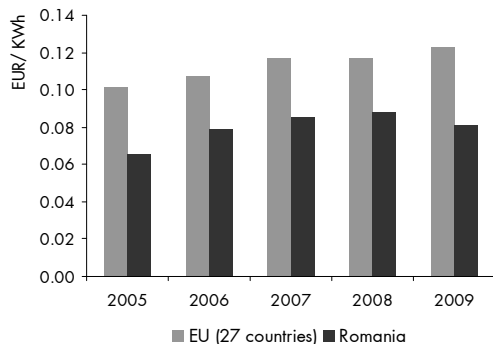
Delays in setting of the two 'giants' could hinder or put on stand-by the investment plans of the producers that will be part of the new entities

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

Electricity consumption and prices

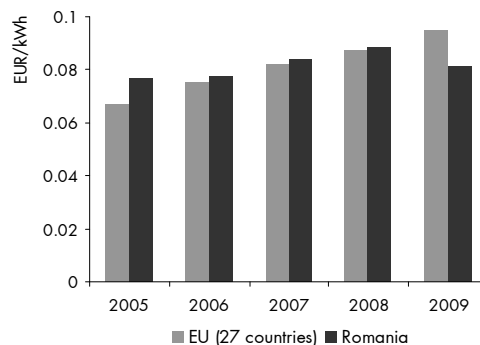
Over the first nine months of 2010, electricity consumption increased by almost 5% compared to same period last year to 32.32 TWh. The decrease in the ratio of consumption at regulated prices (from 55% in 2009 % to 50% in 1-3Q 2010) was the result of a relatively stable household consumption accompanied by higher demand from industrial end-users. According to data released by ANRE, in 2009, electricity consumption decreased by 9% yoy due to the economic slowdown. In terms of pricing, data from Eurostat shows that domestic regulated prices are lower compared to EU averages, especially when we look at the prices paid by households. We expect electricity prices to converge to EU levels in terms of consumer prices, with electricity producers to benefit most. We expect price hikes on both the regulated market, where prices are established in accordance with ANRE regulations, and on the free market, where older long-term, low-priced contracts should gradually expire or will be renegotiated.

Power prices for households



Source: Eurostat

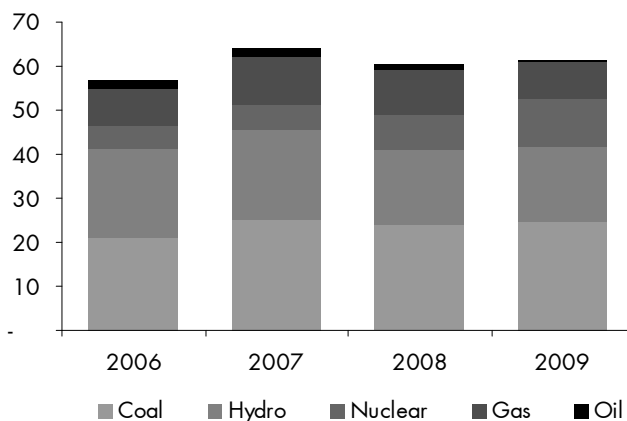
Power prices for industrial consumers



Source: Eurostat

The mix of primary sources for generators has changed in the last years with the shift towards nuclear (following the starting of the second reactor in 2007) and hydro power at the expense of coal and gas as primary sources.

Electricity generation by primary source, TWh

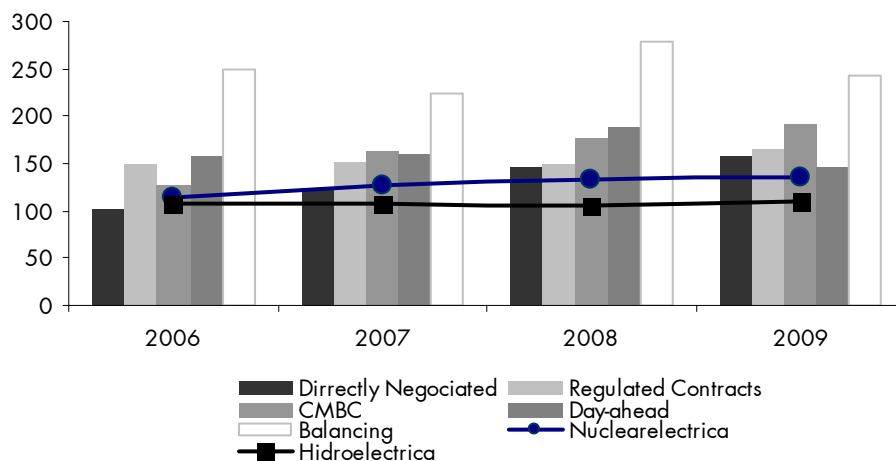


Source: ANRE

Market price history

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

Breakdown of electricity prices evolution, RON/MWh

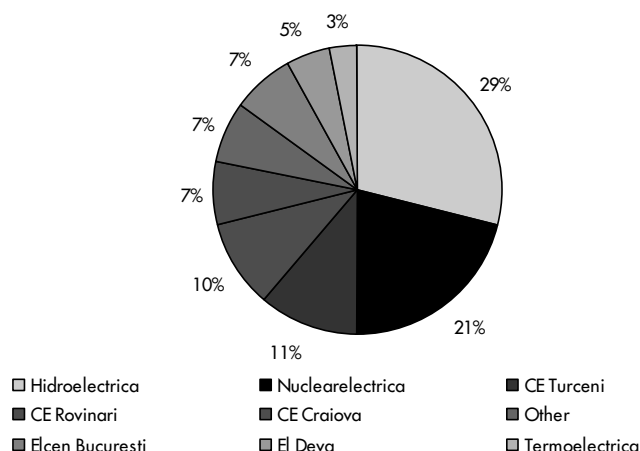


Source: ANRE, average selling prices for Hidroelectricita and Nuclearelectricita are estimated by Raiffeisen Capital&Investment

Main players on the electricity production market

The market shares of the main electricity producers for 2009 based on the delivered energy are shown below, with Hidroelectricita and Nuclearelectricita accounting for half of the overall market:

Market share of Romanian electricity producers, 2009



Source: ANRE

We valued the electricity generators with the help of DCF models

Valuation of electricity generators

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

Since local coal-fired generators are required to make significant investments to comply with environmental norms (i.e. desulphurization installations) and improve efficiency we have included these large investments in our DCF models and from the peer group comparison we have deducted the value of the required investment from the resulting value.

Hidroelectrica

Hidroelectrica, the largest energy producer in Romania, accounted in 2009 for around 27% of total electricity generated, although it produced 8.8% less energy than in 2008 due to unfavorable weather and repair/upgrading works being done at some key power plants (i.e. Lotru Ciugeti). Hydro energy generation reached 15.5 TWh, implying a capacity utilization rate of 28% compared to 30% in 2008.

Total installed capacity of 6,422 MW

Hidroelectrica has a total installed capacity of 6,422 MW split between over 250 hydro plants (as of end-2009), out of which some 220 are small (10 MW or less). In 2004, the company started a process of divesting the small power plants. Until August 2009, a total of 87 micro hydro plants were sold. The majority of the large hydro plants (see table below) were built in the '70-'80. Thus, the company is currently in the process of upgrading the production facilities to prepare them for another 30-40 years life cycle. In the recent years, Hidroelectrica utilization rate was negatively impacted by several facilities being put offline for upgrading, repair and maintenance works.

Hidroelectrica Key Hydro plants

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

Source: Hidroelectrica, Raiffeisen Capital&Investment estimates

Most of its hydro plants were commissioned in the 70's

The upgrading process will result in higher production capacities and improved efficiency. For example the production capacity of Portile de Fier I power plant will increase by 10% following the upgrading process, while the efficiency of Lotru's turbines is expected to go up by 1%.

The Government voiced ambitious investment plans for 2009 – 2017 in the hydro electricity sector, as Hidroelectrica is the producer of the cheapest energy available on the domestic market and the existing hydro network captures only about half of Romania's technical potential.

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

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

Outlook

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

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

In the last years, Hidroelectrica's profitability has been hurt by some long-terms contracts with large consumers and traders, through which the company sells electricity at prices below average market prices. These contracts accounted for around half of the electricity produced by Hidroelectrica in 2008 and 2009. The average selling price stood at RON 103/MWh (EUR 24.3/MWh) in 2009, up 3% yoy, but remained significantly below average market prices. According to company officials, cited by the local media, in 2010, some of these contracts were renegotiated and electricity prices increased. The management said that following the increase in selling prices and a reduction in maintenance costs, Hidroelectrica profitability improved significantly in 2010. The 2010 net profit is estimated at EUR 110 mn (vs. EUR 12 mn in 2009). Moreover, there is room for improvement since prices have remained lower than average market prices and Hidroelectrica profitability is highly sensitive to the price of energy sold.

In 2009 Hidroelectrica sold 15% of the electricity produced on the regulated market at an average price of RON 84/MWh. ANRE sets the prices for regulated suppliers, which are much lower than the price on the open market. We expect the market opening to increase gradually in the next years, which should be beneficial for Hidroelectrica, as quantities supplied to regulated consumers would decrease. Nevertheless, this would be a slow process.

In the following years we expect Hidroelectrica to obtain a higher utilization rate from the rehabilitated and upgraded capacities and consequently higher profitability, although some facilities would still be offline as works would stretch over the next years.

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

Our DCF points to a fair value of RON 11.3 bn or EUR 0.4 mn per MW of installed capacity

Overall, we believe Hidroelectrica's profitability will improve driven by (i) the convergence of domestic prices to EU averages, (ii) gradual renegotiation or expiration of unprofitable/low margin long term contracts, (iii) upgraded and larger production capacities that would allow higher utilization rate and (iv) the construction of a pumped-storage hydroelectricity plant would have a significant impact of cost efficiency.

Valuation

Our DCF valuation of Hidroelectrica yields a fair value of RON 11.3 bn. We have assumed an increase in the quantities produced by Hidroelectrica, based on a higher utilization rate as fewer capacities are off-line for upgrading works. Our model incorporates an increase in the electricity produced at a CAGR of 3.7% between 2010 and 2015. At the same time, we forecast higher selling prices as older contracts expire and are gradually renegotiated (2009-2014 selling prices to increase at a CAGR of 5%). Having a significant fixed costs base (salaries, maintenance and depreciation) the increase in revenues will not be matched by a similar increase in costs. Thus, we should see a significant improvement in the EBITDA margin.

Hidroelectrica DCF valuation

	2009	2010e	2011e	2012e	2013e	2014e	2015e
Sales	2,468.2	3,037.9	3,462.1	3,761.0	4,035.4	4,275.6	4,530.1
yoy growth	2.4%	23.1%	14.0%	8.6%	7.3%	6.0%	6.0%
EBITDA	785.7	1,402.8	1,725.1	1,933.5	2,122.2	2,282.6	2,431.2
EBITDA margin	31.8%	46.2%	49.8%	51.4%	52.6%	53.4%	53.7%
FCFF			369.3	750.7	1,114.4	1,254.2	1,334.5
WACC			12.4%	12.2%	12.0%	11.4%	10.3%
Disc. FCFF			328.6	595.6	789.5	797.6	769.6
PV of FCFF			3,280.9				
Terminal growth rate			2%				
TV			16,446.9				
PV of TV			9,484.9				
Net debt			1,481.0				
Fair Value (RON mn)			11,284.7				
FV/MW (RON mn)			1.76				
FV/MW (EUR mn)			0.41				

Source: Hidroelectrica, Raiffeisen Capital&Investment estimates

The DCF result corresponds to a value of EUR 0.41 mn per MW of installed capacity, which is heavily discounted when compared to Verbund ratio of EUR 1.7 mn per MW. Nevertheless, we consider the outcome is the result of a much less transparent development strategy and the large investments for upgrading the majority of the generating capacities, which are at the end of a thirty-forty years life cycle.

International Peers

Company	Country	PE		EV/EBITDA	
		2010e	2011e	2010e	2011e
Aes Tiete	Brazil	8.0	7.2	5.0	4.3
Copel	Brazil	12.2	9.5	7.3	5.6
RusHydro	Russia	11.0	9.7	7.7	6.4
Verbund	Austria	19.3	16.4	13.8	12.8
Average (mean)		13.2	11.3	8.8	7.7
Average (median)		11.6	9.7	7.5	6.3
Hidroelectrica implied value (mean)		5,536	6,230	10,953	11,899
Hidroelectrica implied value (median)		4,859	5,335	9,085	9,372

Source: Bloomberg, prices as of January 6, Raiffeisen Capital&Investment estimates

We have used a peer group analysis in order to cross-check our DCF result and for informational purposes. In the peer group we have included companies that are pure or almost pure power generators using hydro resources. The peer group comparison reveals a mixed picture. In terms

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

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

DCF model points to a fair value of RON 5.5 bn

of PE multiples Hidroelectrica looks overpriced, while in terms of EV/EBITDA, the peer group broadly confirms our DCF findings. Hidroelectrica's net margin is weaker compared to its peers, while EBITDA margin stands slightly above the peers' average. The much lower net margin is mostly due to higher depreciation costs, which account for around 25% of Hidroelectrica's revenues compared to a range of 4-10% for the peer companies. Partly this can be explained by Hidroelectrica revenues being negatively impacted by lower selling prices for energy. We base our valuation on the DCF model since the fundamental approach captures better Hidroelectrica's growth potential. Namely, we assumed a gradual increase in selling prices towards EU average and higher energy generation (higher utilization rate), which peer comparison fails to capture.

Nuclearelectrica

Nuclearelectrica is the second largest generator of electricity in Romania. In 2009 it produced 10.8 TWh, up 4.7% yoy, which accounted for about 21% of the domestic energy production (vs. 18% in 2008). Although initially designed to operate with five reactors, only the first two were built and are currently operating. Each unit has an installed capacity of 707 MW. The first unit was designed in 1976 and started production in 1995, while the second reactor was launched in late 2007 and became fully operational in 2008.

In late 2008, a public-private partnership (EnergoNuclear) was established for the development of the third and fourth reactors. At that time, it was decided that Nuclearelectrica will hold 51% of EnergoNuclear, with the balance split between CEZ (9.15%), ENEL (9.15%), GDF Suez (9.15%), RWE (9.15%), Iberdrola (6.2%) and Arcelor Mittal (6.2%). However, as the JV has accumulated a lot of delays and as Government officials declared that Nuclearelectrica's stake is being reconsidered (to 25% from 51%), we have not included the impact of the third and fourth reactors in our estimates. In September 2010, CEZ announced it is withdrawing from the project. Nuclearelectrica has "temporarily" taken over the participation of 9.15%, until a new agreement is reached with the other parties of the JV. Government officials said they intend to reduce Nuclearelectrica's participation in EnergoNuclear, but no final decision was taken.

Outlook

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

Over the medium term, we believe that Nuclearelectrica revenues would be mostly driven by an increase in selling prices and less by the increase in quantities since in 2009 the utilization coefficient stood at 100.1 for the first reactor and at 90.6 for the second reactor. Over the long term, the main growth driver comes from the prospect of the third and fourth reactors, but given the undecided situation regarding Nuclearelectrica's participation in this project, we have not forecasted an increase in generation capacity. Nuclearelectrica sells electricity at an average price of RON 130/MWh, which is below the average market price. We believe that the gradual market liberalization would allow the company to obtain higher prices for electricity.

Valuation

We used a DCF model to compute Nuclearelectrica Fair Value. Our DCF findings reveal a Fair Value of RON 5.5 bn for Nuclearelectrica. We have forecasted a CAGR of 1.5% for quantities of energy produced over 2010-2015 as the reactors are already running at high utilization rates. Our assumptions imply a maximum utilization rate of 95% for the two units. At the same time, we see selling prices climbing at a CAGR of 4.4% over the same forecasting period. The DCF result indicates a value of EUR 0.92 mn per 1 MW of installed capacity, which is much bigger than in the case of Hidroelectrica (EUR 0.4 mn). We consider this to be justified by the higher utilization coefficient (over 90% versus around 30% at Hidroelectrica). Moreover, the utilization rate has historically been high and most likely will remain at high levels in the coming years as well.

Nuclearelectrica DCF valuation

	2009	2010e	2011e	2012e	2013e	2014e	2015e
Sales	1,526.7	1,663.0	1,781.4	1,880.0	1,965.8	2,055.6	2,119.6
yoy growth	5.2%	8.9%	7.1%	5.5%	4.6%	4.6%	3.1%
EBITDA	533.7	659.1	775.6	879.0	969.9	1,065.0	1,115.2
EBITDA margin	35.0%	39.6%	43.5%	46.8%	49.3%	51.8%	52.6%
FCFF				654.3	733.1	815.4	860.0
WACC				11.3%	10.9%	10.3%	9.3%
Disc. FCFF				527.1	532.5	537.0	518.2
PV of FCFF			2,621.5				
Terminal growth rate			2%				
TV			8,197.8				
PV of TV			4,939.5				
Net debt			2,032.8				
Fair Value (RON mn)			5,528.1				
FV/MW (RON mn)			3.90				
FV/MW (EUR mn)			0.92				

Source: Nuclearelectrica, Raiffeisen Capital&Investment estimates

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

Rovinari, Turceni and Craiova Thermal Power Plants

In 2009, the thermo power plants (TPP) Rovinari, Turceni and Craiova generated roughly 28% of the total electricity produced in Romania, slightly lower than in the previous year (29%). Nevertheless, the three power plants reduced their production by 14% yoy in 2009 due to lower demand and a low capacity utilization coefficient, since some capacities require investments for revamping and to meet EU environmental standards. The three power plants were commissioned between 1960 and 1980 and have a total installed capacity of 4,320 MW, but the capacity utilization was rarely higher than 50% in the last two years, but mostly in the 40-50% range.

Significant investments needed to comply with EU standards

The thermal power plants (TPPs) did some upgrading works in the last years (i.e. slag deposits), but they still have to embark in large investments to bring their installations in line with EU standards (i.e. desulphurization installations until 2012-13) and modernize installations. Some of the investments are eligible for EU financing, but require an own funding component that would hang heavily on their balance sheets. It is worth mentioning that most of the investments are aimed just at bringing the installations in line with EU environmental norms, and will not increase production capacity.

The plants are almost independent in terms of primary resources having their own mines. Craiova TPP has the smallest proportion of raw materials secured from its own mines (about a quarter), while Turceni TPP and Rovinari TPP obtain more than two thirds of the raw materials from own mines.

Outlook

We are more conservative regarding the growth pace in energy produced by the three coal-fired power plants and the increase in their selling prices as well. This is due to the significant investments needed in order to bring their installations in accordance with EU environmental standards and also to increase efficiency. Moreover, the three thermo plants sell electricity at price levels that are higher than Nuclearelectrica and Hidroelectrica. Thus, we do not expect significant upside coming from higher prices. We are positive regarding their access to raw materials – lignite, which is extracted from their own mines, as this should provide a good protection against hikes in the prices of commodities. Investments for modernization and rehabilitation of the thermo power plants facilities should result in higher efficiency. The gradual improvement of Romania's interconnection lines would also create export opportunities.

Valuation is based on DCF models with a longer forecasting period

Valuation

We have used simplified DCF models in the case of all three thermo power producers. Due to the fact that all three TPP are required to make significant investments related to environmental issues in order to keep running we have assumed that these investments will be completed by 2012-13. Thus, our models incorporate significant capital expenditures in 2010 – 2013. These investments will be financed mostly through bank loans. As the capex amounts are large compared to their cash-flows, we opted for a longer forecasting period (2010 – 2020) that would allow us to better capture their growth potential. We estimate an improvement in profitability in the next years as a result of a higher utilization rate of their capacities after the completion of both environmental and upgrading investments. Nevertheless, margins remain below industry averages. All three thermo producers voiced their intention to invest for adding new production capacities as well, through private – public partnerships. However, we decided not to include in our valuation any additional capex for capacity increases as these projects are rather uncertain. We forecast a lower growth rate in revenues at the three power plants also due to the fact that they already enjoy the highest selling prices among the local producers.

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

We did not place any value on the coal reserves of the companies because these will be gradually used in the energy production.

The low level of profitability is the result of a mix of factors: (i) old and inefficient installations which led to a low utilization rates; (ii) regulated selling prices below EU average and (iii) state-owned companies with a politically named management. We believe that the factors that lead to lower profitability, identified above, cannot persist over the medium to long term since (i) domestic prices will have to be aligned with European prices and the market will be gradually liberalized, (ii) the listing of these companies and a more dynamic approach from the minority shareholders, namely Franklin Templeton as the asset manager of Fondul Proprietatea will improve corporate governance and (iii) the investments need to be completed to meet EU norms.

TPP Craiova DCF Valuation Table

	2009	2010e	2011e	2012e	2013e	2014e	2015e	2016e - 2020e	Avg.
Sales	1,163.3	1,191.7	1,273.9	1,386.8	1,470.0	1,587.6	1,698.8		1,990.0
yoy growth	6.9%	2.4%	6.9%	8.9%	6.0%	8.0%	7.0%		5%
EBITDA	76.9	80.0	98.2	120.8	220.5	317.5	339.8		398
EBITDA margin	6.6%	6.7%	7.7%	8.7%	15.0%	20.0%	20.0%		20%
FCFF			-443.3	-424.3	-97.2	184.3	202.9		251.9
WACC			10.4%	10.2%	9.7%	9.5%	9.2%		9.2%
Disc. FCFF			-394.5	-342.0	-71.1	122.8	123.5		118.4
PV of FCFF		-86.9							
Terminal growth rate		2%							
TV		1,951.8							
PV of TV		784.2							
Net debt		131.5							
Fair Value (RON mn)		565.8							
FV/MW (RON mn)		0.61							
FV/MW (EUR mn)		0.14							

Source: CE Craiova, Raiffeisen Capital&Investment estimates

TPP Turceni DCF Valuation Table

	2009	2010e	2011e	2012e	2013e	2014e	2015e	2016e - 2020e Avg.
Sales	1,625.3	1,611.1	1,696.4	1,752.5	1,857.6	2,006.3	2,166.8	2,546.4
yoy growth	-9.7%	-0.9%	5.3%	3.3%	6.0%	8.0%	8.0%	5%
EBITDA	208.9	223.2	268.9	312.9	371.5	401.3	433.4	509
EBITDA margin	12.9%	13.9%	15.9%	17.9%	20.0%	20.0%	20.0%	20.0%
FCFF		122.4	-477.2	-440.3	159.4	284.4	311.3	345.1
WACC		13.0%	10.6%	10.4%	9.9%	9.7%	9.3%	9.3%
Disc. FCFF		122.4	-422.4	-352.4	115.6	187.7	187.2	161.9
PV of FCFF		525.0						
Terminal growth rate		2%						
TV		1,719.4						
PV of TV		676.8						
Net debt		89.3						
Fair Value (RON mn)		1,112.5						
FV/MW (RON mn)		0.56						
FV/MW (EUR mn)		0.13						

Source: CE Turceni, Raiffeisen Capital&Investment estimates

TPP Rovinari DCF Valuation Table

	2009	2010e	2011e	2012e	2013e	2014e	2015e	2016e - 2020e Avg.
Sales	1,277.4	1,295.7	1,376.6	1,463.5	1,551.3	1,675.4	1,809.4	2,030.8
yoy growth	-6.5%	1.4%	6.2%	6.3%	6.0%	8.0%	8.0%	5%
EBITDA	76.1	90.7	106.0	127.3	310.3	335.1	361.9	406
EBITDA margin	6.0%	7.0%	7.7%	8.7%	20.0%	20.0%	20.0%	20%
FCFF		12.4	-687.0	-669.1	210.8	231.7	254.2	275.5
WACC		13.7%	14.1%	10.4%	10.2%	9.7%	9.5%	9.5%
Disc. FCFF		12.4	-602.3	-531.2	151.9	152.1	152.4	151.3
PV of FCFF		10						
Terminal growth rate		2%						
TV		1,675.4						
PV of TV		660.2						
Net debt		157.6						
Fair Value (RON mn)		513.1						
FV/MW (RON mn)		0.39						
FV/MW (EUR mn)		0.09						

Source: CE Rovinari, Raiffeisen Capital&Investment estimates

Power Supply and Distribution

Summary of Key Figures for Distribution Companies

RON mn	Est RAB 2009	Regulated return on assets	2009 EBITDA*	2009 EBITDA margin	Fair value estimate
E.ON Electrica Moldova Distributie	1,162.6	10.0%	143.7	23%	998.0
Electrica Muntenia Nord Distributie	1,269.7	7.0%	75.6	12%	874.0
Electrica Transilvania Nord Distributie	1,199.4	7.0%	90.6	18%	851.1
Electrica Transilvania Sud Distributie	1,150.5	7.0%	97.7	18%	835.4
ENEL Distributie Banat	985.0	10.0%	203.3	39%	1,536.2
ENEL Distributie Dobrogea	751.1	10.0%	133.0	34%	1,019.5
ENEL Distributie Muntenia	1,397.0	10.0%	189.3	26%	3,128.9

Source: Raiffeisen Capital&Investment estimates, ANRE;

*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	Electricity supplied 2009, TWh	Energy cost, 2009	Discounted regulated profit, adj. for tax	Net debt, 2009	Fair value est.
Electrica Furnizare Muntenia Nord SA	3.7	753.9	18.8	-7.1	121.3
Electrica Furnizare Transilvania Nord	3.1	707.6	17.7	-1.3	108.5
Electrica Furnizare Transilvania Sud	3.9	809.7	20.2	30.4	92.3
E.ON Moldova Furnizare	3.3	1,395.3	34.9	-14.2	250.2
ENEL Energie	4.7	946.5	23.7	-159.1	319.2
ENEL Energie Muntenia	4.9	1,194.4	29.9	-372.8	574.8

Source: Raiffeisen Capital&Investment estimates, ANRE

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

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

Distribution and supply activities had to be separated

In 2007 and 2008, the distribution and supply activities had to be legally separated. Following the separation, FP retained the same stake it previously held in the newly formed companies.

Enel Dobrogea, Banat & Muntenia

Privatization history

In 2005, Enel purchased 24.6% of Electrica Dobrogea and afterwards increased its stake to 51% through a capital increase. The total value of the transaction stood at EUR 42.7 mn. In the same year, Enel bought a 24.6% stake in Electrica Banat and performed a capital injection to reach a stake of 51%, for a total value of transaction of EUR 69.1 mn. When the distribution and supply activities were separated (July 2007), there was a single entity created for the supply in both regions (Dobrogea and Banat), called Enel Energie.

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

According to some management statements, Enel has around 2.6 mn customers and operates a 123,000 km long network. Also, Enel is currently implementing a five year investment plan worth around EUR 700 mn to improve infrastructure in the regions covered.

E.On Moldova Distributie & Furnizare

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

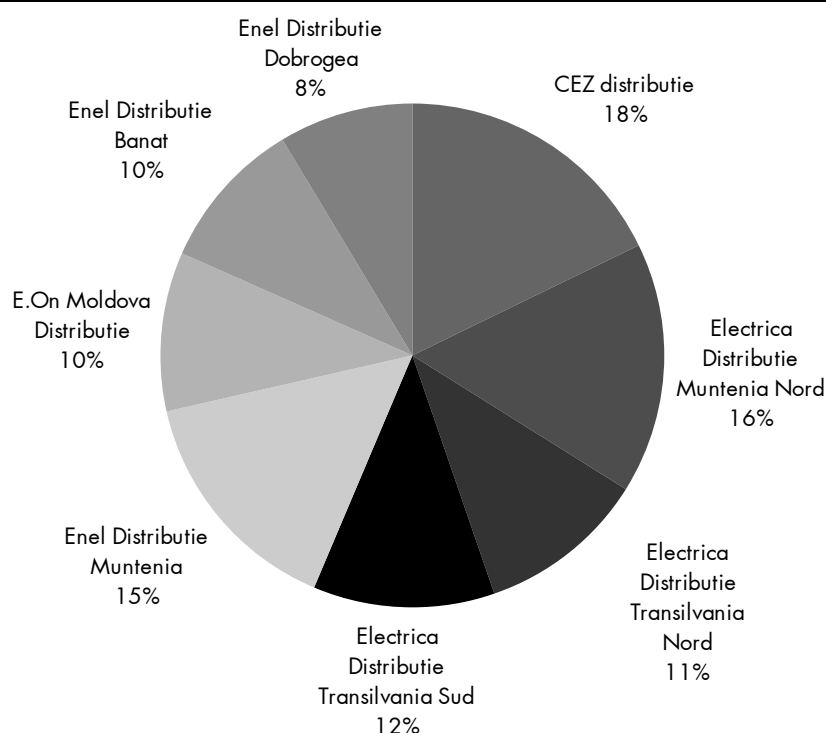
CEZ Distributie and CEZ vanzare

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

Volumes and Pricing

The distribution companies have a total client base of 8.8 mn. In 2009, the total quantity distributed reached 39.5 TWh, down 7% yoy and represented around 75% of the electricity volume produced over the same year.

Energy Distributors Market Share 2009



Source: ANRE

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

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

The agreed return on assets is set using the before tax cost of capital and for the first regulatory period (of three years 2005-2007) it stood at 12% and was decreased to 10% for the current period (2008-2012). The distributors where the state holds a majority stake theoretically have a lower cost of capital and therefore a lower return on assets, set at 7%.

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

Legally, the power market opening degree is 100%, enabling the consumers to choose their supplier. However, at the end of 2009 the real opening degree of the market stood at around 45%, meaning that out of the total consumption of 41.6 TWh, 55% represented the consumption of captive consumers (out of which almost half is represented by households).

The supply to captive consumers is regulated, allowing for a return of 2.5% above the power acquisition and related costs. The supply price to eligible consumers on the other hand is negotiated between the supplier and final consumer. The real opening degree of the market reached 50% in 2006 and has hovered around this percentage since then. At the end of September 2010 the real market opening degree increased to 54%. We expect the market opening will continue, though at a slow pace, which means that part of the suppliers' profit will remain capped for some time. Some 90% of the energy supplied by each major supplier goes to captive consumers, meaning that around 90% of their business has its profit capped to 2.5% of energy cost.

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

Quantities distributed/supplied per company, TWh

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

Source: ANRE

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

Financial data 2009

RON mn	Turnover	Sales growth 09/08	EBITDA*	EBITDA margin	EBIT	Net profit	Net profit margin	BV Net Debt
E.ON Electrica Moldova Distributie	630.1	7%	143.7	23%	81.0	53.6	9%	822.2 15.1
Electrica Muntenia Nord Distributie	611.5	-1%	75.6	12%	27.7	24.7	4%	1,055.6 -103.8
Electrica Transilvania Nord Distributie	495.9	-2%	90.6	18%	21.1	14.0	3%	768.1 -58.3
Electrica Transilvania Sud Distributie	539.2	3%	97.7	18%	29.8	23.2	4%	822.4 -38.1
ENEL Distributie Banat	526.4	4%	203.3	39%	140.3	151.0	29%	1,152.5 -400.2
ENEL Distributie Dobrogea	391.5	2%	133.0	34%	85.0	92.1	24%	806.6 -228.3
ENEL Distributie Muntenia	732.7	-49%	189.3	26%	122.9	280.0	38%	2,705.2 -1,854.9
Electrica Furnizare Muntenia Nord	1,326.2	3%	-11.9	-1%	32.0	18.4	1%	14.2 -7.1
Electrica Furnizare Transilvania Nord	1,175.6	2%	-11.0	-1%	11.0	0.6	0%	29.5 -1.3
Electrica Furnizare Transilvania Sud	1,335.1	-1%	-28.8	-2%	10.7	0.8	0%	40.3 30.4
E.ON Moldova Furnizare	1,456.7	-2%	-98.4	-7%	-21.4	-27.6	-2%	148.7 -14.2
ENEL Energie	1,849.6	2%	-114.6	-6%	-28.6	-46.7	-3%	196.8 -159.1
ENEL Energie Muntenia	1,919.5	182%	-20.7	-1%	-6.8	13.4	1%	308.6 -372.8

Source: Romanian Trade Register; *EBITDA adjusted to exclude other income (incl. penalties) and expenses with donations, settlement of claims and assets sold

Strengths and Weaknesses

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

Valuation

Distribution

We derive the value using the regulated return on assets and peer comparison

We value the energy distributors using the average between the enterprise value derived from EV/EBITDA multiples of peer companies and the value yielded by a simplified DCF model, based on the regulated return on assets.

We approximate the 2009 regulated asset base with the average value of the fixed assets, excluding assets under construction. We used the regulatory return on assets for the current regulatory period (10% for the privatized players and 7% for the state-owned distributors) to reach an approximate value of the operating profit, from which we deduct the profit tax rate of 16%. We use this value as a proxy for Free Cash Flow to Firm (FCFF). We assume a perpetual growth rate of 2% for the privatized companies and 1% for state-owned companies, as the investment plans of the private companies are larger and support stronger growth in the regulated asset base. We assume a beta of 1 and we use a WACC (weighted average cost of capital) of 11.5%, very close to our estimated cost of equity as the debt to equity ratio stands below 5%. Using our proxy for FCFF, we compute the enterprise value and then deduct the net debt to reach the fair value estimate.

We looked also at the fair value derived from the average EV/EBITDA multiples for several listed power supply and distribution companies located in CEE and we deducted the net debt at the end of 2009, to reach the estimated fair value. The EV/EBITDA multiple used stands some 23% lower than the multiple for the major European utilities companies. We believe the discount is justified given the level of integration of the European peers, the lower regulatory risk and higher level of efficiency.

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

Valuation

RON mn.	RAB estimated	ROR	RORXRAB adj. for tax	Growth rate	WACC	EV estimate using RAB	Net Debt	Fair Value estimate using RAB	EBITDA*	FV using Fair Value EV/EBITDA	Estimate multiples
	2009		2009								
E.ON Electrica Moldova Distributie	1,163	10%	97.7	2.0%	11.5%	1,049	15.1	1,033	143.7	963	998
Electrica Muntenia Nord Distributie	1,270	7%	106.7	1.0%	11.5%	1,026	-103.8	1,130	75.6	618	874
Electrica Transilvania Nord Distributie	1,199	7%	100.7	1.0%	11.5%	969	-58.3	1,027	90.6	675	851
Electrica Transilvania Sud Distributie	1,150	7%	96.6	1.0%	11.5%	930	-38.1	968	97.7	703	835
ENEL Distributie Banat	985	10%	82.7	2.0%	11.5%	888	-400.2	1,289	203.3	1,784	1,536
ENEL Distributie Dobrogea	751	10%	63.1	2.0%	11.5%	677	-228.3	906	133.0	1,133	1,019
ENEL Distributie Muntenia	1,397	10%	117.3	2.0%	11.5%	1,260	-1,854.9	3,115	189.3	3,143	3,129

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

Peers

Company	Bloomberg Ticker	P/E		EV/EBITDA		EV/EBIT	
		2008	2009	2008	2009	2008	2009
Prazska Energetika	PREN CP	9.1	9.2	9.1	8.9	11.6	11.5
ELMU	ELMU HB	6.8	9.2	4.2	5.8	5.6	9.3
EMASZ	EMASZ HB	5.4	5.3	5.0	6.3	7.7	11.5
Rytu Skirstomieji Tinklai	RST1L LH	neg.	neg.	6.0	6.2	neg.	neg.
Average		7.1	7.9	6.1	6.8	8.3	10.8
Median		6.8	9.2	5.5	6.2	7.7	11.5

Values implied from multiples, RON mn

E.ON Electrica Moldova Distributie	192	424	528	963	402	856
Electrica Muntenia Nord Distributie	540	195	1,078	618	902	402
Electrica Transilvania Nord Distributie	171	111	598	675	398	286
Electrica Transilvania Sud Distributie	191	183	448	703	322	359
ENEL Distributie Banat	813	1,194	1,433	1,784	1,287	1,909
ENEL Distributie Dobrogea	450	728	855	1,133	706	1,143
ENEL Distributie Muntenia	1,561	2,214	2,476	3,143	2,266	3,177

Source: Companies, Bloomberg, Stock prices as of January 6, 2011;

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

Supply

Given the negative adjusted EBITDA, which makes peer comparison inadequate, in the case of power suppliers we used the regulated return (2.5%) on the energy acquisition cost. To this value we applied a discount of 25%, to account for the negative performance in 2009 and the regulatory risk. We used a perpetual growth rate of 2% for the private suppliers, as we expect them to be more active in maximizing their profits, and 1% in the case of the state-owned suppliers. We use a WACC of 11.5% to derive the enterprise value and deduct the net debt to reach the fair value for the suppliers.

Valuation

RON mn.	Electricity Supplied, TWh	Energy cost	Regulated profit	Discount	Discounted regulated profit, adj for tax	Growth rate	WACC	EV estimate using regulated profit	Net Debt	Fair value derived from regulated profit
	2009	2009								2009
Electrica Furnizare Muntenia Nord SA	3.72	753.9	18.8	25%	11.9	1.0%	11.5%	114.2	-7.1	121.3
Electrica Furnizare Transilvania Nord	3.06	707.6	17.7	25%	11.1	1.0%	11.5%	107.2	-1.3	108.5
Electrica Furnizare Transilvania Sud	3.95	809.7	20.2	25%	12.8	1.0%	11.5%	122.7	30.4	92.3
E.ON Moldova Furnizare	3.30	1,395.3	34.9	25%	22.0	2.0%	11.5%	236.0	-14.2	250.2
ENEL Energie	4.72	946.5	23.7	25%	14.9	2.0%	11.5%	160.1	-159.1	319.2
ENEL Energie Muntenia	4.88	1,194.4	29.9	25%	18.8	2.0%	11.5%	202.0	-372.8	574.8

Source: Fondul Proprietatea Prospectus, Raiffeisen Capital&Investment estimates

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

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

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

Transelectrica

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

Starting 2005, the transmission tariff charged by the company is set based on a revenue cap methodology. The regulatory authority sets annual target revenue within a five-year framework (however, the first such framework extended over three years, 2005-2007). The regulated return on the asset base (RAB) has been agreed for the period 2008-2012 at 7.5%. The company is involved in an ambitious investment program (EUR 400 mn planned for 2008-2012) aimed at revamping its aging asset base, which will boost the RAB and thus the transmission profit. Moreover, we expect the investment needs to remain at a high level over the next regulatory period, which is positive given the direct relation between the regulated profit and the investments that boost the RAB.

The regulatory methodology is designed to protect the operator from swings in quantities transported, as the differences between estimated and realized revenues in the current year should be recovered during the following year. Year 2009 proved to be challenging as quantities transported dropped by 11% and interconnection revenues (which are associated with transportation) decreased by 36% to RON 96 mn, propelling the operating profit some 50% lower than the estimated regulated profit. Despite the meager performance of the previous year, in 2010 tariffs were raised by only 5%. We believe that the power transmitted will increase by 2.5% in 2010, but the decline in interconnection revenues continued, and we see them falling around 70% yoy. On the costs side, only maintenance expenses are forecast at a lower level in 2010 and the operating profit is expected some 40% lower yoy, which widens further the gap between the company's results and the estimated regulated profit.

The regulator raised Transelectrica 2011 tariffs by 10.4% yoy, which should lead to an improvement in profitability. However, we believe that it will take further raises and around some years before the realized profit aligns with the regulated return on assets.

On the positive side however, the investment needs of the company for the next regulatory period remain elevated, which would have a positive influence over the regulated asset base and the regulated return.

Some 95% of Transelectrica's loans are denominated in foreign currency, and RON volatility exerts a significant impact through the revaluation of the loans.

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

As a listed company, we value Transelectrica using the January 6, 2011 market price of RON 20.7 per share, implying a fair value of RON 1.52 bn and RON 204.7 mn for FP's stake. More details about the company and our valuation are available in our update of January 10. Our present recommendation for the stock is "reduce" with a 12-month target price of RON 19.6, representing a 12-m fair value of RON 1.44 bn.

Oil & Gas Market

FP's exposure to the oil & gas sector is represented by stakes in Petrom, the largest integrated oil & gas company in the SEE, the state-owned gas producer and gas transporter and in other three gas supply & distribution companies. According to our valuation, the oil and gas sector accounts for 46.9% of FP's portfolio.

Valuation Summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
OMV Petrom	Oil&Gas Producer	19,825.4	20.1%	3,984.9	31.3%
Romgaz	Gas Producer	6,760.9	15.0%	1,013.5	8.0%
Transgaz	Gas Transportation	3,320.2	15.0%	497.4	3.9%
GDF Suez Energy Romania	Gas Supply	1,006.2	12.0%	120.7	0.9%
Distrigaz Sud Retele (100% owned by GDF Suez)	Gas Distribution	1,578.0	12.0%	189.4	1.5%
E.ON Gaz Romania	Gas Supply	537.9	12.0%	64.5	0.5%
E.ON Gaz Distributie	Gas Distribution	859.2	12.0%	103.0	0.8%
Total				5,973.4	46.9%

Source: Companies, Raiffeisen Capital&Investment estimates

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

Petrom

Petrom is the largest integrated oil & gas group in SEE. Petrom owns 1.19 bn boe of 2P hydrocarbon reserves, and Romanian production amounted to 180k boepd in 2009. Petrom operates 442 petrol stations in Romania and unconsolidated affiliates operate another 372 sites in Romania, Moldova, Bulgaria and Serbia. It is majority owned by Austrian OMV (51%). Its other shareholders are the Romanian Ministry of Economy (20.6%), Fondul Proprietatea (20.1%) and EBRD (2%). The remaining 6.2% are free-floating shares. The Romanian state announced that its intention to sell a stake of 9.8% in Petrom, but no official calendar was published.

Petrom owns the complete oil and a large part of gas reserves, having 2P reserves of 1.19 bn boe

Petrom has a leading position in Romanian E&P, owning the complete oil and a large part of gas reserves (2P reserves of 1.19 bn boe in total). Through the privatization contract, upstream royalties are low and fixed until 2014. In addition, the company enjoys strong marketing presence in SEE, achieving a throughput of more than 4 mn litres per station annually. The petchem activities were recently sold to Romanian chemicals plant Olchim. Petrom targets the full integration of its oil production. On the other hand, the mature upstream assets and high fragmentation of resources (250 fields) create the tendency for permanent production decline and high opex.

Gas and Power is still the weak spot, suffering from underperforming demand and regulated domestic gas prices that will continue to be in place at least until 2012. Moreover, low Romanian gas demand causes insufficient upstream performance (66 mn boe produced in 2009, compared to 69 mn boe in 2008). Nevertheless, with the plan to open the gas-fired power plant in Brazi at the end of 2011, we see the biggest growth potential for Petrom coming from these operations.

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

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

As a listed company, we value Petrom stake in FP portfolio using the January 6, 2011 market price of RON 0.36, suggesting a company fair value of RON 20.4 bn. More details about the company and our valuation are available in our update of November 23, 2010. Our current recommendation for the stock is "buy" with a 12-month target price of RON 0.4, meaning a 12-month fair value of RON 22.6 bn.



Gas Market overview

Fondul Proprietatea has a significant exposure to the gas market. It owns stakes in the major gas producers, supply & distribution companies and the operator of the national gas grid. The cumulated value of FP's stakes in companies active on the gas market accounts for 15.6% of FP portfolio.

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

Romania's gas consumption followed a downward path over the past five years which accelerated in 2009 in line with the plummeting economy. Thus, the 2009 consumption amounted to 140.06 TWh (13.1 bcm), down 15% yoy.

In 2009, in an attempt to prop up the fertilizers producers, the government has decided that some eligible consumers (mainly chemicals producers) could supply themselves only with domestic gas, instead of the basket between domestic and import gas. As a result, consumption rebounded in 2010 and over January - October 2010 it went up by 8% yoy. The government has withdrawn the allowance starting November 2010.

Over the first ten months of 2010, the largest consumer was the electricity generation industry with a share of 22%, followed by the chemical industry (fertilizers producers) with a share of 20%, while households consumed just below 21% of the total.

The country's proven gas reserves are around 163 bcm

The official estimates for Romania's proven gas reserves are different, depending on the source. Thus, they amount to around 141 bcm (876 mn boe) according to ANRE, the market regulator or 185 bcm (1149 mn boe) according to a 2007 Governmental report. According to the same report, at the current production rate, Romania's reserves are expected to be exhausted in 15 years, but this estimate fails to take into consideration the replacement potential of the reserves.

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

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

Romanian gas market is an open market since mid-2007, as consumers are allowed to change their supplier. In October 2010, the real market opening stood at 57%. Still, the market remains to a large extent regulated, with prices subject to different degrees of regulations. The market is divided between the competitive segment, which comprises the transactions between the suppliers and eligible customers, and the regulated segment.

The gas market players comprise:

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

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

The price for domestic producers has been kept at around USD 160/ 1.000 m³

With the exception of the imported gas prices, all the other components are more or less subject to regulations.

The prices for the domestic gas are capped at USD 160/ 1,000 m³, while the imported gas prices are close to the European levels (currently at USD 360/ 1,000 m³). As a member of the EU, Romania needs to allow its internal gas prices to converge to the EU price levels.

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

It is the largest Romanian gas producer, with a 2009 output of 5.7 bcm, having also large storage facilities

Romgaz

Romgaz, in which FP has a 14.99% equity interest, is Romania's largest gas producer with a share of around 50% of Romania's total gas production. The company, where the State is the majority owner, is also one of the three licensed providers of gas storage facilities. In 2009 Romgaz extracted 5.7 bcm of gas (5.78 bcm taking into consideration also the joint-ventures) but a slight drop in production to around 5.6 bcm is expected for 2010. Over the past years Romgaz's production kept on lowering as the majority of its fields is mature, especially the largest ones, being exploited for more than 25-30 years. The company is currently operating around 153 reservoirs spread around the country, mainly in Transylvania and Moldova. Increasing the recovering factor and production optimization are the company's main stated objectives. Thus, according to its officials cited by the media, the planned 2010 capex will amount to around RON 1.2 bn (EUR 285 mn), with the vast majority directed to exploration of new reserves and drilling activities. Romgaz intends to drill 40 wells into new fields and 20 wells into mature fields. Another pursued line of development is the expansion of the storage capacity from the current level of 2.76 bcm. Romgaz is analyzing the possibility of developing an underground gas deposit at Margineni in the Eastern part of the country. The project whose feasibility study is to be completed by end-2010 is said to amount to around EUR 500 mn and it will have a storage capacity of 2 bcm. Gazprom is seen as a potential partner in this project.

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

Romgaz's profitability is constrained by two factors: (i) declining production and higher upstream costs and (ii) on the other hand, gas prices for domestic producers have been capped at USD 160 / 1,000 m³ (approx. RON 495 / 1,000 m³). In fact, Romgaz's realized prices for its gas production were actually even lower at 429-456 RON / 1,000 m³. While the best hope for production is to reduce the declining rate, Romgaz's growth potential might come from the future convergence of the domestic gas price to that of imported gas (currently at around USD 360 / 1,000 m³). Romania has been under pressure from EU to liberalize further the market by letting domestic gas prices rise. On the costs side, the company is facing an unfavourable fiscal treatment of the expenses incurred to build up the development reserve. These are non-cash depreciation-like expenses which Romgaz is required to make according to the law (around 30-35% from the value of the gas production) and are not tax deductible which explains Romgaz's usually high effective tax rate (i.e. over 31%).

We remind that the company's secondary activity, gas storage, is also regulated with the charged tariffs being set by the Regulatory Authority in the Energy Sector (ANRE). Romgaz might enter the electricity generation sector in 2011, after the Ministry of Economy, Romgaz's majority shareholder, approved the swapping of receivables from a power generation company into equity.

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

Financial data 2009

RON mn	Turnover	Sales growth	09/08	EBITDA	EBITDA margin	EBIT	Net profit	Net profit margin	BV	Net Debt
Romgaz	3,193.5	-3%	1,292.0	40%	716.9	572.5	18%	8,308.5	-1,144.9	

Source: Romanian Trade Registry

According to a media release, Romgaz representatives said that over the first nine months of 2010 top line rose 14% yoy to RON 2.23 bn on higher gas quantity supplied. Thus, the supplied quantity of gas was 11% higher on the same period of 2009 to 50.2 MWh (aprox. 4.6 bcm), with the growth in volume being supported by gas imports. On the other hand, bottom line contracted 23% yoy to RON 322.2 mn.. Over the same period its gas production stood at 4.2 bcm.

Strengths and Weaknesses

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

Valued with a simplified DCF where gas reserves and replacement rate are of key importance

Valuation

To assign a value to Romgaz's equity we rely on a simplified DCF model. Of utter importance for our quite long model is the assumption about the gas reserves and the replacement rate. Thus, starting from proven reserves of 75 bcm as of end-2010 and assuming a recovery rate of 35% and an annual decline in production of 3.5%-5% from now on, we infer that Romgaz's reserves will be depleted by 2089, a year when its production will amount to only 0.22 bcm. We also assume that the government will allow the prices of domestic gas to converge toward 95% of the international levels. Thus, we expect this cycle to start in 2012 and to last for five years while for the international gas prices we expect on the long run a growth rate of 2%. On the other hand, due to the mature condition of its fields, the company's CAPEX requirements will remain at elevated levels. We adjusted the company's net debt with the RON 400 mn donation to the State's budget which was recently approved despite strong opposition from Franklin Templeton. For our simplified DCF model we adjusted depreciation with expenses for the build up of the development reserve, since as explained above, they share a striking resemblance. The 2089 TV of our model is assumed to be that of its net fixed assets. All in all, this methodology points to a Fair Value of RON 6.76 bn for Romgaz.

Romgaz DCF Valuation Table

	2009	2010e	2011e	2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	2020-54e avg.	2055-89e avg.
Sales	3,194	3,541	3,348	3,660	4,068	4,507	5,009	5,353	5,198	5,048	4,903	3,179	1,924
yoy growth	-3%	11%	-5%	9%	11%	11%	11%	7%	-3%	-3%	-3%	-2%	-1%
EBITDA&DR	1,990	2,054	2,042	2,269	2,644	2,930	3,256	3,480	3,379	3,281	3,187	2,067	1,251
EBITDA&DR margin	62%	58%	61%	62%	65%	65%	65%	65%	65%	65%	65%	65%	65%
FCFF			583	596	707	743	796	838	834	829	822	617	293
WACC			14%	14%	13%	12%	12%	11%	11%	11%	11%	11%	11%
Disc. FCFF			510	458	482	451	433	410	367	330	295	67	1
PV of FCFF			6,113										
TV			10,117										
PV of TV			3										
Net Debt			-645										
Fair Value (RON mn)			6,761										
FP's stake (RON mn)			1,013										

Source: Romgaz, Raiffeisen Capital&Investment estimates

To check the results of this DCF we apply a SOTP valuation, by assessing separately the gas production segment and the storage assets. We assign a value to the company's underground gas storage assets by employing an industry metric related to capacity. We value each m³ of storage capacity at EUR 0.1, in line with a past transaction involving Depomures, yielding a total value for these assets of EUR 276 mn or RON 1.1 mn. The gas production segment is valued using specific industry metrics and trading multiples of a peer company, namely Gazprom. We

view the comparison with Gazprom as appropriate, given the fact that both companies are selling preponderantly to domestic market where prices are kept down by the authorities and are facing high CAPEX in the near future. We value Romgaz's production segment based on its proven reserves (1P reserves) and based on its effective production. Thus, by applying to Romgaz's 1P reserves of 75 bcm (466 mn boe) a multiple of 3.1 \$/boe, slightly higher than Gazprom's EV/1P of 2.7\$/boe, we get an indication for the company's EV. At the same time, by using Romgaz's 2010 forecasted production of 5.6 bcm and a multiple of 52\$/boe (while Gazprom 2010 EV/production stood at around 51\$/boe), we get another estimate for its EV. Averaging the two values suggested by the two comparables, we assess Romgaz's gas production segment at RON 5.9 bn and consequently the fair value of the whole company is expected at RON 7.0 bn.

Romgaz vs. Gazprom metrics

	Gas production 2010e (bcm)	EV/Production 2010e (\$/boe)	1P reserves (bcm)	EV/1P reserves (\$/boe)
Gazprom	515.0	50.7	9,855	2.7
Romgaz	5.6	52.0	75	3.1

Source: Bloomberg, Raiffeisen Capital&Investment estimates

Implied valuation from Gazprom's metrics

Production segment	RON mn
Derived from EV/production	6,574
Derived from EV/1P reserves	5,345
Fair value production segment	5,960
Fair value storage assets	1,121
Fair value	7,081
FP stake, %	15%
FP stake	1,061

Source: Raiffeisen Capital&Investment estimates

Gas Distribution and Supply

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

Summary of Key Figures for Gas Utilities

RON mn	2009 market share	Est. Regulated Asset Base 2009	Regulated Return on Assets	2009 EBITDA*	2009 EBITDA margin	Fair value estimate
Distrigaz Sud Retele	56%	2,021.2	8.63%	n.a.	n.a.	1,578.0
GDF Suez Energy Romania	n.a.	n.m.	8.63%	213.4	15%	1,006.2
E.On Gaz Distributie	36%	1,007.2	8.63%	201.3	28%	859.2
E.On Gaz Romania	n.a.	n.m.	8.63%	111.4	4%	537.9

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

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

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

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

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

Distribution and supply on the regulated market use the revenue-cap methodology

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

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

The Privatization and Unbundling Process

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

As a result of the unbundling process, which took place in March 2008, Distrigaz Sud Retele, which holds the distribution license, was separated from Distrigaz Sud. The distribution grid assets remained in the books of Distrigaz Sud, and the assets were "leased" to Distrigaz Sud Retele, which performs the distribution service.

Distrigaz Sud was later on renamed GDF Suez Energy Romania and it kept the trading license and continued its activity as a natural gas supplier.

Distrigaz Sud

Distrigaz Nord

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

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

Financial data 2009

RON mn	Turnover	Sales growth 09/08	EBITDA*	EBITDA margin	EBIT	Net profit	Net profit margin	BV	Net Debt
Distrigaz Sud Retele	1,019.4	37%	n.a.	n.a.	n.a.	29.4	3%	85.6	n.a.
GDF Suez Energy Romania	3,628.8	-3%	213.4	6%	122.8	108.3	3%	2,521.7	294.8
E.ON Gaz Distributie	724.5	6%	201.3	28%	126.8	101.1	14%	900.0	74.1
E.ON Gaz Romania	2,557.7	-14%	111.4	4%	143.4	141.7	6%	825.4	-12.8

Source: Fondul Proprietatea Prospectus, Romanian Trade Register;

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

Strengths and Weaknesses

Strengths/Opportunities

The increase of the real market opening can boost suppliers' profitability.

Investments increase the RAB and the regulated return.

Quantities transported rose over the first ten months of 2010 by 8%, which we expect will influence positively the 2010 results.

Weaknesses/Threats

Regulatory risk remains high.

Consumption of gas has been on a decreasing trend for the last years (except for 2010).

Upside from cost reductions limited by regulation.

Valuation

We value separately the distribution and supply businesses of GDF Suez Energy. Distrigaz Sud Retele, which performs the distribution activity, is fully owned by GDF Suez Energy and the assets are recorded in the latter's balance sheet.

We value the distribution companies using a simplified DCF model starting from the regulated return on assets. We use as proxy for the regulated asset base the average value of the fixed assets for 2009, excluding the work in progress. We apply the regulated rate of return (8.63%) to derive an estimate for the operating profit, from which we deduct the profit tax of 16%. We took into account a long term growth rate of 2%, justified by the investments needs in upgrading the grid which will heighten the regulated asset base. We took into account a WACC of 11.5%, close to our estimated long term cost of equity, as the percentage of debt in the capital structure is less than 11%. Using the estimated regulated return adjusted for tax we derive the enterprise value, and reach the fair value after deducting the net debt.

Valuation

RON mn.	RAB estimated	ROR	RORxRAB	RORxRAB adj. for tax	Growth rate	WACCEV estimate using RAB	Net Debt	Fair Value estimate
	2009		2009	2009			2009	
E.ON Gaz Distributie	1,007.2	8.63%	86.9	73.0	2%	11.5%	933.3	74.1
Distrigaz Sud Retele	2,021.2	8.63%	174.4	146.5	2%	11.5%	1,872.9	294.8

Source: Raiffeisen Capital&Investment estimates

For the supply companies we use a peer comparison with CEE and European gas distribution and supply companies. We use the average 2009 EV/EBITDA multiples to obtain a value for each of the two supply companies. In order to capture only the value of the supply activity, in the case of GDF Suez Energy we deducted from the EBITDA the amounts received from Distrigaz Sud Retele as lease payments for the distribution assets.

Valuation

RON mn	EBITDA*	Average EV/EBITDA peers	EV derived from EV/EBITDA	Net debt	Fair value estimate
	2009		2009		
GDF Suez Energy Romania	213.4	4.7	1,006.2	0.0	1,006.2
E.On Gaz Romania	111.4	4.7	525.1	-12.8	537.9

Source: Raiffeisen Capital&Investment estimates;

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

Peer Group

Company	Bloomberg Ticker	EV/Sales		EV/EBITDA		EV/EBIT		P/E	
		2008	2009	2008	2009	2008	2009	2008	2009
Severomoravska Plynarenska	PLYK CP	0.8	0.8	10.0	5.3	13.4	6.2	22.2	9.1
Vychodoceska Plynarenska	VYPL CP	0.6	0.6	11.0	5.2	18.7	6.5	24.3	8.5
Latvijas Gaze	GZE1R LR	0.5	0.5	4.2	3.9	7.9	8.0	10.1	10.0
Lietuvos Dujos	LDJ1L LH	0.6	0.8	6.0	4.5	14.3	8.2	16.4	11.1
Average		0.6	0.7	7.8	4.7	13.6	7.2	18.3	9.7
Median		0.6	0.7	8.0	4.8	13.9	7.3	19.3	9.5

Values implied from multiples, RON mn

GDF Suez Energy Romania	2,160	2,227	797	1,006	n.m.	1,264	n.m.	1,048
E.On Gaz Romania	1,834	1,736	n.m.	538	n.m.	1,051	799	1,372

Source: Bloomberg, Stock prices as of January 6, 2011

Transgaz is the natural gas transporter and grid operator

Transgaz

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

Transmission tariff is based on a revenue cap methodology

Starting mid-2004, the transmission tariff charged by the company is set based on a revenue cap methodology. For the second regulatory period, which started in June 2007, the regulatory authority has reviewed the return on the regulated assets at 7.88% and has raised the regulated revenues with 30%. As warranted by the methodology, the persistent decrease in quantities transported since 2005 has led to consecutive rises in transportation tariff, in an effort to recover unrealized revenues from previous years.

Transit contracts are based on reservation of capacity

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

The Regulatory Authority in the Energy Sector (ANRE) delayed its decision regarding the tariffs for the regulatory year July 2010 – June 2011 and no indication was provided regarding the tariff revision date.

Over the first three quarters of 2010 transported quantities came up by 7.4% yoy, boosted by the allowance for chemicals producer to use only domestic gas instead of the basket of import and domestic gas. The allowance was withdrawn in 4Q 2010 which should slowdown the gas consumption growth over the respective period. Operating costs experienced moderate increases in 2010 and the company recorded gains from the reversal of provisions on receivables. Overall, we expect the 2010 net profit some 20% higher yoy.

The company benefited in the last years from lower grid losses and maintenance costs. Starting with the next regulatory period (mid. 2012) some of the upside from lower costs will fade, as the operating cost base must be again agreed with the regulatory authority

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

As a listed company, we value Transgaz stake in FP portfolio using the January 6, 2011 market price of RON 282 per share, implying a company fair value of RON 3.32 bn. Transgaz is included in our coverage universe and more details about the company and our valuation are available in our update of October 11, 2010. Our current recommendation for the stock is "hold". After the release of the 3Q 2010 results, which exceeded our expectations, we placed our 12-month target price of RON 260 under review.

Transportation Sector

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

Valuation Summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
CN Aeroporturi Bucuresti	Airports	1,857.6	20.0%	371.5	2.9%
Aeroportul Internat. Timisoara T. Vuia	Airports	218.6	20.0%	43.7	0.3%
Aeroportul Internat. M. Kogalniceanu	Airports	28.2	20.0%	5.6	0.0%
CN Administratia Porturilor Maritime	Ports	506.6	20.0%	101.3	0.8%
CN Administratia Porturilor Dunarii Maritime	Ports	16.2	20.0%	3.2	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	66.8	20.0%	13.4	0.1%
CN Administratia Canalelor Navigabile	Ports	93.3	20.0%	18.7	0.1%
Total				557.4	4.4%

Source: Raiffeisen Capital&Investment estimates

Airports

Around 3.3% of FP's assets are coming from stakes in four of the country's airports. These are the two Bucharest airports, Henri Coanda (Otopeni) and Aurel Vlaicu (Baneasa), which are Romania's largest ones, Timisoara airport (Traian Vuia), the third largest, and Constanta airport (Mihail Kogalniceanu). Starting with February 2010, the two Bucharest airports were merged in one company called CN Aeroporturi Bucuresti.

Summary of Key Figures for Airports

RON mn	2009 Passengers	2009 Market Share	2009 Sales	2009 EBITDA margin	Fair value estimate
Aeroportul Henri Coanda- Otopeni	4.5	49%	304.5	45%	1,345.1
Aeroportul Aurel Vlaicu - Baneasa	2.1	23%	91.2	47%	512.4
Aeroportul Traian Vuia -Timisoara	1.0	11%	41.1	30%	218.6
Aeroporul Mihail Kogalniceanu - Constanta	0.1	1%	14.1	20%	28.2

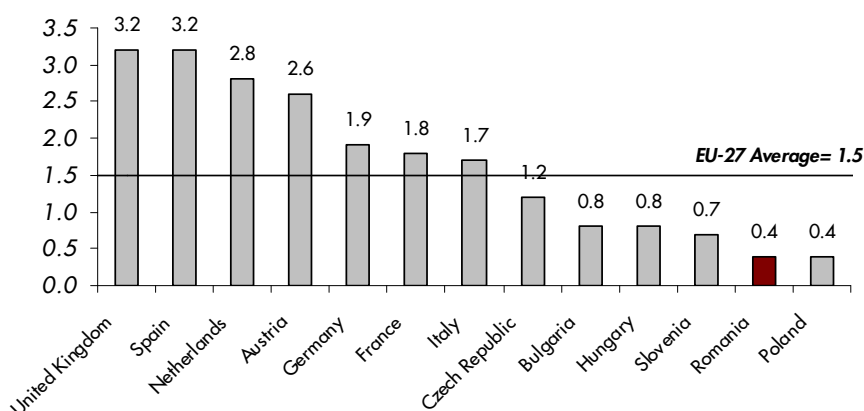
Source: Companies, Raiffeisen Capital&Investment estimates

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

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

However, at the moment Romania has one of the lowest air passengers per inhabitant ratio (0.4) in Europe. Although the current economic environment will slow down the growth in traffic, we believe that given the low ratio of air travels per capita, overall traffic will catch up with the European averages on the medium run. Other growth driver will probably be non-aviation revenues (i.e. connected revenues from duty-free stores, restaurants, etc).

Number of air passengers per inhabitant, 2009



Source: Eurostat, Raiffeisen Capital&Investment estimates

Passengers traffic figures

million passengers	2006	2007	2008	2009	1-3Q 09	1-3Q 10
Aeroportul Henri Coanda- Otopeni	3.5	5.0	5.1	4.5	3.8	4.2
Aeroportul Aurel Vlaicu - Baneasa	0.7	0.9	1.8	2.1	1.7	1.8
Aeroportul Traian Vuia -Timisoara	0.8	0.9	0.9	1.0	1.0	1.0
Aeroporul Mihail Kogalniceanu - Constanta	0.0	0.0	0.1	0.1	0.1	0.1

Source: Companies

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

FP has owned a 20% stake in each of the above mentioned airports. Starting with February 2010, the companies operating Otopeni and Baneasa airports, respectively Aeroportul International Henri Coanda and Aeroportul International Aurel Vlaicu were merged into a new entity named Compania Nationala Aeroporturi Bucuresti. FP will have a 20% equity interest in the new company. As each airport continues to publish its own traffic figures and the latest available financial statements were the 2009 stand-alone ones, we value each airport separately.

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

Henri Coanda airport suffered the most in 2009, but traffic rebounded next year

Henri Coanda Airport (Otopeni)

Despite having suffered the most among the Romanian airports during the recent crisis, with traffic dropping 12% in 2009 to 4.48 mn passengers, Henri Coanda Airport is by far the largest and most technically advanced Romanian airport. The airport located 20 km from Bucharest underwent several upgrades over the past years, with the most recent following to be completed by end-2012. This will amount to EUR 150 mn and will increase its passengers processing capacity by 33%. While further investments will probably be required over the next years to increase its capacity and comply with different regulations, the airport can handle a doubling in traffic without requiring a new runway. According to the latest info available, the traffic rebounded in 2010, with growth rate for the first ten months standing at around 10.3% yoy. This development might be helped by the fact that Henri Coanda handles the bulk of the business travel in/from Romania.

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

Aurel Vlaicu Airport (Baneasa)

Aurel Vlaicu Airport (Baneasa) is the smaller airport of Bucharest and handles mostly low-cost flights. This latter feature is explaining the surge in its traffic figures. Thus, in 2001 Aurel Vlaicu posted a traffic metric of only 30k passengers which soared to 1.8 mn in 2008 and increased further to 2 mn in 2009. Over the first ten months of 2010 its traffic posted a growth rate of 6.6%



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

It was designed to facilitate tourists flow to sea side resorts

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

yoy. The underlying reason for the surge in passengers traffic over the past years was the growing number of Romanians working abroad, especially in Spain and Italy, with some putting their number at 2 mn. Aurel Vlaicu is located on the outskirts of northern Bucharest, a very coveted area during the real estate boom, meaning that a significant expansion will be a thorny issue. The main building/terminal built in early 50's and its only runway can hardly cope with a higher level of traffic, which we believe will discourage the possible traffic increase. The previous government has flirted with the idea of closing the airport due to its vicinity to the residential area and the new transportation minister has also mentioned this possibility.

Traian Vuia Airport (Timisoara)

Located in the western part of the country, Traian Vuia airport is well positioned to be the leading regional airport in the western part of Romania. The third largest Romanian airport, Train Vuia has undertaken several upgrades since 2004. The number of passengers travelling through this airport rose from 250k in 2002 to 890k in 2008 and to 957k in 2009. The resilience of the airport to the difficult economic conditions was proved again in 2010 when during the first 11 months its traffic surged by almost 16% yoy. The airport could handle a 50% increase in traffic without major investments. One of the local airlines, Carpatair, uses the airport as its base.

Mihail Kogalniceanu Airport (Constanta)

Mihail Kogalniceanu used to be one of the largest among the Romanian airports and was designed to facilitate tourists flow to the Romanian sea side resorts. As the number of foreign tourists visiting Romania's sea-side remained anemic over the past years, Mihail Kogalniceanu's traffic was disappointing relative to the other airports. Thus, this metric declined to 50k in 2007 and then rebounded to 72k in 2008 and increased further to 93k in 2009, while the growth rate for Jan-Nov 2010 stood at 6%. The increase from the past two years was due to the fact that a few low-cost carriers started to operate on Mihail Kogalniceanu. These low-cost flights will remain probably the main revenues driver in the near future since the prospects for the Romanian sea-side tourism remain grim. Due to its low capacity utilization the airport has a weak profitability and it relies on the subsidies from the State's budget.

Strengths and Weaknesses

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

Valuation

We value the four airport stakes by employing a comparative valuation, based, on one hand, on the trading multiples of several listed peers and secondly on a specific metric in this industry, namely the passengers' traffic. By averaging the values, suggested by the two variants of the comparative valuation we arrive at our fair value estimates for the four airports. For the first one, starting from the airports 2009 figures, we obtained an implied value for each trading multiple of our peer group: P/E, EV/EBITDA EV/Sales. Similarly, by applying the projected average 2010 Price/passengers metric of our peer group to the 2010 projected figures of our airports we get the other implied value. We were able to project the 2010 traffic figures for these airports since the majority of them have disclosed either Jan-Oct or Jan-Nov data. Our valuation for Aeroportul Baneasa does not account for the real estate value of its properties (i.e. its plot of land) since for the moment we do not see them as excess assets, despite a probable high valuation on the market.

Financial data 2009

RON mn	Turnover	Sales growth 09/08	EBITDA	EBITDA margin	EBIT	Net profit	Net margin	BV	Net Debt
Aeroportul Henri Coanda- Otopeni	304.5	3%	137.7	45%	57.8	59.5	20%	1,054.8	-17.6
Aeroportul Aurel Vlaicu - Baneasa	91.2	34%	43.1	47%	24.7	14.6	16%	3,973.2	-32.9
Aeroportul Traian Vuia -Timisoara	41.1	34%	12.2	30%	5.7	3.5	9%	24.7	4.3
Aeroportul Mihail Kogalniceanu - Constanta	14.1	6%	2.9	20%	0.1	0.1	1%	12.5	-0.7

Source: Romanian Trade Register

Peer Group

Company	Bloomberg Ticker	P/E		EV/EBITDA		EV/Sales		Price/pax, EUR
		2008	2009	2008	2009	2008	2009	2010
Aeroports de Paris	ADP FP	21.6	21.9	10.0	9.5	3.3	3.2	69.0
Save Venezia	SAVE IM	28.9	22.1	9.2	8.2	1.5	1.5	46.2
Flughafen Zurich	FHZN SW	19.5	12.4	8.2	8.5	4.0	4.2	81.6
Flughafen Wien	FLU AV	11.8	14.7	8.2	10.3	3.1	3.4	54.9
Fraport	FRA GR	23.2	29.3	11.5	12.4	3.3	3.6	84.0
Copenhagen Airports	KBHL DC	17.0	20.9	10.0	10.6	5.2	5.5	80.7
Average		20.4	20.2	9.5	9.9	3.4	3.6	69.4
Median		20.6	21.4	9.6	9.9	3.3	3.5	74.8

Values implied from multiples, RON mn

Aeroportul Henri Coanda- Otopeni	2,098.8	1,201.8	1,506.7	1,385.4	1,032.2	1,101.5	1,460.7
Aeroportul Aurel Vlaicu - Baneasa	n.m.	295.0	385.0	460.8	266.4	357.4	653.8
Aeroportul Traian Vuia -Timisoara	99.1	70.9	96.3	117.0	100.2	141.8	327.3
Aeroportul Mihail Kogalniceanu - Constanta	9.1	2.0	25.2	29.3	46.3	50.8	29.1

Source: Raiffeisen Capital&Investment estimates, Bloomberg prices as of January 3, 2011

Valuation

RON mn	Fair value derived from passengers metric	Fair value derived from trading multiples	Fair value estimate	FP stake, %	FP stake
Aeroportul Henri Coanda- Otopeni	1,460.7	1,229.6	1,345.1	20%	269.0
Aeroportul Aurel Vlaicu - Baneasa	653.8	371.0	512.4	20%	102.5
Aeroportul Traian Vuia -Timisoara	327.3	109.9	218.6	20%	43.7
Aeroportul Mihail Kogalniceanu - Constanta	29.1	27.4	28.2	20%	5.6

Source: Raiffeisen Capital&Investment estimates

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

Ports

FP's 20% ownership in each of the four port operators accounts for around 1% of FP's total assets. By far the most important one is Administratia Porturilor Constanta which is the harbour authority for the ports on the Romanian seaside. FP has an equity interest in both the maritime and river ports along the Danube through Administratia Porturilor Dunarii Maritime and through Administratia Porturilor Dunarii Fluviale respectively. The fourth holding is in the owner of the shipping channels, namely Administratia Canalelor Navigabile. While the plunge in world trade and the contraction of the Romanian economy took its toll on the volume of goods carried through the Romanian ports (in volume terms the 2009 dive was 29% according the official statistics), they continue to look attractive on a longer view, also due to the specific location of Romania. As a proof of this, cargo traffic seems to have recovered in 2010 a large part of the loss incurred during the previous year,

Summary of Key Figures for Ports

RON mn	2009 cargo traffic, mn. tonnes	2009 EBITDA	2009 EBITDA margin	Fair value
Admin. Porturilor Constanta	42.0	57.7	27.5%	506.6
Admin. Porturilor Dunarii Maritime Galati	7.6	1.1	11.4%	16.2
Admin. Porturilor Dunarii Fluviale Giurgiu	2.8	5.6	29.9%	66.8
Admin. Canalelor Navigabile	9.3	7.5	20.7%	93.3

Source: Companies, Raiffeisen Capital&Investment estimates

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

Administratia Porturilor Constanta

Administratia Porturilor Constanta (APC) is the harbour authority for four ports on the Black Sea seaside, but the jewel of the crown is Port of Constanta which, size-wise, is a top ten European port. It poses a favourable geographical location, having connections with two Pan-European corridors: Corridor VII Danube and Corridor IV. The maritime port has an annual handling capacity of 100 mn tons and 156 berths, out of which 140 are operational while the overall level of its facilities are comparable with those of other important European ports. 18% of the total traffic is accounted for by the traffic originated in its capacity as a river port. The volume of cargo handled by the Port of Constanta dropped by 32% in 2009 to 42 mn, a level not seen for the past five years. However, the decline in traffic has bottomed up in 1Q 10, since according to the company's representatives cited by the local media, for the first 10 months of 2010 the traffic was up 12.8% yoy, driven by the ore minerals and agricultural commodities. Nevertheless, containers traffic was still down 1% yoy. The revenues from renting plots of its harbour area have by far the largest weight in total sales. APC has been considered as a candidate for an IPO but for the moment the project seemed to have been abandoned.

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

Administratia Porturilor Dunarii Maritime

This institution acts as a port authority for the three ports along the Danube, namely: Galati, Braila and Tulcea. These ports offer access to Pan-European Corridor VII mentioned above (the inland waterway Rhine- Main- Danube). The facilities offered by the three ports are at a satisfactory level, with Galati port recently having opened a new terminal meant to allow containers traffic. The volume of cargo handled by Administratia Porturilor Dunarii Maritime (APDM) in 2009 stood at 7.6 mn tons, down 40% yoy but rebounded 45% yoy during the first nine months of 2010 helped the recovery of ArcelorMittal's production. The harbour assets are leased to APDM for a period of 49 years by the Romanian State.

It comprises the smaller river ports along the Danube

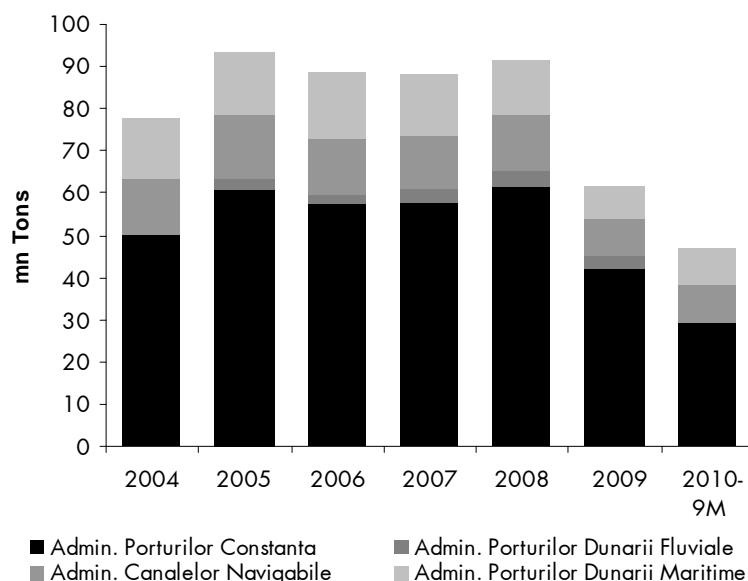
Administratia Porturilor Dunarii Fluviale

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

Administratia Canalelor Navigabile

This entity is the owner of the shipping channel between the Danube and the ports on the Black Sea. The main channel with a length of 64 km was considered by the former communist regime as its most important accomplishment. It is shortcutting the ships' travelling from Black Sea to the river ports along the Danube. Besides the main channel which has a link with the Port of Constanta, there is a second branch which has at its ending point Midia Port. The cargo volume transiting through the channels in 2009 amounted to 9.3 mn tons, down 29% yoy while the 1-3Q 10 figure stood at 8.9 mn tons, up an impressive 33% yoy. The assets (i.e. the channels) have been leased by the Romanian State for a period of 49 years and Administratia Canalelor Navigabile has to pay an annual fee of 3% from its sales.

Cargo Traffic by Port, mn tons



Source: Companies, Raiffeisen Capital&Investment estimates

Financial data 2009

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

Source: Romanian Trade Register

Strengths and Weaknesses

Strengths/Opportunities

Foreign trade should rebound more than the overall economy, after the brutal 2009 contraction.
Favorable positioning supports long term growth.

Weaknesses/Threats

Politically named management poorly incentivized to increase efficiency.
Investments in upgrading needed.

We applied a comparative valuation for the four ports

Valuation

We apply a similar methodology to value the four ports from FP's portfolio. Thus, based on three trading multiples from a selected peer group and on the reported 2009 figures for our companies we get an average fair value. The values suggested by each multiple EV/Sales, EV/EBITDA and P/E are detailed below. The cumulated value assigned to the four ports is RON 690 mn, out of which FP's stake is RON 138 mn.

Peer Group

Company	Bloomberg Ticker	P/E		EV/EBITDA		EV/Sales	
		2008	2009	2008	2009	2008	2009
Piraeus Port Authority	PPA GA	52.3	-8.6	19.2	-12.3	3.0	2.7
Thessaloniki Port Authority	OLTH GA	19.8	23.9	5.3	5.9	0.9	1.0
Marina Portoroz	MAPG SV	1.2	15.9	10.0	11.6	3.7	4.0
Luka Koper	LKPG SV	14.1	-3.6	11.2	14.3	3.5	4.2
Forth Ports	FPT LN	-12.5	23.2	14.1	15.4	4.7	4.9
Novorossiysk Sea Trade Port	NMTP RU	13.5	13.5	9.0	7.6	5.1	4.9
Average		14.7	19.1	11.5	11.0	3.5	3.6
Median		13.8	14.7	10.1	7.6	3.6	4.1

Values implied from multiples, RON mn

Admin. Porturilor Constanta	177.6	237.0	655.5	578.1	714.0	704.7
Admin. Porturilor Dunarii Maritime Galati	0.2	3.1	7.5	11.8	33.0	33.9
Admin. Porturilor Dunarii Fluviale Giurgiu	64.8	65.6	74.7	64.2	72.7	70.6
Admin. Canalelor Navigabile	30.5	47.8	87.1	91.7	137.6	140.5

Source: Raiffeisen Capital&Investment, Bloomberg prices as of January 3, 2011

Valuation

RON mn	2009 Sales	2009 EBITDA	2009 Net profit	Fair value derived from 2009 EV/Sales	Fair value derived from 2009 EV/EBITDA	Fair value derived from 2009 P/E	Fair value estimate
Admin. Porturilor Constanta	209.8	57.7	12.4	704.7	578.1	237.0	506.6
Admin. Porturilor Dunarii Maritime Galati	9.3	1.1	0.2	33.9	11.8	3.1	16.2
Admin. Porturilor Dunarii Fluviale Giurgiu	18.6	5.6	3.4	70.6	64.2	65.6	66.8
Admin. Canalelor Navigabile	36.1	7.5	2.5	140.5	91.7	47.8	93.3

Source: Raiffeisen Capital&Investment estimates

Other shareholdings

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

Valuation summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
Alro	Aluminium Smelter	2,212.7	9.9%	219.5	1.7%
Posta Romana	Postal Services	802.2	25.0%	200.5	1.6%
Societatea Nationala a Sarii (Salrom)	Salt Production	82.0	49.0%	40.2	0.3%
Other shareholdings (47 companies)	Other	-	-	208.9	1.6%
Total				669.1	5.2%

Source: Raiffeisen Capital&Investment estimates

The postal services operator has a headcount of 35,000 and a network of 6,900 offices

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

We assigned a value based on a comparative valuation

Posta Romana

The Romanian national postal services operator where FP has a 25% stake is the country's largest employer with a headcount of around 35,000. The company is in a strong need of a restructuring, as its cost structure is significantly oversized and it has lost market share in the most dynamic segments of the market, parcels delivery and express shipping. The main reason was the frequent reshuffle of a politicized management. Posta Romana covers the whole country through a network of around 6,900 postal offices, but the modernizing of the company is an ongoing process. Posta Romana is the undisputed market leader on the letters dispatching segment (until 2012 it has the monopoly for the mail delivery with a weight of up to 50g) but has missed out the growth of the more lucrative segment such as parcels delivery and express shipping. On the latter segments it has a market share of approximately 10%. Another core activity which accounts for almost one third of its revenues, is delivering pensions for the public system participants. The company has been trying to diversify away from its core business and to take advantage of its huge network. Such new targeted segments were debt collection for different partners and direct marketing.

The financial position of Posta Romana has started to deteriorate in 2008 when operational expenses outgrew top line and the situation worsened in 2009 when the company faced stagnant revenues. Thus, its 2009 sales amounted to RON 1.44 bn, up 2.5% but operational loss skyrocketed from RON 11 mn to RON 211 mn. The company barely broke even in 2008 but reported a 2009 net loss of RON 182 mn (EUR 43 mn). According to company's financial statements personnel expenses accounted for around 55% of the total expenses in 2009, a year when they increased 7% yoy. For 2010, based on a scenario of still flat revenues, Posta Romana is expecting a larger net loss of around RON 252 mn. According to the Ministry of Communication, Posta Romana's largest shareholder, the company has a target to return to a profit of RON 50 mn by 2014.

Strengths and Weaknesses

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

Valuation

We apply a comparative valuation to assign a value to Posta Romana. Our peer group is made up of companies which are far more profitable that is why we apply a 35% discount to the value inferred with the help of the trading multiple. The latter is the average 2009 EV/Sales of our peer companies. Therefore, starting from a value of RON 1,148 mn we assign a RON 802 mn fair value to Posta Romana.

Financial data 2009

RON mn	Turnover	Sales growth 09/08	EBITDA	EBITDA margin	EBIT	Net profit	Net margin	BV	Net Debt
Posta Romana	1,435.7	3%	-163.7	-11%	-211.0	-181.6	-13%	678.0	-129.1

Source: Romanian Trade Register

Peer Group

Company	Bloomberg Ticker	P/E		EV/Sales		Profit margin	
		2008	2009	2008	2009	2008	2009
Deutsche Post	DPW GR	-9.2	24.4	0.4	0.4	-3%	1%
TNT	TNT NA	13.2	25.6	0.8	0.8	5%	3%
Business Post	UKM LN	18.3	19.4	0.5	0.4	3%	2%
FedEx	FDX US	25.6	300.0	0.8	0.8	3%	0%
UPS	UPS US	24.5	33.6	1.5	1.7	6%	5%
Thiel Logistic	TGH GR	-1.5	-1.9	0.2	0.3	-9%	-10%
Kuehne & Nagel	KNIA GR	19.4	23.6	0.8	1.0	3%	3%
Osterreichische Post	POST AV	14.4	20.8	0.6	0.6	5%	0.0
Average		19.2	63.9	0.7	0.8	2%	0.0
Median		18.8	24.4	0.7	0.7	3%	0.0
Posta Romana Value implied, RON mn		n.a.	n.a.	1,097.4	1,234.1		

Source: Raiffeisen Capital&Investment estimates, Bloomberg prices as of January 3, 2011

Valuation

RON mn	Sales 2009	Value derived from EV/Sales	Discount applied	Fair value
Posta Romana	1,435.7	1,234.1	35%	802.2

Source: Raiffeisen Capital&Investment estimates



Alro is the largest aluminium smelter in CEE (outside CIS)

Alro fully owns the alumina producer Alum

Alro

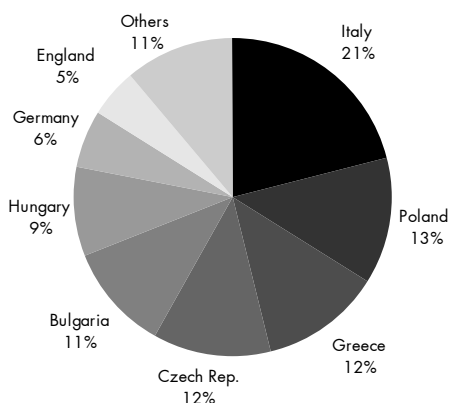
Alro is CEE's largest (outside the CIS) vertically integrated aluminium producer. The company is part of the international industrial and investment group Vimetco NV, operating in the aluminium industry. Vimetco's GDRs (global depositary receipts) are listed on the London Stock Exchange (LSE). Vimetco owns a stake of 84.2% in Alro, Proprietatea Fund owns 9.93% of the stock and Conef SA owns 3.8%. Alro's shares have been traded on the Bucharest Stock Exchange since 1996, the current free float standing at 2.1%.

Alro owns production capacities of 265,000 tons of electrolytic aluminium, 300,000 tons of primary aluminium cast products and 135,000 tons of processed aluminium products. In October 2009, alumina refinery Alum was restarted (99.4% owned by Alro) following an upgrading process initiated in 2007, which transformed Alro into a vertically integrated company.

Alro's primary aluminium facilities currently consist of a smelter and processing plants, which include a cast house, hot and cold rolling mills and an extrusion line. Alro produces both primary aluminium products (wire rod, billets, slabs, foundry alloys and ingots) and processed aluminium products (plates of diverse aluminium alloys, sheets, coils, tread plates, embossed sheets and coils). Recently, the company announced that it intends to increase its production of processed aluminium, from 40,000 to 120,000 tons annually. This move is in sync with Alro's strategy to focus more on higher value-added products. Additionally, Alro also manufactures calcined alumina and extruded products.

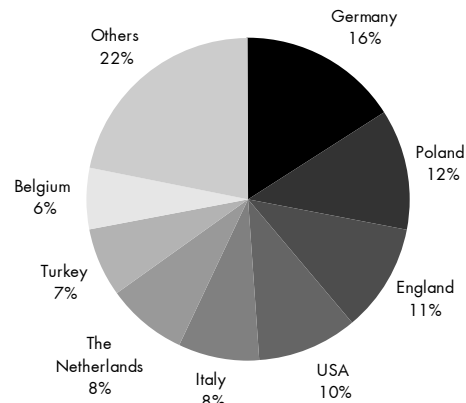
In 2009 Alro produced over 190,000 tons of primary aluminium products and over 31,000 tons of processed aluminium products. Over 77% of primary aluminium products and 92% of the processed products were exported.

Exports of primary aluminium products



Source: Company Annual Report 2009

Exports of processed aluminium products



Following the recovery in demand for and in the price of aluminium, Alro reported for 1-3Q 2010 an increase of 30% in revenues to RON 1.3 bn. At the same time, the net profit increased by 47% yoy to RON 131 mn.

Salrom

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

Salrom is the only certified Romanian salt producer

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

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

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

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

Fact Sheet

Company description

Fondul Proprietatea 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 61.1% of its shares have been transferred to parties entitled to receive indemnities.

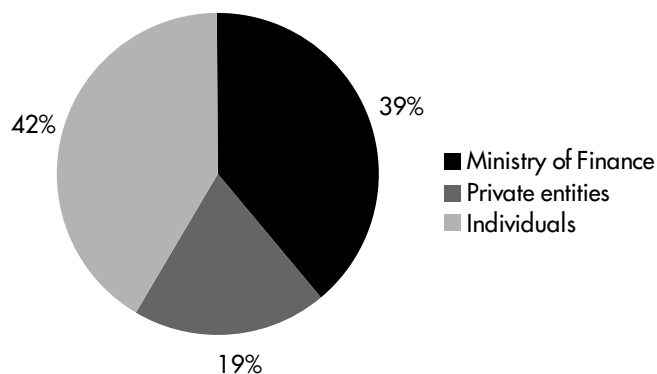
FP has a strong weight of energy shares (including oil exploration and gas and power production, supply and transportation), which come to represent 90% of its portfolio. The 20% stake held in the oil&gas producer Petrom (SNP) accounts for around 30% of its portfolio. Other sectors include transportation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

The well-known fund manager Franklin Templeton has been selected end-September 2010 at the helm of the fund.

Strengths/Opportunities

- Imminent listing on the main market of the local stock exchange is expected to improve liquidity and reduce the discount to NAV
- Franklin Templeton's appointment is expected to improve the fund performance through more active participation in the management of the portfolio companies
- Unique exposure onto the Romanian energy sector
- Large cash position (RON 1.4 bn at the end-Nov 2010)
- FP has contested in Court the dilution of its stake in Nuclearelectrica from 20% to 9.7%, which, if ruled in favor of FP, would boost its portfolio

Shareholder structure



Weaknesses/Threats

- The establishment of the two energy giants will impact the value of the energy producers from FP's portfolio, as additional, loss making companies will be included in the new entities
- Part of the portfolio companies are state-owned and inefficiently run, with politically named management
- Large part of the portfolio companies are regulated and thus subject to regulatory risk
- Until the State's stake drops below 33%, the voting rights for stakes above 1% are restricted to different degrees.

Recommendation history

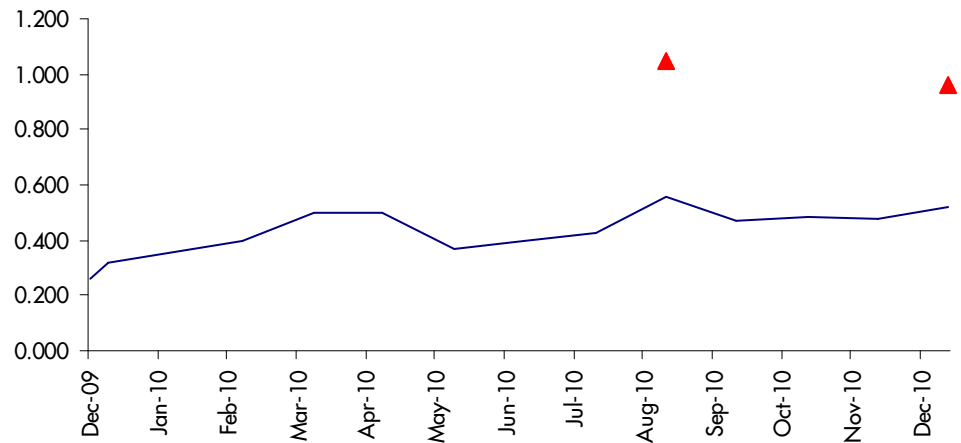
Date	Rating	Target Price	Price	Upside
16.08.2010	Buy	1.05	0.51	105.9%

Distribution of RCI current stock ratings

	Equity coverage	
	count	% of total
Buy	9	56%
Hold	4	25%
Sell	0	0%
Reduce	1	6%
Recommendation Suspended	1	6%
Under Review	1	6%

Source: Raiffeisen Capital&Investment

FP Stock Price vs. Target Price



Graph legend:

Stock Price —

Recommendations:

- Buy ▲
- Hold ■
- Reduce ◆
- Sell ◆
- Rec. susp. ●

Raiffeisen Centrobank AG
A-1015 Vienna, Tegetthoffstraße 1, Internet:
http://www.rcb.at

Sales & Trading

Tel.: +43/1515 20-0

Wilhelm Celeda (Head) ext. 402

International Institutional Sales

Klaus della Torre (Head) ext. 472
 Gunter Enghart ext. 268
 Oliver Fendt ext. 498
 Ozgur Guyuldar ext. 336
 Reinhard Haushofer ext. 477
 Anita Hunkar ext. 496
 Gyorgy Karolyi ext. 437
 Tomislav Pasalic ext. 435
 Lana Soldo ext. 485
 Andreas Steinbichler ext. 471

Salestrading Blocktrades

Patrik Steirer (Head) ext. 409
 Robert Hein ext. 476
 Wojciech Kolacz ext. 343
 Michael Kriechbaum ext. 464
 Stefan Waidhofer ext. 463
 Christof Wallner ext. 457

Email: surname@rcb.at ext. 457

Romania Tel.: + 40/21 306-

Equity Markets, Research, Sales
 Bogdan Campianu (Head) ext. 1238

Sales & Trading
 Emilian Dobran (Head) ext. 1237
 Adrian Ene ext. 1207

Email: name.surname@raiffeisen.ro

Company Research

Tel.: +43/1515 20-0

Birgit Kuras (Head) ext. 150

Company Research Austria

Stefan Maxian (Head of CEE) ext. 177
 Philipp Chladek ext. 175
 Daniel Damaska ext. 174
 Natalia Frey ext. 183
 Oleg Galbur ext. 185
 Klaus Kung ext. 158
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 Jovan Sikimic ext. 184
 Arno Supper ext. 153
 Christoph Thurnberger ext. 154
 Iryna Trygub-Kainz ext. 176

Poland

Bartłomiej Kubicki ext. 194
 Dominik Niszczyński ext. 196
 Jakub Krawczyk ext. 182

Raiffeisen Capital&Investment SA
011857 Bucharest, 15 Charles de Gaulle Square
http://www.rciro.ro

Company Research CEE

Croatia

Tel.: +385/16174-0

Ana Franin ext. 388
 ana.franin@rba.hr
 Ionut Gutis ext. 1267
 ionut.gutis@raiffeisen.ro

Nada Harambašić ext. 870
 nada.harambasic@rba.hr

Czech Republic Tel.: +420/22114-0

Jindrich Svatek ext. 1841
 jindrich.svatek@rb.cz
 Anna Yudina ext. 9817
 ayudina@raiffeisen.ru

Hungary Tel.: +36/1484-0

Levente Blahó ext. 4301
 levente.blaho@raiffeisen.hu
 Sergey Libin ext. 9838
 sergey.libin@raiffeisen.ru

Ákos Herczenik ext. 4812
 akos.herczenik@raiffeisen.hu

Romania Tel.: +40/21306-0

Iuliana Mocanu (Head) ext. 1202
 iuliana-simona.mocanu@raiffeisen.ro
 Ljiljana Grubic ext. 7178
 ljiljana.grubic@raiffeisenbank.rs

Alexandru Combei ext. 1239
 alexandru.combei@raiffeisen.ro

Genghiz Curtali ext. 1225
 genghiz.curtali@raiffeisen.ro

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