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Equity Research

Company Report | **Holding Companies** | **Romania** | **1 March 2012**

Fondul Proprietatea

Winds of change

We reduce our 12M target price for Fondul Proprietatea (FP) by 14% to RON 0.8 but maintain our Buy rating. The reduction in the target price stems mainly from an increase in the discount to our fair NAV from 20% to 30% and from the reduction of fair values of most of its unlisted holdings. We believe that even after the 31% YTD rally, FP's long-term attractions remain intact: a) its exposure to the energy and infrastructure sectors, b) high quality management by Franklin Templeton (FT) and c) the attractive valuation (45% discount to our fair NAV). However, we now expect the closing of the valuation gap to take longer than we had previously assumed as unlocking hidden value of the unlisted portfolio is largely in the hands of the state, which is also responsible for delays and/or setbacks in reorganizing the energy sector and in the alignment of gas prices to international levels, due in part to the November 2012 parliamentary elections (thus, the increase in discount).

- **Positives**: YTD, the stock has rallied on buying by foreigners, with the disappearance of the share overhang and the improvement in the international context. Positive news flow from key holdings (better 2011 results from Petrom and Romgaz, supportive oil price, recent gas discovery by Petrom) raises the prospects of attractive dividends. This in turn could support FP's share price in the s/t, while going forward, the successful IPOs/SPOs of the key holdings are the main drivers.

- **Negatives**: FP's share price performance in 2011 was fairly disappointing due to the share overhang and the difficult international context. FP is still down 14% from its peak, which in our view, suggests investors' skepticism that value can be unlocked in the s/t without the support of state entities, irrespective of FT's actions and skills. The temptation to take profits following the YTD rally should not be ignored.

- **Valuation**: From the holdings with a higher weight in FP's NAV, fair values are higher than in our February 2011 update for Petrom (2%) and lower for Transgaz (19.5%), Transelectrica (7.6%), Hidroelectrica (20.7%), Romgaz (1.6%) and Nuclearelectrica (32.6%). The inclusion of the four banking stocks (BRD Groupe SG, BT, Erste Bank and Raiffeisen Bank) added RON 504.3mn to our fair value of assets.

FAIR VALUE VS. OFFICIAL VALUATION

RON mn	Official value*	Fair value
Listed shares	4,822	5,990
Unlisted shares	9,151	7,395
Cash	298	298
Other assets	251	251
Total assets	14,522	13,934
Fair NAV	14,465	13,618
Fair NAV/share (RON)	**1.08**	**1.02**
12M target price (RON)**		**0.80**

*As of December 2011; **With paid capital — Source: FP, UniCredit Research estimates

Buy (prev. Buy)

Price on 28 February 2012	**RON 0.56**
Target price (prev. RON 0.93*)	**RON 0.80**
Upside to TP	42.6%
Cost of equity	12.25%
12M High/Low (RON)	0.62/0.42

adjusted with the paid in capital

INVESTMENT HIGHLIGHTS
- **The largest stock by free float listed on the BSE**
- **Exposure to energy, oil & gas, infrastructure and banking**
- **Templeton AM ensures better corporate governance and more efficient portfolio restructuring**

STOCK TRIGGERS
- **SPO on an international exchange**
- **IPOs/SPOs for key holdings (oil & gas, utilities, infra.)**
- **A potential new share buyback/asset disposals**

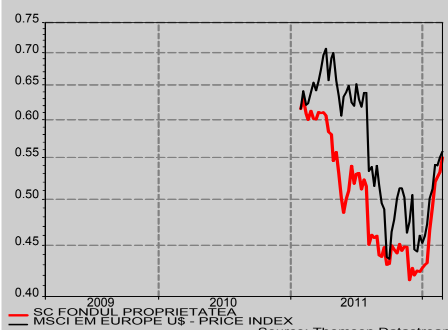
STOCK DATA

Reuters/Bloomberg	FP.BX/FP RO
Average daily volumes (mn)	26,997
Free float (%) as % total capital	97.3%
Market capitalization (RON mn)	7,524
No. of shares in issue (mn)	13,413*
Shareholders*	Romanian individuals 32.9%, Foreign individuals 9.2%, Romanian legal persons 9.2%, Foreign legal persons 44.3%, Treasury shares 1.74%, unpaid capital 2.7%

** as at 31 January 2012, as % of paid up capital*

UPCOMING EVENTS

AGM	25 April 2012
1Q12 results	15 May 2012
2011 IFRS consolidated results	29 June 2012



Source: Thomson Datastream

STOCK PERFORMANCE (CHG. %)

	1M	3M	6M
Absolute	14.3	35.1	24.7
relative to MSCI EME	6.5	17.9	18.1
relative to BET Romania	5.3	10.5	11.8

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Prices for all listed stocks referred to in this report as at 22 February 2012 unless otherwise stated

Highlights of the investment story

Buy maintained, 12M target price down at RON 0.80

Fondul Proprietatea's key attractions remain a) its exposure to the energy, infrastructure and banking sectors, b) high quality management by Franklin Templeton (FT) and c) the attractive valuation (44.7% discount to our fair NAV). We expect the valuation gap to eventually be reduced by unlocking the hidden value of the unlisted portfolio via listings and improved corporate governance practices, and we recognize FT's actions in the latter area. However, we now see this process taking longer than initially estimated given the lack of progress or setbacks in the achievement of measures needed to accomplish this purpose, which in turn derives mainly from the fact that the key decision making is predominately within the realm of state-related entities rather than in the hands of FP and FT.

We calculate our 12M target price by applying a 30% discount to our fair NAV. The discount is related primarily to FP's holding status and high exposure to unlisted majority state-owned companies with poor corporate governance practices and low profitability vis-à-vis their peers. Delays/lack of clarity in reorganizing mainly the energy sector as well as several recent non-transparent, discretionary and not in line with commercial practices actions of the management of some of these holdings and/or of governmental entities regulating the sector and/or of the government as to listings made us to increase the discount from 20%, and to reduce the fair value of some of the key holdings. As a result, our 12M target price is now RON 0.8/share (down from RON 0.91 in our previous report issued in February 2011 or RON 0.93 adjusted for the paid up capital).

Nevertheless, given the current 43% upside on a 12M horizon, our Buy rating remains in place. Moreover, more upside should arise if and when greater clarity emerges as to the government's plans related to reorganizing the electricity and gas sectors and/or to the listing of some of FP's holdings. However, since parliamentary elections will be held in Romania in November 2012, we have adopted a cautious position as to the timing and scope of measures that are badly needed and long overdue, but could cost the government political capital. We list here only those measures which we view as the most important: alignment of the price of gas and electricity to international levels, execution of capex programs and/or reorganization of some of the key holdings as well as the conclusion of the process of bringing them to the market (via the IPOs of Romgaz, Hidroelectrica and Nuclearelectrica), in addition to the increase the free float at Transelectrica, Transgaz and Petrom.

Changes since our last update are mostly associated with updates to the valuations of the key holdings

- **The main changes to the portfolio of shares vis-à-vis our 25 February 2011 report**: We now use FP's portfolio as at the end of December 2011 as our reference (vs. the January 2011 portfolio in our previous report). For the listed stocks, we use share prices as of 22 February 2012 (vs. prices on 21 February 2011 previously). The exceptions are the stocks under our coverage (Petrom, BRD Groupe SG, Banca Transilvania (BT), Transelectrica and Transgaz), for which we use the most up to date fair values as per our reports issued on 15 February 2012, 18 November 2011, 7 November 2011, 24 October 2011 and 24 August 2011, respectively. We also update our valuations of the largest unlisted companies for which we use what we consider to be the most appropriate financial or operational multiples for each sector based on the data availability.
- **The fair values of the key components**: From the holdings with a more significant weight in what we see as FP's fair NAV, we have revised the fair values used in our previous update for the listed covered stocks: Petrom (up 2%), Transgaz (down 19.5%), Transelectrica (down 7.6%), Hidroelectrica (down 20.7%), Romgaz (down 1.6%) and Nuclearelectrica (down 32.6%).

At Hidroelectrica, the revision stems primarily from using a combination of EV/Capacity and EV/EBITDA multiples, instead of only a capacity multiple previously, while at Nuclearelectrica, it is mainly from adjusting the stake's fair value downwards by the value of the heavy water that could potentially be transferred from Nuclearelectrica's balance sheet to the state reserve at no cost. FP has published the 2010 financials for its top 20 holdings, meaning that for these companies we use a new reference net debt (vs. 2009 financials previously) and 2011 budgeted figures, wherever available. Our fair asset value now also contains a RON 504.3mn (or RON 0.038/FP share contribution from the four banks that were missing from the portfolio on the date we issued our previous update.

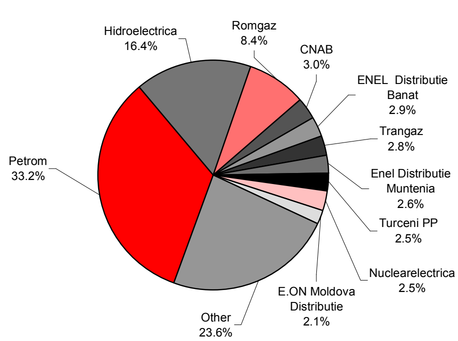
- **The rest**: In brief, the aggregate of the thermal power plants is down by 19.5%, mainly as a result of the change in our valuation methodology. We now calculate fair values as SOTP of EV/Capacity and EV/Reserves (75% weight) and EV/EBITDA (25% weight). The aggregated fair value for the electricity distributors is down by 9.1%, while for airports, it is up by 9.1% (following the update of their budgeted figures). We value most of the other holdings with a 30% discount to their official values (unchanged) to account for the lack of visibility and the likelihood of the deterioration in their financial standing due to the economic downturn.

Our fair value of total assets: 96% the portfolio of shares

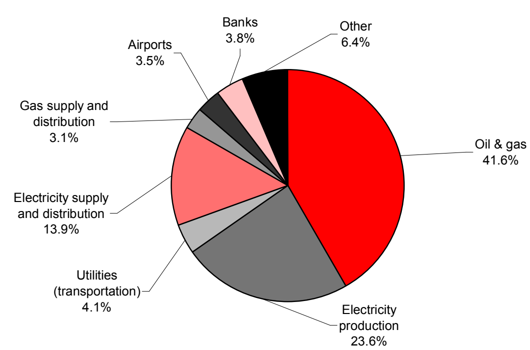
- Overall, the fair values of the unlisted holdings are lower than the official valuations with the exception of a number of the electricity and gas distribution companies.

- **Our fair NAVPS of RON 1.015 was derived from a SOTP** in which the portfolio of shares accounts for 96% of total assets. The sector breakdown shows the predominance of the energy sector (86.4%), followed by ports & airports (3.9%) and banks (3.8%). The listed companies that we cover (Petrom, BRD Groupe SG, BT, Transgaz and Transelectrica) account for 39.5% of the total; together with the companies for which we provide separate valuations, these account for 95.2% of the fair value of the portfolio. Cash and deposits account for 2% in total assets (based on our fair value), while placements in T-bills 1.8%.

Top 10 holdings account FOR 76.4%...



…while the power production sector for 24%



NB: calculated from the fair value of portfolio of shares

Source: FP, UniCredit Research estimates

- **The main triggers remain** the potential IPOs/SPOs of a number of FP's holdings in 2012-2013 (Romgaz and utilities announced for 2012, Hidroelectrica and Nuclearelectrica more likely in 2013, at the earliest, and Petrom – with the date as yet unknown), the possibility of FP listing on an international exchange in 2012 and a possible new buyback program.

Upcoming IPOs/SPOs should unlock value

- **The SPO/IPO pipeline of companies from FP's portfolio for 2012-2013 looks very good on paper…**, with three SPOs and three IPOs in the headlines. These include the SPOs for 15% each of Transelectrica and Transgaz shares and 9.84% of Petrom as well as IPOs for 15% of Romgaz and 10% each of Hidroelectrica and Nuclearelectrica. With the exception of the final two, the state is the seller. The Petrom SPO is a re-launch, if market conditions permit, as per official statements. For Transelectrica and Transgaz, the deal managers were selected and the former's SPO is expected to be closed in March, while the latter's in 2Q12 (May-June). At Romgaz, the official calendar provided for an IPO in July or September, but given the greater degree of complexity in the process, we see delays as likely. The government has published its approval of the privatization strategy for Hidroelectrica and Nuclearelectrica, whereby the intention is to increase capital by 12.49% and 11.077%, respectively, of which 10% is to be offered to the market. The state would not participate in the rights issue and the proceeds would go to the companies.

- …but the likelihood that any SPOs/IPOs will be concluded must be assessed within the context of rather troubled markets and, more specifically, of 2012 being an election year. We see two possible scenarios here: 1. With the knowledge that the government has only a few months left in its current composition, the Romanian government would blame the poor market conditions and assume no responsibility for the conclusion of any transaction; or 2. The government pushes forward and concludes all deals as scheduled as it realizes the potential to generate revenues for the state budget (ca. EUR 950mn, at current market prices for listed stocks and at book value for Romgaz) without resorting to painful tax increases and or other austerity measures. At this point, we believe the first scenario is the more likely, while the second could bring a real boost to the stock market (by more than doubling the free float of the respective stocks in the SPOs and adding new valuable stocks to BSE in the case of IPOs) to the extent that it could bring Romania closer to inclusion in the MSCI Emerging Market Index. In our view, even concluding only part of the assumed transactions should be viewed as encouraging and positive by and for the market.

FP's international listing in 2012 should broaden the investor base of the overall market

- **An international listing is also under consideration**: Franklin Templeton's recommendation issued in June 2011 was for a Warsaw listing in 1Q12 via the sale of up to 10% of the existing shares. However, in November 2011, FP announced that it may revise the original timeframe given that there are more legal obstacles than had been previously envisaged. The main hurdle is to obtain the approval of Romanian SEC (CNVM) as the regulator might fear losing revenues in relation to the main BVB issuer as a result of a transfer of liquidity to the new exchange. However, discussions with CNVM are ongoing. The approval of shareholders will also be required. Therefore, a dual listing is more likely in 2Q12, at the earliest.

- **First buyback program concluded, another likely in 2012**: In the upcoming EGM (to be held on 4 or 25 April 2012), FP intends to cancel the 240mn Treasury shares representing some 1.8% of capital and for which it spent RON 120mn. As a result, the RON 120mn-reserve would be restored for a new buyback. We expect FT to propose the approval of such a program for a future EGM. In the previous program, support for the share price was limited; in fact, it succeeded only in preventing a greater decline in share price. In theory, once the share overhang disappeared, a new buy back should better serve the purpose of supporting the share price.

The decline in the state's stakes in FP's key holdings should reduce political risk

- **The key risk remains political…** As the state is still the majority shareholder in FP's key holdings, it remains the key decision maker in terms of their activities (capex, dividend policy), pricing policy in the electricity and oil & gas sectors (via the regulatory authorities) and their listings on the Bucharest Stock Exchange (BSE). These influences have an impact on the valuation of those holdings and subsequently on FP's fair value. The frequent changes in the state's policies with respect to reorganization of the energy sector and in the management of these companies has given rise to delays in the implementation of their capex programs and additional uncertainties related to the likelihood of their listing on the BSE.

FP's supervision by a Board of Nominees, where state representatives still dominate, and the state's majority shareholding in key companies in the portfolio, also limits the effectiveness of FP's active investment strategy. However, there has been some recent progress, as at the 23/25 November 2011 EGM, shareholders approved an expansion of the decision-making power of the fund manager (it can perform transactions of up to 20% of the fixed assets less long-term receivables without shareholders' approval, while the previous limit was 5%). Moreover, at the upcoming AGM we might also see a change in the composition of the Board of Nominees to better reflect changes in the shareholding structure. An interim board member proposed by the City of London (which owns 7.2%) in the person of Mr. Julian Healy already sits on the current board. He has broad experience in the financial sector, having worked for the EBRD, JP Morgan and Ernst & Young, among others.

FT has been active in protecting minority shareholders' rights against state's actions

- **Still, FP's actions should be seen as a mitigating factor for political risk**: Franklin Templeton has had an activist position in its holdings to date, in an effort to protect FP's interests in the state-owned companies. To this effect, the fund has obtained the approval of the court for the suspension of mergers seeking to establish two energy giants; through instigation of legal proceedings against individual holdings, the fund eventually forced the government to abandon the endeavor. Moreover, at natgas producer Romgaz, where the state approved a RON 400mn donation, FP filed lawsuits against each of Romgaz's board members who voted to approve it. More recently, FP has taken legal actions in relation to specific bilateral contracts concluded by Hidroelectrica at prices considered disadvantageous to the company. To date, FP has had mixed results in these endeavors (a favorable court decision in the Romgaz case is still pending, while litigation related to Hidroelectrica is in the early stages).

FP started to organize tenders for selling the smaller holdings

- **FP has commenced the portfolio restructuring**. Since we issued our previous report, FP has to date sold its stakes in Marlin, Familial Restaurant, Laromet, Zamur and Vitacom via auctions, and in Comcereal Harghita in a squeeze out offer, at prices equal to or above those in the NAV. It also reduced its stake in Oil Terminal. All these holdings account for a negligible stake in the official NAV. Other holdings were subject to mergers (3 Electrica Furnizare companies as well as Primcom which absorbed Delfincom and Prestari Servicii). FP also acquired stakes in the Romanian banks BRD Groupe SG and BT as well as in the Austrian banks Erste and Raiffeisen. The restructuring process is off to a positive start, as, in our view, most of the small unlisted companies in which FP has holdings have transparency issues and/or unappealing fundamentals, while most of the smaller listed ones have low liquidity. Going forward, FP would continue such sales while the main target would be to sell, in 2012, its stakes in the electricity and gas distribution and supply companies.

- **FP is an** attractive dividend play: FP indicated that it will maintain its policy of fully distributing profits deriving from interest and dividend income, less expenses and corporate tax, in line with the policies of other funds managed by FT. For the FY 2011, FT intends to recommend for GSM approval a DPS of RON 0.038, up 21% yoy, which implies total dividends of RON 509.7mn, a payout ratio of 93.7% and a dividend yield of 6.8%. The data from the 2012 budget suggests a DPS for FY 2012 of around RON 0.031 and a yield of 5.6% (using the share price on 28 February 2012).

FP vs. the SIFs: no ownership restrictions and better quality management are key features playing in FP's favor

- **FP vs. the SIFs:**
  - The key difference playing in FP's favor is the attribute of the management which is geared towards increasing shareholder value via the embrace of an activist stance and real portfolio restructuring. However, an officially active investment strategy at FP is limited in practice by state interference in various ways, while at SIFs, with their rather passive strategy (with the exception of SIF 2), the state interference is for the most part related to the ownership threshold (which can be increased/removed only with parliamentary approval). FT charges each quarter a 0.479% fee of the average Mcap of the quarter on a pro-rata basis; at SIFs there is no management fee (with the exception of SIF 4);

for the other SIFs, the management is employed by the SIFs and there is lack of transparency on the size (if any) of the compensation linked with its performance, as measured by the appreciation of the NAVs and/or share prices.

– While FP is a play on the Romanian energy sector (86.4% of our fair value of portfolio of shares), the SIFs offer exposure to the financial sector (65% on average).

– FP has a higher weight of unlisted holdings in total assets vis-à-vis the SIFs (63% vs. an average of 19% for the SIFs, based on the latest official values). At the SIFs 1-4, the transactions with Erste regarding their stakes in BCR implying cash payments and swaps with Erste shares reduced the figure from 30%-40% to 16% on average.

– The official valuation of FP is closer to international standards (the listed holdings are marked to market vs. the 90 days average price computation at the SIFs, while the unlisted holdings are computed based on fair values (see details on page 8) or book values at FP and based on adjusted book values at the SIFs).

– In the case of the SIFs, ownership restrictions exist (Parliament approved in December 2011 and the President promulgated in January 2012 the increase in the ownership threshold for a single shareholder or group of shareholders acting in concert from 1% to 5% of the capital).

– At FP, the shareholding structure is less fragmented than for the SIFs (10,705 shareholders as at January 2012 vs. between 5.8mn and 7mn for the SIFs).

Both are the most liquid stocks on the BSE, with FP's YTD volume accounting for 8% of the share capital vs. the SIFs' average of 16%.

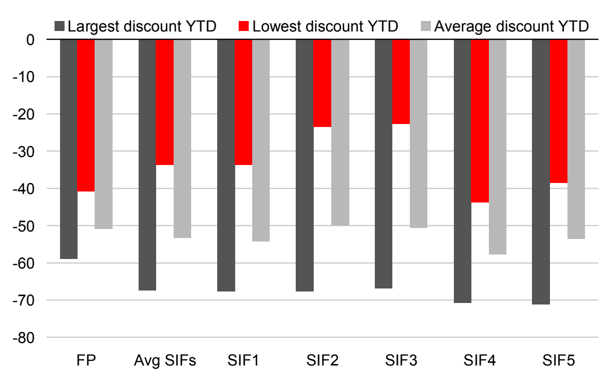
FP & THE SIFS IN TERMS OF DISCOUNT TO OFFICIAL NAV AND DIVIDEND YIELD

28 February 2012 prices	SIF1	SIF2	SIF3	SIF4	SIF5	Average SIFs	FP
Upside (%)	6.7	7.3	-12.8	7.1	42.0	10.1	42.6
Discount to official NAV (%)	-45.7	-31.9	-45.6	-47.1	-42.0	-42.5	-50.3
Discount to fair NAV (%)	-36.4	-26.2	-22.2	-36.5	-44.5	-33.2	-44.7
DPS 2011E (RON)*	0.108	0.220	0.093	0.081	0.077		0.038
Dividend yield (%)	8.9	15.5	13.8	10.5	5.5	10.8	6.8

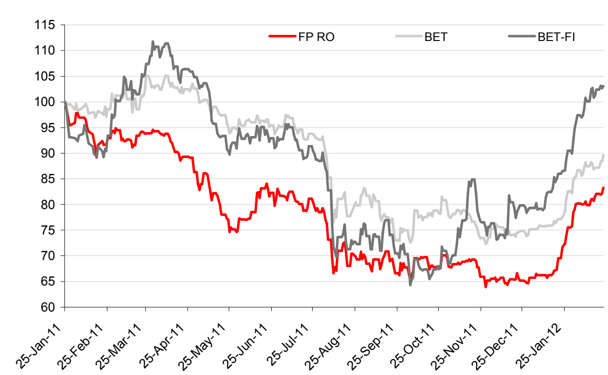
*Using 2010 payout ratios (except for SIFs 2&4 and FP which are actual proposals of the Board and fund manager resp.) Source: FP, SIFs, and UniCredit Research

FP VS. SIFS AND MAIN INDICES

FP's discount to fair NAV vs. SIFs'



Price performance since FP's listing



Source: FP, SIFs, Bloomberg, BSE, UniCredit Research

Valuation – fair NAV at RON 13.6bn

The valuation methodology we use is similar to the one we apply to the SIFs.

- We use the December 2011 portfolio of shares. **For listed stocks in our coverage universe** (Petrom, BRD Groupe SG, BT, Transgaz and Transelectrica) **we use the fair prices resulting from our valuations**. Thus, we value FP's stake in Petrom at RON 4,448mn, in BRD Groupe SG at RON 235mn, in BT at RON 49mn, in Transgaz at RON 372mn and in Transelectrica at RON 178mn. The above fair values have been determined based on DCF (Discounted Cash Flow) for Petrom and utility companies, and based on the residual income model for the banks. These five companies account for 88.2% of the fair value of the listed portfolio and 39.5% of the total fair value of the securities portfolio.

- **We mark to market the other listed companies**, using the share prices as of 22 February 2012, except for the companies that are in reorganization/insolvency or have negative book values, for which we assign zero value (as in the official valuation).

- **We value the largest unlisted companies using the most appropriate financial or operational multiples for each sub-sector**. We use either transaction multiples or peers' multiples based on operational indicators: capacity and/or reserves, number of customers or number of passengers (depending on the sector), or financial multiples or combinations of the above. A summary of the companies for which we computed fair values, the valuation method used and changes compared to our previous report, are presented in the tables on the following two pages.

- **We use the official valuation for the other unlisted companies** to which we applied a 30% discount to account for limited visibility and the likelihood of further deterioration of their financial standing as a result of the economic crisis.

- **The resulting fair NAV is RON 13,618mn or RON 1.015/share**: To the total value of the portfolio of shares determined as SOTP, we add the cash and deduct the liabilities and the deferred tax figure (the latter by applying the 16% statutory tax rate to the difference between our fair value and the acquisition costs of the companies after impairments and corresponding to a capital gain tax in case of liquidation). The fair value of the total assets is 5.3% lower than in our 25 February 2011 report (up by 10.2% for listed stocks and down by 11.8% for unlisted stocks, 52% for cash and 6.4% for other assets, mostly T-bills).

- **We apply a 30% discount to the resulting fair NAV**. The discount is related primarily to the holding status and high exposure to unlisted holdings as they are majority state-owned. We increased the discount from 20% on our observation of significant delays/setbacks in implementation of measures that would unlock value (price liberalizations, reorganizing the electricity sector, listings). We then roll it forward by a year, using the cost of equity, in order to derive our 12M target price of RON 0.8/share.

- **We use a COE of 12.25%** (based on a RFR for Romania of 7.25%, ERP of 5% and a beta of 1x), unchanged since our previous update.

Official valuation methodology unchanged. The listed companies traded in the previous 30 days are valued based on closing prices on the particular valuation day (and not the weighted average price of the previous 90 days that is currently being used in the case of the SIFs). Unlisted companies and listed companies that were not traded in the previous month may be valued either **a)** according to international valuation standards (based on fair values) or **b)** based on the latest book value (usually end of 2010).

FP: OFFICIAL NAV (IFRS)

	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12
NAV/share (RON)	1.1125	1.1352	1.1691	1.1942	1.2004	1.1919	1.1754	1.1625	1.1450	1.0903	1.1147	1.0742	1.0788	1.129
mom (%)	-3.6	2.0	3.0	2.1	0.5	-0.7	-1.4	-1.1	-1.5	-4.8	2.2	-3.6	0.4	4.7

Source: FP, UniCredit Research

FP: SUMMARY OF CHANGES IN FAIR VALUES OF THE KEY HOLDINGS

	Valuation method	
Company/Sector	**New**	**Previous**
Listed companies		
Petrom (oil & gas)	DCF; fair value as per 15 February 2012 report	DCF; fair value as per 11 February 2011 report
Transgaz (utilities)	DCF; fair value as per 24 August 2011 report	DCF; fair value as per 2 December 2010 report
Alro (aluminum smelter)	Mark to market as at 22 February 2012	Mark to market as at 21 February 2011
Transelectrica (utilities)	DCF; fair value as per 24 October 2011 report	DCF; fair value as per 17 February 2011 report
BRD Groupe SG (financials)	residual income model; fair value as per 18 November 2011 report	n.a.
Banca Transilvania (financials)	residual income model; fair value as per 18 November 2011 report	n.a.
Erste Bank (financials)	Mark to market as at 22 February 2012	n.a.
Raiffeisen bank (financials)	Mark to market as at 22 February 2012	n.a.
Other listed	Mark to market as at 22 February 2012	Mark to market as at 21 February 2011
Unlisted companies		
Hidroelectrica (hydro power producer)	EV/Capacity, EV/EBITDA (simple average)	EV/Capacity
Romgaz (natgas producer)	EV/Reserve	EV/Reserve
Nuclearelectrica (nuclear power producer)	EV/Capacity	EV/Capacity
Turceni PP (thermal power producer)	SOTP (EV/Capacity +EV/reserves) 75% weight, EV/EBITDA 25% weight	SOTP (EV/Capacity + EV/reserves)
Enel Distributie Muntenia (electricity distribution)	EV/EBIT, P/E and EV/Customer (transaction multiple)	EV/EBITDA, P/E and EV/Customer (transaction multiple)
CNAB Bucharest (airports)	EV/EBITDA, P/E, EV/passenger (market multiples)	Unchanged
GDF Suez Energy RO (gas supply & distribution)	EV/EBIT, P/E	EV/EBITDA, P/E
Craiova PP (thermal power producer)	SOTP (EV/Capacity +EV/reserves) 75% weight, EV/EBITDA 25% weight	SOTP (EV/Capacity + EV/reserves)
ENEL Distributie Banat (electricity distribution)	EV/EBIT, P/E and EV/Customer (transaction multiple)	EV/EBITDA, P/E and EV/Customer (transaction multiple)
Electrica Distributie Muntenia Nord (electricity distr.)	EV/EBIT, P/E and EV/Customer (transaction multiple)	EV/EBITDA, P/E and EV/Customer (transaction multiple)
Posta Romana (Postal services)	Official valuation* 0.7	Unchanged
Rovinari PP (thermal power producer)	SOTP (EV/Capacity +EV/reserves) 75% weight, EV/EBITDA 25% weight	SOTP (EV/Capacity + EV/reserves)
Electrica Distrib. Transilvania Sud (electricity distr.)	EV/EBIT P/E and EV/Customer (transaction multiple)	EV/EBITDA, P/E and EV/Customer (transaction multiple)
ENEL Distributie Dobrogea (electricity distribution)	EV/EBIT, P/E and EV/Customer (transaction multiple)	EV/EBITDA, P/E and EV/Customer (transaction multiple)
Electrica Distr. Transilvania Nord (electricity distrib.)	EV/EBIT, P/E and EV/Customer (transaction multiple)	EV/EBITDA, P/E and EV/Customer (transaction multiple)
E.ON Moldova Distributie (electricity distribution)	EV/EBIT, P/E and EV/Customer (transaction multiple)	EV/EBITDA, P/E and EV/Customer (transaction multiple)
E.ON Gaz Distributie (gas distribution)	EV/EBITDA, P/E	Unchanged
Traian Vuia Timisoara (airports)	EV/EBITDA, P/E, EV/passenger (market multiple)	Unchanged
Mihail Kogalniceanu Constanta (airports)	EV/EBITDA, EV/passenger (market multiples)	EV/EBITDA, P/E, EV/passenger
Other unlisted	Official valuation* 0.7	Unchanged

*2011 budgets for Romanian companies, except E.ON Gaz Distributie; 2011E multiples for the peers

Source: FP, UniCredit Research estimates

FP: SUMMARY OF FAIR VALUES FOR THE KEY HOLDINGS VS. OFFICIAL VALUES

		Value of FP's stakes (RON mn)		% in portfolio			
Company/(Sector)	**FP's stake (%)**	**Official value**	**Fair value**	**Official value**	**Fair value**	**Fair vs. Official (%)**	**% of revision**
Petrom (oil & gas)	20.1	3,303	4,448	23.6	33.2	34.6	2.0
Transgaz (utilities)	15.0	394	373	2.8	2.8	-5.4	-19.5
Alro (aluminum smelter)	10.2	237	222	1.7	1.7	-6.2	-9.3
Transelectrica (utilities)	13.5	172	178	1.2	1.3	3.1	-7.6
BRD Groupe SG (financials)	3.6	272	235	1.9	1.8	-13.5	n.a.
Banca Transilvania (financials)	2.9	46	49	0.3	0.4	6.9	n.a.
Erste Bank (financials)	0.3	72	100	0.5	0.7	38.9	n.a.
Raiffeisen International (financials)	0.6	94	120	0.7	0.9	27.4	n.a.
Other listed		231	265	1.7	2.0		52.3
Total listed		**4,822**	**5,990**	**34.5**	**44.8**	**24.2**	**10.2**
Hidroelectrica (hydro power producer)	19.9	3,340	2,193	23.9	16.4	-34.3	-20.7
Romgaz (natgas producer)	15.0	1,220	1,118	8.7	8.4	-8.4	-1.6
Nuclearelectrica (nuclear power producer)	9.7	507	338	3.6	2.5	-33.4	-32.6
Turceni PP (thermal power producer)	24.8	523	341	3.7	2.5	-34.8	-22.2
Enel Distributie Muntenia (electricity distribution)	12.0	337	342	2.4	2.6	1.5	-13.1
CNAB Bucharest (airports)	20.0	322	406	2.3	3.0	25.9	6.0
GDF Suez Energy RO (gas supply and distrib.)	12.0	339	247	2.4	1.8	-27.2	4.5
Craiova PP (thermal power producer)	24.4	267	99	1.9	0.7	-63.1	-14.3
ENEL Distributie Banat (electricity distribution)	24.1	317	388	2.3	2.9	22.4	-0.9
Electrica Distributie Muntenia Nord (electricity distrib.)	22.0	238	226	1.7	1.7	-5.0	-5.8
Posta Romana (Postal services)	25.0	140	98	1.0	0.7	-30.0	-17.9
Rovinari PP (thermal power producer)	23.6	290	194	2.1	1.4	-33.2	-16.8
Electrica Distrib. Transilvania Sud (electricity distrib.)	22.0	184	181	1.3	1.4	-1.4	-31.2
ENEL Distributie Dobrogea (electricity distribution)	24.1	219	254	1.6	1.9	16.0	-1.3
Electrica Distrib. Transilvania Nord (electricity distrib.)	22.0	171	189	1.2	1.4	10.8	-19.8
E.ON Moldova Distributie (electricity distribution)	22.0	221	283	1.6	2.1	28.3	5.3
E.ON Gaz Distributie (gas supply and distribution)	12.0	116	169	0.8	1.3	46.4	119.8
Traian Vuia Timisoara (airports)	20.0	8	48	0.1	0.4	507.9	28.4
Mihail Kogalniceanu Constanta (airports)	20.0	2	9	0.0	0.1	276.9	108.9
Other unlisted		391	274	2.8	2.0	-30.0	-3.7
Total unlisted		**9,151**	**7,395**	**65.5**	**55.2**	**-19.2**	**-11.8**
Total portfolio (listed an unlisted)		**13,973**	**13,384**	**100.0**	**100.0**	**-4.2**	**-3.1**
Total cash		298	298			0.0	-52.4
Other assets		251	251			0.0	-6.4
Total assets		**14,522**	**13,934**			**-4.0**	**-5.3**
Liabilities		42	42				-33.0
Deferred tax		14	274				-61.2
NAV		**14,465**	**13,618**				**-2.3**
NAV/share (RON)		**1.078**	**1.015**				**-2.3**
Discount (%)			30.0				
Fair price (RON)			**0.71**				**-14.5**
COE (%)			12.25				
12M target price (RON)			**0.80**				**-14.0**

Source: Company data, FP, Bloomberg, UniCredit Research estimates

Sensitivity analysis

- In the first scenario, we mark to market all the listed companies (except the ones that are in insolvency or have negative book value). The resulting 12M target price is not materially different than the value in the base case (1.3% higher).

- In a second scenario we apply a higher discount to our fair NAV to calculate FP's fair value: an increase by 10pp of the discount compared to the base case (30%) reduces the 12M target price by 14.5% and the upside to 21.2%.

- A pessimistic scenario in which we account only for the stakes in **a)** the key listed companies (Petrom, Transgaz, Transelectrica, Alro, BRD Groupe SG and BT); **b)** three unlisted companies (Hidroelectrica, Nuclearelectrica and Romgaz); and c) the cash figure, would yield a 12M target price of RON 0.61, 23.8% lower vs. the base case but would still offer a 8.7% upside. In this scenario, FP would be more deserving of a Hold rating.

- **Scenarios 4-7**: With assumptions for crude prices higher by USD 10/bbl, FP's 12M target price would increase by 5%. If we increase our assumptions for natgas wellhead prices for domestic producers by 10% vs. the base case from 2012 onwards, this would positively impact the values of Petrom and Romgaz and add 3.7% to FP's 12M target price. Changes in the discounts applied when valuing Hidroelectrica (down to 35% or up to 55% from our base case discount of 45%) would add 1.3% to our 12M target price or cut it by 2.5%.

FP: SENSITIVITY ANALYSIS

12M target price (RON) Base case	**0.80**	
Scenario 1		
12M target price (RON)	**0.81**	Mark to market all listed companies (prices as at 22 February 2012)
Difference vs. base case (%)	1.3	
Scenario 2		
12M target price (RON)	**0.68**	Discount to fair NAV 10pp higher vs. the base case
Difference vs. base case (%)	-14.5	
Scenario 3		
12M target price (RON)	**0.61**	
Difference vs. base case (%)	-23.8	Only cash and holdings in the five covered stocks, Alro and three unlisted companies (Hidroelectrica, Nuclearelectrica and Romgaz)
Scenario 4		
12M target price (RON)	**0.84**	Crude oil price in Petrom's valuation higher by USD 10/bbl vs. base case
Difference vs. base case (%)	5.0	
Scenario 5		
12M target price (RON)	**0.83**	Natgas prices for Romgaz and Petrom higher by 10% from 2012 onwards
Difference vs. base case (%)	3.7	
Scenario 6		
12M target price (RON)	**0.78**	With a 55% discount used in the valuation of Hidroelectrica (vs. 45% discount in the base case)
Difference vs. base case (%)	-2.5	
Scenario 7		
12M target price (RON)	**0.81**	With a 35% discount used in the valuation of Hidroelectrica (vs. 45% discount in the base case)
Difference vs. base case (%)	1.3	

Source: UniCredit Research estimates

Risks to our valuation

Limited transparency and regulatory risk pose main risks to our valuations

We continue to value most of the key unlisted companies based on comparison with peers: FP's efforts to increase transparency translated into the publication of the 2010 financials and related reports (boards' and auditors') for the top 20 holdings. This represented a major step forward as, in most cases, previously only the financial statements were available. Still, data such as capex and financing sources, restructuring of staff and operations on key companies in the portfolio, mainly the unlisted majority state-owned companies, remain scarce and/or contradictory, and this derives mostly from frequent changes in the government's strategy for the energy sector.

Therefore, we maintain our decision not to change our valuation methods for the key holdings: we continue to value them on comparisons with the peers' operational and financial multiples and not based on DCF. In our view, this approach does not fully reflect the potential (be it upside or downside) of those companies, but rather their status, which is likely to have been further affected by the economic crisis. Moreover, finding the right peers remains a difficult exercise, as most of the companies in FP's portfolio in the energy sector are not vertically integrated. However, as we generally applied hefty discounts to peers (and in some cases higher than in our previous update), we believe our valuations are rather conservative.

In the case of utilities and oil & gas companies, the main risk is the regulatory risk and although we apply various discounts to the peer valuation, we recognize the limits of being able to capture all the implications of such a risk. In the case of Romgaz, for example, liberalization of natgas prices could translate into an alignment of domestic wellhead prices to European natgas prices, which would provide a considerable boost to the company's profitability and would be also beneficial for Petrom. However, the prices paid to Romgaz and Petrom have not been increased since 2008, rendering most investors skeptical when it comes to this subject. We provide a sensitivity analysis for both Romgaz and Petrom as to the degree their valuations could change in a scenario of higher natgas prices.

In the case of **Hidroelectrica**, some upside risk resides in the successful contract negotiation conducted by the company. We are unable to ascertain the number of clients that accepted the price increases the company has recently indicated it implemented in 2012, or how many agreed to volume cuts, nor are we able to determine the weight of these clients in total electricity deliveries. We refrain from becoming overly optimistic about this, but indicate it as a potential positive, with impact on the valuation based on financial multiples. We do not include in the valuation any assumptions based on capacity multiples for the expansion projects, the most sizeable being the 1,000-MW pump-storage hydropower plant in Tarnita.

Thermal power plants remain the most battered: These plants are in various stages of implementing the required capex to reduce emissions to meet EU environmental standards. Failure to finalize the mandatory capex by end-2013 could translate into their closure, although our understanding is that for started but not finalized projects, companies can obtain waivers (their environmental permits could be extended). The risk of closures is not negligible, as their chronically low profitability and more recently, the withdrawal of certain EU funds to finance some of these projects would simply translate into insufficient resources for capex.

The picture could be complicated by the set up of Oltenia Power Plant: While to date, the capex and restructuring plans of the individual companies do not appear to have been interrupted by the process, one cannot rule out completely the possibility that the restructuring plan of the new entity (which should be drafted within 5 months of the set up of the company) would not lead to a complete overhaul of certain investments in the components, resulting in further delays. On the positive side, the set up of the new entity would create a vertically integrated company, meaning that the three lignite fuelled plants Turceni, Rovinari and Craiova (mostly the latter) would be able to reduce the costs of their main input as they would buy a larger quantity of lignite from their own mines belonging to SNLO.

Cost of CO2 certificates could further dent profitability: Probably even more damaging could be the fact that as of 2013, the plants would have to acquire a greater portion of their CO2 certificates (currently only the deficit must be acquired from the market), meaning higher costs. We expect these costs will most likely not be recoverable in full via tariff increases, which would eventually lead to even more limited resources to finance capex.

Two smaller energy players in the making

Oltenia Energy Complex will become FP's 4th largest holding

Two smaller complexes to emerge instead of Electra and Hidroenergetica: One of the main risks we identified in our previous report, the set up of the two national energy champions Electra and Hidroenergetica, disappeared as the Romanian government officially abandoned the proposition. As an alternative, the government is organizing two smaller companies, Hunedoara Energy Complex (HEC) and Oltenia Energy Complex (OEC). The latter would result from the merger of three of FP's holdings – Turceni, Rovinari, and Craiova Power Plants and the National Lignite Company Oltenia (SNLO). FP holds stakes of around 24%-25% in each of the power plants and these stakes accounted for 3.7%, 2.1% and 1.9% respectively of FP's official NAV in December 2011. The merger was approved by the EGMs of the four companies in early December 2011 (including by FP as a minority shareholder). Representatives of the Ministry of the Economy quoted by Mediafax indicated that the new company will have an aggregated turnover of around EUR 1bn and that annual savings of EUR 80mn could be obtained via achievement of synergies. FP estimates that the new company will have a 7.5% weight in the official NAV (based on 31 December 2011 data) and is to become the fourth largest FP holding. FP should receive a stake in the new company the value of which is to equal the sum of the values of its three current holdings.

It is as yet unclear whether OEC will be privatized via an IPO or a sale to a strategic investor

These smaller entities make more sense than the previous ones from the technical standpoint, but risks remain as the thermal power plants are to be merged with a loss making mining unit (SNLO). SNLO has already been providing its lignite production mostly to the three thermal power plants, thus FP's agreement to the merger. To reduce risks, FP signed a memorandum of understanding, in which the most important provisions refer to: **a)** the BSE listing or a bloc sale of the majority stake within 24 months from OEC's registration; **b)** the introduction of a two-tier management system with a Supervisory Board (of the seven supervisory board members, two will be FP representatives) and an executive management (of the five members, FP will appoint one) whose selection is to be made with the support of an international search firm); **c)** FP will have the right but not the obligation to sell its shares under the same terms and conditions as the state; **d)** the approval by the supervisory board and management of a restructuring plan, to include also a 5Y capex plan, within 5 months from the registration of the company. The restructuring plan will have to be approved by shareholders representing 90% of the voting rights. The intention (also assumed by the government in its letter of intent with IMF) is to have its privatization completed by the end of this year (the legal advisor should be selected by June 2012, the broker in August 2012 and the IPO prospectus should be published in October 2012).

KEY DATA FOR THE COMPONENTS OF OLTENIA POWER PLANT (2010)

	Sales (RON mn)	Net profit (RON mn)	No. of employees
Turceni	1,044	-69.3	4,515
Rovinari	795	0.6	4,489
Craiova	1,098	0.2	2,294
SNLO	901	-63.5	8,371
Total	**3,837**	**-131.9**	**19,669**

Source: Company data, UniCredit Research

Valuation summaries of the key holdings

Listed covered companies

Petrom (Buy, 12M target price RON 0.43)

We value Petrom using a 10Y DCF model recently updated to incorporate marginally higher near-term E&P production volumes (mainly natgas), the delays in the start of the power station's commercial operations and margins pressure in natgas. We accounted for a one-off provision for the fine assessed by Competition Council but also for lower capex, both in 2011. We increased our EUR-based risk free rate for Romania by 25bp to 6.0%, which is detrimental to the valuation. Our DCF-derived value for Petrom's equity is now RON 21,686mn, which translates into a **value for FP's stake of RON 4,448mn**. The upside potential to our valuation could come from higher assumptions for crude prices, as we are currently lagging the forward curve significantly, by some USD 10/bbl (10% increase of our long-term price, i.e. USD 80/bbl from 2014 onwards, would add 11.3% to our 12M target price).

PETROM DISCOUNTED CASH FLOW VALUATION

RON mn	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Revenues	22,391	23,111	23,427	23,919	19,159	19,734	20,326	20,935	21,563	22,210
Expenditures	-17,624	-18,193	-18,402	-19,399	-16,432	-16,723	-17,111	-17,501	-17,922	-18,346
Operating profit	4,767	4,918	5,025	4,520	2,727	3,011	3,214	3,434	3,641	3,864
Tax	-763	-787	-804	-723	-436	-482	-514	-550	-583	-618
NOPLAT	4,004	4,131	4,221	3,797	2,291	2,529	2,700	2,885	3,059	3,246
Depreciation	2,911	3,023	3,135	3,237	3,237	3,237	3,237	3,237	3,237	3,237
Change in net working capital	-88	-177	-420	66	596	-57	-59	-61	-63	-65
Capex	-4,300	-4,300	-4,100	-4,100	-3,500	-3,300	-3,300	-3,300	-3,300	-3,300
FCF	**2,528**	**2,677**	**2,836**	**3,000**	**2,624**	**2,409**	**2,578**	**2,761**	**2,933**	**3,119**
PV FCF	**2,300**	**2,186**	**2,078**	**1,971**	**1,547**	**1,274**	**1,224**	**1,176**	**1,121**	**1,069**

Source: UniCredit Research estimates

PETROM DCF SUMMARY AND WACC CALCULATION

RON mn	I. perpetuity (g= -2%)	II. Exit EV/EBITDA at 4x	WACC calculation	
Sum of PV of FCF	15,946	15,946	Risk-free rate (Romanian EUR-bond)	6.00%
PV of Terminal value	7,147	9,444	ERP	5.00%
Total EV	23,093	25,390	Levered beta	1.350
Net debt (end 2011)*	-2,138	-2,138	**Cost of equity**	**12.8%**
Equity value (RON mn)	20,955	23,252	Tax rate	16.0%
			After-tax cost of debt	6.3%
Average equity value (RON mn)	22,119		% of Debt	25.0%
FP stake (%)	20.11		% of Equity	75.0%
Value of FP's stake (RON mn)	4,448		**WACC**	**11.14%**

*Estimated

Source: UniCredit Research estimates

Petrom's valuation is key in valuing FP shares. Given that Petrom accounts for 33.2% of FP's fair value of portfolio of shares, we assessed the sensitivity of our 12M target price for FP shares to variations in Petrom's fair value. If we increase our assumption for the crude price by USD 10/bbl throughout the entire forecast horizon, the fair value of FP's stake in Petrom increases by 15.6% to RON 5,268mn and our 12M target price for FP rises by 5%. If we raise our assumptions for wellhead natgas prices for domestic producers by 10% from 2012 onwards (in 2012 from USD 167 to USD 184 per 1,000 m^3), our fair value for FP's stake in Petrom would rise by 9.2% to RON 4,857mn. This in turn would add 2.1% to our 12M target price for FP.

We do not reflect the recently announced potentially significant offshore Romania gas discovery in our valuation of **Petrom**. In Domino-1 well, offshore Romania's first deep water exploration well operated together with ExxonMobil, Petrom encountered 70.7 meters of net gas pay, resulting in a preliminary estimate for the accumulation ranging from 42bn to 84bn m3. It is too early to determine whether the Neptun block will ultimately prove to be commercially developable or not, and in the event it does, Petrom sees the potential for first production towards the end of the decade, at the earliest. Given all the unknowns and the very complex and long-term impact of this discovery, we refrain from reflecting it in any way in our valuation for Petrom.

Transgaz (Hold, 12M target price RON 236)

We assess our fair value for Transgaz based on a 10Y DCF, in which we incorporate our estimates for Transgaz as per our most recent research published on 24 August 2011. Our base case yields a fair value of RON 2,487mn for Transgaz's equity, which translates into **a value of RON 372.7mn for the 14.99% stake in Transgaz owned by FP**. Our model incorporates a 10Y CAGR of 2.7% for sales and -3.2% for EBIT (2010-2020E).

TRANSGAZ 10Y DISCOUNTED CASH FLOW

RON mn	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT	363.6	356.6	385.0	381.7	374.5	352.4	317.9	310.7	309.8	309.6
NOPLAT	305.4	299.6	323.4	320.6	314.6	296.0	267.0	261.0	260.3	260.1
+ depreciation	158.1	161.0	160.7	161.4	162.1	162.7	163.3	163.9	164.4	165.0
- capex	185.0	154.9	175.5	175.0	175.0	175.0	175.0	175.0	175.0	175.0
- change in WC	77.8	4.3	-1.0	9.3	9.7	11.8	16.1	6.3	3.9	3.8
FCFF	356.3	310.0	307.7	316.4	311.4	295.6	271.5	256.2	253.6	253.8
PV of FCFF	343.3	267.7	238.2	219.6	193.7	164.8	135.7	114.8	101.9	91.4
WACC (%)	11.56									
Growth rate (%)	1.0									
Cumulative PV of FCFF (RON mn)	1,871									
Terminal value (RON mn)	2,428									
PV of terminal value (RON mn)	874									
Firm fair value (RON mn)	**2,745**									
Net debt (RON mn)	259									
Equity value (RON mn)	**2,487**									
Value of the FP's stake (RON mn)	**372.7**									

NB. Net debt is as of end-2010 adjusted for dividends

Source: UniCredit Research estimates

Transelectrica (Hold, 12M target price RON 20.0)

In assessing the fair value for Transelectrica equity, we use a DCF model, incorporating our forecasts and estimates as per our most recent research published on 24 October 2011. Our estimates incorporated a strong recovery in electricity volumes transported in 1H11, higher near-term capex and more conservative assumptions for personnel and repair & maintenance costs. Our base case DCF model yields a value of RON 1.3bn for Transelectrica's equity, which translates into **a value of RON 177.5mn for the 13.5% stake in the company owned by FP**.

TRANSELECTRICA DISCOUNTED CASH FLOW MODEL

RON mn	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBIT	230.6	180.4	214.0	236.9	243.1	269.1	282.2	299.6	336.9	374.5
NOPLAT	193.7	151.5	179.8	199.0	204.2	226.0	237.1	251.7	283.0	314.6
+ depreciation	297.7	317.2	335.6	356.7	377.8	400.1	421.2	439.6	439.2	439.2
- capex	-357.0	-400.0	-420.0	-441.0	-420.0	-365.4	-357.0	-357.0	-357.0	-357.0
- change in WC	-35.3	-11.2	-18.9	-17.0	-13.3	-19.1	-15.9	-16.4	-17.1	-17.8
FCFF	**99.2**	**57.5**	**76.5**	**97.7**	**148.7**	**241.6**	**285.4**	**317.9**	**348.0**	**379.0**
WACC (%)	11.27									
Perpetual growth rate (%)	1.0									
Terminal value	3,726.8									
PV of Terminal value	1,381.9									
Cumulative PV of FCFF	1,082.1									
Firm fair value	**2,464.0**									
Net debt	1,149.4									
Equity fair value	**1,314.6**									
Value of the FP's stake (RON mn)	**177.5**									

NB. Net debt is as of end-2010 adjusted for dividends

Source: UniCredit Research estimates

Unlisted companies

Gas production – Romgaz

Valuation based on EV/Reserve and EV/Storage multiples

We continue to assess a fair value for Romgaz based on a SOTP approach, to incorporate both the E&P and natgas storage businesses. Natgas sales account for roughly 90% in Romgaz's sales, while some 8% come from natgas storage. We valued E&P based on the company's 2P reserves, i.e. 566.3mn boe. We value the storage business using a capacity multiple approach.

We use a 2P reserves multiple of USD 3/boe to value the E&P business, which we estimate is roughly in line with how much the market is currently paying for Petrom's reserves. We consider Petrom to be the best peer in the same regulatory environment. For comparison, the two pure natgas plays in our universe, Gazprom and Novatek, are trading at some USD 1.2/boe, and USD 3.1/boe, respectively, which compares to USD 2.3/boe for the Russian majors. It is difficult to find pure natgas plays that are similar in size with Romgaz, not to mention the different regulatory environments. Applying a USD 3/boe to Romgaz's estimated 2P reserves, we obtain an EV of RON 5,557mn for the E&P business.

We have not changed the method we use to derive a fair value for the storage business, we used a capacity multiple of USD 0.10/m^3 down from USD 0.14/m^3 similar to the one paid by Gaz de France when acquiring 50% of Depomures (Romania) in 2007. This yields a value of RON 897mn for the storage business.

At the end of 2010, Romgaz was the holder of a hefty cash position and has very little bank debt. Summing up the two main business lines, we derive a fair value of equity of RON 7.5bn, which translates into a value of FP's stake of RON 1,118mn. This compares to a RON 1,220mn official value.

ROMGAZ: VALUATION BASED ON RESERVES AND STORAGE CAPACITIES

E&P	
2P reserves (mn boe)	566.3
EV/Reserves (USD/boe)	3.0
EV based on EV/2P reserves multiples (RON mn)	5,557
Natgas storage	
Natgas storage capacity (bn m^3)	2,760
EV/Capacity (USD/m3)	0.10
EV for the storage business (RON mn)	902
EV SOTP (RON mn)	**6,459**
Net debt (end-2010) (RON mn)	-998
Equity value (RON mn)	**7,457**
FP stake (%)	14.99
Fair value of FP stake (RON mn)	**1,118**
Official valuation (RON mn)	1,220

Source: Romgaz, FP, UniCredit Research estimates

Romgaz's value is highly sensitive to the domestic natgas wellhead prices. We estimate that in a scenario in which natgas prices are 10% higher than in the base case, from 2012 onwards, the fair value of FP's stake in Romgaz would increase by some RON 220mn or 20%. As for the potential for increases in wellhead prices for domestic natgas producers, the government once again moved the deadline (now to April 2012) to provide a timetable for talks to be held between the government, market regulator and oil & gas industry representatives. In fact, President Traian Basescu was quoted in the press at the end of January as saying that the government would need to negotiate with the IMF a new deadline for full market liberalization. The target, i.e. full liberalization for industrial users by 2013 and for households by 2015, seemed challenging if not unrealistic to us given the current wide gap between the import price and that paid to domestic producers. The President indicated 2015-2017 and 2020, respectively, as the desired deadlines for full liberalization for industrial and household consumers.

Peer comparison. We compared the multiples of Romgaz implied by our estimate of its fair value with those of a select number of peers, noting again the differences in size, in the business model (most of the peers are integrated oil & gas companies) and in the regulatory framework. Bearing these in mind, Romgaz's multiples calculated using our fair value and the company's budget for 2011 would be 11.5x P/E and 3.9x EV/EBITDA, implying a 44% discount to the Russian natgas plays in EV/EBITDA terms, while being in line with the average of the same group of peers in P/E-terms.

ROMGAZ PEER COMPARISON*

	Mcap	P/E (x)			EV/EBITDA (x)			EBITDA margin (%)			Net profit margin (%)		
	(USD mn)	2009	2010	2011E	2009	2010	2011E	2009	2010	2011E	2009	2010	2011E
Novatek	36,466	15.1	18.3	19.2	11.4	14.7	14.3	44.9	48.0	50.5	27.0	34.7	35.3
Gazprom	161,436	4.7	4.0	3.6	4.9	3.7	3.1	32.7	38.9	40.7	18.9	27.8	28.4
Russian natgas plays		**9.9**	**11.2**	**11.4**	**8.1**	**9.2**	**8.7**	**38.8**	**43.5**	**45.6**	**22.9**	**31.2**	**31.9**
Gazprom Neft (Sibneft)	23,588	5.5	3.9	4.1	4.9	4.5	3.1	20.3	14.2	20.4	12.5	12.2	12.1
Lukoil	56,854	5.7	5.0	4.2	3.5	3.5	2.8	15.4	18.6	14.8	8.0	10.8	9.3
Surgutneftegas	40,071	7.3	83.9	49.5	2.2	n.a.	1.1	34.7	n.a.	32.9	21.9	19.5	20.9
TNK-BP Holding	44,691	3.4	4.8	5.0	2.4	3.5	3.3	26.5	33.9	24.5	17.4	23.3	15.7
Russian majors avg.		**5.5**	**24.4**	**15.7**	**3.3**	**3.8**	**2.6**	**24.2**	**22.3**	**23.2**	**15.0**	**16.4**	**14.5**
Petrom (RO)	7,099	14.5	8.1	6.2	3.6	3.4	3.2	25.5	31.1	34.3	5.3	11.8	16.6
PGNiG (PL)	7,773	17.5	8.6	21.7	8.9	5.2	10.6	14.7	20.0	12.4	6.2	11.5	4.9
INA (HR)	6,737	neg.	9.6	16.5	5.6	4.9	8.2	4.6	17.5	20.7	neg.	6.0	8.5
MOL (HU)	10,826	9.6	16.0	11.7	8.3	6.3	5.9	11.5	9.1	11.4	3.4	2.0	3.5
CEE average		**13.9**	**10.6**	**14.0**	**6.6**	**5.0**	**7.0**	**14.1**	**19.4**	**19.7**	**5.0**	**7.8**	**8.4**
Romgaz**		**13.0**	**11.5**	**11.5**	**4.3**	**3.7**	**3.9**	**40.5**	**41.9**	**39.6**	**17.9**	**18.2**	**18.0**

*Based on Bloomberg consensus, except for Petrom;
**2011 figures based on company budget

Source: Company data, Bloomberg, UniCredit Research estimates

Romanian gencos

1. Hidroelectrica

Valuation is based on a combination of EV/Capacity and EV/EBITDA multiples

We now use a combination of capacity and financial multiples to determine a fair value for Hidroelectrica, while we previously based our assessment solely on capacity multiples. We decided to include financial multiples to reflect the lower profitability of Hidroelectrica in our assessment. We arrived at a fair value for FP's stake in Hidroelectrica of RON 2,193mn, 34.3% below the official valuation.

Valuation based on capacity multiples

We apply a 45% discount to peers' multiples to account mainly for differences in capacity utilization rate

We use capacity multiples of USD 1.4mn/MW and apply a discount for low capacity utilization. In order to determine a reasonable capacity multiple, we looked at gencos with most of the power output coming from hydro generation. We found a number of companies in Turkey in which the average replacement cost of hydro power plants is approximately USD 1.4mn/MW. Of the western peers, the closest one is Verbund, with 90% of its power output from hydro generation. Verbund currently trades around USD 1.8mn/MW. RusHydro is currently trading at some USD 0.4mn/MW, at huge discounts to international peers partly due to the country risks. Domestically, we looked at the costs of the 1,000-MW power plant to be built by Hidroelectrica at Tarnita, i.e. estimated at EUR 1.16mn/MW (or USD 1.5mn/MW). We also reviewed the capacity multiples used in privatizations of hydro gencos in Turkey, both completed and pending. While the buyers paid over USD 3mn/MW in those that have been completed, these were deals with small HPPs. Those that are pending are far more sizeable, and in these the state aims to achieve USD 1.5mn/MW.

Upon analysis of the above, we decided to continue to use a capacity multiple of USD 1.4mn/MW for valuing Hidroelectrica, but apply a hefty discount for low capacity utilization. Our calculations indicate that Hidroelectrica has a rather low capacity utilization (some 27.6% in 2011 vs. 40%-55% its peers). We therefore apply a 45% discount to the value based on capacity multiples. Furthermore, we now apply the capacity multiple to available capacity rather than to total installed capacity of 6,438 MW.

HIDROELECTRICA: VALUATION BASED ON CAPACITY MULTIPLES

Capacity (MW)	6,074.7
EV/Capacity (USD mn/MW)	1.4
Discount (%)	45.0
EV based on EV/Capacity (USD mn)	4,677
EV based on EV/Capacity (RON mn)	**15,302**
Net debt end-2010 (RON mn)	1,802
Equity value (RON mn)	**13,500**
FP stake (%)	19.9
Fair value of FP stake (RON mn)	**2,692**
Official valuation (RON mn)	3,340

Source: Hidroelectrica, FP, UniCredit Research estimates

The valuation based on capacity multiples yields a fair value for Hidroelectrica's equity of RON 13.5bn, translating into a fair value for FP's stake of RON 2,692mn, which is 19.4% lower than the value in FP's December 2011 official NAV.

Peers valuation

We compared the profitability of Hidroelectrica with that of its peer companies, and noticed that while Hidroelectrica's EBITDA margin (32%-34%) is relatively close to those of the peers (around 38% Verbund and 42% Fortum), the EBIT margin is very small, around 5%-8%, vs. the peers' margins of 29%-31%.

Hidroelectrica's net margin is also very depressed, due to high depreciation, interest expenses and FX losses. In a year of low production such as 2011, the net earnings shrink dramatically. The company's CEO indicated that the 2011 net profit amounted to RON 15.7mn, well below the budget figures used in our comparison.

PEER HYDRO GENCOS – MARGINS

	EBITDA margin (%)			Net margin (%)		
	2009	2010	2011E	2009	2010	2011E
Aksa Enerji (TR)**	25.8	20.8	22.1	9.5	6.5	-5.2
Ayen Enerji (TR)**	56.9	48.3	33.3	41.3	33.1	3.3
Akenerji (TR)**	13.3	6.6	21.0	5.2	-6.2	-21.6
RusHydro (RU)*	44.4	59.1	60.2	26.5	31.6	31.4
Verbund*	35.7	32.0	29.9	18.5	6.6	5.4
Fortum*	42.2	39.1	41.2	24.2	28.7	20.2
Average	**36.4**	**34.3**	**34.6**	**27.6**	**25.0**	**15.1**
Hidroelectrica* **	**33.7**	**42.1**	**32.5**	**2.0**	**8.9**	**2.4**
Premium/(discount) to average (%)	-7.3	22.6	-6.1	-92.8	-64.3	-83.8

*Bloomberg consensus; **UniCredit estimates; ***2011E is based on the company's budget

Source: Hidroelectrica, Bloomberg, UniCredit Research estimates

In our **valuation based on financial multiples**, we used only EV/EBITDA and not P/E, to eliminate the influence of differences in the capital structures of the various gencos.

PEERS HYDRO GENCOS – FINANCIAL MULTIPLES

	Mcap	P/E (x)			EV/EBITDA (x)		
	USD mn	2009	2010	2011E	2009	2010	2011E
Aksa Enerji (TR)**	1,173	n.a.	47.2	-30.5	n.a.	21.3	11.8
Ayen Enerji (TR)**	146	5.4	8.3	66.0	6.9	8.6	10.6
Akenerji (TR)**	498	26.7	n.m.	-6.8	13.7	63.5	14.2
RusHydro (RU)*	14,512	8.7	11.2	9.1	4.7	6.4	5.2
Verbund*	6,175	15.2	21.7	17.9	11.5	8.6	8.29
Fortum*	22,220	10.9	9.6	11.2	9.1	10.2	9.66
Average		**13.4**	**19.6**	**14.7**	**9.2**	**19.8**	**10.0**
Average w/o outliers		**10.1**	**12.7**	**12.7**	**10.3**	**12.2**	**10.9**

* Bloomberg consensus; **UniCredit estimates

Source: Bloomberg, UniCredit Research estimates

A valuation based on multiples would yield a fair value for Hidroelectrica's equity of RON 8,499mn. This in turn means a fair value of FP's stake in Hidroelectrica of RON 1,695mn, 49% lower than the value in FP's official NAV (December 2011) and 37% below the fair values assessed using capacity multiples.

HIDROELECTRICA: VALUATION BASED ON FINANCIAL MULTIPLES

EV/EBITDA (x)	**10.9**
2011 EBITDA (RON mn)	945
EV based on EV/EBITDA (RON mn)	10,301
Net debt end 2010 (RON mn)	1,802
Equity value based on EV/EBITDA (RON mn)	**8,499**
FP stake value (RON mn)	**1,695**

Source: UniCredit Research estimates

HIDROELECTRICA: VALUATION SUMMARY

Equity value based on EV/Capacity (RON mn)	13,500
Equity value based on EV/EBITDA (RON mn)	8,499
Fair equity value (RON mn)	**11,000**
FP stake value based on EV/Capacity (RON mn)	2,692
FP stake value based on EV/EBITDA (RON mn)	1,695
FP stake value (RON mn)	**2,193**

Source: UniCredit Research estimates

When we apply a 50%/50% weighting to the results of the two methods, we arrive at **a fair value for Hidroelectrica's equity** of RON 11,000mn, which translates into a fair value of FP's share of RON 2,193mn. This compares to RON 3,340mn in FP's official NAV, translating into a 34.3% discount to the official valuation that is based on the latest available book value of Hidroelectrica.

We see upside risks more likely than downside ones. Hidroelectrica's operating costs consist mainly of personnel, maintenance and depreciation expenses. It has high operating leverage, therefore it is very sensitive to variations in power prices and in production volumes and sales. Consequently, the price of electricity and capacity utilization increases are obvious triggers for Hidroelectrica. The company notified all its partners with which it had bilateral contracts (on the free market) that their contracts were to be terminated, and the company renegotiated prices with those clients unwilling to accept their contract termination. According to media sources, these negotiations resulted in price increases up to RON 155-164/MWh, from an average of RON 130/MWh in 2011, although some business partners accepted only a very small hike. Some clients also agreed to a reduction in quantities, by 10%-20%. This is positive for company's bottom line, but it is difficult to estimate the impact given that we do not have visibility as to how many clients accepted either price increases and/or volume cuts. As for capacity increases, one major trigger this year remains the Tarnita pumping station project, scheduled for selection of partners this summer-autumn.

Sensitivity analysis. The impact of changes to our assumption for the discount applied when valuing Hidroelectrica is that a 35% discount would increase our 12M target price for FP shares by 1.5% (FP's stake in Hidroelectrica would be valued at RON 2,471mn), while a 55% discount would reduce our 12M target price for FP shares by 2.5% (FP stake in Hidroelectrica valued at RON 1,916mn).

2. Nuclearelectrica

Valuation upside could come from capacity increase, which looks, however, remote

We used capacity multiples to arrive at a fair value for Nuclearelectrica and compared the implied valuation multiples with the average of its listed peers to check the soundness of our analysis. Nuclearelectrica is one of the very few gencos with nuclear-only capacity, which affects the comparability. We assessed a fair value for FP's stake in Nuclearelectrica at RON 337.5mn, 32.6% lower than previously and 33.4% below the official value. The difference vs. our previous valuation comes mainly from adjusting the fair value we derived based on capacity multiples to reflect the effect of the possible transfer of the heavy water from Nuclearelectrica's Balance Sheet to the state reserve, at no cost. It is not clear whether this would be the solution preferred by the government; however, the recent developments suggest that the alternative of a share capital increase at Nuclearelectrica (incorporating the reserve from free allocations for heavy water purchases) has little chance of taking place. We adjusted the fair value of the stake by RON 114mn, which corresponds to FP's stake in the value of heavy water in Nuclearelectrica's book as of December 2010. Although 33% below the official value, the fair value we assess for Nuclearelectrica implies a hefty premium to selected peers in 2011 EV/EBITDA-terms, explained by Nuclearelectrica's high net debt level (a direct consequence of the development of the second nuclear power unit (Unit 2).

For valuation purposes, we use the same multiple of USD 1.44mn/MW as in our previous update. The capacity multiples implied by the cost estimated (EUR 4bn) for the two new nuclear units (1,440 MW) to be built in Romania is rather high (USD 3.7mn/MW) in comparison to the capacity multiples at which peers trade and consequently we preferred not to use it as a benchmark. Similarly, Lithuania plans to build a 1,300MW nuclear power plant (in conjunction with some of its neighboring countries, namely Estonia, Latvia and Poland), estimated to cost as much as USD 6.5bn (or USD 5mn/MW).

NUCLEARELECTRICA: VALUATION BASED ON CAPACITY MULTIPLES

Capacity (MW)	1,413
EV/Capacity (USD mn/MW)	1.44
EV based on capacity multiples (USD mn)	2,035
EV based on capacity multiples (RON mn)	6,656
Net debt end-2010 (RON mn)	2,016
Equity fair value (RON mn)	**4,640**
FP stake (%)	9.73
Fair value of FP stake (RON mn)	**451.5**
Adjustment for heavy water value	114.0
FP stake adjusted (RON mn)	**337.5**
Official valuation as per SEC (RON mn)	507

Source: Nuclearelectrica, FP, UniCredit Research estimates

Most palpable and near-term upside seems to come from price increases

Upside to our valuation could come from higher power prices (especially on the basis of high operating leverage), increases in capacity, and an increase in the stake held by FP. However, we believe the likelihood of these triggers materializing in the near future is highly improbable.

- The prospects for increased capacity depend on the development of the two new nuclear power Units 3 & 4, which would double the capacity and make room for economies of scale. Nuclearelectrica will be a shareholder in the project company and will operate all four units. However, the completion of the project appears to be rather remote, at least until such time as the government manages to attract new partners to the project following the departure of four of the six private partners in the initial set up. Government representatives have indicated that interest in becoming involved in this project has been expressed by China specifically and Asia in general. In December 2011, the deadline for submitting bids for becoming a partner in the project company was extended by three months, until 15 March 2012.

- We also note that FP's stake in Nuclearelectrica is still under debate, with the risk only on the upside; should FP be successful in this litigation, its stake would increase to 20%. However, given the results obtained so far in court by FP, the potential to see this resolved in FP's favor appear to be rather remote.

Another factor that could push Nuclearelectrica's valuation up is the price of power, which, in 2011, a year of high crude prices and shortage of supply on the Romanian electricity market (caused by the extended drought), jumped significantly on the day-ahead market (segment accounting for 17%-18% of total consumption): average prices increased from RON 188/MWh in January 2011 to RON 259/MWh in December 2011 and RON 240/MWH in January 2012). For 2012, we see relatively constant prices more likely than a significant jump, given the already high levels. Some slight increase might be seen on the regulated market, but ANRE's comments on this topic lead us to believe the increase will be small, if any. In the case of Nuclearelectrica, an increase in tariffs could be offset by an increase in volumes to be delivered to the regulated market, which would eliminate any positive effects.

Peers comparison

Nuclearelectrica has a high EBITDA margin compared to other peers with nuclear generation assets

Nuclearelectrica has very high operating margins but high financial losses compared to peer companies. Nuclearelectrica has a high EBITDA margin, higher than the peers' average and relatively in line with the one of its closest peer in terms of exposure to nuclear power generation, Exelon (US nuclear genco, with some 93% nuclear of its total generation capacity). It has however a higher level of indebtedness, which puts pressure on its net margin and P/E and EV/EBITDA ratios. The high indebtedness is a direct consequence of the development of the second power unit (Unit 2), but the low bottom line makes debt repayment rather slow.

We also note that Nuclearelectrica has high operating leverage, rendering it extremely sensitive to fluctuations in power prices and increases in revenues. Consequently, electricity price increases and capacity increases are obvious triggers for Nuclearelectrica and we see some upside to our current valuation for this company.

As for the multiples implied by our valuation, using the company's guidance for 2011, we arrive at an EV/EBITDA of 9x, 73% above the peers' average.

COMPARISON WITH NUCLEAR GENCOS IN OUR UNIVERSE

	Mcap (EUR mn)	EV/ capacity (USD mn/MW)	P/E (x)			EV/EBITDA (x)			EBITDA margin (%)			Net margin (%)		
Company			**2009**	**2010**	**2011E**	**2009**	**2010**	**2011E**	**2009**	**2010**	**2011E**	**2009**	**2010**	**2011E**
Exelon (US)	26,552	1.22	12.1	10.9	9.4	5.8	5.1	6.0	42.4	41.1	32.7	15.6	13.7	14.3
Endesa (SP)	20,653	1.06	6.3	5.3	7.4	6.1	5.7	4.7	28.1	24.0	22.3	13.4	12.9	6.8
EdF (FR)*	41,288	0.72	16.8	16.4	9.1	6.7	6.3	5.0	25.8	25.5	22.9	6.0	6.1	5.4
Average		**1.00**	**11.7**	**10.9**	**8.7**	**6.2**	**5.7**	**5.2**	**32.1**	**30.2**	**26.0**	**11.6**	**10.9**	**8.8**
Nuclearelectrica*			**70.3**	**215.6**	**254.2**	**7.9**	**9.8**	**9.0**	**45.4**	**37.0**	**37.1**	**3.2**	**1.1**	**0.8**
Premium/(discount) (%)			n.m.	n.m.	n.m.	28.0	71.8	72.6	41.3	22.5	42.9	-72.2	-90.3	-90.6

*2011 figures based on company budget

Source: Company data, Bloomberg, UniCredit Research estimates

3. The thermal power plants

Valuation is based on a combination of EV/Operational and EV/EBITDA multiples

We now value the thermal power plants based on a combination of methodologies. As in the case of the other Romanian gencos, we use capacity multiples, but given that these thermal power plants also have their own lignite mines, we also use reserve multiples. First we calculate fair values as a SOTP of the two components then fair values based on EV/EBITDA multiples of a selected group of companies that met the combined criteria of a fairly sizeable weight in sales of generation activities, and within generation, those with the largest proportion of the electricity produced from coal (and whenever possible, from lignite). From the group of six companies (three in CEE and three in Western Europe), we consider PGE (in Poland) and RWE (in Germany) as the closest peers. However, we note that, in Europe, there are practically no pure coal-fired electricity producers. Moreover, from the group of integrated players (which also have distribution activities), finding peers that use predominantly lignite as their main raw material proved also to be a difficult exercise, as most use a mix of sources. Therefore, in setting our fair values, the bulk (75%) is still derived as SOTP of capacity and reserves multiples, while the remaining 25% is based on EV/EBITDA.

We used an average capacity multiple of EUR 0.37mn/GW as our reference: This is based on the selection of transaction multiples paid by CEZ to acquire several companies, to which we applied discounts to eliminate the control premiums and to account for differentials in profitability, aging factor (plants are older) and significant capex needs to comply with EU environmental standards. The discounts also include country- and sector-related risks (deriving, among others, from politically-appointed management and from lower electricity prices due to a high weight of revenues from the regulated market).

We apply different discounts to calculate the EV based on capacities of the three Romanian thermal power plants. We apply the lowest discount of 55% in the case of Turceni PP, given its higher operating profitability and its low indebtedness, 58% for Rovinari and 60% for Craiova (unchanged from our last report issued on 25 February 2011 for Craiova PP and up at Turceni and Rovinari PP from 50% and 55% respectively). Compared to our previous report, we increased the discounts (on average by some 5pp) to account for uncertainties related to how the companies would be able to cover the costs of CO2 certificates.

KEY OPERATIONAL AND FINANCIAL INDICATORS (2011 BUDGETS) OF THE THREE ROMANIAN THERMAL POWER PLANTS

RON mn	Sales	EBITDA	EBIT	Net profit	Net debt*	Equity*	FP stake (%)	Capacity (MW)	Coal reserves (mn tons)
Turceni PP	1,300	221	9	6	522	2,108	24.79	1,980	287.3
Rovinari PP	952	180	65	2	393	1,232	23.60	1,320	180.0
Craiova PP	1,143	117	24	2	175	1,095	24.36	930	7.5

*2010 figure at Turceni PP and Craiova PP and 1H11 figure at Rovinari PP

Source: Company data, FP, UniCredit Research

VALUATION OF THE ROMANIAN THERMAL GENCOS BASED ON CAPACITY MULTIPLES

	Discount (%)	EV (RON mn) based on multiples of Varna Bulgaria	Slovenske Elektrarne Slovakia	Total (Skawina+Elcho) Poland	Weighted average	Previous
Turceni PP	55	635	1,339	3,589	1,425	1,535
Rovinari PP	58	395	833	2,233	886	921
Craiova PP	60	265	559	1,498	595	649

Source: Company data, UniCredit Research estimates

In valuing the mining assets, we used an average reserve multiple of EUR 1.3/ton as reference: This is the multiple at which CEZ acquired a 100% stake in Mibrag Germany in 2009 (the company had reserves of 530mn tons of lignite). To this multiple, we applied discounts of 55%-60% to eliminate the control premium and to account for differences in size and technology (again higher than the previous discounts of 50%-55%). The resulting EV/Reserves range from EUR 0.51/ton and EUR 0.58/ton.

VALUATION OF THE ROMANIAN THERMAL GENCOS BASED ON SUM-OF-THE-PARTS (METHOD A)

RON mn	EV/Capacity	EV based on EV/Reserves	Total EV	Net debt*	Fair value of equity	Value of FP stake New	Previous	% revision	Official
Turceni PP	1,425	725	2,150	522	1,628	404	438	-7.9	523
Rovinari PP	886	424	1,310	393	917	217	233	-7.1	290
Craiova PP	595	17	612	175	437	106	115	-7.4	267

*2010 figure at Turceni PP and Craiova PP and 1H11 figure at Rovinari PP

Source: Company data, FP, UniCredit Research estimates

A valuation based on multiples would yield a fair value for the thermal power plants some 45% below the valuation based on SOTP (on average) and 44% lower than the values in FP's official NAV (as at end-December 2011). We prefer to be conservative by using the 2011 budgeted figures of the companies, which are much lower than the annualized interim figures. Moreover, all thermal gencos are likely to have had an even better 4Q11 (as this was the period in which these companies had to sell more to compensate for lower electricity deliveries by Hidroelectrica following the start of its force majeure period).

VALUATION OF THE ROMANIAN THERMAL GENCOS BASED ON EV/EBITDA (METHOD B)

RON mn	2011E EV/EBITDA of CEE peers	2011B EBITDA	Net debt*	EV	Equity value 100%	FP stake
	5.1					
Turceni PP		221.0	522.0	1,134.3	612.3	151.8
Rovinari PP		180.3	393.0	925.1	532.1	125.6
Craiova PP		117.4	174.7	482.1	307.5	74.9

*2010 figure at Turceni PP and Craiova PP and 1H11 figure at Rovinari PP

Source: UniCredit Research

The implied financial multiples of the Romanian thermal power plants still translate into premiums to peers. The premiums are reduced compared to the values in our previous report as we now apply higher discounts in the valuation based on operational multiples. The multiples and ratios look even more attractive when we calculate them with the latest annualized interim data vs. budgeted data. However, mostly in P/E-terms, the premiums remain high given the weak performance and lower profitability of Romanian companies vs. their peers (see details on the next page and table below).

COMPARISON WITH THERMAL GENCOS (COAL BASED) IN OUR UNIVERSE

	P/E (x)			EV/EBITDA (x)			EV/Sales (x)			EBITDA margin (%)			Net margin (%)		
	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E
CEZ (Czech Republic)	9.7	11.1	9.8	6.8	7.2	6.7	3.1	3.0	0.9	44.8	41.9	43.7	23.8	19.7	21.4
PGE (Poland)	13.4	9.7	8.7	5.8	4.3	4.0	1.9	1.2	0.2	33.4	27.3	28.6	14.1	12.9	13.5
TAURON (Poland)	11.4	8.0	7.2	4.3	5.1	4.6	0.8	0.7	0.6	17.9	14.1	14.2	5.6	5.5	5.2
CEE average	**11.4**	**9.7**	**8.7**	**5.8**	**5.1**	**4.6**	**1.9**	**1.2**	**0.6**	**33.4**	**27.3**	**28.6**	**14.1**	**12.9**	**13.5**
RWE (Germany)*	9.2	7.8	8.1	5.3	4.5	4.1	1.0	0.7	0.7	18.2	15.5	16.4	6.5	4.2	4.1
PPC (Greece)*	5.1	9.3	2.7	3.9	6.1	4.4	1.2	1.0	0.9	31.1	16.5	22.3	9.6	1.7	5.4
Drax (UK)*	8.6	9.6	9.9	3.9	4.8	4.9	0.9	0.9	0.9	23.7	19.2	19.0	11.5	11.2	11.2
WE average	**8.6**	**9.3**	**8.1**	**3.9**	**4.8**	**4.4**	**1.0**	**0.9**	**0.9**	**23.7**	**16.5**	**19.0**	**9.6**	**4.2**	**5.4**
Total average	**9.2**	**10.2**	**9.0**	**5.4**	**6.0**	**5.6**	**2.0**	**2.0**	**0.9**	**34.2**	**29.2**	**31.3**	**16.7**	**12.0**	**13.4**
	2010	**2011B**	**2011***	**2010**	**2011B**	**2011***	**2010**	**2011B**	**2011***	**2010**	**2011B**	**2011***	**2010**	**2011B**	**2011*I**
Turceni PP	n.m.	90.3	33.0	9.6	8.6	n.a.	1.82	1.46	1.33	19.0	17.0	23.1	-0.9	1.2	2.9
Rovinari PP	n.m.	n.m..	150.8	10.2	6.7	n.a.	1.53	1.28	1.27	15.0	18.9	17.1	0.1	0.2	0.6
Craiova PP	n.m.	171.4	17.1	6.7	4.9	n.a.	0.53	0.51	0.44	7.9	10.3	n.a.	0.02	0.21	1.4

*Bloomberg consensus; B=budget
*Annualized 9M11 figures at TPP and RPP and annualized 1H11 figures at CPP

Source: Company data, Bloomberg, UniCredit Research estimates

Using a weighted average of the results of the two methods (SOTP and EV/EBITDA), **we assess fair values for the thermal power plants as indicated in the table below. They account for 7.7% of the fair value of the FP's portfolio of shares.**

FAIR VALUES OF THERMAL PP (COMBINED METHODS): COMPARISON WITH OUR PREVIOUS FAIR VALUES AND OFFICIAL VALUATIONS

	Value of FP stake based on:							Implied multiples (2011B*)		
RON mn	Method A	Method B	Average	Previous	% rev.	Official	Fair vs. official (%)	P/BV	P/E	EV/EBITDA
Turceni PP	403.5	151.8	340.6	438.0	-22.2	522.6	-34.8	0.65	90.32	8.58
Rovinari PP	216.5	125.6	193.8	233.0	-16.8	290.2	-33.2	0.67	483.56	6.74
Craiova PP	106.4	74.9	98.6	115.0	-14.3	266.8	-63.1	0.37	171.36	4.93

*Budget

Source: Company data, Bloomberg, FP, UniCredit Research

Risks and upside to our valuations

Tariffs and sales breakdown by markets: An increased weight of sales on the free market (from ca. 43% at Rovinari PP and 55% at Turceni and Craiova PPs) and of tariffs on the regulated markets should lead to increased revenues for all gencos. However, unlike in the case of gencos that use other types of fuel than coal, it remains to be seen if such increases would be visible on the bottom line of the coal-fueled gencos. This is primarily because we expect that such increases would not cover in full the likely resulting jump in the costs of CO2 certificates, or the higher depreciation charges and interest expenses for loans in relation to the high capex needs of these plants. Moreover, as long as these companies remain majority state-owned, we see a danger that the part to be sold on the regulated market could increase rather than decrease. This would also negatively weigh on margins.

Increase in CUR is limited: The Romanian thermal power plants had an average CUR rate of 45% in 2010, which increased to 53.5% in 2011 (based on 9M11 annualized production levels at RPP and CPP and actual FY 2011 production at TPP). The latter figure is close to the 2010 average value of 58% for our sample of peer companies. Capacity closures of those companies unable to comply with the EU's environmental standards after 2013 might be partly offset by commissioning of new capacities, if certain Brownfield projects were to be completed as scheduled. Other capex in the existing capacities is mostly environment-related; therefore, it would not lead to capacity/production increases and/or significant opex reductions.

The Romanian thermal PPs have significantly lower operating margins than their domestic peers… This is mostly due to higher weights of raw material costs in revenues (in the 51%-52% range at TPP and RPP and 56% at CPP vs. 23% at Nuclearelectrica and 26% at Hidroelectrica on average for 2008-2010). There are no major differences between the Romanian producers in terms of the weight of personnel expenses in revenues (Craiova PP stands out with a much lower ratio than all the other Romanian gencos). The thermal PPs also have a much lower weight of non-cash costs (depreciation) but, given their high capex needs, this figure can only increase in the future. Given all of the above, the thermo power plants have limited upside to improve their cost structure in the near future, in our view.

…as well as lower net profit margins: In terms of financial expenses, given the high capex needed, largely to be financed from new loans, we expect the burden of the interest expenses to also increase in the foreseeable future. In fact, the debt-related ratios deteriorated significantly yoy in 2010 (and in 1H11) mainly at TPP and RPP and are already close to the levels of Nuclearelectrica (the most indebted genco). In the case of TPP, high FX losses mainly in 2010 in relation to the revaluation of a JPY-denominated loan led to a net loss.

Electricity distribution companies

FP's stakes in the electricity distribution companies account for 13.9% of our fair value of the portfolio of shares. Fair values were determined as a weighted average of the fair values based on P/E (10% weight), EV/EBIT (40%) and EV/Customer (50%). The main difference vs. our previous update is that we then used an EBITDA multiple whereas we now use 2011 budgeted EBIT as the companies did not publish 2011 budget EBITDA. For the third multiple, we used EUR 558/Customer (unchanged) – the price CEZ paid for CEZ Distributie (electricity distributor in the southwestern region of the country, formerly Electrica Oltenia) to FP and to the state-owned Electrica, in September 2009. As CEZ increased its stake to 100% through these transactions, we believe we should apply discounts when valuing the local electricity distributors in which FP holds non-controlling stakes.

For the Enel subsidiaries, we used a 30% discount (the lowest primarily because they have significant levels of cash which would lead to lower maintenance costs when translated into investments in the electricity network). We used a 40% discount each for E.ON Distributie Moldova, Electrica Distributie Transilvania Nord (EDTN) and Electrica Distributie Transilvania Sud (EDTS). Although E.ON's subsidiary posted much better margins in 2010 (similar to those of Enel's subsidiaries), this was partly due to a one-off provision reversal. In our view, the majority state-owned companies deserve higher discounts than the Enel electricity distributors as they have less cash for investments and because the decision-making process is slower and more bureaucratic, in our view. We maintained our 45% discount for Electrica Distributie Muntenia Nord (EDMN). The company budgeted a relatively significant decline in capex for 2011 (down 35% yoy), while we would tend to view higher capex for network modernization as potentially entailing growth in distribution tariffs in the future.

KEY INPUTS IN THE VALUATION OF THE ROMANIAN ELECTRICITY DISCOS

			Weights in valuation (%)		
Reference P/E (x)	Reference EV/EBIT (x)	Reference EV/Customer (RON)	P/E	EV/EBIT	EV/Customer
7.0	8.6	2,434	10	40	50

Source: Company data, Bloomberg, UniCredit Research estimates

ROMANIAN ELECTRICITY DISTRIBUTION COMPANIES VALUATION

	Fair value of equity based on				Fair value of FP's stakes				Official value
RON mn	P/E	EV/EBIT	EV/Customer	Weighted avg.	P/E	EV/EBIT	EV/Customer	Weighted avg.	
Enel Distributie Muntenia	412	2,276	3,803	2,853	49	273	456	342	337
Enel Distributie Banat	687	1,443	1,920	1,606	166	348	463	388	317
Enel Distributie Dobrogea	430	890	1,308	1,053	104	214	315	254	219
E.ON Distributie Moldova	336	633	2,001	1,287	74	139	440	283	221
Electrica Distributie Transilvania Nord	30	27	1,693	860	7	6	372	189	171
Electrica Distributie Transilvania Sud	65	94	1,558	823	14	21	343	181	184
Electrica Distributie Muntenia Nord	100	271	1,819	1,028	22	60	400	226	238

Source: Company data, FP, UniCredit Research estimates

The state (through Electrica) might sell to Enel its remaining stake in Enel Distributie Muntenia (EDM) during 2H12. According to www.economictimes.ro quoting Mr. Florin Vladan, the president of OPSPI (Office for State Ownership and Privatization in Industry), the state is going to sell its remaining stake in EDM in 2H12, after the company publishes its 1H12 audited IFRS financial statements. According to the privatization agreement between Enel and the state, the state-owned Electrica has the right (put option) to demand that Enel, during the period between 1 July and 31 December in each of 2008, 2009, 2010 and 2011, and Enel has the obligation to purchase upon demand by Electrica, the remaining 23.57% participation still held by Electrica in EDM at the maximum price among:

- The privatization price – at privatization in 2008, Enel paid EUR 395mn for 50% of Electrica Muntenia Sud (which at that time had both the supply and the distribution business) and another EUR 425mn as share capital increase to reach a stake of 64.5%; moreover in January 2010, it paid another EUR 38mn. Therefore it paid a total of EUR 858mn for a 64.5% stake, which implies that the company was valued at EUR 1.33bn.

- The privatization price times RAB at 1 January in the option exercise year divided by RAB at 1 January 2007.

- The equity value as per an EV based on the weighted average EV/EBITDA multiple of the stocks in the Bloomberg EMEA Electric Index (pricing date 30 June of the year in which the option is exercised).

Enel estimated the option value for EDM at around EUR 330mn as at 30 June 2011 for the 23.57% stake. Thus, the electricity distribution business was valued by Enel at EUR 1.4bn.

However, according to the news agency Mediafax, neither regulations in force at the privatization date nor current regulations provide for the possibility of including put/call options in privatization agreements. Therefore, a change in the legislation would be required before Electrica would be able to sell its remaining stake to Enel (and E.ON). Moreover, Electrica can actually sell to Enel only 13.57% of the shares if the employees of its former subsidiaries decide to buy a 10% stake from Electrica (they have the right to exercise this call option until December 2014).

According to the privatization contract, FP has the right to sell its participation in EDM at the same price as Electrica (FP has a stake of 12% in EDM). FP has already stated its intention to sell in 2012 its stakes in the electricity and gas suppliers and distributors.

The state also has a put option with respect to its stake in E.ON Moldova Distributie (EMD). With regard to EMD (in which Electrica holds a 27% stake and FP holds a 22% stake), there are also call and put options provisions in the privatization contract, however, according to FP's prospectus, a court ruling might be necessary in order to clarify whether FP can exercise the option in a manner similar to Electrica. According to the privatization contract, Electrica can sell its stake to E.ON or E.ON can request Electrica to sell its stake at the maximum between:

- An equity value based on an EV = 20% x privatization price x (1+12M EURIBOR+125bp) + 80% x IFRS EBITDA x EV/EBITDA, where EV/EBITDA is computed based on the stocks in the Bloomberg EMEA Electric Index.

- The privatization price multiplied by (1+12M EURIBOR).

E.ON paid EUR 31.4mn for 24.6% of Electrica Moldova in 2005 (at that time, Electrica Moldova had both the distribution and the supply business), and contributed EUR 68.6mn to a share capital increase in order to reach a 51% stake, thus paying a total of EUR 100mn.

According to Mediafax, E.ON informed Electrica of its intention to exercise the call option in November 2010 and again in 2011, but Electrica declined the offer considering the price too low. According to the same source, E.ON offered EUR 2.6/share, while Electrica believes a fair selling price would be EUR 3.4/share. Moreover, Electrica filed a lawsuit against E.ON accusing the latter of having not completed the business plan agreed upon at privatization, thus causing it a EUR 50mn prejudice. E.ON also launched litigation against Electrica, after the state said it can sell only a 17% stake to E.ON (similar to Enel Distributie Muntenia, the employees of E.ON Moldova Distributie have the option to buy a 10% stake from the state; the option expires in December 2013).

The state also intends to sell through the stock exchange 15% stakes in the state-owned electricity distributors (Electrica Distributie Muntenia Nord, Electrica Distributie Transilvania Nord and Electrica Distributie Transilvania Sud). The legal consultant was to be selected by 15 February 2012, according to a draft government ordinance. The ordinance does not provide however a deadline for the listings. This was expected given the publication in January 2012 of the law setting forth the obligation for the companies controlled by the state and which are in FP's portfolio to initiate listing procedures by December 2012. However, we are doubtful that the listings would take place this year given the government's poor track record with respect to previous listings and 2012 being an elections year.

Limited comparison to peers. The comparison is relatively limited in that the Russian discos cover both distribution and transport of electricity, while the European peers are also integrated (and also have gencos).

ROMANIAN ELECTRICITY DISTRIBUTION COMPANIES: COMPARISON TO PEERS

	Mcap (EUR mn)	P/E(x)		EV/EBIT (x)		EBIT margin (%)		Net margin (%)	
		2011E	2012E	2011E	2012E	2011E	2012E	2011E	2012E
EDF (France)	34,813	9.9	9.3	9.2	9.3	12.9	13.3	5.4	5.5
EDP (Portugal)	8,162	7.4	7.5	12.4	11.7	15.2	15.4	7.5	7.1
Endesa (Spain)	16,749	7.8	7.7	7.0	6.4	15.4	15.6	6.8	6.9
Iberdrola (Spain)	25,454	9.0	8.4	11.7	10.6	16.1	16.4	9.2	9.3
Western peers		**8.5**	**8.2**	**10.1**	**9.5**	**14.9**	**15.1**	**7.2**	**7.2**
Moscow Integrated Disco	1,888	5.3	5.1	5.4	5.2	17.8	17.4	11.6	11.6
Center and Volga MRSK	497	4.9	6.7	6.5	9.3	8.8	6.2	6.2	4.3
MRSK Sibiri	354	n.m.	n.m.	16.7	n.m.	2.8	0.3	-0.3	0.6
MRSK Severnogo Kavkaza	51	2.0	5.2	4.2	14.5	12.3	5.3	7.9	2.8
Center MRSK	771	5.9	5.7	6.1	7.7	11.8	9.5	7.6	7.4
Lenenergo	259	5.2	6.5	7.9	13.2	11.5	7.9	5.5	4.2
Southern MRSK	98	-5.6	-6.0	12.4	19.3	6.1	4.1	-2.7	-2.4
Urals MRSK	516	6.0	7.8	5.7	12.6	7.8	3.6	5.7	4.0
Volga MRSK	438	8.8	11.7	8.6	14.1	6.1	4.0	4.3	3.0
Average Russian peers		**5.4**	**6.2**	**7.1**	**12.0**	**10.3**	**7.2**	**5.7**	**4.4**
Average All		**7.0**	**7.6**	**8.6**	**10.7**	**12.6**	**11.2**	**6.5**	**5.8**
Enel Distributie Muntenia*		34.1	n.a.	14.5	n.a.	9.5	n.a.	11.5	n.a.
ENEL Distributie Banat *		11.6	n.a.	7.2	n.a.	28.7	n.a.	24.7	n.a.
ENEL Distributie Dobrogea*		12.2	n.a.	7.7	n.a.	23.8	n.a.	20.1	n.a.
E.ON Distributie Moldova*		16.3	n.a.	11.6	n.a.	16.7	n.a.	13.0	n.a.
Electrica Distributie Transilvania Nord*		119.6	n.a.	95.8	n.a.	1.6	n.a.	1.3	n.a.
Electrica Distributie Transilvania Sud*		53.2	n.a.	47.2	n.a.	2.7	n.a.	2.4	n.a.
Electrica Distributie Muntenia Nord*		31.8	n.a.	29.4	n.a.	4.4	n.a.	3.7	n.a.

*2011E is based on company budget

Source: Bloomberg, Company data, UniCredit Research

Gas supply & distribution companies

FP's stakes in the gas supply & distribution segment represent 3.1% of our fair value of the portfolio of shares. Fair values were determined using a combination of multiples: weighted average of fair values based on P/E (30% weight) and EV/EBITDA or EV/EBIT (70%). We used EV/EBIT for GDF Suez Energy Romania as the company did not publish its 2011 budgeted EBITDA. For E.ON Gaz Distributie we used the 2010 EBITDA. In the previous update, we used EV/EBITDA for both companies.

We believe GDF Suez Energy deserves a lower discount (of 45%) as its customers are located in the wealthiest region of Romania (Bucharest and surrounding area). The company also has more diversified business lines (supply of natgas and electricity, natgas distribution as well as ancillary services), whereas E.On Gaz Distributie (50% discount) is only active in the gas distribution business.

An important trigger for our valuation for GDF Suez Energy Romania is the liberalization of natgas prices to end-users. Although a clear timetable is not yet available, comments from Romanian President Traian Basescu as well as from the IMF delegation chief in Romania, Jeffery Franks, have indicated that the deadlines for full price liberalization will be pushed forward. On the other hand, the previous deadlines were unrealistic, given that full liberalization was to be achieved for industrial end-users by end-2013 and for households by 2015. The liberalization of gas prices to end-users would be beneficial for gas suppliers, which should see higher margins.

ROMANIAN GAS SUPPLY AND DISTRIBUTION COMPANIES: KEY INPUTS IN VALUATION

			Weights in valuation (%)	
	Reference P/E (x)	Reference EV/EBIT* (x)	P/E	EV/EBIT*
GDF Suez Energy	7.8	11.3	30	70
E.On Gaz Distributie	7.8	6.0	30	70

*EV/EBITDA for E.ON Gaz Distributie

Source: Bloomberg, UniCredit Research

ROMANIAN GAS SUPPLY AND DISTRIBUTION COMPANIES: VALUATIONS

	Fair value of equity based on			Fair values of FP's stakes (12%) based on			Official valuation
RON mn	P/E	EV/EBIT*	Weighted average	P/E	EV/EBIT*	Weighted average	
GDF Suez Energy	1,402	2,334	2,055	168	280	247	339
E.On Gaz Distributie	624	1,747	1,410	75	210	169	116

*EV/EBITDA for E.ON Gaz Distributie

Source: Companies, UniCredit Research estimates

ROMANIAN GAS SUPPLY AND DISTRIBUTION COMPANIES: PEERS MULTIPLES

		P/E(x)		EV/EBITDA (x)		EV/EBIT (x)	
Companies	Mcap (EUR mn)	2011E	2012E	2011E	2012E	2011E	2012E
Severomoravska (CZ)	730	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Lietuvos Dujos (Lithuania)	295	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Iren (IT)	974	6.6	6.6	6.2	5.9	10.3	10.0
Acegas Asp (IT)	188	9.0	10.4	5.8	5.7	12.3	12.9
Gas Plus (IT)	240	-32.5	24.0	n.a.	n.a.	n.a.	n.a.
Average peers		**7.8**	**13.7**	**6.0**	**5.8**	**11.3**	**11.5**
GDF Suez Energy*	n.a.	6.5	n.a.	n.a.	n.a.	5.5	n.a.
E.On Gaz Distributie*	n.a.	8.9	n.a.	4.6	n.a.	n.a.	n.a.

*2011E is based on company budget

Source: Bloomberg, UniCredit Research

Banks

FP's stakes in the banking sector represent 3.8% of our fair value of securities portfolio. As at the end of December 2011, FP had a 3.64% stake in BRD Groupe SG, 2.93% in BT, 0.32% in Erste Bank and 0.55% in Raiffeisen International. These stakes are additions to FP's portfolio since our previous 25 February 2011 report and add RON 504.3mn to the fair value of FP's assets.

We value the Romanian banks based on the residual income model, while we mark to market the Austrian banks: We have derived the current fair value of BRD and BT as the sum of the 2010 equity figures and the estimated present value of all future residual income during a three-year initial stage (based on explicit forecasts), during a seven-year convergence stage (based on summary forecasts), and during a perpetual stage (based on a standard perpetuity formula). We have then rolled the result forward by a year, using the cost of equity, to derive the 12M target price.

KEY ASSUMPTIONS FOR ROMANIAN BANKS' VALUATIONS

				Payout ratio (%)	
	COE (%)	L/T ROE (%)	L/T growth (%)	2011E-2013E	Sustainable
BRD Groupe SG	12.65	14.5	5.0	15% from RAS profits, 10% from IFRS	65.6
Banca Transilvania	13.35	13.5	5.0	0%	63.0

Source: UniCredit Research estimates

Our fair value for BRD Groupe SG is based on our estimates for the bank as per our 18 November 2011 update. Our base case yields a fair value of RON 6,457mn for BRD's equity, which translates into **a value of RON 235.2mn for the 3.64% stake owned by FP in BRD Groupe SG (or RON 0.018 per FP share)**. BRD's fair value per share used in FP's fair value calculation is RON 9.27.

CALCULATION OF THE 12M TARGET PRICE THROUGH THE RESIDUAL INCOME MODEL (BRD GROUPE SG)

RON mn	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	Perpetuity
Net profit	770	853	978	1,155	1,339	1,513	1,680	1,797	1,887	1,982	
Growth (%)	-23.7	10.8	14.7	18.0	16.0	13.0	11.0	7.0	5.0	5.0	5.0
Equity	6,352	7,128	8,021	9,078	10,210	11,377	12,545	13,642	14,637	15,532	
Payout ratio (%)	10.0	10.0	10.0	17.9	25.9	33.8	41.7	49.7	57.6	65.5	65.5
ROE (%)	12.8	12.7	12.9	13.5	13.9	14.0	14.0	13.7	13.3	13.1	14.5
COE (%)	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7
Excess return (%)	0.1	0.0	0.3	0.9	1.2	1.4	1.4	1.1	0.7	0.5	1.9
Excess return (RON)	6.7	0.1	20.3	73.1	119.3	148.0	166.8	141.1	98.7	73.5	961
PV of excess return	6.6	0.1	15.7	50.1	72.6	80.0	80.0	60.1	37.3	24.7	322.6
End-2010 equity											5,708
PV of excess return (2011E-2013E)											22
PV of excess return (2014E-2020E)											405
PV of terminal value of excess return											323
Fair value											**6,457**
Fair value per share (RON)											9.3
12M target price (RON)											**10.26**

Source: UniCredit Research estimates

Our fair value for BT is based on our estimates for the bank as per our 7 November 2011 update. Our base case yields a fair value of RON 1,675mn for BT's equity, which translates into **a value of RON 49.1mn for the 2.93% stake owned by FP in BT (or RON 0.004 per FP share)**. BT's fair value per share used in FP's fair value calculation is RON 0.94.

CALCULATION OF THE 12M TARGET PRICE THROUGH RESIDUAL INCOME MODEL (BANCA TRANSILVANIA)

RON mn	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E-	FV&TP
Net profit	141.7	199.7	286.1	386.3	490.6	588.7	659.4	705.5	740.8	777.8		
Growth (%)	5.9	40.9	43.3	35.0	27.0	20.0	12.0	7.0	5.0	5.0	5.0	
Equity	2,533	2,732	3,018	3,405	3,861	4,361	4,862	5,330	5,753	6,131		
Payout ratio (%)	0.0	0.0	0.0	9.0	18.0	27.0	36.0	45.0	54.0	63.0	63.0	9.0
ROAE (%)	6.1	7.6	10.0	12.0	13.5	14.3	14.3	13.8	13.4	13.1	13.5	
COE (%)	13.4	13.4	13.4	13.4	13.4	13.4	13.4	13.4	13.4	13.4	13.4	
Excess return (%)	-7.2	-5.8	-3.4	-1.3	0.1	1.0	0.9	0.5	0.0	-0.3	0.1	
Excess return	-167	-152	-98	-43	5	39	43	24	0	-16.4	-195.7	.
PV of excess return	-164	-131	-75	-29	3	21	20	10	0	-5	-62	
End-2010 equity												2,088
PV of excess return 2011E-2013E												-370
PV of excess return 2014E-2020E												19
PV of terminal value of excess returns												-62
Fair value (RON mn)												**1,675**
Fair value per share (RON)												0.94
12M target price (RON)												**1.07**

Source: UniCredit Research estimates

BANKS IN FP'S PORTFOLIO (OFFICIAL VS. OUR FAIR VALUE)

		Weight in portfolio (%)		Weight in NAV (%)		Value of FP's stake (RON mn)	
	FP stake (%)	Official	Fair	Official	Fair	Official	Fair
BRD Groupe SG	3.64	1.9	1.8	1.9	1.8	271.9	235.2
Banca Transilvania	2.93	0.3	0.4	0.3	0.4	46.0	49.1
Erste Bank*	0.32	0.5	0.7	0.5	0.7	72.1	100.1
Raiffeisen International*	0.55	0.7	0.9	0.7	0.9	94.1	119.9
Total banks		**3.5**	**3.8**	**3.3**	**3.8**	**484.0**	**504.3**

Fair value marked to market (22 February 2012 prices)

Source: Banks data, FP, UniCredit Research

ROMANIAN BANKS' VALUATIONS VS. PEERS

Name	Mcap (EUR mn)	P/E (x)			P/BV (x)			ROAE (%)			EPS 2010-2013E CAGR (%)
Prices as at 22 February 2012		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	
PKO BP (Poland)	10,478	11.5	10.7	9.7	1.9	1.7	1.6	17.3	17.1	17.0	12.0
Komercni Bank (Czech Republic)	5,484	14.5	10.7	9.3	1.7	1.7	1.6	12.3	16.1	17.8	3.6
OTP (Hungary)	3,794	10.3	8.9	6.4	0.8	0.8	0.7	8.0	8.8	11.4	13.5
BZ WBK (Poland)	4,035	14.3	12.1	10.8	2.3	2.1	1.9	16.8	18.1	18.4	17.2
BRE Bank (Poland)	2,998	11.1	11.9	10.6	1.6	1.4	1.3	15.0	12.5	12.6	22.5
Handlowy Bank (Poland)	2,436	13.8	13.6	11.9	1.6	1.6	1.5	11.4	11.6	13.0	4.4
ING BSK (Poland)	269	1.3	1.3	1.1	0.2	0.2	0.1	14.6	13.2	13.8	10.4
Getin Holding (Poland)	411	1.7	2.0	1.6	0.3	0.3	0.2	20.6	13.9	15.1	35.9
Millennium Bank (Poland)	1,250	11.2	10.6	8.4	1.1	1.1	1.0	10.7	10.6	12.6	24.0
Kredyt Bank (Poland)	782	10.0	9.4	8.0	1.1	1.0	0.9	11.1	11.1	12.2	30.3
Akbank (Turkey)	11,832	11.6	11.3	8.9	1.6	1.4	1.2	13.6	13.0	14.6	2.8
Garanti Bank (Turkey)	11,849	9.0	8.8	7.4	1.6	1.4	1.2	18.1	16.6	17.4	6.0
Isbank (Turkey)	8,222	7.2	8.3	7.2	1.1	1.0	0.9	15.3	12.3	12.7	-3.7
Halkbank (Turkey)	6,545	7.5	7.0	6.7	1.8	1.5	1.3	25.4	22.7	20.4	4.6
Vakifbank (Turkey)	3,291	6.3	6.3	5.4	0.8	0.7	0.7	13.7	12.4	12.7	6.9
BRD Groupe SG (Romania)	**1,759**	**10.0**	**9.0**	**7.8**	**1.21**	**1.08**	**1.0**	**12.8**	**12.7**	**12.9**	**-1.0**
Banca Transilvania (Romania)	**417**	**12.8**	**9.1**	**6.4**	**0.72**	**0.67**	**0.60**	**6.1**	**7.6**	**10.0**	**28.8**

Source: Banks' data, Bloomberg, UniCredit Research estimates

Infrastructure sector – Airports

FP's stakes in the 3 Romanian airport operators represents 3.5% of our fair value of the portfolio of shares. We value CNAB and Timisoara Airport using the average of fair values based on P/E (10% weight), EV/EBITDA (55%) and EV/Customer (35%) as we did in our previous update. We do not use the P/E multiple in the valuation of Constanta Airport as the company budgeted total revenues equal to opex in 2011, therefore P/E yields no meaningful value. As to the reference value for the third multiple, we used the 2011 average multiple of some European peers of EUR 83.3/Customer. We applied different discounts to account for country-, sector- and company-specific risks, such as differentials in profitability and size.

KEY INPUTS IN THE VALUATION OF THE AIRPORTS

	Reference P/E (x)	Reference EV/EBITDA (x)	Reference EV/PAX (RON)	Discounts (%)	Weights in valuation (%) P/E	EV/EBITDA	EV/PAX
CNAB	16.2	8.9	363.2	10	10	55	35
Timisoara airport Traian Vuia	16.2	8.9	363.2	15	10	55	35
Constanta airport Mihail Kogalniceanu	n.a.	8.9	363.2	20	0	60	40

NB. PAX = passengers

Source: Company data, Bloomberg, UniCredit Research estimates

VALUATION OF AIRPORTS

RON mn	Fair value of equity based on P/E	EV/EBITDA	EV/PAX	Weighted avg.	Fair value of FP's stakes based on P/E	EV/EBITDA	EV/PAX	Weighted avg.	Official valuation
CNAB	1,449	1,807	2,546	2,030	289.8	361.4	509.3	406.0	322
Timisoara airport Traian Vuia	140	162	384	238	28.0	32.4	76.9	47.5	8
Constanta airport Mihail Kogalniceanu	n.a.	21	25	47	n.a.	4.1	5.0	9.4	2

NB. PAX = passengers

Source: Company data, Bloomberg, FP, UniCredit Research estimates

Our comparison to peers is relatively limited given that all the airports operators we have chosen are more complex with respect to revenue breakdown and moreover have a liquidity advantage from being listed.

PEERS COMPARISON

Company	Mcap (EUR mn)	P/E(x) 2010	2011E	2012E	EV/EBITDA (x) 2010	2011E	2012E	EBITDA margin (%) 2010	2011E	2012E	Net margin (%) 2010	2011E	2012E
Eastern Europe													
Aerodrom Ljubljana	41	16.2	n.a.	n.a.	7.5	n.a.	n.a.	38.0	n.a.	n.a.	18.3	n.a.	n.a.
TAV Airports	1,349	24.1	17.7	11.7	11.8	10.0	8.2	27.0	29.0	30.7	6.3	8.3	11.3
Average CEE		**20.2**	**n.m.**	**n.m.**	**n.m.**	**n.m.**	**n.m.**	**27.0**	**n.m.**	**n.m.**	**6.3**	**n.m.**	**n.m.**
Western Europe													
Aeroports de Paris	5,918	19.1	18.4	17.1	9.6	8.5	8.2	33.8	34.8	35.6	11.0	11.6	11.9
Fraport AG Frankfurt	4,225	14.1	17.1	17.3	8.8	8.8	8.3	32.8	33.9	34.9	12.0	10.4	9.6
Flughafen Zuerich	1,800	15.2	13.5	12.4	7.2	6.6	6.2	50.7	52.0	52.4	16.1	17.8	18.7
Kobenhavns Lufthavne	2,284	11.9	22.3	20.9	8.2	11.9	11.4	51.8	51.5	51.8	28.1	21.5	22.1
Flughafen Wien	601	11.6	12.0	12.7	9.1	7.9	8.1	31.8	31.7	30.6	14.2	7.6	7.8
Save Group	347	13.0	12.7	11.2	7.3	n.a.	n.a.	19.2	20.7	22.7	8.6	8.8	9.1
Malta International Airport	231	19.8	n.a.	n.a.	11.1	n.a.	n.a.	45.3	n.a.	n.a.	20.8	n.a.	n.a.
Aeroporto di Firenze	82	37.8	n.a.	n.a.	14.0	n.a.	n.a.	20.9	n.a.	n.a.	7.4	n.a.	n.a.
Aeroporto Toscano	85	26.9	n.a.	n.a.	8.8	n.a.	n.a.	18.1	n.a.	n.a.	5.9	n.a.	n.a.
Average WE		**16.4**	**16.0**	**15.3**	**8.8**	**8.7**	**8.4**	**33.8**	**37.4**	**38.0**	**15.0**	**12.9**	**13.2**
Average all peers		**19.0**	**16.2**	**14.8**	**9.4**	**8.9**	**8.4**	**33.1**	**36.2**	**36.9**	**13.5**	**12.3**	**12.9**
CNAB*		47.7	20.5	n.a.	11.9	9.1	n.a.	41.5	39.7	n.a.	10.7	18.2	n.a.
Timisoara Airport*		19.0	23.4	n.a.	10.6	11.4	n.a.	53.4	47.5	n.a.	29.4	22.8	n.a.
Constanta Airport*		n.m.	n.m.	n.a.	17.4	16.9	n.a.	19.6	21.3	n.a.	n.a.	n.a.	n.a.

*2011E is based on company budget

Source: Bloomberg, Company data, UniCredit Research estimates

Business overview

Key milestones in FT's first 1.5 years as Fund Manager

A very eventful first 17M of management

Franklin Templeton (FT) effectively took over FP's management on 29 September 2010. See below the most important events marking its activity:

- October 2010: distribution of RON 1.1bn dividend (DPS of RON 0.0816/share) for the 2008-2009 period.
- November 2010: FP becomes the first fund to obtain Romanian SEC approval for publication of its NAV applying fair value principles.
- 25 January 2011: Debut on the BSE and international road show.
- May 2011-September 2011: buyback program (see details later in this report).
- June 2011: distribution of RON 432mn dividend (DPS of RON 0.03141/share) for FY 2010 and European road show.
- July 2011: announcement regarding the dual listing (see details later in this report) and US road show.
- October 2011: Investors' and Analysts' Days were attended by some 14 foreign investors (such as Elliot Management, City of London, Schroders, Jefferies) as well as local institutional investors (SIFs, pension and mutual funds) over a 2-day period. Presentations were made by FP's CEO and Fund Manager, the Head of the OPSPI (the privatization department of the Ministry of the Economy), the Polish Under Secretary of State of the Ministry of the Treasury, Petrom's CFO and the Deputy CEOs of Hidroelectrica and Romgaz. Site visits were also organized to one of Hidroelectrica's power plants and dams and to Nuclearelectrica.
- November 2011: EGM and OGM in which shareholders approved changes in the bylaws, an addendum to the management contract and the 2012 budget (see details on the following pages).

Changes in the shareholder structure and share capital

Foreign institutional shareholders' stake up from 19.5% in December 2010 to 44.3% in January 2012

The stake in the company held by the Ministry of Finance decreased from 39% (from the paid capital) at the end of December 2010 to nil in January 2012. The conversion process accelerated starting in May 2011 (after an approximately 5M pause to allow for the establishment a new reference price: the weighted average price of the previous 60 trading sessions). We note that the foreign investors' category also includes shareholders such as the Malaxa family (successors of the pre-war Romanian industrialist Malaxa, with a 6.54% stake as at end-January 2012), of Romanian origin but with the US as their country of residence. Manchester Securities together with Beresford Energy Corp, with which it acts in concert (both companies are affiliates of the Elliot group) own together 12.9% of the paid capital (11% is owned directly by Manchester Securities and 1.9% by Beresford Energy). City of London Investment Management Company Ltd. owns 7.2% of the paid capital. Moreover, the SIFs held a cumulative stake of 1.86% at the end of December 2010 (SIF1 0.12%, SIF2 1.185%, SIF3 0.36% and SIF4 0.19%) that increased to 2.76% (SIF1 had 0.01% as at September 2011, SIF2 had 1.644% as at December 2011, SIF3 had 0.33% as at September 2011, SIF4 had 0.45% as at December 2011 and SIF5 had 0.32% as at September 2011).

FP: EVOLUTION OF THE SHAREHOLDERS STRUCTURE AND OF THE CONVERSION PROCESS

	Dec-10	Jan-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12
Ministry of Finance	38.9	36.8	36.79	36.8	25.3	18.9	12.4	6.0	4.9	3.2	1.5	0.02	0.0
Romanian private individuals	41.6	33.2	28.28	26.1	35.4	37.0	38.6	38.1	37.1	35.7	35.7	34.9	32.9
Foreign institutional shareholders	19.5	15.0	20.4	22.5	23.7	27.3	31.0	33.7	36.0	38.0	39.8	42.1	44.3
Foreign private individuals	n.a.	9.5	8.64	8.5	8.8	8.7	8.8	9.3	9.1	9.6	9.3	9.37	9.2
Romanian institutional shareholders	n.a.	5.6	5.87	6.1	6.6	7.4	7.8	8.5	8.6	9.1	9.3	9.2	9.2
Treasury shares	0.0	0.0	0	0.0	0.2	0.5	1.2	1.6	1.6	1.7	1.7	1.7	1.7
Unpaid shares	0.0	0.0	0	0.0	0.0	0.2	0.2	2.7	2.7	2.7	2.7	2.7	2.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total no. of shareholders	**n.a.**	**n.a.**	**8,467**	**8,475**	**9,574**	**9,888**	**10,343**	**10,690**	**10,694**	**10,650**	**10,809**	**10,845**	**10,705**
No. of conversions	n.a.	n.a.	n.a.	n.a.	1,331	814	565	720	304	426	649	605	0
No. of shareholders as a result of conversions	n.a.	n.a.	n.a.	n.a.	956	577	448	550	266	326	493	551	0
No. of shares transferred from the Ministry of Finance (mn)	n.a.	n.a.	n.a.	n.a.	1,591	853	903	526	155	227	239	205	0
as % in share capital	n.a.	n.a.	n.a.	n.a.	11.55	6.19	6.55	3.82	1.13	1.65	1.73	1.49	0

Source: FP, UniCredit Research

The unpaid shares are likely to be cancelled

The Romanian state has 2.7% of capital in unpaid shares: The shares in question are blocked at the Trade Register, Central Depository and Romanian SEC, and relate to a certain number of shares that should have been transferred by the state to FP as follows: shares in Nuclearelectrica worth RON 340.8mn, in Electromecanica Ploiesti (EP) worth RON 11.7mn and in Uzina Mecanica Bucharest (UMB) worth RON 20mn (total RON 372.5mn). FP initiated litigation in order to be registered as the owner of these shares but, to date, various courts have decided that the legislation is unclear and thus FP cannot be registered as shareholder at EP and UMB (in the latter case, there is an irrevocable court decision from the highest possible Romanian court). With respect to the shares in Nuclearelectrica, the Bucharest court decided that FP cannot receive the difference up to 20% of capital (as a reminder, FP received in fact only an 11.24% stake without taking into account the bonus issues between 2005-2007).

FP presented four options related to the blocked shares:

- The Romanian state pays RON 372.5mn to FP (unlikely in our and FP's view, due to the very tight fiscal deficit assumed in Romania's agreement with the IMF.
- FP initiates litigation against the Romanian state for the value of the unpaid shares (RON 372.5mn). While this is a potentially successful route, it could take years to materialize, and as a result, we think it is unlikely that FP will pursue this route.
- Cancel the unpaid shares, issue and sell new shares. Given the current share price with a big discount vs. the nominal value and NAV, we see this alternative as unattractive and not viable.
- Following a GSM decision, the unpaid shares can be cancelled. This was the route followed in the past and which we see as most likely also in this current case.

Following two recent increases in the paid share capital as a result of the compensation of the free shares received by FP from Hidroelectrica, worth RON 1.7mn and RON 4.98mn, respectively, due to share capital increases based on the value of the land for which Hidroelectrica obtained property rights, the fund manager unblocked 6.7mn shares. As a result, the paid share capital increased to RON 13.413bn.

Cancellation is also sought for 240.3mn Treasury shares

FT is to propose the cancelation of 240.3mn Treasury shares (1.8% of the paid up capital) in an upcoming EGM (subject to meeting a 50% quorum). The shares were acquired in March-September 2011 at an average price of RON 0.4994/share or for a total of RON 120.3mn (the maximum amount of reserves held in the accounts available for this purpose). As a result, the share capital could further decrease to RON 13,172mn. After the cancelation of these shares, the RON 120mn reserve would be rebuilt for future buybacks. The combined positive impact on FP's NAV (from the cancelation of Treasury shares and of the shares unpaid by the state) is an increase by 4.4% in the official NAVPS. Since August 2011, FP already calculates its official NAVPs excluding the unpaid shares.

Latest developments

Restitution process far from completion

Billions of EUR worth of claims yet to be settled, most likely via solutions not involving FP

Claims worth EUR 21bn are yet to be settled, although the Ministry of Finance no longer holds shares in FP. The potential options identified by FP for the restitution process are: **a)** directly distribute shares in state-owned companies (even in some that are current FP holdings); **b)** put new assets into FP's portfolio; **c)** creation of FP 2; **d)** issue bonds and **e)** cash settlements. FT believes option a) could be preferred by the state as it would allow for the transfer of assets at market prices rather than at a discount (as FP is trading at a wide discount to NAV). It would also be positive for FP as it could speed up the listings process. Options b)-e) are seen as more lengthy (the first two) or costly (the last two) for the government, especially in the context of the very tight 2012 fiscal deficit negotiated with the IMF (1.9% of GDP). Option b) would be in any case subject to FP's shareholders' approval as to assets to be added and their valuation. FP representatives indicated that there is no publicly stated intention for the state to pursue this option.

Restitutions might be capped at some point in the future

Restitutions might be capped: According to the daily Bursa, the Romanian government has prepared draft regulation aiming to cap restitution payments at RON 0.3mn/person, while their payment would be scheduled over the course of a 15Y period. The regulation was drafted at the request of the European Human Rights Court which issued in October 2010 a preliminary court ruling that obliges the Romanian government to resolve within 18 months (by July 2012) the restitution process via changes in regulations and judicial practices. While we understand that putting a cap to single claims would protect Romanian state's finances, we believe that such a move could trigger an additional wave of lawsuits as it would create further discriminations vs. persons who, in theory at least, have been compensated in full under the current regulations.

Restitution process to date: To date, according to data published by the National Agency for Property Restitutions (ANRP), 11,354 files have been settled against 13.385bn FP shares and 4,452 files against RON 616.6mn. By end-December 2011, only some 10,845 persons were compensated, of which some half since FP's listing. ANRP still has some 50,000 files to process and for 20,000 files the settlement should be made in cash (RON 1.6bn), but payments have been suspended until July 2012. For some 284 files, settlement with FP shares was decided (worth of RON 47mn). At the mayoral level (where the whole process starts) there are some 75,000 files that were submitted. A total of 145,000 files are awaiting compensation, i.e. 10x more than files settled since FP's set up. Assuming all these files were to be settled at the maximum proposed cap of RON 0.3mn/person, the resulting EUR 10bn total remains a sizeable amount to settle.

FP's Warsaw listing

Dual listing should increase FP's and Romanian stock market's visibility

Dual listing planned for 1H12: Franklin Templeton has issued a recommendation for FP to be listed on the Warsaw stock exchange (WSE) initially for 1Q12 combined with an offering of up to 10% of the existing shares. The fund manager issued its recommendation after a consultation process with several investment banks and after also testing investors' preferences. As a result, FP had meetings with Romanian SEC and Central Depository as well as with their Polish counterparts. The listing should have been approved by FP's GSM but was not put on the agenda of the last (23/25 November 2011) GSM because FP was unable to obtain the Romanian SEC (CNVM) approval as the regulator possibly feared the loss of revenues in relation to the main issuer on BVB as a result of liquidity being transferred to the new exchange (such revenues for the January-October 2011 period reached some 30% of CNVM's total 2010 revenues). Consequently, FP is behind schedule with the listing, while the establishment of links between the depositories is nearing completion and the shares' fungibility issue has almost been resolved. The start of the Warsaw dual-listing process was moved to 1H12, but given all the above (along with uncertainties as to the source of the 10% stake), we do not exclude further delays.

On 8 February 2012, FT received a request from Mrs. Georgia Palade van Dusen, Mr. Philipe Palade, Grantelast Limited and POAH One Acquisition Holdings IV Limited, as important shareholders who hold a more than 5% combined stake in FP, to call a GSM aiming to: **a)** approve, in principle, FP's secondary listing on the WSE and **b)** grant approval of an instruction to FT to present a specific plan to shareholders no later than 31 May 2012 setting forth all formalities necessary for listing on the WSE, and to schedule a shareholders' meeting to vote on all such necessary matters not later than 30 June 2012. The same group of shareholders also requested the change in the composition of the Board of Nominees. The GSM is to take place on 4 April (first call) or 25 April (second call).

23/25 November 2011 GSM

One share equals one vote

The most important item approved referred to the changes in the bylaws. As a reminder, the most important are: a) the removal of the voting rights restrictions – one share now equals one vote (effective as of 13 January 2012, following the approval by the Romanian SEC of FP's bylaws) and b) an expansion of the decision-making power of the fund manager (it can perform transactions of up to 20% of the fixed assets less long-term receivables, without shareholders approval, while the previous limit was 5%). According to Mediafax, some of the small shareholders were not pleased with the removal of the voting rights restrictions, and therefore, at the GSM, they threatened to block it in court. These shareholders dislike the fact that going forward, decisions for the most part would be in the hands of the large institutional shareholders.

The GSM also approved an amendment to the management agreement between FP and FT (by changing the calculation and frequency of payment of the 0.4789% fee from annual to quarterly and by reference to the average Mcap of the quarter). The 2012 budget was also approved (details in the Financials overview section later in the report). The cancellation of the 240mn Treasury shares (1.8% of the capital) could not be approved due to the failure to gather a quorum.

The appointment of Templeton as Fund manager challenged in court

The Bucharest Court decided to nullify a September 2010 GSM resolution through which bylaws were changed in order for Franklin Templeton to be appointed fund manager, following litigation filed in October 2010 by an individual shareholder. The claimant believes the decision should be voided because the proposed changes to the bylaws were published in the Official Gazette less than 30 days before the GSM. The court decision can be appealed in 15 days, according to Mediafax.

According to an FP communiqué, the claim is essentially a technical argument around the administrative formalities required for the calling of the GSM by FP's previous administrators. Given separate resolutions adopted in more recent GSMs (in November 2010, shareholders approved again the modified bylaws), FT does not consider this court decision to have any material effect on FP.

However, the same shareholder requested in January 2012 the annulment of the decisions made at the GSM held on 23/25 November 2011. The first hearing is to be held on 18 September 2012. No further details are available to date, apart from the fact that FP has been summoned to appear before the Bucharest Court.

April GSM may bring the approval of a new fee for Templeton

On 16 February 2012, FP received a request from Manchester Securities (11.7% of FP's capital) to convene a GSM to approve an amendment of the Investment Management Agreement, which refers to the introduction of an additional fee of 1.5% from additional distributions in 2012-2013 and 1% from 2014 onwards. The additional distributions refer to special dividends, buybacks, and share capital decreases via lowering the nominal value/share and other asset sales. This fee would be paid in addition to the 0.479% management fee that FT is now earning for its activity as Fund Manager. The GSM is to take place on 4 April (first call) or 25 April (second call).

The introduction of the additional fee was justified as a means to encourage FT to sell assets and return proceeds to investors rather than re-invest them in other companies and as compensation for the future decline in its management fee following the decline in its asset base and Mcap. However, certain local lawyers (Mr. Cristian Dutescu quoted in the daily Bursa) identified some hurdles in implementing such a fee, the most important being that the local legislation does not allow for the payment of additional dividends, i.e. dividends outside of the annual profits approved in the annual GSM cannot be paid. Moreover, regulations allow for only two types of additional distribution, i.e. share capital reductions and buy backs, but both operations must be approved by extraordinary GSM and be carried out according to strict regulations, the manager's only role being in fact to fulfill an EGM decision. Dividends from asset sales, while making economic sense, seem not to be feasible unless the net gains are part of the annual profits for which the distribution is approved in the annual GSM (the issue also arose when the SIFs sold their stake in BCR to Erste Bank).

Active portfolio management translated into progress in its restructuring

FP showed it is prepared to defend its rights in court if need be

- **FP stands out as an activist shareholder**: FP now has representation at the board level in 18 companies and has nominated 15 executive directors in companies that account for a cumulative stake in NAV of ca 75%. To this effect, the fund has obtained the approval of the court for the suspension of mergers seeking to establish two energy giants; through instigation of legal proceedings against individual holdings, the fund eventually forced the government to abandon the endeavor. Moreover, at natgas producer Romgaz, where the state approved a RON 400mn donation, FP filed lawsuits against each of Romgaz's board members who voted to approve it. More recently, FP has instigated legal actions in relation to specific bilateral contracts concluded by Hidroelectrica at prices considered disadvantageous to the company. To date, FP has achieved mixed results in these endeavors (a favorable court decision in the Romgaz case is still pending, while litigation related to Hidroelectrica is in the early stages) but its efforts should be praised in our view.

FP's activist stance led to a slow but gradual and steady improvement in corporate governance practices

- **FP enjoys the help of the IMF**: FP has been helping the companies comprising its portfolio of shares to access foreign expertise (via the provision of advice with respect to increasing efficiency and on the planned IPOs/SPOs) and financing, and to improve corporate governance practices (the publication of 2010 detailed financials for its top 20 holdings was one aspect of this exercise).

Recently, as part of the measures agreed by the Romanian government with the IMF, the government approved an Emergency ordinance on corporate governance code (CGC) for state-owned enterprises (SOE), the implementation of which is aimed at the establishment of transparent criteria and procedures for selecting boards of directors, supervisory boards and executive management (including via the cumulative voting system), implementation of stricter rules for reporting and approving transactions with affiliates and an increase in transparency and disclosure in general (via quarterly financial reporting and the conducting of regular independent audits, and required approval of proposed business plans by GSMs). Since June 2011, the Ministry of the Economy has instated the obligation to separate the CEO function from that of Chairman of the Board for state-owned companies. The new code also states as a principle the separation of the management and the shareholders' roles in state-owned entities ("SOEs"), the obligation for the majority of the members of the boards of directors to be independent and no more than two to be state representatives.

Implementation of the CGC ongoing: The proposed plan drafted by the Ministry of the Economy seeks to engage international executive search firm(s) in the process of selecting professional management for Hidroelectrica, Posta Romana, Romgaz, Nuclearelectrica, Transelectrica and Transgaz. The search and selection process should be initiated for all companies in 2012 (for Hidroelectrica, it is scheduled to be completed in 1Q12, which sounds rather ambitious to us). The plan is to have the new professional management hired at least at Hidroelectrica in 2012, according to the 2011 activity report prepared by the former Minister of the Economy, Mr. Ion Ariton. Transgaz and Transelectrica have already called for a GSM to approve the initiation of the process.

FP is also pushing for measures supportive of the energy sector which are also endorsed by the World Bank. The implementation of these measures is likely to positively impact the financials of FP's key holdings and refer primarily to:

- A gradual deregulation of end-user prices for electricity and gas (the initial deadline was by 2013 for industrial consumers and by 2015 for households, but these deadlines are likely to be moved forward by 2-3 years); within this context, a plan to phase out the regulated prices and protect vulnerable consumers as mandated in EU legislation should have been in place by the end of 2011; given the upcoming elections in 2012, and delays in all of these areas, we are skeptical as to whether meaningful price increases would be implemented in 2012.

- The adjustment of energy prices to market prices in ongoing contracts as quickly as legally possible. In mid-December 2011, the Ministry of the Economy ordered that notifications be sent to all of Hidroelectrica's partners in bilateral contracts for contract terminations at the first legally possible dates. Several contracts have already been terminated. In parallel, the Ministry has also submitted to the EC's General Directorate for Competition a formal request to identify a common legal solution to the termination of all such bilateral contracts. According to Mediafax, quoting unidentified sources, several companies agreed to increases in tariffs (in the range of 19%-26% compared to the 2011 average of RON 130/MWh) or to a shortening of the duration of contracts' maturities or reductions by 10%-20% of the quantities to be acquired.

- The approval of the legislation to publish all bilateral contracts for gas and electricity generators and the enforcement of future bilateral contracts for electricity to be made transparent via OPCOM and via other competitive procedures for the acquisition of gas.

To date, FP has sold mostly very small holdings and added primarily banks to its portfolio

Key changes in FP's portfolio of shares have been relatively minor so far. Since we issued our previous report issued on 25 February 2011, FP has sold its stakes in Marlin, Familial Restaurant, Laromet, Zamur and Vitacom via auctions, and in Comcereal Harghita in a squeeze out offer, at prices equal to or above those in the NAV. It also reduced its stake in Oil Terminal. All these holdings account for a negligible stake in the official NAV. Other holdings were subject to mergers (3 Electrica Furnizare companies as well as Primcom which absorbed Delfincom and Prestari Servicii). FP also acquired stakes in the Romanian banks BRD Groupe SG and BT as well as in the Austrian banks Erste and Raiffeisen. The restructuring process is off to a positive start, as, in our view, most of the small unlisted companies in which FP has holdings have transparency issues and/or unappealing fundamentals, while most of the smaller listed ones have low liquidity. Going forward, FP would continue such sales while the main target would be to sell, in 2012, its stakes in the electricity and gas distribution and supply companies.

As a result, at the end of January 2012, FP had holdings in 73 companies (27 listed and 46 unlisted) vs. 83 companies (29 listed and 54 unlisted) at 30 September 2010, the date on which FT effectively took over FP's management. The start of the restructuring process is positive, as, in our view, part of the smaller unlisted companies in which FP has participations have some transparency issues and/or unappealing fundamentals, and most of the smaller listed ones have low liquidity, all generating costly administrative hurdles.

FP indicated that Romania would remain its core market: During the Investors' Days held in October 2011, FP officials indicated that for the time being FP does not intend to increase its exposure to Austrian banks, as it has identified (but not named) better investment opportunities in Romania. In our view, this could mean, among others, that FP might be interested in most of the upcoming SPOs/IPOs (see list below). The exceptions are Petrom and Hidroelectrica, in which SPOs/IPOs, based on the current regulations, FP would be prohibited from participating as each of these holdings exceed the threshold of 10% of the NAV. In case of the latter, FP representatives said that their correspondence with Romania's SEC indicates that the company will be allowed to subscribe the rights issue, but cannot participate in the IPO. However, it is not yet clear whether FP would need to sell the excess over 10% within 120 days from the stock listing. At the conference call following the publication of the 4Q11 results, FP indicated its intention to hire an investment bank to handle the disposal of its stakes in the privatized electricity and gas distribution and supply companies (and complete the transactions by the end of this year). The stakes in these companies are valued at RON 2.14bn (14.8% in the December 2011 official NAV) and RON 2.28bn (16.7% in our fair NAV).

- **The more significant changes in the portfolio depend on events not under FP's control**: We are referring here to the upcoming IPOs/SPOs indicated in the table below, in which the state is to sell stakes in FP's most important holdings. The completion of these deals would reduce the weight of FP's unlisted holdings in the official NAV from the current 63.3% to ca. 28.2% (based on the end-December 2011 official valuation).

SPO/IPO CALENDAR OF KEY FP HOLDINGS

	Stake for sale (%)	Last price (RON)*	Deal size (RON mn)**	Deal size (EUR mn)**	Official calendar
Transelectrica	15.0	17.4	191	44	March 2012
Transgaz	15.0	249	440	101	May 2012
Petrom	9.8	0.41	2,285	525	To be determined
Romgaz	15.0		1,220	280	June-September 2012
Hidroelectrica	10.0		1,675	385	October 2012
Nuclearelectrica	10.0		522	120	October 2012
Total			**4,137**	**1,454**	

*As at 22 February 2012; **For unlisted holdings based on the official valuation

Source: FP, UniCredit Research estimates

Some 51% of FP's NAV should have listing procedures initiated by year end: The law setting forth the obligation for the companies controlled by the Romanian state and which are in FP's portfolio to initiate listing procedures by 31 December 2012 for a minimum 5% of their capital, was published in the Official Gazette in January. The law identifies 19 companies, which, when listed, would lead to a decline in the weight of unlisted holdings in the December 2011 official NAV from 63.3% to 14.5%). The most important companies are: Hidroelectrica, Nuclearelectrica, Romgaz (for which the IPO procedures are in various stages), the 3 thermal power plants Turceni, Rovinari and Craiova, the Romanian Post, the 3 still majority state-owned Electrica Distributie companies – Transilvania North and South and Muntenia North, and the 3 airports Bucharest, Constanta and Timisoara. Given the government's poor track record with respect to previous listings, we doubt it would even be possible to initiate only the privatization procedures for such a large number of companies, particularly in an election year, much less to fully implement such an ambitious program by the prescribed deadline.

However, FP's capacity to participate in these deals depends on dividend distribution: FP proposed RON 510mn for dividends distribution for FY 2011. Given FP's cash and deposits of RON 269mn (as at January 2012) to which RON 252mn could be added in T-bills (that in theory can be easily converted into cash), adding the expected dividend inflow by July 2012 (55% of the RON 510mn budgeted for 2012 as dividend income), subtracting dividend outflow and assuming the deals are performed as per the above calendar assumed by the government, we calculate that FP has in theory around RON 250mn in available cash. In theory, this amount could be used either for Transelectrica's SPO or 56% of Transgaz's SPO (assuming SPO pricing equals market prices on 22 February 2012) or 20% of Romgaz's IPO (assuming pricing equals book value as in FP's official NAV). Either way, it looks as though FP could be diluted in Transgaz and Romgaz. FP cannot obtain bank loans but it can issue bonds as an alternative funding source. FP can use cash proceeds from the sale of its stakes in electricity and gas distribution and supply companies, provided it manages to sell them in due time.

Financials overview

Official January 2012 NAV up 5% mom

FP's official January 2012 NAV reached RON 15.1bn (NAVPS of RON 1.129, up 4.7% mom and down 0.5% yoy).

- **The listed portfolio of shares increased by 14% mom**, as Petrom, with a 25.4% weight in NAV, closed up 16.6% mom, while there were share price increases at Transgaz (7.5% increase and 2.8% weight in NAV) and at the banks (their cumulative weight in NAV increased from 3.4% in December 2011 to 3.6%, while mom share price increases were 4.6% at BRD, 15.4% at BT, 24.7% at Erste, and 30.4% at Raiffeisen).
- **Unlisted shares accounted for 60.3% of total assets** (RON 9.1bn, flat mom).
- **Liquid assets up mom**: The cash and deposits figure decreased by 9.8% mom to RON 269mn (1.8% of total assets), while FP's exposure to T-bills was flattish mom at RON 197mn.
- **Top sector and holdings**: The Oil & Gas sector now has the greatest weight in NAV (34.2%), followed by the Power Generation sector (the weight of which decreased mom by 1.5pp to 32.6%). Petrom regained its position of largest holding, while Hidroelectrica now ranks second (22.1%).
- **The preliminary January 2012 net profit figure was RON 3.7mn.**

FP'S OFFICIAL NAV (IFRS)

RON mn	Jan-11	March-11	June-11	Sept-11	Dec -11	Jan-12	mom (%)	yoy (%)
L/T financial assets, o/w	**9,166**	**9,203**	**9,394**	**9,396**	**9,169**	**9,163**	**-0.1**	**0.0**
Listed shares	21	58	12	14	19	12	-35.4	-42.9
Unlisted shares	9,145	9,145	9,382	9,382	9,151	9,151	0.0	0.1
Total fixed assets	**9,166**	**9,203**	**9,394**	**9,396**	**9,169**	**9,163**	**-0.1**	**0.0**
Receivables	3	15	327	210	55	56	0.9	n.m.
Cash	8	8	30	2	2	1	-26.4	-82.0
S/T financial assets, o/w	**6,541**	**7,294**	**6,680**	**5,076**	**5,295**	**5,948**	**12.3**	**-9.1**
Listed shares	5,225	6,413	5,991	4,721	4,803	5,483	14.2	4.9
T-bills	265	284	16	49	196	197	0.5	-25.7
Deposits	1,051	598	673	307	296	268	-9.7	-74.5
Total current assets	**6,552**	**7,318**	**7,037**	**5,289**	**5,352**	**6,005**	**12.2**	**-8.3**
Total assets	**15,718**	**16,521**	**16,431**	**14,685**	**14,522**	**15,168**	**4.4**	**-3.5**
Total current liabilities	63	52	245	55	42	16	-62.6	-74.8
Total liabilities	77	66	260	69	56	30	-46.8	-61.1
Share capital	13,778	13,778	13,778	13,778	13,778	13,778	0.0	0.0
Revaluation reserve	3,501	3,273	3,382	3,288	3,345	4,013	20.0	14.6
Reserves	-2,146	-1,117	-1,606	-3,060	-3,249	-3,249	0.0	51.4
Retained earnings from previous years	507	507	74	74	47	591	n.m.	16.5
YTD net profit	1	14	543	535	544	4	n.m.	260.8
P/Official NAVPS (28 February 2012)	0.49	0.47	0.48	0.51	0.52	0.50	n.m.	n.m.
Discount to official NAV (%)	-50.6	-53.0	-52.3	-48.5	-48.0	-50.3	n.m.	n.m.
Net asset value	**15,641**	**16,455**	**16,171**	**14,616**	**14,465**	**15,138**	**4.6**	**-3.2**
NAV/share (RON)	**1.1352**	**1.1942**	**1.1754**	**1.090**	**1.0788**	**1.1290**	**4.7**	**-0.5**

Source: FP, UniCredit Research

The government published a revised draft Ordinance regarding the heavy water bought by Nuclearelectrica for Units 3 & 4 using allocations from the state budget, which no longer provide for the increase in Nuclearelectrica's share capital by the value of the heavy water but does call for the transfer of the heavy water to the state reserve.

Subsequently, the heavy water will be transferred to the project company that will develop Units 3 & 4. This is a positive, given that in November 2011, FP adjusted its stake in Nuclearelectrica by some RON 230mn to reflect the potential effects of the proposed capital increase. FP had opposed the share capital increase and its stake could have been diluted had it decided not to participate and it is likely to soon show the adjustment in its official NAV. Although the impact on NAV is not significant (1.6% of December 2011 official NAV), we see this as a noteworthy victory for FP in its efforts to protect its interests vis-à-vis its relationship with the state.

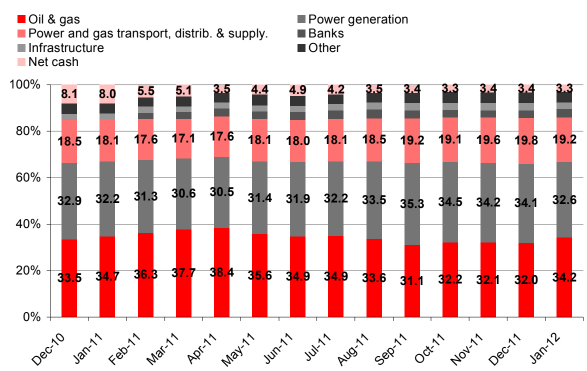
FP: BREAKDOWN OF ASSETS

RON mn	Jan-11	June-11	Sept-11	Dec-11	Jan-12	mom (%)	yoy (%)
Portfolio of shares, o/w	14,391	15,385	14,117	13,973	14,646	4.8	1.8
Listed	5,246	6,003	4,735	4,822	5,496	14.0	4.8
Unlisted	9,145	9,382	9,382	9,151	9,151	0.0	0.1
Assets other than shares and cash	268.1	343.3	259	251	252	0.6	-5.8
Cash and deposits	1,058.8	702.7	309	298	269	-9.8	-74.6
% total assets	**Jan-11**	**June-11**	**Sept-11**	**Dec-11**	**Jan-12**	**mom (pp)**	**yoy (pp)**
Portfolio of shares, o/w	91.6	93.6	96.1	96.2	96.6	0.3	5.0
Listed	33.4	36.5	32.2	33.2	36.2	3.0	2.9
Unlisted	58.2	57.1	63.9	63.0	60.3	-2.7	2.1
Assets other than shares and cash	1.7	2.1	1.8	1.7	1.7	-0.1	0.0
Cash and deposits	6.7	4.3	2.1	2.1	1.8	-0.3	-5.0

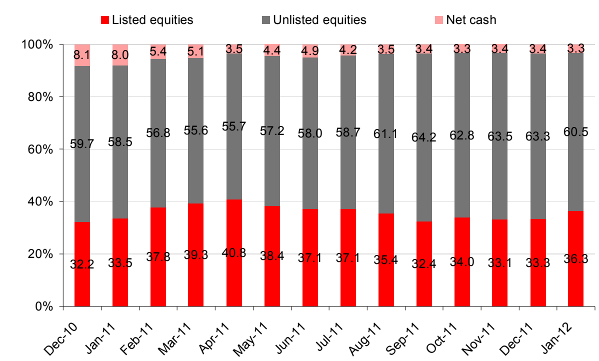
Source: FP, UniCredit Research

FP: PORTFOLIO BREAKDOWN (AS A % OF OFFICIAL NAV)

Oil & Gas sector has the largest weight (34% of NAV in Jan 2012)



Unlisted holdings at 60.5% of NAV in Jan 2012



Source: FP, UniCredit Research

FP: TOP 10 HOLDINGS (AS A % OF OFFICIAL NAV)

	Company	Jan-11	June-11	Sept-11	Dec-11	Jan-12
1	Petrom	26.2	26.9	22.1	22.8	25.4
2	Hidroelectrica	21.0	20.7	22.9	23.1	22.1
3	Romgaz	8.0	7.6	8.4	8.4	8.1
4	Complexul Energetic Turceni	3.4	3.2	3.6	3.6	3.5
5	Nuclearelectrica	4.5	4.6	5.0	3.5	3.4
6	Transgaz	3.2	2.5	2.3	2.7	2.8
7	GDF Suez Energy Romania	1.9	2.1	2.3	2.3	2.2
8	Enel Distributie Muntenia	2.1	2.1	2.3	2.3	2.2
9	CNAB	2.1	2.0	2.2	2.2	2.1
10	ENEL Distributie Banat	1.8	2.0	2.2	2.2	2.1
	Sub-total	**74.1**	**73.5**	**73.2**	**73.3**	**73.9**

Source: FP, UniCredit Research

4Q11 results review

FP's portfolio down yoy: The decline was mainly due to impairments for Petrom and Nuclearelectrica (in the latter case, to take into account equity contributions from the Romanian state in relation to the acquisitions of heavy water). However, the decline was partly offset by acquisitions: FP increased its stake in Azomures (from 11.09% in September 2011 to 11.12% in December 2011), BRD Groupe SG (from 3.6% to 3.64%), BT (from 2.3% to 2.93%) and Conpet (from 29.6% to 29.7%). As a result of the foregoing actions, FP's cash decreased to RON 297mn, down 4% qoq.

FP: BALANCE SHEET

	RAS					IFRS unconsolidated				
RON mn	**2010**	**3Q11**	**2011**	**qoq (%)**	**yoy (%)**	**2010**	**3Q11**	**2011**	**qoq (%)**	**yoy (%)**
Non-current assets	**10,891**	**10,829**	**10,628**	**-1.9**	**-2.4**	**10,862**	**10,680**	**10,732**	**0.5**	**-1.2**
Financial investments o/w	***10,891***	***10,829***	***10,628***	**-1.9**	**-2.4**	***10,862***	***10,680***	***10,732***	**0.5**	**-1.2**
Equity investments, o/w	10,891	10,829	10,628	-1.9	-2.4	10,862	10,680	10,732	0.5	-1.2
Current assets	1,332	568	549	-3.3	-58.8	1,671	1,053	1,028	-2.3	-38.5
Cash and equivalents	1,072	309	297	-3.7	-72.3	1,078	309	298	-3.5	-72.3
S/T Financial Investments	248	49	196	302.7	-21.0	248	49	196	302.7	-21.0
Receivables	12	210	56	-73.4	349.3	4	205	52	-74.4	n.m.
Other current assets	0	0	0	-61.4	-8.4	341	490	482	-1.7	41.3
Total assets	**12,223**	**11,397**	**11,177**	**-1.9**	**-8.6**	**12,533**	**11,733**	**11,760**	**0.2**	**-6.2**
Shareholders' equity, o/w	**12,139**	**11,328**	**11,121**	**-1.8**	**-8.4**	**12,463**	**11,679**	**11,718**	**0.3**	**-6.0**
Share capital	13,778	13,778	13,778	0.0	0.0	13,778	13,778	13,778	0.0	0.0
Reserves o/w	-2,146	-3,060	-3,128	2.2	45.8	2,174	1,275	1,490	16.9	-31.4
Impairment for loss in value	-2,369	-3,162	-3,379	6.8	42.6	1,951	1,172	1,240	5.8	-36.4
Retained earnings	507	610	591	-3.1	16.5	-3,489	-3,375	-3,431	1.7	-1.7
Treasury shares	0	0	-120	n.m.	n.m.	n.a.	n.a.	-120	n.m.	n.m.
L/T liabilities, o/w	**84**	**14**	**14**	**0.0**	**-83.0**	**0**	**0**	**n.a.**	**n.m.**	**n.m.**
Provisions	14	14	14	0.0	-1.6	n.a.	n.a.	n.a.	n.m.	n.m.
Other non-current liabilities	69	0	0	n.m.	n.m.	n.a.	n.a.	n.a.	n.m.	n.m.
Current liabilities, o/w	**69**	**55**	**42**	**-22.7**	**-39.1**	**70**	**55**	**42**	**-22.7**	**-39.2**
Trade and other payables	26	28	28	-1.8	8.1	n.a.	n.a.	n.a.	n.m.	n.m.
Other current liabilities	44	26	15	-44.8	-66.6	n.a.	n.a.	n.a.	n.m.	n.m.
Total liabilities	**84**	**69**	**56**	**-18.0**	**-32.6**	**70**	**55**	**42**	**-22.7**	**-39.2**
Total liabilities and equity	**12,223**	**11,397**	**11,177**	**-1.9**	**-8.6**	**12,533**	**11,733**	**11,760**	**0.2**	**-6.2**

Source: FP, UniCredit Research

FP reported a 4Q11 RAS net profit of RON 8.5mn vs. a RON 7.8mn net loss in 3Q11. The figure was however much lower on a yoy basis, as in 4Q10 FP booked a RON 216.3mn reversal in impairment adjustments and provisions, of which 99.6% was in relation to the holding in Hidroelectrica (initial impairments were booked in 2006-2007). The 4Q11 corresponding figure was much lower at RON 1.7mn. For FY 2011, the provision reversal was RON 30.5mn and most of it referred to 2005 dividend receivables from Transgaz (RON 9.6mn) and Romgaz (RON 18.7mn). Important revenue contributors in 4Q11 were interest income (RON 6.6mn, up 22% qoq but down 67.4% yoy) and dividend income (RON 9.6mn). FP also recorded a net gain from asset sales of RON 3mn (RON 8.8mn for the FY, while proceeds were RON 13.4mn). There were no such transactions in 2010. Revenues were up from a mere RON 1.7mn in 3Q11 to RON 21.6mn.

On the expenses side was the RON 7mn management fee for FT (in 4Q10 and 2010 the figure was RON 32.1mn, calculated based on NAV). The FY 2011 management fee was up 75.4%, the calculation being based on the 4Q11 average Mcap. In 2011, FP also paid RON 15.6mn as commissions to the Romanian SEC and RON 1.6mn as depository fees.

Differences between IFRS and RAS financials: The major difference refers to the net line of provisions and impairments (RON 18.8mn in RAS and a negative RON 11.8mn in IFRS). The latter figure is comprised as follows: **1.** RON 28.3mn as a reversal of impairment losses on dividends receivable (an amount similar to RAS); **2.** RON 10mn of impairment losses on receivables in respect of equity contributions (RON 11.7mn in RAS), mostly in relation to amounts not paid from share capital; **3.** a RON 21.5mn reversal of impairment losses on the disposal of equity investments; **4.** RON 51.7mn impairment losses on equity investments. The amounts displayed at **3.** and **4.** do not appear in the RAS financials.

FP: PROFIT & LOSS ACCOUNT

	RAS								IFRS unconsolidated						
RON mn	**4Q11**	**qoq (%)**	**4Q10**	**yoy (%)**	**2011**	**2010**	**yoy (%)**	**% dev. Budget**	**4Q11**	**qoq (%)**	**4Q10**	**yoy (%)**	**2011**	**2010**	**yoy (%)**
Dividend income	9.6	n.m.	-30.2	n.m.	519.1	179.0	189.9	148.0	9.6	n.m.	-30.2	n.m.	522.4	181.2	188.2
Net income from provisions	1.7	n.m.	216.3	-99.2	18.8	217.1	-91.3	n.m.	-43.0	n.m.	216.3	n.m.	-11.8	0.0	n.m.
Net L/T financial investments gains	3.0	n.m.	0.0	n.m.	8.8	0.0	n.m.	n.m.	3.0	n.m.	0.0	n.m.	8.8	-29.3	n.m.
Net FX gain/(loss)	0.0	n.m.	3.1	-99.3	0.7	-9.2	n.m.	n.m.	0.0	n.m.	3.1	-99.3	0.7	-9.2	n.m.
Interest income	6.6	22.1	20.1	-67.4	41.1	131.5	-68.7	-54.3	6.6	22.1	20.1	-67.4	41.1	131.5	-68.7
Other operating revenues	0.6	179.8	0.9	-28.1	12.2	1.0	n.m.	n.m.	0.6	179.8	0.9	-28.1	12.2	1.0	n.m.
Total revenues	**21.6**	**n.m.**	**210.1**	**-89.7**	**600.7**	**519.5**	**15.6**	**100.7**	**-23.1**	**n.m.**	**210.1**	n.m.	**573.4**	**275.2**	**108.3**
Personnel expenses	-0.2	-74.9	-0.2	-20.2	-0.8	-4.1	-79.1	-34.1	-0.2	-57.6	-0.2	-10.1	-0.6	-4.1	-84.2
Fees and commissions	-4.0	-8.3	-3.7	7.1	-17.3	-6.1	182.0	15.6	0.0	n.m.	-3.7	n.m.	n.a.	n.a.	n.m.
Other operating expenses	-8.4	57.0	-21.5	-61.0	-37.0	-41.9	-11.8	n.m.	-12.4	-68.4	-21.5	-42.6	-54.2	-47.5	14.2
Total operating expenses	**-12.5**	**21.1**	**-25.5**	**-50.7**	**-55.1**	**-52.1**	**5.8**	**-40.3**	**-12.5**	**21.1**	**-25.5**	**-50.7**	**-54.9**	**-51.6**	**6.5**
Operating profit	**9.0**	**n.m.**	**184.7**	**-95.1**	**545.6**	**467.4**	**16.7**	**163.6**	**-35.7**	**317.9**	**184.7**	n.m.	**518.5**	**223.7**	**131.8**
Income tax	-0.5	n.m.	0.9	n.m.	-1.8	-11.2	-84.4	n.m.	6.6	n.m.	0.9	n.m.	-0.5	-8.7	-94.6
Net profit	**8.5**	**n.m.**	**185.6**	**-95.4**	**543.8**	**456.2**	**19.2**	**162.8**	**-29.0**	**271.9**	185.6	n.m.	**518.1**	**215.0**	**140.9**

Source: FP, UniCredit Research

2012 budget – bottom line down 19% yoy

Dividend income still to represent the main revenue source

FP targets a net profit of RON 442.6mn, up 113.8% yoy vs. the 2011 budgeted figure, but down 18.6% vs. the 2011 figure. FP targets revenues of RON 530mn, of which the majority would be dividend income (RON 510mn) and the remainder interest income (RON 20mm). On the expenses side, the biggest item would be the management fee to Franklin Templeton estimated at RON 35.7mn.

The budget is based on the following assumptions:

- FP would not acquire stakes in new companies, sell from its holdings or participate in rights issues in companies from its portfolio. This is not FP's strategy for 2012, but amounts from such operations could not be included in the budget as they cannot be forecasted.

- FP would distribute as dividends 100% of the distributable net profit calculated according to its dividend policy, i.e. dividend income and interest income less opex and taxes and after the allocation of 5% of pre-tax profit as legal reserve. Dividend distribution for the FY 2011 is to start in June 2012 as follows: 60% in June, 38% in July and the rest of 2% equally split in August-September. Based on the 2012 budgeted net profit figure, FP's dividend for FY 2012 could reach some RON 0.031. Using FP's current share price (on 28 February 2012), this would translate into a yield of 5.6% (2012E).

- Dividend income from portfolio companies is estimated to be cashed 45% in June, 10% in July, 10% in October, 25% in November and 10% in December; FP budgeted similar dividend income as the amounts effectively cashed during January-August 2011.
- Interest income was budgeted based on an average interest rate of 4.5%, to be applied to FP's placements in deposits.
- CNVM commission of 0.1% p.a. (ca. RON 16mn) and the depository fee were calculated based on the average official NAV for January-August 2011.
- The management fee for Franklin Templeton of 0.479% p.a. (RON 35.7mn) was calculated based on FP's average Mcap for January-August 2011, while the 2011 budgeted figure (RON 64.2mn) was based on the official NAV as at September 2010.
- FP also budgeted some RON 8.4mn as legal fees (for litigation), down from the RON 9.4mn budgeted figure for 2011 and RON 1.1mn as fees for audits, fiscal advisory services and portfolio valuation.
- FP has a budgeted capex figure of RON 0.68mn for the acquisition of a specialized IT program.
- The 2012 budget is to be amended in the upcoming ordinary shareholders meeting to be held on 4 April (first call) or 25 April (second call).

FP: 2012 BUDGET PROPOSAL

RON mn	2010	2011B	2011	% dev.	yoy (%)	2012B	yoy (%)
Dividends received	179.0	209.3	519.1	148.0	189.9	509.5	-1.8
Long term financial investments gains	0.0	n.a.	13.4	n.a.	n.a.	n.a.	n.a.
FX gain	47.7	n.a.	1.6	n.a.	-96.6	n.a.	n.a.
Interest income	131.5	90.0	41.1	-54.3	-68.7	20.1	-51.2
Provision income	217.4	n.a.	30.5	n.a.	-86.0	n.a.	n.a.
Other operating revenues	1.0	n.a.	12.2	n.a.	n.m.	n.a.	n.a.
Total revenues	**576.6**	**299.3**	**617.9**	**106.4**	**7.2**	**529.5**	**-14.3**
Long term financial investments loss	0.0	n.a.	-4.6	n.a.	n.a.	n.a.	n.a.
FX loss	-56.9	n.a.	-0.9	n.a.	-98.4	n.a.	n.a.
Interest expense	0.0	n.a.	0.0	n.a.	-93.9	n.a.	n.a.
Commissions (including banking)	-6.1	-15.0	-17.3	15.5	181.5	-18.1	4.7
Provision expense	-0.2	n.a.	-11.7	n.m.	n.m.	n.a.	n.a.
Personnel expenses	-4.1	-1.3	-0.8	-34.1	-79.1	-0.8	-10.2
Other operating expenses	-41.9	-76.1	-37.0	-51.4	-11.7	-67.1	81.3
Total operating expenses	-109.2	-92.3	-72.3	-21.7	-33.8	-67.8	-6.2
Operating profit	**467.4**	**207.0**	**545.6**	**163.6**	**16.7**	**461.7**	**-15.4**
Income tax	-11.2	0.0	-1.8	n.m.	-84.4	-19.1	n.m.
Net profit	**456.2**	**207.0**	**543.8**	**162.8**	**19.2**	**442.6**	**-18.6**
FT Management fee	-18.3	-64.2	-32.1	-50.0	75.4	-35.7	11.4
	2010A	**2011P***			**yoy (%)**	**2012E**	**yoy (%)**
Dividend (RON mn)	432.8	509.6			17.8	420.4	-17.5
Gross DPS (RON)	0.03141	0.038			21.0	0.031	-17.5
Payout (%)	94.9	93.7				95.0	
No. of shares (mn)	13,778	13,413			-2.7	13,413	0.0

*Proposed

Source: FP, UniCredit Research

Financials (IFRS)

FP: BALANCE SHEET

	Standalone						Consolidated				
RON mn	**2007**	**2008**	**2009**	**2010**	**2011**	**yoy (%)**	**2007**	**2008**	**2009**	**2010**	**yoy (%)**
Total assets, o/w	**14,145**	**10,761**	**12,269**	**12,533**	**11,760**	**-6.2**	**11,638**	**11,330**	**12,228**	**12,125**	**-0.8**
Cash	0.5	1	1	7	2	-73.5	0	1	1	7	385.9
Deposits	594	579	2,168	1,071	296	-72.3	594	579	2,168	1,071	-50.6
T-bills	0	398	0	248	196	-21.0	0	398	0	248	n.m.
Dividends receivable	4	0.5	0.02	4	52	n.m.	4	0.5	0	4	n.m.
Receivables in respect of equity contrib.	129	78	14	0	0	n.m.	129	78	14	0	n.m.
Equity investments, o/w	**13,416**	**9,005**	**9,542**	**10,862**	**10,732**	**-1.2**	**7,755**	**6,944**	**6,706**	**7,046**	**5.1**
at fair value	6,997	2,536	3,499	4,846	4,725	-2.5	1,159	475	663	1,030	55.4
at cost	6,419	6,469	6,042	6,015	6,007	-0.1	6,596	6,469	6,042	6,015	-0.5
Deferred tax assets	0	697	542	339	479	41.3	0	112	82	35	-56.8
Other assets	1	2	1	2	3	34.5	1	2	1	2	171.6
Investment in associate	0	0	0	0	0	n.m.	3,155	3,216	3,256	3,712	14.0
Shareholders' equity, o/w	**14,122**	**10,750**	**12,260**	**12,463**	**11,718**	**-6.0**	**11,607**	**11,319**	**12,219**	**12,056**	**-1.3**
Share capital	13,758	13,758	13,758	13,778	13,778	0.0	13,758	13,758	13,758	13,778	0.2
Fair value reserve on AFS assets	528	50	860	1,951	1,490	-23.6	572	50	209	478	128.6
Other reserves	38	149	199	223	1,240	456.6	38	149	199	223	11.7
Accumulated losses	-202	-3,207	-2,556	-3,489	-3,431	-1.7	-2,761	-2,638	-1,946	-2,423	24.5
Liabilities, o/w	**22**	**11**	**8**	**70**	**42**	**-39.2**	**31**	**11**	**8**	**70**	**n.m.**
Deferred tax	17	0	0	0	n.a.	n.m.	26	0	0	0	n.m.
Other liabilities	5	11	8	70	n.a.	n.m.	5	11	8	70	n.m.
Total liabilities and equity	**14,145**	**10,761**	**12,269**	**12,533**	**11,760**	**-6.2**	**11,638**	**11,330**	**12,228**	**12,125**	**-0.8**

Source: FP, UniCredit Research

FP:PROFIT & LOSS ACCOUNT

	Standalone						Consolidated				
RON mn	**2007**	**2008**	**2009**	**2010**	**2011**	**yoy (%)**	**2007**	**2008**	**2009**	**2010**	**yoy (%)**
Net investment income/(loss) , o/w	**24.1**	**-3,3559**	**830.2**	**274.2**	**573.4**	**109.1**	**179.2**	**259.1**	**997.8**	**714.6**	**-28.4**
Gross dividend income	227.6	422.8	120.1	181.2	522.4	188.2	227.6	205.3	120.1	181.2	51.0
Interest income	28.0	84.5	142.5	131.5	41.1	-68.7	28.0	84.5	142.5	131.5	-7.7
Impairment losses on equity investments	-243.5	-3,892	-1.5	-29.3	-51.7	76.4	-243.5	-239.7	-1.5	-29.3	n.m.
Impairment losses on dividends receivable	-38.4	9.4	0.0	0.0	28.3	n.m.	-38.4	9.4	0.0	0.0	n.m.
Gains/(losses) on disposal of equity inv.	32.4	0.0	554.4	0.0	8.8	n.m.	32.4	0.0	554.4	0.0	n.m.
Net FX gains	18.0	19.5	14.7	-9.2	0.7	n.m.	18.0	19.5	14.7	-9.2	n.m.
Share of profit in associates (net of income tax)	0.0	0.0	0.0	0.0	23.7*	n.m.	155.0	180.1	167.6	440.3	n.m.
Operating expenses, o/w	-5.5	-18.3	-22.8	-50.5	-54.9	8.6	-5.5	-18.3	-22.8	-50.5	121.3
Personnel expenses	-2.4	-6.6	-13.5	-4.1	-0.6	-84.2	-2.4	-6.6	-13.5	-4.1	-69.9
Other opex	-3.2	-11.7	-9.3	-46.5	-54.2	16.7	-3.2	-11.7	-9.3	-46.5	398.2
Profit/(loss) before tax	**18.6**	**-3,374**	**807.4**	**223.7**	**518.5**	**131.8**	**173.6**	**240.7**	**975.0**	**664.0**	**-31.9**
Income tax (expense)/credit	3.1	569.7	-106.3	-8.7	-0.5	-94.6	3.1	-14.7	-106.3	-8.7	-91.8
Net profit/(loss)	**21.7**	**-2,805**	**701.1**	**215.0**	**518.1**	**140.9**	**176.8**	**226.0**	**868.6**	**655.4**	**-24.6**
Net change in fair value of AFS investments	-240.0	-569.1	963.8	1,299.5	-846.3	n.m.	n.a.	-621.9	189.2	319.9	69.1
Income tax on other comprehensive income	38.4	91.1	-154.2	-207.9	135.4	n.m.	n.a.	99.5	-30.3	-51.2	69.1
Net other comprehensive income	-201.6	-478.0	809.6	1,091.6	-710.9	n.m.	n.a.	-522.4	158.9	268.7	69.1
Total comprehensive income/(loss)	**-179.9**	**-3,283**	**1,510.6**	**1,306.6**	**-192.8**	**n.m.**	**n.a.**	**-296.4**	**1,027.5**	**924.1**	**-10.1**

*Other income+reversal of impairment losses on disposed equity investments-impairments on receivables as equity contributions

Source: FP, UniCredit Research

FP: GROSS DIVIDEND INCOME (MAIN SOURCES)

RON mn	2007	2008	2009	2010	% total	2011	% total	2011E	% total	yoy (%)
Petrom	100.2	217.6	0	0	0.0	201.5	38.6	201.5	39.5	n.m.
Romgaz	35.2	38.7	40.9	87.8	48.4	106.0	20.3	106.0	20.8	20.7
Hidroelectrica	0	0	0	6.5	3.6	52.5	10.0	52.5	10.3	n.m.
Transgaz	18.2	17	18.5	23	12.7	50.8	9.7	50.8	10	120.9
Enel Distributie Banat	0	29.5	0	0	0.0	20.2	3.9	20.2	4	n.m.
Alro Slatina	27.6	43	18.9	0	0.0	13.5	2.6	13.5	2.6	n.m.
Primcom	0	1.2	1.5	1.7	0.9	14.3	2.7	n.a.	n.a.	n.m.
Enel Distributie Dobrogea	0	13.2	0	0	0.0	13.5	2.6	13.5	2.6	n.m.
CNAB	6.4	8.4	10.1	5.9	3.3	9.9	1.9	9.9	1.9	67.8
Conpet	1.3	2.3	7.1	3.8	2.1	7.0	1.3	n.a.	n.a.	84.2
Raiffeisen International	n.m.	n.m.	n.m.	n.m.	n.m.	4.7	0.9	n.a.	n.a.	n.m.
Erste Bank	n.m.	n.m.	n.m.	n.m.	n.m.	3.5	0.7	3.3	0.6	n.m.
BRD Groupe SG	n.m.	n.m.	n.m.	n.m.	n.m.	2.1	0.4	2.1	0.4	n.m.
Traian Vuia Timisoara Airport	0	0	0	0.4	0.2	1.5	0.3	n.a.	n.a.	275.0
Transelectrica	14.5	3.6	3	0.5	0.3	1.1	0.2	1.2	0.2	120.0
EON Gaz Romania	0	0	0	24.7	13.6	0	0.0	0	0	n.m.
EON Gaz Distributie	0	0	0	11.4	6.3	0	0.0	0	0	n.m.
GDF Suez Energy Romania	7.7	22.8	14.5	0	0.0	9.6	1.8	0	0	n.m.
Turceni Power Plant	3	8.2	2.3	2.3	1.3	0	0.0	0	0	n.m.
Rovinari Power Plant	0.2	9.1	0	0.7	0.4	0	0.0	0	0	n.m.
Craiova PP	0	0	0	0.1	0.1	0	0.0	0	0	n.m.
Imprimeria Nationala	7.1	0	0	0	0.0	0	0.0	0	0	n.m.
Posta Romana	4.4	0	0	0	0.0	0	0.0	0	0	n.m.
Other	0	8.4	3.2	12.4	6.9	21.0	4.0	35	6.9	69.0
Total gross dividend income	**227.6**	**422.8**	**120.1**	**181.2**	**100.0**	**522.4**	**100.0**	**509.5**	**100**	**188.2**

Source: FP, UniCredit Research

FP: EQUITY INVESTMENTS

RON mn	2007	2008	2009	2010	1Q11	2Q11	3Q11	qoq (%)	YTD (%)
Total, o/w	**13,416.2**	**9,005.5**	**9,542.0**	**10,861.6**	**12,398.1**	**11,939.9**	**10,680.4**	**-10.5**	**-1.7**
At fair value, o/w	***6,997.4***	***2,536.4***	***3,499.5***	***4,846.3***	***6,382.9***	***5,933.2***	***4,673.8***	***-21.2***	***-3.6***
Petrom	5,661.4	2,061.8	2,836.4	3,816.0	4,875.4	4,351.4	3,223.7	-25.9	-15.5
Transgaz	177.4	215.3	277.0	494.1	478.0	406.0	342.3	-15.7	-30.7
Alro	609.4	89.3	175.0	211.9	270.6	269.9	271.8	0.7	28.3
Transelectrica	395.8	108.8	133.6	191.5	195.8	217.7	170.2	-21.8	-11.1
BRD Groupe SG	0.0	0.0	0.0	48.5	175.6	218.6	276.4	26.5	470.2
Erste Bank	0.0	0.0	0.0	0.0	143.2	187.9	103.5	-44.9	n.m.
Raiffeisen International	0.0	0.0	0.0	0.0	137.9	163.3	104.7	-35.9	n.m.
Other	153.4	61.2	77.4	84.4	106.4	118.4	181.3	53.1	114.8
At cost, o/w	**6,418.8**	**6,469.1**	**6,042.5**	**6,015.2**	**6,015.2**	**6,006.7**	**6,006.6**	**0.0**	**-0.1**
Hidroelectrica	2,760.6	2,761.2	2,761.2	2,762.6	2,762.6	2,762.6	2,762.6	0.0	0.0
Nuclearelectrica	581.8	581.8	581.8	581.8	581.8	581.8	581.8	0.0	0.0
Romgaz	416.3	416.3	416.3	416.3	416.3	416.3	416.3	0.0	0.0
Turceni PP	282.3	282.3	282.3	282.3	282.3	282.3	282.3	0.0	0.0
Craiova PP	250.2	250.2	250.2	250.2	250.2	250.2	250.2	0.0	0.0
Electrica Distributie Muntenia Nord	153.2	165.2	165.2	165.2	165.2	165.2	165.2	0.0	0.0
Rovinari PP	137.6	137.6	137.6	137.6	137.6	137.6	137.6	0.0	0.0
E.ON Moldova Distributie	131.1	131.1	131.1	131.1	131.1	131.1	131.1	0.0	0.0
CNAB	125.0	125.0	125.0	131.2	131.2	131.2	131.2	0.0	0.0
Enel Distributie Muntenia	96.1	90.2	90.2	107.3	107.3	107.3	107.3	0.0	0.0
Posta Romana	84.4	84.4	84.4	84.7	84.7	84.7	84.7	0.0	0.0
Other	986.2	1,443.8	1,017.2	965.0	965.0	956.4	956.3	0.0	-0.9

Source: FP, UniCredit Research

Company profiles

Romgaz

A constant performer

Romgaz remains the largest Romanian player in the exploration, production, underground storage and import of natural gas segments. The company estimated its 2011 output at 5.65bn m3 (vs. 5.77bn m3 in 2010) and, in January-November 2011, it had a 50% share of total natgas sold in Romania (including imports). It is one of the most solid Romanian state-owned companies from the energy sector, having low indebtedness and stable profitability/performance. In 2011, it was the second largest contributor to FP's dividend income, after Petrom. As opposed to other unlisted holdings in FP's portfolio, it enjoys a major trigger, namely the liberalization of the natgas end-user prices. It is also the most advanced on the IPO list.

- **The main driver remains liberalization of natgas prices.** The government has again moved the deadline for presenting a liberalization schedule, from January to April 2012, when it intends to discuss with the IMF, ANRE and sector players the deadlines for full liberalization of the natgas prices, which previously were 2013 for industrial end-users and 2015 for households.
- **Upcoming 15% IPO**. The government has selected the deal intermediary with a stated goal to conclude the deal in 2H12. We however anticipate delays in this schedule, particularly as this is an election year.
- **Romgaz operates mature natgas fields**, and faces a natural production decline. Thus, the bulk of its capex is channeled toward the discovery of gas reserves. Romgaz spends on average EUR 200mn annually on capex, of which 30%-40% goes to exploration and 25%-30% to exploitation works.
- **A very good 2011**. According to statements made by Romgaz's CEO at a conference, 2011 net profit advanced by 17% yoy to RON 762mn (17.3% ahead of budget). Given the increased payout ratio (i.e. 85%) for 2011 profits of state-owned companies, Romgaz would again be an important contributor to FP's dividend income this year.

	2008	2009	2010	2011B*
Sales (RON mn)	3,280.2	3,193.5	3,574.2	3,600.2
EBITDA (RON mn)	1,061.9	1,292.0	1,497.8	1,423.9
EBIT (RON mn)	719.2	716.9	905.6	821.8
Net income (RON mn)	537.3	572.5	651.2	649.6
EPS (RON)	14.0	14.9	17.0	17.0
ROCE (%)	7.5	6.6	8.9	n.a.
ROE (%)	7.1	6.9	8.0	n.a.
ROA (%)	6.5	6.3	7.3	n.a.
Net debt/Equity (%)	-23.8	-13.8	-12.3	n.a.
Net debt/EBITDA (%)	-1.7	-0.9	-0.7	n.a.
Equity ratio (%)	91.8	91.7	91.0	n.a.
EBITDA margin (%)	32.4	40.5	41.9	39.6
EBIT margin (%)	21.9	22.4	25.3	22.8
Net margin (%)	16.4	17.9	18.2	18.0

*Budget

Source: Romgaz, UniCredit Research

Not Rated

INVESTMENT HIGHLIGHTS

Largest domestic natgas producer
Owner of mostly mature fields
Ranked second on the natgas import market in 2010

TRIGGERS

15% IPO
Liberalization of natgas prices
Successful exploration activities

STOCK DATA	
No. of shares (mn)	38.3
Shareholders	Ministry of the Economy 85.01%, Fondul Proprietatea 14.99%

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This company is not part of UniCredit Research's coverage and, therefore, no investment advice is included.

Business overview – Romgaz

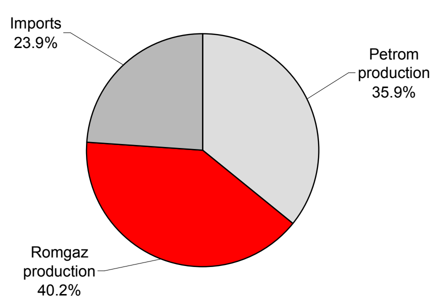
Romgaz covers over 50% of the domestic natgas production

Romgaz's main focus is on the exploration and production, but is also the main player on the natgas underground storage market. The most important natgas producer in Romania, Romgaz had 50.3% share of the domestically-produced natgas market in January-November 2011 (vs. 51.3% in 2010), followed by Petrom with 46.9%. In 2010, it produced 5.77bn m3, 53.4% of total domestic production. For FY 2011, Romgaz has estimated output of 5.65bn m3 (2.2% less than in 2010). In 2010, it had a market share of some 27% of total imported natgas (followed by Petrom with 24.3%). In 2010, Romgaz was the second largest supplier on the unregulated market, with a 22.7% market share, after Petrom Gas, and followed by Interagro.

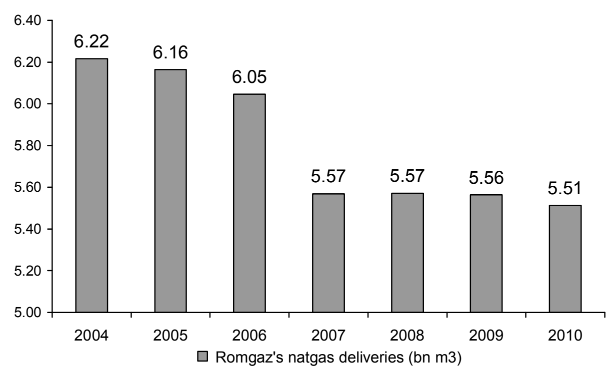
In 2010, natgas domestic production in Romania reached 11.3bn m3, down 5% yoy, while consumption was 13.2bn m3 (of which 80% was non-household consumers), down 15% yoy. ANRE (the regulator) expects production to further drop by 2%-5% p.a. on depleting gas fields.

ROMGAZ: THE EVOLUTION OF NATGAS DOMESTIC PRODUCTION AND IMPORTS

Romgaz accounted for 40% of total natgas consumption in 2010



Romgaz had relatively constant natgas deliveries over the last 5Y



Source: ANRE, UniCredit Research

Romgaz has several partnerships but they make very low contributions to the operating result

Romgaz has signed partnerships agreements for exploration activities, both locally and abroad. Romgaz has formed partnerships with Aurelian Oil & Gas in Slovakia (25% stake) for three gas fields and in Poland (30% stake) for another two. In Romania, it has joint-exploration agreements with Amromco Energy, Aurelian Oil & Gas and Europa Oil & Gas, and with Falcon, Europa Oil & Gas and Millennium International Resources for three perimeters. A partnership agreement has been signed with Schlumberger for one field. It also had a 50%/50% joint-operation agreement for two perimeters (Sighisoara and Transilvania Sud) with Wintershall, but the agreement was terminated in February 2011. The most profitable to date has proven to be the company's association with Amromco. The partnerships contributed a combined 1.4% to the operating profit in 2010 (vs. 2.5% in 2009).

Romgaz had a 27% market share on the imported natgas market in 2010. According to the National Institute for Statistics, Romania's total imports accounted for 17.2% of domestic consumption in 2010 vs. 14.8% in 2009. There are four main players that import gas from Russia: GDF Suez Energy Romania (24.3% of imported natgas in 2010), WIEE Romania (18.5%), E.ON Energie Romania (17.8%) and Romgaz (27%). The realized price for imported gas in 2010 was RON 1,094/'000 m3, vs. RON 417/'000 m3 for its domestic production.

Romgaz is the leader of the Romanian natgas storage market

Romgaz has 2.76bn m3 gas storage capacity (3.84bn m3 including the gas cushion). In 2010, Romgaz stored 1.9bn m3 of natgas (vs. 1.8bn m3 in 2009). A review of its results from 2009-2010 indicates that storage is not a lucrative business for Romgaz. According to the company, ANRE has not updated the storage tariff since 2008, resulting in losses to Romgaz. Furthermore, there is one downside to the historical performance, and that is the increase in royalties starting in January 2012 (by 67% from 3% to 5%).

NET SALES BREAKDOWN BY BUSINESS LINE

RON mn	2009	% of total	2010	% of total	yoy (%)
Net sales	3,193.5	100.0	3,574.2	100.0	11.9
Gas extraction	2,386.5	74.7	2,342.4	65.5	-1.8
Storage	246.9	7.7	292.1	8.2	18.3
Import	445.2	13.9	798.7	22.3	79.4
Partnerships	74.0	2.3	84.3	2.4	14.0
Others	40.9	1.3	56.7	1.6	38.8

Source: Romgaz, UniCredit Research

Romgaz's main clients for natgas sales are from the chemical and power industries, with Interagro and Azomures accounting for 35% of total natgas deliveries in 2010, while three state-owned gas-fired gencos – Electrocentrale Bucharest, Galati and Deva – accounted for 12.4%. The **main clients for storage** are Petrom, E.ON Gaz Romania, GDF Suez Energy Romania and WIEE Romania, accounting for 50%-60% of total stored volumes.

One unresolved issue is the high level of receivables. Many of the clients with overdue payments are state-owned gas-fired gencos. Each year, Romgaz signs payment reschedule agreements with a number of its customers (6 in 2010), even those as large as Interagro and various Electrocentrale entities (state-owned gas-fired gencos).

A corruption scandal resulted, among others, in top management changes

A corruption scandal erupted recently. In January 2012, the Romanian anti-corruption agency (DIICOT) launched a widespread investigation into the price paid by Interagro, a group of fertilizer producers controlled by a Romanian entrepreneur, said to have had received preferential terms with the alleged assistance of some 40 personnel, including a number from Romgaz, the Ministry of the Economy and ANRE. Interagro had access to natgas only from domestic production, at low prices. The prejudice to Romgaz and the state budget is estimated by DIICOT at USD 126mn. The scandal resulted in the temporary suspension of Romgaz's CEO, at his request. Dumitru Chisalita, previously Commercial Director, was promoted to interim CEO in mid-January 2012; however, on 23 February 2012, he accepted an appointment to advise the Minister of the Economy on the oil & gas sector. A new interim CEO will be appointed until the company's new management team is selected in accordance with the new legal provisions for corporate governance.

Romania's natgas market is fully liberalized; however, actual degree of market opening was 57% as at November 2011

Romgaz has increased its sales to the unregulated market. The natgas market has been fully liberalized since 1 July 2007. However, the actual degree of market opening was 56.7% as at November 2011. Romgaz increased its sales to the eligible customers (free market) from some 60% in 2005-2007 to approximately 70% in 2008-2010. Of the natgas delivered to eligible customers in 2010, 32% was sold to Interagro.

Prices liberalization is the most important trigger for Romgaz

Prices are still regulated for domestic producers; any progress towards liberalization would be a major positive. For the natgas delivered to captive end-users, ANRE sets the price on the basis of a basket of import and domestic gas, updated quarterly. In 2011, the wellhead price for domestic natgas producers remained RON 495/'000 m3 (unchanged since 1Q08), some 68% lower than that of imported gas (USD 483 in November 2011 or RON 1,551/'000 m3 according to ANRE). In its agreement with the IMF, the Romanian government undertook the obligation of delivering a schedule for liberalization of prices to end-users by end-January 2012 (postponed from September-November 2011). The target was to liberalize the prices for industrial end-users by 2013 and for households by 2015.

Given the wide gap, the timing target appeared to us to be unrealistic. Recent official rhetoric indicates the intention to negotiate with the IMF for an extension of the deadlines, to 2015-2017 for industrial users and 2020 for households. Nevertheless, this process remains the major trigger for Romgaz's profitability.

Capex is focused on discovery of reserves. In 2010, the company planned to spend RON 1.2bn (some EUR 285mn, vs. EUR 200mn in 2009), mainly for the discovery of reserves (the company planned to drill some 40 wells, of which 28 were actually completed). Actual capex in 2010 amounted to RON 810mn, of which 40% went to exploration works, 27% to exploitations, and 14% to underground storage. In 2011, the company planned to spend RON 900mn on capex. In 1H11, it spent RON 341.1mn, 89.4% of the planned amount. Main investments were the drilling of 12 wells and commissioning of two gas drying stations.

Romgaz may enter the electricity production market. According to a government decision, Romgaz could take over the Iernut thermo power plant in exchange of the debt that the plant and its parent company, Termoelectrica, owe Romgaz. The plant has been valued at EUR 230mn, has an installed capacity of 1,000 MW and uses natgas.

FP has filed lawsuits attacking the November 2010 GSM approval of the RON 400mn "donation" to the state budget (FP voted against granting the gift), but it has thus far not been successful in this effort. FP's appeal was rejected by the Court of Appeals in June 2011. FP filed an extraordinary appeal, but this appeal was rejected on 7 December 2011. FP has since filed an appeal to this rejection. It also initiated individual actions against Romgaz's Board Members.

Romgaz is the most profitable company in FP's portfolio of state-owned companies

Romgaz has a constant financial performance. Romgaz closed 2010 with a net profit of RON 651mn (13.8% higher yoy) and a net margin of 18.2% (slightly improved from 17.9% in 2009), which compares to 29% at Gazprom and 35% at Novatek in 2010. Operating profit advanced 26.3% yoy. Approximately 86% of its operating result was generated by the natgas extraction business, followed by import with 8%. The storage business registered a small gain, but only due to the sale of gas from the natgas cushion (the inactive natgas stock). Otherwise, mainly because the storage tariffs had not been adjusted for two years (2009-2010), this business is loss making, according to Romgaz.

OPERATING RESULT BY MAIN BUSINESS LINES

RON mn	2009	% of total	2010	% of total	yoy (%)
Operating profit	**716.9**	**100.0**	**905.6**	**100.0**	**26.3**
Gas extraction	564.9	78.8	775.1	85.6	37.2
Storage	-34.7	-4.8	12.0	1.3	-134.7
Import	93.3	13.0	76.5	8.4	-18.0
Partnerships	18.2	2.5	12.4	1.4	-31.7
Others	75.2	10.5	29.5	3.3	-60.8

Source: Romgaz, UniCredit Research

Net profit advanced yoy in 2011, mainly on higher natgas volumes sold

The 2011 preliminary results paint this as a very good year for Romgaz. According to statements made at a conference by Romgaz's CEO, 2011 net profit grew by 17% yoy to RON 762mn (and was 17.3% ahead of the budgeted net profit of RON 649.6mn) and net sales increased by more than 13% to RON 4.05bn, on higher volumes of natgas sold. Given that the state maintained an increased payout ratio (i.e. 85%) for 2011 profits of state-owned companies, Romgaz would again be an important contributor to FP's dividend income this year. In **1H11**, net sales exceeded those achieved in 1H10 by 6.9% primarily on the higher share of sales of imported natgas. Net earnings advanced mainly on cost savings, to RON 488mn from RON 226mn in 1H10 (+116%). However, the overdue receivables jumped by 363% to RON 477mn as some customers did not comply with the terms of their payment rescheduling agreements.

The heavy snowfall and extreme cold in January-February 2012 resulted in increased natgas consumption but also some interruptions in supply

Prospects for 2012. The beginning of 2012 was marked by harsh winter conditions, which resulted in higher imports and sales for Romgaz, but probably some interruption in activity as well. According to local media, Romgaz had to supplement its daily imports by as much as 40% in February. Consequently, we expect an exceptionally strong 1Q12, but doubt this will continue throughout 2012 given the expected very low GDP growth rate and possible decrease in deliveries to some of the fertilizer companies (Interagro). With respect to tariff increases for domestic producers, we remain conservative given the electoral year and recent rhetoric on delaying the liberalization of end-user prices.

Financials – Romgaz

ROMGAZ: PROFIT & LOSS ACCOUNT

RON mn	2007	2008	2009	yoy (%)	2010	yoy%	2011B*	yoy (%)
Total operating revenues	**3,577.0**	**3,695.7**	**3,561.9**	**-3.6**	**4,123.5**	**15.8**	**3,856.1**	**-6.5**
Net sales	**3,271.7**	**3,280.2**	**3,193.5**	**-2.6**	**3,574.2**	**11.9**	**3,600.2**	**0.7**
Other operating income	50.1	116.7	207.4	77.7	242.3	16.8	152.1	-37.2
Change in inventories, capitalized costs	255.2	298.7	161.0	-46.1	307.0	90.7	103.9	-66.2
Material costs	-862.3	-648.7	-640.7	-1.2	-1,064.2	66.1	-1,114.9	4.8
Personnel costs	-341.4	-407.0	-459.8	13.0	-478.2	4.0	-500.2	4.6
Other operating costs	-1,311.9	-1,578.0	-1,169.4	-25.9	-1,083.3	-7.4	-817.2	-24.6
EBITDA	**1,061.4**	**1,061.9**	**1,292.0**	**21.7**	**1,497.8**	**15.9**	**1,423.9**	**-4.9**
Depreciation & amortization	-301.3	-342.7	-575.1	67.8	-592.2	3.0	-602.1	1.7
EBIT	**760.1**	**719.2**	**716.9**	**-0.3**	**905.6**	**26.3**	**821.8**	**-9.2**
Net interest	76.4	201.4	197.2	-2.1	92.6	-53.0	93.1	0.5
Financial result	27.6	134.3	114.1	-15.1	-13.2	n.m.	0.4	n.m.
Pretax profit	**787.7**	**853.4**	**830.9**	**-2.6**	**892.2**	**7.4**	**822.3**	**-7.8**
Taxes	-278.2	-316.1	-258.5	-18.2	-241.0	-6.8	-172.7	-28.3
Net profit	**509.6**	**537.3**	**572.5**	**6.5**	**651.2**	**13.8**	**649.6**	**-0.2**

*Budget

Source: Romgaz, UniCredit Research

ROMGAZ: BALANCE SHEET

RON mn	2008	yoy (%)	2009	yoy (%)	2010	yoy%
Non-current assets	**5,178.0**	**62.0**	**5,515.9**	**6.5**	**5,432.0**	**-1.5**
Current assets	**3,081.5**	**27.8**	**3,544.6**	**15.0**	**3,512.9**	**-0.9**
Cash and equivalents	1,829.8	12.7	1,162.7	-36.5	1,010.9	-13.1
Inventories	524.7	80.1	1,076.2	105.1	1,094.7	1.7
Receivables	723.5	46.2	1,300.1	79.7	1,402.5	7.9
Shareholders' equity	**7,584.6**	**49.6**	**8,308.5**	**9.5**	**8,138.8**	**-2.0**
Non-current liabilities	**273.3**	**30.5**	**297.0**	**8.7**	**324.5**	**9.3**
Interest-bearing borrowings	17.0	-11.1	12.0	-29.6	0.0	n.m.
Provisions	252.1	35.7	280.5	11.3	320.4	14.2
Current liabilities	**401.6**	**22.7**	**455.0**	**13.3**	**481.6**	**5.9**
Interest bearing borrowings	5.3	23.3	5.9	10.1	13.2	125.9
Trade and other payables	164.0	50.1	234.9	43.2	286.1	21.8
Other current liabilities	232.2	8.6	214.2	-7.8	182.3	-14.9
Total liabilities and equity	**8,259.4**	**47.3**	**9,060.5**	**9.7**	**8,945.0**	**-1.3**
Net debt/(cash)	-1,807.5	12.9	-1,144.9	-36.7	-997.7	-12.9

Source: Romgaz, UniCredit Research

ROMGAZ: MAIN RATIOS

	2007	2008	2009	2010
Inventory days	33	58	123	112
Receivable days	55	81	149	143
Creditor days	18	27	45	50
Current ratio (x)	7.4	7.7	7.8	7.3
Quick ratio (x)	6.5	6.4	5.4	5.0
Material costs as % of total opex	30.6	21.8	22.5	33.1
Personnel costs as % of total opex	12.1	13.7	16.2	14.9
D&A as % of total opex	10.7	11.5	41.1	33.7
Other opex as % of total opex	46.6	53.0	20.2	18.4

Source: Romgaz, UniCredit Research

Hidroelectrica

Far from its potential

After an exceptionally good 2010 when it generated 19.7 TWh, Hidroelectrica was badly hit by the severe drought conditions in 2011 and production dropped to one of the lowest levels in the past 10 years (at 14.7 TWh). The company still benefits from a force majeure clause that allows it to deliver less than required by contractual obligations. Even with such protection, it has closed 2011 with extremely poor earnings. An IPO could potentially improve corporate governance and offer an alternative for capex financing, given Hidroelectrica's relatively high level of indebtedness and its low profitability.

- **Extremely poor 2011 results**: While the company drafted a conservative budget for 2011, the actual figures are even lower at the net earnings level given the protracted drought conditions suffered in 2H11. The current CEO announced in a conference that the net profit plummeted to RON 15.7mn (down 95% yoy).
- **Force majeure:** Hidroelectrica received protection from major losses resulting from the drought by invoking a force majeure waiver, still in place in 1Q12. According to its contracts, Hidroelectrica should have delivered 17.4 TWh in 2011, while the actual production was 14.7 TWh.
- **IPO preparations**. The intention is to sell a stake accounting for 10% of the current share capital on the BSE. The shares would result from a 12.49% rights issue, of which 2.49% would be offered to FP. Given the busy IPOs and SPOs pipeline and the elections in November, we doubt that Hidroelectrica's IPO will take place in 2012.
- **For 2012, prospects are still not encouraging**. The company's management estimates that production will stay at 50%-60% of normal levels in 1Q12 and the force majeure protection will be maintained. Guidance for pre-tax profit amounts to RON 80mn-100mn, assuming price increases in most of the company's contracts.

	2007	2008	2009	2010	2011B
Sales (RON mn)	2,060.7	2,443.5	2,420.8	3,273.7	2,906.8
EBITDA (RON mn)	817.4	849.8	816.8	1,377.0	945.0
EBIT (RON mn)	142.7	206.6	162.0	502.8	85.0
Net income (RON mn)	52.6	65.1	48.4	292.4	71.0
EPS (RON)	0.12	0.15	0.11	0.13	0.16
ROCE (%)	0.76	1.13	0.66	2.01	n.a.
ROE (%)	0.4	0.5	0.3	1.7	n.a.
ROA (%)	0.3	0.3	0.2	1.5	n.a.
Equity ratio (%)	71.3	69.9	72.0	83.5	n.a.
Net debt to equity (%)	6.4	6.4	8.8	10.7	n.a.
Net debt to EBITDA (x)	1.1	1.0	1.8	1.3	n.a.
EBITDA margin (%)	39.7	34.8	33.7	42.1	35.9
EBIT margin (%)	6.9	8.5	6.7	15.4	6.1
Net margin (%)	2.6	2.7	2.0	8.9	2.5

Source: Hidroelectrica, UniCredit Research

Not Rated

INVESTMENT HIGHLIGHTS
Largest Romanian power generator by installed capacity (6,075 MW)
Accounts around 30% of total power generation
Low capacity utilization

TRIGGERS
Capacity & capacity utilization increase
Power prices
Progress in Tarnita Lapustesti project

STOCK DATA	
No. of shares in issue (mn)	445.0
Shareholders	Ministry of the Economy 80.06%, Property Fund 19.94%

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This company is not part of UniCredit Research's coverage and, therefore, no investment advice is included.

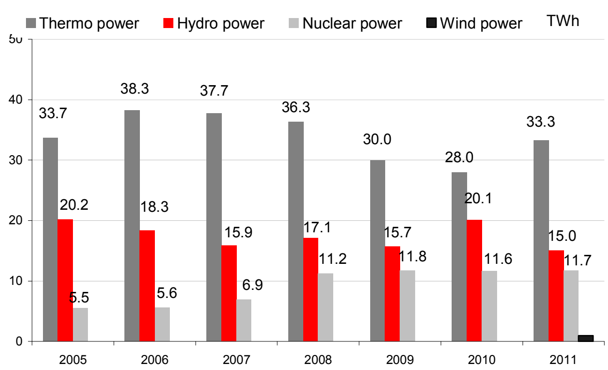
Business overview – Hidroelectrica

Hidroelectrica produced some 24% of the country's total electricity in 2011, down from 34% in 2010, due to extreme drought conditions

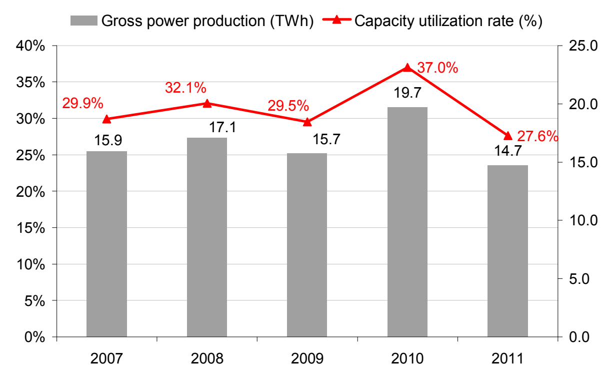
After registering an excellent 2010, Hidroelectrica faced a rather tough 2011 due to adverse weather. In **2010**, Hidroelectrica produced 19.7 TWh, up about 30% yoy, constituting 34% of total electricity generated domestically. It was an exceptionally good year (exceeded only by 2005), unfortunately followed by a 2011 with severe drought conditions. In September 2011, Hidroelectrica had to request activation of a force majeure clause to be allowed to reduce deliveries to its customers, to not be forced to purchase electricity from the spot market and to register major losses. In **2011**, the company's output reached 14.7 TWh, one of the lowest of the previous 10 years. For 2012, we see some growth in production coming not from increasing domestic demand (low GDP growth), but resulting from the very low base effect brought about by drought.

HIDROELECTRICA: HYDRO PRODUCTION ACCOUNTED FOR 30% OF DOMESTIC ENERGY PRODUCTION IN 1H11

Domestic hydro production was 9.4 TWh in 1H11, 3% down yoy, but the severe contraction was witnessed in 2H11



The capacity utilization rate improved in 2010, but dropped again in 2011

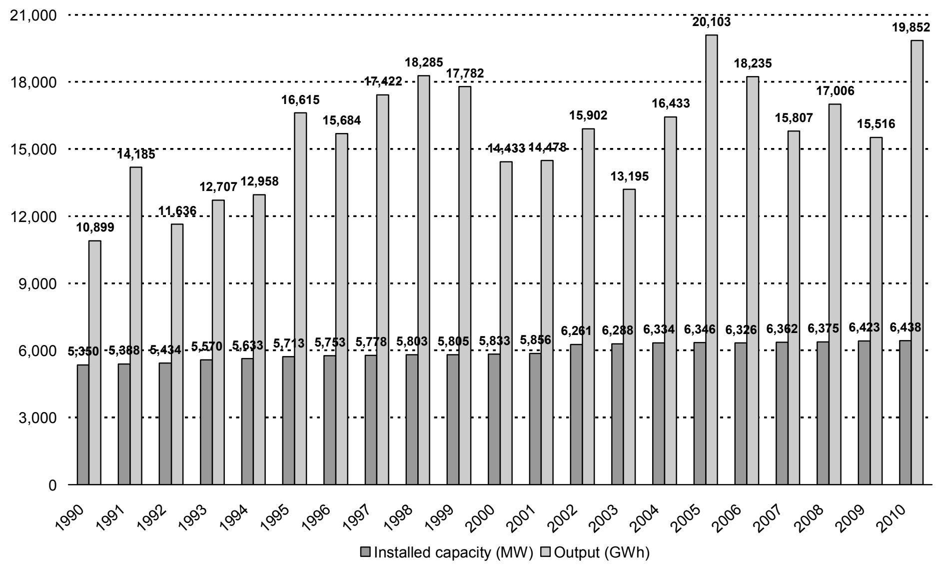


Source: Hidroelectrica, INSSE, UniCredit Research

Hidroelectrica is the main supplier of system services on the Romanian market, covering more than 70% of the secondary reserve and more than 80% of the fast tertiary reserve. This is a well remunerated business and the capacities allocated for this purpose have much lower number of hours of functioning than the others, impacting Hidroelectrica's capacity utilization rate. System services accounted for 10% of net sales in 2010, almost the same amount as sales to the regulated market.

Is capacity utilization likely to increase? Hidroelectrica's current capacity utilization rate is rather low (it increased to 37% in 2010, but dropped again towards 28% in 2011) and is well below that of its peers (40%-55% at Verbund and Fortum). In 2010, Hidroelectrica had **installed capacity** of 6,438 MW, of which **available** 6,074.7 MW. However, of this, 1,212.3 MW were temporarily unavailable for reasons such as: technical causes, hydrological causes, planned repair works (69% of total unavailable capacity) and unplanned repair works. This accounts for some 19% of total installed capacity. Another relevant aspect is the structure of Hidroelectrica's capacity. The power plants located on basins are generally used for provision of system services and are operated less than those located on the flow of the river. For example, in 2010, 1,474 MW installed capacity was used for secondary control service. This means that Hidroelectrica's capacity utilization is likely to remain lower than the industry average.

HISTORICAL EVOLUTION OF OUTPUT AND CAPACITY



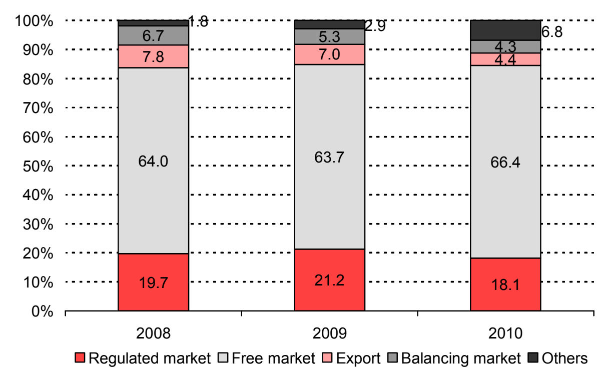
NB: gross output, including Hidroelectrica's own consumption

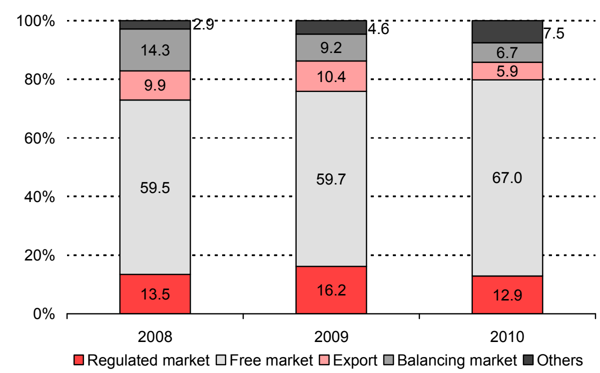
Source: Hidroelectrica, UniCredit Research

Hidroelectrica sells less than other producers on the regulated market

Most of the power generated is sold on the free market. In 2010, Hidroelectrica sold 18% of its production on the regulated market, and 66.4% on the free market. However, due to low regulated prices, sales to the regulated market accounted for only 13% of its electricity sales in value terms. System services contributed 10% to the company's total sales.

ELECTRICITY SALES BREAKDOWN BY VOLUME AND BY VALUE





Source: Hidroelectrica, UniCredit Research

Volumes and prices for regulated market are determined by ANRE. Hidroelectrica's previous CEO, Mr. Constantin Trihenea, stated that the company sells to the regulated market at prices that are below the cost of production and would need to request a 50% increase in prices. We doubt such an increase would be possible in a normal year, even less in an electoral year of difficult economic conditions. As for volumes, it is ANRE's decision as to how much each genco sells on the regulated market, and both volumes and prices are typically communicated in December for the following year. In Hidroelectrica's case, it cannot exceed 50% of annual production.

Hidroelectrica pushed for price renegotiation on the free market. In December 2011, Hidroelectrica notified its business partners in bilateral contracts that it would like to terminate all existing contracts. Only three contracts were terminated; for the others, the company initiated negotiations, aiming to obtain price increases, volume cuts and contract duration cuts. According to media sources, these negotiations resulted in price increases up to RON 155-164/MWh, from an average of RON 130/MWh in 2011, although some business partners accepted only a very small hike. Some clients also agreed to a reduction in quantities, by 10%-20%.

Drought cut volumes in half and required invoking of force majeure. In September 2011, Hidroelectrica obtained all the permits necessary to invoke force majeure in its relationships with 41 clients with which it has bilateral contracts. The force majeure clause allows it to deliver less than the contractual volumes and to avoid being forced to purchase from the spot market. While at the time, the company estimated that the force majeure would remain in effect until end-2011, recent statements indicate it will most likely be in place in 1Q12.

Official deadline for Hidroelectrica IPO is October 2012

IPO preparation has started but is still in its infancy. The Ministry of the Economy approved in January 2012 the Government Decision providing for Hidroelectrica's privatization through a 10% IPO. The shares offered will derive from a capital increase in which the State will not participate. There will be a rights issue of 12.49%, of which 2.49% will be offered to Fondul Proprietatea to protect it against dilution. The deadline for the submission of bids for deal intermediation is 1 March. Given the already busy SPO/IPO pipeline for 2012 and the November parliamentary elections, we doubt the IPO will take place this year. FP representatives said that their correspondence with the Romanian SEC indicates that the company will be allowed to subscribe the rights issue, but cannot participate in the IPO, given that its stake in Hidroelectrica exceeds 10% of its NAV. However, it is not yet clear if FP would need to sell the excess over 10% within 120 days from the stock listing.

Hidroelectrica has to invest heavily to increase its capacity utilization rate and also to add new capacities

Bank financing covers approximately one-third of annual capex. According to Hidroelectrica, the historical average annual capex is roughly EUR 300mn, of which EUR 100mn is usually financed by bank loans. For 2010, the company budgeted RON 1.46bn capex and spent RON 1.49bn, of which RON 700mn from bank loans and RON 760mn of own sources. Capex planned for 2011 amounted to RON 1.51bn.

Development plans. According to the 2010 Administrator's report, Hidroelectrica expected to commission a total installed capacity of 116 MW in 2011-2012, of which 27 MW in 2011. Projects that were estimated to be commissioned in 2013-2014 totaled 251 MW at end-2010.

One of its major projects would be a 1,000-MW power plant, meant to increase flexibility and safety of the Romanian power sector

Selection of partners for the high capacity Tarnita hydropower plant has stalled. Hidroelectrica plans to build a 1,000-MW pump-storage hydropower plant, estimated to cost approximately EUR 1.16bn. The selection of potential partners for the project commenced in August 2010. The submission of bids is currently scheduled for March-April 2012 and selection for August-September 2012.

January-October output was 13.7 TWh, down 18% yoy (as per FP) and FY production was 14.7 TWh (down 25% yoy)

2011 financials – severely affected by drought. The company budgeted a net profit of RON 71mn, down 75% yoy and an 83% contraction of the EBIT, arguing that 2010 was an exceptionally good hydrological year. 1H11 pre-tax profit, as per local media, accounted for 61% of FY company guidance, however the drought took its toll in 2H11. According to recent statements made by Hidroelectrica's CEO in a conference, 2011 net profit amounted to RON 15.7mn, down 95% yoy, while EBIT contracted by 77.5% to RON 113mn. We note that pressure on profitability came also from the higher tariffs paid for the water used by the power plants, which came into force in December 2010. According to the company, the water cost per MWh increased from RON 5 to RON 21/MWh, increasing the total unit cost by 16%.

For 2012, prospects are still not encouraging. The company's management estimates that production will stay at 50%-60% of normal levels in 1Q12 and the force majeure will be maintained. Guidance for pre-tax profit amounts to RON 80mn-100mn, assuming price increases in most of the company's contracts and production of 15.5-15.7 TWh.

Financials – Hidroelectrica

HIDROELECTRICA: BALANCE SHEET

RON mn	2007	2008	2009	2010
Non-current assets	**18,921.8**	**19,337.9**	**22,602.0**	**19,667.2**
Current assets	**550.1**	**609.1**	**387.9**	**477.3**
Cash and equivalents	118.0	128.7	28.1	99.9
Inventories	48.5	54.1	58.3	79.5
Receivables	373.7	425.5	300.9	297.1
Shareholders' equity	**13,891.1**	**13,951.2**	**16,554.6**	**16,822.4**
Non-current liabilities	**4,370.4**	**4,287.7**	**4,639.7**	**1,593.1**
Interest bearing borrowings	556.7	453.1	804.0	1,200.3
Provisions	5.8	36.6	36.4	102.0
Other non-current liabilities	3,807.9	3,797.9	3,799.3	290.8
Current liabilities	**1,210.4**	**1,708.1**	**1,795.6**	**1,729.0**
Interest bearing borrowings	455.7	567.8	677.0	701.1
Trade and other payables	635.9	1,052.9	1,036.6	896.7
Other current liabilities	118.9	87.4	82.1	131.2
Total liabilities and equity	**19,472.0**	**19,947.0**	**22,989.9**	**20,144.5**
Net debt/(cash)	894.3	892.2	1,452.9	1,801.5

Source: Hidroelectrica, UniCredit Research

HIDROELECTRICA: PROFIT & LOSS ACCOUNT

RON mn	2008	yoy (%)	2009	yoy (%)	2010	yoy (%)	2011B	yoy (%)
Total operating revenues	**2,608.2**	**25.0**	**2,466.2**	**-5.4**	**3,286.9**	**33.3**	**2,966.8**	**-9.7**
Net sales	**2,443.5**	**18.6**	**2,420.8**	**-0.9**	**3,273.7**	**35.2**	**2,906.8**	**-11.2**
Other operating income	164.6	561.8	45.1	-72.6	13.2	-70.7	60.0	354.0
Material costs	-668.9	63.3	-627.0	-6.3	-658.9	5.1	-917.6	39.3
Personnel costs	-393.2	46.2	-402.7	2.4	-425.4	5.6	-448.5	5.4
Other operating costs	-696.3	17.9	-619.7	-11.0	-825.8	33.3	-655.7	-20.6
EBITDA	**849.8**	**4.0**	**816.8**	**-3.9**	1,377.0	68.6	**945.0**	**-31.4**
Depreciation & amortization	-643.2	-4.7	-654.9	1.8	-874.2	33.5	-860.0	-1.6
EBIT	**206.6**	**44.8**	**162.0**	**-21.6**	**502.8**	**210.4**	**85.0**	**-83.1**
Net interest	-69.7	38.4	-67.1	-3.8	-83.8	24.9	-50.0	-40.3
Financial result	-126.4	65.6	-96.4	-23.7	-112.5	16.7	0.0	-100.0
Pre-tax profit	**80.2**	**20.9**	**65.5**	**-18.3**	**390.3**	**495.7**	**85.0**	**-78.2**
Taxes	-15.1	9.7	-17.1	13.7	-97.9	471.4	-14.0	-85.7
Net profit	**65.1**	**23.8**	**48.4**	**-25.7**	**292.4**	**504.4**	**71.0**	**-75.7**

*Company budget

Source: Hidroelectrica, UniCredit Research

HIDROELECTRICA: MAIN RATIOS

	2007	2008	2009	2010
Inventory days	9	8	9	9
Receivable days	66	64	45	33
Creditor days	187	241	236	173
Current ratio (x)	0.5	0.4	0.2	0.3
Quick ratio (x)	0.4	0.3	0.2	0.2
Material costs as % opex	19.6	25.6	25.4	20.0
Personnel costs as % opex	12.9	15.1	16.3	12.9
D&A as % opex	32.3	24.7	26.6	26.6
Other opex as % opex	28.3	26.7	25.1	25.1

Source: Hidroelectrica, UniCredit Research

Nuclearelectrica

Few near-term triggers

Nuclearelectrica is the sole nuclear power generator in Romania and Fondul Proprietatea's 4th largest holding with 3.5% in NAV. In 2011, Nuclearelectrica generated 11.7 TWh, 1.1% higher yoy, providing 19.2% of the domestic power output. Its main growth driver is the planned doubling of capacity by adding two new units, 3 & 4, each with 720 MW of installed capacity. However, the developments seen in 2011 make this a rather remote trigger. In our view, an IPO would be the best way to add value both to the company and to FP's portfolio.

- **The main growth driver, the construction of two nuclear units (3 & 4), looks very remote to us**. Four of the six partners in the project company set up to develop the two 720MW nuclear units have abandoned ship and the state lacks the financial strength to sustain the project on its own. The quest for new partners would most likely cause further delays in project implementation.
- **An IPO would be the best way to add value to FP's portfolio, given that we see no prospects for distribution of dividends in the mid term**: Nuclearelectrica has very thin net margins and RON 410mn negative retained earnings (as at December 2010), which make a dividend distribution unlikely in the near to mid term. The government approved the legal framework for a 10% IPO, with the shares to come from raising capital by 11.077%. We would expect the deal to be launched no earlier than in 2013.
- **2011 looks promising**. The company budgeted an 8.7% yoy increase in EBITDA to RON 609mn, on the back of 7.5% higher net sales and a reduction in material costs. The company expects a significant FX loss, to result in a 15% yoy contraction in net earnings. However, 1-3Q11, results indicate a major improvement in profitability, as pre-tax profit jumped to RON 127mn from RON 9mn in the same period of 2010.

	2008	2009	2010	2011B*
Sales (RON mn)	1,451.9	1,526.7	1,514.7	1,627.6
EBITDA (RON mn)	659.3	692.6	560.4	609.0
EBIT (RON mn)	320.5	325.3	179.3	225.8
Net income (RON mn)	103.0	49.4	16.1	13.6
EPS (RON)	0.83	0.40	0.13	0.05
ROCE (%)	3.0	2.7	1.3	n.a.
ROE (%)	1.5	0.7	0.2	n.a.
ROA (%)	1.1	0.5	0.2	n.a.
Net debt/Equity (%)	30.9	28.0	26.7	n.a.
Net debt/EBITDA (x)	3.2	2.9	3.6	n.a.
Equity ratio (%)	71.6	72.8	73.4	n.a.
EBITDA margin (%)	44.1	43.0	36.1	37.1
EBIT margin (%)	21.4	20.2	11.5	13.8
Net margin (%)	6.9	3.1	1.0	0.8

*Budget

Source: Nuclearelectrica, UniCredit Research

Not Rated

INVESTMENT HIGHLIGHTS
The only domestic nuclear energy producer (1,400 MW installed capacity)
Capacity expansion plans by building two new units
Generated 19% of total domestic electricity in 2011

TRIGGERS
Power prices
Capacity increase
Prospective IPO

STOCK DATA	
No. of shares in issue (mn)	123.6
Shareholders	Ministry of the Economy 90.28% Fondul Proprietatea 9.72%

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This company is not part of UniCredit Research's coverage and, therefore, no investment advice is included.

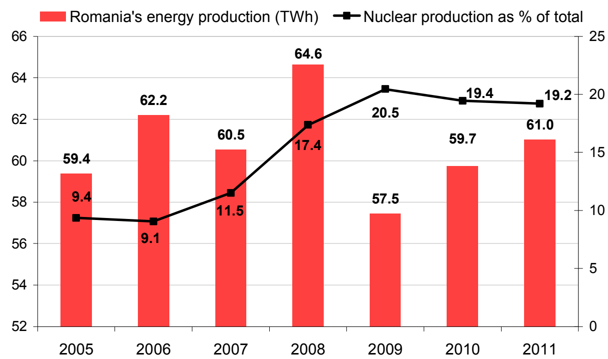
Business overview – Nuclearelectrica

The only nuclear power generator in the country

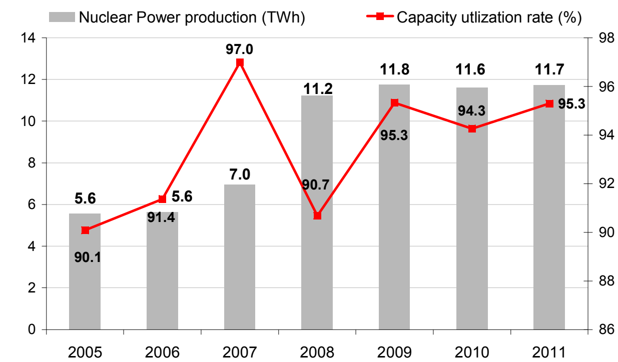
Nuclearelectrica continued to be a major player in the Romanian power generation sector in 2011 and it generated 19.2% of domestic energy production (down marginally from 19.4% in 2010). At a capacity utilization rate of 95.3%, in 2011, Nuclearelectrica generated 11.74 TWh, slightly (1.1%) more than in the previous year (i.e. 11.62 TWh).

NUCLEARELECTRICA GENERATED 19.2% OF THE DOMESTIC ENERGY PRODUCTION USING 95.3% OF ITS CAPACITY IN 2011

Nuclearelectrica accounts for 19% of domestic power production



Nuclearelectrica's power production and capacity utilization rate (%)



Source: Nuclearelectrica, INSSE, UniCredit Research

A public-private partnership was set up for the construction of two new reactors at Cernavoda…

The growth driver would be an increase in capacity… The Romanian state intends to build two more nuclear reactors at Cernavoda – Units 3 & 4 – each with 720 MW of installed capacity, at an estimated cost of roughly EUR 4bn. The project company EnergoNuclear, in which Nuclearelectrica currently owns 84.65%, was set up for this purpose. Initially, the State, through Nuclearelectrica, held a 51% stake, and its six private partners were: CEZ 9.15%; GDF Suez 9.15%; Enel 9.15%; RWE Power 9.15%; ArcelorMittal 6.2%; and Iberdrola 6.2%.

…but following the departure of 4 of 6 private partners, the State has to resume its search for partners in the project

…but this now looks rather remote. In December 2010, CEZ decided to no longer be a part of the project and Nuclearelectrica took over its stake. In February 2011, GDF Suez, Iberdrola and RWE also dropped out of the deal, at which time Nuclearelectrica's stake increased to 84.65%. The two remaining partners, Enel and ArcelorMittal, stated that they did not intend to increase their respective stakes. As the State lacks the financial resources to develop the project on its own, new partnerships need to be set up. The deadline for the submission of bids by potential partners is now 15 March 2012, extended from 15 December 2011.

Although we would expect the deal to be launched no earlier than in 2013, we believe an IPO would be the best way to unlock the value of FP's stake in Nuclearelectrica

Preparations commenced for a 10% IPO. In mid-January 2012, the government approved the legal framework for a 10% IPO, with the Nuclearelectrica shares to come from raising capital by 11.077%. The State will not participate in the capital raising, while 1.077% of share capital will be offered to FP to avoid dilution of its stake. The next step is the deal manager selection. We see the October 2012 official deadline for the deal as overly ambitious.

Nuclearelectrica must allocate its profits to cover the negative retained earnings

High level of negative retained earnings affects dividends distribution. At the end of 2010, Nuclearelectrica had negative retained earnings of RON 410.2mn, which resulted from the harmonization of Romanian accounting standards with international accounting standards (resulting in the first time booking of some unfavorable FX differences), from financial expenses (FX losses) related to the capex for Unit 2, and from the amortization of some heavy water and nuclear combustible costs. Therefore, earnings registered by the company are allocated to cover this loss. Given its low profitability, Nuclearelectrica may not be able to pay dividends in the near to mid term.

1-3Q11 financial results indicate a major improvement in profitability, possibly on costs savings

2011 company guidance. For 2011, the company budgeted net sales of RON 1.63bn, 7.5% higher yoy. The company assumed a reduction in material costs vs. 2010, contributing to an 8.7% increase in EBITDA to RON 609mn and a 26% yoy jump in EBIT to RON 225.8mn. The company was more conservative on the financial result, accounting for a significant FX loss, resulting in a 15% yoy contraction of the net earnings to RON 13.6mn.

1-3Q11 results. The information provided by FP on Nuclearelectrica's 1-3Q11 results indicates a major improvement in profitability, as pre-tax profit jumped to RON 127mn from RON 9mn in the same period of 2010 and revenues reached RON 1.09bn, up 3% yoy. The power prices on the spot market jumped in 2011, pushed by supply shortages, resulting mainly from the drought. On the day-ahead market (segment accounting for 17%-18% of total consumption), average prices increased from RON 188/MWh in January 2011 to RON 259/MWh in December 2011 and RON 240/MWH in January 2012.

Nuclearelectrica has a high level of indebtedness, but favorable terms with respect to the interest rates paid

Debt profile. Nuclearelectrica's bank debt consists mainly of long-term debt, contracted for the construction of Unit 2 of the Cernavoda power plant. At December 2010, 59% of total debt had maturity terms longer than 5 years. Of total debt of RON 2,484.2mn, RON 1,318.9mn was contracted from Societe Generale, RON 957.7mn from Euratom and RON 207.7mn from BCR. The loans from SocGen and Euratom are guaranteed by the Romanian state, while the one from BCR was granted initially to the Ministry of Finance (which then reissued the loan to Nuclearelectrica). The effective interest rate in 2010 was 1% for FX-denominated loans and 7% for RON-denominated loans. It has a rather high Net debt/EBITDA level, i.e. 3.6xin 2010, up from 2.9x in 2009, however this is not uncommon among power gencos.

DEBT PROFILE AT END-2010

RON mn	2009	2010	% in total
Short-term debt	164.4	174.8	7.0
Long-term debt	2,356.5	2,309.4	93.0
Total debt, of which denominated in	**2,520.9**	**2,484.2**	**100.0**
EUR	1,427.6	1,403.5	56.5
CAD	764.3	806.8	32.5
RON	259.6	207.7	8.4
USD	69.4	66.3	2.7

Source: Nuclearelectrica, UniCredit Research

Fondul Proprietatea believes it is entitled to a 20% stake in Nuclearelectrica but litigation continue

FP suspended voting rights for 2.5% of the State's stake in relation to its holding in Nuclearelectrica: FP has sued the company and the Ministry of the Economy as it believes it is entitled to a 20% stake in Nuclearelectrica vs. the 9.72% it currently holds. The Fund considers that, following some share capital changes at Nuclearelectrica during 2006-2007, the Ministry should have transferred part of the additional shares to the Fund. Consequently, it suspended the voting rights for 340.8mn shares out of State's stake in FP in relation to this litigation, shares that are considered subscribed but unpaid.

FP's stake in Nuclearelectrica was adjusted in November 2011 by 31% due to a possible capital increase in which FP could choose not to participate

Heavy water. In November 2011, the government drafted an Emergency Ordinance providing for a capital increase at Nuclearelectrica with the value of the heavy water bought for Reactors 3 and 4 using allocations from the State budget (free allocations of RON 1,442.5mn, registered in reserves). According to FP, the implementation of this Ordinance could have resulted in the dilution of its stake in Nuclearelectrica and consequently adjusted the value of its stake in November 2011 NAV by RON 228mn. However, the Ordinance published in December 2011 provides for the transfer of the heavy water to the State reserve from that point forward and no reference is made to the heavy water purchased by Nuclearelectrica between 2006-2011. The proposal for a capital increase is excluded from the Ordinance. Even in the case of no capital increase, if the solution were to be the transfer of the heavy water from Nuclearlectrica's ownership to the State Reserve, at no cost to the state, the book value of Nuclearelectrica would still be affected by the write-off of the heavy water value from its reserves, i.e. RON 1.44bn at end-2011.

Financials – Nuclearelectrica

NUCLEARELECTRICA: PROFIT & LOSS ACCOUNT

RON mn	2008	yoy (%)	2009	yoy (%)	2010	yoy (%)	2011B*	yoy (%)
Net sales	**1,451.9**	**59.6**	**1,526.7**	**5.1**	**1,514.7**	**-0.8**	**1,627.6**	**7.5**
Other operating income	38.2	1,038.7	79.9	109.4	34.9	-56.4	13.0	-62.7
Change in inventories	5.7	-84.9	4.8	-15.3	4.0	-16.7	0.0	n.m.
Material costs	-253.0	20.2	-286.4	13.2	-329.4	15.0	-320.9	-2.6
Personnel costs	-229.2	36.3	-251.2	9.6	-261.2	4.0	-278.6	6.7
Other operating costs	-354.3	102.6	-381.3	7.6	-402.6	5.6	-432.2	7.4
EBITDA	**659.3**	**66.1**	**692.6**	**5.1**	**560.4**	**-19.1**	**609.0**	**8.7**
Depreciation & amortization	-338.7	61.9	-367.3	8.4	-381.1	3.8	-383.2	0.6
EBIT	**320.5**	**70.8**	**325.3**	**1.5**	**179.3**	**-44.9**	**225.8**	**25.9**
Net interest	-108.4	110.2	-36.2	-66.6	-18.2	-49.9	-16.3	-10.1
Financial result	-196.8	100.9	-261.5	32.8	-156.1	-40.3	-209.5	34.2
Pre-tax profit	**123.7**	**38.0**	**63.9**	**-48.4**	**23.2**	**-63.7**	**16.2**	**-29.9**
Taxes	-20.7	2,046.0	-14.5	-29.9	-7.1	-51.0	-2.6	-63.4
Net profit	**103.0**	**16.2**	**49.4**	**-52.1**	**16.1**	**-67.4**	**13.6**	**-15.2**

*Budget

Source: Nuclearelectrica, UniCredit Research

NUCLEARELECTRICA: BALANCE SHEET

RON mn	2008	yoy (%)	2009	yoy (%)	2010	yoy (%)
Non-current assets	**8,149.0**	**5.0**	**7,953.9**	**-2.4**	**7,787.8**	**-2.1**
Current assets	**1,477.2**	**35.7**	**2,009.3**	**36.0**	**2,509.5**	**24.9**
Cash and equivalents	394.3	118.9	494.7	25.5	474.4	-4.1
Inventories	931.5	27.2	1,299.5	39.5	1,642.0	26.4
Receivables	144.8	-14.8	209.9	45.0	386.2	84.0
Total assets	**9,626.1**	**8.8**	**9,963.2**	**3.5**	**10,297.3**	**3.4**
Share capital	2,536.8	0.0	2,536.8	0.0	2,536.8	0.0
Reserves	4,816.3	21.0	5,130.9	6.5	5,415.1	5.5
Retained earnings	-456.1	-14.2	-414.0	-9.2	-395.3	-4.5
Shareholders' equity	**6,897.0**	**15.2**	**7,253.7**	**5.2**	**7,556.7**	**4.2**
Non-current liabilities	**2,328.9**	**-4.8**	**2,389.3**	**2.6**	**2,336.0**	**-2.2**
Interest bearing borrowings	2,307.2	-4.9	2,356.5	2.1	2,309.4	-2.0
Provisions	21.6	13.0	32.4	49.7	26.3	-18.8
Current liabilities	**400.2**	**-4.4**	**320.2**	**-20.0**	**399.1**	**24.7**
Interest bearing borrowings	217.8	18.7	171.0	-21.5	181.0	5.8
Trade and other payables	142.4	-23.3	116.5	-18.2	188.0	61.4
Total liabilities and equity	**9,626.1**	**8.8**	**9,963.2**	**3.5**	**10,297.3**	**3.4**
Net debt/(cash)	2,130.8	-12.3	2,032.8	-4.6	2,016.0	-0.8

Source: Nuclearelectrica, UniCredit Research

NUCLEARELECTRICA: MAIN RATIOS

	2008	2009	2010
Inventory days	234	311	396
Receivable days	36	50	93
Creditor days	66	51	72
Current ratio (x)	3.7	6.3	6.3
Quick ratio (x)	1.4	2.2	2.2
Material costs as % revenues	22.2	16.9	17.8
Personnel costs as % revenues	17.7	15.3	15.6
Other opex as % revenues	18.4	23.7	23.7
D&A as % revenues	22.0	22.6	22.8

Source: Nuclearelectrica, UniCredit Research

Turceni Power Plant

Back in the black from a high 2010 loss

Turceni Power Plant (TPP) is the largest lignite thermal power plant in Romania. In 2011, TPP provided 13.5% of electricity consumed in Romania's system. It has an installed capacity of 1,980 MW (six units of 330 MW each), and three mines (two open pits) with a total annual production of 5-7.5mn tons and 287.3mn tons of reserves for 40-50Y.

- **Main downside risks (for all three thermal power plants)**: **a)** Failure to complete environmental capex by end-2013 could result in capacity closures. According to Mediafax, TPP's environmental capex for 2008-2013 totals EUR 350mn. In 2008-2010. TPP's total capex was EUR 223mn, while EUR 230mn was budgeted for 2011; and **b)** Higher costs associated with the acquisition of the CO2 certificates starting 2013 and royalties for coal (from 2012 up from 4% to 6%). In 1H11, TPP spent ca. EUR 15mn to acquire 1.4mn CO2 certificates of the 1.8mn deficit it had registered as at end-2010. The commissioning of carbon capture storage (CCS), if achieved as planned in 2016, would significantly reduce these costs.
- **TPP took advantage of problems at other gencos**: In 2011, all thermal power plants benefited from the severe drought that affected Hidroelectrica and the 25-day halt of Nuclearelectrica's Unit 2 in May. As a result, TPP managed to sell electricity to Hidroelectrica at prices higher than on OPCOM, the energy exchange (before Hidroelectrica activated the force majeure clause in September 2011). TPP recorded the highest level of production of electricity and coal in its history of 7.95 TWh and 7.2mn tons, respectively.
- **2011 budget likely to have been exceeded**: For 9M11, TPP reported production increases in electricity (up 35% yoy to 5,790 GWh) and coal (up 22% yoy to 5.4mn tons). According to Mediafax, sales reached ca. RON 1bn, up 46% yoy, 77% of the FY budget figure (RON 2bn in 2011, up 92.4% yoy according to ZF). TPP switched from a net loss of RON 65mn in 9M10 (mainly due to FX losses from the revaluation of a JPY-denominated loan) to a net profit of RON 31mn.

	2008	2009	2010	2010B*	2011B*
Sales (RON mn)	1,281.4	1,125.5	1,043.7	1,140.9	1,300.0
EBITDA (RON mn)	188.0	238.4	198.4	214.6	221.0
EBIT (RON mn)	65.9	30.2	4.8	15.3	8.6
Net income (RON mn)	20.0	21.3	-69.3	9.6	6.0
EPS (RON)	0.4	0.5	-1.5	0.2	0.1
ROCE (%)	1.2	0.8	0.2	n.a.	n.a.
ROE (%)	0.9	1.0	-3.3	n.a.	n.a.
ROA (%)	0.7	0.8	-2.2	n.a.	n.a.
Net debt/Equity (%)	1.9	4.2	24.8	n.a.	n.a.
Net debt/EBITDA (x)	0.2	0.4	2.6	n.a.	n.a.
EBITDA margin (%)	14.7	21.2	19.0	18.8	17.0
EBIT margin (%)	5.1	2.7	0.5	1.3	0.7
Net margin (%)	1.1	1.3	-4.7	0.6	0.3

*Budget

Source: Turceni Power Plant, UniCredit Research

Not Rated

INVESTMENT HIGHLIGHTS
- **The largest lignite thermal power plant in Romania**
- **55% of its electricity sold on the free market (10M11)**
- **75% of its coal needs ensured from own mines (2010)**
- **To become part of the new national champion Oltenia**

TRIGGERS
- **Completion of capex program would increase CUR**
- **Increase of revenues from the competitive market**
- **Higher costs for CO2 certificates post-2013**

No. of shares (mn)	45.94
Shareholders	Ministry of the Economy 74.63%, Fondul Proprietatea 24.79%

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Back in the black

TPP likely to be EU compliant by end-2013

Capex remains high: Among the thermal power plants, Turceni is one of the most advanced in terms of meeting environmental EU standards, but it still has a significant number of investments to complete. From the 6 units in operation, for 3 desulphurization plants (Units 3, 4 & 5) were already commissioned in September 2011, while the commissioning for unit 6 is scheduled for 1Q12. The related capex of around EUR 220mn is to be financed mainly from a JPY 28.7bn loan from Bank of Japan (JBIC). Another EUR 100mn in capex for the dense flurry plant is to be commissioned in October 2012. The revamping of unit 6 would cost ca. EUR 235mn, of which EUR 170mn is to be financed from an EBRD-led syndicated loan, EUR 36mn from the Romanian Ministry of Finance and the rest represents TPP's own funds. The revamping of unit 3, which should be completed by end-2015, is scheduled to cost around EUR 257mn, of which some 70% is to be financed from bank loans. After 2014, Turceni will operate with 4 modernized units. Rehabilitation of an integrated technological line from Jilt South Quarry (part of Jilt Mining Division) would cost TPP a further ca. EUR 33mn.

TPP has a chance to be part of one of the few (3 of 12) CCS projects with EU funding

TPP could be part of a major carbon capture storage (CCS) project: The project would be executed in association with Romgaz and Trangaz at a total cost of ca. EUR 1bn, of which TPP's share would amount to EUR 680mn (according to the feasibility study). EU funds would cover ca. 50% of the total project value, provided the project is completed by end-2015. According to Mediafax, the EBRD could also contribute with both loans and equity, along with other private investors, bringing the contribution of foreign partners (including EU funds) to a total 80% of the total project value. According to TPP's CEO as quoted by Mediafax, Romania could win one of the 3 projects of this type (of the total 12 submitted) that the EU could finance. The winner of the auction for execution of the Romanian project is scheduled to be selected by year-end.

The CCS project could significantly reduce CO2 emissions and associated costs

Major challenge and uncertainty with respect to CO2 costs… TPP received 28.2mn free CO2 certificates for the period 2007-2010, and accumulated a deficit (by releasing more CO2 than allowed) of 1.8mn certificates that must be settled by end-2012, at the latest. In 1H11, TPP spent some EUR 10.7/certificate or EUR 15mn in total to buy 1.4mn certificates (it bought 3.6mn certificates in 2011). Even in one of TPP's best years in recent history (2011), the cost of CO2 certificates represented a significant financial burden. To date, the company has been unable to easily obtain price increases to cover at least a portion of these costs. At end-2010, RON 36mn was provisioned for the CO2 certificates.

…especially from 2013 onwards: According to art. 10 of the EC Directive 2003/87, revised, certain Romanian gencos (TPP included) could continue to receive from 2013 onwards a portion of their CO2 certificates for free. At the national level, Romania could receive the equivalent of up to 70% of the 2007 emissions in free certificates, and the percentage is to gradually decline by 10pp annually so that as of 2020, no free certificates would be available. The portion allocated for free is valued at an average theoretical price/certificate of EUR 14.5 in 2013-2014 and EUR 20 in 2015-2019. Companies will be required to make advance bank deposits equaling the counter value of the free CO2 allocation certificates, the allocation of which in turn, is linked to the existence of a project eligible for inclusion in the National Investment Plan. Amounts spent can be claimed back against proof of progress (via controls from external auditors and Ministry representatives) in the eligible investment. The deficit is to be acquired from the market at market prices. TPP might be eligible to receive 11.8mn free certificates worth of ca. EUR 206mn. As the market price of a certificate (currently around EUR 11) is lower than the theoretical price in the allocation scheme, companies are likely to end up with a much lower weight of free certificates in the total certificates needed. For TPP, the annual average of 1.7mn free certificates for 2013-2019 represents some 32% of the annual average of the 2008-2010 period.

Restructuring plan ongoing: On 6 January 2011, TPP approved a plan for 2011-2012 that provides for staff redundancies (140 in 2011 to 4,352 and 462 in 2012) and redundancy payments of RON 4.7mn in 2011 and RON 9.7mn in 2012. The plan might be revisited in the context of the set up of the OEC, to result from the merger with CPP, RPP and SNLO.

TURCENI POWER PLANT: BREAKDOWN OF ELECTRICITY SOLD BY MARKETS

	TWh			RON mn		
	2008	2009	2010	2008	2009	2010
Electricity sold, o/w	**7.25**	**6.13**	**5.84**	**1,278.4**	**1,084.1**	**1,015.3**
on the regulated market	**2.05**	**2.48**	**3.08**	**1,179.3**	**401.8**	**533.6**
Bilateral contracts	4.28	2.86	1.09	n.a.	438.8	204.9
Day ahead market (DAM)	0.54	0.32	1.02	n.a.	64.8	180.7
Balancing market	0.38	0.48	0.65	47.9	118.5	81.8
Other	0.00	0.00	0.0018	51.2	60.2	42.7

Source: Turceni Power Plant, UniCredit Research

TURCENI POWER PLANT: ELECTRICITY PRODUCTION AND AVERAGE PRICES

	2008	2009	2010
Electricity produced (TWh)	7.68	6.39	6.17
Average price electricity (RON/MWh)	176.4	183.0	173.9*

*RON 187.74/MWh for the electricity sold on the free market

Source: Turceni Power Plant, UniCredit Research

TURCENI POWER PLANT: KEY INTERIM PRODUCTION DATA

	1Q08	1Q09	1Q10	1Q11	2Q08	2Q09	2Q10	2Q11	1H08	1H09	1H10	1H11	9M10	9M11	2011
Electricity produced (GWh)	1,761	1,456	1,342	1,805	1,878	1,328	1,248	1,925	3,639	2,784	2,590	3,730	4,289	5,790	7,950
yoy (%)		-17.3	-7.8	34.5		-29.3	-6.0	54.2		-23.5	-6.9	44.0		35.0	28.8
Electricity sold on DAM				18% over 2009								80% over 2009			
				70% of 2008								5% over 2008			
Coal prod. ('000 tons)			1,511	1,754							2,736	3,708	4,471	5,440	7,200

Source: Turceni Power Plant, UniCredit Research

TURCENI POWER PLANT: KEY INTERIM P&L DATA

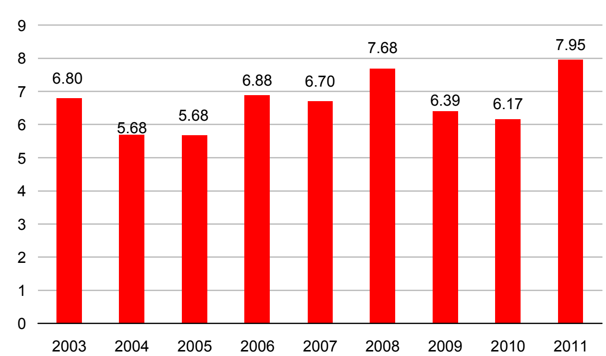
RON mn	1Q10	1Q11	yoy (%)	2Q10	2Q11	yoy (%)	qoq (%)	1H10	1H11	yoy (%)	9M11	9M10	yoy (%)
Sales	227.0	308.0	35.7	218.0	362.0	66.1	17.5	445.0	670.0	50.6	1,068.2	731.7	46.0
Pre-tax profit	-27.0	77.0	n.m.	n.a.	10.7	n.a.	-86.1		87.7	n.a.	31.0	-65.0	n.m.

*Net profit (Source: Mediafax)

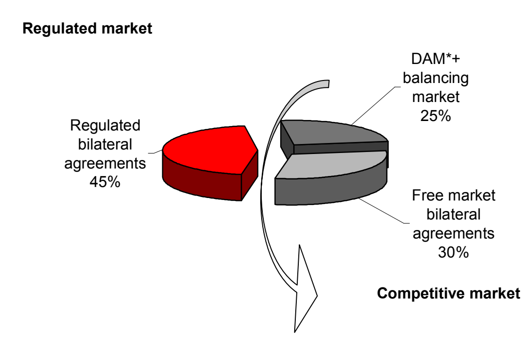
Source: Turceni Power Plant, Mediafax, UniCredit Research

TURCENI POWER PLANT: PRODUCTION AND SALES STATISTICS

Electricity production (TWh)



Breakdown of electricity sold by markets (October 2011)



Source: Turceni Power Plant, UniCredit Research

Using a price per CO2 certificate of EUR 11, TPP would need a 27% increase over its 2010 tariff of RON 174/MWh to cover the cost of CO2 certificates.

TURCENI POWER PLANT: PROFIT & LOSS ACCOUNT

	RON mn					yoy (%)			
	2008	2009	2010	2010B***	2011B***	2008	2009	2010	2011B
Total operating revenues	**1,800.6**	**1,625.3**	**1,477.4**	**1,621.1**	**1,805.2**	**21.1**	**-9.7**	**-9.1**	**22.2**
Net sales	**1,281.4**	**1,125.5**	**1,043.7**	**1,140.9**	**1,300.0**	**24.5**	**-12.2**	**-7.3**	**24.6**
Other operating income*	494.0	459.8	408.3	446.6	357.0	19.3	-6.9	-11.2	-12.6
Change in inventories	25.2	40.0	25.5	33.6	148.3	-42.6	58.7	-36.3	n.m.
Material costs	-976.4	-811.8	-764.1	-813.5	-909.3	13.0	-16.9	-5.9	19.0
Personnel costs	-224.3	-278.6	-297.3	-338.8	-324.9	26.6	24.2	6.7	9.3
Other operating costs	-411.9	-296.6	-217.7	-254.3	-350.0**	78.4	-28.0	-26.6	60.8
EBITDA	**188.0**	**238.4**	**198.4**	**214.6**	**221.0**	**-12.5**	**26.8**	**-16.8**	**11.4**
EBIT	**65.9**	**30.2**	**4.8**	**15.3**	**8.6**	**-34.3**	**-54.2**	**-84.2**	**79.9**
Financial result	-19.6	5.7	-68.4	-4.0	-1.5	n.m.	-129.2	n.m.	-97.7
Pre-tax profit	**46.2**	**35.9**	**-63.6**	**11.3**	**7.0**	**-52.7**	**-22.3**	**n.m.**	**n.m.**
Net profit	**20.0**	**21.3**	**-69.3**	**9.6**	**6.0**	**-74.5%**	**6.7**	**n.m.**	**n.m.**
Capex, o/w	**98.0**	**198.1**	**673.0**	**821.4**	**675.7**	**n.a.**	**102.1**	**239.8**	**0.4**
Loans	n.a.	n.a.	436.6	571.2	341.7	n.a.	n.a.	n.a.	-21.7

*o/w RON 370.7mn in 2009 and RON 347.7mn in 2010 were the values of own coal used for electricity production; **o/w RON 121.8mn was the cost of CO2 certificates; ***Budget

Source: Turceni Power Plant, UniCredit Research

TURCENI POWER PLANT: BALANCE SHEET

RON mn	2006	2007	2008	2009	2010
Non-current assets	**1,352.8**	**1,480.3**	**2,293.4**	**2,326.9**	**2,769.3**
Current assets, o/w	**411.7**	**387.2**	**419.6**	**463.9**	**437.6**
Cash and equivalents	23.4	39.8	54.5	65.1	64.0
Inventories	96.1	100.6	100.3	116.9	118.3
Receivables	291.9	246.1	264.0	281.0	237.8
Total assets	**1,764.5**	**1,867.5**	**2,713.0**	**2,790.7**	**3,206.9**
Shareholders' equity	**1,172.8**	**1,387.4**	**2,114.5**	**2,138.6**	**2,108.2**
Non-current liabilities	342.2	256.5	427.6	416.1	812.5*
Net debt	**-21.3**	**-37.0**	**41.0**	**89.3**	**522.0**

*o/w RON 36.1mn for provisions for CO2 certificates

Source: Turceni Power Plant, UniCredit Research

TURCENI POWER PLANT: KEY RATIOS

	2008	2009	2010	2010B*	2011B*
Sales growth (%)	24.5	-12.2	-7.3	1.4	24.6
EBITDA growth (%)	-12.5	26.8	-16.8	-10.0	11.4
EBIT growth (%)	-34.3	-54.2	-84.2	-49.3	79.9
Net profit growth (%)	-74.5	6.7	n.m.	-55.1	n.m.
Material costs as % revenues	54.2	49.9	51.7	50.2	50.4
Personnel costs as % revenues	12.5	17.1	20.1	20.9	18.0
Other opex as % revenues	22.9	18.2	14.7	15.7	19.4

*Budget

Source: Turceni Power Plant, UniCredit Research

TURCENI POWER PLANT: FREE CO2 CERTIFICATES ALLOCATION

	2013	2014	2015	2016	2017	2018	2019	2020	Total
Free CO2 certificates (mn)	3.0	2.5	2.1	1.7	1.3	0.8	0.4	0.0	**11.8**
Free CO2 certificates as % of 2007-2012 average	63.0	54.0	45.0	36.0	27.0	18.0	9.0	0.0	**36.0***
Value (EUR mn)	42.9	36.8	42.3	33.8	25.4	16.9	8.5	0.0	**206.6**
Deficit to be bought from the market (mn)	3.2	3.6	4.1	4.5	4.9	5.3	5.7	6.2	37.5
Value (EUR mn)**	35.3	39.9	44.6	49.2	53.9	58.5	63.2	67.8	412.4
Average theoretical price/certificate (EUR)	14.5	14.5	20	20	20	20	20	n.a.	**17.4**
9M11 net profit (EUR mn)	7.4								

*Average for 2013-2019;
**Assuming a constant emission level based on the 2010 production and an average price/certificate of EUR 11

Source: EC Directive 2003/87, appendix X (C.3), UniCredit Research

Rovinari Power Plant

9M11 pre-tax profit at 2.6x FY budget

Rovinari Power Plant (RPP) has an installed capacity of 1,320 MW (four units of 330 MW each) and three lignite mines (five open pits) with annual production of up to 7mn tons and 180mn tons of reserves for 45+ years. In 10M11, it provided 9.4% of electricity consumed in Romania's system.

- **Main risks and challenges**: All thermal power plants will require significant capex to meet environmental standards; they will, as well, all incur higher costs for CO2 certificates (as of 2013) and higher royalties (up from 4% to 6% as of 2012). RPP has an unusually high effective tax rate (ca. 95% in 2008 and 2010 vs. the 16% statutory rate) mainly due to high non-fiscally deductible provisions for environmental purposes (closing mines as well as the ash and slag warehouse).
- **Capex**: The main project could be a 500 MW Brownfield investment, with a minimum 30% participation of foreign investors. RPP still needs to complete capex at Units 4 & 5 (desulphurization plants) by end-2013.
- **Excellent 9M11 results**: The electricity and coal production (4.2 TWh and 5mn tons, respectively) represented a respective 78% and 80% of the 2011 budgeted figures. Sales reached ca. RON 719mn, up 28% yoy and 76% of the FY budget figure, while the pre-tax profit was RON 25.5mn, up 214% yoy and 2.64x the 2011 budgeted figure. The 2011 preliminary sales reached RON 1,452mn, up 83% yoy according to ZF. Improvements in profitability occurred on the back of problems at Hidroelectrica (drought) and Nuclearelectrica (closure of Unit 2 in May 2011), which helped to achieve increases in production and tariffs.
- **Tariffs**: In 2010, TPP sold its electricity at an average price/MW of RON 156.6 or RON 143.06 for the regulated market only marginally above RON 156.07/MW average cost. The 9M11 average electricity price was RON 172.8/MWh, while the price for the coal acquired from SNLO was flat.

	2008	2009	2010	2010B*	2011B*
Sales (RON mn)	957.3	845.4	794.6	885.7	952.0
EBITDA (RON mn)	73.7	76.1	119.1	135.9	180.3
EBIT (RON mn)	14.0	13.7	32.0	48.7	64.8
Net income (RON mn)	1.0	5.6	0.6	7.0	1.7
EPS (RON)	0.0	0.2	0.0	0.3	0.1
ROCE (%)	0.1	0.5	0.1	n.a.	n.a.
ROE (%)	0.1	0.5	0.0	n.a.	n.a.
ROA (%)	0.1	0.3	0.0	n.a.	n.a.
Net debt/Equity (%)	0.7	14.8	29.1	n.a.	n.a.
Net debt/EBITDA (x)	0.1	2.1	3.0	n.a.	n.a.
EBITDA margin (%)	7.7	9.0	15.0	15.3	18.9
EBIT margin (%)	1.5	1.6	4.0	5.5	6.8
Net margin (%)	0.1	0.4	0.0	0.5	0.1

*Budget

Source: Rovinari Power Plant, UniCredit Research

Not Rated

INVESTMENT HIGHLIGHTS

57% of its electricity sold on the free market in 2010
92% of its coal needs ensured from own mines (9M11)
To become part of the new national champion Oltenia

TRIGGERS

Completion of capex program would increase CUR
Increase of revenues from the competitive market
Higher costs for CO2 certificates post-2013

No. of shares (mn)	23.41
Shareholders	Ministry of the Economy 75.85%, Fondul Proprietatea 23.6%, Termoelectrica 0.55%

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This company is not part of UniCredit Research's coverage and, therefore, no investment advice or financial forecasts are included.

9M11 pre-tax profit at 2.6x FY budget

RPP is EU compliant with 2 of its 4 units

High capex: RPP spent RON 524mn for capex in 2009-2010 and had a 2011 budget of RON 277mn. RPP's 2007-2013 capex amounts to EUR 300mn, of which EUR 230mn refers to desulphurization plants for Units 3-6, EUR 16.5mn for powder emissions' reduction at Units 4-6 and EUR 41mn for a new ash and slag warehouse. In September 2011, the desulphurization plants for Units 3 & 6 were commissioned (EUR 97.7mn capex, of which EUR 77.5mn was financed with a loan from UniCredit). For Units 4 & 5 (EUR 66mn capex for each, of which 33% might be financed from EU grants), the deadline is end-2013 for the desulphurization section, while for the rest, 2014-2016 at Unit 4 and 2012-2014 at Unit 5. RPP might also take part in a new 500MW Brownfield project, worth of EUR 912mn, where a 30% minimum participation of foreign investors is sought. The deadline for submission of offers was moved from September 2011 to 27 February 2012. At the previous deadline, two Chinese companies, Italy's Enel, Alro and Vimetco acquired the tender documents, while China National Electric Equipment Corp. had previously expressed interest.

Costs of CO2 certificates likely to jump in 2013

Major challenge and uncertainty with respect to CO2 costs… RPP received 5.46mn free CO2 certificates for 2007, to which 24.2mn were added for 2008-2010. By end-2010, RPP accumulated a deficit (by releasing more CO2 than allowed) of 1.17mn certificates, while the estimate for the 2011 deficit is 0.4-0.5mn and for 2012 is 0.6mn certificates. In 2011, RPP bought some 1.6mn certificates to cover in full the deficit for 2008-2011. Even in one of RPP's best years in recent history (9M11 pre-tax profit was RON 25.5mn, vs. RON 10-11mn in the FY 2009-2010), the cost of CO2 certificates represented a significant financial burden. To date, the company has been unable to easily obtain price increases to cover at least a portion of these costs. At end-2010, RON 39.6mn was provisioned for the deficit of CO2 certificates.

…especially from 2013 onwards: RPP might be eligible to receive 11.63mn free certificates worth of ca. EUR 203mn (at an average price of EUR 14.5/certificate in 2013-2014 and EUR 20/certificate in 2015-2019). RPP was included in the National Allocation Plan with its Brownfield investment. For RPP, the annual average of 1.65mn free certificates for 2013-2019 represents some 28% of the annual average of the 2007-2010 period. The new mechanism is likely to put an additional financial burden on RPP compared to 2008-2010. RPP will be required to make advance bank deposits for its free CO2 allocation in amounts ranging from EUR 42.2mn in 2013 and EUR 8.3mn in 2019, and these amounts can be claimed back against proof of progress in the eligible investment. At the current prices (of ca. EUR 11/certificate), RPP would also need to spend EUR 27-60mn in 2013-2020 to acquire the deficit number of CO2 certificates and would need a 31% increase over its 2010 tariff of RON 154/MWh to cover the associated costs.

Restructuring plan might be reconsidered with the set up of Oltenia Energy Complex (OEC)

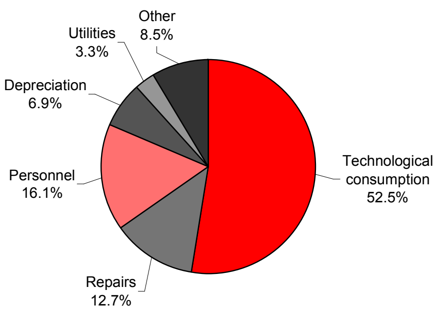
Restructuring plan ongoing: RPP approved a plan for 2011-2012 that provides for staff redundancies (from a starting figure of 4,442 staff, by 67 in 2011 – 36 of which in 9M11 – and by 130 in 2012). RPP also laid off 150 staff in 2009 and 200 in 2010 (for which redundancy payments amounted to RON 10.9mn and were budgeted at RON 3.2mn for 2011). The plan might be revisited in the context of the set up of the OEC.

Financials burdened by high provisions: From RON 155mn balance sheet provisions in 2010, RON 16.6mn was associated with the closure of the Cicani Betega ash warehouse (2010 expense was RON 1.2mn), RON 39.6mn to the CO2 certificates and RON 91mn to the decommissioning of mines (RON 20mn was the 2010 charge). At TPP, total provisions amounted to RON 92mn, of which RON 17.4mn was for the closure of the Valea Ceplea ash warehouse, RON 36mn for CO2 certificates and RON 30.8mn for decommissioning of mines.

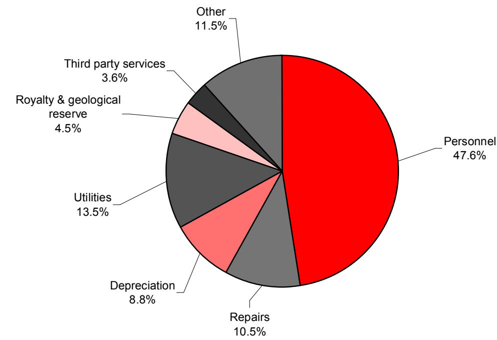
Debt to be paid for assets taken over from CNLO amounted initially to RON 82mn, of which RON 45.8mn was still to be repaid as at end-2010 to the Closing and Conservation of Mines Company over a 5-year period (2008-2012) in monthly installments of RON 1.7mn. The debt resulted from the takeover of certain mines from CNLO (equity deficit). For comparison, at TPP the outstanding debt as at end-2010 was RON 45.2mn, repayable in 60 monthly installments of RON 1.16mn starting January 2009.

ROVINARI POWER PLANT: UNIT PRODUCTION COST BREAKDOWN BY COMPONENTS (2010)

Electricity/MWh – RON 160.1 vs. RON 166.1 budgeted (own prod.)



Coal per ton – RON 59.35 vs. RON 56.27 budgeted



Source: Rovinari Power Plant, UniCredit Research

ROVINARI POWER PLANT: P&L BREAKDOWN (POWER PLANTS AND MINES)

RON mn	2010B*	2010 actual, o/w	Power plants	Mines	Other	Deviation (%)
Total revenues, o/w	**1,350.3**	**1,232.1**	**872.7**	**358.1**	**1.3**	**-8.8**
Net sales electricity	868.6	750.4	750.4	0.0	0.0	-13.6
Revenues from lignite production	360.2	349.2	0.0	349.2	0.0	-3.1
Other revenues	71.7	85.1	74.9	8.9	1.3	18.8
Material costs	-671.9	-577.6	-494.8	-81.9	-0.9	-14.0
Personnel costs	-312.7	-299.9	-129.4	-170.0	-0.5	-4.1
Other operating costs	-229.9	-239.3	-171.2	-67.9	-0.2	4.1
EBITDA	**135.9**	**115.4**	**77.4**	**38.3**	**-0.2**	**-15.1**
EBIT	**48.7**	**32.0**	**24.7**	**7.7**	**-0.3**	**-34.3**
Financial result	-40.5	-22.1	-21.7	-0.5	0.0	-45.3
Pre-tax profit	**8.3**	**9.9**	**3.0**	**7.2**	**-0.3**	**19.7**
Coal production (mn t)	6.4	5.9		5.9		-7.3
Electricity produced (TWh)		5.01	5.01			

*Budget

Source: Rovinari Power Plant, UniCredit Research

ROVINARI POWER PLANT: KEY INTERIM FINANCIALS

RON mn	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	1H10	1H11	9M10	9M11
Shareholders' equity	1,065.4	1,065.4	1,066.5	1,229.6	1,231.3	1,231.9	1,242.3	1,065.4	1,231.9	1,066.5	1,242.3
Sales	168.7	193.1	200.5	232.4	237.0	207.9	274.1	361.8	445.0	562.2	719.1
Pre-tax profit	2.1	2.6	3.4	1.8	7.6	4.1	13.8	4.7	11.8	8.1	25.5
Employees (avg.)	4,625	4,539	4,502	4,502	4,442	4,411	4,406	4,539	4,411	4,502	4,406

Source: Rovinari Power Plant, UniCredit Research

ROVINARI POWER PLANT: FREE CO2 CERTIFICATES ALLOCATION

	2013	2014	2015	2016	2017	2018	2019	2020	Total
Free CO2 certificates (mn)	2.9	2.5	2.1	1.7	1.2	0.8	0.4	0.0	**11.6**
Free CO2 certificates as % of 2007-2012 average	58.8	50.4	42.0	33.6	25.2	16.8	8.4	0.0	**33.6***
Value (EUR mn)	42.2	36.1	41.5	33.2	24.9	16.6	8.3	0.0	**202.9**
Deficit to be bought from the market (mn certificates)	2.4	2.9	3.3	3.7	4.1	4.5	4.9	5.3	**31.1**
Value (EUR mn)**	26.8	31.4	35.9	40.5	45.1	49.7	54.2	58.8	**342.4**
Average theoretical price/certificate (EUR)	14.5	14.5	20	20	20	20	20	20	**17.4**
9M11 pre-tax profit (EUR mn)	6.1								

*Average for 2013-2019;
**Assuming a constant emission level based on the 2010 production and an average price/certificate of EUR 11

Source: Rovinari Power Plant, UniCredit Research

ROVINARI POWER PLANT: PROFIT & LOSS ACCOUNT

	RON mn						yoy (%)				
	2008	2009	2010	2010B***	2011B***	1H11	2008	2009	2010	2011B	1H11
Total oper. revenues	**1,366.8**	**1,277.4**	**1,201.3**	**1,350.3**	**1,388.7**	**652.8**	**16.1**	**-6.5**	**-6.0**	**15.6**	**15.7**
Net sales	**957.3**	**845.4**	**794.6**	**885.7**	**952.0**	**445.0**	**18.0**	**-11.7**	**-6.0**	**19.8**	**23.0**
Change in inventories*	344.0	372.7	349.3	385.6	416.7	172.7	14.2	8.4	-6.3	19.3	-2.9
Material costs	-731.6	-663.0	-577.6	-671.9	-658.0	-303.4	12.7	-9.4	-12.9	13.9	15.7
Personnel costs	-204.7	-245.9	-276.4	-312.7	-292.8	-131.3	26.1	20.1	12.4	5.9	4.7
Other operating costs**	-356.8	-292.4	-228.1	-229.9	-257.7	-142.1	57.4	-18.1	-22.0	13.0	22.5
EBITDA	**73.7**	**76.1**	**119.1**	**135.9**	**180.3**	**76.0**	**-47.0**	**3.3**	**56.5**	**51.3**	**24.8**
EBIT	**14.0**	**13.7**	**32.0**	**48.7**	**64.8**	**22.2**	**-84.3**	**-2.5**	**134.6**	**102.1**	**21.6**
Financial result	6.2	-2.9	-22.1	-40.5	-55.1	-10.5	-25.2	n.m.	n.m.	148.8	-22.9
Pre-tax profit	**20.2**	**10.7**	**9.9**	**8.3**	**9.7**	**11.8**	**-79.3**	**-46.8**	**-7.8**	**-2.3**	**150.5**
Net profit	**1.0**	**5.6**	**0.6**	**7.0**	**1.7**	**1.6**	**-98.7**	**n.m.**	**-89.3**	**182.3**	**192.1**
Capex, o/w	**n.a.**	**248**	**276.3**	**397.9**	**277.3**	**n.a.**	**n.a.**	**n.a.**	**11.4**	**0.4**	**n.a.**
Loans	n.a.	n.a.	192.9	310.9	161.9	n.a.	n.a.	n.a.	n.a.	-16.1	n.a.
Own funds	n.a.	n.a.	83.4	87.0	115.5	n.a.	n.a.	n.a.	n.a.	38.5	n.a.

*o/w RON 372.7mn in 2009 and RON 340.6mn in 2010 were the values of own coal used for electricity production; **o/w RON 14.7mn in 2009 and RON 14.3mn in 2010 were royalties for coal; *** Budget

Source: Rovinari Power Plant, UniCredit Research

ROVINARI POWER PLANT: BALANCE SHEET

RON mn	2006	2007	2008	2009	2010	1H11
Non-current assets	**655.8**	**739.4**	**1,047.0**	**1,426.7**	**1,753.9**	**1,831.1**
Current assets, o/w	**240.9**	**287.0**	**257.3**	**206.4**	**229.6**	275.0
Cash and equivalents	87.8	138.5	44.4	26.4	68.1	104.3
Inventories	48.2	71.2	139.7	105.3	70.2	63.4
Receivables	104.5	76.1	72.0	73.4	89.9	103.6
Total assets	**896.7**	**1,026.4**	**1,304.3**	**1,633.1**	**1,983.5**	**2,106.1**
Shareholders' equity	**636.0**	**716.1**	**853.6**	**1,064.7**	**1,229.6**	**1,231.9**
Non-current liabilities	47.7	214.5	238.1	337.5	563.5*	636.3
Net debt	**-87.8**	**-138.5**	**6.0**	**157.6**	**357.3**	**393.0**

*o/w RON 39.6mn provisions for CO2 certificates

Source: Rovinari Power Plant, UniCredit Research

ROVINARI POWER PLANT: KEY RATIOS

	2008	2009	2010	2010B*	2011B*	1H11
Sales growth (%)	18.0	-11.7	-6.0	4.8	19.8	23.0
EBITDA growth (%)	-47.0	3.3	56.5	78.6	51.3	24.8
EBIT growth (%)	-84.3	-2.5	134.6	256.8	102.1	21.6
Net profit growth (%)	-98.7	n.m.	-89.3	24.4	182.3	192.1
Material costs as % revenues	53.5	51.9	48.1	49.8	47.4	46.5
Personnel costs as % revenues	15.0	19.2	23.0	23.2	21.1	20.1
Other opex as % revenues	26.1	22.9	19.0	17.0	18.6	21.8

*Budget

Source: Rovinari Power Plant, UniCredit Research

ROVINARI POWER PLANT: PRODUCTION AND PRICING DATA

	2005	2006	2007	2008	2009	2010	9M11	2011B*
Electricity production (TWh)	5.5	6.9	5.9	5.9	5.4	5.1	4.2	5.4
Coal from own production (mn t)	5.4	6.8	5.7	5.8	6.0	5.9	5.0	6.3
Coal purchased (mn t)	1.6	2.3	2.0	1.7	0.8	0.6	0.5	0.8
Average cost coal - own production (RON/t)	44.1	42.7	51.1	59.7	61.0	59.4	52.0	53.8
Average purchase price coal (RON/t)	47.5	50.0	54.2	58.6	58.6	58.6	58.6	58.6
Avg. electricity price (RON/MWh) own production	**112.8**	**114.0**	**134.5**	**156.7**	**154.6**	**153.6**	**172.8**	**174.4**
Average cost (RON/MWh) el. bought for re-sale	93.4	157.0	145.1	146.4	74.8	70.8	133.6	174.4

*Budget

Source: Rovinari Power Plant, UniCredit Research

Craiova Power Plant

The least efficient lignite fuelled power plant

Craiova Power Plant (CPP) has an installed capacity of 930 MW (two units of 315 MW each at Isalnita, commissioned in 1987-1989, and two cogeneration units of 150 MW each at Craiova II, commissioned in 1967-1968). CPP also has a lignite mine with an annual production of 0.7mn tons and 7.5mn tons of reserves for 10 years. In 10M11, CPP provided 8.6% of the electricity consumed in Romania's system.

- **Main risks and challenges**: All thermal power plants will require significant capex to meet environmental standards; they will, as well, all incur higher costs for CO2 certificates (as of 2013) and higher royalties (from 4% to 6% as of 2012). Among the lignite fuelled plants, CPP would have to acquire the greater proportion of its CO2 certificates from the market.
- **Capex**: CPP is the least advanced genco in terms of environmental capex. In 2010, it spent RON 116mn on capex and has budgeted RON 296mn for 2011 (total capex for 2009-2013 is EUR 243mn, of which EUR 131mn is earmarked for the desulphurization plants that should be revamped by November 2013).
- **Excellent interim results**: According to the daily Bursa, CPP recorded a 1H11 net profit of RON 11.9mn, vs. RON 0.8mn in 1H10, some 5x higher than the 2011 budgeted figure, while in 2011, personnel numbers were to decrease by 250 and RON 12.9mn was budgeted for redundancy payments. For 9M11, revenues were RON 1.05bn, up 12% yoy, while electricity production was 4.05 TWh, up 15% yoy. According to ZF, 2011 preliminary sales reached RON 1,385mn, up 26% yoy.
- **CPP remains the least efficient among the thermal PPs**: Despite 1H11 improvements in activity, the expected jump in depreciation charges, in the cost of CO2 certificates and of royalties, would put further pressure on profitability, which is in any event low compared to peers. On the other hand, the set up of OEC offers to CPP the most significant upside potential from the reduction of the main cost (lignite).

	2008	2009	2010	2010B*	2011B*
Sales (RON mn)	1,068.6	1,132.4	1,097.8	1,123.8	1,142.9
EBITDA (RON mn)	73.6	75.5	86.2	87.2	117.4
EBIT (RON mn)	4.4	-0.7	11.2	3.4	23.8
Net income (RON mn)	3.6	0.3	0.2	1.8	2.4
EPS (RON)	0.1	0.01	0.01	0.07	0.09
ROCE (%)	0.3	-0.01	0.05	n.a.	n.a.
ROE (%)	0.3	0.03	0.02	n.a.	n.a.
ROA (%)	0.3	0.02	0.02	n.a.	n.a.
Net debt/Equity (%)	0.2	12.0	15.9	n.a.	n.a.
Net debt/EBITDA (x)	0.0	1.7	2.0	n.a.	n.a.
EBITDA margin (%)	6.9	6.7	7.9	7.8	10.3
EBIT margin (%)	0.4	-0.1	1.0	0.3	2.1
Net margin (%)	0.3	0.03	0.02	0.14	0.19

*Budget — Source: Craiova Power Plant, UniCredit Research

Not Rated

INVESTMENT HIGHLIGHTS

The largest supplier among the thermal producers
Lowest weight of lignite from own mines (12%)
Part of the new national champion Oltenia

TRIGGERS

To benefit most from OEC set up in terms of coal cost reduction
Completion of capex program could increase CUR
Increase of revenues from the competitive market

No. of shares (mn)	25.87
Shareholders	Ministry of the Economy 71.39%, Fondul Proprietatea 24.36%, Termoelectrica 2.17%, Company for Closing and Conservation of Mines (CCCM) 2.08%

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The least efficient lignite fuelled power plant

CPP has made the least progress with its environmental capex

High capex: Among the lignite fuelled plants, CPP has made the least progress in terms of environmental capex. According to the 2011 activity report of the former Minister of the Economy Mr. Ion Ariton, the dense fluid plants were commissioned in March 2011 following capex of EUR 60mn, of which EUR 32mn was financed from loans from Alpha Bank, BCR and the Savings Bank (CEC). The key investments for desulphurization plants were started only in August 2011 (Units 7 & 8 at Isalnita) and in November 2011 (Units 1 & 2 at Craiova II). For Units 7 & 8 at Isalnita, the related capex totals EUR 78mn (80% to be financed from a state-guaranteed loan jointly granted by BCR and BRD). Works should be finalized in November 2013, while the initial capex and commissioning date were EUR 102mn and end-2012, respectively. For Units 1 & 2 at Craiova II, the capex for desulphurization is EUR 53.4mn, of which EUR 21.2mn is from EU funds and the rest from bank loans (the initial cost was EUR 66mn and the plant should have been commissioned in December 2010. CPP might also participate in a public/private partnership for a 500 MW Brownfield project at Isalnita. The investment that should commence in 2013 is worth of EUR 800mn and is scheduled take 4 years to complete.

Major challenge and uncertainty with respect to CO2 costs… CPP received 8.5mn free CO2 certificates for 2007, to which 20.75mn were added for 2008-2010. By end-2010, CPP accumulated a deficit (by releasing more CO2 than allowed) of 2.89mn certificates that must be settled by end-2012 at the latest. Even in one of CPP's best years in recent history (according to the daily Bursa, 1H11 net profit was RON 11.9mn, vs. less than RON 1mn in the FY 2009-2010), the cost of CO2 certificates represented a significant financial burden. To date, the company has been unable to easily obtain price increases to cover at least a portion of these costs. At end-2010, only RON 3.7mn was provisioned for the deficit of CO2 certificates, compared to their estimated cost of RON 173.6mn, calculated based on prevailing market prices.

Costs of CO2 certificates likely to jump in 2013

…especially from 2013 onwards: CPP might be eligible to receive 10.1mn free certificates worth ca EUR 175.6mn. CPP was included in the National Allocation Plan with its Brownfield investment. For CPP, the annual average of 1.26mn free certificates for 2013-2019 represents some 26% of the annual average of the 2007-2010 period. The new mechanism of accessing the free CO2 certificates is likely to put an additional financial burden on CPP compared to 2008-2010. CPP will be required to make advance bank deposits for its free CO2 allocation in amounts ranging from EUR 36.5mn in 2013 to EUR 7.2mn in 2019, and these amounts can be claimed back against proof of progress in the eligible investment. At the current prices (of ca EUR 11/certificate), CPP would also need to spend EUR 17-45mn in 2013-2020 to acquire the deficit number of CO2 certificates and would need a 19% increase over its 2010 tariff of RON 247/MWh to cover the associated costs. Such increase would be below that of TPP and RPP, but CPP remains the thermal power plant with the lowest weight in total of CO2 certificates to be received for free from 2013 onwards.

CPP has the lowest profit margins among gencos

CPP remains the least efficient genco, with a 2010 EBITDA margin of 7.9%, vs. 19% at TPP, 15% at RPP, not to mention Hidroelectrica's 42% and Nuclearelectrica's 37%. This is despite the fact that it sold its electricity at the highest price (RON 247/MWh vs. RON 174/MWh at TPP and RON 154/MWh at RPP in 2010). CPP's higher costs are explained to a great extent by the company purchasing the highest weight of lignite from third party sources (around 88% vs. about 10% at RPP and 25% at TPP). On the other hand, this is the very same reason why CPP would benefit most from the set up of OEC, as it would have the greatest potential to reduce its main cost item (the lignite).

CPP has significant receivables from the heating system operator for the city of Craiova: At end-December 2010, some 58% of CPP's total receivables were derived from the heat it provided to the Craiova municipality, of which 83% (RON 121mn) was overdue. CPP is also requesting an additional RON 31.6mn in penalties and has gone to court to attempt to recover these amounts. These overdue receivables have not been provisioned for, as previous litigation has been decided in CPP's favor.

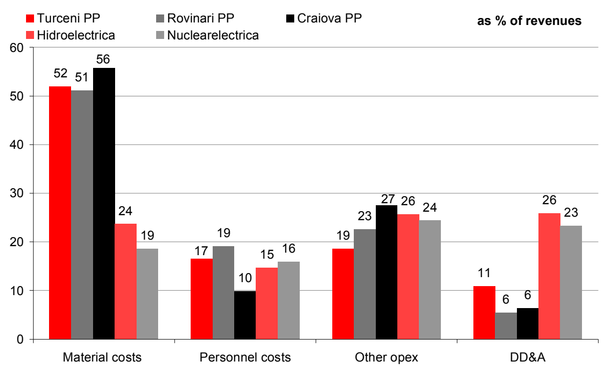
CRAIOVA POWER PLANT: PRODUCTION AND SALES DATA

				yoy (%)	
	2008	2009	2010	2009	2010
Electricity sold (TWh)	4.7	4.4	4.1	-4.5	-8.3
Heat sold (TJ)	2.8	2.8	2.9	-1.1	2.5
Electricity sold (RON mn)	989	994	1,007	0.6	1.4
Heat sold (RON mn)	77	79	87	1.9	10.1
Electricity sold (RON/MWh)	212.3	223.7	247.1	5.3	10.5
Heat sold (RON/GJ)	27.3	28.2	30.3	3.0	7.4

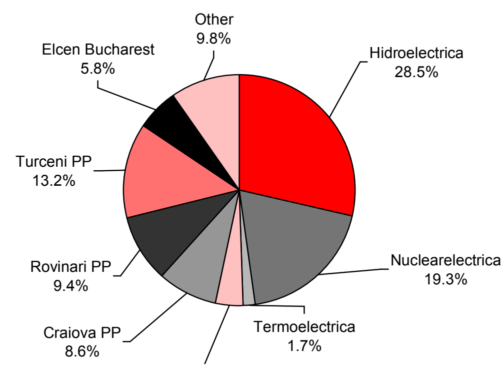
Source: Craiova Power Plant, UniCredit Research

CRAIOVA POWER PLANT: COSTS AND MARKET SHARE DATA

CPP had the lowest personnel costs as % of revenues among gencos (2008-2010 averages)



CPP has among the lowest market shares among gencos (October 2011)



Source: Company data, UniCredit Research

CRAIOVA POWER PLANT: FREE CO2 CERTIFICATES ALLOCATION

	2013	2014	2015	2016	2017	2018	2019	2020	Total
Isalnita									
Free CO2 certificates (mn)	1.8	1.5	1.3	1.0	0.8	0.5	0.3	0.0	**7.1**
Value (EUR mn)	25.6	21.9	25.2	20.2	15.1	10.1	5.0	0.0	**123.2**
Deficit to be bought from the market (mn)	1.1	1.3	1.6	1.8	2.1	2.3	2.6	2.9	**15.8**
Value (EUR mn)**	12.0	14.7	17.5	20.3	23.1	25.8	28.6	31.4	**173.5**
Craiova II									
Free CO2 certificates (mn)	0.8	0.6	0.5	0.4	0.3	0.2	0.1	0.0	**3.0**
Value (EUR mn)	10.9	9.3	10.7	8.6	6.4	4.3	2.1	0.0	**52.4**
Deficit to be bought from the market (mn)	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2	**6.8**
Value (EUR mn)**	5.2	6.4	7.6	8.7	9.9	11.1	12.3	13.5	**74.6**
Total Craiova PP									
Free CO2 certificates (mn)	2.5	2.2	1.8	1.4	1.1	0.7	0.4	0.0	**10.1**
Free CO2 certificates as % of 2007-2012 average	51.5	44.2	36.8	29.4	22.1	14.7	7.4	0.0	**29.4***
Value (EUR mn)	36.5	31.3	36.0	28.8	21.6	14.4	7.2	0.0	**175.6**
Deficit to be bought from the market (mn)	1.6	1.9	2.3	2.6	3.0	3.4	3.7	4.1	**22.5**
Value (EUR mn)**	17.2	21.1	25.1	29.0	33.0	36.9	40.9	44.8	**248.0**
Average theoretical price/certificate (EUR)	14.5	14.5	20	20	20	20	20	20	**17.4**
6M11 net profit (EUR mn)***	2.8								

*Average for 2013-2019;
**Assuming a constant emission level based on the 2010 production and an average price/certificate of EUR 11;
***As per the daily Bursa 14 August 2011

Source: EC Directive 2003/87, appendix X (C.3), UniCredit Research

CRAIOVA POWER PLANT: PROFIT & LOSS ACCOUNT

	RON mn					yoy (%)			
	2008	2009	2010	2010B*	2011B*	2008	2009	2010	2011B
Total operating revenues	**1,088.3**	**1,163.3**	**1,172.8**	**1,266.1**	**1,268.2**	**17.6**	**6.9**	**0.8**	**8.1**
Net sales	**1,068.6**	**1,132.4**	**1,097.8**	**1,123.8**	**1,142.9**	**24.0**	**6.0**	**-3.1**	**4.1**
Other operating income	18.7	29.7	71.7	102.5	125.4	-34.6	58.7	141.8	74.8
Change in inventories	1.0	1.2	3.3	39.9	n.a.	-97.1	20.8	169.2	n.m.
Material costs	-642.6	-637.4	-628.1	-683.8	-627.4	4.1	-0.8	-1.5	-0.1
Personnel costs	-78.2	-127.6	-134.2	-148.1	-154.7	18.2	63.2	5.2	15.3
Other operating costs	-294.0	-322.8	-324.3	-347.1	-368.7	79.9	9.8	0.5	13.7
EBITDA	**73.6**	**75.5**	**86.2**	**87.2**	**117.4**	**-6.1**	**2.6**	**14.2**	**36.2**
EBIT	**4.4**	**-0.68**	**11.2**	**3.4**	**23.8**	**-59.0**	**n.m.**	**n.m.**	**113.2**
Financial result	0.7	2.9	-7.0	-1.3	-21.0	-216.9	307.6	n.m.	199.7
Pre-tax profit	**5.1**	**2.2**	**4.1**	**2.1**	**2.8**	**-49.5**	**-56.3**	**85.7**	**-32.9**
Net profit	**3.6**	**0.3**	**0.2**	**1.8**	**2.4**	**-56.5**	**-90.7**	**-27.8**	**n.m.**
Effective tax rate (%)	29.1	84.9	94.1	15.2	15.2				
Capex, o/w	n.a.	n.a.	115.9	147.9	295.7	n.a.	n.a.	n.a.	155.1
Loans	n.a.	n.a.	53.2	64.1	190.1	n.a.	n.a.	n.a.	257.5

*Budget Source: Craiova Power Plant, UniCredit Research

CRAIOVA POWER PLANT: BALANCE SHEET

RON mn	2006	2007	2008	2009	2010
Non-current assets	**978.8**	**942.5**	**999.5**	**1,134.8**	**1,138.9**
Current assets, o/w	**344.3**	**301.0**	**393.7**	**446.4**	**462.8**
Cash and equivalents	12.5	14.9	33.6	5.7	7.5
Inventories	60.7	74.9	101.4	126.7	156.2
Receivables	270.7	211.1	258.6	313.8	298.9
Total assets	**1,323.1**	**1,243.5**	**1,393.2**	**1,581.2**	**1,601.7**
Shareholders' equity	**1,104.5**	**1,083.0**	**1,080.6**	**1,097.5**	**1,095.4**
Non-current liabilities, o/w	**4.7**	**4.5**	**56.4**	**99.6**	**109.1**
Interest bearing borrowings	0.0	0.0	36.3	86.7	91.9
Provisions	0.9	3.7	19.1	8.5	15.0*
Other non-current liabilities	3.8	0.8	1.0	4.4	2.2
Current liabilities, o/w	**213.9**	**156.1**	**256.2**	**384.1**	**397.3**
Interest bearing borrowings	30.0	0.0	0.0	50.6	90.3
Trade and other payables	171.3	144.1	237.9	307.8	277.6
Other current liabilities	12.6	11.9	18.3	25.7	29.5
Net debt	**17.5**	**-14.9**	**2.7**	**131.5**	**174.7**

*o/w RON 3.7mn provisions for CO2 certificates Source: Craiova Power Plant, UniCredit Research

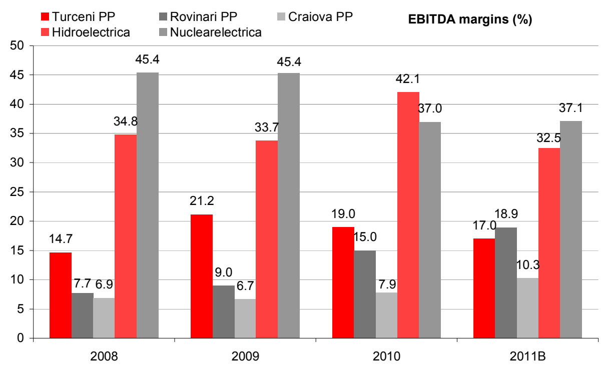
CRAIOVA POWER PLANT: KEY RATIOS

	2008	2009	2010	2010B*	2011B*
Inventory days	35	43	53	n.a.	n.a.
Receivable days	88	107	102	n.a.	n.a.
Creditor days	87	106	100	n.a.	n.a.
Sales growth (%)	24.0	6.0	-3.1	-0.8	4.1
EBITDA growth (%)	-6.1	2.6	14.2	15.4	36.2
EBIT growth (%)	-59.0	n.m.	n.m.	n.m.	113.2
Net profit growth (%)	-56.5	-90.7	-27.8	n.m.	n.m.
Material costs as % revenues	59.0	54.8	53.6	54.0	49.5
Personnel costs as % revenues	7.2	11.0	11.4	11.7	12.2
Other opex as % revenues	27.0	27.7	27.6	27.4	29.1
D&A as % revenues	6.4	6.6	6.4	6.6	7.4

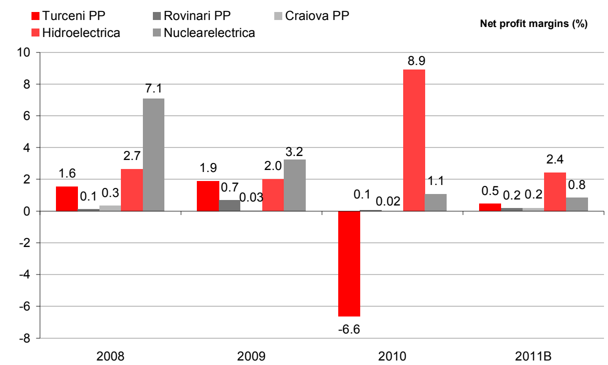
*Budget Source: Craiova Power Plant, UniCredit Research

COMPARISON OF PROFIT MARGINS OF THE ROMANIAN GENCOS

TPP the most profitable among thermal PP in 2010 EBITDA margins



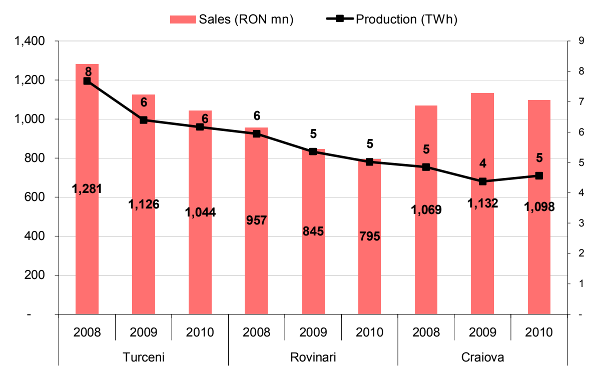
…but with a net loss in 2010 due to net FX losses



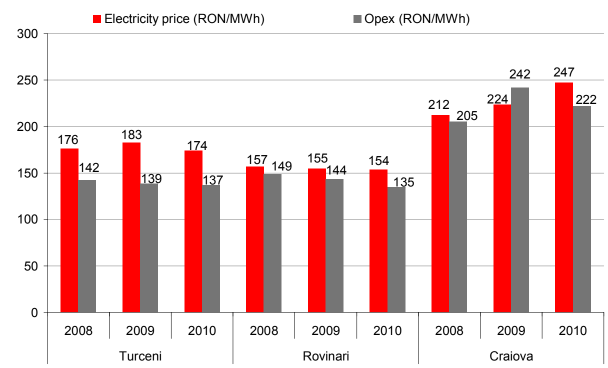
Source: Company data, UniCredit Research

COMPARISONS OF PRODUCTION, SALES AND UNIT COSTS AND PRICES

Production and sales on a downward trend in 2008-2010



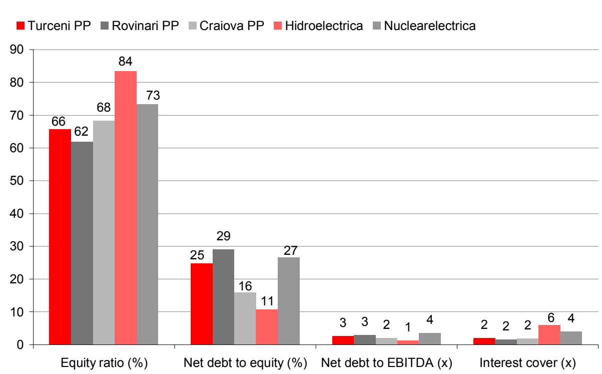
Prices on an upward trend only for Craiova PP



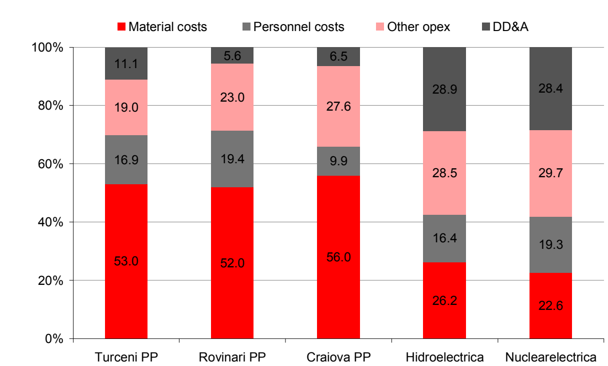
Source: Company data, UniCredit Research

COMPARISON OF INDEBTEDNESS RELATED RATIOS AND COST BREAKDOWN

Low gearing but also low interest cover ratios for all gencos (2010)



Material costs have the highest weight in total opex at thermal PP (2008-2010 averages)



Source: Company data, UniCredit Research

GDF Suez Energy Romania

Main gas supplier in southern Romania

GDF Suez Energy Romania is the main natural gas supplier in the south of Romania. As of November 2011, it had a 9.5% market share on the natgas free market and 41.7% on the regulated market. It also has subsidiaries with activities related to gas distribution and electricity supply, but natgas supply accounted for 88% of 2010 sales.

- Growth triggers: **a)** for the gas supply business – natgas price liberalization to end-users and **b)** for the gas distribution business – increase in RAB through large capex would eventually lead to more rapid growth in revenues and a decrease in maintenance costs;
- Regulatory risk – on the regulated market, gas supply prices are set by the energy market regulator ANRE, which may update them at a slower pace than the increase in import prices (generally on social considerations). Further, gas distributors submit the opex related to regulated activities to ANRE at the beginning of each regulatory period; if they are higher than the costs deemed acceptable by ANRE, distributors bear the difference, which could affect their profitability.
- Other risks: **a)** for gas distributors – lower capex implies a lower asset base and slower growth in revenues; **b)** for the gas supply business – RON depreciation against USD due to FX-denominated loans for financing acquisitions of import gas; **c)** gas consumption (mostly for industrial consumers) is sensitive to economic cycles; **d)** higher effective opening degree of the gas market (57% at January-November 2011) is likely to increase competition and put pressure on gas suppliers' margins.
- FP indicated that it should soon be able to make an announcement with respect to the appointment of an investment bank to manage the sale of FP's stakes in the electricity and gas distribution and supply companies. The company hopes to close the deals this year.

	2009*	2010*	2009**	2010**	2011B**/***
Sales (RON mn)	3,463	3,542	3,629	3,764	3,917
EBITDA (RON mn)	606	444	564	328	n.a.
EBIT (RON mn)	486	322	447	206	387
Net profit (RON mn)	416	271	380	199	326
EPS (RON)	23.5	15.3	21.5	11.2	18.4
ROCE (%)	14.1	8.4	13.6	6.1	n.a.
ROE (%)	16.2	9.6	15.1	7.4	n.a.
ROA (%)	11.1	6.5	10.0	4.7	n.a.
Net debt/Equity (%)	11.3	2.3	11.7	2.5	n.a.
Net debt/EBITDA (x)	0.5	0.1	0.5	0.2	n.a.
EBITDA margin (%)	17.5	12.5	15.6	8.7	n.a.
EBIT margin (%)	14.0	9.1	12.3	5.5	9.9
Net margin (%)	12.0	7.7	10.5	5.3	8.3

*RAS consolidated;
RAS standalone;* Budget

Source: GDF Suez Energy Romania, UniCredit Research

Not listed

INVESTMENT HIGHLIGHTS

Main gas supplier in southern Romania on the regulated market

Increase in degree of actual market opening might put pressure on margins via increased competition

TRIGGERS

Natgas price liberalization to end-users

Increase in RAB through capex

FP intends to sell its 12% stake in 2012

Shareholders	Romania Gas Holding* 51%, Ministry of the Economy 37%, Fondul Proprietatea 12%

*Main shareholder Gas de France

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Main gas supplier in southern Romania

GDF Suez Energy Romania supplies gas to 1.34mn clients in southern Romania

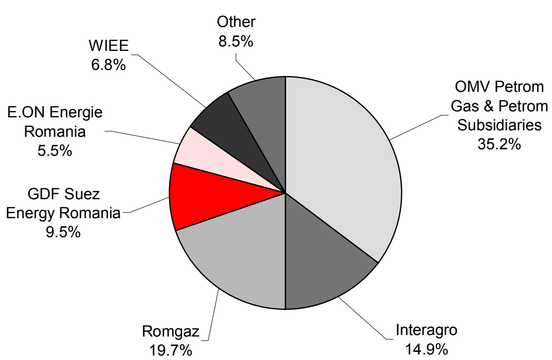
GDF Suez Energy Romania is a natural gas supplier servicing the southern part of Romania (18 counties and Bucharest), with 1.34mn clients as at December 2010. It also has subsidiaries with activities related to gas distribution and electricity supply. The gas distribution subsidiary (Distrigaz Sud Retele) was formed following the unbundling process in 2008. The distribution network (16,000 km) is carried on the balance sheet of GDF Suez Energy Romania, which rents it to Distrigaz Sud Retele, and the parent company bears the pipelines maintenance costs.

Main gas suppliers on the regulated market are GDF Suez Energy Romania and E.ON Gaz Romania

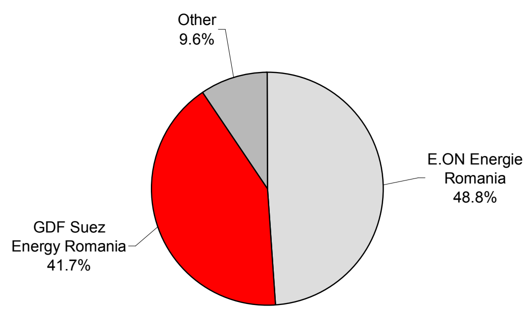
The natgas supply market is comprised of two segments: the free market and the regulated market. The free market refers to the supply of gas to consumers (which are mostly industrial) which have chosen a specific supplier, and prices are freely determined. The regulated segment refers to supply of gas (mostly to households) at regulated prices, which are set by ANRE.

GAS SUPPLY MARKET (NOVEMBER 2011)

Main gas suppliers on the free market



Main gas suppliers on the regulated market



Source: ANRE, UniCredit Research

Increase in degree of effective market opening to heighten competition among suppliers

The liberalization of the natgas market was completed in January 2007 for industrial consumers and in July 2007 for households. According to ANRE data, the actual market degree of opening was 57% at 11M2011 (latest available). The increase in the degree of opening would increase competition among gas suppliers and also the need for capex (in order to improve the quality of services provided); therefore, we believe that it is likely to put pressure on margins.

Natgas price liberalization was postponed to 2017 for the population (from 2015 previously)

The price of gas on the regulated market (which services mostly households) is set by ANRE based on a basket of import and domestic gas prices. To this price, transportation and distribution costs are added, together with the supply margin, to arrive at the final price for the end-user (which is the sales price for gas suppliers). The domestic wellhead gas price is some 50% cheaper than that which is imported and, according to EU norms, it must be aligned to international prices. Although a clear timetable is not yet available, comments from Romanian President Traian Basescu as well as from the IMF delegation chief in Romania, Jeffery Franks, have indicated that the deadlines for full price liberalization will be pushed forward. On the other hand, the previous deadlines were unrealistic, given that full liberalization was to be achieved for industrial end-users by end-2013 and for households by 2015. The liberalization of gas prices to end-users would be beneficial for gas suppliers, which should see higher margins.

The regulated return on assets is 8.63% in 2008-2012 for the gas distribution business

Gas distribution tariffs are set by ANRE on the regulated market using a methodology through which distributors are allowed to earn a certain return on the regulated asset base (currently 8.63%). The key indicators are set for a 5Y timeframe (the current regulatory period ends in December 2012). In the first year of each 5Y regulatory period, regulated revenues equal opex plus regulated D&A, to which the RAB multiplied by the regulated return on RAB is added. Revenues are then indexed each year with the difference between the inflation rate and an efficiency factor (which is 6% for 2008-2012), and other adjustments reflecting the mandatory productivity gains set by ANRE.

Main risks related to tariff methodology are failure to improve efficiency and relatively weak costs control

The key risks posed by the price methodology are: a) failure to improve efficiency - should the gas distributors not manage to increase efficiency in line with the expected efficiency factor, this could have a material impact on their financial standing; b) relatively weak costs control – at the beginning of each regulatory period, the gas distributors send to ANRE the value of opex related to the regulated activity, and if they are higher than the costs deemed acceptable by ANRE, it is borne by the distributors, putting pressure on their profitability.

In 2010, the company registered consolidated sales in RAS of RON 3,542mn (up 2.3% yoy), of which 88.2% was related to gas supply and 8.7% to gas distribution. In volume terms, the company delivered 34.8TWh to clients, up 6.7% yoy at an average price of RON 89.7/MWh. On the expenses side, costs associated with the acquisition of natgas increased by 11.3% in 2010 vs. 2009. Personnel costs reached RON 303.6mn, down 32.4% yoy as 322 employees left the company (317 were voluntary leaves). The bottom line reached RON 271mn (of which RON 199.4mn GDF Suez Energy Romania alone), lower 34.9% yoy.

SALES AND COGS BREAKDOWN

RON mn	2009	Sales (%)	2010	Sales (%)	yoy (%)
Net sales, o/w	3,463.2	100.0	3,541.5	100.0	**2.3**
Gas supply	3,066.7	88.6	3,125.2	88.2	1.9
Electricity supply	3.6	0.1	24.5	0.7	n.m.
Gas distribution	297.2	8.6	309.3	8.7	4.1
Other	95.6	2.8	82.4	2.3	-13.8
Supply of natgas (TWh)	32.6		34.8		6.7
Natgas supplied-sale price (RON/MWh)	94.0		89.7		-4.5
COGS, o/w	**-2,906.8**	**83.9**	**-3,025.4**	**85.4**	**4.1**
Acquisition of natgas	-1,962.6	56.7	-2,183.9	61.7	11.3
Transportation of natgas	-245.4	7.1	-278.3	7.9	13.4
Storage of natgas	-71.0	2.0	-61.0	1.7	-14.1
Personnel expenses	-449.0	13.0	-303.6	8.6	-32.4
D&A	-112.0	3.2	-120.8	3.4	7.9
Royalty	-8.3	0.2	-9.8	0.3	17.4
Other	-58.4	1.7	-68.0	1.9	16.3
Gross profit	**556.3**	**16.1**	**516.1**	**14.6**	**-7.2**
Gross margin (%)	**16.1**		**14.6**		

Source: GDF Suez Energy Romania, UniCredit Research

The 2010 capex was RON 204mn, and according to the 2011 budget, the company planned to spend RON 171.7mn, of which RON 108.6mn for network rehabilitation, and RON 39.6mn for pipeline extension, gas measuring devices and technical equipments.

In 1H11, GDF Suez Energy Romania registered a 4.3% increase in sales, which reached RON 2,276mn (in RAS standalone), however EBIT and net income were much lower yoy – EBIT was only RON 4.3mn, down from RON 157.5mn in 1H10.

GDF SUEZ ENERGY ROMANIA: BALANCE SHEET

	RAS consolidated		RAS standalone		
RON mn	**2009**	**2010**	**2008**	**2009**	**2010**
Non-current assets	**2,517**	**2,619**	**2,395**	**2,551**	**2,649**
Property, plant, equipment	2,432	2,508	2,264	2,432	2,508
Intangible assets	24	27	25	24	27
Financial investments	60	85	107	94	115
Current assets	**1,218**	**1,527**	**1,145**	**1,241**	**1,555**
Cash and equivalents	147	366	-77	143	364
Inventories	328	288	443	338	316
Receivables	741	870	777	759	872
Other current assets	2	3	2	2	3
Total assets	**3,735**	**4,146**	**3,540**	**3,793**	**4,204**
Share capital	177	177	177	177	177
Reserves	1,979	1,962	1,963	1,979	1,958
Retained earnings	416	684	121	365	565
Shareholders' equity	**2,572**	**2,823**	**2,261**	**2,522**	**2,701**
Non-current liabilities	**660**	**454**	**512**	**544**	**305**
Interest bearing borrowings	428	123	435	428	123
Provisions	159	219	47	44	74
Other non-current liabilities	73	112	29	72	109
Current liabilities	**503**	**870**	**768**	**727**	**1,197**
Interest bearing borrowings	10	307	50	10	307
Trade and other payables	406	459	515	507	555
Other current liabilities	88	104	203	210	335
Total liabilities	**1,163**	**1,324**	**1,279**	**1,271**	**1,503**

Source: GDF Suez Energy Romania, UniCredit Research

GDF SUEZ ENERGY ROMANIA: INCOME STATEMENT

	RAS consolidated		RAS standalone		
RON mn	**2009**	**2010**	**2008**	**2009**	**2010**
Total operating revenues	**3,534.3**	**3,592.6**	**3,783.9**	**3,679.8**	**3,802.8**
Net sales	**3,463.2**	**3,541.5**	**3,737.7**	**3,628.8**	**3,763.9**
Other operating income	69.6	50.0	41.9	49.8	37.8
Change in inventories	1.5	1.1	4.3	1.1	1.1
Material costs	-2,012.1	-2,235.4	-2,391.8	-1,977.2	-2,198.0
Personnel costs	-449.0	-303.5	-160.8	-103.9	-74.9
Other operating costs	-467.3	-609.7	-890.8	-1,034.3	-1,201.4
EBITDA	**605.8**	**444.1**	**340.6**	**564.4**	**328.4**
Depreciation & amortization	-119.4	-122.4	-191.4	-117.7	-122.4
Total operating costs	**-3,047.8**	**-3,271.0**	**-3,634.8**	**-3,233.1**	**-3,596.8**
EBIT	**486.4**	**321.6**	**149.2**	**446.7**	**206.0**
Net interest	-24.8	-8.4	-17.8	-25.1	-13.4
Interest income	33.0	24.0	21.7	32.7	24.1
Interest expense	-57.8	-32.4	-39.4	-57.8	-37.4
Other fin. Net	12.7	19.0	18.1	15.8	42.8
Financial result	-12.0	10.6	0.4	-9.3	29.4
Pre-tax profit	**474.4**	**332.2**	**149.5**	**437.4**	**235.4**
Taxes	-58.0	-61.3	-21.0	-57.1	-35.9
Net profit	**416.4**	**271.0**	**128.6**	**380.4**	**199.4**

Source: GDF Suez Energy Romania, UniCredit Research

GDF SUEZ ENERGY ROMANIA: MAIN RATIOS

	RAS consolidated		RAS standalone			
	2009	2010	2008	2009	2010	2011B*
Working capital (net) (RON mn)	577.3	598.4	503.9	381.6	300.9	n.a.
Capital employed (RON mn)	3,021.4	3,105.6	2,870.0	2,860.3	2,841.0	n.a.
Net debt (RON mn)	290.1	64.0	561.9	294.8	66.3	n.a.
Total debt (RON mn)	437.3	430.0	484.8	437.3	430.0	n.a.
Inventory days	42	34	48	40	34	n.a.
Receivable days	78	90	76	76	85	n.a.
Creditor days	52	54	55	60	59	n.a.
Sales growth (%)	n.a.	2.3	16.3	-2.9	3.7	4.1
EBITDA growth (%)	n.a.	-26.7	-14.8	65.7	-41.8	n.a.
EBIT growth (%)	n.a.	-33.9	-35.0	199.5	-53.9	87.9
Net profit growth (%)	n.a.	-34.9	-29.5	195.8	-47.6	63.5
Opex growth (%)	n.a.	7.3	18.6	-11.1	11.3	n.a.
EBITDA margin (%)	17.5	12.5	9.0	15.6	8.7	n.a.
EBIT margin (%)	14.0	9.1	3.9	12.3	5.5	9.9
Net profit margin (%)	12.0	7.7	3.4	10.5	5.3	8.3
Debt to equity (%)	17.0	15.2	21.4	17.3	15.9	n.a.
Equity ratio (%)	68.9	68.1	63.9	66.5	64.2	n.a.
ROE (%)	16.2	9.6	5.7	15.1	7.4	n.a.
ROCE (%)	14.1	8.4	4.5	13.6	6.1	n.a.
ROA (%)	11.1	6.5	3.6	10.0	4.7	n.a.
Current ratio (x)	2.4	1.8	1.5	1.7	1.3	n.a.
Quick ratio (x)	1.8	1.4	0.9	1.2	1.0	n.a.
Material costs as % oper. revenues	56.9	62.2	63.2	53.7	57.8	n.a.
Personnel costs as % oper. revenues	12.7	8.4	4.2	2.8	2.0	n.a.
Other opex as % oper. revenues	13.2	17.0	23.5	28.1	31.6	n.a.
D&A as % oper. revenues	3.4	3.4	5.1	3.2	3.2	n.a.

*Budget

Source: GDF Suez Energy Romania, UniCredit Research

GDF SUEZ ENERGY ROMANIA: 2011 COMPANY BUDGET AND 1H11 RESULTS (RAS STANDALONE)

RON mn	2009	2010	2011B*	1H10	1H11
Net sales	3,628.8	3,763.9	3,917.0	2,198.8	2,275.8
EBIT	446.7	206.0	387.0	157.5	4.3
Net profit	380.4	199.4	326.0	141.4	6.0
Margins (%)					
EBIT margin	12.3	5.5	9.9	7.2	0.2
Net margin	10.5	5.3	8.3	6.4	0.3

*Budget

Source: GDF Suez Energy Romania, FP, UniCredit Research

Utilities

Electricity distribution companies

Fondul Proprietatea holds stakes in seven electricity distribution companies. Of these, three are majority owned by Enel (covering the regions Muntenia South, Banat and Dobrogea), one by E.ON (Moldova) and three by the state through Electrica (Transilvania South, Transilvania North and Muntenia North). They distributed a combined 33.9 TWh in 2010, up 4.7% yoy, and accounted for 83% of the total energy delivered in Romania.

- Growth triggers: **a)** an increase in the asset base (through capex, which should improve the status of the electricity network) would be the basis for higher tariffs and, in the long run, would reduce maintenance costs; and **b)** an increase in electricity consumption (which, in the long term tends to vary more or less in line with changes in GDP).

- Main risks: **a)** tariffs are set by the energy market regulator ANRE; **b)** lower capex implies a lower asset base and slower growth in revenues; **c)** three electricity distributors are majority state-owned; thus, the decision-making process tends to be slower and more bureaucratic; **d)** the supply of electricity (especially to industrial users) is sensitive to economic cycles.

- FP indicated in its 4Q11 results conference call that it should soon be able to make an announcement with respect to the appointment of an investment bank to manage the sale of FP's stakes in the electricity and gas distribution and supply companies. The company hopes to close the deals this year. Moreover, the state could exercise a put option with respect to its remaining 23.57% stake in Enel Distributie Muntenia. This could take place in 2H12 according to the President of the Privatization Office of the Romanian Ministry of the Economy, quoted on www.economictimes.ro; FP has the option to sell this stake under the same terms as Electrica. However, in the case of E.ON Moldova Distributie (in which the state also has a put option), a court ruling is necessary in order to establish whether FP can sell its stake under the same conditions as the state.

2010 data	EDMN	EDTN	EDTS	EDM	EDB	EDD	EMD
Sales (RON mn)	596.1	510.0	593.0	733.8	556.0	408.0	626.2
EBITDA (RON mn)	105.6	107.5	124.8	215.4	239.4	159.7	281.8
EBIT (RON mn)	27.1	13.9	21.5	76.0	159.7	107.2	190.1
Net profit (RON mn)	26.7	8.5	11.9	105.1	148.4	99.6	165.4
Net debt/(cash)(RON mn)	-125.7	20.2	-4.1	-1,859	-462.2	-265.8	-102.4
EPS (RON)	0.75	0.23	0.28	3.87	3.88	3.56	3.31
ROCE (%)	2.2	1.0	1.2	4.6	13.3	12.1	17.1
ROE (%)	2.5	1.1	1.4	3.7	11.3	11.0	16.5
ROA (%)	1.6	0.6	0.8	2.4	7.7	6.6	8.9
Net debt/Equity (%)	-11.6	2.6	-0.5	-66.1	-35.2	-29.3	-10.2
Net debt/EBITDA (x)	-1.2	0.2	n.m.	-8.6	-1.9	-1.7	-0.4
EBITDA margin (%)	17.7	21.1	21.0	26.4	43.1	39.2	45.0
EBIT margin (%)	4.5	2.7	3.6	9.3	28.7	26.3	30.4
Net margin (%)	4.5	1.7	2.0	12.9	26.7	24.4	26.4

Source: Company data, UniCredit Research

Note

EDMN = Electrica Distributie Muntenia Nord

EDTN = Electrica Distributie Transilvania Nord

EDTS = Electrica Distributie Transilvania Sud

EDM = Enel Distributie Muntenia

EDB = Enel Distributie Banat

EDD = Enel Distributie Dobrogea

EMD = E.ON Moldova Distributie

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Each electricity distributor covers one region in Romania, with Muntenia North and Muntenia South being the largest regions

Local electricity distribution companies were set up following the unbundling process that started in July 2007, through which electricity supply, electricity distribution and ancillary services were separated. These local electricity distribution companies cover different regions of Romania and have distribution networks that range from 23,000 km (EDD) to +50,000 km (EMD and EDTS). Among the distribution companies in FP's portfolio, the two covering Muntenia distributed the largest quantities of energy in 2010: EDMN distributed 6.4 TWh and Enel's EDM 6.2 TWh.

ELECTRICITY DISTRIBUTION MARKET

TWh	2009	Total (%)	2010	Total (%)	yoy (%)
CEZ Distributie*	7.1	18.0	7.0	17.1	-1.1
Electrica Distributie Muntenia Nord	6.2	15.8	6.4	15.6	2.4
Enel Distributie Muntenia	6.0	15.2	6.2	15.3	4.2
Electrica Distributie Transilvania Sud	4.6	11.7	4.9	12.1	7.2
Electrica Distributie Transilvania Nord	4.3	10.8	4.4	10.7	3.2
E.ON Moldova Distributie	4.1	10.3	4.4	10.7	7.4
Enel Distributie Banat	3.9	9.8	4.1	10.0	5.8
Enel Distributie Dobrogea	3.3	8.5	3.5	8.5	4.0
Electricity distributed by companies in FP's portfolio	**32.3**	**82.0**	**33.9**	**82.9**	**4.7**
Total electricity distributed	**39.4**	**100.0**	**40.9**	**100.0**	**3.7**

*The only distributor not in FP's portfolio of shares

Source: ANRE, UniCredit Research

Tariffs are set by the energy market regulator using a tariff basket cap methodology

Tariffs policy – electricity distribution tariffs are set by the energy market regulator, ANRE, using a tariff basket cap methodology through which the distributors are allowed to earn a certain return on the regulated asset base (10% for privatized distributors and 7% for those that are majority state-owned). The key indicators are set for a 5Y timeframe (the current regulatory period ends in December 2012) and are adjusted on an annual basis depending on actual volumes, grid losses and costs (such as taxes) over which the distributor has no control. Revenues are indexed each year, with the difference between the inflation rate and an efficiency factor reflecting the productivity gains imposed by ANRE.

The key risks of the tariff basket cap methodology are a failure to improve efficiency and relatively weak cost control

The key risks posed by the tariff basket cap methodology are: **a)** a failure to improve efficiency – should the distributors fail to increase efficiency in line with the expected efficiency factor, this could have a material impact on their financial standing; and **b)** relatively weak cost control – at the beginning of each regulatory period, the distributors report to ANRE the value of opex related to the regulated activity; the difference between reported costs and those which are higher than deemed acceptable by ANRE is borne by the distributors, putting pressure on their profitability.

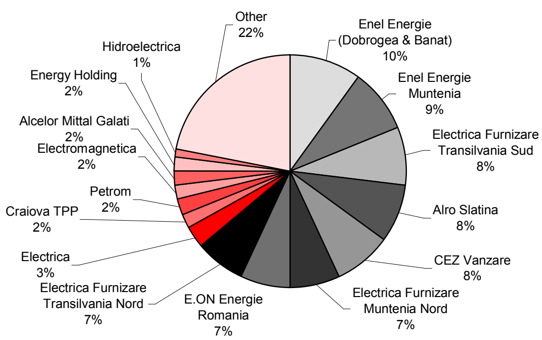
Main clients – the electricity suppliers

The main clients are the electricity suppliers in each region: the three supply subsidiaries of Electrica are the main clients of the state-owned distribution companies; Enel Energie is the main client of EDB and EDD; Enel Energie Muntenia is the main client of EDM; and E.ON Moldova Furnizare is the main client of EMD. The electricity suppliers are both clients and suppliers of the electricity distributors, as the main cost of the latter is the acquisition cost of electricity for technological consumption.

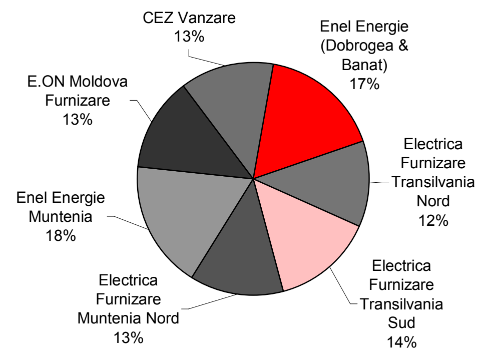
As the main clients of the distributors are by far the suppliers in their own regions, we present below, for reference, an overview of the electricity supply market. The electricity supply market is comprised of two segments – the regulated market (tariffs are set by ANRE) and the free market. The only players on the regulated market are the six suppliers in FP's portfolio together with CEZ's subsidiary (covering the Oltenia region). Total consumption of electricity stood at 16.7 TWh from the regulated segment and 21.4 TWh from the free market (January-October 2011).

MAIN ELECTRICITY SUPPLIERS' MARKET SHARES (JANUARY-OCTOBER 2011)

Electricity suppliers market shares on the free market



Electricity suppliers market shares on the regulated market



Source: ANRE, UniCredit Research

Electrica's subsidiaries have lower net margins than their privatized peers…

The three majority state-owned companies had far lower margins in the past than their privatized peers (average EBITDA margin was 19.9% in 2010 vs. 36.2% at Enel's subsidiaries and 45% at E.ON's subsidiary). The state-owned subsidiaries could see an improvement in margins in the long term if they were to increase investments in the electricity network, which would be the basis for higher tariffs set by ANRE and would reduce maintenance costs.

…and less cash than Enel's subsidiaries

The Electrica subsidiaries also display significantly lower levels of cash than their privatized peers. The Enel subsidiaries had significant levels of cash & equivalents at YE 2010 (28% of total assets on average vs. 3.8% at Electrica's subsidiaries) from the share capital increases performed post-privatization, which are to be used for investments, according to the privatization agreements.

According to the 1H11 results of the main holdings published by FP, EDMN and EDB showed yoy improvements in margins at 1H11, while EDD's EBIT margin was flattish and EDM's significantly deteriorated (its sales also declined by 5.4% yoy). At 1H11, EDMN managed to exceed its FY budget in terms of EBIT and net income, while at EDM, net income accounted for only 33% of the FY amount.

Enel has invested some EUR 1.8bn since 2005 in Romania, as reported in the weekly newspaper Capital. In 2009-2010, capex related to electricity distribution reached EUR 260mn, earmarked primarily for the upgrade of 1,000 km of medium and low voltage lines. Moreover, Enel plans to spend EUR 700mn in the next five years in network upgrades The greater part of 2010-2012 investments would be designated for the Muntenia region. The state-owned distribution companies budgeted a combined RON 302.1mn in capex for 2011, 12.7% lower yoy. EDTS and EDMN had the highest levels of investments in 2010 (RON 135.7mn and RON 131.8mn, respectively).

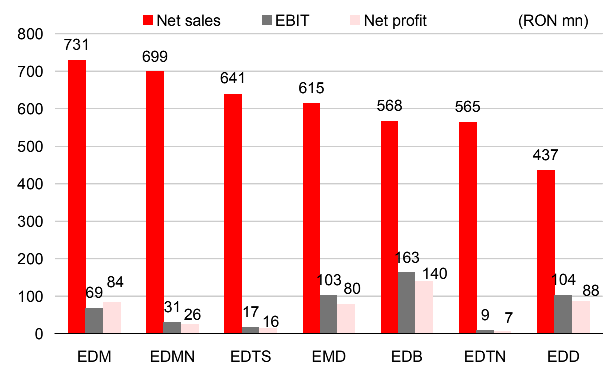
ROMANIAN ELECTRICITY DISTRIBUTION COMPANIES: 1H11 RESULTS

	EDMN		EDB		EDD		EDM	
RON mn	**1H10**	**1H11**	**1H10**	**1H11**	**1H10**	**1H11**	**1H10**	**1H11**
Net sales	298.0	337.3	278.1	289.9	200.8	220.4	368.6	348.5
EBIT	24.2	43.9	101.0	125.1	59.0	65.1	69.1	30.1
Net profit	18.6	39.8	95.9	114.5	56.8	57.2	128.0	27.6
Margins (%)								
EBIT margin	8.1	13.0	36.3	43.2	29.4	29.5	18.7	8.6
Net margin	6.2	11.8	34.5	39.5	28.3	26.0	34.7	7.9

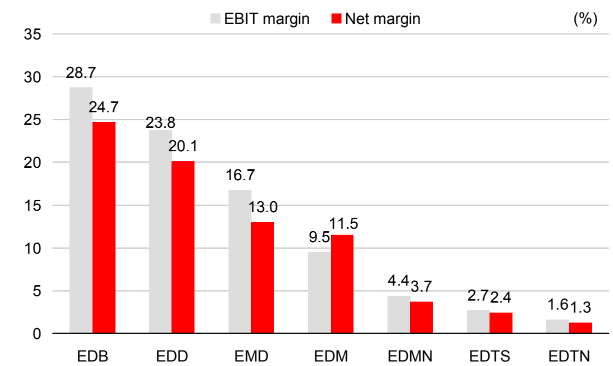
Source: FP, UniCredit Research

ROMANIAN ELECTRICITY DISTRIBUTION COMPANIES: GUIDANCE FOR 2011

Key financials according to the respective 2011 budgets



Expected margins in 2011 according to companies' guidance



Source: FP, UniCredit Research

OPEX BREAKDOWN

%	EDMN	EDTN	EDTS	EDM	EDB	EDD	EONMD
2009							
Total opex	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Electricity cost	28.8	27.1	29.5	46.1	32.3	33.6	23.8
Third party expenses	28.7	26.0	28.0	23.2	24.4	24.5	26.8
Personnel expenses	19.0	21.8	18.8	14.7	20.1	21.3	22.0
Other opex	23.5	25.1	23.7	16.0	23.2	20.6	27.4
2010							
Total opex	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Electricity cost	33.4	28.7	27.8	39.3	28.4	31.8	n.a.
Third party expenses	29.8	25.3	29.9	21.3	21.2	22.0	26.2
Personnel expenses	20.8	21.9	17.4	13.8	20.2	22.0	20.7
Other opex	16.0	24.1	24.9	25.6	30.3	24.2	n.a.

Source: Company data, UniCredit Research

ENEL SUBSIDIARIES – ENERGY DISTRIBUTION VOLUMES

		EDB			EDD			EDM	
GWh	**2008**	**2009**	**2010**	**2008**	**2009**	**2010**	**2008**	**2009**	**2010**
Electricity distributed, o/w	**3,961**	**3,854**	**4,078**	**3,470**	**3,346**	**3,480**	**5,038**	**5,997**	**6,248**
Captive consumers	2,353	2,288	2,155	1,850	1,855	1,726	3,696	4,429	4,221
Eligible consumers	1,608	1,570	1,923	1,620	1,494	1,754	1,342	1,588	2,048
total (%)									
Electricity distributed, o/w	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Captive consumers	59.4	59.4	52.8	53.3	55.4	49.6	73.4	73.9	67.6
Eligible consumers	40.6	40.7	47.2	46.7	44.7	50.4	26.6	26.5	32.8
yoy (%)									
Electricity distributed, o/w		**-2.7**	**5.8**		**-3.6**	**4.0**		**19.0**	**4.2**
Captive consumers		-2.8	-5.8		0.3	-7.0		19.8	-4.7
Eligible consumers		-2.4	22.5		-7.8	17.4		18.3	29.0

Source: Company data, UniCredit Research

ROMANIAN ELECTRICITY DISTRIBUTION COMPANIES: BALANCE SHEETS

	EDMN		EDTN		EDTS		EDM		EDB		EDD		EMD	
RON mn	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
Non-current assets	**1,378**	**1,432**	**1,303**	**1,334**	**1,288**	**1,372**	**1,779**	**2,343**	**1,072**	**1,288**	**842**	**1,100**	**1,249**	**1,290**
Property, plant, equipment	1,354	1,408	1,292	1,320	1,276	1,365	1,777	2,338	1,053	1,268	822	1,079	1,227	1,273
Intangible assets	24	24	11	14	12	6	1	6	3	3	3	4	21	17
Financial investments	0	0	0	0	0	0	0	0	17	17	17	17	0	0
Current assets	**299**	**267**	**168**	**152**	**160**	**164**	**2,151**	**2,070**	**561**	**643**	**357**	**401**	**401**	**565**
Cash and equivalents	104	134	70	30	38	23	1,855	1,859	400	462	228	266	0	102
Inventories	5	11	4	6	4	2	29	17	21	9	21	19	16	18
Receivables	190	122	95	116	118	139	267	195	140	171	107	115	385	444
Total assets	**1,677**	**1,699**	**1,472**	**1,486**	**1,448**	**1,536**	**3,930**	**4,414**	**1,633**	**1,931**	**1,199**	**1,501**	**1,650**	**1,855**
Share capital	354	354	371	371	424	428	271	271	382	382	280	280	500	500
Reserves	782	783	593	593	546	543	1,984	1,991	521	532	371	379	418	428
Retained earnings	-80	-55	-196	-188	-147	-137	450	548	249	399	155	248	-96	76
Capital and reserves	**1,056**	**1,082**	**768**	**777**	**822**	**834**	**2,705**	**2,810**	**1,152**	**1,313**	**807**	**908**	**822**	**1,003**
Non-current liabilities	**438**	**451**	**494**	**479**	**455**	**469**	**922**	**1,036**	**310**	**365**	**234**	**284**	**395**	**393**
LT debt	18	3	30	11	11	8	0	0	0	0	0	0	0	0
Provisions	91	78	80	72	60	111	187	222	96	121	78	83	97	63
Other non-current liabilities	329	370	383	396	384	350	735	814	214	243	156	202	299	330
Current liabilities	**183**	**166**	**210**	**231**	**170**	**232**	**302**	**567**	**171**	**254**	**158**	**309**	**432**	**459**
ST debt	0	6	38	38	7	10	0	0	0	0	0	0	15	0
Trade and other payables	95	139	85	174	57	98	269	531	147	223	143	285	35	58
Other current liabilities	89	21	87	18	107	124	34	36	24	31	15	24	382	401
Total liabilities	**622**	**617**	**703**	**710**	**625**	**701**	**1,224**	**1,604**	**481**	**618**	**392**	**593**	**828**	**852**
Net debt/(cash)	-86	-126	-1	20	-20	-4	-1,855	-1,859	-400	-462	-228	-266	15	-102

Source: Company data, UniCredit Research

ROMANIAN ELECTRICITY DISTRIBUTION COMPANIES: INCOME STATEMENTS

	EDMN		EDTN		EDTS		EDM		EDB		EDD		EMD	
RON mn	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
Total operating revenues	**646.1**	**614.1**	**527.3**	**537.1**	**567.6**	**623.8**	**778.4**	**817.2**	**547.7**	**593.3**	**407.2**	**445.1**	**648.6**	**660.4**
Net sales	**611.5**	**596.1**	**495.9**	**510.0**	**539.2**	**593.0**	**732.7**	**733.8**	**526.4**	**556.0**	**391.5**	**408.0**	**630.1**	**626.2**
Other operating income	33.7	16.8	30.1	25.5	27.2	29.7	40.3	58.3	16.0	19.0	10.0	20.9	17.5	32.1
Change in inventories	1.0	1.2	1.3	1.5	1.2	1.2	5.5	25.1	5.3	18.2	5.8	16.2	1.0	2.0
Material costs	-201.6	-213.5	-157.8	-172.5	-185.1	-205.5	-311.4	-306.6	-140.4	-138.3	-115.8	-118.5	-172.9	-179.6
Personnel costs	-117.7	-122.0	-110.6	-114.8	-101.2	-104.9	-96.6	-102.2	-82.0	-87.6	-68.5	-74.5	-124.7	-97.3
Other operating costs	-220.1	-173.0	-147.2	-142.3	-162.2	-188.7	-144.7	-193.0	-107.5	-127.9	-81.4	-92.4	-187.7	-101.7
EBITDA	**106.7**	**105.6**	**111.7**	**107.5**	**119.1**	**124.8**	**225.8**	**215.4**	**217.9**	**239.4**	**141.5**	**159.7**	**163.3**	**281.8**
D&A	-79.0	-78.5	-90.6	-93.6	-89.3	-103.2	-102.8	-139.4	-77.6	-79.7	-56.4	-52.6	-82.3	-91.7
Total operating costs	**-618.4**	**-587.0**	**-506.2**	**-523.1**	**-537.8**	**-602.3**	**-655.5**	**-741.2**	**-407.4**	**-433.6**	**-322.2**	**-337.9**	**-567.6**	**-470.3**
EBIT	**27.7**	**27.1**	**21.1**	**13.9**	**29.8**	**21.5**	**122.9**	**76.0**	**140.3**	**159.7**	**85.0**	**107.2**	**81.0**	**190.1**
Net interest	10.6	5.7	5.8	0.9	7.5	0.3	125.6	49.4	40.3	23.6	25.0	14.1	-3.8	1.5
Other fin. Net	-3.0	-0.4	-5.8	-0.6	-5.9	-2.1	92.1	23.9	1.1	0.2	1.3	0.2	-1.9	0.3
Financial result	7.7	5.3	0.1	0.3	1.6	-1.8	217.7	73.3	41.4	23.8	26.3	14.3	-5.7	1.8
Extraordinary expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.7	-0.3	0.0	0.0	-3.1	-1.5
Pre-tax profit	**35.4**	**32.3**	**21.2**	**14.2**	**31.5**	**19.7**	**340.7**	**149.3**	**181.0**	**183.3**	**111.3**	**121.5**	**72.2**	**190.4**
Taxes	-10.7	-5.7	-7.3	-5.7	-8.3	-7.8	-60.6	-44.2	-30.3	-34.8	-19.3	-21.9	-18.7	-25.0
Net profit	**24.7**	**26.7**	**14.0**	**8.5**	**23.2**	**11.9**	**280.1**	**105.1**	**150.7**	**148.4**	**92.1**	**99.6**	**53.6**	**165.4**

Source: Company data, UniCredit Research

ROMANIAN ELECTRICITY DISTRIBUTION COMPANIES: MAIN RATIOS

	2009							2010						
	EDMN	**EDTN**	**EDTS**	**EDM**	**EDB**	**EDD**	**EMD**	**EDMN**	**EDTN**	**EDTS**	**EDM**	**EDB**	**EDD**	**EMD**
Inventory days	4	3	3	21	25	31	9	8	5	2	12	11	28	11
Receivable days	113	70	80	133	97	100	223	75	83	85	97	112	103	259
Creditor days	69	81	49	194	174	209	28	104	158	76	374	257	420	61
Sales growth (%)	-0.5	-2.3	2.6	-49.1	3.9	1.8	6.8	-2.5	2.9	10.0	0.2	5.6	4.2	-0.6
EBITDA growth (%)	-34.7	20.2	30.5	50.3	20.4	27.4	50.9	-1.1	-3.8	4.7	-4.6	9.9	12.9	72.5
EBIT growth (%)	-71.2	-48.3	-12.7	148.4	31.2	47.6	61.3	-2.5	-34.1	-27.7	-38.2	13.9	26.1	134.7
Net profit growth (%)	-67.7	-42.4	-14.3	26.9	31.1	44.7	97.2	8.2	-38.9	-48.5	-62.5	-1.5	8.2	208.8
Opex growth (%)	17.1	5.2	3.3	-54.7	-2.6	-5.3	3.0	-5.1	3.4	12.0	13.1	6.4	4.9	-17.2
EBITDA margin (%)	17.5	22.5	22.1	29.0	41.4	36.1	25.9	17.7	21.1	21.0	26.4	43.1	39.2	45.0
EBIT margin (%)	4.5	4.3	5.5	15.8	26.6	21.7	12.9	4.5	2.7	3.6	9.3	28.7	26.3	30.4
Net profit margin (%)	4.0	2.8	4.3	36.0	28.6	23.5	8.5	4.5	1.7	2.0	12.9	26.7	24.4	26.4
Net debt/EBITDA (x)	-0.8	n.m.	-0.2	-8.2	-1.8	-1.6	0.1	-1.2	0.2	n.m.	-8.6	-1.9	-1.7	-0.4
Debt to equity (%)	1.7	8.9	22.0	0.0	0.0	0.0	1.9	0.8	6.4	28.8	0.0	0.0	0.0	0.0
Equity ratio (%)	62.9	52.2	56.8	68.8	70.6	67.3	49.8	63.7	52.2	54.3	63.7	68.0	60.5	54.1
Net debt to equity (%)	-8.1	-0.2	-2.5	-68.6	-34.7	-28.3	1.8	-11.6	2.6	-0.5	-66.1	-35.2	-29.3	-10.2
ROE (%)	2.3	1.8	2.8	10.4	13.1	11.4	6.5	2.5	1.1	1.4	3.7	11.3	11.0	16.5
ROCE (%)	1.8	1.6	2.3	9.7	13.8	10.7	6.4	2.2	1.0	1.2	4.6	13.3	12.1	17.1
ROA (%)	1.5	0.9	1.6	7.1	9.2	7.7	3.2	1.6	0.6	0.8	2.4	7.7	6.6	8.9
Current ratio (x)	1.6	0.8	0.4	7.1	3.3	2.3	0.9	1.6	0.7	0.5	3.7	2.5	1.3	1.2
Quick ratio (x)	1.6	0.8	0.4	7.0	3.2	2.1	0.9	1.5	0.6	0.5	3.6	2.5	1.2	1.2

Source: Company data, UniCredit Research

MAJORITY STATE-OWNED ELECTRICITY DISTRIBUTORS-SHAREHOLDERS (DECEMBER 2010)

	EDMN		EDTN		EDTS	
	No. shares (mn)	Stake (%)	No. shares (mn)	Stake (%)	No. shares (mn)	Stake (%)
Electrica (state-owned)	27.6	78.0	29.0	78.0	33.1	114.2
Fondul Proprietatea	7.8	22.0	8.2	22.0	9.3	32.2
Total	**35.4**	**100.0**	**37.1**	**100.0**	**42.4**	**146.4**

Source: Company data, UniCredit Research

ENEL ELECTRICITY DISTRIBUTION SUBSIDIARIES-SHAREHOLDERS (DECEMBER 2010)

	EDB		EDM		EDD	
	No. shares (mn)	Stake (%)	No. shares mn	Stake %	No. shares (mn)	Stake (%)
Enel Investment Holding BV	19.5	51.0	17.5	64.4	14.3	51.0
Electrica (state-owned)	9.5	24.9	6.4	23.6	7.0	24.9
Fondul Proprietatea	9.2	24.1	3.3	12.0	6.8	24.1
Total	**38.2**	**100.0**	**27.1**	**100.0**	**28.0**	**100.0**

Source: Company data, UniCredit Research

EMD SHAREHOLDERS (DECEMBER 2009)

	No. shares (mn)	Stake (%)
E.ON Romania	25.5	51.0
Electrica	13.5	27.0
Fondul Proprietatea	11.0	22.0
Total	**50.0**	**100.0**

Source: E.ON Moldova Distributie, UniCredit Research

Bucharest Airports (CNAB)

Main airport operator in Romania

CNAB (Compania Nationala Aeroporturi Bucuresti) operates the two largest airports in Romania – Henri Coanda Airport (HC) and Aurel Vlaicu Airport (AV). Traffic reached 5.7mn pax at 9M11, up 6% yoy, per the daily ZF. In 2010, CNAB transported 69.5% of Romania's air passengers, and covered 65.4% of aircraft movements and 91.8% of cargo traffic.

- Main growth triggers are: **a)** the potential 5% IPO (to take place by December 2012, the likelihood of which we discount given the government's poor track record with respect to timing); **b)** given the heavy capex, CNAB has high operating leverage, therefore it should benefit from increasing pax numbers (e.g. after Romania becomes a party to Schengen); **c)** increase in weight of non-aviation revenues (at HC Airport only 70% of the commercial area was rented in 2010).

- Main risks: **a)** it is a majority state-owned company, therefore the decision-making process is more protracted; **b)** pressure on margins from increased competition from other airports attracting low cost airlines, supported by higher demand from Romanians working abroad; **c)** disruption in traffic caused by weather conditions; **d)** the still difficult macro context might discourage air travel, which is more expensive than other means of transportation.

- CNAB is implementing an investment program, at the conclusion of which HC Airport should be able to transport up to 6mn pax/year by mid-2012 and take over the low-cost traffic from AV Airport. The latter would become a city airport, for business and VIP travelers, with a 30,000 pax/year capacity. Capex for these investments amounts to EUR 179mn for 2009-2012 at HC Airport.

	HC Airport (2009)	AV Airport (2009)	CNAB (2010)	CNAB (2011B*)
Sales (RON mn)	304.5	91.2	396.8	486.7
EBITDA (RON mn)	137.7	31.9	164.8	216.9
EBIT (RON mn)	57.8	24.7	54.2	111.9
Net profit (RON mn)	59.5	14.6	42.5	99.2
EPS (RON)	4.2	26.1	3.0	6.9
ROCE (%)	4.5	0.4	0.8	n.a.
ROE (%)	5.6	0.4	0.9	n.a.
ROA (%)	3.5	0.2	0.6	n.a.
Net debt/Equity (%)	-1.7	-0.8	-1.2	n.a.
Net debt/EBITDA (x)	-0.1	-1.0	-0.4	n.a.
EBITDA margin (%)	45.2	47.2	41.5	44.6
EBIT margin (%)	19.0	27.1	13.7	23.0
Net margin (%)	19.5	16.0	10.7	20.4

*Budget

Source: CNAB, UniCredit Research

Not listed

INVESTMENT HIGHLIGHTS
Market leader in terms of passenger traffic (69.5% market share in 2010)
Majority state-owned
Heavy capex program

TRIGGERS
Potential IPO (5% of the share capital)
Romania's accession to Schengen
Capacity expansion at Henri Coanda Airport

Shareholders	Ministry of Transportation 80%, Fondul Proprietatea 20%

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This company is not part of UniCredit Research's coverage and, therefore, no investment advice or financial forecasts are included.

Main airport operator in the country

CNAB is the main airport operator in Romania…

CNAB arose from the merger of Henri Coanda and Aurel Vlaicu Airports in February 2010. CNAB manages the two airports located near Romania's capital, at Otopeni (20 km from Bucharest) and Baneasa (8.5 km from Bucharest).

…and resulted from the merger of the two airports near Bucharest

The Henri Coanda Airport (HC) is the largest in Romania (48.6% market share in 2010) and also the most modern. In 2010, the stated destination of 41% of the total number of passengers embarked was within the Schengen Area. The Aurel Vlaicu Airport (AV) is the second largest in the country (20.9% market share in 2010) and provides services primarily to low-cost airlines. It was built with an initial operating capacity of 300,000 pax per year, and given its location near a residential area, there is limited potential for expansion. In recent years, it has seen more than doubling of pax numbers (from 1mn pax in 2007 to 2.1mn pax in 2010), attributable primarily to the increasing number of Romanians seeking work abroad. The state intends to transform AV into a city airport, catering to business and VIP travelers, while the low cost traffic should be shifted to HC by March 2012, according to the news agency Mediafax.

TRAFFIC DATA FOR THE BUCHAREST AIRPORTS

	HC Airport				AV Airport				CNAB				
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010	2011B
Number of pax (mn)	5.0	5.1	4.5	4.9	1.0	1.7	2.0	2.1	5.9	6.8	6.5	7.0	7.25*
Aircraft movements ('000)	70.6	71.7	72.7	77.0	17.9	28.2	31.0	29.7	88.5	99.9	103.7	106.7	n.a.
Cargo ('000 tons)	17.4	22.5	21.6	23.2	n.a.	1.0	1.2	0.2	n.a.	23.5	22.8	23.4	n.a.

*According to a communiqué issued by the Ministry of Transportation

Source: Mediafax, CNAB, UniCredit Research

Sales and net income up yoy in 1H11, but the net margin shrank

CNAB registered RON 214.8mn in net sales in 1H11, up 34.1% yoy, according to Mediafax. Pre-tax income came in at RON 56.9mn, up 6.1% yoy, with the pre-tax margin decreasing 7pp to 26.5%.

Ambitious capex program to increase capacity to 6mn pax per year. In March 2011, CNAB finalized the expansion of a terminal at HC, following the execution of a EUR 60mn capex program (during September 2009-March 2011) to comply with Schengen Rules. CNAB is now developing the expansion project for the departures terminal to be commissioned in July 2012 (EUR 62mn); moreover, it plans to commission a Schengen and international arrivals terminal by August 2012. These investments are part of a larger modernization program through which capacity is to increase to 6mn pax/year.

CNAB plans to finance its RON 1,159.2mn budgeted capex in 2011 through own sources (a mere 9.6%, due in part to the 90% mandatory payout ratio for 2010, which reduced own sources of financing), but mostly from bank loans (54%).

According to the daily Bursa, **CNAB estimates a net income of only RON 27.2mn in 2012** (as per the 2012 budget proposal), vs. RON 99.2mn budgeted for 2011. Capex would reach RON 591.7mn in 2012 (down 49% vs. the 2011 budgeted amount), RON 380.5mn in 2013 (down 35.7% yoy) and RON 286.1mn in 2014 (down 24.8% yoy).

BALANCE SHEETS

	HC Airport			AV Airport			CNAB	
RON mn	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2009**	**2010**
Non-current assets	**1,457.7**	**1,501.7**	**1,575.6**	**1,922.0**	**5,919.4**	**5,918.1**	**7,482.3**	**7,536.4**
Property, plant, equipment	1,095.6	1,104.7	1,177.9	253.9	4,251.0	4,249.4	5,416.6	5,471.3
Intangible assets	338.5	338.8	339.3	1,668.1	1,668.1	1,668.3	2,007.4	2,006.8
Financial investments	23.7	58.3	58.5	0.0	0.4	0.4	58.3	58.3
Current assets	**197.8**	**204.4**	**119.3**	**22.9**	**52.0**	**49.4**	**176.4**	**168.1**
Cash and equivalents	111.5	125.4	30.3	3.1	8.9	32.9	75.8	62.1
Inventories	44.7	22.0	17.1	0.4	0.4	0.1	17.1	12.3
Receivables	41.6	56.4	71.2	19.4	39.4	14.9	81.5	92.9
Other current assets	0.1	0.7	0.7	0.0	3.3	0.0	2.0	0.8
Total assets	**1,655.5**	**1,706.2**	**1,695.0**	**1,944.9**	**5,971.4**	**5,967.5**	**7,658.7**	**7,704.5**
Share capital	143.2	143.2	143.2	0.6	0.6	0.6	143.8	143.8
Reserves	655.7	700.2	855.0	46.7*	3,964.9	3,964.9	4,820.2	4,776.6
Retained earnings	83.1	98.1	56.6	-10.6	-10.4	7.7	74.6	52.5
Shareholders' equity	**882.0**	**941.6**	**1,054.8**	**36.6**	**3,955.0**	**3,973.2**	**5,038.5**	**4,972.9**
Non-current liabilities	**714.2**	**625.5**	**600.9**	**1,880.6**	**1,974.7**	**1,959.8**	**2,467.6**	**2,539.4**
Interest bearing borrowings	116.3	12.0	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	14.8	17.2	18.6	2.8	3.7	23.7	42.3	63.9
Other non-current liabilities	583.0	596.4	582.3	1,877.8	1,971.0	1,936.1	2,425.3	2,475.5
Current liabilities	**59.4**	**139.1**	**39.2**	**27.7**	**41.7**	**34.5**	**152.6**	**192.2**
Interest bearing borrowings	33.7	116.5	12.7	n.a.	0.0	0.0	12.4	0.0
Trade and other payables	15.7	12.4	16.6	n.a.	38.2	32.4	131.8	173.1
Other current liabilities	10.0	10.2	9.9	n.a.	3.5	2.1	8.4	19.1
Total liabilities	**773.6**	**764.6**	**640.1**	**1,908.3**	**2,016.4**	**1,994.3**	**2,620.2**	**2,731.6**

*Reserves soared in 2008 after a land revaluation

Source: CNAB, UniCredit Research

INCOME STATEMENTS

	HC Airport			AV Airport			CNAB		
RON mn	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2009***	**2010**	**2011B**
Total operating revenues	**282.1**	**318.9**	**328.6**	**39.6**	**77.1**	**103.9**	**432.5**	**430.6**	**546.5**
Net sales	**261.4**	**296.5**	**304.5**	**37.2**	**68.2**	**91.2**	**395.7**	**396.8**	**486.7**
Other operating income	20.7	22.4	24.1	2.4	8.8	12.7	36.8	33.8	59.9
Material costs	-18.2	-21.2	-24.5	-2.8	-3.8	-5.1	-29.6	-24.0	-28.5
Personnel costs	-36.5	-47.6	-51.0	-5.5	-7.8	-9.3	-60.2	-76.8	-90.4
Other operating costs	-67.2	-93.2	-115.5	-13.5	-28.3	-46.5	-161.9	-165.0	-210.7
EBITDA	**160.3**	**156.9**	**137.7**	**17.8**	**37.1**	**31.9**	**169.5**	**164.8**	**216.9**
Depreciation & amortisation	-55.4	-78.0	-79.9	-1.7	-14.3	-18.4	-98.3	-110.6	-105.0
Total operating costs	**-177.2**	**-240.0**	**-270.8**	**-23.5**	**-54.2**	**-79.2**	**-350.0**	**-376.4**	**-434.6**
EBIT	**104.9**	**78.9**	**57.8**	**16.1**	**22.8**	**24.7**	**82.5**	**54.2**	**111.9**
Net interest	3.7	14.5	10.3	-16.9	0.5	0.6	10.8	0.9	-11.5
Interest income	3.7	14.5	10.5	0.3	0.5	0.6	11.1	1.1	1.3
Interest expense	0.0	0.0	-0.2	-17.2	0.0	0.0	-0.2	-0.2	-12.8
Other fin. net	-7.3	23.8	3.5	-10.0	-23.4	-4.9	-1.4	3.4	17.7
Financial result	-3.6	38.3	13.8	-26.9	-22.9	-4.4	9.5	4.3	6.2
Pre-tax profit	**101.3**	**117.3**	**71.6**	**-10.8**	**-0.1**	**20.3**	**91.9**	**58.5**	**118.1**
Taxes	-14.2	-14.1	-12.1	0.0	0.0	-5.7	-17.9	-16.0	-18.9
Net profit	**87.1**	**103.1**	**59.5**	**-10.8**	**-0.1**	**14.6**	**74.1**	**42.5**	**99.2**

*The financials for HC Airport and AV Airport cumulated (the figures for CNAB were not reported)

Source: CNAB, UniCredit Research

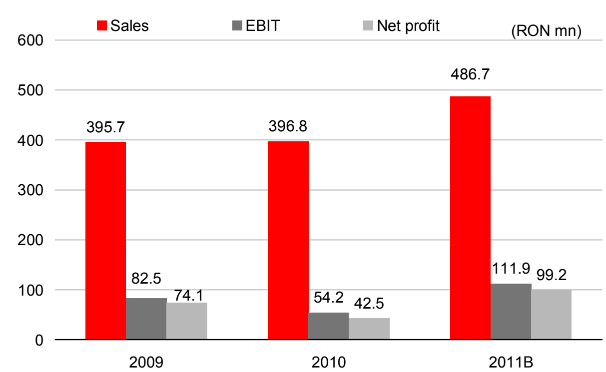
MAIN RATIOS

	HC Airport			AV Airport			CNAB		
	2007	2008	2009	2007	2008	2009	2009*	2010	2011B
Sales growth (%)	20.2	13.4	2.7	59.2	83.3	33.6	8.5	0.3	22.6
EBITDA growth (%)	20.9	-2.1	-12.3	243.1	109.0	-14.2	-6.9	-2.8	31.7
EBIT growth (%)	48.0	-24.8	-26.8	301.2	41.8	8.2	-18.9	-34.3	106.6
Net profit growth (%)	9.6	18.4	-42.3	n.m.	-99.4	n.m.	-28.1	-42.6	133.1
Opex growth (%)	6.9	35.4	12.9	17.4	130.4	46.0	19.0	7.5	15.5
EBITDA margin (%)	61.3	52.9	45.2	47.7	54.4	47.2	45.7	41.5	44.6
EBIT margin (%)	40.1	26.6	19.0	43.2	33.4	27.1	20.8	13.7	23.0
Net profit margin (%)	33.3	34.8	19.5	-29.1	-0.1	16.0	18.7	10.7	20.4
Debt to equity (%)	17.0	13.6	1.2	n.a.	0.0	0.0	0.2	0.0	n.a.
Equity ratio (%)	53.3	55.2	62.2	1.9	66.2	66.6	65.8	64.5	n.a.
Net debt to equity (%)	4.4	0.3	-1.7	n.a.	-0.2	-0.8	-1.3	-1.2	n.a.
ROE (%)	9.9	11.0	5.6	Neg.	Neg.	0.4	1.5	0.9	n.a.
ROCE (%)	9.6	7.2	4.5	44.2	0.6	0.4	1.3	0.8	n.a.
ROA (%)	5.3	6.0	3.5	Neg.	Neg.	0.2	1.0	0.6	n.a.
Current ratio (x)	3.3	1.5	3.0	0.8	1.2	1.4	1.2	0.9	n.a.
Quick ratio (x)	2.6	1.3	2.6	0.8	1.2	1.4	1.0	0.8	n.a.
Material costs as % oper. revenues	10.3	8.8	9.0	12.1	7.0	6.4	6.8	5.6	5.2
Personnel costs as % oper. revenues	20.6	19.8	18.8	23.6	14.4	11.7	13.9	17.8	16.5
Other opex as % oper. revenues	37.9	38.8	42.6	57.3	52.2	58.7	37.4	38.3	38.6
D&A as % oper. revenues	31.2	32.5	29.5	7.1	26.3	23.2	22.7	25.7	19.2

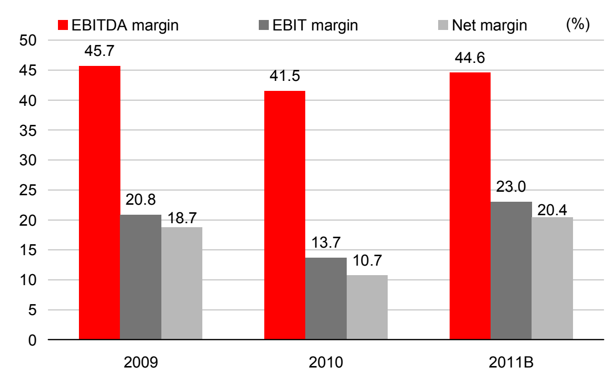
*Based on the cumulated financials for HC Airport and AV Airport (the figures for CNAB were not reported) Source: CNAB, UniCredit Research

2011 BUDGETED MARGINS ARE CLOSER TO THE 2009 LEVELS

Evolution of main P&L lines



Evolution of margins



NB. 2009 financials and margins are based on the cumulated financials for HC Airport and AV Airport (the figures for CNAB were not reported) Source: CNAB, UniCredit Research

CNAB'S CAPEX PROGRAM

RON mn	2010	2011B*	2012B*/**	2013B*/**	2014B*/**
Total capex	139.2	1,159.2	591.7	380.5	286.1
Own sources	139.2	111.0	146.4	n.a.	n.a.
Bank loans	0.0	621.9	445.3	n.a.	n.a.
Other sources	0.0	426.3	0.0	n.a.	n.a.

*Budget; **As per the daily Bursa Source: CNAB, Bursa, UniCredit Research

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Fondul Proprietatea	-

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Company	Date	Rating	Currency	Target price
Fondul Proprietatea	13/05/2011	BUY	RON	0.91
Fondul Proprietatea	25/02/2011	BUY	RON	0.94

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