RESUMING OF COVERAGE

Powered by returns to shareholders

We resume coverage on Fondul Proprietatea (FP), with a Buy rating and a 12M TP of RON 1.01/share. FP currently trades at unwarranted discounts to its official NAV (34.4%), our fair NAV (29.4%), and peers (that mostly trade at up to 15%-20% discounts to their NAVs). In our view, the discounts are mainly due to the fact that ca. 43% of FP's official NAV is in unlisted holdings, mostly majority state owned with poor corporate governance and lower profitability vs. peers. We expect the valuation gap to reduce via the listings as well as via some of FP's corporate actions such as buybacks, distributions and the secondary London Stock Exchange listing. Hidden value of the unlisted portfolio can be unlocked in our view also via the liberalization of the energy market. Among risks, we would mention the regulatory and political risks and to a lesser extent litigations.

- **Our 12M TP is calculated based on a fair NAV that in turn is a sum of the parts of valuations for key holdings.** We apply a 20% discount to our fair NAV to account for FP's holding status and the fact that some of its key holdings are not listed. We value the listed covered stocks at fair prices and the other listed holdings at prices on 10 March 2014, while for the valuation of the key unlisted holdings, we use a combination of operational and financial multiples. We performed separate valuations for 14 unlisted holdings (out of the 38) accounting for 93% of our fair value of the unlisted portfolio (overall, we have fair values for 21 out of the 62 companies accounting for 95% of our fair value of the shares' portfolio).
- **Major triggers and catalysts:** we view buybacks and distributions as major supports for FP's share price. The London secondary listing should bring increased visibility for FP in particular but also for some of its holdings and the overall Romanian capital market in general, with a positive impact on FP's price performance. The liberalization of the energy market should also improve the profitability of key companies in FP's portfolio, which together with the IPOs of some of FP's unlisted holdings should unlock their hidden value and set more reliable valuations for the respective stocks and eventually lead to FP's re-rating.
- **Main risks:** we view the state's interference in the activity of most of FP's unlisted holdings as a major risk (influence on the capex and dividend policies). Regulatory risk is also important (setting prices and quantities of the energy sold on the regulated market or implementing arbitrary taxes). Litigations with Mrs. Sfiraiala have become less important lately, while the relationship with the FSA creates both litigation and regulatory risks and has been bumpy in FP's recent history.
- **Share price performance:** after being one of the best performers on the BVB and after outperforming the BET index by 26pp (in 2013 FP share price was 51.7% up), there has been some profit taking at some point and regional turbulences took their toll. However, FP's recent share price has been relatively steady and the stock still has upside potential given its catalysts and provided investors do not enter in a risk off mode.

RON mn	Official value*	Fair value
Listed shares	8,244	8,258
Unlisted shares	6,375	5,195
Cash	238	238
Other assets	217	217
Total assets	15,074	13,909
Fair NAV	15,014	13,851
Fair NAV/share (RON)**	**1.244**	**1.147**
12M target price (RON)**		**1.01**

*As per December 2013; ** Excluding unpaid and Treasury shares   Source: FP, SSIF Broker estimates

Holding companies / Romania

Resuming of coverage

Fondul Proprietatea Buy

12M target price (RON)	**1.01**
Current price (10 Mar 2014) (RON)	**0.81**
Potential upside (%)	24.7

Key data

Bloomberg ticker	FP RO
Reuters ticker	FP.BX
MCap (EUR mn)	2,437.1
Free float (%)	100%
Shares outstanding (mn), o/w	13,538
With voting rights (excl. unpaid and Treasury shares)	12,072
6M average daily vols. (EUR mn)	4.2

Shareholders (28 Feb 2014)	%
Foreign institutional shareholders, o/w Elliot Associates	54.48 14.95
City of London Investment Management	<5%
Romanian institutional shareholders, o/w SIFs	8.92/1.58
Foreign private individuals	5.71
Romanian private individuals	20.04
Ministry of Finance	2.72
Treasury shares	8.13

Upcoming events

AGM	28 April
1Q14 results	15 May
Investors' and Analysts' Days	24-27 June

FP RO share price performance

** Rebased chart*

Analysts:

Adriana Marin
+40 21 3873505
adriana.marin@ssifbroker.ro

Adela Hagiu
+40 21 387 3504
adela.hagiu@ssifbroker.ro

Cristina Gagea
+40 21 387 3459
cristina.gagea@ssifbroker.ro

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Prices for all listed stocks referred to in this report as at 10 March 2014 unless otherwise stated

Highlights of the investment case

We resume coverage with a Buy rating and a 12M TP of RON 1.01

FP's key attractions are a) its exposure to the energy, infrastructure and banking sectors, b) high quality management by Franklin Templeton (FT) and c) the attractive valuation (29.4% discount to our fair NAV). We expect the valuation gap to be further 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. We calculate our 12M target price by applying a 20% discount to our fair NAV, which in turn is a sum of the parts of the holdings' values (we perform separate valuations for 21 (of which 14 unlisted) out of 62 companies, accounting for 95% of our fair value of the shares' portfolio). 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. We resume coverage on FP with a 12M target price of RON 1.01/share, which given the current 24.7% upside, translates into a Buy rating.

Key catalysts and triggers

Buybacks and distributions are likely to be supportive for the share price

Buybacks and distributions: To date, FP has performed two ***buybacks***: the first for 240mn shares (already cancelled), between May and Sept 2011 for ca. 1.7% of the share capital (at a cost of ca. RON 145mn) and the second between April and Dec 2013 (1.1bn shares, of which 0.6bn via a tender offer) for which it spent ca. RON 963mn. The third buyback refers to 1.89% of the capital (252.9mn shares) which at the current share price, would cost ca. RON 205mn and was approved by the shareholders. The third buyback is to start once the GSM resolution is published in the Official Gazette. FP also seeks shareholders' approval in its April 2014 AGM for a 4th program for 990.9mn shares, which would cost another RON 803mn using the current share price. ***FP's dividend policy*** was to distribute 100% of the dividend and interest income less opex, taxes and legal reserves, which basically translated into 6%-7% yields in the last 2 years. FP distributed gross DPSs of RON 0.0816 for FY 2008- 2009, RON 0.0314 in 2010, RON 0.0385 in 2011 and RON 0.04089 in 2012. A pre-condition for dividend distribution is to have the NAV higher than the share capital (which was not the case while Hidroelectrica was valued at zero during its first insolvency) but a waiver from the Ministry of Finance was obtained to allow for dividend distribution. For the FY 2013, ***FP is proposing a RON 0.05/share distribution***, which is in fact the equivalent of the cash dividend (RON 612.5mn outflow) and translates into a 6.2% yield. Going forward, FP aims to replace the classical dividends with this type of distributions as they are more fiscally efficient.

A secondary listing in London would increase FP's visibility and offer access to FP shares for new investors

Secondary listing: FP's initial intention to perform a secondary listing of its shares in Warsaw was dropped as the FSA did not approve the required regulations allowing the set up of a link between the Polish and the Romanian Depositories. Meanwhile, the Polish pension funds' reform made a Warsaw listing unattractive anyhow. Thus FP is now proposing for shareholders' approval a London Stock Exchange (LSE) technical listing in the form of Depositary Interests ("DIs") to be traded on the so called "specialist fund market". This listing would also require FSA approval (in the past delayed approval was caused by fears that FSA would lose revenues from the migration of the liquidity to the larger market, the Romgaz case proving that the migration theory wrong). In our opinion, a LSE listing would increase FP's (and Romanian capital market and its key issuers') visibility, would facilitate trading in FP for a larger number of investors who are currently unable to buy local shares or structured notes for compliance reasons, with a positive impact on FP's share price.

The IPOs are to offer more reliable benchmarks for FP's unlisted portfolio value which eventually should be reflected in FP's share price performance

IPO and SPO pipeline: in our view, a significant part of FP's discount to NAV is due to the fact that a still large part of its assets is in unlisted holdings (some majority state owned, poorly managed, with low profitability vs. peers' and low transparency and disclosure), thus investors and analysts may not trust their valuations. Such companies account for 24.7% of our fair NAV (RON 3.3bn), which is 64% of our fair value of the unlisted portfolio. While with the IPOs of Romgaz and Nuclearelectrica last autumn, the share of unlisted holding declined significantly, the planned listings of ***Hidroelectrica*** (15% IPO out of a 18.74% capital increase-RON 2,239mn official value in FP's NAV vs. RON 1,751mn our fair value for FPs' 19.94% stake), of ***CE Oltenia*** (12% IPO out of a total 15.3% rights issue- RON 321.6mn official value in FP's NAV vs. RON 328mn our fair value for FP's 21.53% stake) and of ***Electrica*** (not an FP holding, but which may have effects on FP) became uncertain as to timing due to the former's insolvency and the overall political, macro and sector context (for all). Nevertheless, these IPOs should bring the weight of the listed holdings in FP's NAV to ca. 72%, are likely to introduce more reliable valuations for the respective holdings and eventually to improve FP's valuation also (thus reducing the discount to NAV).

A similar effect would have the energy market liberalization

Energy market liberalization: to date, deregulation of the electricity prices (by Jan 2018 for households and already completed for non households) and of the gas prices (by Oct 2014 the latest for non households and by Oct 2018 for households) seems on track. The process is likely to lead to improved profitability of the energy producers in FP's portfolio and eventually to improved valuations, which ultimately should also show in FP's valuation. The picture is partly spoiled by the introduction or hikes of some other taxes, but the fact that the bilateral contracts can now be made only in a transparent manner on OPCOM remains a plus.

Macro, energy sector and capital markets related: the fact that Romania has been in the last 5 years under IMF agreements (the current is a precautionary one) and EU supervision forced Romanian authorities to reform the state owned companies (although not always at the desired pace) and to continue privatizations. Such actions have been beneficial for FP's portfolio companies as they led to improved corporate governance, better regulations and policies in the energy sector. The increase in the amounts available from the private pension funds (the 50bp annual increase in the percentage of salaries that goes into the private pension system from the current 4% to 6%) and of their equity allocations (ca. 12% currently) should be beneficial for FP, as the main proxy for the Romanian equity market.

Risks: litigations, political and regulatory

Litigations with Mrs. Sfiraiala, lately rather a background noise without an impact on FP's activity and share price

On the litigations front, the most important (and numerous) are with a minority shareholder, Mrs. Ioana Sfiraiala followed by those with the FSA. While the former creates a seemingly never ending negative news flow, we consider than lately they no longer represent a significant risk and have little impact (if any) on FP's activity and its share price. In our view, this is mainly because recently most of the recent court decisions were in FP's favor (and positive side effect was that FP should cash in ca. RON 0.66mn in damages). The fact that there are no provisions in the Romanian law to dismiss at an early stage such litigations remains unfortunate however. With regards to ***the relation with the FSA***, we would note mostly the delays in approving some shareholders' decisions, which are impacting FP's activity. Changes in the bylaws, investment management agreement (IMA), number of shares etc. all require FSA approval, which often was granted either with significant delay (such as the share capital decrease with the Treasury shares from the first buyback) or refused (***the additional fees*** on excess distributions-a litigation on the matter is ongoing-, ***the secondary listing***-by failing to adopt the required regulation to enable the link between the Depositories). The latter became irrelevant given FP's decision not to pursue with a Warsaw secondary listing (that became less attractive also due to the Polish pension system reforms), but as FP has not given up the idea of a secondary listing and only changed the venue, one cannot rule out that FSA's actions or inactions could delay the process (this could also apply to other FP's proposals such as distributions).

Regulatory risk remains the most important

Regulatory risk: apart from the risk deriving from the FSA, we see as main regulatory risk the actions of regulators on the activity of the main portfolio companies. The most important is ANRE (energy market regulator), which sets the tariffs and quantities for the regulated market (for electricity) and wellhead prices and quantities in the consumption basket (for gas). Another important agency is ANRM (mineral resources agency) with which the new royalties are being negotiated (most relevant for OMV Petrom and Romgaz). The Romanian government also sets various types of support schemes for the renewable energy producers that might negatively impact some other players in the field (as their cost is included in the end user prices, which has been impacting consumption and has hit mostly thermal power producers). The government is also responsible for the arbitrary introduction or hikes of several taxes in the sector (the special construction tax, natural monopoly tax, windfall tax etc.). In case of utilities, where business model should be steady and predictable, the way the tariffs are set (with delays, without recognizing in full all eligible costs) is in practice not very predictable, inducing volatility in their earnings.

Political risk in an election year is not to be neglected

Political risk: is partly linked to the regulatory risk (in terms of taxation aspects, among others). The RON 400mn donation imposed to Romgaz in 2010 to the detriment of FP as minority shareholder is one example, fortunately unique in its kind to date. Delays in implementing the promised reforms in the corporate governance of the state owned companies (appointment of professional boards and executive managements, increased transparency of their activity, all new bilateral contracts to be made via OPCOM etc) are other examples. The state as majority shareholder influences the capex and dividend policies of most of the companies in FPs portfolio (minimum 50% payout, in the last 2 years 85% payout). **FP's activist stance related to all these risks could be considered as mitigating factors in our view.**

Key background information

Initially a restitution fund, currently a fund with ca. 60% of capital owned by foreign investors

FP is a RON 15bn in assets restitution fund created in 2005 initially to compensate individuals' whose properties where nationalized during the communist regime. Currently the state has finalized the compensation process in that the Ministry of Finance remained a shareholder of only some 2.7% of the capital in the form of unpaid shares. Since end Sept 2010, FP is managed by Franklin Templeton, one of the largest global asset managers (ca. USD 880bn AUM) and a lead investor in emerging and frontier markets. FP is listed on the Bucharest Stock Exchange (BVB) since January 2011 and has EUR 2.4bn MCap (100% free float).

Management and Board of Nominees

Franklin Templeton' s mandate reduced to 2 years, subject to performance criteria

Franklin Templeton Investment Management UK Ltd. is FP's sole director and investment manager after wining in 2009 an international tender (it effectively took over the management on 30 Sept 2010 and is currently remunerated with an annual fee of 0.479% of the market capitalization payable quarterly). The proposal of one of shareholders (Elliot Associates) approved in the April 2012 EGM of an additional fee (of 1% on additional distributions in 2014) (buybacks, special dividends, asset sales) was not approved by the FSA on grounds that it was not part of the terms under which FT won the original mandate. In Nov 2013, shareholders approved in principle a new type of remuneration based on an annual fee linked to market cap and a variable fee linked to exceptional distributions similar to the ones approved in the April 2012 EGM. FT's mandate was reduced from 4 to 2 years (starting 30 Sept 2014) and is subject to meeting certain performance criteria (discount to NAV/share of max. 15%, increase in NAV/share during 30 Sept 2013 and 30 June 2015), which if not met after 1 year, oblige FT to call for an EGM that can vote the early termination of the mandate. The new IMA is to be voted in April 2014 AGM (is currently negotiated with the Board of Nominees) based on the above mentioned principles.

The Board of Nominees (BoN) is the entity representing the shareholders in relation with the fund manager, whose activity is also monitoring. The current BoN has 5 members (with 4 year mandates, mostly expiring in April 2015 or Sept 2016), of which Piotr Rymaszewski (CEO & Fund manager of the Polish privatization fund Octavia), Steven van Groningen (President and CEO of Raiffeisen Bank Romania) and Mark Gitenstein (former US Ambassador to Romania) were proposed by FP's largest shareholder (Elliot) and Julian Healy was proposed by City of London (at the time second largest shareholder with a 7.2% stake).

Portfolio management:

Portfolio geared towards the energy sector. Top 10 holdings account for ca. 80% of the official NAV

Investment guidelines for the new portfolio provide for minimum 70% of the assets to be invested in Romanian listed shares, maximum 20% in unlisted shares and maximum 10% exposure on a single issuer. Some of the holdings in the legacy portfolio do not comply with the above mentioned thresholds, meaning FP cannot further invest in those companies, but it is allowed to participate in capital increases in order not to be diluted (and is not obliged to sell stakes either). FP has only 3 holdings above the 10% threshold in a single company (OMV Petrom with a 33.7% weight in its January 2014 official NAV, Hidroelectrica (15%) and Romgaz (13%). FP's unlisted holdings account for 42.8% of the NAV (before the Romgaz and Nuclearelectrica's IPOs last autumn, the figure was 54.2%). Top 10 holdings account for ca. 80% of the official NAV. Sector wise, energy in the largest sense accounts for 89.5% of the official NAV (oil and gas 48%, electricity production ca. 20%, electricity supply and distribution ca. 17%, while utilities and gas supply and distribution the remaining 5%)), infrastructure (2.6%) and banks (3%).

Asset sales needed to fund distributions and buybacks. FP sold to date all shares in Azomures and Transgaz, part of Petrom holding and some other smaller holdings

Asset sales vs. acquisitions: FP has currently holdings in 62 companies (of which 24 listed and 38 unlisted). Their number decreased over time via mergers or disposals. Compared to the initial portfolio, the only acquisitions were the Austrian banks Erste Bank and Raiffeisen International and the Romanian banks BRD and BT. ***Asset disposals*** were mostly of smaller holdings (inefficient as they were no dividend plays or not brought capital gains but rather administrative hassle). Stakes in Azomures, Transgaz (full exit) and OMV Petrom (sale of a 1.1% stake of the initial 20.1%) were the largest sale trades to date. The sale of OMV Petrom stake was performed at a price that led FP to book some accounting losses (RON 71mn at Petrom), while in the case of Trangaz sale, FP booked a RON 126mn profit. Moreover, we estimate that apart from the stakes in BT and Romgaz, most of the future sales would also be made at losses (should they be performed at the current shares prices). However, the benefit of such sales was the increase in the free float of the respective companies, which eventually helped their share price appreciation and FP's share price to a certain extent. ***As to acquisitions***, in the last 1-2 years, FP officials often stated that the best investment is not in other companies (yet FP participated in capital increases of some of its holdings such as in Nuclearlelectrica's IPO in order not to be diluted) but rather in its own shares. This indeed was profitable for FP, especially when the shares were trading at a high discount to the official NAV.

Would FP be liquidated? In our opinion, no, but in time, FP is likely to become a much smaller fund than today. FP would need to gradually sell most of its liquid assets to return money to shareholders in the form of buybacks and distributions (as other sources such as dividend income from portfolio companies and interest income could prove insufficient). Obviously this would be a slow process, and FP has proven to date a good manager of its liquidities (it can also leverage to a certain limited extent). FP's CEO was quoted in *Ziarul Financiar* daily saying that "FP is a too large fund for this market".

Shareholding structure- foreign investors own close to 60% of the capital
The main shareholder remains Elliot Associates with a 14.95% stake, via two fully owned funds Manchester Securities and Beresford Ltd., followed by City of London (just under 5%) and Mrs. Georgia Palade van Dusen, the granddaughter of the Romanian industrialist Nicolae Malaxa. Part of the shares are held including via swaps and structured products issued by likes of Morgan Stanley (5% stake), RBS and Raiffeisen (without voting rights). Overall, foreign institutional shareholders held 54.48% of the subscribed capital (as at the end of Feb 2014), up from 20.4% in March 2011, while Romanian individuals' stake declined during the same period from 28.3% to 20.04% (Ministry of Finance had 36.8% in March 2011). Foreign individuals hold 5.71% of the capital, while Romanian institutional shareholders 8.92% (of which 1.58% was in the SIFs hands as at the end of Sept 2013). Ca. 8.13% of the share capital are Treasury shares and 2.72% of the share capital is still in the hands of the Ministry of Finance (as unpaid shares).

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 (except for SIF 2, 3 and 5), the state interference is mostly 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 the part of the compensation linked to the appreciation of the NAVs or share price is not significant within the overall compensation (if any);

While FP is a play on the Romanian energy sector (90% of our fair value of portfolio of shares), the SIFs still offer exposure mainly to the financial sector (53% on average as at Sept 2013).

FP still has a higher weight of unlisted holdings in total assets vis-à-vis the SIFs (42.8% vs. an average of 17.4% for the SIFs, based on the latest official values as at the end of January 2014).

In the official valuation, the unlisted holdings can be computed either based on fair values or book values at FP and SIF 2 while for the other SIFs it is only based on the most recent book values.

In the case of the SIFs, ownership restrictions are still in place (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; a further increase or removal of the threshold was declared by the FSA Vice President Mr. Mircea Ursache, as not being opportune in 2014).

At FP, the shareholding structure is less fragmented than for the SIFs (8,315 shareholders as at February 2014 vs. between 5.8mn and 7mn for the SIFs).

All are the most liquid stocks on the BSE, with FP's volume accounting for 46.7% of its share capital (for the period 3 Jan 2013-12 March 2014) vs. the SIFs' average of 47.3% (60.2% highest value at SIF 3 and 32.7% the lowest value at SIF 4).

FP AND THE SIFS: DISCOUNTS TO OFFICIAL NAV AND DIVIDEND YIELD

10 March 2014 prices	SIF1	SIF2	SIF3	SIF4	SIF5	Average SIFs	FP
Upside (%)	49.2	31.6	25.9	6.5	3.2	23.2	24.7
Discount to official NAV (%)	-59.7	-44.6	-40.5	-33.2	-30.9	-41.8	-34.4
Discount to fair NAV (%)	-55.1	-41.6	-37.6	-27.6	-19.1	-36.2	-29.4
DPS 2013 (RON)*	0	0.066	100% bonus issue	0.138	0.16		0.05
Dividend yield (%)	0.0	5.0	100% bonus issue	15.6	8.4	n.m.	6.2

**Using board proposals for all SIFs; at SIF 2 (the lowest proposal) and at FP considering the RON 0.05/share distribution*

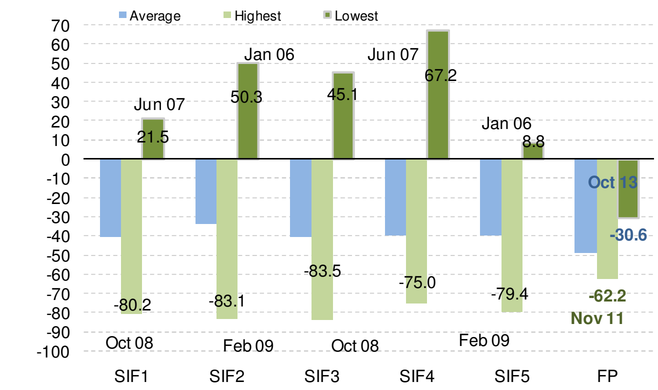
Source: FP, SIFs, and SSIF Broker

FP AND THE SIFS: YOY CHANGE IN THE OFFICIAL NAV (%)

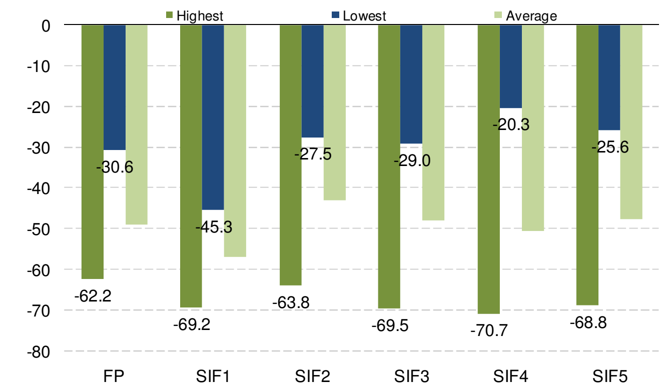
	SIF1	SIF2	SIF3	SIF4	SIF5	Average SIFs	FP
2007	33.5	31.8	76.4	68.9	38.0	49.7	n.m.
2008	-50.1	-46.5	-51.7	-37.1	-59.1	-48.9	n.m.
2009	52.4	22.9	21.9	6.4	45.7	29.9	n.m.
2010	-11.7	-3.1	-7.5	-4.1	-5.2	-6.3	n.m.
2011	-4.7	-3.8	-11.6	-12.7	-9.0	-8.4	-5.0
2012	1.8	-0.6	-14.3	-14.0	1.1	-5.2	5.4
2013	20.9	16.9	-5.5	-0.3	12.0	8.8	9.4

Source: FP, SIFs, and SSIF Broker

FP VS. SIFS HIGHEST AND LOWEST DISCOUNTS TO NAV



FP VS. SIFS DISCOUNTS TO OFFICIAL NAV (25 JAN 11-YTD)



Source: FP, SSIF Broker estimates

Share price performance

FP was a clear outperformer last year and in 2012: after being 34.3% down in 2011 by more than 10pp below the BET index decline, FP outperformed the BET in 2012 by 10pp (28.7% increase) but mostly in 2013, when it increased by 51.7% vs. the BET index increase of 26.1%, as a result of fund manager taking more decisive actions in reducing the discount to NAV (accelerated buybacks, asset sales, dividend distributions). As a result, the discount to NAV reduced to the lowest value of ca. 31% in Oct 2013 vs. the peak (highest) discount of over 60% in Nov 2011.

While vs. 1M and 3M ago, the performance is flattish (and YTD, FP’s share price is down 2.8%) using as reference the price on 10 March 2014, and FP has underperformed the BET, FP’s performance vs. 6M and 12M ago indicates increases of 17% and 28% respectively by 9pp and 17pp respectively above the increases of the BET Index. In our opinion, the fact that FP’s share price took a breather is a combination of regional factors (risk off mode generated largely by the Ukrainian crisis), but also local factors (political noise ahead of EU parliamentary and presidential elections, which justify concerns that the IPO pipeline might be delayed, the re-entering of Hidroelectrica in insolvency to name only the most important reasons). However, once FP would be able to resume its buyback program and provided there would no delays with the LSE listing, we believe the share price would find additional support.

Valuation

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

Companies in our coverage universe at fair values

We use the December 2013 portfolio of shares. For listed stocks in our coverage universe (OMV Petrom (SNP), BRD Groupe SG (BRD), Banca Transilvania (BT), Erste Bank (EBS), Transgaz (TGN), Transelectrica (TEL)) and Romgaz (SNG)) we use the fair prices resulting from our valuations. Thus, we value FP's stake in Petrom at RON 5,057 mn, in SNG at RON 2,167mn, in Transelectrica at RON 132mn, in BRD Groupe SG at RON 216 mn, in BT at RON 99mn, in EBS RON 48mn. The above fair values have been determined based on DCF (Discounted Cash Flow) for Petrom, Romgaz and Transelectrica, and based on the residual income model and multiples based valuation for the Romanian banks. These ompanies account for 93.4% of the fair value of the listed portfolio and 57.4% of the total fair value of the securities portfolio.

We mark to market the other listed companies, using the share prices as of 10 March 2014, 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).

Unlisted holdings valued using comparisons with peers (financial and operational multiples)

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 and the valuation method used, is presented in the tables on the following two pages.

We use the official valuation for the other unlisted companies to which we applied a 25% discount to account for limited visibility.

The resulting fair NAV is RON 13,851mn or RON 1.147/share: To the total value of the portfolio of shares determined as SOTP, we add the cash and other assets 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 and corresponding to a capital gain tax in case of liquidation).

We apply a 20% discount to our SOTP fair NAV to reach the target price

We apply a 20% discount to the resulting fair NAV: The discount is related primarily to the holding status and high exposure to majority state-owned companies. We then roll it forward by a year, using the cost of equity, in order to derive our 12M target price of RON 1.01/share.

We use a COE of 10% (based on a RFR for Romania of 5%, ERP of 6% and a beta of 0.81x).

Official valuation methodology in brief. The listed companies traded in the previous 30 days are valued based on closing prices on the particular valuation day. 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.

OFFICIAL NAV

	Dec-12	Mar-13	Apr-13	May-13	Jun-13	July 13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
NAV/share (RON)	1.1371	1.1568	1.1397	1.1477	1.1514	1.1601	1.1782	1.161	1.1575	1.2432	1.2436	1.2339
mom (%)	19.5	-0.1	-1.5	0.7	0.3	0.8	1.6	-1.5	-0.3	7.4	0.0	-0.8

Source: FP, SSIF Broker

From June to November 2012, the official NAV reflected a zero valuation for Hidroelectrica, following the entry of the company in insolvency. Starting December 2012, the NAV reflects the change in the official valuation methodology which allows companies in insolvency to be valued based on an independent valuation report. The April 2013 NAV is excluding the RON 0.04089 gross DPS figure. In Dec 2013, FP updated the valuation of several unlisted holdings, which resulted in a negative impact on its NAV of RON 75.3mn. The most important revisions were made for Hidroelectrica (+RON 238.4mn) and CE Oltenia (-RON 558.4mn). With Hidroelectrica re-entering in insolvency on 25 Feb 2014, FP indicated that it will hire an independent evaluator for updating Hidroelectrica's fair value in the official NAV.

CHANGES IN DECEMBER 2013 OFFICIAL NAV CALCULATION

	Official value				
	Nov-13 RON/share	Dec-13 RON/share	NAV impact (RON mn)	Previous method	New method
EON Gaz Distributie	13.0	12.2	-11.5	BVPS	
Electrica Distributie Muntenia Nord	35.6	38.0	18.3	Fair value (BVPS adjusted with DPS)	
Electrica Distributie Transilvania Nord	24.6	20.6	6.0	BVPS	
Electrica Distributie Transilvania Sud	22.8	25.3	-20.7	BVPS	
Enel Distributie Banat	52.7	62.2	87.4	BVPS	
Enel Distributie Dobrogea	48.0	56.1	54.9	BVPS	
Enel Distributie Muntenia	133.3	145.3	38.9	BVPS	
GDP Suez Energy Romania	145.3	169.8	58.2	Fair value (BVPS IFRS standalone adjusted with DPS)	
Zirom	10.0	9.2	-3.9	Fair value (subscription value/share)	Fair value
Sub-total			**227.7**		
Hidroelectrica	22.4	25.1	238.4		
Posta Romana	5.4	4.1	-20.0		
CNAB (Bucharest Airports)	94.6	100.0	15.7		Updated fair value
CE Oltenia	31.2	11.8	-558.4		
E.ON Moldova Distributie	29.5	31.4	21.4		
Sub-total			**-303.0**		
Total			**-75.3**		

Source: FP, SSIF Broker

FP: VALUATION METHODS TO DETERMINE THE FAIR VALUES OF THE KEY HOLDINGS

Company/Sector	Valuation method
Listed companies	
Petrom (oil & gas)	DCF; fair value as per 20 May 2013 report
Alro (aluminum smelter)	Mark to market as at 10 March 2014
Transelectrica (utilities)	DCF; fair value as 7 October 2013 report
BRD Groupe SG (financials)	Residual income model (40% weight)/multiples based valuation (60% weight); fair value as per 19 November 2013 report
Banca Transilvania (financials)	Residual income model (60% weight)/multiples based valuation (40% weight; fair value as per 11 November 2013 report
Erste Bank (financials)	Sum of the parts; fair value as per 29 April 2013 report
Raiffeisen Bank (financials)	Mark to market as at 10 March 2014
Romgaz (natgas producer)	DCF; fair value as per 20 January 2014 report
Nuclearelectrica (nuclear power producer)	Mark to market as at 10 March 2014
Other listed	Mark to market as at 10 March 2014
Unlisted companies	
Hidroelectrica (hydro power producer)	EV/Capacity, EV/EBITDA (simple average)
CE Oltenia (thermal power producer)	EV/Capacity 30% weight, EV/EBITDA 45% weight, P/E (20% weight)
Enel Distributie Muntenia (electricity distribution)	EV/EBITDA and EV/Customer (transaction multiple) (simple average)
Enel Distributie Dobrogea (electricity distribution)	EV/EBITDA and EV/Customer (transaction multiple) (simple average)
Enel Distributie Banat (electricity distribution)	EV/EBITDA and EV/Customer (transaction multiple) (simple average)
Electrica Distributie Muntenia Nord (electricity distribution)	EV/EBITDA and EV/Customer (transaction multiple) (simple average)
Electrica Distributie Transilvania Sud (electricity distribution)	EV/EBITDA and EV/Customer (transaction multiple) (simple average)
Electrica Distributie Transilvania Nord (electricity distribution)	EV/EBITDA and EV/Customer (transaction multiple) (simple average)
E.ON Moldova Distributie (electricity distribution)	EV/EBITDA and EV/Customer (transaction multiple) (simple average)
E.ON Gaz Distributie (gas distribution)	EV/EBITDA (70% weight), P/E (30% weight)
GDF Suez Energy Romania (gas supply & distribution)	EV/EBITDA (70% weight), P/E (30% weight)
Bucharest Airport (CNAB) (airports)	EV/EBITDA (55% weight), EV/passenger (market multiples) (25% weight), P/E (20% weight)
Traian Vuia Timisoara airport (airports)	EV/EBITDA (55% weight), EV/passenger (market multiples) (25% weight), P/E (20% weight)
Mihail Kogalniceanu Constanta airport airports)	EV/EBITDA (55% weight), EV/passenger (market multiples) (45% weight)
Other unlisted	Official valuation* 0.75

Source: FP, SSIF Broker estimates

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

		Value of FP stakes (RON mn)		% of portfolio		
Company/(Sector)	**FP's stake (%)**	**Official value**	**Fair value**	**Official value**	**Fair value**	**Fair vs. Official (%)**
Petrom (oil&gas)	19.0	5,054	5,057	34.6	37.6	0.0
Romgaz (natgas producer)	15.0	1,976	2,167	13.5	16.1	9.7
Nuclearelectrica (nuclear power producer)	9.7	307	247	2.1	1.8	-19.5
Transelectrica (utilities)	13.5	156	132	1.1	1.0	-15.8
Alro (aluminium smelter)	10.2	105	91	0.7	0.7	-13.5
BRD Groupe SG (financials)	3.6	228	216	1.6	1.6	-5.6
Banca Transilvania (financials)	2.9	107	99	0.7	0.7	-7.6
Erste Bank (financials)	0.1	45	48	0.3	0.4	5.8
Raiffeisen International (financials)	0.3	78	69	0.5	0.5	-11.3
Other listed		188	134	1.3	1.0	-28.5
Total listed shares		**8,244**	**8,258**	**56.4**	**61.4**	**0.2**
Hidroelectrica (hydro power producer)	19.9	2,239	1,751	15.3	13.0	-21.8
Oltenia Energy Complex (thermal power producer)	21.5	322	328	2.2	2.4	2.0
ENEL Distributie Banat (electricity distribution)	24.1	573	427	3.9	3.2	-25.5
Enel Distributie Muntenia (electricity distribution)	12.0	473	357	3.2	2.7	-24.4
GdF Suez Energy Romania (gas supply and distribution)	12.0	404	491	2.8	3.7	21.4
ENEL Distributie Dobrogea (electricity distribution)	24.1	379	266	2.6	2.0	-29.7
E.ON Distributie Moldova (electricity distribution)	22.0	345	208	2.4	1.5	-39.9
Electrica Distributie Muntenia Nord (electricity distribution)	22.0	296	251	2.0	1.9	-15.3
Compania Nationala Aeroporturi Bucuresti (airports)	20.0	288	295	2.0	2.2	2.6
Electrica Distributie Transilvania Nord (electricity distribution)	22.0	207	160	1.4	1.2	-22.4
Electrica Distributie Transilvania Sud (electricity distribution)	22.0	192	156	1.3	1.2	-18.7
E.ON Gaz Distributie (gas supply and distribution)	12.0	165	121	1.1	0.9	-26.5
Posta Romana (Postal services)	25.0	61	46	0.4	0.3	-25.0
Aeroportul Int. Traian Vuia Timisoara	20.0	6	19	0.0	0.1	206.4
Aeroportul Mihail Kogalniceanu Constanta	20.0	5	4	0.0	0.0	-24.3
Other unlisted		419	315	2.9	2.3	-25.0
Total unlisted shares		**6,375**	**5,195**	**43.6**	**38.6**	**-18.5**
Total portfolio (listed and unlisted)		**14,619**	**13,454**	**100.0**	**100.0**	**-8.0**
Total cash		238	238			0.0
Other assets		217	217			0.0
Total assets		**15,074**	**13,909**			**-7.7**
Liabilities		31	31			0.0%
Deferred tax		29	26			-10.2%
NAV		**15,014**	**13,851**			**-7.7%**
NAV/share (RON)		**1.2436**	**1.1473**			**-7.7%**
Discount (%)			20.0			
Fair price (RON)			**0.92**			
COE (%)			10.34			
12M TP (RON)			**1.01**			

Source: Company data, FP, Bloomberg, SSIF Broker 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 (3% lower).

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 reduces the 12M target price by 12.3% and the upside to 9.4% vs 24.7% in the base case.

A pessimistic scenario in which we account only for the stakes in a) the key listed companies (Petrom, Romgaz, Nuclearelectrica, Transelectrica, BRD Groupe SG, BT, Erste Bank, Raiffeisen Bank International); and b) the cash figure, would yield a 12M target price of RON 0.68, 32.7% lower vs. the base case and would offer a 16% downside. In this scenario, FP would deserve of a Sell rating.

Scenarios 4-5: With assumptions for crude prices higher by USD 10/bbl from 2014 onwards, FP's 12M target price would increase by 6%. If we align our assumptions for natgas wellhead prices for domestic producers in line with the official calendar from 2014 onwards (we currently account for one year and a half delay from the extended (to 2015) timetable for industrial consumers), this would positively impact the values of Petrom and Romgaz and add 4% to FP's 12M target price.

Scenarios 6-8: Changes in the discounts applied when valuing Hidroelectrica (down to 10% and up to 30% from our base case discount of 15%) would add 1% to our 12M target price or cut it by 2%. In the last scenario, we assign a zero value to Hidroelectrica as it is currently in insolvency (although just on procedural grounds and not due to poor financial standing). In this case, our 12M target price would be RON 0.91/share, by 10% lower than in the base case and given the 12.3% upside we would a valuation for FP closer to a Hold rating.

FP: SENSITIVITY ANALYSIS

12M target price (RON) Base case	**1.01**	
Scenario 1		Mark to market all listed companies (prices as at 10 March 2014)
12M target price (RON)	**0.98**	
Difference vs. base case (%)	-3.0	
Scenario 2		Discount to fair NAV 10pp higher vs. the base case
12M target price (RON)	**0.89**	
Difference vs. base case (%)	-12.3	
Scenario 3		Only cash and holdings in the key listed companies (seven covered stocks and Nuclearelectrica)
12M target price (RON)	**0.68**	
Difference vs. base case (%)	-32.7	
Scenario 4		Crude oil price in Petrom's valuation higher by USD 10/bbl vs. base case
12M target price (RON)	**1.07**	
Difference vs. base case (%)	5.9	
Scenario 5		Natgas prices for Romgaz and Petrom based on the official liberalization timetable
12M target price (RON)	**1.05**	
Difference vs. base case (%)	4.0	
Scenario 6		With a 10% discount used in the valuation of Hidroelectrica (vs. 15% discount in the base case)
12M target price (RON)	**1.02**	
Difference vs. base case (%)	1.0	
Scenario 7		With a 30% discount used in the valuation of Hidroelectrica (vs.15% discount in the base case)
12M target price (RON)	**0.99**	
Difference vs. base case (%)	-2.0	
Scenario 8		Hidroelectrica's fair value is reduced to zero
12M target price (RON)	**0.91**	
Difference vs. base case (%)	-9.9	

Source: SSIF Broker estimates

DCF based valuation not used for unlisted holdings due to the lack of visibility on key assumptions; limited transparency and regulatory risk

Risks to our valuation

We value most of the key unlisted companies based on comparison with 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 these companies, which are in almost all cases undergoing sizeable capex and/or operational restructuring processes. 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, we believe our valuations are rather conservative. The main reason for not using DCF based valuations for the unlisted holdings is the lack and/or scarcity and/or contradictory data on these companies' capex and their financing sources, restructuring of staff and operations, and this derives mostly from frequent changes in the government's strategy for the energy sector and/or management changes.

Regulatory risk remains the most important for most of FP's holdings (royalty regime for oil and gas companies)

In the case of utilities and oil & gas companies, the main risk is the regulatory risk and although we apply various discounts to the valuation of the peer groups, we recognize the limits of being able to capture all the implications of such a risk. For instance, in the case of Petrom and Romgaz, there are negotiations this year as to the royalty regime to be applied starting 2015. Moreover, the liberalization of natgas prices according to a timetable agreed with the IMF and the European Commission also has significant influence on companies' financials: it is bringing higher wellhead prices, but has also been partially to blame for the decrease in domestic demand last year following higher end-user prices which have translated into a decline in natgas volumes transported and distributed. Moreover, both electricity and oil&gas companies have to pay starting January 2014, a special constructions tax which has been approved last year but is still debated as further clarifications are needed as to the taxable base.

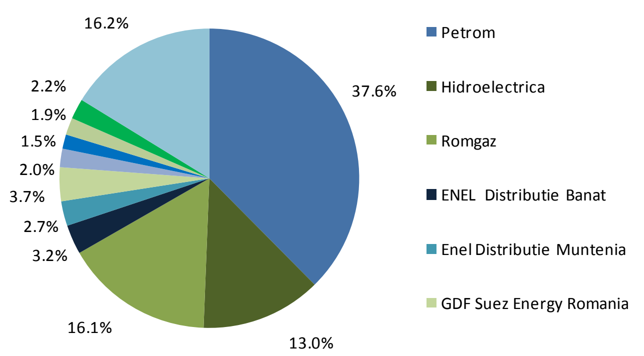
At Hidroelectrica, apart from regulatory risk, mainly in the form of prices and quantities on the regulated market, insolvency related risks are also very important

In the case of Hidroelectrica, the most important risks are regulatory and in relation to the ongoing litigations which have lead to a second entering into insolvency. Hidroelectrica sells part of its electricity on the regulated market, with the energy regulator setting prices and quantities each year (which do not necessarily follow a certain trend therefore they may be difficult to estimate). Now that Hidroelectrica is again in insolvency, the restructuring process is going to continue and investment plans are to be revised, however we lack visibility as to the judicial administrator's targets (if any) and whether Hidroelectrica would have to pay the amounts in dispute (around EUR 351mn which the judicial administrator said would be maximum). Moreover, another risk for Hidroelectrica is the hydrological situation which is hard to predict but can significantly depress revenues in case of droughts.

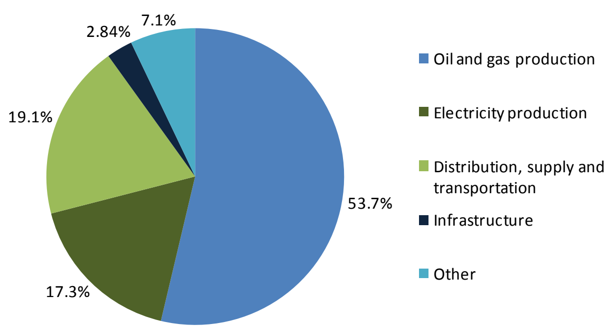
Lack of visibility on capex and certain cost items (CO2 certificates) are the main risks at CE Oltenia

CE Oltenia remains the most battered among the gencos: the main risk to CE Oltenia's valuation is indirectly the regulatory risk. While the company no longer sells part of its electricity on the regulated market, ANRE (regulator)'s regulations allowing the prioritized functioning of the renewable energy producers, has caused several costly production interruptions for the thermal producers, which combined with several support schemes for renewables partly financed by the thermal producer and the special construction tax represent additional costs for CE Oltenia, that further depress the bottom line. The lack of visibility on company's future capex and operational restructuring, as well as on the way the CO2 certificates' burden is to be applied during 2013-2019 also made us not to choose a DCF based valuation. To be more specific as to each of the aspects mentioned above, first capex largely remains to date a wish list of the capex of the merged companies (only few projects were completely dropped and/or resized). Second, starting last year, the plants have to acquire a greater portion of their CO2 certificates (previously only the deficit had to be acquired from the market), meaning higher costs. We expect these costs most likely not be recoverable in full via tariff increases, which would eventually lead to even more limited resources to finance capex. Staff restructuring, spin off of certain assets (mines) is also in early stages (partly due to the fact that the company has only 1.5years of history) with moving targets that create operational risks to our valuation.

TOP 10 HOLDINGS ACCOUNT FOR 83.8% OF OUR FAIR PORTFOLIO VALUE...



WHILE THE ELECTRICITY PRODUCTION FOR 17.3%



Source: FP, SSIF Broker estimates

Valuation summaries of the key unlisted holdings

Romanian gencos

Hidroelectrica valuation summary

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

We valued Hidroelectrica based on its peers' 2014E EV/Capacity and EV/EBITDA multiples to which we applied certain discounts. We arrived at a fair value for FP's stake of RON 1,751mn, about 22% lower than the official valuation. Hidroelectrica accounts for 12.6% of the fair value of FP's assets.

Our valuation yields discounts of 23-25% in terms of EV/EBITDA for 2014-2015 with estimates based on Hidroelectrica's budget. We believe the discount is justified by Hidroelectrica's regulatory risks, current insolvency status, smaller size and not diversified business model. On the other hand, we note that Hidroelectrica's operating margins are more appealing than those of its peers.

We use a capacity multiple of EUR 0.7mn/MW and apply a discount of 15%. We computed the EV/capacity multiple as the median of the peers we selected. We believe a discount is warranted as Hidroelectrica is smaller than its peers, is currently in insolvency although just on procedural grounds and some of the companies we selected are also more diversified. Moreover, we do not have a clear view on its investment plans (including capacity expansion), as the judicial administrator intends to drop some less profitable investments. We selected peers such as Ayen Enerji from Turkey which trades at a 2014E EV/Capacity multiple of 0.65x, Akenerji from Turkey (1.2x), Verbund in Austria (0.7x), and Alpiq in Switzerland (0.7x). We also looked at RusHydro and Fortum which have capacity multiples of 0.2x and 1.4x, but they do not affect the median.

Using a 15% discount, we value Hidroelectrica at EUR 0.6mn/MWm, which we believe to be a conservative valuation if compared to the estimated cost for the Tarnita-Lapustesti power plant of EUR 1.3mn/MW (which is however outdated), the valuation (by an independent evaluator) of the small power plants in Hidroelectrica's portfolio of ca. EUR 1mn/MW (RON 4.7mn/MW), and the actual price the company obtained from the sale of some of its small plants in June 2013 of EUR 1.1/MWh (RON 46.8mn for 9.4MW)

We used Hidroelectrica's available installed capacity at end-2012, which excludes the permanent reductions in capacity.

HIDROELECTRICA: VALUATION BASED ON CAPACITY MULTIPLES

Available capacity at end-2012 (MW)	6,082
Reference 2014E EV/Capacity (EURmn/MW)	0.70
Discount (%)	15
Discounted EV/Capacity (x)	0.6
EV based on EV/Capacity (RON mn)	**11,734**
Net debt 9M13 (RON mn)	2,670
Equity value based on EV/Capacity (RON mn)	**9,064**
FP stake (%)	19.9
Fair value of FP stake (RON mn)	**1,808**
Official valuation of FP stake at Dec-13 (RON mn)	2,239

Source: Hidroelectrica, FP, SSIF Broker estimates

The valuation based on EV/capacity multiple yields a fair value for Hidroelectrica's equity of RON 9,064mn, translating into a fair value for FP's stake of RON 1,808mn, which is by 19% lower than the value in FP's December 2013 official NAV.

A valuation based on EV/EBITDA would yield a fair value for Hidroelectrica's equity of RON 8.5bn. This in turn means a fair value of FP's stake in Hidroelectrica of RON 1,694mn, 24% lower than the value in FP's official NAV (December 2013) and 6% below the fair value obtained using capacity multiples.

Given its higher margins versus peers, Hidroelectrica would deserve a premium; however we prefer to remain cautious and thus our valuation based on EV/EBITDA implies discounts of ca. 25% to peers in 2014-2015E EV/EBITDA terms. We prefer to be conservative mostly on the back of regulatory risks (the company has to sell at low prices on the regulated market which diminishes margins). Continuing the company's restructuring, which is what EuroInsol plans to focus on, should however, lead to better cost control and profitability.

HIDROELECTRICA: VALUATION BASED ON EV/EBITDA

2014E peers' median EV/EBITDA (x)	8.6
Discount (%)	15
Discounted EV/EBITDA (x)	7.3
EV based on EV/EBITDA (RON mn)	**11,166**
Net debt 9M13 (RON mn)	2,670
Equity value based on EV/EBITDA (RON mn)	**8,496**
FP stake (%)	19.94
Fair value of FP stake (RON mn)	**1,694**
Official valuation of FP stake (RON mn)	2,239

Source: Hidroelectrica, FP, SSIF Broker 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 8,780mn, which translates into a fair value of FP's stake of RON 1,751.1 RON**. This compares to RON 2,239mn in FP's official NAV, translating into a 22% discount to the official valuation that represents the fair value of Hidroelectrica based on a KPMG valuation.

We compared the profitability of Hidroelectrica with that of its peer companies, and noticed that Hidroelectrica has higher margins than peers' median in 2013-2015E based on the company's budget (around 57%-61% for Hidroelectrica compared to 24%-26% its peers' median). As the preliminary net profit for 2013 of EUR 200mn indicated by the judicial administrator is higher than the EUR 83mn in the company's budget, the operating margin may also have been better than estimated by the management. Based on the multiples implied by our fair valuation, Hidroelectrica shows 23%-25% discounts in 2014-2015E EV/EBITDA terms.

As compared to its local peer Nuclearelectrica, which acts in a similar regulatory environment but produces 100% nuclear energy (and it has fairly stable production), Hidroelectrica appears to be more profitable, with Nuclearelectrica's EBITDA margin around 27% according to the 2014 budget (but more than 40% according to 2013 preliminary financials) and net margin at ca. 23%-2% in 2013-2014 (multiples are based on the companies' budgets).

HIDROELECTRICA PEERS - MARGINS

			EBITDA margin (%)				Net margin (%)			
	Price (LC)	Mcap (EUR mn)	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
Ayen Enerji (TR)	1.1	54	19.1	24.6	27.5	29.0	-13.3	-13.8	2.4	7.5
Akenerji (TR)	1.0	232	17.9	24.3	20.5	18.3	18.9	-9.6	2.2	3.1
RusHydro (RU)	0.5	4,017	5.3	22.0	21.8	23.1	-7.9	10.9	10.0	11.3
Verbund (AU)	15.5	2,639	38.9	51.3	31.3	31.6	6.0	8.9	3.2	4.6
Fortum (FH)	16.7	14,791	38.3	38.8	36.6	35.9	22.9	20.0	17.9	18.0
Alpiq (AU)	127.7	2,850	9.4	8.4	6.4	6.2	-8.2	0.2	1.5	2.2
Median			**18.5**	**24.4**	**24.6**	**26.0**	**12.5**	**9.9**	**2.8**	**6.0**
Nuclearelectrica (RO)	9.0	565	33.5	46.0	27.2	46.7	1.4	23.0	1.6	13.7
Hidroelectrica (RO)			**37.7**	**56.7**	**60.4**	**60.8**	**-21.1**	**13.6**	**20.5**	**20.9**

NB. Financials are based on Bloomberg consensus for the foreign peers and company budgets for Nuclearelectrica and Hidroelectrica.
Source: Bloomberg, Company data, SSIF Broker

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.

HIDROELECTRICA PEERS - FINANCIAL MULTIPLES

			P/E (x)				EV/EBITDA (x)			
	Price (LC)	Mcap (EUR mn)	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E
Ayen Enerji (TR)	1.1	54	-6.4	-3.4	18.7	5.6	12.5	8.7	8.8	8.4
Akenerji (TR)	1.0	232	7.4	-10.3	28.9	12.7	16.6	14.1	11.9	8.4
RusHydro (RU)	0.5	4,017	-15.2	5.6	6.0	5.0	30.3	4.7	5.0	4.7
Verbund	15.5	2,639	16.9	9.3	28.5	19.4	6.6	4.4	8.1	7.6
Fortum (FH)	16.7	14,791	9.7	12.2	14.6	14.6	9.4	9.9	10.1	10.4
Alpiq	127.7	2,850	-4.0	159.4	21.6	15.4	6.8	7.1	8.4	8.5
Median			**8.6**	**9.3**	**20.2**	**13.6**	**11.0**	**7.9**	**8.6**	**8.4**
Nuclearelectrica	9.0	565	n.a.	6.1	91.0	7.5	n.a.	4.4	6.3	2.6
Hidroelectrica			**-17.2**	**23.9**	**14.9**	**14.1**	**12.6**	**7.5**	**6.6**	**6.3**

Source: Bloomberg consensus, Company data, SSIF Broker estimates

CE Oltenia valuation summary

We value CE Oltenia using EV/Capacity, EV/EBITDA and P/E multiples

We value CE Oltenia based on a combination of EV/capacity and financial multiples: the reference EV/Capacity is EUR 0.66mn/MW (the median value of a narrow selection of peers), while in the case of EV/EBITDA and P/E, we used 2014 estimates from Bloomberg of the same peers. To these reference multiples, we applied hefty (55%) discounts to account for the differences in profitability, ageing factor, capex, size, unlisted status (thus limited visibility and weaker corporate governance), as well as country and sector related risks. CE Oltenia's productivity is way below peers' average (it is overstaffed mainly in the mining division), while high and increasing cost of its CO2 certificates and high capex needs likely to be largely financed from an increasing net debt figure (EUR 341mn as at end Dec 2012) are the main reasons for lower than average net margins.

Valuation based on EV/capacity (30% weight in the final valuation) yields significantly higher figure compared to that based on EV/EBITDA (40% weight) or P/E (30%). For CE Oltenia we used 2013 budgeted P&L data (we could not calculate 12TM based on 9M13 figures due to lack of data) and 2012 net debt (using 9M13 annualized data would have yielded meaningless valuation).

REFERENCE MULTIPLES FOR PEERS USED IN THE VALUATION OF CE OLTENIA

	Reference P/E (x)	Reference EV/EBITDA (x)	Reference EV/capacity (EURmn/MW)	Discount (%)	Weights in valuation (%)		
					P/E	EV/EBITDA	EV/Capacity
CE Oltenia	12.3	5.8	0.66	55	30	40	30

Source: Bloomberg, SSIF Broker estimates

KEY DATA ON CE OLTENIA USED IN THE VALUATION

RON mn	2012(7M)	2012 FY	2013B	9M13	2014B
Sales	2,237	n.a.	3,916	1,859	3,300
EBITDA	410	578	893	491	n.a.
EBIT	44	211	342	71	n.a.
Net profit	118	171	123	109	37*
Net debt	1,509	1,509	n.a.	n.a.	
Shareholders' equity	5,482	5,482	n.a.	5,508	

**Pre-tax profit; 2014 budget data from Bursa daily, quoting the CEO of CE Oltenia*

Source: Company data, Bloomberg, SSIF Broker estimates

No peers only with coal generation (and within coal only with lignite based electricity production)

Limited comparability to peers: we wanted to cross check our EV/capacity based valuation with multiple based valuations. However, finding peers for a purely lignite fired genco such as CE Oltenia was a real challenge as in Europe, practically there are no pure coal fired electricity producers. Moreover, from the group of integrated players (which also have distribution and/or supply activities), finding peers predominantly using lignite as main raw material proved an even more difficult exercise, as most use a mix of resources. Given the above limitations, we selected the companies with a fairly sizeable weight of coal in both total capacity and production (and whenever possible, of lignite fired units). From our selection of six companies (three in CEE and three in Western Europe), we consider PGE (in Poland) and RWE (in Germany) as the closest peer as visible from the table on the next page:

KEY RELEVANT DATA FOR THE CLOSEST PEERS

	RWE (Germany)	PGE (Poland)	Tauron (Poland)	CEZ (Czech R)	PPC (Greece)	Drax (UK)
% of installed capacity based on coal, o/w	44.2	85.6	97.6	57.2	n.a.	83.3
Lignite	47.8	61.1	100.0	68.2	n.a.	n.a.
Period to which data refers	2012	2009	2009	2012	n.a.	2013
% of electricity production based on coal, o/w	61.1	92.8	87.0	48.2	40.2	88.9
Lignite	61.3	72.0	37.6	84.3	100	n.a.
Period to which data refers	2013	9M13	2012	9M13/2012	9M13	2013

Source: Company data, SSIF Broker

Using CE Oltenia's capacity of 3.57TW and peers' median discounted EV/Capacity, CE Oltenia's fair value is RON 3,257mn, which given FP's 21.53% stake would translate into a fair value of FP stake of RON 701.3mn. The valuation based on the financial multiples as well as our final valuation is presented in the table on the next page. CE Oltenia's final fair value is RON 1,524mn, which given FP's 21.53% stake would translate into a fair value of FP stake of RON 328mn.The figure is close to the value in FP's official NAV as at Dec 2013 of RON 321.6mn and translates into a 0.28 multiple of CE Oltenia's 9M13 book.

SSIF BROKER FAIR VALUE OF CE OLTENIA BASED ON VARIOUS VALUATION METHODS

	Fair value of equity based on				Fair value of FP stake based on					
RON mn	P/E	EV/EBITDA	EV/capacity	average	P/E	EV/EBITDA	EV/capacity	Average	Official valuation	Book
CE Oltenia	693	847	3,257	**1,524**	149.2	182.3	701.3	**328.1**	321.6	1,186

Source: Company data, Bloomberg, SSIF Broker

CE Oltenia's EBITDA margins favorably compare to those of the peers

As the table below shows, CE Oltenia's 2013B EBITDA margin is higher than those of the peers we selected (except for those of CEZ and PGE), while the net margins in both 2012 and 2013B are lower than those of most of its peers (except for those of RWE and PPC), due to CE Oltenia's high financial expenses (in 2012 interest expense and FX losses for FX loans) and high effective tax rates. CE Oltenia also has lower CUR than most of its peers (the 2013 figure was particularly low as the company was often forced during the year to temporarily halt its production to grant preferential access to the renewable energy producers to the grid).

PEER COMPANIES WITH PREDOMINANTLY COAL BASED GENERATION ACTIVITIES: MARGINS AND CUR

	EBITDA margin (%)				Net margin (%)				Capacity	Production	CUR (%)*
	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E	TW	TWh	
CEZ (Czech Republic)	39.9	37.8	34.9	33.3	18.7	16.2	14.5	12.8	15.0	49.4	50.1
PGE (Poland)	29.1	26.8	25.1	24.2	10.5	13.4	10.3	9.7	12.9	57.1	50.5
Tauron (Poland)	15.6	17.3	16.1	16.0	5.9	6.6	4.2	4.0	5.5	19.1	39.7
RWE (Germany)	18.3	17.0	14.5	13.8	4.5	4.2	2.6	2.5	52.0	216.7	47.6
PPC (Greece)	15.8	16.3	19.3	21.8	0.8	1.7	3.4	5.3	12.8	38.4	34.3
Drax (UK)	16.8	11.2	11.2	12.8	8.0	10.1	5.4	6.9	3.9	26.2	77.3
Median	**17.6**	**17.2**	**17.7**	**18.9**	**7.0**	**8.4**	**4.8**	**6.1**			
CE Oltenia 2012-2013B	**15.1**	**22.8**			**4.5**	**3.1**			**3.57**	**12.0**	**38.4**
CE Oltenia 2012-9M13 annualized	15.1	26.4			4.5	5.8			3.57	12.0	38.4

**based on 9M13 annualised figures, except for Drax and RWE (2013); capacity mostly for 2012 except for CEZ, Drax (2013)* *Source: Company data, Bloomberg, SSIF Broker*

Using our fair value, CE Oltenia's P/E is relatively close to the median value of the peers in our sample. ON EV/EBITDA terms, CE Oltenia looks attractive, while on EV/Capacity is more expensive than the median of the peers we selected (being cheaper only compared to CEZ and RWE, its closest peers).

PEER COMPANIES WITH PREDOMINANTLY COAL BASED GENERATION ACTIVITIES: FINANCIAL MULTIPLES

	MCap	P/E (x)			EV/EBITDA (x)			EV/Capacity (EUR 000/MW)		
	EUR mn	2013E	2014E	2015E	2013E	2014E	2015E	2013E	2014E	2015E
CEZ (Czech Republic)	10,317	7.6	9.4	10.7	5.3	6.4	6.7	1,174	1,135	1,109
PGE (Poland)	8,126	8.5	12.4	12.5	4.0	5.3	5.7	553	654	719
Tauron (Poland)	566	1.7	2.8	2.9	2.4	3.3	3.9	468	469	570
RWE (Germany)	16,872	7.8	12.2	12.4	5.6	4.7	4.6	914	694	662
Public Power Corporation (Greece)	2,673	26.2	13.1	8.2	7.6	6.4	5.6	519	586	583
Drax (UK)	3,832	15.6	25.5	17.3	13.9	12.6	9.5	767	1,008	1,005
Median		**8.1**	**12.3**	**11.6**	**5.5**	**5.8**	**5.6**	**660**	**674**	**690**
CE Oltenia*		**10.6**			**3.1**			**786**		

**multiples implied by SSIF Broker fair value* *Source: Company data, Bloomberg, SSIF Broker*

Risks to our valuation: CE Oltenia is a new company with a very short history of financials (only 7M data for 2012, 2013 budget and very limited set of 9M13 figures are available). Being so recently set up, the company has not finalized the prioritization of the key investment projects (to date, capex remains largely a sum of the capex of the merged components and the company may end up in contributing to projects related to the national energy system with unknown amounts). The lack of the application norms on the CO2 certificates use (with part of capex included in the National Investment Plan financeable via the allocation of a certain number of CO2 certificates for free) induce further risks to CE Oltenia's costs and profits. The company is also fine tuning its operational restructuring plan (number of personnel to be laid off and related redundancy payments, number of the mines or other assets to be divested), thus the earnings visibility is limited.

Electricity distribution companies' valuation summary

FP stakes in the electricity discos account for 13.6% of our fair value of the portfolio of shares

FP's stakes in the electricity distribution companies account for 13.6% of our fair value of the portfolio of shares and 16.9% of the official value of portfolio of shares at December 2013. Fair values were determined as a simple average of the fair values based EV/EBITDA and EV/Customer. We used peer multiples as per Bloomberg consensus, 2013B P&L data for the privatized discos, 1H13 TTM P&L data for Electrica's subsidiaries and 2012 net debt (latest available). 1H13 results are available only for the state-owned discos, namely for EDMN, where the 1H13 net earnings (RON 74.9mn) already exceed company's guidance for FY 2013 (RON 74mn), for EDTN, where 1H13 net earnings exhibit a 57% yoy growth (to RON 50.8mn), and was 49% above FY budgeted figure of RON 34mn. For EDTS, the 1H13 net profit was RON 33.6mn, up 3.4x yoy and by 8.4% above the FY budgeted figure.

For the EV/customer multiple we used as reference the EV/Customer of EUR 118 paid by E.ON to Electrica for 17% stake in E.ON Distributie Moldova (the transaction price appeared in the *Bursa* daily in March 2014).

According to Bursa daily, E.ON acquired 17% stake in E.ON Moldova Distributie from Electrica for which it paid EUR 3.52/share. The price paid by E.ON implies an equity value of EUR 176mn and an EV of EUR 153mn based on the 2012 net cash position. The equity value is 50% below the one in FP's Dec 2013 official NAV. The implied multiples are: P/E of 7.9x , EV/EBITDA of 3.6x and EV/Customer of EUR 118 (using financials as per the 2013 budget and 2012 net debt). The EV/Customer in this transaction compares to EUR 558 paid by CEZ for CEZ Distributie to FP and Electrica in September 2009. As after that acquisition CEZ reached 100% stake in its local distribution subsidiary, we consider that the price paid by E.ON should have been lower than CEZ's nonetheless the difference is substantial.

As a reminder, E.ON had a call option on Electrica's stake in E.ON Moldova Distributie and in Nov 2010 it exercised this option, based on a formula set in the privatization contract. However, the deal took place only recently as there was an arbitration process ongoing (last hearing in November 2013), with E.ON seeing as unconstitutional the allocation of 10% of the previous Electrica Moldova to employees out of its total 27% participation. The Arbitration Court ruled partially in favor of E.ON acknowledging its right to acquire from Electrica a 17% participation in the distribution company.

We applied lower discounts to reference peers' multiples for Enel and E.ON subsidiaries and higher for Electrica subsidiaries

For the Enel subsidiaries, we used a 5% discount (the lowest primarily because they have significant levels of cash, which would allow them to invest in the grid and, in time, increase their RAB and reduce maintenance & repair costs). We used a discount of 10% for E.ON Distributie Moldova (EDM), as although it has lower margins than the Enel discos, our valuation is based on a transaction EV/Customer for E.ON Moldova Distributie. We used a 15% discount for Electrica Distributie Muntenia Nord (EDMN), Electrica Distributie Transilvania Nord (EDTN) and Electrica Distributie Transilvania Sud (EDTS). In our view, the majority state-owned companies deserve higher discounts than the privatised discos as they have less cash for investments, and also the decision-making process is slower and more bureaucratic, in our view.

KEY INPUTS IN THE VALUATION OF THE ELECTRICITY DISCOS IN FP'S PORTFOLIO

Reference multiples (2014E)		Weights in our fair valuation (%)	
Reference EV/EBITDA (x)	Reference EV/Customer (RON)	EV/EBITDA	EV/Customer
6.2	531	50	50

Source: Company reports, Bloomberg, SSIF Broker

VALUATION OF THE ELECTRICITY DISCOS IN FP'S PORTFOLIO

RON (mn)	Fair value of equity based on			Fair value of FP's stake based on			Official value
	EV/EBITDA	EV/ Customer	Weighted average	EV/EBITDA	EV/ Customer	Weighted average	
Enel Distributie Muntenia	4,152	1,806	2,979	498.2	216.7	357.5	473.1
Enel Distributie Banat	2,480	1,057	1,769	598.5	255.2	426.8	573.2
Enel Distributie Dobrogea	1,593	618	1,106	383.7	149.0	266.3	379.1
E.ON Distributie Moldova	1,165	722	943	256.3	158.7	207.5	345.4
Electrica Distributie Transilvania Nord	1,005	452	729	221.1	99.4	160.3	206.7
Electrica Distributie Transilvania Sud	1,003	417	710	220.6	91.7	156.1	192.0
Electrica Distributie Muntenia Nord	1,427	854	1,141	314.0	187.9	250.9	296.2

Source: Company reports, FP, Bloomberg, SSIF Broker estimates

The comparison to peers is not very relevant due to the fact that the Polish and European peers are integrated (also have generation capacities).

THE ELECTRICITY DISCOS IN FP'S PORTFOLIO VS. PEERS

	MCAP (EUR mn)	P/E (x)			EV/EBITDA (x)		
		2012	2013E	2014E	2012	2013E	2014E
EDF (France)	53,238	9.2	15.1	13.4	5.2	5.4	5.7
EDP (Portugal)	11,840	7.5	11.8	13.2	8.2	9.0	9.2
Endesa (Spain)	25,474	7.6	13.6	14.9	3.5	4.9	5.2
Iberdrola (Spain)	30,867	8.8	12.0	13.8	6.6	11.2	8.2
Energa (Poland)	1,115	n.a.	6.1	6.5	n.a.	5.1	4.1
Enea (Poland)	1,550	10.1	9.7	14.9	3.4	3.9	5.1
Average		**8.7**	**11.4**	**12.8**	**5.4**	**6.6**	**6.2**
Enel Distributie Muntenia*		14.3	12.9	n.a.	4.9	3.6	n.a.
ENEL Distributie Banat *		12.0	10.5	n.a.	4.8	3.7	n.a.
ENEL Distributie Dobrogea*		13.2	10.7	n.a.	5.0	3.7	n.a.
E.ON Distributie Moldova*		21.2	11.0	n.a.	6.7	4.4	n.a.
Electrica Distributie Transilvania Nord*		23.0	21.4	n.a.	7.1	5.8	n.a.
Electrica Distributie Transilvania Sud*		24.3	22.9	n.a.	6.7	6.0	n.a.
Electrica Distributie Muntenia Nord*		12.7	15.5	15.1	7.5	5.1	5.0

** 1H13 TTM for the Electrica subsidiaries and 2013 Budget for the privatised companies*

Source: Bloomberg, Company reports, FP, SSIF Broker estimates

THE ELECTRICITY DISCOS IN FP'S PORTFOLIO VS. PEERS

	MCAP (EUR mn)	EBITDA margin (%)			Net margin (%)		
		2012	2013E	2014E	2012	2013E	2014E
EDF (France)	53,238	20.8	22.8	22.3	4.6	4.7	5.2
EDP (Portugal)	11,840	22.4	22.2	22.4	6.2	6.1	5.7
Endesa (Spain)	25,474	20.6	21.5	19.4	6.0	6.0	5.2
Iberdrola (Spain)	30,867	22.6	15.6	21.2	8.1	7.7	6.9
Energa (Poland)	1,115	14.6	17.2	18.2	4.1	6.7	6.4
Enea (Poland)	1,550	16.9	16.9	16.2	7.0	7.1	4.8
Average		**19.6**	**19.4**	**20.0**	**6.0**	**6.4**	**5.7**
Enel Distributie Muntenia*		41.1	57.6	n.a.	23.7	26.8	n.a.
ENEL Distributie Banat *		48.5	54.5	n.a.	27.7	29.1	n.a.
ENEL Distributie Dobrogea*		39.5	50.6	n.a.	19.7	24.0	n.a.
E.ON Distributie Moldova*		32.0	28.2	n.a.	10.7	12.8	n.a.
Electrica Distributie Transilvania Nord*		31.5	21.2	n.a.	9.3	5.3	n.a.
Electrica Distributie Transilvania Sud*		27.8	18.6	n.a.	7.2	4.4	n.a.
Electrica Distributie Muntenia Nord*		25.3	22.6	22.5	12.1	9.7	9.7

** 1H13 TTM for the Electrica subsidiaries and 2013 Budget for the privatised companies*

Source: Bloomberg, Company reports, FP, SSIF Broker estimates

Gas supply and distribution companies' valuation summary

GdF Suez Energy Romania and E.ON Gaz Distributie account for 4.6% of our fair value of FP's portfolio of shares, and their cumulated value is by 7.5% higher than the official valuation

FP's stakes in GdF Suez Energy Romania and E.ON Gaz Distributie account for 4.6% of our fair value of FP's portfolio of shares. We valued the two gas utilities using a combination of financial multiples: we calculated weighted averages of fair values based on P/E (weight of 30%) and EV/EBITDA (weight of 70%). We assigned a 25% discount to the median peers' multiples as the companies we selected as peers are generally more diversified (they have also other business lines such as electricity, water management or district heating). Moreover, the discounts take into account the unlisted status of GdF Suez Energy Romania and E.ON Gaz Distributie and the risk coming from declining domestic demand (and hence of the gas volumes supplied and distributed) which was partly caused by the liberalization of domestic wellhead prices.

KEY INPUTS IN OUR VALUATION FOR GDF SUEZ ENERGY ROMANIA AND E.ON GAZ DISTRIBUTIE

Reference multiples (2014E)			Weights in our fair valuation (%)	
Reference P/E (x)	Reference EV/EBITDA (x)	Discounts (%)	P/E	EV/EBITDA
14.2	6.8	25	30	70

Source: Bloomberg, SSIF Broker estimates

VALUATION FOR GAS SUPPLY AND DISTRIBUTION COMPANIES

	Fair value of equity based on			Fair value of FP's stakes based on				
RON mn	P/E	EV/EBITDA	Weighted average	FP stake (%)	P/E	EV/EBITDA	Weighted average	Official value
GdF Suez Energy Romania	4,742.8	3,814.2	4,092.8	12.0	569.1	457.7	491.1	404.4
E.ON Gaz Distributie	1,064.6	988.8	1,011.5	12.0	127.8	118.7	121.4	165.2

Source: Bloomberg, SSIF Broker estimates

PEERS COMPARISON: FINANCIAL MULTIPLES

		P/E(x)			EV/EBITDA (x)		
Company	Mcap (EUR bn)	2012	2013E	2014E	2012	2013E	2014E
Gas Natural SDG (Spain)	19.3	2.0	13.4	14.0	5.7	7.2	7.0
Lietuvos Dujos (Lithuania)	0.2	7.3	n.a.	n.a.	3.8	n.a.	n.a.
Iren (Italy)	1.6	4.1	12.6	11.5	6.8	6.6	6.2
Hera (Italy)	2.7	10.5	16.7	19.0	7.1	6.7	6.5
SNAM SpA (Italy)	14.0	14.9	15.3	14.4	8.6	9.8	10.0
Median		**7.3**	**14.4**	**14.2**	**6.8**	**7.0**	**6.8**
GdF Suez Energy Romania		11.6	9.2	n.a.	6.6	5.5	n.a.
E.ON Gaz Distributie		13.9	10.1	n.a.	5.2	5.2	n.a.

Source: Bloomberg, SSIF Broker estimates

Compared to their peers, GdF Suez Energy Romania and E.ON Gaz Distributie look better in terms of 2012 EBITDA margin and net margin than peers' median, and they are also attractive in terms of net margins (we used 1H13 TTM financials for GdF Suez Energy Romania and the 2013 company budget for E.ON Gaz Distributie). However, as peers are more diversified, we believe the two domestic utilities companies deserve discounts. Our fair values yield 25% and 21% discounts in 2013E EV/EBITDA for E.ON Gaz Distributie and GdF Distributie respectively.

PEERS COMPARISON: PROFITABILITY MARGINS

		EBITDA margin (%)			Net margin (%)		
Company	Mcap (EUR bn)	2012	2013E	2014E	2012	2013E	2014E
Gas Natural SDG (Spain)	19.3	19.5	19.5	19.6	12.3	11.9	19.6
Lietuvos Dujos (Lithuania)	0.2	9.8	n.a.	n.a.	3.7	n.a.	n.a.
Iren (Italy)	1.6	13.6	16.9	17.2	8.5	9.4	17.2
Hera (Italy)	2.7	12.8	17.0	17.4	7.5	8.8	17.4
SNAM SpA (Italy)	14.0	75.4	74.8	77.9	56.6	54.5	77.9
Median		**13.6**	**18.2**	**18.5**	**8.5**	**10.6**	**18.5**
GdF Suez Energy Romania*		14.3	17.9	n.a.	10.3	13.4	n.a.
E.ON Gaz Distributie**		27.5	24.8	n.a.	11.1	13.2	n.a.

Source: Bloomberg, SSIF Broker estimates

Infrastructure – Airports

FP's holdings in the companies from the infrastructure sector account for 2.63% of FP's December 2013 official NAV (2.84% of our fair NAV). FP has holdings in three airports (Bucharest, Timisoara and Constanta), with 20% stakes in each and in several port companies.

We value FP's holdings in the three airports based on a combination of EV/passenger and financial multiples

We perform separate valuation for the three airports only, which we value based on a combination of financial multiples (EV/EBITDA, P/E) and EV/passenger multiples. We use a weighted average of fair values based on P/E (20% weight), EV/EBITDA (55%) and EV/passenger (25%). In all cases, we use as reference multiples the medians of the 2014 multiples of a selection of European peers. As Constanta Airport recorded losses, the valuation based on P/E would have yielded meaningless values, thus we have not used it in the valuation of this airport (and we assigned 55%/45% weights to the valuations based on EV/EBITDA and EV/passengers respectively). In fact, with low net profits (and low net margins vs. peers), the valuation based on P/E is is less relevant also for CNAB and Timisoara airport, thus we assign it with the lowest weights in their final valuation. On the contrary, for these two airports, the valuation based on the EV/passenger is the highest (vs. the one obtained using other multiples and vs. official valuations), but as all Romanian airports have very low traffic data vs. peers, when calculating the airports' fair values, we decided to keep the weight of this valuation method also relatively low.

Different discounts applied: As the location of the airports has been a key factor in determining the traffic volumes, which in turn is a main differentiator of profitability and outlook, we applied different discounts for the three airports ranging from 25% for Bucharest Airport (CNAB), the largest and most profitable among the three, 35% for Timisoara airport and 40% for Constanta airport (the smallest and the loss making from the three). The fact that Romania is not yet a Schengen member, the transit business is limited for all Romanian airports and the number of passenger is very low compared to the population of the respective cities (or differently said, Romania's indicator of number of passengers per 1,000 inhabitants is way below the EU average) represent in our view reasons to apply relatively hefty discounts to peers. On the other hand, we outline that the comparison with peers has its limitations as peers are much larger and complex (in terms of revenue breakdown by key activities) and also have a liquidity advantage from being listed.

KEY FINANCIAL DATA OF THE ROMANIAN AIRPORTS IN FP'S PORTFOLIO USED IN SSIF BROKER FAIR VALUATION

EUR mn	Sales	EBITDA	EBIT	Net profit	Net debt	Book	Pax mn	Period Pax	Period Financials
Bucharest Airports	**130.41**	**55.46**	**17.10**	**12.10**	**61.99**	**1,124.3**	**7.64**	2013	1H13 TTM P&L; EBITDA estimated based on 2013B D&A; 2012 net debt and book
Timisoara Airport	10.01	1.98	0.19	0.13	0.97	7.8	0.75	2013	2013B; 2012 net debt and book
Constanta Airport	4.49	0.63	-0.01	-0.04	-0.17	5.3	0.08	2013	2013B; 2012 net debt and book

Source: Company data, Bloomberg, SSIF Broker

PEERS' MEDIAN REFERENCE MULTIPLES USED IN THE VALUATION OF AIRPORTS

	Reference P/E (x)	Reference EV/EBITDA (x)	Reference EV/passenger (x)	Discounts (%)	Weights in valuation (%)		
					P/E	EV/EBITDA	EV/Pax
Bucharest Airports	20.5	10.1	77.0	25	20	55	25
Timisoara Airport				35	20	55	25
Constanta Airport				40	0	55	45

Source: Company data, Bloomberg, SSIF Broker

SSIF BROKER FAIR VALUES OF AIRPORTS BASED ON VARIOUS VALUATION METHODS

	Fair value of equity based on				Fair value of FP stake based on					
RON mn	P/E	EV/EBITDA	EV/pax	average	P/E	EV/EBITDA	EV/pax	Average	Official valuation	Book
Bucharest Airports	838	1,603	1,706	1,476	167.6	320.6	341.3	295.2	287.7	995.8
Timisoara Airport	8	54	255	95	1.6	10.8	51.1	19.0	6.2	6.9
Constanta Airport	n.m.	18	18	18	n.m.	3.6	3.5	3.6	4.7	4.7

Source: Company data, Bloomberg, SSIF Broker

SSIF Broker's fair value is lower than the official valuation in FP's NAV in the case of Constanta airport, marginally higher at CNAB and by ca. RON 13mn higher at Timisoara airport. Except for the latter, the implied P/BVs are below 1x (0.76x at Constanta airport and 0.3x at CNAB). In Dec 2013, FP revised up CNAB's official valuation from RON 272mn to RON 288mn, but both figures are way below CNAB's book (the fair valuation performed by FP's valuators considered overstated the value of some pieces of land owned by Baneasa airport (the city airport that merged with the larger international airport)). There could be some upside risk to CNAB's valuation in case some of this land is sold when the real estate market recovers and/or certain projects (real estate or air traffic related) would be developed in the near future. Thus we consider our CNAB's valuation reasonably conservative.

Profit margins are usually lower than of peers: As visible from the table below, CNAB's EBITDA margins in 2012-2013B are higher than the peers' median values, while for 2014-2015, the margins are lower. However, we should stress that CNAB's 2013-2015 budget figures (for both EBIT and net profit) are quite linear (no growth expected, despite some growth in sales). The 2013 budget is based on the assumption of a 53% yoy decline in EBIT and 64% decline in net profit, while in fact the 12TM figures based on 1H13 data are relatively similar to the 2012 figures, thus it is likely that 2014-2015 figures could be also higher than the budgeted ones. EBITDA margins of the other two airports are way below median's peers (for Constanta airport, negative). All airports in FP's portfolio have net profit margins significantly below the peers' median values (at CNAB by ca. 2pp, for Constanta airport the margins are again negative, while for Timisoara airport by 10pp in 2013).

PEER COMPANIES' OPERATIONAL INDICATORS

	MCap	EBITDA margin (%)				Net margin (%)				No. of passengers (mn)	
	EUR mn	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E	2012	2013
Aerodrom Ljubljana	80.4	35.4	38.8	38.6	37.0	16.9	10.7	8.5	n.a.	3.4	3.5
TAV Havalimanlari	1,876	22.6	24.3	35.1	35.4	11.1	13.1	15.4	16.6	71.7	83.6
Median CEE		**29.0**	**31.6**	**36.8**	**36.2**	**14.0**	**11.9**	**12.0**	**16.6**	**71.7**	**83.6**
Aeroports de Paris	8,634	38.5	39.0	38.9	39.6	13.2	11.1	13.5	14.9	88.8	90.3
Fraport AG Frankfurt	5,078	34.8	34.7	32.4	33.3	9.8	8.9	10.1	11.3	98.9	103.5
Flughafen Zuerich	2,828	41.2	53.7	52.0	52.4	10.0	15.8	19.6	20.4	24.8	24.8
Kobenhavns Lufthavne	3,202	54.6	n.a.	n.a.	n.a.	45.9	n.a.	n.a.	n.a.	23.3	24.1
Flughafen Wien	1,415	37.5	38.8	38.6	39.2	11.8	11.8	13.1	14.2	22.2	22.0
Save Group	733.8	20.1	37.5	23.9	26.0	10.4	17.7	10.6	12.0	10.5	8.3
Malta International Airport	178.6	48.9	n.a.	n.a.	n.a.	13.8	n.a.	n.a.	n.a.	3.7	4.0
Aeroporto di Firenze	120.9	16.7	n.a.	n.a.	n.a.	6.5	n.a.	n.a.	n.a.	1.9	1.5
Aeroporto Toscano	128.6	20.2	19.2	20.3	21.5	9.0	4.3	5.1	5.8	4.5	3.6
Median Western Europe		**37.5**	**38.2**	**35.5**	**36.3**	**10.4**	**11.4**	**11.9**	**13.1**		
Median all		**35.4**	**38.2**	**36.8**	**36.2**	**11.1**	**11.4**	**11.9**	**14.2**		
Bucharest Airport (CNAB)		**38.8**	**42.5**	**34.5**	**33.6**	**9.6**	**9.3**	**3.0**	**2.8**	**7.54**	**7.64**
Timisoara airport		13.3	1.9			9.5	1.3			1.04	0.75
Constanta airport		-8.8	-0.2			-9.2	-1.0			0.09	0.08

For Timisoara and Constanta airports estimates are in fact companies' budgets, for CNAB 12TM based on 1H13 data *Source: Company data, Bloomberg, SSIF Broker*

PEER COMPANIES' MULTIPLES

	MCap	P/E (x)				EV/EBITDA (x)				EV/passenger (x)	
	EUR mn	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E	2012	2013
Aerodrom Ljubljana	80.4	4.3	11.1	29.6	n.a.	-1.0	n.a.	n.a.	n.a.	-3.1	n.a.
TAV Havalimanlari	1,876	11.4	13.1	10.2	8.8	10.6	12.8	6.5	5.8	37.3	36.8
Median CEE		**7.9**	**12.1**	**19.9**	**8.8**	**10.6**	**12.8**	**6.5**	**5.8**	**37.3**	**36.8**
Aeroports de Paris	8,634	17.1	23.3	22.2	19.2	8.9	9.4	10.3	9.4	101.5	112.3
Fraport AG Frankfurt	5,078	17.3	19.7	19.8	16.9	9.1	9.0	10.4	9.7	77.9	77.5
Flughafen Zuerich	2,828	23.3	18.5	18.2	17.1	8.2	7.2	8.5	8.1	107.3	124.6
Kobenhavns Lufthavne	3,202	9.8	n.a.	n.a.	n.a.	9.8	n.a.	n.a.	n.a.	108.9	n.a.
Flughafen Wien	1,415	9.6	14.0	16.7	14.8	6.2	n.a.	8.0	7.2	63.5	n.a.
Save Group	733.8	10.6	20.6	21.3	20.2	7.1	12.2	11.5	11.9	45.6	76.6
Malta International Airport	178.6	19.3	n.a.	n.a.	n.a.	7.3	n.a.	n.a.	n.a.	51.5	n.a.
Aeroporto di Firenze	120.9	25.7	n.a.	n.a.	n.a.	11.5	n.a.	n.a.	n.a.	51.8	n.a.
Aeroporto Toscano	128.6	13.1	32.6	35.2	29.6	6.4	8.0	9.8	8.9	20.1	23.1
Median Western Europe		**17.1**	**20.1**	**20.5**	**18.1**	**8.2**	**9.0**	**10.3**	**9.4**	**63.5**	**77.5**
Median all		**13.1**	**19.1**	**20.5**	**17.1**	**8.5**	**9.2**	**10.1**	**9.2**	**57.6**	**77.0**
Bucharest Airport (CNAB)*		**27.8**	**27.6**	**74.1**	**76.4**	**7.1**	**7.4**	**6.7**	**6.6**	**204.0**	**201.3**
Timisoara airport *		22.6	164.7			6.9	10.9			92.4	170.3
Constanta airport*		Neg.	Neg.			9.4	6.3			196.1	216.8

**using SSIF Broker fair values* *Source: Company data, Bloomberg, SSIF Broker*

Latest developments

Active portfolio management

FP has supported the election of a professional management in several of its portfolio companies

FP stands out as an activist shareholder: FP has representation at the board level in 30 companies and has nominated 172 board members and 41 executive directors in companies that account for a cumulative stake in NAV of ca 67.3%. FP has been actively involved in the implementation of the new corporate governance regulations, with most of its portfolio companies having now their boards and CEOs appointed on the basis of the emergency ordinance 109/2011 applying to state owned companies (SOEs). FP also supported the introduction of a fair taxation on the additional revenues from gas price liberalization, it encouraged companies in the portfolio to put pressure on the energy market regulator (ANRE) to start recognizing all production costs, increase regulated prices and reduce quantities to be supplied on the regulated market. FP proposed and shareholders approved a new variable remuneration scheme for the management of the listed SOEs linked to the share price performance (as in Transelectrica's case).

FP has fought in court to defend its rights as minority shareholder in SOEs

FP has been active at the board level in taking actions aiming at protecting and increasing the value of the underlying holdings, on top of the above mentioned general actions. FP closely worked with Hidroelectrica's judicial administrator during the June 2012-June 2013 insolvency to ensure an efficient restructuring process while significantly improving its cash flow. FP has initiated litigations to stop actions detrimental for portfolio companies such as the 2010 Romgaz donation, Hidroelectrica's bilateral contracts, the set up of the energy champions and the compensations granted to CE Oltenia's management. FP's actions also led to the cancellation of a EUR 800mn Carbon Capture and Storage (CCS) project that would have implied significant capex and financing needs for two of FP's most important portfolio companies (Romgaz and CE Oltenia). FP also persuaded SOEs to resist commercial offers from Arcelor Mittal to sell electricity on OPCOM at prices significantly lower than the market prices and encouraged Romgaz to fully eliminate the practice of granting discounts to certain customers and to improve the profitability of the imported gas trading activity.

FP has also been active also in amending the draft regulation on the 1.5% tax on special constructions: The tax would apply to the gross value of special infrastructure assets according to the previous year's financial statements. The tax applies as of 1 Jan 2014 and is payable twice a year on 25 May and 25 September on hydro, nuclear and thermal power plants, oil, gas and salt pipelines, electricity transportation infrastructure, runways and platforms, port and waterway infrastructure. The government estimated the proceeds from the tax at ca. RON 448mn, while FP calculated RON 700-900mn tax for the companies in its portfolio, in many cases, the amounts representing a significant portion of the respective companies' 2012 net profits as follows: CE Oltenia (RON 31mn or 26% of 2012 net profits), Electrica Distributie Transilvania Nord and Sud (RON 15mn and RON 17mn respectively, i.e. 28% and 37% respectively), Hidroelectrica (RON 168mn), Nuclearlectrica (RON 102mn), OMV Petrom (RON 265-330mn).

Litigations update

Litigations with Mrs. Sfiraiala, a major hassle in FP's activity: Over the past 3 years, FP has been involved in many lawsuits related to portfolio companies, the Romanian state, the regulator ANRE and shareholders (currently, there are more than 300 cases ongoing). In the latter category, the most numerous are by far the litigations with Mrs. Ioana Sfiraiala (to date, FP won more than 64 cases against her and is in the process of the enforcement for recovering costs amounting to ca. RON 0.66mn). From the cases where so far Mrs. Sfiraiala is the winner we would mention only the most important as follows:

On 10 Oct 2012, the Bucharest Court of Appeal upheld a claim of Mrs. Sfiraiala to annul 4 resolutions of the Sept 2010 GSM in which Franklin Templeton (FT) was officially appointed as Fund Manager, on the grounds of a technical fault in the convening notice. After this, Mrs. Sfiraiala filed a significant number of other claims, all based on the argument that this decision meant that FT was not FP's valid fund manager. However, the matters to which the 4 annulled GSM resolutions related had been approved and ratified by the shareholders with vast majority in other GSMs. Moreover, the GSM resolutions of 23 November 2012 and 25 April 2013 for the re-appointment of Franklin Templeton as Fund Manger were registered with the Trade Registry and published in the Official Gazette.

In Nov 2013, the Court of Appeal ruled against FP in a case filed by Mrs. Sfiraiala for the annulment of the EGM resolution no. 5/2010 for modifying FP's Constitutive Act approved by shareholders on 29 Nov 2010, and thus annulled the said EGM resolution. The court is yet to issue the full decision, but we outline that FP's constitutive act was modified, ratified and re-approved by the shareholders in separate and subsequent resolutions in November 2011, April 2012, November 2012, April 2013, November 2013 and February 2014.

Earlier in Oct 2013, the Bucharest Court ruled against FP and annulled 2 EGM and 2 OGM resolutions in a case initiated by Hidrosind, Hidroelectrica's trade union. This case is in connection with cases initiated by Mrs. Sfiraiala in that the decisions in question are also linked with FT appointment as follows: the two EGM decisions refer to the ratification/re-adoption of 6 Sept 2010 EGM decisions that were irrevocably confirmed as annulled in other proceedings and the Trade Registry has already been updated, while the two OGM decisions relate to the ratification/re-adoption of the legal acts of FT as Sole Director during 29 Sept 2010 and 25 April 2012 and during 29 Sept 2010 and 23 Nov 2013 GSMs and the Court upheld these decisions. The Court has yet to supply its argumentation in this case.

FP's shareholders started to get used to these litigations and thus FP's share price tends not to react to news related to litigations irrespective of their outcome. In our view, the contradicting court rulings represent an inconvenient in FP's activity and we fail to understand their relevance especially given the fact that we are less than 1 year before the expiration of Templeton's first mandate following the wining of an international tender and shareholders have approved (on 22 November 2013) the extension in principle of the mandate for a 2 year term starting 30 Sept 2014 under new terms and conditions to be negotiated with FP's Board of Nominees.

In the same context (of negotiations of a new IMA), we fail to understand why the FSA was blocking the implementation of several GSM decisions (eg. the secondary listing-Warsaw listing was aborted after 2.5 years from the date of initial GSM approval, and meanwhile also the private pension reform in Poland made it less attractive), or the approval of the additional fees for the fund manager (approved 2 years ago by the shareholders) or delaying them (the share capital reduction with the treasury shares from the first buyback was approved after 2.5 years of the buyback completion). To date, the FSA also refused to approve the amendments to the IMA related to the introduction of additional incentives for FT to perform special distributions on the grounds that these were not within the scope of the initial IMA signed with the Ministry of Finance (irrespective of the fact that meanwhile, the Ministry only has some 2.6% in the form of unpaid shares and thus it should be the shareholders' will that should prevail).

IPO and SPO pipeline

IPO and SPO activity of the Romanian government was great in 2013; 2014 seems more challenging

FP has been pushing for companies in its portfolio to become listed, as a way of reducing the discount to NAV. The most important completed and future transactions are displayed in the table on the next page, where as to timing, we refer to the official deadlines announced by government officials, which is most cases seem challenging, especially in the context of the current political scene and of the upcoming elections (for the EU parliament in May and presidential in November). In our opinion, Hidroelectrica's IPO is likely to be delayed for next year the earliest as the company is again in insolvency (albeit a technical one). CE Oltenia story is a difficult one and the proximity to elections make us to believe that delays until next year are also likely. Electrica's restructuring ahead of the IPO may also delay the process. The other possible deals look small in size.

Another potentially interesting transaction could occur in Salrom (the operator of Romania's salt mines): FP officials indicated that FP might decide to sell 10%-15% out of its 49% stake in the company in conjunction with the sale by the State of part of its 51% stake.

Companies that are majority owned by the Ministry of Transportation in which FP is also shareholder seem less attractive, mainly some of the ports, as the stakes to be IPO-ed are very low and several changes in the ministry created additional difficulties in handling the process. Another potential candidate for an IPO of a company majority owned by the Ministry of Transportation is Bucharest Airports (CNAB).

IPOs of some of the distributors may also be considered but more likely not for this year

FP may exit some of the electricity distributors indirectly via Electrica's IPO. FP is a minority shareholder in 13 such companies (they are valued at ca. RON 3bn or 20% in FP's Dec 2013 NAV) and announced its intention to sell them, mandating in March 2012 Citigroup Global Markets as exclusive intermediary. To date, there was no transaction closed (delays were mainly due to various litigations between the Romanian state via Electrica and their majority shareholders (mostly deriving from different interpretation of provisions in the initial privatization contracts) and/or unclear sector related regulations. FP indicated that it would either swap its shares in various Electrica subsidiaries in which it is a minority shareholder or would try to sell the respective holdings to Electrica before the IPO and cash the proceeds from Electrica's cash proceeds from the IPO

IPO & SPO CALENDAR

Company	Offering stake (%)	Value (EUR mn)	Seller	Investment consortium	Timing
Transelectrica	15	37.6	Romanian state	BCR, Swiss Capital, Intercapital	Mar-12
Transgaz	15	72.0	Romanian state	Raiffeisen, Wood&Co, BT Securities	Apr-13
Nuclearelectrica	10	63.2	New shares	Swiss Capital, BT Securities	Sep-13
Romgaz	15	390.0	Romanian state	Goldman Sachs, Erste-BCR, Raiffeisen	Nov-13
Sub-total completed deals		**562.8**			
Hidroelectrica	15	374.5	New shares	Raiffeisen and Morgan Stanley	Unclear due to insolvency
Electrica*	51	362.8	New shares	Citi, Raiffeisen, Swiss Capital, BRD, SG	1H14
CE Oltenia	12	39.9/51.3	New shares	BRD Groupe SG, Swiss Capital	End 2014
Posta Romana	>50		New shares	KPMG, Tuca, Zbarcea and Associates	Jun-14
Administratia Porturilor Maritime**	5	3.7	Romanian state	Swiss Capital	n.a.
Administratia Canalelor Navigabile**	5	0.9	Romanian state	Romcapital	n.a.
Administratia Porturilor Dunarii Fluviale**	5	0.2	Romanian state	Romcapital	n.a.
Administratia Porturilor Dunarii Maritime**	5	0.0	Romanian state	Romcapital	n.a.
Sub-total future deals		**782.1**			

** FP would either swap its shares in various Electrica subsidiaries in which it is a minority shareholder or would try to sell the respective holdings to Electrica before the IPO and cash the proceeds from Electrica's cash proceeds from the IPO**FP is trying to convince the Ministry to sell more than 5% in these companies*

Source: FP, SSIF Broker

Asset sales from the listed portfolio, would mean in most cases an accounting loss initially

FP's long term objective is that such IPOs to increase to 100% the weight in total NAV of the listed holdings (from the current 55%).

As part of its portfolio management and in order to satisfy shareholders' requests in terms of cash distributions and buybacks, FP is likely to be more aggressive as to the sale of other liquid (listed) assets from its portfolio. In the table below, we present our estimates on the accounting profit or loss from such sales (assuming the entire stakes as at the end of Dec 2013 would be sold at once at prices on 10 March 2014). Apart from the stakes in Conpet (where the intention to sell the stake has already been announced), BT and Romgaz, all sales would be recorded at losses.

POTENTIAL PROFIT OR LOSS FROM THE SALE OF SOME OF FP'S LIQUID (LISTED) ASSETS

	Cost (RON/share)	Current price (RON/share)	Potential profit or loss (RON mn)	No. of shares held by FP (mn)
Petrom	0.50	0.44	-690.0	10,759
Romgaz	7.20	32.90	1484.9	58
Nuclearlectrica	35.31	9.01	-721.0	27
Alro	2.42	1.25	-85.3	73
Transelectrica	26.54	15.70	-107.3	10
BRD	12.85	8.65	-106.6	25
BT	1.07	1.70	40.8	65
Erste Bank	156.83	112.45	-17.6	0
Raiffeisen	179.69	101.95	-52.6	1
Conpet	26.95	45.00	46.4	3
Sub-total			**-208.3**	

Source: FP, SSIF Broker estimates

To date, the most important recent asset sale transactions were the sale of a 1.1% stake in OMV Petrom (from which it registered an accounting loss of ca. RON 71mn and cash proceeds of RON 247mn) and of the 15% stake in Transgaz (RON 13.6mn accounting loss and RON 304mn cash proceeds). FP also sold its stake in the fertilizer producer Azomures as well as in several other smaller companies.

A very important GSM that decided Franklin Templeton's fate

FP held on 22 Nov 2013 an OGM and EGM for all shareholders registered on 24 October. The main items on the EGM agenda and the way the voting took place is displayed below:

Share capital reduction with distribution of RON 0.05/share to the shareholders was approved only in the Feb 2014 EGM

A share capital decrease from RON 13,538,087,407 to RON 12,861,183,036.65 through the reduction of the par value of the shares from RON 1.00 to RON 0.95 and the payment to the shareholders registered at the registration date of RON 0.05/share, proportionally with their participation to FP's paid share capital (6.2% return using the share price on 10 March 2014). The payment should start in 30 days after the share capital decrease would be effective. The decrease of the share capital can be effective after the expiry of a two months term starting with the publication of the EGM resolution in the Official Gazette of Romania, provided that the FSA endorses the amendment of FP's Constitutive Act. The 50% quorum requirement was not met (there was only a 45.9% quorum), thus, while the decision received an overwhelming approval of the shareholders, (99% voted for it), a new GSM was called for this purpose in Feb 2014, which approved it. FP expects distributions to start in June (RON 612mn cash outflow); FP is in talks with the FSA for the approval of the share capital decrease via the reduction of the nominal value per share before/without its registration at the Trade Registry, which could be delayed by the litigation initiated by Mrs. Sfiraiala. Another item on the agenda of Feb 2014 EGM was the approval of an amendment to FP's bylaws regarding the lowering of the quorum requirements needed for the approval of a share capital decrease from 50% of the voting rights (for both EGM calls) to 25% (at the first EGM call) and 20% (at the second EGM call). The FP's dissolution and share capital increases still require the 50% minimum quorum requirement in an EGM in order to be approved.

The approval of a buy-back program for a maximum number of (i) 252,858,056 shares or (ii) 10% of the issued share capital at the relevant time, whichever is the lesser, starting with the date when the buy-back programme approved via the EGM resolution no. 4/25 April 2012 is completed (or otherwise cancelled by the shareholders), for a maximum period of 18 months as of the date when the shareholders' resolution is published in the Official Gazette of Romania. The buy-back shall be performed at prices between RON 0.2 and 1.5/share (RON 205mn outflow at the current share price). The buy-back is aimed at the share capital decrease. In the first two buyback programs, FP acquired ca. 1.1bn of its own shares, of which 600mn in the tender offer and the rest in the buyback that was resumed on 25 Nov 2013 (after being halted during the tender offer). As a reminder, in the first buyback, FP acquired 240.3mn of its own shares, for which the procedural steps for cancellation are awaiting a final FSA approval for several months. The shares in the second buyback would also be cancelled (upon cancellation of the 1.1bn shares, the total NAV is to decrease by an estimated RON 21.2mn representing the profit tax on the gain on the cancellation).

FP's bylaws were changed with the reduction of the Fund Manager's mandate from 4 to 2 years

The approval (70.7% FOR votes) of the amendment of FP's bylaws via which the mandate of the Fund Manager was set for 2 years (irrespective of who is the Fund manager).

OGM and EGM also re-approved all decisions and legal acts concluded on FP's behalf between 6 September 2010 and 21 November 2013.

The OGM rejected several amendments to the IMA signed on 25 Feb 2010 as imposed by the FSA decision 29/12.08.2013 (appealed by FP), while the EGM rejected the amendments to the Constitutive Act as imposed by the FSA decision no. 28/12.08.2013 (also appealed by FP), the most important referring to the selection process of a new fund manager and the relationship between the Fund manager and the BoN.

The main items of the OGM agenda referred to the approval of the 2014 budget as well as the issues related to the way FP is to be managed after 30 Sept 2014, when the current mandate of Franklin Templeton (FT) expires. The proposal to approve in principle the extension of Franklin Templeton's mandate for another 4 year term, was NOT approved (there were only 47.59% FOR votes), but neither the start of the selection process for the appointment of a new fund manager (although 38.14% were FOR votes for this item on the agenda). The Board of Nominees was empowered to start the negotiations with Franklin Templeton on a new/amended Investment Management Agreement (IMA) taking into account the key terms approved in the 22 Nov 2013 EGM and whose exact terms and conditions would be subject to shareholders' approval at the next OGM this April (draft proposal is to be published in mid March in the GSM convening notice).

Franklin Templeton's mandate extension for 2 years is now subject to performance criteria, which if not met, could lead to early termination of the mandate

Basically one can consider the 22 Nov 2013 GSM as a cornerstone event in FP's history as Franklin Templeton's mandate after 30 Sept 2014 would be of only 2 years and subject to certain performance criteria that are to be analyzed after 1 year and, if not fulfilled, could lead to the early termination of the mandate (by 15 July 2015 the latest the analysis is to be performed and in Sept 2015 a GSM should be held to decide on such early termination of the mandate). This item on the agenda was required by FP's largest shareholder Elliot Associates and was approved with 72.18% of the total votes. FP released the recommendation of the Board of Nominees to approve in principle the extension of the mandate of Franklin Templeton beyond 30 Sept 2014. Key considerations referred, among others, to: a) return to shareholders between the listing date and 30 Sept 2013 (total return of 41.8% higher than that of MSCI Romania, BET and BET XT indices), b) reduction in discounts to NAV (from a 56% average in 2011 to below 30% on 30 Sept 2013), c) diversification of shareholder base and new portfolio investments in Romania (institutional investors' weight up from 21% in Feb 2011 to 65.4% in Sept 2013).

Tough performance criteria for the fund manager in the new IMA

The performance criteria introduced by Elliot are relatively tough..: they refer to reducing and maintaining the discount to NAV/share to maximum 15% (vs. the current ca. 34%) in at least two thirds of the trading days during the period 1 Oct 2014- 30 June 2015 and to increase the NAV/share (during the same period). The adjusted reference NAV/share on 30 June 2015 should be higher than the NAV/share as at 30 Sept 2014 and will be calculated as the NAV/share as per the legal provisions in force, plus any returns to shareholders following reductions of the share capital during 11 Oct 2013-30 June 2015, plus any variable fee paid to Franklin Templeton, all divided by the number of paid shares as at 30 June 2015 less the number of shares bought back and not cancelled by FP. The total fee payable to Franklin Templeton is to include a base fee linked to FP's market capitalization and an additional variable fee linked to the amount of exceptional distributions to shareholders such as share buybacks (regular or via tender offers), reductions of share capital with the return to shareholders of part of their contributions and excluding the regular dividend distributions.

The additional fee for additional distributions not yet approved by the FSA

As a reminder, an amendment of the Investment Management Agreement (IMA) was requested by Manchester Securities (ca.15% of FP's capital) 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 25 April 2012 GSM approved the additional fees but their implementation is being blocked by the FSA.

It remains to be seen how exactly the vote is to be implemented in practice as in the past, several shareholders decisions were blocked either in court or by the FSA. The new investment management agreement (IMA) is currently being negotiated between Franklin Templeton and the Board of Nominees. If negotiations fail or the next ordinary GSM rejects or fails to approve the new/amended IMA or the new or amended IMA is not executed by 15 July 2014, the mandate of Franklin Templeton is deemed to be rejected and the selection process for a new fund manager is to be started by the Board of Nominees.

Reducing the discount while increasing the NAV/share looks not an easy task

…thus not easy to meet in our view: While we consider the introduction of performance criteria as beneficial for all shareholders (and the measures taken by Franklin Templeton in the last months (buybacks, proposals for distributions) as paying off and being the main driver of FP's recent share price performance, we view as challenging meeting cumulatively the two performance criteria. FP would need to be more aggressive with regards to asset sales to ensure the funding sources for the future buybacks, dividend distributions and returns to shareholders via possible further reductions in the nominal value, which would translate into NAV reductions. NAV reductions are also possible given that some of FP's holdings, once listed would be marked to market at prices likely to be below the levels at which they are recorded in FP's current NAV.

FT will submit for shareholders' approval in the 28 April 2014 AGM the authorization for a 4th buy-back program, for a maximum number of (i) 990,855,616 shares or (ii) 10% of the issued share capital at the relevant time, whichever is the lesser. This will commence on the date when the buy-back program approved through the 22 November 2013 EGM is completed (or otherwise cancelled by the shareholders), and will take place for a maximum period of 18 months as of the date when the shareholders' resolution is published in the Official Gazette. The buy-back shall be performed at prices per share between RON 0.2 and RON 2.

Financial overview

January 2014 official NAV marginally down mom

FP's January 2014 official NAV reached RON 14.9bn (NAVPS of RON 1.2339, down 0.8% mom, but up 7.2% yoy). The highlights are presented below:

Unlisted holdings: weight in assets was flattish mom at 42.6% (at RON 6.4bn, flat mom);

The listed shares portfolio value was down 1.4% mom to RON 8.1bn, partly due to the sale of Trangaz shares. Petrom share price mildly declined by 0.8% mom. FP's exposure to banks was flat mom at 3.1% of assets. The decline was partly offset by the mom appreciation of Austrian banking holdings (EBS by 7% and Raiffeisen International by 11.6%), coupled with the 2.2% decline in BRD's share price (while TLV was 0.5% up mom). Austrian equities accounted for 0.91% of NAV vs. 0.82% in Dec 2013.

Liquid assets (RON 452mn, flattish mom): The cash and deposits decreased by 44% mom to RON 133mn (0.9% of assets), while placements in Treasuries went up by 49% mom to RON 319mn.

FP reported a January 2014 **preliminary net loss** of RON 7.6mn (vs. RON 1.4mn in Jan 2013).

FP'S OFFICIAL NAV AS AT END JANUARY 2014

RON mn	Dec-12	Jan-13	Mar-13	Jun-13	Sept-13	Dec -13	Jan-14	mom (%)	yoy (%)
LT financial assets, o/w	**8,152**	**8,133**	**8,129**	**8,443**	**8,109**	**6,386**	**6,391**	**0.1**	**-21.4**
Listed shares	35	16	13	24	12	10	15	51.1	-6.3
Unlisted shares	8,116	8,116	8,115	8,418	8,096	6,375	6,375	0.0	-21.5
Total fixed assets	**8,152**	**8,133**	**8,129**	**8,443**	**8,109**	**6,386**	**6,391**	**0.1**	**-21.4**
Receivables	3	2	3	55	12	3	2	-43.1	-33.8
Cash	2	2	1.2	11	2	6	2	-71.3	3.4
ST financial assets, o/w	**6,861**	**7,062**	**7,142**	**6,932**	**6,858**	**8,680**	**8,563**	**-1.4**	**21.2**
Listed shares	6,089	6,289	6,376	5,608	6,012	8,234	8,112	-1.5	29.0
T Bills	455	537	534	467	482	214	319	49.2	-40.6
Deposits	317	237	233	858	364	232	131	-43.4	-44.5
Total current assets	**6,865**	**7,066**	**7,146**	**7,009**	**6,873**	**8,688**	**8,566**	**-1.4**	**21.2**
Total assets	**15,017**	**15,199**	**15,275**	**15,451**	**14,982**	**15,074**	**14,957**	**-0.8**	**-1.6**
Total current liabilities	**21**	**24**	**20**	**435**	**33**	**31**	**31.6**	**1.4**	**33.5**
Provisions	17	17	17	18	29	29	29	0.1	74.7
Total non-current liabilities	**17**	**17**	**17**	**18**	**29**	**29**	**29**	**0.1**	**74.7**
Share capital	13,778	13,778	13,778	13,778	13,778	13,778	13,778	0.0	0.0
Revaluation reserve	3,142	3,323	3,163	3,385	3,432	3,994	3,883	-2.8	16.8
Reserves	-2,564	-2,564	-2,319	-2,765	-2,911	-3,493	-3,491	0.0	36.2
Retained earnings prev. years	55	622	622	85	85	85	734	n.m.	17.9
YTD net profit	567	-1	-5.6	515	535.2	648.0	-7.6	n.m.	n.m.
Shareholders' equity	**14,979**	**15,227**	**15,239**	**14,998**	**14,920**	**15,014**	**14,896**	**-0.8**	**-2.2**
Net asset value	**14,979**	**15,227**	**15,239**	**14,998**	**14,920**	**15,014**	**14,896**	**-0.8**	**-2.2**
NAV/share (RON)	**1.1371**	**1.1507**	**1.1568**	**1.1514**	**1.1610**	**1.2436**	**1.2339**	**-0.8**	**7.2**

Source: FP, SSIF Broker

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

	Company	Jan-14	Company	Dec-13	Company	Dec-12	Company	Nov-12
1	Petrom	33.7	Petrom	33.7	Petrom	32.6	Petrom	35.5
2	Hidroelectrica	15.0	Hidroelectrica	14.9	Hidroelectrica	13.4	Romgaz	10.2
3	Romgaz	13.0	Romgaz	13.2	Romgaz	8.7	CE Oltenia	8.4
4	ENEL Distributie Banat	3.9	ENEL Distributie Banat	3.8	CE Oltenia	5.9	Nuclearelectrica	3.9
5	ENEL Distributie Muntenia	3.2	ENEL Distributie Muntenia	3.2	Nuclearelectrica	4.3	ENEL Distributie Banat	3.5
6	GdF Suez Energy Romania	2.7	GDF Suez Energy Romania	2.7	ENEL Distributie Banat	3.0	EON Moldova Distributie	3.1
7	ENEL Distributie Dobrogea	2.6	ENEL Distributie Dobrogea	2.5	Transgaz	2.6	Transgaz	2.8
8	EON Distributie Moldova	2.3	EON Moldova Distributie	2.3	ENEL Distributie Muntenia	2.3	ENEL Distributie Muntenia	2.7
9	CE Oltenia	2.2	CE Oltenia	2.1	GDF Suez Energy	2.3	GDF Suez Energy	2.7
10	Electrica Distrib. Muntenia Nord	2.0	Nuclearelectrica	2.0	EON Moldova Distributie	2.2	Bucharest Airports (CNAB)	2.5
	Sub-total top 10	**80.4**		**80.4**		**78.9**		**75.3**

**Bucharest Airports (CNAB)* *Source: FP, SSIF Broker*

FP: BREAKDOWN OF ASSETS

% total assets	Nov-12	Dec-12	Mar-13	Jun-13	Sep -13	Dec-13	Jan-14	mom (pp)	yoy (pp)
Portfolio of shares, o/w	**93.9**	**94.8**	**95.0**	**90.9**	**94.3**	**97.0**	**97.0**	**0.0**	**2.1**
Listed	44.6	40.8	41.8	36.4	40.2	54.7	54.3	-0.4	12.9
Unlisted	49.4	54.0	53.1	54.5	54.0	42.3	42.6	0.3	-10.8
Assets other than shares and cash	3.0	3.0	3.5	3.4	3.3	1.4	2.1	0.7	-1.4
Cash and deposits	**3.0**	**2.1**	**1.5**	**5.6**	**2.4**	**1.6**	**0.9**	**-0.7**	**-0.7**

Source: FP, SSIF Broker

FP ended 4Q13 with a RAS RON 147mn net profit up from a RON 7.6mn net loss in 4Q12 on higher dividend income, gains from asset sales and provision reversals

In 4Q13, profitability in RAS improved qoq as revenues jumped and costs declined. Moreover, on a yoy basis, the figures look even much better as FP switched from a net loss of RON 7.6mn to RON 147mn net profit.

4Q13 RAS net profit up yoy on higher gains from asset sales (mainly from the sale of the 15% stake in Transgaz)

P&L: FP reported a 4Q13 RAS net profit of RON 147mn (vs. a RON 20.6mn net profit in 3Q13 and a RON 7.6mn net loss in 4Q12). The main revenue contributor in 4Q13 was gain from asset sales (RON 116mn). Interest income amounted to RON 5mn, down ca. 52% qoq and yoy. The net provision came in as an income mainly due to reversals of provisions related to part of the dividend income and related penalties received from Hidroelectrica, partly offset by impairment related to a receivable from the Ministry of Finance. Overall, net revenues were up 361% qoq to RON 177mn. All cost items showed yoy increases, but qoq declines. The main cost item remains the management fee for Templeton (RON 13.5mn, up 52.3% yoy and 19.3% qoq); the commission to the FSA amounted to RON 3.7mn and the depository fees to RON 0.5mn. The 2013 net profit was RON 682.2mn, 20% up yoy and 35.8% above FP's FY revised budgeted figure.

FP sold its entire stake in Transgaz and other smaller holdings and part of its stake in Raiffeisen International

Changes in the portfolio in 4Q13. The value of the financial assets decreased by RON 473mn mainly due to the disposal of the entire holding in Transgaz (RON 177.4mn impact), and part of the holdings in OMV Petrom (RON 270.8mn) and Raiffeisen International (RON 24.6mn) (first and last sold in 4Q13). The increase in impairment adjustment of RON 320.4mn for Nuclearelectrica and RON 348.4mn for CE Oltenia was offset by the reversal of impairments for OMV Petrom (RON 448.6mn) and Hidroelectrica (RON 238.4mn). FP's portfolio of shares was down 4.3% yoy to RON 10.6bn in RAS. In 4Q13, FP sold its entire holdings in Celuloza si Otel, Telerom Proiect and Ciocirlia and most importantly its 15% stake in Transgaz for RON 303mn and part of its holding in Raiffeisen International.

Decline in cash on dividend payments and buyback led to a decline in FP's current assets

FP's current assets decreased in 2013 on the back of decreases in the Treasuries portfolio and in the cash and deposits figure, which in turn is a consequence of cash outflows for dividend payments (RON 530.7mn) and buybacks (RON 974.8mn), net of the proceeds from asset disposals (RON 570.8mn) and dividend income from portfolio companies (RON 696.3mn).

Differences between IFRS (unconsolidated) and RAS financials: In IFRS, FP initially reported a 4Q13 net loss of RON 345.2mn vs. net profits of RON 236mn in 3Q13 and RON 654mn net loss in 4Q12. The major difference between the RAS and IFRS figures is the computation of net provisions for impairments (a RON 507mn charge in IFRS and a gain of RON 23mn in RAS in 4Q13 and a RON 798mn net charge in 2013, the latter largely attributable to the RON 836mn impairment loss of equity investments). Other differences refer to the computation of several expenses as well as a high income tax expense in IFRS and no income tax in RAS.

Due to changes in the tax regulations effective this year the unconsolidated IFRS financial statements published in mid Feb were restated on 26 Feb from a RON 94mn net profit in 2013 to a RON 837.3mn net loss and from RON 3,698.1mn total comprehensive income to RON 3,977.5mn. The most important change in the Fiscal Code that took effect starting 1 January 2014 resulted in no future tax charge on gains, or relief for losses, on portfolio investments where FP holds at least 10% of the shares in issue for a period of at least one year. Deferred tax assets or liabilities on equity investments can only be recognized when holdings are lower than 10% or held for less than a year. In the balance sheet, these adjustments referred to the change of the deferred tax position from a deferred tax liability of RON 279mn to a deferred tax asset of RON 0.3mn.

The change impacts only the IFRS financials thus there is no impact on FP's ability to distribute dividends that are calculated based on the RAS profits. Starting this FY, dividend distribution would be based on IFRS financials (thus next year's dividends that might be distributed by FP to shareholders would be calculated using the IFRS net profit as reference).

FP: 4Q13 AND 2013 PROFIT AND LOSS ACCOUNT

	RAS						IFRS unconsolidated				
RON mn	**4Q13**	**qoq (%)**	**yoy (%)**	**2013**	**yoy (%)**	**% of deviation vs. 2013 rev. budget**	**4Q13**	**qoq (%)**	**yoy (%)**	**2013**	**yoy (%)**
Dividend income	29.9	99.7	n.m.	649.7	5.0	4.8	29.9	118.0	n.m.	652.4	4.6
Net income from prov.	23.4	87.5	n.m.	35.3	n.m.	n.a.	-506.9	74.0	-34.4	-798.1	-1.4
Net fin. investm. gains	115.5	n.m.	n.m.	44.4	239.8	n.a.	116.0	n.m.	n.m.	247.8	n.m.
Net forex gain/(loss)	0.0	n.m.	n.m.	0.0	n.m.	n.m.	0.0	n.m.	n.m.	0.0	n.m.
Interest income	5.0	-51.5	-52.1	36.1	3.5	n.a.	5.0	-51.5	-52.1	36.1	3.5
Other operating revenue	2.7	342.7	n.m.	3.6	-7.8	n.a.	2.1	257.8	n.m.	3.1	-20.7
Total net revenues	**176.6**	**360.6**	**n.m.**	**769.2**	**22.8**	**14.3**	**-353.7**	**32.6**	**-53.6**	**141.4**	**n.m.**
Personnel expenses	-0.3	0.0	59.4	-0.9	32.0	-0.5	-0.3	0.0	59.4	-0.9	43.9
Fees	-10.7	148.7	181.1	-26.4	62.4	n.a.	58.5	n.m.	n.m.	0.0	n.m.
Other opex	-18.7	41.5	50.2	-59.7	40.0	-60.9	-87.7	n.m.	440.0	-87.7	48.8
Total opex	**-29.6**	**66.7**	**80.5**	**-87.1**	**46.0**	**-49.0**	**-29.5**	**51.6**	**79.7**	**-88.6**	**48.8**
Operating profit	**147.0**	**n.m.**	**n.m.**	**682.2**	**20.3**	**35.8**	**-383.2**	**33.9**	**-50.8**	**52.8**	**n.m.**
Income tax	0.0	n.m.	n.m.	0.0	n.m.	n.m.	-893.4	n.m.	n.m.	-890.1	n.m.
Net profit	**147.0**	**n.m.**	**n.m.**	**682.2**	**20.3**	**35.8**	**-1,276.6**	**441.8**	**95.3**	**-837.3**	**n.m.**

Source: FP, SSIF Broker

FP: 4Q13 BALANCE SHEET

	RAS					IFRS unconsolidated			
RON mn	**2013**	**3Q13**	**2012**	**yoy (%)**	**qoq (%)**	**2013**	**2012**	**yoy (%)**	**qoq (%)**
Non-current assets	***10,626***	**10,690**	**11,098**	***-4.3***	***-0.6***	***14,442***	**11,270**	***28.2***	***32.5***
Financial investments o/w	***10,625***	***10,690***	***11,098***	***-4.3***	***-0.6***	***14,442***	**11,270**	***28.2***	***32.5***
Equity investments	10,625	10,690	11,098	*-4.3*	*-0.6*	14,442	11,270	*28.2*	*32.5*
Current assets	**454**	**861**	**777**	***-41.5***	***-47.2***	**455**	**1,140**	***-60.1***	***-63.0***
Cash and equivalents	238	365	318	*-25.3*	*-35.0*	238	319	*-25.5*	*-35.1*
Short term financial investments	214	482	455	*-53.0*	*-55.7*	214	455	*-53.0*	*-55.7*
Receivables	3	13	4	*-25.8*	*-77.8*	0	1	*n.m.*	*n.m.*
Other current assets	0	0	0	*61.3*	*-52.4*	4	366	*-98.9*	*-98.9*
Total assets	**11,080**	**11,551**	**11,875**	***-6.7***	***-4.1***	**14,898**	**12,410**	***20.0***	***22.8***
Shareholders' equity, o/w	**11,019**	**11,488**	**11,837**	***-6.9***	***-4.1***	**14,855**	**12,389**	***19.9***	***22.9***
Share capital	13,778	13,778	13,778	*0.0*	*0.0*	13,778	13,778	*0.0*	*0.0*
Reserves o/w	-2,397	-2,577	-2,443	*-1.9*	*-7.0*	7,622	2,773	*174.9*	*173.9*
Impairment for loss in value	2,736	2,881	2,738	*-0.1*	*-5.1*	6,098	2,494	*144.5*	*143.5*
Retained earnings	734	621	622	*17.9*	*18.2*	-5,450	-4,042	*34.8*	*31.7*
Treasury shares	-1,095	-334	-120	*n.m.*	*228.1*	-1,095	-120	*n.m.*	*228.1*
Total liabilities	**60**	**62**	**38**	***59.8***	***-2.5***	**42**	**21**	***100.7***	***-3.5***
Total liabilities and equity	**11,080**	**11,550**	**11,875**	***-6.7***	***-4.1***	**14,898**	**12,410**	***20.0***	***22.8***

Source: FP, SSIF Broker

FP targets a 2014 RAS net profit up 10.7% yoy on the 2013 revised budgeted figure

2014 budget

FP targets a net profit of RON 556mn down 18.5% yoy. FP expects revenues of RON 632mn, down 52% yoy, of which the majority would be dividend income (RON 620mn, down 4.6% yoy) and the rest is interest income (RON 12mn, down 66.4% yoy). On the expenses side, the biggest item would remain the management fee to Franklin Templeton estimated at RON 40.8mn (0.479% per year based on FP's average share price for the period Jan-Aug 2013) vs. RON 45.3mn 2013 paid in 2013 (and assuming that the fees will remain unchanged also after 30 Sept 2014, when the current mandate expires). No additional fees related to additional distributions were considered as they have not been approved by the FSA. The budget is based on the following assumptions:

FP would not acquire stakes in new companies, sell from its holdings and participate in rights issues in companies from its portfolio. This is not FP's strategy for 2014, but amounts from such operations could not be included in the budget as they cannot be forecasted;

FP would prefer distributions via reduction of nominal value/share to actual dividend payments

FP will return capital to shareholders through a share capital reduction by RON 0.05/share. The distributions are expected to start in June 2014 as follows: 25% in June, 70% in July, 2% in August and the rest of 3% in September (the calendar was based on the assumption of shareholders approving the operation in Nov 2013, while the actual approval took place in Feb 2014 EGM, and in the call after 4Q13 results, FP officials indicated that the distribution would take place around June). Using FP's share price on 10 March 2014, these distributions would translate into a yield of 6.2%. Such distributions are tax free for FP and free of withholding tax for the shareholders, so further reductions are possible, as this is the most fiscally efficient way of returning cash to shareholders.

FP indicated that if the FSA regulatory approval, or any litigation or other event will delay or block the implementation of cash distribution, the Fund Manager may consider proposing a dividend distribution from the unallocated profits for 2013, to ensure that shareholders will receive an annual cash distribution. The replacement of cash dividends with distributions is to be included in FP's new investment policy to be implemented by the fund manager once it receives a new mandate, and subject to shareholders' and FSA approval.

Dividend income from portfolio companies is estimated to be cashed 85% in June, 10% in July, 3% in August and 2% in November. FP budgeted similar dividend income as the amounts effectively cashed during Jan-Aug 2013.

Interest income was budgeted based on a 3% average interest rate, to be applied to FP's placements in deposits; FP assumed that all available cash from dividend income and asset disposals would be placed in money market instruments and the buyback program.

FSA commission of 0.1% p.a. and the depository fee were calculated based on the average official NAV for Jan-Aug 2013; the FSA fee is estimated at RON 15.1mn;

FP also has a budget of ca. RON 0.8mn as post secondary listing expenses vs. RON 10.7mn budgeted figure in 2013; however, given the delays from FSA in approving the relevant regulations to allow for the set up of a direct link between the Romanian and Polish depositories, the fund manager was not able to complete the Warsaw listing before the 31 Dec 2013 deadline. Moreover, the Polish pension funds' reform made a Warsaw listing even less attractive.

Instead, subject to GSM approval, FP's fund manager recommends now the **London Stock Exchange (LSE) listing** and it selected the consortium of Jefferies International Limited as the sole UK financial adviser together with BRD Groupe SG and Swiss Capital as the local advisors, and Clifford Chance Badea as the legal advisor. Fungible trading between London and Bucharest is expected to be achieved via the use of Depositary Interests ("DIs") in the UK. Such instruments would be traded on the so called "specialist fund market" operated by LSE, a regulated market dedicated to sophisticated investors where 25 investment funds specialized either in private equity, real estat or distressed assets. Based on its assets, FP would be the largest fund on this market. The listing would be technical (no new shares are to be issued nor sale of existing shares would be made). Most likely, the 2014 budget would be revised to include the LSE listing related costs.

Alternatively, the listing can be achieved via the use of Global Depository Receipts ("GDRs"), but the current local regulations in Romania limit the issuance of GDRs to IPOs and in order for FP to be able to issue such GDRs, either the regulation should change or the local FSA should issue a waiver for FP to be able to issue the GDRs.

FP also budgeted some RON 8.2mn as legal fees for litigations, flat yoy and RON 2.1mn as fees for audits, fiscal advisory services and portfolio valuation (vs. RON 1.2mn 2013 budgeted and forecasted figure for the latter item, the increase being mostly related to portfolio valuation expenses).

FP has a budgeted capex figure of RON 0.5mn down from RON 0.92mn 2013 budgeted figure and RON 0.56mn 2013 forecast, mostly for the implementation of a new IFRS module.

FP'S 2014 BUDGET

RON mn	2013 initial budget	2013 revised budget	% of revision	2013	% deviation	2014 Budget	yoy (%)
Dividends received	618.2	619.8	0.3	649.7	4.8	619.8	-4.6
Interest income	42.1	36.0	-14.4	36.1	0.3	12.1	-66.4
Revenues from reversal of impaired adj. and prov.	n.a.	16.8	n.a.	48.3	188.3	n.a.	n.a.
Other income	n.a.	0.5	n.a.	3.9	n.m.	n.a.	n.a.
Fair value adjustments of financial instruments	n.a.	0.0	n.a.	573.1	n.m.	n.a.	n.a.
Total revenues	**660.3**	**673.0**	**1.9**	**1,311.2**	**94.8**	**631.9**	**-51.8**
Utilities expenses	-0.03	-0.03	3.5	n.a.	n.a.	-0.030	n.a.
Rent expenses	-0.1	-0.10	-4.5	n.a.	n.a.	-0.1	n.a.
Insurance expenses	-0.3	-0.19	-39.6	n.a.	n.a.	-0.3	n.a.
Investor relations' expenses	-1.9	-1.60	-16.7	n.a.	n.a.	-2.0	n.a.
PR expenses	-0.5	-0.40	-13.9	n.a.	n.a.	-0.7	n.a.
Bank charges and similar costs	-1.9	-1.89	1.9	n.a.	n.a.	-1.8	n.a.
Commission and fees	-14.7	-15.18	3.5	-26.4	73.9	-15.2	-42.3
Personnel expenses	-0.7	-0.95	39.8	-0.9	-0.5	-1.1	19.7
DD&A	-0.3	-0.14	-56.7	-59.4	n.m.	-0.3	-99.5
Third party costs	-44.8	-52.26	16.6	n.a.	n.a.	-53.9	n.a.
Other opex	-0.1	-0.07	-9.3	n.a.	n.a.	-0.4	n.a.
Secondary listing expenses	-10.8	-10.76	0.0	n.a.	n.a.	0.0	n.a.
Net Fx loss	n.a.	-0.13	n.a.	n.a.	n.a.	n.a.	n.a.
Loss on disposal of equity investments	n.a.	-71.10	n.a.	n.a.	n.a.	n.a.	n.a.
Costs related to disposals	n.a.	-3.50	n.a.	-528.7	n.m.	n.a.	n.a.
Expenses with provisions and impairment adj.	n.a.	-12.46	n.a.	-13.0	4.7	n.a.	n.a.
Other opex	n.a.	-0.01	n.a.	-0.6	n.m.	n.a.	n.a.
Total operating expenses	**-76.0**	**-170.8**	**124.6**	**-629.0**	**268.3**	**-75.9**	**-87.9**
Operating profit	**584.3**	**502.3**	**-14.0**	**682.2**	**35.8**	**556.0**	**-18.5**
Income tax	-13.8	0.0	n.m.	0.0	n.m.	0.0	n.m.
Net profit	**570.5**	**502.3**	**-12.0**	**682.2**	**35.8**	**556.0**	**-18.5**

Source: FP, SSIF Broker

Financials

FP: BALANCE SHEET (IFRS)

	Unconsolidated						Consolidated					
RON mn	**2010**	**2011**	**2012**	**yoy (%)**	**2013**	**yoy (%)**	**2010**	**yoy (%)**	**2011**	**yoy (%)**	**2012**	**yoy (%)**
Total assets, o/w	**12,533**	**11,760**	**12,410**	**5.5**	**14,898**	**20.0**	**12,125**	**-0.8**	**12,309**	**1.5**	**12,106**	**-1.6**
Cash	7	2	2	-2.9	6	198.9	7	385.9	2	-73.5	2	-2.9
Deposits	1,071	296	317	7.1	232	-26.9	1,071	-50.6	296	-72.3	317.3	7.1
T-bills	248	196	455	132.1	214	-53.0	248	n.m.	196	-21.0	454.7	132.1
Dividends receivable	4	52	1	-98.5	0	n.m.	4	n.m.	52	n.m.	0.8	-98.5
Equity investments, o/w	**10,862**	**10,732**	**11,270**	**5.0**	**14,442**	**28.2**	**7,046**	**5.1**	**7,428**	**5.4**	**6,393**	**-13.9**
at fair value	4,846	4,768	6,071	27.3	n.a.	n.a.	*1,030*	55.4	*1,465*	42.2	*1,195*	-18.4
at cost	6,015	5,963	5,198	-12.8	n.a.	n.a.	*6,015*	-0.5	*5,963*	-0.9	*5,198*	-12.8
Deferred tax assets	339	479	363	-24.1	0.3	n.m.	35	-56.8	93	164.5	229	145.9
Other assets	2	3	2	-14.4	4	65.6	2	171.6	3	34.5	2	-14.4
Investment in associate	-	0	0	n.m.	0	n.m.	3,712	14.0	4,239	14.2	4,707	11.0
Shareholders' equity, o/w	**12,463**	**11,718**	**12,389**	**5.7**	**14,855**	**19.9**	**12,056**	**-1.3**	**12,267**	**1.8**	**12,085**	**-1.5**
Share capital	13,778	13,778	13,778	0.0	13,778	0.0	13,778	0.2	13,778	0.0	13,778	0.0
Fair value reserve on AFS assets	1,951	1,240	2,494	101.1	7,309	193.0	478	128.6	197	-58.7	130	-34.1
Other reserves	223	250	278	11.3	313	12.2	223	11.7	250	12.2	278	11.3
Treasury shares		-120	-120	0.0	-1,095	n.m.			-120		-120	0.0
Accumulated losses	-3,489	-3,431	-4,042	17.8	-5,450	34.8	-2,423	24.5	-1,839	-24.1	-1,981	7.8
Liabilities, o/w	**70**	**42**	**21**	**-50.2**	**42**	**n.m.**	**70**	**n.m.**	**42**	**-39.2**	**21**	**-50.2**
Deferred tax	0	n.a.	n.a.	n.a.	n.a.	n.a.	0	n.m.	0	n.m.		n.m.
Other liabilities	70	n.a.	n.a.	n.a.	n.a.	n.a.	70	n.m.	42	-39.2	21	-50.2
Total liabilities and equity	**12,533**	**11,760**	**12,410**	**5.5**	**14,898**	**20.0**	**12,125**	**-0.8**	**12,309**	**1.5**	**12,106**	**-1.6**

Source: FP, SSIF Broker

FP: PROFIT AND LOSS ACCOUNT (IFRS)

	Unconsolidated						Consolidated					
RON mn	**2010**	**2011**	**2012**	**yoy (%)**	**2013**	**yoy (%)**	**2010**	**yoy (%)**	**2011**	**yoy (%)**	**2012**	**yoy (%)**
Net investment income/(loss) , o/w	**274.2**	**573.4**	**-134.0**	**n.m.**	**141.4**	**n.m.**	**715.6**	**-28.3**	**1,127.7**	**57.6**	**306.4**	**-72.8**
Gross dividend income	181.2	522.4	623.7	19.4	652.4	4.6	181.2	51.0	320.8	77.0	270.5	-15.7
Interest income	131.5	41.1	34.9	-15.1	36.1	3.5	131.5	-7.7	41.1	-68.7	34.9	-15.1
Impairment losses on equity investments	-29.3	-51.7	-772.4	n.m.	-835.8	8.2	-29.3	n.m.	-51.7	76.4	-772.4	n.m.
Impairment losses on dividends receivable	0.0	28.3	-46.2	n.m.	46.9	n.m.	0.0	n.m.	28.3	n.m.	0.0	n.m.
Other impairments (net)			4.3	n.m.	-9.2	n.m.	0.0	n.m.	11.5	n.m.	-37.1	n.m.
Gains/(losses) on disposal of equity investments		8.8	17.9	103.2	247.8	n.m.	0.0	n.m.	8.8	n.m.	13.1	48.6
Net FX gains	-9.2	0.7	-0.2	n.m.	0.0	n.m.	-9.2	-162.2	0.7	n.m.	-0.2	n.m.
Share of profit in associates (net of income tax)	n.a.	11.5		n.m.		n.m.	440.3	n.m.	755.9	71.7	793.6	5.0
Other operating income	n.a.	12.2	3.9	-67.6	3.1	-20.7	1.0	n.m.	12.2	n.m.	3.9	-67.6
Operating expenses, o/w	**-50.5**	**-54.9**	**-59.6**	**8.5**	**-88.6**	**48.8**	**-51.6**	**125.8**	**-54.9**	**6.5**	**-59.6**	**8.5**
Personnel expenses	-4.1	-0.6	-0.7	2.3	-0.9	43.9	-4.1	-69.9	-0.6	-84.2	-0.7	2.3
Other opex	-46.5	-54.2	-58.9	8.6	-87.7	48.8	-47.5	409.0	-54.2	14.2	-58.9	8.6
Profit/(loss) before tax	**223.7**	**518.5**	**-193.6**	**n.m.**	**52.8**	**n.m.**	**664.0**	**-31.9**	**1,072.8**	**61.6**	**246.8**	**-77.0**
Income tax (expense)/credit	-8.7	-0.5	118.7	n.m.	-890.1	n.m.	-8.7	-91.8	-0.5	-94.6	118.7	n.m.
Net profit/(loss)	**215.0**	**518.1**	**-75.0**	**n.m.**	**-837.3**	**n.m.**	**655.3**	**-24.6**	**1,072.3**	**63.6**	**365.5**	**-65.9**
Net change in fair value of available for sale equity investments	1,299.5	-846.3	1,492.9	n.m.	4,647.0	211.3	319.9	69.1	-333.7	n.m.	-80.2	-76.0
Income tax on other comprehensive income	-207.9	135.4	-238.9	n.m.	167.8	n.m.	-51.2	69.1	53.4	n.m.	12.8	-76.0
Net other comprehensive income	**1,091.6**	**-710.9**	**1,254.0**	**n.m.**	**4,814.8**	**283.9**	**268.7**	**69.1**	**-280.3**	**n.m.**	**-67.4**	**-76.0**
Total comprehensive profit/(loss)	**1,306.6**	**-192.8**	**1,179.1**	**n.m.**	**3,977.5**	**237.3**	**924.0**	**-10.1**	**792.0**	**-14.3**	**298.1**	**-62.4**

Source: FP, SSIF Broker

FP: GROSS DIVIDEND INCOME (MAIN SOURCES)

RON mn	2009	2010	2011	2012	yoy (%)	2013	yoy (%)
Petrom	0.0	0.0	201.6	353.1	75.1	319.0	-9.7
Romgaz	40.9	87.8	106.0	140.6	32.7	158.9	13.0
Hidroelectrica	0.0	6.5	52.5	0.0	n.m.	0.0	n.m.
Transgaz	18.5	23.0	50.8	52.5	3.4	37.6	-28.4
Enel Distributie Banat	0.0	0.0	20.2	1.8**	n.m.	16.2**	9x
Alro Slatina	18.9	0.0	16.0	23.1	43.9	0.0	n.m.
Primcom	1.5	1.7	14.3	0.0	n.m.	9.3**	n.m.
Enel Distributie Dobrogea	0.0	0.0	13.5	0.0	n.m.	9.3**	n.m.
CNAB	10.1	5.9	9.9	9.4	-5.2	9.1	-3.2
Conpet	7.1	3.8	7.0	6.6	-5.3	8.4	27.3
Raiffeisen International	n.m.	n.m.	4.7	4.1	-14.4	4.4	7.3
Erste Bank	n.m.	n.m.	3.3	0.0	n.m.	n.a.	n.m.
BRD Groupe SG	n.m.	n.m.	2.4	4.2	74.8	0.0	n.m.
Traian Vuia Timisoara Airport	0.0	0.4	1.5	1.7	9.9	0.7	-58.8
Transelectrica	3.0	0.5	1.1	10.9	n.m.	4.0	-63.3
EON Gaz Romania	0.0	24.7	n.a.	n.a.	n.a.	n.a.	n.a.
EON Gaz Distributie	0.0	11.4	n.a.	n.a.	n.a.	29.9	n.m.
GDF Suez Energy Romania	14.5	0.0	9.6	0.0	n.m.	22.8	n.m.
Turceni Power Plant	2.3	2.3	n.a.	0.0	n.m.	n.m.	n.m.
Rovinari Power Plant	0.0	0.7	0.0	6.5	n.m.	2.8*	n.m.
Craiova Power Plant	0.0	0.1	0.0	0.003	255.6	n.m.	n.m.
CE Oltenia	0.0	0.0	0.0	0.0	-84.0	10.3	n.m.
Nuclearelectrica	0.0	0.0	0.0	0.0	n.m.	2.3	n.m.
Total gross dividend income	**120.1**	**181.2**	**522.4**	**623.7**	**19.4**	**649.7**	**4.2**

***for 2012-2013 EDMN not EDB; Salrom and Electrica Furnizare instead of Primcom and EDD* — *Source: FP, SSIF Broker*

FP: EQUITY INVESTMENTS

RON mn	2008	2009	2010	2011	2012	1Q13	2Q13	3Q13	qoq (%)	yoy (%)	ytd (%)
Total, o/w	**9,006**	**9,542**	**10,862**	**10,677**	**11,270**	**11,528**	**10,762**	**10,904**	**-5.4**	**-5.6**	**-3.2**
At fair value, o/w	***2,536***	***3,499***	***4,846***	***4,714***	***6,071***	***6,331***	***5,564***	***5,969***	***-5.7***	***6.9***	***-1.7***
Petrom	2,062	2,836	3,816	3,303	4,877	5,133	4,532	4,820	6.4	7.6	-1.2
Transgaz	215	277	494	394	385	379	318	330	3.8	-1.6	-14.3
Alro	89	175	212	237	146	133	112	109	-2.0	-33.0	-25.0
Transelectrica	109	134	192	172	126	136	130	136	4.7	13.4	8.1
BRD Groupe SG	0	0	49	272	206	223	190	228	20.2	24.8	11.0
Erste Bank	0	0	0	72	42	38	36	n.a.	n.a.	n.a.	n.a.
Raiffeisen International	0	0	0	94	119	100	85	92	8.0	-15.6	-22.5
Conpet	n.a.	n.a.	n.a.	90	93	100	87	113	30.4	23.2	21.7
Other	61	77	84	79	79	88	75	48	-36.5	-31.9	-39.4
At cost, o/w	***6,469***	***6,043***	***6,015***	***5,963***	***5,198***	***5,197***	***5,198***	***4,934***	***-5.1***	***-17.3***	***-5.1***
Hidroelectrica	2,761	2,761	2,763	2,764	2,001	2,001	2,001	2,001	0.0	-27.7	0.0
Nuclearelectrica	582	582	582	582	582	582	582	307	-47.2	-47.2	-47.2
Romgaz	416	416	416	416	416	416	416	417	0.1	0.1	0.1
Turceni PP*	282	282	282	670	670	670	670	670	0.0	0.0	0.0
Craiova PP	250	250	250	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Electrica Distributie Muntenia Nord	165	165	165	165	165	165	165	165	0.0	0.0	0.0
Rovinari PP	138	138	138	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
E.ON Moldova Distributie	131	131	131	131	131	131	131	131	0.0	0.0	0.0
CNAB	125	125	131	131	131	131	131	131	0.0	0.0	0.0
Enel Distributie Muntenia	90	90	107	126	107	107	107	107	0.0	0.0	0.0
Posta Romana	84	84	85	116	81	81	81	81	0.0	-4.5	0.0
Electrica Distributie Transilvania Sud	n.a.	n.a.	n.a.	115	126	126	126	126	0.0	0.0	0.0
Electrica Distributie Transilvania Nord	n.a.	n.a.	n.a.	107	116	116	116	116	0.0	0.0	0.0
Enel Distributie Dobrogea	n.a.	n.a.	n.a.	142	115	115	115	115	0.0	0.0	0.0
Enel Distributie Banat	n.a.	n.a.	n.a.	85	142	142	142	142	0.0	0.0	0.0
Other	1,444	1,017	965	413	416	414	415	426	2.7	3.2	2.5

**CE Oltenia starting 2012* — *Source: FP, SSIF Broker*

Company profiles

In insolvency on procedural grounds

Power generation / Romania
Company profile

Hidroelectrica

Hidroelectrica is the largest domestic hydropower producer (ca. 24.5% of total electricity consumption in an average hydrological year and 95%+ market share on the hydro power market) and FP's second largest holding. It was again placed under insolvency towards end-Feb but this time on procedural grounds. FP will have an independent evaluator update the value of its stake in NAV (currently at RON 2.2bn). Hidroelectrica was to be listed in June 2014 via a 15% IPO however we believe the offer would not take place this year. We see upside potential from electricity market liberalization while main risks are in relation to litigations, the regulatory and fiscal framework, changes in energy supply and demand which currently put downward pressure on domestic prices, and weather conditions.

- **Placed back under reorganization** on procedural grounds and not due to poor financial standing. On 25 Feb the Bucharest Court of Appeal admitted several appeals thus cancelling the initial decision of the Bucharest Court whereby the insolvency procedure was closed, for procedural reasons. Several cases were sent back to the syndic judge for retrial. Litigations may last about 7-12 months according to the judicial administrator.
- **15% IPO scheduled for June 2014 should be delayed**. Hidroelectrica was to perform an 18.74% share capital increase of which 15% would be offered to the public and the remaining to FP. In our view, the listing is not likely to take place this year. We believe that its success would be called into question if the litigations do not end before the listing and moreover a cooling off period may be necessary after the exit from insolvency.
- **Successful restructuring after one-year insolvency process**. Hidroelectrica was in insolvency during June 2012-June 2013 with the main reasons being the very small prices at which it sold energy to several clients, poor weather, and high personnel expenses. It significantly improved its margins in 2012 and at 9M13 mostly after it terminated loss-making contracts and operated staff restructurings. There are however ongoing litigations filed by clients which ask for damages of around EUR 351mn.
- **Hidroelectrica should benefit from electricity market liberalization**: The weight of power producers' sales to the regulated segment (mostly households) is to gradually decline to zero by end-2017. This is an important trigger especially as the energy market regulator does not always recognize all the opex required by Hidroelectrica when setting the regulated price.
- **Risks:** They refer mainly to changes in the regulatory and fiscal framework, litigations risks, changes in the energy supply and demand affecting power prices (oversupply coupled with declining demand), weather conditions, and corporate governance issues (as the state is the majority shareholder).

	2011	2012	2013B	2014B	2015B
Sales (RON mn)	3,020.6	2,402.8	2,694.5	2,874.9	2,970.6
EBITDA (RON mn)	894.7	905.7	1,527.5	1,735.6	1,807.4
EBIT (RON mn)	161.4	-321.5	601.2	762.9	786.1
Net income (RON mn)	6.6	-508.0	367.7	588.6	622.1
EPS (RON)	0.01	-1.14	1.32	1.32	1.39
ROCE (%)	0.14	-1.82	n.a.	n.a.	n.a.
ROE (%)	0.0	-3.2	n.a.	n.a.	n.a.
ROA (%)	0.0	-2.5	n.a.	n.a.	n.a.
Equity ratio (%)	78.9	79.1	n.a.	n.a.	n.a.
Net debt to equity (%)	14.7	13.8	n.a.	n.a.	n.a.
Net debt to EBITDA (x)	2.7	2.4	n.a.	n.a.	n.a.
EBITDA margin (%)	29.6	37.7	56.7	60.4	60.8
EBIT margin (%)	5.3	-13.4	22.3	26.5	26.5
Net margin (%)	0.2	-21.1	13.6	20.5	20.9

**2013-2015 based on company budget* *Source: Hidroelectrica, SSIF Broker*

Key data

Shares outstanding (mn)	448
Shareholders	*%*
Ministry of Economy	80.06
Fondul Proprietatea	19.94

Analyst:
Adela Hagiu
+40 21 387 3459
adela.hagiu@ssifbroker.ro

Highlights of the investment case

Hidroelectrica is the largest hydropower producer in the country (ca. 24.5% of total electricity consumption in an average hydrological year and 95%+ market share on the hydro power market). It is also the main system services supplier (74% market share in 2012). At end-April 2013, it had 275 hydropower plants and pumping stations, with an annual production of 17.5TWh in an average hydrological year and a total installed capacity of 6,470 MW at end-2012.

Valuation

We valued Hidroelectrica using a combination of EV/Capacity and EV/EBITDA multiples based on the peers' median which yielded a fair value for Hidroelectrica of RON 8,780mn and a fair value for FP's 19.94% stake of RON 1,751mn. Our valuation implies a discounts of 23% in 2014E in EV/EBITDA terms (based on Hidroelectrica's budget) to peers, which we believe is fair given the lack of visibility as to company's investment and restructuring plans now that it is insolvency again, the unlisted status and the fact that it is majority state-owned.

Hidroelectrica is now in insolvency again due to several ongoing litigations which might take some 7-12 months to be settled

Hidroelectrica was placed back under insolvency towards end-February, on procedural grounds

On 25 Feb the Bucharest Court of Appeal admitted several appeals related to Hidroelectrica's insolvency during June 2012—June 2013 thus cancelling the initial decision of the Bucharest Court whereby the insolvency procedure was closed. The company was thus placed under insolvency on procedural grounds. EuroInsol is again judicial administrator, while Mr. Gabriel Dumitrascu was appointed special administrator (he is the Head of the Privatisation Office within the Energy Department).

The insolvency is not due to poor financial standing

There are several types of appeals of which some were admitted by the Court of Appeal in Feb and other are to be heard in March 2014: appeals against the closing of the insolvency procedure, the opening of the insolvency procedure, the unilateral termination of bilateral contracts, the enforcement of the force majeure clause and appeals related to the creditors' table. The Court of Appeal admitted several appeals and sent them back to the first degree court for retrial. Several other hearings are to take place in March regarding: the enforcement of the force majeure clause, the unilateral termination of bilateral agreements, and appeals against the Bucharest Tribunal decisions regarding the creditors' table. Total amounts in dispute are around EUR 351mn.

The state has an extraordinary means of appeal, more specifically it can ask for the annulment of the decision to place Hidroelectrica back in insolvency, as it was not summoned to the hearings, which was its right as creditor (the financing banks also have this option). However, this does not solve the problem, as there are some litigations between individual parties (the judicial administrator and several traders), where there was no need to summon the creditors. These cases have to be tried on the merits which may take up one year.

FP may update its valuation on its stake in Hidroelectrica

As for the impact on FP's NAV, FP announced it will have an independent evaluator updating the value of Hidroelectrica in the official NAV (Dec 13 official NAV value is RON 2,239mn, ca. 15% of NAV). We note that FP has the possibility to value its stake at fair value or at zero value as per CNVM (ASF) regulation no. 11/2012. As a reminder, in its Dec 2012 NAV, FP changed the official value of its stake in Hidroelectrica from nil to RON 2bn while the company was still in insolvency.

15% IPO in June 2014 has high chances of being delayed due to insolvency

15% IPO likely to be delayed

The Government was planning to list Hidroelectrica in June 2014 but we believe the exact timing now depends on how long Hidroelectrica will be in insolvency. In our view, the listing is not likely to happen this year. We believe that the IPO's success would be called into question if the above mentioned litigations do not end by the time the listing would take place, on the back of higher risk aversion. Moreover, even if they are finalized, it may be necessary for the authorities to take into account a cooling off period after Hidroelectrica's exiting insolvency.

Although Government officials previously stated in the media that there would be a GDR component as in Romgaz's case, Mr. Nita (the Minister of Economy) was quoted by *Ziarul Financiar* stating that the IPO structure would depend on the recommendations of the consortium of intermediaries. The consortium was elected at end-January 2014 and is composed of Morgan Stanley and Raiffeisen Bank.

The listing should to take place through an 18.74% share capital increase with a stake of 15% being offered to the public (FP has pre-emption rights as minority shareholder). If FP does not subscribe, its participation would decline from 19.94% to 17.34%.

Hidrosind, Hidroelectrica's trade union, obtained the right for Hidroelectrica's employees to acquire up to 10% of the shares issued in the upcoming 15% IPO. This means that the employees could acquire a 1.5% stake in Hidroelectrica through their trade union, according to a Government ordinance published in Dec 2013. Trade union representatives claimed that this right is given by one of the provisions of the Law 137/2002 on the privatization of the state owned enterprises.

Hidroelectrica should benefit from market liberalization as this translates in higher prices…

Upside from gradual market liberalization may be offset by declining power prices on the back of electricity oversupply on the domestic market

There is upside potential from the liberalization of the electricity market through which the weight of power producers' sales to the regulated segment (mostly households and small companies) is to gradually decline to zero by end-2017, according to the official calendar agreed with the IMF and the European Commission.

…however domestic electricity prices have been declining due to oversupply and declining domestic demand;

Another major driver for Hidroelectrica's valuation is the evolution of electricity prices on the free market. Domestic power prices went down last year on the back of higher wind power output and good hydrological conditions, whereas domestic consumption declined mostly on lower demand from industrial consumers. For 2014 we expect wind farms' production to continue putting a downward pressure on prices, due to an increase in installed capacity, while consumption is also likely to remain weak on lower demand from industrials and focus on efficiency.

Hidroelectrica and other domestic state owned producers are expected to participate in the Tarnita project company

The Tarnita-Lapustesti project and the Turkey-Romania submarine interconnection cable

The Tarnita-Lapustesti power plant is necessary in order to ensure the safety of the national grid given the volatility of wind power production and the potential commissioning of Units 3&4 of Cernavoda nuclear plant (Nuclearelectrica). The plant would be located in Cluj county, in Western Romania and would have 1,000 MW installed capacity. The current estimate for the feasibility study is EUR 78.6mn, according to some GSM aterials published by Nuclearelectrica, however the estimate is from 2010-2011 and takes into account estimates for capex and energy volumes from 2008. The main domestic power producers (Hidroelectrica, Nuclearelectrica, CE Oltenia, CE Hunedoara) together with Electrica and Romgaz are to be part of the project company with RON 8.9mn contribution each. Hidroelectrica and Nuclearelectrica already had their GSMs on 28 Feb and 11 March respectively, while Romgaz is expected to take a decision on 17 March. The Ministry of Economy as main shareholder of Hidroelectrica asked the management to request Hidro Tarnita to perform a study on whether the project could be partly financed with EU funds. In addition, the EGM resolution has to also be approved by the special administrator, the judicial administrator and the creditors. For Hidroelectrica, the sharing of the feasibility study costs with other players would be positive in our opinion.

The Romania-Turkey electricity interconnection cable would allow exports to Turkey; discussions are at early stages

Another item on the 28 Feb GSM agenda that was also approved referred to a EUR 2mn contribution to the project company for the **Romania-Turkey submarine electricity interconnection cable**. Similar to Tarnita, the Ministry of Economy asked the management to see whether the project could be partly financed with European Union funds, and the EGM resolution has to be approved by the special administrator, EuroInsol and the creditors. As a reminder, the energy ministries from both countries have already signed a memorandum of understanding. It seems the project has become feasible from Turkey's perspective due to lower energy prices and available technology (talks started in 2006). The total investment would amount to EUR 0.5bn as estimated in 2006. The domestic companies which would participate in the project are Transelectrica, Electrica and the power producers to take part in the Tarnita project. In our view, this project is in an incipient stage, and it probably involves complex and lengthy legal steps.

We believe that it is not clear whether Hidroelectrica and the other companies are to finance the feasibility studies alone or they are going to participate to the construction phase as well, for both projects. This would probably entail large capex, which might reduce dividend payout ratios. The fact that the state approved Hidroelectrica's and Nuclearelectrica's participation in both projects without updated feasibility studies also does not bode well from the corporate governance perspective.

Debt profile

Hidroelectrica managed to diminish its debt from RON 4bn in Sep-12 to RON 2.76bn in Sep 2013, thus its net gearing ratio improved to 16.1% versus 24.3%.

The company has FX denominated loans hence it is affected by RON depreciation against EUR mostly as well as USD. It did not hedge its FX exposure at Dec-2012, but according to the 2012 annual report, it planned to enter some hedging contracts.

Dividend payout

As it is a state-owned company, Hidroelectrica has to abide by the legal requirement to distribute minimum 50% of its net profit to shareholders (after taking into account certain reserves and employees' profit participation). However, in 2011 the Government made an exception to this legal requirement and decided that the state owned companies should pay out 90% of the 2010 net earnings. In 2012, the payout ratio was by 5pp lower, i.e. 85% and it was maintained for FY 2013. With Hidroelectrica now in insolvency on procedural grounds the company is not expected to distribute dividends from last year's record profit, based on statements made by the judicial administrator.

Hidroelectrica did not pay dividends in 2011 and 2012 given its poor financial results, but in 2010 it had a 90% payout ratio (dividends reached RON 263.2mn).

The tax on special buildings would be roughly EUR 40mn, ca 20% of 2013 net profit

New tax on special buildings

The Romanian Government enforced a new tax starting January 2014, on a broad range of fixed assets, tax exempt before, called the special constructions tax. According to the Emergency Ordinance no. 102/2013, the tax will be of 1.5% and will apply to the gross value of the special infrastructure assets at the end of the year preceding its payment, excluding the assets that are already taxed. It will be paid twice a year. However, the law is likely to be revised this year, as clarifications need to be done on the definition of the taxable base.

Hidroelectrica is to pay around RON 168mn (ca. EUR 37mn) for this year as per an FP estimate. Mr. Remus Borza, the former judicial administrator of Hidroelectrica, was quoted in *Bursa* daily stating that the tax would amount to ca. EUR 40mn. As the 2013 net profit is ca EUR 200mn, the special constructions tax may account for up to 20% of the company's bottom line.

Large water costs also depress the bottom line

Water contributions

One of the main components of Hidroelectrica's production cost is the water contributions paid to Apele Romane (the national agency for the preservation and management of the water resources). This tariff jumped yoy by 4.2x in 2011 (it accounted for 13% of the production cost in 2012, 15.7% in 2011 and 6.4% in 2010).

Encouraging results for 2013 helped by weather conditions, cost control and higher regulated price

Latest results and company outlook

Hidroelectrica's sales of energy reached RON 2.28bn at Sept-2013, by 23.3% higher yoy on the back of higher energy prices and larger volumes. The 9M13 EBIT exceeded the FY company estimate by 23.1% mainly given stringent cost management (i.e. personnel restructuring, termination of bilateral contracts according to which Hidroelectrica had to deliver energy at very low prices) and better weather conditions (there was dry weather 2012). The bottom line came in at RON 544.5mn, by 48.1% higher than the company budget for the full year. The 2013 net profit may reach ca. EUR 200mn/RON 910mn according to Mr. Remus Borza.

According to the company's strategy, Hidroelectrica intends to sell its small and inefficient hydro power plants, and remain with only the ones that have minimum 4MW installed capacity (129 power plants with 293 units) and 5 pumping stations, which have a cumulated installed capacity of 6,331 MW. The sale of the small plants is expected to bring in cash of EUR 120-150mn and cost reductions of EUR 20mn per year. Moreover, Hidroelectrica is to continue the restructuring of the 8 Hidroserv subsidiaries that merged (these subsidiaries perform the maintenance and repair works of Hidroelectrica). The judicial administrator also plans to drop some investments which have a low estimated internal rate of return and that would mostly have been implemented for social purposes rather than for increasing returns to shareholders.

Risks

ANRE has usually set low prices for household consumers, often below Hidroelectrica's production cost

Regulatory risks

ANRE sets the price and quantity that Hidroelectrica has to sell on the regulated segment towards year-end for the following year. According to an ANRE order from 2013, Hidroelectrica and Nuclearelectrica are required to deliver to the regulated market up to 50% (Hidroelectrica) and 40% (Nuclearelectrica) of their electricity sales, to facilitate the maintaining of reasonable prices for household consumers. This measure will be in place until the end of the liberalization process, namely until Dec 2017. We were actually hoping for a gradual reduction in the weight of the regulated market in Hidroelectrica's sales; that seems not be the case.

In addition, ANRE may not include all the opex incurred by Hidroelectrica when setting the price at which the company can sell energy on the regulated market. Thus, during 2009-May 2012 (before the company went into insolvency), the regulated price was often lower than the unit generation cost (according to the representative of the company's former judicial administrator, Mr. Remus Borza quoted in *Bursa* daily, this is the case also in 2014). Hidroelectrica filed a complaint in January 2014 with the Competition Council and also started a lawsuit against ANRE about the price set for this year. However, a decision from the Competition Council may arrive in 2H14 at the earliest; in addition litigations are also lengthy in Romania. In our view, should ANRE recognize all the costs required by the company, it may do so through a larger increase in the price on the regulated market applicable for 2015.

Litigation risk

Litigation risk comes mostly from the ongoing lawsuits filed by clients of Hidroelectrica which relate to allegedly faulty procedures (regarding the closing or the opening of the insolvency procedure), or clients ask for claims regarding the unilateral termination of bilateral agreements (EuroInsol terminated loss making contracts during insolvency) or challenge decisions regarding the enforcement of the force majeure clause in 2012. The Court of Appeal admitted some appeals and sent them back to the first degree court, putting Hidroelectrica back in insolvency, which will more likely delay the listing.

Risks related to the evolution of electricity prices

The financial performance of Hidroelectrica depends on the regulated price set by ANRE for households and small companies, but also on the price on the free market, which has been on a downward trend mostly due to lower demand coupled with oversupply (caused by increased capacity and production of wind farms and solar panels, good hydrological conditions in 2013 versus 2012 and Petrom's gas plant which started operations in 4Q12). Domestic demand is expected to remain weak over the next years as consumers are to focus on energy efficiency and moreover the weight of non energy-intensive sectors (such as automotive, IT&C and services) in domestic GDP is on an upward trend. Prospects for 2014 also look a bit grim at the moment as the largest electricity consumer in Romania, the aluminum producer Alro (ca. 3 TWh, about 6-7% of domestic consumption), announced it would reduce its production this year due to the rise in end-user electricity prices caused by the costs with green certificates. Alro also considers renegotiating the price in its contract with Hidroelectrica.

Weather related risks

Hydropower production highly depends on seasonal river flows, which coupled with Hidroelectrica's high operating leverage implies that a decrease in production may trigger a hike in unit generation cost and significantly impact margins.

Corporate governance and political risk

Hidroelectrica is now run by the judicial administrator and board members are to be appointed in March in accordance with the government ordinance on corporate governance practices in state-owned enterprises. Before entering insolvency, Hidroelectrica was run in a dualist system starting 2013: it was supposed to have a Supervisory Board (7 members) and a Directorate (5 members) which was to be appointed in March 2014.

Corporate governance risk comes from the fact that the state is majority shareholder; therefore there may be transparency issues. Moreover, the state may have an important influence (and its point of view may not necessarily be the same as that of minority shareholders) on the board & management election, the payout ratio, and the company's capex plan among others.

We note that FP had one representative in the Supervisory Council and now has one in the board.

Business overview

Hidroelectrica is the main domestic hydro power producer and the main supplier of system services for the domestic grid

Hidroelectrica is the largest hydropower producer in the country (ca. 24.5% of total electricity consumption in an average hydrological year and 95%+ market share on the hydro power market) and is the main system services supplier (74% market share in 2012). The Government issued an ordinance in April 2013 through which two thermal power producers (CE Oltenia and CE Hunedoara) are to provide technological system services to Transelectrica until July 2015, therefore Hidroelectrica's sales on this segment should be lower in 2013. At end-April 2013, it had 275 hydropower plants and pumping stations, with an annual production of 17.5TWh in an average hydrological year and a total installed capacity of 6,470 MW at end-2012. Maximum available capacity (total installed less permanent reductions in capacity) was 5,999 MW in above 4MW plants and 82MW in less than 4MW plants in 2012.The small hydro plants, with less than 10 MW capacity, account for ca. 4.6% of production.

It has 104 dams of which 89 have a height of fall greater than 10m and a storage capacity of minimum 1mn m3. The dam at Portile de Fier (the largest hydro power plant) has a storage volume of 2,100mn m3.

In 2012, Hidroelectrica generated 12.1TWh, but sold 12.7TWh. This is due to the fact that electricity generated is adjusted downwards with technological consumption (2.5%-2.8% in 2009-2011) and upwards with the energy acquired. Hidroelectrica may end up acquiring energy from other producers mainly in order to meet its contractual obligations when production is below company's estimates. Moreover, before its insolvency was declared, it acquired more electricity than it actually needed (according to a judicial administrator report from 2012) from other producers, such as the thermal power plants whose selling price is the highest on the market. The transactions were considered similar to a financial aid for the other producers from the judicial administrator's perspective. Starting 2012, bilateral contracts can only be signed through public auctions on the OPCOM platform. Overall, the quantities of acquired electricity accounted for 17.3% of energy sold in 2009, 14.1% in 2010 and 22.3% in 2011 (a draught year).

According to the preliminary data published by the National Statistics Institute, hydro power production in 2013 reached 15.1TWh, (Hidroelectrica's output was 14.8 TWh according to local media), up by 24% yoy and accounting for 26% of domestic production vs. 21% in 2012.

NET SALES BREAKDOWN

RON mn	2009	2010	2011	2012
Electricity sold	2,005	2,745	2,540	1,926
System services	391	497	451	402
Other	25	31	30	74
Net sales (RON mn)	**2,421**	**3,274**	**3,021**	**2,402.8**
Electricity sold (TWh)	**18.3**	**22.5**	**18.3**	**12.7**
Regulated market	3.9	4.1	3.9	4.1
Free market	13.0	16.0	12.9	6.8
Other markets*	1.4	2.5	1.5	1.8
Average price (RON/MWh)	**109.6**	**121.8**	**139.0**	**151.3**
Regulated market	83.5	86.1	86.4	71.6
Free market	108.1	125.5	132.8	154.3
Other markets*	192.8	156.9	327.5	322.9

**mostly sales on the balancing market*

Source: Hidroelectrica, EuroInsol, SSIF Broker

The branches' restructuring (7 down from 13) should improve cost efficiency

While in insolvency in June-2012 through June-2013, the company went through a major restructuring process, and now has seven generation branches instead of thirteen initially. This should help reduce the unit generation cost. In 2012, the average unit production cost was RON 163.7/MWh, with Portile de Fier & Tg. Jiu branch being the most efficient (RON 81.2/MWh) and Caransebes & Hateg branch showing the highest value (RON 386.5/MWh). Portile de Fier & Tg. Jiu also have the largest installed capacity and ensure more than half of production, while most of the other branches include very small, inefficient and relatively obsolete hydro plants. It is worth noting that the smallest generation branch has a unit generation cost 3.6x higher than the largest branch (see table below).

HIDROELECTRICA'S BRANCHES OVERVIEW

Branch	Installed capacity MW (2012)	% total	Production 2012 (GWh)	% total	Unit generation cost (RON/MWh)
Portile de Fier+Tg. Jiu	1,655.8	25.6	6,424.9	53.3	81.2
Ramnicu Valcea+Slatina	1,554.2	24.0	2,031.6	16.8	218.8
Buzau+Curtea de Arges	818.5	12.7	966.4	8.0	311.8
Caransebes+Hateg	708.5	10.9	495.7	4.1	386.5
Bistrita	625.9	9.7	954.7	7.9	200.5
Cluj+Oradea	567.3	8.8	648.1	5.4	265.0
Sebes+Sibiu	540.2	8.3	543.4	4.5	294.5
Total	**6,470.4**	**100.0**	**12,064.7**	**100.0**	**163.7**

Source: Hidroelectrica, EuroInsol, SSIF Broker

The sale of small hydro power plants is necessary as they have a high production cost versus the company's average (RON 651/MWh versus ca. RON 160/MWh)

Small hydropower plants

The company has 158 small hydropower plants with a total installed capacity reaching 125 MW. In 2012, they produced 105 GWh of electricity at an average production cost of RON 651/MWh and a selling price of only RON 171/MWh. The shareholders approved the sale of 88 of these small plants (58 MW installed capacity) in March 2013, which were valued at RON 4.7mn/MW. Following the tender held in July 2013, fourteen small hydro plants were sold for about RON 5mn/MW. Moreover, other three units were sold In January 2014 for RON 11.2mn (Hidroelectrica was planning to sell 14 units for EUR 10.5mn), according to *Ziarul Financiar* daily.

The Tarnita Lapustesti project should reduce imbalalances in the grid coming from the increasing weight of wind production

The Tarnita-Lapustesti project

The Ministry of Economy, as main shareholder, approved on 28 Feb, the company's participation in the Tarnita Lapustesti project, as expected but the EGM resolution also has to be approved by Mr. Gabriel Dumistrascu (the special administrator), EuroInsol (the judicial administrator) and Hidroelectrica's creditors. The Ministry also want the project company to inquire whether EU financing could be available for this project.

The Tarnita-Lapustesti hydro power plant is necessary in order to ensure the safety of the national grid given the volatility of wind power production and the possible commissioning of Nuclearelectrica's Units 3&4 at Cernavoda. The plant should be located in Cluj county, in Western Romania and should have 1,000 MW installed capacity. It should be a pumped storage plant with four pump turbines of 250 MW each and a 10mn cm water reservoir. The estimated cost is about EUR 1.2-1.3bn (EUR 1.2-1.3mn/MW) and the construction should take five to eight years. In 2013, Hidroelectrica signed a memorandum of understanding with Sinohydro and Gezhouba from China regarding several projects, Tarnita included.

The Romania-Turkey submarine interconnection cable

The State through the Ministry of Economy also approved on 28 Feb the EUR 2mn participating interest in the project company for the Romania-Turkey submarine electricity interconnection cable. This project is in an incipient stage. Talks started in 2006, the investment cost is estimated at EUR 0.5-0.6bn, but an updated feasibility study is necessary. The energy ministries of Romania and Turkey signed a memorandum of understanding but there is still a long way to go before actual implementation, as such international projects usually involve complex and lengthy legal steps.

We cannot currently rule out the possibility of Hidroelectrica having to contribute to the construction of the interconnection cable. While its participation would require important capex which could result in lower dividends, the cable may ensure increased export capacities for Romania.

Main refurbishment projects

The main refurbishment projects that the company intends to undertake (although now that it is insolvency again, there is the risk that some of these projects may be reviewed) concern four large hydropower plants, i.e. Stejaru (Bistrita branch), Vidraru (Curtea de Arges), Raul Mare Retezat (Hateg), Mariselu (Cluj). They have a cumulative installed capacity of 985 MW and the overall capex amount to around EUR 375mn.

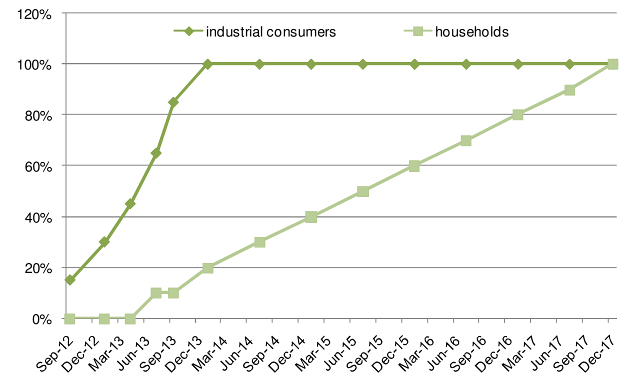
The capex for the Stejaru project is estimated at EUR 110mn spread over 2012-2019 according to the 2012 report of the judicial administrator. The plant has an installed capacity of 210 MW and produces around 435 GWh per year. The refurbishment works would increase its life by at least 30 years.

The Vidraru project would is to cost EUR 95mn over 2016-2020. The plant has 220 MW installed capacity and produces ca. 400 GWh/year. The Retezat revamping project requires investments of EUR 92.3mn (2014-2017) and the plant has 335 MW installed capacity. The Mariselu upgrade implies costs of EUR 77.5mn (2013-2016) for 220.5 MW installed capacity.

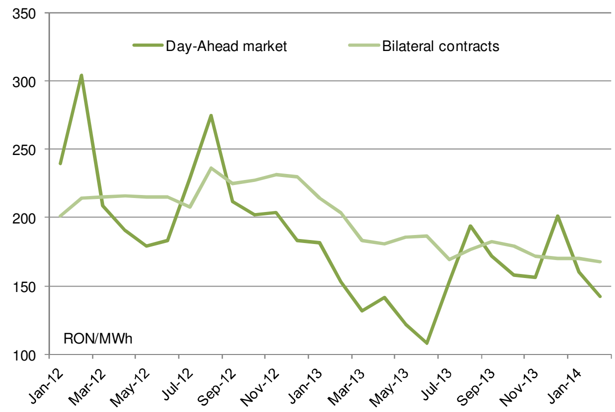
The domestic power market

The domestic power market has been undergoing some important changes over the last years, with a market liberalization process taking place. The market for industrial consumers is now fully liberalized (as at end-2013) but the one for households should be deregulated by end 2017 according to the official schedule agreed by the Romanian Government with IMF and the European Commission.

ELECTRICITY MARKET LIBERALISATION SCHEDULE



EVOLUTION OF PRICES ON THE DOMESTIC FREE MARKET



Source: Ministry of Finance, OPCOM, SSIF Broker

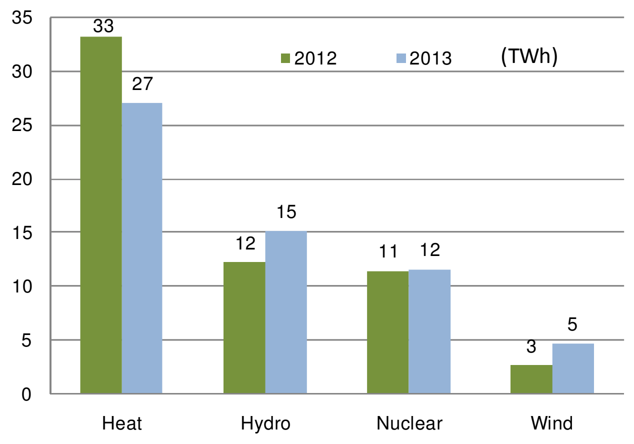
Wind power production has been increasing considerably since 2009

Another major change the market is going through is the increasing share of intermittent wind and solar output, which leads to coal and gas fired units being stopped and started too often, a costly process which is necessary in order to prevent blackouts. The 2012 total capacity installed on the domestic power market was 22,427 MW, of which 7,025 MW in coal fired plants, 5,418 MW in gas fired plants, 6,563 MW at hydropower producers, 1,413 MW at the nuclear plant, 1,941 MW in wind power plants, 38 MW in biomass, 29 MW in photovoltaic plants and 0.05 MW in geothermal plants. For 2014, wind farms' total capacity could reach 4,000 MW and solar panels' 1,900 MW if all projects authorized by ANRE are finalized (projects with construction authorization expiring this year).

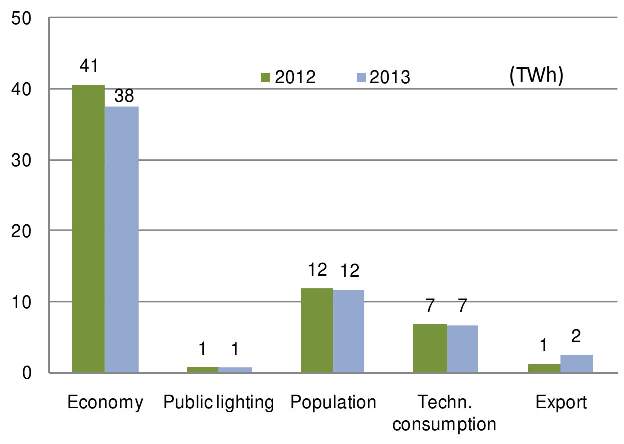
The soar in this type of energy production may lead to blackouts, therefore Tarnita-Lapustesti project seems to be increasing in importance due to its balancing role. Moreover the intermittent feature of wind and solar energy production may lead to larger quantities sold on the balancing market for Hidroelectrica as it happened in the first nine months of 2013.

Electricity consumption went down by 0.8% in 2012 to 59.7TWh and by 6% in 2013 to 49.8Wh. It should remain weak in the future given the increasing weight of the non-energy intensive sectors in the GDP (such as automotive, IT and services) and the focus on energy efficiency following the electricity market deregulation process.

DOMESTIC PRODUCTION (2013)



ELECTRICITY RESOURCES BY DESTINATION (2013)



Source: INSSE, SSIF Broker

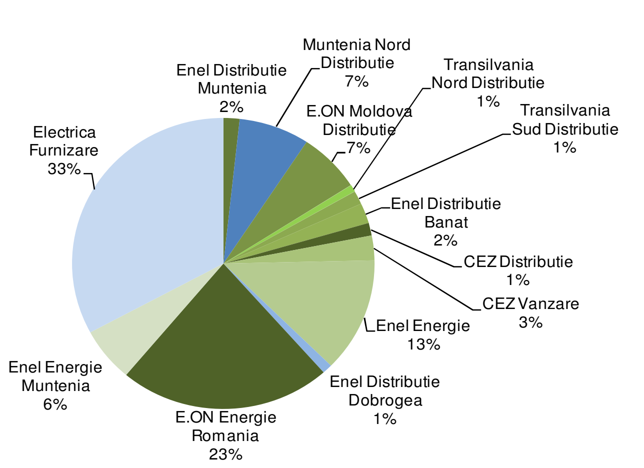
Due to the higher wind power output and declining domestic consumption, domestic energy prices are likely to be under pressure especially in a good hydrological year. This happened last year for example, when the average price on the bilateral contracts market declined by 16% yoy, while the average spot price went down by 28%.

Main clients

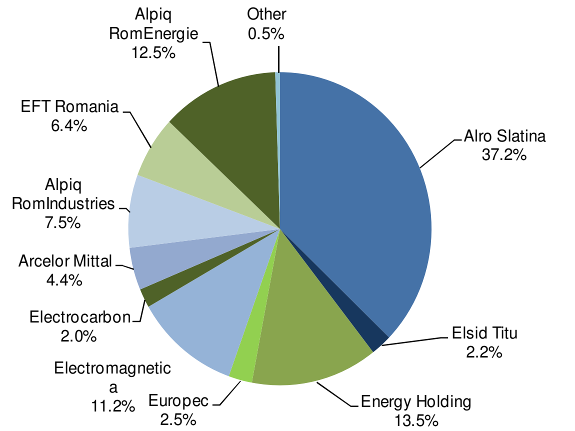
On the regulated market, the company sells to electricity suppliers (the most important in 2012 was Electrica), while on the free market its main client was the aluminum producer Alro Slatina in 2012 (2.4TWh delivered, the equivalent of 19% of total energy delivered). In addition, Hidroelectrica exported 356.9MWh in 2012.

The company also sold energy on the spot market and on the balancing market. Of these, the latter is the most important in terms of volumes for Hidroelectrica, as it accounted for 10.6% of the total electricity delivered in 2012.

CLIENT BREAKDOWN ON THE REGULATED MARKET* (2012)*



CLIENT BREAKDOWN ON THE FREE MARKET* (2012)



**breakdown by volumes of electricity delivered*

Source: Hidroelectrica, SSIF Broker

Hidroelectrica's unit production cost was usually higher historically than the price set by ANRE for the regulated segment

Regulated selling prices versus production costs

The regulated price set by ANRE for Hidroelectrica has constantly been below the unit generation cost during 2011-2013 and this may be the case this year as well. Moreover, according ANRE Order No. 83/2013, Hidroelectrica and Nuclearelectrica are required to deliver to the regulated market up to 50% and 40% respectively of their electricity sales, by end-2017 to ensure reasonable prices for household consumers. For 2014, ANRE decided that only hydro and nuclear producers are to deliver electricity on the regulated segment, with thermal power generators being excluded as their energy is too expensive.

This year, ANRE decided that Hidroelectrica is to deliver 5.3TWh at RON 115.2/MWh on the regulated segment, while Nuclearelectrica should deliver 3.7TWh at RON 145.88/MWh. Thus total consumption for households is estimated to reach 9TWh at RON 127.8/MWh average price. The price for hydro electricity is 11.1% higher than the initial price set for 2013 of RON 103.62/MWh, but it is lower than the RON 125/MWh revised price. The price revision was due to the worse than estimated hydrological situation in 2012. The 2014 tariffs do not include the 1.5% special constructions tax, which might be recognized starting 2H14. This is due to the fact that the tax base has not been clearly defined yet according to ANRE. Producers estimated the tax to amount to ca. RON 10/MWh, as per an ANRE report. In our view, the figure might be higher for Hidroelectrica: using the RON 168mn tax impact estimated by FP and a 2014 estimated production of 14.3TWh (as per local media), we estimate the special tax to be ca. RON 11.75/MWh or around 8% of the unit generation cost. At Nuclearelectrica, the special constructions tax should be RON 9.7/MWh or 6% of the 2014 budgeted opex, based on a RON 102.3mn impact.

Selling at low prices on the regulated market burdens Hidroelectrica especially during drought periods when the weight of production sold to captive consumers should increase (unless ANRE revises down the quantity). Given its high operating leverage, unit costs also rise on low volumes (we assume this is the main reason unit costs jumped yoy by 32% and 46% in 2011 and 2012 respectively (besides the water tariff's hike in 2011), when energy production was by 16% and 31% respectively lower than in an average hydrological year).

In January 2014, Hidroelectrica filed a complaint with the Competition Council and also started a lawsuit against ANRE for setting the regulated price so low (RON 115.2/MWh versus RON 160/MW production cost). The Competition Council's president was quoted in the local media saying that a decision is to be made in the second half of 2014 at the earliest. Litigations are lengthy as well; therefore we do not expect a final court decision soon.

REGULATED SELLING PRICES VERSUS PRODUCTION COSTS (2009-MAY 2012)

RON/MWh	2009	2010	2011	2012	2013	2014
Regulated price	83.5	86.1	86.4	71.6	125	115
Unit generation cost	87.7	84.7	111.8	163.7	158**	160*
Difference (%)	-4.8	1.7	-22.8	-56.3	-20.9	-28.1

**Estimate in the media; **company estimate based on 2013 budget*

Source: EuroInsol, Hidroelectrica, Ziarul Financiar, SSIF Broker

9M13 bottom line exceeded the FY company budget; yoy comparison is helped by low base effect

9M13 results review and 2013-2015 company budget

The January-September 2013 electricity production reached 11.3TWh, with the FY estimate being 14.2TWh, implying that 2013 was weaker than an average hydrological year when production is ca. 17.5TWh. Sales of electricity for 9M13 reached RON 2.3bn, up by 23.3% yoy partly on the back of a low base effect.

EBITDA came in at RON 1.48bn versus only RON 647.8mn in 9M12, on larger volumes and we assume, improved cost efficiency. We expect personnel expenses to have continued to decline, as well as costs with acquired energy. Unit production cost probably decreased on larger volumes. Overall EBITDA margin significantly improved from 35% in 9M12 to 64.9% in 9M13.

Net profit reached RON 544.5mn which compares to a net loss of RON 234.4mn at end-September 2012. Hidroelectrica may post a bottom line of ca. EUR 200mn for the FY, according to estimates in the media.

HIDROELECTRICA: 9M13 P&L REVIEW

RON mn	3Q13	2Q13	qoq (%)	3Q12	yoy (%)	9M13	9M12	yoy (%)
Net sales	682	936	-27.1	589	15.9	2,283.3	1851.6	23.3
EBITDA	460	617	-25.3	274	67.7	1,482.0	647.8	128.8
EBIT	215	369	-41.6	53	303.4	739.9	-27.0	n.m.
Pre-tax profit	202	337	-40.2	-30	n.m.	683.0	-229.5	n.m.
Net profit	162	270	-40.1	-32	n.m.	544.5	-234.4	n.m.
EBITDA margin (%)	67.5	65.9	1.6pp	46.6	20.8pp	64.9	35.0	29.9pp
EBIT margin (%)	31.6	39.4	-7.8pp	9.1	22.5pp	32.4	-1.5	33.9pp
Net margin (%)	23.7	28.8	-5.1pp	-5.5	29.2pp	23.8	-12.7	36.5pp

Source: Hidroelectrica, SSIF Broker

HIDROELECTRICA: 9M13 BALANCE SHEET REVIEW

RON mn	9M13	1H13	qoq (%)	2012	ytd (%)
Non-current assets	19,320	19,516	-1.0	19,914	-3.0
Current assets	397	652	-39.1	412	-3.7
Total assets	19,717	20,168	-2.2	20,326	-3.0
Shareholders' equity	16,622	16,461	1.0	16,079	3.4
Total liabilities	3,096	3,707	-16.5	4,247	-27.1
net debt	2,670	n.a.	n.a.	2,215	20.6
Total debt	2,762	n.a.	n.a.	2,272	21.6
Net gearing (%)	16.1	n.a.	n.a.	13.8	2.3
Net debt/EBITDA (x)	1.4	n.a.	n.a.	2.4	-1.1

Source: Hidroelectrica, SSIF Broker

Hidroelectrica expects improving margins in 2014 which would be maintained in 2015

Hidroelectrica already exceeded its 2013 budget in terms of net profit (9M13 accounted for 148% of the FY budgeted result) while 9M13 sales represent 85% of the FY figure. EBITDA growth rate is expected to be higher than sales' in 2014 partly on the back of declining personnel expenses (the number of employees is expected to have declined over this period). Hidroelectrica estimates an improvement at EBIT level which, coupled with lower financial losses (due to declining interest expenses), leads to a 5.7% yoy increase in 2015 net profit. The 2013 preliminary net profit is around EUR 200mn/RON 910mn according to the judicial administrator, however we also saw some estimates in the local media of EUR 130-150mn. Mr. Borza also declared that he sees a EUR 100mn net profit for 2014 (versus ca EUR 130mn in the company guidance), lower than in 2013 due to difficult market conditions and not so encouraging hydrological situation.

HIDROELECTRICA: 2013-2015 COMPANY BUDGET

RON mn	2012	2013B	yoy (%)	2014B	yoy (%)	2015B	yoy (%)
Net sales	2,402.8	2,694.5	12.1	2,874.9	6.7	2,970.6	3.3
EBITDA	905.7	1,527.5	68.7	1,735.6	13.6	1,807.4	4.1
EBIT	-321.5	601.2	n.m.	762.9	26.9	786.1	3.0
Financial result	-166.1	-167.5	0.9	-68.8	-58.9	-52.5	-23.8
Pre-tax profit	-487.6	433.6	n.m.	694.1	60.1	733.6	5.7
Net profit	-508.0	367.7	n.m.	588.6	60.1	622.1	5.7
EBITDA margin (%)	37.7	56.7	19.0pp	60.4	3.7pp	60.8	0.5pp
EBIT margin (%)	-13.4	22.3	35.7pp	26.5	4.2pp	26.5	-0.1pp
Net margin (%)	-21.1	13.6	34.8pp	20.5	6.8pp	20.9	0.5pp

Source: Hidroelectrica, SSIF Broker

Financials

INCOME STATEMENT (RAS UNCONSOLIDATED)

RON mn	2009	2010	2011	2012	2013B*	2014B*	2015B*
Net sales	**2,420.8**	**3,273.7**	**3,020.6**	**2,402.8**	**2,694.5**	**2,874.9**	**2,970.6**
Other operating income	45.1	13.2	22.9	15.6	13.7	13.7	13.7
Material costs	-627.0	-658.9	-1,105.5	-368.5	-317.3	-350.5	-362.2
Personnel costs	-402.7	-425.4	-424.3	-418.9	-362.4	-352.4	-337.5
Other operating costs	-619.7	-825.8	-622.5	-725.4	-501.1	-450.1	-477.2
EBITDA	**816.8**	**1,377.0**	**894.7**	**905.7**	**1,527.5**	**1,735.6**	**1,807.4**
EBIT	**162.0**	**502.8**	**161.4**	**-321.5**	**601.2**	**762.9**	**786.1**
Net interest	-67.1	-83.8	-100.7	-114.4	-96.3	-70.8	-54.6
Financial result	-96.4	-112.5	-121.5	-166.1	-167.5	-68.8	-52.5
Pre-tax profit	**65.5**	**390.3**	**39.8**	**-487.6**	**433.6**	**694.1**	**733.6**
Net profit	**48.4**	**292.4**	**6.6**	**-508.0**	**367.7**	**588.6**	**622.1**

*company budget

Source: Hidroelectrica, SSIF Broker

BALANCE SHEET (RAS UNCONSOLIDATED)

RON mn	2009	2010	2011	2012	9M13
Non-current assets	**22,602.0**	**19,667.2**	**20,339.1**	**19,913.7**	**19,320.0**
Current assets	**387.9**	**477.3**	**623.2**	**412.3**	**397.0**
Cash and equivalents	28.1	99.9	88.9	57.0	92.0
Inventories	58.3	79.5	104.8	106.8	108.0
Receivables	300.9	297.1	418.1	246.4	194.0
Other current assets	0.6	0.8	11.4	2.1	3.0
Total assets	**22,989.9**	**20,144.5**	**20,962.3**	**20,326.0**	**19,718.0**
Shareholders' equity	**16,554.6**	**16,822.4**	**16,529.0**	**16,079.3**	**16,622.1**
Non-current liabilities	**4,639.7**	**1,593.1**	**1,794.2**	**1,645.7**	**n.a.**
Interest bearing borrowings	804.0	1,200.3	1,418.9	1,201.8	1,307.0
Provisions	36.4	102.0	84.7	161.5	n.a.
Other non-current liabilities	3,799.3	290.8	290.5	282.4	n.a.
Current liabilities	**1,795.6**	**1,729.0**	**2,639.2**	**2,601.1**	**1,967.2**
Interest bearing borrowings	677.0	701.1	1,099.0	1,069.9	1,455.0
Trade and other payables	1,036.6	896.7	1,164.1	1,048.5	n.a.
Other current liabilities	82.1	131.2	376.1	482.6	n.a.
Total liabilities and equity	**22,989.9**	**20,144.5**	**20,962.3**	**20,326.0**	**19,718.0**
Net debt/(cash)	1,452.9	1,801.5	2,429.0	2,214.7	2,670.0

Source: Hidroelectrica, SSIF Broker

MAIN RATIOS (RAS UNCONSOLIDATED)

	2011	2012	9M13	2013B	2014B	2015B
Inventory days	18	26	37	n.a.	n.a.	n.a.
Receivable days	51	37	23	n.a.	n.a.	n.a.
Creditor days	200	256	263	n.a.	n.a.	n.a.
Sales growth (%)	-7.7	-20.5	23.3	12.1	6.7	3.3
EBITDA growth (%)	-35.0	1.2	128.8	68.7	13.6	4.1
EBIT growth (%)	-67.9	n.m.	n.m.	n.m.	26.9	3.0
Net profit growth (%)	-97.7	n.m.	n.m.	n.m.	60.1	5.7
Opex growth (%)	3.6	-5.0	0.0	-23.1	0.9	3.4
Net gearing (%)	14.7	13.8	16.1	n.a.	n.a.	n.a.
Debt to equity (%)	15.2	14.1	16.6	n.a.	n.a.	n.a.
Equity ratio (%)	78.9	79.1	84.3	n.a.	n.a.	n.a.
ROCE (%)	0.1	-1.8	n.a.	n.a.	n.a.	n.a.
Interest cover (x)	1.6	-2.8	n.a.	6.2	10.8	14.4
Dividend payout ratio (%)	0.00	0.00	n.a.	n.a.	n.a.	n.a.
Current ratio (x)	0.24	0.16	0.20	n.a.	n.a.	n.a.
Quick ratio (x)	0.20	0.12	0.15	n.a.	n.a.	n.a.

Source: Hidroelectrica, SSIF Broker

Largest thermal power producer in Romania

Power generation / Romania

Company profile

CE Oltenia

CE Oltenia was set up on 31 May 2012 through the merger of three thermal power plants Turceni, Rovinari and Craiova with their lignite supplier SNLO. It is Romania's largest integrated lignite fired power producer (23% market share in 10M13), with an installed capacity of 3,900 MW, an average annual production of 18TWh of electricity and 30mn tones of lignite. CE Oltenia is also one of Romania's largest employers (ca. 19,000 people of which 13,000 in the mining division). The company's audited lignite reserves are 820mn tones expected to cover needs for 40-50 years. CE Oltenia is FP's 9th largest holding with a weight in its Dec 2013 official NAV of 2.1% and an official valuation of RON 321.6mn, recently revised downwards from RON 880mn (initial valuation-RON 1,075mn).

- **15.3% IPO scheduled for 4Q14:** CE Oltenia is to perform a 15.3% share capital increase of which 12% will be offered to the public and the remaining to FP which has preemption rights given its 21.53% stake. We see delays likely as the IPO is scheduled close to the November presidential elections.
- **Risks:** complete capex to meet EU standards by YE, finance the acquisition of CO2 certificates in the context of a downward trend in electricity prices as a result of oversupply and declining consumption. The volatility of supplies from the renewable energy producers is likely to continue to cause major disruptions in CE Oltenia's activity with impact on its profitability. Other risks refer to corporate governance (as the state is the majority shareholder), FX (the company has FX loans) and non cashing overdue receivables.
- **Latest financials in brief:** 2013 was the weakest year in CE Oltenia's recent history with an electricity production of only ca. 12TWh (vs. the 2011 peak of 18.8TWh). According to *ZF* daily, preliminary sales reached RON 2.6bn vs. RON 3.9bn budgeted figure while the bottom line is likely to have been impacted by higher provisions for overdue receivable and CO2 certificates burden, partly offset by FX gains from RON appreciation vs. JPY.
- **Outlook:** The 2014 draft budget data in the media depict management expectations of a better year, which may prove overoptimistic in our view (sales and production up 25%+), as sector conditions do not show signs of improvement. CE Oltenia expects a pre-tax profit of RON 37mn, significantly down yoy. Staff and operational restructuring is far from complete, various capex projects are ongoing/revalued and the 1.5% special construction tax represents an additional RON 31mn cost burden (25.2% of the 2013 budgeted net profit).

RAS	2010	2011	2012 (7M)	1H13	9M13	2013B
Operating revenues (RON mn)	3,165.8	4,026.5	3,347.1	2,023.9	n.a.	5,664.5
Sales (RON mn)	n.a.	n.a.	2,236.7	1,219.5	1,858.6	3,916.1
EBITDA (RON mn)	400.0	857.8	409.8	164.2	490.9	892.9
EBIT (RON mn)	-25.0	348.0	44.5	26.5	70.9	342.2
Net income (RON mn)	-126.7	179.9	118.3	77.0	108.7	123.0
EPS (RON)	-1.0	1.4	0.9	0.6	0.9	1.0
ROCE (%)	-0.4	4.6	0.9	n.a.	n.a.	n.a.
ROE (%)	-2.6	3.6	3.7	n.a.	2.6	n.a.
ROA (%)	-1.7	2.2	2.4	n.a.	1.7	n.a.
Net debt/Equity (%)	22.7	28.1	27.5	n.a.	n.a.	n.a.
Net debt/EBITDA (x)	2.7	1.6	2.1	n.a.	n.a.	n.a.
EBITDA margin (%)	12.6	21.3	18.3	21.5	13.5	19.1
EBIT margin (%)	-0.8	8.6	2.0	6.9	2.2	6.0
Net margin (%)	-4.0	4.5	5.3	1.9	6.3	3.6

B=Company budget *Source: CE Oltenia, SSIF Broker*

Key data

Shares outstanding (mn)	14.38

Shareholders	*%*
Ministry of Economy	77.15
Fondul Proprietatea	21.53
Termoelectrica	0.85
Company for Closing and Conservation of Mines (SCIM)	0.44

Analyst:
Adriana Marin
+40 21 387 3505
adriana.marin@ssifbroker

Highlights of the investment case

9th largest FP holding with an official valuation recently revised significantly downwards

CE Oltenia is the 9th largest FP holding with a weight in FP's December 2013 official NAV of 2.1% and an official valuation of RON 321.6mn, revised downwards from RON 880mn (the initial valuation was RON 1,075mn). FP has a 21.53% stake in CE Oltenia.

CE Oltenia was set up on 31 May 2012 via the merger of three thermal power plants Turceni, Rovinari and Craiova with their lignite supplier SNLO. It is Romania's largest integrated lignite fired power producer (23% market share in 10M13), with an installed capacity of 3,900 MW (13 units), an average annual production of 18TWh of electricity and 30mn tones of lignite (from 15 open pits and 3 underground mines). CE Oltenia is also one of Romania's largest employers (ca. 19,000 people of which 13,000 in the mining division). The company's audited lignite reserves are ca. 820mn tons (82% in Gorj county, 10% in Mehedinti and 8% in Valcea), expected to cover needs for ca. 45 years (production started in 1957). The company targets a 17%-25% market share in electricity production (and increasing it to 30% in 2017).

Majority of production was sold in 2010-2013 to the competitive market; as of 2014, CE Oltenia no longer sells to the regulated market

CE Oltenia sells most of its electricity production on the competitive market (56% in 2010, 61% in 2011, 62% in 7M12 and ca. 80% in 2013). The prices on the competitive market were higher than on the regulated market by 26% in 2010, 30% in 2011 and 35% in 2012. The company has for all its plants the Authorization for the Co2 Certificates Emissions valid for the period 2013-2020, as well as the Integrated Environmental Authorization valid until 2016.

A new board was appointed on 28 June 2013 following a selection process conducted by a consortium of executive search companies according to corporate governance legislation for SOEs. However, of the 7 members, 6 were recommended by the Ministry of Economy (2 are employees from this ministry, 1 is a former member of a government party, 1 is employed by Transelectrica and 1 comes from a well known law firm). The same firm also considered as most appropriate CEO the former CEO of one of the companies prior to the merger.

Valuation

Our fair value of the FP stake in the company is RON 328mn vs. RON 322nb the official valuation in FP's Dec 2013 NAV

We value CE Oltenia based on a combination of EV/Capacity, 2014E EV/EBITDA and 2014E P/E multiples (30%/40%/30% weights) of selected peer companies. This resulted in a RON 1,524mn fair value for CE Oltenia (RON 328mn for FP's stake, vs. RON 322mn, the official valuation in FP's NAV of RON 321.6mn). Our valuation implies a 29.8% premium in 2013B P/E terms and 19.2% in EV/capacity but also a 42% discount in 2013B EV/EBITDA terms to the medians of a selected sample of peers. We consider the discount in EV/EBITDA terms partly justified by the fact that CE Oltenia is an unlisted majority state owned company. Using the annualized 2012(7M)-2013(9M) numbers, CE Oltenia has higher EBITDA margins than peers' medians.

An IPO is scheduled for 4Q14

The consortium of BRD Groupe SG and Swiss Capital is to handle the IPO scheduled for 4Q14 (the intermediation contract was signed in April last year). A 15.3% rights issue is planed with a 12% state's stake to be sold on the BVB and 3.29% allocated to FP in order not to be diluted. Should FP decide not to subscribe in the IPO, its stake is to decline to 19.2%, while state's stake to 69%. The official deadline is June but recent statements from the Ministry of Economy officials indicate that the minimum 3M period required for the completion of the coal reserves' audit would push it for this autumn. As the official deadline is very close to the November 2014 election, we consider as very likely CE Oltenia's IPO not happening this year. Such delays may offer company more time to advance with its operational restructuring, to clarify its strategic plans and thus show a better/clearer picture to investors.

Latest results and outlook

Best year to date 2011, worst 2013; management expects a better 2014, which may prove overoptimistic in our view

CE Oltenia's peak year in terms of production (18.8TWh of electricity, 30mn tones of coal), top line (RON 4bn in operating revenues) and net profit (RON 180mn) was 2011, when Hidroelectrica's results were impacted by a severe draught and one of Nuclearelectrica's units was halted in May. 2012 was reasonably good also, while 2013 was the weakest year, with production plummeting to ca. 12TWh, preliminary sales (according to *Bursa* daily) to RON 2.6bn (vs. RON 3.9bn budgeted figure) and a pre-tax profit helped by FX gains in relation to a JPY loan. EBIT was significantly down on higher cost of CO2 certificates, lower prices and high provisions for overdue receivables. The significant change in Romania's energy production mix with the increase in the weight of renewable energy sources receiving state support mainly at the expense of the thermal power producers coupled with the drop in domestic demand are main to blame. Thermal producers are first to be stopped in case of oversupply from the volatile wind farms (a costly process), while the gas purchased by the gas fired plant Braila taken over in exchange for overdue receivables is acquired at the basket price (vs. domestic price in the case of Petrom and Romgaz's units), which also puts pressure on profitability.

CE Oltenia sold electricity to the regulated market at prices closer to unit production costs and in quantities lower than other gencos (both in absolute terms and as a percentage of total production). Moreover, as of 2014, CE Oltenia is not among the gencos selling electricity to the regulated market.

RON 31mn special construction tax an additional cost in 2014

The year 2014 does not seem to bring significant improvements in the sector environment. Further declines in consumption are likely, although probably at a slower pace, oversupply would persist so as the volatility of the supply from the renewable sources, all likely to put pressure on prices on the competitive market. The CO2 certificates' prices might be impacted by EU's back loading policies and a new special construction tax of 1.5% on certain assets is to add RON 31mn to CE Oltenia's costs.

Significant capex ahead

CE Oltenia has its own annual capex of ca. EUR 350mn (average for 2013-2014) to finalize environmental capex and modernize units. The company might end up in contributing to projects important for Romania's energy security (Tarnita Lapustesti, the Romania –Turkey submarine cable). CE Oltenia also seeks diversification of its production mix in solar, biomass and hydro capacities with an unclear risk/reward profile and costs. Capex is the area with least visibility (lack of prioritization, unclear breakdown of annual amounts to be spent and of the funding sources) and utmost importance in a DCF based valuation. To date, CE Oltenia's debt profile shows a reasonable gearing (net debt (RON 1.5bn) to EBITDA of 27.5% in 2012), but a less satisfactory debt servicing capacity (2012 net debt to 7M annualized EBITDA of 2.1x). Moreover, ca. 75% of bank debt is in FX (60% in JPY).

Dividend payout

In theory, CE Oltenia is also subject to the regulation stating that minimum 50% of the net profit (after the retention of a 5% legal reserve and employees' participation to profit) has to be distributed as dividends. However, prior to the merger, only two out of four components (Rovinari and Craiova) distributed dividends, the former 82% of its 2011 profit and the latter 13% and 8% of the 2010 and 2011 net profits, as Turceni had losses in 2011 due to FX losses from its JPY loan. In 2012, 48.3% of the newly formed CE Oltenia's net profit was distributed as dividends (RON 12.3mn cashed by FP), while the 2013 budget is based on a 28.9% payout ratio (RON 7.7mn owed to FP), but the absolute figure is likely to be lower.

Risks

Despite FP effort, to date corporate governance, while improving remains weak

Weak corporate governance: as the state is to remain the main shareholder with a ca. 69% stake even after the IPO, we expect interference in the company's activity (capex and dividend policy mostly). Some decisions might not be taken in the best interest of the minority shareholders and social consideration may prevail especially in an election year. However we see the company's IPO as a mitigating factor and we expect transparency and corporate governance to further improve. FP has a representative in CE Oltenia's Supervisory Board and so far has been actively pushing for improvements on this front.

Regulatory risk fading: as starting 2014 CE Oltenia will no longer supply electricity to the regulated market, regulatory risk is less of an issue compared to other gencos. The introduction of new taxes (such as the 1.5% special construction tax) or obliging CE Oltenia to support various investments in the sector remains a risk. Moreover, recovery of such taxes/costs via price increases is uncertain with a negative impact on CE Oltenia's financials.

FX loans (mainly in JPY) induce high net profit volatility via FX gains/losses

FX risk: a significant portion of CE Oltenia's loans are in FX (mostly JPY and EUR), which creates a significant pressure to its bottom line via high net FX losses in the case RON depreciates against these currencies. The company has no hedging in place nor publicly made available plans to reduce its FX exposure via issuing more debt (bank loans or bonds) in RON.

High overdue receivables: CE Oltenia has ca. RON 700mn overdue receivables in relation to coal sales to several state owned companies, as well as overdue receivables from district heating companies (the largest from the municipality of Craiova). In the case of the former, the situation may improve via the spinoff of two mines that only sell to these companies. In the case of the latter, the situation improved compared to 2011 when Craiova plant had a RON 100mn overdue receivable from Termo Craiova (out of RON 129mn total receivables from this client or RON 258mn total receivables). Moreover, in 2012 15% of CE Oltenia's total impairments for overdue receivables (RON 20mn out of RON 129.7mn total) were in relation to the same client.

Business overview

The main components of CE Oltenia in brief

Turceni Power Plant, the largest unit of CE Oltenia

Turceni Power Plant (TPP) has a capacity of 1,650MW in 5 units of 330MW each (one unit is shut down), of which in fact only 4 will remain operational after 2014 (another unit to be closed), the year when the plants need to meet EU environmental standards. During 2003-2011, TPP had an average annual production of 6.7TWh (2% CAGR) (production started in 1978). The desulphurization plants are operational in all units (for unit 6 since 2012, for units 3-5 since 2011), while the ash and slag units in dense flurry are completed in all 4 units. Major rehabilitation works are scheduled for units 3 (during 2016-2019) and 6 aiming at extending by 15-30 years their average useful lives. Unit 3 would be rehabilitated via a EUR 193mn loan (out of a EUR 220mn total) from EBRD, BCR, BRD and UniCredit (the project is to start this year and works last 4 years). Units 4 and 5 had rehabilitation works completed in 2012 and 2006 respectively (next rehabilitations are scheduled for 2021 and 2017 respectively).

Turceni should have been part of a CCS project

Turceni's unit 6 was supposed to be part of a EUR 1bn carbon capture storage (CCS) project in co-operation with Romgaz and Transgaz. According to the feasibility study, CE Oltenia's part in the CCS project was to be of EUR 680mn; EU funds were to cover ca. 50% of the total project value, provided the project is completed by end 2015. According to Mediafax, EBRD was also to 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. The financing decision should have been taken by the end of last year, when the government had to present the co-financing solutions. The project aimed to capture, transport and store 1.5mn tones of Co2/year, but it looks like it is not going to materialize (partly due to FP's opposition, not convinced about its risk/benefits profile and due to the lack of financing).

Turceni is CE Oltenia's largest plant (42% contribution to 2011 production, last year for which separate statistics for CE Oltenia's components are available and the year with the record high production of 8TWh) with unit production costs of RON 190-200/MWh and an average selling price for its electricity of RON 204/MWh in 2011. Turceni currently employs 1,920 staff (from a 4,800 peak of civil workers and 2,000 military in 1989). Before the merger, TPP had 3 mines (2 open pits) with total annual production of 5-7.5mn tons of lignite (that were ensuring ca. 75% of the power units' needs) and 287.3mn tons of reserves for 40-50 years.

ELECTRICITY PRODUCTION DATA FOR TURCENI PP

	2008	2009	2010	2011
Electricity produced (TWh)	7.68	6.39	6.17	7.95
Electricity sold (TWh)	7.25	6.13	5.84	7.37
Average price electricity (RON/MWh)	176.4	183.0	173.9	204.0
Average price heat (RON/Gcal)	89.81	90.34	90.03	89.85

Source: TPP, SSIF Broker

Rovinari Power Plant, the most efficient unit of CE Oltenia

Rovinari Power Plant (RPP) has a capacity of 1,320MW in 4 units of 330MW each. During 2008-2011, RPP had an average annual production of 5.5TWh (-1.4% CAGR) (production started in 1972). The desulphurization plants are operational in two units (3&6), while for units 4&5 the deadline is 2014, following investments of EUR 41mn and EUR 47mn respectively. The ash and slag projects are completed at units 3&6 since 2009 and at units 4&5 since 2012. For the rehabilitation works, the deadline is 2014 (unit 5) and 2016 (unit 4).

Rovinari is the only power plant that managed to attract Chinese investors in a 600 MW brown field project worth of ca. EUR 912mn, in the feasibility study stage and expected to become operational in 2017. The unit would produce annually 5TWh of electricity that could be exported in Austria via Hungary and Serbia, and in Turkey via Bulgaria (the export being one of the pre-conditions set in the MoU between Romania and China, in order not to create competition for other lignite fired domestic gencos).

Rovinari (31% contribution to 2011 production) is CE Oltenia's most efficient plant with the lowest unit production costs of RON 155/MWh due to its proximity to the lignite mines (at 7km from the power plant vs. 20-25km in the case of Turceni power plants). Thus Rovinari's unit production cost is the closest to Hidroelectrica's (where the most efficient plant at Portile de Fier has unit cost of RON 73/MWh and one of the most expensive is Hateg with RON 410/MWh). Rovinari's average selling price for electricity was

RON 188.6/MWh in 2011. Before the merger, RPP had 4 mines (5 open pits) with total annual production of up to 7mn tons of coal (90% of the power plants' needs) and 180mn tons of reserves for ca. 30 years.

ELECTRICITY PRODUCTION DATA FOR ROVINARI PP

	2008	2009	2010	2011
Electricity produced (TWh)	5.94	5.35	5.01	5.62
Electricity sold (TWh)	5.98	5.32	4.76	5.35
Average price (RON/MWh)	156.7	154.6	153.6	188.6

Source: TPP, SSIF Broker

Craiova Power Plant, the most inefficient and smallest unit of CE Oltenia

Craiova Power Plant (CPP) has a capacity of 930 MW in 4 units (2 units of 315 MW each at Isalnita, built in 1967 and 2 co-generation units of 150 MW/160 Gcal each at Craiova II, built in 1987). During 2008-2011, CPP had an average annual production of 4.9TWh (1.9% CAGR). Investments for the desulphurization plants started only in 2011 and are to be completed in 3Q14 (Isalnita) and 2015 (Craiova II), while the dense phase plants are in operation. A 500MW brown field investment of ca. EUR 800mn at Isalnita that should have started in 2013 and would have needed 4 years to complete became uncertain. Another EUR 180mn would be needed for a 200MW cogeneration production capacity at Craiova II.

Craiova is CE Oltenia's smallest (27% contribution to 2011 production) and least efficient plant with the highest unit production cost of RON 220-240/MWh, as its coal mine was farthest from the power plants and CPP had to acquire most of its coal (ca. 90%) from third parties. Its average selling price for electricity was RON 245.6/MWh in 2011. Before the merger, CPP had only one mine with an annual average production of 0.7mn tons and 7.5mn tons of reserves for 10 years. CPP is also the larger electricity supplier among the thermal producers and sells thermal energy, mainly to the city of Craiova.

ELECTRICITY PRODUCTION DATA FOR CRAIOVA PP

	2008	2009	2010	2011
Electricity sold (TWh)	5.94	5.35	5.01	5.62
Heat sold (TJ)	5.98	5.32	4.76	5.35
Average price of electricity (RON/MWh)	212.3	223.7	247.1	245.6
Average price of electricity (RON/TJ)	27.3	28.2	30.3	31.3

Source: TPP, SSIF Broker

The mining division sells ca. 80% of its production to CE Oltenia's power plants

The mining division CE Oltenia has 15 open pits and 3 underground mines with a production capacity of over 34mn tons (actual production was in the 25-30mn tons range). An auction to elect the company to perform an updated valuation of CE Oltenia's coal reserves was held on 24 Feb. The conclusions of the report would be included in the IPO prospectus. According to Mediafax, quoting company officials, CE Oltenia is to spend RON 2.5bn in the next 15 years from own sources for 2 new lignite mines that would increase production by 50% (one mine Jilt would have 8.5mn tons production, would create 1,036 jobs and investments would amount to RON 1.9bn, while for the other mine Rosia the figures are 8mn tones, 1,420 jobs and RON 608.4mn respectively).

KEY 2011 FINANCIALS OF CE OLTENIA'S COMPONENTS

RON mn	Sales	EBITDA	EBIT	Net profit	Net debt	Book	No. of employees	FP stake (%)
Turceni	1,529.9	380.9	179.8	55.6	858.5	2,173.5	4,496	23.60
Rovinari	1,017.7	195.9	77.7	33.4	423.8	1,264.1	4,380	24.78
Craiova	1,228.1	122.1	23.9	0.8	92.4	1,085.7	2,175	24.35
SNLO	1,168.6	107.8	34.2	32.2	n.a.	n.a.	Ca. 13,000	0.00
Total *	**4,944.3**	**806.7**	**315.5**	**121.9**	**1,374.7**	**4,523.3**	**24,051**	**21.56**

*not adjusted for intercompany transactions

Source: Company data, SSIF Brolrer

2011 KEY RATIOS OF CE OLTENIA'S COMPONENTS

`	EBITDA margins (%)	EBIT margins (%)	Net profit margins (%)	Net debt to equity (%)	Net debt/EBITDA (x)
Turceni	24.9	11.7	3.6	39.5	2.3
Rovinari	19.3	7.6	3.3	33.5	2.2
Craiova	9.9	1.9	0.1	8.5	0.8
SNLO	9.2	2.9	2.8	n.a.	n.a.
Total *	**16.3**	**6.4**	**2.5**	**30.4**	**1.7**

*not adjusted for intercompany transactions

Source: Company data, SSIF Broker

CE Oltenia – latest financials and developments

CE OLTENIA: PRODUCTION AND UNIT SALES FIGURES

	2008	2009	2010	2011	2012	1H13	2013P	2014B
Production (TWh)	18.8	16.7	15.9	18.8	17.2	5.0	12.0	15.0
yoy (%)		-11.2	-5.0	18.9	-8.9	n.a.	-30.1	25.0
Electricity price (RON/MWh)	180.1	185.9	188.5	210.7	216.9	197.1	201.7	185.0
yoy (%)		3.2	1.4	11.8	2.9	n.a.	-7.0	-8.3

Data for 2008-2011 as sum of production of Turceni, Rovinari and Craiova PP *Source: Company data, SSIF Broker*

CE OLTENIA PRODUCTION DATA

	2013B	1H13B	1H13	1H13 as % FY budget	1H13 actual vs. budget
Electricity production (MWh)	18,506,000	8,890,000	5,003,124	27.0	-43.7
Electricity sold (MWh)	16,470,995	7,918,851	4,541,447	27.6	-42.7
Own technological consumption (MWh)	194,720	n.a.	87,378	44.9	n.a.
Own consumption of the mining division (MWh)	819,223	n.a.	332,651	40.6	n.a.
Electricity delivered to NES	16,276,275	7,918,850	4,453,716	27.4	-43.8
Net electricity sold from own production (MWh), o/w	**15,651,771**	**7,504,947**	**4,121,418**	**26.3**	**-45.1**
sold on the regulated market	4,881,880	n.a.	2,302,921	47.2	n.a.
PCCB+PCCB-NC (bilateral contracts)	7,138,091	n.a.	854,304	12.0	n.a.
Retail market	300,000	n.a.	128,174	42.7	n.a.
DAM market	2,855,829	n.a.	1,077,894	37.7	n.a.
Balancing market (estimated)	475,971	n.a.	358,451	75.3	n.a.
Heat produced (Gcal)	770,220	463,130	433,141	56.2	-6.5
Heat sold (Gcal)	668,200	405,130	374,937	56.1	-7.5
Coal production (mn t), o/w	**30.1**	**14.8**	**10.1**	**33.6**	**-31.7**
Sold to third parties	5.1	3.3	2.8	54.4	-14.9
Sold to own plants	25.1	11.9	6.6	26.2	-44.9
Need of Co2 certificates (mn), o/w	17.9	7.6	4.8	26.9	-37.1
booked as costs as at 30 June 2013	n.a.	n.a.	0.4	n.a.	n.a.

* *Source: CE Oltenia,SSIF Broker*

Latest financials show a significant decline in production and sales from 2011 peak figures…

Significant EBIT decline likely in 2013 due to lower production, lower tariffs and high provision charges…: According to Mr. Ciurel, CEO of CE Oltenia quoted in *Bursa* daily, the company has to recover RON 770mn from several local heating companies, for which provisions for bad receivables of ca. RON 200mn are to be booked, which is likely to lead to a significant decline in the company's net profits in 2013 (to a first estimate of RON 200-300mn). In 11M13, the company had a turnover of RON 2.37bn (vs. RON 3.9bn 2013 budgeted figure), an EBIT of RON 130.7mn (RON 342mn) and a net profit of RON 210.7mn (RON 123mn). The bottom line was lifted by a net financial gain from FX as a result of the RON appreciation vs. JPY (the company has a JPY loan).

…largely a result of the significant changes in the energy mix in favor of renewables

…**as well as changes in the energy mix**: In 2013 CE Oltenia's activity was negatively impacted by the overall decline in the energy consumption that was even more pronounced in the case of thermal power producers due to increased competition from the renewable energy producers (wind and solar units) receiving generous subsidies via green certificates. CE Oltenia's significant decline in market share was thus caused by increased production at Hidroelectrica due to a better hydrological year, increased capacity in wind farms (up 220 MW) and solar plants (up 250 MW) and ANRE's regulations allowing the prioritized functioning of the renewable energy producers, which has caused several costly production interruptions for the thermal producers (at CE Oltenia there were 29 in April with a cost of RON 0.35mn/operation, or halts and restarts of capacities totaling 800 MW in one day, implying EUR 0.2mn/day cost). The government and ANRE have partly compensated CE Oltenia via a guaranteed supply of technological system services to Transelectrica for 500MW starting April 2013 until July 2015. As a result of all the above, CE Oltenia's 9M13 production was 8TWh (9.4TWh for 10M13) translating into a 22% market share, down from 30% in 2012 and 15mn tones of coal (of which 4mn sold to third parties).

Producers' prices only account for 24% of the final regulated price of electricity

Producers' prices account for only a small portion of the regulated price: According to Mr. Ciurel quoted in *Bursa* daily, in 2013, the average price of the electricity delivered on the regulated market by all producers was RON 155/MWh, vs.165/MWh in 2007 (2014E RON 127/MWh). The regulated price for the final consumer is 36% higher in 2013 vs. 2007 (RON 649.28/MWh up from RON 475.93/MWh), largely due to the increase of the distribution tariffs and of the support schemes for co-generation and green energy. The producers' prices account for 24% of the final regulated price, distribution tariff 44%, transport and services system tariffs 5.3%, the green certificates 5.2%, the co-generation tax 3.5%, while the VAT and excises 18%. Currently ca. 51% of the final price of a MW of electricity produced at CE Oltenia represents the coal costs for a production of 25mn tones (vs. 32%-38% for the 30mn tones peak).

Some relief from no sales on the regulated market would come for CE Oltenia in 2014

CE Oltenia sold a lower stake of its production on the regulated market and at prices closer to production costs than other gencos: In 2013, CE Oltenia was to sell initially ca. 4.9Wh (ca. 26% of its budgeted net production) on the regulated market, but eventually, the quantity was reduced to 2.5TWh (13.5% of the net budgeted production or ca. 21% of the actual production of 12TWh) and sold at a price of RON 190.3/MWh, a 10.5% yoy increase from RON 183/MWh for 3.5TWh in 2012 (ca. 20% of production). The quantities sold on this market were unevenly split as in 1H13, CE Oltenia actually sold 46% of its 1H13 production on this segment. It seems that producing a more expensive energy than other gencos would play in CE Oltenia's favor in 2014, in that according to an ANRE order, only Hidroelectrica and Nuclearelectrica would sell electricity on the regulated market.

The average price obtained by CE Oltenia in 2013 on the bilateral contracts' market was RON 184/MWh, of which RON 34/MWh represented the costs with green certificates and injection tax. The price was down yoy due to declining consumption and oversupply.

In 2013 CE Oltenia took over the gas fired power plant Braila in exchange for EUR 30mn overdue receivables from Termoelectrica. Unlike Petrom and Romgaz, the plant purchases the gas at USD 480/1,000 cm (i.e. at the price for the basket of domestic and imported gas) vs. USD 190/1,000 cm (domestic gas price only).

Despite some restructuring, CE Oltenia remains overstaffed, mainly in the mining division

Operational restructuring still far from completion: CE Oltenia's operational restructuring is ongoing in the context of difficult market conditions for the electricity producers in general and thermal power plants in particular. Ca. 90 types of bonuses (for special working conditions, seniority etc.) were cut out of the 119. The personnel expenses were reduced by RON 70mn in 2013 from RON 875mn in 2012 (salaries cut by 15%). Around 200 administrative staff was laid off in 2013 to 2,300 and a further reduction to 1,700 is to follow in 2014. Starting 19 February 2014, 802 administrative staff were routed to production units, while legal, financial, human resources and trading activities were centralized. As a result, 79 management positions disappeared. Cost savings from restructuring would be used to increase salaries in the production area starting April 2014.

In 2009-2012 ca. 1,150 staff from TPP and RPP was laid off and ca. RON 28.5mn were paid as severance costs. In terms of staff layoffs, the plan is to make 3,138 persons redundant during 2014-2018 (600 in 2014, mostly via natural attrition). The aim is to reduce the unit cost per ton of lignite to RON 56 from RON 66 in order to increase profitability in the context of an average selling price for electricity of RON 184-186/MWh. The plan to externalize two mines that have clients with overdue receivables (of ca. RON 670mn in Sept 2013) would also lead to reduction in the staff number of a still overstaffed mining division (3 mines are to reach this year their useful lives and in some production might be halted).

CE Oltenia seems to have large capex needs; projects do not seem prioritized or having clear cost/benefits analyses

Significant capex ahead: according to Mr. Ciurel, CE Oltenia has spent in the last 6 years EUR1bn in capex. CE Oltenia had a 2013 capex budget of RON 1.6bn (RON 1.494bn excluding loan repayments, 41% up on the 2012 budgeted figure-the actual 2012 was not available) to be financed from bank loans (RON 867mn) and own funds. Capex is mostly routed to investments aiming at complying with EU environmental standards and at capacities' revamping both in mining and electricity production (according to management, CE Oltenia has ca. EUR 350mn capex plans annual average for 2013-2014, roughly 50/50 split between environmental capex on one hand and revamping of existing units and building new units on the other hand (the most advanced being the 500MW unit at Rovinari in partnership with Chinese Huadian Corporation). This capex is part of an initial larger plan to span over a longer period amounting to ca. EUR 1bn, of which EUR 500mn environmental capex and EUR 300mn mining capex. Overall, there is limited visibility as to CE Oltenia's capex, as some projects are under scrutiny (some have been/are likely to be dropped (given FP's opposition considering them as inappropriate from the cost/benefits perspective-such as the CCS project), other resized).

Along with other gencos, CE Oltenia might be forced to contribute to sizeable projects with unknown amounts

In addition to own investments, CE Oltenia might find itself part of several investments that are required to balance Romania's energy system, such as Tarnita and the submarine cable between

Romania and Turkey. The exact amounts and distribution by years in these projects are not yet clear (for the payment of the feasibility studies, contributions to the share capital of the project companies and/or for the actual investments). We fear that the state, as majority shareholder, might oblige CE Oltenia to have contributions to these projects that might have a negative impact on their profits and dividend distribution capabilities and thus hurt other shareholders' interests. We also fear that these contributions would not be balanced from the cost benefit perspective among gencos (in our view, there should be some contribution from gencos generating the imbalances, mainly the wind farms).

CE Oltenia is aiming at diversifying its production mix to reduce the CO2 certificates cost burden

CE Oltenia is also seeking to make investments to diversify its production mix away from only lignite based electricity production. The company indicated that it intends to merge with small hydro or solar power producers to increase by 15% its installed capacity and/or build photovoltaic farms (to be commissioned this year) and projects using biomass to reduce the costs with CO_2 and green certificates. The company has 60ha of land to be used for the biomass production, which, according to company officials quoted in the media, would be added to the production mix starting next year. While we view as positive such diversification, the lack of data as to the exact investments needed and their expected return make us cautious.

Electricity exports would also be considered: as of 1 Aug 2013, CE Oltenia was registered for auctions for allocation of interconnection capacities, a pre-condition for export contracts. CE Oltenia already signed an import-export contract with Transelectrica. Exports could to increase mainly after the commissioning of the submarine cable, but that investment seems too far distant in the future and anyhow, as the thermal producers are not competitive compared to other sources, they may not be even eligible for exports to Turkey, unless demand cannot be satisfied from the alternative cheaper sources.

2013 CAPEX PROGRAM

	Rovinari	Turceni	Craiova	Mining division	Other	Total
Total, o/w	**312.8**	**562.7**	**520.7**	**195.3**	**11.1**	**1,602.5**
Own sources	112.8	301.7	115.0	195.3	11.1	735.8
Bank loans	199.9	261.0	405.7	0.0	0.0	866.7
Desulphurization	106.6	90.2	440.8			637.6
Units rehabilitation	120.0	199.6				319.7
Repayment of debt	65.6		43.0			108.6

Source: CE Oltenia, SSIF Broker

CE Oltenia's optimism about this year's prospects are unwarranted in our view

CE Oltenia seems to expect a much better year 2014: CE Oltenia's 2014 key figures from the draft budget (subject to AGM approval) are (according to *Bursa* daily): production of 15TWh of electricity and 24-25mn tons of lignite, capex of RON 1.5bn, revenues of RON 3.3bn (RON 2.6bn in 2013P) and a pre-tax profit of RON 37mn down from RON 301mn in 2013P). According to Mr. Ciurel, around 9TWh is already covered by contracts at an average price of RON 184-186/MWh. Mr. Ciurel does not expect a recovery in the electricity consumption, which coupled with a significant increase of the renewable energy would push prices further down.

We consider the 2014 draft budget optimistic, challenging to achieve: Given the difficult macro and sector environment, we consider the budgeted electricity production very challenging (it implies a 25% yoy increase from a depressed production in 2013 (30% down yoy) and 2012 (8% down yoy). As a reminder, 2011 was the peak (best) year in CE Oltenia's history with a 19% yoy increase in electricity production, as the company benefitted from the severe draught that impacted Hidroelectrica and the 25-day halt of Nuclearelectrica's unit 2 in May.

The company would also have additional costs with the CO_2 certificates and higher capex and is to pay RON 31mn as special construction tax (1.5% tax on certain assets), representing ca. 26% of its 2013 budgeted net profit figure.

Spin off of two mines would reduce costs, staff number and settle the overdue receivables issue

Two of CE Oltenia's mines are to be transferred to the thermal power plants to which they supply coal: Berbesti mine with 1,200-1,300 employees would be transferred to CET Govora and Husnicioara (700 employees) to Nuclear Activities Company (RAAN). The two plants owe to the two mines RON 700mn in overdue receivables (and penalties). According to Mr. Ciurel, the transfer would have an immediate impact on costs (a reduction by RON 10/ton of coal and RON 12/MWh) and is being discussed with FP.

CO2 certificates create an additional burden for CE Oltenia's profits and cash flows…

The burden of CO_2 certificates increased starting 2013: CE Oltenia's 2013 initial budget had a RON 581.4mn costs for the CO_2 certificates, a figure significantly higher yoy figure compared to the 2012 budgeted one (RON 176mn) or the actual cost paid by the company in 7M12 (RON 96mn). In the latest 2013 budget revised downwards for most indicators, the company has not revealed a revised figure for this cost item (it only indicated that for 1H13, there was a need of 4.8mn Co2 certificates, of which only 0.37mn were booked as costs, which using a market price of ca. EUR 6.5/certificate would translate into total costs of ca. RON 141mn and only ca. RON 11mn booked in 1H13). Nevertheless, the likely yoy increase of this cost item is caused by the fact that starting 2013, a higher part of the certificates had to be acquired from the market (partly alleviated by their currently depressed market price), while in 2007-2012, only the excess corresponding to emissions over a certain number of certificates allocated for free had to be acquired from the market (at the prevailing higher prices compared to the current ones). The company acquired from OPCOM a number of 4.2mn Co2 certificates in 2012 and 2mn in 2013.

…especially given the fact that as of 2013, there are much less certificates allocated for free vs. 2007-2012 period

During 2007-2012, CEO Oltenia received from the government 93.6mn CO_2 certificates. According to art. 10 of the EC Directive 2003/87, revised, certain Romanian gencos (CE Oltenia included) could continue to receive during 2013-2020 a portion of their CO_2 certificates for free (for all eligible Romanian companies, 71.4mn certificates are to be received for free under certain conditions vs. 208mn received in 2007-2012). At the national level, Romania could receive the equivalent of up to 70% of the 2007 emissions in free certificates in 2013, and the percentage is to gradually decline by 10pp annually so that as of 2020, no free certificates would be available.

CE Oltenia might be eligible to receive 32mn free certificates, translating into an annual average of 4.6mn free certificates for 2013-2019 representing some 30% of the annual average of the 2008-2010 period. The company has to pay in 2 tranches in 2Q and 4Q the value of the certificates based on the reference prices set on 1 April and 1 Oct (as average auction prices on the EEX platform). For 2013, the value of the certificates in the first tranche was paid in 4Q13 based on the 1 April 2013 reference price. After the payment, the CO_2 certificates are issued based on application norms yet to be published by the Ministry of Economy, Energy Department. The allocation of the CO_2 certificates, is linked to the existence of projects eligible for inclusion in the National Investment Plan (NIP). Amounts spent can be claimed back against proof of progress (via controls from external auditors and Ministry representatives) in the eligible investments. CE Oltenia is included in NIP with 8 projects (3 at Rovinari, 2 at Turceni and 3 at Craiova) of which 1 in Craiova (unit 7 Isalnita) and 1 in Rovinari (unit 4) might be the first eligible for reimbursements in 2014 (of the ca. RON 140mn amounts for the CO_2 certificates in 1H13 ca. RON 90-100mn might be eligible for reimbursement, according to company officials).

CO2 CERTIFICATES ALLOCATION FOR CE OLTENIA'S PLANTS FOR 2013-2019 (MN TONS OF CO2/YEAR)

Plant	2013	2014	2015	2016	2017	2018	2019	2020	Total
Craiova II	0.72	0.62	0.51	0.41	0.31	0.21	0.10	0.00	**2.87**
Craiova Isalnita	1.69	1.45	1.21	0.96	0.72	0.48	0.24	0.00	**6.75**
Rovinari	2.78	2.38	1.98	1.59	1.19	0.79	0.40	0.00	**11.11**
Turceni	2.83	2.43	2.02	1.62	1.21	0.81	0.40	0.00	**11.32**
Total CE Oltenia	**8.01**	**6.87**	**5.72**	**4.58**	**3.43**	**2.29**	**1.14**	**0.00**	**32.05**

Source: CE Oltenia, SSIF Broker

RON 118.3mn net profit in 2012

2012 was a reasonably good year, impacted by high base effect: for the 7 months period since inception (1 June 2012) until year end, CE Oltenia reported a RON 118.3mn net profit, down from RON 180mn (the pro-forma cumulative net profit for the full 2011 FY of the merged entities) and EBIT was RON 44.5mn. Of the total opex, RON 96.1mn was spent for the CO_2 certificates (4.3mn certificates at an average price of RON 22.4/certificate), RON 29.4mn for green certificates and RON 41.6mn represented the mining royalties. The most important cost item was the coal cost (RON 842mn, ca. 25.5% of company's cash costs).

Production at ca. 15TW on an annualized basis

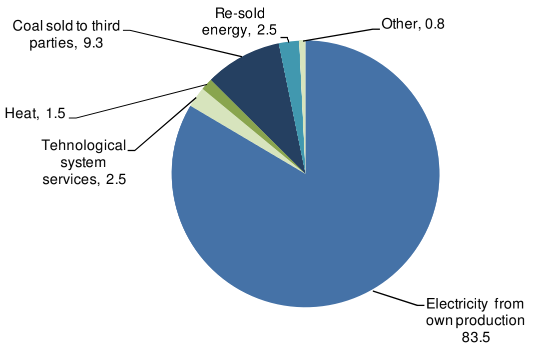
During June-December 2012, CE Oltenia sold 8.6TWh of electricity at an average price of RON 216.9/MWh (RON 1,868mn, 83.5% of the total sales figure) and 256,240 Gcal of thermal energy at an average price of RON 128.4/Gcal (RON 33mn in total). Ca.9.3% of total sales (RON 207.8mn) came from the sale of coal to third parties (RON 853mn was the value of the coal sold to the own thermal power plants). In the period of 1Y since inception, CE Oltenia sold ca. 42% of its electricity on the regulated market, 26% on the DAM and balancing market, 28% via bilateral contracts and 4% directly to end users.

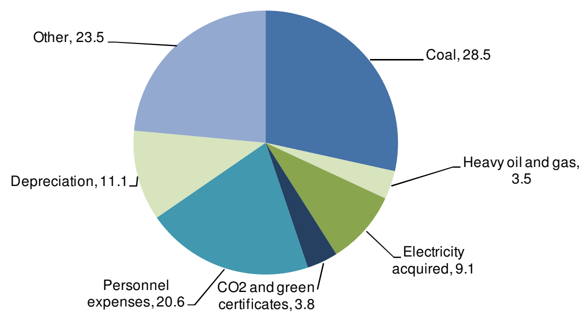
The company also recorded a net financial gain of RON 131.7mn (RON 31.4mn represented interest expenses for loans and, from the remaining RON 157mn gain, a large portion represented the net FX gains from the revaluation of some of the company's debts in JPY). The effective tax rate in 2012 was 32.8%, due to high non-fiscally deductible expenses (RON 246mn).

FP received RON 10.6mn dividends from CE Oltenia for the 2012 FY (7M), i.e. 85% of the distributable net profit after setting aside the amounts for legal reserves, previous years' financial losses (deriving from Turceni) and own sources for the repayment of loan installments and for financing projects co-financed from foreign loans (or 41.8% of the 7M12 net profit). Additional RON 1.6mn was the dividend attributable to FP from CE Oltenia's total dividends of RON 7.75mn, which in turn represent 85% of the distributable net profit from the total net profit taken over from the merged companies on 31 May 2012 of RON 33.5mn. **In total, FP cashed in RON 12.3mn in dividends from CE Oltenia (a 48.3% payout ratio).**

CE Oltenia had exceptionally good 2011-2012 years (largely helped by the drought that negatively impacted Hidroelectrica's production and sales), but it still has high production costs, further to be burdened by higher costs for CO2 certificates and capex to meet EU environmental standards. Its gearing ratio is still at reasonable levels, while net debt to EBITDA was slowly approaching the maximum levels in some of the covenants of its bank loans.

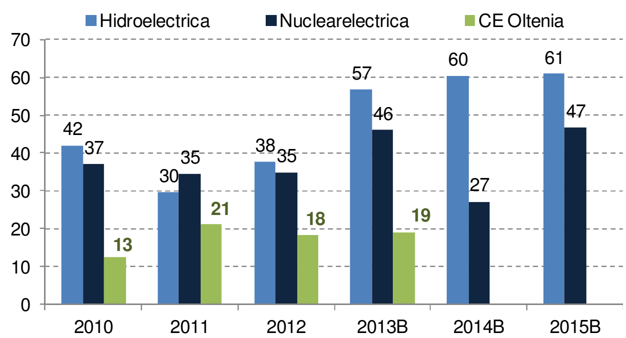
BREAKDOWN OF 2012 SALES (LEFT CHART) AND 2012 OPEX (RIGHT CHART) (%)

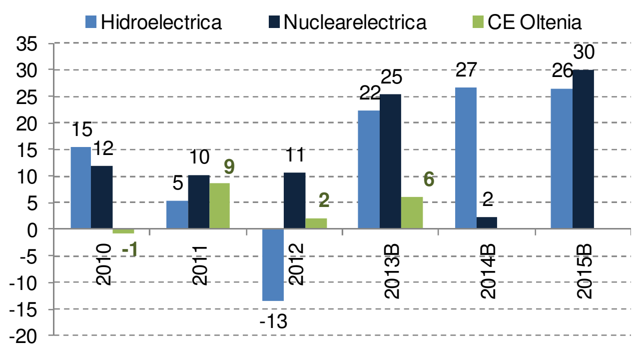




Source: CE Oltenia, SSIF Broker

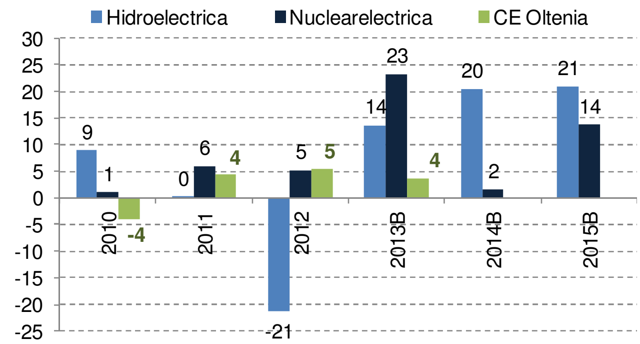
EBITDA (LEFT CHART) AND EBIT MARGINS (RIGHT CHART) COMPARISONS OF KEY ROMANIAN GENCOS (%)

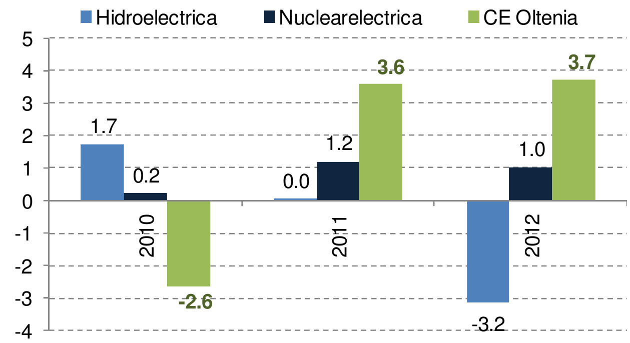




Source: Company data, SSIF Broker

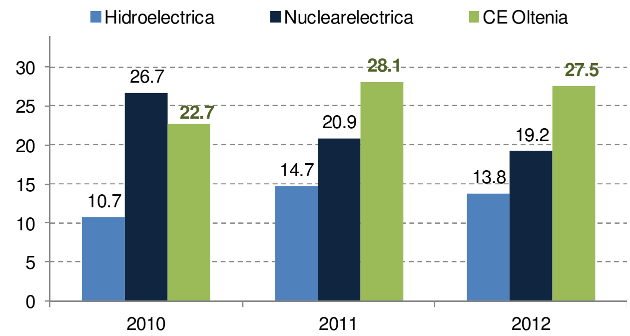
NET PROFIT MARGIN (LEFT CHART) AND ROE (RIGHT CHART) COMPARISONS OF KEY ROMANIAN GENCOS (%)

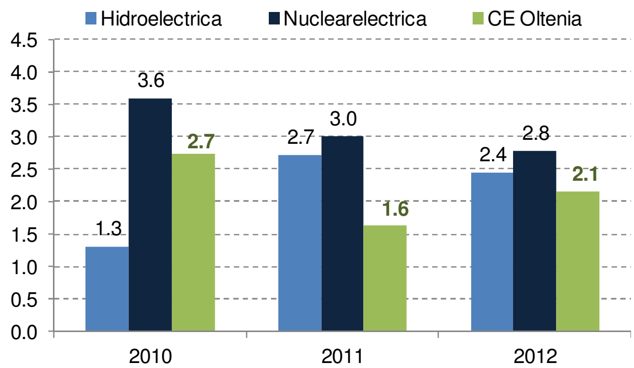




Source: Company data, SSIF Broker

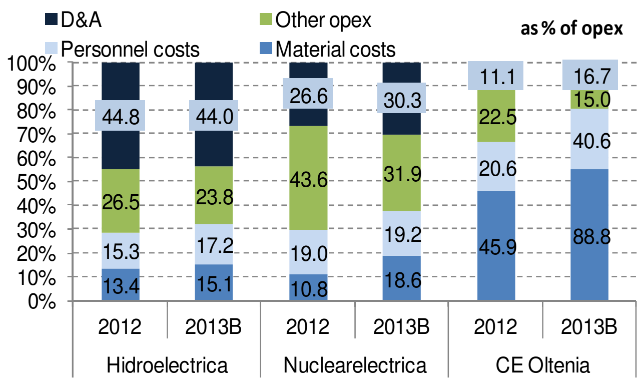
NET DEBT TO EQUITY (LEFT CHART, %) AND NET DEBT/EBITDA (RIGHT CHART, X) COMPARISONS OF KEY ROMANIAN GENCOS (%)

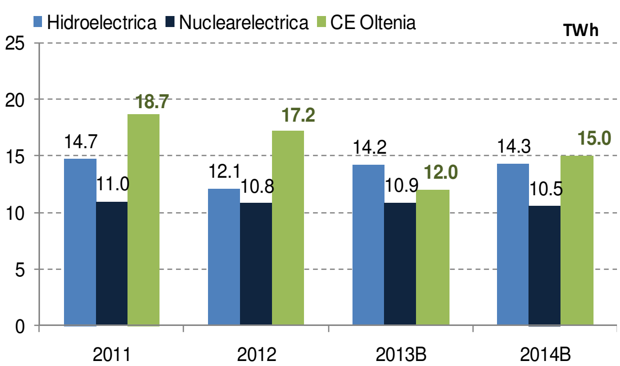




Source: Company data, SSIF Broker

BREADKOWN OF OPEX (LEFT CHART) AND PRODUCTION (RIGHT CHART) COMPARISONS OF KEY ROMANIAN GENCOS (%)





Source: Company data, SSIF Broker

Financials

INCOME STATEMENT

RON mn	2010	2011	2012 (7M)	2012B (7M)	2012B	2013 initial B	2013 revised B	1H13B	1H13	9M13
Total operating revenues	**3,165.8**	**4,026.5**	**3,347.1**	**3,386.0**	**6,003.9**	**6,081.0**	**5,664.5**	**2,723.0**	**2,023.9**	
Net sales	**n.a.**	**n.a.**	**2,236.7**	**2,210.8**	**4,141.1**	**4,181.0**	**3,916.1**	**1,886.7**	**1,219.5**	**1,858.6**
Other operating income	n.a.	n.a.	1,020.4	1,175.2	1,175.1	1,304.6	n.a.	n.a.	n.a.	n.a.
Change in inventories	n.a.	n.a.	90.1	n.a.	687.8	595.5	n.a.	n.a.	n.a.	n.a.
Material costs	n.a.	n.a.	-1,514.7	-1,502.0	-2,496.0	-2,537.8	-2,933.5	-1,420.8	-1,001.7	n.a.
Personnel costs	n.a.	n.a.	-679.2	-758.1	-1,290.8	-1,333.5	-1,341.7	-672.9	-581.5	n.a.
Other operating costs	n.a.	n.a.	-743.4	-723.6	-1,393.5	-1,410.1	-496.5	-223.0	-276.5	n.a.
EBITDA	**400.0**	**857.8**	**409.8**	**402.3**	**823.6**	**799.7**	**892.9**	**406.3**	**164.2**	**490.9**
EBIT	**-25.0**	**348.0**	**44.5**	**46.3**	**256.2**	**249.0**	**342.2**	**130.9**	**26.5**	**70.9**
Interest income	n.a.	n.a.	6.0	n.a.	4.5	8.4	n.a.	n.a.	n.a.	n.a.
Interest expense	n.a.	n.a.	-31.4	-37.3	-57.6	-63.6	n.a.	n.a.	n.a.	n.a.
Other financial items, net	n.a.	n.a.	157.1	n.a.	-42.4	-13.8	n.a.	n.a.	n.a.	n.a.
Financial gain/(loss)	-172.3	-276.0	131.7	27.7	-95.5	-69.0	-162.2	-72.1	84.2	87.9
Pre-tax profit	**n.a.**	**n.a.**	**176.1**	**152.2**	**160.7**	**180.0**	**180.0**	**58.8**	**110.7**	**158.8**
Net profit	**-126.7**	**179.9**	**118.3**	**95.8**	**90.4**	**151.2**	**123.0**	**36.5**	**77.0**	**108.7**
Effective tax rate (%)	n.a.	n.a.	32.8	37.1	43.7	16.0	31.7	38.0	30.5	n.a.
Dividends	n.a.	n.a.	49.4	5.7	n.a.	n.a.	35.6	n.a.	n.a.	n.a.
Capex, o/w	**n.a.**	**n.a.**	**n.a.**	**956.2**	**1,155.4**	**1,582.5**	**1,602.5**	**485.3**	**326.4**	**n.a.**
Financed from loans	n.a.	n.a.	n.a.	495.2	510.2	866.7	n.a.	n.a.	n.a.	n.a.
Loans repayments	n.a.	n.a.	n.a.	n.a.	109.6	108.6	n.a.	n.a.	n.a.	n.a.
Employees	**19,609**	**19,084**	**18,770**	**19,011**	**n.a.**	**n.a.**	**18,850**	**18,850**	**18,712**	**n.a.**
CO2 certificates	n.a.	n.a.	-96.1	-114.6	-176.0	-581.3	n.a.	n.a.	n.a.	n.a.
Royalties	n.a.	n.a.	-41.6	-70.6	-69.4	-75.6	n.a.	n.a.	n.a.	n.a.

B=company budget; 2010-2011 data pro-forma of the merging entities *Source: Company data, SSIF Broker*

BALANCE SHEET

RON mn	2010	2011	2012	1H12	9M13
Non-current assets	**6,270.8**	**6,613.1**	**6,859.1**	**6,583.6**	**6,796**
Property, plant, equipment	n.a.	n.a.	6,832.4	6,549.4	6,772
Intangible assets	n.a.	n.a.	8.0	15.2	n.a.
Financial investments	n.a.	n.a.	18.8	18.9	n.a.
Current assets	**1,403.5**	**1,534.6**	**1,481.6**	**1,600.1**	**1,506**
Cash and equivalents	138.9	240.0	223.7	349.8	n.a.
Inventories	n.a.	n.a.	335.3	339.5	n.a.
Receivables	n.a.	n.a.	874.9	852.0	n.a.
Other current assets	n.a.	n.a.	47.8	58.9	n.a.
Total assets	**7,674.2**	**8,147.7**	**8,340.8**	**8,183.7**	**8,302**
Share capital	n.a.	n.a.	1,270.3	1,270.3	n.a.
Reserves	n.a.	n.a.	4,008.2	3,788.8	n.a.
Retained earnings	n.a.	n.a.	204.0	83.7	n.a.
Shareholders' equity	**4,813.2**	**4,991.3**	**5,482.5**	**5,142.8**	**5,508**
Non-current liabilities	**1,575.8**	**1,896.2**	**1,974.4**	**2,153.5**	**1,616**
Interest bearing borrowings	1,027.9	1,377.5	1,533.9	1,603.4	n.a.
Provisions	n.a.	n.a.	307.8	387.8	n.a.
Other non-current liabilities	n.a.	n.a.	132.7	162.3	n.a.
Current liabilities	**1,285.2**	**1,260.2**	**883.9**	**887.4**	**814**
Interest bearing borrowings	203.4	266.0	198.4	252.9	n.a.
Trade and other payables	n.a.	n.a.	425.1	338.5	n.a.
Other current liabilities	n.a.	n.a.	260.4	296.1	38.8
Net debt	**1,092.3**	**1,403.4**	**1,508.6**	**1,506.5**	**n.a.**
Total debt	1,231.2	1,643.4	1,732.3	1,856.3	n.a.

2010-2011 data pro-forma of the merging entities *Source: Company data, SSIF Broker*

Electricity distribution companies

Utilities / Romania

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 Sud, Transilvania Nord and Muntenia Nord). In 2012, they accounted for 82.67% of the total energy delivered in Romania.

- **On FP's sale list:** The cumulated official value of FP's holdings in the electricity distribution companies amounts to RON 2,466mn accounting for 16.4% from the total FP's NAV of RON 15,014mn (as of Dec 2013). Currently, FP is assisted by Citigroup Global Markets in the sale, transfer or disposal of its interests in these companies but nothing has been reported in this respect so far.
- **Not an important source of dividend income for FP**. FP cashed dividends only from Electrica Distributie Muntenia Nord (EDMN) in 2013 of RON 16.2mn and RON 1.8mn in 2012 and from Enel Distributie Banat (RON 20.2mn) and Enel Distributie Dobrogea (RON 13.5mn) in 2011 (for 2010). Regarding the payout ratios, EDMN's was 12%, while EDB and EDD distributed ca. 56% of their 2010 earnings as dividends.
- **Main triggers**: a) an increase in the asset base (through capex, which should improve the state of the electricity network) would set the grounds for higher tariffs and, in the long run, would reduce maintenance costs; b) for the state-owned discos, more stringent cost control and improvement in corporate governance.
- **Main risks**: a) evolution of the electricity consumption, which, in the past tended to vary more or less in line with changes in GDP; however, going forward we see some structural changes in the economy reducing the correlation and a downward trend more likely than an upward one b) regulatory and fiscal changes (e.g. the 1.5% special constructions tax); c) three electricity distributors are majority state-owned; thus, the decision-making process tends to be slower and more bureaucratic, corporate governance could also be an issue.
- **Electrica IPO**: The State plans to list the distribution company Electrica in May 2014 through a 51% capital increase. Electrica is the main shareholder of the three state owned discos in FP's portfolio and minority shareholder in the other discos, and it also has repair&maintenance and supply activities. A thorough cleanup process needs to be done before IPO which will basically leave Electrica with the three state-owned supply and distribution companies and probably a small repair & maintenance subsidiary. As for FP, it would either swap its shares in various Electrica subsidiaries in which it is a minority shareholder or would try to sell the respective holdings to Electrica before the IPO and cash the proceeds from Electrica's cash proceeds from the IPO.

2012 data	EDMN	EDTN	EDTS	EDM	EDB	EDD	EMD
Sales (RON mn)	720.2	571.1	632.8	869.9	603.2	480.3	665.6
EBITDA (RON mn)	182.5	180.2	176.1	357.9	292.4	189.7	212.8
EBIT (RON mn)	99.1	68.8	61.7	172.4	181.1	103.0	83.8
Net profit (RON mn)	87.1	53.1	45.8	206.3	167.2	94.5	71.3
Net debt (RON mn)	-265.5	52.9	73.6	-1,210.5	-610.7	-298.9	-100.4
EPS (RON)	2.46	1.43	1.08	7.60	4.38	3.37	1.43
ROCE (%)	6.8	5.3	4.3	5.8	10.1	7.9	3.8
ROE (%)	6.5	5.8	4.7	5.7	8.3	7.0	3.8
ROA (%)	4.1	3.2	2.6	4.0	6.4	4.6	2.9
Net debt/Equity (%)	-19.9	5.8	7.6	-33.5	-30.3	-22.2	-5.3
Net debt/EBITDA (x)	-1.5	0.3	0.4	-3.4	-2.1	-1.6	-0.5
EBITDA margin (%)	25.3	31.5	27.8	41.1	48.5	39.5	32.0
EBIT margin (%)	13.8	12.0	9.8	19.8	30.0	21.4	12.6
Net margin (%)	12.1	9.3	7.2	23.7	27.7	19.7	10.7

Source: Company Data, SSIF Broker

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

Analyst:

Adela Hagiu

+40 387 387 3459

adela.hagiu@ssifbroker.ro

Business overview

Before 2005, there were eight electricity supply and distribution subsidiaries owned by the State through Electrica and between 2005-2008, four of them were privatized (Enel bought three while E.ON acquired one). Starting 1 July 2007, Romania had to adhere to the European unbundling principles for electricity companies and as a result, supply and distribution activities were separated in different companies.

Electricity distribution is a natural regional monopoly therefore the distribution companies cover different regions of Romania and have distribution networks ranging from 23,000 km (Enel Distributie Dobrogea) to over 50,000 km (Electrica Distributie Transilvania Nord).

FP holds stakes in seven out of eight electricity distribution companies

FP's minority stakes in the seven electricity discos accounted for 82.67% of the total volumes of distributed energy in 2012. FP's exposure to electricity distribution companies amounts to RON 2,466mn which represents 16.4% from the total FP's NAV of RON 15,014mn (as of Dec 2013). FP has representatives only in the Board of Enel Distributie Banat (EDB), Enel Distributie Dobrogea (EDD) and Electrica Distributie Muntenia Nord (EDMN).

FP has made steps towards selling these stakes

In March 2012, Franklin Templeton announced that Citigroup Global Markets had been appointed as exclusive intermediary to facilitate the sale, transfer or disposal of FP's interests in several unlisted stocks from the power sector. On this list we find the stakes in the electricity distribution companies, as well as natgas discos and electricity supply companies. Up to now, no material progress in this direction has been announced. FP stated in one of its presentations that the potential investors are confused by Government's plans regarding the put option and privatization plans for Electrica.

ELECTRICITY DISCOS ACCOUNT FOR CA 16% OF FP'S OFFICIAL NAV

Electricity distribution companies	Fund's Stake	Values as at 31 Dec 2013 (RON million)	% of NAV
Enel Distributie Banat (EDB)	24.12	573.2	3.8
Enel Distributie Muntenia (EDM)	12.00	473.1	3.2
Enel Distributie Dobrogea (EDD)	24.09	379.1	2.5
E.ON Moldova Distributie (EMD)	22.00	345.4	2.3
Electrica Distributie Muntenia Nord (EDMN)	21.99	296.2	2.0
Electrica Distributie Transilvania Sud (EDMS)	21.99	192.0	1.3
Electrica Distributie Transilvania Nord (EDTN)	22.00	206.7	1.4
Total official value of holdings		**2,465.7**	**16.4**
FP Official NAV		**15,013.7**	

Source: FP, Companies' data, SSIF Broker

The Government is planning a 51% IPO at Electrica, the main shareholder of three discos

51% IPO of Electrica is scheduled for May 2014

For the time being Electrica's 51% IPO is scheduled for May 2014. Electrica is a holding company that is the sole owner in Electrica Serv and five Servicii Energetice subsidiaries, has minority stakes in the eight privatized electricity supply and distribution companies (Enels, CEZ and E.ONs), and majority shareholder (with 78%) in the remaining three electricity distribution and supply companies subsidiaries (FP is minority shareholder in these state owned subsidiaries as well as in the privatized ones).

A thorough cleanup process was announced ahead of the IPO, with the privatized entities to be separated from the holding companies, while the five Electrica Serv fully owned subsidiaries (in the services-maintenance and repairs) would have different fates: three (Servicii Energetice Moldova, Banat and Dobrogea) would be liquidated (deadline for liquidators to submit their offers is 3 March 2014), one (Oltenia) to be put in insolvency and one (Muntenia) to undergo an accelerated privatization.

FP's exit from the privatized discos is complicated by the pending exit of Electrica

In fact, Electrica will remain with the three electricity distribution and supply subsidiaries and probably with a small repair & maintenance subsidiary (after Electrica Serv's restructuring). The distribution and supply companies were valued in FP's Dec 2013 official portfolio (100% of the equity value) at RON 3,160mn (EUR 697mn). FP would either swap its shares in various Electrica subsidiaries in which it is a minority shareholder or would try to sell the respective holdings to Electrica before the IPO and cash the proceeds from Electrica's cash proceeds from the IPO.

Electrica wants to sell its stakes in Enel's Muntenia disco to the main shareholder, but the parties have not agreed on the price yet

Meanwhile, Electrica's exit from Enel Distributie Muntenia and E.ON Moldova Distributie is still to be completed, putting FP's exit plans in difficulty. Electrica appointed KPMG as advisor in selling its stakes in ENEL and E.ON. In Nov 2012, the Government approved the exercise of Electrica's put option on a 13.6% stake in ENEL Distributie Muntenia (EDM) and ENEL Energie Muntenia (electricity supply company in the geographic area covered by EDM) for EUR 521mn (at more than 5x book value of the two companies), based on a valuation performed by KPMG. The deal has not been finalized yet, as its value raised issues between the seller and the buyer. The dispute with Enel is expected to be solved in 1H14.

Moreover, according to local media, Electrica has requested from Enel around ca EUR 900mn in penalties for not abiding by the privatization contract's provisions (EUR 834mn) and for not paying dividends for 2007 and 2008 (RON 378mn, interest included). There was a request for arbitration sent by Electrica in April 2013 related to these penalties and for not abiding by the privatization contract.

E.ON bought 17% in E.ON Distributie Moldova from Electrica

According to *Bursa* daily, E.ON acquired 17% stake in E.ON Moldova Distributie from Electrica for which it paid EUR 3.52/share. The price paid by E.ON for the disco implies an equity value of EUR 176mn and an EV of EUR 153mn based on the 2012 net cash position. The equity value is 50% below the one in FP's Dec 2013 official NAV. The implied multiples are: P/E of 9.1x , EV/EBITDA of 3.6x and EV/Customer of EUR 118 (using financials as per the 2013 budget and 2012 net debt). The EV/Customer in this transaction compares to EUR 558 paid by CEZ for CEZ Distributie to FP and Electrica in September 2009. As after that acquisition CEZ reached 100% stake in its local distribution subsidiary, we consider that the price paid by E.ON should have been lower than CEZ's nonetheless the difference is substantial.

After the transaction, E.ON has 68% stake in E.ON Distributie Moldova, Electrica is left with 10% (allocated to employees) and FP remains with 22%.

As a reminder, E.ON had a call option on Electrica's stake in E.ON Moldova Distributie and in Nov 2010 it exercised this option, based on a formula set in the privatization contract. However, the deal took place recently as there was an arbitration process ongoing (last hearing in November 2013), with E.ON seeing as unconstitutional the allocation of 10% of the previous Electrica Moldova to employees out of its total 27% participation. The Arbitration Court ruled partially in favor of E.ON acknowledging its right to acquire from Electrica a 17% participation in the distribution company and 2.38% in the supply company.

The electricity distribution business is regulated based on a "tariff basket" cap methodology

Tariffs and regulatory changes

Electricity distribution tariffs are set by the energy market regulator, ANRE, using a "tariff basket" cap methodology which reduces revenues fluctuations and end-user price variation. There are individual tariffs for each electricity distributor. They key indicators are set for a 5-year timeframe, called regulatory period. Revenues are set in real terms and adjusted annually for inflation, an efficiency factor (applicable to controllable operating and maintenance costs), differences in the previous year between estimated and actual (realized) distributed volumes, grid losses (price and quantity), uncontrollable costs and realized capex. Tariffs are set on voltage levels (low, medium and high).

2013 was a transition year, while the 3rd regulatory period is 2014-2018

The third regulatory period started in 2014 and will end in 2018. The pre-tax regulated return on RAB was set at 8.52% in real terms for all discos while the after-tax return is 7.16%. The return is the same as in 2013 which was a transition year and compares to 10% for the privatized discos and 7% for the Electrica subsidiaries in the second regulatory period (2008-2012). The new efficiency factor 1.5% per year (up from 1%) capped at 80% of the average efficiencies realized in the second regulatory period. The energy market regulator also implemented some changes to the tariff methodology, which now allows for an additional 0.5pp increase in return on RAB at the end of the regulatory period, for investments in smart metering solutions that lead to a further 1% reduction of technological losses below the limit agreed with the regulator.

Main drawbacks of the tariff basket method

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;

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 that are deemed acceptable by ANRE is borne by the distributors, putting pressure on profitability.

ELECTRICITY DISTRIBUTION TARIFFS (ELECTRICA AND E. ON DISCOS)

	EMD				EDMN				EDTN				EDTS			
RON/MWh	**2011**	**2012***	**2013**	**2014**	**2011**	**2012***	**2013**	**2014**	**2011**	**2012***	**2013**	**2014**	**2011**	**2012***	**2013**	**2014**
High Voltage	21.0	21.0	22.1	20.9	15.3	18.0	18.9	18.9	21.0	21.0	22.1	20.7	21.0	21.0	22.1	23.5
Medium Voltage	42.0	42.0	44.2	46.3	38.5	42.0	44.1	44.2	42.0	42.0	44.1	44.6	38.5	42.0	44.1	47.0
Low Voltage	133.2	139.0	146.0	147.4	136.3	139.0	146.1	142.9	88.6	101.4	106.6	111.5	114.8	123.3	129.6	124.3
Total	**196.2**	**202.0**	**212.3**	**214.5**	**190.1**	**199.0**	**209.2**	**206.1**	**151.6**	**164.4**	**172.8**	**178.8**	**174.3**	**186.3**	**195.8**	**194.7**

** enforced on 1 July 2012* *Source: FP reports, SSIF Broker*

ELECTRICITY DISTRIBUTION TARIFFS (ENEL DISCOS)

	EDB				EDD				EDM			
RON/Mwh	**2011**	**2012***	**2013**	**2014**	**2011**	**2012***	**2013**	**2014**	**2011**	**2012***	**2013**	**2014**
High Voltage	21.0	21.0	22.1	22.8	21.0	21.0	22.1	22.1	8.9	10.5	11.0	12.2
Medium Voltage	42.0	42.0	44.1	46.2	42.0	42.0	44.1	44.1	26.4	31.1	32.7	36.2
Low Voltage	129.7	139.0	146.1	136.7	123.7	139.0	146.1	145.5	115.9	136.3	143.3	134.1
Total	**192.7**	**202.0**	**212.3**	**205.6**	**186.7**	**202.0**	**212.3**	**211.7**	**151.2**	**171.6**	**182.5**	**182.5**

** enforced on 1 July 2012* ` *Source: FP reports, SSIF Broker*

Other legislative changes: new taxes, market liberalization

Two new taxes imposed: the monopoly tax and the special constructions tax

On 22 January 2013 the Romanian Government passed the Ordinance no. 5/2013 through which it imposed additional **taxes for monopoly** activities in the sector of gas and electricity distribution and transport, starting February 2013. For electricity distributors, the tax is of RON 0.85 per MWh distributed.

The government also approved last year the enforcement as of January 2014 of a new tax, i.e. a 1.5% **tax on** the gross book value of the so called **special constructions**, a category of fixed assets not taxed until now. However, the law is under debate now as clarifications need to be done on the taxable base. According to Electrica's CEO, the impact will be of some RON 8-10mn on the mother company, recoverable through taxes. According to FP's estimates, the impact on the three state-owned electricity discos, Electrica Distributie Transilvania Nord, Electrica Distributie Muntenia Nord and Electrica Distributie Transilvania Sud would be of approx RON 15-17mn (accounting for 28% (EDTN), 17% (EDMN) and 26% (EDTS) of 2012 net profits. According to Ziarul Financiar daily quoting Mr. Luca D'Agnese, the CEO of Enel Romania, the special constructions tax would amount to ca EUR 15mn for the company. As ANRE representatives also confirmed, this sort of costs are recoverable through tariffs (they are considered uncontrollable costs).

Financial performance

Electrica's subsidiaries have lower net margins than their privatized peers, but margins improved significantly in 2011 and 2012

The three majority state-owned companies had far lower margins in the past than their privatized peers (average net margin was 9.5% in 2012 vs. 23.7% at Enel's subsidiaries and 10.7% at E.ON subsidiary). However, we have to note that the gap has narrowed, as all three state-owned discos improved their margins (EBITDA, EBIT and net) in 2011 and 2012. They could withness a further improvement 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.

An improvement in margins was achieved in 2012 also by Enel Distributie Muntenia (EDM) and E.ON Moldova Distributie (EMD), the latter after a rather poor 2011, when it registered the lowest margins of the group of seven discos. As a reminder, E.ON's subsidiary posted much better margins in 2010 (similar to those of Enel's subsidiaries), but that was partly due to a one-off provision reversal. Some slight deterioration of margins was seen at Enel Distributie Banat (EDB) and Dobrogea (EDD), but they still remain the best performers in this respect among their peers in our analysis.

The Electrica subsidiaries also display significantly lower levels of cash than their privatized peers. The Enel subsidiaries had significant levels of cash & equivalents at end 2012 (20.5% of total assets on average vs. 5.6% at Electrica subsidiaries).

The seven discos have a modest average ROE of 6%, but low or no leverage

In 2012, all 7 companies showed a growth in net sales, at rates varying very little, from 3% (EDB) to 6.7% (EDTN), except for Enel Distributie Muntenia (EDM) that registered a 23.2% yoy growth, 15.6 pp above average. The only two companies that managed to lower their level of operating costs in 2012 were Electrica Distributie Transilvania Sud (EDTS) and E.ON Moldova Distributie (EMD). On the opposite, Enel Distributie Banat (EDB) and Dobrogea (EDD) registered yoy hikes in opex, at faster pace than that of their sales (explaining the margins' contractions).

All discos have very low indebtedness levels, five out of seven being holders of net cash and four of them, the Enel and E.ON discos having no interest bearing liabilities in their balance sheets at the end of 2012.

From the profitability point of view, EDB has the most attractive ROE of 8.3% and ROA of 6.4%, 2.3pp and 2.4pp, respectively, above average.

COMPARISON OF REVENUES AND MARGINS (ELECTRICA DISCOS AND E.ON)

	EDMN				EDTN				EDTS				EMD			
RON (mn)	**2011**	**2012**	**1H13**	**2013B**	**2011**	**2012**	**1H13**	**2013B**	**2011**	**2012**	**1H13**	**2013B**	**2011**	**2012**	**1H13**	**2013B**
Net sales	685.7	720.2	396.9	807.0	535.4	571.1	325.4	640.6	598.5	632.8	354.8	696.9	636.1	665.6	n.a.	833.0
EBIT	72.4	99.1	78.1	87.6	40.2	68.8	60.7	50.8	27.8	61.7	45.7	42.8	22	83.8	n.a.	110.0
Net profit	67.4	87.1	74.9	73.6	29.1	53.1	50.7	34	19.6	45.8	33.6	31	7.2	71.3		100.0
Margins (%)																
EBIT margin	10.6	13.8	19.7	10.9	7.5	12.0	18.7	7.9	4.6	9.8	12.9	6.1	3.5	12.6	n.a.	13.2
Net margin	9.8	12.1	18.9	9.1	5.4	9.3	15.6	5.3	3.3	7.2	9.5	4.4	1.1	10.7	n.a.	12.0

NB.Data for 1H13 and 2013B are operating revenues instead of net sales *Source: Company reports, SSIF Broker*

COMPARISON OF REVENUES AND MARGINS (ENEL DISCOS)

RON (mn)	EDM			EDB			EDD		
	2011	**2012**	**2013B**	**2011**	**2012**	**2013B**	**2011**	**2012**	**2013B**
Net sales	705.9	869.9	972.5	585.8	603.2	580.2	459.0	480.3	454.4
EBIT	51.6	172.4	278.7	238.3	181.1	209.0	126.4	103.0	135.3
Net profit	50.5	206.3	231.0	220.5	167.2	168.5	108.9	94.5	103.6
Margins (%)									
EBIT margin	7.3	19.8	28.7	40.7	30.0	36.0	27.5	21.4	29.8
Net margin	7.2	23.7	23.8	37.6	27.7	29.0	23.7	19.7	22.8

Data for 2013B are operating revenues instead of net sales *Source: Company reports, SSIF Broker*

ELECTRICA'S DISTRIBUTION COMPANIES (CUSTOMERS IN 000)

	Customers (000)			yoy (%)	
	2010	**2011**	**2012**	**2011**	**2012**
EDMN	1,265	1,266	1,304	0.1	3.0
EDTN	1,173	1,182	1,182	0.8	0.0
EDTS	1,059	1,082	1,087	2.2	0.5
Total Electrica Distribution	**3,497**	**3,530**	**3,573**	**0.9**	**1.2**

Source: Electrica, SSIF Broker

ELECTRICA'S DISTRIBUTION COMPANIES (DISTRIBUTED ENERGY IN GWH)

	Distributed energy (GWh)			yoy (%)	
	2010	**2011**	**2012**	**2011**	**2012**
EDMN	6,279	6,434	6,332	2.5	-1.6
EDTN	4,391	4,562	4,580	3.9	0.4
EDTS	4,946	5,179	5,343	4.7	3.2
Total Electrica Distribution	**15,616**	**16,175**	**16,255**	**3.6**	**0.5**

Source: Electrica, SSIF Broker

Financials

ROMANIAN ELECTRICITY DISTRIBUTION COMPANIES: BALANCE SHEET

	EDMN	EDTN	EDTS	EDM	EDB	EDD	EMD

RON (mn)	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Non-current assets	**1,589**	**1,649**	**1,429**	**1,493**	**1,510**	**1,601**	**2,836**	**3,532**	**1,773**	**1,801**	**1,541**	**1,613**	**2,086**	**2,116**
Property, plant, equipment	1,568	1,623	1,418	1,484	1,508	1,598	2,819	3,507	1,746	1,767	1,512	1,579	2,074	2,104
Intangible assets	21	24	11	9	2	2	17	24	11	17	12	18	12	12
Financial investments	1	3	0	0	0	0	0	1	17	17	17	17	0	0
Current assets	**347**	**463**	**136**	**152**	**151**	**162**	**1,604**	**1,597**	**632**	**806**	**291**	**440**	**319**	**337**
Cash and equivalents	198	301	18	23	14	17	1,314	1,210	430	611	148	299	85	100
Inventories	11	10	4	4	2	2	8	6	3	2	4	2	17	18
Receivables	138	151	114	124	135	142	281	380	199	193	139	139	216	218
Total assets	**1,936**	**2,112**	**1,565**	**1,645**	**1,661**	**1,763**	**4,440**	**5,130**	**2,405**	**2,606**	**1,832**	**2,053**	**2,405**	**2,452**
Share capital	354	354	371	371	428	428	271	271	382	382	280	280	500	500
Reserves	895	901	649	652	612	614	2,000	2,545	941	948	679	684	1,234	1,239
Retained earnings	8	82	-161	-111	-118	-75	595	802	523	683	292	381	83	155
Capital and reserves	**1,258**	**1,337**	**859**	**912**	**921**	**967**	**2,867**	**3,618**	**1,846**	**2,013**	**1,251**	**1,346**	**1,817**	**1,894**
Non-current liabilities	**521**	**625**	**504**	**549**	**485**	**570**	**1,050**	**1,073**	**350**	**376**	**330**	**372**	**419**	**450**
Long term debt	12	30	16	40	5	38	0	0	0	0	0	0	0	0
Provisions	97	127	73	71	56	69	180	187	77	79	58	66	49	43
Other non-current liabilities	412	467	415	438	425	462	870	886	274	297	272	306	369	407
Current liabilities	**158**	**150**	**202**	**184**	**256**	**227**	**523**	**438**	**208**	**217**	**251**	**336**	**169**	**109**
Short term debt	8	6	49	36	76	52	0	0	0	0	0	0	0	0
Trade and other payables	84	82	72	72	95	92	484	394	176	189	222	305	64	49
Other current liabilities	66	63	81	76	85	82	39	44	33	27	29	31	105	60
Total liabilities	**679**	**775**	**706**	**733**	**740**	**796**	**1,573**	**1,511**	**559**	**593**	**581**	**707**	**588**	**559**
Net debt	-178	-266	48	53	67	74	-1,314	-1,210	-430	-611	-148	-299	-85	-100

Source: Company Data , SSIF Broker research

ROMANIAN ELECTRICITY DISTRIBUTION COMPANIES: INCOME STATEMENT

	EDMN		EDTN		EDTS		EDM		EDB		EDD		EMD	
RON (mn)	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
Total operating revenues	**700.4**	**735.7**	**565.7**	**604.8**	**634.7**	**663.5**	**815.8**	**966.7**	**621.3**	**636.6**	**487.9**	**509.4**	**661.2**	**688.8**
Net sales	**685.7**	**720.2**	**535.4**	**571.1**	**598.5**	**632.8**	**705.9**	**869.9**	**585.8**	**603.2**	**459.0**	**480.3**	**636.1**	**665.6**
Other operating income	13.0	13.9	28.2	31.1	34.6	29.2	80.0	75.4	22.0	22.5	16.6	17.6	23.6	20.7
Change in inventories	1.6	1.6	2.1	2.6	1.6	1.5	29.9	21.4	13.5	10.9	12.3	11.5	1.5	2.5
Material costs	-221.7	-204.8	-166.8	-155.7	-212.6	-195.1	-347.5	-340.7	-141.9	-155.3	-148.4	-155.8	-234.3	-218.8
Personnel costs	-125.9	-129.3	-118.1	-121.4	-109.8	-113.0	-106.1	-104.1	-87.1	-90.3	-72.1	-75.8	-93.5	-98.5
Other operating costs	-201.7	-219.0	-139.3	-147.5	-172.8	-179.4	-150.9	-164.0	-78.6	-98.6	-81.8	-88.1	-144.1	-158.8
EBITDA	**151.1**	**182.5**	**141.5**	**180.2**	**139.6**	**176.1**	**211.3**	**357.9**	**313.7**	**292.4**	**185.6**	**189.7**	**189.2**	**212.8**
D&A	-78.7	-83.4	-101.3	-111.4	-111.8	-114.4	-159.7	-185.5	-75.3	-111.3	-59.2	-86.7	-167.2	-129.0
Total operating costs	**-628.0**	**-636.5**	**-525.5**	**-536.0**	**-606.9**	**-601.8**	**-764.1**	**-794.3**	**-383.0**	**-455.5**	**-361.5**	**-406.4**	**-639.2**	**-605.0**
EBIT	**72.4**	**99.1**	**40.2**	**68.8**	**27.8**	**61.7**	**51.6**	**172.4**	**238.3**	**181.1**	**126.4**	**103.0**	**22.0**	**83.8**
Net interest	6.9	10.5	-1.4	-1.4	-1.5	-1.6	44.0	47.6	17.7	21.5	4.6	8.3	4.4	3.2
Interest income	7.6	10.9	0.8	0.8	0.4	0.4	44.1	47.6	17.7	21.5	4.6	8.3	4.4	3.2
Interest expense	-0.7	-0.4	-2.1	-2.2	-2.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other fin. Net	-0.5	-3.3	0.0	-1.1	-1.4	-2.2	-18.6	15.5	-0.1	-0.1	-0.2	-0.4	0.6	0.7
Financial result	6.4	7.2	-1.4	-2.5	-3.0	-3.8	25.5	63.2	17.6	21.4	4.4	7.9	5.0	4.0
Extraordinary expenses	0.0	0.0	0.0!	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.8	-1.0
Pre-tax profit	**78.8**	**106.3**	**38.8**	**66.4**	**24.8**	**57.9**	**77.1**	**235.6**	**255.9**	**202.5**	**130.8**	**110.9**	**26.2**	**86.8**
Taxes	-11.3	-19.2	-9.7	-13.3	-5.2	-12.1	-26.7	-29.3	-35.5	-35.3	-21.9	-16.4	-19.0	-15.5
Net profit	**67.4**	**87.1**	**29.1**	**53.1**	**19.6**	**45.8**	**50.5**	**206.3**	**220.5**	**167.2**	**108.9**	**94.5**	**7.2**	**71.3**

Source: Company Data , SSIF Broker research

ROMANIAN ELECTRICITY DISTRIBUTION COMPANIES: MAIN RATIOS

	2011							2012						
	EDMN	**EDTN**	**EDTS**	**EDM**	**EDB**	**EDD**	**EMD**	**EDMN**	**EDTN**	**EDTS**	**EDM**	**EDB**	**EDD**	**EMD**
Inventory days	7	4	2	6	4	6	10	6.8	3.6	1.9	4.4	1.8	2.6	10.0

Receivable days	74	77	82	145	124	110	124	76.4	79.4	81.9	159.6	117.0	105.5	119.4
Creditor days	57	67	75	358	236	296	52	55.6	67.1	73.7	280.8	222.4	383.1	39.5
Sales growth (%)	15.0	5.0	0.9	-3.8	5.3	12.5	1.6	5.0	6.7	5.7	23.2	3.0	4.6	4.6
EBITDA growth (%)	43.1	31.6	11.9	-1.9	31.0	16.2	-32.9	20.8	27.4	26.1	69.3	-6.8	2.2	12.5
EBIT growth (%)	167.6	188.3	28.9	-32.1	49.2	17.9	-88.4	36.9	71.3	122.1	233.8	-24.0	-18.5	280.6
Net profit growth (%)	152.7	241.4	64.1	-52.0	48.5	9.2	-95.6	29.3	82.4	134.1	308.7	-24.1	-13.2	890.0
Opex growth (%)	7.0	0.5	0.8	3.1	-11.7	7.0	35.9	1.4	2.0	-0.8	4.0	18.9	12.4	-5.3
EBITDA margin (%)	22.0	26.4	23.3	29.9	53.6	40.4	29.7	25.3	31.5	27.8	41.1	48.5	39.5	32.0
EBIT margin (%)	10.6	7.5	4.6	7.3	40.7	27.5	3.5	13.8	12.0	9.8	19.8	30.0	21.4	12.6
Net profit margin (%)	9.8	5.4	3.3	7.2	37.6	23.7	1.1	12.1	9.3	7.2	23.7	27.7	19.7	10.7
Net debt/EBITDA (x)	22.0	26.4	23.3	29.9	53.6	40.4	29.7	25.3	31.5	27.8	41.1	48.5	39.5	32.0
Debt to equity (%)	1.6	7.6	28.2	0.0	0.0	0.0	0.0	2.7	8.4	27.4	0.0	0.0	0.0	0.0
Equity ratio (%)	65.0	54.9	55.4	64.6	76.8	68.3	75.6	63.3	55.5	54.8	70.5	77.3	65.5	77.2
Net debt to equity (%)	-14.2	5.6	7.2	-45.8	-23.3	-11.8	-4.7	-19.9	5.8	7.6	-33.5	-30.3	-22.2	-5.3
ROE (%)	5.4	3.4	2.1	1.8	11.9	8.7	0.4	6.5	5.8	4.7	5.7	8.3	7.0	3.8
ROCE (%)	5.3	3.1	2.1	2.0	13.8	9.1	1.2	6.8	5.3	4.3	5.8	10.1	7.9	3.8
ROA (%)	3.5	1.9	1.2	1.1	9.2	5.9	0.3	4.1	3.2	2.6	4.0	6.4	4.6	2.9
Current ratio (x)	2.2	0.7	0.4	3.1	3.0	1.2	1.9	3.1	0.8	0.4	3.6	3.7	1.3	3.1
Quick ratio (x)	2.1	0.7	0.4	3.1	3.0	1.1	1.8	3.0	0.8	0.3	3.6	3.7	1.3	2.9

Source: Company Data, SSIF Broker research

MAJORITY STATE-OWNED ELECTRICITY DISTRIBUTORS-SHAREHOLDERS (2012)

	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	78.0
Fondul Proprietatea	7.8	22.0	8.2	22.0	9.3	22.0
Total	**35.4**	**100.0**	**37.1**	**100.0**	**42.4**	**100.0**

Source: Company Data, SSIF Broker research

ENEL ELECTRICITY DISTRIBUTION SUBSIDIARIES-SHAREHOLDERS (2012)

	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, SSIF Broker research

EMD SHAREHOLDERS (2012)

	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: Company Data, SSIF Broker research

Natgas supply and distribution

Utilities/ Romania

Sector profile

GdF Suez Energy Romania (GdF SER) and E.ON Gaz Distributie are the main natgas distributors in the country, while GdF's subsidiary is also an important supplier with 50% market share on the regulated segment in 2012. GdF also produces and supplies electricity (less than 10% of sales). We see regulatory risk as the most important type of risk. We believe the supply business of GdF SER may benefit from higher end-user prices following wellhead price liberalization, however this process has also caused a decline in domestic demand, which may persist in the future as some steep natgas price increases are scheduled for this year for non-households.

- **Domestic natgas demand was down 8% last year** and declines may persist: In 2013, the quantity of natgas that passed through the domestic transportation network was 13.7bn m3, by 8.3% lower yoy. Domestic demand may continue decline this year also given the scheduled increases of the domestic wellhead prices which are likely to affect especially industrial consumers. Further price increases are expected in 2014 for households and district heating producers, as part of the liberalization process, but they are lower than for the non-household segment. This is likely to put pressure on the volumes distributed and sold by utilities, which, in the case of suppliers, may be partly offset by the increase in end-user prices.

- **New taxes to impact profitability:** Last year the Government introduced a monopoly tax, which amounts to RON 0.75 per MWh distributed, and it is not clear yet whether it would be included in the regulated distribution tariff. In addition, a special constructions tax was introduced in January 2014 however clarifications are required as to the taxable base. GdF representatives estimate the tax at EUR 8-15mn, which would account for up to 19% of the 2012 net profit and 15% of the 1H13 TTM figure.

- **Not an important source of dividends for FP historically:** Last year, E.ON Gaz Distributie distributed RON 249.5mn from retained earnings as part of a settlement mechanism between E.ON and the Romanian State allowing E.ON Energie Romania (the supply business) to recover some overdue receivables from the state owned railway infrastructure operator. Given FP's 12% stake, FP received RON 29.9mn as dividends. As for GdF Suez Energy Romania, FP didn't receive dividends in 2012 and received RON 22.8mn in 2013.

	GdF Suez Energy Romania*			E.ON Gaz Distributie**		
	2011	2012	1H13	2011	2012	2013B
Sales (RON mn)	3,859	4,047	2,242	800.5	744.4	833.0***
EBITDA (RON mn)	413.7	578.3	506.1	354.3	204.7	n.a.
EBIT (RON mn)	285.7	414.9	428.4	264.8	82.7	110.0
Net profit (RON mn)	240.5	353.0	352.6	230.5	73.0	100.0
EPS (RON)	13.6	17.8	17.8	2.1	0.7	0.9
ROCE (%)	7.9	10.6	22.0	17.5	4.4	n.a.
ROE (%)	8.4	10.9	20.6	19.3	5.0	n.a.
ROA (%)	5.8	7.2	14.6	17.5	4.4	n.a.
Net debt/Equity (%)	2.0	-1.9	-7.5	1.8	4.2	n.a.
Net debt/EBITDA (x)	0.1	-0.1	-0.3	0.1	0.3	n.a.
EBITDA margin (%)	10.7	14.3	22.6	44.3	27.5	n.a.
EBIT margin (%)	7.4	10.3	19.1	33.1	11.1	13.2
Net margin (%)	6.2	8.7	15.7	28.8	9.4	12.0

**IFRS consolidated; **RAS unconsolidated ; ***operating revenues*

Source: Company data, SSIF Broker

Key data

Shares outstanding (mn) – GdF SER	19.8
Shares outstanding (mn) – E.ON Gaz Distributie	109.7

Shareholders (GdF SER)	%
Romania Gas Holding	51.0
Ministry of Economy	37.0
Fondul Proprietatea	12.0
Shareholders (E.ON Gaz Distributie)	%
E.ON Romania SRL	51.0
Ministry of Economy	37.0
Fondul Proprietatea	12.0

Analyst:
Adela Hagiu
+40 21 387 3457
adela.hagiu@ssifbroker.ro

Business overview

GdF SER and E.ON Gaz Distributie are the main gas distributors in Romania; GdF SER is also an important supplier on the regulated market, with ca. 50% market share

GdF Suez Energy Romania is the main natgas supplier on the domestic regulated segment, it also provides natgas distribution through its subsidiary, Distrigaz Sud Retele, and covers the southern part of Romania. On the supply side, it had a 50% market share in 2012 on the regulated segment and was followed by E. ON Energie Romania with 40%. It also supplies natgas on the free market to eligible consumers, where it had an 8% market share in 2012 (OMV Petrom Gas 23%, Romgaz 20% and Interagro (fertilizers producer) had 21%). In addition, GdF Suez Energy Romania is a small electricity supplier and has two wind farms with a total installed capacity of 98 MW. **E.ON Gaz Distributie** provides natgas distribution services in the northern part of Romania. E.ON has a separate entity covering gas supply, i.e. E.ON Energie Romania which was set up through the absorption of E.ON Moldova Furnizare (electricity supply) by E. ON Gaz Romania (gas supply) in December 2011.

FP has stakes of 12% in each of GdF Suez Energy Romania and E.ON Gaz Distributie. The two utilities had a value of RON 404.4mn and RON 165.2mn respectively in FP's December 2013 official NAV, accounting for 3.9% of the portfolio of shares' value. FP doesn't have representatives in their boards.

Distribution tariffs are set by the energy market regulator

Natgas distribution tariffs

Gas distribution is regulated by the energy market regulator ANRE which sets distribution tariffs using a revenue cap methodology; tariffs are revised each year. The regulated return on RAB for the third regulatory period (2013-2017) was set at 8.43% (pre-tax) versus 8.63% for 2008-2012. A 1.4% incentive above the 8.43% return may be granted for several categories of long term assets. Gas distributors received nearly 5% increase in tariffs in July 2013, based on the 2012 inflation rate.

Market liberalization

Market liberalization for wellhead natgas prices affects domestic demand which impacts volumes distributed and supplied

Supply on the regulated market (for consumers which have not actively chosen their supplier) is done through framework contracts at final prices regulated by ANRE. ANRE uses a reference price for the domestic producer price and an import price estimate and also sets other components of the end-user price (transportation, underground storage, distribution tariffs, suppliers' margin), as well as the weights of domestic and import prices in the basket. The basket differs for households and district heating producers versus industrial consumers. The return on RAB for regulated supply was set at 8.43% (pre-tax) for 2013-2017, same as for distributors. As for the unregulated segment (clients which actively choose their supplier and are therefore considered eligible), natgas producers can theoretically negotiate their sale prices but in practice prices on this segment have been similar to those on the regulated segment.

Domestic wellhead prices have been increasing since Feb 2013 according to an official liberalization calendar agreed with the IMF and the European Commission, and once the deregulation process ends, they will eventually align with European market prices. The deregulation is done through quarterly upward adjustments which should end this year for industrial consumers and by end-2018 for households. Last year, end-user prices increased by 5% in Feb 2013 for non-households, afterwards by ca. 8% for households and 3% for industrial consumers in July 2013, and by 1.5% and 1.8% respectively in October 2013. Another increase was implemented in January 2014, which resulted in a 1.6% hike for households and 4% for industrial consumers. This year, the producer price for industrial consumers should reach RON 119/MWh in October when the market would be fully liberalized for this segment according to the official schedule. However the alignment of domestic prices for non-households may end earlier as import prices have been on a downward trend. ANRE is to perform a study by April 2014 to estimate the impact of liberalization ending earlier for industrial consumers.

The revenues of natgas suppliers should increase due to the deregulation of wellhead prices which leads to increased end-user prices, however the liberalization process had also led to a decline in demand from industrial consumers and hence in volumes distributed and sold. In 2013, the quantity of natgas that passed through the pipelines was 13.7bn m3, by 8.3% lower yoy.

New taxes

On 22 January 2013 the Romanian Government passed an ordinance imposing additional **taxes for monopoly** activities in gas and electricity distribution and transport sectors, starting February 2013. For natgas distributors, the tax is of RON 0.75 per MWh distributed and it is a fiscally deductible expense.

The government also approved last year the enforcement as of January 2014 of a new tax, i.e. a 1.5%

tax on the gross book value of the so called **special constructions**, a category of fixed assets not taxed until now. However, the law is under debate now as clarifications are required on the taxable base. According to *Ziarul Financiar* daily quoting Mr. Eric Stab, the CEO of GDF Suez Energy Romania, the tax is estimated at EUR 8-15mn.

Financials overview

GdF Romania's 2012 sales increased by 4.9% yoy driven by revenues from electricity supply (on higher volumes) and other sales, as otherwise sales from gas supplied (85% of total) increased more slowly, by 2.4%. The quantity of natgas supplied was lower as GdF Suez Energy Romania lost one customer, due to lower demand from industrial consumers and given the mild winter. The total number of customers registered in December 2012 reached 1.4mn, up by 2.4% yoy mainly due to the increasing number of captive consumers.

As regards opex, the cost with the acquisition of natgas was RON 2.4bn, about 60% of sales. Acquisition of domestic gas accounted for about 41% of total natgas cost, while imported gas represented some 42%; some 18% was gas from storage (both domestic and imported). Personnel expenses decreased by 19.3% yoy to RON 247mn primarily due to staff reductions. D&A expenses went up by 27.7% to RON 163.4mn partly due to the increase in the gross book value of pipelines and other assets as well as the decline in the useful life of a certain type of gas meters. Net income for the FY was RON 353mn, 47% up. The net margin was up 2.5pp to 8.7%.

In October 2012, the Company issued corporate bonds amounting to RON 250mn, at a 7.4% fixed coupon, maturing in 2017. The bonds are listed on the Bucharest Stock Exchange.

In 1H13 the volume of natgas supplied decreased by 15% which was only partially compensated by natgas price liberalization

In 1H13, net sales decreased by 5.7% yoy to RON 2.24bn given the 15% decline in volumes supplied to consumers which was only partly due to milder winter. The lower volumes were partially compensated for by the increase in end-user prices due to liberalization. Electricity supply continued to increase, but it accounts for less than 5% of sales, as well as other sales (which include revenues from green certificates of RON 27mn and revenues from electricity production of RON 6.5mn, both non-existent in 1H12). Costs with natgas acquisition declined significantly from RON 1.5bn to RON 1.1bn, while expenses related to natgas transportation and storage increased, similar to personnel expenses and D&A (which were up due to the commissioning of a wind farm). As opex declined more than sales, EBITDA improved yoy and reached RON 506mn, 32% up. Net profit for the period was RON 352.6mn, up by 36% yoy and the net margin was 15.7%, 5pp higher.

GDF SUEZ ENERGY ROMANIA: SALES BREAKDOWN (IFRS CONSOLIDATED)

RON mn	2011	% total	2012	% total	yoy (%)	1H12	% total	1H13	% total	yoy (%)
Net sales, o/w	**3,859.1**	**100.0**	**4,047.0**	**100.0**	**4.8**	**2,376.8**	**100.0**	**2,242.4**	**100.0**	**-5.7**
Gas supply	3,365.4	87.1	3,447.6	85.2	2.4	2,056.6	86.5	1,883.9	84.0	-8.4
Gas distribution	369.0	9.6	321.7	7.9	-12.8	188.8	7.9	171.4	7.6	-9.2
Electricity supply	53.8	1.4	185.1	4.6	244.0	90.8	3.8	98.6	4.4	8.7
Other	70.8	1.9	92.6	2.3	24.9	40.7	1.7	88.5	3.9	117.6

Source: GdF SER, SSIF Broker

E.ON had weaker yoy results in 2012

E.ON Gaz Distributie posted 2012 RAS unconsolidated sales of RON 745mn, by 5.5% lower yoy. Its main client is E.ON Gaz Romania, the gas supply subsidiary of E.ON in Romania to which it charges distribution tariffs and from whom it acquires natgas including for technological consumption. As for opex, we would note the significant increase in material costs, by 55% yoy to RON 152mn, and the 13.5% higher third party expenses which reached RON 162mn (their weight in opex is however lower yoy, at 23% versus 26%). Personnel expenses continue to be the most important operating cost as they accounted for 31% of costs, 4pp more than in 2011 (they were also 7% up). The higher opex coupled with lower sales led to weaker operating results and margins, and to a 68% decline in net profit to RON 73mn. The net margin stood at 9.4%, much lower than 29% achieved in 2011.

For 2013, E.ON Gaz Distributie budgeted operating revenues of RON 833mn, 7.5% up yoy and 33%-37% increases in EBIT and net income which is seen at RON 100mn.

In April 2013, the shareholders of E.ON Gaz Distributie approved a RON 8.3mn share capital increase. Thus in May 2013, FP subscribed RON 1mn to the capital increase.

Financials

BALANCE SHEET

	GdF Suez Energy Romania*			E.ON Gaz Distributie**	
RON mn	**2011**	**2012**	**1H13**	**2011**	**2012**
Non-current assets	**2,764.9**	**3,121.1**	**3,206.4**	**1,326.2**	**1,637.2**
Current assets	**1,380.6**	**1,815.5**	**1,617.5**	**251.0**	**275.3**
Cash and equivalents	81.7	432.6	632.7	1.1	0.8
Inventories	254.1	315.6	256.5	7.4	6.5
Receivables	1,040.0	1,066.9	629.5	241.6	266.9
Other current assets	4.8	0.4	98.9	1.0	1.1
Total assets	**4,145.5**	**4,936.6**	**4,823.9**	**1,577.2**	**1,912.5**
Shareholders' equity	**2,873.3**	**3,245.3**	**3,417.1**	**1,194.2**	**1,472.3**
Non-current liabilities	**479.2**	**671.4**	**696.3**	**214.0**	**222.1**
Interest bearing borrowings	113.0	250.0	250.0	0.0	0.0
Provisions	13.5	43.4	42.5	102.9	90.9
Other non-current liabilities	352.7	378.0	403.8	111.1	131.2
Current liabilities	**793.1**	**1,019.9**	**710.5**	**169.1**	**218.1**
Interest bearing borrowings	26.2	120.4	125.7	22.5	62.0
Trade and other payables	515.5	641.7	378.1	43.6	61.1
Other current liabilities	251.4	257.8	206.7	103.0	95.1
Total liabilities	**1,272.2**	**1,691.3**	**1,406.8**	**383.1**	**440.2**
net debt	57.5	-62.2	-256.9	21.4	61.1

**IFRS consolidated; ** RAS unconsolidated*　　*Source: Companies's data, SSIF Broker*

INCOME STATEMENT

	GdF Suez Energy Romania*				E.ON Gaz Distributie**	
RON mn	**2011**	**2012**	**1H12**	**1H13**	**2011**	**2012**
Total operating revenues	**3,886.5**	**4,077.5**	**2,398.0**	**2,273.2**	**819.5**	**774.5**
Net sales	3,859.1	4,047.0	2,376.8	2,242.4	800.5	744.4
Other operating income	27.4	30.5	21.2	30.8	10.7	22.8
Change in inventories	0.0	0.0	0.0	0.0	8.3	7.4
Material costs	-2,969.0	-2,994.9	-1,831.5	-1,486.6	-97.7	-151.7
Personnel costs	-306.0	-247.0	-116.8	-146.7	-222.2	-237.2
Other operating costs	-197.8	-257.4	-65.4	-133.8	-145.4	-180.9
EBITDA	**413.7**	**578.3**	**384.3**	**506.1**	**354.3**	**204.7**
EBIT	**285.7**	**414.9**	**317.7**	**428.4**	**264.8**	**82.7**
Interest income	25.9	16.5	5.0	9.8	2.5	3.0
Interest expense	-23.6	-11.0	-4.0	-13.0	-1.0	-0.4
Other fin. net	6.9	6.8	-5.7	3.1	-1.2	-1.3
Financial result	9.3	12.3	-4.7	0.0	0.4	1.3
Pre-tax profit	**294.9**	**427.1**	**313.0**	**428.4**	**265.1**	**83.9**
Net profit	**240.5**	**353.0**	**260.1**	**352.6**	**230.5**	**73.0**

**IFRS consolidated; ** RAS unconsolidated*　　*Source: Companies's data, SSIF Broker*

MAIN RATIOS

	GdF Suez Energy Romania*			E.ON Gaz Distributie**	
Main ratios	**2011**	**2012**	**1H13**	**2011**	**2012**
Inventory days	27	33	27	6	4
Receivable days	98	96	102	110	131
Creditor days	55	68	79	36	41
Sales growth (%)	n.a.	4.9	-5.7	0.8	-7.0
EBITDA growth (%)	n.a.	39.8	31.7	13.9	-42.2
EBIT growth (%)	n.a.	45.2	34.9	35.2	-68.8
Net profit growth (%)	n.a.	46.8	35.6	44.4	-68.3
Opex growth (%)	n.a.	1.7	-11.3	-10.6	24.7
Equity ratio (%)	69.3	65.7	70.8	75.7	77.0
Net debt to equity (%)	2.0	-1.9	-7.5	1.8	4.2
Current ratio (x)	1.7	1.8	2.3	1.5	1.3
Quick ratio (x)	1.4	1.5	1.9	1.4	1.2

**IFRS consolidated; ** RAS unconsolidated*　　*Source: Companies's data, SSIF Broker*

Main airport operator in Romania

Airports(Infrastructure) / Romania

Company profile

Bucharest Airports (CNAB)

Bucharest Airports (CNAB-Compania Nationala Aeroporturi Bucuresti) was formed by the merger of the international airports Henri Coanda (AHCB) and Aurel Vlaicu (AIBB-AV). It is Romania's main aviation hub that accommodates over 70% of Romania's air traffic passengers, cargo and mail transportation. Through its two airports, CNAB provides the conditions for the entire range of airport operations and has a large development potential, given the air traffic growth prospects.

- **Triggers:** The main growth triggers are: a) Romania's future accession to the Schengen area, b) increase in the passenger capacity following CNAB's significant capex; c) narrowing the gap between Romania and EU-27 average in terms of pax/inhabitant (according to Eurostat data for 2011, 0.5 vs. 1.6 respectively); d) new direct routes to Asia and Latin America operational since the end of 2013, according to *Ziarul Financiar (ZF)*; e) the potential 5% IPO (deadline at the end of 2014) is highly unlikely, taking into account the government's poor track record; f) new airlines to start using CNAB facilities.

- **Risks:** a) Passenger traffic can significantly decline due to the recession and unemployment, as lower-cost transportation means can become a cost effective alternative. ACI Europe (Airports Council International) forecasts a 0.5% growth for passenger traffic and a flat growth for freight traffic in Europe in 2013; b) although a professional Board has been appointed, CNAB remains a state-owned company, thus the decision-making process can be slow and not always in the interest of the minority shareholders; c) the development of competing airports in the south of Bucharest or in Brasov or Sibiu; d) weather conditions, especially during winter, that can cause disruptions of the airport traffic.

- **Latest financials in brief**: According to *ZF* daily, in 2013 CNAB registered net sales of RON 613mn, up 10.3% yoy (in line with the company's budget), and a pre-tax profit of RON 78mn, up 14.8% yoy and (vs. RON 22.7mn the budgeted figure), while the 2 airports were transited by 7.64mn passengers, up 1.3% yoy.

- **Outlook:** According to the company's budget for 2013-2015, the profitability will significantly deteriorate, mainly due to increasing operating and depreciation costs. Capex for 2013-2015 is to amount to RON 931.6mn.

RAS	2011	2012	2013B	2014B	2015B
Sales (RON mn)	474.3	555.5	614.8	668.1*	694.4*
EBITDA (RON mn)	212.9	215.3	208.7	230.6	233.6
EBIT (RON mn)	88.5	80.9	37.9	37.6	35.7
Net profit (RON mn)	52.6	53.1	19.1	19.9	19.1
EPS (RON)	3.66	3.70	1.33	1.39	1.33
ROCE (%)	1.3	1.2	n.a.	n.a.	n.a.
ROE (%)	1.1	1.1	n.a.	n.a.	n.a.
ROA (%)	0.9	0.9	n.a.	n.a.	n.a.
Net debt/Equity (%)	3.3	5.5	n.a.	n.a.	n.a.
Net debt/EBITDA (x)	0.76	1.28	n.a.	n.a.	n.a.
EBITDA margin (%)	42.4	37.1	32.4	34.5	33.6
EBIT margin (%)	17.6	13.9	5.9	5.6	5.1
Net margin (%)	11.1	9.6	3.0	3.0	2.8

*B=Company budget; * operating revenues* *Source: CNAB, SSIF Broker*

Key data

Shares outstanding (mn)	14.38

Shareholders	*%*
Ministry of Transportation	80
Fondul Proprietatea	20

Analyst:
Cristina Gagea
+40 21 387 3504
cristina.gagea@ssifbroker.ro

Business overview

Main airport operator in Romania, with a 70% market share…

CNAB provides the services regarding the arrival, departure and ground handling of aircrafts, as well as airport services for passengers, cargo and mail transportation. It also provides the operation, maintenance, development and modernization of the airport infrastructure. As the main domestic airport operator, CNAB had a market share of 70% in 2012, up 1pp yoy, while the number of passengers was flattish (according to INSSE data). CNAB has a 49 years concession agreement signed in 2001 (for AIHCB) and 2002 (for AIBB-AV) for the platforms, taxiways and the takeoff and landing runways, as well as for the 1.5mn square meters of land beneath them.

AIHCB (20 km from Bucharest) has two runways with a length of 3,500m and a width of 45m, parking lots with a capacity of 1,300 spots, two arrivals - departures terminals served by a Finger and 5 bottles for passengers processing. AIBB-AV (8.5 km from Bucharest) has one runway with a length of 3,500 m and a width of 45m, parking lots with a capacity of 250 spots and one arrivals - departures terminal.

… operating two airports: AIHCB and AIBB-AV

AIBB-AV undergoes a complex rehabilitation process in order to be transformed into a city airport, with a capacity of 30,000pax/year, at the highest comfort level according to IATA (International Air Transport Association) standards. The airport should provide services for business and general aviation traffic, for both Schengen and non-Schengen destinations. CNAB drafted a proposal regarding the strategic program regarding the development of the airport infrastructure until 2016 that is yet to be approved by the Government. Pre-feasibility and feasibility studies are to be drafted in order to determine future development plans. Currently, AIBB-AV only operates flights for technical purposes, private or aviation school flights. The airport also hosts rescue, as well as ambulance and SMURD (Mobile Emergency Service for Resuscitation and Extrication) flights.

Intensive rehabilitation works at AIBB-AV in order to become a city airport

In March 2012 AHCB took over the commercial traffic from AIBB-AV

All operations by low cost carriers from AIBB-AV were relocated to AHCB, generating a passenger increase of over 40% yoy in 2012 from 5 to 7mn (similar to the 2007 yoy increase (by 1.5mn) generated by Romania's entry into the EU). In fact, in May 2013 AHCB won the Euro Annie Award for the fastest growing airport (within the 5-10mn pax category), awarded by ANNA (Airline Network News and Analysis). At the end of 2013, 34 airlines operated on AHCB and provided transportation to a total of 71 destinations (easyJet Air and Air Serbia were added in 2013, while in March 2014 Ryanair started operating first regular flights). According to ANNA report on European Airport Traffic Trends 2013, in the first 7 months of 2013 the number of passengers remained almost unchanged at 4.29mn pax in comparison to the same period of the previous year (for both AHCB and AIBB-AV), with a slight growth of 0.6%, in line with the EU trends. According to ZF daily, in the first 9 months of 2013 the company registered .,86mn pax, up 1% yoy (while the 2013 full year figure was 7.64mn, up 1.3% yoy, which implies a 1.78mn qoq increase, a result of two new lines starting to operate regular flights).

AIR TRAFFIC STATISTICS CNAB

	2010	2011	2012	yoy (%)	2013B	yoy (%)	2014B	2015B
Pax no (mn)	7.0	7.5	7.6	1.3	8.0	6.0	8.4	8.8
Aircraft movements ('000)	106.7	100.5	98.6	-1.9	105.0	6.5	133.3	140.1
Freight ('000 tons)	20.1	21.8	23.7	8.5				
Mail ('000 tons)	3.4	3.0	2.8	-7.3				
Cargo ('000 tons)	23.4	24.9	26.5	6.5				

B=Budgeted *Source: CNAB, SSIF Broker*

AHCB put into operation a new Departing Terminal in 2011

Commissioned in July 2011, as part of the third phase of the program "The development and modernization of Bucharest International Henri Coanda Airport", the new terminal has 52 check-in counters, doubling the airport's processing capacity. As part of a larger investment program (EUR 150mn), the new terminal complies with the standards required for Romania's admission into the Schengen area. The EUR 52mn investment was financed from the company's own funds. According to Mr. Cornel Poterasu, strategy director of AHCB, quoted by ZF daily, AHCB has a capacity of over 10mn pax/year.

CNAB registered net sales of RON 555.5mn in 2012, up 17.1% yoy, mainly due to a 15.5% yoy increase in the boarding services. Opex grew 21.1% yoy up to RON 500.2mn, generating a decrease in EBIT to RON 80.9mn, by 8.6% yoy. The net profit (RON 53.1mn) had a flattish evolution (up 1% yoy). According to ZF daily, CNAB had net sales of RON 488mn in 9M13 up 7.5% yoy, and a pre-tax profit of RON 76mn, while the 2013 preliminary figures were RON 613mn and RON 78mn respectively, implying 4Q13 figures of RON 125mn and RON 2mn respectively.

Latest financial results

The company budgeted 2013 operating revenues of RON 643.5mn (up 10.8% yoy), growth to be supported by the upward trend of airport traffic, which company expects to increase by ca. 6% yoy, while maintaining the same level of airport charges.

Increasing budgeted operating expenses and depreciation to put pressure on margins

The operating expenses are expected to increase to RON 605.6mn (up 18.9% yoy), mainly due to the higher costs for the operation of the new airport facilities (the Finger Terminal and the new Departing Terminal) and the implementation of compliance regulations according to Schengen requirements. In addition, the depreciation charges are to jump by 27% yoy, related to the commissioning of new capacities. EBIT margin is expected to decrease by 8pp (to 5.9% in 2013 from 13.9% in 2012), while the net profit estimated decrease is 64.1% to RON 19.1mn, translating into a 6.6pp decrease of the net profit margin to 3%.

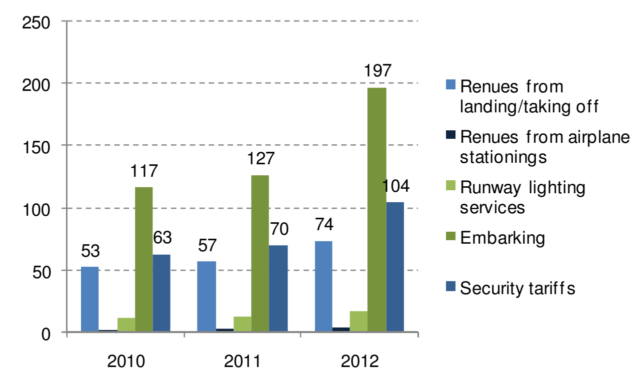
In its estimates, the company has used a tax rate of 16% for 2013-2014 and 17.4% for 2015, even though the effective tax rate was 22.2% in 2011 and 21.8% in 2012. CNAB's 2013 preliminary pre-tax profit was RON 78mn, 14.8% up yoy and significantly ahead (by more than 3x) of the budgeted RON 22.7mn figure.

OPERATING REVENUES BREAKDOWN, 2011-2013B

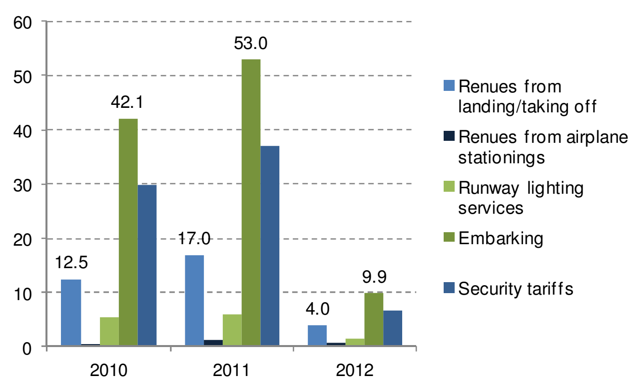
RONmn	2011	% of total	2012	% of total	yoy (%)	2012B	2013B	yoy (%)
Landing - take off	74.0	18.9	77.7	17.9	5.0	86.4	90.3	16.2
Parking	4.6	1.2	4.8	1.1	4.5	4.4	4.9	1.9
Beaconing	19.2	4.9	19.0	4.4	-1.1	17.8	19.4	2.1
Boarding	179.5	45.8	207.2	47.9	15.5	205.3	223.8	8.0
Boarding bellow	4.3	1.1	7.4	1.7	72.4	5.5	7.7	4.2
Security fee	107.5	27.4	111.2	25.7	3.4	117.2	122.4	10.0
Participants	1.4	0.4	3.3	0.8	133.3	0.7	2.7	-20.2
Other	1.6	0.4	2.4	0.6	50.5	1.9	2.8	17.4
Revenues from main activities	**392.1**	**100.0**	**433.0**	**100.0**	**10.4**	**439.1**	**473.7**	**9.4**
Other activities	40.4		50.4		24.8	47.0	n.a.	n.a.
Sub-total	**432.5**		**483.4**		**11.8**	**486.1**	**n.a.**	**n.a.**
Own sales	453.3		501.8		10.7	505.6	n.a.	n.a.
Fuel sales	21.2		53.7		153.3	46.1	n.a.	n.a.
Net sales	**474.3**		**555.5**		**17.1**	**551.7**	**614.8**	**10.7**
Other revenues	27.1		25.5		-5.9	51.5	28.7	12.5
Total operating revenues	**501.5**		**581.0**		**15.9**	**603.2**	**643.5**	**10.8**

B = Budgeted *Source: CNAB, SSIF Broker*

MAIN ACTIVITIES BREAKDOWN (RON MN)



AHCB AIRPORT



AIBB-AV AIRPORT

Source: CNAB, SSIF Broker

CAPEX programs to be continued in 2013-2015

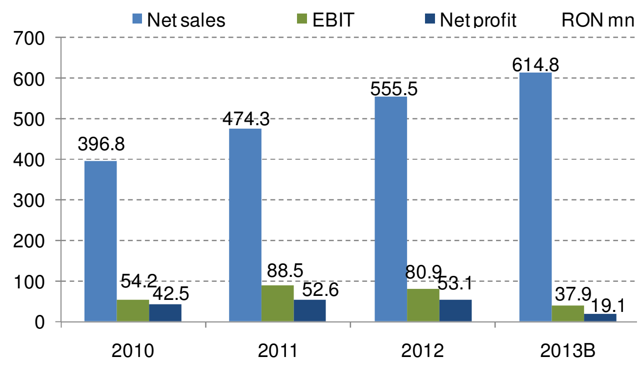
For 2013, capex is budgeted to increase by 39.4% to RON 376.9mn. The main investments include the rehabilitation and modernization of Runway 1 and the associated running path (EUR 46.1mn), as well as the beaconing modernization and systematization of the area around the Departing Terminal (restoration/modifications of existing accesses and supplementation of parking spots). Over the 2013-2015 period, capex is to amount to RON 931.6mn.

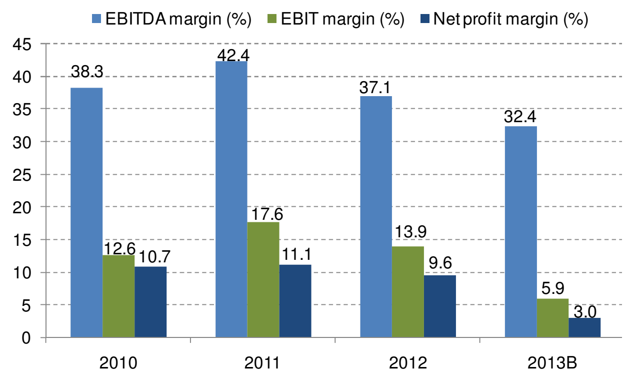
CAPEX PROGRAM

RONmn	2010	2011	2012	2013B	2014B	2015B
Capex, o/w	139.2	352.8	270.5	376.9	266.2	288.4
Bank loans	0	185.3	135.8	0	92.6	104.6
Own sources	139.2	167.5	134.7	175.3	173.7	183.8
Supplier credit	0	0	0	201.6	0	0

B = Budget *Source: CNAB, SSIF Broker*

INCREASING SALES BUT DECREASING PROFITS AND PROFIT MARGINS DUE TO HIGHER OPEX

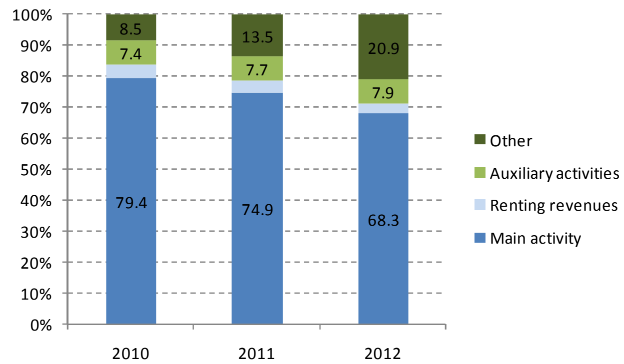




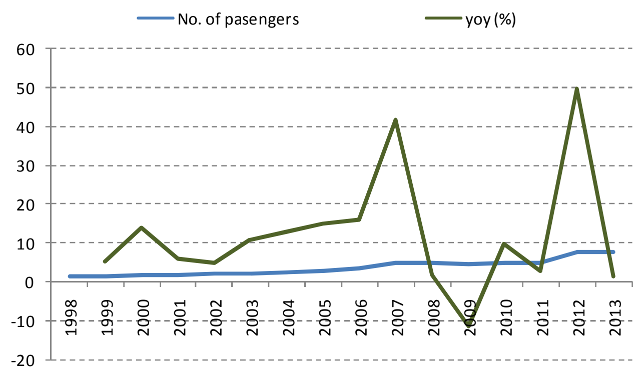
Source: CNAB, SSIF Broker

The passenger and aircraft traffic has significantly increased from 1.6mn passengers (13,808 daily average up from 4,356 in 1998) and 98 aircrafts in 2008 (36 in 1998) to 7.64mn passenger (20,932 daily average) and 120 aircraft in 2013. Except for 2009 and 2011, passenger traffic constantly went up yoy, the most in 2007 (by 42% yoy), the year of Romania's EU accession and in 2012 (by ca. 50% yoy), when the low cost traffic from Baneasa was moved to Otopeni airport. In 2009, the traffic was 11.5% down yoy in the context of the economic crisis.

BREAKDWON OF CNAB REVENUES (%)



EVOLUTION OF NO. OF PASSENGERS



Source: CNAB, SSIF Broker

Financials

INCOME STATEMENT

RON mn	Bucharest Airport			Constanta Airport			Timisoara Airport		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Total operating revenues	**430.6**	**501.5**	**581.0**	**16.13**	**17.26**	**17.16**	**45.26**	**46.65**	**48.47**
Net sales	**396.8**	**474.3**	**555.5**	**13.79**	**15.22**	**15.20**	**42.59**	**42.83**	**44.24**
Other operating income	33.8	27.1	25.5	2.33	2.05	1.97	2.67	3.82	4.23
Material costs	-24.0	-42.3	-64.1	-1.60	-2.05	-1.94	-4.48	-5.46	-6.59
Personnel costs	-76.8	-93.7	-108.4	-10.41	-10.71	-11.44	-8.44	-10.32	-10.50
Other operating costs	-165.0	-152.6	-193.2	-1.41	-1.80	-1.92	-9.60	-10.95	-17.55
EBITDA	**164.8**	**212.9**	**215.3**	**2.70**	**2.69**	**1.87**	**22.75**	**19.92**	**13.84**
Total operating costs	**-376.4**	**-413.0**	**-500.2**	**-16.08**	**-17.27**	**-18.50**	**-29.55**	**-35.70**	**-42.60**
EBIT	**54.2**	**88.5**	**80.9**	**0.05**	**-0.01**	**-1.34**	**15.71**	**10.95**	**5.87**
Net interest	0.9	-3.7	-7.0	0.02	0.03	0.02	-0.63	-0.42	-0.16
Other financial gain/(loss)	3.4	-17.2	-5.9	-0.03	-0.02	-0.01	0.19	0.22	0.46
Financial result	4.3	-20.8	-12.9	-0.01	0.01	0.01	-0.44	-0.20	0.30
Pre-tax profit	**58.5**	**67.7**	**67.9**	**0.04**	**0.00**	**-1.33**	**15.27**	**10.76**	**6.17**
Net profit	**42.5**	**52.6**	**53.1**	**0.00**	**-0.11**	**-1.39**	**12.53**	**8.72**	**4.21**

Source: Company data, SSIF Broker

BALANCE SCHEET

RON mn	Bucharest Airport			Constanta Airport			Timisoara Airport		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Non-current assets	**7,536.4**	**5,639.8**	**5,704.1**	**107.8**	**118.7**	**38.1**	**94.0**	**61.9**	**54.2**
Property, plant, equipment	5,471.3	5,590.6	5,676.1	28.0	39.1	38.1	94.0	61.9	54.1
Intangible assets	2,006.8	0.7	0.6	79.8	79.6	0.0	0.0	0.0	0.1
Financial investments	58.3	48.5	27.4	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	**168.1**	**102.9**	**134.0**	**2.6**	**3.0**	**3.1**	**31.0**	**34.3**	**32.0**
Cash and equivalents	62.1	23.2	46.5	0.8	1.1	0.8	6.6	6.9	2.2
Inventories	12.3	12.3	14.0	0.3	0.3	0.4	0.2	0.7	1.2
Receivables	92.9	66.5	72.7	1.5	1.6	2.0	22.7	25.5	27.6
Other current assets	0.8	0.9	0.7	0.1	0.1	0.0	1.6	1.1	1.0
Total assets	**7,704.5**	**5,742.7**	**5,838.1**	**110.4**	**121.7**	**41.2**	**125.0**	**96.2**	**86.2**
Shareholders' equity	**4,972.9**	**4,975.6**	**4,979.1**	**12.5**	**24.8**	**23.5**	**39.1**	**40.2**	**34.4**
Non-current liabilities	**2,539.4**	**666.8**	**735.1**	**96.6**	**94.8**	**15.6**	**61.9**	**32.9**	**25.1**
Interest bearing borrowings	0.0	185.3	280.9	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	63.9	63.1	76.5	0.0	0.0	0.0	1.3	0.6	0.2
Other non-current liabilities	2,475.5	418.3	377.6	96.6	94.8	15.6	**51.6**	19.1	8.9
Current liabilities	**192.2**	**100.3**	**124.0**	**1.3**	**2.1**	**2.0**	**24.1**	**23.0**	**26.7**
Interest bearing borrowings	0.0	0.0	40.1	0.0	0.0	0.0	5.1	6.0	6.5
Trade and other payables	173.1	87.3	66.2	0.4	0.5	1.1	**15.6**	13.2	16.0
Other current liabilities	19.1	13.0	17.6	0.9	1.5	0.9	**3.4**	3.8	4.1
Total liabilities	**2,731.6**	**767.1**	**859.0**	**97.9**	**96.9**	**17.6**	**85.9**	**55.9**	**51.8**
Total liabilities and equity	**7,704.5**	**5,742.7**	**5,838.1**	**110.4**	**121.7**	**41.2**	**125.0**	**96.2**	**86.2**

Source: Company data, SSIF Broker

2012 KEY RATIOS

	CNAB	Mihail Kogalniceanu	Traian Vuia
Sales growth (%)	17.1	-0.1	3.9
EBITDA growth (%)	1.2	-30.5	-30.5
Net profit growth (%)	1.0	n.m.	-51.7
EBITDA margin (%)	37.1	10.9	28.5
EBIT margin (%)	13.9	n.m.	12.1
Net profit margin (%)	9.6	-8.1	8.7
Debt to equity (%)	6.4	0.0	18.8
Equity ratio (%)	85.3	57.2	39.9
Current ratio (x)	1.1	1.6	1.2
BVPS (RON)	346.3	203.2	214.0

Source: Company data, SSIF Broker

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CONTACTS:

SSIF BROKER SA

Institutional Clients Division
16 Splaiul Unirii, 8th floor, rooms 802-804, sector 4
040035 Bucharest
institutional@ssifbroker.ro

RESEARCH

Adriana Marin
Institutional Clients Division Manager
& Head of Research
Tel: +40 21 387 3505 / +40 364 260 766
Mobile: +40 740 008 015
Email: adriana.marin@ssifbroker.ro

Adela Hagiu
Equity Analyst
Tel: +40 21 387 3459 / +40 364 260 765
Mobile: +40 728 139984
Email: adela.hagiu@ssifbroker.ro

PhD. Andrei Radulescu
Senior Investment Analyst
Tel: +40 21 387 3456
Mobile:+40 730 727 516
Email: andrei.radulescu@ssifbroker.ro

Cristina Gagea
Analyst
Tel: +40 21 387 3504
Mobile: +40 753 682 110
Email: cristina.gagea@ssifbroker.ro

SALES & TRADING

Serban Marin
Head of Trading

Tel: +40 364 260 761
Mobile: +40 741 060 000
Email: serban.marin@ssifbroker.ro

Daniel Gavrila
Senior Trader
Tel: +40 364 260 762
Mobile: +40 745 466 251
Email: daniel.gavrila@ssifbroker.ro

Alexandru Preda
Trader
Tel: +40 213 873 456
Mobile: +40 749 026 083
Email: alexandru.preda@ssifbroker.ro

LEGAL & CORPORATE ACTIONS

Catalin Nae-Serban
Legal & Corporate Actions councillor
Tel: +40 364 260 763
Mobile: +40 741 060 098
Email: catalin.nae@ssifbroker.ro

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SSIF Broker S.A.	
Calea Motilor nr. 119 Cluj-Napoca	*ANSPDCP nr. înreg. 1187-2009*
tel *0364 401 709*	*Decizia CNVM 3097/10.09.2003*
fax *0364 401 710*	*Capital social 84.670.466,75 lei*
email *secretariat@ssifbroker.ro*	*Nr. înreg la ORC J12/3038/1994 | CUI 6738423*
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