TRANSELECTRICA

BUY

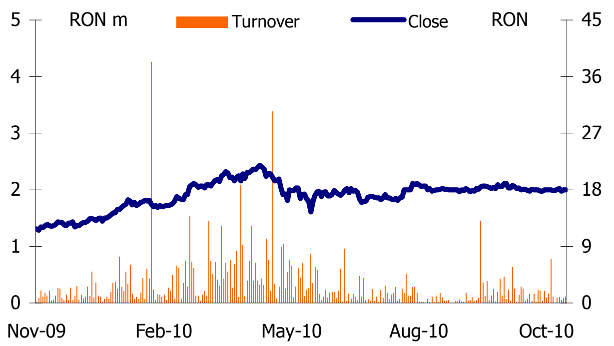
Power transmission

11 November 2010

Last close	RON 18.00
Target price	**RON 21.35**

Company Update

RIC: TSEL.BX		BQ: TEL RO			
Target price		RON 21.35		€ 4.99	
of which DPS			0.72		
Previous target price		RON 29.05		€ 6.79	
Upside potential		18.6%			
Valuation	2008 A	2009 A	2010 E	2011 E	2012 E
P/E	16.0x	54.2x	20.4x	13.6x	11.2x
P/BV	0.4x	0.5x	0.7x	0.7x	0.6x
EV/Sales	0.7x	0.8x	0.9x	1.1x	1.0x
EV/EBITDA	4.3x	5.6x	6.3x	6.0x	5.3x
Profitability					
Dividend yield	3.3%	2.2%	0.3%	4.0%	3.2%
EPS (RON)	0.69	0.25	0.88	1.33	1.61
BVPS (RON)	26.39	25.99	26.15	26.91	27.83
ROIC	6.0%	2.7%	3.3%	3.5%	4.0%
BS data (RON m)					
Net fixed assets	2,905	3,006	3,240	3,468	3,652
Shareholders equity	1,935	1,905	1,917	1,972	2,040
P&L data (RON m)					
Revenue	2,988	2,552	2,807	2,324	2,414
EBITDA	458	356	391	412	465
EBIT	217	99	121	139	169
Net profit	50.4	18.3	64.7	97.2	118.0
Trading data		1w	1m	12m	YTD
Abs. Performance		0.6%	-1.1%	52.5%	38.5%
H | L 52w			RON 21.90	RON 11.6	
Market cap. (m)			RON 1,319	€ 308	
Shares outstanding (m):			73.3		
Free float (%)		12.8%			



Betting on higher-than-budgeted volumes

Target price RON 21.35/share

We update our view on TEL with a BUY recommendation and a target price of RON 21.35 per share revealing an upside potential of 18.6% against current trading levels. We used a DCF model with an 8-year explicitly forecasted period after which a terminal free cash flow with a perpetual growth of 1% is employed.

We slashed the previous target price by 27% since the revenues from interconnection capacity utilisation averaging RON 100m annually over the last three years are significantly lower for this year and are set to disappear starting next year.

However, there is also good news in place meant to sustain our BUY recommendation on the stock: significantly higher-than-budgeted transported volumes, higher-than-expected transportation tariffs next year, current year's operating costs within the budget and significantly lower FX losses from debt revaluation compared with a year ago.

For 2010, at the IFRS consolidated level we expect an EBIT of RON 121m (+47% vs. Old and +23% Y/Y). Adding in a financial loss of RON 44m we see 2010 net profit at RON 64.7m (+4% vs. Old) about three times and a half higher compared with a year ago. At the RAS unconsolidated level, for 2010 we expect a net profit of RON 58.3m. Assuming a payout ratio of 90%, for 2010 we expect a gross dividend per share of RON 0.715 implying a dividend yield at current market price of 4%.

At current price, TEL is trading at 20.4x FY'10f EPS, implying a 64% premium to peers. According to the current P/E multiple, investors are eager to pay more for TEL than for its peers. But TEL was even more expensive in 2009 when, at end-year market price, TEL traded at 54x FY'09a EPS. On the other hand, in 2008 TEL traded at 16x FY'08a EPS.

As we explained in our previous report, TEL's P/E multiples volatility comes from the impact on company's net result of the FX gains and losses from debt revaluation which does not affect the other European peers' end-lines. According to the trading data, the market appreciates TEL's defensive virtues as utility stock disregarding its end-line volatility.

At target price, TEL would trade at 24.2x FY'10f EPS, about 30% below the average of the last two years TEL's P/E multiples of 35x. Also, at target price, TEL would trade at 16.1x FY'11f EPS, at the level of 2008 P/E multiple. At target price, TEL is trading at 6.9x FY'10f EBITDA, implying a 20% discount to peers which should calm down those questioning the big premium to peers in terms of P/E ratios. After all, company's ability to generate operating cash flows looks unquestionable if compared to similar European companies and the estimated 2010 dividend yield of 4% looks rewarding.

Please note that figures on the left are under IFRS.

Daniela Mandru
dmandru@alphabank.ro
T +40 21 455 7373

Contents

Investment case

Transelectrica target price: RON 21.35 / share

We update our view on Transelectrica with a BUY recommendation and a target price of RON 21.35 per share revealing an upside potential of 18.6% against current trading levels. We used a DCF model with an 8-year explicitly forecasted period after which a terminal free cash flow with a perpetual growth of 1% is employed.

We slashed the previous target price by 27% since the revenues from interconnection capacity utilisation averaging about RON 100m annually over the last three years are significantly lower for this year and are set to disappear starting next year. The mentioned revenues declined 78.7% Y/Y in the first nine months of the year following the introduction of the new coordinated bilateral allocation as provided by EU regulations which basically stipulates no revenues from the respective activity.

However, there is also good news in place meant to sustain our BUY recommendation on the stock: significantly higher-than-budgeted transported volumes, higher-than-expected transportation tariffs next year, current year's operating costs within the budget and significantly lower FX losses from debt revaluation compared with a year ago.

We significantly adjusted up the volumes transported for the year from 53.3 TWh previously to 54.99 TWh (+5.2% Y/Y) counting in power exports' recovery and industrial power consumption's increase.

Betting on ANRE's desire to recover aging receivables and given the extinction of interconnection capacity utilisation revenues starting next year, for 2011 Transelectrica's representatives expect to see a transportation tariff of RON 18.19/MWh (+7% Y/Y). So we adjusted it accordingly (+2% vs. Old).

At the RAS unconsolidated level, 9M'10 operating costs (excl D&A expenses) landed about flat to RON 1,588.3m compared with a year ago. After discussing with company's representatives there are no reason to believe the management cost cutting efforts will cease in Q4'10.

For 2010 we estimate EUR closing at RON 4.26 (+0.75% Y/Y) to contribute to a FY'10 FX loss of about RON 17m which will make the difference at the end-line level compared with 2009 when the company posted FX losses of RON 62.7m while EUR appreciated 6.10% Y/Y.

Given the above assumptions, for 2010, at the IFRS consolidated level we expect an operating profit of RON 121m (+47% vs. Old and +23% Y/Y). Adding in a financial loss of RON 44m we see 2010 net profit at RON 64.7m (+4% vs. Old) about three times and a half higher compared with a year ago.

At the RAS unconsolidated level, for 2010 we expect a net profit of RON 58.3m more than eleven times higher compared with 2009. Assuming a payout ratio of 90%, as stipulated by the government ordinance in force, for 2010 we expect a gross dividend per share of RON 0.715 implying a dividend yield at current market price of 4%. For 2009, TEL distributed a dividend per share of RON 0.05.

At current price, TEL is trading at 20.4x FY'10f EPS, implying a 64% premium to peers. According to the current P/E multiple, investors are eager to pay more for TEL than for its peers. But TEL was even more expensive in 2009 when, at end-year market price, TEL traded at 54x FY'09a EPS. On the other hand, in 2008 TEL traded at 16x FY'08a EPS.

As we explained in our previous report, TEL's P/E multiples volatility comes from the impact on company's net result of the FX gains and losses from revaluation of foreign currency denominated loans which does not affect the other European peers' end-lines. According to the trading data, the market appreciates TEL's defensive virtues as utility stock disregarding its end-line volatility owed to the FX paper losses from debt revaluations. As such, 2010 lower EUR appreciation against the domestic currency as compared with 2009 should strengthen investors' trust in TEL's defensive merits, not to mention the government's intention to increase the company's free float. The Ministry of Economy which currently owns 73.68% in TEL plans to sell a 15% stake on the BSE. Most probably, the announced plan will materialise in the second half of 2011.

At target price, TEL would trade at 24.2x FY'10f EPS, about 30% below the average of the last two years TEL's P/E multiples of 35x. Also, at target price, TEL would trade at 16.1x FY'11f EPS, at the level of 2008 P/E multiple.

At target price, TEL is trading at 6.9x FY'10f EBITDA, implying a 20% discount to peers which should calm down those questioning the big premium to peers in terms of P/E ratios. After all, company's ability to generate operating cash flows looks unquestionable if compared to similar European companies and the estimated 2010 dividend yield of 4% looks rewarding.

Please note that starting with 2011 there are significant changes within the system services business activity which will affect considerably the operating revenues but less the company's operating profit. In 2011, the system services tariffs will be halved to RON 10.50/MWh according to a government ordinance's interpretation of TEL's representatives and ANRE. The cut will affect significantly the operating revenues but not in the same degree the operating profits since the system services revenues are 94% matched by the respective costs resulting in a very low profit margin for the respective business segment.

Valuation

DCF

To value the company, we used a DCF model with an 8-year explicitly forecasted period after which a terminal free cash flow with a perpetual growth of 1% is employed.

The DCF reveals a **fair share price** of **RON 21.35** per share, which implies an **18.6% upside** potential from current trading levels and justifies a **BUY** recommendation.

TRANSELECTRICA DISCOUNTED CASH FLOW

(RONm)	2010 F	2011 F	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F
EBIT	121	139	169	185	180	195	220	237
Less: Adjusted taxes	19	22	27	30	29	31	35	38
NOPLAT	102	116	142	155	151	163	185	199
Plus: Depreciation	270	273	296	317	335	352	367	381
Capital expenditures	(501)	(501)	(480)	(380)	(380)	(350)	(300)	(280)
(Increase)/decrease in working capital	25	(32)	(17)	(12)	(4)	(11)	(13)	(9)
Free cash flow	**-104**	**-143**	**-59**	**80**	**102**	**154**	**239**	**290**
WACC	*7.7%*	*7.5%*	*7.6%*	*7.9%*	*8.1%*	*8.2%*	*8.2%*	*8.2%*
PV of FCFF	-103	-132	-51	64	75	105	150	169
Terminal value								4,083
Perpetual growth rate								1.0%
PV of explicit period value	277							
Plus: net dividend to be paid	52							
Plus: PV of Terminal value	2,374							
Enterprise value	2,703							
Less: net debt	1,138							
Equity value	1,565							
Shares outstanding	73,303,142							
Target price/share (RON)	**21.35**							
Total return potential: upside/(downside)	18.6%							
Previous target price (RON)	29.05							
WACC calculation								
Risk free rate	6.3%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Market premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Levered Beta	0.99	1.07	1.11	1.11	1.11	1.08	1.04	0.99
Cost of equity	12.2%	12.4%	12.7%	12.7%	12.7%	12.5%	12.3%	11.9%
Cost of debt (after tax)	3.0%	3.0%	3.5%	3.9%	4.4%	4.4%	4.4%	4.3%
Debt/(Debt + Equity)	49.3%	52.9%	54.6%	54.7%	54.5%	53.5%	51.7%	48.9%

Key DCF assumptions

ASSUMPTIONS CHANGES	2010 F		2011 F		2012 F	
	OLD	NEW	OLD	NEW	OLD	NEW
Inflation rate	3.8%	7.9%	3.5%	4.9%	3.0%	3.0%
EUR/RON avg	4.15	4.24	4.10	4.21	4.10	4.18
USD/RON avg	3.00	3.20	3.00	3.30	2.90	3.00
GDP growth	1.3%	-1.7%	2.4%	1.5%	3.5%	3.9%
Energy transported and distributed (TWh)	53.3	55.0	55.2	56.6	58.3	58.1
Annual growth	*2.0%*	*5.2%*	*3.5%*	*3.0%*	*5.6%*	*2.5%*
Transportation tarrifs (RON/MWh)	17.00	17.00	17.92	18.19	18.33	18.74
Number of employees	3,511	3,511	3,480	3,480	3,449	3,449
Lost energy (TWh)	0.906	0.935	0.938	0.963	0.990	0.987
CAPEX (RON million)	501	501	501	501	480	480
AP processing period	130	130	130	130	130	130
AR processing period	110	110	110	110	110	110
WACC	8.1%	7.5%	8.2%	7.6%	8.3%	7.9%
Risk-free rate	6.5%	6.25%	6.0%	6.0%	6.0%	6.0%

Source: AFR estimates

Macroeconomic assumptions

With long-term debts of RON 951.4m (as at the end of June) out of which about 80% are EUR denominated, TEL's earnings are heavily influenced by the RON/EUR exchange rate fluctuations. For 2010 we estimate EUR closing at RON 4.26 (+0.75% Y/Y) to contribute to a FY'10 FX loss of about RON 17m which will make the difference at the end-line level compared with 2009 when the company posted FX losses of RON 62.7m while EUR appreciated 6.10% Y/Y. Please note that in computing FX losses/gains we consider the closing FX rate as reported by NBR for the last trading day of the year.

Accounting in for lower interest rates as compared with the date of our last report, the new WACC estimations are lower vs. Old.

Volumes transported

We significantly adjusted up the volumes transported for the year from 53.3 TWh previously to 54.99 TWh to count in the recent evolutions on the power market.

Electrica closed a one year contract to supply 3 TWh to a Serbian company starting from September this year. According to our estimates, about 250 MWh of September's power exports should have been due to the Electrica's supplying contract and another 750 MWh will be delivered in Q4'10. The rest of 2 TWh will be supplied in 2011. So, increasing power exports is one of the reason we increased the estimates of volumes transported by TEL in 2010 with about 1 TWh.

Meanwhile, in Q3'10, TEL transported 13.49 TWh (+10.9% Y/Y). If we assume that 0.25TWh were due to Electrica's supplying contact the rest of volumes transported (+8.9% Y/Y) are due to increasing domestic consumption and mainly to industrial power consumption which increased by 6% in Q3'10 compared with a year ago. So, increasing industrial power consumption is the other reason we revised up by 5% Y/Y the estimates of volume transported by TEL in Q4'10. Please note that this adjustment does not include volumes transported due to higher power exports.

All in all we see volumes transported by Transelectrica in Q4'10 to 15.14 MWh (+10.5% Y/Y) implying a total of 54.99 TWh (+5.2% Y/Y) to be transported in 2010.

As regarding 2011-2012 period, after talks with company's representatives we adjusted down the growth rates of volumes transported. They see a slower pace of future power production at the level of the national companies and implicitly lower volumes in the national transmission grid on the back of large industrial power consumers' strategy to build independent power sources. However, in 2011 we see volumes transported at 56.6TWh (+3% Y/Y) helped mainly by increasing power exports as explained above. For 2012, we see another 3% Y/Y advance to 58.3 TWh, this time mainly supported by industry's power consumption full recovery.

Tariffs

Betting on ANRE's desire to recover aging receivables from the company and given the extinction of interconnection capacity utilisation revenues starting next year, Transelectrica's representatives expect to see next year a transportation tariff of RON 18.19/MWh (+7% Y/Y). So we adjusted it accordingly, from RON 17.92/MWh previously estimated.

But the most important adjustment which will affect considerably the operating revenues but less the operating profit, regards the system services tariffs. In 2011, the system services tariffs will be halved to RON 10.50/MWh according to a government ordinance's interpretation of TEL's representatives and ANRE. The cut will affect significantly the operating revenues but not in the same degree the operating profits since the system services revenues are 94% matched by the respective costs resulting in a very low profit margin for the respective business segment.

Operating revenues

Given the significant increase of the estimations for volumes transported in 2010, one would expect to see increased revenues from the transport activity. This is not the case since the revenues from interconnection capacity utilisation, which our model includes into transport revenues, are revised significantly down for the year. The mentioned revenues declined 78.7% Y/Y in the first nine months of the year following the introduction of the new coordinated bilateral allocation as provided by EU regulations which basically stipulates no revenues from the mentioned activity. So, these revenues are set to disappear starting with 2011. Please note that in 2009, the interconnection capacity utilisation revenues amounted to RON 93.4m. As such, for 2010 we see transport revenues at RON 954m, down from RON 994m previously. The adjustment is reflected also in the next years transport revenues as you see from the table below.

In 2010, system services which we see at RON 1,157m (+3% vs. Old) will reflect both the estimated increase of 5.2% Y/Y in volumes transported and the tariffs advance of 4.5% Y/Y. Starting with 2011, system services revenues will lower significantly from RON 1,213m to RON 598m as for the year we expect halved tariffs.

We revised up the balancing markets revenues from RON 508m to RON 604m in line with the company's representatives guidance. All in all, at the IFRS consolidated level, we see for 2010 total operating revenues of RON 2,807m (+ 3% vs. Old and +10% Y/Y). In 2011 we expect a 17% Y/Y decrease on the back significantly lower system services revenues.

TRANSELECTRICA OPERATING REVENUES ESTIMATES CHANGES (IFRS)

	2010 F		2011 F		2012 F	
(RONm)	**OLD**	**NEW**	**OLD**	**NEW**	**OLD**	**NEW**
Transport	994	954	1,076	1,030	1,155	1,088
System services	1,122	1,157	1,213	598	1,310	631
Balancing market	508	604	572	604	572	604
Other	95	92	95	92	95	92
PROFIT-MAKING OPERATING REVENUES	2,210	2,203	2,384	1,720	2,560	1,810
Annual growth of profit-making revenues	*4.9%*	*4.5%*	*7.9%*	*-21.9%*	*7.4%*	*5.3%*
Δ% NEW/OLD		*-0.3%*		*-28%*		*-29%*
TOTAL OPERATING REVENUES	2,718	2,807	2,956	2,324	3,132	2,414
Δ% NEW/OLD		*3%*		*-21%*		*-23%*

Source: AFR estimates

Operating expenses

For 2010, we revised up the operating expenses to RON 2,686m (+1.9% vs. Old and + 9.5% Y/Y) mainly to incorporate higher balancing costs which perfectly match balancing revenues. To count in management's cost cutting efforts we adjusted down other expenses from RON 253m previously to RON 195m. For 2011-2012, the operating expenses slide come on the back of significantly lower system services costs which match the decrease in the respective revenues.

TRANSELECTRICA OPERATING EXPENSES AND PROFIT ESTIMATES CHANGES (IFRS)							
		2010 F		2011 F		2012 F	
(RONm)		OLD	NEW	OLD	NEW	OLD	NEW
Personnel costs		208	206	214	215	223	223
Technological losses		249	241	259	235	274	241
System service expenses		522	538	564	278	609	293
Cogeneration		533	550	576	284	622	300
Depreciation		267	270	289	273	311	296
Repairs and maintenance		95	81	89	70	91	70
Balancing costs		508	604	572	604	572	604
Other expenses (incl consumables etc)		253	195	237	227	254	218
TOTAL OPERATING EXPENSES		2,636	2,686	2,799	2,185	2,957	2,245
Annual growth		7.5%	9.5%	6.2%	-18.6%	5.6%	2.8%
	Δ% NEW/OLD		*1.9%*		*-21.9%*		*-24.1%*
OPERATING PROFIT		82	121	156	139	176	169
Operating margin		3.0%	*4.3%*	5.3%	*6.0%*	5.6%	*7.0%*
	Δ% NEW/OLD		*47%*		*-11%*		*-4%*
EBITDA		350	391	446	412	487	465
	Δ% NEW/OLD		*12%*		*-8%*		*-4%*
EBT		74	77	147	116	135	140
	Δ% NEW/OLD		*4%*		*-21%*		*4%*
EAT		62	65	124	97	113	118
	Δ% NEW/OLD		*4%*		*-21%*		*4%*
Gross dividends		27	52	53	42	49	51
	Δ% NEW/OLD		*96%*		*-21%*		*4%*
Basic and diluted EPS		0.85	0.88	1.69	1.33	1.54	1.61
	Δ% NEW/OLD		*4%*		*-21%*		*4%*

Source: AFR estimates

Given the above assumptions, for 2010, at the IFRS consolidated level we expect an operating profit of RON 121m (+47% vs. Old and +23% Y/Y). Adding in a financial loss of RON 44m we see 2010 net profit at RON 64.7m (+4% vs. Old) about three times and a half higher compared with a year ago.

At the RAS unconsolidated level, for 2010 we expect a net profit of RON 58.3m more than eleven times higher compared with 2009. Assuming a payout ratio of 90%, as stipulated by the government ordinance in force, for 2010 we expect a gross dividend per share of RON 0.715 implying a dividend yield at current market price of 4%. For 2009, TEL distributed a dividend of RON 0.05 per share.

Peers valuation

PEER GROUP							
Company name	**Ticker**	**Country**	**Market Cap USD (m)**	**EV/EBITDA**		**P/E**	
				2010F	**2011F**	**2010F**	**2011F**
National Grid plc	NG.	GBR	32,160	9.3x	8.6x	12.3x	11.5x
Snam Rete Gas SpA	SRG	ITA	18,024	9.4x	8.9x	13.2x	12.8x
Terna - Rete Elettrica Nazionale SpA	TRN	ITA	9,278	10.0x	9.4x	16.2x	16.1x
Red Electrica de Espana SA	REE	ESP	6,603	5.0x	4.3x	12.4x	11.0x
Enagas SA	ENG	ESP	5,021	8.4x	7.7x	11.1x	10.4x
Elia System Operator SA/NV	ELI	BEL	2,257	8.6x	9.7x	5.3x	14.2x
Fluxys SA	FLUX	BEL		6.2x	5.9x	15.8x	14.9x
	Median of peers			8.6x	8.6x	12.4x	12.8x
CNTEE Transelectrica (at current price)	TEL	RO	319	6.3x	6.0x	20.4x	13.6x
Premium(Discount)				(27%)	(31%)	64%	6%
CNTEE Transelectrica (at target price)				6.9x	6.6x	24.2x	16.1x
Premium(Discount)				(20%)	(24%)	95%	25%

Source: Reuters Knowledge, AFR estimates

At current price, TEL is trading at 20.4x FY'10f EPS, implying a 64% premium to peers. According to the current P/E multiple, the investors are eager to pay more for TEL than for its peers. But TEL was even more expensive in 2009 when, at end-year market price, TEL traded at 54x FY'09a EPS. On the other hand, in 2008 TEL traded at 16x FY'08a EPS.

As we explained in our previous report, TEL's P/E multiples volatility comes from the impact on company's net result of the FX gains and losses from revaluation of foreign currency denominated loans which does not affect the other European peers' end-lines. According to the trading data, the market appreciates TEL's defensive virtues as utility stock disregarding its end-line volatility owed to the FX paper losses from debt revaluations. As such, 2010 lower EUR appreciation against the domestic currency as compared with 2009 should strengthen investors' trust in TEL's defensive merits, not to mention the government's intention to increase the company's free float. The Ministry of Economy which currently owns 73.68% in TEL plans to sell a 15% stake on the BSE. Most probably, the announced plan will materialise in the second half of 2011.

At target price, TEL would trade at 24.2x FY'10f EPS, about 30% below the average of the last two years TEL's P/E multiples of 35x. Also, at target price, TEL would trade at 16.1x FY'11f EPS, at the level of 2008 P/E multiple.

At target price, TEL is trading at 6.9x FY'10f EBITDA, implying a 20% discount to peers which should calm down those questioning the big premium to peers in terms of P/E ratios. After all, company's ability to generate operating cash flows looks unquestionable if compared to similar European companies and the estimated 2010 dividend yield of 4% looks rewarding.

9M'10 Results

PROFIT&LOSS (RAS unconsolidated)			
(RON'000)	**9M'10**	**9M'09**	*% Δ*
Net turnover	**1,814,568**	**1,792,123**	1.3%
Volumes transported (MWh)	39,861,523	38,562,013	3.4%
Operating revenues	**1,842,320**	**1,815,645**	**1.5%**
Transmission	678,628	625,042	8.6%
RON/MWh	*17.02*	*16.21*	*5.0%*
System services o/w	838,731	794,438	*5.6%*
Functional system	39,861	38,563	3.4%
RON/MWh	*1.00*	*1.00*	*0.0%*
Technological system	798,870	755,874	*5.7%*
RON/MWh	*20.04*	*19.60*	*2.2%*
Balancing market	260,107	276,682	*-6.0%*
Other	64,855	119,483	*-45.7%*
Operating expenses*	**1,588,332**	**1,588,648**	***0.0%***
EBITDA	**253,988**	**226,997**	***11.9%***
D&A	197,307	186,424	*5.8%*
EBIT	**56,681**	**40,573**	***39.7%***
Financial result o/w	**(41,587)**	**(16,215)**	***156.5%***
Net interest expense	(19,358)	(12,886)	*50.2%*
Other financial income	(25,597)	(6,499)	*293.8%*
EBT	**15,094**	**24,357**	***-38.0%***
Net income	**5,177**	**11,458**	***-54.8%***

*Source: The Company; * D&A not included*

For 9M'10, Transelectrica transported 39.9 TWh (+3.4% Y/Y) helped by increasing domestic production and exports.

For the first half of 2010, the volumes transported by the company were 0.1% lower compared with the same period of the previous year on the back of lower power production (-1.0% Y/Y) which has been lost the exports support (-68.3% Y/Y). Please see the table below: Power Balance as at the end of June, 2010.

Power balance as at the end of June, 2010			
(mKWh)	6M'10	6M'09	% Δ
Domestic production	**28,716.0**	**28,993.0**	**-1.0%**
Thermo	13,531.0	14,704.6	-8.0%
Hydro	9,665.9	8,639.8	11.9%
Nuclear	5519.1	5,648.6	-2.3%
Import	**461.0**	**419.7**	**9.8%**
Total	**29,177.0**	**29,412.7**	**-0.8%**
Domestic consumption	**28,555.9**	**27,453.4**	**4.0%**
Industry	19,001.9	18,213.3	4.3%
Households	5,718.0	5,582.4	2.4%
Technological consumption	3,455.4	3,261.5	5.9%
Public lighting	380.6	396.2	-3.9%
Export	**621.1**	**1,959.3**	**-68.3%**
Total	**29,177.0**	**29,412.7**	**-0.8%**

Source: The National Institute of Statistics

Power balance as at the end of September, 2010			
(mKWh)	9M'10*	9M'09	% Δ
Domestic production	**43,258.1**	**42,341.3**	**2.2%**
Thermo	19,651.5	21,334.2	-7.9%
Hydro	15,125.6	12,327.7	22.7%
Nuclear	8,481.0	8,679.4	-2.3%
Import	**547.2**	**504.6**	**8.4%**
Total	**43,806.8**	**42,845.9**	**2.2%**
Domestic consumption	**42,212.1**	**40,387.3**	**4.5%**
Industry	28,632.3	27,302.6	4.9%
Households	8,351.7	8,156.0	2.4%
Technological consumption	4,710.0	4,393.5	7.2%
Public lighting	518.1	535.2	-3.2%
Export	**1,594.7**	**2,458.6**	**-35.1%**
Total	**43,806.8**	**42,845.9**	**2.2%**

*Source: The National Institute of Statistics; *preliminary data*

Meanwhile, the situation turned to TEL's advantage with exports recovering fast and helped further by increasing industrial power consumption. Electrica closed a one year contract to supply 3 TWh to a Serbian company starting from September this year. In fact, from the table below you can see that compared with Aug'10, in Sep'10 Romanian power exports increased by about 100MWh.

Monthly power export									
(mKWh)	Jul'10	Jul'09	%	Aug'10	Aug'09	%	Sep'10	Sep'09	%
Export	278.1	172.7	61.0%	294.0	168.0	75.0%	401.5	158.6	153.2%

Source: The National Institute of Statistics

According to our estimates, about 250 MWh of September's power exports should have been due to the Electrica's supplying contract.

However, in Q3'10, TEL transported 13.49 TWh (+10.9% Y/Y). If we assume that 0.25TWh were due to Electrica's supplying contact the rest of volumes transported (+8.9% Y/Y) were due to increasing domestic consumption and mainly to industrial consumption which increased by 6% in Q3'10 compared with a year ago.

Volumes transported by Transelectrica							
	Q1'09	**6M'09**	**9M'09**	**FY'09**	**Q1'10**	**6M'10**	**9M'10**
(MWh)	14,585,892	26,395,873	38,562,013	52,263,191	14,083,243	26,366,571	39,861,523
y/y					-3.4%	-0.1%	3.4%
	Q1'09	**Q2'09**	**Q3'09**	**Q4'09**	**Q1'10**	**Q2'10**	**Q3'10**
(MWh)	14,585,892	11,809,981	12,166,140	13,701,178	14,083,243	12,283,328	13,494,952
y/y					-3.4%	4.0%	10.9%

Source: The Company

Power balance Q3'10 vs. Q3'09			
(mKWh)	Q3'10	Q3'09	%
Domestic production	**14,542.1**	**13,348.3**	**8.9%**
Thermo	6,120.5	6,629.6	-7.7%
Hydro	5,459.7	3,687.9	48.0%
Nuclear	2,961.9	3,030.8	-2.3%
Import	**86.2**	**84.9**	**1.5%**
Total	**14,629.8**	**13,433.2**	**8.9%**
Domestic consumption	**13,656.2**	**12,933.9**	**5.6%**
Industry	9,630.4	9,089.3	6.0%
Households	2,633.7	2,573.6	2.3%
Technological consumption	1,254.6	1,132.0	10.8%
Public lighting	137.5	139.0	-1.1%
Export	**973.6**	**499.3**	**95.0%**
Total	**14,629.8**	**13,433.2**	**8.9%**

Source: The National Institute of Statistics; AFR estimates

9M'10 transmission revenues increased to RON 678.6m (+8.6% Y/Y) helped by higher volumes and by an advance of average transmission tariff of 5% Y/Y to RON 17.02/MWh.

However, 9M'10 total operating revenues of RON 1,842.3m posted an increase of only 1.5% Y/Y due to a decline of 45.7% Y/Y in other revenues (cross-border revenues decreased 78.7% y/y from RON 73.1m a year ago to 11.6m due to the introduction of the new coordinated bilateral allocation as provided by EU regulations.

9M'10 operating costs (excl D&A expenses) landed about flat to RON 1,588.3m sending EBITDA 11.9% Y/Y to RON 254m. Adding in D&A expenses of RON 197.3m (+5.8% Y/Y), 9M'10 EBIT reached RON 56.7m (+39.7% Y/Y). However a financial loss of RON 41.6m (+156.5% Y/Y) mainly on the back of much higher FX losses pushed the EBT down 38% Y/Y to RON 15m and the 9M'10 net profit to RON 5.2m (-54.8% Y/Y).

BALANCE SHEET (RAS unconsolidated)

(RON'000)	9M'10	FY'09	% Δ
Long-term assets	3,451,423	3,409,381	1.2%
Inventories	38,095	35,074	8.6%
Account receivables	628,025	618,817	1.5%
Cash	178,839	151,699	17.9%
Prepaid expenses	2,959	3,701	-20.0%
Total assets	**4,299,340**	**4,218,672**	**1.9%**
Account payables	342,487	501,800	-31.7%
Short-term debt	212,077	187,222	13.3%
Long-term debt	1,149,905	947,211	21.4%
Provisions	3,569	5,331	-33.0%
Deferred income	223,945	219,981	1.8%
Shareholders funds	2,367,357	2,357,126	0.4%
Equity and liabilities	**4,299,340**	**4,218,672**	**1.9%**

Source: The Company

Compared with the end of 2009, significant changes can be noticed at the level of cash, payables and debt accounts.

Cash accumulated to RON 178.8m, 17.9% higher compared with the end of 2009 and payables decreased 31.7%. The best explanation is provided by the long-term debt increase. Over the year, Transelectrica contracted two new long-term debts loans to finance its investments: a loan from BRD of RON 33m (February 2010) and another one from BEI amounting to EUR 65m (August 2010) which will be withdrawn in two equal trances, the last one in Q4'10. Most probably a small part of BEI loan arrived in company's cash account to pay some delayed suppliers.

Financials

TRANSELECTRICA PROFIT & LOSS ITEMS (IFRS Consolidated)											
(RONm)	2007	2008	2009	2010 F	2011 F	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F
Profit-making revenues	1,813	2,234	2,108	2,203	1,720	1,810	1,903	1,976	2,051	2,120	2,192
Profit-making rev. growth	*4.9%*	*23.2%*	*-5.6%*	*4.5%*	*-21.9%*	*5.3%*	*5.1%*	*3.8%*	*3.8%*	*3.4%*	*3.4%*
Total operating revenues	2,384	2,988	2,552	2,807	2,324	2,414	2,506	2,579	2,655	2,724	2,796
Total revenues growth	*-4.8%*	*25.3%*	*-14.6%*	*10.0%*	*-17.2%*	*3.9%*	*3.8%*	*2.9%*	*2.9%*	*2.6%*	*2.6%*
EBITDA	365	458	356	391	412	465	502	515	547	587	617
EBITDA margin	*15.3%*	*15.3%*	*13.9%*	*13.9%*	*17.7%*	*19.3%*	*20.0%*	*20.0%*	*20.6%*	*21.6%*	*22.1%*
EBIT	175	217	99	121	139	169	185	180	195	220	237
EBIT margin	*7.4%*	*7.3%*	*3.9%*	*4.3%*	*6.0%*	*7.0%*	*7.4%*	*7.0%*	*7.3%*	*8.1%*	*8.5%*
EBT	91	63	12	77	116	140	138	115	138	167	192
EBT margin	*3.8%*	*2.1%*	*0.5%*	*2.7%*	*5.0%*	*5.8%*	*5.5%*	*4.5%*	*5.2%*	*6.1%*	*6.9%*
Net profit	63	50	18	65	97	118	116	97	116	141	161
Net profit margin	*2.6%*	*1.7%*	*0.7%*	*2.3%*	*4.2%*	*4.9%*	*4.6%*	*3.8%*	*4.4%*	*5.2%*	*5.8%*

TRANSELECTRICA BALANCE SHEET ITEMS (IFRS Consolidated)											
(RONm)	2007	2008	2009	2010 F	2011 F	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F
Long term assets	2,750	2,905	3,006	3,240	3,468	3,652	3,714	3,760	3,758	3,690	3,590
Inventories	40	43	42	45	38	38	40	41	42	43	44
Receivables	690	848	634	664	518	546	573	595	618	639	661
Cash	198	224	164	145	122	97	80	64	58	87	125
Total assets	**3,677**	**4,020**	**3,845**	**4,094**	**4,146**	**4,332**	**4,408**	**4,460**	**4,476**	**4,459**	**4,419**
Short term debt	142	166	203	176	210	202	185	184	164	163	163
Current liabilities	508	727	522	633	439	458	474	484	506	525	547
Long term debt	947	1,011	947	1,107	1,273	1,387	1,405	1,399	1,356	1,248	1,101
Long term liabilities	169	182	267	260	253	245	238	231	223	216	209
Shareholders funds	1,911	1,935	1,905	1,917	1,972	2,040	2,106	2,161	2,227	2,307	2,399
Equity & liabilities	**3,677**	**4,020**	**3,845**	**4,094**	**4,146**	**4,332**	**4,408**	**4,460**	**4,476**	**4,459**	**4,419**

TRANSELECTRICA CASH FLOW ITEMS (IFRS Consolidated)								
(RONm)	2010 F	2011 F	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F
Net income	65	97	118	116	97	116	141	161
(+) Advance revenue	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
(+) Depreciation	270	273	296	317	335	352	367	381
(-) (Increase) / Decrease in working capital	25	(32)	(17)	(12)	(4)	(11)	(13)	(9)
Cash flow from operations	**353**	**331**	**390**	**414**	**420**	**450**	**487**	**525**
Capital expenditures/long term investments	(501)	(501)	(480)	(380)	(380)	(350)	(300)	(280)
Cash flow from investing	**(501)**	**(501)**	**(480)**	**(380)**	**(380)**	**(350)**	**(300)**	**(280)**
Cash surplus (deficit) generated before financing	(148)	(170)	(90)	34	40	100	187	245
Increase (decrease) in debt	133	199	107	1	(7)	(63)	(109)	(147)
Equity changes	0	0	0	0	0	0	0	0
Dividends paid	(4)	(52)	(42)	(51)	(50)	(42)	(50)	(60)
Cash flow from financing	**129**	**147**	**65**	**(50)**	**(57)**	**(105)**	**(159)**	**(208)**
Total change in cash	**(19)**	**(23)**	**(25)**	**(16)**	**(17)**	**(6)**	**29**	**38**
Cash Balance - Beginning of Period	164	145	122	97	80	64	58	87
Cash Balance - End of Period	145	122	97	80	64	58	87	125

Source: The Company, AFR estimates

Note: Figures based on Company's IFRS consolidated statements

TRANSELECTRICA KEY RATIOS	2007	2008	2009	2010 F	2011 F	2012 F	2013 F	2014 F	2015 F	2016 F	2017 F
Per Share Data											
EPS (RON)	0.86	0.69	0.25	0.88	1.33	1.61	1.58	1.32	1.58	1.92	2.20
EPS growth	-80%	-20%	-64%	254%	50%	21%	-2%	-16%	20%	21%	15%
BVPS (RON)	26.06	26.39	25.99	26.15	26.91	27.83	28.73	29.48	30.38	31.48	32.73
DPS (RON)	0.36	0.30	0.05	0.72	0.57	0.69	0.68	0.57	0.68	0.82	0.94
Profitability											
Net profit margin	2.6%	1.7%	0.7%	2.3%	4.2%	4.9%	4.6%	3.8%	4.4%	5.2%	5.8%
ROIC	5.3%	6.0%	2.7%	3.3%	3.5%	4.0%	4.2%	4.1%	4.4%	5.0%	5.4%
RoavgA	4.1%	4.7%	2.1%	2.6%	2.8%	3.3%	3.6%	3.4%	3.7%	4.1%	4.5%
RoavgE	3.5%	2.6%	1.0%	3.4%	5.0%	5.9%	5.6%	4.5%	5.3%	6.2%	6.8%
Asset management											
Inventory turnover (Days)	175	183	202	200	200	200	200	200	200	200	200
Days sales outstanding	139	139	110	110	110	110	110	110	110	110	110
Payables days	141	168	120	130	130	130	130	130	130	130	130
Fixed assets turnover	0.9	1.1	0.9	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.8
Total assets turnover	0.7	0.8	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Leverage and liquidity											
Leverage (Total liab/equity)	0.92	1.08	1.02	1.14	1.10	1.12	1.09	1.06	1.01	0.93	0.84
Gearing (Net debt/equity)	0.47	0.49	0.52	0.59	0.69	0.73	0.72	0.70	0.66	0.57	0.47
Net debt/EBITDA	2.4	2.1	2.8	2.9	3.3	3.2	3.0	3.0	2.7	2.3	1.8
Debt/Assets	0.30	0.29	0.30	0.31	0.36	0.37	0.36	0.36	0.34	0.32	0.29
Current ratio	1.4	1.2	1.2	1.1	1.0	1.0	1.1	1.0	1.1	1.1	1.2
Quick ratio	1.4	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1
Valuation multiples											
P/E	46.6	16.0	54.2	20.4	13.6	11.2	11.4	13.6	11.4	9.4	8.2
P/BV	1.5	0.4	0.5	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.5
P/Sales	1.2	0.3	0.4	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5
EV/Sales	1.6	0.7	0.8	0.9	1.1	1.0	1.0	1.0	0.9	0.9	0.9
EV/EBITDA	10.5	4.3	5.6	6.3	6.0	5.3	4.9	4.8	4.5	4.2	4.0
Dividend yield		3.3%	2.2%	0.3%	4.0%	3.2%	3.8%	3.8%	3.2%	3.8%	4.6%

Source: The Company, AFR estimates

DISCLOSURE APPENDIX

Analyst Certification

The research analyst(s) undersigned and responsible for the preparation of this report certify (-ies) that a) the views expressed in this report accurately reflect their (his/her) personal views about any and all of the securities or issuers mentioned in this report and b) no part of the analyst's compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this research report. Analysts receive compensation based upon various factors, including the quality of research, productivity, experience, individual reputation, competitive factors and feedback from clients.

Company specific regulatory disclosures

Disclosure checklist for companies mentioned & other price data information

Company	BSE	Rating	Price	Price date	Disclosure
CN Transelectrica SA	TEL	BUY	18.0	10/11/2010	NONE

1. Alpha Finance Romania and/or its affiliate(s) has acted as manager/co-manager/adviser in the underwriting or placement of securities of this company within the past 12 months
2. Alpha Finance Romania and/or its affiliate(s) has received compensation for investment banking services from this company within the past 12 months
3. Alpha Finance Romania makes a market in the securities of this company
4. Alpha Finance Romania and its affiliate(s) owns five percent or more of the total share capital of this company
5. The company and its affiliate(s) owns five percent or more of the total share capital of Alpha Finance Romania and its affiliates
6. Alpha Finance Romania has sent the research report to the company prior to publication for factual verification
7. Following 6, Alpha Finance Romania has changed the contents of the initially sent research report, with respect to: no change
8. Alpha Finance Romania has received compensation from the company for the preparation of this research report

Major changes vs. previous research reports

Date of previous report	Previous vs. current market prices (RON)	Previous vs. current TP (RON)	Previous vs. current Rating
16/04/2009	26.8 vs.10.1	24.35 vs. 12.89	HOLD vs. BUY
20/10/2009	10.1 vs. 12.5	12.89 vs. 12.95	BUY vs. HOLD
15/01/2010	12.5 vs. 14.9	12.95 vs. 18.28	BUY vs. BUY
16/04/2010	14.9 vs. 21.2	18.28 vs. 29.05	BUY vs. BUY
11/11/2010	21.2 vs. 18.0	29.05 vs. 21.35	BUY vs. BUY

Regulatory disclosures

Alpha Finance Romania (AFR) is a licensed Romanian brokerage company, a founding member of the Bucharest Stock Exchange and the Romanian Brokers' Association and the correspondent of S&P/IFC for Romania. Alpha Finance Romania has in effect management policies to identify and confront potential conflicts of interest that could arise in the research division of the company and/or its affiliates ("Chinese Walls").

FUNDAMENTAL RATING		
TRP > 12%	**12% > TRP > -12%**	**TRP < -12%**
BUY	**HOLD**	**SELL**

TRP: Total Return Potential

Alpha Finance Romania

Company Update-November 2010

General disclaimer

This report was prepared by Alpha Bank Romania – Equity Research Analyst, Daniela Mandru, on behalf of Alpha Finance Romania.

This report by no means provides investment advice as to any financial instruments contained herein. We aim to express our value judgements as to possible or existing investments, without any existing contractual obligation to our clients. We cannot assume any liability for any investments undertaken by our clients, since these investments will be a product of their own free will. The information contained in this report has been taken from sources, which we deem to be reliable. We do not represent that such information is accurate or complete and it should not be relied upon as such. All opinions and estimates expressed herein constitute our judgement as of this date and are subject to change without notice. Past performance is not indicative of future results. The opinions and recommendations herein do not take into account individual client circumstances, objectives or needs. This report is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments.

Contacts

SSIF ALPHA FINANCE ROMANIA SA

Calea Dorobantilor 237 B, Etaj 2, Sector 1, Bucharest 712811, Romania
Tel: +40 21 209 2233; Fax: +40 21 231 5332
www.alphafinance.ro

Email: office@alphafinance.ro

Alpha Bank Romania	Alpha Finance Romania		
Equity Research	**Sales & Trading**	**Back Office**	**Internal Control**
Dimitris Hatzisarros E-mail: dhatzisarros@alphabank.ro Phone: +40 21 455-7375	**Marius Lupu** E-mail: m.lupu@alphafinance.ro Phone: +40 21 455-9350	**Lucretia Stefanescu** E-mail: l.stefanescu@alphafinance.ro Phone: +40 21 455-9358	**Valentina Turcescu** E-mail: v.turcescu@alphafinance.ro Phone: +40 21 455-9352
Daniela Mandru E-mail: dmandru@alphabank.ro Phone: +40 21 455-7373	**Cerasela Rus** E-mail: c.rus@alphafinance.ro Phone: +40 21 455-9359		
Mihai Anghelescu E-mail: manghelescu@alphabank.ro Phone: +40 21 455-7372	**Emil Voinea** E-mail: e.voinea@alphafinance.ro Phone: +40 21 455-9351		
Cosmina Visanescu E-mail: cvisanescu@alphabank.ro Phone: +40 21 455-7374			