

COMPANY Update – FY10 IFRS Results and Q1 electricity outlook

We update our forecast on stronger profitability outlook supported by higher ancillary revenues and by a positive FX effect on stronger RON. TP was raised to 21.68RON/share. Accumulate rating is maintained but with limited upside.

ACCUMULATE

previous: ACCUMULATE

| | |
|-------------------------------|--------------|
| TARGET PRICE 12M (RON) | 21.68 |
| Previous Target price | 20.10 |
| SHARE PRICE (RON) | 20.50 |

| Performance | 1M | 3M | 12M | YTD |
|------------------------------|-------|-------|-------|----------------------------|
| Absolute (%) | -1.2% | 0.6% | 19.2% | 5.9% |
| Relative to BET (%) | 1.0% | -1.2% | 6.5% | -3.8% |
| RIC | | | | TSEL.BX |
| Bloomberg | | | | TEL RO |
| Index listed | | | | BET, BET-C, BET-NG, BET-XT |
| Market Cap (RON m) | | | | 1,502.71 |
| Market Cap (EUR m) | | | | 365.62 |
| Shares Out (m) | | | | 73.30 |
| 52 Week Range (RON) | | | | 14.5 / 21.9 |
| % from 52 Week range | | | | 41.4% / -6.4% |
| Avg daily volume 6M (shares) | | | | 12,173 |

Shareholders (%)

| | |
|-------------------------------|------|
| Ministry of Economy & Finance | 73.7 |
| Property Fund | 13.5 |
| Free float | 12.8 |

| (IFRS) | 09A | 10A | 11E | 12E |
|------------------|------|------|------|------|
| P/E(x) adj. | 47.7 | 12.6 | 9.7 | 11.7 |
| EPS adj. ch. (%) | -64% | 470% | -49% | -17% |
| EV/EBITDA(x) | 5.2 | 5.1 | 5.3 | 5.1 |
| Net debt/EBITDA | 2.8 | 2.2 | 2.1 | 2.0 |
| P/BV(x) | 0.5 | 0.7 | 0.7 | 0.7 |
| ROE(%) | 1.0% | 5.3% | 7.4% | 5.8% |
| ROCE(%) | 0.6% | 3.3% | 4.9% | 3.9% |
| P/S (x) | 0.3 | 0.5 | 0.5 | 0.5 |
| Div. Yield (%) | 0.4% | 0.7% | 0.8% | 0.7% |

RON m

| | | | | |
|------------|---------|---------|---------|---------|
| Revenues | 2,551.6 | 2,683.2 | 2,815.3 | 3,019.2 |
| EBITDA | 355.7 | 455.6 | 465.0 | 486.1 |
| Net income | 18.3 | 104.0 | 154.8 | 128.4 |
| EPS | 0.25 | 1.42 | 2.11 | 1.75 |
| EPS adj. | 0.25 | 1.42 | 2.11 | 1.75 |
| BVPS | 25.99 | 27.33 | 29.44 | 31.02 |
| DPS | 0.05 | 0.12 | 0.17 | 0.14 |
| FCF equity | 1.89 | 1.05 | 0.35 | 0.75 |

5 May 2011

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- We have updated our view on Transelectrica and revised our FY(11E) IFRS set of forecasts incorporating a 3% increase in volumes transported, versus the management guidance for 2%, assuming an economic pick-up, with no further changes in tariffs this year. Furthermore, we incorporate a very positive effect of a stronger RON currency very well offsetting an increasing Euribor rate.

- We expect a gradual recovery in the economy that should support the electricity consumption and therefore TEL's business. Romania's electricity consumption in the first quarter was up 6% from the same period of last year, while electricity production rose 11% YOY. We see this as an effect of the harsh winter and the growing industry consumption, which should further on support growth, but we do not expect all of the growth to be reflected into the quantities transported and therefore in the revenues.

- Management guided for FY11 sales, EBITDA and net profits growth of 4.8%, 4.2% and 73.3% YoY. The expenses are seen increasing as technological consumption and maintenance costs are expected to rise due to expenses postponed last year, while the net financial result is seen almost flat significantly supporting the bottom line. The above assumptions are based on an estimated growth in quantities by 2% YOY.

- Our revised FY11E IFRS sales growth is seen at 4.9% YoY, EBITDA up 2.1% YoY on slightly lower margins and EPS up 49% YoY assuming a very positive FX impact. Our new FY11 forecasts are higher on the EBITDA level and much higher at the bottom line. For the moment we do not incorporate in our valuation any tariff changes reflecting possible effects of the deregulation requested by the European Commission as due to lack of visibility.

- We value Transelectrica through a SOTP exercise based on absolute DCF model (50% weight) and a relative valuation over peers with a targeted EV/EBITDA(11E) at 5.5x resulting to a slightly higher 12M target price of RON 21.68/share. Valuation wise, the stock currently trades at 0.7x on P/BV(11E) and at 5.1x on EV/EBITDA(11E). We maintain the rating at Accumulate, despite the limited upside. Recall that TEL at the IPO back in 2006 implied P/E(06) of 5.7x, EV/EBITDA (06) 5.1x and P/BV(06) of 1.00x.

- Management proposed to the Ministry of Economy a share capital increase of 12% in order to support its investment program. No official response to the proposal has been announced yet.

- Considering recent news flow that State Grid of China is interested in acquiring the 15% stake in TEL, we feel this shows a good perspective over the Romanian energy sector and might act as a price trigger.

Financials & Valuation (Summary)

Financial Statements (IFRS)

| Profit & Loss (RON 000) | 2008A | 2009A | 2010A | 2011E | 2012E |
|-------------------------|-----------|-----------|-----------|-----------|-----------|
| Revenues | 2,988,066 | 2,551,649 | 2,683,193 | 2,815,268 | 3,019,232 |
| EBITDA | 457,734 | 355,739 | 455,556 | 465,012 | 486,052 |
| EBIT | 217,178 | 98,616 | 188,421 | 182,989 | 187,398 |
| Net financials | -154,570 | -86,503 | -58,219 | -4,553 | -34,577 |
| EBT | 62,608 | 12,113 | 130,202 | 178,436 | 152,821 |
| Net income | 50,367 | 18,253 | 103,965 | 154,788 | 128,388 |
| IEBA net income | 176,570 | 80,950 | 137,864 | 124,262 | 128,388 |
| Dividend | 21,991 | 3,665 | 8,503 | 12,660 | 10,501 |

Cash flow (RON 000) - IEBA TRUST

| | | | | | |
|-------------------------------|----------|----------|---------|---------|---------|
| Net Cash flow from operations | 515,032 | 458,505 | 520,694 | 425,733 | 474,730 |
| Capex | 364,430 | 319,964 | 443,801 | 400,000 | 420,000 |
| FCFF | 150,602 | 138,541 | 76,893 | 25,733 | 54,730 |
| Other cash flows | -358,921 | -260,309 | -69,781 | -20,960 | -26,056 |
| Cash flow used in investments | 0 | 0 | 0 | 0 | 0 |
| Change in net debt | 234,509 | 61,159 | -10,319 | -4,773 | -28,674 |
| Change in Capital | 0 | 0 | 0 | 0 | 0 |
| FCF | 26,190 | -60,609 | -3,207 | 0 | 0 |

Balance Sheet (RON 000)

| | | | | | |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|
| Net fixed assets | 2,899,249 | 3,000,013 | 3,209,223 | 3,327,200 | 3,448,546 |
| Current investments | 5,729 | 5,729 | 5,729 | 5,729 | 5,729 |
| Current assets | 891,221 | 675,391 | 724,033 | 740,454 | 794,099 |
| Cash & others | 224,219 | 163,610 | 160,403 | 160,403 | 160,403 |
| Total Assets | 4,020,418 | 3,844,743 | 4,099,388 | 4,233,786 | 4,408,777 |
| Current liabilities | 727,354 | 519,109 | 634,941 | 634,941 | 680,942 |
| Total debt | 1,176,931 | 1,150,205 | 1,166,612 | 1,145,432 | 1,137,938 |
| Net debt | 952,712 | 986,595 | 1,006,209 | 985,029 | 977,535 |
| Shareholders capital | 1,091,526 | 1,091,526 | 1,091,526 | 1,091,526 | 1,091,526 |
| Other reserves | 843,046 | 813,301 | 911,522 | 1,066,310 | 1,182,038 |
| Total Equity | 1,934,572 | 1,904,827 | 2,003,048 | 2,157,836 | 2,273,564 |
| Minorities | 0 | 0 | 0 | 0 | 0 |
| EV | 2,605,782 | 1,857,105 | 2,311,298 | 2,487,743 | 2,480,249 |
| Market Cap | 1,653,070 | 870,510 | 1,305,089 | 1,502,714 | 1,502,714 |
| No of shares Year End (000) | 73,303 | 73,303 | 73,303 | 73,303 | 73,303 |
| No of shares Diluted (000) | 73,303 | 73,303 | 73,303 | 73,303 | 73,303 |

| Per share | 2008A | 2009A | 2010A | 2011E | 2012E |
|-----------|-------|-------|-------|-------|-------|
| EPS | 0.69 | 0.25 | 1.42 | 2.11 | 1.75 |
| IEBA EPS | 2.41 | 1.10 | 1.88 | 1.70 | 1.75 |
| DPS | 0.30 | 0.05 | 0.12 | 0.17 | 0.14 |
| BVPS | 26.39 | 25.99 | 27.33 | 29.44 | 31.02 |
| FCFPS | 2.05 | 1.89 | 1.05 | 0.35 | 0.75 |

Growth rates & margins

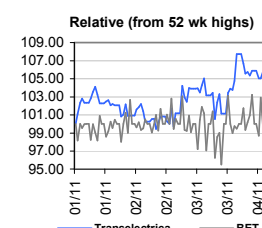
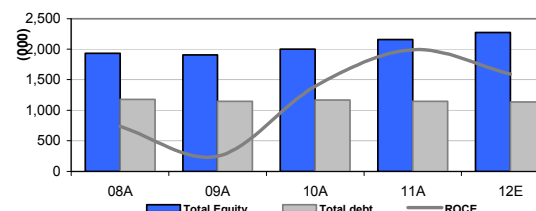
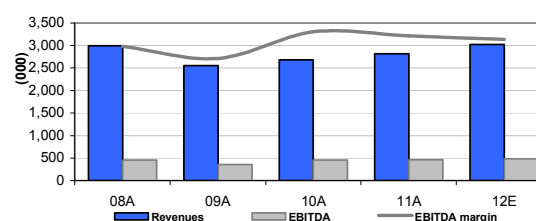
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|-----------------|--------|--------|--------|-------|--------|
| Revenues | 21.1% | -14.6% | 5.2% | 4.9% | 7.2% |
| EBITDA | 2.1% | -22.3% | 28.1% | 2.1% | 4.5% |
| EBIT | -16.2% | -54.6% | 91.1% | -2.9% | 2.4% |
| EBT | -64.1% | -80.7% | 974.9% | 37.0% | -14.4% |
| Net Income | -65.6% | -63.8% | 469.6% | 48.9% | -17.1% |
| IEBA net Income | -10.1% | -54.2% | 70.3% | -9.9% | 3.3% |
| Dividend | -16.7% | -83.3% | 132.0% | 48.9% | -17.1% |
| EPS | -65.6% | -63.8% | 469.6% | 48.9% | -17.1% |
| IEBA EPS | -10.1% | -54.2% | 70.3% | -9.9% | 3.3% |
| DPS | -16.7% | -83.3% | 132.0% | 48.9% | -17.1% |
| EBITDA margin | 15.3% | 13.9% | 17.0% | 16.5% | 16.1% |
| EBIT margin | 7.3% | 3.9% | 7.0% | 6.5% | 6.2% |
| Net margin | 1.7% | 0.7% | 3.9% | 5.5% | 4.3% |
| IEBA net margin | 5.9% | 3.2% | 5.1% | 4.4% | 4.3% |

Key items

| Ratios and multiples | 2008A | 2009A | 2010A | 2011E |
|-----------------------------|-------|-------|-------|-------|
| P/E(x) | 32.8 | 47.7 | 12.6 | 9.7 |
| P/E(x) IEBA | 9.4 | 10.8 | 9.5 | 12.1 |
| P/E(x) IEBA at 52wks High | 16.6 | 13.3 | 11.6 | 12.9 |
| P/BV(x) | 0.9 | 0.5 | 0.7 | 0.7 |
| ROE | 2.8% | 1.0% | 5.3% | 7.4% |
| IEBA ROE | 9.8% | 4.2% | 7.1% | 6.0% |
| ROCE | 1.8% | 0.6% | 3.3% | 4.8% |
| IEBA ROCE | 6.2% | 2.6% | 4.4% | 3.8% |
| EV/EBITDA (x) | 5.7 | 5.2 | 5.1 | 5.3 |
| EV/EBITDA (x) at 52wks High | 9.1 | 4.5 | 5.3 | 5.6 |
| Net debt/EBITDA (x) | 2.1 | 2.8 | 2.2 | 2.1 |
| EBITDA/Net inter. Exp. (x) | 13.1 | 12.0 | 18.1 | 18.5 |
| EV/CE (x) | 0.8 | 0.6 | 0.7 | 0.8 |
| P/S (x) | 0.6 | 0.3 | 0.5 | 0.5 |
| P/FCFPS (x) | 11.0 | 6.3 | 17.0 | 58.4 |
| FCF Yield | 9.1% | 15.9% | 5.9% | 1.7% |
| Dividend Yield | 1.3% | 0.4% | 0.7% | 0.8% |
| Dividend payout | 43.7% | 20.1% | 8.2% | 8.2% |
| Net debt/Equity | 49.2% | 51.8% | 50.2% | 45.6% |
| T.debt/(T.debt + Equity) | 37.8% | 37.6% | 36.8% | 34.7% |

Stock's information

| | | |
|---------------------------|----------------|--------------------|
| Share price (RON) | 20.50 | Target price/share |
| 52 weeks High price (RON) | 21.90 | Mkt Cap (RON 000) |
| 52 weeks Low price (RON) | 14.50 | EV (RON 000) 11E |
| Country | Romania | Reuters |
| Sector | Energy Utility | Bloomberg |



Source: SSIF IEBA Trust SA

Major changes to our forecasts

Following the lower than forecasted volumes transported in 2010, we have revised our forecast and incorporated a 3% advance in transported volumes vs. a previous 4% increase, along with flat tariffs this year after the 10.4% increase in January. Transmission revenues are seen 13.7% higher YOY versus a 14.8% advance in our previous assumptions, while revenues related to system services are the main revenue driver, similar to the previous three years. Turnover is expected to rise by 4.9% YOY to RON 2,815m vs. RON 2,801 previously, while higher operating expenses by 5.5% would affect the EBITDA with a smaller growth of 2.1%.

Considering the positive effect of RON strengthening that should in our view cover the effects of increasing Euribor rates, we expect the net financial result to post minimal losses compared to the last four years, significantly supporting the bottom line.

Overall, the 4.9% YOY higher sales along with the support of the net financial result, lead to a bottom line of RON155m (+49% YOY), more than double to our previous numbers.

Table. Revenues breakdown

| Sales breakdown | 2008 | ch yoy | 2009 | ch yoy | 2010E | ch yoy | 2011E | ch yoy | 2012E |
|--|-----------|---------|-----------|---------|-----------|---------|-----------|--------|-----------|
| Sales | 2,988,066 | 21.07% | 2,551,649 | -14.61% | 2,683,193 | 5.16% | 2,815,268 | 4.92% | 3,019,232 |
| Total revenues from transmission | 1,045,734 | 9.83% | 939,764 | -10.13% | 968,116 | 3.02% | 1,096,853 | 13.30% | 1,178,488 |
| <i>in sales</i> | 35.00% | | 36.83% | | 36.08% | | 38.96% | | 39.03% |
| Interconnection capacity | 146,104 | 128.71% | 93,434 | -36.05% | 29,956 | -67.94% | 29,956 | 0.00% | 29,956 |
| Transmission revenues | 899,630 | 1.28% | 846,330 | -5.92% | 938,160 | 10.85% | 1,066,897 | 13.72% | 1,148,532 |
| <i>in sales</i> | 30.11% | | 33.17% | | 34.96% | | 37.90% | | 38.04% |
| Total revenues from ancillary revenues | 1,090,344 | 31.78% | 1,076,100 | -1.31% | 1,163,902 | 8.16% | 1,196,915 | 2.84% | 1,268,013 |
| <i>in sales</i> | 36.49% | | 42.17% | | 43.38% | | 42.52% | | 42.00% |
| Reactive energy | 13,439 | -31.66% | 3,028 | -77.47% | 4,944 | 63.28% | 4,944 | 0.00% | 4,944 |
| Ancillary revenues | 1,076,905 | 33.33% | 1,073,072 | -0.36% | 1,158,958 | 8.00% | 1,191,971 | 2.85% | 1,263,069 |
| <i>in sales</i> | 36.04% | | 42.05% | | 43.19% | | 42.34% | | 41.83% |
| Balancing market revenues | 754,424 | 31.95% | 443,887 | -41.16% | 388,112 | -12.57% | 426,923 | 10.00% | 478,154 |
| <i>in sales</i> | 25.25% | | 17.40% | | 14.46% | | 15.16% | | 15.84% |

Source: SSIF IEBA Trust estimates.

Table. FY10 IFRS results and new forecasts

| (RON m) - Consolidated IFRS | FY09A | FY10A | YOY | FY11E | YOY | FY12E | YOY |
|-------------------------------|------------------|------------------|-------------|------------------|------------|------------------|-------------|
| Transporting electric energy | 939,764 | 968,116 | 3% | 1,096,853 | 13% | 1,178,488 | 7% |
| Technological system services | 1,076,100 | 1,163,902 | 8% | 1,196,915 | 3% | 1,268,013 | 6% |
| Balancing market | 443,887 | 388,112 | -13% | 426,923 | 10% | 478,154 | 12% |
| Other revenues | 91,898 | 163,063 | 77% | 94,577 | -42% | 94,577 | 0% |
| Total revenues | 2,551,649 | 2,683,193 | 5% | 2,815,268 | 5% | 3,019,232 | 7% |
| EBITDA | 355,739 | 455,556 | 28% | 465,012 | 2% | 486,052 | 5% |
| EBITDA margin | 14% | 17% | | 17% | | 16% | |
| Depreciation & amortiz. | 257,123 | 267,135 | 4% | 282,023 | 6% | 298,654 | 6% |
| EBIT | 98,616 | 188,421 | 91% | 182,989 | -3% | 187,398 | 2% |
| Net financials | -86,503 | -58,219 | -33% | -4,553 | -92% | -34,577 | 659% |
| EBT | 12,113 | 130,202 | 975% | 178,436 | 37% | 152,821 | -14% |
| Tax on profit | 6,140 | -26,237 | -527% | -23,648 | -10% | -24,434 | 3% |
| Net profits (losses) | 18,253 | 103,965 | 470% | 154,788 | 49% | 128,388 | -17% |

Source: SSIF IEBA Trust estimates.

Review of FY10IFRS consolidated set of results

FY10IFRS consolidated set of results posted top line at RON2,683m (5% YOY), broadly matching our expectations of RON2,594m, while bottom line stood significantly above our numbers at RON103.9m vs. RON17m on almost double than forecasted operating profit. Profitability was supported by stronger margins, EBITDA surged 28% to RON455m vs. both 2009 figure and our forecast at RON357m. Top line advance was backed by the 5.7% increase in the energy transported to 55.24m MWh and also by higher transport income (+8.4%) and technological system services income (+13.8%). Revenues on the balancing market declined by 12.6% YOY to RON388m vs. the guidance at RON600m, while revenues from the interconnection capacity fell down to RON29m against RON93.6m in 2009 (vs. the guidance at RON62m).

Operating expenses increased by 1.7% and amounted to a total of RON2,494m due to an 8.87% higher technological consumption and to adjustments worth RON47m of increasing provisions for doubtful customers over 270 days due (1.92% of the operating expenses). However, we do not expect provisions to continue burdening TEL operating profitability this year. Depreciation costs came 3.9% higher YOY, salaries costs were up 4.3% while maintenance costs stood at RON45.74m being slashed by almost 40% against the previous year. The delayed costs from last year, mainly maintenance costs, will be transferred to this year's expenses and we expect this to impact the operating profitability.

Overall, the steeper advance in operating sales vs. expenses (5.2% vs. 1.7%) led to an almost double operating profitability against our estimates at RON188m vs. RON87m.

Maintaining ACCUMULATE rating

We value Transelectrica using a SOTP exercise incorporating a DCF absolute valuation (50% weight) and a relative targeted EV/EBITDA (11E) multiple at 5.5x. We derive an 8% higher target price of RON21.68/share with an upside potential of 6% and we maintain our rating Accumulate.

Discounted Cash Flow Model

Our DCF model valuation exercise results to a higher absolute target price of RON 20.23/share, reflecting that TEL is currently fairly priced. Overall, we assume a 10 years (FY11-20E) revenues CAGR of 4.5%, EBITDA of 4.4% and operating cash flows of 0.5%. Our weighted average WACC stands at 7.2% and the perpetuity growth at 2%.

| DCF assumptions | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E |
|--|--------------|--------------|--------------|------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Long Term Free Risk Rate | 7.5% | 7.25% | 7.00% | 6.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Estimated Beta | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Equity Risk Premium | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Cost of Equity | 13.5% | 13.3% | 13.0% | 12.0% | 11.0% | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% |
| Cost of Borrowing (2011E) | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| Target Capital Gearing | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% |
| Discount rate (WACC) | 9.7% | 9.6% | 9.4% | 8.7% | 8.1% | 7.4% | 7.4% | 7.4% | 7.4% | 7.4% |
| Average growth to perpetuity | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Present value of FCFs (11E-13E) | | | | 80,467 | | | | | | |
| Present value of FCFs 2nd stage (14E-20E) | | | | 429,446 | | | | | | |
| Present Value of Terminal Value | | | | 1,952,420 | | | | | | |
| Total FCFs | | | | 2,462,333 | | | | | | |
| (+) book value of investments (-) minorities (11E) | | | | 5,729 | | | | | | |
| EV | | | | 2,468,062 | | | | | | |
| (-) net debt (11E) | | | | 985,029 | | | | | | |
| Shareholder's value: | | | | 1,483,034 | | | | | | |
| Shareholder's value/share: | | | | 20.23 | | | | | | |

Source: SSIF IEBA Trust.

| FCFs | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Time factor | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Revenues | 2,815,268 | 3,019,232 | 3,266,939 | 3,445,401 | 3,596,536 | 3,714,272 | 3,832,008 | 3,949,744 | 4,067,480 | 4,185,216 |
| ch. % | 4.9% | 7% | 8% | 5% | 4% | 3% | 3% | 3% | 3% | 3% |
| EBITDA | 465,012 | 486,052 | 486,377 | 485,393 | 502,588 | 542,001 | 581,414 | 620,827 | 660,240 | 699,653 |
| EBITDA margin | 17% | 16% | 15% | 14% | 14% | 15% | 15% | 16% | 16% | 17% |
| Depreciation | -282,023 | -298,654 | -316,298 | -334,551 | -352,804 | -371,056 | -389,309 | -407,562 | -425,815 | -444,068 |
| EBIT | 182,989 | 187,398 | 170,079 | 150,842 | 149,784 | 170,944 | 192,105 | 213,265 | 234,425 | 255,585 |
| Corporate Tax paid | -29,257 | -29,962 | -27,193 | -24,117 | -23,948 | -27,331 | -30,714 | -34,097 | -37,481 | -40,864 |
| Tax rate (%) | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% | 16.0% |
| WC | -190,064 | -203,176 | -221,674 | -235,125 | -244,677 | -249,464 | -254,251 | -259,038 | -263,825 | -268,612 |
| WC/Sales | -7% | -7% | -7% | -7% | -7% | -7% | -7% | -7% | -6% | -6% |
| Change in WC | -15,631 | 13,112 | 18,498 | 13,451 | 9,552 | 4,787 | 4,787 | 4,787 | 4,787 | 4,787 |
| Operating Cash Flows | 420,125 | 469,202 | 477,682 | 474,727 | 488,192 | 519,457 | 555,487 | 591,516 | 627,546 | 663,576 |
| CAPEX | 400,000 | 420,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 |
| CAPEX % of sales | 14% | 14% | 14% | 13% | 13% | 12% | 12% | 11% | 11% | 11% |
| FCFs | 20,125 | 49,202 | 27,682 | 24,727 | 38,192 | 69,457 | 105,487 | 141,516 | 177,546 | 213,576 |
| DCF | 18,340 | 40,986 | 21,141 | 17,679 | 25,878 | 45,150 | 63,820 | 79,688 | 93,051 | 104,180 |

Source: SSIF IEBA Trust.

RELATIVE VALUATION

The EV/EBITDA(11E) of developing peers is 6.5x and for developed at 9.8x, while TEL trades at 5.1x and we set a multiple target of 5.5x in our relative valuation for 2011, assuming also that the forthcoming placement could trigger higher prices and multiples close to the IPO of TEL. Our relative valuation returns a much higher price at RON 23.13 per share, +13% from current price levels.

Table. Relative valuation

| | Country | Mkt Cap (in € m) | YTD % | 1 Year % | P/E | | EPS ch. | | EV/EBITDA | | EBITDA CAGR 10-'11E |
|--|----------------|---------------------|-------------|-------------|-------------|-------------|--------------|--------------|-------------|-------------|------------------------|
| | | | | | 10E | 11E | 10E | 11E | 10E | 11E | |
| Red Electrica Corp. S.A. | Spain | 5,911 | 24% | 23% | 15.2 | 13.2 | 18.1% | 14.8% | 9.5 | 9.4 | 7.6% |
| Elia System Operator S.A. | Belgium | 1,802 | 4% | 6% | 13.2 | 15.2 | 30.4% | -13.2% | 10.5 | 9.9 | 5.1% |
| TERNA S.p.A. | Italy | 6,856 | 8% | 12% | 14.8 | 15.5 | 27.8% | -4.3% | 9.4 | 10.2 | 0.8% |
| Electric Utilities (Developed peers) | | | 14% | 16% | 14.8 | 14.5 | 24.2% | 2.3% | 9.6 | 9.8 | 4.1% |
| Federal Grid Co. of Unified Energy System JSC | Russia | 10,205 | -1% | 0% | 18.5 | 12.0 | 131.6% | 54.3% | 7.8 | 6.2 | 25.2% |
| Cez A.S. | Czech Republic | 21,074 | 21% | 2% | 10.7 | 12.3 | -8.5% | -13.1% | 6.3 | 7.9 | -2.0% |
| Ayen Enerji A.S. | Turkey | 171 | 4% | 6% | 6.4 | 8.6 | 28.6% | -25.4% | 12.4 | | 4.0% |
| Wholesale Generation Co.-4 | Russia | 3,599 | -11% | 30% | 17.0 | 9.8 | 68.4% | 74.0% | 12.6 | 6.4 | 31.5% |
| Lenenergo JSC | Russia | 591 | -6% | -18% | 7.0 | 6.3 | 17.1% | 12.0% | 5.0 | 4.5 | 16.0% |
| Moscow Integrated Electricity Distribution Co. | Russia | 1,615 | -1% | -2% | 4.4 | 4.7 | 41.5% | -5.0% | 3.0 | 3.2 | -3.2% |
| Wholesale Generation Co.-5 | Russia | 2,067 | -6% | 9% | 20.6 | 10.2 | 42.0% | 102.4% | 11.3 | 7.0 | 25.8% |
| IDGC of Centre JSC | Russia | 1,063 | -1% | -3% | 7.9 | 4.1 | 164.0% | 90.7% | 4.5 | 3.1 | 22.8% |
| Territory Generation Co. No. 1 | Russia | 1,398 | -23% | -24% | 20.0 | 7.8 | -25.0% | 155.6% | 11.8 | 5.3 | 38.1% |
| Zorlu Enerji Elektrik Uretim A.S. | Turkey | 338 | -3% | -17% | | | -157.3% | -87.5% | 39.4 | 14.6 | 59.2% |
| Akenerji Elektrik Uretim A.S. | Turkey | 635 | 6% | -5% | | 44.9 | -132.8% | -221.3% | 80.1 | 23.2 | 98.0% |
| Holding MRSK | Russia | 4,247 | -12% | -5% | 8.6 | 6.2 | 39.9% | 38.9% | 3.2 | 3.0 | 8.2% |
| Enea S.A. | Poland | 2,191 | -18% | 7% | 12.8 | 10.8 | 30.4% | 19.2% | | 3.7 | 5.5% |
| INTER RAO EES OAO | Russia | 2,351 | -21% | -2% | | 46.5 | -100.0% | | 13.7 | 8.6 | 33.5% |
| IDGC of Center & Volga Region JSC | Russia | 647 | -5% | 6% | 26.1 | 6.2 | 23.6% | 319.5% | 6.5 | 3.9 | 36.2% |
| Interregional Distribution Grid Co. of Volga | Russia | 540 | -18% | 13% | 13.7 | 8.3 | 64.2% | 65.0% | 5.6 | 3.8 | 14.0% |
| The Open Joint-Stock Second Generation Co of the Wholes | Russia | 1,209 | -4% | 29% | 18.3 | 11.0 | 178.3% | 67.3% | 10.0 | 8.0 | 21.6% |
| Wholesale Generation Co.-1 | Russia | 1,428 | -18% | -7% | 14.8 | 10.0 | -1.1% | 47.5% | 5.2 | 5.9 | 13.7% |
| Mosenergo | Russia | 2,536 | -7% | -17% | 13.4 | 15.8 | 145.6% | -15.3% | 6.4 | 4.5 | 10.7% |
| Volga Territorial Generating Co. (TGC 7) | Russia | 1,290 | -9% | 47% | 10.3 | 23.4 | 10.4% | -55.9% | 5.6 | 5.7 | -4.2% |
| Interregional Distribution Grid Co. of Urals | Russia | 440 | -32% | -29% | 13.7 | 10.3 | -25.1% | 33.8% | 3.5 | 3.3 | -4.5% |
| Electric Utilities (Developing & Emerging peers) | | | 2% | 3% | 12.6 | 12.8 | 37.2% | 23.4% | 8.0 | 6.5 | 12.9% |
| Indicative Electric Utilities (Developing & Emerging peers) | | | -14% | 4% | 11.8 | 19.3 | 37.0% | 26.7% | 6.7 | 5.6 | 14.8% |
| <i>At IEBATRUST estimates</i> | | | | | | | | | | | |
| C.N.T.E.E. Transelectrica | Romania | 366 | 6% | 19% | 12.1 | 11.7 | -9.9% | 3.3% | 5.3 | 5.1 | 3.3% |
| <i>Premium (Discount) Vs</i> | | | | | | | | | | | |
| <i>Electric Utilities (Developed peers)</i> | | | -8% | 4% | -18% | -19% | -34% | 1% | -44% | -48% | -1% |
| <i>Electric Utilities (Developing & Emerging peers)</i> | | | 4% | 17% | -4% | -9% | -47% | -20% | -33% | -22% | -10% |
| <i>Indicative Electric Utilities (Developing & Emerging peers)</i> | | | 20% | 15% | 3% | -39% | -47% | -23% | -20% | -10% | -12% |

Source: SSIF IEBA Trust, FACTSET.

| | EBITDA margin | | P/BV | | ROE | | Dividend Yield | | Net debt/EBITDA | | |
|--|---------------|--------------|-------------|-------------|-------------|-------------|----------------|-------------|-----------------|---------------|--|
| | 10E | 11E | 10E | 11E | 10E | 11E | 10E | 11E | 10E | 11E | |
| Red Electrica Corp. S.A. | 71.7% | 71.0% | 3.6 | 3.3 | 25.5% | 26.1% | 4.3% | 4.9% | 4.7 | 4.3 | |
| Elia System Operator S.A. | 43.5% | 35.6% | 0.9 | 0.9 | 7.4% | 5.9% | 4.7% | 4.9% | 6.3 | 6.0 | |
| TERNA S.p.A. | 73.9% | 73.9% | 2.6 | 2.4 | 17.8% | 16.1% | 6.2% | 6.2% | 4.0 | 4.4 | |
| Electric Utilities (Developed peers) | 69.3% | 68.0% | 2.8 | 2.6 | 20% | 19% | 5.2% | 5.5% | 4.6 | 4.6 | |
| Federal Grid Co. of Unified Energy System JSC | 53.6% | 58.5% | 0.5 | 0.5 | 3.0% | 4.4% | 0.0% | 0.4% | 0.1 | 1.2 | |
| Cez A.S. | 44.8% | 42.6% | 2.3 | 2.1 | 22.4% | 18.0% | 5.3% | 4.9% | 1.6 | 1.9 | |
| Ayen Enerji A.S. | 30.5% | 34.4% | 6.3 | | 30.9% | | | | 2.4 | | |
| Wholesale Generation Co.-4 | 26.4% | 33.6% | 1.7 | 1.5 | 10.9% | 16.3% | 0.0% | 0.6% | -0.4 | -0.2 | |
| Lenenergo JSC | 26.3% | 33.3% | 0.4 | 0.4 | 6.6% | 6.7% | 0.7% | 0.8% | 2.2 | 2.5 | |
| Moscow Integrated Electricity Distribution Co. | 32.8% | 28.9% | 0.6 | 0.6 | 14.3% | 12.5% | 0.0% | 0.0% | 1.1 | 1.2 | |
| Wholesale Generation Co.-5 | 20.1% | 26.1% | 1.5 | 1.3 | 7.2% | 13.2% | 0.0% | 0.0% | 1.9 | 1.4 | |
| IDGC of Centre JSC | 20.8% | 25.9% | 1.2 | 1.0 | 17.2% | 26.9% | 0.0% | 0.0% | 1.0 | 0.7 | |
| Territory Generation Co. No. 1 | 16.3% | 24.7% | 0.8 | 0.7 | 5.6% | 9.8% | 0.0% | 0.0% | 2.4 | 1.5 | |
| Zorlu Enerji Elektrik Uretim A.S. | 12.1% | 23.0% | 3.4 | 3.4 | -15.7% | -3.1% | 0.0% | 0.0% | 23.9 | 8.9 | |
| Akenerji Elektrik Uretim A.S. | 6.5% | 21.1% | 1.9 | 1.8 | -3.1% | 4.1% | 0.0% | 0.0% | 31.6 | 10.1 | |
| Holding MRSK | 18.9% | 19.6% | 0.8 | 0.7 | 8.2% | 11.7% | 0.0% | 0.0% | 1.2 | 1.5 | |
| Enea S.A. | 17.2% | 18.7% | | 0.8 | | | 3.0% | 3.2% | | -2.1 | |
| INTER RAO EES OAO | 13.2% | 17.7% | 8.1 | 3.5 | 0.0% | 10.4% | 0.0% | 0.0% | | | |
| IDGC of Center & Volga Region JSC | 12.1% | 17.1% | 1.0 | 0.8 | 3.4% | 14.7% | 0.0% | 0.0% | 1.8 | 1.5 | |
| Interregional Distribution Grid Co. of Volga | 16.3% | 16.4% | 1.1 | 0.8 | 6.4% | 10.8% | 0.0% | 0.0% | 0.8 | 0.7 | |
| The Open Joint-Stock Second Generation Co of the Wholes | 12.7% | 16.0% | 1.3 | 1.1 | 7.6% | 11.3% | 0.0% | 0.3% | 0.6 | 1.9 | |
| Wholesale Generation Co.-1 | 13.4% | 14.9% | 1.2 | 1.0 | 8.2% | 11.1% | 0.0% | 0.0% | -2.1 | -0.8 | |
| Mosenergo | 14.0% | 14.8% | 0.6 | 0.6 | 4.8% | 3.6% | 0.7% | 1.0% | 0.1 | -0.2 | |
| Volga Territorial Generating Co. (TGC 7) | 15.9% | 13.8% | 1.2 | 1.1 | 12.6% | 4.8% | 0.6% | 0.3% | -0.4 | -0.2 | |
| Interregional Distribution Grid Co. of Urals | 17.0% | 12.9% | 0.4 | 0.4 | 4.2% | 4.1% | 0.0% | 0.0% | 0.5 | 1.1 | |
| Electric Utilities (Developing & Emerging peers) | 33.8% | 35.4% | 1.7 | 1.4 | 12% | 12% | 2.0% | 2.0% | 1.3 | 1.3 | |
| Indicative Electric Utilities (Developing & Emerging peers) | 14.5% | 16.1% | 2.1 | 1.3 | 4% | 7% | 0.7% | 0.8% | -0.1 | -0.2 | |
| <i>At IEBATRUST estimates</i> | | | | | | | | | | | |
| C.N.T.E.E. Transelectrica | 16.5% | 16.1% | 0.7 | 0.7 | 6% | 6% | 0.8% | 0.7% | 2.1 | 2.0 | |
| <i>Premium (Discount) Vs</i> | | | | | | | | | | | |
| <i>Electric Utilities (Developed peers)</i> | -53% | -52% | -74% | -73% | -14% | -13% | -4% | -5% | -54% | -56% | |
| <i>Electric Utilities (Developing & Emerging peers)</i> | -17% | -19% | -56% | -49% | -6% | -6% | -1% | -1% | 63% | 61% | |
| <i>Indicative Electric Utilities (Developing & Emerging peers)</i> | 2% | 0% | -65% | -47% | 1% | -1% | 0% | 0% | -4126% | -1121% | |

Source: SSIF IEBA Trust, FACTSET.

Table. SOTP valuation

| SOTP | Main assumptions | | WACC/Cost of equity@ perpetuity | Fair Value | Weight | Weighted Value | Upside (Downside) |
|--|-----------------------|------|------------------------------------|------------|--------|-------------------|----------------------|
| DCF-model | WACC | 9.7% | 7.4% | 20.23 | 50% | 10.12 | -1% |
| Relative to peers multiples | EV/EBITDA (11E) peers | | 5.5x | 23.13 | 50% | 11.57 | 13% |
| Fair Value: | | | | | | 21.68 | 6% |

Source: SSIF IEBA Trust.

RECOMMENDATION SYSTEM

SSIF IEBA TRUST uses a Relative recommendation system. Such system indicates that each stock is rated on a basis of the excess return, measured by the relative value of the target (calculated) price and the current price, over a 12 months period of time.

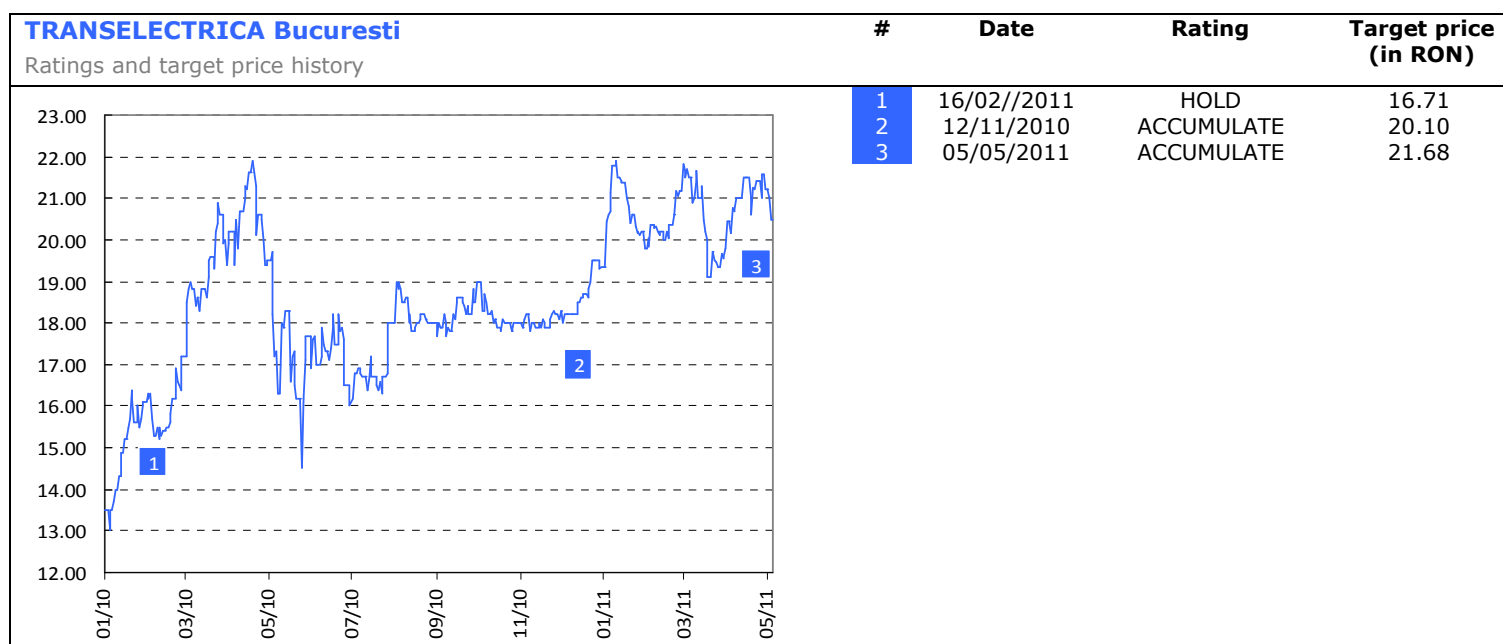
The range of recommendations for each stock consists of 4 elements: Buy (B), Accumulate (A), Hold (H), Reduce (R).

SSIF IEBA TRUST RATINGS

| | |
|------------|--|
| BUY | The stock is expected to generate potential excess return over 15% |
| ACCUMULATE | The stock is expected to generate potential excess return of 5 to 15% |
| HOLD | The stock is expected to generate potential excess return of -5% to 5% |
| REDUCE | The stock is expected to generate potential excess return below -5% |

Excess return: Target price/current price – 1

For the cases of Initial Public Offering, the above-mentioned recommendation system is not applied. In such cases, the recommendation is based on the comparison between the price of the Offering, and the fair value estimated by SSIF IEBA TRUST.



Measures Definitions

| | | |
|-------------------------------|--|---|
| IEBA Net Income | Adjusted Net Income for one-off items | |
| Net Cash Flow from operations | EBITDA (+/-) other provisions (+/-)(Increase)/Decrease in Working Capital | |
| FCF Equity | Net Cash Flow from operations (-) CAPEX | |
| Net debt | Total short-term and long-term bank debt (-) cash | |
| EV | Market Cap (avg historic or current) + book value of minorities + Net debt | |
| FCFPS | FCF Equity | Diluted no of shares |
| EPS (or IEBA) | Reported (or IEBA) Net Income | Diluted no of shares |
| BVPS | Total Equity | Year end no of shares |
| P/E (or IEBA) | Share Price (avg historic or current) | Reported (or IEBA) EPS |
| P/E IEBA at 52wks High | 52 weeks High price (avg historic or current) | IEBA EPS / Diluted IEBA Earnings Per Share |
| P/BV | Share Price (avg historic or current) | BVPS |
| ROE | Reported Net Income | Average Total Equity |
| ROCE | Reported Net Income | Average (Total debt + Total Equity) |
| EV/EBITDA | EV (with avg historic or current) | Reported EBITDA |
| EV/EBITDA (x) at 52wks High | EV using 52 weeks High market cap (avg historic or current) | Reported EBITDA |
| EBITDA/Net financials | Reported EBITDA | Net financials: Net interest (+/-) Net financials |
| EV/CE (x) | EV (with avg historic or current) | CE: Total bank debt + Total Equity |
| FCF Yield | FCFPS | Share Price (avg historic or current) |
| Dividend Yield | DPS | Share Price (avg historic or current) |
| Dividend Payout | Dividend | Reported Net Income |

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