

Transelectrica (TEL)

Estimated dividend yield of 3% for 2011

The Romanian Government plans to sell 15% stake in Transelectrica by the end of the current year. Throughout the same period, the company intends to augment share capital by 12% to finance investments. The intermediation consortium of the secondary offering was selected in October. The Ministry of Economy that owns 73.7% stake in the company will waive the right to subscribe shares within the capital increase, while minority shareholders will be able to exercise this right.

Estimated intrinsic value: 17.59 lei/share

BVB Symbol	TEL
Last closing price (LEI)	18.20
Change set against the price valid on 31.12.2010 (LEI)	-5.94%
Average of price estimates (LEI)	21.30
Capitalization (mil lei, 28.10.2011)	1,334.17

Source: Thomson Reuters

The intrinsic value of TEL shares obtained through the discounted cash flow method (in this case dividends) is Lei 17.59, by 3.35% under the share's current market price of Lei 18.20 (October 28, 2011). At said market price, the dividend yield estimated by us for 2011 stands at 3% approximately 50% of the interest on a bank deposit. Although Transelectrica is more suitable for the portfolio of a long term investor, especially in the current context, we recommend investors a safety net of at least 10%; otherwise said, buyers should show more interest in TEL when the stock reaches Lei 15.83 or at 90% of the intrinsic value estimated in this research ([see page 4 for further details](#)).

The second evaluation method used in this research entails the comparison with Transelectrica's peer sector taking into account a series of financial multiples. TEL is undervalued based on P/E, P/BV, P/S, EV/EBITDA and EV/EBIT ([see page 6 for further details](#)).

TEL vs. BET (28.10.2010 - 28.10.2011)



— TEL ; — BET

Source: Tradeville

Transelectrica belongs to the utilities sector and the electricity sub-sector. Usually, sales of these companies are less influenced by the macroeconomic context, electricity consumption being essential for both large consumers (plants, companies) and for the population. During times of economic downturn, the issuer's revenue contracts at a slower pace set against other cyclical industries. For example, in 2009 Transelectrica posted sales sliding by 15%, after an approximately 28% advance in 2008. TEL is considered a defensive stock, the beta coefficient - computed based on monthly changes underwent by its price over the past 5 years - standing at 0.78 (*Reuters*). Its low sensitivity to market changes was proven by the quote's performance in the past year, when BET fell by 11.48% and TEL by only 5.94%.

Transelectrica will post its Q3 financials on November 10.

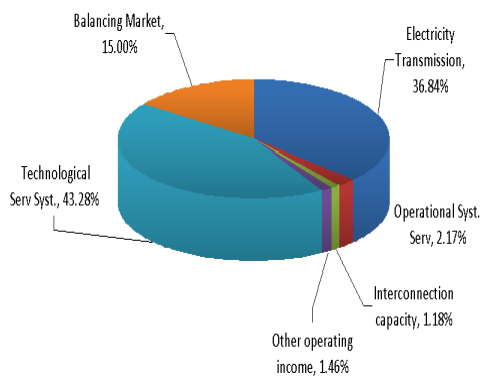
Activity Sector

Transelectrica is part of the utilities sector and the electricity sub-sector. Usually, sales of electricity companies are less influenced by the macroeconomic context as electricity consumption is essential for both large consumers (plants, companies) and for the population. Therefore, during tough economic times sales go down at a slower pace set against other cyclical industries. For example, Transelectrica's sales dropped by a mere 15% in 2008, after having climbed 28% in 2007. TEL is considered a defensive stock, the beta coefficient - computed based on monthly changes underwent by its price throughout the past 5 years—standing at 0.78 (*Reuters*). Low sensitivity to market changes was also proven by the quote's performance over the past year, when BET lost 11.48% and TEL only 5.94%.

The company ensures the operation of the Romanian National Electrical Grid, thus providing the infrastructure of the national electricity market and guaranteeing access to the electric-power transmission grid to all market participants. Transelectrica does not trade electricity, buying only the quantity needed to cover transmission losses.

Structure, governance and activity

Weight of TEL's main business lines in sales (2010)



Source: Transelectrica Annual Report, 2010.

Most of the company's income is generated by two types of provided services, i.e. the electricity transmission service (36.84% of sales in 2010) and the technological system service (43.28% of sales in 2010). The electricity transmission service resides in ensuring electricity distribution between two or several points of the Romanian National Electrical Grid by complying with certain quality standards. The beneficiaries of this service are all license holders that put in or take out electricity from the National Grid, including for import/export activities. The tariff for the transmission service is set a 18.77 lei/MWh up by 10.41% set against 2010.

The system service consists of keeping the National Electrical Grid fully operational at all times by observing certain quality standards. To achieve this objective, Transelectrica uses its own resources, called operational system services (2.17% of 2010 sales) and buys technological system services from electricity producers. Revenues obtained from the balancing power market hold a 15% weight in 2010 sales, Transelectrica being an operator of this market.

As of May 2011, Horia Hahaianu is the new CEO of Transelectrica. He was the former CEO of Teletrans throughout 2009 - 2011.

Financials Analysis

The internal gross electricity consumption rose 4.82% in 2010 set against the previous year, while electricity production stood by 5.31% above the level recorded in 2009. The uptrend continued in the first six months of the current year regarding both electricity consumption (+5.6%) and production (+11.4%). In 2010, sales inched up by 2.4% and, according to our estimates, the figure will further advance by 8.2% in 2011 (TEL sales climbed 9.7% in H1 2011). Considering operational and organizational efficiency in 2010, TEL has not undergone significant changes, while return on equity stayed proper. Nonetheless, against a backdrop of higher revenues, we anticipate a growth in profitability margins in 2011. The net margin (computed as a ratio between net profit and sales) will probably go up to 2.9% in 2011 from a mere 0.37% in 2010.

The issuer has a financial leverage of 70% or Lei 1.78 billion and sales of Lei 2.54 billion (including trade and other payables, short and long term debts - except for unearned revenues which we have included in the debts section in our evaluation). Even if TEL borrows money at low costs (EURIBOR + 1-2% margin for euro) a net margin of only two or three percentage points will not add value to shareholders in the long term, especially if we consider the fact that TEL is greatly exposed to currency risk (the risk that the Romanian Leu might depreciate against the EUR and USD), over 80% of the long-term debt being Euro-denominated. The company might minimize currency risk by hedging operations. The good news is that in December 2010 Moody's improved the issuer's credit rating, i.e. its ability to pay back debts, from B2 (speculative grade) to Baa3 (investment grade). In March 2011, Moody's lifted Romania's rating to Baa3.

In August, the Ministry of Economy approved the revised budget of Transelectrica for 2011, which forecasts gross profit of only Lei 42 mil. The approach is rather conservative if we take into account that it reaped gross profit of Lei 215.5 mil in the first six months of the year. We think it's highly likely for Transelectrica to exceed budgeted profit targets.

	2011e	2010	2009	2008
Gross profit (Gr.P)	791,283,576.04	737,060,392.00	705,015,967.00	844,088,343.00
EBITDA	404,369,171.80	365,027,311.00	323,012,668.00	413,804,648.00
EBIT	144,236,139.15	79,554,601.00	100,025,587.00	204,179,037.00
Net interest expense(d)*	37,359,123.63	30,976,865.00	40,289,425.00	57,924,109.00
EBT	106,877,015.52	48,577,736.00	59,736,162.00	146,254,928.00
Net profit	80,329,251.87	9,557,384.00	6,135,590.00	41,943,077.00
Income tax (EBT - NP)	26,547,763.65	39,020,352.00	53,600,572.00	104,311,851.00
Total debts	2,346,595,450.52	2,096,292,078.00	1,856,214,271.00	1,997,153,509.00
Equity (Eq)	2,432,563,053.06	2,358,192,244.00	2,362,457,486.00	2,386,629,799.00
Sales (\$)	2,754,371,072.80	2,545,724,630.00	2,485,127,373.00	2,924,508,220.00
DuPont System				
Gross commercial margin	28.73%	28.95%	28.37%	28.86%
xOperational efficiency (\$/TA)	57.63%	57.15%	58.91%	66.71%
xOrganisational efficiency (EBIT/Gr.p)	18.23%	10.79%	14.19%	24.19%
ROA	3.02%	1.79%	2.37%	4.66%
X Interest influence (EBT/EBIT)	74.10%	61.06%	59.72%	71.63%
X Leverage effect (Eq+TD)/Eq	196.47%	188.89%	178.57%	183.68%
x Fiscal Efficiency (Np/EBT)	75.16%	19.67%	10.27%	28.68%
ROE	3.30%	0.41%	0.26%	1.76%

Source: Transelectrica Financial Statements; Tradeville estimates

Evaluation

The intrinsic value of TEL obtained by the discounted cash flow approach (in this case it regards dividends) stands at Lei 17.59, by 3.35% below the stock's current market price (October 28, 2011), i.e. Lei 18.20. At market price, the dividend yield estimated by us for 2011 stands at 3% approximately 50% of the interest on a bank deposit. Although Transelectrica is a great asset in the portfolio of a long term investor, especially under the current circumstances, we recommend investors interested in buying TEL shares to take a safety net of at least 10%; in other words, TEL should arise the buyers' interest at Lei 15.83 or 90% of the intrinsic value estimated in this research. Below we have showcased the employed evaluation methods and criteria.

Each year, Transelectrica pays its shareholders at least 50% of net profit as dividends due to the obligation imposed by the Romanian Government which is a majority shareholder (73.69%). Moreover, 90% of 2010 net profit was allotted to financing the budget deficit. Considering these two arguments, we have decided to evaluate TEL through the *discounted dividend model (DDM)*, which entails updating estimated cash flows (in this case dividends).

Profit and loss statement	2008	2009	2010	2011e	2012e	2013e	2014e	2015e
Net sales	2,924,508,220.00	2,485,127,373.00	2,545,724,630.00	2,754,371,072.80	2,852,490,033.22	2,985,278,314.68	3,218,097,258.80	3,433,775,923.12
Change	-	(15.02)	2.44	8.20	3.56	4.66	7.80	6.70
COGS	2,080,419,877.00	1,780,111,406.00	1,808,664,238.00	1,963,087,496.76	2,034,295,419.08	2,125,869,633.08	2,293,430,282.90	2,447,079,342.97
Gross operating profit	844,088,343.00	705,015,967.00	737,060,392.00	791,283,576.04	818,194,614.15	859,408,681.60	924,666,975.90	986,696,580.15
Admin. and payroll expense	430,283,695.00	382,003,299.00	372,033,081.00	386,914,404.24	402,390,980.41	414,462,709.82	428,968,904.67	443,982,816.33
EBITDA	413,804,648.00	323,012,668.00	365,027,311.00	404,369,171.80	415,803,633.74	444,945,971.78	495,698,071.24	542,713,763.82
Amortization	240,432,687.00	255,594,642.00	322,680,484.00	295,270,522.52	309,077,664.64	314,261,646.45	320,268,234.74	325,794,295.96
Operating profit (EBIT)	204,179,037.00	100,025,587.00	79,554,601.00	144,236,139.15	145,228,749.69	171,354,498.79	218,207,493.85	263,177,436.74
Net profit	41,943,077.00	6,135,590.00	9,557,384.00	80,329,251.87	139,305,245.02	87,635,770.41	200,968,473.27	239,791,081.65
Net margin	1.43%	0.25%	0.38%	2.92%	4.88%	2.94%	6.24%	6.98%
No. of shares	73,303,142.00	73,303,142.00	73,303,142.00	73,303,142.00	82,099,519.04	82,099,519.04	82,099,519.04	82,099,519.04
Beta	-	-	0.78	0.78	0.78	0.78	0.78	0.78
RFR	-	-	7.00	7.00	6.75	6.50	6.25	6.00
Expected return	-	-	12.50	12.50	12.25	12.00	11.75	11.50
Cost of equity	-	-	0.11	0.11	0.11	0.11	0.11	0.10
Long-term growth rate	-	-	-	-	-	-	-	0.03
DPS	0.3000	0.0500	0.1160	0.5479	0.8484	0.5337	1.2239	1.4604
PV of DPS	-	-	-	0.55	0.76	0.43	0.91	0.99
Terminal Value	-	-	-	-	-	-	-	20.63
PV of Terminal Value	-	-	-	-	-	-	-	13.95
Theoretical price				17.59				

Data displayed in the above table is RON-denominated; Source: Transelectrica Reports, Tradeville.

In TEL's evaluation process we considered the current macroeconomic environment starting from the scenario that forecasts moderate economic growth in the upcoming 3-5 years in developed countries, a slight decline in EU countries, slightly above one percentage point in the US and a bit more consistent in emergent countries, high unemployment rate, most countries adopting structural reforms required to mend budget deficits but which will hinder economic growth. Romania has timely adopted austerity measures by augmenting VAT, cutting wages in the public sector and implementing some reforms concerning labour force that diminished the weight of the budget deficit in GDP to 2.4% after the first eight months of the current year, the Ministry of Public Finance estimating that Romania might meet the 4.4% target set for the entire year. Nonetheless, there has been a slowdown in the pace of growth of GDP to 0.2% in the second quarter of 2011 (set against 0.7% in Q1) trend noticeable in developed economies as well. This is why we adopted a conser-

Evaluation

vative approach regarding growth estimates for TEL's revenues and took into account prospects regarding the performance of the local economy (slight growth in 2012, standstill in 2013 and resuming growth in 2014 and 2015), the exchange rate (ron/eur and ron/usd), and for setting the relevant prices for TEL services we considered the upper limit of the inflation rate estimated by the National Bank of Romania. Further on, there is a more comprehensive presentation of the criteria employed to estimate balance sheet ratios.

Sales. Most of Transelectrica's income is generated by electricity transmission (36.8% of 2010 sales) and by technological system services (43.38% of 2010 sales). The other income sources are: the balancing power market (15%), interconnection capacity (1.18%) and operational system services (2.17%). Transelectrica's revenues also depend upon the performance of the local economy, although to a smaller extent set against other cyclical sectors. In H1, 2011 electricity transmission rose by 10%, reason why we estimated that the growth will hover around 10% for the entire year. For 2012 – 2015, we took into account a slowdown in economic growth in 2012, stagnation in 2013 and re-entering an upward trend in 2014 and 2015. The translation of these estimates in Transelectrica's results is the following: decrease in the pace of growth of energy transmission to 5% in 2012, maintaining the same level in 2013 and 5% growth in 2014 and 2015. This scenario - further called scenario I - indicates a period of 3-5 years with anemic increases in developed countries, proper in EU, slightly above one percentage point in the US and more consistent in emergent markets, high unemployment rate, when most countries will implement structural reforms required to mend budget deficits but which will hinder economic growth. Prices of transmission and system services have been raised in line with the superior limit of the inflation estimated by the National Bank of Romania (*see the Schedule displayed on pg 11 for further details*).

COGS (cost of goods sold) was estimated by computing its weight in sales in the past two years. **Payroll and administrative expenses** have been increased on a yearly basis and, as of 2011, in line with the upper inflation limit estimated by the National Bank of Romania. As for **amortization expenses**, the average weight of amortization in long term assets throughout 2008-2010 stands at 8%. We used this weight to estimate amortization expense throughout 2011-2015. Other operating income – the arithmetic mean of the weight of operating income in sales over the past 3 years, relative to each year's sales. In order to estimate **interest income**, we computed the average weight of interest income over the past 3 years set against cash at bank and in hand e casa, relative to the previous year's cash and cash equivalents. Income from owned stakes – arithmetic mean of the past three years. Interest expense – the arithmetic mean of the weight held interest expense in total debts (short and long term) relative to the sum between short term and long term debts in the previous year. **Financial result** is computed as a difference between total financial revenues and total financial expenses; the final result was adjusted by exchange rate differences. Considering that on June 31 2011, 83.4% of Transelectrica's loans were Euro-denominated and 5.8% USD-denominated, estimating the exchange rate becomes an essential condition in this evaluation. To approximate the exchange rate for the upcoming five years we took into account scenario I and estimated the below-displayed exchange rates:

Pair/ex.rate	12/31/2010	6/30/2011	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
ron/euro	4.28	4.23	4.30	4.25	4.30	4.25	4.20
ron/usd	3.20	2.93	3.10	3.05	3.00	2.95	2.90

Source: Tradeville estimates

We estimated the Risk Free Rate (RFR) at 7%, to which we added a 5.5% margin to calculate the return expected by the market. Cost of capital was computed based on the following formula $RFR + \beta \times (\text{expected return} - RFR)$, using a beta coefficient of 0.78 calculated by Reuters based on monthly price changes. The long term growth rate is estimated at 3%, slightly below the long term growth rate of the local economy.

Evaluation

Variable	Basic scenario	Minimum estimate	Maximum estimate	Theoretical price with min.estimate	Theoretical price with max. estimate
Beta	0.78	0.68	0.88	19.70	16.31
RFR	7.00	6.50	7.50	17.86	16.20
Equity risk-premium	5.50	5.00	6.00	18.61	16.67
g	3.00	2.50	3.50	16.63	18.68

The sensitivity analysis calculates the theoretical price (intrinsic value of TEL) considering a changed basic scenario. For example, for a beta coefficient of 0.68, leaving the other ratios according to the basic scenario, the estimated theoretical price stands at 19.70 lei/share. Source Tradeville

An objective assessment of the criteria used for analysis does not count out the oscillating character of these terms, reason why we made a sensitivity analysis showing which would be the intrinsic value of TEL shares in other circumstances than the initially estimated ones.

A second evaluation approach entails comparing the TEL stock with its peer sector taking into account several financial multiples. We included nine electricity transmission companies in the EU in the relevant sector, selected based on total assets. The assets of selected companies are either by maximum 60% above TEL's assets or by 60% below them. The nine companies were compared based on the P/S, P/E, P/BV, EV/EBITDA, EV/EBIT multiples. The sector average of P/E, P/BV, P/S multiples was computed as a ratio between the sum of the euro-denominated capitalization of the nine companies (we excluded Transelectrica from the sector) and the sum of value ratios in Euro terms (book value, sales and net profit). The sector average of EV/EBITDA and EV/EBIT was similarly computed, as a ratio between the euro-denominated *enterprise value* of the nine companies (excluding Transelectrica) and the sum of EBITDA and EBIT ratios (euro-denominated value). The calculation formula is the stock market capitalization to which we added the market value of debts minus available cash and short term investments.

The theoretical price was computed in RON terms based on the exchange rate of the National Bank of Romania valid on October 26, 2011. For the P/BV, P/E and P/S multiples, the theoretical price is computed by multiplying the sector average of the relevant multiple with the ratio's value, i.e. book value per share, net profit per share and sales per share corresponding to Transelectrica. In the case of EV/EBITDA and EV/EBIT, after multiplying the relevant multiple's sector average with Transelectrica's EBITDA or EBIT, the available cash and short term investments are added minus the market value of Transelectrica's debt. As it can be seen in

Company	RIC	Market cap.* (14.10.2011)	Country	P/BV, LFI	Book Value, LFI *	P/E, LTM	Net Profit, LTM *	P/S, LTM	Sales, LTM *	EV/EBITDA, LFI, LTM	EV, LFI *	EBITDA, LTM *	EV/EBIT, LFI, LTM	EBIT, LTM
Transelectrica	TSEL.BX	311.69	Romania	0.62	501.84	3.87	80.50	0.47	660.35	3.22	490.15	152.22	6.33	87.10
Alerion Clean Power SpA	ARN.MI	182.38	Italy	1.10	166.01	28.77	6.34	3.30	55.25	14.78	453.45	30.68	96.73	5.08
Electricite De Strasbourg SA	EDSP.PA	740.55	France	2.97	249.50	12.31	60.14	1.21	610.99	3.00	384.42	128.14	5.13	90.31
Falck Renewables SpA	AAA.MI	232.55	Italy	0.50	463.96	8.08	28.79	1.33	174.82	18.37	908.21	49.44	21.80	49.44
Fersa Energias Renovables SA	FRS.MC	116.20	Spain	0.37	314.11	n/r	(43.93)	2.87	40.43	n/a	n/a	n/a	n/a	n/a
Lechwerke AG	LECG.DE	2,002.62	Germany	2.42	827.95	13.07	153.18	1.03	1,942.12	8.89	1,345.15	151.31	n/a	n/a
Terna Energy SA	TENr.AT	201.17	Greece	0.55	363.77	14.76	13.63	3.46	58.18	11.47	318.06	27.73	21.88	17.89
Theolia SA	TEO.PA	108.41	France	0.46	233.47	3.99	27.19	1.31	82.92	n/a	n/a	n/a	n/a	n/a
Prazska energetika	PRNG.PR	800.23	Czech Republic	1.76	454.67	7.11	112.49	0.98	816.43	4.60	822.80	178.87	0.16	143.35
Rytu skirstomieji tinklai AB	RSTLL.VL	1,092.66	Lithuania	1.72	634.38	n/r	(9.15)	3.13	348.65	5.60	1,150.69	205.48	n/a	n/a
SECTOR excl. Transelectrica				1.48		15.71		1.33		6.98			17.59	
Theoretical price (lei)				43.76		74.65		51.70		52.15			79.90	
Market price (lei)***				18.10		18.10		18.10		18.10			18.10	

*mil euro

**NBR exch rate on October 26, 2011

*** on October 26, 2011

Source: Reuters

Evaluation

the table displayed on the previous page, TEL is an undervalued stock set against its peer sector grounded on each of the five multiples.

We also think it is important to enumerate the main risks that should be taken into consideration by an investor interested in Transelectrica shares.

Price Risk. According to ANRE (the Romanian Energy Regulatory Authority) methodologies, Transelectrica's activity in the internal market is carried out based on regulated tariffs, while on the regional market this is grounded on bilateral agreements. **Currency risk.** Approximately 80% of TEL's long term debt is Euro-denominated, the differences resulted from exchange rate shifts being included in the profit and loss statement. Otherwise put, if the euro appreciates against the Romanian Leu than TEL incurs a currency exchange loss.

The second category is represented by financial risks: credit risk, counterparty risk, interest risk, liquidity risk.

Research Author

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S = sales;

y/y = yearly change;

LTM = last twelve months

PTM = the 12 months previous to LTM

EPS = earnings per share

Net margin = net profit / S

ROA = return on asset;

ROE = return on equity;

P/E = price / net profit per share;

P/BV = price / equity per share;

P/S = price/ sales per share;

operating margin = EBIT / S

EV = market cap + debt - cash and cash

equivalents;

EBIT(DA) = operating profit (+ amort.);

Beta = price sensitivity to market changes;

g = long-term profit growth rate;

Intrinsic value = estimates the stock's current price by the discounted cash flow method

DPS = dividend per share

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Schedule Transelectrica Financial Statements(1/3)

Profit and loss statement

Transelectrica

lei

Period	2008	2009	2010	2011e	2012e	2013e	2014e	2015e
Net sales	2,924,508,220.00	2,485,127,373.00	2,545,724,630.00	2,754,371,072.80	2,852,490,033.22	2,985,278,314.68	3,218,097,258.80	3,433,775,923.12
<i>change</i>	-	(15.02)	2.44	8.20	3.56	4.66	7.80	6.70
Inventory turnover	-	-	-	-	-	-	-	-
COGS	2,080,419,877.00	1,780,111,406.00	1,808,664,238.00	1,963,087,496.76	2,034,295,419.08	2,125,869,633.08	2,293,430,282.90	2,447,079,342.97
COGS weight in Sales	0.71	0.72	0.71	0.71	0.71	0.71	0.71	0.71
Gross operating profit	844,088,343.00	705,015,967.00	737,060,392.00	791,283,576.04	818,194,614.15	859,408,681.60	924,666,975.90	986,696,580.15
<i>Gross margin</i>	<i>28.86%</i>	<i>28.37%</i>	<i>28.95%</i>	<i>28.73%</i>	<i>28.68%</i>	<i>28.79%</i>	<i>28.73%</i>	<i>28.74%</i>
Payroll and admin. expense	430,283,695.00	382,003,299.00	372,033,081.00	386,914,404.24	402,390,980.41	414,462,709.82	428,968,904.67	443,982,816.33
Weight of payroll and admin exp.	0.15	0.15	0.15	0.14	0.14	0.14	0.13	0.13
EBITDA	413,804,648.00	323,012,668.00	365,027,311.00	404,369,171.80	415,803,633.74	444,945,971.78	495,698,071.24	542,713,763.82
Amortization	240,432,687.00	255,594,642.00	322,680,484.00	295,270,522.52	309,077,664.64	314,261,646.45	320,268,234.74	325,794,295.96
Other operating income	30,807,076.00	32,607,561.00	37,207,774.00	35,137,489.87	38,502,780.60	40,670,173.47	42,777,657.35	46,257,968.87
Operating profit (EBT)	204,179,037.00	100,025,587.00	79,554,601.00	144,236,139.15	145,228,749.69	171,354,498.79	218,207,493.85	263,177,436.74
Operating margin	0.07	0.04	0.03	0.05	0.05	0.06	0.07	0.08
Income from held stakes	2,837,176.00	3,170,105.00	3,567,838.00	7,135,676.00	4,624,539.67	5,109,351.22	5,623,188.96	5,119,026.62
Income from other financial inv.	-	-	-	-	-	-	-	-
Interest income	30,188,719.00	16,397,584.00	4,437,689.00	5,180,940.20	10,719,177.66	16,467,212.30	14,672,100.78	20,378,382.73
Total financial income	42,793,843.00	24,148,351.00	96,877,508.00	12,316,616.20	15,343,717.32	21,576,563.52	20,295,289.75	25,497,409.35
Value adj. financial inv.	-	-	-	-	-	-	-	-
Revenue	-	-	-	-	-	-	-	-
Expense	-	-	-	-	-	-	-	-
Interest expense	57,924,109.00	40,289,425.00	30,976,865.00	37,359,123.63	43,323,541.98	46,364,440.37	47,845,253.50	51,799,925.06
Total financial expense	193,458,050.00	107,270,510.00	153,753,182.00	37,359,123.63	43,323,541.98	46,364,440.37	47,845,253.50	51,799,925.06
Financial result	(150,664,207.00)	(83,122,159.00)	(56,875,674.00)	(48,606,077.40)	20,610,827.71	(67,026,200.68)	21,040,688.61	22,288,136.65
Gross profit	53,514,830.00	16,903,428.00	22,678,927.00	95,630,061.75	165,839,577.40	104,328,298.11	239,248,182.46	285,465,573.39
Taxes	11,571,753.00	5,120,943.00	12,178,656.00	15,300,809.88	26,534,332.38	16,692,527.70	38,279,709.19	45,674,491.74
Exceptional result	-	(5,646,895.00)	(942,887.00)	-	-	-	-	-
Net profit	41,943,077.00	6,135,590.00	9,557,384.00	80,329,251.87	139,305,245.02	87,635,770.41	200,968,473.27	239,791,081.65
<i>Net margin</i>	<i>1.43%</i>	<i>0.25%</i>	<i>0.38%</i>	<i>2.92%</i>	<i>4.88%</i>	<i>2.94%</i>	<i>6.24%</i>	<i>6.98%</i>

Source :Transelectrica, Tradeville estimates

Schedule Transelectrica Financial Statements (2/3)

Balance Sheet									
Transelectrica									
Ron									
Period	2008	2009	2010	2011e	2012e	2013e	2014e	2015e	
Cash at bank and in hand	206,504,372.00	151,698,509.00	95,361,586.00	256,492,514.20	342,635,731.25	326,584,489.58	438,309,349.90	579,534,330.98	
Inventory	34,331,919.00	35,073,966.00	38,729,366.00	41,903,607.37	43,396,339.58	45,416,513.28	48,958,502.85	52,239,728.89	
Receivables	833,356,732.00	618,817,388.00	667,123,523.00	721,800,666.14	747,513,371.19	782,311,394.94	843,323,097.62	899,843,079.66	
Intangible assets	3,258,697,895.00	3,360,199,849.00	3,552,803,789.00	3,690,881,531.54	3,863,470,808.02	3,928,270,580.65	4,003,352,934.20	4,072,428,699.46	
Financial investments	49,168,604.00	49,180,944.00	99,915,560.00	66,088,369.33	71,728,291.11	79,244,073.48	72,353,577.98	74,441,980.86	
Prepaid expense	1,723,846.00	3,701,101.00	550,498.00	1,991,815.00	2,081,138.00	1,541,150.33	1,871,367.78	1,831,218.70	
Total asset	4,383,783,308.00	4,218,671,757.00	4,454,484,322.00	4,779,158,503.58	5,070,825,679.14	5,163,368,202.26	5,408,168,830.32	5,680,319,038.55	
Trade payables, suppliers	644,440,234.00	452,772,009.00	528,390,820.00	571,697,493.35	592,063,073.10	619,624,620.05	667,948,539.83	712,714,821.68	
Short term debts (<1 year)	195,880,305.00	236,250,102.00	273,097,567.00	328,894,128.82	328,894,128.82	384,997,267.69	384,997,267.69	384,997,267.69	
Long term debts (<1 year)	1,011,270,693.00	947,211,185.00	981,607,809.00	1,219,757,450.35	1,276,794,516.97	1,298,209,456.68	1,423,022,569.57	1,547,576,081.24	
Unearned revenue	145,562,277.00	219,980,975.00	313,195,882.00	226,246,378.00	253,141,078.33	264,194,446.11	247,860,634.15	255,065,386.20	
Total debts	1,997,153,509.00	1,856,214,271.00	2,096,292,078.00	2,346,595,450.52	2,450,892,797.23	2,567,025,790.53	2,723,829,011.24	2,900,353,556.81	
Share capital	733,031,420.00	733,031,420.00	733,031,420.00	733,031,420.00	820,995,190.40	820,995,190.40	820,995,190.40	820,995,190.40	
Reserves and provisions	367,493,905.00	380,811,051.00	384,430,479.00	377,578,478.33	380,940,002.78	380,982,986.70	379,833,822.60	380,585,604.03	
Revaluation reserves	1,246,695,280.00	1,242,883,746.00	1,232,130,024.00	1,240,569,683.33	1,238,527,817.78	1,237,075,841.70	1,238,724,447.60	1,238,109,369.03	
Accumulated profit	39,409,194.00	-	-	1,054,219.53	40,164,625.93	69,652,622.51	43,817,885.20	100,484,236.63	
Current year profit	-	5,731,269.00	8,600,321.00	80,329,251.87	139,305,245.02	87,635,770.41	200,968,473.27	239,791,081.65	
Total equity	2,386,629,799.00	2,362,457,486.00	2,358,192,244.00	2,432,563,053.06	2,619,932,881.91	2,596,342,411.73	2,684,339,819.08	2,779,965,481.74	
Total liabilities	4,383,783,308.00	4,218,671,757.00	4,454,484,322.00	4,779,158,503.58	5,070,825,679.13	5,163,368,202.26	5,408,168,830.32	5,680,319,038.55	
Dividends	21,990,942.60	3,665,157.10	8,503,164.47	40,164,625.93	69,652,622.51	43,817,885.20	100,484,236.63	119,895,540.82	
Dividend payout ratio	52.43%	59.74%	88.97%	50.00%	50.00%	50.00%	50.00%	50.00%	
TD/TA	45.56%	44.00%	47.06%	49.10%	48.33%	49.72%	50.37%	51.06%	

Source: Transelectrica, Tradeville estimates

Cash on hand and at bank - we have kept a cash balance equivalent to the difference between receivables and inventory on the one hand, and debts to suppliers on the other hand, to which we added an amount equal to 2/12 of the year's payroll expenses. When there was a cash surplus (resulted from equilibrating the balance) we added it as well. To evaluate inventories we increased their level with the yearly change in sales. Inventory was augmented with the annual change in sales. Intangible assets were estimated based on the formula: current intangible assets = last year's intangible assets + planned investments for the current year x (1- the arithmetic mean of amortization weight in total intangible assets). Financial investments – the arithmetic mean of the last 3 years. Prepaid expenses – the arithmetic mean of the last 3 years; Trade and other payables - augmented with the annual growth in sales. Long-term debts – estimated based on the formula: (Q0 long-term debts/Q0 intangible assets) x Q1 intangible assets. Unearned revenues – arithmetic mean of unearned revenues over the past 3 years. Regarding unearned revenues, we adopted a conservative approach, including them in debts, while in Transelectrica's balance sheet unearned revenues are included in equity, which translates into a lower financial leverage. Share capital – steady in 2011; for 2012, we took into account a 12% share capital increase. Dividends— we estimated a payout ratio of 50% of net profit as dividends throughout 2011 – 2015.

Evaluation	2008	2009	2010	2011e	2012e	2013e	2014e	2015e
Adj. rate to current value			-	1.00	1.11	1.23	1.35	1.48
No of shares	73,303,142.00	73,303,142.00	73,303,142.00	73,303,142.00	82,099,519.04	82,099,519.04	82,099,519.04	82,099,519.04
DPS	0.30	0.05	0.12	0.55	0.85	0.53	1.22	1.46
PV of DPS	n/r	n/r	n/r	0.55	0.76	0.43	0.91	0.99
Terminal Value								20.63
PV of Terminal Value								13.95
Intrinsic value				17.59				
Period								
Beta coefficient			0.78	0.78	0.78	0.78	0.78	0.78
Risk free rate			7.00	7.00	6.75	6.50	6.25	6.00
Expected return			12.50	12.50	12.25	12.00	11.75	11.50
Cost of equity			0.11	0.11	0.11	0.11	0.11	0.10
Long term growth rate								3.00%

Schedule Transelectrica Financial Statements (3/3)

Ratios	2008	2009	2010	2011	2012	2013	2014	2015
Electricity Transmission	-	-	-	-	-	-	-	-
MWh	58,857,677.00	52,263,191.00	55,241,871.00	60,766,058.10	63,804,361.01	63,804,361.01	66,994,579.06	70,344,308.01
change	6.30	(11.20)	5.70	10.00	5.00	-	5.00	5.00
ron/MWh	15.28	16.19	17.00	18.77	19.52	20.11	20.81	21.54
ron	899,629,803.00	846,143,670.00	939,111,807.00	1,140,578,910.54	1,245,512,170.31	1,282,877,535.42	1,394,167,161.61	1,515,111,162.88
Reactive power	13,438,661.00	3,027,575.00	4,943,598.00	7,136,611.33	5,035,928.11	5,705,379.15	5,959,306.20	5,566,871.15
Operational System Services								
MWh	58,857,677.00	52,263,191.00	55,241,603.00	60,765,763.30	63,804,051.47	63,804,051.47	66,994,254.04	70,343,966.74
change	5.65	(11.20)	5.70	10.00	5.00	-	5.00	5.00
ron/MWh	0.82	1.00	1.00	1.07	1.11	1.15	1.19	1.23
ron	48,262,273.00	52,269,397.00	55,241,603.00	65,019,366.73	71,001,148.47	73,131,182.92	79,475,313.04	86,369,796.45
DAM unplanned changes	5,009,787.00	4,002,269.00	3,084,933.00	2,159,453.10	3,082,218.37	2,775,534.82	2,672,402.10	2,843,385.10
Interconnection capacity	146,104,241.00	93,620,799.00	29,956,290.00	59,912,580.00	44,934,435.00	52,423,507.50	48,678,971.25	50,551,239.38
ITC	283,201.00	8,636.00	774,561.00	-	-	-	-	-
Other services	7,378,923.00	5,689,866.00	5,163,000.00	4,698,330.00	5,183,732.00	5,015,020.67	4,965,694.22	5,054,815.63
change	(7.16)	(22.89)	(9.26)	(9.00)	10.33	(3.25)	(0.98)	1.79
Other operating income	30,807,077.00	32,607,561.00	37,207,774.00	39,440,240.44	36,418,525.15	37,688,846.53	37,849,204.04	37,318,858.57
change	(46.70)	5.84	14.11	6.00	(7.66)	3.49	0.43	(1.40)
Income from technological syst. serv.								
MWh	58,857,677.00	52,263,191.00	55,241,871.00	60,766,058.10	63,804,361.01	66,994,579.06	70,344,308.01	73,861,528.41
change	-	(11.20)	5.70	10.00	5.00	-	5.00	5.00
ron/MWh	17.48	19.53	19.97	15.11	15.71	16.19	16.75	17.34
ron	1,028,642,481.00	1,020,797,697.00	1,103,180,163.87	918,175,137.89	1,002,647,250.58	1,084,363,001.50	1,178,431,491.88	1,280,660,423.80
Market Administration								
MWh	58,857,677.00	52,263,191.00	55,241,871.00	60,766,058.10	63,804,361.01	63,804,361.01	66,994,579.06	70,344,308.01
ron/MWh	0.29	0.30	0.30	0.30	0.31	0.31	0.31	0.31
ron	16,849,653.00	15,680,455.00	16,575,487.00	18,229,817.43	19,524,134.47	19,524,134.47	20,500,341.19	21,525,358.25
Balancing market	754,425,433.00	443,887,009.00	388,112,341.00	528,808,261.00	453,602,537.00	456,841,046.33	479,750,614.78	463,398,066.04
Green certificate market v.	4,483,763.00	-	2,955,591.00	3,753,168.00	-	-	-	-
Operating income	2,955,315,296.00	2,517,734,934.00	2,586,307,148.87	2,787,911,876.46	2,886,942,079.45	3,020,345,189.31	3,252,450,500.31	3,468,399,977.24
Other operating income	30,807,076.00	32,607,561.00	37,207,774.00	33,540,803.67	34,452,046.22	35,066,874.63	34,353,241.51	34,624,054.12
Net sales	2,924,508,220.00	2,485,127,373.00	2,549,099,374.87	2,754,371,072.80	2,852,490,033.22	2,985,278,314.68	3,218,097,258.80	3,433,775,923.12

In the above table we included estimates regarding each business; segment. Source Transelectrica, Tradeville estimates