



Company brief presentation

Turnaround for most valuable dividend plays ahead on improved operating efficiency - margins to stabilize on better asset leverage triggered by its ambitious capex plan and business model expected optimization

▪ **Pre-IPO point of view - according to market sources, IPO could take place in November or in Q1'17.** In the light of the restructuring process run during the insolvency period, which should cease by end-May, and ahead of materialization of its ambitious capex plan, we tend to believe its dividend policy will improve further, supported also by stabilization in operating margins - last 3Y EBITDA margin was on average at 65% and we estimate some nice advance to an average of 72% for FY'16-'17. Our quite bullish overview upon financials, gets emphasized by its market position (hydropower production holds some 26-27% in total power production whose last 3Y avg. was at 63 TWh). Hidroelectrica is market leader in terms of hydropower production with a share of 97%.

▪ **Should operating conditions improve, implying both stable production and adequate pricing level, Hidroelectrica's business model should continuously turn its traditional cash pile into consistent dividends ahead. We assume Hidroelectrica will turn to a net cash position.** Volatility in financials should be triggered only by drought and slump in selling prices should electricity production exceed market demand and export option not be available. We also believe that operating efficiency and profitability milestones have already been exceeded due to insolvency process and are set to remain well incorporated within the main business model that will dominate the hydropower production market. **We believe that Hidroelectrica will lead BSE in terms of bottom line growth and will also help for additional steps in achieving the MSCI criteria for reaching emerging market status.**

▪ **Market position.** Hidroelectrica occupies a key position in the Romanian energy market as it is one of the largest domestic electricity producers with a market share of almost 24.5% and also the main supplier of ancillary system services needed in the National Energy System with a market share of 74%. According to latest point of view of the judicial administrator, Hidroelectrica should step out of insolvency by end-May 2016 which should hurry up the listing process. On the other hand, the market operator FY'16 budget sees no IPO incorporated on revenues side, which should point for an IPO in Q1'17, the earliest.

▪ **Brief operations overview:** largest hydropower producer in the country (around 25% of total consumption in a normal hydrological year) and main system services supplier (slightly higher than 70% market share in FY'14 and maintained for FY'15 in our assumption). Electricity generated in 2015 and 2014 18.46TWh and 16.13TWh; sales were higher at 18.68TWh and 17.11TWh, with output gap covered through external acquisitions through bilateral contracts, when production is lower than expected, but also to cover its own consumption needs - however, these own needs were halved by end-2015 slightly above 1%, compared to almost 3% during FY'09-'11. This electricity is produced by making use of 256 number of powerplants and 5 pumping stations, with an installed capacity of 6,464MW (17.5TWh delivered output). Corporate governance principles side - a dual administration system will be in place (Directorate overseen by a Supervisory Board).

▪ **Financials side - earnings remain appealing:** FY'15P pre-tax profit was at RON 1.1bn (-4.3% Y/Y) with sales at RON 3.2bn (-6.5% Y/Y). FY'15 electricity produced was at 16.13TWh (-13% Y/Y). **Margins to stabilize and skew upwards on better asset leverage triggered by its ambitious capex plan and business model expected optimization.** Scrutinizing further, top line resilience provides some strong support for operating cash-flows which will be sufficient to cover both its capex needs and working capital requirements. Capex, aside from operating expenditure, should consume the largest part of the operating cash-flow generated, while working capital extra needs should be maintained at minimum as the current business model does not require too much cash to be tied in the operating cycle. Unit generation cost was highest in FY'12, reaching RON 163.7MWh, with net profitability negative at RON 508m. We consider that short term financing needs will remain covered by its margin stabilisation on better asset leverage and Hidroelectrica will not be forced to enter back into financing agreements. Despite the lower production Y/Y, Hidroelectrica managed to achieve comparable net profits (RON 0.9bn in FY'15 and RON 0.94bn in FY'14), mostly on the back of strict cost containment.

Shareholders (%)

Ministry of Economy	80.06%
Fondul Proprietatea (FP RO)	19.94%

(IFRS)	14A	15A	16E	17E
P/E(x) adj.	15.0	12.2	10.7	10.3
EV/EBITDA(x)	6.4	6.6	6.4	6.2
Net debt/EBITDA	0.0	-0.2	-0.3	-0.3
P/BV(x)	0.8	0.8	0.7	0.7
ROE(%)	0.1	0.1	0.1	0.1
P/S (x)	4.1	4.4	4.9	4.8
Div. Yield (%)	0.4%	0.8%	7.9%	8.3%

RON m

Revenues	3,406	3,183	2,853	2,908
EBITDA	2,189	2,075	2,105	2,167
Net income	941	1,154	1,316	1,371
EPS	2.1	2.6	2.9	3.1
IEBA EPS	2.1	2.6	2.9	3.1
BVPS	39.4	39.9	42.9	43.4
DPS	0.1	0.3	2.5	2.6

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Financials & Valuation (Summary)

Financial Statements

Profit & Loss (RON m)	2014A	2015P	2016E	2017E	2018E
Revenues	3,406	3,183	2,853	2,908	2,947
EBITDA	2,189	2,075	2,105	2,167	2,213
EBIT	1,208	1,121	1,282	1,335	1,373
Net financials	-50	32	34	36	36
EBT	1,158	1,154	1,316	1,371	1,409
Net income	941	1,154	1,316	1,371	1,409
IEBA net income	941	1,154	1,316	1,371	1,409
Dividend	58	115	1,118	1,165	1,198

Cash flow IEBA TRUST (RON m)

Net Cash flow from operations	1,998	1,770	2,133	2,161	2,209
Capex	-216	-492	-650	-500	-500
FCFF	2,214	2,262	2,783	2,661	2,709
Other cash flows	-19,926	-2,092	-4,009	-2,871	-2,910
Cash flow used in investments	-12	18	0	0	0
Change in debt	18,245	259	1,032	209	201
Change in Capital	0	0	0	0	0
FCF	521	447	-194	0	0

Balance Sheet (RON m)

Net fixed assets	18,274	17,888	17,715	17,383	17,043
Current investments	15	33	33	33	33
Current assets	396	414	370	377	1,241
Cash & others	607	1,054	860	860	860
Total Assets	19,292	19,389	18,979	18,653	19,178

Current liabilities	843	886	870	871	871
Total debt	605	605	321	604	234
Net debt	-2	-449	-539	-256	-626
Shareholders capital	4,481	4,481	4,481	4,481	4,481
Other reserves	13,159	13,419	14,735	14,987	15,231
Total Equity	17,640	17,900	17,788	16,781	17,213
Minorities	0	0	0	0	0

EV	14,073	13,644	13,554	13,837	13,468
Market Cap	14,075	14,093	14,093	14,093	14,093

No of shares Year End (000)	447.6	448.1	448.1	448.1	448.1
No of shares Diluted (000)	448.1	448.1	448.1	448.1	448.1

Per share	2014A	2015P	2016E	2017E	2018E
EPS	2.10	2.57	2.94	3.06	3.14
IEBA EPS	2.10	2.57	2.94	3.06	3.14
DPS	0.13	0.26	2.50	2.60	2.67
BVPS	39.41	39.94	39.69	37.45	38.41
FCFPS	4.94	5.05	6.21	5.94	6.04

Growth rates & margins

Revenues	10.5%	-6.5%	-10.4%	1.9%	1.3%
EBITDA	9.0%	-5.2%	-1.5%	3.0%	2.1%
EBIT	18.9%	-7.2%	14.3%	-4.2%	-2.9%
EBT	28.7%	-0.4%	14.1%	-5.1%	-0.2%
Net Income	31.3%	22.6%	14.1%	-4.2%	-2.8%
IEBA net Income	31.3%	22.6%	14.1%	-4.2%	-2.8%
Dividend	-228.6%	99.3%	869.5%	4.2%	2.8%
EPS	31.1%	22.6%	14.1%	4.2%	2.8%
IEBA EPS	31.1%	22.6%	14.1%	4.2%	2.8%
DPS	-110.7%	99.0%	869.5%	4.2%	2.8%
EBITDA margin	64.3%	65.2%	73.8%	74.5%	75.1%
EBIT margin	35.5%	35.2%	44.9%	45.9%	46.6%
Net margin	27.6%	36.2%	46.1%	47.1%	47.8%
IEBA net margin	27.6%	36.2%	46.1%	47.1%	47.8%

Key items

Ratios and multiples	2013A	2014A	2015P	2016E	2017E	2018E
P/E(x)	279.44	14.97	12.22	10.71	10.28	10.00
P/E(x) IEBA	279.44	14.97	12.22	10.71	10.28	10.00
P/E(x) IEBA at 52wks High	0.00	0.00	0.00	0.00	0.00	0.00
P/BV(x)	1.00	0.80	0.79	0.79	0.84	0.82
ROE	8.6%	5.5%	6.5%	7.4%	7.9%	8.3%
IEBA ROE	8.6%	5.5%	6.5%	7.4%	7.9%	8.3%
ROCE	-0.1%	5.4%	6.3%	7.2%	7.7%	8.1%
IEBA ROCE	-0.1%	5.4%	6.3%	7.2%	7.7%	8.1%

EV/EBITDA(x)	8.27	6.43	6.58	6.44	6.38	6.09
EV/EBITDA (x) at 52wks High	n/a	n/a	n/a	n/a	n/a	-0.28
Net debt/EBITDA (x)	n/a	n/a	-0.22	-0.26	-0.12	-0.28

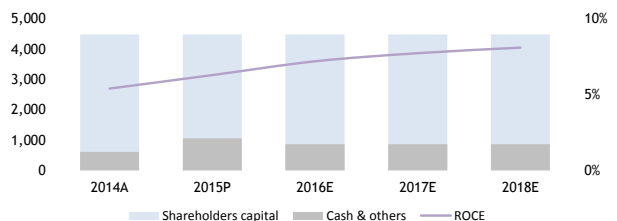
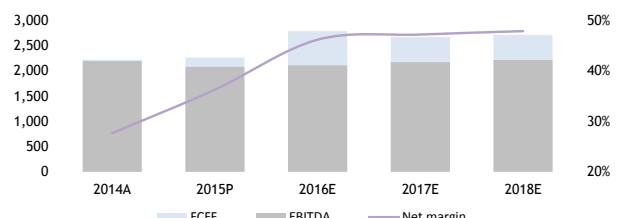
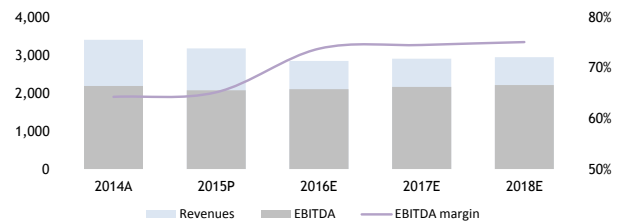
EV/CE(x)	0.99	0.77	0.74	0.75	0.80	0.77
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P/S (x)	5.42	4.13	4.43	4.94	4.85	4.78
P/FCFPS (x)	n/a	6.36	6.23	5.06	5.30	5.20
FCF Yield	0.0%	15.7%	16.0%	19.7%	18.9%	19.2%
Dividend Yield	0%	0%	1%	8%	8%	8%

Dividend payout	6.3%	6.2%	10.0%	85.0%	85.0%	85.0%
Net debt/Equity	n/a	n/a	n/a	n/a	n/a	n/a
T.debt/(T.debt + Equity)	0.0%	3.3%	3.3%	1.8%	3.5%	1.3%

Stock's information

Share price (RON)	n/a	Target price (RON)	n/a
52 weeks High price (RON)	n/a	Mkt Cap (RON m)	14,093
52 weeks Low price (RON)	n/a	EV (RON m) 16E	14,089
Country	Romania	Reuters	n/a
Sector	Energy	Bloomberg	n/a



Source: Hidroelectrica, IEBA TRUST

Investment case - Turnaround for most valuable dividend plays ahead on improved operating efficiency - margins to stabilize on better asset leverage triggered by its ambitious capex plan and business model expected optimization

- **Pre-IPO point of view - according to market sources, IPO could take place in November or in Q1'17.** In the light of the restructuration process run during the insolvency period, which should cease by end-May, and ahead of materialization of its ambitious capex plan, we tend to believe its dividend policy will improve further, supported also by stabilization in operating margins - last 3Y EBITDA margin was on average at 65% and we estimate some nice advance to an average of 72% for FY'16-'17. Our quite bullish overview upon financials, gets emphasized by its market position (hydropower production holds some 26-27% in total power production whose last 3Y avg. was at 63 TWh). Hidroelectrica is market leader in terms of hydropower production with a share of 97%. In Q1'16, as per data revealed by the judicial administrator, Hidroelectrica managed to register some record high production, covering for a couple of days some 50% of national energy consumption, taking from the market share of green energy producers.
- **More recent comments from officials, the IPO could take place in February 2017, should the insolvency process not end in May or June this year.** Fondul Proprietatea representatives also announced that the the listing consortium re-signed the listing agreement which establishes the liabilities of the parties involved in the listing process. The state should sell some 15% stake, FP another 5% stake and 3.75% from the subscription rights resulted via the share capital increase once with the listing, which would put the value of the IPO at some RON 3.15bn (USD 802m). For FY'16, management sees a record high net profit at RON 1.3bn and a net turnover at RON 2.5bn.
- **Market position.** Hidroelectrica occupies a key position in the Romanian energy market as it is one of the largest domestic electricity producers with a market share of almost 24.5% and also the main supplier of ancillary system services needed in the National Energy System with a market share of 74%. Hidroelectrica operates under three licenses provided by National Regulatory Authority for Energy for electricity production, electricity supply and provision of ancillary services. Starting June 2012 Hidroelectrica is under judicial reorganization having Euro Insol as Judicial Administrator. Selling energy below cost, inappropriate management and prolonged drought were some of the main reasons that forced Hidroelectrica into insolvency. Some of the most important measures taken by the judicial administrator involved the renegotiation of all contracts concluded on the open markets in order to obtain more advantageous conditions, declining production cost, investments and rehabilitations catch-up and implementation of an integrated ERP system more recently in order to optimize and automate company's processes.
- **Brief operations overview:** Largest hydropower producer in the country (around 25% of total consumption in a normal hydrological year) and main system services supplier (slightly higher than 70% market share in FY'14 and maintained for FY'15 in our assumption). Electricity generated in 2015 and 2014 18.46TWh and 16.13TWh; sales were higher at was 18.68TWh and 17.11TWh, with output gap covered through external acquisitions through bilateral contracts, when production is lower than expected, but also to cover its own consumption needs - however, these own needs were halved by end-2015 slightly above 1%, compared to almost 3% during FY'09-'11. This electricity is produced by making use of 256 number of powerplants and 5 pumping stations, with an installed capacity of 6,464MW (17.5TWh delivered output).
- **Financials side - earnings remain appealing:** FY'15P pre-tax profit was at RON 1.1bn (-4.3% Y/Y) with sales at RON 3.2bn (-6.5% Y/Y). FY'15 electricity produced was at 16.13TWh (-13% Y/Y). We believe that margins will stabilize and skew upwards on better asset leverage triggered by its ambitious capex plan and business model expected optimization. Scrutinizing further, top line resilience provides some strong support for operating cash-flows which will be sufficient to cover both its capex needs and working capital requirements. Capex, aside from operating expenditure, should consume the largest part of the operating cash-flow generated, while working capital extra needs should be maintained at minimum as the current business model does not require too much cash to be tied in the cash cycle.
- We consider that short term financing needs will remain covered by its margin stabilisation on better asset leverage and Hidroelectrica will not be forced to enter back into financing agreements. Despite the lower production Y/Y, Hidroelectrica managed to achieve comparable net profits (RON 0.9bn in FY'15 and RON 0.94bn in FY'14), mostly on the back of strict cost containment - one of the benefits brought by the insolvency process - production cost was at RON 184/MWh in FY'12 and declined to approx. RON 110/MWh (asset tax excluded - to be cancelled starting FY'17). Should operating conditions improve, implying both stable production and adequate pricing level, Hidroelectrica's business model should continuously turn its traditional cash pile into consistent dividends ahead. Unit generation cost was highest in FY'12, reaching RON 163.7MWh, with net profitability negative at RON 508m. We assume Hidroelectrica will turn to a net cash position. Volatility in financials should be triggered only by drought and slump in selling

prices should electricity production exceed market demand and export option not be available. We also believe that operating efficiency and profitability milestones have already been exceeded due to insolvency process and are set to remain well incorporated within the main business model that will dominate the hydropower production market. Hidroelectrica will lead BSE in terms of bottom line growth and will also help for additional steps in achieving the MSCI criteria for reaching emerging market status.

▪ **Corporate governance principles side - a dual administration system will be in place (Directorate overseen by a Supervisory Board).**

Financial highlights

• **Financials side - earnings remain appealing:** FY'15P pre-tax profit was at RON 1.1bn (-4.3% Y/Y) with sales at RON 3.2bn (-6.5% Y/Y). FY'15 electricity produced was at 16.13TWh (-13% Y/Y). Despite the lower production Y/Y, Hidroelectrica managed to achieve comparable net profits (RON 0.9bn in FY'15 and RON 0.94bn in FY'14), mostly on the back strict cost containment - on of the benefits brought by the insolvency process - **production cost was at RON 184/MWh in FY'12 and declined to approx. RON 110/MWh (asset tax excluded - to be cancelled starting FY'17)**. Unit generation cost was highest in FY'12, reaching RON 163.7/MWh, with net profitability negative at RON 508m. In FY'10, electricity produced was at 19.85TWh, but bottom line was at only RON 0.29bn, despite the production cost landed at RON 85/MWh. Hidroelectrica intends to sue the Romanian State at the European Court of Justice with respect to the water tariff - some EUR 100m are paid annually for such tariff (around 25% of production cost). For FY'16, Hidroelectrica has to sell on the regulated segment of the market some 2.69TWh at an average price of RON 120.55/MWh (+5.5% Y/Y), implying revenues of RON 324.28m.

• **FY'15 net profit reached RON 906m (-3.78% Y/Y).** Operating income decreased by 7.13% Y/Y because of declining total energy sold (-8.43% Y/Y), mostly on regulated volumes side required by ANRE (from FY'14 5.32TWh to FY'15 4.15TWh) and a decline by 3.2% Y/Y in delivered energy on the competitive market. Thus, operating income reached RON 3.25bn (-5.88% Y/Y). EBITDA margin stood at 65% as of FY'15 vs. 64% in FY'14. Total generated energy was 16,133GWh (-12.61% Y/Y), while total generated and sold energy reached 15,864.1GWh (-12.57% Y/Y). Hidroelectrica allocated a budget of over EUR 1.3bn for the period during FY'15-'20 regarding the development-refurbishment-maintenance works. On cost side, worth being mentioned that during June'12-FY'15 financial liabilities included on the list of creditors declined by 90.6% (from RON 4.3bn to RON 406m) due to the strict compliance with the payments schedule presented in the Reorganization Plan and to the payment in due time of all obligations under credit agreements, following a correct balance between selling and production cost as well as optimization of operating expenditure outside of production scope. Major taxes paid during the year are the water tariff which stands at some 25% of the production cost, the special construction tax, salaries - in brief, as per FY'14, the water tariffs reached some RON 21.5/MWh (+4.37% Y/Y), special construction tax stood around at RON 6.4/MWh (-20.99% Y/Y) while other expenses reached RON 88.3/MWh (+10.38% Y/Y) which determined OPEX increase by 6.9% Y/Y. FY'15 data is only in part available, with lack of specific breakdown, which makes the comparison of data improper.

• **Ambitious CAPEX expectations:** FY'15-'20 capex plan is at EUR 1.3bn - new hydropower developments: EUR 450m into the projects under execution, in advanced stages of completion (Racovita - FY'15; Bretea - FY'15; Rastolita - FY'16; Dumitra-Bumbești - FY'16-'17; Siriu-Surduc - FY'18). The refurbishment of the existent hydropower developments (EUR 305m to be invested in the refurbishment of 4 hydropower plants of great capacity (Stejaru - 210MW installed capacity, Vidraru - 220MW installed capacity, Raul Mare Retezat - installed capacity of 335MW, Mariselu - 220MW installed capacity). Capitalized maintenance works were budgeted at EUR 240m. Some ambitious plans also exist for some EUR 300m to be invested in new generation capacities from other renewable sources (wind, solar and biomass).

Hidroelectrica - unbundling state IPO pipeline; IPO remains on track for Q4'16 or Q1'17

- **Update on litigations:** the syndic judge dismissed all oppositions to the opening of the insolvency via a decision that is also subject to a second appeal, that was heard on 11 February 2016. Contestations against the creditors' table and litigations arising from the unilateral termination of the bilateral agreements are still being judged in front of the syndic judge. Experts have been appointed in these cases - claims worth RON 1.6bn. Hidroelectrica won the trials with Energy Holding and EFT AG as well as Alpiq Romenergie - **news is positive as we expect it would hurry up insolvency exit and benefit the start of the listing process.** Recently, Hidroelectrica won two trials against Alpiq Romindustries and Elsid Titu, that were claiming some RON 398m and RON 13m respectively, and according to judicial administrator, **Hidroelectrica could step out of insolvency around 11th of May**, when the last two appeals will receive a solution.

- **More recent comments from officials, the IPO could take place in February 2017, should the insolvency process not end in May or June this year.** Fondul Proprietatea representatives also announced that the the listing consortium re-signed the listing agreement which establishes the liabilities of the parties involved in the listing process. The state should sell some 15% stake, FP another 5% stake and 3.75% from the subscription rights resulted via the share capital increase once with the listing, which would put the value of the IPO at some RON 3.15bn (USD 802m). For FY'16, management sees a record high net profit at RON 1.3bn and a net turnover at RON 2.5bn.

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- **Electricity generated in 2015 vs 2014:** 15.9 TWh vs 18.4 TWh.

- **IPO process:** Listing consortium is Morgan Stanley and Raiffeisen - according to Fondul Proprietatea, twice a month meetings with consortium, company and shareholders are being held and the company can be listed after the exit from insolvency will occur, as part of the preparatory work has already been done. According to Mr. Borza, insolvency exit is mandatory for IPO - an indicative value was at EUR 500m, which means that FP values Hidroelectrica lower at RON 13.3bn (EUR 2.7bn) - Dec'15 NAV was at RON 2.65bn (RON 13.31bn implied). Based on same source the IPO should take place between 10-20 November 2016. Recently, Ludwig Sobolewski, Bucharest Stock Exchange (BVB) CEO announced that 2016 could be the year when IPOs would be resumed, giving Salrom higher chances for a potential IPO, rather than Hidroelectrica, which was given only 10% IPO odds. Due to IPO value, Hidroelectrica listing would also help BVB to make additional steps in achieving the MSCI criteria in order to reach emerging market status compared to its current frontier condition.

Potential IPO range should FP participate by an additional 5% to 10%

IPO value matrix (in EURm) - estimated range					
5.0%	149	500	649	20%	FP Val. +Admin.
10.0%	298	500	798	25%	
15.0%	447	500	947	30%	1%
20.0%	596	500	1,096	35%	
25.0%	745	500	1,245	40%	2%
30.0%	893	500	1,393	45%	
30.0%	945	500	1,445	45%	3%
25.0%	787	500	1,287	40%	
20.0%	630	500	1,130	35%	FP Val. +Heba.
15.0%	472	500	972	30%	
10.0%	315	500	815	25%	
5.0%	157	500	657	20%	

Source: Fondul Proprietatea, IEBATRUST

Implied P/E target				Implied EV/EBITDA target			
Peer group multiples & growth rates	2015P	2016E	2017E	Peer group multiples & growth rates	2015P	2016E	2017E
P/E(x)	11.1	8.8	8.8	P/E(x)	11.1	8.8	8.8
EV/EBITDA	4.7	5.0	5.0	EV/EBITDA	4.7	5.0	5.0
EBITDA margins	20.8%	20.4%	20.4%	EBITDA margins	20.8%	20.4%	20.4%
P/BV(x)	1.8	1.9	1.9	P/BV(x)	1.8	1.9	1.9
Current Company's multiples				Current Company's multiples			
P/E(x)	12.2	10.7	10.3	P/E(x)	12.2	10.7	10.3
EPS growth	23%	14%	4%	EPS growth	23%	14%	4%
EV/EBITDA	6.6	6.4	6.4	EV/EBITDA	6.6	6.4	6.4
EBITDA growth	-5%	-1%	3%	EBITDA growth	-5%	-1%	3%
EBITDA margins	65.2%	73.8%	74.5%	EBITDA margins	65.2%	73.8%	74.5%
Net debt/EBITDA	-0.22	-0.26	-0.12	Net debt/EBITDA	-0.22	-0.26	-0.12
DY	0.82%	7.94%	8.27%	DY	0.82%	7.94%	8.27%
P/BV(x)	0.8	0.8	0.8	P/BV(x)	0.8	0.8	0.8
Target fair value				Target fair value			
Average FY16-17E EPS	3.00			Average FY16-17E EBITDA	2,136.2		
Applied P/E(x) 16-17E avg.	10.9			Applied EV/EBITDA(x) 16-17E avg.	6.3		
Implied Premium (discount)	25%			Implied Premium (discount)	25%		
Implied EV	14,692.4			Implied EV	13,351.1		
EV IEBA TRUST	14,088.8			EV IEBA TRUST	14,088.8		
Upside/Downside	4%			Upside/Downside	-5%		
Implied EV/EBITDA	6.71	6.7		Implied P/E(x)	10.4	10.0	
Implied Premium (discount)	34%	33%		Implied Premium (discount)	19%	15%	
Implied DY	7.6%	7.9%		Implied DY	8.4%	8.7%	
Implied P/BV(x)	0.8	0.9		Implied P/BV(x)	0.8	0.8	
Implied Premium (discount)	-57%	-54%		Implied Premium (discount)	-59%	-57%	

Source: Hidroelectrica, IEBA TRUST

VALUATION exercise - largely in line with market consensus

DCF Valuation	2013A	2014A	2015P	2016E	2017E	2018E	2019E	2020E
EBIT	1,016	1,208	1,122	1,074	1,187	1,218	1,212	1,205
Depreciation	992	981	954	973	992	1,012	1,032	1,053
EBITDA	2,008	2,189	2,075	2,047	2,179	2,230	2,245	2,258
<i>EBITDA margin</i>	65%	64%	65%	72%	75%	76%	76%	77%
NOPLAT				902	997	1,024	1,018	1,013
Wcapital		(26.44)	279.6	204.3	178.4	150.6	150.6	150.6
Wcapital in sales (%)	0%	-1%	9%	7%	6%	5%	5%	5%
Change in Wcapital		(26.44)	306.02	(75.32)	(25.86)	(27.79)	-	-
CAPEX				-650	-850	-950	-1,000	-1,100
FCFF				1,150	1,113	1,058	1,051	965
WACC				9.3%	10.5%	11.3%	11.3%	11.3%
PV of FCFF				1,086	1,002	939	931	855
Sum PV of FCFF				4,812				
Terminal growth rate				0%				
TV				10,424				
PV of TV				9,233				
Total FCFF				14,046				
(+) book value of investments (-) minorities (16E)				41				
EV				14,087				
(-) net debt (16E)				-307				
(-) other adjustments - insolvency related				604				
Shareholder's value (RON m)				13,789				
FP valuation (19.94% stake) (RON m)				2,654				
<i>upside/downside (%)</i>				4%				

Source: Hidroelectrica, IEBA TRUST

Risks to our forecasts & valuation:

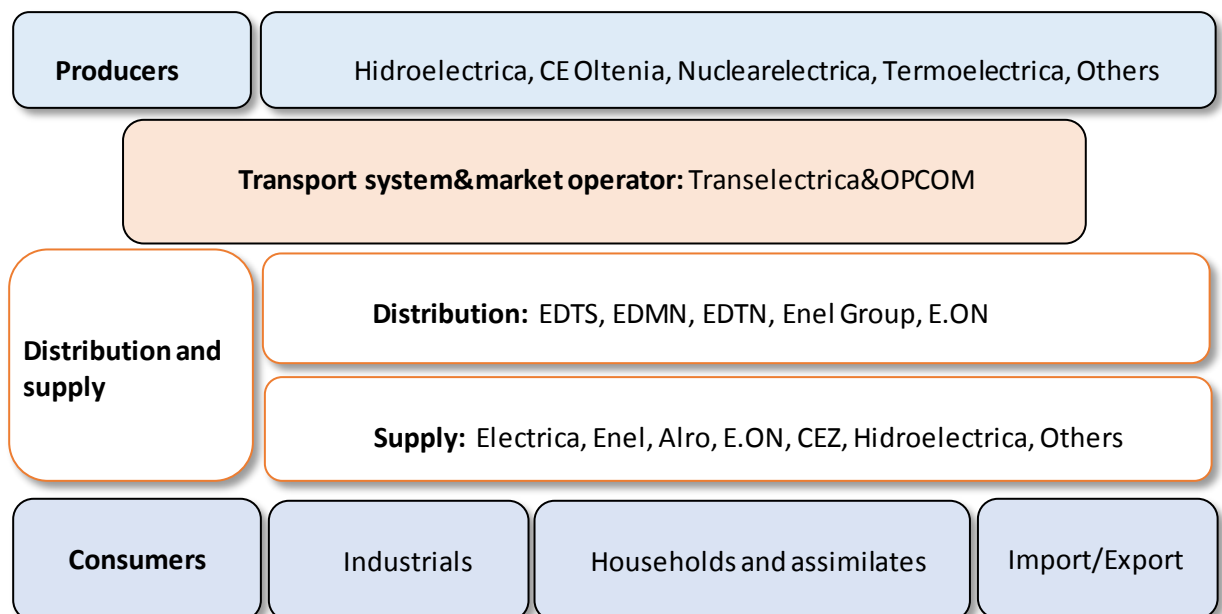
- Estimation of realizable energy production depends on forecasts of hydraulicity, which can be affected by high volatility during the year while there is also an uncertainty risk related to forecasting energy output for more than 1Y timeframe.
- Hidroelectrica is exposed to frequent legislative changes which can severely alter the company's budget and operating margins - i.e the asset tax was introduced in FY'14 which weighted some 7% in OPEX.
- Further and material decreases in price of energy with negative impact on operating cash-flows.

The Energy Market

Based on FY'13-FY'15 data, Romania's electricity market is characterized by strong development of wind and photovoltaic parks. Stagnation or even decrease of electricity demand leads to over-capacity. Low electricity wholesale prices do not cover full costs for coal and gas power plants. Also, subsidised renewables and cogeneration push inefficient coal and gas power plants out of the merit order and cut the profitability of peak power plants.

In Romania, the first steps related to restructuring the energy sector were made once in 1998 with the establishment of the National Regulatory Authority for Energy (ANRE) which initiated the preparation of legal framework for the transformation of this sector. In 1998, from the former National Electricity Administration (RENEL) is separated C.N. Nuclearelectrica and subsequently formed the National Electricity Company (CONEL), which contained the remaining entities that were part of the national energy system. Two years later, in 2000, is produced the "CONEL disaggregation" from which are separated the future electricity market players as follows: **Producers** - Hidroelectrica, Termoelectrica and some independent producers as well as Nuclearelectrica which already existed as an individual entity; **Transportation Operator** - Transelectrica and **Distribution operators** - Electrica, with its eight subsidiaries.

Romanian Power Market Overview



The regulatory body for the energy market is the Regulatory Authority in the Energy Sector (ANRE).

Starting August 2000 ANRE delimitates the general functioning field of the electricity market which will be administered by the Commercial Operator (OPCOM) functioning within Transelectrica.

Energy production, transmission and distribution

Energy markets usually crystallized around a core group of two main players namely, the system operator - which coordinates in a technical mode the market and the second one is the energy power exchange - which coordinates the market at commercial level. This core is joined by other market players such as: transportation and distribution operators, producers, consumers and electricity providers, the last acting as intermediary between the first two. A special category of suppliers is represented by so-called aggregators, which buy or sell energy in the system on behalf of several consumers usually smaller households or commercial entities.

Hidroelectrica is the largest energy producer in Romania and supplier of ancillary services for Romania - in FY'13, Hidroelectrica's market share was 28.9% for energy output, CE Oltenia reached

24.8%, Nuclearelectrica was at 18.1%, while Electrocentrale Bucuresti reached a market share of 15.8%, as main competitors.

Total investments were at RON 1.4bn in FY'11 followed by 46% Y/Y drop in FY'12 and reaching RON 260m in FY'13, as cash-flows were redirected towards paying ST< credit facilities.

Hidroelectrica operates:

- 207 hydropower plants;
- 5 pumping stations with an energy function;

HIDROELECTRICA - volumes sold breakdown: 76% for competitive markets and 24% for regulated markets for FY'15.

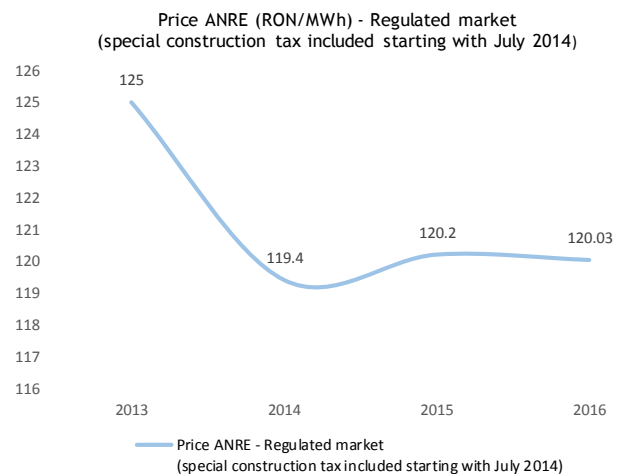
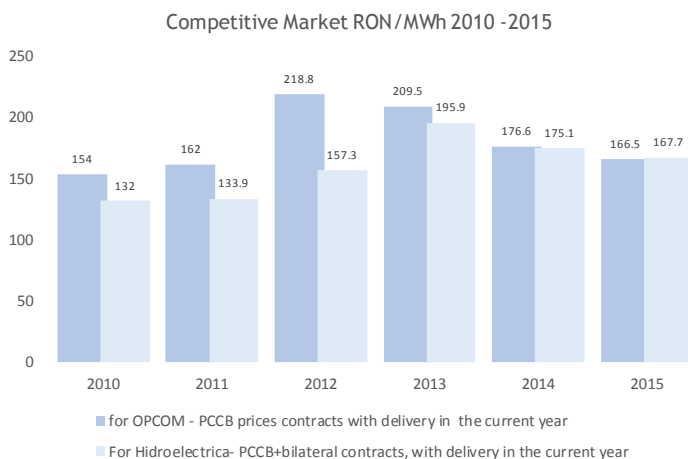
The market has two components:

- **Competitive market** (76% as of end-December 2015) - eligible consumers (supply to consumers who changed their initial supplier or renegotiated the contractual terms with the same supplier) + licensed suppliers + export + energy delivered on other markets as follows (Centralized Market for Bilateral Contracts + Next Day Market + Balancing market (Transelectrica) + OTC Market + INTRADAY + PRE Members + Direct Consumers + MHC Buyers)
- **Regulated market** (24%) - captive consumers (supply at regulated prices established through framework contracts) + distribution operators (Electrica).

Overall, Hidroelectrica covered 97.3% of hydropower production in 2015, while other hydro producers covered some 2.77%. The hydropower production represents 25.3% of total power generation. In FY'15, hydropower (60.79%) and nuclear (33.25%) covered some 94% of the energy consumption.

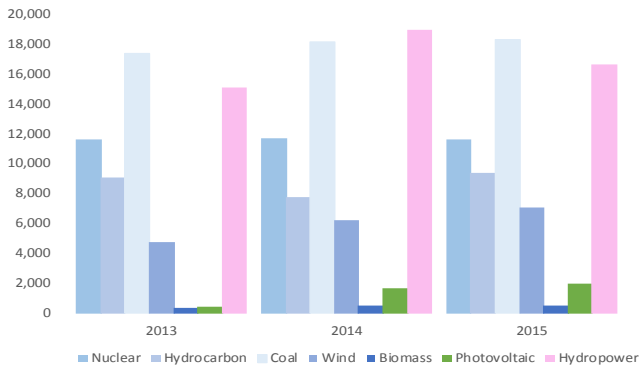
REGULATED MARKET

FY'16 regulated price established by ANRE declined by 3.98% vs FY'13 price - from RON 125/MWh to RON 120.03/MWh.

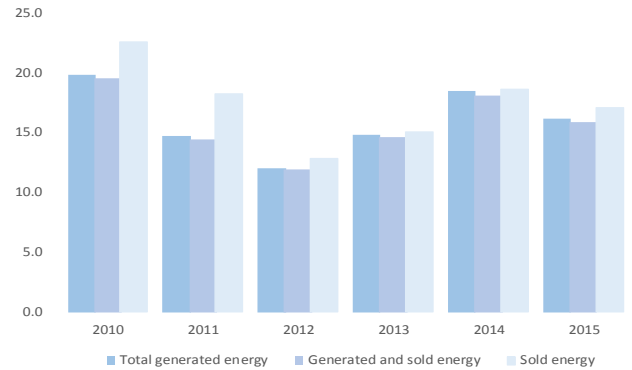


Tables section - Energy market grasp

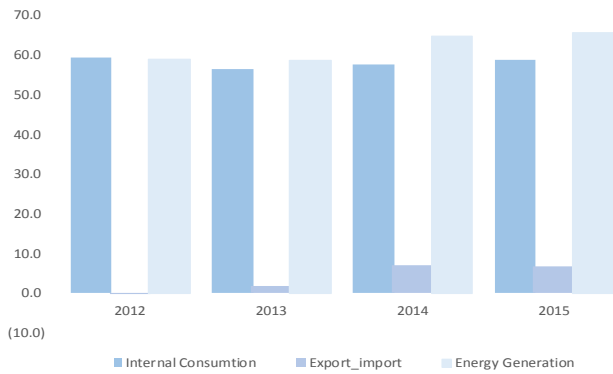
Energy output mix (GWh)



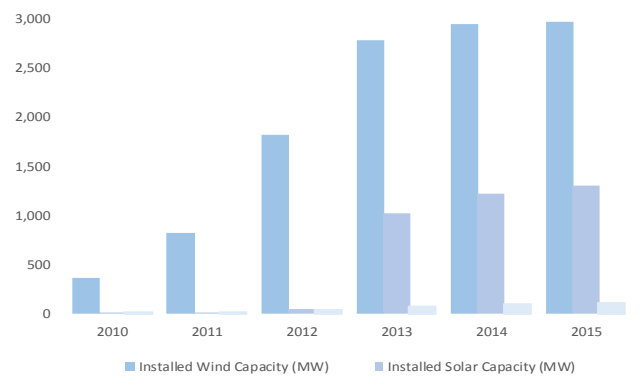
Domestic output (hydropower sources, GWh)



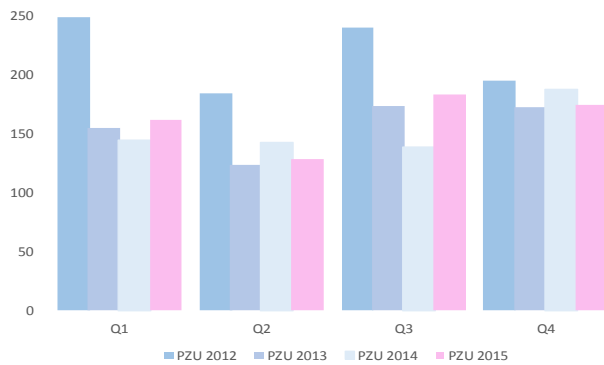
Domestic consumption (TWh)



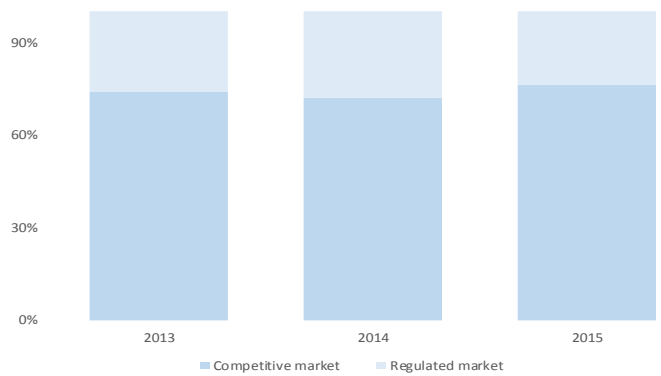
Installed capacities (renewable sources, MW)



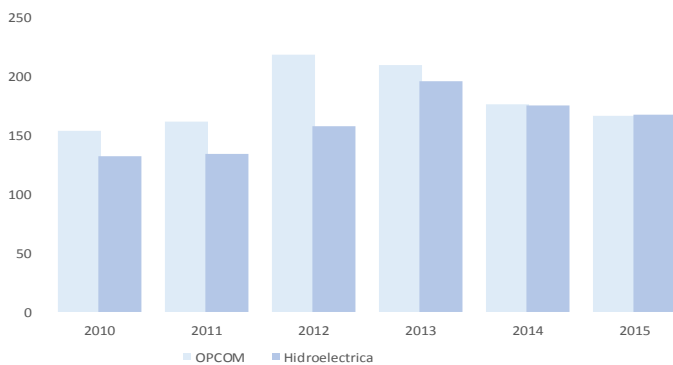
Day Ahead Market (DAM) baseload prices (RON/MWh)



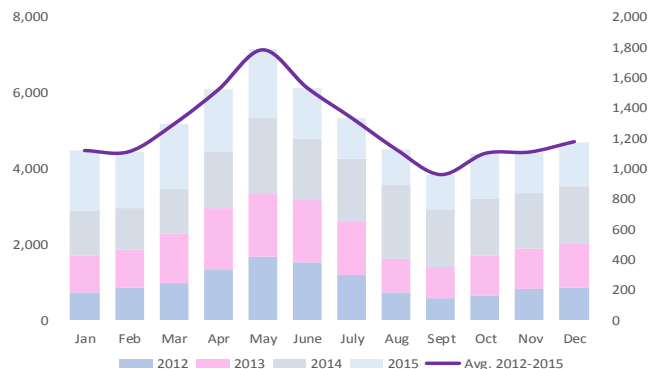
Hidroelectrica - market breakdown - 2013-2015



Competitive market pricing (RON/MWh)



Hidroelectrica generated power, per month (GWh)



Source: Hidroelectrica, ANRE

Energy price

COMPETITIVE MARKET

During FY'10-'12 Hidroelectrica sold energy at much lower prices than the market level. Starting FY'13, following judicial administrator's measure to renegotiate all contracts concluded on the open markets in order to obtain more advantageous conditions, Hidroelectrica's price for PCCB and bilateral contracts got very close to the market reference (OPCOM).

Competitive markets are functioning based on offer and demand principle based on legislation elaborated by ANRE.

The wholesale energy market has the followings components:

1. Centralized Bilateral Contracts Market
2. Day Ahead Market
3. Balancing market
4. Technological system services market

1. Centralized Bilateral Contracts Market

There are two types of contracts:

- **Regulated contracts** - are concluded between producers and suppliers of captive consumers acting as mechanisms to hedge the parties against volatility risk of closing market price from the Day Ahead Market.
- **Unregulated contracts** - are negotiated and assigned through public auction on Centralized Bilateral Contracts Market. Depending on time duration of power usage there are various types of electricity offers like:
 - Offers at constant average power on time duration of the offer (Offers in range)
 - Offers on two or more levels of constant average power on daily time duration (offers in half-range)
 - Offers in peak load hours
 - Offers in no load hours

The quantity of energy traded is determined based on participant's own profitability criteria. The energy delivery period must be at least one month. The offers must contain the minimum price and the maximum price at which the energy is traded. In the last three years the revenues obtained on the centralized bilateral contracts market contributed in average by 39% in total sales.

2. Day Ahead Market (Spot market)

The trades are done within 1hour trading intervals for the next day, called also the delivery day. The trades occur separately for each interval (1hour) and that is why the Day Ahead Market has 24 independent markets. The surplus or deficit of electricity can be balanced by selling or purchasing energy from Day Ahead Market.

For each trading interval the participants can issue up to 25 price-quantities pairs and for each pair the price represents on one side the maximum price at which the participant is willing to buy electricity but the quantity must not exceed the amount specified in price-quantity pair and on the other side the minimum price at which the participant is willing to sell electricity while quantity must not exceed the amount specified in price-quantity pair. The offers are sent to OPCOM for each delivery day until the closing hour of Day Ahead Market (11.00 on the day before the delivery day). Then, the closing market prices and the traded energy quantities are calculated for each trading interval. In the last three years the revenues obtained on the day ahead market contributed in average by 13% in total sales revenues.

3. Balancing market

The participants buy or sell energy to ensure compensation for deviations from the forecasted production and consumption values. Each participant must conclude an agreement with the Transportation and System Operator to assume the balancing responsibility or to transfer the

balancing responsibility to another counterparty called (Balance Responsible Party). The Balance Responsible Party assumes the financial responsibility for the settlement of total imbalances resulted from aggregation of individual imbalances. In the last three years the revenues obtained on the balancing market contributed in average by 13% in total sales revenues.

4. Technological system services market

The main ancillary services falling under this market includes:

- Secondary and tertiary regulation reserve
- Reactive power for voltage control
- Other ancillary services for covering technical losses for electricity networks.

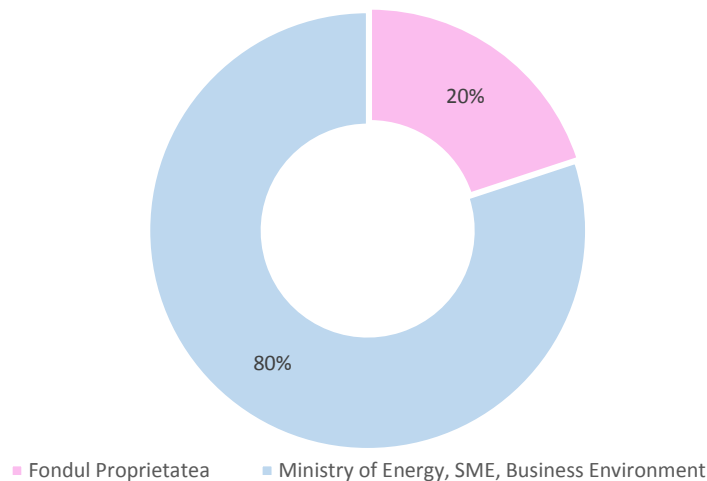
The secondary reserve is automatically and continually activated and detects frequency fluctuations and, where necessary, adjust production within 30 seconds to 15 minutes. The tertiary reserve copes with significant or systematic imbalance in the control area and resolve major congestion problems.

Company Overview

Field of activity and business segments

Hidroelectrica was established in July 2000 following the reorganization of National Electricity Company. Ministry of Finance owns 80.06% of total share capital and S.C. Fondul Proprietatea owns 19.94%. Hidroelectrica occupies a key position in the Romanian Energy Market as it is one of the largest domestic electricity producers with a market share of almost 24.5% and also the main supplier of ancillary system services needed in the National Energy System with a market share of 74%. Hidroelectrica's main activity consists in power generation. Also the company has two more licenses for electricity supply and for providing ancillary services.

Shareholders' structure



Source: Hidroelectrica

Power generation activity

Hidroelectrica is authorized to produce energy for public interest and also has the right to trade the electricity produced in its own plants on the wholesale market by concluding negotiated or regulated fixed term bilateral agreements. The company may buy electricity in order to fulfil the contractual obligations.

Electricity supply activity

Hidroelectrica may deliver electricity by concluding buy or sell agreements. It can buy electricity by concluding bilateral contracts or other business arrangements with other producers through import agreements or transactions on the centralised markets managed by OPCOM. The company may sell electricity directly to domestic eligible consumers and to license holders through transactions on Next Day Market, Intraday market and Balancing market. The company may sell energy to foreign market through export contracts.

Providing ancillary services

Hidroelectrica, through the volume and the quality of ancillary services delivered, represents the main stability pillar for the good functioning of the National Energy System (NES).

Green certificates market

Green certificate is a document which attests an amount of 1MWh electricity produced from renewable energy sources and is tradable on green certificates market. For 2008-2025 period the trading value was set between EUR 27/GC and EUR 55/CV. FY'15 revenues from green certificate market reached RON 10.3m (-74% Y/Y).

Hidroelectrica's hydropower branches

Bistrita Hydropower Branch administrates 10.6% of Hidroelectrica's installed capacity namely 700MW with a total generated energy of 1849.2 GWh/year. It administrates 51 hydropower plants and 107 energy groups with a total delivered energy of 972 GWh. It manages the Moldova's hydropower developments mainly on Bistrita, Siret, Uz and Prut rivers. The most important asset is Dimitrie Leonida Hydropower plant on Bistrita river. On Siret river there are located five hydropower plants (192 MW).

Cluj Hydropower Branch administrates 8.7% of Hidroelectrica's installed capacity namely 558 MW with a total generated energy of 1049 GWh/year. It administrates 28 hydropower plants and 72 energy groups with a total delivered energy of 569 GWh. It manages the hydropower developments from Cluj, Bihor, Bistrita-Nasaud and Maramures mainly on Somes, Mures, Cris and Tisa rivers.

Ramnicu Valcea Hydropower Branch administrates 24.7% of Hidroelectrica's installed capacity namely 1587MW with a total generated energy of 3701GWh/year. It administrates 27 hydropower plants and 71 energy groups with a total delivered energy of 2511 GWh. It manages the hydropower developments mainly on Lotru river and middle and lower sector of Olt river. The average yearly potential of Lotru basin is 1243GWh and the hydropower potential of middle sector of Olt river reaches 1867MW which represents 17% of the potential of lower rivers. On the lower sector of Olt River are situated eight hydropower plants.

Sebes Hydropower Branch administrates 7.8% of Hidroelectrica's installed capacity namely 506MW with a total generated energy of 1000 GWh/year. It administrates 39 hydropower plants and 76 energy groups with a total delivered energy of 667GWh. It manages the hydropower developments from Alba, Sibiu, Brasov, Valcea and Covasna mainly on Somes, Sadu, Cibin, Gura Raului and Olt (middle sector and Olt narrow pass) rivers. On Sebes rivers there are installed four hydropower plants, one pumping station and two micro hydropower plants.

Hateg Hydropower Branch administrates 11% of Hidroelectrica's installed capacity namely 708 MW with a total generated energy of 1280 GWh/year. It administrates 39 hydropower plants and 73 energy groups with a total delivered energy of 664 GWh. It manages the hydropower developments mainly on Raul Mare, Strei, Timis, Bistra, Cerna, Sucu and Sebes rivers.

Portile de Fier Hydropower Branch administrates 25.8% of Hidroelectrica's installed capacity namely 1660 MW with a total generated energy of 7031 GWh/year. It administrates 11 hydropower plants and 32 energy groups with a total delivered energy of 5215 GWh. It administrates the hydropower and navigation systems Portile de Fier I and Portile de fier II, Gogosu power plant, four

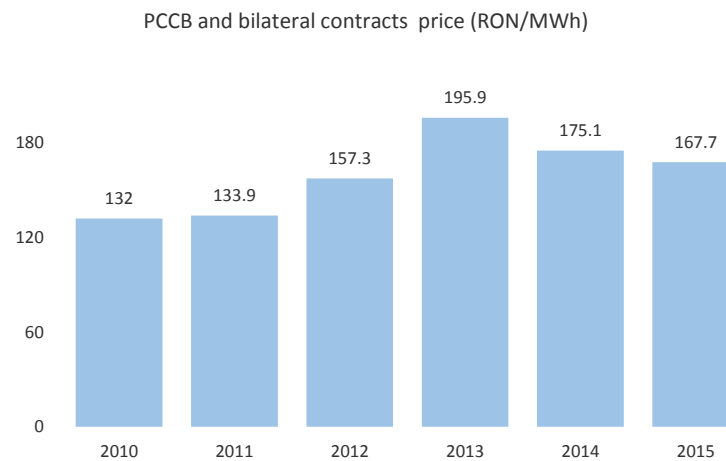
hydropower plants, two small hydropower plants and two micro hydropower plants managed Targu Jiu Hydropower plant. After 15 years of refurbishment works Portile de Fier I hydropower can generate a yearly electricity output of 5.241GWh representing 10% of the total national output.

Arges Hydropower Branch administrates 11.5% of Hidroelectrica’s installed capacity namely 745 MW with a total generated energy of 1589 GWh/year. It administrates 61 hydropower plants and 126 energy groups with a total delivered energy of 999 GWh. It manages the hydropower developments mainly on Arges, Dambovita, Tragului, Ialomita, Prahova, Buzau, Doftana, Teleajen, Bisca Chiojdului, Slanic, Putna, Zabala rivers and on Danube- Black Sea Canal.

Energy production&consumption

Local regulator, ANRE, decides the quantity and price at which Hidroelectrica sells energy on the regulated market. FY’13 regulated quantity reached 3.9TWh at a regulated price of 125 Lei/MWh, FY’14 regulated quantity reached 5.32TWh at a regulated price of 119.4 Lei/MWh, FY’15 regulated quantity reached 4.15TWh at a regulated price of 120.2 Lei/MWh and FY’16 regulated quantity should be for 2.7TWh at a regulated price of 120.03 Lei/MWh.

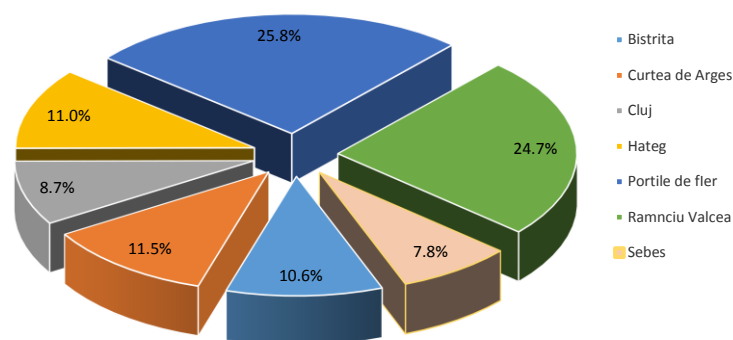
PCCB and bilateral contracts with delivery in the current year prices were as follows:



Source: Hidroelectrica

FY’15 Hidroelectrica’s total installed capacity reached 6,435.3 MW (-0.12% Y/Y)

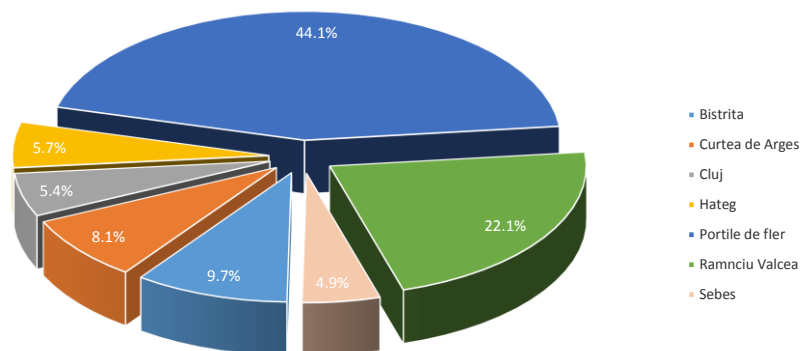
Installed Capacity By branch (%) FY’15



Source: Hidroelectrica

FY'15 Hidroelectrica's total delivered energy was 15,864 GWh (-12.57% Y/Y)

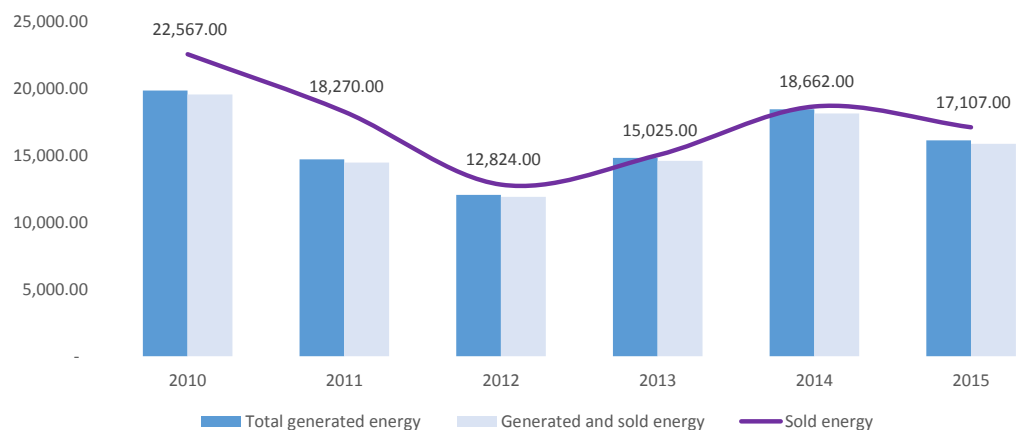
Delivered energy by branch (%) FY'15



Source: Hidroelectrica

FY'15 total energy sold dropped by 8.43% y/y based on a foreseeable decline by 21% y/y on regulated market and on a decline by 3.2% Y/Y on competitive market.

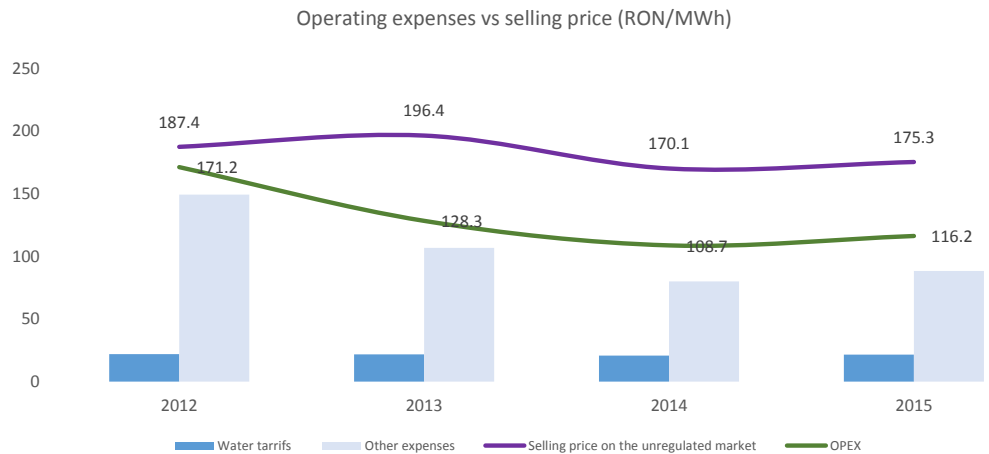
Hydro Generation (GWh)



Source: Hidroelectrica

Financial overview & forecasts - in brief

FY'15 net profit reached RON 906m (-3.78% Y/Y). Operating income decreased by 7.13% Y/Y because of a reduced total energy sold (-8.43% Y/Y), especially because of a decline in regulated quantity required by ANRE (from FY'14 5.32TWh to FY'15 4.15TWh) and a decline by 3.2% Y/Y in delivered energy for competitive market. Such decrease lead to a lower revenue, operating income and profit. Thus, operating income reached RON 3.25bn (-5.88% Y/Y). EBITDA margin stood at 65% as of FY'15 vs. 64% in FY'14. Total generated energy was 16,133GWh (-12.61% Y/Y), while total generated and sold energy reached 15,864.1GWh (-12.57% Y/Y). Hidroelectrica allocated a budget for the completion of the development-refurbishment-maintenance works during 2015 - 2020 of over 1.3 billion EUR. On cost side, worth being mentioned that during 30.06.2012 - 31.12.2015, the liabilities included in the list of creditors declined by 90.6% (from RON 4,3bn up to RON 406m) due to the strict compliance with the payments schedule presented in the Reorganization Plan and to the payment in due time of all obligations under credit agreements. Major taxes paid during the year - water tariffs at RON 21.5/MW (+4.37% Y/Y), special construction tax at RON 6.4/MW (-20.99% Y/Y) and other expenses at RON 88.3/MW (+10.38% Y/Y) determined OPEX increase by 6.9% Y/Y.



Q1'15 net turnover reached RON 947m (+40% Y/Y). Q2'15 net turnover declined by 35% (Q2/Q1) reaching RON 615m. Staff expenditures stood quite constant during the year reaching an average of RON 78m/quarter. Taxes and other fees expenditures also stood constant at RON 26m during each quarter. O1'15 financial net result was negative at RON 2.69m and continued to increase its negative trend up to RON -16.44m in Q4'15. The negative trend of the net financial result started in Q3'14 and was maintained until the end of FY'15. During FY'14 and FY'15 EBITDA margin stood constant at an average of 64%. The maximum level was reached in Q1'15 with a margin EBITDA value of 68%. Total liabilities declined by 28.24% from RON 1.03bn in Q1'15 up to RON 0.74m in Q4'15.

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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