RESEARCH RELEASE

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Romanian Stock Exchange: Long term growth potential of local companies[1]

Highlights:

- **Romanian economy growing by 6.1% in 2008. Huge increase in productivity will support exports.**
- **Main companies on the Bucharest Stock Exchange (BSE) have become valuated at levels comparable to Poland and Czech Republic with P/E 2008 and P/E 2009 at 12.5 and 10.9, respectively**
- **Significant jump in the capitalisation and liquidity of MidCap and SmallCap segments**

Despite the adverse effects generated by both local conditions (severe drought, which generated an increase in food prices and consequently inflation) and the international context (US sub-prime mortgage loans crisis), the Romanian economy might grow at an estimated rate of 5.7% in 2007 and 6.1% in 2008, remaining an attractive opportunity for long-term investors.

Downward market trend but significant corporate growth potential

In the context of a negative international environment and increased anxiety regarding the dynamic of emerging economies, especially for countries with high values of current account deficit[2], the Romanian equity market was already one of the most expensive in CEE region. "*Under these circumstances it was no surprise that the Romanian indices recorded a significant decrease of almost 10% in October and November*", says Mihai Caruntu, local equity analyst at Banca Comerciala Romana, a Romanian subsidiary of Erste Bank. "*The continuing downward trend in January with a decrease of over 11% after first eight trading sessions was unexpected on a market which experienced the so-called "January effect"[3] in the last two years. But this dynamic was in line with the trend on the global and other CEE markets and we do not have particular fundamental reasons for explaining this evolution in the case of Romanian market*", explains Caruntu.

After this correction, the main companies on the Bucharest Stock Exchange (BSE) have become valuated at levels comparable to Poland and Czech Republic with P/E 2008 and P/E 2009 at 12.5 and 10.9, respectively. *"We consider that the corporate growth potential of the Romanian companies is at least comparable with CEE peers and this is not an overestimation*", says Mihai Caruntu.

"*In this matter it is enough to look on the real convergence indicators, where the level of GDP per capita (PPS) was only 35.9% of EU 25 average in 2006. We consider this indicator as being relevant for showing the long term growth potential of local companies in a stable macroeconomic environment*, continues Caruntu.

The liquidity of BSE increased by about 70% in 2007 compared to the previous year, but this dynamic was based on the companies, that were already listed. The good news for the last year is the improvement of eligible candidates within the small and middle capitalised companies.

In the context of high valuation of the most liquid companies, the interest of many investors focused on the Rasdaq segment of BSE, which requires a reduced degree of transparency. The average daily turnover of this market has increased from EUR 1mn in 2006 to EUR 5.2mn in 2007 and induced a higher capitalisation and liquidity of these newly discovered companies, which were almost anonymous up to 2006.

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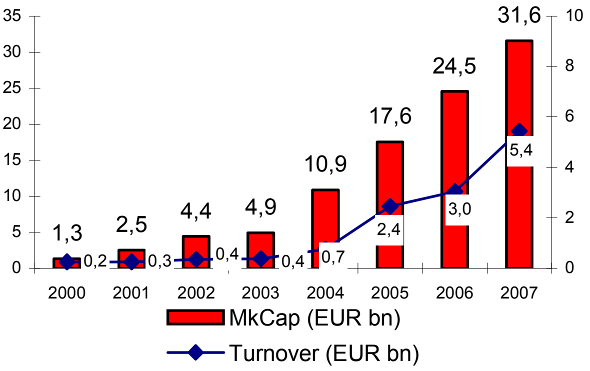
[1] If stable macroeconomic environment.

[2] The Romanian C/A deficit from January till October 2007 amounted to EUR 13.3bn. On the financing side we see support due to the fact that FDI in the same period amounted to EUR 5.9bn, thus representing 45% of the C/A deficit. Private transfers, mainly remittances from Romanian working abroad, amounted to around EUR 4.2bn in the first 10M and this somewhat contained a faster expansion of the C/A, beyond the actual level.

[3] A general increase in stock prices during the month of January.

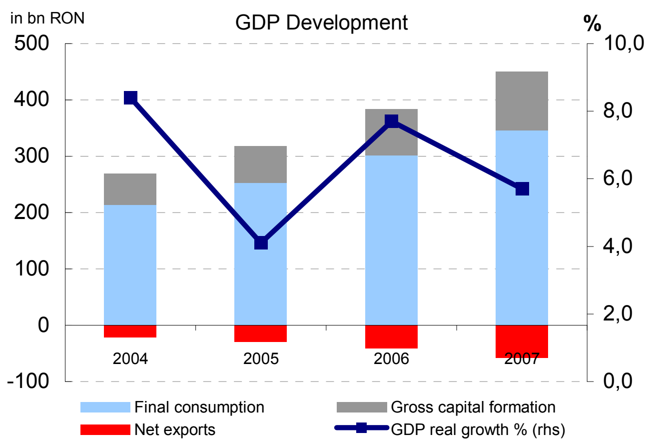


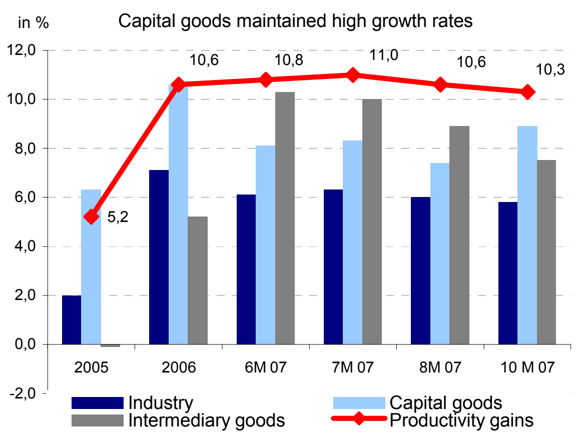
Source: Bucharest Stock Exchange, BCR Research

Macroeconomic outlook for 2008

Despite adverse effects generated by both local conditions (severe drought) and the international context (US sub prime mortgage loans crisis), the Romanian economy was expected to have grown at an estimated rate of 5.7% in 2007 and remains an attractive opportunity for long-term investors for 2008 with an estimated GDP growth of 6.1%.

"The important growth differential as compared to the EU average creates the conditions for a successful catching-up strategy. Investment activity accelerated (+22.6% in 1H 2007 as compared to 19.4% in 1H 2006) and this will certainly play a significant role in further increasing productivity gains", says Lucian Anghel, Chief Economist of Banca Comerciala Romana.





Source: NIS, BCR Research

A new legislative bill regarding investments is now pending and has yet to be endorsed by the Romanian Parliament. The new framework will give further support also to FDIs with positive impact on exports capacities. Therefore, long term C/A receipts will be more easily secured, while the external imbalance diminishes gradually. Currently, 76% of the Romanian exports in manufacturing are generated by FDIs.

"According to our estimation, the adjustment of the current account as % of GDP will take place no sooner than 2009 and this will be triggered by trade balance reversal when high value added exports will have reached the optimum level (more than 40%). This adjustment should be accompanied by a good increase in productivity, making Romanian exports more competitive on external markets", says Anghel.

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