2003 annual report

Transelectrica

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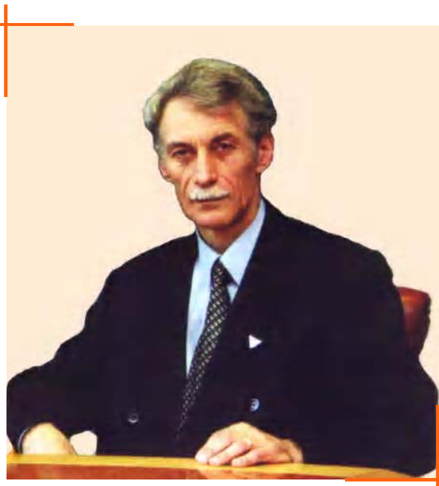
Transelectrica
Romanian Power Grid Company

Annual Report 2003

Summary

Message from the Director General



2003 was the year of broad recognition of Transelectrica as a trustful and proficient partner for the international and Romanian professional, financial and business companies.

The Romanian power system was integrated in the European infrastructure on 8 May, 2003 when Transelectrica became an UCTE member, following a successful process of investment, tests and adaptation of technical regulations. Transelectrica's operation at European standards has been a significant argument in Romania's efforts to close the Chapter 14 - Energy in negotiation with European Union and to extend the institutional harmonisation to the acquis communautaire in the energy sector. In autumn 2004, the two UCTE synchronous zones are to be reconnected, leading to a greater stability of the energy quality parameters and supporting the enhancement of the regional electricity market.

We succeeded to meet the company's overall objective, to create value for our stakeholders: customers, shareholder, public and the communities, employees, contractual partners, regional and international collaborators.

At the end of 2003, the dedication to excellence and quality approach of Transelectrica has been awarded with the Quality Excellence "J.M. Juran" offered by the Romanian Quality Foundation in "Major Companies" category.

Environment protection is fully integrated in our business objective as the main reason for a sustainable development. After the implementation of the Environmental Management System and the environmental audits, Transelectrica has been certified ISO 14001.

During 2003 we faced some difficulties that grow a much stronger and efficient company. The severe drought during summer test Transelectrica about the capability of securing the electricity supply in the domestic market. The several blackouts in Europe and across Atlantic place into the spotlight the security of supply and also recall the importance of an investor- friendly climate and the coherence in regulations of the electricity market. Transelectrica succeeded to fulfill all the obligations and proved the ability of powering Romania.

The new electricity Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 provides the final legal steps in European electricity market-opening and free customer choice. The Road Map of Romanian Electricity Sector issued in August 2003 represents the Governmental strategic document regarding the liberalization and development of the Romanian electricity system and market in the coming years.

Transelectrica intensive investment program scored the highest point starting the beginning in 2001 and amounted for about

82 mil. Euro, more than the investment in the transmission grid of previous 10 years. This target was accomplished due to the positive financial results of 2003 and also due to the company's ratings obtained from the S&P and Moody's that helped to attract financing without sovereign and bank guarantees. Transelectrica modernisation program aims at reaching 900 mil Euro by 2010 with the investment in electricity transmission infrastructure playing a significant role, as well as the investment in telecommunication system.

The modernization with state-of-the-art and innovative technology are made to satisfy the requirements of our customers and of the customers of our customers, meaning an increased reliability of the grid, a more secure electricity supply and better quality services. Our grid customers are the reason we exist and to serve them better we were diversifying our customer portfolio, implementing a new transmission tariff mechanism to send the proper locational signals for their products and services and to promote a well-balanced development of the Romanian Power Grid.

Our active involvement in UCTE, SETSO, EURELECTRIC working groups facilitate the knowledge sharing and cooperation in the region and we foster the development of the regional electricity market being closer to fulfill our vision of becoming the key TSO in region. The cooperation agreements with European TSOs, similar electricity companies or the development of partnership program with USEA/USAID help Transelectrica team to learn from their experience and to integrate the common values and best practice.

Based on the agreements of Athens Forum in December 2003, we have already started the implementation of the Regional Power Exchange on OPCOM structure offering a transparent, fair, non-discriminatory transaction environment. The contract for consultancy and implementation of the Romanian Power Exchanges with the consortium lead by Kema and NordPool Consulting has been signed in May 2004 and the transaction platform is expected to be operational starting with 2006.

None of these accomplishments could be done without the dedication of our staff and professionalism and competency of the management team. I dedicate the 2003 successes to all Transelectrica employees, appreciating their efforts during the year.

Jean Constantinescu
Director General

Expanding Dimensions

2003 Highlights

	2003
January	Commissioning the interconnection 400/220 kV Portile de Fier substation
February	6 mil. Euro contract with Alstom T&D to implement the EMS-SCADA system MoU with MVM (Hungary) for construction of Oradea - Bekescaba interconnection line
March	32 mil. Euro contract with Pirelli-Inabensa to implement 2,700 km OPGW
April	25 mil. Euro loan agreement with Nordic Investment Bank to finance the modernization of 400/220 kV Gutinas substation
May	Admission of Transelectrica as full member of UCTE and the right of permanent operation within the UCTE system
June	The European Directive 2003/54/EC of the European Parliament and of the Council concerning comon rules for the interval market in electricity
July	2 milion USD loan agreement with The World Bank to finance the rehabilitation of Fundeni and Iernut substations and the transaction platform for the Romanian Power Exchange
August	Contract with Jacobsen Elektro (Norway) for 400/220 kV Rosiori substation rehabilitation The most severe drought year over the last 150 years determines the Cernavoda nuclear power plant to stop and Transelectrica, as TSO managed successfully to keep the electricity balance of load-demand
September	The blackout in Italy, the last after North America and Denmark have brought the security of supply on the top agenda of the Romanian decision-makers
October	The cooperation agreement signed with RTE-France
November	The rehabilitation turn-key contract for 400/220 kV Brazi Vest substation concluded with ITOCHU consortium
December	Annual peak load of 7542 MW on December 17, 18:00 h

2004 Commitments

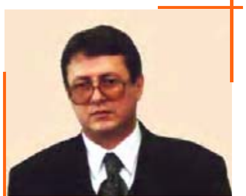
2004	
Agreement with General Electric to modernize the protection and control systems for 11 substations	January
Joint Position Paper with MVM (Hungary) for construction of 400 kV Oradea - Nadab (RO) - Bekescsaba (HU) interconnection line	February
2 MoUs signed with KfW bank to finance the modernization of 400/220/110 kV Sibiu Sud and Bucuresti Sud substations Contract with ABB (Sweden) for 400/220/110 kV Gutinas substation modernisation	March
RESYM 2004, the first edition of the conference "Romanian Electricity System and Market towards Consolidation and European Integration"	April
Consultancy and implementation contract for the Romanian Power Exchange with KEMA and NordPool Consulting	May
Commissioning of 400/110 kV Oradea Sud substation modernized with Siemens technology	June
35 mil USD loan agreement with Citibank to modernize part of Transelectrica infrastructure Implementation of the Cross Border Trade (CBT) system within South East Europe	July
2 modernisation turn-key contracts and 2 loan agreements signed with German companies based on the governmental cooperation agreement with Germany for 400/220/110 kV Sibiu Sud and Bucuresti Sud substations	August
Commissioning of the 400/110 kV Constanta Nord substation rehabilitated with ABB technology Commissioning of GIS/MIS and metering systems 2 contracts to be signed with ABB (Sweden) for 400/220/110 kV Iernut and 220/110 kV Fundeni substations rehabilitation	September
Resynchronization of two UCTE zones, the most significant event of the European electricity industry in 2004	October
OPGW Commissioning	November
Commissioning of Telecommunications System (Off-grid links)	December

Board of Administration

Dorinel Mucea
President
Adviser to Minister of Economy and Commerce

Jean Constantinescu
Member
Director General Transelectrica

Dumitru Draguleasa
Member
Director
Ministry of Public Finance



Adrian Constantin
Member
Deputy Secretary General
Ministry of Economy and Commerce

Gheorghe Olteanu
Member
Chief of Control Unit
Ministry of Economy and Commerce

Management Team

Organisation Chart

General Assembly of Shareholders — Ministry of Economy and Commerce

Board of Administration

DIRECTOR GENERAL
Jean Constantinescu

- s.c. **OPCOM** s.a. (Market Operator)
- s.c. **SMART** s.a. (Maintenance)
- s.c. **FORMENERG** s.a. (Vocational Training)
- s.c. **TELETRANS** s.a. (Telecom and IT)
- s.c. **ICEMENERG** s.a. (Research and engineering services)

- Management of Human Resources
  Mihaela Maciuceanu
- Internal Audit
  Ion Rentea
- Quality and Environmental Management
  Technological Engineering
  Mariana Ilie
- Legal Office
  Paula Butnaru
- Secretariat General, Integration and International Cooperation
  Gabriela Cretu
- Labour Protection
  Marian Stefan
- Installation Security and Defence
  Adrian Valciu
- Restructuring and Privatisation
  Gabriel Romascu

Management of Fixed Assets Division
Director - Maria Ionescu
Deputy Director - Ciprian Diaconu

Operational Unit - National Dispatch Centre (UNO-DEN)
Director - Octavian Lohan
Deputy Director - Marian Cernat

Budget, Finance and Accounting Division
Director - Maria C. Toderas
Deputy Director - Georgeta Iosif

8 Transmission Branches

Management of Investment Project Division
Director - Razvan C. Purdila
Deputy Director - George Visan

Planning and Marketing Division
Director - Bogdan Popescu-Vifor
Deputy Director - Anton Vladescu

Metering Branch - OMEPA
Director - Catalin Chimirel

Our Values and Creating Value for Our Stakeholders

Mission

"We make a living by what we get, but we make a life by what we give"
Winston Churchill

Transelectrica's mission is to ensure the Romanian Power System reliable and stable operation at quality standards, while providing the national electricity market infrastructure and securing a regulated access to the Romanian electricity transmission network under transparent, non-discriminatory and fair conditions to all market participants.

Electricity impacts everyone's life and providing a fair and competitive environment for the electricity market actors, we contribute to the sustainable development of the country.

Vision

"Imagination is more important than knowledge"
Albert Einstein

The Company aims at becoming the technical and operational authority of the Romanian Power System and the key transmission and system operator in South-East Europe, while operating interconnected to UCTE and providing electricity wheeling in the regional electricity market.

It will become a dynamic knowledge-based company, managing the operation to enhance economic growth and to transform Romania in a better place to live.

Creating Value for Our Stakeholders

"The thing always happens that you really believe in; and the belief in a thing makes it happen"
Franck Lloyd Wright

At Transelectrica, we became increasingly aware that responsible behavior leads to a sustainable business success. We integrated social and environmental concerns in our business operation and in the interaction with our stakeholders on a voluntary basis and promote the corporate social responsibility.

In 2003, we succeeded to meet the Company's overall objective to create value for our stakeholders: customers, shareholder, public and the communities, employees, contractual partners, regional and international collaborators.

Our values and principles guide us in day-to-day activities and on this basis we live our mission and vision everyday.

Customers

Customers are the reason we exist.

Our network of people offers the grid customers the proper services and gives the freedom to develop and expand their business.

Transelectrica provides to the customers the access to the European electricity market based on the UCTE interconnection.

We are sustaining the development of the Romanian electricity market, the competitiveness of generators and suppliers through nodal transmission tariffs that send locational message for new investment in the generation capacities or new grid customers.

We are improving and extending the regulatory framework to responsibly fulfill the Company's mission.

Shareholders

The Romanian state as Transelectrica's sole shareholder puts its trust on us.

We provide the investor with a fair return and manage the business risk to preserve the value of the invested capital.

We are carrying out the Government goal of sustainable development of Romania and integration into the European Union; the UCTE membership obtained by Transelectrica in 2003 and Romanian Power System permanent synchronous operation with UCTE grid assign Transelectrica as stability provider in South East European region.

Transelectrica became a key value creator for the privatisation program of electricity distributors and generators. The value of the company is increasing by improvement of the operational and financial performance, as regarded by the rating agencies.

Our Values and
Creating Value for Our Stakeholders

The Public and the Comunities

For the public and the communities we serve, we promote economic well-being, quality of life and environmental protection.

All the country regions were provided with reliability and security of supply in a very drought year confirming the ability of the Company to manage successfully the power system in quite difficult conditions.

Safety is an integral part of our business and will not be compromised

We are protecting the environment signing up state-of-the art technologies that are reducing the impact to the environment and are eliminating the polluted equipment.

Employees

Every employee is a member of Transelectrica team.

We value the adaptability, creativity and new ideas of each person as innovation approach in a forever changing world.

We are developing the participative culture and fostering change, appreciate and stimulate team-working.

Integrity, fairness, honesty and mutual respect are the core values that we appreciate and sustain.

We are valuing our employees to increase the business performance and to consolidate the Company's reputation.

Contractual Partners

We create sound partnerships to support mutual development.

The relationships with contractual partners are handled ethically, with integrity, fairness, and in a professional manner, doing what is right in each situation while complying with all applicable laws and regulations.

Regional and International Cooperation

We developed partnership programs and signed Memoranda of Understanding to promote regional and international cooperation.

Cooperation agreements have been initiated with European TSOs and with similar companies around the world and to integrate the common values and best practice.

Based on the agreements of Athens Forum in December 2003, we have already started the implementation of the Regional Power Exchange on OPCOM trading platform offering a transparent, fair, non-discriminatory transaction environment.

Transelectrica's Corporate Governance

Principles of Sound Management

In Transelectrica, good corporate governance is the basis for all our decision-making and monitoring processes applying to our cooperation with the shareholder and also with our subsidiaries. It involve transparency, accountability, ethical behaviour in our strategies and in our day-to-day business activities as reflected in Code of Ethics, as management reputation is an intangible asset of every company or organization.

Transelectrica's Ratings

Transelectrica is one of the three Romanian companies rated by main international rating agencies - Moody's Investor Service and Standard & Poors - based on the financial and operational performances, gaining the closest rate to the sovereign rates on the evaluation date.

Romania

December 16th, 2002: Moody's upgraded the ceiling for loans in foreign currency for Romania, as follows:

- B1 for bonds and
- B2 for deposits

December 11th, 2003: Moody's has increased the ratings for Romania due to the improvements in the economical and political environment as follows:

- Ba3, sovereign ceiling for long term bonds in foreign currency

February 27th, 2003, ratings for Romania improved from "B+" to "BB-" for long term loans in foreign currency and from "BB-" to "BB" for long term debt in local currency, while for short term loans both in foreign and local currency the rating remained unchanged ("B").

September 17th, 2003, S&P improved ratings of Romania:

From "BB-" to "BB" for the long term debt in foreign currency

From "BB" to "BB+" for the long term debt in local currency

On February 17th, 2003, Moody's Investor Service rated Transelectrica with "B2" rating for debts, accompanied by the solid perspective - the closest to the sovereign rating on the evaluation date and for Romanian companies, according to the criteria of the agency.

On November 8th, 2002, Standard & Poor's has assigned Transelectrica with "B+" rating for Long term debt in foreign currency and "BB-" rating for loans in local currency, with a positive perspective of ratings on a long term - ratings equal to those of the sovereign, arguing that all these reflect

- the transparent tariffs regulating activity that allows the Company to cover costs,
- its strategic importance for the development of the national electricity sector and
- the main measures regarding the viabili-

ty and the monopoly of the Company over the electricity transmission services.

In the same time, based on the evaluation made during July-August 2003, S&P increased the ratings of Transelectrica, from "B+" to "BB-" for the long-term debt in foreign currency and maintained the "BB-" rating for the long-term debt in local currency, with positive perspectives.

The ratings obtained induced a better position for Transelectrica in the negotiations with the financial institutions and allowed the Company to obtain more favorable financing conditions, even loans without state or bank guarantees.

Risk Management System

Starting with 2003, Transelectrica, with the consultancy of Marsh Romania, has implemented an Enterprise Risk Management Program, to address the following objectives:

• Anticipate and prevent major disruptions in operation

• Ensure adequate liquidity / cash flow for operating expenses, debt payments and strategic investments.

• Protect long-term viability and strength of the Company

The Risk Management Program effectively integrates the risks across the entire company, allowing tailoring imaginative and cost-effective options for risk reduction and risk transfer; Risk Management lays the groundwork for decisions about allocating resources to manage risk and reduces the element of surprise.

Business Risk Audit was the initial diagnostic process, completed in 2003, having as main objective to identify and highlight areas of business risk exposure of Transelectrica, as well as highlighting gaps in the current risk strategies. Once risks have been identified they will be assessed to determine the potential magnitude and likelihood of a given scenario and mapped accordingly. This will enable the management to address risks with high to low priority order.

Under the surveillance of the major international rating agencies, Moody's Investor Services and Standard & Poor's, Transelectrica is aiming - inclusively by implementing a risk management system- to consolidate its position and it is worth mentioning that one of its challenges is preserving the managerial policy coherence and enhancing its economical and financial outcomes, validated by increasing the company ratings.

Our Service for Your Development

Electricity is an essential service of our modern lives. To facilitate the electricity deliver from one point to another while maintaining the continuity, reliability and quality of electricity, Transelectrica is providing three types of services to the grid customers:

- Transmission service to: producers, distributors and suppliers, contestable users
- System services to: distributors, suppliers and end users
- Market administration service to: distributors and suppliers

Transelectrica Group is carrying out three major functions in the electricity market:

- Transmission and System operator of the Romanian Power System
- Market operator of the electricity market (through its subsidiary OPCOM)
- Metering operator of the electricity wholesale market (through its branch OMEPA);

The Company entered the telecommunication business through its subsidiary TELETRANS taking advantage of the OPGW extra capacity installed in the electricity grid.

The main responsibilities of the company are:

- Technical and operational management of the Power System, to ensure its safety and stability
- Operation, maintenance and development of its assets
- Planning of the National Power System and transmission network development
- Market administration through its legally independent subsidiary OPCOM
- Management of interconnections and electricity transits with neighbouring countries.

Transelectrica does not trade electricity, except to cover its own transmission loses.

The transmission tariff has two components:

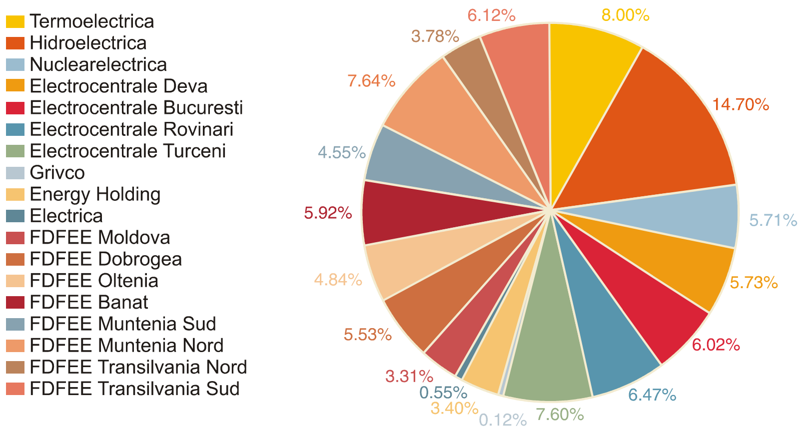
- a generation component (tG) applied to the electricity feed in the transmission network, and,
- a load component (tL) applied to the electricity take off the transmission network.

This approach was developed to send locational signals to electricity transmission grid customers either generation capacities or significant loads.

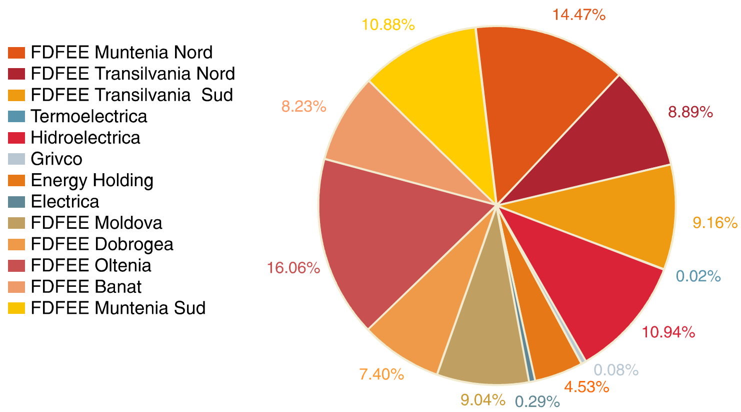
Diversifying the customer portfolio and mitigating the counterparty risk have been the main target of Transelectrica for 2003.

Compared to 2002, when the major client, Electrica account for 95% of total revenues, in 2003, all major generators and electricity suppliers became clients, each client share became less than 15% of total revenues.

Customer Breakdown for Transmission Services



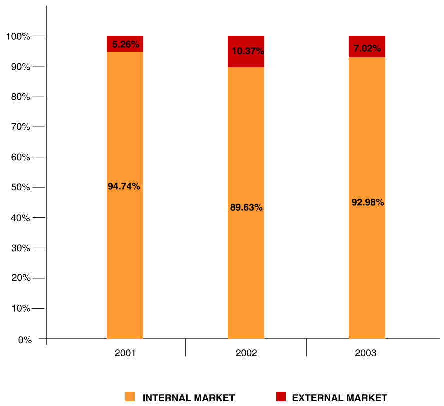
Customer Breakdown for System Services



Our Service for Your Development

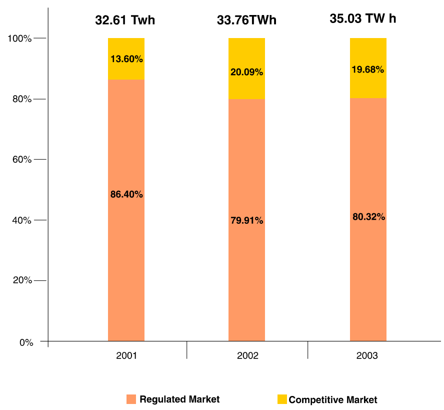
Our clients benefit also from the setting off their position in the market as regard the transmission and system services.

In 2003, the electricity transmitted rose with about 4% compared to 2002, while representing 68% of the total national consumption.



Electricity Transmitted in the Internal and External Market

Electricity Transmitted Volumes



Keeping Our Promises
Keeping the Lights On

Customers of the Romanian electricity grid are the focal point of our business. Besides transmitting electricity to one point of the grid to another, we offer a more valuable service: the security of electricity supply. Therefore, the services we provide cannot be taken apart and reliability of the grid, security of supply, regulated access are of public interest and our competence developed by decades is evolving towards the devotion to serve.

In 2003, the security of supply concerns became of crucial importance after the several blackouts that have affected Europe and North America.

Transelectrica manages to permanently maintain Romanian Power System in operation and in compliance with the quality standards provided by the Technical Code of Electricity Transmission Grid in a very severe drought year.

To this purpose, the Company employs own resources and purchases technological system services from the electricity producers. Transelectrica charges for these services two regulated tariffs that are applied to the same base (electricity acquired by suppliers/eligible consumers):

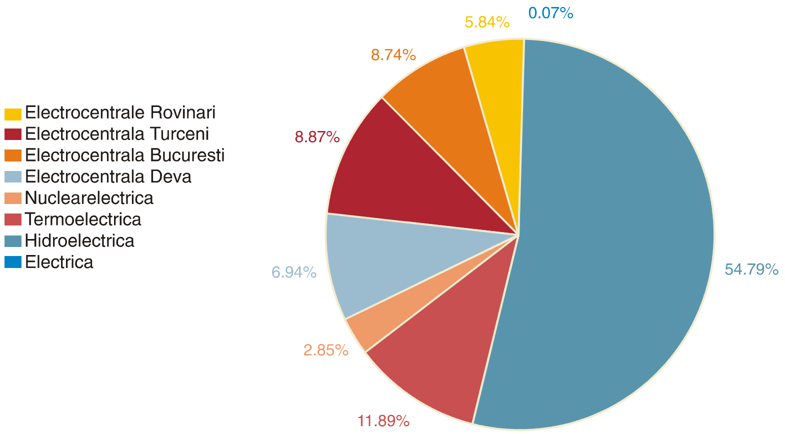
- the tariff for functional system services and
- the tariff for technological system services.

The main components of the technological system services are:

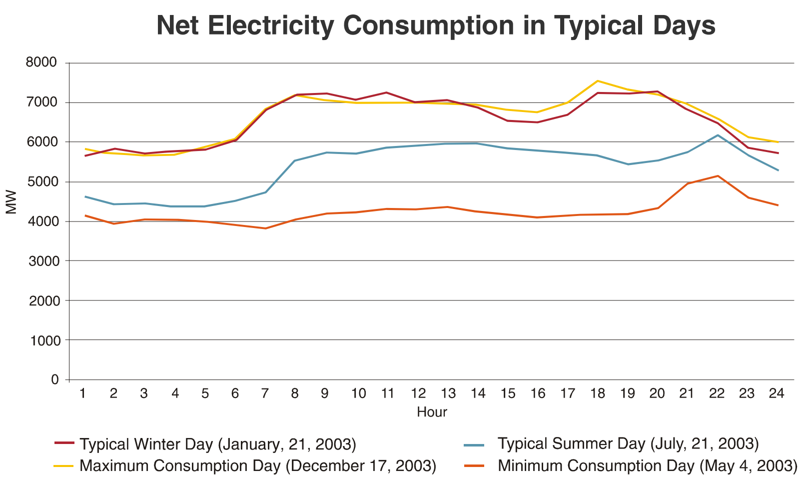
- Primary control reserve;
- Secondary control frequency - power reserve;
- Fast tertiary reserve;
- Slow tertiary reserve;
- Reactive power for voltage control ;
- Black start capability;
- Power to cover technological losses in RET.

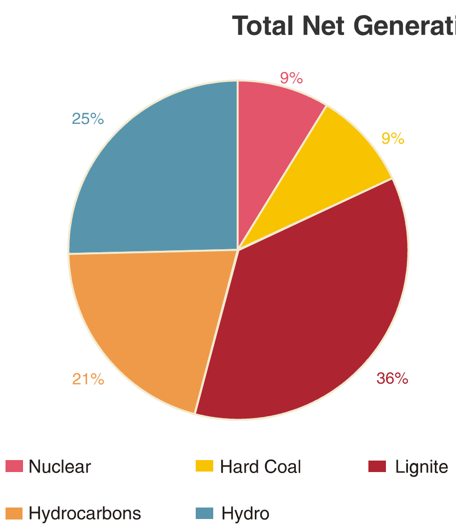
	2001	2002	2003
Technological transmission losses as % of electricity transmitted volumes	2.55%	2.82%	2.68%

Ancillary Services Providers



Keeping Our Promises
Keeping the Lights On





- Romania has multiple sources of domestic primary energy resources:
  - Oil
  - Natural Gas
  - Hard Coal
  - Lignite
  - Hydro
  - Nuclear

- Of the fuel sources available for electricity production lignite is the least cost-efficient

- At present, the average generation cost in Romania exceeds the western European average but it is expected to decrease over time as the fuel mix evolves and increasing of power plant efficiency

Energy Balance of the Romanian Power Systems

(in TWh)	2000	2001	2002	2003
Final Electricity Consumption	39.8	40.6	40.6	41.8
Network Losses	6.6	6.8	6.9	7.2
Demand (Gross Consumption)	46.4	47.4	47.5	49
Peak Power (MW)	7370	7800	7641	7542
Export	1.5	2.1	3.3	3
Import	0.8	0.7	0.4	1
Net electricity generation	47.1	48.8	50.4	51.1
Transmitted electricity	32.4	32.6	33.8	35.1

Net Transfer Capacities (NTC) [MW]

RO	JIEL/EKC block *	1400 (EKC) / 700 (RO)
JIEL/EKC block	RO	850 (EKC) / 1000 (RO)
RO	BG	750
BG	RO	650
RO	JIEL/EKC block + BG	1000
JIEL/EKC block + BG	RO	1350
RO	HU	0
HU	RO	50
RO	MD	150
MD	RO	450

* JIEL/EKC block - Serbia & Montenegro, FYROM, part of Bosnia and Hertzegovina on 2nd UCTE synchronous zone

NTC values are calculated according to the ETSO principles based on technical and economical criteria, according to a non-discriminatory and transparent procedure.

Mastering the Grid

Transelectrica's Asset Management responsibilities involve the centralization of key decision making for the network business to maximize the value of the company whilst delivering high service levels to customers with acceptable and manageable risks.

The 'core business' for the Asset Management Division is managing the balance between performance (operation), costs (maintenance, rehabilitation, modernization) and risks (ageing, failure, critically impact).

Although Transelectrica's asset base is ageing, it has a good track record in delivering reliable transmission services. The company's maintenance policy has been structured in line with the latest concepts of reliability-centered maintenance methodology. The renewal of Transelectrica's main assets will lead to a significant reduction in maintenance costs over time. A major objective is to further improve the reliability of the Romanian Power System.

The Romanian electricity grid is of public benefit and strategic importance therefore about half of transmission assets are included in the state public domain. The concession contract for transmission assets and service is to be concluded in 2004.

SMART high level experience and well defined position in the market, enables it to carry out the maintenance of primary and secondary equipment of the power transmission grid, including preventive measures, incident remedies, supplying services in the energy sector and micro-production of equipment.

Currently, Transelectrica runs about 9000 km of Overhead Lines (OHL), out of which:

- 155 km with 750 kV
- 4,630 km with 400 kV
- 4,132 km with 220 kV.
- 38 km with 110 kV

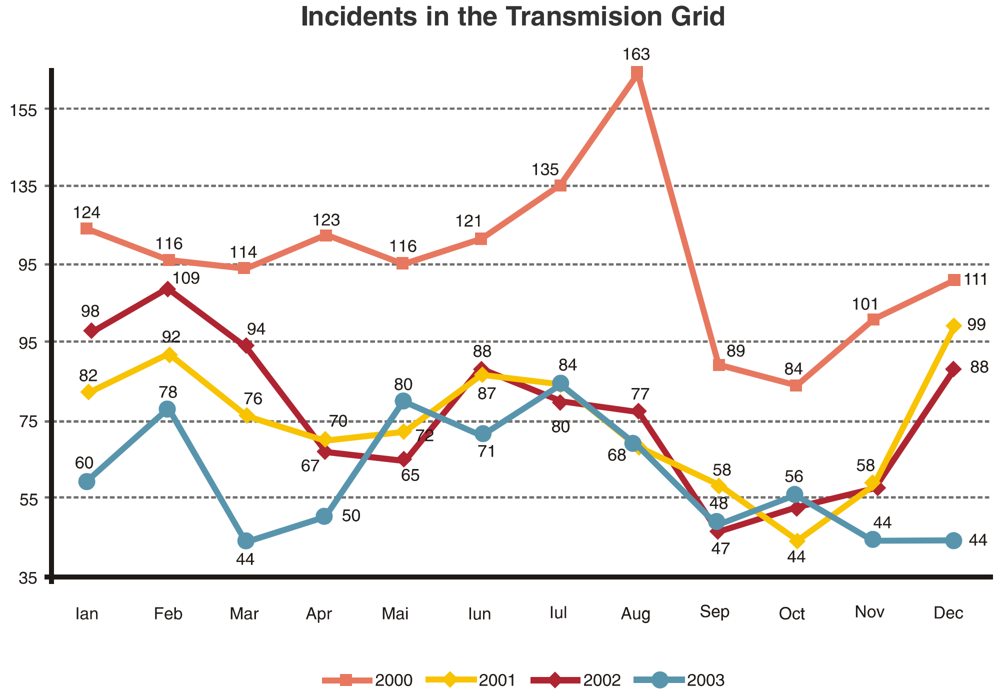
and operates 77 substations in Romania

- 1 with 750 kV
- 32 with 400 kV
- 44 with 220 kV.

• In the substations operate 143 high-power transformers and autotransfomers, with higher voltage of 750, 400 and 220 kV for a total rated power of 35,532 MVA.

• In 2003, there was no incident in the transmission grid that led to more than 100 MW load interruption.

We started the negotiation with Bulgarian partners to transfer to Transelectrica patrimony the 400 kV OHL Vulcanesti (MO)-Drobudja (BG). The documents were signed in March, 2004, in Sofia.


Incidents in the Transmision Grid
155
135
95
95
75
55
35
Ian
Feb
Mar
Apr
Mai
Iun
Iul
Aug
Sep
Oct
Nov
Dec
2000
2001
2002
2003

Investing in Future,
Investing to Help You Develop

To comply with the governmental power sector strategy requirements and those of UCTE, Transelectrica launched a wide modernisation - development program.

As a result of the credit rating awarded in 2002 and 2003, Transelectrica has contracted cost-effective and flexible financing for the projects set forth in the business plan, even without sovereign or bank guarantees.

The investment effort is focused on two major goals:

- Modernisation of the NPS control system and building the new power market infrastructure and a modern state-of-the-art telecommunications support;
- Modernisation of the transmission grid's vital substations. Interconnection substations have been included in the first class of priority.

Transelectrica's business plan describes the time schedule for each investment project and the respective financing sources aiming at:

- Increasing quality and safety in providing transmission service for network users
- Ensuring proper interconnection conditions to UCTE members
- Improving efficiency in Transelectrica's operations
- Cutting operating and maintenance costs

The grid rehabilitation project includes the following modules:

- Metering system for the wholesale market
- Power system controls
- In-house telecommunication project
- Substation rehabilitation

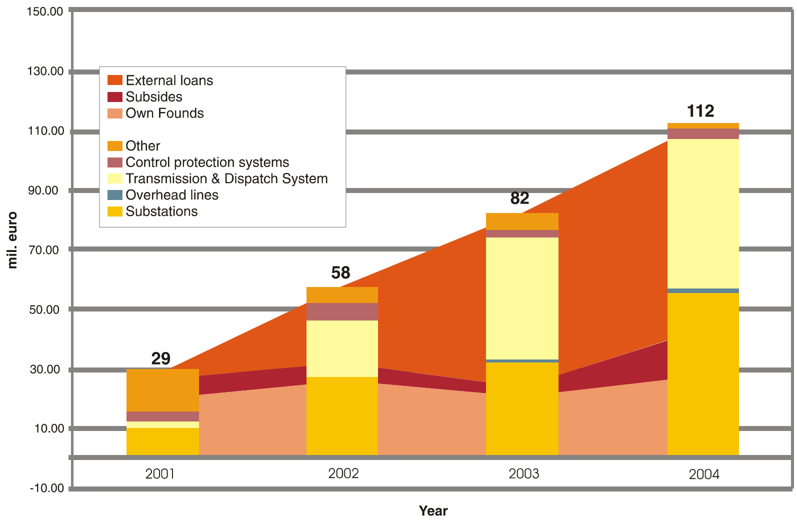
The investment contracts were concluded at lower prices due to acquisition by tendering process and the investment works exceeded by 5% the planned investment for 2003.

In 2003, there were commissioned Portile de Fier substation and the 110 kV part of 400/110 kV Oradea Sud. It also continued the work in the modernization projects of 400/110 kV Constanta Nord and 400/110 kV Oradea Sud that will be commissioned in 2004.

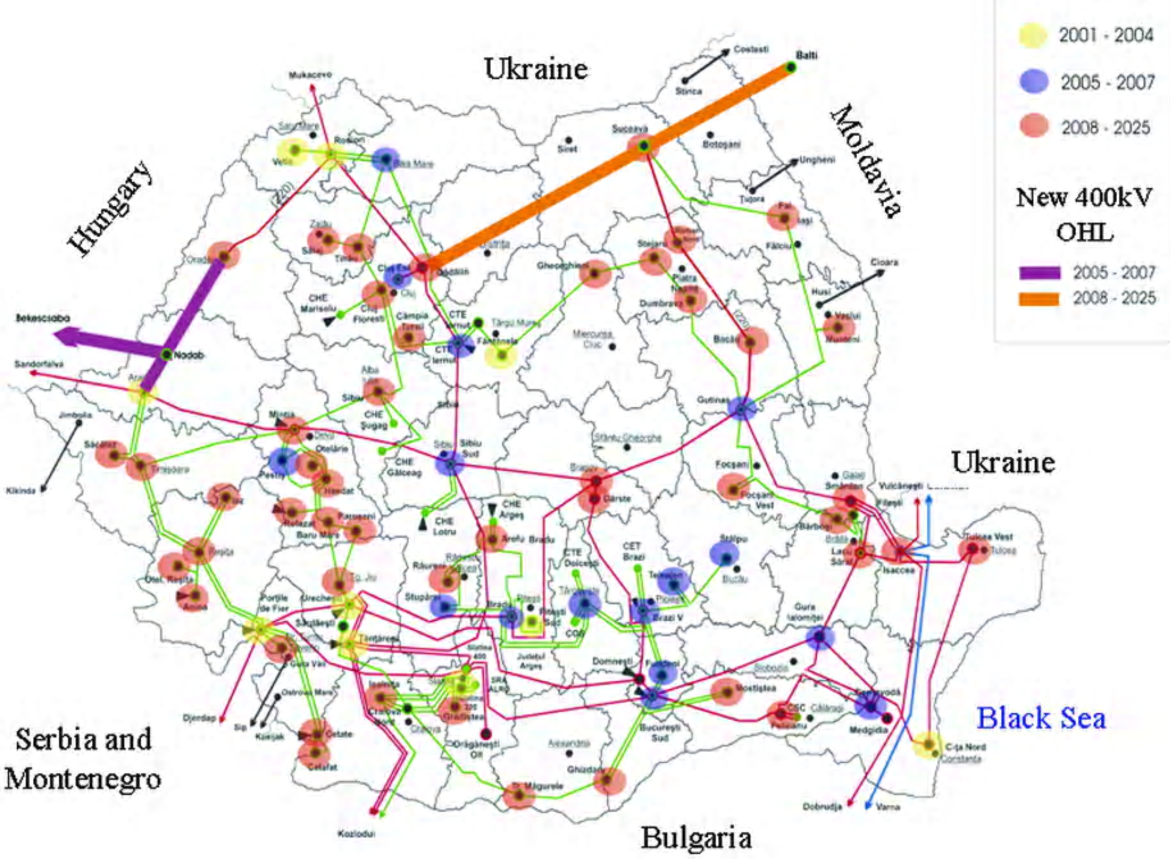
The rehabilitation projects for Slatina, Rosiori, Brazi Vest, Gutinas, Fundeni, Iernut, Sibiu Sud, Bucuresti Sud, Cernavoda and for protection,command control systems developed and are in various stages of completion.

Also in 2003 the contract between Transelectrica, OMEPA branch and Landis+Gyr was concluded on the "Design, Supply, Installation and Commissioning of the Metering System for the Wholesale Electricity Market, Including Meters, Current and Voltage Transformers and The Management Metering Data System".

Investment Program 2001 - 2004



Investment Program 2001-2025



Telecommunication in the Spotlight

2003 was the year of Romanian telecommunication market liberalisation.

Transelectrica telecommunication infrastructure attracts new investment and the projects initiated are meant to make Traselectrica a modern TSO in the region regarding the telecommunication assets. In 2003, the OPGW installation on 400 kV OHL Portile de Fier (Ro) - Djerdap (S&M) have been successfully finished, and the investment to the ETSO telecommunication nodes for the regional market will continue as to be included in the electronic highway of the European electricity market.

Outsourcing Transelectrica IT and telecommunication activities and creating TELETRANS subsidiary has been done to enter into the telecommunication business through a joint-venture or public-private partnership that will take advantage of the extracapacity of the new OPGW installed.

Given the structural deficit of generation capacity in the Balkan area, Romania is expected to be the regional hub in the future.

In autumn 2004 the two UCTE synchronous zones should be reconnected, leading to a greater stability of the energy quality parameters and supporting the enhancement of the regional electricity market.

Our future commitments as a key TSO in the region are:

- To structure the locational tariffs to reflect any imbalances caused by users of the network ;
- To facilitate cross border trades by removing transit barriers after the implementation of inter-TSO compensation mechanism in the framework of the Regional Market
- To provide free access to the Romanian network for import/export/transit by a fair allocation of transfer capacity;
- To price the imbalances of market participants by operating a balancing market mechanism.

Interconnection and Cooperation

Interconnection to the UCTE system is one of the key achievements in the Romanian Energy Sector. Considerable efforts were made to improve the operations and facilities and meet UCTE norms and standards leading Transelectrica to full UCTE membership in May 2003.

The Romanian Power System is expected to be a significant net exporter of electricity to neighbouring countries. Additionally, the Romanian transmission grid will be a major path for the transits within the European electricity market and for the imports coming from the power systems of CIS countries.

In 2003 Transelectrica was actively involved in programmes and projects of:

- EURELECTRIC- Union of European Electric Power Industry
- CIGRE - International Council on High Voltage Electricity Systems
- SETSO, Task Force - regional group to define the market condition and infrastructure requirements for the South-East European Countries
- SUDEL - regional group for coordination of the electricity transmission in the South-East European Interconnected Systems
- SECI- South Eastern Coordination Initiative

The Partnership programme between Transelectrica and USEA/ USAID started four years ago has continued.

Our People - Your Partners

We build upon skills and abilities of our employees. Thanks to successful teamwork and cooperation in the company and with our customers, our employees are our competitive advantage. Operating the electricity network is our main business and our employees developed the networking attitude to increase their performance and to promote knowledge exchanges. Our employees are consolidating the working relationships with all our contractual partners, (including SMART and TELETRANS, FORMENERG, ICEMENERG) to improve the services delivered in the benefit of the company and of our customers.

We empower and value motivated, proactive employees who take initiative and make contributions to the company's success. In 2003, Transelectrica benefit from the individual commitment to a group effort that makes the teams work and the company prospers.

Our specialists competence increase during last years, the project management approach had a major impact in their professional lives.

Our staff reduces overtime due to outsourcing of non-core activities while the labour productivity significantly increases. We are retaining, training and reward motivated people and are also offering a proper place for professional development. We strive to work with our social partner - the Labour Union - to find the proper balance between responsibility, efforts and reward.

Our main concerns are the safety of our employees providing a health working environment. In 2003, we improve the security of the electrical equipment that is now at the European safety standards.

Our employees are having individual protection equipment, certified according to the Labour Protection Standards and we have taken action to reduce the incident and occupational risk in Transelectrica. At the end of 2003 we succeeded to improve all the specific performance indicators.

Protecting the Environment for a Sustainable Development

In the context of sustainable development of the country and jointly efforts for Romania's integration into EU and as a full UCTE member, Transelectrica gave a particular attention to environmental protection in 2003.

The main objective of the environmental policy has been to implement an up-to-date environmental management system (EMS). The objective was achieved with the Company's sources and also under consulting with ERM Lahmeyer International (Germany) with EBRD financing. The Environmental Guide and all EMS procedures have been reviewed in order to best answer the requirements of the environmental legislation and the changes performed in the company.

The Romanian Society of Quality Assurance (SRAC) has drawn up a study following which Transelectrica has been awarded its certification as per the international standard ISO 14001.

Management and environment monitoring plans have been devised for the installations to be retrofitted, according to the World Bank methodology.

On May 20-21, 2003 Transelectrica together with ERM Lahmeyer International organised an international workshop in Baile Herculane focused on the exchange of experience in EMS implementation.

In 2003, the Technological Engineering Laboratory focuses on:

- assessing the environmental impact on the equipment in the transmission network by on-line monitoring the atmospheric pollution and corrosiveness influencing the insulation in electric substations located near industrial platforms;

- acquiring modern equipment in order to diversify the scope of activity and to permanently improve the quality of purchased services. To this effect, the new corrosion protection materials for metallic and concrete constructions have been tested and the soil quality control instruments have been commissioned in electric substations;

- editting the geographical Atlas "Romania. Soil Quality and the Electricity Transmission Grid" as a reference book for specialist from various domains.

Excellence and Quality Dedication

Harmonisation of the national regulations to the European and international ones is a must, as from May Transelectrica became a full member of the Union for the Coordination of Transmission of Electricity (UCTE).

The improvement of the quality management system has been performed by demanding as reference the 2000 edition of the ISO 9001 standard and by certifying the compliance on the occasion of SRAC's supervision audit in 2003.

The increase of safe installations operation by means of state-of-the-art equipment and increased demands upon acquisition of products, services and works has relied on selecting the suppliers depending on their proved technical capability and performances along execution.


IQNet
THE INTERNATIONAL CERTIFICATION NETWORK
CERTIFICATE
IQNet and
SRAC
hereby certify that the organization
COMPANIA NAȚIONALĂ DE TRANSPORT AL ENERGIEI ELECTRICE "TRANSELECTRICA" S.A.
NATIONAL POWER GRID COMPANY
B-dul Gen. Gh. Magheru nr. 33, sector 1, București
și Sucursalele de Transport al Energiei Electrice: Bacău, București, Cluj, Constanța, Craiova, Pitești, Sibiu, Timișoara și Dispeceratul Energetic Național și Dispeceratele Teritoriale: București, Bacău, Cluj, Timișoara, Craiova
for the following field of activities
Romanian Power Transmission and System Operator (TSO)
has implemented and maintains a
Combined Quality - Environmental Management System
which fulfils the requirements of the following standards
ISO 9001 : 2000 ISO 14001 : 1996
Issued on : 2004 - 01 - 30
Validity date : 2007 - 01 - 30
Registration Number : RO – 600 / 72
Dr. Fabio Roversi
President of IQNet
Dr. Dan Stoichitoiu
President of SRAC


CERTIFICAT
SOCIETATEA ROMÂNĂ PENTRU ASIGURAREA CALITĂȚII
ROMANIAN SOCIETY FOR QUALITY ASSURANCE
certifică organizația
certifies the company
COMPANIA NATIONALĂ DE TRANSPORT AL ENERGIEI ELECTRICE "TRANSELECTRICA" S.A.
NATIONAL POWER GRID COMPANY
B-dul Gen. Gh. Magheru nr. 33, sector 1, București
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pentru următoarele activități
for the following field of activities
Operatorul român de transport și de sistem pentru energie electrică
Romanian Power Transmission and System Operator (TSO)
că are implementat și menține un
sistem integrat de management calitate - mediu
which has implemented and maintains a
combined Quality - Environmental management system
conform condițiilor din standardele
which fulfills the requirements of the standards
ISO 9001 : 2000 ISO 14001 : 1996
Acest certificat este valabil până la / This certificate is valid until : 30 ianuarie 2007
Nr. Certificat (Certificate Registration No) : 600-1 / 72
București : 30 ianuarie 2004
PRESEDINTE
dr. ing. Dan Stoichițoiu
SRAC - Str. Theodor Burada nr. 6, 010215 București

Costs have been cut down by elaborating procedures for all Transelectrica's processes and their continuous improvement.

At the end 2003 Transelectrica has been awarded with the Quality Excellence "J. M. Juran" offered by the Romanian Quality Foundation, in "Major Companies" category. A team of specialists has assessed the Company's achievements in the light of the 9 excellence criteria which confirms once more its excellent managerial practice.

CNTEE TRANSELECTRICA SA

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2003

CONTENTS

GENERAL INFORMATION

Description of the business

The principal activity of the National Electricity Transport Company – "Transelectrica"- SA and its subsidiaries (together with Transelectrica, "the Group") is electricity transportation and provision of the electricity market administration services.

Transelectrica SA, the parent company ("Transelectrica" or "the Company") was incorporated in 2000 as a joint stock company established under the laws of Romania. The Company is domiciled in Romania.

The address of its registered office is 33, G-ral Gheorghe Magheru Bvd., Bucharest 1.

The subsidiaries have been incorporated in accordance with Romanian Government Decisions. The principal subsidiaries are disclosed in Note 22.

Incorporation of the Company

In accordance with the Decision 627 issued on 31 July 2000 by the Government of Romania, the National Electricity Company - a state corporation (the "Predecessor Entity") – was split into four newly created legal entities ("Successor Entities"). The main objective of the reorganization was to allow the newly created entities to operate on a commercial basis, allowing for the eventual privatisation of the Successor Entities. The sole shareholder of the Successor Entities is the Romanian State, through the Ministry of Economy and Commerce. The Successor Entities are listed below:

- The National Electricity Transport Company "Transelectrica" SA (Transelectrica), a joint stock company which has as main object of activity the electricity transportation.
- The Electricity and Thermal Energy Production Company "Termoelectrica" SA, a joint stock company, which has as main object of activity the production and supply of electricity, as well as the production, transportation, distribution and supply of thermal energy.
- The Electricity Production Company "Hidroelectrica" SA, a joint stock company which has as main object of activity the production of electricity and its supply on the basis of licenses.
- The Electricity Distribution and Supply Company "Electrica" SA, a joint stock company which has as main object of activity the distribution and supply of electricity, as well as the research and development of distribution, telecommunication and IT system in line with production and transportation systems, on the basis of the lisenses required by the law.

Shareholders

The sole shareholder of the Company is the Romanian State, through the Ministry of Economy and Commerce.

Management structure

The persons who served office during the year ended 31 December 2003 were:

General Director	Jean Constantinescu
Finance Director	Maria Cristina Toderas
Investments Director	Razvan Catalin Purdila
Director of Fixed Asset Management Division	Maria Ionescu
Marketing Director	Bogdan Popescu Vifor
Director of "Dispecerat Energetic National"	Octavian Lohan
Human Resources Manager	Mihaela Maciuceanu
Internal Audit Director	Ion Rentea
Legal Manager	Paula Butnaru

Employees	2003	2002
Total number of employees at year end	2,141	2,332

PricewaterhouseCoopers Audit SRL
1-5 Costache Negri Street
Bucharest 5, Romania
Telephone +40 (21) 202 8500
Facsimile +40 (21) 202 8600

Registration Number: J40/17223/1993
Fiscal Code: R4282940

INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF CNTEE TRANSELECTRICA SA

1. We have audited the accompanying consolidated balance sheet of CNTEE TRANSELECTRICA SA (the "Company") and its subsidiaries (together "the Group") as of 31 December 2003 and the related consolidated statements of operations and of cash flows for the year then ended. These financial statements, as set out on pages 1 to 41, are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except as discussed in paragraphs 4 and 5, we conducted our audit in accordance with the International Standards of Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The consolidated financial statements of the Group for the year ended 31 December 2002 were audited by another auditors, who expressed a qualified opinion thereon in their report dated 30 April 2003. The prior auditor's report was qualified in respect of i) lack of historical information for certain fixed assets which prevented adequate application of International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29") ii) non-application of International Accounting Standard 36 "Impairment of Assets" ("IAS 36") and iii) uncertainty in respect of the status of public property assets.

4. The carrying value of property, plant and equipment acquired before 30 June 1994 has been determined by indexing the carrying amounts as of the respective date to 31 December 2003 as described in Note 3 c). The 30 June 1994 amounts included revaluations performed according to Government Decisions no 26/1992 and 500/1994, which were based on indexes not necessarily related to market value or depreciated replacement cost. The Group's records do not allow the determination of historical costs for assets acquired prior to 30 June 1994 and consequently the calculation of the carrying value of these assets in accordance with IAS 29 was not possible. In the accompanying financial statements the net book value of assets acquired prior to 30 June 1994 is ROL 15,005,673 million.

5. In accordance with the requirements of IAS 36, an enterprise should assess at each balance sheet date whether there is any indication that its assets may be impaired and if there is such indication, the enterprise should estimate the recoverable amount of the asset. The Group has concluded that an impairment review is required, however management was not able to estimate the recoverable value of the assets which are part of the electricity transmission network because i) the Group's future cashflows are primarily dependent on the evolution of the transmission tariffs which, due to the restructuring and privatisations process which the electricity sector in Romania is undergoing, can not be predicted with certainty and ii) the Company has not concluded a concession agreement for the public

property assets it uses (refer to Note 21) and consequently does not pay a royalty fee for the uses of such assets; it is possible that the Company will be required to pay royalties following the conclusion of such an agreement.

6. The Company has long-term loans from the European Bank for Reconstruction and Development, the European Investment Bank and the International Bank for Reconstruction and Development as detailed in Note 15. As of 31 December 2003 the Company had not complied with certain loan covenants, a fact which could give the respective lenders the right to request early repayment of the loans. The management of the Company considers that because i) the covenant breaches are not substantial ii) the Company has the capacity and intends to make all loan repayments in accordance with the loan agreements iii) the loans are guaranteed by the Romanian State and iv) the respective banks have been informed annually about the Company's position in respect of financial covenants and, to date, have taken no action against the Company, it is therefore appropriate to classify the respective loans as long-term in the accompanying balance sheet. In our opinion, such a presentation in respect of long-term portions of loans in amount of ROL 1,806,689 million is not in accordance with International Accounting Standard 1, "Presentation of Financial Statements".

7. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the historical cost of property, plant and equipment acquired before 30 June 1994 and as to the amount of impairment of property, plant and equipment, and except for the matters described in paragraph 6 above, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

8. Without further qualifying our opinion, we also draw attention to the following matters:

a. The Romanian energy system, which comprises production, transport and distribution companies, is established as a technically integrated system. The Romanian State, through the Ministry of Economy and Commerce, is the sole shareholder of these companies. The National Authority for Regulation of the Energy Sector ("ANRE" or "the Authority"), an independent authority, establishes the tariffs and prescribes the framework contracts which define the commercial relationships between the companies in the energy sector and also relationships with customers outside the sector. Consequently, the Company, as an integral part of the national energy sector, is significantly influenced by the decisions of ANRE primarily in respect of its' revenues streams which are dependent on the tariff methodology established by the Authority.

b. We also draw your attention to Note 25 to the financial statements. The corresponding amounts as previously reported by the Group have been restated to provide for deferred tax resulting from the restatement of public property assets in accordance with IAS 29 and to recognise mandatory dividend distributions in the period in which the obligation to make the distribution arose.

PricewaterhouseCoopers Audit SRL

PricewaterhouseCoopers Audit SRL — Bucharest, 8 April 2004

CONSOLIDATED BALANCE SHEET

	Note	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Assets			
Non-current assets			
Property, plant and equipment	5	19,625,507	20,286,478
Assets in course of construction	6	4,352,869	2,121,691
Intangible assets		135,205	89,145
Negative goodwill	22	(12,043)	-
Available for sale investments	7	21,760	46,861
Deferred tax assets	19	1,106,484	-
Total		25,229,782	22,544,175
Current assets			
Inventories	8	419,577	424,990
Accounts receivable	9	3,437,944	2,890,231
Cash and cash equivalents	10	478,069	492,514
Total		4,335,590	3,807,735
Total assets		29,565,372	26,351,910
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	11	9,879,894	9,879,894
Public property reserve	11	10,434,815	11,321,040
Retained earnings/(accumulated losses)	11	1,044,913	(1,512,874)
Total		21,359,622	19,688,060
Non-current liabilities			
Deferred income	12	985,816	864,142
Long-term borrowings	15	3,346,471	1,610,753
Deferred tax liabilities	19	-	1,150,437
Total		4,332,287	3,625,332
Current liabilities			
Trade and other payables	13	2,646,786	2,193,448
Other tax and social security liability	14	607,885	494,610
Provisions for liabilities and charges		93,118	183,103
Short term borrowings	15	525,674	167,357
Total		3,873,463	3,038,518
Total liabilities		8,205,749	6,663,850
Total liabilities and shareholders' equity		29,565,372	26,351,910

The consolidated financial statements and the accompanying notes on pages 1 to 43 were authorised for issue on 8 April 2004 by the Board of Directors of CN Transelectrica SA and signed on its behalf by:

Jean Constantinescu
General Director

Maria Cristina Toderas
Finance Director

CONSOLIDATED STATEMENT OF OPERATIONS

	Note	Year ended 31 December 2003 (ROL million)	Year ended 31 December 2002 (ROL million)
Revenues	16	8,194,466	8,379,260
Operating costs	17	(8,375,191)	(8,564,527)
Operating loss		(180,725)	(185,268)
Finance costs, net	18	(528,981)	(220,652)
Gain on net monetary position		228,827	251,953
Loss before taxation		(480,879)	(153,966)
Taxation	19	2,162,809	(390,087)
Net profit/(loss) for the year		1,681,930	(544,053)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital (ROL million)	Public property reserve (ROL million)	Retained earnings (ROL million)	Total shareholders' equity (ROL million)
Balance at 1 January 2002 as previously stated		9,879,894	11,880,421	(755,325)	21,004,990
Total cumulated effect of restatement of prior period balances	25	-	-	(845,895)	(845,895)
Balance at 1 January 2002 - restated		9,879,894	11,880,421	(1,601,220)	20,159,095
Public patrimony increase		-	220,574	-	220,574
Transfer from public patrimony to reserves		-	(779,955)	779,955	-
Net loss for the year		-	-	(544,053)	(710,104)
Mandatory appropriation of dividends for 2002		-	-	(147,556)	(147,556)
Balance at 31 December 2002 as previously stated		9,879,894	11,321,040	(819,706)	20,321,228
Total cumulated effect of restatement of prior period balances	25	-	-	(693,168)	(664,230)
Balance at 31 December 2002 - restated		9,879,894	11,321,040	(1,512,874)	19,688,060
Transfer from public patrimony to reserves		-	(886,224)	886,224	-
Additional paid-in capital	22	-	-	15,496	15,496
Net loss for the year		-	-	1,681,930	1,681,930
Mandatory appropriation of dividends for 2003		-	-	(25,864)	(25,864)
Balance at 31 December 2003		9,879,894	10,434,816	1,044,912	21,359,622

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2003 (ROL million)	Year ended 31 December 2002 (ROL million)
Cash flows from operating activities		
Profit/(loss) for the year	1,681,930	(544,053)
Adjustments for:		
Tax charge/(credit)	(2,162,809)	390,087
Depreciation	1,670,878	1,667,799
Amortisation of deferred income	(110,404)	(63,774)
Provision expense/(income)	(44,414)	131,804
Loss on disposal of property, plant and equipment	6,591	130,529
Interest income	(22,770)	(168,188)
Interest expense	289,938	206,535
Hyperinflation effect on non-operating items	282,398	140,803
Operating cash flows before working capital changes	1,591,338	1,891,542
(Increase) in receivables	(160,356)	(184,593)
Decrease/(Increase) in inventories	25,496	(31,991)
Increase in trade and other payables	19,849	(645,320)
Changes in working capital	(115,011)	(861,904)
Interest paid	(265,691)	(205,484)
Tax paid	(132,830)	691,106
Net cash from operating activities	1,077,806	1,515,260
Cash flows from investing activities		
Purchase of property, plant and equipment	(149,968)	34,047
Proceeds from sale of property, plant and equipment	31,207	35,268
Cash inflow from purchase of subsidiary	6,923	-
Payments in respect of fixed assets in progress	(3,037,611)	(1,575,935)
Interest received	22,770	168,188
Net cash used in investing activities	(3,126,679)	(1,338,432)
Cash flow from financing activities		
Subsidies received	229,540	198,837
Proceeds from borrowings	2,407,804	354,865
Repayments of borrowings	(313,771)	(87,904)
Dividends paid	-	(35,686)
Effect of hyperinflation on financing activity	(349,117)	(203,236)
Net cash from financing activities	1,974,456	226,876
Hyperinflation effect on cash and cash equivalents	59,972	33,830
Net (decrease)/increase in cash and cash equivalents	(14,445)	437,534
Cash and cash equivalents at beginning of the year	492,514	54,980
Cash and cash equivalents at end of year	478,069	492,514

1. THE TRANSELECTRICA GROUP

These consolidated financial statements incorporate the results of CNTEE Transelectrica SA ("the Company" or "Transelectrica") and its subsidiaries (together "the Group"). The structure of the Group is detailed in Note 22. All companies of the Group are incorporated in Romania.

2. GOVERNMENT POLICY IN THE ELECTRICITY SECTOR IN ROMANIA

As part of the ongoing process of restructuring of the electricity sector in Romania, the Romanian Government and Parliament are continuing to adopt new legislation that impacts the electricity sector in general, and the Group in particular. It is not possible to establish at this stage the effects, if any, of future Government policy in the electricity sector in Romania on the value of the assets and liabilities of the Group. The Government of Romania is ultimately the sole shareholder of the Group.

The regulator of the electricity sector is the National Authority for the Regulation of the Energy sector ("ANRE"). The Authority establishes the tariff for electricity transportation and also the manner in which collections from sales of electricity made by the principal electricity distributor in Romania, Electrica SA, are distributed to its suppliers of electricity and electricity transportation services. Consequently, the Group's activity is fundamentally impacted by the decisions made by ANRE.

3. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Financial Reporting Standards Board ("IASB"). They are not the statutory accounts of Transelectrica.

The individual Group companies maintain their accounting records in Romanian Lei ("ROL") and prepare individual statutory financial statements in accordance with the Regulations on Accounting and Reporting of Romania. The IFRS consolidated financial statements of the Group are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention as adjusted for the effects of hyperinflation, except as disclosed in the accounting policies below. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to fair values of financial instruments, deferred profits taxes and the provision for impairment of receivables. Actual results could differ from these estimates.

The measurement currency of the Group and the presentation currency for these consolidated financial statements is the Romanian Leu ("ROL").

Going concern

The nature of the Group's business and the uncertainty in Romania regarding the outcome of the current economic policies on operating conditions is such that there can be considerable unpredictable variation in the timing of future cash inflows.

The Company is registered as a company of national importance ("Companie Nationala") and the Group's activities are critical to the functioning of the Romanian economy. Additionally, the Company's long-term loans are guaranteed by the Romanian state.Based on these facts, the management of the Group is confident that the Group will receive support as required from its shareholders and can continue as a going concern in the foreseeable future; consequently, these financial statements have been prepared on a going concern basis.

Accounting for the effect of hyperinflation

The Romanian economic environment is hyperinflationary and, consequently, the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation include the restatement of balances and transactions for the changes in the general purchasing power of the ROL in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. Corresponding figures, for the year ended 31 December 2002, have also been restated for the changes in the general purchasing power of the ROL at 31 December 2003.

The Group has utilised the general Consumer Price Index (CPI) issued by Comisia Nationala de Statistica in the application of IAS 29, the movements of which are illustrated below:

	Movement in CPI	Index (Base December 2000:100)
Year ended 31 December 2001	30.3%	130.3
Year ended 31 December 2002	17.8%	153.5
Year ended 31 December 2003	14.1%	175.1

The application of IAS 29 to specific categories of transactions and balances within the financial statements is set out as follows:

a) Monetary assets and liabilities

Cash and cash equivalents, receivables (except for advances paid to fixed assets suppliers), payables and interest bearing loans are not restated as they are considered monetary assets and liabilities and are therefore stated in ROL current at the balance sheet date.

Gains or losses on net monetary position which arise as a result of hyperinflation and the holding of monetary assets and liabilities are estimated by applying the change in the general price index to the weighted average for the period of the difference between monetary assets and liabilities.

b) Non monetary items

Non-monetary items (those balance sheet items that are not already expressed in terms of ROL current at the balance sheet date) are restated from their historical cost or valuation by applying the change in the general price index from either the date of acquisition, valuation or contribution to the balance sheet date.

c) Property, plant and equipment

IAS 29 states that all property, plant and equipment should be restated from the date of their purchase using a general price.

Assets acquired prior to 1 July 1994

The information maintained by the Company allows only the identification of historical values after the 1994 revaluation. Consequently, the book value of property, plant and equipment acquired before 30 June 1994 has been determined by indexing the 1994 amounts according to the procedure described above, amounts that included the revaluations according to Government Decisions no 26/1992 and 500/1994. Assets acquired after 1 July 1994 are included at restated cost.

No independent valuation has been performed as of 30 June 1994, and the revaluations, as prescribed by GD 26/1992 and 500/1994, were based on indexes which were not necessarily related to market value or depreciated replacement cost.

Assets acquired after 1 July 1994

Property, plant and equipment acquired after 1 July 1994 is restated by applying the change in the general price inflation index from the dates when the items were initially recorded to the balance sheet date.

d) Consolidated statement of income

Statement of income items, with the exception of depreciation and amortisation, are restated by applying the change in the general price inflation index from the dates when the items were initially recorded to the balance sheet date. In practice this restatement is calculated on a monthly average basis. Corresponding figures from previous year are restated accordingly. The depreciation and amortisation expense for the year is based on the restated property, plant and equipment and intangible assets balances at year-end.

e) Corresponding figures

All the corresponding figures (including monetary assets and liabilities) for the previous reporting period are restated by multiplying the amounts included in the previous year's financial statements by the change in the general price index. Hence, as required by IAS 29, comparative financial information is presented in terms of the measuring unit current as at 31 December 2003. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current as at 31 December 2003.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Group accounting

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

4.2 Investments

The Group classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; for the purpose of these financial statements short term is defined as 3 months. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets; during the period the Group did not hold any investments in this category. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale and are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading and available-for-sale investments are included in the statement of income in the period in which they arise. The fair value of investments is based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired the accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

4.3 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost and comprise cash on hand and deposits held at call with banks.

4.4 Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market interest rate available on origination for similar borrowers.

4.5 Value added tax

Value added tax related to sales is payable to the Fiscal Authorities based on the monthly VAT return by the 25th of the following month irrespective of collection of receivables from customers. The Fiscal Authorities permit the settlement of VAT on a net basis. When input VAT is higher than output VAT, the difference is refundable based on an application filed with the Fiscal Authorities and is subject to a prior fiscal control. VAT related to sales and purchases, which have not been settled at the balance sheet date, is recognised in the balance sheet on a net basis and disclosed separately as a current asset and liability. Where provision has been made against accounts receivable deemed to be uncollectible, bad debt expense is recorded for the gross amount of the accounts receivable, including VAT. The related VAT needs to be paid to the state and, starting 1 January 2004 can only be recovered if the debtor is written off based on a bankruptcy decision.

4.6 Inventories

Inventories are stated at the lower of restated cost and estimated net realizable value. Cost is calculated on a first-in-first-out (FIFO) basis. Where necessary, provision is made for slow moving and obsolete inventories in order to arrive at the net realizable value. Obsolete inventories identified individually are provided for in full. For slow moving inventories, an estimation of the age of inventories by each main category is made, based on the stock turnover by each main category and inventories older than one year, estimated as described above, are provided in full.

4.7 Property, plant and equipment

(I) Cost

Property, plant and equipment are recorded at purchase cost restated to the equivalent purchasing power of the ROL at the balance sheet date (except for assets acquired prior to 1 July 1994, Nee Note 3). Significant renovations are capitalized if these extend the life of the asset or significantly increase its revenue generating capacity. Maintenance, repairs and minor renewals are charged against income as incurred.Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is taken to the statement of operations in the year the disposal or retirement takes place.All borrowing costs are expensed.

(II) Depreciation

Depreciation is calculated on the restated amounts of property, plant and equipment on a straight-line basis from the time they are available for use, so as to write down their cost or valuation to their estimated residual values over their useful lives. The useful economic lives assigned to the various categories of fixed assets are:

	Years
Buildings and special constructions	40
Machinery and equipment	15
Control devices	8
Vechicles	5
Other	3

Following the recognition of an impairment loss, the net carrying value of property, plant and equipment is depreciated over their remaining useful lives.

(III) Land

The Group has use of plots of land on which the Group's buildings and special constructions are located, for which it has legal title and for which the Group had paid no consideration. Land is not depreciated.

(IV) Public property assets

In accordance with the Public Property Law 213/1998 and Electrical Energy Law 318/2003, high-voltage electricity transportation network assets represent state property. Government Decision 627/2000, specifies that fixed assets with a statutory book value of ROL 7,039,426 million (restated net book value of ROL 10,434,815 million at 31 December 2003) representing such public property assets are to be administered by CNTEE Transelectrica SA. Therefore, the Group has the exclusive right to use these assets. The Group receives the majority of the benefits associated with the assets and is exposed to the majority of risks, including the requirement to maintain the network assets over a period which is at least equal to their remaining useful life and the Group's financial performance is directly linked to the condition of the network system. Consequently, the Group has recognised these assets, together with a corresponding reserve in equity.

4.8 Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisition of subsidiary undertakings is included in intangible assets. Goodwill on acquisition of associated undertakings is included in investments in associated undertakings. Goodwill is generally amortised using the straight-line method over its estimated useful life of five years.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the disposed entity.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet classifications as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the statement of operations when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the statement of operations over the remaining weighted average useful life of depreciable and amortisable assets acquired; negative goodwill in excess of the fair values of those assets is recognised in the statement of operations immediately.

b) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

c) Other intangible assets

Expenditure to acquire patents, trademarks and licences is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years. Intangible assets are not revalued.

Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill, is assessed and, when impaired, the asset is written down immediately to its recoverable amount.

4.9 Trade and other payables

Liabilities for trade and other payables which are normally settled in a period up to 30 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

4.10 Borrowings

Borrowings are recognised initially at the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

4.11 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

4.12 Foreign currency transactions

Transactions denominated in foreign currencies are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into ROL at exchange rates as of the balance sheet date. All exchange differences arising on the settlement and translation of foreign currency amounts are recognised in the statement of operations in the year in which they arise. Realised and unrealised exchange losses which are expensed, including those on borrowings, and exchange gains, including those on foreign trade receivables and on cash deposits are included within finance costs in the statement of operations.

At 31 December 2003, the official rate of exchange as determined by the National Bank of Romania, was US dollar ("USD") 1 = ROL 32,595 (31 December 2002 – USD 1 = ROL 33,500). Exchange restrictions and currency controls exist relating to converting ROL into other currencies. The ROL is not a convertible currency outside of Romania.

4.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

4.14 Shareholders' equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

Dividends

Under Romanian law, the Company can pay dividends from its statutory net profits, based upon financial statements prepared in accordance with Romanian Accounting Regulations. Discretionary dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

In accordance with Emergency Government Ordinance 60/2001, companies in which the state has a majority ownership need to distribute 50% of their net profit after deduction of compulsory distributions and contractual profit distributions to employees, as dividends to the state. This distribution is recognised in the period in which the respective profit arises, as it is a legal obligation of the Company.

4.15 Government grants

Government grants related to current maintenance and repairs are taken to income when received.

Government grants related to capital projects for construction of transmission capacity are included in non current liabilities as deferred income and are credited to the income statement on a straight line basis over the estimated useful economic lives of the related assets.

4.16 Revenue

Revenue from rendering of services (which include mainly revenues from transportation of electricity, system and market administration services) is recognised in the period in which the services are provided.

Revenue from the sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer.

Revenue comprises the invoiced value for the sale of goods and services net of value added tax, rebates and discounts and after eliminating sales within the Group.

Interest income is recognised on a time proportion basis taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

4.17 Mutual cancellations

A significant portion of revenue and purchases are settled by mutual settlements. These transactions are generally in the form of cancellation of mutual balances or through a chain of mutual settlements involving several companies. Mutual settlements are not enforceable contractually, but agreed subsequently by parties in order to avoid the effects of financial blockages in the Romanian economy.

Sales and purchases that are expected to be settled by mutual settlements, barter or other non-cash settlements are recognised based on the management's estimate of the fair value to be received or given up in non-cash settlements. The fair value is determined with reference to various market information. Non-cash transactions have been excluded from the statement of cash flows, so that investing, financing and the total of operating activities represent actual cash transactions

4.18 Employee benefits

The Group makes contributions to the State's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The cost of these payments is charged to the statement of operations in the same period as the related salary cost.

Retirement benefits

The Company, in the normal course of business, makes payments to the Romanian State on behalf of its employees. All employees of the Company are members of the Romanian State pension plan. In accordance with the collective labour agreement, the Company is required to pay on retirement the equivalent of one to four months of base salaries (gross salaries excluding bonuses) depending on the length of service. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Under this method the cost of retirement lump sum payments is charged to the income statement so as to spread the regular cost over the service lives of employees. The obligation is measured at the present value of the estimated future cash flows. The Company has no other liability under Romanian law in respect of future pension, health or other costs for its employees.

The principal actuarial assumptions used for accounting purposes were:

- It is assumed that at every future year 2.5% of the Company employees would leave the Company.
- The retirement age is assumed at the earliest of possible under the current legislation, i.e. 65 for male and 60 for female employees.
- The future salary increases were assumed at 1% p.a. over and above the general price inflation.

4.19 Fair value of financial instruments

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable and willing parties in an arms length transaction.

Financial instruments carried on the balance sheet include cash and bank balances, trade and other receivables, trade and other payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.The amounts disclosed in the financial statements approximate their fair value.

The Group uses financial instruments that are subject to fluctuations in foreign currency exchanges and interest rates. The financial risks faced by the Group have been summarised in Note 25.

4.20 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. Additionally, comparatives have been restated as described in Note 25.

5. PROPERTY, PLANT AND EQUIPMENT

	Land (ROL million)	Buildings and special installations (ROL million)	Machinery and equipment (ROL million)	Control and measurement devices (ROL million)	Vehicles (ROL million)	Other (ROL million)	Total (ROL million)
<u>Gross book value</u>							
At 31 December 2002	17,816	47,744,271	13,085,831	1,494,205	437,883	119,330	62,899,336
Additions	11,482	188,665	509,897	101,952	35,494	18,080	865,570
Acquired with subsidiary	76,952	74,369	5,330	23,682	3,299	3,320	186,952
Disposals	-	20,164	203,997	46,969	15,791	3,052	289,973
At 31 December 2003	106,250	47,987,141	13,397,061	1,572,870	460,885	137,678	63,661,885
<u>Accumulated depreciation</u>							
At 31 December 2002	-	30,731,333	10,623,516	889,238	308,879	59,892	42,612,858
Charge for the year	-	1,173,673	242,167	134,046	63,446	27,642	1,640,974
Acquired with subsidiary	-	41,853	3,296	16,058	1,687	2,809	65,703
Disposals	-	4,609	180,510	82,051	12,715	3,271	283,157
At 31 December 2003	-	31,942,250	10,688,469	957,291	361,297	87,072	44,036,378
<u>Net book value</u>							
At 31 December 2002	17,816	17,012,938	2,462,315	604,967	129,004	59,438	20,286,478
At 31 December 2003	106,250	16,044,891	2,708,592	615,579	99,588	50,606	19,625,507

Additions to property plant and equipment include transfers from the assets in course of construction.Buildings and special installations consist mainly of transmission cables and pillars.

Machinery and equipment consist mainly of transformers, meters, and communication means related to the electricity network of 110 kV, 220 kV, 400 kV and 750 kV.

Certain buildings, machinery and equipment and vehicles with gross carrying amount of ROL 11,344,845 million (2002: ROL 10,981,928 million) are fully depreciated as at 31 December 2003 and are still in use as at 31 December 2003.

6. ASSETS IN COURSE OF CONSTRUCTION

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Restated cost		
At 31 December 2002	2,121,691	1,400,481
Additions	3,037,922	1,575,935
Transfers to property, plant and equipment	806,744	854,725
At 31 December 2003	4,352,869	2,121,691

Assets in course of construction mainly represent construction and upgrading of electrical stations and transmission lines.

7. AVAILABLE-FOR-SALE INVESTMENTS

Available for sale investments comprise investments in two subsidiaries, OPCOM SA (“OPCOM“) and Formenerg SA (further described in Note 22), which are wholly owned by Transelectrica. These subsidiaries have not been consolidated or accounted for under the equity method due to their immaterial impact individually and in aggregate on the Group’s financial position and results. Additionally, the Company does not exercise control over OPCOM because, due to the strategic role of this Company in the energy market, the management of the Company and all its Board members are appointed directly by the Ministry of Economy and Commerce. OPCOM is under the direct supervision of ANRE (see also Note 2).

8. INVENTORIES

Movements in provisions for slow moving and obsolete stocks are as follows:

9 .

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Spare parts, consumables and other materials	295,408	300,878
Auxiliary materials	72,740	94,206
Other inventories	143,192	120,063
Provisions for slow moving and obsolete stocks	*(91,763)*	*(90,157)*
Total	419,577	424,990

ACCOUNTS RECEIVABLE

	2003 (ROL million)	2002 (ROL million)
At beginning of year	90,157	46,085
New provisions made	1,606	44,072
Provisions used	-	-
At end of year	91,763	90,157

Trade receivable include amounts which are past their due date of ROL 1,775,000 million as of 31 December 2003 (31 December 2002: ROL 1,888,000 million).

As at 31

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Trade receivables	3,368,310	2,858,690
Advances to suppliers	602	555
Other receivables	59,278	71,666
VAT recoverable	104,565	16,974
Provision for impairment of receivables - domestic trade receivables	*(94,811)*	*(57,654)*
Total	3,437,944	2,890,231

December 2003 a general pledge on receivables was in place to secure the overdraft facilities obtained from ABN AMRO Bank Romania and Raiffeisen Bank. For details see Note 15.

10. CASH AND CASH EQUIVALENTS

Included in other cash equivalents are ROL 57,164 million in restricted accounts, in respect of letters of credit issued for certain supplier contracts (31 December 2002: ROL 28,205 million).

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Cash at banks – current accounts	416,682	461,153
Cash in hand	243	248
Other cash equivalents	61,144	31,113
Total	478,069	492,514

The future cash inflows in the accounts opened with Romanian Commercial Bank are pledged to secure the guarantees obtained from the Bank in relation with the loans granted by Kreditanstalt fur Wiedeaufbau Frankfurt am Main (KfW) and WestLB. For details on loans please refer to Note 15.

11. SHARE CAPITAL

All issued shares are owned by the Romanian State, the sole owner of CNTEE Transelectrica SA, through the Ministry of Economy and Commerce. All shares are ordinary and have equal voting rights.

As at 31 December 2003 and 2002, the statutory share capital consists of 62,949,492 ordinary shares with a nominal value of ROL 100,000 each.

Public property reserve

In accordance with the Law on Public Property no 213/1998 and the Electrical Energy Law no 318/2003 the high-voltage electricity transportation network, is considered public property and can not be sold or otherwise transferred to private ownership. In accordance with Government Decision no 627/2000, the network and all its assets was allocated for administration to CNTEE Transelectrica SA on 13 July 2000. An equivalent amount of ROL 6,837,119 million was recorded as part of equity under the heading "Public Property Reserve". An amount equal to the depreciation of the public property assets is transferred from the public property reserve to accumulated losses every year.

Legal reserve

In accordance with Romanian legislation and its Articles of Incorporation, the Company has to appropriate five percent of its profits per statutory books to a statutory reserve up to 20% of the statutory share capital.
The balance of the statutory reserve which is not available for distribution at 31 December 2003 amounted to 48,757 million (31 December 2002 ROL 48,449 million). This reserve is included within retained earnings in these financial statements.

12. DEFERRED INCOME

Deferred income arises primarily from grants obtained by the Company from the Ministry of Economy and Commerce for the construction of transmission capacity.

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
At the beginning of the year	864,142	729,080
Received during the year	232,078	198,836
Released to income during the year	110,404	63,774
At 31 December	985,816	864,142

13. TRADE AND OTHER PAYABLES

14. OTHER TAX AND SOCIAL SECURITY LIABILITIES

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Trade payables - domestic	1,591,516	1,095,169
Fixed assets suppliers - domestic	216,724	242,053
Fixed assets suppliers - foreign	177,756	194,255
Due to employees	43,196	30,920
Dividends to be paid	297,044	331,588
Other payables and accruals	320,550	299,463
Total	2,646,786	2,193,448

15. BORROWINGS

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Social security contribution	38,033	36,963
VAT payable	102,110	117,286
Salary tax	25,650	18,133
Profit tax	172,230	210,949
Unemployment contribution	4,644	4,561
Other taxes payables	265,218	106,718
	607,885	494,610

I. Long term borrowings

* IBRD – International Bank for Reconstruction and Development

EIB – European Investment Bank

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
a) Loan from EIB* No 1.8194	175,109	195,950
b) Loan from EIB* No 20.864	986,808	481,756
c) Loan from EBRD* No 365	732,274	757,096
d) Loan from EBRD* No 906	721,826	13,749
e) Loan from IBRD* No 3936	21,321	26,636
f) Loan from KFW*No 9787	415,529	81,503
g) Loan from WLG*	404,864	-
h) Loan from NIB* No 02/18	194,775	-
i) Ministry of Finance (managing Counter Party Fund Loan)	66,018	153,240
Less: Current portion of long-term borrowings (Note 15 (b))	(372,053)	(99,177)
Total	3,346,471	1,610,753

EBRD – European Bank for Reconstruction and Development

WLG – Westdeutsche Landesbank Girozentrale

KfW – Kreditanstalt fur Wiederaufbau

NIB – Nordic Investment Bank

a) Loan from EIB No 1.8194:

The loan from EIB no. 1.8194 was granted initially to the Predecessor Entity in 1995. The purpose of the loan is to finance the Project for the Rehabilitation of the Power Sector of Romania. The total amount granted was EUR 6,084,012. Subsequently, the loan was assigned to the Company in 2001. The loan bears a variable interest rate, being the interest rate applicable at the date of the disbursement notice. As at 31 December 2003 the average interest rate was 6%. Repayment is scheduled over 10 years in 20 instalments from 2001 to 2010.

The loan agreement includes certain financial covenants:

I) a self financing ratio – 30% of total capital expenditure must be financed from the Company's own funds;

II) the debt service coverage ratio should be at least 1.5;

III) the operating ratio should not exceed 80%; IV) the current ratio should not be less than 1; and v) the turnover of receivables from electricity transmission should not exceed, on average, the equivalent of 2 months' sales to customers. For the year ended 31 December 2003, the Company has not met conditions iii) and V).The loan includes other covenants and conditions considered normal for such facilities.The loan is guaranteed by the Government of Romania.

b) Loan from EIB No. 20.864:

The total amount available under the loan agreement, which was concluded in 2000, is EUR 96,000,000. Up to 31 December 2003 Transelectrica had drawn an amount of EUR 24,000,000. The loan bears a variable interest rate, being the interest rate applicable at the date of the disbursement notice. As at 31 December 2003, the interest rate was 4.87%. Repayment is scheduled over 10 years in 20 instalments from 2006 to 2015.

The purpose of the loan is to finance the Romania – National Power Grid Company Project.The loan agreement includes certain financial covenants: i) a Debt Service Cover Ratio of not less than 1.3; ii) a ratio of Long Term Debt to Equity of not more than 2.3; iii) a ratio of Current Assets to Current Liabilities, of not less than 1.2, and iv) a ratio of Total Operating Revenues to total Operating Expenses of not less than 1.3. For the year ended 31 December 2003 the Company has not met condition IV).

The loan includes other covenants and conditions considered normal for such facilities.

The loan is guaranteed by the Government of Romania.

c) Loan from EBRD No 365

The loan from EBRD no. 365 was granted to the Predecessor Company for the Power Sector Operational and Cost Efficiency Improvement Project. The total amount allocated to the project was USD 34,308,092, of which Transelectrica assumed an amount of USD 27,446,226. The loan bears a EURIBOR+1% interest rate. As at 31 December 2003, the interest rate was 3.17%. Repayment is scheduled over 9 years from 2001 to 2009.

The loan agreement includes certain financial covenants: i) a Debt Service Cover Ratio of not less than 1.3, ii) a ratio of Long Term Debt to Equity of not more than 2.3, iii) a ratio of Current Assets to Current Liabilities, of not less than 1.2, iv) a ratio of Total Operating Revenues to total Operating Expenses of not less than 1.3 and v) to maintain during the 30-day period preceding each interest payment date, in a Debt Service Account, a minimum balance equal to 100% of the amount of principal, interest and other amounts scheduled to become due and payable to the bank at the next interest payment date. For the year ended 31 December 2003, the Company has not met conditions iv) and v).

The loan also includes certain environmental covenants and other covenants and conditions considered normal for such facilities.

The loan is guaranteed by the Government of Romania.

d) Loan from EBRD No 906:

The total amount to be granted under the loan agreement is USD 51,472,000. The purpose of the loan was to finance the Romania – National Power Grid Company Project. The loan bears a six months LIBOR + 1% interest rate. As at 31 December 2003, the interest rate was 2.20%. Repayment is scheduled over 9 years from 2004 to 2013.

The loan agreement includes certain financial covenants: i) a Debt Service Cover Ratio of not less than 1.3, ii) a ratio of Long Term Debt to Equity of not more than 2.3, iii) a ratio of Current Assets to Current Liabilities, of not less than 1.2, and a iv) ratio of Total Operating Revenues to total Operating Expenses of not less than 1.3 and v) maintain during the 30-day period preceding each interest payment date, in a Debt Service Account, a minimum balance equal to 100% of the amount of principal, interest and other amounts scheduled to become due and payable to the bank at the next interest payment date. For the year ended 31 December 2003, the Company has not met conditions iv) and v).

The loan also includes certain environmental covenants and other covenants and conditions considered normal for such facilities.

The loan is guaranteed by the Government of Romania.

e) Loan from IBRD No. 3936:

The loan from IBRD no. 3936 was granted to the Romanian Government for the Power Sector Rehabilitation and Modernization Project, the Predecessor Company being the executing Agency. The total amount allocated to the project was USD 110,000,000, of which Transelectrica assumed an amount of USD 719,648. The loan bears a variable interest rate, being the cost of qualified loans granted by IBRD on the financial market. As at 31 December 2003, the interest rate was 4.87%. Repayment is scheduled over 14 years from 2002 to 2015.

The loan agreement includes certain financial covenants: i) a self financing ratio – thirty per cent of total capital expenditure must be financed from the Company's own funds, ii) the debt service coverage ratio should be at least 1.5; iii) the operating ratio should not exceed 80%, iv) the current ratio should not be less than 1, and v) the turnover of receivables from electricity transmission should not exceed, on average, the equivalent of 2 months' sales to customers. For the year ended 31 December 2003, the Company has not met conditions iii) and v).

The loan includes other covenants and conditions considered normal for such facilities.

The loan is guaranteed by the government of Romania.

f) Loan from KfW

The loan from KfW was granted in 2001. The total amount to be granted is EUR 12,555,869. As at 31 December 2003 the amounts drawn were EUR 10,106,015. The purpose of the loan is the Rehabilitation of the 400/110 kV Constanta Nord Switching Station. The loan bears a variable interest rate EURIBOR +0.725% margin. The average interest rate in 2003 was 2.91%. Repayment is scheduled over 9 years in 17 instalments from 2004 to 2012.

The loan is guaranteed by the Romanian Commercial Bank through a letter of guarantee.

g) Loan from WLG

The loan from WLG was granted in 2002. The total facility amount is EUR 12,330,132. As at 31 December 2003 the amounts drawn were EUR 9,846,623. The purpose of loan is the purchase of a Switching Substation 400/110 kV from Siemens AG. The loan bears a variable interest rate, being the interest rate applicable at the date of the disbursement notice. The average interest rate in 2003 was 2.67%. Repayment is scheduled over 9 years in 17 instalments from 2004 to 2012.

The loan is guaranteed by the Romanian Commercial Bank through a letter of guarantee.

The guarantees from the Romanian Commercial Bank are secured with the following:

- Pledge on cash-inflows in the accounts open with Romanian Commercial Bank;
- Pledge on present and future receivables from SC Electrica SA;
- 17 promissory notes issued by the Company in the favour of Romanian

Commercial Bank equalling the loan instalments payable, the maturity being in accordance with the repayment schedule agreed with the foreign banks.

h) Loan from NIB

The loan from NIB was granted in 2003. The total amount to be granted is USD 18,625,000. As at 31 December 2003 the amount drawn was USD 5,975,625. The purpose of the loan is the rehabilitation of the 400/220 kV Slatina Switching Station. The loan bears a variable interest rate LIBOR +0.9% margin. The average interest rate in 2003 was 2.18%. Repayment is scheduled over 10 years in 20 instalments from 2008 to 2018.

The loan is guaranteed by the Government of Romania.

i) Ministry of Finance (managing Counter Party Fund Loan)

The loan was granted in 2000. The total amount to be granted is the equivalent of CHF 8,338,000, in ROL (amounting to ROL 99,113 million). The purpose of loan is the import of systems for supervising, ordering and optimising the operation of power network (Spider Scala) and maintenance services from ANN Network Partner LTD, Switzerland.

The loan bears the average Romanian interbank interest rate. The average interest rate in 2003 was 32.5%. Repayment is scheduled over 3 years from 2003 to 2005.

Long-term borrowings are repayable as follows:

The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or inter-

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Between 1 and 2 years	369,085	177,652
Between 2 and 5 years	1,359,946	654,581
Over 5 years	1,617,440	778,520
Total	3,346,471	1,610,753

est rate exposures.

All long term borrowings carry a variable rate of interest and in consequence, the carrying amounts of long term borrowings approximates their fair value.

The weighted average interest rate for the long term borrowings of the Group was 3% during the year ended 31 December 2003 for loans denominated in USD and 5,44% for loans denominated in EUR.

Undrawn facilities as at 31 December 2003 amounted to ROL 4,608,364 million, as follows:

II. Short-term borrowings

	31 December 2003 (ROL million)
EIB 20.860	2,960,424
EBRD 906	955,904
WEST LB	178,998
NIB	412,307
KFW	100,731

ABN AMRO Bank loan

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Short term loan from Romanian Commercial Bank	-	68,180
Short-term credit facility from ABN AMRO Bank, including accrued interest	52,236	-
Short-term credit facility from Raiffeisen Bank S.A. including accrued interest	101,385	-
Current portion of long-term borrowings (Note 15 (a))	372,053	99,177
Total	525,673	167,357

The loan from ABN AMRO Bank amounts to ROL 100,000 million and bears a variable interest rate, being the Bank's cost of funds + 2%. The weighted average Bank's cost of funds for 2003 was 18.15%. The drawings can be made in ROL. The loan was granted in order to finance the working capital requirements of the Company and is secured by a general pledge on receivables. The loan is available until 7 May 2004 and can be extended.

Reiffeisen Bank S.A. loan

The loan from Reiffeisen Bank S.A. represents a letter of credit facility, amounting to ROL 100,000 million and bears a variable interest rate, being the Bank's cost of funds + 1.5%. The weighted average Bank's cost of funds for 2003 was 21.75%. The drawings can be made in ROL. The loan was granted in order to finance the working capital requirements of the Company and is secured by a general pledge on receivables. The facility is available until 30 June 2004.

The carrying amounts of current borrowings approximates their fair value.

16. REVENUES

17. OPERATING COSTS

	Year ended 31 December 2003 (ROL million)	Year ended 31 December 2002 (ROL million)
Electricity transportation and electricity market administration services	7,873,859	8,122,652
Sales of scrap materials	155,124	154,750
Deferred income release	110,404	63,774
Other	55,079	38,084
Total	8,194,466	8,379,260

18. FINANCE COSTS, NET

	Year ended 31 December 2003 (ROL million)	Year ended 31 December 2002 (ROL million)
Staff costs		
Wages and salaries	841,359	793,561
Social security contributions	272,753	262,593
Total staff costs	*1,114,112*	*1,056,154*
Expenses for system services	3,525,417	3,486,764
Depreciation	1,670,878	1,667,799
Repairs and maintenance	784,677	879,998
Other services	539,754	329,936
Spare parts, consumables and materials	377,548	439,285
Penalties	209,463	246,516
Electricity and other utilities	106,005	94,887
Net provision expense/(income)	(44,414)	52,969
Cost of merchandises	47,542	83,558
Fuel	39,655	33,733
Taxes, other than profits tax	23,458	32,047
Net loss/(gain) from disposal of property, plant and equipment	(24,616)	95,261
Insurance premiums	5,712	65,620
Total	8,375,191	8,564,527

19. TAXATION

	Year ended 31 December 2003 (ROL million)	Year ended 31 December 2002 (ROL million)
Interest income	(22,770)	(168,188)
Interest expense	289,938	206,535
Net foreign exchange losses	261,813	182,305
Total	528,981	220,652

The Group accrues income taxes at the rate of 25% on profits computed in accordance with the Romanian tax

	Year ended 31 December 2003 (ROL million)	Year ended 31 December 2002 (ROL million)
Income tax expense - current	75,753	196,578
Deferred tax (income)/charge	(2,238,562)	193,509
Income tax (credit)/charge	(2,162,809)	390,087

legislation. Loss before taxation for financial reporting purposes is reconciled to tax expense as follows:

Deferred taxes are calculated on all temporary differences under the liability method using a principal tax rate of

	Year ended 31 December 2003 (ROL million)	Year ended 31 December 2002 (ROL million)
Loss before taxation	(480,879)	(153,966)
Theoretical tax credit at statutory rate of 25%	(120,220)	(38,492)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-temporary elements of monetary gain	353,046	51,549
Non-deductible expenses	197,067	263,281
Non-taxable income	(80,992)	(33,824)
Statutory revaluation of tax base	(2,648,251)	-
Hyperinflation effect on deferred tax balance at beginning of the year	136,541	147,573
Income tax expense	(2,162,809)	390,087

25 % (2002: 25%). The net effect of the change on deferred tax balances recognised as at 31 December 2003 is reflected in the income statement for the year ended 31 December 2003.

The Group revalued its property, plant and equipment in accordance with Government Decision no 1553/2003.

	31 December 2002	Differences recognition and reversals	Acquisition of subsidiary	31 December 2003
Tax effects of deductible temporary differences				
Restatement of property plant andequipment	1,199,096	(2,236,221)	(14,045)	(1,037,125)
Restatement of inventories	10,460	2,739	-	13,199
Cut-off adjustments	346	(346)	-	-
Total	*1,209,902*	*(2,233,828)*	*(14,045)*	*(1,023,926)*
Tax effects of taxable temporary differences				
Restatement of subsidies	59,466	22,427	-	81,892
Cut-off adjustments	-	665	-	666
Total	*59,466*	*23,092*	-	*82,558*
Net tax effect of temporary differences	1,150,436	(2,256,920)	(14,045)	(1,106,484)

Following the revaluation, the tax written-down value of the assets increased significantly, in many cases becoming higher than the IFRS carrying value of the assets.

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, deferred tax asset of one company of the Group is not offset against deferred tax liability of another company.

The Company has not recognised deferred tax liability in respect of ROL 26,142 million temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

20. SIGNIFICANT NON-CASH TRANSACTIONS

Included in revenues and operating costs for the year 2003 are non-cash transactions amounting to ROL 4,964 million (2002: ROL 4,556 million). The transactions represent mainly cancellation of mutual balances with third parties. There were no other non-cash transactions included in other items in the statement of operations.

During 2003 the Group acquired a new subsidiary, ICEMENERG for non-cash consideration. The impact of the acquisition is detailed in Note 22.

21. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

(I) Contractual commitments and guarantees

As at 31 December 2003 the Group had contractual commitments not recognised in these consolidated financial statements for the purchase of property, plant and equipment from third parties for approximately ROL 6,120,240 million.

(II) Taxation

The taxation system in Romania is at an early stage of development and is subject to varying interpretations and to constant changes, which may be retroactive. In certain circumstances the tax authorities can be aggressive and arbitrary in assessing tax penalties. Although the actual tax due on a transaction may be minimal, penalties can be significant as they may be calculated based on the owed tax amount, at a rate of 0.6% per day. In Romania, tax periods remain open for tax audits for 5 years.

There is a potential tax exposure related to the Company's past revaluation of fixed assets for statutory purposes. The Romanian fiscal code was issued on 23 December 2003 and is effective from 1 January 2004. This code determines situations that create a taxable event. The related norms, issued after year-end, then provide examples of taxable revenue (including, potentially, the release of past revaluation reserves and other reserves). The ambiguity of these norms does not allow a quantification of the potential exposure that the Company is subject to, but the amounts could be very significant.

(III) Public property assets

In accordance with the Public Property Law 213/1998, and the Electrical Energy Law no 318/2003 high-voltage electricity transportation network assets represent state property. Government Decision 627/2000, specifies that fixed assets representing such public property assets are to be administered by CNTEE Transelectrica SA. Additionally, network assets constructed by the Company become public property assets once they are fully depreciated.

As per the Public Concession Law 219/1998, a royalty must be paid in respect of the use of public property assets. The Company has not yet concluded a concession agreement with the Romanian State. Consequently, there is a risk that royalty payments might be required in the future for the use of these assets by the Company; the level of future royalty payments can not be currently estimated.

(IV) Insurance policies

The Group holds no insurance policies in relation to its property, plant and equipment, its operations or in respect of public liability or other insurable risks.

(V) Environmental matters

Environmental regulations are developing in Romania and the Group has not recorded any liability at 31 December 2002 and 31 December 2001 for any anticipated costs, including legal and consulting fees related to environmental matters. Management do not consider the costs associated with environmental issues to be significant.

(VI) Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

(VII) Promissory notes issued

The Company has issued promissory notes for amounts equal to the principal of loans guaranteed by the Romanian Commercial Bank (see Note 15). The notes are held by the Bank as collateral for the letter of guarantee issued in favour of the Company.

(VIII) Operating environment of the Group

The economy of Romania continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of:
• a currency that is not freely convertible outside of the country;
• a low level of liquidity in the public and private debt and equity markets; and
• high inflation.

The prospects for future economic stability in Romania are largely dependent upon the effectiveness of legal, regulatory, and, economic measures undertaken by the government, and political developments together.

(IX) Political environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection. Because of the capital intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings are not predictable.

(X) Regulatory and tariff policy

The electricity industry is continuing to undergo significant restructuring and reform and the future direction and effects of such reforms are unknown at this time. Potential reforms in tariff setting policies following privatisations in the sector could have significant effects on the Group.

22. GROUP STRUCTURE

The principal subsidiaries and the percentage of ownership exercised by CN Transelectrica SA is as follows:

The two non-consolidated subsidiaries are unquoted and their fair value could not be reliably measured. Hence,

Entity	Country of incorporation	Activity	31 December 2003 % share	31 December 2002 % share
Consolidated subsidiaries				
SMART SA	Romania	Maintenance of electricity transportation network	100	100
TELETRANS SA	Romania	Telecommunication services	100	100
ICEMENERG SA	Romania	Research and equipment design in energy field	100	-
Non consolidated subsidiaries				
OPCOM SA	Romania	Administration of the electricity market	100	100
FORMENERG SA	Romania	Professional training	100	100

they are carried at cost and are subject to periodic impairment review.

Smart SA

Smart SA was established by Transelectrica based on Government decision no 710/19.07.2001 in 2001. The Company contributed the entire share capital of this subsidiary in-kind.

Teletrans SA

Teletrans SA was established by Transelectrica based on the General Shareholders' Meeting ("GSM") decision no 13/20.03.2002 in 2002.
The Company contributed the share capital of this subsidiary in-kind (86.4%) and in cash (13.6%).

ICEMENERG SA

In September 2003 the Group acquired 100% of the share capital of ICEMENERG SA, a Company involved in research and design of equipment in the energy field. ICEMENERG was acquired from the Company's shareholder, the Ministry of Economy and Commerce.

The acquired business contributed revenues of ROL 48,131 million and operating loss of ROL 1,768 million to the Group for the period from September 2003 to 31 December 2003, and its assets and liabilities at 31 December 2003 were respectively ROL 146,626 million and ROL 131,120 million.

Details of net assets acquired and negative goodwill are as follows:

Other than for land and buildings, the fair value of the net assets approximated to the book value of the net assets

	Amounts as of acquisition date
Purchase consideration consisting of 154,960 shares, to be issued at par in 2004.	15,496
Less: fair value of net assets acquired	(26,826)
Negative goodwill	(11,330)

acquired, and no facilities closure provisions or other restructuring provisions were established.

The assets and liabilities arising from the acquisition are as follows:

23. RELATED PARTY TRANSACTIONS

Cash and cash equivalents	6,923
Property, plant and equipment – fair value	121,253
Inventories	10,380
Receivables	19,390
Payables	(131,120)
Fair value of net assets acquired	26,826
Negative goodwill	(11,330)
Total purchase consideration	15,496
Cash effect of acquisition	
Cash paid to acquire subsidiary	-
Cash and cash equivalents in subsidiary acquired	6,923
Net cash inflow on acquisition	6,923

The electricity sector is of great importance to Romania and Transelectrica is central to the operations of the national energy system. The Government therefore has controlled and is expected to continue to control the operations of the electricity sector and consequently, of the Group.

The Ministry of Economy and Commerce appoints the Company's management structures as follows:

- the representatives of the State in the General Meeting of Shareholders of the Company;
- the Company's General Manager, who nominates the Company's Executive Directors;
- the Company's Board of Directors, which is led by the General Manager.

Transactions with the Government and amounts owed to or receivable from the Government relate mainly to taxes payable to or receivable from the Government and are shown in the appropriate notes.

The Group also conducts most part of its operations with other state-controlled enterprises. In accordance with the exemption allowed by IAS 24, the Group has chosen not to disclose the transactions and balances with other state-controlled enterprises.

24. FINANCIAL RISKS

(I) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. However, given the economic, social and strategic importance of the Group's activities as well as the control of the Government over the Group's operations, the Group has significant concentrations of credit risk mainly to state owned entities, which are principally involved in the energy sector in Romania. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the impairment adjustment already recorded. The carrying amount of accounts receivable, net of an impairment adjustment, represents the maximum amount exposed to credit risk.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

(II) Foreign exchange risk

Foreign currency denominated assets and liabilities give rise to foreign exchange exposure.

The Group does not have formal arrangements to mitigate the foreign exchange risks of its operations.

Monetary assets and liabilities analysed by local and foreign currencies are shown in the following table:

(III) Interest rate risk

	31 December 2003 in local currency (ROL million)	31 December 2003 in foreign currencies (ROL million)	31 December 2002 in local currency (ROL million)	31 December 2002 in foreign currencies (ROL million)
Monetary assets				
Current assets	3,528,591	387,421	3,045,708	337,038
Total monetary assets	3,528,591	387,421	3,045,708	337,038
Monetary liabilities				
Current liabilities	3,347,789	525,673	2,871,160	167,357
Non current liabilities	-	3,346,471	-	1,610,753
Total monetary liabilities	3,347,789	3,872,144	2,871,160	1,778,110
Net monetary assets/(liabilities)	180,802	(3,484,723)	174,547	(1,441,072)

The Group's income is substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings as well as through its operating cash flows due to their exposure to high interest rates environment.

(IV) Liquidity risk

The Group's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due, however due to the Group's current financing structure, there is a risk that the Group may encounter liquidity problems in the foreseeable future.

25. RESTATEMENT OF OPENING SHAREHOLDERS EQUITY AS OF 1 JANUARY 2002

During the year the management of the Group performed a detailed review of the Group's 2002 IAS financial statements and accounting policies. This review exercise identified two errors. The errors necessitated restatement of the 2002 financial statements in accordance with IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". The nature and effect of these restatements are detailed below.

Deferred taxation

In prior periods deferred income tax was not provided for public property fixed assets. In accordance with International Accounting Standard 12 “Income Taxes”, deferred income tax should have been provided, using the balance sheet liability method, for all temporary differences arising between the assets’ carrying values for financial reporting purposes and the tax written down value. Although the tax written down value of such assets is nil, in accordance with para. 15 (b) of IAS 12, deferred tax is not provided on the carrying value in the statutory books, which is the value at which the public property assets were initially recognised by the Company. Consequently, deferred tax has been computed on the difference between the assets’ carrying values for IFRS financial reporting purposes and the carrying value per the statutory books.

Dividend recognition

In prior periods the Company recognised dividends as a liability and deducted them from equity in the period in which they were declared. In accordance with Emergency Government Ordinance 60/2001, companies in which the state has a majority ownership need to distribute 50% of their net profit, after deduction of compulsory distributions and contractual profit distributions to employees, as dividends to the state. The Company has retrospectively changed its policy to recognise this distribution in the period in which the respective profit arises, as this distribution is a legal obligation for the Company.

Provision for retirement benefit

In prior periods no provision was made for future obligations relating to amounts payable to employees on retirement. In 2003 the Company has retrospectively changed its policy to recognize such obligations.

The effect of the restatement of prior period’s balances on shareholders’ equity of the Group as at 1 January 2002 is summarised below:

Accumulated deficit

	Accumulated deficit
Balance at 31 December 2002 (as previously reported)	(819,706)
Recognition of mandatory dividends	(147,556)
Effect of providing for retirement provision	(28,936)
Effect of providing for deferred taxation	(516,676)
Total cumulative effect of restatement of prior periods balances	(693,168)
Balance at 31 December 2002 (restated)	(1,512,874)

26. POST BALANCE SHEET EVENTS

Loan from NIB

The loan from NIB was granted in February 2004. The total amount to be granted is EUR 13,300,000. The purpose of the loan is the rehabilitation of Rosiori Station. The loan bears a variable interest rate LIBOR +0.85% margin. Repayment schedule is over 10 years in 20 instalments from 2008 to 2018.

Rehabilitation agreement

On 13 March 2004 a modernization agreement has been signed with ABB Power for the rehabilitation of Gutinasi Station. The total amount contracted is EUR 32,648,950.

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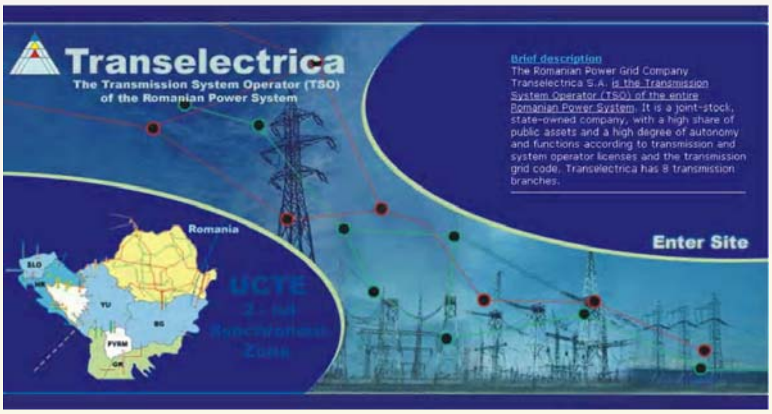

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