Transelectrica®

WE LEAD THE POWER

Annual Report 2011

in SEARCH of the
MAGIC POWER STONES

Annual Report 2011


Quest of the five
magic Power Stones

in 2011 the five stones produced 7,069 MW

I. INTRODUCTION

Transelectrica – A company promoting excellence in the reliable operation of electricity transmission system

Company profile

Transelectrica is the Romanian Transmission and System Operator (TSO).
For the 11 years of its corporate life, Transelectrica manages and operates the electricity power system and transmission grid, providing transmission services for electricity transactions among central and south-eastern countries. It provides electricity transmission from generators to the large consumers connected to the grid; manages the power system and wholesale electricity market, the grid and market infrastructure development and guarantees a regulated third party access to the Romanian electricity transmission network under transparent, non-discriminatory and fair conditions to all market players.

Transelectrica's main processes are adequacy of the transmission grid, power system reliable and safe operation, and support of open liberalised electricity markets.

The Company operates according to the Electricity Law and under the licences granted by the Government, i.e: transmission and system operator licences, electricity transmission grid code, electricity wholesale metering commercial code, and commercial code.

Transelectrica develops its activities in accordance with its strategic documents: Business Plan, Ten Years Prospective Plan of the Romanian Transmission Grid.

In 2011 Transelectrica has already been acknowledged in the country and abroad as a strong company playing a strategic role on the Romanian power market, as well as a significant player on the regional electricity market.

Transelectrica comprises 6 legal subsidiaries (Opcom, Teletrans, Smart, Icemenerg, Icemenerg service, Formenerg), as well as 8 transmission branches in Bucharest, Bacau, Cluj, Constanta, Craiova, Pitesti, Sibiu, and Timisoara.
The Company has been listed to the Bucharest Stock Exchange since August 2006.

Transelectrica- a strong infrastructure Company with a strategic part on Romania's electricity market, as well as an important player on the regional electricity market

Guarantee for operational safety

Transelectrica is liable for the technical and operational management of the Romanian power system, providing its safe and stable operation. One of its main tasks is to guarantee electricity safe transmission and dispatching throughout the country, 24 hours from 24 hours, 365 days / year. It continuously monitors the balance of production and import vs. consumptions and exports within its control area. As electricity cannot be stored, the demand should be instantly met by electricity generation injected into the grid. Transelectrica manages power flows through the grid, guarantees continuity and security of electricity supply in Romania and maintains grid reliability.

Assurance for electricity transmission

Transelectrica responds for electricity transmission between two or more network points, with due observance of continuity, safety and quality norms. This service is provided onto the medium, high and extra high voltage power grid, over its 8844 km of overhead electric lines and through its 79 electrical substations, at voltage levels of 110, 220, 400 and 750 kV. The electricity amount for which transmission services are provided is the one introduced into/taken from network nodes by the end-user of transmission services.

Commitment for grid infrastructure development

Transelectrica manages the reinforcement and expansion of the transmission infrastructure, with the latest technologies in the domain, in order to increase its operational reliability and transmission capacity, while also observing the environmental requirements. The already completed investment projects in the power transmission grid and those in progress are focused on components and subsystems of an intelligent power infrastructure.

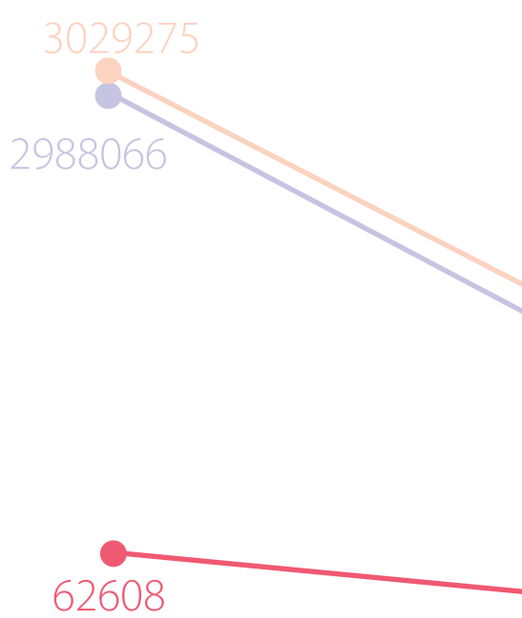
Among the projects completed since Transelectrica was set up in 2000, there are 25 rehabilitated and modernised electrical substations, 1 international interconnection electric line between Romania and Hungary (Arad - Nadab – (Oradea) – Beckescsaba), switching 1 internal 220 kV electrical line to 400 kV- which included the rehabilitation of substations along the line and of the OHL (Gutinas-Bacau Sud-Roman Nord-Suceava), 11 substations of 220/110 kV under the project modernising the command-control-protection system and also a great number of facilities belonging to the investment project for rehabilitation and modernisation of the transmission – dispatching system (EMS-SCADA, optic fibre, metering components).

The change of the Romanian transmission grid from a traditional to a smart and market-oriented one has marked its first important step for a long term strategic priority.

Commitment for market operation

Transelectrica is responsible for and coordinates the proper operation of the power system and wholesale electricity market. It is the unique operator that provides electricity transmission, power system operation and electricity market services (through its subsidiary OPCOM). These activities are performed according to the Regulator issued licences, applying regulated tariffs that allow non-discriminating and fair access of all market participants to the network, with no other additional revenues. The main revenue-producing activities of Transelectrica are:

- electricity transmission service
- system service (operational management service for the Romanian power system)
- market administration service (through OPCOM)



Commitment for the environment

One of Transelectrica's main challenges is to develop and strengthen its power transmission infrastructure and make it compatible with preserving and protecting the natural environment. In respect for the environment and sustainable development, Transelectrica is permanently concerned with minimising the impact of its facilities upon the environment and develops projects for the integration of wind energy sources at national level.

Responsibility towards employees

People are Transelectrica's most valuable asset. The team of about 2200 employees, motivated by professionalism, passion and dedication, fully aware of the social value of their work, are continuously striving to create more added values to the Company. People are generating tangible values which can be measured by economical and financial performance to the direct benefit of our shareholders, as well as intangible values, measured by the ethical commitment and better practices of corporative governance to the benefit of our stakeholders.

A sustainable and socially responsible Company

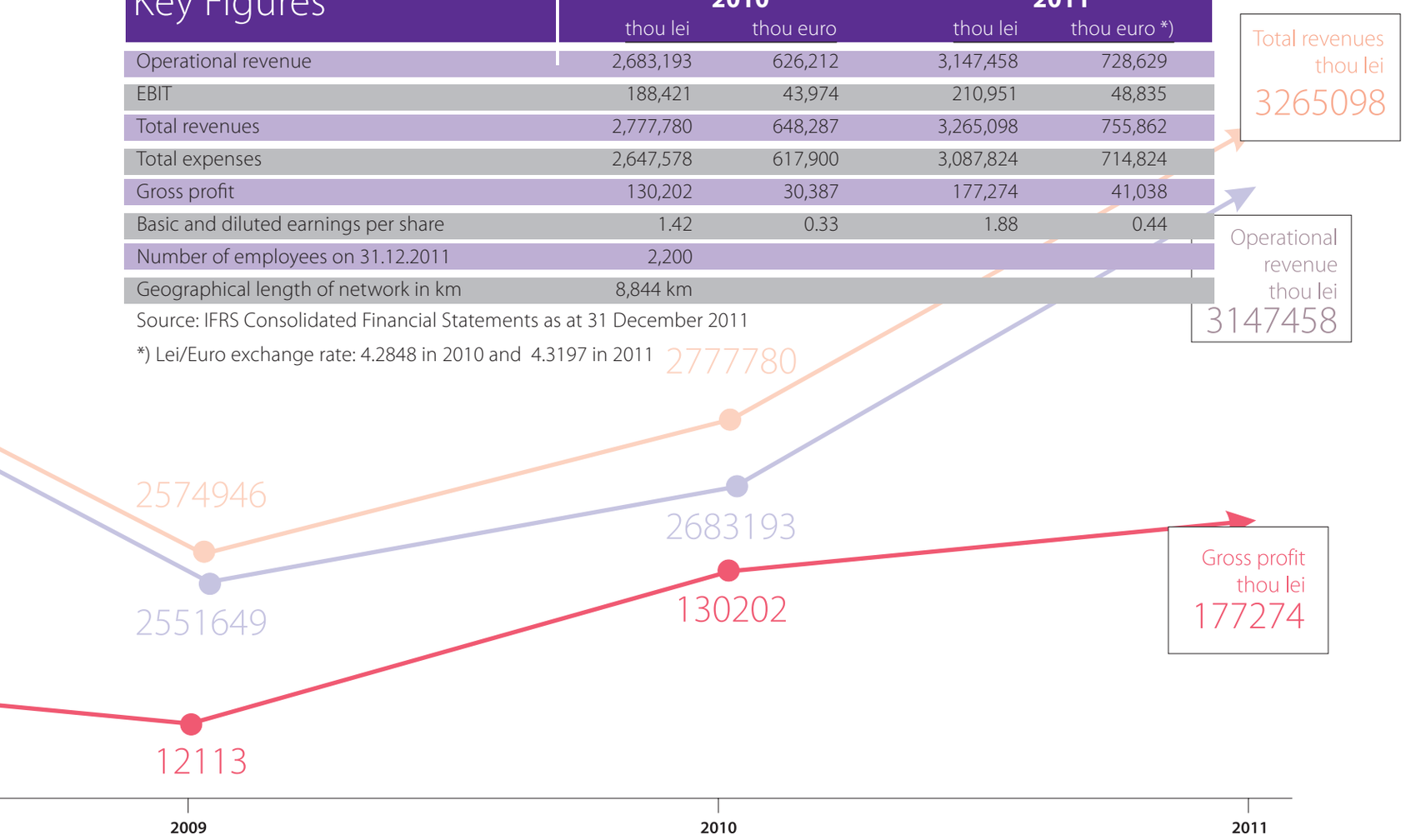
The challenge for Transelectrica is to consolidate itself as a model company which is responsible, efficient and sustainable, integrated into society, caring for all its stakeholders and being a reference on the markets where it operates.
Our commitment urges us to make that duty compatible with environmental protection, the professional and human development of Transelectrica employees and the generation of wealth through our operations for both shareholders and society at large. All these are accomplished in a transparent framework while the best corporate governance practices are implemented.

Key Figures

	2010		2011	
	thou lei	thou euro	thou lei	thou euro *)
Operational revenue	2,683,193	626,212	3,147,458	728,629
EBIT	188,421	43,974	210,951	48,835
Total revenues	2,777,780	648,287	3,265,098	755,862
Total expenses	2,647,578	617,900	3,087,824	714,824
Gross profit	130,202	30,387	177,274	41,038
Basic and diluted earnings per share	1.42	0.33	1.88	0.44
Number of employees on 31.12.2011	2,200			
Geographical length of network in km	8,844 km			

Source: IFRS Consolidated Financial Statements as at 31 December 2011

*) Lei/Euro exchange rate: 4.2848 in 2010 and 4.3197 in 2011



CONTENTS

Message from the Management

Eleven years from its establishment Transelectrica is a Company already acknowledged nationally and internationally as a strong utility playing a strategic role on Romania's electricity market while being an important player also on the regional one.

The major modernisation and development plan for the management system of the Romanian Power System while developing the infrastructure required for the good operation of the electricity market and also refurbishing the important transmission substations have played a great part in developing and enhancing the Company as modern transmission and system operator of the RPS.

The 25 electrical substations refurbished and modernised in its 11 years of activity, the new 400 kV line interconnecting Romania and Hungary (Arad - Nadab – (Oradea) – Beckescsaba) and the conversion to 400 kV of the domestic line Gutinas - Bacau Sud-Roman Nord - Suceava prove Transelectrica's strength and determination on the Romanian electricity market.

The electrical interconnection lines built between Romania and the power systems of Serbia and the Republic of Moldova, and the network consolidation between the Turkish power system and the interconnected European one represent ambitious projects that Transelectrica is now executing and will certainly contribute to Romania's increased strategical role in developing the future energy corridors.

Reasserting its firm commitment to implement the specific European legislation the National Power Grid Company Transelectrica SA has carefully followed the development of regional projects connecting the electricity markets and implementing the mechanisms that allocate the cross-border transmission capacity in coordinated manner.
2012 will be a very important year in finalising the cooperation activities initiated by the NPG Co. Transelectrica SA with its interconnection partners in order to connect the electricity markets at regional level in view of implementing the single European electricity market.

We have permanently developed our interconnection capacity with neighbouring countries with a view to achieve the single European electricity market and have attempted to redefine the priority of investments so as to efficiently sustain the integration of renewable sources into the Electricity Transmission Grid. ‚Green energy' has determined us to cope with the new challenges brought by renewable sources that have to be integrated in the RPS by providing a strong reliable grid and by facililtating sustainable development according to EU laws and to the national policy.

Romania is aware of the extent of challenges and considers redefining the strategic goals in the electricity domain as regards the safety of supply, efficient use of resources, achieving the 20/20/20 targets from Europe 2020 Strategy, further liberalisation of the electricity market and the implementation of innovative solutions.
In this context the NPG Co. Transelectrica SA plans for 2012 to redefine its corporate strategy with a view to carry out the main objectives of the new community policy energy – environment and to integrate the single European electricity market at regional and later on pan-European level by 2014 in order to actively mark Romania within Europe's energy map.

Highlights of 2011

With 77 m Euro CAPEX spent in 2011 Transelectrica kept on developing several major international interconnection projects to be completed with neighbouring power systems. Interconnection lines between the Romanian power system and the power systems of Serbia, Republic of Moldova have been consolidated.

May 17th, 2011

Transelectrica has officially inaugurated the 400 kV substation Tariverde of Constanta County

Transelectrica and ALSTOM EMON ELECTRIC inaugurated the 400 kV substation Tariverde of Constanta County. The project has been executed in 2 years. The total cost for the refurbhisment of the 400 kV substation Tariverde, Constanta County was of 26.5 million Euros, financing being made by the CEZ, project investor, but coming also from the revenues of the connection fee. The project was executed at the highest technical and constructive standards by the consortium ALSTOM & EMON ELECTRIC, being the first important substation of the electricity transmission network provided to discharge electricity generated from renewable sources by wind farms.

The Tariverde substation will provide the connection of the Romanian Power System to an installed capacity of over 2,000 MW.

May 23rd, 2011

Transelectrica received the Sweden - Romania parliamentary friendship group

The managerial team of Transelectrica received the delegation with representatives from the Parliamentului of Sweden (Sweden – Romania parliamentary friendship group). Delegation members have discussed with Transelectrica team topics such as- the the submarine cable project between Romania & Turkey; the development prospects of the Electricity Transmission Grid, and the involvement of Sweden in the future projects of Transelectrica, in context of the European strategy energy - environment.

Transelectrica and Co. Vattenfall Power Consultant AB of Sweden signed in June 2009 the service contract for the feasibility study, including the environmental study and technical specifications for the Romania – Turkey submarine cable project (HVDC Link). The feasibility study amounted to 1.5 million euros, 50% of which was covered by a grant from Sweden, 25% financed by Nuclearelectica and 25% by Transelectrica.

June 22nd, 2011

Romania's first station charging electrical automobiles was installed at Transelectrica headquarters

On June 22nd, 2011 the first charging station for electrical automobiles was inaugurated while Romania's first electrical car was handed over. The event was organised by the Professional Association National Romanian CIGRE Committee, the NPG Co. Transelectrica SA and M Car Trading (official import agent of Mitsubishi in Romania). The first charging station of Romania was devised by the Association National Romanian CIGRE Committee and built with co-workers from the power sector, being 100% Romanian. It is endowed with a functional supply point of level 1, being designed to sustain up to four supply points of such level 1. Its electrical parameters are as follows- 230 V supply, 16 A current intensity, these being sufficient for complete accumulator charging in 6 - 8 hours. The station has an access system with user recognition and consumption payment under a pre-pay system or subscription. Metering is done by means of a smart system remotely monitored that provides various configuration options depending on demands. The Mitsubishi i-MiEV automobile has got a stated autonomy of 150 km, and the full accumulator charging amounts to about 3 - 6 lei.

July 28th, 2011

Transelectrica management received the delegation of Co. Moldelectrica from the Republic of Moldova

The managerial team of Transelectrica received the delegation of Co. Moldelectrica from the Republic of Moldova.
The meeting agenda included discussing the OHL project Suceava-Balti and the point of Prut River crossing by the 110 kV OHL Falciu-Gotesti was determined. The decision was taken to initiate the feasibility studies for this very important project in view of interconnecting the Republic of Moldova to ENTSO-E. It is likely to interconnect the optical fibre networks of the two countries. The stage of the interconnection study of the Republic of Moldova to ENTSO-E was also considered.

September 6th, 2011

Transelectrica marked five years from the first transaction of Company issued shares on the regulated market

Transelectrica celebrated five years since Company shares have been transacted on the regulated market. In May 2004 Transelectrica was the first state owned Company launching the governmental programme A strong market- developing the capital market that promoted the initial primary public offer for the Company's 10% capital growth by selling 7,329,787 new shares. The preparation stage was long and far from easy but, with the unconditional support of the intermediation consortium, it ended well on August 29th, 2006 when the bell ring opened the Bucharest Stock Exchange session when the Company's shares began being transacted under the 1st category with the symbol TEL. A great success was recorded then- we collected more than 123 million lei from the market (over 34 million euros), and the general subscription factor of the newly issued shares was 6.46, which proved the interest of Romanian investors in the first place, but also that of foreign ones for IPO-s, while showing the great potential of the Romanian capital market, insufficiently capitalised.

Overall, during these 5 years the Company:

- Obtained a net profit totalling about 387 million lei, of which over 168 million lei were distributed as dividends;
- Made profit tax payments to the state budget of 105 million lei in total;
- Sustained more than 450 meetings with investors, analysts, brokers, fund managers in various forms (call conference, one-2-one, meeting, attendance to conferences, seminars, events etc.)

On 29.08.2011 the Company recorded also the following figures:

- Stock exchange capitalisation- about 1.426 million lei (336 million Euro)
- The first Company listed on the stock exchange to have a Corporate Governance Regulation approved by its Shareholders' general assembly (2009) and the first one to have filled in an apply or explain' return (2010)
- Maximum value- 49.30 lei on 07.05.2007
- Minimum value- 8.55 lei on 11.03.2009

October 31st, 2011

Transelectrica launched a new project expanding the interconnection capacity between Romania and Serbia - the 400 kV double circuit OHL Resita-Pancevo

The managerial teams of Transelectrica and of Co. EMS-JP Elektromreza signed in Belgrade the Joint Position Paper 3, document laying the bases of a contract to build the 400 kV double circuit interconnection OHL Resita (RO-Pancevo (RS).
The mutual interest project of the 400 kV double circuit OHL Resita-Pancevo aims at increased electricity exchanges between the Romanian and the Serbian power systems by enhancing the interconnection capacity. Transelectrica intends to finish the tender for the contractor general and to sign the execution contract in October-November 2012. TEL and EMS have set July 31st, 2015 as completion date for the Resita - Pancevo OHL commissioning.

The 400 kV double circuit OHL Resita-Pancevo interconnecting Romania and Serbia passes through 11 territorial administrative units of the Caras-Severin County (Resita City, villages Ezeris, Lupac, Dognecea, Goruia, Ticvaniu Mare, Berliste, Ciudanovita, Gradinari, Varadia and Vrani). The 400 kV OHL Resita-Pancevo is 171 km long, of which 63 km in Romania and 68 km in Serbiei. The approximate project costs amount to 41.3 mill euro for the Romanian part. The financing source for this project is Transelectrica's application to access European funds under the Sector Operational Programme \"Increasing economic competitiveness\" (SOP ICC) 2007-2013, priority axis 4 \"Increased energy efficiency and security of supply in the context of climate change fighting\", major intervention domain 3 \"Diversifying the interconnection networks with a view to increase security of electricity supply, operation: Supporting investments to interconnect the national electricity and gas transmission networks with the European ones\"

November 8th, 2011 – Awarded in 2011

Transelectrica received the award as „COMPANY OF THE POWER SECTOR PROFITABLE FOR 3 YEARS IN A ROW DURING THE CRISIS" at the Romanian Gala Top 100.

Florin Aurelian Ciobotaru
General Inspector
foto finmedia

December 14th, 2011

Romania expressed officially her interest to join the project connecting the electricity markets of the Czeck Republic, Slovakia and Hungary

The Steering Committee of the project connecting the electricity markets of Czeckia, Slovakia and Hungary approved the Letter of intent whereby the transmission and system operator (the NPG Co. Transelectrica SA), the electricity market operator (Co. OPCOM SA) and the National Regulatory Authority in the energy domain (ANRE) of Romania formalised their intention to join this project in accordance with the provisions of the MoU for cooperation in view of achieving the European functional, interconnected and integrated internal electricity market, signed by system and market operators (CEPS, SEPS, MAVIR), the electricity exchanges (OTE, OKTE, HUPX) and national regulatory authorities (ERU, URSO, MEH) from Czeckia, Slovakia and Hungary.

The step taken by Romanian authorities is included in the general due diligence of EU member states after the decision of the EU Council (February 4th, 2011) setting 2014 as deadline for the achievement of the fully functional electricity market at pan European level.

ENTSO-E: The pathway towards common European network operation

To Transelectrica as transmission and system operator, the professional organisation ENTSO-E (European Network of Transmission System Operators for Electricity) represents the most important professional and lobby structure of TSO-type companies, organisation established as direct effect of the 3rd legislative package (2009) of the single electricity market in the European Union, with particular tasks for the uniform development of technical codes and of the European transmission network in order to integrate safely the new renewable sources by developing regional electricity markets and their inter-regional integration.
In 2011, Transelectrica actively and constantly participated to all ENTSO-E activities and projects by means of its 32 experts nominated in all working structures of ENTSO-E (committees, regional groups and task forces).

Prospects and challenges for 2012

Romania - participant into the regional initiatives connecting the national electricity markets

Transelectrica is an important supporter of regional initiative in this domain, having a pro-active road-map for 2012 as regards the cooperation with interconnection partners in view of coupling the electricity markets.

The Company's diligence in this respect belongs to the general pan European efforts after February 2011, moment in which the European Council adopted the decision setting 2014 as the year when the final stage of the internal energy market should be reached.

Implementing regional electricity markets in central-eastern and in south-eastern Europe as a first step towards implementing the single internal electricity market (IEM) at pan European level will allow:

- Stimulating investments in the region;
- Enhancing competition and reducing market concentration indexes;
- Optimising the use resources at regional level, including reduced emissions by means of the coordinated utilisation of renewable resources at regional level;
- Optimising the use of control power at regional level (by implementing regional balancing markets);
- Increasing the operational safety;

Romania's adhesion to the market connection project of Czeckia, Slovakia and Hungary

On December 14th, 2011 the Romanian entities involved, namely- the National Regulatory Authority in the energy domain (ANRE), the National Power Grid Company (Transelectrica) and the Electricity Market Operator (OPCOM) expressed officially their interest in joining the project connecting the electricity markets of Czeckia, Slovakia and Hungary by means of a Letter of intent following the review and assessment project of the national working group (MECMA, ANRE, OPCOM and the NPG Co. Transelectrica SA). The management of the CZ-SK-HU regional project approved Romania's requrest while in 2012 the Romanian, Czeck, Slovakian and Hungarian entities will finish negotiations with a view to sign the MoU of this project.

Project to connect Romania's and Bulgaria's electricity markets

Transelectrica, ANRE and OPCOM will further the cooperation with the Bulgarian partners with a view to connect the two countries' electricity markets according to the Memorandum of Understanding for the preparation and implementation of the project connecting the electricity markets concluded between the Romanian Ministry of Economy, Commerce and Business Environment and the Bulgarian Ministry of Economy, Energy and Tourism.

Certification of the NPG Co. Transelectrica SA – requirement of the European legislation

In Romania electricity transmission is a strategic activitity of public interest (Electricity law 13/2007), and the National Company Transelectrica SA is the only utility carrying out such activities according to the Electricity transmission licence 161/22.12.2000-revision 3/2009, issued by the National Regulatory Authority in the energy domain.

The new community legislation in the energy domain provides the obligation of EU member states to take measures for effective and full separation of electricity transmission from its generation and supply by certifying the transmission and system operators.

Taking into account that Transelectrica SA exercises all the attributions provided in article 12 of Directive 2009/92/CE as transmission and system operator, the Company provided all due diligence for certification through the notification sent on October 27th, 2011 to the National Regulatory Authority in the energy domain. The action plan to issue a governmental decision providing the independence of transmission and system operators of the energy domain and to separate state control over transmission operators from the generation and/or supply companies where state is the majority owner will be issued in 2012 by a high level working group with representatives from the MECMA, ANRE as well as the transmission and system operators from the energy and natural gas domains.

Setting the grounds of the electricity transmission tariff in the third regulatory period (2013-2017)

2012 is the last year of the second regulatory period for the transmission tariff and the year when such tariff is determined for the third regulatory interval. As result of the need to implement the new community legislation in the domain, in 2012 the NPG Co. Transelectrica SA plans to review with ANRE the Methodology determining the electricity transmission tariffs (approved by Order 60/2007 of ANRE) based on the experience gathered in the previous regulatory periods and the analysis of the new aspects on the Romanian electricity market.

In order to reduce the risk of the reduced electricity consumption impacting Company revenues, in 2012 Transelectrica plans making an opportunity analysis in view of submitting a proposal to ANRE to implement a binomial tariff scheme (in which the tariff has an energy component and a power component, the power one being independent of the energy consumption).

Redefining Transelectrica's strategy in the new European legislative context

Both the economic crises of these years and the legislative packages adopted by the European Union in the energy and climatic change domain have largely changed the context and premises in which Romania's current Energy strategy has been elaborated. Energy has become a strategic factor in global politics, generating worldwide major concerns.

The Company's success in managing such major challenges means identifying the trends in the domain, anticipating the sector development as well as the implications of European regulations, especially with respect to the electricity market, over the Company.

In this context the corporate strategy of Transelectrica needs revaluation with a view to render activities efficient and to provide consistency with the energy policy objiectives at national and pan European levels.

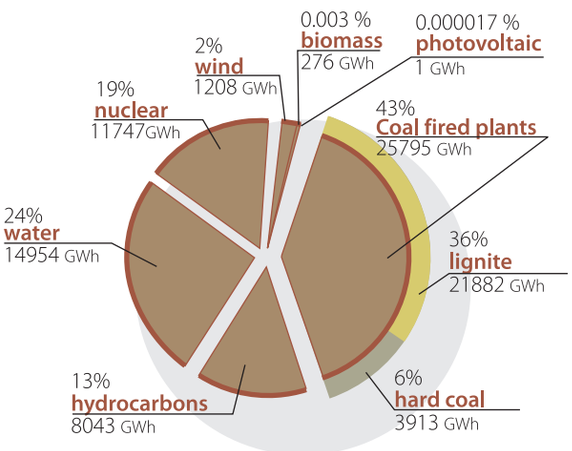
II. MANAGEMENT OF THE ELECTRICAL POWER SYSTEM

1. Consumption

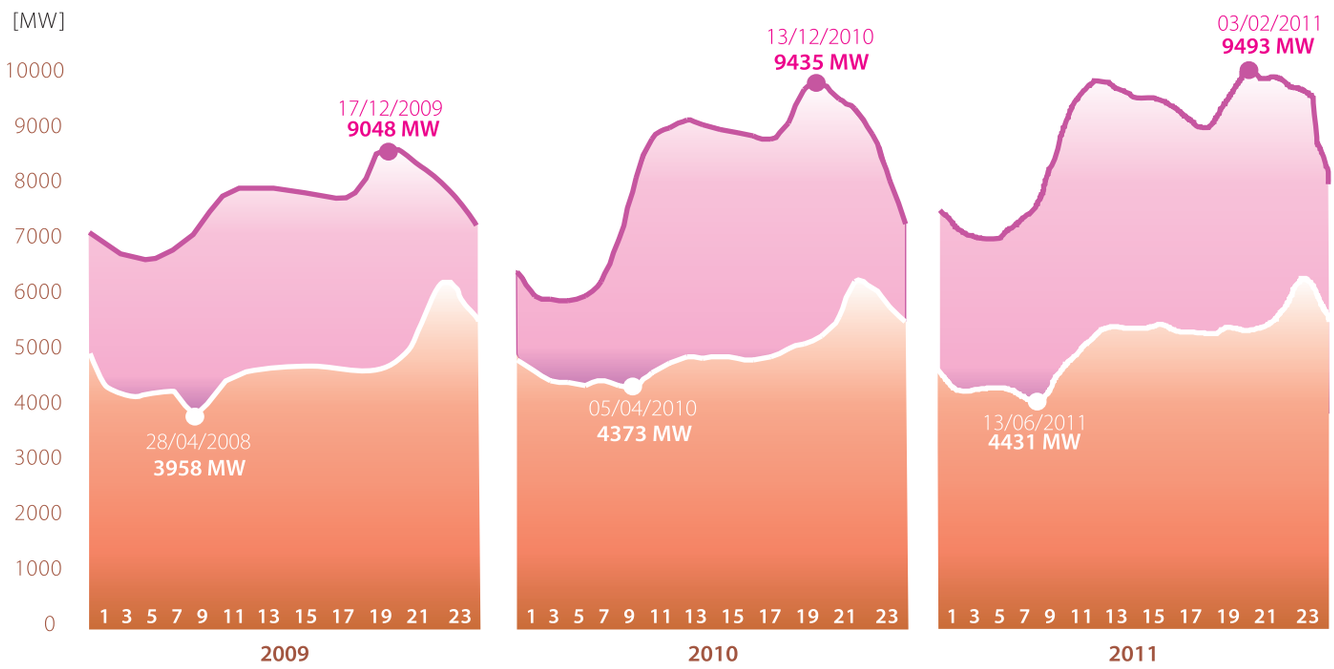
In 2011 the gross domestic consumption grew 3.7% in avera ge as compared to 2010. The 2011 structure of the electricity output by primary resources shows an increased contribution from wind farms (2% of the total generation in 2011) in comparison with 2010 (0.5 % of the total output).

Structure of power generation	2011			2010		
	[GWh]	[MW]	[%]	[GWh]	[MW]	[%]
TOTAL generation, of which:	**61931**	**7069**	**100**	**60782**	**6939**	**100**
Coal fired plants, of which	25795	2944	42	21765	2485	41
lignite	21882	2497	35	18650	2129	34
hard coal	3913	447	6	3115	356	5
hydrocarbons	8043	918	13	6638	758	11
water	14954	1707	24	20479	2338	34
nuclear	11747	1341	19	11624	1327	19
wind	1208	138	2	276	31	0.5
biomass	183	21	0	-	-	-
photovoltaic	1	0	0	-	-	-

Structure of primary power resources in 2011

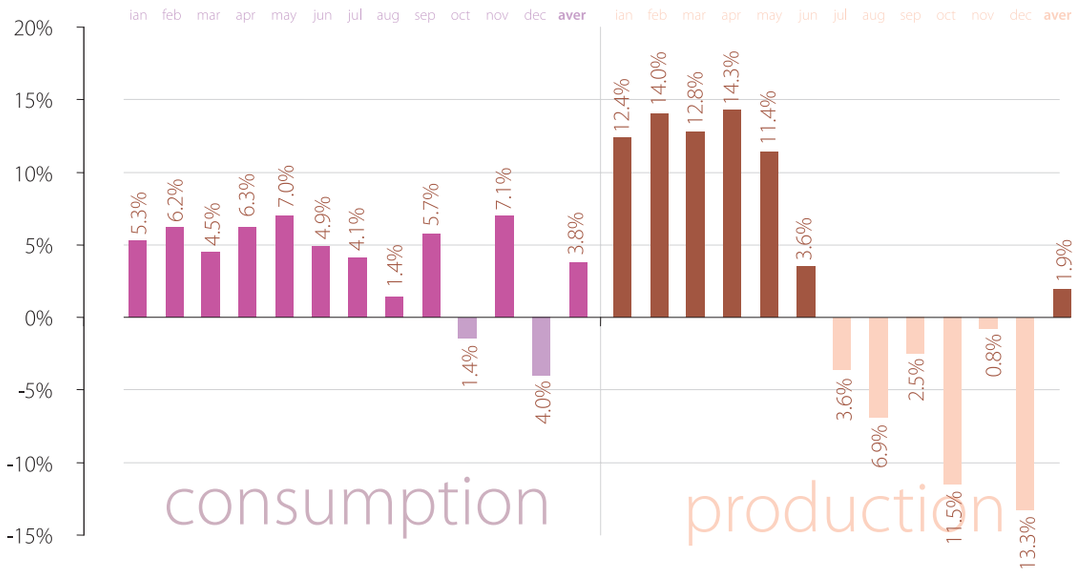


Maximum and minimum daily consumption 2009-2011 (gross values)

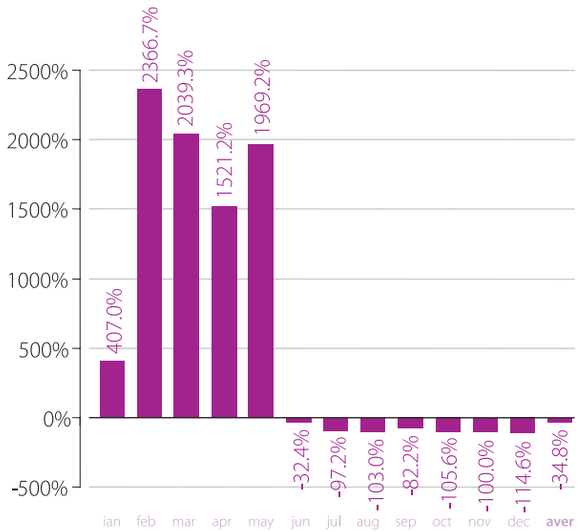


In 2011 the gross domestic consumption varied -4% ÷ 7.1% each month in comparison with the similar interval of 2010. Overall 3.7% consumption growth was recorded in 2011 compared to 2010.

Monthly variation of consumption, generation and balance in 2011 as against the same period of 2010

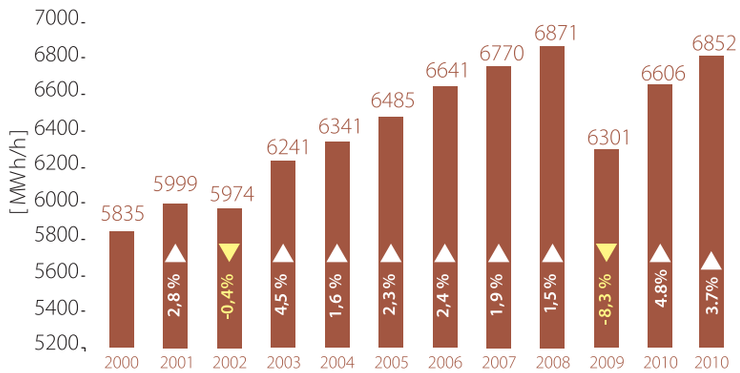


In the first 5 months of 2011 the balance recorded significant growth as against 2010, but in the last months it dropped by 34.8%.



During 2000-2011, except for 2002 and 2009, the gross domestic consumption steadily increased by 0.42÷4.47% annually.

Variation of the annual average gross consumption in 2000 - 2011 (MWh/h)




in 2011
water has generated
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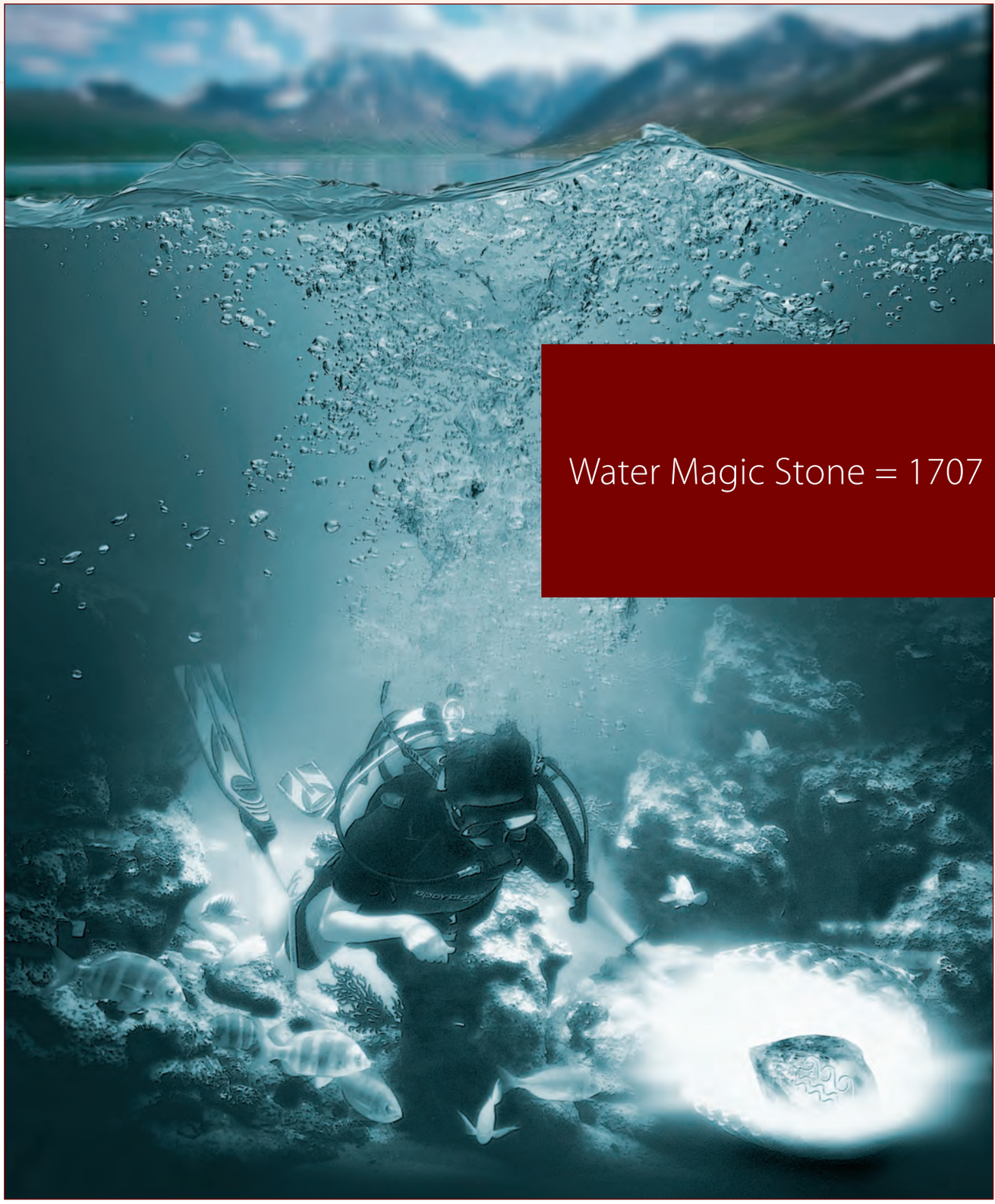
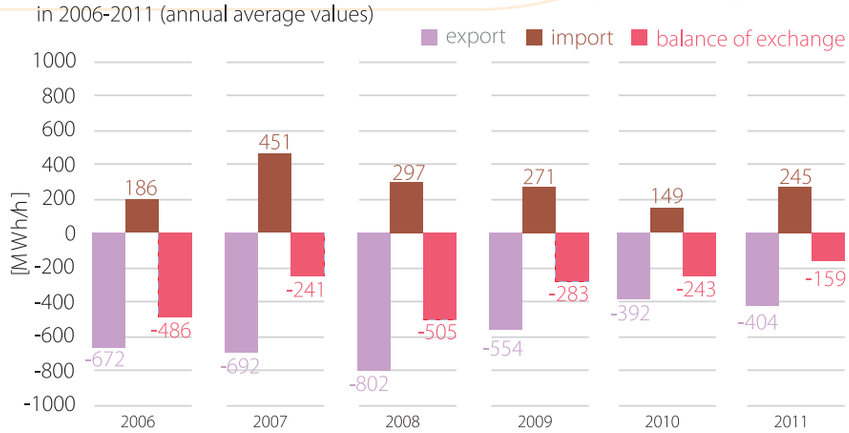


Water Magic Stone = 1707 MW

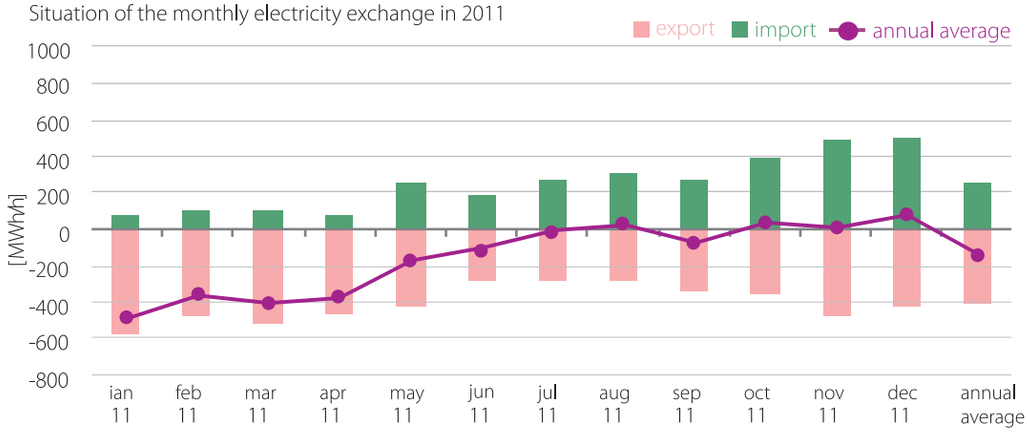
2. Import / Export

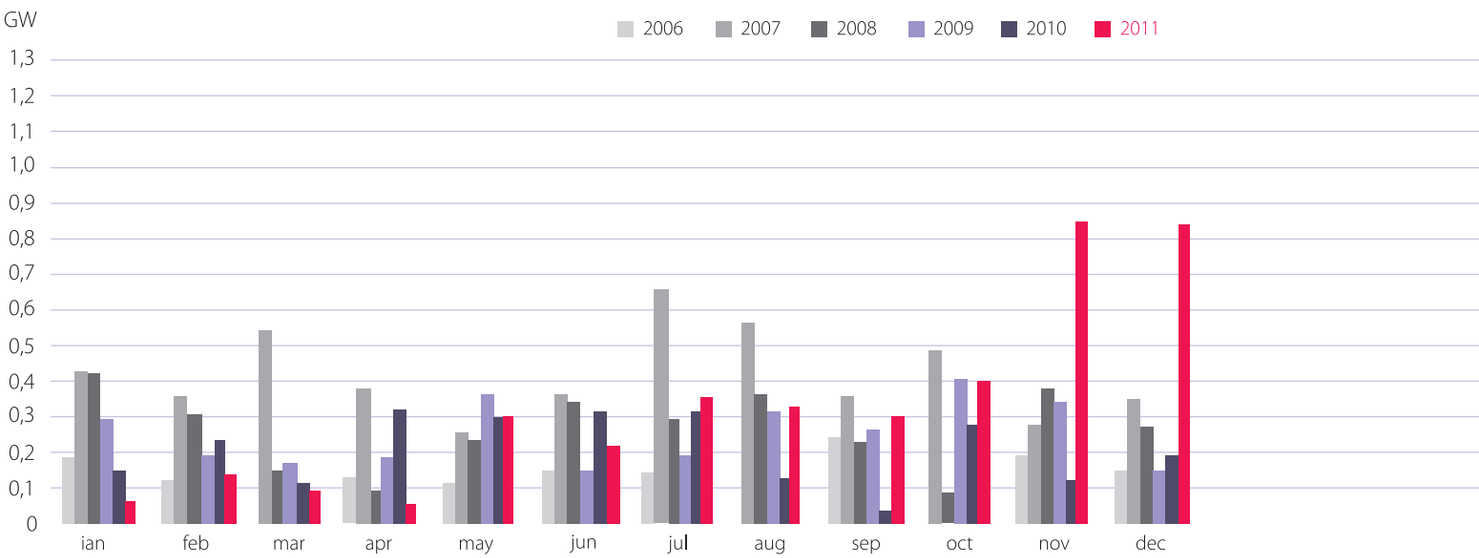
Physical power exchanges with other systems in 2011 represented an export balance of 1,902 GWh (average capacity 217 MW).

Variation of the import, export and balance of energy exchange with the neighbors in 2006-2011 (annual average values)



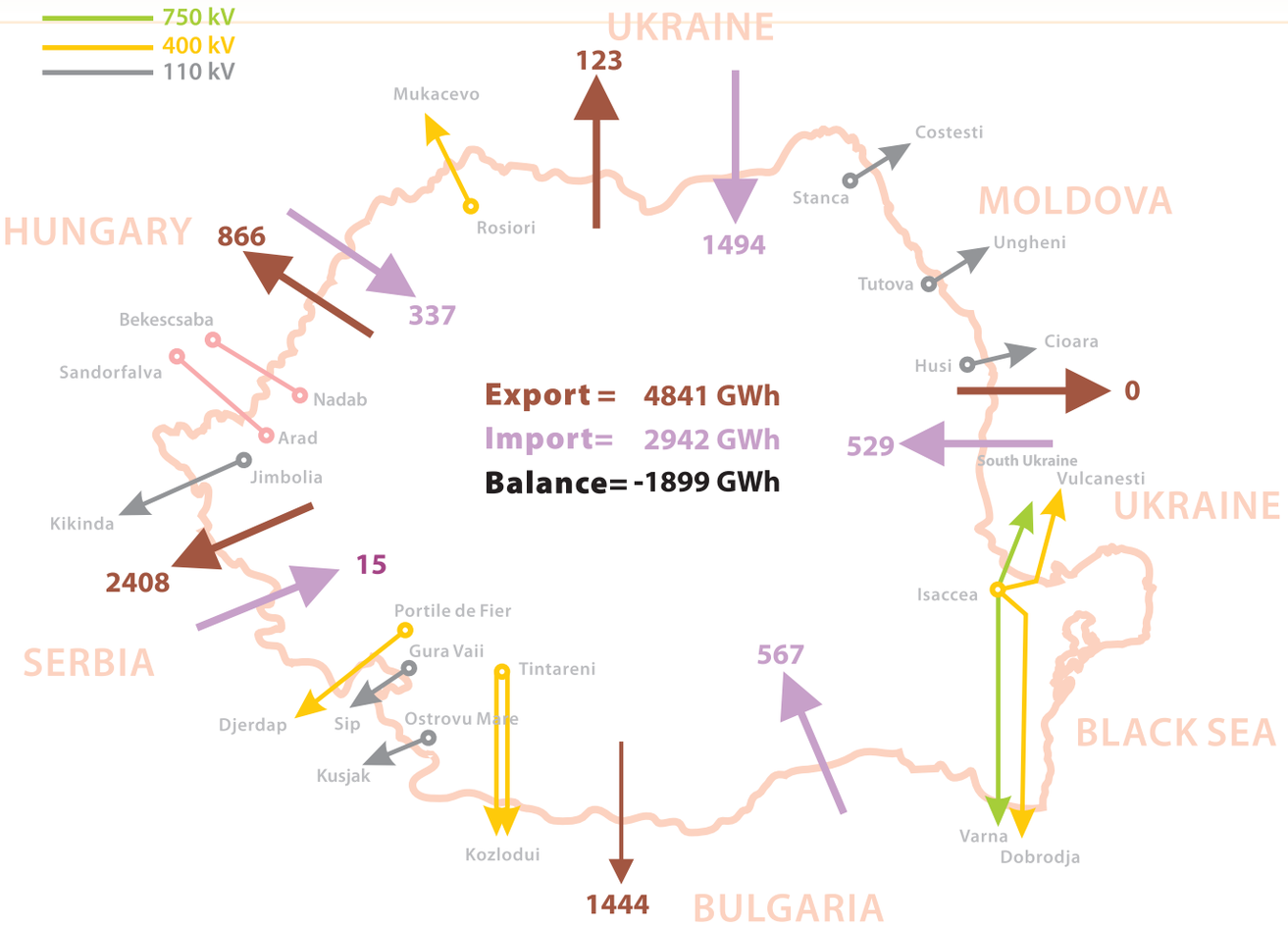
Situation of the monthly electricity exchange in 2011

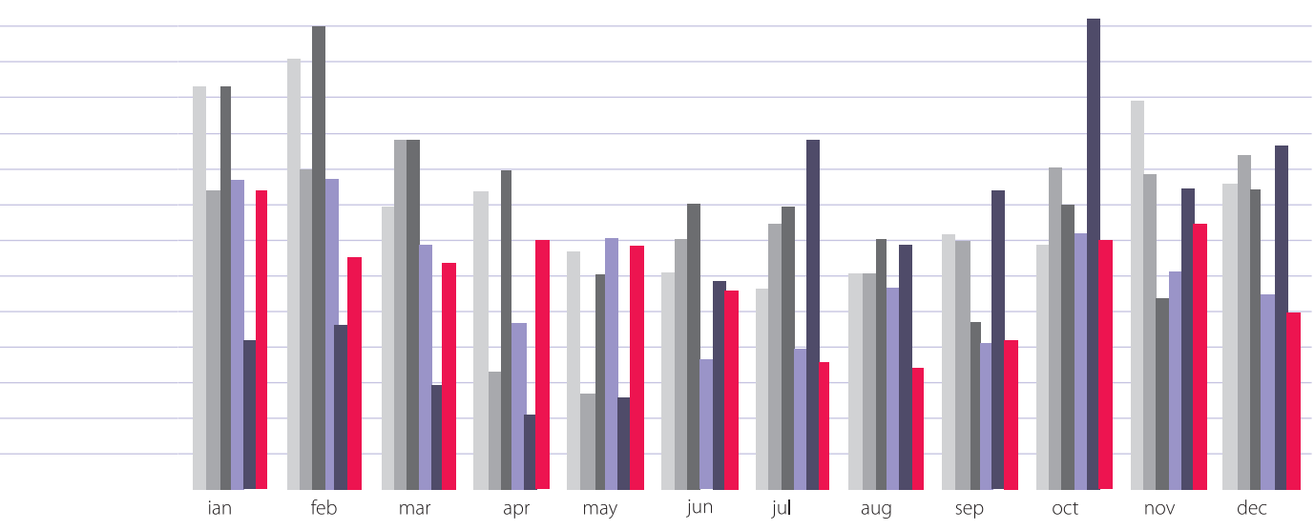




IMPORT
The Third Wednesday 11:00 CET

Phisical Exchange on Romanian borders in 2011 (GWh)

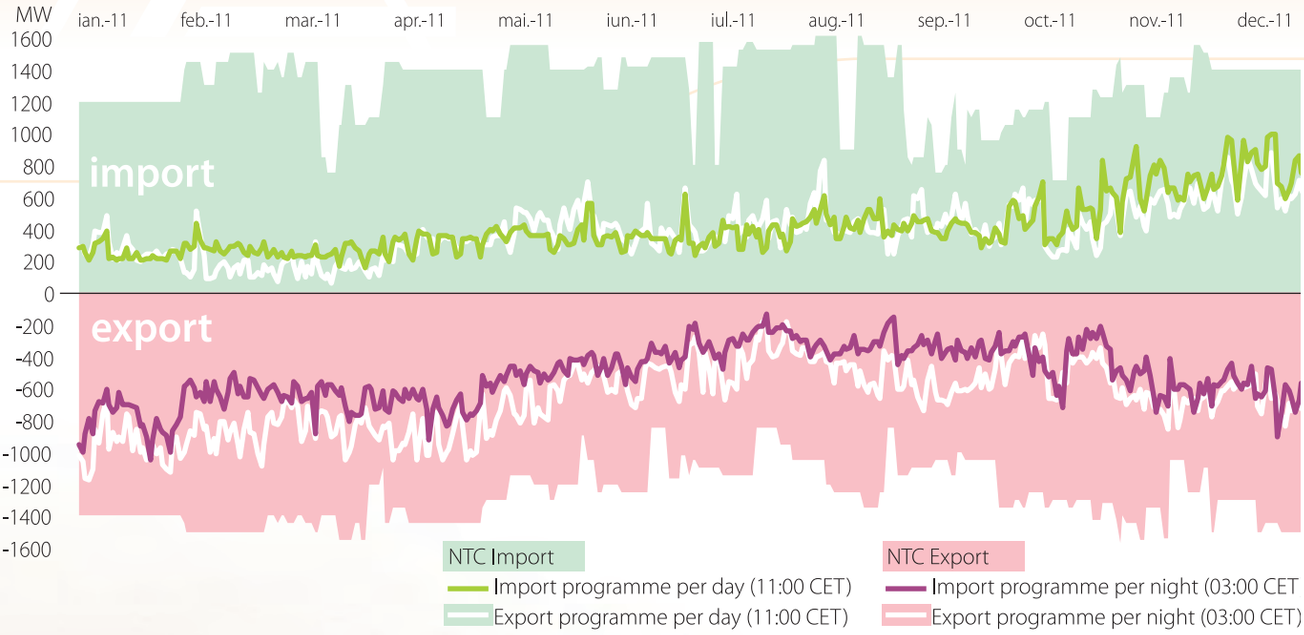




EXPORT
The Third Wednesday 11:00 CET

Romania is mostly an exporting country. Electricity exchanges (import/export/transit) with the interconnection partners are achieved on the basis of competitively gained contracts between licensed suppliers on the Romanian market with their external partners.

Firm Coordinated Import/Export NTC Values and Exchange Programs for 2011

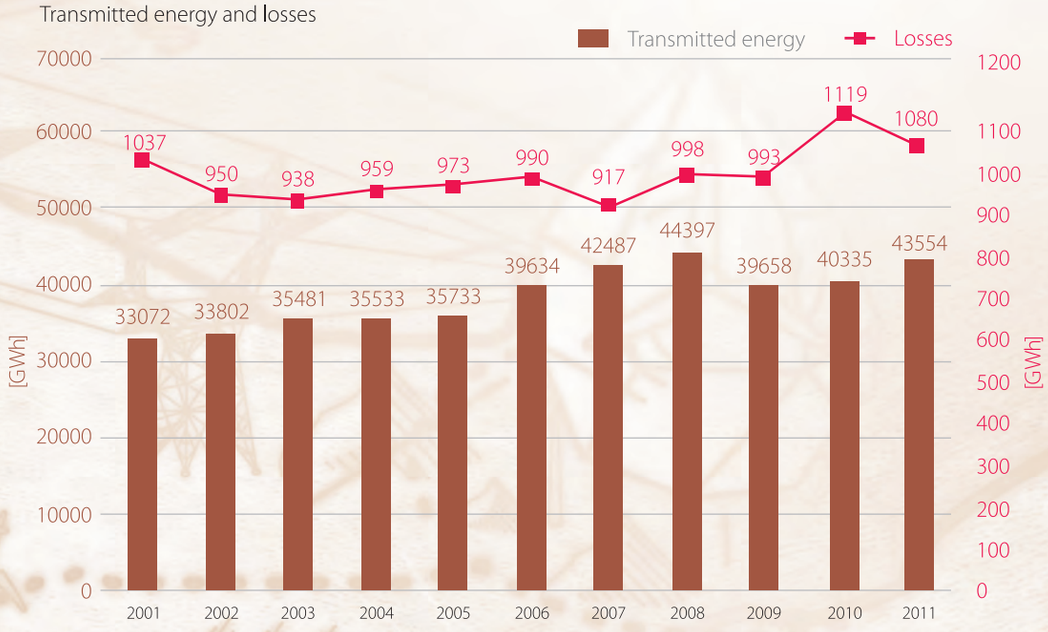


Electricity is traded across Romanian borders within the available transfer capacities of the Romanian interconnection lines with neighboring systems. Export/import net transfer capacities on interconnection lines are calculated in compliance with ETSO-E procedures, based on technical and economical criteria, according to a non-discriminatory and transparent procedure.

Firm coordinated NTC values are determined for market purposes for each auction period, taking into account maintenance programmes and considering also post-event dispatching measures in areas influenced by the maintenance programmes in order to maximise the cross-border capacities; they are also taken into consideration in daily and intra-day auctions netting.

Monthly calculations are done with a resolution down to week-day (depending on maintenance programmes succession). In case of deviations from the maintenance schedule and other significant factors, these values are recalculated for weekly, daily and intra-day auctions.
Coordinated NTC values on borders can be used simultaneously.

Transmitted energy and losses



Evolution of transmitted energy (without unplanned exchanges)

The main factors that led to loss fluctuation in 2011 compared to 2010, both in absolute values and against the energy injected in the ETG have been:

- Increased import at the borders from deficit areas- from 526 GWh in 2010 to 1495 GWh in 2011 along the Ukrainian border; from 146 GWh in 2010 to 340 GWh in 2011 along the Hungarian border. Reduced export at these borders- from 384 GWh in 2010 to 124 GWh in 2011, Ukrainian boder; from 1250 GWh in 2010 to 866 GWh in 2011, Hungarian border;
- Increased import along the border with Moldova, from 370 GWh in 2010 to 529 GWh in 2011;
- Increased export at the borders from excess areas- from 1967 GWh in 2010 to 2410 GWh in 2011, Serbian border; from 1106 GWh in 2010 to 1444 GWh in 2011, Bulgarian border. Import reduction along such borders- from 73 GWh in 2010 to 16 GWh in 2011, Serbian border; from 676 GWh in 2010 to 562 GWh in 2011, Hungarian border;
- Increased generation of CHPP Iernut (situated in a high deficit area) at about 217% of the output from the previous year (from 234 GWh in 2010 to 508 GWh in 2011);
- Reduced output of hydropower plants generating directly into the ETG from 9092 GWh in 2010 to 6767 GWh in 2011, such reduction being recorded mainly to HPP Portile de Fier I, found in a great excess area (about 69% reduction of the output from the previous year);
- The energy injected overall into the ETG in 2011 grew by about 4.7% against 2010 (from 41,605 GWh to 43,651 GWh);

The above data are an overall result at year-round level. Physical amounts at borders and the structure of the domestic output developed differently by months- all the exports at the Ukrainian border and about 85% of exports at the Hungarian border took place in the first half of the year; about 85% of imports at the Ukrainian border and about 92% of those at the Hungarian border were made in the second half of the year. The power injected in the ETG was 11% (2170 GWh) greater in the first semester of 2011, dropping by about 1% (213 GWh) below the 2010 value in the second semester. These figures impacted accordingly the losses in the ETG, which were about 10% (50 GWh) higher in the first half of 2011 than those of the similar period in 2010 and about 15% (88 GWh) lower in the second half of 2011 than those of the similar interval in 2010.

3. Tariff

Tariff scheme

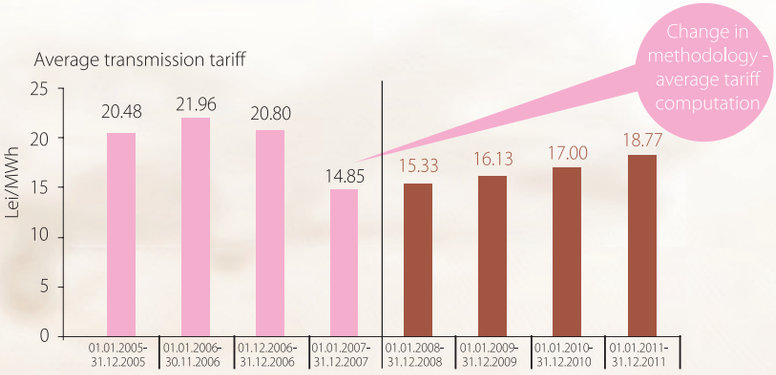
Transelectrica obtains the main revenues significant for the Company's profit from the regulated tariffs for transmission services and for system services, functional service component, applied to electricity generators and suppliers that use the electricity transmission system.

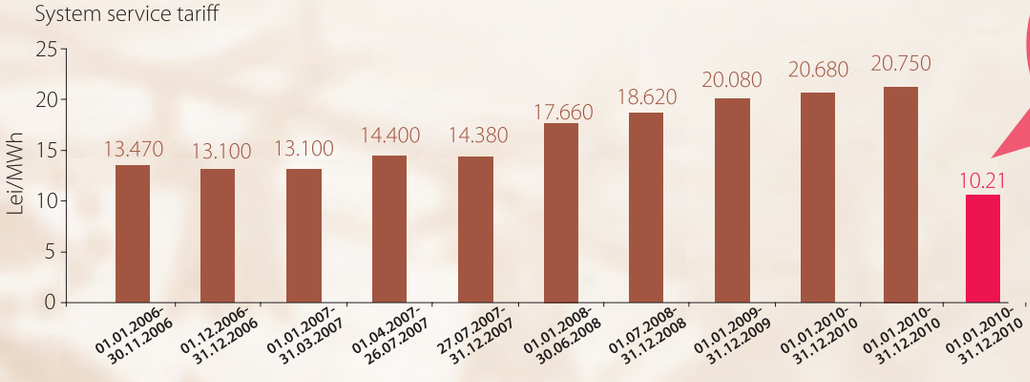
Tariff structure

Transmission tariff – covering the total cost of the transmission grid, including maintenance and development costs;
Tariff for functional system services – covering the dispatch services provided by Transelectrica and consisting of operational planning and management of the RPS;
Tariff for technological system services - covering the procurement costs of resources needed in order to provide technological system services- control reserves (secondary control, tertiary fast and tertiary slow), capacity reserve, reactive energy;

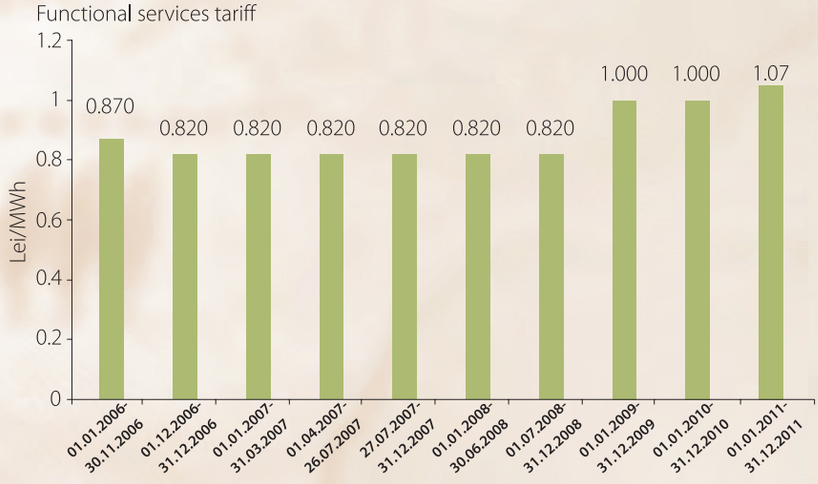
Determining the tariffs

- Electricity transmission is monopoly in Romania, the National Power Grid Company Transelectrica SA being the only utility carrying out such activities. The electricity transmission tariffs are approved by the National Regulatory Authority in the energy domain and are established annually (tariff interval) within a five-year framework (regulatory perido) based on forecasts for operational costs, interest costs and CAPEX.
- Transmission tariffs are calculated using a revenue-cap methodology based on justified costs, a reasonable profitability degree (7.5% - WACC - weighted average cost of capital approved by ANRE for the second regulatory period), with annual adjustment depending on inflation and gain from imposed efficiency. Regulation provides coverage of all transmission grid costs, including the maintenance and development costs.





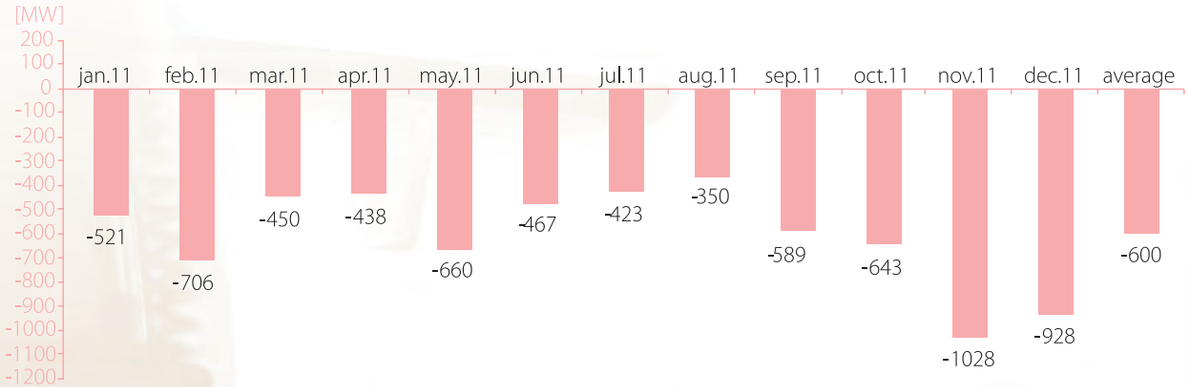
*** The STS tariff has decreased because the justified fixed costs for efficient generation of dispatchable cogeneration units have been removed since the highly efficient cogeneration scheme has been applied**



4. Imbalance Volumes

In 2011, significant differences were registered between physical notifications on the balancing market and real consumption because of the hydrological situation and sub-contracting of some suppliers who have not acquired their necessary volume of energy from the previous markets.
Thus, during the whole year, the sum between notified production and total scheduled exchanges with the neighbouring power systems was smaller than the actual consumption with monthly average values between 350 MW (in August) and 1028 MW (in November – being the highest monthly value since 2006).

Physical Notification of Dispatchable Units + Scheduled Exchanges - Actual Load [MW]



5. Operational Security

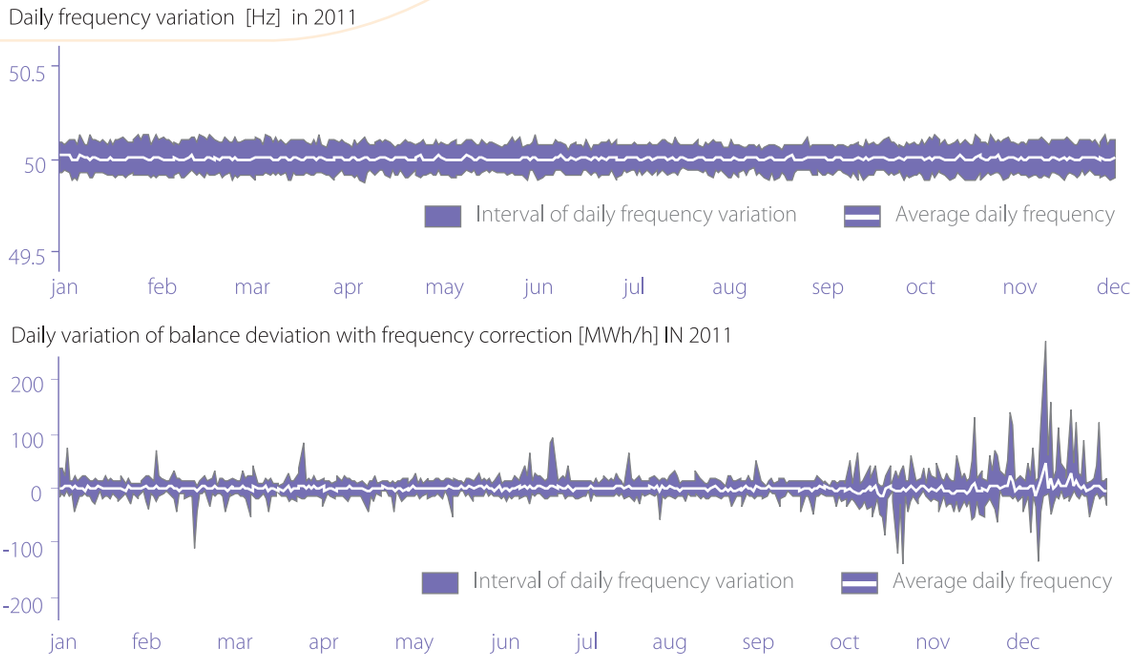
Romanian Power System operated in 2011 without any disfunction of the quality parameters, in compliance with the technical grid code requirements.
The 2011 major event occurred on 20.01 at 08:25 h in substation Brasov, after the explosion of the insulating column from the circuit breaker of the 110 kV OHL Stupini bay at phase R and the faulty operation of protections against the unavailability of the 110 kV differential bus bar protection and breaker failure trip. The operational equipment of bus bars 1B, 2A and 2B tripped in the 110 kV substation Brasov and in the adjacent ones, disconnecting a great part of Brasov City and its outskirts, as well as all operational units from the electric power plants of Brasov region. The disconnected consumption was of 109 MW (industrial and residential), supply being resumed after 18 ÷ 67 minutes. Power reduced by 74.9 MW was recorded in the electric power plants of CHPP Brasov, CHPP Nord Brasov, CHPP Metrom and CHPP Noua, the tripped units being re-started after 10 ÷ 190 minutes.
Similarly to last year, the energy selected for congestion management remained low. The selections for congestion management were determined either by outages within the 110 kV network during March, April and July, or by scheduled outages of the 400 kV Rosiori – Mukacevo and Brasov – Gutinas OHLs in October.


in 2011
wind has generated
2% of power
Quest of
The Wind magic Stone

the Wind Magic Stone = 138 MW

6. Meeting the interconnected operation with the ENTSO-E system

Frequency control observed the range limits 49.95 Hz÷50.05 Hz at 97.41%.
The balance deviation was regulated with the frequency correction and observed the limits required by ENTSO-E CE- ±20 MWh/h at 95.5%.

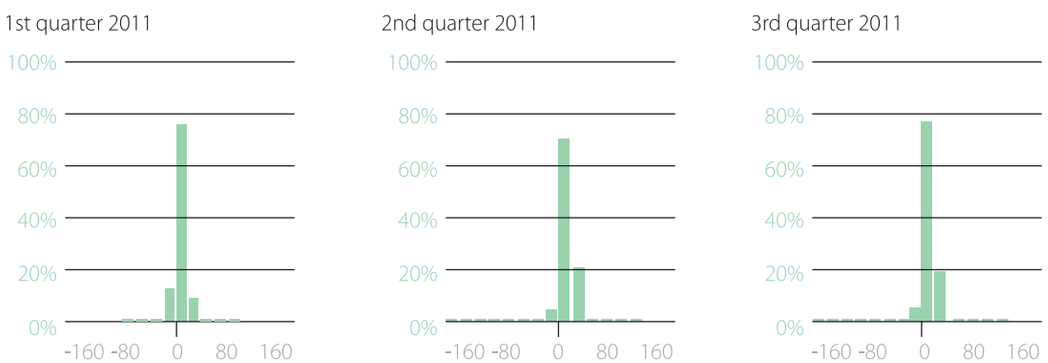


In 2011 frequency variation observed the 49.95÷50.05 Hz limits at 97.41%, compared to 96.7% in 2010. One can see that the frequency-power control at interconnection level is almost equal to that of the previous year.

Balance deviation with the frequency correction observed the ±20 MWh/h limits at 95.5%. The performance of secondary control was better than the performance margin (94-95%) however 1.68% drop was recorded against 2010 when the ±20 MWh/h range was observed at 97.18%.

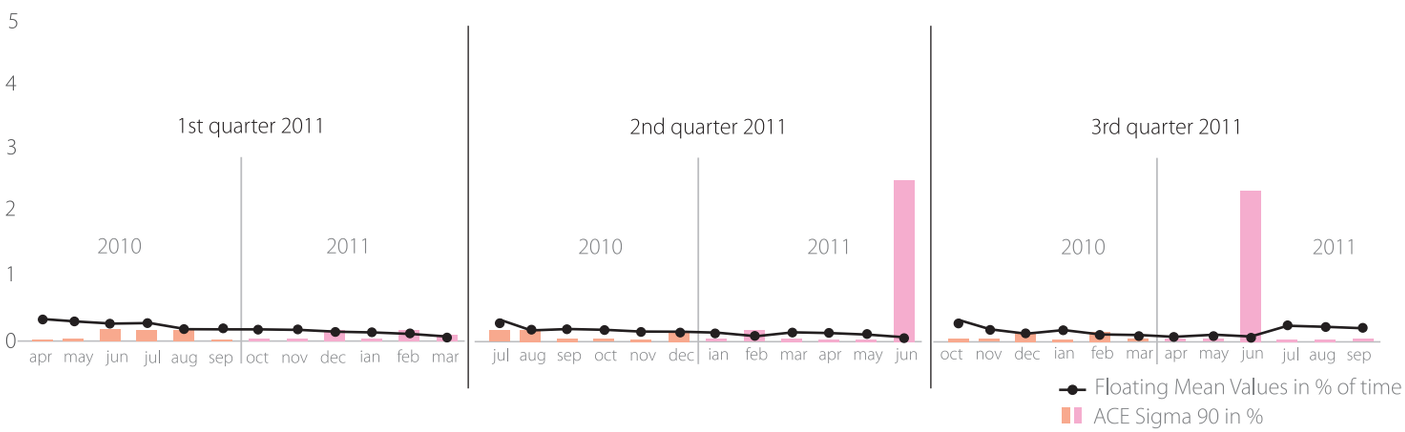
One can also notice that the standard deviation of hourly ACE values (control deviation called as well balance deviation with frequency correction has the mathematical expression
ACE = Pmetered-Pschedule + k*(fmetered-f set))
was constant compared to 2010.

The ENTSO-E analysis in the Regular Report of the Performance of the Primary and Secondary Load-Frequency Control which has been elaborated to date for the first two quarters of 2011 shows that Transelectrica maintained its secondary control performance against 2010. The balance deviation with frequency correction reviewed by ±20 MWh/h ranges showed that controlled values kept within a small spreading range, which means constant quality of control during the entire time interval studied.



One can also notice that the standard deviation of hourly ACE values (control deviation called as well balance deviation with frequency correction has the mathematical expression ACE = Pmetered-Pschedule + k*(fmetered-f set)) was constant compared to 2010:

In terms of values spreading regulated by the secondary by the secondary regulator, a better development is ascertained.



7. Critical Systems and Infrastructure Protection

Taking into account the provisions of licence no. 161/2000 regarding electricity transmission, as well as the legislation adopted after licence issuance, a division was set up within Transelectrica (Critical Systems and Infrastructure Division) specialising in security issues and management of emergency situations.

When Law 18/2011 approving Ordinance 98/2010 was issued regarding identification, designation and protection of critical infrastructure, the division took over the task of representing the Company in matters regarding critical systems infrastructures.

The concern with organising this activity started from the vital role of the energy infrastructure in any country for its economic prosperity, national security and quality of life.

Considering the current international context with pronounced intensification of terrorist acts, especially in the democratic countries members of NATO, Romania's country risk as possible target of terrorist organisations grows considerably in the context of our adhesion to European structures.

The main activities of this division in such a domain include:

- Providing security to both tangible and intangible assets, according to the requirements and threats to the operation of the Romanian Power System;
- Identifying and designating the critical infrastructure of the Electricity Transmission Grid and providing the Company's defence capability against disturbing factors of physical or IT nature;
- Design, implementation, development, improvement and operation of the Information Security Management System;
- Improving the risk profile and the Company rating, thus facilitating the efficient and effective achievement of corporate objectives and contributing to increased Company market value;
- Design, elaboration, update, implementation, maintain in operation and continuously improving the Integrated Risk Management System in all Company organisational entities;
- Protecting corporate values against serious impact losses owed to catastrophic or hazardous events by risk financing under insurance;
- Implementing the special projects addressing issues of physical and IT security;
- This entity carries out activities in close correlation with the Continuity Plan of Transelectrica by providing management of critical servicces at Company level;
- Elaborating and implementing the mid- and long-term development strategy for information technology and communication systems, their implementation into the Companie and their interfacing with the public systems and those of other units of the RPS, ENTSO-E, and other international bodies Transelectrica is affiliated to;
- Protection of classified Information within the NPG Co. Transelectrica SA;

Adrian Vilciu
Director – System&Critical Infrastructure Unit

The National Power Grid Company Transelectrica SA is a favourite target of terrorist acts by the effects that such terrorist attack can have over Transelectrica's objectives, beginning with disconnecting the electricity supply in reduced areas (isolated localities) and going up to disturbing the entire RPS, with disastruous consequences both over the population and the economy as a whole. This is also emphasised by the international concerns with respect to the protection of infrastructures similar to that managed by Transelectrica and considered as the most important part of the critical infrastructure in functional terms.

The Programme for critical infrastructure protection has been elaborated taking into account another factor, namely that such events attempting at the system safety are natural or artificial, internal or external to the system, combinations resulting from the table below.

Types of events

	NATURAL: These are inherent to the system, following as a logical consequence of its condition or from the interaction to other systems	ARTIFICIAL: They are not inherent to the system and represent a willful action (attack) of destruction
INTERNAL: Events caused by internal factors	Defects of constitutive elements (low reliability, human error etc.)	Sabotage, theft
EXTERNAL: Events caused by external factors	Changes in the exterior environment of the system, beyond its good operaton limit (meteorological events, financial blocks etc.)	Theft, vandalism, hackers, espionage, terrorism

Attacks are differentiated depending on the target aimed (physical or informational) and on the method used (physical or informational; see the following table). Physical attacks are preferrably terrorist ones, while the informational ones in exchange have a different cause (sabotage, personnel fired, and hackers). Physical targets aim especially at technical equipment and the hard part of information, while the informational ones aim at data and information regarding system control and condition.

In their turn, terrorist attacks are differentiated depending on the target aimed at. The following types of attacks can be enacted over the RPS:

- Direct ones, where the power system is the main target and the non-supply of consumers – the secondary target;
- Using the system, where parts of the RPS are used as weapons against the population (e.g. attack to a nuclear power plant);
- By means of the system, the aim being to stop supplying the consumers (or certain consumers such as military units, residential areas etc.);

	Types of attacks	
Targets → Methods↓	**PHYSICAL**	**INFORMATIONAL**
PHYSICAL	Physical acts of sabotage/theft/vandalism/ terrorism over the equipment and/or its protection	Physical acts of sabotage / theft over the information or intellectual property
INFORMATIONAL	Electronic sabotage to the equipment or system operation and/or aimed at losing some services	Electronic theft /sabotage of information, data or intellectual property

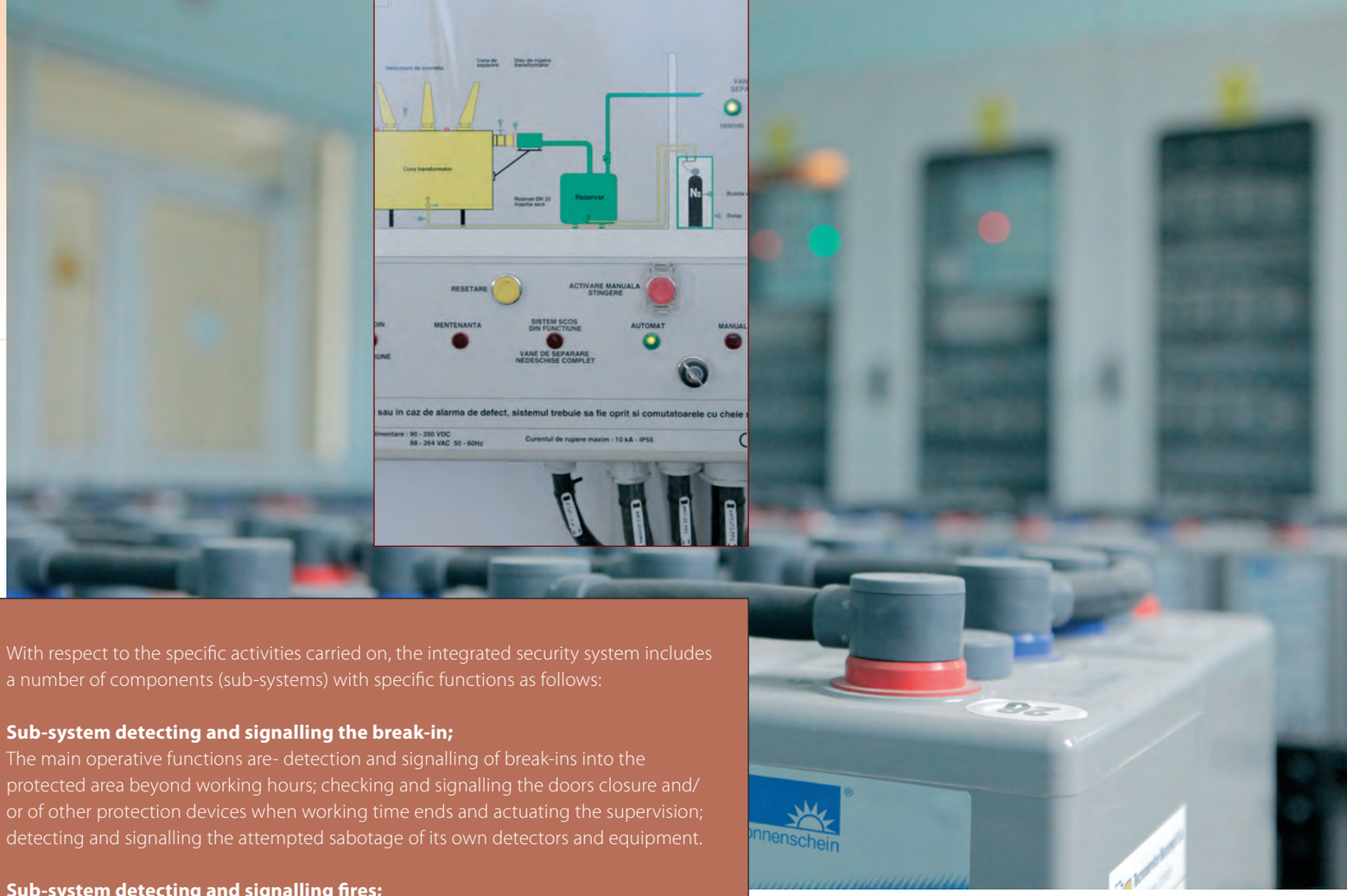
The securing programme is put in practice by means of investment projects, expenses from production funds and by work under the study and research plan.

By the investment projects in the security domain Transelectrica aims at achieving a uniform system providing efficient protection to its stocks as well as safe operational conditions to the national power system. The system thus built should also provide prevention of security incidents, signals and warning in case of incident occurrence, as well as efficient warning when circumstances require it.

To achieve the integrated security system that should respond to the current risk levels Company objectives are exposed to, a functional optimisation is taken into account for the following components: systems controlling the access; biometrical confirmation systems of one's identity for the maximum security areas; systems of perimetre supervision; anti-burglary systems; infrared barriers; detection, warning and fire fighting systems.

The integrated security systems should carry out the following functions at objective level:

- Preventing unauthorised access in the objective perimeter
- Signalling the attempts of unauthorised access
- Securing the gathering of scientific legal evidence in case of events
- Efficiently fighting the fire risks
- Providing an efficient management of incidents
- Providig an efficient access management of one's own or delegated personnel;



With respect to the specific activities carried on, the integrated security system includes a number of components (sub-systems) with specific functions as follows:

Sub-system detecting and signalling the break-in;
The main operative functions are- detection and signalling of break-ins into the protected area beyond working hours; checking and signalling the doors closure and/ or of other protection devices when working time ends and actuating the supervision; detecting and signalling the attempted sabotage of its own detectors and equipment.

Sub-system detecting and signalling fires;
The main operative function- detecting and signalling the beginning of a fire so as to allow rapid fighting intervention.

Sub-system of automatic fire extinguishing;
The main operative function- automatic detection and fighting of fire from its incipient stage using quenching agent non-destructive for assets, harmless for human health and non-pollutant for environment according to law 307/2006 regarding fire fighting.

Sub-system controlling the access of persons and cars;
The main operative functions- identifying persons using an identifier device and/ or based on the biometrical characteristics; control over persons' access; control over vehicles' access; traceability of access; granting or withdrawing access rights; montoring the correct utilisation of access control equipment.

Closed circuit television sub-system;
The main operative functions- recording images from the areas in which the probability of events occurrence is higher; technical means of supervision and visual inspection from a central point; registering proofs relating to the development of incidents in the most natural form; automatic detection of unauthorised activities; automatic identification of registration numbers, car plates etc.

Sub-system of signals dispatching and incident management;
The main operative functions- submitting signals and images in an ergonomic environment; alerting, warning in case of local and remote incident; support for the management of local and/or remote incidents; taking and archiving proofs relating to events, incindents or to the handling of the integrated system; interfacing as well as regional and national integration.

Control of security activities and management of emergency situations follow in the context of constant and responsible developments in all circumstances, requiring material and organisational resources as well as a particular coordination of all players in order to prevent and coordinate great incidents.
In this context there is constant sustained concern to know and apply the security policy by means of external service contracts, exchanges of experience, performance control, security audits and annual reports of installations security, of emergency management and providing uninterrupted activity.


in 2011
fire has generated
55% of Power
N
E
S
W
Quest of The Fire magic Stone

the Fire Magic Stone = 3,862 MW

European context to provide protection to critical infrastructure projects that have been implemented within Transelectrica

Transelectrica through its Critical Systems and Infrastructures Division participates as partner and end-user to international projects co-financed under the European Programme FP7, Seventh Framework Programme for Research and Technological Development:

CRISYS - Critical Response in Security and Safety Emergencies CRISYS

The project aims at improving the crysis management laying stress on the requirements of civil protection and on end users' demands, on developing relations between local&national authorities and the authorities entrusted with response in emergency situations in order to validate innovative solutions.

Consortium partners in the CRISYS project:

- European Organisation for Security (SCRL) of Belgium as project coordinator;
- Edisoft – Empresa de Servicios e Desenvolvimiento de Software SA of Portugal;
- Center for Security Studies of Switzerland;
- National Center for Scientific Research "Demokritos" of Greece;
- Altran BV of the Netherlands;
- Association Comite National Francais du CTIF (Comite Technique International de Prevention et d'Extinction du Feu) of France;
- Teletron Euroricerche SRL of Italy;
- Societe Francaise de Medecine de Catastrophe of France;
- Thales Security Solutions & Services SAS of Spain; Indra Sistemas SA of Spain; Instituto Affari Internazionali of Italy;
- University of Central Lancashire of Great Britain; Ministry of Interior, Department for Rescue Services of Finland; Zanasi Alessandro SRL of Italy.

Project term - 15 months (2011-2012)

SESAME - Securing the European Electricity Supply Against Malicious and Accidental Threats

This project aims mainly at elaborating a support system in decision making for a fast and accurate determination of weak points within European electricity grids and reduces the risk of black-out.
Consortium partners in the SESAME project: Politecnico di Torino – Electrical Engineering Department (Italy); Energie Institut Johannes Kepler University Linz (Austria); E-Control (Austria); Deloitte (Spain); The Next Generation Infrastructures (the Netherlands); INDRA SISTEMAS SA (Spain); Heriot Watt University Edinburgh (Great Britain); Technical University Delft (the Netherlands).
Project term - 3 years (2011- 2014)

CockpitCI – Cybersecurity on SCADA: risk prediction, analysis and reaction tools for Critical Infrastructures

The main purpose of this project is protecting critical infrastructures agains cyber attacks impacting SCADA systems. The main objective is elaborating a package of utilitaries providing simultaneous protection against cyber criminality both in the logical domain of cyber security and in the physical domain of physical security focussing on proactive risk management of cyber attacks.
Consortium partner in the CockpitCI project: SELEX Sistemi Integrati (Italy)- project coordinator; Centre de Reserche Public Henri Tudor (Luxembourg); Consortium for Research in Automation and Telecommunication University of Rome, La Sapienza (Italy); Dipartimento Informatica e Automazione, Universita degli Studi Rome TRE (Italy); Agenzia nazionale per le nouve technologie, l'energia e lo sviluppo economico sostenible (Italy); Israel Electric Corporation (Israel); ITRUST Consulting SRL (Luxembourg); Multiasbl (Belgium); University of Colimbra, Faculdade de Ciencias e Tecnologia (Portugal); University of Surrey (Great Britain).
Project term - 3 years (2012 - 2015)

Information Technology and Communications

The mission of Transelectrica is to provide the infrastructure of the national electricity market with a view to operate the Romanian Power System under maximum safety and steady-state conditions while observing quality standards and providing regulated access to the electricity transmission grid under transparent, non-discriminating and equidistant conditions for all market participants.
In this context one of the Company's concerns is to permanently consolidate and extend the IT&Tc infrastructure, important support for maximum quality of corporate activities by its modernising with the latest technologies under various IT&C projects.
Communications infrastructure represents a determining factor for the functionality and security of IT applications throughout the organisation. Telecommunication equipment provides the national infrastructure of integrated communications.
Taking into account the activities of Transelectrica to increase the data processing capacity and to diversify the services provided at national level, the Company is executing a contract to develop the latest networking architecture.

RISK MANAGEMENT

Risk assessment activities – Risk register of Transelectrica

Transelectrica takes into account risk management under an integrated risk management system while complying with the legal provisions (Orders 946/2005, 1389/2006 and 1649/2011 of the MFP amending and adding Order 946/2005 of the public finance minister, which approved the Code of internal control comprising the internal management/control standards for public entities and meant to develop the managerial control) of the regulator and with other requirements for listing with the Bucharest Stock Exchange (Corporate governance code 2009), rating agents, auditors, to have proper risk control capacities for the Company's risk profile with respect to risk detecting, quantifying, classifying, treatment, reporting and monitoring.

The risks of Transelectrica are managed by determining two sets of risk treatment solutions and their optimum structure:

- financial solutions– including the insurance, offers of shares and derivatives as well as other instruments provided on capital, insurance and other financial markets;
- organisational solutions– mitigating risks through organisation / design / planning / structuring of activities, communication plans and business continuity measures when some hazard has occurred, as well as risk administration by means of procedures and by enhanced security and labour safety measures;

when achieving the specific objectives:

- Implementing an efficient risk management system in accordance with legal provisions and with the Company's internal procedures in order to keep risks under control at reasonable costs;
- Improving decision making through utilisation of risk information, even when efficiently allocating the Company's resources;

In February 2012 the Register of Transelectrica risks was devised by the Critical Systems and Infrastructures Division while complying with the provisions of Standard 11 Risk management from Order 946/2005 of the minister of public finance approving the Code of internal control, comprising the internal management/control standards for public entities and meant to develop the managerial control, with later amendments and additions- Order 1389/2006 of the minister of public finance and Order 1649/2011 of the minister of public finance.

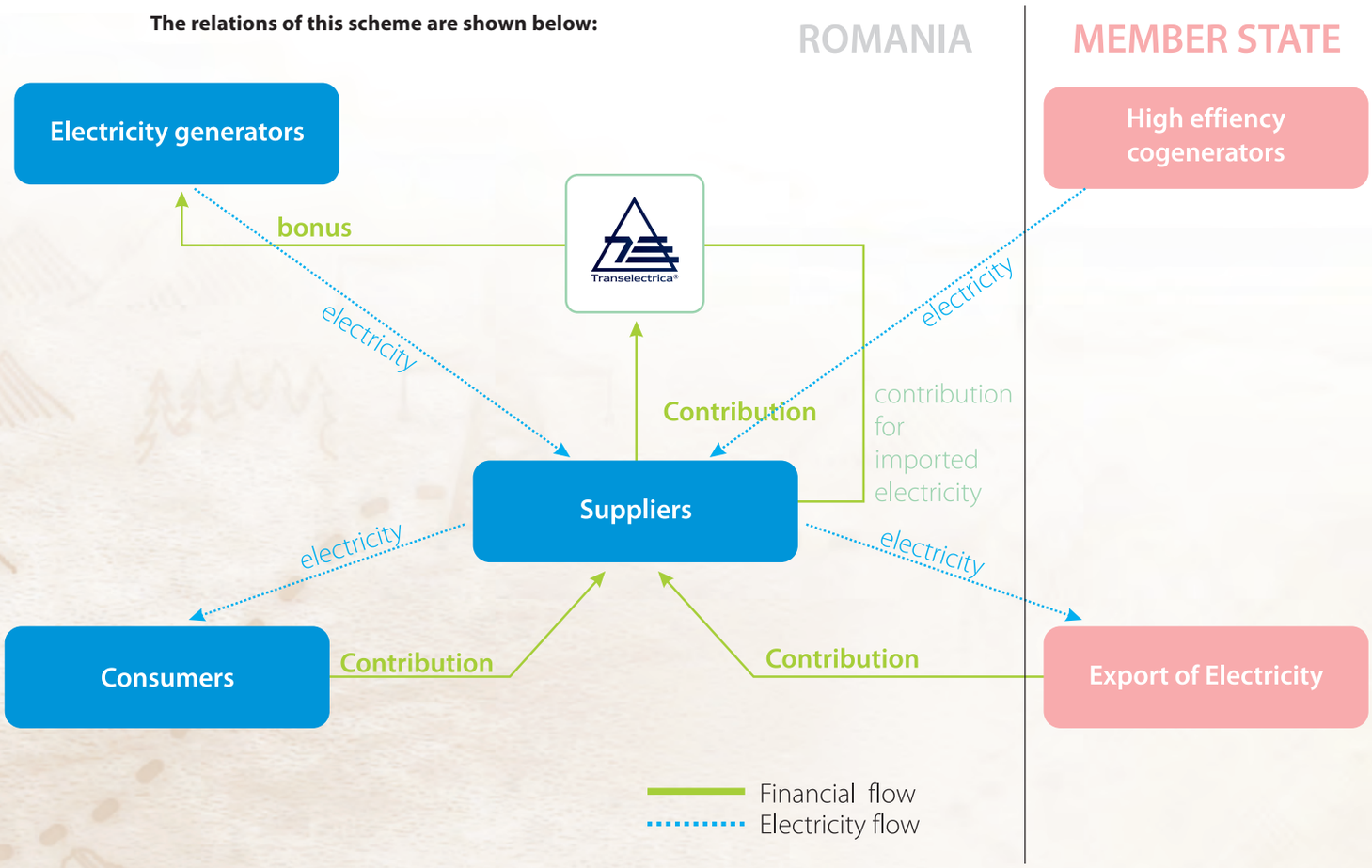
Strategic requirements of operational safety and continuity determined the Company's proactive approach of risk management in order to detect and address potential losses before the occurrence of events, while preparing beforehand the technical, operational and financial solutions to counter-act such losses.
Risk management activities are carried out in accordance with applicable legislation and in correlation to all other corporate activities to comply with the provisions of Order 946/2005 of OMFP, with later amendments and additions.

Administration of support schemes

Highly efficient cogeneration

In 2011 the bonus type support scheme promoting cogeneration started operating on April 1st based on the demand of useful heat instituted under GDs 219/2007 and 1215/2009.

The relations of this scheme are shown below:

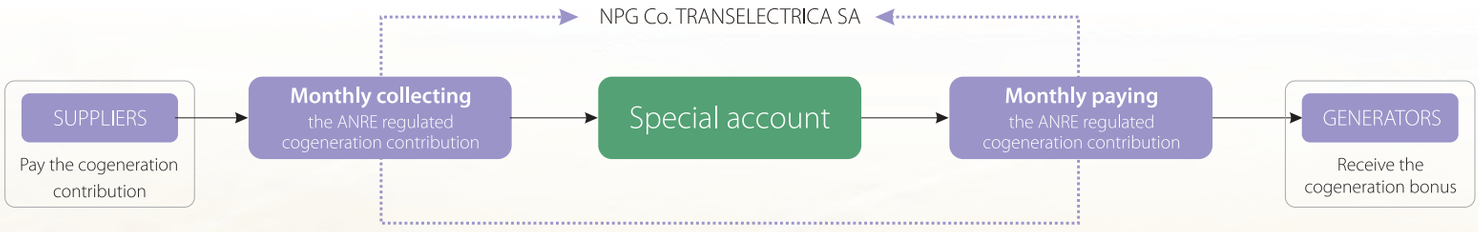


When the secondary legislation issued by ANRE has been enforced Transelectrica as administrator of the support scheme is developing the following activities:

a. Elaborating and managing the contracts with contributing suppliers as well as the contracts concluded in order to pay the bonus for highly efficient cogeneration;
b. Opening and managing bank accounts as required for the administration of the support scheme;
c. Drawing up the invoices to collect the contribution for highly efficient cogeneration;
d. Paying the bonuses to generators based on ANRE's monthly decisions;
e. Organising the database for the administration of the support scheme;
f. Monthly/annual reporting to ANRE about the activities developed in managing the support scheme;

The attributions of Transelectrica as administrator of the support scheme are given below:

NPG Co. Transelectrica attributions in the support scheme management



From the subsequent regulatory framework specified in GD 1215/2009 ANRE approved the following regulations involving Transelectrica SA as administrator of the support scheme:

a. Order no. 9/2011 of ANRE - Regulation determining the collection mode of the contribution for highly efficient cogeneration;
b. Order no. 10/2011 of ANRE - Methodology to determine and supervise the contribution for highly efficient cogeneration;
c. Order no. 12/2011 of ANRE - approving the contribution for highly efficient cogeneration and certain provisions for its invoicing;
d. Order no. 20/2011 of ANRE - approving the framework contracts for highly efficient cogeneration;
e. Order no. 33/2011 of ANRE - Monitorig and reporting methodology for the support scheme promoting cogeneration based on the useful heat demand;

III. LIBERALISED ELECTRICITY MARKET

Electricity markets development has been a continuous activity of Transelectrica in order to achieve a secure network operation.
In July 2011 the first phase of the Intraday Energy Market operated by OPCOM was introduced next to the already existing electricity markets in Romania (the Balancing Market, Ancillary Services Market, Capacity Allocation Market - under the TSO responsibility - and Bilateral Contracts Market, Day Ahead Market, Green Certificates Market – under the responsibility of subsidiary OPCOM).

Intraday Energy Market is a voluntary centralised market (trading day programme 13:00 -15:00 on day D-1) and represents a supplementary functional tool for participants in order to adjust their contracting portfolio and to achieve the equilibrium between the bilateral contracts, load forecast and technical availability of the production units for the delivery day on hourly basis, closer to physical notification sending deadline.

According to the bilateral agreements signed with neighbouring TSOs, explicit bilateral coordinated auctions for cross-border capacities were organised during 2011 on the Bulgarian and Hungarian borders (long – term, daily and intraday).

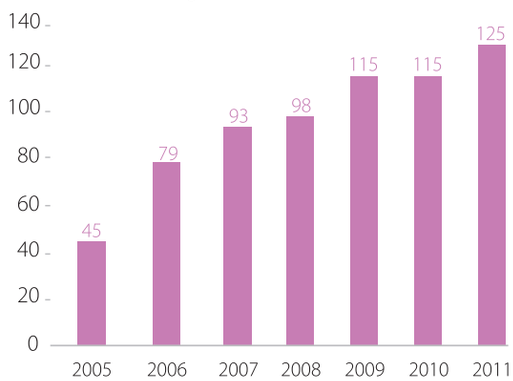
On the Serbian border, long - term explicit auctions were held by Transelectrica for 50% of total net transfer capacity, the remaining of 50% being allocated by the neighbouring TSO. Bilateral agreements for introducing bilateral coordinated auctions on Serbian border are currently in progress with the Serbian TSO.

1 Market Players

Balancing Market

Compared to the previous year, the number of BRPs increased from an average of 116 to 120, varying during the year between 112 and 125. In average, 18 market participants operated on the Balancing Market, with small variations from month to month. The number of dispatchable units in operation has decreased, from an annual average value of 137 in previous year to 135 this year, with monthly values varying from 134 to 138.

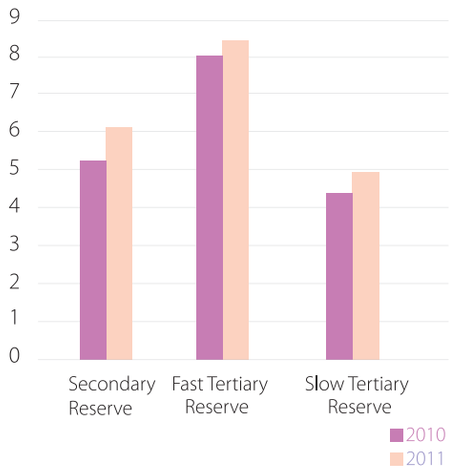
BRPs Number During 2005 - 2011



Ancillary Services Market

Although the number of participants has increased compared to 2010, it is still reduced, leading to a highly concentrated market with low competition level, especially for secondary and fast tertiary reserves. As in 2010, capacity reserve has not been purchased.

Average Number of Participants at Ancillary Services Market 2010 - 2011



Capacity Allocation Market

At monthly auctions the number of capacity holders has been greater than or at least equal to the number registered last year on all borders and directions (export and import).

Average Number of Participants at Monthly Capacity Allocation Auctions

* Average weighted values in correlation with total number of days in which capacity was allocated

Compared to the previous year, in case of daily auctions, the maximum number of capacity holders increased on both the Hungarian and Bulgarian borders. Still, the maximum number of capacity holders was higher on the Hungarian border (13 exports / 13 imports) than on the Bulgarian border (7 exports / 8 imports).

On the other hand, at the intraday auctions there were very few cases when capacity was requested, every time by no more than one participant.

2. Balance Management

In 2011 the system was balanced using the producers' physical notifications and the energy selected by the TSO for regulation, using the IT platform of the Balancing Market.

The energy traded on the Balancing Market was around 4.84 TWh, from which the energy used for congestion management was 0.003 TWh. Compared to the previous year, the value of traded balancing energy has increased with more than 60%, which consequently led to the highest cost value on the Balancing Market, since the beginning of Balancing Market. In the last months of the year, there were also recorded very high values of additional costs from the system balancing, costs intended for redistribution between BRPs.

These operational results were determined by the difficult situation in the Romanian Power System caused by:

- very low hydro flows on the Danube and on several internal rivers;
- serious energy deficit of physical notifications towards the real consumption;
- lack of fuel in thermal power plants;
- increase of average internal consumption (by 3,7 % from previous year's average value);

Thus, because of the difficult hydro situation from May to December, the notifications on the Balancing Market have induced a strong energy deficit in the system. As a result, a very high volume of upward energy was selected on the balancing market, especially for slow tertiary control, many thermo units were put in operation or maintained in operation state from one day to another, leading to a high cost value of traded energy on Balancing Market.

Very low water levels in the storage lakes, some under the warning limits, determined operating restrictions from July to December. As a measure of water reserves restoration, the selections on Balancing Market were done so that, at equal prices between thermal and hydro offers, for upward regulation thermal units were selected first, while for downward regulation the hydro units were selected first.

For 2011, the analysis of market structure / concentration indicators (Herfindahl – Hirschman Index, S1 - market share of the largest market participant) still indicates the existence of a dominant participant in the supply of secondary control (upward and downward) and fast tertiary control (upward). Nevertheless, compared to the previous year, it can be noticed a slight improvement of competition for secondary control (e.g. in November, values for S1 were lower than 50 %, for both upward and downward). Most of the year, the higher level of competition was recorded in case of slow tertiary control (e.g. in November, the value of HHI was under 1800, which suggests a moderate market concentration).

3. Ancillary Services

In 2011, for covering the necessary values, ancillary services were contracted both under regulated and competitive regime (monthly auctions).
From Transelectrica's necessary values, the regulated quantities for 2011 represented 100 % for secondary band, 83,49 % for fast tertiary reserve and 75,03 % for slow tertiary reserve. The difference until necessary was covered through monthly auctions. In 2011, Transelectrica did not purchase capacity reserve."

4. Capacity Allocation at Borders

According to the agreements between Transelectrica and the neighbouring TSOs, the transfer capacity allocation market allows performing explicit yearly, monthly, daily and intraday auctions as follows:

- on the Bulgarian border, the bilateral coordinated allocation is done for 100% of total capacity:
  - -by ESO EAD for long - term auctions;
  - -by Transelectrica for daily and intraday auctions;
- on the Hungarian border, the bilateral coordinated allocation is done for 100% of total capacity:
  - -by Transelectrica for long - term and intraday auctions;
  - -by MAVIR for daily auctions;
- on the Serbian border, long - term auctions for 50% of total net transfer capacity are held by Transelectrica, the remaining of 50% being allocated by the neighboring TSO;

The available capacity for daily and intraday auctions is calculated on hourly basis taking into consideration the capacity non-allocated and/or non-nominated in/from previous auctions and applying the "netting" principle. The intraday allocation is done in two auction sessions for time intervals 00:00-12:00 (CET) and 12:00-24:00 (CET) and it is held for 100% of total capacity.

The usage of the capacity obtained by auctions on the Ukrainian and Moldavian borders is conditioned by the written approval of the Ukrainian TSO or by the approval of the distribution operator of the island.

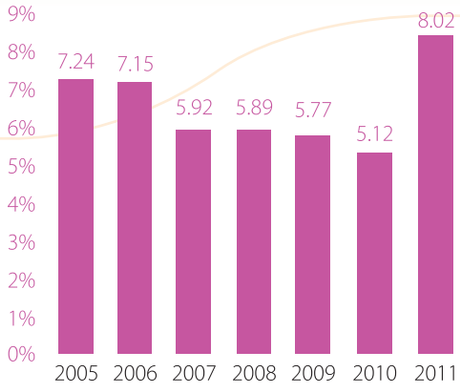
In terms of market indicators there is an improvement on almost all borders. Similar with 2010, the lowest values of market indicators were noticed on import direction from Hungary (C1 = 20 %, C3 = 40 %, HHI = 1024), suggesting a moderate level of concentration.

5. Trading Volumes

Trading volumes on the balancing market

The annual share of traded balancing energy from the total gross consumption has decreased continuously from 2005 till 2010. 2011 is the first year, since the beginning of Balancing Market, when the share of balancing energy reached around 8 % from total gross consumption, due to the difficult situation in the Romanian Power System faced during 2011.

Share of Balancing Energy Trading Volumes from Internal Gross Consumption, during 2005 - 2011



Trading volumes on the ancillary services market

The total contracted quantities in 2011 covered 93.49% from TSO's necessary volume

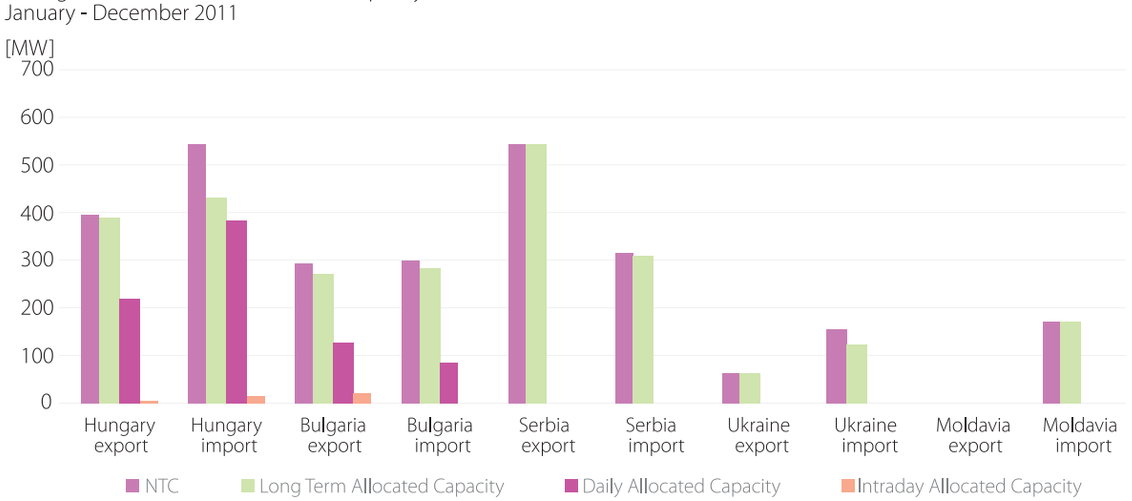
Ancillary services 2011	Volumes [hMW]				Percentage of contracted versus		Percentage of achieved versus	
	Necessary	Regulated	Contracted	Achieved	Necessary	Regulated	Necessary	Contracted
Secondary Control Band	3505000	3505000	3505000	3263072	100.00%	100.00%	93.10%	93.10%
Fast Tertiary Reserve	7008000	5851320	6225166	6104411	88.83%	106.39%	87.11%	98.06%
Slow Tertiary Reserve	6060000	4547020	5763970	5698949	95.12%	126.76%	94.04%	98.87%

Trading volumes on the capacity allocation market

From the chart bellow it can be noticed that almost the entire NTC was allocated in long - term auctions. Because the capacity demand is usually much higher than the offered capacity, congestions frequently occur on interconnections. In order to meet the intraday needs of the participants, Transelectrica has implemented daily and intraday capacity auctions which offer an effective way of using the interconnection, by applying the "netting" principle.

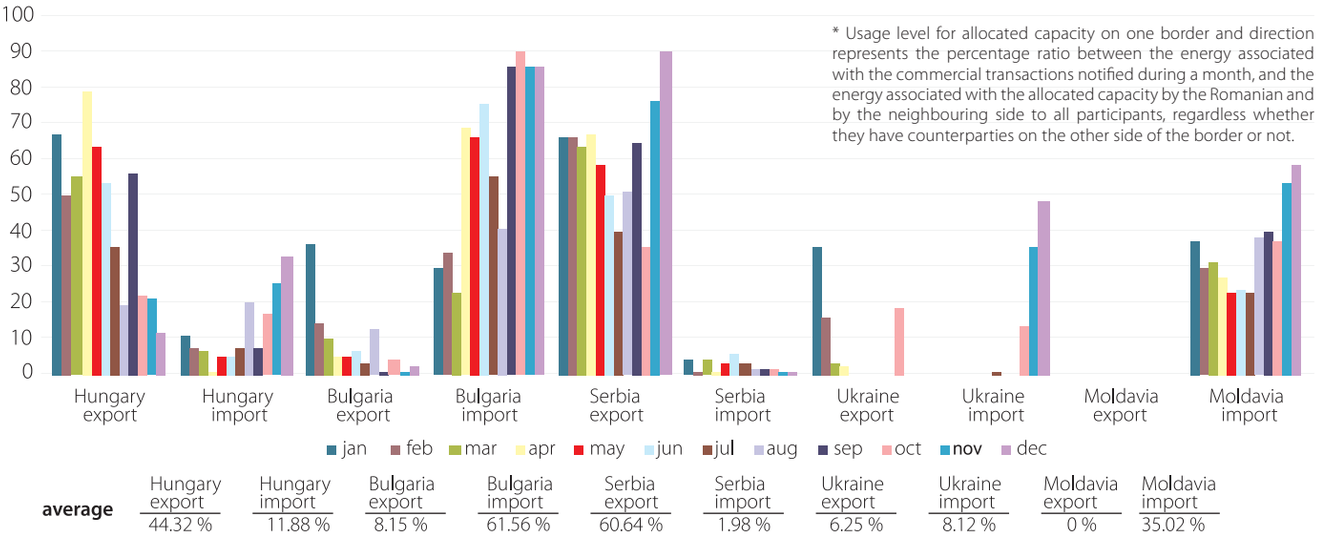
In general, in daily auctions the congestion cases are more frequent for Romanian - Hungarian and Bulgarian - Romanian border directions.

Average values of NTC and Allocated Capacity
January - December 2011



For 2011, the highest levels of usage for total allocated capacity on export direction were noticed on Serbian and Hungarian borders. For import direction, the highest levels of usage for total allocated capacity were noticed on the Bulgarian border, especially in the last four months.

Allocated Capacity Usage
January - December 2011
[%]



* Usage level for allocated capacity on one border and direction represents the percentage ratio between the energy associated with the commercial transactions notified during a month, and the energy associated with the allocated capacity by the Romanian and by the neighbouring side to all participants, regardless whether they have counterparties on the other side of the border or not.

	Hungary export	Hungary import	Bulgaria export	Bulgaria import	Serbia export	Serbia import	Ukraine export	Ukraine import	Moldavia export	Moldavia import
average	44.32 %	11.88 %	8.15 %	61.56 %	60.64 %	1.98 %	6.25 %	8.12 %	0 %	35.02 %

On the Hungarian border the capacity allocated through long-term and daily auctions is nominated more on export direction, so the level of usage is higher for export than for import. On the Bulgarian border is the opposite situation, the higher level of usage being on import direction.

Concerning intraday auctions, there were no many cases of capacity request during 2011, one of the causes being that for the moment only the first phase of Intraday Energy Market has been implemented, having the trading day programme between 13:00 -15:00 on day D-1.

6. Market facilitator – green certificates (GCs)

In accordance with the applicable primary and secondary legislation in the domain, especially Order no. 43/20.10.2011 of ANRE chairman, Transelectrica issues green certificates (GC) each month as per Annex 1 (former generation statement upon each generator's - economic operator's own liability), the Meter reading minutes issued by the grid operator, as well as the Accreditation decision issued by ANRE mainly based on the number of GC/MWh approved by ANRE in the accreditation decision issued for each certified economic operator separately.

- The GC is issued every month using an electronic platform for GC issuance based on the generators' reports on amounts of energy generated from renewable sources in the previous month as confirmed by the grid operator that took over that energy;
- When the GC has been issued Transelectrica sends the number and numerical codes of the issued GC to the respective economic operators, to the operator of the centralised GC market (OPCOM), as well as to ANRE;

In 2011 the installed capacity was of 1,233.134 MW and it generated an electricity amount of 1,509,670.175 MWh, for which Transelectrica issued 1,732,270 green certificates.
At the end of 2011 78 energy producers from renewable sources were recorded in the Register of energy producers from renewable sources (E_SRE):

Producers of E_SRE	2005	2006	2007	2008	2009	2010	2011
Wind	2	3	11	12	15	26	40
Water	1	4	9	11	14	18	31
Biomass	0	0	0	0	1	3	3
Solar	0	0	0	0	1	1	4
Total	**3**	**7**	**20**	**23**	**31**	**48**	**78**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in 2011
Sun has generated
1 GWh of power
Quest of The Sun magic Stone


the Sun Magic Stone = 1 GWh

IV. INVESTMENT, OPERATION AND MAINTENANCE

Marius Mateescu
Director general

1. Major Investment and Commissioning

In order to fulfill its mission Transelectrica is continuosly involved in an extensive development and modernisation programme of its electrical substations, transmission lines and interconnection capacities, meant to also support the new digital dispatching and market infrastructure. Implemementation of state-of-the-art technologies and IT&C solutions aims at increasing transmission reliability, decreasing power losses as well as allowing remote control of substations.

The volume of investments in 2011, around 333.21 milion lei (milion € 77), was mainly directed to major projects of substations rehabilitation, to prepare the construction of new lines in order to enhance interconnection capacity and to connect new renewable power producers to the National Power Grid.

Major investment projects commissioned in 2011

Project	Contractor	Financier	Benefits
Rehabilitation of 110 kV Brazi Vest substation	Consortium ALSTOM GRID + Electromontaj Bucharest - Romania	Transelectrica	- increases supply safety - cuts down maintenance and operation costs
Rehabilitation of 400 kV substation Gadalin	Consortium ABB SRL Romania + Energobit SRL Romania	EIB loan + Transelectrica	- increases supply safety - cuts down maintenance and operation costs
Rehabilitation of 400/220/110/20 kV substation Lacu Sarat – intermediary stage	Consortium AREVA Energietechnik + Energomontaj Bucharest - Romania	EIB loan + Transelectrica	- increases supply safety - cuts down maintenance and operation costs
Modernisation of 20 kV FAI substation	SC ElectroAlpha International SRL	Transelectrica	- increases supply safety - cuts down maintenance and operation costs
Modernisation of command-control-protection system in 11 substations 220/110 kV – final stage	AREVA Lattes France	Transelectrica	- increases safety and reliability of operations - facilitates remote control
Modernisation of protection systems for AT 200 MVA and differential protection busbar in 14 substations 220/110 kV	SC Siemens SRL	Transelectrica	- increases safety and reliability of operations - facilitates remote control
Replacement of transformer units in electrical substations	KONCAR (Croatia); EFACEC (Portugal); RETRASIB SA (Romania)	EIB loan + Transelectrica	- increases safety and reliability of operation -reduces energy losses - cuts down maintenance and operation costs
Security systems in electrical substations – partial stage	UTI +HELENIK + POLISTART	Transelectrica	Ensures functionality, continuity and integrity of critical infrastructure (determines, mitigates and neutralises threat, risk or vulnerability

Besides the investment projects already started or under various decision stages, Transelectrica aims at launching new rehabilitation projects of existing substations, building new transmission capacities, integrating the renewable resources – mainly wind power – as well as Units 3 and 4 of the NPP into the Romanian power system, as well as building a 400 kV ring for a reliable supply of Bucharest city.

Major investment projects contracted in 2011:

- Rehabilitation of the 10 kV Bucharest substation – first stage - contractor SC Romelectro SA
- Replacement of Shunt Reactor in 400 kV Mintia Substation – contractor Siemens SRL
- Instalation of transformer no. 1 250 MVA, 400/110 kV in 400/110/20 kV Oradea Sud substation – contractors Siemens SRL & Smart SA;

Documentations have been approved for the following major investment projects:

Investment objective	Approving deed
Connecting the 400 kV OHL Isaccea - Varna and the Isaccea - Dobrudja OHL in the 400 kV substation Medgidia Sud	BA dec. no. 1 / 26.01.2011
Refurbishing the 400/220/110/20 kV substation Bradu	BA dec. no. 1 / 26.01.2011
The 400 kV substation Stalpu	BA dec. no. 6 / 24.03.2011
Extending the 400 kV substation Cernavoda	BA dec. no. 6 / 24.03.2011
The 400 kV interconnection OHL Resita (Romania) - Pancevo (Serbia)	BA dec. no. 6 / 24.03.2011
Integrated security system in electrical substations, 4th stage	BA dec. no. 16/ 09.09.2011
Refurbishing the 220/110 kV substation Barbosi	BA dec. no.19 / 21.11.2011

Prospects for 2012

Ongoing works for:

- rehabilitation of substations Bucharest Sud 10 kV, Lacu Sarat, Mintia, Brasov, Cetate
- modernisation of command-control-protection-metering in 11 substations
- replacement of transformer units in electrical substations
- security systems in electrical substations

Prospects for 2012 and further on to 2013

In the years to come Transelectica aims at developing a series of major investments both with respect to the international interconnection lines and to the rehabilitation of its electrical substations, in order to meet the requirements of the electricity market.

- Development of international interconnections:

- 400 kV Gadalin (RO) – Suceava (RO) – Balti (MD) OHL
- 400 kV Romania – Serbia OHL related to 400 kV axis Portile de Fier I – Resita – Timisoara – Arad
- HVDC link 400 kV undersea cable between Romania and Turkey

- Rehabilitation of the following substations:

- 400/110 kV Brasov
- 400/110/20 kV Tulcea Vest
- 400/110 /20 kV Barbosi
- 220/110 kV Mintia
- 220 kV Ostrovu Mare
- 400/110/20 kV Domnesti
- 400/220/110/20 kV Bradu
- 220; 110/20 kV Campia Turzii

In 2011 Transelectrica continued to carry out several works to connect new suppliers and consumers to the power grid.

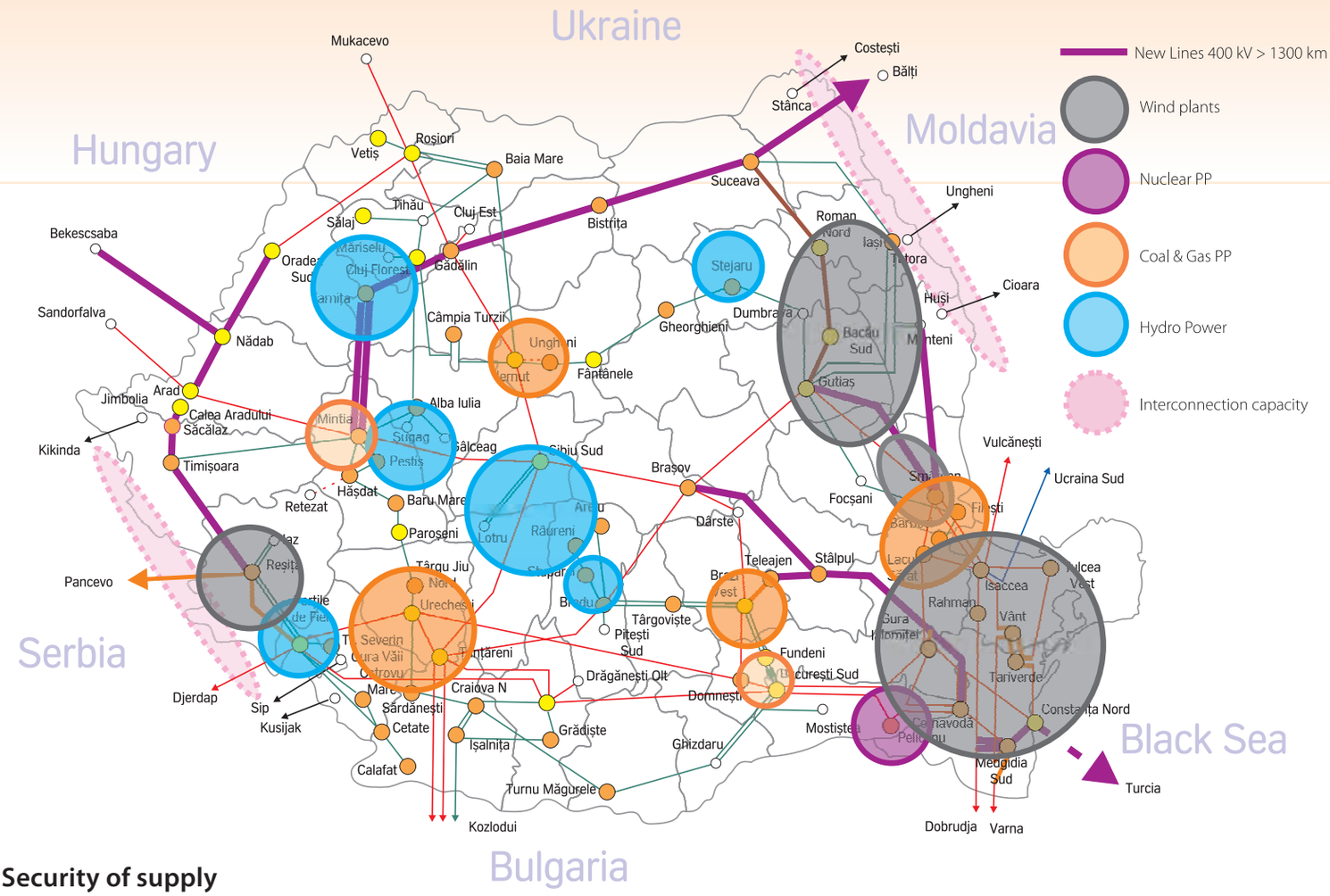
2. Planning for the Romanian Electricity Transmission Grid

Transelectrica is responsible for planning the transmission network in line with the customers needs, under cost effective conditions. The transmission grid is the essential infrastructure for the electricity market.

Every two years Transelectrica reviews the Transmission Network Perspective Plan for the following ten years. The Network Prospective Plan for the years 2010-2014 and orientative until 2017 was favourably authorised by the National Regulatory Authority (ANRE) and approved on 31st of August 2011 by the Ministry of Economy, Commerce and Business Environment The Plan is published, making transparent the local opportunities for network connection and the interconnection capacity available.

The main development drivers for the planned network reinforcement projects were:

- New power plants
- Renewable energy sources integration
- Market facilitation – cross border transfer capacity
- Security of supply



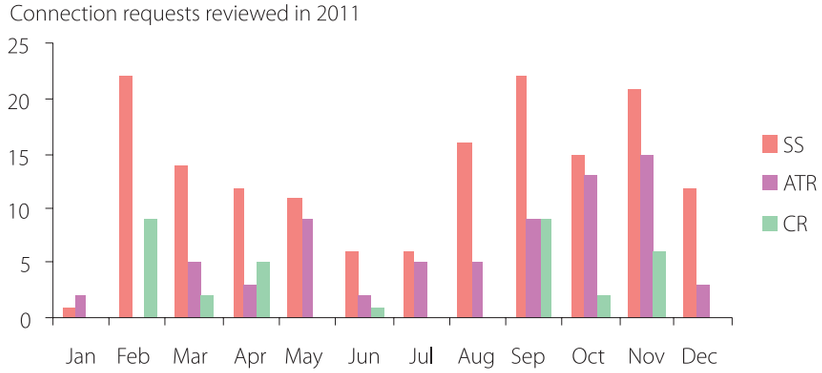
Security of supply

The European Union's 3rd Legislative Package for the Internal Electricity Market, which entered into force on March 3rd 2011, requires ENTSO-E to adopt every two years a non-binding Community-wide network development plan, including European generation adequacy outlook. Transelectrica actively took part in this process and the main grid development projects are included in the pilot Ten Years Network Development Plan 2010 and shall be included in the Ten Years Network Development Plan 2012 issued by ENTSO-E. According to the Energy Law no. 13/2007, users' access to the public interest grid is regulated and represents a mandatory service the Transmission System Operator has to fulfill, as long the Power System security is not jeopardized.

As a result of the regulatory incentive scheme in force that supports the renewable sources development in Romania, Transelectrica analysed an important number grid connection requests in 2011, the great majority being for wind farms.

			Ian	Feb	Mar	Apr	Mai	Iun	Iul	Aug	Sep	Oct	Nov	Dec	Total
Applicants	solution studies were endorsed	SS	1	22	14	12	11	6	6	16	22	15	21	12	158
For whom:	Connection permits were issued	ATR	2	0	5	3	9	2	5	5	9	13	15	3	71
	Connection contracts were concluded	CR	0	9	2	5	0	1	0	0	9	2	6	0	34

Connection requests reviewed in 2011

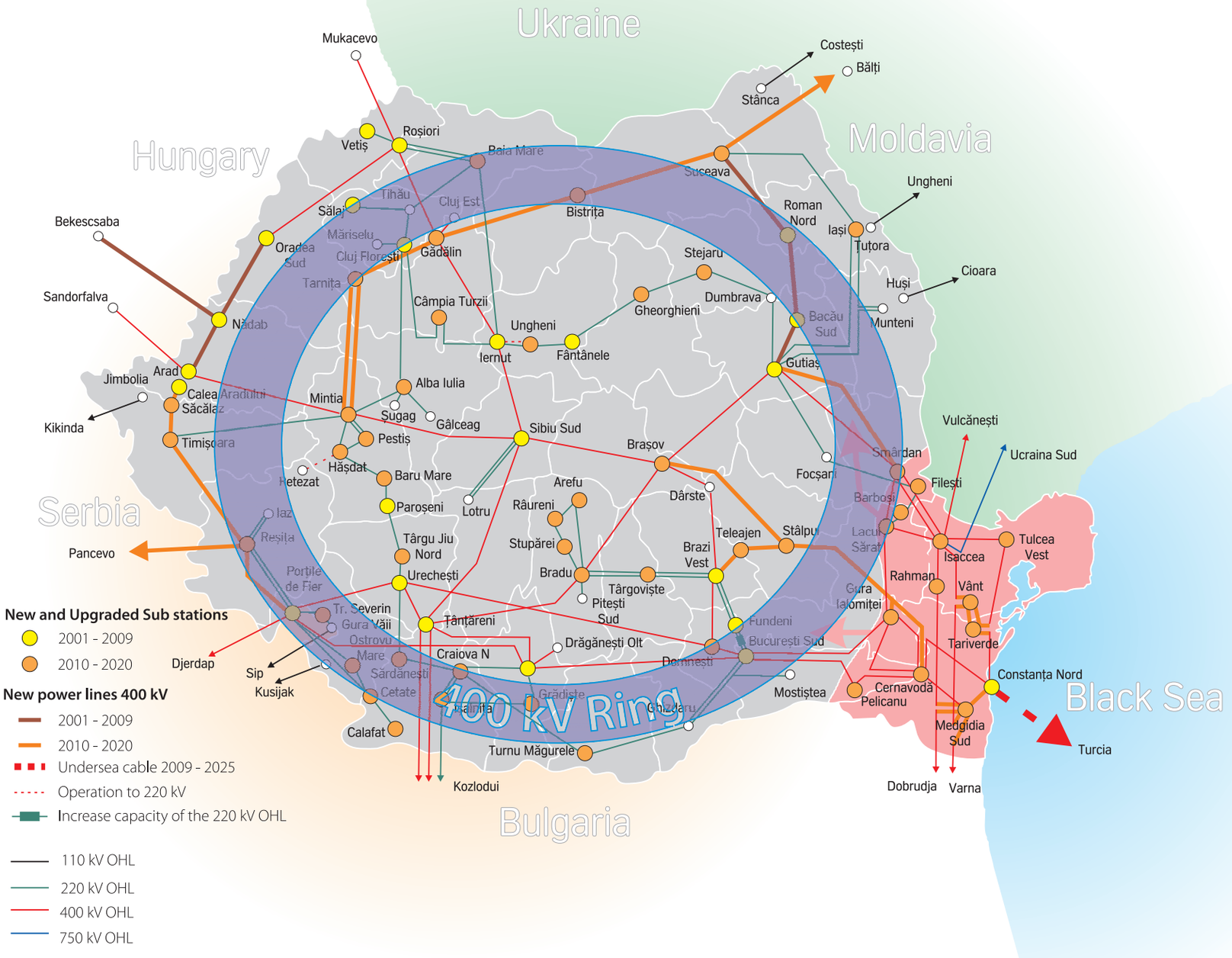


3 Grid Maintenance

Transelectrica as Transmission Operator manages the electricity transmission grid by keeping the balance between performance/operation, costs (maintenance, rehabilitation, modernisation, refurbishment, development) and risks (ageing, failure, criticality, impact). Transelectrica operates 79 substations, 218 transformers (37565 MVA) and manages 8844 km of Overhead Electric Lines (OHLs) at levels ranging from 110 kV to 750 kV.

Electricity transmission grid

Voltage (kV)	**Length** (km)	**Number of substations**
(kV)	(km)	
750	155	1
400	4704	36
220	3947	42
110 (only interconnection lines)	38	



Maintenance activity

To comply with service quality requirements imposed by the Technical Code of Electricity Transmission Grid (ETG), the performance standard for electricity transmission and the license of TSO granted to Transelectrica, the Company runs a rigorous maintenance programme, in order to keep installations in good technical condition.

Maintenance programmes mainly aim at increasing the operational safety of the ETG to avoid situations that may lead to unwanted events both in electrical networks and for human health or the environment.
Maintenance activity is included in Transelectrica's asset management strategy and is, according to world practice, an asset management component.
New approach of maintenance activity required to establish clear principles in a comprehensive strategy to meeting the strategic objectives of this activity, as support for the objectives of the Company.

Transelectrica develops the maintenance activity based on the Company's Maintenance Assurance Programme (MAP).

Transelectrica has drawn up the MAP used for its maintenance activity, according to the regulations of the National Regulatory Authority in the energy domain (ANRE). The Programme applies to all maintenance components (technical, financial, relational and organizational) performed on Transelectrica's assets, complying with the technical norms and operational procedures. The results of the maintenance activity are permanently monitored.

This Programme is targeted towards:

- Complying with ANRE's requirements for license holders on the maintenance activity, which are regulated under the "Regulation to manage and organise the maintenance";
- Determining the strategy, mid- and long-term objectives, responsibilities, requirements and their performance regarding the maintenance activity within Transelectrica;
- Describing the performance criteria in the maintenance domain and identifying costs;
- Gathering all data and information needed to comply with the reporting requirements to ANRE, as determined under the 'Procedure to draw up the financial report', respectively in the 'Procedure to draw up the annual report';
- Drawing up, issuing and updating the regulations, procedures, instructions, programmes, technical sheets specific to activities and/or domains of power grid maintenance;
- Determining the specific conditions to be included in the contracts with entities providing maintenance services.

The general principles of maintenance strategy applied in Transelectrica are:

- Efficient use of funds for maintenance activities in accordance with the law;
- Organizing the Maintenance Programme of the Company on programmes / projects / types of installations;
- Correlation of the Maintenance Programme with the Investment Programme (refurbishment / modernisation / development), contained in the Company's Business plan and Development plan of ETG;
- Integrate in the project development the principles of system quality assurance, environmental protection, security concept, including occupational safety and health, emergency situations;
- Consider the role and importance of ETG as a critical infrastructure of the electricity market to establish the concept of effective asset management, and consequently, maintenance.

Based on these principles the annual Maintenance Programme is resulting.

The elaboration of future maintenance programme is based on multicriteria analysis (technical condition, age, importance, regards the implementation of remote control etc.).

Maintenance actions are determined by considering the investment programmes (refurbishment and modernisation, rehabilitation, development) and are correlated with them - at both stations and power lines.

Several maintenance works were conducted in 2011 at substations and overhead electric lines in order to increase the efficiency of the inspection and overhauls, rationally use the funds and comply with the norms.
In 2011 network overhaul projects were carried out to the 220 kV OHL Gutinas – Focsani; 400 kV Gutinas – Brasov; 400 kV Isaccea – Smardan circuits 1+2; 220 kV Portile de Fier – Cetate – Calafat; 220 kV Bucharest Sud - Ghizdaru, 220 kV Mostistea bypass; 220 kV dc Targoviste – Bradu; 400 kV Tantareni- Slatina; 400 kV Mintia-Sibiu OHLs, as well as services for overhead lines multispectral inspection.
A multicriterial - based strengthening programme was carried out for the towers under damage. Rehabilitations were developed in 2011 within the substations of Turnu Magurele and FAI.

Planned maintenance works for 2012

For 2012 ongoing overhaul works are to be conducted for the overhead electric lines of 400 kV Bucharest-Pelicanu-Cernavoda, 400 kV Gura Ialomitei – Cernavoda circuit 2, 400 kV Rosiori – Gadalin, 220 kV Tihau - Baia Mare 3, 400 kV Isaccea – Tulcea Vest, 400 kV Lacu Sarat – Gura Ialomitei, 220 kV Filesti – Lacu Sarat, 400 kV Mintia – Sibiu etc.

Rehabilitations for substations of Aref, Raureni, Cluj East, and Hasdat are to be also carried out in 2012.

The rehabilitation programme will continue by replacing the equipment with systematic faults that produced a great number of accidental events (replacements of circuit breakers with the related driving mechanisms).

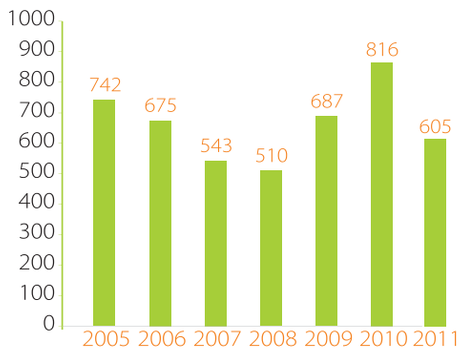
Equipment rehabilitation programmes will be completed and tracked (including breakers and disconnectors) in five years, as well as maintenance programme, using live works technology, in substations and on overhead electric lines.
In 2012 the maintenance - rehabilitation programmes that have already started will continue.

Failures

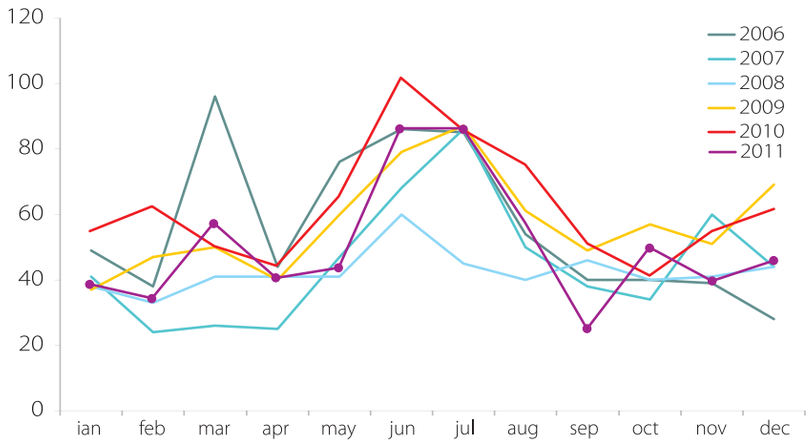
Safe operation of the Romanian transmission grid requires the permanent observance of the failures (number, causes etc) and determining the proposed improvement measures based on analyses.

The number of incidents is shown in the figures below:

Number of incidents in 2005 - 2011



Number of monthly incidents in 2006 - 2011



	ian	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec
2006	49	38	96	44	76	86	85	54	40	40	39	28
2007	41	24	26	25	47	68	86	50	38	34	60	44
2008	38	33	41	41	41	60	45	40	46	40	41	44
2009	37	47	50	40	60	79	87	61	49	57	51	69
2010	58	68	52	44	72	120	99	85	53	40	58	67
2011	39	35	57	41	44	85	85	57	26	50	40	46

In general, failures occurring in ETG were not accompanied by supply interruptions.

In order to reduce the unavailability time due to failures, security stocks of equipment and spare parts have been provided. A scientific methodology has been developed for sizing, as well as procedures for stocks management.

New technologies

Transelectrica aims at providing a high technical level in the equipment, operation and development domain for the transmission grid by implementing state-of-the-art technical solutions for new equipment, diagrams and techniques used for maintenance. Diagnosis is arrived at by using thermography, live work in substations and on OHL, live inspection of OHL from helicopter and registered systems in the visible, UV and infrared specters, on-line monitoring of equipment etc.
Implementation of substations remote control and monitoring is a priority of the National Power Grid Company Transelectrica, which will increase the efficiency and quality of electricity transmission services, reduce costs of operation and maintenance and accidental events.
For the development and implementation of remote control and monitoring of electrical installations were driven some important steps and have been developed programmes over the next years. All specific issues are stated in the policy of installations remote control and monitoring within the ETG

V. WE RESPECT THE PEOPLE, ENVIRONMENT AND SOCIETY

1. Respect for our people

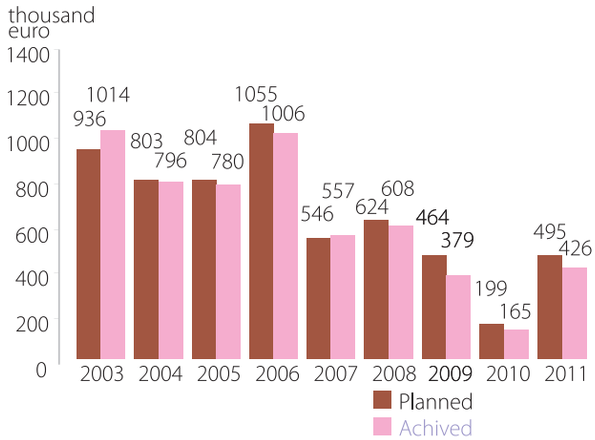
Occupational health and security management

The safety and security of our employees, contractors and collaborators is a top priority for Transelectrica.

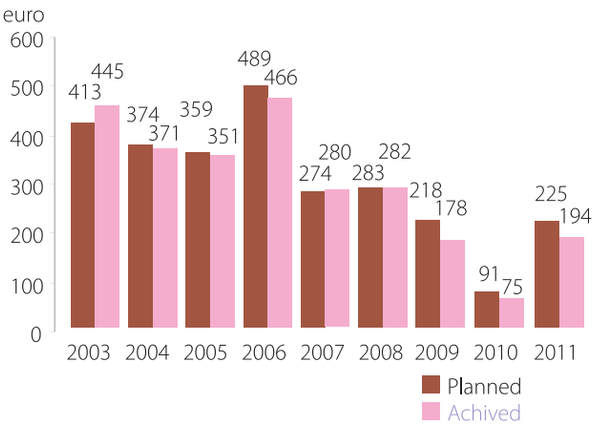
The 2011 the labour health and security programme was achieved 86.18%, corresponding to 1790.61 thousand lei compared to the 2077.65 thousand lei, amount included in the rectified plan of November 2011.
The Company's labour health and security programmes aimed at:

- Bringing the installations to the level of health and security requirements established in the own labour security guidelines aligned to European demands. These activities resulted in reduced professional accidents and illness risks for the personnel working in the Company's installations;
- Endowing the Company personnel with individual protection equipment according to the requirements in the own labour security guidelines;
- Providing and permanently supervising the employees' health in accordance with the requirements of GD 355/2007;
- Training the personnel with respect to the accident hazards in the Company's installations.

COMPARATIVE SITUATION
of planned and achieved expenses under occupational health and security programmes



COMPARATIVE SITUATION
of funds allocated in annual occupational health and security plans for one transelectrica employee

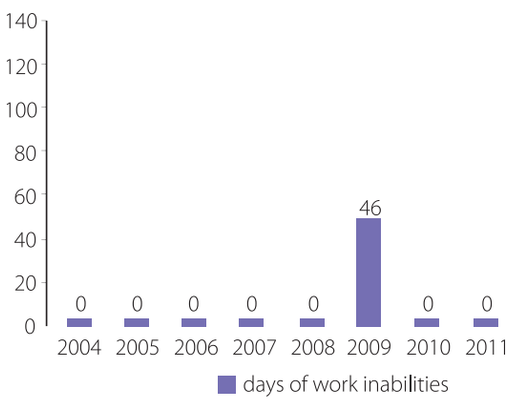


Safety results

A direct result of the permanent concerns in all specific prevention and protection domains is the absence of labour accidents in 2011 into the Company's technical installations, which would involve Company workers.
All 2011 incidents had no impact over the security provided by the employers and consequently the risk factors of professional accident and illness need not be revaluated.

COMPARATIVE SITUATION
of the average specific performance indicators of the last 8 years achieved at Company level

COMPARATIVE SITUATION
of the number of days of labour incapacity owed to labour accidents at Company level



Our people – our value

Transelectrica's success is undoubtedly obtained thanks to the quality and performance of its people.

On December 31st, 2011 Transelectrica employed 2197 people, of whom 415 in Transelectrica's main offices and 1782 at the national dispatching center and its 8 subsidiaries. The operational activity is carried out by 1737 employees and the support activites together with the executive management are developed by 460 employees.

In order to comply with the ENTSO-E rules for the safe and reliable grid operation, starting with 2008 the remote control system is being implemented within Transelectrica's electric substations. Further to the process completion, the substations will operate with no personnel.

Transelectrica's staff structure on December 31st, 2011 according to the educational level:

High level	1201
Secondary level	985
Primary level	14
Total	**2200**

Operating the electricity network is one of Transelectrica's main businesses and our employees have developed the networking attitude in order to increase their performance and promote knowledge exchanges. Transelectrica's main concern with regard to its staff is to continuously encourage and stimulate inovation and creativity, improve the training level and provide an appropriate incentive programme. As people are the most valuable asset of Transelectrica, we have initiated and implemented a package of measures meant to improve professional skills, reduce the employees' migration to other entities, and stimulate the employees by soft and strong incentives. Measures were also taken to also balance the age pyramid.

Recruitment

Major efforts were made in 2011 in order to attract the best employees. Thus, partnerships with the Polytechnic University are concluded according to which the best final year students from this University are assisted by Transelectrica and are granted scholarships for their graduation years, provided they become Transelectrica's future employees.

In 2011 Transelectrica hired a number of 124 employees and the recruitment of new and qualified employees is ongoing.

Human resources management and wage policy

In 2011 Transelectrica developed the project entitled Detecting and determining a solution for efficient management of human resources/wage setting activities using a performing IT system. With this project Transelectrica intends implementing a state-of-the-art system with a view to efficiently manage human resources/wage setting activities and to improve the IT tools sustaining the Company's business processes. The proposed application for human resources and wage setting was SAP (System Applications Products) providing a standard, mature, stable and scalable solution comprising the best business practice worldwide.
The system provides support in reaching the strategic goals and making processes efficient by means of an integrated open platform. The proposed solution- SAP Human Resources (HR) is part of the SAP Enterprise Resource Planning (SAP ERP) application and relies on specific processes of Transelectrica.
A clear definition of the project-covered area was one of the key aspects of project management by determining the limits between the implemented project and the deliverables produced under it. Implementing the SAP modules within TRANSELECTRICA aimed at observing the specific human resources and wage setting processes and at providing a reporting system in accordance with the applicable Romanian legislation and the Company's personnel policy.

Training

Transelectrica's training programmes are meant to improve the expertise and skills of our employees.
In 2011 training programmes in the country and abroad were organised for our executives and the staff involved in accounts and finances, labour safety, audit, environment, quality, management, communication, purchasing, electricity development market, capital market, development of the power system. We wish our people be acquainted with the best practices in order to face all the challenges ahead.

When new and young employees are hired, they are are given all the necessary information on the company's organisational culture and special training sessions are organised either within the company or though our subsidiary – The Vocational Center "Formenerg", one of our subsidiaries. Thus, our employees can attend a large variety of training courses, from technical to IT, PR or foreign language ones.

Management of talents and performance

Throughout 2011 specific activities were developed under the project "Increased performance and managerial efficiency by know-how transfer and implementation of new methodologies and solutions in order to maintain the growing trend of employees engagement and permanently improve their performance".

Such activities aimed at:

- Increasing the managerial efficiency and permanently improving the performance of corporate managers by means of integrated training, consulting and coaching programmes, developing the ability to change talent into strong points, and capitalising strong points both at individual and at group level;
- Reporting the constantly assessed management indexes to the level of the corporate ones registered during previous stages, to the level of the European, international and peer utility ones so as to allow comparing managerial performance using several databases, which enabled complex comparative studies and well grounded conclusions;
- Complex evaluations of the employees showing true leader capabilities and high managerial potential, their career visions included, with a view to devise tailored training and development programmes and to define long term career paths, starting from the premise that an organisation's value comes from its human capital;

The same strategic goal to increase managerial efficiency and performance achieved in 2011 an IT platform centring all human resource data and information obtained from the projects executed in 2006-2011. The portal is configured with secured access based on user accounts and single passwords, being accessible from all Company location, and it gathers reports, profiles, individual and group assessments, as well as other materials useful for an efficient human resources management.

2. Respect for environment and society

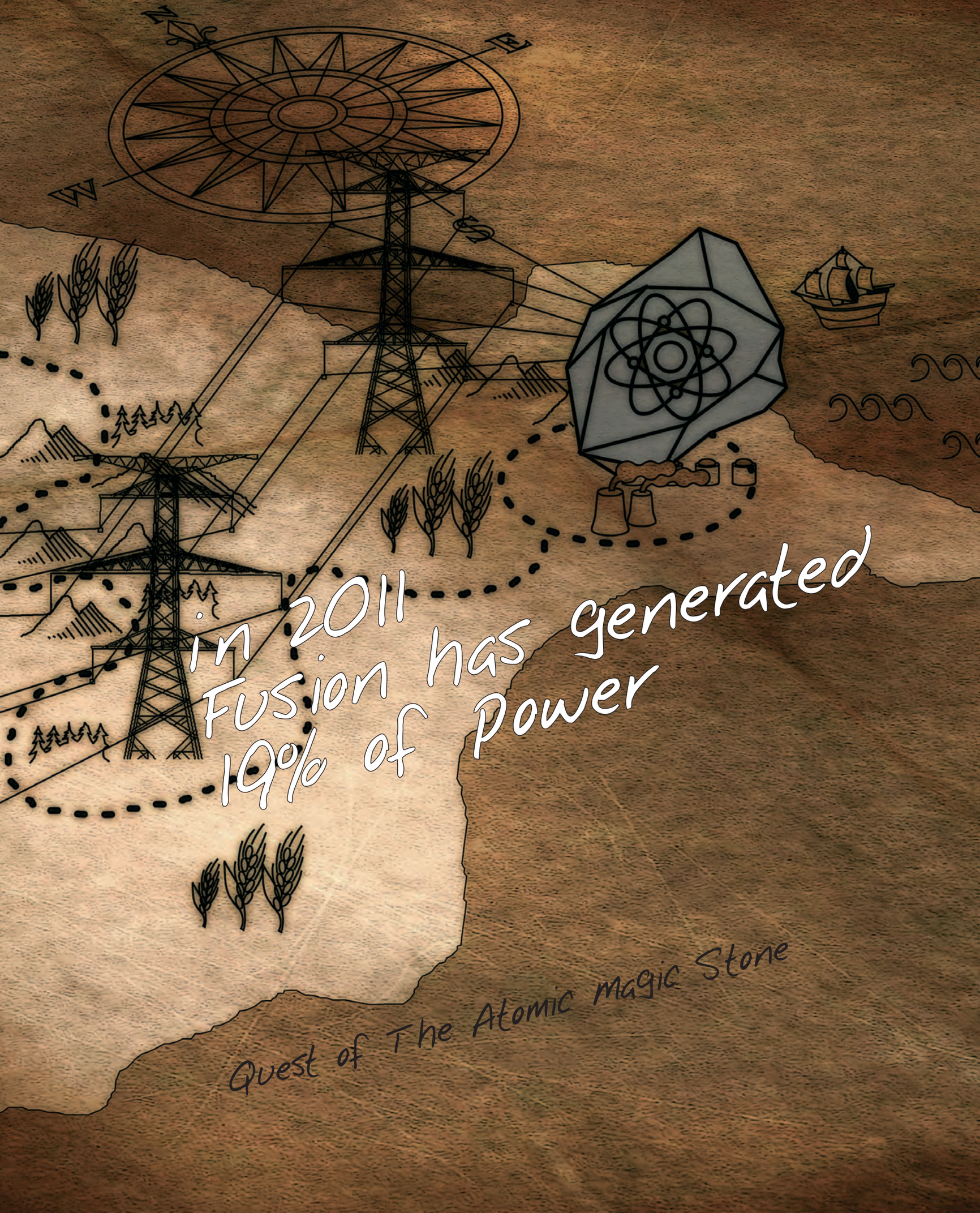
Sustainable development – electricity generation from renewables

Transelectrica has also to face the new and major challenge brought about by the current change of the generation mix and wind farm penetration, particularly. The Company has to ensure renewable energy resources for the new green field projects, and also the adequate connection to the transmission grid.

The requirements to connect all the declared projects in the portfolio- 17,000 MW in wind farms will have a major impact in reshaping the electricity transmission grid, providing the adequate system services and in planning the power system development. In 2011 a number of 135 wind generators of 2.5 MW were commissioned in the southern part of the country (Tariverde substation).

Transelectrica aims at creating a strong and reliable infrastructure grid to facilitate a sustainable growth, willing to integrate the renewable resources into the Romanian power system in order to make it meet the EU legislation and national strategy.

The Romanian energy market is still providing excellent opportunities for companies in the sector. The establishment of green power markets and the recent attention to national energy security are contributing to recent achievements in renewable energy. Trusting in the present and future of 'green energy', we have to do the hard business talk with the Government and the Regulatory Authority to find and apply the optimum package solutions including decent, but healthy raise of the transmissions tariffs to correspondingly develop the transmission network. Transelectrica is, nevertheless, aware that its support to the 'green energy' is essential.


in 2011
Fusion has generated
19% of Power
Quest of The Atomic magic Stone


the Atomic Magic Stone = 1,341 MW

VI.
2011 ENVIRONMENTAL REPORT

1.Environmental management system

Transelectrica's environmental management system certified by SRAC (IQNet partner) according to the provisions of ISO 14001 standard set the conditions for good provision of electricity transmission and dispatching in accordance with legal and other requirements the Company has adhered to, as applicable to its environmental aspects in order to prove its concern for pollution prevention and increased environmental performance.

The managerial team of the Company determined the environmental protection policy as an integrant part of the general one taking into account the planned efficient sustained action oriented to implementing the environmental management within the entire structure and in all its activities, which should led to changes in the organisational culture by promoting attitudes targeting environmental protection and sustainable development.

The 2011 environmental targets aimed at maintaining a performing environmental management system and at pollution prevention and reduction so as to keep an environmental impact of the transmission grid compliant with national and European limits.
Targets have been reached by means of preventive and corrective activities included in the annual environmental management plan.

The main lines of action developed in order to reach environmental targets have been:

- Preventing / reducing the air, water, and soil pollution, as well as the level of the electromagnetic field, of noise and vibrations;
- Protecting the atmosphere, water and aquatic eco-systems, the soil, sub-soil and terrestrial eco-systems, as well as human settlements;
- Preserving biodiversity and the protected natural areas;
- Reducing the consumption of natural resources;
- Waste management;
- Monitoring the environmental factors (air, water, soil, noise, electromagnetic field, waste) and their assessment in accordance with legal and regulatory requirements;
- Making sure all Company employees know and observe the environmental legislation;
- Introducing the environmental requirements in the evaluation of product, service and work suppliers;
- Motivating the own personnel and involving all co-workers in applying the Company's environmental policy and in reaching its environmental targets while complying with all the requirements of the environmental management system by information and training;
- Developing methods and channels to communicate corporate objectives to all the parties interested in environmental protection;

2. Environmental aspects of the Electricity Transmission Grid (ETG) and its environmental aspect

High voltage electrical equipment mainly comprising overhead lines and transformer & connection substations represent installations of significant environmental impact because of their technical complexity, land areas taken up and lengths of tens or even hundred of kilometres across several counties.

No pollutant agents are discharged in the atmosphere during the normal operation of ETG installations. Certain pollutant chemical substances can be accidentally released in the environment in case of leaks, faulty operation, failures or during construction and maintenance work.

Environmental aspects are identified and assessed from the first design stage for construction and engineering purposes.
The environmental management plan is drawn up based on them (for construction, operation and dismantling of the objective), including the action plan to prevent pollution or to reduce the environmental impact, as well as the monitoring plan for environmental factors.

a) Environmental aspects related to construction

Impact type	*Modes of operation (effects)*
Physical	▶ *Soil impact by the new access roads, topsoil removal and excavation* ▶ *Land occupation with the site organisation, including storage places* ▶ *Impacting the flora (by deforestation)* ▶ *Impacting the fauna (by habitat fragmenting)* ▶ *Impacting birds (constituting aerial obstacles along the flight corridor)* ▶ *Generating waste (porcelain, glass, concrete, metals, used oil, packages, rubble etc.)* ▶ *Impacting the population and fauna by equipment, transportation etc. noises*

Chemical	▶ *Soil and/or water pollution by accidental fuel, oil leaks and of other chemical substances*
	▶ *Air pollution by:*
	  ▶ *Flue gas emissions (SOx, COx, NOx, COV, suspended particulates) from heating plants or transport means*
	  ▶ *Emissions of sulphur hexafluoride (SF6) – accidental leaks during gas handling or owing to equipment lack of sealing*
	  ▶ *Particulate emissions because of the construction-installation work*
	  ▶ *Emissions of volatile organic compounds from paints and dilluting agents etc.*

Socio-economic	▶ *Disturbing social activities, including population moves*

b) Environmental aspects related to operation - maintenance

Impact type	*Modes of operation (effects)*
Physical	▶ *Land occupation with OHL routes and substation locations* ▶ *Impacting the flora by systematic vegetation cutting* ▶ *Impacting the fauna (habitat fragmenting, electric shocks etc.)* ▶ *Impacting birds and flight machines (aerial obstacles constituted along the flight corridor, collisions, electric shocks etc.)* ▶ *Electrocution or burn hazards by direct OHL contact or by lines fallen near or on road crossings, railroads, water courses, buildings etc.* ▶ *Fire hazard as a consequence of insulation damaging or accidental conductors getting in touch with objects or dry vegetation* ▶ *Impacting the population and fauna by the noise and vibrations from the operation of ETG components* ▶ *Impacting the population and fauna by the noise of the corona efect from high voltage installations* ▶ *Acoustic and luminous effects of the corona process* ▶ *Disturbances of the radio and tv systems by the electromagnetic field* ▶ *Impact of the electromagnetic field over telecommunication installations or other electrical networks at their crossing points and near them* ▶ *The electromagnetic field impact on living creatures*

Chemical	▶ *Soil and/or water pollution by accidental fuel, oil leaks and of other chemical substances*
	▶ *Air pollution by atmospheric emissions of:*
	  ▶ *Flue gas (SOx, COx, NOx, COV, suspended particulates) from heating plants or transport means*
	  ▶ *Emissions of sulphur hexafluoride (SF6) – accidental leaks during gas handling or owing to equipment lack of sealing*
	  ▶ *Ozone and nitrogen oxides – corona effect at high voltage*
	  ▶ *Sulphuric acid vapours – from accumulator batteries*

Visual	▶ *Impacting landscapes*
Psychic	▶ *Fear generated by the closeness of the ETG as well as by its visual and acoustic effects*

3.Impact indicators of the Electricity Transmission Grid

3.1. Land occupation

3.1.1. Areas taken up by OHL and electrical substations (m2):

Branch	Without safety area (m2)		With safety area (m2)	
	Substations	OHL	Substations	OHL
TB Bacau	376,209	162,044	701,821	53,309,674
TB Bucharest	665,912	524,168	1,137,434	84,759,650
TB Cluj	332,375	231,004	676,903	75,594,490
TB Constanta	707,459	1,081,531	1,074,922	81,326,255
TB Craiova	477,785	351,084	879,078	59,882,069
TB Pitesti	434,439	396,627	816,967	65,489,098
TB Sibiu	491,066	458,996	881,536	71,763,984
TB Timisoara	454,529	167,621	880,634	57,430,771
Total Transelectrica	**3,939,774**	**3,373,075**	**7,049,295**	**549,555,991**

3.1.1. Lines within protected areas

No.	OHL name	Name of the protected area	Transmission branch
0	1	2	3
1.	400 kV OHL Roman Nord - Suceava	ROSPA0064 Falticeni Lakes	TB Bacau
2.	400 kV OHL Gutinas-Bacau Sud	ROSPA0063 Storage lakes Buhusi - Bacau - Beresti	TB Bacau
3.	220 kV OHL Munteni-Fai	ROSCI0135 Barnova-Repedea Forest	TB Bacau
4.	220 kV OHL Gutinas-Dumbrava	ROSCI0059 Perchiu Hill	TB Bacau
5.	220 kV OHL Fai-Suceava	ROSCI0221 Saraturile din valea Ilenei	TB Bacau
6.	110 kV OHL Husi - Cioara	ROSCI0213 Prut River	TB Bacau
7.	110 kV OHL Tutora - Ungheni	ROSCI0213 Prut River	TB Bacau
8.	110 kV OHL Falciu - Cantemiri	ROSCI0213 Prut River	TB Bacau
9.	220 kV OHL Dumbrava Stejaru	ROSPA0125 Pangarati Lake	TB Bacau
10.	400 kV OHL s.c. Brazi Vest - Darste	SCI Doftana Strait	TB Bucharest
11.	400 kV OHL s.c. Brazi Vest - Darste	SCI Glodeasa Forest	TB Bucharest
12.	400 kV OHL s.c. Brazi Vest – Darste 400 kV OHL s.c. Domnesti – Brazi Vest 400 kV OHL s.c. Brazi Vest – Teleajen 220 kV OHL d.c. Fundeni – Brazi Vest	SCI Ialomita Corridor	TB Bucharest
13.	220 kV OHL d.c. Bucharest Sud – Ghizdaru	SCI Comana	TB Bucharest
14.	400 kV OHL s.c. Pelicanu – Cernavoda	SCI Danube Canarale	TB Bucharest
15.	220 kV OHL d.c. Fundeni – Brazi Vest	SCI Scrovistea	TB Bucharest
16.	400 kV OHL s.c. Domnesti - Urechesti	SCI Arges River mid meadow	TB Bucharest
17.	220 kV OHL d.c. Bucharest Sud – Fundeni 400 kV OHL s.c. Bucharest Sud – Gura Ialomitei 220 kV OHL d.c. Bucharest Sud – Fundeni 220 kV OHL s.c. Mostistea bypass	SPA Cernica Lake and Forest	TB Bucharest
18.	400 kV OHL s.c. Bucharest Sud – Gura Ialomitei	SPA Fundata – Amara Lakes	TB Bucharest
19.	400 kV OHL s.c. Bucharest Sud – Gura Ialomitei	SPA Strachina Lake	TB Bucharest
20.	400 kV OHL s.c. Bucharest Sud – Gura Ialomitei 400 kV OHL s.c. Gura Ialomitei – Cernavoda circ. 2	SPA Kogalniceanu – Gura Ialomitei	TB Bucharest
21.	220 kV OHL d.c. Bucharest Sud – Ghizdaru	SPA Comana	TB Bucharest
22.	400 kV OHL s.c. Bucharest Sud – Pelicanu	SPA Oltenita – Ulmeni	TB Bucharest
23.	220 kV OHL d.c. Fundeni – Brazi Vest	SPA Scrovistea	TB Bucharest
24.	400 kV OHL s.c. Domnesti – Urechesti	SPA Lower Olt River Valley	TB Bucharest
25.	220 kV OHL s.c. Mostistea bypass	SPA Mostistea Valley	TB Bucharest
26.	400 kV OHL s.c. Gura Ialomitei – Cernavoda circ. 2 400 kV OHL s.c. Pelicanu – Cernavoda	SPA Borcea branch	TB Bucharest
27.	220 kV OHL d.c. Brazi Vest – Targoviste	SPA Lacurile de pe Valea Ilfovului	TB Bucharest
28.	220 kV OHL d.c. Bucharest Sud – Ghizdaru	Comana Natural Park	TB Bucharest

29.	400 kV OHL Isaccea – Varna	ROSPA0001 Aliman - Adamclisi ROSPA0002 Allah Bair - Capidava ROSPA0040 Dunarea Veche – Macin Branch	TB Constanta
30.	400 kV OHL Isaccea - Dobrudja	ROSPA0001 Aliman - Adamclisi ROSPA0002 Allah Bair - Capidava ROSPA0040 Dunarea Veche – Macin Branch	TB Constanta
31.	400 kV OHL Cernavoda – Gura Ialomitei circ.1	ROSPA0017 Canarale from Harsova ROSPA0002 Allah Bair - Capidava ROSCI0022 Danube Canarale	TB Constanta
32.	400 kV OHL Cernavoda – Constanta Nord	ROSPA0002 Allah Bair - Capidava	TB Constanta
33.	400 kV OHL Constanța Nord – Tariverde	ROSCI0065 Delta Dunarii ROSPA0019 Cheile Dobrogei	TB Constanta
		ROSPA0031 Danube Delta and Complex Razim - Sinoe	
34.	400 kV OHL Tariverde – Tulcea Vest	ROSCI0031 Danube Delta and Complex Razim - Sinoe	TB Constanta
35.	220 kV OHL Focsani Vest – Barbosi	ROSPA0071 Water side of lower Siret River	TB Constanta
36.	400 kV OHL Smardan – Gutinas	ROSPA0071 Water side of lower Siret River	TB Constanta
37.	400 kV OHL Isaccea – Varna 400 kV OHL Isaccea – Dobrudja	In the vicinity of ROSCI0071 Dumbraveni – Urluia Valley – Vederoasa Lake	TB Constanta
38.	400 kV OHL Isaccea – Lacu Sarat 400 kV OHL Isaccea – Smardan	In the vicinity of ROSCI0123 Macin Mountains	TB Constanta
39.	220 kV OHL Sibiu Sud – Lotru	SCI Mid Olt River – Cibin – Hartibaciu, SCI & SPA Frumoasa, SCI Cozia, SPA Cozia – Buila – Vanturarita	TB Sibiu
40.	400 kV OHL Sibiu Sud – Brasov	SCI Oltul Mijlociu – Cibin – Hartibaciu, SPA Piedmont Fagaras, SCI Daffodil glades from Dumbrava Vadului	TB Sibiu
41.	400 kV OHL Sibiu Sud – Tantareni	SCI & SPA Frumoasa, SCI Fagaras Mts., SCI Seaca Optasani	TB Sibiu
42.	220 kV OHL Alba Iulia – Cluj	SCI Bagau, SPA Trascau Mts.	TB Sibiu
43.	220 kV OHL Alba Iulia – Mintia	SCI Dealul Cetatii – Deva, SCI Bejan Forest	TB Sibiu
44.	220 kV OHL Alba I. – Sugag	SCI & SPA Frumoasa	TB Sibiu
45.	220 kV OHL Alba I. – Galceag	SCI & SPA Frumoasa	TB Sibiu
46.	220 kV OHL Fantanele – Ungheni	SPA Tarnave Hills and Niraj Valley	TB Sibiu
47.	220 kV OHL Fantanele – Gheorgheni	SPA Tarnave Hills and Niraj Valley, SPA Depression and Giurgeu Mts.	TB Sibiu
48.	220 kV OHL Gheorgheni – Stejaru	Natural reservation Cheile Bicazului and Lacul Rosu, SCI & SPA Bicaz Strait – Hasmas	TB Sibiu
49.	400 kV OHL Brasov – Bradu	SCI Piatra Craiului, SPA Storage lakes on Arges River	TB Sibiu
50.	400 kV OHL Brasov – Gutinas	SCI Dealul Ciocas – Dealul Vitelului, SCI Oituz – Ojdula	TB Sibiu
51.	Portile de Fier – Resita OHL	Portile de Fier Natural Park	TB Timisoara
52.	Resita – Anina OHL	Semenic Natural Park, Caras Strait	TB Timisoara
53.	400 kV OHL Portile de Fier I – Urechesti	Portile de Fier Natural Park	TB Craiova
54.	400 kV OHL Portile de Fier I – Slatina	Portile de Fier Natural Park	TB Craiova
55.	400 kV OHL Portile de Fier I – Djerdap	Portile de Fier Natural Park	TB Craiova
56.	220 kV OHL Portile de Fier I – Tr. Severin 1	Portile de Fier Natural Park	TB Craiova
57.	220 kV OHL Portile de Fier I – Tr. Severin 2	Portile de Fier Natural Park	TB Craiova
58.	220 kV OHL Portile de Fier I – Cetate	Portile de Fier Natural Park	TB Craiova
59.	220 kV OHL Portile de Fier I – Calafat	Portile de Fier Natural Park	TB Craiova
60.	110 kV OHL Gura Vaii – SIP	Portile de Fier Natural Park	TB Craiova

3.2. Pollutant sources for soil, underground and terrestrial water

No noxious emissions are released onto soil or into underground or terrestrial water from the normal operation of ETG installations.
Accidental pollution can occur because of sealing failure / equipment breaking containing dangerous substances or electro-insulating oil or owing to faults in the oil regeneration / supply / discharge installations into/from equipment.
Car oil / fuel can also be accidentally released from transport equipment and means during construction and maintenance work.

Electro-insulating oil within equipment (tons):

Branch	Power transformers	Coils	Metering transformers	Circuit breakers	Total	Environmental losses*
TB Bacau	998.725	76.110	85,863	61,443	1 222,141	0.030
TB Bucharest	2063.651	52.500	189,528	58,147	2363,826	0.000
TB Cluj	706.000	107.000	139,000	82,000	1034,000	0.000
TB Constanta	2213.800	300.270	247.000	143,810	2904,810	1.170
TB Craiova	1327.048	105.900	86.356	21,029	1544,895	0.052
TB Pitesti	977.500	-	248.460	46,170	1272,130	0.931
TB Sibiu	999.000	53.280	131.487	81,840	1265,607	0.035
TB Timisoara	1345.721	65.200	144.163	124,306	1679,390	0.135
TOTAL	**10,631.445**	**760.26**	**1,271.857**	**618.745**	**12,064.658**	**2.353**

Note: * The amount of oil leaked into the environment has been retained by means of absorbent biodegradable earth.

Other dangerous substances* in the equipment or stored within installations:

Transmission branch	Amount of dangerous substances* (kg)				
	Mercury	Lead	Silicagel	Sulphuric acid	Gas oil
TB Bacau	0.124	35443.000	0.000	0.000	0.000
TB Bucharest	0.000	0.000	0.000	0.000	0.000
TB Cluj	0.000	0.000	0.000	0.000	0.000
TB Constanta	0.000	0.000	2406.000	10600.000	18070.000
TB Craiova	0.000	0.000	0.000	0.000	0.000
TB Pitesti	0.000	0.000	0.000	0.000	0.000
TB Sibiu	2.775	34052.000	0.000	0.000	0.000
TB Timisoara	1.475	20240.000	359.000	8190.000	4432.000
TOTAL	**4.374**	**89,735.000**	**2,765.000**	**18,790.000**	**22,502.000**

*** Other than electro-insulating oil and SF6**

3.3. Air pollution sources

a) Direct pollutant emissions into the atmosphere

No significant pollutant amounts are released in the atmosphere during construction, maintenance and normal operational conditions of ETG installations.
During construction, maintenance and normal operation of ETG installations the following atmospheric emissions can result- suspended particulates during construction; flue gas from automobiles, electric generating sets and thermal plants; negligible amounts of ozone (Corona effect); sulphur hexafluoride from faulty equipment sealing or improper gas handling.
Flue gas can result in case of fires or explosions (COx, SOx, NOx, COV, suspended particulates etc.).
High voltage OHL-s pollute the atmosphere by ozone and nitrogen oxides after corona discharges around active conductors, especially during rain. The additional amounts of such pollutants to the previously existing fund are not significant and cannot lead to exceeding the legal threshold values beyond which human health is at risk.

Sulphur hexafluoride SF6 within equipment:

Transmission branch	SF6 in equipment	SF6 emissions in the atmosphere
	(kg)	(kg)
TB Bacau	2,964.90	0.00
ST Bucureşti	18,480.54	0.00
ST Cluj	1,887.60	0.00
ST Constanța	3,100.80	0.00
ST Craiova	6,349.20	30.80
ST Piteşti	18,220.00	7.90
ST Sibiu	3,554.24	8.21
ST Timişoara	2,617.80	10.00
Total Transelectrica	57,175.08	56.91

Flue gas pollutant emissions from thermal plants (kg):

Pollutant	CO2	CO	NOx	CH4	N2O	Particulates	SO2
Total Transelectrica	1,239,542	500	1,000	200	140	69	8

Flue gas pollutant emissions from motor-cars (kg):

Pollutant	CO2	CO	NOx	Particulates	SO2	Pb	POP	Cd
Total Transelectrica	1,853,344	56,899	12,534	920	175	1.665	1.066	0.005

The main pollutant emissions into the atmosphere are as follows:
3,093 tons of CO2; 57 tons of CO; 13.5 tons of NOx and 1 ton of particulates

b) Indirect pollutant emissions in the atmosphere

Indirect emissions of greenhouse effect gas are determined by the lossess in the ETG. They include the consumption required for grid operation under adequate conditsions at normal parameters, as well as losses from its elements.
In accordance with ANRE regulation losses are provided by electricity from thermal power plants.
În 2011 losses amounted to 1,101 TWh. According to the electricity consumed within the ETG, indirect emissions of greenhouse gas into the atmosphere from lignite-fired thermal power plants were of about 1,284,500 tons of CO2, 3,364 tons of NOx, 27,219 tons of SO2 and 1,529 tons of particulates.
Indirect emissions are not regulated by legal requirements of environmental protection and their mitigation is not an environmental obligations.

3.4. Sources of used water

No used water results from electricity transmission and parameters transforming.

Used water is generated in ETG installations as follows:

- Domestic used water from human activities- such water is discharged either directly into the city seqage or it is locally treated within micro-stations and discharged on ground or into terrestrial water courses, or into containers that are transported to an urban water treatment plant;
- Rainwater from the tanks of oil equipment and from the manholes of concrete-covered platforms of waste and equipment storage can contain leaked oil. Such water is mechanically treated in the oil-water separators and discharged in the environment or carried to an urban water treatment plant;

3.5. Waste generation

Waste does not come out directly from electricity transmission activities or from transformed electrical parameters. Waste results from construction, maintenance and human activities. Waste amounts are different from one year to another depending on the extent of investment and maintenance operations.

No. Generated amount – 14, 294.26 tons - total, of which:

	Type of waste (code from GD 856/2002)	Capitalisation		Disposal		Remarks
		Recycling	Co-incineration	Incineration	Storage	Remaining in the stock
1.	Used oil code 13 03 07*	126.21933	34.18933	0.125		29.63482
2.	Sludge from oil-water separators code 13 05 02*				6.7	3.03
3.	Absorbent muds code 130503*					0.9
4.	Oil from oil-water separators code 130506*				3.5	
5.	Oily water from separators code 130507*				5.08	19.4
6.	Waste mixtures from oil separators code 130508*					0.95
7.	Paper and cardboard code 150101	1.7356				
8.	Plastics code 150102	1.9174				0.1
9.	Wood cases code 15 01 03	42.807				1.53
10.	Glass code 150107	0.29045		0.13		
11.	Absorbent and filtering materials code 150202*				0.02	
12.	Worn out tyres code 16 01 03	0.032			1.073	
13.	Oil filters code 16 01 07*				0.013	
14	Braking plates code 160112				0.017	0.0076
15.	Ferrous metals code 16 01 17					9.836
16.	Waste of dismantled electric and electronic appliances / code 16 02 14	3.534				45.65585
17.	Components disassembled from dismantled equipment code 16 02 16	0.67				0.6451
18.	SF6 flasks code 16 05 04*					0.323
19.	Silicagel code 160506	0.117				
20.	Lead batteries code 16 06 01*	1.439			0.06	0.838
21.	Alkaline batteries code 16 06 04 0.0022					
22.	Batteries, accumulators code16 06 05	0.7607			0.01165	0.10495
23.	Residual water that can be treated code 16 10 02					13.2
24.	Concrete code 17 01 01				9064.5	93.73
25.	Porcelain insulators 17 01 03	8.602				300.668
26.	Waste from demolitions code 170107				73.26	
27.	Wood code 17 02 01					18.605
28.	Glass code 17 02 02	1.535				41.8964
29.	Cu code 17 04 01	1.1359				16.21575
30.	Al code 17 04 02	7.5508				74.83975
31.	Iron code 17 04 05	926.4962				869.9258
32.	Steel-Al (cables) 17 04 11	0.35				39.845
33.	Cast iron (metallic packs) code 17 04 07	507.2424				138.5196
34.	Earth and stones code 17 05 04					7
35.	Other insulating materials than those specified in 17 06 01 and 17 06 03 code 17 06 04					11.188
36.	Waste from demolitions code 17 09 04				585.2	
37.	Medical infectious-stingy waste 18 01 03*			0.1761		0.011
38.	Sanitary waste code 18 01 04			0.004		
39.	Unspecified waste from residual water treatment plants code 19 08 02					1.35
40.	Paper and cardboard code 19 12 01	0.665				
41.	Textiles code 19 12 08					
42.	Paper code 20 01 01	12.629				118.15
43.	Glass code 20 01 02					0.015
44.	Fluorescent tubes code 20 01 21*	0.002				0.0306
45.	Plastics code 20 01 39	1.3865				0.016
46.	Metals code 20 0140	5.641				
47.	Municipal type waste code 20 03 01	59.63			462.837	1.05
48.	Sludge from septic tanks code 20 03 04	201			161	123.76
Total Transelectrica		**1,913.27**	**34.19**	**0.45**	**10,363.39**	**1,982.97**

3.6. The electromagnetic field generated by ETG installations

Transformer / connection electrical substations and the 220 kV & 400 kV overhead lines impact almost insignificantly the adjacent areas, and only around ETG installations.

Most disturbing effects are owed to electrical induction (into metallic objects or structures that are not grounded) and interference phenomena (radio interference).

The constructive solutions adopted in the constuction of high voltage lines and substations will provide proper protection against the effects of living organisms' exposure to the electromagnetic field, as well as diminished environmental impact of such installations.

In accordance with the studies conducted by specific institutions near the 220 kV and 400 kV overhead lines, the electrical field intensity decreases with distance so that it is zero at 25 – 30 m from line axis.

3.7. Acoustic pollution

Noise can be generated during construction becaus of work execution, equipment operation and transport means running.

Acoustic pollution originates in the noise generated by ETG installations when operating or vibrating, or by the corona discharges around active conductors.

The noise level of the corona effect 25 m away from the active conductor varies from 53 dB during rain to 33 dB during fine weather.

3.8. Impact over the fauna

The installations' impact over fauna is significant, especially on birds that collide with ETG installations or are electrocuted by them within their migration corridors or protected areas.

The main migratory corridors of various species of birds have been identified in Banat and Dobrogea regions, as well as in the Danube Delta.

3.9. Impact on vegetation

Vegetation is impacted by means of the final or temporary land occupation and the removal of greenery exceeding a certain height from the safety areas of ETG installations in order to avoid fires. Such impact can be significant only within the protected areas.

4. Environmental protection activities

The National Power Grid Company Transelectrica SA defines and applies preventive and corrective measures with a view to reduce the environmental impact of its installations and activities. The diverse environmental conditions in each location of ETG installations (overhead lines, transformer & connection substations, buildings) determine specific environmental impacts in various stages (design, construction, operation and dismantling) of each installation. Therefore preventive and corrective measures are defined for each situation separately and for the conditions of every location.

Preventive and corrective measures of the design stage are defined by impact studies, proper assessment studies and the environmental management plan. The measures established in the project are applied during construction. The environmental inspectors/managers check the mode of application and the efficiency of such measures. Whenever the project measures are insufficient new measures are determined in order to solve any environmental issue.

Operational installations are maintained in systematic manner according to internal technical guidelines. Environmental management and monitoring plans are elaborated by the companies providing maintenance. Any environmental impact detected upon inspections or audits is registered and its settlement is supervised. Inspections and audits allow determining preventive and corrective measures and verifying their application and efficiency during the construction stage; or the previously established measures during managerial reviews are verified.

The main preventive and corrective activities relating to environmental protection applied during the construction, installation, operation and maintenance of installations in 2011 are as follows:

4.1. Preventive activities

4.1.1. Preventing the pollutioni of soil and underground water

- Installing oil-water separators into the rainwater drainage from transformer tanks and storage platforms for equipment and waste (e.g. replacing the 200 MVA 220/110 kV autotransformer from substation Cluj-Floresti; replacing the 200 MVA 220/110 kV AT of substation Baia Mare 3; building the oil separator, the 220/110 kV substation Craiova Nord; replacing the autotransformers of electric substations Timisoara, Salaj, Barbosi);
- Building / remaking the concrete-covered tanks under the oil equipment in order to collect oil leaks (e.g. replacing the 200 MVA 220/110 kV autotransformer from substation Cluj-Floresti; replacing the 200 MVA 220/110 kV AT of substation Baia Mare 3; rehabilitating the retention tanks of AT 1, 2 of the 220/110 kV substation Craiova Nord; refurbishing the 400/220/110/20 kV substation Lacu Sarat; replacing the AT of electric substations Timisoara, Salaj, Barbosi);
- Building / remaking the concrete-covered platforms for temporary storage of waste and adequate & inadequate disassembled equipment, with possible collection of oil leaks and treatment of contaminated rainwater;
- Building dischargable basins to collect domestic used water (e.g. tight dischargable basin of reinforced concrete in substation Focsani Vest);
- Building / remaking the sewage and drainage network for rainwater (e.g. refurbishing the substation Brazi Vest; replacing the AT in electric substations Timisoara, Salaj, Barbosi) in order to comply with the quality indicators from NTPA -01/2002 and NTPA -01/2002 norms approved under GD 188/2002, with later amendments and additions;
- Providing nitrogen fire fighting installations and tanks collecting the oil;
- Replacing very old pieces of equipment that are worn out and obsolete with new equipment in order to remove oil leaks;
- Repairing the fuel tanks of Diesel units;
- Consolidating the banks in the areas of OHL crossing;
- Tower consolidation and repairs to OHL foundations;
- Maintenance of oil-containing equipment to remove leaks (e.g. equipment maintenance and restoration of tightness - TB Cluj);
- Maintenance of retention tanks from below the equipment with electro-insulating oil;
- Maintaining and discharging of collector basins for domestic used water (e.g. performing the service contracts for used water disposal in all ofices of the TB Pitesti);
- Maintenance of oil-water separators located along the rainwater drainage;
- Discharging oil-contaminated water from manholes and basins (e.g. substations Suceava and Gutinas)
- Maintenance of water supply and drainage installations;
- Procuring absorbent materials for soil treatment after accidental oil leaks in all managed substations;
- Procuring substances that neutralise accidental sulphuric acid leaks from accumulator batteries;
- Endowing maintenance personnel with absorbent biodegradable materials for petroleum products;

4.1.2. Preventing air pollution

- Reducing the sulphuric acid emissions by replacing the accumulator batteries;
- Reducing the pollutant amounts in flue gas (carbon, nitrogen and sulphur oxides, particulates, volatile organic compounds, heavy metals etc.) by procuring electric generating sets with low emissions (euro 4 and euro 5);
- Reducing the suspended particulate emissions during work by water spraying (e.g. replacing the 200 MVA, 220/110 kV autotransformer, substation Cluj-Floresti; replacing the 200 MVA 220/110 kV AT, substation Baia Mare 3; replacing the AT in substations Timisoara, Salaj, Barbosi);
- Maintenance of SF6 equipment in order to remove leaks;
- Maintenance of Diesel units in order to reduce pollutant emissions from flue gas into the atmosphere;

4.1.3. Preventing the impact over fauna

The following measures have been applied in order to maintain the good conservation of species and habitats of community interest when maintenance and repair work has been executed:

- Installing devices on OHL protective conductors with characteristics that make them visible in order to avoid collisions;
- Installing bird-repellant devices in order to prevent their electrocution;
- Installing ultrasound systems meant to make birds leave the dangerous areas of electric substations;
- Executing maintenance along the OHL corridor (cutting forest vegetation only beyond the germination period and when bird nesting has ended);
- Forbidding Company personnel and work providers to practice any form of crop, capture, killing, destruction or injury to individuals found in their natural environment in any of their biological cycle stage; to deteriorate, destroy an/or gathering on purpose the nests and/or eggs from the wild; to deteriorate/destroy the reproduction or resting places;
- Controlled storage of all kinds of waste in order to avoid endangering animal health;

4.1.4. Preventing the acoustic pollution

- Installing low noise level fans to autotransformers;
- Installing noise and vibration dampers to electric generating sets;
- Replacing existent compressors with new ones of low noise level;
- Installing sound-absorbent panels for the acoustic isolation of autotransformers;
- Executing construction-installation only during daytime in inhabited areas;
- Maintenance of air cooling systems from electric equipment (transformers, autotransformers, bucking coils);

4.1.5. Proper waste management

- Disassembled equipment resulting from capital repairs and refurbishment is sold to licensed companies that dismantle, capitalise or dispose of it in controlled manner;
- Waste resulting from capital repairs and refurbishment are managed by the work contractor during work execution and submitted to the Company for storage, capitalisation or disposal, as the case may be (e.g. capital repairs and updating to the 110 and 220 kV bays of the 220/110/20/6 kV substation FAI; consolidating the 220 kV OHL Gutinas Dumbrava in the area of tower 178; mechanical-physical protections in the 220/110 kV substation Suceava; replacing the 200 MVA 220/110 kV AT in substation Cluj-Floresti; replacing the 200 MVA 220/110 kV AT in substation Baia Mare 3; capital repairs to the 25 MVA stația 220/110 kV transformer of Cetate; capital repairs to the 220 kV OHL Paroseni -Tg. Jiu Nord; refurbishing substations Brazi Vest and Lacu Sarat);
- Procuring / leasing containers to collect, store and transport domestic waste;
- Temporary waste storage in controlled and selective manner onto concrete-covered platforms or in containers;
- Collecting, transporting and capitalising / disposing of non-dangerous / dangerous waste produced in offices and in electric substations by licensed companies under contracts (e.g. repairing and restoring the space of TB Cluj offices; modernising the control building, access road, fence, building and compressor installations of ISI Fantanele; repairing the water supply and distribution network from substation Arad; replacing the 200 MVA AT in substation 220/110 kV Timisoara; refurbishing the 220/110 kV substatioin Mintia);
- Discharging periodically the basins gathering domestic used water;
- Keeping records of waste management according to GD 856/2002, both in its production and storage place and at centralised level;
- Elaborating the oil balance per location according to GD 235 / 2007 with respect to used oil;

4.1.6. Preventing the visual impact of OHL

OHL have been painted with colours proper for the environment.

4.1.7. Preventing the impact on vegetation

- Selecting substation locations and overhead line routes in such a manner as to occupy as little land as possible and to avoid soil degradation as much as possible during construction work;
- Restoring the ground at work completion and planting vegetation to recover the initial environment (e.g. replacing the 200 MVA 220/110 kV AT in substation Cluj-Floresti; replacing the 200 MVA 220/110 kV AT in substation Baia Mare 3; nitrogen fire fighting installation to the 250 MVA, 400/110 kV transformer of substation Draganesti Olt; consolidating the 400 kV OHL Urechesti - Domnesti in the area of tower 251; restoring lands after maintenance operations according to the contract concluded with SMART; current repairs to the 25 MVA transfrmer in the 220/110 kV substation Gradiste; repairing the buildings managed by the TB Pitesti; replacing tower 156 of the 400 kV OHL Mintia – Sibiu Sud; replacing the 200 MVA AT in substation 220/110 kV Timisoara; refurbishing substation Brazi Vest; replacing AT in electrical substations Timisoara, Salaj and Barbosi);
- Preventing forest fires by good maintenance to safety corridors of overhead lines; cutting the trees that exceed a certain height and endanger the safe operation of the OHL (e.g. deforestation within the safety corridors of the 400-220 kV OHL managed by the TB Cluj, TB Craiova, TB Pitesti and TB Sibiu).

4.2. Corrective activities

- Removing the pollution of oil-contaminated soil by means of biodegradable absorbent substances (e.g. decontaminating the soil polluted with mineral oils after accidental interventions and upon repairs during inspections, Service contract with SMART);
- Removing the oil contaminated topsoil and restoring the location;
- Repairing the concrete-covered tanks below autotransformers;
- Installing oil-water separators, unclogging the drainage;
- Replacing the membranes, gaskets, pumps, flaps etc. from certain pieces of equipment in order to eliminate oil leaks;
- Repairing, regulating and reviewing the electric generating sets and motor cars in order to reduce pollutant emissions in the atmosphere and acoustic pollution;
- Changing certain metering transformers in order to eliminate SF6 leaks;
- Maintenance and repairs to air conditioning units;

4.3. Monitoring the environmental factors

- Monitoring the pollutant emissions in environment to lines, substations and offices by licensed companies, in accordance with the monitoring requirements from environmental agreements and permits of regulatory autorities as follows:
- Monitoring pollutant emissions into the atmosphere of thermal power plants, motor cars, SF6 equipment as well as during construction-installation work;
- Monitoring the pollutant emissions in the domestic used water and in rainwater discharged from all Company locations;
- Monitoring the pollutant emissions into the soil of electrical substations;
- Monitoring the noise level of operational lines and substations and upon construction-installation work;
- Monitoring the level of the electric and magnetic fields to operational lines and substations, as well as upon commissioning;

5. Co-workers

Transelectrica requests its product, work and service suppliers to comply with the legal environmental requirements and Company specific procedures as follows:

- Environmental requirements are introduced in design themes, procurement documents, technical specifications and product/work/service provision contracts;
- Companies carrying out design/investment/maintenance work are executing environmental management plans and introduce stages for environmental factors check-up into the quality insurance pans as well;
- Supplier working teams are trained by corporate personnel before beginning the work;

6. Research – development

In 2011 Transelectrica elaborated the following environmental protection studies together with specific companies:

- Hydrological studies for water course crossings by OHL under re-licensing;
- Monitoring the quality of used water in the transmission substations and offices of Transelectrica;
- Methods investigating environmental quality in the critical points identified along OHL routes and within electrical substations;

7. Training

7.1. Internal training

- Periodical training of personnel from executive offices and branches on environmental management issues according to the approved training plan (4 h / year), using the topics elaborated by the Integrated Management Compartment;
- Participation to internal working meetings and symposiums;

7.2. External training

- Personnel participation to training courses organised by third parties according to the „Annual training plan for the personnel of the executive offices and transmission branches"
- Participation to symposiums, workshops, exhibitions;

8. Communication

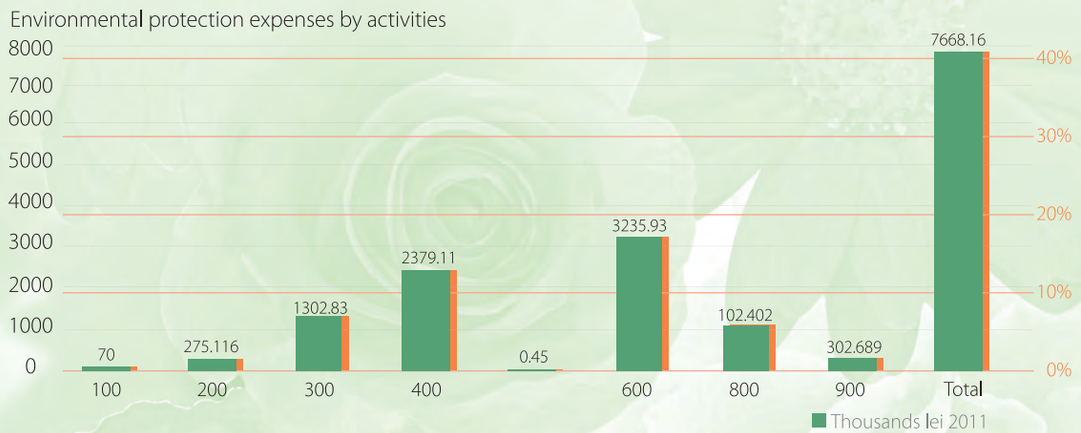
Publishing the 2010 Environmental Report in the Company's Annual Report;
Public debates for investment projects;

9. Environmental protection expenses

In 2011 the total environmental protection expenses amounted to 7,668,000 lei (about 1.79 million euro):
Note: 1 euro = 4.2848 lei, exchange rate of Romania's National Bank on 31.12.2011

9.1. Share of environmental costs by activities in 2011

Code	Activity	Environmental protection costs	
		VAT free thousand lei	%
100	Air quality and climate protection	69.635	1.3
200	Used water management	275.116	3.5
300	Waste management	1302.83	19.8
400	Soil and underground water protection	2379.111	13.4
500	Reducing noise and vibrations	0.45	0.001
600	Protecting natural resources and preserving biodiversity	3235.931	55.5
800	Research	102.402	1.3
900	Other environmental protection activities	302.689	5.2
	TOTAL	**7668.164**	**100**



9.2 2011 expenses by branches

No.	Transmission Branch	Environmental protection expenses (thou lei, vat free)	Remarks
0	1	2	3
1	TB Bacau	180	The expenses are provided in the Environmental Management and Protection Plan (PMMPM) for 2011 elaborated and approved at Company level
2	TB Bucharest	1595	
3	TB Cluj	720	
4	TB Constanta	2124	
5	TB Craiova	633	
6	TB Pitesti	1014	
7	TB Sibiu	969	
8	TB Timisoara	386	
9	Transelectrica Exec.	45	
	TOTAL	**7,668**	

Note: Environmental protection expenses are included in the operation, maintenance and investment costs approved by the Company.

9.3. Environmental specific expenses (mill. euro/TWh of electricity transmitted) in 2011

In 2011 the amount of electricity transmitted was 42,461 TWh.

10. Performance indicators and compliance with legal requirements

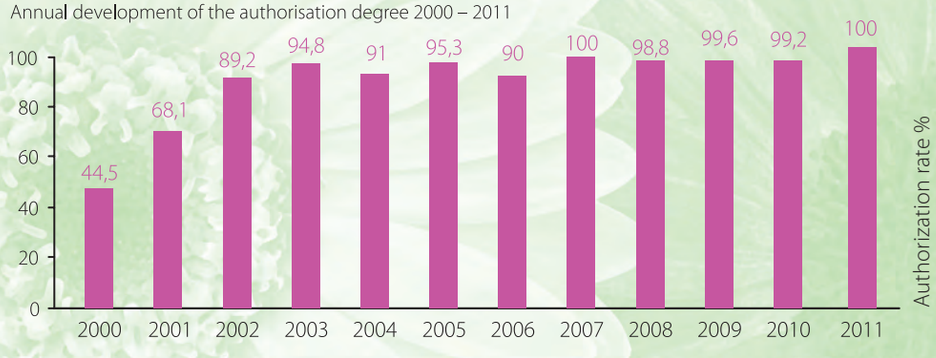
10.1. Licensing degree for environmental protection

In accordance with the environmental legislation, the re-licensing was furthered for the lines and electrical substations where the license was expiring as well as the environmental permit for the objectives with construction-installation work.

Number of licensed objectives and licensing degree in 2011:

No.	Transmission branch	Number of licensed objectives	Number of objectives under re-licensing	Number of objectives that need no license	Number of licenses
1	TB Bacau	32	0	0	1
2	TB Bucharest	0	33	0	1
3	TB Cluj	27	1	0	15
4	TB Constanta	34	1	0	2
5	TB Craiova	1	34	0	1
6	TB Pitesti	29	0	4	10
7	TB Sibiu	26	0	0	1
8	TB Timisoara	35	0	0	16
	Total Transelectrica objectives: 257	**184**	**69**	**4**	**47**

Annual development of the authorisation degree 2000 – 2011



Environmental permits are obtained according to the procedure provided in OMMDD no. 1798/2007 for activities of significant environmental impact, electricity transmission (code CAEN 3512).

At the end of 2011 the licensing degree was estimated at 100% because even the objectives with expired authorisation comply with legal requirements and are now under re-licensing according to OMMDD no. 1798/2007.

10.2. Accidental pollution, fines or complaints about environmental protection activities in 2011:

In 2011 no accidental pollution of significant environmental impact has been recorded.
Transelectrica has taken pollution prevention and environmental protection measures both for its operations and its maintenance & investments including construction-installation.

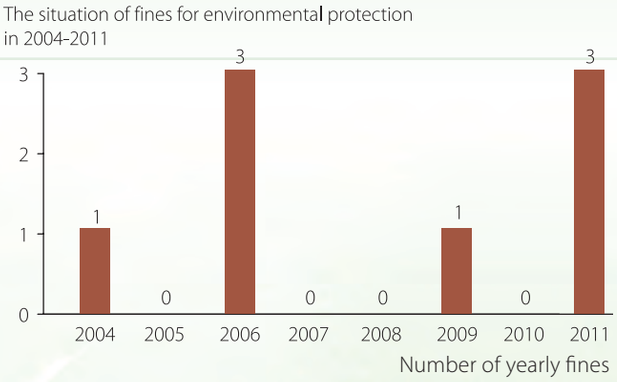
Level of compliance with the environmental protection legislation in 2011:

Exceeding the admitted limits of applicable regulations	Cause	Solution	Remarks (fines)
TB Timisoara: The provisions of GEO 78/2000 on waste regime and those of GD 235/2007 on used oils have not been observed	▸ The contracts to capitalise/ dispose of used oils, recyclable waste and textile waste impregnated/ imbibed with dangerous substances have not been renewed; ▸ There were no quarterly reports on the fresh / used oil amounts managed	▸ The procurement procedure was finalised ▸ The amounts of fresh / used oils managed will be quarterly reported to the Environmental Protection Agency of Timisoara	National Environmental Guard – Com. Reg. Timis has sanctioned TB Timisoara by 10,000 lei fine; The amount of 3,750 lei was paid within 48 hours

Particular environmental protection problems notified in 2011:

	Particular problems notified			
no.	**Accidental pollution**	**Cause**	**Solution**	**Remarks (fines)**
1	Soil pollution in substation Alba Iulia, the 220 kV transverse coupler bays 3-4, 5 l across 0.5 m2	Oil leaks pole 1 room 2 phse R, I 220 kV	Absorbent material has been used	No
2	Soil pollution in substation Brasov, the 110 kV Stupini bay, 30 l across 10 m^2	Explosion of 110 kV column I phase R	Absorbent material has been used	No
3	TB Bucharest - the 220/110/20 kV transformer substation Stalpu: Soil and underground water pollution by improper storage of waste and oil equipment resulting from the ETG refurbishment / modernisation / maintenance activities	Overloading the storage platforms	▸ Dangerous and non dangerous waste identified in the location during inspection was stored according to legal provisions; ▸ TB Bacau applies the centralised procurement procedure of services for capitalisation of tangible assets and waste resulting from dismantling of other fixed means and material goods than tangible assets	GNM – CG has found out and sanctioned TB Bucharest by 50,000 lei fine; 12,500 lei were paid within 48 hours
4	TB Constanta - the 400/220/110/20 kV electrical substation Lacu Sarat: Soil and underground water pollution by improper storage of waste and oil equipment resulting from the ETG refurbishment / modernisation / maintenance activities	Overloading the storage platforms		GNM – CG has found out and sanctioned TB Constanta by 50,000 lei fine; 12,500 lei were paid within 48 hours

Fines applied for environmental protection in 2004-2011:



10.3. Performance indicators to waste management

In 2011 Company waste was disposed of / capitalised 86.12%, using licensed companies.

Waste produced (tons)	Waste capitalised (tons)	Disposed of waste (tons)	Stored waste (tons)	Indicator of waste management: disposed of, capitalised / produced waste
14. 294,26	1947,46	10.363,82	1.982,97	86.12%

The capitalisation target for packaging waste from the equipment imported in 2011 has not been fully achieved according to legal requirements. This is the reason why a fee of 20,678 lei was paid to the environmental fund for the missing percentage from the target.

Waste produced (tons)	Waste capitalised (tons)	Recycled waste (tons)	Targets of packaging waste as per legal requirements: - overall capitalisation target 57%, of which (50% by recycling)
87,484	39,527	33,622	Overall capitalisation target: achieved 45.19%, of which capitalisation by recycling 38.43%, amount not capitalised-10.339 t, of which by recycling 10.120 t

10.4. Performance indicators with the consumption of natural resources

Natural resources consumed	MU	
Electricity	kwh	7,946,246
	kWh / person / year	6,292
Water	m3	59,895
	m3 / person / year	29
Paper	kg	22,686
	kg / person / year	12
Fuel for motor car transport	l	584,329
	l / auto / year	1,861
Fuel for heating	m3	870,826
	l	16,500

VII.
2011 CORPORATE SOCIAL RESPONSIBILITY REPORT

Odyssey of the Mind Contest
Eurofest 2011 - Gdansk

Social responsibility is the management process, integral part of the Company's business strategy, whereby Transelectrica intends to contribute to developing a sustainable and performing Romanian society. The Company gets involved in solving the social problems of the community where it carries out its activities and takes into consideration societal interests, getting accountable to its employees, shareholders, community and the environment with a view to generate prosperity, jobs and a sustainable sound enterprise in financial terms.

Social responsibility towards the community is equally important as business success.

Social responsibility is a long term commitment and means more than a caring gesture or money donation to philantropic activities... Social responsibility means getting involved in sustainable projects that can become grounds for new humanitarian attitudes. Such social responsibility also means knowing the needs of the society where your activity is developed, patiently investing years in a row to get some improvement.

Transelectrica involves in solving the social problems of the community amidst which it carries out its activities and takes into account society's interests, being liable to employees, shareholders, community and environment with a view to provide prosperity, jobs and sustainability to a financially sound enterprise.

As participant to public life Transelectrica is aware of its duties to society, deeming community involvement as a must in order to get societal respect and contribute to a sustainable society.

The CSR strategy of Transelectrica includes the following goals:

- Developing a sound corporate culture, respectively one that appreciates the partnership between the Company and all business stakeholders, the main goal being to involve the organisation into CSR programmes according to corporate values;
- Increasing the Company's reputation in its social environment, since a Company seen as socially responsible benefits of a positive ,cultural' image designated by terms such as opening, honesty and appeal;
- Improving the corporate image providing perceptions of a moral ethical company involved in the problems of the community it operates in;

In accordance with the CSR strategy of Transelectrica, which we strive annually to constantly improve, in 2011 we decided to get involved in domains such as art and culture, education, sports, humanitarian activities, environment, community development, responsibility to employees and corporate volunteering.

Significant projects in 2011:

Art and culture- Diversity and creativity are values that we cherish and promote in the artistic and cultural domains.

In cooperation with the Foundation Democracy through Culture and the National Theatre Radu Stanca of Sibiu we provide each year support in organising the International Festival of Sibiu which, by professionalism and complexity, is considered the third theatre festival in Europe.

Education - Young people are the most important asset of the future Romanian society. We are active in the academic environment by partnerships with students' associations but under other initiatives as well

- We have provided financial support to a group of students from the National College Mihai Viteazu, who participated to Eurofest 2010 Odyssey of the Mind organised in Gdansk, Poland.

The competition Odyssey of the Mind turned into an educational programme that provided young people of all age groups the opportunity to creatively solve extremely varied and complex problems and to develop their communication and team work capabilities.

- Transelectrica together with the Foundation Light of Educational Institutions we have contributed to organising a competition of IT projects InfoMatrix 2011

InfoMatrix is an international competition of information technology projects organised in order to bring together the best IT students from all over the world. The competition refers not only to promoting professional excellence, but also to promoting dialogue and inter-cultural cooperation involving students and professors from different countries.

Humanitarian activities - People are the core of our concerns and we always attempt to help the disabled ones

- To support disabled children Transelectrica joined the LICINIUM Foundation (for the social-professional integration and training of handicapped youngsters) and provided financial aid amounting to 50,000 lei to procure wheel chairs under the fund raising campaign promoting societal integration of disabled persons.
- We have shouldered a number of families in distress providing support for their suffering children:
  - 9 year old child for cytostatic treatment to Universitatklinikum of Magdeburg, as he was diagnosed with a rare form of cancer;
  - 12 year old child for telescopic endoscopy to the Gastro-enteorology Clinic of the University Hospital in Paris (Hopital Necker Universite);
  - 8 year old child for cytostatic treatment to Berlin Charite International, diagnosed with cerebellum tumor;
  - 8 year old child diagnosed with infantile autism, hyperkinetic syndrome concentration deficit for light mental recovery Q1-52, in view of his participation to specific recovery therapies for troubles in the autistic class, respectively the Applied Behaviour Analisys (A.B.A), logopedy and medical therapy;
- Association Electricity Seniors- contribution to humanitarian aids to association members (retired people) who worked with the electric power plants and networks in Suceava and Botosani Counties;

Sport

Sport is highly valued by society as it provides great potential for social inclusion by sportive activities.

In 2011 Transelectrica actively supported professional and amateur sports people, as well as sportive clubs:

- Fundation Steaua Rugby- in view of covering their costs for the National Rugby Championship- Superleague- final stages, 2011 edition;
- Romanian Federatia of Martial Sports- to cover the costs for the participation of the national team to All American Open;
- Sportive Association Decebal of Sibiu- to assist the participation of Remus Osan, karate champion, to the European Karate-do SKIF Championship in Hungary;
- Municipal Handbal Club Baia Mare- to cover the costs of the feminine team's preparation and participation to the National League championship;
- Romanian Box Federation - to cover the costs of the boxing fight in which Lucian Bute defended his world champion title IBF, super-middle category;

Community development

- Transelectrica allocated funds to the Romanian Patriarchate, orthodox parishes Salsig, Coltirea, Finteusu Mic for the restoration, rehabilitation and repair of their churches, and to Association Diaconia to complete the furniture and necessary objects procurement for the Establishment Patriarch Justinian, where intensive social, educational and pastoral-missionary activities are developed for mothers and children victims of domestic violence;
- Together with the Association Pro Maiorescu we contributed to furthering the renovation of buildings A and B of the National College Ion Maiorescu from Giurgiu, 142 year old cultural and educational centre;
- Also to the Society of Emergency and Catastrophe Medicine in Romania, Cluj branch to sustain the emergency interventions of the Emergency, Resuscitation and Accident Intervention on site Mobile Unit (SMURD) Cluj

Being a responsible employer

The Company success depends on the worth of its employees

Company personnel benefit of:

- Job stability and safe working conditions;
- Opportunities to progress;
- Recognition of employees' contribution;
- Opportunities to advance by internal promotions;
- Training and development opportunities under the annual Plan of employees professional training and qualification so that people can develop themselves for the position they desire in the Company;
- The Company cherishes and protects labour health and security of its employees. Each year personnel health is checked under a health campaign- general examinations, laboratory tests, flu and hepatitis vaccination, investigations to prevent cardiovascular and invalidating diseases;
- Optionally, because the employee participates in the financing, personnel benefit of volunteer health insurance;
- In case of serious illnesses Transelectrica provides financial support to employees for special medical treatments, flexible or reduced working hours during the doctor recommended period;

Environment

We take into consideration the environmental impact of our activities and try to reduce pollution below admissible limits at national and European level. The environmental management system is complying with the requirements of the international standard ISO14001/2004 and it is certified by SRAC

The practical application of the Company's environmental policy and the achieved results are as follows:

- Proper management of the waste resulting from maintenance and refurbishment activities;
- Reducing and measuring the pollutant emissions into the environment;
- Rational utilisation of natural resources;
- Periodical monitoring of environmental factors (water, air, soil, noise, electromagnetic field, waste)
- Modernising and refurbishing the installations using the latest technologies with which environmental pollution is prevented or reduced;
- Providing the learning and observance of environmental legislation by all Company employees by means of information, training and motivation

Transelectrica as transmission and system operator considers it has a great responsibility towards future generations and permanently strives to find sustainable economic solutions for the development and modernisation of its installations in accordance with EU requirements of environment protection.

Preventive and corrective activities

Transelectrica aims at reducing the future negative impact of its installations over the environment by means of:

- Sizing the installations so as to reduce the intensity of the electromagnetic field at ground level, as well as the land areas taken up and the impact on birds;
- Replacing the equipment containing electro insulating oil;
- Replacing the porcelain insulators by composite ones;
- Reducing the sulphuric acid emissions by replacing the accumulator batteries;
- Reducing the pollutant emissions in flue gas;
- Installing bird repellent devices on the newly built OHL;
- Reducing the acoustic pollution by installing low noise fans (on autotransformers); installing power generating groups with noise and vibration dampers;

Corporative volunteering

Employer-sustained volunteering means any Company effort to encourage its employees and/or former ones (now retired) to get involved in community volunteer activities and to support them in their efforts to commit in solving community problems
The managerial team of Transelectrica will encourage its employees to participate into different activities as volunteers and will also provide concrete projects in which they could invest their time and commitment.
In everything we do as Transelectrica employees we strive to be good professionals, true partners and road openers.

PROFESSIONAL ETHIC CODE OF TRANSELECTRICA EMPLOYEES

The Professional ethic code includes the ethical norms of conduct that set the corporate values, responsibilities, obligations and business behaviour of an organisation, as well as the mode of its operations.
The Professional ethic code of Transelectrica's personnel is a guidebook for employees providing information about the manner in which they can solve business ethical issues. The Code provides a set of rules based on which Transelectrica has grown, rules of an ethical behaviour in business and methods to prevent illegal fraudulent acts that might occur during normal corporate activities.

The Professional ethic code is compulsory and applies in all structures of Transelectrica. All Company employees comply with the letter and spirit of such regulations.
The Professional ethic code can be found on the Company's website www.transelectrica.ro/about us/etchic code

VIII. INTERNATIONAL COOPERATION

Romania in the context of the European energy strategy

At present the European Union is redefining its identity and internal cohesion because it needs to stand out as competitive and dynamic player in a permanently changing world.
The energy sector in particular should cope with the main challenges manifest internally and at pan European level- security of supply, increased economic competitiveness and reduced environmental impact, desires that assume active involvement of political decision makers, regulatory authorities of infrastructure operators and the energy industry at large.
To reach such objectives the European Union is about to apply a large scale energy policy that should cover a wide range of issues- energy resources, climatic changes, coordinated development of the electricity transmission infrastructure, liberalising the electricity and natural gas markets. The aim is to get an economic sector with low carbon emissions while making energy resources more sustainable and safe at the most affordable prices for customers.

Strategy Europe 2020 includes the targets already set for the energy and climatic change domains at community level found under the 20/20/20 phrase, namely- 20% share of the electricity generated from renewable sources in the gross final consumption; 20% increase of energy efficiency, and 20% consumption reduction taking into account the present-day economic crisis, the impact of environmental legislation- in the first place on reduced carbon dioxide emissions, and of the energy efficiency legislation, as well as the changes in the energy mix (significant growth of renewable sources output).

The priorities of this strategy are stipulated in the third legislative package and in the proposed energy infrastructure package. The 3rd Energy Package applicable as of March 3rd, 2011 sets clear targets of improved cooperation and coordination at regional / pan European levels between the European Commission, regulators and transmission&system operators in the electricity and natural gas domains.

The establishment of ACER (Agency for the Cooperation of Energy Regulators) provides correlation of national regulators' competencies and attributions at European level as well, the agency allowing national regulatory authorities to enhance cooperation in view of the community prospect and to participate into the exercise of their functions on common grounds.

As far as **TSO-s in the electricity domain are concerned, the ENTSO-E – European Network for Transmission System Operators** was established by joining all TSO associations in Europe (UCTE, ETSO, NORDEL, BALTSO, UKTSOA, ATSOI) in response to a requirement from the 3rd Energy Package. Its purpose is to enhance cooperation and coordination between transmission and system operators with a view to provide safe qualitative operation of interconnected power systems, to provide efficient transparent access to cross-border transmission networks, to integrate electricity markets at regional and later on European (IEM) level and to plan in coordinated efficient manner the electricity transmission system in the Community considering also environmental targets.
The Association promotes important policy aspects in the energy domain, becoming the common voice of all European TSO-s to the European Commission, regulators (ACER) and other stakeholders, whereby they express their coherent coordinated positions with respect to regional and pan-european energy issues, such association opinions on community documents being appreciated by the European Commission as important contributions in the elaboration of future legislative packages in the energy sector.
The 32 experts nominated in all the governance and working structures of the association (committees, regional and working groups) provide Transelectrica's active constant participation promoting corporate interests at regional and European levels and on third markets.

European development plan for the electricity transmission grid

TYNDP - Ten Year Network Development Plan

ENTSO-E elaborates the Ten year network development plan (TYNDP) - document provided in the applicable European regulations, in view of providing coordinated development to electricity transmission grids. The European plan includes the most important projects comprised in the national/regional development plans and is updated every two years based on complex studies for the operation of the interconnected power system at pan European level.
The first plan edition (2010-2020) was finalised in 2010 and its second edition is underway, to be completed in 2012.

North-south corridor for energy interconnections

- an European Commission initiative that pointed out the need to set up a high level group (ministries, regulators and TSO-s coordinated by the EC) in view of promoting inter-regional cooperation to execute pan European energy infrastructure projects (electricity and gas).

Implementing coordinated capacity allocation mechanisms on interconnection lines

In its relations with interconnection partners from Bulgaria and Hungary Transelectrica has implemented the explicit bilateral capacity allocation mechanisms for all time horizons provided in the new European regulations (annual, monthly, weekly, daily and intra-day) based on bilateral agreements endorsed by national regulatory authorities. Negotiations have also been initiated to implement such mechanisms at the Romanian – Serbian border.
In context of the electricity market implemented at pan European level, this stage represents the first step towards applying a common method of coordinated capacity and electricity allocation (implicit allocation), complex process involving a regulatory framework prepared to enable coupling of national electricity markets and coordinated transaction mechanisms implemented together with harmonised IT platforms.

Regional electricity market as first step towards implementing the internal European market (IEM)

The European Union Council (February 2011) and the Transport, Telecommunications and Energy Council (February 2011) determined clear tasks for ACER, national regulators and transmission system operators with respect to 2014 as deadline in achieveing the fully functional pan European energy market.

Taking into account such an important and complex process at the end of 2011 Transelectrica initated a consultative process both at national level (establishing the Regional market working group at MECMA, ANRE, OPCOM and Transelectrica levels) and with its interconnection partners from south-eastern - SEE (Bulgaria) and central eastern Europene - CEE (Hungary, Czeckia and Slovakia) regarding the Company's involvement into regional initiatives.

Transelectrica is an active participant in several regional projects developed both within and without ENTSO-E.

a. The south-eastern European region (SEE)

- Transelectrica and ESO-EAD (Bulgaria's transmission and system operator) agreed on establishing an expert group from ministries, national regulatory authorities in the energy domain, and transmission system and electricity market operators as forum to debate and decide on a road-map to couple the two countries' electricity markets.
- Transelectrica is one of the main supporters of the regional project meant to establish a regional centre Coordinated Auction Office Ltd. - CAO to allocate the transmission capacity on interconnection lines between power systems of south-eastern Europe.
CAO is a regional project initiated by the Europen Commission, currently coordinated by the EC and the Energy Community of sout-eastern European countries, funds coming from financial institutions that sustain investment programmes in the area and also from regional transmission system operators.
- Transelectrica is a member in the project implementing a coordinated management mechanism for congestions on interconnection lines (DACF) in the region. Implementing such a mechanism is an obligation provided in applicable European regulation, as well as political commitment according to the terms of the Treaty establishing the Energy Community of SEE and of Decision 2008/02MC-EnC of the Ministerial Council of the Energy Community.
The project relies on implementing coordinated software procured under Memorandum between the governments of Germany (represented by KfW in this project) and Albania, being fully financed from such funds.

b. Central - eastern European region (CEE)

Regulatory authorities, TSO-s, and electricity exchanges from Czeckia, Slovakia and Hungary signed in 2011 a Memorandum with respect to coupling the electricity markets of the three countries in accordance with the model and principles applied in north western Europe – NWE (Price Coupling of Regions - PCR and COSMOS), a model acknowledged as starting point of the future European internal electricity market (IEM). Taking into account the deadline to achieve the single European electricity Market, the Regional market task force decided expediting Romania's adhesion to such regional initiative.
On December 6th, 2011 ANRE, Transelectrica and OPCOM transmitted a Letter of Intent to the project management, thus formalising the joint decision to join the project. The Steering Committee of the project, including representatives of the transmission system operators (ČEPS, SEPS, MAVIR), of electricity exchanges (OTE, OKTE, HUPX) and of national regulatory authorities (ERU, URSO, MEH) from Czeckia, Slovakia and Hungary approved the Letter of Intent and thereby negotiations were initiated with a view to sign the joint Memorandum for the coupling of the electricity markets.

Regional cooperation in infrastructure projects

Regional cooperation in the infrastructure domain represents a significant part of Transelectrica's activities as regards cooperation with neighbouring power systems in the context of the coordinated development of the pan European electricity market. A number of bilateral contracts have been signed with the interconnection partners:

- Transelectrica SA and EMS-JP Elektromreza, Serbia signed the Joint Position Paper 3 on October 13th, 2011 in Belgrade to approve the feasibility study and the results of the technical project for the 400 kV doube circuit OHL Resita – Panchevo.
- Transelectrica and IS Moldelectrica signed the Addendum to the Agreement between RENEL and Moldenergo of 15.07.1993 "Regarding the integration relationships between the power systems from the Republic of Moldova and Romania".
- Transelectrica and NEK Ukrenergo, Ukraine signed a Memorandum of Understanding regarding cooperation in the electricity transmission domain on 01.06.2011 in Kiev.
- Transelectrica is supporting party and provides management in the interconnection project between the electric power systems of Moldova and Ukraine to the ENTSO-E network. The condition to launch the project is providing the funds. To this effect the Ministry of Economy from the Republic of Moldova together with the Ministry of Economy, Commerce and Business Environment of Romania and Ukraine's Ministry of Energy and Coal Industry submitted to the European Commission the documents for the grant covering the feasibility study. The project has been pre-selected by the Joint Monitoring Committee of the Large Scale Projects Programe from the European Neighbourhood and Partnership Instrument relating to the regional Joint Operational Programme Romania – Ukraine – Republic of Moldova 2007-2013.

Cooperation on third markets

- Cooperation with State Grid Corporation of China - Transelectrica and the Chinese Company signed a Memorandum of Understanding for cooperation in the energy domain on May 9th, 2011 in Beijing.
- Cooperation with TEIAS, Turkey - the feasibility study contractated by Transelectrica SA with the Swedish Company VPC Vattenfal for the HVDC Submarine Cable Project Romania – Turcia was finalised and consulting sessions took place in 2011 between the two parties in order to agree the road-map with the project stages.

International affiliations

The National Power Grid Company Transelectrica SA is a pro-active member in important international organisations and bodies, among which:

ENTSO-E (European Network of Transmission and System Operators for Electricity) - is the cooperation structure between transmission system operators at pan European level with a view to promote the electricity market, to provide the best management, coordinated operation and consolidated technical development of the European electricity network. The experts of Transelectrica, nominated in all association's leading and working structures (committees, regional and working groups) participated actively in the decision making and cooperation process, promoting the Company's interests both at regional and European level.

CIGRE (International Council of Large HV Grids) is an international technical-scientific organism aiming at developing the knowledge as well as the exchange of information between member countries in the high voltage grid domain. The experts of Transelectrica, certified both at national and international level, have a significant contribution to achieving the goals set during working sessions.

LWA (Live Working Association - Asociatia Lucrului sub Tensiune) is promoting the conception, design and utilisation of live working technologies, providing supervision and consulatancy in the domain.

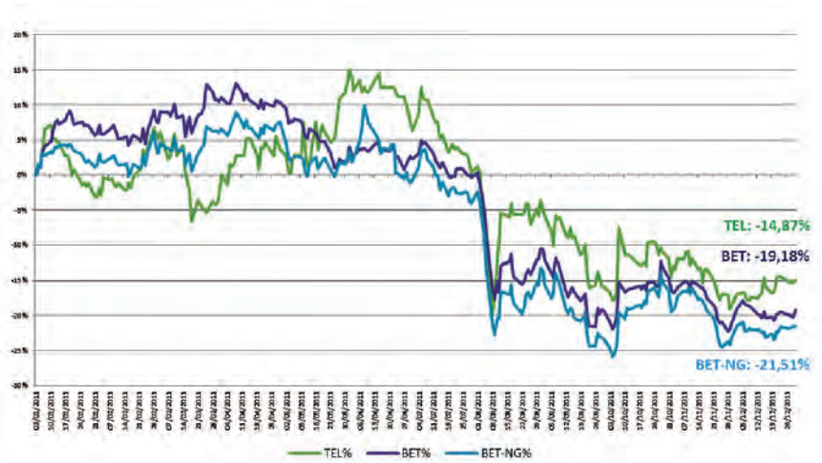
IX. SHARES and SHAREHOLDERS

Transelectrica's Shares

In 2011 the Stock Exchange did not achieve the expected performance on the capital market and stock exchange events have not managed to bring the desired come back.

Low liquidity even after the listing of the Ownership Fund and decreased total capitalisation compared to the previous year (16 billion Euro against 24 billion Euro at the end of 2010) are not encouraging, but projects have been initiated towards the year end that might lead to significant changes in the following interval.

On 31.12.2011 BET dropped ~19%, the shares of power companies and utilities from the power sector depreciated 21%, while Transelectrica recorded only 14.87% reduction against the beginning of the year.



Thus shares dropped from 20.44 lei / Jan. 3rd to 17.40 lei / Dec. 30th with a maximum closure value of 23.49 lei on June 1st, 2011 and a minimum of 16.40 lei on August 8th, 2011.

The development of TEL share is shown below compared to previous years:

Year	**Closing price [lei/share]/date**				**Annual amount**	**Capitalisation (last day)**	
	First day	Last day	Minimum	Maximum	[transacted shares]	[mill lei]	[mill Eur]
2006	**22.80**/29.08	33.80/19.12	22.80/29.08	34.50/10.10	5,447,909	2,477.65	732.66
2007	36.00/03.01	40.00/21.12	30.30/23.11	**49.30**/07.05	7,404,361	2,932.13	812.18
2008	38.60/03.01	11.00/23.12	10.90/27.10	39.30/04.01	6,997,259	806.33	202.33
2009	11.30/05.01	13.50/24.12	**8.55**/17.02	14.70/11.08	4,979,748	989.59	234.05
2010	13.00/04.01	19.35/30.12	13.00/04.01	21.90/19.04	5,498,353	1,418.42	331.03
2011	20,44/03.01	17,40/30.12	16,40/08.08	23,49/01.06	2.418.059	1.275,47	295,27

Source: BVB, Transelectrica processed data

Relationship with the investors and analysts

The information dissemination on the capital market relies on the Procedures of continuous and periodical reporting. This procedure determines the rules to reveal documents and information on the issuer to third parties, especially as regards the 'privileged information', namely that which can impact the market price of TEL shares. It regulates the periodical reports of financial results- each quarter, half-year and annual.
Based on such reports the Company provides full accurate information in due time to all interested parties in order to allow them making sound investment decisions.

The Company updates periodically the site www.transelectrica.ro dedicated to its investor relations and entitled Investor Relations and Financial Reports.

The Company organises periodical meetings with financial analysts, placement consultants, brokers and investors in order to present its results, projects etc. or it participates to events organised to inform the investors.
In 2011 Transelectrica complied with all its periodical reporting obligations

The rating granted by Moody's to Transelectrica - investment grade, equal to Romania's

Transelectrica is among the first Romanian companies to have received rating beginning with 2002 from the main international rating agencies- Moody's Investor Service and Standard & Poors (until 2009) based on its own financial and operational performance, consistently getting the closest rating to the sovereign one on the evaluation date.

Rating is a qualified source of information about the ability of Transelectrica to pay its financial obligations fully and in due time, thus influencing the financing decisions and costs. The rising evolution of Company's ratings from B2 to Baa3 (Moody's 2003 - 2012) and from B+ la BB+ (Standard and Poor's, 2003 - 2009) led to improving Transelectrica's position in the negotiations with financing institutions and allowed it obtaining better financial terms even without sovereign or bank security.

The international agency Moody's Investor Service improved the rating prospect of Transelectrica on December 10th, 2010; based on the annual assessment on March 6th, 2012 Moody's published the Credit Opinion - regarding Transelectrica, reasserting the rating at Baa3 with stable prospect, equaling Romania's rating and maintaining the Company at Investition grade level.

According to Moody's announcement

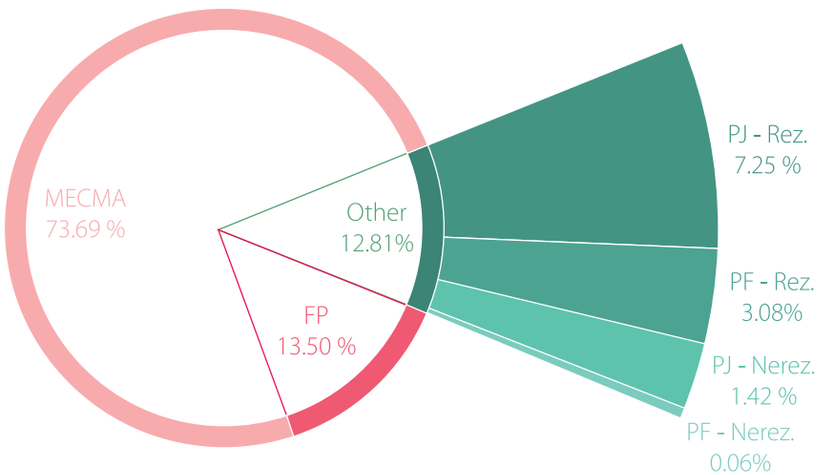
"The main factors that improved the financial profile of 2010-2011 are the gradual increase of electricity amounts transmitted and the increased average tariff. Transelectrica proved it is capable of drawing new financing to cover its CAPEX, has a cautious approach and does not commit investments without previously approved financing. The improved cash flow allowed the Company to enhance its investment plan".

SHAREHOLDERS

In 2011 there was no change in the synthetical structure of shareholders and no shareholder became significant, namely it did not exceed the 5% threshold.
On 31.12.2011 the shareholders' structure by number of shares was the following:

Shareholder/ Number of shares	Non-resident	Resident	TOTAL	Share [%]
Romanian state (MECMA)	N/A	54.015.781	54.015.781	73,6882
Ownership fund	N/A	9.895.212	9.895.212	13,4990
Legal persons	1.770.303	5.316.018	7.086.321	9,6671
Natural persons	47.291	2.258.537	2.305.828	3,1456
TOTAL	1.817.594	71.485.548	73.303.142	100,0000

Source: Central depository, Transelectrica processed data



DIVIDEND POLICY

In general the Company's accounting profit remaining after the profit tax is distributed in accordance with the provisions of GEO no. 64/2001 regarding profit distribution to national societies, national companies and trading companies with full or majority state capital towards the followind ends with indicators included in the approved REB as follows:

The provisions of GEO 64/2011:

- Legal reserves 5%;
- Covering the accounting losses of previous years;
- Other legal distributions- reserves of special purpose to develop the power sytem;
- Up to 10% for employees' participation to profit, but no more than the level of a monthly basic wage at Company level in 2010 multiplied with the average number of personnel;
- Minimum 50% dividends for shareholders;
- The profit that is not distributed to the categories above will be directed to other reserves, constituting one's own financing source;

Approved REB indicators:

- The indicators for profit distribution left after deducting the (budgeted) profit tax are determined in quantum of 5% for employees' participation to profit and of 90% for shareholder dividends in Transelectrica's Revenue and expense budget approved under GD no. 354/2011 and amended under GD no. 1041/2011.

	2011	2010	2009	2008	2007
Net profit (lei)	90,913,316	9,557,424	6,135,590	41,943,077	52,043,832
Dividend distributed (lei)	80,633,456*	8,503,165*	3,665,157	21,990,943	26,389,131
Effective distribution rate (%)	87*	90*	54	52	51
Dividend per share (lei)	1.10*	0.116*	0.05	0.30	0.36

***proposed for SGA approval**

Transelectrica pays dividends from the net profit of the previous financial year only when the annual financial statements have been approved by the Shareholders' general assembly.

History of dividends paid by Transelectrica:

Year	Dividend per share [lei, gross]	Registration date	Date of ex-dividend	Payment date
2010	0,116	16 mai 2011	12 mai 2011	22 aug 2011
2009	0.05	17 May 2010	13 May 2010	16 Aug 2010
2008	0.30	18 May 2009	14 May 2009	17 Aug 2009
2007	0.36	15 May 2008	13 May 2008	25 June 2008
2006	1.47	14 May 2007	10 May 2007	25 Aug 2007

Source: Transelectrica

Dividends are paid to shareholders to the net value, respectively the amount remaining after deducing the dividend tax by applying the legal taxation quota to the gross dividend amount according to the provisions of Romania's Fiscal Code. The tax is withheld, stated and paid to the state budget by Transelectrica.

PROCUREMENT OF OWN SHARES

In 2011 Transelectrica made no transaction with its own shares.
At the end of 2011 the Company nu deținea acțiuni proprii și nici una dintre filialele Companiei nu deținea acțiuni în Companie.

OTHER EVENTS

In the first quarter of 2012 the majority shareholder, the Ministry of Economy, Commerce and Business Environment holding 73.7% of Transelectrica's share capital decided to sell a stock of 10,995,472 shares, respectively 15% of the share capital under a secondary public offer.

OPSPI coordinated this operation that began in the last quarter of 2011.
The Intermediary Syndicate (BCR (leader), Intercapital and Swisscapital) elaborated the Prospectus for the secondary public offer which was approved by CNVM under Decision no. 114/31.01.2012 in the preliminary stage.

On February 3rd, 2012 the preliminary prospectus was published and investor information began. The first meeting with institutional investors from Romania took place on February 13th, 2012 at BSE offices, then roadshows were launched in European capital cities for foreign investors (Warsaw, Frankfurt, Stockholm, Tallinn and London). A total number of 34 meetings were held.

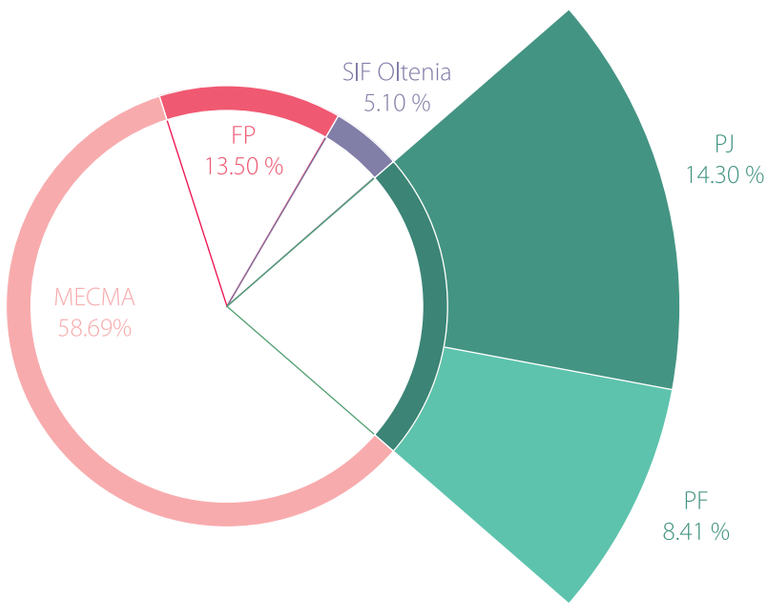
The final prospectus was approved under Decision no. 240/13.03.2012 of CNVM, the following parameters:

- Object of the offer- 10,995,472 shares (15%);
- Nominal value- 10 lei/share;
- Subscription- any price from 14.9 to 19.2 lei/share, including the range limits;
- The offer price will bedetermined according to the provisions in the prospectus;
- Time interval- 14 – 27.03.2012;
- The intermediaries of the offer- intermediation syndicate consisting of the Romanian Commercial Bank SA as Syndicate manager and SSIF Intercapital Invest SA and SSIF SWISS Capital SA, as members;
- Subscription place- at the offices of intermediation syndicate members, to the territorial units of BCR mentioned in the prospectus, on-line for the investors of Intercapital Invest by means of Ktrade, and at the offices of any participant to the transaction system of the BSE that signed an agreement acknowledging the Offer application terms with the Syndicate manager;

The offer was carried out through the electronic system of the Bucharest Stock Exchange and it was an open one, namely the real time situation of subscription was public.
Under this offer investors could subscribe at any price ranging from 14.90 and 19.20 lei/ share, including the range limits.
Thus investors could purchase shares at a price below the stock exchange price of Transelectrica shares and will also benefit of Company dividends from the profit of the previous year.

The sale offer for Transelectrica shares was successfully concluded on March 27th, 2012. Shares representing 158.83% of the number of shares offered (17,464,106 shares subscribed compared to 10,995,472 shares offered).
The value of each subscription should have been equal or greater than 500,000 lei in the stock of large investors. Shares offered here represented 90% of the total. 14,393,929 shares were transacted compared to 9,895,925 shares offered (subscription level 145.45%); there were 122 subscription orders. The offer price in the stock of large investors was set at 14.90 lei/share.
The value of each subscription should have been lower than 500,000 lei in the stock of small investors. Shares offered here represented 10% of the total. 3,070,177 shares were transacted compared to 1,099,547 shares offered (subscription level 279.22%); there were 1,330 subscription orders. The offer price in the stock of small investors was set at 15.71 lei/share.
All the data regarding the secondary public offer were posted on the Company site, on the sites of syndicate members as well as on the special offer site: www.transelectricaoferta.ro.
OPSPI has received the full price of this share sale.
Also OPSPI as majority Company owner stated it does not intend initiating the increase of the share capital by cash in the following 12 months from the approval of the offer prospectus.

Shareholders' structure according to OPS (State Participation Office)



CORPORATE GOVERNANCE

Corporate governance is a responsible corporate management system devised in order to add value in time and to consolidate the stakeholders' confidence.
Such an approach relies on efficient cooperation between the Company's administrative leading bodies, on the promotion and reliance of shareholders' rights and interests, on open transparent communication.

Company's Corporate Governance Regulation

As issuer listed with the Bucharest Stock Exchange the Company's responsible attitude was substantiated in a formal document in 2009, when the Regulation of Corporate Governance of Transelectrica was approved.

This document means the Company has freely assumed the corporate governance principles taking into account its specific characteristics and activities and it describes the specific compliance with the principles provided in the Corporate governance code of the Bucharest Stock Exchange.
The Regulation is a public document and can be found on the site www.transelectrica.ro.

Corporate governance structures

The corporate governance structures defined within Transelectrica aim mainly at specifying the role and responsibilities of BA members and of the executive managers, so as to make them responsible to the Company and shareholders. For the time being the corporate governance structures are in agreement with Company needs.
In accordance with the Articles of Association the Company is governed by the Shareholders' general assembly and by the Board of administration.

Board of Administration

In accordance with the Articles of Association the Board of Administration is appointed for four years at the most, removable any time by the Shareholders' General Assembly.
They provide consultancy to the Company and take decisions on essential policies. The BA membership is based on diversity, aptitudes, qualities, experience and additional professional know-how. Members were elected in transparent manner during the Shareholders' General Assembly, while observing the legal provisions.

1. Andrei Benghea Mălăieş
2. Adrian Victor Vevera
3. Horia Hăhăianu
4. Dumitru Pârvulescu
5. Dumitru Virgil Orlandea

Consultative Committees

Consultative Committees have been constituted in order to take into consideration specific topics as well as to provide BA consultancy on such issues, with a view to improve activities. Thus the following committees were established within the BA:

- Audit committee;
- Remuneration committee;
- Committee of energy security and protection of critical infrastructures;

In case of need the Company provides Committees' access to foreign consulting or experts in order to carry out the objectives entrusted by the BA.

Executive Management

1. Marius Mateescu – Director General
2. Octavian Lohan – Deputy Director General System Management
3. Giuseppe Tessaro – Trade Union Lider
4. Maria Ionescu – Economic Director
5. Adrian Vâlciu – Director of Systems & Critical Infrastructures Unit
6. Sorin Pispiris – Ptg Commercial Manager
7. Marian Mateescu – Director of General Division for Support Services

8. Miron Savu - Manager for External Relations & Communication
9. Mihai Zdru – Director of Grid Access & Tesc Division
10. Răzvan Purdilă –Programme Director
11. Cătălin Lişman – Director of Metering Division Omepa
12. Emanoil Neguţ – Director of Managerial Control Division
13. Florin Ciobotaru – General Inspector
14. Dan Preoţescu – General Inspector
15. Mihaela Măciuceanu – Human Resources Manager
16. Marian Cernat - Director Operational Division, National Dispatching Center
17. Nicolina Anuţa Vărzaru – Deputy Director Of Legal & Hr Division
18 Vasile Ştefănescu Zacheu – Director Of Technical Coordination & Engineering Division
19. Cerasela Rădescu – Deputy Director Commercial Division
20. Ciprian Diaconu – Deputy Director General Technical Management
21. Dan Romanescu – Commercial Director
22. Corneliu Ene – Deputy Director General Economic & Commercial Management
23. Adriana Cernat - Director Corporate Strategy & Relations with the Regulatory Authorities Division
24. Bogdan Chitescu - Director of Transelectrica Solutions
25. Marian Mache Gheorghiţă – Director of Financial Division

Transelectrica's subsidiaries

Transelectrica has six subsidiaries whose sole shareholder it is. They are established as independent commercial companies and are described below:

SMART

Transmission grid maintenance services

- provides maintenance services for the electricity transmission network and for electricity distribution grids, preventive measurements included
- renders consultancy, design and production of various items specific to the electrical equipment

TELETRANS

IT and communication services

- provides IT and telecom services for the parent company and sector-specific services for the domestic liberalised telecom market

OPCOM

Commercial Market Operator – services on the regional market SEE-CEE

- provides market administration according to the provisions of the electricity market commercial code
- establishes the unconstrained merit order of the dispatachable generating units by ordering them on levels of opower depending on the bidded price
- establishes the payment rights and liabilities for the market participants in compliance with the accomplished transactions

FORMENERG

provides professional training for the power sector personnel

ICEMENERG

provides business research and technical assistance services to thermal power plants, electrical power substations and electricity networks

ICEMENERG SERVICE

provides services in the domain of electricity distribution equipment and control devices for energy equipment.

Transelectrica's branches

Transelectrica is organised in 8 Regional Transmission Branches covering the whole Romanian territory. According to the map below, Transelectrica's branches are located in Bacau, Bucharest, Cluj, Constanta, Craiova, Pitesti, Sibiu, and Timisoara. Their mission is to operate, modernise, maintain, plan and develop the power transmission grid in the region they belong to.

Location of the 8 Transmission branches on Romania's map

In 2010 OMEPA the electricity metering branch became a distinct division within Transelectrica Taking into account the dynamics of power transactions in a liberalised market system, the real time tele-metering of transited energy with high accuracy has become a strong prerequisite. These activities are developed by Transelectrica through OMEPA Division, the Metering Operator for the electricity transited on the wholesale market.

Transelectrica's Transmission Branches

Bacau Transmission Branch
Director: Stefan Tibuliac
41 Oituz str., Bacau, code 600266
Phone: 0234/207 120; Fax: 0234/517 456

Bucharest Transmission Branch
Director: Ioan Diaconu
1A Stefan cel Mare av, Bucharest 1, code 01173
Phone: 021/201 62 00; Fax: 021/317 23 00

Cluj Transmission Branch
Director: Rares Rusu
27 Memorandumului str. Cluj, code 400114
Phone: 0264/405 505; Fax: 0264/405 500

Constanta Transmission Branch
Director: Teodor Stoenescu
195 A Alexandru Lapusneanu blvd., bloc LAV 1, Constanta, Code 900472
Phone: 0241/607 505; Fax: 0241/607 550

Craiova Transmission Branch
Director: Ion Merfu
5 Brestei str., Craiova, code 200581
Phone: 0251/307 100; Fax: 0251/307 108

Pitesti Transmission Branch
Director: Dorin Voicu
25B Fratii Golesti str., Pitesti, code 110174
Phone: 0248/607 200; Fax: 048/607 209

Sibiu
Transmission Branch
Director: Vasile Metiu
3 Corneliu Coposu str., Sibiu, code 550245
Phone: 0269/207 111; Fax: 0269/207 101

Timisoara Transmission Branch
Director: Ovidiu Moza
11 Piata Romanilor str., Timisoara, code 300100
Phone: 0256/294 550; Fax: 0256/219 963

KPMG Audit SRL
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Independent Auditors' Report
(free translation[1])

To the Shareholders of
C.N.T.E.E. Transelectrica S.A.

Report on the consolidated financial statements

1 We have audited the accompanying consolidated financial statements of C.N.T.E.E. Transelectrica S.A. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

2 The management of the Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatements.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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[1] TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.

Fiscal registration code
RO12997279
Trade Registry
no.J40/4439/2000
Share Capital 2,000 RON

KPMG

Basis for Qualified Opinion

6 As described in Note 11 to the accompanying consolidated financial statements, as at 31 December 2011, the Group has ongoing long-term loans from the European Bank for Reconstruction and Development and International Bank for Reconstruction and Development. The Group did not comply with three financial indicators stipulated in the loan agreements. The financing institutions, may request, by written notification the acceleration of repayment of these loans, after a period of time in which the Group has the opportunity to remedy the matter. Therefore long term liabilities of Lei 250,786 thousand should be presented in the consolidated statement of financial position as at 31 December 2011 as short term liabilities in accordance with IAS 1 "Presentation of Financial Statements".

Our audit report on the consolidated financial statements as at and for the year ended 31 December 2010 expressed a qualified opinion with respect to long term liabilities, in amount of Lei 427,241 thousand, which should have been presented as short term liabilities, as a result of the non-compliance with two financial indicators, as at that date.

Qualified Opinion

7 In our opinion, except for the effects of the matter referred to in paragraph 6, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Other Matters

8 This independent auditors' report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for the report on consolidated financial statements and the report on conformity, or for the opinion we have formed.

Report on conformity of the Administrators' Report with the Consolidated Financial Statements

In accordance with the Order of the Minister of Public Finance no 3055/2009 and related amendments, article 107 of accounting regulations in accordance with the VII-th Directive of CEE we have read the Administrators' Report attached to the consolidated financial statements. The Administrators' Report is not a part of the consolidated financial statements. In the Administrators' Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying consolidated financial statements.

Refer to the original signed Romanian version

For and on behalf of KPMG Audit SRL:

Razvan Mihai

registered with the Chamber of Financial Auditors of Romania under no 2561/2008

KPMG Audit SRL

registered with the Chamber of Financial Auditors of Romania under no 9/2001

Bucharest, 11 April 2012

CN Transelectrica SA - Consolidated Statement of Financial Position as at 31 December 2011

(All amounts are in thousand LEI, unless stated otherwise)

	Note	31 December 2011	31 December 2010
Assets			
Non-current assets			
Property, plant and equipment	4	3,222,889	3,182,870
Intangible assets	5	69,419	26,353
Other investments		6,177	5,729
Total non-current assets		**3,298,485**	**3,214,952**
Current assets			
Inventories	6	53,525	48,826
Trade and other receivables	7	1,174,250	662,375
Cash and cash equivalents	8	322,496	160,403
Income tax receivable		2,799	12,832
Total current assets		**1,553,070**	**884,436**
Total assets		**4,851,555**	**4,099,388**
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital		1,091,526	1,091,526
Share premium		49,843	49,843
Legal reserves		44,608	38,587
Revaluation reserves		294,028	274,134
Other reserves		2,863	983
Retained earnings		674,309	547,975
Total shareholders' equity	**9**	**2,157,177**	**2,003,048**
Non-current liabilities			
Long term deferred income	10	194,808	134,958
Borrowings	11	943,493	981,608
Deferred tax liability	14	29,139	26,894
Employee benefits obligations	12	24,861	28,127
Total non-current liabilities		**1,192,301**	**1,171,587**
Current liabilities			
Trade and other liabilities	13	1,178,473	599,814
Other tax and social security liabilities	16	8,007	35,127
Borrowings	11	216,697	185,004
Short term deferred income	10	98,900	104,808
Total current liabilities		**1,502,077**	**924,753**
Total liabilities		**2,694,378**	**2,096,340**
Total shareholder's equity and liabilities		**4,851,555**	**4,099,388**

The accompanying notes are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 1 to 42 were authorized for issue by the management on 16th of March 2012 and were signed on its behalf by:

Octavian Lohan	**Maria Ionescu**	**Corneliu Ene**
General Manager	Economic Director	DCEC Deputy General Manager

CN Transelectrica SA - Consolidated Income Statement for the Year Ended 31 December 2011

(All amounts are in thousand LEI, unless stated otherwise)

	Note	2011	2010
Revenues			
Transmission revenues		1,110,002	968,116
Ancillary services revenues		784,145	1,163,902
Balancing market revenues		1,189,434	388,112
Other revenues		63,877	163,063
Total revenues	**17**	**3,147,458**	**2,683,193**
Operating expenses			
System operating expenses	18	(971,582)	(1,392,103)
Balancing market expenses	18	(1,189,434)	(388,112)
Depreciation and amortization		(290,957)	(267,135)
Personnel expenses		(223,852)	(211,240)
Repairs and maintenance expenses		(29,272)	(45,742)
Other operating expenses	20	(174,139)	(134,860)
Consumables		(57,271)	(55,580)
Total operating expenses		**(2,936,507)**	**(2,494,772)**
Operating profit		210,951	188,421
Financial income		117,640	94,587
Financial expenses		(151,317)	(152,806)
Financial result	**19**	**(33,677)**	**(58,219)**
Profit/(Loss) before income tax		**177,274**	**130,202**
Income tax	14	(39,468)	(26,237)
Profit/(Loss) for the period		137,806	103,965
Basic and diluted earnings/(losses) per share (lei/share)	**15**	**1.88**	**1.42**

The accompanying notes are an integral part of these consolidated financial statements.

CN Transelectrica SA – Consolidated statement of comprehensive income for the year ended 31 December 2011

(All amounts are in thousand LEI, unless stated otherwise)

	Note	2011	2010
Profit for the period		**137,806**	**103,965**
Other comprehensive income			
Deferred tax liability on revaluation reserve	14	(4,350)	-
Loss on revaluation of property, plant and equipment	9	27,189	(2,067)
Other comprehensive loss for the period, net of tax		**22,839**	**(2,067)**
Total other comprehensive profit/(loss) for the period		**160,645**	**101,898**

The accompanying notes are an integral part of these consolidated financial statements.

	Share capital	Share premium	Public patrimony	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Total
Balance as at 1 January 2010	**1,091,526**	**49,843**	**-**	**37,630**	**276,201**	**922**	**448,705**	**1,904,827**
Comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	103,965	103,965
Other comprehensive income/(loss)								
Loss on revaluation of property, plant and equipment	-	-	-	-	(2,067)	-	-	(2,067)
Total other elements of comprehensive income	**-**	**-**	**-**	**-**	**(2,067)**	**-**	**-**	**(2,067)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(2,067)**	**-**	**103,965**	**101,898**
Increase in legal reserve	-	-	-	957	-	-	(957)	-
Public patrimony assets (Please see Note 3 (c))	-	-	(4,447)	-	-	-	-	(4,447)
Derecognition of public patrimony assets (Please see Note 3 (c))	-	-	4,447	-	-	-	-	4,447
Total other elements	**-**	**-**	**-**	**957**	**-**	**-**	**(957)**	**-**
Transaction with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends distributed	-	-	-	-	-	-	(3,738)	(3,738)
Land for which title deeds were obtained (see Note 9)	-	-	-	-	-	61	-	61
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**61**	**(3,738)**	**(3,677)**
Balance as at 31 December 2010	**1,091,526**	**49,843**	**-**	**38,587**	**274,134**	**983**	**547,975**	**2,003,048**
Balance as at 1 January 2011	**1,091,526**	**49,843**	**-**	**38,587**	**274,134**	**983**	**547,975**	**2,003,048**
Comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	137,806	137,806
Other comprehensive income/(loss)								
Surplus on revaluation of property, plant and equipment	-	-	-	-	27,189	-	-	27,189
Transfer of revaluation reserve to other reserves	-	-	-	-	(2,945)	-	2,945	-
Reduction of revaluation reserve – deferred tax liability	-	-	-	-	(4,350)	-	-	(4,350)
Total other elements of comprehensive income	**-**	**-**	**-**	**-**	**19,894**	**-**	**140,751**	**160,645**
Total comprehensive income for the period								
Increase in legal reserve	-	-	-	6,021	-	-	(6,021)	-
Other elements	-	-	-	-	-	-	107	107
Total other elements	**-**	**-**	**-**	**6,021**	**-**	**-**	**(5,914)**	**107**
Total transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends distributed	-	-	-	-	-	-	(8,503)	(8,503)
Land for which title deeds were obtained (see Note 9)	-	-	-	-	-	1,880	-	1,880
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**1,880**	**(8,503)**	**(6,623)**
Balance as at 31 December 2011	**1,091,526**	**49,843**	**-**	**44,608**	**294,028**	**2,863**	**674,309**	**2,157,177**

CN Transelectrica SA - Consolidated Statement of Cash Flows for the Year Ended 31 December 2011

(All amounts are in thousand LEI, unless stated otherwise)

	2011	2010
Cash flows from operating activities		
Profit for the period	137,806	103,965
Adjustments for:		
Income tax expense	39,468	26,237
Depreciation and amortization	290,957	267,135
Impairment loss on trade receivables	13,674	50,311
Reversal of impairment loss on trade receivables	(4,960)	(601)
Net loss from disposal of property, plant and equipment	(1,652)	3,171
Impairment of property, plant and equipment	1,287	-
Interest expense	33,035	29,748
Interest income	(10,705)	(4,613)
Dividend income	(2,100)	(648)
Unrealized foreign exchange losses	15,557	32,450
	512,367	**507,155**
Changes in:		
Trade and other receivables	(517,708)	(93,880)
Inventories	(4,699)	(4,979)
Trade and other liabilities	592,116	101,949
Other tax and social security liabilities	(27,119)	25,073
Deferred income	61,045	(4,658)
Cash generated from operating activities	**616,002**	**530,660**
Interest paid	(35,015)	(31,343)
Income tax paid	(31,625)	(1,009)
Net cash from operating activities	**549,362**	**498,308**
Cash flows used in investing activities		
Purchase of tangible and intangible assets	(372,859)	(487,412)
Proceeds from sale of tangible fixed assets	6,172	1,196
Interest received	10,405	4,660
Dividends received	6,922	1,081
Net cash used in investing activities	**(349,360)**	**(480,475)**
Cash flows (used in)/from financing activities		
Proceeds from long term borrowings	123,451	172,168
Repayments of long term borrowings	(164,524)	(158,850)
Proceeds from short term borrowings	11,572	-
Dividends paid	(12,942)	(3,857)
Net cash (used in)/from financing activities	**(42,443)**	**9,461**
Net increase in cash and cash equivalents	**157,559**	**27,294**
Cash and cash equivalents as at 1 January (see Note 8)	**150,728**	**123,434**
Cash and cash equivalents at the end of the period (see Note 8)	**308,287**	**150,728**

The accompanying notes are an integral part of these consolidated financial statements.

CN Transelectrica SA - Notes to the Consolidated Financial Statements as at 31 December 2011

(All amounts are in thousand LEI, unless stated otherwise)

1. Background and general information

The main activity of CN Transelectrica SA ("the Company") and its subsidiaries (named together with the Company, "the Group") is: electricity transmission services; management of the National Energy System ("NES"); administration of the electricity market; the balancing market operator, being responsible for issuing green certificates on the energy market to the energy producers from regenerative energy source and settling the obligations derived from green certificate trade, repairs and maintenance of the transmission equipment; information technology and telecommunication services and research in energy sector. CN Transelectrica SA, the parent company, was incorporated in 2000 as a joint stock company established under the laws of Romania.

The address of its registered office is no. 33, General Gheorghe Magheru Blvd., Bucharest, sector 1. Currently, the executive activity is carried on in the working point established in No. 2 – 4, Olteni Street, sector 3, Bucharest.

The Group's consolidated financial statements prepared in accordance with International Financial Reporting Standards as endorsed by European Union ("EU IFRS") are available at the Company's working point located in No. 2 – 4, Olteni Street, sector 3, Bucharest.

Incorporation of the Company

In accordance with Government Decision ("GD") no. 627 regarding the reorganisation of the National Electricity Company (the "Predecessor Entity") issued on 31 July 2000 by the Government of Romania, the National Electricity Company was split into four newly created legal entities ("Successor Entities"). The sole shareholder of the Successor Entities was the Romanian State, through the Ministry of Economy ("ME"). Transelectrica was established as a result of this reorganization as a joint stock company which has as main activity object the electricity transmission, management and administration of the electricity market.

As described in Note 9, as at 31 December 2011, the shareholders of the Company are: the Romanian State through the Ministry of Economy, Commerce and Business Environment ("MECMA") which holds 54,015,781 shares, representing 73.69% of the share capital, Fondul Proprietatea, which holds 9,895,212 shares, representing 13.5% of the share capital and other shareholders which hold 9,392,149 shares, representing 12.81% of the share capital.

The Mission of the Group

The Mission of the Group refers to the secure and stable functioning of NES by observing quality standards, developing the infrastructure of the national electricity market and guaranteeing the regulated access of third parties to the electricity transmission network, ensuring transparency, non-discrimination and fairness for all participants in the market.

Other information relating to the Group`s activity

Transelectrica became a member of the Union for the Coordination of Transmission of Electricity ("UCTE") in October 2004, and from November 2004 became a member of the European Electricity Systems Operators Association ("ETSO"). As of July 2009, the work of ETSO, UCTE and other four European Transmission System Operators ("TSO") associations have been fully integrated into European Network of
Transmission System Operators for Electricity ("ENTSO-E"), centralizing 42 TSOs from 34 countries.

The Group is responsible for the secure, reliable and efficient functioning of NES, by carrying out the provisions of EU Directive no. 54/2003, art. 9.

Moody's Investor Service, the financial rating agency, has modified on December 10, 2010, the Company's rating from Baa3 with negative future expectations to Baa3 with stable future expectations.

Regulatory environment

The activity in the electricity sector is regulated by the National Agency for Electricity Sector Regulation ("ANRE") – established as an autonomous public institution by Government Ordinance No. 29/1998, modified by Law 99/2000 – which has, among others, the following responsibilities:

- application of the compulsory national regulating system for the energy sector, with the aim to guarantee efficiency, competition, transparency and consumer protection;
- issue or cancel the operating licenses of the entities involved

in the energy sector, which already exist or will appear in the future, in order to create a competitive environment for the electricity and thermal energy market;
- set up the methodologies and criteria for tariff calculation in the energy sector and the framework contracts for selling, purchasing and delivering electricity and thermal energy to final consumers.

ANRE establishes the tariffs for electricity transmission. Consequently, the Group's activity is fundamentally impacted by the decisions made by ANRE.

The operating activity of the Company has been performed according to set-up licence No. 161/2000 regarding electricity transmission and system services, revision 4/2011 issued by ANRE, valid until 2025.

Tariffs for energy transmission and ancillary services

The energy transmission is a natural monopoly activity. The tariffs used by the Company for transmission and system services were established by ANRE.
Starting with 2005, the tariff for energy transmission is set based on the revenue cap methodology. Using this methodology, ANRE sets initial target revenue that increases according to the annual increase of the consumer price index and reduces as efficiency increases, such revenue being the basis of the regulated income. The carrying value of property, plant and equipment is linked to this, so any significant change in the tariff mechanism could impact these carrying values. Based on current tariff levels no indications of impairment were identified.

Regulated assets base ("RAB")

The transmission tariffs are set, among others, based on the regulated asset base. The regulated asset base includes the net book value of the tangible and intangible assets which correspond to the private patrimony of the Company, considered by ANRE, and used solely for providing the regulated service of electricity transmission. Starting with the second regulated period 2008 – 2012, an adjustment of revenue was introduced for the not achieving, during regulated periods: period one and the second one, the fixed assets afferent to usage of the investments approved/estimated by ANRE. This adjustment would be made during the last year of regulated period.
The regulated asset base for the second period does not include the working capital. The assets resulted from additional investments approved by ANRE compared to the initial investment program, approved at the beginning of the regulated period, would be included in regulated assets base in the following regulated period.

Local and international stock exchange indexes

Starting 6 March 2007, CN Transelectrica SA shares are part of BET index managed by the Bucharest Stock Exchange, with a share of 3.74%, at a stock exchange capitalization amounting to 1,275,475 as at 31 December 2011. The BET index (Bucharest Exchange Trading) is a selective index that reflects the evolution of the 10 most liquid companies listed on BVB, except the Financial Investments Societies (SIF).

Starting with 2 January 2007, CN Transelectrica SA shares are part of Dow Jones Wilshire Global Indexes - a group of indexes that intend to offer the widest available measure of global markets. CN Transelectrica shares are part of:
- Dow Jones Wilshire Global Total Market Index SM;
- Dow Jones Wilshire Romania Index SM;
- Dow Jones Wilshire Electricity Index SM.

Company's revenues

The main revenue generating activities for the Company are:
- The electricity transmission services;
- The ancillary services (the technical operational management of NES);
- Balancing Market Operator.

Electricity transmission service

The transmission services mainly consist in assuring the electricity transmission between two or more points of the electricity transmission grid ("ETG"), in compliance with the continuity, safety and quality standards.
The Company provides the transparent, non-discriminatory and equal access to the transmission grid of all market participants. The transmission activity is carried out through eight branches located in Bucharest, Bacau, Cluj-Napoca, Craiova, Constanta, Pitesti, Sibiu and Timisoara.
The transmission service provided by Transelectrica consists in ensuring the technical conditions and maintaining the parameters of ETG during the injection/extraction of energy in/from the transmission network.
The end users of the transmission service are, on the one hand,

CN Transelectrica SA - Notes to the Consolidated Financial Statements as at 31 December 2011

(All amounts are in thousand LEI, unless stated otherwise)

the participants introducing electricity into the ETG (electricity producers and suppliers including importers) and, on the other hand, the companies taking over the electricity from the grid (electricity suppliers, the producers/suppliers that export it, as well as eligible consumers).

Ancillary services

In order to assure the management of NES, the Company uses its own resources called functional ancillary services and purchases technological ancillary services from the electricity producers. Transelectrica provides these services under two regulated tariffs applied to the same base (electricity purchased by suppliers / eligible consumers):

- tariff for technological ancillary services
- tariff for functional ancillary services

Technological ancillary services are purchased from energy producers at the request of Transelectrica under a procedure regulated by ANRE for maintaining the operational safety of the NES as well as the quality of electricity transmitted to the parameters required by the regulation in force. Transelectrica re-invoices the entire amount of ancillary services purchased from producers (except for the energy component which covers the technological grid losses) to other electricity suppliers licensed by ANRE which benefit of such services in the end.
Functional ancillary services consist in planning and operationally managing the NES, as well as other activities carried out by Transelectrica for the purpose of balancing in real time the output and the consumption.

Balancing market operator

In accordance with the provisions of the Commercial Code of the Wholesale Electricity Market, the balancing market was introduced and started functioning in Romania in July 2005. The purpose of the balancing market is represented by the need of balancing the consumption and production and improving the quality of forecasts done in this respect by all market participants.
Transelectrica is the balancing market operator who, based on procedures and regulations approved by ANRE, must approve all the participants to the balancing market, collect, verify and process all the offers and perform the clearing procedures.

High efficiency cogeneration

Starting with 1 April 2011, CN Transelectrica SA is the administrator of the support scheme for high efficiency cogeneration. The main purpose of the scheme is to promote high efficiency cogeneration of heat and power systems so as to render electricity production more environmentally friendly. It aims to provide access to power markets for electricity produced in high-efficiency cogeneration plants through a bonus granted as the total production costs of the electricity generated by such installations exceed prevailing market prices. The support scheme targets electricity and heat producers owning or operating high-efficiency power plants units so as to encourage new investments in cogeneration as well as the replacement or refurbishment of existing facilities.

The Government Decision no 1215/2009 establishes the necessary legal framework according to the regulations of the European Union, for implementing the bonus support scheme for promoting high-efficiency cogeneration based on the demand for thermal energy, in order to cover the difference between production costs and market prices. ANRE has calculated a bonus, which is a sum per megawatt hour ("MWh") of electricity produced and will be applicable to the electricity produced by the plant and sold on the market. The beneficiaries of the bonus are the producers that meet certain qualification criteria for the scheme and are established by ANRE.
This bonus paid to producers will be funded through a contribution collected by CN Transelectrica SA from the electricity suppliers delivering electricity. The contribution is defined by ANRE as a sum paid for each kilowatt hour ("KWh") of electricity consumed by all electricity consumers and Romanian electricity exporters.
According to provisions of article 14 of the Government Decision no. 1215/2009, CN Transelectrica SA is designated as being responsible for the administration of the support scheme. The main tasks that belong to the Company as the administrator of the support scheme are represented by the collection of the contribution from the suppliers of the electricity consumers in a bank account distinct from the base activity and by the payment of the bonus to the producers of electric and thermal energy in high efficiency cogeneration; to conclude contracts with the contribution collectors (energy suppliers) and with the producers that will be the beneficiaries of the scheme; to verify the total value of the contribution to be paid; to issue the invoices and to send them to the contributor payers; to refund the contribution to the suppliers for the energy imported and produced in cogeneration in other member states; to monitorize and report to ANRE the way of administration of the support scheme; to pay late penalties to the producers for not paying the bonus before due date.

This activity does not impact the income statement of the Company, CN Transelectrica SA collecting the contribution for high efficiency cogeneration from the suppliers of the electric energy consumers, in order to pay the bonus to the producers of electric and thermal energy in high efficiency cogeneration.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("EU IFRS").

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statement of financial position: some classes of assets are revalued, while the remaining classes of assets were adjusted as required by IAS 29 ("Financial Reporting in Hyperinflationary Economies") up to 31 December 2003.

(c) Functional and presentation currency

The financial statements are presented in Romanian Lei ("LEI" or "RON"), which is the Group's functional currency. All financial information presented in LEI has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses (assumptions on determination of fair value of property, plant and equipment (see Note 4), on calculation of employee benefits obligations (see Note 12) and provisions on risk and charges (see Note 22) and on allowance for doubtful debts (see Note 7)). Actual results may be different from these estimates.
Estimates and underlying assumptions are revised on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.
The Company (operator) concluded in 2004 a service concession agreement with MECMA (grantor) according to which it received the right to use public patrimony assets which mainly include the electricity transmission grid and the land on which it is located, in exchange for providing electricity transmission service (see Note 3 (c)). As the majority of the Company's shares are held by the State, the Company's management considers it to be a public-sector company and therefore scoped out from IFRIC 12 "Service Concession Arrangements". With no other specific standard under IFRS for service concession agreements, the Company considered whether IFRIC 12 should nevertheless be applied, based on the hierarchy set out in IAS 8, which requires first to consider requirements in IFRSs dealing with similar and related issues.

In determining if IFRIC 12 is applicable, the Company considered whether the following features of a public-to-private service concession agreement are to be applied to the concession agreement it had entered into with MECMA, as at the date at which IFRIC 12 is required to be adopted:

- The grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them, and at what price;
- The grantor controls-through ownership, the beneficial entitlement or otherwise-any significant residual interest in the infrastructure at the end of the term of the agreement;
- The contractual agreement would include the same terms if entered into with a private-sector company.

The Company concluded that accounting for the concession agreement under IFRIC 12 would not reflect the economic substance of the transaction, as the Company pays an annual fee for the use of the assets under the concession agreement of 1/1000 from the total annual revenue from electricity transmission services, computed based on the actual transmitted quantity, a fee that is significantly less than the amount of the depreciation that the Company would have recorded for these assets, if the concession agreement had not been signed. As a result, IFRIC 12 is not applicable and the Company applied the accounting policies as explained in Notes 3 (b) and 3 (c).

(e)Changes in accounting policies

The Group adopted the amendment to IAS 24 "Disclosure on related parties". The amendment exempts government-related entity from the disclosure requirements in relation to transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised standard reduces specific disclosures to be provided in relation with transactions and outstanding balances with other state-controlled entities.
The revised standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. The new Standard reduces the current level of disclosure of related parties and of the balances and transactions with other government-controlled entities.

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3. Accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained in note 2 (e), which addresses changes in accounting policies.

(a)Basis of consolidation

A subsidiary is an entity that is controlled by another entity, known as a parent, as defined in IAS 27 "Consolidated financial statements and accounting for investments in subsidiaries". According to IAS 27, control is presumed to exist when a parent owns more than one half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date when control ceases.

Intra-group balances and transactions and any unrealised gains and losses arising from intra-group transactions, are eliminated when preparing the consolidated financial statements.

(b)Property, plant and equipment

Owned assets

Property, plant and equipment, except for construction in progress, are stated at their revalued amount, less any accumulated depreciation and accumulated impairment losses. Construction in progress are stated at cost, except for assets acquired before December 31st, 2003 which include adjustments for the effects of hyperinflation, less any accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct salaries, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site, and an appropriate proportion of indirect production overheads.

The information maintained by the Company allows only the identification of historical values after the 1994 revaluation. Consequently, the restated cost of property, plant and equipment acquired before June 30, 1994 has been determined by restating the revalued gross book value according to Government Decisions No. 26/1992 and No. 500/1994 applying the consumer price index from June 30, 1994 up to December 31st, 2003. The restated cost of property, plant and equipment acquired after 30 June 1994 has been determined by restating the initial cost with the consumer price index from the date of acquisition up to 31 December 2003.

An allowance for the idle or obsolete tangible assets is recorded in the consolidated financial statements, when these elements are identified. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent maintenance expenses

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Property, plant and equipment items are depreciated using the straight-line method over their useful lives. The estimated useful lives (in years) used for property, plant and equipment are as follows:

	Useful lives (years)
Buildings	60
Overhead lines	48
Other special installations	15-48
Machinery and equipment	12-28
Control devices	7-12
Vehicles	5-8
Other fixed assets	3-5

The average useful life for other special installations is around 30 years. The useful lives, residual values and depreciation methods are reassessed annually. Land is not depreciated.

(c) Public patrimony assets

As stipulated by Law 213/1998, electricity transmission gridlines are public patrimony items.

The Government Decision No. 627/2000 establishes in the annex No. 8 the public patrimony fixed assets which are under the Group's administration since August 1st, 2000, and which are to be subject to inventory count and are updated whenever necessary (GD No. 1045/2000, GD No. 1326/2001, GD No. 45/2003, GD No. 15/2004, GD No. 2060/2004, GD No. 1705/2006 and GD No. 1184/2011).

Prior to signing the concession agreement described below in this note, public patrimony assets were treated as assets contributed to the Group by the Romanian state through its representative MECMA, since the Group was not required to pay any fee for the use of these assets and expected to have right of use of the assets for the majority of their useful lives. The public patrimony reserve was transferred to retained earnings in line with the depreciation of the corresponding fixed assets. Such transfer to retained earnings was not recorded through the income statement. The public patrimony fixed assets financed from subsidies were included in the public patrimony equity account when these assets were put into use.

In November 1998, Law No. 213/1998 was issued, which regulated the status of public patrimony. The law stipulates that the State or local authorities have ownership of the public patrimony and that they can rent or grant use of it. According to the provisions of Law no 213/1998 and Law no 219/1998, MECMA has signed in the name of State a concession contract in respect of the energy transmission grid (high voltage electric power lines and electric stations) and the land on which they are built. The concession contract No. 1 has been concluded as at 29 June 2004 between MECMA and the Group for all the public patrimony fixed assets in balance as at December 31st, 2003 and is in effect for 49 years.

Because of the change in the nature of relationship with the Romanian state through its representative MECMA, arising from the signing of the concession contract, the Group derecognized all public patrimony assets at June 29th, 2004 with the change recorded directly to the public patrimony reserve within equity. Following the signing of the concession agreement the Group now treats the public patrimony assets to which it has right of use, as assets under operating lease. Payments under the concession agreement (royalty) are recognized as an expense in the income statement based on the revenues recorded by the Group during the year.

During 2005 – 2011, 5 addendums to the concession contract were signed. As a result, the public patrimony assets obtained after 29 June 2004, using the development funds were derecognized.

The main terms of the concession agreement are as follows:

- MECMA has legal title to the leased assets;
- The Group has the right of use of these assets for a period of 49 years from June 1st, 2004 until May 31st, 2053;
- The annual charge under the form of royalty for use of the assets is determined by the Government and represents 1/1000 of the total revenue from electricity transmission services, based on quantities transmitted;
- The leased assets will be returned to MECMA upon termination or expiration of the agreement; the agreement can be terminated unilaterally by either party;
- The Group has the obligation to use the assets according to the destination specified in the concession agreement and to the operating license.

The amount that the Group paid under the concession agreement for the period 1 January – 31 December 2011 is significantly less than the amount of the depreciation that the Group would have recorded on the comparable public patrimony assets if the concession agreement had not been signed. However, the Group has not recorded any amount related to the possible benefit ensuing from the signing of the concession agreement because the Group is unable to determine the amount that a third party would pay for the use of the assets in an objectively determined transaction.

Investments made by the Group regarding the assets from the concession agreement are capitalized and depreciated over the remaining useful life of that asset and increase the value of the public patrimony assets after they have been fully depreciated.

(d)Intangible assets

The intangible assets of the Group are stated at their cost less any accumulated amortization and accumulated impairment losses. The amortization is recognized in the income statement based on a straight-line basis over the estimated useful life of the intangible asset. Intangible assets consist mainly of intangibles in progress and customized software, which are amortized on a straight-line basis over 3 years.

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(e)Foreign currency transactions

Transactions in foreign currencies are translated to LEI by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at period-end are translated to LEI at the exchange rates prevailing on that date. Exchange gains and losses, realised or unrealised, are included in the income statement for that year. The exchange rates at 31 December 2011 and 31 December 2010 are as follows:

Currency	31 December 2011	31 December 2010
1 EUR	4.3197	4.2848
1 USD	3.3393	3.2045
100 JPY	4.3178	3.9400

Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

(f) Receivables

Receivables include invoices issued and not cashed at 31 December 2011 in nominal terms. Receivables are stated at amortised cost less impairment losses. Ultimate losses may vary from the current estimates.

(g) Inventories

Inventories consist of consumables, spare parts, buffer stock and other inventories necessary for the activity of the Group. These materials are recorded as inventories when purchased and then expensed or capitalised, as appropriate, when consumed.

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out method, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, if any, and selling expenses.

The Group's policy is to write-off 100% for inventories older than 365 days and that are not expected to be used in the future.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, in current accounts and bank deposits with original maturities of 3 months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(i) Revaluation reserves

After the recognition as an asset, an item of property, plants and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised and accumulated in equity under the heading of revaluation reserve. However, the increase shall be recognised in profit and loss to the extent that it reverses a revaluation decrease of the same amount asset previously recognised in profit and loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised from equity to the element called "Revaluation reserves" if there is any credit balance existing in the revaluation reserve in respect of that asset.

The revaluation surplus included in equity is respect of and an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised.

Starting with May 1, 2009, statutory reserves from the revaluation of fixed assets, including land, recorded after January 1, 2004, which are deducted when calculating taxable income through tax depreciation expenses or assets transferred and/or ceased expenses, is taxed simultaneous with the tax depreciation deduction, when the assets are disposed, as appropriate. Statutory reserves from the revaluation of fixed assets, including land, recorded after December 31, 2003 plus the portion of the

revaluation performed after January 1, 2004 relating to the period before April 30, 2009 will not be taxed when transferred to reserves representing realized revaluation reserve surplus.

Statutory revaluation reserves of fixed assets are transferred to reserves representing realized revaluation reserve surplus when the revalued assets are disposed, while in the consolidated financial statements the transfer will be reflected in retained earnings.

Statutory realized reserves are taxable in the future, in case of changing the destination of reserves in any form, in case of liquidation, merger and including using the reserves for covering the Company's losses, except for the transfer of revaluation reserves after May 1, 2009, when the revaluation was performed after January 1, 2004.

(j) Impairment

The carrying amount of the Group`s non-financial assets, other than inventories and deferred tax assets, are revised at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) if any, and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, An impairment loss is reversed only to the extent that the asset`s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss ad been recognised.

(k) Share capital

The Group recognizes the changes in share capital in accordance with the legislation in force and only after their approval in the General Extraordinary Shareholders Meeting and their authorisation by the Trade Registry Office.
Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares and shares' options , are shown as a deduction in equity at net value from tax effects.

(l) Dividends

Dividends are recognized as a liability in the period in which their distribution is approved.

(m) Accounts and other payables

Trade accounts payable and other payables are stated at amortized cost and include invoices for deliveries, contracted work and services.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(o) Financial instruments

Financial assets and financial liabilities include cash and cash equivalents, trade and other accounts receivables, investments, trade and other payables, and borrowings. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

Financial instruments are classified as liabilities or equity in

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accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income as incurred. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

(p) Tax on profit

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.
A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Employee benefits

Other long-term employee benefits
The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

Short-term employee benefits
Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group, in the normal course of business, makes payments to the pension funds on behalf of its employees. All employees of the Group are members of the Romanian State pension plan.

Defined benefit plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration

is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service cost that had not previously been recognised.

(r) Revenue

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and the associated costs can be estimated reliably. Revenues comprise mainly the value of electricity transmission service, balancing market and ancillary services computed based on volume of energy transmitted. The tariffs for transmission and ancillary services are regulated by ANRE. The energy transmitted is determined by the meters found within the national energy system. Revenues include also the transactions on the balancing market as described in Note 1.

The Romanian State, through the ANRE, regulates the prices that the Company may charge for services related to transmission of electricity and market and network administration services. The State has a number of roles to fulfil, apart from the shareholder one, and thus may have broader goals and objectives than an investor whose key concern is return on investments.

As mentioned in Note 1, the Company is the administrator of the support scheme for high efficiency cogeneration. The Company is acting as an agent of the Romanian State because it engaged in the collection and distribution of money.

Other revenue includes mainly revenues from repairs and maintenance performed by Smart SA to third parties and revenues from information technology and telecommunication services performed by Teletrans SA to third parties. Revenue from these services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(s) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, except borrowings costs capitalized to qualifying assets, dividend income, foreign exchange gains and losses, commitment fees and risk commissions.

In accordance with revised IAS 23, the Group capitalizes the borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale that started after 1 January 2009.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the Group's right to receive the dividend is established.

(t) Subsidies

Subsidies are accounted for in the consolidated financial position as deferred income when there is reasonable assurance that they will be received and the Group will comply with the conditions attaching to it, if any, and recognized as income at the moment of recognition of the related costs.

(u) Connection fees

This interpretation applies to agreements with customers in which the Company receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant or equipment and the Company must then use the item of property, plant or equipment to connect the customer to the network. The Company recognises revenue as a whole when the service is provided at the fair value of the acquired/built asset, meaning when the customer is connecting to the network. Connection fees referring to connections that took place before 1 January 2008 were recognised initially as deferred income and are then recognised in income statement as other income on a systematic basis over the useful life of the asset.

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(v) Subsequent events

The accompanying financial statements reflect post-period-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events). Post-period-end events that are not adjusting events are disclosed in the notes when they are considered to be material.

(w) Provisions

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event; it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; a reliable estimate for the value of the obligation can be made. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(x) Earnings per share

Pursuant to IAS 33, earnings per share ("EPS") are calculated by dividing the profit or loss allocated to the shareholders of the Group by the weighted average number of shares outstanding during the fiscal period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares issued during the period multiplied by a time – weighting factor.

Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions. The objective of diluted earnings per share is consistent with that of basic earnings per share, namely to provide a measure of the interest of each ordinary share in the performance of an entity.

(y) Contingencies

Contingent liabilities are not recognized in the accompanying financial statements. They are disclosed only when an outflow of resources embodying economic benefits is possible but not probable.
A contingent asset is not recognized in the accompanying financial statements but disclosed when an inflow of economic benefits is probable.

(z) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group's activities are taking place in different parts of Romania with each location being involved in both transmission and dispatch activities. The management of the Group considers all activities together, as "a single segment".
Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments.

(aa) Implication of new International Financial Reporting Standards (IFRSs)

New standards, amendments and interpretations approved by the European Union
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these consolidated financial statements, except for the amendment to IAS 24 "Disclosure on related parties" (see note 2 (e)). None of the new standards, amendments to standards and interpretations that were effective for the annual periods beginning after 1 January 2011 and were not applied, is expected to have an effect on the consolidated financial statements of the Group.

4. Property, plant and equipment

The movements of property, plant and equipment from 1 January 2010 to 31 December 2011 are as follows:

	Free hold land and land improvements	Buildings and special installations	Machinery and equipment	Control devices	Vehicles	Other fixed assets	Construction in progress	Total
Cost								
Balance as at 1 January 2010	**72,485**	**2,735,905**	**2,426,447**	**315,270**	**52,500**	**54,716**	**541,272**	**6,198,595**
Additions	230	3,231	753	2,206	1,681	384	478,367	486,852
Increase/(decrease) of revaluation reserve	-	(2,067)	-	-	-	-	-	-
Transfers from construction in progress	347	91,125	313,724	45,775	1,504	65,269	(517,744)	-
Disposals	-	(17,678)	(19,067)	(2,757)	(1,588)	(310)	-	(41,400)
Balance as at 31 December 2010	**73,062**	**2,810,516**	**2,721,857**	**360,494**	**54,097**	**120,059**	**501,895**	**6,641,980**
Balance as at 1 January 2011 (audited)	**73,062**	**2,810,516**	**2,721,857**	**360,494**	**54,097**	**120,059**	**501,895**	**6,641,980**
Additions	769	2,433	2,507	857	-	85	308,226	314,877
Increase/(decrease) of revaluation reserve	(15,600)	(8,694)	52,915	(1,276)	(156)	-	-	27,189
Transfers from construction in progress	1,580	32,430	158,265	53,304	2,409	71,065	(319,053)	-
Transfers to intangible assets in progress	-	-	-	-	-	-	(14,059)	(14,059)
Disposals	(434)	(6,898)	(18,694)	(2,114)	(2,158)	(708)	-	(31,006)
Balance as at 31 December 2011	**59,377**	**2,829,787**	**2,916,850**	**411,265**	**54,192**	**190,501**	**477,009**	**6,938,981**
Accumulated depreciation								
Balance as at 1 January 2010	**-**	**1,581,812**	**1,392,104**	**179,513**	**48,271**	**27,310**	**-**	**3,229,010**
Depreciation expense	-	86,148	137,598	27,991	2,956	7,746	-	262,439
Impairment losses	-	-	-	-	-	-	-	-
Accumulated depreciation of disposals	-	(11,697)	(16,316)	(2,626)	(1,464)	(236)	-	(32,339)
Balance as at 31 December 2010	**-**	**1,656,263**	**1,513,386**	**204,878**	**49,763**	**34,820**	**-**	**3,459,110**

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	Free hold land and land improvements	Buildings and special installations	Machinery and equipment	Control devices	Vehicles	Other fixed assets	Construction in progress	Total
Balance as at 1 January 2011	**-**	**1,656,263**	**1,513,386**	**204,878**	**49,763**	**34,820**	**-**	**3,459,110**
Depreciation expense	-	77,145	152,708	33,975	3,296	15,320	-	282,444
Impairment losses	138	930	63	102	54	-	-	1,287
Accumulated depreciation of disposals	-	(5,914)	(17,084)	(1,859)	(1,258)	(634)	-	(26,749)
Balance as at 31 December 2011	**138**	**1,728,424**	**1,649,073**	**237,096**	**51,855**	**49,506**	**-**	**3,716,092**
Carrying value								
Balance as at 1 January 2010	**72.485**	**1.154.093**	**1.034.343**	**135.757**	**4.229**	**27.406**	**541.272**	**2.969.585**
Balance as at 31 December 2010	**73.062**	**1.154.253**	**1.208.471**	**155.616**	**4.334**	**85.239**	**501.895**	**3.182.870**
Balance as at 1 January 2011	**73.062**	**1.154.253**	**1.208.471**	**155.616**	**4.334**	**85.239**	**501.895**	**3.182.870**
Balance as at 31 December 2011	**59.239**	**1.101.363**	**1.267.777**	**174.169**	**2.337**	**140.995**	**477.009**	**3.222.889**

Ast 31 December 2011 tangible assets, excluding construction in progress, were revalued by SC Lero Advanced Consulting SRL in association with SC TNP Global&Partners SRL, independent evaluators authorized ANEVAR. Lands were revalued by direct coparison method, while the other revalued tangible assets were revalued mainly using the net replacement cost method. The net replacement cost was used for considerations related to the specificity of the assets for which there was insufficient market information and/or non-existence of an active market.

The tangible assets include also the net book value of assets, whose carrying value remains unchanged, qualifying as State's public patrimony in accordance with GD no. 164/2005. The main aspects regarding this amount are as follows:

- GD no. 164/2005 approved the recognition in the Company's accounting records of the net book value of the assets representing in kind contribution to share capital of the Company, by reducing the value of State's public patrimony.
- GD no. 164/2005 approved the recovery of net book value by including it in the operating expenses throughout the remaining useful life; the operational expense to recover this amount is included in the tariffs;
- The legal status of the tangible assets mentioned in this government decision has not changed and these assets are included in the Concession Agreement no. 1/2004 with the depreciated amount until the GD no. 2060/2004 was adopted.

Tangible assets also include the investments made by the Company to the assets belonging to the State's public patrimony, assets which are recorded in off-balance sheet accounts, as part of the concession contract. The value of these investments was not changed since the assets that are part of the concession agreement have not changed their legal status as a result of the investments made by the Company.

- The additions of property, plant and equipment include also transfers of construction in progress. Construction in progress is represented mainly by modernization works for overhead lines, stations and advances to suppliers of fixed assets. During 2011, the main transfers from construction in progress to fixed assets were represented by:
- Upgrade of 400/220 station, 110/20 kV Lacul Sarat, first and second stage;
- Replacement of 200 MWA transformers in the power stations Baia Mare, Salaj, Timisoara and Barbosi;
- Integrated security systems in the power stations;
- Planning and equipping a center for providing services for business continuity and disaster recovery.

Buildings and special installations include mainly transformation stations and high voltage power gridlines. Machinery and equipment include mainly transformers and cells relating to NES of 110 KV, 220 KV, 400 KV and 750 KV. The capitalized borrowing costs related to construction in progress amounted to 3,807 (31 December 2010: 982), out of which the amount of 1,328 relates to loan no. 25709 from EIB, which has a capitalization rate of 3.6% and 2,479 which relates to loan no. 25710 from EIB, which has a capitalization rate of 3.85%.

5. Intangible assets

The movements in intangible assets from 1 January 2010 to 31 December 2011 are the following:

	Other intangible assets	Licences and software	Intangible assets in progress	Total
Cost				
Balance as at 1 January 2010	**3,923**	**35,733**	**23,201**	**62,857**
Additions	36	167	418	621
Transfers from intangible assets in progress	-	9,327	(9,327)	-
Disposals	(24)	(181)	-	(205)
Balance as at 31 December 2010	**3,935**	**45,046**	**14,292**	**63,273**
Balance as at 1 January 2011	**3,935**	**45,046**	**14,292**	**63,273**
Additions	45	196	37,359	37,600
Transfers from intangible assets in progress	-	-	14,059	14,059
Transfers from tangible assets in progress	-	12,670	(12,670)	-
Disposals	(70)	(297)	-	(367)
Balance as at 31 December 2011	**3,910**	**57,615**	**53,040**	**114,565**
Accumulated amortisation				
Balance as at 1 January 2010	**3,456**	**28,973**	**-**	**32,429**
Amortisation expense	473	4,223	-	4,696
Accumulated amortisation of disposals	(24)	(181)	-	(205)
Balance as at 31 December 2010	**3,905**	**33,015**	**-**	**36,920**
Balance as at 1 January 2011	**3,905**	**33,015**	**-**	**36,920**
Amortisation expense	38	8,475	-	8,513
Accumulated amortisation of disposals	(35)	(252)	-	(287)
Balance as at 31 December 2011 (audited)	**3,908**	**41,238**	**-**	**45,146**
Carrying value				
Balance as at 1 January 2010	**467**	**6,760**	**23,201**	**30,428**
Balance as at 31 December 2010	**30**	**12,031**	**14,292**	**26,353**
Balance as at 1 January 2011 (audited)	**30**	**12,031**	**14,292**	**26,353**
Balance as at 31 December 2011 (audited)	**2**	**16,377**	**53,040**	**69,419**

During 2011, intangible assets in progress increased mainly due to the acquisiyion of software licenses for Voice System in the amount of 32,950.

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6. Inventories

As at 31 December 2011 and 31 December 2010 inventories are as follows:

	31 December 2011	31 December 2010
Spare parts, consumables and other materials	45,614	43,301
Auxiliary materials	6,103	3,854
Other inventories	1,808	1,671
Total	**53,525**	**48,826**

7. Trade and other receivables

As at 31 December 2011 and 31 December 2010 trade and other receivables are as follows:

	31 December 2011	31 December 2010
Trade receivables	1,194,482	687,651
Other receivables	47,752	34,230
VAT to be recovered	739	-
Allowance for doubtful receivables	(50,744)	(48,504)
Allowance for other doubtful receivables	(17,979)	(11,002)
Total	**1,174,250**	**662,375**

The Group's policy is to book a provision of 100% for clients in litigation and bankrupted clients, 75% from the trade receivables and other receivables due for more than 270 days and less than 365 days, and of 100% from the trade receivables and other receivables due for more that 365 days. As at 31 December 2011, the highest amounts for allowances for doubtfull trade receivables were recorded for Eco Energy (15,815) and Total Electric Oltenia SA (10,707).

As at 31 December 2011, other receivables in amount of 47,752 include late payment penalties with a value of 20,604 and amounts not yet clarified of 22.222 (see next paragraph related to the litigation with the National Agency for Fiscal Administration). The highest amounts for late payment interest allowances were recorded for Eco Energy (3,980) and for Total Electric Oltenia (3,289).

Litigation with the National Agency for Fiscal Administration ("ANAF")

The National Agency for Fiscal Administration ("ANAF") issued a tax audit report on 20 September 2011 on VAT reimbursement for the period September 2005 – November 2006. ANAF has identified a total number of 123 unused invoices as missing, these being documents with special status, for which an output VAT of 16,303 plus 27,196 as penalties were estimated. The total value of these obligations amounts to 43.499. The value of these obligations was retained from the VAT paid by the Company in November 2011. Subsequently, the Company has noticed that the amounts paid as current VAT were considered as being the payment for the obligations mentioned above. Thus, the Company was forced to pay additional penalties of 944 related to the VAT that should have been paid in November 2011, in order to avoid accumulating additional debts towards the State Budget. In total, the Company has paid the amount of 44.443 in the second part of 2011.

The payment of this amount was recorded in correspondence with a suspense account, as amounts not yet clarified.

The Company made use of all legal means to contest the enforcement decision issued by ANAF, so an appeal was filed at ANAF against the enforcement decision and a request was submitted to the Court to suspend the execution of the enforcement decision until the administrative appeal filed against ANAF is finalized. The court rejected the request to suspend the execution of the tax audit report. The Company made a recourse against the Court's decision regarding the request for suspension of the execution of the tax audit report.

Taking into account the fact in solving the appeal, ANAF did not consider the arguments invoked by Company, ANAF's decision no. 99/22 February 2012 will be appealed to the Bucharest Court, existing elements that could be considered by the court in filling a favourable solution for the Company.

Taking all of the above into consideration, as at 31 December 2011, the Company made a provision for the 50% of the total paid debts of 44.443, based on the estimations regarding the Company's winning chances in this case. The provision was booked in correspondence with the expense mentioned in line "Expenses with VAT and penalties paid to ANAF" from Note 20. Consequently, as at 31 December 2011, the net value of the amounts not yet clarified is of 22.222, being presented as Other receivables in the above table.

The main arguments of the Company in this case are:

- These invoices were destroyed in the fire that took place at the Company's headquarters in June 2009, for which the Company obtained a certificate for force majeure issued by the Chamber of Commerce and Industry of the District Ilfov;
- Even if the collected VAT was estimated, correspondingly, it was not estimated the deductible VAT, that would result from the reinvoicing of the services provided by the foreing suppliers;
- ANAF did not take into account the provisions of the Fiscal Procedure Code regarding the reasonable estimation of the taxation base, based on the Company's activity, on the income source and on the expenses incurred, these aspects being strictly regulated by the laws applicable to the Company.

As at 31 December 2011 and 31 December 2010 trade receivables are as follows:

	31 December 2011	31 December 2010
Clients – energy market	1,183,449	672,279
Other clients	11,033	15,372
Total	**1,194,482**	**687,651**

The most important clients from the energy market are: Electrica SA, CIGA Energy SA, Hidroelectrica SA, Electrica Furnizare SA, Complexul Energetic Craiova, Enel Energie Muntenia SA, Enel Energie SA, and Societatea Nationala "Nuclearelectrica" SA.

As at 31 December 2011 and 31 December 2010, these clients represent 58% and respectively 48%, from the total gross receivables from the energy market.

As at 31 December 2011, the Company has only one customer with trade receivables exceeding 10% from the total gross trade receivables: Electrica SA (receivable of 193,649 as at 31 December 2011 and 71,015 as at 31 December 2010).

As at 31 December 2011 trade receivables from energy market include 108,146 receivables from high efficiency cogeneration.

The Group's exposure to credit risk related to trade and other receivables is disclosed in Note 27.

As at 31 December 2011, the pledged trade receivables as per the Group's loan contracts (see Note 11) amount to 165,035 (31 December 2010: 131,726).

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8. Cash and cash equivalents

As at 31 December 2011 and 31 December 2010 cash and cash equivalents are as follows:

	31 December 2011	31 December 2010
Current bank accounts and deposits with original maturities of less than 90 days	243,524	159,659
Cash from high efficiency cogeneration	78,787	-
Petty cash	108	127
Other cash equivalents	77	617
Total	**322,496**	**160,403**

As at 31 December 2011 and 31 December 2010, deposits with original maturities of less than 90 days are in amount of 126,079 and 47,530 respectively.

Starting with 1 April 2011, CN Transelectrica SA, as the administrator of the high efficiency cogeneration scheme (Note 1), manages a special bank account opened for the collection of the high efficiency cogeneration contribution and for the payment of the high efficiency cogeneration bonus. As at 31 December 2011, the cash generated from the administration of this scheme is of 78,787.

For the purpose of the consolidated cash flow statement, cash and cash equivalents as at 31 December 2011 and 31 December 2010 are as follows:

	31 December 2011	31 December 2010
Cash and cash equivalents	322,496	160,403
Short term loans (credit lines) (see Note 11)	(14,209)	(9,675)
Total	**308,287**	**150,728**

As presented in Note 11, as at 31 December 2011, the short term loans include the credit line facility contracted by Transelectrica from ING Bank N.V. Bucharest Branch. This credit line facility is not payable on demand and the balance does not frequently fluctuate from a positive balance to a negative balance. In addition, as at 31 December 2011, the balance of this facility, in amount of 11,572, was not included in the short term loans assimilated to cash and cash equivalents for the purpose of the consolidated cash flow statement, as was the case of the credit line facilities contracted by Smart.

9. Shareholder's equity

Share capital

As at 31 December 2011 and 31 December 2010, the authorised issued and fully paid up share capital of the Company consists of 73,303,142 ordinary shares with a nominal value of 10 lei/share.

As at 31 December 2011, the shareholding structure is as follows:

Shareholder	Number of shares	Nominal value	% from share capital
Romanian State through MECMA	54,015,781	540,158	73.69%
Fondul Proprietatea	9,895,212	98,952	13.5%
Private investors	9,392,149	93,921	12.81%
Total	**73,303,142**	**733,031**	**100%**

As at 31 December 2011, the share capital in amount of 1,091,526 includes the effect of restatements relating to prior periods, required by the application IAS 29 "Financial Reporting in Hyperinflationary Economies", as described in Note 2 (b). The reconciliation of share capital is as follows:

Share capital (nominal value)	733,031
Restatement difference in accordance with IAS 29	358,495
Restated share capital balance	1,091,526

The holders of shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

According to Law no 10/2001 modified, the Romanian State decided to grant compensation in shares for those whose buildings were abusively expropriated. These shares could be submitted by their owners to the MECMA together with the option for the national companies in which the Romanian State had participation, including the Company. The shares were allocated from the Romanian State participation to the share capital of the Company.
The weighted average price of the shares given to issued to former owners who haven't been compensated in kind was communicated by BSE as being 31.54 lei.
As at 9 July 2007, the first shareholder certificates were issued to those who were expropiated by the Romanian State and then their rights were reinstaled under Law 10/2001 and who choose to subscribe to become shareholders of the companies from the portofolio of the MECMA, during April 2004 – July 2005.
The allocation procedure ended as at 29 November 2007, according to the Notice no XIV/116530/31.03.2009 received from the MECMA, Comission for reviewing the applications submitted by the persons eligibles for shares allocation to companies from the Ministry of Economy portofolio. According to the above document, 483 shareholders certificates were issued, which means 2,062,726 shares with a value of lei 65,063,710.
Until 31 December 2011, there were recorded transfers to the Shareholder's Registry administrated by the Central Depository representing 2,062,362 shares, respectively 2.8% from the total shares issued by the Company.
This allocation procedure was recorded to the Trade Registry Office with the request number 192138 from 13.05.2011.

Share premium

All shares issued within the capital increase by initial primary public offer from 2006 were subscribed and wholly paid against the issue price. The share premium amounting to 49,843, namely the difference between the issue price and the nominal value, was recorded in the Company's reserve account.

Legal reserves

Legal reserves in the amount of 44,608 as at 31 December 2011 and 38,587 as at 31 December 2010, respectively, represent legal reserves according to the statutory financial statements and cannot be distributed. The Company transfers to this reserve at least 5% of their annual accounting profits until the cumulative balance reaches 20% of their paid up share capital. Legal reserves include the effect of restatements relating to prior periods, required by the application IAS 29 "Financial Reporting in Hyperinflationary Economies". The reconciliation of legal reserves as at 31 December 2011 is as follows:

Legal reserves (statutory amount)	44,416
Restatement difference in accordance with IAS 29	192
Restated legal reserves balance	44,608

Revaluation reserves

The revaluation reserve is in amount of 294,028 as at 31 December 2011 and 274,134 respectively as at 31 December 2010.
As at 31 December 2011, the fixed assets, except construction in progress, were revalued by SC Lero Advanced Consulting SRL in association with SC TNP Global&Partners SRL, independent evaluators authorised by ANEVAR (see Note 4).

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Also, as at 31 December 2011, a deferred tax liability was recorded in correspondence with the revaluation surplus recognized as a consequence of the above mentioned revaluation (see Note 14).

Other reserves

As at 31 December 2011, other reserves are in amount of 2,863 and as at 31 December 2010 in amount of 983, representing the revalued amount land for which the title deeds were obtained. As described in Note 22, land for which the title deeds are obtained is first recognized at fair value in other reserves and followed by an increase in share capital after it is recorded at the Romanian Trade Register Office.

Retained earnings

Retained earnings represent the accumulated results of the Group. The retained earnings are distributable based on the statutory non-consolidated financial statements.

As per General Shareholders Meeting Decision no. 2 from 28 April 2011 the value of dividends approved for distribution from 2010 profit was 8,503. The value of unpaid dividends as at 31 December 2011 and as at 31 December 2010 is 1,504 and 1,448 respectively.

10. Deferred income

Deferred income includes mainly the special fund for development of the energy system received from MECMA, connection fees, other subsidies for investments and the income from the allocation of interconnection capacity.

The movement of current deferred income for the year ended 31 December 2011 and for year ended 31 December 2010 is as follows:

	31 December 2011	31 December 2010
Opening balance	104,808	3,145
Cash in advance related to interconnection capacity	12,896	38,146
Connection fee transferred from non-current deferred income	2,517	92,468
Revenues from using the interconnection capacity	(21,321)	(28,951)
Total	**98,900**	**104,808**

As at 31 December 2011, the current deferred income is represented mainly by the value of the connection fees for the investments that will be put into function during 2012 in amount of 94,985.

The movement of non-current deferred income for the year ended 31 December 2011 and for year ended 31 December 2010 is as follows:

	31 December 2011	31 December 2010
Opening balance	134,958	230,912
Subsidies received	77,430	99,803
Connection fee transferred to current deferred income	(2,517)	(92,468)
Release of deferred income	(15,063)	(103,289)
Total	**194,808**	**134,958**

11. Borrowings

Long term loans

As at 31 December 2011 and 31 December 2010 long term loans are as follows:

Description	31 December 2011	31 December 2010
EBRD 906 (a)	34,378	49,482
EIB 20.864 (b)	125,925	156,135
KfW 9787 (c)	1,459	7,777
West L.B. (d)	6,005	11,914
NIB PIL No 02/18 (e)	38,122	42,212
IBRD 7181 (f)	241,167	265,521
NIB PIL No 03/5 (g)	69,547	78,840
NIB PIL No 02/37 (h)	37,230	42,205
KfW 10431 (i)	56,546	65,510
BCR – World Trade Centre 398 (j)	10,000	15,000
Calyon (k)	4,770	9,156
KfW 11300 (l)	78,057	91,097
JBIC (m)	56,588	61,964
Raiffeisen Austria (n)	10,363	13,705
EBRD 33354 (o)	30,371	37,704
Alpha Bank (p)	22,200	29,600
BRD (q)	33,000	33,000
EIB 25709 (r)	140,390	139,256
EIB 25710 (r)	129,591	-
Less: Current amount of the long term loans	**(182,216)**	**(168,470)**
Total long term loans, net of current amounts	**943,493**	**981,608**

Long term loans are detailed as follows:

(a) Loan from EBRD No. 906

The purpose of the loan was to finance the Rehabilitation of Transmission – Dispatch System. As at 31 December 2011, the total amount outstanding is USD 10,294,400. The loan bears six months LIBOR plus 1% interest rate. Repayment is scheduled over 10 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, (iv) a 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.

(b) Loan from EIB No. 20.864

The total amount outstanding as at 31 December 2011 under the loan agreement, which was concluded in year 2000, is EUR 29,151,416. The loan bears a variable interest rate, being the interest

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rate applicable at the date of the disbursement notice. Repayment is scheduled over 10 years in 20 instalments from 2006 to 2015. The purpose of the loan is to finance the Rehabilitation of Transmission – Dispatch System.

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.

(c) Loan from KfW No. 9787

The loan from KfW was granted on 18 September 2001. The total amount outstanding as at 31 December 2011 is EUR 337,857 The purpose of the loan is to finance the Rehabilitation of the 400/110 kV Constanta Nord Switching Station. The loan bears a variable interest rate of six months EURIBOR plus 0.725% margin. Repayment is scheduled over 9 years in 17 instalments from 2004 to 2012.

(d) Loan from West LB

The loan from West LB was granted on 5 February 2002. The total amount outstanding as at 31 December 2011 is EUR 1,390,229. The purpose of the loan is to finance the Rehabilitation of 400/110 kV Oradea Sud Station. The loan bears a variable interest rate, which is the interest rate of six months EURIBOR plus 0.5%. Repayment is scheduled over 9 years in 17 instalments from 2004 to 2012.

(e) Loan from NIB PIL No. 02/18

The loan from NIB was granted in 2003. The total amount outstanding as at 31 December 2011 is USD 11,416,281. The purpose of loan is to finance the rehabilitation of Switching Station 400/210 kV Slatina. The loan bears a variable interest rate of six months LIBOR plus 0.9% margin. Repayment is scheduled over 10 years in 20 instalments from 2008 to 2018.

(f) Loan from IBRD No. 7181

The loan from IBRD was granted in 2003 for the objective "Electricity Market". The total amount outstanding as at 31 December 2011 is EUR 55,829,494. The loan bears a variable interest rate which, being the cost of qualified loans granted by IBRD on the financial market. The repayment is performed biannually, starting 15 July 2008, the last instalment being scheduled on 15 January 2020.

The loan agreement includes certain financial covenants: (i) a Debt Service Cover Ratio of not less than 1.3; (ii) a ratio of Current Assets to Current Liabilities, of not less than 1.2.

(g) Loan from NIB PIL No. 03/5

The loan from NIB was granted at 12 November 2004 for the rehabilitation of 400/220/110 kV Gutinas Station. The amount outstanding as at 31 December 2011 is EUR 16,100,000. The interest rate is six months EURIBOR plus 0.85%. Repayment is performed biannually, in equal instalments starting 15 March 2009, the last instalment being scheduled on 15 September 2018.

(h) Loan from NIB PIL No. 02/37

The loan was granted by NIB on 25 February 2004 for the rehabilitation of Rosiori Station. The amount outstanding as at 31 December 2011 is EUR 8,618,629. Interest rate is six months EURIBOR plus 0.90%, repayment is performed biannually in equal instalments starting 15 September 2008, the last instalment being scheduled on 15 September 2018.

(i) Loan from KfW No. 10431

The loan has been granted by KfW on 12 August 2004 for the objective of the rehabilitation of 400/220/110 kV Sibiu Sud Station. The amount outstanding as at 31 December 2011 is EUR 13,090,309. The interest rate is six months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting with 31 January 2008, the last instalment being scheduled on 31 July 2017.

(j) Loan from BCR No. 398

The loan was granted by BCR on 7 October 2004 representing advance financing of 10,00,000. Interest rate is six months ROBOR plus 0.5%, the repayment is performed biannually, in equal instalments starting with 15 April 2007, the last instalment being scheduled on 13 October 2013.

(k) Loan from Calyon

The loan was granted by Calyon on 12 March 2003 for financing of the rehabilitation of Switching Station 400/220 kV Slatina. The amount outstanding as at 31 December 2011 is USD 1,428,571. Interest rate is six months LIBOR plus 0.7%, the non-utilization commission being 0.3%. Repayment is performed biannually in 14 equal instalments, starting with 30 June 2006 until 30 December 2012.

(l) Loan from KfW No. 11300

The loan has been granted by KfW on 12 August 2004 for the rehabilitation and modernization of Bucuresti Sud Station. The amount outstanding as 31 December 2011 is EUR 18,069,891. The interest rate is six months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting with 31 January 2008, the last instalment being scheduled on 31 July 2017.

(m) Loan from JBIC

The loan has been granted by JBIC on 25 June 2004 for the rehabilitation of Brazi Station. The amount outstanding as at 31 December 2011 is JPY 1,310,565,000. The interest rate is 3.10%, the repayment being performed biannually, in equal instalments starting with 15 March 2007, the last instalment being scheduled on 15 September 2016.

(n) Loan from Raiffeisen Zentralbank Osterreich AG

The loan was granted by Raiffeisen Austria on 14 March 2006 for the rehabilitation of 11 stations. The amount outstanding as at 31 December 2011 is EUR 2,398,948. The interest rate is six months EURIBOR plus 0.50%, the repayment being performed biannually, in 12 equal instalments starting with 10 May 2009, the last instalment being scheduled on November 2014. This loan is guaranteed by Coface. According to addendum from 22 December 2008, the loan was reduced from EUR 5,458,646 to EUR 4,797,895.

(o) Loan from EBRD No. 33354

The loan has two components: A Loan granted by EBRD in an amount not to exceed EUR 18,200,000 and B Loan in an amount not to exceed EUR 5,000,000. The loan has been reduced to EUR 14,723,211 (A loan EUR 11,550,105 + B loan EUR 3,173,106). The amount outstanding as at 31 December 2011 is EUR 5,872,611 for A loan and EUR 1,158,404 for B loan. The interest rate is six months EURIBOR plus 3.00% for A Loan and six months EURIBOR plus 2.75% for B Loan. The repayment is performed biannually, for A Loan in 18 equal instalments between 2007 and 2016 year, respectively for the B Loan in 14 equal instalments between 2007 and 2014 year.

The loan agreement includes certain financial covenants: (i)) a Debt Service Cover Ratio of not less than 1.5, (ii) a ratio of Long Term Debt to Equity of not more than 2, (iii) a ratio of Current Assets to Current Liabilities, of not less than 1.2.

(p) Loan from Alpha Bank

The loan was granted by Alpha Bank in July 2009 for the rehabilitation of Gutinas, Bucuresti Sud, Isalnita, Gura Ialomisei and Gadalin stations. The amount outstanding as at 31 December 2011 is RON 22,200,000.The loan bears a variable interest rate of six months ROBOR plus 2% margin. Repayment is scheduled over 5 years in 10 instalments from 2010 to 2014.

(q) Loan from BRD – Groupe Societe Generale SA

The loan was granted by BRD – Groupe Societe Generale SA in February 2010 for the Rehabilitation of Gura Ialomitei, Lacu Sarat, Isalnita and Gutinas stations and to support other investments from the 2009 – 2010 investments programs. The amount outstanding as at 30 September 2011 is RON 33,000,000. The loan bears a variable interest rate of six months ROBOR plus 1.25% margin. Repayment is scheduled over 5 years in 10 instalments from 2012 to 2016.

(r) Loan from EIB No. 25709 and EIB No. 25710

The loans were granted by EIB in August 2010 for financing the modernization and rehabilitation of the National Electricity Grid. Each loan is in amount of EUR 32,500,000. Loan no. 25709 is not guaranteed, while loan no. 25710 should be guaranteed by another bank or financial institutions that complies with certain conditions stipulated in the loan agreement. The repayment period is of 15 years with a grace period of 2 years from 2012 to 2025 for EIB 25709 and from 2013 to 2026 for EIB 25710. The Company has the option to choose between variable and fixed interest rate before the drawings. The management opted for fixed rate of 3.596% for EIB 25709 and 3.856% for EIB 25710. The amount outstanding as at 31 December 2011 for EIB 25709 is EUR 32,500,000. During the six months period ended 31 December 2011 the Company has withdrawn from loan EIB no. 25710 the amount of EUR 30,000,000.

The loan agreement no. 25709 includes certain financial covenants for the first regulatory period that ends as at 31 December 2012 : (i) a ratio of EBITDA to interest payments for long term loans of not less than 4.2; (ii) a ratio of Debt to Equity of not more than 0.95. The financial covenants will be revised for the second regulatory period.

The loan agreement no. 25710 is guaranteed by CitiBank Europe PLC, Dublin – Romania branch. The contract bears a guarantee commission of 0.57% per annum, computed at the value of EUR 37,375,000. The guarantee contract concluded on 26 January 2011 includes certain covenants as follows: (i) a ratio of Consolidated EBITDA to Consolidated net financial expenses of not less than 4.2; (ii) a ratio of Total Debt to Equity of not more than 0.95.

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Long term portion of loans is repayable as follows:

	31 December 2011	31 December 2010
Between 1 and 2 years	188,567	179,100
Between 2 and 5 years	441,911	471,299
Over 5 years	313,015	331,209
Total	**943,493**	**981,608**

The Group has not undertaken any measures in order to cover the risks relating to its obligations expressed in foreign currency or those risks associated with interest rate.

All the long term loans, except for loans from JBIC, EIB 25709 and EIB 25710, bear a variable interest rate and consequently, the accounting value of the long term loans is an approximation of its fair value.
As at 31 December 2011, the long term loans guaranteed by the Romanian Government through Ministry of Public Finance are: IBRD 7181, EBRD 906, EIB 20864, NIB PIL No 03/5, NIB PIL No 02/18, NIB PIL No 02/37 and JBIC.

The loan Raiffeisen Zentralbank is guaranteed in proportion of 85% by Coface. The loans KfW 9787 and West LB are guaranteed by BCR through guarantee letters. The guarantees from the Romanian Commercial Bank are secured with the following:

- Pledge on cash-inflows in the accounts open at Romanian Commercial Bank;
- 3 promissory notes issued by the Company in the favour of the Romanian Commercial Bank equalling the loan instalments payable and the related interests, the maturity being in accordance with the repayment schedule agreed with the foreign banks.

The loans EBRD 33354 is guaranteed by Transelectrica with assignment of receivables from transmission contracts concluded with SC FDFEE Electrica Transilvania Nord SA, while the loan BCR 398 is guaranteed with the promissory notes issued by the Company in the favour of the Romanian Commercial Bank, equalling the loan instalments payable.

The loan Alpha Bank is guaranteed by assignment of receivables from SN Nuclearelectrica SA and a real movable security over all accounts opened with the Bank.

The loan BRD – Groupe Societe Generale is guaranteed by assignment of receivables from SC CEZ Vanzare SA and a real movable security over all accounts opened with the Bank.
The guarantee contract concluded with CitiBank Europe PLC is guaranteed by assignment of receivables from SC Enel Muntenia SA.

As at 31 December 2011 the pre-tax working ratio, current ratio and debt service cover ratio are not met. These financial ratios relate to the following loan agreements: EBRD 906, EBRD 33354 and IBRD 7181.

As at 31 December 2011, the financial ratios not met are:

Ratio	The value of the ratio according to contracts' provisions	Loan agreement	Realized value
Pre-tax working ratio	Minimum 1.3	EBRD 906	1.19
Current ratio	Minimum 1.2	EBRD 906	1.10
		IBRD 7181	1.10
		EBRD 33354	1.10
	Minimum 1.3	EBRD 906	1.13
Debt service cover ratio	Minimum 1.5	EBRD 33354	1.13

As at 31 December 2010, the financial ratios not met are:

Ratio	The value of the ratio according to contracts' provisions	Loan agreement	Realized value
Pre-tax working ratio	Minimum 1.3	EBRD 906	1.20
		EIB 20.864	1.16
Current ratio	Minimum 1.2	EBRD 906	1.06
		IBRD 7181	1.06
		EBRD 33354	1.06
		EIB 20.864	1.04

If covenants are breached and the matter is not remedied to the satisfaction of the credit institutions within a reasonable period of time from the written notification by the credit institutions, the credit institutions may require the acceleration of maturity of the loans drawn and not reimbursed.

The management of the Group believes that the long term liabilities in amount of 250,786 as at 31 December 2011, respectively 427,241 as at 31 December 2010 should not be classified as current liabilities due to the following:

- the covenant breach is not substantial;
- the Group has the capacity and intends to make all loan repayments in accordance with the loan agreements;
- the contractual clauses stipulate that the credit institutions have to grant the Group a reasonable period of time so that it could take the necessary actions in order to comply with the financial covenants;
- the loans, except for EBRD 33354, are guaranteed by the Romanian State. For all these loans, the Group settled its obligations towards the State regarding the risk commissions.

No early reimbursement notification has been received by the Group so far, neither for breach of covenants nor for breach of any other contractual issues in the loan agreements.

During 2012, the Company has requested and also received notifications from EBRD for loans EBRD 906 and EBRD 33354 and from IBRD for loan IBRD 7181, according to which early reimbursement of the loans is not required for the period 1 January – 31 December 2010, as a result of not complying with the current ratio as at 31 December 2010.

Therefore, the Group considers it is appropriate to classify the respective loans as long-term borrowings in the consolidated financial statements as at 31 December 2011, respectively as at 31 December 2010.

Short term loans

As at 31 December 2011 and 31 December 2010 the short term loans are as follows:

	31 December 2011	31 December 2010
Current portion of the long term loans	182,216	168,470
Short term loans (credit lines)	25,781	9,675
Interest on long term and short term loans	8,700	6,859
Total short term borrowings	**216,697**	**185,004**

The Group has three revolving credit lines, one contracted by Transelectrica from ING Bank N.V. Bucharest Branch with the value of 35,000 and two revolving credit lines through Smart subsidiary, one contracted from ING Bank N.V. Bucharest Branch with a value of 17,500 and one with BRD Groupe Societe Generale with a value of 1,500.

During 2011, these credit lines have increased the financing sources used in the operating activities. As at 31 December 2011, the balance of loan contracted by Transelectrica is of 11,572, and the balance of the credit lines contracted through Smart subsidiary with ING Bank N.V. Bucharest Branch is of 13,643 and with BRD Groupe Societe Generale is of 566.

The guarantees of Transelectrica for the credit line from ING Bank are represented by:

- the assignment of receivables under the contract no. C385/28.12.2006, concluded with S.C F.F.E.E. "Electric Supply Muntenia Nord".

The guarantees of Smart SA for the credit line from BRD Groupe Societe Generale are represented by:

- a first ranking mortgage over a building and land located in Sibiu, Corneliu Coposu Street, Sibiu County;
- security interest over the future amounts which will be collected in the Company's current accounts.
- transfer in favour of BRD, Sibiu Branch, of the compensation rights resulted from the mortgaged property's insurance.

The guarantees for credit line from ING Bank N.V. Bucharest Branch are:

- assignment of receivables from maintenance contracts, mainly concluded with the Company;
- real moveable security over all Smart SA's accounts opened with ING Bank N.V. Bucharest Branch;
- first ranking mortgage over an industrial complex, located in

Craiova, 25 Prelungirea Targului Street, Dolj County;

12. Employee benefits obligations

According to Government Decisions No. 1041/2003 and No. 1461/2003, the Company provides benefits in kind in the form of free electricity to the employees who retired from the Predecessor Entity.

According to the Collective Labour Contract, the Company provides both loyalty and seniority bonuses to employees and also retirement benefits to former employees.

The benefits provided by the Company consist of:

- retirement prizes which range from 1 to 5 monthly gross basis salaries based on the employment period within the Company at the retirement date;
- jubilee premiums in range of 1 to 5 monthly gross basis salary depending on the employment period within the Group.
- free energy provided after retirement in range of kWh 1.800 per year according to the Collective Labour Contract.

The obligations relating to employee benefits were determined by Mr. Silviu Matei, authorised actuary (authorisation no. 1342/12.04.2007) following the provisions of contract no. 89/28.02.2012 concluded with the Company based on the applicable public acquisition regulations.

As at 31 December 2011 and 31 December 2010 the Group has an obligation regarding the employee benefits, as described in Note 3 (q), in the amount of 24,861 and respectively in amount of 28,127. The estimation regarding these obligations as at 31 December 2011 has taken into consideration the followings:

- Interest rate as at 31 December 2011 communicated by the National Bank of Romania ("NBR") and interest rates estimated for future periods;
- Inflation rate as at 31December 2011 communicated by the National Statistics Institute ("NSI") and inflation rates estimated for future periods;
- Electricity price as at 31December 2011 and the price estimated for future periods;
- Salary as at 31December 2011 and the salaries estimated by the actuary for future periods (a yearly increase of 3%);
- Number of employees as of 31December 2011 and the number of employees estimated annually by the Group based on employee turnover and life expectancy information provided by NSI for 2008;
- Discounts rates estimated by actuary of 7.5% for the first five years and 4% for the following years.

13. Trade and other liabilities

As at 31 December 2011 and 31 December 2010 trade and other liabilities are as follows:

	31 December 2011	31 December 2010
Energy suppliers	962,681	400,695
Suppliers of fixed assets	139,194	171,521
Liabilities towards employees	6,200	7,407
Other liabilities	70,398	20,191
Total	**1,178,473**	**599,814**

As at 31 December 2011, the liability towards the energy suppliers includes the unpaid cogeneration bonus in the amount of 140,349.

The most important electricity suppliers are: SC Electrocentrale Bucuresti SA, SC Hidroelectrica SA, SC Termoelectrica SA , SC Electrocentrale Deva SA and SC Complexul Energetic Turceni SA.

As at 31 December 2011 and 31 December 2010, these suppliers represent 77% and 59%, respectively from the total energy suppliers.

Other liabilities in amount of 70,398 include mainly the Group`s liabilities that result from the administration of the high efficiency cogeneration scheme, of 50,987 (see Note 1) as at 31 December 2011, representing the net value between the invoices issued and those received regarding this scheme.

14. Income tax

The Group's current and deferred income tax for 2011 and 2010 is determined at a statutory tax rate of 16%, being in force during financial years 2011 and 2010.

Ihe income tax expense consists of the following:

	2011	2010
Current income tax	41,573	13,605
Deferred income tax	(2,105)	12,632
Total	**39,468**	**26,237**

The numerical reconciliation between income tax expense and the product between accounting result and the applicable profit tax rate is as follows:

	2011	2010
Profit before income tax	177,274	130,202
Income tax at statutory rate of 16%	28,364	20,832
Effect of non-deductible expenses	12,399	9,474
Effect of non-taxable income	(1,618)	(1,362)
Effect of timing difference not recognized at 16%	323	(2,707)
Income tax	**39,468**	**26,237**

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As at 31 December 2011 and 31 December 2010 the deferred tax liability is as follows:

	31 December 2011		31 December 2010	
	Cumulative temporary differences	Deferred tax (asset) / liability	Cumulative temporary differences	Deferred tax (asset) / liability
Property, plant and equipment	(24,783)	(3,966)	(29,283)	(4,685)
Deferred income	70,023	11,204	74,210	11,873
Retirement benefits	(24,861)	(3,978)	(28,127)	(4,500)
Property, plant and equipment	161,741	25,879	151,289	24,206
Subtotal	**182,120**	**29,139**	**168,089**	**26,894**

Total deferred tax recognized directly in other comprehesinve income.

	31 December 2011			31 December 2010		
	Before tax	Tax (expense) /benefit	Net of tax	Before tax	Tax (expense) /benefit	Net of tax
Revaluation reserve	27,189	(4,350)	22,839	-	-	-
Total	**27,189**	**(4,350)**	**22,839**	**-**	**-**	**-**

Starting with 1 May 2009, according to the changes in the fiscal treatment of revaluation reserves, in compliance with Government Emergency Ordinance no. 34/2009, amending the Fiscal Code, the revaluations performed by the Group after 1 January 2004 and booked on statutory financial statements, will be taxed simultaneously with the deduction of the fiscal depreciation, respectively when the assets are disposed, as appropriate. Thereby, the Group recognized deferred tax liability for this revaluation reserve. The balance of the deferred tax liability for the property, plant and equipment as at 31 December 2011 is of 25,879.

15. Earnings per share

As at 31 December 2011 and 31 December 2010, the earnings per share were as follows:

	2011	2010
Consolidated net profit	**137,806**	**103,965**
Number of ordinary shares at the beginning and at the end of the period	73,303,142	73,303,142
Basic and diluted earnings per share (lei/share)	**1.88**	**1.42**

16. Other tax and social security liabilities

As at 31 December 2011 and 31 December 2010, the other tax and social security liabilities are as follows :

	31 December 2011	31 December 2010
Contribution to social security fund	5,813	6,576
VAT payable	-	26,146
Tax on salaries	1,803	2,005
Other tax payable	391	400
Total	**8,007**	**35,127**

17. Revenues

Revenues from electricity transmission and ancillary services have been computed using the tariffs approved through ANRE Orders No. 45 from 23 December 2010 and No. 19 from 25 March 2011. Balancing market revenues are the result of the transactions on the balancing market, as described in Note 1.

The revenues realized in 2011 and 2010 are as follows:

	31 December 2011	31 December 2010
Electricity transmission	1,055,875	938,160
Interconnection capacity	54,127	29,956
Revenues from electricity transmission	**1,110,002**	**968,116**
Ancillary services	779,230	1,158,958
Reactive energy	4,915	4,944
Revenues from ancillary services	**784,145**	**1,163,902**
Balancing market	1,189,434	388,112
Other operating revenues	63,877	163,063
Total Revenues	**3,147,458**	**2,683,193**

During 2011 and 2010, the quantity of energy transmitted was as follows:

- GWh 56,056 and GWh 55,235, respectively for transmission services;
- GWh 56,056 and GWh 55,235, respectively for ancillary services.

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18. System operating expenses and balancing market expenses

The expenses realized in 2011 and 2010 are as follows:

	2011	2010
Technological losses	251,538	265,534
Ancillary services	549,784	553,916
Cogeneration	131,336	529,207
Other operating expenses	38,924	43,446
Total	**971,582**	**1,392,103**
Balancing market expenses	1,189,434	388,112
Total	**2,161,016**	**1,780,215**

Balancing market expenses are the result of the transactions on the balancing market, as described in Note 1.

The cogeneration expense relates to the slow tertiary reserve acquired by the Company from plants that produce in cogeneration. These expenses decreased as compared to 2010 due to the introduction of the new support scheme for promoting high efficiency cogeneration (Note 1). Starting with the introduction of the scheme (1 April 2011), the Company stopped buying ancillary services in the form of slow tertiary reserve from plants that produce in cogeneration, thus leading to the decrease in the cogeneration expense for 2011.

19. Financial results

	2011	2010
Interest income	10,705	4,613
Interest expenses	(33,035)	(29,748)
Net foreign exchange gains/(losses)	(13,585)	(33,899)
Other financial items, net	2,238	815
Financial result	**(33,677)**	**(58,219)**

20. Other operating expenses

	2011	2010
Other third party services	77,794	6,461
Expenses with VAT and others accessories paid to ANAF (see Note 7)	22,221	-
Postage and telecommunications	7,708	4,877
Rent	11,546	6,940
Impairment of current assets	8,714	43,380
Compensations, fines and penalties	4,413	57
Others	41,743	31,311
	174,139	**93,026**

21. Fiscal environment

The legal and fiscal environment in Romania and its implementation into practice changes regularly and is subject to different interpretations by various Ministries of the Government. Income tax returns are subject to review and correction by the tax authorities for a period generally of five years subsequent to their filing. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that tax authorities could take differing positions with regards to the interpretation of these issues. Their impact cannot be estimated at this time.

22. Commitments and contingencies

(i) Commitments

As at 31 December 2011 and 31 December 2010, the Group had commitments given amounting to 304,392 and 713,670 respectively, mainly representing ongoing contracts related to the investment program for the modernization and refurbishment of the transmission grid.

(ii) Land used by the Group

According to the Group policy, the financial statements include only the value of land for which title deeds were obtained as at the date of these financial statements.

According to Law No. 99/1999, in case the Group obtains the title of deeds to land after the privatisation, the land will be considered as contribution in kind of the State. In this respect, the Group will increase the share capital in line with the value of the land, and the beneficiary of this increase will be the State.

(iii) Litigation in process

As of the date of these consolidated financial statements, the Group was involved in a number of 171 litigations in progress. In 105 of them the Group acts as a plaintiff or a challenging party, while in 66 of them the Group is a defendant. The management analyses the status of the litigation in progress regularly and after consultation with its legal representatives considers the appropriateness of providing for or disclosing the amounts involved in the consolidated financial statements.

Based on the information available, the management considers that there are no significant litigations in progress in which the Group is defendant, except the litigation mentioned below with Eolica Dobrogea SRL.

At the Bucharest Court of Appeal are registered two files, no. 10870/2/2011 and 1049/2/2012, having the same object, in which Eolica Dobrogea SRL, through its administrator Corneliu Dica, has sued the Company, together with ANRE. In file no. 10870/2/2011, Eolica Dobrogea SRL also sued Mr. Horia Hahaianu, as an individual, in his quality as General Manager of the Company at that moment and Mr. Corneliu Ene, as an individual, in his quality as Deputy General Manager of the Company.

The two files have as object the following:

- The cancelation of a notice issued by the Company on 16 December 2011, through which was rejected the request of Eolica Dobrogea SRL to conclude the minute to attest the accomplishment of the suspensive conditions according to the provisions of the contract no. C 63/18.02.2011, for connection to NES of the 600 MW Wind Power Plant located in Cogealac, Constanta county, through the extension of the 400 kv TariVerde Power Station;
- The ascertainment of the fulfilment, in the contractual time, of the suspensive conditions stipulated in the above mentioned connection contract and, in addition, forcing the Company to execute the above mentioned contract and to start the works according to the contract;
- Jointly forcing the Company (and Mr. Horia Hahaianu and Mr. Cornel Ene in file no. 10870/2/2011) for repairing the damage caused to Eolica Dobrogea SRL, by refusing to conclude the minute for the fulfilment of the suspensive conditions and to continue the execution of the connection contract, the estimated initial damage being estimated at EUR 118 million/ year;

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On 16 March 2012, the Bucharest Court of Appeal, has decided that the two cases mentioned above to be connected in one file. The next term was set for 11 May 2012.

According to a press release issued by Eolica Dobrogea SRL on 21 February 2012, it was mentioned that the main shareholder of Eolica Dobrogea intends to replace the administrator of the company (Corneliu Dica) who initiated these litigations and to withdraw the claims.

On 20 March 2012, the Company has received from the lawyers' office Hammond, Bogaru and Associates, hired by Eolica Dobrogea SRL, a notification regarding the dismissal of Mr. Dica as administrator and the appointment of Mr. Cristoph Kapp, being the one that issued the above mentioned press release.

The management of the Company estimates that there are sufficient arguments that will lead to the conclusion that this litigation will be won by the Company, as Eolica Dobrogea SRL has not fully fulfilled the suspensive conditions mentioned in the connection contract, mainly because Eolica Dobrogea SRL did not make the proof of the agreement of the owner of the land related to the power station 400 kV TariVerde for connection with the new station that will be build through the extension of the existing station.

Group management believes that there are no cases in which an outflow of resources will be required to settle the ongoing disputes. In addition, there are no ongoing disputes either by nature or by their value for which it is necessary to make the presentation of contingent assets or liabilities.

The Group is involved in various significant litigations, in which it acts as plaintiff, for debt recovering. The Group has recorded a provision for doubtful receivables and other receivables in litigation and bankrupt clients. The highest values were recorded for Eco Energy (19,795) and Total Electric Oltenia SA (13,996) (see Note 7).

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(iv) Guarantees

In accordance with the license no. 161/2000 regarding electricity transmission and system services, the Company has to maintain a financial guarantee in amount of 1% of the turnover generated by activities authorized by this license. This protects the Company from risks arising from these activities and covers any potential liabilities that may be incurred according to the license contractual clauses. In order to comply with this obligation, the Company concluded a guarantee agreement with BCR-WTC, the value of the guarantee letter being 24,851 as of 31 December 2011.

(v) Operating environment

Although Romania is a member of the European Union starting with 1 January 2007, the Romanian economy has the characteristics of an emergent market, such as a high current account deficit, a financial market relatively undeveloped and variances of the exchange rates.

Currently, the international financial markets feel the effects of the global financial crisis from 2008. Those effects were felt by the Romania financial market, in the form of fall in prices and liquidity on the capital markets and through an increase in the medium term financing interest rates due to the global crisis of liquidity. The significant losses experienced in the global financial market could affect the ability of the Company to obtain new borrowings at terms and conditions similar to those applied to earlier transactions.

The analysis of the compliance with the loan agreements covenants and the valuation of the significant uncertainties, including uncertainties associated with the Group's ability to continue as a going concern for a reasonable period of time, represent the permanent concern of the Company's management.

The financial statements do not include any adjustments related to the recoverability and classification of asset carrying amounts or related to the classification of liabilities that might result in case the Group is unable to continue as a going concern, because is applicable the going concern principle.

The management considers that the going concern assumption used in the preparation of the accompanying consolidated financial statements is appropriate, given the strategic importance and the natural monopoly position of the Company within the national energy system.

The financial position of the Company depends on the future politics regarding the tariff adjustments, and/or on the continuous sustainability from the Romanian Government.

(vi) Statutory revaluation reserves as at 31 December 2011

As at 31 December 2011, Group statutory revaluation reserves are in amount of 1,298,190 and according to the provisions of the Fiscal Code the next two categories are distinguished:

Beginning with May 1, 2009, statutory reserves from the revaluation of fixed assets, including land, recorded after January 1, 2004, which are deducted when calculating taxable income through tax depreciation expenses or assets transferred and/or ceased, is taxed simultaneous with the fiscal depreciation deduction, or when the assets are disposed, as appropriate. Statutory revaluation reserves of fixed assets are transferred to reserves representing realized revaluation reserve surplus when the revalued assets are disposed, while in the consolidated financial statements the transfer will be reflected in retained earnings. As at 31 December 2011, these reserves are in amount of 199,699.

Statutory reserves from the revaluation of fixed assets, including land, recorded until December 31, 2003 plus the portion of the revaluation performed after January 1, 2004 relating to the period before April 30, 2009 and plus the revaluation reserve taxed during 1 May 2009 – 31 December 2011, are in amount of 1,098,491. Realized reserves are taxable in the future, in case of changing the destination of reserves in any form, in case of liquidation, merger and including using the reserves for covering the Company's losses, except for the revaluation reserve taxed after 1 May 2009. As at 31 December 2011, the statutory realized revaluation reserves are in amount of 33,677.

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23. Group entities

The Group companies and the percentage of ownership exercised by the Company are as follows:

Entity	Country of Origin	31 December 2011 % of total shares	31 December 2010 % of total shares
SMART SA	Romania	100	100
TELETRANS SA	Romania	100	100
ICEMENERG SA	Romania	100	100

SC SMART SA

SC SMART SA, with registered offices in no. 33 Magheru Boulevard, sector 1, Bucharest has as main activities the provision of maintenance services for the transmission – dispatcher system, It was set up by Romanian Government Decision no. 710/ 19 July 2001 at 1 November 2001. The share capital as of 31 December 2011 was in amount of 38,529, subscribed and fully paid.

SC TELETRANS SA

SC TELETRANS SA, with registered offices in no. 16 - 18 Hristo-Botev Boulevard, sector 3, Bucharest has as main activities telephony, telegraphy and transmission of data. It was set up as per Shareholders Meeting no. 3/2002. The share capital as of 31 December 2011 was in amount of 6,874 subscribed and fully paid.

SC ICEMENERG SA

SC "Filiala Institutul de Cercetări şi Modernizări Energetice" – ICEMENERG SA, with registered offices in no. 8 Electricienilor Boulevard, sector 3, Bucharest has as main activities research and development in physical and natural sciences, innovation, studies, development strategies, design, city planning, engineering and other technical services. It was set up as per Government Decision no. 1065/ 4 September 2003. The share capital as of 31 December 2011 subscribed and fully paid by the Company was in amount of 1,085.

24. Transactions with other state owned companies

The Group's transactions relating to the electricity transmission and other activities performed as market and system operator are generally carried out with other companies owned by the Romanian state based on contracts.

The transactions with other state owned companies in 2011 and 2010 are detailed below:

	2011	2010
Sales	1,486,496	1,253,494
Purchases	1,803,858	1,731,683

The balances with other state owned companies as at 31 December 2011 and 31 December 2010 are detailed below:

	31 December 2011	31 December 2010
Trade receivables	594,857	329,582
Trade payables	843,201	359,729

As described in Note 1 ("Regulatory environment") the Group's activities are regulated by ANRE. As described in Note 3 (c), according to the concession agreement, the Group pays an annual concession fee to MECMA computed as 1/1000 of the total electricity transmission revenues.

All the sale and acquisition contracts with other state owned companies are in accordance with the contractual requirements issued by ANRE.

25. Management salaries

In 2011 and 2010, the key management personnel's salaries amounted to 7,401 and 6,016, respectively.

26. Financial instruments

Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- interest rate risk
- foreign exchange rate risk
- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are audited.

The Company is considering managing the risk using an integrated risk management system in order to fulfil the legal requirements (OMFP 946/2005, OMFP 1389/2006) and other requirements related to BSE (Corporate Governance Code).

In 2011, the Company's risk management policy, the system and operational procedures regarding risk management were elaborated and the management was trained in risk management and internal control.

Interest rate risk

The Company's operating cash flows are impacted by the changes in interest rates, mainly due to the foreign long term debts the Company contracted.

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At the 31 December 2011, the interest rate profile of the Group's interest bearing financial instruments are:

	31 December 2011	31 December 2010
Fixed rate instruments		
Financial liabilities	326,569	201,220
Variable rate instruments		
Financial liabilities	799,140	948,858

The interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Company has significant long-term loans incurring interest at fixed and variable rates that expose the Company to significant cash flow risk.

Sensitivity analysis of interest rate

An increase of 100 basis points in interest rates at the reporting date would have decreased the profit by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Loss 2011	Loss 2010
RON	(652)	(776)
EUR	(6,566)	(7,704)
USD	(773)	(1,009)
Total	**(7,991)**	**(9,489)**

A decrease of 100 basis points in interest rates at the reporting date would have increased the profit by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit 2011	Profit 2010
RON	652	776
EUR	6,566	7,704
USD	773	1,009
Total	**7,991**	**9,489**

Foreign exchange risk

The Company may be exposed to the changes in the foreign exchange rates due to its cash and cash equivalents, long term borrowings and commercial debts denominated in foreign currencies.

The Company's functional currency is LEI. The Group is exposed to foreign currency risk on cash and cash equivalents, purchases and borrowings that are denominated in a currency other than the functional currency of the Group. The currencies giving rise to this risk are primarily EUR, USD and Japanese Yen (JPY). The long-term loans are denominated in foreign currencies, which are retranslated at the prevailing exchange rate at each balance sheet date, as communicated by Romanian National Bank. The resulting differences are charged or credited to the income statement, but do not affect cash flows until the settlement of the amount.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	RON	EUR	USD	JPY
31 December 2011				
Monetary assets				
Cash and cash equivalents	292,433	29,929	86	48
Gross balance sheet exposure	**292,433**	**29,929**	**86**	**48**
Monetary liabilities				
Suppliers of fixed assets	(77,795)	(61,399)	-	-
Borrowings	(91,018)	(934,601)	(77,469)	(57,102)
Gross balance sheet exposure	**(168,813)**	**(996,000)**	**(77,469)**	**(57,102)**
31 December 2010				
Monetary assets				
Cash and cash equivalents	135,659	24,634	82	28
Gross balance sheet exposure	**135,659**	**24,634**	**82**	**28**
Monetary liabilities				
Suppliers of fixed assets	(127,314)	(44,207)	-	-
Borrowings	(87,346)	(915,692)	(101,048)	(62,526)
Gross balance sheet exposure	**(214,660)**	**(959,899)**	**(101,048)**	**(62,526)**

Trade receivables are denominated only in RON.
The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposure.
The following significant exchange rates were used:

	Average rate		Reporting date spot rate	
	2011	2010	31 December 2011	31 December 2010
RON/ EURO	4.2377	4.2099	4.3197	4.2848
RON/ USD	3.0475	3.1779	3.3393	3.2045
RON/ 100 JPY	3.8283	3.6345	4.3178	3.9400

Sensitivity analysis of exchange rates

A 10 percent strengthening of the RON against the following currencies at 31 December 2011 and 31 December 2010 would have increased profit by the amounts shown below. This analysis assumes that all other variables remain constant.

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(All amounts are in thousand LEI, unless stated otherwise)

	Profit 2011	Profit 2010
EUR	99,600	95,990
USD	7,747	10,105
JPY	5,710	6,253
Total	**113,057**	**112,348**

A 10 percent weakening of the RON against the following currencies at 31 December 2011 and 31 December 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

	Loss 2011	Loss 2010
EUR	(99,600)	(95,990)
USD	(7,747)	(10,105)
JPY	(5,710)	(6,253)
Total	**(113,057)**	**(112,348)**

Credit risk

The treatment of counterparty risk is based on internal and external success factors. The external success factors which contribute to the decrease of the risk in a systematic way are reorganisation of the energy market, privatisation of some of SC Electrica SA subsidiaries, liberalisation of the energy market and improving the market operation activity. The internal factors of success in managing the counterparty risk include diversifying of the clients' portfolio and diversifying the services portfolio.

Financial assets, which potentially subject this Group to credit risk, consist principally of trade receivables and cash and cash equivalents. The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment adjustment, represents the maximum amount exposed to credit risk.
Credit risk with respect to these receivables is limited, since these amounts are primarily due from state owned companies.

The maximum exposure to credit risk at the reporting date was:

	Carrying amount 31 December 2011	Carrying amount 31 December 2010
Financial assets		
Trade receivables	1,143,738	639,147
Cash and cash equivalents	322,496	160,403
Other receivables	29,753	23,228
	1,495,987	**822,778**

The ageing of trade receivables at the reporting date was:

	Gross 31 Dec. 2011	Impairment 31 Dec. 2011	Gross 31 Dec. 2010	Impairment 31 Dec. 2010
Neither past due nor impaired	1,120,809	-	619,268	-
Past due 1 – 30 days	19,187	-	16,894	-
Past due 31 – 90 days	2,915	108	107	-
Past due 90 – 180 days	2,508	1,820	13	-
Past due 180 –270 days	2,665	2,530	3,075	2,891
Past due 270 –365 days	450	338	22,395	19,714
More than one year	45,948	45,948	25,899	25,899
Total	**1,194,482**	**50,744**	**687,651**	**48,504**

The ageing of other receivables at the reporting date was:

	Gross 31 Dec. 2011	Impairment 31 Dec. 2011	Gross 31 Dec. 2010	Impairment 31 Dec. 2010
Neither past due nor impaired	25,639	-	15,874	-
Past due 1 – 30 days	495	-	932	246
Past due 31 – 90 days	650	-	1,000	520
Past due 90 – 180 days	1,680	-	4,607	1,675
Past due 180 –270 days	590	-	5,219	2,479
Past due 270 –365 days	2,796	2,097	2,063	1,547
More than one year	15,882	15,882	4,535	4,535
Total	**47,732**	**17,979**	**34,230**	**11,002**

The movement in the allowance for doubtful debts in respect of trade receivables during the year was as follows:

	2011	2010
Balance at 1 January	**48,504**	**7,591**
Net impairment (release) /loss recognized	2,240	40,913
Balance at period end	**50,744**	**48,504**

The movement in the allowance for doubtful debts in respect of other receivables during the year was as follows:

	2011	2010
Balance at 1 January	**11,002**	**-**
Net impairment loss recognized	6,977	11,002
Balance at period end	**17,979**	**11,002**

The Group held cash and cash equivalents of 322,496 as at 31 December 2011 (31 December 2010: 160,403), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, mainly at Credite Europe Bank, BCR and Alpha Bank.

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Liquidity risk

	31 December 2011	31 December 2010
Assets		
Monetary assets in RON	1,465,924	798,034
Monetary assets in foreign currency	30,063	24,744
	1,495,987	**822,778**
Liabilities		
Monetary liabilities in RON	(1,216,099)	(678,079)
Monetary liabilities in foreign currency	(1,130,571)	(1,123,474)
	(2,346,670)	**(1,801,553)**
Net monetary position in RON	**249,825**	**119,955**
Net monetary position in foreign currency	**(1,100,508)**	**(1,098,730)**

The Group's policy on liquidity is to maintain sufficient liquid resources to meet the obligations as they fall due.

The following are the contractual maturities of financial liabilities, including interest payments:

	Carrying amount	Contractual amount	12 months or less	1 – 2 Years	2 – 5 Years	> 5 Years
31 December 2010						
Financial liabilities						
Trade and other liabilities	(1,178,473)	(1,178,473)	(1,178,473)	-	-	-
Other tax and social security liabilities	(8,007)	(8,007)	(8,007)	-	-	-
Borrowings	(1,160,190)	(1,262,679)	(213,276)	(213,884)	(488,228)	(347,291)
Total	**(2,346,670)**	**(2,449,159)**	**(1,399,756)**	**(213,884)**	**(488,228)**	**(347,291)**
31 December 2010						
Financial liabilities						
Trade and other liabilities	(599,814)	(599,814)	(599,814)	-	-	-
Other tax and social security liabilities	(35,127)	(35,127)	(35,127)	-	-	-
Borrowings	(1,166,612)	(1,277,841)	(211,201)	(201,108)	(511,089)	(354,443)
Total	**(1,801,553)**	**(1,912,782)**	**(846,142)**	**(201,108)**	**(511,089)**	**(354,443)**

As at 31 December 2011, the Group did not comply with two financial ratios imposed by loan agreement EBRD 906, EBRD 33354 and IBRD 7181 (see Note 11). In this case, these financial institutions may require the acceleration of maturity of the se loans. Loans EBRD 906 and IBRD 7181 are guaranteed by the Romanian Gevernment through Ministry of Public Finance.

Fair value of financial instruments

The fair value is the amount at which the financial instrument can be exchanged in a current transaction by willing parties in an arm's length transaction, other than determined through liquidation or forced sale. The fair values are obtained from quoted market prices or through cash flows models, as appropriate. Management is not able to estimate a reliable fair value for available-for-sale investments. As at 31 December 2011, cash and cash equivalents, trade and other short term receivables, trade payables and other short term liabilities are close to their fair value due to their short due date, Management believes that the estimated fair values of these instruments approximate to their carrying amounts. The accounting value of the long term loans is an approximation of their fair value.

Personnel risk and the salary scheme

As at 31 December 2011, the average age of the Group's personnel is quite high. It is likely that in the nearest future, the Group will face a lack of personnel due to natural causes.

The Group could also face the risk that highly qualified employees leave for private companies which may offer salary packages more attractive than those offered by the Group.

The salary policy imposed by the State on companies in which it is the majority shareholder may lead to a major fluctuation within the specialized work force.

Price risk related to the regulatory framework of NES

The Group's operations and revenues are regulated by ANRE. The most important risks arising from this are:

- The regulatory framework is relatively new and prone to different changes, which may affect the Group's performances;
- ANRE decisions regarding future tariffs may affect the Group's operations;

27. Subsequent events

In 2010, the main shareholder, MECMA, has decided to sell 10,995,472 shares, respectively 15% of the share capital of CN Transelectrica SA. The sale of the shares issued by the Company and held by MECMA, through public secondary offer, was approved through Government's Decision no. 826/4 August 2010. The period for the public secondary offer is 14 – 27 March 2012, and the subscription price is between 14.9 lei/share and 19.2 lei/share, including the margins of the interval.

The financial evaluation agency Moody's Investors Service has reconfirmed, on 6 March 2012, the rating "Baa3" granted to CN Transelectrica SA with stable future expectations, such maintaining the Company in the category "Investment grade", same level as for Romania.


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