



2004

annual report

“Companies are successful when they stay a step ahead of competition. Transelectrica competes with itself, its culture, its technology. Our company offers the infrastructure for the internal electricity market and a support for the regional market.

Based on the dedication, expertise and steadfast commitment of our employees, we are prepared to take all the challenging targets staying ahead and have confidence in the future”

Ion Merfu,
Director General Transelectrica

Annual Report

2004

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A message from the director general

“Transelectrica - the first Romanian company integrated into European structures”



2004 was a year with noteworthy performances for Transelectrica.

The perspective of Romania's accession to the European Union in 2007 has focused all our efforts towards the harmonisation with the European legislation and regulation. Transelectrica is the first Romanian Company integrated into European structures, a significant step towards harmonisation to the European Union energy acquis communautaire.

Transelectrica's target priorities in 2004 were to comply with the technical conditions for reconnection of the two UCTE synchronous zones, develop the electricity market, by implementing the balancing market and ancillary services market, keep on developing the intensive investment program and initiate the listing process to the Bucharest Stock Exchange.

As of October 10, 2004 the Romanian power system has been operating interconnected to the UCTE Western European power system, further to the interconnection process between the South-Eastern European zone and the West-European one, by connecting the 400 kV OHLs Arad (Romania)- Sandorfalva (Hungary) and Rosiori (Romania) - Mukacevo (Ukraine). The process, achieved by Transelectrica, had a major contribution to closing chapter 14 “Energy” of the EU Accession Dossier, because it clearly proved that the company can operate a competitive electricity market, in compliance with EU regulations.

Following the fulfillment of the requirements stated by the electricity Directive 2003/54/EC of the European Parliament on the separation of transmission and dispatching activities, on November 9, 2004 Transelectrica was admitted as a member of ETSO European Transmission and System Operators in EU countries. Thus, the high standard met by the Romanian power system control was confirmed and better trade opportunities in the European internal electricity market will be ensured.

By Transelectrica integration to UCTE and ETSO, Romania, a non- EU member country, became the first South-Eastern European Country which integrated into EU specialty organisation structures.

Transelectrica is a company of a strategic importance in the country, which ensures the infrastructure for the

development and operation of the electricity market in Romania. By implementing the energy policy related to the electricity transmission and dispatching, Transelectrica managed to improve its efficiency, profitability and performance indicators. In 2004 the company's turnover was of 10.117 bn. ROL (255 mil. Euro), over 37% vs 2003.

The ratings obtained by Transelectrica from the main international rating agencies Moody's Investor Service and Standard & Poors - induced a better position for the company in negotiations with the financial institutions and allowed it to get more favourable and flexible financial conditions, even loans with no state or bank guarantees.

Due to its steady positive financial results, Transelectrica rating upgraded from "BB-" to "BB, with stable outlook" according S&P and from "Ba3" to "Ba1", with stable outlook reaching the sovereign level, according to Moody's Investors Service. The rating upgrade has been facilitated by several developments among which: Transelectrica's continuing strategic importance to the national economy, its key role in meeting EU accession requirements, the positive expectations of the Romanian regulatory developments in the field and signing the concession agreement with the government.

Modernisation of the electricity transmission and dispatching infrastructure with state-of-the art and innovative technology is a prerequisite for Transelectrica. In 2004 investment efforts were made to complete two of the large investment projects contracted by Transelectrica since its setting up, in August 2000, while also continuing the rehabilitation and modernisation program of the transmission-dispatching system. The investment program in 2004 was of 5.363 bn. ROL (135 mil.Euro), exceeding with 4.5% the estimated value. It also included the commissioning of the two "turn-key" contracted substations of Oradea Sud and Constanta Nord meant to increase the power system reliability and meet the performance criteria for the interconnected operation with the UCTE system. The optic fiber installation and the metering system projects were also completed.

According to the governmental program of speeding up the privatisation and investment attraction by means of the capital market in Romania, Transelectrica is on the way of diversifying its sources of attracted capital by listing 10% of its shares in the stock market and turn the company into an open society by the end of the year 2005.

Based on the agreements of the Athens Forum we have started the implementation of the Regional Power Exchange on OPCOM structure, offering a transparent, fair and non-discriminatory transaction environment. The contract for consultancy and implementation of the Romanian PX with the consortium lead by Kema and Nordpool Consulting was signed in May 2004 and the transaction platform is expected to be operational as of 2006. Thus, Romania can become a regional leader of the electricity market operations.

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

I would like to convey my best thanks to all our employees for their endeavours and steadfast commitment and for the already accomplished achievements. Their expertise, professionalism and dedication are a guarantee for our meeting all the challenging targets staying ahead.

Ion Merfu

Director General



History in Brief

1916



Commissioning the 55 kV OHL Anina thermal power plants Resita Plants (24 km, double circuit)

1924



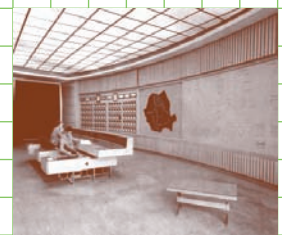
Commissioning the 60/25 kV transforming and connection substation at the thermal power plant Floresti, the first 60 kV OHL and substation in the country at that time

1955



June 13, 1955: Setting up the National Dispatching Center

1970



Commissioning the 220 kV OHL Portile de Fier - Slatina

Until 1990

There were 48 electricity transmission and distribution companies and 38 electricity generators, all under the coordination of the Ministry of Electric Energy and Electric Engineering Industry.



1990

The Romanian Electricity Authority (RENEL), was set up as an autonomous regie which took over all the activities related to the electricity and heat generation, transmission, distribution and supply

July 1998

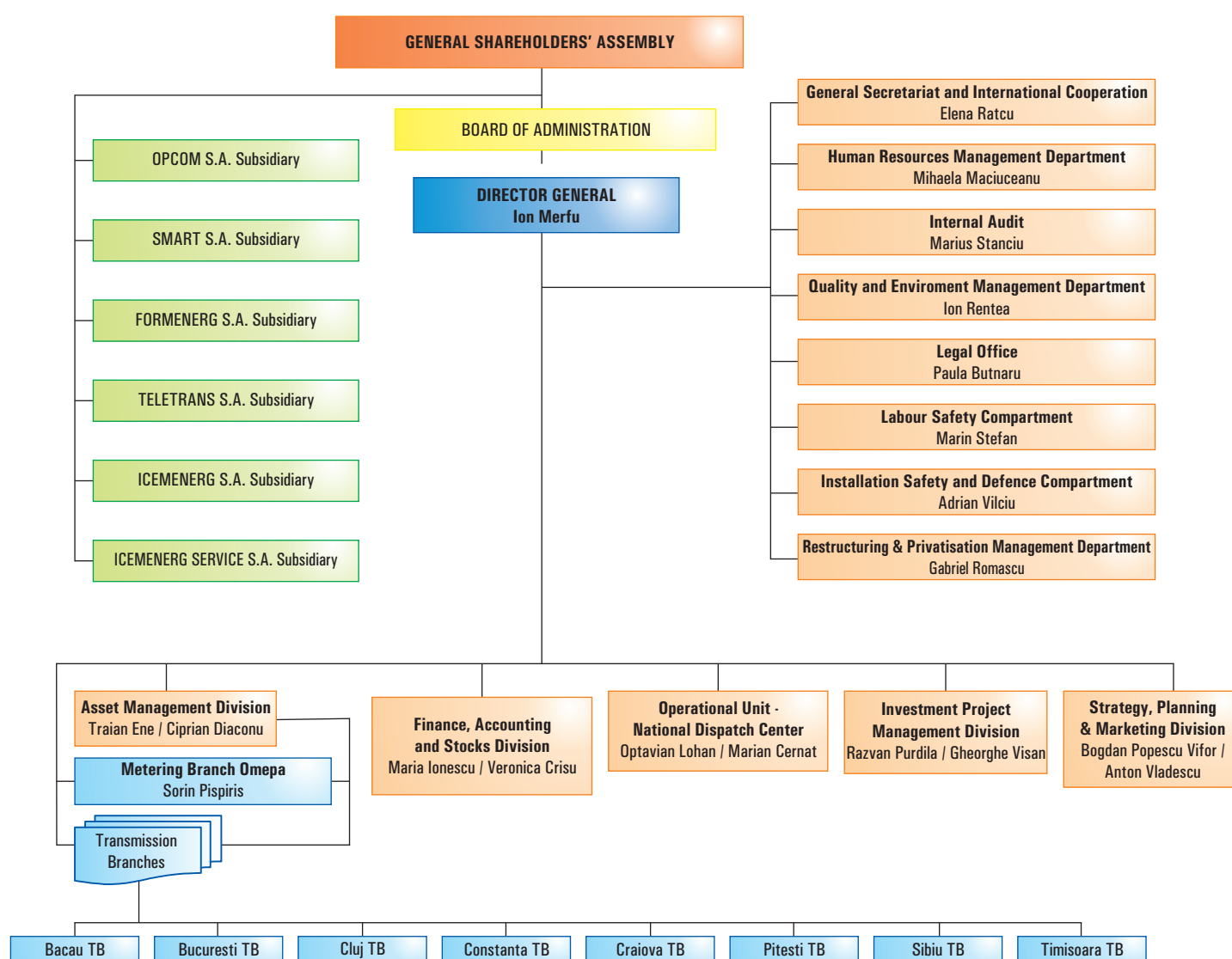
Reorganisation of RENEL, further to the restructuring process of the Romanian Power System, into the National Electricity Company (CONEL), a state-owned company with 3 subsidiaries: *Termoelectrica* (electricity generator based on coal and hydrocarbon), *Hidroelectricita* (electricity generator based on hydropower resources) and *Electrica* (electricity distributor and supplier). At the same time *Nuclearelectrica* was set up as a separate nuclear power company

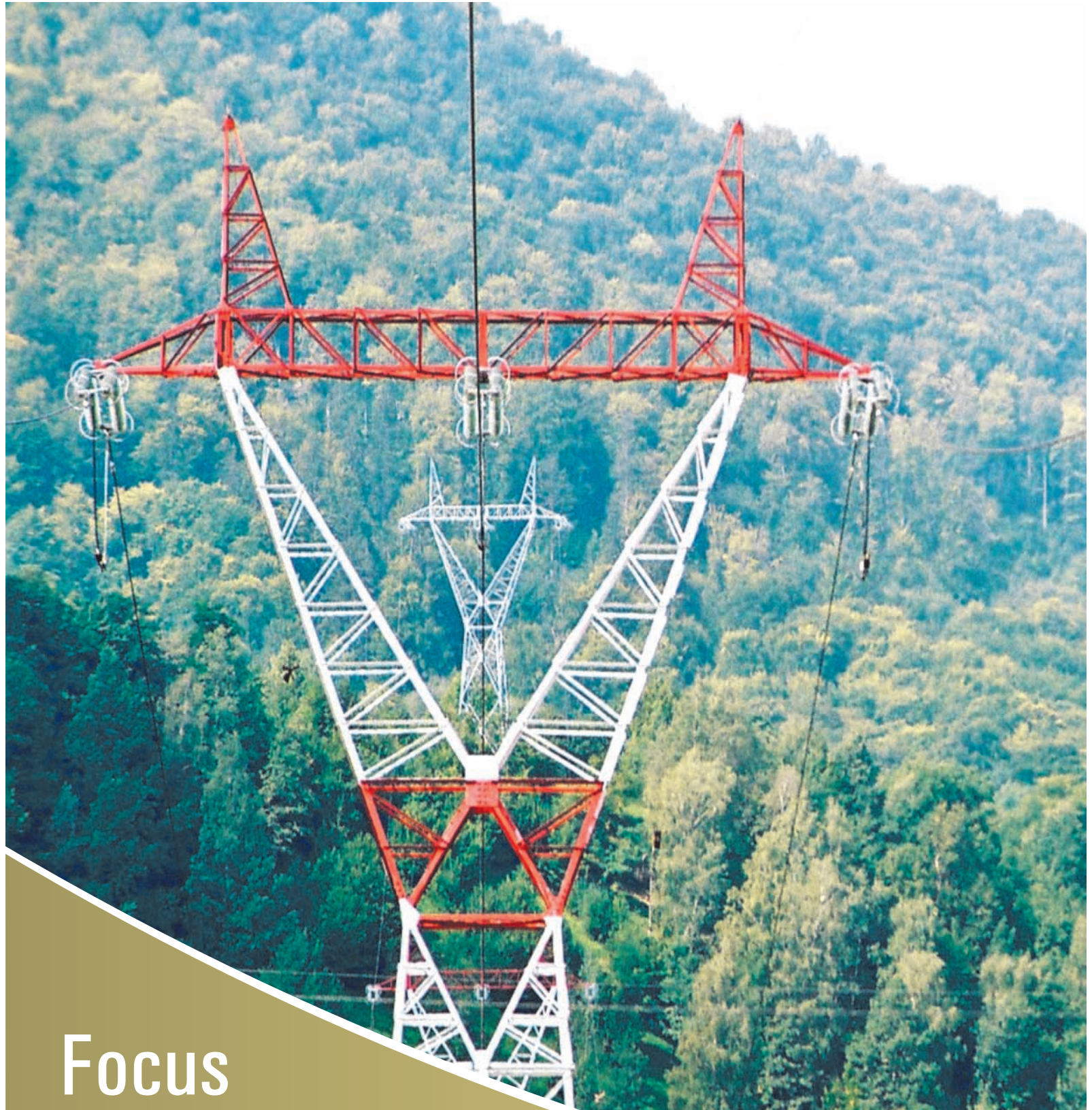
2000

August 1, 2000: The Romanian Power Grid Company "Transelectrica S.A." was set up, following CONEL reorganisation and its splitting up into independent entities for electricity generation, distribution and transmission. Transelectrica is the Transmission and System Operator (TSO) of the entire Romanian Power System (RPS). The shares of Transelectrica are entirely owned by the Romanian state, represented by the Ministry of Economy and Commerce.

Management Team

Organizational Chart





Focus

Transelectrica is the Romanian TSO which plays a key role in the Romanian electricity market, as the backbone of an open market. Transelectrica strategy is focused on:

- power system operation at UCTE standards
- modernization based on state-of-the-

art technologies

- diversifying and improving the quality of its services: electricity market, trading platforms, metering, IT&Tc services etc
- active participation in the regional electricity market, within the frame of the Athens forum



Customer Satisfaction

by Esteeming Customers; Core Values

Mission

To ensure the Romanian Power System (RPS) reliable and stable operation, at quality standards, while providing reliable and stable operation and securing a regulated access to the Romanian electricity transmission network under transparent, non-discriminatory and fair conditions to all market participants.

Vision

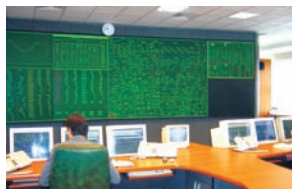
To become the technical and operational authority of the Romanian power system and the key- transmission and system operator in South-Eastern Europe, while operating interconnected to UCTE and providing electricity wheeling to the regional electricity market.

Stakeholders

Transelectrica overall objective is to create value for its stakeholders: customers, shareholders, public and communities, employees, contractual partners, regional and international collaborators. Social and environmental concerns were integrated in Transelectrica's business operation and in interaction with its stakeholders on a voluntary basis while promoting the corporate social responsibility.

Customers

The players on the electricity market using the transmission grid are Transelectrica's customers. The Company offers regulated services to its grid customers in Romania and





South-East Europe by continuously strengthening Romania's infrastructure for electricity transmission. Given the TSO's neutral role, Transelectrica has gained full confidence from market participants.

Shareholders

Transelectrica carries out the Government goal for a sustainable development of the Romanian economy and the integration into the European Union. As an UCTE member, Transelectrica has become a stability electricity provider in the region, at high quality and safety standards. Transelectrica shares are entirely owned by the Romanian state.

The Public

Transelectrica is promoting the economic well-being, life quality and environmental for the public and the communities. The Company aims at reducing the transmission and grid impact on the public and environment by implementing the Environment Management System, in compliance with the requirements of ISO 14001.

Employees

Transelectrica keeps on achieving a committed and highly qualified personnel, creating a sound corporate culture and stimulating team-working. We value the capability, adaptability and creativity of each person in the Company who is result oriented. We are a team, have the responsibility to act and we do so.

Business Ethics

Transelectrica's business is managed in a professional, transparent, neutral manner. Transelectrica is practicing business ethics by strategies, policies and work procedures in order to earn credibility from customers. The competitive environment is sustained by providing a non-discriminatory management. We are open, courteous, responsive, customer focussed, community sensitive and market competitive.





Corporate Governance

A Sound management;
Ratings; Risk management

According to OECD, Corporate Governance is *"the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance"*.

A Sound Management

Transelectrica's good corporate governance is the basis for our decision-making and monitoring processes applying to our cooperation with our shareholders, subsidiaries and branches. This means transparency, accountability, ethical behaviour in our strategies and business activities, as management reputation is an intangible asset of each company or organisation.





Improving the Company's ratings

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

On October, 4, 2004 Moody's Investor Service rated Transelectrica with "Ba3", from "B2" with stable outlook, thus reaching to the sovereign rating level. According to the Agency, the rating was facilitated by "a number of developments of which the most important are receipt of annual accounting information for 2004 and Transelectrica's continuing strategic importance to the national economy as well as fore-filling a key role in meeting EU accession requirements."

On October 22, 2004 Standard & Poors improved Transelectrica's rating to "BB" from "BB-". The ratings obtained so far allows Transelectrica to get better financing conditions, (i.e. loans without state or bank guarantees and even loans without any guarantees), while negotiating with prestigious financial institutions.

Risk Management.

With specialised consultancy, Transelectrica implemented an Enterprise Risk Management Program to anticipate and prevent major disruptions in operation, ensure adequate liquidity / cash flow for operating expenses, debt payments and strategic investments, protect the Company's long-term viability and strength. The Risk Management Program effectively integrates the risks across the entire Company, and allows to tailor imaginative and cost-effective options for risk reduction and transfer.

Risk management activities in 2004:

- Risk transfer by insurance: protecting the Company's assets against severe loss, mitigating risks and minimising costs by means of insurance services
- Monitoring and updating risk assessment and the Company's risk profile, while supervising the implementation of the Action Plan
- Assessment and control over the risk degree of accident and professional illness





October 10, 2004 -UCTE Resynchronisation

Highlights 2004

February, 20 *Contracting business consultancy*

Through the contract signed between Transelectrica and the consultancy company "Ernst & Young", the former business plan of Transelectrica issued for the period 2000-2010 was updated for the period 2004-2014

March, 2 *Joint Position Paper to construct the 400 kV Oradea-Bekescsaba interconnection line*

Transelectrica and "Magyar Villamos Muvek Rt" signed the Joint Position Paper to construct the 400 kV Oradea (RO)

Bekescsaba (HU) interconnection line, in order to increase the cross-border interconnection capacity within the UCTE system and develop the regional electricity market. By 2008 this new electricity transmission line is to interconnect the Romanian power system to Central and Eastern European power systems.

March, 8 and 19 *Documents signing to modernise another package of three substations*

Transelectrica signed an Aide-Memoire with "ABB-AREVA" consortium on the





modernisation through a turn-key contract of the 400/220/110 kV Sibiu Sud substation and a MOU with the German bank KfW to finance the project for the modernisation of the 400/220/110 kV Bucuresti Sud substation. The two projects worth 70 mil. Euro.

The turn-key contract to modernise the 400/220/110 kV Gutinas electric substation was also signed by Transelectrica and "ABB Power Technologies "-Sweden; worth 32.7 mil. Euro, of which 25 mil.Euro ensured by Nordic Investment Bank (NIB)

April, 27-28 *European reinforcement and integration*

The international conference "Romanian Electricity System towards European Reinforcement and and Integration" RESYM 2004, organised by the Ministry of Economy and Commerce, Transelectrica, ANRE (Electricity Regulatory Authority) and IRE (Romanian Institute for Energy Development Studies), was attended by over 200 decision makers and experts from the European Commission, World Bank, EBRD, noteworthy companies from Romania and the neighbouring countries.

April, 13 *MOU Signing for a new Interconnection OHL*

Transelectrica signed a MOU to carry out a new 400 kV overhead electric line (OHL) between Suceava (Romania) and Balti (R.Moldova).

May, 5 *Contracting a joint project on the*

power exchange in Romania

Transelectrica, Opcom and the consortium led by Kema International and Nordpool Consulting signed the consultancy contract for the Romanian Power Exchange implementation by 2nd quarter of 2005.

May, 25-27 *International Live Working Conference*

Transelectrica, holding the presidency of Romanian Live Working Association as an acknowledgement of the Romanian power experts skilfulness in live working within electric facilities, organised the 7th edition of the International Conference on Live Working.

June, 28 *The first completed "turn-key" project*

Commissioning of the 400/220/110 kV Oradea Sud substation, modernised with Siemens technology, worthing 22.5 mil Euro.

July, 30 *Implementation of the CBT system*

South Eastern TSOs (from Albania, Bosnia-Herzegovina, Bulgaria, FYR of Macedonia, Romania and Serbia) under the umbrella of ETSO (the Association of European Electricity Transmission System Operators) adopted, by consensus a cross-border trade mechanisms (CBT) for 2004 following the principles of 2004 ETSO mechanism applied in the European Union. The mechanism removed all existing border



and transit fees among the signatories.

August, 12 *Contracting the rehabilitation of two substations*

Two "turn-key" contracts were signed by Transelectrica with "ABB-Areva" consortium to rehabilitate the 400/220/110 kV Sibiu Sud substation, respectively with "Siemens" Germany for the 400/220/110 kV Bucuresti Sud, worthing 81 mil. Euro and two loan agreements with KfW bank, worthing 25.5 mil Euro for Bucuresti Sud and 19.5 mil. Euro for Sibiu Sud.

September, 8 *Keeping on contracting for rehabilitation of substations*

Transelectrica signed two "turn-key" contracts with "VA Tech T&D" Austria to rehabilitate the 220/110 kV Fundeni (Bucharest) and 400/220/110 kV Iernut (Targu Mures) substations, worth 37.5 mil. Euro, financed by a loan from the World Bank.

October, 10 *Romania integrated in the European Electric power system; Transelectrica leader of resynchronisation The resynchronisation of the two UCTE synchronous zones, the South-Eastern European zone with the Western Europe*

one, was performed by connecting the 400 kV electric line Sandorvalva (Hungary) Arad (Romania) in the 400 kV substation Arad. This was the most significant project of the European electricity industry in 2004.

October, 20 *Completion of the 2nd rehabilitation project*

The second "turn-key" contract was completed by Transelectrica by commissioning the 400/220/110 kV Constanta Nord substation, rehabilitated with ABB technology.

November, 9 *Transelectrica member of ETSO*

Transelectrica became member of ETSO (Association of the transmission and system operators of EU countries, Norway and Switzerland under the coordination of the European Commission).

December, 20 *Transelectrica supports the European electricity market*

Transelectrica signed a syndicated loan contract with EBRD, worth 23,2 mil.Euro towards the integration of the South-Eastern electricity market, with the Western-European one.



Outlook 2005

- Continuation of the infrastructure modernisation and rehabilitation (electric lines, substations and equipment) with the latest technologies
- Commissioning the completed investment projects
- Transelectrica listing on the Bucharest Stock Exchange with 10% shares
- Launching the electricity trade platform
- Initiating the privatisation process of Transelectrica subsidiaries Smart, Teletrans, Formenerg, Icemenerg, and Icemenerg service





Our service for your development: responsibilities, services, functions



Main responsibilities of the company:

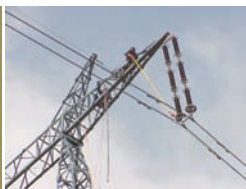
- Provides real time control of the power system, by using ancillary system services contracted with the producers
- Ensures the non-discriminatory and transparent access to the electric market for all grid customers
- Operates, maintains and develops the transmission grid assets and associated power system control, telecommunication and metering facilities
- Ensures interconnected operation with other power systems within the UCTE system
- Administrates the wholesale market through its fully owned subsidiary, Opcor
- Ensures the metering service for the wholesale electricity market through its branch Omepa

- Ensures IT and Tc services through its fully owned subsidiary Teletrans
- Ensures grid maintenance services by its fully owned subsidiary Smart

Services

In order to facilitate electricity delivery, while maintaining continuity, quality, and security of electricity supply, Tranelectrica provide three types of services to the grid customers:

- *Transmission service:* to electricity generators, distributors and suppliers, eligible customers. The amount of transmitted energy steadily increased by 1 TWh in average during the last four years, with a corresponding growth in the company's core activity.
- *System services:* to distributors, suppliers





and end-users. Such services provide the transmission grid operation at best parameters.

- *Market administration service:* to distributors and suppliers. The revenues from market administration have the smallest share as compared to the structure of total revenues.

The Company's tariffs are set by ANRE, based on Transelectrica's justified costs.

Functions

Transelectrica carries out three major functions in the electricity market:

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

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

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

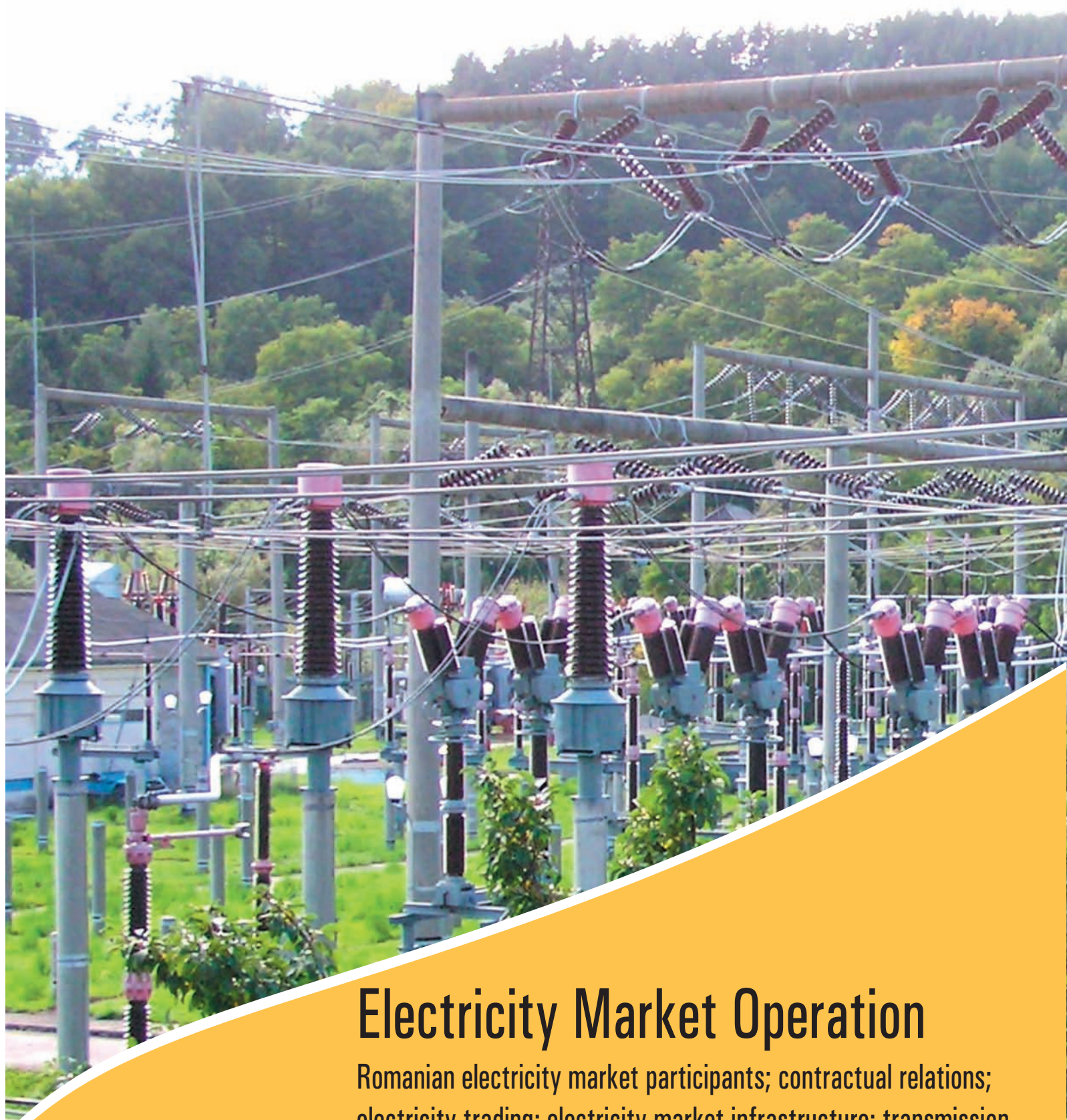
The transmission tariff has two components:

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

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

Diversifying the customer portfolio and mitigating the counterparty risk were some of the main targets of Transelectrica for 2004.





Electricity Market Operation

Romanian electricity market participants; contractual relations; electricity trading; electricity market infrastructure; transmission services; system services; tariffs

Market participants

The Romanian electricity market developed with considerations of the major changes in Romanian industry structure (unbundling and development of competition) and related commercial relationships.

Contractual relations

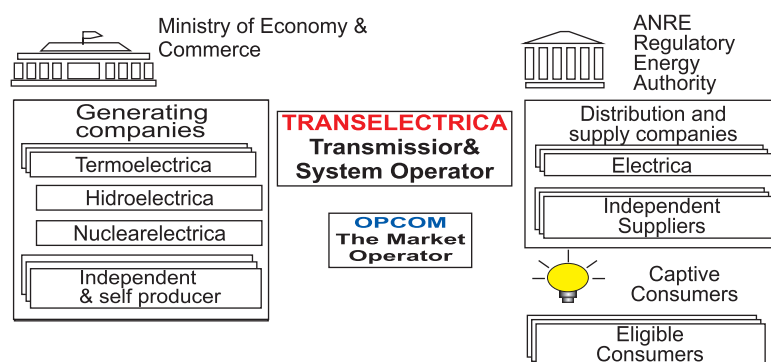
The development of competitive market mechanisms is fully consistent with the need to comply with the energy sector requirements for Romania's joining to the European Union and with related efforts of the power industry to become competitive in the wake of the

liberalisation of the European Electricity market. The wholesale electricity market consists of wholesale trade arrangements among participants for electricity and related services according to ANRE regulations.

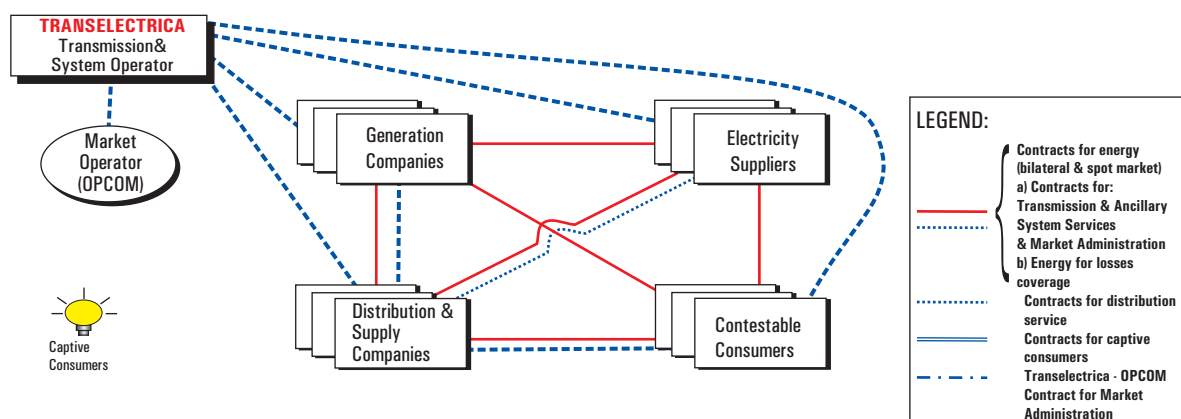
The Romanian wholesale electricity market has got two components:

- the regulated market with framework contracts and regulated prices
- the competitive market with negotiated bilateral contracts of eligible consumers and commercial agreements of the spot electricity sale/purchase market (at the system marginal price resulting from the merit order).

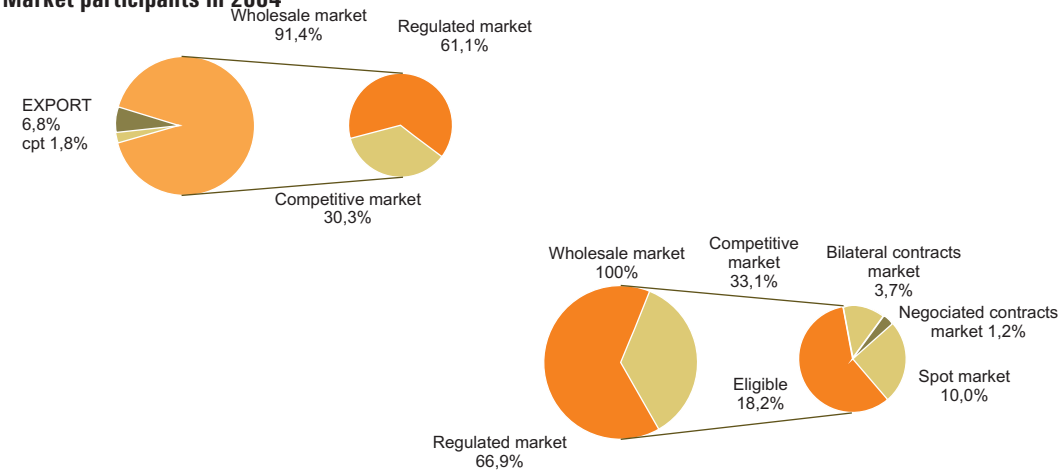
Electricity trading in 2004



Electricity market contractual framework



Market participants in 2004



Electricity Market Infrastructure

While negotiating Chapter 14 Energy of the EU Accession Dossier, it was found out that both legally (Electricity Law no. 318/2003) and actually Romania met the essential requirement of establishing the electricity market infrastructure, the power transmission and system operation activities being performed by a well-structured independent and neutral TSO company. Transelectrica clearly proved that measures ensuring non-discrimination as between system users or classes of system users were set out. The Romanian Power System

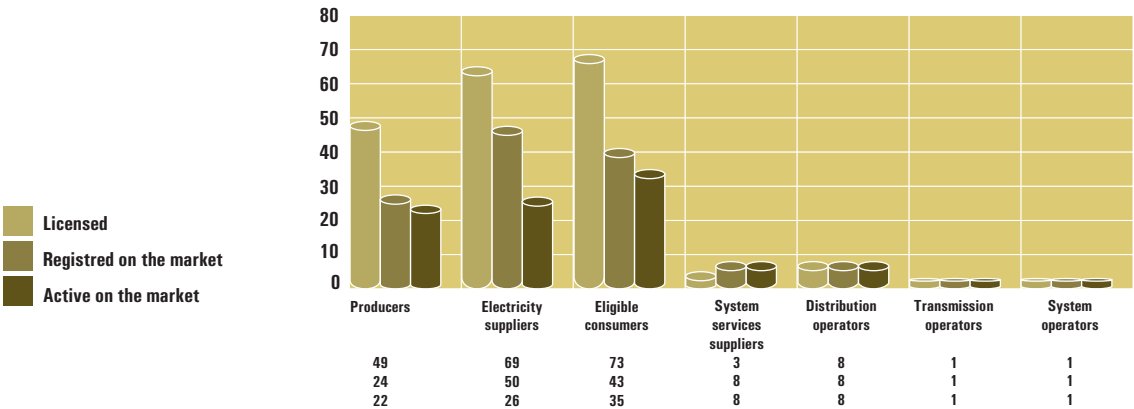
balancing is objective and transparent, the system service and transmission tariffs are established pursuant to a regulated methodology in a non-discriminatory and cost-reflective way. Zonal transmission tariffs, separately for feeding in (G) and taking off (L) cover O&M and development costs, as well as the cost of electricity purchased to set off transmission losses.

Transmission and system services

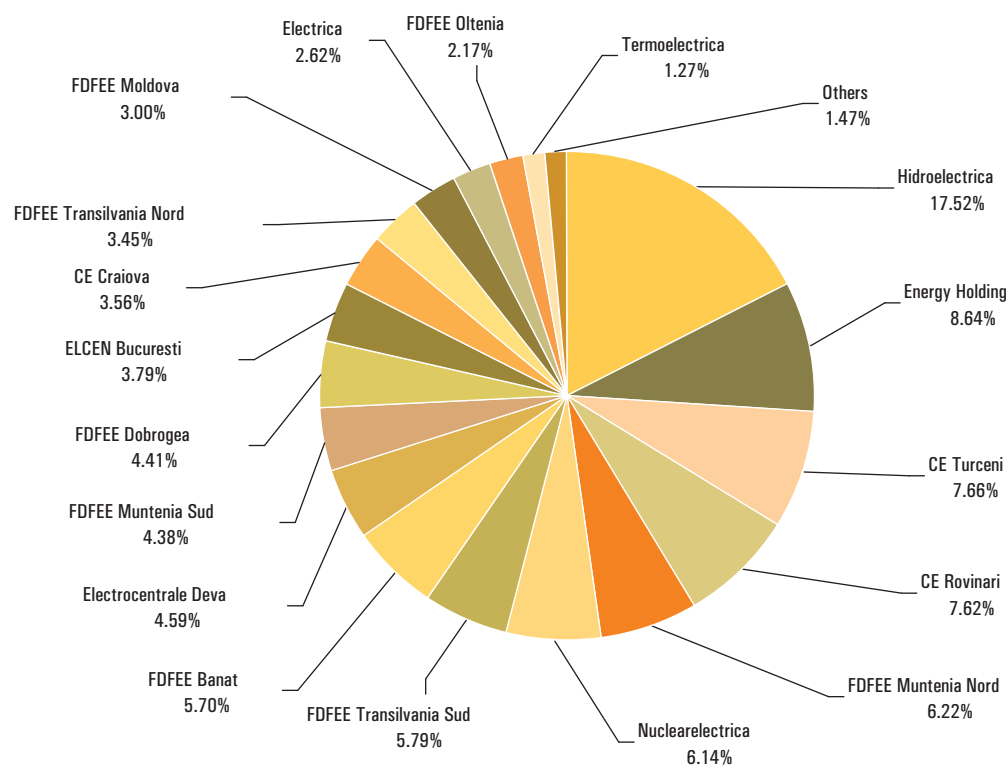
As regards the transmission and system services, Transelectrica's clients benefits from their position in the electricity market.

Companies - Market participants

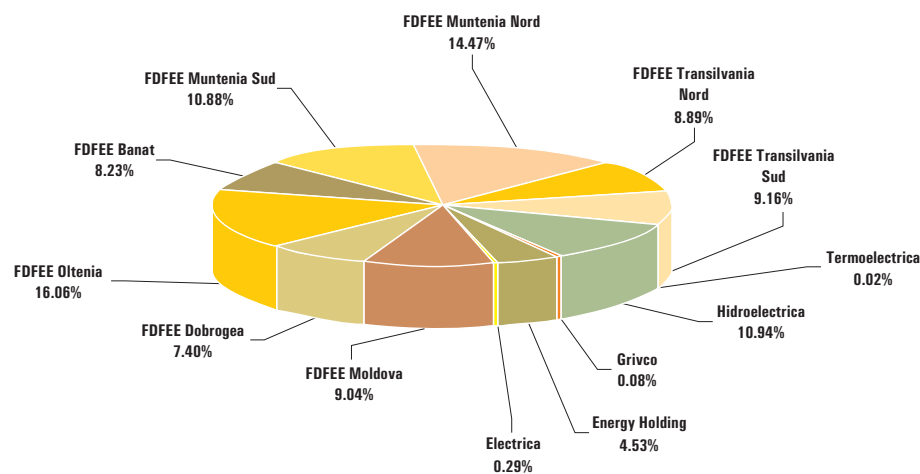
Licensing, registration and participation to transactions on December 31st 2004



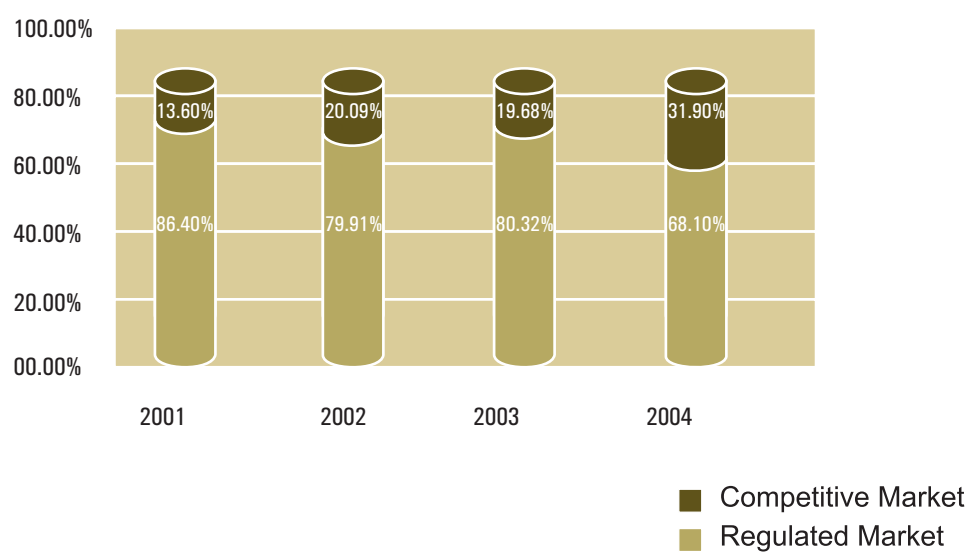
Customer Breakdown on Transmission Services



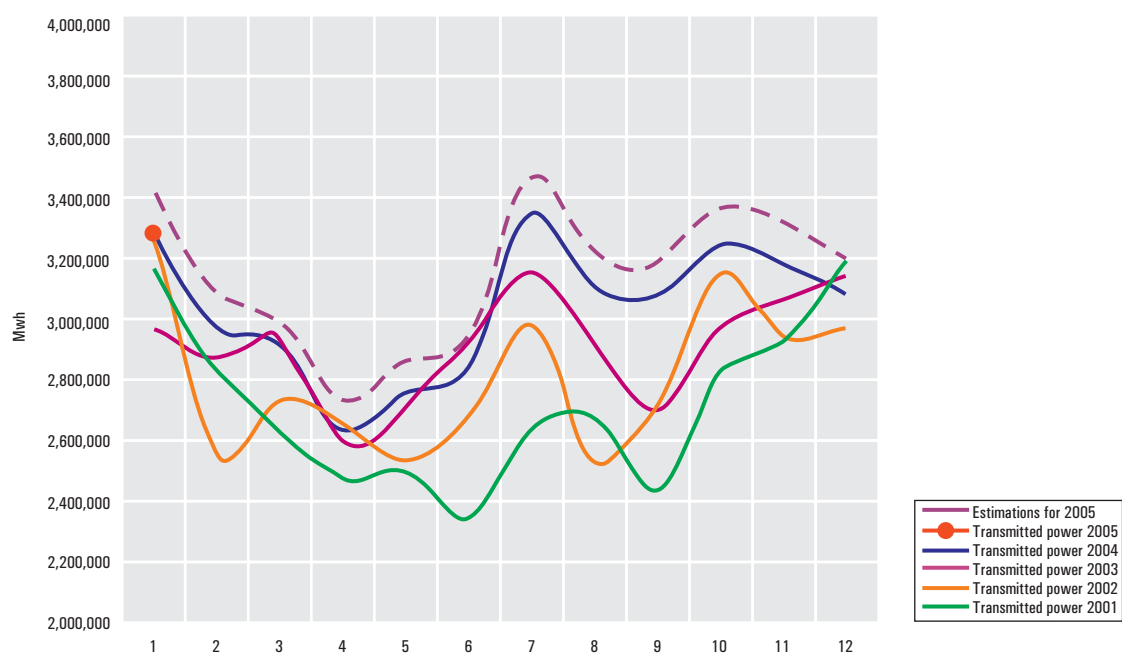
Customer Breakdown on System Services



Electricity transmitted volumes 2001-2004



Development of electricity transmitted through the Transmission Power Grid (TPG)

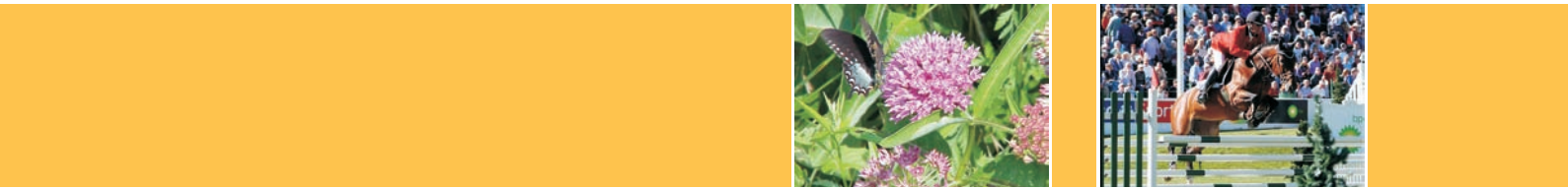
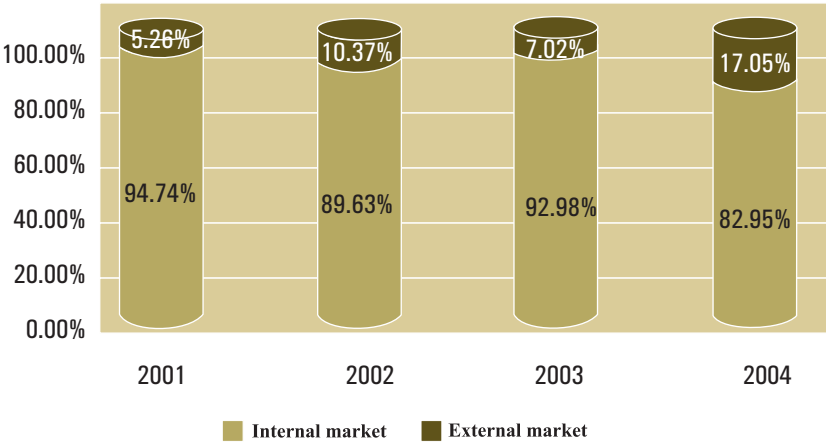




The technical safety criteria and rules in the Transmission Grid Code set objective and non discriminatory design and operational requirements for transmission grid and for grid customers, including connection to the system. Transelectrica is responsible for ensuring a secure, stable, reliable and efficient power system, thus meeting the basic provision of European Commission's Directives on the power sector (Directives 96/92/EC and 03/54/EC with respect to the common rules of the internal electricity

market, as well as the future directive on the safe supply of electricity). This emphasises the transmission and system operator role in providing a safe operation of the transmission grid. Since 2000, the year when the Company was set up, no major incident jeopardising the electricity supply to the country has been recorded in the Romanian power system, although severe situations were met with respect to the generation - consumption adequacy.

Electricity transmitted in the internal and external market 2001-2004





Tariffs

Transelectrica business is dedicated to the customers of the Romanian electricity grid. Besides transmitting electricity from one point of the grid to another, Transelectrica offers another valuable service: the security of supply. Therefore the services we provide cannot be taken apart; reliability of the grid, security of supply and regulated access are of public interest.

Transelectrica sees to permanently maintain the Romanian Power System in operation and in compliance with the quality standards provided by the Technical Code of the Electricity Transmission Grid.

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

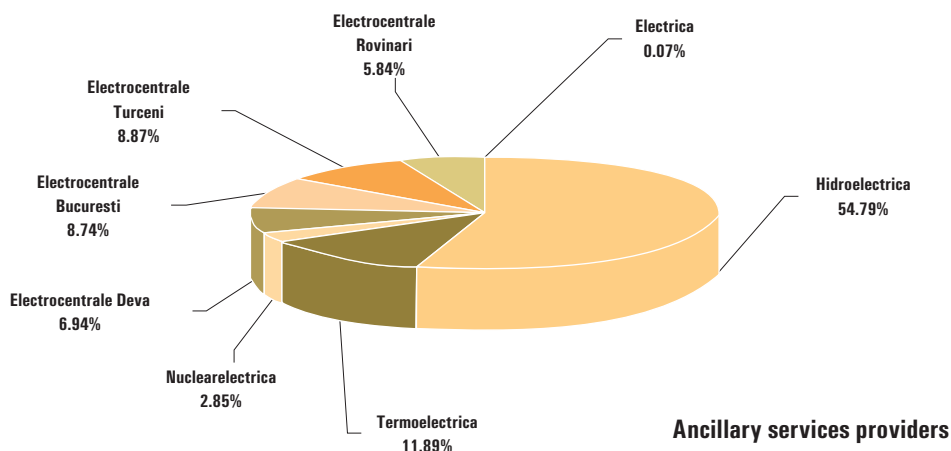
- the tariff for functional system services
- the tariff for ancillary services.

The ancillary services managed by the TSO, meant to ensure operation security of the system and quality of energy (frequency and voltage), are:

- Active power reserves: primary reserve, secondary frequency-power control reserve, rapid tertiary reserve, slow tertiary reserve
- Reactive power reserve
- Fast start capability for system restoration after black-out

Transelectrica's tariffs (for transmission services, system services and market administration) are set by ANRE, based on the company's justified costs in the last 12 months.

Starting with 2005, the introduction of Balancing Market, operated by Transelectrica, will allow ancillary services purchase through market mechanism and transfer of the cost to the imbalance responsible party.





Towards an Open Market

The development of the regional electricity market, operating in compliance with EU regulations, will contribute to integrating the countries in the region into the European structures, while promoting economic development, regional cooperation and stability.

Transelectrica grants a stable and reliable electricity market infrastructure, regulated and non-discriminatory, high quality services and performance for market management, power metering and telecommunications, opening itself to the regional market, by supporting electricity exchanges to central and South-Eastern European countries

Trading Platform

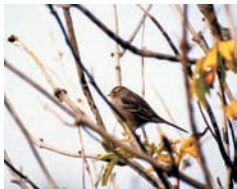
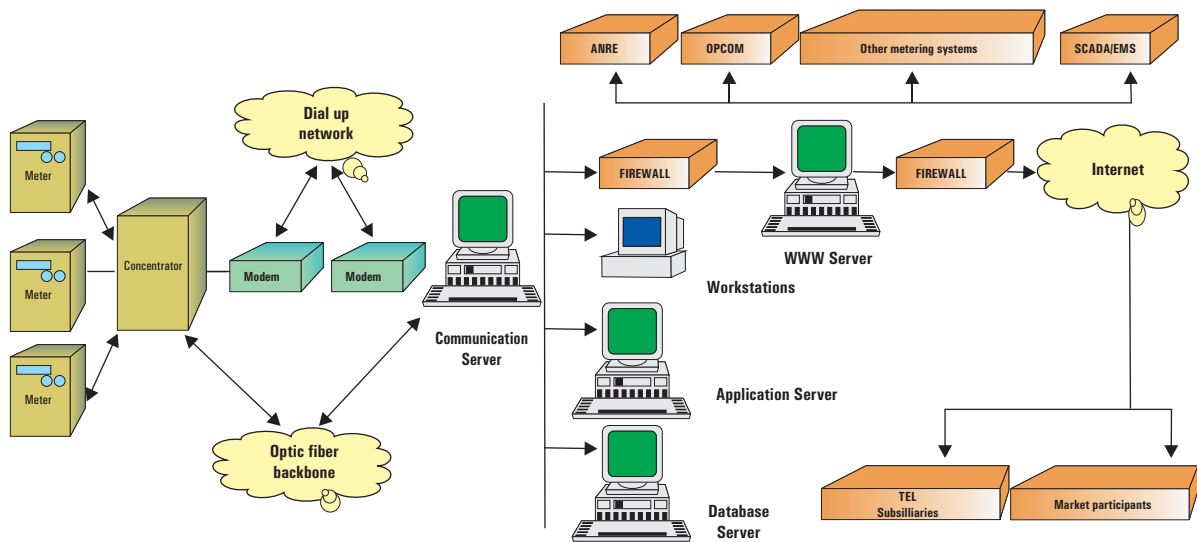
In 2004 the trading platform was created within the Operational Unit - National Dispatching Center of Transelectrica.

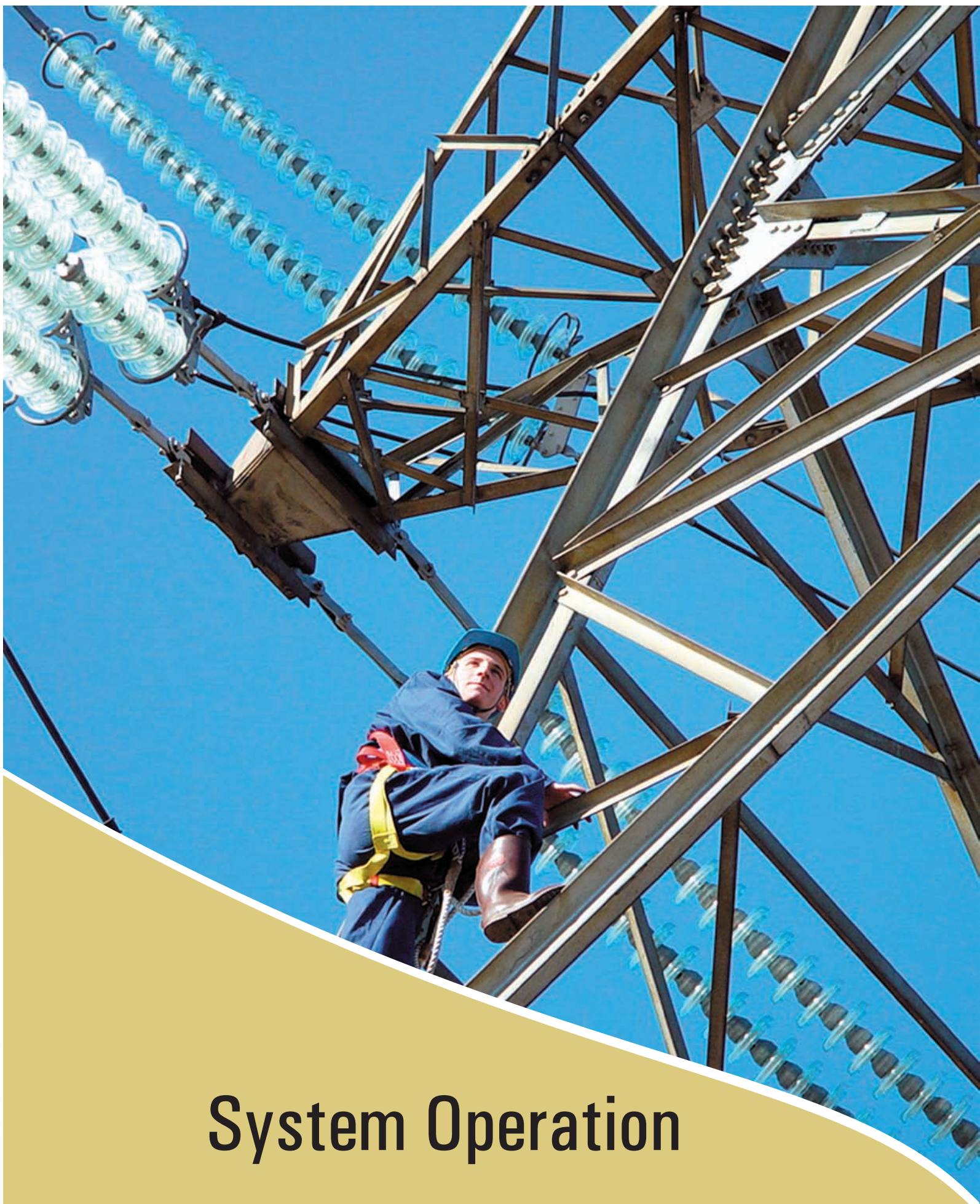
The trading platform, a key component of the electricity market, introduces the competitiveness principle for electricity purchase, needed to permanently meet the production - consumption balance. This platform will assign Romania the statute of the organiser of the most advanced electricity trading environment within the Balkans.

The metering component

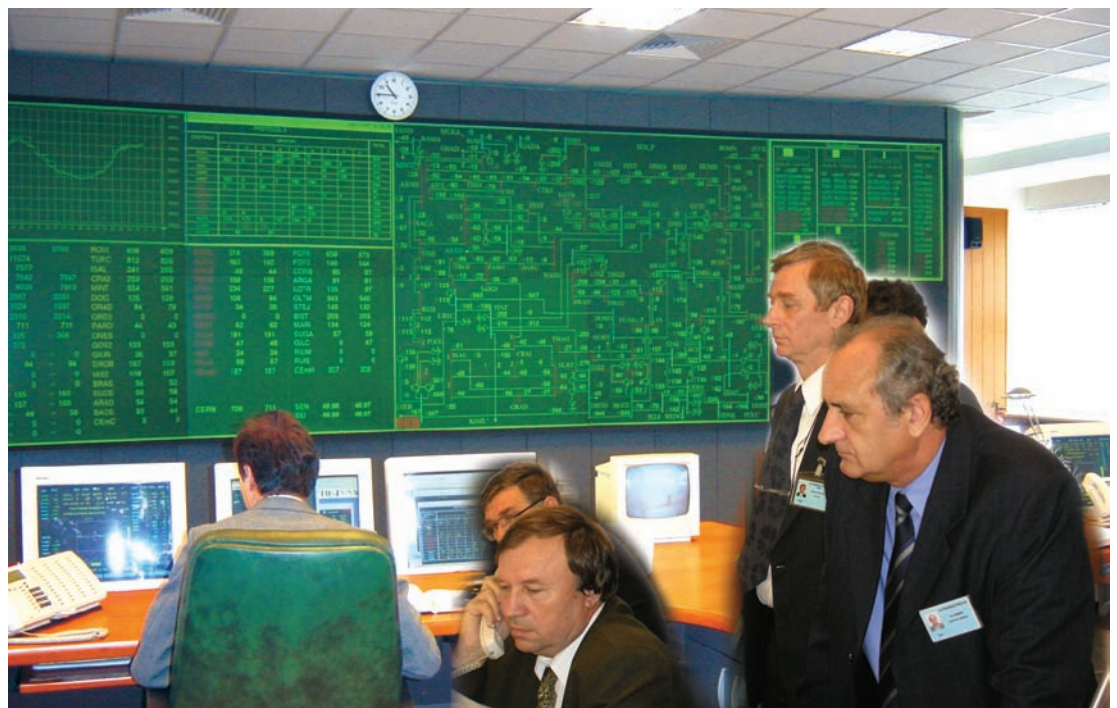
As a major support to achieve the balancing market, Transelectrica, through its subsidiary - OMEPA (the metering operator), is assigned to meter the electricity transited on the wholesale electricity market through all the exchange points of the market participants and through the interconnections with the neighbouring electricity systems.

Metering system





System Operation

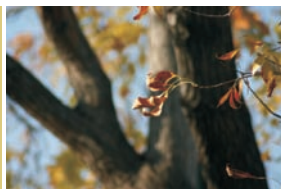


The operational safety of the Romanian power system is one of the Company's basic concerns, since it is responsible for providing the power system safety, stability and efficiency.

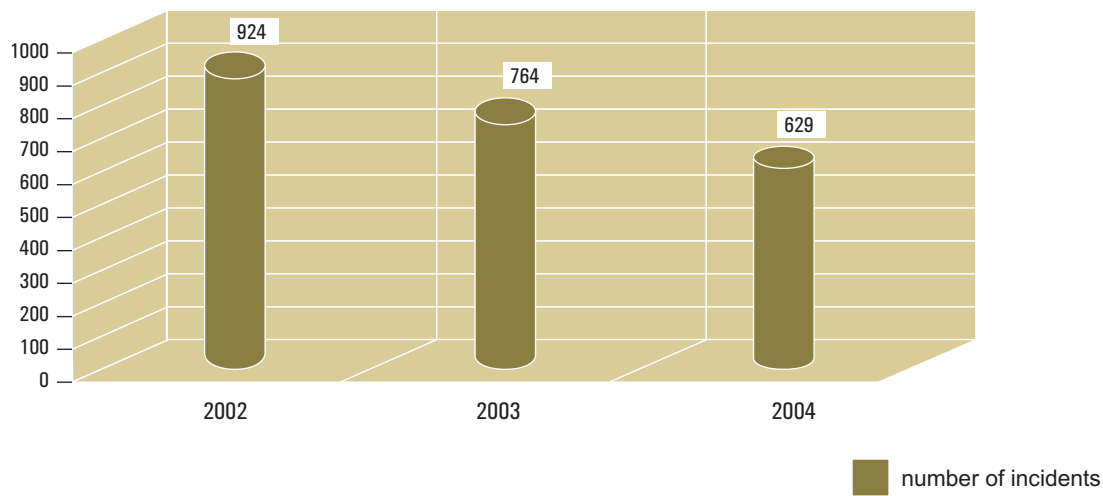
The Romanian power system is a powerful one in the region, having in 2004 an overall installed capacity of 16 473 MW, of which 35.9 % in hydropower plants, 3.9 % in

nuclear power plants and 60.2% in thermal power plants.

In 2004 the Romanian power system operated without any disfunction, at the quality parameters, in accordance with the requirements of the Technical Grid Code.



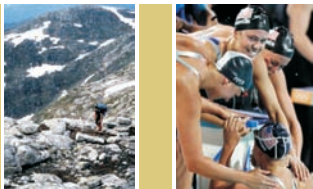
Number of incidents within TPG in 2002 - 2004

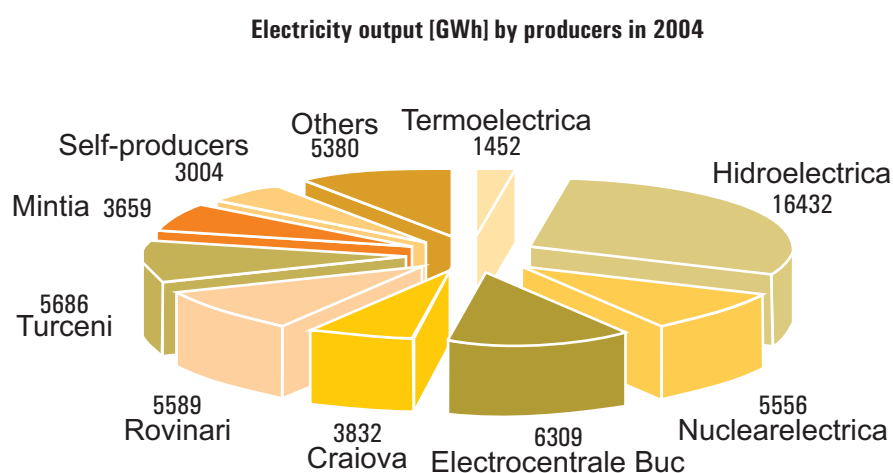
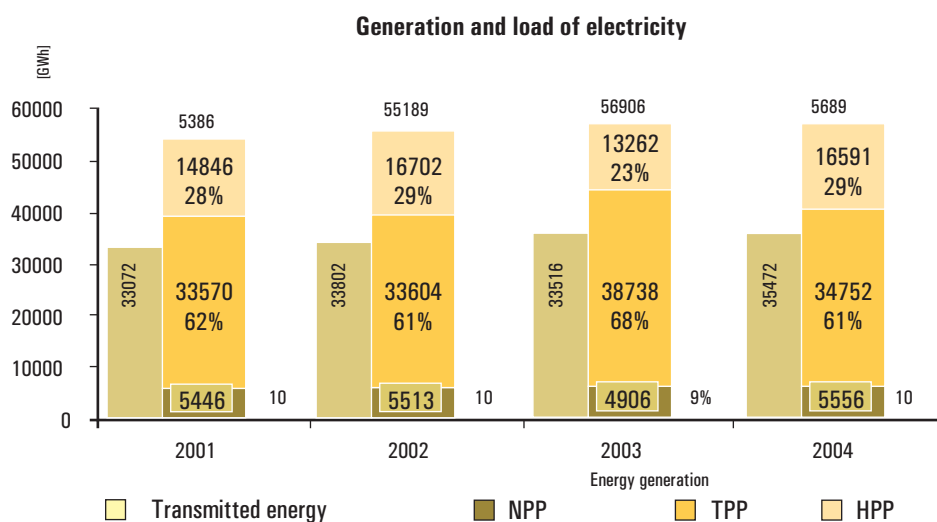


Electricity raw domestic consumption

	2004		2003	
	[GWh]	[%]	[GWh]	[%]
TOTAL DOMESTIC CONSUMPTION	55710	100	54821	100
IMPORT - EXPORT BALANCE	-1189	-2.1	-2085	-3.8
OUTPUT of which	56899	102.1	56906	103.8
- coal - lignite	19091	34.3	20716	37.8
- hard coal	4387	7.9	5100	9.3
- hydrocarbons	11274	20.2	12922	23.6
- water	16591	29.8	13262	24.2
- nuclear	5556	10.0	4906	8.9

Annual average power : 6342 [MW]
Annual maximum power : 8761 [MW] 15.12, 18.⁰⁰ h.
Annual minimum power : 4299 [MW] 11.04, 15.⁰⁰ h.

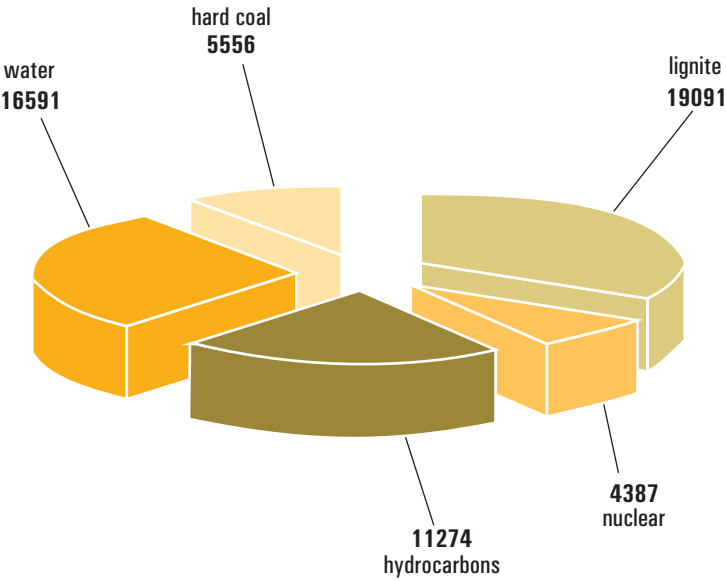




Romania disposes of several sources of domestic primary energy resources: oil, natural gas, hard coal, lignite, hydro, nuclear.



Electricity output [GWh] according to energy resources in 2004



	2004		2003	
	[GWh]	[%]*	[GWh]	[%]*
Transmitted energy	35 472	-	35 516	-
Technical losses	957.2	2.62	937.7	2.57

* from the electricity input into outline

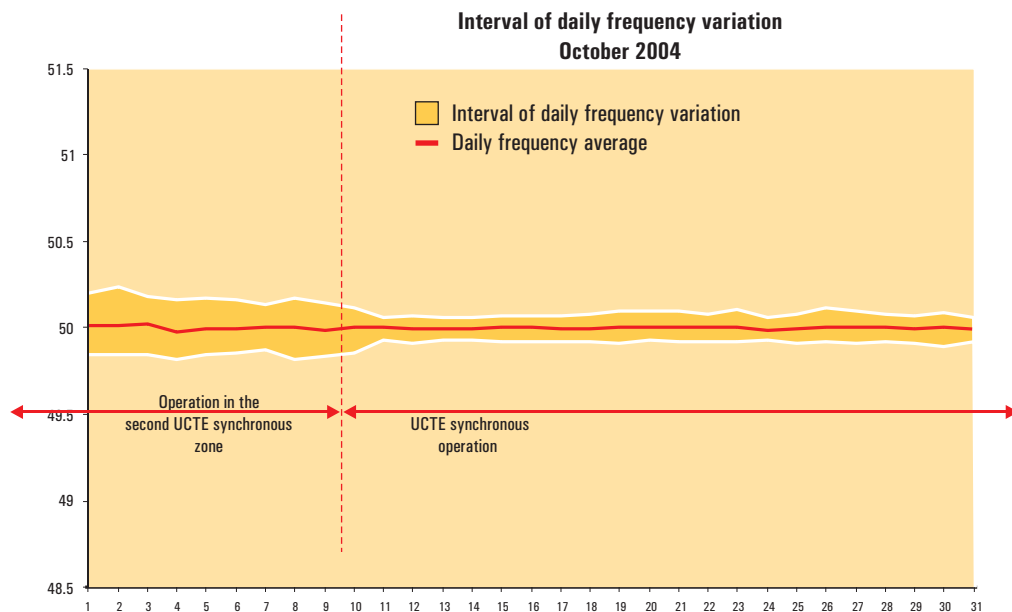
Line disconnections to reduce voltage values during no load

Lines	2004	2003
	h * km	h * km
400 kV	632 871	638 686
220 kV	1101 976	1278 372

Frequency

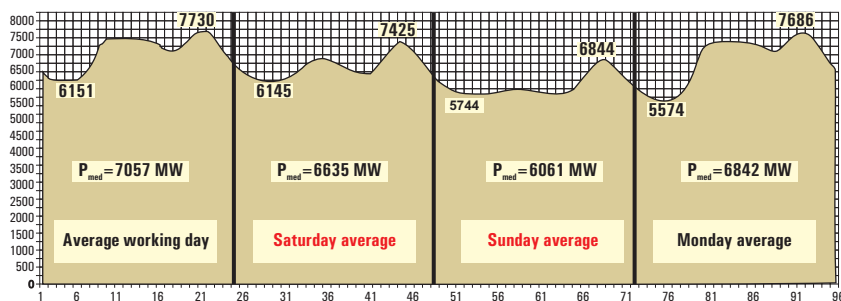
The average frequency recorded in 2004 was of 50.000 Hz.



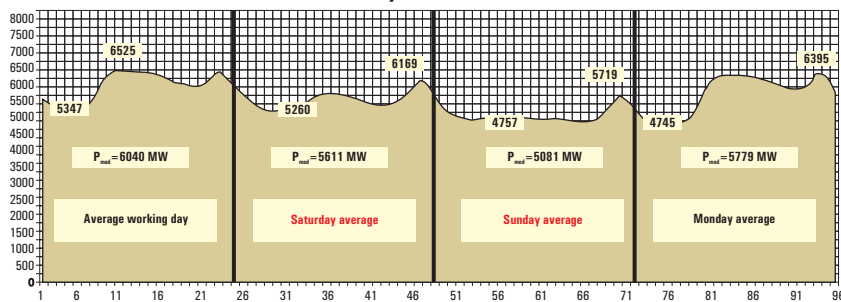


The amount of electricity transported was of 35 472 GWh and the losses in the transmission network were 957 GWh.

Typical winter days Daily load curves - domestic consumption Characteristic days, winter semester 2004



Typical summer days Daily load curves - domestic consumption Characteristic days, summer semester 2004



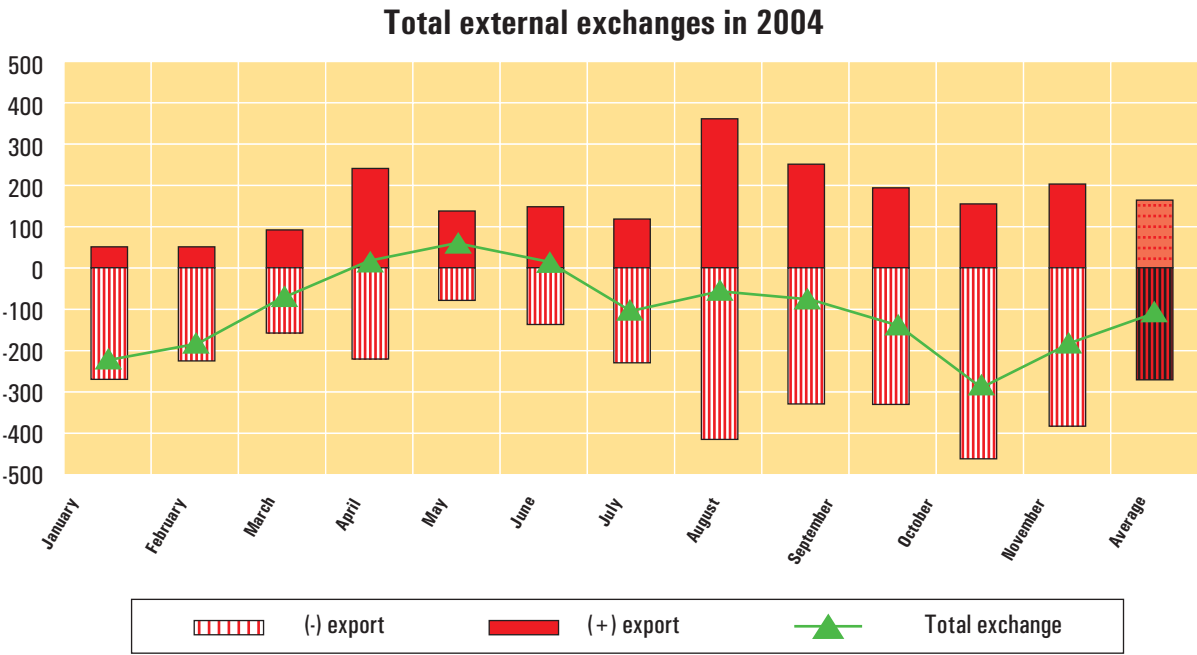
Frequency variation of the Romanian power system in October 2004 shows the growth of electricity quality further to the resynchronization of the two UCTE zones by reducing the frequency variation interval.

At present, electricity average cost in Romania exceeds the Western European average; however, it is expected to decrease in time, as the fuel mix evolves and the power station efficiency increases .

As a result of market evolution, the level of exchanges of the Romanian system with the neighbouring systems, which are the result of the several simultaneous commercial imports and natural flows in the meshed interconnected network has increased. Thus, competition developed in- between generators for better delivery prices on one

side and between the suppliers for cheaper energy on the other side. The total monthly resulting average exchanges in 2004 oscillated between about 60 MW import and 300 MW export, with an yearly average value of 100 MW export.

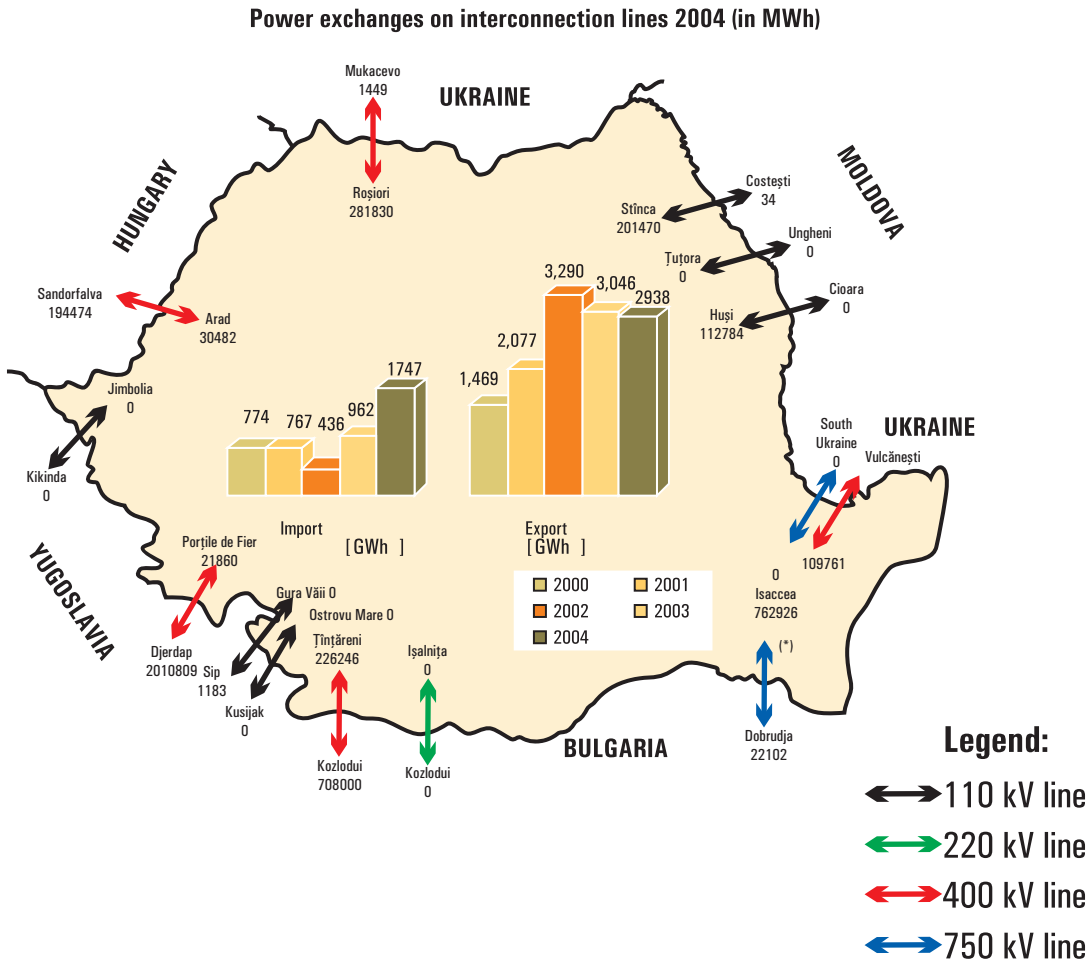
Further to the resynchronisation of the Romanian power system to the main European grid, in October 2004, the opportunities for import/export increased. At present Romania is mostly an exporting country, but also importer at low-load hours. This import can be seen as an export of system services for frequency control, based on the flexibility of the significant hydro generating sector. Electricity exchanges (import/export/transit) with the interconnection partners is achieved on the basis of contracts of licensed suppliers



in the Romanian market with their external partners. Electricity trades on the external side is made within the available transfer capacities of the Romanian interconnection lines with the neighbouring systems. Net transfer capacities on the import/export line, calculated and agreed with neighbouring electricity companies, are allotted by each partner in a percentage of 50% of these values; the partners automatically

acknowledge the right of the other party for the allotted capacity.

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





European Integration

UCTE and ETSO - Two Gates to Europe



UCTE.

In 2003 Transelectrica became a full member of UCTE - Union for the Coordination of Transmission of Electricity , following a successful process of investments, tests and adaptations of technical regulations.

Further to Transelectrica's admission in UCTE, and considering the control capacities of the Romanian Power System and the operational experience in providing the recommended synchronisation conditions, Transelectrica was entrusted by UCTE Steering Committee the great responsibility to connect the first line, in order to reconnect the two UCTE zones, the South- Eastern European zone to the West-European one.

Reconnection of the two UCTE synchronous zones on October 10, 2004 was performed by connecting the 400 kV electric line Sandorfalva (HU) - Arad (RO) in the 400 kV substation Arad and means a key position for Transelectrica in the region. The Romanian Power System interconnection within

European structures, through Transelectrica the first Romanian company integrated within an European structure represented a major contribution in concluding chapter 14 "Energy" related to Romania's joining the European Union. Thus, Transelectrica is the first Romanian Company integrated into an economic European structure, this being a significant step towards harmonisation to the EU energy *acquis communautaire*.

Participation to the European extended electricity market will allow the power producers to capitalise their excess capacity by additional exports and will provide the domestic suppliers and end-users with opportunities to purchase energy at competitive prices. The RPS parallel operation within the UCTE system will bring the benefits of the high quality operational standards to all grid customers. Several energy companies have already expressed their interest to trade energy and invest in Romanian power facilities.



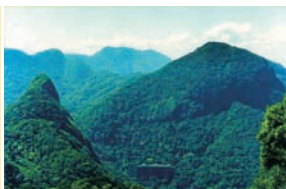
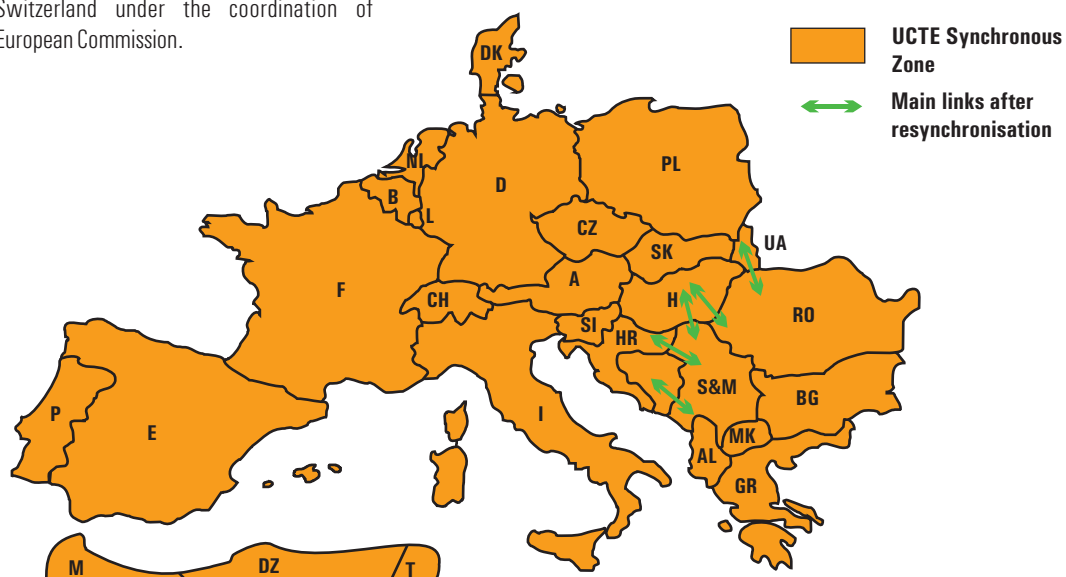


ETSO

On November 9, 2004 as an acknowledgement of Transelectrica's meeting the requirements that the European Commission has provided for EU companies in the field, the Company was accepted as a member of ETSO the International Association of European Transmission Systems.

ETSO was created in 1999 as the organisation of TSOs from EU countries, Norway and Switzerland under the coordination of European Commission.

Transelectrica's integration into ETSO and UCTE makes Romania the first South-Eastern non-EU member integrated in EU specialty organizational structures.





Infrastructure



Grid and reinforcement expansion

In order to comply with the Romanian and UCTE power system technical and operational regulations, Transelectrica has launched, even from its setting up, a wide modernisation/rehabilitation program of the 220 kV and 400 kV lines and transformer substations. Its economic and technical grounds was substantiated by the company strategy documents: business plan 2001-2010 (reviewed for 2004-2013; ten-year power grid development plan 2004-2013 ; master grid plan 2001-2004.

The investment effort is focused on the following major projects:

- Modernisation of the dispatching control (EMS-SCADA) infrastructure of the Romanian power system and building the wholesale electricity market infrastructure, the remote control and telecommunication system included. This objective is a priority for the period until the year 2005 and the investment effort had to be higher during the initial period
- Modernisation of the transmission grid substations with the latest technology (primary equipment and modern digital command-control-protection systems) meant

to enable reduced maintenance and their remote control. International interconnection substations and those connecting the vital power plants have been included in the first class of priority

- Development of the cross-border interconnection capacity with the UCTE system, by building new 400 kV interconnection lines with MVM (Hungary). The Oradea/Arad - Bekescsaba overhead tie-lines (110 km on the Romanian territory) are meant to significantly enlarge the electricity market in South-East European region, with major economic and security benefits for both countries.

The Company's investment strategy is aimed at bringing the transmission system facilities to a high performance level, by purchasing the latest equipment and systems able to provide the required flexibility and reliability to the network operation. Without such equipment, the safe operation objective cannot be reached since the volume of maintenance activities is significantly reduced and the number operational employees is decreasing together with the implementation of remote protection and control systems.



The synthesis of the major investment projects is presented below:

1st Vector construction and development of the electricity market infrastructure

- | | |
|---------|--|
| phase 1 | Rehabilitation and modernisation of the transmission-dispatch system HG 1149/2000; launched in 2001, financing: EBRD, EIB, PHARE:
Optic fiber telecommunication system, new EMS-SCADA facilities, new metering system for the wholesale energy market, HW and SW for OPCOM, the market operator |
| phase 2 | Balancing market and the new trading platform (power exchange). NB: will include the infrastructure for the regional market (2004-2006, IBRD) |

2nd Vector rehabilitation and modernization of the HV grid (UCTE compliance) substations

- | | |
|---------|---|
| phase 1 | 11 substations (Constanta, Oradea, Slatina, Rosiori, Brazi, Sibiu, Bucuresti Sud, Fundeni, Iernut, Gutinas, Cernavoda); 2001-2008 |
| phase 2 | 11 substations CCP modernisation, Paroseni, Mintia, AT and shunt reactors |
| phase 3 | Isalnita, Gura Ialomitei, Ostrov 220 kV (and OHL Cetate-Ostrov) |

3rd Vector development of the HV grid (UCTE compliance) interconnection OHL

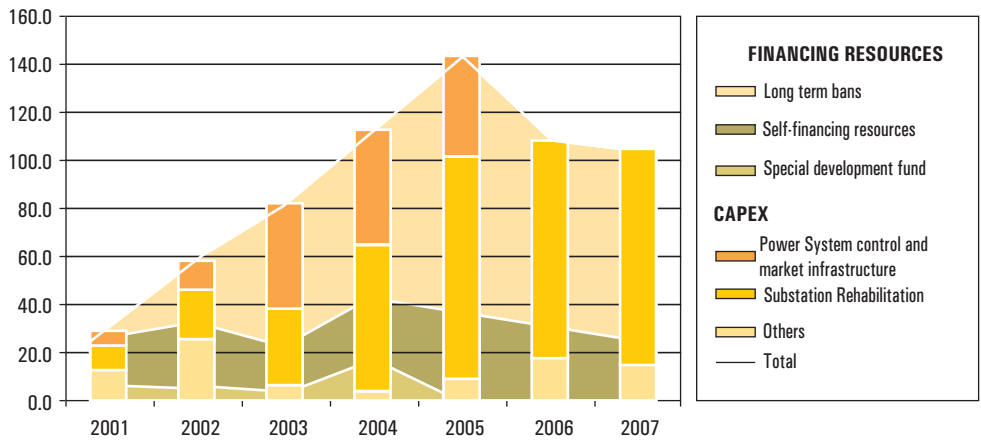
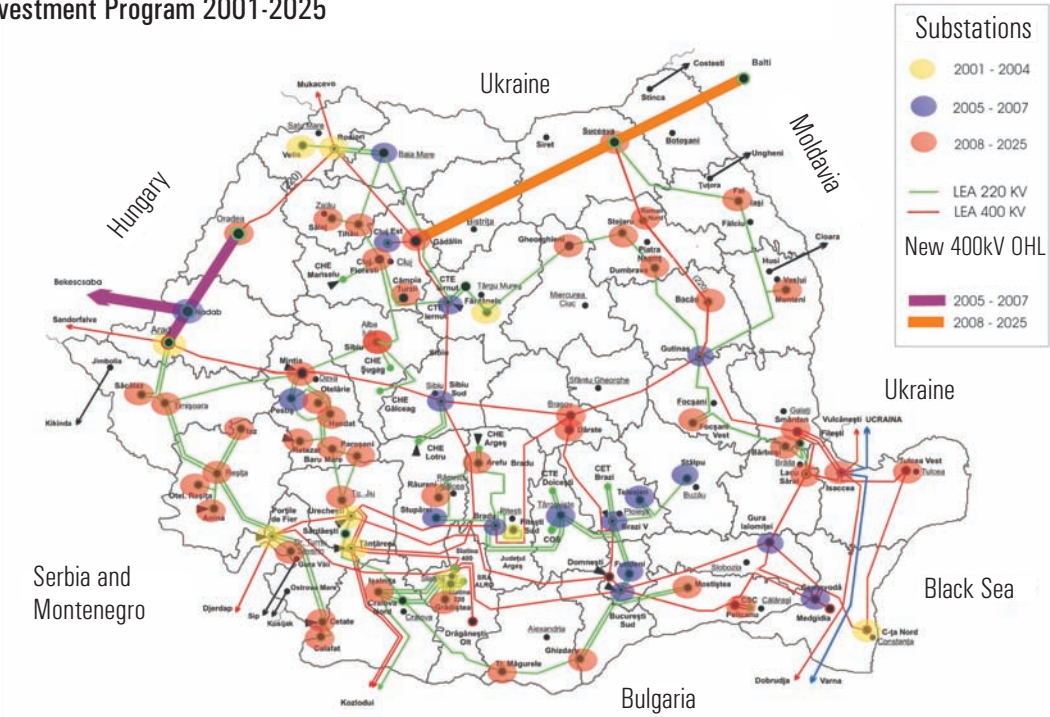
- | | |
|---------|--|
| phase 1 | 400 kV OHL Oradea-Nadab-Bekescsaba (HU) and Nadab-Arad |
| phase 2 | 400 kV upgrading on the Moldova axis; 400 kV OHL Gadalin-Suceava-Balti (Moldova) |
| phase 3 | 400 kV upgrading on the Banat axis; 400 kV OHL Timisoara-Vrsac (Serbia) |

Legend :

- | | |
|---|----------------------------|
| — | completed projects |
| — | projects under way |
| — | new projects to be started |



Investment Program 2001-2025



Volumes and sources of investments
2001-2007





Optic Fiber Network



From the total of 4600 km Optic fiber which are to be installed by Transelectrica for the telecommunication command-control-protection system, 1600 km were installed in 2004





The ratings obtained by Transelectrica so far allows the company to get better financing conditions while negotiating with prestigious financial institutions, in order to carry its ambitious investment programme, (i.e. loans without state or bank guarantees and even loans without any guarantees).

Besides the investment projects already started or under various deision stages, Transelectrica aims at launching new rehabilitation projects of existing substations and at building new transmission capacities (electric lines).

Major projects in 2004

Project	Status in 2004	Contractor	Financiers
Replacing control/protection systems in 12 substations	MOU signing	General Electric-USA	Exim Bank
400/220 kV Slatina substation	Starting construction works	ABB Sweden	Nordic Investment Bank - NIB
400/220/110 kV Constanta Nord substation	Commissioned	ABB Germany	KfW Germany
400/220/110 kV Oradea Sud substation	Commissioned	Siemens AG - Germany	KfW Germany
400/220 kV Rosiori substation	Contract under way	ABB Norway	NIB
400/220 kV Brazi Vest substation	Contract under way	Itochu/TMD &D Japan	JBIC
400/220/110 kV Gutinas substation	Contracted	ABB-Sweden	NIB
220/110 kV Fundeni Substation	Contracted	VA Tech T&D	World Bank
400/220/110 kV Iernut substation	Contracted	VA Tech T&D	World Bank
400/220/110 kV Sibiu Sud substation	Contracted	ABB-AREVA	KfW Germany
400/220/110 kV Bucuresti Sud substation	Contracted	SIEMENS	KfW Germany





Maintenance and operation of own installations

Transelectrica manages about 8,950 km of Overhead Electric Lines (OHL) of which:

- 155 km at 750 kV
- 4,630.2 km at 400 kV
- 4,132.4 km at 220 kV
- 38 km at 110 kV

(interconnection lines).

The Company operates 78 electric substations:

- 1 substation of 750 kV
- 32 substations of 400 kV
- 45 substations of 220 kV

In order to better manage the electricity transmission grid, Transelectrica has developed an adequate maintenance policy, structured in line with the latest concepts of reliability centered maintenance methodology, whose main objectives are:

- carrying out optimum quantity and quality maintenance actions
- cutting-down maintenance costs
- reducing the outages time

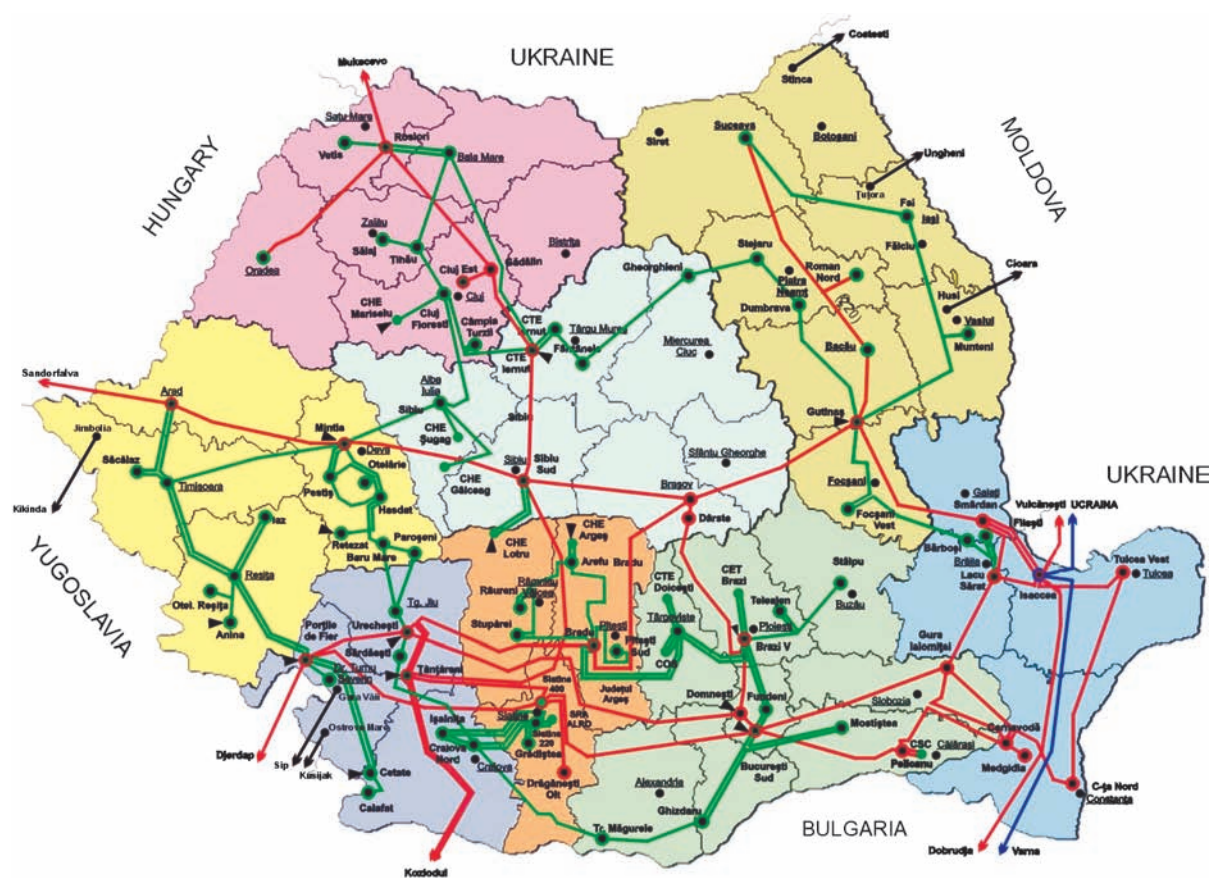
- ensuring input requirements for promoting rehabilitation works
- coordinating maintenance and rehabilitation programs.

Asset management is an advanced concept applied to electricity transmission, starting from the operation and maintenance of existing installations, in order to minimise costs and maximise performance, up to activity management in view of increasing the medium- and long-term profitability, while also providing quality services as per the highest standards under acceptable risk conditions.

In 2004 priority was given to the works meant to increase the safety of grid operation.

Major maintenance works have been promoted to the overhead lines and high voltage equipment within substations, in correlation to the rehabilitation and modernisation programme for certain components of the transmission-dispatcher system.





Legend

ST BACĂU	ST TIMIȘOARA
ST BUCUREȘTI	ST CONSTANȚA
ST CLUJ	ST PITEȘTI
ST CRAIOVA	ST SIBIU

- OEL 750 kV
- OEL 400 kV
- (220) OEL 400 kV with operation at 220 kV
- OEL 220 kV
- OEL 110 kV
- Transformer substation 220/110 kV
- Transformer substation 400/110 kV
- Transformer substation 400/220/110 kV
- Transformer substation 750/400/110 kV
- ▶ Power discharge station from power plants

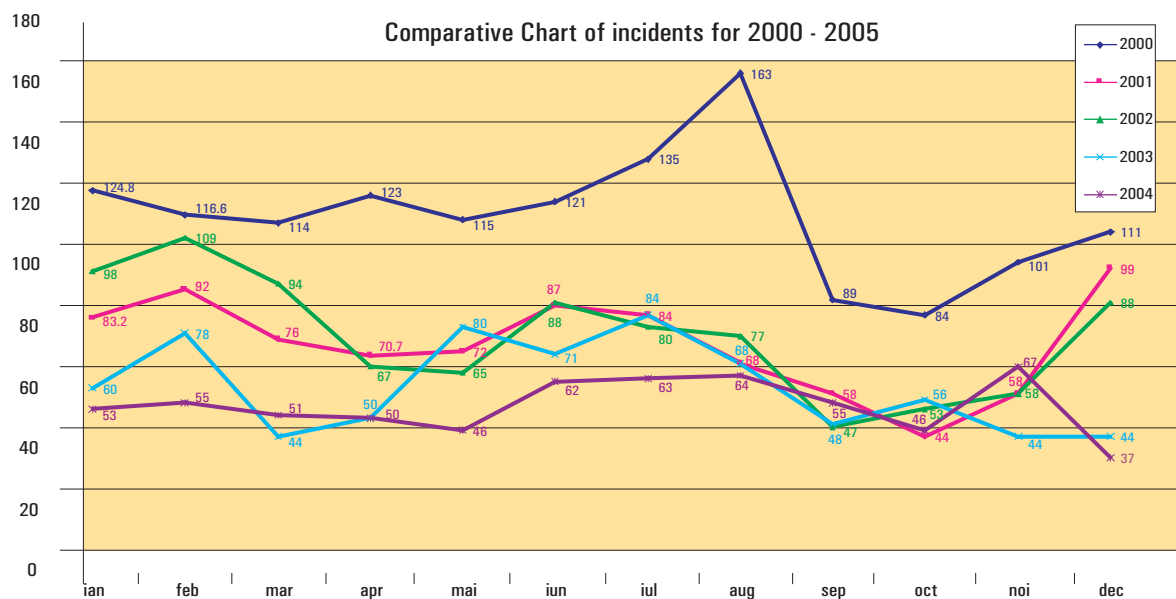


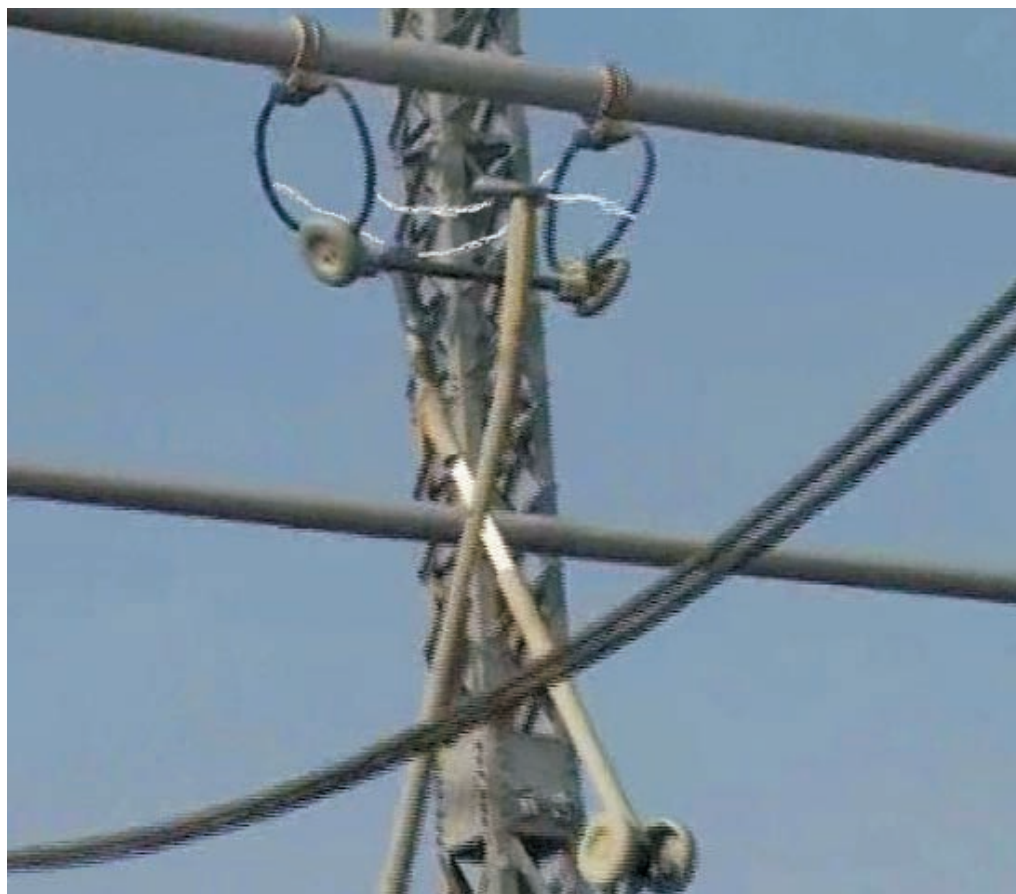
The total amount of costs provided to carry out the maintenance projects in 2004 was of 1,878,574 billion ROL (45,230,585 Euros), of which about 95% have been used.

Transelectrica manages the balance between performance (operation) costs (maintenance,

rehabilitation, modernization) and risks (ageing, failure, criticality, impact)

In 2004, no incident occurred in the transmission grid that led to over 100 MW load interruption.





International cooperation

Transelectrica main international cooperation directions are:

- Reinforcement of the international interconnections

400 kV OHL Isaccea (RO)-Dobrudja (BG)

400 kV OHL Oradea (RO)-

Bekescsaba(HU)-Arad (RO)

400 kV OHL Gadalín (RO)-Suceava (RO)

Balti (MD)

- Active participation in reinforcing the transmission networks around Black Sea region

In 2004 Transelectrica was actively involved in the programmes and projects of:

- **UCTE** - Union for the Coordination of Transmission of Electricity

- **ETSO** - International Association of European Transmission and System Operators

- **EURELECTRIC** Union of European Electric power Industry

- **CIGRE** International Council on High Voltage Electricity Systems

- **SUDEL** regional group for coordination of the electricity transmission in the South-East European Interconnected Systems

- **SECI** South Eastern Coordination Initiative

- **SETSO** Task Force regional group to define market condition and infrastructure requirements for the South-East





Quality and Environment

Harmonisation of the national regulations to the European and international ones is a must for Transelectrica, as the company is being integrated in two organisations of the European Union TSO's.

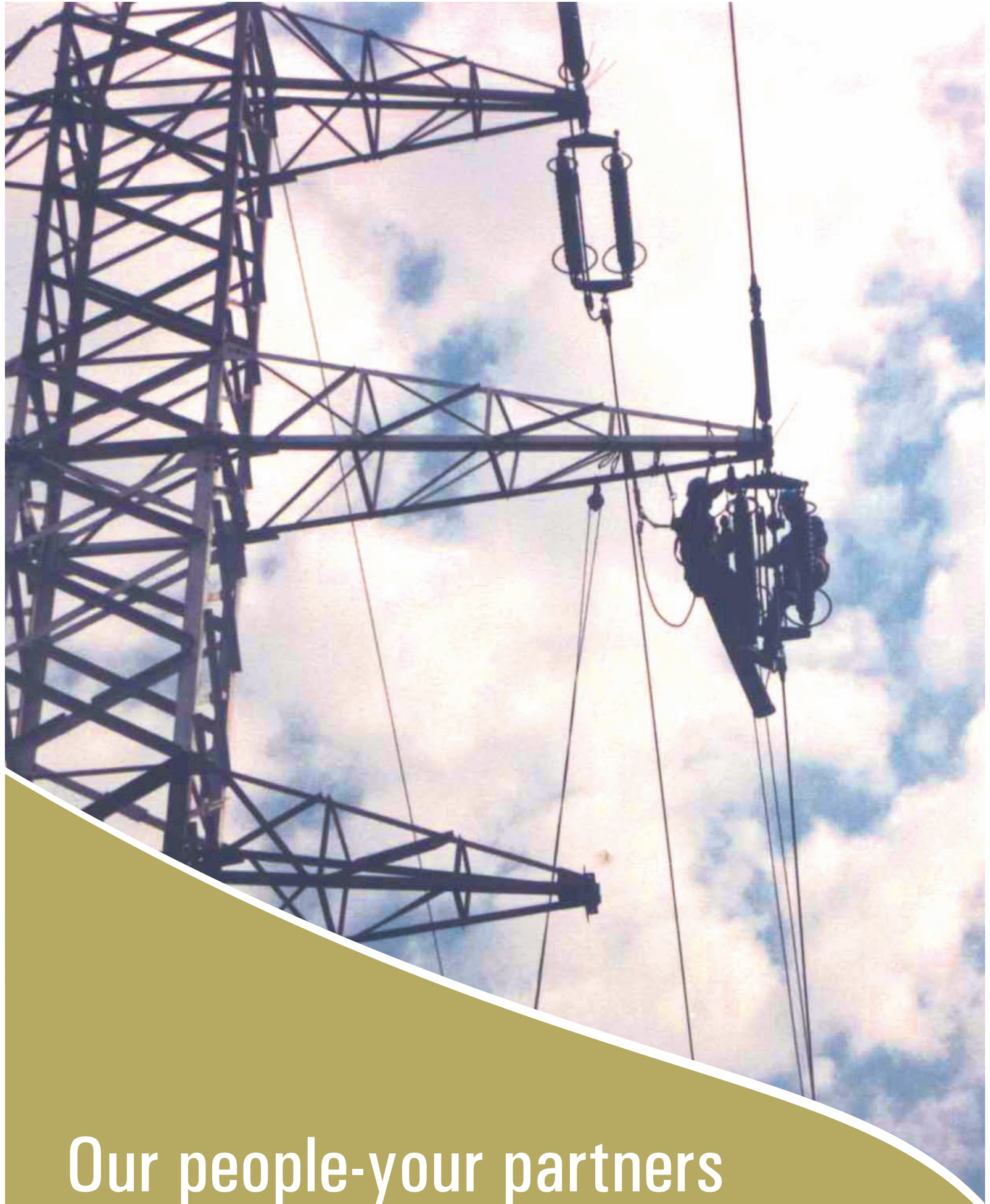
The improvement of the quality management system has been performed by demanding as reference the 2000 edition of the ISO 9001 standard and by certifying the compliance on the occasion of SRAC supervision audit in 2003. In 2004 Transelectrica's Environmental Management System was certified according to ISO 14001.

Within the context of Romania's sustainable development Transelectrica gives full attention to environmental protection issues. The transmission grid is wheeling about 33.8 TWh per year, without affecting air, water and soil quality.

Although overhead lines and electric substations are the cleanest anthropic source in the power system, Transelectrica is permanently concerned with reducing the transmission grid impact over the environment within the limits of national norms, with a view to long-run reaching to European norms. . In 2002 and respectively 2004 the Geographical Atlases "Environment and the electricity transmission grid" and "Soil quality and the electricity transmission grid" were issued, being a premiere in the field in Romania.

The main objective of the environmental policy has been the implementation of an modern environmental management system (EMS). The main steps taken are identifying and classifying the Company's activities and services with negative environmental impact; preventing any type of pollution and permanent improvement of environmental protection activities in all structures; notifying the environmental policy to the general public by any information means.





Our people-your partners



Operating the electricity network is one of Transelectrica's main businesses and our employees have developed the networking attitude to increase their performance and promote knowledge exchanges. They are strengthening the work relationships with our contractual partners (SMART, TELETRANS, FORMENERG, ICEMENERG included), in order to improve the services delivered to the benefit of the company and our customers.

In 2004 Transelectrica benefitted from the individual commitment to a group effort that made the teams work and the company prosper.

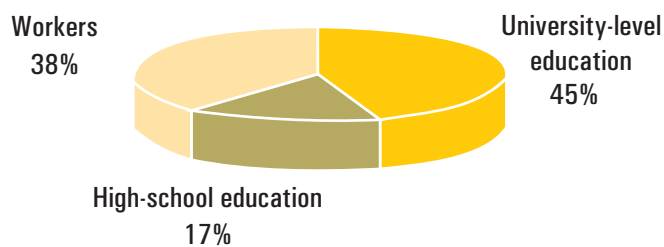
The expertise of our specialists have improved a lot during last years and is acknowledged by our collaborators and partners. The project management approach had also a major impact upon their professional lives.

Further to outsourcing the non-core activities, the staff reduced overtime and the labour productivity significantly increased. We keep on training and rewarding motivated people, while offering a proper palce for professional development, safe and healthy work conditions and ensuring a socially peaceful climate with our social partner in order to find the proper balance between responsibilities, effort and reward.

In 2004, the following main organizational targets have been identified and achieved:

- planning the staff according to the company organisational structure;
- recruiting and selecting the staff based on the new activity goals;
- training the employees to provide with the best level of knowledge and competences needed in the new market conditions;
- increasing the labour productivity;
- implementing the reward-based performance system;
- building up the partnership relation with

The structure of Transelectrica, personnel, according to their education, on December 31, 2004



SMART, TELETRANS, FORMENERG, OPCOM;

- development of the metering branch OMEPA to deliver metering services to the wholesale electricity market;
- setting up the “balancing market” department within the Operational Unit National Control Center

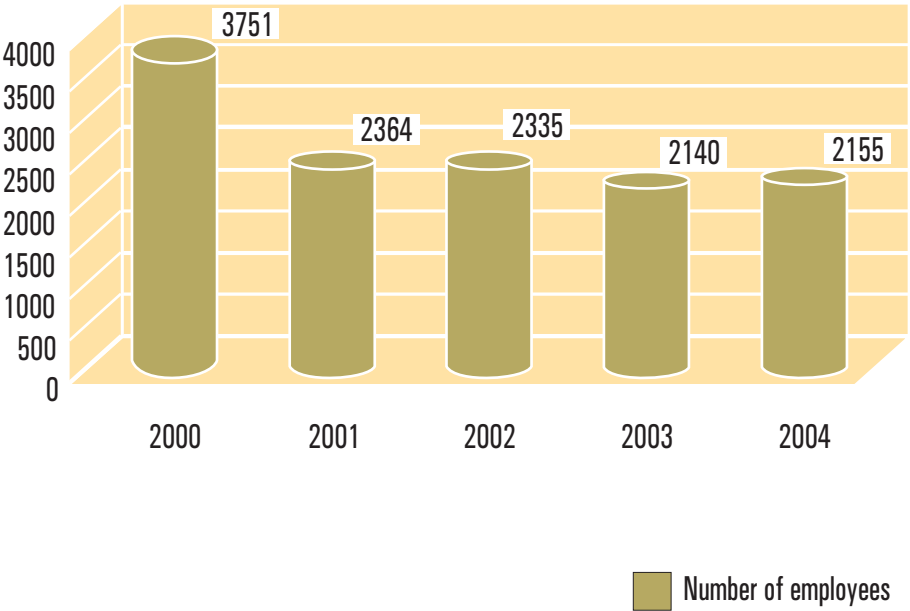
The organisational and functional structure helps to achieve:

- the management of the entire company's assets;
- the strengthened authority of the Operational Unit-National Control Centre (UNO-DEN) to manage the entire operational activity of the power system;
- the coordinated development of commercial, financial, and investment activities;

- the project-based activities with specific budget allocation;
- the top-level coordination of quality and environmental management;

As safety of Transelectrica employees is one of the company's concerns, we are providing a healthy working environment. In 2004 the electrical equipment was improved such as to meet European safety standards and individual protection equipment was provided, certified according to the labour Protection Standards. Transelectrica also managed to take all measures in order to provide the health working environment, reduce the incident and occupational risk and improve the specific performance indicators.

Personal evolution in Transelectrica



Transelectrica
Consolidated Financial Statements
December 31, 2004



KPMG Romania SRL
Central Business Park
Calea Serban Voda 133, Sector 4

P.O. Box 53-18
Bucharest 040 205
Romania

Tel: +40 (21) 317 22 66
+40 (741) 800 800
Fax: +40 (21) 316 11 77
+40 (741) 800 700
www.kpmg.ro

Independent Auditors' Report

To the Shareholder of
CNTEE Transelectrica SA

1. We have audited the consolidated financial statements of CNTEE Transelectrica SA ("the Company") and its subsidiaries ("the Group") as at 31 December 2004, from which the summarized consolidated financial statements were derived, in accordance with the International Standards on Auditing. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state to the Company's shareholder 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 shareholder, for our audit work, for this report, or for the opinion we have formed.

The consolidated financial statements of the Group as at 31 December 2003 were audited by another auditor whose report, dated 8 April 2004 modified the opinion for - Inadequate application of IAS 29 "Financial Reporting in Hyperinflationary Economies" due to lack of historic information relating to certain fixed assets; Non-application of IAS 36 "Impairment of Assets"; and Instances of non-compliance with the covenants stipulated in the long term loan agreements with foreign credit institutions.

In addition, the other auditors' report included explanatory emphasis of matter paragraphs with respect to - Going concern due to the transportation tariff not being solely determined by the Group, but instead being periodically established by National Authority for Electricity Sector Regulation ("ANRE"); and Restatement of opening balances according to IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" to the public patrimony reserve.

2. In our audit report dated 8 August 2005 we expressed an opinion that the consolidated financial statements from which the summarized financial statements were derived present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards, except that as described in Note 11 the Group has ongoing long-term loans from the European Bank for Reconstruction and Development, the European Investment Bank and the International Bank for Reconstruction and Development. The Group did not comply with certain covenants stipulated in the loan agreements, which may raise the requirements of advance reimbursements of these loans and therefore long term liabilities in amount of ROL 1,706,891 million should be presented as short term in accordance with IAS 1 "Presentation of Financial Statements". The management of the Group considers the probability of such requirements as being unlikely.

K

Also in our audit report dated 8 August 2005, without further qualifying our opinion, we draw attention to the following matters: As described in Note 20, as at 31 December 2004 the Ministry of Public Finance is claiming from the Group interest and penalties for the loans guaranteed by the State amounting to ROL 68,590 million, as well as to the balances offset by the Group according to Government Ordinance no. 152/2001 amounting to ROL 50,350 million. Group management considers that the probability of success of the claim is unlikely, and consequently no provision for this has been made in the consolidated financial statements. As described in Note 1, the electricity transmission tariff to the National Electricity System is not determined solely by the Group, but is periodically agreed with the National Authority for Energy Sector Regulation. The carrying value of fixed assets is linked to this, so any significant change in the tariff mechanism or rates could impact these carrying values. As described in Note 2 (b), the Romanian economy ceased to be hyperinflationary for 2004. The requirements of IAS 29 "Financial Reporting in Hyperinflationary Economies" were applicable up to 31 December 2003.

3. In our opinion, the accompanying summarized consolidated financial statements are consistent, in all material respects, with the consolidated financial statements of CNTEE Tranelectrica SA from which they were derived and on which we expressed a qualified opinion, as explained in paragraph 2.
4. For a better understanding of the Group's financial position and the results of their operations for the period and of the scope of our audit, the summarized consolidated financial statements should be read in conjunction with the consolidated financial statements from which the summarized consolidated financial statements were derived and our audit report thereon.

Bucharest, 8 August 2005



KPMG Romania SRL

CNTEE Transelectrica SA**Consolidated Statement of Income for the Year Ended as at 31 December 2004***(all amounts are in million ROL, unless stated otherwise)*

	31 December 2004	31 December 2003 (restated)
Assets		
Non-current assets		
Property, plant and equipment	17,242,770	23,978,376
Intangible assets	341,902	123,162
Investments available for sale	44,498	21,760
Total non-current assets	17,629,170	24,123,298
Current assets		
Inventories	292,807	419,577
Trade and other receivables	3,504,854	3,437,944
Cash and cash equivalents	555,025	478,069
Total current assets	4,352,686	4,335,590
Total assets	21,981,856	28,458,888
Shareholders' Equity and Liabilities		
Shareholders' equity		
Share capital	10,180,641	9,879,894
Public property reserve	-	10,434,815
Retained earnings/(accumulated losses)	1,181,448	(61,571)
Total shareholders' equity	11,362,089	20,253,138
Non-current liabilities		
Deferred income	1,469,867	985,816
Long term borrowings	5,582,529	3,346,471
Total non-current liabilities	7,052,396	4,332,287
Current liabilities		
Trade and other liabilities	2,692,997	2,739,904
Current income tax	90,120	172,230
Other tax and social security liabilities	266,940	435,655
Short term borrowings	517,314	525,674
Total current liabilities	3,567,371	3,873,463
Total liabilities	10,619,767	8,205,750
Total liabilities and shareholder's equity	21,981,856	28,458,888

CNTEE Tranelectrica SA

Consolidated Statement of Income for the Year Ended as at 31 December 2004

(all amounts are in million ROL, unless stated otherwise)

	31 December 2004	31 December 2003 (restated)
Operating revenues	10,608,086	8,194,466
Operating expenses	(9,156,212)	(8,375,191)
Operating profit(loss)	1,451,874	(180,725)
Financial items, net	(332,804)	(528,981)
Gains on net monetary position	-	228,827
Profit/(loss) before income tax	1,119,070	(480,879)
Income tax	(253,237)	1,056,325
Net profit for the year	865,833	575,446

CNTEE Transelectrica SA**Consolidated Cash Flow Statement for the Year Ended 31 December 2004***(all amounts are in million ROL, unless stated otherwise)*

	Share capital	Public patrimony	Retained earnings	Total
Balance as at 1 January 2003	9,879,894	11,321,040	(1,512,874)	19,688,060
Transfer from public patrimony to retained earnings (depreciation of public patrimony assets and assets transferred to private patrimony)	-	(886,225)	886,225	-
Additional equity contribution	-	-	15,496	15,496
Profit for the year	-	-	575,446	575,446
Dividends for 2003	-	-	(25,864)	(25,864)
Balance as at 31 December 2003 (restated)	9,879,894	10,434,815	(61,571)	20,253,138
Balance as of 31 December 2003 as previously stated	9,879,894	10,434,815	1,044,913	21,359,622
Adjustments in accordance with IAS 8	-	-	(1,106,484)	(1,106,484)
Balance as at 31 December 2003 (restated)	9,879,894	10,434,815	(61,571)	20,253,138
Transfer from public patrimony reserve related to depreciation of corresponding property, plant and equipment	-	(677,933)	677,933	-
Derecognition of public patrimony assets and reserve following signing the concession contract	-	(9,756,882)	-	(9,756,882)
Transfers from reserves	300,747	-	(300,747)	-
Profit for the year	-	-	865,833	865,833
Balance as at 31 December 2004	10,180,641	-	1,181,448	11,362,089

CNTEE Transelectrica SA**Consolidated Cash Flow Statement for the Year Ended 31 December 2004***(all amounts are in million ROL, unless stated otherwise)*

	31 December 2004	31 December 2003 (restated)
Cash flows from operating activities		
Profit for the year	865,833	575,446
Adjustments for non-cash items		
Tax charge/(credit)	253,237	(1,056,325)
Depreciation and amortization	1,348,630	1,670,878
Release of deferred income	(200,511)	(110,404)
(Gain)/Loss on disposal of property, plant and equipment	(15,852)	6,591
Interest income	(8,951)	(22,770)
Interest expense	203,659	289,938
Hyperinflation effect	-	282,398
Operating cash flows before working capital changes	2,446,045	1,635,752
Accounts receivable	(256,863)	(160,356)
Inventories	120,696	25,496
Accounts payable and other liabilities	(24,983)	(24,565)
Changes in working capital	(161,150)	(159,425)
Interest paid	(190,507)	(265,691)
Income tax paid	(335,636)	(132,830)
Net cash from operating activities	1,758,752	1,077,806
Cash flows from investing activities		
Purchase of tangible and intangible assets	(4,615,234)	(3,187,579)
Proceeds from sale of tangible fixed assets	25,380	31,207
Cash inflow from purchase of subsidiaries	-	6,923
Interest received	8,951	22,770
Net cash used in investing activities	(4,580,903)	(3,126,679)
Cash flow from financing activities		
Subsidies received	684,562	229,540
Net movement from borrowings	2,214,545	2,094,033
Effect of hyperinflation on financing activity	-	(349,117)
Net cash from financing activities	2,899,107	1,974,456
Hyperinflation effect on cash and cash equivalents	-	59,972
Net increase/(decrease) in cash and cash equivalents	76,956	(14,445)
Cash and cash equivalents at the beginning of the year	478,069	492,514
Cash and cash equivalents at end of year	555,025	478,069

Significant Non-Cash transaction

According to the concession contract the public patrimony assets with a net book value of 9,756,882 were transferred to MEC.

1. Background and general information

The main activity of CNTEE Transelectrica SA and its subsidiaries (together Transelectrica, "the Group" or "the Company") is electricity transportation services, management of the National Energy System ("NES"), administration of the electricity market, repairs and maintenance of the transmission equipment and information technology and telecommunication services. CNTEE Transelectrica SA, the parent company ("Transelectrica") was incorporated in 2000 as a joint stock company established under the laws of Romania. The Company is incorporated in Romania. The address of its registered office is 33, G-ral Gheorghe Magheru Bvd., Bucharest 1.

There are five subsidiaries (all of which have their head office in Bucharest). These are S.C. SMART SA, S.C. TELETRANS SA, S.C. ICEMENERG SA, S.C. OPCOM SA, and S.C. FORMENERG SA. Transelectrica is the sole shareholder of the 5 subsidiaries, further details of which are presented in Note 20.

Incorporation of the Company

In accordance with the Decision 627 issued on 31 July 2000 by the Government of Romania, the National Electricity Company a state corporation (the "Predecessor Entity") was split into four newly created legal entities ("Successor Entities"). The main objective of the reorganization was to allow the newly created entities to operate on a commercial basis, allowing for the eventual privatisation of the Successor Entities. The sole shareholder of the Successor Entities is the Romanian State, through the Ministry of Economy and Commerce ("MEC"). Transelectrica was established as a result of this reorganization as a joint stock company which has as main objective of activity the electricity transportation, management and administration of the electricity market.

The Mission of the Company.

The Mission of the Company refers to the secure and stable functioning of the National Energy System ("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 Company's activity

Transelectrica is the first Romanian company to be part of a European economic structure, as a consequence of NES being interconnected to the main system of the Union for the Coordination of Transmission of Electricity ("UCTE") on 10 October 2004 through the 400Kv Arad-Sandorfalva transmission line. Following the successful completion of tests and the implementation of the technical regulations, Transelectrica has become a full member of UCTE during 2003. Also, beginning November 2004, Transelectrica has become member of the European Electricity Systems Operators Association ("ETS0").

The Company is responsible for the secure, reliable and efficient functioning of NES, by carrying out the provisions of EU Directive 54/2003, art. 9.

During the negotiation of art. „14 Energy" from the EU Accessions Dossier, it has been determined that Romania has fulfilled the essential requirements relating to the development of the electricity market and to the existence of an independent and neutral transmission operator who can guarantee both non-discriminatory access for all users of the transmission network, and the safety of NES.

Transelectrica is one of the first three Romanian companies to be rated by the international rating agencies Moody's Investor Service and Standard & Poor's, as follows:

On 4 October 2004, Moody's Investor Service has improved by two levels the 2003 rating, from B2 to B3a, with stable future expectations;

Standard & Poor's has improved the 2003 rating from BB minus to BB, with stable future expectations. Regulatory environment

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, following the opening of 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 transportation.. Consequently, the Group's activity is fundamentally impacted by the decisions made by ANRE.

Operating activity has been performed according to set-up licence no. 161 and 162 given by ANRE in December 2000, modified through ANRE Decisions no 784 and 785 from October 2002.

Electricity market

Until 24 December 2001, in accordance with Government Decision 982/2000, the Romanian electricity market was open to competition up to the level of 15% of the final domestic electricity consumption for the year 1998. On 23 December 2001, following Government Decision 1272/2001, the electricity market was opened to competition up to the level of 25% of the final domestic electricity consumption for the year 2001. Starting with 31 January 2002, following Government Decision 48/2002, the Romanian electricity market is open to competition up to the level of 33% of the final domestic electricity consumption for the year 2001. The competition consists of "eligible consumers", which consume over 1 GWh per year and are accredited by ANRE to negotiate directly with the electricity suppliers, having access to the electricity transport and/or distribution networks.

As at 18 December 2003, according to Government Decision 1563/2003, the Romanian electricity market was opened to competition up to the level of 40% of the final domestic electricity consumption for the year 2002. On 1 November 2004, the opening of the electricity market increased to 55%. The market is to become fully opened to competition by 1 July 2007.

ADDRESSES

Operational Unit - National Dispatching Center

16-18 Bd. Hristo Botev Blvd
030236 Bucharest
Phone: + 4021 303 56 13
Fax: + 4021 303 56 30

BRANCHES

Transmission Branch of Bacau

41 Oituz Street, Bacau
600266 Bacau,
Phone: +40 234 207 120
Fax: +40 234 517 456

Transmission Branch of Bucuresti

1 A Stefan cel Mare Street
011736 Bucharest
Phone: +40 21 201 62 00
Fax: +40 21 317 23 00

Transmission Branch of Cluj

27 Memorandumului Street
400114 Cluj
Phone: +40 264 405 505
Fax: +40 264 405 500

Transmission Branch of Constanta

195 A Alexandru Lapusneanu Blvd.
Bl. LAV 1
900472 Constanta
Phone: +40 241 607 505
Fax: +40 241 607 550

Transmission Branch of Craiova

5 Brestei Street
200581 Craiova
Phone: +40 251 146 860
Fax: +40 251 414 922

Transmission Branch of Pitesti

25 B Fratii Golesti Street
110174 Pitesti
Phone: +40 248 607 200
Fax: +40 248 607 209

Transmission Branch of Sibiu

3 Corneliu Coposu Street
550253 Sibiu
Phone: +40 269 207 111
Fax: +40 269 207 101

Transmission Branch of Timisoara

11 Piata Romanilor Street
300100 Timisoara
Phone: +40 256 294 550
Fax: +40 256 219 963

SUBSIDIARIES

Power Market Operator OPCOM

16-18 Hristo Botev Blvd.
030236 Bucharest
Phone: +4021 307 14 10
Fax: +4201 307 14 00

TELETRANS SA Subsidiary

16-18 Hristo Botev Blvd.
030236 Bucharest
Phone: +4021 303 56 19
Fax: +4201 303 56 90

SMART SA Subsidiary

33 Gheorghe Magheru Blvd.
010325 Bucharest
Phone: +40 21 303 59 61
Fax: +40 21 303 58 60

FORMENERG S.A. Subsidiary

3 Gheorghe Sincai Blvd.
040311 Bucharest
Phone: +40 21 330 40 05
Fax: +40 21 330 14 96

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Transelectrica - The Romanian Power Grid Company
33, Magheru Blvd., Bucharest 1, Romania
Phone +4 021 3035821
Fax +4 021 3035610
e-mail: elena.ratcu@transelectrica.ro
www.transelectrica.ro

Coordinated by

Elena Ratcu - Secretary General, Transelectrica

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