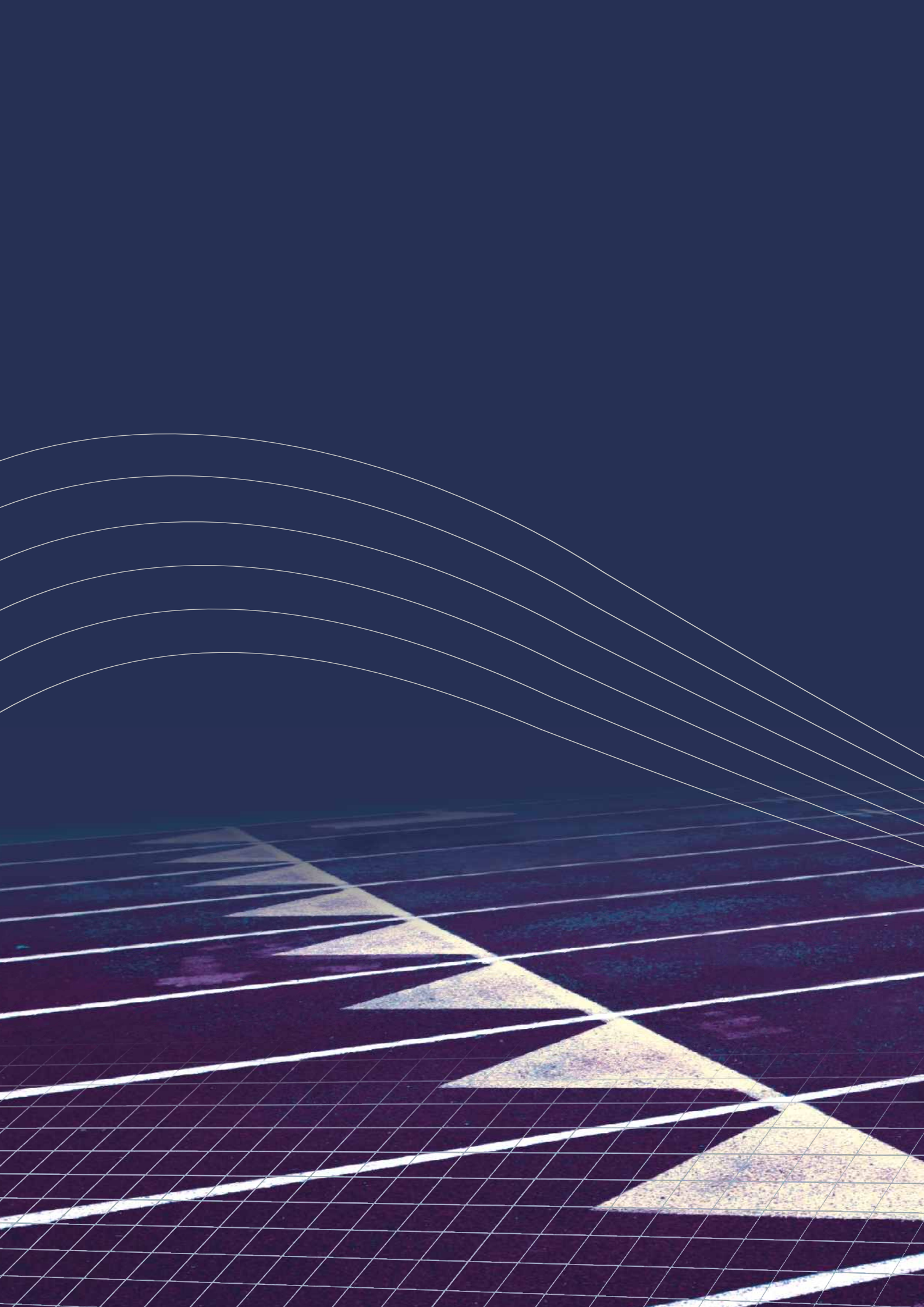


2005

Annual report







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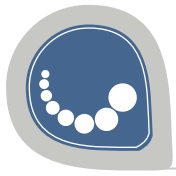


Consolidated Financial Statements



Photo Gallery





# TRANSELECTRICA







## A Message from the Director General

The prospect of Romania's accession into the European Union in 2007 has focused all our efforts towards the harmonisation with the European legislation and regulations. Further to an intensive process of rehabilitating and modernising its infrastructure, Transelectrica has met the technical requirements to ensure the interconnected operation of the Romanian Power System with the European ones. By Transelectrica's admission in UCTE and ETSO - noteworthy organisations for the TSOs in the EU -, Romania became the first EU non-member country in SE Europe integrated in EU specific structures.

2005 featured very good results for our company, in both technical and financial terms. As Romania, by Transelectrica, is prepared to become the regional hub in the electricity market, major investments have been achieved to modernise the electricity market infrastructure. From its very setting up, Transelectrica launched a wide modernisation/ rehabilitation programme for the 220 kV and 400 kV lines and transformer substations. Over 4000 km of telecommunication optic fiber were installed, a modern EMS/SCADA system was implemented, and the metering system was commissioned. In July 2005 Transelectrica commissioned a comprehensive trading platform, enabling the company to balance the supply and demand in real time by means of market-based rules. In February 2005 Transelectrica started to use explicit auctions to allocate the capacity on the interconnections with Hungary, Serbia, Bulgaria and Ukraine.

In 2005 the investment projects amounted to 144 mill. Euro - 27% more than in 2004. Financial results improved as well, as Transelectrica managed to improve its efficiency, profitability and performance indicators. In 2005 the company's turnover was of 550,364,000 Euro, 69% higher than in 2004 (255,066,000 Euro). The turnover increase was due to the implementation of the balancing market and the green certificates market, which represented about 16% from the 2005 turnover.

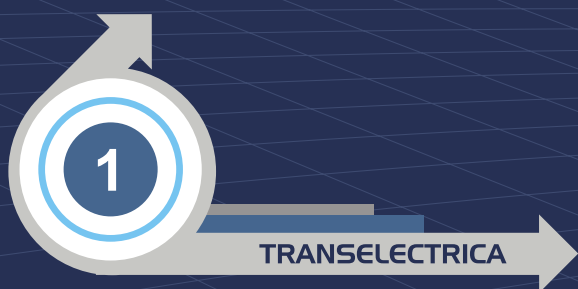
Transelectrica, one of the first Romanian companies rated by the main international financial rating agencies - Moody's Investor Service and Standard and Poors, managed to gain the closest rate of sovereign ratings: Ba1 with positive outlook (Moody's) and BB with positive outlook (Standard and Poors).

According to the governmental programme to speed up privatisation and draw investments through the Romanian capital market, in 2005 Transelectrica launched the listing of 10% of its shares in the Bucharest Stock Exchange; by mid 2006 the company is expected to become an open society.

The daily steadfast commitment of our 2160 employees who proved their expertise, professionalism and dedication is a guarantee for our meeting all the challenging targets staying ahead.

May I extend the best thanks to all of them!

Stelian Alexandru Gal  
Director General



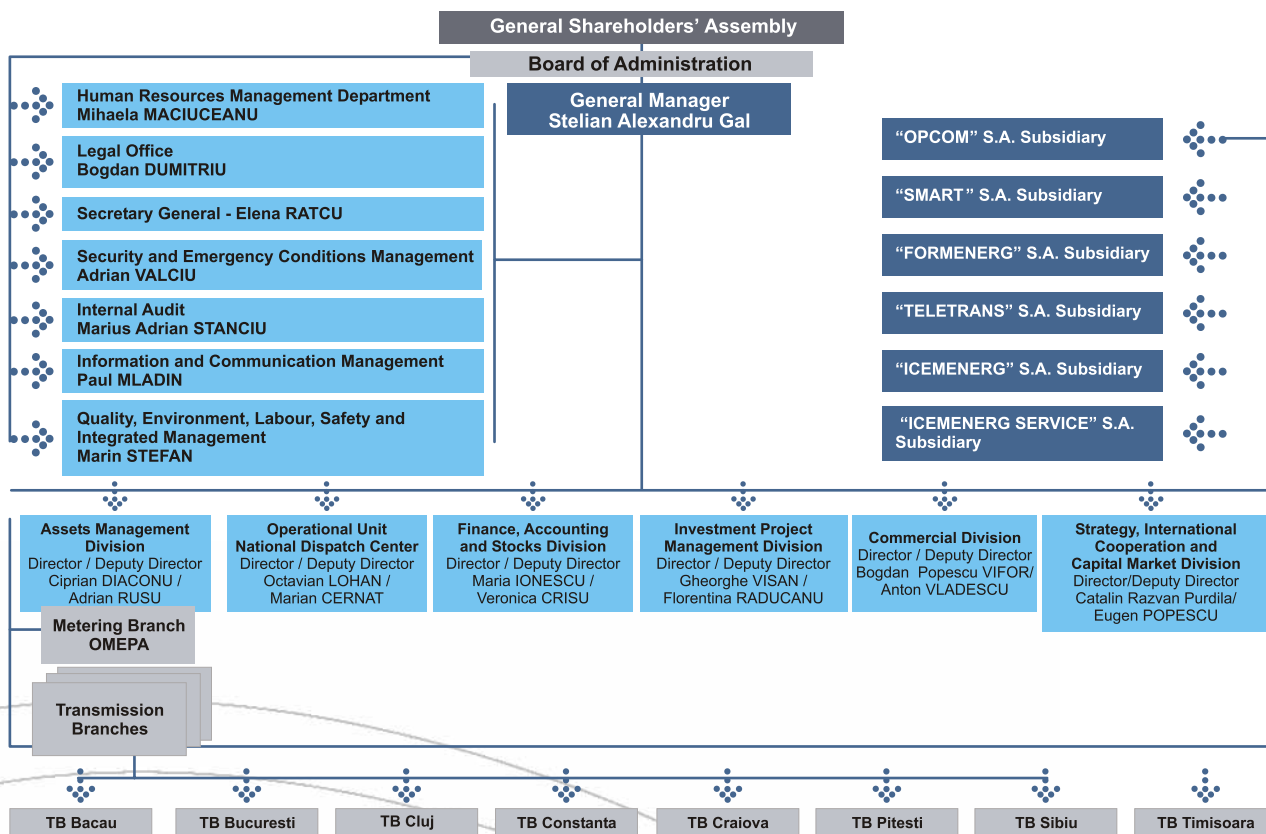
Corporate Overview







## Transelectrica's organisation







## 1. Corporate Overview

### ⦿ A Sound Management; Ratings; Risk Management

#### A Sound Management

Transelectrica's fair 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.

#### Ratings

Since 2002 Transelectrica has been 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 ratings at evaluation dates.

#### Continuous upgrading on Transelectrica's ratings assigned by the international rating agencies *Moody's Investor Service* and *Standard & Poor's Ratings Services*

##### Moody's Investor Service

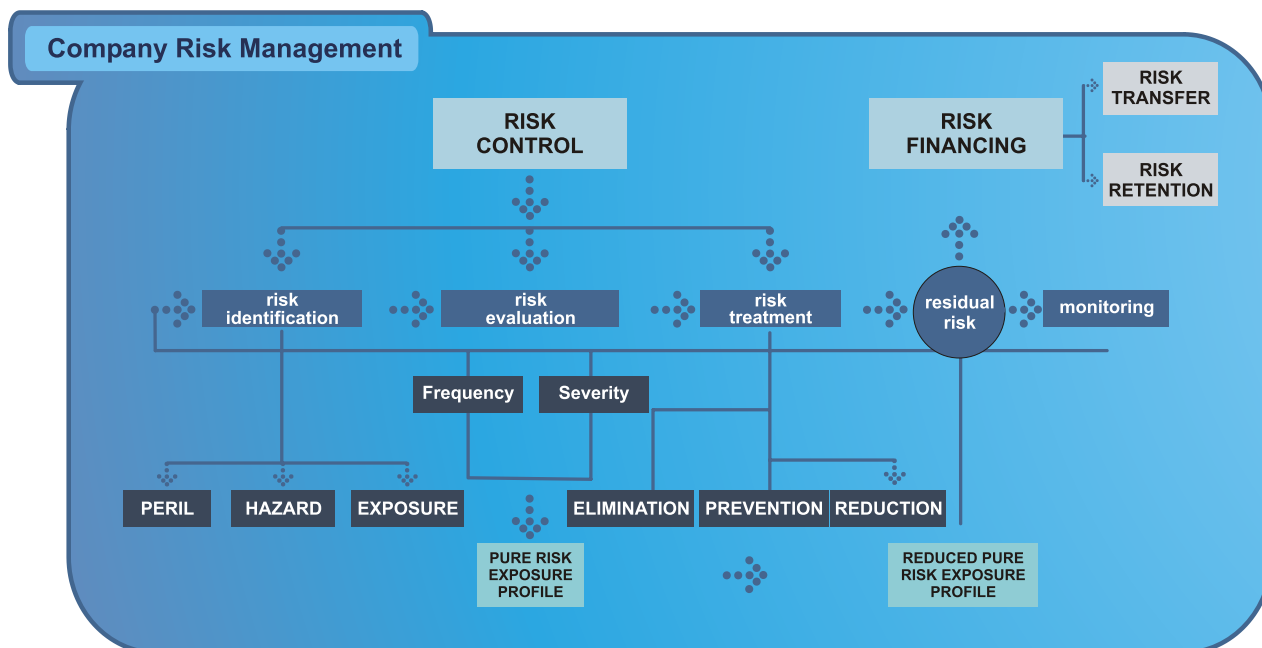
Report Type	Date	Title
Credit Opinion	07 NOV 2005	TRANSELECTRICA'S SENIOR IMPLIED RATING is Ba1, POSITIVE OUTLOOK
Rating Action	23 JUN 2005	MOODY'S announces rating impact of Governmental Related Issuers methodology for corporate issuers in EMEA region; MOODY'S UPGRADES TRANSELECTRICA'S SENIOR IMPLIED RATING to Ba1, POSITIVE OUTLOOK from STABLE OUTLOOK.
Announcement	28 APR 2005	MOODY'S examines ratings on various government - related issuers (GRI) in connection with the introduction of joint - default analysis
Credit Opinion	15 MAR 2005	Transelectrica Ba1, STABLE OUTLOOK
Rating Action	10 MAR 2005	MOODY'S UPGRADES TRANSELECTRICA'S SENIOR IMPLIED RATING to Ba1 from Ba3, STABLE OUTLOOK
Rating Action	04 OCT 2004	MOODY'S UPGRADES TRANSELECTRICA'S SENIOR IMPLIED RATING to Ba3 from B2, STABLE OUTLOOK
Rating Action	17 FEB 2003	MOODY'S ASSIGNS B2 SENIOR IMPLIED RATING to TRANSELECTRICA, STABLE OUTLOOK

##### Standard & Poor's Rating Services

Report Type	Date	Title
Research	20 MAR 2006	Transelectrica BB/BB/POSITIVE
Research	28 OCT 2005	Transelectrica BB/BB/STABLE
Research	02 NOV 2004	Transelectrica BB/BB/STABLE
Rating Action	22 OCT 2004	S&P RAISED its LONG-TERM FOREIGN CURRENCY CORPORATE CREDIT RATING on Transelectrica S.A. to BB' from 'BB-'. STABLE OUTLOOK.
Bulletin	15 SEPT 2004	TRANSELECTRICA BB-/BB-/POSITIVE
Rating Action	17 SEPT 2003	S&P RAISED its LONG-TERM FOREIGN CURRENCY CORPORATE CREDIT RATING on Transelectrica S.A. 'BB-' from 'B+'. At the same time, S&P affirmed its 'BB'-LONG - TERM LOCAL CURRENCY RATING on Transelectrica. POSITIVE OUTLOOK.
Research	09 APR 2003	Transelectrica B+/BB-/POSITIVE
Rating Action	08 NOV 2002	S&P ASSIGNED B+ FOREIGN CURRENCY and BB LOCAL CURRENCY LONG TERM CREDIT RATINGS to Transelectrica; POSITIVE OUTLOOK.

The ratings obtained so far by Transelectrica induced a better position for the company in negotiations with the financial institutions and enabled it significant benefits:

- Increases the visibility and attractiveness with investors, lenders and other market participants
- Broadens the financing options by improved financial flexibility, wider access to the international capital markets, better terms for external debt, negotiations with foreign trade creditors.



Starting with 2003, with Romanian and international consultancy, we set and implemented a Company Risk Management Programme to address the following objectives:

- Anticipate and prevent major disruptions in operation
- Ensure adequate liquidity/cash flow for operating expenses, debt payments and strategic investments
- Protect long-term viability and strength of the Company

Risk Management lays the groundwork for decisions about allocating resources to manage risk and reduces the element of surprise.

The activities related to risk management developed by Transelectrica in 2005 were focused on:

- risk transfer by insurance in order to protect the company's assets against severe loss, mitigate risks and 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







### ⦿ Highlights 2005

#### January

Meeting of UCTE Steering Committee in Bucharest.

#### February

Transelectrica and the TSO's from Albania, Bosnia-Herzegovina, Bulgaria, Macedonia, Serbia and Montenegro under the umbrella of ETSO (the Association of European Electricity Transmission System Operators), agreed to further on carry out the cross-border trade mechanisms (CBT) for 2005, following the principles of 2005 ETSO mechanism applied in the European Union. The mechanism facilitates the cross-border electricity trades in South-Eastern Europe.

#### March

Transelectrica signed a "turn-key" contract to rehabilitate the 400 kV Cernavoda electric substation, worth 9.6 mill. Euro.

#### May

- Contract signing between Transelectrica and Magyar Villamos Muvek Rt (MVM Rt) to construct the 400 kV Oradea (RO) - Bekescsaba (HU) interconnection line, this being the 2nd interconnection line between Romania and Hungary. The interconnection line, meant to increase the cross-border interconnection capacity within the UCTE system and develop the regional electricity market, will have a length of 93 km on the Romanian territory and respectively 40 km on the Hungarian territory, each company having to ensure the financing sources for its own works: Transelectrica about 30 mill. Euro and MVM Rt about 20 mill. Euro. By 2008 this new electricity transmission line is to interconnect the Romanian power system to Central and Eastern European power systems. In Romania the investment projects include the interconnection line, the new 400 kV Nadab interconnection substation and the installation of a shunt reactor within the 400 kV Oradea substation.
- Transelectrica and Fichtner GmbH Germany signed the consultancy contract on implementing projects to carry out in Romania the 400 kV Oradea (RO) - Bekescsaba (HU) interconnection line, the 400 kV interconnection substation and shunt reactor installation within the 400 kV Oradea substation.
- Signing the "turn-key" contract between Transelectrica and Areva T&D on modernising the command-control-protection-recording for 11 electric substations of 220/110 kV.

#### June

- Transelectrica celebrated 50 years of continuous operation of its Operational Unit - National Dispatching Center
- Transelectrica and the Consortium made up of Alpha Finance Romania, Raiffeisen Capital & Investments and BRD Securities - Groupe Societe Generale signed the contract to prepare, perform and successfully conclude the initial primary public offer with a view to listing Transelectrica's shares to Bucharest Stock Exchange

#### July

- Commissioning the 220 kV Slatina substation, the first stage of 400/220 kV Slatina substation rehabilitation project. The whole project is modernised with ABB technology and is worthing 37.2 mill. USD.
- Opening the electricity market to 83%.
- Meeting between top executives from Transelectrica and JP "Elektromreza Srbije" - EMS, the TSO within Serbia and Montenegro, on the joint interest to construct the 400 kV OHL Timisoara (RO)-Vrsac (Serbia), meant to increase the transmission capacity between the two power systems and sustain the electricity trades in South-Eastern Europe with a view to achieving a unique European Electricity Market.

#### June - August

Romania was confronted with severe floods and several electric lines were extensively damaged. In spite of the difficulties engendered by bad weather, Transelectrica's specialists managed to put again in operation all the injured lines.

#### October

The second edition of the Romanian Electricity System and Market towards Consolidation and European Integration (RESYM 2005) took place. The event joined together top executives from the country and abroad. The conference presentations were focused on Romania's progress while liberalising the electricity sector and complying with the acquis communautaire by developing: the market and the competition; successful projects and the investment potential in the field; the key role of the Romanian Power System within power development and stability in South-East Europe.

#### November

- Commissioning the 110/20 kV Fantanele substation, the first stage of the 220/110/20 kV Fantanele rehabilitation project. The entire project is modernised with Electroputere technology and is worthing 4.7 mill. Euro.
- MOU signing between Transelectrica and JP "Elektromreza Srbije" EMS Serbia for the construction of the new interconnection line Timisoara (RO) - Vrsac (Serbia).

#### December

Transelectrica and the consortium made up of Romelectro and Electromontaj - Romania signed the contract to construct 93 km on Romanian territory from the interconnection line Oradea (RO) - Bekescsaba (HU) and to expand the 400 kV Oradea Sud substation by installing a 100 MVAR, 400 kV shunt reactor.



## ⦿ Background and strategy

### Background

Transelectrica was founded on August 1, 2000 and is the Romanian Transmission and System Operator (TSO) which plays a key role in the Romanian electricity market. It manages and operates the electricity transmission system and provides electricity exchanges among Central and South Eastern European countries, as a member of UCTE (Union for Coordination of Transmission of Electricity) and ETSO (Association of European Transmission and System Operators).

Transelectrica is a key player for the stability and reliability of the Romanian Power System, being responsible for electricity transmission, system and market operation, grid and market infrastructure development. It secures a regulated access to the Romanian electricity transmission network under transparent, non-discriminatory and fair conditions to all market participants. It also serves as the main link between electricity supply and demand, making all the time adjustments to match power generation with demand.

Transelectrica operates according to the Transmission and System Operator Licenses, Transmission Grid Code and Commercial Code.

The company is the sole shareholder of its 6 subsidiaries:

- SC SMART SA - provides maintenance services for the Electricity Transmission Network (ETN)
- SC TELETRANS SA provides telecom and IT services for ETN management by the Dispatcher and for Transelectrica's internal needs
- SC OPCOM SA - ensures the organised framework to conduct commercial transactions with electricity
- SC FORMENERG SA - provides professional training for the power sector personnel
- SC ICEMENERG SA - provides business research and technical assistance services to thermal power plants, power substations and electricity networks
- SC ICEMENERG Service SA - manufactures electricity distribution equipment and control devices for power equipment

Further to Transelectrica's listing to the Bucharest Stock Exchange in August 2006, ICEMENERG, ICEMENERG Service and FORMENERG are scheduled to be launched for privatisation.

Transelectrica has also 8 transmission branches located in Bucharest, Bacau, Cluj, Constanta, Craiova, Pitesti, Sibiu and Timisoara and one branch for metering, located in Bucharest.

### Strategy

Transelectrica's Strategy is meant to:

- Further improve the reliability of the Romanian Power System
- Rehabilitate and modernise its key facilities, overhead lines and substations by state-of-the-art technologies
- Cut down the operation and maintenance costs
- Limit the environmental impact at admissible European level
- Maximise the benefits resulting from the UCTE interconnection
- Develop the interconnections with neighbouring countries
- Become the regional electricity hub within South-East Europe, by taking advantage of Romania's geographical position







# 1. Corporate Overview

## Key functions

- **Transmission and System Operator of the Romanian Power System**
  - the grid infrastructure maintenance and development
  - the dispatching infrastructure (EMS/SCADA-Energy Management System/Supervisory Control and Data Acquisition)
- **Balancing Market Operator**
  - the balancing market platform operation
- **Commercial Operator of the Electricity Market - OPCOM, a legal subsidiary**
  - trading platforms
  - green certificates trading platform
- **Metering Operator of the Wholesale Electricity Market - its branch OMEPA**
  - the metering system
- **Telecommunication and IT Operator - TELETRANS, a legal subsidiary**
  - the optic fiber, digital telecom system

## Main responsibilities

- is responsible for the continuity and security of electricity supply
- ensures qualitative and safe electricity supply to consumers, while observing the electricity parameters in compliance with the Technical Grid Code
- provides real time control of the power system, by using balancing market mechanisms and contracted ancillary system services
- ensures the non-discriminatory and transparent access to the transmission grid for all market participants
- operates, maintains and develops the transmission grid assets and associated power system control, telecommunication and metering facilities
- manages power flows, while ensuring the equilibrium between demand and supply
- ensures interconnected operation with other power systems within the UCTE system
- provides appropriate trading platforms for the electricity market, including settlement and clearing services through its fully owned subsidiary, OPCOM
- ensures the metering service for the wholesale electricity market
- ensures IT and telecommunication services through its fully owned subsidiary, TELETRANS

## Core activities

- technical and operational management of the Power System, to ensure the safe and stable operation of the system
- operation, maintenance and development of its assets
- forecast for the Romanian Power System and transmission network development
- market administration through its legally independent subsidiary OPCOM
- management of interconnections and electricity transits with neighbouring countries
- capacity allocation on interconnections
- green certificates allocation
- Transelectrica does not trade electricity, except to cover its own technical transmission losses

## Main objectives

- to provide transmission services by observing the quality and safe operational standards
- to make its own services competitive by reducing the associated costs
- to obtain adequate operational revenues, reflecting the current business risks
- to increase the company's financial soundness
- to keep on improving its ratings for internal and external financial debts

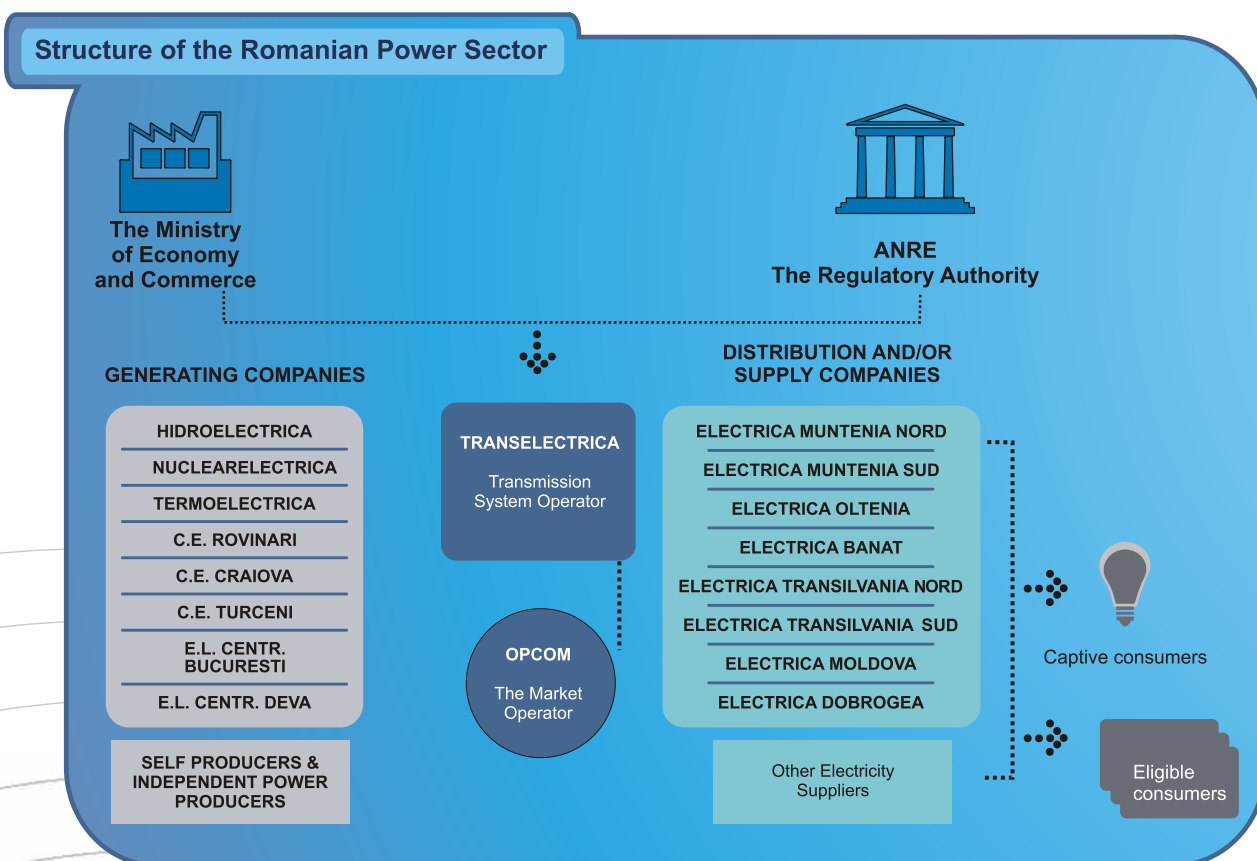
To support its objectives, Transelectrica, with its 2,160 dedicated professionals:

- promotes the latest technologies
- promotes project-oriented activities
- enhances the commitment and qualification of personnel
- attracts foreign and domestic capital



## ☉ Transelectrica's Relationship to the Owner

Transelectrica is a joint - stock 100% state-owned company, its shares being held by the Ministry of Economy and Commerce. By August 2006 Transelectrica is expected to be listed to the Bucharest Stock Exchange. Thus, the shares held by the Ministry of Economy and Commerce will be reduced to 70%.





## 1. Corporate Overview

### ⦿ Privatisation

Government Decision 184/28 March 2005: Strategy on accelerating the privatisation and attracting investments for the economic agents under the subordination of the Ministry of Economy and Commerce in 2005, stipulates for Transelectrica the following:

- a primary initial public offer of up to 15% of the company's shares, resulted from a capital increase and followed by floating on the Stock Exchange in Bucharest
- privatisation by restitution of a Transelectrica's stake based on Law no. 10/2001 on the legal regime of some buildings which were abusively taken over in between March 6<sup>th</sup> 1945, and December 22<sup>nd</sup> 1989

Government Decision 708/19 July 2005: Primary initial public offer - 10% of Transelectrica's shares followed by floating on the Stock Exchange in Bucharest.

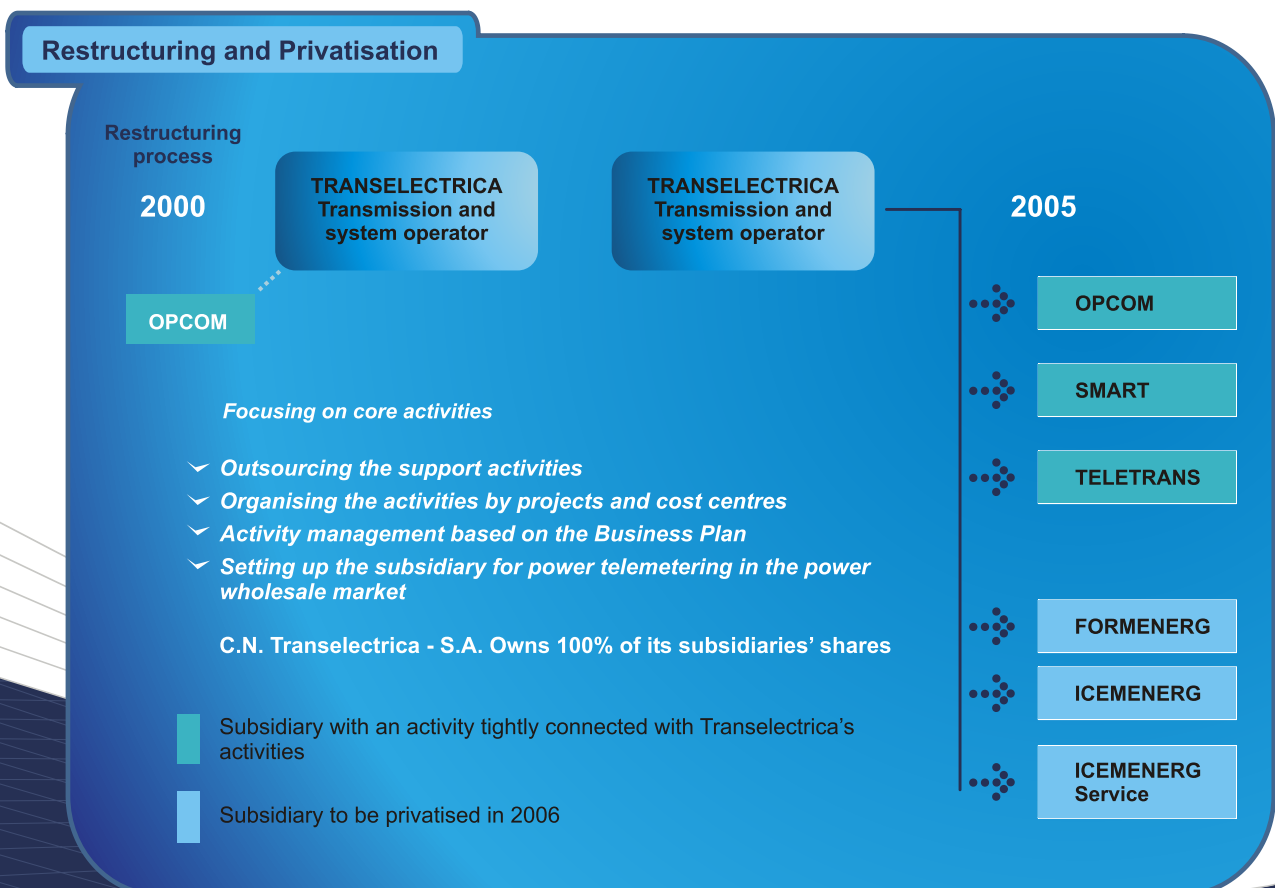
According to the contract on providing services for financial investments, a Preliminary Prospectus has been finalised in order to be submitted to the National Securities Commission (CNVM) for approval.

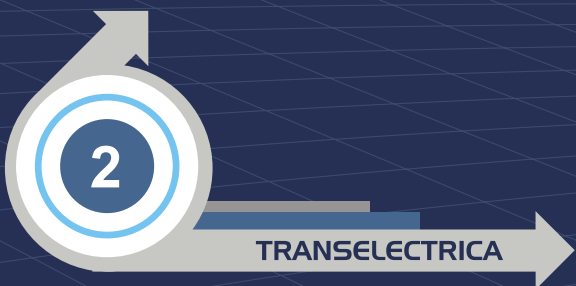
Privatisation by restitution:

A stake of 5% of Transelectrica's working capital was kept for privatisation by restitution based on Law 10/2001 on the legal regime of some buildings which were abusively taken over in between March 6<sup>th</sup>, 1945, and December 22<sup>nd</sup>, 1989, with later modifications and completions (Government Decision 184/2005). Law 247/19 July 2005: the participation in the Ownership Fund with 15% of Transelectrica's shares.

Conclusion on ownership:

- 10% IPO
  - 15% Ownership Fund
  - 5% privatisation by restitution
- TOTAL: 30% other, 70% Transelectrica - state ownership





Electricity Market Operation







## 2. Electricity Market Operation

Transelectrica is a promoter of the regional South-East European electricity market and power exchange in order to capitalise on its favourable position in the area and wide experience with managing its domestic electricity 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.

The Romanian Electricity Market developed with considerations of the major changes in Romanian industry structure (unbundling and development of competition) and related commercial relationships. The power industry has a competitive structure, with Transelectrica as the hub of the whole system.

The Energy Law 318/July 2003 complies with the Directive 54/2003 on EU internal electricity market.

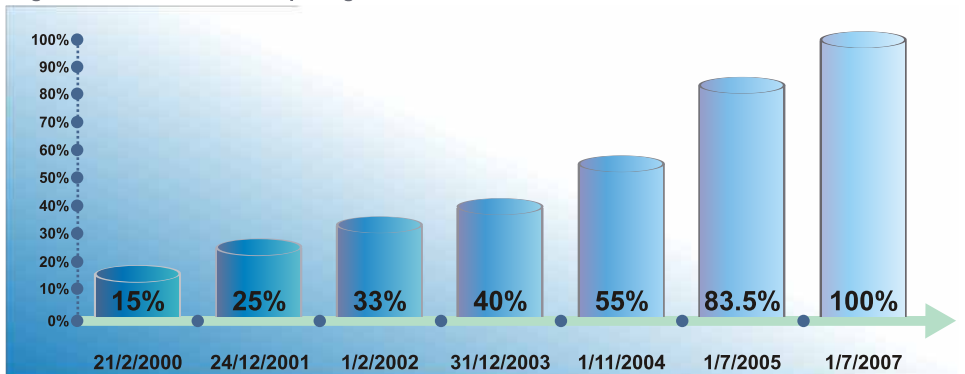
### Market opening

The Romanian Electricity Market has developed on the basis of significant changes in the industry structure: unbundling and related commercial relationships between the producers, suppliers and eligible consumers of electricity

The market participants are treated in a non-discriminatory manner. The development of the competitive market has benefited Transelectrica, which has diversified its customer portfolio and increased its liquidity.

In 2005 the electricity market opening degree was of 83% and we expect that by 2007 the market be 100% liberalised

Degree of Romanian market opening



### Trading arrangements in the market

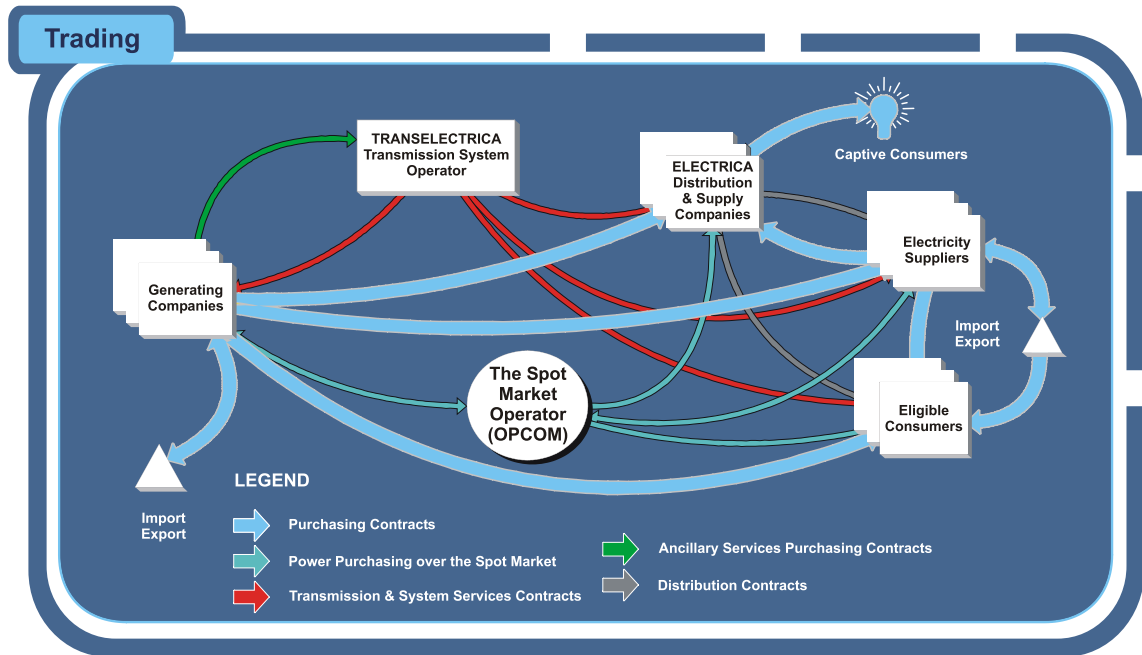
The development of competitive market mechanisms is fully consistent with the need to meet the energy sector requirements for Romania's joining to European Union and with related efforts of the power industry to become competitive in the wake of the EU electricity market liberalisation. The wholesale electricity market consists of wholesale trade arrangements among participants for electricity and related services according to ANRE regulations.

The trading arrangements are based on:

- bilateral contracts (regulated or negotiated)
- day-ahead spot market transactions on power exchange

Starting with 2005:

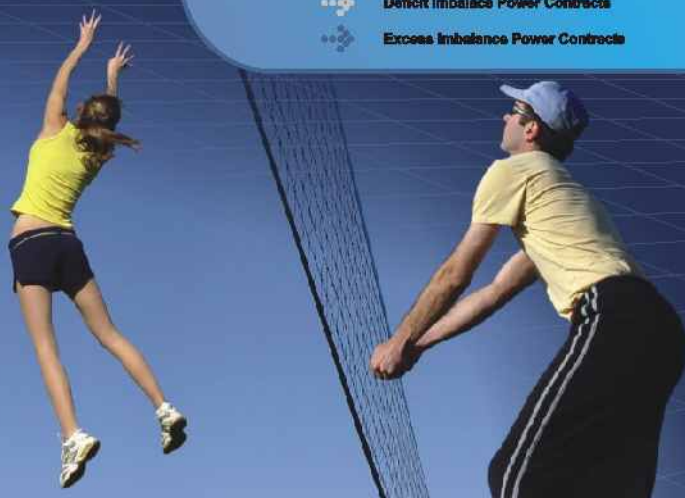
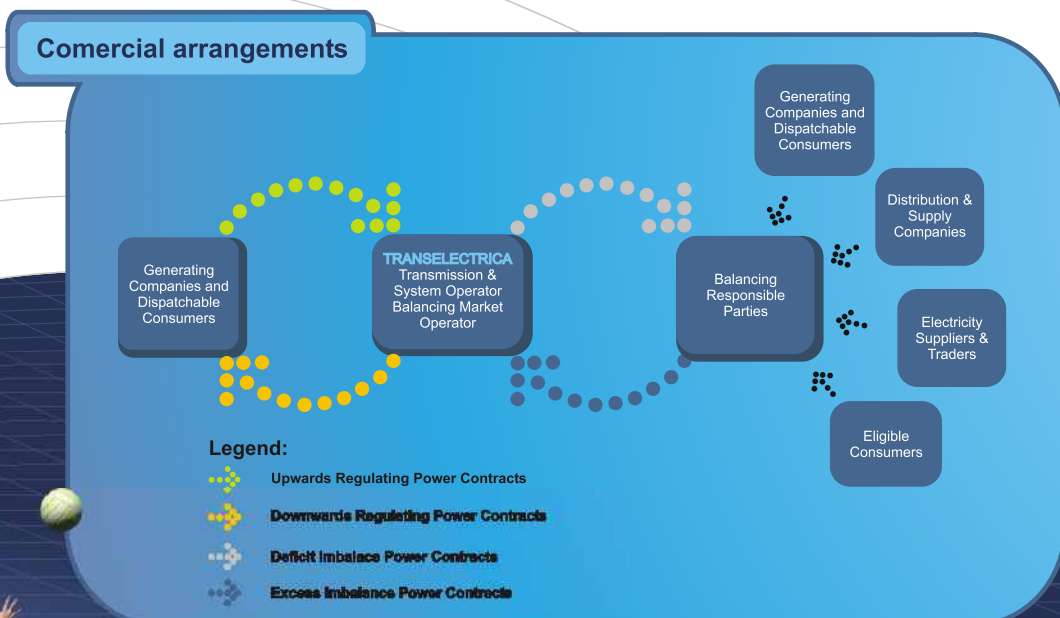
- trading on balancing market for upward and downward regulation



### Commercial arrangements in the balancing market

The Balancing Market represents a tool for the TSO to handle:

- the unpredictable imbalances between production and consumption as a result of the deviations from the operational programme established based on the physical notifications from the market participants, as scheduled according to the other electricity markets (spot market, OTC contracts etc.), forecast imprecision, forced outages, etc.
- the system constraints resulted from both the ex-ante trading on the basis of physical notifications, and in real time.





## 2. The Activity of the Electricity Market

### ⦿ Transelectrica's operations in the market

**There are three major services provided by Transelectrica for the power market participants:**

1. Transmission services
2. System services
3. Market administration services

**Transmission services** are being delivered to both market participants who are injecting or extracting power in/from the system. The transmission tariffs Transelectrica is charging are regulated by ANRE according to a “revenue-cap” methodology and are published in the Official Gazette. The transmission tariffs are also divided in zonal G and L components, depending on the geographical location of the injection/extraction points.

**The system service** is meant to ensure the continuous and safe operation of the power system while keeping all its performance parameters at rated values. The system service tariff is charged only to the loads (extracting points) and is also regulated by ANRE and published in the Official Gazette, the corresponding revenues are intended to cover all the dispatching costs, including the ancillary services.

During January - June 2005, the operation of the units within the power plants was made depending on OPCOM's merit order, based on the generators' offers as participants to the wholesale electricity market.

Starting with July 2005, a comprehensive *trading platform* was implemented and commissioned within Transelectrica, enabling the company to balance - in real time - the power system using market-based rules. This balancing market mechanism is defined in the Romanian Power Market Rules approved by the regulator and is compulsory for all generators with dispatchable units and all market participants. On this market Transelectrica buys and sells regulating power in order to keep the system balanced, its corresponding costs or revenues being spread on the imbalances of the market participants.

Transelectrica also started in February 2005 to use explicit auctions for allocating the capacity on the interconnectors with Hungary, Serbia, Bulgaria and Ukraine. In this respect Transelectrica agreed with the neighbouring TSOs to split the allocation responsibility on half of capacity for each direction. The auctions are held on annual and monthly basis and the corresponding rules, procedures and results are published on the company's web site.

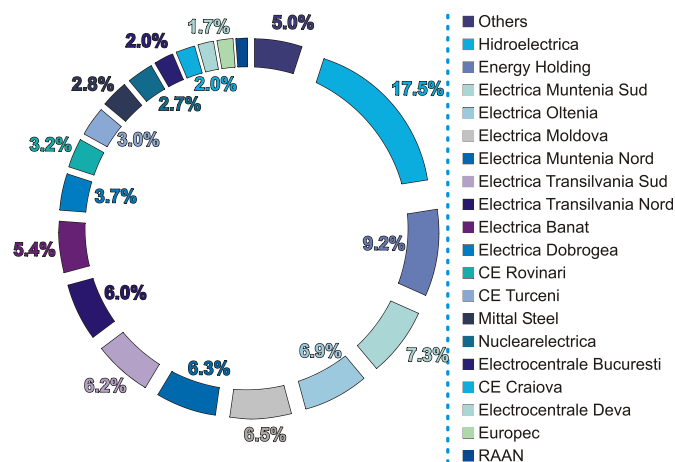
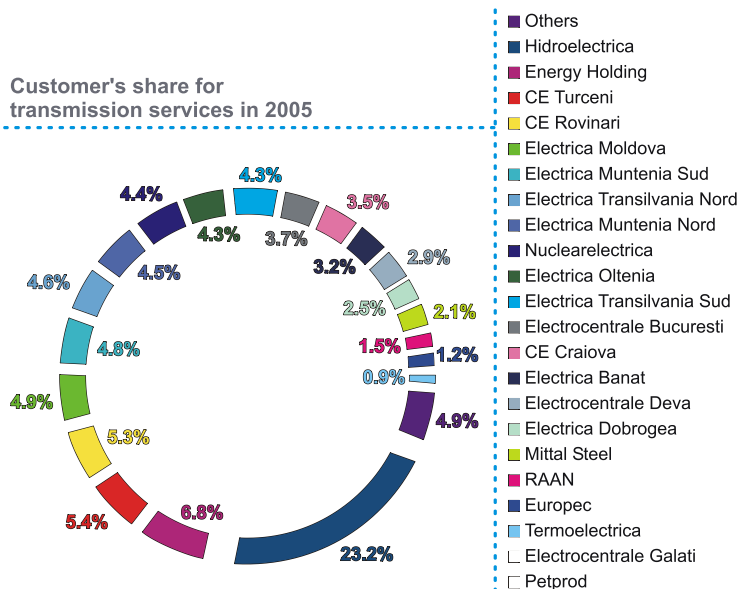
Transelectrica is a contracting party of the South-East European Inter TSO Compensation (SETSO ITC) mechanisms for transits. That means that the company does not charge anymore any transmission fee for transits over the Romanian transmission network.

**The market administration services** consist of making available to all the market participants the power exchange trading platform for day-ahead spot transactions, together with performing the settlement and clearing operations for both the spot market, the balancing market and the imbalances. Transelectrica's subsidiary OPCOM is in charge for performing these services, as well as for providing a centralised green certificates trading floor. The market administration tariff is regulated by ANRE and published in the Official Gazette and is charged only to the loads (extracting points).

**Transelectrica's customer portfolio** includes both producers and suppliers for the regulated market and suppliers for the deregulated market. The generators pay the G-component and the distributors/eligible customers pay the L- component of the transmission tariff. That helps Transelectrica to diversify its revenue-generating customer base. The number of customers for transmission services increased due to the market opening.



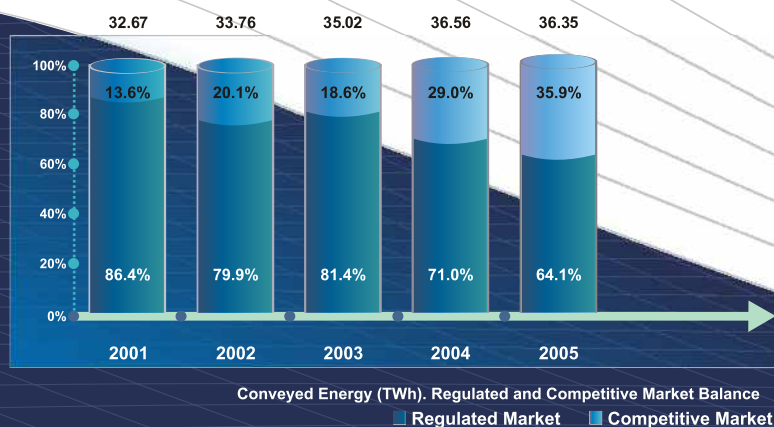
Customer's share for transmission services in 2005



Customer's share for system services

## ⦿ Electricity transmission

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 54/03/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.



The transmitted electricity in the regulated market still represents the highest share of Transelectrica's transmitted electricity. However, the share of the transmission services for the operators in the competitive market is increasing, as shown in the figure above.



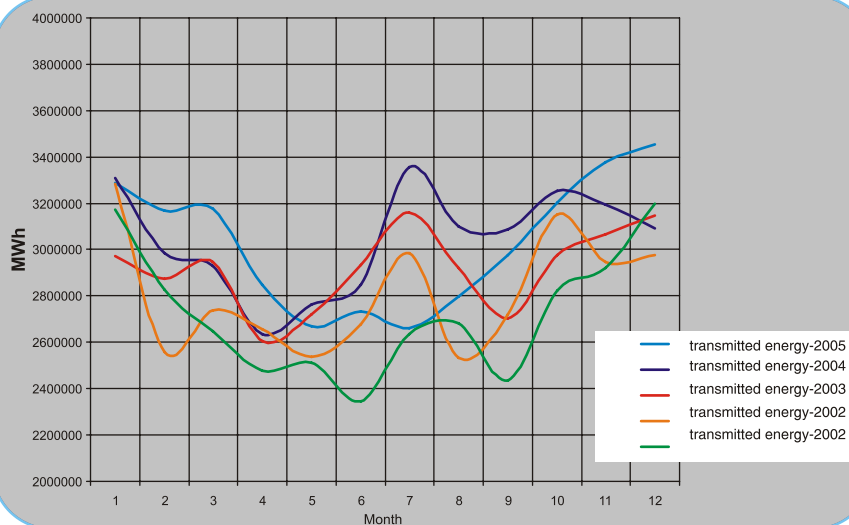


## 2. The Activity of the Electricity Market

### Monthly energy transmission

	MWh				
YEAR	2001	2002	2003	2004	2005
<b>Total</b>	<b>32675227</b>	<b>33763711</b>	<b>35025221</b>	<b>36556490</b>	<b>36354311</b>
Jan	3174432	3283411	2972519	3309402	3288702
Feb	2827171	2560059	2874970	2984516	3167678
Mar	2648921	2736885	2944966	2929487	3178699
Apr	2477299	2655426	2603653	2636728	2848685
May	2509969	2535230	2721084	2764772	2669991
Jun	2343945	2679333	2935566	2849137	2733866
Jul	2634212	2985478	3157837	3355637	2660830
Aug	2682352	2532548	2920400	3100654	2796410
Sept	2434582	2721758	2704789	3088582	2978616
Oct	2822798	3151117	2974562	3255093	3200981
Nov	2921751	2944826	3067451	3192635	3377392
Dec	3197795	2977641	3147424	3089847	3452462

### Development of electricity transmitted through the Electricity Transmission Network





## 2. The Activity of the Electricity Market

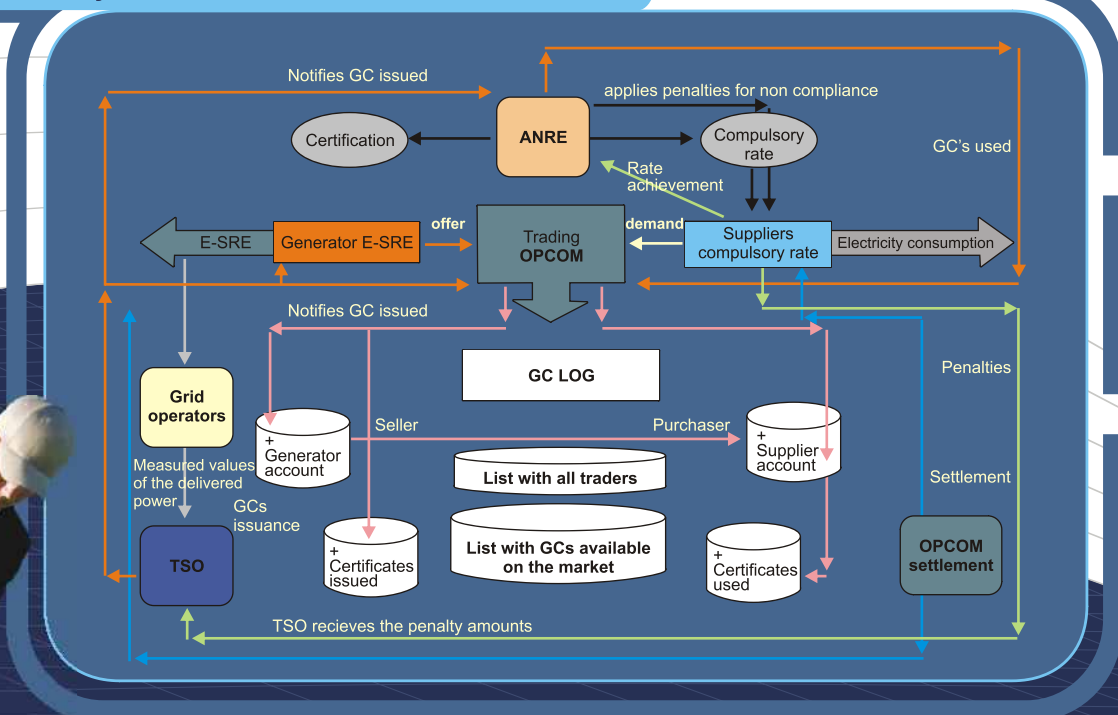
### ⦿ Green certificates

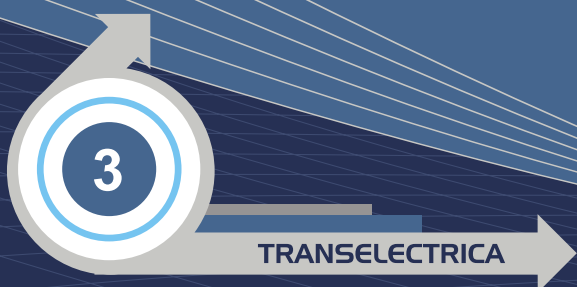
According to Government and ANRE decisions, Transelectrica was assigned to issue Green Certificates (GC) to electricity generators from renewable sources. One GC represents the delivery of one megawatt-hour of renewable power. Renewable sources mean hydro energy produced in power stations commissioned or modernised since 2004, whose installed capacity is lower or equal to 10 MW, wind, solar, geothermal and tide energy, biomass and hydrogen produced from renewables. Transelectrica is monthly issuing GCs for the renewable power produced in the previous month, based on the reports made by renewable power generators and confirmed by the electricity distributor. After issuing the GCs, the generator can sell them on the GC market.

The GC trading price is in-between 24-42 €/GC. The money resulted come to the renewable power generators, as an additional incentive to promote the use of renewable sources for power generation. At the beginning of each year, ANRE analyses the manner in which electricity suppliers fulfilled the compulsory GCs quota that had to be purchased the previous year. Those who had not observed this quota are penalised. Transelectrica issues the invoices and the total collected sum of money is redistributed by Transelectrica to the electricity generators from renewables.

In 2005 three generators were enlisted in the Register of electricity generators from renewables: two electricity generators from wind energy and one generator from hydro energy. Their electricity production was of 7608 MWh, of which 425 MWh from wind energy and 7183 MWh from hydro energy. To this purpose, Transelectrica issued 7608 Green Certificates. All issued GCs were sold in the GCs Market to electricity suppliers. The suppliers which failed to fulfil the compulsory quota of GCs in 2005 were penalised. The penalties were collected by Transelectrica and redistributed to the generators from renewables according to the percentages set up by ANRE according to the Decision 424/24.03.2006.

#### Development of electricity transmitted through the Electricity Transmission Network





System and Grid Operation





The real - time operation of the Romanian power system, which is working synchronously interconnected with the European one, relies on a technologically advanced control system leading to a greater stability of the energy quality parameters and supporting the enhancement of the regional electricity market. The power system is operated by the Central Dispatch Center and five territorial control centers in Bacau, Bucuresti, Cluj, Craiova and Timisoara.

The operational safety of the whole power system is one of Transelectrica's main concerns. The company provides the technical and operational management of the Romanian power system and ensures its safe and stable operation. It also serves as the main link between electricity supply and demand, seeing to all the times matching power generation with demand. As System Operator, Transelectrica organises the loading of the units according to the merit order established by the Balancing Market. When unplanned network outages and/or production capacity shortfalls occur, Transelectrica can schedule loading or unloading of units without reference to the order of merit to preserve system security with extra costs from Transelectrica.

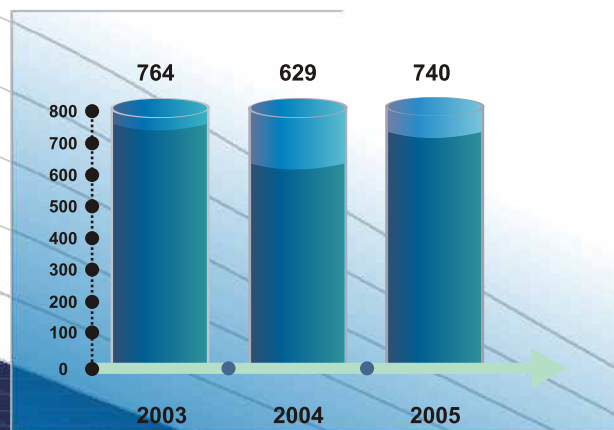
A new EMS- SCADA system was implemented which will double the data base capacity, enable remote control of substations, interface with the Balancing Market and OMEPA, AGC functions, data exchange by the ETSO node, and training functions. As a result of introducing the remote control system in the rehabilitated substations, Transelectrica will be able to reduce staffing levels and operating costs.

In spite of substantial change and a number of operational challenges, the Romanian power system has not suffered severe failures since Transelectrica was established.

In 2005 the Romanian power system operated without any disfunction at quality parameters, in accordance with the requirements of the Technical Grid Code.

The interconnected operation of the Romanian Power System to the UCTE main network is one of the top priorities of the Romanian Governmental Programme.

Considerable financial efforts have been and will have to be made to improve the operation of the facilities and meet UCTE norms and standards.



The scale for the number of incidents in ETN, between 2003 and 2005





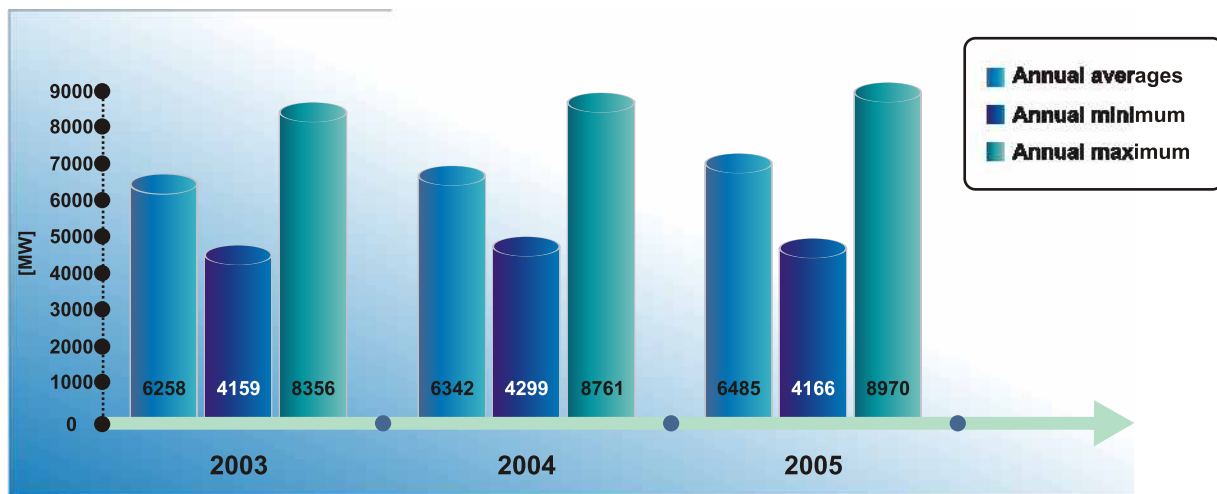


### 3. System and Grid Operation

#### ⊙ Electricity generation on energy resources

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

In the last three years the gross domestic consumption steadily increased with 1.6 - 2% annually. In 2005 the maximum hourly consumption was of 8,970 MW (February 2005). Electricity production was of 10055 MW in November 2005. The electricity export increased in 2005 with 40% versus 2003 and with 145% versus 2004, particularly during the winter peak.



Average, Min and Max Consumption, 2003 - 2005

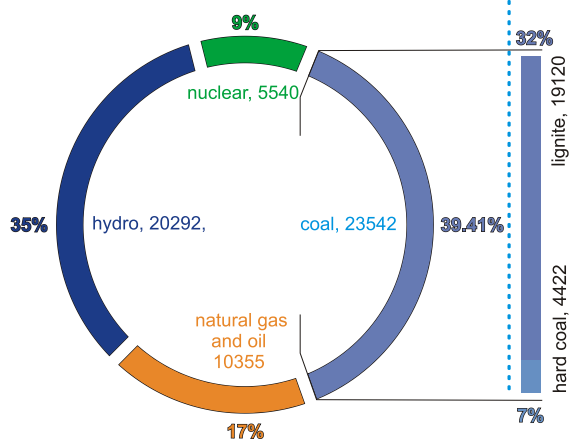
#### ⊙ Structure of power generation

##### Structure on primary power resources generation

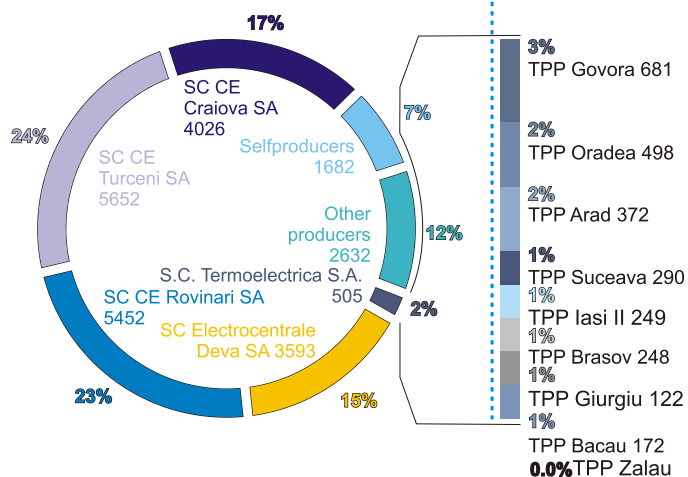
	2005			2004		
	[GWh]	[MW]	[%]	[GWh]	[MW]	[%]
<b>TOTAL GENERATION, of which :</b>	<b>59729</b>	<b>6818</b>	<b>100.0</b>	<b>56899</b>	<b>6477</b>	<b>100.0</b>
Coal-fired power plants, of which:	23542	2687	39	23478	2673	42
lignite	19120	2182	32	19091	2173	34
hard coal	4422	505	7	4387	500	8
hydrocarbons	10355	1182	17	11274	1282	20
water	20292	2317	35	16591	1889	28
nuclear	5540	632	9	5556	633	10



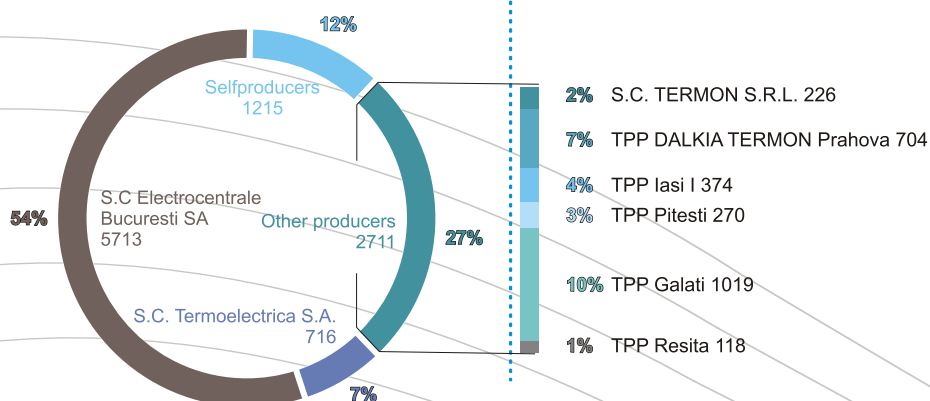
Structure on primary power resources generation [GWh;%] 2005



Producers' participation on coal-fired power plants generation [GWh;%] - 2005

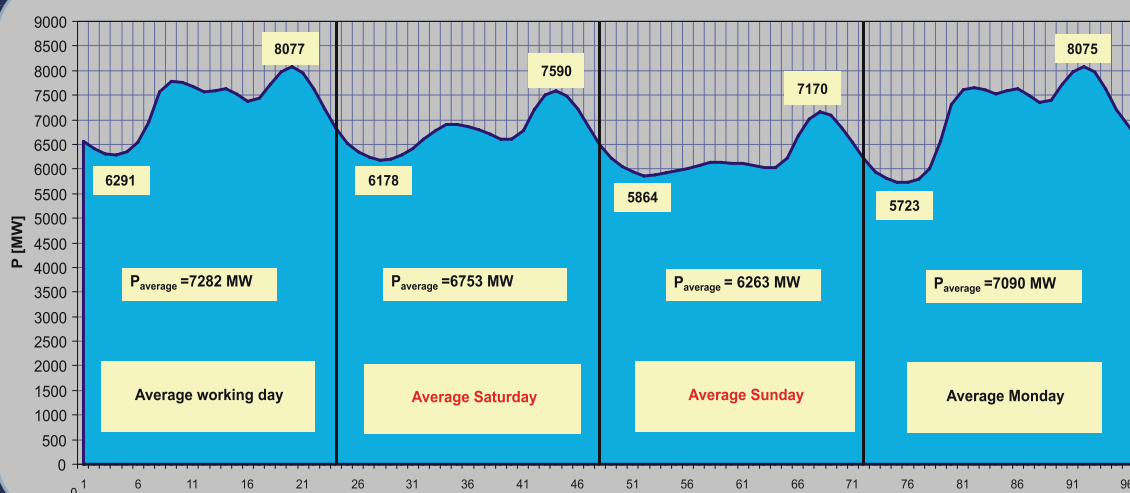


Producers' participation on natural gas and oil fired power plants generation [GWh;%] - 2005



### Daily demand curves - internal consumption

Characteristic days - average monthly values winter 2005

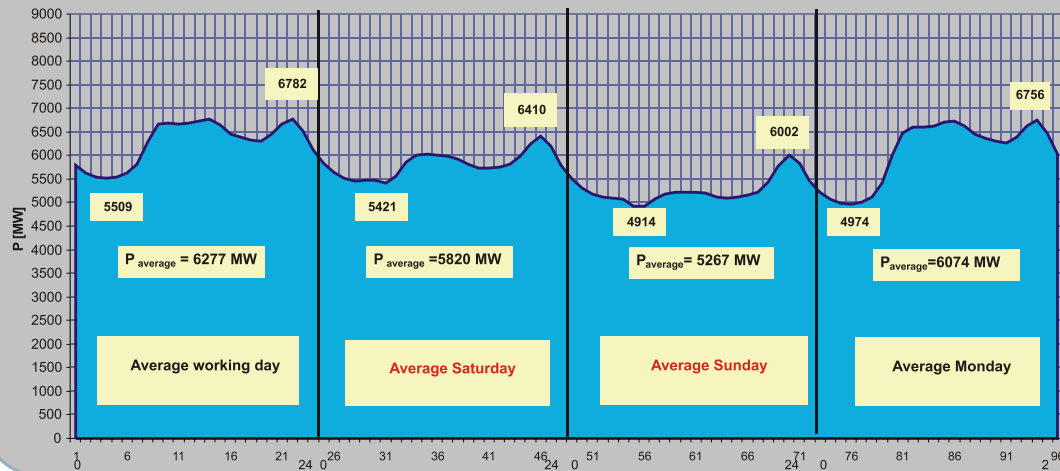




### 3. System and Grid Operation

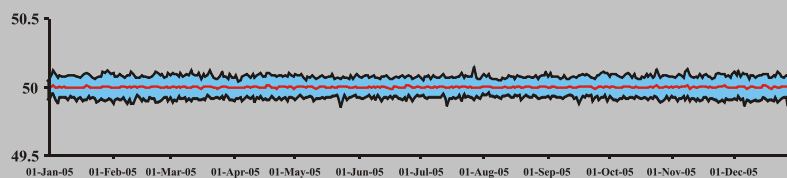
#### Daily demand curves - internal consumption

Characteristic days - average monthly values  
summer 2005



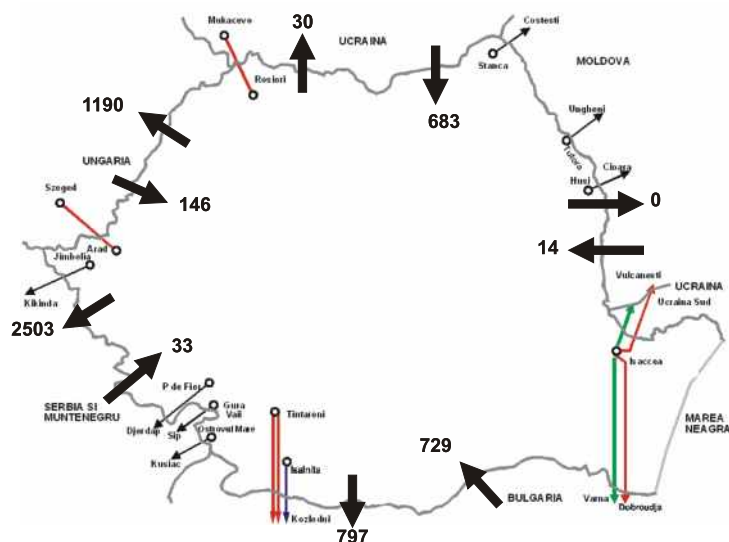
Since October 2004 resynchronisation of the two UCTE zones, the Romanian transmission grid has been operating interconnected to the main UCTE grid, leading thus to a greater stability of energy quality parameters and supporting the enhancement of the regional electricity market. Frequency variation of the Romanian power system kept within normal parameters, the average frequency in 2005 being of 50.000 Hz.

#### Daily frequency variation [Hz] 2005



Security of supply is a prerequisite for Transelectrica. Commercial power exchanges with other power systems in 2005 represented an export balance of 2806 GWh (Average capacity = 320 MW) and resulted from an export of 4768 GWh (Average capacity = 544 MW) and an import of 1962 GWh (Average capacity = 224 MW).

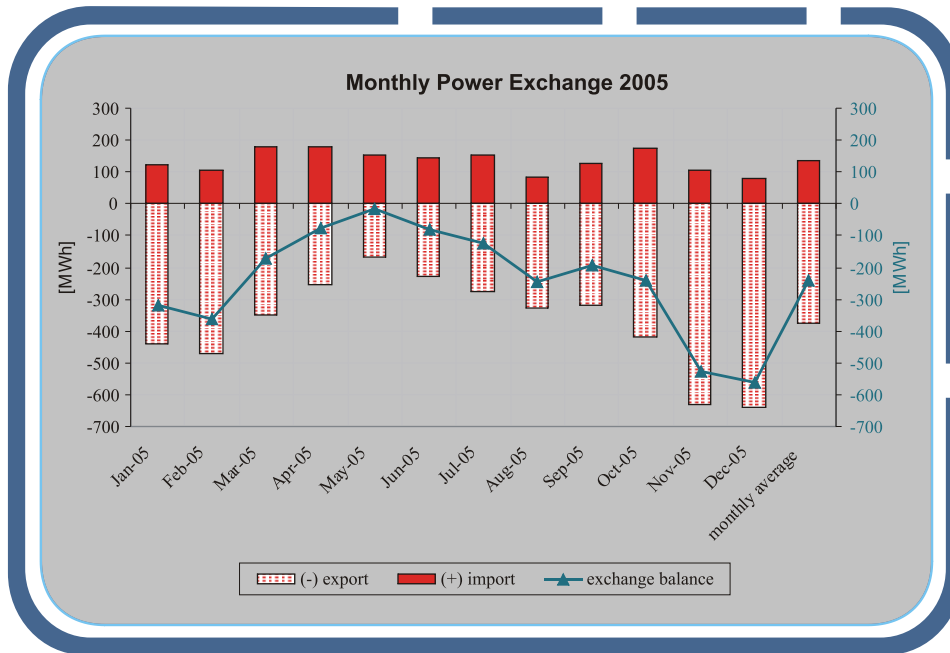
#### Physical power exchanges on borders in 2005 ( in MWh)







### 3. System and Grid Operation



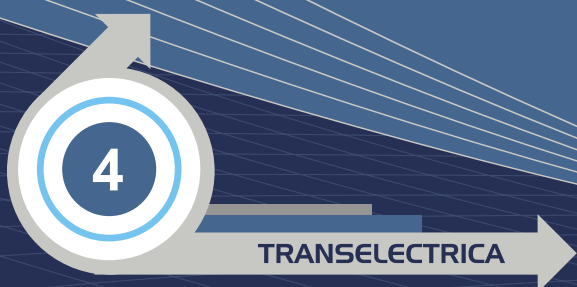
At present Romania is mostly an exporting country, but also importer at low-load hours. This import can be seen as an export of system services for frequency control, based on the flexibility of the significant hydro generating sector.

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

Coordinated NTC values are monthly calculated for market purposes, taking into account actual maintenance programmes and can be used simultaneously. The available transfer capacities are allocated on the basis of technical and economical criteria, according to a non-discriminatory and transparent procedure.





Infraestructura





## 🕒 Investment Programme

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 programme of the 220 kV and 400 kV lines and transformer substations. Its economic and technical grounds were 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, remote control and telecommunication included.
- development of the existing cross-border interconnection capacity with the UCTE system, by building new 400 kV interconnections with MVM (Hungary). The Oradea/Arad- Bekescsaba overhead tie-lines (110 km on the Romanian territory) are meant to significantly enlarge the South East European region electricity market with significant economic and security benefits for both countries
- modernisation of the transmission grid substations with the latest technologies (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.

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 of operational employees is decreasing together with the implementation of remote protection and control systems.

The volume of investments in 2005 was of 531.345.000 RON (144,501,101.4 Euro)

The synthesis of the major investment projects is shown below:

### 1<sup>st</sup> 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, financed by EBRD, EIB, PHARE:

- optic fiber telecommunication system
- new EMS-SCADA facilities
- new metering system for the wholesale electricity market HW and SW for OPCOM the market operator (Commissioned in 2004-2005)

**Phase 2** - Balancing market (step 1) and the new trading platform (power exchange) (Commissioned in 2005)  
- Balancing market (step 2) and infrastructure for regional market

### 2<sup>nd</sup> vector - Rehabilitation and modernisation of the HV grid (UCTE compliance) substations

**Phase 1** - 11 substations: 220 kV Constanta, Oradea, Slatina (Commissioned (in operation) Rosiori, Brazi, Sibiu, Bucuresti Sud, Fundeni, Iernut, Gutinas, Cernavoda (underway)

**Phase 2** - 11 substations CCP modernisation, Paroseni, AT& shunt reactor (launched/underway)

**Phase 3** - Isalnita, Gura Ialomitei, Lacu Sarat, Brasov, Mintia (under feasibility studies stage)

### 3<sup>rd</sup> vector - Development of HV grid (UCTE compliance) interconnection OHLs

**Phase 1** - 400 kV Oradea-Nadab-Bekescsaba (Hungary) and Nadab-Arad (launched)

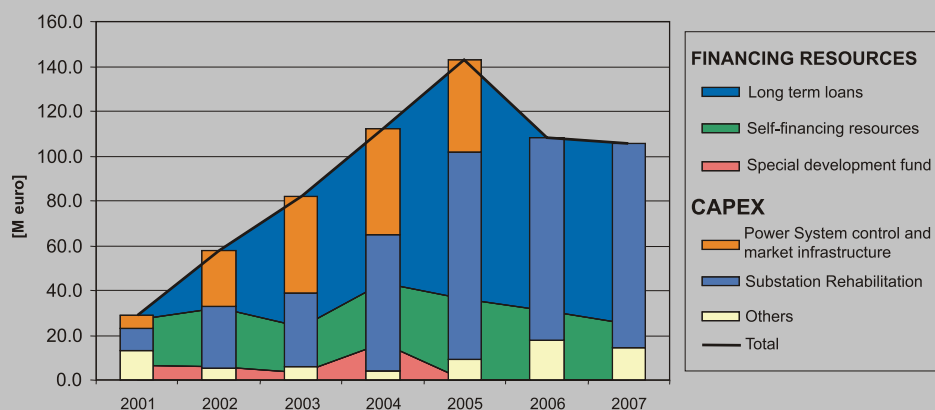
**Phase 2** - 400 kV Upgrading on Moldova axis (launched)  
400 kV Gadalin-Suceava-Balti (Moldova) (to follow)

**Phase 3** - 400 kV upgrading on Banat axis and 400 kV OHL Timisoara-Vrsac (Serbia)  
Undersea cable connection Romania Turcia (under way)



## 4. Infrastructure

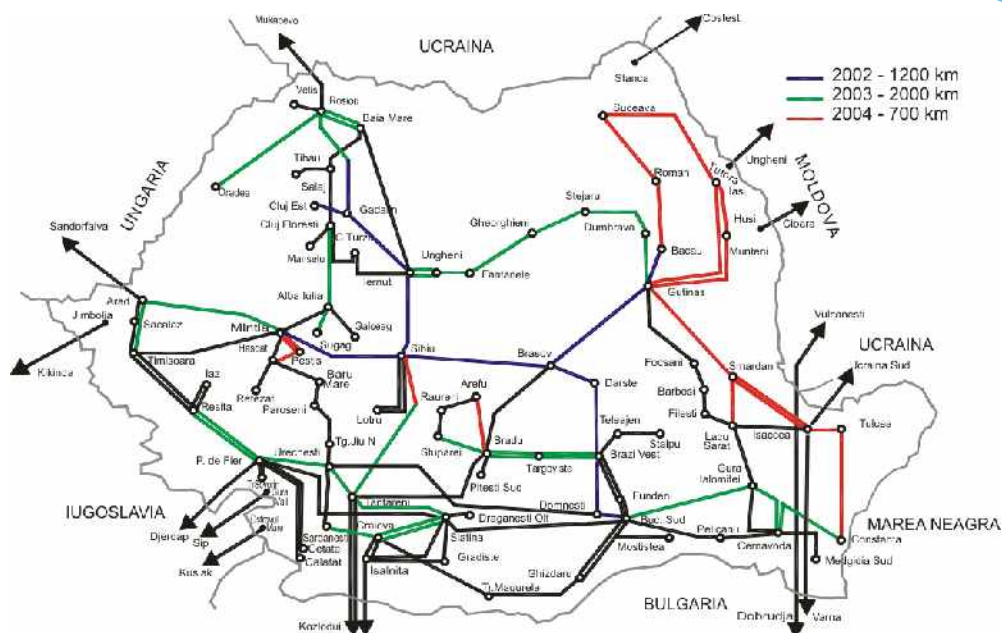
### Volumes and sources of investments 2001-2007



From the total of 4500 km OPGW which are to be installed by Transelectrica, until 2005 there were installed 3900 km, of which 200 km in 2005 as follows:

- 600 km OPGW in 2002
- 1100 km OPGW in 2003
- 2000 km OPGW in 2004
- 200 km OPGW in 2005
- 600 km off grid links are to be installed in 2006

### Optic Fiber Network







## Major Investment Projects in 2005

Project		Status in 2005	Contractor	Financiers
Replacing control / protection systems in 11 substations		MOU signing	General Electric - USA	Raiffeisen Bank
400 / 220 kV Slatina substation	220 kV	Commissioned in 2005	ABB Sweden	Nordic Investment Bank - NIB
	400 kV	Under way		
400 / 220 kV Rosiori substation		Contract under way	Jacobsen Elektro Norway + Romelectro SA	NIB
400 / 220 kV Brazi - Vest substation		Contract under way	Itochu/TMDD Japan	JBIC
400 / 220 / 110 kV Gutinas substation		Contract under way	ABB - Sweden	NIB
220 / 110 kV Fundeni Substation		Contract under way	VA Tech T&D	World Bank
400 / 220 / 110 kV Iernut substation		Contract under way	VA Tech T&D	World Bank
400 / 220 / 110 kV Sibiu substation		Contract under way	ABB - AREVA	KfW-Germany
400 / 220 / 110 kV Bucuresti substation		Contract under way	SIEMENS	KfW-Germany
400 kV Overhead Transmission Line Oradea-Bekescsaba (Hungary)		Contract under way	Electromontaj SA + Romelectro SA	EBRD

The ratings obtained by Transelectrica so far allow the company to get better financing conditions while negotiating with prestigious financial institutions, in order to carry out 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 decision stages, Transelectrica aims at launching new rehabilitation projects of existing substations and at building new transmission capacities (electric lines).





## 4. Infrastructure

### Projects completed in 2005

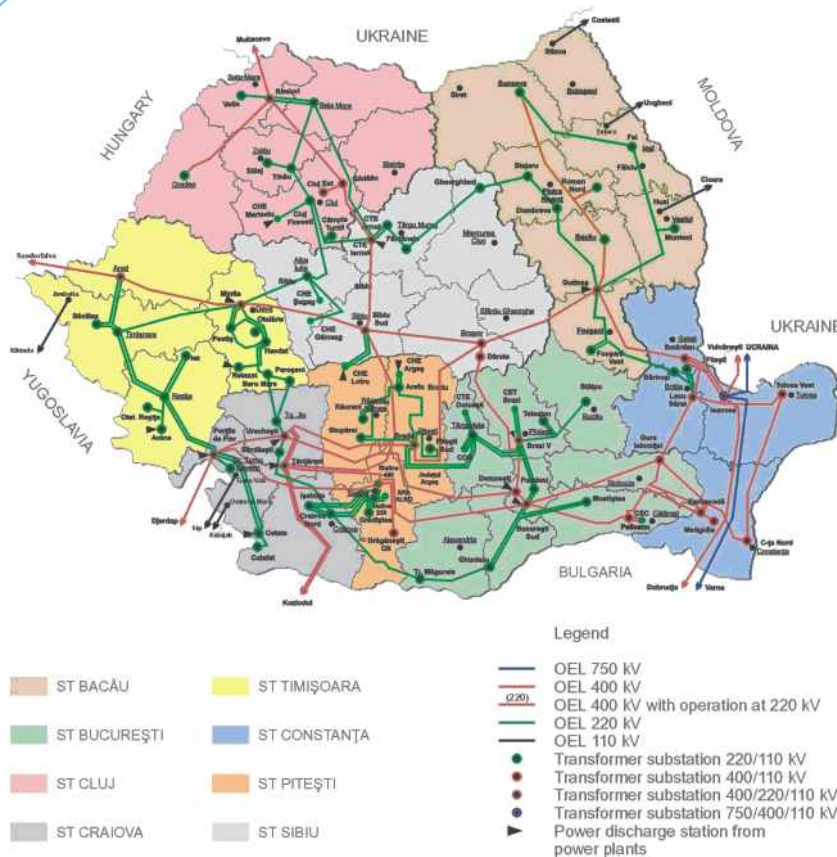
- OHL rehabilitation and optic fiber installation - phase I
- Optic fiber telecommunication system
- Off-grid links microwave
- New EMS/SCADA facilities
- New metering system for the wholesale electricity market
- GIS/MIS system
- Balancing market platform

N.B. With the above mentioned components commissioned in 2005, the new market infrastructure is in place and functional, supporting the modern regulatory environment of an open, competitive electricity market

- Rehabilitation and modernisation of the 200 kV Slatina, 110/20 kV Fantanele and partially the 220 kV Bucharest South substations.

## Managing the Transmission Grid Assets

### Romanian Transmission network



Transelectrica manages about 8,950 km of Overhead Electric Lines (OHL) at voltages ranging from 110 kV to 750 kV, 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

The total transmission capacity is 22,000 MW.



## 4. Infrastructure

The national transmission grid, considered as the backbone of the power system, is the high voltage infrastructure dedicated to transmitting power from generators to consumers.

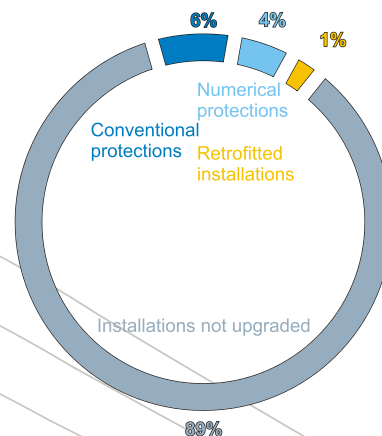
Transelectrica manages this asset by keeping the balance between performance (operation), costs (maintenance, rehabilitation, modernisation) and risks (ageing, failure, criticality, impact). The company considers, accordingly, an adequate maintenance policy, in line with the latest concepts of the Reliability Centered Maintenance Methodology RCMM, 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 programmes

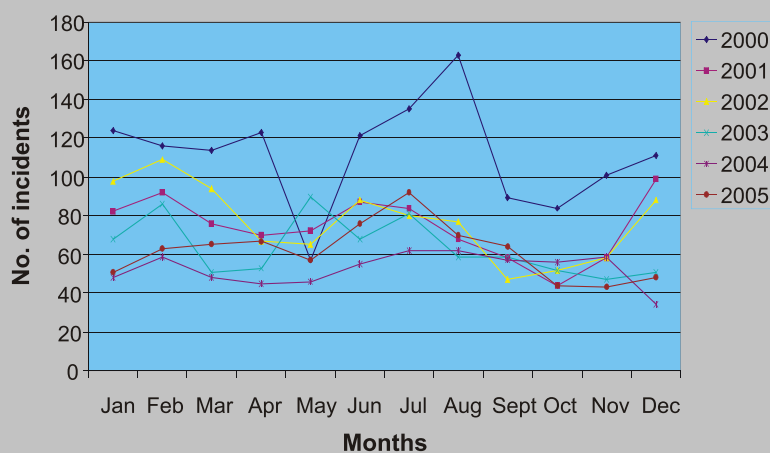
During 2005 network rehabilitation projects were carried out for the overhead electric lines: 400 kV Portile de Fier Slatina, 220 kV Gutinas - Munteni - FAI, 220 kV Turnu Magurele - Ghizdaru, 220 kV Fantanele - Gheorghieni and for the equipment within the Targoviste, Baia Mare, Floresti, Pitesti Sud electric substations.

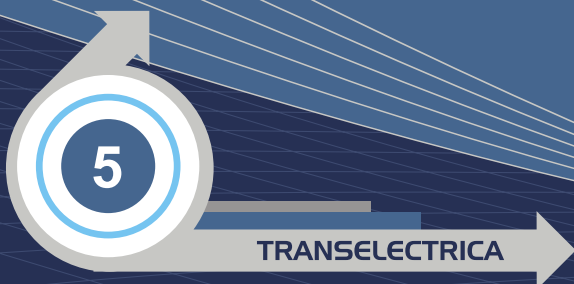
The costs of the maintenance projects in 2005 were 173 179 647 lei.

Incidence situation produced in RET during 2005 highlighting those located on the retrofitted installations and numerical protections



Incidents evolution during 2000 - 2005





International Co-operation







Transelectrica is coordinating important international projects, with major impact over the regional infrastructure, jointly promoted with other TSOs and with noteworthy international financial institutions.

The company explores the possibilities to share experience in power industry by providing consulting services related to the TSO operation and know-how exports on third markets.

### SE European Area Interconnections

NTC Values  
[MW]

RO	BG	650
BG	RO	750
RO	S&M	900
S&M	RO	1000
RO	HU	800
HU	RO	600
RO	UA	750
UA	RO	600
RO	MD	150
MD	RO	150

Source: ETSO Web site





## 5. International Co-operation

Transelectrica has been actively involved in the activity which led to the resynchronisation of the two UCTE zones and since October 10, 2004 the Romanian power system has been functioning synchronously interconnected with the UCTE power system.

The process was achieved by Transelectrica, which proved that it can operate a competitive electricity market in compliance with EU regulations, while observing all needed technical requirements.

Transelectrica plays an active role as an ETSO, UCTE, Eurelectric, WEC, CIGRE and LWA member. The company is also a contracting party of the South-East European Inter TSO compensation (SETSO ITC) mechanisms for transits. Transelectrica is the first Romanian company integrated in two economic European structures, UCTE and ETSO, this being a significant step towards harmonisation to the EU energy *acquis communautaire*.

In 2005 over 40 international teams of high level experts visited the company and had exchange of information and know how in investment, maintenance, system operation.

Many of them acknowledged that Transelectrica is one of the most advanced TSO in the region and that after 7-8 years of great efforts we have got a sophisticated electricity market, a pretty modern infrastructure undergoing an uninterrupted process of upgrading.

During 2005 the regional cooperation kept on developing within the Athens Forum, SETSO TF (South European Transmission and System Operator Task Force) and ERCBT sub-group (Economic Rules for Cross Border Tariff). Our specialists actively participated in regional projects of planning the electricity transmission systems in South Eastern Europe and the Black Sea region.

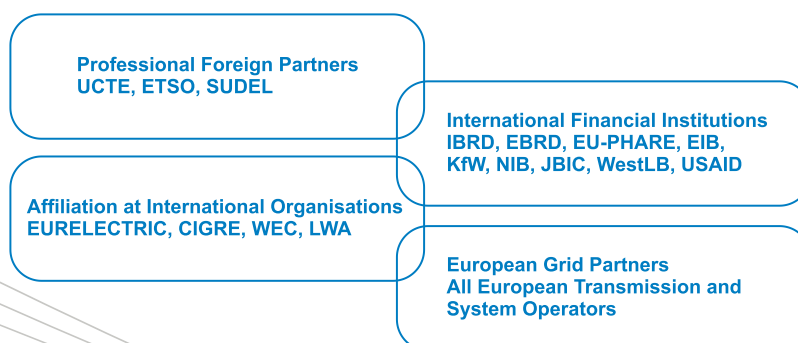
Transelectrica is also participating in carrying out the prefeasibility study for the construction of an undersea interconnection link between Romania and Turkey.

Due to the best practices used by Transelectrica, international cooperation enhanced a lot and helped to further on conclude contracts for rehabilitating and modernising the company's infrastructure.

Thus, in 2005 Transelectrica signed two "turn-key" contracts, one with Areva T&D for modernisation of the command-control-protection for 11 electric substations and another one with General Electric for the rehabilitation of the 400 kV Cernavoda substation. Transelectrica also signed a contract with Magyar Villamos Muvek Rt (MVM Rt) to construct the 400 kV Oradea (RO) - Bekescsaba (HU) OHL; a consultancy contract with Ernst & Young to update Transelectrica's Business Plan for the period 2004 - 2013, with OPCOM and Kema International & Nordpool Consortium to achieve and implement the Power Exchange in Romania and a contract with Electromontaj - Romelectro (RO) to construct the 400 kV interconnection line Oradea - Bekescsaba.

Memoranda of Understanding were signed by Transelectrica with Moldelectrica (MD) to achieve a new 400 kV interconnection line Suceava (RO) - Balti (MD), with TEIAS (Turkey) to construct the undersea cable between Constanta (Romania) - Pasakoy (Turkey) and with EMS (Serbia) to achieve a new 400 kV interconnection line between Timisoara (RO) - Vrsac (Serbia).

Transelectrica is also participating into and coordinating the Feasibility Study "*Synchronous Interconnection of the Power Systems of IPS/UPS to UCTE*".



Development of international interconnections:

- 400 kV Oradea (RO) - Nadab (RO) - Bekescsaba (HU) OHL
- 400 kV Gadalın (RO) - Suceava (RO) - Balti (MD) OHL
- 400 kV Timisoara (RO) - Vrsac (Serbia) OHL
- undersea interconnection line between Romania and Turkey



## 6. Environment Quality

### ⦿ 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.



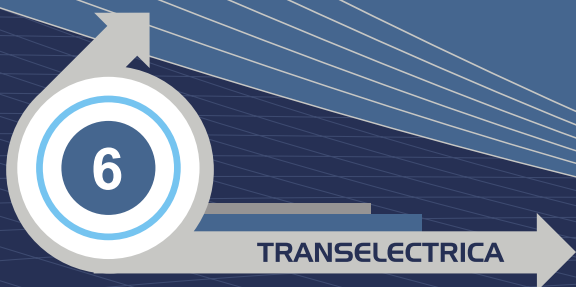
Within the context of Romania's sustainable development, Transelectrica gives full attention to environmental protection issues.

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 and in 2005 "The Soil Catalogue - Ecopedogeographic risks with impact upon electricity transmission substations" was published.

The main objective of the environmental policy has been the implementation of a 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 permanently improving the environmental protection activities in all structures; notifying the environmental policy to the general public by any information means.

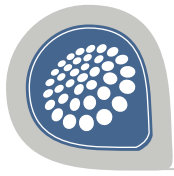




Our People, Your Partners







## ⦿ Human Resources

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

In 2005 Transelectrica strengthened the team works for better performances. The expertise of our specialists has improved a lot during the 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 labour productivity significantly increased. We keep on training and rewarding motivated people, while offering a proper place for professional development, safe and healthy work conditions and ensuring a socially peaceful climate with our social partner. Thus we can find the proper balance between responsibilities, effort and reward.

In 2005, the following main organisational targets have been identified and achieved:

- planning the staff according to the company's organisational structure;
- recruiting and selecting the staff based on the new activity goals;
- training the employees to provide them with the best level of knowledge and skills required in the new market conditions;
- implementing the reward-based performance system;

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 whole operational activity of the power system
- coordinated development of commercial, financial, and investment activities
- project-based activities with specific budget allocation
- the top-level coordination of quality and environmental management

No. employees 1.08.2000	No. employees 31.12.2001	No. employees 31.12.2002	No. employees 31.12.2003	No. employees 31.12.2004	No. employees 31.12.2005
3751	2364		2140	2155	2155

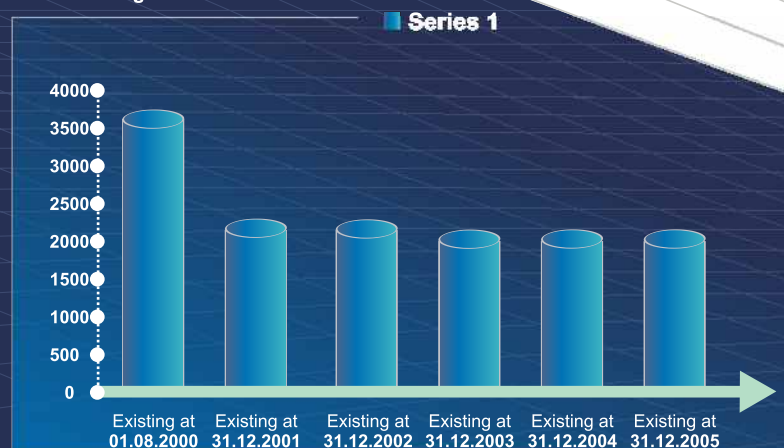
- Personnel outsourcing by setting up Transelectrica's legal subsidiary SMART
- Personnel outsourcing by setting up Transelectrica's legal subsidiary FORMENERG
- Personnel outsourcing by setting up Transelectrica's legal subsidiary TELETRANS
- Employing of specialised personnel for the balancing market, command-control systems and process IT
- Employees in 2005

One of our main concerns is to manage to keep the dedicated high qualified experts and solve the uninterrupted and multi-shift employment and the emergency system operated due to the safety aspects of transmission and system operation.

We consider man as the most valuable resource and therefore, our training programmes are meant to improve the expertise and skills of our employees. Training courses in the country and abroad were organised for our executives and the staff involved in accounts and finances, environment, quality, management, communication, development of the power system. We wish that our people be acquainted with the best practices in order to face all the challenges staying ahead.

### Evolution of personnel during 2000 - 2005

Restructuring Transelectrica SA





## 7. Our People, Your Partners

### ⦿ Safety and Security

As safety of Transelectrica employees is one of the company's concerns, we are providing a healthy working environment.

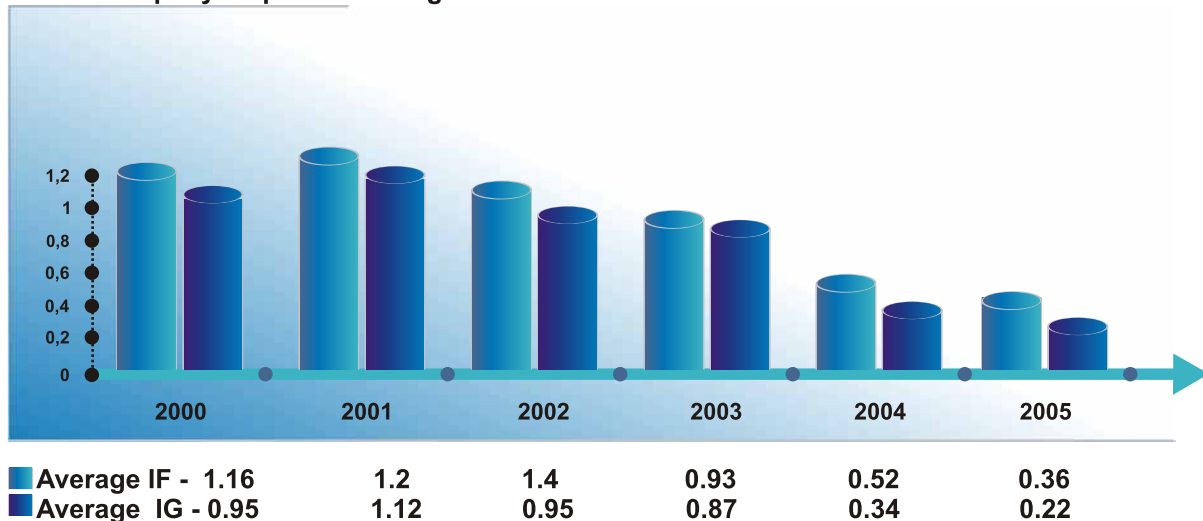
In 2005 the electrical equipment was improved such as to meet European safety standards and individual protection equipment was provided, certified according to the labour Protection Standards.

Transelectrica also managed to take all measures in order to:

- provide the health working environment
- reduce the incident and occupational risks
- reduce professional illness at company level
- assess the risk level of professional illness and accidents for all the power transmission branches of the Company
- improve the specific performance indicators
- provide the personnel with certified individual protecting outfit complying to Specific Work Safety Norms

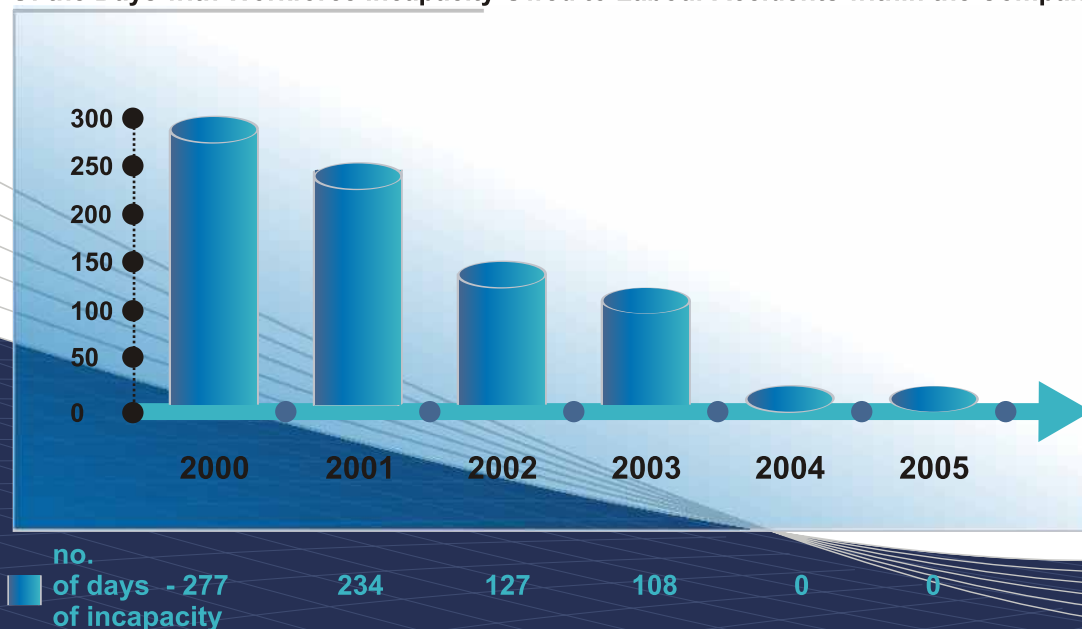
#### COMPARISON

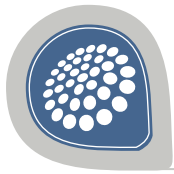
Of the Company's Specific Average Performance Indicators in the Last 5 Years



#### COMPARISON

Of the Days with Workforce Incapacity Owed to Labour Accidents within the Company





## ⦿ PR and Communication

We are living in interesting times.

The fast economic and technologic development, the exchange of know-how, information and communication, existence of new jobs and opportunities, the wish to run a modern management claim for a different approach of our activities. Now, the key words in communication are: “corporate governance”, “corporate social responsibility”, “corporate culture”, “branding”, “event manager”, “crisis management”. Tools like internet, intranet, e-mail, laptop, mobile phones are now sine-qua-non conditions for a better and more efficient communication act.

A good communication with our employees, authorities, clients, shareholders, partners, investors and financial institutions plays an important role in contributing to the long-term success and performance of Transelectrica. Business ethics and corporate awareness of environmental and social interests of the communities in which a company operates are also major factors which have to be taken into account for the reputation of the company.

In several key words, Transelectrica means:



These are not mere words. For Transelectrica's being perceived like that by our customers, business partners and the public and for consolidating its image on the electricity market, the PR department has resorted to all the levels of the communication process. The results have crowned our expectations in 2005.

A particular importance was given to keep on editing the company's Newsletter “Impuls” and new presentation brochures, fliers, the Annual Report and the Environment Report, monographs of Transelectrica's subsidiaries (in 2005 the monographs of Craiova and Constanta subsidiaries were completed). The monograph „National Dispatching Center - 50 years” and the “Soil Catalogue Ecopedogeographic risks with impact upon electricity transmission substations” were also published in 2005.

Further to using the mix of communication (press-releases, briefings of press, press conferences, informal meetings with the journalists and visits in Transelectrica's commissioned substations), in 2005 Transelectrica's activities were reflected in 358 articles issued in national publications (newspapers, periodicals, speciality magazines, catalogues), all of them conveying good messages to the readers. This massive presence in mass media means that Transelectrica is being perceived as a performing company and a stability and security factor.

In 2005, Transelectrica also organised 24 events with national and international participation. Some of them are worth mentioning:

- Anniversary of 50 years of existence of Transelectrica's National Power Center (Bucharest - Romania)

Maybe on the scale of mankind development, a 50 years history does not mean too much. However, for the National Dispatching Center history, 50 years mean an impressive and outstanding evolution. This anniversary was meant to recall some aspects and activities which marked the destiny of the dispatchers, who merged their life with their work for over 50 years. The semi-centenary moment was an homage paid to all the experts within the National Dispatching Center who delivered all their efforts for the promotion and development of an operative management through dispatchers.





## 7. Our People, Your Partners

The second edition of the International Conference RESYM 2005 “Romanian Electricity System and Market towards Consolidation and European Integration” organised by TRANSELECTRICA, ANRE and IRE, under the aegis of the Ministry of Economy and Commerce (Bucharest - Romania).

The reputation of the reunion was provided by the presentations of the prominent representatives from - Presidential Administration and Romanian Government, European Commission in Romania, Ministry of Economy and Commerce, ANRE, EBRD, Eurelectric, ETSO, NordPool Consulting, World Bank, Alpha Finance, Nordic Investment Bank, ABB Utilities, Siemens, Areva T&D, CEZ, E.ON Energie, Transelectrica, Electrica, Nuclearelectrica, Hidroelectrica, as well as by the participation of more than 200 decision-makers and noteworthy foreign and Romanian experts in the field.

The papers revealed Romania's progress while liberalising the electricity sector and complying with the acquis communautaire by developing the market and competition, successful projects, the investment potential in the field and the key role of the Romanian Power System within power development and stability in South-East Europe, with a view to its integrating in the European electricity market.

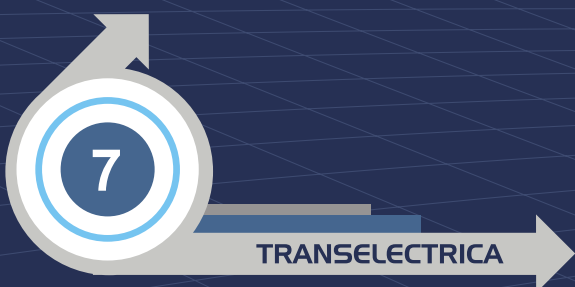
RESYM Conferences have already become a reference event for the Romanian electricity sector.

Taking into account the high interest awakened, RESYM Conferences will be organised every two years.



- Celebration of 110 years from setting up the Sibiu Electric Power Plant (Sibiu - Romania)
- Meeting of UCTE Steering Committee (Bucharest)
- 7 Meetings of member experts in UCTE and ETSO working groups (Bucharest, Mamaia and Predeal - Romania)
- The international Symposium of Live Working LST 2005 (Sibiu - Romania)
- Black Sea Energy Summit, in collaboration with International Business Promotion (Istanbul - Turkey)
- International Conference “Energy present and perspectives” with EuroLider (Bucharest - Romania)
- The 8th edition of the National Prize “Dimitrie Leonida”, in collaboration with the Technical Museum Dimitrie Leonida (Bucharest). On this occasion Transelectrica was awarded the prize for editing the Technical Monograph “Transelectrica - past, present and future”.





Consolidated Financial Statements



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## Independent Auditors' Report

To the Shareholders of  
CNTEE Transelectrica SA

1. We have audited the consolidated financial statements of CNTEE Transelectrica SA ("the Company") and its subsidiaries ("the Group") as of 31 December 2005, from which the summarized consolidated financial statements were derived, in accordance with the International Standards on Auditing. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. This report is made solely to the Company's shareholders. 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, for our audit work, for this report, or for the opinion we have formed.

3. In our audit report dated 25 May 2006 we expressed an opinion that the consolidated financial statements from which the summarized financial statements were derived give a true and fair view of the financial position of the Group as of 31 December 2005, 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 Lei 433,537 thousand 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.

Also in our audit report dated 25 May 2006, without further qualifying our opinion, we drew attention to the following matters: As described in Note 1 to the accompanying consolidated financial statements, 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 ("ANRE"). The carrying value of fixed assets is linked to this, so any significant change in the tariff mechanism could impact these carrying values. As described in Note 27 to the accompanying consolidated financial statements, on 28 December 2005 an investment company "Fondul Proprietatea" was incorporated in accordance with Law 247/2005 and owns 15% of the Company's share capital. As described in Note 27 to the accompanying consolidated financial statements, in accordance with Government Decision 708/2005, the Company is in the process of increasing its share capital with 10% by an initial primary public offering in Bucharest Stock Exchange. As described in Note 21 to the accompanying consolidated financial statements, the Company allocated 5% of its share capital to the persons entitled to compensations who subscribed in accordance with Law 10/2001 to the available capital offer.

4. In our opinion, the accompanying summarized consolidated financial statements are consistent, in all material respects, with the consolidated financial statements of CNTEE Transelectrica from which they were derived and on which we expressed a qualified opinion, as explained in paragraph 3.

5. 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, 12 July 2006

A stylized, handwritten-style KPMG logo.

KPMG Romania SRL

A handwritten signature in black ink, appearing to read 'Bill Bowman'.

Bill Bowman - Partner





CNTEE Transeletrica SA  
Consolidated Balance Sheet as at 31 December 2005  
(all amounts are in thousand LEI, unless stated otherwise)

Assets	31 Dec. 2005	31 Dec. 2004
<b>Non - current assets</b>		
Property, plant and equipment	2,127,600	1,724,278
Intangible assets	28,362	34,190
Financial investments	4,216	4,449
<b>Total non - current assets</b>	<b>2,160,178</b>	<b>1,762,917</b>
<b>Current assets</b>		
Inventories	29,552	29,280
Trade and other recievables	893,251	350,485
Cash and cash equivalents	65,048	55,503
<b>Total current assets</b>	<b>987,851</b>	<b>435,268</b>
<b>Total assets</b>	<b>3,148,029</b>	<b>2,198,185</b>
<b>Shareholders' Equity and Liabilities</b>		
<b>Shareholders' equity</b>		
Share capital	1,018,175	1,018,064
Legal reserves	14,884	9,722
Other reserves	41,448	111
Retained earnings	179,560	108,312
<b>Total shareholders' equity</b>	<b>1,254,067</b>	<b>1,136,209</b>
<b>Non - current liabilities</b>		
Defferent income	174,031	146,986
Long term borrowings	782,691	558,252
Employee benefits obligations	11,339	3,335
<b>Total non - current liabilities</b>	<b>968,061</b>	<b>708,573</b>
<b>Current liabilities</b>		
Trade and other liabilities	816,741	265,964
Current income tax	3,343	9,012
Other tax and social security liabilities	18,640	26,696
Short term borrowings	87,177	51,731
<b>Total current liabilities</b>	<b>925,901</b>	<b>353,403</b>
<b>Total liabilities</b>	<b>1,893,962</b>	<b>1,061,976</b>
<b>Total liabilities and shareholder's equity</b>	<b>3,148,029</b>	<b>2,198,185</b>



CNTEE Transeletrica SA  
Consolidated Statement of Income for the Year Ended 31 December 2005  
(all amounts are in thousand LEI, unless stated otherwise)

	2005	2004
<b>Operating revenues</b>		
Transport revenues	740,821	650,433
Ancillary services revenues	953,053	334,845
Other revenues	71,728	75,530
<b>Total operating revenues</b>	<b>1,765,602</b>	<b>1,060,808</b>
<b>Operating expenses</b>		
System operation expenses	(1,036,263)	(444,432)
Consumables	(56,356)	(64,676)
Maintenance and repair expenses	(80,373)	(104,120)
Personnel expenses	(122,497)	(111,523)
Depreciation and amortization	(147,443)	(134,863)
Other operating expenses	(129,636)	(56,007)
<b>Total operating expenses</b>	<b>(1,572,568)</b>	<b>(915,621)</b>
<b>Operating profit</b>	<b>193,034</b>	<b>145,187</b>
Financial revenues	2,109	30,020
Financial expenses	(49,576)	(63,300)
<b>Financial result</b>	<b>(47,467)</b>	<b>(32,280)</b>
<b>Profit before income tax</b>	<b>145,567</b>	<b>111,907</b>
Income tax	(18,759)	(25,324)
<b>Profit for the year</b>	<b>126,808</b>	<b>86,583</b>



## 8. Consolidated Financial Statements

CNTEE Transeletrica SA

Consolidated Statement of Changes in Shareholders' Equity and Public Patrimony for the Year Ended 31 December 2005  
(all amounts are in thousand LEI, unless stated otherwise)

	Share capital	Public patrimony	Legal reserve	Other reserves	Retained earnings	Total
<b>Balance as of 1 January 2004</b>	987,989	1,043,482	4,859	30,186	(41,202)	2,025,314
Transfers from public patrimony reserve related to depreciation of corresponding property, plant and equipment		(67,794)	4,859		67,794	
Transfers from public patrimony reserve related to depreciation of corresponding property, plant and equipment		(975,688)				(975,688)
Transfers from reserves	30,075			(30,075)		
Legal reserve			4,863		(4,863)	
Profit for the year					86,583	86,583
<b>Balance as of 31 December 2004</b>	1,018,064		9,722	111	108,312	1,136,209
Transfers from reserves (see Note 9)	111			(111)		
Land for which title of deeds were obtained				39		39
Special destination reserve for the energy sector (see Note 2 (v))				41,409	(41,409)	
Legal reserve			5,162		(5,162)	
Dividends distribution			9,722		(8,989)	(8,989)
Profit for the year					126,808	126,808
Public patrimony assets (see Note 2 (e))		4,261				4,261
Derecognition of public patrimony assets (see Note 2 (e))		(4,261)				(4,261)
<b>Balance as of 31 December 2005</b>	1,018,175		14,884	41,448	179,560	1,254,067

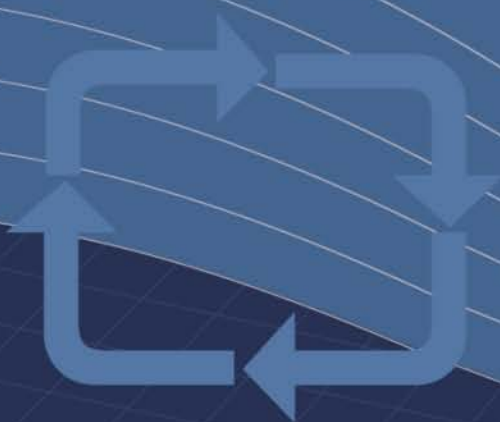
**CNTEE Transeletrica SA**

Consolidated Cash Flow Statement for the Year Ended 31 December 2005  
(all amounts are in thousand LEI, unless stated otherwise)

	2005	2004
<b>Cash flows from operating activities</b>		
Profit for the year	126,808	86,583
<b>Adjustements for non - cash items</b>		
Tax charge	18,759	25,324
Depreciation and amortization	147,443	134,863
Release of defferent income	(20,492)	(20,051)
Loss / (Gain) from disposal of property, plant and equipment	1,500	(1,586)
Interest expense, net	30,441	19,470
Unrealized foreign exchange gains	(5,632)	(51,452)
<b>Operating cash flows before working capital changes</b>	<b>298,827</b>	<b>193,151</b>
Accounts recievable	(542,766)	(25,686)
Inventories	(271)	12,069
Accounts payable and other liabilities	578,705	(2,498)
<b>Changes in working capital</b>	<b>35,668</b>	<b>(16,115)</b>
Interest paid	(30,779)	(19,050)
Income tax paid	(24,390)	(33,563)
<b>Net cash from operating activities</b>	<b>279,326</b>	<b>124,423</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible and intangible fixed assets	(563,722)	(461,523)
Proceeds from sale of tangible fixed assets	17,555	2,538
Interest recieved	2,103	895
<b>Net cash used in investing activities</b>	<b>(544,064)</b>	<b>(458,090)</b>
<b>Cash flow from financing activities</b>		
Subsidies recieved	47,537	68,456
Proceeds from long term borrowings	300,936	306,789
Repayements of long term borrowings	(40,034)	(40,843)
Dividends paid	(37,005)	
<b>Net cash from financing activities</b>	<b>271,434</b>	<b>334,402</b>
<b>Net increase in cash and cash equivalents</b>	<b>6,696</b>	<b>735</b>
<b>Cash and cash equivalents at the beginning of the year (see Note 8)</b>	<b>48,543</b>	<b>47,808</b>
<b>Cash and cash equivalents at the end of the year (see Note 8)</b>	<b>55,239</b>	<b>48,543</b>







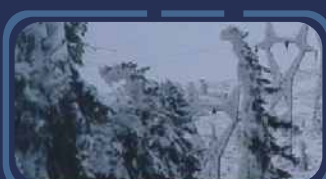
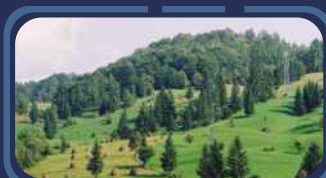
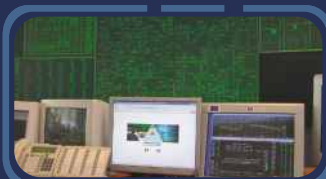




## 8. PHOTO GALLERY





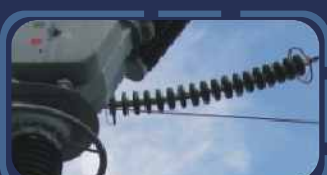






## 8. PHOTO GALLERY







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