



**WE LEAD THE POWER**  
**2006 - Annual Report**







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## I INTRODUCTION

## PROFILE

Transelectrica was set up on August 1, 2000, as a result of the full unbundling and liberalisation process of the Romanian Power Sector, and is the Romanian Transmission and System Operator (TSO) with a key strategic role in the Romanian electricity market. It manages and operates the electricity power system and transmission grid, providing transmission services for electricity transactions among Central and South Eastern countries, as a member of UCTE (Union for Coordination of Transmission of Electricity) and ETSO (Association of European Transmission and System Operators).

Transelectrica ensures the stable and reliable operation of the Romanian Power System (RPS) stability and reliability, being responsible for electricity transmission services, power system and wholesale electricity market operation, electricity transmission grid and market infrastructure development. It guarantees a regulated third party access to the Romanian electricity transmission network under transparent, non-discriminatory and fair conditions to all market participants. It also serves as the physical main link between electricity supply and demand, making continuously the balancing to match in real time power generation with demand.

Transelectrica operates according to the provisions of the Electricity Law and the secondary legislation, particularly the Transmission and System Operator Licenses, Electricity Transmission Grid Code, Electricity Wholesale Market Commercial Code and the Metering Code.

## Mission:

To ensure the Romanian power system reliable and stable operation, at given high quality standards, while providing national electricity market infrastructure and securing a regulated access to the Romanian electricity transmission grid 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 operator in South-East Europe, while operating the national transmission grid interconnected to UCTE and providing electricity wheeling to the regional and European internal electricity market.



## Strategy

### Transelectrica's Strategy is meant to:

- Further improve the security of supply and operational performance of the Romanian Power System through rehabilitating, modernizing and developing its key assets, the HV overhead lines and substations by performing state-of-the-art technologies
- Increase assets profitability by cutting down the operation and maintenance controllable costs and obtaining additional revenues from the telecom infrastructure
- Limit the environmental impact at admissible European levels
- Maximize the grid availability for electricity transactions, benefiting from the achieved integration in the UCTE power system
- Further develop the interconnection capacity with neighboring countries, contributing to the extension of the UCTE system to the Eastern Europe
- Target international markets for exporting consultancy services in its field of activity
- Become the regional electricity hub within the South-East Europe, by taking advantage of Romania's geographical position

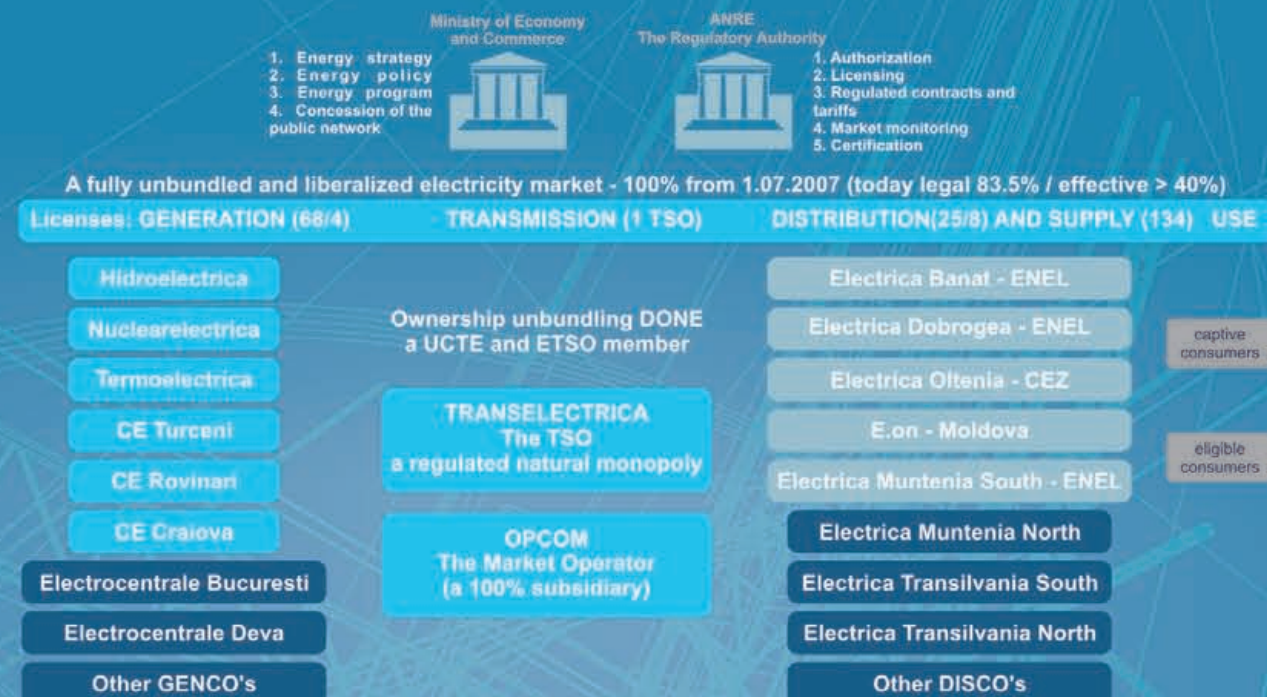
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## PROFILE

## The Romanian Power Sector structure today



## Core functions

## Core functions

- ◉ **Transmission and System Operator of the Romanian Power System**
  - Operation, maintenance and development of the electricity transmission grid infrastructure.
  - Dispatching the RPS using the dedicated dispatching infrastructure (telecommunication backbone, EMS/SCADA Energy Management System/Supervisory Control and Data Acquisition)
- ◉ **Electricity Balancing Market Operator**
  - Development and operation of the balancing market platform.



- ◉ **Commercial Operator of the electricity market, through its legal subsidiary OPCOM**

- Operation of various trading platforms (day-ahead, centralized bilateral, forward markets)
- Operation of green certificates trading platform

- ◉ **Metering operator of the wholesale electricity market, through its branch OMEPA**

- Electricity metering system for the wholesale electricity market

- ◉ **Telecommunication and IT operator, through its legal subsidiary TELETRANS**

- For the telecommunication grid (the optic fiber network installed as OPGW on the overhead high voltage electric lines, digital telecom systems) of the Romanian Power System

## KEY FIGURES

CONSOLIDATED IFRS (thou. lei)	2006	2005
Operations income	2,503,786	1,765,602
EBIT	279,826	193,034
Total revenues	2,626,392	1,767,711
Total expenses	2,280,829	1,622,144
Gross profit	345,563	145,567
Basic and diluted earnings per share (lei/share)	4.26	1.92
Number of employees (31.12.06 *)	4,158	3,824
Geographical length of network in km (31.12.06)	8,955	8,950

\*) Employees within Transelectrica and Teletrans, Smart and Icemenerg (the only subsidiaries material for consolidation)

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## Foreword by the director general

# Message from the CEO

Message from the CEO

Motto: "To make the possible you have always to try the impossible." H. Hesse

### Transelectrica - Smart grid, smart people

Transelectrica's flotation on the Bucharest Stock Exchange on August 29, 2006 was by far the most challenging event for the company's management and for liberalization of the electricity market in Romania.

Transelectrica is the first state-owned company listed to the Bucharest Stock Exchange within the programme "A Powerful Market" initiated by the Romanian Government which is meant to float several public companies on the capital market. Transelectrica's listing to the Bucharest Stock Exchange is the beginning of long-term relationships with the Company's shareholders. Transelectrica aims at ensuring a legal and transparent dialogue by providing to all shareholders, regardless their size, equal access to accurate, correct, sufficient and public information on the Company's operational and financial activity.

At present the Romanian state through the Ministry of Economy and Commerce holds 76.5% of Transelectrica's share capital, Co. "Fondul Proprietatea" holds 13.5% of its share capital, while other shareholders own 10% of the share capital floating on the Bucharest Stock Exchange. Transelectrica has significantly raised its profile through the successful flotation to the stock exchange.

As the administrator of the Romanian transmission grid, Transelectrica ensures the grid properly functioning, while monitoring the continuity and security of electricity supply. In its 6 years of existence, Transelectrica has conducted a steadfast programme for rehabilitating/modernizing its transmission infrastructure in order to create a better dispatching and market infrastructure, improve the operational performance and redress the inadequacy of the grid through "turn-key" focused projects with the latest technologies meant for the most important grid nodes/substations.

2006 featured very good results for our company, in both technical and financial terms. In 2006 the investment projects amounted to 461.400 thou. Lei (€126.410.959) and the costs of the major maintenance projects were 164.970.312 lei (€46.806.728), lower with 4.74% versus 2005.

Financial results also improved, as Transelectrica managed to improve its efficiency, profitability and performance indicators. In 2006 the company's turnover was of 2,503,786 mil lei, higher with 41,81% versus 2005.



Supported by an adequate infrastructure and a functional competitive electricity market in Romania, Transelectrica is now actively working in mutual international cooperation to further develop the regional electricity markets in Central and South East of Europe, as well as trying to broaden the UCTE current borders and EU rules of electricity markets.

By actively fostering several important projects meant to increase the interconnections transfer capacity, Transelectrica has become a reliable hub for regional markets in Europe.

We proved that we are able "to try the impossible in order to make the possible" and for this I address my heartfelt thanks to our employees who make up the great family of Transelectrica.

  
Dr. Stelian Alexandru Gal  
CEO

## I INTRODUCTION





## 2006 in brief

# Major events and achievements

## Major events and achievements of the company

- 10% of Transelectrica's shares were listed on Bucharest Stock Exchange on 29 August 2006. The company's floatation on the stock market was a huge success and the demand was 6.46 times greater than the number of available shares. 96% Romanian investors and 4% foreign investors registered for Transelectrica's shares. On the overall, 70% of subscribed shares went to Romanian investors and 30% to foreign investors. At the end of 2006, Transelectrica's share price was 33,8 lei/share up on the issue price of 16,8 lei/ share.
- Strengthening the Romanian Power System's security by completing rehabilitation/ modernisation projects of strategic importance for the system. In 2006 the following projects were commissioned:
  - 400 kV Brazi Vest substation**, the first stage of the rehabilitation project 400/220 kV Brazi Vest; contractor Consortium Itochu-Toshiba T&D, Japan, worth € 30.5 M.
  - 400 kV Gutinas substation**, first stage of modernising project 400/220/ 110 kV Gutinas substation; contractor ABB Power Systems, worth € 32.6 M.
  - 400/220 kV Rosiori substation**, an important project for the regional electricity market consolidation process; contractor Consortium Jacobsen Elektro (Norway) and Romelectro Romania, worth € 18.5 M.
  - 220 kV Bucuresti Sud substation**, part of the 400/200/110 kV Bucuresti Sud project; contractor Consortium Siemens- Austria, Siemens- Germany and Siemens -Romania, worth € 47.2 M
  - 400 kV Slatina substation**, the final stage of the 400/ 220 kV Slatina modernisation project; contractor ABB Romania and ABB Power Technologies Sweden
  - 400/220 kV Iernut substation**; contractor Siemens-Austria, worth € 26 M
  - 110 kV Sibiu Sud substation**; contractor ABB Utilities Areva - ABB SRL
  - 110 kV Fundeni substation**; contractor VATECH-ABB Power Technologies
- Signing „turn-key” contracts with:
  - Areva Energietechnik GmbH-Germany to retrofit the 220 kV electric substation Paroseni
  - Consortium Areva Energietechnik Germany and Electromontaj-Romania on Conversion from 220 kV to 400 kV the Axis Gutinas-Bacau-Suceava within the Romanian Power System
  - Siemens AG-Austria for the new substation Nadab



- Operation of the Romanian Power System without any disfunction, at the quality parameters, in accordance with the requirements of the Technical Grid Code.
- Improved financial performance, with a net profit of 294,070 thou. lei in 2006, vs. 126,808 thou. lei in 2005.
- Continued development of modern corporate management systems and tools.
- Ranked the first in the National Top of Companies based on the particular economic-financial results of the Company in 2005.
- Awarded with the excellence diploma for the most appreciated Initial Public Offer (IPO) of shares "issuers category" within the Gala of Capital Markets, 2006 edition.
- Nominated at the category "The most attractive issuer listed to the Bucharest Stock Exchange or RASDAQ."

## Prospects 2007

- Development of OPCOM platform for the future regional electricity day-ahead market;
- Enhancement of the electricity balancing market;
- Privatisation of Transelectrica's subsidiaries: Icemenerg, Icemenerg Service and Formenerg;
- Completion of remote control substations;
- Improvement of electricity quality;
- Full implementation of the Business Continuity
- Management process within Transelectrica;
- Strengthening the international cooperation.

2006

February					March						
M		6	13	20	27	M		6	13	20	27
T		7	14	21	28	T		7	14	21	28
W	1	8	15	22		W	1	8	15	22	29
T	2	9	16	23		T	2	9	16	23	30
F	3	10	17	24		F	3	10	17	24	31
S	4	11	18	25		S	4	11	18	25	
S	5	12	19	26		S	5	12	19	26	
June					July						
M		5	12	19	26	M	31	3	10	17	24
T		6	13	20	27	T		4	11	18	25
W		7	14	21	28	W		5	12	19	26
T	1	8	15	22	29	T		6	13	20	27
F	2	9	16	23	30	F		7	14	21	28
S	3	10	17	24		S	1	8	15	22	29
S	4	11	18	25		S	2	9	16	23	30
October					November						

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# Transelectrica - A Successful IPO

Transelectrica - A Successful IPO

# Shareholder Structure

Shareholder Structure

## Structure of Transelectrica's shareholders:

- The Romanian State holds a number of 56,072,867 shares, representing 76.5% of the share capital by means of the Ministry of Economy and Commerce, a legal person of public law.
- Co. "Property Fund" (PF), Romanian legal person, owns 9,895,212 shares representing 13.5% of the share capital.
- Other shareholders hold 7,329,787 shares representing 10% of the share capital.
- The shareholders' register is kept with the Central Depository (25 Fagaras Street, Bucharest, phone +4021 4085800)

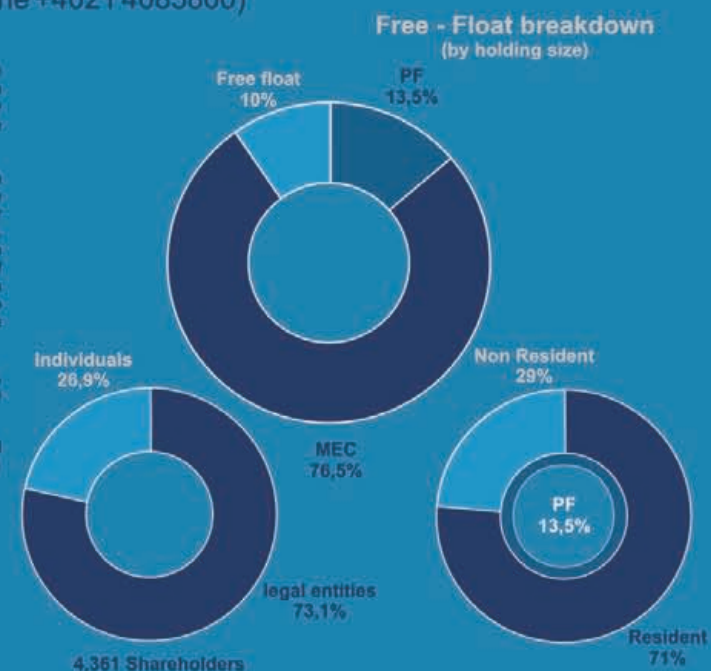
• Ministry of Economy and Commerce (MEC), representing the Romanian Government, has been the majority shareholder of Transelectrica since the company's incorporation in 2000.

• Property Fund (PF) has been holding a significant stake in Transelectrica since 2006. PF was incorporated in December 2005 as a closed - end investment fund. Designed as an equity compensation scheme, it provides a mechanism of reimbursement for Romanian individuals who were subject to expropriation of real - estate under the communist regime.

• Free - Float: individuals & institutions, resident & nonresident, holding shares since IPO (2006).

• Shares register held by "Central Depository" ([www.depozitarulcentral.ro](http://www.depozitarulcentral.ro))

Shareholder	Shares held
MEC	56,072,867
PF	9,895,212
Others	7,329,787
TOTAL	73,297,866



## MANAGEMENT AND SHAREHOLDERS

Transelectrica is the first state-owned utility company listed to the Bucharest Stock Exchange within the programmed project "A Powerful Market" initiated by the Romanian Government in order to float some public companies on the capital market.

As an initial public offer, a total of 7,329,787 shares were offered to the market at an issue price of 16.8 lei a piece. The subscription took place on June 14th-28th, 2006. The IPO was a remarkable success, as demand exceeded supply; it was over-subscribed 6.46 times overall.

The General Meeting of Shareholders approved the increase of the equity and equivalent number of the shares to be registered with the Office of the Commercial Register. The National Securities Commission also issued the registration certificate of the movable assets.

Beginning with August 29th, 2006 Transelectrica's shares are being traded on the Bucharest Stock Exchange under category I and symbol TEL.

Transelectrica's listing to the Bucharest Stock Exchange is the beginning of a long-term relationship with the Company's shareholders. In order to ensure a legal, transparent dialogue, Transelectrica will provide to all shareholders, regardless their size, equal access to accurate, correct and sufficient and public information in due time and according to the legal reporting requirements on the Company's operational and financial activity.

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## Information for shareholders

# Dividend Policy

### Dividend Policy

Transelectrica will pay dividends from the net profit to be distributed for the previous financial year and from any reserves to be distributed only when the annual financial results have been approved by the General Meeting of Shareholders

#### Financial calendar

15 February 2007	- Publication of preliminary results for 2007
25 April 2007	- General meeting for shareholders to approve results for 2006
26 April 2007	- Publication of results IFRS consolidated
8 May 2007	- Financial analyst meeting
15 May 2007	- Publication of results for 1st quarter 2007
14 August 2007	- Publication of results for 1st semester 2007
4 September 2007	- Financial analyst meeting
14 November 2007	- Publication of results for 3rd quarter 2007

## Corporate governance

# Composition of management bodies

### Composition of management bodies

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



### Board of directors (31/12.2006) and activity report

#### Chairman

Stelian Alexandru Gal.....Director General, Transelectrica

#### Members

Cezarina Alice Batu.....Ministry of Finance  
 Alexandru Sandulescu.....Ministry of Economy and Commerce  
 Florin Badea.....AREXIM  
 Silviu Lucian Lefter.....ARCE

The members of the Board are assigned for at most 4 years and may be replaced by the ordinary General Meeting of Shareholders. Members of the Board may be shareholders as well.

The Board of Directors defines Transelectrica's general policy and business administration strategy.

The main tasks provided for the Board in the by-law company's document are:

- approves the company's organizational structure
- approves competence delegation to the director general, to the executive management staff and to transmission subsidiaries
- approves production, research, development, investment and maintenance services
- sets up and approves the marketing strategy, environment protection, health and labor security policies
- sets up the rights, obligations and responsibilities of Transelectrica, in compliance with the organizational structure.
- submits to the General Meeting of Shareholders, within maximum 4 months from the financial exercise completion, the annual Board report on Transelectrica's activity, including the annual financial statements, the revenues and expenses, the budget draft and the activity planning draft for the next year financial exercise.

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## Corporate governance

## General Meeting of Shareholders and activity report

The General Meeting of Shareholders is the leading body of the company that makes decisions on the company's activity and economical policy. According to the law, the meetings are ordinary and extraordinary.

The ordinary General Meeting of the Shareholders:

- approves the proposals of Transelectrica's Board regarding:
  - the global strategy on the company's infrastructure development
  - rehabilitation and modernization of the existing infrastructure;
  - the economic and financial business restructuring;
- appoints and dismisses managers, according to the legal provisions;
- decides on the assessment of managers' activity;
- approves the revenue and expenses annual budget and the action plan for the next financial exercise;
- discusses, approves or modifies the annual financial statements based on managers' and financial auditors' reports, sets up the dividend level and decides upon the use of the shares-related dividends for investment and business development activities;
- approves the profit distribution as per share according to the legislation in force;
- analyzes the approved the Administration Board activity reports;
- decides upon assets pledging or renting or on dissolving one or more Company subordinated units;
- approves the organizational and functional by laws of the Administration Board;

## External Auditor

Transelectrica's financial auditor for 2006 financial exercise is KPMG. The auditor was selected based on competition, in compliance with the legislation in force.



## Corporate structure and strategy

The company is the sole shareholder of its 6 subsidiaries, created as independent commercial companies:

- **SC SMART SA** - for providing maintenance services for the Electricity Transmission Network (ETN) and for electricity distribution grids
- **SC TELETRANS SA** - for providing telecom and IT services for ETN and RPS management by the Dispatcher and for covering Transelectrica's internal needs for this type of services
- **SC OPCOM SA** - the commercial operator of the Romanian electricity market, providing market administration according to the provisions of the electricity market Commercial Code the organized 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.

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MANAGEMENT  
AND  
SHAREHOLDERS

II



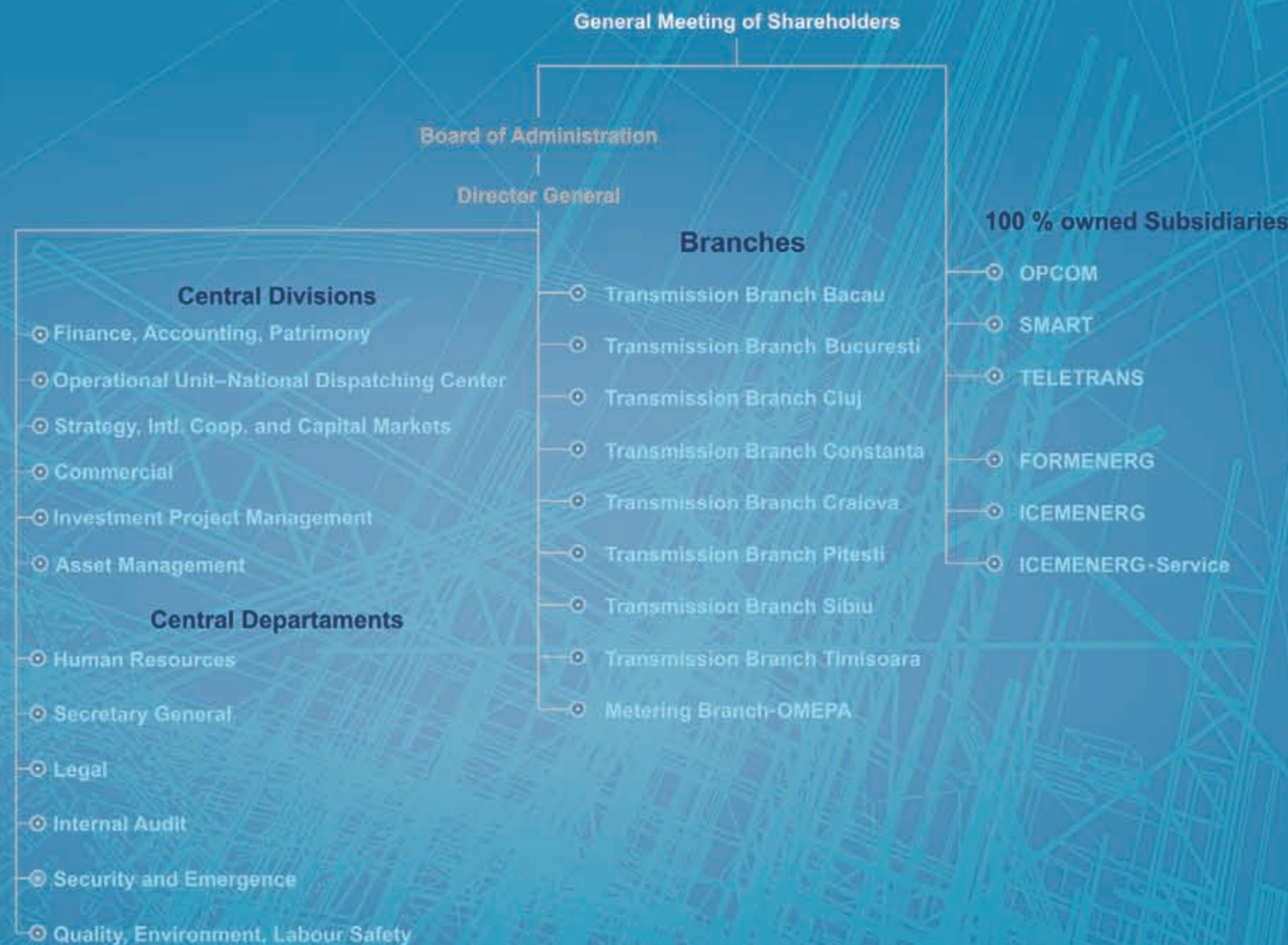


According to the company's restructuring strategy, Transelectrica's subsidiaries FORMENERG, ICEMENERG and ICEMENERG SERVICE are expected to be privatized in 2007.

#### Members of the Management Committee

- Stelian Alexandru Gal - Chief Executive Officer
- Octavian Lohan - Director, Operational Unit - National Dispatching Center
- Maria Ionescu - Director, Finance, Accounting, Patrimony
- Razvan Purdila - Director, Strategy, International Cooperation, Capital Market
- Bogdan Popescu Vifor - Director Commercial
- Ciprian Diaconu - Director, Assets Management
- George Visan - Director, Investment Project Management
- Elena Ratcu - Secretary General
- Mihaela Maciuceanu - Manager, Human Resources
- Adrian Valciu - Manager, Security and Emergency Conditions
- Bogdan Dumitriu - Legal Office
- Marin Stefan - Manager, Quality, Environment, Labor Safety

## MANAGEMENT AND SHAREHOLDERS



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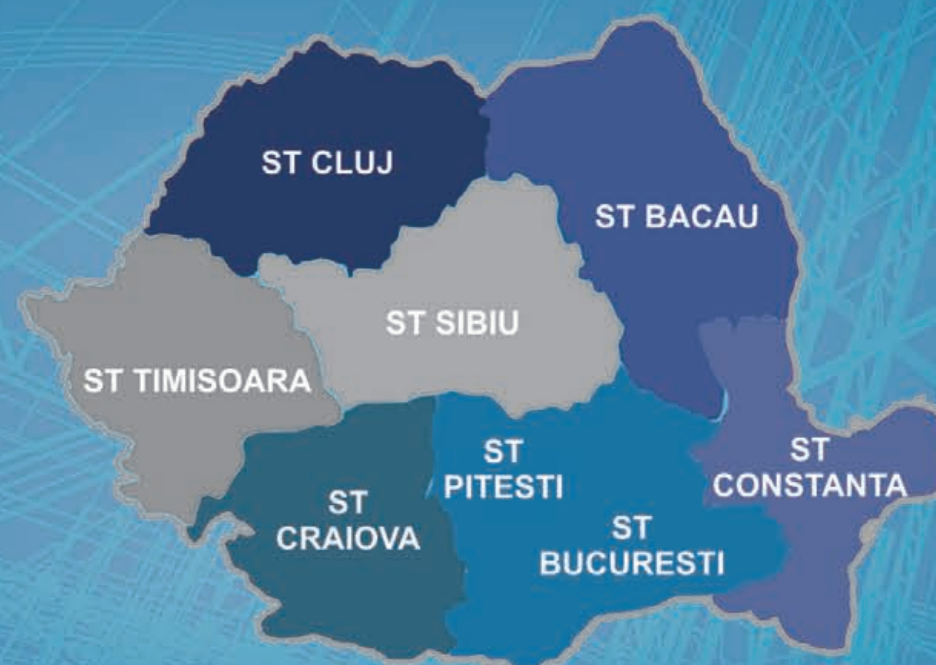
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## General Meeting of Shareholders and activity report

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



Location of the 8 Transmission branches on Romania's map

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

### Transelectrica's priorities related to the corporate governance are:

- Improving the analysis capacity and system strategic studies to the benefit of central authorities (Government, Ministry of Economy and Commerce, Energy Regulatory Authority)
- Supporting subsidiaries: corporate development of OPCOM for the internal and regional electricity market
- Improving the corporate governance
- Increasing Transelectrica's presence in the capital market

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MANAGEMENT  
AND  
SHAREHOLDERS

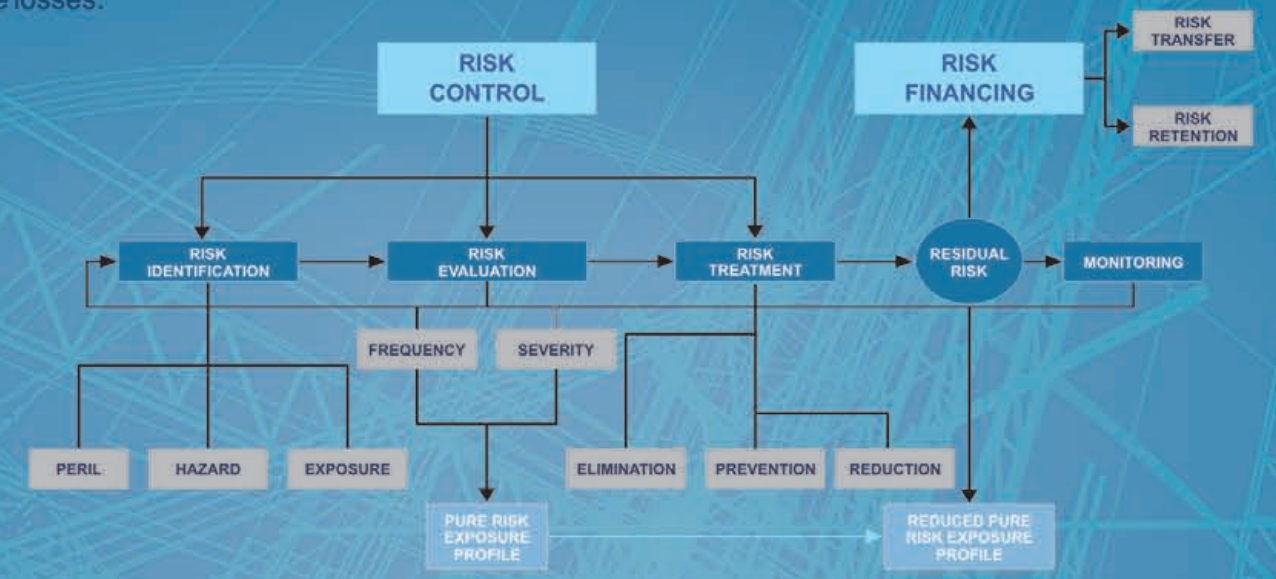
II



## Corporate governance

# Risk management

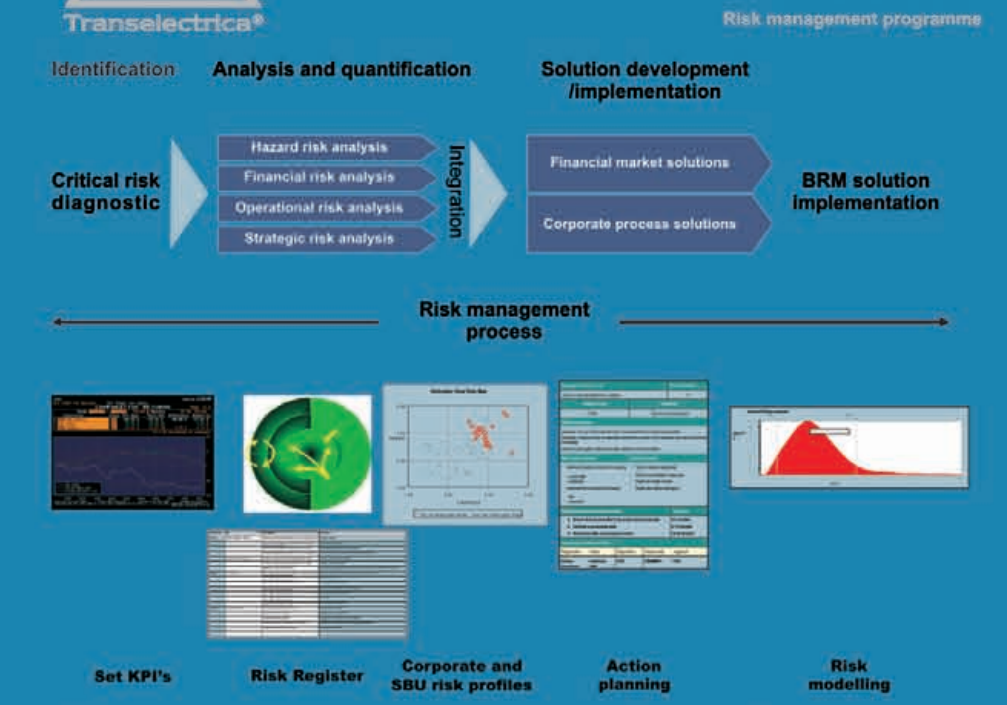
Operational reliability and continuity strategic requirements makes Transelectrica approach the risk management in a proactive manner, in order to determine and consider the potential losses prior to their occurrence and by having prepared technical, operational and financial solutions meant to specifically overcome these possible losses.



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

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

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 in 2006 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.

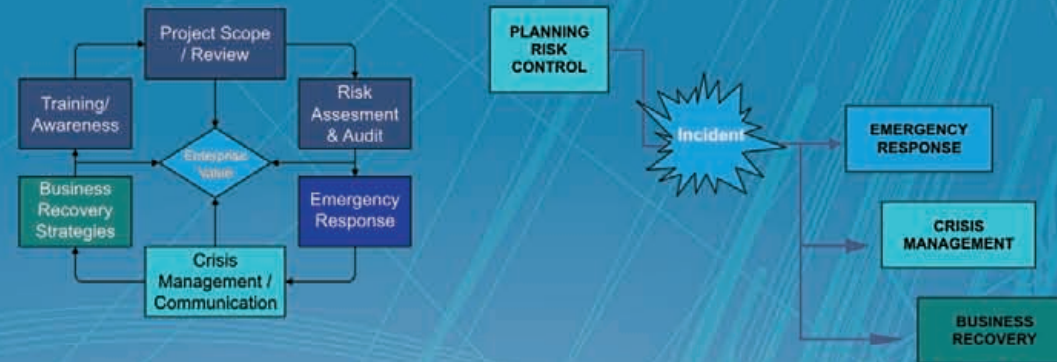
In 2006 the "Business Continuity Plan" was set up. It is an important risk management tool providing overall guidance to Transelectrica Management in responding to any significant incident that interrupts business operations and is meant to be easy to use, identifying activities that should be initiated within certain time periods. The overall plan provides a roadmap for a quick start in continuing operations, possibly at alternative premises, pending reinstatement of normal operations.

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## MANAGEMENT AND SHAREHOLDERS

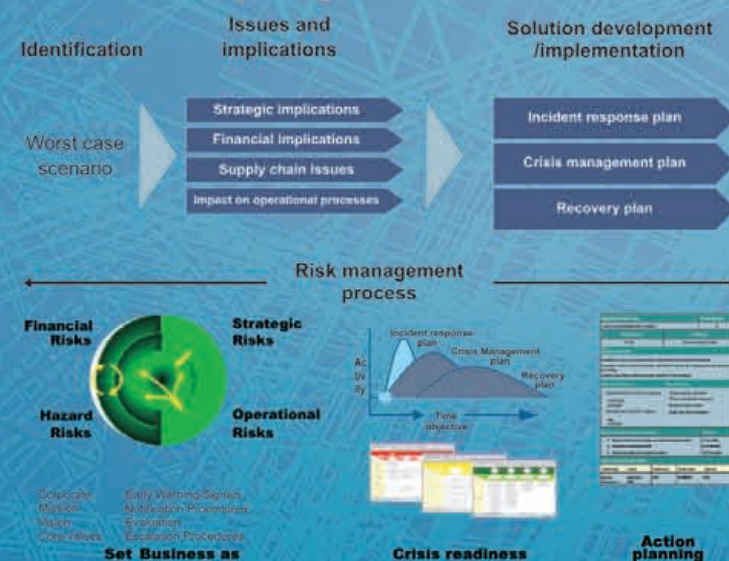
### Corporate governance



It is Transelectrica's policy, either directly or through subsidiaries, to conduct its operations with highest regard for the safety and health of its employees and the public and for the protection and preservation of property and the environment.

Continuity of supply to our customers and a safe and cost effective operation of the Romanian Power System must be maintained even under the most adverse circumstances.

#### Business Continuity Management Process



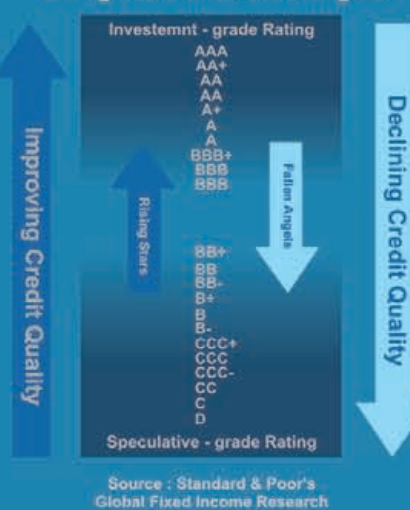
## Ratings

### Transelectrica, a rising star: from speculative to investment grade

Since 2002 Transelectrica has been rated by the main international financial rating agencies Moody's Investor Service and Standard and Poor's, based on the financial and operational performances, continuously moving up from speculative-grade (also called non-investment grade) to investment-grade rating, that indicates a safer investment, a better financial performances evolution and prognosis, a robust operating asset performance and a modern regulatory framework.

On January 23, 2007, Moody's Investors Service upgraded the rating of Transelectrica S.A. to Baa3 from Ba1, equal with sovereign rating and passing the company from speculative grade to investment grade. This rating action concludes the review for possible upgrade initiated on 7 June 2006 and reflects continuing improvements in Romania's economic institutions, Transelectrica's strategic role as owner and operator of the Romanian transmission grid and an improving financial profile within a fairly benign regulatory environment.

#### Rising Stars and Fallen Angels



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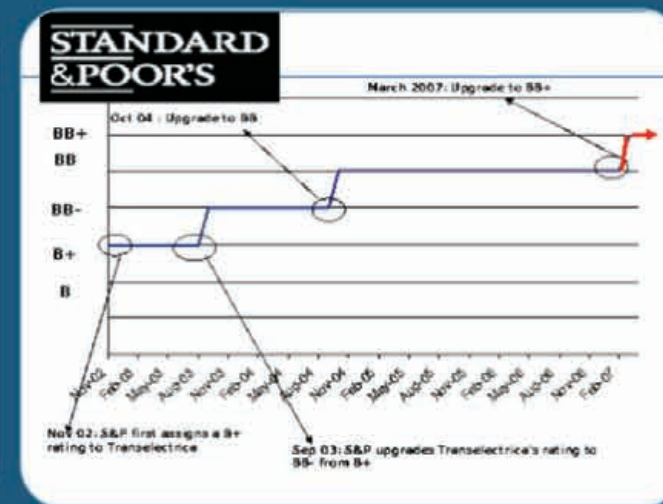
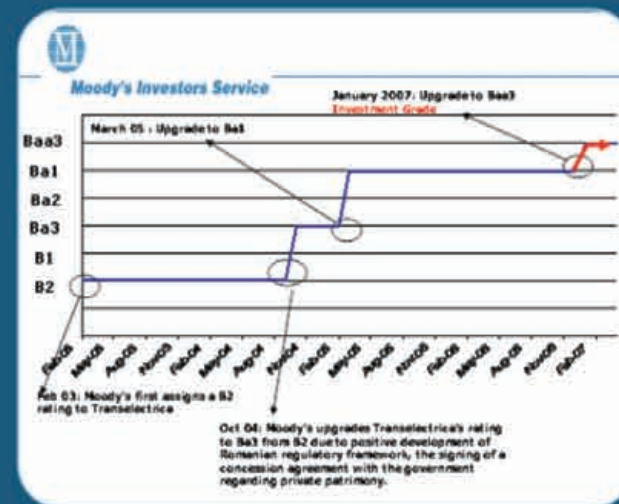


## Corporate governance

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 and diversification of funding by improved financial flexibility, wider access to the international capital markets, better terms for external debt, negotiations with foreign trade creditors

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



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## System and grid operation

# System and grid operation

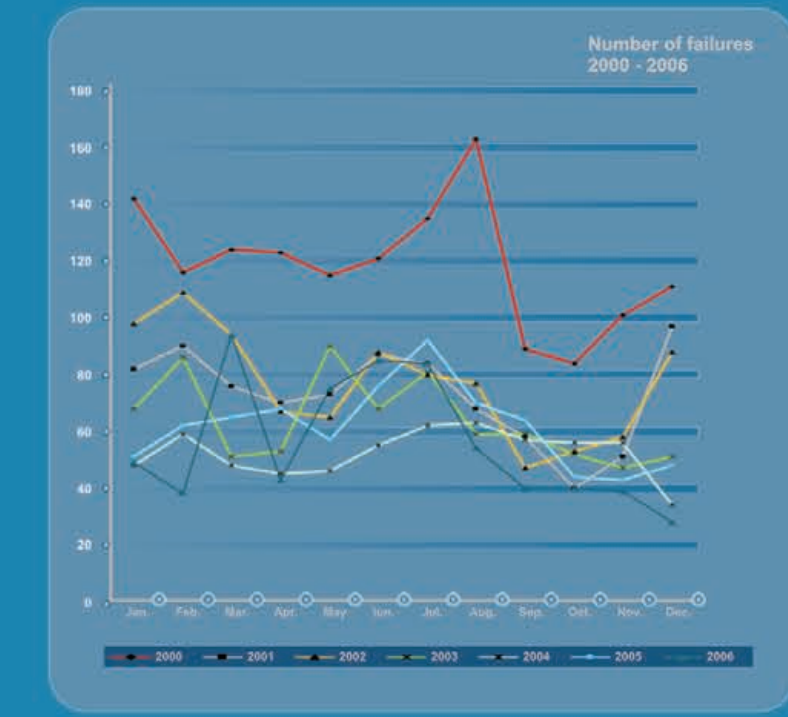
### System and grid operation

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 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 the Transelectrica's main concerns. The company provides the technical and operational management of the Romanian power system and ensures its stable operation. It also serves as the main link between electricity supply and demand, seeing to all the times match power generation with demand. As the 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 occurs, Transelectrica can schedule loading or unloading of units without reference to the order of merit to preserve system security of supply with extra costs from Transelectrica.

A new EMS- SCADA is being operating since 2005, having multiple functions; back-up, 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 changes and a number of operational challenges, the Romanian power system has not suffered sever failures since Transelectrica was established.



In 2006 the Romanian power system operated without any dysfunction, at the 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 Government.

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

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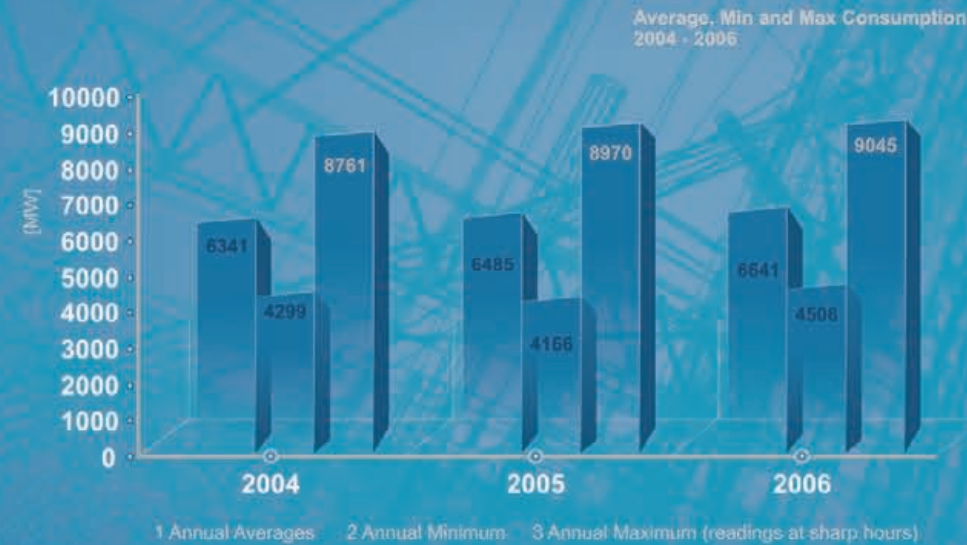
## System and grid operation

# Electricity generation

### Electricity generation on energy resources

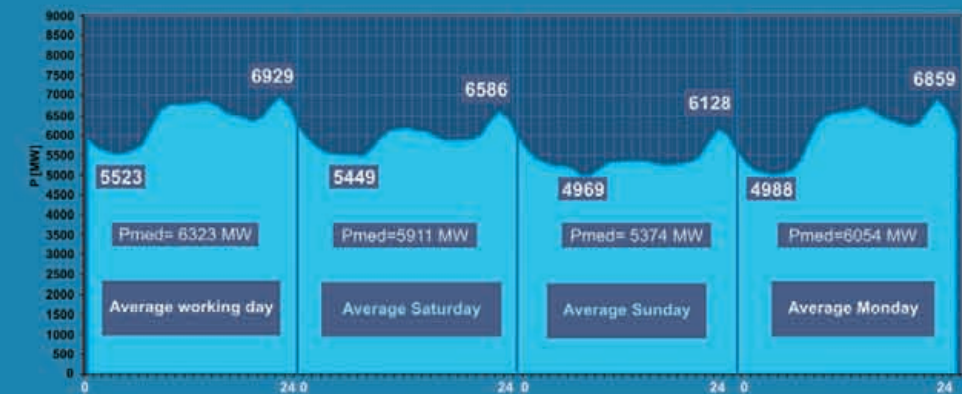
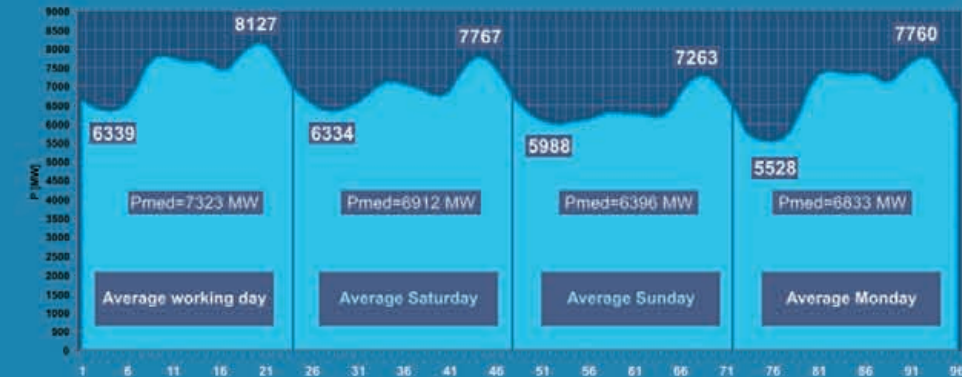
Romania disposes of several sources of domestic primary energy resources: oil, natural gas, hard coal, lignite, hydro, nuclear, renewables.

In 2006 renewable output was of 23 GWh and hydro output - for which green certificates were issued - reached 0.04% of the total electricity output. In the last three years the gross domestic consumption steadily increased with 2.3 - 2.4% annually. In 2006 the maximum hourly consumption was of 9045 MW (December 2006). Electricity production was of 10055 MW in November 2005. The electricity export increased in 2006 with 46% versus 2005 and with 258% versus 2004, particularly during the winter peak.



	2006			2005		
	[GWh]	[MW]	[%]	[GWh]	[MW]	[%]
TOTAL GENERATION, of which:	62428	7127	100.0	59728	6818	100.0
Coal fired plants, of which:	26975	3079	43.00	23542	2687	39.00
lignite	22370	2553	36.00	19120	2182	32.00
hard coal	4605	526	7.00	4422	505	7.00
hydrocarbons	11509	1314	18.00	10355	1182	17.00
water	18327	2093	29.00	20292	2317	35.00
nuclear	5616	641	9.00	5540	632	9.00
wind	1	0	0.00	-	-	-

Structure of power generation



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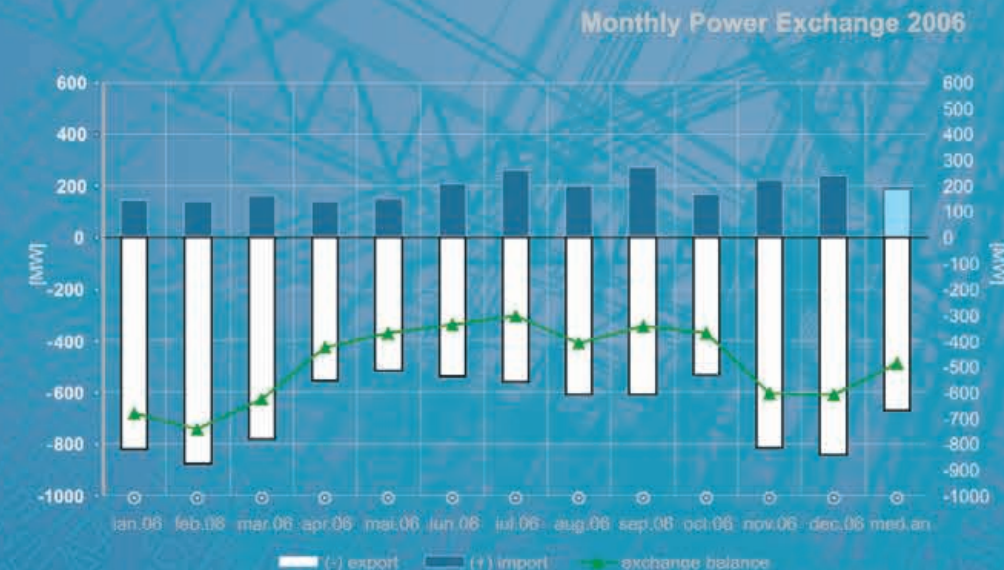
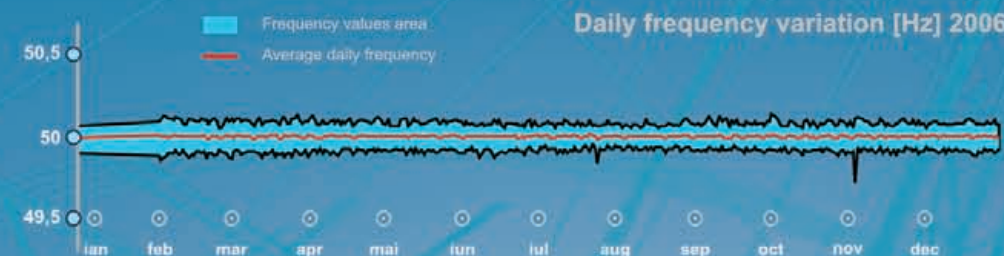
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ACTIVITIES

# System and grid operation

Since the October 2004 resynchronization of the two UCTE zones, the Romanian transmission power 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 was kept within normal parameters, the average frequency in 2006 being of 50.000 Hz



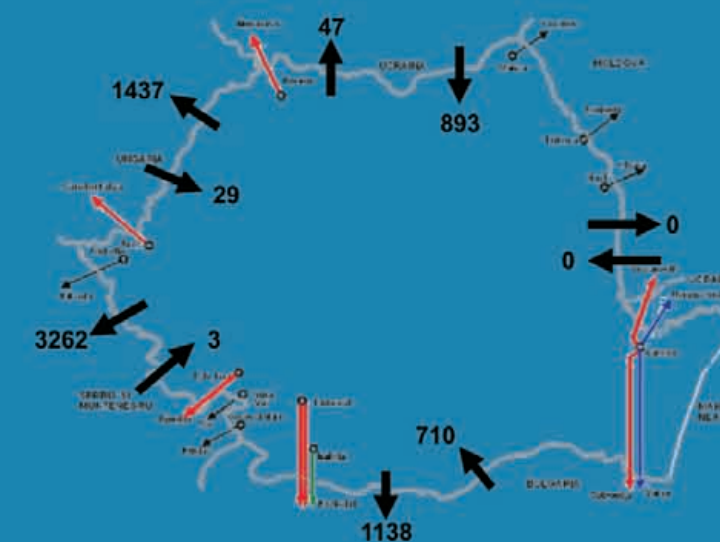
At present Romania is mostly an exporting country, but also importer at low-load hours. This import can be seen as an export of system services for frequency control, based on the flexibility of the significant hydro generating sector.

Commercial power exchanges with other power systems in 2006 represented an export balance of 4260 GWh (average capacity = 487 MW) and are resulted from an export of 5078 GWh (average capacity = 580 MW) and an import of 818 GWh (average capacity = 93 MW).

The map presents the physical power exchanges on borders in 2006 (in GWh)



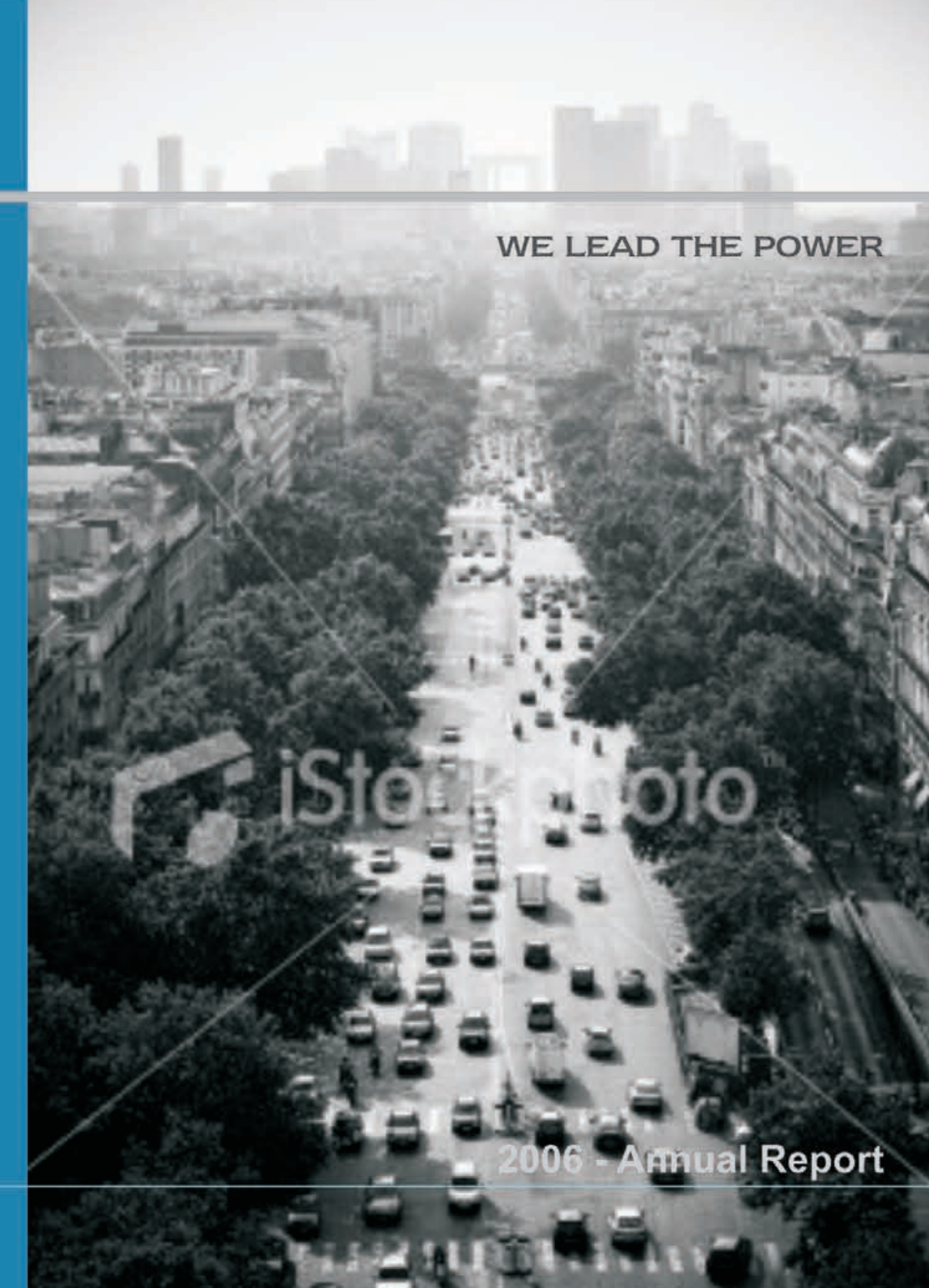
Power exchanges on borders - 2006 (Gwh)



Electricity exchanges (import/ export/ transit) with the interconnection partners are achieved on the basis of contracts of licensed suppliers in the Romanian market with their external partners. Electricity trades on the external side are made within the available transfer capacities of the Romanian interconnection lines with the neighboring systems.

Net transfer capacities on the import/ export line, are calculated according to 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 programs 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.



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## Wholesale Electricity Market Operation

# Electricity Market Operation

### 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.

#### Market players

The Romanian Electricity Market has been 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 13/2007" complies with the Directive 54/2003 on EU internal electricity market.

#### Market opening

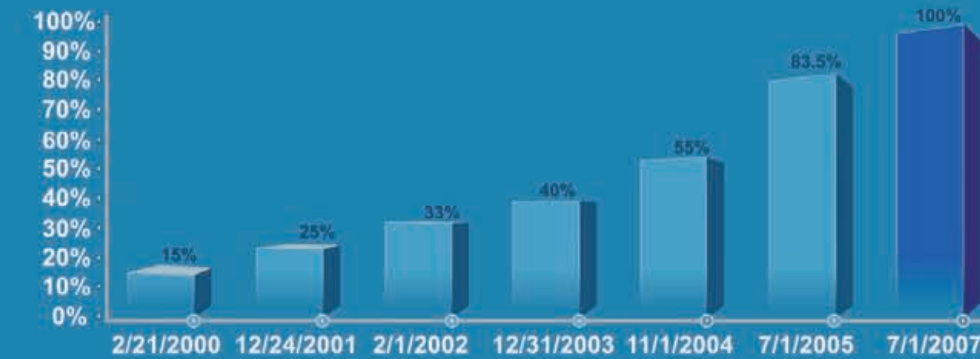
The Romanian Electricity Market has developed on the basis of significant changes in the industry structure: unbundling and related commercial relationships between the producers, suppliers and eligible consumers of electricity.

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% liberalized.



Degree of the Romanian market opening



### Trading arrangements in the market

The development of competitive market mechanisms is fully consistent with the need to comply with 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 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 trading arrangements are based on:

- bilateral contracts (regulated or negotiated)
- day-ahead spot market transactions on power exchange
- trading on balancing market for upward and downward regulation

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## ACTIVITIES

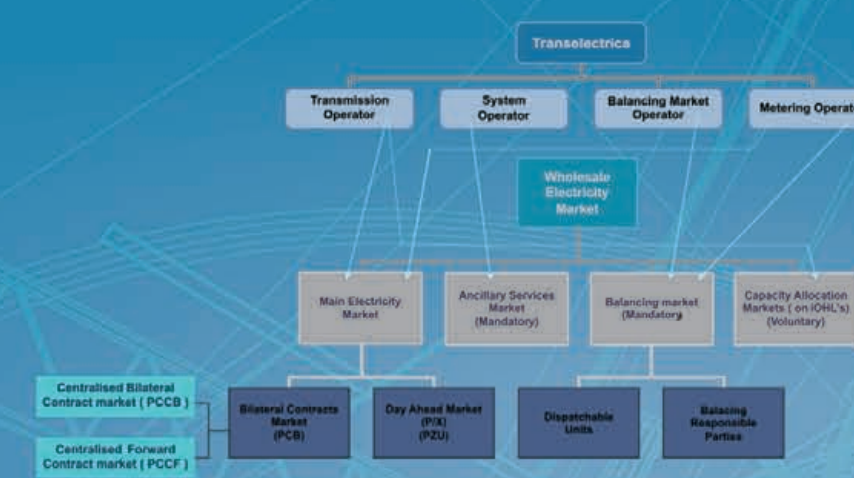




## Wholesale Electricity Market Operation

# Commercial arrangements

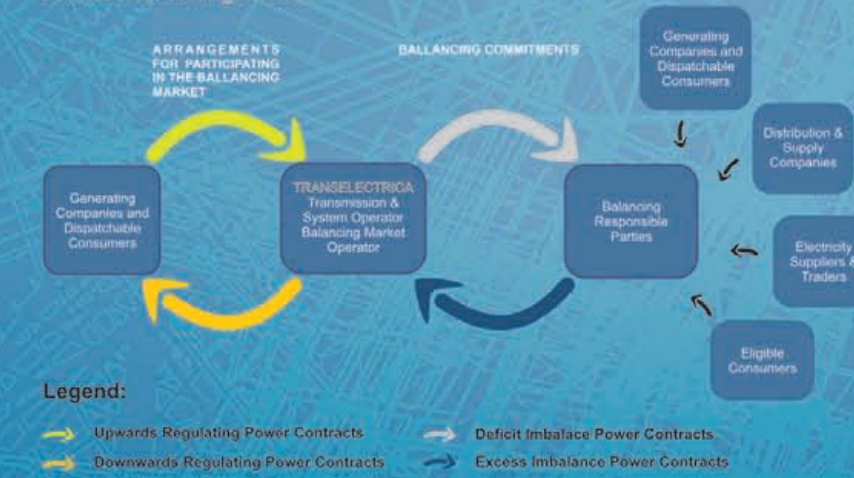
### Commercial arrangements in the balancing market



The Balancing Market represents a tool to handle for the TSO and for other participants to the market:

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

### Commercial arrangements



### Transelectrica's operations in the market

There are three major services provided by Transelectrica or through its subsidiaries 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 charged by Transelectrica 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 generation G and loads L components, depending on the geographical location of the injection/ extraction points.

**The system service** is meant to ensure the real time balance between supply and demand providing also 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 costs.

Starting with July 2005 a comprehensive **trading platform** is being used 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 for 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 recovered from the sale market participants grouped in balancing responsible parties, according to the level of imbalances they generated in each hourly reference period.

Transelectrica also runs explicit auctions to allocate the electricity transfer capacity on the interconnections with Hungary, Serbia, Bulgaria and Ukraine. In this respect Transelectrica agreed with the neighboring TSOs (without Ukraine) for 2006 to split the allocation responsibility on half of available capacity for each direction. The auctions are held on annually and

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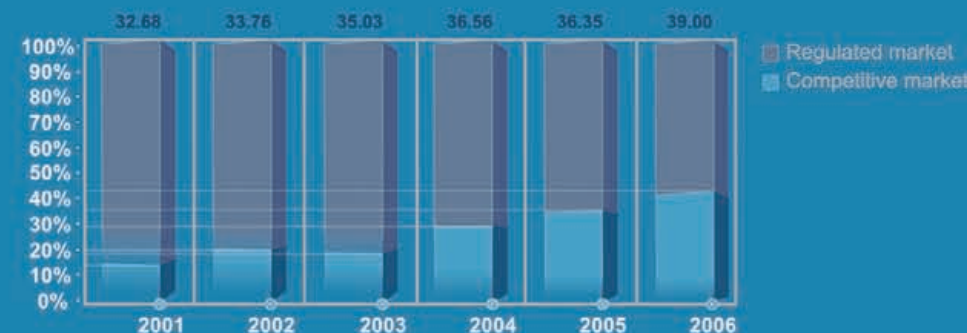


**The market administration services** consist of making available to all the market participants the power exchange trading platform for day-ahead hourly spot transactions, together with performing the settlement and clearing operations for both the spot market, the balancing market and the imbalances. Transelectrica's subsidiary OPCOM is in charge of performing these services and of providing a centralized 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

Transelectrica's customers are both producers and suppliers for the regulated market and suppliers for the liberalized market.

The generators pay the G-component and the distributors/ eligible customers pay the L-component of the transmission tariff. That helps Transeletrica to diversify its revenue-generating customer base. The number of customers for transmission services increased due to the market opening.



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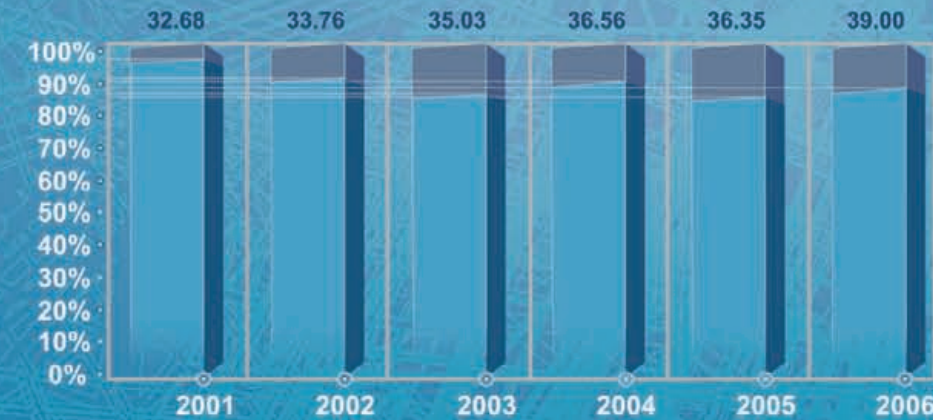


## Wholesale Electricity Market Operation

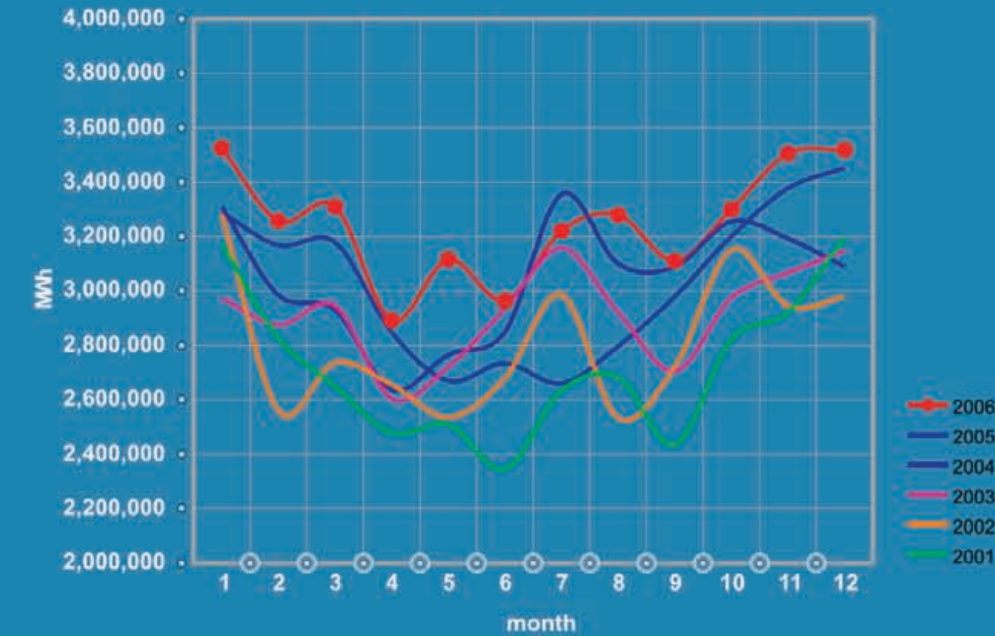
Electricity transmitted volumes in the competitive and regulated market

Monthly transmitted electricity (GWh)

Year	2001	2002	2003	2004	2005	2006
<b>Total</b>	<b>32,675</b>	<b>33,764</b>	<b>35,025</b>	<b>36,557</b>	<b>36,354</b>	<b>39,002</b>
jan	3,174.43	3,283.41	2,972.52	3,309.40	3,288.70	3,525.38
feb	2,827.17	2,560.06	2,874.97	2,984.52	3,167.68	3,257.14
mar	2,648.92	2,736.89	2,944.97	2,929.49	3,178.70	3,310.69
apr	2,477.30	2,655.43	2,603.65	2,636.73	2,848.68	2,892.38
may	2,509.97	2,535.23	2,721.08	2,764.77	2,669.99	3,116.30
jun	2,343.95	2,679.33	2,935.57	2,849.14	2,733.87	2,963.19
jul	2,634.21	2,985.48	3,157.84	3,355.64	2,660.83	3,221.51
aug	2,682.35	2,532.55	2,920.40	3,100.65	2,796.41	3,279.78
sep	2,434.58	2,721.76	2,704.79	3,088.58	2,978.62	3,110.81
oct	2,822.80	3,151.12	2,974.56	3,255.09	3,200.98	3,300.31
nov	2,921.75	2,944.83	3,067.45	3,192.64	3,377.39	3,504.96
dec	3,197.80	2,977.64	3,147.42	3,089.85	3,452.46	3,519.19



Development of electricity transmitted through the electricity transmission grid



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## Wholesale Electricity Market Operation

### Green Certificates (GCs)

#### Green Certificates (GCs)

In 2004 Romania adopted the Green Certificates schemes to support electricity generation from renewable energy sources (RES). According to Government and ANRE decisions, Transelectrica has been appointed as the Issuing Body for Green Certificates (GCs) to electricity generators from renewable sources that are included in the support scheme.

In the support scheme are included small hydro energy produced in power stations commissioned or modernised since 2004, with an installed capacity equal or lower to 10 MW, wind, solar, geothermal and tide energy, biomass, hydrogen produced from RES.

1 (one) GC represents 1 MWh (one megawatt-hour) of renewable power delivered to the grid (either transmission or distribution). Transelectrica is monthly issuing GCs for the renewable electricity produced in the previous month, based on the declarations made by renewable power producers for each power unit and confirmed by the electricity distributor.

After issuing the GCs, the producers may sell the certificates in the GC market (bilateral or through OPCOM platform) to suppliers to meet the yearly GCs target. In regulations, 1 GC trading price is set in-between 24-42 €/GC as an incentive to promote electricity generation from RES.

At the beginning of each year, ANRE calculates and publishes the suppliers list that has not met the GCs target based on the volumes of electricity supplied to their customers.

The suppliers that have not met the GCs target have to buy the GCs unpaid for at a price of 1, 5 x 42 €/ GC to Transelectrica. The lump sum is share among RES producers as an additional incentive to promote investment in RES.

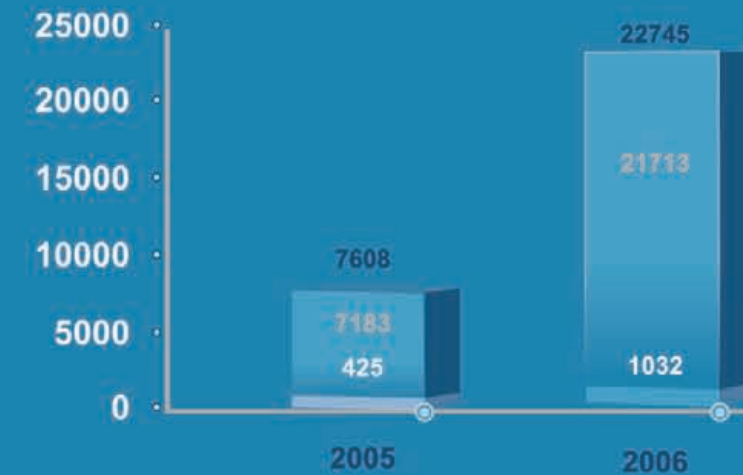
In 2006, 6 RES producers signed up in the Annual Register of RES producers: 3 wind electricity and 3 hydro electricity producers for which Transelectrica has issued 22,745 GCs, out of which 1032 GCs for wind and 21,713 GCs for hydro.

Compared to 2005, the volumes of GCs increased about 3 times, meaning that investments in RES power units is growing faster in Romania and help reducing the climate change and dependency from importing fuel sources.



#### GCs Issued to RES Producers

■ Wind ■ Hydro



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## Infrastructure and investments

# Managing the investment programme

### Managing the investment programme

As a result of the electricity market reform in Romania, Transelectrica has embarked on an ambitious development and modernization program of its electric substations, transmission lines and interconnection capacities, particularly meant to also create the new digital dispatching and market infrastructure. The program was substantiated by the company's strategy documents: Business Plan 2001-2010 reviewed for 2004-2013; Ten-Year Power Grid Development Plan 2004-2013.

Briefly the program is meant to:

1. construct and develop the electricity market infrastructure
2. rehabilitate and modernize the HV grid ( UCTE standards compliance) substations
3. rehabilitate and modernize the HV grid ( UCTE standards compliance) interconnection OHLs

Transelectrica has also invested in OPCOM, building the needed infrastructure for the trading platforms, for the centralized bilateral market, for the day ahead market and for the future regional power exchange.

Thus, since the year 2000 due to the major CAPEX effort for main projects, we have now a state-of- the-art grid based on:

- a new dispatching infrastructure, optic fibre backbone included
- a new market infrastructure with new trading platforms and a new metering infrastructure
- rehabilitation and modernization in major key importance substations
- development of the interconnection capacity on OHLs

The volume of investments in 2006 was of 461.400 thou. Lei (€130.912.186)

### Major investment projects commissioned in 2006, based on "turn key" contracts

Project	Contractor	Financier	Benefits
400/220 kV Rosiori substation	Consortium Jacobsen Elektro (Norway) Romelectro (RO)	Nordic Investment Bank & Transelectrica (18.5 M Euro)	The new remote - controlled substation will facilitate electricity transit among Western regions of the country (Ardeal, Maramures and Crisana) and achieves the interconnection with UCTE countries as well
400/220 kV Iernut substation	Siemens Austria	World Bank + Transelectrica	The old Iernut substation was completely refurbished and now it is a new remote - controlled substation, ensuring electricity transit through the Western side of the country (from West Transilvania to North Transilvania)
400 kV Slatina substation – final stage of the modernizing project 400/220 kV Slatina substation	Consortium Siemens - Austria, Siemens - Germany, Siemens - Romania	KfW Bank + Transelectrica	The new -substation is a remote -controlled substation, with a high reliability, increasing supply safety to consumers in the areas of Muntenia, Oltenia and the Aluminium Factory ALRO Slatina
400 kV Brazi Vest substation from the modernising project 400/220 kV Brazi Vest substation	Consortium Itochu - Toshiba - Mitsubishi T&D Japan	JBIC Bank – Japan + Transelectrica	By implementing the latest GIS(gas insulated substation) technology and a modern digital command-control system, the new substation will ensure the quality parameters of transmitted electricity and a high reliability degree
400 kV Gutinas substation	ABB Power Systems	Nordic Investment Bank + Transelectrica	The completely new remote - controlled substation enables power supply to the N- E part

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## Infrastructure and investments

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 structures, (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).

### Other projects completed in 2006:

- *Tele-transmission systems through the interconnection overhead high voltage lines with Bulgaria, contractor Siemens, Austria*
- *Command-control-protection system in the 400/220/110 kV Urechesi Substation, contractor Siemens, Romania*
- *Optic fiber telecommunication system*

Documentations approved for the following major investment projects:

- *Increasing the voltage rated level of the Axis Gutinas - Suceava from 220 kV to 400 kV*, a project to be achieved by the consortium AREVA-Germany and Electromontaj Romania and financed by the World Bank. It will foster supply reliability of consumers in central and Northern part of Moldova and the increase of power transit capacity in the area.

The project will also close the 400 kV loop between Northern Moldova (Suceava) and the Northern part of Ardeal (Cluj area) contributing to the interconnection with Republic of Moldova at 400 kV through a future OHL Suceava (RO) - Balti (R. Md) which makes also the interconnection with Ukraine.

- *Construction of Arad - Nadab OHL*
- *Modernization of primary circuits within 220/110 kV Isalnita substation*
- *Increasing the reliability performance of the equipment associated to Gura Ialomitei substation*



### Prospects for 2007

Ongoing rehabilitation works for:

- the substations Gutinas, Bucuresti Sud, Fundeni, Brazi Vest, Cernavoda, Iernut, Sibiu Sud, Paroseni and Nadab (new substation)
- 400 kV OHL Arad - Nadab
- 400 kV OHL Oradea - (Nadab) Bekescsaba (contracted, financed, under execution)
- increase the voltage rated level of the Axis Gutinas - Suceava from 220 kV to 400 kV
- modernization of the command-control-protection-metering in 11 substations

### Prospects for 2007-2008 and further on to 2012

- Development of international interconnections:
  - 400 kV Oradea (RO) - Nadab (RO) - Bekescsaba (HU) OHL
  - 400 kV Gadalina (RO) - Suceava (RO) - Balti (MD) OHL
  - 400 kV Timisoara (RO) - Vrsac (Serbia) OHL
- Undersea interconnection line between Romania and Turkey
- Rehabilitation of the following substations: 220/110 kV Isalnita, Mintia, Barbosi; 400/110/20 kV Gura Ialomitei, Lacu Sarat; 220 kV Ostrov, 400 kV Gadalina, Visoara (Bistrita); 400/(110) kV/MT and 220 kV Cetate Ostrov

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## Infrastructure and investments

### Managing the Transmission Grid Assets

Transelectrica manages about 8,955 km of Overhead Electric Lines (OHL) at voltages ranging from 110 kV to 750 kV, out of which:

- 155 km at 750 kV
- 4,630 km at 400 kV
- 4,132.5 km at 220 kV
- 38 km at 110 kV (interconnection lines)

The Company operates 77 electric substations:

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

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

Transelectrica manages this asset by keeping the balance between performance (operation), costs (maintenance, rehabilitation, modernization) 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 duration time
- ensuring input requirements for promoting rehabilitation works
- coordinating maintenance and rehabilitation programs.

During 2006, network rehabilitation projects were carried out for overhead electric lines: 400 kV Bucuresti Sud - Gura Ialomitei, Lacu Sarat - Isaccea, Portile de Fier - Slatina; 220 kV Mintia - Alba Iulia.



Major maintenance works were developed within 220/110 kV Targoviste, Cluj Floresti, Salaj, Turnu Magurele substations. The projects mainly involve the primary equipment (220/110 kV) and auxiliary services rehabilitation, using advanced equipment solutions (supplied by Areva, Siemens, Energobit). The protection and control systems within substations are completed.

The costs of the maintenance projects in 2006 were 163 288 257 lei (€ 46,806,728) lower with 4,74% versus 2005.

Within the project „Issuance of location and technical approval for connection to the electric transmission network', the documentation sent by the grid users were reviewed and according to „The Regulation on users connection to the public electric network" approved by HG 867/2003, technical grid connection and location approvals were issued and connection contracts were concluded.

In 2006 according to HG 867/2003, item 32, connection contracts were concluded for: grid connection of unit 4 150 MW Paroseni, grid connection of 110 kV OHL Pelicanu-Mircea Voda (the 110/20 kV Saint Gobain substation), grid connection of unit #2 Cernavoda NPP, low voltage connection in Alba Iulia substation.

### International cooperation

Transelectrica continues to play an active role within the international organizations and professional associations it is affiliated to (UCTE, ETSO, Eurelectric, WEC, CIGRE, LWA, AMFORUM), based on the new status of Romania as a full EU member starting with 1st of January 2007.

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## International cooperation

The international cooperation activity was mainly focused on two directions:

1. to enhance the cooperation at regional level within the regional structures such as: SETSO, SUDEL, SECI, Athens Forum, where Transelectrica is represented both at the Steering Committee level and at the Working Group level
2. to enlarge the bilateral cooperation with the European TSO's such as: ESO - EAD Bulgaria, Terna - Italy, RTE - France, MAVIR - Hungary, TEIAS - Turkey, ELECTROMREZA SRBJE - Serbia, RAO-UES - Rusia, MOLDELECTRICA - Republic of Moldova, UKRENERGO-Ukraine.

Transelectrica's representatives continued to be involved in carrying out several important regional studies and projects:

- „Black Sea Regional Transmission Planning”- coordinated by Transelectrica.
- „Synchronous Interconnection of the Power Systems IPS/UPS to UCTE.”
- „Regional Transmission Planning in SECI Member Countries”

In order to have a clear and comprehensive understanding of the evolutions and trends within the European energy sector Transelectrica is monitoring:

- the relevant information published both in the Romanian and European professional media;
- set up specific profiles for the European TSO;

During 2006 Transelectrica signed the Updated Memorandum of Understanding with Moldelectrica to achieve the new 400 kV interconnection line Suceava (RO) - Balti (R.MD) and also the Joint Position Paper with TEIAS - Turkey setting up the terms and conditions for the undersea HVDC Link Project Development.

In 2006, Transelectrica became „Supporting Party” for Ukrenergo and Moldelectrica, as a result of Ukraine and Republic of Moldova official request to join the UCTE.

## Environment, Quality and Safety

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 electric 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. Each year Transelectrica issues the Environmental Report.

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; complying with the legal regulations in the field, 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.

Therefore, Transelectrica has met the main targets related to the environment:

- Removal of PCB oil insulating equipment (PCB-polychlorinated biphenyl, a dangerous substance for health and environment)
- Reduction with 12% the oil content of the equipment, given the accomplished rehabilitation works
- Purchasing materials and equipment without PCB
- Improvement of the waste waters and wastes management
- Systematic monitoring the environmental impact upon lines and substations through measurements of environmental factors (air, water, soil, noise, electromagnetic field)

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Environment, Quality and Safety

ACTIVITIES

Quality

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

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.



Safety and security

The safety and security of our staff, contractors and collaborators is given much attention by the company.

In 2006 we kept on improving facilities and the internal training, raising people awareness on labor safety norms.

Ever since the company's foundation, Transelectrica's safety policy was meant to align its facilities to European norms in order to reduce work-related accidents and professional illness. Individual protection equipment was provided for the employees working in substations.

Emphasis was made on the human aspects of safety and the employees are permanently encouraged to observe safety norms in mind while developing their daily activities.

Transelectrica managed to provide a safe working environment, reduce incidents and occupational risks, reduce professional illnesses and assess the risk level of professional illness and accidents for all power transmission branches of the company.

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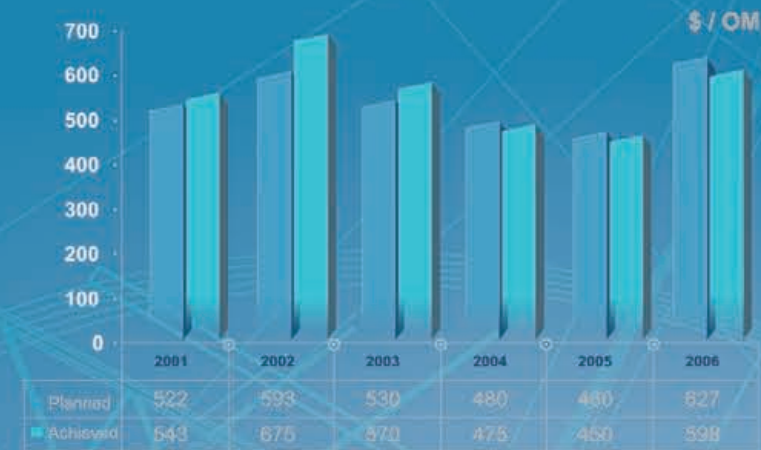
## Environment, Quality and Safety



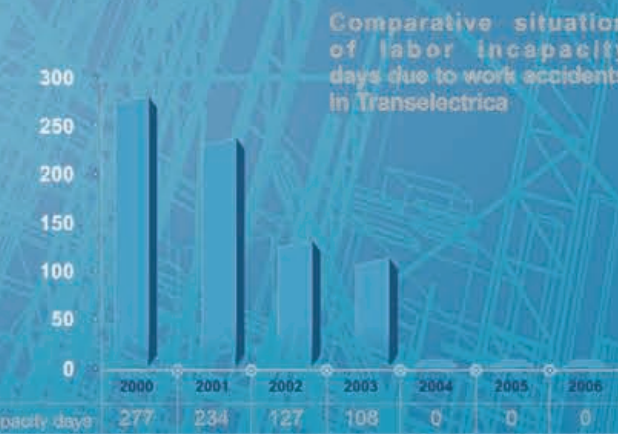
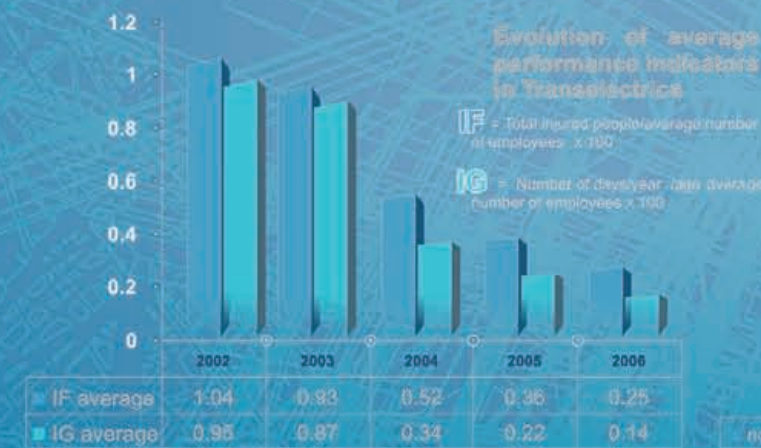
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### ACTIVITIES



Thus, labor accidents were much reduced. No labor accidents have occurred since 2004 until now. Thus, the specific performance indicators have steady decreased, as shown below:





# Human resources

Human resources

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

In 2006 Transelectrica strengthened the team works for better performances.

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

Further to outsourcing the non-core activities, personnel sizing was made such as to ensure the safety operation of the Romanian power system, to meet the new requirements imposed by reshaping the electricity market and the new approaches of the commercial activities. 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 2006, the following main organizational targets have been identified and achieved:

- planning the staff according to the company's organizational 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
- finding out alternative solutions for motivating and stabilizing the personnel, particularly the young ones
- assessing measures to improve personnel performances
- assessing and setting up measures to improve personnel performances.



The organizational 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;
- management of security and emergency situations
- international cooperation

1.08.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.12.2005	31.12.2006
5751	2364	2335	2140	2155	2155	2170

1.11.2001: Personnel outsourcing by setting up SMART subsidiary, approved by Government Decision - nr. 710/2001

1.04.2002: Personnel outsourcing by setting up FORMENERG subsidiary, approved by General Meeting of Shareholders

1.01.2003: Personnel outsourcing by setting up TELETRANS subsidiary, approved by General Meeting of Shareholders

Employing additional specialty personnel for balancing market, command - control and ITC

Employing additional personnel further to redefining the electricity market (bilateral contract market, day-ahead market, balancing market, system services market, transmission capacities trading market and green certificates market) and the way of operating electric transforming substations: command-control-IT systems

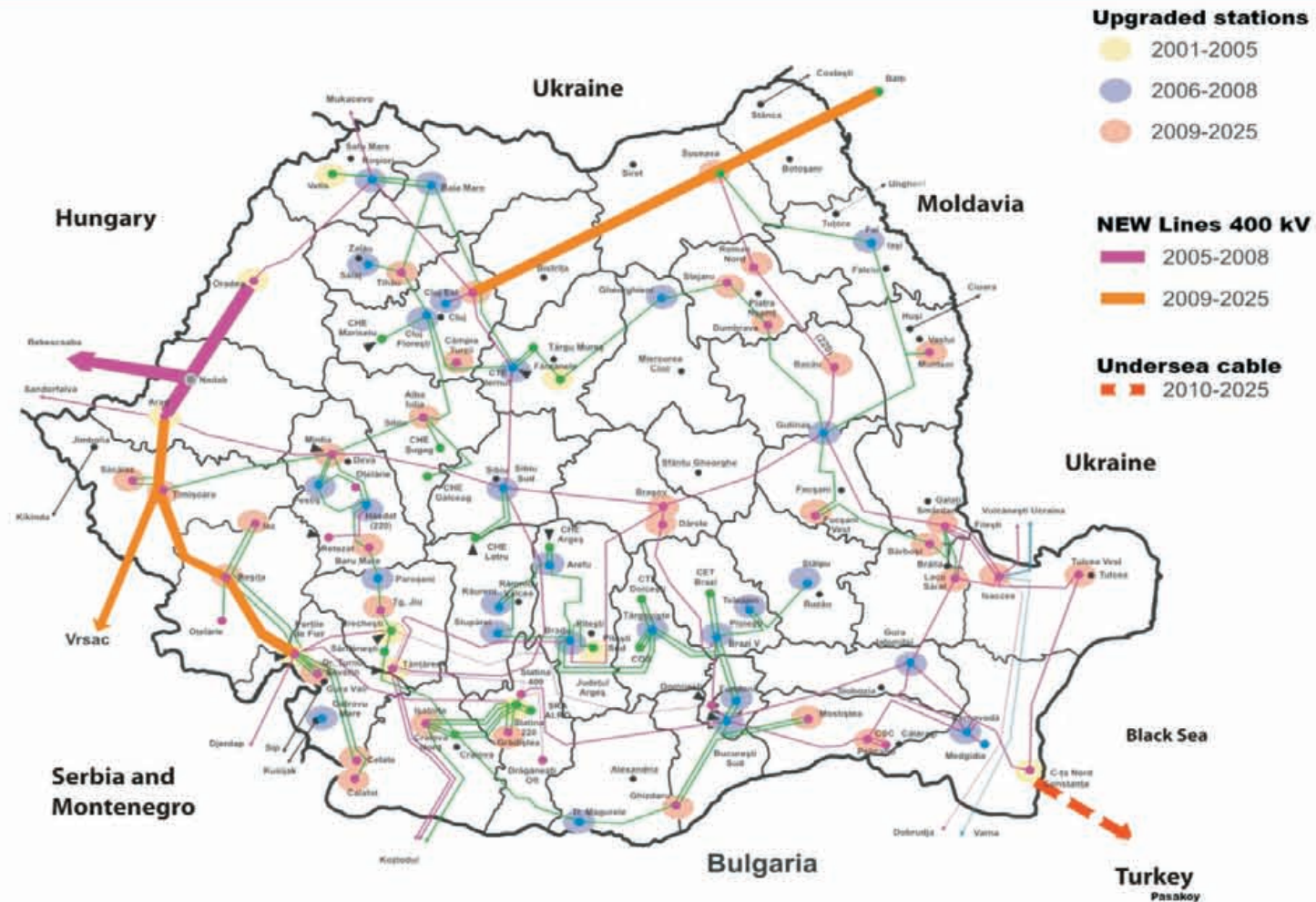
WE LEAD THE POWER

2006 - Annual Report



From a traditional grid to a market oriented, smart grid

## Romanian Electricity Transmission Network



## FINANCIAL STATEMENTS

- Auditors' Report
- Consolidated balance sheet
- Consolidated income statement
- Consolidated statement of changes in shareholders' equity and public patrimony
- Consolidated cash flow

Prepared in accordance with International Financial Reporting Standards





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#### Independent Auditors' Report

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

1. We have audited the consolidated financial statements of C.N.T.E.E. Transelectrica S.A. ("the Company") and its subsidiaries ("the Group") as at 31 December 2006, 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. In our audit report dated 4 April 2007, we expressed an opinion that the consolidated financial statements from which the summarized financial statements were derived gave a true and fair view of the financial position of the Group as of 31 December 2006, 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 to the consolidated financial statements 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 financial indicators stipulated in the loan agreements. The financing institutions, may request, by written notification the acceleration of repayment of these loans, after a period of time in which the Group has the opportunity to remedy the matter. Therefore, long term liabilities of Lei 300,322 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 4 April 2007, without further qualifying our opinion, we drew attention to the following matter: As described in Note 1 to the 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.

3. In our opinion, the accompanying summarized consolidated financial statements are consistent, in all material respects, with the consolidated financial statements of CNTEE Transelectrica 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.
5. 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.

Bucharest, 24 April 2007

KPMG Romania S.R.L.

Bill Bowman – Partner



WE LEAD THE POWER

2006 - Annual Report

WE LEAD THE POWER



CN Transelectrica SA  
Consolidated Balance Sheet as at 31 December 2006  
(all amounts are in thousand LEI, unless stated otherwise)

	31 December 2006	31 December 2005
<b>Non-current assets</b>		
Property, plant and equipment	2,335,720	2,127,600
Intangible assets	32,652	28,362
Financial investments	4,691	4,216
<b>Total non-current assets</b>	<b>2,373,063</b>	<b>2,160,178</b>
<b>Current assets</b>		
Inventories	29,745	29,552
Trade and other receivables	696,422	893,251
Cash and cash equivalents	352,062	65,048
<b>Total current assets</b>	<b>1,078,229</b>	<b>987,851</b>
<b>Total assets</b>	<b>3,451,292</b>	<b>3,148,029</b>
<b>Shareholders' equity and liabilities</b>		
<b>Shareholders' equity</b>		
Share capital	1,091,473	1,018,175
Share premium	49,843	-
Legal reserves	31,008	14,884
Other reserves	48,386	41,448
Retained earnings	431,558	179,560
<b>Total shareholders' equity</b>	<b>1,652,268</b>	<b>1,254,067</b>
<b>Non-current liabilities</b>		
Deferred income	162,171	174,031
Long term borrowing	847,335	782,691
Employee benefits obligations	13,347	11,339
<b>Total non-current liabilities</b>	<b>1,022,853</b>	<b>968,061</b>
<b>Current liabilities</b>		
Trade and other liabilities	656,406	816,741
Current income tax	15,774	3,343
Other tax and social security liabilities	8,904	18,640
Short term borrowing	95,087	87,177
<b>Total current liabilities</b>	<b>776,171</b>	<b>925,901</b>
<b>Total liabilities</b>	<b>1,799,024</b>	<b>1,893,962</b>
<b>Total shareholder's equity and liabilities</b>	<b>3,451,292</b>	<b>3,148,029</b>

CN Transelectrica SA  
Consolidated Income Statement for the Year Ended  
31 December 2006 (all amounts are in thousand  
LEI, unless stated otherwise)

	2006	2005
<b>Operating revenues</b>		
Transmission revenues	889,923	740,821
Ancillary services revenues	774,169	679,977
Balancing market revenues	776,242	273,076
Other revenues	63,452	71,728
<b>Total operating revenues</b>	<b>2,503,786</b>	<b>1,765,602</b>
<b>Operating expenses</b>		
System operating expenses	(910,171)	(820,922)
Balancing market expenses	(776,242)	(225,092)
Depreciation and amortization	(160,283)	(147,443)
Personnel expenses	(145,022)	(124,751)
Repairs and maintenance expenses	(95,105)	(80,373)
Other operating expenses	(83,731)	(117,631)
Consumables	(53,406)	(56,356)
<b>Total operating expenses</b>	<b>(2,223,960)</b>	<b>(1,572,568)</b>
<b>Operating profit</b>	<b>279,826</b>	<b>193,034</b>
<b>Financial revenues</b>	<b>122,606</b>	<b>2,109</b>
<b>Financial expenses</b>	<b>(56,869)</b>	<b>(49,576)</b>
<b>Financial result</b>	<b>65,737</b>	<b>(47,467)</b>
<b>Profit before income tax</b>	<b>345,563</b>	<b>145,567</b>
<b>Income tax</b>	<b>(51,493)</b>	<b>(18,759)</b>
<b>Profit for the period</b>	<b>294,070</b>	<b>126,808</b>
<b>Basic and diluted earnings per share (lel/share)</b>	<b>4.26</b>	<b>1.92</b>

CN Transelectrica SA  
Consolidated Statement of Changes in Shareholders' Equity and Public Patrimony for the Year Ended  
31 December 2006 (all amounts are in thousand LEI, unless stated otherwise)

	Share capital	Share premium	Public patrimony	Legal reserve	Other reserves	Retained earnings	Total
<b>Balance as at 1 January 2005</b>	<b>1,018,064</b>	<b>-</b>	<b>-</b>	<b>9,722</b>	<b>111</b>	<b>108,312</b>	<b>1,136,209</b>
Transfers from reserves	111	-	-	-	(111)	-	-
Land for which title deeds were obtained	-	-	-	-	39	-	39
Special destination reserve for the energy sector	-	-	-	-	41,409	(41,409)	-
Legal reserve	-	-	-	5,162	-	(5,162)	-
Dividends distributed	-	-	-	-	-	(8,989)	(8,989)
Profit for the period	-	-	-	-	-	126,808	126,808
Public patrimony assets	-	-	4,261	-	-	-	4,261
Derecognizing of public patrimony assets	-	-	(4,261)	-	-	-	(4,261)
<b>Balance as at 31 December 2005</b>	<b>1,018,175</b>	<b>-</b>	<b>-</b>	<b>14,884</b>	<b>41,448</b>	<b>179,560</b>	<b>1,254,067</b>
Increase of share capital	73,298	-	-	-	-	-	73,298
Share premium	-	49,843	-	-	-	-	49,843
Land for which title deeds were obtained	-	-	-	-	21	-	21
Special destination reserve for the energy sector	-	-	-	-	48,326	(48,326)	-
Utilization of the special destination reserve	-	-	-	-	(41,409)	41,409	-
Legal reserve	-	-	-	16,124	-	(16,124)	-
Dividends distributed	-	-	-	-	-	(19,031)	(19,031)
Profit for the period	-	-	-	-	-	294,070	294,070
Public patrimony assets	-	-	640	-	-	-	640
Derecognition of public patrimony assets	-	-	(640)	-	-	-	(640)
<b>Balance as at 31 December 2006</b>	<b>1,091,473</b>	<b>49,843</b>	<b>-</b>	<b>31,008</b>	<b>48,386</b>	<b>431,558</b>	<b>1,652,268</b>

CN Transelectrica SA  
Consolidated Statement of Changes in Shareholders' Equity  
and Public Patrimony for the Year Ended 31 December 2006  
(all amounts are in thousand LEI, unless stated otherwise)

	2006	2005
<b>Cash flows from operating activities</b>		
Profit for the period	294,070	126,808
<b>Adjustments for non-cash items</b>		
Income tax	51,493	18,759
Depreciation and amortization	160,283	147,443
Release of deferred income	(20,628)	(24,736)
Loss from disposal of property, plant and equipment	4,301	1,500
Interest expense	48,942	32,550
Interest revenue	(14,031)	(2,109)
Unrealized foreign exchange gains	(96,139)	(5,633)
<b>Operating cash flows before working capital changes</b>	<b>428,291</b>	<b>294,582</b>
Accounts receivable	197,031	(538,521)
Inventories	(192)	(271)
Accounts payable and other liabilities	(164,065)	578,705
<b>Changes in working capital</b>	<b>32,774</b>	<b>39,913</b>
Interest paid	(39,025)	(30,779)
Income tax paid	(39,745)	(24,390)
<b>Net cash from operating activities</b>	<b>382,295</b>	<b>279,326</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible and intangible assets	(399,460)	(583,722)
Proceeds from sale of tangible fixed assets	19,821	17,555
Interest received	8,919	2,103
<b>Net cash used in investing activities</b>	<b>(370,720)</b>	<b>(544,064)</b>
<b>Cash flows from financing activities</b>		
Increase of share capital and share premium	123,140	-
Subsidies received	2,634	47,537
Proceeds from long term borrowings	235,658	300,936
Repayments of long term borrowings	(67,075)	(40,034)
Dividends paid	(19,031)	(37,005)
<b>Net cash from financing activities</b>	<b>275,326</b>	<b>271,434</b>
<b>Net increase in cash and cash equivalents</b>	<b>286,901</b>	<b>6,696</b>
<b>Cash and cash equivalents as at 1 January</b>	<b>55,239</b>	<b>48,543</b>
<b>Cash and cash equivalents as at 31 December</b>	<b>342,140</b>	<b>55,239</b>



## Transelectrica's Branches



### Bacau Transmission Branch

Director: **Stefan Tibulac**  
Str. Oltuz nr. 41, Bacau, cod 600268  
Tel: 0234/207 120; Fax: 0234/517 456

### Bucuresti Transmission Branch

Director: **Adrian Rusu**  
Sos. Stefan cel Mare nr. 1A, sector 1, Bucuresti, cod 01173  
Tel: 021/201 62 15; Fax: 021/317 23 00

### Cluj Transmission Branch

Director: **Ciprian Bud**  
Str. Memorandumului nr.27, Cluj, cod 400114  
Tel: 0264/405 505; Fax: 0264/405 500

### Constanta Transmission Branch

Director: **Teodor Stoenescu**  
Bd. Alexandru Lapusneanu nr.195 A, bloc LAV 1, Constanta, Cod 900472  
Tel: 0241/607 505; Fax: 0241/607 550

### Craiova Transmission Branch

Director: **Ion Merfu**  
Str. Brestei nr.5, Craiova, cod 200581  
Tel: 0251/307 100; Fax: 0251/307 108

### Pitesti Transmission Branch

Director: **Neculai Popescu**  
Str. Fratii Golesti nr.25B, Pitesti, cod 110174  
Tel: 0248/607 200; Fax: 048/607 209

### Sibiu Transmission Branch

Director: **Florin Balaşiu**  
Bd. Corneliu Coposu nr.3, Sibiu, cod 550245  
Tel: 0269/207 111; Fax: 0269/207 101 foster

### Timisoara Transmission Branch

Director: **Nicolae Chiosa**  
Str. Piata Romanilor nr. 11, Timisoara, cod 300100  
Tel: 0256/294 550; Fax: 0256/219 963

### OMEPA - Wholesale Electricity Metering Operator

Bd. Hristo Botev nr. 16-18, cod 030236, sector 3, Bucuresti  
Telefon: +4021/3035892; Fax: +4021/3035756

## CONTACT

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