Transelectrica®

"In order to reach the possible,
one has always to try the impossible"

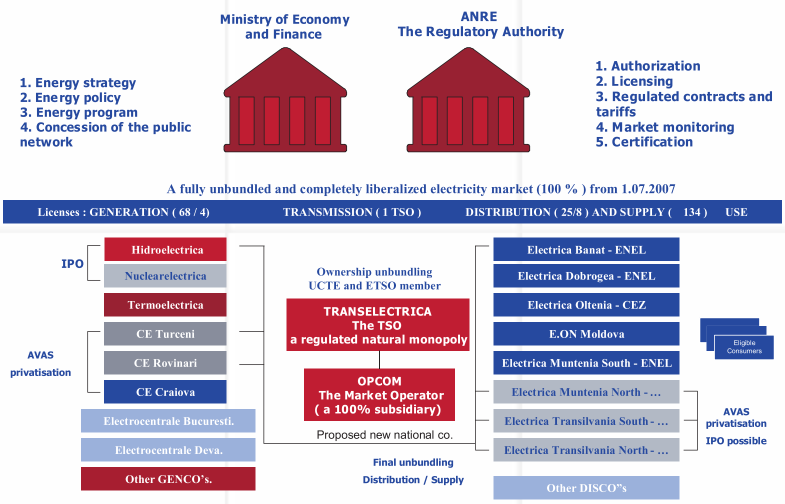
Herman Hesse

Transelectrica in a nutshell

Transelectrica is the Romanian Transmission and System Operator (TSO) with a key strategic role in the Romanian electricity market.

Transelectrica ensures the stable and reliable operation of the Romanian Power System (RPS), 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 in the current corporate structure of the Romanian Power System



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, centralised bilateral, forward markets)
- Operation of green certificates trading platform

■ Metering Operator of the wholesale electricity market, through its branch OMEPA

- The 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 euro)	2007	2006
Operations income	660,474	740,393
EBIT	48,610	82,747
Total revenues	668,603	776,648
Total expenses	643,506	674,462
Gross profit	25,097	102,186
Basic and diluted earnings per share (RON/share)	0.24	1.26
Number of employees 31.12.07	2137	3824
Geographical length of network in km	8,950 on 31.12.2007	

Contents

2007 in brief

Major events in 2007

For Transelectrica, 2007 was a complex year with several challenges related to the dynamic changes in the behaviour of electricity market participants and in the regulation environment. It was also a year with good operational and financial performances, having ensured the security of electricity supply at high parameters and quality standards.
Here are some of the main results of the year 2007:

- Commissioning the Unit #2 of Cernavoda Nuclear Power Plant in August 2007
- Strengthening the Romanian Power System's security by completing 8 rehabilitation/modernisation substations which are projects of strategic importance for the system
- Signing contracts with :
  - Energomontaj – SA in order to rehabilitate the 220/110 kV electric substation of Isalnita
  - Consortium Siemens AG–Austria and Siemens SRL Romania to rehabilitate the 10 kV electric substation Fundeni
- Starting the process of remote control implementation in Transelectrica's 8 transmission branches, such as in 2008 a remote control center be created in each of them
- Supporting sustainable growth by trying to integrate the renewable resources into the Romanian power system – mainly wind power
- Operation of the Romanian Power System without any disfunction, at the quality parameters, in accordance with the requirements of the Technical Grid Code
- Signing the cooperation and strategic partnership agreement with TERNA–Italy for the joint development of international projects for interconnection, implementation of joint programs of technical assistance in SEE and other areas abroad, know–how exchange and strategic partnership over the institutional and organisations of the SEE electricity market and its integration in the internal EU electricity market
- The financial rating agency Standard&Poors upgraded the rating of Transelectrica from "BB" to "BB plus" with positive outlook and Moody's Investors Service upgraded Transelectrica's rating from "Ba1" to "Baa3" with stable outlook
- Setting up the "Business Continuity Plan", an important risk management tool providing overall guidance to Transelectrica's management
- Awarded with the Romanian Trophy for Quality J. M. JURAN
- Organising the international conference RESYM 2007 – "Regional Electricity System and Markets Towards the European Internal Electricity Market", an outstanding international event organised by Transelectrica under the auspices of the Ministry of Economy and Finance

Message from the CEO

2007 was the year when energy was given particular attention throughout Europe.
Energy was also a topical issue to debate by the European Union political decision makers. At present the transmission and system operators are facing great challenges: responsibility to develop the infrastructure of interconnected electricity networks with a view to providing long–term energy security and facilitating electricity cross–border trading for the energy community at European and regional levels; providing conditions to integrate renewables into the European power systems; ensuring a safe and steady–state operation of electric power systems; adapting the technical, economic, commercial and market regulations to the requirements of the third legislative package; and last, but not least, the challenge derived from the European Commission's intentions to set up the Agency for Coordination of Energy – an European institution regulating and standardising the minimum reliability requirements–.

Within this background, Transelectrica made all technical and financial efforts to improve the operation of its facilities and conduct its operational activities such as to meet UCTE interconnection rules and the European challenges which stay ahead. As the administrator of the Romanian transmission grid, Transelectrica ensures the grid properly functioning, while monitoring the continuity and security of electricity supply. By actively fostering several major projects meant to increase the interconnections transfer capacity, we consider that Transelectrica has became a reliable hub for regional markets in Europe.

In 2007 the Romanian Power System operated within normal quality and frequency parameters. Although the 2007 summer was extremely hot and dry, with temperatures over 40° C, the operation of the power system was not at all jeopardized.

Over the past year, we kept on investing in the electrical transmission infrastructure such as to create a sound network and a better dispatching and market infrastructure. To this purpose, we have already implemented a great part of the ambitious investment programme launched 6 years ago based on "turn–key" focused projects with state–of–the–art technologies, we managed to improve operational performance and several international interconnection electric lines are already under way.
For Transelectrica, 2007 featured very good results, in both technical and financial terms. In 2007 the investment projects were about 350 mil lei (€ 100 mil) and the costs of the major maintenance projects were 155,360,000 lei (€ 44,388,571), lower with 4.87% than in 2006.

Since 2006 Transelectrica has been listed to the Bucharest Stock Exchange and at present the Romanian state through the Ministry of Economy and Finance holds 73.7% of Transelectrica's share capital, Co. Proprietatea Fund holds 13.5% of its share capital, while other shareholders own 12.8% of the share capital floating on the Bucharest Stock Exchange. Transelectrica has significantly raised its profile through the successful floatation to the stock exchange.

Supported by an adequate infrastructure and a functional competitive electricity market in Romania, Transelectrica is actively developing international cooperation activities with the TSOs in the region and with other partners abroad, in order to further on 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.

We are conducting the environmental policy in all our activities and make sure that our projects are integrated into the community with the least possible impact on the environment. Full importance is also given to the utilisation of renewable resources. Transelectrica aims at creating a strong and reliable infrastructure to facilitating sustainable growth, trying to integrate the renewable resources – mainly wind power – into the Romanian power system, in order to make it compatible with efficient, high–quality service for consumers.

As Transelectrica considers that the development of its business activity has to be approached on an ethical and responsible manner, in 2007 we redesigned our corporate values and carried out the Ethical Code of Transelectrica's personnel. This, together with our involvement in social projects, sustainability and good corporate governance means that our business management model and our commitment towards sustainable development are going on the right way.

In recognition of the managerial quality of our company, Transelectrica was awarded with the Romanian Trophy for Quality J. M. Juran 2007.

The daily steadfast commitment of our 2,137 employees who proved their expertise, professionalism and dedication is a guarrantee for our meeting all the challenging targets staying ahead.

I would like to extend my heartfelt and deepest thanks to all of them. Because I am fully aware that „if one man is dreaming, it is only a dream. But, when several people are dreaming together, this is the beginning of a new reality".

Dr. Stelian Alexandru Gal
Director General and CEO

Prospects 2008

- 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
- Strengthening the international cooperation

Efficient and reliable supply

As the Romanian Transmission and System Operator, Transelectrica coordinates the proper operation of the power system and wholesale electricity market. It guarantees a regulated third party access to the Romanian electricity transmission network under transparent, non–discriminatory and fair conditions to all market participants.

Electricity Market

Since 2005 Transelectrica has been in charge of operating and monitoring the activity for balancing market, ancillary services market and transfer capacity allocation market. During 2007 the markets developed under transparency and competition rules, even if the competition degree is not yet considered satisfactory. The electricity market is 100% liberalized since 2007.
Transelectrica has developed its own systems of collecting, recording, processing and disseminating the information resulting from the centralised markets operation, aiming to increase the consistency of conclusions drawn from the markets monitoring activities. According to the Romanian Commercial Code, the relevant information for the markets participants is published on Transelectrica's dedicated website.
In 2007 there was launched the 2nd phase of the project for improving the balancing market IT platform in which all markets operated by Transelectrica will be integrated, this being a great advantage both for markets operating and monitoring activities.

Balancing Market

In 2007 the market share of Balancing Market was of 5.92 % from the total consumption, 1.23 % less than in 2006. There were 3.49 TWh traded on the balancing market (with an average power of 399 MWh/h), from which the energy used for congestion management was 0.3 TWh (with an average power of 34.79 MWh/h). The energy traded for congestion management in 2007 was with 0.25 TWh higher than in 2006, with an average power increased with almost 85 %. This big amount of energy for congestion management was determined either by bad weather conditions followed by some transmission lines tripping (in winter) or by the extremely high consumption during the summer which, together with a low generation in some areas of our power system, led to congestions.
The number of balancing responsible parties (BRP) increased in 2007, reaching a maximum of 95 BRPs in October.
The analysis of market structure / concentration indicators (Herfindahl – Hirschman Index, S1 – market share of the largest market participant (%)) shows that the market is still highly concentrated and competition level reduced, even if there was an improvement towards the end of last year.

Ancillary Services Market

In 2007 reserves were ensured through regulated contracts and monthly auctions. Similar to 2006, the number of participants was reduced, having led to a highly concentrated market with a reduced competition level, particularly for the secondary and fast tertiary reserves.
The very hot summer of 2007 registered extremely high values of the internal consumption and very low hydro flows, with severe consequences

on the availability of reserves. In order to solve this problem, the reserves capacity market started to operate from August the 1st, 2007. This market has to ensure the quick recovery of reserves, whenever they are extremely reduced due to different reasons. Only one participant has contracted reserve on the reserve capacity market in November and December 2007.

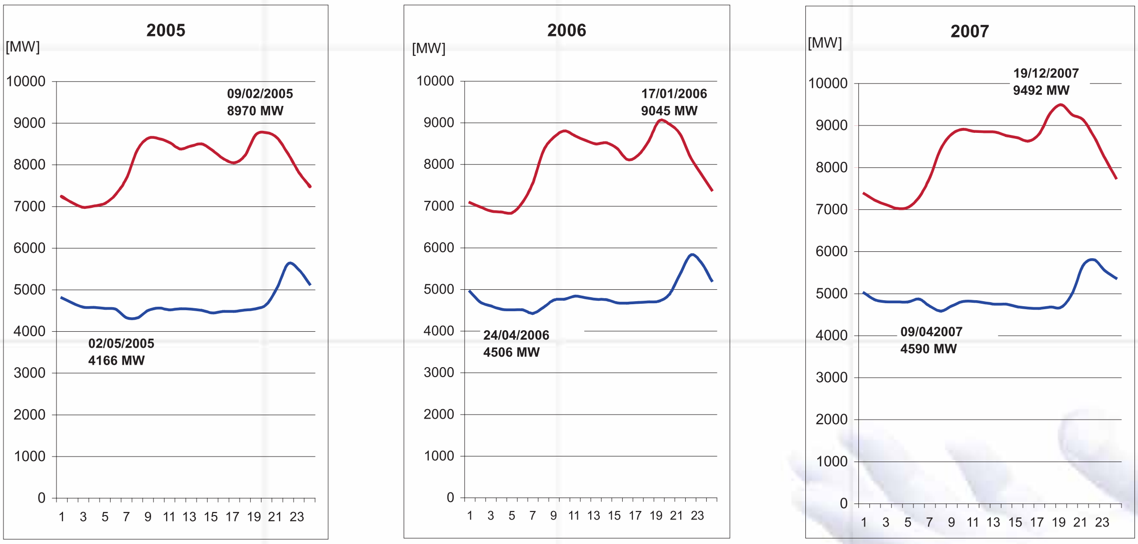
Consumption

In 2007 the gross electricity consumption registered a growth of 1.93% as compared with 2006. Electricity consumption mainly increased due to the extreme weather conditions in summer and winter 2007. July was the hottest month in Romania and the last months of the 2007 were colder than in 2005 and 2006.

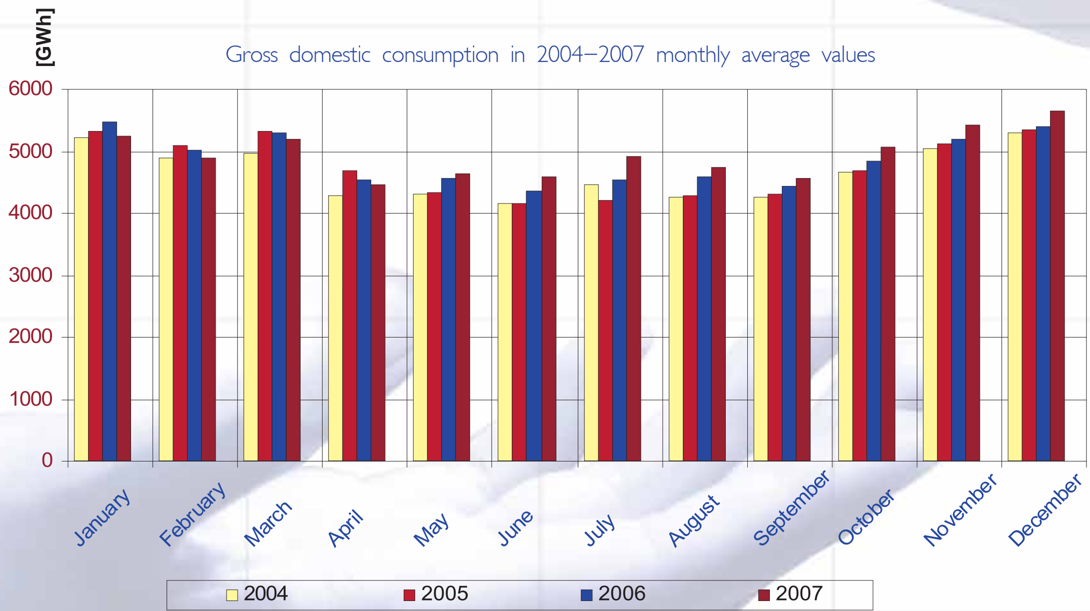
Concerning electricity generation, Romania's sources of domestic primary energy are oil, natural gas, hard coal, lignite, hydro, nuclear, renewables (hydro and wind). In 2007 renewable output was of 39 GWh (wind was of 7 GWh) for which the issued green certificates reached 0.06% of total electricity output.

During 2000–2007, but for 2002, the gross domestic consumption steadily increased with 1.6 – 4.7% annually.

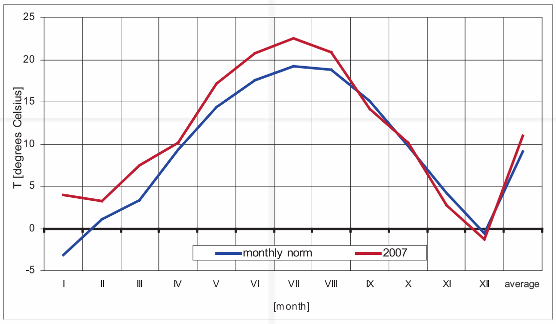
Maximum and minimum daily consumption in 2005 – 2007 (gross values)



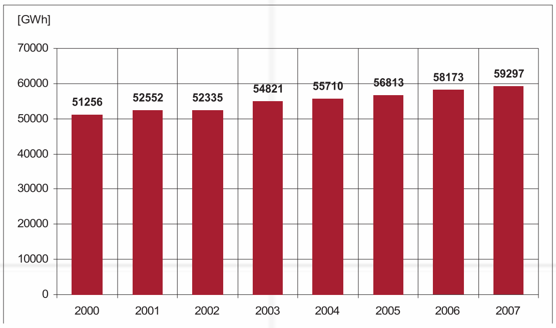
Gross domestic consumption in 2004–2007 monthly average values



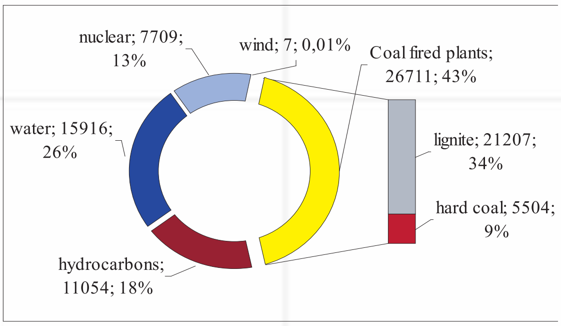
Average monthly temperatures in 2007 versus monthly norms



Gross domestic consumption



Structure of primary power resources [GWh; %] 2007



Tariffs

The main part of Transelectrica's revenues comes from the regulated tariffs applied both to suppliers and generators for the use of the electricity transmission system. The system service tariff is applied only to the load. The tariff mechanism is based on a revenue–cap methodology for the transmission tariffs and justified costs for the system service tariff. The transmission tariffs are set on annual basis within a 5 year framework starting from the year 2008 and is annually approved by ANRE. In 2007, the last year of the first regulation period 2004–2007, the regulated revenues for the second regulation period have been calculated. The tariff regulated income covers the network costs including maintenance and development and a fair remuneration of capital.

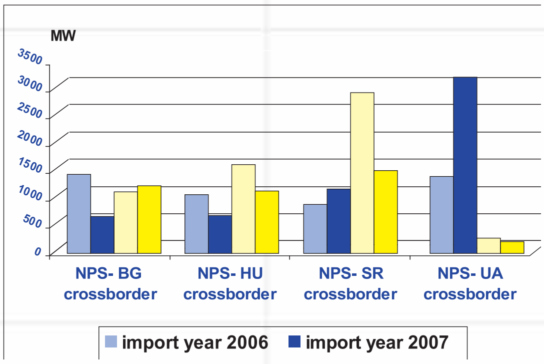
The return on capital invested is called regulated asset base – RAB – and is adjusted at the end of each regulatory period taking into account new investment, depreciations and changes in working capital required. The remuneration of RAB is calculated by the following formula: RRABt = RRR x RABmed,t , where RRR is the rate of return and RAB medt is average RAB. The rate of return is calculated based on the weighted average cost of capital real values before taxes. The rate of return of the Equity derived from the Capital Asset pricing Model is set by the regulator based on the figures calculated by the TSO.

Transfer Capacity Allocation Market

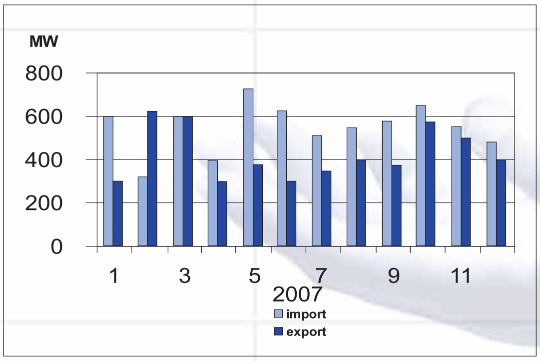
The transfer capacity allocation market allows performing yearly and monthly auctions for import / export on each border for 50% of the total NTC. The 2007 results show an increase of the participants' number and an improvement of competition on every border.

	JANUARY		FEBRUARY		MARCH		APRIL		MAY		JUNE		JULY		AUGUST		SEPTEMBER		OCTOBER		NOVEMBER		DECEMBER	
	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT
BULGARIA	50	50	50	225	50	250	50	50	100	50	50	100	60	150	50	175	100	100	100	150	100	100	50	150
SERBIA	50	200	75	250	75	300	50	100	50	125	75	100	50	75	50	125	50	125	50	200	50	200	50	200
HUNGARY	100	50	100	150	75	50	100	150	125	200	100	100	150	100	150	100	75	125	200	175	100	150	125	50
UKRAINE	400	0	100	0	400	0	200	0	450	0	400	0	250	20	300	0	350	20	300	50	300	50	250	0
TOTAL [MW]	600	300	325	625	600	600	400	300	725	375	625	300	510	345	550	400	575	370	650	575	550	500	475	400
NTC AVERAGE IMPORT 2007 [MW] =	549																							
NTC AVERAGE EXPORT 2007 [MW] =	424																							

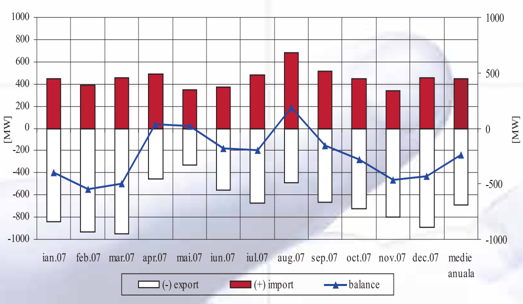
NTC Values

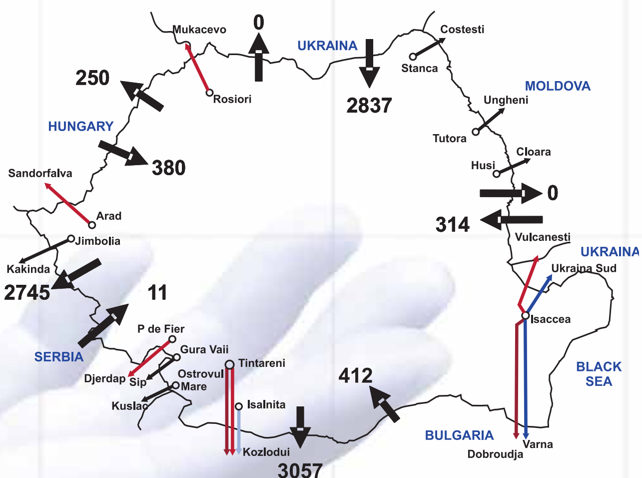


NTC Average 2007

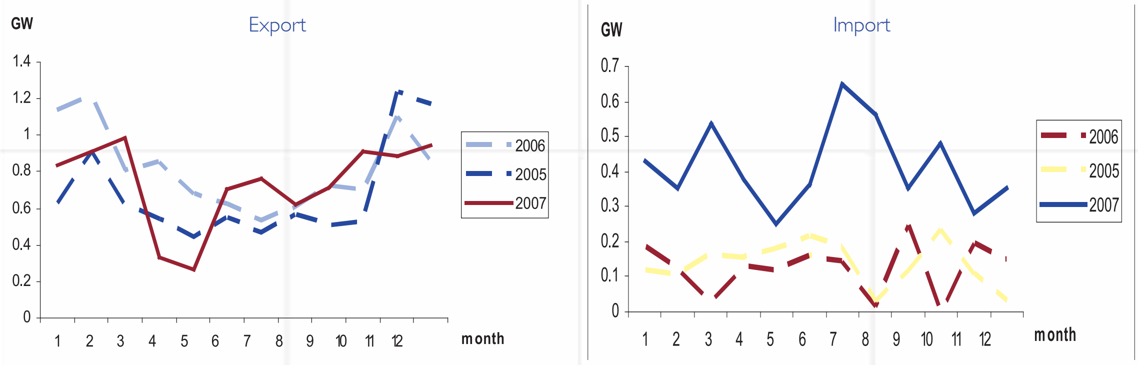


Monthly power exchange on borders in 2007





Flow exchange on interconnection lines in 2007 (in GWh)



Import/export

Electricity export and import increased in 2007 vs. previous 3 years, but export balance decreased vs. previous 2 years. Physical power exchanges with other power systems in 2007 represented an export balance of 2100 GWh (Average capacity = 241 MW) and resulted from an export of 6055 GWh (average capacity = 692 MW) and an import of 3955 GWh (average capacity = 451MW). Romania is mostly an exporting country, but also importer at low–load hours. The import can be seen as an export of system services for frequency control, based on the flexibility of the hydro generating sector. Electricity exchanges (import/export/transit) with the interconnection partners are achieved on the basis of contracts signed between 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 neighbouring systems. Net transfer capacities on the import/export line 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 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.

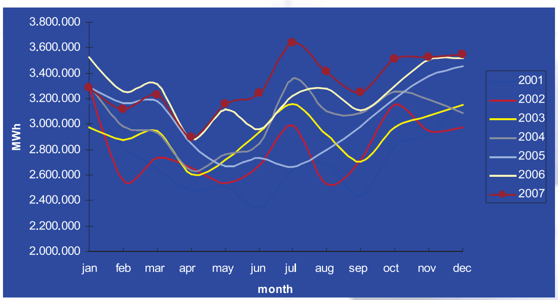
A slight increase of the trasmitted electricity of 22%, was recorded in 2007 versus 2001.

Imports and exports volumes per month

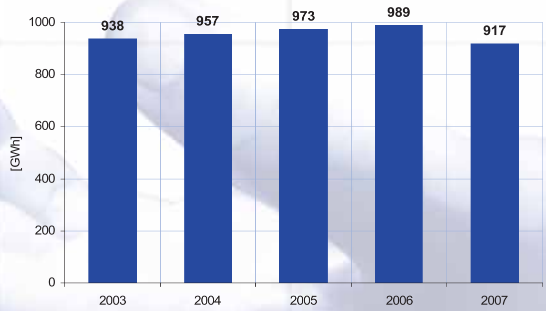
MWh

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Import	SERBIA	850	1146	850	17629	10391	14187	4610	9761	3007	2796	91	55	65373
	BULGARIA	946	1819	130	16825	24631	12593	16428	14962	398	854	55	0	89641
	HUNGARY	36157	7500	2237	75552	78648	42105	22144	116522	14479	9422	1416	187	406369
	UKRAINE	3360	2797	3585	79764	115062	19627	36429	109479	25208	7661	831	444	404247
	MOLDOVA	0	0	0	0	0	0	36.385	59.424	54.464	61.675	36.736	66.393	315.077
Export	SERBIA	259.130	224.707	183.084	68.096	98.988	115.906	91.082	43.108	114.348	183.918	212.295	219.899	1.814.561
	BULGARIA	43253	144480	185366	42600	22430	62686	159740	79842	33547	36520	30971	136812	978247
	HUNGARY	26360	16226	7200	49760	93216	40880	9600	41654	60086	70284	124209	30580	570055

Evolution of transmitted electricity



Yearly electricity losses



Security of supply

Security of electricity supply is one of the Transelectrica main concerns, as the company ensures the technical and operational management of the Romanian power system and its safe and stable operation. Actually, Transelectrica's investment, maintenance and operating policy is focused on this objective.

System and grid operation

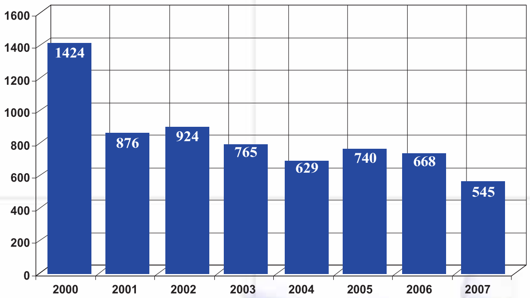
The real – time operation of the Romanian power system, synchronously interconnected with the European one, relies on a technologically advanced control system leading to a greater stability of the electricity quality parameters and supporting the enhancement of the regional electricity market. In spite of substantial change and a number of operational challenges, the Romanian power system has not suffered sever failures since Transelectrica was set up.

In 2007 the Romanian power system operated without any disfunction, at the quality parameters and in compliance with the Technical Grid Code requirements.
Frequency variation of the Romanian power system kept within normal parameters and the average frequency in 2007 was of 50.000 Hz.

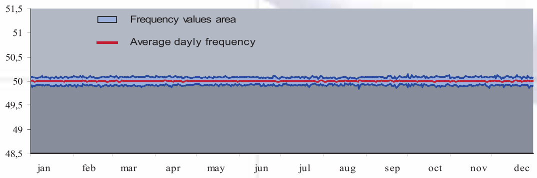
The review on ±20 MWh/h categories of the balance deviation with the frequency correction in 2007 shows a decrease of the average value and a smaller spreading of extreme values as compared to 2006. The spreading of monthly values regulated by the secondary regulator in 2007 shows a good development, except for March and September.

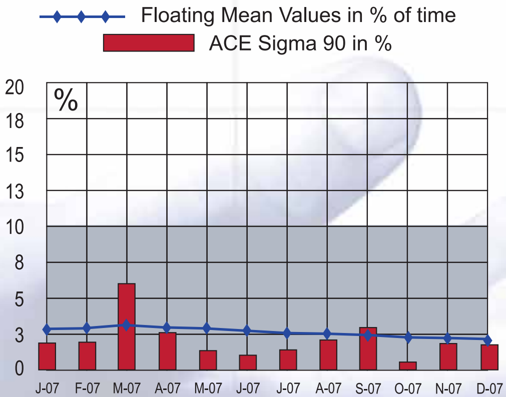
The interconnected operation of the Romanian Power System to the UCTE main network is one of the top priorities of the Romanian Government and considerable financial efforts will have to further on be made to improve the operation of the facilities and meet UCTE rules and standards.

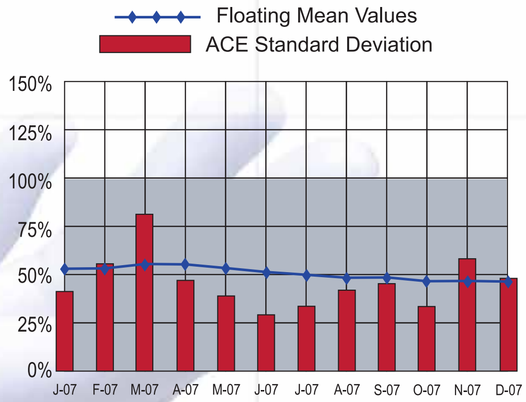
Scale for number of incidents in 2000 – 2007



Daily frequency variation (Hz) in 2007







Operation and maintenance of the high voltage transmission grid

Investment and Commissioning
Grid Maintenance

Investment and Commissioning

As a Transmission Operator, Transelectrica manages the electricity transmission grid by keeping the balance between performance/operation, costs (maintenance, rehabilitation, modernization) and risks (ageing, failure, criticality, impact). Transelectrica sees to a continuous reinforcement and expansion of the transmission infrastructure, with the latest technologies in the field, in order to increase its operational reliability and transmission capacity, while ensuring that its power grid meets current and future market requirements.

The volume of investments in 2007 was around 350 mil lei (€100 mil)

Transelectrica has now a state–of–the–art transmission grid based on:

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

Among the main investment objectives, Transelectrica gave full importance to the development of a large investment program for acquisition of state–of–the–art equipment, technologies and IT&C solutions; rehabilitation and modernisation of the transmission infrastructure (digital command – control–protection electric substations for remote operation and overhead interconnection electric lines (OHL); extension and modernisation of the dispatching infrastructure; new projects of OHLs and interconnection OHLs; construction and development of the electricity market infrastructure.

Substations Commissioned in 2007.

All the major investment projects commissioned in 2007 were rehabilitated and modernised by means of the latest technologies and based on "turn–key" contracts.

220 kV projects

- 220 kV Gutinas substation represents the second stage of the 400/220/110 kV Gutinas modernising project. The completely new remote controlled project worthing € 32.6 M, whose contractor is ABB Power Systems and financed by Nordic Investment Bank and Transelectrica, enables power supply to the N–E part of the country and the connection of the power units with the thermal power plant of Borzesti.
- 220 kV Brazi Vest substation commissioned in 2007, was the last stage of the rehabilitation project 400/220 kV Brazi Vest. The contractor was the Consortium Itochu–Toshiba–Mitsubishi T&D Japan and the financier was JBIC Bank – Japan and Transelectrica. The project is worth € 30.5 M. 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.
- 220 kV Paroseni substation was rehabilitated through a contract signed with Areva Energietechnik GmbH – Germany and was financed by Transelectrica. The project represents an important energy node in the South Western part of the country and has the following functions: ensuring the power transit between Banat and Oltenia, discharge of power generated at the Thermal Power Plant of Paroseni and supplying the consumers in Valea Jiului area.

220/110 kV projects

220/110 kV Fundeni substation was completed on the basis of a contract with Siemens–Austria and financed by Transelectrica. The project leads to the increase of the consumers within Bucharest city area.

400 kV projects

400 kV Bucuresti Sud substation from the modernising project 400/220/110 kV Bucuresti Sud substation was completed based on a contract signed by Consortium Siemens – Austria, Siemens–Germany, Siemens – Romania, worth 47.2 M and financed by KfW Bank and Transelectrica. The upgraded substation will cut down maintenance and operation costs and increase the safety of electricity supply to Bucharest city.

400/220 kV Projects

- 400/220 kV Sibiu Sud substation representing the last stage of the modernising project 400/220/110 kV Sibiu Sud substation, was completed based on the contract signed with Consortium Areva – ABB Germany – ABB SRL Romania, financed by KfW Germany and Transelectrica and ensures electricity supply in Muntenia and Ardeal area.

110 kV Iernut substation, which is the last stage of the rehabilitation project 400/220/110, was completed through a contract signed with Siemens–Austria, worth € 26 M, financed by World Bank and Transelectrica. It is worth € 26 M. 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).

The second 700 MW unit of Cernavoda Nuclear Power Plant is being in commercial operation since August 2007 through a contract with IGE Energy Services UK / Elcomex SA, financed by Transelectrica.

Other investment projects completed in 2007

- Rehabilitation and modernisation of the HV grid – Metering system – contractor Landis & Gyr Corp
- Modernisation of command–control–protection system in the 110 kV Dumbrava substation – contractor Siemens SRL, Romania
- Modernisation of primary circuits within 220/110 kV Isalnita substation, contracted by Energomontaj – SA
- Modernisation of 10 kV electric equipment in Fundeni substation – contractor Siemens AG Austria & Siemens SRL Romania
- Development of Regional Market of Electricity – contractor NordPool ASA

Documentations approved for the following major investment projects:

- Rehabilitation of following substations: 400 kV Gadalin, 220/110 kV Mintia, 400/220/110 kV Lacu Sarat
- Optimisation of Transmission Grid in Drobeta – Turnu Severin zone
- Modernisation of protection system of 200 MVA transformers and PDB in 14 substations 220/110 kV

Planned investments for 2008

Ongoing rehabilitation works for:

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

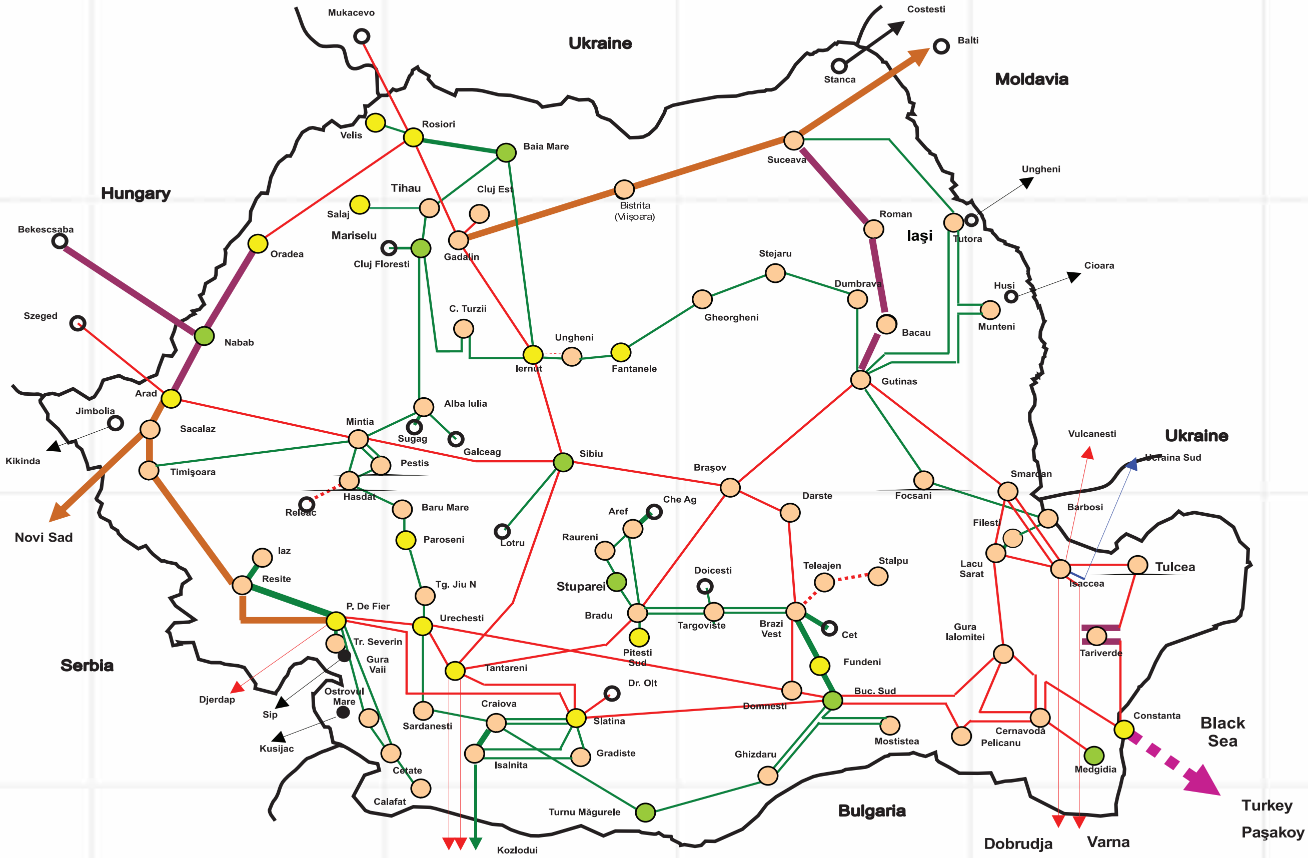
Planned investments for 2009 and further on to 2012

International Interconnections

- 400 kV Gadalin (RO) – Suceava (RO) – Balti (MD) OHL
- 400 kV Sacalaz (RO) – Novi Sad (RS) OHL
- 400 kV HVDC undersea cable Constanta (RO) – Pasakoy (TR)

Rehabilitation projects for the substations of: 400 kV Gadalin, 400/220/110/20 kV Lacu Sarat, 400/110/20 kV Gura Ialomitei and Tulcea Vest, 400/110 kV Brasov, 220/110/20 kV Barbosi, 220/110 kV Mintia and Turnu Severin Est, 220 kV Cetate, Ostrovu Mare

Development of Romanian power grid through 220 kV Ostrovu Mare – Power Grid OHL



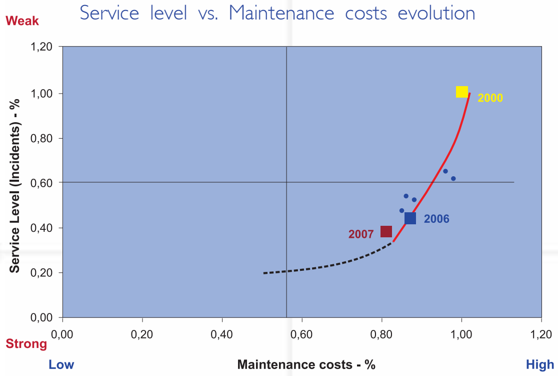
New Lines 400 kV	
2008-2011	
2012-2018	
Undersea cable 2009-2025	
Operation to 220 kV	

New and Upgraded stations
- 2001 - 2007
- 2008
- 2009 - 2025

Romanian Transmission System Network

■ Grid Maintenance

Service level vs. Maintenance costs evolution



Transelectrica manages about 8950 km of Overhead Electric Lines (OHLs) at voltages ranging from 110 kV to 750 kV, out of which:

- 155 km at 750 kV
- 4626 km at 400 kV
- 4128 km at 220 kV
- 38 km at 110 kV (only interconnection lines).

The Company operates 77 substations with the highest rated voltage of:

- 750 kV – 1 substation;
- 400 kV – 32 substations;
- 220 kV – 44 substations.

The maintenance activity is developed on the basis of the company's own Maintenance Assurance Program (MAP), drafted by the Management of Assets Board, which applies to all maintenance components (technical, economic–financial, relational, and organizational) performed on all assets within the Romanian Transmission Grid.

Maintenance work was accomplished at substations and OHLs in order to increase the efficiency of the inspection and overhauls and the rational use of funds. The costs of maintenance projects in 2007 were 155,360,000 lei (€ 44,388,571), lower with 4.87% than in 2006.
In 2007, network rehabilitation projects were carried out for OHLs of 220 kV Gutinas – Munteni – FAI, 400 kV Portile de

Fier – Slatina, 220 kV Brazi Vest – Fundeni. Overhauls were developed within 220/110 kV Cluj Floresti, 220/110 kV Salaj, 220/110 kV Turnu Magurele substations.
Due to an efficient maintenance program, Transelectrica's performance indicators reflect – in failures rate and maintenance costs rate – an important upward trend since 2000.

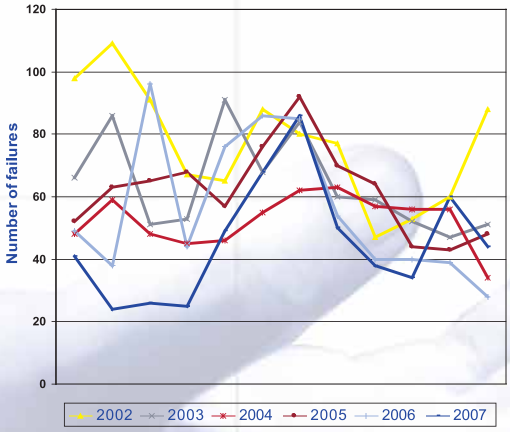
Planned maintenance works for 2008

Ongoing overhauls works for:
– 400 kV OHL Bucuresti Sud – Slatina, 400 kV OHL Lacu Sarat – Isaccea, 400 kV OHL Tantareni – Sibiu, 400 kV OHL Isaccea – Smardan, 220 kV OHL Craiova Nord – Turnu Magurele;
– 220/110 kV Targoviste, 220/110 kV Turnu Magurele, 220/110/MT FAI, 220/110 kV Stuparei, 220/110/20 kV Gheorgheni, Pestis, 220/110 kV Hasdat, Raureni, Aref, Tulcea Vest substations.

Failures reduction

Safe operation of the Romanian transmission grid requires the permanent observance of the reduction in failures' number and key indicators. In 2007 the number of failures was reduced as shown in the figure below:

Comparative evolution for number of failures in 2002 – 2007



New technologies

Transelectrica aims at providing a high technical level in the equipment, operation and development field for the transmission grid by implementing state–of–the–art technical solutions for new equipment, diagrams and techniques used for repair, updating and development operations. Diagnosis is arrived at by using thermography, live work, and live inspection of OHL from helicopter and registered systems in the visible, UV and infrared spectres.

GIS

In order to manage, review and submit the spatial data and information of geographical relevance from the Company's current activity, Transelectrica has decided to achieve a single Geographic Information System – GIS – common for all the company's transmission branches in the country, as well as for the central headquarters.

With a view to implementing the GIS, the following activities were carried out in 2007:

– data collection from the topographic–land registrations in GIS format was completed for all objectives (OHL and others) belonging to Transelectrica;

– the data for all the 233 objectives (OHL and substations) of Transelectrica have been evaluated and checked in GIS, in terms of consistency and connectivity of objectives

– initiation of the project to extend the GIS to all the 24 Operational Centres of Transelectrica

Planning the Romanian transmission grid

The development of the electricity transmission grid should be harmonised with the development of the Romanian Power System. Its purpose is to cover electricity consumption at least costs, under safe conditions and in compliance with the Romania's Energy Policy.

Transelectrica is responsible with Romanian transmission grid planning in cost effective conditions and by informing all the interested license holders in the electricity sector. Every 2 years Transelectrica revises the Prospective Plan of the Transmission Grid for the following 10 years. After getting the authorization from ANRE and the approval from the Ministry of Economy and Finance, the 10 years Prospective Plan becomes a public document. The Prospective Plan is a comprehensive survey of the operating characteristics and performances of the electricity transmission grid. The Plan is based on the best assessment of the main financial and economic evolutions, electricity production and consumption included. In 2007 Transelectrica initiated the Prospective Plan of the transmission grid for 2008 – 2012 with an outlook for 2018. It will be completed in 2008.

In order to fulfill its mission, Transelectrica provides, at customer's request, services for connection at transmission grid, emplacement releasing and NPG integration.

Sustainable Development

Electricity generation form renewable resources

The concerns on the utilisation of renewable resources have long been registered in Romania. However only lately they rapidly increased due to the benefits provided by authorized institutions. Transelectrica aims at creating a strong and reliable infrastructure grid to facilitate a sustainable growth, trying to integrate the renewable resources into the Romanian power system in order to make it compatible with efficient, high–quality service for consumers.

At present several investors expressed their interest for wind power in Romania. To date the applications (most of them indicate two areas: Dobrogea and Moldova) for connection to the grid of public interest amounted to about 4,000 MW. Wind power, the production of which fluctuates considerably due to its dependance on the prevailing wind conditions, is associated with significant operational challenges.
Transelectrica supports the governmental objectives related to the sustainable development and does its best to integrate the renewable resources into the Romanian Power System.

There are in progress:

- •Dedicated studies to reinforce the grid infrastructure for wind plants and other generation units;
- •Support study for Transelectrica's strategy of renewables integration;
- •The minimal requirements for wind generation that will be included into the next revision of our Technical Grid Code.

In order to increase the share of renewables production in Romania, a system of green certificate was adopted in 2004. According to it, electricity producers from renewable resources can sell the green certificate in the green certificates market. Transelectrica has the task of issuing these certificates, on monthly basis and declarations made by the producers of renewable power for each power unit and confirmed by the electricity distributor.

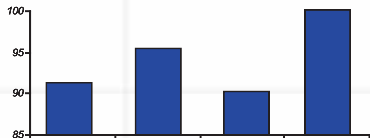
Environment, Quality and Safety

Environment

One of Transelectrica's main challenges is to make the development of its electrical transmission infrastructure compatible with preserving and protecting the natural environment. As power lines have an effect on people's residential and local environments, Transelectrica has been conducting long–term efforts to reduce the environmental impact of its operations. To this aim, the environmental management system was introduced according to ISO 14001. In order to adapt the transmission grid to the requirements

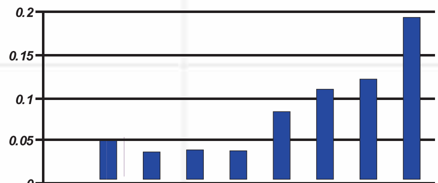
of today's society, Transelectrica has carried out environmental impact studies in all the new developed investment projects. It applies high environmental standards in all its activities, in compliance with the principles assumed by the environmental policy.

The main objective of Transelectrica's environmental policy in 2007 viewed the implementation of a modern environmental management system and the mitigation of the environmental grid impact within national and European norms. In order to conform to the environmental legislation, we kept on getting the environment certifications for no certified electric lines and substations and to get the environment agreement for the construction–montage projects. The certification rate in 2007 was 100%.



	2004	2005	2006	2007
Certification rate (%)	91	95,3	90	100

In 2007 the overall expenses with environmental protection was of 19,349,922 thou lei (€ 5,360 mil).



	2000	2001	2002	2003	2004	2005	2006	2007
Mil.echiv.USD/TWh	0.058	0.035	0.038	0.036	0.085	0.1336	0.1377	0.1979

The figure above shows the specific environment expenses of transmitted electricity in 2007 (the transmitted electricity in 2007 was of 39.81 TW).

Quality

Harmonization of the national regulations to the European and international ones is a must for Transelectrica.
In 2007 the documentation and the policy for the

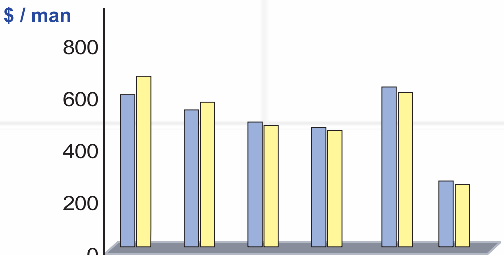
integrated management of quality, environment and labour safety and security were revised. At the end of 2007 the certification authority SRAC performed the audit for re–certifying the integrated quality and environment system and for certifying the labour safety and security management system, according to SR EN ISO 9001:2001, SR EN ISO 14001:2005 and SR OHSAS 18001:2004. It proved that the integrated management system is implemented and operates properly.

Management excellence is one of the main values of leadership in Transelectrica. As a recognition for the quality of the company's services, the efforts towards consolidation its relations on national and international level and for the quality of its management, in 2007 Transelectrica was awarded with the Trophy J. M. Juran, by the Foundation „The Romanian Award for Quality – J.M.JURAN".

Safety and security

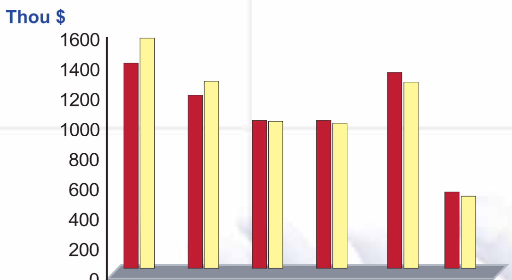
The safety and security of our staff, contractors and collaborators is given much attention by the company.
In 2007 the labour safety and security was achieved 95%, by improving facilities and the internal training and raising people awareness on labour safety norms. Emphasis was made on the human aspects 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.

Funds alloted through labor safety programs per employee



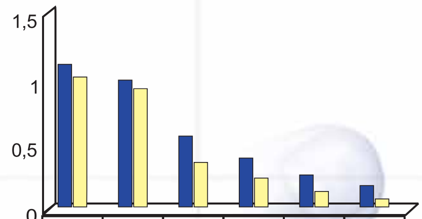
	2002	2003	2004	2005	2006	2007
Planned	593	530	480	460	627	253
Achieved	675	570	475	450	598	241

Expenses with security and safety programs



	2002	2003	2004	2005	2006	2007
Planned	1425	1200	1030	1031	1352	545
Achieved	1590	1300	1020	1012	1290	519

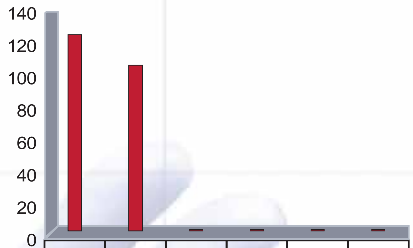
Average performance indicators in Transelectrica



	2002	2003	2004	2005	2006	2007
IF average	1,04	0,93	0,52	0,36	0,25	0,175
IG average	0,95	0,87	0,34	0,22	1,14	0,07

IF = Total injured people/average number of emploees x 100
IG = Number of days/year/ageverage number of employees x 100

Medical number of leave days due to labor accidents in Transelectrica



	2002	2003	2004	2005	2006	2007
Number of leave days	127	108	0	0	0	0

International Cooperation

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

Transelectrica's international cooperation was mainly focused on:

1. enhancing the cooperation at regional level within the regional structures: SETSO, SUDEL, SECI, Athens Forum, where Transelectrica is represented both at the Steering Committee level and at the Working Group level
2. enlarging the bilateral cooperation with the European TSO's such as: ESO–EAD –Bulgaria, Terna – Italy, RTE – France, MAVIR – Hungary, TEIAS–Turkey, ELECTROMREZA SRBJIE – Serbia, RAO–UES – Russia, MOLDELECTRICA– R. Moldova, UKRENERGO–Ukraine.

Transelectrica has an active participation in the development of the internal EU electricity market, supporting the creation of the regional markets, by investing in its own grid infrastructure and in the interconnection electric lines.

The company has also an active participation in defining the new legislative and institutional framework envisaged in the 3rd EU energy legislative package

Among the major international cooperation projects of 2007, mention is made on:

- The Memorandum of Understanding of cooperation and strategic partnership in the field of electricity transmission and system operations, signed between Transelectrica and TERNA (The Italian TSO). The MOU was signed based on the advanced stage of electricity market liberalization in Italy and Romania, taking into consideration the joint interest of the two companies towards the South–East European electricity market and also considering the need of developing an energy corridor between Italy through SEE to Romania and further between Romania and East of Europe (R. Moldova, Ukraine and Russia).
- The Memorandum of Understanding with Moldelectrica (R. Moldova) to provide the official request for BERD to support seeking of funds for the feasibility study on the 400 kV interconnection line Suceava (Romania) – Balti (R. Moldova)
- The 400 kV HVDC link undersea cable Constanta (Romania) – Pasakoy (Turkey), where Transelectrica will be contracting the execution of the feasibility study in partnersip with TEIAS – Nuclearelectrica – Swedish Government.

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

- "Black Sea Regional Transmission Planning"– coordinated by Transelectrica
- "Synchronus Interconection 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.

Human resources and communication strategy

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 Opcom, Smart, Teletrans, Formenerg, Icemenerg, Icemenerg Service, in order to improve the services delivered to the benefit of the company and to our customers. The expertise of our specialists has improved a lot during last years and is acknowledged by our collaborators and partners. The project management approach had also a major impact upon their professional lives.

Further to outsourcing the non–core activities, personnel sizing was accomplished such as to continuously secure the safe 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. At the end of 2007 the number personnel was of 2137. 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 2007 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 to motivate and stabilize the personnel, particularly the younger ones
- keeping on evaluating the personnel and implementing the best methods to increase personnel performances

In order to make our activities more efficient, last year we developed and implemented a new organizational structure structured on the following main vectors:

Technical Management Unit, which ensures the management of the entire company's assets and ITC, including process information and the coordination of the power system planning and development

Operational Unit-National Control Centre for the management of the whole operational activity of the power system

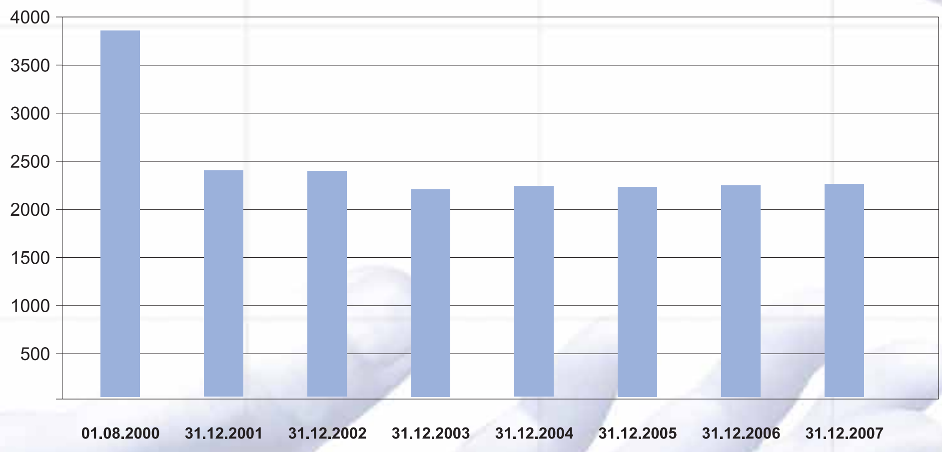
Economic Management Unit to ensure the financial balance of the company, develop the execution of the revenues and expenses budget, accounting activity, patrimony and Company's risk management.

Business Development Management Unit which ensures the company corporate strategy, programming , coordination and development of commercial and capital market activities

Five departments as managerial and legislative support activities

Being aware of the role of corporate culture and of the importance of personnel emotional implication in carrying out their daily activities, the top management of the company initiated a study on "The barometer of Transelectrica's employees".
The objectives of the study, carried out by Gallup Romania, were sizing the personnel behaviour, management of their pragmatic perceptions related to the increase of the company's profitability, growth of the employees and managers emotional implication.
One of our main concerns is 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.
As man is the most valuable resource and therefore, our training programmes are meant to improve the expertise and skills of our employees. Training programmes in the country and abroad were organised for our executives and the staff involved in accounts and finances, environment, quality, management, communication, purchasing, electricity development market, capital market, development of the power system. We wish that our people be acquainted with the best practices in order to face all the challenges ahead.

Personnel evolution in Transelectrica



Communication

Manual of Corporate Identity

Transelectrica is more than the Romanian Power Transmission and System Operator. Transelectrica is already a strong brand. A strategy updated to our vision on the company's future and its implementation by methods specific to our development reasons helps us to provide even more qualified services and preserve the high level of the public's positive knowledge projections on Transelectrica's identity. One of the reasons of a company to have a corporate identity is the need to distinguish itself in its customers' view and, thus, to create itself a unique and well–defined image. The key issue of this goal is a coherent communication of the company with its customers by a correct and specific use of its identity elements.

In 2007 the rebranding process of Transelectrica was developed, and was defined in the Manual of Corporate Identity created to facilitate the company identification and ranking as well as to correctly use, under various conditions, the graphic elements included in its visual identity. A clear visual identity, recognizable and uniform, allows us to maintain a powerful and easily definable brand. The visual identity offers an image and a stile to the company. It depends on us to display this identity on the market we are currently operating.

Professional Ethic Code

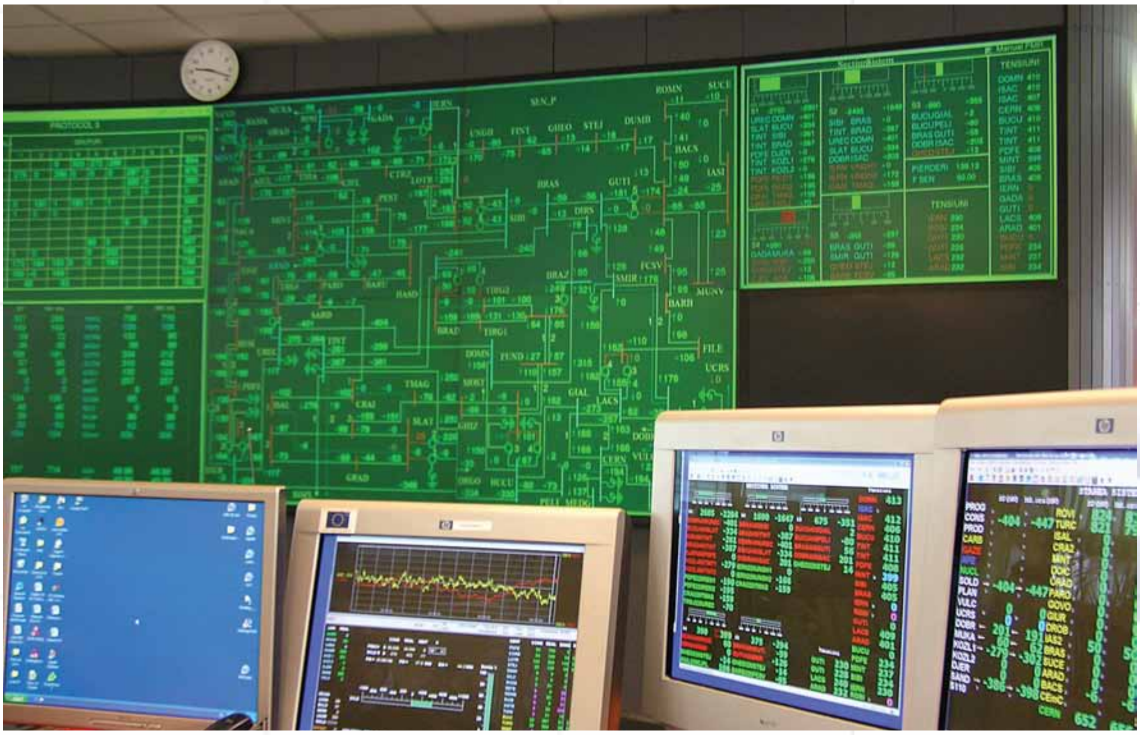
As Transelectrica's identity consists of a set of values that enables us to consolidate and enrich the organizational culture, we have developed the "Professional Ethic Code of the Personnel in Transelectrica". The Code is a guide for our employees, providing information on the way they can solve the business ethic problems. It includes the set of rules based on which Transelectrica developed, rules for business conduct and the modality of preventing the illicit and illegal actions that may occur throughout the company's activity.

The Professional Ethic Code is mandatory and applicable in all the company's structures.

The personnel in the company have to comply with these Code regulations taking it in the letter and spirit of the law.

Communication Strategy

Together with Romania's joining the European Union on January 1st, 2007, communication relationships acquired new valences and have to be strongly supported by each company. Communication is a comprehensive process through which a company defines by itself and creates relations with its partners, collaborators, clients, potential investors. The evolution towards a society governed by dynamic information makes the companies adapt to a permanent changing environment. This evolution creates a dynamic communication system through an alert exchange of images meant to accede the new media in the market.
To this purpose in 2007 we finalised the "Communication Strategy of Transelectrica", as a guide for our employees and partners.



Events

In 2007 Transelectrica organised 32 conferences, round tables and workshops on the basic activities of the company.
Special emphasis has to be made on the 3rd edition of the International Conference on the Electric Power System and the Regional Electricity Markets towards the Single Electricity Market in Europe – RESYM 2007, organised by TRANSELECTRICA, under the aegis of the Ministry of Economy and Finance and held in Bucharest on October 25th and 26th, 2007.
The reputation of this event was provided by the presentations of the notable representatives on behalf of the Romanian Government, Ministry of Economy and Finance, European Commission in Romania, ANRE, EBRD, World Bank, Eurelectric, UCTE, ETSO, RTE– France, ENEL SPA, CEZ Romania, Verbund– Romania, Ukrenergo– Ukraine, UES– Russia, Transelectrica, Electrica, Nuclearelectrica, Hidroelectrica, UPB, ISPE, IRE, AFEER as well as by the participation of over 200 decision–makers and outstanding specialists in the field from our country and abroad.

The event was a framework of high level discussions for decision makers and major stakeholders involved in the electricity sector, in the context of the EU energy policy and new legislative package, having been dedicated to the major challenges of the decisions to be made not only in Romania but also at the SEE and European levels. The new legislative provisions, the development of the SEE markets as region to be considered under the related initiatives, the required regional legal, institutional and infrastructure, the EU decisions and support, the efforts and decisions to be also made at national and regional levels, were the main topics focused on and the Conference proved to be a success.

Management and shareholders

Information for shareholders

Shares and Shareholders

General review

The year 2007 was marked in its second half by the disturbances occurred on the foreign financial markets, as the negative consequences of the USA's market for loans on mortgage have spread worldwide. Romania's capital market was no exception, the evolution of the indexes of the Bucharest Stock Exchange showing that most companies listed have incurred significant corrections.
The evolution of Transelectrica's shares on the stock exchange can be characterised by two distinct time intervals. In the first half of the year Transelectrica's shares have recorded a strongly increasing trend, reaching to record values of over 49 Lei/share, however in the second half–year they have aligned to the general decreasing trend, determined by the development of capital markets under the impact of USA crisis, with an overall annual increase of 11%.

Evolution of Transelectrica's shares

Beginning with 29.08.2006 Transelectrica's shares are transacted on the regulated market on sight managed by the Bucharest Stock Exchange (BSE), sector Capital securities issued by Romanian entities, category I, symbolised by TEL, with an initial free–float of 10%. This initial free–float level was maintained until the end of 2007, and was about to grow gradually in 2008 as the transaction constraint instituted over the shares allocated by the Ministry of Economy and Finance in the share set–off process under Law 10/2001 was lifted.

The market value of TEL shares appreciated by 11% in 2007 (Dec 21/Jan 3). The first transaction day of 2007 closed at 36.00 Lei/share, the end of the stock exchange year recording the quotation of 40.00 Lei/share.

The total efficiency of TEL shares was of 15%, including the dividend distributed in 2007 from the profit recorded in the financial year 2006, respectively a gross amount of 1.47 Lei/share.

At the end of 2007 the Company's stock capitalisation was of 2,932 million Lei, equivalent of 839 million Euros at the official exchange rate notified by BNR (Romania's National Bank) for the last stock exchange day in 2007 (3.4943 Lei/Euro).

Regulated market	Bucharest Stock Exchange Market
Category	I
Indexes	BET, BET-C, ROTX
BVB	TEL
Reuters	TSELBX
Bloomberg	TEL RO
ISIN	ROTSELACNOR9

Annual increase (%)

Efficiency	11
Total efficiency	15

Quotations (lei/share)

First day	34.00
Last day	40.00
Minimum	30.30
Maximum	49.30
Average	42.85

Volumes (no of shares)

Daily average	30.470
Total	7,404,361
Free float turnover	x1.01

Total capitalisation (mil lei)

First day	2,639
Last day	2,932
Average	3,141

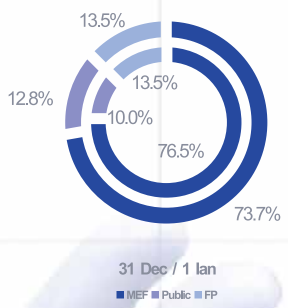
In comparison to the BET index (comprising the shares of the most liquid 10 companies listed on the BSE, except for SIF– Financial Investment Company), the course of TEL shares recorded a slightly lower increase (+11%) at the end of the stock exchange year

2007, during this time the market value increase of TEL shares being surpassed by the overall increase of the market value of the most liquid 10 companies listed (+16%).

Joint stock and shares

The stock consists of 73,303,142 ordinary, nominative, dematerialized shares, with a nominal value of 10 Lei/ share. Each share provides its holder a voting right in the shareholders' general assemblies. The account of the Company's shareholders and of their capital shares is kept by Co. Central Depositary S.A.
According to the decision of the General Meeting of Shareholders no. 2/2007, the Company's joint stock was increased with the value of lands for which ownership titles have been issued, amounting to 52,760 Lei, such increase representing 0.007% of the joint stock value before the increase. The lands have constituted a contribution in kind of the Romanian state, the 5,276 newly–issued shares being allotted to the Ministry of Economy and Finance in its quality of representative of the Romanian state. The capital increase was registered with Co. Central Depositary S.A. on 29.06.2007. The joint stock after increase was of 733,031,420 Lei, with no subsequent changes.

Structure of shareholders



On January 1st, 2007

Ministry of Economy and Finance	76.5%
Ownership Fund	13.5%
Other shareholders (below 5%)	10.0%
Number of shares / voting rights:	73,297,866

On December 31st, 2007

Ministry of Economy and Finance	73.7%
Ownership Fund	13.5%
Other shareholders (below 5%)	12.8%
Number of shares / voting rights:	73,303,142

Shareholders

Law no. 10/2001

Transelectrica is on the list in the portfolio of the Ministry of Economy and Finance to which a quota of available capital was allotted for privatisation by restitution under Law no. 10/2001 regarding the legal regime of certain buildings abusively appropriated during 1945–1989. Such quota is 5% under Governmental Decision (GD) no. 184/2005.

Six month after beginning the stock exchange transactions of Transelectrica shares and after determining the weighted average amount of share prices, the Romanian state through the Ministry of Economy and Finance began transferring Transelectrica shares from the quota in the Company to the entitled persons. Such allocation was made in successive portions, beginning with July 9th, 2007– date of the first one. On 31.12.2007, transfers representing 2,033,042 shares were recorded in the register of Transelectrica's shareholders managed by Co. Central Depositary SA, respectively of 2.8% from the total number of shares that the Company has issued.

In accordance with applicable norms, the shares so allocated were restricted from transactions for a time interval of 6 months for each portion separately, beginning with the allocation date.

Changes in the structure of shareholders

In accordance with applicable norms, in 2007 Transelectrica received from the Ministry of Economy and Finance a notification about the reduction of the Romanian state's participation into the Company below 75% from the total voting rights and made this event public, such reduction occurring against the background of share allocations to the former owners expropriated abusively during the communist regime.
The Company has received no other notifications during 2007.

Communications to the investors

In order to facilitate the communication with its shareholders, potential investors, financial analysts, investment consultants, Transelectrica placed at their disposal the following means of communication:
- E–mail: relatii.investitori@transelectrica.ro,
- Phone: +40 (21) 3035923,
- Fax: +40 (21) 3035880.

Relevant information about the shareholders' general assemblies, current reports to the capital market institutions, structure of shareholders, financial results, market value of Transelectrica shares is available on the Company's website www.transelectrica.ro, section Investor Relations. (The quotations displayed are delayed by 15 minutes as they are exclusively supplied for informational purposes and not in order to support possible sale/purchase/preserve decisions)
An information area dedicated to shareholders (sub–section Shareholders) was established within the Investor Relations section, where information about general assemblies, their agendas and related materials is made available, as well as about the format of the special power of attorney, the decisions made, and the dividends distributed to shareholders by the Company.

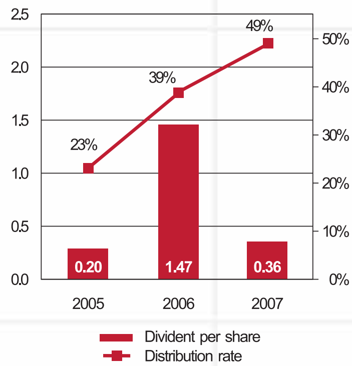
Dividend policy

The Company's accounting profit that remains after deducting the profit tax is distributed according to the provisions of the Governmental Ordinance (GO) no. 64/2001 with respect to the distribution of profit within national companies and trading companies with fully or majority state capital, as well as within autonomous regimes by the following purposes as follows:
a) legal reserves;
b) coverage of accounting losses from previous years;
c) other distributions under the law;
d) up to 10% for the employees' participation to the profit, but no more than the equivalent amount of a basic monthly salary on the economy obtained at Company level in 2006, multiplied by the average number of personnel;
e) minimum 50% dividends for shareholders;
f) the profit that is not distributed to the purposes in a)–e) is distributed to other reserves and constitutes the Company's own financing source.

The Company pays the dividends distributed from the net accounting profit of the previous financial year only when the annual financial results have been approved by the general shareholders' meeting.

Index	2005	2006	2007*
Net profit (lei)	82.379.797	277.259.581	52.043.832
Distributed dividends (lei)	19.031.449	107.747.863	26.389.131
Actual distribution rate (%)	23%	39%	49%
Dividend per share	0,29	1.47	0.36

* proposed



Purchasing the Company's own shares

Transelectrica has made no transactions with its own shares. At the end of 2007 the Company did not own any of its shares and none of its subsidiaries owned shares from the mother company.

Prospects

In view of improving the liquidity of shares, the Company's managerial team explore the following possibilities:
- *Increasing the free-float percentage* by augmenting the joint stock under public emission of new shares, in successive stages, depending on the future market conditions and maintaining the majority position of the Romanian state in the Company's shareholders
- *Splitting the nominal value of the share* in order to increase the titles accessibility for small investors

The managerial team now considers the opportunity to introduce a personnel motivation system by shares/share options (ESOP – Employee Stock Ownership/Option Plan) in order to converge more the interests of the Company's employees with those of the shareholders.

Corporate Governance

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.

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 Finance, Energy and Gas 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

Board of directors

Transelectrica's board of directors has 5 members. They do not have a management function with Transelectrica, but for the chairman.

Board of directors' activity report

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

•Exercises power assigned to it by the articles of association (Statute)
•Defines Transelectrica's general policy and business administration strategy
•Approves the company's organisational structure
•Approves competence delegation to the director general, to the executive management staff and to transmission branches
•Approves production, research, development, investment and maintenance programmes
•Sets up and approves the marketing strategy, environment protection and health and labour 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

Board of directors	Capacity
Chairman	
Stelian Alexandru Gal	Director General, Transelectrica
Members	
Cezarina Alice Batu	Ministry of Economy and Finance
Alexandru Sandulescu	Ministry of Economy and Finance
Dumitru Cocea	Ministry of Economy and Finance
Silviu Lucian Lefter	Romanian Agency for Energy Conservation-ARCE

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 modernisation 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 approves the Board activity reports
• decides upon assets pledging or renting or on dissolving one or more Company subordinated units
• approves the organisational and functional by laws of the Board.

External Auditor

Transelectrica's financial auditor for 2007 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 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 energy equipment.

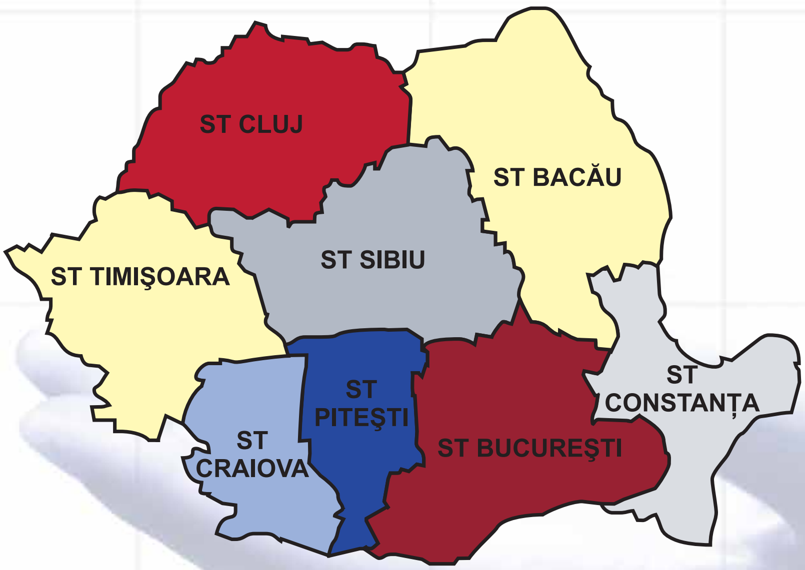
According to the company's restructuring strategy, Transelectrica's subsidiaries FORMENERG, ICEMENERG and ICEMENERG Service will be privatised in 2008.

Management Committee

Director general and Chief Executive Officer – Stelian Alexandru Gal
Director of the Operational Unit-National Dispatching Center – Octavian Lohan
Director of the Economic Management Unit – Maria Ionescu
Director of the Business Development Unit – Razvan Purdila
Director of the Technical Management Unit – Ciprian Diaconu

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.
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.

Location of the 8 transmission branches on Romania's map



Transelectrica's Transmission Branches

Bacau Transmission Branch
Director: Stefan Tibuliac
Str. Oituz nr.41, Bacau, cod 600266
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: 0264/405500

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

Sibiu Transmission Branch
Director: Vasile Metiu
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

Consolidated Financial Statements

as at and for the year ended

31 December 2007

Prepared in accordance with

International Financial Reporting Standards

KPMG Audit SRL
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Independent Auditors' Report

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

Report on the consolidated financial statements

1. We have audited the accompanying consolidated financial statements of C.N.T.E.E. Transelectrica S.A. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

KPMG

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

Basis for Qualified Opinion

6. As described in Note 11 to the accompanying consolidated financial statements, as at 31 December 2007, 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 258,725 thousand should be presented in the consolidated balance sheet as short term liabilities in accordance with IAS 1 "Presentation of Financial Statements". The management of the Group considers the probability of such requirements as being unlikely.

Qualified Opinion

7. In our opinion, except for the effect on the consolidated financial statements of the matters referred to in paragraph 6, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Emphasis of Matter

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

   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.

Other Matters

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

K

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

In accordance with Romanian regulations (Order of the Minister of Public Finance no 1752/2005, article no. 263 point 2) we have read the Administrators' Report attached to the consolidated financial statements. The Administrators' Report is not a part of the consolidated financial statements. In the Administrators' Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying consolidated financial statements.

Bucharest, 4 April 2008

KPMG

KPMG Audit SRL

Bill Bowman

Bill Bowman – Partner

Consolidated Balance Sheet as at 31 December 2007
(all amounts are in thousand LEI, unless stated otherwise)

	Note	31 December 2007	31 December 2006
Assets			
Non-current assets			
Property, plant and equipment	3	2,707,756	2,335,720
Intangible assets	4	36,282	32,652
Financial investments	5	5,729	4,691
Total non-current assets		**2,749,767**	**2,373,063**
Current assets			
Inventories	6	39,745	29,745
Trade and other receivables	7	689,677	696,422
Cash and cash equivalents	8	198,029	352,062
Total current assets		**927,451**	**1,078,229**
Total assets		**3,677,218**	**3,451,292**
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital		1,091,526	1,091,473
Share premium		49,843	49,843
Legal reserves		34,692	31,008
Revaluation reserves		303,077	-
Other reserves		53	48,386
Retained earnings		431,404	431,558
Total shareholders' equity	9	**1,910,595**	**1,652,268**
Non-current liabilities			
Deferred income	10	146,609	162,171
Long term borrowings	11	947,350	847,335
Employee benefits obligations	12	22,672	13,347
Total non-current liabilities		**1,116,631**	**1,022,853**
Current liabilities			
Trade and other liabilities	13	491,489	656,406
Current income tax		-	15,774
Other tax and social security liabilities	16	16,807	8,904
Short term borrowings	11	141,696	95,087
Total current liabilities		**649,992**	**776,171**
Total liabilities		**1,766,623**	**1,799,024**
Total shareholder's equity and liabilities		**3,677,218**	**3,451,292**

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

Consolidated Income Statement for the Year Ended 31 December 2007

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

	Note	2007	2006
Operating revenues			
Transmission revenues		888,299	889,923
Ancillary services revenues		807,705	774,169
Balancing market revenues		571,737	776,242
Other revenues		116,701	63,452
Total operating revenues	**18**	**2,384,442**	**2,503,786**
Operating expenses			
System operating expenses	**19**	(1,039,020)	(910,171)
Balancing market expenses	**19**	(571,737)	(776,242)
Depreciation and amortization		(189,316)	(160,283)
Personnel expenses		(177,689)	(145,022)
Repairs and maintenance expenses		(83,094)	(95,105)
Other operating expenses		(107,342)	(83,731)
Consumables		(40,753)	(53,406)
Total operating expenses		**(2,208,951)**	**(2,223,960)**
Operating profit		**175,491**	**279,826**
Financial revenues		29,349	122,606
Financial expenses		(114,236)	(56,869)
Financial result	**20**	**(84,887)**	**65,737**
Profit before income tax		**90,604**	**345,563**
Income tax	**14**	(27,652)	(51,493)
Profit for the period		**62,952**	**294,070**
Basic and diluted earnings per share (lei/share)	**15**	**0.86**	**4.26**

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

Consolidated Statement of Changes in Shareholders' Equity and Public Patrimony for the Year Ended 31 December 2007 *(all amounts are in thousand LEI, unless stated otherwise)*

	Share capital	Share premium	Public patrimony	Legal reserve	Revaluation reserves	Other reserves	Retained earnings	Total
Balance as at 1 January 2006	**1,018,175**	**-**	**-**	**14,884**		**41,448**	**179,560**	**1,254,067**
Increase of share capital (see Note 9)	73,298	-	-	-		-	-	73,298
Share premium (see Note 9)	-	49,843	-	-		-	-	49,843
Land for which title deeds were-obtained (see Note 9)	-	-	-	-		21	-	21
Special destination reserve for the energy sector (see Note 2 (v))	-	-	-	-		48,326	(48,326)	-
Utilisation of the special destination-reserve (see Note 2 (v))	-	-	-	-		(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 (see Note 2 (e))	-	-	640	-		-	-	640
Derecognition of public patrimony assets (see Note 2 (e))	-	-	(640)	-		-	-	(640)
Balance as at 31 December 2006	**1,091,473**	**49,843**	**-**	**31,008**		**48,386**	**431,558**	**1,652,268**
Increase of share capital (see Note 9)	53	-	-	-	-	(53)	-	-
Revaluation reserve (see Note 9)	-	-	-	-	303,077	-	-	303,077
Land for which title deeds were obtained (see Note 9)	-	-	-	-	-	46	-	46
Utilisation of the special destination reserve (see Note 2 (v))	-	-	-	-	-	(48,326)	48,326	-
Legal reserve	-	-	-	3,684	-	-	(3,684)	-
Dividends distributed	-	-	-	-	-	-	(107,748)	(107,748)
Profit for the period	-	-	-	-	-	-	62,952	62,952
Public patrimony assets (see Note 2 (e))	-	-	611	-	-	-	-	611
Derecognition of public patrimony assets (see Note 2 (e))	-	-	(611)	-	-	-	-	(611)
Balance as at 31 December 2007	**1,091,526**	**49,843**	**-**	**34,692**	**303,077**	**53**	**431,404**	**1,910,595**

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

Consolidated Cash Flow Statement for the Year Ended 31 December 2007

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

	2007	2006
Cash flows from operating activities		
Profit for the period	62,952	294,070
Adjustments for non-cash items		
Income tax	27,652	51,493
Depreciation and amortization	189,316	160,283
Release of deferred income	(45,490)	(20,628)
Loss from disposal of property, plant and equipment	7,826	4,301
Interest expense	51,115	48,942
Interest revenue	(16,266)	(14,031)
Unrealized foreign exchange gains / (losses)	50,102	(96,139)
Operating cash flows before working capital changes	**327,207**	**428,291**
Accounts receivable	(6,354)	197,031
Inventories	(10,020)	(192)
Accounts payable and other liabilities	(142,658)	(164,065)
Changes in working capital	**(159,032)**	**32,774**
Interest paid	(46,202)	(39,025)
Income tax paid	(28,970)	(39,745)
Net cash from operating activities	**93,003**	**382,295**
Cash flows used in investing activities		
Purchase of tangible and intangible assets	(285,793)	(399,460)
Proceeds from sale of tangible fixed assets	15,076	19,821
Interest received	17,139	8,919
Net cash used in investing activities	**(253,578)**	**(370,720)**
Cash flows from financing activities		
Increase of share capital and share premium	-	123,140
Subsidies received	20,609	2,634
Proceeds from long term borrowings	167,533	235,658
Repayments of long term borrowings	(77,209)	(67,075)
Dividends paid	(106,471)	(19,031)
Net cash from financing activities	**4,462**	**275,326**
Net increase in cash and cash equivalents	**(156,113)**	**286,901**
Cash and cash equivalents as at 1 January (see Note 8)	**342,140**	**55,239**
Cash and cash equivalents as at 31 December (see Note 8)	**186,027**	**342,140**

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

Consolidated Statement of Changes in Shareholders' Equity and Public Patrimony for the Year Ended 31 December 2007 *(all amounts are in thousand LEI, unless stated otherwise)*

1. Background and general information

The main activity of CN Transelectrica SA ("the Company") and its subsidiaries (together with the Company, "the Group") is: electricity transmission services;management of the National Energy System ("NES"); administration of the electricity market; repairs and maintenance of the transmission equipment; information technology and telecommunication services; and research in energy sector. CN Transelectrica SA, the parent company, was incorporated in 2000 as a joint stock company established under the laws of Romania. The Company is incorporated in Romania. The address of its registered office is 33, General Gheorghe Magheru Bvd., Bucharest, sector 1.Currently, the executive activity is carried on in a new working point established in Bucharest, 2 – 4, Armand Calinescu Street, sector 2, – Millenium Business Center building 2nd, 3rd, 4th, 5th and 6th floors.

CN Transelectrica consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") are available at the Company's working point located in Armand Calinescu Street. No. 2–4, sector 2, Bucharest, 4th floor.

Incorporation of the Company

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

General Shareholders Meeting no. 2/12 March 2007 approved the increase of the share capital of the Company by 52,760 lei, respectively by 5,276 shares, representing the value of the freehold land owed by the Company, for which title deeds were previously obtained.

As at 31 December 2007, the shareholders of the Company are: the Ministry of Economy and Commerce ("MEC") which holds 56,078,143 shares, representing 76.5% of the share capital, Fondul Proprietatea, which holds 9,895,212 shares, representing 13.5% of the share capital and other shareholders which hold 7,329,787 shares representing 10% of the share capital.

The Mission of the Company

The Mission of the Company refers to the secure and stable functioning of the National Energy System ("NES") by observing quality standards, developing the infrastructure of the national electricity market and guaranteeing the regulated access of third parties to the electricity transmission network, ensuring transparency, non–discrimination and fairness for all participants in the market.

Other information relating to the Company's activity

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

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

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

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

- In January 2007 Moody's Investor Service has improved the Company's rating from Ba1 with positive future expectations to Baa3 with firm future expectations;
- In March 2008 Standard & Poor's maintained the Company's rating, previous given in March 2007, to BB+ with positive future expectations for the long term debt.

Regulatory environment

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

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

the future, following the opening of the electricity and thermal energy market;
- set up the methodologies and criteria for tariff calculation in the energy sector and the framework contracts for selling, purchasing and delivering electricity and thermal energy to final consumers.
- ANRE establishes the tariffs for electricity transportation. Consequently, the Group's activity is fundamentally impacted by the decisions made by ANRE.

The operating activity of the Company has been performed according to set–up licence No. 161/2000 regarding electricity transmission and system services, revision 2 / 2005 issued by ANRE, valid until 2025.

Electricity market

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

As at 18 December 2003, according to Government Decision 1563/2003, the Romanian electricity market was opened to competition up to the level of 40% of the final domestic electricity consumption for the year 2002. As at 1 November 2004, the opening of the electricity market increased to 55%, as of 1 July 2005 it became 83.5% and starting with 1 July 2007 the energy market became fully open to competition.

b)New markets
Starting with 1 July 2005, according to the Commercial Code issued by ANRE, the Company became the balancing market operator, being responsible for the registration of the participants to the balancing market, the collection and checking of the offers and the computation of the necessary quantities for settling the balancing market transactions. The Company is counterparty for the balancing market transactions, both for the market participants and for the parties responsible with the balancing operations.
The Company purchases and sells the energy needed to:
- provide the flexibility and the stability of the NES;
- solve the network restrictions in the NES;
- balance in real–time the production and consumption of energy.

Also, starting with 2005, in accordance with the Energy Law No. 318/2003, with the other legislation regarding the energy production from regenerating sources and with ANRE decision No. 46/2005 for approving the Allocation procedure of the amounts resulted by applying the above mentioned legislation, the Company is responsible for issuing green certificates on the energy market to the energy producers which have to produce this energy.

Tariffs for energy transmission and ancillary services
The energy transmission is a natural monopoly activity. The tariffs used by the Company for transmission and ancillary services were established by ANRE based on the costs incurred and recorded during a period of 12 months.

Starting with 2005, the tariff for energy transmission is set based on the revenue cap methodology. Using this methodology, ANRE sets initial target revenue that increases according to the annual increase of the consumer price index and reduces as efficiency increases, such revenue being the basis of the regulated income. The carrying value of fixed assets is linked to this, so any significant change in the tariff mechanism or rates could impact these carrying values. Based on current tariff levels no indications of impairment were identified.

Regulated assets base ("RAB")
The transmission tariffs are set, among others, based on the regulated asset base. At the beginning of the first regulated period (2005 – 2007), the regulated asset base was including the net book value of the tangible and intangible fixed assets considered by ANRE and used solely for providing the regulated service of electricity transmission. The regulated asset base computed afterwards includes only assets acquired as investments approved by ANRE and the allowed level of working capital required to finance the short term liabilities of the transmission operator.

The regulated asset base does not include fixed assets financed through donations, received development tax or by other irredeemable funds.

Local and international stock exchange indexes
Starting 6 March 2007, CN Transelectrica SA is part of BET index managed by the Bucharest Stock Exchange, with a share of 15.30%, at a stock exchange capitalization amounting to 3,144,478. The BET index (Bucharest Exchange Trading) is a selective

index that reflects the evolution of the 10 most liquid shares listed on BVB, except the Financial Investments Societies (SIF). Starting 2 January 2007, CN Transelectrica SA is part of Dow Jones Wilshire Global Indexes – a group of indexes that intend to offer the widest available measure of global markets. CN Transelectrica is part of:

- Dow Jones Wilshire Global Total Market Index SM;
- Dow Jones Wilshire Romania Index SM;
- Dow Jones Wilshire Electricity Index SM.

2. Accounting policies

(a) Statement of compliance

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

(b) Basis of presentation

The attached financial statements are presented in Romanian Lei ("LEI" or "RON"), rounded to the nearest thousand. The financial statements have been prepared under the historical cost convention, modified to reflect the revaluation of tangible assets and adjusted as required by IAS 29 ("Financial Reporting in Hyperinflationary Economies") up to 31 December 2003. The accounting policies have been consistently applied by Group entities and are consistent with those used in the previous year.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of which forms the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Basis of consolidation

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

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

(d) Property, plant and equipment

Owned assets

Tangible fixed assets, except for other intangible fixed assets and construction in progress, are stated at their revalued amount, less any accumulated depreciation and accumulated impairment losses. Other intangible fixed assets and construction in progress are stated at cost, except for assets acquired before 31 December 2003 which include adjustments for the effects of hyperinflation, less any accumulated depreciation and accumulated impairment losses. The cost of self–constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

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

The tangible assets were revalued at fair value as at 31 December 2007, based on the assessment report prepared by an independent assessor, SC JPA Audit &Consultanta SRL, as follows:

- in setting up the value of tangible assets, the assessor considered the official EUR/Leu exchange rate index, the items usability, actual condition and the market price;
- revaluation did not refer to other tangible fixed assets and construction in progress.

Thus, the fair value of tangible assets, except for other intangible fixed assets and construction in progress, was estimated in accordance with the provisions of IAS 16 "Property, plant and equipment" as their market value; in circumstances when an active market does not exist/is inactive due to the specialized nature of the revalued asset, fair value may differ from market value (net replacement cost or discounted cash flow).

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

The difference between the carrying amount and the fair value established in the assessors' report as at 31 December 2007 was recognized as revaluation reserve in equity.

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

– GD no. 164/2005 approved the recognition in the Company's accounting records of the net book value of the assets representing in kind contribution to share capital of the Company, by reducing the value of State's public patrimony.

– GD no. 164/2005 approved the recovery of net book value by including it in the operating expenses throughout the remaining useful life; the operational expense to recover this amount is included in the tariffs;

– The legal status of the tangible assets mentioned in this government decision remained the same and these assets can be found in the Concession Agreement no. 1/2004 with the depreciated amount until the GD no. 2060/2004 was adopted.

An allowance for the idle or obsolete tangible assets is recorded in the consolidated financial statements, when these elements are identified.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent maintenance expenses

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

Depreciation

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

	Useful lives (years)
Buildings and special installations	40–50
Machinery and equipment	15–40
Control devices	7–12
Vehicles	5– 8
Other tangible assets	3– 5

The useful lives, residual values and depreciation methods are reassessed annually.

(e) Public patrimony assets

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

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

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

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

Because of the change in the nature of relationship with the Romanian state through its representative MEC, arising from the signing of the concession contract, the Group derecognized all public patrimony assets at 29 June 2004 with the change

Notes to the Consolidated Financial Statements as at 31 December 2007
(all amounts are in thousand LEI, unless stated otherwise)

recorded directly to the public patrimony reserve within equity. Following the signing of the concession agreement the Group now treats the public patrimony assets to which it has right of use, as assets under operating lease. Payments under the concession agreement (royalty) are recognized as an expense in the income statement based on the revenues recorded by the Group during the year.

During 2005 – 2007, 3 addendums to the concession contract were signed. As a result, the public patrimony assets obtained after 29 June 2004, using the development funds were derecognized.

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

The amount that the Group paid under the concession agreement for the period 1 January – 31 December 2007 is significantly less than the amount of the depreciation that the Group would have recorded on the comparable public patrimony assets had the concession agreement not been signed. However, the Group has not recorded any amount related to the possible benefit ensuing from the signing of the concession agreement because the Group is unable to determine the amount that a third party would pay for the use of the assets in an arm's length transaction.

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

(f) Intangible assets

The intangible assets of the Group are stated at their cost less any accumulated amortization and accumulated impairment losses. The amortization is recognized in the income statement based on a straight–line basis over the estimated useful life of the intangible asset. Intangible assets consist mainly of intangibles in progress and customized software, which are amortized on a straight–line basis over 3 – 5 years.

(g) Financial investments

The Group classified its investments in debt and equity securities into the following categories: trading, held–to–maturity and available–for–sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re–evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short–term fluctuations in price are classified as trading investments and included in current assets; for the purpose of these financial statements short term is defined as 3 months. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held–to–maturity and are included in non–current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available–for–sale and are included in non–current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

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

(h) Foreign currency transactions

Transactions in foreign currencies are translated to LEI by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year–end are translated to LEI at the exchange rates prevailing on that date. Exchange gains and losses, realised or unrealised, are included in the income statement for that year. The exchange rates at 31 December 2006 and 31 December 2007 are as follows:

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

Currency	31 December 2007	31 December 2006
1 EUR	3.6102	3.3817
1 USD	2.4564	2.5676
100 JPY	2.1766	2.1599

(i) Receivables

Receivables include invoices issued and not cashed at 31 December 2007 in nominal terms which relate to the services rendered during 2007. Receivables are stated at amortised cost less impairment losses. The amortised cost approximates the nominal value. Ultimate losses may vary from the current estimates.

(j) Inventories

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

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

(k) Cash and cash equivalents

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

(l) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash–generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

When a decline in the fair value of an available–for–sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Computation of recoverable amount

The recoverable amount of held to maturity investments and receivables carried at amortized cost is computed as the present value of estimated future cash flows, discounted with the original effective interest rate related to these assets. The short–term receivables are not discounted. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash–generating unit to which the asset belongs.

(ii) Reversal of impairment loss

An impairment loss in respect of a held–to–maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Share capital

The Group recognizes the changes in share capital in accordance with the legislation in force and only after their approval in the General Extraordinary Shareholders Meeting and their authorisation by the Trade Registry Office.

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(n) Dividends

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

(o) Accounts and other payables

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

(p) Interest–bearing borrowings

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

(q) Financial instruments

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

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

(r) Tax on profit

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The impact of tax rates changes on deferred tax is recognized in the consolidated income statement, except when it refers to previous positions directly recognized in the equity.

(s) Related parties

Parties are considered related when one controls directly or indirectly, or is in the position to exert significant influence on another party, through ownership, contractual rights, and family relationship or otherwise.

(t) Employee benefits

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

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

According to the Collective Labour Contract, the Company provides both loyalty and seniority bonuses to employees and also retirement benefits to former employees.
The benefits provided by the Company consist of:

- loyalty bonuses in the range of 5% to 25% of monthly gross basis salary;
- seniority bonuses in the range of 1% to 10% of monthly gross basis salary;
- retirement prizes which range from 1 to 5 monthly gross basis salaries based on the employment period within the Company at the retirement date;
- jubilee premiums in range of 1 to 5 monthly gross basis salary depending on the employment period within the Group.
- free energy provided after retirement, as follows:
  - kWh 1,800 per year according to the Collective Labour Contract;
  - kWh 1,200 per year according to the Government Decisions No. 1041/2003 and No. 1461/2003.

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

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

Obligations relating to employee benefits were determined by Mr. Silviu Matei, authorised actuary (authorisation no. 1342/12.04.2007) following the provisions of contract no. 8/23 January 2008 concluded with the Company based on the applicable public acquisition regulations.

(u) Revenue

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and the associated costs can be estimated reliably. Revenues comprise mainly the value of electricity transmission services and ancillary services computed based on volume of energy traded. Revenues include also the transactions on the balancing market as described in Note 1.

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

(v) Development tax and special destination fund for the energy sector

In accordance with the requirements of Government Ordinance No. 26/1999 a development tax was included in the tariffs of the electricity delivered to the eligible consumers which is collected by relevant distributors in the electricity sector and paid to MEC together with related penalties, if any.

Until 31 December 2004, MEC allocated the development tax which has been collected to the companies which are within the electricity sector (including the Group), in order to be used for the development of the electricity system, on an investment project basis. Development tax allocated to the Company is accounted for as described in Note 2 (x).

Starting with 1 January 2005, according to Government Emergency Ordinance ("OUG") No. 89/2004 approved by Law No. 529/2004, the development tax is no longer transferred to the State Budget. The Company will record reserves up to the limit of 6% of revenues from transport of energy, not greater than the accounting profit, deductible for fiscal purposes. These reserves are used for financing in–house investments regarding modernization and developments of energy objectives according to the requirements stipulated by OUG No. 89/2004. These requirements are in force until 31 December 2006.

(w) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses, commitment fees and risk commissions. Interest income is recognised in the income statement as it Group's accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

(x) Subsidies

Initially, subsidies are accounted for in the balance sheet as deferred income when there is reasonable assurance that they will be received and the Group will comply with the conditions attaching to it, if any, and recognized as income at the moment of recognition of the related costs (i.e. depreciation of the fixed asset to which the subsidy relates or consumption of inventories to which the subsidy relates).

(y) Subsequent events

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

(z) Provisions

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

(aa) Earnings per share

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

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

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

(bb) Contingencies

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

A contingent asset is not recognized in the accompanying financial statements but disclosed when an inflow of economic benefits is probable.

(cc) Segment reporting

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

The activities are taking place in different parts of Romania with each location being involved in both transport and dispatch activities.

The management of the Group considers all activities together, as "a single segment".

(dd) Comparatives

The financial statements for the year ended 31 December 2007 are comparable to the financial statements for the year ended 31 December 2006. Where necessary, comparative figures have been reclassified in order to match the changes in the presentation of the current year financial statements.

(ee) Implication of new IFRSs

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but which the Group has not early adopted. Management considered the following new standards, amendments and interpretations to existing standards:

- **IFRS 8** ("Operating Segments") effective from 1 January 2009. The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. The Group expects the new Standard to significantly alter the presentation and disclosure of its operating segments in the consolidated financial statements.
- **Revised IFRS 2** ("Share–based Payment") effective from 1 January 2009. The revised Standard will clarifies the definition of vesting conditions and non–vesting conditions. Based on the revised Standards failure to meet non–vesting conditions will generally result in treatment as a cancellation. The Group has not yet completed its analysis of the impact of the revised Standard.
- **Revised IFRS 3** ("Business Combinations") effective for annual periods beginning on or after 1 July 2009. The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including: all items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration; transaction costs are not included in the acquisition accounting; the acquirer can elect to measure any non–controlling interest at fair value at the acquisition date, or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree; acquisitions of additional non–controlling equity interests after the business combination must be accounted for as equity transactions. Revised IFRS 3 is not relevant to the Group's operations.
- **Revised IAS 1** ("Presentation of Financial Statements") effective from 1 January 2009. The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- **IFRIC 12** ("Service Concession Arrangements") effective from 1 January 2008. The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public–to–private service concession arrangements. The Group considers that this interpretation does not have a significant impact over the financial statements.
- **Revised IAS 23** ("Borrowing Costs") effective from 1 January 2009. The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group has not yet completed its analysis of the impact of the revised Standard.

- **IFRIC 13** ("Customer Loyalty Programmes") effective for annual periods beginning on or after 1 July 2008. The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. IFRIC 13 is not relevant to the Group's operations because does not have such loyalty program.
- **IFRIC 14 IAS 19** ("The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions") effective for annual periods beginning on or after 1 January 2008). The interpretation addresses 1) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; 2) how a MFR might affect the availability of reductions in future contributions; and 3) when a MFR might give rise to a liability. No additional liability need be recognised by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. The Group does not operate in countries that have a minimum funding requirement where there are restrictions on the employer company's ability to get refunds or reduce contributions.
- **Revised IAS 27** ("Consolidated and Separate Financial Statements") effective for annual periods beginning on or after 1 July 2009. In the revised Standard the term minority interest has been replaced by non–controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non–controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non–controlling interest. The Group has not yet completed its analysis of the impact of the revised Standard.
- **Amendments to IAS 32** ("Financial Instruments: Presentation"), and IAS 1, ("Presentation of Financial Statements") effective for annual periods beginning on or after 1 January 2009. The amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if and only if they meet certain conditions. The amendments are not relevant to the Group's financial statements.

(ff) Adoption of standards effective from 1 January 2007

As of 1 January 2007, the Group adopted the IFRSs below. The consolidated financial statements have been amended as required, in accordance with the relevant requirements.

- **IFRS 7** ("Financial Instruments: Disclosures") effective from 1 January 2007. This standard will require increased disclosures in respect of the Group's financial instruments. It supersedes IAS 30 ("Disclosures in the Financial Statements of Banks and Similar Financial Institutions") and is applicable to all entities that prepare financial statements in accordance with IFRS. The Group believes that this amendment does not have a significant impact on the financial statements.
- **Amendment to IAS 1** ("Presentation of Financial Statements – Capital Disclosures") effective from 1 January 2007. As a complementary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect to the Group's capital. This amendment will require significantly more disclosures regarding the capital structure of the Group. The impact of the changes brought by the amendment to IAS 1 could not be estimated at this time.
- **IFRIC 9** "Reassessment of Embedded Derivatives" effective from 1 January 2007. It requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, does not have any impact on the consolidated financial statements.
- **IFRIC 10** "Interim Financial Reporting and Impairment" effective from 1 January 2007. It prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will apply to goodwill, investments in equity instruments and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (e.g. 1 January 2004). IFRIC 10 is not relevant to the Group's operations;
- **IFRIC 11 IFRS 2** – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation requires a share–based payment arrangement in which an entity receives goods or services as consideration for its own equity–instruments to be accounted for as an equity–settled share–based payment transaction, regardless of how the equity instruments of the entity's parent, should be accounted for as cash–settled or equity–settled in the entity's financial statements. IFRIC 11 is not relevant to the Group operations as the Company has not entered into any share–based payments arrangements;

The adoption of the new or amended standards did not have a significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements as at 31 December 2007
(all amounts are in thousand LEI, unless stated otherwise)

3. Property, plant and equipment

The movements of property, plant and equipment from 1 January 2005 to 31 December 2007 are as follows:

	Land and land improvements	Buildings and special installations	Machinery and equipment	Control devices	Vehicles	Other fixed assets	Construction in progress	Total
Cost								
Balance as at 1 January 2005	**11,908**	**2,046,328**	**1,365,969**	**160,274**	**48,021**	**14,575**	**571,142**	**4,218,217**
Additions	593	16,402	13,366	16,879	2,146	1,789	513,525	564,700
Transfers from construction in progress	-	197,362	126,743	15,458	2,631	1,406	(343,600)	-
Disposals	(1,543)	(16,257)	(32,206)	(4,122)	(2,462)	(202)	-	(56,792)
Balance as at 31 December 2005	**10,958**	**2,243,835**	**1,473,872**	**188,489**	**50,336**	**17,568**	**741,067**	**4,726,125**
Additions	183	14,122	3,659	15	2,051	2,346	367,549	389,925
Transfers from construction in progress	-	128,336	373,267	28,525	3,327	4,699	(538,154)	-
Disposals	(861)	(41,206)	(45,279)	(3,235)	(902)	(476)	-	(91,959)
Balance as at 31 December 2006	**10,280**	**2,345,087**	**1,805,519**	**213,794**	**54,812**	**24,137**	**570,462**	**5,024,091**
Additions	625	2,139	1,925	1,061	1,824	529	251,210	259,313
Transfers from construction in progress	-	30,254	266,015	48,444	2,073	1,966	(348,752)	-
Disposals	-	(16,242)	(39,946)	(4,361)	(1,196)	(357)	-	(62,102)
Balance as at 31 December 2007	**10,905**	**2,361,238**	**2,033,513**	**258,938**	**57,513**	**26,275**	**472,920**	**5,221,302**
Accumulated depreciation								
Balance as at 1 January 2005	**-**	**1,262,958**	**1,062,533**	**113,170**	**40,715**	**14,563**	**-**	**2,493,939**
Depreciation expense	-	60,168	46,568	24,668	9,987	2,932	-	144,323
Accumulated depreciation of disposals	-	(7,565)	(26,978)	(2,628)	(2,433)	(133)	-	(39,737)
Balance as at 31 December 2005	**-**	**1,315,561**	**1,082,123**	**135,210**	**48,269**	**17,362**	**-**	**2,598,525**
Depreciation expense	-	66,680	78,195	7,646	2,402	1,607	-	156,530
Accumulated depreciation of disposals	-	(24,699)	(38,173)	(2,504)	(838)	(470)	-	(66,684)
Balance as at 31 December 2006	**-**	**1,357,542**	**1,122,145**	**140,352**	**49,833**	**18,499**	**-**	**2,688,371**
Depreciation expense	-	69,227	101,134	7,211	2,797	2,457	-	182,826
Accumulated depreciation of disposals	-	(9,508)	(39,315)	(4,168)	(1,294)	(289)	-	(54,574)
Balance as at 31 December 2007	**-**	**1,417,261**	**1,183,964**	**143,395**	**51,336**	**20,667**	**-**	**2,816,623**

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

	Land and land improvements	Buildings and special installations	Machinery and equipment	Control devices	Vehicles	Other fixed assets	Construction in progress	Total
Revaluation reserves								
Balance as at 1 January 2005								
Increase in revaluation reserve	-	-	-	-	-	-	-	-
Release of revaluation surplus	-	-	-	-	-	-	-	-
Balance as at 31 December 2005	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Increase in revaluation reserve	-	-	-	-	-	-	-	-
Release of revaluation surplus	-	-	-	-	-	-	-	-
Balance as at 31 December 2006	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Increase in revaluation reserve	57,378	227,293	15,216	3,034	156	-	-	303,077
Release of revaluation surplus	-	-	-	-	-	-	-	-
Balance as at 31 December 2007	**57,378**	**227,293**	**15,216**	**3,034**	**156**	**-**	**-**	**303,077**
Carrying value								
Balance as at 1 January 2005	**11,908**	**783,370**	**303,436**	**47,104**	**7,306**	**12**	**571,142**	**1,724,278**
Balance as at 31 December 2005	**10,958**	**928,274**	**391,749**	**53,279**	**2,067**	**206**	**741,067**	**2,127,600**
Balance as at 31 December 2006	**10,280**	**987,545**	**683,374**	**73,442**	**4,979**	**5,638**	**570,462**	**2,335,720**
Balance as at 31 December 2007	**68,283**	**1,171,270**	**864,765**	**118,577**	**6,333**	**5,608**	**472,920**	**2,707,756**

The additions of property, plant and equipment include also transfers of construction in progress. Construction in progress is represented mainly by modernization works for electric lines and stations. Building and special installations are represented mainly by transformation stations and high voltage power gridlines. Machinery and equipment are represented mainly by transformers, measurement equipment and means of communications relating to the electric power network of 110 KV, 220 KV, 400 KV and 750 KV.

As at 31 December 2007, the Company revalued the tangible assets represented by land and tangible assets which not fully depreciated; the revaluation did not refer to other tangible assets and construction in progress. The valuation was made by SC JPA Audit &Consultanta SRL, valuer authorized by ANEVAR, according to the provisions of International Valuation Standards (IVS), International Valuation Application (IVA) and International Valuation Guidance Note Standards (GN).

The results of the valuation of the tangible assets which have been included in the valuation report prepared by SC JPA Audit & Consultanta SRL and the recognition of the results in the financial statements for year 2007 have been approved by the Decision of Board of Directors no. 2/26 February 2008.

Notes to the Consolidated Financial Statements as at 31 December 2007
(all amounts are in thousand LEI, unless stated otherwise)

4. Intangible assets

The movements in intangible assets from 1 January 2005 to 31 December 2007 are the following:

	Licences and patents	Other intangible assets	Intangible assets in progress	Total
Cost				
Balance as at 1 January 2005	**1,785**	**9,648**	**27,704**	**39,137**
Additions	274	1,308	2,423	4,005
Transfers from intangible assets in progress	-	2,679	(2,679)	-
Disposals	-	(35)	-	(35)
Disposals for no consideration	-	(3,224)	(5,026)	(8,250)
Balance as at 31 December 2005	**2,059**	**10,376**	**22,422**	**34,857**
Additions	110	6,865	3,227	10,202
Transfers from intangible assets in progress	275	1,565	(1,840)	-
Disposals	-	(24)	-	(24)
Disposals for no consideration	-	(405)	(1,769)	(2,174)
Balance as at 31 December 2006	**2,444**	**18,377**	**22,040**	**42,861**
Additions	5	3,095	6,118	9,218
Transfers from intangible assets in progress	-	4,112	(4,112)	-
Disposals	526	74	-	600
Balance as at 31 December 2007	**2,975**	**25,658**	**24,046**	**52,679**
Accumulated amortisation				
Balance as at 1 January 2005	1,132	3,815	-	4,947
Amortisation expense	630	2,490	-	3,120
Accumulated amortisation of disposals	-	(31)	-	(31)
Disposals for no consideration	-	(1,541)	-	(1,541)
Balance as at 31 December 2005	**1,762**	**4,733**	**-**	**6,495**
Amortisation expense	458	3,295	-	3,753
Accumulated amortisation of disposals	-	(24)	-	(24)
Disposals for no consideration	-	(15)	-	(15)
Balance as at 31 December 2006	**2,220**	**7,989**	**-**	**10,209**
Amortisation expense	324	6,166	-	6,490
Accumulated amortisation of disposals	(247)	(55)	-	(302)
Balance as at 31 December 2007	**2,297**	**14,100**	**-**	**16,397**
Carrying value				
Balance as at 1 January 2005	**653**	**5,833**	**27,704**	**34,190**
Balance as at 31 December 2005	**297**	**5,643**	**22,422**	**28,362**
Balance as at 31 December 2006	**224**	**10,388**	**22,040**	**32,652**
Balance as at 31 December 2007	**678**	**11,558**	**24,046**	**36,282**

Intangible assets are represented mainly by software related to Electricity Exchange, electricity balancing market and management accounting software.

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

5. Financial investments

As at 31 December 2007 and 31 December 2006, all available for sale securities are carried at cost because they are not publicly traded and management of the Group is not able to measure reliably their fair value.

6. Inventories

As at 31 December 2007 and 31 December 2006 inventories are as follows:

	31 December 2007	31 December 2006
Spare parts, consumables and other materials	31,006	23,461
Auxiliary materials	5,472	3,742
Other inventories	3,267	2,542
Total	**39,745**	**29,745**

7. Trade and other receivables

As at 31 December 2007 and 31 December 2006 trade and other receivables are as follows:

	31 December 2007	31 December 2006
Trade receivables	666,073	670,985
Other receivables	20,421	7,287
VAT receivable	-	18,856
Income tax receivable	3,930	-
Allowance for doubtful receivables	(747)	(706)
Total	**689,677**	**696,422**

Other receivables in amount of 20,421 include penalties invoices to SC RAAN Turnu Severin in amount of 10,430.
As at 31 December 2007 and 31 December 2006 trade receivables are as follows:

	31 December 2007	31 December 2006
Clients – energy market	634,724	658,828
Other clients	31,349	12,157
Total	**666,073**	**670,985**

The most important clients from energy market were: SC Electrica SA, SC Hidroelectrica SA, SC Complexul Energetic Turceni SA, SC Enel Energie SA, SC Complexul Energetic Rovinari SA, SC Electrica Muntenia Sud SA, SC Electrica Muntenia Nord SA, SC Electrica Furnizare Transilvania Nord SA, SC Electrica Furnizare Transilvania Sud SA and SC RAAN SA. As at 31 December 2007 and 31 December 2006, these clients represent 51% and 50%, respectively from the total clients from the energy market.

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

8. Cash and cash equivalents

As at 31 December 2007 and 31 December 2006 cash and cash equivalents are as follows:

	31 December 2007	31 December 2006
Cash and cash equivalents	197,386	351,053
Petty cash	148	100
Other cash equivalents	495	909
Total	**198,029**	**352,062**

For the purpose of the consolidated cash flow statement, cash and cash equivalents as at 31 December 2007 and 31 December 2006 are as follows:

	31 December 2007	31 December 2006
Cash and cash equivalents	198,029	352,062
Short term loans (credit lines) (see Note 11)	(12,002)	(9,922)
Total	**186,027**	**342,140**

9. Shareholder's equity

Share capital

As at 31 December 2007, the authorised issued and fully paid up share capital of the Company consists of 73,303,142 ordinary shares with a nominal value of 10 lei/share.

General Shareholders Meeting no. 2/12 March 2007 approved the increase of the share capital of the Company by 52,760 lei, respectively by 5,276 shares, representing the value of the freehold land owed by the Company, for which title deeds were previously obtained. Consequently, the shareholders structure became as follows:

Shareholder	Number of shares	Nominal value	% from share capital
Romanian State through MEF	56,078,143	560,781	76.5%
Fondul Proprietatea	9,895,212	98,952	13.5%
Private investors	7,329,787	73,298	10%
Total	**73,303,142**	**733,031**	**100%**

As at 31 December 2007, share capital in the amount of 1,091,526 includes the effect of restatements relating to prior periods, required by the application IAS 29 "Financial Reporting in Hyperinflationary Economies", as described in Note 2 (b). The reconciliation of share capital is as follows:

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

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

Share premium

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

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

Legal reserve

Legal reserves in the amount of 34,692 and 31,008 as at 31 December 2007 and 31 December 2006, respectively, represent legal reserves according to the statutory financial statements and cannot be distributed. Legal reserves include the effect of restatements relating to prior periods, required by the application IAS 29 "Financial Reporting in Hyperinflationary Economies". The reconciliation of legal reserves is as follows:

Legal reserves (statutory amount)	34,500
Restatement difference in accordance with IAS 29	192
Restated legal reserves balance	34,692

Revaluation reserves

The increase of the revaluation reserve during the year, in amount of 303,077 resulted from the revaluation of the tangible assets, except for other tangible assets and construction in progress, as at 31 December 2007 (see Note 2 (d)). The revaluation reserve is transferred to the retained earnings in line with the disposal of the corresponding tangible assets.

Other reserves

As at 31 December 2007, other reserves are in amount of 53 representing land for which the title deeds were obtained.

As described in Note , land for which the title deeds are obtained is first recognized in other reserves and followed by an increase in share capital previously recorded at the Romanian Trade Register Office. In 2007, the Company obtained the title deeds for land in the amount of 46.

During 2007, the Company used the special destination reserve for the energy sector, in balance as at 31 December 2006, in amount of 48,326. The reserve was determined based on provisions of Government Decision no. 89/2004, approved by Law no. 529/2004. The reserve was used to finance specific investments regarding modernization and development of the energy projects and cannot be distributed.

Retained earnings

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

The value of dividends approved for distribution from 2006 profit was 107,748. The value of unpaid dividends as at 31 December 2007 is 1,277.

10. Deferred income

Deferred income includes mainly the special fund for development of the energy system received from the Ministry of Economy and Commerce, connection fees, the allocation of interconnection capacity and other subsidies. During 2007, the Group received subsidies in amount of 5,585 for payment of interest and commissions for the long term loans concluded with JBIC and NIB and connection fees in amount of 11,225. The movement of deferred income for 31 December 2007 and for 31 December 2006 is as follows:

	31 December 2007	31 December 2006
Balance as at the beginning of the period	162,171	174,031
Subsidies received	20,609	2,634
Release of deferred income	(45,490)	(20,628)
Deferred income relating to the interconnection capacity	73,186	42,170
Release of deferred income related to the interconnection capacity	(63,867)	(36,036)
Total	**146,609**	**162,171**

11. Long term borrowings

Long term loans

As at 31 December 2007 and 31 December 2006 long term loans are as follows:

Notes to the Consolidated Financial Statements as at 31 December 2007
(all amounts are in thousand LEI, unless stated otherwise)

Description	31 December 2007	31 December 2006
EIB – 1.8194/1995 (a)	6,589	8,230
IBRD 3936 (b)	1,212	1,381
EBRD 365 (c)	17,535	27,376
EBRD 906 (d)	75,861	92,512
EIB 20.864 (e)	210,485	221,808
KfW 9787 (f)	22,551	26,119
West L.B. (g)	25,095	28,208
NIB PIL No 02/18 (h)	45,300	47,351
IBRD 7181 (i)	192,606	136,572
NIB PIL No 03/5 (j)	82,336	50,977
NIB PIL No 02/37 (k)	46,672	43,718
KfW 10431 (l)	72,710	57,808
BCR – World Trade Centre 398 (m)	30,000	35,000
Calyon (n)	17,546	22,008
KfW 11300 (o)	106,552	62,749
JBIC (p)x	51,347	56,177
Raiffeisen Austria (q)	16,565	4,352
BERD 33354 (r)	42,855	1,940
Less: Current amount of the long term loans	**(116,468)**	**(76,951)**
Total long term loans, net of current amounts	**947,350**	**847,335**

Long term loans are detailed as follows:

(a) Loan from EIB No. 1.8194

The loan from EIB No. 1.8194 was granted initially to the Predecessor Entity in 1995. The purpose of the loan is to finance the Project for the Rehabilitation of the Power Sector of Romania. The total amount outstanding is EUR 1,825,204. Subsequently, the loan was assigned to the Group in 2001. The loan bears a variable interest rate, being the interest rate applicable at the date of the disbursement notice. Repayment is scheduled over 10 years in 20 instalments from 2001 to 2010.

The loan agreement includes certain financial covenants: (i) a self financing ratio – 30% of total capital expenditure must be financed from the Group's own funds; (ii) the debt service coverage ratio should be at least 1.5; (iii) the operating ratio should not exceed 80%; (iv) the current ratio should not be less than 1; and (v) the turnover of receivables from electricity transmission should not exceed, on average, the equivalent of 2 months' sales to customers.

(b) Loan from IBRD No. 3936

The loan from IBRD No. 3936 was granted to the Romanian Government in 1995 for the Power Sector Rehabilitation and Modernization Project, the Predecessor Company being the executing Agency. The total amount outstanding is USD 493,572. The loan bears a variable interest rate which is reset every three months, being the cost of qualified loans granted by IBRD on the financial market. Repayment is scheduled over 14 years from 2001 to 2015.

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

(c) Loan from EBRD No. 365

The loan from EBRD No. 365 was granted to the Predecessor Company for the Power Sector Operational and Cost Efficiency Improvement Project. The total amount outstanding is EUR 4,857,136. The loan bears a six months EURIBOR plus 1% interest rate. Repayment is scheduled over 9 years from 2001 to 2009.

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

(d) Loan from EBRD No. 906

The purpose of the loan was to finance the Rehabilitation of Transmission – Dispatch System. The total amount outstanding is USD 30,883,200. The loan bears six months LIBOR plus 1% interest rate. Repayment is scheduled over 10 years from 2004 to 2013.

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

(e) Loan from EIB No. 20.864

The total amount outstanding under the loan agreement, which was concluded in 2000, is EUR 58,302,832. The loan bears a variable interest rate, being the interest rate applicable at the date of the disbursement notice. Repayment is scheduled over 10 years in 20 instalments from 2006 to 2015.

The purpose of the loan is to finance the Rehabilitation of Transmission – Dispatch System.

The loan agreement includes certain financial covenants: (i) a Debt Service Cover Ratio of not less than 1.3; (ii) a ratio of Long Term Debt to Equity of not more than 2.3; (iii) a ratio of Current Assets to Current Liabilities, of not less than 1.2, and (iv) a ratio of Total Operating Revenues to total Operating Expenses of not less than 1.3.

(f) Loan from KfW No. 9787

The loan from KfW was granted on 18 September, 2001. The total amount outstanding is EUR 6,246,505. The purpose of the loan is the Rehabilitation of the 400/110 kV Constanta Nord Switching Station. The loan bears a variable interest rate of EURIBOR plus 0.725% margin. Repayment is scheduled over 9 years in 17 instalments from 2004 to 2012.

(g) Loan from West LB

The loan from West LB was granted on 5 February 2002. The total amount outstanding is EUR 6,951,143. The purpose of the loan is the Rehabilitation of 400/110 kV Oradea Sud Station. The loan bears a variable interest rate, which is the interest rate EURIBOR plus 0.5%. Repayment is scheduled over 9 years in 17 instalments from 2004 to 2012.

The guarantees from the Romanian Commercial Bank are secured with the following:
- Pledge on cash–inflows in the accounts open with Romanian Commercial Bank;
- Pledge on present and future receivables from SC DFEE Oltenia SA and SC DFEE Banat SA;
- 19 promissory notes issued by the Company in the favour of the Romanian Commercial Bank equalling the loan instalments payable, the maturity being in accordance with the repayment schedule agreed with the foreign banks.

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

The loan from NIB was granted in 2003. The total amount outstanding is USD 18,441,685. The purpose of loan is the rehabilitation of Switching Station 400/210 kV Slatina. The loan bears a variable interest rate of LIBOR plus 0.9% margin. Repayment is scheduled over 10 years in 20 instalments from 2008 to 2018.

(i) Loan from IBRD No 7181

The loan from IBRD was granted in 2003 for the objective "Electricity Market". The total amount outstanding is EUR 53,350,576. The loan bears a variable interest rate which, being the cost of qualified loans granted by IBRD on the financial market. The repayment is performed biannually, starting 15 July 2008, the last instalment being scheduled on 15 January 2020.
The loan agreement includes certain financial covenants: (i) a Debt Service Cover Ratio of not less than 1.3; (ii) a ratio of Current Assets to Current Liabilities, of not less than 1.2.

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

The loan from NIB was granted at 12 November 2004. The amount outstanding is EUR 22,806,367 for the objective of the rehabilitation of 400/220/110 kV Gutinas Station. The interest rate is EURIBOR plus 0.85%. Repayment is performed biannually, in equal instalments starting 15 March 2009, the last instalment being scheduled on 15 September 2018.

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

The loan was granted by NIB on 25 February 2004 for the objective rehabilitation of Rosiori Station. The amount outstanding is EUR 12,927,944. Interest rate is EURIBOR plus 0.90%, repayment is performed biannually in equal instalments starting 15 September

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2008, the last instalment being scheduled on 15 September 2018.

(l) Loan from KfW No. 10431

The loan has been granted by KfW on 12 August 2004 for the objective of the rehabilitation of 400/220/110 kV Sibiu Sud Station. The amount outstanding is EUR 20,140,267. The interest rate is EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting with 31 January 2008, the last instalment being scheduled on 31 July 2017.

(m) Loan from BCR No. 398

The loan was granted by BCR on 7 October 2004 representing advance financing of the modernization of Bucuresti Sud and Sibiu Sud Stations. The amount outstanding is RON 30,000,000. Interest rate is six months BUBOR plus 0.5%, the repayment is performed biannually, in equal instalments starting with 15 April 2007, the last instalment being scheduled on 13 October 2013.

(n) Loan from Calyon

The loan was granted by Calyon on 12 March 2003 for financing of the objective rehabilitation of Switching Station 400/220 kV Slatina. The amount outstanding is USD 7,142,857. Interest rate is LIBOR plus 0.7%, the non–utilization commission being 0.3%. Repayment is performed biannually in 14 equal instalments, starting with 30 June 2006 until 30 December 2012.

(o) Loan from KfW No. 11300

The loan has been granted by KfW on 12 August 2004 for rehabilitation and modernization of Bucuresti Sud Station. The amount outstanding is EUR 29,514,071. The interest rate is EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting with 31 January 2008, the last instalment being scheduled on 31 July 2017.

(p) Loan from JBIC

The loan has been granted by JBIC on 25 June 2004 for the Brazi Project. The amount outstanding is JPY 2,359,029,000. The interest rate is 3.10%, the repayment being performed biannually, in equal instalments starting with 15 March 2007, the last instalment being scheduled on 15 September 2016.

(q) Loan from Raiffeisen Zentralbank Osterreich AG

The loan was granted by Raiffeisen Austria on 14 March 2006 for the rehabilitation of 11 stations. The amount outstanding is EUR 4,588,297. The interest rate is EURIBOR plus 0.50%, the repayment being performed biannually, in 12 equal instalments starting with 10 May 2009, the last instalment being scheduled on November 2014. This loan is guaranteed in proportion of 85% by Coface.

(r) Loan from BERD No. 33354

The loan has two components: A Loan granted by BERD in an amount not to exceed EUR 18,200,000 and B Loan in an amount not to exceed EUR 5,000,000. The loan has been reduced in 14 April 2007 up to EUR 16,326,155 (A loan EUR 12,807,587 + B loan EUR 3,518,568). The amount outstanding is EUR 9,341,814 for A loan and EUR 2,528,708 for B loan. The interest rate is EURIBOR plus 3,00% for A Loan and EURIBOR plus 2,75% for B Loan, the repayment being performed biannually, for A Loan in 18, respectively the B Loan in 14 equal instalments starting with 25 November 2007, the last instalments being scheduled on November 2016 for A Loan and May 2014 for B Loan.

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

Long term loans are repayable as follows:

	31 December 2007	31 December 2006
Between 1 and 2 years	131,639	105,448
Between 2 and 5 years	396,577	347,306
Over 5 years	419,134	394,581
Total	**947,350**	**847,335**

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

All the long term loans bear a variable interest rate and consequently, the accounting value of the long term loans is an approximation of its fair value.

The Group pays engagement commissions for the credit facilities which vary between 0.25% and 0.75 % per annum from the amount not yet drawn.

As at 31 December 2007, the long term loans guaranteed by the Romanian Government through the Ministry of Economy and Finances are: IBRD 3936, IBRD 7181, EBRD 365, EBRD 906, EIB 1.8194, EIB 20864, NIB PIL No 03/5, NIB PIL No 02/18, NIB PIL No 02/37 and JBIC.

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

The loans KfW 9787 and West LB are guaranteed by BCR. The loan Raiffeisen Zentralbank is guaranteed in proportion of 85% by Coface.

The loans EBRD 33354 is guaranteed by Transelectrica with assignment of receivables from transmission contracts concluded with SC FDFEE Electrica Transilvania Nord SA and with SC DFEE E.ON Moldova SA, while the loan BCR 398 is guaranteed with assignment of receivables from contract concluded with Complexul Energetic Rovinari SA.

The costs of the Group relating to State's warranty consist of risk commissions varying from 0.5% to 4% per annum, computed over the entire value of the loan, and those relating to BCR warranty consist of bank commissions of 4.2% for KfW and 3.5% for West LB.

As at 31 December 2007, some of the Group's financial ratios, apart from the receivables turnover ratio, did not vary significantly compared to the covenants stipulated in the loan agreements. The respective loan agreements are: IBRD 3936, EBRD 365, EBRD 906, EIB 20.864 and EIB 1.8194 described above. The exception refers to the receivables turnover ratio, whose level is influenced by the current requirements on the energy market and which does not affect the Group's financial position.

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

The financial ratios not complied with as at 31 December 2007 are:

Ratio	The value of the ratio according to contractual clauses	Realized value
Receivables turnover	Maximum 60 days	106 days
Pre-tax working ratio	Minimum 1.3	1.16
Operating ratio	Maximum 80%	87%
Self financing ratio	Minimum 30%	29%

The management of the Group believes that the long term liabilities in amount of 258,725 should not be classified as current liabilities due to the following:

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

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

Therefore, the Group considers it is appropriate to classify the respective loans as long-term borrowings in the consolidated financial statements as at 31 December 2007.

Short term loans

As at 31 December 2007 and 31 December 2006 the short term loans are as follows:

	31 December 2007	31 December 2006
Current portion of the long term loans	116,468	76,951
Short term loans (credit lines)	12,002	9,922
Interest related to long term loans	13,226	8,214
Total short term borrowings	**141,696**	**95,087**

The Group has one revolving credit line contracted with Romanian Commercial Bank with a value of 12,500. During 2007, this credit line has increased the financing sources used in the operating activities. As at 31 December 2007, its balance is 12,002.

12. Employee benefits obligations

As at 31 December 2007 and 31 December 2006 the Group has an obligation regarding the employee benefits, as described in Note , in the amount of 22,672 and, 13,347 respectively.

The estimation regarding these obligations has taken into consideration the followings:

- Interest rate as at 31 December 2007 communicated by the National Bank of Romania ("NBR") and interest rates

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estimated by the Group for future periods;
- Inflation rate as at 31 December 2007 communicated by the National Statistics Institute ("NSI") and inflation rates estimated by the Group for future periods;
- Electricity price as at 31 December 2007 and the price estimated by the Group for future periods;
- Salary as at 31 December 2007 and the salaries estimated by the Group for future periods;
- Number of employees as of 31 December 2007 and the number of employees estimated annually by the Group based on employee turnover and life expectancy information provided by NSI.

13. Trade and other liabilities

As at 31 December 2007 and 31 December 2006 trade and other liabilities are as follows:

	31 December 2007	31 December 2006
Energy suppliers	401,589	494,955
Suppliers of fixed assets	63,956	118,062
Liabilities towards employees	11,019	8,721
Other liabilities	14,925	34,668
Total	**491,489**	**656,406**

The most important energy suppliers are: SC Hidroelectrica SA, SC Complexul Energetic Turceni SA, SC Electrocentrale Bucuresti SA, SC Termoelectrica SA, SC Electrocentrale Deva SA and SC Electrica SA. As at 31 December 2007 and 31 December 2006, these suppliers represent 50% and 70%, respectively from the total energy suppliers.

Other liabilities in amount of 14,925 include mainly delay penalties owed by the Company to the Central Finance and Contracting Unit in amount of 3,542 and guarantees for works executed by the suppliers in amount of 2,674.

14. Income tax

The Group's current income tax for financial years 2007 and 2006 is determined on the basis of statutory profits, adjusted for non−deductible expenses and non−taxable income, at a statutory tax rate of 16%.

As at 31 December 2007 and 31 December 2006 the income tax expense consists of current income tax expense is as follows:

	2007	2006
Income tax	27,652	51,493
Total	**27,652**	**51,493**

Numerical reconciliation between income tax expense and the product between accounting result and the applicable profit tax rate are as follows:

	2007	2006
Profit before income tax	90,604	345,563
Income tax at statutory rate of 16%	14,497	55,290
Effect of non-deductible expenses	33,302	50,665
Effect of non-taxable income	(43,432)	(42,152)
Effect of timing difference not recognized at 16%	23,285	(12,310)
Income tax	**27,652**	**51,493**

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

As at 31 December 2007 and 31 December 2006 the net potential deferred tax asset/liability on temporary differences is as follows:

	31 December 2007		31 December 2006	
	Cumulative temporary differences	Deferred tax (asset) / liability	Cumulative temporary differences	Deferred tax (asset) / liability
Property, plant and equipment	(50,001)	(8,000)	(348,214)	(55,714)
Inventories and other non-current assets	-	-	122	20
Subsidies	(15,746)	(2,519)	(22,368)	(3,579)
Special destination reserve for the energy sector	-	-	48,386	7,742
Retirement benefits	(22,672)	(3,628)	(13,347)	(2,136)
Subtotal	**(88,419)**	**(14,147)**	**(335,421)**	**(53,667)**
Net deferred tax asset not recognized		14,147		**53,667**
Total	**(88,419)**	-	**(335,421)**	-

As described in Note 1, the Group's profitability depends on the tariffs agreed with ANRE, which have been amended starting 1 January 2007. Due to recent and future changes in tariffs combined with the consideration that the Group is on a profit position starting with the year ended 31 December 2004, management decided not to recognize any deferred tax assets at 31 December 2007, except to the extent of deferred tax liabilities recognized.

15. Earnings per share

As described in Note 9, the Company increased the share capital in March 2007 by 5,276 shares. During 2006, the Group increased the share capital by 7,329,787 by initial primary public offer dated 14 June 2006. As at 31 December 2007 and 31 December 2006, the earnings per share were as follows:

	2007	2006
Consolidated net profit	**62,952**	**294,070**
Number of ordinary shares at the beginning of the year	73,297,866	65,968,079
Time weighting factor – months	12	12
Number of shares issued during the period	5,276	7,329,787
Time weighting factor – months	10	5
Weighted average number of ordinary shares at the end of the period	73,302,263	69,022,157
Basic and diluted earnings per share (lei/share)	**0.86**	**4.26**

16. Other tax and social security liabilities

As at 31 December 2007 and 31 December 2006 the other tax and liabilities are as follows:

	31 December 2007	31 December 2006
Contribution to social security fund	7,124	5,346
VAT payable	6,380	1,039
Tax on salaries	2,237	1,607
Other tax payable	1,066	912
Total	**16,807**	**8,904**

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17. Number of employees

The number of employees as at December 2007 and as at 31 December 2006 was 3,810 and 3,824 respectively.

18. Operating revenues

Revenues have been computed using the average tariffs approved through ANRE Orders No. 43/20 December 2006, No. 7/21 March 2007 and No. 26/26 July 2007.

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

The revenues for the years ended 31 December 2007 and 31 December 2006 are as follows:

	2007	2006
Electricity transmission	824,416	853,816
Interconnection capacity	63,883	36,107
Revenues from electricity transmission	**888,299**	**889,923**
Ancillary services	788,039	757,905
Reactive energy	19,666	16,264
Revenues from ancillary services	**807,705**	**774,169**
Balancing market	571,737	776,242
Other operating revenues	116,701	63,452
Total operating revenues	**2,384,442**	**2,503,786**

During the years ended 31 December 2007 and 31 December 2006, the quantity of energy transmitted was as follows:

- MWh 55,371,525 and MWh 38,987,766, respectively for transmission services; the quantity for 2007 represents the transmittable energy (energy entered in the National Energy System less the technological consumption of the Energy Transmission Network and the energy produced by power stations with an installed capacity of less than 10Mw), while the quantity from 2006 represent the actual quantity transmitted (represents approximate 70% from transmittable energy);
- MWh 55,711,680 and MWh 56,378,196, respectively for ancillary services.

Other revenues in amount of 116,701 as at 31 December 2007 and 63,452 as at 31 December 2006 include mainly release of deferred income in amount of 45,490 and respectively 20,628.

19. System operating and balancing market expenses

	2007	2006
Technological losses	232,742	180,907
Ancillary services	462,682	414,947
Cogeneration	268,956	269,991
Other operating expenses	74,640	44,326
Operating expenses	**1,039,020**	**910,171**
Balancing market expenses	571,737	776,242
Total	**1,610,757**	**1,686,413**

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

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20. Financial result

	2007	2006
Interest revenues	16,266	14,031
Interest expenses	(51,115)	(48,942)
Net foreign exchange (losses) / gains	(49,819)	101,601
Other financial items	(219)	(953)
Financial result	**(84,887)**	**65,737**

21. Fiscal environment

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

22. Commitments and contingencies

(I) Commitments

As at 31 December 2007 and 31 December 2006, the Group had commitments given amounting 353,520 and 522,600 respectively, representing ongoing contracts for the Company's investment program related to the modernization and refurbishment of the transmission grid.

(II) Land used by the Group

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

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

(III) Commitments in accordance with Law 10/2001 and Law 247/2005

According to Law No. 10/2001 modified, the Romanian State decided to grant compensation in shares for those whose buildings were expropriated by the Romanian State, These shares could be submitted by their owners to the Ministry of Economy and Commerce with the option for the national companies in which Romanian State had participation, including the Company, up to 5% of its share capital. Consequently, 5% of the share capital of the Company was allocated for this compensation. The shares will be allotted from the Romanian State's participation in the Company and are banned from trade on the BVB for the first six months after their allotment.

The weighted average price of shares given to former owners who have been compensated in kind was communicated by BVB being 31.5425848 lei.

(IV) Litigation in process

As of the date of these consolidated financial statements, the Group was involved in a number of 171 litigations in process. In 52 of them the Group acts as a plaintiff or a challenging party, while in 119 of them the Group is a defendant. The management analyzes the status of the litigation in process regularly and after consultation with its legal representatives considers the appropriateness of providing for or disclosing the amounts involved in the consolidated financial statements.
During 2007, the Company has been subpoenaed by Fondul Proprietatea for:

- paying the amount of 17,128, representing the net value of dividends distributed for the financial year 2005;
- paying the commercial interest for the above amount, computed for the period between due date and settlement date;
- paying the law expenses incurred with this litigation.

Fondul Proprietatea was registered at the Romanian Trade Register Office based on the certificate No. 11–10–136 / 28 March 2006, as the owner of 9,895,212 nominative shares transferred from the Romanian State, represented by Ministry of Economy and Finance through the Office of State Ownership and Privatization in Industry, with a nominal value of 10 lei/share and with a total nominal value of 98,952, representing 15% from the share capital of the Company at that date.

Fondul Proprietatea registered in the Company's Shareholders register on 24 May 2006, while the General Extraordinary Shareholders Meeting took place on 28 April 2006 for the approval of the financial statements and dividends distribution for the financial year 2005.

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The dividends in amount of 17,128 approved by the General Extraordinary Shareholders Meeting for the financial year 2005 were paid to the sole shareholder at that date, respective Ministry of Economy and Finance through the Office of State Ownership and Privatization in Industry, according to the Decision of the General Extraordinary Shareholder Meeting and to the deadline required by GD No. 64/2001.

The provision booked by the Company in amount of 3,121 (representing dividends in amount of 2,569 claimed by Fondul Proprietatea from the profit appropriation of 2005 and also penalties for delay in amount of 552) has been reversed based on compensation request no 1235/21.01.2008 sent to Ministry of Economy and Finance and based on GD No. 1484/6 Dec 2007 referring to the methodology of setting off the amounts representing the appropriate proportion of dividends for years 2005 and 2006 which were paid to the State's budget or to public institution involved in the privatization process and which should have been paid to Fondul Proprietatea.

As at 31 December 2007, the Company is involved in a litigation with the Central Finance and Contracting Unit in relation to the VAT considered by Ministry of Economy and Finance as a non eligible cost for Phare 2000 Project, despite the fact the memorandum concluded by the Romanian Government with the European Commission recognizes it as an eligible cost. As at 31 December 2006, the Company had a provision booked for the amount of 13,662, the equivalent of EUR 4,039,984. In June 2007, the Company's bank accounts were credited by the amount of 14,150 (the equivalent of EUR 4,039,984 at exchange rate of 3.927, communicated by NBR for 14 September 2006). As at 31 December 2007, the provision has been reversed and the balance of subsidies has been decreased by 14,150.

Based on a minute made by the Central Finance and Contracting Unit dated 17 December 2007, penalties in amount of EUR 981,105 (the equivalent of RON 4,491,164 at exchange rate of 3.5584, communicated by NBR for 17 December 2007) were computed to Transelectrica for the late payment of EUR 4,039,984.

The management of the Group considers that, the consolidated financial statements of the Group contain adequate provisions (see Note 13) for the circumstances when settlement of litigation in process will result in an outflow of resources. Based on the information available, the management considers that there is no other significant litigation in process which should be provided, In addition, there are no other litigation cases which either by nature or by amount involved could result in significant contingent assets or liabilities for the Group's activity.

(v) *Shareholder certificates issued by Transelectrica*

As at 9 July 2007, Transelectrica issued the first shareholder certificates to those who were expropriated by the Romanian State and then their rights were reinstated under Law 10/2001, and who, as described in Note 11 (iii), chose to subscribe to become shareholders at the companies from portfolio of Ministry of Economy and Finance, during April 2004 – July 2005. As at year end, the shareholders register managed by Depozitarul Central recorded transfers of 2,033,042 shares that fall in this situation. This represents 2.8% of the total number of shares issued by the Company. As at 31 December 2007, these transfers were not registered with the Trade Registry Office.

(vi) *Revaluation reserves*

According to the provisions of the Fiscal Code, statutory revaluation reserves will be taxable in the future, in circumstances when the destination of such reserves if changed in any way, in case of liquidation, merger and including using the reserves for covering the Company's losses. Statutory revaluation reserves as at 31 December 2007 are in amount of 1,244,221.

23. Group structure

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

Entity	Country of Origin%	31 Dec. 2007 of total shares	31 Dec. 2006 % of total shares
SMART SA	Romania	100	100
TELETRANS SA	Romania	100	100
ICEMENERG SA	Romania	100	100
OPCOM SA	Romania	100	100
FORMENERG SA	Romania	100	100
ICEMENERG SERVICE SA	Romania	100	100

SC SMART SA

SC SMART SA, with registered offices in 33 Magheru Boulevard, sector 1, Bucharest has as main activities the provision of main–tenance services for the transport – dispatcher system, It was set up by Romanian Government Decision No. 710/ 19 July 2001 at 1 November 2001, with a share capital of 33,529.

SC TELETRANS SA

SC TELETRANS SA, with registered offices in 16–18 Hristo–Botev Boulevard, sector 3, Bucharest has as main activities telephony, telegraphy and transmission of data. It was set up as per Shareholders Meeting no 3/2002, with a share capital in amount of 3,955.

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

SC OPCOM SA
SC OPCOM SA, with registered offices in 16–18 Hristo–Botev Boulevard, sector 3, Bucharest and with a share capital in amount of 2,501 has as main activity the energy market administration.

SC FORMENERG SA
SC FORMENERG SA, with registered offices in 3 Gh, Sincai Boulevard, sector 4, Bucharest has as main activity the personnel professional training in all energy areas. It was set up as per Shareholders Meeting No. 33/ 2001, with a share capital in amount of 1,840.

SC ICEMENERG SERVICE SA
SC ICEMENERG SERVICE SA, with registered offices in 8 Energeticienilor Boulevard, sector 3, Bucharest, has as main activity the production of equipments for the distribution and control of energy. It was set up as per Government Decision No. 2294/ 9 December 2004 published in Official Gazette No. 32/ 11 January 2005, with a share capital in amount of 493.

24. Transactions with other state owned companies
The Group's transactions relating to the electricity transmission and other activities performed as market and system operator are generally carried out with other companies owned by the Romanian state based on contracts.
The transactions with other state owned companies for the years ended 31 December 2007 and 31 December 2006 are detailed below:

	2007	2006
Sales	1,705,993	2,168,164
Purchases	2,016,109	2,110,947

The balances with other state owned companies as at 31 December 2007 and 31 December 2006 are detailed below:

	31 December 2007	31 December 2006
Trade receivables	492,882	567,797
Trade payables	333,666	426,001

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

25. Management salaries
During the years ended 31 December 2007 and 31 December 2006, the management's salaries were in an amount of 5.462 and 3,998 respectively.

26. Financial instruments and risk management
Financial instruments
In accordance with the license no. 161/2000 regarding electricity transmission and system services, the Company has to maintain a financial guarantee in amount of 1% of the turnover generated by activities authorized by this license. This protects the Company from risks arising from these activities and covers any potential liabilities that may be incurred according to the license contractual clauses. In order to comply with this obligation, the Company concluded a guarantee agreement with BCR–WTC.

The management of the treasury was aimed at optimizing the usage of liquidity by:
- placing its cash and cash equivalents in different banks;
- setting up hard currency deposits based on estimation of exchange rates and negotiation of exchange rates and interest rates;
- paying its debts in due time in order to avoid penalties for late payments;
- setting up short term deposits for the cash and cash equivalents in bank accounts.

Risk management
The Company manages risk using a risk management system. The system was audited by a specialized company which prepared

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a risk management policy. The strategic requirements for operation safety and continuity demand that the Company proactively approaches risk management in order to identify and address any potential loss before the events causing it could occur, preparing in advance the technical, operational and financial solutions to overcome such potential loss.

During the period 2003 – 2004, the Company designed and implemented a risk management program with the following goals: operation continuity and the protection of the Company's values, anticipation and prevention of any major negative operational events, provision of financial resources for operational expenditures, for payment of debts and strategic investments. The business risk was audited, the patrimony risk was assessed and the "Plan of basic measures regarding dealing with risks" was prepared.

Initially started in 2005, in 2007 the business continuity plan with respect to emergency situations, crisis management activity settlement was elaborated and tested. Its main objective are: enabling the activity continuity and safeguarding Company values, anticipating and preventing major negative operating events, covering financial operating expenses, debt repayment and strategic investments. In addition, a business risk audit and an asset risk assessment were performed and the plan of actions to address risks was put in place.

During the period 2005 –2008, the specialized consultant of the Company was SC AON Romania Assurance Broker SRL. The Company's objectives included: identification, evaluation and risk control and reducing the Company's risk related expenses by determining the optimal risk solution structure, proposing the financing structure for addressing risks and establishing a risk control policy.

Interest rate risk

The Company's operating cash flows are impacted by the changes in interest rates, mainly due to the foreign long term debts the Company contracted.
The interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Company has significant long–term loans incurring interest at fixed and variable rates that expose the Company to significant cash flow risk.

Foreign exchange risk

The Company may be exposed to the changes in the foreign exchange rates due to its long term borrowings and commercial debts denominated in foreign currencies.

The Company's functional currency is RON, whereas most of the Company's long–term financing costs are denominated in foreign currencies, mainly EUR and USD. Thus, the long–term loans are denominated in foreign currencies, which are retranslated at the prevailing exchange rate at each balance sheet date, as communicated by Romanian National Bank. The resulting differences are charged or credited to the income statement, but do not affect cash flows until the settlement of the amount.

During 2007 inflation rate was 6.6%. Inflation rate and the volatility of exchange rates may impact upon the Group's liquidity.
The Group is exposed to foreign currency risk on purchases and borrowings that are denominated in a currency other than the functional currency of the Group. The currencies giving rise to this risk are primarily EUR, USD and Japanese Yen (JPY).

The Group's exposure to foreign curency risk was a follows based on national amounts:

	RON	EUR	USD	JPY
31 December 2007				
Monetary assets				
Advances to suppliers of fixed assets	16,951,617	1,520,276	-	-
Monetary liabilities				
Suppliers of fixed assets	(36,966,440)	(7,475,918)	-	-
Borrowings	(30,000,000)	(233,380,863)	(56,961,314)	(2,359,029,000)
Gross balance sheet exposure	**(50,014,823)**	**(239,336,505)**	**(56,961,314)**	**(2,359,029,000)**
31 December 2006				
Monetary assets				
Advances to suppliers of fixed assets	29,032,423	5,251,362	-	3,571,874
Monetary liabilities				
Suppliers of fixed assets	(48,595,061)	(20,542,017)	-	-
Borrowings	(35,000,000)	(198,083,136)	(63,581,613)	(2,600,904,337)
Gross balance sheet exposure	**(54,562,638)**	**(213,373,792)**	**(63,581,613)**	**(2,597,332,463)**

The following significant exchange rates were used during the year:

	Average rate		Reporting date spot rate	
	2007	2006	31 December 2007	31 December 2006
RON/ EURO	3.3372	3.5239	3.6102	3.3817
RON/ USD	2.4384	2.8073	2.4564	2.5676
RON/ 100 JPY	2.0693	2.4171	2.1766	2.1599

Sensitivity analysis

A 10 percent strengthening of the RON against the following currencies at 31 December 2007 and 31 December 2006 would have increased profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit (thousand lei) 2007	Profit (thousand lei) 2006
EUR	86,405	72,157
USD	13,992	16,325
JPY	5,135	5,610
Total	**105,532**	**94,092**

A 10 percent weakening of the RON against the following currencies at 31 December 2007 and 31 December 2006 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

	Loss (thousand lei) 2007	Loss (thousand lei) 2006
EUR	(86,405)	(72,157)
USD	(13,992)	(16,325)
JPY	(5,135)	(5,610)
Total	**(105,532)**	**(94,092)**

The treatment of counterparty risk is based on internal and external success factors. The external success factors which contribute to the decrease of the risk in a systematic way are reorganisation of the energy market, privatisation of some of SC Electrica SA subsidiaries and improving the market operation activity. The internal factors of success in managing the counterparty risk include diversifying of the clients portfolio, liberalisation of the energy market, and diversifying the services portfolio.

Financial assets, which potentially subject this Group to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment adjustment, represents the maximum amount exposed to credit risk.

Credit risk with respect to these receivables is limited, since these amounts are primarily due from owned stat companies.

The maximum exposure to credit risk at the reporting date was:

	Carrying amount (thousand lei)	
	31 December 2007	31 December 2006
Financial assets		
Trade receivables	665,326	670,279

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The ageing of trade receivables at the reporting date was:

	Gross 2007	Impairment 2007	Gross 2006	Impairment 2006
Between 0 – 30 days	540,664	-	641,562	-
Between 30 – 90 days	107,998	-	12,554	-
Between 90 -180 days	7,403	-	13,833	-
Between 180 -365 days	8,651	-	3,023	-
More than one year	1,358	747	12	706
Total	**666,073**	**747**	**670,985**	**706**

Liquidity risk:

	31 December 2007 (thousand lei)	31 December 2006 (thousand lei)
Assets		
Monetary assets in RON	904,658	1,077,516
Monetary assets in foreign currency	5,488	17,836
	910,147	**1,095,352**
Liabilities		
Monetary liabilities in RON	(683,145)	(826,922)
Monetary liabilities in foreign currency	(1,060,808)	(958,754)
	(1,743,952)	**(1,785,676)**
Net monetary position in RON	**221,514**	**250,594**
Net monetary position in foreign currency	**(1,055,319)**	**(940,918)**

The Group's policy on liquidity is to maintain sufficient liquid resources to meet the obligations as they fall due.

The following are the contractual maturities of financial liabilities, including interest payments:

	Carrying amount	Contractual amount	12 months or less	1 - 2 years	2 - 5years	> 5years
31 December 2007						
Financial liabilities						
Trade payables	(465,545)	(465,545)	(465,545)	-	-	-
Borrowings	(1,089,046)	(1,089,046)	(141,696)	(131,639)	(396,577)	(419,134)
Total	**(1,554,591)**	**(1,554,591)**	**(607,241)**	**(131,639)**	**(396,577)**	**(419,134)**
31 December 2006						
Financial liabilities						
Trade payables	(613,017)	(613,017)	(613,017)	-	-	-
Borrowings	(942,422)	(942,422)	(95,087)	(105,448)	(347,306)	(394,581)
Total	**(1,555,439)**	**(1,555,439)**	**(708,104)**	**(105,448)**	**(347,306)**	**(394,581)**

Fair value of financial instruments

The fair value is the amount at which the financial instrument can be exchanged in a current transaction by willing parties in an arm's length transaction, other than determined through liquidation or forced sale. The fair values are obtained from quoted market prices or through cash flows models, as appropriate. Management is not able to estimate a reliable fair value for available–for–sale investments. As at 31 December 2007, cash and cash equivalents, trade and other short term receivables, trade payables and other short term liabilities are close to their fair value due to their short due date, Management believes that the estimated fair values of these instruments approximate to their carrying amounts. All the long term loans bear a variable interest rate and consequently, the accounting value of the long term loans is an approximation of its fair value.

Personnel risk and salary scheme

As at 31 December 2007, the average age of the Group's personnel is quite high. It is likely that in the nearest future, the Group will face a lack of personnel due to natural causes.

The Group could also face the risk that highly qualified employees leave for private companies which may offer salary packages more attractive than those offered by the Group.

The salary policy imposed by the State on companies in which it is the majority shareholder may lead to a major fluctuation within the specialized work force.

Price risk related to the regulatory framework of NES

The Group's operations and revenues are regulated by ANRE. The most important risks arising from this are:

- The regulatory framework is relatively new and prone to different changes, which may affect the Group's performances;
- ANRE decisions regarding future tariffs may affect the Group's operations;
- Assets disposal may reduce the regulated assets base, which may consequently lead to a decrease in the tariff approved by ANRE and to a decrease in the Group's profitability.

Adhering to the European Union involves a number of risks associated with the economic, social and competitive pressure, determined by the free movement of goods, services and capital. This fact can cause a high risk of liquidity for Romania's economy.

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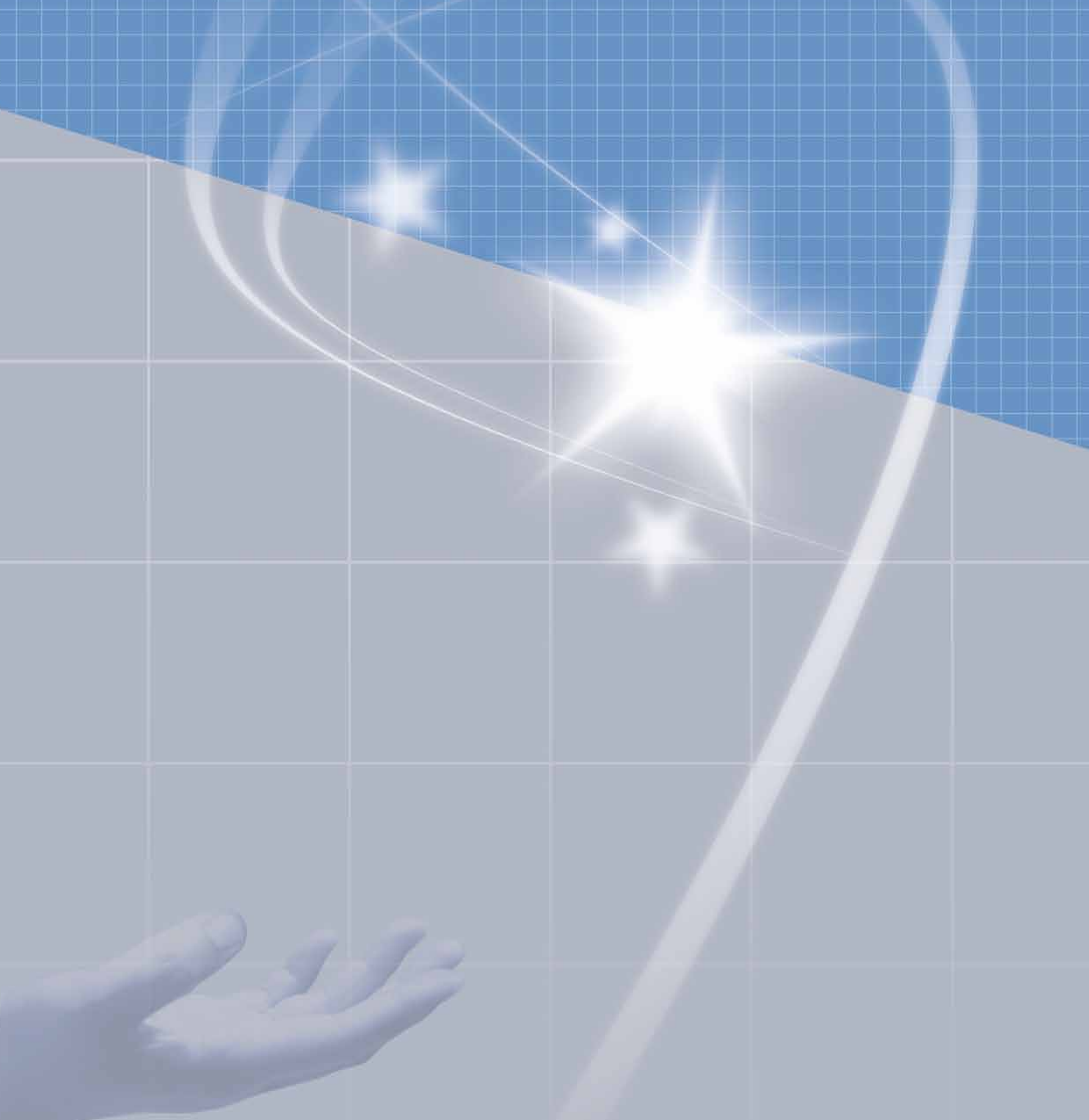

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