Transelectrica®

WE LEAD THE POWER

Annual Report 2010

The Company of the New Millenium 2000 - 2010


Our success was only....
....the beginning

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INTRODUCTION

Transelectrica – 10 years of excellence in electricity transmission and operation

Company profile

Transelectrica is the Romanian Transmission and System Operator (TSO).
For the 10 years of its corporate life, Transelectrica manages and operates the electricity power system and transmission grid, providing transmission services for electricity transactions among central and south-eastern countries. It ensures electricity transmission from generators to the large consumers connected to the grid; manages the power system and wholesale electricity market operation, the grid and market infrastructure development and guarantees a regulated third party access to the Romanian electricity transmission network under transparent, non-discriminatory and fair conditions to all market players.

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

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

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

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

In 2010 Transelectrica has already been acknowledged in the country and abroad as a strong company playing a strategic role on the Romanian power market, as well as a significant player on the regional electricity market.

Our success will be only....
....the beginning

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Transelectrica has proactively assumed its responsibilities on behalf of its customers and the community by working on security of supply for today and the future

Commitment for operational safety

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

Commitment for electricity transmission

Transelectrica responds for electricity transmission between two or more network points, with due observance of continuity, safety and quality norms. This service is provided onto the medium, high and extra high voltage power grid, over its 8925 km of overhead electric lines and through its 79 electrical substations, at voltage levels of 110, 220, 400 and 750 kV. The electricity amount for which transmission services are provided is the one introduced into/taken from network nodes by the end-user of transmission services.

Commitment for grid infrastructure development

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

Among the projects completed since Transelectrica was set up in 2000, there are 21 rehabilitated and modernised electrical substations, 1 international interconnection electric line between Romania and Hungary (Arad - Nadab – (Oradea) – Beckescsaba), 1 internal electrical line (Gutinas-Bacau Sud-Roman Nord-Suceava), 11 substations of 220/110 kV under the project to modernise the command-control-protection system and also a great number of facilities belonging to the investment project for rehabilitation and modernisation of the transmission – dispatching system (EMS-SCADA, optic fibre, metering components).

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

Commitment for market operation

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

Commitment for the environment

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

Responsibility towards employees

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

A sustainable and socially responsible Company

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

Key Figures	2009		2008	
	thou lei	thou euro	thou lei	thou euro *)
Operational revenue	2,551,649	603,484	2,683,193	626,212
EBIT	98,616	23,323	188,421	43,974
Total revenues	2,574,946	608,993	2,777,780	648,287
Total expenses	2,562,833	606.129	2,647,578	617,900
Gross profit	12,113	2,865	130,202	30,387
Basic and diluted earnings per share	0.25	0.06	1.42	0.33
Number of employees 31.12.2010	2,198			
Geographical length of network in km	9,028 km			
*) Lei/Euro exchange rate: 4.2282 in 2009 and 4.2848 in 2010				

Source: IFRS Consolidated Financial Statements as at 31 December 2010

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Message from the Chairman of the Board

I am highly honoured to manage the Romanian System and Transmission operator - Transelectrica. This is a new challenge for me, and I wish, that with the support of the Ministry of Economy, Trade and Business Environment, to implement a package of policies meant to consolidate Transelectrica's background. This will also enable us to reach our goal, of becoming the technical and operational authority of the Romanian Power System, and the key power transmission operator in the south-eastern European region. Thus operating interconnected with ENTSO-E and supervising the electricity transit throughout the regional electricity market.

We will focus on strategic development projects by considering the critical electricity infrastructure protection under the current European conditions, and the new Romanian legal framework.

2010 was a year full of challenges, but the joint commitment of all our colleagues maintained stability and produced noticeable results in many fields.

We are proud that Transelectrica managed to increase its profitability, registering a net profit higher by 55.77% than in the previous year.

We were among the first European TSO-s that constantly continued developing its interconnection capacity with neighbouring countries in view of facilitating the emergence of the single European electricity market. We have endeavoured to prioritise our investments so as to sustain as efficiently as possible the ETG integration of generation projects from renewable sources.
In the long run, at national and European levels, we aim at preparing today's grid in response to tomorrow's challenges, the „smart-grid", large-scale integration of generation outputs from renewable sources while maintaining operational security.

All these are possible due to the professionalism of our specialists, and their capability to think ahead of time, but also because of our determination to develop the electricity market in a sustainable and efficient manner.

We have been also very pleased to include in this report, the first Transelectrica Report on Corporate Social Responsibility.

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

During its 10 years of activity Transelectrica decided to get involved in fields such as: art and culture, education, humanitarian activities, environment, community development, responsibility to employees, and corporate volunteering.

For 2010, we adopted the phrase "Transelectrica invests in the future" to express the goal of our CSR initiatives, and we could prove by transparency and open communication, that a responsible company is the company for future.

The Company's 10th anniversary was an occasion for us to look to the future: we are certain that responsibility will play an increasing role worldwide, and Transelectrica is constantly working on deepening and widening its CSR activities.

Horia Hahaianu
Director General and
Chairman of the Board

2010 IN BRIEF

With a proposed
CAPEX programme of Euro 600 M by 2012, in 2010 Transelectrica kept on developing several major international interconnection projects to be completed with neighbouring power systems. Interconnection electrical lines between the Romanian power system and the power systems of Serbia, Republic of Moldova and the HVDC link 400 kV undersea cables with Turkey are under various development stages.

June 10, 2010

Transelectrica refurbished the 400/220/110 kV substation Bucharest

Transelectrica and Siemens have marked the completion of the refurbishment work in the 400/220/110 kV substation Bucharest South.

The total cost of the refurbishment was 47.2 million Euros.

The refurbishment work to Bucharest South substation consisted in replacing the primary and secondary equipment (command, control, protection) with state-of-art performing equipment.

The project is the greatest investment ever made by Transelectrica under a single lot.

The refurbished substation Bucharest South will provide increased operational safety, reduced maintenance and operational costs, and increased supply safety when delivering electricity to Bucharest city.

June 29, 2010

Transelectrica retrofitted the 400/110/220 kV substation Gura Ialomitei

Transelectrica, Siemens (Austria) and Energomontaj (Romania) inaugurated the completion of the retrofitting works at the 400/110/220 kV substation Gura Ialomitei. The substation retrofitting was accomplished under a turn key contract (equipment design, supply and erection). Gura Ialomitei substation is the second transmission substation of Transelectrica designed and constructed with GIS technology (Gas Insulated Switchgear- capsulated substation with SF6 gas insulation) with modern control and protection equipment. The systems are compact and emission-free, they cannot be impacted by pollution and have low maintenance costs, with reliable operation and compliant with the required interconnected operation of the Romanian Power System to the west European one.

July 28, 2010

Transelectrica met the delegation of Ministry of Economy from Republic of Moldova

Transelectrica's management received the visit of the delegation comprising representatives of the Ministry of Economy from Moldova and of the companies IS Moldelectrica and United Energy Moldova. The official delegation from the R. of Moldova was led by Mr. Ilarion Popa, vice-minister of the economy. The topics debated focused on building a 350 MW power plant in Ungheni and a 400 kV interconnection line Ungheni-Iasi in cooperation with Co. Moldelectrica from the R. of Moldova. The interconnection of the two power systems can make Romania one of the most important exporters of energy in this part of Europe.

In 2010 Transelectrica had to face

the new and major challenge

brought about by the current change of the generation mix and wind farm penetration, particularly. The requirements to connect 14,000 MW in wind farms will have a major impact in reshaping the electricity transmission grid, providing the adequate system services and in planning the power system development.

Transelectrica 2010 in Europe

Transelectrica played an active international role in the neighbouring EU regions SEE and CEE, and is also involved in enlarging the west European synchronous power system towards the eastern part of the continent. In 2010 Transelectrica coordinated, jointly with other partners, the project enabling the Republic of Moldova and Ukraine to join the ENTSO-E system.

Transelectrica

10 years of excellence in electricity transmission and operation

In 2010 Transelectrica celebrated 10 years from its establishment and 55 of dispatcher management.
Celebrating 10 years from the establishment of Transelectrica has actually represented a moment of recognition for the conjugated human effort that, during a decade, has contributed to the rebirth, development and consolidation of Romania's Transmission and System Operator on the Romanian electricity market and which will certainly cope with all challenges to be overcome in the future as well.

Transelectrica

Awarded in 2010

- First prize at the national stage of the excellence contest in project management for the project "Refurbishment of the 400/220/110 kV substation Iernut" organised by the Project Management Romanian Association and finalist in award category – Project Excellence in Medium-Sized Projects, organised by the International Project Management Association.
- First place in the Top of Companies from Bucharest City;
- National prize in the National Top of Romanian Companies;

FOREN 2010 – The 10th Regional Energy Forum

The event was organized by the WEC Romanian National Committee in cooperation with Transelectrica and other companies within the Romanian energy sector.
EXPO FOREN 2010 was held during the forum with the theme"Energy technologies of the 21st Centuri for Security, Efficiecy, Environment , Renewables".

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ENTSO-E:

The pathway towards common European network operation.

To Transelectrica as transmission and system operator, the professional organisation ENTSO-E (European Network of Transmission System Operators for Electricity) represents the most important professional and lobby structure of TSO-type companies, organisation established as direct effect of the 3rd legislative package (2009) of the single electricity market in the European Union, with particular tasks for the uniform development of technical codes and of the European transmission network in order to integrate safely the new renewable sources by developing regional electricity markets and their inter-regional integration.
In 2010, Transelectrica actively and constantly participated to all ENTSO-E activities and projects by means of its 32 experts nominated in all working structures of ENTSO-E (committees, regional groups and task forces).

2010 cooperation

In 2010 Transelectrica was one of the main supporters of regional initiatives within the regional south-eastern European Group (ENTSO-E) in the creation of Coordinated Auction Office Ltd - CAO - regional project initiated by the European Commission, which aims at achieving a centre for the coordinated allocation at regional level of the transmission capacity along interconnection lines relying on the flow based market coupling principle.

In September 2010

the French-Romanian working group on energy issues met in Bucharest, on which occasion the parties have agreed re-negotiating a new memorandum of understanding in the electricity field between Transelectrica and RTE France.

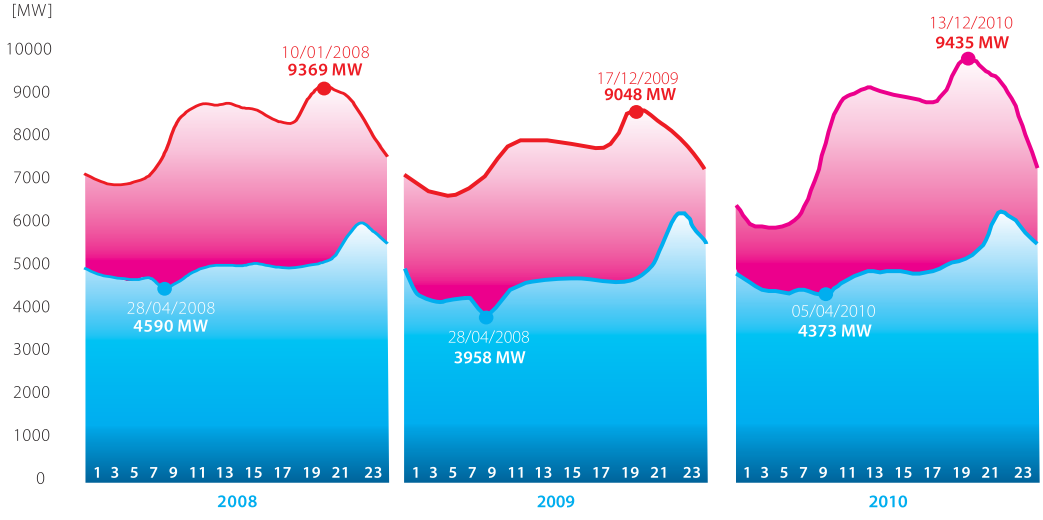
II. MANAGEMENT OF THE ELECTRICAL POWER SYSTEM

Consumption

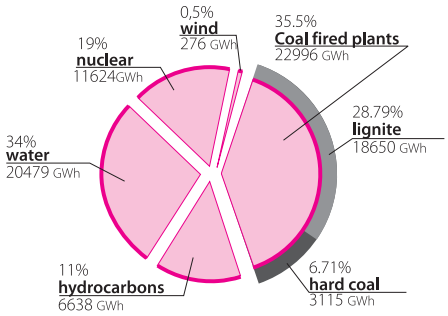
In 2010 the gross domestic consumption grew by 4.8% compared to 2009. With respect to the structure of electricity generation by primary resources, in 2010 one can notice an accented increase of wind farms' contribution (0.5% of the 2010 total production) compared to 2009 (0.02 % of total production).

Structure of power generation	2010			2009		
	[GWh]	[MW]	[%]	[GWh]	[MW]	[%]
TOTAL generation, of which:	**60782**	**6939**	**100.0**	**57667**	**6584**	**100.0**
Coal fired plants, of which	21765	2485	41.00	22996	2625	41.00
lignite	18650	2129	34.00	19022	2171	34.00
hard coal	3115	356	5.12	3974	454	6.89
hydrocarbons	6638	758	10.92	7192	821	12.47
water	20479	2338	33.69	15713	1794	27.25
nuclear	11624	1327	19.12	11752	1342	20.38
wind	276	31	0.45	13.58	2	0.02

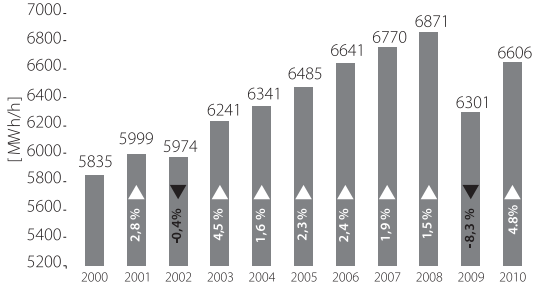
Maximum and minimum daily consumption 2008-2010 (gross values)



Structure of primary power resources in 2010

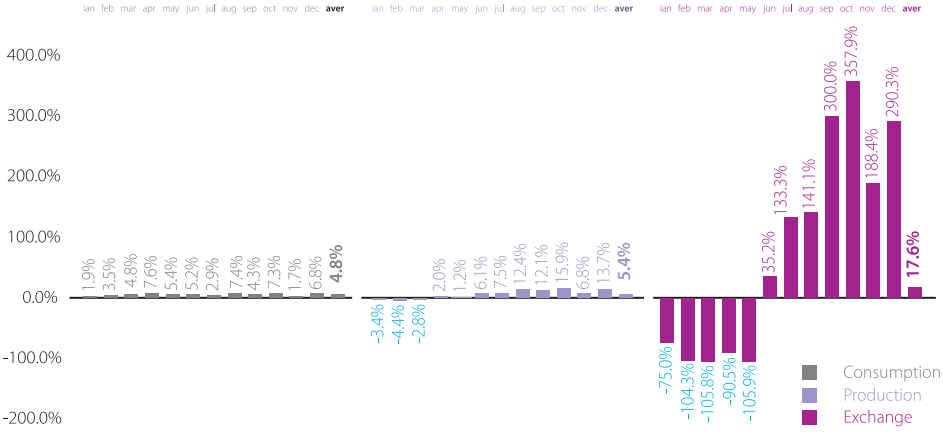


Variation of the annual average gross consumption in 2000 - 2010 (MWh/h)



In 2010 the domestic gross consumption grew monthly with values ranging 1.7%÷7.6%, as compared to the same months of 2009. A 4,8% increase was recorded throughout 2010 in comparison with 2009.

Monthly variation of consumption, generation and balance in 2010 as against the same period of 2009

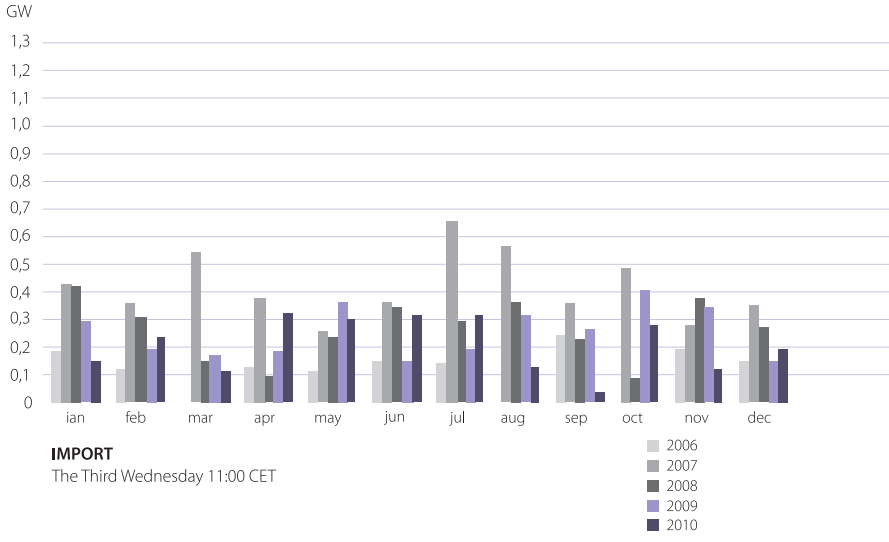


Import / Export

In 2010 the physical power exchanges with other systems represented an export balance of 2.919 GWh (average capacity 333 MW).

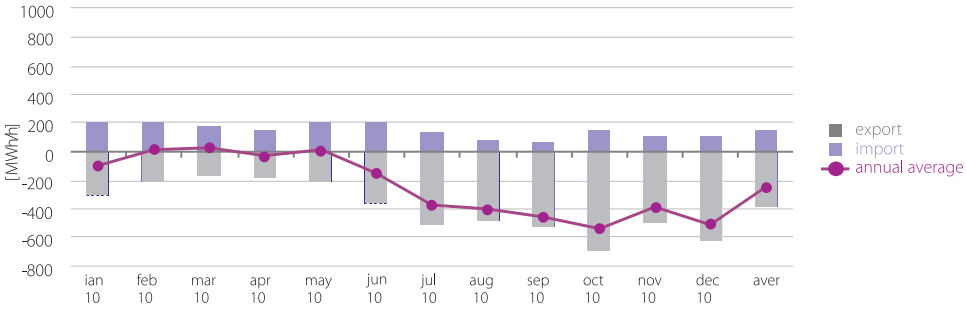
Variation of the import, export and balance of energy exchange with the neighbours in 2005-2010 (annual average values)

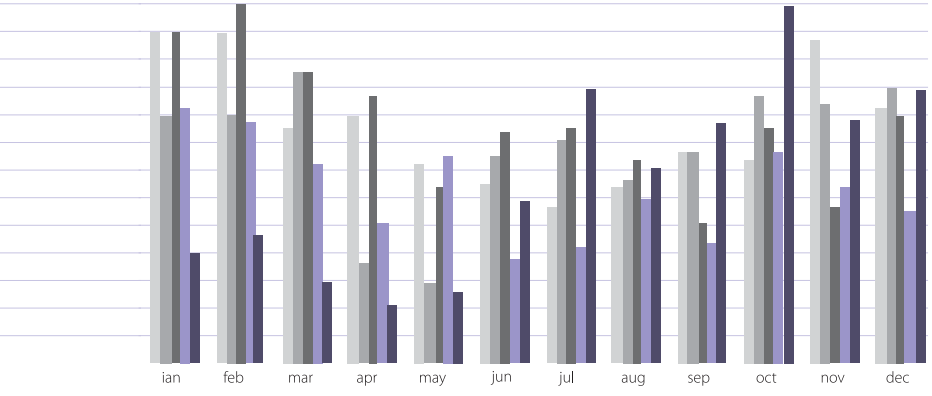
Romania is mostly an exporting country. Electricity exchanges (import/export/transit) with the interconnection partners are achieved on the basis of competitively gained contracts between licensed suppliers on the Romanian market with their external partners.



IMPORT
The Third Wednesday 11:00 CET

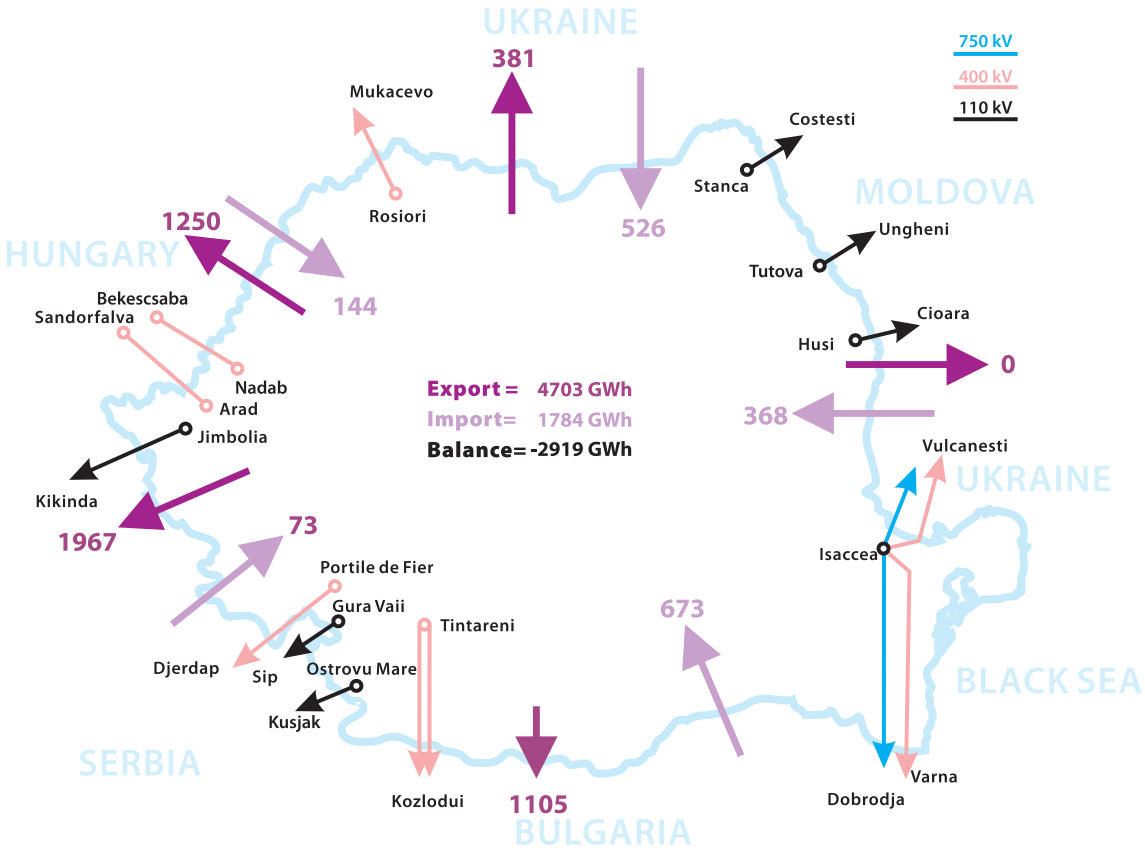
Situation of the monthly electricity exchange in 2010



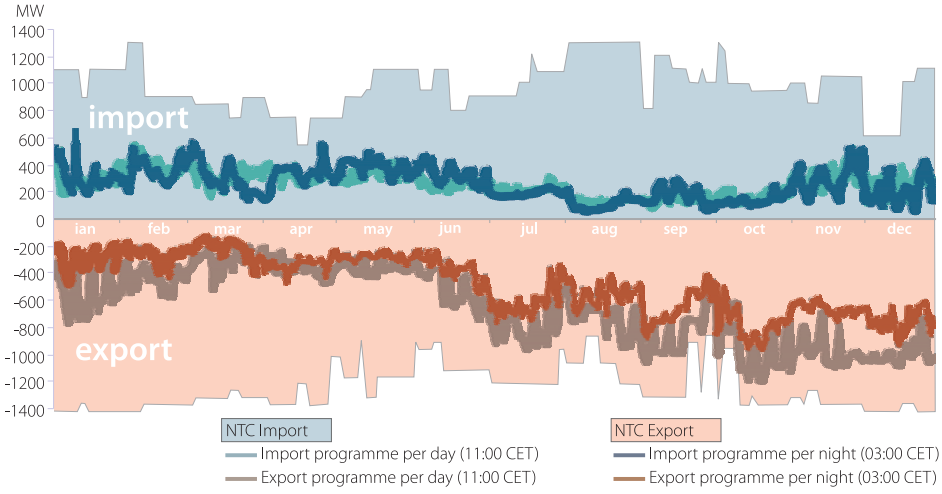


EXPORT
The Third Wednesday 11:00 CET

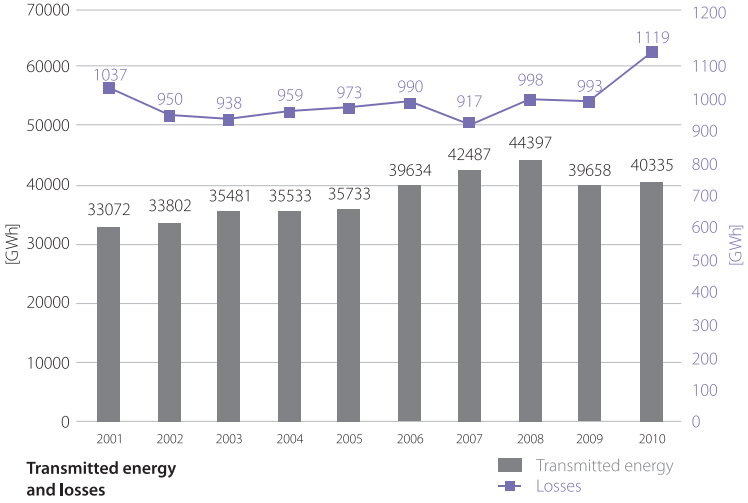
Phisical Exchange on Romanian borders in 2010 (GWh)



Firm Coordinated Import/Export NTC Values and Exchange Programs for 2010



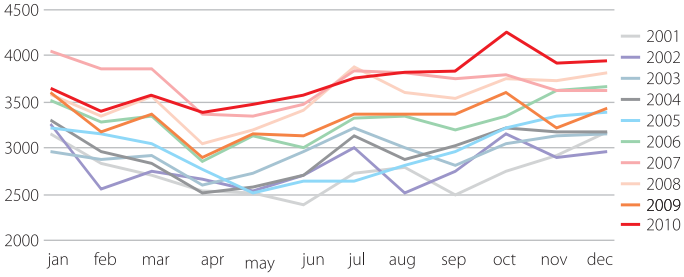
Electricity is traded on the Romanian borders within the available transfer capacities of the Romanian interconnection lines with the neighbouring systems.
Export/import net transfer capacities on interconnection lines are calculated in compliance with ETSO-E procedures, based on technical and economical criteria, according to a non-discriminatory and transparent procedure.
Firm coordinated NTC values are determined for market purposes during each auction period, taking into account the maintenance programmes and considering also post-event dispatching measures in areas influenced by the maintenance programmes in order to maximise the cross-border capacities; it is also taken into consideration in daily and



Transmitted energy and losses

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

Evolution of transmitted energy (without unplanned exchanges)



The main factors that have led to increased losses in 2010 compared to 2009, both in absolute value and related to the energy injected into the ETG outline were:

- Greater amounts of transmitted power from 39,658 GWh in 2009 to 40,335 GWh in 2010;
- Reduced hydrocarbons-generated energy in the power plants discharging directly into the ETG (located in areas of consumption deficit) from 1719 GWh in 2009 to 1108 GWh in 2010;
- Increased generation in hydropower plants discharging directly into the ETG, from 7070 GWh in 2009 to 9090 GWh in 2010, such increase being especially recorded in HPP Portile de Fier I, found in an area of great excess;
- Increased export on the 400 kV OHL Rosiori-Mukacevo from about 4 GWh in 2009 to 381 GWh in 2010;
- Reduced import on the 400 kV OHL Rosiori-Mukacevo from 1373 GWh in 2009 to 526 GWh in 2010;
- Increased export on the Hungarian border from 603 GWh in 2009 to 1250 GWh in 2010;
- The particular meteorological conditions characterised by abundant rains, fog and white frost deposits in the last quarter of the year.

Tariff

The main part of Transelectrica's revenues comes from regulated tariffs applied to suppliers and generators for the use of the electricity transmission system.

Tariffs structure

- **Transmission tariff** - covers total network costs, including maintenance and development
- **Functional system services tariff** – covers the costs of the national dispatch system
- **Ancillary system services tariff** - covers the cost of purchasing technological resources for system services: reserve for regulation (secondary, rapid tertiary and slow tertiary), power reserve, efficient cogeneration, reactive energy
- **Market administration tariff** – covers the costs of OPCOM

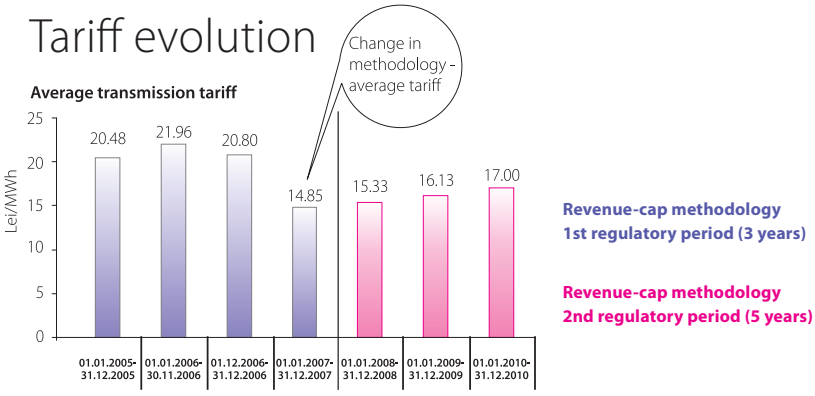
Determination of the tariffs

- The tariff mechanism is based on revenue–cap methodology
- Tariffs are approved by the Regulatory Authority based on the principle of justified costs plus a reasonable level of profitability, with adjustment to yearly inflation and an imposed efficiency gain
- Set up on annual basis (tariff period) within a five-year framework (regulatory period) tariffs covers total network costs, are based on forecast calculation of operational cost, interest expenses and CAPEX submitted by Transelectrica
- 7.5 % - WACC (weighted average cost of capital) used by ANRE

In order to decrease the risk of consumption energy drop, Transelectrica proposes to the Regulatory Authority that a binomial transmission tariff be applied, which has an energy component and a power one independent of the energy consumption.

Tariff evolution

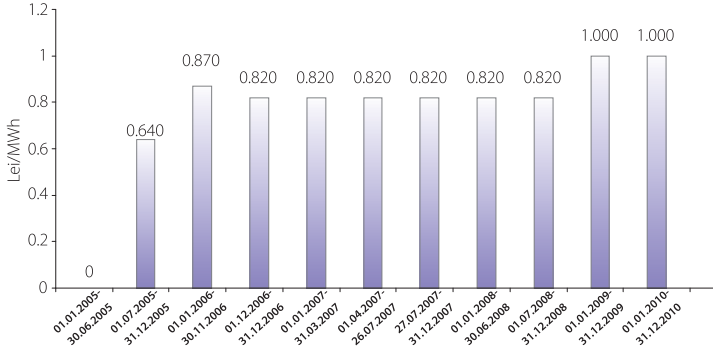
Average transmission tariff



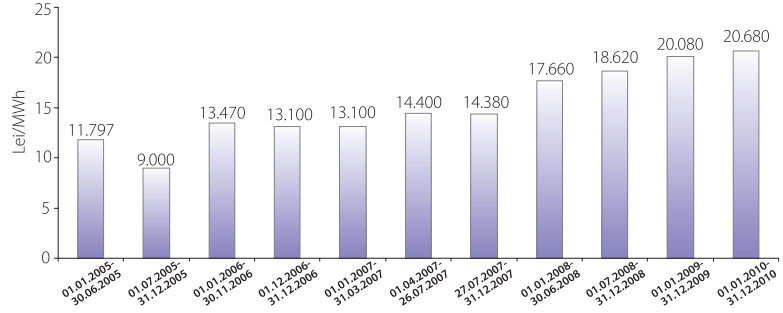
Revenue-cap methodology
1st regulatory period (3 years)

Revenue-cap methodology
2nd regulatory period (5 years)

Functional services tariff



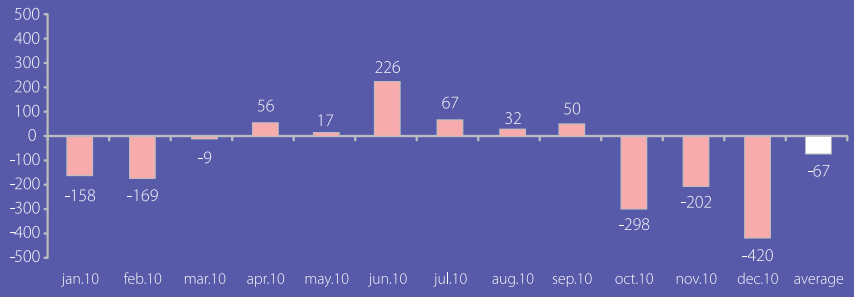
System service tariff



Imbalance Volumes

In 2010 significant differences were registered between physical notifications and real consumption values because of- the hydrological situation, sub-contracting of some suppliers and over-contracting of some producers.

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



Operational Security

The Romanian Power System operated in 2010 without any disfunction of the quality parameters, in compliance with the technical grid code requirements.
The major event of 2010 occurred on 16.02 at 16:50 h in substation Brasov as a consequence of the improper operation of the bus bar differential protection + 110 kV breaker failure device (there were no causes in the primary circuits that should lead to operating the protection); these have triggered the equipment connected to the 110 kV bus-bars 1B, 2A and 2B, leaving powerless a great part of Brasov City and its surroundings. 110.3 MW consumption was disconnected (47.1 MW industrial and 63.2 MW domestic), supply being resumed after 43 ÷ 54 minutes.

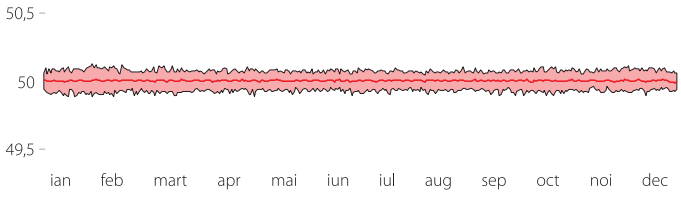
In comparison with previous years, a great amount of energy selected by congestion has been ascertained.
The 2010 selections by congestion were determined as the safety conditions were met in the context of withdrawing the 220 kV bay of TA8 Isalnita from operation on February 24th-26th. Under the refurbishment programme of the 220 kV substations Isalnita, on February 24th, 2010 the 220 kV bay TA8 was taken out of operation in order to connect it to the new refurbished bay. The respective pieces of equipment were disconnected under schedule, according to the refurbishment plan for Isalnita substation, upon the request of TB Craiova.

Meeting the interconnected operation with the ENTSO-E system

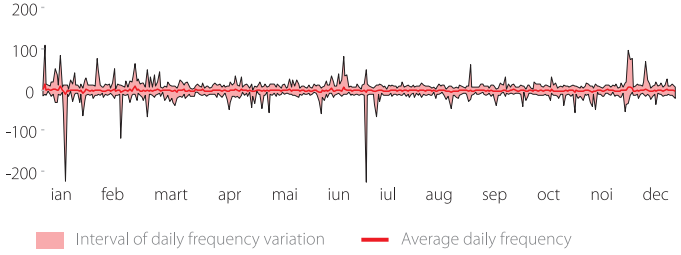
In 2010 frequency variation ranged from 49.95 to 50.05 Hz, namely 96.7% compared to 96.42%, value determined for 2009. The frequency-power control provides a higher performance indicator at the level of the interconnection.

Resolving the balance deviation with the frequency correction ranged within ±20 MWh/h, namely 97.18%. The performance of the secondary control was better than the performance margin (94-95%), a 2.38% increase being ascertained compared to 2009 when the ranging percent was of 94.8% within the ±20 MWh/h band.

Daily frequency variation [Hz] in 2010



Daily variation of balance deviation with frequency correction [MWh/h] IN 2010



In 2010 the technical parameters of energy quality- frequency and voltage, as well as the quality parameters of voltage curves mentioned in the Technical code of the ETG ranged within the imposed limits:

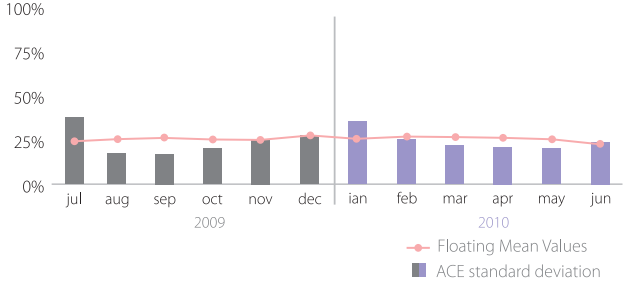
- Frequency complied 100% with the 49.5-50.5 Hz range (a better percentage than the norm of 99.5% provided in the technical code of the ETG);
- Voltage in the control points supervised – Isaccea, Cernavoda, and Portile de Fier – ranged quarterly and annually within 380-420 kV, respectively 198-242 kV (see Form TSO 07);
- The voltage curves compliance with the quality parameters was a concern for the National Power Dispatcher (NPD), in the sense of permanent and temporary monitoring of a greater number of transmission grid substations as compared to 2009. The points where electricity quality was monitored were those in which disturbing consumers are connected and DET-NPD interfaces are located.

Although most substations observe the limits required in terms of THD parameters and unsymmetry factor, a constant exceeding of long-term voltage fluctuation is ascertained with great values (long-term flicker Plt) by consumers Donasid (Tenaris) and Steel Works Hunedoara and Resita. Thus, the long-term voltage fluctuation was exceeded at the interface with such consumers most weeks of the year, and Steel Works Resita and Hunedoara recorded 200% exceeding of the limits.

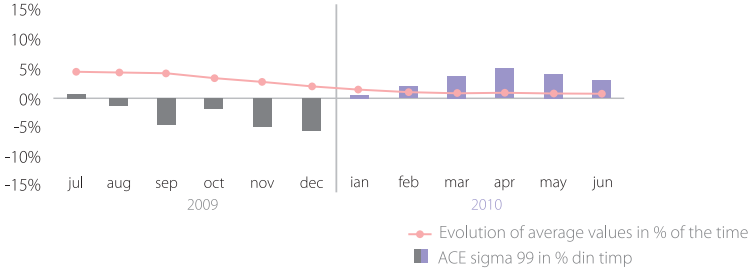
A target permanently supervised under the dispatcher management of the RPS consists in providing the conditions to maintain the consumers' continuity of supply, no significant disconnections being recorded. It is also ascertained that the standard deviation of ACE values (control deviation also called balance deviation with the frequency correction, whose mathematical formula is ACE = Pmetered-Pprogramme + k*(fmetered-f pre-set)) kept constant compared to 2009.

The ENTSO-E analysis in the "Regular Report of the Performance of the Primary and Secondary Load-Frequency Control", elaborated to date for the first two quarters of 2010, shows that Transelectrica maintained its secondary control performance against 2009. Thus the review by ±20 MWh/h ranges of the balance deviation with the frequency correction shows the controlled values were kept within a small spreading range, which means constant control quality during the entire interval studied.

It is also ascertained that the standard deviation of the hourly ACE values (control deviation also called balance deviation with the frequency correction, whose mathematical formula is ACE = Pmetered-Pprogramme + k*(fmetered-f pre-set)) was maintained constant against 2009:



In terms of dispersion of the values controlled by the secondary controller, a better development is ascertained.



Patrimonial security / Critical infrastructure protection

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

When emergency ordinance 98/2010 was issued regarding identification, designation and protection of critical infrastructure, the division took over the task of representing the Company in matters regarding critical infrastructures.

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

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

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

- Providing security levels to installations corresponding to the requirements and threats to the operation of the RPS;
- Providing the Company's defence capacity against certain disturbing physical or informational factors;
- Organising and coordinating the civil protection activities;
- Organising and developing protection activities for classified information;
- Organising and coordinating military record-keeping activities;
- Organising and coordinating fire protection and fighting activities;
- Implementing investment projects specific for physical and cybernetic protection;

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

concerns with respect to the protection of infrastructures similar to that managed by Transelectrica and considered as the most important part of the critical infrastructure in functional terms.

In the light of the above, to secure Company objectives in 2004 a special programme was initiated within the Company, which was meant to prevent and reduce as much as possible the consequences of such an attack. **The Programme of installations security and management of emergency situations** is coordinated by the security manager that also answers for it.
When the 2010 Programme of installations security and management of emergency situations has been elaborated another factor was taken into account, namely that such events attempting at the system safety are natural or artificial, internal or external to the system, combinations resulting from the table below.

Types of events

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

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

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

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

Types of attacks

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

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

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

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

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

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

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

- **Sub-system detecting and signalling the break-in;**

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

- **Sub-system detecting and signalling fires;**

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

- **Sub-system of automatic fire extinguishing;**

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

- **Sub-system controlling the access of persons and cars;**

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

- **Closed circuit television sub-system;**

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

- **Sub-system of signals dispatching and incident management;**

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

Control of security activities and management of emergency situations follow in the context of constant and responsible developments in all circumstances, requiring material and organisational resources as well as a particular coordination of all players in order to prevent and coordinate great incidents.

In this context there is constant sustained concern to know and apply the security policy by means of external service contracts, exchanges of experience, performance control, security audits and annual reports of installations security, of emergency management and providing uninterrupted activity.

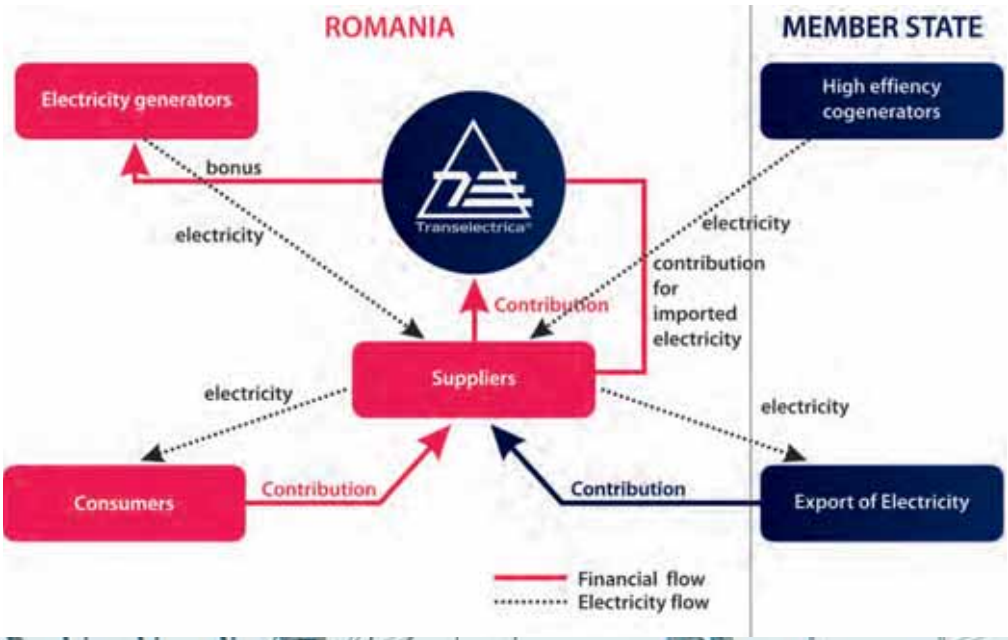
Support Schemes Administration Bureau

In accordance with GD 1215/2009 determining the criteria and conditions for the implementation of the support scheme to promote highly efficient co-generation based on the heat demand, in 2010 Transelectrica had to elaborate the initial documents of specific regulations required in order to carry out the Company's attributions, in its quality of support schemes administrator for the support mechanism of the highly efficient co-generation.

Thus, when the discussion papers have been posted on the authority's site and when the comments sent by the electricity market participants have been analysed, ANRE has approved the Regulation regarding the payment of the bonus for the electricity produced under highly efficient co-generation and the manner to collect the contribution for highly efficient co-generation, as well as the Methodology determining the contribution for highly efficient co-generation, regulations impacting the administration of the support scheme.

Support mechanism of highly efficient co-generation

Simulations have been also performed with respect to the financial effects over the Company as a result of the differences between the proceeds from the collection of the contribution from electricity suppliers and the payment of the bonus by generators that will benefit of the support scheme; opinions have been transmitted with respect to the discussion papers posted on ANRE's site regarding the Regulation to issue green certificates, Regulation of the organised framework to transact bilateral electricity contracts, and principles for the Electricity supply regulations.


ROMANIA
MEMBER STATE
Electricity generators
High effiency cogenerators
bonus
electricity
Transelectrica®
electricity
contribution for imported electricity
Contribution
Suppliers
electricity
electricity
Consumers
Contribution
Contribution
Export of Electricity
Financial flow
Electricity flow

III. LIBERALISED ELECTRICITY MARKET

Electricity markets development has been a continuous activity of Transelectrica in order to achieve a secure network operation. The Balancing Market, Ancillary Services Market, Capacity Allocation Market (under the TSO responsibility) and Bilateral Contracts Market, Day Ahead Market, Green Certificates Market (through its subsidiary OPCOM) are the current Romanian electricity markets.

During 2010 Transelectrica continued developing the new Market IT Platform that will manage the Balancing Market, Capacity Allocation Market and Ancillary Services Market on a common platform. Beginning with March 2010 all explicit auctions for cross-border capacity are organised by Transelectrica using the new IT Platform (DAMAS).

In April 2010 a Memorandum entered into force related to common auction rules for yearly, monthly and daily auctions between Transelectrica (Romanian TSO) and ESO EAD (Bulgarian TSO). According with this Memorandum, yearly and monthly auctions are held by ESO EAD and the daily auction by Transelectrica for 100% of the NTC value calculated on the border.
Starting with the 16th of August, Transelectrica and ESO EAD agreed to organise common intra-day auctions with Transelectrica acting as Auction Office.

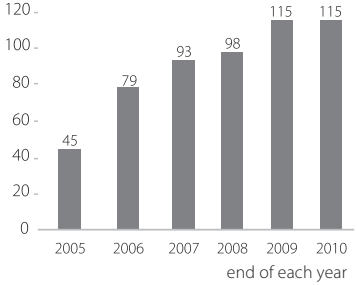
The available capacity for daily and intra-day auctions is calculated on hourly basis taking into consideration the capacity non-allocated and/or non-nominated in/from previous auctions and applying the netting principle. The intra-day allocation is done in two auction sessions for time intervals 00:00-12:00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

On the Romanian – Hungarian border, common (long-term and daily) auctions have been held since December 2009. Starting with the 16th of October, 2010, intra-day auctions were also organised, with Transelectrica acting as Auction Office under the same rules as for the Romanian – Bulgarian border.
Similar agreements are currently in progress with the Serbian TSO.

Market Players

The number of balancing responsible parties (BRPs) increased in 2010, reaching a maximum of 120 BRPs in April and June, but at the end of the year the number decreased to 115, the same as in 2009. In 2010, 19 market participants holding 137 dispatchable units were operating on the Balancing Market.

BRPs Number During 2005 - 2010



Capacity Allocation Market

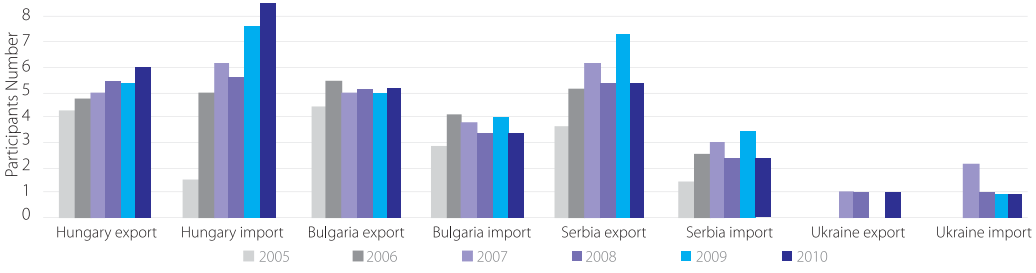
Similar to last years, for long term auctions the number of capacity holders remained reduced on every border and direction (export / import). It can be noticed that the average number of participants increased at monthly auctions on the Hungarian border (both import and export).
In case of daily auctions, the maximum number of capacity holders was higher on the Hungarian border (10 export / 11 import) than on the Bulgarian one (4 export / 4 import), while for intra-day auctions there where few cases when capacity was requested and only on the Bulgarian border, by no more than one participant in a day.

Ancillary Services Market

Although the number of participants has increased compared to 2009, it is still reduced, leading to a highly concentrated market with low competition level, especially for secondary and fast tertiary reserves. In 2010, capacity reserve was no longer purchased.

Average Number of Participants at Ancillary Services Market 2009 - 2010

Average Number of Participants at Monthly Capacity Allocation Auctions



Balance Management

In 2010 the market share of the Balancing Market was of 5.12% from the total gross consumption, 0.65% less than in 2009. There were 2.96 TWh traded on the balancing market (with an average power of 388 MWh/h), from which the energy used for congestion management was about 0.001 TWh (with an average power of 0.12 MWh/h).

During winter, especially from October till December, the sum between notified production and total scheduled exchanges with the neighbouring power systems was smaller than the actual consumption with monthly average values up to 420 MW, leading to high levels of costs on the balancing market. In November and the first half of December many cases were registered when these differences were bigger than the actual consumption during night off-peak hours and smaller at evening peak hours. Thus upward selected energy on the balancing market for slow tertiary was comparable to the energy selected downward for slow tertiary.

Beginning with the first half of March and until September, the sum between notified production and total scheduled exchanges with the neighbouring power systems was bigger than the actual consumption, with monthly average values up to 226 MW. Therefore, the volume of downward energy selected on the balancing market has increased during these months, leading to lower costs on this market.

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, especially for secondary upward and downward control and fast tertiary upward control

Ancillary Services

In 2010 system technical services were contracted only under regulated regime. The total quantities regulated by ANRE for 2010 were at the level of Transelectrica's request for the three services procured, respectively the secondary control band, fast and slow tertiary reserves. In 2010 Transelectrica did not purchase capacity reserve.

Capacity Allocation at Borders

According to the agreements between Transelectrica and its neighbours for 2010, the transfer capacity allocation market allows performing explicit yearly, monthly, daily and intra-day auctions as follows:

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

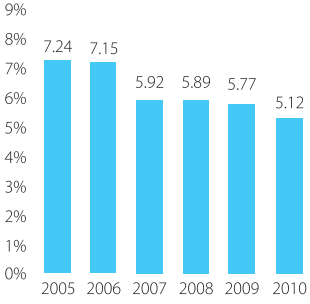
The market monitoring shows that the market is still highly concentrated, with a low level of competition on each border. Compared to the previous year, an improvement of market indicators was noticed, especially on the import direction from Hungary. For example, the lowest values of market indicators were obtained in August 2010 (C1 = 19%, C3 = 43%, HHI = 1009), showing a moderate level of concentration on this border.

Trading Volumes

Trading volumes on the balancing market

The annual share of traded balancing energy from the total gross consumption has decreased continuously since the beginning of Balancing Market operation, this being a step forward in reaching the initial goal of this market: real time generation - consumption balance.

Share of Balancing Energy Trading Volumes from Internal Gross Consumption, during 2005 - 2010



Trading volumes on the ancillary services market

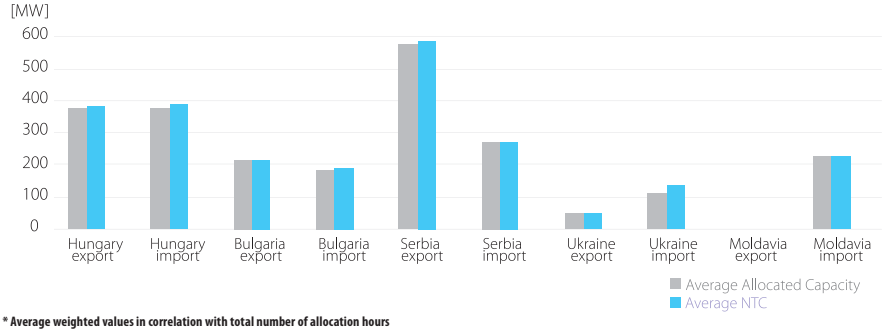
The total contracted quantities in 2010 covered 92.54% from TSO's necessary volume.

Ancillary services 2010	Volumes [hMW]				Percentage of contracted versus		Percentage of achieved versus	
	Necessary	Regulated	Contracted	Achieved	Necessary	Regulated	Necessary	Contracted
Secondary Control Band	3505000	3505000	3505000	3401336	100.00%	100.00%	97.04%	97.04%
Fast Tertiary Reserve	7008000	6376265	6376265	6318059	90.99%	90.99%	90.15%	99.09%
Slow Tertiary Reserve	6132000	5522840	5522840	5522536	90.07%	90.07%	90.06%	99.99%

Trading volumes on the capacity allocation market

As can be noticed from the chart bellow, almost the entire NTC value was allocated in long term auctions. The capacity demand is usually much higher than the offered one and because of this, congestions frequently occur on interconnections.

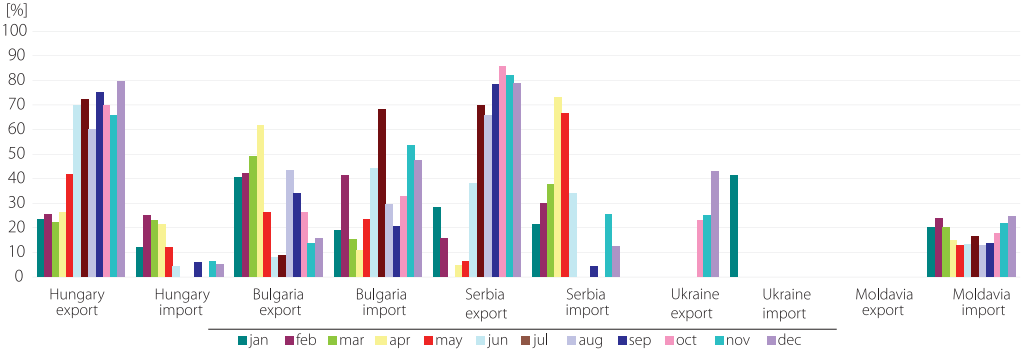
Average values of NTC and Allocated Capacity
January - December 2010



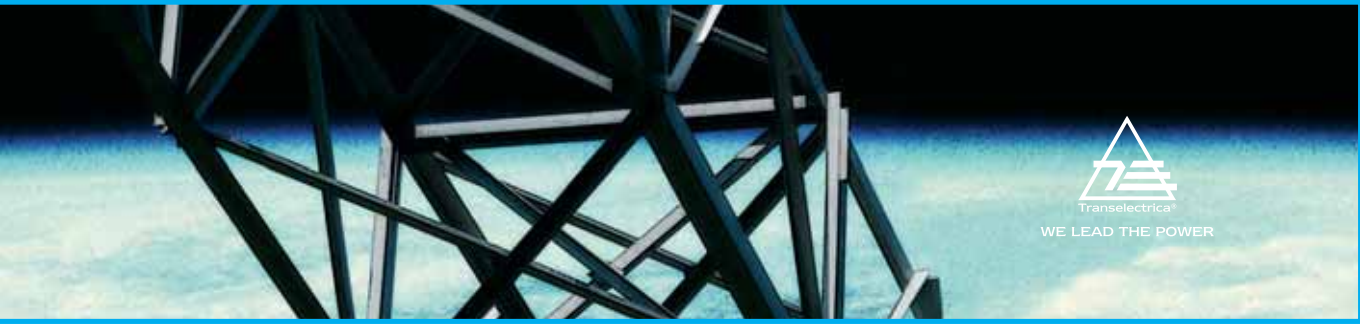
*** Average weighted values in correlation with total number of allocation hours**

The average level of utilisation for the total allocated capacity to export has values between 30-52%, depending on border, except on the border with Ukraine where the value is only 7.44%. For import the values are lower than those for export, except on the border with Bulgaria, where the average level of utilisation was the highest one.

Allocated Capacity Usage
January - December 2010



	Hungary export	Hungary import	Bulgaria export	Bulgaria import	Serbia export	Serbia import	Ukraine export	Ukraine import	Moldavia export	Moldavia import
average	51.86 %	9.99 %	30.27 %	33.35 %	45.77 %	25.44 %	7.44 %	3.53 %	0 %	17.40 %



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

Transelectrica implemented daily and intra-day capacity auctions that offer an effective way of using the interconnection in order to meet the intra-day needs of the participants.

On the Hungarian border the capacity allocated through long-term auctions is nominated more for export, which leads to higher volumes of offered capacity for daily auctions for import than for export. Even if the amount of allocated capacity is higher for import, the level of utilisation is lower than for export.

On the Bulgarian border the capacity allocated through long-term auctions is nominated both for import and export and volumes of offered capacity for daily auctions are quite similar in both directions, usually higher for export. The amount of allocated capacity is higher for import and also the level of utilisation.

In general, the level of utilisation for daily allocated capacity is lower than the one for long term allocated capacity and the congestion cases are more frequent for Romanian - Hungarian and Bulgarian - Romanian border directions.

Similar to daily auctions, the amount of offered capacity for intra-day auctions on the Hungarian border is higher for import than for export and vice versa on the Bulgarian border.
In general, in 2010 there were no requests for capacity in intra-day auctions, one of the causes being that for the moment an intra-day energy market has not been implemented yet.

Market facilitator – green certificates (GCs)

Based on primary & secondary European legislations and internal laws (GD 443/2003), in 2004 Romania adopted the green certificate scheme to support electricity generation from renewable energy sources (RES). According to Government and ANRE (the regulator) decisions, Transelectrica was appointed as the Issuing body for green certificates (GCs) to electricity generators from renewables. In the support scheme is also included the small hydro energy generated in power stations commissioned or modernised since 2004, with an installed capacity equal or lower to 10 MW (wind, solar, geothermal and tide energy, biomass, hydrogen produced from RES).

1 (one) GC represents 1 MWh (one megawatt-hour) of renewable power delivered to the transmission or distribution grid. Transelectrica is monthly issuing GCs for the renewable electricity produced in the previous month, based on the declarations of renewable power producers for each power unit and confirmed by the electricity distributor. After issuing the GCs, the producers may sell the certificates on the GC market (bilateral or through OPCOM platform) to suppliers in order to meet the yearly GCs target. According to regulations, 1 GC trading price is set in-between 24-42 €/GC as an incentive to promote electricity generation from RES.

At the beginning of each year ANRE calculates and publishes the list of suppliers that did not meet the GCs target based on the volumes of electricity supplied to their customers. The suppliers that did not meet the GCs target have to buy the GCs unpaid for against a price of 426.7 lei/GC to Transelectrica. The lump sum is shared among the network operators as an additional incentive to promote investment in the ETG/RES.

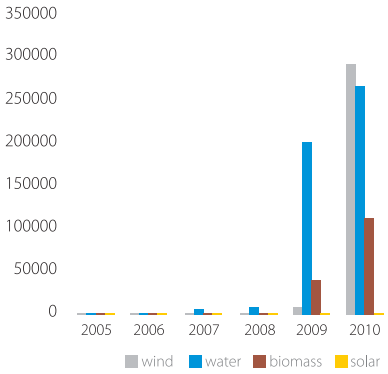
As of December-2010, 48 RES generators where registered in the Annual Register of RES producers: 26 wind electricity, 18 hydro power, 3 biomass and 1 photovoltaic cells producers for which Transelectrica issued 676,606 GCs, out of which 250,045 GCs for wind, 274,439 GCs for hydro, 112,115 GCs for biomass and 7 GCs for photovoltaic cells.
As compared with the previous years (2009 vs. 2010), the total number of GCs increased as of December 2010 about 3 times (21 times for wind and about 1.4 times for water). This means that the investments in RES network power units are growing faster in Romania, leading to the climate change reduction as well as the import fuel sources dependency.

Producers of E_SRE	2005	2006	2007	2008	2009	2010
Wind	2	3	11	12	15	26
Water	1	4	9	11	14	18
Biomass	0	0	0	0	1	3
Solar	0	0	0	0	1	1
Total	**3**	**7**	**20**	**23**	**31**	**48**

GCs by E-SRE Type

No. of GCs	2005	2006	2007	2008	2009	2010
Wind	71	87	869	1,615	13,577	290,045
Water	578	667	9,239	12,057	197,751	274,439
Biomass	0	0	0	0	30,192	112,115
Solar	0	0	0	0	0	7
Total	**2,654**	**2,760**	**12,115**	**15,680**	**243,529**	**678,616**

GCs. on E-SRE Type




Transelectrica
WE LEAD THE POWER
A
AREVA

IV. INVESTMENT, OPERATION AND MAINTENANCE

Major Investment and Commissioning

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

The volume of investments in 2010, around 482 milion lei (milion € 115), was mainly directed to the major projects of substations rehabilitation and to prepare the construction of new lines in order to enhance interconnection capacity and to accommodate new renewable sources.

Major investment projects commissioned in 2010

Project	Contractor	Financier	Benefits
Rehabilitation of 400/110/20 kV substation Gura Ialomitei	Consortium Siemens AG – Austria + Energomontaj Bucharest - Romania	Transelectrica	- increases supply safety - cuts down maintenance and operation costs
Rehabilitation of 400 kV substation Gadalin	Consortium ABB SRL Romania + Energobit SRL Romania	EIB loan + Transelectrica	- increases supply safety - cuts down maintenance and operation costs
Rehabilitation of 400/220/110/20 kV substation Lacu Sarat – first stage	Consortium AREVA Energietechnik + Energomontaj Bucharest - Romania	EIB loan + Transelectrica	- increases supply safety - cuts down maintenance and operation costs
110 kV substation Gutinas from the modernising project of the 400/220/110 kV substation Gutinas – final stage	AREVA T&D	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 -increases the operation safety
Rehabilitation of 400/220/110 kV substation Bucuresti Sud - 110 kV substation - final stage	Consortium Siemens - Austria, Siemens-Germany, Siemes - Romania	KfW Bank + Transelectrica	- increases supply safety to Bucharest city - cuts down maintenance and operation costs
Modernisation of primary circuits within 220/110 kV substation Isalnita - final stage-	ABB SRL Romania & Energomontaj Romania	Transelectrica	- replaces obsolete equipment to increase reliability
Modernisation of command-control-protection system in 11 substations 220/110 kV – partial stage	AREVA Lattes France	Transelectrica	- increases safety and reliability of operations - facilitates remote control
Replacement of transformer units in electrical substations	KONCAR (Croatia); EFACEC (Portugal); RETRASIB SA (Romania)	EIB loan + Transelectrica	- increases safety and reliability of operation -reduces energy losses - cuts down maintenance and operation costs
Balancing Market Platform - Phase II	Consortium ELECTRICA SOLUZIONA SA (Romania) + UNICORN SYSTEMS AS + INDRA CZECH REPULIC SRO	Transelectrica	Implement the major functions for the operation of Electricity Balancing Market
Security systems in electrical substations – partial stage	UTI +HELENIK + POLISTART	Transelectrica	Ensures functionality, continuity and integrity of critical infrastructure (determines, mitigates and neutralises threat, risk or vulnerability

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

Major investment projects contracted in 2010:

- Rehabilitation of the 400/110 kV substation Brasov – contractors CG Holdings Belgium NV and ROEL SA (Romania)
- 220 kV substations Cetate and 20 kV substation – contractors Siemens SRL (Romania) and Energomontaj SA (Romania)

Documentations have been approved for the following major investment projects:

- Rehabilitation of the 220; 110/20 kV substation Campia Turzii
- Modernisation of the 400/110/20 kV substation Domnesti
- Modernisation of the 220/110 kV substation Dumbrava
- Extension of the 400 kV substation Gura Ialomitei
- 400 kV Gadalin - Suceava OHL
- 400 kV Suceava (RO) – Balti (MD) OHL

Prospects for 2011

Ongoing works for:

- rehabilitation of substations: Brazi Vest 110 kV, Bucuresti Sud 10 kV, Lacu Sarat, Mintia, Brasov, Cetate
- modernisation of command-control-protection-metering in 11 substations
- replacement of transformer units in electrical substations
- security systems in electrical substations

Prospects for 2011 and further on to 2012

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

Development of international interconnections:

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

Rehabilitation of the following substations:

- 400/110 kV Brasov
- 400/110/20 kV Tulcea Vest
  400/110 /20 kV Barbosi
  220/110 kV Mintia
- 220 kV Cetate, Ostrovu Mare

In 2010 Transelectrica carried out 6 works to connect new customers to the power grid, completed 5 works to connect major objectives to the grid and performed 1 release site – works (for new motorways and the construction of road town motorway by-pass). The most important maintenance project was the completion of the 400/110 kV Tariverde substation (3 x 250 MVA) and its grid connection.

Planning the Romanian Transmission Grid

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

Transelectrica responds for Romanian transmission grid planning under cost efective conditions and by informing all the interested licence holders in the electricity sectors. Every two years Transelectrica reviews the Prospective plan of the transmission grid for the following ten years.

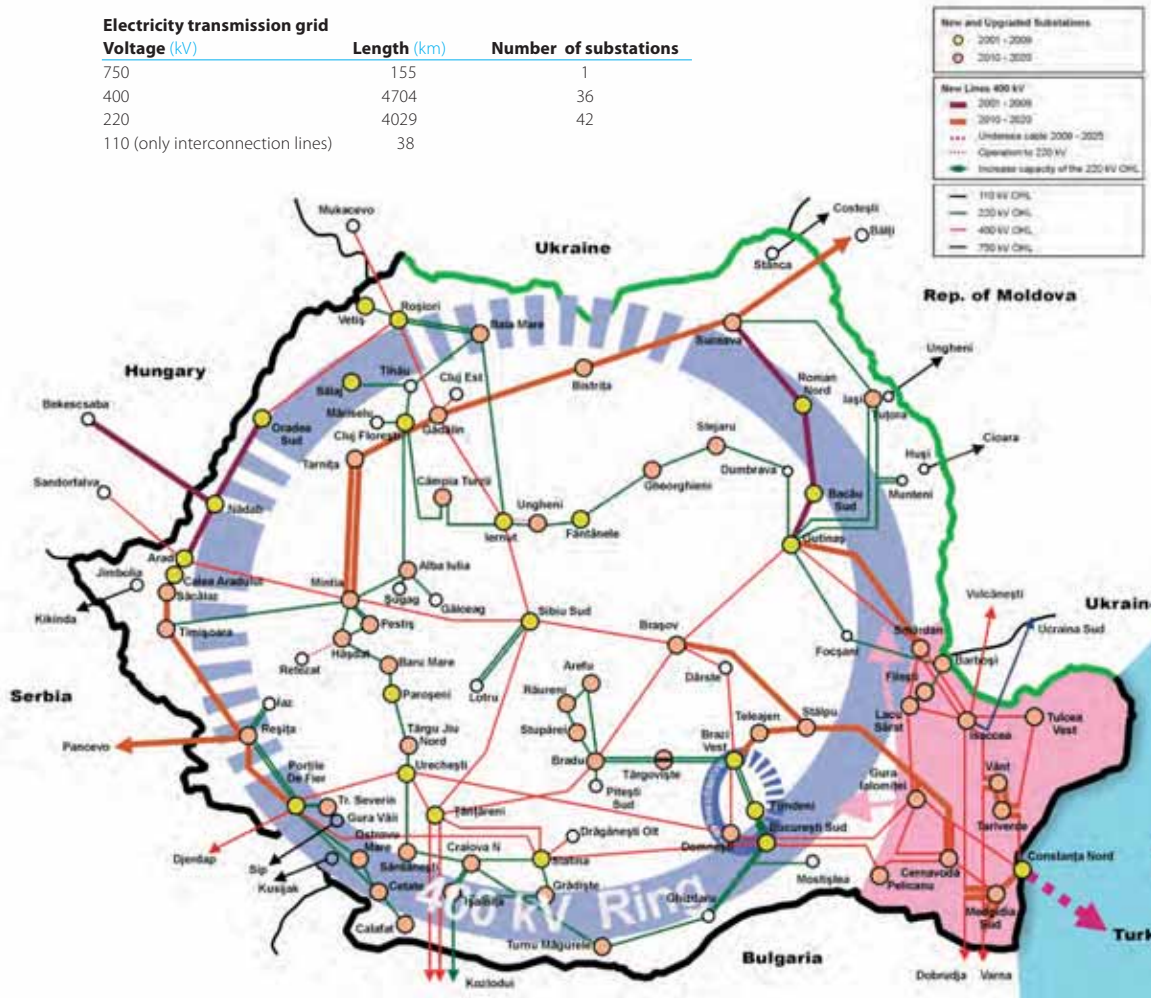
The Plan is a comprehensive survey of the operational characteristics and performance of the electricity transmission grid and is based on the best assessment of the main financial and economic evolutions, electricity generation and consumption included. Upon getting authorisation from ANRE and approval from the Ministry of Economy, the 10 years' Prospective plan becomes a public document. The Prospective plan of the transmission grid for 2008-2012 with an outlook for 2017 was already carried out.

Grid Maintenance

In its quality of Transmission Operator, Transelectrica SA manages the electricity transmission grid by keeping the balance between performance/operation, costs (maintenance, rehabilitation, modernisation, refurbishment, development) and risks (ageing, failure, criticality, impact). Transelectrica SA operates 79 substations, 218 transformers (37565 MVA) and manages 8926 km of overhead electric lines (OHL) at voltage ranging from 110 kV to 750 kV.

Electricity transmission grid

Voltage (kV)	**Length** (km)	**Number of substations**
750	155	1
400	4704	36
220	4029	42
110 (only interconnection lines)	38	



Maintenance activity

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

The maintenance programme mainly aims at increasing the operational safety of the ETG to avoid situations that may lead to unwanted events both in electrical networks and for human health or the environment.

Maintenance activities are included in Transelectrica's asset management strategy and according to world practice represent an asset management component.
A new approach of maintenance activity is required to establish clear principles in a comprehensive strategy to meeting the strategic objectives of this activity, as support for the objectives of the Company.

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

This Programme is targeted towards:

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

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

Maintenance activities are determined by considering the investment programmes (refurbishment and modernisation, development) and are correlated with them – both in substations and to power lines.

Several maintenance works were conducted in 2010 in substations and to overhead electric lines in order to increase the efficiency of the inspection and overhauls, rationally use the funds and comply with the norms.
In 2010 network overhauls projects were carried out for 220 kV OHL Bucuresti Sud - Ghizdaru, 220 kV OHL Iernut – Baia Mare 3, 220 kV OHL Lotru – Sibiu Sud 1+2, 220 kV Gutinas - Focsani, as well as services for overhead lines multispectral inspection.
A multicriterial - based strengthening programme was carried out for the damaged towers.
Rehabilitations were developed in 2010 within the 220/110 kV substations of Baia Mare 3, Turnu Magurele, Pestis, Gheorghieni, and FAI.

Planned maintenance works for 2011

For 2011 ongoing overhauls works are to be conducted for the overhead electric lines of 400 kV Cernavoda – Pelicanu, 400 kV Cernavoda - Gura Ialomitei circuit 2, 400 kV Rosiori – Gadalin, 220 kV Portile de Fier – Cetate – Calafat, 400 kV Constanta Nord-Tariverde/Tariverde-Tulcea Vest etc.
Rehabilitations for 220/110 kV substations of Turnu Magurele, FAI, Arefu and Raureni are to be also carried out in 2011.

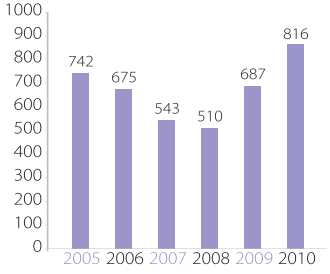
The rehabilitation programme will continue by replacing the equipment to which systematic faults have been recorded, which produced a great number of accidental events (replacements of circuit breakers with the related driving mechanisms).
A new strategy is being designed in order to improve the maintenance activities that will be implemented in 2011. In 2011 will continue the maintenance - rehabilitation programmes that have already started.

Failures

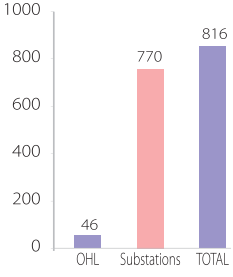
Safe operation of the Romanian transmission grid requires the permanent observance of the failures (number, causes etc) and determining improvement measures based on analysis.

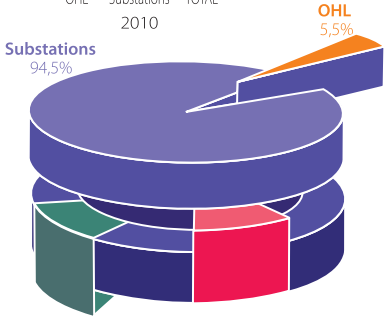
The number of failures is shown in the figures below:

Number of incidents in 2005 - 2010

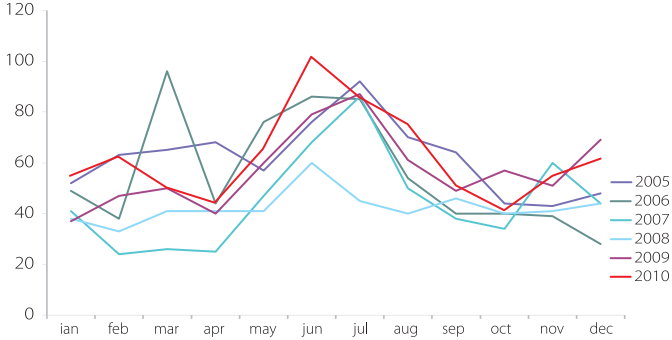


Number of incidents in 2010 – OHL and substations





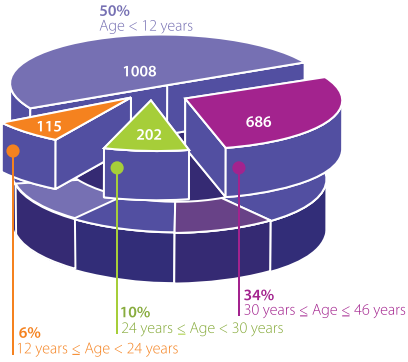
Number of monthly incidents in 2005 - 2010



	ian	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec
2005	52	63	65	68	57	76	92	70	64	44	43	48
2006	49	38	96	44	76	86	85	54	40	40	39	28
2007	41	24	26	25	47	68	86	50	38	34	60	44
2008	38	33	41	41	41	60	45	40	46	40	41	44
2009	37	47	50	40	60	79	87	61	49	57	51	69
2010	58	68	52	44	72	120	99	85	53	40	58	67

More then half of the number of incidents produced in substations are caused by circuit breakers, whose age is shown in the figure below.

Age of the circuit breakers within the ETG



Mention should be made that lately we have increasingly faced particular severe meteorological phenomena, exceeding the dimensioning conditions initially taken into account; therefore measures will be soon taken together with our consultant in order to enhance those installations.
In general, faults occurring in the ETG were not accompanied by failure to supply.

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

New technologies

Transelectrica SA aims at providing a high technical level of the equipment, operation and development for the transmission grid by implementing state-of-the-art technical solutions to new equipment, diagrams and techniques used for maintenance. Diagnosis is arrived at using thermography, live work in substations and to OHL, live inspections of OHL from helicopter and registered systems in the visible, UV and infrared spectres, on-line monitoring of equipment etc.

Implementation of substations remote control and monitoring is a priority of the National Power Grid Company Transelectrica SA, which will increase the efficiency and quality of electricity transmission services, reduce operation and maintenance costs and accidental events.
For the development and implementation of remote control and monitoring of electrical installations some important steps were taken and programmes have been developed for the next years. All specific issues are stated in the policy of installations remote control and monitoring within the ETG.

V. INTERNATIONAL COOPERATION

TSO – The European Dimension – Relation with ENTSO-E

The activities of the National Power Grid Company Transelectrica SA within the professional organisation ENTSO-E (European Network of Transmission System Operators for Electricity) has been quite intense during 2010. In its quality of ENTSO-E member, Transelectrica has had an important contribution to the development of electricity markets, together with the other transmission and system operators from Europe.

The representatives of Transelectrica SA that are members in the General Assembly, Board of Directors, working committees, groups and sub-groups of ENTSO-E have actively participated to the decision taking process for the regulation of the European energy space. The activity of Company representatives within the ENTSO-E has been very well coordinated and capitalised by adopting a pro-active attitude in the structures they belong to, promoting the Company's interests both in regional and European plans as well as on third party markets.

The National Power Grid Company Transelectrica SA has begun implementing the 3rd legislative package aimed at increasing energy efficiency.

The need to harmonise the market rules at regional level with a view to fully implement European regulations is an important aspect meant to enhance regional cooperation.

In the Regional group of south-eastern Europe, body dedicated to co-ordinately approach the matters regarding market mechanisms at regional level and developing the transmission infrastructure in south-east Europe, Transelectrica is one of the main supporters of regional initiatives for the implementation of a coordinated Day Ahead Congestion Management (DACF) programme and Coordinated Auction Office Ltd. – CAO, regional project initiated by the European Commission, which aims at establishing a centre for the coordinated regional allocation of transmission capacities along interconnection lines, relying on the flow based market coupling principle.

Cooperation with European TSOs

- In September 2010 the French-Romanian working group on energy issues met in Bucharest, on which occasion the parties have agreed re-negotiating a new memorandum of understanding in the electricity field between Transelectrica and RTE.
- Transelectrica cooperated in 2010 both with RED Electrica Spain and with REN Portugal. Besides the general cooperation within the ENTSO-E structures, Transelectrica has developed bilateral relationships with the two TSO, especially in the field of system connection and the operation of new renewable sources (wind farms).

Regional cooperation

Regional cooperation is a significant part of Transelectrica's activities regarding cooperation with the electrical power systems of neighbouring countries.

- Transelectrica SA and Mavir – Hungary signed in August 2010 the bilateral Agreement for coordinated capacity allocation, which is valid by mid-2011;
- Transelectrica SA and ESO-EAD – Bulgaria signed the bilateral Agreement for coordinated allocation of capacity, which came in force in April 2010;
- Transelectrica SA and JP Elektromreza Srbije – Serbia are preparing the required documents with a view to signing the bilateral Agreement for coordinated capacity allocation.

Cooperation with the Republic of Moldova and Ukraine

The 400 kV OHL Suceava - Balti project

- The feasibility study for the 400 kV OHL Suceava (Romania) – Balti (Moldova) project has been completed during 2010. When the feasibility study has been finalised, discussions were organised with respect to the financing and investment execution, at the level of authorities and involved companies.

Integrating Moldova and Ukraine in ENTSO-E

A very important project developed by ENTSO-E (SOC –Continental Europe) is the synchronous interconnection of Ukraine and Republic of Moldova to Continental Europe. The project is coordinated by Transelectrica. The Ministry of Economy from the Republic of Moldova, together with the Ministry of Economy, Commerce and Business Environment from Romania have submitted for financing the documents with respect to providing the grant in order to draw up the feasibility study on the ENTSO-E integration of power systems from the Republic of Moldova and Ukraine.,

Cooperation with TEIAS – Turkey

The feasibility study that the National Power Grid Company Transelectrica SA has contracted with the Swedish company VPC- Vattenfal for the HVDC Submarine Cable Link Romania – Turkey project has been completed in the first half of 2010.

International affiliation

Transelectrica plays an active role within the international organisations and professional association and keeps paying particular attention to enhancing its international relationships, taking into account the substantial changes that are constantly occurring in the European power sector through the liberalisation and integration of electricity markets.

The Company is a member in the most important organisations and associations from the domain: ENTSO-E, CIGRE and LWA.
ENTSO-E (European Network of Transmission System Operators for Electricity) is the cooperation structure between the European TSO, both at pan-European and regional level, playing an essential role in establishing the regional electricity markets and the single European one. The Company representatives are included in the working committees and groups of such organisations, participating into decision making, elaboration of studies and scientific expertise.

CIGRE (Conseil International des Grands Reseaux d'Electricite de haute tension – International Council of HV Great Electricity Grids) provides access to the latest technological information. Being an international technical-scientific organisation, it aims at developing the knowledge in the field of high voltage networks and exchanging information among member countries with respect to- electricity generation and transmission at high voltage; construction and operation of connection & transformer substations and their component equipment; construction, insulation and operation of high voltage lines; systems interconnection, and the operation and protection of interconnected systems.

Transelectrica experts, acknowledged both at national and international level, contribute significantly to achieving the set targets during the working sessions of the groups and sub-groups they are members into.

VI.
A SUSTAINABLE AND SOCIALLY RESPONSIBLE COMPANY

Respect for our people

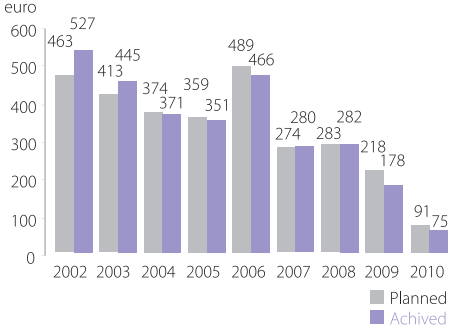
Occupational health and security management

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

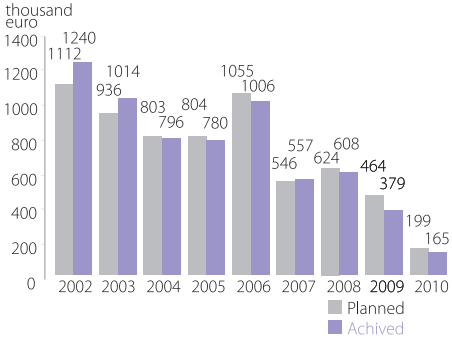
The 2010 the labour health and security programme was achieved 83.1%, corresponding to 692.72 thousand lei compared to the 833.19 thousand lei, amount included in the rectified plan of September 2010 (fig.1 and 2).
The Company's labour health and security programmes aimed at:

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

Funds allotted through annual labour safety & security programs per one employee



Expenses with in the safety and security programs

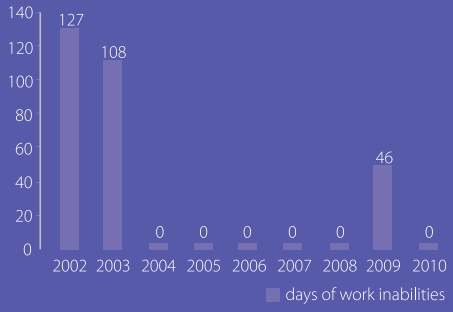


A direct result of the permanent concerns in all specific prevention and protection fields is the absence of labour accidents in 2010 into the Company's technical installations, which would involve Company workers.
Mention should be made that in 2010 only a 'dangerous incident' took place in the 220/100 kV substation Severin Est in the second 220 kV bay of the 200 MVA, 220/100 kV autotransformer, where the current transformer type CESUI, 220 kV on the 'T' phase exploded.
All 2010 incidents had no impact over the security provided by the employer and consequently the risk factors of professional accident and illness need not be revaluated

COMPARATIVE SITUATION
of the average specific performance indicators of the last 6 years achieved at Company level

IF = total number of persons having had accidents / average no. of employees x 1000
IG = no. of labour incapacity days / average no. of employees x 1000

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



We shall further on do our best to maintain the same excellent safety level for 2011 as well.

Our people – our value

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

On December 31st, 2010 Transelectrica employed 2198 people, out of whom 366 in Transelectrica's main offices, 1832 in the national dispatching center and its 8 subsidiaries. The operational activity is carried out by 1738 employees and the support activites together with the executive management are developed by 451 employees.

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

Transelectrica's staff structure on December 31st, 2010 according to the educational level:

LEVEL	NUMBER
High level	1179
Secondary level	1003
Primary level	18
Total	2200

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

Recruitment

Major efforts were made in 2010 in order to attract the best employees. Thus, partnerships with the Polytechnic University are concluded according to which the best final-year students from it are assisted by Transelectrica and granted scholarships for their final studies, provided that they become Transelectrica's future employees.

In 2010 Transelectrica recruited a number of 136 employees and the recruitment of new and qualified employees is ongoing.

Company visits and educational practice

In 2010 Transelectrica's educational practice was organised for teachers and technical school students in its electrical substations. The students had the opportunity to learn and gain experience about the operation of the power system and be acquianted with the operational activites developed by the Company.

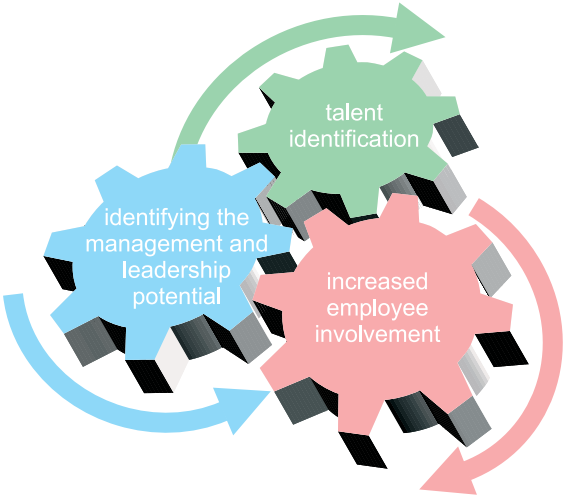
Training

Transelectrica's training programmes are meant to improve the expertise and skills of our employees.
In 2010 training programmes in the country and abroad were organised for our executives and the staff involved in accounts and finances, labour safety, audit, environment, quality, management, communication, procurement, electricity market development, capital market, and development of the power system. We wish our people be acquainted with the best practice in order to face all the challenges ahead.

When new and young employees are hired, they are provided with all the necessary information on the Company's organisational culture while special training sessions are organised either in the Company or at our subsidiary, the Vocational Center Formenerg. Our employees can attend a large variety of training courses, from technical to IT, PR or foreign language ones.

Management of talents and performance

In 2010 the human resources strategy aimed both at increasing the organisational flexibility and its ability to compete with other organisations of similar structure.
To reach such objectives, human resources projectes aimed at implementing new methods and solutions to improve managerial efficiency and performance.
The main lines along which projects were developed are synthetically represented in the next graph.



A consistent number of Company people benefited of evaluation results, respectively of the Clifton Strengthsfinder test whereby the talents of each tested person have been identified and hierarchically classified. Performance management targeted several action lines, all intending to increase the involvement of every employee category and achieve strong, performing and motivated teams.

A wide evaluation process was simultaneously carried out, following which both the employees with real leader qualities were identified and the persons with the highest managerial potential.
The employees' involvement degree was evaluated both individually and at team level in order to maintain the competitive spirit and the wish to permanently improve performance scores by comparison with the previous results, with the Company average, with that of the utilities' sector and with the international one.
Thus the evolutionary trend of efficiency and performance parameters measured could be determined with maximum objectivity, as well as their dynamics.

Respect for environment and society

Sustainable development – electricity generation from renewables

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

The requirements to connect all the declared projects in the portfolio- 14,000 MW in wind farms will have a major impact in reshaping the electricity transmission grid, providing the adequate system services and in planning the power system development. In 2010 a number of 110 wind generators of 2.5 MW were commissioned in the southern part of the country (Tariverde substation)

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

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

2010 SOCIAL RESPONSIBILITY REPORT

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

The Company's vision in this domain aims at promoting national values such as innovation, team spirit, respect of diversity and commitment.

The relationship between the Company and community includes two distinct sides:

- The internal dimension that regards directly the Company's relation to its employees. Transelectrica is responsible to provide improvement in the employees' quality of life at their working places, to reduce the environmental impact of its activities and of human resources, as well as to financially support the employees facing problems;
- The external dimension regards its relation to the community, partners and co-workers by providing support to develop the communities it works in;

These two distinct dimensions provided the base for Transelectrica's CSR policy that we attempt improving each year. In 2010 we decided to get involved into domains such as- art and culture, education, humanitarian activities, environment, community development, responsibility to employees, and corporate volunteering.

Diversity and creativity are values we cherish and promote in the artistic and cultural domain. Transelectrica cooperates into organising theatre and classical music festivals, different events of students' associations and cultural foundations, into creating works of art etc.

Young people are the most important asset for Romania in the near future. We are involved in the academic environment as well under partnerships with students' associations and other initiatives (equipping the research labs of the Energy Faculty, supplying books to the libraries of educational institutions)

In 2010 Transelectrica granted financial support of 21,000 lei to a group of students from the National College Mihai Viteazu, who participated to Eurofest 2010 "Odyssey of the Mind" that was organised in Minsk, Belarus.

The contest "Odyssey of the Mind" turned into an educational programme that provided youngsters of all ages with the opportunity to creatively solve certain quite varied and complex problems and to develop their team communication and work abilities. By their creativity the competitors had to solve various problems, such as building up certain mechanical devices. While solving the problems the students have learned how to apply different approaches using independent thinking, searching alternatives and providing their solutions before the audience combining science, art, engineering and intelligence.

People are the focal point of our concerns and we always endeavour to assist the unprivileged ones

In 2010 Transelectrica participated to a humanitarian campaign collecting funds to assist the flood victims, under coordination of the Ministry of Economy, Commerce and Business Environment, which was attended by 18 national companies subordinated to the MECMA. Following the discussions with the social partners, the decision was taken to provide funds in view of repairing the infrastructure, the homes and households of flood-afflicted people both by contributions from the employees of such companies and by own resources.

Transelectrica has actively supported this humanitarian campaign and allocated 2,200,000 lei from its own funds.
Sponsorship contracts have been concluded with the mayor offices of villages Hiliseu Horia, Sendriceni, Vaculesti, and Varfu Campului in view of granting humanitarian aids to the persons impacted by floods during the summer of 2010.

Human solidarity is something that cannot be quantified but people can become aware of it. Transelectrica's employees joined the humanitarian campaign and personally contributed to assisting the afflicted people on volunteer basis, by donating money and goods that were collected at executive level, as well as within the branches and operational centres.

- Among those benefitting of Transelectrica's support are also some foundations and associations for disabled children
Thus in 2010 Foundation LICINIUM (for the integration and social-professional orientation of handicapped youth) organised a campaign to collect funds in view of promoting the societal integration of handicapped persons, and during which 1,500 wheelchairs have been procured; sustaining 500 with social and educational aids; financing 30 projects carried out by the organisations promoting the social-professional integration of handicapped people.
Transelectrica joined responsibly the LICINIUM foundation and provided financial aid amounting to 10,500 lei to procure wheelchairs for disabled persons.

Community development

Transelectrica is financially supporting the construction and restoration of schools and religious monuments (churches, monasteries), priority being provided to the areas where Transelectrica has its transmission branches.
In 2010 Transelectrica allocated special funds to the Parish "St. Dimiter- Post Office", universitary chapel of Bucharest with a view to have it restored, rehabilitated and repaired as well as to build a social establishment.

Responsibility to employees - the Company's success depends on the worth of its employees

To Transelectrica employees are the main resource of its development, and the care for them is primordial. Company personnel benefit of:

- Stability of their job, as well as safe working conditions
- Opportunities to grow
- Acknowledgment of their contribution
- Opportunities of internal promotions
- Training and development opportunities under the annual Employee professional training and improvement programme, so that people can get to the position they desire in the Company
- The Company cherishes and protects the labour health and safety of its employees. There are anual campaigns assessing the employees' health- general medical examinations; lab tests; flue and hepatic shots; investigations preventing cardio-vascular illness; investigations preventing invalidating illness
- Optionally, since financing requires also a financial participation of the employees, Company personnel also benefit of voluntary health insurance
- In case of serious diseases Transelectrica provides financial support to employees for particular medical treatments, flexible or reduced working hours during the interval recommended by the doctor

We have sympathised with our office colleagues and covered the 30,000 lei costs for brain surgery removing intra-cranian nodules, as well as the amount of 12,600 lei to further the medical treatment with Tagretin, medicine which cannot be found in Romania to treat the nonHodkin malign skin lymphoma.

Environment

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

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

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

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

Preventive and corrective activities

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

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

Corporative volunteering

Employer-sustained volunteering means any Company effort to encourage its employees and/or former ones (now retired) to get involved in community volunteer activities and to support them in their efforts to commit in solving community problems "Transelectrica's volunteers" represents an ambitious project in 2011.

The managerial team of Transelectrica will encourage its employees to participate into different activities as volunteers and will also provide concrete projects in which they could invest their time and commitment.

In everything we do as Transelectrica employees we strive to be good professionals, true partners and road openers.
Transelectrica's values are the stronger as they represent us as human beings, not only as Company employees. We consider such values not only as mere words, but as actual support on the path to development.

VII. ENVIRONMENTAL REPORT 2010

1. Environmental management system

Transelectrica's environmental management system was certified in 2004 according to ISO 14001/1996 and re-certified in 2005 in accordance with the requirements of ISO 14001/2004 by the Romanian Society for Quality Assurance (SRAC), partner of IQNet (The International Certification Network).
The yearly external audits performed by SRAC confirmed the environmental management system is working as required by ISO 14001 and found out a continuous improvement of its environmental performance.

The environmental management system ensured the conditions required for the provision of electricity transmission and dispatch services in accordance with the legal requirements and other provisions the Company has subscribed to, applicable to its environmental activities, and also to prove the concern for pollution prevention and increased environmental performance.

The Company's managerial team has established the environmental protection policy as an integral part of its general one, taking into account the planned efficient sustained activity targeting the implementation of environmental management in its whole structure and activities, which should lead to changes in the organisational culture by promoting behaviours oriented to environmental protection and sustainable development.

The 2010 environmental objectives and targets aimed at maintaining an efficient environmental management system and at pollution prevention and reduction so that the environmental impact of the electricity transmission grid can observe the limits of national and European requirements.

These objectives and targets were achieved by means of preventive and corrective activities included in the annual environmental management plan.

The main areas of the environmental objectives and targets were as follows:

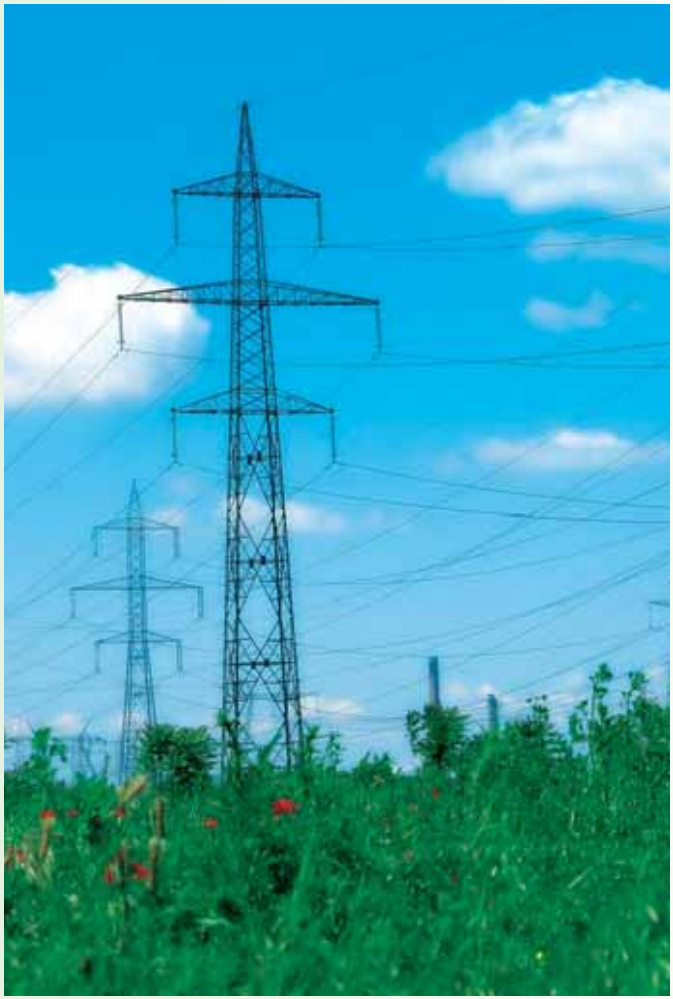
- Preventing / reducing the pollution of air, water, soil, the levels of- the electromagnetic field, noise and vibration;
- Waste management;
- Used water management;
- Restoring the natural framework after the maintenance / development operations;
- Reducing the consumption of natural resources;
- Monitoring the environmental factors (water, air, soil, noise, electromagnetic field, waste) and assessing the compliance with legal and regulatory requirements;
- Providing the knowledge and compliance with the environmental law by all Company employees;
- Introducing the environmental requirements in the evaluation of the product, service and work suppliers;
- Involving all our co-workers in achieving the Company's environmental objectives;
- Engaging all personnel in enforcing the environmental policy and all the requirements of the environmental management system through information, training and motivation;
- Developing communication methods and channels of the Company's objectives to all stakeholders interested in the environmental protection activity;

2. Environmental Aspects of the Electricity Transmission Grid

High-voltage electrical installations consisting mainly of overhead electric lines and transformer & connection substations are outfits with significant environmental impact because of both their technical complexity and occupied land and their lengths of tens or even hundreds of km, usually in several counties.

No pollutants are discharged in the environment under normal operational conditions for the ETG installations. Some chemical substances can incidentally be emitted in the environment and provide a polluting impact in case of leaks, wrong operations, damages or when some construction and maintenance work is carried out.

Environmental aspects have been Identified and assessed for technology and construction from the first design stage. The environmental management plan is elaborated using such identified and assessed aspects (for construction, operation and installations dismantling), which contains the measures to prevent pollution or to reduce its impact, as well as the monitoring programme for environmental factors.



a) Environmental aspects related to construction

The significant impacts determined by the construction - installation activities in Transelectrica's installations are as follows:

Impact type	*Modes of operation (effects)*
Physical	▶ *Soil damaging by opening new access routes, topsoil removal and excavations;* ▶ *Impacting the flora (by deforestation);* ▶ *Damaging the wildlife by means of habitat fragmentation;* ▶ *Impacting birds by constituting air barriers along their flight corridor;* ▶ *Taking up the land with site organisation, including storeplaces;* ▶ *Generating waste (porcelain, glass, concrete, metal, used electric insulating oil, packaging, debris, etc.);*
Chemical	▶ *Using various chemical products (paints, solvents, reagents, etc.);* ▶ *Soil or water pollution by accidental leaks of fuel, oil and other chemical substances from the equipment;* ▶ *Air pollution by means of:* ▶ *Flue gas emissions (SOx, COx, NOx, VOC, suspended particulates) from heating plants or means of transport;* ▶ *Sulphur hexafluoride emissions - accidental leaks during gas handling or because of equipment leakages;* ▶ *Volatile organic compound emissions from paints and thinners;*
Acoustic	▶ *Noise pollution from the means of transport;*
Socio-economic	▶ *Disturbance of some social activities, including population moves;*

b) Environmental aspects related to operation - maintenance

Impact type	*Modes of operation (effects)*
Physical	▶ *Taking up land with OHL routes and substation locations;* ▶ *Systematic deforestation of vegetation;* ▶ *Damage of the wildlife habitat;* ▶ *Obstacles to bird flight;* ▶ *Potential accidents by burns or electrocution;*
Electromagnetic	▶ *Acoustic and luminous effects of the corona phenomenon;* ▶ *Disturbances to the radio and television systems;* ▶ *Impacts on telecommunications installations or other electrical networks at their crossing and proximity;* ▶ *Electromagnetic field impacting the living beings;*
Visual	▶ *Impact to the landscape;*
Acoustic	▶ *Noises originated by the operation or vibration of ETG elements;* ▶ *Noises caused by the corona phenomenon (very high voltage OHL) or by transformers;*
Psychic	▶ *Fear caused by the proximity and visual & acoustic effects of the ETG;*
Chemical	▶ *Soil or water pollution by accidental oil and other chemical leakages;* ▶ *Air pollution by emissions from thermal power plants, vehicles, accumulator batteries, sulphur hexafluoride;* ▶ *Ozone and nitrogen oxides generation by high-voltage corona effect;*
Mechanical	▶ *Potential danger of collision with aircraft;* ▶ *Danger of falling near or at road crossings, railways, waters, buildings, etc.* ▶ *Fire hazard as a result of insulation damage or accidental touch of objects or dry vegetation to conductors;*

3. Impact indicators of the Electricity Transmission Grid

3.1. Land ocupation

The area covered by OHL and electric power substations (m2):

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

3.2. Sources of soil and ground & underground water pollution

No toxic emissions are released onto soil or within it under normal operational conditions of ETG installations.

The electric insulating oil from the substation equipment provides a potential impact of soil, groundwater and surface water pollution. Accidental pollutions can occur because of the leakages / breakages of equipment containing oil or of defects arising from the regeneration / food / oil ejection installations in / from the equipment.

Oil/ car fuel leakages can also occur from the equipment and means of transport during the construction and maintenance works.

Quantity of electric insulating oil in the equipment (tons):

Branch	Power transformers	Coils	Metering transformers	Circuit breakers	Total	Environmental losses
TB Bacau	995.79	76.11	83.61	59.16	1214.67	0.047
TB Bucharest	2152.65	76.09	147.82	56.26	2432.82	0.016
TB Cluj	702	107	139	82	1030	0
TB Constanta	1793.39	300.30	200.71	115.05	2409.45	0.56
TB Craiova	1323.60	105.90	91.96	36.61	1558.07	2.571
TB Pitesti	977.50	0	248.46	46.17	1272.13	1.006
TB Sibiu	997.78	80.88	139.08	84.09	1301.83	0.005
TB Timisoara	1296.25	65.20	138.96	136.68	1637.09	0
Total Transelectrica	**10,238.96**	**811.48**	**1189.60**	**616.02**	**12,856.06**	**4.205**

3.3 Sources of air pollution

No significant amounts of pollutants are released into the atmosphere during the construction, maintenance and normal operational activities of ETG installations.

Suspended particulate emissions can be generated in the atmosphere during the construction, maintenance and normal operational activities of ETG installations - and flue gas during construction - from motor cars, electric generating sets and thermal power plants; ozone in negligible amounts (Corona effect); sulphur hexafluoride, as a result of equipment leaks or of improper gas handling.
Flue gas can result in case of fires or explosions (COx, SOx, NOx, VOC, particulates etc.).
High voltage OHL generate atmospheric pollution with ozone and nitrogen oxides as a result of corona discharges, which appear around active conductors mostly during rainy days. The additional contribution of these pollutants to the existing fund is not serious and cannot lead to exceeding the legal threshold values, level beyond which there is a risk to human health.

The amount of sulphur hexafluoride - SF6 in the equipment:

Transmission branch	SF6 in equipment (kg)	SF6 emissions in the atmosphere (kg)
TB Bacau	2328.5	0
TB Bucharest	21012.2	0
TB Cluj	1887.6	0
TB Constanta	2700.5	0
TB Craiova	6330.9	40.8
TB Pitesti	18220	20.2
TB Sibiu	4109.24	5.96
TB Timisoara	2786	3
Total Transelectrica	**59374.94**	**69.96**

Emissions of pollutants from the flue gas of thermal power plants (kg):

Pollutant	CO2	CO	NOx	CH4	N2O	Powders	SO2
Total Transelectrica	1,077,129	434	868	174	122	59	7

Emissions of pollutants from the exhaust gas of motor vehicles (kg):

Pollutant	CO2	CO	NOx	Powders	SO2	Pb	POP	Cd
Total Transelectrica	1,673,525	45,268	10,696	1,198	182	1.3	1.04	0.004

3.4 Sources of used water

No used water is resulting from the transmission and conversion of electricity parameters.
The used water generated in the ETG installations location is as follows:

- Domestic used water coming from human activities. Such water is flowing directly into the municipal drainage or is discharged and transported to the urban water treatment station;
- Pluvial water collected in the equipment oil tanks and in the concrete platform manholes for waste and equipment storage can contain oil from leaks. Such water is mechanically cleaned in water - oil separators and discharged in the environment;

3.5 Waste production

No waste is directly resulting from the transmission and conversion activities of electricity parameters. Waste results from the construction, maintenance and human activities. The waste amounts are different from year to year depending on the volume of investment and maintenance work.

No.	Type of waste	Waste code (from GD 856/2002)	Generated	Capitalised	Disposed of	Stored
1.	Synthetic engine oils, transmission and l ubricating oils	13.02.06*	0.096	0	0.96	0
2.	Other engine, transmission and lubrication oils	13 02 08*	0.215	0.14	0.075	0
3.	Mineral non-chlorinated insulating oils and heat transmission oils	13 03 07*	216.36	220.95	0	27.27
4.	Other insulating and heat transmissive oils	13 03 10*	33.669	36.712	0	5.968
5.	Sludge from the oil-water separators	13 05 02*	7.415	0	7.415	0
6.	Oil from oil-water separators	13 05 06*	5.65	0	5.65	0
7.	Wood packages	15 01 03	38.141	40.331	0	0
8.	Absorbers, filtering materials and protective coatings, others than those provided in 15 02 02	15 02 03	0.283	0	0.283	0
9.	Tyres out of operation	16 01 03	1.086	0.088	0.879	0.119
10.	Oil filtres	16 01 07*	0.019	0	0.019	0
11.	Ferrous metals	16 01 17	0.443	0.18	0	0.324
12.	Glass	16 01 20	0	0	0	1.728
13.	Dismantled equipment, other than that provided from 16 02 09 to 16 02 13	16 02 14	2.183	0.628	0.26	83.219
14.	Components disassembled from dismantled equipment, other than those in 16 02 15	16 02 16	3.732	0.147	0.384	4.195
15.	Pressurised gas recipients (halons included) containing dangerous substances	16 05 04*	0	0	0	0.323
16.	Lead batteries	16 06 01*	23.017	10.048	8.843	4.126
17.	Ni-Cd batteries	16 06 02*	7.22	0	7.22	0
18.	Alkaline batteries	16 06 04	0.701	0	0.7	0.005
19.	Other batteries and accumulators	16 06 05	6.303	0.81	5.492	0.001
20.	Watery liquid waste, other than that in 16 10 01	16 10 02	0.2	0	0.2	0
21.	Concrete	17 01 01	2237.97	0	2238.19	0
22.	Tiles and ceramic materials	17 01 03	139.313	0	139.671	285.599
23.	Wood	17 02 01	90.762	90.786	0	18.345
24.	Glass	17 02 02	4.44	2.4	0	38.19
25.	Copper, bronze, brass	17 04 01	41.522	38.782	0	5.713

26.	Aluminium	17 04 02	87.271	55.416	0	58.254
27.	Iron and steel	17 04 05	1182.93	676.811	0	923.906
28.	Metallic mixes	17 04 07	104.765	19.71	0	119.857
29.	Cables	17 04 11	33.943	30.463	0	44.737
30.	Earth and stones	17 05 04	0.12	0	0.12	0
31.	Insulating materials	17 06 04	0.7	0	0.7	11.188
32.	Asbestos-containing construction materials	17 06 05*	5.7	0	5.7	0
33.	Mixtures of waste from construction and demolition	17 09 04	6514.922	0	6503.122	11.8
34.	Waste whose collection and disposal are provided under s pecial measures to prevent infections	18 01 03*	19.598	0	19.598	0.011
35.	Paper and cardboard	19 12 01	1.933	1.933	0	0
36.	Textile materials	19 12 08	0.12	0	0.12	0
37.	Paper and cardboard	20 01 01	15.383	13.722	0.544	2.485
38.	Glass	20 01 02	0.0086	0	0.0086	0
39.	Fluorescent tubes	20 01 21*	0.004	0.003	0	0.014
40.	Dismantled electric and electronic equipment	20 01 36	0.157	0.157	0	0
41.	Metals	20 01 40	0.31	0	0.31	0
42.	Mixed municipal waste	20 03 01	416.582	0	432.868	0.85
43.	Sludge from septic tanks	20 03 04	817.76	0	850	0
Total			**12,062.95**	**1,240.2167**	**10,229.33**	**1,648.228**

3.6 The electromagnetic field generated by ETG installations

The transformer / connection electric substations as well as the 220 kV and 400 kV overhead lines have a relatively small impact on their surroundings, such existing only around ETG installations. A great part of the harmful effects comes from electric induction (in the non-grounded objects or metal structures) and the interference phenomena (radio interference).
The constructive solutions adopted to achieve the high voltage lines and electric substations provide an adequate protection against the effects of the living organisms' exposure to the electromagnetic field and also reduce the environmental impact of such installations.

According to the studies of specific institutions nearby the 220 kV and 400 kV overhead lines, the electric field intensity decreases with distance, so that it is zero at about 25 to 30 m from the line axis.

3.7 Acoustic pollution

Noise may occur during construction because of the work and operation of the equipment and of the means of transport. Acoustic pollution is to the greatest extent caused by the corona discharges around active conductors during the work.
The noise level at 25 m from the active conductor ranges between 53 dB during rainy days and 33 dB in fine weather.

3.8 Impact on birds

The impact on birds is determined by their collision or electrocution by ETG installations. The impact is significant only in the migration or protected areas.

Impact on vegetation

The impact on vegetation is determined by the need to remove the vegetation exceeding a certain height from the safety areas of ETG installations, with a view to avoid fires. This impact is significant only in areas with protected vegetation.

4. Environmental protection activities

Transelectrica SA defines and implements preventive and corrective measures with a view to reduce the effects of its installations and activities on the environment. The diversity of environmental conditions in each location of ETG installations (overhead lines, transformer and connection substations, buildings) determines specific environmental impacts in various stages (design, construction and operation) of each installation. Thus the preventive and corrective measures are defined case by case according to the existing conditions in each location.

4.1 Preventive and corrective actions in the design and construction of installations

For its future activities Transelectrica aims at reducing the negative environmental impact of the installations. Thus, in the design stage the preventive and corrective measures for a plant are defined by the impact study and the environmental management plan. The measures set out in the project are implemented during construction. The environmental inspectors / officers verify the implementation and the effectiveness of such measures. If the measures established by the project are insufficient, new measures are to be established to solve any environmental problems.
The main preventive measures to protect the environment from the construction - installation work completed in 2010 were as follows:

4.1.1 Prevention of soil and underground water pollution

- Installation of water-oil separators on the pluvial drainage from transformer tanks and from the equipment and waste storage platforms, e.g. TB Constanta - substations Smardan, Medgidia Sud and Filesti; TB Cluj - substations Salaj and Baia Mare 3; TB Timisoara - substation Pestis;
- Constructing/re-making concrete tanks under the oil equipment to collect oil leaks, e.g. TB Buccharest - substations Gura Ialomitei and Fundeni; TB Cluj - substation Baia Mare 3;
- Constructing/re-making concrete platforms for temporary storage of waste and disused equipment, consistent and inconsistent, with the possibility of collecting oil leaks and contaminated rain water treatment, e.g. TB Constanta, substation Smardan; TB Bucharest, substation Gura Ialomitei;
- Construction of drainable collectors to collect sewage (septic tanks), e.g. TB Bucharest, substation Gura Ialomitei;
- Construction / rehabilitation of the sewage and drainage system for rain waters. E.g. TB Bucharest, substations Turnu Magurele and Gura Ialomitei; TB Sibiu, substation Gheorgheni;
- Providing fire fighting facilities with nitrogen and tanks to collect oil;
- Replacing old pieces of equipment, physically worn out and obsolete, with new equipment to prevent oil losses, e.g. TB Bucharest, substations Gura Ialomitei and Brazi Vest;
- Repairing fuel tank Diesel groups, e.g. TB Cluj, substation Baia Mare 3;
- Preventing the bank deterioration in OHL crossing areas;
- Work for the consolidation of the towers and OHL foundation repairs, e.g. TB Bacau, substation FAI;

4.1.2 Prevention of air pollution

- Reducing the sulfuric acid emissions by replacing accumulator batteries (e.g. TB Bucharest, substations Mostistea, Teleajen and Domnesti; TB Timisoara, substation Arad)
- Reducing the pollutants emissions in waste gas (carbon, nitrogen and sulfur oxides, particulates, volatile organic compounds, heavy metals etc.) by purchasing electric generator sets with low emissions (Euro 4, Euro 5)
- Reducing the suspension particulate matter emissions during execution of work by water spraying, e.g. TB Cluj, substation Baia Mare 3

4.1.3 Preventing the impact on birds

- Installing bird-repellent devices on OHL-s, e.g. TB Bucharest, the 400 kV OHL Bucharest Sud – Slatina;
- Installing ultrasound systems in substations for removal of birds from dangerous areas of electric substations;

4.1.4 Reducing the acoustic pollution

- Installing fans (on autotransformers) with low noise level (e.g. TB Constanta)
- Installing/repairing electric generator sets with noise and vibration dampers, e.g. TB Constanta, substation Medgidia Sud - repairs to the cooling system of transformer 1; TB Craiova, substation Tg. Jiu Nord - upgrading the Diesel unit;
- Replacing the existing compressors with others of low noise level;
- Installing soundproofing panels for the acoustic insulation of autotransformers;
- Execution of construction and installation work only during daylight hours in inhabited areas;

4.1.5 Proper waste management

- Dismantled equipment resulting from capital repairs and modernisation / refurbishment is sold to licensed companies that disassemble it and capitalise or dispose of it in controlled manner;
- Waste resulting from capital repairs and modernisation / refurbishment is managed by the work constructor;

4.1.6 Reducing the visual impact of OHL-s

OHL towers have been painted in landscape colours, e.g. TB Bucharest, the 220 kV OHL Bucharest Sud - Ghizdaru circuits 1+2;

4.1.7 Restoring the land and vegetation after construction - installation

When the construction-installation work impacting the landscape has been completed, the ground has been restablished and vegetation planted in order to restore the environment to its initial condition (e.g. TB Bucharest, substations Turnu Magurele, Gura Ialomitei; TB Cluj, substations Baia Mare 3, Salaj; TB Timisoara, substation Pestis).

4.2 Preventive and corrective actions in the operation and maintenance of the facilities

Operational installations are maintained systematically according to the internal technical guidelines. Companies providing maintenance elaborate management and environmental monitoring plans. Any environmental impact is detected on the occasion of inspections or audits, it is registered and its treatment is sought. Inspections and audits allow determining preventive and corrective measures and verifying the application and efficiency of such measures whenever managerial reviews are made.

The main preventive and corrective measures with respect to environmental protection applied in 2010 in the operation and maintenance of installations are:

4.2.1 Preventing air, water, soil and acoustic pollution by:

- Maintenance to the SF6 containing equipment to remove leaks;
- Maintaining the Diesel groups to reduce the flue gas emissions in the atmosphere;
- Maintaining oil equipment to remove leaks;
- Maintaining the retention tanks under the equipment containing electroinsulating oil;
- Maintaining and discharging the basins collecting domestic used water;
- Maintaining the oil-water separators located on the rainwater drainage;
- Maintaining the water supply and drainage installations;
- Maintaining the air cooling systems of electric equipment (transformers, auto-transfomers, shunt reactors);
- Procuring absorbant materials to treat the soil after accidental oil leaks in all the managed substatioins;
- Procuring substances neutralising the accidental sulphuric acid leaks from accumulator batteries;
- Endowing maintenance personnel with absorbent biodegradable materials for petroleum products;

4.2.2 Preventing the forest fire risk

This is obtained by means of maintenance operations to the safety corridors of overhead lines and cutting the trees exceeding a certain height that endanger the safe operation of OHL-s

4.2.3 Preventing the bird electrocution risk

This is obtained by installing bird-repellent devices (e.g. TB Bucharest, the 400 kV Bucharest Sud – Slatina)

4.2.4 Proper waste management resulting from maintenance and dismantling by:

- Provisional storage of waste in controlled selective manner on concrete-covered platforms and containers;
- Procuring / leasing containers to collect, store and transport domestic waste;
- Collecting, provisionally storing, transporting and capitalising / disposing of the harmless/dangerous waste produced in headquarters and electric susbstations, using licensed companies under contract;
- Periodical discharge of basins collecting domestic used water;
- Registering waste management according to GD 856/2002 both in the production place and in centralised manner;
- Drawing up the oil balance on location according to the requirements of GD 235 / 2007 regarding used oil;

4.2.5 Corrective activities

- De-polluting the oil contaminated soil by means of biodegradable absorbers;
- Removing the oil polluted topsoil and restoring the location;
- Repairing the concrete-covered tanks below auto-transformers;
- Installing oil-water separators, unclogging the drainage;
- Replacing the membranes, gaskets, pumps, flaps etc. relating to certain equipment in order to reduce oil leaks;

- Repairing, adjusting and reviewing the electric generating sets and motor cars in order to reduce atmospheric pollutant emissions and acoustic pollution;
- Changing certain metering transformers to remove SF6 leaks;
- Maintenance and repairs to air conditioning installations;

4.3 Monitoring the environmental factors

Monitoring pollutant emissions by means of licensed companies to lines, substations and headquarters according to the monitoring requirements from the environmental agreements and permits as required by environmental authorities:
Monitoring the atmospheric pollutant emissions from thermal power plants, motor cars, SF6 equipment and construction-installation work;
Monitoring pollutant emissions in the domestic used water and rainwater discharged from all Company locations;
Monitorint the pollutant emissions into the soil of electric substations;
Monitoring the noise level to operational lines and substations and upon execution of construction-installation work;
Monitoring the level of the electric and magnetic fields to operational lines and substations and upon commissioning operations;

5. Co-workers

Transelectrica requires from product, work and service suppliers to comply with legal environmental requirements and with the Company-specific environmental procedures acting as follows:

- Environmental requirements are introduced in the design themes, procurement documents, terms of reference and product/work/service purchase contracts;
- Companies executing design/ investment/maintenance work are elaborating environmental management plans and also introduce stages of environmental factors control in their quality plans;
- Working teams of suppliers are trained by Company personnel before beginning the work;

6. Research – development

- The National Power Grid Company Transelectrica SA elaborated in 2010 the following environmental protection studies together with specific companies:
- Hydrological studies for water course crossing by OHL managed e.g. by TB Bacau, TB Timisoara;
- Monitoring the quality of used water from the headquarters and transmission substations of Transelectrica SA;
- Assessing the impact of ETG installations over air quality by monitoring the atmospheric pollutant emissions in substations and to OHL, e.g. TB Sibiu- monitoring the emissions from thermal power plants at the headquarters of TB Sibiu and to substations Fantanele and Sibiu Sud;
- Methods investigating environmental quality in the critical points identified along OHL routes and in electric substations;

7. Training

7.1 Internal training

- The periodical training of executive and branch personnel on environmental issues according to the approved training schedule (4 h/year), using the topics elaborated by the MICMSSM;
- Participating to internal work meetings and symposia;

7.2 External training

- The Company's environmental personnel participated to training courses organised by third parties according to the Annual plan for improvement of executive and branch personnel;
- Participating to symposia, workshops and exhibitions;

8. Communication

- Publication of the Company's 2008-2009 Environmental report in bilingual edition – English and Romanien , edited on paper;
- Public debate about the investment projects

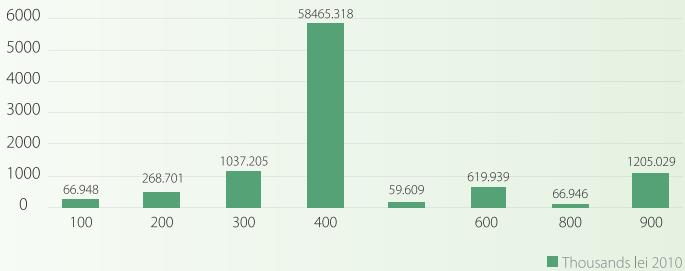
9. Expenses for environmental protection

In 2010 the total environmental protection expenses amounted to 9,170,695 lei (approximately 2.14 million Euros):

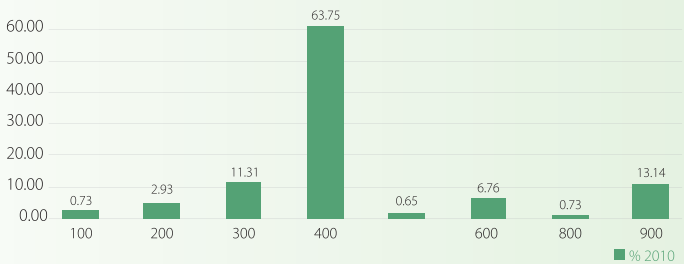
9.1 Share of environmental expenses by activities in 2010

Code	Activity	Thousand lei, no VAT	%
100	Protection of air quality and climate	66.948	0.73
200	Management of used water	268.701	2.93
300	Waste management	1037.205	11.31
400	Protection of soil and underground water	5846.318	63.75
500	Reducing noise and vibrations	59.609	0.65
600	Protecting natural resources, preserving biodiversity	619.939	6.76
800	Research	66.946	0.73
900	Other environmental protection activities	1205.029	13.14
TOTAL		**9170.695**	**100**

Environmental protection expenses by activities



Share of environmental expenses by activities

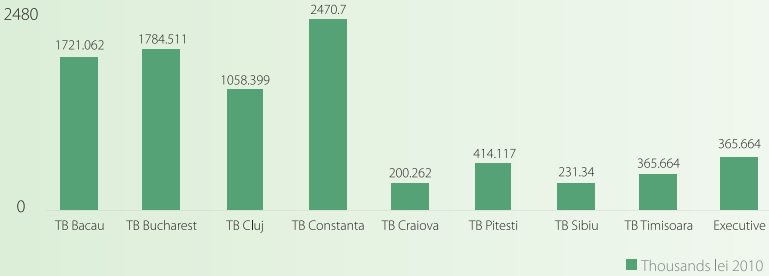


9.2 2010 expenses by branches

No.	Transmission Branch	Environmental protection expenses (thou lei, vat free)	Remarks
0	1	2	3
1	TB Bacau	1721.062	Epenses have been provided
2	TB Bucharest	1784.511	in the 2010 Environmental
3	TB Cluj	1058.399	Management and Protection
4	TB Constanta	2470.7	Plan elaborated and
5	TB Craiova	200.262	approved at Company level
6	TB Pitesti	414.117	
7	TB Sibiu	924.64	
8	TB Timisoara	231.34	
9	Transelectrica Executive	365.664	
TOTAL		**9170.695**	

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

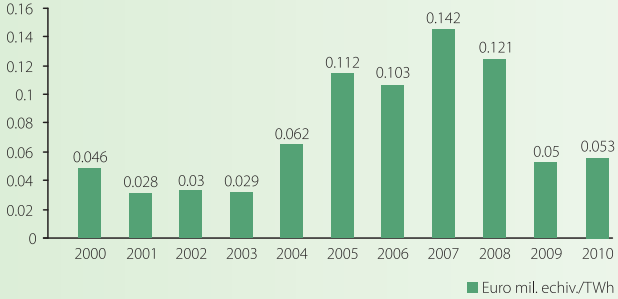
Environmental protection expenses by branches



9.3 Environmental specific expenses (mill. euros/TWh electricity transmitted) in 2010

In 2010 the electricity transmitted amounted to 40.33 TWh.

Environmental specific expenses (mill. euros/TWh electricity transmitted) in 2010



10. Performance indicators and compliance with legal requirements

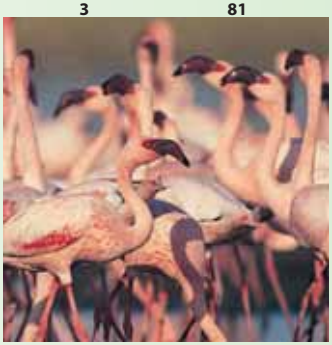
10.1 Authorisation degree regarding environmental protection

To comply with environmental legislation the procedure was furthered to get environmental permits for unauthorised lines and electric substations, to re-authorise the objectives whose licence was expiring and to get the environmental agreeemnt for the objectives under construction-installation projects.

The situation of authorised objectives and authorisation degree in 2010:

No.	Transmission branch	Number of authorised objectives	Number of objectives under authorisation	Number of objectives under re-authorisation	Number of objectives under refurbishment	Number of authorisations
1	TB Bacau	32	0	0	0	1
2	TB Bucuresti	28	1	1	3	25
3	TB Cluj	28	0	0	0	17
4	TB Constanta	32	0	0	0	10
5	TB Craiova	35	0	0	0	2
6	TB Pitesti	29	0	0	0	10
7	TB Sibiu	26	0	0	0	1
8	TB Timisoara	35	1	0	0	15
Total Transelectrica Objectives- 250		**245**	**2**	**0**	**3**	**81**

Annual development of the authorisation degree 2000 – 2010



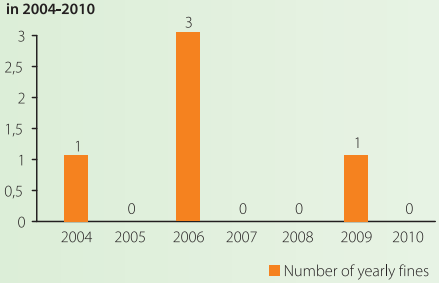
At the end of 2010 the authorisation degree was of 99.18% in terms of environmental protection due to the fact that two objectives have not been authorised- substation Calea Aradului of TB Timisoara (Transelectrica's ownership title over the land has not been settled yet) and substation Fundeni of TB Bucharest (the investments to connect the drainage network to the City network have not been made).

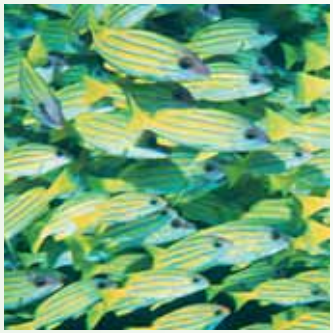
10.2 Accidental pollution cases or complaints about the environmental protection activities in 2010:

In 2010 no accidental pollution of significant environmental impact has been recorded.

Transelectrica took measures to prevent pollution and mitigate the environmental impact both with its operational activities and with the maintenance and investment ones, which involve construction-installation.

The situation of fines for environmental protection in 2004-2010





10.3 Performance indicators with waste management

In 2010 capitalisation targets were reached for the waste from imported packages (less for 2434 kg plastic which the environmental fee was paid for).

Waste produced (tons)	Capitalised waste (tons)	Waste disposed of (tons)	Stored waste (tons)	Objectives as per GD 1872/2006 Package waste: capitalisation / recycling
12,062.95	1,240.22	10,229.33	1,648.228	Reached

10.4 Performance indicators regarding the consumption of natural resources

Natural resources consumed	MU	
Electricity	kwh	42484086
	kWh / person / year	27749.24
Water	m3	73583.67
	m3 / person / year	48
Paper	kg	14767
	kg / person / year	9.65
Fuel for car transportation	l	528459.3
	l / motor car	2413
Fuel for heating	m3	485248.63
	l	4000
	m3 / person / year	317

VIII. SHARES and SHAREHOLDERS

Transelectrica's Shares

In 2010 the Stock Exchange proved that it takes patience and time to get out of a crisis and that, even if investors hoped last year could favour share placements, the deterioration of the general economic situation has not brought about the expected benefits. Liquidity remained in 2010 as well a sensitive item for the revenue and expense budget, diminishing by 50% compared to 2009; not even this year's listing has succeeded in determining spectacular developments.

Better than the stock exchange in the whole- the BET index recording ~11% increase, has been the performance of energy sector shares in 2010, the index of power companies BET-NG showing ~28% appreciation. (The BET-NG index mirrors the development of the most liquid companies in the energy and of utilities, ten in number, among which Transelectrica).

Source: BSE, Transelectrica processed data

In agreement with the market, in 2010 the development of Transelectrica shares was on the increase; TEL value recorded 48.85% appreciation (30 Dec/4 Jan) from 13.00 lei/Jan. 4th to 19.35 lei/Dec. 30th, the maximum closure value being of 21.90 lei on April 19th, 2010.

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

Relationship with the investors and analysts

In 2010 Transelectrica met all its periodical reporting obligations notified at the beginning of the year in its financial notification calendar. Moreover, besides the two meetings scheduled with the financial analysts, brokers and investors to submit the 2009 annual results, respectively the 2010 quarterly ones, on March 27th and September 4th, 2010 other reunions took place with analysts and investors upon their request, as well as participations to investor conferences.

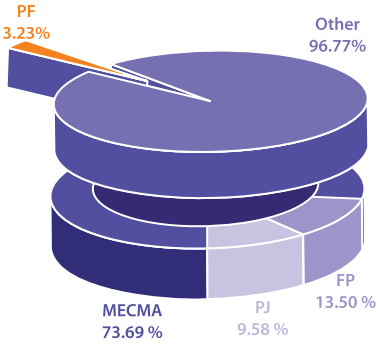
Like the previous year, the Company's evolution on the capital market was systematically monitored by 12 companies (Alpha Finance Romania, Romanian Commercial Bank, BRD-Groupe Societe Generale, EFG Eurobank Securities SA, ETEBA Romania, ING Bank – Equity Markets, Intercapital Invest, KBC Securities Romania, Piraeus Bank, Raiffeisen Capital&Investment, Unicredit CAIB Securities, WOOD & Company) whose analysts provided their clients with complex analysis reports or offered recommendations to investors with respect to investing into Transelectrica's shares.

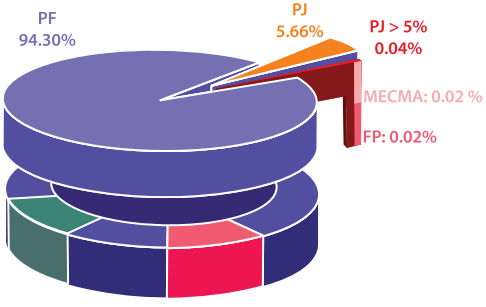
SHAREHOLDERS

In 2010 there was no change in the synthetical structure of stockholders and none of the shareholders became significant, namely it has not exceeded the 5% threshold. On 31.12.2010 the shareholders' structure was as follows:

A. By the number of shares

Shareholder/ Number of shares	Non-resident	Resident	TOTAL	Share [%]
Romanian state (MECMA)	N/A	54,015,781	54,015,781	73.6882
Ownership fund	N/A	9,895,212	9,895,212	13.4990
Legal persons	2,070,462	4,954,128	7,024,590	9.5829
Natural persons	52,999	2,314,560	2,367,559	3.2298
TOTAL	**2,123,461**	**71,179,681**	**73,303,142**	**100.0000**





B. By the number of shareholders

Shareholder/ Number of shareholders	Non-resident	Resident	TOTAL	Share [%]
Romanian state (MECMA)	N/A	1	1	0.0210
Ownership fund	N/A	1	1	0.0212
Legal persons	44	223	267	5.6592
Natural persons	78	4,371	4,449	94.2984
TOTAL	**122**	**4,596**	**4,718**	**100.0000**

DIVIDEND POLICY

In general the Company's accounting profit remaining after deduction of the profit tax is distributed in accordance with the provisions of GD 64/2001 regarding profit distribution to national companies, national corporations and trading companies with full or majority state capital, of Order 128/2005 with respect to certain accounting regulations on economic agents of the MFP and of Order 144/2005 of the MFP approving the Specifications regarding determination of the amounts being the object of profit distribution according to GD 64/2001 regarding profit distribution to national companies, national corporations and trading companies with full or majority state capital, as well as to independent authorities, approved with amendments under Law 769/2001, with later amendments and additions.
In accordance with this general rule, during the previous period the share of the net profit distributed as dividends will be around 50%.

However as regards the accounting profit of 2010 the provisions of the Governmental Emergency Ordinance (GEO) 55/23.06.2010 regarding certain measures to cut down public expenses were applied. Thus, according to article V, in the case of national companies with majority state capital the accounting profit remaining after deduction of the profit tax is distributed in quantum of minimum 90% as dividends, as per the law.

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

***proposed for SGA approval**

Source: Statutory Financial Statements as at 31 Decembrie 2010

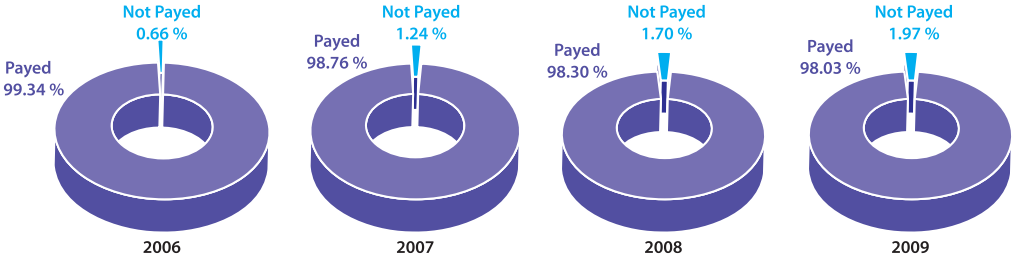
Transelectrica pays dividends from the net profit to be distributed relating to the previous financial year only when the annual financial results have been approved by the SGA. **The history of dividends paid by Transelectrica is as follows:**

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

Source: Statutory Financial Statements

In 2010, according to SGA Decision AGA of 29.04.2010, the dividends relating to 2009 and the historical unpaid dividends were paid by means of a paying agent (BancPost), selected under a transparent procedure.

On 31.12.2010 the status of dividend payment was as follows:



PROCUREMENT OF OWN SHARES

In 2010 Transelectrica performed no transactions with its own shares.
At the end of 2010 the Company did not hold own shares and none of the Company's subsidiaries held any Company shares.

Other events

In 2010 the majority shareholder – the Ministry of Economy, Commerce and Business Environment – decided to sell a 15% package from its 73.7% share held in Transelectrica. Its decision was formalised under GD 826/04.08.2010 and will be the secondary public offer type. The execution is coordinated by MECMA – OPSPI and in principle this process is estimated to be completed at the end of 2011.
On the other hand the application of the national energy strategy ad of the energy policy at European level require Transelectrica an intense investment programme with a view to provide a good operation of the electricity market, especially of transmission grids as essetial element of public safety, economic competitiveness and people's welfare. Consequently, in order to achieve all the planned investments the Company decided for the future to draw additional financial funds still by private contribution, mobilised again on the capital market as primary public offer to increase its hare capital.

Corporate Governance

Transelectrica's corporate governance is a responsible corporate management system conceived to add value in time and to consolidate the confidence of interested parties. It relies on the efficient cooperation between the Company's administrative management, promotion and observance of shareholders' rights and interests and open transparent communications.
Transelectrica has realised that, besides its two major roles - the technical (Romanian power system safe and reliable operation at quality standards) and the economic one (providing profit for shareholders), it is high time it should assume a new and more visible role, focused on responsibility and ethics, towards a better positive impact upon community.
The Company considers that reinforcement of its business environment can be done appealing to strategic activities of energy policy at national and European level, by assuming sound and sustainable values.
In its quality of issuer listed to Bucharest Stock Exchange, the Company's responsible attitude was embodied in a formal document from 2009, when the ‚Transelectrica's Corporate Governance Regulation' was approved at the Shareholders' General Assembly's meeting. This document, representing the Company's voluntary commitment to corporative governance principles taking into account its characteristics and particular activity, describes the specific compliance with the principles provided in the Corporative Governance Code of the Bucharest Stock Exchange.
This Regulation is a public document and can be found on the site www.transelectrica.ro, Investor Relations and Financial Reports – With a view to facilitate the shareholders' participation to the General Assembly Meetings and fully exercising their rights, Transelectrica enabled them to vote in absentia using the special power of attorney and to vote remotely by post. The mode of operation is posted on the site www.transelectrica.ro, Investor Relations and Financial Reports. Absolutely all documents for SGA meetings are published in the proper area of the site within the legal time interval.

BOARD OF DIRECTORS

In 2010 as well the BA met monthly, with the following exceptions- in April and November two meetings were organised, while in January none could be held owing to the absence of quorum. In total 13 meetings were held by Transelectrica's Board of Administration.
The meetings are chaired by Mr. Adrian Baicusi, director general of Transelectrica and chairman of the Board. The Board structure is grounded on diversity, capabilities, qualities, experience and complementary professional knowledge. Members have been selected in transparent manner, with observance of legal provisions in force.
The Board members permanently improve their expertise by training courses in corporate governance and capital markets.
Participation in Board meetings according to the number of reunions from the total number of attended meetings and the eligible ones, as well as the changes occurred in the 2010 structure are shown below:

No	Name	Appointment	Revocation	Attendence to BA meetings
1.	*Adrian BAICUSI	23 February 2009	08 December 2010	12 of 13
2.	*Alexandru SANDULESCU	30 March .2009	-	13 of 13
3.	Cristian ENE-CORBEANU	30 March .2009	-	12 of 13
4.	Gheorghe SECULICI	30 March 2009	-	12 of 13
5.	Andrei-Gabriel BENGHEA-MĂLĂIES	29 April .2010	-	6 of 13
6.	*Florin MARZA	29 April.2009	08.December .2010	12 of 13
7.	Florin IONEL	8 December .2010	-	1 of 13
8.	*Gheorghe-Doru VOICU	29 April 2010	-	8 of 13
9.	*Stelian Alexandru GAL	08.December 2010	-	1 of 13
10.	Horia HĂHĂIANU	2011	-	
11.	Dumitru Virgil ORLANDEA	2011	-	
12.	Sergiu Norut STANISTEANU	2011	-	

* until 2011

Consultative Committees

Three consultative committees operate under the direct guidance of the Board, each of them having three members appointed from among the Board members.
The Committees' Regulations are published on the site www.transelectrica.ro – Investors' Relationship and Financial Reports / Corporative Governance.
In 2010 the Audit Committee met six times, notifying the Board thereof, while the Remuneration Committee and the Consultative one for energy security and protection of critical infrastructure met six times and notified the Board accordingly.

Executive management

In 2010 the Company's organisational structure was adapted to a new requirement to render efficient the activities of the executive and subsidiary levels, to clear up hierarchical relations and responsibilities, to communicate faster and take less time in making decisions.

Director General

Mr. Adrian Baicusi was appointed as director general of Transelectrica on January 16th, 2009 and Chairman of the Board.

On November 15th, 2010, by order of the Romanian Minister of Economy, **Mr. Stelian Alexandru Gal** was appointed the new Director General of Transelectrica (Romanian Power Grid Company), replacing Mr. Adrian Baicusi who received other commitments.

Mr. Octavian Lohan, Deputy Director General, has been working for more than 34 in the power sector, especially in the dispatching domain, and his portfolio includes the following departments:

- Operational Unit – National Power Dispatcher;
- Investment Project Management Division;
- Network Operation Division;
- Network Planning and System studies compartment;
- Administrative Office;

Mr. Corneliu Ene, Deputy Director General, was in charge with the economic, financial and commercial management.

Mr. Dorin Voicu - Director of the Assetts Management Unit

Mrs. Maria Ionescu, Economic Director, has acquired more than 28 years experience in various positions from the Romanian power sector, and her portfolio includes the following departments:

- Budget, Finance, Accounting Division;
- Financial Transactions Compartment;
- Patrimony Office;

Mr. Dan ROMANESCU, Commercial Director, has acquired over 15 years experience in the private trading domain and his portfolio includes the following departments:

- Commercial Management of the Transmission Grid Division;
- Procurement Compartment;

IX.
TRANSELECTRICA'S SUBSIDIARIES

Transelectrica's subsidiaries

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

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

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

OPCOM: Commercial Market Operator – services on the regional market SEE-CEE
- provides market administration according to the provisions of the electricity market commercial code
- establishes the unconstrained merit order of the dispatachable generating units by ordering them on levels of opower depending on the bidded price
- establishes the payment rights and liabilities for the market participants in compliance with the accomplished transactions

FORMENERG
- provides professional training for the power sector personnel

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

ICEMENERG SERVICE
- provides services in the field of electricity distribution equipment and control devices for energy equipment.

Transelectrica's Branches

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

Location of the 8 Transmission branches on Romania's map:

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

Transelectrica's Transmission Branches

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

Bucuresti Transmission Branch
Director: Virgil Lichiardopol
1A Stefan cel Mare av, sector 1 Bucuresti, cod 01173
Phone: 021/201 62 00; Fax: 021/317 23 00

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

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

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

Pitesti Transmission Branch
Director: Mihai Budan
25B Fratii Golesti str. , Pitesti, cod 110174
Phone: 0248/607 200; Fax: 048/607 209

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

Timisoara Transmission Branch
Director: Nicolae Chiosa
11 Piata Romanilor str.,Timisoara, cod 300100
Phone: 0256/294 550; Fax: 0256/219 963

Transelectrica®

WE LEAD THE POWER

X. CONSOLIDATED FINANCIAL STATEMENTS

Transelectrica®

WE LEAD THE POWER

Consolidated Financial Statements

as at and for the year ended

31 December 2010

Prepared in accordance with

International Financial Reporting Standards

as endorsed by the European Union

KPMG Audit SRL
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www.kpmg.ro

Independent Auditors' Report (free translation[1])

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

Report on the consolidated financial statements

1 We have audited the accompanying consolidated financial statements of C.N.T.E.E. Transelectrica S.A. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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

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

Basis for Qualified Opinion

6 As described in Note 11 to the accompanying consolidated financial statements, as at 31 December 2010, the Group has ongoing long-term loans from the European Bank for Reconstruction and Development, the European Investment Bank and International Bank for Reconstruction and Development. The Group did not comply with two 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 427,241 thousand should be presented in the consolidated statement of financial position as at 31 December 2010 as short term liabilities in accordance with IAS 1 "Presentation of Financial Statements".

Our audit report on the consolidated financial statements as at and for the year ended 31 December 2009 expressed a qualified opinion with respect to long term liabilities, in amount of Lei 498,630 thousand, which should have been presented as short term liabilities, as a result of the non-compliance with these financial indicators, as at that date.

The management of the Group considers the non-compliance of the financial indicators as not significant and the probability of accelerated repayment requirements unlikely as at 31 December 2010 and as at 31 December 2009.

Qualified Opinion

7 In our opinion, except for the effects of the matter referred to in paragraph 6, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Other Matters

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

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

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

Refer to the original signed Romanian version

For and on behalf of KPMG Audit SRL:

Razvan Mihai

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

KPMG Audit SRL

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

Bucharest, 11 April 2011

CN Transelectrica SA - Consolidated Statement of Financial Position as at 31 December 2010

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

	Note	31 December 2010	31 December 2009
Assets			
Non-current assets			
Property, plant and equipment	4	3,182,870	2,969,585
Intangible assets	5	26,353	30,428
Other investments		5,729	5,729
Total non-current assets		**3,214,952**	**3,005,742**
Current assets			
Inventories	6	48,826	41,508
Trade and other receivables	7	675,207	633,883
Cash and cash equivalents	8	160,403	163,610
Total current assets		**884,436**	**839,001**
Total assets		**4,099,388**	**3,844,743**
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital		1,091,526	1,091,526
Share premium		49,843	49,843
Legal reserves		38,587	37,630
Revaluation reserves		274,134	276,201
Other reserves		983	922
Retained earnings		547,975	448,705
Total shareholders' equity	**9**	**2,003,048**	**1,904,827**
Non-current liabilities			
Deferred income	10	134,958	230,912
Borrowings	11	981,608	947,211
Deferred tax liability	14	26,894	14,262
Employee benefits obligations	12	28,127	22,283
Total non-current liabilities		**1,171,587**	**1,214,668**
Current liabilities			
Trade and other liabilities	13	599,814	510,650
Other tax and social security liabilities	16	35,127	8,459
Borrowings	11	185,004	202,994
Deferred income	10	104,808	3,145
Total current liabilities		**924,753**	**725,248**
Total liabilities		**2,096,340**	**1,939,916**
Total shareholder's equity and liabilities		**4,099,388**	**3,844,743**

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

The financial statements on pages 1 to 39 were authorized for issue by the Company on 24 March 2011 and were signed on its behalf by:

Stelian Gal
General Manager

Maria Ionescu
Economic Director

Veronica Crisu
Deputy Director DBFC

CN Transelectrica SA - Consolidated Income Statement for the Year Ended 31 December 2010

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

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	Note	2010	2009
Revenues			
Transmission revenues		968,116	939,764
Ancillary services revenues		1,163,902	1,076,100
Balancing market revenues		388,112	443,887
Other revenues		163,063	91,898
Total revenues	**18**	**2,683,193**	**2,551,649**
Operating expenses			
System operating expenses	19	(1,392,103)	(1,307,906)
Balancing market expenses	19	(388,112)	(443,887)
Depreciation and amortization		(267,135)	(257,123)
Personnel expenses		(211,240)	(202,523)
Repairs and maintenance expenses		(45,742)	(74,831)
Other operating expenses		(134,860)	(125,486)
Consumables		(55,580)	(41,277)
Total operating expenses		**(2,494,772)**	**(2,453,033)**
Operating profit		188,421	98,616
Financial income		94,587	23,297
Financial expenses		(152,806)	(109,800)
Financial result	**20**	**(58,219)**	**(86,503)**
Profit before income tax		**130,202**	**12,113**
Income tax	14	(26,237)	6,140
Profit for the year		**103,965**	**18,253**
Basic and diluted earnings per share (Lei/share)	**15**	**1.42**	**0.25**

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

	Note	2010	2009
Profit for the period		**103,965**	**18,253**
Other comprehensive income			
Deferred tax liability on revaluation reserve	14	-	(26,876)
Loss on revaluation of property, plant and equipment	9	(2,067)	-
Other comprehensive loss for the period, net of tax		**(2,067)**	**(26,876)**
Total other comprehensive income/(loss) for the year		**101,898**	**(8,623)**

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

CN Transelectrica SA - Consolidated Statement of Changes in Equity for the Year Ended 31 December 2010

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

	Share capital	Share premium	Public patrimony	Legal reserve	Revaluation reserve	Other reserves	Retained earnings	Total
Balance as at 1 January 2009	**1,091,526**	**49,843**	**-**	**37,226**	**303,077**	**53**	**452,847**	**1,934,572**
Comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	18,253	18,253
Other comprehensive income/(loss) out of which								
Deferred tax liability on revaluation reserve (see Note 14)	-	-	-	-	(26,876)	-	-	(26,876)
Total other comprehensive income	**-**	**-**	**-**	**-**	**(26,876)**	**-**	**-**	**(26,876)**
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**(26,876)**	**-**	**18,253**	**(8,623)**
Increase in legal reserve	-	-	-	404	-	-	(404)	-
Public patrimony assets (see Note 3 (c))	-	-	1,162	-	-	-	-	1,162
Derecognition of public patrimony assets (see Note 3 (c))	-	-	(1,162)	-	-	-	-	(1,162)
Total other elements	**-**	**-**	**-**	**404**	**-**	**-**	**(404)**	**-**
Transactions with owners, recorded directly in equity								
Dividends distributed	-	-	-	-	-	-	(21,991)	(21,991)
Land for which title deeds were obtained (see Note 9)	-	-	-	-	-	869	-	869
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**869**	**(21,991)**	**(21,122)**
Balance as at 31 December 2009	**1,091,526**	**49,843**	**-**	**37,630**	**276,201**	**922**	**448,705**	**1,904,827**
Comprehensive income for the period								
Profit for the period	-	-	-	-	-	-	103,965	103,965
Other comprehensive income/(loss) out of which								
Loss on revaluation of property, plant and equipment	-	-	-	-	(2,067)	-	-	(2,067)
Total other comprehensive income	**-**	**-**	**-**	**-**	**(2,067)**	**-**	**-**	**(2,067)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(2,067)**	**-**	**103,965**	**101,898**
Increase in legal reserve	-	-	-	957	-	-	(957)	-
Public patrimony assets (see Note 3 (c))	-	-	(4,447)	-	-	-	-	(4,447)
Derecognition of public patrimony assets (see Note 3 (c))	-	-	4,447	-	-	-	-	4,447
Total other elements	**-**	**-**	**-**	**957**	**-**	**-**	**(957)**	**-**
Transactions with owners, recorded directly in equity								
Dividends distributed	-	-	-	-	-	-	(3,738)	(3,738)
Land for which title deeds were obtained (see Note 9)	-	-	-	-	-	61	-	61
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**61**	**(3,738)**	**(3,677)**
Balance as at 31 December 2010	**1,091,526**	**49,843**	**-**	**38,587**	**274,134**	**983**	**547,975**	**2,003,048**

CN Transelectrica SA - Consolidated Statement of Cash Flows for the Year Ended 31 December 2010

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

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	2010	2009
Cash flows from operating activities		
Profit for the year	103,965	18,253
Adjustments for		
Income tax	26,237	(6,140)
Depreciation and amortization	267,135	257,123
Net impairment of current assets	49,710	-
Net losses from disposal of property, plant and equipment	3,171	3,610
Interest expense	29,748	42,464
Interest income	(4,613)	(17,348)
Dividends income	(648)	(1,269)
Unrealized foreign exchange losses	32,450	54,762
	507,155	**351,455**
Changes in:		
Accounts receivable	(93,880)	205,422
Inventories	(4,979)	1,390
Accounts payable and other liabilities	127,022	(202,286)
Deferred income	(4,658)	78,117
Cash generated from operating activities	**530,660**	**434,098**
Interest paid	(31,343)	(53,591)
Income tax paid	(1,009)	(7,115)
Net cash from operating activities	**498,308**	**373,392**
Cash flows used in investing activities		
Purchase of tangible and intangible assets	(487,412)	(364,101)
Proceeds from sale of tangible fixed assets	1,196	3,473
Interest received	4,660	19,465
Dividends received	1,081	2,269
Net cash used in investing activities	**(480,475)**	**(338,894)**
Cash flows from/(used in) financing activities		
Proceeds from long term borrowings	172,168	38,290
Repayments of long term borrowings	(158,850)	(136,923)
Dividends paid	(3,857)	(24,592)
Net cash from/(used in) financing activities	**9,461**	**(123,225)**
Net increase/(decrease) in cash and cash equivalents	**27,294**	**(88,727)**
Cash and cash equivalents as at 1 January (see Note 8)	**123,434**	**212,161**
Cash and cash equivalents as at 31 December (see Note 8)	**150,728**	**123,434**

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

1. Background and general information

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

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

CN Transelectrica consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") are available at the Company's working point located in No. 2 – 4, Olteni Street, sector 3, Bucharest.

Incorporation of the Company

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

As described in note 9, as at 31 December 2010, the shareholders of the Company are: the Ministry of Economy, Commerce and Business Environment ("MECMA") which holds 54,015,781 shares, representing 73.69% of the share capital, Fondul Proprietatea, which holds 9,895,212 shares, representing 13.5% of the share capital and other shareholders which hold 9,392,149 shares, representing 12.81% of the share capital.

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

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

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

Regulatory environment

The activity in the electricity sector is regulated by the National Agency for Electricity Sector Regulation ("ANRE") – established as an autonomous public institution by Government Ordinance No.

29/1998, modified by Law 99/2000 – which has, among others, the following responsibilities:

- application of the compulsory national regulating system for the energy sector, with the aim to guarantee efficiency, competition, transparency and consumer protection;
- issue or cancel the operating licenses of the entities involved in the energy sector, which already exist or will appear in the future, 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 transmission. Consequently, the Group's activity is fundamentally impacted by the decisions made by ANRE.

The operating activity of the Company has been performed according to set-up licence No. 161/2000 regarding electricity transmission and system services, revision 3/2009 issued by ANRE, valid until 2025.

Tariffs for energy transmission and ancillary services

The energy transmission is a natural monopoly activity. The tariffs used by the Company for transmission and 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 property, plant and equipment 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. The regulated asset base includes 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. Starting with the second regulated period 2008 – 2012, an adjustment of revenue was introduced for the not achieving, during regulated periods: period one and the second one, the tangible and intangible assets afferent to the investments approved/estimated by ANRE. This adjustment would be made during the last year of regulated period.
The regulated asset base for the second period does not include the working capital. The assets resulted from additional investments approved by ANRE compared to the initial approved investment program would be included in regulated assets base in the following regulated period.
Local and international stock exchange indexes

Starting 6 March 2007, CN Transelectrica SA is part of BET index managed by the Bucharest Stock Exchange, with a share of 19.35%, at a stock exchange capitalization amounting to 1,418,416 as at 31 December 2010. 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.

Company's revenues

The main revenue generating activities for the Company are:

- The electricity transmission services;
- The ancillary services (the technical operational management of NES);
- Balancing Market Operator.

Electricity transmission service

The transmission services mainly consist in assuring the electricity transmission between two or more points of the electricity transmission grid ("ETG"), in compliance with the continuity, safety and quality standards.
The Company provides the transparent, non-discriminatory and equal access to the transmission grid of all market participants. The

transmission activity is carried out through eight branches located in Bucharest, Bacau, Cluj-Napoca, Craiova, Constanta, Pitesti, Sibiu and Timisoara.

The transmission service provided by Transelectrica consists in ensuring the technical conditions and maintaining the parameters of ETG during the injection/extraction of energy in/from the transmission network.

The end users of the transmission service are, on the one hand, the participants introducing electricity into the ETG (electricity producers and suppliers including importers) and, on the other hand, the companies taking over the electricity from the grid (electricity suppliers, the producers/suppliers that export it as well as eligible consumers).

Ancillary services

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

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

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

Balancing market operator

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

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial position: part of the property, plant and equipment items is revalued, while the remaining part was adjusted as required by IAS 29 ("Financial Reporting in Hyperinflationary Economies") up to 31 December 2003.

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

In determining if IFRIC 12 is applicable for the financial year ended as at 31 December 2010, the Company considered whether the following features of a public-to-private service concession agreement are to be applied to the concession agreement it had entered into with MECMA, as at the date at which IFRIC 12 is required to be adopted:

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

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

(e)Changes in accounting policies

Accounting for connection fee

From 1 January 2008 the Group has early adopted IFRIC 18 Transfers of Assets from Customers. The change in policy does not affect previous periods as no connection was put into function from 1 January 2008 to 31 December 2009.

This interpretation applies to agreements with customers in which the Company receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant or equipment and the Company must then use the item of property, plant or equipment to connect the customer to the network. The Company shall recognise revenue as a whole when the service is provided at the fair value of the acquired/built asset, meaning when the customer is connecting to the network.

3. Accounting policies

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

(a)Basis of consolidation

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

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

(b)Property, plant and equipment

Owned assets
Tangible fixed assets, except for other tangible fixed assets and construction in progress, are stated at their revalued amount, less any accumulated depreciation and accumulated impairment losses. Other tangible 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 tangible 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 method).

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 administrative buildings were revalued at fair value as at 31 December 2010, based on the assessment report prepared by the independent assessor, SC JPA Audit &Consultanta SRL. In setting up the value of the buildings, the assessor used the net replacement cost method.

The difference between the carrying amount and the fair value established in the assessors' report as at 31 December 2010 was recognized as revaluation reserve in equity.

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

Statutory reserves from the revaluation of fixed assets, including land, recorded after December 31, 2003 plus the portion of the revaluation performed after January 1, 2004 relating to the period before April 30, 2009 will not be taxed when transferred to reserves representing realized revaluation reserve surplus.

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

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

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

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

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.

(c) Public patrimony assets

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

The Government Decision No. 627/2000 establishes in the annex No. 8 the public patrimony fixed assets which are under the Group's administration, 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 MECMA, since the Group was not required to pay any fee for the use of these assets and expected to have right of use of the assets for the majority of their useful lives. The public patrimony reserve was transferred to retained earnings in line with the depreciation of the corresponding fixed assets. Such transfer to retained earnings was not recorded through the income statement. The public patrimony fixed assets financed from subsidies were included in the public patrimony equity account when these assets were put into use.

In November 1998, Law No. 213/1998 was issued, which regulated the status of public patrimony. The law stipulates that the State or local authorities have ownership of the public patrimony and that they can rent or grant use of it. According to the provisions of Law no 213/1998 and Law no 219/1998, MECMA has signed in the name of State a concession contract in respect of the energy transmission grid (high voltage electric power lines and electric stations) and the land on which they are built. The concession contract No. 1 has been concluded as at 29 June 2004 between MECMA and the Group for all the public patrimony fixed assets in balance as at 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 MECMA, arising from the signing of the concession contract, the Group derecognized all public patrimony assets at 29 June 2004 with the change recorded directly to the public patrimony reserve within equity. Following the signing of the concession agreement the Group now treats the public patrimony assets to which it has right of use, as assets under operating lease. Payments under the concession agreement (royalty) are recognized as an expense in the income statement based on the revenues recorded by the Group during the year. During 2005 - 2010, 5 addendums to the concession contract were signed. As a result, the public patrimony assets obtained after 29 June 2004, using the development funds were derecognized.

The main terms of the concession agreement are as follows:

- MECMA has legal title to the leased assets;
- The Group has 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 represents 1/1000 of the total revenue from electricity transmission services, based on quantities transmitted;
- The leased assets will be returned to MECMA upon termination or expiration of the agreement; the agreement can be terminated unilaterally by either party;
- The Group has the obligation to use the assets according to the destination specified in the concession agreement and to the operating license.

The amount that the Group paid under the concession agreement for the period 1 January – 31 December 2010 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.

(d)Intangible assets

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

(e)Foreign currency transactions

Transactions in foreign currencies are translated to LEI by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at 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 2010 and 31 December 2009 are as follows:

Currency	31 December 2010	31 December 2009
1 EUR	4.2848	4.2282
1 USD	3.2045	2.9361
100 JPY	3.9400	3.1778

(f) Receivables

Receivables include invoices issued and not cashed at 31 December 2010 in nominal terms which relate to the services rendered during 2010. Receivables are stated at amortised cost less impairment losses. Ultimate losses may vary from the current estimates.

(g) Inventories

Inventories consist of consumables, spare parts, buffer stock and other inventories necessary for the activity of the Group. These materials are recorded as inventories when purchased and then expensed or capitalised, as appropriate, when consumed. Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out method, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, if any, and selling expenses.

The Group's policy is to book a provision of 100% for inventories older than 365 days and that are not expected to be used in the future.

(h) Cash and cash equivalents

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

(i) 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.

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.

(j) 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.

(k) Dividends

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

(l) Accounts and other payables

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

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) Employee benefits

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

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

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

(r) Revenue

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and the associated costs can be estimated reliably. Revenues comprise mainly the value of electricity transmission 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.

Other revenue includes mainly the subsidiaries' revenues and the revenues determined by the application of IFRIC 18.

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

(s) 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 MECMA together with related penalties, if any.

Until 31 December 2004, MECMA 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 3 (u).

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 transmission 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 were in force until 31 December 2006.

(t) Net financing costs

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

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

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

(u) Subsidies

Subsidies are accounted for in the consolidated financial position as deferred income when there is reasonable assurance that they will be received and the Group will comply with the conditions attaching to it, if any, and recognized as income at the moment of recognition of the related costs (i.e. depreciation of the fixed asset to which the subsidy relates or consumption of inventories to which the subsidy relates).
From 1 January 2008 the Group has early adopted IFRIC 18 Transfers of Assets from Customers. The change in policy does not affect previous periods as no connection was put into function from 1 January 2008 to 31 December 2009.
This interpretation applies to agreements with customers in which the Company receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant or equipment and the Company must then use the item of property, plant or equipment to connect the customer to the network. The cash is accounted for in the consolidated financial position as deferred income and will be released on revenue when the service is provided, meaning when the customer is connecting to the network.

(v) 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.

(w) Provisions

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

(x) Earnings per share

Pursuant to IAS 33, earnings per share ("EPS") are calculated by dividing the profit or loss allocated to the shareholders of the Group by the weighted average number of shares outstanding during the fiscal period.
The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares issued during the period multiplied by a time – weighting factor.

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

(y) Contingencies

Contingent liabilities are not recognized in the accompanying financial statements. They are disclosed only when 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.

(z) Segment reporting

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

The activities are taking place in different parts of Romania with each location being involved in both transmission and dispatch activities. The management of the Group considers all activities together, as "a single segment".

(aa) Comparatives

The financial statements for the year ended 31 December 2010 are comparable to the financial statements for the year ended 31 December 2009. Where necessary, comparative figures have been reclassified in order to match the changes in the presentation of the current year financial statements.

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

New standards, amendments and interpretations approved by the European Union
Certain new standards, amendments and interpretations to existing standards have been published and have been approved by the European Union, but are mandatory for the Group's accounting periods beginning on or after 1 February 2010 or later periods but which the Group has not early adopted. Management considered that the new standards, amendment and interpretation are not relevant to the Group's financial statements, except revised IAS 24.

- Revised IAS 24 ("Related party disclosures") effective for annual period beginning on or after 1 January 2011. The revised Standard adds new relationships to the definition of a related party and addresses disclosure exemptions for the government-related entities. The Group has not yet completed its analysis of the impact of the revised Standard.

New standards, amendments and interpretations not yet approved by the European Union
A number of new standards, amendments to standards and interpretations have been published, but have not yet been approved by the European Union. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

4. Property, plant and equipment

The movements of property, plant and equipment from 1 January 2009 to 31 December 2010 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 2009	**14,185**	**2,493,558**	**2,292,343**	**286,701**	**59,034**	**34,379**	**400,392**	**5,580,592**
Additions	870	239	393	5,267	1,898	598	350,309	359,574
Transfers from construction in progress	54	23,637	136,999	28,445	234	20,060	(209,429)	-
Disposals	(2)	(8,822)	(18,504)	(8,177)	(8,822)	(321)	-	(44,648)
Balance as at 31 December 2009	**15,107**	**2,508,612**	**2,411,231**	**312,236**	**52,344**	**54,716**	**541,272**	**5,895,518**
Additions	230	3,231	753	2,206	1,681	384	478,367	486,852
Transfers from construction in progress	347	91,125	313,724	45,775	1,504	65,269	(517,744)	-
Disposals	-	(17,678)	(19,067)	(2,757)	(1,588)	(310)	-	(41,400)
Balance as at 31 December 2010	**15,684**	**2,585,290**	**2,706,641**	**357,460**	**53,941**	**120,059**	**501,895**	**6,340,970**
Accumulated depreciation								
Balance as at 1 January 2009	**-**	**1,500,738**	**1,276,863**	**163,262**	**53,627**	**23,073**	**-**	**3,017,563**
Depreciation expense	-	87,019	130,478	23,977	3,209	4,404	-	249,087
Accumulated depreciation of disposals	-	(5,945)	(15,237)	(7,726)	(8,565)	(167)	-	(37,640)
Balance as at 31 December 2009	**-**	**1,581,812**	**1,392,104**	**179,513**	**48,271**	**27,310**	**-**	**3,229,010**

Balance as at 31 December 2009	**-**	**1,581,812**	**1,392,104**	**179,513**	**48,271**	**27,310**	**-**	**3,229,010**
Depreciation expense	-	86,148	137,598	27,991	2,956	7,746	-	262,439
Accumulated depreciation of disposals	-	(11,697)	(16,316)	(2,626)	(1,464)	(236)	-	(32,339)
Balance as at 31 December 2010	**-**	**1,656,263**	**1,513,386**	**204,878**	**49,763**	**34,820**	**-**	**3,459,110**
Balance as at 1January 2009	**57,378**	**227,293**	**15,216**	**3,034**	**156**	**-**	**-**	**303,077**
Increase in revaluation reserve	-	-	-	-	-	-	-	-
Release of revaluation surplus	-	-	-	-	-	-	-	-
Balance as at 31 December 2009	**57,378**	**227,293**	**15,216**	**3,034**	**156**	**-**	**-**	**303,077**
Increase in revaluation reserve	-	2,344	-	-	-	-	-	2,344
Release of revaluation surplus	-	(4,411)	-	-	-	-	-	(4,411)
Balance as at 31 December 2010	**57,378**	**225,226**	**15,216**	**3,034**	**156**	**-**	**-**	**301,010**
Carrying value								
Balance as at 1 January 2009	**71,563**	**1,220,113**	**1,030,696**	**126,473**	**5,563**	**11,306**	**400,392**	**2,866,106**
Balance as at 31 December 2009	**72,485**	**1,154,093**	**1,034,343**	**135,757**	**4,229**	**27,406**	**541,272**	**2,969,585**
Balance as at 31 December 2010	**73,062**	**1,154,253**	**1,208,471**	**155,616**	**4,334**	**85,239**	**501,895**	**3,182,870**

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, stations and advances to suppliers of fixed assets. During 2010, the major transfers from construction in progress to fixed assets were represented by:

- Rehabilitation of 400/110/20 kV Gura Ialomitei station;
- 400/110 kV Tariverde station and connection of SC Tomis Team SRL to the electricity transmission grid (first and second phase);
- Integrated security system for stations, 3rd phase.

Buildings and special installations include mainly transformation stations and high voltage power gridlines. Machinery and equipment include mainly transformers, measurement equipment and means of communications relating to the electric power network of 110 KV, 220 KV, 400 KV and 750 KV.

The administrative buildings were revalued at fair value as at 31 December 2010, based on the assessment report prepared by the independent assessor, SC JPA Audit &Consultanta SRL. In setting up the value of the buildings, the assessor used the net replacement cost method.

The difference between the carrying amount and the fair value established in the assessors' report as at 31 December 2010 was recognized as revaluation reserve in equity.

Total capitalized borrowing costs related to construction in progress amounted to 2,767 (2009: nil), out of which the amount of 1,412 relates to BEI no. 25709 loan with a capitalization rate of 3.6 percent, and the amount of 1,355 to BRD loan with a capitalization rate of 8.4 percent.

5.
Intangible assets

The movements in intangible assets from 1 January 2009 to 31 December 2010 are the following:

	Licences and patents	Other intangible assets	Intangible assets in progress	Total
Cost				
Balance as at 1 January 2009	**3,457**	**27,976**	**26,386**	**57,819**
Additions	19	300	5,077	5,396
Transfers from intangible assets in progress	542	7,720	(8,262)	-
Disposals	(95)	(263)	-	(358)
Balance as at 31 December 2009	**3,923**	**35,733**	**23,201**	**62,857**
Additions	36	167	418	621
Transfers from intangible assets in progress	-	9,327	(9,327)	-
Disposals	(24)	(181)	-	(205)
Balance as at 31 December 2010	**3,935**	**45,046**	**14,292**	**63,273**
Accumulated amortisation				
Balance as at 1 January 2009	**3,042**	**21,634**	**-**	**24,676**
Amortisation expense	509	7,527	-	8,036
Accumulated amortisation of disposals	(95)	(188)	-	(283)
Balance as at 31 December 2009	**3,456**	**28,973**	**-**	**32,429**
Amortisation expense	473	4,223	-	4,696
Accumulated amortisation of disposals	(24)	(181)	-	(205)
Balance as at 31 December 2010	**3,905**	**33,015**	**-**	**36,920**
Carrying value				
Balance as at 1 January 2009	**415**	**6,342**	**26,386**	**33,143**
Balance as at 31 December 2009	**467**	**6,760**	**23,201**	**30,428**
Balance as at 31 December 2010	**30**	**12,031**	**14,292**	**26,353**

Intangible assets in progress are represented mainly by software related to Electricity Exchange and electricity balancing market.

6. Inventories

As at 31 December 2010 and 31 December 2009 inventories are as follows:

	31 December 2010	31 December 2009
Spare parts, consumables and other materials	43,301	35,266
Auxiliary materials	3,854	3,385
Other inventories	1,671	2,857
Total	**48,826**	**41,508**

7. Trade and other receivables

As at 31 December 2010 and 31 December 2009 trade and other receivables are as follows:

	31 December 2010	31 December 2009
Trade receivables	687,651	582,849
Other receivables	34,230	27,636
VAT receivable	-	5,564
Income tax receivable	12,832	25,425
Allowance for doubtful receivables	(48,504)	(7,591)
Allowance for other doubtful receivables	(11,002)	-
Total	**675,207**	**633,883**

The Group's policy is to book a provision of 100% for clients in litigation and bankrupted clients, 75% from the trade receivables due for more than 270 days and less than 365 days, and of 100% from the trade receivables due for more that 365 days, except for clients with whom the Group concluded reschedule agreements. The highest amounts for allowances for trade receivables were recorded for Eco Energy (15,815) and Total Electric Oltenia SA (10,707).
As at 31 December 2010, other receivables in amount of 34,230 include late payment interest with a value of 22,158 (the highest amounts for late payment interest allowances were recorded for Eco Energy (3,690) and for Total Electric Oltenia (3,289)).

As at 31 December 2010 and 31 December 2009 trade receivables are as follows:

	31 December 2010	31 December 2009
Clients – energy market	672,279	570,283
Other clients	15,372	12,566
Total	**687,651**	**582,849**

The most important clients from energy market are: Electrica SA, E.ON Moldova Furnizare SA, Enel Energie SA, Enel Energie Muntenia SA, Complexul Energetic Craiova, Hidroelectrica SA, FFEE Electrica Furnizare Muntenia Nord SA, Societatea Nationala "Nuclearelectrica" SA, FFEE Electrica Furnizare Transilvania Sud and FFEE Electrica Furnizare Transilvania Nord.

As at 31 December 2010 and 31 December 2009, these clients represent 54% and 56%, respectively from the total clients from the energy market.

The Group's exposure to credit risk related to trade and other receivables is disclosed in Note 26.

Certain present and future receivables are pledged as at 31 December 2010 – see Note 11.

8. Cash and cash equivalents

As at 31 December 2010 and 31 December 2009 cash and cash equivalents are as follows:

	31 December 2010	31 December 2009
Cash and cash equivalents	159,659	162,906
Petty cash	127	150
Other cash equivalents	617	554
Total	**160,403**	**163,610**

For the purpose of the consolidated cash flow statement, cash and cash equivalents as at 31 December 2010 and 31 December 2009 are as follows:

	31 December 2010	31 December 2009
Cash and cash equivalents	160,403	163,610
Short term loans (credit lines) (see Note 11)	(9,675)	(40,176)
Total	**150,728**	**123,434**

9. Shareholder's equity

Share capital

As at 31 December 2010 and 31 December 2009, the authorised issued and fully paid up share capital of the Company consists of 73,303,142 ordinary shares with a nominal value of 10 LEI/share.

As at 31 December 2010 and 31 December 2009, the shareholding structure is as follows:

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

As at 31 December 2010 and 31 December 2009, the share capital in amount of 1,091,526 includes the effect of restatements relating to prior periods, required by the application IAS 29 "Financial Reporting in Hyperinflationary Economies", as described in Note 2 (b). The reconciliation of share capital is as follows:

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

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

Share premium

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

Legal reserves

Legal reserves in the amount of 38,587 as at 31 December 2010 and 37,630 as at 31 December 2009, respectively, represent legal reserves according to the statutory financial statements and cannot be distributed. The Company transfers to this reserve at least 5% of their annual accounting profits until the cumulative balance reaches 20% of their paid up share capital. Legal reserves include the effect of restatements relating to prior periods, required by the application IAS 29 "Financial Reporting in Hyperinflationary Economies". The reconciliation of legal reserves as at 31 December 2010 is as follows:

Legal reserves (statutory amount)	38,395
Restatement difference in accordance with IAS 29	192
Restated legal reserves balance	38,587

Revaluation reserves

The revaluation reserve is in amount of 274,134 as at 31 December 2010 and 276,201 respectively as at 31 December 2009.

The decrease of the revaluation reserve during the year, in amount of 2,067 resulted from the revaluation of the administrative buildings as at 31 December 2010 (see Note 3 (b) and Note 4). The revaluation reserve is transferred to retained earnings in line with the disposal of the corresponding fixed assets.

Other reserves

As at 31 December 2010, other reserves are in amount of 983 and as at 31 December 2009 in amount of 922, representing land for which the title deeds were obtained.
As described in Note 22, land for which the title deeds are obtained is first recognized in other reserves and followed by an increase in share capital after it is recorded at the Romanian Trade Register Office.

Retained earnings

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

The value of dividends approved for distribution from 2009 profit was 3,738. The value of unpaid dividends as at 31 December 2010 and as at 31 December 2009 is 1,448 and 1,567 respectively.

10. Deferred income

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

During 2010 the Company received cash in amount of 96,177 from its customers representing mainly connection fees, from which SC Petrom SA paid 56,159 and SC Tomis Team SRL 19,889. In accordance with IFRIC 18 Transfers of Assets from Customers, the Company recognized on revenue 86,153 representing the value of property, plant and equipment constructed in order to connect SC Tomis Team SRL to the electricity transmission grid. The connection took place during 2010 (first and second phase of the project).

The total release of deferred income was in amount of 103,289, from which 86,153 represents the revenue recognized in accordance with IFRIC 18, while the rest of the amount of 17,136 represents the income recognised at the moment of recognition of the related costs (i.e. depreciation of the fixed asset to which the subsidy relates).

The reclassification of 92,468 from long to short term portion of deferred income relates to connections that will be put into function during 2011. During 2011 SC Petrom SA and SC Tomis Team SRL (third phase of the project) will be connected to the electricity transmission network. In accordance with IFRIC 18, this amount will be released against revenue during 2011.

The movement of short term deferred income for 31 December 2010 and for 31 December 2009 is as follows:

	31 December 2010	31 December 2009
Opening balance	3,145	8,508
Cash in advance related to interconnection capacity	38,146	88,071
Connection fee transferred from long term deferred income	92,468	-
Revenues from using the interconnection capacity	(28,951)	(93,434)
Total	**104,808**	**3,145**

The movement of long term deferred income for 31 December 2010 and for 31 December 2009 is as follows:

	31 December 2010	31 December 2009
Opening balance	230,912	152,795
Subsidies invoiced	99,803	94,387
Connection fee transferred to short deferred income	(92,468)	-
Release of deferred income	(103,289)	(16,270)
Total	**134,958**	**230,912**

11. Borrowings

Long term loans

As at 31 December 2010 and 31 December 2009 long term loans are as follows:

Description	31 December 2010	31 December 2009
EBRD 906 (a)	49,482	60,451
EIB 20.864 (b)	156,135	184,887
KfW 9787 (c)	7,777	13,920
West L.B. (d)	11,914	17,634
NIB PIL No 02/18 (e)	42,212	43,833
IBRD 7181 (f)	265,521	282,404
NIB PIL No 03/5 (g)	78,840	87,524
NIB PIL No 02/37 (h)	42,205	46,853
KfW 10431 (i)	65,510	73,942
BCR – World Trade Centre 398 (j)	15,000	20,000
Calyon (k)	9,156	12,583
KfW 11300 (l)	91,097	103,385
JBIC (m)	61,964	58,306
Raiffeisen Austria (n)	13,705	16,905
EBRD 33354 (o)	37,704	44,683
Alpha Bank (p)	29,600	37,000
BRD (q)	33,000	-
EIB 25709 (r)	139,256	-
Less: Current amount of the long term loans	**(168,470)**	**(157,099)**
Total long term loans, net of current amounts	**981,608**	**947,211**

Long term loans are detailed as follows:

(a) Loan from EBRD No. 906

The purpose of the loan was to finance the Rehabilitation of Transmission – Dispatch System. The total amount outstanding is as at 31 December 2010 USD 15,441,600. The loan bears six months LIBOR plus 1% interest rate. Repayment is scheduled over 10 years from 2004 to 2013.

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

(b)Loan from EIB No. 20.864

The total amount outstanding as at 31 December 2010 under the loan agreement, which was concluded in 2000, is EUR 36,439,270. 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.

(c) Loan from KfW No. 9787

The loan from KfW was granted on 18 September, 2001. The total amount outstanding as at 31 December 2010 is EUR 1,815,019. The purpose of the loan is to finance the Rehabilitation of the 400/110 kV Constanta Nord Switching Station. The loan bears a variable interest rate of six months EURIBOR plus 0.725% margin. Repayment is scheduled over 9 years in 17 instalments from 2004 to 2012.

(d) Loan from West LB

The loan from West LB was granted on 5 February 2002. The total amount outstanding as at 31 December 2010 is EUR 2,780,457. The purpose of the loan is to finance the Rehabilitation of 400/110 kV Oradea Sud Station.
The loan bears a variable interest rate, which is the interest rate of six months EURIBOR plus 0.5%. Repayment is scheduled over 9 years in 17 instalments from 2004 to 2012.

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

The loan from NIB was granted in 2003. The total amount outstanding as at 31 December 2010 is USD 13,172,632. The purpose of loan is to finance the rehabilitation of Switching Station 400/210 kV Slatina. The loan bears a variable interest rate of six months LIBOR plus 0.9% margin. Repayment is scheduled over 10 years in 20 instalments from 2008 to 2018.

(f) Loan from IBRD No 7181

The loan from IBRD was granted in 2003 for the rehabilitation of substations Fundeni and Iernut. The total amount outstanding as at 31 December 2010 is EUR 61,968,066. The loan bears a variable interest rate which, being the cost of qualified loans granted by IBRD on the financial market. The repayment is performed biannually, starting 15 July 2008, the last instalment being scheduled on 15 January 2020.
The loan agreement includes certain financial covenants: (i) a Debt Service Cover Ratio of not less than 1.3; (ii) a ratio of Current Assets to Current Liabilities, of not less than 1.2.

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

The loan from NIB was granted at 12 November 2004 for the rehabilitation of 400/220/110 kV Gutinas Station. The amount outstanding as at 31 December 2010 is EUR 18,400,000. The interest rate is six months EURIBOR plus 0.85%. Repayment is performed biannually, in equal instalments starting 15 March 2009, the last instalment being scheduled on 15 September 2018.

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

The loan was granted by NIB on 25 February 2004 for the rehabilitation of Rosiori Station. The amount outstanding as at 31 December 2010 is EUR 9,849,862. Interest rate is six months EURIBOR plus 0.90%, repayment is performed biannually in equal instalments starting 15 September 2008, the last instalment being scheduled on 15 September 2018.

(i) Loan from KfW No. 10431

The loan has been granted by KfW on 12 August 2004 for the objective of the rehabilitation of 400/220/110 kV Sibiu Sud Station. The amount outstanding as at 31 December 2010 is EUR 15,289,009. The interest rate is six months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting with 31 January 2008, the last instalment being scheduled on 31 July 2017.

(j) Loan from BCR No. 398

The loan was granted by BCR on 7 October 2004 representing advance financing of the modernization of Bucuresti Sud and Sibiu Sud Stations. The amount outstanding as at 31 December 2010 is RON 15,000,000. 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.

(k) Loan from Calyon

The loan was granted by Calyon on 12 March 2003 for financing

of the rehabilitation of Switching Station 400/220 kV Slatina. The amount outstanding as at 31 December 2010 is USD 2,857,143. Interest rate is six months LIBOR plus 0.7%, the non-utilization commission being 0.3%. Repayment is performed biannually in 14 equal instalments, starting with 30 June 2006 until 30 December 2012.

(l) Loan from KfW No. 11300

The loan has been granted by KfW on 12 August 2004 for the rehabilitation and modernization of Bucuresti Sud Station. The amount outstanding as at 31 December 2010 is EUR 21,260,571. The interest rate is six months EURIBOR plus 0.60%, the repayment being performed biannually, in equal instalments starting with 31 January 2008, the last instalment being scheduled on 31 July 2017.

(m) Loan from JBIC

The loan has been granted by JBIC on 25 June 2004 for the rehabilitation of Brazi Station. The amount outstanding as at 31 December 2010 is JPY 1,572,681,000. The interest rate is 3.10%, the repayment being performed biannually, in equal instalments starting with 15 March 2007, the last instalment being scheduled on 15 September 2016.

(n) Loan from Raiffeisen Zentralbank Osterreich AG

The loan was granted by Raiffeisen Austria on 14 March 2006 for the rehabilitation of 11 stations. The amount outstanding as at 31 December 2010 is EUR 3,198,597. The interest rate is six months EURIBOR plus 0.50%, the repayment being performed biannually, in 12 equal instalments starting with 10 May 2009, the last instalment being scheduled on November 2014. This loan is guaranteed by Coface. According to addendum from 22 December 2008, the loan was reduced from EUR 5,458,646 to EUR 4,797,895.

(o) Loan from EBRD No. 33354

The loan has two components: A Loan granted by EBRD in an amount not to exceed EUR 18,200,000 and B Loan in an amount not to exceed EUR 5,000,000. The loan has been reduced 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 as at 31 December 2010 is EUR 7,177,636 for A loan and EUR 1,621,765 for B loan. The interest rate is six months EURIBOR plus 3.00% for A Loan and six months EURIBOR plus 2.75% for B Loan, the repayment 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.

(p) Loan from Alpha Bank

The loan was granted by Alpha Bank in July 2009 for the rehabilitation of Gutinas, Bucuresti Sud, Isalnita, Gura Ialomisei and Gadalin stations. The amount outstanding as at 31 December 2010 is RON 29,600,000.The loan bears a variable interest rate of six months ROBOR plus 2% margin. Repayment is scheduled over 5 years in 10 instalments from 2010 to 2014.

(q) Loan from BRD – Groupe Societe Generale SA

The loan was granted bt BRD – Groupe Societe Generale SA in February 2010 for the Rehabilitation of Gura Ialomitei, Lacu Sarat, Isalnita and Gutinas stations and to support other investments from the 2009 – 2010 investments programs. The amount outstanding as at 31 December 2010 is RON 33,000,000. The loan bears a variable interest rate of six months ROBOR plus 1.25% margin. Repayment is scheduled over 5 years in 10 instalments from 2012 to 2016.

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

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

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

Long term portion of loans is repayable as follows:

	31 December 2010	31 December 2009
Between 1 and 2 years	179,100	162,663
Between 2 and 5 years	471,299	447,969
Over 5 years	331,209	336,579
Total	**981,608**	**947,211**

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.
The accounting value of the long term loans is an approximation of their fair value.
As at 31 December 2010, the long term loans guaranteed by the Romanian Government through MECMA are: IBRD 7181, EBRD 906, EIB 20864, NIB PIL No 03/5, NIB PIL No 02/18, NIB PIL No 02/37 and JBIC.

The loan Raiffeisen Zentralbank is guaranteed in proportion of 85% by Coface. The loans KfW 9787 and West LB are guaranteed by BCR. 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 Enel Energie Muntenia SA;
- 7 promissory notes issued by the Company in the favour of the Romanian Commercial Bank equalling the loan instalments payable and the related interests, the maturity being in accordance with the repayment schedule agreed with the foreign banks.

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

The loan Alpha Bank is guaranteed by assignment of receivables from SN Nuclearelectrica SA and a real movable security over all accounts opened with the Bank.
The loan BRD – Groupe Societe Generale is guaranteed by assignment of receivables from SC CEZ VANZARE SA a real movable security over all accounts opened with the Bank.

As at 31 December 2010, the Group's pre-tax working ratio and current ratio are not complied with. These financial ratios did not vary significantly compared to the covenants stipulated in the loan agreements. The respective loan agreements are: EBRD 906, EIB 20.864, EBRD 33354 and IBRD 7181.

The financial ratios not complied with as at 31 December 2010 are:

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

***) Current ratio is the ratio of current assets to current liabilities. Current liabilities were decreased by 92,468 representing connection fee collected during 2009 and 2010 from SC Petrom SA and SC Tomis Team SRL, referring to connections that will be put into function during 2011. This decrease was made because the Company's obligation is to use this amount for the construction of PPE items to connect these customers to the NES and will not require a cash outflow from Transelectrica to these customers. The amount of 92,468 is recorded as short term deferred income as at 31 December 2010 and, in accordance with IFRIC 18, will be released against revenue during 2011 (see Note 10).**

If covenants are breached and the matter is not remedied to the satisfaction of the credit institutions within a reasonable period of time from the written notification by the credit institutions, the credit institutions may require the acceleration of maturity of the loans drawn and not reimbursed.
The management of the Group believes that the long term liabilities in amount of 427,241 should not be classified as current liabilities due to the following:

- the covenant breach is not substantial;
- the Group has the capacity and intends to make all loan repayments in accordance with the loan agreements;
- the contractual clauses stipulate that the credit institutions have to grant the Group a reasonable period of time so that it could take the necessary actions in order to comply with the financial covenants;
- the loans 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 2010.

Short term loans

As at 31 December 2010 and 31 December 2009 the short term loans are as follows:

	31 December 2010	31 December 2009
Current portion of the long term loans	168,470	157,099
Short term loans (credit lines)	9,675	40,176
Interest on long and short term loans	6,859	5,719
Total short term borrowings	**185,004**	**202,994**

The Group has three revolving credit lines, one contracted by Transelectrica with ING Bank N.V. Bucharest Branch, of 35,000 and two through Smart subsidiary contracted with ING Bank N.V. Bucharest Branch of 17,500 and with BRD Groupe Societe Generale of 1,500. During 2010, these credit lines have increased the financing sources used in the operating activities. The credit line contracted by Transelectrica with ING Bank N.V. Bucharest Branch was repaid during 2010. As at 31 December 2010, the balance of credit lines contracted through Smart subsidiary with ING Bank N.V. Bucharest Branch is 8,527 and with BRD Groupe Societe Generale is 1,148. These credit lines have guarantees attached (see Note 22 (vi)).

12. Employee benefits obligations

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

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

The benefits provided by the Company consist of:

- loyalty bonuses in the range of 1% to 10% of monthly gross basis salary;
- seniority bonuses in the range of 5% to 25% 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.

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.

As at 31 December 2010 and 31 December 2009 the Group has an obligation regarding the employee benefits, as described in Note 3 (q), in the amount of 28,127 and respectively in amount of 22,283. The estimation regarding these obligations as at 31 December 2010 has taken into consideration the followings:

- Interest rate as at 31 December 2010 communicated by the National Bank of Romania ("NBR") and interest rates estimated for future periods;
- Inflation rate as at 31 December 2010 communicated by the National Statistics Institute ("NSI") and inflation rates estimated for future periods;
- Electricity price as at 31 December 2010 and the price estimated for future periods;
- Salary as at 31 December 2010 and the salaries estimated by the actuary for future periods (a yearly increase of 3%);
- Number of employees as of 31 December 2010 and the number of employees estimated annually by the Group based on employee turnover and life expectancy information provided by NSI for 2008;
- Discounts rates estimated by actuary of 7.5% for the first five years and 4% for the following years.

13. Trade and other liabilities

As at 31 December 2010 and 31 December 2009 trade and other liabilities are as follows:

	31 December 2010	31 December 2009
Electricity suppliers	400,695	373,328
Suppliers of fixed assets	171,521	111,639
Liabilities towards employees	7,407	6,084
Other liabilities	20,191	19,599
Total	**599,814**	**510,650**

The most important electricity suppliers are: SC Hidroelectrica SA, SC Termoelectrica SA, SC Electrocentrale Bucuresti SA, SC Complexul Energetic Turceni SA, SC Electrocentrale Deva SA and SC Complex Energetic Craiova SA. As at 31 December 2010 and 31 December 2009, these suppliers represent 65% and 66%, respectively from the total energy suppliers.
Other liabilities in amount of 20,191 include mainly guarantees for works executed by the suppliers in amount of 3,136.

14. Income tax

The Group's current and deferred income tax for year ended 31 December 2010 and 31 December 2009 is determined at a statutory tax rate of 16%, being in force during financial year 2010 and 2009.

As at 31 December 2010 and 31 December 2009 the income tax expense consists of the following:

	2010	2009
Current income tax	13,605	6,474
Deferred income tax	12,632	(12,614)
Total	**26,237**	**(6,140)**

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

	2010	2009
Profit before income tax	130,202	12,113
Income tax at statutory rate of 16%	20,832	1,938
Effect of non-deductible expenses	9,474	4,256
Effect of non-taxable income	(1,362)	(2,292)
Effect of timing difference not recognized at 16%	(2,707)	(10,042)
Income tax	**26,237**	**(6,140)**

As at 31 December 2010 and 31 December 2009 the deferred tax asset and deferred tax liability are as follows:

	31 December 2010		31 December 2009	
	Cumulative temporary differences	Deferred tax (asset) / liability	Cumulative temporary differences	Deferred tax (asset) / liability
Property, plant and equipment	(29,283)	(4,685)	(43,838)	(7,014)
Subsidies	74,210	11,873	(12,717)	(2,035)
Retirement benefits	(28,127)	(4,500)	(22,283)	(3,565)
Revaluation reserve	151,289	24,206	167,977	26,876
Total	**168,089**	**26,894**	**89,139**	**14,262**

Starting with 1 May 2009, according to the changes in the fiscal treatment of revaluation reserves, in compliance with Government Emergency Ordinance no. 34/2009, amending the Fiscal Code, the revaluations performed by the Group after 1 January 2004 and booked

on statutory financial statements, will be taxed simultaneously with the deduction of the fiscal depreciation, respectively when the assets are disposed, as appropriate. The Group recognized deferred tax liability for this revaluation reserve.

Income tax recognized directly in equity	2010	2009
Impact on deferred tax of fixed assets revaluation performed after 1 January 2004	-	(26,876)
Total income tax recognised directly in equity	-	(26,876)

15. Earnings per share

As at 31 December 2010 and 31 December 2009, the earnings per share were as follows:

	2010	2009
Consolidated net profit	**103,965**	**18,253**
Number of ordinary shares at the beginning of the year	73,303,142	73,303,142
Basic and diluted earnings per share (LEI/share)	**1.42**	**0.25**

16. Other tax and social security liabilities

As at 31 December 2010 and 31 December 2009, the other tax and social security liabilities are as follows :

	31 December 2010	31 December 2009
Contribution to social security fund	6,576	5,926
VAT payable	26,146	-
Tax on salaries	2,005	1,894
Other tax payable	400	639
Total	**35,127**	**8,459**

17. Number of employees

The number of employees as at 31 December 2010 and as at 31 December 2009 was 3,496 and 3,430 respectively.

18. Operating revenues

Revenues have been computed using the average tariffs approved through ANRE Order No. 101 from 23 December 2009. 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 2010 and 31 December 2009 are as follows:

	2010	2009
Electricity transmission	938,160	846,330
Interconnection capacity	29,956	93,434
Revenues from electricity transmission	**968,116**	**939,764**
Ancillary services	1,158,958	1,073,072
Reactive energy	4,944	3,028
Revenues from ancillary services	**1,163,902**	**1,076,100**
Balancing market	388,112	443,887
Other operating revenues	163,063	91,898
Total operating revenues	**2,683,193**	**2,551,649**

During the years ended 31 December 2010 and 31 December 2009, the quantity of energy transmitted was as follows:
- GWh 55,235 and GWh 52,263, respectively for transmission services;
- GWh 55,235 and GWh 52,263, respectively for ancillary services.

19. System operating expenses and balancing market expenses

	2010	2009
Technological losses	265,534	243,890
Ancillary services	553,916	499,268
Cogeneration	529,207	509,396
Other operating expenses	43,446	55,352
Operating expenses	**1,392,103**	**1,307,906**
Balancing market expenses	388,112	443,887
Total	**1,780,215**	**1,751,793**

20. Financial result

	2010	2009
Interest revenues	4,613	17,348
Interest expenses	(29,748)	(42,464)
Net foreign exchange losses	(33,899)	(62,697)
Other financial gains, net	815	1,310
Financial result	**(58,219)**	**(86,503)**

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 2010 and 31 December 2009, the Group had commitments given amounting 713,670 and 660,708 respectively, representing ongoing contracts related to the investment program for the modernization and refurbishment of the transmission grid.

(ii) Land used by the Group

According to the Group policy, the financial statements include the revalued amount 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 abusively expropriated. These shares could be submitted by their owners to the MECMA together with the option for the national companies in which the Romanian State had participation, including the Company. The shares were allocated from the Romanian State participation to the share capital of the Company. The weighted average price of the shares given to issued to former owners who haven't been compensated in kind was communicated by BSE as being 31.54 lei.
As at 9 July 2007, the first shareholder certificates were issued to those who were expropiated by the Romanian State and then their rights were reinstaled under Law 10/2001 and who choose to subscribe to become shareholders of the companies from the portofolio of the MECMA, during April 2004 – July 2005.
The allocation procedure ended as at 29 November 2007, according to the Notice no XIV/116530/31.03.2009 received from the MECMA, Comission for reviewing the applications submitted by the persons eligibles for shares allocation to companies from the Ministry of Economy portofolio. According to the above document, 483 shareholders certificates were issued, which means 2,062,726 shares with a value of 65,063,710 lei.
Until 31 December 2010, there were recorded transfers to the Shareholder's Registry administrated by the Central Depository representing 2,062,362 shares, respectively 2.8% from the total shares issued by the Company
As at 31 December 2010, this allocation procedure wasn't registered to the Trade Registry Office.

(iv) Litigation in process

As of the date of these consolidated financial statements, the Group was involved in a number of 191 litigations in progress. In 92 of them the Group acts as a plaintiff or a challenging party, while in 99 of them the Group is a defendant. The management analyses the status of the litigation in progress regularly and after consultation with its legal representatives considers the appropriateness of providing for or disclosing the amounts involved in the consolidated financial statements.
Based on the information available, the management considers that there is no significant litigation in progress in which the Group is defendant.

The Group is involved in significant litigations acting as a plaintiff, for debts recovery. The Group has provided for clients and other receivables in litigations and bankrupted clients. The highest amounts were recorded for Eco Energy (19,505) and Total Electric Oltenia SA (13,996) (see Note 7).

The management of the Group considers that, the consolidated financial statements of the Group contain adequate provisions for the circumstances when settlement of litigation in process will result in an outflow of resources. In addition, there are no litigation cases which either by nature or by amount involved could result in significant contingent assets or liabilities for the Group's activity.

(v) Statutory revaluation reserves as at 31 December 2010

As at 31 December 2010, Group statutory revaluation reserves are in amount of 1,273,548 and according to the provisions of the Fiscal Code the next two categories are distinguished:

- Beginning with May 1, 2009, statutory reserves from the revaluation of fixed assets, including land, recorded after January 1, 2004, which are deducted when calculating taxable income through tax depreciation expenses or assets transferred and/or ceased, is taxed simultaneous with the fiscal depreciation deduction, or when the assets are disposed, as appropriate. Statutory revaluation reserves of fixed assets are transferred to reserves representing realized revaluation reserve surplus when the revalued assets are disposed, while in the consolidated financial statements the transfer will be reflected in retained earnings. As at 31 December 2010, these reserves are in amount of 190,439.
- Statutory reserves from the revaluation of fixed assets, including land, recorded until December 31, 2003 plus the portion of the revaluation performed after January 1, 2004 relating to the period before April 30, 2009 and plus the revaluation reserve taxed during 1 May – 31 December 2010, are in amount of 1,083,109. Realized reserves are taxable in the future, in case of changing the destination of reserves in any form, in case of liquidation, merger and including using the reserves for covering the Company's losses, except for the revaluation reserve taxed after 1 May 2009. As at 31 December 2010, the statutory realized revaluation reserves are in amount of 31,732.

(vi) Guarantees for short term loans

The credit lines mentioned above in Note 11 are contracted by Transelectrica and by Smart SA, Company's subsidiary. As at 31 December 2010, the guarantee of Transelectrica for the credit line from ING Bank N.V. Bucharest Branch is represented by assignment of receivables from contract no. C385/28.12.2006 concluded with S.C F.F.E.E. " Electrica Furnizare Muntenia Nord".
The guarantees of Smart SA for the credit line from BRD Groupe Societe Generale are represented by:

- a first ranking mortgage over a building and land located in Sibiu, 3 Corneliu Coposu Street, Sibiu County;
- security interest over the future amounts which will be collected in the Company's current accounts.
- transfer in favour of BRD, Sibiu Branch, of the compensation rights resulted from the mortgaged property's insurance.

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

- assignment of receivables from maintenance contracts, mainly concluded with the Company;
- real moveable security over all Smart SA's accounts opened with ING Bank N.V. Bucharest Branch;
- first ranking mortgage over an industrial complex, located in Craiova, 25 Prelungirea Targului Street, Dolj County;

In accordance with the license no. 161/2000 regarding electricity transmission and system services, the Company has to maintain a financial guarantee in amount of 1% of the turnover generated by activities authorized by this license. This protects the Company from risks arising from these activities and covers any potential liabilities that may be incurred according to the license contractual clauses. In order to comply with this obligation, the Company concluded a guarantee agreement with BCR-WTC, the value of the guarantee letter being 24,851 as of 31 December 2010.

(vii) Operating environment

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

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

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

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

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

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

23. Group entities

The significant subsidiaries and the percentage of ownership exercised by the Company are as follows:

Entity	Country of Origin	31 December 2010 % of total shares	31 December 2009 % of total shares
SMART SA	Romania	100	100
TELETRANS SA	Romania	100	100
ICEMENERG SA	Romania	100	100

SC SMART SA
SC SMART SA, with registered offices in no. 33 Magheru Boulevard, sector 1, Bucharest has as main activities the provision of maintenance services for the transmission – dispatcher system, It was set up by Romanian Government Decision no. 710/ 19 July 2001 at 1 November 2001. The share capital as of 31 December 2010 was in amount of 38,529 subscribed and fully paid.

SC TELETRANS SA
SC TELETRANS SA, with registered offices in no. 16 - 18 Hristo-Botev Boulevard, sector 3, Bucharest has as main activities telephony, telegraphy and transmission of data. It was set up as per Shareholders Meeting no. 3/2002. The share capital as of 31 December 2010 was in amount of 6,874 subscribed and fully paid.

SC ICEMENERG SA
SC "Filiala Institutul de Cercetări şi Modernizări Energetice" – ICEMENERG SA, with registered offices in no. 8 Electricienilor Boulevard, sector 3, Bucharest has as main activities research and development in physical and natural sciences, innovation, studies, development strategies, design, city planning, engineering and other technical services. It was set up as per Government Decision no. 1065/ 4 September 2003. The share capital as of 31 December 2010 subscribed and fully paid by the Company was in amount of 1,085.

24. Transactions with other state owned companies

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

The transactions with other state owned companies for the years ended 31 December 2010 and 31 December 2009 are detailed as follows:

	2010	2009
Sales	1,253,494	1,228,129
Purchases	1,731,683	1,512,331

The balances with other state owned companies as at 31 December 2010 and 31 December 2009 are detailed below:

	31 December 2010	31 December 2009
Trade receivables	329,582	280,069
Trade payables	359,729	307,524

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

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

25. Management salaries

During the financial years ended 31 December 2010 and 31 December 2009, the management's salaries were in an amount of 6,016 and 4,705 respectively.

26. Financial instruments and risk management

Financial instruments

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 the risk using a risk management system. 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.

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

The Company's risk management procedure involves the set-up of two sets of solutions to deal with risks and to determine its optimal structure:

- Financial solutions - including insurance, offers of shares, derivatives and other instruments on the capital markets, insurance and other financial markets.
- Organizational solutions – reducing the risks through the organization/design/planning/structure of activities, communication plans and actions taken for business continuity after a risk is produced.

During the period 2003 - 2004, together with the specialized consultant Marsh Romania, 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.

Part of the Risk Management Program, the business continuity plan of CN Transelectrica for emergency situations, crisis management and activity settlement initially started in 2005, was realized in 2007 and tested in 2008 for different scenarios of emergency situations. The plan is concentrated on safeguarding the Company values, by administrating the crisis situations and the public statements and also by preparing some redressing strategies for maintaining the income flow, a positive public image, its market value and for improving the transparency of decision making process.

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.

In 2008, the Company's risk management policy, the system and operational procedures regarding risk management were elaborated and the management was trained in risk management and internal control.

Interest rate risk

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

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 LEI. 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 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 2010, the inflation rate was 7.96 %. Inflation rate and the volatility of exchange rates may impact upon the Group's liquidity.

The Group's exposure to foreign currency risk expressed in thousand Lei, was as follows:

	LEI	EUR	USD	JPY
31 December 2010				
Monetary assets				
Advances to suppliers of fixed assets	-	-	-	-
Monetary liabilities				
Suppliers of fixed assets	(127,314)	(44,207)	-	-
Borrowings	(87,346)	(915,692)	(101,048)	(62,526)
Gross balance sheet exposure	**(214,660)**	**(959,899)**	**(101,048)**	**(62,526)**

	LEI	EUR	USD	JPY
31 December 2009				
Monetary assets				
Advances to suppliers of fixed assets	-	-	-	-
Monetary liabilities				
Suppliers of fixed assets	(72,981)	(38,658)	-	-
Borrowings	(97,396)	(876,871)	(117,102)	(58,836)
Gross balance sheet exposure	**(170,377)**	**(915,529)**	**(117,102)**	**(58,836)**

The following significant exchange rates were used:

	Average rate		Reporting date spot rate	
	2010	2009	31 December 2010	31 December 2009
RON/ EURO	4.2099	4.2376	4.2848	4.2282
RON/ USD	3.1779	3.0469	3.2045	2.9361
RON/ 100 JPY	3.6345	3.2587	3.9400	3.1778

Sensitivity analysis

A 10 percent strengthening of the RON against the following currencies at 31 December 2010 and 31 December 2009 would have increased profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit (thousand lei) 2010	Profit (thousand lei) 2009
EUR	95,990	88,593
USD	10,105	11,687
JPY	6,253	5,831
Total	**112,348**	**106,111**

A 10 percent weakening of the RON against the following currencies at 31 December 2010 and 31 December 2009 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) 2010	Loss (thousand lei) 2009
EUR	(95,990)	(88,593)
USD	(10,105)	(11,687)
JPY	(6,253)	(5,831)
Total	**(112,348)**	**(106,111)**

Credit risk

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

Financial assets, which potentially subject this Group to credit risk, consist principally of trade receivables and cash and cash equivalents. The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history.

The carrying amount of accounts receivable, net of impairment adjustment, represents the maximum amount exposed to credit risk.

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

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

	Carrying amount (thousand lei)	
	31 December 2010	31 December 2009
Financial assets		
Trade receivables	639,147	575,258
Cash and cash equivalents	160,403	163,610
Other receivables	23,228	27,636
	822,778	**766,504**

The ageing of trade receivables at the reporting date was:

	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Between 0 – 30 days	636,162	-	558,417	-
Between 30 – 90 days	107	-	5,263	-
Between 90 – 180 days	13	-	1,657	-
Between 180 – 270 days	3,075	2,891	3,674	-
Between 270 – 365 days	22,395	19,714	9,322	4,864
More than one year	25,899	25,899	4,516	2,727
Total	**687,651**	**48,504**	**582,849**	**7,591**

The ageing of other receivables at the reporting date was:

	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Between 0 – 30 days	16,806	246	16,767	-
Between 30 – 90 days	1,000	520	1,843	-
Between 90 – 180 days	4,607	1,675	2,346	-
Between 180 – 270 days	5,219	2,479	1,915	-
Between 270 – 365 days	2,063	1,547	4,765	-
More than one year	4,535	4,535	-	-
Total	**34,230**	**11,002**	**27,636**	**-**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2010	2009
Balance at 1 January	**7,591**	**1,139**
Net impairment loss recognized	40,913	6,452
Balance at 31 December	**48,504**	**7,591**

The movement in the allowance for impairment in respect of other receivables during the year was as follows:

	2010	2009
Balance at 1 January	**-**	**-**
Net impairment loss recognized	11,002	-
Balance at 31 December	**11,002**	**-**

Liquidity risk

	31 December 2010 (thousand lei)	31 December 2009 (thousand lei)
Assets		
Monetary assets in RON	826,704	814,006
Monetary assets in foreign currency	8,906	42,462
	835,610	**856,468**
Liabilities		
Monetary liabilities in RON	(678,079)	(583,346)
Monetary liabilities in foreign currency	(1,123,474)	(1,085,968)
	(1,801,553)	**(1,669,314)**
Net monetary position in RON	**148,625**	**230,660**
Net monetary position in foreign currency	**(1,114,568)**	**(1,043,506)**

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

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

	Carrying amount	Contractual amount	12 months or less	1 – 2 Years	2 – 5 Years	> 5 Years
31 December 2010						
Financial liabilities						
Trade and other liabilities	(599,814)	(599,814)	(599,814)	-	-	-
Other tax and social security liabilities	(35,127)	(35,127)	(35,127)	-	-	-
Borrowings	(1,166,612)	(1,166,612)	(185,004)	(179,100)	(471,299)	(331,209)
Total	**(1,801,553)**	**(1,801,553)**	**(819,945)**	**(179,100)**	**(471,299)**	**(331,209)**
31 December 2009						
Financial liabilities						
Trade and other liabilities	(510,650)	(510,650)	(510,650)	-	-	-
Other tax and social security liabilities	(8,459)	(8,459)	(8,459)	-	-	-
Borrowings	(1,150,205)	(1,150,205)	(202,994)	(162,663)	(447,969)	(336,579)
Total	**(1,669,314)**	**(1,669,314)**	**(722,103)**	**(162,663)**	**(447,969)**	**(336,579)**

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 2010, cash and cash equivalents, trade and other short term receivables, trade payables and other short term liabilities are close to their fair value due to their short due date, Management believes that the estimated fair values of these instruments approximate to their carrying amounts. The accounting value of the long term loans is an approximation of their fair value.

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.
- Balancing market - Through Notice no. 2705/2009, ANRE approved the operational procedure „Setting up, updating and utilisation of financial guarantees for balancing responsible parties". These guarantees are issued in Company's favour in order to avoid non payment cases on balancing market.

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