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WE LEAD THE POWER

Annual Report 2008


VULC
DOBR
MUKA
KOZL1
KOZL2
DJER
SAND
GOVO
GIUR
DRO
0
-97
78
0
-13
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0
-142
52
-15
-50
7
-10
-45
9

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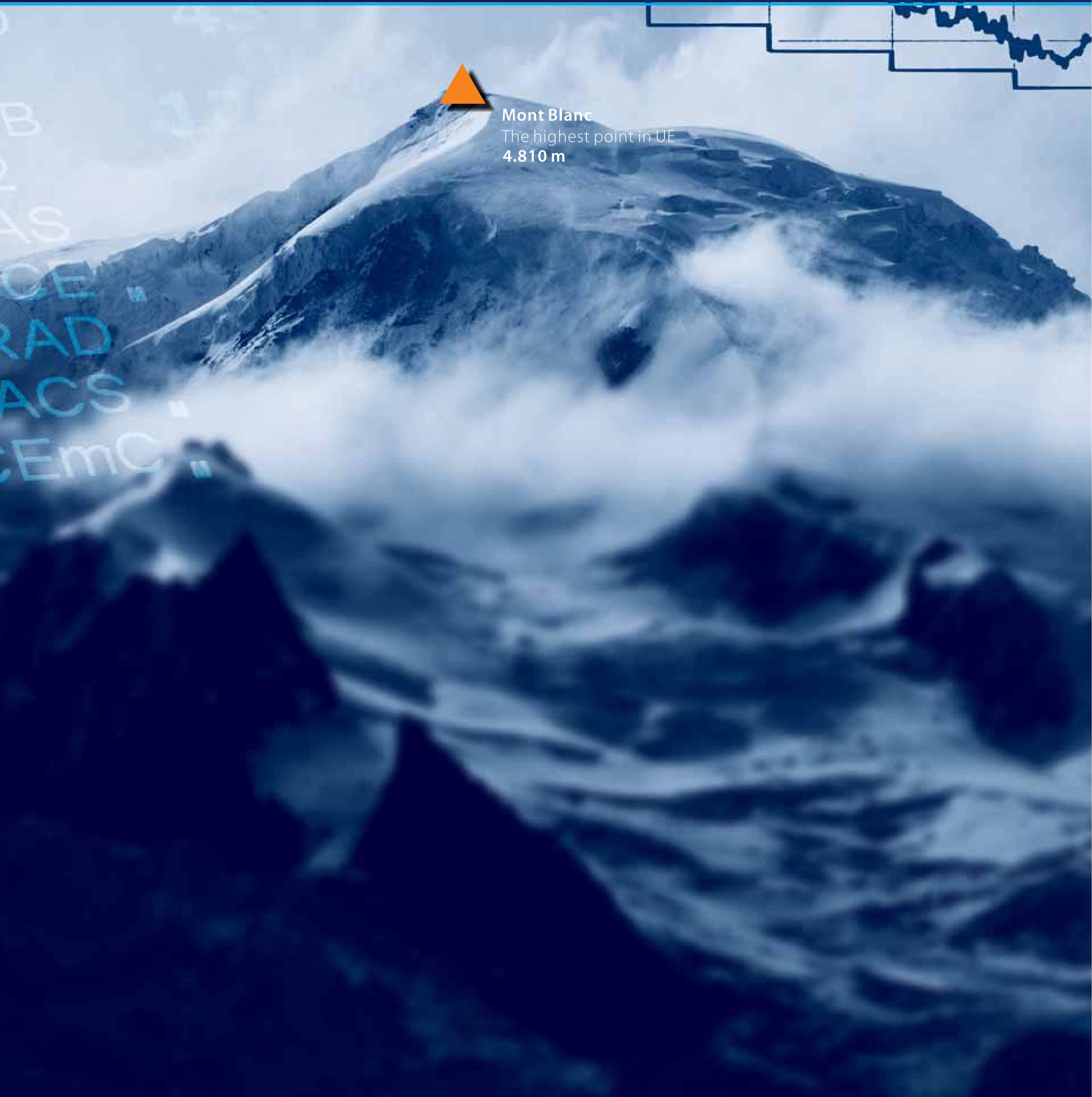

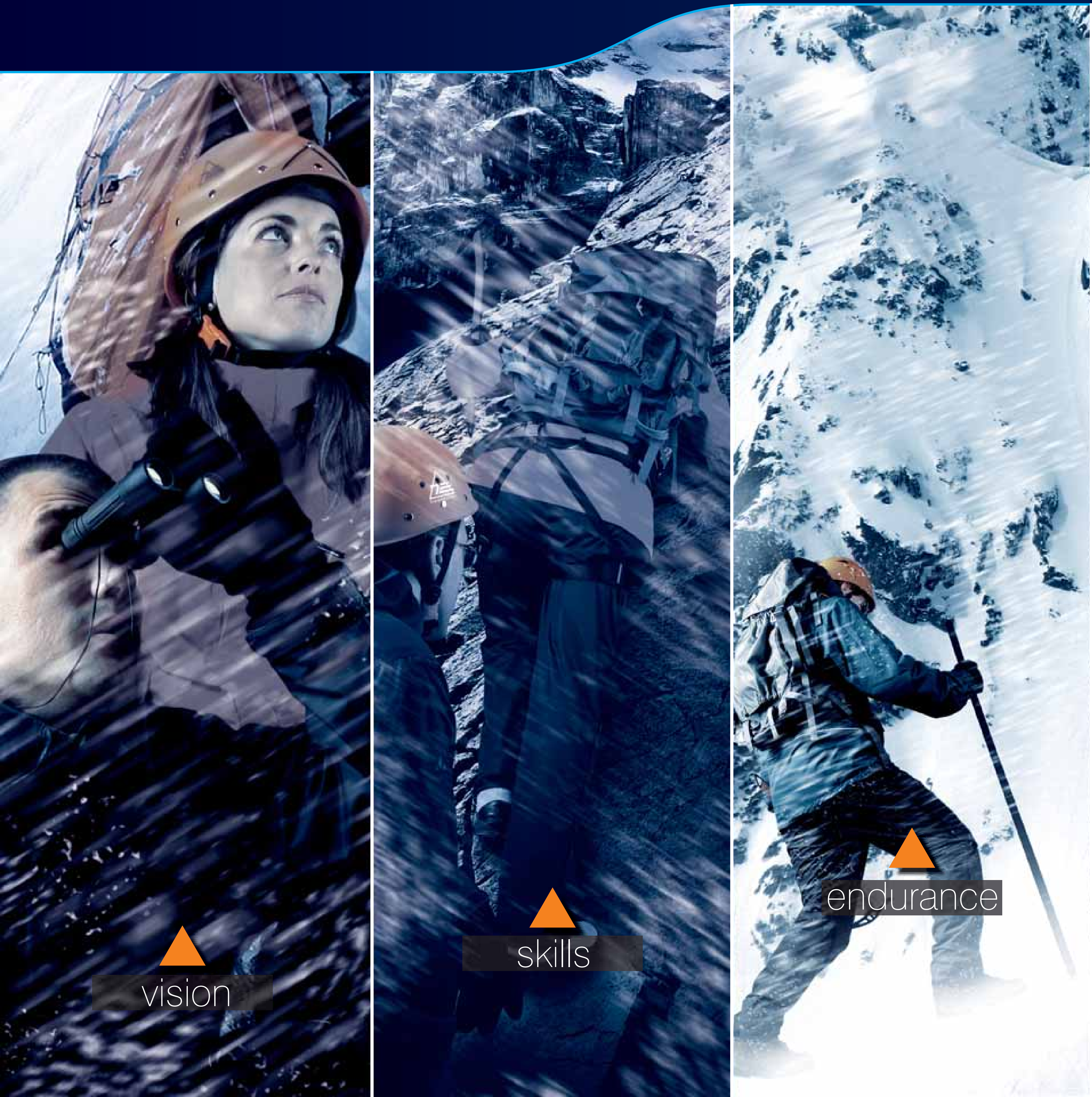
vision
skills
endurance

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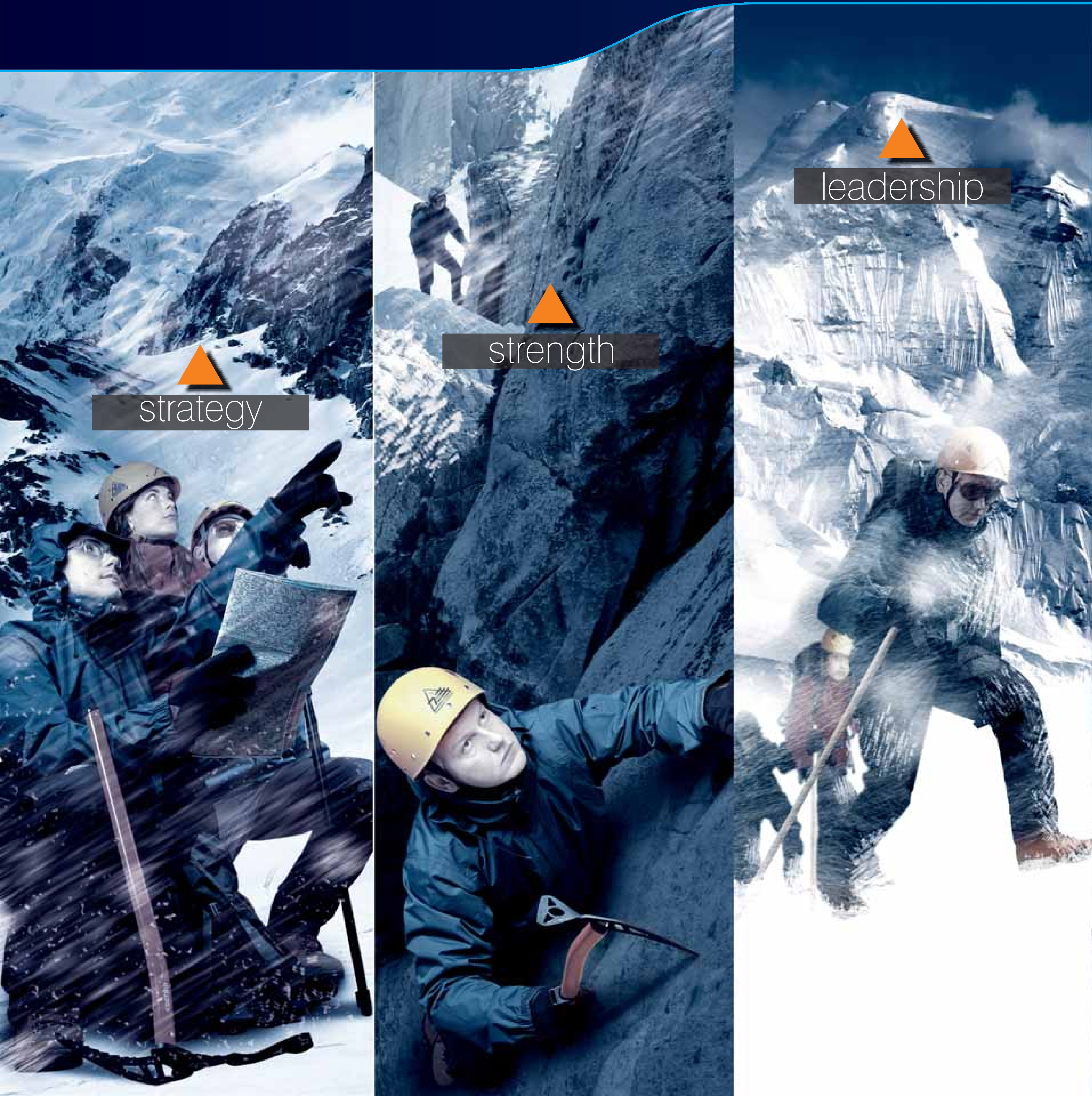
strategy
strength
leadership


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180°


our success is only...
...the beginning


Everest
The highest point in the World
8848 m
Transelectrica®
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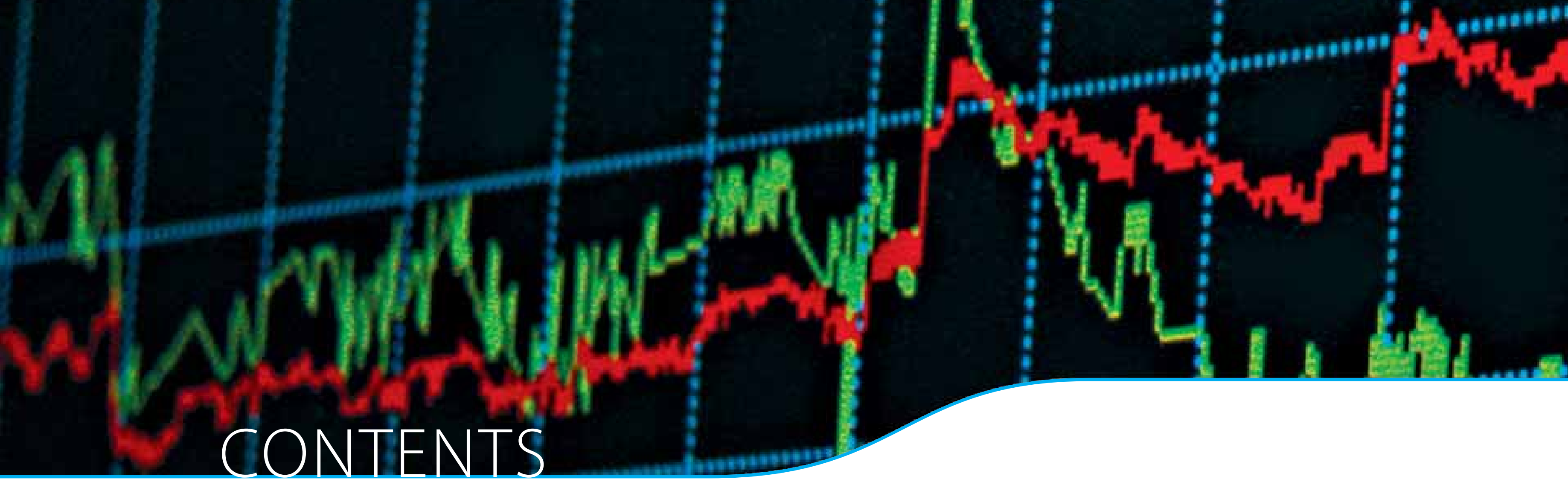

CONTENTS


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INTRODUCTION

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

Company profile

For the eighth year 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 is responsible for electricity transmission from generators to the large consumers connected to the grid. It manages power system and wholesale electricity market operation, 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 operates according to the Electricity Law and the secondary legislation:

- the Transmission and System Operator Licenses
- Electricity Transmission Grid Code
- Electricity Wholesale Market Commercial Code
- Commercial Code and the Metering Code.

Transelectrica has been listed on the Bucharest Stock Exchange since August 2006

As the Romanian TSO, Transelectrica develops three main tasks:

- Security of electricity supply
- Market operation
- Infrastructure management

Security of electricity supply

As electricity cannot be stored, the electricity demand should be instantly met by generation injected into the grid. Transelectrica manages power flows on the grid, guaranteeing continuity and security of supply, system reliability and service efficiency. It provides the technical and operational management of the Romanian power system and ensures its safe and stable operation. It serves as the physical main link between electricity supply and demand, making continuously the balancing such as to match power generation with demand - in real time.

Market operation

Transelectrica has a key strategic role in the Romanian electricity market. It coordinates the proper operation of the power system and wholesale electricity market.

Infrastructure management

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. The already implemented development and modernization projects in the electricity transmission grid and the ongoing ones give full priority to components and subsystems of an intelligent power infrastructure. The change of the Romanian transmission grid from a traditional grid into to a smart and market-oriented grid has marked its first important step in a long term strategic priority.

Transelectrica comprises:

- 6 legal subsidiaries: Opcom, Teletrans, Smart, Icemenerg, Icemenerg service, Formenerg
- 8 transmission branches in Bucharest, Bacau, Cluj, Constanta, Craiova, Pitesti, Sibiu, Timisoara
- 1 metering branch, Omepa.

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Transelectrica in the current corporate structure of the Romanian power sector

Structure of the Romanian power sector

Ministry of Economy
- Energy strategy • Energy policy • Concession of the public network

ANRE
- Authorisation • Licensing • Regulated contracts and tariffs • Market monitoring • Certification

Areas	GENERA ION	RANSMISSION	DIS RIBU ION	SU L	USE
Licenses	8 /20 (DU)	1 (SO)	4/8	1	N/A

Hidroelectrica
Nuclearelectrica
ermoelectrica
Electric power plants Bucuresti
Electric power plants Deva
CE urceni
CE Rovinari
CE Craiova
Other GENCOs

RANSELEC RICA - SO
a regulated natural monopoly

O COM
he Market Operator

ENEL Distribution Banat
ENEL Distribution Dobrogea
ENEL Distribution MS
E.ON Distribution Moldova
CE Distribution (Oltenia)
EMN - Distribution
E S - Distribution
E N - Distributione
rivate distributors

ENEL Energy
EON Supply
CE Sale
EMN - Supply
E S - Supply
E N - Supply
rivate suppliers

Eligible Consumers

ey Figures

Consolidated IFRS	2008		200	
	thou lei	thou euro	thou lei	thou euro *)
Operations income	2,988,066	749,791	2,384,442	660,474
EBIT	217,178	54,496	175,491	48,610
Total revenues	3,029,275	760,131	2,413,791	668,603
Total expenses	2,966,667	744,421	2,323,187	643,506
Gross profit	62,608	15,710	90,604	25,097
Basic and diluted earnings per share	0.69	173	0.86	0.24
Number of employees 31.12.08	2,198			
Geographical length of network in km		8990 km 31.12.2008		

) Lei/Euro rate exchange . 8 2 lei/euro in 2008 and . 101 lei/euro in 200

MESSAGE FROM THE CEO

Under the new conditions of carbon-constrained economy and security of supply, energy was given a particular and reinforced attention throughout Europe in 2008. The Transmission System Operators are to cope with additional responsibilities to develop the infrastructure of interconnected electricity networks, provide long-term energy security, facilitate electricity cross-border trading for the energy community at European and regional levels, provide conditions to integrate renewables into the European power systems, ensure a safe and steady-state operation of electric power systems. Last but not least, the TSOs have to adapt the technical, economic, commercial and market regulations to the requirements of the EU to come to the third legislative package.

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For the eighth year of its corporate life, Transelectrica - the Romanian TSO with a strategic role in the Romanian electricity market – has arrived to a widely recognized role of a strategic national company which manages and operates the electricity power system and transmission grid, providing transmission services for electricity transactions among Central and South – Eastern countries.

With a proposed investment program of euro 600 M by 2012, we have launched several major international interconnection projects to be completed with neighbouring power systems, as we are aware of the development strategies to be appealed for an unique European market. Interconnection electric lines between the Romanian power system and the power systems of Serbia, Republic of Moldova, as well as the HVDC link 400 kV undersea cable with Turkey are ongoing. In December 2008 we commissioned the new 400 kV electric interconnection project with Hungary, namely Arad (RO) – Nadab (RO) - Bekescsaba (HU) 400 kV inteconnection line. The project is meant to increase the power transits between the two countries, ensure the security of supply and an greater stability in the area, reduce the power and energy losses, enhance operation reliability and the quality of the transmission service.

In 2008 Transelectrica had also to face the new and major challenge brought about by the current change of the generation mix and wind farm penetration, particularly. We aim 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 the national strategy. Although the concerns on the utilisation of renewable resources have long been registered in Romania, only lately they rapidly increased and, at present, several investors expressed their interest for wind power in Romania. The applications for grid connection amounted so far to about 18,000 MW, mainly in S-E region of the country (Dobrogea and Moldova). As we trust in the present and future of "green energy", we are aware that Transelectrica's support to the green energy is essential.

Transelectrica plays an active role in the SEE and CEE neighbouring EU regions and is also involved in enlarging the West European synchronous power system towards the Eastern part of the continent. A first step in this respect is Transelectrica's role as UCTE project manager of the project group for the integration of Republic of Moldova and Ukraine into the UCTE system.

Transelectrica's appointment, in December 2008, as board member of ENTSO-E (European Network of Transmission System Operators for Electricity), the new European association of 42 transmission and system operators from 34 countries, which is to replace the six existing associations UCTE, ETSO, NORDEL, BALTSO, UKTSOA and ATSOI gives us confidence in the company's credibility at European level.

In 2008 the Romanian Power System operated at normal quality and frequency parameters. Although the 2008 summer was extremely hot and dry, with temperatures over 40o C, the operation of the power system was not at all jeopardized.
Over the past year, we kept on investing in the electrical transmission infrastructure such as to create a sound network and a better dispatching and market infrastructure. To this purpose, we have already implemented a great part of the ambitious investment programme launched 7 years ago based on "turn-key" focused projects with state-of-the-art technologies, we managed to improve operational performance and several international interconnection electric lines are already under way.
For Transelectrica, 2008 featured good results, in both technical and financial terms. In 2008 the investment projects were about 344 mil. lei (Euro 93,5 M) and the costs of the major maintenance projects were about 104 mil lei (Euro 25,9 M).

In the next future, Transelectrica's managerial team will consistently be focused on generating more added value to the company. We speak of the tangible values which can be measured by economical and financial performance to the direct benefit of our shareholders, but also of the intangible values, measured by the ethical commitment and better practices of corporative governance for the benefit of all the stakeholders.

However, none of the mentioned projects could be done without the excellence and the daily steadfast commitment of our 2,198 employees who proved their expertise, professionalism and dedication in our core businesses. We are convinced that, together, we shall overcome all the challenging targets staying ahead to the benefit of our customers and the community.
I would like to convey my deepest thanks to all of them.

Adrian Băicusi
Director General & Chairman of the Board

2008 IN BRIEF

- With a proposed CAPEX program of Euro 600 M by 2012, in 2008 Transelectrica kept on developing several major international interconnection projects to be completed with neighbouring power systems. Interconnection electric lines between the Romanian power system and the power systems of Serbia, Republic of Moldova and the HVDC link 400 kV undersea cable with Turkey are under various development stages.

- In 2008 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.

- 42 European transmission operators (TSOs) from 34 European countries signed on December 19, 2008 the agreement of establishing ENTSO-E (European Network of Transmission System Operators for Electricity) to better contribute to the development of the European electricity markets and and strengthen the TSOs co-operation. Transelectrica is a member of the new created ENTSO-E, by the appointment, Mr. Stelian Alexandru Gal, as member of the Board and of Mr. Adrian Băicusi as member in the General Asesembly.

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- The December 2008 commissioning of a new 400 kV electric interconnection project Arad (RO) – Nadab (RO) – Bekescsaba (HU) was a success. The project which includes the 400 kV interconnection substation of Nadab, two 400 kV electric interconnection lines (34 km Arad-Nadab line and 60 km Nadab RO-Bekescsaba HU line) and a 100 MVAr, 400 kV shunt reactor installed in the 400 kV substation Oradea South, will increase the power transits between Romania and Hungary, strengthen grid and system security in the area, reduce power and energy losses, enhance operation reliability and transmission service quality

- Transelectrica plays 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 2008 Transelectrica coordinated, jointly with other partners, the project enabling the Republic of Moldova and Ukraine to join the UCTE system now ENTSO –E

- A slight consumption drop was recorded by the end of 2008 due to mild weather conditions.

PROSPECTS 2009

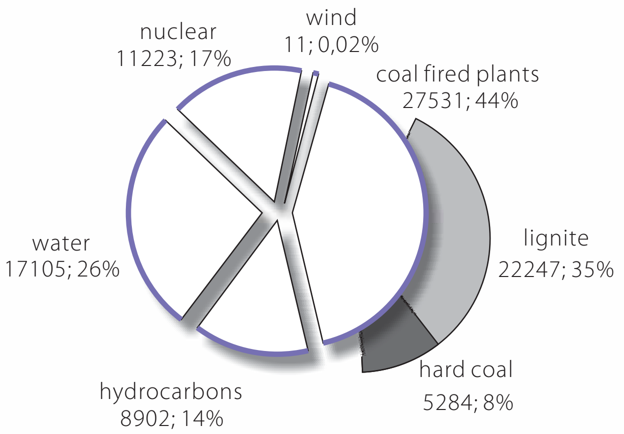
- Keep on developing new major investments with a view to reinforcing the transmission infrastructure
- Creation of the intraday market in order to make the market mechanisms more friendly for wind farms operation
- Completion of all remote control substations owned by Transelectrica
- Completion of the primary and secondary legislation in order to integrate renewable sources of energy into the power system
- Strengthening Transelectrica's role as a regional actor by its actively participation in the new created European organisation, ENTSO-E, and in the development of the regional SEE and CEE electricity markets, market coupling projects included
- Supporting regional investments (BOT on the new 400 kV interconnection line with Moldova and the undersea cable with Turkey)

MANAGEMENT OF THE ELECTRIC POWER SYSTEM

CONSUMPTION

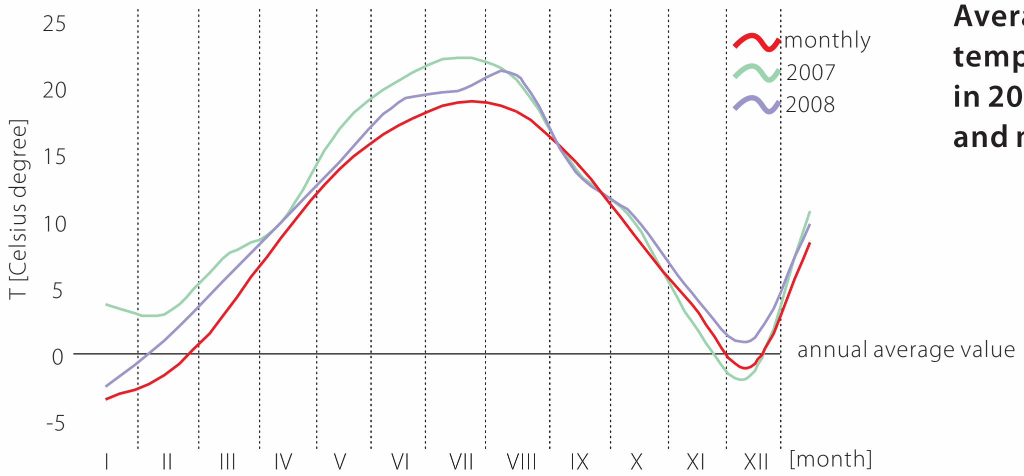
Concerning electricity generation, Romania's sources of domestic primary energy are oil and natural gas (hydrocarbons), hard coal, lignite, hydro, nuclear and renewables (hydro and wind). In 2008, the renewable output was of 121 GWh (wind was 11 GWh, raising with 36% as compared to 2007) for which the issued green certificates reached 0.2% of total electricity output.

Structure of primary power resources [GWh;%] 2008



Structure of power generation

	2008			2007		
	[GWh]	[MW]	[%]	[GWh]	[MW]	[%]
TOTAL generation, of which:	64772	7376	100,0	61397	7011	100,0
Coal fired plants, of which	27531	3136	42,51	26711	3051	43,51
lignite	22247	2534	34,35	21207	2422	34,54
hard coal	5284	602	8,16	5504	629	8,96
hydrocarbons	8902	1015	13,73	11054	1264	18,00
water	17105	1947	26,41	15916	1817	25,92
nuclear	11223	1277	17,33	7709	878	12,56
wind	11	1	0,02	7	1	0,01



Average monthly temperatures in 2008, versus 2007 and monthly norms

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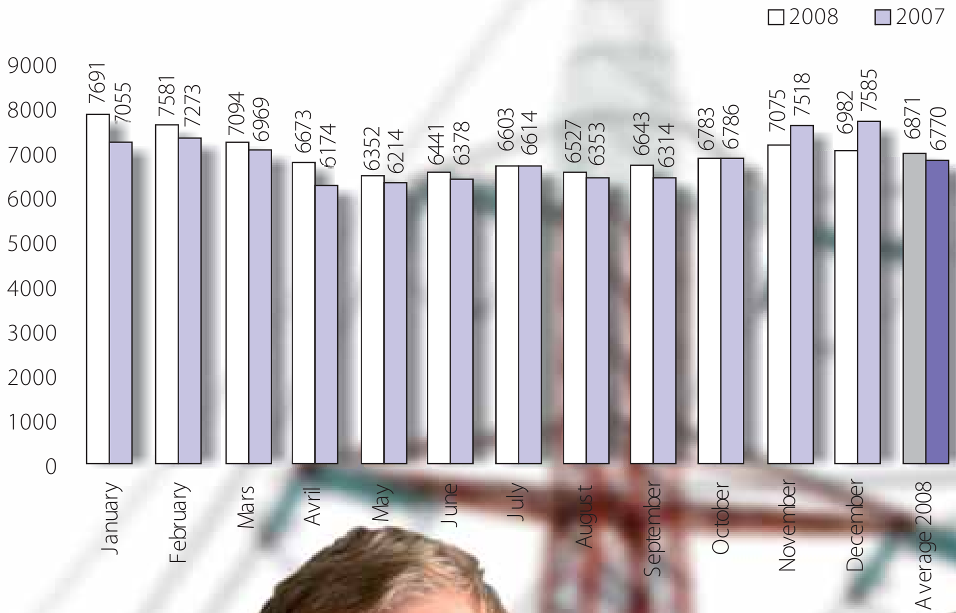
In 2008 the gross electricity consumption indicator registered a growth of 1.49% vs. 2007. The consumption of the first nine months of 2008 (except for July) was greater as compared to the same consumption interval of the previous years. August 2008 was the hottest month in Romania, while the last months of 2008 were hotter than in 2007 and 2006. The consumption recorded higher values during January-October, reaching lower values in November and December 2008, as compared with 2007.

Monthly gross domestic consumption average values (MWh/h)



Ioan Diaconu
Director, National Dispatching Center
Transelectrica

Florin Balasiu
Director Protection & Automation
Transelectrica

Marian Cernat
Director Operational Division
Transelectrica

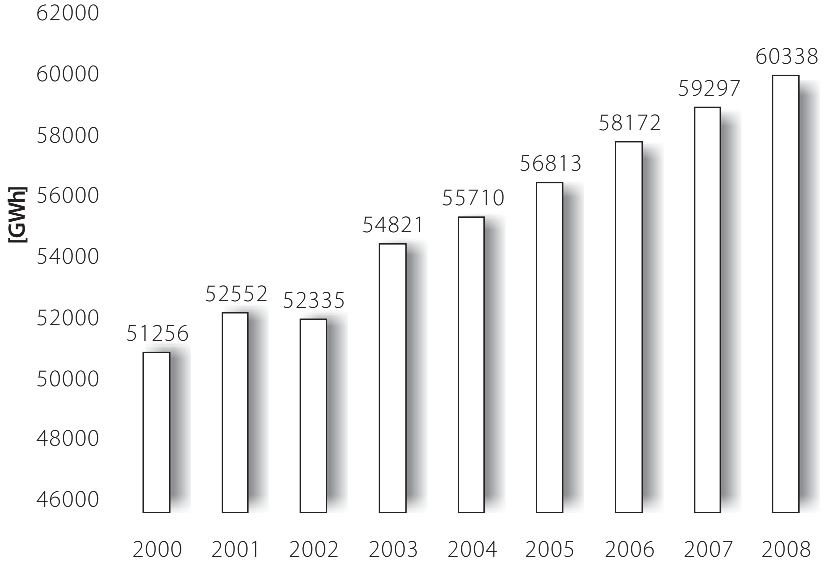
Octavian Lohan
Deputy Director General
Transelectrica

Adrian Vilciu
General Manager
Transelectrica

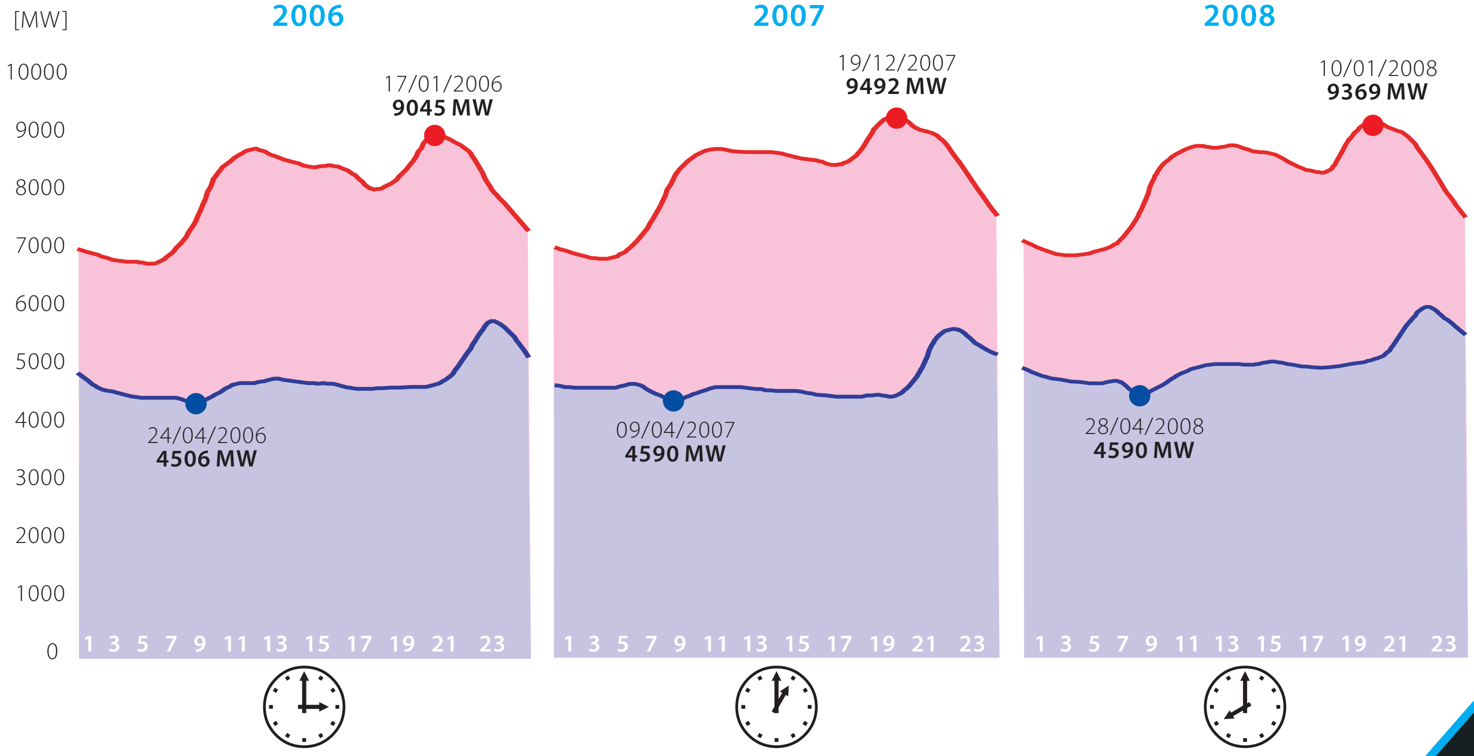
Sorin Marinescu
IT&C Manager
Transelectrica

During 2000-2008, except for 2002, the gross domestic consumption steadily increased with 1.49÷4.7% annually.

Gross domestic consumption



Maximum and minimum daily consumption in 2006 - 2008 (gross values)



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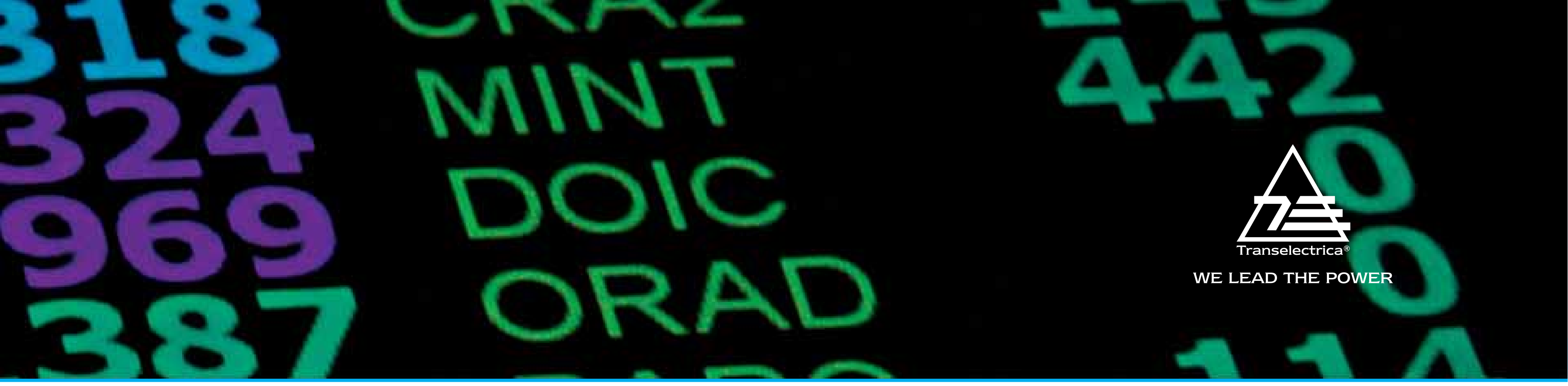
IMPORT / EXPORT

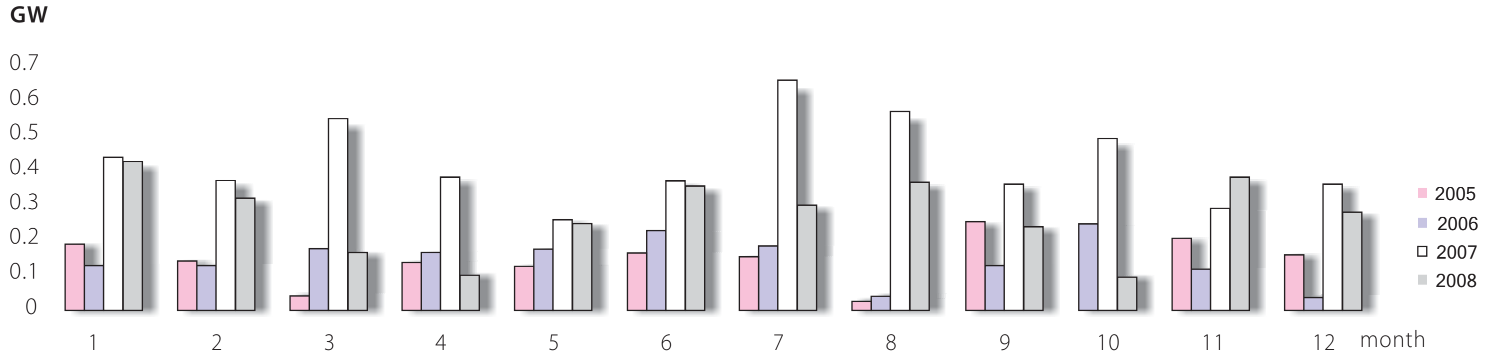
Electricity export and export balance increased in 2008 versus the previous 4 years and the import decreased only versus 2007.

Physical power exchanges with other systems in 2008 represented an export balance of 4,434 GWh (average capacity 505 MW).

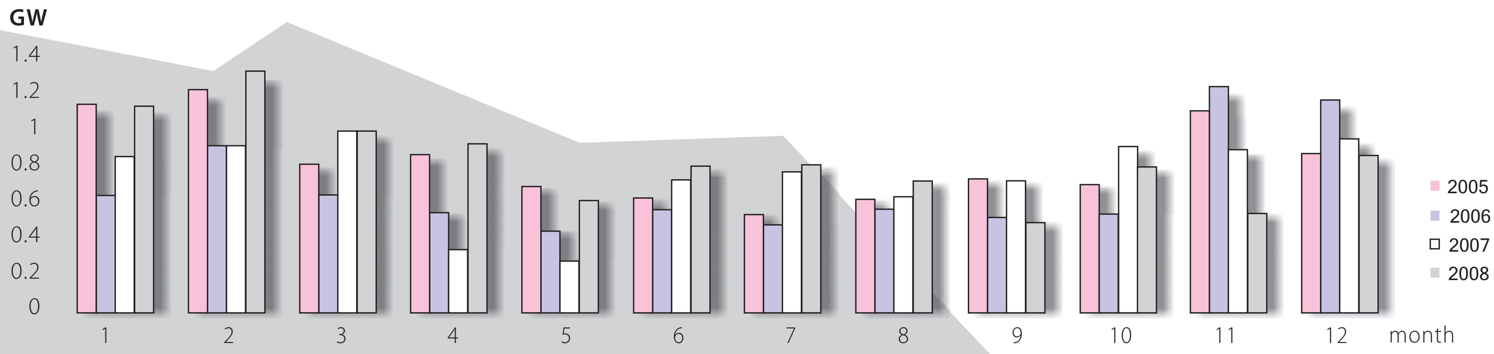
Export, import and balance in 2004-2008 (annualy power values)



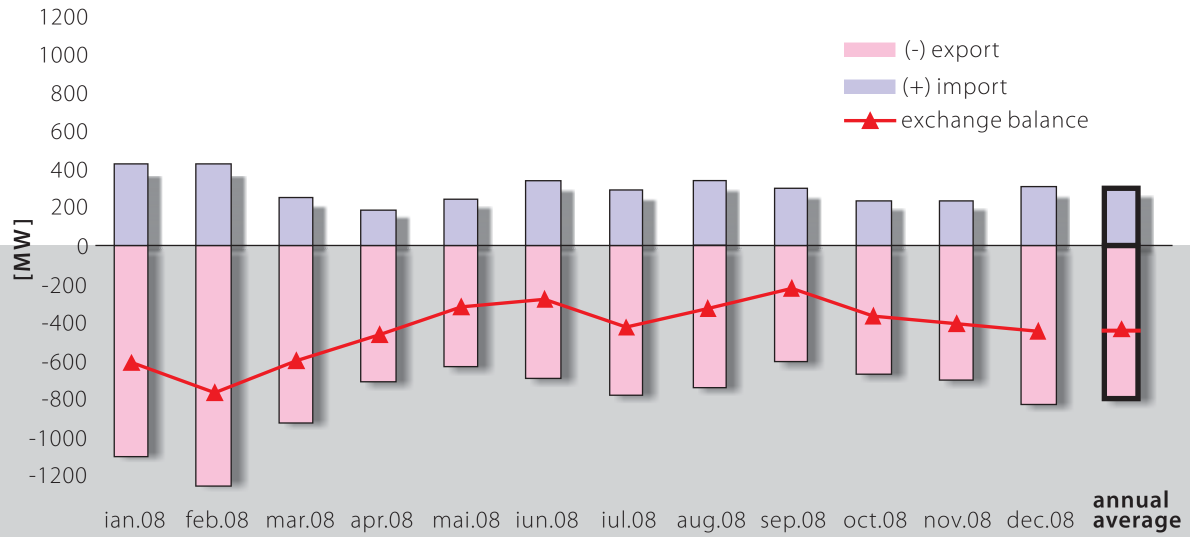
IMPORT - The Third Wednesday 11:00 CET

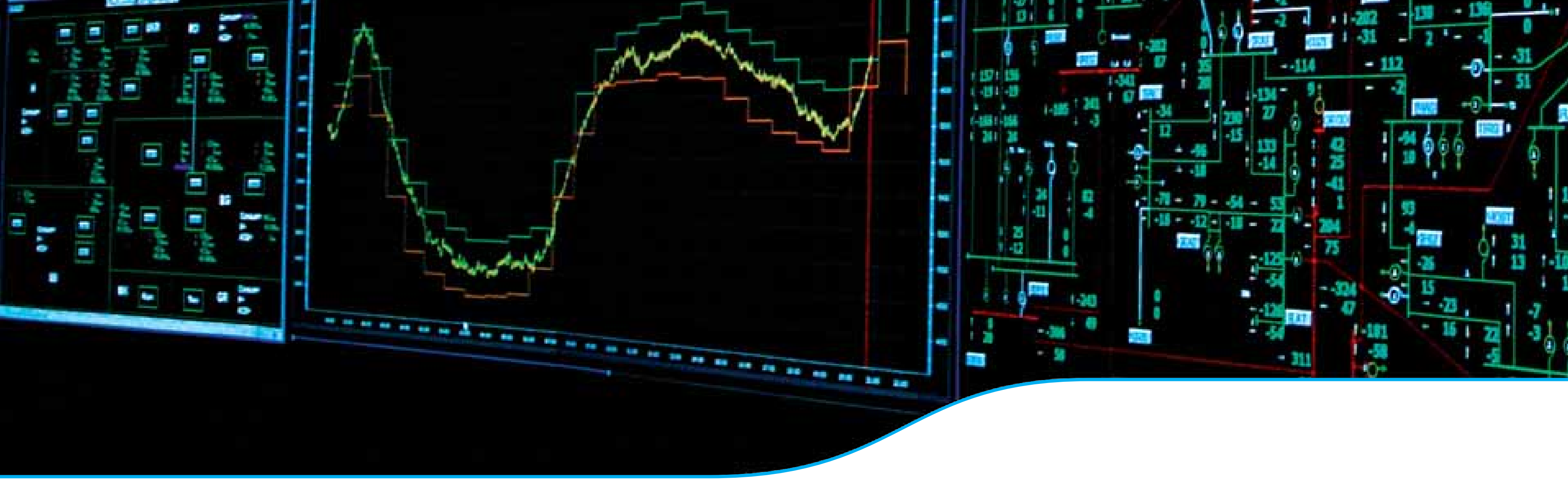


EXPORT - The Third Wednesday 11:00 CET

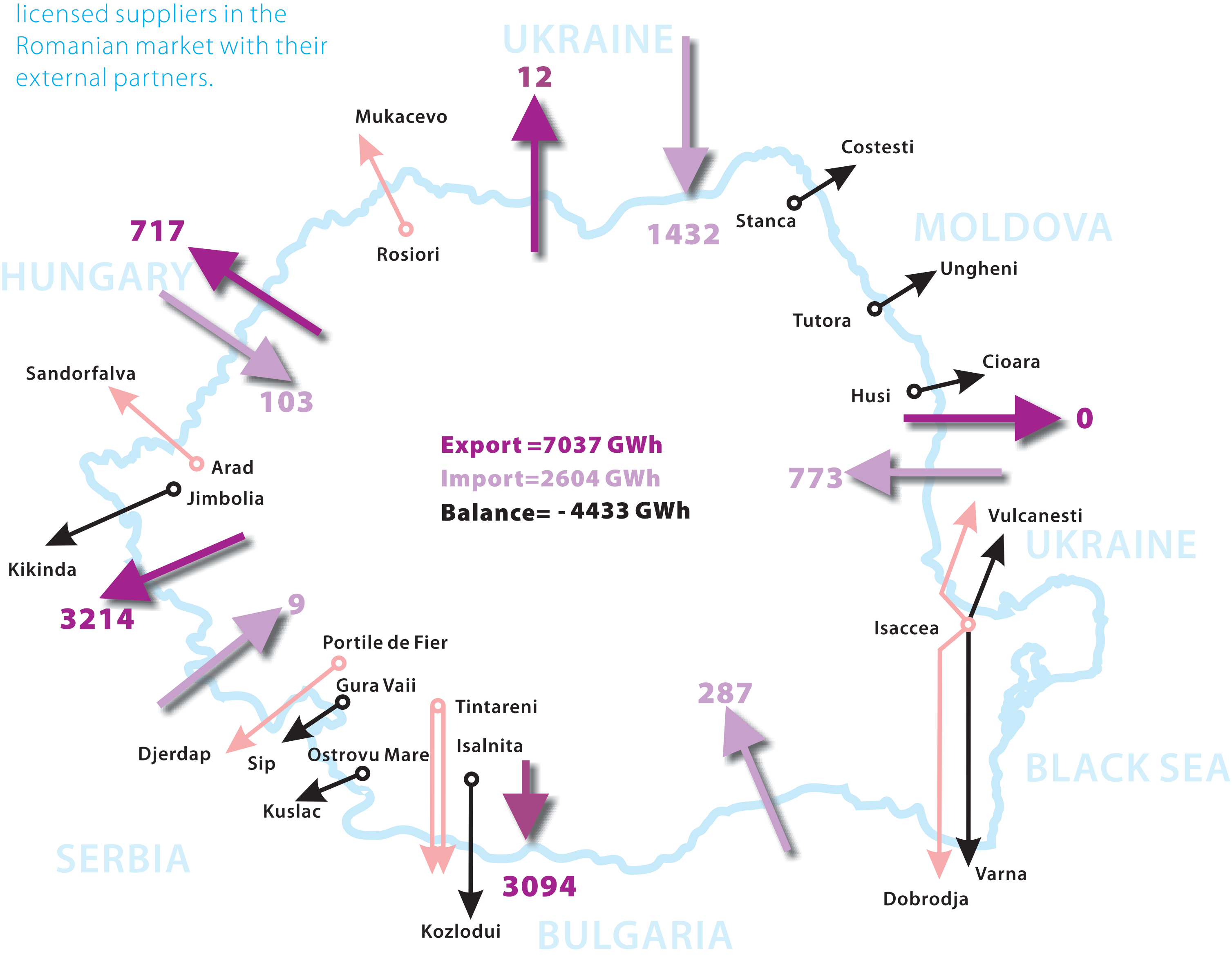


Monthly Power Exchange in 2008





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

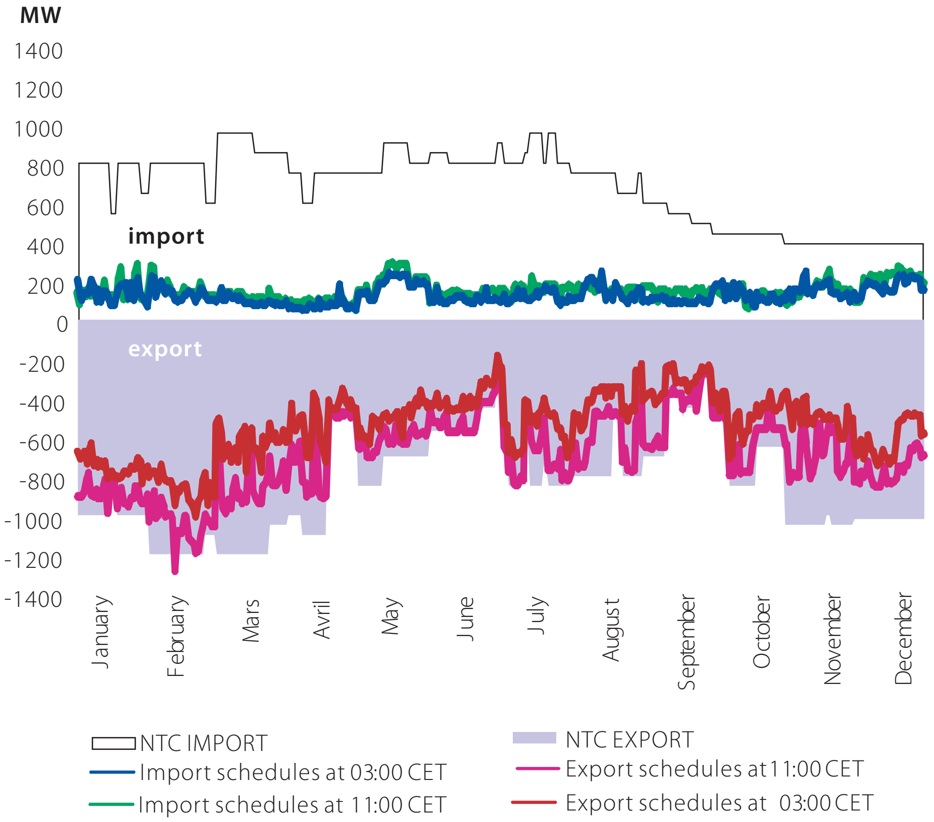


Physical energies exchanges on borders in 2008 (GWh) CET

2008 [GWh]		jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	total
	HU	29	18	47	135	125	92	100	27	23	44	46	31	717
	UA W	0	0	0	1	0	2	1	0	1	2	5	0	12
EXPORT in	BG	467	543	318	141	118	212	226	284	191	175	127	292	3094
	MD	0	0	0	0	0	0	0	0	0	0	0	0	0
	SR	324	313	317	235	226	189	254	240	216	279	328	293	3214
EXPORT TOTAL		**820**	**874**	**682**	**512**	**469**	**495**	**581**	**551**	**431**	**500**	**506**	**616**	**7037**
	HU	12	17	4	0	0	0	0	16	27	5	8	14	103
	UA W	245	225	132	73	107	69	73	121	70	111	94	112	1432
IMPORT from	BG	0	0	0	11	30	103	53	25	40	1	24	0	287
	MD	58	52	50	45	40	74	88	82	82	57	40	105	773
	SR	0	0	0	0	0	0	0	9	0	0	0	0	9
IMPORT TOTAL		**315**	**294**	**186**	**129**	**177**	**246**	**214**	**253**	**219**	**174**	**166**	**231**	**2604**

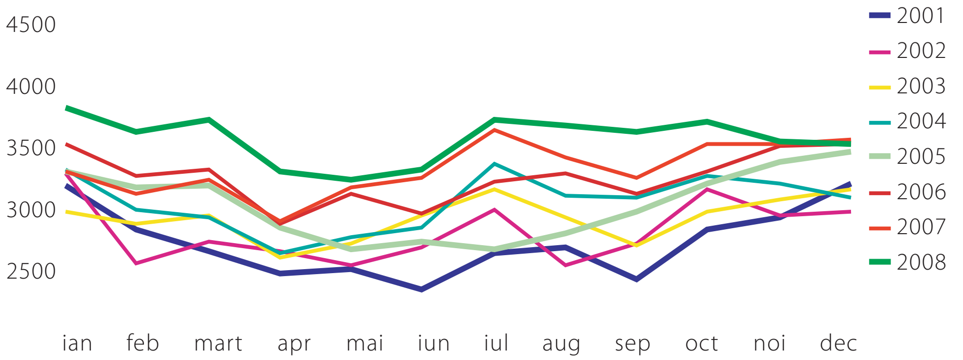
Electricity trades on the external side are made within the available transfer capacities of the Romanian interconnection lines with the neighbouring systems. Net transfer capacities on import/export lines are calculated in compliance with ETSO procedures, based on technical and economical criteria, according to a non-discriminatory and transparent procedure. Coordinated NTC values are monthly calculated for market purposes, taking into account present maintenance programs and they can be used simultaneously. The available transfer capacities are also allocated on the basis of technical and economical criteria, according to a non-discriminatory and transparent procedure. In 2008 the transfer capacity between Romania and Hungary increased further to commissioning the 400 kV OHL Arad (RO)-Nadab (Ro) – Bekescsaba (HU).

Import / export agreed NTC values and exchange schedules for 2008

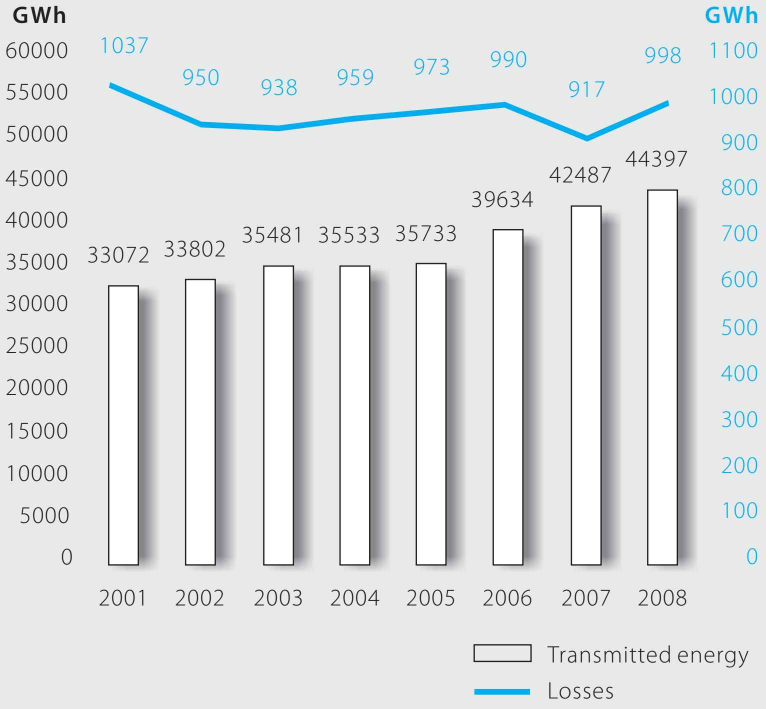


Transmitted energy (includind commercial and unplanned exchanges) increased yearly in 2003-2008, except for 2004. The losses in the transmission grid registered a slight decrease in 2007. In 2008 they were similar to 2006.

Evolution of transmitted energy (without unplanned exchanges)



Transmitted energy (including unplanned exchanges) and losses



TARIFF

The main part of Transelectrica's revenues comes from regulated tariffs applied to suppliers and generators for the use of electricity transmission system.
The tariff mechanism is based on a revenue-cap methodology.
Tariffs are approved by the Energy Regulatory Authority based on the principle of justified costs plus a reasonable level of profitasbility, with adjustment to yearly inflation and an imposed efficiency gain.
Set up on annual basis (tariff period) within a five-year framework (regulatory period), the tariff covers total network costs, including maintenance and development, is based on forecast calculation of operational costs, interest expenses and CAPEX submitted by Transelectrica.

IMBALANCE VOLUMES

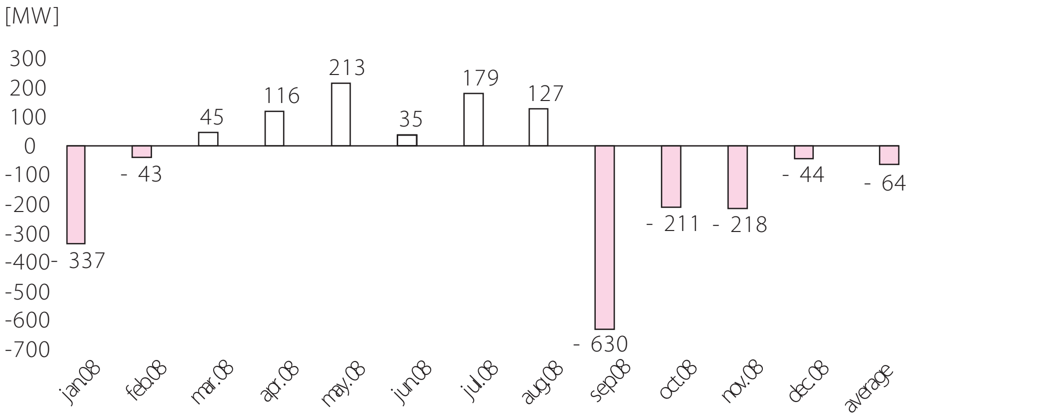
In 2008 significant differences were registered between physical notifications and real values of consumption due to the low hydro flows and to the contracted energy less / more than necessary

OPERATIONAL SECURITY

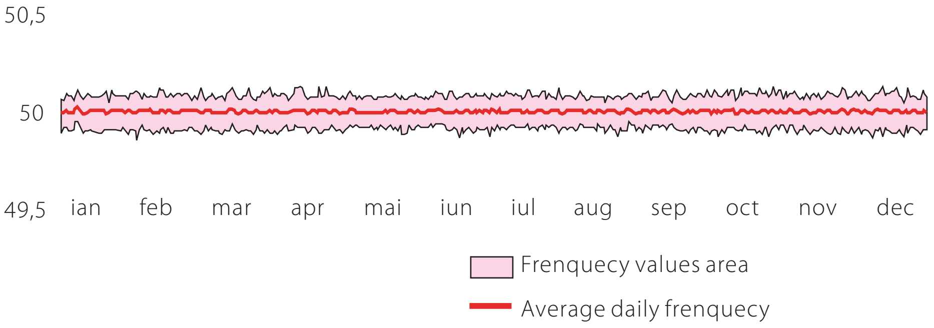
In 2008, Romanian Power System operated without any disfunction of the quality parameters and in compliance with the technical grid code requirements. The major failure in 2008 as caused by a violent storm which led the disconnection, for 5 minutes on April, 24, 2008, of the 2 nuclear units (1420 MW). According to the rules, the dispatcher managed the event and balanced the system within 15 minutes. The primary, secondary and fast tertiary reserve worked properly and there was no disconnected consumer.

The most significant congestions were in the distribution grid around Bucharest city. The major costs were in the summer months, when the high temperatures evolved technical measures to secure the consumers of Bucharest. The congestion management costs grew in 2008 at 13 million lei (de pus si in euro), which, except for 2006, represented the lowest cost in the 4 years of balancing market operation.

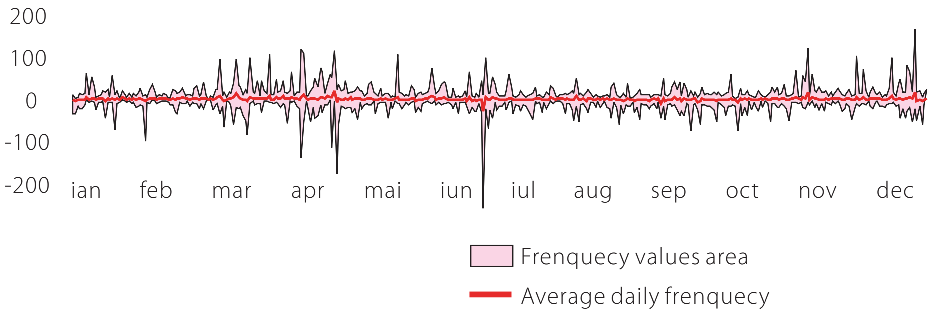
Physical Notification of DU + Scheduled Exchanges Realised Load [MW]



Daily frequency variation in 2008 [Hz]



Daily variation of the balance derivation with frequency correction in 2008 [MWh/h]

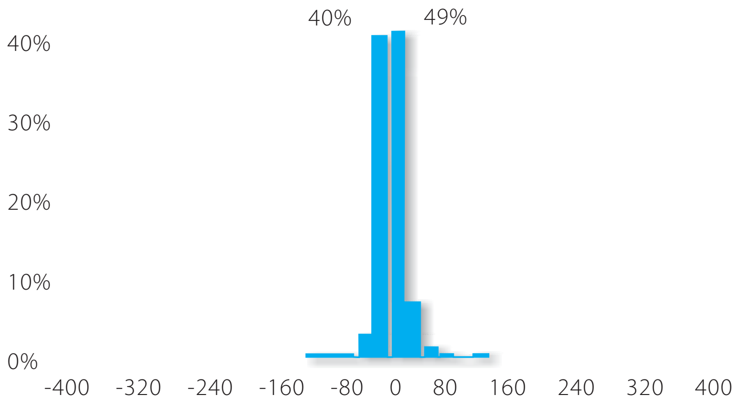


MEETING THE INTERCONNECTED OPERATION WITH THE UCTE POWER SYSTEM

Frequency control was within 49,95÷50,05 Hz, namely 96,41 %, versus 97,25 % in 2007.
The adjustment between the balance deviation and the frequency correction ranged within ±20 MWh/h – 95.7%. The secondary control performance increased compared to 2007, when there was a 90.86% compliance with ± 20 MWh/h.

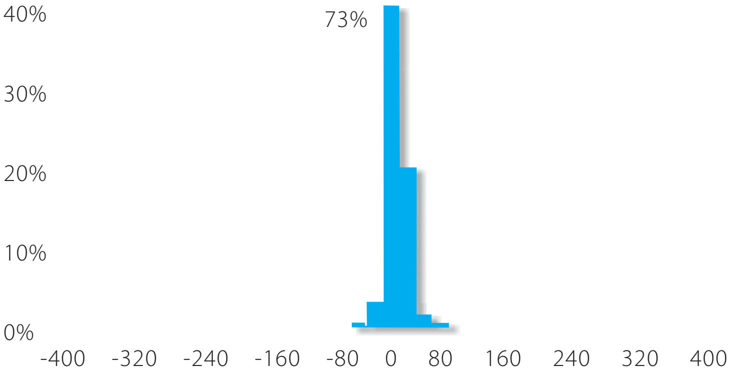
The UCTE review published in „Regular Report of the Performance of the Primary and Secondary Load-Frequency Control points out the improvement of secondary control versus 2007. Thus, the review of the balance deviation with the frequency correction by categories of ± 20 MWh/h shows a decrease in the average value and a smaller spreading of extreme values.

Q I 2008



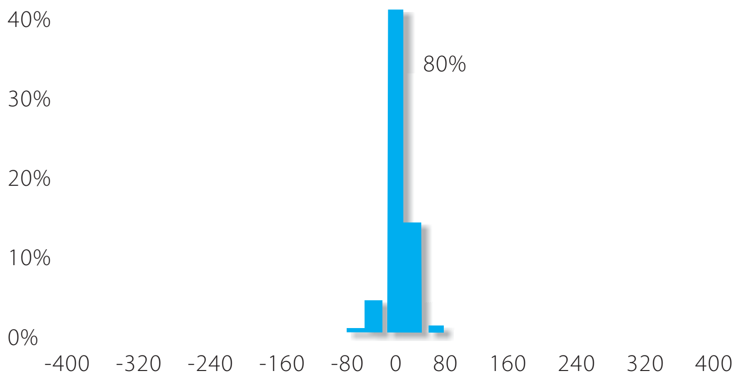
mean value: -7,4 MW | standard-dev: 15,3 MW | minimum: -106,7 MW | maximum: 110,0 MW

Q II 2008



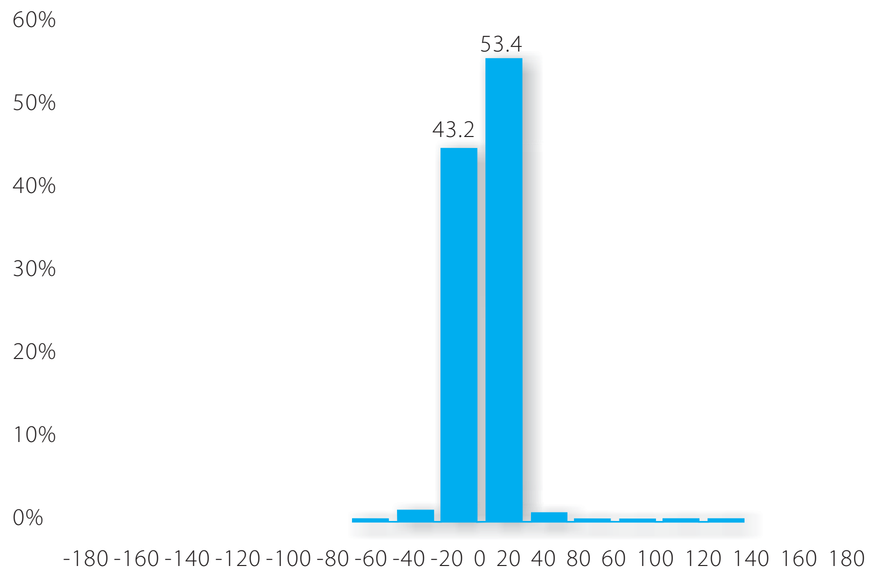
mean value: 6 MW | standard-dev: 15,3 MW | minimum: -294,6 MW | maximum: 123,8 MW

Q III 2008

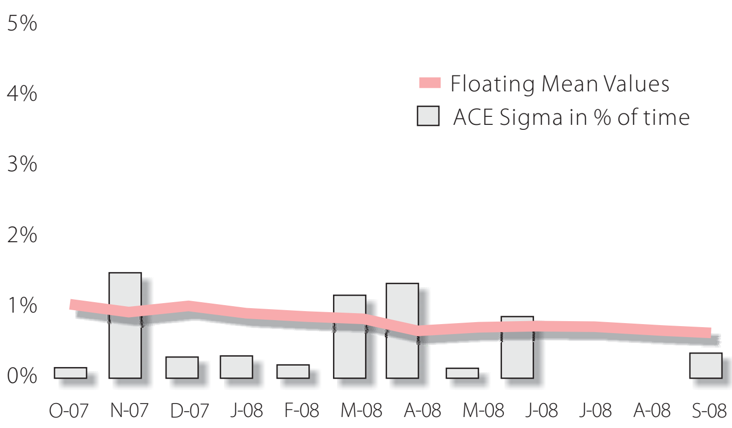


mean value: 3,3 MW | standard-dev: 9,6 MW | minimum: -80,0 MW | maximum: 85,9 MW

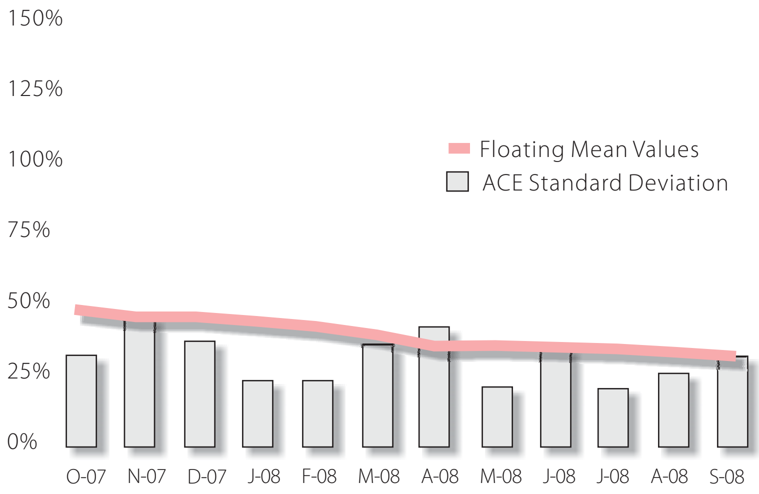
Q IV 2008 - Calculated by Transelectrica



It is also noticed that the ACE standard deviation from the hourly values decreased as compared to 2007, which means a better active power balance.



Considering the dispersion of the values regulated by the secondary controller in 2008, a better evolution can be noticed, except for April.



CRITICAL INFRASTRUCTURE PROTECTION

Critical infrastructure is defined as those physical facilities, supply chains, information technologies and communication networks which, if destroyed, degraded or rendered unavailable for an extended period, would significantly impact on the social or economic well-being of the nation, or affect Romania's ability to conduct national defence and ensure national security.

As an operator of critical infrastructure, Transelectrica works together with the Government to identify all the interdependencies and apply appropriate strategies to reduce risk where possible. Critical infrastructure can be damaged, destroyed or disrupted by natural disasters, negligence, accidents or by deliberate acts of terrorism, computer hacking, criminal activity and malicious damage. That is the ground for Transelectrica to protect the electricity critical infrastructure against all threats and hazards presenting a risk to the continuity of service.

The electricity transmission networks are too large to fence or guard. By applying risk management techniques, attention can be focused on areas of greatest risk, taking into account the threat, relative criticality, the existing level of protective security and the effectiveness of available mitigation strategies for business continuity.

Critical Infrastructure Protection is not a new discipline, but is a coordinated blending of existing specialisations, including : law enforcement and crime prevention; counter terrorism; national security and defence; emergency management, including the dissemination of information; business continuity planning; protective security (physical, personnel and procedural); e-Security; natural disaster planning and preparedness; risk management; professional networking; market regulation, planning and infrastructure development.

Within Transelectrica, the critical infrastructure protection brings together a significant number of existing strategies, plans and procedures that deal with the prevention, preparedness, response and recovery arrangements for disasters and emergencies. The Company is committed to provide adequate security of the assets, actively apply risk management techniques to their planning processes, conduct regular reviews of risk management assessments and plans,report any incidents or suspicious activity to State authorities, develop and regularly review business continuity plans and participate in any exercises to test plans conducted by government authorities.

The identification of critical infrastructure is an ongoing process and regular review will be required to keep abreast of changes, both physical and logical (both process related and IT), the ever increasing dependency of the community and interdependencies between infrastructures.

The goal of critical infrastructure protection is to ensure that there are adequate levels of protective security on critical infrastructure, minimal single points of failure and rapid, tested recovery arrangements.

Operational reliability and continuity strategic requirements

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

The activities related to risk management developed by Transelectrica in 2008 were focused on: risk transfer by insurance, in order to protect the company's assets against severe loss, mitigate risks and costs by means of insurance services; monitoring and updating risk assessment

and the company's risk profile while supervising the implementation of the Action Plan.

“The Business Continuity Plan” is an important risk management tool, providing overall guidance to Transelectrica management board in responding to any significant incident interrupting business operations. The Continuity Plan provides a roadmap for a quick start in continuing operations, possibly at alternative premises, pending reinstatement of normal operations.

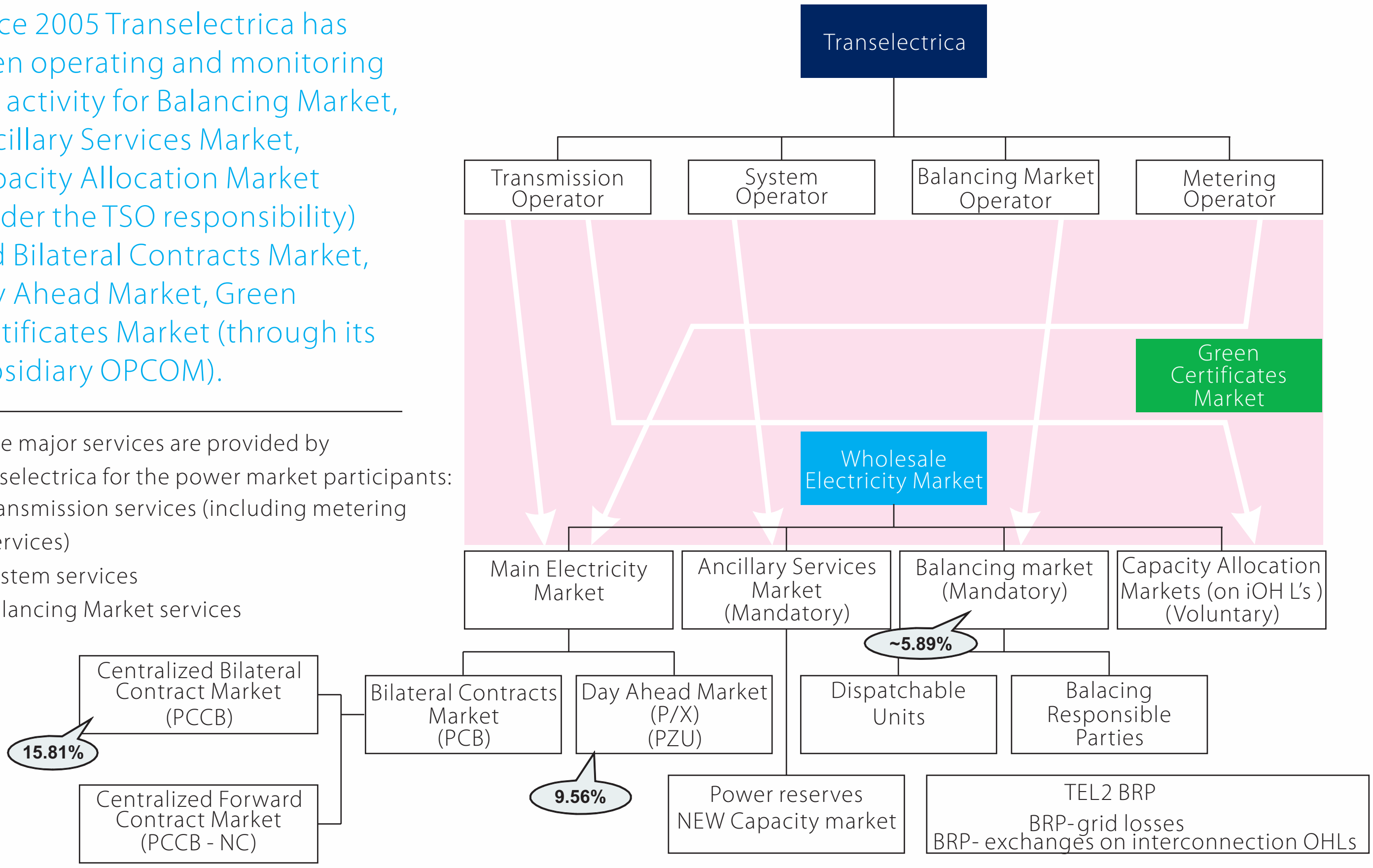
In 2008 we continued to implement the plan within all Transelectrica's branches, as it is Transelectrica's policy, either directly or through subsidiaries, to conduct its operations with the highest regard for the safety and health of its employees and the public and for the protection and preservation of property and the environment. Continuity of supply to our customers and a safe and cost effective operation of the Romanian Power System must be maintained even under the most adverse circumstances

LIBERALISED ELECTRICITY MARKET

Since 2005 Transelectrica has been operating and monitoring the activity for 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).

Three major services are provided by Transelectrica for the power market participants:

1. Transmission services (including metering services)
2. System services
3. Balancing Market services



Beginning with July 2008, the central counterpart mechanism in the settlement and payment of trades from Day Ahead Market was implemented. The Market Operator, OPCOM, counterpart role means simply: no player will invoice to others, but will have only one partner: OPCOM. Due to the new centralized settlement mechanism the trades are safe, anonymous and liquid. The new mechanism created the instruments needed to make payments in two days towards participants with net seller positions.

A contract with a software provider was signed in 2008 in order to improve the Balancing Market IT platform. This platform will manage all the markets under TSO responsibility (Balancing Market, Capacity Allocation Market and Ancillary Services Market – including the Capacity Reserve Market). All the markets will have a common platform and a common database. Thus, the communication between Transelectrica's departments will be improved and a more detailed analysis of Market Participants behavior will be possible. The new version of the Balancing Market platform will also include an extensive report engine which will help Transelectrica's Market Monitoring Department to analyze Electricity Market evolution and publish on its website the necessary Electricity Market data for the sake of transparency.

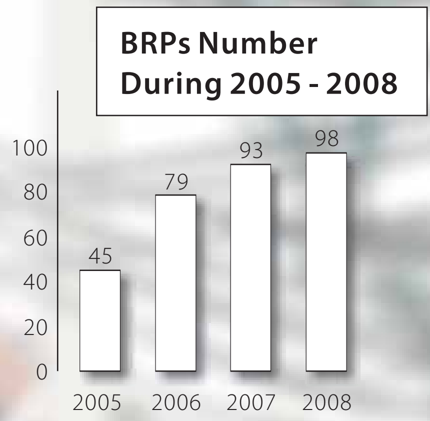
The technical specifications for the new platform are based on the latest version (still to be approved the final form during 2009) of the Wholesale Electricity Market Commercial Code and the latest UCTE and ETSO specifications.

During 2008 the markets developed under transparency and competition rules, even if the competition degree is not yet considered satisfactory. The electricity market is 100% liberalized since 2007.

MARKET PLAYERS

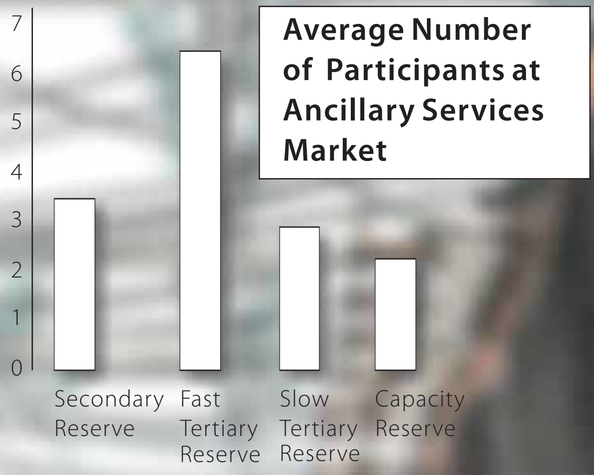
Balancing Market

The number of balancing responsible parties (BRPs) increased in 2008, reaching a maximum of 98 BRPs in November and December. In December, 20 market paticipants, holding 137 dispatchable units were operating on Balancing Market.



Ancillary Services Market

Similar to 2007, the number of participants was reduced, leading to a highly concentrated market with a reduced competition level, particularly for the secondary and fast tertiary reserves.



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Commercial Director
Transelectrica

Raducu Fediuc
Acquisition Manager
Transelectrica

Sorin Pispiris
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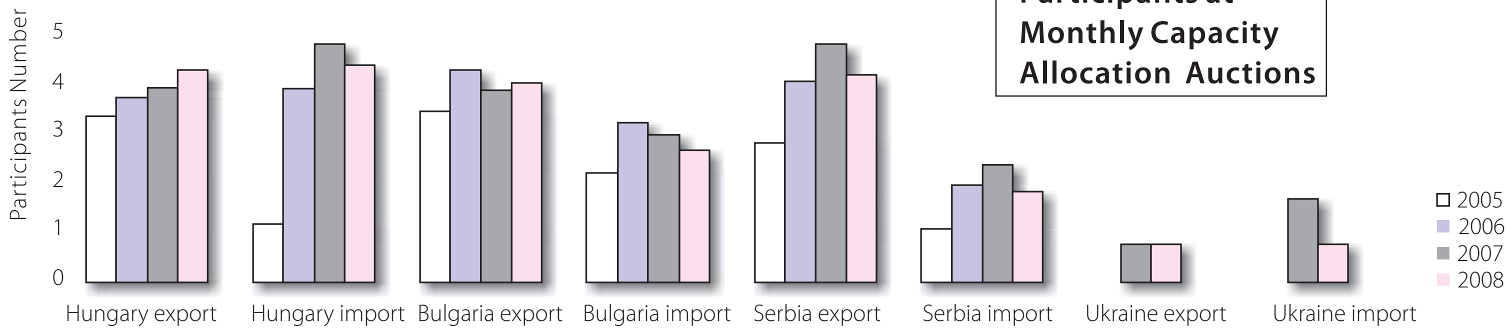
Capacity Allocation Market

Similar to last years, the number of participants remained reduced on every border and direction (export / import).

Average Number of Participants at Monthly Capacity Allocation Auctions



BALANCE MANAGEMENT

In 2008 the market share of Balancing Market was of 5.89 % from the total gross consumption, 0.03 % less than in 2007. There were 3.55 TWh traded on the balancing market (with an average power of 404 MWh/h), from which the energy used for congestion management was 0.07 TWh (with an average power of 8.4 MWh/h).

September and October were difficult months in terms of operation, with reduced power reserves, caused by very low rivers flows. On September, the energy traded on balancing market had the highest value since the beginning of balancing market operation.

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 and fast tertiary regulation.

ANCILLARY SERVICES

In 2008 reserves were ensured through regulated contracts and monthly auctions. The very low hydro flows registered in August – October had severe consequences on the availability of reserves. In order to cover as much as possible the necessary volume of reserves in the hourly intervals with an increased level of demand, the quantities were contracted different on peak / base hours, starting with April 2008.

CAPACITY ALLOCATION AT BORDERS

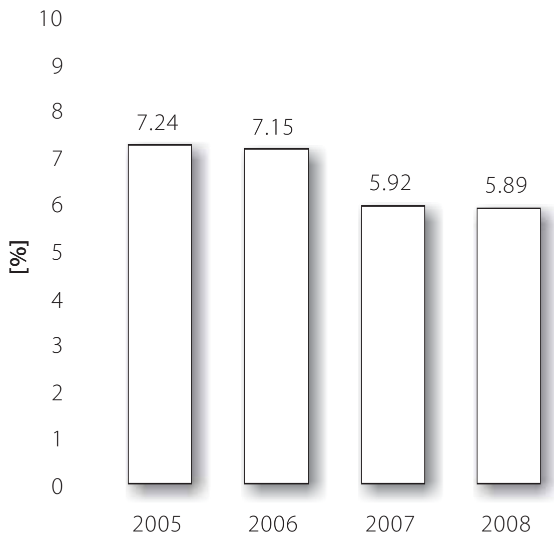
The transfer capacity allocation market allows performing explicit yearly and monthly auctions for import / export on each border for 50% of the total NTC. The remaining 50 % are allocated by the neighbouring TSOs, according to the existent operational agreements between Parties.

The market monitoring results show that the market is still highly concentrated on each border, although the situation improved compared to last year. Better results in terms of competition and concentration are obtained for export on every border, while for import participants seem less interested in gaining capacity rights.

TRADING VOLUMES

Trading volumes in the balancing market

The annually 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 2005-2008

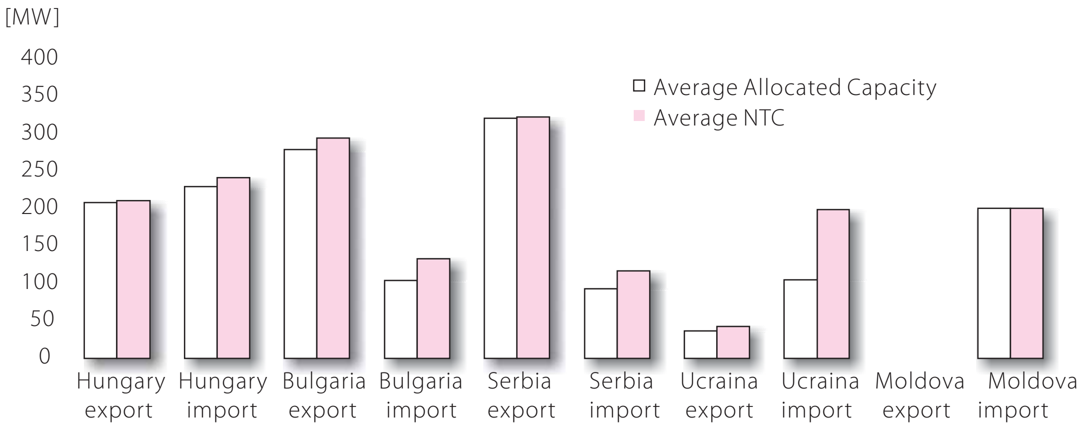
Trading volumes in the ancillary services market

The total contracted quantities in 2008 covered 78.3% from TSO's necessary volume.

Ancillary Services 2008	Volumes (hMW)				Percentage of Contracted versus		Percentage of Available versus	
	OTS necessary	Regulated	Contracted	Realised	regulated	contracted	contracted	necessary
Secondary Regulation Band	3565300	2789794	2898734	2886120	103,9%	81,3%	99,6%	81,0%
Fast Tertiary Reserve	7027200	6325480	6440560	6375507	101,8%	91,7%	99,0%	90,7%
Slow Tertiary Reserve	6148800	2303199	3289594	3240742	142,8%	53,5%	98,5%	52,7%
Capacity Reserve	6148800	0	5292419	5252098	0,0%	86,1%	99,2%	85,4%

Trading volumes in the capacity allocation market

The the chart shows that the allocated capacity on export for each border is very close to the NTC value, while for import there is still room for bidding. The border with Moldova is an exception, but this is a special case due to the island mode of operation: NTC (net transfer capacity) = ATC (available capacity) = maximum power flow on this line in the consumption island mode of operation.

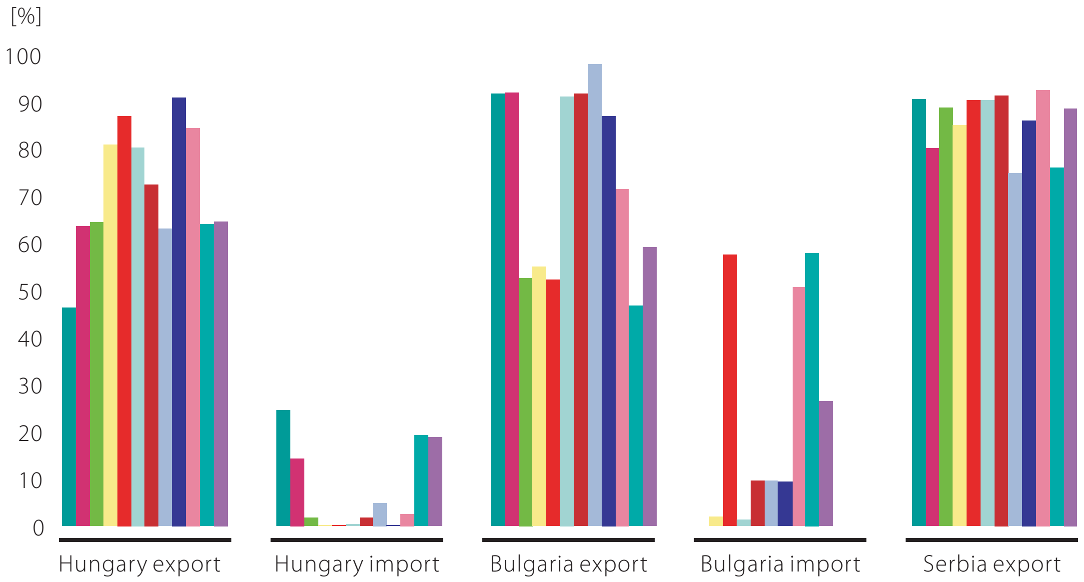


Average values of NTC and Allocated Capacity in 2008

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

The average level of usage for export allocated capacity was around 70-80 % on every border, excepting the border with Ukraine where the value was 36 %. For import, the values are significantly lower.

Allocated Capacity Usage
January - December 2008



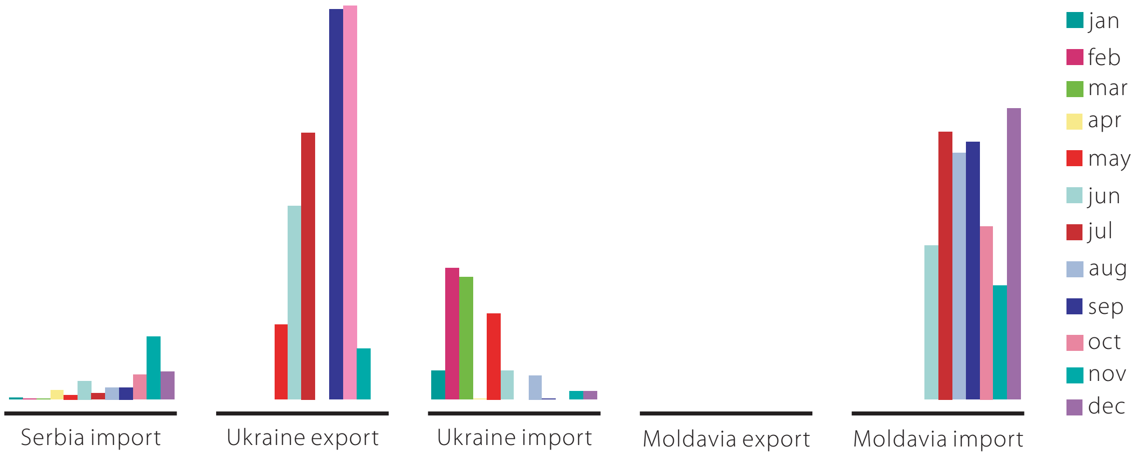
Market facilitator – green certificates (GCS)

Based on primary & secondary European legislations and internal laws (HG. 443/2003), in 2004 Romania adopted the green certificates schemes 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 there are also included small hydro energy produced in power stations commissioned or modernised since 2004, with an installed capacity equal or lower to 10 MW (wind, solar, geothermal and tide energy, biomass, hydrogen produced from RES).

1 (one) GC represents 1 MWh (one megawatt-hour) of renewable power delivered to the transmission or distribution grid. Transelectrica is monthly issuing GCs for the renewable electricity produced in the previous month, based on the declarations made by renewable power producers for each power unit and confirmed by the electricity distributor. After issuing the GCs, the producers may sell the certificates in the GC market (bilateral or through OPCOM platform) to suppliers 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 suppliers list which 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 at a price of 1,5 x 42 €/GC to Transelectrica. The lump sum is shared among RES producers as an additional incentive to promote investment in RES.

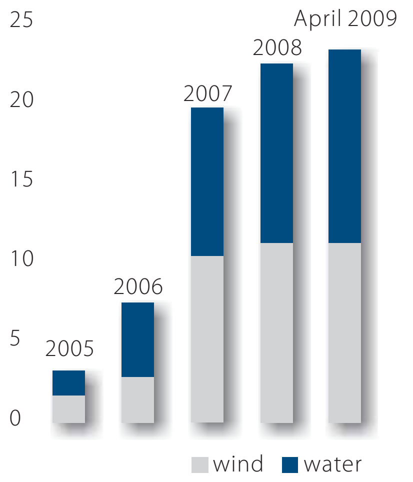
In March 2009, 24 RES producers signed up in the Annual Register of RES producers: 12 wind electricity and 12 hydro power producers for which Transelectrica has issued 20,084.00 GCs, out of which 1,213.0 GCs for wind and 18,871.0 GCs for hydro.
As compared with the preivous years (2005, 2006, 2007, and 2008) the volumes of GCs increased in March 2009 about 17.0 times for wind and 32.6 times for water. This means that the investments in RES power units is growing faster in Romania and help reducing the climate change and dependency from importing fuel sources.



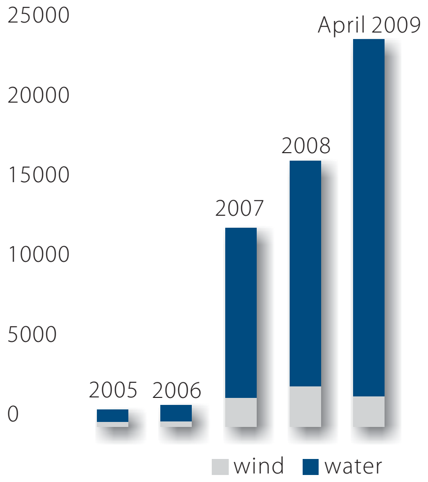
Producers of E_SRE	2005	2006	2007	2008	2009
wind	2	3	11	12	12
water	1	4	9	11	12

No. GCs	2005	2006	2007	2008	2009
wind	71	87	869	1,615	1,213
water	578	667	9,239	12,057	18,871

Producers of E-SRE



GCs. on E-SRE type



IV. OPERATION AND MAINTENANCE

MAJOR INVESTMENT AND COMMISSIONING

In order to fulfill its mission, Transelectrica is continuosly involved in an extensive development and modernisation program of its electric substations, transmission lines and interconnection capacities, meant to also support the new digital dispatching and market infrastructure. Implemementation of latest 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 2008, around 344 milion lei (milion € 93,5), was mainly directed to the major projects of substations rehabilitation and construction of new interconnection lines.

Major investment projects commissioned in 2008, based on “turn key” contracts

Project	Cont ractor	Financier	Benefits
Last stage of 400/220 kV Gutinas substation from the modernising project of the 400/220/110 kV Gutinas substation	ABB Power Systems	Nordic investment Bank + 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
Upgrading the Gutinas - Bacau - Roman Nord–Suceava axis to 400 kV - partial - Bacau Sud and Roman Nord; OHL Gutinas - Bacau - Roman Nord - Suceava	Consortium AREVA Germany Elecromontaj Bucharest	World Bank + Transelectrica	-increases reliability of supply in the East part of the country (part of a larger program to close the 400 kV ring of Romania) -increases transmission capacity and reduces power losses. - creates the condition for the future connection with neighbor power grid of R. Moldova (Suceava – Balti 400 kV OHL)
Rehabilitation of 400/220/110 kV Bucuresti Sud substation -IV stage of 220 kV-	Consortium Siemens - Austria, Siemens-Germany, Siemes - Romania	KfW Bank + Transelectrica	- increases the safety of supply to Bucharest city - cuts down maintenance and operation costs
220/110 kV Fundeni substation	Siemens - Austria	Transelectrica	- increases the safety of supply to Bucharest city - cuts down maintenance and operation costs
Modernisation of 10 kV electric equipment in Fundeni substation	Siemens AG Austria & Siemens SRL Romania	Transelectrica	- increases the safety of supply to Bucharest city - cuts down maintenance and operation costs
Modernization of 400 kV Cernavoda substation -diameters 1, 2, 3 and 4-	IGE Energy Services UK / Elcomex SA	Transelectrica	- enables reliable connection of NPP Cernavoda -increases reliability -cuts down maintenance and operation costs
Modernisation of primary circuits within 220/110 kV Isalnita - Ist stage-	ABB SRL Romania & Energomontaj Romania	Transelectrica	-replaces obsolete equipment to increase reliability
400 kV OHL Oradea - (Nadab) – Bekescsaba	Electomontaj & Romelectro Romania	BERD + Transelectrica	-new interconnection with Hugarian system
400 kV OHL Arad - Nadab	Electomontaj Romania	PHARE + Transelectrica	- Strengthens the interconnection grid in the Western part of Romania, fostering the power transits between Romania and Hungary
400 kV Nadab substation	Siemens Austria	BERD + Transelectrica	

Rehabilitation of 400/220/110 kV Iernut substation - last stage-	Siemens Austria	World Bank + Transelectrica	- a completely refurbished and new remote-controlled substation, ensuring electricity transit through the Western side of the country (from West Transilvania to North Transilvania)
Rehabilitation of 400/220 kV Sibiu Sud substation -last stage-	Consortium Areva - ABB Germany - ABB SRL Romania	KfW Germany + Transelectrica	Reliability of electricty supply in Muntenia and Ardeal area
Modernisation of command-control- protection system in 11 substations 220/110 kV	AREVA Lattes France	Transelectrica	-increases safety and reliability of operations -facilitates remote control

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 –and Units 3 and 4 of NPP into the Romanian power system and building a 400kV city ring for reliable supply of Bucharest.

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Transelectrica

Marian Florea
Director Grid Operation
Transelectrica

Florentina Raducanu
Deputy Director Management Investment Projects
Transelectrica

Dan Preotescu
Manager NTG Development Planning
Transelectrica

Major investment projects contracted in 2008:

- Rehabilitation of the 110 kV Gutinas substation in 400/220/110 kV Gutinas substation - contractor AREVA T&D - SA
- Rehabilitation of the 400/220/110/20 kV Lacu Sarat substation - contractor AREVA Energietechnik GmbH & Electromontaj - SA
- Rehabilitation of the 400 kV Gadalin substation - contractor ABB - SRL & Energobit - SRL
- Security systems

Documentations approved for the following major investment projects:

- Rehabilitation of 220/110 kV Barbosi substation
- Modernisation of 20 kV FAI substation

Prospects for 2009

Ongoing rehabilitation works for:

- the substations Gutinas, Bucuresti Sud, Gura Ialomitei, Fundeni, Cernavoda, Isalnita, Iernut, Sibiu Sud and Nadab (new substation)
- 400 kV Oradea (Romania) - Bekescsaba (Hungary) OHL
- 400 kV Arad - Nadab OHL (new)
- increase the voltage rated level of the Axis Gutinas-Suceava from 220 kV to 400 kV
- modernisation of the command-control-protection-metering in 11 substations


Strategic planning meeting - Suceava substation

Prospects for 2009 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 electric 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
- HVDC link 400 kV undersea cable between Romania and Turkey

Rehabilitation of the following substations:

- 400 kV Gadalin
- 400/220/110/20 kV Lacu Sarat, Bradu
- 400/110/20 kV Tulcea Vest, Domnesti
- 400/110 kV Brasov; 220/110/20 kV Barbosi
- 220/110 kV Mintia, Turnu Severin Est, Dumbrava, Campia Turzii, Filesti, Sardanesti
- 220 kV Cetate, Ostrovu Mare

Development of National Power Grid:

- 220 kV Ostrovu Mare – Power Grid OHL.

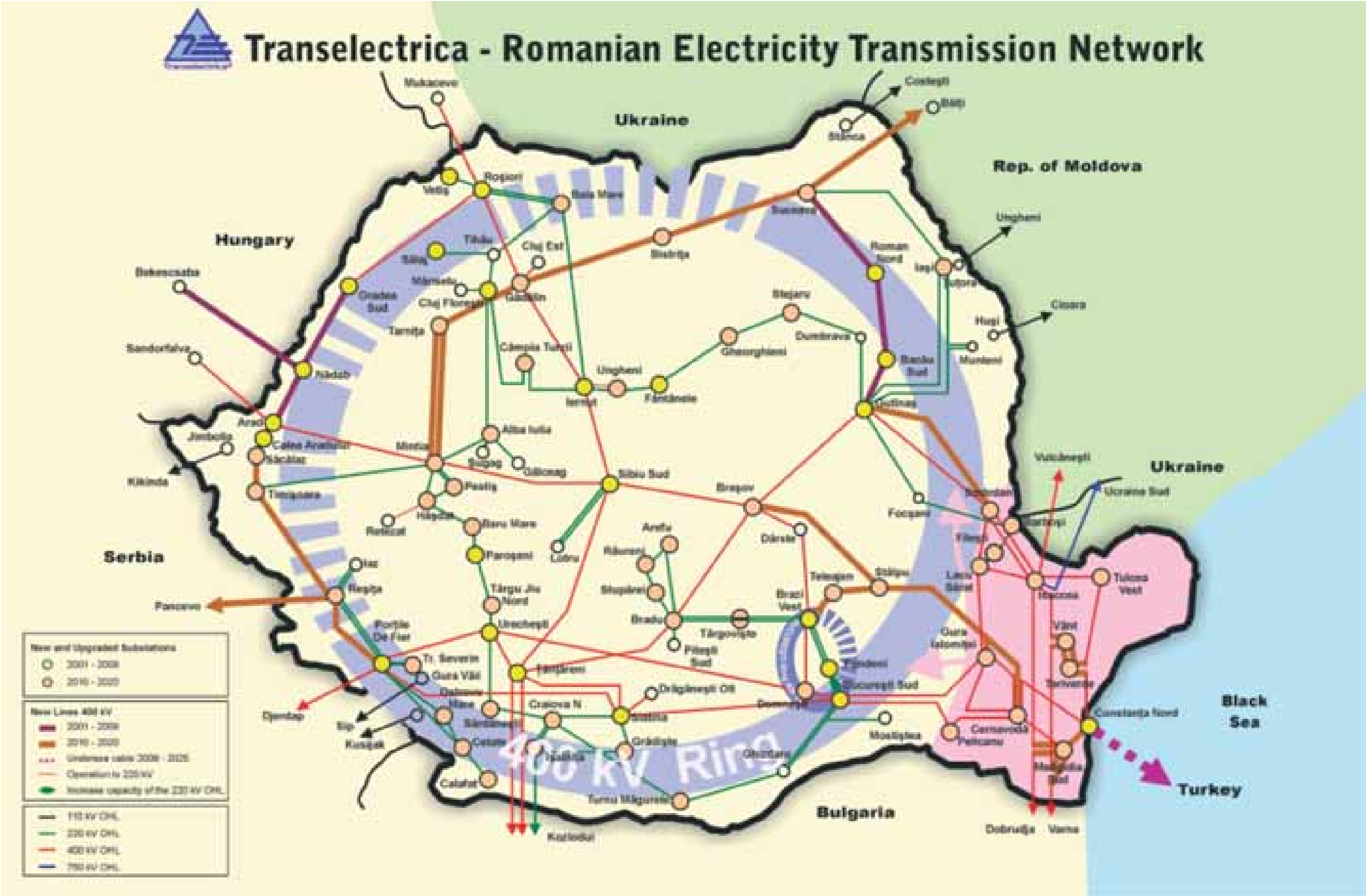
In 2008 Transelectrica carried out 12 works to connect new customers to the power grid, completed 6 works to connect important objectives to the grid and performed 2 release site – works (for new motorways and the construction of road town motorway by-pass). The most important maintenance project was the completion of 400 (220) kV Calea Aradului Substation (2 x 125 MVA) and its grid connection.

The connection supply contract for the 400 kV Tariverde substation (windfarms connection) and its connection to NPG were also signed in 2008.

Planning the Romanian Transmission Grid

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

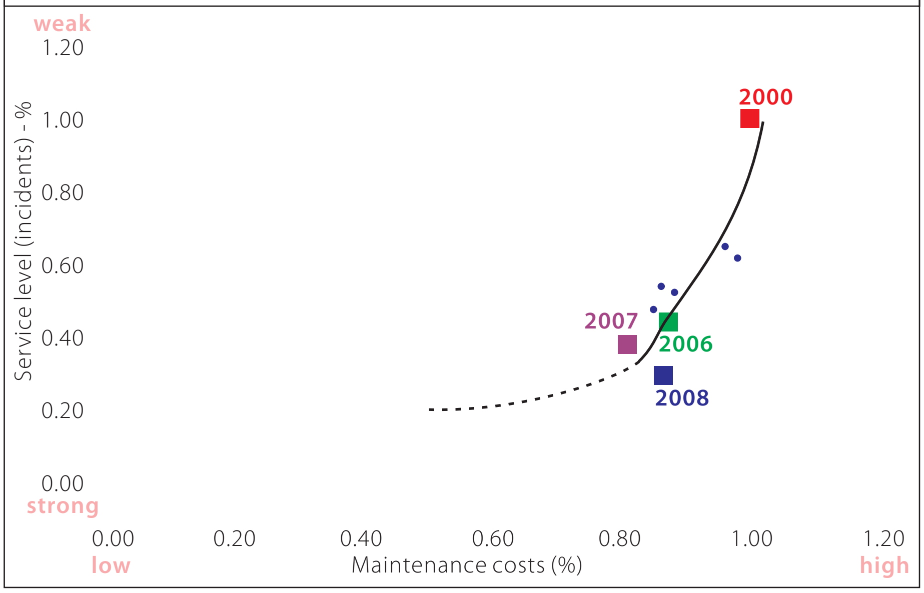
Transelectrica responds for Romanian transmission grid planning in cost efective conditions and by informing all the interested license holders in the electricity sectors. Every two years Transelectrica revises the Prospective Plan of the Transmission Grid for the following ten years. The Plan is a comprehensive survey of the operating characteristics and performances of the electricty transmission grid and is based on the best assessment of the main financial and economic evolutions, electricity production and consumption included. Once the authorisation from ANRE and the approval from the Ministry of Economy are obtained, 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

As Transmission Operator, Transelectrica manages the electricity transmission grid by keeping the balance between performance/operation, costs (maintenance, rehabilitation, modernization) and risks (ageing, failure, criticality, impact). Transelectrica operates 77 substations, 132 transformers (34,650 MVA) and manages 8990 km of Overhead Electric Lines (OHLs) at voltages ranging from 110 kV to 750 kV.

Service level (incidents) vs. Maintenance costs evolution



Electricity transmission grid

Voltage (kV)	length (km)	number of substations
750	155	1
400	4701	34
220	4096	42
110 (only interconnection lines)	38	

Maintenance activity

Transelectrica develops the maintenance activity based on the company's Maintenance Assurance Program (MAP), drafted by the Management of Assets Board. The Program applies to all maintenance components (technical, financial, relational and organizational) performed on Transelectrica's assets, complying to the technical norms and operational procedures. The results of the maintenance activity are permanently monitorised.

Several maintenance works were conducted in 2008 at substations and overhead electric lines in order to increase the efficiency of the inspection and overhauls, rationally use the funds and comply with the norms.

In 2008, network overhauls projects were carried out for 220 kV Reşiţa - Iaz, 400 kV Lacu Sărat – Smârdan OHLs etc. Overhauls were developed within 220/110/20 kV Cluj Floreşti, 220/110/20 kV Sălaj, 220/110kV Târgovişte, 220 kV Stupărei substations. Further to analysing the failure rates and maintenance costs, we found out that Transelectrica has recorded an important upward trend since 2002, due to an efficient maintenance program.

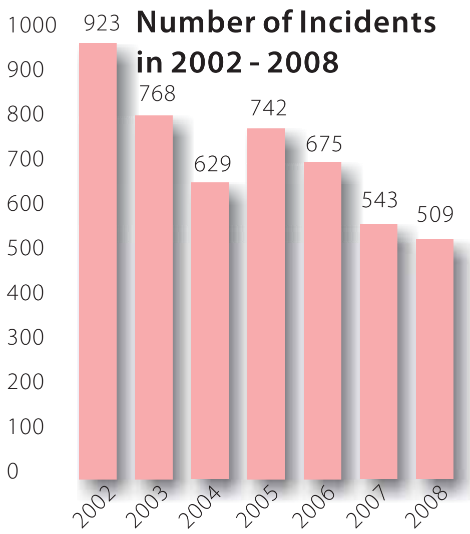
Planned maintenance works for 2009

For 2009 Transelectrica has envisaged the following maintenace program:

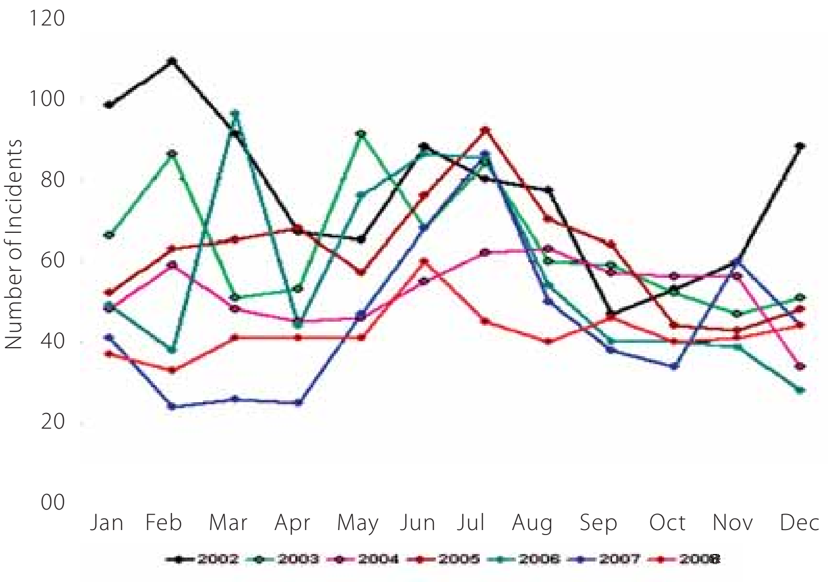
Ongoing overhauls works for 220 kV FAI – Suceava, 220 kV Bucureşti Sud – Ghizdaru, 220kV Pestiş – Mintia, 400 (220) kV Gutinaş – Bacău Sud, 220 kV Craiova Nord – Tr. Măgurele, 220 kV Lotru – Sibiu Sud, 220 kV OHL Mintia – Sibiu Sud, 220 kV Ureche**ş**ti – Sărdăneşti, 220 kV Sărdăneşti – Craiova Nord OHLs. There will be also conducted overhauls for 220/110kV Stupărei, 220/110KV Gheorghieni, 220/110kV FAI, 220/110kV Baia Mare 3, 220/110kV Turnu Măgurele, 220/110 Pestiş substations.

Failures reduction

Safe operation of the Romanian transmission grid requires the permanent observance of the reduction in failures' number. In 2008 the number of failures was reduced as shown in the figure below:



Number of Incidents monthly in 2002 - 2008



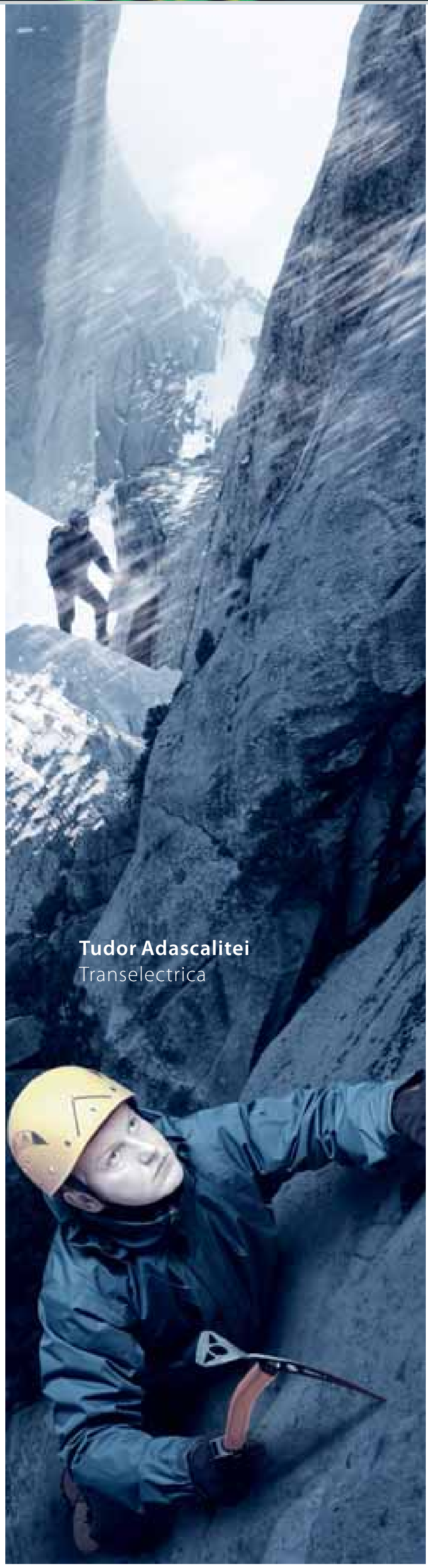
New technologies

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

GIS

Transelectrica made the decision to implement a single Geographic Information System (GIS) which is common for all transmission branches in the country, as well as for the central headquarters. This system is used in order to manage, review and submit its spatial data and information of geographical relevance from the Company's current activity. In order to achieve this goal, the following activities were carried out in 2008:

- the data for all Transelectrica's objectives (OHL and substations) have been evaluated and checked in GIS, in terms of consistency and connectivity of objectives; all the databases are now available for use trough a desktop application for intensive users and a webmap for general information;
- the project that extends GIS to all the 24 Operational Centres of Transelectrica was finalized.



Tudor Adascalitei
Transelectrica

V. RESPECT FOR PEOPLE, ENVIRONMENT AND SOCIETY

RESPECT FOR OUR PEOPLE

Employee safety and security

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

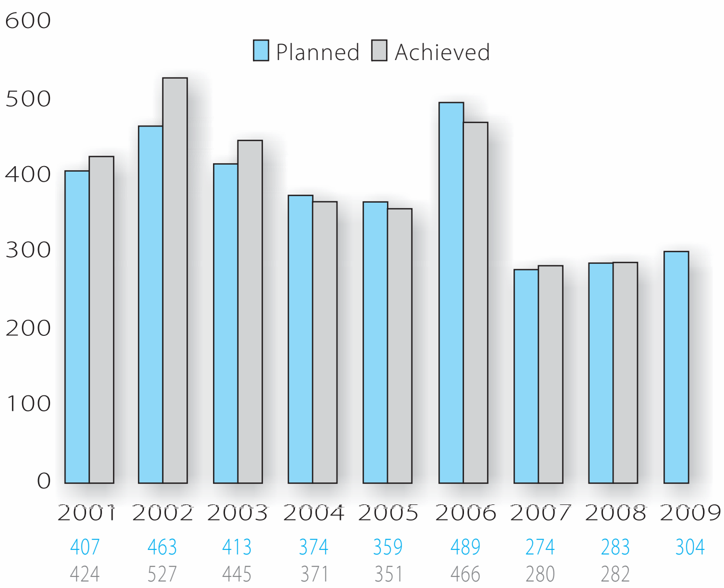
In 2008 Transelectrica's safety and security programme was achieved 97.5%. During 2008 we kept on improving our facilities and raising people awareness on specific risks given by the high voltage environment. Steady efforts are also made by the company to improve the safety culture by providing a safe working environment and facilities in order to reduce accidents, occupational risks and professional illnesses and assess the risk level of professional illness and accidents for all power transmission branches of the company.

People's health is continuously monitored and the employees are instructed on the risks of possible accidents while developing their specific activities.

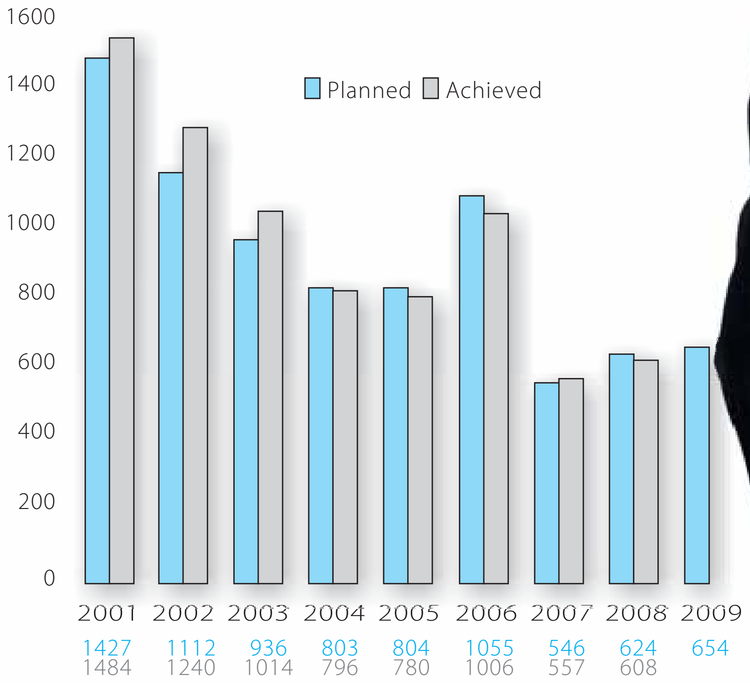
By observing the safety and security norms, the number labour accidents gradually decreased and since 2004 no labour accident took place. This is why leave days due to labour accidents were reduced to zero ever since 2004. Risks were permanently analysed and the safety of facilities, procedures and working methods are constantly improved. Special training courses are organised in this respect, such as our employees be aware of the possible risks and take all measures to prevent them.

Further to the permanent decrease of labour accidents in Transelectrica, the performance indicators continuously decreased as shown in the figure below.

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



Expenses with in the safety and security programs



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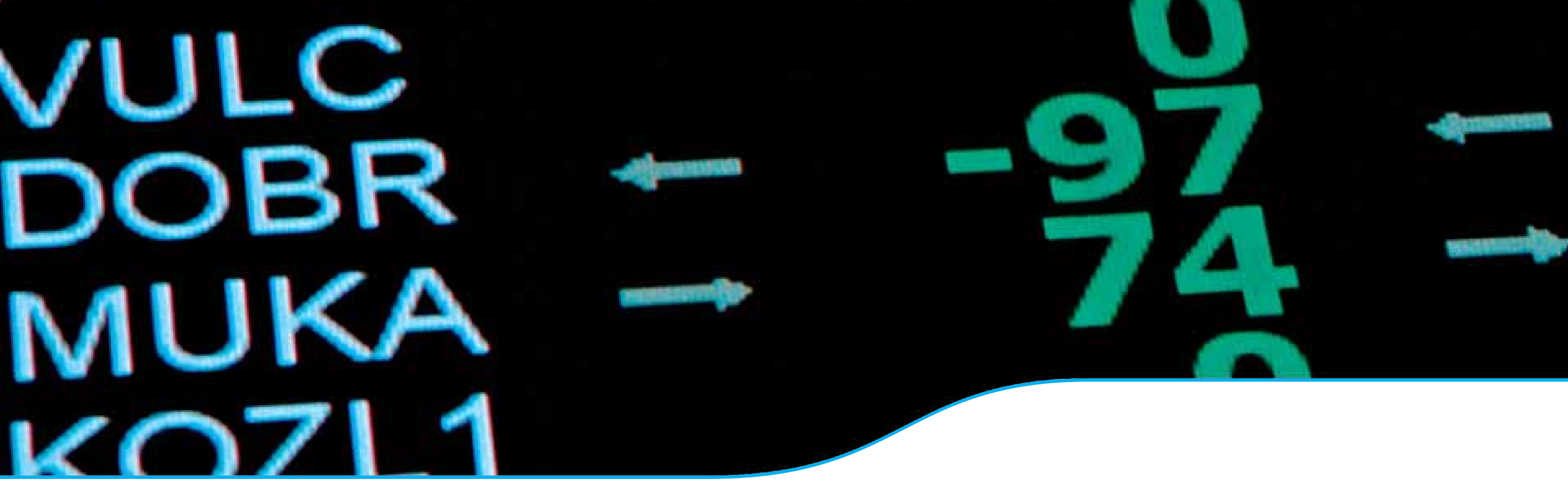
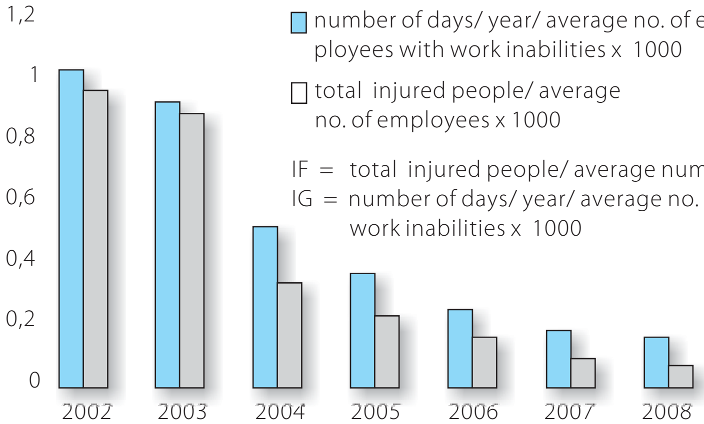


Average qualitative and quantitative indicators in Transelectrica

We shall further on do our best to maintain the same excellent safety level for 2009 as well.



number of days/ year/ average no. of em ployees with work inabilities x 1000

total injured people/ average no. of employees x 1000

IF = total injured people/ average number of employees x 1000
IG = number of days/ year/ average no. of employees with work inabilities x 1000

	2002	2003	2004	2005	2006	2007	2008
IF average	1,04	0,93	0,52	0,36	0,25	0,175	0,14
IG average	0,95	0,87	0,34	0,22	0,14	0,07	0,05

Our people – our value

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

On December 31, 2008 Transelectrica employed 2,198 people, out of which 256 in Transelectrica's main offices, and 1,942 at the national dispatching center and its 9 subsidiaries. The operational activity is carried out by 1,738 employees) and the support activites together with the executive management are developed by 460 employees.

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

Transelectrica's staff composition on December 31, 2008 according to the educational level

High level	1,144
Secondary level	1,023
Primary level	31
Total	2,198

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 inovation and creativity, improve the training level and provide an appropriate incentive program. 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 also balance the age pyramid.

Recruitment

Major efforts were made in 2008 in order to attract the best employees. Thus, partnerships with the Politehnica University are concluded according to which the best final –year students from the University Politehnica are assisted by Transelectrica and are granted scholarships for the final years, provided that they are to become Transelectrica's future employees.

Company visits and educational practice

In 2008 Transelectrica organised for the first time „The open gates day". It was a guided visit which enabled the interested people (our collaborators, the large public, high schools and university professors and students) to get information on the activities of a TSO. The visit was organised at one of

Transelectrica's substations (control centers included) in Bucharest city and in each of its 8 branches all over the country. The visits were followed by press conferences. The event was widely promoted and proved to be a success. Further to the event, an educational practice was organised for teachers and technical school students in Transelectrica's electric 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 programs are meant to improve the expertise and skills of our employees.
In 2008 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, purchasing, electricity development market, capital market, development of the power system. We wish our people be acquainted with the best practices in order to face all the challenges ahead.

When new and young employees are hired, they are are given all the necessary information on the company's organisational culture and special training sessions are organised either within the company or though our subsidiary – The Vocational Center "Formenerg", one of our subsidiaries. Thus, our employees can attend a large variety of training courses, from technical to IT, PR or foreign languages ones.

Top employee of the year

Starting with the last two years, Transelectrica grants the trophy " TOP EMPLOYEE OF THE YEAR" on the basis of the resuts obtained during each year.
In 2008 the trophy went to our colelague Mr. Nicolae Chiosa, director of our Timisoara branch. Mr. Chiosa coordinated the team which carried out the first remote control center of Transelectrica. He also coordinated and concluded the works for carrying out the new 400 kV electric interconnection project with Hungary (i.e the 400 kV electric line Arad (RO)– Nadab (RO) – Bekescsaba (HU).


Nicolae Chiosa, director of Timisoara branch

RESPECT FOR ENVIRONMENT AND SOCIETY

Sustainable development – electricity generation from renewables

The concerns on the utilisation of renewable resources have long been registered in Romania. However, only lately they rapidly increased given the benefits provided by authorized institutions. At present several investors expressed their interest for wind power in Romania. So far the applications (most of them indicate two areas: Dobrogea and Moldova) for connection to the grid amounted to about 17,000 MW. Out of them, wind projects with 2700 MW installed power received the technical permit. Some projects are more advanced. For 680 MW, firm contracts for connection to the grid were signed. These figures are continuously changing as a result of receiving new applications and monitoring the validity of the existing technical permits.

Due to the fact that wind power requires a corresponding grid infrastructure, certain technical requirements and back-up reserve, in 2008 Transelectrica performed:

- Dedicated studies to reinforce the grid infrastructure for wind plants and other generation units
- Support study for Transelectrica's strategy of renewables integration
- The minimal requirements for wind generation

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.

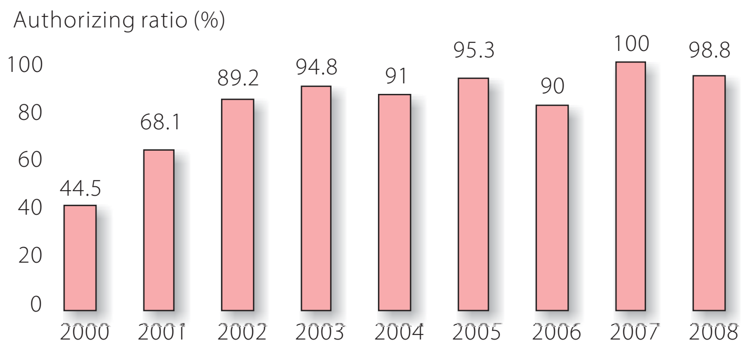
In order to increase the share of renewables production in Romania, a system of green certificate was adopted in 2004. According to it, electricity producers from renewable resources can sell the green certificate in the green certificates market. Transelectrica has the task of issuing these certificates, on monthly basis and declarations made by the producers of renewable power for each power unit and confirmed by the electricity distributor. By the end of 2008, Law no. 220 was adopted. It sets the promotion system for the production of energy out of renewable energy sources.

Environmentally friendly solutions

Transelectrica's environmental policy is based on the sustainable development principle by mitigating and monitoring the pollutants and by the reasonable use of the natural resources.
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, nature and society.
As power lines have an effect upon people's residential and local environments, Transelectrica has been conducting long-term efforts to reduce the environmental impact of its operations.
In 2008 the main goals of Transelectrica's environmental policy considered the implementation and continuous improvement of a modern environmental management system, according to ISO 14001:2004, and the mitigation of the environmental grid impact on the environment and health (people, air, soil, water, flora and fauna), within national and European norms. In order to conform to the environmental legislation we kept on getting the environment certification for non certified electric lines and substations and to get the environment agreement for construction-mountage projects. The certification rate in 2008 was 98.8% .

The modernisation and rehabilitation works carried out by Transelectrica are based on the latest state-of-the-art technologies which prevent pollution and mitigate the adverse environmental impact.

Downsizing the number of facilities using oil as a dielectric means, implementing



water-oil separators in the rain drainage system, sealing the retention tanks of the autotransformers, constructing concrete platforms able to take over the oil leakage lead to mitigation of the environmental oil contamination risk

Monitoring the SF6 leakage at equipment and replacing the obsolete back-up Diesel units with new ones of Euro 3-4 type are measures taken to contribute to air and climate protection.

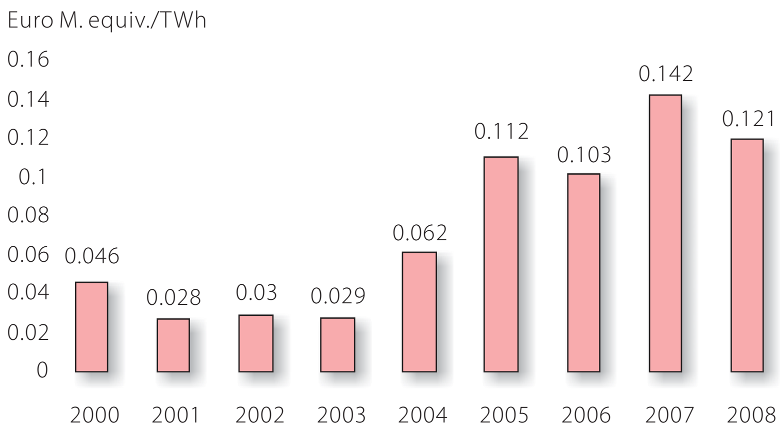
In 2008 Transelectrica continued to take measures to improve its environmental performances by assigning concrete tasks, by carefully managing the wastes resulted from the retrofitting and maintenance activities and by periodically monitoring the environmental factors.

Special attention is given by Transelectrica to bio-diversity protection and conservation by finding out friendly solutions and taking the appropriate measures to mitigate power grid impact upon natural fauna and flora. Reducing and/or eliminating the magnetic and electric field effect on the population/neighbours, by observing the national and European legal provisions (5 kV/m and 1.0 mT respectively) is another concern of Transelectica in order to protect human safety and health.

Environmental Impact Studies and Environmental Management Plans within the rehabilitation/modernisation projects of electric lines and substations were developed with due consideration of environmental impact mitigation, by monitoring the environmental factors and related costs.

In 2008 the expenses for the environmental protection amounted to Lei 20,650,859 (about € 5,188 M.)

Environmental protection expenses (€ M.)/electricity transmitted (TWh) in 2008 (in 2008 the electricity transmitted amounted to 42.72 TWh).



QUALITY MANAGEMENT

Harmonization of the national regulations to the European and international ones is a must for Transelectrica. The specific processes of the company are continuously monitored and audited by specialised the personnel and by protection and automation systems. Non-compliances identified during the equipment operation are registered and promptly solved, further to the analysis of their causes. Whenever necessary, corrective actions are provided in order to prevent their reiteration. The documentation and policy on the integrated management system-quality, environment, health and vocational security are annually reviewed and concrete targets are set for the organisational units. In 2008 , based on the re-certifying audit, the certification authority SRAC renewed the certificates confirming the compliance of the integrated management system – quality, environment, health and vocational security with the requirements in the international standards SR EN ISO 9001:2001 (ISO 9001:2000), SR EN ISO 14001:2005 (ISO 14001:2004) and OHSAS 18001:2004 (OHSAS 18001:1999) declared as applicable.

RESPECT FOR SOCIETY

Transelectrica makes its contribution to the development of a sustainable society and is involved in the social problems of the community. Transelectrica gives full consideration to the social interests and is responsible for its employees and shareholders, as well as for community and environment.
In 2008 Transelectrica offered support to the University Politehnica of Bucharest by financially assisting it in endowing the research laboratories in the Electric Power Faculty. Support was also given to buildinkg churches and monastiries and revamping schools damaged by the summer floods, mainly in the areas where Transelectrica has power transmission branches. The Association of Electric Power Retired People (made up of former power engineering employees) and the foundations and associations of disabled children also benefited from Trabnselectrica's assistance in 2008

VI. INTERNATIONAL COOPERATION

International organisations

Transelectrica plays an active role within the international organisations and professional associations it is affiliated to (UCTE, ETSO, ENTSO-E, Eurelectric, WEC, CIGRE, LWA, AMFORUM), based on the status of Romania as a EU member.

2008 was extremely important for the cooperation of the TSOs in Europe. As a result of the provisions included in the Third Energy legislative draft package for the creation of a new organization of the TSOs at the European level, the existing TSOs professional Associations: ETSO, UCTE , ATSOI, NORDEL, BALTSO decided to join their efforts in order to create the new organization ENTSO-E, as a unique voice of the European Transmission and System Operators. The process started at the beginning of 2008 and ended upon December 19, 2008, when the new association, ENTSO-E, was set up. The establishment of the new organisation represents a proactive and essential step of the Transmission and System Operators for the development of the regional electricity market, particularly the pan-european one, and is in compliance with the third EU legislative package on electricity market.

Traselectrica, as an ETSO and UCTE member, was actively involved in the development of this process, having appointed representatives in the five Work Streams created to prepare the Articles of Association and the Internal regulation of the new body ENTSO-E. Transelectrica is also represented in the ENTSO-E board and has appointed representatives in al the three committees created inside ENTSO-E.

At the regional level Transelectrica acted in 2008 as an active member in SUDEL and in the SETSO TF of ETSO, working for the process of developing the regional electricity market in the Energy Community.
In this respect Transelectrica activated in the Implementation Group of the Coordinated Auction Office, and in the Athens Forum.

In 2008 the UCTE Steering Committee appointed Transelectrica as support company and the project manager for the project "Interconnection of Ukraine/Moldova Power Systems with UCTE".

The Project development is monitored and supervised by a Project team made up by experts from Transelectrica- Romania, MAVIR -Hungary, PSE- Poland, APG -Austria, TERNA- Italy, SEPS- Slovakia, CEPS- Cehia, Ukrenergo- Ukraine, Moldenergo - Moldova. After taking all the steps, a Consortium made up of the TSOs in the UCTE will be created which will have to conclude an agreement with UCTE for project execution .

MOU

In 2008 Transelectrica signed the Memorandum of Understanding on the implementation of common procedures for congestion management methods and the establishment of a Coordinated Auction Office (CAO) among transmission/independent system operators in South East Europe. The document was also signed by KESH- Albania, ISO BiH – Bosnia&Herzegovina, ESO EAD – Bulgaria, HEP-OPS- Croatia, AD MEPSO – FYROM, HTSO- Greece, MAVIR- Hungary, TERNA - Italy, EPCG- Montenegro, ELES- Slovenia, Transmission System Operator of Kosovo , pursuant to the United Nations security council resolution 1244.

Translectrica was also actively involved as a signatory party in the execution of the ITC contract for 2008-2009 and in ETSO study for defining the contract for the lond periode after 20110.
In order to have a clear and comprehensive understanding of the evolutions and trends within the European energy sector Transelectrica is monitoring:

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

Bilateral cooperation

In 2008 Transelectrica's international cooperation was also focused on enlarging the bilateral cooperation with the European TSO's such as: ESO-EAD –Bulgaria, Terna – Italy, RTE - France, MAVIR - Hungary, TEIAS-Turkey, ELECTROMREZA SRBJIE - Serbia, RAO-UES – Russia, MOLDELECTRICA- R. Moldova, UKRENERGO-Ukraine.

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

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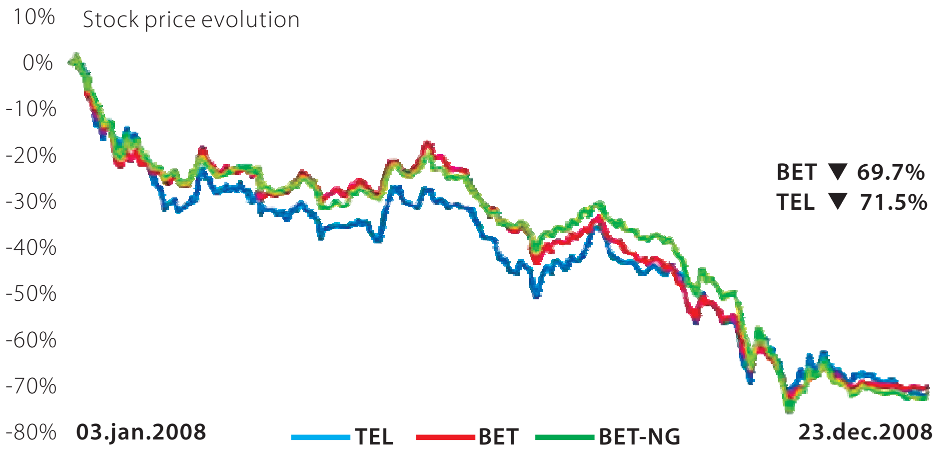
VII.MANAGEMENT AND SHAREHOLDERS

INFORMATION FOR SHAREHOLDERS

TEL Shares' evolution

The evolution of Transelectrica's shares in the stock exchange was aligned to the general decreasing trend, determined by the impact of the financial crisis on capital markets.



In 2008, the market value of TEL shares depreciated by 71.5% (Dec 23rd / Jan 3rd) while BET index depreciated by 69.7% and BET-NG index for utilities depreciated by 71.7% .

The first transaction day of 2008 closed at 38.60 Lei/share (10.73 €/share), the end of the stock exchange year recording the quotation of 11.00 Lei/share (2.80 Euro/share). The highest value was 39.3 Lei/share (10.95 Euro/share), in Jan 4th, and the lowest was 10.9 Lei/share (2.76 Euro/share), in Oct 27th.
At the end of 2008 the Company's stock capitalisation was of 806 million Lei, equivalent of 205 million Euros at the official exchange rate notified by BNR (Romania's National Bank) for the last stock exchange day in 2008 (3.9297 Lei/Euro).

The stock consists of 73,303,142 ordinary, nominative, dematerialized shares, with a nominal value of 10 Lei/share. Each share provides its holder a voting right in the shareholders' general assemblies. The account of the Company's shareholders and of their capital shares is kept by Co. Central Depositary S.A.

STRUCTURE OF SHAREHOLDERS

January 1st, 2008 - December 31st, 2008

	Number of shares/voting rights	%
Ministry of Economy and Finance	54,022,887	73.7
Property Fund	9,895,212	13.5
Other shareholders (below 5%)	9,385,043	12.8
TOTAL	73,303,142	100.0

CORPORATE GOVERNANCE

Transelectrica's corporate governance is the way for its decision-making, managing and monitoring the processes for the benefit of its shareholders and stakeholders. Even from the very beginning, Transelectrica saluted the initiative of the Bucharest Stock Exchange which proposed to the capital market the elaboration of a Corporate Governance Code. In 2008 we actively participated in the Code creation and also developed an in-house pro-active approach, trying to anticipate by concrete measures the Company's integration in a "best-practice" model, such as to formalize the values we trust in and observe, namely: ethics, accountability, responsibility and integrity.

Transelectrica's priorities related to corporate governance are focused on setting up long term strategic objectives in order to harmonise the interests of shareholders and stakeholders, with due observance of legal requirements.

We consider that one of the most important rights of shareholders is that of being informed in an equal and fair way, irrespective of the number of shares they hold. To this purpose our efforts go towards an active, continous and effective communication with any person interested in the financial tools issued by the company.

The management board always showed their availability for discussions and meetings with shareholders and the historic information are kept on the company's website for those who are concerned. All the important events in the company life are brought to the public knowledge in due time, for their being able to make the appropriate investment decisions.

We have also tried to encourage and facilitate the shareholders participation in the general meetings of shareholders, giving them the possibility to express their opinions in an open way.

BOARD OF DIRECTORS

Transelectrica's board of directors has 7 members. They do not have a management function with Transelectrica, except for the chairman.

According to the legislation in force and with the articles of association, Transelectrica's board of directors is supported by three committees: Audit Committee, Remuneration Committee and the Committee for Energy Security and Critical Infrastructure Protection

Board of Directors' activity report

Members of the Board are assigned for at most 4 years and may be replaced by the ordinary General Meeting of Shareholders. Members of the Board may be shareholders as well. The Board of Directors exercises the power assigned to it by the articles of association (Statute) and defines Transelectrica's general policy and business administration strategy.


Gheorghe
Seculici
Adrian
Baicusi
Elena
Ianda
Florin
Marza
Alexandru
Sandulescu

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Board of Directors

2008

Chairman

Stelian Alexandru Gal

Director General Transelectrica

Member	**Member**	**Member**	**Member**	**Member**	**Member**
Alexandru Sandulescu	Adriana Suta	Dumitru Cocea	Cezarina Batu	Aurelian Bogheanu	Lucian Lefter
Ministry of Economy and Finance	**Ministry of Economy and Finance**	**Ministry of Economy and Finance**	**Ministry of Economy and Finance**	**Ministry of Economy and Finance**	**Romanian Agency for Energy Conservation**

2009 (as of April, the 1st, 2009)

Chairman

Adrian Baicusi

Director General Transelectrica

Member	**Member**	**Member**	**Member**	**Member**	**Member**
Alexandru Sandulescu	Florin Marza	Elena Ianda	Mircea Ionut Costea	Cristian Ene	Gheorghe Seculici
Ministry of Economy	**Ministry of Economy**	**Ministry of Economy**	**Proprietatea Fund**	**Union of the Romanian Bar**	**SC Proiect Arad SA**

Management Committee

2008

Octavian Lohan
National Dispatching Unit Director

Maria Ionescu
Economic Division Director

Razvan Purdila
Business Development Division Director

Ciprian Diaconu
Technical Division Director Unit

2009 (as of Aprill, the 1st, 2009)

Adrian Baicusi
Director General and CEO

Octavian Lohan
Deputy Director General

Maria Ionescu
Economic Director

Dan Romanescu
Commercial Director

Razvan Purdila
Strategy and Capital Market Director

Audit Committee

According to the decision of the Board of Directors set up in June 2007, the Audit Committee analyses the legal character and the efficiency of the auditing activity, ensures that the budget is controlled, assesses the internal control and monitors the accounts, the audit activity and the efficiency of the risk management system. The Audit Committee meets quarterly.

Remuneration Committee

Set up in 2007, the tasks of the Remuneration Committee are to make recommendations regarding the remuneration of the management staff and of Board members, monitor the observance of the budget provisions and also the way of fulfiling the collective and individual objectives of a qualitative and quantitative nature . In 2008 the Remuneration Committee met 4 times.

Committee for Energy Security and Critical Infrastructure Protection

As of March 2009, the Committee for Energy Security and Critical Infrastructure Protection was set up. The Committee is required to make recommendations on the Company's adoption of necessary measures in the field of energy security and improving thr critical infrastructure protection in compliance with the global strategy applied at European level.

External Auditor

Transelectrica's financial auditor for 2008 financial exercise was KPMG. The auditor was selected based on competition, in compliance with the legislation in force.

Risk management

In 2008, as a first year of the second regulation period, Transelectrica was confronted with the classical risk of regulation. According to the December 2007 negotiations with ANRE, a BAR value updating should have to be made in the first quarter of 2008, corresponding to the accounting reassessment. Consequently, a correction of the tariff had also to be made. As neither of them was done, the negociated tariff remained at the level of December 2007, keeping the investors perception that the regulation risk is still present.

Similarly to 2007, in 2008 Transelectrica faced again with the national currency depreciation , and therefore with the risk of hard currency rate. A severe depreciation of the national currency (leu) was recorded in 2008, which was even higher than in 2007. If for the interest risk and for the hard currency exchange rate risk at repayment the Company took some protection measures, the main issue to which Transelectrica is still been exposed and for which no direct control elements could be found out, was the accounting regulation according to which the long term debts in hard currency should be calculated at the exchange rate notified by BNR corresponding to the last reporting day. Even if the differences resulted had no impact upon the cash flow and will not influence it until the debt payment, these net financial loses were included in the profit and loss account, with a negative impact upon it.

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Maria Ionescu
Financial Director
Transelectrica

Veronica Crisu
Director Finance,
Budget Accounting
Transelectrica

Razvan Purdila
Director, Strategy, Capital
Markets & Int'l Cooperation
Transelectrica

CORPORATE STRUCTURE AND STRATEGY

The company is the sole shareholder of its six subsidiaries, created as independent commercial companies.
With regard to their activities in compliance with Transelectrica's mission, the six subsidiaries are grouped in two categories: three subsidiaries whose activities are closely related to Transelectrica's core activities (Opcom, Smart and Teletrans) and three subsidiaries which carry out non-critical activities with respect to the TSO's key functions, namely Formenerg, Icemenerg and Icemenerg Service)

Privatisation of subsidiaries

Further to the latest developments at the regional level (SEE electricity market) and the EU level, the privatisation process in the Romanian power sector comes out from the need of its rapid revitalisation and turning it into a competitive one – in the long run. Privatisation is also meant to the complete liberalization of the EU electricity market, with the aim to create full competition conditions to stimulate foreign investments and to consequently lead to competitive prices and services for consumers.

Transelectrica reviewed the options on privatising the subsidiaries whose activities do not meet Transelectrica's mission. The criteria of selecting the best solution depend however on the Government strategy. The solution agreed in 2008 for the privatisation of Formenerg, Icemenerg and Icemenerg Service was influenced by the shareholders' interest, the national energy strategy and also by the busibness environment changes.

Transelectrica's subsidiaries

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 electric 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

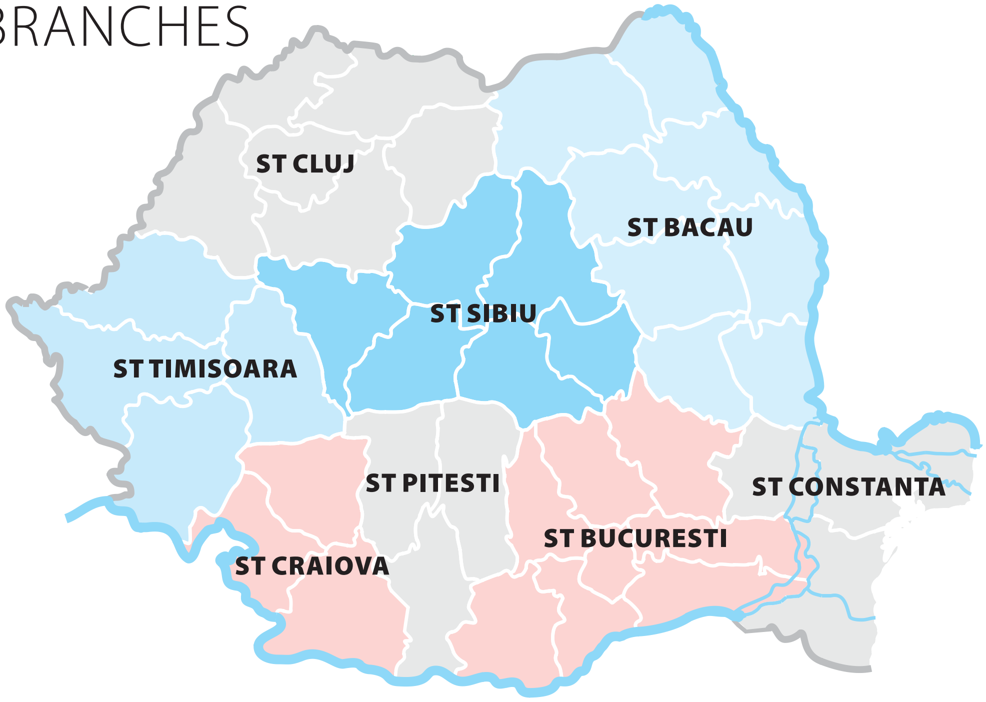
OPCOM : Commercial Market Operator –services in regional market SEE-CEE

- 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

TRANSELECTRICA'S BRANCHES

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

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



Location of the 8 Transmission branches on Romania's map

FORMENERG

provides professional training for the power sector personnel

ICEMENERG

provides business research and technical assistance services to thermal power plants,electric power substations and electricity networks

ICEMENERG SERVICE

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

Transelectrica's Transmission Branches

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

Bucuresti Transmission Branch
Director: Traian Ene
1A Stefan cel Mare av, sector 1 Bucuresti, cod 01173
Phone: 021/201 62 15; Fax: 021/317 23 00

Cluj Transmission Branch
Director: Ciprian Bud
27 Memorandumului str. Cluj, cod 400114
Phone: 0264/405 505; Fax: 0264/405500

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

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

Sibiu Transmission Branch
Director: Stelian Alexandru Gal
3 Corneliu Coposu str. , Sibiu, cod 550245
Phone: 0269/207 111; Fax: 0269/207 101 foster

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

OMEPA Branch
Director : Emilian Sima
13-15 Hristo Botev str, Bucharest
Phone: 021/3035892; Fax: 021/3035756

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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 balance sheet as at 31 December 2008 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' responsibility

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

[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.

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

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

Basis for Qualified Opinion

6. As described in Note 11 to the accompanying consolidated financial statements, as at 31 December 2008, the Group has ongoing long-term loans from the European Bank for Reconstruction and Development and the European Investment Bank. The Group did not comply with one financial indicator 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 232,614 thousand should be presented in the consolidated balance sheet as short term liabilities in accordance with IAS 1 "Presentation of Financial Statements". The management of the Group considers the non-compliance of the financial indicator as not significant and the probability of such requirements as being unlikely.

Qualified Opinion

7. In our opinion, except for the effect on the consolidated financial statements of the matters referred to in paragraph 6, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2008, 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 report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

For and on behalf of KPMG Audit SRL:

Razvan Mihai

Refer to the original signed Romanian version

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, 10 April 2009

CN Transelectrica SA
Consolidated Balance Sheet
as at 31 December 2008

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

	Note	31 Dec. 2008	31 Dec. 2007
Assets			
Non-current assets			
Property, plant and equipment	3	2,866,106	2,707,756
Intangible assets	4	33,143	36,282
Financial investments	5	5,729	5,729
Total non-current assets		**2,904,978**	**2,749,767**
Current assets			
Inventories	6	42,900	39,745
Trade and other receivables	7	848,321	689,677
Cash and cash equivalents	8	224,219	198,029
Total current assets		**1,115,440**	**927,451**
Total assets		**4,020,418**	**3,677,218**
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital		1,091,526	1,091,526
Share premium		49,843	49,843
Legal reserves		37,226	34,692
Revaluation reserves		303,077	303,077
Other reserves		53	53
Retained earnings		452,847	431,404
Total shareholders' equity	**9**	**1,934,572**	**1,910,595**
Non-current liabilities			
Deferred income	10	161,303	146,609
Long term borrowings	11	1,011,271	947,350
Employee benefits obligations	12	20,258	22,672
Total non-current liabilities		**1,192,832**	**1,116,631**
Current liabilities			
Trade and other liabilities	13	717,859	491,489
Other tax and social security liabilities	16	9,495	16,807
Short term borrowings	11	165,660	141,696
Total current liabilities		**893,014**	**649,992**
Total liabilities		**2,085,846**	**1,766,623**
Total shareholder's equity and liabilities		**4,020,418**	**3,677,218**

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

Adrian Baicusi
General Manager

Maria Ionescu
Economic Director

Veronica Crisu
Deputy Economic Director

CN Transelectrica SA
Consolidated Income Statement for the Year Ended 31 December 2008

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

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	Note	2008	2007
Operating revenues			
Transmission revenues		1,045,734	888,299
Ancillary services revenues		1,090,344	807,705
Balancing market revenues		754,424	571,737
Other revenues		97,564	116,701
Total operating revenues	**18**	**2,988,066**	**2,384,442**
Operating expenses			
System operating expenses	**19**	**(1,295,216)**	**(1,039,020)**
Balancing market expenses	**19**	(754,424)	(571,737)
Depreciation and amortization		(240,556)	(189,316)
Personnel expenses		(214,261)	(177,689)
Repairs and maintenance expenses		(85,754)	(83,094)
Other operating expenses		(129,479)	(107,342)
Consumables		(51,198)	(40,753)
Total operating expenses		**(2,770,888)**	**(2,208,951)**
Operating profit		**217,178**	**175,491**
Financial revenues		41,209	29,349
Financial expenses		(195,779)	(114,236)
Financial result	**20**	**(154,570)**	**(84,887)**
Profit before income tax		**62,608**	**90,604**
Income tax	**14**	(12,241)	(27,652)
Profit for the period		**50,367**	**62,952**
Basic and diluted earnings per share (lei/share)	**15**	**0.69**	**0.86**

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

CN Transelectrica SA
Consolidated Statement of Changes in Shareholders' Equity and Public Patrimony for the Year Ended 31 December 2008

(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 Jan. 2007	**1,091,473**	**49,843**	**-**	**31,008**	**-**	**48,386**	**431,558**	**1,652,268**
increase of share capital	53	-	-	-	-	(53)	-	-
Revaluation reserve (see note 9)	-	-	-	-	303,077	-	-	303,077
Land for witch title deeds were obtained	-	-	-	-	-	46	-	46
Utilisation of the special destination reserve (see Note 2 (v))	-	-	-	-	-	(48,326)	48,326	-
Legal reserves	-	-	-	3,684	-	-	(3,684)	-
Dividends distributed	-	-	-	-	-	-	(107,748)	(107,748)
Profit for the period	-	-	-	-	-	-	62,952	62,952
Public partimony assets (see Note 2(e))	-	-	611	-	-	-	-	611
Derecognition of public patrimony assets (see Note 2 (e))	-	-	(611)	-	-	-	-	(611)
Balanceas at 31 Dec. 2007	**1,091,526**	**49,843**	**-**	**34,692**	**303,077**	**53**	**431,404**	**1,910,595**
Legal reserve	-	-	-	2,534	-	-	(2,534)	-
Dividends distributed	-	-	-	-	-	-	(26,390)	(26,390)
Profit for the period	-	-	-	-	-	-	50,367	50,367
Public patrimony assets (see Note 2 (e))	-	-	130	-	-	-	-	130
Derecognition of public patrimony assets (see Note 2 (e))	-	-	(130)	-	-	-	-	(130)
Balance as at 31 Dec. 2008	**1,091,526**	**49,843**	**-**	**37,226**	**303,077**	**53**	**452,847**	**1,934,572**

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

CN Transelectrica SA Consolidated Cash Flow Statement for the Year Ended 31 December 2008

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

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	2008	2007
Cash flows from operating activities		
Profit for the period	50,367	62,952
Adjustments for non-cash items		
Income tax	12,241	27,652
Depreciation and amortization	240,556	189,316
Release of deferred income	(16,368)	(45,490)
(Gains)/losses from disposal of property, plant and equipment	(128)	7,826
Interest expense	60,189	51,115
Interest revenue	(30,640)	(16,266)
Unrealized foreign exchange losses	119,637	50,102
Operating cash flows before working capital changes	**435,854**	**327,207**
Accounts receivable	(148,655)	(6,354)
Inventories	(3,162)	(10,020)
Accounts payable and other liabilities	223,351	(142,658)
Changes in working capital	**71,534**	**(159,032)**
Interest paid	(56,636)	(46,202)
Income tax paid	(33,095)	(28,970)
Net cash from operating activities	**417,657**	**93,003**
Cash flows used in investing activities		
Purchases of tangible and intangible assets	(400,324)	(285,793)
Proceeds from sale of tangible fixed assets	4,685	15,076
Interest received	29,901	17,139
Net cash used in investing activities	**(365,738)**	**(253,578)**
Cash flows (used in)/from financing activities		
Subsidies received	41,098	20,609
Proceeds from long term borrowings	86,861	167,533
Repayments of long term borrowings	(126,250)	(77,209)
Dividends paid	(27,495)	(106,471)
Net cash (used in)/from financing activities	**(25,786)**	**4,462**
Net (decrease)/increase in cash and cash equivalents	**26,133**	**(156,113)**
Cash and cash equivalents as at 1 Jan. (see Note 8)	**186,028**	**342,140**
Cash and cash equivalents as at 31 Dec. (see Note 8)	**212,161**	**186,027**

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; 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 Bvd., Bucharest, sector 1. Currently, the executive activity is carried on in a new working point established in Bucharest, No. 16 – 18, Hristo Botev Street, sector 2.

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. 16-18, Hristo Botev Street, sector 2, 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 and Finance ("MEF"). 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 at 31 December 2008, the shareholders of the Company are: the Ministry of Economy and Finance ("MEF") which holds 56,078,143 shares, representing 76.5% of the share capital, Fondul Proprietatea, which holds 9,895,212 shares, representing 13.5% of the share capital and other shareholders which hold 7,329,787 shares, representing 10% of the share capital.

The Mission of the Company

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

Other information relating to the Company's activity

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

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

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

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

- In January 2007 Moody's Investor Service has improved the Company's rating from Ba1 with positive future expectations to Baa3 with firm future expectations;
- In October 2008, Standard & Poor's revised downwards the rating outlook of the Company from 'positive' to 'negative', due to country rating cut for Romania, and reiterated 'BB+' rating for long-term debt.

Regulatory environment

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

- application of the compulsory national regulating system for the energy sector, with the aim to guarantee efficiency, competition, transparency and consumer protection;
- issue or cancel the operating licenses of the entities involved in the energy sector, which already exist or will appear in the future, following the opening of the electricity and thermal energy market;
- set up the methodologies and criteria for tariff calculation in the energy sector and the framework contracts for selling, purchasing and delivering electricity and thermal energy to final consumers.
- ANRE establishes the tariffs for electricity 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 2/2005 issued by ANRE, valid until 2025.

Electricity market

a) General framework

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

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

b) New markets

Starting with 1 July 2005, according to the Commercial Code issued by ANRE, the Company became the balancing market operator, being responsible for the registration of the participants to the balancing market, the collection and checking of the offers and the computation of the necessary quantities for settling the balancing market transactions. The Company is counterparty for the balancing market transactions, both for the market participants and for the parties responsible with the balancing operations.

The Company purchases and sells the energy needed to:

- provide the flexibility and the stability of the NES;
- solve the network restrictions in the NES;
- balance in real-time the production and consumption of energy.

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

Tariffs for energy transmission and ancillary services

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

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

Regulated assets base ("RAB")

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

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

Local and international stock exchange indexes

Starting 6 March 2007, CN Transelectrica SA is part of BET index managed by the Bucharest Stock Exchange, with a share of 15.30%, at a stock exchange capitalization amounting to 806,335 as at 31 December 2008. The BET index (Bucharest Exchange Trading) is a selective index that reflects the evolution of the 10 most liquid shares listed on BVB, except the Financial Investments Societies (SIF).

Starting 2 January 2007, CN Transelectrica SA is part of Dow Jones Wilshire Global Indexes - a group of indexes that intend to offer the widest available measure of global markets. CN Transelectrica is part of:

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

2. Accounting policies

(a) Statement of compliance

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

(b) Basis of presentation

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

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

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

(c) Basis of consolidation

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

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

(d)Property, plant and equipment

Owned assets

Tangible fixed assets, except for other 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 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.

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

Depreciation

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

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

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

(e)Public patrimony assets

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

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

Prior to signing the concession agreement described below in this note, public patrimony assets were treated as assets contributed to the Group by the Romanian state through its representative MEF, 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, MEF 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 MEF 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 MEF, 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 - 2007, 3 addendums to the concession contract were signed. As a result, the public patrimony assets obtained after 29 June 2004, using the development funds were derecognized.

The main terms of the concession agreement are as follows:

- MEF 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 MEF 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 2008 is significantly less than the amount of the depreciation that the Group would have recorded on the comparable public patrimony assets had the concession agreement not been signed. However, the Group has not recorded any amount related to the possible benefit ensuing from the signing of the concession agreement because the Group is unable to determine the amount that a third party would pay for the use of the assets in an arm's length transaction.

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

(f)Intangible assets

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

(g)Financial investments

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

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

(h)Foreign currency transactions

Transactions in foreign currencies are translated to LEI by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated to LEI at the exchange rates prevailing on that date. Exchange gains and losses, realised or unrealised, are included in the income statement for that year. The exchange rates at 31 December 2008 and 31 December 2007 are as follows:

Currency	31 Dec. 2008	31 Dec.2007
1 EUR	3.9852	3.6102
1 USD	2.8342	2.4564
100 JPY	3.1419	2.1766

(i)Receivables

Receivables include invoices issued and not cashed at 31 December 2008 in nominal terms which relate to the services rendered during the six month period ended 31 December 2008. Receivables are stated at amortised cost less impairment losses. The amortised cost approximates the nominal value. Ultimate losses may vary from the current estimates.

(j)Inventories

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

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

(k)Cash and cash equivalents

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

(l)Impairment

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

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

(i) Computation of recoverable amount

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

(ii)Reversal of impairment loss

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

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

An impairment loss in respect of goodwill is not reversed.

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

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

(m)Share capital

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

(n)Dividends

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

(o)Accounts and other payables

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

(p)Interest-bearing borrowings

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

(q)Financial instruments

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

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

(r)Tax on profit

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
Deferred tax is provided using the balance sheet liability method, providing for the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.
The impact of tax rates changes on deferred tax is recognized in the consolidated income statement, except when it refers to previous positions directly recognized in the equity.

(s)Related parties

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

(t)Employee benefits

The Group, in the normal course of business, makes payments to the pension funds on behalf of its employees. All employees of the Group are members of the Romanian State pension plan.
According to Government Decisions No. 1041/2003 and No. 1461/2003, the Company provides benefits in kind in the form of free electricity to the employees who retired from the Predecessor Entity.

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

- loyalty bonuses in the range of 5% to 25% of monthly gross basis salary;
- seniority bonuses in the range of 1% to 10% of monthly gross basis salary;
- retirement prizes which range from 1 to 5 monthly gross basis salaries based on the employment period within the Company at the retirement date;
- jubilee premiums in range of 1 to 5 monthly gross basis salary depending on the employment period within the Group.
- free energy provided after retirement, as follows:
  - kWh 1.800 per year according to the Collective Labour Contract;
  - kWh 1.200 per year according to the Government Decisions No. 1041/2003 and No. 1461/2003.

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

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.
Obligations relating to employee benefits were determined by Mr. Silviu Matei, authorised actuary (authorisation no. 1342/12.04.2007) following the provisions of contract no. 8/23 January 2008 concluded with the Company based on the applicable public acquisition regulations.

(u)Revenue

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

The State, through the ANRE, regulates the prices that the Company may charge for services related to 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.

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

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

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

Starting with 1 January 2005, according to Government Emergency Ordinance ("OUG") No. 89/2004 approved by Law No. 529/2004, the development tax is no longer transferred to the State Budget. The Company will record reserves up to the limit of 6% of revenues from 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 are in force until 31 December 2006.

(w)Net financing costs

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

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

(x)Subsidies

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

(y)Subsequent events

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

(z) Provisions

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

(aa)Earnings per share

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

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

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

(bb)Contingencies

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

(cc) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.
The activities are taking place in different parts of Romania with each location being involved in both transmission and dispatch activities. The management of the Group considers all activities together, as "a single segment".

(dd)Comparatives

The financial statements for the year ended 31 December 2008 are comparable to the financial statements for the year ended 31 December 2007. Where necessary, comparative figures have been reclassified in order to match the changes in the presentation of the current year financial statements.

(ee) Implication of new IFRSs

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but which the Group has not early adopted. Management considered the following new standards, amendments and interpretations to existing standards:

- IFRS 8 ("Operating Segments") effective from 1 January 2009. The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. The Group considers that the new standard does not have an impact over the financial statements, because the management of the Group considers all activities together, as "a single segment".
- Revised IFRS 2 ("Share-based Payment") effective from 1 January 2009. The revised Standard will clarifies the definition of vesting conditions and non-vesting conditions. Based on the revised Standards failure to meet non-vesting conditions will generally result in treatment as a cancellation. The Group has not yet completed its analysis of the impact of the revised Standard.
- Revised IFRS 3 ("Business Combinations") effective for annual periods beginning on or after 1 July 2009. The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including: all items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration; transaction costs are not included in the acquisition accounting; the acquirer can elect to measure any non-controlling interest at fair value at the acquisition date, or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree; acquisitions of additional non-controlling equity interests after the business combination must be accounted for as equity transactions. The Group considers that this standard does not have a significant impact over the financial statements.
- Revised IAS 1 ("Presentation of Financial Statements") effective from 1 January 2009. The revised Standard requires information in financial statements to be aggregated on the basis of sharedcharacteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- Revised IAS 23 ("Borrowing Costs") effective from 1 January 2009. The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group has not yet completed its analysis of the impact of the revised Standard.
- Revised IAS 27 ("Consolidated and Separate Financial Statements") effective for annual periods beginning on or after 1 July 2009. In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The Group has not yet completed its analysis of the impact of the revised Standard.
- Amendments to IAS 32 ("Financial Instruments: Presentation"), and IAS 1, ("Presentation of Financial Statements") effective for annual periods beginning on or after 1 January 2009. The

amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if and only if they meet certain conditions. The amendments are not relevant to the Group's financial statements.

- IFRIC 15 ("Agreements for the Construction of Real Estate") effective from 1 January 2009. The interpretation clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity. The Group considers that this interpretation does not have a significant impact over the financial statements.
- Amendments to IAS 27 ("Consolidated and Separate Financial Statements") effective for annual periods beginning on or after 1 January 2009. The amendments remove the definition of "cost method" currently set out in IAS 27, and instead require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established. In addition, the amendments provide guidance when the receipt of dividend income is deemed to be an indicator of impairment. Amendments to IAS 27 are not relevant as these are the consolidated financial statements of the Group.
- Amendment to IAS 39 ("Financial Instruments: Recognition and Measurement") effective for annual periods beginning on or after 1 July 2009. The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. The amendments to IAS 39 are not relevant to the Group's operations as the Group does not apply hedge accounting.
- IFRIC 17 ("Distributions of Non-cash Assets to Owners") effective prospectively for annual periods beginning on or after 15 July 2009. The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. The Group considers that this standard does not have a significant impact over the financial statements.

(ff)Adoption of standards effective from 1 January 2008

As of 1 January 2008, the Group adopted the IFRSs below. The consolidated financial statements have been amended as required, in accordance with the relevant requirements.

- IFRIC 12 ("Service Concession Arrangements") effective from 1 January 2008. The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. The Group considers that this interpretation does not have a significant impact over the financial statements.
- IFRIC 14 IAS 19 ("The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions") effective for annual periods beginning on or after 1 January 2008). The interpretation addresses 1) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; 2) how a MFR might affect the availability of reductions in future contributions; and 3) when a MFR might give rise to a liability. No additional liability need be recognised by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. The Group does not operate in countries that have a minimum funding requirement where there are restrictions on the employer company's ability to get refunds or reduce contributions.
- IFRIC 13 ("Customer Loyalty Programmes") effective for annual periods beginning on or after 1 July 2008. The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. IFRIC 13 is not relevant to the Group's operations because does not have such loyalty program.
- IFRIC 16 ("Hedges of a Net Investment in a Foreign Operation") effective from 1 October 2008. The Interpretation provides guidance to the entities that hedge the foreign currency risk arising from their net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. The interpretation is not relevant to the Group's financial statements.

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

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3.

Property, plant and equipment

The movements of property, plant and equipment from 1 January 2006 to 31 December 2008 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 Jan. 2006	**10,958**	**2,243,835**	**1,473,872**	**188,489**	**50,336**	**17,568**	**741,067**	**4,726,125**
Additions	183	14,122	3,659	15	2,051	2,346	367,549	389,925
Transfers from construction in progress	-	128,336	373,267	28,525	3,327	4,699	(538,154)	-
Disposals	(861)	(41,206)	(45,279)	(3,235)	(902)	(476)	-	(91,959)
Balance as at 31 Dec. 2006	**10,280**	**2,345,087**	**1,805,519**	**213,794**	**54,812**	**24,137**	**570,462**	**5,024,091**
Additions	625	2,139	1,925	1,061	1,824	529	251,210	259,313
Transfers from construction in progress	-	30,254	266,015	48,444	2,073	1,966	(348,752)	-
Disposals	-	(16,242)	(39,946)	(4,361)	(1,196)	(357)	-	(62,102)
Balance as at 31 Dec. 2007	**10,905**	**2,361,238**	**2,033,513**	**258,938**	**57,513**	**26,275**	**472,920**	**5,221,302**
Additions	3,277	2,421	1,107	1,267	2,020	2,133	382,931	395,156
Transfers from construction in progress	9	133,045	286,868	28,826	385	6,326	(455,459)	-
Disposals	(6)	(3,146)	(29,145)	(2,330)	(884)	(355)	-	(35,866)
Balance as at 31 Dec. 2008	**14,185**	**2,493,558**	**2,292,343**	**286,701**	**59,034**	**34,379**	**400,392**	**5,580,592**
ACCUMULATED DEPRECIATION								
Balance as at 1 Jan. 2006	**-**	**1,315,561**	**1,082,123**	**135,210**	**48,269**	**17,362**	**-**	**2,598,525**
Depreciation expense	-	66,680	78,195	7,646	2,402	1,607	-	156,530
Accumulated depreciation of disposals	-	(24,699)	(38,173)	(2,504)	(838)	(470)	-	(66,684)
Balance as at 31 Dec. 2006	**-**	**1,357,542**	**1,122,145**	**140,352**	**49,833**	**18,499**	**-**	**2,688,371**
Depreciation expense	-	69,227	101,134	7,211	2,797	2,457	-	182,826
Accumulated depreciation of disposals	-	(9,508)	(39,315)	(4,168)	(1,294)	(289)	-	(54,574)
Balance as at 31 Dec. 2007	**-**	**1,417,261**	**1,183,964**	**143,395**	**51,336**	**20,667**	**-**	**2,816,623**
Depreciation expense	-	85,477	118,827	22,126	3,093	2,743	-	232,266
Accumulated depreciation of disposals	-	(2,000)	(25,928)	(2,259)	(802)	(337)	-	(31,326)
Balance as at 31 Dec. 2008	**-**	**1,500,738**	**1,276,863**	**163,262**	**53,627**	**23,073**	**-**	**3,017,563**

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

	Land and land improvements	Buildings and special installations	Machinery and equipment	Control devices	Vehicles	Other fixed assets	Construction in progress	Total
REVALUATION RESERVES								
Balance as at 1 Jan. 2006	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Increase in revaluation reserve	-	-	-	-	-	-	-	-
Release of revaluation surplus	-	-	-	-	-	-	-	-
Balance as at 31Dec. 2006	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Increase in revaluation reserve	57,378	227,293	15,216	3,034	156	-	-	303,077
Release of revaluation surplus	-	-	-	-	-	-	-	-
Balance as at 31 Dec. 2007	**57,378**	**227,293**	**15,216**	**3,034**	**156**	**-**	**-**	**303,077**
Increase in revaluation reserve	-	-	-	-	-	-	-	-
Release of revaluation surplus	-	-	-	-	-	-	-	-
Balance as at 31 Dec. 2008	**57,378**	**227,293**	**15,216**	**3,034**	**156**	**-**	**-**	**303,077**
CARRYING VALUE								
Balance as at 1 Jan. 2006	**10,958**	**928,274**	**391,749**	**53,279**	**2,067**	**206**	**741,067**	**2,127,600**
Balance as at 31 Dec. 2006	**10,280**	**987,545**	**683,374**	**73,442**	**4,979**	**5,638**	**570,462**	**2,335,720**
Balance as at 31 Dec. 2007	**68,283**	**1,171,270**	**864,765**	**118,577**	**6,333**	**5,608**	**472,920**	**2,707,756**
Balance as at 31 Dec. 2008	**71,563**	**1,220,113**	**1,030,696**	**126,473**	**5,563**	**11,306**	**400,392**	**2,866,106**

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 2008, the major transfers from construction in progress to fixed assets were represented by:

- Partially reception of the modernization made for 400/220/110/10 kV Bucuresti Sud substation;
- Modernization of the overhead line 400kV Oradea – Nadab – Bekescsaba and of station Nadab;
- Modernization of 400/220/110 kV Gutinas substation;
- Increase of the capacity of overhead lines Gutinas- Bacau Sud – Roman Nord – Suceava up to 400kV;
- Modernization of the main circuits from 220/110kV Isalnita station;

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

As at 31 December 2008, the Company revalued the tangible assets represented by land and tangible assets which were not fully depreciated; the revaluation did not refer to other tangible assets and construction in progress. The valuation was made by SC JPA Audit & Consultanta SRL, valuer authorized by ANEVAR, according to the provisions of International Valuation Standards (IVS), International Valuation Application (IVA) and International Valuation Guidance Note Standards (GN).

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

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4.
Intangible assets

The movements in intangible assets from 1 January 2006 to 31 December 2008 are the following:

	Licences and patents	Other intangible assets	Intangible assets in progress	Total
COST				
Balance as at 1 Jan. 2006	**2,059**	**10,376**	**22,422**	**34,857**
Additions	110	6,865	3,227	10,202
Transfers from intangible assets in progress	275	1,565	(1,840)	-
Disposals	-	(24)	-	(24)
Disposals for no consideration	-	(405)	(1,769)	(2,174)
Balance as at 31 Dec. 2006	**2,444**	**18,377**	**22,040**	**42,861**
Additions	859	3,236	6,118	10,213
Transfers from intangible assets in progress	-	4,112	(4,112)	-
Disposals	(328)	(67)	-	(395)
Balance as at 31 Dec. 2007	**2,975**	**25,658**	**24,046**	**52,679**
Additions	110	793	4,265	5,168
Transfers from intangible assets in progress	372	1,553	(1,925)	-
Disposals	-	(28)	-	(28)
Balance as at 31 Dec. 2008	**3,457**	**27,976**	**26,386**	**57,819**
ACCUMULATED AMORTISATION				
Balance as at 1 Jan. 2006	**1,762**	**4,733**	**-**	**6,495**
Amortisation expense	458	3,295	-	3,753
Accumulated amortisation of disposals	-	(24)	-	(24)
Disposals for no consideration	-	(15)	-	(15)
Balance as at 31 Dec. 2006	**2,220**	**7,989**	**-**	**10,209**
Amortisation expense	324	6,166	-	6,490
Accumulated amortisation of disposals	(247)	(55)	-	(302)
Balance as at 31 Dec. 2007	**2,297**	**14,100**	**-**	**16,397**
Amortisation expense	745	7,545	-	8,290
Accumulated amortisation of disposals	-	(11)	-	(11)
Balance as at 31 Dec. 2008	**3,042**	**21,634**	**-**	**24,676**
CARRYING VALUE				
Balance as at 1 Jan. 2006	**297**	**5,643**	**22,422**	**28,362**
Balance as at 31 Dec.2006	**224**	**10,388**	**22,040**	**32,652**
Balance as at 31 Dec. 2007	**678**	**11,558**	**24,046**	**36,282**
Balance as at 31 Dec. 2008	**415**	**6,342**	**26,386**	**33,143**

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

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

5.
Financial investments

As at 31 December 2008 and 31 December 2007, all available for sale securities are carried at cost because they are not publicly traded and management of the Group is not able to measure reliably their fair value.

6.
Inventories

As at 31 December 2008 and 31 December 2007 inventories are as follows:

	31 Dec. 2008	31 Dec. 2007
Spare parts, consumables and other materials	31,309	31,006
Auxiliary materials	4,915	5,472
Other inventories	6,676	3,267
Total	**42,900**	**39,745**

7.
Trade and other receivables

As at 31 December 2008 and 31 December 2007 trade and other receivables are as follows:

	31 Dec. 2008	31 Dec. 2007
Trade receivables	781,092	666,073
Other receivables	35,383	20,421
VAT receivable	8,201	-
Income tax receivable	24,784	3,930
Allowance for doubtful receivables	(1,139)	(747)
Total	**848,321**	**689,677**

Other receivables in amount of 35,383 include penalties with a value of 12,480 (the highest amounts were invoiced to SC RAAN Turnu Severin in amount of 6,165, to Electrica Furnizare Transilvania Nord in amount of 2,564 and to Interagro in amount of 1,472), accrued interest receivable in amount of 2,206 and dividends paid to Fondul Proprietatea in amount of 2,569, after that, initially, this amount was paid to the Ministry of Economy and Finance too (see Note 22 (iv)).

As at 31 December 2008 and 31 December 2007 trade receivables are as follows:

	31 Dec. 2008	31 Dec. 2007
Clients – energy market	765,484	634,724
Other clients	15,608	31,349
Total	**781,092**	**666,073**

The most important clients from energy market are: SC Electrica SA, SC Hidroelectrica SA, SC Complexul Energetic Turceni SA, SC Enel Energie SA, SC Complexul Energetic Rovinari SA, SC Electrica Muntenia Sud SA, SC Electrica Furnizare Muntenia Nord SA, SC Electrica Furnizare Transilvania Nord SA, SC Electrica Furnizare Transilvania Sud SA and SC RAAN SA. As at 31 December 2008 and 31 December 2007, these clients represent 59% and 51%, respectively from the total clients from the energy market.

8.

Cash and cash equivalents

As at 31 December 2008 and 31 December 2007 cash and cash equivalents are as follows:

	31 Dec. 2008	31 Dec. 2007
Cash and cash equivalents	223,318	197,386
Petty cash	136	148
Other cash equivalents	765	495
Total	**224,219**	**198,029**

For the purpose of the consolidated cash flow statement, cash and cash equivalents as at 31 December 2008 and 31 December 2007 are as follows:

	31 Dec. 2008	31 Dec. 2007
Cash and cash equivalents	224,219	198,029
Short term loans (credit lines) (see Note 11)	(12,058)	(12,002)
Total	**212,161**	**186,027**

9.

Shareholders' equity

Share capital

As at 31 December 2008, 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 2008, the shareholding structure is as follows:

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

As at 31 December 2008, 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.

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

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 37,226 as at 31 December 2008 and 34,692 as at 31 December 2007, respectively, represent legal reserves according to the statutory financial statements and cannot be distributed. Legal reserves include the effect of restatements relating to prior periods, required by the application IAS 29 "Financial Reporting in Hyperinflationary Economies". The reconciliation of legal reserves is as follows:

Legal reserves (statutory amount)	37,034
Restatement difference in accordance with IAS 29	192
Restated legal reserves balance	37,226

Revaluation reserves

The revaluation reserve, in amount of 303,077 resulted from the revaluation of the tangible assets as at 31 December 2007 (see Note 2 (d)). The revaluation reserve is transferred to the retained earnings in line with the disposal of the corresponding tangible assets.

Other reserves

As at 31 December 2008, other reserves are in amount of 53, 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 2007 profit was 26,390. The value of unpaid dividends as at 31 December 2008 and as at 31 December 2007 is 1,267 and 1,277 respectively.

10. Deferred income

Deferred income includes mainly the special fund for development of the energy system received from the Ministry of Economy and Finance, connection fees, the allocation of interconnection capacity and other subsidies. During 2008, the Group received subsidies in amount of 41,098, mainly represented by the connection fees in amount of 23,137 and investments financed through non refundable Phare loans in amount of 16,070. The movement of deferred income for 31 December 2008 and for 31 December 2007 is as follows:

	31 Dec. 2008	31 Dec. 2007
Balance as at the beginning of the period	146,609	162,171
Subsidies received	41,098	20,609
Release of deferred income	(16,368)	(45,490)
Deferred income relating to the interconnection capacity	135,540	73,186
Release of deferred income related to the interconnection capacity	(145,576)	(63,867)
Total	**161,303**	**146,609**

11. Borrowings

Long term loans are detailed as follows:

(a)Loan from EIB No. 1.8194

The loan from EIB No. 1.8194 was granted initially to the Predecessor Entity in 1995. The purpose of the loan was to finance the Project for the Rehabilitation of the Power Sector of Romania. The loan was reimbursed in advance in October 2008.

(b)Loan from IBRD No. 3936

The loan from IBRD No. 3936 was granted to the Romanian Government in 1995 for the Power Sector Rehabilitation and Modernization Project, the Predecessor Company being the executing Agency. The loan was reimbursed in advance in November 2008.

(c)Loan from EBRD No. 365

The loan from EBRD No. 365 was granted to the Predecessor Company for the Power Sector Operational and Cost Efficiency Improvement Project. The loan was reimbursed in advance in August 2008.

(d)Loan from EBRD No. 906

The purpose of the loan was to finance the Rehabilitation of Transmission – Dispatch System. The total amount outstanding is as at 31 December 2008 USD 25,736,000. 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.

Long term loans

As at 31 December 2008 and 31 December 2007 long term loans are as follows:

Description	31 Dec. 2008	31 Dec. 2007
EIB – 1.8194/1995 (a)	-	6,589
IBRD 3936 (b)	-	1,212
EBRD 365 (c)	-	17,535
EBRD 906 (d)	72,941	75,861
EIB 20.864 (e)	203,305	210,485
KfW 9787 (f)	19,007	22,551
West L.B. (g)	22,161	25,095
NIB PIL No 02/18 (h)	47,290	45,300
IBRD 7181 (i)	278,777	192,606
NIB PIL No 03/5 (j)	91,660	82,336
NIB PIL No 02/37 (k)	49,067	46,672
KfW 10431 (l)	78,454	72,710
BCR – World Trade Centre 398 (m)	25,000	30,000
Calyon (n)	16,195	17,546
KfW 11300 (o)	110,159	106,552
JBIC (p)	65,883	51,347
Raiffeisen Austria (q)	19,121	16,565
BERD 33354 (r)	49,162	42,855
Less: Current amount of the long term loans	**(136,911)**	**(116,468)**
Total long term loans, net of current amounts	**1,011,271**	**947,350**

(e)Loan from EIB No. 20.864

The total amount outstanding as at 31 December 2008 under the loan agreement, which was concluded in 2000, is EUR 51,014,978. The loan bears a variable interest rate, being the interest rate applicable at the date of the disbursement notice. Repayment is scheduled over 10 years in 20 instalments from 2006 to 2015. The purpose of the loan is to finance the Rehabilitation of Transmission – Dispatch System.

The loan agreement includes certain financial covenants: (i) a Debt Service Cover Ratio of not less than 1.3; (ii) a ratio of Long Term Debt to Equity of not more than 2.3; (iii) a ratio of Current Assets to Current

Liabilities, of not less than 1.2, and (iv) a ratio of Total Operating Revenues to total Operating Expenses of not less than 1.3.

(f)Loan from KfW No. 9787

The loan from KfW was granted on 18 September, 2001. The total amount outstanding as at 31 December 2008 is EUR 4,769,343. 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.

(g)Loan from West LB

The loan from West LB was granted on 5 February 2002. The total amount outstanding as at 31 December 2008 is EUR 5,560,914. 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.

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

The loan from NIB was granted in 2003. The total amount outstanding as at 31 December 2008 is USD 16,685,334. 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.

(i)Loan from IBRD No 7181

The loan from IBRD was granted in 2003 for the objective "Electricity Market". The total amount outstanding as at 31 December 2008 is EUR 69,953,149. The loan bears a variable interest rate which, being the cost of qualified loans granted by IBRD on the financial market. The repayment is performed biannually, starting 15 July 2008, the last instalment being scheduled on 15 January 2020.

The loan agreement includes certain financial covenants: (i) a Debt Service Cover Ratio of not less than 1.3; (ii) a ratio of Current Assets to Current Liabilities, of not less than 1.2.

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

The loan from NIB was granted at 12 November 2004 for the rehabilitation of 400/220/110 kV Gutinas Station. The amount outstanding as at 31 December 2008 is EUR 23,000,000. 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.

(k)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 2008 is EUR 12,312,328. 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.

(l)Loan from KfW No. 10431

The loan has been granted by KfW on 12 August 2004 for the objective of the rehabilitation of 400/220/110 kV Sibiu Sud Station. The amount outstanding as at 31 December 2008 is EUR 19,686,409. 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 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 2008 is RON 25,000,000. Interest rate is six months BUBOR plus 0.5%, the repayment is performed biannually, in equal instalments starting with 15 April 2007, the last instalment being scheduled on 13 October 2013.

(n)Loan from Calyon

The loan was granted by Calyon on 12 March 2003 for financing of the rehabilitation of Switching Station 400/220 kV Slatina. The amount outstanding as at 31 December 2008 is USD 5,714,286. 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.

(o)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 2008 is EUR 27,641,931. 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.

(p)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 2008 is JPY 2,096,913,000. The interest rate is 3.10%, the repayment being performed biannually, in equal instalments starting with 15 March 2007, the last instalment being scheduled on 15 September 2016.

(q)Loan from Raiffeisen Zentralbank Osterreich AG

The loan was granted by Raiffeisen Austria on 14 March 2006 for the rehabilitation of 11 stations. The amount outstanding as at 31 December 2008 is EUR 4,797,895. 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.

(r)Loan from BERD No. 33354

The loan has two components: A Loan granted by BERD in an amount not to exceed EUR 18,200,000 and B Loan in an amount not to exceed EUR 5,000,000. The loan has been reduced in 14 April 2007 up to EUR 16,326,155 (A loan EUR 12,807,587 + B loan EUR 3,518,568). The amount outstanding as at 31 December 2008 is EUR 9,787,685 for A loan and EUR 2,548,488 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.

Long term loans are repayable as follows:

	31 Dec. 2008	31 Dec. 2007
Between 1 and 2 years	142,291	131,639
Between 2 and 5 years	433,022	396,577
Over 5 years	435,958	419,134
Total	**1,011,271**	**947,350**

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

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

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

As at 31 December 2008, the long term loans guaranteed by the Romanian Government through the Ministry of Economy and Finances 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 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 SC DFEE Oltenia SA and SC DFEE Banat SA;
- 16 promissory notes issued by the Company in the favour of the Romanian Commercial Bank equalling the loan instalments payable, the maturity being in accordance with the repayment schedule agreed with the foreign banks.

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.

As at 31 December 2008, the Group's pre-tax working ratio did not vary significantly compared to the covenant stipulated in the loan agreements. The respective loan agreements are: EBRD 906 and EIB

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

20.864. The value of the pre-tax working ratio according to contractual clauses is minimum 1.3, while the the realized values are 1.18 for EBRD 906 and 1.22 for EIB 20864, according to the computation requests of each loan.

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 232,614 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 2008.

Short term loans

As at 31 December 2008 and 31 December 2007 the short term loans are as follows:

	31 Dec. 2008	31 Dec. 2007
Current portion of the long term loans	136,911	116,468
Short term loans (credit lines)	12,058	12,002
Interest related to long term loans	16,691	13,226
Total short term borrowings	**165,660**	**141,696**

The Group, through Smart subsidiary, has two revolving credit lines contracted with ING Bank N.V. Bucharest Branch of 16,000 and with BRD Groupe Societe Generale of 1,500. During 2008, these credit lines have increased the financing sources used in the operating activities. As at 31 December 2008, the balance of credit line from ING Bank N.V. Bucharest Branch is 10,623 and for BRD Groupe Societe Generale is 1,435. These credit lines have guarantees attached (see Note 22 (vi)).

12.
Employee benefits obligations

As at 31 December 2008 and 31 December 2007 the Group has an obligation regarding the employee benefits, as described in Note , in the amount of 20,258 and respectively in amount of 22,672.

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

- Interest rate as at 31 December 2008 communicated by the National Bank of Romania ("NBR") and interest rates estimated by the Group for future periods;
- Inflation rate as at 31 December 2008 communicated by the National Statistics Institute ("NSI") and inflation rates estimated by the Group for future periods;
- Electricity price as at 31 December 2008 and the price estimated by the Group for future periods;
- Salary as at 31 December 2008 and the salaries estimated by the Group for future periods;
- Number of employees as of 31 December 2008 and the number of employees estimated annually by the Group based on employee turnover and life expectancy information provided by NSI.

13.
Trade and other liabilities

As at 31 December 2008 and 31 December 2007 trade and other liabilities are as follows:

	31 Dec. 2008	31 Dec. 2007
Energy suppliers	588,045	401,589
Suppliers of fixed assets	95,859	63,956
Liabilities towards employees	11,599	11,019
Other liabilities	22,356	14,925
Total	**717,859**	**491,489**

The most important energy suppliers are: SC Hidroelectrica SA, SC Complexul Energetic Turceni SA, SC Electrocentrale Bucuresti SA, SC Termoelectrica SA, SC Electrocentrale Deva SA and SC Electrica SA. As at 31 December 2008 and 31 December 2007, these suppliers represent 72% and 50%, respectively from the total energy suppliers.

Other liabilities in amount of 22,356 include mainly guarantees for works executed by the suppliers in amount of 5,625 and dividends to be paid by the Group in amount of 1,267

14.
Income tax

The Group's current income tax for six month period ended 31 December 2008 and 31 December 2007 is determined at a statutory tax rate of 16%, being in force during financial year 2008.

As at 31 December 2008 and 31 December 2007 the income tax expense consists of current income tax expense is as follows:

	2008	2007
Income tax	12,241	27,652
Total	**12,241**	**27,652**

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

	2008	2007
Profit before income tax	62,608	90,604
Income tax at statutory rate of 16%	10,017	14,497
Effect of non-deductible expenses	29,925	33,302
Effect of non-taxable income	(9,249)	(43,432)
Effect of timing difference not recognized at 16%	(18,452)	23,285
Income tax	**12,241**	**27,652**

As at 31 December 2008 and 31 December 2007 the net potential deferred tax asset/liability on temporary differences is as follows:

	31 Dec. 2008		31 Dec. 2007	
	Cumulative temporary differences	Deferred tax (asset) / liability	Cumulative temporary differences	Deferred tax (asset) / liability
Property, plant and equipment	(44,416)	(7,107)	(50,001)	(8,000)
Subsidies	(13,978)	(2,237)	(15,746)	(2,519)
Retirement benefits	(20,258)	(3,241)	(22,672)	(3,628)
Subtotal	**(78,652)**	**(12,584)**	**(88,419)**	**(14,147)**
Net deferred tax asset not recognized		**12,584**		**14,147**
Total	**(78,652)**	**-**	**(88,419)**	**-**

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

As described in Note 1, the Group's profitability depends on the tariffs agreed with ANRE, which are amended annually. Due to recent and future changes in tariffs combined with the consideration that the Group is on a profit position starting with the year ended 31 December 2004, management decided not to recognize any deferred tax assets at 31 December 2008, except to the extent of deferred tax liabilities recognized.

15. Earnings per share

As at 31 December 2008 and 31 December 2007, the earnings per share were as follows:

	2008	2007
Consolidated net profit	50,367	62,952
Number of ordinary shares at the beginning of the year	73,303,142	73,297,866
Time weighting factor – months	12	12
Number of shares issued during the period	-	5,276
Time weighting factor – months	-	10
Weighted average number of ordinary shares at the end of the period	73,303,142	73,302,263
Basic and diluted earnings per share (lei/share)	**0.69**	**0.86**

16. Other tax and social security liabilities

As at 31 December 2008 and 31 December 2007 the other tax and social security liabilities are as follows:

	31 Dec. 2008	31 Dec. 2007
Contribution to social security fund	6,453	7,124
VAT payable	-	6,380
Tax on salaries	2,330	2,237
Other tax payable	712	1,066
Total	**9,495**	**16,807**

17. Number of employees

The number of employees as at 31 December 2008 and as at 31 December 2007 was 3,590 and 3,810 respectively.

18.
Operating revenues

Revenues have been computed using the average tariffs approved through ANRE Orders No. 64/20 December 2007, No. 35/ 27 February 2008 and No. 63/ 24 June 2008. 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 2008 and 31 December 2007 are as follows:

During the years ended 31 December 2008 and 31 December 2007, the quantity of energy transmitted was as follows:

- MWh 58,857,677 and MWh 55,371,525, respectively for transmission services;
- MWh 58,857,677 and MWh 55,711,680, respectively for ancillary services.

	2008	2007
Electricity transmission	899,630	824,416
Interconnection capacity	146,104	63,883
Revenues from electricity transmission	**1,045,734**	**888,299**
Ancillary services	1,076,905	788,039
Reactive energy	13,439	19,666
Revenues from ancillary services	**1,090,344**	**807,705**
Balancing market	754,424	571,737
Other operating revenues	97,564	116,701
Total operating revenues	**2,988,066**	**2,384,442**

19.
System operating expenses and balancing market expenses

	2008	2007
Technological losses	215,141	232,742
Ancillary services	534,991	462,682
Cogeneration	483,330	268,956
Other operating expenses	61,754	74,640
Operating expenses	**1,295,216**	**1,039,020**
Balancing market expenses	754,424	571,737
Total	**2,049,640**	**1,610,757**

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

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

20.
Financial result

	2008	2007
Interest revenues	30,640	16,266
Interest expenses	(60,189)	(51,115)
Net foreign exchange losses	(126,203)	(49,819)
Other financial gains/(losses)	1,182	(219)
Financial result	**(154,570)**	**(84,887)**

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 2008 and 31 December 2007, the Group had commitments given amounting 661,943 and 353,520 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 only the value of land for which title deeds were obtained as at the date of these financial statements.

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

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

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

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

As at 9 July 2007, Transelectrica issued the first shareholder certificates to those who were expropriated by the Romanian State and then their rights were reinstated under Law 10/2001, and who, as described in Note 11 (iii), chose to subscribe to become shareholders at the companies from portfolio of Ministry of Economy and Finance, during April 2004 – July 2005. As at year end, the shareholders register managed by Depozitarul Central recorded transfers of 2,062,362 shares that fall in this situation. This represents 2.8% of the total number of shares issued by the Company. As at 31 December 2008, these transfers were not registered with 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 190 litigations in process. In 101 of them the Group acts as a plaintiff or a challenging party, while in 89 of them the Group is a defendant. The management analyses the status of the litigation in process regularly and after consultation with its legal representatives considers the appropriateness of providing for or disclosing the amounts involved in the consolidated financial statements.

During 2007, the Company has been subpoenaed by Fondul Proprietatea for:

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

The dividends in amount of 17,128 approved by the General Extraordinary Shareholders Meeting, which took place on 28 April 2006, for the financial year 2005 were paid to the sole shareholder at that date, respective Ministry of Economy and Finance through the Office of State Ownership and Privatization in Industry. Fondul Proprietatea was registered in the Company's Shareholders register on 24 May 2006.

According to the court's decision from 28 January 2008, the Company paid to Fondul Proprietatea an amount of 2,569 representing 15%, which was the share of Fondul Proprietatea in the share capital of the Company on May 2006, of the total net value of dividends distributed for the financial year 2005. As at the date of the financial statements, the litigation is in process at the Constitutional Court. No provision was booked by the Company taking into consideration that the management consideres that the likehood to pay the rest of 85% from 17,128 is remote.

Thus, the amount of 2,569 has been paid twice by the Company, because it was paid initially to the Ministry of Economy and Finance. According to the provisions of GD No. 1484/6 Dec 2007, referring to the methodology of setting off the amounts representing the appropriate proportion of dividends for years 2005 and 2006 which were paid to the State's budget or to public institution involved in the privatization process and which should have been paid to Fondul Proprietatea, the Company sent the compensation request to ANAF (National Agency for Fiscal Administration).

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. Based on the information available, the management considers that there is no other significant litigation in process which should be provided. In addition, there are no other litigation cases which either by nature or by amount involved could result in significant contingent assets or liabilities for the Group's activity.

(v)Revaluation reserves

According to the provisions of the Fiscal Code, statutory revaluation reserves will be taxable in the future, in circumstances when the destination of such reserves is changed in any way, in case of liquidation, merger and including using the reserves for covering the Company's losses. Statutory revaluation reserves as at 31 December 2008 are in amount of 1,242,364.

(vi)Guarantees

The credit lines mentioned above in Note 11 are contracted by Smart SA, Company's subsidiary. As at 31 December 2008, the guarantee of Smart SA for the credit line from BRD Groupe Societe Generale is represented by a first ranking mortgage over a building and land located in Sibiu, 3 Corneliu Coposu Street, Sibiu county, while for credit line from ING Bank N.V. Bucharest Branch the guarantees 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 24,546 as of 31 December 2008.

(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

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

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 structure

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

Entity	Country of Origin	31 Dec. 2008 % of total shares	31 Dec. 2007 % of total shares
SMART SA	Romania	100	100
TELETRANS SA	Romania	100	100
ICEMENERG SA	Romania	100	100
OPCOM SA	Romania	100	100
FORMENERG SA	Romania	100	100
ICEMENERG SERVICE SA	Romania	100	100

SC SMART SA

SC SMART SA, with registered offices in 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 2008 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 2008 was in amount of 3,955 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 2008 subscribed and fully paid by the Company was in amount of 1,085.

SC OPCOM SA

SC OPCOM SA, with registered offices in no. 16 - 18 Hristo-Botev Boulevard, sector 3, Bucharest and with a share capital subscribed and fully paid as of 31 December 2008 in amount of 3,547 has as main activity the energy market administration.

SC FORMENERG SA

SC FORMENERG SA, with registered offices in no. 3 Gh. Sincai Boulevard, sector 4, Bucharest has as main activity the personnel professional training in all energy areas. It was set up as per Shareholders Meeting no. 33/2001. The share capital subscribed and fully paid as of 31 December 2008 was in amount of 1,500.

SC ICEMENERG SERVICE SA

SC ICEMENERG SERVICE SA, with registered offices in no. 8 Energeticienilor Boulevard, sector 3, Bucharest, has as main activity the production of equipments for the distribution and control of energy. It was set up as per Government Decision no. 2294/ 9 December 2004 published in Official Gazette no. 32/ 11 January 2005. The share capital subscribed and fully paid as of 31 December 2008 was in amount of 493.

24.
Transactions with other state owned companies

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

The transactions with other state owned companies for the years ended 31 December 2008 and 31 December 2007 are detailed below:

	2008	2007
Sales	2,059,786	1,705,993
Purchases	1,917,075	2,016,109

The balances with other state owned companies as at 31 December 2008 and 31 December 2007 are detailed below:

	31 Dec. 2008	31 Dec. 2007
Trade receivables	535,819	492,882
Trade payables	484,802	333,666

25.
Management salaries

During the years ended 31 December 2008 and 31 December 2007, the management's salaries were in an amount of 4,335 and 5,462 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.

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.

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

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 RON. 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 2008, the inflation rate was 6.3 %. Inflation rate and the volatility of exchange rates may impact upon the Group's liquidity.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	RON	EUR	USD	JPY
31 Dec. 2008				
Monetary assets				
Advances to suppliers of fixed assets	28,795,081	6,638,339	-	-
Monetary liabilities				
Suppliers of fixed assets	(83,786,500)	(3,029,326)	-	-
Borrowings	(37,057,994)	(231,073,120)	(48,135,619)	(2,096,913,000)
Gross balance sheet exposure	**(92,049,414)**	**(227,464,107)**	**(48,135,619)**	**(2,096,913,000)**
31 Dec. 2007 - Monetary assets				
Advances to suppliers of fixed assets	16,951,617	1,520,276	-	-
Monetary liabilities				
Suppliers of fixed assets	(36,966,440)	(7,475,918)	-	-
Borrowings	(30,000,000)	(233,380,863)	(56,961,314)	(2,359,029,000)
Gross balance sheet exposure	**(50,014,823)**	**(239,336,505)**	**(56,961,314)**	**(2,359,029,000)**

The following significant exchange rates were used:

	Average rate		Reporting date spot rate	
	2008	2007	31 Dec. 2008	31 Dec. 2007
RON/ EURO	3.6815	3.3372	3.9852	3.6102
RON/ USD	2.5180	2.4384	2.8342	2.4564
RON/ 100 JPY	2.4529	2.0693	3.1419	2.1766

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Sensitivity analysis

A 10 percent strengthening of the RON against the following currencies at 31 December 2008 and 31 December 2007 would have increased profit by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit (thousand lei) 2008	Profit (thousand lei) 2007
EUR	90,649	86,405
USD	13,643	13,992
JPY	6,588	5,135
Total	**110,880**	**(105,532)**

A 10 percent weakening of the RON against the following currencies at 31 December 2008 and 31 December 2007 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) 2008	Loss (thousand lei) 2007
EUR	(90,649)	(86,405)
USD	(13,643)	(13,992)
JPY	(6,588)	(5,135)
Total	**(110,880)**	**(105,532)**

Counterparty risk

The treatment of counterparty risk is based on internal and external success factors. The external success factors which contribute to the decrease of the risk in a systematic way are reorganisation of the energy market, privatisation of some of SC Electrica SA subsidiaries, 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. 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 Dec. 2008	Carrying amount (thousand lei) 31 Dec.2007
Financial assets		
Trade receivables	779,953	665,326

The ageing of trade receivables at the reporting date was:

	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Between 0 – 30 days	716,684	-	540,664	-
Between 30 – 90 days	58,946	-	107,998	-
Between 90 – 180 days	2,672	-	7,403	-
Between 180 – 365 days	1,095	-	8,651	-
More than one year	1,695	1,139	1,358	747
Total	**781,092**	**1,139**	**666,073**	**747**

Liquidity risk

	31 Dec. 2008 (thousand lei)	31 Dec. 2007 (thousand lei)
Assets		
Monetary assets in RON	1,101,335	904,658
Monetary assets in foreign currency	26,455	5,488
	1,127,790	**910,147**

	31 Dec. 2008 (thousand lei)	31 Dec. 2007 (thousand lei)
Liabilities		
Monetary liabilities in RON	(756,166)	(683,145)
Monetary liabilities in foreign currency	(1,135,254)	(1,060,808)
	(1,891,420)	**(1,743,952)**
Net monetary position in RON	**345,169**	**221,514**
Net monetary position in foreign currency	**(1,108,799)**	**(1,055,319)**

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 – 2years	2 – 5 years	> 5 years
31 Dec. 2008						
Financial liabilities						
Trade payables	(683,903)	(683,903)	(683,903)	-	-	-
Borrowings	(1,176,931)	(1,176,931)	(165,660)	(142,291)	(433,022)	(435,958)
Total	**(1,860,834)**	**(1,860,834)**	**(849,563)**	**(142,291)**	**(433,022)**	**(435,958)**
31 Dec. 2007						
Financial liabilities						
Trade payables	(465,545)	(465,545)	(465,545)	-	-	-
Borrowings	(1,089,046)	(1,089,046)	(141,696)	(131,639)	(396,577)	(419,134)
Total	**(1,554,591)**	**(1,554,591)**	**(607,241)**	**(131,639)**	**(396,577)**	**(419,134)**

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 2008, cash and cash equivalents, trade and other short term receivables, trade payables and other short term liabilities are close to their fair value due to their short due date, Management believes that the estimated fair values of these instruments approximate to their carrying amounts. All the long term loans bear a variable interest rate, except for the loan from JBIC, and consequently, the accounting value of the long term loans is an approximation of its fair value.

Personnel risk and the salary scheme

As at 31 December 2008, the average age of the Group's personnel is quite high. It is likely that in the nearest future, the Group will face a lack of personnel due to natural causes.

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

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

Price risk related to the regulatory framework of NES

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

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

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