



**ROMANIAN power market operator**



**“earning every Day-Ahead your trust”**

# Annual Report 2005

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## The CEO message



*The Romanian specific way from the vertical integrated monopoly to a liberalized, competitive electricity market is characterized by the day-ahead trading since the beginning of the market opening process (2000's fall). The regulatory authority was established since 1998, ANRE being responsible with the implementation of the secondary legislation, supported the liberalization process in the electricity field.*

*The first step of unbundling created the operators for transmission and system, market, respectively distribution, and also the first players as hydro, nuclear and thermal based generation companies. As second stage of the process it could be noted the splitting of thermal generation and distribution companies in more participants, which reduced year by year the market concentration degree. The rise of private suppliers acting as intermediaries between the wholesale and retail segments of the market improved the framework.*

*It was also an excess of generation capacity due to the decline of electricity demand in Romania during the latest decade of 20<sup>th</sup> century that encouraged the competition.*

*The day-ahead market represented our keen for almost five years. It was a particular mechanism allowing a soft landing thus providing trade opportunities for all participants but the possibilities to express their willingness only for generators. Sometime criticized during these five years, this mechanism was also regretted by the same actors when the decision to be replaced by a new concept, identical with the one operated by European power exchanges came true.*

*The year 2005 it was a hot summer for all Romanian players, but also for referees: once decision taken by the Ministry and Regulatory Authority, the great responsibility moved to the main actors: participants, TSO and PX. A market trial period provided the necessary experience before the real trading based on the new rules.*

*I express now my full gratitude for the contribution that the European Commission Delegation, the Implementing Authority: the Ministry of Economy and Commerce - Division for Programs developed with International Organizations, the Contracting Authority: the Ministry of Public Finance - The Central Finance and Contracts Unit, Red Electrica de España as consultant and AREVA T&D as supplier, CN Transelectrica SA, the Owner Company and ANRE, the Regulatory Authority had to secure the successful launch of the new trading platform. We are pleased to also underline the full support in developing, together with CN Transelectrica SA, the works under the "Electricity Market Project", received from the World Bank and our partners Kema Consulting BV and Nord Pool Consulting.*

*This support of PHARE project proved to be heavily helpful when noticed that the bilaterally contracting current process is not providing the most transparent trading framework and speeded the moment of the usage of IT platform for financial market delivered by Swedish company OMX under the Atos Origin assistance. Under the umbrella of the Ministry of*

*Economy and Commerce and the Regulatory Authority, a working group involving reputed market participants performed in short time the legal framework finalization.*

*There were finally the results of the intensive work that the OPCOM staff deployed during the last year and also previously ones to secure a viable market framework. This market framework enriched in November with a new product supported by an inside developed trading platform: the green certificate market.*

*But, the market cannot exist without sellers and buyers! Therefore, dear market participants, the last thought is going to you, in order to express our consideration for your efforts to remove all concerns, all barriers, coming day ahead to play a continuous serious game to keep the light on for tomorrow.*

*And, do not forget that we are hardly working to "earn every Day-Ahead your trust".*

## The 2005 OPCOM history

At the end of 2004, the Romanian electricity market regulatory authority, operators and participants leaved a well known, operational but perfectible frame of the old commercial code, in order to welcome a new one, envisaged to transform the Romanian wholesale power market in a more adapted market to the European dream of internal electricity market.

The years 2003 and 2004 have represented, based on increased experience, the stage of the operators and players strengthening and, in parallel, based on the donors' support and consultancy contribution, the stage of new rules preparation.

The new commercial code approval was happened in late 2004, in parallel with IT platform preparation and market participants training.

### New market preparation

Since the first days of January 2005, a market trial period started, proving day after day a reliable DAM trading platform in place and a deep understanding of rules from the participants.

### The launch of a new framework. The connection with European standards. A first benchmarking

The Day Ahead Market is operated by OPCOM, the Romanian market operator, based on some new rules including the two side auction since 2005, June 30. This day ahead market is acting similarly with every west European, also Polish and Czech electricity spot markets. More than that, its liquidity is placing OPCOM on a medium level place in Europe: the average of 389 MW hourly traded during first six months ensured at the end of the year 2005 a remarkable position. An average quota of almost 7% from overall demand that these 389 MW are representing is satisfactory for the first year. If we consider the general picture of the first six months (July-December), the results looks very promising:

<b>Registered participants:</b>	<b>65</b>
<b>Average number of daily active participants:</b>	<b>30</b>
<b>Maximum number of active participants:</b>	<b>38</b>
<b>Average price</b>	<b>[lei/MWh]: 125.5</b>
	<b>[EURO/MWh]: 34.94</b>
<b>Total traded volume [MWh]:</b>	<b>1,717,891.411</b>
<b>Average traded volume:</b>	<b>388.927 MWh/h</b>
<b>DAM trading quota:</b>	<b>6.72%</b>

### The institution consolidation. New products

To be noted that during the last months of the 2005 year, OPCOM launched two new products responding to the recently signed Treaty of South East Europe Energy Community requirements: the Centralized Market for Green Certificates and the Centralized Market for Bilateral Contracts trading.

Regarding this last mentioned product, launched in the national framework under the umbrella of the Romanian Ministry for Economy and Commerce and the Regulatory Authority, the OPCOM's strategy is to be extended to a dimension of a regional market, relying on three main pillars: transparent and experienced marketplace as itself, a clearing house for bilateral contracts and derivative products to be further developed, correlated in the future with coordinated explicit auction mechanism for interconnection capacity trading (after the dry run period organized by SETSO TF).

Thus, OPCOM is welcoming the World Bank strategy to phase the regional market development providing a first step focusing mainly on bilateral trading.

**A transparent market. OPCOM decided to follow the Nordic example. New European positions supporting OPCOM intentions**

Invited by NARUC and CEER to present its vision upon market monitoring aspects within the framework of Market Monitoring Workshop in October 2005 in Athens, OPCOM representatives have advocated the opening for transparency based on Nordic example - often recommended as example - but rarely followed in real life. The OPCOM website was consequently designed to provide sufficient data concerning the trading process to ensure the trust of participants and enough information to help them in understanding and undertaking the market opportunities. The last issued documents as position papers or working papers by the European organizations as ETSO, Eurelectric, ERGEG and European Commission confirmed the correctness of OPCOM position in this respect.

**Regional presence. A treaty to support the trading regional dimension**

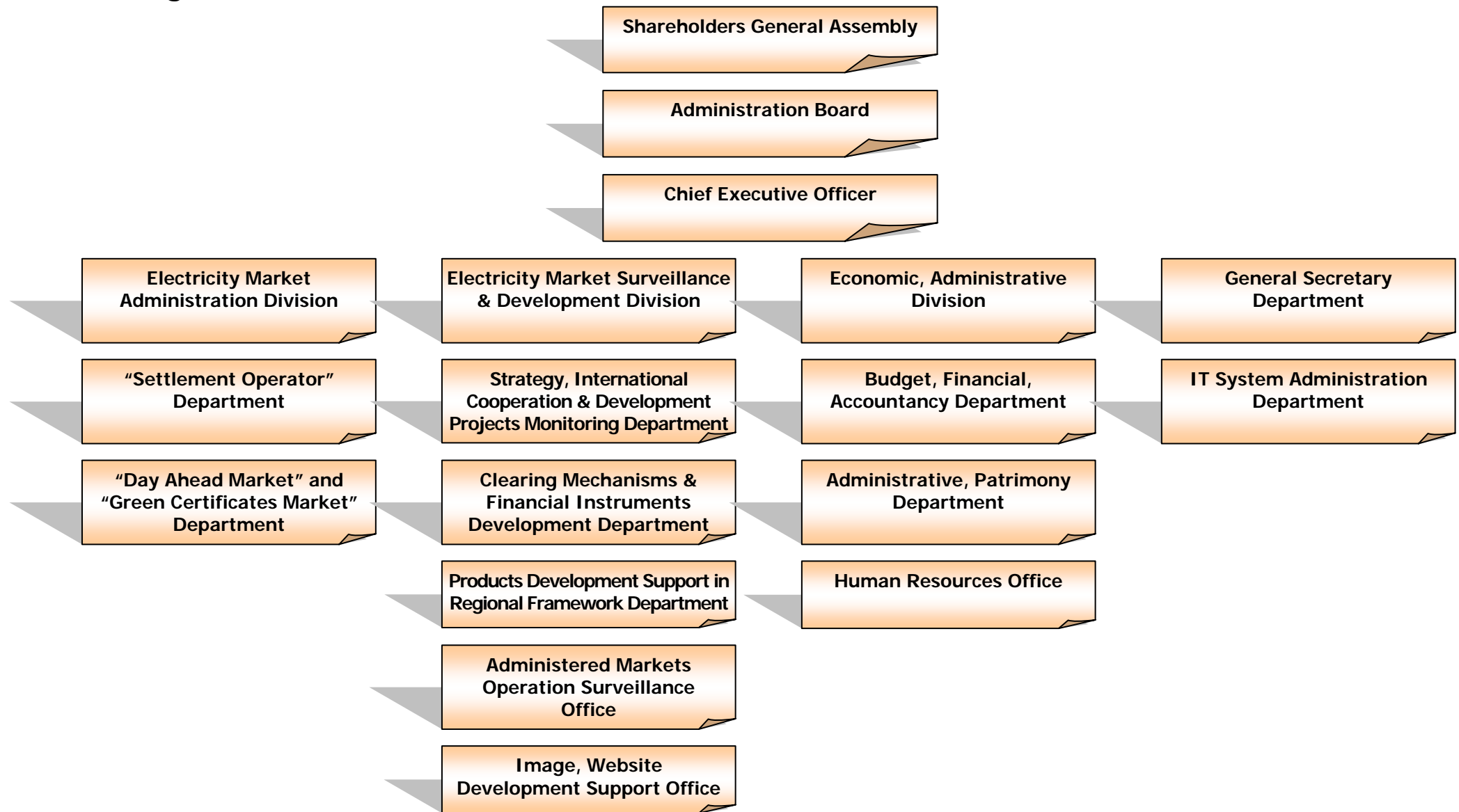
But, also OPCOM is not forgetting its main role as power exchange to provide a unique reference price for a relevant part of the Balkans' region.

During the first Mini Forum in Athens in October, OPCOM's representatives presented their strategy that recently the fourth version of South East Europe Electricity Market option paper is considering "a call for a pragmatic step-by-step approach". Finally, OPCOM is intending to provide regional service of day ahead trading, starting with the neighboring countries' approach, including in this market new countries' zones only based on experience and proved good performance, opening the marketplace ownership to the other TSOs in the region and building a credible operational structure supported by a well proved reliable regional trading platform.

The process of regional day ahead trading launch and consolidation is intended to follow the liberalization process based on ECSEE Treaty provisions as non-households' freedom since January 2008 and recommended TSO's unbundling until January 2007.



# OPCOM Organization



## Brief report about Romanian Electricity Market structure in 2005

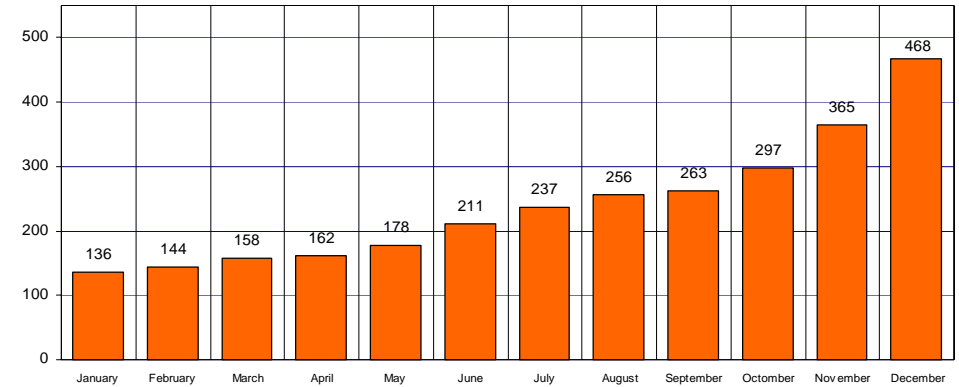
According to secondary legislation provisions, Electricity Market is competitive at producers and suppliers level, while transmission and distribution services, being considerate natural monopoly, are totally regulated, respecting the guarantee of public service, mandatory of connecting, transmission and distribution of electricity for all licensed parties.

Within the framework of Romanian Electricity Market energy trading between market participants according secondary legislation, performed on two market segments:

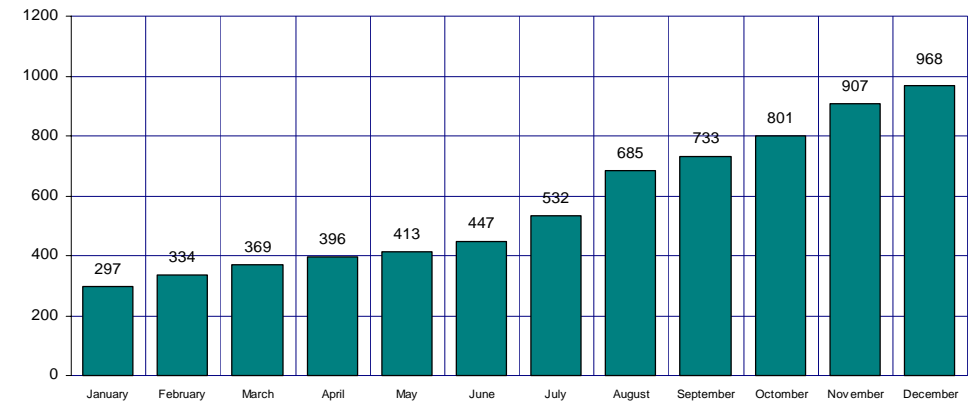
- regulated market;
- competitive market

Market participants are licensed by A.N.R.E. as:

- producers/self-producers;
- suppliers;
- transmission and system operators;
- distribution operators



*The evolution of economic entities registered as participants on electricity market in 2005 (including eligible consumers).*



*The monthly evolution of contracts number administered by OPCOM.*



### **The role of S.C. OPCOM S.A. in the Electricity Market (2005/01/01 – 2005/06/30)**

S.C.OPCOM S.A., the market operator, acted based on 627/2000 GD and on 407/2001 License, issued by ANRE, according secondary legislation in operation and it had in the first half-year of 2005 the following main activities:

- coordination of consumption forecast activities;
- establishment of merit order list for dispatchable units, scheduling of dispatchable units correlated with ancillary services;
- establishment of system marginal price for each hourly interval,;
- administration of commercial contracts concluded by electricity market participants,
- establishment of traded quantities of energy and services, of rights to receive and obligations to pay of market participants for each settlement interval,
- market surveillance,
- testing of Day Ahead Market platform,
- Green Certificates Market organization,
- participation at the labeling process for the electricity supplied to consumers;
- elaboration of „Winter schedule for NES 2005-2006“, under MEC coordination

### **Scheduling of dispatchable units activity (2005/01/01 – 2005/06/30)**

The scheduling of dispatchable units, with the two components being in strong interrelationship – scheduling of dispatchable units and scheduling of ancillary services supply, had as purpose the covering of energy demand respecting the technical, commercial and competitive criterions as much as operating of the system in safety, reliability and quality conditions.

During the scheduling process, there were established:

- ✓ system marginal price,

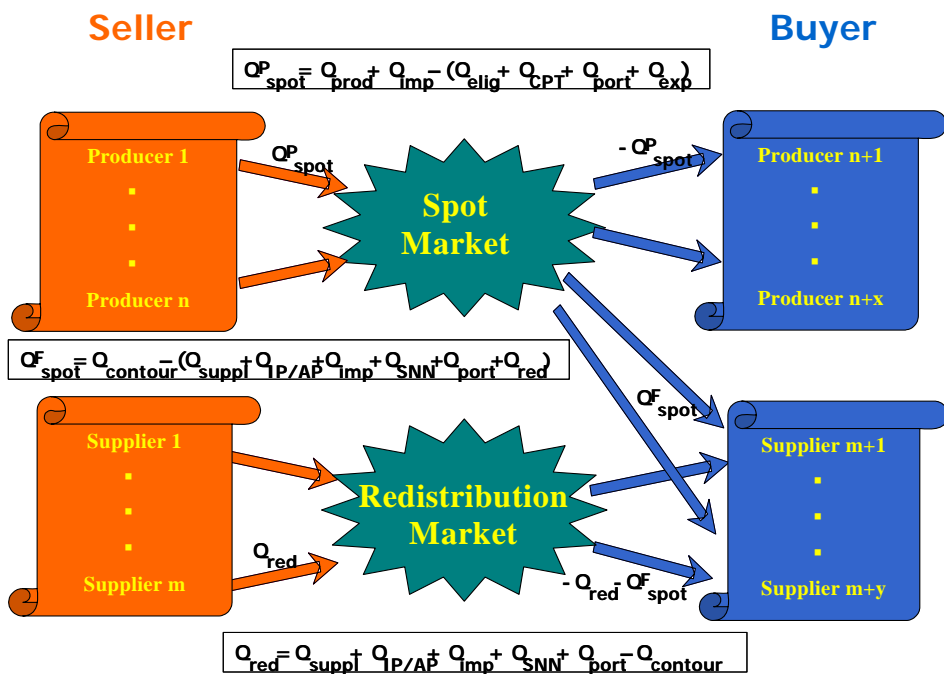
- ✓ merit order list for dispatchable units, with and without system restrictions,
- ✓ operating schedule for dispatchable units and for ancillary services supply.

### **Administration of commercial trades (2005/01/01 – 2005/06/30)**

This activity materialized mainly as following:

- ✓ examination from point of view of conformity with the secondary legislation, validation and registration of commercial contracts concluded between electricity market participants
- ✓ establishment of energy quantities and services traded based on commercial contracts
- ✓ determination of rights to receive and obligations to pay for each participant and for each registered contract on regulated market;
- ✓ establishment for spot market and for redistribution market, on hourly basis, of trading participants and of traded quantities, of rights and payment obligations.





The principle of pro-rata allocation for traded quantities on spot market and on redistribution market

### Activity within the framework of electricity market during the second semester of 2005 (2005/07/01 – 2005/12/31).

In the second semester of 2005, according to operating rules established by secondary legislation, the company taken over the following responsibilities:

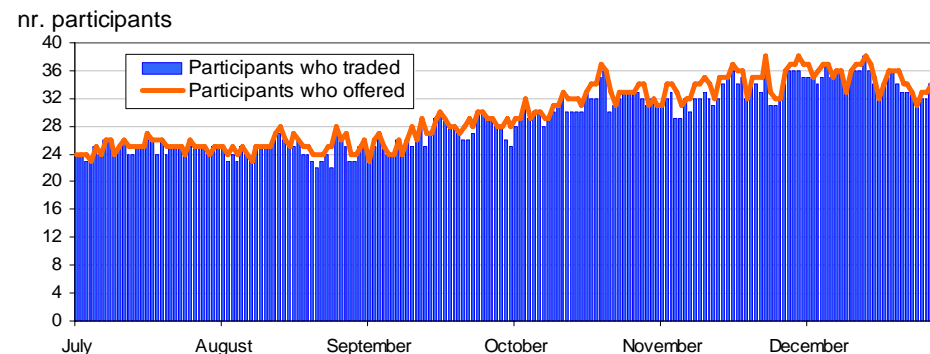
- Organization and administration of Day Ahead Market;
- Organization and administration of Centralized Market for Green Certificates ;
- Administration of commercial contracts concluded by participants on wholesale electricity market;
- Settlement Operator for:
  - Day Ahead Market

- Centralized Market for Green Certificates;
- Balancing Market;
- Imbalances for BRP;
- Imbalances of notifications.

### Organization and administration of Day Ahead Market (2005/07/01 – 2005/12/31)

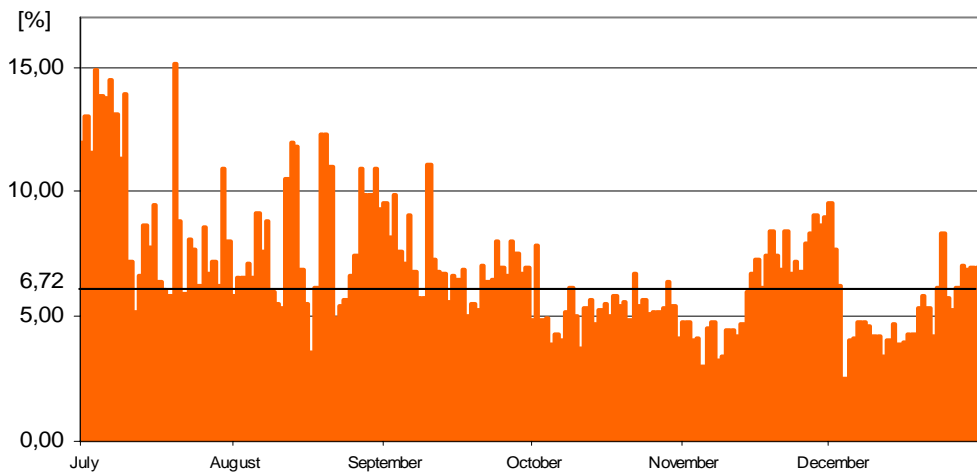
Evolution of participants number registered the following dynamic during the 07/01-12/31/2005 :

- 35 – 65 licensed parties registered on DAM;
- 23 – 38 participants submitted sell/buy offers;
- 25 – 35 participants traded (monthly average number)

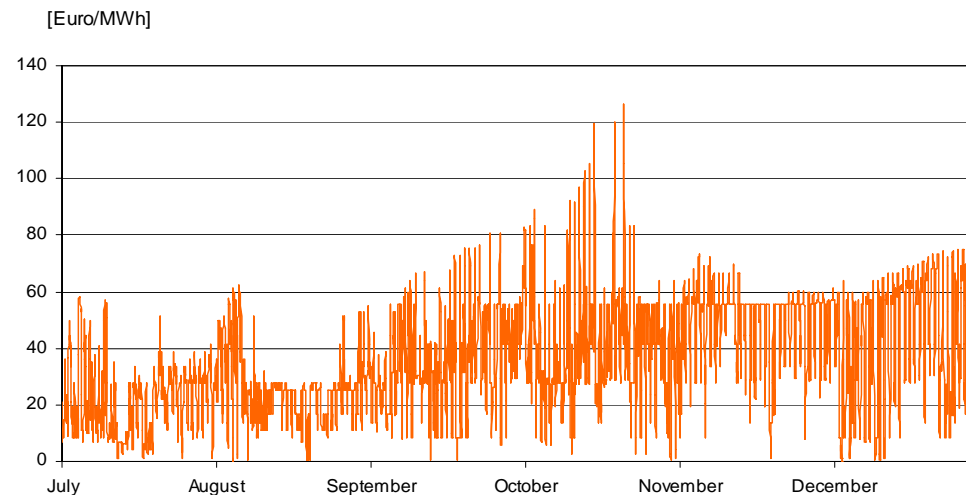


The evolution of daily number of participants which submitted offers/traded on DAM

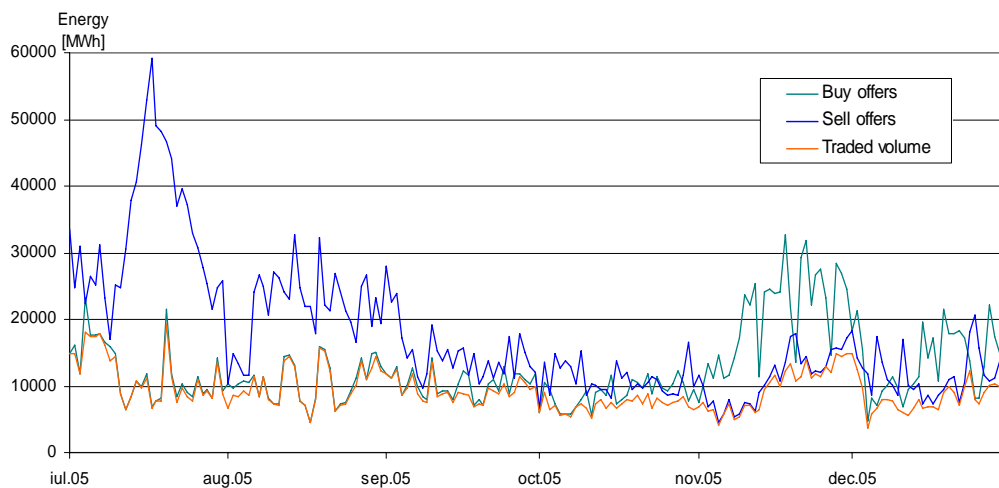
The traded quantity related to consumption forecast was as average 7.62%, with daily evolution between the interval 2.5-15.1%.



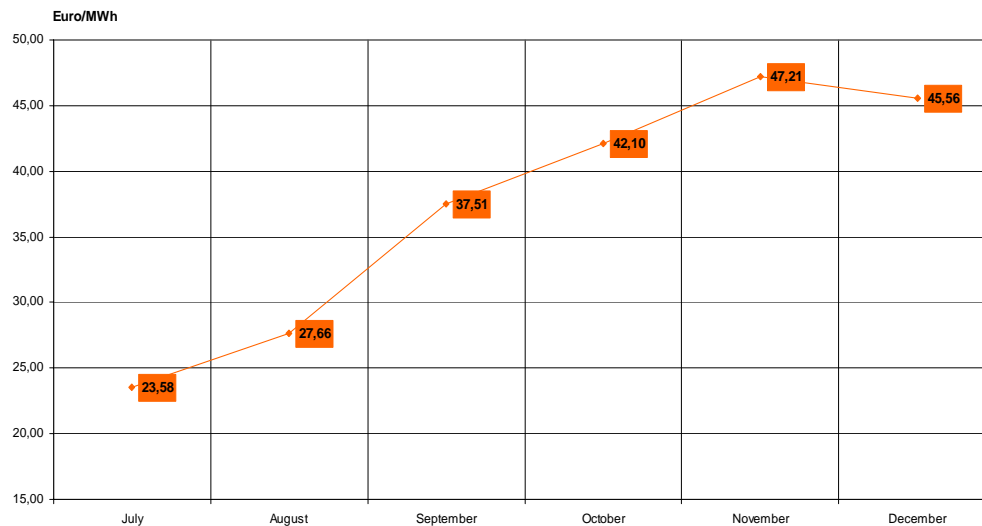
*The traded quantities on DAM reported to net consumption forecast elaborated by TSO*



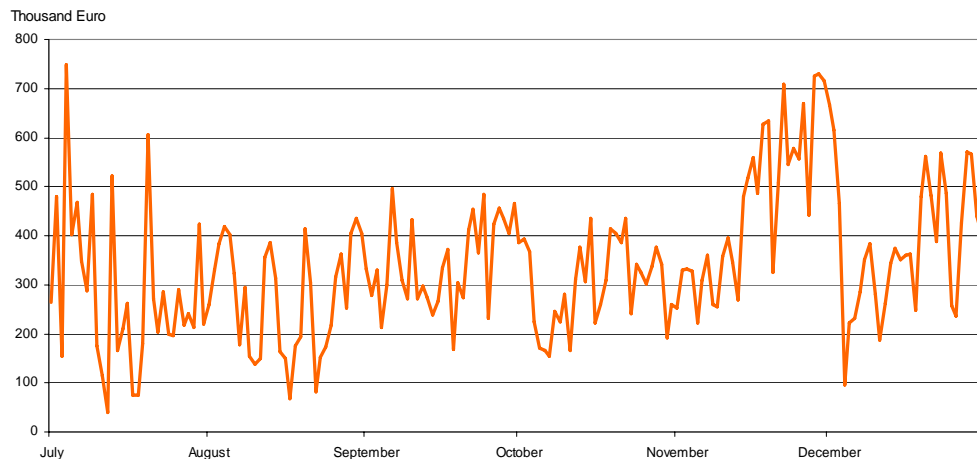
*The evolution of MCP (Market Clearing Price) of DAM*



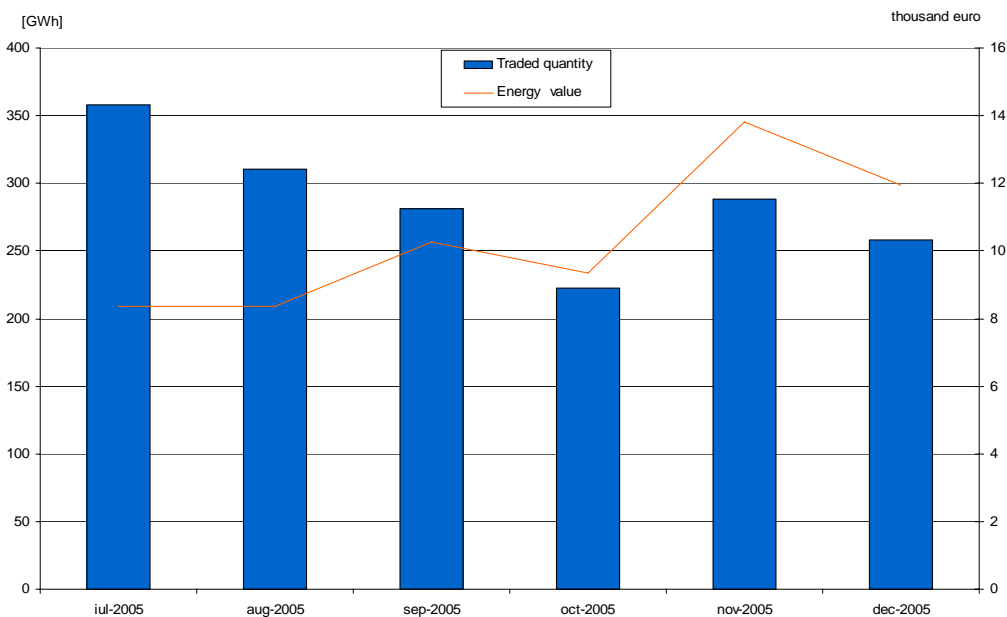
*The daily evolution of sell offers/buy offers quantities and traded volumes*



*The evolution of weight average market clearing price on DAM*



*The evolution of daily value of transactions*



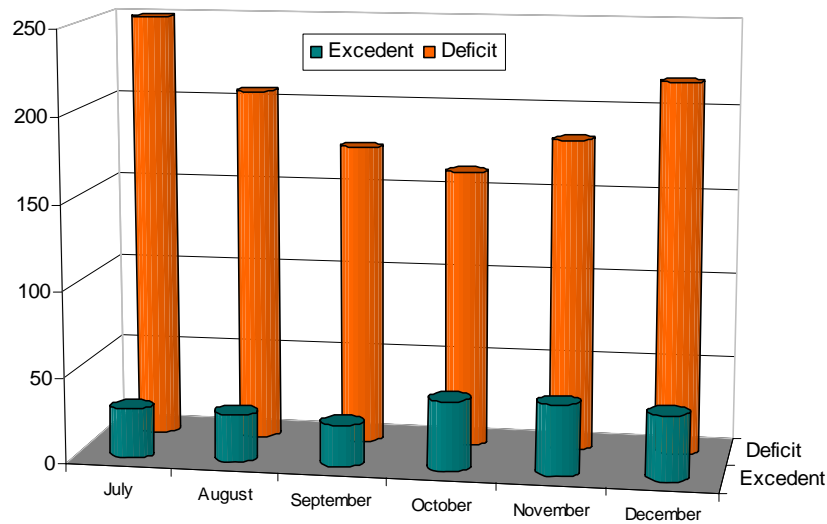
*The evolution of monthly traded quantities and their values*

### The Settlement Activity (01.07.2005 – 31.12.2005)

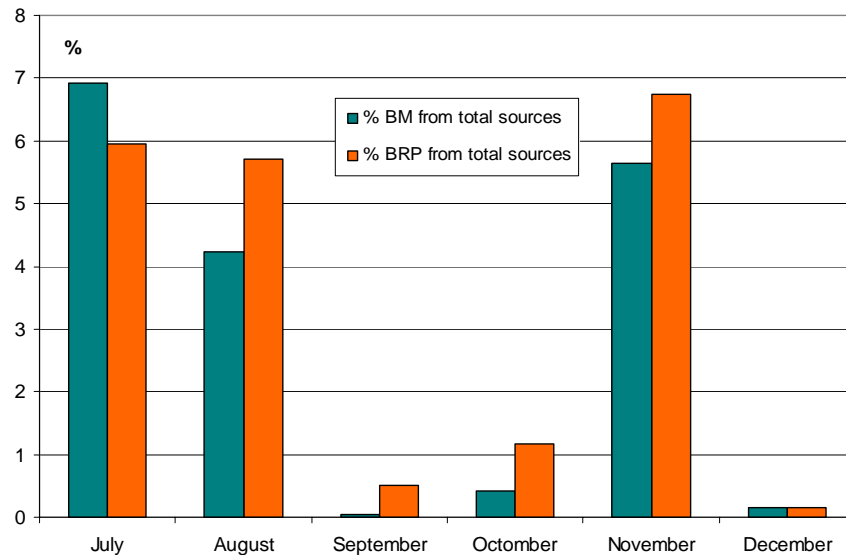
For the administered Markets, the settlement activity has mainly concluded in:

- For the Bilateral Contracts Market:
  - Establishing the energy quantities and the services traded through active contracts;
  - Determination of the receiving rights and payment obligations of each market participants for every contract being in progress, on regulated market;
  
- For the Day Ahead Market:
  - Establishing of the transactions partners on DAM,
  - Establishing of the energy traded quantities, the receiving rights/payment obligations at hourly, daily and weekly level;
  
- For the Balancing Market and Information's Imbalances:
  - Determination of the participants receiving rights / payment obligations hourly, daily and monthly;
  - Determination of the energy deficit/surplus prices;
  
- For the Imbalances of the Balance Responsible Parties:
  - Determination of the BRP's receiving rights / payment obligations hourly, daily and monthly.

RON/MWh



The monthly evolutions of the average deficit / surplus energy prices.



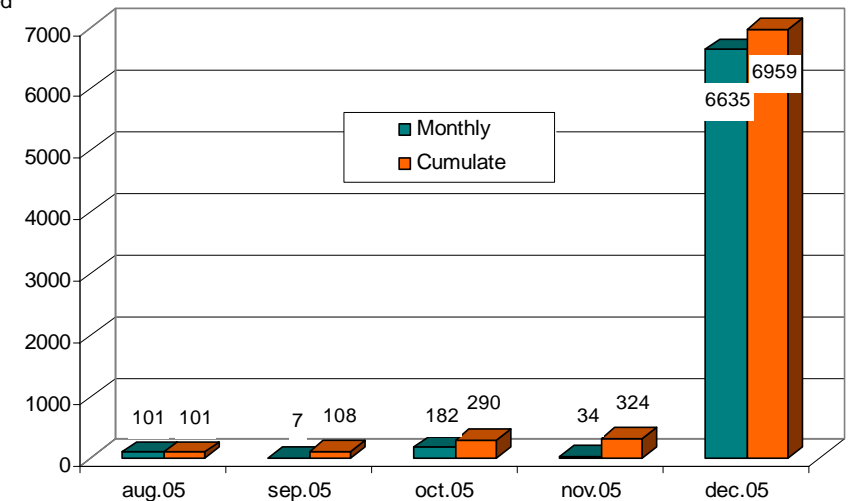
The per cent quota of monthly traded concluded on Balancing Market / BRP imbalances from total trades.

### Centralized Market for Green Certificates Administration

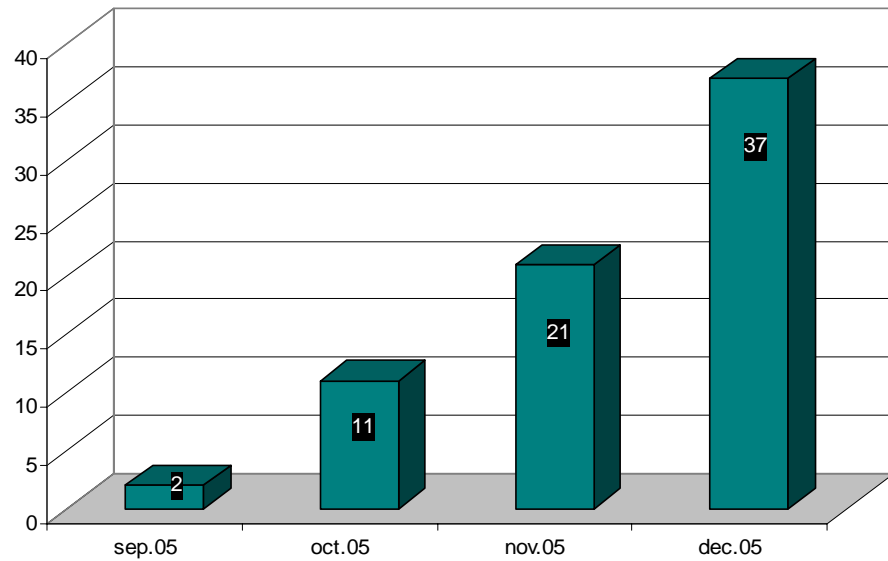
As Green Certificates Market organizer and administrator, OPCOM has the following responsibilities:

- realizes and update the Green Certificates Register,
- assures the trading framework for Centralized Market for Green Certificates
- determines the Market Clearing Prices for Centralized Market for Green Certificates

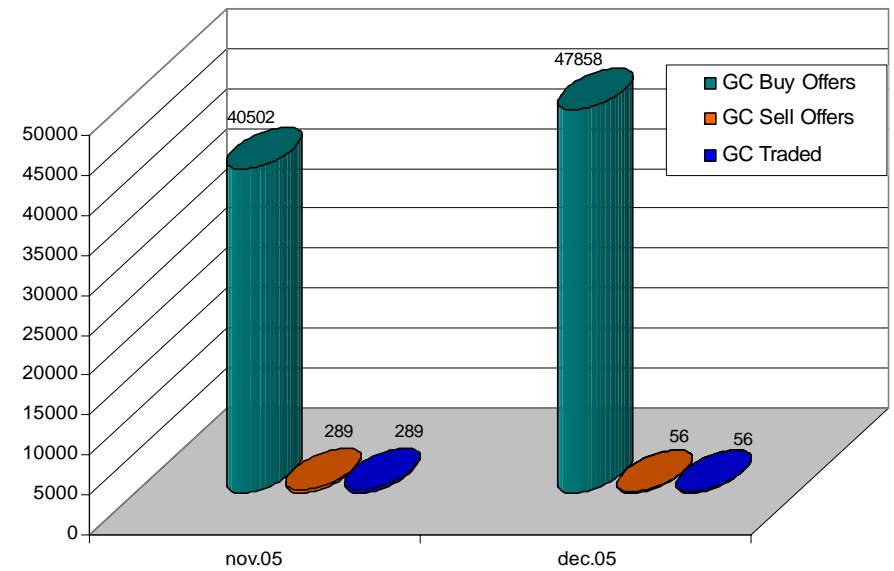
CV Issued



The evolution of the number of Green Certificates issued by TSO until December 2005



*The evolution of the number of participants registered for the Green Certificates Market until December 2005*



*The number of Green Certificates from the selling offers and the buying offers as well as the number of Green Certificates traded in November and December 2005.*

## Centralized Market for electricity Bilateral Contracts (CMBC)

In order to enable a transparent framework for the auctioning process leading to conclusion of selling-buying contracts for electricity, for delivery periods of minimum 1 month, under the coordination of the Ministry of Trade and Commerce and the supervision of the Romanian Energy Regulatory Authority a Working Group was formed with the participation of S.C. Complexul Energetic Craiova S.A., S.C. Complexul Energetic Rovinari S.A., S.C. Complexul Energetic Turceni S.A., S.C. Hidroelectrica S.A., S.N. Nuclearelectrica S.A. as participants and S.C. OPCOM S.A. the Romanian Power Market Operator as market administrator. Within this Working Group the Rules, the Operational Procedure for the Functioning of the Centralized Bilateral Market and the Convention for Participation were elaborated.

### Legal framework

Based on Order no. 42/09.11.2005 issued by ANRE, the Rules regarding the framework for centralized bilateral contracts trading were approved. The „Operational Procedure for the Functioning of the Centralized Bilateral Market” was approved by ANRE based on the Decision no. 45/25.11.2006, together with the „Convention for Participation to the Centralized Bilateral Market”, document approved through ANRE’s Decision no. 44/25.11.2005.

### Organizational framework

By introducing this auctioning system, SC OPCOM SA, in his quality as market administrator ensures a transparent and non-discriminatory framework, based on free-offering but also on proving the participants’ goodwill and credit-worthiness through the guarantee mechanism, the final point of this system being the offers’ attribution. The trade results are materialized into contracts conclusion, complying entirely with the provisions of the framework contract published together with the selling offers and subject to auctioning process.

### Product launching

Prior the first auction, SC OPCOM SA dedicated a special attention to the training of the market participants as well as for promoting the rules governing this trading activity. Thereby, a number of several training sessions were organized. 92 participants, representing 70 companies from the electricity sector, attended to these sessions. The session comprised:

- Elements with regard to the legal framework related to CMBC;
- The IT system used for the auctions.

By the end of year, a total number of 47 companies from the electricity sector: generators, suppliers and eligible consumers, were registered as market participants to the Centralized Bilateral Market for electricity contracts.

### First results

Following-up the provisions from the documents approved by ANRE, SC OPCOM SA has organized on 8<sup>th</sup> of December 2005 the first auctions for the selling offers submitted by SC Hidroelectrica SA. After that, several other auctions were organized based on the selling offers submitted by three main generators: SC Complexul Energetic Craiova SA, SC Complexul Energetic Turceni SA and SC Complexul Energetic Rovinari SA.

In this first month from the Bilateral Centralized Market launching, 33 such auctions were organized, the trades concluded summing up to a total quantity of 554.392 GWh from a total of 3,199.208 GWh offered quantity.

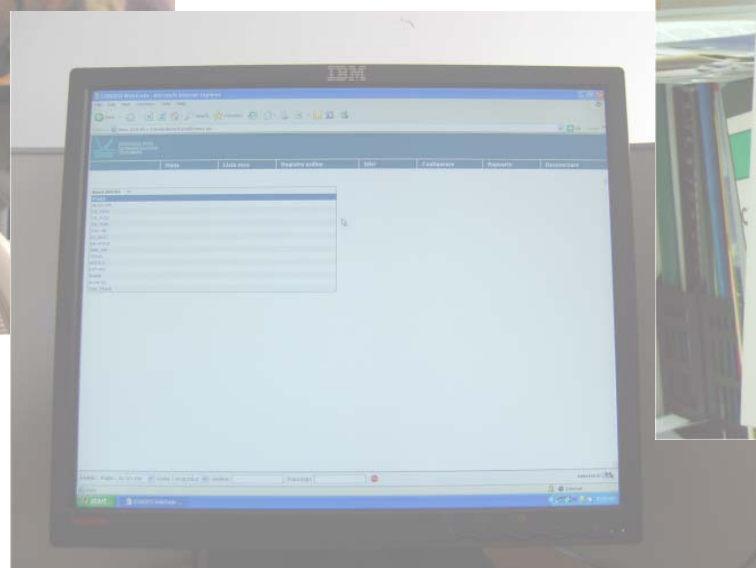
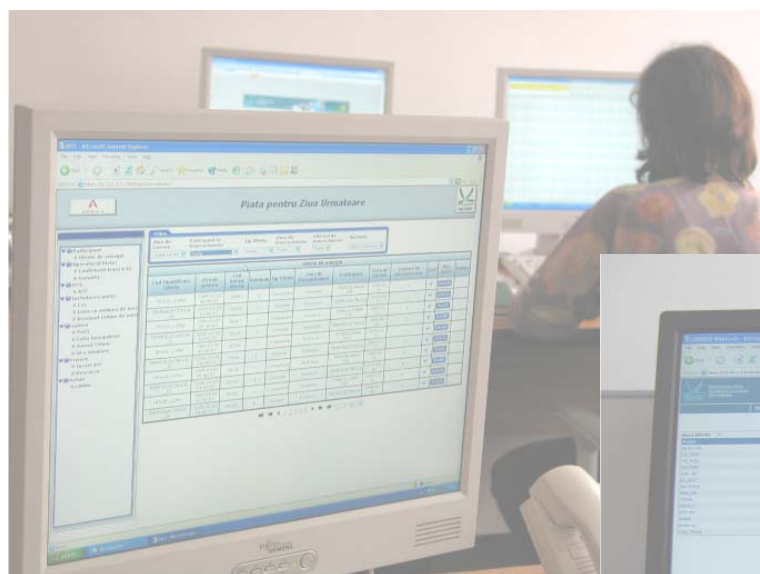
For the traded quantity, 9 bilateral contracts were concluded till the end of the year 2005, fully complying with the provisions from the framework contracts published together with the selling offers.

### CMBC – December Trading results

Offered quantity	Traded quantity	No. of organized auctions	No. of buying offers	No. of concluded contracts	Return on trading (2*100/1)	Share of CMBC trades in the national consumption
3,199.208 GWh	554.392 GWh	33	71	9	17.33 %	1.09 %

### CMBC – December Participation results

No. of participants registered for participating in CMBC	No. of participants which had submitted offers	No. of participants registered for participating in the wholesale electricity market	Interest quota for participating in CMBC (1*100/3)	Return on trades participation (2*100/1)
47	35	448	9.63 %	74.50 %



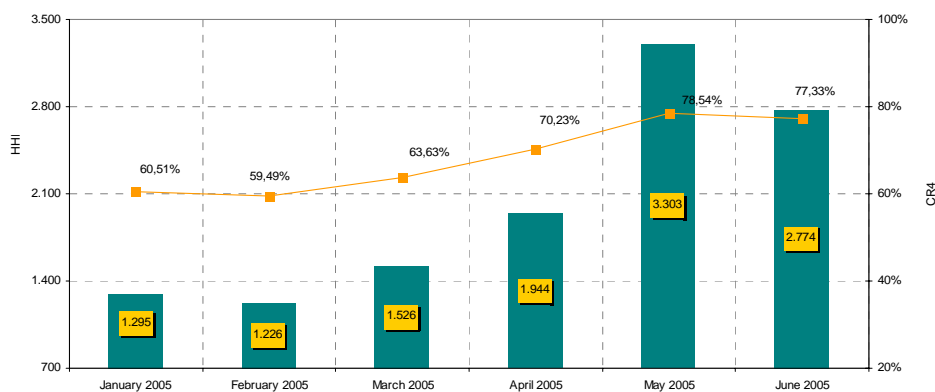


## Surveillance of Markets Administered by OPCOM

During the first half of 2005, the activity was performed according to the provisions of procedure "Surveillance of the wholesale electricity market and reporting activity to the regulatory in energy field (ANRE) about market operation and market conduct" and consistently with license terms. OPCOM sent to ANRE surveillance reports on a regular basis. The following targets have been intended to be accomplished: identification of the relevant indices – especially in respect of market power, system marginal price fluctuation, and capacity reserve – and assessment the market efficiency based on these signals.

### Market Monitoring Indices – first semester

*Market concentration* is determined by the number of players and the related market shares. Applied on the delivered quantities level, both CR4 and Herfindahl-Hirschman Index analysis reveals the presence of high concentration degree during second quarter of 2005.



*The evolution of HHI and CR4 indices, determined on delivered quantities basis*

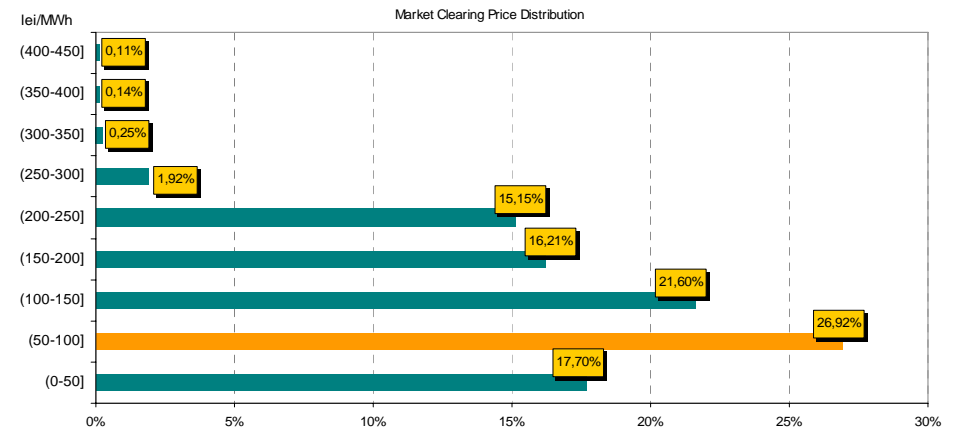
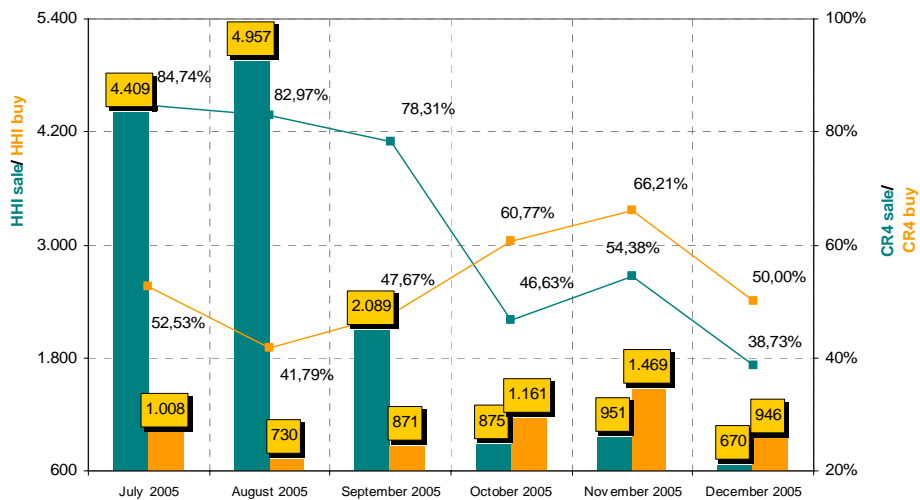
The maximum value of HHI was registered in May, around 3,300, while the minimum value of HHI, around 1,226 occurred in February 2005 showing the presence of moderate concentration.

CR4 values remain between [50÷100] %, with a maximum around 80% registered in May and a minimum around 60% during the second month of 2005.

### Market Monitoring Indices – second semester

Since 1st July 2005, once launching of the spot trading based on the new mechanism, the results of activity performed according to the "Procedure regarding Romanian power market public and private information in OPCOM responsibility" have been reported both to the management of OPCOM and ANRE. Information on a regular basis and monthly reports were focused toward the assessments of structure and performance centralized markets administered by OPCOM, based on appropriate indices, and the identification of inappropriate functioning of centralized administered by OPCOM as well.

*Market concentration* calculated based on the energy traded by each day-ahead market participant is influenced by conjuncture structure of the market. Against Herfindahl-Hirschman static measurement indicator, calculated based on installed capacity of each generator, that gives an indication about entire structure of wholesale power market, dynamic HHI, calculated based on daily traded volumes of each participant, would reflect: in case of a large value, a higher concentration of traded volumes, and, as the case stands relatively reduced number of participants; in case of small value, a lack of concentration in big shares of traded volumes, and, as the case stands higher number of market participants. Generally speaking this kind of analysis, applied on the sale side and buy side respectively, reveals the presence of moderate concentration and sometimes, the lack of concentration in big quotas of quantities traded during the last six months of the year.



The spot prices distribution

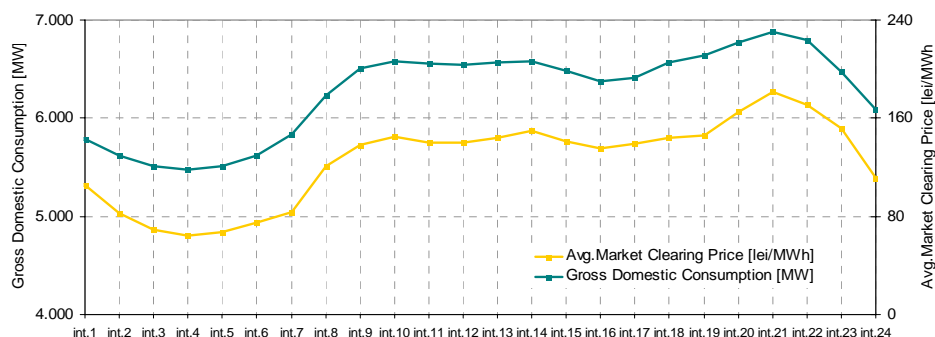
The evolution of HHI and CR4 indices, determined on sold and bought quantities basis respectively, on DAM

*Efficiency/market performance.* At the end of the first six months of trading in the day-ahead market, the interest rate for participating to the bidding process [(number of active participants/number of registered participants)\*100] was almost 50%, while the traded volume registered a value beyond 1.7 TWh. The traded volume, variable as monthly trend as well as daily fluctuation, shows the attempt to adjust the positions nearly real time, demonstrating the choice to undertake the existing opportunities and needs at a given time, depending in a great extent on volumes corresponding to the long term contracts.

Spot price, carefully monitored having in mind that volatility should not be excessive in a liquid market, has been situated mostly, in the price range of (50÷100) lei/MWh. The spot price often reflects not only the result of the cost variation of the fuel type, but the outcome of meeting of demand and supply volumes.



Consistent with both natural intention of generators (at least thermal and nuclear ones) to keep a not changing profile for own output, and target of suppliers to undertake the demand profile in bidding process, electricity traded hour by hour is corresponding to varying price that reflects daily load profile. Correlation analysis between the spot price and gross domestic consumption emphasizes this relation from the quantitative point of view (correlation coefficient above 98%).



Result of correlation analysis: 98.5%

*The correlation spot price-gross consumption*

### The performance of the centralized markets administration

2005 represented the year of fulfillment the whole package of operational procedures, instructions and participating agreements needed for implementation and commercial launching of the three trading platforms: one for the Day Ahead Market, one for the Centralized Bilateral Market and one for the Green Certificates Market.

The consistency with the regulations in force, transparency growth and new explicative rules in order to encourage the correctness of the trading process within the markets, have been followed permanently.

## **IT&Tc Development: the activity-support for the entire company.**

### **Publishing of information: the implementation of OPCOM's policy of transparency**

Regarding the IT system and the Tc infrastructure, during 2005 OPCOM had a successfully response to the challenge represented by the start-up of the new Internet transaction system for the Day-Ahead Market. Therefore, for the first quarter of 2005, was assured the parallel continuous functioning for each IT trading system: the one for Wholesales Market, operating with financial consequences and the other for the Day-Ahead Market, operated in the testing period and involving the market participants. Starting with 30th June 2006, all transactions and settlements for the electricity markets were performed by the new IT trading system for DAM, the main target of the department was the reliability of the system. All obligations stipulated in Condition 30 of License 407 regarding the permanent and reliable running of intranet/internet network stations, software applications and e-mail services were completely accomplished; an optimal framework for performing an efficient, correct and safe administration of the wholesale electricity market was assured. The implementation of the new IT settlement and trading system enforce a quick technical assistance response for the market participants and development of specific reports, entire activity being based on efficient and articulated procedures.

Also, have been organized technical meetings with the partners directly involved in OPCOM's IT platform functioning, Transelectrica and OMEPA, with the declared purpose to harmonize the data format used for data communication between them and for performing the settlement.

Year 2005 represented the moment for undertaking the IT systems for the Financial Market and for the Clearing House. In order to secure the successful implementation, the operational personnel was trained in order to be familiarized with the used technologies, and a considerable effort was accepted for installing, configuring and testing the new

system. The Financial Market IT system was safely operated for the Centralized Market for Bilateral Contracts starting with December 2005.

The upgrade of the servers and workstations, started in 2004, which permitted to apply the state of the art technologies, was finalized.

All over the year was ensured the needed technical support for the events organized by OPCOM, or where OPCOM participated, such as AREVA European Users Group, or to the training activities for the market participants to DAM, or to the Financial Market.

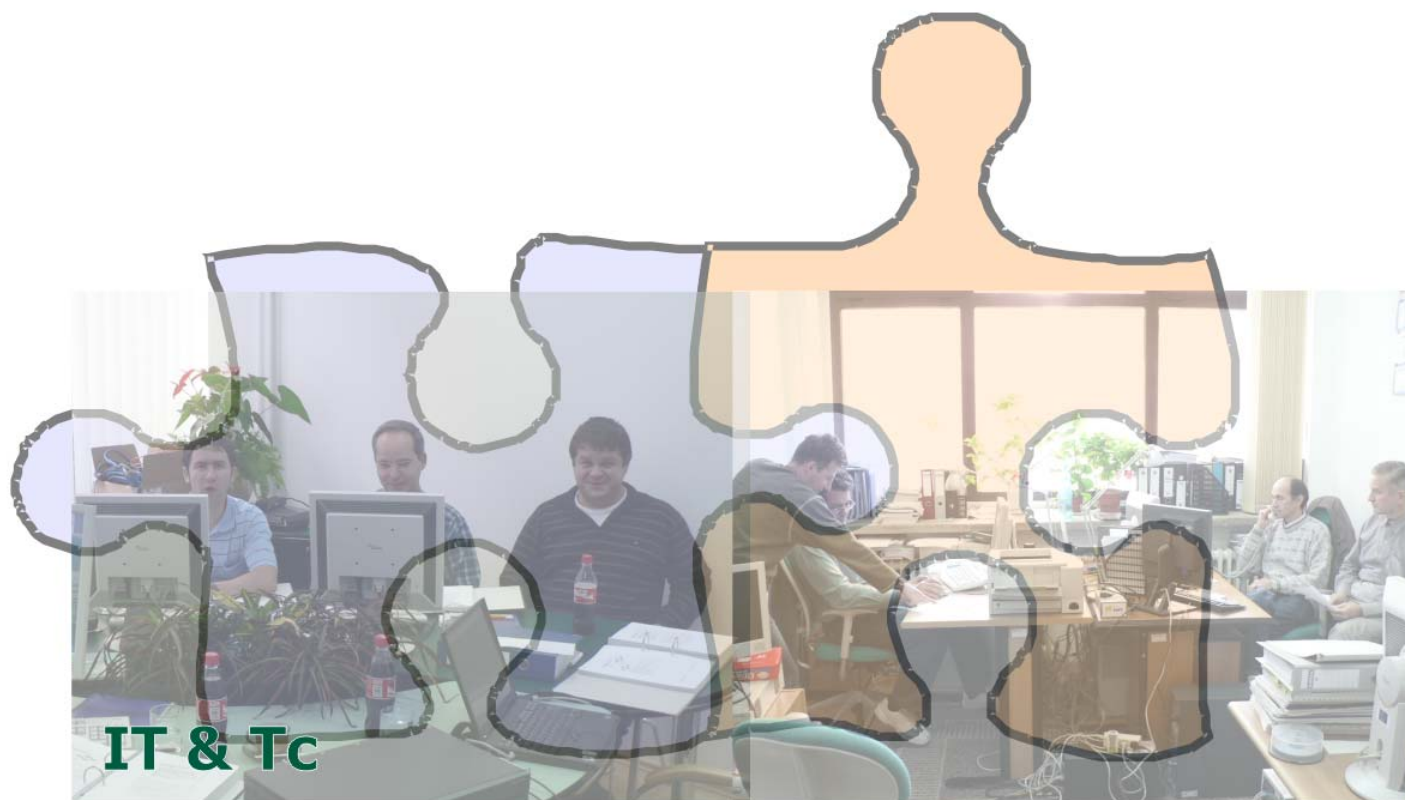
#### **Public information dissemination**

Concerning the dissemination of the public information, the OPCOM website accomplished all the obligations stipulated by the secondary legislation, according to transparency policy promoted by the company, by means of publishing a substantial quantity of data. In order to assure a large flexibility in this direction, an upgrading and redesigning project was started, the new website to be launched in the second quarter of 2006.

The website itself constitutes already the preferred information source not only for the market participants and authorities, but also for the public and the press, providing information of interest about the energy sector from Romania, from regional market and from European Union. In this regard, were created pages dedicated to Regional Market. The press releases illustrated the significant events and results obtained in this period of time.

The trading results on the electricity markets administered by OPCOM SA highlighted by the press releases were cited by prestigious international specialized publications, such as Platts, HEREN and Argus. Those publications issued articles dedicated to OPCOM. Data such as hourly

values of the Market Clearing Price, or traded volumes are transmitted daily for publishing purposes to the mentioned publications and to important press agencies such as REUTERS and Romanian Mediafax .



## Strategy, Development and International Cooperation

Company's evolution was focused on the fulfillment, according to the primary and secondary legislation in force, of the mission to provide an organized and efficient framework for the commercial trades concluded within the wholesale power market. Simultaneously, the company deployed development programs aimed to consolidate the institutional building, the implementation of the needed infrastructure dedicated to the trading environments, as well as the preparations to open future markets and to launch new products. A balanced development, correlated with the market evolution, was aimed. The secret of OPCOM's success was based on the advanced designing, sometimes with several years in advance, of the future development directions, on the success to efficiently mobilize the internal resources, mostly the human ones, on the important financial support granted by the European Commission and C.N. Transelectrica S.A. based on the loan granted by the World Bank, on the support assured by the regulatory authority, as well as on the participation of the agents in the sector to the centralized markets organized by OPCOM.

### **The new trading platform of the Romanian wholesale market. New products of OPCOM. Results of an efficient strategy**

In the first semester of 2005, the following development specific objectives were reached:

- Support to the implementation process of the new Commercial Code of the wholesale electricity market;
- Deployment of the market trial period, for the new integrated IT system dedicated to the administration by OPCOM of the Day Ahead Market;
- Consolidation of OPCOM's institutional capacity;
- Optimum deployment of the investment and technical assistance projects dedicated to prepare the financial power market;

- Implementation and launch of the trades within two new centralized markets: green certificates and bilateral contracts.

The New Trading Platform entered into commercial operation with the beginning of July 2005, being commissioned by C.N. Transelectrica S.A. and S.C. OPCOM S.A., with the support provided by the relevant authorities and the market participants. It was thus made a major change in the mechanisms of the Romanian power market: from a mandatory spot market, based on one-side bidding, a successful transition to a voluntary Day Ahead Market and based on bilateral auction was performed, a real time Balancing Market, mandatory and administered by C.N. Transelectrica S.A., being also implemented.

In optimal legal and institutional specific conditions, as well as based on the existence of a real demand from the market participants, it is estimated that the provision of clearing services to begin between the second semester of 2006 - the first semester of 2007. The commercial launch of the financial derivative instruments for electricity will be performed in subsequent stages, correlated with the development degree of its absorption capacity by the market, prepared by OPCOM together with the market participants in the Product Group organized during 2005.

OPCOM aims the consolidation of the Green Certificates Market and the implementation of the market for CO<sub>2</sub> emissions allowances, corresponding to the trading scheme that will be implemented by Romania. The implementation of these mechanisms complies with the provisions of the European Union directives for energy efficiency and environment. The organization of these markets will be made at the right moment, following the adoption of the specific regulations by the relevant authority.

### **Institutional consolidation. Relation with customers**

A continuous concern of the OPCOM Power Exchange will continue to target the institutional capacity development, as well as to assure an



appropriate evolution of OPCOM performances as regards the functions fulfilled within the administered markets, permanently keeping it in balance and compliance with the legal framework provisions, both primary and secondary and with the markets and participants evolution.

Through the strategic development directions, the company will continue to follow the client portfolio diversification, the diversification of the offered products and services, the enhancement of the trust of the participants in the administered markets, the continuous improvement of the quality of the provided services. The client oriented approach will remain a major concern for OPCOM, the company continuing to dedicate it.

#### **International cooperation. Regional dimension**

OPCOM' efforts in 2005 to finalize the actions for the institutional consolidation, in the sense of redefinition of activities and products offered the markets participants, were deployed based on connexion made with the development of the European internal electricity market. Coherently with the redefinition at European level of its implementation program by delimitation of the regional markets and the organization of regional meetings through the mini forum dedicated to congestion management, OPCOM attended the works of the mini forum of Athens in October, presenting its own concept regarding the development of a regional spot market in South-East Europe.

According to the conclusions of the mini forum of Athens and the provisions of the Option Paper presented during the Athens Forum held in Belgrade in November 2005, OPCOM is to fulfil the mission to consolidate the spot market in order to implement a regional dimension, to participate in the organization of the regional clearing for bilateral contracts and the analysis of the opportunities for organization of intra-daily trades.

2005 represented the year for the first contacts OPCOM made with EFET, not only within the mini forum, but also during the Annual Conference of EFET, as well as with EURELECTRIC. The cooperation with APEx and EuroPEX continued in 2005, the collaboration relations with the European power exchanges being diversified, mostly with Nord Pool, EEX, Powernext and Borzen.





## Quality Management System

2005 represented a year when OPCOM's quality management system strengthened. The system functioning was particularly efficient, close to the planned parameters, this achievement being also underlined by the favorable conclusions drawn up by the certification body Lloyds Register Quality Assurance during the two surveillance audits that it performed within the year.

The efficient functioning of the quality management system is proved by the following results acquired in 2005:

- The general satisfaction level regarding the quality of services provided by OPCOM was qualified as good (54%) or excellent (42%) by the large majority of our customers. Mention should be that, although at an incipient (as the new day-ahead market started its operation on July 1, 2005), the activity performed by OPCOM under the new market mode was very well appreciated. At the same time, our interested parties (MEC and ANRE) considered the collaboration with OPCOM extremely good (86.4% of all the offered marks were considered "excellent" and the rest of 13.6% was considered "good").
- The large majority of our customers considered excellent the following items: the assistance provided by OPCOM in the trail period of the new trading platform (considered excellent by 65% of all customers and good by 35%), the usefulness of the information obtained from OPCOM (57% excellent, 43% good); the professionalism of OPCOM staff (64% excellent, 36% good); the efficiency of the OPCOM's efforts to assure the consistency, the correctness, the impartiality, the equidistance, the independence, the non-discrimination and the transparency of the provided services (53% excellent, 43% good); the training courses organized by OPCOM for market participants (60% excellent, 36% good).

After only two years from the certification as per ISO 9001/2000 by Lloyds Register Quality Assurance, OPCOM intends to reach other new ambitious targets in the future, namely:

- to implement the business excellence principles;
- to design and to implement an integrated system for quality and information security management.



# Financial Report (1)

## Balance Sheet

[USD]

	31 December 2000	31 December 2001	31 December 2002	31 December 2003	31 December 2004	31 December 2005
<b>ASSETS</b>						
<b>Intangible assets</b>	<b>4,817</b>	<b>18,069</b>	<b>118,617</b>	<b>84,559</b>	<b>58,831</b>	<b>68,336</b>
Property, Plant, Equipment	110,922	165,174	132,518	338,912	622,543	748,604
Investment in process	0	6,732	0	0	0	636,708
Other Fixed Assets	98,483	160,099	264,856	0	59,847	116,499
<b>Total fixed assets</b>	<b>209,405</b>	<b>332,005</b>	<b>397,374</b>	<b>338,912</b>	<b>682,390</b>	<b>1,501,811</b>
<b>Financial Investments</b>	<b>0</b>	<b>2,316</b>	<b>25,489</b>	<b>26,131</b>	<b>29,303</b>	<b>0</b>
Inventories	5,422	0	6,652	5,106	10,542	11,706
Accounts receivable	840,416	1,072,066	701,135	710,803	546,960	877,944
Cash	46,128	7,350	4,729	48,019	221,961	243,530
<b>Current Assets</b>	<b>891,965</b>	<b>1,079,416</b>	<b>712,517</b>	<b>763,928</b>	<b>779,464</b>	<b>1,133,180</b>
<b>Other current</b>	<b>36</b>	<b>18,858</b>	<b>34,498</b>	<b>20,721</b>	<b>43,729</b>	<b>9,230</b>
<b>Total Assets</b>	<b>1,106,223</b>	<b>1,450,664</b>	<b>1,288,496</b>	<b>1,234,251</b>	<b>1,593,716</b>	<b>2,712,558</b>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>						
Financial Debt	0	22,712	126,328	153,398	131,352	643,542
Accounts Payable, others	529,512	484,482	510,645	429,026	352,132	293,048
<b>Total Liabilities</b>	<b>529,512</b>	<b>507,195</b>	<b>636,973</b>	<b>582,424</b>	<b>483,483</b>	<b>936,590</b>
Stockholders Equity	46,421	38,089	35,925	643,694	721,822	675,114
Reserves, others	481,955	398,385	578,190	8,134	388,411	1,072,056
Undistributed profit/losses	48,336	506,995	37,408	0	0	0
<b>Stockholders' Equity</b>	<b>576,712</b>	<b>943,469</b>	<b>651,523</b>	<b>651,827</b>	<b>1,110,233</b>	<b>1,747,171</b>
<b>Other Debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>28,797</b>
<b>Total Liabilities &amp; Equity</b>	<b>1,106,223</b>	<b>1,450,664</b>	<b>1,288,496</b>	<b>1,234,251</b>	<b>1,593,716</b>	<b>2,712,558</b>
Average annual exchange rate LEI/USD	<b>2.5926</b>	<b>3.1597</b>	<b>3.3500</b>	<b>3.2595</b>	<b>2.9067</b>	<b>3.1078</b>

NOTA: OPCOM was established on 15.08.2000

## Financial Report (2)

### Cash Flow Statement

[USD]

		31 December 2000	31 December 2001	31 December 2002	31 December 2003	31 December 2004	31 December 2005
	<b>DEBIT</b>	<b>846,562</b>	<b>643,019</b>	<b>152,926</b>	<b>18,700</b>	<b>593,463</b>	<b>849,472</b>
	Depreciation cost	14,138	83,759	140,015	204,991	205,282	200,208
	Change in Working Capital	<b>(316,266)</b>	<b>(41,748)</b>	<b>(56,752)</b>	<b>165,939</b>	<b>(593,245)</b>	<b>(743,376)</b>
+/-	Inventories	(5,398)	4,449	(6,652)	(5,106)	(10,542)	(11,706)
+/-	Receivable	(840,416)	(382,487)	310,031	(9,799)	(546,960)	(877,944)
+/-	Others current	-	-	-	-	-	-
+/-	Payable	529,512	355,118	(361,079)	195,580	(56,235)	177,943
+/-	Prepaid expenses	36	(18,828)	948	(14,735)	20,493	(31,669)
<b>1</b>	<b>Operational Cash Flow</b>	<b>544,433</b>	<b>685,031</b>	<b>236,189</b>	<b>389,630</b>	<b>205,500</b>	<b>306,303</b>
	Capital Expenditure in PPE & intangible	(4,783)	(179,573)	(206,320)	(106,912)	266,351	(849,483)
	Capital Expenditure in financial investment						
<b>2</b>	<b>Cash Flow from Investments</b>	<b>(4,783)</b>	<b>(179,573)</b>	<b>(206,320)</b>	<b>(106,912)</b>	<b>266,351</b>	<b>(849,483)</b>
<b>3</b>	<b>Cash Flow from Operations (1+2)</b>	<b>539,651</b>	<b>505,458</b>	<b>29,869</b>	<b>282,718</b>	<b>471,850</b>	<b>(543,180)</b>
	<b>Cash Flow from Financing</b>						
+/-	Financial assets	-	-	-	-	-	-
+/-	Loans	-	-	110,885	153,398	131,352	643,542
	Net Fin, Expenses	215	560	(21,070)	(43,163)	(53,325)	5,200
	Net Extr, Income/(Expenses)	(8,447)	(8,928)	(92,295)	-	-	-
	Corporate Tax	(209,788)	(165,315)	(56,557)	(34,711)	(160,848)	(145,893)
+/-	Equity	-	-	-	-	-	-
	Dividends paid	-	-	(221,214)	-	-	-
+/-	Others	(275,431)	(324,425)	255,113	(310,223)	(167,068)	283,860
	<b>Total Cash Flow from Financing</b>	<b>(493,450)</b>	<b>(498,107)</b>	<b>(25,139)</b>	<b>(234,699)</b>	<b>(249,889)</b>	<b>786,709</b>
	<b>Free Cash Flow</b>						
+/-	<b>Cash</b>	<b>46,200</b>	<b>7,350</b>	<b>4,729</b>	<b>48,019</b>	<b>221,961</b>	<b>243,530</b>
	<b>Initial Balance</b>		<b>37,849</b>	<b>6,933</b>	<b>4,729</b>	<b>48,019</b>	<b>221,961</b>
	<b>End Balance</b>	<b>46,200</b>	<b>7,350</b>	<b>4,729</b>	<b>48,019</b>	<b>221,961</b>	<b>243,530</b>
	Average annual exchange rate LEI/USD	2.5926	3.1597	3.3500	3.2595	2.9067	3.1078

## Financial Report (3)

### Profit and Loss Account

[USD]

	31 December 2000	31 December 2001	31 December 2002	31 December 2003	31 December 2004	31 December 2005
<b>Turnover</b>	<b>1,030,703</b>	<b>1,434,330</b>	<b>1,455,905</b>	<b>1,658,702</b>	<b>2,534,387</b>	<b>2,792,995</b>
Own Work Capitalized	-	0	0	0	0	0
Total output	1,030,703	1,434,330	1,373,201	1,658,702	2,534,387	2,792,995
Other Revenues		85	4,396	15,717	18,627	17,957
<b>Operating revenues</b>	<b>1,030,703</b>	<b>1,434,415</b>	<b>1,377,597</b>	<b>1,674,419</b>	<b>2,553,014</b>	<b>2,810,952</b>
Materials	10,752	18,514	32,967	67,596	145,335	106,169
Energy	-	8,634	17,639	9,622	34,632	38,904
Other materials		12,505				
<b>Total material costs</b>	<b>10,752</b>	<b>39,653</b>	<b>50,607</b>	<b>77,218</b>	<b>179,967</b>	<b>145,074</b>
Services	33,291	236,737	381,249	369,812	468,265	492,688
Taxes	4,298	17,051	9,909	546	2,837	8,121
Wages	120,438	402,057	612,598	862,136	991,957	1,045,847
Other operational costs	1,225	15,348	30,043	97,852	111,243	69,543
Depreciation cost	14,138	83,759	140,015	204,991	205,282	200,208
<b>Total Operating Costs</b>	<b>184,141</b>	<b>794,606</b>	<b>1,224,421</b>	<b>1,612,556</b>	<b>1,959,551</b>	<b>1,961,481</b>
<b>Profit before tax and interests</b>	<b>838,330</b>	<b>624,503</b>	<b>51,925</b>	<b>65,953</b>	<b>594,150</b>	<b>864,231</b>
<b>Operational profit</b>	<b>846,562</b>	<b>639,809</b>	<b>153,176</b>	<b>61,862</b>	<b>593,463</b>	<b>849,472</b>
Financial Income	215	1,974	478	4,090	687	14,759
Financial Costs	-	1,416	21,548	47,253	54,012	9,559
Interests	-					
<b>Net Financial Income</b>	<b>215</b>	<b>558</b>	<b>-21,070</b>	<b>-43,163</b>	<b>-53,325</b>	<b>5,200</b>
Extraordinary Income	-	7,630	9,433			
Extraordinary Costs	8,447	17,279	101,729			
<b>Net Extr. Income</b>	<b>-8,447</b>	<b>-9,649</b>	<b>-92,295</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL REVENUES</b>	<b>1,030,918</b>	<b>1,444,018</b>	<b>1,387,258</b>	<b>1,678,509</b>	<b>2,553,701</b>	<b>2,825,711</b>
<b>TOTAL COSTS</b>	<b>192,588</b>	<b>813,301</b>	<b>1,347,697</b>	<b>1,659,809</b>	<b>2,013,563</b>	<b>1,971,039</b>
<b>Profit before Tax</b>	<b>838,330</b>	<b>630,717</b>	<b>39,561</b>	<b>18,700</b>	<b>540,138</b>	<b>854,672</b>
Corporate Tax	209,788	163,383	56,557	34,711	160,848	145,893
<b>Profit after Tax</b>	<b>628,542</b>	<b>467,335</b>	<b>-16,996</b>	<b>-16,012</b>	<b>379,290</b>	<b>708,779</b>
Average annual exchange rate LEI/USD	2.5926	3.1597	3.3500	3.2595	2.9067	3.1078