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1. Message from the CEO



1. A new phase in the transformation for efficiency

Message from the CEO



2008 can be summarized based on two major directions: one of continuing the redefinition of the company's relationship with the customers, the other one of a tough transformation process for the company, of redesigning work processes to make Romtelecom more efficient and reduce the costs. While it was a hard and sometimes even a painful process for the organization, in the end it proved to be a welcome and necessary transformation which prepared us for the economic crisis affecting the whole world.

By continuing to apply Customer 1st policy, we succeeded to keep the voice customers' base relatively stable and to further grow on the emerging segments, of broadband, data and TV. The two years' efforts of changing the experience of the customers in relation to Romtelecom were validated by the TRIM index results, showing one of the most rapid and significant improvements in the customer satisfaction levels for an European incumbent fixed line operator.

The company made an important step in consolidating its position on the broadband market following the winning of the tender for the license allowing it to provide mobile electronic communications services through the 410-415/420-425 MHz frequencies. Mobile broadband is one of the fast developing market segments, on which Romtelecom needs to be present in order to have a complete offer of broadband services. Also, in 2008 Romtelecom and Cosmote launched together the first common fixed-mobile convergent product on the market, granting Romanian customers access to new communication benefits.

To reflect the change in the perception of the customers we decided to make a brand repositioning in 2008, bringing under the same Romtelecom umbrella all the brands of the company: Romtelecom Voice, Clicknet and Dolce. Led by the mottos "Enjoy life" for residential customers and "You achieve, we support you" for business customers, Romtelecom will try to further define its contribution to the life, well being and success of its customers through the communications services provided.

The transformation efforts are continuing in 2009 and we'll be testing new commercial ideas, which we hope to work in the benefit of both the company and its customers.

Yorgos Ioannidis

Chief Executive Officer

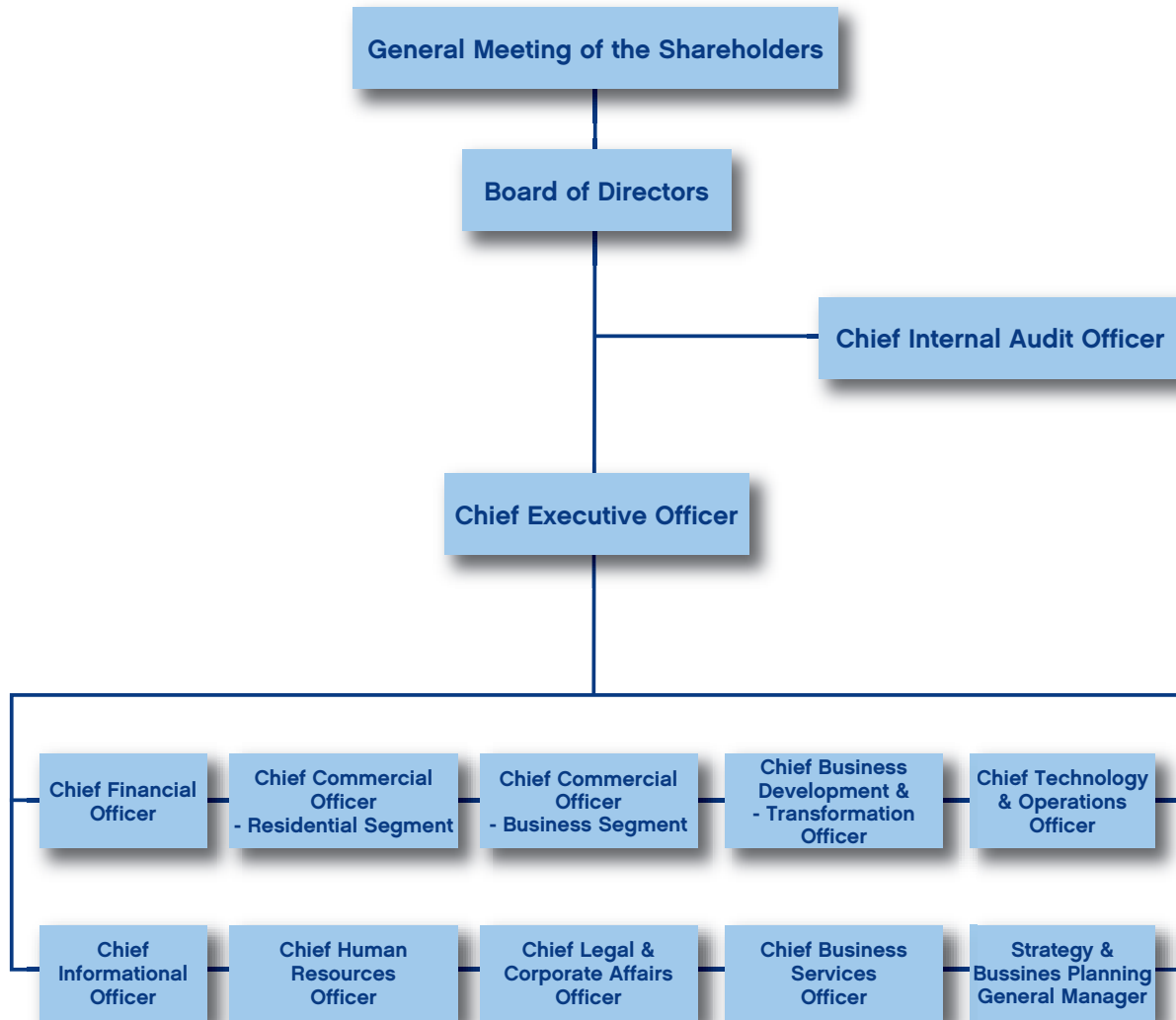
ROMTELECOM



2. Romtelecom Team

2.1. ORGANIZATIONAL STRUCTURE

ORGANIZATIONAL CHART



Governing Bodies

General Meeting of the Shareholders

The General Meeting of Shareholders decides on fundamental economic and business matters. Its rights and authorities are determined by the Laws of Romania and Romtelecom's Articles of Association and Shareholders Agreement. As a rule, the General Meeting is convened by the Board of Directors at least once a year.

Board of Directors

The Board of Directors consists of 7 members and is the statutory body governing and acting on behalf of Romtelecom. The Board of Directors decides on all major and strategic matters, other than those delegated to the CEO. The Board of Directors shall assemble at least once every three months.

Audit Committee

Starting with October 18, 2007, the Audit Committee was established as an internal structure of the Board of Directors, being nevertheless independent towards the Board of Directors.

The Audit Committee functions as a consultative committee, consisting of two non-executive directors. The Audit Committee meets periodically, four times per year, as well as whenever deemed necessary with the Chief Internal Audit Officer, without the presence of other Chief Officers being necessary.

Mainly, the Audit Committee shall be responsible for the surveillance and review of: (i) the Company's financial and accounting procedures; (ii) the Company's procedures for the audit of the financial statements; and (iii) the Company's procedures for internal audit.

Executive Management

Chief Executive Officer

The Chief Executive Officer is appointed and recalled by the Board of Directors. The Chief Executive Officer is authorized by the Board of Directors to manage the company and execute the decisions of the Board of Directors.

Business Operations Committee

The Business Operations Committee meets once a month to review the company's financial and operational results. Issues pertaining to the company's results as compared to the Business Plan Budget as well as the previous year's results are identified and action items are assigned and tracked. The committee is chaired by the CEO and consists of all Chief Officers and direct reports to the CEO.

Capex Planning Committee

The Capex Planning Committee meets once a month to review and approve Business Cases associated with capital expenditures. The committee tracks capital expenditures against the Business Plan Budget as well as the implementation performance of previously approved Business Cases. Once a Business Case is approved by the committee, it is either sent to the CEO for final approval if the amount is equal to or less than 3 million Euro or is forwarded to the Romtelecom Board of Directors for approval. The committee is chaired by the CFO and consists of all Chief Officers and direct reports to the CEO.

Corporate Program Steering Committee

Since September 2005, the Transformation Steering Committee became the Corporate Program Steering Committee, with the following responsibilities: monitor progress of major Programs/Projects having significant impact on the Company; identify problems and potential issues pertaining to project management; insure compliance with previously approved Corporate Business Plan, Project Business Cases and/or Project Initiation Documents, as well as insure coordination across organizations.

2.2. BOARD OF DIRECTORS

December 31, 2008

Mr. Panagiotis Vourloumis, President of the Board - appointed by OTE Investments Ltd. Mr. Vourloumis is currently the CEO of OTE. Mr. Vourloumis headed the South-East Asia division of the IFC (International Finance Corporation) from 1966 to 1973, was head of the Commercial Bank of Greece Group from 1979 to 1981, and was Chairman and CEO of ALPHA Finance, ALPHA Mutual Funds and ALPHA BANK ROMANIA, while at the same time serving as Executive Director of ALPHA BANK, from 1988 to 2000. From 2000 to mid-2004, Mr. Vourloumis was Chairman of FRIGOGLASS and the AEGEAN BALTIC BANK. Mr. Vourloumis is a graduate of the London School of Economics.

- Mr. Yorgos Ioannidis - appointed by OTE Investments Ltd; CEO of Romtelecom since February 1, 2007.
- Mr. Iordanis Aivazis - appointed by OTE Investments Ltd.
- Mr. Nicholas Stamboulis - appointed by OTE Investments Ltd.
- Mr. Michail Tsamaz - appointed by OTE Investments Ltd.
- Mr. Elemer-Zsolt Toth Verestoy - appointed by MCSI.
- Mr. Adrian Ionescu - appointed by MCSI.

Note: MCSI is the Ministry of Communications and Information Society.

2.3. MANAGEMENT TEAM

December 31, 2008

Yorgos Ioannidis – Chief Executive Officer. Yorgos Ioannidis started his career in 1975 at OTE where he worked as a telecommunications engineer, holding various positions within different departments of the company. In 1993 he joined Vodafone Greece as Engineering Switching and Software Manager. In 1998 he moved to Cosmote as Engineering Manager and afterwards he took on the position of General Technical Director with Cosmote. Until the moment when he was appointed as CEO of Romtelecom, he held the positions of CEO of OTENET (since June 2000) and CTO of OTE (as of September 2004).

Anastasios Tzoulas – Chief Financial Officer. Mr. Tzoulas has more than 13 years of experience in finance, prior to this position being Deputy Chief Financial Officer and General Manager of Financial Planning and Analysis Division of Romtelecom. His experience includes: System Analyst and Budget Manager, Alpha Bank Greece; Financial Controller, Attiki Odos Motorway; Financial Controller, Lannet Communications.

Joerg Zeddies - Chief Commercial Officer, Residential Segment. Prior to this position, Mr. Zeddies has been working with companies such as Bosch Telecom GmbH, Deutsche Telekom T-Com (Germany and Slovakia). His experience includes: Head of Product Development for Large and Named Accounts for DT group; Head of Office CEO, Head of Office for board member of national and international business for T-Com; Director Product

Marketing Management for T-Com Slovakia; Director Marketing & Sales Residential and Managing Director for the two online “daughter” companies of T-Com Slovakia.

George Makowski – Chief Commercial Officer, Business Segment. Before working for Romtelecom, Mr. Makowski was Chief Sales Officer for Cesky Telecom (now Telefonica O2). His experience also includes: Director of the Retail & Distribution Management Group for Groupe Bull in Paris; Vice President, Sales and Marketing Director for Ameritech International/PTK Centertel (now Orange); COO of @Entertainment, a cable operator in Poland; VP Sales & Marketing of Netia; CEO for Energis, Poland.

Harm Aben – Chief Business Development & Transformation Officer. Mr. Aben has approximately 16 years experience in regulatory affairs, business strategy, pricing, market entry and corporate finance in telecommunications. Since the beginning of 2005 he held the position of Regulatory Affairs General Manager within Romtelecom, after that being appointed in the present position. His previous experience includes management consulting positions in London with PricewaterhouseCoopers and Ovum.as well as KPN Telecom in the Netherlands. Mr. Aben is responsible for regulatory affairs, carrier services and the corporate transformation office.

Wolfgang Breuer – Chief Technology & Operations Officer. Mr. Breuer has over 15 years experience in the telecom area. Mr. Breuer occupied along time, among others, the positions of Chief Technology Officer – Comstar - UTS Russia, CEO - T-Mobile Croatia, Vice-President for Central Europe within Deutsche Telekom. His previous experience includes also management positions within PTC Poland (49% T-Mobile), T- Mobile Germany and Leybold AG Hanau.

Fotis Karonis - Chief Information Officer. Mr Karonis has 25 years experience in IT, Telecommucations and large - scale Project Management. Prior to this position he was for 10 years Director of Information Technology and Telecommunications at Athens International Airport, member of the Executive Board, responsible for the construction phase of the airport from a green field, as well as for the operation phase (1997-2007). Previous to this position he was working as Technical Manager in Systems Integration with Cap Gemini, France; Project Manager at Cegelec – Alcatel, France; and Responsible for Process Automation Systems, ‘Heracles’ General Cement Company, Greece.

Anca Georgescu Aladgem – Chief Human Resources Officer. Mrs. Georgescu has more than 11 years experience in human resources, in Romania, as well as in Poland and Greece. Her experience includes: Country Human Resources Manager for Coca Cola HBC, in Romania and afterwards in Poland; Corporate Business Process Leader for Human Resources for the same company in Greece.

Catalin Dima - Chief Legal & Corporate Affairs Officer. Mr. Dima has more than 11 years experience in Corporate Law, initially with Bostina Law Offices, one of the largest law firms in Bucharest, and since 2002 with Romtelecom.

Efthymios Papapostolou – Chief Business Services Officer. Mr. Papapostolou has over 16 years experience in infrastructure and services acquisition contracts and international negotiations, in the telecom industry. Prior to Romtelecom, Mr. Papapostolou has been a Senior Project Engineer for Vodafone SA, a Deputy Procurement Manager for Cosmote and later a Human Resources, Quality and Procurement Director for OTENET SA; afterwards he returned to Cosmote, as Group Procurement Director. His experience includes: Plant Manager in the automobile parts industry and Assistant Project Manager for Hellenic Alumina Industry.

Ovidiu Rusu – Chief Internal Audit Officer. Mr. Rusu has over 11 years experience with Big 4 Accounting Firms: in California with Deloitte and in Romania with Deloitte and Ernst & Young, being in charge with audits of financial statements prepared in accordance with US GAAP, IFRS, UK GAAP and Romanian Standards. Since 2003 until 2007 he held within Romtelecom the General Manager for Internal Audit position.

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3. Financial Briefs

3. FINANCIAL BRIEFS

Financial data is based on audited consolidated financial statements prepared in accordance with International Financial Reporting Standards. All financial figures, unless otherwise stated, are in thousand RON as of December 31 of each year, and refer to Romtelecom S.A. continuing operations.

	2006	2007	2008
Revenues (thousand RON)	3,153,229	2,911,516	3,203,679
Revenues (million Euro)	894.8	871.9	869.9
EBITDA (thousand RON)	1,190,054	999,634	931,817
EBITDA (million Euro)	337.2	300.4	253.7
EBITDA/Revenues	38%	34%	29%
EBIT (thousand RON)	297,922	23,425	-137,996
EBIT (million Euro)	84.4	8.1	-36.2
EBIT/Revenues	9%	1%	-4%
Net Income/(Loss) (thousand RON)	195,730	-78,124	-179,227
Net Income/Loss (million Euro)	55.2	-21.1	-47.2
Net Income/Revenues	6%	-3%	-6%
Number of Telephone Lines (year end)	3,403,346	3,035,000	2,978,739
Number of Employees (year end)	12,257	12,512	10,344
Number of Lines per Employee	278	243	288
Total Net Debt (thousand RON)	-80,440	-253,066	-399,851
Total Net Debt (million Euro)	-23.8	-70.1	-100.3

Macroeconomic indicators are based on data from the Romanian Ministry of Finance, the Romanian National Bank and the National Institute of Statistics.

	2006	2007	2008
Population (in millions)	21.57	21.53	21.46
Inflation average	6.60%	4.84%	7.70%
Inflation (31 Dec)	4.87%	6.57%	6.30%
Unemployment (31 Dec)	5.20%	4.10%	4.20%
Exchange Rate RON/USD (31 Dec)	2.5676	2.4247	2.8342
Average Exchange Rate RON/USD	2.809	2.4485	2.5188
Exchange Rate RON/EUR (31 Dec)	3.3817	3.6102	3.9852
Average Exchange Rate RON/EUR	3.5245	3.3373	3.6827

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4. Business Environment



4.1. Romanian Telecom Market Review

In the last months of 2008, Romanian companies started to announce a series of production and staff cuts together with deadlocked investments, in the context of a deepening financial crisis at global level. In the case of telecom operators, the profit margins and revenues growth rates were also affected, as in the past years, by the tough competition which permanently put pressure on prices.

The penetration of fixed telephony registered an increase of 18.3% in 2008 compared to 2007, reaching a total number of 5.04 million lines, according to ANCOM (National Authority for Management and Regulation in Communications of Romania). Large part of the increase represents fixed lines sold by mobile operators which have been previously accounted as mobile lines. Therefore, although market research reports revealed that Romtelecom managed to capture more than 50% of market real gross increase, the Romtelecom market share decreased to 59.5% in 2008 compared to 71% in 2007.

In the case of mobile telephony, the penetration rate increased to 133% in 2008, reaching more than 28.6 million SIM cards, according to ANCOM. Main operators' growth was slowed down compared to the last year and the market witnessed important events like Zapp launching 3G services and entering mass market segment through prepaid services, trying to increase its client portfolio, while RDS continued the expansion of its mobile services, announcing 1.2 million clients. Cosmote registered the fastest growth rate in terms of new customers' acquisition, consolidating its position on the market. Romtelecom won the tender for the mobile license on 410-415/420-425 MHz frequencies, which will allow the company to supplement its existing products portfolio (especially mobile broadband and voice & broadband in locations not covered with the fixed line network).

The broadband market continued to be the most dynamic market in terms of annual growth. The number of Internet connections reached 5.25 million in 2008, out of which 2.51 million connections are fixed broadband, according to ANCOM data. Romtelecom participated in that growth by adding a large number of customers for its Clicknet service.

The growth trend was also followed by the TV market, with the total number of subscribers reaching 5.65 million at the end of 2008, according to ANCOM. The Satellite TV (DTH) market continued to grow at an accelerated pace, to the detriment of cable TV, representing 38% of the total number of subscribers, compared to 32.4% in 2007. Romtelecom managed to attract a large number of customers for its Dolce service.

4.2. Regulatory Environment

The following section sets out the main developments throughout 2008 in Romtelecom's regulatory environment.

General framework

Until 31 December 2002, the Company provided its services in accordance with the Telecommunication License ("the License") granted by the MCTI for the provision of telecommunication services.

Beginning with 1 January 2003 the Telecommunication Law no. 74/1996 has been repealed and a new legislation package for telecommunication activities in Romania has been introduced comprising mainly the Framework Ordinance (EGO no. 79/2002), Access Ordinance (GO no. 34/2002) and Universal Service Law (no. 304/2003).

Under the provisions of EGO no. 79/2002 related to the general regulatory framework of communications, prior to January 2003, Romtelecom submitted to ANRCTI the notification regarding the supply of electronic communication networks and services.

Further to relevant notification Romtelecom has been issued a Type Certificate ("Certificate"), which replaced the operating License of Romtelecom, and any other prior licenses and authorization, except those related to frequency spectrum, which remain valid until renewal.

In accordance with the Certificate, the Company has the right to provide the following services:

- Public electronic communication networks;
- Publicly available electronic communication services;
- Publicly available telephone services;
- Leased line services;
- Other services than telephone and leased line services;
- Private electronic communication networks and services;
- Install, maintain, replace and move any elements of the networks, on, over, in or under public or private property buildings;
- Negotiate and conclude an interconnection agreement with any other operator of public electronic communication network; and
- Negotiate the access agreements with the suppliers of electronic communication networks and services.

Romtelecom's regulatory environment is dominated by the following institutions:

- **The Ministry of Communications and Information Technology (MCTI)** which formulates general policies in telecommunications, sets up strategies for universal service, allocates frequency spectrum resources and regulates terminal equipment usage. MCTI is also responsible to manage the stake in Romtelecom owned by the Romanian State. MCTI became in 2009 MCSI (the Ministry of Communication and Information Society).

- **National Authority for Communications (ANC)** is the national regulator with responsibility for regulating wholesale and retail telecommunications markets, allocation of numbering resources, settlement of disputes between operators and enforcement of government policies. In April 2007 ANC took over the specific attributions of the Inspectorate General for Communications and Information Technology in the fields of radio-communications, audio-visual communications, radio and electronic communications terminal equipments. ANC became in 2009 ANCOM (the National Authority for Management and Regulation in Communications of Romania).

In the field of economic regulation, ANC is typically the institution making the decisions with the highest direct impact on Romtelecom. These decisions are based on the EU Directives for Telecommunications (transposed into Romanian Law). The European Framework Directive requires national regulatory authorities to conduct a "national" and a "Community" consultation on the regulatory measures they intend to take - comprising definition and analysis of relevant markets and the proposed imposition or removal of regulation on undertakings providing electronic communications networks or services - prior to adoption. The Commission may comment on the draft measures, and in certain cases, exercise its veto power requiring their withdrawal. As a new EU member state, Romania needs to undertake a revision of the relevant markets and notify the European Commission. The process has started in 2007 with data collection in view of reviewing the market of access to the public fixed telephone networks in view of calls termination. For 2008 the main regulatory developments envisage: call termination at fixed location, call termination at mobile location, number portability, closing of the numbering plan, transposition in the national law of the Data retention Directive. Also, ANC designated Romtelecom as the winner of the tender for the new mobile communications licence in the 410-415/420-425 MHz frequency bands.

Wholesale markets regulation

A. Interconnection

Through the Decision 142/2002 (regarding the designation of S.N.Tc. Romtelecom SA as an operator with significant power in the market of public fixed telephony networks for call origination, termination and transit), ANRCTI designated Romtelecom as an operator with significant power on the market of the access to the public fixed telephony networks for call origination, termination and transit. Based on this Decision ANRCTI has issued the Decision No. 147/2002 on the principles and prerequisites of the Reference Offer for Interconnection with the public fixed telephony network, which establishes regulatory obligations for Romtelecom.

This Decision has been further updated and modified to incorporate obligations regarding the provision of leased lines terminating segments services as well as to review some of the tariffs included in the Reference Interconnection Offer. The obligations imposed to Romtelecom in relations to interconnection and leased lines terminating segments include the obligation to provide the following services to other telecommunications providers in non-discriminatory conditions and at cost oriented tariffs:

- Interconnection;
- Indirect interconnection;
- Intelligent network services;
- Leased line terminating segments;
- Access to infrastructure necessary for the provision of regulated services.

In order to demonstrate the compliance with the obligations of non-discrimination and cost-orientation, Romtelecom has the obligation to:

- Prepare and publish a Reference Interconnection Offer in accordance with ANRCTI Decisions;
- Prepare and publish Separate Financial Statements in accordance with ANRCTI decision 1380/2003;
- Establish its interconnection services tariffs based on a LRIC model approved by ANRCTI.

The interconnection tariffs in force until 31 December 2005 have been established by ANRCTI based on benchmarks, according to ANRCTI Decision no. 147/2002 regarding the principles and preconditions of Reference Interconnection Offer with fixed public telephone network. Starting with 1 January 2006, based on the Decision No. 1459/2005 the interconnection tariffs have been reviewed, being based on the results of a hybrid LRIC model developed by ANRCTI.

All the above mentioned regulations have been reviewed during the market analysis process performed by ANC in 2008 and presented in the section below.

B. Local loop unbundling

Based on ANRCTI President's Decision no. 801/2003, Romtelecom has been designated as having significant power in the market for the full or shared access to the twisted metallic pair local loop for the purpose of providing broadband electronic communication services and publicly available telephony services at fixed locations. ANRCTI President's Decision no. 1098/2004 establishes the principles and prerequisites of the reference offer for unbundled access to the local loop:

- Obligations for the provision of the unbundled access to the local loop in non-discriminatory conditions and at cost oriented tariffs;
- The obligation of publication of a reference offer for unbundled access to the local loop which shall comprise at least the minimum set of services for the provision of unbundled access to the local loop established by this decision, together with the conditions, including those referring to tariffs, under which these services will be offered to the Beneficiaries;
- Maximum tariffs that may be charged by Romtelecom for the main unbundled access to the local loop services.

Retail markets regulation

Romtelecom has been designated as having significant market power on the following retail markets:

- Market of calls to public mobile telephone networks, at a fixed location, for residential customers;
- Market of calls to public mobile telephone networks, at a fixed location, for business customers;
- Market of international calls, at a fixed location, for business customers;
- Market of international calls, at a fixed location, for residential customers;

- Market of long distance calls, at a fixed location, for business customers;
- Market of long distance calls, at a fixed location, for residential customers;
- Market of local calls, at a fixed location, for business customers;
- Market of local calls, at a fixed location, for residential customers;
- Market of providing access to a public telephone network, at a fixed location, for residential customers.

Based on the Decision No. 1250/2005 ANRCTI has imposed so far to Romtelecom the following obligations in relation to retail markets:

- Obligation to provide carrier selection and carrier pre-selection facilities by 30 June 2006;
- Obligation to not charge excessive tariffs for the services provided on the retail markets where Romtelecom has been designated as having significant market power;
- Obligation to provide unbundled access services;
- Obligations of accounting separation in relation to services provided on the retail markets where Romtelecom has been designated as having significant market power.

Regulation regarding the setting of the price cap control formulas for the services provided by Romtelecom

On 28 May 2007 ANRCTI has issued a decision regarding the setting of the price cap control formula for the services provided by Romtelecom on the relevant specific markets where it has been designated as having significant market power. Based on this decision ANRCTI sets the maximum allowed annual increase of the tariffs charged by the Company on these relevant markets, as well as minimum price levels to prevent price or margin squeeze.

Decisions/public consultation processes held by the regulatory authority / developments during 2008

In 2008 ANC continued the market review process started in 2007 with the scope of adjusting regulation to the changing market environment.

The main regulatory developments for 2008 envisaged:

Call termination at fixed location

ANC has reviewed the regime of interconnection with the largest two operators of fixed telephone networks, Romtelecom and RCS & RDS and regulated the interconnection with other 36 fixed operators.

The regulatory measures vary in direct proportion with the operators' market position. Thus, as regards interconnection with the network of Romtelecom, ANC maintained the whole set of obligations imposed by previous regulations – the obligations of transparency, of non-discrimination, of separate accounting, the

obligation of granting access and permission to use specific elements of the network and of the associated infrastructure, as well as the cost-orientation obligation. Furthermore, ANC established, for each level of interconnection with the network of Romtelecom, a unique value of the regulated tariff, as an average tariff, repealing the current regulatory regime, which sets different interconnection tariffs, itemized by time of the day (for peak hours and, respectively, for off-peak hours). The interconnection tariffs were set as 0.84 Eurocents/min at local level, 0.97 Eurocents/min at regional level, 1.06 Eurocents/min at national level.

ANC also imposed on the other alternative operators of fixed telephone networks the obligations of transparency, of non-discrimination, of granting access and permission to use specific elements of the network and of the associated infrastructure, as well as of tariff control. The tariff control obligation imposed on the alternative operators involves establishing a target-level of their interconnection tariff equal, on average, to Romtelecom's average regional interconnection tariff. ANC set up a glide path for cutting the current interconnection tariffs charged by the alternative operators down to the target level, in two steps, 1.15 cents/minute until 30 June 2009 and after this date the tariffs are reduced to 0.97 Eurocents/min.

Call termination at mobile location

In 2008 ANC has submitted for public consultations the draft decisions regarding the relevant markets for services of call termination at mobile location but the final decisions will be issued in 2009. According to the draft decisions, ANC will impose to all five mobile operators additional obligations of transparency and non-discrimination through the publication of RIO as well as the cost orientation obligation. Thus, the maximum tariffs for the call termination on the networks of Cosmote and Telemobil will drop in three stages, according to the 15 month-glidepath, until reaching symmetry with the tariffs of Orange and Vodafone of 5.03 cents/minute, as of 1 July 2010. Since it is a new-entrant on the mobile telephone market, RCS&RDS will be granted a longer glide path.

Number portability

Romtelecom finalised all the procedures required for the implementation of number portability by October 1st, 2008 when the service became operational. Number portability is the service that enables the telephony users to keep their telephone number when shifting to another provider.

Closing of the numbering plan

Romtelecom complied with the obligation to close its numbering plan, in three stages until September 20th, 2008, when the subscribers are called only by dialing the whole national number consisting of 10 digits (prefix + local number) for all types of calls – local or national. The format of short numbers has also changed to make a clear difference between the numbers for national public interest services (4 digits) and numbers for local public interest services (7 digits).

Mobile communications – CDMA License

In September 2008, ANC designated Romtelecom as the winner of the tender for the new mobile communications license in the 410-415/420-425 MHz frequency bands. The license was granted for 10 years and enables Romtelecom to build, hold and operate a broadband network. The first assessment of the geographic

coverage assumed by Romtelecom will be undertaken by ANC on December 31, 2010 and the remaining two roll-out phases on June 30, 2012, respectively December 31, 2013.

Universal Service obligations - Directory Enquiry Services and Subscriber Directory

In 2008 ANC opened the consultation on the Terms of Reference for designation of the universal service provider for making available a comprehensive subscribers directory and directory services, subject to separate public tenders with a suggested minimum designation period of 2 years.

The launch of the public tender was expected to take place in February 2009. The database will be made available to the end-users by means of a directory enquiry service and of a subscriber directory, at the latest on the 31st of October 2009.

Data Retention obligations

The final version of the law was published in the Official Journal at 21st of November 2008 and entered into force in 60 days after the date of its publishing in the Official Journal. The Law stipulates the obligations of providers of publicly available electronic communications networks and services with respect to the retention of both data on calls and Internet usage which are generated or processed by them. However, the adoption of Methodological Norms for Implementation has been postponed for the end of 2009, suspending the implementation of the Law's provisions.

End User Information

A draft decision that establishes the modalities whereby the telephony providers must communicate the information on the pricing and tariffs, as well as the other conditions for using the services to their subscribers, was submitted to public consultation during 2008 and was adopted in February 2009. This decision is also indicating that ANC will develop an interactive application to enable consumers to rank the offers of each provider using price as main criteria. The development of the database and public launch of the application should take place during 2009.

In 2008, as in prior years, significant company resources were dedicated to regulatory compliance, service costing projects, including the publication of the yearly Separated Financial Statements, consultations, disputes and business support initiatives. This is expected to continue in 2009.

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5. Romtelecom Overview

As one of Romania's largest telecommunications companies and a leader in the fixed communications market, Romtelecom offers reliable, innovative and easy-to-use services, from traditional fixed telephony, broadband Internet and digital TV, to the most secure hosting data center in Romania, voice and data bundled services.

From a total number of subscriptions (revenue generating units) for fixed telephony, broadband and TV services of 3,785,000 at the end of 2007, Romtelecom registered at the end of 2008 a total number of 4,271,739 subscriptions (out of which 2,978,739 for fixed telephony, 650,000 for Clicknet and 643,000 for Dolce), a year on year increase of 13%.

The company is owned 54.01% by OTE International Investments Ltd, a fully owned subsidiary of OTE Greece, and 45.99% by the Romanian State through MCSI.

Hellenic Telecommunications Organization (OTE S.A.) is the major telecoms operator in Greece. At the same time, OTE is among the five largest listed companies with respect to capitalization, in the Athens Stock Exchange. OTE is also listed in the stock exchanges of New York (NYSE) and London (LSE).

The Ministry of Communications and Information Society is the specialized, juridical body of the central public administration in the IT&C sector, having as objective to establish the Romanian Government's policy in the field of electronic communications, postal services, information technology and information society services. As Romtelecom shareholder, the Ministry is representing the Romanian State.

Mission, Vision, Values

Corporate Mission

To deliver promptly ever-growing reliable telecommunication and entertainment services

Corporate Vision

Romtelecom is the service company setting the standards within Romania, by exceeding the expectations of customers, employees and shareholders in the provision of high quality communication, entertainment and IT solutions.

Corporate Values

Customer focus

Our mission is **Customer 1st**. Treat the client as you would like to be treated. Mission is accomplished when even you would like to be your own client.

Commitment

Saying is doing: a promise made has to be a promise kept. No exception.

Respect for the individual

Respect your clients, respect your colleagues and also respect your work. Show respect to others and is it likely they will respond the same.

Integrity

Everything you do has to prove that ethics and business are compatible. Be honest – honesty pays.

Teamwork

Gain success by working as a team. Celebrate it the same way. Learn to share, learn to trust.

Resource and Cost consciousness

Spend as if you were using the money from your own pocket. Keeping costs under control is the easiest way to have a healthy business and a good job.

Win-win approach

- our business partners
- us

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6. Romtelecom in 2008



6.1. Business Strategy

The strategic plans of Romtelecom for 2008 involved improving internal processes, as well as competitive service offering, in order to grow the customers base and increase the presence of the company in growing market segments, with the costs controlled in a very rigorous way.

Implementation of the business plan required the redesign of the workflows and work methodologies to gain more efficiency, resulting in job reductions of the order of 2,000 positions during 2008. In parallel with the implementation of new processes meant to ensure more quality and speed to market with lower resources, Romtelecom continued its Customer 1st Program to ensure added value in the relationship with the clients both on residential and business segments.

For 2008 Romtelecom recorded a healthy growth on the broadband & data segments and satellite TV, with a stabilization of the number of fixed telephony clients. Commercial cooperation with Cosmote was further developed.

Placing in the center of its corporate values the customers' satisfaction, Romtelecom continued to offer more value for money for all services in its portfolio. Customer 1st strategy focused on producing better alternatives: numerous offers were launched, new voice subscriptions were defined for business and residential customers, various bundles were offered to better meet customers' needs.

Addressing the residential customers, Romtelecom completely renewed its voice subscriptions portfolio. Thus, the unique national tariff was introduced for calls within the Romtelecom network and in other national fixed networks, of 2.7 eurocents per minute, regardless of the time slot, as well as unlimited international calls towards the fixed networks of any of 10 states from Europe, USA and Canada. The first common offer with Cosmote was also launched in the second part of the year, using to a larger extent the synergies between the two operators.

On the business segment, Romtelecom also introduced new services and packages: international unlimited calls and unified tariffs for calls towards all national fixed operators. To guarantee the services offered for its business customers, the company started to apply the SLA (service level agreement) for both its voice and internet broadband services. Three new sales channels for the general business market (GBM) became operational in 2008, with the second specialized SME customers call center opened in Brasov. The call center addresses the GBM, estimated at about 250,000 active companies, by promoting services, advising customers on the best suited solutions for their needs and allowing the acquisition of additional services through a simple call. In the first operational months approximately 1 out of 5 contacted clients accepted the new offers made by the agents, a rate which is 35% higher than the industry average.

The offers for the companies started to include in 2008 IT services, in bundles such as IT Manager, a complete solution for small businesses, putting together five services (voice, internet, hardware, software, IT Helpdesk services) or the Basic Security product, a security solution, including various software licenses.

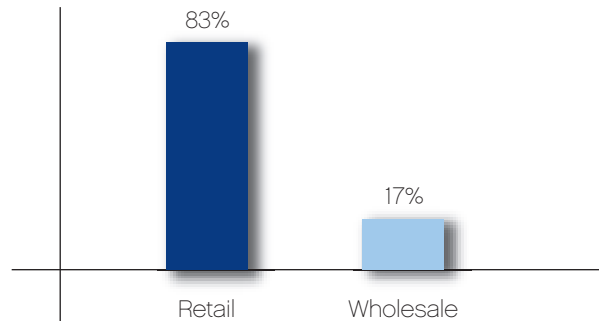
The time to market of Romtelecom' services significantly improved in 2008, with hundreds of new services and products released for both business and residential customers. The sales network was extended in 2008, exceeding 16,500 points of presence, one of the largest in Romania. The company also introduced a new concept of shop in shop, in collaboration with Cosmote.

The results of the Customer 1st program were best noticed in the evolution of the customers' satisfaction. The TRIM study issued at half year 2008 showed a significant change in the perception of the Romtelecom customers. The company achieved an European performance, by increasing with more than 50% the satisfaction level for fixed telephony customers in about a year and a half. According to this, Romtelecom is positioned in the top 10% of European fixed line providers in terms of customers' satisfaction in the Residential segment.

6.2. Operation Segments

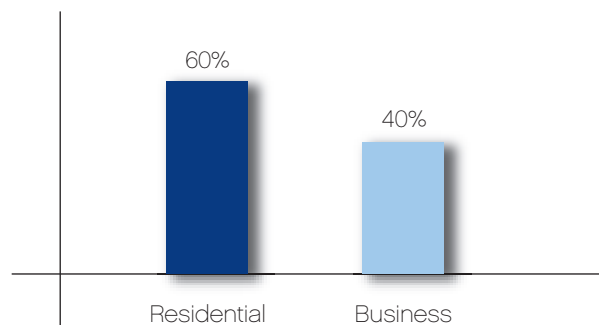
Romtelecom business is presented on the two major lines of activity: retail, comprising business and residential customers operations, and wholesale, which includes business relations with other telecom operators.

Revenues Split



6.2.1. Retail Services

The Romtelecom's Retail revenues amounted to 83% of the Company's revenues. The retail operations are split into two different business units and the correspondent revenues split is the following:



Fixed telephony

Romtelecom maintained the leader position on the fixed telephony market, with a market share of about 70%. Traditional voice services contributed with about 55% of the total revenues of the company, with the new services having however an increasing share in the revenues. Romtelecom completely redesigned its voice services portfolio for both business and residential segments in 2008, offering customers reduced costs per call and more minutes included in the monthly subscriptions. 40% lower tariffs for the national calls made during the peak hours in the Romtelecom network were introduced for the residential customers.

The company also changed the names of the subscriptions, to make it easier for the customers to understand the benefits included in each of them. For example, the Confort 50 subscription was changed to Voce Seara & Weekend (Evening & Weekend Voice), highlighting the main benefit it offers: free of charge calls during evenings and weekends. The portfolio was enriched with three new subscriptions, designed to answer the specific needs of the customers: Voice Mobile, Voice International and Voice Total, offering smaller tariffs for international, mobile or both types of calls.

On the business segment, a unique tariff for calls in Romtelecom network and other fixed national networks, reduced tariffs for calls to mobile national networks and unlimited international calls were also introduced through the new voice subscriptions. The first common offer together with Cosmote was launched on the market in the autumn, allowing unlimited, free of charge calls inside a pre-defined closed users' group formed of Romtelecom and Cosmote clients.

Even if facing the stiffest competition ever, the company managed to increase the number of business fixed telephony connections.

Overall, the commercial strategy brought the desired results, Romtelecom managing to keep under control the churn, with a rate substantially decreased from 11% in 2007 to 2% in 2008.

Broadband Internet & data services

The increase in penetration of ADSL and direct-to-home (DTH) TV services was successful in providing a significant additional revenue stream.

At the end of December 2008, ADSL lines amounted to 650,000, up 290,000 lines or 81% compared to the level at the end of December 2007, while revenues from data services (ADSL, VPN, other broadband services) rose by 38% during 2008. By increasing bandwidth levels for its ADSL service and maintaining competitive prices, Romtelecom has been able to successfully boost its share on Romania's broadband market.

In June 2008, Romtelecom launched a VoIP service, which allows domestic and international calls to fixed, mobile and IP phone numbers, available to all ClickNet broadband Internet subscribers.

On the residential segment, Romtelecom continued to launch bundled products, including hardware and internet connections, as well as free of charge subscription months, depending on the chosen contract period.

On the business segment, Romtelecom became market leader on broadband services, with more than 100,000 clients for Clicknet. Also, the symmetrical internet access solution MetroNet, offering speeds of up to 50 Mbps, had one of the highest dynamics in the Romtelecom portfolio, with an increase of approximately 400% in the number of customers, at the end of 2008, in one year period. The company became the largest VPN provider in the market, in terms of volume, doubling the number of points of presence with 66% more VPN lines than in the previous year. The first complete wireless broadband solution, HotZone, was also added to the products portfolio for business customers.

Digital satellite television

The launch of Romtelecom's DTH service contributed in the past years to the development of the Romanian pay TV market, with Dolce gaining a significant market share in quite a short time, as one of the favorite providers for the Romanian customers. Dolce also recorded excellent customer satisfaction rates.

By the end of 2008, the company's satellite TV offering had attracted 643,000 subscribers, a year-on-year increase of 250,000 customers or 65%, registering one of the highest growing rates in Europe. The revenues generated by Dolce also increased by more than 90%.

Three newly launched movie channels (Cine Star, Action Star and Comedy Star) were added exclusively in the portfolio at the end of the year, in addition to the 51 programs included in the basic package, creating one of the most diversified entertainment solutions for the Dolce customers.

IT services

Apart from the complex IT projects for the big corporations, in 2008 Romtelecom added to its portfolio various IT products and services (security, hardware and software), introduced in bundles with broadband internet connections, as a turnkey communication solutions for small companies.

Another attractive and more sophisticated product from the IT area remained Cyber Host, through the three specialized data centers held by Romtelecom, one in Bucharest and two in Brasov. Cyber Host generated contracts of several million Euros in 2008, having an occupancy rate of more than 85% in its facility in Bucharest. A few tens of customers are using Cyber Host facilities for one of the services offered, from renting rack space to complete managed services or renting communications equipment space.

Cyber Host services are based on more than 300 servers, from low-end to high-end class series, providing the safest and most reliable hosting space in Romania, bundled with a broad offering of communications services, to meet the business continuity and disaster recovery needs of any business entity.

6.2.2. Wholesale Services

Romtelecom Carrier Services provides the wholesale customers with a wide range of data and Internet services, voice termination and transit, but also international L2 Ethernet services, and IP VPNs. Carrier Services developed close relationships with a large number of telecommunication companies, ranging from long-established global carriers to the newest entrants on the increasingly competitive telecommunications market.

Thanks to large scale deployment and the network's extension to neighboring markets, Romtelecom is a reliable partner, providing access across the CEE region, from Frankfurt to Romania, Bulgaria, Ukraine, Moldova, Serbia and Turkey. The company infrastructure covers a gateway to Frankfurt of 520 GB over 3 redundant routes and an extensive national network in Romania, with one of the most modern backbone in Eastern Europe.

In 2008 the wholesale revenues reached 140 million euro, with the international voice services remaining the main source of revenues. Growth in terms of revenues was also registered for data services.

The service portfolio was strengthened and adapted to the specific needs of the wholesale communications market, becoming a comprehensive and robust offer. Thus, new services for Layer 2 data transport (Clear Channel and L2 Connect) were launched, providing point to point connectivity between two locations in Romania and/or abroad. Also, the foundations were laid for the launch of an Internet Exchange platform, a Neutral Collocation Center and an International MPLS IP VPN service.

Supplying the sophisticated demand of operators acting on the local and regional emerging markets, ensures Romtelecom's position as one of the biggest carriers for access to the dynamic business scene of the Balkans.

6.3. Technology Infrastructure

2008 was first of all the year of ADSL broadband expansion, Romtelecom reaching a number of over 1 million ADSL ports installed in close to 4 thousand sites.

The number of (data) Distribution Nodes reached 108, 40 new ones being added, while the overall number of Access Nodes is approximately 4 thousand. Along with the growth in the number of nodes, customers and service bandwidths, IP-MPLS and DWDM networks were also upgraded in order to support traffic increase. In the same time, significant investment efforts covered access network modernization, shortening the local loop to support broadband and installations of new cabinets.

Targeting network optimization for its data customers, Romtelecom completed the IP-MPLS network restructuring to a semi-meshed architecture that supports improved performance and higher resiliency. IP-MPLS network is based on Cisco's Carrier Routing System (CRS-1), routing platform with enhanced scalability and service flexibility. The current structure is based on a fully-meshed "inner" core and dually connected core routers in other 5 major cities.

Carrier Services needs for 2008 were the trigger for additional investments in developing infrastructure (optical fiber cables) and in additional DWDM and IP-MPLS capacities (including Frankfurt POP upgrades). For resiliency purposes, a new DWDM line with total capacity of 120Gbps was implemented in the South of the country.

Overall, during 2008, 3,444 km of fiber optics cables were installed, the total length of fiber optics infrastructure at the end of the year reaching over 36,500 km.

6.4. Human Resources

Following the approval of the new Business Plan and the CEO communication on Company Profitable Growth Strategy made in January 2008, ensuring a performance-driven organization and culture became the first priority of the Human Resources (HR) Department. The most important strategic initiatives were gathered into a companywide Transformation Project aimed to aggressively reduce costs, increase company efficiency, re-engineer processes and procedures and reduce up to 2,500 positions.

From the beginning of this project, communication was transparent, coherent and addressed to all employees. Meetings with managers and two road shows organized in 10 locations throughout the country, focused on open communication regarding the necessity of change and the clarification of all questions rose by the close to 4,000 employees who attended these meetings.

Almost 9,000 employees from Operations, IT, Real Estate, Finance, Call Center and HR, both management and staff, participated in a complex assessment process, built on three independent assessment tools, organized in 41 locations and supported by external assessment experts. To assist the affected employees, the company contracted an Outplacement program and almost 40% agreed to participate to this program and find opportunities for new jobs. By the end of the project, 2,038 employees agreed to leave through mutual agreement and received compensations.

For the past three years, headcount evolved as follows:

	Employees
2008, Dec 31	10,344
2007, Dec 31	12,512
2006, Dec 31	12,257

In parallel, the Human Resources Department launched a re-designed Performance Management System for management for 2008, more focused on the link between company performance and individual performance. In addition, a new Performance Management System was designed for staff personnel, considering each job main key results areas and core competencies aligned with company values, which will be implemented in 2009.

In order to support one of the most important objectives of the company – grow customer base through improved commercial capabilities – a few hundred new recruits joined Romtelecom in 2008, mainly in Sales, with special focus on GBM Segment, Customer Care and Call Center areas.

Industrial relations were good and positive, ensuring constructive consultations and negotiations during the year. In December, as a result of the negotiations, the reduced working schedule for call center personnel was increased and most of the provisions of the current Collective Labor Agreement were prolonged for another 6 months.

More than 2,000 people received over 30,000 training hours in Change Management and Customer Relationship training programs, developed at company level.

Important steps were done in Talent management area. Based on the agreed company competency model, HR developed a Talent Management Strategy focused on performance and potential and finalized the Talent Matrix in order to identify clear actions for development.

6.5. Corporate Social Responsibility

Romtelecom is a traditional supporter of programs that benefit the Romanian society. Some of the most relevant projects in which the company was involved last year are presented below, according to domain areas.

1. Children Protection

The partnership between Romtelecom and the Child Helpline Association is part of Romtelecom's CSR strategy for more than 8 years. The Child Helpline was conceived as a support for families and children under critical situations, where, by a simple free of charge call, they obtain information and advice, as well as financial and material support. About 1.5 million calls, signaling different child abuse situations, were received at the Child Helpline since the association was set up. More than 600 real cases of abuses were identified in 2008 alone.

Also in 2008, through the "**Safer Internet**" project Romtelecom together with the Consumers' Protection Association in Romania launched the **www.internetsigur.ro** website dedicated especially to children, but also to

parents and teachers, aiming at informing them about the responsibilities and risks associated with using the Internet. The website presents rules to safely use the Internet, such as: not answering to unrequested e-mails received from unknown persons, not offering or posting on the Internet photos or personal data etc. The website has special sections for each type of audience, including a guide with methods of educating the children to be careful when using the Internet and lessons that can be used by teachers in schools.

2. Environment protection

Among the most important projects supported by Romtelecom in 2008 were **"Adopt a river"** and **"We want a cleaner Romania"**.

The project **"Adopt a river"** was developed and implemented together with the **"Save the Danube and Delta Association"** and supported by the National Administration of Romanian Waters. The project included cleaning actions of the Olt River and local awareness programs related to the importance of protecting the environment. During July 25 – September 7, more than 450 volunteers took part at the environmental protection sessions and cleaned the banks of the Olt River in four areas along the water. More than 25 tones of garbage were gathered during these actions.

Romtelecom also sustained the photo-video contest **"We want a cleaner Romania!"**, organized together with Hotnews and EcoTic Association, aiming at drawing attention on the lack of interest regarding the environment protection in our country. At the same time, in order to show the beautiful parts of Romania, a contest was organized for Romtelecom's employees and the best images were awarded and inserted in an educative brochure with practical advices and information for making the citizens more responsible about the environment protection. The project **"We want a cleaner Romania!"** continues a long tradition of supporting ecological projects, through which the company has been trying to contribute to protecting the environment.

3. Values

As a supporter of rewarding excellence, Romtelecom was involved, for the 9th time in a row, with one of the most prestigious media events, the **"Romanian Press Club Gala"**. Organized by the **Romanian Press Club**, the event nominates and awards the best Romanian journalists of the year in several sections.

4. Social Causes

Another traditional project continued in 2008 is the **Program of Discovering and Preventing Breast Cancer**, developed by **Renașterea Foundation** and the **Breast and Cervix Cancer Mobil Diagnosis**. Over 2000 women from 10 cities of the country benefited of free of charge mammography and cervix tests, due to Romtelecom's support of these projects.

In December 2008, Romtelecom launched an anti-stress campaign, meant to send the message that stress is an unavoidable fact of our lives, but a manageable one, at the same time. Under the motto "Stress Forbidden", a "de-stress" team was present in Bucharest for a couple of days in December, trying to offer relaxation moments to the hurried and tensed passer-bys. The campaign also had an online component, targeting first of all people working in the offices. The **"www.antistresu.ro"** website offered them the possibility to manage their stress by interacting with a green evil character, impersonating the stress in their lives. Over 20,000 people used the website in approximately one month.



7. Financial Section



Contents

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Report of the independent auditors	-
Consolidated income statement	I
Consolidated balance sheet	II
Consolidated statement of changes in equity	III
Consolidated cash flow statement	IV
Notes to the consolidated financial statements	1 - 61

INDEPENDENT AUDITORS' REPORT

To the Shareholders of S.C. Romtelecom S.A.

We have audited the accompanying consolidated financial statements of S.C. Romtelecom S.A. ("the Company"), which comprise the consolidated balance sheet as at December 31, 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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted 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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, 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, the auditor considers 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 for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 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 adopted by the European Union.

April 3, 2009

Ernst & Young Assurance Services SRL
Bucharest, Romania

Consolidated Income Statement
year ended 31 December 2008

	Notes	2008	2007
Revenue	5	3,203,679	2,911,516
Operating expenses	6	(3,341,675)	(2,888,091)
Operating (loss) / profit /		(137,996)	23,425
Finance income	7	146,138	98,859
Finance costs	7	(102,423)	(72,580)
Share of loss of associate	12	(122,890)	(118,519)
Loss before tax		(217,171)	(68,815)
Income tax (expense) / credit	8	37,944	(9,309)
Net loss for the year		(179,227)	(78,124)
Basic and diluted loss per share from continuing operations (RON / share)	9	(5.63)	(2.45)

These consolidated financial statements, accompanying policies and notes on pages 1 to 61, which form an integral part of these financial statements, were approved for issue by the Board of Directors of SC Romtelecom SA on 2 April 2009 and signed on its behalf by:

Georgios Ioannidis
Chief Executive Officer

Anastasios Tzoulas
Chief Financial Officer

All amounts in Romanian lei thousand unless otherwise stated

Consolidated Balance Sheet
as at 31 December 2008

	Notes	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	10.1	6,153,848	6,652,937
Investment property	10.2	69,134	27,002
Intangible assets	11	243,660	305,211
Investment in associate	12	119,091	103,044
Trade and other receivables	16	60,907	29,933
Other investments	13	78	78
Deferred charges	15	52,418	91,778
		6,699,136	7,209,983
Current assets			
Inventories	17	291,185	270,421
Trade and other receivables	16	498,727	377,473
Financial assets	14	34,811	91,078
Deferred charges	15	29,660	37,763
Cash and cash equivalents	18	618,617	535,257
		1,473,000	1,311,992
Total assets		8,172,136	8,521,975
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	19	5,975,037	5,975,037
Share premium		1,295,227	1,295,227
Accumulated deficit		(349,663)	(170,436)
		6,920,601	7,099,828
LIABILITIES			
Non-current liabilities			
Interest bearing loans and borrowings	21	159,812	232,103
Deferred tax liabilities	22	206,151	259,635
Retirement benefit obligations	23	42,668	33,528
Finance lease liabilities	26	17,942	13,775
Other payables	20	457	470
Deferred income	25	94,331	143,212
		521,361	682,723
Current liabilities			
Trade and other payables	20	579,044	498,451
Interest bearing loans and borrowings	21	58,951	50,042
Provisions for charges and liabilities	24	6,586	88,927
Finance lease liabilities	26	6,814	12,746
Deferred income	25	78,779	89,258
		730,174	739,424
Total liabilities		1,251,535	1,422,147
Total equity and liabilities		8,172,136	8,521,975

The accompanying policies and notes on pages 1 to 61 form an integral part of these consolidated financial statements.

All amounts in Romanian lei thousand unless otherwise stated

Consolidated Statement of Changes in Equity
for the year ended 31 December 2008

	Share capital	Share premium	Accumulated deficit	Total equity
Balance at 1 January 2007	5,975,037	1,295,227	(92,312)	7,177,952
Net loss for the year	-	-	(78,124)	(78,124)
Balance at 1 January 2008	5,975,037	1,295,227	(170,436)	7,099,828
Net loss for the year	-	-	(179,227)	(179,227)
Balance at 31 December 2008	5,975,037	1,295,227	(349,663)	6,920,601

The accompanying policies and notes on pages 1 to 61 form an integral part of these consolidated financial statements.

All amounts in Romanian lei thousand unless otherwise stated

Consolidated Cash Flow Statement
for the year ended 31 December 2008

	Notes	31 December 2008	31 December 2007
Cash generated from operations	27	758,987	1,104,589
Interest paid		(13,254)	(18,647)
Payments for fiscal audit penalties		(68,758)	-
Income tax paid		(7,542)	(57,831)
Net cash from operating activities		669,433	1,028,111
Cash flows from investing activities			
Purchase of tangible and intangible assets		(512,429)	(862,295)
Proceeds from sale of property and equipment		1,349	2,646
Purchase of short term investment titles		(22,475)	(16,078)
Proceeds from sale of long term bonds		75,000	-
Payments for increase in the share capital of associate		(138,938)	-
Interest received		63,121	33,643
Net cash used in investing activities		(534,372)	(842,084)
Cash flows from financing activities			
Repayments of loans and borrowings		(50,419)	(98,106)
Payment of finance lease liabilities		(1,764)	(3,873)
Net cash used in financing activities		(52,183)	(101,979)
Net increase/(decrease) in cash and cash equivalents		82,878	84,048
Cash and cash equivalents at the beginning of the year		535,183	451,135
Cash and cash equivalents at the end of the year	18	618,061	535,183

The accompanying policies and notes on pages 1 to 61 form an integral part of these consolidated financial statements.

All amounts in Romanian lei thousand unless otherwise stated

Notes to the consolidated financial statements

1. GENERAL INFORMATION

Reporting entity

SC Romtelecom SA ("Romtelecom" or the "Company") was set-up on 1 November 1997 as a joint stock company incorporated in Romania, at which date the business and substantially all of the assets and liabilities of Romtelecom RA (a State owned corporation) were transferred to the Company. The Company has its registered office in Bucharest, Romania, 1B Garlei Street, Sector 1.

On 30 December 1998, 35% of the Company's share capital was acquired by the Hellenic Telecommunications Organisation S.A. ("OTE") through its subsidiary, OTE International Investments Ltd. ("OTE International Investments") incorporated in Cyprus. Prior to the partial privatisation of the Company, the shares were entirely owned by the Romanian Government.

During the Extraordinary Shareholders Meetings held on 31 January 2003 and 28 February 2003 the shareholders approved the increase of OTE International Investments' interest in the share capital of Romtelecom from 35% to 54.01%, through debt to equity conversion and cash contribution.

The Company held exclusive rights to provide local, long distance and international fixed telecommunications services in Romania until 31 December 2002. The market was liberalised on 1st January 2003.

On 6 April 2005, the Company sold its 95.67 % shareholding in Cable Vision of Romania SA, cable television services provider, thus ceasing to operate in this line of business. On 17 May 2005, the Company merged with its former fully owned subsidiary Artelecom SA, internet services provider, thus internalising the supply of internet and data services (re-launched during April 2006). On 7 July 2005, the Company disposed of its entire shareholding in Cosmorom SA, mobile telecommunications services provider (subsequently known as Cosmote Romanian Mobile Telecommunications SA and hereafter referred to as "Cosmote Romania") and then subsequently re-acquired a 30% interest in the former subsidiary.

During December 2006, the Company entered the market of satellite TV services, the new service being available across Romania.

On 9 July 2008, the Company set-up a fully owned new subsidiary NextGen Communications SRL having as main object of activity wired telecommunications activities. NextGen Communications SRL will be engaged in internet services, offering increased internet speed and also metropolitan network speed. This subsidiary had no significant operations to date, being still in the development process.

Management

The names of the managers of the Company serving during the financial year and to the date of these consolidated financial statements, together with their respective dates of appointment and resignation are as follows:

Position Manager

President of the Board of Directors	Mr. Panagiotis Vourloumis, was appointed as President of the BoD starting Directors of with June 23, 2004. The President of the Board of Directors was re-appointed on June 18, 2008.
Chief Executive Officer ("CEO")	Mr. Georgios Ioannidis, was appointed as Chief Executive Officer starting with February 1, 2007. The appointment was approved by the Board of Directors on January 26, 2007.
Chief Financial Officer	Mr. Anastasios Tzoulas was appointed as Chief Financial Officer starting with May 1, 2007, based on CEO Decision dated April 30, 2007.
Chief Commercial Officer - Business Segment	Mr. George Makowski was appointed as Chief Commercial Officer - Business Segment starting with August 1, 2007, based on CEO Decision dated July 31, 2007.
Chief Commercial Officer - starting Residential Segment	Mr. Joerg Zeddies was appointed as Chief Commercial Officer - Residential Segment with August 1, 2007, based on CEO Decision dated July 31, 2007.
Chief Business Services Officer	Mr. Efthymios Papapostolou was appointed as Chief Business Services Officer starting with April 1, 2007, based on CEO Decision, dated 30 March 2007.
Chief Legal and Corporate June Affairs Officer	Mr. Catalin Dima, was appointed as Chief Legal & Corporate Affairs Officer starting with 1, 2005. The appointment was approved by the Board of Directors on May 27, 2005.
Chief Information Officer	Mr. Fotis Karonis was appointed as Chief Information Officer starting with June 15, 2007, based on CEO Decision dated 31 May 2007.
Chief Human Resources Officer	Mrs. Anca Georgescu Aladgem was appointed as Chief Human Resources Officer starting with July 1, 2007, based on CEO Decision dated June 15, 2007.
Chief Technology & Operations Officer	Mr. Wolfgang Breuer was appointed as Chief Technology & Operations Officer starting with August 1, 2008, based on CEO Decision dated July 30, 2008.
Chief Operations Officer	Mr. Ioan Botis was appointed as Chief Operations Officer starting with February 1, 2008; based on CEO Decision dated January 30, 2008. Starting with August 1, 2008, the Chief Operations Officer is under the subordination of Chief Technology & Operations Officer.
Chief Technology Officer	Mr. Silviu Agapi was appointed as Chief Technology Officer starting with February 1, 2008; based on CEO Decision dated January 30, 2008. Starting with August 1, 2008, the Chief Technology Officer is under the subordination of Chief Technology & Operations Officer.
Chief Business Development & Transformation Officer	Mr. Harm Aben was appointed as Chief Business Development & Transformation Officer starting with February 1, 2008, based on CEO Decision dated January 30, 2008.
Chief Audit Officer	Mr. Ovidiu Rusu, was appointed as Chief Audit Officer starting with April, 2007. The appointment was approved by the Board of Directors on March 28, 2007.

Going concern

The management team has developed business plans for the Company for the period up to 2011. Management considers that the Company will be able to continue to operate as a going concern in the foreseeable future.

Exchange rates as at 31 December 2008

The principal exchange rates used to translate the balances in foreign currencies to RON as at 31 December 2008 are presented below:

Currency	Abbreviation	Exchange rate (RON for 1 currency unit)
Euro	EUR	3.9852
United States Dollars	USD	2.8342
Korean Wons	KWON	0.0022
Special Drawing Rights	XDR	4.3753

Glossary of terms

GSM	Global System for Mobile Communications
DCS	Digital Cellular System
CDMA	Code Division Multiple Access
EURIBOR	Euro Interbank Offered Rate
LIBOR	London Interbank Offered Rate
BUBID	Bucharest Interbank Bid Rate
BUBOR	Bucharest Interbank Offered Rate
BUMID	Bucharest Interbank Mid Rate
ADSL	Asymmetric Digital Subscriber Line
ISDN	Integrated Services Digital Network
VOIP	Voice Over Internet Protocol

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Index to accounting policies		Pages
A	Basis of preparation	4
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A. Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS"), as endorsed by the EU, and are not the statutory accounts of Romtelecom. The Company maintains its accounting records in RON prepared in accordance with the accounting requirements of Romanian law and accounting practice issued by the Ministry of Public Finance of Romania. The accompanying consolidated financial statements are based on the statutory records of the Company, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS, as endorsed by the EU.

These consolidated financial statements have been prepared under the historical cost convention, (including the effects of hyperinflation), except for the initial valuation of property and equipment as further disclosed in paragraph F of this Note to the consolidated financial statements and the appraised value of the land received from the State free of charge, the valuation of investments in associates in accordance with equity method

prescribed by IAS 28 "Investments in associates" and the fair valuation of financial assets at fair value through the income statement.

The preparation of consolidated financial statements in conformity with IFRS, as endorsed by the EU, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4 "Use of judgements and estimates" to these consolidated financial statements.

Changes in accounting policy and disclosures

First time application of new Standards and Interpretations compulsory since January 1, 2008:

- I) IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not relevant to the Company's operations as the Company has not entered into any share-based payment arrangements;
- II) 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. IFRIC 12 is not relevant to the Company's operations as the Company has not entered into any service concession arrangements;
- III) 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 Company 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.
- IV) Amendments to IAS 39 and IFRS 7 – *Reclassification of financial assets* (effective from 1 July 2008). This amendment to IAS 39 and IFRS 7 permits the reclassification of held for trading and available for sale financial assets under certain rare circumstances, and respectively requires certain disclosures if such reclassifications are recorded. The Company has not reclassified its financial assets in accordance with this amendment.

Standards issued but not yet effective

Standards, Interpretations and amendments to published Standards that are not yet effective and have not been applied in preparing these financial statements:

- I) Revised IFRS 2 *Share-based Payment* (effective from 1 January 2009). The revised Standard 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. Revised IFRS 2 is not relevant to the Company's operations as the Company does not have any share-based compensation plans.
- II) 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:
 - a. All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
 - b. Transaction costs are not included in the acquisition accounting.
 - c. The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree.
 - d. Acquisitions of additional non-controlling equity interests after the business combination must be accounted for as equity transactions.

Revised IFRS 3 is not relevant to the Company's operations as the Company does not have any interests in subsidiaries that would be affected by the revisions to the Standard.

- III) 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. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Adequate disclosures will be made in financial statements in order to comply with provision of this Standard when it will become effective.
- IV) Revised IAS 1 *Presentation of Financial Statements* (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Company is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- V) 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. Revised IAS 27 is not relevant to the Company's operations as the Company does not have any interests in subsidiaries that would be affected by the revisions to the Standard.

- VI) 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 Company's financial statements as the Company has not issued in the past puttable instruments that would be affected by the amendments.
- VII) 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. The Company does not expect the Interpretation to have any impact on the consolidated financial statements.
- VIII) IAS 23 *Borrowing Costs (Revised)* (effective for annual periods beginning on or after 1 January 2009). The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. As this was the treatment already applied by the Company, this amendment will have no impact on the consolidated financial statements.
- IX) IFRIC 15 *Agreement for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009). It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statements because the Company does not conduct such activities.
- X) IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008). IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Company has no investments to which IFRIC 16 would be applicable.
- XI) IFRIC 17 *Distributions of non-cash assets to owners* (effective for annual periods beginning on or after 1 July 2009). The interpretation addresses the recognition and measurement of dividends payable through distribution of non-cash assets to owners. The Company does not expect to make such distributions in the foreseeable future.
- XII) IFRIC 18 *Transfers of assets from customers* (effective for transfers of assets from customers received on or after 1 July 2009, prospectively. Earlier application is permitted under certain circumstances). The interpretation states that when an entity receives from a customer a transfer of an item of property, plant and equipment, it shall assess whether the transferred item meets the definition of an asset set out in the

Framework. *If the entity concludes that the definition of an asset is met, it shall recognise the transferred asset as an item of property, plant and equipment and measure its cost on initial recognition at its fair value. According to the terms of the agreements within the scope of this Interpretation, a transfer of an item of property, plant and equipment would be an exchange for dissimilar goods or services.*

Consequently, the entity shall recognise revenue in accordance with IAS 18. An entity may agree to deliver one or more services in exchange for the transferred item of property, plant and equipment, such as connecting the customer to a network, providing the customer with ongoing access to a supply of goods or services, or both. The entity shall identify the separately identifiable services included in the agreement. (The interpretation provides guidance as to the features to be considered in order to identify separate services). If only one service is identified, the entity shall recognise revenue when the service is performed. If more than one separately identifiable service is identified, the fair value of the total consideration received or receivable for the agreement must be allocated to each service and the recognition criteria of IAS 18 are then applied to each service. If an ongoing service is identified as part of the agreement, the period over which revenue shall be recognised for that service is generally determined by the terms of the agreement with the customer. If the agreement does not specify a period, the revenue shall be recognised over a period no longer than the useful life of the transferred asset used to provide the ongoing service. When an entity receives a transfer of cash from a customer, it shall assess whether the agreement is within the scope of this Interpretation. If it is, the entity shall assess whether the constructed or acquired item of property, plant and equipment meets the definition of an asset. If the definition of an asset is met, the entity shall recognise the item of property, plant and equipment at its cost in accordance with IAS 16 and shall recognise revenue in the same manner as described above, at the amount of cash received from the customer. The Company is not expecting that IFRIC 18 will have any significant impact on its financial statements because the Company has already applied a similar accounting policy for a number of years.

- XIII) *Amendment to IAS 39 Financial Instruments Recognition and Measurement – Eligible Hedged Items* (effective for annual periods beginning on or after 1 July 2009). The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.
- XIV) *Improvements to IFRSs.* In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.
- *AS 1 Presentation of Financial Statements.* Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet.
 - *IAS 16 Property, Plant and Equipment.* Replace the term “net selling price” with “fair value less costs to sell”.
 - *IAS 23 Borrowing Costs.* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of ‘borrowing costs’ into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
 - *IAS 28 Investment in Associates.* If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. An

investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- IAS 31 *Interest in Joint ventures*. If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- IAS 36 *Impairment of Assets*. When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- IAS 38 *Intangible Assets*. Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- IFRS 7 *Financial Instruments: Disclosures*. Removal of the reference to 'total interest income' as a component of finance costs.
- IAS 8 *Accounting Policies, Change in Accounting Estimates and Errors*. Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- IAS 10 *Events after the Reporting Period*. Clarification that dividends declared after the end of the reporting period are not obligations.
- IAS 16 *Property, Plant and Equipment*. Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- IAS 18 *Revenue*. Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- IAS 19 *Employee Benefits*. Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.
- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*. Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- IAS 27 *Consolidated and Separate Financial Statements*. When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- IAS 29 *Financial Reporting in Hyperinflationary Economies*. Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- AS 34 *Interim Financial Reporting*. Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
- IAS 39 *Financial Instruments: Recognition and Measurement*. Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when re-measuring a debt instrument on the cessation of fair value hedge accounting.
- IAS 40 *Investment Property*. Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably

determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

- IAS 41 *Agriculture*. Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced of the term 'point-of-sale costs' with 'costs to sell'.

None of the above improvements to IFRSs is expected to have a significant impact on the financial position, performance or disclosure in the financial statements of the Company, either because the Company does not have applicable transactions or its accounting policies and disclosures were already in line with the improvements.

XV) The IASB has also issued various amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which are not presented in detail as the standard is not applicable to the Company that has reported under IFRS for a number of years.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Romtelecom SA and its subsidiary, NextGen Communications SRL as at 31 December 2008.

The subsidiary is fully consolidated from the set-up date and will continue to be consolidated until the date that the control over its operations ceases.

The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

B. Investment in associate

Associates are entities over which the Company generally has between 20% and 50% of the voting rights, or over which the Company has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

Company's share of its' associates post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless the Company has incurred obligations or made payments on behalf of the associates. Unrealised gains or transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates;

unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

C. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of other economic environments.

No reportable business segments neither geographical segments have been identified for the purpose of preparing Romtelecom's consolidated financial statements for the years ended 31 December 2008 and 31 December 2007. A reportable business segment contributes 10% or more of the total revenues, the total result or the total assets of the Company.

D. Foreign currency translation

Functional currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The consolidated financial statements are presented in RON, which is the functional and presentation currency of the Company.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, within the financial result.

E. Accounting for the effect of hyperinflation

Prior to 1 July 2004 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RON in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment in Romania indicated that hyperinflation has ceased, effective from 1 July 2004 the Company no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 30 June 2004 are treated as the basis for the carrying amounts in these consolidated financial statements.

The main guidelines followed in restating the figures during the period of hyperinflation were:

Monetary assets and liabilities

Cash and cash equivalents, receivables (except for advances paid to fixed asset suppliers), payables and interest bearing loans are not restated as they are considered monetary assets and liabilities and are therefore stated in RON current at the balance sheet date.

Non-monetary items

Non-monetary items (those balance sheet items that are not already expressed in terms of RON current at 30 June 2004) are restated from their historical cost or valuation by applying the change in the CPI from either the date of acquisition, valuation or contribution, to 30 June 2004.

Income statement

Because of Romanian economy ceasing to be hyperinflationary starting with 1 July 2004, income statement items arising subsequent to this date (therefore including for the full financial years 2008 and 2007) were not subject to restatement, except for transactions of a non-monetary nature related to balance-sheet items recognised for the first time prior to this date, such as depreciation and amortisation of fixed assets. The depreciation and amortisation expense for the year as well as impairment losses are therefore influenced by the restated carrying value of property and equipment and intangible assets acquired prior to 1 July 2004.

F. Property and equipment

1) Cost / valuation

Property and equipment is stated at historical or restated cost less depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

IAS 29 states that all property and equipment should be restated from the date of their purchase using a general price index. When detailed records of the acquisition dates of items are not available or capable of estimation, in the first period of application of the standard it is allowed to use a valuation as basis for the restatements.

Romtelecom RA (the predecessor entity) first prepared its IAS financial statements for the year ended 31 December 1994 and had an internal valuation of the property and equipment performed at that date using either a modern equivalent asset or a depreciated net replacement cost methodology, as appropriate. This involved a range of techniques including current replacement cost for assets such as digital exchanges, modern equivalent asset cost for assets such as analogue exchanges where direct replacement would not be appropriate and indexed historical cost for assets such as motor vehicles where either replacement costs were not available or the amounts involved were less significant in aggregate. The valuation was dependent upon, among other matters, the remaining useful lives of the assets, which themselves reflected the network development plans of Romtelecom.

This valuation has been brought forward to 30 June 2004 by applying the change in the CPI. Property and equipment acquired after 31 December 1994 are restated by applying the change in the CPI from the dates when the items were initially recorded at cost to 30 June 2004.

II) Subsequent expenditure

Subsequent expenditure is included in the asset carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

III) Borrowing costs

Interest costs on borrowings to finance the construction of property and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

IV) Depreciation

Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

	Years
Buildings	45
Cable and related equipment	15-20
Exchanges and related equipment	10-15
Other fixed assets	3-8

Management is continuing to assess network development plans and is reviewing assets' residual values and useful lives at each balance sheet date.

V) Land and land improvements

Land received from the State free of charge is valued at an appraised value at the date of transfer of ownership.

Land is not depreciated as it is deemed to have an indefinite life. Land improvements, such as site preparation and protection works, are depreciated straight-line over the life of the main network asset(s) located on the site.

G. Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at carried at historic cost less provisions for depreciation and impairment.

The accounting policies on the measurement basis (cost) and the depreciation rates are similar with those included for land and buildings under property, plant and equipment note above.

Investment properties are derecognised when they have been either disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the net book value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

H. Intangible assets

i) Licenses

Licenses have finite estimated useful life (not exceeding 20 years) and are carried at historical cost less accumulated amortisation and impairment provisions. Amortisation of licenses is charged on a straight-line basis over the period of the licence.

ii) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use specific software. These costs are amortised over their estimated useful life of three to five years.

Generally, costs associated with developing computer software programmes are recognised as expenses as incurred.

However, costs that are clearly associated with an identifiable and unique product which will be controlled by the Company and has a probable benefit exceeding the cost beyond one year are recognised as an intangible asset. Associated costs include staff costs of the development team and an appropriate proportion of relevant overheads.

Expenditure that enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. These costs are capitalised in intangible assets where not integral to property and equipment. Computer software development costs recognised as assets are amortised using the straight-line method over a period of 3 to 5 years.

iii) Subscriber acquisition costs

The Company changed in 2008 its accounting policy with regards to the subscriber acquisition costs that were previously classified as deferred expenses. The Company has decided to capitalise as intangible assets the incremental costs of connections related to residential customers acquired after 1 January 2007 for fixed line telephony, internet services and satellite TV. The subscriber acquisition costs are amortised over 2 years, which is the period of the non-cancellable subscription by the customers.

The Company has applied retrospectively the change in accounting policy and has reclassified from deferred charges (Note 15) to intangible assets (Note 11) the amounts capitalised during 2007 (RON 33,313) and the accumulated amortisation during 2007 (RON 4,500) and from payroll and materials expenses to amortisation expenses (Note 6.1 to Note 6.2) the amortisation expense for 2007 (RON 4,500).

The change in accounting policy has been determined by the fact that this classification represents the substance of the respective connection costs, in accordance with the criteria of IAS 38.

I. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

J. Financial instruments

I) Financial assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and short-term deposits, trade and other receivables and financial assets at fair value through profit and loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

a) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method.

Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

An allowance for impairment of receivables is established, where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is recognised in the income statement and is measured as the difference between the carrying amount of the receivable and the present value of expected future cash flows discounted at the original effective interest rate. The changes in the impairment allowance for receivables are recognised in the income statement within "operating expenses".

For trade and other receivables carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Trade and other receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The discount rate for measuring any impairment loss is the current effective interest rate.

Amounts payable to and receivable from other network operators are shown net where a right of set-off exists and the amounts are settled on a net basis.

b) Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages

such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through income statement are measured at fair value, and changes therein are recognised in profit or loss.

c) ash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of bank overdrafts and excluding restricted cash. In the balance sheet, bank overdrafts are included within borrowings in current liabilities.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

II) **Financial liabilities**

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

a) Loans and borrowings

Loans and borrowings are subsequently measured at amortised cost using the effective yield method; any difference between proceeds (net of transactions costs) and the redemption value is recognised in the income statement over the period of the interest bearing loans and borrowings.

Interest bearing loans and borrowings are classified as current liabilities if they are due to be settled within twelve months after the balance sheet date or the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

b) Trade and other payables

Short term liabilities for trade and other payables are carried at the fair value of the consideration to be paid in the future for goods and services received. Non-current payables, similar to borrowings, are subsequently carried at amortised cost using the effective interest rate method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

III) **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

IV) **Fair value of financial instruments**

In order to determine the fair value of its financial instruments, the Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying amounts of trade receivables and trade payables are estimated by management to approximate their fair values.

The fair value of loans and borrowings, for disclosure purposes, is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

K. Inventories

Inventories are stated at the lower of cost and estimated net realisable value. Cost is determined on a weight average cost (WAC) basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less applicable variable selling expenses. Allowance is made against slow moving, damaged and obsolete items, the estimated net realisable value of which is below acquisition cost.

L. Share capital

Incremental costs directly attributable to the issue of new shares, other than in connection with business combinations, are shown in equity as a deduction, net of tax, from the proceeds.

M. Income tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets are recognised for tax losses carry-forward to the extent that realisation of the related tax benefit through the future taxable profits is probable.

Deferred income tax is provided on temporary differences arising on investments in associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Temporary taxable differences (generating deferred tax liability) mainly arise from non-monetary assets (property and equipment, intangible fixed assets and inventories) in respect to the differences between the restated amounts in accordance with IAS 29 and the values for tax purposes.

Temporary deductible differences (generating deferred tax assets) mainly arise from financial investments in associates in respect to IFRS accounting for Company's share of associate's result for the year, as well as from various provisions and accruals temporarily non-deductible under tax regulations.

N. Employee benefits

i) Contributions to State pension plan and other State social security funds for employees

Contributions are made by the Company to the State's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The cost of these payments is charged to the income statement in the same period as the related salary cost. The Company has no other liability under Romanian law in respect of future pension, health or other costs for its employees.

ii) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised by the Company in other provisions where contractually obliged or where there is a past practice that has created a constructive obligation. Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

III) **Post-employment benefits**

The Company has a defined retirement benefit plan, set in accordance with an annually negotiated collective labour contract prescribing that Romtelecom is required to pay on retirement the equivalent of 2 to 8 months of average base salaries depending on the length of service. Romtelecom's obligations are restricted to those employees who retire from the Company during the period of the collective labour contract.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The discount rate used is that of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The forecasted increases in salaries used are estimated based on the current assumptions in Romanian economy regarding the evolution of the inflation rate, correlated with similar assumptions used in the European Union.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

IV) **Termination benefits**

Termination benefits are recognised as a liability when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retiring date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

O. Capital grants and donations

Grants relating to acquisition of property and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected useful lives of the related assets.

Network access assets constructed by customers and donated to Romtelecom in order to gain free maintenance and renewal services by the Company are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected useful lives of the related assets.

P. Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate

of the amount can be made. Provisions for restructuring are recognized when the Company has an approved, detailed and formal plan of restructuring which has started to be implemented or it has been announced to those affected by it. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Q. Revenue recognition

Revenue, shown net of Value Added Tax and discounts comprises services provided and goods sold. Revenue for all services is recognised when the services are provided.

l) Fixed line telephony revenues

Domestic calls revenues

Domestic calls revenues are recognised in the income statement at the time the call is made.

Rentals

Revenue from rentals is recognised in the income statement evenly over the period to which the contracts relate.

Revenues and costs from international calls and overseas operators

International telephone revenues are derived from outgoing calls made from Romania and from payments by foreign network operators for calls and other traffic that originate outside Romania but use Romtelecom's network. Romtelecom pays a proportion of the international call revenue it collects from its customers to transit and destination network operators.

International calls revenue is recognised in the income statement at the time the call is made. Revenues from overseas operators are recognised in the income statement at the time the call is received in Romtelecom's network.

Revenues from sales of prepaid cards

Prepaid call card sales are deferred until the customer uses the stored value in the card to pay for the relevant calls.

Connection fees

Until 31 December 2007, income from connection fees for fixed line telephony services had been deferred over 12 years, estimated to be the average length of servicing the landline customer. Deferral of connection fees occurs simultaneously with deferral of costs incurred in connecting the customer.

Starting with 1 January 2008, the Company has revised the useful lives and the balances of connection fees, as follows:

- a. The balance of deferred revenues (and associated deferred connection costs) related to customers acquired before 1 January 2007 has been decreased by 30% in order to reflect the loss of customers in the period 2004-2007. The net income statement effect of this revision has been nil, because the connection costs were superior to the connection fees and the deferred charges were capped (and equal to) the amount of deferred income.
- b. The remaining useful life of the net balance of deferred revenues (and associated deferred charges) as of 1 January 2008, related to customers acquired before 1 January 2007, has been re-assessed to 5 years.
- c. The deferral period of connection fees charged for fixed line telephony customers acquired after 1 January 2007 has been reduced from 12 to 2 years, the change being applied prospectively (through remaining useful lives) for the deferred connection fees in balance as of 1 January 2008.

The deferral period for connection fees charged for internet customers remained of 2 years.

II) **Interconnect revenues**

Interconnect revenues are derived from calls and other traffic that originate in other domestic fixed and mobile operators' network but use the Company's network. The Company pays a proportion of the call revenue it collects from its customers to other domestic fixed and mobile operators' for calls and other traffic that originate in the Company's network but use other domestic fixed and mobile operators' network. These revenues (and expenses) are recognised in the income statement at the time when the call is received in the Company's network (and respectively in the other operators' network).

III) **Internet and data revenues**

Revenue from Internet and data services is recognised at the time the service is provided.

IV) **Separable components of packaged and bundled offers**

Revenues from the sale of telecommunications and other equipment are recognized at point-of-sale, when the significant risks and rewards of ownership have passed to the buyer. Items that are offered in bundled packages have been determined to be revenue arrangements with multiple deliverables (i.e. equipment sale and on-going services).

Total consideration received in these arrangements is allocated and measured using units of accounting within the arrangement based on their relative fair values, when the product is also sold on a standalone basis. If the product is not regularly sold by the Company, the revenue allocated to the sale of product equals its cost and the rest of the revenue is allocated to the service.

Other revenues

Other revenues earned by the Company are recognised on the following bases:

- **Satellite TV Services**

Revenue from satellite TV services is recognised at the time the service is provided. Any service connection (activation) revenue is recognised at the time of sale (first customer bill).

- **Dealership Services**
Dealership services essentially refer to such services provided to Cosmote Romania in connection to goods and services that the latter sells through the agency of the Company. Revenue from dealership services is recognised on an accrual basis at the time the service is provided.
- **Sundry (non-core) sales**
Revenue from sundry (non-core) sales mainly refers to income from rental of assets (buildings and equipment) to third parties, which is recognized on a straight line over the duration of the lease agreement, as well as to sundry income from occasional disposal of non-core assets, which is recognized upon transfer of substantially all risks and benefits associated with ownership
- **Interest income**
On an effective yield basis.

R. Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

S. Dividend distribution

Dividends are recorded as a liability in the Company's consolidated financial statements in the period in which they are approved by the Company's shareholders and reflect in a corresponding diminution of shareholders' equity.

T. Operating expenses

Operating expenses are recognised in the income statement when incurred, unless they might be directly associated with specific items of income. In this case these expenses are recognised in the income statement on the basis of systematic and rational allocation procedures.

Until 31 December 2007 connection costs for fixed line telephony customers were deferred over a period of 12 years representing the estimated average length of servicing the landline customer, along with recognising the revenue earned from related connection fees. Similarly, connection costs for internet services and satellite TV were deferred over a period of 2 years.

Starting with 1 January 2008, the Company changed its accounting policy related to connection costs incurred for customers acquired after 1 January 2007 and respectively revised the balance and the remaining useful life for connection costs incurred for customers acquired before 1 January 2007, as presented above (see accounting policies related to Revenues recognition and Intangible assets).

The cost of prepaid telephony cards sold is deferred along with income from sale of such cards, i.e. until the customer uses the stored value in the card to pay for the relevant calls.

The fees paid annually for the use of radio frequency spectrum are recognised as expenses in the period to which they relate.

Employee compensation, network maintenance and post-guarantee services and advertising costs are charged to the income statement as incurred.

U. Comparatives

When necessary, corresponding figures have been adjusted to conform to changes in presentation in the current year. The following items were taken into consideration:

- i) separate classification of investment properties from other PPE (refer to Note 10);
- ii) reclassification of income tax receivable as a separate line under Note 16 Trade and other receivables (in prior year was included net under Trade and other payables);
- iii) separate classification of Subscriber Acquisition Costs, following the change in accounting policy described in Note 2, H, (iii). Refer also to Note 11 for details.

3. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risk: market risk (including currency risk, interest rate risk), credit risk, liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by a central treasury department (Financial Operations Division) under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units.

ii) **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EUR, USD and XDR. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Company is not party to derivative financial instruments that reduce exposure to foreign exchange risk.

Interest rate risk

The Company's interest rate risk arises mainly from non-current borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. Additionally, the Company's investments and long-term receivables also generate either cash-flow or fair value interest rate risks. The Company is not a party to derivative financial instruments that reduce exposure to the fluctuations in interest rates.

II) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The Company has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of services are made to customers with an appropriate credit history. Sales to retail customers are mainly made in cash.

The Company has policies that limit the amount of credit exposure to any financial institution.

III) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Company's prudential policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due and by maintaining several credit lines available.

4. USE OF JUDGEMENTS AND ESTIMATES

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Carrying value of investment in associate

As at 31 December 2008, the carrying value of Company's 30% shareholding in its associate Cosmote Romania is presented at cost less Romtelecom's share of associate's accumulated losses for the period. Company's Management believes that as at 31 December 2008 the carrying value of the investment in associate computed as initial cost less 30% of associate's accumulated losses is appropriate as currently there are no circumstances indicating the necessity of recognizing an impairment loss.

(b) Useful lives of network equipment

The annual depreciation of Company's tangible fixed assets depends primarily on the estimated useful lives. The Company's management uses its judgement to assess the estimated useful lives of its network equipment, being duct, cable, outside plant, telephone exchanges and related equipment which are a substantial proportion of Company's tangible fixed assets and of its net assets.

(c) Carrying value of trade receivables

The Company assesses at each balance-sheet date the requirement for an allowance for impairment in trade and other receivables, which are principally owed by its domestic telecom bill retail customers. The Company uses its judgement, based on the nature and extent of overdue debtors and historical experience, in order to estimate the amount of such an allowance.

(d) Carrying value of inventories

The Company assesses at each balance-sheet date the requirement for an allowance for inventories the estimated net realisable value of which is lower than their acquisition cost, which principally consist of engineering stores. The Company uses its judgement, based on the nature, age and future likely usability of the particular item of inventory, in order to estimate the amount of such an allowance.

(e) Provision for employees' retirement benefits

The Company assesses at each balance-sheet date the requirement for an employees' retirement benefits provision. The output of the actuarial model used to determine the actual value of Company's obligations as at each balance-sheet date depends on a number of Company's estimates, such as personnel annual turnover and redundancy rates or annual salary increase rate over a period equal to the remaining average period in service of current employees.

(f) Impairment test

For impairment testing, the Company splits the fixed assets in two categories: non-core assets (consisting of some real estate properties classified as investment property by the Company) and core assets (consisting of the remaining real estate properties not classified as investment properties and the other categories of fixed assets).

The selected value for impairment test purposes was value-in-use for both core assets and investment property. The value-in-use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit, estimated based on assumptions that represent management's best estimate of the economic conditions that will exist over the remaining useful life of the asset.

For core assets, the value-in-use was estimated by management through a discounted cash-flow model, with the following methodological approach being followed:

- all core assets were pooled in a single CGU for impairment test purpose (the satellite TV services were not considered as a separate CGU due to materiality);
- the DCF model used forecasted cash-flows for a period of 5 years (2009-2013);
- the terminal value was estimated in perpetuity, based on the net cash-flow of 2013 and using a zero growth factor;

- forecasted cash-flows were determined by the Company using a carve-out from the business plan of the Company; the carved-out figures were mainly prepared in order to eliminate the effects of future investments not related to the existing assets base;
- the discount rate was based on the Group calculated WACC and adjusted for the impact of Company specific risks and the recent increase in cost of financing, of 12%.

For investment property, the value-in-use was estimated by the Company using the capitalisation of rental cash-flows method, with the following approach:

- rental cash-flows were estimated by the Company based on the rents and available areas as per the rental contracts already existing at 31 December 2008;
- average overheads were deducted from the gross rental inflows;
- an average yield was applied in perpetuity to the net rental cash-flows.

Measurement uncertainties

The presentation of the results of operations, financial position or cash flows in the consolidated financial statements is dependent upon and sensitive to the accounting policies, assumptions and estimates. The actual amounts may differ from those estimates. The following critical accounting estimates and related assumptions and uncertainties inherent in accounting policies applied are essential to understand the underlying financial reporting risks and the effects that these accounting estimates, assumptions and uncertainties have on the consolidated financial statements.

The determination of **impairments of property, plant and equipment, and intangible assets** involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunications industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using the discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values.

The **determination of the recoverable amount of a cash-generating unit** involves the use of estimates by management. Methods used to determine the fair value less costs to sell include discounted cash flow-based methods. Key assumptions on which management has based its determination of fair value less costs to sell include revenue, customer acquisition and retention costs, churn rates, capital expenditure and market share. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any non-current asset impairment.

Management maintains an **allowance for doubtful accounts** to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

Estimation of **income taxes** involves a specific calculation of the expected actual income tax exposure for each tax object and an assessment of temporary differences resulting from the different treatment of certain items for IFRS consolidated financial and tax reporting purposes. Any temporary differences will generally result in the recognition of deferred tax assets and liabilities in the consolidated financial statements. Management judgment is required for the calculation of actual and deferred taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, the position of the tax authorities on the deductibility of certain items, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, results of operations, the financial position, and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets changes, the recognized deferred tax assets must be reduced in profit or loss, or the impaired deferred tax assets must be recognized in profit or loss.

The Company exercises considerable judgment in measuring and recognizing **provisions** and the exposure to **contingent liabilities** related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are expected from executory contracts, a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. In addition, significant estimates are involved in the determination of provisions related to taxes, environmental liabilities and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates of these losses from executory contracts may significantly affect future operating results.

5. REVENUES

Revenues are analysed as follows:

	Year ended 31 December	
	2008	2007
Domestic telephony	1,704,718	1,732,951
International telephony	398,231	391,358
Leased lines and data communications	241,417	182,068
Revenues from ADSL services	184,301	125,457
Sales of merchandises	236,921	135,562
Revenues from DTH services	107,403	36,481
Interconnection revenues	80,241	70,715
Revenues from Internet services, ISDN and VOIP	76,318	64,153
Rent revenues - real estate business	49,548	21,894
Sales of prepaid card phones	25,920	42,674
Other Traditional services (audio-text, telex, telegraphy)	16,409	17,457
Value added services	11,896	44,106
Other miscellaneous	70,356	46,640
	3,203,679	2,911,516

Sales of services to related parties are described in Note 29.

In 2008 the Company adjusted comparatives for 2007 for revenues from domestic telephony and revenues from ADSL services including as a decrease an amount of RON 21,472 (RON 3,801 for domestic telephony and RON 17,607 for ADSL services) representing connection fees adjustments, which in prior year were included under line Other miscellaneous, in order to ensure consistency with current year presentation.

6. OPERATING EXPENSES

	Year ended 31 December	
	2008	2007
Employee benefit expense (Note 6.1)	913,621	804,869
Depreciation, amortisation and impairment (Note 6.2)	1,035,107	968,938
Interconnect with mobile operators	358,688	327,274
Third party services	205,410	127,363
Overseas operators	130,425	93,697
Merchandise	202,639	96,843
Repairs and Maintenance	84,774	81,565
Advertising	89,817	78,012
Rentals	81,072	71,047
Consumables	68,581	56,973
Utilities	46,348	43,448
Provision –fiscal audit	-	40,457
Other provisions, net	7,125	25,661
Taxes	28,530	30,348
Fuel	17,133	14,119
Payments to Value Added Services suppliers	11,074	13,196
Loss on disposal of property and equipment	34,706	11,833
Management fees	9,986	4,626
Other operating expenses	41,934	31,464
	3,366,970	2,921,733
Less: own work capitalized	(25,295)	(33,642)
	3,341,675	2,888,091

The rental expenses refer to the rental of poles from the electricity companies (2008 RON 30,262 and 2007 RON 26,385), the special road usage taxes (2008 RON 17,140 and 2007 RON 14,331), the rental of vehicles (2008 RON 9,893 and 2007 RON 10,392) and the rental of buildings, of which the only individually significant contract is for the Company's Headquarter (2008 RON 5,366 and 2007 RON 5,604).

Purchases of services from related parties are described in Note 29.

Please note that 2007 comparatives for Employee benefit expense and Consumables have been subject to reclassification of costs which are presented as amortization of subscribers acquisition costs in 2008 as per Note 2 H (iii) and Note 11 (RON 2,926 from Employee benefit expense and RON 1,574 from Consumables).

6.1 EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2008	2007
Wages and salaries	581,191	593,181
Redundancy payments	140,915	18,597
Social security contributions	114,070	114,036
Unemployment fund contributions	5,390	11,496
Health fund contributions	35,870	38,754
Other contributions and expenses	1,398	1,438
Pension costs – defined benefit plan (Note 23)	9,140	4,902
Other expenses related to staff	25,647	22,465
Employee benefit expense (Note 6)	913,621	804,869
Average number of employees	11,244	12,515

6.2 DEPRECIATION, AMORTISATION AND IMPAIRMENT

	Year ended 31 December	
	2008	2007
Depreciation and impairment	876,319	873,941
Amortization and impairment	169,182	99,883
Deferred income amortization for grants / fixed assets received for free	(10,394)	(4,886)
Depreciation and amortization (Note 6)	1,035,107	968,938

The depreciation and amortization are presented net of the related deferred income amortization for grants / fixed assets received for free. In 2007 the Company included this line net under Other operating expenses, therefore the comparatives were reclassified.

7. FINANCE INCOME, NET

	Year ended 31 December	
	2008	2007
Interest expense and similar charges		
Foreign exchange losses	(73,494)	(54,617)
Interest expense and other charges	(28,929)	(17,963)
	(102,423)	(72,580)
Interest income and similar income		
Interest income	60,136	33,643
Foreign exchange gains	86,002	65,216
	146,138	98,859
Finance gain, net	43,715	26,279

8. INCOME TAX EXPENSE

During 2008 and 2007, all Company's income tax expense has been incurred in connection with continuing operations.

	Year ended 31 December	
	2008	2007
Current income taxes	(15,541)	(34,774)
Deferred income taxes (Note 22)	53,485	25,465
	37,944	(9,309)

The difference between income tax expense, computed at Romanian statutory rates (16% in 2008 and 2007) and income tax expense provided on the results were as follows:

	2008	2007
(Loss) before tax	(217,171)	(68,815)
Income taxes based on statutory tax rate 16%	34,747	11,010
Adjustments for prior year amounts	(14,231)	10,777
Contingent corporate tax claims of previous periods provided for	-	(10,986)
Disallowable expenses	(56,304)	(43,333)
Non taxable profits	70,255	20,672
Fiscal credit for sponsorship	3,477	2,551
Income taxes at effective tax rate as reported in the income statement	37,944	(9,309)
Effective tax rate	17%	-14%

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Company by the average weighted number of ordinary shares in issue during the period.

	Year ended 31 December	
	2008	2007
Loss for the year	(179,227)	(78,124)
Weighted average number of ordinary shares in issue (thousand)	31,846	31,846
Basic loss per share from continuing operations (RON / share)	(5.63)	(2.45)

There were no dilutive instruments outstanding during the period.

10.1 PROPERTY, PLANT AND EQUIPMENT

	Land & buildings	Cable and related equipments	Exchanges and related equipment	Other fixed assets	Assets in Course of construction	Total
Year ended 31 December 2007						
Opening net book amount	939,141	3,520,618	1,675,863	248,746	557,692	6,942,060
Additions	152	1,691	419	27	595,299	597,588
Transfers from tangible assets in the course of construction	14,354	383,179	242,639	95,082	(735,254)	-
Depreciation and impairment charge	(39,764)	(355,516)	(412,391)	(57,026)	(7,892)	(872,589)
Disposals, net	(941)	(10,434)	(2,586)	(161)	-	(14,122)
Closing net book amount	912,942	3,539,538	1,503,944	286,668	409,845	6,652,937
At 31 December 2007						
Cost or valuation	2,017,220	8,648,949	6,346,552	868,535	409,845	18,291,101
Accumulated depreciation and impairment	(1,104,278)	(5,109,411)	(4,842,608)	(581,867)	-	(11,638,164)
Net book amount	912,942	3,539,538	1,503,944	286,668	409,845	6,652,937
Year ended 31 December 2008						
Opening net book amount	912,942	3,539,538	1,503,944	286,668	409,845	6,652,937
Additions	231	4,505	12,936	19,984	417,518	455,174
Transfers from tangible assets in the course of construction	7,081	422,805	(16,057)	23,699	(437,528)	-
Transfers to other groups, net	(46,295)	126	(1,208)	(2,595)	-	(49,972)
Depreciation and impairment charge	(33,822)	(423,966)	(348,149)	(63,061)	519	(868,479)
Disposals, net	(651)	(15,061)	(18,132)	(992)	(976)	(35,812)
Closing net book amount	839,486	3,527,947	1,133,334	263,703	389,378	6,153,848
At 31 December 2008						
Cost or valuation	1,753,309	8,970,569	5,907,614	866,812	411,530	17,909,834
Accumulated depreciation and impairment	(913,823)	(5,442,622)	(4,774,280)	(603,109)	(22,152)	(11,755,986)
Net book amount	839,486	3,527,947	1,133,334	263,703	389,378	6,153,848

Pledged assets

No pledges have been in force as at 31 December 2008 and 31 December 2007.

Borrowing costs

No borrowing costs were capitalised during the years 2008 and 2007, as there were no qualifying assets.

Non-cash transactions

During the years 2008 and 2007, there were no purchases of property and equipment under contracts financed by suppliers' loans.

Gross book value and accumulated depreciation of vehicles acquired through finance lease are as follows:

	2008	2007
Gross book value	40,550	30,210
Accumulated depreciation	(17,902)	(6,805)
Net book value	22,648	23,405

Purchases from related parties

During 2008 and 2007, there were no purchases of property and equipment from related parties.

10.2 INVESTMENT PROPERTY

	Investment properties
Year ended 31 December 2007	
Opening net book amount	28,354
Additions	-
Transfers	-
Depreciation and impairment charge	(1,352)
Disposals	-
Closing net book amount	27,002
At 31 December 2007	
Cost or valuation	70,607
Accumulated depreciation and impairment	(43,605)
Net book amount	27,002
Year ended 31 December 2008	
Opening net book amount	27,002
Additions	-
Transfers from land & buildings under PPE, net	49,972
Depreciation and impairment charge	(7,840)
Disposals	-
Closing net book amount	69,134
At 31 December 2008	
Cost or valuation	345,492
Accumulated depreciation and impairment	(276,358)
Net book amount	69,134

Impairment of non-telecom assets

As at 31 December 2008, the carrying amount of non-core property assets in resort facilities Vata de Jos and Slanic Moldova (included under Investment property) is presented net of an impairment provision. The impairment provision balance as of 31 December 2008, computed as the difference between the net carrying amount of such assets that would have been determined had no impairment loss been recognized, and the current recorded net carrying amount, is of RON 73,230 (31 December 2007: RON 92,779).

11. INTANGIBLE ASSETS

	Licences trademarks	Computer software	Subscriber acquisition costs	Intangibles in course of development	Total
Year ended 31 December 2007					
Opening net book amount	-	113,238	-	106,491	219,729
Additions	-	-	33,313	152,052	185,365
Transfers from assets in course of development	140,981	55,045	-	(196,026)	-
Amortisation charge	(29,831)	(65,552)	(4,500)	-	(99,883)
Closing net book amount	111,150	102,731	28,813	62,517	305,211
At 31 December 2007					
Cost	140,981	259,042	33,313	62,517	495,853
Accumulated amortisation	(29,831)	(156,311)	(4,500)	-	(190,642)
Net book amount	111,150	102,731	28,813	62,517	305,211
Year ended 31 December 2008					
Opening net book amount	111,150	102,731	28,813	62,517	305,211
Additions	-	63	40,867	66,945	107,875
Transfers from assets in course of development	10,100	35,943	-	(46,043)	-
Disposals, net	-	(244)	-	-	(244)
Amortisation charge and impairment	(48,314)	(90,813)	(29,794)	(261)	(169,182)
Closing net book amount	72,936	47,680	39,886	83,158	243,660
At 31 December 2008					
Cost	151,081	294,804	74,180	83,419	603,484
Accumulated amortisation	(78,145)	(247,124)	(34,294)	(261)	(359,824)
Net book amount	72,936	47,680	39,886	83,158	243,660

During 2008 and 2007, the Company initiated a number of projects relating to the development of key computer software applications, to be used by various organisational units of the Company, such as billing, finance, service order, human resources, payroll, industry regulation-related (such as number portability and carrier pre-selection) and work-in-progress management. Capitalised costs include both amounts charged by the respective software suppliers and costs incurred by the Company's own staff involved in the development work. Additions from internal development in 2008 amounted to RON 8,255 (2007: RON 2,868).

12. INVESTMENT IN ASSOCIATE

Investment in associate refers to the Company's 30% shareholding in Cosmote Romania.

As at 31 December 2008, the amount of RON 119,091 (31 December 2007: RON 103,044) shown as carrying amount of investment in associate was determined as follows:

	2008	2007
Cost of investment	478,124	339,187
Share of loss of associate (accumulated)	(359,033)	(236,143)
Investment in associate – net book amount	119,091	103,044

On 19 March 2008 Cosmote Romania decided to increase its share capital by cash subscription. The Company further invested RON 138,938 in its associate (currently owned 30%) in order to keep its shareholding in its mobile arm undiluted.

The summarized financial information of Cosmote Romania is presented below:

	2008	2007
Total assets	2,552,345	2,119,221
Total liabilities	2,384,371	2,005,397
Total equity	167,974	113,825

	Year Ended 31 December 2007	Year Ended 31 December 2008
Operating revenues	1,144,806	519,186
Net loss	(409,770)	(395,064)

Management has conducted its annual assessment for possible impairment for its investment in Cosmote Romania and concluded that no impairment provision is required.

13. OTHER INVESTMENTS

	2008	2007
Non-current		
Beginning of the year	464	464
Allowance for impairment of minority shareholdings held with third parties	(386)	(386)
End of the year	78	78

The percentage of share capital held in respect of these available-for-sale minority shareholdings (each of which is incorporated in Romania), can be summarised as follows:

- i) Garanta SA (2008 and 2007: 0.59%) - life and general insurance and reinsurance services;
- ii) Pagine Aurii SA (2008 and 2007: 0.55%) – production of printed telephone directories.

14. FINANCIAL ASSETS

Financial assets at fair value through profit or loss are represented by bonds issued or guaranteed by financial institutions, as follows:

	Number of instruments	31 December 2008	31 December 2007
Bonds issued by EFG Hellas PLC (EFG Eurobank Ergasias SA guarantor)	375	-	75,403
Bonds issued by BEI	150,000	12,336	15,675
Treasury bills issued by Romanian Ministry of Finance	2,350	22,475	-
		34,811	91,078

During October 2006, the Company paid an amount of RON 75,000 for the acquisition of 375 bonds having EFG Hellas Plc as issuer and EFG Eurobank Ergasias SA as guarantor. The bonds mature on 6 October 2009 and bear a 1 month BUMID interest coupon cashable on a monthly basis. These bonds have been disposed of in 2008 without any gain or loss recognised on disposal.

During May 2007, the Company paid an amount of RON 15,038 for the acquisition of 150,000 bonds having European Bank for Investments as issuer. Instruments mature on May 2014 and bear a fixed interest rate of 7% per annum, cashable on a yearly basis.

During December 2008, the Company paid an amount of RON 22,475 for the acquisition of 2,350 treasury bills having Romanian Ministry of Finance as issuer. Instruments have maturities of 3 or 6 months and bear a fixed interest rate between 14.09% and 14.25%.

Company's exposure to credit risk and currency risk related to financial assets is disclosed in Note 28.

All financial assets at fair value through profit or loss are designated as such upon initial recognition.

15. DEFERRED CHARGES

	2008	2007
Non-current		
Deferred connection costs (1)	52,418	91,778
Current		
Deferred connection costs (1)	28,195	35,428
Deferred cost of prepaid phone cards sold (2)	1,465	2,335
	29,660	37,763
	82,078	129,541

(1) Deferred connection costs represent connection costs incurred (materials and staff costs), which will match future revenue from connection fees income recognised over the estimated length of customer servicing (5 years starting 1 January 2008 for fixed line telephony customers acquired before 1 January 2007 and 2 years for all business customers acquired after that date, irrespective of services provided – fixed line telephony, ADSL or digital TV).

(2) Deferred cost of prepaid phone cards sold represent cost of such cards sold which is deferred to match the revenue recognised from related telephony services, along with actual use of credit by phone card buyers.

Please note that 2007 comparatives have been subject to reclassification as per Note 2 H (iii) and Note 11. Current portion of deferred connection costs was decreased by RON 11,111 and non-current portion of deferred connection costs was decreased by RON 17,702.

16. TRADE AND OTHER RECEIVABLES

	2008	2007
Domestic trade receivables	347,834	331,441
Less: allowance for impairment of domestic trade receivables	(133,628)	(121,099)
Domestic trade receivables, net	214,206	210,342
Foreign trade receivables	93,207	62,444
Less: allowance for impairment of foreign trade receivables	-	-
Foreign trade receivables, net	93,207	62,444
Receivables from related parties (Note 29)	20,290	20,226
Accrued receivables for packaged/bundled offers	140,211	62,429
Prepayments to suppliers of goods and services	11,059	2,051
Income tax receivables	1,387	9,386
Other receivables and prepaid expenses	18,367	10,595
	498,727	377,473
Non-current portion		
Accrued long term receivables for packaged/bundled offers	60,907	29,933

There is no concentration of credit risk with respect to trade receivables as the Company has a large number of customers.

Foreign trade receivables comprise balances denominated in foreign currencies, mainly XDR and EUR, due from foreign telecommunications operators, net of amounts due to the same operators.

Accrued short term and long term receivables relate to sales of equipment in instalments and to equipment provided to customers free of charge within bundled offers. As of 31 December 2008 long term receivables are presented at amortised cost.

Company's exposure to credit risk and currency risk related to trade and other receivables is disclosed in Note 28.

17. INVENTORIES

	2008	2007
Materials	309,664	344,349
Spare parts	59,140	54,882
Merchandises	54,007	34,860
Write-down of materials	(131,626)	(163,670)
	291,185	270,421

The cost of inventories recognised as expense and included in "operating expenses" (Note 23) amounted to RON 288,353 (2007: RON 169,509), of which RON 202,639 (2007: RON 96,843) represents cost of merchandise sold (mainly internet service related customer premises equipment).

Inventories are shown net of a write-down for items with net realisable value lower than acquisition cost of RON 131,626 (2007: RON 163,670). As of 31 December 2008, the carrying amount of inventories carried at fair value less costs to sell, after the respective allowance, amounts to RON 23,152 (2007: RON 24,622).

The allowance for write-down of materials decreased mainly due to the fact that a significant part of the items provisioned as of 31 December 2007 were sold during the current year.

18. CASH AND CASH EQUIVALENTS

	2008	2007
Cash at bank and in hand		
- in RON	7,728	17,679
- in foreign currencies	195	148
Short term bank deposits		
- in RON	586,192	446,813
- in foreign currencies	24,502	70,617
	618,617	535,257

Cash balances at 31 December 2008 include restricted cash of RON 556 (2007: RON 74).

The weighted average effective interest rate on short-term bank deposits is as follows:

	2008	2007
Deposits in RON	12%	7.0%
Deposits in foreign currencies	4.0%	3.6%

As of 31 December 2008, the Company's deposits had an average maturity of 15 days (2007: 15 days).

The Company's exposure to currency risk and credit risk related to cash and cash equivalents is disclosed in Note 28.

For the purpose of the cash flow statement, the year-end cash and cash equivalents comprise the following:

	2008	2007
Cash and cash equivalents	618,617	535,257
Restricted cash	(556)	(74)
	618,061	535,183

19. SHARE CAPITAL

At 31 December 2008 the statutory share capital of the Company is made up of 31,846,449 ordinary shares issued (31 December 2007: 31,846,449 ordinary shares) with a nominal value of RON 10 each, fully paid at the balance sheet date. Ordinary shares carry voting rights with no guarantee of dividends. Currently there are no authorised shares in excess of shares issued.

The shareholding structure as at 31 December 2007 and 31 December 2008 was as follows:

	Number of shares	Percentage held	Amount
Romanian Government through the Ministry of Communications and Information Technology (hereafter referred to as "MCTI")	14,646,092	45.99%	2,747,918
OTE International Investments	17,200,357	54.01%	3,227,119
	31,846,449	100.00%	5,975,037

The individual statutory financial statements of the Company provide the basis of profit distribution and other appropriation. Romanian legislation identifies the basis of distribution as the current year statutory net profit and the undistributed unrestricted reserves from previous periods.

20. TRADE AND OTHER PAYABLES

	2008	2007
Payables to fixed assets suppliers	238,240	218,137
Payables to services and inventory suppliers	91,966	48,829
Amounts due to the State	53,445	51,719
Other payables and accruals	195,393	179,766
	579,044	498,451

In 2008 the Company adjusted comparatives for 2007 for line Payables to fixed assets suppliers including also the accruals of RON 129,301 which in prior year were included under line Other payables and accruals, in order to ensure consistency with current year presentation.

Included in trade and other payables as at 31 December 2008 are RON 30,791 (2007: RON 27,207) due to related parties (Note 29).

Other non-current payables as of 31 December 2007 amounting to RON 457 (31 December 2007: RON 470) consist of guarantees retained by the Company from third parties.

The Company's exposure to liquidity risk and currency risk related to trade and other payables is disclosed in Note 28.

21. INTEREST BEARING LOANS AND BORROWINGS

	2008	2007
Non-current		
<i>International Financial Institutions ("IFI") loans:</i>		
BEI II - EUR (fixed rate: 5%)	48,122	58,125
BEI I - EUR (fixed rate: 6.12%)	-	28,670
<i>Commercial banks loans:</i>		
Exim Bank Korea I - KWON (fixed rate: 4.2%)	26,049	37,626
Exim Bank Korea II - KWON (fixed rate: 2.5%)	49,260	64,685
Exim Bank Korea II ad. - KWON (fixed rate: 2.5%)	36,381	42,997
Non-current borrowings	159,812	232,103
Current		
<i>International Financial Institutions ("IFI") loans:</i>		
BEI II - EUR (fixed rate: 5%)	16,041	14,531
BEI I - EUR (fixed rate: 6.12%)	31,648	28,670
<i>Commercial banks loans:</i>		
Exim Bank Korea I - KWON (fixed rate: 4.2%)	5,788	6,841
Exim Bank Korea II- KWON (fixed rate: 2.5%)	5,474	-
Current borrowings	58,951	50,042
Total borrowings	218,763	282,145

The Company's exposure to liquidity risk, interest rate risk and currency risk related to interest bearing loans and borrowings is disclosed in Note 28.

Loan covenants

The EUR loans from the BEI are subject to certain financial covenants which require the Company to achieve minimum ratios in respect of self-funding rate, operating ratio, debt service coverage, accounts receivables, limit and current ratio, computed on the annual IFRS consolidated financial statements.

As of 31 December 2008 the Company breached the covenant related to operating ratio as provided by the agreement with BEI. However on 29 December 2008 the bank issued a waiver to the Company stating no claims for immediate repayments of outstanding balances.

Guarantees

The EUR loan from the BEI is secured by guarantees from the Government of Romania.

Un-drawn committed borrowing facilities

The Company has the following un-drawn committed borrowing facilities:

	2008	2007
Short-term loans	79,704	72,204
	79,704	72,204

Un-drawn committed borrowing facilities as at 31 December 2008 bear floating interest rates and expire within one year from balance-sheet date.

22. DEFERRED TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 16% (2007: 16%).

The movement of the deferred tax liabilities is as follows:

	Balance Sheet		Income Statement	
	2008	2007	2008	2007
Deferred tax liability				
Property, plant and equipment restatement	(302,118)	(306,194)	4,076	9,021
Inventories restatement	(994)	(1,359)	365	801
Deferred charges	(13,132)	-	(13,132)	-
	(316,244)	(307,553)	(8,691)	9,822
Deferred tax asset				
Investment in associate - equity accounting	57,445	37,786	19,659	18,963
Temporary non-deductible accruals	5,650	7,688	(2,038)	(3,313)
Provisions for property, plant and equipments	7,029	-	7,029	-
Provisions for inventories	15,160	-	15,160	-
Provisions for risks and charges	7,519	-	7,519	-
Other current assets	928	-	928	-
Deferred income	16,362	2,444	13,919	(7)
	110,093	47,918	62,176	15,643
	(206,151)	(259,635)	53,485	25,465

During the year 2008 the Company performed a reassessment of the recovery of the deferred tax assets relating to deductible temporary differences in accordance with IAS 12.

23. RETIREMENT BENEFIT OBLIGATIONS

Balance sheet obligations for pension benefits in amount of RON 42,668 (2007: RON 33,528) are determined as follows:

	2008	2007
Present value of unfunded obligations	58,451	65,672
Unrecognized actuarial losses	(15,783)	(32,144)
Liability in the balance sheet	42,668	33,528

Income statement charge for pension benefits in amount of RON 9,140 (2007: RON 4,902) are as follows:

	2008	2007
Current service cost	2,807	1,252
Interest cost	4,385	3,086
Net actuarial losses recognized during the year	2,529	886
Benefits paid	(581)	(322)
Total, included in staff costs (Note 6.1)	9,140	4,902

The movement in the liability recognised in the balance sheet is as follows:

	2008	2007
Beginning of the year	33,528	28,626
Total expense charged in the income statement before effect of settlements	9,721	5,224
Benefits paid	(581)	(322)
End of the year	42,668	33,528

The principal actuarial assumptions used were as follows:

	2008	2007
Discount rate	6.70%	7.25%
Future salary increases	3.50%	2.50%

These rates were assumed as applicable to the next financial year. For future periods, these rates were assumed to evolve in line with relevant trends for applicable macro-economic indicators, such as inflation rate and government bonds' offered interest rate.

Mortality:

The Company used in estimation the Romanian Mortality Table 2004 – 2006 (men and women), as issued by the National Institute of Statistics.

Turnover:

The average employee turnover rate was estimated at 2% p.a.

Discount rates:

For 2008 the Company considered the 3 years RON denominated government bond issued in February 2008, while for 2009 the Company considered the 5 years RON denominated government bond issued in September 2008. For the following years a decreasing trend was considered and an extrapolation along the real yield curve was used, in order to assure the mutual compatibility between the discount rate and the inflation rate.

Inflation rate:

Inflation rate was estimated to be 6% p.a. for the year 2009, 5.5% p.a. for the period 2010 – 2011, and following a decreasing pattern in following years.

Salary increase rate:

The salary increase was estimated at 3.5% in the period 2008-2013. For the years 2014 and onward, salary increase rate was considered to be in line with inflation, keeping the same real yield over inflation as in the year 2013.

Sensitivity analysis

An increase in discounting factor of 0.5% would have the following effect:

	2008	2007
Effect on the aggregate current service cost and interest cost	(628)	337
Effect on the defined benefit obligation	(4,017)	(4,513)

The retirement benefit plan of the Company is wholly unfunded.

24. PROVISIONS FOR CHARGES AND LIABILITIES

	Provision for tax exposure	Provision for redundancy payments	Other provisions	Total
At 1 January 2008	68,758	13,744	6,425	88,927
Additional provision	-	119,093	5,365	124,458
Utilized during the year	(68,758)	(132,059)	(5,982)	(206,799)
At 31 December 2007	-	778	5,808	6,586

The Company has recognised a provision for redundancy payments in amount of RON 778 at 31 December 2008 (2007: RON 13,744) for such compensatory payments (and attached social contributions) that are expected to be paid in 2009.

Other provisions as at 31 December 2008 mainly include provisions for ongoing litigations against the Company of RON 2,260 (2007: RON 355), as well as other recurring year-end provisions for sales bonuses and untaken holiday rights due to employees amounting to RON 3,215 (2007: RON 5,329).

25. DEFERRED INCOME

	2008	2007
Non-current		
Deferred connection fee income (1)	50,321	89,641
Grants for fixed assets	44,010	53,571
	94,331	143,212
Current		
Deferred connection fee income (1)	22,156	33,263
Deferred subscription fee income (2)	43,764	36,604
Deferred income from sale of prepaid phone cards (3)	12,859	19,391
	78,779	89,258
	173,110	232,470

(1) Deferred connection fee income represents revenue from fees charged to new landline subscribers for connection, which are deferred and released to income statement as follows: (i) in 5 years (starting 1 January 2008) for fixed line telephony customers acquired before 1 January 2007, or (ii) in 2 years for all customers acquired after 1 January 2007, irrespective of services provided (telephony, ADSL or digital TV).

(2) Deferred subscription fee income refers to monthly subscription fees charged in advance.

(3) Deferred income from sale of prepaid phone cards refers to revenue recognised from related telephony services, along with actual use of credit by phone card buyers.

26. FINANCE LEASE LIABILITIES

The minimum lease payments as at 31 December 2008 and 31 December 2007 are as follows:

	Total	Principal	Interest
31 December 2008			
No later than 1 year	8,302	6,814	1,488
Later than 1 year and no later than 5 years	19,231	17,942	1,289
	27,533	24,756	2,777
31 December 2007			
No later than 1 year	14,447	12,746	1,701
Later than 1 year and no later than 5 years	15,345	13,775	1,570
	29,792	26,521	3,271

The carrying amounts of these lease obligations approximate their fair value.

27. CASH GENERATED FROM OPERATIONS

Notes	Year ended 31 December	
	2008	2007
Loss before tax	(217,171)	(68,815)
Adjustments for:		
Depreciation and amortisation	1,035,107	968,938
Foreign exchange (gains)/ losses on finance activities	(14,068)	19,079
Non-cash net charges - connection fees	(44,700)	19,424
Interest expense	12,817	17,279
Interest income	(60,136)	(33,643)
Loss on disposal of property and equipment	34,706	11,833
Share of loss of associate	122,890	118,519
Allowance for impairment of operating items	4,142	25,661
Provisions for risks and charges	(4,445)	40,457
Fair value adjustment for financial assets	15,912	-
Non-cash revenue from packaged and bundled offers	(121,781)	(92,362)
Operating profit before working capital changes	763,273	1,026,370
Decrease / (increase) in receivables and prepayments	(28,944)	23,764
Decrease / (increase) in inventories	11,280	(23,212)
(Decrease) / increase in trade and other payables	13,378	77,667
Changes in working capital	(4,286)	78,219
Cash generated by operating activities	758,987	1,104,589

Please note that 2007 comparatives have been subject to reclassification as per Note 2 H (iii).

28. FINANCIAL RISK MANAGEMENT

i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was.

Note	2008	Carrying amount 2007
Financial assets at fair value through profit or loss	34,811	91,078
Trade and other receivables	559,634	407,406
Cash and cash equivalents	618,617	535,257
Other investments	78	78
	1,213,140	1,033,819

The Company has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2008 or up to the date of these financial statements.

The Company has no significant concentrations of credit risk for trade receivables.

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Not Past Due	434,769	-	297,158	-
Past Due less 30 days	62,367	(1,972)	62,912	-
Past Due 30-90 days	17,922	(14,359)	23,668	(6,265)
Past Due 90-360 days	36,217	(36,217)	27,651	(27,651)
Past Due 1 to 5 years	76,020	(76,020)	79,476	(79,476)
Past over 5 years	5,060	(5,060)	7,707	(7,707)
	632,355	(133,628)	498,572	(121,099)

The movement in the allowance against trade receivables during the year was as follows:

	2008	2007
Balance at 1 January	121,099	120,095
Net impairment loss recognised	37,942	20,485
Write-offs	(25,413)	(19,481)
Balance at 31 December	133,628	121,099

Based on historic default rates, the Company believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days.

II) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Non derivative financial liabilities	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
31 December 2008							
Interest bearing loans and borrowings	218,763	245,225	33,853	33,076	32,647	85,592	60,057
Finance lease liabilities	24,756	27,533	4,151	4,151	10,585	8,646	-
Trade and other payables	579,044	579,044	579,044	-	-	-	-
	822,563	851,802	617,048	37,227	43,232	94,238	60,057
31 December 2007							
Interest bearing loans and borrowings	282,145	322,046	30,876	30,185	64,710	105,566	90,709
Finance lease liabilities	26,521	29,792	4,805	9,642	4,933	10,412	-
Trade and other payables	498,451	498,451	498,451	-	-	-	-
	807,117	850,289	534,132	39,827	69,643	115,978	90,709

III) Exposure to currency risk

The Company's exposure to foreign currency risk was as follows, based on the RON equivalent of the respective currencies:

	RON	EURO	GBP	USD	XDR	KWON
31 December 2008						
Trade receivables	494,715	61,789	-	985	2,145	-
Financial assets	34,811	-	-	-	-	-
Cash and cash equivalents	593,920	24,697	-	-	-	-
Interest bearing loans and borrowings	-	(95,810)	-	-	-	(122,953)
Finance lease liabilities	-	(24,756)	-	-	-	-
Retirement benefits obligations	(42,668)	-	-	-	-	-
Trade payables	(457,859)	(101,335)	(58)	(19,162)	(630)	-
Gross balance sheet exposure	622,919	(135,415)	(58)	(18,177)	1,515	(122,953)

	RON	EURO	GBP	USD	XDR	KWON
31 December 2007						
Trade receivables	341,822	62,334	-	135	3,115	-
Financial assets	91,078	-	-	-	-	-
Cash and cash equivalents	464,492	70,765	-	-	-	-
Interest bearing loans and borrowings	-	(129,996)	-	-	-	(152,149)
Finance lease liabilities	-	(26,521)	-	-	-	-
Retirement benefits obligations	(33,528)	-	-	-	-	-
Trade payables	(420,172)	(74,177)	(288)	(2,988)	(826)	-
Gross balance sheet exposure	443,692	(97,595)	(288)	(2,853)	2,289	(152,149)

The following significant exchange rates were applicable during the year:

	Average rate		Reporting date spot rate	
	2008	2007	2008	2007
EURO	3.6809	3.3373	3.9852	3.6102
GBP	4.6289	4.8736	4.1169	4.9095
USD	2.5160	2.4361	2.8342	2.4564
XDR	3.9682	3.7272	4.3753	3.8979
KWON	0.0023	0.0025	0.0022	0.0026

Sensitivity analysis

A 10 percent strengthening of the RON against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Profit or loss	
	2008	2007
EURO	13,771	16,836
GBP	6	29
USD	1,583	285
XDR	(152)	(229)
KWON	12,295	15,215
	27,503	32,136

A 10 percent weakening of the RON against the above currencies at 31 December 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.

IV) Interest rate risk

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Carrying amounts	
	2008	2007
Fixed rate instruments		
Financial assets	34,811	15,675
Financial liabilities	(218,763)	(282,145)
	(183,952)	(266,470)
Variable rate instruments		
Financial assets	-	75,403
	-	75,403

Fair value sensitivity analysis for fixed rate instruments

Financial assets at fixed rate include bonds issued by BEI and Treasury bills issued by Romanian Ministry of Finance, while financial liabilities at fixed rate include all borrowings of the Company.

A change of 300 basis points in interest rates would have increased or decreased loss by RON 3,812 (2007: RON 1,279).

Cash flow sensitivity analysis for variable rate instruments

Financial assets at variable rates included as of 31 December 2007 EFG bonds.

A change of 300 basis points in interest rates at the reporting date would have increased or decreased loss in 2007 by RON 165. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

V) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 December 2008		31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets designated at fair value through profit or loss	34,811	34,811	91,078	91,078
Trade and other receivables	559,634	559,634	407,406	407,406
Cash and cash equivalents	618,617	618,617	535,257	535,257
Interest bearing loans and borrowings	(218,763)	(204,105)	(282,145)	(240,192)
Finance lease liabilities	(24,756)	(24,756)	(26,521)	(26,521)
Trade and other payables	(579,044)	(579,044)	(498,451)	(498,451)
	390,499	405,157	226,624	268,577

Interest rates used for determining fair value

Fair value is computed based on discounted cash flows using a discount rate based upon the borrowing rate which management expect would be available to the Company at the balance sheet date for each relevant borrowing. The carrying amounts of short-term borrowings approximate their fair value. The discount rates used range between:

	2008	2007
Interest bearing loans and borrowings	4.72% - 7.99%	4.94% - 7.32%

VI) Operating leases

The Company as Lessee

Operating lease rentals are payable as follows:

	2008	2007
Less than one year	49,371	34,982
Between one and five years	107,458	21,036
More than five years	9,400	17,389
	166,229	73,407

The Company as Lessor

The Company has entered into commercial property leases on its investment property portfolio. These leases have remaining terms of between 1 and 5 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

VII) Capital management

Capital includes equity attributable to the equity holders of the Company.

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

The Company monitors capital using the gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio below 10%, as all the significant borrowings are managed by the parent company. The Company includes within net debt, interest bearing loans and borrowings, finance lease liabilities, trade and other payables, less cash and cash equivalents. Capital includes all equity accounts.

	2008	2007
Equity	6,920,601	7,099,828
Interest bearing loans and borrowings	218,763	282,145
Trade and other payables	579,044	498,451
Finance lease	24,756	26,521
Less: cash and short term deposits	(618,617)	(535,257)
Net debt	203,946	271,860
Capital and net debt	7,124,547	7,371,688
Gearing ratio	3%	4%

29. RELATED PARTY TRANSACTIONS

OTE International Investments is controlled by OTE.

Hellascom International SA ("Hellascom"), OTE Consulting SA ("OTE Consulting"), Cosmote SA ("Cosmote Greece"), Cosmote Romania and OTE Globe SA ("OTE Globe") are controlled by OTE.

The monetary amount of sales to, purchases from and balances with OTE, OTE International Investments, OTE Consulting, OTE Globe, Hellascom Cosmote Greece and Cosmote Romania are presented below.

I) **Sales of services**

	Year ended 31 December	
	2008	2007
Sales of services:		
Cosmote Romania	47,389	41,849
OTE Globe	14,103	15,619
OTE	64	64
	61,556	57,532
Sales of goods and related services:		
SUNLIGHT	14,510	35,466
Cosmote Romania	4,698	2,095
	19,208	37,561

Sales of services to OTE and OTE Globe represent calls and other traffic that originate in the above-mentioned operators' network and use Romtelecom's network.

Sales of services to Cosmote Romania mainly represent revenues from leased lines, revenues from calls and other traffic originating in Cosmote Romania's network and using Romtelecom's network and the commissions paid by the mobile operator for agency services (Cosmote's goods and services are sold through Romtelecom's retail shops).

Sales to Sunlight refer mainly to sales of prepaid cards.

These transactions are carried out on commercial terms and conditions and at market prices.

II) **Purchases of goods and services**

	Year ended 31 December	
	2008	2007
Purchases of services:		
Cosmote Romania	89,781	47,641
OTE Globe	19,950	14,795
HELLAS SAT CONSORTIUM LTD	18,571	15,367
OTE INVESTMENT SERVICES	6,974	3,314
OTE International Investments	2,969	1,221
GERMANOS Romania	1,144	647
COSMO-ONE HELLAS MARKET SITE	641	-
OTE ACADEMY	190	-
OTE	41	45
OTE PLUS (ex TEMAGON)	-	840
SUNLIGHT	-	58
	140,261	83,928

Purchases of services from OTE, OTE Globe and Cosmote Romania represent calls and other traffic that originate in Romtelecom's network and use the above-mentioned operators' network.

Payments to OTE International Investments are made under a services agreement signed between Romtelecom and OTE International Investments in 2003. The purpose of the contract is the provision of management assistance by OTE International Investments to Romtelecom and the hiring of experienced expatriate personnel by OTE International Investments to serve in management positions at Romtelecom.

Purchases of services from OTE Investment Services and Germanos refer to personnel lease.

Purchases of goods and related services from Cosmote Romania mainly represent costs incurred with acquiring telephone terminals, prepaid cards and other merchandises, under an agency agreement between the two parties.

Purchases of services from Hellas Sat Consortium Ltd refer to rental of satellite capacity for Dolce TV service.

Management believes that these transactions are carried out on commercial terms and conditions and at market prices.

III) **Year-end balances arising from sales/purchases of goods/services**

	2008	2007
Receivables from related parties		
Cosmote Romania	10,982	7,621
OTE Globe	5,061	7,043
SUNLIGHT	4,216	5,348
OTE	31	18
OTE PLUS (ex TEMAGON)	-	196
	20,290	20,226
Payables to related parties		
Cosmote Romania	23,656	15,633
OTE Globe	2,609	7,489
HELLAS SAT CONSORTIUM LTD	1,788	1,429
OTE INVESTMENT SERVICES	1,395	1,047
OTE International Investments	989	612
GERMANOS Romania	224	77
COSMO-ONE HELLAS MARKET SITE	100	-
OTE	30	11
OTE PLUS (ex TEMAGON)	-	909
	30,791	27,207

IV) Key management compensation

	2008	2007
Management fees and wages	26,617	35,930
Social security contribution	4,527	6,937
Unemployment fund contribution	165	684
Health fund contribution	1,239	2,053
Other contributions and expenses	237	377
Board of Directors and Shareholders Meeting Attendance fees	373	268
	33,158	46,249

The decrease in key management compensation relates to a significant extent to termination benefits due to key managers having left the Company in 2007.

No other management compensation such as share-based payments or other long-term benefits have been granted to the management.

Key management personnel are not included in the retirement benefits plan of the Company. Also, the Company does not have any post-employment benefits for key management personnel.

30. COMMITMENTS

Commitments contracted for at balance sheet date but not recognised in the consolidated financial statements are as follows:

	2008	2007
Capital commitments	143,822	175,120
Operating commitments	166,229	73,407
Other contractual commitments	158,637	118,919
	468,688	367,446

31. CONTINGENCIES

(a) **Litigation**

The Company is subject to a number of proceedings arising from the normal conduct of its business. Management believes that the ultimate resolution of these matters will not have a material adverse effect on the results of operations or the financial position of the Company.

(a) **Taxation**

On 1 January 2007 Romania became a member of the European Union and therefore has to apply detailed and complex rules on the basis of the EU Treaties, Regulations and Directives. The Company has to conform to EU legislation from 1 January 2007 and, therefore, it has prepared to apply the changes arising from the EU legislation. These changes have been implemented, however the tax authorities have up to 5 years to audit the way these changes were implemented.

Interpretation of the text and practical implementation procedures of the newly enforced EU tax regulations could vary, and there is a risk that certain transactions, for example, could be viewed differently by the tax authorities as compared to the Company's treatment.

Furthermore, the Romanian Government has a number of agencies that are authorized to conduct audits (controls) of companies operating in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. It is likely that the Company will continue to be subject to regular controls as new laws and regulations are issued.

In Romania, tax periods remain open for 5 years. Starting November 2005, the Company was subject to a full scope fiscal audit by Romanian Fiscal Authorities which was finalised on 25 March 2008. The audit covered a period of five fiscal years ended 31 December 2005. An amount of RON 68,758 has been provided for as at 31 December 2007 in connection to the fiscal audit (Note 24), which was fully utilized to pay in 2008 the additional taxes and related penalties assessed by the Romanian Fiscal Authorities.

The carrying amounts of the Company's fixed assets were revalued for statutory purposes and this revaluation was allowed for taxation purposes. In statutory accounts, as of 31 December 2008 the Company has revaluation reserves amounting RON 4,592,832, out of which RON 537,749 is realised.

Under the Romanian tax legislation, if Romtelecom changes the destination of the related realised revaluation reserve amounts (such as distributing to shareholders or using part of the reserve to offset statutory accounting losses), then the amount will be subject to corporate taxation (currently at 16% rate).

(c) **Operating environment of the Company**

The tax, currency and customs legislation within Romania has been undergoing a process of harmonisation to corresponding legislation applicable within European Union in the context of country's accession to EU full membership on 1 January 2007. This process is expected to continue for the full year 2008. However, Romania continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in other countries and restrictive currency controls.

32. SUBSEQUENT EVENTS

Following the final approval of the transaction by the shareholder resolution of the Hellenic Telecommunications Organization S.A., Athens, Greece ("OTE") on 6 February 2009, OTE will be consolidated for the first time as part of the Consolidated Group Financial Statements of Deutsche Telekom AG, Bonn, Germany effective 1 February 2009.

The Company's shareholders approved in January 2009 revocation of Mr. Adrian Ionescu and Mr. Elemer-Zsolt Toth Verestoi from their capacity as members of the Board of Directors of Romtelecom and appointed Mr. Romeo-Marcel Medan and Mr. Juncu Florin as new Directors.

On 18 March 2009, by virtue of a decision by the Company's CEO, the Company announced the restructuring of the Operations Corporate Group which is part of the Technology & Operations Corporate Group, starting with 1st April 2009, for the improvement of operational efficiencies. As part of this restructuring plan, up to 150 positions are expected to become redundant.