



**ANNUAL
REPORT
2001**

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Foreword by the Chief Executive Officer



RomTelecom's restructuring process began early in 1999, immediately after take-over. A change of guard and strategy took place in 2001 to accelerate RomTelecom preparation for competition. Our executive team, aiming at turning RomTelecom from an investing company into a real commercial company, is now redefining RomTelecom's strategic directions for the next years, recognising the multiple roles RomTelecom must fill in meeting stakeholders' expectations.

A new business plan was recently developed to take into account important changes that international and Romanian telecommunications market is experiencing.

Restructuring core business, accelerating diversifying business portfolio, with a special attention paid to mobile telephony, and fund raising, US\$450 m, to support development, are our main tasks for 2002.

Dear Readers,

In 2001 about 554,000 new lines were installed in digital exchanges, replacing 270,000 manual and analogue lines and increasing RomTelecom's switching capacity by 284,000 new digital lines to a total of 5.073 million lines. Meanwhile, RomTelecom has not stopped developing its local access network, as well as, optical backbone network, which accounted for some 18,855 Km by the end of last year. New services were launched last year: ISDN and IN services (green numbers, teleconferences, etc.). As a result, subscribers increased by 218,000 to a 4.073 million, out of which 2.663 million, namely 65.4%, were connected to digital exchanges. Due to aggressive "digitalisation campaign" the quality of our services is very fast improving: number of complaints or faults is decreasing, while fault clearing time is getting shorter and shorter. This is the result of an intensive investment policy, of more than US\$1,500 million, over the last three years.

RomTelecom's restructuring process began early in 1999, immediately after OTE take-over. Last year, a change of guard and of strategy took place to accelerate RomTelecom's preparation for competition. Our executive team, which includes people from RomTelecom and OTE, aiming at turning RomTelecom from an investing company into a real commercial company, is now redefining RomTelecom's strategic directions for the next years, recognising the multiple roles RomTelecom must fill in meeting the expectations of stakeholders: customers, employees, shareholders, Romanian society.

A new business plan was recently developed to take into account important changes that international and Romanian telecommunications market is experiencing. Restructuring core business – fixed telephony, accelerating diversifying business portfolio, and fund raising to support development, are the main objectives for 2002.

To keep pace with its competitors, GSM900 mobile operators, Cosmorom needs a new approach. Cosmorom should accelerate network coverage and raise its subscriber base, as a result of an intensive investment plan. In this effort a strategic partner, to bring beside industry expertise and easy access to international markets, could accelerate network rollout and business development.

Late in April 2002 RomTelecom commercially launched ARtelecom - its Internet arm, a company to take advantage of RomTelecom's national infrastructure and support, and able to shape a still incipient market. Investments are planned for nation wide coverage and to provide in addition to Internet services, voice over IP and data transmission based on a PMP data access license obtained in 2000.



RomTelecom will, also, accelerate restructuring its core business – fixed telephony. We will continue to develop our backbone network based on optical cable to connect more and more cities with high capacity streams. Local network will be one of our priorities: until 2003 we intend to eliminate manual exchanges and existing waiting list, making our services more and more available to most of the 21.7 million Romanians. RomTelecom will become a customer-oriented company. Already, RomTelecom pays special attention to its business clients, a clear target for the newcomers in the liberalized market, focussing on their needs: high speed, high reliability, high capacity, and delivering customer tailored solutions based on the latest technologies. RomTelecom shall continue to install new digital lines and to commercially launch new IN services. To increase our efficiency, the planned investments will be based on profitability, while cost-cutting policy will increase company's earnings.

A new territorial organization based on regions, ten regions, has recently been implemented, while business process (financial and procurement functions) re-engineering based on Oracle financials is on the way. The Service Costing System, recently installed, is expected to be the tool for all future tariff rebalancing and cost restructuring efforts. Building a new organization should take into consideration culture and people, too. A new corporate culture, to cope with market challenges, is under way, while a new personnel policy able to motivate performance and to retain skilled personnel is a prerequisite for a competitive company. The continuous increase in automation and digitalization of our networks requires fewer, but more skilled personnel. That is why personnel reduction will continue, while the qualifications of personnel are changing continuously moving toward personnel with university degrees. In last 12 months, a substantial reduction in personnel was achieved from 41,682 to 33,162 at 31 July 2002. This personnel reduction by 8,520 or 20%, was possible mainly due to intensive investments in infrastructure and replacement of manual phone lines.

To finance planned development in 2002 RomTelecom should raise funds by US\$450m, of which US\$200m from shareholders, while remaining US\$250 should be attracted from the world financial and capital markets.

Taking into account the planned liberalisation for 1 January 2003 year, this year is a crucial year in RomTelecom's transition from a voice telephony company towards a full service operator.

Panagiotis Kargados
Chief Executive Officer

2001 Performance Highlights

Main Events

- On April 5, 2001, RomTelecom left Global One Communications Romania in order to establish its own affiliate, ARtelecom, to provide Internet services.
- On June 5, 2001, ARtelecom was established, as a joint stock company, to provide Internet services.
- In 2001 RomTelecom enhanced its product portfolio with ISDN services, after a successful completion of pilot projects launched in March 2000 and May 2000 for primary rate (PRA) and basic access (BRA), respectively.

Operational data, as of December 31, 2001

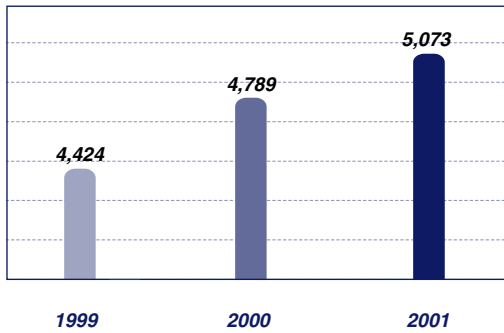
- 18,855 Km optical fiber cable, of which 2,311 Km were installed in 2001.
- 5.073 million lines total switching capacity, a 0.284 million increase over 2001.
- 3.227 million digital lines, an increase of 0.554 million compared to 2000.
- 4.073 million main telephone lines (subscribers, public phones), 0.218 million lines being connected in 2001.
- 2.663 million digital main telephone lines (subscribers, public phones), a 0.549 million increase over 2001.
- 3.634 million residential subscribers, of which 0.196 million were connected in 2001.
- 0.392 million business subscribers, of which some 17,300 were connected in 2001.
- 0.749 million rural subscribers, of which 0.107 million were connected in 2001.
- 46,838 payphones, all of which are card operated.
- 2,755 ISDN BRA connections during last year, to a total of 2,968.
- 412 ISDN PRA connections in 2001, to a total of 516.
- 18.8% penetration rate (17.2% on December 31, 2000).

Services Quality

- 96.5% of main telephone lines are connected to automatic exchanges, compared to 91.7% in 1998.
- 65.4% of main telephone lines are connected to digital exchanges, compared to 40.9% in 1998.
- 63.0 - average number of confirmed complaints per 100 main lines per year in 2001, compared to 130 in 1998.
- 29.5 - average number of confirmed faults per 100 main lines per year in 2001, compared to 68.7 in 1998.
- 14.9 hours – average time for fault clearing in 2001, compared to 47.7 hours in 1998.
- 0.52 seconds – dial tone delay in 2001, compared with 1.02 seconds in 1998.
- 2.06 seconds – average post dialing delay in 2001, compared with 4.55 seconds in 1998.

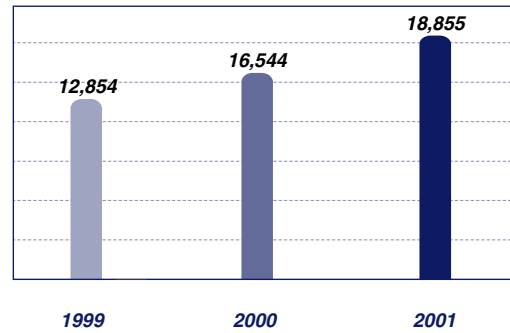


**Switching capacity
(million lines)**



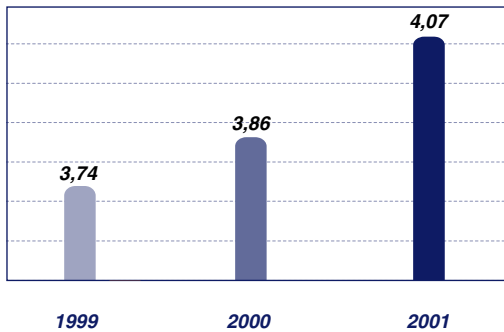
RomTelecom's switching capacity increased 5.9 per cent by year-end 2001, due to new digital lines installed, which now account for 63.6 per cent of total lines.

Optical backbone network (Km)



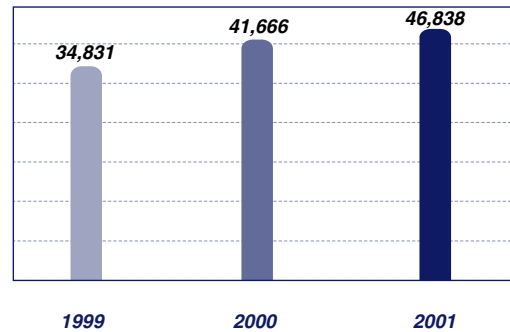
RomTelecom's optical backbone network increased continuously in last years connecting more and more cities with high-speed streams.

**Main Telephone Lines
(million lines)**



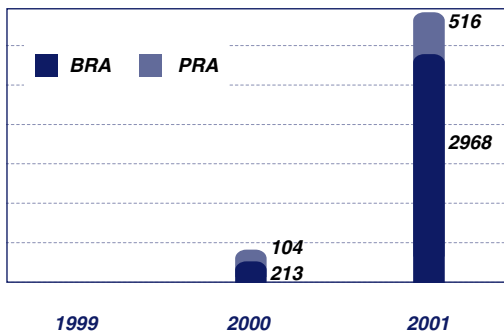
Lines in service increased 5.7 per cent, with new subscribers primarily connected in digital exchanges, digital subscribers representing 65.4 per cent.

Payphones



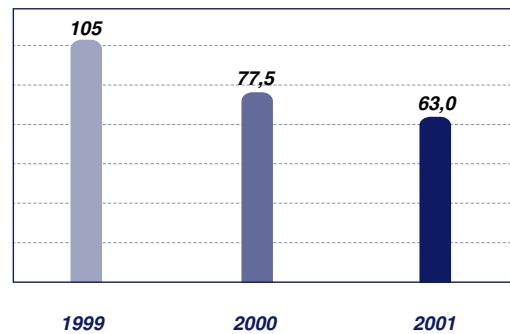
In 2001 the total number of payphones in operation increased by 12.4 per cent to 46,838, 100 per cent beign card-operated.

ISDN



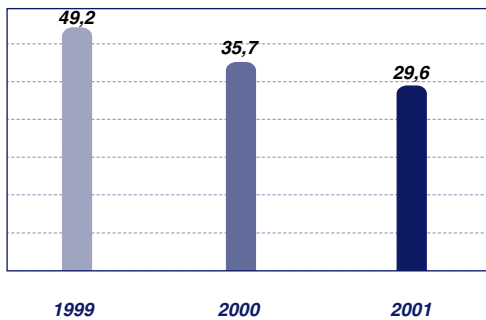
RomTelecom's began to provide ISDN services in 2000, while in 2001 ISDN services were commercially launched. By year-end 2001 there were 2,968 BRA and 516 PRA ISDN connections.

Complaints/100MTL/year



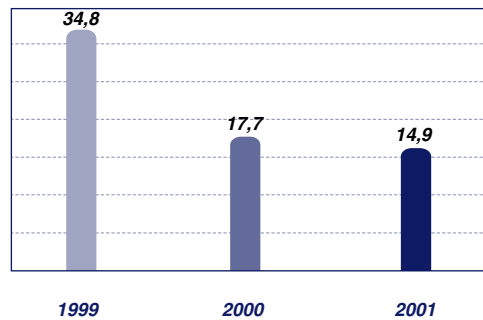
The quality of services RomTelecom provides is continuously increasing! Due to the new bussiness approach, complaints decreased by a further 18.6 per cent in 2001.

Faults/100MTL/year



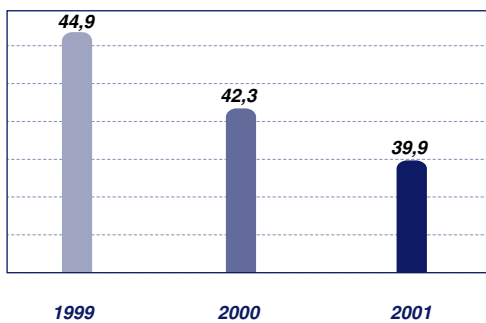
Due to new installed equipment (digital exchanges, plastic insulated cables, etc.) faults decreased by 17.1 per cent in 2001.

Fault clearing time (hours)



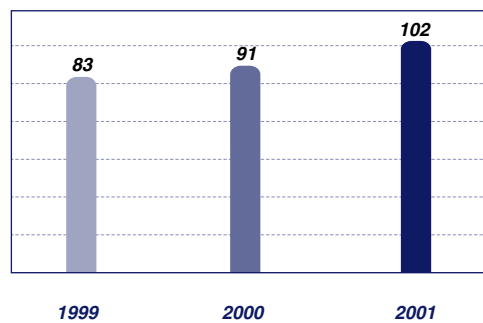
In 2001, fault-clearing time decreased by 15.8 per cent due to new installed equipment, as well as increasing maintenance efficiency.

Staff (000's)



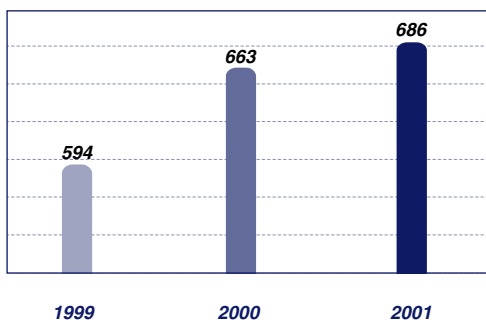
In the mean time, RomTelecom's staff decreased by 5.6 per cent or 2,365 jobs as part of a five years plan for job cuts.

Lines per employee



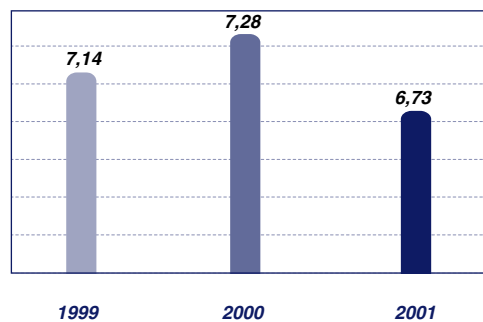
As a result of personnel policy, company's efficiency experiences a continuous increase - 11.9 per cent in 2001 to 102 lines per employee.

Telephony revenue per employee (ROL m)

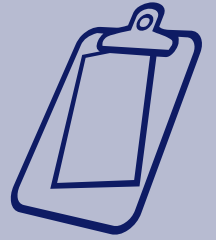


Telephony revenues per employee according to IAS increased by 3.4 per cent, mainly due to a 5.6 per cent decrease in staff.

Telephony revenues per line (ROL m)



Telephony revenues per line, according to IAS, decreased 7.6 per cent, due to a 10.2 per cent decrease in tariffs in real terms.



**REPORT
ON OPERATIONS**

1

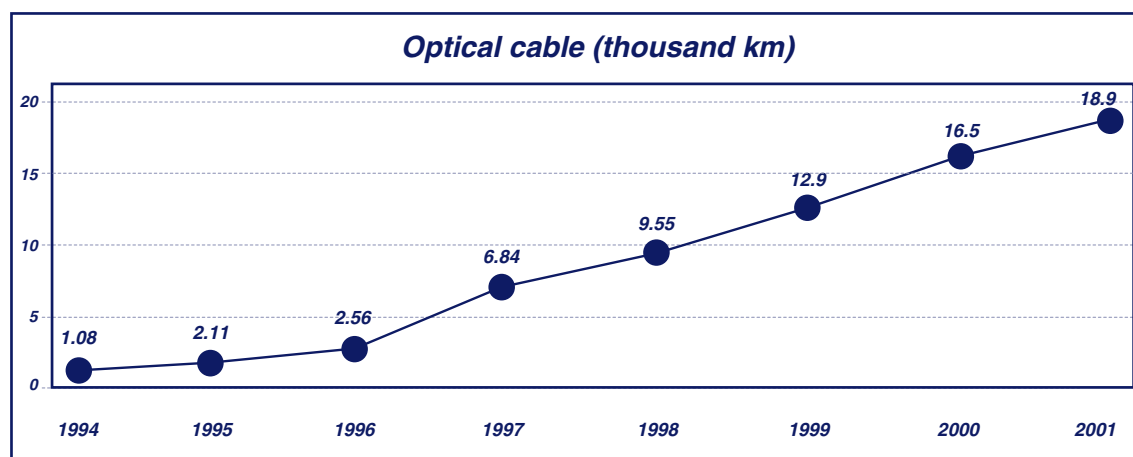
Domestic Activity

A. Telephony remains the largest service that RomTelecom provides: in 2001, and according to IAS, 92.5 per cent of total revenues, were generated by basic telephony services. This is the result of efforts made to develop the telephony infrastructure at a steady rate and to increase the number of customers, which turned RomTelecom strongly correlated to telephony.

1. Telecommunications infrastructure

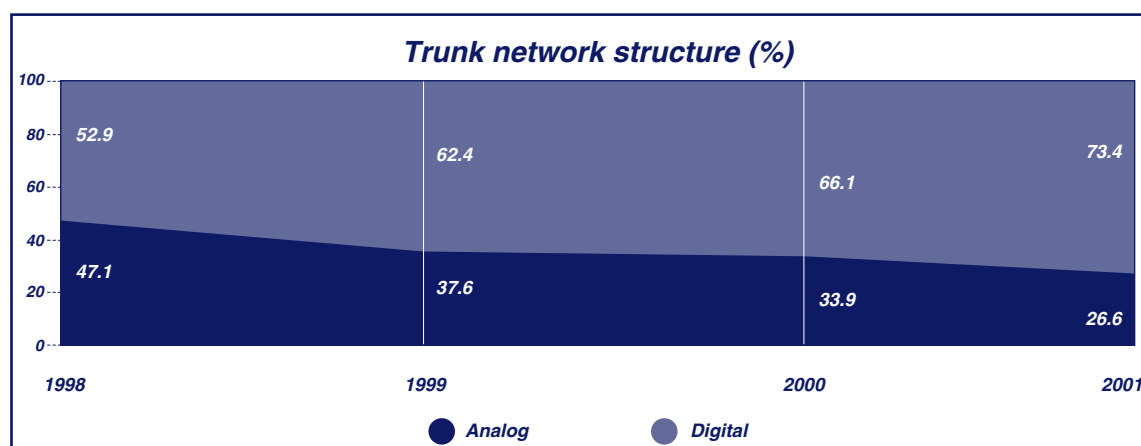
Optical cable backbone network

RomTelecom operates a nation-wide network based on an optical fibre backbone, connecting zone centres to each other, as well as zone centres to county capitals. Furthermore, the optical cable backbone connects Romania to the international telecommunications gateways. During 2001 RomTelecom's optical cable network increased in length to 18.9 thousands Km approximately.



Trunk network

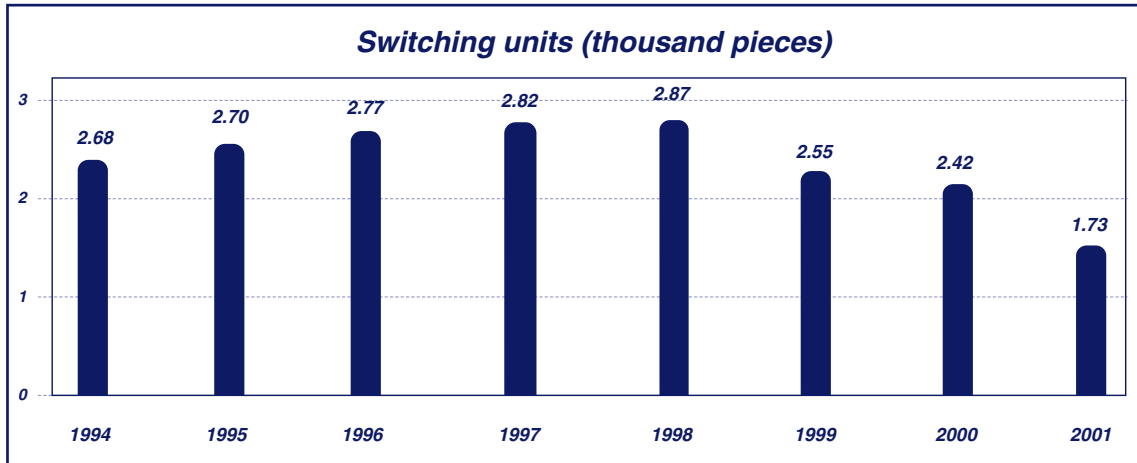
Due to the continuous increase of the optical backbone network, trunk network capacity experiences quantitative, and even more, major qualitative changes. While total capacity has increased last year by 8.6 per cent to 717,000 trunks, the weight of digital channels jumped 20.6 per cent to 526,000 trunks, representing 73.4 per cent of the total.



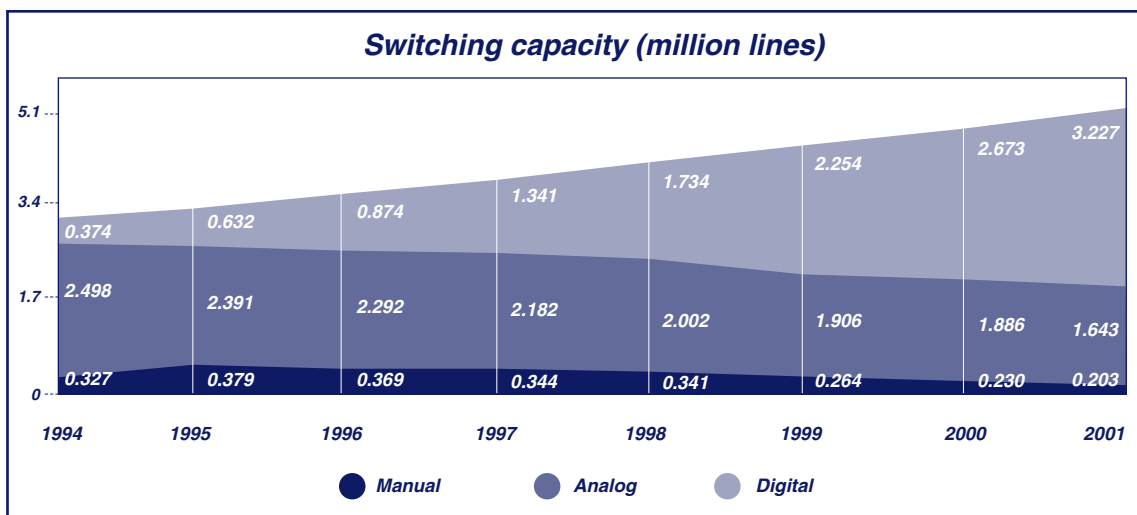


Switching network

RomTelecom has built and operates a national switching network connecting backbone and access network. By the end of last year there were 1,730 telephony switching units (CPU, RSS, etc.), out of which 1,119 manual. Switching network upgrade has been ruled mainly by qualitative than quantitative criteria, since the variation in number of exchanges has been less important than the increase in quality due to the new equipment deployed i.e. digital exchanges.



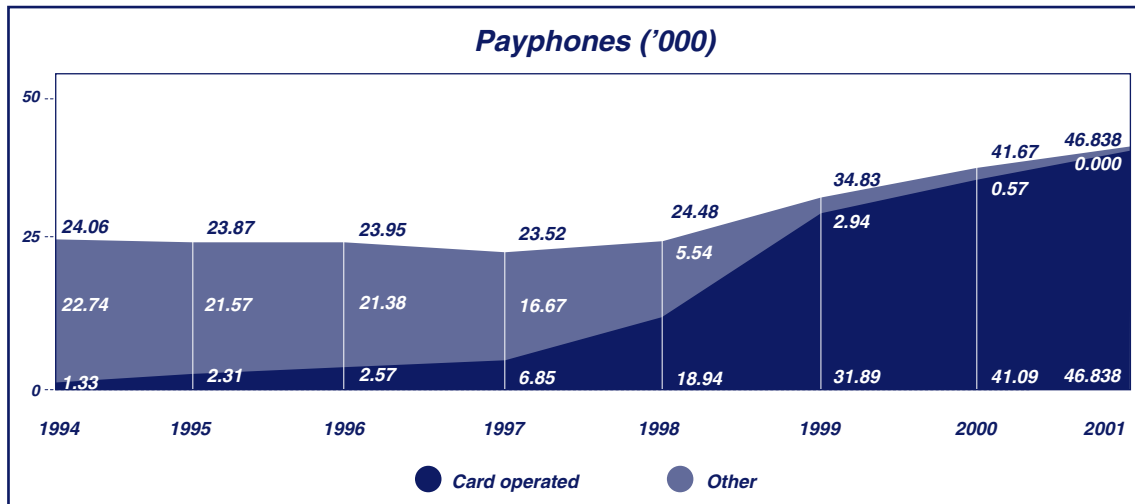
During the last year 0.284 million new lines were added, increasing the total switching capacity to 5.073 million lines, out of which 3.227 million digital. The increase in switching capacity is the result of new digital lines installed (0.554 million), as well as, replacement of manual and analogue lines (0.27 million), resulting in 63.6 per cent digital switching capacity.



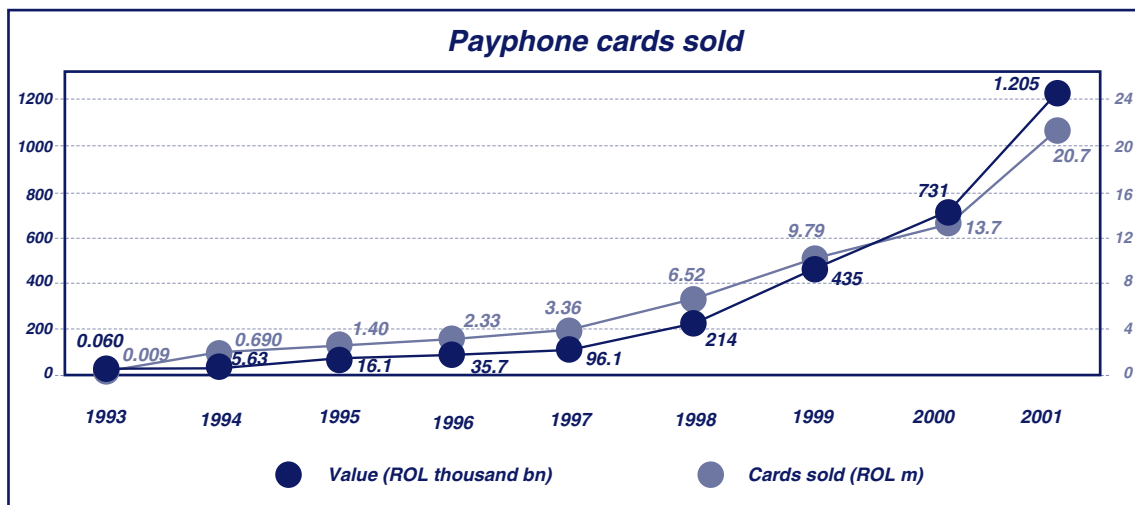
Additionally, last year there were installed 10,697 ISDN BRA and 899 ISDN PRA.

Payphones

By the end of 2001 the total number of payphones in operation increased 12.4 per cent to 46,838. The major increase, of 5,745 units, was in card-operated payphones, which grew to 46,838, representing 100% of total public phones.

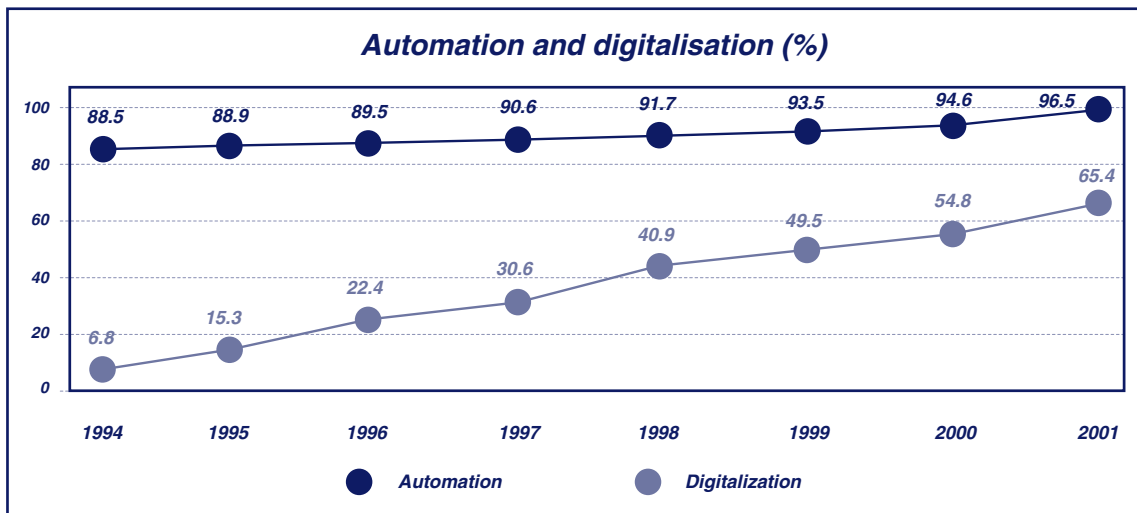
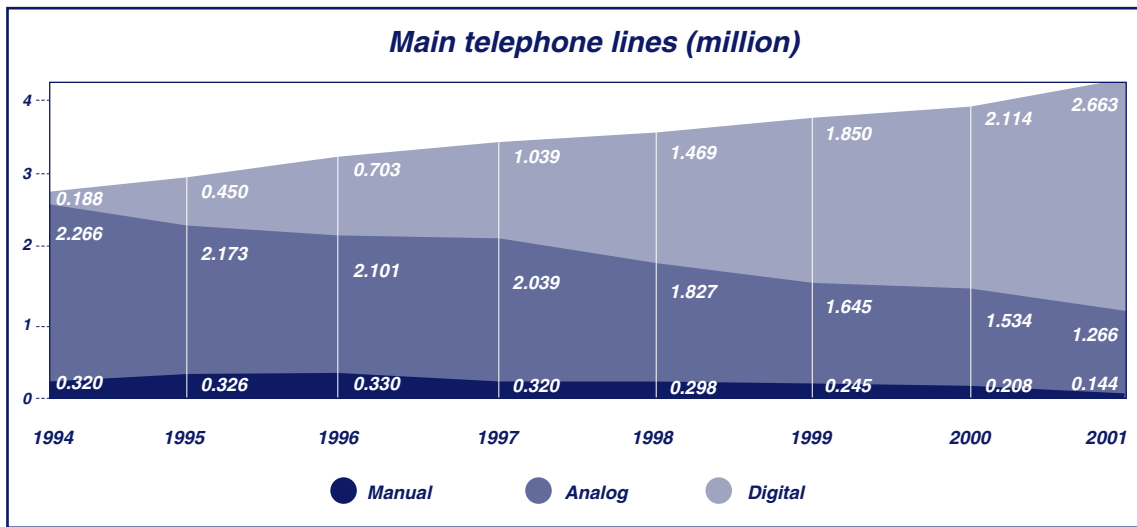


The continuous increase in payphones number induced a tremendous increase in the sale of payphone cards (values include VAT).

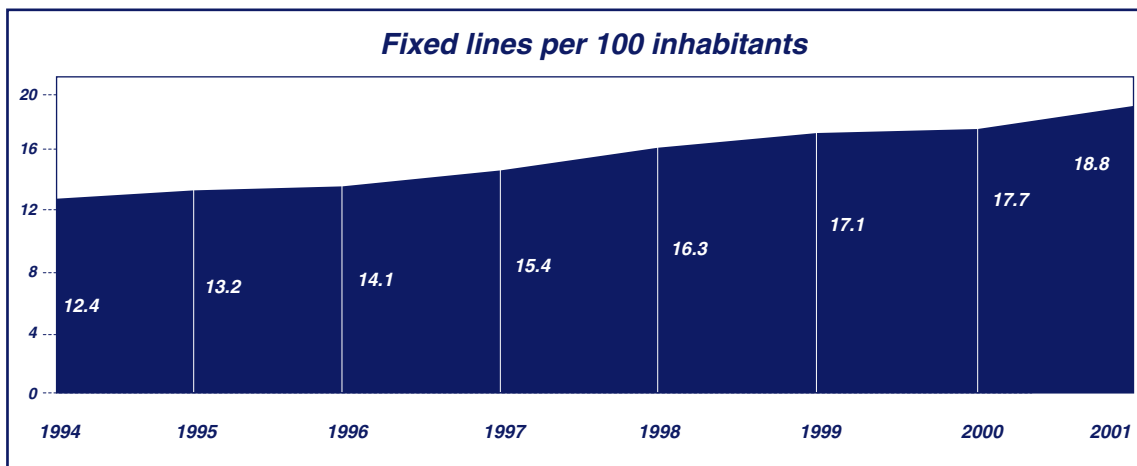


2. Customer base

During the year 2001, 218 thousands new main telephone lines (residential or business subscribers, public phones, ISDN lines or higher capacities excluded), were added, namely a 5.65 per cent growth, increasing the total number to 4.073 million telephone lines by the end of 2001. While the number of subscribers connected to analog and manual exchanges decreased significantly, by 331 thousands, the number of 'digital' subscribers increased at a more significant pace, by 549 thousands in 2001, resulting in an important increase in digitalization, 65.4 per cent of total telephone lines in service by year end 2001, compared to 54.8 per cent of the previous year.

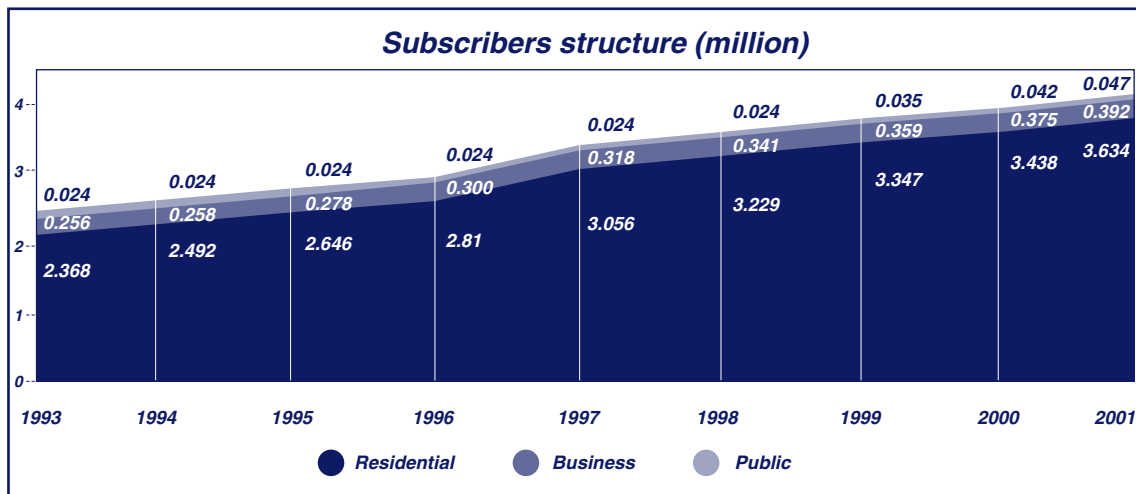


Penetration, measured in main telephone lines (residential and business subscribers and public phones) in service per 100 inhabitants, increased to 18.8 per cent by the end of 2001, from 17.7 per cent in 2000, according to the recent (18 March 2002) census.

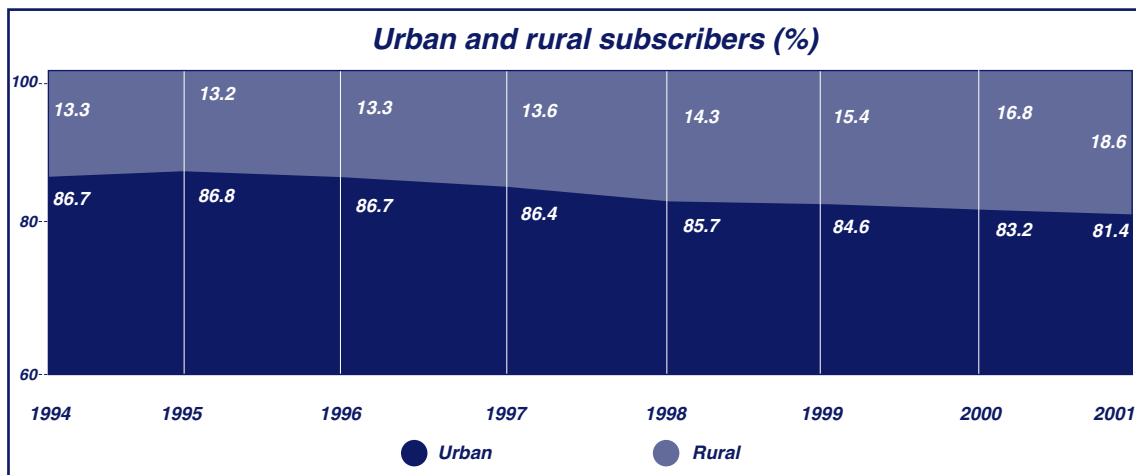


Domestic Activity

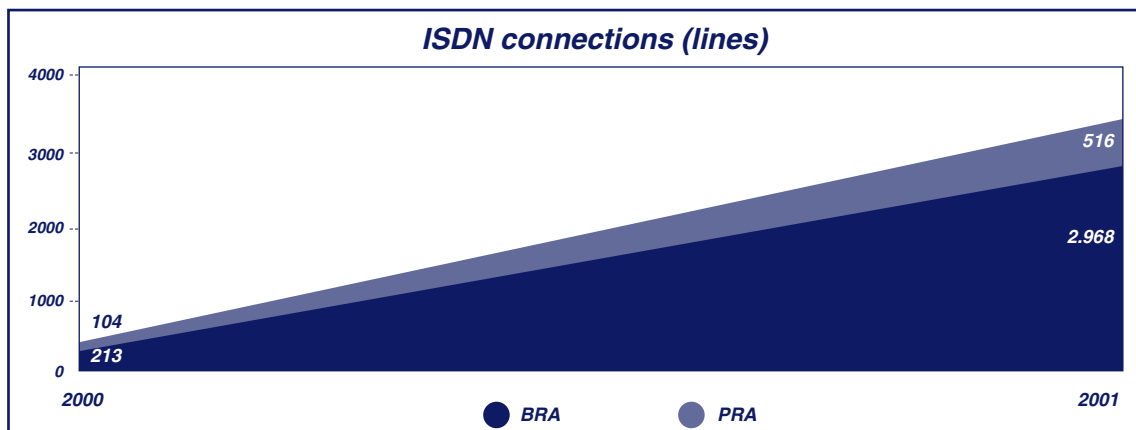
By the end of 2001 there were approximately 0.392 million business subscribers, 3.634 million residential subscribers and 46,838 card operated public phones.



Most of RomTelecom subscribers, 81.4 per cent, live in urban areas - 3.277 million subscribers of the total 4.026 million residential and business subscribers (public phones not included). The weight of rural subscribers has been increasing continuously in recent years, due to the demand for phone lines, and RomTelecom's intensive investments in rural areas.



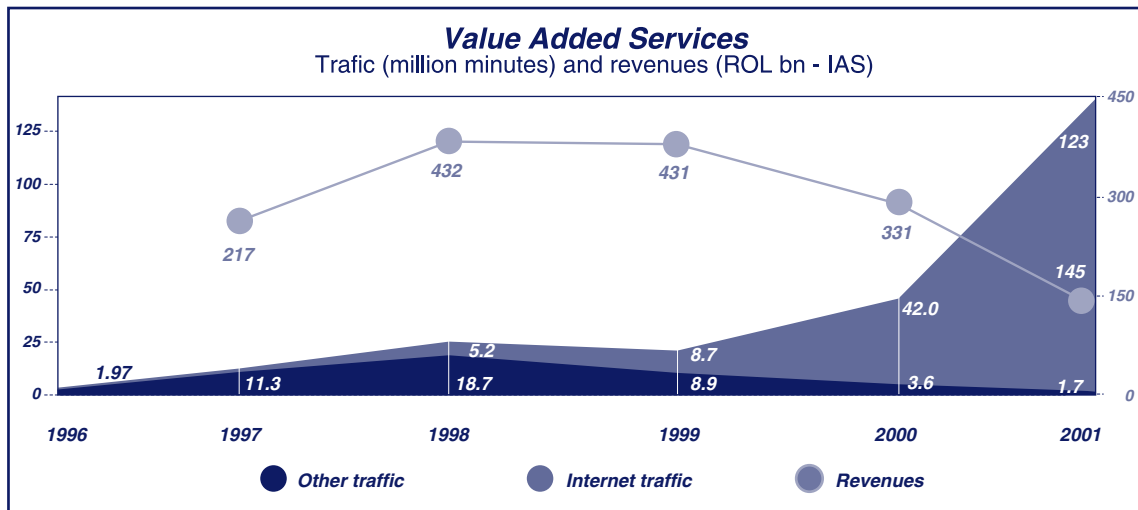
In year 2000 RomTelecom began to provide ISDN services, while in 2001 ISDN services were commercially launched. By year-end 2001 there were 2,968 ISDN BRA connections, and 516 ISDN PRA connections.



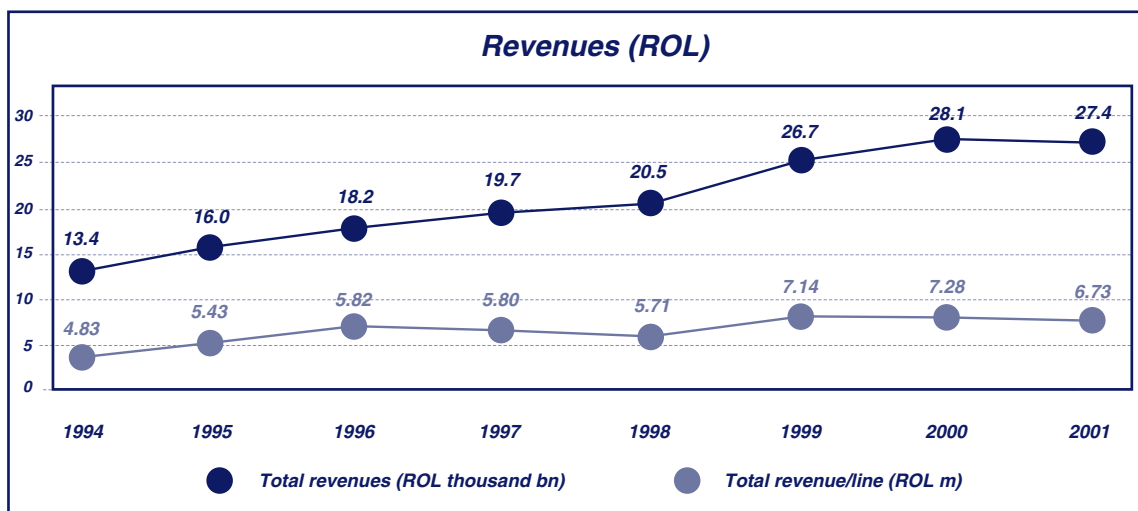


Last year there were 674 subscriptions for 2Mb/s trunks generated by business clients, of which 673 were in urban areas.

Traffic generated by Value Added Services (VAS) sky-rocked 173 per cent to 124.6 million minutes, mainly due to a 193 per cent spectacular jump in Internet traffic, while the revenues VAS generated last year decreased 56 per cent to ROL 145bn, according to IAS. The common cause for both is the dramatic decrease in RomTelecom's tariffs for Internet access.



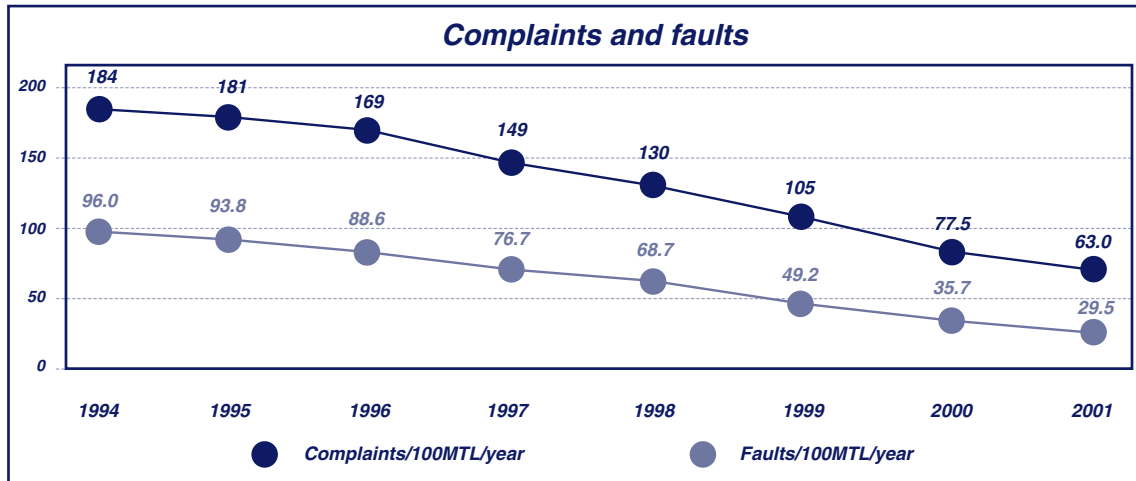
Revenue per main telephone line, according to IAS, decreased 5.2 per cent in 2001 to ROL6.73 million compared with 2000, mainly due to tariffs decrease in real terms: 3.1 per cent comparing with ROL depreciation against US\$, or 10.2 per cent adjusted to inflation rate.



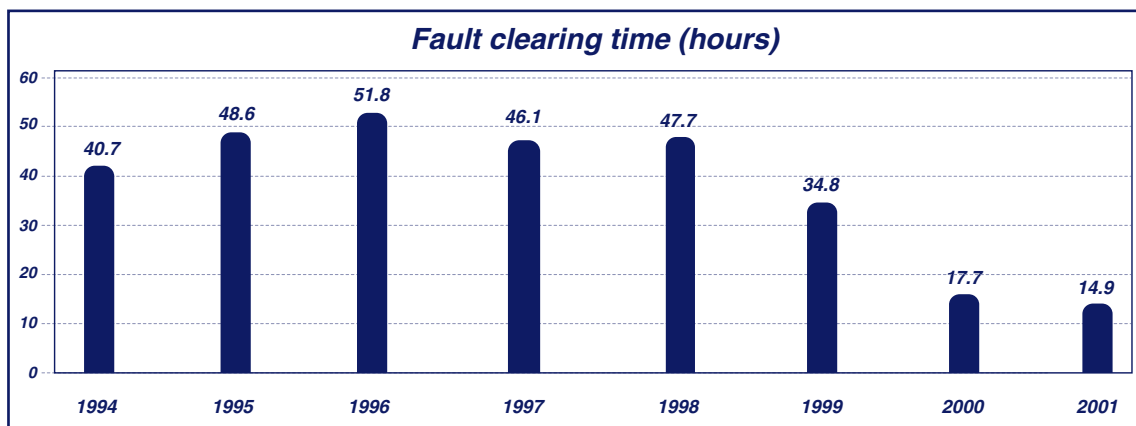
* Revenues are presented in terms of the measuring unit current as of 31 December 2001 (according to IAS).

3. Service quality

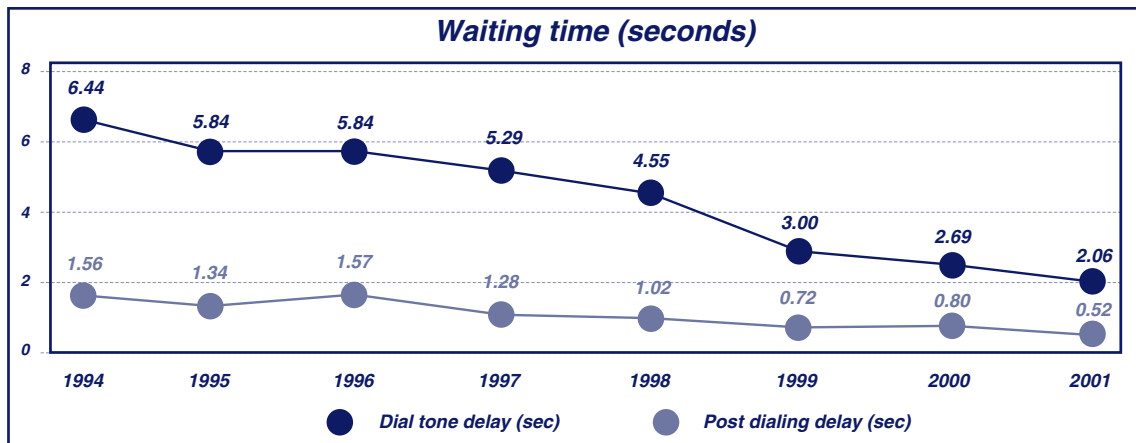
Due to efforts made towards network modernisation, RomTelecom has achieved a steady improvement in service quality. For instance, the number of complaints and faults has declined steadily in recent years, mainly due to the quality of new installed equipment – digital exchanges, plastic insulated cables, etc. and the procedures applied.



Fault clearing time continues to decrease: from 17.7 hours in 2000 to 14.9 hours in 2001, a 15.8 per cent decrease, but remains high, mainly due to problems caused by a still old fashioned local network - paper insulated cables, analogue exchanges, etc.

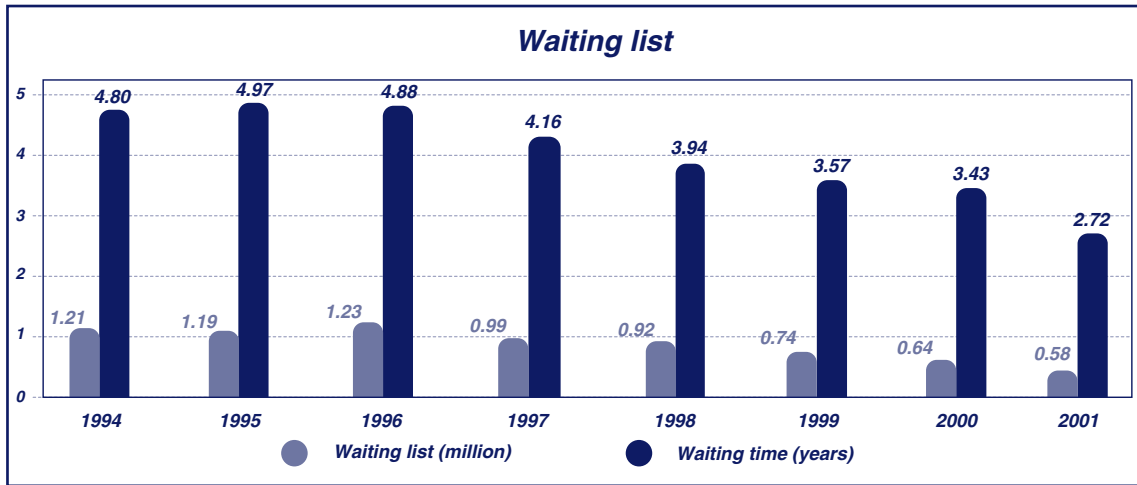


Average dial tone and average post dialling delay have decreased continuously mainly due to the increase in the number of new installed digital exchanges.





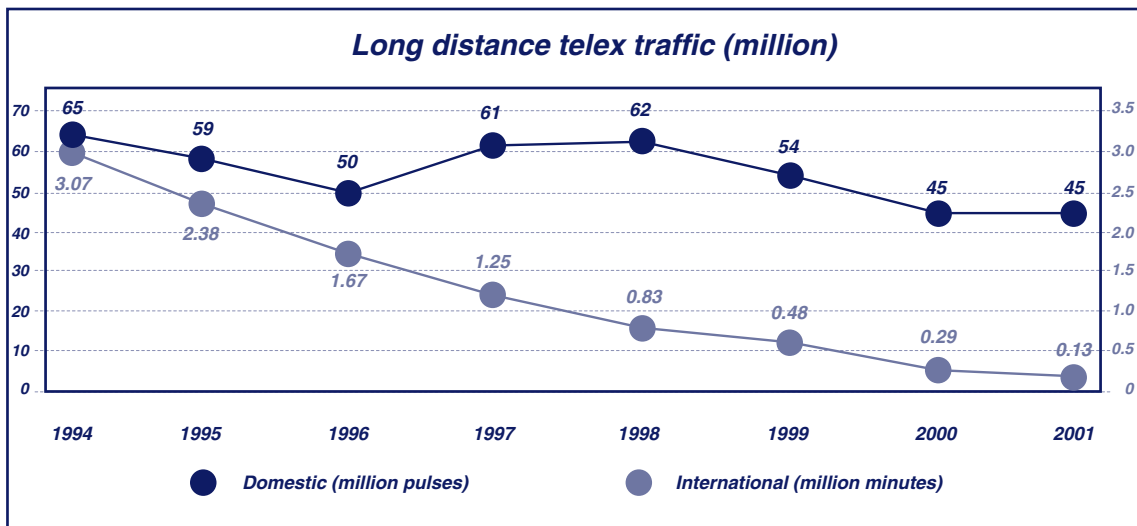
Despite the problems in access network, there is a noticeable progress in the waiting list and the average waiting time for a telephone line provisioning in the last few years.



To improve the quality of provided services, RomTelecom is continuously active in fraud detection, e.g. illegal connections, cable and equipment theft, protection of communications against hackers, illegal interception, etc.

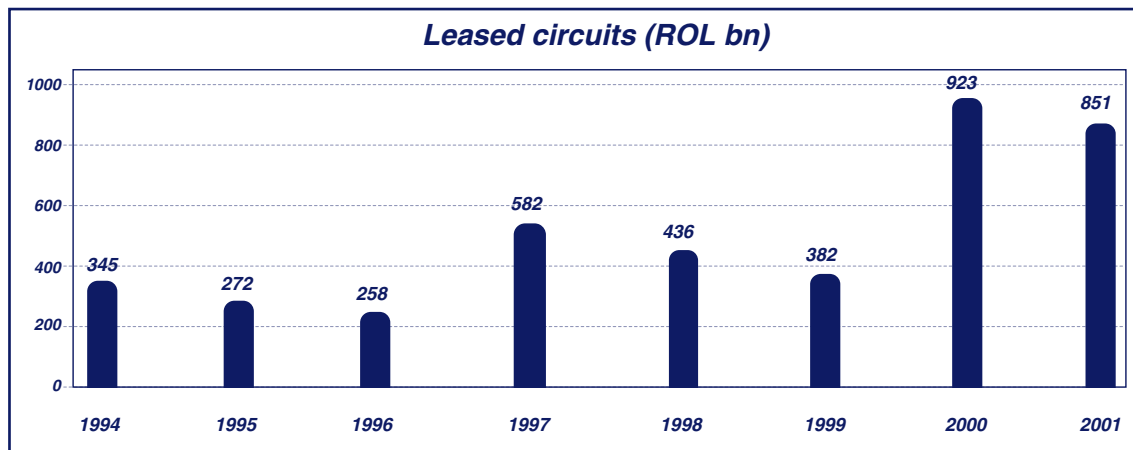
B. Telegraph and telex services

In 2001, revenues from telegraph and telex have experienced a dramatically decrease 74.9 per cent to ROL 64bn due to continuously decrease in service usage: decrease in telex lines, as well as in traffic generated. By the end of 2001 telegraph and telex revenues accounted for 0.2 per cent of RomTelecom revenues from fixed lines telephony, according to IAS.



C. Leased circuits

Last year revenues from leased lines experienced a slow decrease, 7.8 per cent to ROL 851bn, so according to IAS their weight in total revenues was limited to 3.0 per cent.



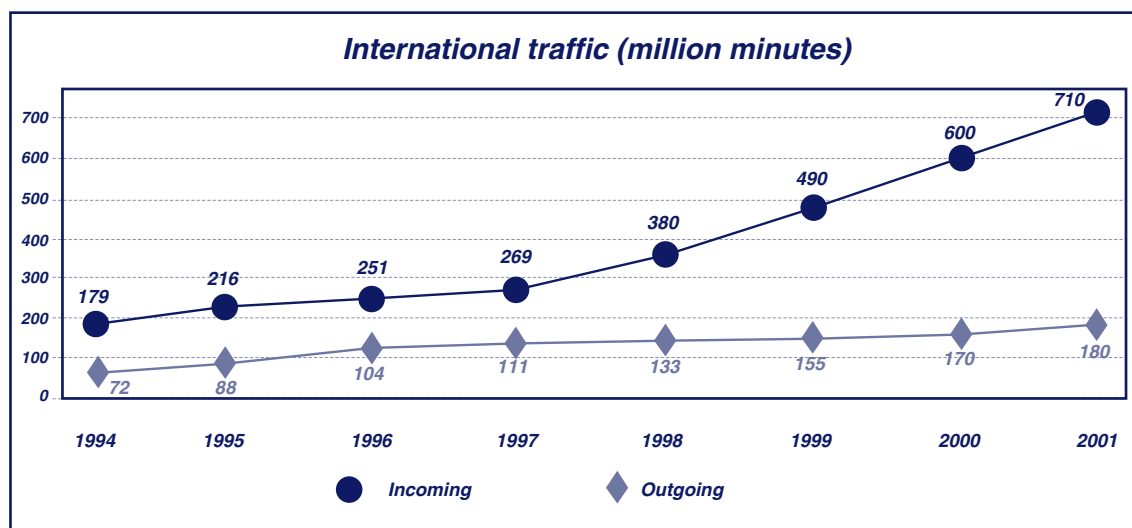
*Leased circuits revenues according to IAS are presented in terms of the measuring unit current as of December 31, 2001.



RomTelecom provides telecommunications services to more than 210 countries. In order to increase the quality of these services, a number of steps have been taken:

- The number of international public circuits has been increased by almost 25 per cent in 2001, to 7,600 digital channels connected in the two International Switching Centers - Bucharest and Brasov.
- The direct connections carry 90 per cent of the telecommunications services.
- The links using the international Signalling System no.7 represent almost 90 per cent of the total international links.
- The transmission bandwidth between Brasov and Budapest (Hungary) has been up-graded.
- A new direct relationship was established and a new cross-border high speed link with Pantel (Hungary), the second telecommunications operator in Hungary, was brought into service.

As a result, the international telephone traffic (incoming, outgoing) has been continuously increasing. In 2001, the volume of incoming traffic was increased by 18 per cent to 710 million minutes, and the same time outgoing traffic was increased by 6 per cent to 180 million minutes.



Revenues from international calls remain higher than expenditures, resulting in a profitable business and a positive international settlement balance.

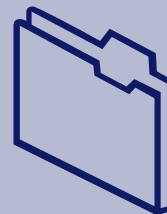
Revenues from International Private Leased Circuits experienced a spectacular growth: a 67 per cent jump, from US\$6 million in 2000 to US\$10 million in 2001.

International co-operation

RomTelecom is an active partner in several international telecommunications networks, associations, organisations and bodies both inside and outside Europe, such as:

- KAFOS: in service since 1997, this submarine cable system links Romania (Mangalia) with Bulgaria (Varna) and Turkey (Istanbul). KAFOS offers connection opportunities to other regional networks: TEL, TAE, ITUR, etc. RomTelecom owns 17.9 per cent of this partnership.
- ITUR is a submarine optical cable network connecting Italy, Turkey, Ukraine and Russia. RomTelecom owns 1.9 per cent of this partnership.
- BALTICA is a high reliability alternative network extending towards the Nordic countries. RomTelecom owns 0.762 per cent of this partnership.

- FLAG makes possible connections to Spain. RomTelecom owns 0.762 per cent.
- TEL/TET is an optical cable based network connecting the countries between Eastern and Western Europe. Since 1997, when optical cable between Giurgiu (Romania) and Ruse (Bulgaria) was installed, TEL/TET has been working at full capacity.
- IPLC/OSS Forum provides a framework for agreements of commercial and technical procedures for the implementation of One Stop Shopping.
- MEDRET provides restoration facilities in the Mediterranean and Black Sea area.
- C7/Global Planning Meeting - annual meeting for planning, development and establishment of C7 signalling network, roaming and ISDN services.
- The European Network Planning Meeting (ENMP) was established in 1993 to develop networks and services. RomTelecom became a full member in 1995.
- The European Restoration Working Group, dedicated to building a European restoration network for international telecommunications services.
- The European Telecommunications Network Operators' Association/ETNO. RomTelecom has been active in the General Assemblies, conferences, as well as in various working groups, such as: Competition Market Issues, Fraud Control, Quality of Service, etc.
- European Telecommunications Informatics Services (ETIS) permits sharing of information, experiences and ideas on IT at the heart of the Telecommunications industry. RomTelecom has been a full member since 1999. RomTelecom has withdrawn from ETIS starting with January 2002.
- PHARE Multi-country Programme. Last year RomTelecom was active in two projects Telecom Tariffs (European models and methodology for establishing cost oriented tariffs) and ATLAS (a Regional Telecommunications Atlas including data from Central and Eastern European countries). That was the end of the Phare multi-country Programme.
- PHARE National Programme. RomTelecom was involved in rural telephony projects, emergency number intelligent system – 112, as well as, cross-border co-operation with Bulgaria, etc. Some of the proposals are still on the agenda of the national authorities.
- Similar approach has been adopted in relation with the funding opportunities offered by the Pact of Stability in South-Eastern Europe.
- Information Society Technology (IST) Programme in Fifth Framework Program. RomTelecom is already involved in several IST projects as EMERGE (roll out period: January 1, 2001 – June 30, 2002) and MOICANE (started at December 1, 2001), partners being companies and universities from UK, Greece, Portugal, Poland, Hungary, Italy, Bulgaria and Romania.
- Leonardo da Vinci Programme- Within this program, RomTelecom will be a partner for XENOPHON II project along with companies from United Kingdom, Greece, Netherlands, Belgium and Czech Republic.



STAKEHOLDERS

2

As part of the privatisation process, on November 1st, 1997, RomTelecom was established as a joint stock company called Societatea Națională de Telecomunicații RomTelecom S.A. RomTelecom was incorporated in Romania, its registered office is on Calea Victoriei no. 13-15, sector 3, 704111, Bucharest, Romania.

Shareholders' structure

According to the incorporation Decree, viz. Government Decision no. 673/25 October 1997, the Ministry of Communications was given power over the rights of the sole shareholder. In June 1998, this prerogative was taken over by the State Ownership Fund. On December 30th 1998, as a step of the privatisation process, an important stake in RomTelecom, 35 per cent, was sold to the Hellenic Telecommunications Organization - OTE, the public network operator of Greece, via its subsidiary OTEROM Ltd. There were 4.2 m shares sold representing 21,5 per cent of shares, and after a capital increase OTE's total stake became 35 per cent. OTE also bought management control - an additional 16 per cent voting rights in the shareholders' ordinary meeting, per cent corresponding to the shares over which has the usufruct right (16 per cent of the total number of shares). The State Ownership Fund, as representative of the Romanian state, owned the remaining 65 per cent stake, as well as a golden share which gives veto rights in respect of strategic decisions on the Company which might affect the consumers, the Company's activity, competition or the national interests. According to the Emergency Ordinance no. 5/January 11, 2001, administration of Romania's 65 per cent stake in RomTelecom was transferred to the Ministry of Communications and Information Technology. On January 9th 2001 the name of the shareholder "OTEROM LIMITED" was changed into "OTE International Investments Ltd". On December 31st 2001 the share capital of the Company was made up of 24,062,522 ordinary shares with a nominal value of ROL 100,000 each, fully paid.

The Company is run by the bodies listed below in accordance with its articles of incorporation and within the terms of the law.

Shareholders' Meeting

The shareholders meeting is the Company's supreme governing body entitled to resolve any issue, unless otherwise provided by statute.

Board of Directors

The Board of Directors is the supreme management body, empowered to decide on any issue regarding the Company's management and target achievement, with the exception of issues coming under the exclusive jurisdiction of the General Shareholders' Meeting. The Board of Directors shapes the Company's strategy and policy, supervises its property management, and consists of seven members appointed by the General Shareholders Meeting. Their term of office is four years.

Censors and Auditors

The censors are empowered with the control of the Company's activity. The General Shareholders Meeting appoints three members. Also an external, independent auditing company could be appointed.

Chief Executive Officer

The Chief Executive Officer is the highest-ranking person, heading all departments and guiding their activities and is appointed by the Board of Directors.



Executive Directors

The executive directors are appointed by the Board of Directors. They head and guide the activity of their departments.

In 2001 RomTelecom was run by:

Board of Directors

- as of January 1st 2001

Chairman Georgios Skarpelis (OTEROM Limited)

Members of the Board of Directors

Dumitru Moinescu (Romania)

Vasile Rugin` (Romania)

Dan Nica (Romania)

Georgios Argyropoulos (OTEROM Limited)

Vassilios Tsakoniatis (OTEROM Limited)

Panagiotis Kargados (OTEROM Limited)

The shareholders' meeting held on February 9th 2001 changed the structure of the Board of Directors, valid to the end of the year, as follows:

Chairman Georgios Skarpelis (OTE International Investments Ltd.)

Members of the Board of Directors

Ion Smeeianu (Ministry of Communications and Information Technology)

Victoria Filip (Ministry of Communications and Information Technology)

Urban Pop (Ministry of Public Finance)

Georgios Argyropoulos (OTE International Investments Ltd.)

Vassilios Tsakoniatis (OTE International Investments Ltd.)

Panagiotis Kargados (OTE International Investments Ltd.)

Executive Board and Management Structure

- as of January 1st 2001:

Vassilios Tsakoniatis - Chief Executive Officer (OTEROM Limited)

Executive directors:

Theodore Thanopoulos - Executive Director Development (OTEROM Limited)

Georgios Avlonitis - Executive Director Operations (OTEROM Limited)

Georgios Iliopoulos - Executive Director Finance (OTEROM Limited)

Mark Bush - Executive Director Human Resources & Training (GTE)

Georgios Theodorou - Executive Director International, Regulatory and Carrier Relations (OTEROM Limited)

Florin Serghei Anghel - Executive Director Regional Operations (Ministry of Communications and Information Technology)

Marcel Nicolaescu - Executive Director Administration (Ministry of Communications and Information Technology)

Radu Moldovan - Executive Director Commercial (Ministry of Communications and Information Technology)

- as of February 23rd, 2001

Vassilios Tsakoniatis - Chief Executive Officer (OTE International Investments Ltd.)

Executive directors:

Theodore Thanopoulos - Executive Director Development (OTE International Investments Ltd.)

Georgios Avlonitis	- Executive Director Operations (OTE International Investments Ltd.)
Georgios Iliopoulos	- Executive Director Finance (OTE International Investments Ltd.)
Georgios Theodorou	- Executive Director International, Regulatory and Carrier Relations, as well as interim for Director Commercial (OTE International Investments Ltd.)
Florin Serghei Anghel	- Executive Director Regional Operations (Ministry of Communications and Information Technology)
Marcel Nicolaescu	- Executive Director Administration (Ministry of Communications and Information Technology)

The ordinary shareholders' meeting held on April 6th 2001 decided to cancel the position of Executive Director of Human Resources and Training, all the attributions of this Directorate being undertaken by the Executive Director Regional Operations until June 27th 2001, date up to which the above mention Directorate was named Executive Director Regional Operations and Human Resources.

According to the Decision of the shareholders' meeting held on June 27th 2001, the new organisational chart regarding the Executive Directorates was as follows:

- Executive Director Development (nominated by the Ministry of Communications and Information Technology);
- Executive Director Operations (nominated by the OTE International Investments Ltd.);
- Executive Director Finance (nominated by the OTE International Investments Ltd.);
- Executive Director Commercial (nominated by the OTE International Investments Ltd.);
- Executive Director Regional Operations (nominated by the Ministry of Communications and Information Technology);
- Executive Director Human Resources & Administration (nominated by the Ministry of Communications and Information Technology);
- Executive Director IT (nominated by the OTE International Investments Ltd.).

By the Decision no.6/ July 3rd 2001 of the Board of Directors Vasilios Tsakoniatis was replaced with Panagiotis Kargados as General Director (CEO), who has triggered changes in the executive team, valid through the year, as follows:

Vasile Cazacu	- Executive Director Development (Ministry of Communications and Information Technology), replacing Theodore Thanopoulos on 2nd of October 2001. Between July 26th 2001 and October 2nd 2001, Mr. Silviu Agapi was temporarily acting as Executive Director Development.
Ioannis Kyriakakis	- Executive Director Operations (OTE International Investments Ltd.), replacing Georgios Avlonitis on 13th November 2001
Efstratios Angelinos	- Executive Director Finance (OTE International Investments Ltd.), replacing Georgios Iliopoulos on 26th of July 2001
Konstantinos Melitas	- Executive Director Commercial (OTE International Investments Ltd.), replacing Georgios Theodorou on 26th July 2001
Florin Serghei Anghel	- Executive Director Regional Operations (Ministry of Communications and Information Technology)



Marcel Nicolaescu - Executive Director Human Resources & Administration (Ministry of Communications and Information Technology)
Andreas Latsis - Executive Director IT (OTE International Investments Ltd.), appointed on October 1st 2001. Between July 26th 2001 and October 2nd 2001, Mr. Nikolaos Golias was temporarily acting as Executive Director IT.

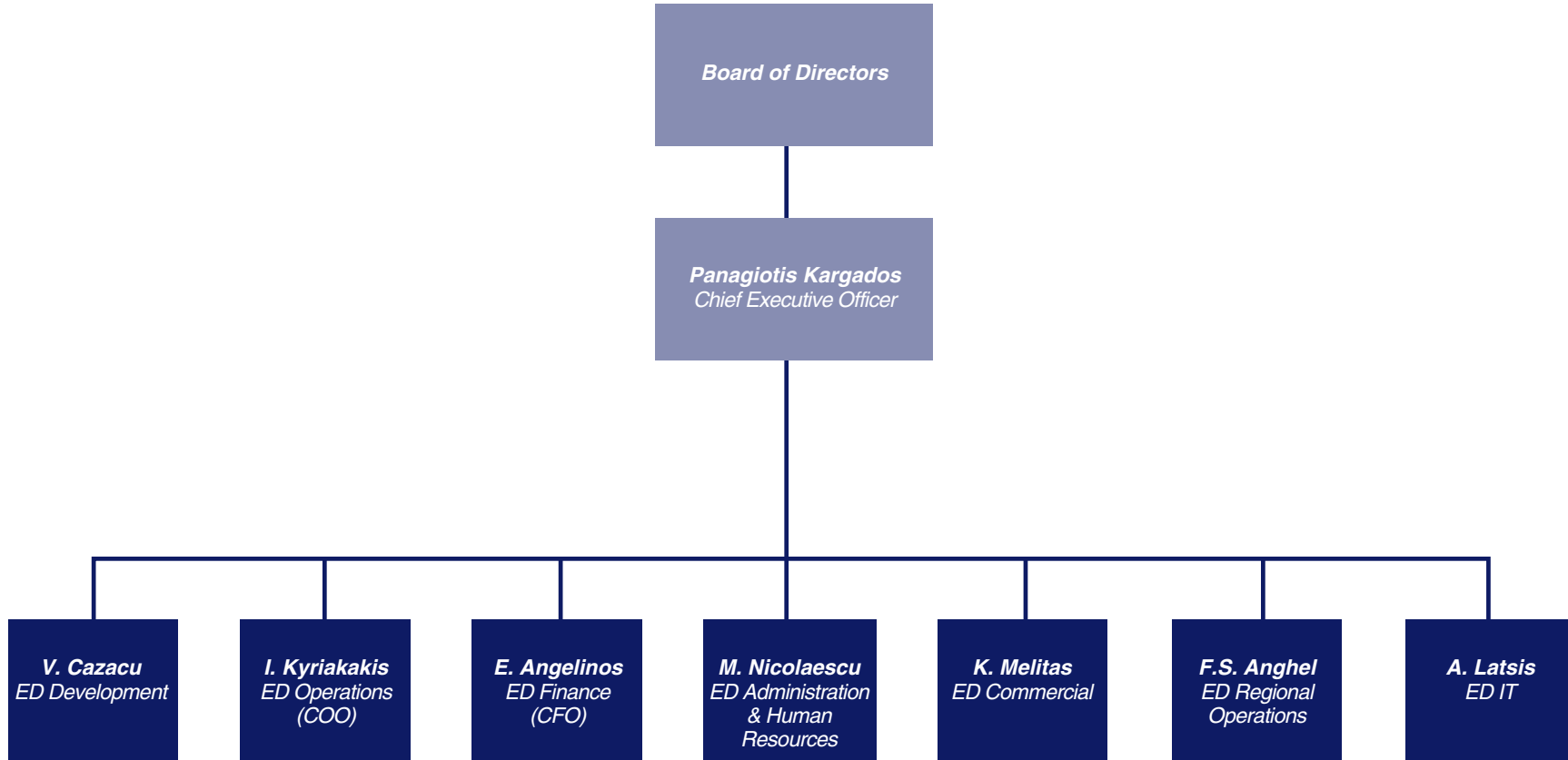
Statutory Auditors

Mihai Elefterie
Mihaela Sanda Cruceru
PricewaterhouseCoopers

Zonal organization

RomTelecom is organized in 41 county directorates: Alba, Arad, Argeş, Bacău, Bihor, Bistriţa, Botoşani, Braşov, Brăila, Buzău, Caraş Severin, Călăraşi, Cluj, Constanţa, Covasna, Dâmboviţa, Dolj, Galaţi, Giurgiu, Gorj, Harghita, Hunedoara, Ialomiţa, Iaşi, Maramureş, Mehedinţi, Mureş, Neamş, Olt, Prahova, Satu Mare, Sălaj, Sibiu, Suceava, Teleorman, Timiş, Tulcea, Vaslui, Vâlcea, Vrancea and the city of Bucharest. All the directorates are branches.

RomTelecom organizational chart





RomTelecom is a majority shareholder in three telecommunications companies.

CableVision of Romania

CableVision of Romania is a joint venture established on May 14, 1993 with an USA partner, to provide cable TV services. In present, RomTelecom owns 95.67 per cent of the share capital of ROL 30.86bn.

CableVision of Romania is the first Romanian cable TV operator using optical cable for transmission and the only one operating underground cable. The company also plans to become active in the data transmission market.

By the end of 2001, CableVision was operating networks in six cities: Bucharest, Buzau, Giurgiu, Sf. Gheorghe, Slobozia, and Targoviste, and had ROL 51.82bn turnover, ROL 2.74bn net profit, and 40,673 subscribers.

Cosmorom

Cosmorom was established on January 15, 1999 as a mobile telephony, DCS-1,800 operator, 99.999996 per cent owned by RomTelecom, and was commercially launched in March 2000 with pre-paid services, and in May 2000 with post-paid services. Cosmorom benefits from Cosmote experience in Greece, as well as from RomTelecom support and network, being the only mobile operator able to take advantage of fixed and mobile services convergence.

ARtelecom

ARtelecom was established on June 5, 2001 as an Internet Service Provider and commercially launched its services on April 29, 2002. RomTelecom owns 99.9992 per cent of the share capital of ROL 136.46bn. ARtelecom benefits from RomTelecom support, network, and national coverage to provide a full range of services nation-wide. Company's results at the end of 2001: ROL 18.97m turnover and ROL 812.41m loss.

RomTelecom also owns minority stakes in telecommunications operators:

Global One Communications Romania (GOCR)

GOCR - development and operation of data services, ISP, network services, etc. Global One was established on February 1, 1993 and has ROL 2.70bn share capital. The most important shareholders are Global One - Roe Holdco B.V. - 50.50 per cent and RomTelecom - 48.98 per cent. On April 5, 2001, RomTelecom left this joint venture in order to establish its own affiliate to provide Internet services.

Telemobil

Telemobil - development and operation of NMT450 and CDMA mobile networks in Romania. Telemobil was established on May 22, 1992. On May 21, 1998 RomTelecom sold a 60 per cent stake in Telemobil to RDT (Holding) B.V. In October 2000, Inquam, an UK company backed by Qualcomm of the USA, became majority shareholder in Telemobil, and after last share capital increase, RomTelecom owns 0.23 per cent of the share capital of ROL 1,207.08bn. Early in December 2001, it was launched a new mobile service - Zapp Mobile, based on CDMA 2000 technology in 450 MHz band and on an investment of US\$ 350m in three years. Results at December 31, 2001: turnover - ROL 189.29bn, loss - ROL 658.58bn.

RomTelecom is a minority shareholder in an equipment manufacturing enterprise:
Alcatel Network Systems Romania (ANSR)

ANSR is a joint venture established on September 24, 1991 with Alcatel CIT to manufacture digital telephone exchanges E10B, as well as other telecommunications equipment. RomTelecom owns 5.96 per cent of the share capital of ROL 8.63bn. Results at December 31, 2001: ROL 1,031.4bn turnover and ROL 163.21bn net profit.

RomTelecom also has interests in companies acting in other industries:
Pagini Aurii

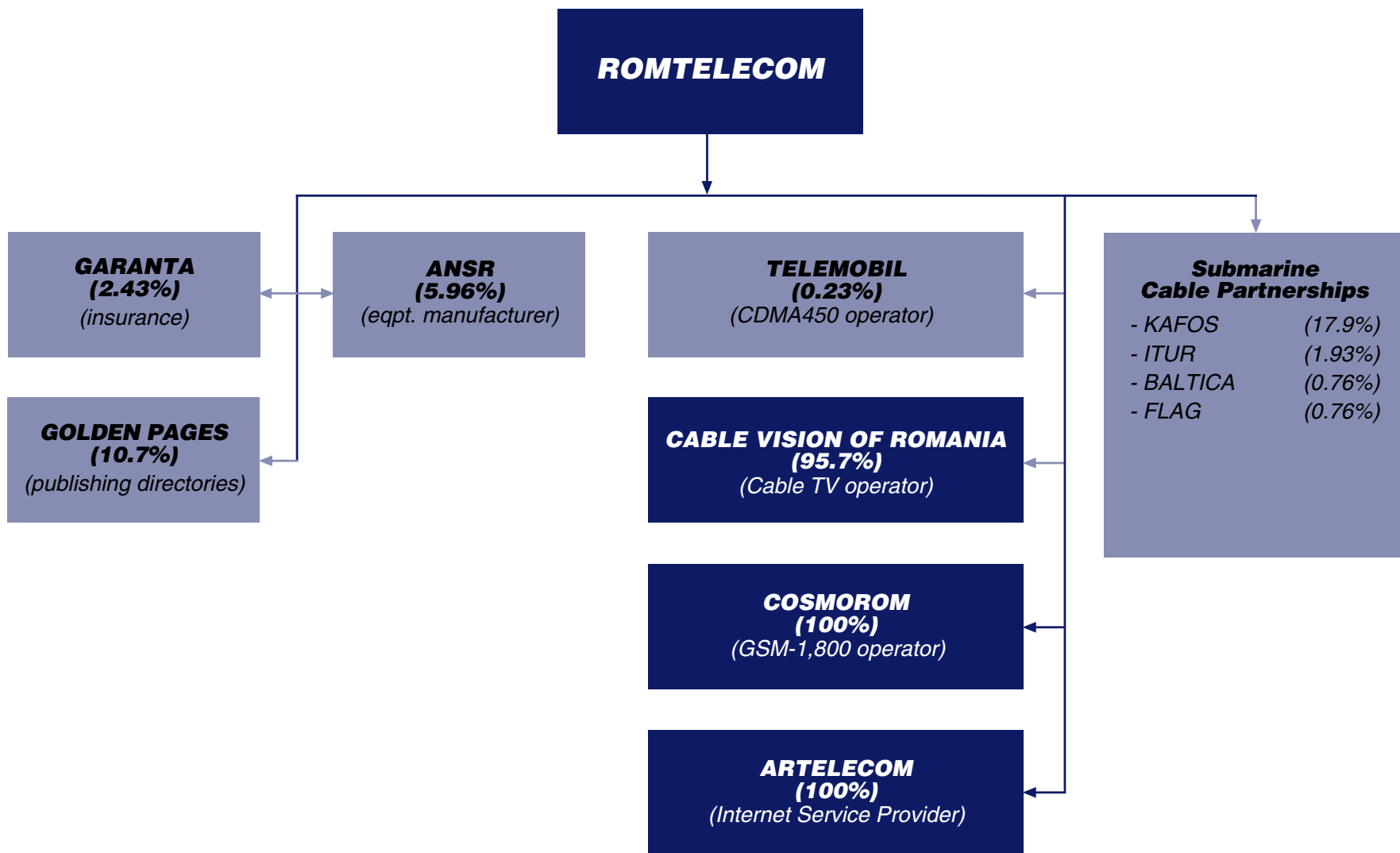
Pagini Aurii is a joint stock company established on July 29, 1997 and has a share capital of ROL 26.96bn, in which RomTelecom's share is 10.68 per cent. Majority shareholder is Directory Systems Europe B.V., a subsidiary of Aurec Group of Israel, owning 84.18 per cent of shares. Its main purpose is to sell advertising space in Pagini Aurii (Golden Pages) directories on paper or other media, and to print telephone directories (White Pages) for RomTelecom's subscribers. In this partnership, RomTelecom brought the exclusive right of use of the subscribers' list for 15 years and is receiving, among other items, free of charge telephone directories for its subscribers. Within two years every RomTelecom subscriber will receive a copy. Over 3.5 million copies of directories (White and Yellow Pages) were produced in last two years, while in 2002 there are plans for 1.75m copies of White Pages and mixed directories, and 0.3m copies of Yellow Pages and Tourist Guide. Results at December 31, 2001: ROL 234.58bn turnover and ROL 132.24bn loss.

Garanta

Garanta is a joint stock company established on May 20, 1997, providing life and general insurance and re-insurance services. RomTelecom owns a 2.43 per cent stake of the share capital of ROL 40.05bn. Results at December 31, 2001: ROL 105.46bn turnover and ROL 21.39bn loss.

RomTelecom has invested in submarine cable partnerships (Kafos, Itur, Baltica, etc.) aiming to develop its connections to international networks.

Structure of the RomTelecom Group as of December 31st, 2001



Cosmorom

Establishment

In December 1998, the Romanian Telecommunications Ministry released the first GSM-1800 license to Cosmorom, the license conditions providing for only qualitative parameters. Cosmorom was founded on January 15th, 1999, and established on May 17th, 1999. The fiscal registration took place on July 16th, 1999. In May 2000 Cosmorom commercially launched the first mobile services in Romania on the GSM -1800 system.

Corporate governance

In accordance with its articles of incorporation and within the terms of the law, Cosmorom is run by the following bodies: the General Assembly of shareholders, the Board of Directors, the statutory auditors, the CEO and the Executive Directors. In 2001 Cosmorom was run by:

Board of Directors: Chairman: Dumitru Anghelescu (RomTelecom); members: Florin Serghei Anghel (RomTelecom), Spyridon Spyropoulos (OTE International), Georgios Avlonitis (OTE International), Panagiotis Nikakis (OTE International). According to the Decision of the Ordinary General Assembly held on March 30, 2001 Florin Serghei Anghel was replaced by Serban Pop.

Executive managerial structure: Chief Executive Officer - Spyridon Spyropoulos, Executive Finance Director - Dimitrios Sophocleous.

Statutory Auditors: Mihai Elefterie, Sanda Michaela Cruceru and Camelia Horlact. Independent Auditor: PricewaterhouseCoopers.

Vision

Focus on customers' needs by providing a wide range of modern services, achieving satisfactory development and profits, while at the same time acquiring a dominant position in the Romanian mobile market.

Organization

Cosmorom is a growing market-oriented organization based on people, Romanians as well as Greeks. Its staff has cumulatively many years of experience in the telecommunications industry. Cosmorom's activity started with a project team from RomTelecom working under the direct co-ordination of the Cosmorom CEO, established in September 1999. By the end of 2001 the number of employees had reached 503, out of which seven were expatriates. The majority of Cosmorom employees are university graduates (80%).

Share capital

The initial share capital was ROL100m deposited in January 1999. On August 25th 1999, the share capital was increased by US\$50m and ROL60bn, so by the end of 1999 Cosmorom share capital was ROL 866.6bn. During 2000 the share capital was increased to US\$110.881 million and ROL 210 bn, 99.999996 per cent owned by RomTelecom. At January 2002, Cosmorom's share capital was increased by another ROL 1,550 bn, to a total of ROL 3,597 bn.

Investment

During 2001, the second phase of infrastructure roll-out and business development was completed. The investment realized in the same year amounted to US\$ 70 million with



the total investment by the end of 2001 approaching US\$ 200 million. For the year 2002 an investment of 100mUS\$ has been planned.

Telecommunications infrastructure

In order to develop telecommunications infrastructure, on July 30th 1999 a contract for the provision of network infrastructure equipment and related services was signed between Cosmorom and a Union of Suppliers composed of Ericsson Sweden, Intracom Greece and Intrarom Romania. The contract provided for the installation of a GSM-1800 network. By the end of 2001 there were in place 795 BTSs, 4 MSCs and 10 BSCs. 300 more are expected to be installed by the end of 2002.

Coverage

Cosmorom plans to complete nation-wide coverage, as soon as possible. By the end of 2001 Cosmorom covered 57.4 per cent of the population, and according to the investment plans, by year-end 2002, 75 per cent of the population should be covered.

Distribution network

A national distribution network is being built at the same time as coverage expands, a network based on regional centres. This includes national dealer networks able to market the products and services throughout the country and local dealers with ability to promote Cosmorom products in specific areas. Selected RomTelecom shops act as dealers for Cosmorom as well.

Services provided

Cosmorom provided, from launch day, basic mobile telephony services and other services like Voice Mail, Short Messages, etc. Prepaid, as well as, postpaid packages are available. The first pre-paid COSMO phone was sold on the 20th of March 2000. The post-paid service was offered from the 25th of May 2000 with immediate provision of all basic value added services. Wanting to offer fair prices to its customers, Cosmorom is the only company which offers per second billing with a minimum charge of 20 seconds in post paid and 15 seconds in pre paid. Fax and data services have also been on offer. The WAP service was commercially offered starting June 1, 2001.

Advertising

The Grafitti/BBDO company was selected to launch Cosmorom products and services and to build a national brand image. The first advertising campaign was launched in April 2000 starting with a teaser spot. In addition, Cosmorom sponsored various cultural and sporting organizations, including DaKino and Dinamo FC, thus gaining a positive profile.

Subscribers

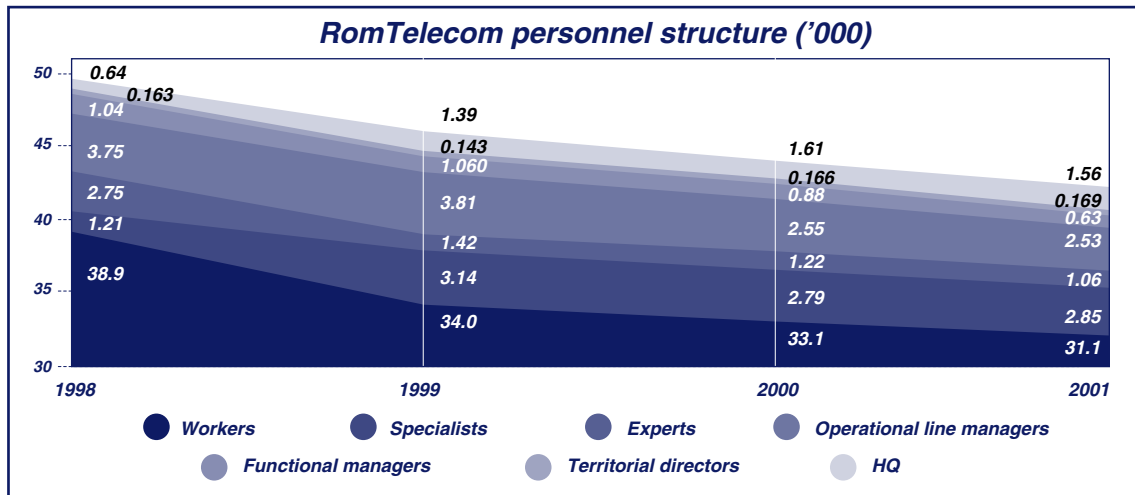
Cosmorom had 227,000 activated subscribers by the end of 2001, and plans to have 400.000 users by year-end 2002.

International activity

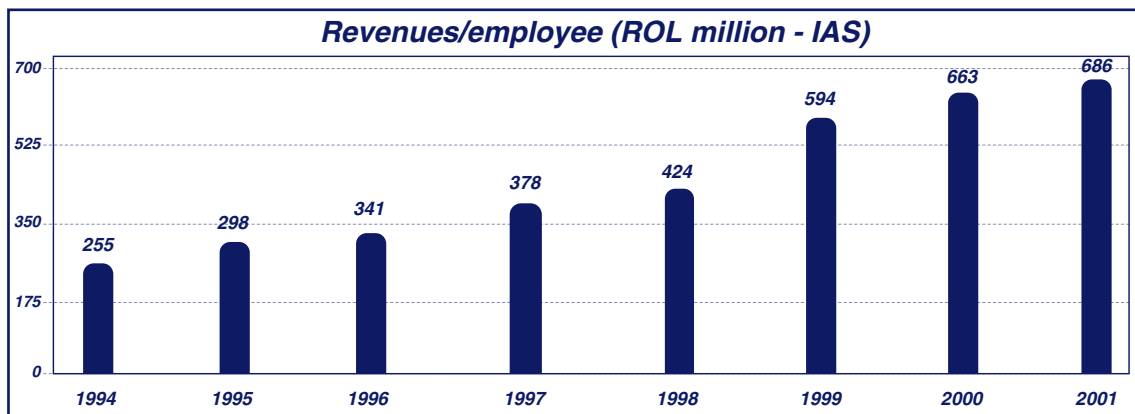
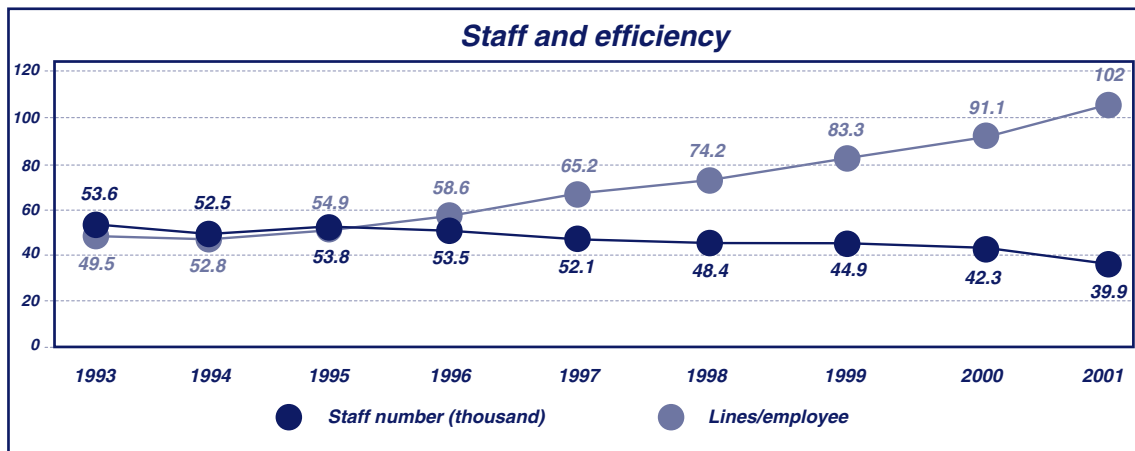
Cosmorom became a member of the GSM Association in October 1999. At the moment Cosmorom is providing roaming services to its subscribers in 56 countries and 107 different foreign operators.

Human resources

The number of RomTelecom's personnel has decreased systematically over the last few years, as a result of normal retirement, the implementation of early retirement incentives and mainly due to new technologies RomTelecom has adopted. At the end of 2001, there were 39.938 employees, representing a personnel reduction of 2,365 or 5.6 per cent, from the previous year. This is reflective of the increased effectiveness of operations and network modernization. Below is a breakdown of the last four years workforce structure, reflecting the restructuring process RomTelecom started in 1999.



As a result of personnel policy, company's efficiency experiences a continuous increase.

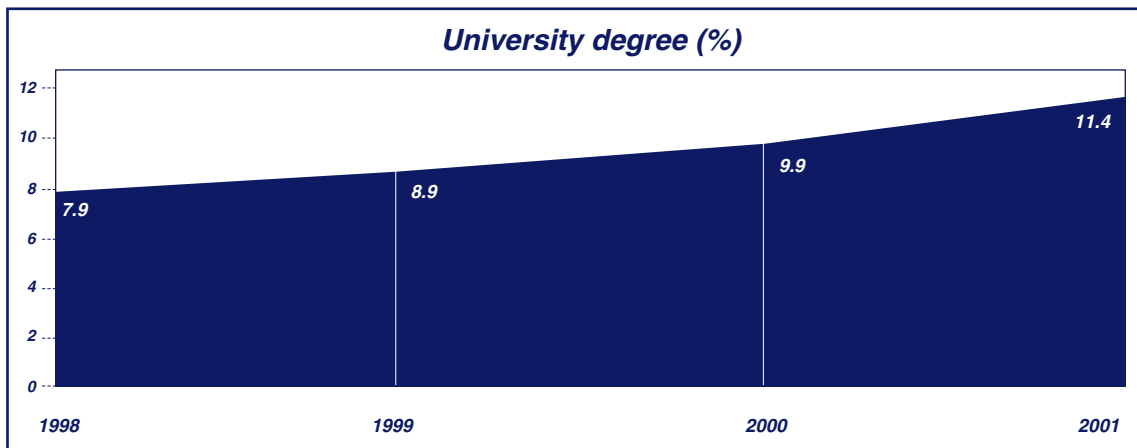


* All comparative financial information (according to IAS) is presented in terms of the measuring unit current as of 31 December 2001.



Although these charts depict a significant increase in productivity, RomTelecom still has a long way to go. The target for RomTelecom is to have 145 subscriber lines/employee by the end of 2002. This efficiency target is required in order to cope with future changes in the Romanian telecommunications market induced by liberalization to achieve a competitive market. This represents a net staff reduction of approximately 8,600 individuals. This reduction will be facilitated through restrictive hiring practices, normal retirement, early retirement incentives, and network modernization programs. Where appropriate, job retraining programs will be implemented to ensure that RomTelecom maintains the most highly skilled workforce possible.

RomTelecom's business development is very closely related to the investment made in its Human Resources. More than 11 per cent of all employees are University graduates, and RomTelecom will continue to increase this percentage. During the restructuring process, we are committed to the recruitment of new personnel, the majority of which are holders of University Degrees, in order to increase the competency of our workforce.



RomTelecom makes, and will continue to make significant investments in training its employees. A number of 8,200 RomTelecom employees attended 137 type of courses in 2001, 28.5 per cent attended courses to learn skills associated with new technologies. Out of them, 23 per cent attended courses delivered by domestic trainers, whereas the remaining were done with out-sourcing suppliers as follows: 45 per cent with vendors and 9 per cent with other kind of suppliers, and 23 per cent courses delivered within the territory with local suppliers. Mainly these training programs were held in RomTelecom's training centers in Bucharest, Vaja and Slanic-Moldova, as well as, in territorial directorates.

The Training Division's strategy for 2002 is to develop customer-oriented training programs that shall sustain our company in order to face the competitive market. In addition, it must deploy training directly related to RomTelecom's plans for profitable growth. In 2002, some 5000 (much more than 1,855 a year ago) RomTelecom employees shall be trained in house for the most important activities, while other 750 employees will be trained outside. This training will include the areas of customer service, cultural change, management, marketing, new technologies, and job retraining.

RomTelecom management considers its employees to be the most valuable asset of the company, as it is through them our success is assured. Accordingly, in addition to our continuously significant investments in training and our commitment to treat employees fairly through the restructuring process, RomTelecom is committed to provide to its employees a safe and secure work environment, as well as a motivating compensation package, in line with the Romanian telecommunications work-force market.

Early in 2002, RomTelecom joined the great Olympic family, as Official Partner of the Romanian Olympic Committee for the 2004 Games in Athens.

As a successful business operating in a fast changing environment, RomTelecom is also committed to its duty as a responsible corporate citizen, actively taking part in community life and playing an important role for a better Romanian society, using sponsorship as a vehicle to this purpose.

RomTelecom for Romania's Children

Education has become a country's main asset in today's "GlobalVillage" and an early start offers better chances of success. In 2001, RomTelecom contributed to equipping the IT lab at "Gheorghe Airinei" Post and Telecommunications Technical College and similar actions at "D.D. Perpessicius" High-school in Bucharest.

RomTelecom has also sponsored the participation of the children's choir "Symbol" in international festivals.

Improving the social situation of Romanian children is a priority in RomTelecom's sponsorship policy. The Company joined the National Authority for Child Protection and Adoptions in the on-going Phare-funded public awareness campaign started in November 2001 "Casa de copii nu e acasa" ("The Orphanage is not in"), by providing the toll-free number 0800 200 200.

RomTelecom for Romanian Culture and Arts

A significant part of the Company's sponsorship funds is devoted to supporting Romanian culture: classical music, theatrical performances, museums. RomTelecom supported the National "Pele[]" Museum in Sinaia, as well as the National "Cotroceni" Museum in Bucharest, for a series of temporary exhibitions. The performance of „Perl fishers" by Georges Bizet at the Romanian Opera House in Bucharest was produced entirely with funding from RomTelecom, who also contributed to the recital of the famous soprano Felicia Filip at the Bra[]ov Opera House. Romania's most beloved actors and directors were celebrated in December at the National Theater in Bucharest at the "Golden Age Gala", organized by the Culture and Cults Ministry, with RomTelecom as the main sponsor. The "Jesters' Festival" in Timi[oara, also held in December, was another cultural event supported by RomTelecom.

RomTelecom for Romanian sports

With its popularity and healthy message, sport is a true ambassador for Romania. In 2001, RomTelecom contributed to the funding of the car racing team of the famous Romanian former boxing European champion turned pilot Mihai Leu, and continued its support for the Romanian Gymnastics Federation, whose outstanding results (gold medals at world or European championships, Olympic games) transformed Romania in one of the world power, especially in feminine gymnastics. Early in 2002, RomTelecom joined the great Olympic family, as Official Partner of the Romanian Olympic Committee for the 2004 Games in Athens.

RomTelecom and Romania's international image

The Company was among the sponsors of OSCE's Annual Ministerial Meeting in December of 2001, at the conclusion of Romania's term at the organization's 2001 Chairmanship.



***FINANCIAL
STATEMENTS***



Financial Statements

**Consolidated Financial Statements for the year ended 31 December 2001
prepared in accordance with International Accounting Standards**

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General information

RomTelecom SA (the "Company") was created 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 corporation) were transferred to the Company. The Company with its subsidiaries form the Group.

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

The shareholding structure as at 31 December 2001 is the following:

	<u>Percentage held</u>
Romanian Government through the Ministry of Communications	65%
OTE International Investments	<u>35%</u>
	<u>100%</u>

The Company has exclusive rights to provide local, long distance and international fixed telecommunications services in Romania until December 2002. The Group also provides mobile telephony services using 1800 MHz frequency, cable television and Internet services through the Company's subsidiaries.

The Company has its registered office in Bucharest, Romania, 13 - 15, Calea Victoriei Street.

Employees

The average number of employees in 2001 was 40,623 (2000: 43,521).

Directors

The names of the Directors of the Company serving during the financial year and to the date of this report, together with their respective dates of appointment and resignation are as follows:

Position	Director
Chairman	George Skarpelis, appointed on 7 December 1999
Chief Executive Officer	Vassilios Tsakoniatis, appointed on 17 February 1999 replaced by Panagiotis Kargados, appointed on 3 July 2001
Executive Development Director	Theodore Thanopoulos, appointed on 3 December 1999 replaced by Silviu Vasile Cazacu, appointed on 2 October 2001
Executive Information Technology Director	Andreas Latsis, appointed on 27 July 2001
Executive Finance Director	Georgios Iliopoulos, appointed on 17 February 1999 replaced by Efstratios Angelinos, appointed on 27 July 2001

Executive Technical Operations Director	Georgios Avlonitis, appointed on 17 February 1999 replaced by Iannis Kiriakakis, appointed on 13 November 2001
Executive Regional Operations Director	Florin Serghei Anghel, appointed on 17 February 1999
Executive Commercial Operations Director	Georgios Theodorou, appointed on 6 March 2001 replaced by Constantinos Melitas, appointed on 27 July 2001
Executive Director Human Resources and Administration	Marcel Nicolaescu, appointed on 17 February 1999

The new management team has developed business plans for the Company for the period up to 2006.

Exchange rates as at 31 December 2001

The principal exchange rates used to translate the balances in foreign currencies to Romanian Lei ("ROL") as at 31 December 2001 are presented below:

Currency	Abbreviation	Exchange rate (ROL for 1 currency unit)
United States Dollars	USD	31,597.00
European Currency Units	EUR	27,881.00
French Francs	FRF	4,250.00
German Marks	DEM	14,255.00
Swedish Crowns	SEK	2,982.10
Korean Wons	KWON	24.06
Special Drawing Rights	SDR	39,637.00



REPORT OF THE INDEPENDENT AUDITORS TO THE BOARD OF DIRECTORS OF ROMTELECOM SA

We have audited the accompanying consolidated balance sheet of RomTelecom SA (“RomTelecom” or the “Company”) and its subsidiaries (together the “Group”) as of 31 December 2001 and the related consolidated statements of income and of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company’s management. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2001 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Without qualifying our opinion, we draw attention to the following:

The accompanying consolidated financial statements have been prepared assuming that the Group will continue as a going concern. As discussed in Note 3 to the financial statements, the Group has as at 31 December 2001 current liabilities in excess of current assets of ROL 16,103 billion. These conditions, along with the other matters as set forth in Note 3, indicate the existence of a material uncertainty which may cast significant doubt over the Group’s ability to continue as a going concern. The essential elements of the shareholders’ frame agreement, which was approved on 27 June 2002 to address these matters, are described in Note 3.

As described in Note 4, there is a current uncertainty in relation to the finalisation of the Government policy for the telecommunications sector and public assets legislation. It is not possible to determine the effects, if any, of future Government policy on the value of the Group’s assets and liabilities.

PricewaterhouseCoopers
Bucharest, 1 July 2002

Consolidated balance sheet

(all amounts in Romanian Lei billion)

	Notes	31 December 2001	31 December 2000
ASSETS			
Property, plant and equipment	7	72,106	63,839
Intangible assets	8	813	706
Investments in associated undertakings	10	-	-
Available-for-sale investments	11	54	54
Non-current assets		72,973	64,599
Inventories	12	772	1,137
Receivables and prepayments	13	5,558	7,077
Cash and cash equivalents	14	2,066	3,230
Current assets		8,396	11,444
Total assets		81,369	76,043
EQUITY AND LIABILITIES			
Ordinary shares	15	42,158	42,158
Share premium	15	3,120	3,120
Other reserves		6	6
Accumulated deficit		(275)	(4,162)
Capital and reserves		45,009	41,122
Borrowings	16	4,697	10,770
Deferred tax liabilities	17	2,192	6,742
Other liabilities	18	820	850
Trade payables	19	4,152	3,856
Non-current liabilities		11,861	22,218
Borrowings	16	10,499	4,507
Trade and other payables	20	14,000	8,196
Current liabilities		24,499	12,703
Total liabilities		36,360	34,921
Total equity and liabilities		81,369	76,043

The consolidated financial statements, accompanying policies and notes on pages 42 to 72, which form an integral part of these consolidated financial statements, were approved by the management of RomTelecom on 1 July 2002 and signed on its behalf by:



Panagiotis Kargados
General Director

Efstratios Angelinos
Executive Finance Director



Consolidated income statement

(all amounts in Romanian Lei billion)

	Notes	Year ended 31 December	
		2001	2000
Revenue	21	27,945	28,207
Operating costs	22	<u>(27,964)</u>	<u>(26,558)</u>
Operating (loss)/profit		(19)	1,649
Finance costs - net	23	(4,580)	(6,102)
Gain on net monetary liability position	5	<u>5,135</u>	<u>4,516</u>
Profit before tax		536	63
Tax	24	<u>4,175</u>	<u>(2,380)</u>
Net profit/(loss) for the year		<u>4,711</u>	<u>(2,317)</u>

Consolidated statement of changes in shareholder's equity

(all amounts in Romanian Lei billion)

	Notes	Ordinary shares	Share premium	Other reserves	Accumulated deficit	Total
Balance at 1 January 2000		42,158	3,120	-	(1,181)	44,097
Land received free of charge		-	-	6	-	6
Loss for the year		-	-	-	(2,317)	(2,317)
Dividends related to 1999	25	-	-	-	(664)	(664)
Balance at 31 December 2000 and 1 January 2001		<u>42,158</u>	<u>3,120</u>	<u>6</u>	<u>(4,162)</u>	<u>41,122</u>
Net profit for the year		-	-	-	4,711	4,711
Dividends related to 2000	25	-	-	-	(824)	(824)
Balance at 31 December 2001		<u>42,158</u>	<u>3,120</u>	<u>6</u>	<u>(275)</u>	<u>45,009</u>

During 2000, the Company received free of charge ownership title for some land. This was given a fair value of ROL 6, which was credited to other reserves. In accordance with the privatisation agreement, the amount will be converted into preference shares owned by the Romanian Government through the Ministry of Communications.



Consolidated cash flow statement

(all amounts in Romanian Lei billion)

	Notes	Year ended 31 December	
		2001	2000
Cash flows from operating activities			
Cash generated in operation	26	10,319	6,368
Interest paid		(1,895)	(1,539)
Income tax paid		(138)	(359)
Net cash from operating activities		8,286	4,470
Cash flows from investing activities			
Purchase of property, plant and equipment		(10,332)	(8,013)
Disposal of property, plant and equipment		19	53
Acquisition of intangible assets		(98)	(46)
Interest received		107	167
Disposal of non-current investments		-	1
Net cash used in investing activities		(10,304)	(7,838)
Cash flows from financing activities			
Net repayments of borrowings		(1,292)	(497)
Effect of inflation on financing activities		3,438	1,269
Dividends paid to Group shareholders		(387)	(574)
Cash from financing activities		1,759	198
Inflation effects on cash and cash equivalents		(280)	(1,164)
Decrease in cash and cash equivalents		(539)	(4,335)
Cash and cash equivalents as at the beginning of the period			
		2,383	6,718
Cash and cash equivalents as at the end of the period	14	1,844	2,383

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

These consolidated financial statements are presented by RomTelecom SA ("RomTelecom" or the "Company"), which is incorporated in Romania, and they incorporate the results of the Company and its subsidiaries (together the "Group"), as detailed in Note 9. The Company has one associated company, as detailed in Note 10.

2. Basis of preparation and accounting records

These consolidated financial statements have been prepared in accordance with and comply with International Accounting Standards ("IAS"). They are not the statutory accounts of the Group.

The consolidated financial statements have been prepared using the historical cost convention, restated for the effects of inflation and modified by the initial valuation of property, plant and equipment as further disclosed in Notes 5 and 6 to these consolidated financial statements.

In 2001 the Group adopted IAS 39 – Financial Instruments: Recognition and Measurement and IAS 40 – Investment Property. The adoption of IAS 39 had no material effect on opening accumulated deficit as at 1 January 2001. Accordingly, no transition adjustment is recorded in the consolidated financial statements. The adoption of IAS 40 did not have a material effect on the consolidated financial statements. Information on adoption of IAS 39 is disclosed in Note 6.

Reporting currency

The measurement currency of the Group and the reporting currency for these consolidated financial statements is the Romanian Leu ("ROL"). These consolidated financial statements are presented in terms of the purchasing power of the ROL as at 31 December 2001.

Basis of accounting

The Group maintains its accounting records in ROL in accordance with Romanian law and the annual statutory accounts are prepared in accordance with the accounting requirements of Romanian law and accounting practice issued by the Ministry of Finance of Romania. The accompanying consolidated financial statements are based on the statutory records of the Group, which are maintained under the historical cost convention, except for certain indexations of property, plant and equipment.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Going concern

The consolidated financial statements have been prepared on a going concern basis. This assumes that the Company and its subsidiaries will continue in operational existence for the foreseeable future.

At 31 December 2001 the Group had current liabilities in excess of current assets of ROL 16,103. As further described in Note 16, current liabilities as at 31 December 2001 include the full amount of the EBRD loans (in the amount of ROL 4,191) which has been reclassified to current liabilities in accordance



with IAS 1 - Presentation of Financial Statements, due to the breach of the current ratio attaching to the EBRD facilities. Given the short- and medium-term funding requirements, there is a material uncertainty related to the events and conditions described below, which may cast significant doubt on the Group's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that may be necessary if the Group is unable to continue as a going concern.

Management and the Company's shareholders have taken the following steps in order to address the short- and medium-term funding requirements:

Restructuring plan

In July 2001 the Company reduced significantly payments to the fixed asset suppliers (including related parties) pending the approval of the business plan by the shareholders. Management negotiated in December 2001 with the fixed asset suppliers the re-scheduling of the amounts falling due between July 2001 and August 2002 to 30 September 2002. Re-scheduled payments as at 31 December 2001 and 30 June 2002 amount to USD 35.2 million and USD 79.2 million, respectively.

By a resolution of the ordinary shareholders' meeting held on 26 November 2001, the shareholders approved the preliminary business plan proposed by RomTelecom's management and committed their best efforts to ensure the implementation of such plan, including among other things the satisfaction of the funding requirements of RomTelecom, the reduction of the number of personnel, the need for tariff restructuring, the enforcement of cost cutting procedures and the clear delineation of management objectives and responsibilities. This plan covers the period to 31 December 2006 and includes equity and debt funding in the total amount of USD 450 million. OTE International Investments paid in during December 2001 EUR 55 million in the form of a bridge loan, which, under the terms and conditions to be established in a shareholders' agreement, would be, eventually, converted into shares.

The shareholders approved in the ordinary shareholders' meeting held on 27 June 2002 RomTelecom's final strategy and business plan and the five-year financial projections. The amounts and timing of the contributions from the shareholders and additional long-term financing have not changed compared to the preliminary business plan. However, the final split between equity and debt is to be agreed by the shareholders in a future extraordinary shareholders' meeting.

Mobile telephony subsidiary

CosmoROM SA ("CosmoROM"), the wholly owned subsidiary further described in Note 9, incurred during the year ended 31 December 2001 operating losses before inter-segment elimination, in the amount of ROL 2,198 and, at the balance sheet date, its accumulated deficit amounted to ROL 2,990 against a share capital of ROL 3,726. RomTelecom agreed in the extraordinary shareholders' meeting held on 14 January 2002 to increase the issued share capital of CosmoROM by approximately USD 49 million.

As further described below under "Shareholders' frame agreement", the shareholders have agreed on 27 June 2002 to explore the commercial opportunity of implementing the business plan proposed by CosmoROM's management and the funding requirements which it entails.

Shareholders' frame agreement

The shareholders signed on 27 June 2002 a frame agreement which establishes the framework within which they agree to satisfy the funding requirements of RomTelecom and CosmoROM and to work together to come to a definitive global agreement on how to implement arrangements to satisfy the funding requirements of RomTelecom and CosmoROM in a manner consistent with the further privatisation of RomTelecom (see Note 32) and the final business plan, as well as to ensure a viable basis for the on-going operations and development of RomTelecom and CosmoROM in a liberalised telecommunications market. The shareholders agreed to take all necessary measures and steps which lie within their respective authority and responsibilities in order to ensure the implementation of the final business plan.

The essential elements of the agreement are the following:

- To satisfy in part RomTelecom's funding requirements, approximately USD 200 million or any other amount which will be approved through a decision of the relevant shareholders' general assembly, based on the Company's business plan and on the findings of the advisors of the shareholders and taking into account the further privatisation process (see Note 32), will take the form of an equity investment. OTE International Investments expressed its willingness to meet these equity requirements to the full amount, if necessary. The equity increase is dependent on the approval by the shareholders of the valuation performed by the Government's advisors (see Note 32). The agreed timing for the equity increase is 6 September 2002.
- To satisfy the balance of the RomTelecom funding requirements, approximately USD 250 million will be obtained in the international debt market. OTE International Investments agreed to co-operate with RomTelecom in liaising with the financial community to ensure additional debt funding for RomTelecom. The agreed timing for obtaining the long-term financing is 31 December 2002.
- To satisfy the CosmoROM funding shortfall, the shareholders will explore the commercial opportunity of implementing the business plan proposed by CosmoROM's management and the funding requirements which it entails.
- To facilitate the execution of the restructuring plan and the transaction contemplated by this agreement, the shareholders will co-operate to implement the key parameters inherent in the business plan, to assist RomTelecom in restructuring its current debt, to agree on the potentially necessary legislative measures and steps, including necessary changes to the Company's charter, to revise the privatisation documents and to review (and submit their proposals to the competent regulatory authorities) the terms and conditions of the license in order that the license reflects the position of RomTelecom in a liberalised market.

In the light of the actions described above, management believe that the Group will secure adequate long-term financial resources for the Company and its subsidiaries, and therefore consider it appropriate to adopt the going concern basis in preparing these consolidated financial statements.

4. Government policy

As part of the ongoing restructuring process, the Romanian Government and Parliament are continuing to adopt new legislation that impacts the telecommunications sector, and RomTelecom in particular. It is not possible to establish at this stage the effects, if any, of future Government policy on the value of the assets and liabilities of the Group.

Public asset law

In September 1998 the Romanian Parliament passed the law on the public assets (Law 213/1998). This law sets out those assets in several sectors, including telecommunications, which must remain in public ownership. In the case of telecommunications, these are referred to as "frequency spectrum and transport and distribution network", without specifying the detailed assets to be included within these categories. It is not possible to establish at this stage the effects, if any, of the public asset law on the assets and liabilities of the Group.

Licenses

Substantially, all of the Group's revenues are derived from operations conducted pursuant to licenses granted by the Romanian Government. These licenses expire in various years ranging from 2009 to 2013. The Group has no reason to believe that the licenses will not be renewed or that any licenses will be suspended or terminated.

It is also a matter of public record that the Government intends to promote competition in the fixed line segment starting on 1 January 2003 and to grant licences for third generation mobile telephony and



additional licenses for the 1800 MHz bandwidth to other operators. At present, it is not possible to determine the effects, if any, of changes in these matters on the results of operations or financial position of the Group, in particular the carrying value of property, plant and equipment.

Interest of the Government in the telecommunications sector in Romania and the protection of that interest

Effective telecommunications and data transmission are of great importance to Romania for various reasons including economic, social, strategic and national security considerations. The Government therefore has exercised and may be expected to exercise significant influence over the operations of the telecommunications sector and consequently, the Group. The Government, acting through the Ministry of Communications and the Competition Council, has the general authority to regulate domestic tariffs, and does regulate tariffs to a limited extent. The Ministry of Communications has control over the licensing of providers of telecommunications services.

5. International Accounting Standard 29 (Financial Reporting in Hyperinflationary Economies) (“IAS 29”)

IAS require that financial statements prepared on a historical cost basis should be adjusted to take account of the effects of inflation, if this has been significant. IAS 29 provides guidance on how financial information should be presented in such circumstances. In summary, it requires that financial statements should be restated in terms of the measuring unit current at the balance sheet date and that any gain or loss on the net monetary position should be included in the income statement and disclosed separately. The restatement of financial statements in accordance with IAS 29 requires the use of a general price index that reflects changes in general purchasing power.

IAS 29 suggests that economies should be regarded as hyperinflationary if, among other factors, the cumulative inflation rate over a period of three years exceeds 100%. During the year ended 31 December 2001 the Consumer Price Index (“CPI”) issued by Comisia Națională de Statistică, the official Romanian Statistical Bureau, indicates that the domestic annual rate of inflation was 30.3% (2000: 40.7%). The cumulative rate of inflation was 183.8% over the three years ended 31 December 2001 (three years ended 31 December 2000: 206.7%). Therefore the requirements of IAS 29 have been adopted in preparing these consolidated financial statements. The Group has utilised the CPI issued by Comisia Națională de Statistică in the application of IAS 29.

Movements in the Romanian CPI published by Comisia Națională de Statistică are illustrated below:

	<i>Movement in CPI</i>	<i>CPI (Base December 1998:100)</i>
<i>Year ended 31 December 1999</i>	54.8%	154.8
<i>Year ended 31 December 2000</i>	40.7%	217.8
<i>Year ended 31 December 2001</i>	30.3%	283.8

The application of IAS 29 to specific categories of transactions and balances within the consolidated financial statements is set out as follows:

(a) Monetary assets and liabilities

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

Gains or losses on net monetary position which arise as a result of inflation and the holding of monetary

assets and liabilities are estimated by applying the change in the CPI to the weighted average for the period of the difference between monetary assets and liabilities.

(b) Non monetary items

Non-monetary items (those balance sheet items that are not already expressed in terms of ROL current at the balance sheet date) 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 the balance sheet date.

(c) Property, plant and equipment

IAS 29 states that all property, plant and equipment should be restated from the date of their purchase using a generated 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 an independent professional 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 a valuation of the property, plant and equipment performed on 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 31 December 2001 by applying the change in the CPI. Property, plant 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 the balance sheet date.

(d) Consolidated income statement

Income statement items, with the exception of depreciation, amortisation and provisions for inventories, are restated by applying the change in the CPI from the dates when the items were initially recorded to the balance sheet date. In practice this restatement is calculated on a monthly average basis. Corresponding figures from previous year are restated accordingly. The depreciation and amortisation expense for the year is based on the restated property, plant and equipment and intangible assets balances at year-end. The provision expense for inventories is calculated as the difference between the closing and opening provision balances.

(e) Corresponding figures

All the corresponding figures (including monetary assets and liabilities) for the previous reporting period are restated by multiplying the amounts included in the previous year's financial statements by the change in the CPI. Hence, as required by IAS 29, comparative financial information is presented in terms of the measuring unit current as at 31 December 2001. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current as at 31 December 2001.

6. Accounting policies

Set out below are the principal accounting policies used to prepare the underlying financial information of the Group before the application of IAS 29. This financial information is adjusted for the effects of inflation in accordance with the bases described in Note 5, in order to prepare the IAS financial statements.

(a) Principles of consolidation

Subsidiary undertakings, which are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has the power to exercise control over the operations are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no



longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(b) Investments in associated undertakings

Investments in associated entities in which the Company has a significant but not controlling interest are accounted for using the equity method. Significant interest is usually evidenced by the Company owning, directly or indirectly, between 20 percent and 50 percent of the voting share capital.

Equity accounting involves recognising in the income statement the Company's share of associates' profit or loss for the year. The Company's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate.

Unrealised gains on transactions between the Company and its associated undertakings are eliminated to the extent of the Company's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Company has incurred obligations or guaranteed obligations in respect of the associated undertaking.

(c) Property, plant and equipment

(i) Cost

Property, plant and equipment acquired after 1 January 1995 are recorded at cost and before that date at a valuation based on replacement cost, modern equivalent asset cost or indexed historical cost (see Note 5).

Cost or valuation in the case of the network comprises all expenditure up to and including the cabling and wiring within customers' premises and includes contractors' charges and payments on account, materials, direct labour, and borrowing costs up to the date of commissioning of the assets.

Significant renovations are capitalised if these extend the life of the asset or significantly increase its revenue generating capacity. Maintenance, repairs and minor renewals are charged against income as incurred.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the determination of net income.

(ii) Borrowing costs

Borrowing costs are charged to the income statement as incurred unless relating to loans which fund capital projects, in which case the borrowing costs are capitalised as part of the cost of the relevant asset up to the date of commissioning and written off to the income statement over the period in which the respective asset is depreciated.

The construction of property, plant and equipment is also financed by loans other than specific borrowings. The capitalisation rate is calculated based on the borrowings of the Group used to finance construction projects.

(iii) Depreciation

Depreciation is calculated on property, plant and equipment on a straight-line basis from the time they are available for use, so as to write down their cost or valuation to their estimated residual values over their

estimated useful lives. The useful economic lives assigned to the various categories of property, plant and equipment are:

	Years
Freehold buildings	45
Duct, cable and outside plant	15-20
Telephone exchanges and related equipment	10-15
Other fixed assets	5-8

Management are continuing to assess network development plans. The effect of any future revisions to expected useful economic lives as a result of this exercise would be reflected in the depreciation charge for future periods.

(iv) Land

Land is not depreciated as it is deemed to have an indefinite life.

(v) Impairment of property, plant and equipment

Where an indication of impairment exists, the carrying amount of property, plant and equipment is assessed and written down immediately to their recoverable amount.

The recoverable amount is determined as the higher of the assets' net selling price and value in use. The value in use of the assets is estimated based on the forecast future cash inflows and outflows to be derived from continuing use of the assets and from the estimated net proceeds on disposal, discounted to present value using an appropriate discount rate.

(d) Intangible assets

(i) Licenses

The licenses are represented mainly by the licence for DCS 1800 cellular phone network in Romania. Amortisation is charged from the date when the asset is available for use using the straight-line method over the period of the licence, which is 10 years.

(ii) Other intangible assets

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 Group 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, plant and equipment. Computer software development costs recognised as assets are amortised using the straight-line method over a period of 3 – 5 years.

Expenditure on acquired patents, trademarks and other licences is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

**(e) Investments**

As of 1 January 2001 the Group adopted IAS 39 and classified its investments into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; during the period the Group did not hold any investments in this category. Investments with fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets; during the period the Group did not hold any investments in this category. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of income in the period in which they arise.

Prior to the adoption of IAS 39 the Group had recorded available-for-sale investments at cost and provisions were recorded only where there was a diminution in value other than temporary.

(f) Inventories

Inventories are stated at the lower of cost and estimated net realisable value. Cost is determined on a weighted average basis. Provision is made against slow moving, damaged and obsolete stores. Net realisable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.

(g) Receivables

Receivables are stated in the balance sheet at their recoverable amount. The bad debt charge to income is measured as the difference between the carrying amount of the receivable and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. Cash flows relating to short-term receivables are generally not discounted.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks, other short-term highly liquid investments, net of bank overdrafts. In the balance sheet, bank overdrafts are included within borrowings in current liabilities.

(i) Share capital

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Ordinary shares are classified as equity.

(j) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated 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 borrowings.

(k) Trade and other payables

Liabilities for trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

(l) Provisions

Provisions are recognised when the Group 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.

(m) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(n) Restructuring costs

A provision for redundancy costs is raised once a detailed formal plan approved by the Board of Directors is in place, communications to employees or their representatives are of sufficient detail to enable them to act on the plan and contingent events related to the implementation of the plan have occurred.

(o) Grants

Grants relating to the purchase of property, plant 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 lives of the related assets.

(p) Employee benefits and entitlements

Contributions are made by the Group 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.

In accordance with an annually negotiated collective labour contract, RomTelecom is required to pay on retirement the equivalent of 3 to 20 months of average base salaries (gross salaries excluding bonuses) depending on the length of service. Starting with 1 June 2002 these payments were reduced to the equivalent of 2 to 8 months of average base salaries. RomTelecom's obligations are restricted to those employees who retire from the Company during the period of the collective labour contract. No amounts are recognised in these financial statements in respect of such retirement benefit obligations, as management has no legal or constructive obligation beyond 31 May 2003.

The Group has no other liability under Romanian law in respect of future pension, health or other costs for its employees.

(q) Income taxes

Deferred income tax is provided using the balance sheet liability method based upon the concept of temporary differences, being the differences between the carrying amounts of assets and liabilities in the balance sheet and their tax basis value. Under this method deferred taxes are required to be recognised for all temporary differences. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset will be realised or the liability settled, based on tax rates



and laws that have been enacted at the balance sheet date. Deferred tax assets are recognised when it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

Substantially all temporary differences arise from property, plant and equipment, intangible assets and investments.

(r) Revenue recognition

Revenue, which excludes Value Added Tax, comprises goods sold and services provided. Revenue, net of discounts, for all services is recognised when earned.

Revenues and costs are shown gross in these financial statements. Amounts payable to and receivable from the same operators are shown net in the balance sheet when a right of set-off exists.

(i) Fixed line telephony revenues

Domestic call revenues

Domestic call 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 charges 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. RomTelecom is charged by foreign operators for completing international calls. These revenues and costs are stated gross in the income statement.

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

Payphones

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

Connection fees

Connection fees are recognised in the income statement upon connection of the customers to the Company network.

(ii) Mobile telephony revenues

Airtime revenues

Airtime revenues for post-paid customers are recognised in the income statement at the time the call is made. Prepaid call card sales are deferred until the customer uses the stored value in the card to pay for the relevant calls.

Access revenues

Access revenues are derived from providing access to the Group's mobile network. These revenues are recognised in the income statement over the period to which the charges relate.

(iii) Interconnect revenues and costs

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

(iv) Other revenues

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

- Royalty and income from property rental – on an accrual basis;
- Interest income – on an effective yield basis.

(s) Operating costs

Operating costs are charged in the period to which they relate.

Connection costs are recognised as expenses upon connection.

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

Advertising costs are charged to the income statement as incurred.

(t) Foreign currency transactions

Transactions denominated in foreign currencies are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into ROL at exchange rates as of the balance sheet date.

All exchange differences arising on the settlement and translation of foreign currency amounts are recognised in the income statement in the year in which they arise. Realised and unrealised exchange losses which are expensed, including those on borrowings, and exchange gains, including those on foreign trade receivables and on cash deposits are included within finance costs in the income statement.

(u) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

(v) Financial risk management

The Group's activities expose it to a variety of financial risk including currency risk, credit risk, interest rate risk and liquidity risk. Management seek to minimise the potential adverse effects on the financial performance of the Group.

(i) Currency risk

The Group operates in a developing economy with high rates of inflation and significant currency



devaluation. There is a consequent risk of loss in value in respect to net monetary assets held in ROL. Exchange restrictions and controls exist relating to converting ROL into other currencies. Currently, there is no market for conversion of ROL into foreign currencies outside of Romania.

Monetary assets and liabilities in ROL and in foreign currencies are presented in Note 29.

(ii) Credit risk

The Group offers credit terms to its customers and therefore is exposed to risk of bad debts. The Group does not have any significant exposure to any single individual customer.

Current account balances, money market deposits and short-term deposits are contracted with a limited number of financial institutions. The risk of losses is remote because the Group has a policy of only dealing with large, creditworthy financial institutions.

(iii) Interest rate risk

The Group's incomes and operating cash flows are affected by changes in market interest rates, mainly through its borrowings denominated in hard currency. The majority of borrowings are at variable interest rate.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying business, the Group aims at maintaining flexibility in funding, by keeping committed credit lines available for funding operating activities.

(w) Accounting for derivative financial instruments and hedging activities

Derivative financial instruments including forward rate agreements are initially measured at cost and subsequently are remeasured at their fair value. In assessing the fair value of non-traded derivatives the Group makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of forward rate agreements is determined using models combining discounted cash flow techniques and the covered interest rate parity theory. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as forward rate agreements included within supply contracts, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in income.

Changes in the fair value of derivatives are recognised in the income statement.

The Group does not utilise financial instruments to hedge its exposure to fluctuation in interest and foreign exchange rates on loans and trade payables. There were two isolated speculative transactions during 2001.

(x) Fair value of financial instruments

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable and willing parties in an arms length transaction.

Financial instruments carried on the balance sheet include cash and bank balances, receivables, trade and other payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

With the exception of non-current borrowings, the amounts disclosed in the financial statements approximate their fair value.

7. Property, plant and equipment

(all amounts in Romanian Lei billion)

	<i>Land & buildings</i>	<i>Cable and related equipment</i>	<i>Exchanges and related equipment</i>	<i>Other fixed assets</i>	<i>Assets in the course of construction</i>	<i>Total</i>
Cost or valuation						
1 January 2001	13,816	47,259	41,231	12,611	14,456	129,373
Additions	111	-	-	1,896	12,389	14,396
Disposals	(31)	(636)	(175)	(560)	-	(1,402)
Transfers	683	6,691	3,145	6	(10,525)	-
Transfers to intangible assets	-	-	-	-	(179)	(179)
31 December 2001	14,579	53,314	44,201	13,953	(16,141)	142,188
Depreciation						
1 January 2001	4,479	24,319	28,297	8,439	-	65,534
Charge for the period (notes 22, 26)	318	2,017	1,697	1,235	-	5,267
Impairment charge	-	322	118	8	-	448
Disposals	(5)	(548)	(174)	(440)	-	(1,167)
31 December 2001	4,792	26,110	29,938	9,242	-	70,082
Net book value						
31 December 2001	9,787	27,204	14,263	4,711	16,141	72,106
Net book value						
31 December 2000	9,337	22,940	12,934	4,172	14,456	63,839

Valuation

As described in Note 5, the property, plant and equipment of the predecessor entity were valued as at 31 December 1994.

Impairment

During 2001, external factors relating to telecommunications markets and internal factors such as shrinking margins have led management to assess the recoverable amount of the Group's assets. As a result of this assessment, an impairment loss of ROL 465 (ROL 448 in respect of property, plant and equipment and ROL 17 in respect of intangible assets) has been recognised in these consolidated financial statements in respect of the mobile segment. The impairment loss was allocated to property and equipment and intangible assets of the mobile segment on a pro-rata basis based on their carrying amounts.

The amount of the impairment loss by each major asset category is disclosed in the above table. The entire amount of the loss has been written off in the current year income statement.

The carrying value of property and equipment of the mobile segment has been written down to their value in use, computed on the basis of operational cash flow reflecting the best available information. The discount rate for the computation of the value in use was 13.4% nominal USD base. The property, plant and equipment and intangible assets of the Company and of each of its subsidiaries have been considered separate Cash Generating Units, as defined by IAS 36 – Impairment of assets.

Pledged assets

Romanian commercial banks issued bank guarantees against some of the international loans (see Borrowings – Note 16) used for funding digital exchanges and related equipment and cables and related equipment. The Romanian banks have a right of pledge on those assets.



Borrowing costs

Borrowing costs of ROL 225 (2000: ROL 16) arising on financing specifically entered into for the construction of cables and related equipment and exchanges and related equipment, were capitalised during the year and are included in "Additions" in the above table. A capitalisation rate of 5.77% (2000: 2.5%) was used, representing the borrowing cost of the loans used to finance the construction projects.

Non-cash transactions

Additions include ROL 6,902 (2000: ROL 4,280) of property, plant and equipment purchased under contracts financed by suppliers' loans.

Purchases from related parties

Purchases of goods and related services from related parties are described in Note 27.

8. Intangible assets

(all amounts in Romanian Lei billion)

	<i>Licences</i>	<i>Other intangible assets</i>	<i>Total</i>
Cost			
<i>1 January 2001</i>	<i>716</i>	<i>173</i>	<i>889</i>
<i>Additions</i>	<i>26</i>	<i>72</i>	<i>98</i>
<i>Transfers from assets in course of construction</i>	<i>-</i>	<i>179</i>	<i>179</i>
<i>31 December 2001</i>	<u><i>742</i></u>	<u><i>424</i></u>	<u><i>1,166</i></u>
Amortisation			
<i>1 January 2001</i>	<i>123</i>	<i>60</i>	<i>183</i>
<i>Charge for the period (notes 22, 26)</i>	<i>66</i>	<i>87</i>	<i>153</i>
<i>Impairment charge (note 7)</i>	<i>13</i>	<i>4</i>	<i>17</i>
<i>31 December 2001</i>	<u><i>202</i></u>	<u><i>151</i></u>	<u><i>353</i></u>
Net book value			
<i>31 December 2001</i>	<u><u><i>540</i></u></u>	<u><u><i>273</i></u></u>	<u><u><i>813</i></u></u>
Net book value			
<i>31 December 2000</i>	<u><u><i>593</i></u></u>	<u><u><i>113</i></u></u>	<u><u><i>706</i></u></u>

The Group acquired the licence to provide DCS 1800 mobile communication services in Romania in April 1999. The licence was granted for a period of 10 years with exclusivity rights for the 1800 MHz band until 31 December 2002.

9. Subsidiaries

The Company had three subsidiaries as at 31 December 2001, being CosmoROM, a company incorporated in Romania on 15 January 1999, in which the Company holds 99.999% interest, CableVision of Romania SA ("CableVision of Romania"), a company incorporated in Romania on 31 August 1993, in which the Company holds 95.67% interest and ARTelecom SA ("ARTelecom"), a company incorporated in Romania on 5 June 2001, in which the Company holds 99.999% interest. The principal activity of CosmoROM is the provision of mobile telephony services using 1800 MHz frequency. The principal activity of Cable Vision of Romania is the development and operations of cable television systems and MMDS microwave systems. The principal activity of ARTelecom is the provision of Internet services.

10. Investments in associated undertakings

(all amounts in Romanian Lei billion)

	2001	2000
Cost		
1 January	1	108
Provisions release/(expense)	107	(107)
Disposals	(107)	-
31 December	<u>1</u>	<u>1</u>
Share of results		
31 December	<u>(1)</u>	<u>(1)</u>
Carrying amount		
1 January and 31 December 2001	<u><u>-</u></u>	<u><u>-</u></u>

The activities and percentage of share capital held in respect of the above investments (each of which is incorporated in Romania), can be summarised as follows:

- (a) Global One Communications Romania SA (2001: 0%; 2000: 48.98%) - development and operation of value added engineering stock and network services such as the X400 electronic courier service and videotext.
- (b) Pagini Aurii SA (2001 and 2000: 40%) - production of printed telephone directories.

The Board of Directors approved during 2000 the transfer of the Company's shares in Global One Communications Romania SA at no consideration. The transaction was completed in 2001.

The Company has not incurred obligations and has not made payments on behalf of the associates.

11. Available-for-sale investments

(all amounts in Romanian Lei billion)

	2001	2000
Cost		
1 January	54	89
Disposal (Note 26)	-	(35)
31 December	<u>54</u>	<u>54</u>

The activities and percentage of share capital held in respect of the available-for-sale investments (each of which is incorporated in Romania), can be summarised as follows:

- (a) Alcatel Network Systems Romania SA (5.96%) - manufacture of digital telephone exchanges (type E10B).
- (b) Garanta SA (7%) - life and general insurance and reinsurance.
- (c) Telemobil SA (0.23%) - development and operation of a cdma 450 cellular phone network in Romania.

As a result of a share capital increase in 2001, the shareholding of RomTelecom in Telemobil SA decreased from 0.69% to 0.23%.



12. Inventories

(all amounts in Romanian Lei billion)

	2001	2000
<i>Engineering stores</i>	674	1,001
<i>Other inventories</i>	<u>98</u>	<u>136</u>
	<u>772</u>	<u>1,137</u>

Inventories are shown net of a provision of ROL 108 (2000:ROL 50).

13. Receivables and prepayments

(all amounts in Romanian Lei billion)

	2001	2000
<i>Domestic trade receivables</i>	2,977	3,012
<i>Foreign trade receivables</i>	1,209	1,505
<i>Receivables from related parties (note 27)</i>	80	146
<i>Advances to suppliers</i>	827	1,187
<i>Due from the Government</i>	365	1,074
<i>Other receivables and prepaid expenses</i>	<u>100</u>	<u>153</u>
	<u>5,558</u>	<u>7,077</u>

Foreign trade receivables comprise balances denominated in foreign currencies, mainly SDR, due from foreign telecommunications operators. Trade receivables are shown net of a provision of ROL 721 (2000: ROL 495).

Amounts due from the Government relate to income tax paid in excess from advance payments made during 2000.

Advances to suppliers and receivables from related parties include ROL 40 (2000: ROL 1,240) for down payments to fixed assets suppliers under frame contracts for which the contractors have issued letters of guarantee in favour of the Company. These advances are computed as a percentage of the total commitment value for the year.

14. Cash and cash equivalents

(all amounts in Romanian Lei billion)

	2001	2000
<i>Cash at bank and in hand</i>		
- in ROL	340	473
- in foreign currencies	545	1,766
<i>Short term bank deposits</i>		
- in ROL	87	991
- in foreign currencies	<u>1,094</u>	<u>-</u>
	<u>2,066</u>	<u>3,230</u>

Cash balances at 31 December 2001 include ROL 531 (2000: ROL 780) held in hard currency as collateral in respect of certain foreign supplier contracts and bank loans.

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

	2001	2000
<i>Deposits in ROL</i>	31%	33%
<i>Deposits in foreign currencies</i>	4%	6%

These deposits have an average maturity of 8 days.

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

	2001	2000
<i>Cash and bank balances</i>	2,066	3,230
<i>Bank overdrafts (note 16)</i>	(222)	(847)
	<u>1,844</u>	<u>2,383</u>

15. Ordinary shares and share premium

(all amounts in Romanian Lei billion)

	<i>Number of shares (thousands)</i>	<i>Ordinary shares</i>	<i>Share premium</i>	<i>Total</i>
<i>1 January 2001 and 31 December 2001</i>	<u>24,063</u>	<u>42,158</u>	<u>3,120</u>	<u>45,278</u>

At 31 December 2001 the statutory share capital of the Company is made up of 24,062,521 ordinary shares with a nominal value of ROL 100 thousands each, fully paid at the balance sheet date. Ordinary shares carry voting rights with no guarantee of dividends.

The individual statutory financial statements of the Company and its subsidiaries are the basis of profit distribution and other appropriation. The Romanian legislation identifies the basis of distribution as the current year statutory net profit. The Group recorded in 2001, on a consolidated basis, a statutory loss after taxation. However, this legislation and other statutory law and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

The shareholding structure as at 31 December 2001 is as follows:

	<i>Number of shares (thousands)</i>	<i>Percentage held</i>	<i>Amount</i>
<i>Romanian Government through the Ministry of Communications</i>	15,641	65%	27,403
<i>OTE International Investments</i>	<u>8,422</u>	<u>35%</u>	<u>14,755</u>
	<u>24,063</u>	<u>100%</u>	<u>42,158</u>

There is shareholders' agreement which sets out the voting rights of the shareholders in respect of operational and strategic decisions, whereby OTE International Investments holds 51% of the voting rights in the ordinary shareholders' meetings. The Romanian Government through the Ministry of Communications holds a golden share which gives veto rights over such actions as pledging or mortgaging any assets with more than half the Company's book value, dissolution or liquidation, changing the object of the Company, mergers, increasing or reducing shares or amending the Company's statute, as well as matters affecting the national security interest of the Romanian State.



16. Borrowings

(all amounts in Romanian Lei billion)

	2001	2000
Short term loans:		
ROL (fixed rate - nominal: 37% - 54% at 31 December 2001, 52% - 54% at 31 December 2000)	1,010	755
ROL (floating rate: BUBOR + 2.7% - 3.5%)	218	-
EUR (floating rate: EURIBOR + 1.5%)	110	-
USD (floating rate: LIBOR + 1.25% - 4.5% at 31 December 2001; LIBOR + 2.2% at 31 December 2000)	<u>1,455</u>	<u>506</u>
	<u>2,793</u>	<u>1,261</u>
Overdrafts (note 14):		
ROL (fixed rate - nominal: 50% - 52%)	-	486
ROL (fixed rate - nominal: best market rate, 50% and 52%)	-	361
USD (floating rate: LIBOR + 1.55% - 1.95%)	<u>222</u>	<u>-</u>
	<u>222</u>	<u>847</u>
EBRD and other International Financial Institution ('IFI') loans:		
EUR (floating rate: LIBOR + 1.5%)	2,283	2,976
USD (floating rate: LIBOR + 1.7% - 2%)	2,212	3,038
DEM (floating rate: 5% - 7.5%)	1,297	1,585
FRF (floating rate: 5.5% - 8%)	<u>1,293</u>	<u>1,581</u>
	<u>7,085</u>	<u>9,180</u>
Commercial banks loans:		
FRF (fixed rate: 3% - 10.4%)	351	599
DEM (fixed rate : 3% - 7.95%)	406	690
KWON (fixed rate: 2.5% - 4.2%)	1,390	1,616
SEK (fixed rate: 8.54%)	34	57
USD (floating rate: LIBOR + 1.45%)	<u>451</u>	<u>691</u>
	<u>2,632</u>	<u>3,653</u>
Loans from OTE International Investments (note 27):		
EUR (floating rate: EURIBOR + 2% - 2.5%)	2,146	-
USD (floating rate: LIBOR + 1.5%)	<u>318</u>	<u>336</u>
	<u>2,464</u>	<u>336</u>
Total borrowings	<u>15,196</u>	<u>15,277</u>
Less current borrowings	3,946	2,449
Less EBRD loans reclassified to current liabilities	4,191	-
Less current portion of long-term borrowings	<u>2,362</u>	<u>2,058</u>
	<u>10,499</u>	<u>4,507</u>
Non-current borrowings	<u>4,697</u>	<u>10,770</u>
Maturity of non-current borrowings		
Between 1 and 2 years	833	2,006
Between 2 and 5 years	1,459	4,830
Over 5 years	<u>2,405</u>	<u>3,934</u>
	<u>4,697</u>	<u>10,770</u>

The original maturity of the EBRD loans reclassified to current liabilities is as follows:

	2001
<i>Current</i>	<i>992</i>
<i>Between 1 and 2 years</i>	<i>992</i>
<i>Between 2 and 5 years</i>	<i>2,028</i>
<i>Over 5 years</i>	<i>179</i>
	<u><u>4,191</u></u>

Breach of loan covenants

The USD and EUR loan from the EBRD are subject to restrictive covenants which require the Group to achieve minimum ratios in respect of tangible net worth, financial debt, debt coverage and current ratio, computed on the annual consolidated IAS financial statements. These ratios have been met for each of the three years until 31 December 2000. With the exception of current ratio, all other ratios have been met for the year ended 31 December 2001.

The Group has breached the current ratio covenant attaching to the EBRD facilities as at 31 December 2001, as a result of which such facilities may have become payable on demand. EBRD has been notified of this breach. EBRD has not issued a waiver that this breach will not result in the facilities being withdrawn, nor have they notified the Group of such withdrawal. The other long-term loans do not include clear cross default covenants.

Furthermore, prior to January 1998, the EUR loan from the EBRD was subject to restrictive covenants in respect of internal funds generation and debt coverage. The ratio in respect of internal funds generation was not met for the year ended 31 December 1995. However, this ratio has been met for the years ended 31 December 1996 and 31 December 1997.

As a result of the breach of the current ratio and in the absence of a waiver, the EBRD loans have been reclassified to current liabilities in these consolidated financial statements, in accordance with IAS 1 - Presentation of Financial Statements.

Restrictive provisions

Various loan agreements include provisions limiting the right to restructure the Company, undergo a change of control, corporate form, nature or capacity of the borrower. The Company has properly notified the lenders of the Company's conversion from a state corporation to a joint stock company and management believes that such lenders will not require the repayment of the loans.

Pledged assets

The EUR loan from the EBRD and the DEM and FRF loans from the IFI are collateralised by guarantees from the Government of Romania. The USD loan from the EBRD and the loans from OTE International Investments are not collateralised. The other loans are collateralised by either guarantees from the Ministry of Finance or certain Romanian commercial banks. The Romanian banks have a right of pledge on the assets of the Company funded from the respective loans.

Fair value of borrowings

The carrying amounts and fair values of non-current borrowings are as follows:

	<i>Carrying amounts</i>		<i>Fair values</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
<i>Non-current borrowings</i>	<u>4,697</u>	<u>10,770</u>	<u>4,883</u>	<u>10,441</u>



The fair values are based on discounted cash flows using a discount rate base upon the borrowing rate which management expect would be available to the Group at the balance sheet date. The carrying amounts of short-term borrowings approximate their fair value.

Undrawn committed borrowing facilities

The Group has the following undrawn committed borrowing facilities:

	2001	2000
Short-term loans	198	245
Overdrafts	386	3
IFI loans	-	9
	<u>584</u>	<u>257</u>

Interest rate exposure and effective interest rates

The interest rate exposure and the effective interest rates of the borrowings are as follows:

	2001	2000
<i>Borrowings:</i>		
- at floating rate	12,005	10,713
- at fixed rate	<u>3,191</u>	<u>4,564</u>
	<u>15,196</u>	<u>15,277</u>
<i>Effective interest rates:</i>		
- overdrafts - ROL	43.09%	52.68%
- short - term loans - ROL	45.39%	52.41%
- overdrafts - foreign currencies	5.50%	N/A
- short - term loans - foreign currencies	5.33%	8.29%
- long - term loans - foreign currencies	5.17%	5.51%

17. Deferred tax liabilities

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 25% (2000: 25%).

The movement on the deferred tax liabilities is as follows:

	2001	2000
1 January	6,742	5,307
Deferred income taxes (note 24)	2,232	1,435
Release of deferred tax arising from the statutory revaluation of property, plant and equipment (note 24)	<u>(6,782)</u>	<u>-</u>
31 December	<u>2,192</u>	<u>6,742</u>

At 31 December 2001, as a result of differences arising from the application of Romanian fiscal and taxation revaluation regulations, the tax base of property, plant and equipment has increased by ROL 27,128 . The application of IAS 12 - Income Taxes, gives rise to a release of deferred tax in the statement of income, amounting to ROL 6,782 .

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses

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of ROL 1,959 (2000: ROL 603) to carry forward against future taxable income; these tax losses will expire in the period to 2005 and have not been recognised in these consolidated financial statements.

The unrecognised tax losses will expire as follows:

	2001	2000
Must be utilised within:		
3 years	7	-
3-5 years	1,952	603
	<u>1,959</u>	<u>603</u>

The movement in deferred tax assets and liabilities during the period is as follows:

Deferred tax liabilities	IAS 29 adjustment of property, plant and equipment	Other assets	Total
At 31 December 2000	7,282	1,910	9,192
Release of deferred tax arising from the statutory revaluation of property, plant and equipment (note 24)	(6,782)	-	(6,782)
Charged/(credited) to income statement	1,692	(1,892)	(200)
At 31 December 2001	<u>2,192</u>	<u>18</u>	<u>2,210</u>
Deferred tax assets	Tax losses	Other liabilities	Total
At 31 December 2000	(176)	(2,275)	(2,451)
Charged to income statement	176	2,257	2,433
At 31 December 2001	<u>-</u>	<u>(18)</u>	<u>(18)</u>
Net effect	<u>2,192</u>	<u>-</u>	<u>2,192</u>

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

The amounts shown in the balance sheet include the following:

	2001	2000
Deferred tax liabilities to be settled after more than 12 months	<u>2,032</u>	<u>4,510</u>

18. Other liabilities

	2001	2000
Customer deposits	495	581
Deferred income	246	125
Other payables and accruals	79	144
	<u>820</u>	<u>850</u>

The customer deposits represent guarantees retained from the Company's business customers to cover the risk of non-payment. These deposits are either paid back or offset against outstanding balances at the termination of service.



19. Trade payables

(all amounts in Romanian Lei billion)

	2001	2000
<i>Payables to fixed asset suppliers</i>	13,015	8,655
<i>Less current portion of trade payables (note 20)</i>	<u>(8,863)</u>	<u>(4,799)</u>
<i>Non-current portion</i>	<u>4,152</u>	<u>3,856</u>
 <i>Maturity of non-current portion of trade payables:</i>		
	2001	2000
<i>Between 1 and 2 years</i>	2,250	1,653
<i>Between 2 and 5 years</i>	<u>1,902</u>	<u>2,203</u>
	<u>4,152</u>	<u>3,856</u>

Included within trade payables to fixed asset suppliers are ROL 3,015 (2000: ROL 3,889) due to related parties (Note 27). A significant part of the amounts payable to fixed asset suppliers carry an interest rate of EURIBOR + 1.5%.

The carrying value of trade payables approximates their fair value.

20. Trade and other payables

(all amounts in Romanian Lei billion)

	2001	2000
<i>Payables to fixed asset suppliers (note 19)</i>	8,863	4,799
<i>Payables to inventory suppliers</i>	725	844
<i>Payables to services suppliers</i>	1,571	915
<i>Amounts due to the Government</i>	588	477
<i>Deferred income</i>	522	683
<i>Other payables and accruals</i>	1,440	478
<i>Dividends payables</i>	<u>291</u>	<u>-</u>
	<u>14,000</u>	<u>8,196</u>

Included within trade and other payables are ROL 6,393 (2000: ROL 2,868) due to related parties (Note 27).

21. Revenue

(all amounts in Romanian Lei billion)

	2001	2000
<i>Revenue from fixed line telephony</i>	27,410	28,068
<i>Revenue from mobile telephony</i>	<u>535</u>	<u>139</u>
	<u>27,945</u>	<u>28,207</u>

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Revenues from fixed line telephony can be analysed as follows:

	2001	2000
<i>Domestic call</i>	11,326	11,657
<i>Rentals</i>	5,767	5,700
<i>Overseas operators</i>	3,486	3,457
<i>International calls</i>	1,999	2,117
<i>Interconnect with mobile operators</i>	1,108	1,200
<i>Payphones</i>	1,116	1,042
<i>Leased circuits</i>	851	923
<i>Other telephony</i>	617	940
<i>Connection</i>	299	182
<i>Calls to value added services suppliers</i>	145	331
<i>Telegraph and telex</i>	64	255
<i>Other</i>	<u>632</u>	<u>264</u>
	<u>27,410</u>	<u>28,068</u>

Fixed line residential subscribers receive up to 100 free pulses per month included within the rental fee. One pulse represents between 5.5 seconds and 10 minutes of domestic calls.

Revenues from mobile telephony can be analysed as follows:

	2001	2000
<i>Airtime</i>	217	54
<i>Access</i>	159	9
<i>Sales of handsets and accessories</i>	97	57
<i>Interconnect</i>	22	7
<i>Roaming</i>	21	1
<i>Other</i>	<u>19</u>	<u>11</u>
	<u>535</u>	<u>139</u>

Sales of services to related parties are described in Note 27.



22. Operating costs

(all amounts in Romanian Lei billion)

	2001	2000
<i>Wages and salaries</i>	6,095	5,102
<i>Social security contributions</i>	<u>2,477</u>	<u>2,081</u>
<i>Total staff costs</i>	<u>8,572</u>	<u>7,183</u>
<i>Depreciation (Note 7)</i>	5,267	6,228
<i>Amortisation (Note 8)</i>	153	107
<i>Impairment charge (Notes 7 and 8)</i>	<u>465</u>	<u>-</u>
<i>Total depreciation and amortisation</i>	<u>5,885</u>	<u>6,335</u>
<i>Interconnect with mobile operators</i>	4,962	4,146
<i>Consumables</i>	1,094	1,208
<i>Management fees (Note 27)</i>	935	897
<i>Overseas operators</i>	721	1,093
<i>Maintenance</i>	654	946
<i>Taxes</i>	633	606
<i>Advertising</i>	392	381
<i>Merchandise</i>	389	210
<i>Spare parts</i>	254	353
<i>Utilities</i>	233	198
<i>Loss on disposal of property, plant and equipment</i>	216	353
<i>Payments to Value Added Services suppliers</i>	88	225
<i>Other</i>	<u>3,091</u>	<u>2,646</u>
	28,119	26,780
<i>Less own work capitalised</i>	<u>(155)</u>	<u>(222)</u>
	<u>27,964</u>	<u>26,558</u>

Purchases of services from related parties are described in Note 27.

23. Finance costs, net

(all amounts in Romanian Lei billion)

	2001	2000
<i>Interest expense and similar charges</i>		
<i>Interest expense</i>	1,841	1,487
<i>Foreign exchange losses</i>	<u>4,398</u>	<u>6,829</u>
<i>Total interest expense and other charges</i>	6,239	8,316
<i>Less interest capitalised</i>	<u>(225)</u>	<u>(16)</u>
	<u>6,014</u>	<u>8,300</u>
<i>Interest income and similar income</i>		
<i>Interest income</i>	108	167
<i>Foreign exchange gains</i>	1,316	2,031
<i>Gain on forward contracts</i>	<u>10</u>	<u>-</u>
	<u>1,434</u>	<u>2,198</u>
	<u>(4,580)</u>	<u>(6,102)</u>

The gain on forward contracts relate to two contracts entered into during 2001 for speculative purposes.

24. Tax

(all amounts in Romanian Lei billion)

	2001	2000
Current income taxes	375	945
Deferred income taxes (Note 17)	2,232	1,435
Release of deferred tax arising from the statutory revaluation of property, plant and equipment (Note 17)	<u>(6,782)</u>	<u>-</u>
	<u>(4,175)</u>	<u>2,380</u>

The difference between income tax expense, computed at Romanian statutory rates (25% in 2000 and 2001) and income tax expense provided on earnings were as follows:

	2001	2000
Profit before tax	<u>536</u>	<u>63</u>
Tax calculated at rate of 25%	134	16
Income not subject to tax	(152)	(108)
Expense not deductible for tax purposes	389	192
Impact of IAS 29 adjustments	2,236	2,393
Release of deferred tax arising from the statutory revaluation of property, plant and equipment (Note 17)	(6,782)	-
Utilisation of previously unrecognised tax losses	<u>-</u>	<u>(176)</u>
Tax (release)/charge	<u>(4,175)</u>	<u>2,380</u>

25. Dividends per share

The dividends declared in respect of 2000 and 1999 year, respectively, ROL 824 and ROL 664.

26. Cash generated from operations

(all amounts in Romanian Lei billion)

	2001	2000
Profit before tax	536	63
Adjustments for:		
Depreciation (Note 7)	5,267	6,228
Amortisation (Note 8)	153	107
Impairment charge (Notes 7 and 8)	465	-
Foreign exchange loss on finance activities	1,689	2,368
Monetary effect on non operating activities and income tax	(3,156)	(3,360)
Interest expense	1,841	1,487
Interest income	(108)	(167)
Loss on disposal of property, plant and equipment	216	340
Provision movement	424	414
Loss on disposal of investments (Note 11)	-	35
Operating profit before working capital changes	<u>7,327</u>	<u>7,515</u>
Decrease/(increase) in receivables and prepayments	940	(883)
Decrease in inventories	301	77
Increase/(decrease) in trade and other payables	<u>1,751</u>	<u>(341)</u>
Changes in working capital	<u>2,992</u>	<u>(1,147)</u>
Cash generated from operations	<u>10,319</u>	<u>6,368</u>



27. Related party transactions

(all amounts in Romanian Lei billion)

As described in Note 15, there is shareholders' agreement which sets out the voting rights of the shareholders in respect of operational and strategic decisions, whereby OTE International Investments holds 51% of the voting rights in the ordinary shareholders' meetings. The Romanian Government through the Ministry of Communications holds a golden share which gives veto rights over such actions as pledging or mortgaging any assets with more than half the Company's book value, dissolution or liquidation, changing the object of the Company, mergers, increasing or reducing shares or amending the Company's statute, as well as matters affecting the national security interest of the Romanian State.

OTE International Investments is controlled by OTE.

Hellascom International SA ("Hellascom") and OTE Consulting SA ("OTE Consulting") are controlled by OTE.

Intracom SA ("Intracom") and Siemens Hellas SA ("Siemens Hellas") are related parties of OTE, the ultimate parent company of OTE International Investments. Intracom, a minority shareholder of Hellascom, holding a 14% interest therein, provides OTE and the Company with telecommunication equipment. Siemens Hellas, an affiliate of Siemens Tele-Industry provides OTE with telecommunication equipment and also performs certain construction work relating to fixed assets. Siemens Tele-Industry SA ("Siemens Tele-Industry") is a minority shareholder of Hellascom, holding a 14% interest therein, provides OTE with telecommunication equipment. Intracom S.A. ("Intracom") is controlled by Intracom.

The monetary amount of sales to, purchases from and balances with OTE, OTE International Investments, OTE Consulting, Hellascom, Intracom, Siemens Hellas and Intracom are presented below.

(i) Sales of services

	2001	2000
<i>Sales of services:</i>		
<i>OTE</i>	92	86
<i>Intrarom</i>	9	-
	<u>101</u>	<u>86</u>

Sales of services to OTE represent calls and other traffic that originate in OTE's network and use RomTelecom's network. These sales were carried out on commercial terms and conditions and at market prices.

(ii) Purchases of goods and services

	2001	2000
<i>Purchases of services:</i>		
<i>OTE International Investments</i>	866	990
<i>OTE</i>	166	26
<i>Intracom</i>	35	-
<i>Intrarom</i>	87	7
<i>OTE Consulting</i>	65	-
	<u>1,219</u>	<u>1,023</u>
<i>Purchases of goods and related services:</i>		
<i>Intracom</i>	2,890	3,492
<i>Intrarom</i>	1,287	1,164
<i>Siemens Hellas</i>	1,212	1,804
<i>Hellascom</i>	566	26
	<u>5,955</u>	<u>6,486</u>

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Purchase of services from OTE represent calls and other traffic that originate in RomTelecom's network and use OTE's network. The purchases were carried out on commercial terms and conditions and at market prices.

Payments to OTE International Investments are made under a technical assistance agreement signed between RomTelecom, OTE International Investments, OTE and the Romanian State Ownership Fund. Based on this contract, OTE International Investments will provide certain services such as to integrate RomTelecom within the OTE International Investment's global relations network, to increase the quality of services and to enable RomTelecom to participate in international services supply schemes.

Purchases of services from OTE Consulting represent consulting services for telecommunications. These purchases were carried out on commercial terms and conditions and at market prices.

Purchases from Intracom, Intrarom, Siemens Hellas and Hellascom are under long-term frame contracts for the supply and construction of digital exchanges, cables, related equipment and accessories. 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

	2001	2000
<i>Receivables from related parties (Note 13):</i>		
<i>Siemens Hellas</i>	3	81
<i>OTE</i>	41	-
<i>Intracom</i>	2	3
<i>Hellascom</i>	29	55
<i>Intrarom</i>	5	7
	<u>80</u>	<u>146</u>

The amounts receivable from Intracom, Hellascom and Intrarom represent down payments under the above mentioned frame contracts.

	2001	2000
<i>Payables to related parties:</i>		
<i>Intracom (Note 19,20)</i>	4,854	3,547
<i>Siemens Hellas (Note 19,20)</i>	1,611	1,466
<i>Intrarom (Note 19,20)</i>	970	184
<i>OTE International Investments (Note 16)</i>	702	512
<i>OTE (Note 16)</i>	671	-
<i>Hellascom (Note 19,20)</i>	558	48
<i>OTE Consulting (Note 16)</i>	42	-
	<u>9,408</u>	<u>5,757</u>

(iv) Loans from related parties

	2001	2000
<i>Loans from OTE International Investments (Note 16):</i>		
<i>Loan 1 EUR (floating rate: EURIBOR + 2%)</i>	1,533	-
<i>Loan 2 EUR (floating rate: EURIBOR + 2.50%)</i>	613	-
<i>Loan 3 USD (floating rate: LIBOR + 1.50%)</i>	318	336
	<u>2,464</u>	<u>336</u>



The loans can be further analysed as follows:

	2001	2000
<i>At beginning of the year (Note 16)</i>		
<i>Loans advanced during the year</i>	336	-
<i>Effects of inflation</i>	2,146	336
<i>At end of year (Note 16)</i>	<u>(18)</u>	<u>-</u>
	<u>2,464</u>	<u>336</u>

Loans from OTE International Investments comprise:

- Loan 1 amounting to EUR 55 million that was granted to the Company on 1 December 2001, for six month period, bearing an interest rate of EURIBOR + 2%. According to the shareholders decision made on 26 November 2001, under the terms and conditions to be established in a shareholders' agreement, the loan may be converted into shares will be converted into ordinary shares (Note 3). No assets are pledged as collateral.
- Loan 2 amounting to EUR 22 million that was granted on 1 October 2001 initially for a three month period, bearing an interest rate of EURIBOR +2.5%. The loan was subsequently extended. No assets are pledged as collateral.
- Loan 3 amounting to USD 10 million that was granted on 15 December 2000, for a three-month period, bearing an interest rate of LIBOR + 1.5%. The loan was subsequently periodically extended. No assets are pledged as collateral.

The loans were provided on commercial terms and conditions.

28. Segment information

The Group has two operating segments, fixed line telecommunications and mobile telecommunications. The fixed line telecommunications segment provides local telephony in 41 local primary areas, domestic and international long distance services on a nationwide basis as well as related services such as leased lines, data transmission, equipment rentals, national and international telex and telegraphy. The mobile segment consists of services provided by CosmoROM. CosmoROM provides digital telephony services in the 1800 MHz frequency bandwidth. The Company provides to CosmoROM leased lines, interconnection with its own network and distribution for its products.

(a) Primary reporting format – business segments

The following table presents a summary of operating results of the Group by segment for the years ended 31 December 2001 and 2000. The segments presented below are substantially consistent with the format used by the Company's management.

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	2001	2000
<i>Revenues</i>		
<i>Fixed line</i>	27,757	28,152
<i>Mobile</i>	607	139
<i>Inter-segment elimination</i>	<u>(419)</u>	<u>(84)</u>
	<u>27,945</u>	<u>28,207</u>
<i>Depreciation, amortisation and impairment charge</i>		
<i>Fixed line</i>	4,947	6,169
<i>Mobile</i>	938	166
	<u>5,885</u>	<u>6,335</u>
<i>Operating profit/(loss)</i>		
<i>Fixed line</i>	1,905	2,357
<i>Mobile</i>	<u>(1,924)</u>	<u>(708)</u>
	<u>(19)</u>	<u>1,649</u>
<i>Finance gain/(loss), net</i>		
	<u>555</u>	<u>(1,586)</u>
Profit before tax	536	63
<i>Tax</i>	<u>4,175</u>	<u>(2,380)</u>
Group profit/(loss)	<u>4,711</u>	<u>(2,317)</u>
<i>Assets</i>		
<i>Fixed line</i>	75,690	71,477
<i>Mobile</i>	6,029	4,650
<i>Inter-segment elimination</i>	<u>(350)</u>	<u>(84)</u>
	<u>81,369</u>	<u>76,043</u>
<i>Liabilities</i>		
<i>Fixed line</i>	31,767	32,992
<i>Mobile</i>	4,943	2,013
<i>Inter-segment elimination</i>	<u>(350)</u>	<u>(84)</u>
	<u>36,360</u>	<u>34,921</u>
<i>Capital expenditure</i>		
<i>Fixed line</i>	10,304	12,074
<i>Mobile</i>	<u>2,675</u>	<u>2,760</u>
	<u>12,979</u>	<u>14,834</u>

Inter-segment pricing between mobile and fixed line operators is based upon rates as regulated and set out by the Ministry of Communication.

(b) Secondary reporting format - geographic segments

The Group's two segments operate exclusively in Romania and the Group does not analyse results on a more detailed level based on geographic areas within Romania.



29. Monetary assets and liabilities denominated in ROL and foreign currencies

(all amounts in Romanian Lei billion)

	2001	2000
Assets		
Monetary assets in ROL	3,851	5,376
Monetary assets in foreign currencies	<u>2,946</u>	<u>3,744</u>
	<u>6,797</u>	<u>9,237</u>
Liabilities		
Monetary liabilities in ROL	12,546	10,020
Monetary liabilities in foreign currencies	<u>21,622</u>	<u>18,159</u>
	<u>34,168</u>	<u>28,179</u>
Net monetary position in ROL	<u>(8,695)</u>	<u>(4,644)</u>
Net monetary position in foreign currencies	<u>(18,676)</u>	<u>(14,415)</u>

30. Commitments

(all amounts in Romanian Lei billion)

Capital expenditure contracted for at balance sheet date but not recognised in the financial statements is as follows:

	2001	2000
Non-cancellable commitments	14,655	23,344
Cancellable commitments	<u>7,795</u>	<u>10,144</u>
	<u>22,450</u>	<u>33,488</u>

31. Contingencies

(a) Legal proceedings

The Group is subject to a number of proceedings arising from the normal conduct of its business. Management believe 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 Group.

(b) Wayleaves

RomTelecom SA was established as a joint stock company as of 1 November 1997 as per Government Decree no. 673/1997 and the business and substantially all of the assets and liabilities of the former RomTelecom RA (the predecessor entity) were transferred to it on that date. In respect of wayleaves, no claims have been received at the balance sheet date for the period prior to the corporatisation date. Management do not expect to receive any such material claims in the future.

(c) Employee benefits and entitlements

As described in Note 6, the Company is required to pay the equivalent of 3 to 20 months of average base salaries to employees retiring before 31 May 2002. Starting with 1 June 2002 payments to employees retiring before 31 May 2003 were reduced to the equivalent of 2 to 8 months of average base salaries. This contingent liability is deemed not to be material.

(d) Taxation

The taxation system in Romania is at an early stage of development and is subject to varying interpretations and to constant changes, which may be retroactive. In certain circumstances the tax authorities can be aggressive and arbitrary in assessing tax penalties. Although the actual tax due on a transaction may be minimal, penalties can be significant as they may be calculated based on the value of the transaction and are at a minimum of 0.10% per day but can be well in excess of this. In Romania, tax periods remain open for tax audits for 5 years. Management believe that tax liabilities recorded in these consolidated financial statements are adequate.

32. Subsequent events

(a) Further privatisation

The Ministry of Communications announced in January 2002 the bid for the selection of the advisors for the sale of the Government shares in RomTelecom. Schroder Salomon Smith Barney was selected in February 2002 as the Romanian Government's advisor in this process. The advisor has been formally retained and has commenced working with the Company's and OTE's advisors. In accordance with the shareholders' frame agreement signed on 27 June 2002 (see Note 3), the analysis of the Romanian Government's advisors in the context of the further privatisation process, insofar as they relate to a proposed share capital increase of RomTelecom, shall constitute for the Romanian Government the basis for any discussions relative to such transaction.

(b) Tariff increase

Effective 1 April 2002 the Company increased the tariffs for its services. The tariffs for the main services increased with approximately 10% compared to the tariffs in force as at 31 December 2001. Inflation for the three months ended 31 March 2002 was 4%.

(c) New voice and data services

RomTelecom and OTEGlobe (subsidiary of OTE) signed on 21 June 2002 an agreement which allows RomTelecom to improve global interconnection of voice and data transmission. The intelligent platform installed in Bucharest will allow RomTelecom to offer 4 new voice and data services.

(d) Shareholders' frame agreement

The shareholders signed on 27 June 2002 a frame agreement which establishes a framework within which they agree to satisfy the funding requirements of RomTelecom and CosmoROM. The essential elements of the agreement are described in Note 3.

(e) Devaluation of the ROL

On 28 June 2002, the exchange rate of ROL to the USD was 33,477. This represents 5.9% devaluation since 31 December 2001.



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Macroeconomics

	1995	1996	1997	1998	1999	2000	2001
Population (million)**	22.3	22.2	22.1	22	21.9	21.8	21.7
GDP variation(%)	7.1	4.1	-6.6	-7.3	-3.2	1.6	5.3
Inflation rate (%)	27.7	57.7	151.7	40.6	54.9	40.7	30.3
Unemployment, as of December 31st (%)	9.5	6.6	8.9	10.3	11.8	10.5	8.6
ROL/1US\$ as of December 31st (%)	2,578	4,035	8,023	10,951	18,255	25,926	31,597
ROL/1US\$ yearly average	2,033	3,084	7,174	8,881	15,274	21,687	29,061
ROL/1Euro as of December 31st						24,118	27,881
Average net monthly wage Dec./US\$	110	107	117	124	109	112	115.8
Average gross monthly wage Dec./US\$	145	146	158	160	140	153	167.7

** The results of recent census (18 March 2002) oblige to reconsider the Romanian population over the last 10 years, and all subsequent statistics (penetration rate, etc.)

Telegraphy and telex

	1995	1996	1997	1998	1999	2000	2001
Telex lines (subscriptions)	6,808	6,365	5,279	4,446	3,298	2,540	2,078
Leased circuits (thousand km)	42.0	40.2	33.6	26.2	19.7	14.5	12.0
Domestic traffic (million pulses)	58.6	49.7	61.4	61.6	54.3	45.0	45.0
International traffic (million minutes)	2.38	1.67	1.25	0.825	0.484	0.287	0.129

Telephony - Operational data

	1995	1996	1997	1998	1999	2000	2001
Main telephone lines (million)	2.925	3.110	3.374	3.570	3.705	3.813	4.026
Residential	2.647	2.810	3.056	3.229	3.347	3.438	3.634
Business	0.278	0.300	0.318	0.341	0.358	0.375	0.392
Main telephone lines (million)	2.925	3.110	3.374	3.570	3.705	3.813	4.026
Manual	0.326	0.330	0.320	0.298	0.245	0.208	0.144
Analog	2.149	2.079	2.023	1.823	1.644	1.531	1.266
Digital	0.450	0.701	1.031	1.449	1.816	2.074	2.616
Main telephone lines (million)	2.925	3.110	3.374	3.570	3.705	3.813	4.026
Urban main lines	2.538	2.696	2.915	3.059	3.136	3.171	3.277
Rural main lines	0.387	0.414	0.459	0.511	0.569	0.642	0.749
Public phones (million)	0.024	0.024	0.024	0.024	0.035	0.042	0.047
Total main telephone lines, including public phones (m)	2.949	3.134	3.398	3.594	3.740	3.855	4.073
ISDN-BRA						213	2,968
ISDN-PRA						104	516
2 Mb/s trunk subscriptions					230	413	674
Card operated payphones	2,307	2,572	6,580	18,936	31,894	41,093	46,838
Total payphones	23,873	23,954	23,516	24,478	34,831	41,666	46,838
Penetration rate (%)**	13.2	14.1	15.4	16.3	17.1	17.7	18.8
Automation rate (%)	88.9	89.5	90.6	91.7	93.5	94.6	96.5
Digitalization rate (%)	15.3	22.4	30.6	40.9	49.5	54.8	65.4
Waiting list (million)	1.19	1.23	0.99	0.92	0.74	0.64	0.58
Waiting time (year)	4.97	4.88	4.16	3.94	3.57	3.34	2.72
Complaints/100MTL/year	181	169	149	130	105	77.5	63
Faults/100MTL/year	93.8	88.6	76.7	68.7	49.2	35.7	29.5



Telephony - Operational data

	1995	1996	1997	1998	1999	2000	2001
Fault clearing time (h)	48.6	51.8	46.1	47.7	34.8	17.7	14.9
Average dial tone delay (second)	1.34	1.57	1.28	1.02	0.72	0.8	0.52
Average post dialing delay (second)	5.84	5.84	5.29	4.55	3.00	2.69	2.06

Network

	1995	1996	1997	1998	1999	2000	2001
Optical cable (thousand km)	2.11	2.56	6.84	9.55	12.85	16.54	18.86
Switching units	2,700	2,772	2,821	2,874	2,427	2,418	1,730
Local switching capacity (million lines):	3.402	3.534	3.867	4.077	4.424	4.789	5.073
Manual	0.379	0.369	0.344	0.341	0.264	0.230	0.203
Analog	2.391	2.292	2.182	2.002	1.906	1.886	1.643
Digital	0.632	0.874	1.341	1.734	2.254	2.673	3.227
Automatic	3.023	3.166	3.523	3.736	4.160	4.559	4.870
ISDN BRA							10.697
ISDN PRA							899
Trunk switching capacity (000s)				667	678	660	717
Analog				314	255	224	191
Digital				353	423	436	526
International switching capacity (000s)	6	13.44	13.44	21.72	21.72	21.72	21.72

Traffic

	1995	1996	1997	1998	1999	2000	2001
Domestic manual calls (million minutes)	305.1	316.9	269.1	253.4	218.7	173.5	139.6
Domestic automat calls (billion pulses)	11.14	12.83	13.22	15.23	17.21	19.6	23.3
International manual calls (million minutes)	33.34	31.16	21.77	16.97	14.64	12.8	10.8
International automatic calls (million minutes)	64.9	76.5	83.5	93.1	97.9	105.4	114.9
International incoming traffic (million minutes)	216	251	269	380	450	600	710
International outgoing traffic (million minutes)	88	104	111	133	151	170	180
Total VAS traffic (million minutes)		1.97	11.3	23.9	17.6	45.6	124.6
- out of which Internet access				5.2	8.7	42.0	122.9
Cards sold (million pieces)	1.40	2.33	3.36	6.51	9.79	13.7	20.7
Value (VAT included) of cards sold (ROL billion)	16.1	35.7	96.1	214	435	730.9	1,205
Leased circuits (ROL billion)*	272	258	582	437	382	923	851

Efficiency

	1995	1996	1997	1998	1999	2000	2001
Staff number	53,759	53,527	52,104	48,441	44,919	42,303	39,938
Lines/employee	54.9	58.6	65.2	74.2	83.3	91.1	102
Total revenues (ROL bn)*	16,007	18,236	19,702	20,542	26,700	28,207	27,945
Fixed telephony revenues (ROL bn)*	16,007	18,236	19,702	20,542	26,700	28,068	27,410
Fixed telephony revenue/employee (ROL m)*	298	341	378	424	594	663	686
Fixed telephony revenues per line (ROL m)*	5.43	5.82	5.80	5.71	7.14	7.28	6.73
Ebitda (ROL bn)*	5,822	7,227	8,257	7,053	8,213	7,984	5,401
Ebit (ROL bn)*	2,132	3,183	3,749	2,072	2,370	1,649	-19
Net profit according to IAS (ROL bn)*			8,849	4,587	695	-2,317	4,711

* All comparative financial information (according to IAS) is presented in terms of the measuring unit current as of 31 December 2001.

Financial data Balance sheet (ROL billion)*

ASSETS	1994	1995	1996	1997	1998	1999	2000	2001
Tangible fixed assets (property, plant, equipment)	42,381	44,941	47,661	49,118	52,524	55,430	63,839	72,106
Intangible assets					727	749	706	813
Investments in associates	175	325	345	827	391	107	0	0
Other investments						89	54	54
Long term assets	42,556	45,266	48,006	49,945	53,640	56,374	64,599	72,973
Inventories	303	361	552	681	1,244	1,260	1,137	772
Receivables and prepayments	2,936	4,554	4,174	3,884	4,564	6,985	7,077	5,558
Cash and cash equivalent	944	1,236	836	497	11,352	6,720	3,230	2,066
Current assets	4,183	6,151	5,562	5,062	17,159	14,965	11,444	8,396
TOTAL ASSETS	46,740	51,416	53,568	55,007	70,799	71,339	76,043	81,369
EQUITY and LIABILITIES								
Ordinary shares	34,575	34,575	34,681	34,705	42,158	42,158	42,158	42,158
Share premium					3,120	3,120	3,120	3,120
Other reserves	2,933	2,611	2,517	0	0	0	6	6
Deficit				-6,512	-1,927	-1,181	-4,162	-275
Capital and reserves	37,508	37,185	37,198	28,192	43,351	44,096	41,122	45,009
Borrowings	6,079	10,321	10,794	9,035	14,017	13,470	10,770	4,697
Provisions for customer deposits				490	577	0	0	0
Deferred tax liabilities				11,965	5,821	5,307	6,742	2,192
Long term payables						26	3,856	4,152
Other liabilities						1,190	850	820
Non-current liabilities	6,079	10,321	10,794	21,490	20,415	19,994	22,218	11,861
Borrowings				1,473	2,170	2,251	4,507	10,499
Trade and other payables	3,153	3,910	5,575	3,851	4,862	4,998	8,196	14,000
Current liabilities	3,153	3,910	5,575	5,325	7,032	7,250	12,703	24,499
Total liabilities	9,232	14,231	16,369	26,815	27,447	27,243	34,921	36,360
TOTAL EQUITY & LIABILITIES	46,740	51,416	53,568	55,007	70,799	71,339	76,043	81,369

Income statement (ROL billion)*

	1994	1995	1996	1997	1998	1999	2000	2001
Revenues	13,399	16,008	18,238	19,701	20,541	26,700	28,207	27,945
Operating costs	8,348	10,186	11,010	11,444	13,488	18,487	20,223	22,544
EBITDA	5,050	5,822	7,227	8,257	7,053	8,213	7,984	5,401
Depreciation and amortization	3,281	3,689	4,044	4,508	4,981	5,843	6,335	5,420
EBIT	1,770	2,132	3,183	3,749	2,072	2,370	1,649	-19
Financial items, net				-4,887	-5,276	-3,032	-6,102	-4,580
Gain on the monetary position				15,320	1,691	1,029	4,516	5,135
Share of profit/losses of associates				-25	-44	-99	0	0
Net profit before tax				14,156	-1,557	267	63	536
Income tax on profit				-5,307	-454	-1,565	-2,380	4,175
Release of deferred tax from Government revaluation					-6,599	0	0	0
Release of deferred tax from change in tax rate						1,993	0	0
Net profit				8,849	4,587	695	-2,317	4,711

* All comparative financial information (according to IAS) is presented in terms of the measuring unit current as of 31 December 2001.



Revenues (ROL billion)*

	1994	1995	1996	1997	1998	1999	2000	2001
Domestic call revenues	4,135	4,980	5,407	7,480	8,578	11,386	11,657	11,326
Rentals	2,100	2,535	2,784	2,803	3,413	4,851	5,700	5,767
Connection fees	391	628	743	673	387	374	182	299
Overseas operators	3,031	3,717	4,185	3,337	2,728	3,940	3,457	3,486
International calls	2,168	2,614	3,195	2,880	2,237	2,134	2,117	1,999
Interconnect with mobile operators			146	374	798	1,003	1,200	1,108
Payphones						788	1,042	1,116
Call to value added services				217	432	431	331	145
Other telephony	562	719	995	855	1,129	838	940	617
Leased circuits	345	272	258	582	437	382	923	851
Telegraph & telex	329	289	270	186	116	99	255	64
Other	339	253	254	314	289	475	264	632
Revenues from fixed line telephony	13,400	16,007	18,236	19,702	20,542	26,700	28,068	27,410
Revenues from mobile telephony							139	535
Total revenues	13,400	16,007	18,236	19,702	20,542	26,700	28,207	27,945

Expenses (ROL billion)*

	1994	1995	1996	1997	1998	1999	2000	2001
Wages and salaries	3,587	4,404	4,594	4,280	4,937	4,929	5,102	6,095
Social security contribution	1,189	1,311	1,399	1,330	1,654	1,993	2,081	2,477
Total staff costs	4,776	5,715	5,993	5,610	6,591	6,923	7,183	8,572
Depreciation	3,281	3,689	4,043	4,508	4,981	5,776	6,228	5,267
Amortisation						68	107	153
Impairment charge								465
Total depreciation & amortisation	3,281	3,689	4,043	4,508	4,981	5,844	6,335	5,885
Interconnect mobile operators			66	460	1,575	3,233	4,146	4,962
Consumables	449	474	786	711	947	1,096	1,208	1,094
Management fees							897	935
Overseas operators	1,396	2,085	1,992	1,636	1,220	1,437	1,093	721
Maintenance	281	431	891	888	848	1,073	946	654
Taxes							606	633
Advertising						94	381	392
Merchandise							210	389
Spare parts	253	309	417	353	299	268	353	254
Utilities	225	198	207	251	220	194	198	233
Loss on fixed assets disposal							353	216
Payments to VAS suppliers						298	225	88
Other	971	971	789	1,682	1,973	4,079	2,646	3,091
Total	11,631	13,874	15,184	16,099	18,654	24,539	26,780	28,119
Less own work capitalised				-145	-185	-208	-222	-155
Total operating costs	11,631	13,874	15,184	15,954	18,469	24,330	26,558	27,964

* All comparative financial information (according to IAS) is presented in terms of the measuring unit current as of 31 December 2001.

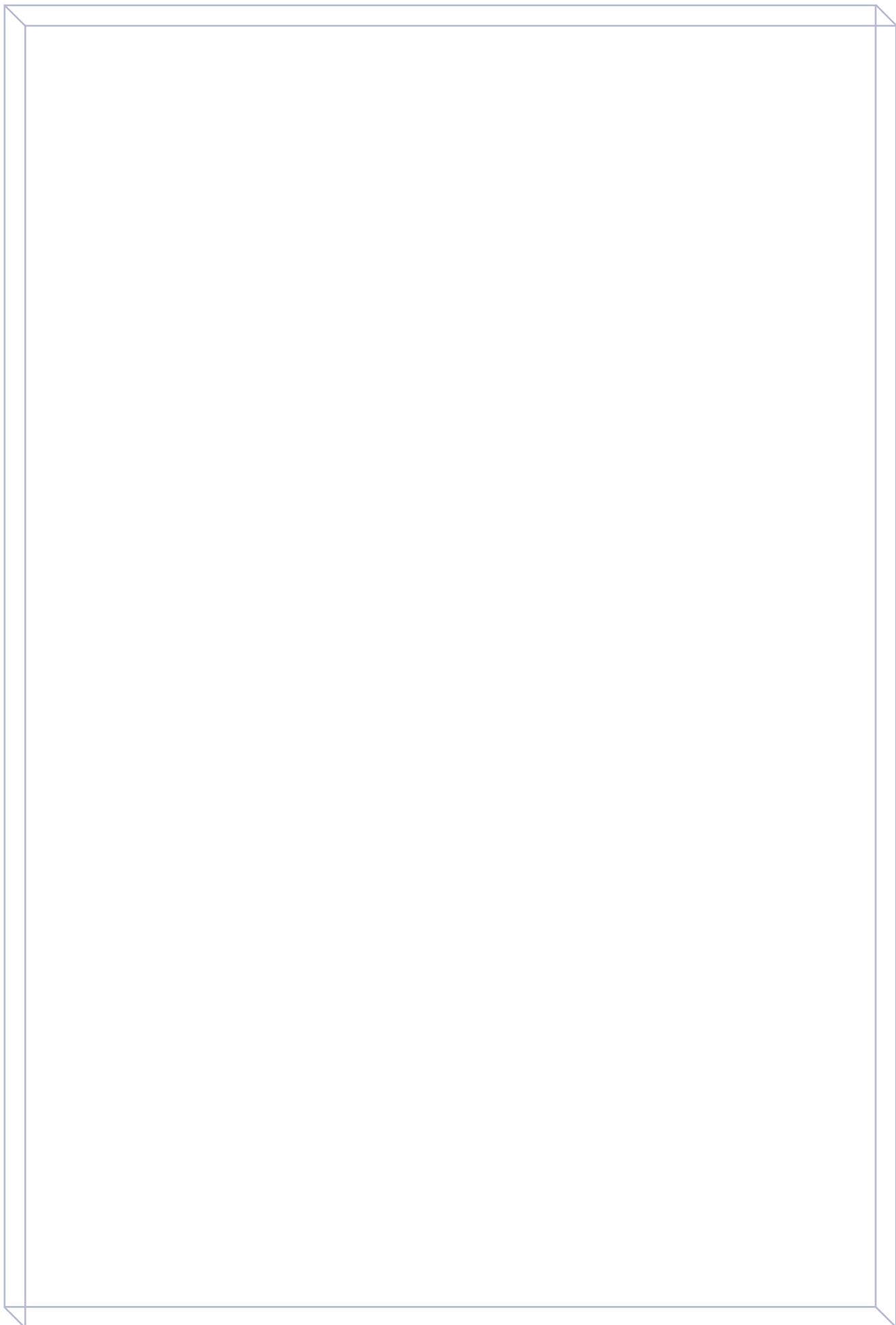
Cash Flows (ROL billion)*

	1994	1995	1996	1997	1998	1999	2000	2001
Operating activities	3,712	3,558	7,514	7,225	5,034	6,352	4,470	8,286
Investing activities	-7,901	-6,330	-6,607	-6,321	-7,656	-9,885	-7,838	-10,304
Financing activities	3,417	4,865	1,573	3,090	14,851	353	198	1,759
Effects of inflation and exchange rate	971	-1,805	-2,879	-4,317	-1,832	-1,126	-1,164	-280
Cash and cash equivalent at 31 Dec.	939	1,227	828	506	10,938	6,593	2,384	1,844

Key ratios*

	1994	1995	1996	1997	1998	1999	2000	2001
Current assets/Current liabilities	1.33	1.57	1.00	0.951	2.440	2.064	0.901	0.343
Acid test	1.23	1.48	0.90	0.823	2.263	1.890	0.811	0.311
Total debt/total assets	0.198	0.277	0.306	0.487	0.388	0.382	0.459	0.447
Total debts/Shareholders equity	0.246	0.383	0.440	0.951	0.633	0.618	0.849	0.808
Inventory turnover	44.2	44.3	33.0	28.9	16.5	21.2	24.8	36.2
Fixed assets turnover	0.315	0.354	0.380	0.394	0.383	0.474	0.437	0.383
Total assets turnover	0.287	0.311	0.340	0.358	0.290	0.374	0.371	0.343
Fixed assets/Total assets	0.911	0.880	0.896	0.908	0.758	0.790	0.850	0.897
Shareholders' equity/Fixed assets	0.881	0.821	0.775	0.564	0.808	0.782	0.637	0.617
Profit margin on sales	0.050	-0.020	-0.005	0.128	0.223	0.026	-0.082	0.169
Return on assets	0.014	-0.006	-0.002	0.046	0.065	0.010	-0.030	0.058
Return on equity	0.018	-0.009	-0.003	0.064	0.106	0.016	-0.056	0.105
EBITDA (% of total revenues)	37.7	36.4	39.3	41.9	34.3	30.8	28.3	19.3
EBIT (% of total revenues)	13.2	13.3	17.3	19.0	10.1	8.9	5.8	-0.1

* All comparative financial information (according to IAS) is presented in terms of the measuring unit current as of 31 December 2001.



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