

# ***Annual Report 1999***

*From a voice telephony company  
towards a modern telecommunications group!*

 **ROMTELECOM**

## 1999 Performance Highlights

### Main Events

- On January 15th 1999 RomTelecom established Cosmorom, a subsidiary to provide mobile telephony services using the 1,800 MHz frequency band.
- Following the privatization process, on February 17th 1999, a new managerial team was appointed. The team is composed of specialists from OTE, GTE and RomTelecom having as their main task RomTelecom restructuring.
- On October 8th 1999, RomTelecom and Siemens affiliates from Greece and Romania as well as Intracom of Greece signed a US\$324,000,000 contract for 2,000,000 digital lines in five years ending in 2004: 1,150,000 lines Intracom and 850,000 lines Siemens, out of which 550,000 lines will be installed in 2000.
- On November 5th 1999, RomTelecom and Alcatel NSR signed a US\$122,000,000 contract for installing 650,000 digital lines in five years, ending in 2004, out of which 150,000 lines will be installed in 2000.

### Statistics, as of December 31st 1999

- 4.424 million lines total switching capacity, an increase of 0.347 million compared to 1998.
- 2.254 million digital lines, an increase of 0.52 million compared to 1998.
- 3.74 million main telephone lines (subscribers, public phones) of which 0.146 million were connected in 1999.
- 1.85 million digital main telephone lines (subscribers, public phones) of which 0.381 million were connected in 1999.
- 3.347 million residential subscribers, of which 0.118 million were connected in 1999.
- 34,831 payphones, of which 31,894 are card operated.
- 12,854 Km optical fiber cables were installed.
- 93.5% of main telephone lines are connected to automatic exchanges.
- 49.5% of main telephone lines are connected to digital exchanges.
- 16.7% penetration rate (16.0% on December 31st 1997).
- US\$ 552.7 million amounts total investment RomTelecom made in 1999.

### Quality factors

- 740,000 waiting list in 1999 compared with 920,000 in 1998.
- 3.57 years average waiting time for a main telephone line in 1999 and 3.94 years in 1998.
- 105 - average number of confirmed complaints per 100 main lines per year in 1999 compared with 130 in 1998.
- 49.2 - average number of confirmed faults per 100 main lines per year in 1999 compared 68.7 in 1998.
- 34.8 hours - average time for fault clearing in 1999 compared with 47.7 hours in 1998.
- 0.72 seconds - average waiting time for dial tone in 1999 compared with 1.02 seconds in 1998.



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## **Foreword by the Chief Executive Officer**



Now, at one year after take-over, we have a clear understanding of RomTelecom and a long-term plan to prepare it for market liberalization. We will focus on our core business – fixed telephony developing existing network and providing new services (ISDN, IN, Voice Mail), but we are ready to enter rapidly into new markets: mobile telephony, Internet, data transmission, in addition to expanding the existing businesses. We are committed to taking any opportunity the market offers to build company value and keep our leading position.

We are able and willing to transform the existing voice telephony company into a modern telecommunications group. This process began one year ago!



*Dear Readers,*

*Following RomTelecom privatization, in February 1999 a new executive team was appointed in order to reflect the new ownership structure and strategic partnership with OTE. Specialists from OTE, GTE and RomTelecom filled positions in the new corporate structure. Their goal was to transform, in a medium time frame, a state basic telephony monopoly into a telecommunications group competing in a liberalized market.*

*Now, at one year after take-over, we have a clear understanding of RomTelecom and its industry and have already developed a long-term plan to prepare it for market liberalization. We are focusing on our core business – fixed telephony, but we are committed to rapidly entering new markets: mobile telephony, Internet, data transmission, in addition to expanding the existing businesses: cable TV, etc.*

*RomTelecom restructuring started with its organization. Changes in corporate structure and people are accomplished by changes in culture - a new corporate culture focusing on customers and markets, and on the employee's role in achieving it. The human resources policy is of crucial importance: work force planning, recruitment, training and motivation will determine the company's efficiency. This involves personnel assessment, redeployment, training, and motivating. RomTelecom is overstaffed - it has 45,000 employees and by the end of 2003 this number should decrease to 30,000, mainly due to heavy investments in infrastructure and replacement of manual phone lines. 3,500 jobs were cut in 1999 and 4,000 are planned for 2000, while keeping good relations with our employees and trade unions.*

*In 1999 520,000 digital lines were installed, out of which 170,000 replaced analog and manual lines. Our plan was for installing of 300,000 digital lines and replacing of 100,000 old lines. At one year after take-over, we are proud to have a 29.6% jump in total revenues, a 39.8% jump in revenue/employee, or a 24.6% jump in revenues/line. RomTelecom returned to profit! Net profit was ROL1,450bn, while ebitda jumped 20.7% to US\$255m, which could represent the jump in RomTelecom market value. This is the result of a heavy investment policy, improved quality, job cuts (7.3%), and tariff policy. But, we have a lot to do. We must accelerate cost cutting, improve the quality of our services and provide new services in order to increase revenues. We will focus mainly on the access network not only to reduce the waiting list, but also to increase quality. Very soon this year RomTelecom will provide new services: ISDN, Voice Mail, Intelligent Network services, etc.*

*A low penetration rate and a long waiting list are indicators of an emerging market and at the same time could incent other operators to enter the market. That is why we are committed to investing over US\$2.7bn in infrastructure from 1999 to 2003, in order to keep a long run market leader position. We plan to install 2.65m new lines by 2004 and replace existing analog lines in order to have a 70% digitalization rate by 2003. Although we have a plan for US\$500m investments in 2000, we are intending to investing some US\$680m, to installing 700,000 digital lines, out of which 300,000 will replace old lines. In three years we plan to eliminate the waiting list.*



*RomTelecom is eager to diversify its business portfolio by entering new markets or expanding existing activities.*

*In May 2000 Cosmorom, a new business entity belonging to RomTelecom Group, will launch its mobile telephony services using a GSM-1,800 system in Bucharest, Constanța and Brașov as well as connecting roads and towns in between. The latest-technology operating system, GSM-1,800, will be introduced into a fast growing market with three existing players. Cosmorom will cover 55 per cent of the population by year end 2000 and 90 per cent by the end of 2001. For a faster rollout we are committed to invest heavily – US\$500m in 2000 and 2001. Cosmorom will benefit from the experience OTE has accumulated in Greece operating its subsidiary Cosmote, as well as from RomTelecom support, experience, and network, and could take advantage of fixed and mobile services convergence.*

*We are committed to investing in other emerging markets too. RomTelecom is leaving its partnership with Global One and soon will establish a new company aiming to become a national ISP able to shape a market, which until now experienced a slow increase. RomTelecom is also present in the cable industry operating a trunk network based on underground optical fibre, intending to expand and to modernize it in order to increase market share and to be able to provide bundled services (cable TV, Internet, data, voice) by liberalization. We are committed to take any opportunity the market offers in order to build stockholder value and keep our leading position.*

*We are able, willing and committed to transforming the existing voice Telephony Company into a modern telecommunications group active in the global market. This process, started one-year ago, has already provided numerous examples of growth and improvement, and will provide even grater results in years to come.*

Vassilios Tsakoniatis  
Chief Executive Officer

## Key Figures 1994-1999

(According to International Accounting Standards)

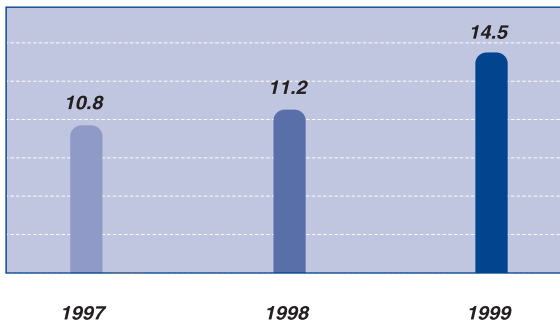
	1994	1995	1996	1997	1998	1999
<b>Income statement items (ROL bn)*</b>						
Revenues	7,314	8,738	9,956	10,754	11,213	14,536
Operating costs	4,557	5,560	6,010	6,247	7,363	9,888
EBITDA	2,757	3,178	3,945	4,507	3,850	4,648
Depreciation	1,791	2,014	2,207	2,461	2,719	3,176
Profit before financial items	966	1,164	1,738	2,046	1,131	1,472
<b>Balance sheet (ROL bn)*</b>						
Fixed assets	23,233	24,710	25,980	27,260	29,279	31,256
Current assets	2,284	3,357	3,257	2,763	9,366	7,678
Total assets	25,517	28,067	29,237	30,023	38,645	38,934
Total shareholders' equity				15,387	23,663	24,070
<b>Cash Flows (ROL bn)*</b>						
Operating activities				3,963	2,759	4,199
Investing activities				-3,469	-4,190	-5,827
Financing activities				1,687	8,107	193
Effects of inflation & exchange rate				-2,356	-1,000	-849
Change in financial reserves				-176	5,676	-2,284
<b>Operating data (End of year) *</b>						
Main telephone lines (million)	2.774	2.948	3.134	3.397	3.594	3.740
Digital main telephone lines (million)	0.189	0.452	0.704	1.038	1.468	1.816
Total payphones	24,063	23,873	23,954	23,516	24,478	34,831
Card operated payphones	1,325	2,307	2,572	6,580	18,936	31,894
Switching capacity (million lines)	3.199	3.402	3.534	3.867	4.077	4.424
Digital switching capacity (million lines)	0.374	0.632	0.874	1.341	1.734	2.254
Penetration rate (%)	12.2	13.0	13.9	15.1	16.0	16.7
Digitalization rate (%)	6.8	15.3	23.0	32.7	40.9	49.5
Faults/100 MTL/year	96.0	93.8	88.3	76.7	68.7	49.2
Fault clearing time (h)	40.7	48.6	51.8	46.1	47.7	34.8
Staff number	52,509	53,759	53,527	52,104	48,441	44,919
Lines in service per employee	52.8	54.8	58.5	65.2	74.2	83.3
Total revenues/employee (ROLm)*	139	163	186	206	232	324
Total revenues per line (ROL m) *	2.64	2.96	3.18	3.17	3.12	3.89
Net profit (ROL bn)**				63.2	-285.6	1,450

\* All comparative financial information (according to IAS) is presented in terms of the measuring unit current as of December 31st 1999.

\*\* According to Romanian Accounting Standards

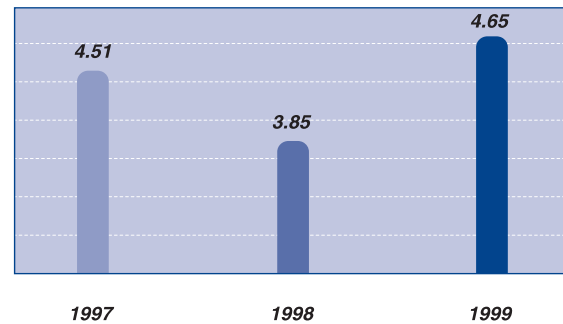


### Total revenues (ROL thousand bn)



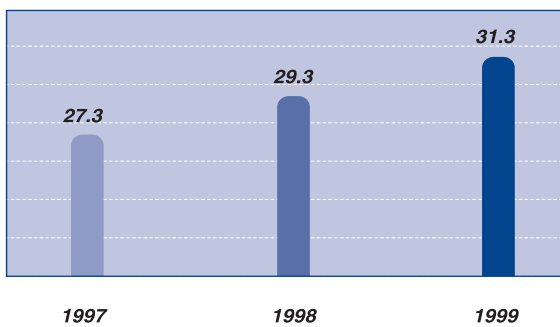
In 1999 RomTelecom's total revenues jumped 29.6 per cent. This increase primarily was due to a new tariff policy.

### EBITDA (ROL thousand bn)



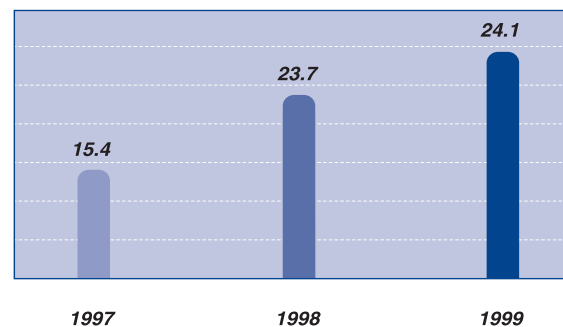
EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) jumped 20.7 per cent, reflecting the strong increase in revenues.

### Fixed assets (ROL thousand bn)



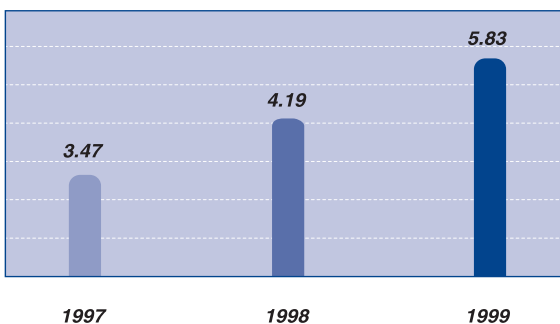
RomTelecom's fixed assets increased 6.8 per cent mainly due to the increase in tangible assets.

### Shareholders' equity (ROL thousand bn)



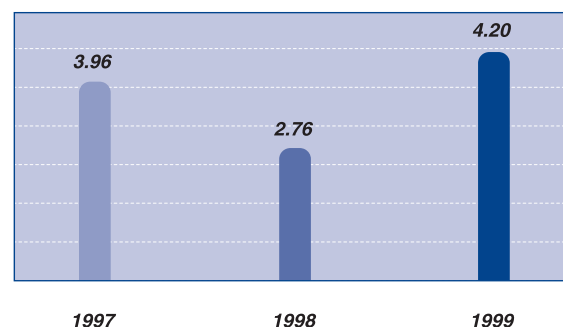
The slow increase in shareholders' equity, 1.7 per cent, is due to a recent increase (late in 1998) in share capital.

### Investing cash flows (ROL thousand bn)



RomTelecom's investing cash flows jumped 39.1 per cent in 1999 as part of a US\$2.7bn five year investment plan.

### Net cash from operating activities (ROL thousand bn)

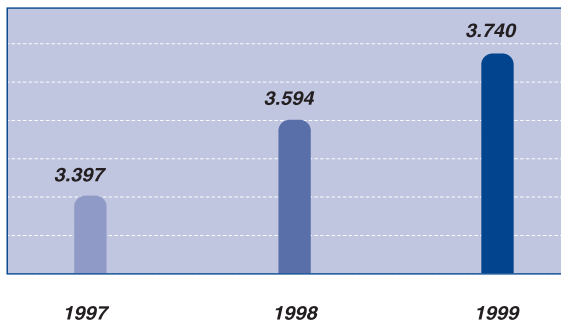


Net cash from operating activities jumped 52.2 per cent primarily reflecting the increase in operating income. That is why investments RomTelecom made in 1999 were mainly supported by its own funds.



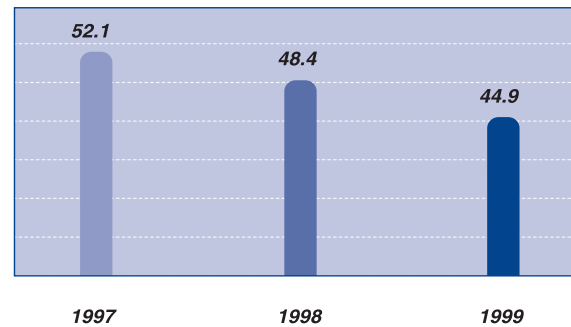


### Main telephone lines (million)



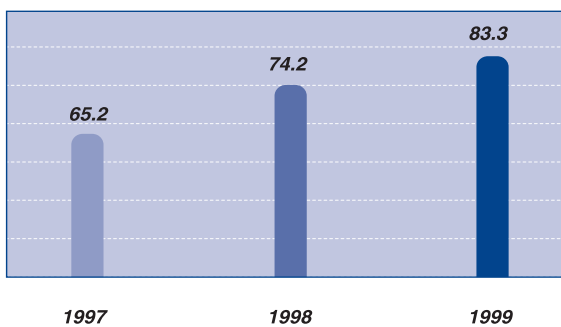
Lines in service increased 4.1 per cent, via new digital lines, so digital lines have jumped to 49.5 per cent of total lines in 1999.

### Total staff (thousand)



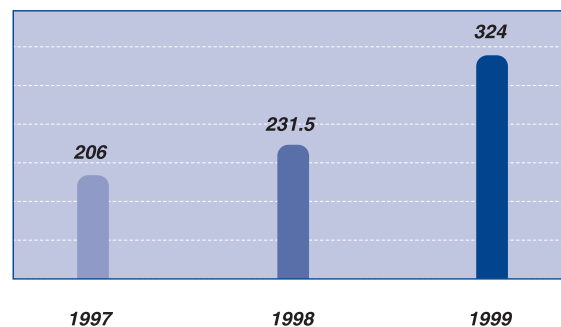
Total staff decreased 7.3 per cent or 3,500 jobs as part of a five year plan for 17,000 job cuts.

### Lines/employee



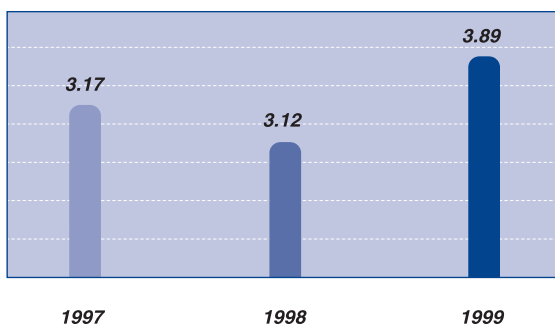
Lines/employee increased 12.2 per cent due to a 7.3 per cent decrease in staff, as well as a 4.1 per cent increase in subscriber base.

### Total revenues/employee (ROL m)



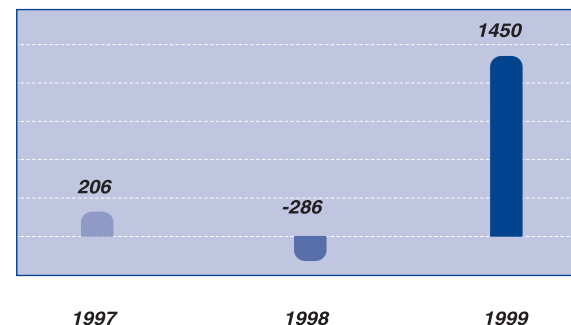
Total revenues/employee jumped 40 per cent due to a 29.6 per cent jump in total revenues and a 7.3 per cent decrease in staff.

### Total revenues/line (ROL m)



Total revenues/line jumped 24.6 per cent due to a 29.6 per cent jump in total revenues and a 4.1 per cent increase in subscriber base.

### Net profit according to RAS (ROL bn)



According to Romanian Accounting Standards, RomTelecom net profit jumped in 1999 to ROL 1,449.7bn, from a ROL 285.6 bn loss one year before.

**domestic activities**

telecommunication infrastructure

**international activities**

**personnel**

**service quality**





# ***Achievements 1999***

# Achievements 1999

## Domestic Activity

### A. Revenues

Revenues in 1999 jumped 29.6 per cent (according to International Accounting Standards - IAS) reaching ROL 14,536bn, mainly due to the increase in domestic fixed line telecommunications services as a result of tariff policy. Revenue from overseas operators experienced a spectacular jump, 44.5 per cent, reaching ROL 2,151bn.

#### Revenues by type of business activity\*

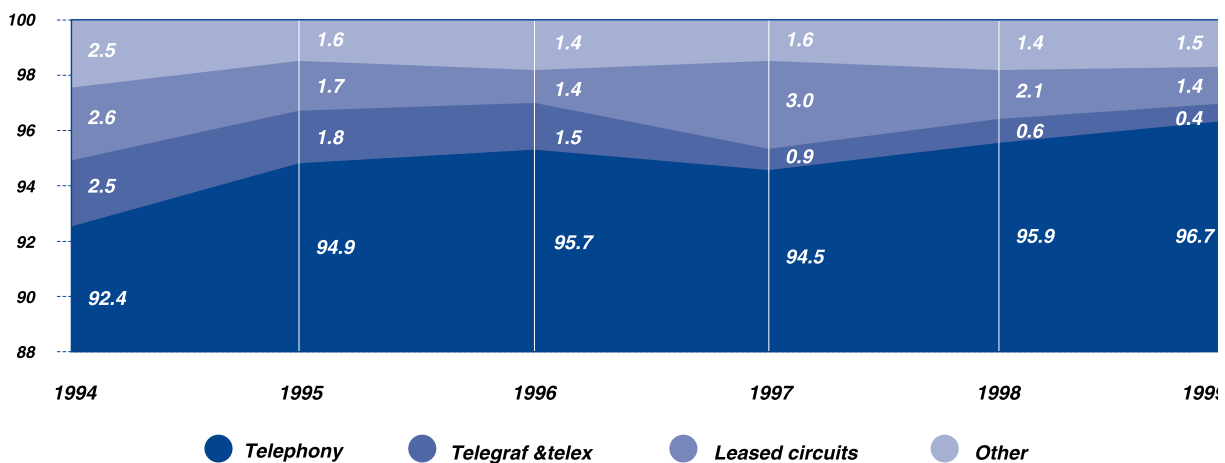
	1998	1999	Change (per cent) 1999/1998	Distribution (per cent)	
	ROL billion	ROL billion		1998	1999
National calls	4,682	6,450	37.8	41.8	44.4
International calls	1,221	1,165	-4.6	10.9	8.0
Overseas operators	1,489	2,151	44.5	13.3	14.8
Interconnect	436	547	25.5	3.9	3.8
Rentals	1,863	2,647	42.1	16.6	18.2
Connection fees	211	204	-3.3	1.9	1.4
Value added services	236	235	-0.4	2.1	1.6
Other telephony	616	653	6.0	5.5	4.5
<b>Total telephony</b>	<b>10,754</b>	<b>14,052</b>	<b>30.7</b>	<b>95.9</b>	<b>96.7</b>
Telegraph and telex	63	54	-14.3	0.6	0.4
Leased circuits	238	208	-12.6	2.1	1.4
Other	158	222	40.5	1.4	1.5
<b>Total revenues</b>	<b>11,213</b>	<b>14,536</b>	<b>29.6</b>	<b>100</b>	<b>100</b>

\* All comparative financial information (according to IAS) is presented in terms of the measuring unit current as of December 31st 1999.

### 1. Telephony

remains the largest and most profitable service RomTelecom provides: in 1999, 96.7 per cent of total revenues (according to IAS) were generated by basic telephony services. This is the result of efforts made to develop the telephony infrastructure at a

#### Revenues structure (%)

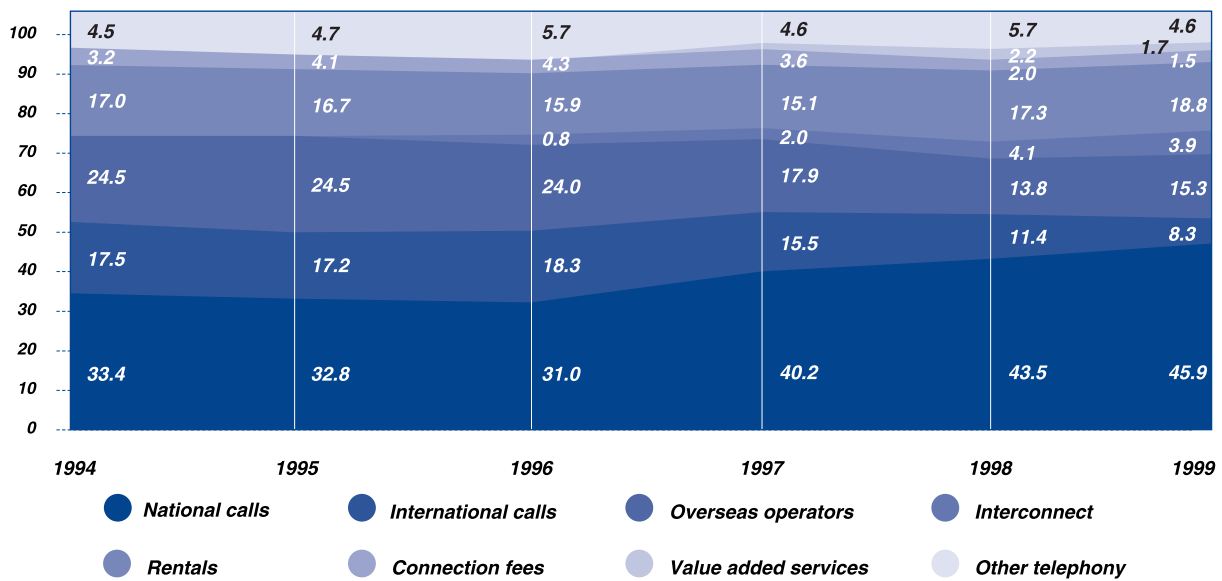




steady rate and to increase the number of customers, which made RomTelecom too dependent on telephony. On the other hand, the decrease in telex activity to 0.4 per cent of total revenues is a natural result of telecommunications technology evolution and requires business reconsideration.

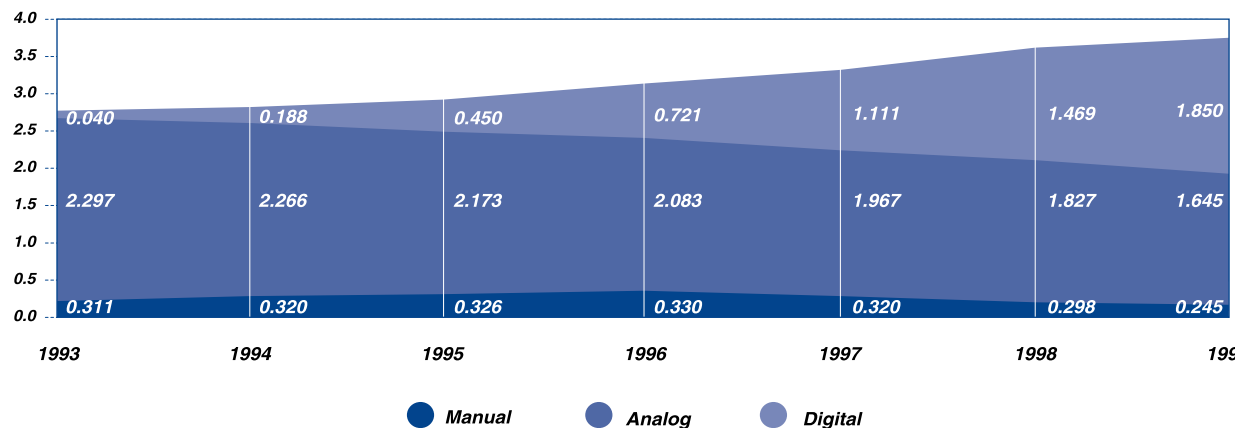
Due to tariff re-balancing started in 1997, the contribution of national calls in telephony revenues has increased continuously to 45.9 per cent (according to IAS) by the end of 1999, while the contribution of other services (i.e. international activity) has decreased.

### Structure of telephony revenues (%)



During the year 0.146 million new main telephone lines (access line for residential or business subscribers, public phones) were added, increasing the total number to 3.74 million by the end of 1999. The growth in subscribers in 1999, 4.1 per cent, is lower than the growth in telephony revenues, reflecting the increase in revenue per line, due to the new tariff policy.

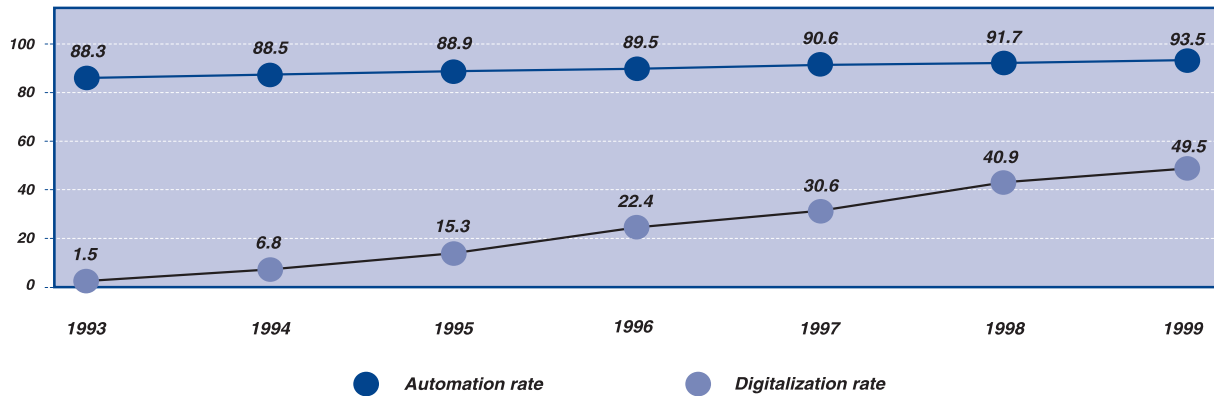
### Main telephone lines in use (million)





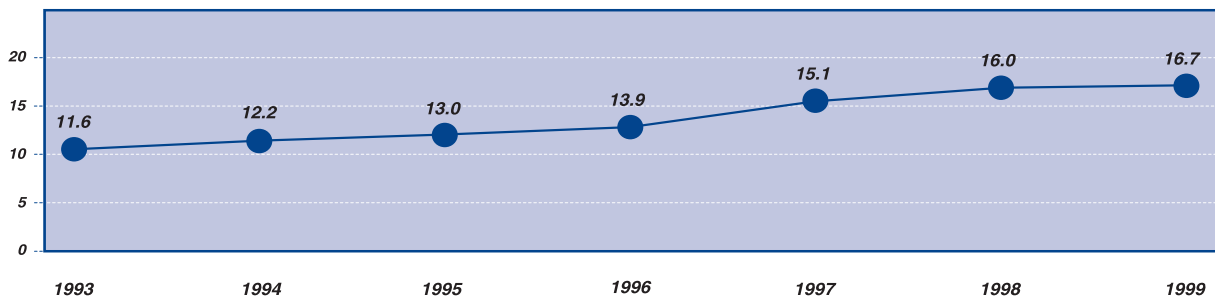
While the number of subscribers connected in analog exchanges decreased significantly fast, 0.182 million, the number of 'digital' subscribers increased more significantly, 0.381 million in 1999, resulting in a jump in digitalization, 49.5 per cent by the end of 1999, from 40.9 per cent a year before.

### Automation and digitalization rate (%)



Penetration rate measured in main telephone lines (access lines for residential and business subscribers and public phones) in service per 100 inhabitants, increased from 16 per cent in 1998 to 16.7 per cent by the end of 1999.

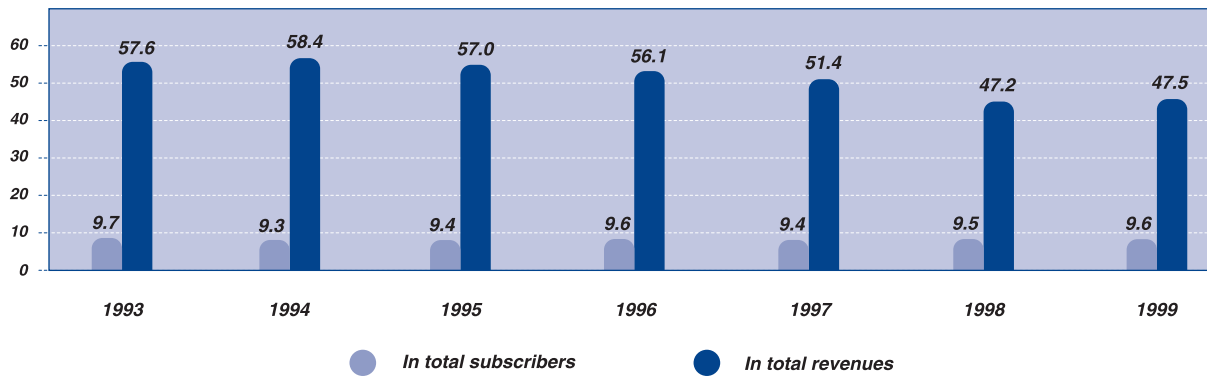
### Penetration rate (%)



By the end of 1999 there were approximately 0.359 million business subscribers, 3.347 million residential subscribers and 34,831 public phones. Although business subscribers account for 9.6 per cent of RomTelecom's customer base, they have generated 47.5 per cent of revenues in 1999.

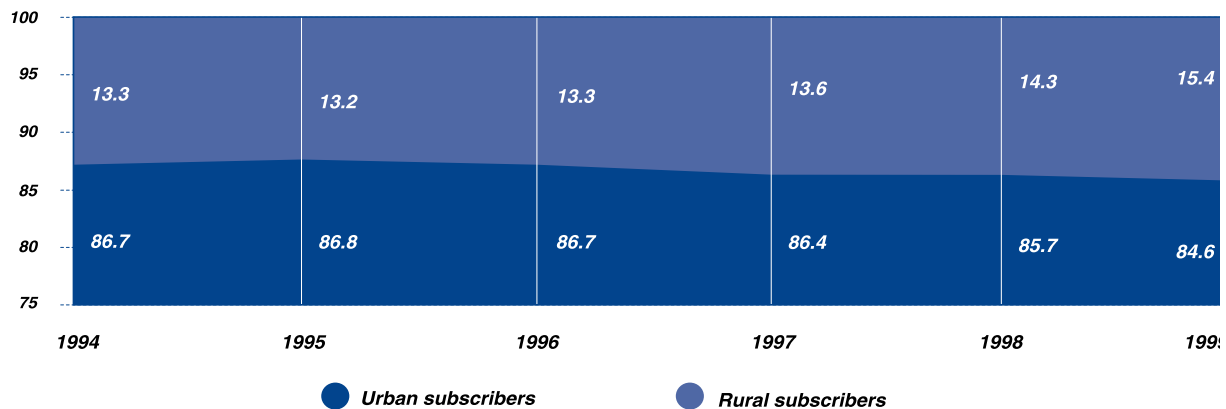


### Business subscribers weight (%)



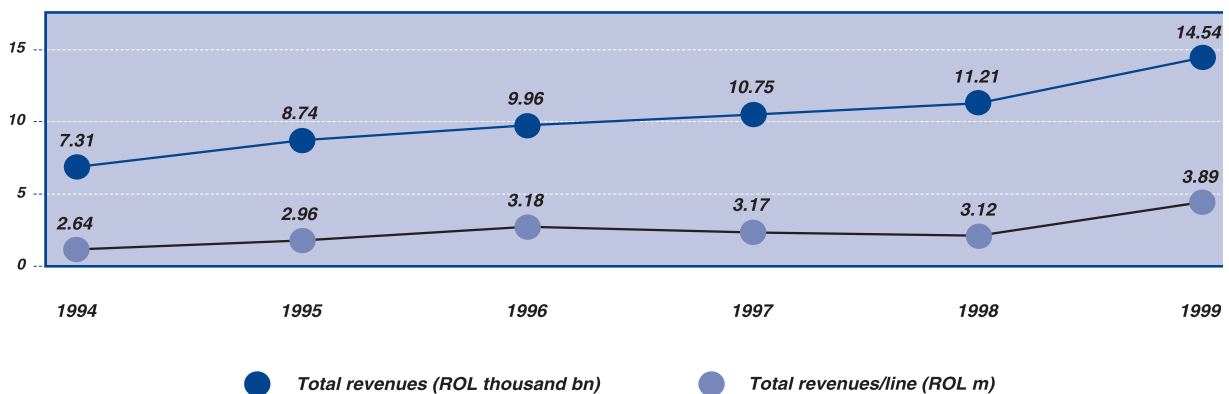
Most of RomTelecom subscribers, 84.6 per cent, live in urban areas – 3.136 million subscribers of the total 3.706 million residential and business subscribers (public phones not included).

### Urban and rural subscribers (%)



Revenue per main telephone line (according to IAS) experienced a 24.6 per cent jump in 1999 to ROL3.89 million compared with 1998, due to tariff policy.

### Revenues (ROL)



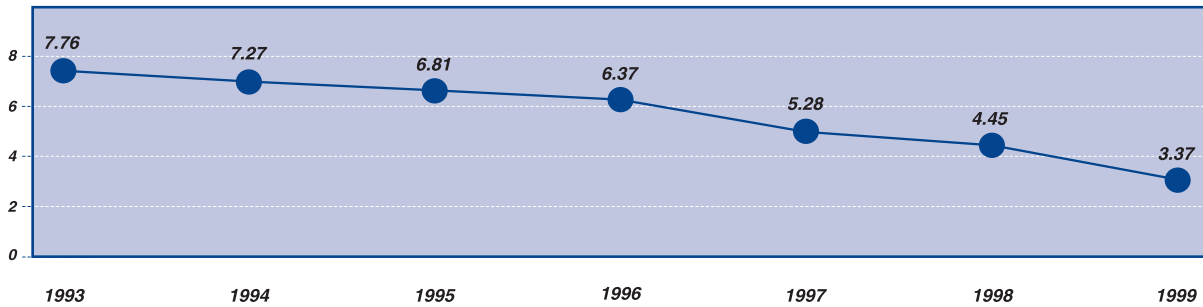
\* Revenues are presented in terms of the measuring unit current as of December 31st 1999 (according to IAS).



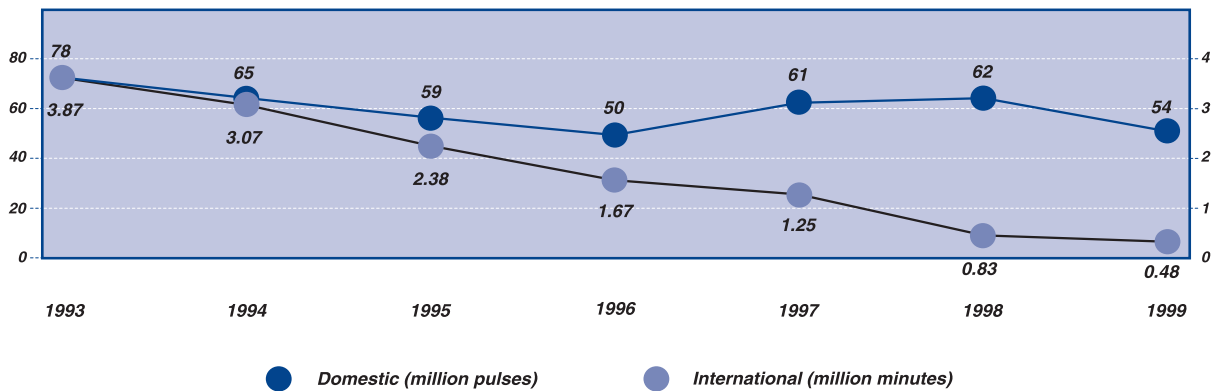
## 2. Telegraph and telex services

Telegraph and telex services, as well as their weight in the company's total revenues, decrease continuously at a higher rate, so by the end of last year they accounted for 0.4 per cent of RomTelecom revenues.

### Telex lines (000's)



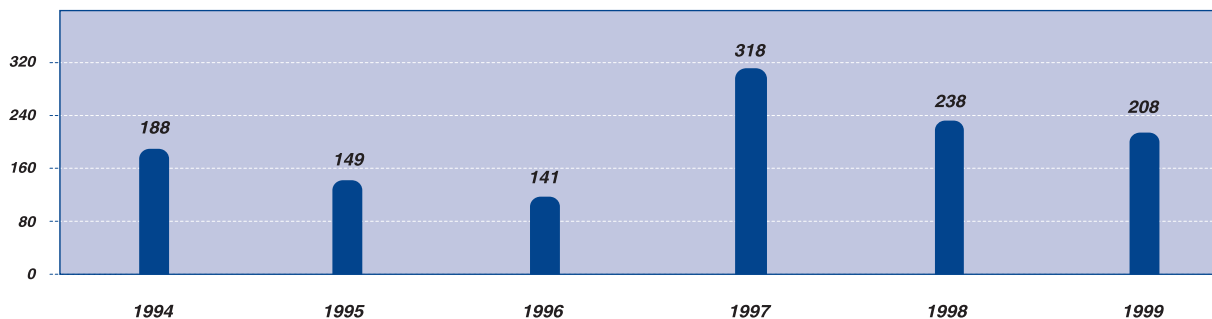
### Long distance telex traffic



## 3. Leased circuits

Last year revenues from leased lines continued to decrease, 12.6 per cent, to ROL 208bn (according to IAS).

### Leased circuits revenues (ROL bn)



\* Leased circuits revenues (according to IAS) are presented in terms of the measuring unit current as of December 31st 1999.





## B. Expenses

In 1999 expenses increased by 29.6 per cent (according to IAS) to ROL 13,064bn, in line with revenue growth, so the operating cost weight in company revenues remains constant - 89.9 per cent.

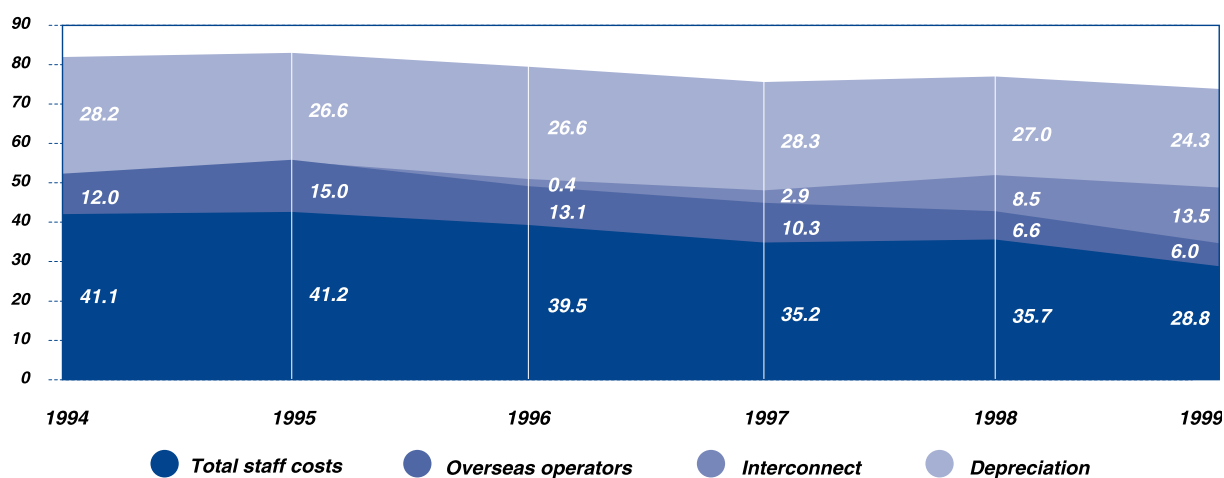
### Operating costs\*

	1998	1999	Growth (per cent) 1999/1998	Distribution (per cent)	
	ROL billion	ROL billion		1998	1999
Wages and salaries	2,695	2,683	-0.4	26.7	20.5
Social security contribution	903	1,085	20.2	9.0	8.3
<b>Total staff costs</b>	<b>3,598</b>	<b>3,768</b>	<b>4.7</b>	<b>35.7</b>	<b>28.8</b>
Overseas operators	666	785	17.9	6.6	6.0
Interconnect	860	1,764	105.1	8.5	13.5
<b>Depreciation</b>	<b>2,719</b>	<b>3,176</b>	<b>16.8</b>	<b>27.0</b>	<b>24.3</b>
Utilities	120	106	-11.7	1.2	0.8
Maintenance	463	585	26.3	4.6	4.5
Spare parts	163	146	-10.4	1.6	1.1
Consumables	517	590	14.1	5.1	4.5
Other	1,077	2,251	109.0	10.7	17.2
<b>Total</b>	<b>10,183</b>	<b>13,171</b>	<b>29.3</b>	<b>101.0</b>	<b>100.8</b>
Less own work capitalized	-101	-107	5.9	-1.0	-0.8
<b>Total operating costs</b>	<b>10,082</b>	<b>13,064</b>	<b>29.6</b>	<b>100</b>	<b>100</b>

\* All comparative financial information (according to IAS) is presented in terms of the measuring unit current as of December 31st 1999.

Staff costs experienced a slow increase, 4.7 per cent (according to IAS), mainly due to the increase in social security contribution. This was offset by a 7.3 per cent decrease in the company's employees to 44,919.

### Weights in expenses (%)





According to IAS, overseas costs increased to ROL785bn, but their weight in expenses decreased to 6 per cent, while the weight of revenues from overseas operators, ROL2,151bn, in total revenues, increased to 14.8 per cent. Interconnection costs, payments to other domestic network operators, have continued to experience the most spectacular increase, over 105 per cent, to ROL 1,764bn, due to the increase in corresponding traffic. RomTelecom should diversify its service portfolio in order to increase the traffic, *i.e.* revenues, originating from mobile operators.

### C. Net profit

Despite the same operating profit margin in the last two years, 10.1 per cent according to International Accounting Standards (IAS), RomTelecom experienced in 1999 an increase in its net profit before tax which become positive, while net profit decreased mainly due to releases of deferred tax (from Government revaluation, or change in tax rate).

	<b>International Accounting Standard</b>				<b>Romanian Accounting Standards</b>			
	1998 ROL bn	1998 (%)	1999 ROL bn	1999 (%)	1998 ROL bn	1998 (%)	1999 ROL bn	1999 (%)
<b>Revenues</b>	11,213	100	14,536	100	6,572	100	12,707	100
<b>Operating costs</b>	10,082	89.9	13,064	89.9	5,153	78.4	9,509	74.8
<b>Operating profit</b>	1,131	10.1	1,472	10.1	1,419	21.6	3,198	25.2
<b>Financial items</b>	-1,981	-17.7	-1,303	-9.0	-1,752	-26.7	-1,818	-14.3
<b>Exceptional profit</b>					47	0.7	113	0.9
<b>Net profit before tax</b>	<b>-850</b>	<b>-7.6</b>	<b>169</b>	<b>1.2</b>	<b>-286</b>	<b>-4.4</b>	<b>1,493</b>	<b>11.7</b>

According to the Romanian Accounting Standards - RAS (RomTelecom is a taxpayer according to this accounting standards), RomTelecom's financial results are much more attractive. In 1999, the operating profit margin increased to 25.2 per cent from 21.6 per cent a year before, while the net profit jumped to ROL1,450bn from a ROL286bn loss in 1998! This is the result of the strong increase in revenues, as well as keeping other items under reasonable limits.

### Net profit before tax (ROL bn)

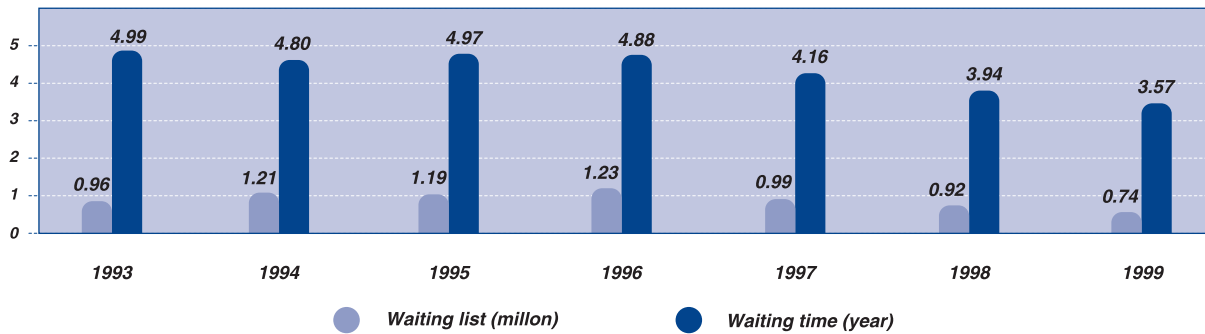




## D. Service quality

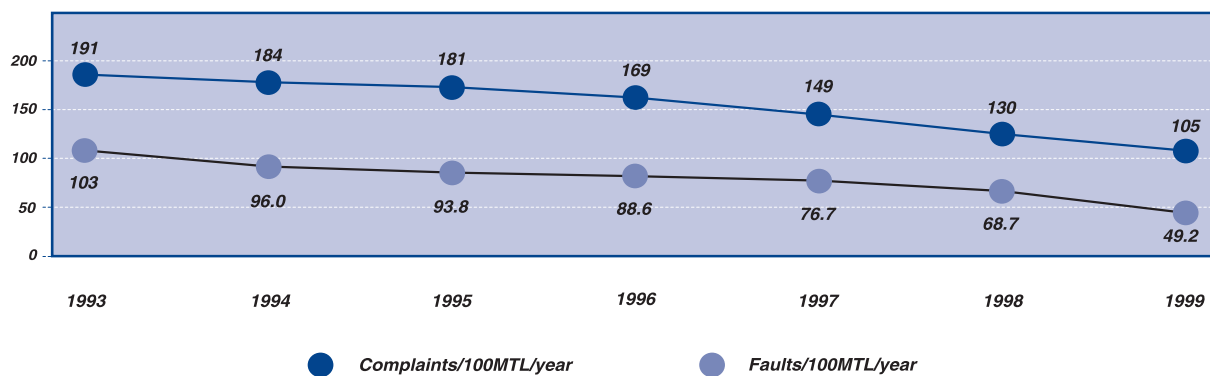
RomTelecom has achieved a steady improvement in service quality. The waiting list and the average waiting time for a telephone line have slowly decreased in the last few years due to problems the access network faces.

### Waiting list



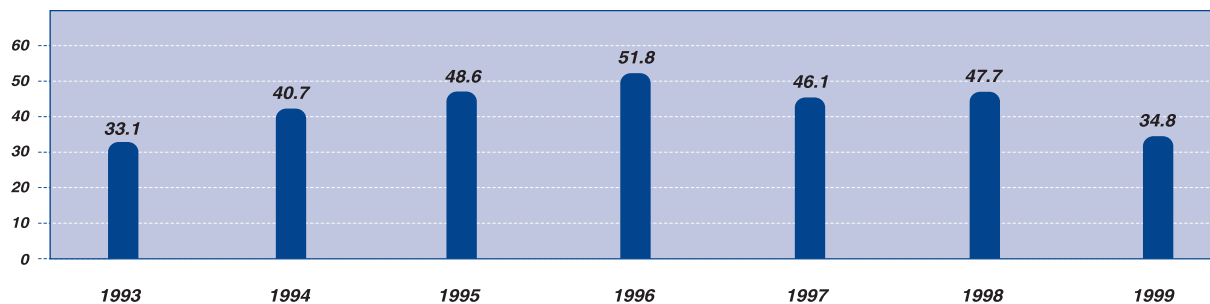
The number of complaints and faults has declined steadily in recent years, mainly due to the quality of new installed equipment.

### Complaints and faults



Fault clearing time, although experiencing a descending trend, remains high, mainly due to problems caused by a still obsolete local network - paper insulated cables, analogue exchanges, etc.

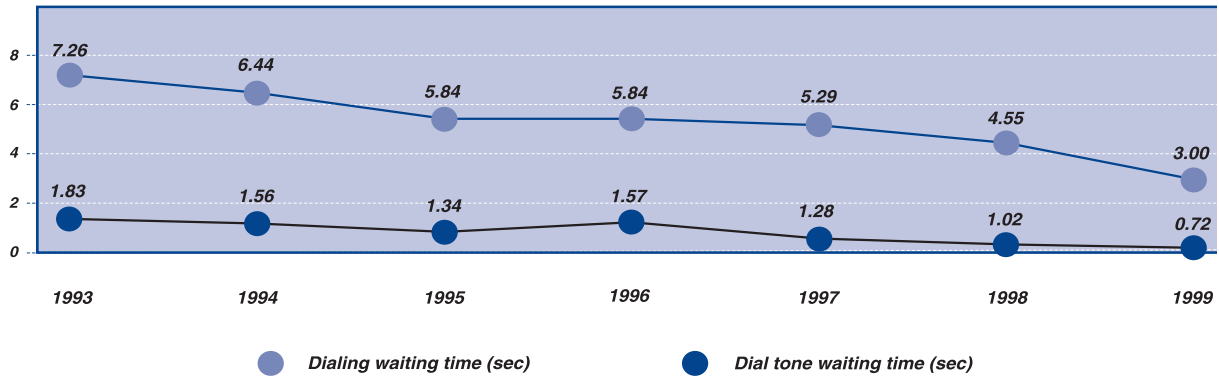
### Fault clearing time (h)





Waiting time for a dial tone or for dialing decreased continuously mainly due to the increase in the number of installed digital exchanges.

### Waiting time (second)



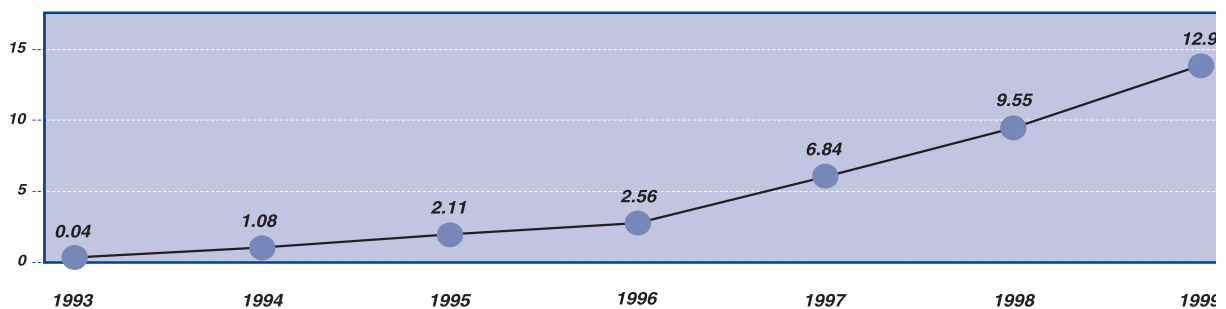
In order to improve the quality of provided services RomTelecom is also involved in fraud detection, e.g. illegal connections, cable and equipment theft, protection of communications against hackers, illegal interception, etc.

## E. Telecommunications infrastructure

### Optical cable backbone network

RomTelecom operates a nation-wide network based on an optical fibre backbone connecting zone centres among themselves as well as zone centres to county capitals. Also, the optical cable backbone connects Romania to the international telecommunications gateways. During 1999 RomTelecom's optical cable network increased in length by 3,300 Km to 12,854Km.

### Optical cable (thousand km)

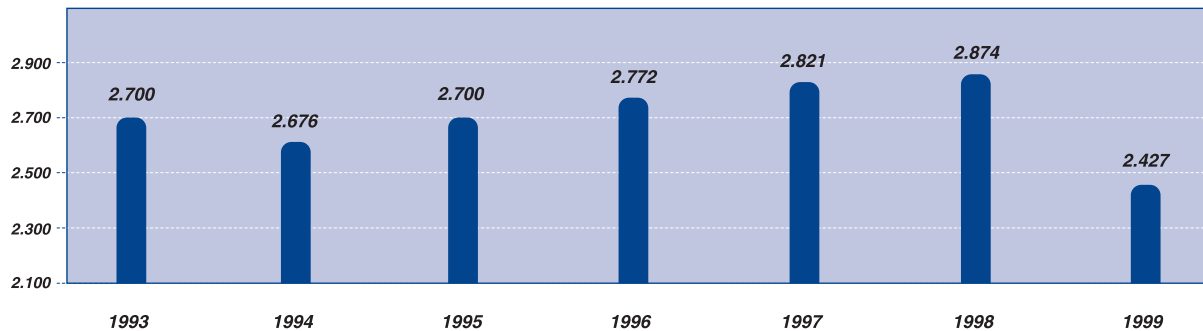




### Telephone switching system

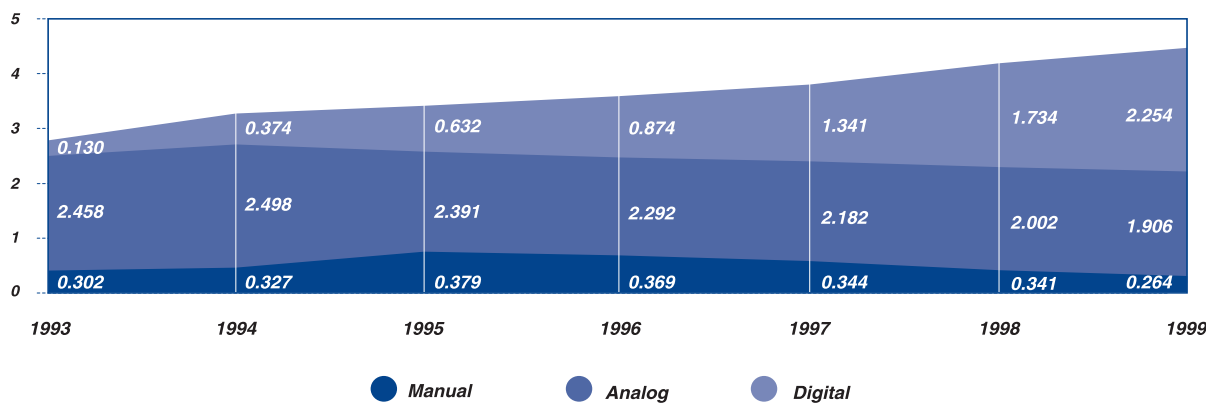
RomTelecom has built and operates a national switching system connecting backbone and access networks. By the end of 1999 there were 2,427 telephone switching units (CPU, RSS, etc.), out of which 1,728 were manual. The evolution in switching was more qualitative than quantitative; the variation in number of exchanges being less important than the increase in quality due to the new equipment – digital exchanges.

#### Telephone switching units



During the last year 0.347 million new lines were added, increasing the total switching capacity to 4.424 million lines, out of which 2.254 million were digital and 1.906 million analogue lines, resulting in a switching capacity that has 51 per cent digitalization. The increase in switching capacity is the result of 0.52 million new digital lines added and replacement of 0.173 million old lines, and means a jump of 8.5 per cent in digital lines.

#### Switching capacity (million lines)



### Public payphones

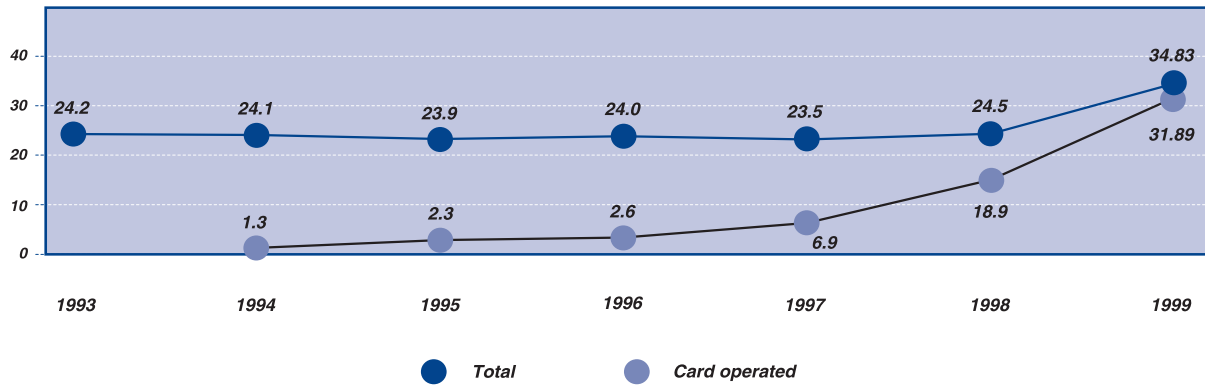
By the end of 1999 the total number of payphones in operation jumped to 34,831, from 24,478 one year before. The major increase, 12,958 units, were card-operated payphones, which grew to 31,894 units, representing 91.6 per cent of total public phones.



Public phones include:

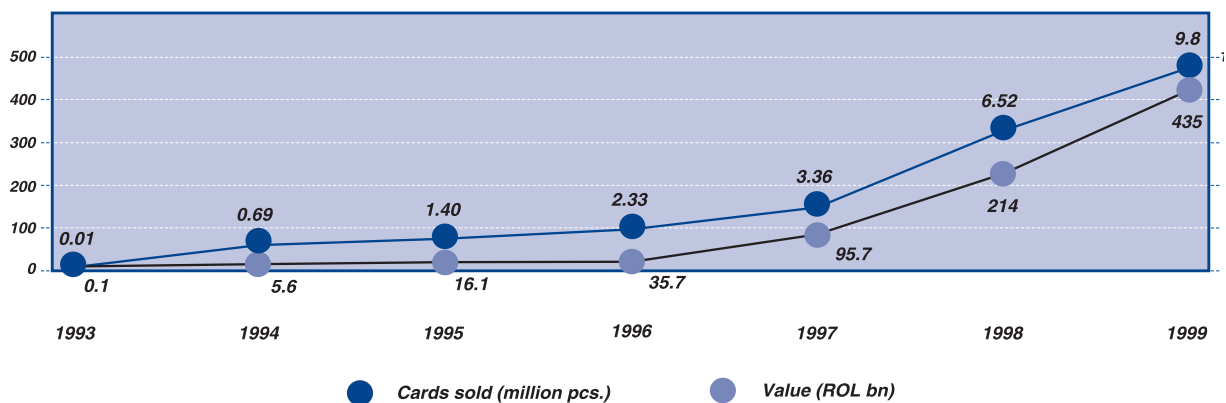
- multi-coin operated payphones: 539;
- mixed (coin and card) payphones: 1,293
- card-operated payphones: 31,894.

### Payphones (000's)



The continuous increase in the number of payphones caused a tremendous increase in the sale of payphone cards.

### Card sales



### Access network

The access network remains the main problem RomTelecom faces for the time being, mainly because of an obsolete outside plant - paper insulated cables with lower reliability and service beyond useful life. In order to deal with this problem, RomTelecom has started using new technologies for the local access network - digital subscriber systems and Wireless Local Loop. Also, RomTelecom started preparation for providing ISDN services in 2000.



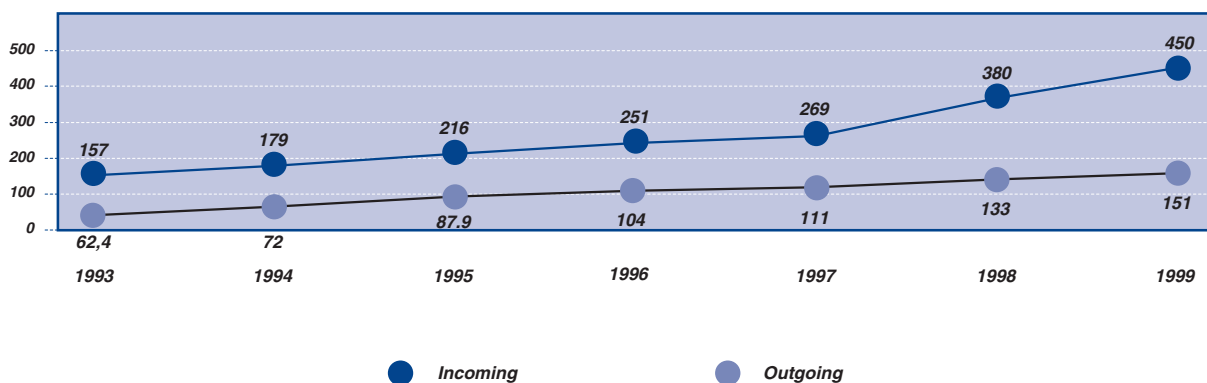
## International activity

The telecommunications services RomTelecom provides can reach more than 210 countries. A number of steps have been taken in order to increase the service quality:

- The number of international circuits increased by more than 14 per cent in 1999, to 5,100, out of which 95 per cent are digital.
- Telecommunications services are 90 per cent covered via direct connections.
- RomTelecom entered as carrier for Internet Service Providers.
- The international Signalling System no. 7 started to be implemented with important carriers from Europe and America.
- The first digital border-crossing link with Yugoslavia was established.
- A STM-1 ring Bacău - Chişinău was built allowing full protection and high quality of the telecommunication services between Romania and the Republic of Moldova.

That is why the international telephone traffic has increased continuously. In 1999, the volume of incoming traffic, in million minutes, increased by 18.4 per cent, while outgoing traffic increased by 13.5 per cent.

### International telephony traffic (million minutes)



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

### International co-operation

RomTelecom is an active partner in several international telecommunications network, associations, organizations 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 - biannual meeting for planning, development and establishment of C7 signalling network.
- The European Telecommunications Network Operators' Association/ETNO. RomTelecom has been active in different working groups: the Working Group on Restructuring the Association, the Working Group for Telecom Fraud Prevention, the Working Group for the Environment, the Working Group of Central and Eastern European Operators, *etc.*
- The Advanced Communications Technology and Services (ACTS) DOLPHIN Project. ACTS was established under the Fourth Framework Program of the European Commission in the field of research and technological development in communications.
- The International Network Management System (INMS) was established in 1992 to monitor international telecommunications networks in Central Europe.
- The European Network Planning Meeting (ENPM) 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.

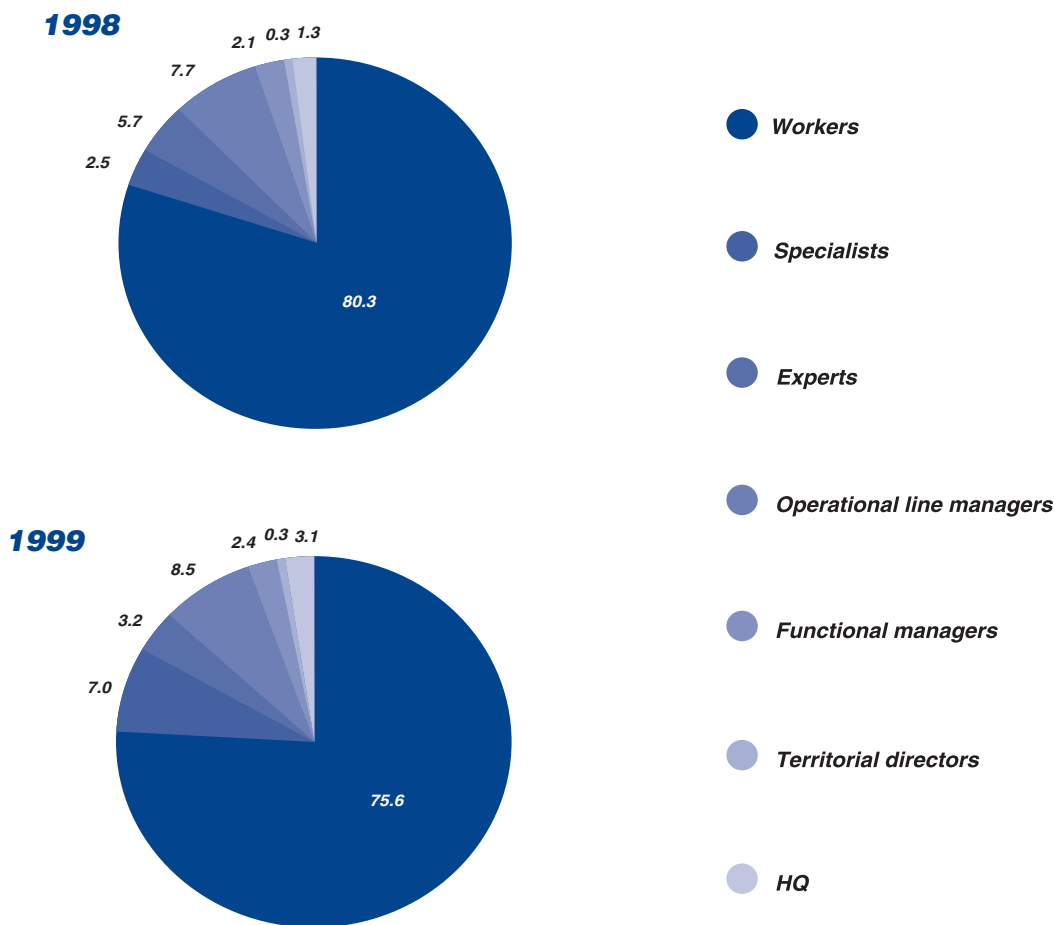




## Personnel

At the end of 1999 RomTelecom had 44,919 employees, representing a personnel reduction of 3,522 (7.3 per cent) from the previous year. This is reflective of the increased effectiveness of operations and the modernization of the network. Below is a breakdown, in percent, of the last two year Workforce, reflecting the restructuring process RomTelecom started last year. The decrease in workers weight in total personnel, from 80.3 per cent to 75.6 per cent, is representative for this process.

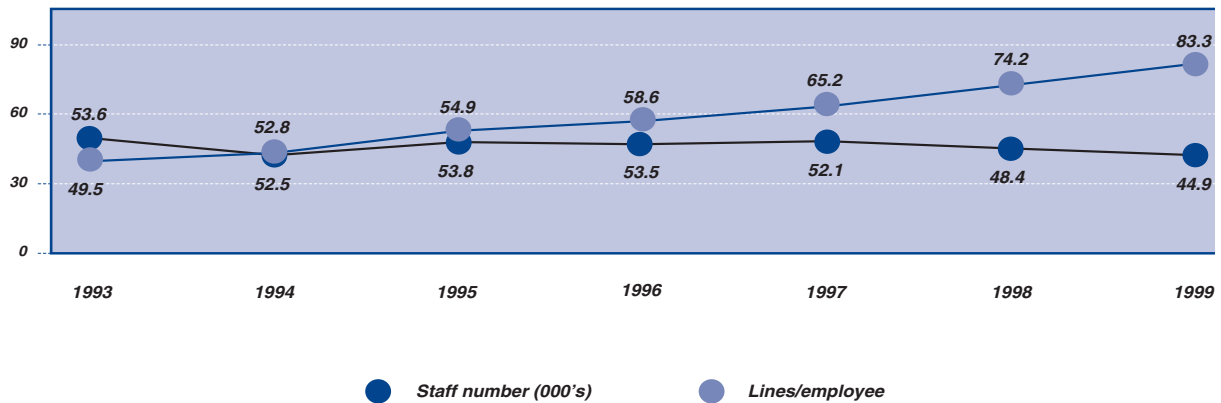
**RomTelecom personnel structure (%)**



The number of RomTelecom's personnel has been decreased systematically over the last few years, as a result of normal retirement, the implementation of early retirement incentives and new technologies. Below are two charts that illustrate RomTelecom's increase in productivity.

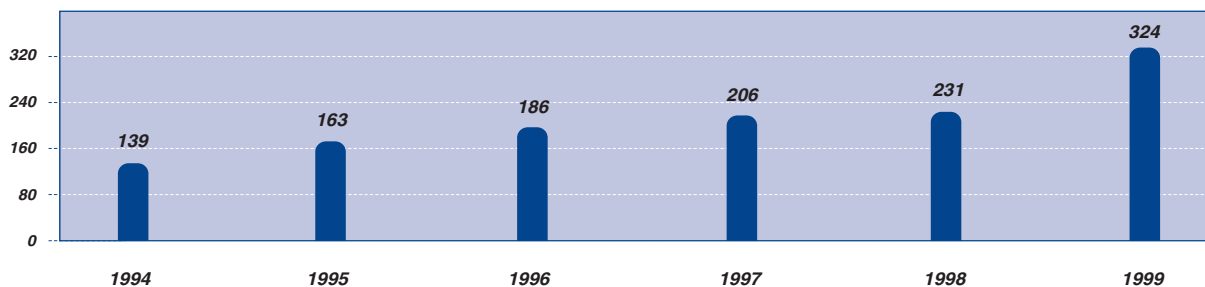


### Staff and productivity



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

### Revenues/employee (ROL million)



of 31 December 1999.

Although these charts depict a significant increase in productivity, RomTelecom still has a long way to go. The target for RomTelecom is to have 150 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 13,000 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, as this is our only true strategic advantage: Our People.

RomTelecom's business development is very closely related to the investment made in its Human Resources. 12 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 already well-educated and well-trained workforce.



RomTelecom makes, and will continue to make, significant investments in the training of its employees. In 1999 a total of 5,884 employees attended training courses in 257 classes. Of the total number of participants, 36.6 per cent attended courses to learn skills associated with new technologies. Mainly these training programs were held in RomTelecom's training centers in Bucharest, Vața and Slănic-Moldova as well as in territorial directorates.

The Training Department's year 2000 strategy is to deploy training directly related to RomTelecom's plans for profitable growth. This training will include the areas of new technologies, management development, customer service, marketing, cultural change and job retraining.

RomTelecom management considers the employees to be the most valuable asset of the company, as it is through them our success is assured. Accordingly, in addition to our continued significant investments in training and our commitment to treat employees fairly through the restructuring process, RomTelecom is committed to providing our employees a safe and secure work environment.

RomTelecom  
**cosmorom**

GSM 1800 operator

**Cable Vision of Romania**

**Golden Pages**





***RomTelecom Group***

## RomTelecom Group

RomTelecom is majority shareholder in two telecommunications companies.

### Cosmorom

Cosmorom was established in January 1999 as a mobile telephony, GSM-1,800, operator, 99.99 per cent owned by RomTelecom, to be launched commercially in May 2000. Cosmorom will benefit 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. A company profile is attached.

### Cable Vision of Romania

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

Cable Vision of Romania is the first Romanian cable TV operator to use optical cable for transmission and is the only operator which uses underground cables. The company plans to become active in the data transmission market.

By the end of 1999, CableVision operated networks in five cities: Bucharest, Giurgiu, Sf. Gheorghe, Slobozia, and Targoviste, and had ROL 21.5bn turnover, ROL 3.23bn net profit, and some 35,000 subscribers.

RomTelecom owns minority stakes in telecommunications-related companies:

- Telecommunications operators:

- **Global One Communications Romania SA** - development and operation of data services, ISP, network services, *etc.* Global One was established in February 1993 and has ROL 2.7bn share capital. The most important shareholders are Global One - Roe Holdco B.V. - 50.00 per cent and RomTelecom, 48.98 per cent. By the end of 1999, Global One Communications had ROL110.6bn turnover and ROL34.8 net profit. RomTelecom intends to leave this joint venture in order to establish its own affiliate to provide Internet services.

- **Telemobil** - development and operation of an NMT450 cellular phone network in Romania. Telemobil was established in February 1992, and after increasing its shares to 79.99 per cent, RomTelecom sold most of its stake to RDT Holding SA in August 1998. Now RomTelecom owns 3.01 per cent of the share capital - ROL92.7bn. A new service, SunTel based on Low Emission Mobile System (LEMS) technology operating also in the 450 MHz band, was launched on May 25th, 1999, based on a US\$78m investment since August 1998 to 2000. Results at December 31st, 1999: turnover - ROL 112.4bn, loss - ROL 157.9bn.

- Equipment manufacturers:

- **Alcatel Network Systems Romania SA**: A joint venture established in September 1991 with Alcatel to manufacture digital telephone exchanges E10B. RomTelecom owns 5.96 per cent of the share capital - ROL8.63bn. Results at December 31, 1999: ROL 664.3bn turnover and ROL 32.3bn net profit.

- **Emcom SRL**: A joint venture established in December 1990 with Siemens AG, focusing on EWSD digital telephone exchange manufacturing. RomTelecom owns 5.43 per cent of the existing share capital - ROL 9.09bn. Results at December 31st, 1999: ROL 671.1bn turnover and ROL 143.5bn net profit.



RomTelecom also has interests in companies acting in other industries:

- **Pagini Aurii S.A.** A joint stock company established in June 1997 with a share capital of ROL7.2bn, in which RomTelecom' share is 40 per cent. Majority shareholder is Directory System Europe B.V., a subsidiary of Aurec Group of Israel, owning 50.98 per cent of shares. Its main purpose is to sell advertising space in Pagine Aurie (Golden Pages) directories on paper or other media and to print telephone directories for RomTelecom's subscribers. In this partnership RomTelecom bought the exclusive right of use of the subscribers list for 15 years and will receive, among other items, free of charge telephone directories for 40 to 70 per cent of its subscribers. Early in 2000 the second edition of "Pagine Aurie" was launched - 380,000 copies. In two years every RomTelecom subscriber will receive a copy. Results at December 31st, 1999: ROL 97.1bn turnover and ROL 100.8bn loss.

- **Garanta SA** - a joint stock company established in June 1997 and providing life and general insurance and reinsurance services. RomTelecom owns a 7 per cent stake of the share capital of ROL13.9bn. Results at December 31st, 1999: ROL 50.0bn turnover and ROL2.59bn loss.

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



## Cosmorom

### Establishment

In December 1998, the Romanian Telecommunications Ministry released the first GSM-1800 license to Cosmorom, license conditions providing 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.

### Corporate governance

Cosmorom is run by the following bodies in accordance with its articles of incorporation and within the terms of the law: shareholders' meeting, board of directors, statutory auditors, CEO and executive directors. In 1999 Cosmorom was run by:

*Board of directors:* Chairman: Dumitru Anghelescu (RomTelecom); members: Florin Anghel (RomTelecom), Spyridon Spyropoulos (Oterom), Georgios Avlonitis (Oterom), Panagiotis Nikakis (Oterom)

*Executive managerial structure:* Chief Executive Officer – Spyridon Spyropoulos. The executive structure also provides four executive directorates: commercial, technical, financial and administrative.

*Statutory Auditors:* Mihai Elefterie, Sanda Michaela Cruceru and Camelia Horlact.

*Independent Auditor:* PriceWaterhouseCoopers

### Vision

Focus on customers' needs/requirements 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 industry.

### Organization

Cosmorom is building a market-oriented organization based on people, Romanians as well as Greeks, with experience in the telecommunications industry and mobile industry. In order to start the activity a project team from RomTelecom working under the direct co-ordination of the Cosmorom CEO was established on September 6th, 1999. 38 professional experienced Romanian and Greek people from RomTelecom staff were appointed until the end of 1999 to the project.

### 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, 99.99 per cent owned by RomTelecom.

### Financing

In 1999 Cosmorom had a US\$14.4m budget out of which US\$10.5m was dedicated to investments. To accelerate infrastructure roll-out and business development for 2000 and 2001, US\$500 million will have to be provided. For 2000 Cosmorom planned a US\$230 million budget, out of which US\$162 million are for investment. Development financing is planned to be done via share capital, suppliers' credit and loans.





## Telecommunications infrastructure

In order to develop telecommunications infrastructure, on July 30th, 1999 a Euro 37.5 million contract for the provision of network infrastructure equipment and related services was signed between Cosmorum and Ericsson of Sweden, Greece's Intracom and Intrarom of Romania. The target of the contract was the installation of a GSM-1800 network that would cover Bucharest, Braşov, Constanţa as well as connecting roads and towns in between – initial network. The switching capacity of the initial network is able to serve 50,000 subscribers and can be rapidly expanded to 150,000, while 120,000 voice mailboxes are available for customers. The initial network has three controllers (BSC), two remote and one collocated with the switching system, while the number of radio stations (BTS) was estimated at 173. According to the contract, the providers offer a large range of services from site acquisition, civil works to project management. Network rollout will be accelerated in the next period in order to achieve national coverage.

## Coverage

Cosmorum plans to have nation-wide coverage, instead of islands of coverage, as soon as possible. The initial network would cover the cities of Bucharest, Brasov and Constanta, as well as connecting roads and towns in between, that is 12.6 per cent of the Romanian population. The next step is to provide coverage in the larger and medium sized cities as well as the highways linking them. Cosmorum plans to cover 55 per cent of the population by year end 2000, as well as 92 per cent of the population and 89 per cent of Romania's surface in 2001.

## Distribution network

A national distribution network has to be built following the planned national coverage, a network based on regional centres at least for the most important business centres (Bucharest, *etc.*). This includes national dealer networks able to market the products and services throughout the country.

## Services provided

Cosmorum will provide, from launch day, basic mobile telephony services and other services like Voice Mail, Short Messages, *etc.*

## Subscribers

Cosmorum plans to have 45,000 subscribers by the end of 2000 and 200,000 in 2001.

## International activity

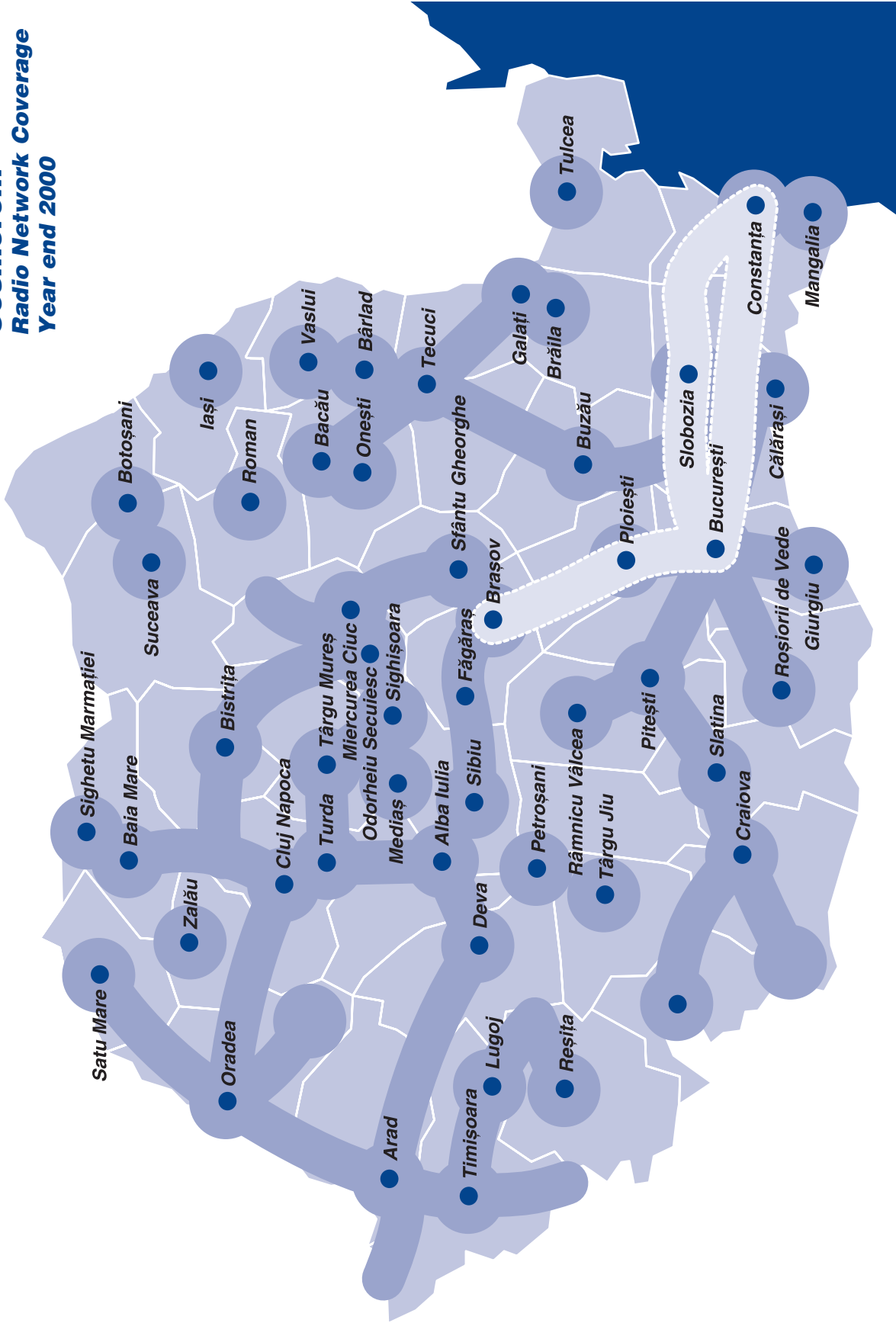
Cosmorum became a member of the GSM Association in October 1999. Cosmorum will conclude roaming contracts with foreign mobile operators.

## Financial results

Financial results at December 31st, 1999: turnover – 0, loss – ROL7.59bn.

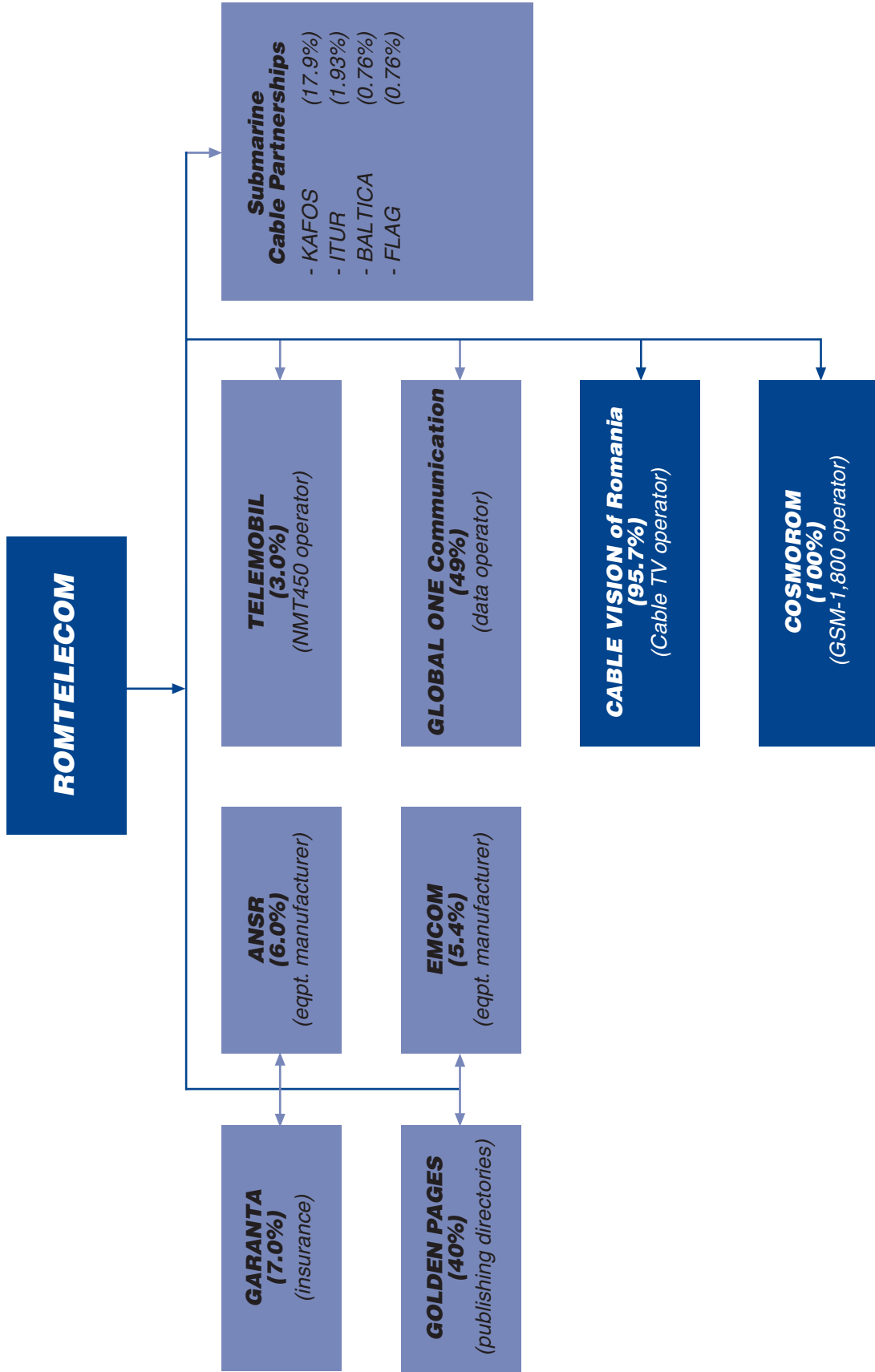


# Cosmorom Radio Network Coverage Year end 2000





## Structure of the RomTelecom Group as of December 31st, 1999





**zonal organization**

**chief executive officer**

**board of directors**

**executive directors**

**statutory auditors**



# ***Corporate Governance***

## Corporate Governance

As part of the privatization process, on November 1st, 1997, RomTelecom was created as a joint stock company called Societatea Națională de Telecomunicații RomTelecom S.A. RomTelecom was incorporated in Romania, its registered office is on Bulevardul Libertatii no. 14-16, Sector 5, 70542, Bucharest, Romania.

### Shareholders' structure

In 1998 the State Ownership Fund was established as the sole owner of the company. On December 30th 1998, as a final step of the privatization 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. The State Ownership Fund, as representative of the Romanian state, owns 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. On December 31st, 1999 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. 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. Early in June 1998, this prerogative was taken over by the State Ownership Fund. After the sale of a 35 per cent stake in RomTelecom, OTE took over the prerogative of shareholder according to its voting rights.

### 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 two years.

### Statutory Auditors

Statutory auditors 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, heading and guiding the activity of their departments.

Changes in corporate structure induced changes in corporate management, so in 1999 RomTelecom was run by:



## Board of Directors

- as of January 1st, 1999

Chairman Georgios Karaplis (Hellenic Telecom)

Members of the Board of Directors

Vlad Florian Țepelea (Romania)

Petrișor Peiu (Romania)

Dumitru Moinescu (Romania)

Georgios Arghyropoulos (Hellenic Telecom)

Sotiris Papamihail (Hellenic Telecom)

Pangiotis Kargados (Hellenic Telecom)

- as of April 5th, 1999

Chairman Vlad Florian Țepelea (Romania)

Members of the Board of Directors

Dumitru Moinescu (Romania)

Petrișor Peiu (Romania)

Georgios Karaplis (Hellenic Telecom)

Georgios Argyropoulos (Hellenic Telecom)

Vassilios Tsakoniatis (Hellenic Telecom)

Panagiotis Kargados (Hellenic Telecom)

- as of October 6th, 1999

Chairman Georgios Karaplis (Hellenic Telecom)

Members of the Board of Directors

Dumitru Moinescu (Romania)

Petrișor Peiu (Romania)

Dan Nica (Romania)

Georgios Arghyropoulos (Hellenic Telecom)

Vassilios Tsakoniatis (Hellenic Telecom)

Pangiotis Kargados (Hellenic Telecom)

- as of December 7th, 1999

Chairman Georgios Skarpelis (Hellenic Telecom)

Members of the Board of Directors

Dumitru Moinescu (Romania)

Petrișor Peiu (Romania), replaced by Vasile Rugină on 27 March 2000

Dan Nica (Romania)

Georgios Arghyropoulos (Hellenic Telecom)

Vassilios Tsakoniatis (Hellenic Telecom)

Pangiotis Kargados (Hellenic Telecom)

## Executive Board and Management Structure

- as of January 1st, 1999

Florin Serghei Anghel - Chief Executive Officer

Executive directors:

Dumitru Anghelescu - Operations

Silviu Agapi - Development

Cleopatra Marinescu - Chief Finance Officer

Radu Moldovan - Marketing

- as of February 17th, 1999

Vassilios Tsakoniatis - Chief Executive Officer (Hellenic Telecom)



## Executive directors:

Panagiotis Nikakis	- Executive Director Development (Hellenic Telecom)
Georgios Avlonitis	- Chief Operation Officer (Hellenic Telecom)
Georgios Iliopoulos	- Chief Finance Officer (Hellenic Telecom)
Mark Bush	- Executive Director Human Resources & Training (GTE)
Sotirios Tzoumas	- Executive Director International and Carrier Relations (Hellenic Telecom)
Florin Serghei Anghel	- Executive Director Regional Operations (RomTelecom)
Marcel Nicolaescu	- Executive Director Administration (RomTelecom)
Radu Moldovan	- Executive Director Public Affairs & Regulatory (RomTelecom)

- as of December 31st, 1999

Vassilios Tsakoniatis	- Chief Executive Officer (Hellenic Telecom)
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## Executive directors:

Theodore Thanopoulos	- Executive Director Development (Hellenic Telecom)
Georgios Avlonitis	- Chief Operation Officer (Hellenic Telecom)
Georgios Iliopoulos	- Chief Finance Officer (Hellenic Telecom)
Mark Bush	- Executive Director Human Resources & Training (GTE)
Georgios Theodorou	- Executive Director International, Regulatory and Carrier Relations (Hellenic Telecom)
Florin Serghei Anghel	- Executive Director Regional Operations (RomTelecom)
Marcel Nicolaescu	- Executive Director Administration (RomTelecom)
Radu Moldovan	- Executive Director Commercial (RomTelecom)

## Other executives

Fred Wohl	- Chief Commercial Officer (GTE)
Francisco Massiero	- Chief Information Technology Officer (GTE)
Constantine Dragastis	- Chief Public Communications ATM Officer (Hellenic Telecom)
Stavros Tsapikounis	- Chief Technical Officer (Hellenic Telecom)
Ana Mitrasche	- General Manager's Legal Advisor (RomTelecom)

## Statutory Auditors

Constantin Statica  
Ion Capdefier  
Camelia Horlact

Since May 26th, 1999, new auditors were appointed:

Mihai Elefterie  
Michaela Sanda Cruceanu  
Jean Pierre Vigroux

## Independent Auditor

PricewaterhouseCoopers

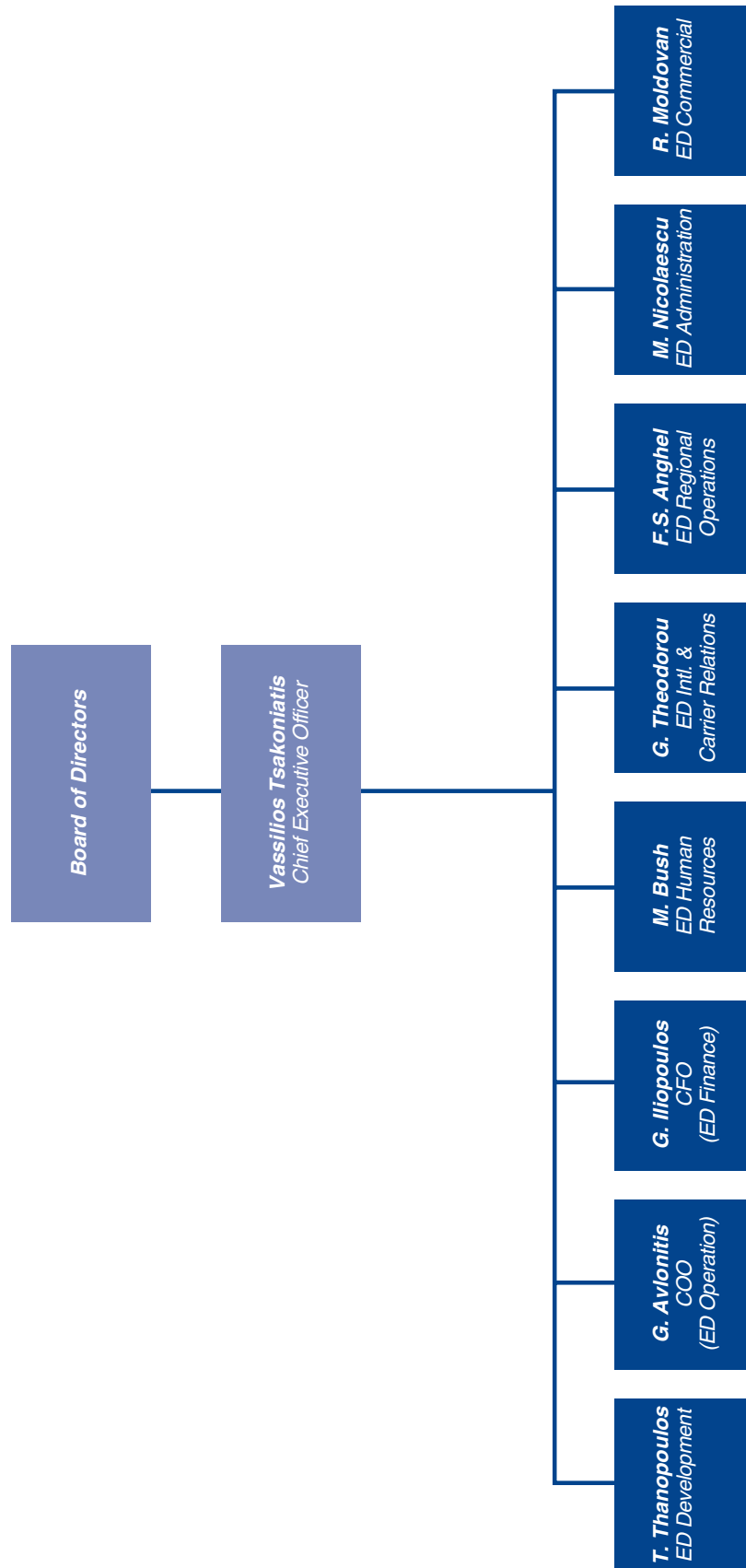
## Zonal organization

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, Neamţ, Olt, Prahova, Satu Mare, Sălaj, Sibiu, Suceava, Teleorman, Timiş, Tulcea, Vaslui, Vâlcea, Vrancea and the city of Bucharest.





## RomTelecom organizational chart



**balance sheet**

**cash flow statement**

**ebitda**

**income statement**

**operating cost**

**net profit**





**Consolidated *Financial Statements***  
**for the year ended December 31st 1999**



## **Financial Statements**

### **Consolidated Financial Statements prepared in accordance with Romanian Accounting Standards**

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## 1. General aspects

The National Telecommunications Company RomTelecom S.A. was established as a joint stock company on November 1st, 1997 when, according to Government Decree no. 673/1997 the business and substantially all of the assets and liabilities of the former RomTelecom R.A. (a state corporation) were transferred to it.

The Company was registered at the Register of Commerce no. J/40/8926/1997, fiscal code no. R427320.

N.T.C. RomTelecom S.A. is the only authorized operator with exclusive rights to provide local, long distance, international fixed telephony and for designing, developing, and maintaining the infrastructure required for this type of activity until 31st of December 2002, according to the license or to the licenses allowed.

Effective on December 30th, 1998, 35 per cent of RomTelecom S.A. share capital was acquired by the Hellenic Telecommunications Organization S.A. (OTE S.A.) through its wholly owned subsidiary OTEROM Ltd.

OTEROM Ltd. holds 51 per cent of the voting rights in the ordinary shareholders' meetings.

For the year ended 1999, N.T.C. RomTelecom S.A., was operating with 44.919 employees within the organizational framework approved by the Board of Directors, comprising:

- 40 regional telecommunications units
- The Telecommunication Directorate of Bucharest
- RomTelecom's headquarters



## 2. Balance sheet at December 31st, 1999

–ROL in thousands–

	Note	December 31st 1998	December 31st 1999
1. Intangible fixed assets		196,427,944	825,395,407
2. Tangible fixed assets		13,217,092,312	15,867,730,766
3. Financial investments		3,817,953,240	1,017,092,134
<b>I. Fixed assets - TOTAL</b>	<b>2</b>	<b><u>17,231,473,496</u></b>	<b><u>17,710,218,307</u></b>
4. Inventories		730,996,712	1,325,073,766
5. Current assets		2,391,696,707	7,557,192,778
- total receivables-current assets	6	2,147,298,662	4,562,933,442
- Cash		244,398,045	2,994,259,336
<b>II. Current assets - TOTAL</b>		<b><u>3,122,693,419</u></b>	<b><u>8,882,266,544</u></b>
<b>III. Suspense and Assimilated accounts</b>		<b><u>2,828,463,325</u></b>	<b><u>5,274,681,782</u></b>
<b>TOTAL Assets</b>		<b><u>23,182,630,240</u></b>	<b><u>31,867,166,633</u></b>
<b>I. Shareholders' equity</b>	<b>1</b>	<b><u>12,404,488,314</u></b>	<b><u>13,791,748,339</u></b>
1. Share Capital		2,406,395,997	2,406,395,997
2. Reserves		9,998,092,317	10,337,214,489
3. Others		-	1,048,137,853
<b>II. Provisions</b>	<b>3</b>	<b><u>2,695,306,176</u></b>	<b><u>5,173,694,377</u></b>
4. Loans and others trade payables		5,768,889,416	8,711,459,852
5. Others payables		1,893,772,187	3,486,125,690
<b>III. Liabilities- TOTAL</b>	<b>6</b>	<b><u>7,662,661,603</u></b>	<b><u>12,197,585,542</u></b>
<b>IV. Suspense and Assimilated accounts</b>		<b><u>420,174,147</u></b>	<b><u>704,138,375</u></b>
<b>TOTAL Shareholders' equity and liabilities</b>		<b><u>23,182,630,240</u></b>	<b><u>31,867,166,633</u></b>



### 3. Profit and Loss Account

The financial result of the year 1999 reflects the operational activity, and the influences from the financial and extraordinary transactions.

The Profit and Loss Account for the year 1999, is stated as follows:

–ROL in thousands–

<i>Description</i>	<i>Note</i>	<i>December 31st 1998</i>	<i>December 31st 1999</i>
<i>Operating revenues</i>		6,572,006,490	12,706,567,220
<i>Operating expenses</i>		5,153,452,251	9,508,785,073
<b><i>Operating Profit</i></b>	<b>5</b>	<b><u>1,418,554,239</u></b>	<b><u>3,197,782,147</u></b>
<i>Financial revenues</i>		473,302,273	2,402,569,497
<i>Financial expenses</i>		2,224,480,127	4,221,076,835
<b><i>Financial Loss</i></b>		<b><u>(1,751,177,854)</u></b>	<b><u>(1,818,507,338)</u></b>
<i>Exceptional income</i>		122,385,084	348,154,407
<i>Exceptional expenses</i>		75,403,127	234,826,055
<b><i>Exceptional Profit</i></b>		<b><u>46,981,957</u></b>	<b><u>113,328,352</u></b>
<b><i>Total Revenues</i></b>		<b><u>7,167,693,847</u></b>	<b><u>15,457,291,124</u></b>
<b><i>Total Expenses</i></b>		<b><u>7,453,335,505</u></b>	<b><u>13,964,687,963</u></b>
<b><i>Gross Profit</i></b>		<b><u>(285,641,658)</u></b>	<b><u>1,492,603,161</u></b>
<i>Income tax</i>			42,928,962
<b><i>NET PROFIT</i></b>	<b>4</b>	<b><u>(285,641,658)</u></b>	<b><u>1,449,674,199</u></b>



## 4. Notes to the financial statements

### Note 1

#### 4.1. Shareholders' equity

The status of the shareholders' equity for the year 1999 was:

–ROL in thousands–

	<i>Balance of accounts at December 31st 1998</i>	<i>Increase</i>	<i>Decrease</i>	<i>Balance of accounts at December 31st 1999</i>
<i>Authorised share capital</i>	<i>2,406,395,997</i>			<i>2,406,395,997</i>
<i>Revaluation differences</i>	<i>6,725,150,486</i>		<i>317,169,373</i>	<i>6,407,981,113</i>
<i>Reserves</i>	<i>3,287,659,064</i>	<i>641,574,312</i>		<i>3,929,233,376</i>
<i>Reserves fund</i>		<i>(74,630,158)</i>		<i>(74,630,158)</i>
<i>Loss carried forward</i>	<i>(183,729,931)</i>	<i>(285,641,658)</i>		<i>(469,371,589)</i>
<b><i>Profit/(loss)</i></b>	<b><i>(285,641,658)</i></b>	<b><i>1,735,315,857</i></b>		<b><i>1,449,674,199</i></b>
<b><i>Profit allocation</i></b>		<b><i>1,449,674,199</i></b>		<b><i>1,449,674,199</i></b>
<i>Dividends, profit sharing fund</i>				<i>452,836,225</i>
<i>Recovery of previous years losses</i>		<i>469,371,589</i>		
<i>Funds</i>	<i>387,552,669</i>	<i>573,112,812</i>		<i>960,665,481</i>
<i>Subsidies for capital expenditure</i>	<i>67,101,687</i>	<i>20,370,675</i>		<i>87,472,372</i>
<b><i>Total</i></b>	<b><i>12,404,488,314</i></b>	<b><i>1,704,429,397</i></b>	<b><i>317,169,373</i></b>	<b><i>13,791,748,339</i></b>

The structure of the share capital at December 31st, 1999 according to the Certificate no. 2930 on January 11th, 1999 is as follows:

	<i>Number of shares</i>	<i>Participation</i>
<i>State Ownership Fund (SOF)</i>	<i>15,640,638</i>	<i>65%</i>
<i>OTEROM Ltd.</i>	<i>8,421,884</i>	<i>35%</i>

\* The ordinary share has a nominal value of 100,000 ROL each.

The increase in shareholders' equity in 1999 was 1,387,260,024,000 ROL, due to the year's profit of 1,449,674,199,000 ROL and the Loss carried forward of 469,371,589,000 ROL.

The differences from revaluation was adjusted in an amount of 317,169,373,000 ROL as a result of:

- the Government Decision 95/1999 which modifies the Government Decision no.983/1998 concerning buildings, special construction and lands evaluation, and
- the Memo of the Ministry of Finance on July 14th, 1999 which concerns the revaluation of the fixed assets from subvention.





## Note 2

### 4.2. Investments for the year 1999

During 1999, the following amounts have been paid concerning RomTelecom's and Cosmorom's investments, according to the Memo presented to the State Ownership Fund:

<i>The amounts paid since the 1st of January 1999 until December 31st 1999 for RomTelecom and Cosmorom investments:</i>	<i>ROL million</i>	<i>US\$ million</i>
<b>INTANGIBLE ASSETS</b>		
<i>Concessions, licenses</i>	8,031	0.5
<i>Software digital-maps</i>	37,696	2.4
<i>Intangible assets in progress</i>	514,573	30.7
<b>TANGIBLE ASSETS</b>		
<i>Foreign payments from own sources - RomTelecom</i>	1,193,568	67.1
<i>In ROL payments from own sources - RomTelecom</i>	1,705,299	111.1
<i>Payments from Loans - RomTelecom</i>	821,262	56.4
<b>LOANS INTERESTS AND L/C</b>		
		*
<i>Loan Payments - capital interest - RomTelecom (clean actual interest) and L/C*</i>		29.5
<b>COUNTYS INVESTMENTS</b>		
<i>Investments for the counties of RomTelecom-Approved by Finance Directorate</i>	2,495,214	160.4
<b>SUPPLIERS' LOANS PAYMENTS</b>		
<i>Payments for RomTelecom suppliers' Loans</i>		41.8*
<b>SALARIES FOR INVESTMENTS</b>		
<i>Payments for investments salaries</i>	437,700	28.4
<b>COSMOROM's PAYMENTS</b>		
<i>Licenses (payments in 1999**)</i>	73,180	5.0
<i>Payments in advance for Investments</i>		16.5
<i>Other payment in favor of Cosmorom</i>	46,538	2.9
<b>TOTAL</b>		<b>552.7</b>

\* In the above mentioned figures is not included the amount of US\$58.3m for settlement of Loan's rates;

\*\* Do not include the amounts paid in Cosmorom's favor, during 1998 for licenses *etc.*

Total investments carried on by RomTelecom during the year 1999, amounts of \$552.7 million, namely 101.5% of the total obligations for investments in accordance with the Commitments.



## Intangible fixed assets

Intangible fixed assets are:

- start-up expenses
- research & development expenses
- concession
- license
- and other similarly valued assets (software)

in a total amount of 317,225,372,000 ROL. All are valued in the accounts at historical cost and their amortization is 16,653,651,000 ROL using straight-line method.

### –ROL in thousands–

<i>Licences</i>	<i>252,859,318</i>
<i>Software</i>	<i>36,769,318</i>
<i>Land and buildings concession</i>	<i>8,881,619</i>
<i>Other assimilated intangible assets</i>	<i>18,715,117</i>
<b>TOTAL</b>	<b><u>317,225,372</u></b>
<i>Intangible assets in progress</i>	<i><u>524,823,686</u></i>

Within the intangible assets – licenses, it was recorded the license for GSM 1800 cellular phone network paid to the Ministry of Defense in a value of 252,520,000,000 ROL (US\$25 million).

Intangible assets in progress have been recorded as follows:

- OTEROM's know-how, of 508,540,050,000 ROL (US\$ 30.3 million)
- and also service costing system –PWC, 4,299,700,000 ROL.

RomTelecom Board of Directors made the Decision no.7/03.12.1999 by which it approved the service life of the intangible assets.

## Tangible fixed assets

### –ROL in thousands–

<i>Fixed Assets</i>	<i>Land</i>	<i>Buildings</i>	<i>Technological equipment</i>	<i>Transportation means</i>	<i>Other fixed assets</i>
<b>Net value at 1st of January</b>	<b><u>55,297,317</u></b>	<b><u>12,205,448,335</u></b>	<b><u>2,677,791,611</u></b>	<b><u>78,663,866</u></b>	<b><u>202,352,233</u></b>
<i>Increase</i>	<i>34,065,751</i>	<i>9,555,668,138</i>	<i>1,850,097,020</i>	<i>147,266,840</i>	<i>144,334,971</i>
<i>Decrease</i>	<i>22,928,509</i>	<i>8,137,666,533</i>	<i>54,557,114</i>	<i>6,438,145</i>	<i>6,703,803</i>
<i>Provisions for fixed assets amortization</i>		<i>48,301,693</i>	<i>10,620,583</i>	<i>588,267</i>	<i>722,548</i>
<i>Amortization</i>		<i>3,907,155,240</i>	<i>1,470,341,690</i>	<i>68,586,306</i>	<i>135,465,506</i>
<b>Net value at 31st of December 1999</b>	<b><u>66,434,559</u></b>	<b><u>9,667,993,007</u></b>	<b><u>2,992,369,244</u></b>	<b><u>150,317,988</u></b>	<b><u>203,795,347</u></b>



## Financial assets

### –ROL in thousands–

<i>Assets Elements</i>	<i>Financial Fixed Assets</i>
<b>Balance at January 1st 1999</b>	<b>3,817,953,240</b>
Increase	78,830,833,093
Decrease	81,631,694,199
<b>Balance at 31st December 1999</b>	<b>1,017,092,134</b>

Financial fixed assets record a decrease in amount of 2,800,861,106,000 ROL as a result of:

- liquidation of cash deposits in December in amount of 1,270,373,340,000 ROL

- amounts payable to investments in subsidiaries and associated companies in amount of 601,550,000,000 ROL.

### –ROL in thousands–

EMCOM	493,650
ALCATEL	514,450
GARANTA S.A.	973,000
GLOBAL ONE	1,901,255
TELEMOBIL S.A.	2,791,575
PAGINI AURII	2,880,000
CABLE VISION OF ROMANIA	29,527,269
COSMOROM	866,600,000
<b>Total investments in associated companies</b>	<b>905,681,199</b>

## Note 3

### 4.3. Provisions for risks and charges and other provisions 1999

#### –ROL in thousands–

<i>Row no.</i>	<i>Denomination</i>	<i>Balance at January 1st</i>	<i>In the account Increases</i>	<i>From the account Decreases</i>	<i>Balance at December 31st</i>
1	Statutory provisions (ct.141)	-	-	-	-
2	Provisions for risks and charges	2,695,306,176	2,776,077,158	297,688,957	5,173,694,377
	Of which:				
2.1	Provisions for litigation (1511)	2,346,801	97,380,418	153,403	99,573,816
2.2	Provisions for guar. to customers	17,378,562	20,000	632	17,397,930
2.3	Provisions for foreign exch. losses	2,661,640,930	2,628,630,630	265,408,866	5,024,862,694
2.4	Other provisions for risks charges	13,939,883	50,046,110	32,126,056	31,859,937
3	Provisions for marketable securities	-	-	-	-
	<b>Total</b>	<b>2,695,306,176</b>	<b>2,776,077,158</b>	<b>297,688,957</b>	<b>5,173,694,377</b>



At the company level provisions for tangible fixed assets' decrease, inventories, bad debts and others provision for risk and charges were constituted.

The provision for foreign exchange differences afferent to the company's receivables and liabilities was at December 31st, 1999, an amount of 2,625,349,741,000 ROL.

#### Note 4

#### 4.4. Profit allocation at December 31st 1999

##### –ROL in thousands–

<i>Destination</i>	<i>Amount</i>
<b><i>Net profit to be allocated</i></b>	<b><i>1,449,674,199</i></b>
- <i>Legal reserves</i>	<i>74,630,158</i>
- <i>Recovery for previous years losses</i>	<i>469,371,589</i>
- <i>Profit sharing fund</i>	<i>90,567,245</i>
- <i>Own financing sources</i>	<i>452,836,226</i>
- <i>Dividends payable</i>	<i>362,268,981</i>
<i>Profit not allocated</i>	<i>0</i>

The company recorded for the financial year 1999 a net profit of 1,449,674,199,000 ROL which was allocated according to legal stipulations and to the Decision of the General Shareholders Meeting of N.T.C. RomTelecom S.A.

In 1999, the statutory rate of income tax was 38% and the tax which had to be paid for 1999, was 42,928,962,000 ROL.

The company paid for 1999 an amount of 855,336,917,000 ROL out of which:

##### –ROL in thousands–

- 163,117,730 compensated for previous year 1998;
- 340,770,198 paid for 1999;
- 351,448,989 paid on 2000, for 1999.

The amount of 812,407,955,000 ROL paid in excess of the income tax, is due to the fact that the provisions for differences for foreign currencies related to receivables and payables, are deductible expenses only at the end of the financial year, at the level of the net loss, according to Government Decision no.335/1995 and Order no.1670/1997.

*This amount shall be compensated with RomTelecom's obligation to the Public State, for the year 2000.*

**Note 5****4.5. The analysis of the operational result on December 31st 1999****–ROL in thousands–**

<b>REVENUES</b>	<b>1998</b>	<b>1999</b>
Revenues from domestic telephonic services	4,842,078,895	<b>9,055,328,363</b>
Revenues from domestic telegraphic services	32,692,071	<b>40,081,006</b>
Revenues from liberalized telephonic services	45,374,636	<b>133,935,748</b>
Revenues from liberalized telegraphic services	5,441,889	<b>10,995,943</b>
Value Added Services	137,112,038	<b>196,972,243</b>
Revenues from interconnection and MULTIMEDIA	258,330,435	<b>476,134,627</b>
Phone card revenues	172,129,439	<b>356,708,269</b>
Operation subsidies	-	<b>239,107</b>
Recovery of debts previously written off	75,126	<b>57,238</b>
Other operational revenues	3,216,072	<b>46,500,560</b>
Write back of operational provisions	28,635,047	<b>101,276,012</b>
<b>Total revenues from domestic services</b>	<b>5,525,085,647</b>	<b>10,418,229,116</b>
Revenues from international traffic settlements	894,817,110	<b>2,034,535,797</b>
Settlements from international leased phone circuits	38,577,459	<b>83,755,952</b>
Settlements from international telegraphic circuits	2,859,513	<b>3,736,854</b>
<b>Total revenues from international services</b>	<b>936,254,082</b>	<b>2,122,028,602</b>
<b>Total</b>	<b>6,461,339,729</b>	<b>12,540,257,718</b>
<b>Revenues other activities</b>	<b>110,666,762</b>	<b>166,309,503</b>
<b>Total operational revenues</b>	<b>6,572,006,490</b>	<b>12,706,567,221</b>

**–ROL in thousands–**

<b>EXPENSES</b>	<b>1998</b>	<b>1999</b>
<b>Expenses regarding merchandise</b>	<b>23,455,515</b>	<b>31,826,939</b>
Raw materials	34,684	657,516
Consumables	360,462,303	578,146,199
Petty inventories and protection equipment	61,769,750	105,985,112
Unstocked material	4,833,652	4,936,687
Electricity and water	68,669,933	88,695,465
Packaging	505,001	423,503
<b>Total Material expenses</b>	<b>496,275,323</b>	<b>778,844,482</b>
Repair and maintenance	267,862,950	510,871,289
Royalties and rental	28,782,707	54,812,766
Insurance	5,371,809	10,704,159
Research	5,617,453	4,252,784
Civil contract staff	3,948,339	5,590,109
Commissions and fees	19,364,958	25,335,107
Advertising, promotion and entertainment	13,878,524	44,479,439
Transport of goods and personnel expenses	18,136,897	24,572,034
Travel expenses	47,326,715	49,729,339
Postage and telecommunications	59,290,790	120,219,087
Bank commissions and similar charges	43,619,506	47,079,710
Other third party services (interconnection and VAS)	1,177,688,210	2,682,060,898
<b>Total Works and services executed by third parties</b>	<b>1,690,888,858</b>	<b>3,579,706,722</b>
<b>Taxes, fees and other duties</b>	<b>33,885,429</b>	<b>223,096,403</b>
Salaries	1,551,038,202	2,174,485,922
Social security	442,823,866	805,320,038
Company's contribution to unemployment fund	77,663,158	108,631,603
<b>Total Personnel expenses</b>	<b>2,071,525,226</b>	<b>3,088,437,562</b>
Losses on bad debts	394,605	25,955,479
Other operating expenses	12,067,700	21,012,905
<b>Total other operating expenses and bad debt losses</b>	<b>12,462,305</b>	<b>46,968,384</b>
<b>Expenses related to depreciation and provisions</b>	<b>824,959,595</b>	<b>1,759,904,580</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>5,153,452,251</b>	<b>9,508,785,073</b>
<b>OPERATIONAL RESULT</b>	<b>1,418,554,239</b>	<b>3,197,782,147</b>



## Note 6

### 4.6. Receivables and payables at December 31st 1999

#### –ROL in thousands

<i>Receivables</i>	<i>Balance on December 31st 1999</i>	<i>Due time (year)</i>	
		<i>&gt;1</i>	<i>&lt;1</i>
- advances paid to suppliers	<b>454,786,440</b>	149,881,619	304,904,821
- trade receivables	<b>3,693,968,643</b>	3,188,779,831	505,188,812
- personal receivables and social insurance	<b>4,190,537</b>	4,190,537	
- profit tax	<b>460,958,966</b>	460,958,966	
- other receivables from State	<b>49,921,817</b>	49,669,418	252,399
- sundry debtors	<b>32,364,047</b>	23,019,757	9,344,290
<b>Total receivables-current assets:</b>	<b><u>4,696,190,450</u></b>	<b><u>3,876,500,128</u></b>	<b><u>819,690,322</u></b>

From the total amount for receivables-current assets 4,696,190,450,000 ROL, 133,257,008,000 ROL are provisions for decrease of the receivables.

#### The status of the payables at December 31st 1999

<i>Payables</i>	<i>Balance on December 31st</i>	<i>Due time</i>		
		<i>&lt;1 year</i>	<i>1-5 years</i>	<i>&gt;5 years</i>
<b>1 Long and medium term loans:</b>	<b>8,296,642,150</b>		<b>1,538,184,775</b>	<b>6,758,457,375</b>
1.1 - domestic	<b>51,132,475</b>		51,132,475	
1.2 - foreign loans - total, out of which	000 US\$ <b>451,685</b>		81,460	370,225
	000 ROL <b>8,245,509,675</b>		1,487,052,300	6,758,457,375
1.2.1 Warranty	000 US\$ <b>397,612</b>		27,387	370,225
	000 ROL <b>7,258,407,060</b>		499,949,685	6,758,457,375
<b>2 Short term loans</b>	<b>285,117,783</b>	<b>285,117,783</b>		
<b>3 Interest</b>	<b>117,366,871</b>	<b>117,341,539</b>	<b>25,332</b>	
3.1 - domestic	<b>23,390,131</b>	23,364,799	25,332	
3.2 - foreign loans - total, out of which	000 US\$ <b>5,148</b>	5,148		
	000 ROL <b>93,976,740</b>	93,976,740		
<b>4 Other loans and financial liabilities</b>	<b>12,333,048</b>	<b>5,818,341</b>	<b>2,962,089</b>	<b>3,552,618</b>
<b>TOTAL FINANCIAL LIABILITIES AND ASSIMILATED</b>	<b><u>8,711,459,852</u></b>	<b><u>408,277,663</u></b>	<b><u>1,541,172,196</u></b>	<b><u>6,762,009,993</u></b>
<b>OTHER LIABILITIES</b>	<b><u>3,486,125,689</u></b>	<b><u>3,194,185,926</u></b>	<b><u>271,189,392</u></b>	<b><u>20,750,371</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>12,197,585,541</u></b>	<b><u>3,602,463,589</u></b>	<b><u>1,812,361,588</u></b>	<b><u>6,782,760,364</u></b>



## Note 7

### 4.7. Principles, politics and accounting methods

The company has overcome the Year 2000 issue and the software development for the accounting activity did not affect the current operation.

RomTelecom's accounting activity is undertaken according to the stipulations of Accounting Law No. 82/1991 and of Rules for the application of the Accounting Law by using the EVIPAR, SALTEL, QCONT and CONTEL software. This allowed the unitary recording of the patrimony evidence at subsidiaries and management (HQ) level with the existence of concordance between synthetic and analytical book keeping.

The patrimony reflection in the subsidiaries of RomTelecom was performed in order to reflect the reality of the financial years and the evaluation was made according to the law enforced.

Financial Statements drafted as of December 31st 1999: Balance Sheet and Profit and Loss Account and Annexes to the financial statements according to the following:

- by centralization of the trial balances for the year ended December 31st 1999 elaborated and sent by the regional telecommunications units;
- the development activity and the headquarter' trial balances;
- centralization of the statistical information drafted by the departments stated above;
- provisions of the re-published Accounting Law 82/1991, and of the Methodological Standards for elaboration, checking and centralization of the financial statement of the legal persons at December 31st, 1999 issued by the Ministry of Finance with no. 440075 of January 27th, 2000.

### Tangible fixed assets

Tangible fixed assets are recorded in keeping with Accounting Romanian Law no. 82/1991.

Tangible fixed assets are divided into several classes in accordance with Law no. 15/1994, modified and completed by G.D. 964/1998, and are valued at historical cost.

The tangible fixed assets input as fixed assets purchased onerously were recorded at acquisition costs.

The synthetic book keeping is held in groups of fixed assets using the IMOTEL software.

### Inventories

Effective 1999 RomTelecom changed the evaluation method of the material goods from its patrimony as follows:

- for the evaluation of the material output, the subsidiaries use the CPM - the weighted average cost;
- for the existence and movement of the material stocks one uses the acquisition value (acquisition cost).

The bookkeeping was made on every management level using the STOCTEL software.

Transactions regarding inventories are made based on the documents in proof (invoices, certificate of acceptance, consumption documents); the amounts recorded in primary documents are similar with those in the Accounting Notes and are properly overtook in the trial balance.





## The inventory of the patrimony

The inventory process was organized according to Decision no. 219 and 220 on December 20th, 1999 of the Company's CEO, in order to respect Ministry of Finance Order no. 2388/1995.

As a result of the inventory process the following differences were noticed:

### –ROL in thousands–

- minus	305.281
- plus	4.064.895
- compensation between plus and minus	47.010
- recorded on the account's expenses	59.059
- suspense accounts	30.213

These differences resulted from the inventory process, as shown in the balance sheet, doesn't affect social capital of the company RomTelecom S.A.

## Personnel evolution

Average number of full-time employees	31-Dec-98	48,441
Average number of full-time employees	31-Dec-99	44,919

The Company's financial statements were elaborated by recording patrimonial transactions carried on at every county level and also at the H.Q. level; respected the accounting principles, respectively prudence, consistency methods, on going concern, independence of the exercise, the opening balances for each financial year must correspond to the closing balances for the preceding financial year, according to accounting rules stipulated by provisions in force.

VASSILIOS TSAKONIATIS  
Chief Executive Officer

GEORGIOS ILIOPOULOS  
Chief Financial Officer



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***Consolidated Financial Statements prepared in accordance with International Accounting Standards***

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## General information

RomTelecom SA (the "Company") was created on November 1st 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 principal activity of the Company is the provision of local, long distance and international fixed telecommunications services in Romania.

Effective December 30th 1998, 35% of the share capital was acquired by the Hellenic Telecommunications Organisation S.A. ("OTE") through its subsidiary, OTEROM Ltd. Prior to the privatisation of the Company, the shareholding was entirely owned by the Romanian Government.

On January 15th 1999 the Company set up a subsidiary (Cosmorom) to provide mobile telephony services using the 1800 MHz frequency. Cosmorom is scheduled to become operational during 2000.

The Company has its registered office in Bucharest, Romania, 14-16, Libertății Blvd.

## Employees

As of December 31st 1999 the Company employed 45,351 people (December 31st 1998: 48,790).

## 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 Karaplis, replaced by Vlad Florian Tepelea on 5 April 1999, replaced by George Karaplis on 6 October 1999, replaced by George Skarpelis on 7 December 1999
General Director	Florin Anghel, replaced by Vassilios Tsakoniatis on 17 February 1999
Executive Development Director	Silviu Agapi, replaced by Panagiotis Nikakis on 17 February 1999, replaced by Theodore Thanapoulos on 3 December 1999
Executive International and Carriers Relations Director, reorganised as Executive International, Carriers Relations and Regulatory Director on 7 October 1999	Sotirios Tzoumas commencing 17 February 1999, replaced by Georgios Theodorou on 3 December 1999



### Position

Executive Finance Director

Executive Operations Director, reorganised as Executive Technical Operations Director on 7 October 1999

Executive Human Resources and Training Director

Executive Regional Operations Director

Executive Regulatory and Public Affairs Director, reorganised as Executive Commercial Operations Director on 7 October 1999

Executive Administrative Director

Executive Technical Director

Executive Commercial Director

### Director

Cleopatra Marinescu replaced by Georgios Iliopoulos on 17 February 1999  
Georgios Avlonitis commencing 17 February 1999

Mark Bush commencing 17 February 1999

Florin Anghel commencing 17 February 1999

Radu Moldovan commencing 17 February 1999

Marcel Nicolaescu commencing 17 February 1999

Dumitru Anghelescu; this position was cancelled effective 17 February 1999

Radu Moldovan; this position was cancelled effective 17 February 1999

The management team has developed strategic plans for the Company for the period up to 2008.



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

We have audited the consolidated balance sheet of RomTelecom SA ("RomTelecom" or the "Company") and its subsidiary (the "Group") as of December 31st 1999 and the related consolidated statements of income, changes in shareholders' equity and 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 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 December 31st 1999 and the results of its operations, changes in shareholders' equity and its cash flows for the year then ended in accordance with International Accounting Standards.

Without qualifying our opinion, we draw attention to the current uncertainty in relation to finalisation of Government policy for the telecommunications sector and public assets legislation (described in Note 4). 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 Audit SRL  
Bucharest, March 15th 2000



## Consolidated balance sheet

(all amounts in Romanian Lei billion)

	Notes	December 31st 1999	December 31st 1998
<b>ASSETS</b>			
Property, plant and equipment	6	30,607	28,665
Intangible assets	7	490	401
Investments in associates	9	83	184
Other investments	10	76	29
<b>Non-current assets</b>		<b>31,256</b>	<b>29,279</b>
Inventories	11	685	679
Receivables and prepayments	12	3,328	2,490
Cash and cash equivalents	13	3,665	6,197
<b>Current assets</b>		<b>7,678</b>	<b>9,366</b>
<b>Total assets</b>		<b>38,934</b>	<b>38,645</b>
<b>EQUITY AND LIABILITIES</b>			
Ordinary shares	14	23,011	23,011
Share premium	14	1,703	1,703
Deficit		(644)	(1,051)
<b>Capital and reserves</b>		<b>24,070</b>	<b>23,663</b>
Borrowings	15	7,353	7,651
Deferred tax liabilities	16	2,896	3,178
<b>Non-current liabilities</b>		<b>10,249</b>	<b>10,829</b>
Trade and other payables	17	3,386	2,969
Borrowings	15	1,229	1,184
<b>Current liabilities</b>		<b>4,615</b>	<b>4,153</b>
<b>Total liabilities</b>		<b>14,864</b>	<b>14,982</b>
<b>Total equity and liabilities</b>		<b>38,934</b>	<b>38,645</b>

The financial statements and accompanying policies and notes on pages 64 to 81, which form an integral part of these financial statements, were approved by the management of RomTelecom on March 15th 2000 and signed on its behalf by:

Vassilios Tsakoniatis  
General Director

Georgios Iliopoulos  
Executive Finance Director

The accounting policies and notes on pages 64 to 81 form an integral part of these financial statements.



## Consolidated income statement (before allocation of dividends)

(all amounts in Romanian Lei billion)

	Notes	Year ended December 31st	
		1999	1998
Revenue	18	14,536	11,213
Operating costs	19	(13,064)	(10,082)
<b>Operating profit</b>		<b>1,472</b>	<b>1,131</b>
Finance costs	20	(1,656)	(2,880)
Gain on the net monetary position		407	923
Share of losses of associates	9	(54)	(24)
<b>Net profit/(loss) before tax</b>		<b>169</b>	<b>(850)</b>
Income tax on profit	21	(850)	(248)
Release of deferred tax from Government revaluation	21	-	3,602
Release of deferred tax from change in tax rate	21	1,088	-
<b>Net profit</b>		<b>407</b>	<b>2,504</b>

The accounting policies and notes on pages 64 to 81 form an integral part of these financial statements.



## Consolidated statement of changes in shareholders' equity

(all amounts in Romanian Lei billion)

	Notes	Share capital	Share premium	Accumulated deficit	Total
<b>Balance at January 1st 1998</b>		<b>18,943</b>	<b>-</b>	<b>(3,555)</b>	<b>15,388</b>
Issue of ordinary shares	14	4,068	1,703	-	5,771
Net profit		-	-	2,504	2,504
<b>Balance at December 31st 1998 and January 1st 1999</b>		<b>23,011</b>	<b>1,703</b>	<b>(1,051)</b>	<b>23,663</b>
Net profit		-	-	407	407
<b>Balance at December 31st 1999</b>		<b>23,011</b>	<b>1,703</b>	<b>(644)</b>	<b>24,070</b>

Distributable statutory reserves as at December 31st 1999 amount to ROL 1,414 billion.

The accounting policies and notes on pages 64 to 81 form an integral part of these financial statements.





## Consolidated cash flow statement

(all amounts in Romanian Lei billion)

		Year ended December 31st	
	Notes	1999	1998
<b>Operating activities</b>			
Cash generated from operations	22	5,033	3,301
Interest paid		(841)	(480)
Interest received		258	11
Income tax paid		(251)	(73)
<b>Net cash from operating activities</b>		<b>4,199</b>	<b>2,759</b>
<b>Investing activities</b>			
Net purchase of property, plant and equipment		(5,339)	(3,863)
Purchase of intangible assets		(123)	(300)
Increase in capital engineering stores		(365)	(39)
Purchase of non-current investments		-	(1)
Disposal of non-current investments		-	13
<b>Net cash used in investing activities</b>		<b>(5,827)</b>	<b>(4,190)</b>
<b>Financing activities</b>			
Proceeds from borrowings		2,040	4,077
Repayment of borrowings		(1,847)	(1,741)
Issue of ordinary shares		-	5,771
<b>Net cash from financing activities</b>		<b>193</b>	<b>8,107</b>
Effects of inflation and exchange rates on cash and cash equivalents held		(849)	(1,000)
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(2,284)</b>	<b>5,676</b>
Cash and cash equivalents at January 1st		5,949	273
(Decrease)/increase		(2,284)	5,676
Cash and cash equivalents at December 31st	13	<b>3,665</b>	<b>5,949</b>

The accounting policies and notes on pages 64 to 81 form an integral part of these financial statements.



## **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 subsidiary (the "Group"), as detailed in Note 8. The Company has three associated companies, as detailed in Note 9.

As part of the restructuring of the telecommunications sector in Romania, on November 1st 1997, the business and substantially all of the assets and liabilities of RomTelecom RA (a state corporation) were transferred to a new entity incorporated in Romania, RomTelecom SA (a joint stock company). The share capital was subsequently modified for the transfer of the ownership of land to the Company, the share capital increase from OTEROM Ltd. and the transfer of shares from the State Ownership Fund to OTEROM Ltd. in respect of the consideration paid. OTEROM Ltd. is controlled by the Hellenic Telecommunications Organisation.

### **2. Basis of preparation and accounting records**

These consolidated financial statements have been prepared in accordance with and comply with International Accounting Standards ("IAS") as issued by the International Accounting Standards Committee ("IASC"). They are not the statutory accounts of RomTelecom.

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 3 and 5 to these financial statements.

#### ***Currency of presentation***

The functional currency of the Group and the reporting currency for these financial statements are the Romanian Leu ("ROL"). These financial statements are presented in terms of the purchasing power of the ROL as at December 31st 1999.

#### ***Basis of accounting***

The Company 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 ("RAP") issued by the Ministry of Finance of Romania. The accompanying financial statements are based on the statutory records of the Group, which are maintained on a going concern basis under the historical cost convention, except for certain indexations of property, plant and equipment.

In order to prepare these IAS financial statements it was necessary to make a number of adjustments to the statutory accounts and to obtain certain other disclosures that are not readily available from the accounting records of the Group. However, these accounting records did not in all cases provide sufficient information to assess these adjustments and disclosures accurately and therefore estimates were made on the basis of the best information available. Whilst these individual estimates are subject to a degree of uncertainty, their overall effect on these financial statements is not regarded as material. The areas subject to these uncertainties are as follows:

- (a) categorisation and analysis of movements of fixed assets
- (b) depreciation charge
- (c) accruals for international traffic
- (d) commitments for capital expenditure
- (e) redundancy costs



### **3. 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 December 31st 1999 the general price index issued by Comisia Națională de Statistică, the official Romanian Statistical Bureau, indicates that the domestic annual rate of inflation was 54.9% (1998: 40.6%). The cumulative rate of inflation was 448.5% over the three years ended December 31st 1999 (three years ended December 31st 1998: 454.8%). Therefore the requirements of IAS 29 have been adopted in preparing these financial statements. The Group has utilised the general price index issued by Comisia Națională de Statistică in the application of IAS 29.

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

#### **(a) Monetary assets and liabilities**

Cash and cash equivalents, receivables, payables, provisions and interest bearing loans have not been restated as they are considered monetary assets and liabilities and are therefore stated in ROL current at the balance sheet date.

Gains or losses which arise as a result of inflation and the holding of monetary assets and liabilities are estimated by applying the change in the general price index to the weighted average for the period of the difference between monetary assets and liabilities.

#### **(b) Non monetary assets and liabilities**

Non monetary assets and liabilities (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 general price index 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 general price index except during the first period of application of the standard when a professional valuation of fixed assets is permissible. RomTelecom RA (the predecessor entity) first prepared its IAS financial statements for the year ended December 31st 1994 and performed a valuation of the property, plant and equipment 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.

This valuation has been brought forward to December 31st 1999 by applying the change in the general price index.



#### **(d) Consolidated income statement**

Income statement items have been restated by applying the change in the general price inflation index from the dates when the items were initially recorded to the balance sheet date. In practice this restatement has been calculated on a monthly average basis. Corresponding figures from previous year have been restated accordingly. The depreciation expense for the year is based on the restated property, plant and equipment balances at year-end. Bad debt expense represents the movement between the indexed opening and the closing provisions, adjusted for items written off during the year.

#### **(e) Corresponding figures**

All the corresponding figures (including monetary assets and liabilities) for the previous reporting period have been restated by multiplying the amounts included in the previous year's financial statements by the change in the general price index. Hence, as required by IAS 29, comparative financial information is presented in terms of the measuring unit current as at December 31st 1999. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current as at December 31st 1999.

### **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.

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. This law was promulgated and published in the Official Gazette of Romania in November 1998. The law came into force 60 days after published in the Official Gazette. 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.

### **5. 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 then adjusted for the effects of inflation in accordance with the bases described in Note 3, in order to prepare the IAS financial statements.

#### **(a) Principles of consolidation**

The Group comprises the Company and its subsidiary. The effects of transactions between the Company and its subsidiary are eliminated, and accounting policies of the subsidiary are conformed to those of the Company. A subsidiary is an entity that is controlled by the Company, usually evidenced by ownership, directly or indirectly, of more than 50 percent of the voting capital of the entity.

#### **(b) Property, plant and equipment**

##### **(i) Cost**

Property, plant and equipment acquired after 1 January 1995 are recorded at cost and before that date at replacement cost (see Note3(c)).



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 financed by loans other than specific borrowings. The weighted average capitalisation rate is calculated based on the borrowings of the Group that are outstanding during the year. The weighted average capitalisation rate applied to capitalise borrowing costs incurred in 1999 was 5.97% (1998: 6.09%).

### **(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 fixed assets are:

	<b>Years</b>
Freehold buildings	45
Duct, cable and outside plant	15-20
Telephone exchanges and related equipment	12-15
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**

In common with other state corporations, RomTelecom RA had use of significant amounts of land for which it had no legal title and for which it has paid no consideration. Accordingly, no amounts were recognised in the financial statements of RomTelecom RA in relation to this land. Following the transformation into a joint stock company this land has been transferred to the Company at no consideration and credited to share capital (see Note 14).

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



### **(c) Computer software development costs**

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

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

External and internal costs specifically associated with the maintenance of existing computer software programmes and for modifications for the Year 2000 are expensed as incurred.

### **(d) Intangible assets**

Intangible assets represent payments for the licence for GSM 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.

### **(e) Investments in associates**

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. Immaterial subsidiaries are accounted for as associated entities.

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.

### **(f) Other investments**

Other investments represent long-term interests and are stated at historical cost less any provision for permanent diminution in value.

### **(g) Inventories**

Inventories are stated at the lower of cost and estimated net realisable value. Cost is calculated on a first-in, first-out (FIFO) basis. Provision is made against slow moving, damaged and obsolete stores.

### **(h) Receivables**

Receivables are stated in the balance sheet at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off during the year in which they are identified.



### **(i) Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

### **(j) Provisions for employee related costs**

The Company recognises provisions when it has a present legal or constructive obligation to transfer economic benefits as a result of past events and a reasonable estimate of the obligation can be made.

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 the balance sheet date.

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 plan's actioning have occurred.

### **(k) Employee benefits and entitlements**

Contributions are made by the Company to the Government'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 2 to 6 months of base salaries (gross salaries excluding bonuses) depending on the length of service. RomTelecom's obligations are restricted to those employees who retire from the Company during the period of the labour contract. No amounts are recognised in these financial statements in respect of such retirement benefit obligations, as the management has no legal or constructive obligation beyond May 31st 2000.

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

### **(l) Income taxes**

Deferred taxation 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 with certain specific exceptions. 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 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.

### **(m) Revenue recognition**

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

Amounts charged for the connection of new customers to the network are taken to income when the customer is connected.



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.

Interconnect revenues are derived from calls and other traffic that originate in the mobile network but use RomTelecom's network. RomTelecom pays a proportion of the call revenue it collects from its customers to mobile operators for calls and other traffic that originate in RomTelecom's network but use mobile operators' network.

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.

**(n) Operating costs**

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

**(o) Advertising costs**

Advertising costs are charged to expense as incurred.

**(p) Foreign currencies**

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. The exchange rate ruling at December 31st 1999 date was ROL 18,255 for 1 USD (December 31st 1998: ROL 10,951 for 1 USD).

All 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 on cash deposits are included within net interest expense and similar charges in the income statement.

The ROL is not a convertible currency outside the territory of Romania.

**(q) Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. IAS 19 (revised 1998) – 'Employee benefits', became effective on January 1st 1999. The Group did not adopt any other new International Accounting Standards early. There are no changes in accounting policy, including IAS 19 (revised 1998), that affect the results and financial position of the Group.

**(r) Financial instruments**

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

The Company and the Group are not party to financial instruments that reduce exposure to fluctuations in foreign currency exchanges and interest rates.





## 6. Property, plant and equipment

(all amounts in Romanian Lei billion)

	<i>Lang &amp; 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>
<b>Cost or valuation</b>						
January 1st 1999	6,467	21,987	20,402	5,416	4,306	58,578
Additions	515	-	-	802	3,577	4,894
Disposals	(9)	(350)	(146)	(50)	-	(555)
Transfers	-	2,083	1,701	2	(3,786)	0
December 31st 1999	<u>6,973</u>	<u>23,720</u>	<u>21,957</u>	<u>6,170</u>	<u>4,097</u>	<u>62,917</u>
<b>Depreciation</b>						
January 1st 1999	2,130	12,041	12,823	3,467	-	30,461
Charge for the period	159	850	1,447	686	-	3,142
Disposals	(5)	(228)	(108)	(34)	-	(375)
December 31st 1999	<u>2,284</u>	<u>12,663</u>	<u>14,162</u>	<u>4,119</u>	<u>-</u>	<u>33,228</u>
<b>Net book value</b>						
December 31st 1999	4,689	11,057	7,795	2,051	4,097	29,689
Capital engineering stores	-	-	-	-	918	918
	<u>4,689</u>	<u>11,057</u>	<u>7,795</u>	<u>2,051</u>	<u>5,015</u>	<u>30,607</u>
<b>Net book value</b>						
December 31st 1998	4,337	9,946	7,579	1,949	4,306	28,117
Capital engineering stores	-	-	-	-	548	548
	<u>4,337</u>	<u>9,946</u>	<u>7,579</u>	<u>1,949</u>	<u>4,854</u>	<u>28,665</u>

As described in Note 3(c), the property, plant and equipment of the predecessor entity were revalued by the Directors as at December 31st 1994. The valuation was dependent upon, among other matters, the remaining useful lives of the assets, which themselves reflected the network development plans of RomTelecom RA.

At the balance sheet date, assets in the course of construction include prepaid capital expenditure of ROL 476 billion (1998: ROL 47 billion) relating to payments made on account for the construction of digital exchanges. The underlying contracts are turn-key, and the Company does not assume the risks and rewards of ownership until delivery and final acceptance.

Digital exchanges are funded by loans obtained from the European Investment Bank and foreign supplier loans. Romanian commercial banks issued bank guarantees against some of the respective international loans (see Borrowings – Note 15). The Romanian banks have a right of pledge on those assets.



## 7. Intangible fixed assets

(all amounts in Romanian Lei billion)

	<i>Licences</i>	<i>Software</i>	<i>Intangible assets in progress</i>	<i>Total</i>
<b>Cost or valuation</b>				
January 1st 1999	378	27	4	409
Additions	<u>6</u>	<u>25</u>	<u>92</u>	<u>123</u>
December 31st 1999	<u>384</u>	<u>52</u>	<u>96</u>	<u>532</u>
<b>Depreciation</b>				
January 1st 1999	-	8	-	8
Charge for the period	<u>25</u>	<u>9</u>	<u>-</u>	<u>34</u>
December 31st 1999	<u>25</u>	<u>17</u>	<u>-</u>	<u>42</u>
<b>Net book value</b>				
December 31st 1999	<u>359</u>	<u>35</u>	<u>96</u>	<u>490</u>
<b>Net book value</b>				
December 31st 1998	<u>378</u>	<u>19</u>	<u>4</u>	<u>401</u>

## 8. Subsidiaries

The Company had one subsidiary as at December 31st 1999, being Cosmorom, a company incorporated in Romania in January 15th 1999, in which the Company holds 99.999% interest. The principal activity of Cosmorom is the provision of mobile telephony services using 1800 MHz frequency. Cosmorom is due to become operational during 2000.

## 9. Investments in associates

(all amounts in Romanian Lei billion)

	<i>1999</i>	<i>1998</i>
<b>Cost</b>		
January 1st	195	410
Disposals	-	(215)
Transfer to other investments	<u>(47)</u>	<u>-</u>
December 31st	<u>148</u>	<u>195</u>
<b>Share of results</b>		
January 1st	(11)	13
Movement in the year	<u>(54)</u>	<u>(24)</u>
December 31st	<u>(65)</u>	<u>(11)</u>
	<u>83</u>	<u>184</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:

- Global One Communications Romania SA (48.98%) - development and operation of value added engineering stock and network services such as the X400 electronic courier service and videotext.
- Cable Vision of Romania SA (95.67%) - development and operation of cable television systems and MMDS microwave systems. The subsidiary has been accounted for on the equity basis on grounds of immateriality.
- Pagini Aurii SA (40%) - production of printed telephone directories.



## 10. Other investments

(all amounts in Romanian Lei billion)

	1999	1998
<b>Cost</b>		
January 1st	29	28
Additions	-	1
Transfer from investments in associates	47	-
December 31st	<u>76</u>	<u>29</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) Alcatel Network Systems Romania SA (5.96%) - manufacture of digital telephone exchanges (type E10B).
- (b) Emcom SRL (5.43%) - manufacture of digital telephone exchanges (type EWSD).
- (c) Garanta SA (7%) - life and general insurance and reinsurance.
- (d) Telemobil SA (3.01%) - development and operation of an NMT cellular phone network in Romania. As a result of a capital contribution by the majority shareholder in 1999, the Company reduced its shareholding from 19.99% to 3.01%.

## 11. Inventories

(all amounts in Romanian Lei billion)

	1999	1998
Engineering stores	652	655
Goods in transit	20	18
Other	13	6
	<u>685</u>	<u>679</u>

## 12. Receivables and prepayments

(all amounts in Romanian Lei billion)

	1999	1998
Domestic trade receivables	1,676	1,255
Foreign trade receivables	1,020	640
Receivables from associates	2	11
Due from the Government	500	268
Other receivables and prepaid expenses	130	316
	<u>3,328</u>	<u>2,490</u>

Foreign trade receivables comprise balances denominated in foreign currencies due from foreign telecommunications operators.

Amounts due from the Government relate to income tax paid in excess from advance payments made during 1998 and 1999. Amounts paid in excess during 1998 were offset during 1999 against other amounts due to the Government.



### 13. Cash and cash equivalents

(all amounts in Romanian Lei billion)

	1999	1998
<i>Cash at bank and in hand</i>		
- in ROL	117	97
- in foreign currencies	2,840	250
<i>Short term bank deposits</i>		
- in foreign currencies	708	5,850
	<u>3,665</u>	<u>6,197</u>

Cash balances at December 31st 1999 include ROL 72 billion (1998: ROL 98 billion) held in hard currency as collateral in respect of certain foreign supplier contracts and bank loans.

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

	1999	1998
<i>Cash and bank balances</i>	3,665	6,197
<i>Bank overdrafts (Note 15)</i>	-	(248)
	<u>3,665</u>	<u>5,949</u>

### 14. 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>January 1st 1998</i>	19,591	18,943	-	18,943
<i>Issue of shares:</i>				
-in respect of land ownership transfer	261	48	-	48
-share capital increase from OTEROM Ltd.	4,211	4,020	1,703	5,723
<i>At December 31st 1998 and December 31st 1999</i>	<u>24,063</u>	<u>23,011</u>	<u>1,703</u>	<u>24,714</u>

The share capital of the Company as of December 31st 1998 and December 31st 1999 was determined by Government Decree 673/1997 based on the predecessor entity's capital in the statutory accounts as at June 30th 1997, modified for the transfer of the ownership of land to the Company subsequent to that date, the share capital increase from OTEROM Ltd. and the transfer of shares from the State Ownership Fund to OTEROM Ltd. in respect of the consideration paid.

At December 31st 1999 the share capital of the Company is made up of 24,062,521 ordinary shares with a nominal value of ROL 100,000 each, fully paid at the balance sheet date.

The shareholding structure as at December 31st 1999 is as follows:

	<i>Number of shares (thousands)</i>	<i>Percentage held</i>	<i>Amount</i>
<i>State Ownership Fund</i>	15,641	65%	14,957
<i>OTEROM Ltd.</i>	8,422	35%	8,054
	<u>24,063</u>	<u>100%</u>	<u>23,011</u>



There is shareholders' agreement which sets out the voting rights of the shareholders in respect of operational and strategic decisions, whereby OTEROM Ltd. holds 51% of the voting rights in the ordinary shareholders' meetings. The State Ownership Fund holds a golden share which gives veto rights in respect of strategic decisions on the Company which might affect the consumers, the Company's activities, the competition or the national interests.

## 15. Borrowings

(all amounts in Romanian Lei billion)

	1999	1998
<b>Short term loans:</b>		
USD (floating rate: 7.5% - 7.8%)	-	161
ROL (floating - 62% at year end)	<u>285</u>	<u>177</u>
	<u>285</u>	<u>338</u>
<b>Overdrafts (Note 13):</b>		
USD (floating rate: 1 month LIBOR + 2% - 1 month LIBOR + 4%)	-	243
DEM (floating rate: 1 month LIBOR + 2%)	<u>-</u>	<u>5</u>
	<u>-</u>	<u>248</u>
<b>International Financial Institution loans:</b>		
Euro (floating rate: LIBOR + 1.5%)	<u>1,976</u>	2,125
USD (floating rate: LIBOR + 1.7% - LIBOR + 2%)	<u>1,826</u>	1,727
DEM (floating rate: 5% - 7.5%)	<u>998</u>	1,078
FRF (floating rate: 5.5% - 8%)	<u>996</u>	<u>1,075</u>
	<u>5,796</u>	<u>6,005</u>
<b>Foreign supplier loans:</b>		
FRF (fixed rate: 3% - 10.4%)	<u>468</u>	633
DEM (fixed rate: 3% - 7.95%)	<u>542</u>	737
Korean Won (fixed rate: 2.5% - 4.2%)	<u>962</u>	678
SEK (fixed rate: 8.54%)	<u>43</u>	50
USD (floating rate: LIBOR + 1.45%)	<u>486</u>	<u>146</u>
	<u>2,501</u>	<u>2,244</u>
<b>Total borrowings</b>	<b>8,582</b>	<b>8,835</b>
Less current borrowings	<u>(285)</u>	(586)
Less current portion of long term borrowings	<u>(944)</u>	<u>(598)</u>
	<u>(1,229)</u>	<u>(1,184)</u>
Non-current borrowings	<u>7,353</u>	<u>7,651</u>
<b>Maturity of non-current borrowings:</b>		
	1999	1998
Between 1 and 2 years	<u>1,165</u>	991
Between 2 and 5 years	<u>3,301</u>	3,271
Over five years	<u>2,887</u>	<u>3,389</u>
	<u>7,353</u>	<u>7,651</u>



The Euro loan from the European Bank for Reconstruction and Development ("EBRD") and the loans from the European Investment Bank are collateralised by guarantees from the Government of Romania. The USD loan from the EBRD is 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.

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 Directors believe that the Company has properly notified the lenders of the Company's conversion from a state corporation to a joint stock company and that such lenders will not require the repayment of the loans.

The USD and EURO loan from the EBRD are subject to restrictive covenants which require the Company to achieve minimum ratios in respect of tangible net worth, financial debt, debt coverage and current ratio, computed on the annual IAS financial statements. These ratios have been met for the years ended 31 December 1998 and December 31st 1999.

Prior to January 1998, the Euro 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 December 31st 1995. However, this ratio has been met for the years ended December 31st 1996 and December 31st 1997. Management believes that this will not result in any change of the repayment schedule of the loan.

Unused facilities as at December 31st 1999 in accordance with the drawdown schedule of the borrowings amount to ROL 48 billion (1998: ROL 857 billion).

The interest rate exposure of the borrowings is as follows:

	<b>1999</b>	<b>1998</b>
<i>Total borrowings:</i>		
- at fixed rate	<b>2,015</b>	2,098
- at floating rate	<b><u>6,567</u></b>	<u>6,737</u>
	<b><u>8,582</u></b>	<u>8,835</u>
<i>Weighted average effective interest rates:</i>		
- long term loans	<b>5.97%</b>	6.09%

Because of the conditions prevailing currently on the Romanian lending market, the Directors are unable to estimate the borrowing rate which would be available to the Company at the balance sheet date for long-term borrowings. Therefore, the fair values of the non-current borrowings as at December 31st 1998 and December 31st 1999 are not disclosed in these financial statements.

The carrying amounts of current borrowings approximate their fair values.



## 16. Deferred tax liabilities

(all amounts in Romanian Lei billion)

As a result of changes in Romanian tax legislation, a profit tax rate of 25% has been enacted starting from January 1st 2000. Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 25% (1998: 38%).

The movement on the deferred tax liabilities is as follows:

	<b>1999</b>	<b>1998</b>
<i>January 1st</i>	<b>3,178</b>	6,532
<i>Income tax on profit for the year (Note 21)</i>	<b>806</b>	248
<i>Release of deferred tax from Government revaluation (Note 21)</i>	-	(3,602)
<i>Release of deferred tax from change in tax rate (Note 21)</i>	<b>(1,088)</b>	-
<i>December 31st</i>	<b><u>2,896</u></b>	<b><u>3,178</u></b>

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

## 17. Trade and other payables

(all amounts in Romanian Lei billion)

	<b>1999</b>	<b>1998</b>
<i>Domestic trade payables</i>	<b>1,395</b>	1,028
<i>Foreign trade payables</i>	<b>279</b>	703
<i>Customer deposits</i>	<b>412</b>	315
<i>Amounts due to associated undertakings</i>	<b>1</b>	-
<i>Amounts due to the Government</i>	<b>274</b>	212
<i>Other payables and accruals</i>	<b>492</b>	221
<i>Deferred income</i>	<b>533</b>	490
	<b><u>3,386</u></b>	<b><u>2,969</u></b>

## 18. Revenue

(all amounts in Romanian Lei billion)

	<b>1999</b>	<b>1998</b>
<i>National calls</i>	<b>6,450</b>	4,682
<i>International calls</i>	<b>1,165</b>	1,221
<i>Overseas operators</i>	<b>2,151</b>	1,489
<i>Interconnect</i>	<b>547</b>	436
<i>Rentals</i>	<b>2,647</b>	1,863
<i>Connection fees</i>	<b>204</b>	211
<i>Value added services</i>	<b>235</b>	236
<i>Other telephony</i>	<b>653</b>	616
<i>Telegraph and telex</i>	<b>54</b>	63
<i>Leased circuits</i>	<b>208</b>	238
<i>Other</i>	<b>222</b>	158
	<b><u>14,536</u></b>	<b><u>11,213</u></b>



## 19. Operating costs

(all amounts in Romanian Lei billion)

	1999	1998
Wages and salaries	2,683	2,695
Social security contributions	1,085	903
Total staff costs	3,768	3,598
Overseas operators	785	666
Interconnect	1,764	860
Depreciation	3,176	2,719
Utilities	106	120
Maintenance	585	463
Spare parts	146	163
Consumables	590	517
Other	2,251	1,077
	<u>13,171</u>	<u>10,183</u>
Less own work capitalised	<u>(107)</u>	<u>(101)</u>
	<u>13,064</u>	<u>10,082</u>

## 20. Finance costs

(all amounts in Romanian Lei billion)

	1999	1998
<b>Interest expense and similar charges</b>		
Interest on Lei loans	260	-
Interest on foreign currency loans	562	612
Foreign exchange losses	3,940	2,621
Commissions and other bank charges	57	73
Total interest expense and other charges	4,819	3,306
Interest capitalised	<u>(23)</u>	<u>(37)</u>
	<u>4,796</u>	<u>3,269</u>
<b>Interest income and similar income</b>		
Interest income	(257)	(13)
Gain on sale of investments	-	(362)
Foreign exchange gains	<u>(2,883)</u>	<u>(14)</u>
	<u>(3,140)</u>	<u>(389)</u>
	<u>1,656</u>	<u>2,880</u>

## 21. Income tax expense

(all amounts in Romanian Lei billion)

	1999	1998
Current income taxes	(44)	-
Deferred income taxes (Note 16)	(806)	(248)
Release of deferred tax from Government revaluation (Note 16)	-	3,602
Release of deferred tax from change in tax rate (Note 16)	<u>1,088</u>	<u>          </u>
	<u>238</u>	<u>3,354</u>





The difference between income tax expense, computed at Romanian statutory rates (38% in 1998 and 1999) and income tax expense provided on earnings were as follows:

	<b>1999</b>	<b>1998</b>
<i>Income tax expense at statutory rates</i>	<b>64</b>	-
<i>Effect of IAS 29 adjustments</i>	<b>(52)</b>	3,164
<i>Non-deductible expenses</i>	<b>226</b>	190
	<b><u>238</u></b>	<b><u>3,354</u></b>

At December 31st 1998, 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 6,117 million. The application of International Accounting Standard Number 12 "Income Taxes (Revised 1996)" to these differences gives rise to a release of deferred tax balances in the statement of income, amounting to ROL 3,602 billion.

At December 31st 1999, as a result of changes in the Romanian tax legislation, the profit tax rate decreased from 38% to 25% effective January 1st 2000, resulting in a release of deferred tax balances in the statement of income, amounting to ROL 1,088 billion.

Taxation inspections in Romania are frequent, involving detailed examinations of tax payers' accounting records and procedures months or even years after the end of the period of assessment. The penalty regime is punitive. Consequently, companies can find themselves subject to the imposition of costs and fines which can be significant. In addition, the taxation legislation is subject to frequent revision and interpretation of the legislation by the taxation authorities is not always consistent. However, the Directors believe that adequate provision has been made for all material taxation liabilities.

## **22. Cash generated from operations**

(all amounts in Romanian Lei billion)

	<b>1999</b>	<b>1998</b>
<b><i>Net profit before taxation</i></b>	<b>169</b>	<b>(850)</b>
<i>Adjustments for:</i>		
<i>Depreciation</i>	<b>3,176</b>	2,719
<i>Net foreign exchange loss</i>	<b>1,057</b>	2,259
<i>Gain on net monetary position</i>	<b>(407)</b>	(923)
<i>Interest expense</i>	<b>856</b>	648
<i>Investment income</i>	<b>(257)</b>	(26)
<i>Provisions</i>	<b>297</b>	40
<i>Share of losses of associates (Note 9)</i>	<b>54</b>	24
<i>Operating profit before working capital changes</i>	<b><u>4,945</u></b>	<b><u>3,891</u></b>
<i>Increase/(decrease) in trade and other receivables</i>	<b>(658)</b>	(337)
<i>(Increase)/decrease in inventories</i>	<b>(9)</b>	(307)
<i>Increase/(decrease) in trade and other payables</i>	<b>658</b>	6
<i>Increase/(decrease) in customers deposits</i>	<b>97</b>	48
<b><i>Cash generated from/(used in) working capital financing</i></b>	<b><u>88</u></b>	<b><u>(590)</u></b>
<b><i>Cash generated from operations</i></b>	<b><u>5,033</u></b>	<b><u>3,301</u></b>



## 23. Related party transactions

(all amounts in Romanian Lei billion)

The Company provides services to Government departments and bodies and certain associated companies on normal commercial terms and receives services from associated companies on similar terms. Amounts due to and from the Government are disclosed separately under current payables and receivables respectively. The monetary amount of sales to and purchases from Government related parties are not available due to limitations in the Company's systems.

The amounts of transactions with, and amounts due to/from OTEROM Ltd. and OTE were as follows:

	<b>1999</b>
<i>OTEROM Ltd.</i>	
<i>Expenses</i>	<u>544</u>
<i>Amounts due to</i>	<u>263</u>
<i>OTE</i>	
<i>Revenue</i>	<u>65</u>
<i>Expenses</i>	<u>27</u>
<i>Amounts due from</i>	<u>20</u>

## 24. Commitments

(all amounts in Romanian Lei billion)

The Group had the following capital commitments:

	<b>1999</b>	<b>1998</b>
<i>Capital expenditure that has been contracted for but has not been provided for in the financial statements</i>	<u>10,443</u>	<u>3,284</u>

## 25. Segmental information

The Company is not in the process of issuing equity or debt securities in a public market and therefore is not required to disclose any segment information in accordance with IAS 14 (revised 1997) – 'Reporting financial information by segment'. RomTelecom currently operates solely in the fixed line telecommunications industry in Romania.

## 26. Contingencies

### (a) Legal proceedings

The Company is subject to a number of proceedings arising from the normal conduct of its business. The Directors 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 Company.

### (b) Wayleaves


RomTelecom SA was established as a joint stock company as of November 1st 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. The Directors do not expect to receive any such material claims in the future.



## **27. Subsequent events**

On March 3rd 2000, the Ministry of Finance issued a Government Decree that allows companies to revalue the tax base of land and buildings by the change in the general price index for the year limited by an independent valuation. The Company may decide to apply this revaluation in preparing the statutory accounts for the year ended December 31st 1999 which are due to be filed on April 15th 2000. If applied, the revaluation would increase the tax base of such assets and decrease the deferred tax liability computed in accordance with IAS 12 – ‘Income taxes’.

On March 15th 2000, the exchange rate of ROL to the USD was 19,130. This represents as 4.8% depreciation since December 31st 1999.



macroeconomics  
telephony  
operational data  
network financial data  
efficiency  
key ratios



***Statistics 1999***

## 1999 Statistics

### Macroeconomics

	1994	1995	1996	1997	1998	1999
Population as of June 30th (million)	22.73	22.68	22.61	22.55	22.50	<b>22.45</b>
GDP variation (%)	3.9	7.1	4.1	-6.6	-7.3	<b>-3.2</b>
Inflation rate (%)	62.5	27.7	57.7	151.7	40.6	<b>54.9</b>
Unemployment, as of December 31st (%)	10.9	9.5	6.6	8.9	10.3	<b>11.5</b>
ROL/US\$ as of December 31st	1,767	2,578	4,035	8,023	10,951	<b>18,255</b>
Average gross monthly wage (US\$)		148	146	159	167	<b>130</b>

### Telegraphy and telex

	1994	1995	1996	1997	1998	1999
Exchanges	91	89	87	78	53	<b>41</b>
Telex lines	7,268	6,808	6,365	5,279	4,446	<b>3,298</b>
Leased circuits (thousand Km)	41.0	42.0	40.2	33.6	26.2	<b>19.7</b>
Domestic traffic (million pulses)	65.5	58.6	49.7	61.4	61.6	<b>54.3</b>
International traffic (million minutes)	3.07	2.38	1.67	1.25	0.825	<b>0.484</b>

### Telephony – Operational data

	1994	1995	1996	1997	1998	1999
Residential	2.492	2.646	2.810	3.056	3.229	<b>3.346</b>
Business	0.258	0.278	0.300	0.318	0.341	<b>0.359</b>
Public phones	0.024	0.024	0.024	0.024	0.024	<b>0.035</b>
Manual	0.320	0.326	0.330	0.320	0.298	<b>0.245</b>
Analog	2.265	2.171	2.100	2.040	1.829	<b>1.644</b>
Digital	0.189	0.452	0.704	1.038	1.468	<b>1.816</b>
Urban main lines	2.384	2.538	2.696	2.915	3.059	<b>3.136</b>
Rural main lines	0.366	0.387	0.414	0.459	0.511	<b>0.569</b>
Business subscribers weight in:						
-Total connected lines (%)	9.3	9.4	9.6	9.4	9.5	<b>9.6</b>
-Total revenues (%)	58.4	57.0	56.1	51.4	47.2	<b>47.5</b>
Penetration rate (%)	12.2	13.0	13.9	15.1	16.0	<b>16.7</b>
Automation rate (%)	88.5	89.0	89.5	90.6	91.7	<b>93.5</b>
Digitalization rate (%)	6.8	15.3	23.0	32.7	40.9	<b>49.5</b>
Waiting list (million)	1.21	1.19	1.23	0.99	0.92	<b>0.74</b>
Waiting time (year)	4.8	4.97	4.88	4.16	3.94	<b>3.57</b>
Complaints/100MTL/year	184	181	169	149	130	<b>105</b>
Faults/100MTL/year	96.0	93.8	88.3	76.7	68.7	<b>49.2</b>
Fault clearing time (h)	40.7	48.6	51.8	46.1	47.7	<b>34.8</b>
Waiting time for dial tone (second)	1.56	1.34	1.57	1.28	1.02	<b>0.72</b>
Post dialing delay (second)	6.44	5.84	5.84	5.29	4.55	<b>3.00</b>



## Network

	1994	1995	1996	1997	1998	1999
Optical cable (thousand km)	1.08	2.11	2.56	6.84	9.55	<b>12.85</b>
Switching units	2,676	2,700	2,772	2,821	2,874	<b>2,427</b>
Card operated payphones	1,325	2,307	2,572	6,580	18,936	<b>31,894</b>
Total payphones	24,063	23,873	23,954	23,516	24,478	<b>34,831</b>
Local switching capacity (million MTL):	3.199	3.402	3.534	3.867	4.077	<b>4.424</b>
Manual	0.327	0.379	0.369	0.344	0.341	<b>0.264</b>
Analog	2.498	2.391	2.292	2.182	2.002	<b>1.906</b>
Digital	0.374	0.632	0.874	1.341	1.734	<b>2.254</b>
Automatic	2.872	3.023	3.166	3.523	3.736	<b>4.160</b>
Trunk switching capacity (000's)					667	<b>678</b>
Analog					314	<b>255</b>
Digital					353	<b>423</b>
International switching capacity (000's)	6	6	13.44	13.44	21.72	<b>21.72</b>

## Traffic

	1994	1995	1996	1997	1998	1999
Local calls (billion pulses)	9.46	11.14	12.83	13.22	15.23	<b>17.21</b>
Long distance manual calls (million minutes)	300.2	305.1	316.9	269.1	253.3	<b>218,7</b>
International manual calls (million minutes)	34.08	33.34	31.16	21.77	16.97	<b>14.64</b>
International automatic calls (million minutes)		64.9	76.5	83.5	93.1	<b>97.9</b>
International incoming traffic (million minutes)	179	216	251	269	380	<b>450</b>
International outgoing traffic (million minutes)	72	88	104	111	133	<b>151</b>
Total VAS traffic (million minutes)			1.97	11.3	23.9	<b>17.6</b>
- out of which Internet access (million minutes)					5.2	<b>8.7</b>
Cards sold (million pieces)	0.69	1.40	2.33	3.36	6.51	<b>9.79</b>
Value of cards sold (ROL billion)	5.6	16.1	35.7	96.1	214	<b>435</b>
Leased circuits (ROL billion)	188	149	141	318	238	<b>208</b>

## Efficiency

	1994	1995	1996	1997	1998	1999
Staff number	52,509	53,759	53,527	52,104	48,441	<b>44,919</b>
Total revenues (ROL thousand bn)*	7.31	8.74	9.96	10.754	11.213	<b>14.536</b>
Net cash in investing activities (ROL bn)*				3,469	4,190	<b>5,827</b>
Lines/employee	52.8	54.8	58.5	65.2	74.2	<b>83.3</b>
Total revenues/employee (ROL m)*	139	163	186	206	232	<b>324</b>
Total revenues per line (ROL m) *	2.64	2.96	3.18	3.17	3.12	<b>3.89</b>
Ebitda (ROL bn)*	2,757	3,178	3,945	4,507	3,850	<b>4,648</b>
Ebit (ROL bn)*	966	1,164	1,738	2,046	1,131	<b>1,472</b>
Net profit according to RAS (ROL bn)**				63.2	-285.6	<b>1,450</b>

\* All comparative financial information (according to International Accounting Standards) is presented in terms of the measuring unit current as of December 31st 1999.

\*\* According to Romanian Accounting Standards



## Financial data

### Balance sheet (ROL billion)\*

	1994	1995	1996	1997	1998	1999
<b>ASSETS</b>						
Tangible fixed assets (property, plant, equipment)	23,137	24,533	25,792	26,809	28,665	30,607
Intangible assets					401	490
Investments in associates	95	177	188	452	184	83
Other investments					29	76
<b>Long term assets</b>	<b>23,233</b>	<b>24,710</b>	<b>25,980</b>	<b>27,260</b>	<b>29,279</b>	<b>31,256</b>
Inventories	166	197	523	372	679	685
Receivables and prepayments	1,603	2,486	2,277	2,120	2,490	3,328
Cash and cash equivalent	516	675	456	272	6,197	3,665
<b>Current assets</b>	<b>2,284</b>	<b>3,357</b>	<b>3,257</b>	<b>2,763</b>	<b>9,366</b>	<b>7,678</b>
<b>TOTAL ASSETS</b>	<b>25,517</b>	<b>28,067</b>	<b>29,237</b>	<b>30,023</b>	<b>38,645</b>	<b>38,934</b>
<b>EQUITY and LIABILITIES</b>						
Ordinary shares				18,942	23,011	23,011
Share premium					1,703	1,703
Reserves				-3,555	-1,051	-644
<b>Shareholders' equity</b>				<b>15,387</b>	<b>23,663</b>	<b>24,070</b>
Borrowings				4,931	7,651	7,353
Provisions for customer deposits				268		
Deferred tax liabilities				6,531	3,178	2,896
<b>Non-current liabilities</b>				<b>11,730</b>	<b>10,829</b>	<b>10,249</b>
Trade and other payables				2,102	2,969	3,386
Borrowings				804	1,184	1,229
<b>Current liabilities</b>				<b>2,906</b>	<b>4,153</b>	<b>4,615</b>
<b>Liabilities</b>				<b>14,636</b>	<b>14,982</b>	<b>14,864</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>				<b>30,023</b>	<b>38,645</b>	<b>38,934</b>

### Income statement (ROL billion)\*

	1994	1995	1996	1997	1998	1999
Revenues	7,314	8,738	9,956	10,754	11,213	14,536
Operating costs	6,348	7,574	8,218	8,708	10,082	13,064
<b>EBITDA</b>	<b>2,757</b>	<b>3,178</b>	<b>3,945</b>	<b>4,507</b>	<b>3,850</b>	<b>4,648</b>
Depreciation	1,791	2,014	2,207	2,461	2,791	3,176
<b>Earnings Before Interest and Tax</b>	<b>966</b>	<b>1,164</b>	<b>1,738</b>	<b>2,046</b>	<b>1,131</b>	<b>1,472</b>

\* All comparative financial information (according to IAS) is presented in terms of the measuring unit current as of December 31st 1999.





	1994	1995	1996	1997	1998	1999
<b>Revenues (ROL billion)*</b>						
National calls	2,257	2,718	2,952	4,083	4,682	6,450
International calls	1,183	1,427	1,744	1,572	1,221	1,165
Overseas operators	1,655	2,029	2,284	1,822	1,489	2,151
Interconnect			80	204	436	547
Rentals	1,146	1,384	1,519	1,530	1,863	2,647
Connection fees	213	342	406	368	211	204
Value added services				119	236	235
Other telephony	307	392	543	467	616	653
<b>Total telephony</b>	<b>6,761</b>	<b>8,293</b>	<b>9,527</b>	<b>10,164</b>	<b>10,754</b>	<b>14,052</b>
<b>Telegraph &amp; telex</b>	<b>180</b>	<b>158</b>	<b>147</b>	<b>102</b>	<b>63</b>	<b>54</b>
<b>Leased circuits</b>	<b>188</b>	<b>149</b>	<b>141</b>	<b>318</b>	<b>238</b>	<b>208</b>
<b>Other</b>	<b>185</b>	<b>138</b>	<b>139</b>	<b>171</b>	<b>158</b>	<b>222</b>
<b>Total Revenues</b>	<b>7,314</b>	<b>8,738</b>	<b>9,956</b>	<b>10,754</b>	<b>11,213</b>	<b>14,536</b>
<b>Expenses (ROL billion)*</b>						
Wages and salaries	1,958	2,404	2,508	2,336	2,695	2,683
Social security contribution	649	715	763	726	903	1,085
<b>Total staff costs</b>	<b>2,607</b>	<b>3,120</b>	<b>3,271</b>	<b>3,062</b>	<b>3,598</b>	<b>3,768</b>
Overseas operators	762	1,138	1,087	893	666	785
Interconnect			36	251	860	1,764
<b>Depreciation</b>	<b>1,791</b>	<b>2,014</b>	<b>2,207</b>	<b>2,461</b>	<b>2,719</b>	<b>3,176</b>
Utilities	123	108	113	137	120	106
Maintenance	153	236	487	485	463	585
Spare parts	138	169	228	192	163	146
Consumables	245	259	429	388	517	590
Other	530	530	431	918	1,077	2,251
<b>Total</b>	<b>6,349</b>	<b>7,573</b>	<b>8,288</b>	<b>8,787</b>	<b>10,183</b>	<b>13,171</b>
Less own work capitalized				-79	-101	-107
<b>Total operating costs</b>	<b>6,349</b>	<b>7,573</b>	<b>8,288</b>	<b>8,708</b>	<b>10,082</b>	<b>13,064</b>

**Key ratios\***

	1994	1995	1996	1997	1998	1999
Acid test				0.82	2.09	1.52
Total debt/total assets				0.487	0.388	0.382
Total debts/Shareholders' equity				0.951	0.633	0.618
Fixed assets turnover	0.315	0.354	0.383	0.395	0.383	0.465
Total assets turnover	0.287	0.311	0.341	0.358	0.290	0.373
Fixed assets/Total assets	0.910	0.880	0.889	0.908	0.758	0.803
Shareholders' equity/Fixed assets				0.564	0.808	0.770
Profit margin on sales				0.449	0.223	0.028
Return on assets				0.161	0.065	0.010
Return on equity				0.314	0.106	0.017
EBITDA (% of total revenues)	37.7	36.4	39.6	41.9	34.3	32.0
EBIT (% of total revenues)	13.2	13.3	17.5	19.0	10.1	10.1

\* All comparative financial information (according to IAS) is presented in terms of the measuring unit current as of December 31st 1999.



## Useful information

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