ROMTELECOM

Annual Report 2004

Table of Contents

1. Financial and Operating Highlights

1.1. Financial and operating highlights

Financial Data is based on audited financial statements prepared in accordance with International Financial Reporting Standards. All financial figures, unless otherwise stated, are in billion ROL as of December 31 of each year, and refer to ROMTELECOM S.A. on a **stand-alone** basis.

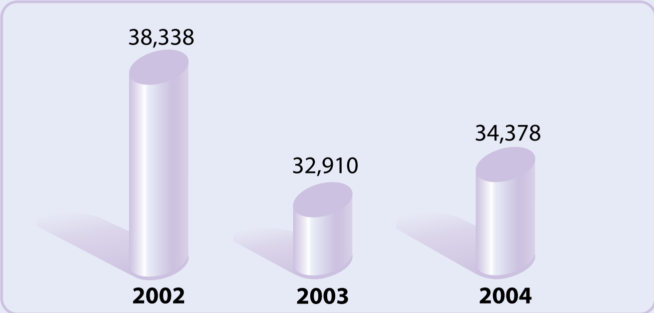
	2003	2004
Revenues	32,910	34,378
EBITDA	9,410	12,181
EBITDA/Revenues	28.6%	35.4%
EBIT	1,425	4,036
EBIT/Revenues	4.3%	11.7%
Net Income	-1,414	4,856
Net Income/Revenues	-4.3%	14.1%
Number of Telephone Lines (year end)	4,329,687	4,337,823
Fixed Line Penetration	19.9%	20.0%
Number of Employees (year end)	23,869	18,083
Number of Lines per Employee	181	240
Net Debt	15,689,423	8,651,072

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

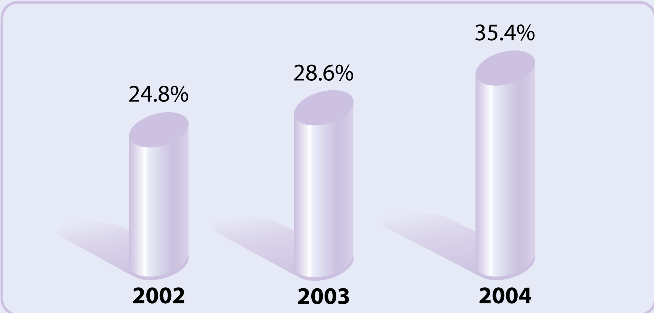
	2003	2004
Population (in milions)	21.73	21.67
Inflation (average)	15.3%	11.9%
Unemployment	7.4%	6.2%
Exchange Rate ROL/USD - Dec. 31	32,595	29,067
Average Exchange Rate ROL/USD	33,200	32,636
Exchange Rate ROL/EUR - Dec. 31	41,117	39,663
Average Exchange Rate ROL/EUR	37,557	40,532

Successfully Achieved Business Targets

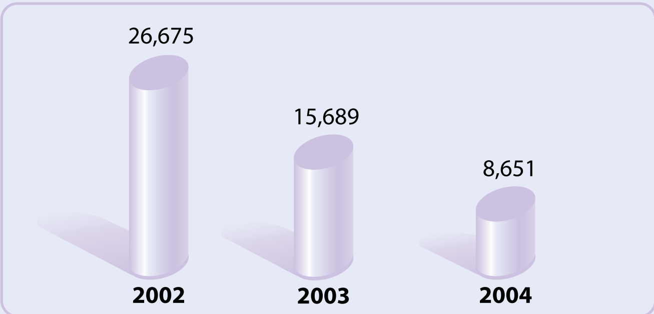
1. Revenues - Romtelecom stand-alone (billion ROL)



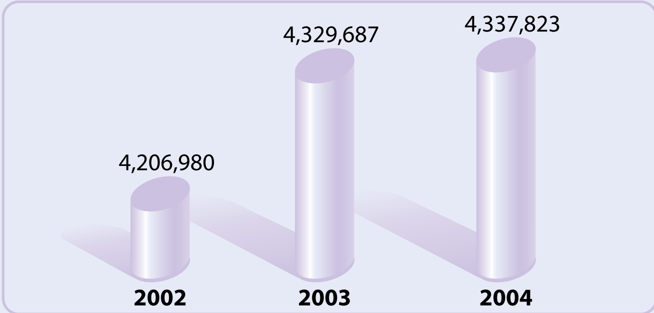
2. EBITDA/Revenues - Romtelecom stand-alone



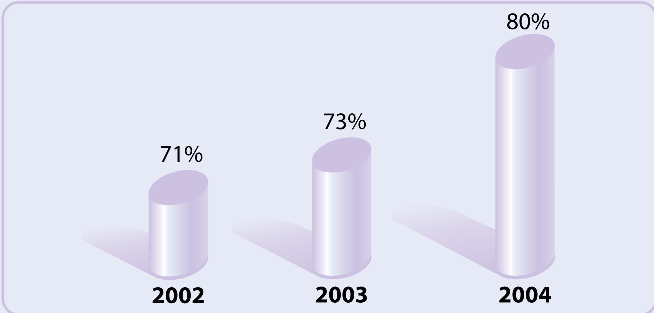
3. Net Debt - Romtelecom stand-alone (billion ROL)



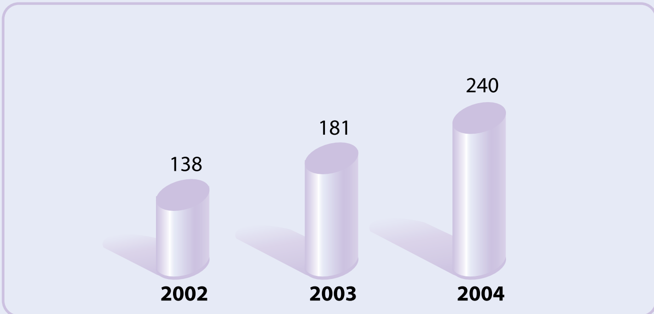
4. Number of Telephone Lines



5. Percent Digitalization Network



6. Number of Lines per Employee



2. CEO review

Dear Reader,

2004 was a year of dramatic improvements at ROMTELECOM despite the challenges of a competitive and often unpredictable telecom environment. ROMTELECOM has recovered from its past financial difficulties and is now a financially healthy enterprise on its way to achieving western telco operating results.

Our financial and operational results for 2004 surpassed our targets set in the 2004 Business Plan and were significantly better than 2003 results. For ROMTELECOM on a stand-alone basis, 2004 Revenues of 34.378 billion ROL were 4.5% higher than in 2003. EBITDA was 12.181 billion ROL exceeding 2003 by 29% and Net Income was 4.856 billion ROL compared to a Net Loss in 2003 of 1.414 billion ROL.

ROMTELECOM's improved financial results are the direct result of the implementation of its Transformation Plan. This plan envisions changing all aspects of the company's operations, from its corporate culture to its processes and systems as well as revitalizing its network. In 2004 ROMTELECOM reduced the number of its separate regional entities from 41 to 7 and centralized the management of its HR, IT, Finance and Purchasing operations into a newly created Corporate Center. These actions coupled with the deployment of new Directory Assistance, Fraud Management, Service Order management and Warehouse Systems have resulted in a voluntary reduction of 5,786 employees in 2004, which brought a 33% improvement in ROMTELECOM's operating efficiency. More specifically, the number of lines per employee grew from 181 at the end of 2003 to 240 in 2004. In addition, operating expenses were also reduced in terms of consumables, third party services and payments to other operators.

The Transformation Plan also addresses improvements that are required in order to meet customer needs. In this regard, the implementation of a new state-of-the-art billing system was initiated and the existing 21 separate billing systems were consolidated into three systems. This allowed ROMTELECOM to offer customers, for the first time, detailed bills based upon minutes instead of an unfathomable unit called "pulses".

Although ROMTELECOM's wireless subsidiary, Cosmorom, continues to be a financial burden to the group, initiatives have been taken in 2004 to address this situation and should yield a positive solution in 2005.

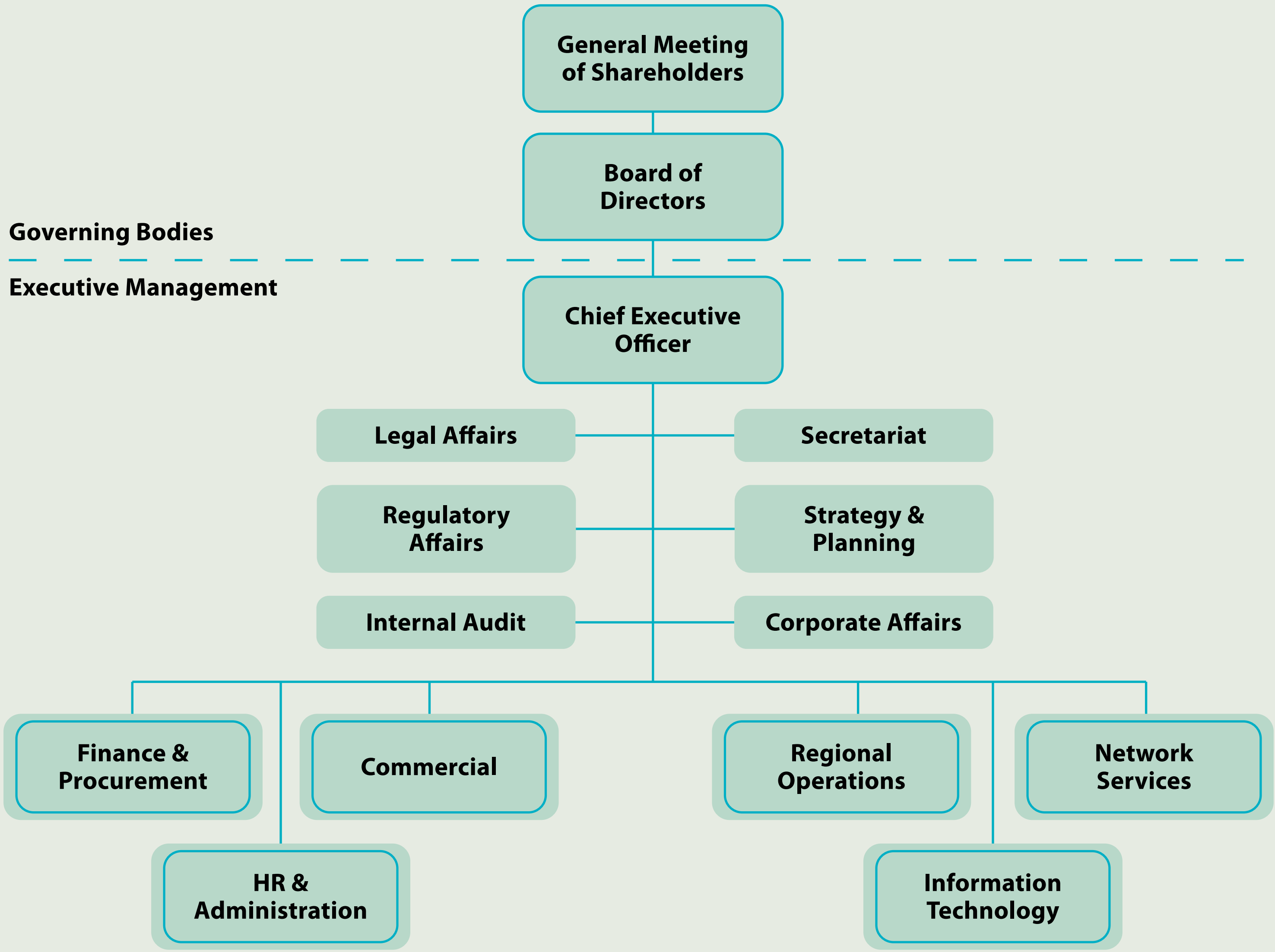
In summary, 2004 was a strong turn around year for ROMTELECOM. The benefits of the company's Transformation Plan have begun to take effect and are yielding significantly improved financial and operational results.

James Stuart Hubley
Chief Executive Officer

3. The Romtelecom Team

3.1. Organizational Structure

(As of December 2004)



Governing Bodies

General Meeting of the Shareholders

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

Board of Directors

The Board of Directors consists of 7 members and is the statutory body governing and acting on behalf of ROMTELECOM. The Board of Directors decides on all matters, other than those delegated by the General Meeting, pursuant to Romanian law, the ROMTELECOM's Articles of Association and Shareholders Agreement. The Board of Directors usually meets once a month.

Executive Management

Chief Executive Officer

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

Business Operations Committee

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

Capex Planning Committee

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

Transformation Steering Committee

The Transformation Steering Committee meets once a month to review and approve Transformation Projects. The committee tracks the status of all transformation projects and sets priorities whenever transformation projects come into conflict in terms of resource needs or scheduling priorities. The committee is chaired by the CEO and consists of all Chief Officers, Deputy Chief Officers, direct reports to the CEO and the Transformation Program Office Manager.

3.2. Board of Directors

June 23 - December 31, 2004

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

- Iordanis Aivazis - appointed by OTE. Currently Mr. Aivazis is the Chief Financial Officer of OTE.
- Michail Tsamaz (replaced Eleftherios Antonakopoulos) - appointed by OTE. Currently Mr. Tsamaz is the Managing Director of OTE International.
- Ioan Țiriac (replaced Georgios Argyropoulos) - appointed by OTE
- James Stuart Hubley - CEO of ROMTELECOM.
- Ioan Coaca - appointed by MCTI
- Șerban Pop - appointed by MCTI

January 1 - June 23, 2004

- Georgios Skarpelis - President of the Board - appointed by OTE
- Iordanis Aivazis - appointed by OTE
- Eleftherios Antonakopoulos - appointed by OTE
- Georgios Argyropoulos - appointed by OTE
- Ioan Coaca - appointed by MCTI
- James Stuart Hubley - CEO of ROMTELECOM
- Șerban Pop - appointed by MCTI

Note: MCTI is the Ministry of Communication and Information Technology

3.3. Management Team

James Stuart Hubley - Chief Executive Officer. Mr. Hubley has over 35 years of experience in the telecommunication industry. Some of his prior positions include: President & CEO, Certen Inc., Montreal; Executive Vice President, Czech Telecom, Prague; Business Development VP, AT&T, USA; President & CEO, AT&T Jens Group, AT&T Software Japan, Tokyo; Executive Director, AT&T International, Tokyo; and Director, Bell Laboratories, USA to name a few. Mr. Hubley is a U.S.A. national.

Efstratios Angelinos - Chief Operating Officer. Mr. Angelinos has over 26 years of experience in finance and general management. Prior to this appointment, Mr. Angelinos was the Chief Financial Officer of ROMTELECOM. His experience includes: Group Financial Director, Klonatex Group, Athens; Financial Manager, J&P Overseas Ltd., Athens; Group Finance & Administration Manager, Accas Ten-Cate Group of Companies, Thessaloniki; and Partner, Audit & Accounting, Alexander Young Horwath Athens. Mr. Angelinos is a Greek national.

From left to right: Pieter Bakker, Ovidiu Rusu, James Stuart Hubley, David R. Craig, Harm Aben, Dan I. Pazara, Vasile Cazacu, Cynthia Coutsoumaris, Efstratios Angelinos, Silviu Agapi, Cătălin Dima, Dimitris Sophocleous

Pieter Bakker - Chief Commercial Officer. Mr. Bakker has over 15 years of experience in the telecommunications industry. His experience includes: Executive Director Internet Services Division, Imaginet (subsidiary of Czech Telecom), Prague; Director Mass Market / Director Call Centers, Telecom Services Group, Czech Telecom, Prague. In addition, Mr Bakker held various positions in Telia AB, Stockholm and KPN Telecom, Netherlands. Mr. Bakker is a Dutch national.

Vasile Silviu Cazacu - Chief Technical Officer. Mr Cazacu is also the acting Bucharest Regional Director. Mr. Cazacu has over 23 years of experience in the telecommunications industry, all with ROMTELECOM. Prior positions within ROMTELECOM include: Chief Development Officer, Chief Operating Officer, Deputy Chief Operating Officer and Bacau judet Operations Director. Mr. Cazacu is a Romanian national.

David R. Craig - Chief Information Officer. Mr. Craig has over 23 year of experience in the telecommunications industry. His experience includes: Executive Director, Convergent Billing Program, Certen Inc., Montreal; Executive Director, CRM, Logan Orviss International, Prague; General Manager, IT Strategy & Architecture, Hong Kong Telecom; Vice President Business Development, Bell Sygma Thailand; Director, Billing Development, BCI Malaysia; and a number of positions with Bell Canada. Mr. Craig is a Canadian national.

Cynthia Coutsoumaris - Chief Administration Officer. Ms. Coutsoumaris has over 26 years of experience in the area of human resources management. Prior positions include: Human Resources Director, International Operations (Balkans, Middle East, USA), Titan Cement Company, Athens; Senior Manager, HR Consulting, KPMG, Athens; Personnel & Organization Director, Trofeklect (Mars Inc.), Athens; HR Director, SE Europe (Greece, Italy, Turkey) Hellas Can S.A. (subsidiary of Crown Cork & Seal USA), Athens; and HayGroup, Manager, Human Resources Planning & Development Unit, Athens. Ms. Coutsoumaris is a Greek / U.S.A. national.

Dimitris Sophocleous - Chief Financial Officer. Mr. Sophocleous has over 19 years of experience in the finance / accounting area. Prior positions include: Executive Director, Finance, Cosmorom S.A., Bucharest; Finance & Administration Director, Lannet Communications S.A., Athens; Group Financial Controller, Andreadis Shipping Group, Athens; Audit Manager, Ernst & Young, Athens; Audit Manager & Company Administrator, Mouskis & Co Certified Accountants, Athens. Mr Sophocleous is a Greek national.

Cătălin Dima - Chief Legal Counsel. Mr. Dima has over 8 years experience in Corporate Law, initially with Bostina Law Offices, one of the largest law firms in Bucharest, and since 2002 with ROMTELECOM. Mr. Dima is a Romanian national.

Ovidiu Rusu - General Manager Internal Audit. Mr. Rusu has over 10 years of experience in the auditing area. Prior positions include: Auditor, Deloitte Los Angeles; Auditor, Deloitte Bucharest; and Auditor Ernst & Young Bucharest. Mr. Rusu is a California licensed Certified Public Accountant (CPA), Certified Internal Auditor (CIA), and a member of the Romanian Financial Auditors Chamber. Mr. Rusu is a Romanian / U.S.A. national.

Silviu Agapi - General Manager Strategy and Business Planning. Mr Agapi has over 20 year of experience in the telecommunications industry, all with ROMTELECOM. Prior positions within ROMTELECOM include: Chief Executive Officer, Chief Development Officer, Deputy Chief Development Officer, Chief Technical Officer, Counselor of the Minister and Neamt judet Operations Director. He was also President of ROMTELECOM's former joint venture with Global One, and later President of ROMTELECOM's ISP subsidiary, Artelecom. Mr. Agapi is a Romanian national.

Harm Aben - General Manager Regulatory Affairs. Mr. Aben has over 10 years of experience in the telecommunications industry. His experience includes: Consulting Director at Ovum Ltd, London; Vice-president at Continuum Private Equity, London; Principal Consultant at PricewaterhouseCoopers, London; International Business Development Controller at KPN Telecom. Mr. Aben is a Dutch national.

Dan I. Pazara - General Manager Corporate Affairs. Prior to ROMTELECOM Mr. Pazara worked for the Romanian Government as Secretary of State of the Asset Resolution Agency. In addition, Mr. Pazara held various positions with Wasserstein Perella, Chase Manhattan Bank and Salomon Brothers in New York. Mr. Pazara is a Romanian / U.S.A. national.

4. Overview of Romtelecom

4.1. Business Description

ROMTELECOM is the largest telecommunications company in Romania. The Company is owned 54.01% by OTE International, a fully owned subsidiary of OTE Greece, and 45.99% by the Romanian State through the Ministry of Communication and Information Technology.

ROMTELECOM provides telecommunications products and services that target the needs of Romanian consumers and business customers. The Company's services include:

- Fixed-line telephone services (including local calls, domestic and international long distance).
- Integrated Services Digital Network (ISDN BRA and PRA).
- Value Added Voice Services such as voice mail, call forwarding, conference calls, caller line ID.
- Internet dial-up services.
- Internet Dedicated Access Services and Hosting.
- Voice VPN.
- IP VPN services.
- Operated Assisted Services including Directory Assistance and Telex services.
- PBX installation and maintenance including structured cabling.
- Integrated Solutions.
- Pre Paid Calling Card services for Payphones, standard fixed lines and VoIP.
- Payphone services.
- Tele-voting and Tele-donation.
- Service Level Agreement.

On December 31, 2004, the company had an installed base of approximately 4.338 million phone lines.

4.2. Corporate Direction

4.2.1 Mission, vision and values

ROMTELECOM's **mission** as set by its shareholders is as follows:

ROMTELECOM will engage in the provision of telecommunications products and services to address the needs of Romanian consumers and business customers. It will conduct its operations in such a manner as to create shareholder value and be a respected corporate member of the Romanian society.

ROMTELECOM's view of the future is stated in its vision statement. The Corporate vision is the target ROMTELECOM strives to achieve in the future. It is the Company's long-term definition of success.
The ROMTELECOM's **vision** is as follows:

ROMTELECOM will become the premier telecommunications products and services provider of choice in Romania. Customers will rank ROMTELECOM's services as exemplary and employees will rate it as one of the top five companies to work for in Romania. Finally, ROMTELECOM will match comparable Central European Carriers in terms of operational efficiency and profitability.

ROMTELECOM has defined its corporate values. These values define the behaviour that all employees should exhibit, and by doing so direct the Company toward customers and business success. The corporate **values** are as follows:

- Customer Focus
- Integrity
- Respect for the Individual
- Commitment
- Teamwork

In the future, "living" the values will become a part of the management appraisal process and will be used in the assessment of managerial performance.

4.2.2 Goals and Objectives

Consistent with its Corporate vision statement, ROMTELECOM's Corporate goals and objectives can be divided into three categories. These are as follows:

- ROMTELECOM will provide exemplary customer service.
- ROMTELECOM will provide a work environment where employees rank ROMTELECOM as one of the top five Romanian companies to work for.
- ROMTELECOM will match the operational and financial performance of comparable Central European Telephone Companies.

The customer service goals address the most critical customer identified service issues, which are: billing accuracy; service quality; value for money; customer support; and dependability of commitments. The specific customer issues were identified in the quarterly Customer Satisfaction Surveys that were conducted throughout 2004 by an independent market research firm.

Employee satisfaction with ROMTELECOM was ascertained through an Employee Satisfaction Survey. This survey was conducted in October 2004 and identified how employees felt about their compensation, their development possibilities and career opportunities. Corporate culture is the basic belief that employees have about a company and must be focused on the customer. The corporate culture characteristics within ROMTELECOM include the following: customer focus, being proactive, risk taking and team oriented.

Finally, ROMTELECOM's intermediate operational efficiency and financial performance has been targeted to achieve 300 lines per employee and a 40% EBITDA margin.

4.2.3 Strategy

The strategic direction for ROMTELECOM is to change its corporate culture, modernize its business practices, maintain its market position, and focus its investments. The approach to accomplish this requires discipline and pragmatism. It also must be accomplished in as short a time as possible.

The modernization of business practices must be accomplished through the introduction of modern business, financial, operational and human resource processes and IT systems. ROMTELECOM's strategy will be to adapt its way of working to already proven processes and off-the-shelf systems. Therefore, whenever ROMTELECOM can acquire existing telco processes and systems it will implement these and change its working methods to accommodate them.

In ROMTELECOM's 2004 Corporate Business Plan, 2004 was identified as the year in which ROMTELECOM would target to stop the decline of its revenues and establish a firm foundation for its transformation while at the same time improving its operational efficiency. Not only did ROMTELECOM stop the decline in revenues but the company had a 4.5% increase in revenues from 2003 to 2004. Operational efficiency improvements can be summarized by the increase from 138 lines/employee in 2002 to 240 lines/employee in 2004.

4.3. Transformation Plan

In June of 2003 the Romtelecom Board of Directors approved the Corporate Transformation Plan. This Plan is designed to set the direction to transform Romtelecom from a 1960's government owned monopoly telephone company into a modern 21st century telecommunications enterprise. The transformation is necessitated by the introduction of competition into the Romanian telecommunications market and is required in order to achieve the Company's three Corporate Priorities:

- Minimize Costs
- Increase Service Quality
- Improve Customer Relations

Transformation is fundamentally about changing how ROMTELECOM goes about conducting its business. The changes brought about through the Transformation Program require ROMTELECOM to restructure its organization, re-engineer its processes, implement new support systems and initiate new policies, practices and procedures.

In order to support the overall Transformation Plan, a series of Transformation Projects were initiated. Each project was evaluated as to its support of the overall Corporate Strategy and defined Transformation Plan before being initiated. Projects are closely tracked from start to finish in order to ensure they are "on track" to meet the established deadlines or, if not, to define corrective actions. It is also critical to understand and track the relationships and dependencies between projects, again to ensure the transformation plan is tracking to its scheduled completion. A total of 119 such projects have been identified and are in various stages of completion.

One of the most important and fundamental transformation within ROMTELECOM was the establishment of the ten Regional Operating Units ("ROU") from 41 counties operating units. Toward the end of 2004, there was a further rationalization to seven ROU as follows: Bucharest, Bacau, Brasov, Cluj, Dolj, Galati and Timis. ROUs have a broad range of product and service offers that they manage within a specific geographical area. ROUs are accountable for profitability and responsible for managing their revenues and costs. While the ROU cannot operate autonomously or independently from the corporate enterprise, it does have latitude in how it achieves its business targets.

In 2004, ROMTELECOM's IT organization was centralized from 41 different management structures to a single organization, with a single management direction, and a single set of business priorities. This was seen as a crucial first step in ROMTELECOM's modernization. This modernization is heavily dependent on the delivery of new IT systems and associated infrastructure.

This IT Infrastructure is now supporting ROMTELECOM's new Customer Service and Operational Support Systems, such as Directory Assistance, Fraud Management, Service Order, Fault Management, and Data Warehouse Systems, as well as numerous other internal and legacy systems. In total, about 380 separate local systems have been eliminated in 2004 and replaced with modern, centralized solutions.

4.3.1 Restructuring of subsidiaries

The three majority owned subsidiaries of ROMTELECOM are: Cosmorom (1800 MHz wireless subsidiary) in which it holds 99.9% interest, ARTelecom (Internet Service Provider subsidiary) in which it holds 99.9% interest, and Cable Vision Romania (Cable TV subsidiary) in which it holds 95.7% interest. ROMTELECOM's subsidiaries are not contributing to ROMTELECOM's financial health.

The management of ROMTELECOM recommended, and the Board of Directors approved, that all three subsidiaries should be restructured. In 2004, ROMTELECOM initiated actions to merge ARTelecom into ROMTELECOM, sell Cable Vision of Romania and re-launch Cosmorom with a partner. In addition, in October, 2004, ROMTELECOM sold its 0.12% minority stake in Telemobil S.A., a CDMA 450 cellular phone operator in Romania.

4.4. Fixed Line Business

4.4.1 The Market

The fixed line market in Romania is rapidly changing two years after the market liberalization and is characterized by growing competition from other fixed line operators and the positive trend of fix-to-mobile substitution.

Recently, start ups that use alternative technologies are increasingly appealing to customers. For example, CATV operators are bundling cable TV subscriptions with Internet Access and, more recently, telephony. Mobile Operators have a strong position in the business segment and try to expand into services that are traditionally ROMTELECOM's territory. However, in 2004, ROMTELECOM demonstrated its ability to defend its market position.

Fixed line penetration in Romania is very low at approximately 20%. ROMTELECOM's focus in 2004 was to increase the digitalization degree rather than the installation of new lines.

Based on publicly available information, ROMTELECOM's revenue in 2004 represented over 95% of the market revenues for the fixed line market.

4.4.2 Regulation

Romania transposed the new EU regulatory framework into national Law at a relatively early stage in 2002. Since then, significant strides have been taken to introduce into the market the various tools and services that characterize the regulatory landscape in the EU. One of the main drivers of this process is Romania's planned accession into the EU in January 2007.

The most relevant Romanian laws and ordinances are Government Ordinance number 34 as of January 30, 2002, on the Access and Interconnection to the Public Electronic Communications Networks and to Associated Infrastructure, Government Ordinance number 79 as of June 13, 2002, concerning the General Regulatory Framework for Communications, Law number 304 as of July 4, 2003 on the Universal Service and users' rights relating to the Electronic Communications Networks and Services and the Competition Law number 21/ 1996.

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

The National Regulatory Authority in Communications (ANRC) is the independent national regulator with responsibility for wholesale and retail telecommunication markets, allocation of numbering resources, settlement of disputes between operators, and enforcement of Government policies.

The Ministry of Communications and Information Technology (MCTI) formulates general policies in telecommunications, sets up strategies for universal service, allocates frequency spectrum resources and regulates terminal equipment usage. MCTI is designated to represent the Romanian state ownership in ROMTELECOM.

The General Inspectorate for Communications and Information Technology (IGCTI) enforces the policies set up by the MCTI for frequency spectrum usage and terminal equipment.

The Competition Council enforces the application of general and specific legislation on competition. It has sanctioning power and reports directly to the Romanian Parliament. Due to the forthcoming harmonization with the EU legislation it is expected that the Competition Council's influence on ROMTELECOM will increase.

The National Authority for Consumer Protection defends the legal rights and economic interests of consumers.

In 2004, ROMTELECOM saw some significant developments in its regulatory environment. After a fairly basic market analysis, ANRC designated ROMTELECOM as a company with significant market power (SMP) in the retail markets for access to the PSTN network, local calls, national calls and international calls from a fixed location (for business and residential customers) and in the market for calls to mobiles from a fixed location (for residential customers). In addition, ROMTELECOM has SMP in the wholesale markets for call termination, origination and transit on the PSTN network, leased lines terminating segments and wholesale unbundled access (including shared access) to metallic loops and sub-loops for the purpose of providing broadband and voice services. Under the new telecommunications regulations, these markets will now be subject to ex ante remedies. Some of these remedies have already been initiated or implemented including:

- ROMTELECOM published its Reference Interconnection Offer (RIO) detailing the conditions under which it provides regulated wholesale services. At the end of 2004, 28 operators had concluded Interconnection Agreements with ROMTELECOM based on the RIO. Out of these 28 interconnected operators, 3 are interconnected at local level and the remaining 25 are interconnected at zone level (i.e. single transit).

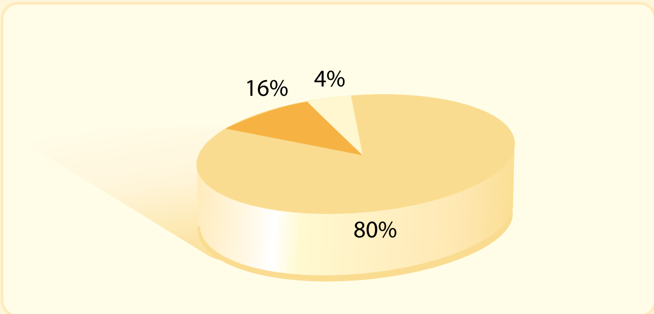
- ROMTELECOM developed its first Reference Unbundled Offer (RUO) in September 2004. This offer is currently being reviewed by ANRC.

- ROMTELECOM submitted the first version of its long-run incremental cost (LRIC) "Top Down" model in September 2004. ANRC is currently in the process of developing a LRIC "Bottom Up" model, but this has not yet been disclosed. The reconciliation with ROMTELECOM's LRIC Top Down model for the purpose of setting cost-orientated interconnection tariffs is expected in 2005.

- ROMTELECOM was identified as a universal service supplier in Romania. The company is currently in discussions with the ANRC about the implementation of a network of telecenters in remote areas of the country. ROMTELECOM contributes 2 million Euros annually to the centrally managed Universal Service Fund.

4.4.3 Retail Services

In 2004 ROMTELECOM's Retail revenues amounted to approximately 80% of the Company's revenues.

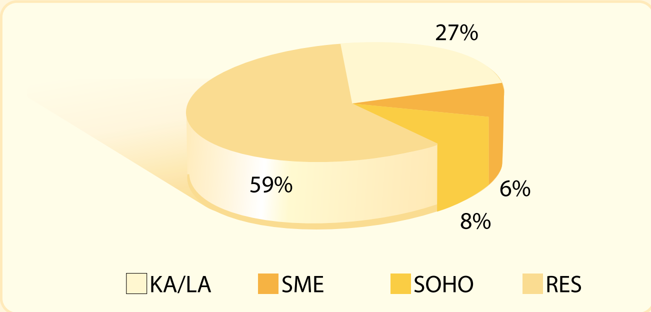


Retail revenues
Wholesale revenues
Public Phones revenues

ROMTELECOM 2004 Revenue split (%)

ROMTELECOM's Retail Services were segmented based on combined voice and data revenues by analyzing customers' spend in various revenue bands. In 2004, average revenue in the business segment represented 41% of the total retail revenue, whereas the residential segment represented 59%.

KA/LA	Key Accounts / Large Accounts
SME	Small & Medium Enterprises
SOHO	Small / Home Office
RES	Residential



ROMTELECOM 2004 Retail Revenue split

The above segmentation has been implemented to support the sales channel alignment. Key Accounts and Large Accounts are served through dedicated sales representatives. The other segments are served through a combination of Call Centers and Retail Shops.

Average revenue per line per month increased from 11.7 Euro in 2003 to 12.2 Euro in 2004. The main reason for this is tariff rebalancing. On June 1, 2004, as per ANRC's approval, ROMTELECOM increased prices for line rentals and local calls and significantly decreased prices for domestic and international long distance. Despite the increases implemented, the monthly rental rates in the residential segment are still below the actual costs of operating a line.

Monthly line rental and local call revenue as a percentage of total revenue grew from approximately 39% in 2003 to approximately 45% in 2004. A higher percentage indicates that, in the short term, ROMTELECOM will not be exposed to revenue losses as competition in general is focused mainly on the level of call services with a high gross margin, and not as much on the combination of infrastructure and local calls.

Tariff rebalancing had a positive impact on average call duration with the exception of long distance calls in the business segment and Internet dial up calls in the residential segment.

ROMTELECOM's priorities in the retail market are: to make ROMTELECOM easier to do business with; to restore customer trust; to offer more value for money; and to increase customer retention.

In support of these priorities, in June 2004, ROMTELECOM implemented per minute billing and abandoned the system based on pulses. Per minute billing led to much more transparency in the pricing mechanism and proved to be an effective tool in managing the price perception level of products and services to customers. Customers no longer perceive ROMTELECOM as more expensive than others, as they can now easily compare prices.

Additionally, in June 2004, ROMTELECOM unified the Peak and Off Peak time bands for all voice services. Peak hours are now on business days between 8am and 8pm. Off Peak hours are between 8pm and 8am and all weekends and legal holidays.

During May, 2004, all Directory Assistance services were consolidated into a newly built national call center with 350 workplaces. This resulted in a dramatic service improvement. For example, 98% of the calls are answered within 5 seconds whereas in the old system the answering rate was not higher than 65%. At the same time, the volume of calls increased by approximately 20% to almost 750,000 calls per week. In conjunction with a price increase from € 5 cents to € 12 cents per call the new Directory Assistance call centers are now a source of revenue for ROMTELECOM and uses approximately 400 employees.

All International Operator Assisted services were consolidated in Bucharest. In the fourth quarter 2004, all Fault Reporting activities were consolidated to one call center in Ploiesti.

Residential

A retail pilot to transform three former commercial offices in Brasov, Bucharest and Constanta into real shops has been positively evaluated after a six month trial period. Consequently, during the second half of 2004, another eleven shops were refurbished. The reaction from customers has been positive. Sales in the shops tripled during a recent campaign that offered cordless handsets bundled with Voice Mail and Caller Line Identification. During 2005, ROMTELECOM will roll out this improved concept to another 60 new shops.

In the first quarter of 2004, ROMTELECOM started to include Call Detail Records for all calls except local on the monthly bill free of charge. This has lead to a significant decrease in the amount of billing inquiries and billing complaints.

Third-party bill payments, introduced in the last quarter of 2003, continued to grow in 2004. More than 70% of all bills from customers in urban areas are now paid through commercial banks, ATMs and Posta Romana. Direct debit was implemented during the fourth quarter of 2004 and will be further rolled out into 2005.

Business

The Key and Large accounts segment deals with the top 6,000 customers in Romania. Key accounts focus on customers that have a national presence and the Large accounts focus on the regional top customers. This segment accounts for approximately 27% of ROMTELECOM's retail revenue. All those 6,000 customers have dedicated sales representatives who meet with them frequently.

The Medium and Small Business segment accounts for approximately 15% of ROMTELECOM's retail revenue. The Medium and Small Business segment will be addressed through ROMTELECOM call centers and shops. Sales representatives will be used mainly to close a deal as, for this segment, average revenue per customer does not allow the cost level associated with direct sales.

ROMTELECOM has cancelled the obligation of business customers to deposit an amount equal to the value of one month traffic. During the fourth quarter of 2004, approximately € 8 million has been returned to customers by crediting the bills issued in November.

Data Services

ROMTELECOM's market share in data services is too small in absolute terms, for a national operator. ROMTELECOM's strategy was to strengthen its position in the Data and IP market through its internet subsidiary ARTelecom. Despite an encouraging start in 2001 the latest growth rates of ARTelecom were too small to successfully compete in the data services market.

To create a stronger position in the Data and IP market, the management of ROMTELECOM initiated actions to merge ARTelecom into ROMTELECOM. A new Internet and Data Services division was created within ROMTELECOM. ROMTELECOM has defined the following objectives with respect to Data and IP services:

General objectives:

- Redefine the Data & IP services portfolio for business market and mass market and ensure that ROMTELECOM has a product for most customers in the business segments and all customers in the mass market.
- Provide fast, flexible and reliable end-to-end services based on customer needs and preferences.
- Take advantage of the "natural incumbent" position with respect to xDSL services and become the broadband services provider of choice on the Romanian market for Retail and Wholesale customers.
- Grow customers through the relevant Data & IP services portfolio.
- Achieve aggressive growth targets for all segments.
- Be number one in terms of revenue in all segments and markets before year-end 2007.

Business market objectives:

- Take advantage of the nation-wide leased line network by aggressively pushing IP VPN in the corporate market segment.
- Increase competitiveness in the business market by providing significant improvements in the Quality of Service and implement Service Level Agreements.

Residential market objectives:

- Achieve a number one position on the Internet dial-up (mass) market.
- Increase the number of residential customers that access the internet through dial-up.

Dial-up Internet

In 2004, the dial up market was hit by the decision of the largest dial-up ISP to stop providing free internet access as part of a loyalty program for mobile customers. As a result, traffic in the residential segment, mainly Off-Peak minutes, has declined significantly. ARTelecom (Artel line) and ROMTELECOM (ClickNet) have both offered a "pay as you go" service that combined the dial-up and ISP charges into one fee per minute. The services were an immediate success and more than 50% of the traffic lost has been won back. ClickNet will be the brand name for a suite of future narrowband services.

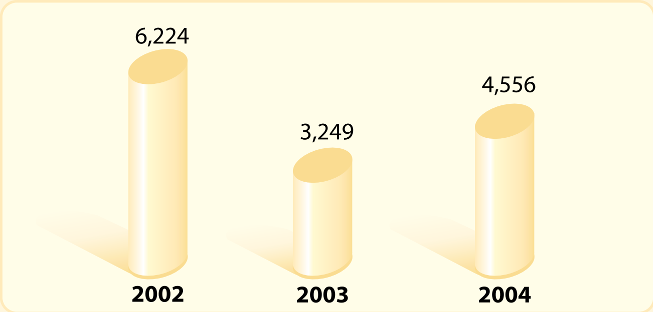
Broadband Internet

ROMTELECOM has prepared the commercial launch of ADSL for the year 2005. Network roll out has been prepared and Beta customers have been signed up and their feedback has been included in the evaluation.

Fixed Internet access

After approval of the ARTelecom merger ROMTELECOM has started to partially integrate ARTelecom's product portfolio. Product modifications have been implemented and as a first start the dedicated internet access products IP FIX (64 kbs) and IP Star (128 kbs) have been launched.

4.4.4 Wholesale Services



ROMTELECOM Wholesale Revenues (billion ROL)

The Telecommunications market in Romania was opened up in January 2003. Until the end of 2004, ANRC granted about 2,500 telecommunications licenses. At the end of 2004, a number of 28 fixed operators were interconnected with ROMTELECOM.

The traffic for Carrier Selection started off with a volume of 4,000 minutes in 2003 and reached about 10 million minutes in 2004. Traffic from new Fixed Line entrants into ROMTELECOM increased from 300,000 minutes in 2003 to 99 million minutes in 2004.

Value Added Services traffic decreased from 14 million minutes in 2003 to almost 4 million minutes in 2004. The decrease was due to ROMTELECOM's actions to restrict traffic as unclear marketing for these services led to unexpected high bills for customers.

Premium Rate Internet services increased by 80% from 165 million minutes in 2003 to 300 million minutes in 2004. Approximately 40% of that volume was through ARTelecom's product ARTeline.

National Leased Lines and Interconnect links slightly decreased from 13 million Euro in 2003 to 12 million Euro in 2004, mainly because Mobile operators developed their own networks.

The Mobile traffic originated in the ROMTELECOM network slightly decreased from 844 million minutes in 2003 to 780 million minutes in 2004. The traffic from Mobile into the ROMTELECOM network increased by 45% from 255 million minutes in 2003 to 370 million minutes in 2004.

International incoming traffic into the ROMTELECOM network increased from 630 million minutes in 2003 to 940 million minutes in 2004. The market share of the incoming traffic into the ROMTELECOM network is more then 95%.

Hubbing traffic, trading of incoming and outgoing traffic, increased from 110 million minutes in 2003 to 245 million minutes in 2004. A large part of the hubbing traffic is International traffic terminated into the Romanian Mobile networks.

ROMTELECOM leased a capacity of 2.5 Gbit to Frankfurt and Budapest to connect to new customers for bilateral exchange of traffic and to offer International leased lines and IP transit services. The market share increased from approximately 10% in 2003 to 40% in 2004. At the end of 2004, ROMTELECOM added an additional 2.5 Gbit to Budapest/Frankfurt to keep up with the growing demand in the market.

4.5. Network Infrastructure

ROMTELECOM provides its services through an ever improving network infrastructure. This infrastructure supports not only the Public Switched Telephone Network but also the Integrated Services Digital Network, the Leased Lines Network and a newly introduced Data Network. This network infrastructure is constantly undergoing expansion and quality improvements in order to give customers reliable, cost effective services and shareholders a fair return on their investment.

At the end of 2004, ROMTELECOM operated 113 digital host exchanges in addition to analog exchanges which support 850,000 lines for a total capacity of approximately 4.3 million lines. The total investment in both the backbone network infrastructure as well as the access infrastructure since 2000 has reached € 1 billion.

In accordance with the directives of the ANRC, ROMTELECOM has implemented a number of technological changes to insure its ability to interconnect its network with Other Licensed Operators in accordance with the existing Reference Interconnection Offer and, in the future, for Local Loop Unbundling in accordance with the Reference Access Offer.

ROMTELECOM offers leased line services, as well as interconnect services for both domestic and foreign interconnections through both land-based and satellite links to both alternative fixed line and mobile operators.

By the end of 2004, ROMTELECOM operated 9,400 kilometers of fiber optic transmission facilities and another 19,100 kilometers of fiber optic rings throughout the country using state-of-the-art transmission systems such as DWDM and SDH. In 2004, ROMTELECOM also implemented a nation-wide IP-MPLS network covering all 41 Romanian counties and controlled by five regional nodes. This IP-MPLS network offers state-of-the-art data transmission services today and will be the backbone transmission infrastructure used for the Next Generation Network technology of the future. This infrastructure enables the introduction of new services such as broadband for fast Internet access and content services such as on-line games, video on demand and broadcast TV.

Because Bucharest is the most important market in Romania for telecommunication services, the city was 100% digitalized in 2004, eliminating not only analog exchanges and access, but also party lines and filling in gaps in the network coverage. Bucharest now has 12.5 million kilometers of copper cable which includes 120 thousand lines now capable of supporting broadband services.

4.6. Human Resources

2004 was a year of many changes at ROMTELECOM. The implementation of the Transformation Plan, including the corporate restructuring and centralization of support functions, contributed to the overall effort to increase efficiency and profitability.

Romtelecom Employees

This year saw a continuation of the process of workforce streamlining which was aimed at reaching 21st century European telecommunications operator efficiencies. The activation of the regional business units and centralizing support functions led to a reduction of 5,786 employees, (470 management positions) throughout the year based on a voluntary redundancy scheme.

The evolution of headcount is as follows:

December 31, 2002	30,563
December 31, 2003	23,869
December 31, 2004	18,083

At the same time, 178 sales representatives were hired, trained and certified as part of the Salesforce Effectiveness Project.

Remuneration

In 2004 a new salary structure for management personnel was launched, consisting of fixed and variable pay and based on the Hay method of job evaluation, while non-management positions were grouped into job families and base salaries were rebalanced.
The ROMTELECOM average gross salary on December 31, 2004 was € 335 compared to € 320 on December 31, 2003.

Labor Relations

At a time when ROMTELECOM is undergoing major restructuring, relations between management and trade unions are of great importance. In promoting and implementing the Transformation Plan, the Company has worked very closely with the trade unions and consults with them on all issues that have an impact on employees. This has resulted in an effective partnership where open and honest communication exists and problems are solved through discussion. In December 2004, a two-year Collective Labor Agreement was signed through which labor costs were rationalized while at the same time employee rights were largely maintained.

Corporate Culture

Based on ROMTELECOM's Vision and Mission Statements, Corporate Values were developed through employee focus groups and launched in mid-2004. Based on these values a Code of Conduct is in the process of being developed.

ROMTELECOM's values are:

Customer Focus	Customers are not a necessary evil, they are the only reason we exist be they external or internal.
Integrity	We are honest with our customers, our suppliers, our shareholders and our fellow employees.
Respect for the Individual	Treat everyone as you would like to be treated regardless of the circumstances.
Commitment	We accept responsibility and accept the accountability for keeping our promises.
Teamwork	We work together: when one of us succeeds, we all succeed and when one of us fails, we all fail.

Tracking Employee Satisfaction

In October 2004 an Employee Satisfaction Survey was conducted to measure how the changes brought about by the Transformation Plan have affected employee satisfaction, attitudes and motivation. The result of this survey will help the Company to continuously improve its human resources policies.

Responsibility Toward the Workforce

Providing a safe and healthy workplace for our employees and contractors is a major management challenge and responsibility. In 2004, the safety equipment policy was revised and new equipment was issued to employees. In addition, health checkups were provided to staff through an outsourced medical services provider. Periodic and other health checks were also held.

Communicating with Employees

Special emphasis was given in 2004 to employee communications. Among the tools used for this purpose are the corporate intranet, the company newsletter, "Dial Tone," and semi-annual management meetings.

4.7. Corporate Social Responsability

Through a very generous sponsorship budget, ROMTELECOM is expressing its solidarity for the broader Romanian community. ROMTELECOM's efforts were directed in three broad areas: sports, culture and social/humanitarian and have the aim of providing longer-term benefits to the community.

On the sports side, ROMTELECOM was the official partner of the Romanian Olympic Committee. In 2004, at the Athens Olympics, the Romanian Olympic team with the support of ROMTELECOM turned out a very good performance, winning 19 Olympic medals. Recently, ROMTELECOM decided to extend its support for the Romanian Olympic Committee for the next four years, leading up to the 2008 Beijing Games. In addition, ROMTELECOM is a sponsor of the Special Olympics Romania, the Romanian Tennis Federation, and the Romanian Water Polo Federation.

In the area of culture, ROMTELECOM was the main sponsor of UNITER - Romanian National Theatre Union, Bucharest International Film Festival – DaKino, Romanian National Opera and the Cotroceni National Museum.

In 2004, ROMTELECOM was engaged in a number of projects of social importance for the country. ROMTELECOM has been one of the main supporters of the National Child Protection Agency and the National Anti-drug Agency by providing a toll-free line free of charge. One of the most important projects for ROMTELECOM in 2004 was the sponsorship of the "Renasterea" Foundation. More specifically, ROMTELECOM provided a toll-free "pink" line free of charge for information on breast cancer prevention and early detection. The Company participated alongside Renasterea at the lighting in pink of a famous building in Bucharest on October 1.

ROMTELECOM is also aware of the fact that an independent press is a strong base for a solid democratic society. Therefore, ROMTELECOM has been the main sponsor of the Romanian Press Club and the Romanian Association of TV Professionals Awards Gala where journalists received prizes for excellence for their 2004 performance.

5. Financial Section

5.1. Report of Independent auditors

To the Shareholders of ROMTELECOM S.A.

1. We have audited the accompanying consolidated balance sheet of ROMTELECOM S.A. and its subsidiaries (“Romtelecom” or “the Company”) as of 31 December 2004 and the related consolidated income statement and consolidated cash flow statement 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.

2. This report is made solely to the Company's shareholders, as a body. Our report has been undertaken so that we might state to the Company's shareholders those matters we are required under International Standards on Auditing to state to them in an auditors' report and for no other purpose. To the fullest extent required by the law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

3. Except as discussed in paragraph 4, 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 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

4. As disclosed in the accounting policy note C (ii), an impairment loss of ROL 3,142 billion has been included as of 31 December 2002 for intangible assets and property, plant and equipment of Romtelecom’s subsidiary, CosmoROM SA (“CosmoROM”). We have not been provided with sufficient evidence to assess whether the estimates used to determine the recoverable amount of these assets are in accordance with IAS 36 - “Impairment of assets”.

5. As disclosed in Note 10 to the consolidated financial statements, the Company was in breach of the current ratio covenant for the loan agreements concluded with the European Bank for Reconstruction and Development ("EBRD") as at 31 December 2004. Consequently, the EBRD may request repayment of these loans on demand. The management of the Company has notified in writing the EBRD of this breach. The EBRD has not issued any waiver that this breach will not result in the facilities being withdrawn, nor have they notified the Company of such withdrawal. The Company has not reclassified the long-term portion of these loans of ROL 768 billion to "Current liabilities". Given the situation as mentioned above, the presentation of the Company is not in accordance with IAS 1 - "Presentation of Financial Statements".

6. The Company has not disclosed the directors' remuneration for the years ended 31 December 2003 and 31 December 2004. This practice does not comply with the disclosure requirements of IAS 24 - "Related Party Disclosures".

7. In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the carrying value of the CosmoROM's assets, as disclosed in paragraph 4; except for the impact of the matters disclosed in paragraph 5 and 6, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

   - The financial statements of CosmoROM have been prepared on the going concern basis, assuming that it will continue to operate in the foreseeable future. As described in the accounting policy note C (ii) to the consolidated financial statements, in the absence of significant financial support from the Company's shareholders, CosmoROM will not be able to continue to operate in the foreseeable future. The consolidated financial statements do not include any additional adjustments in addition to the impairment loss referred to in paragraph 4 above that would result should CosmoROM be unable to obtain the required funding.

- As described in Note 27 to the consolidated financial statements, there is uncertainty concerning the finalisation of the Government policy for the telecommunications sector and public assets legislation. It is not possible to determine the effects, if any, of future Government policy on the value of the Company's assets and liabilities.

- As indicated in Note 28 (c) and (d) to the consolidated financial statements, legislation in Romania is still evolving and is subject to interpretation. As a result, additional liabilities may arise that are not currently foreseen. Management considers that the Company has paid or accrued for all taxes and other payments due to the State, that are applicable, in the financial statements as at 31 December 2004 and for the period then ended.

Ernst &Young SRL

Bucharest, Romania

16 May 2004

ROMTELECOM SA

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

Note: all amounts in Romanian lei billion, unless otherwise stated

Contents

General information

Romtelecom SA (the “Company”) was created on 1 November 1997 as a joint stock company incorporated in Romania, at which date the business and substantially all of the assets and liabilities of Romtelecom RA (a state corporation) were transferred to the Company. The Company with its subsidiaries (Cable Vision of Romania SA, CosmoROM SA and ARTelecom SA) form the Group.

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

In the Extraordinary Shareholders Meetings held on 31 January 2003 and 28 February 2003 the shareholders approved the increase of OTE International Investments’ interest in the share capital of Romtelecom from 35% to 54.01%, through debt to equity conversion and cash contribution, as further described in Note 9 to these consolidated financial statements.

The shareholding structure as at 31 December 2004 is the following:

	Percentage held
Romanian Government through the Ministry	
of Communications and Information Technology (“MCTI”)	45.99%
OTE International Investments	54.01%
	100.00%

The Company had exclusive rights to provide local, long distance and international fixed telecommunications services in Romania until 31 December 2002. The market was liberalised on 1 January 2003. The Group also provides mobile telephony services using 1800 MHz frequency, cable television and Internet services through the Company’s subsidiaries.

The Company has its registered office in Bucharest, Romania, 1B Garlei Street, Sector 1.

Employees

The average number of Company’s employees in 2004 was 19,048 (2003 : 26,832).

General information (continued)

The names of the Managers 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	Manager
President of the Board of Directors	Mr. George Skarpelis, appointed on 7 December 1999, replaced by Mr. Panagiotis Vourloumis, appointed on 23 June 2004.
Chief Executive Officer	Mr. James S. Hubley, appointed on 1 April 2003.
Chief Information Officer	Mr. David Craig, appointed on 7 May 2003. The appointment was approved by the Board of Directors on 16 June 2003.
Chief Financial Officer	Mr. Leonidas Skarlatos, appointed on 1 July 2003 (the appointment was approved by the Board of Directors on 2 July 2003), replaced by Mr. Dimitris Sophocleous, appointed on 1 July 2004. The appointment was approved by the Board of Directors on 20 July 2004.
Chief Technical Officer	Mr. Cristian Nitu, appointed on 1 July 2003 (the appointment was approved by the Board of Directors on 16 June 2003), replaced by Mr. Vasile Cazacu, appointed on 17 August 2004.The appointment was approved by the Board of Directors on 12 October 2004.
Chief Operating Officer	Mr. Efstratios Angelinos, appointed on 1 July 2003. The appointment was approved by the Board of Directors on 16 June 2003.
Chief Commercial Officer	Mr. Pieter Bakker, appointed on 2 April 2003. The appointment was approved by the Board of Directors on 16 June 2003.
Chief Administration Officer	Ms. Cynthia Coutsoumaris, appointed on 1 July 2003. The appointment was approved by the Board of Directors on 2 July 2003.

General information (continued)

The management team has developed business plans for the Company for the period up to 2009.

Exchange rates as at 31 December 2004

The principal exchange rates used to translate the balances in foreign currencies to Romanian Lei ("ROL") as at 31 December 2004 are presented below:

Currency	Abbreviation	Exchange rate (ROL for 1 currency unit)
United States Dollars	USD	29,067
EURO	EUR	39,663
Swedish Crowns	SEK	4,398
Korean Wons	KWON	28.36
Special Drawing Rights	SDR	45,128

Glossary of terms

GSM	Global System for Mobile Communications
DCS	Digital Celullar System
CDMA	Code Division Multiple Access
EURIBOR	Euro Interbank Offered Rate
LIBOR	London Interbank Offered Rate
BUBOR	Bucharest Interbank Offered Rate

Consolidated balance sheet

	Note	31 December 2004	31 December 2003
ASSETS			
Property, plant and equipment	1	82,158	85,930
Intangible assets	2	999	356
Non-current assets		**83,157**	**86,286**
Inventories	6	2,596	3,545
Receivables and prepayments	7	4,845	4,920
Cash and cash equivalents	8	3,934	3,866
Current assets		**11,375**	**12,331**
Total assets		**94,532**	**98,617**
EQUITY AND LIABILITIES			
Ordinary shares	9	59,750	59,750
Share premium	9	12,952	12,952
Accumulated deficit		(4,524)	(8,974)
Capital and reserves		**68,178**	**63,728**
Borrowings	10	5,611	7,393
Deferred tax liabilities, net	11	3,528	3,834
Other liabilities	12	359	607
Trade payables	13	900	5,723
Non-current liabilities		**10,398**	**17,557**
Borrowings	10	2,514	3,888
Trade and other payables	14	12,879	12,304
Provisions	15	563	1,140
Current liabilities		**15,956**	**17,332**
Total liabilities		**26,354**	**34,889**
Total equity and liabilities		**94,532**	**98,617**

These consolidated financial statements, accompanying policies and notes, which form an integral part of these consolidated financial statements, were approved by the management of Romtelecom SA on 6 June 2005 and signed on its behalf by:

James Hubley
Chief Executive Officer

Dimitris Sophocleous
Chief Financial Officer

Consolidated income statement

	Note	Year ended 31 December 2004	2003
Revenue	16	34,258	32,950
Operating expenses	17	(31,001)	(32,485)
Operating profit		**3,257**	**465**
Finance revenue/(costs) - net	18	209	(4,227)
Gain on net monetary liability position		1,059	3,175
Profit/(loss) before tax		**4,525**	**(587)**
Tax	19	(75)	(522)
Net profit/ (loss) for the year		**4,450**	**(1,109)**

These consolidated financial statements, accompanying policies and notes, which form an integral part of these consolidated financial statements, were approved by the management of Romtelecom SA on 6 June 2005 and signed on its behalf by:

James Hubley
Chief Executive Officer

Dimitris Sophocleous
Chief Financial Officer

Consolidated statement of changes in shareholders' equity

	Ordinary shares	Share premium	Other reserves	Accumulated deficit	Total
Balance at					
1 January 2003	**58,840**	**4,354**	**3,965**	**(7,865)**	**59,294**
Cash subscription	536	5,007	-	-	5,543
Debt to equity conversion	374	3,591	(3,965)	-	-
Net loss for the year	-	-	-	(1,109)	(1,109)
Balance at					
31 December 2003					
and 1 January 2004	**59,750**	**12,952**	**-**	**(8,974)**	**63,728**
Net profit for the year	-	-	-	4,450	4,450
Balance at					
31 December 2004	**59,750**	**12,952**	**-**	**(4,524)**	**68,178**

The General Shareholders Assembly of the Company approved on 31 January 2003 and on 28 February 2003 the increase in the share capital by (Note 9):

- conversion of the principal of the loan granted by OTE International Investments Limited ("OTE International Investments") of ROL 2,276 (EUR 55 million equivalent);

- conversion of part of the amount due to OTE International Investments under the Technical Services Agreement, of ROL 1,689 (USD 42.6 million equivalent); and

- contribution in cash by OTE International Investments of USD 145 million.

Consolidated cash flow statement

	Note	Year ended 31 December 2004	2003
Cash flows from operating activities			
Cash generated from operations	21	13,000	10,832
Interest paid		(758)	(1,415)
Income tax paid		(180)	(67)
Net cash from operating activities		**12,062**	**9,350**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(8,814)	(8,565)
Disposal of property, plant and equipment		24	37
Purchase of intangible assets	3	(645)	(7)
Disposal of investments	5	1	-
Interest received		412	157
Net cash used in investing activities		**(9,022)**	**(8,378)**
Cash flows from financing activities			
Issue of ordinary shares	9	-	5,543
Dividends paid		(293)	-
Proceeds from borrowings		-	528
Repayments of borrowings		(2,793)	(5,363)
Effect of inflation on financing activities		376	1,676
Net cash from / (used in) financing activities		**(2,710)**	**2,384**
Effect of inflation on cash and cash equivalents		(132)	(371)
Increase in cash and cash equivalents		**198**	**2,985**
Cash and cash equivalents as at the beginning of the period	**8**	**3,736**	**753**
Cash and cash equivalents as at the end of the period	**8**	**3,934**	**3,738**

ACCOUNTING POLICIES

Index to accounting policies **Pages**

ACCOUNTING POLICIES

A Reporting entity

These consolidated financial statements are presented by Romtelecom SA ("Romtelecom" or the "Company"), which is incorporated in Romania, and they incorporate the results of the Company and its subsidiaries (together the "Group"), as detailed in Note 4.

B Basis of preparation

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"). They are not the statutory accounts of Romtelecom.

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

These 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 1 and G to these consolidated financial statements;
- the revaluation of available-for-sale investments at fair value; and
- the appraised value of the land received from the State free of charge.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. These estimates are reviewed periodically and changes in estimates are recognized in the periods in which they become known.

ACCOUNTING POLICIES (CONTINUED)

C Going concern

(i) Romtelecom

As at 31 December 2004, the current assets of the Company exceeded its current liabilities, before the consolidation adjustments, by ROL 237 (31 December 2003: ROL 310). As further described in Note 10, the Company has breached the current ratio attaching to the EBRD loan facilities, as a result of which such facilities may have become payable on demand. The Group has not reclassified the long-term portion of the EBRD loans in amount of ROL 768 (31 December 2003: ROL 1,715) to current liabilities.

Following the increase in share capital and rescheduling of supplier debt in 2003, the management of Romtelecom has updated accordingly the business plan of the Company (exclusive of CosmoROM) for the years 2004 to 2006, and subsequently up to 2009. The business plan indicates that the Company should generate sufficient funds in order to support the financing of the current activities, planned investments and debt service in relation to the bank loans and the payables to fixed asset suppliers.

Based on the above, the management considers that the Company will be able to continue to operate as a going concern in the foreseeable future and, therefore, this principle should be applied in the preparation of these consolidated financial statements.

(ii) CosmoROM

As at 31 December 2004, the current liabilities of CosmoROM SA ("CosmoROM" or the "Mobile Operator"), a subsidiary of Romtelecom, exceeded its current assets by ROL 7,469 (31 December 2003: ROL 5,759) and the accumulated deficit amounted to ROL 11,789 (31 December 2003: ROL 11,320).

The individual financial statements of CosmoROM have been prepared based on the going concern principle, assuming that the Mobile Operator will continue to operate in the foreseeable future.

Nevertheless, in the absence of significant financial support from the shareholders of the Company, the Mobile Operator will not be able to continue to operate in the foreseeable future. To the date of these consolidated financial statements, Romtelecom has not taken any action in order to meet the short-term funding requirements of CosmoROM.

ACCOUNTING POLICIES (CONTINUED)

In the light of the above, further adjustments were made to the consolidated financial statements as at 31 December 2002 in order to reflect these circumstances as follows:

CosmoROM stand-alone as at 31 December 2002	**ROL**
Reported net equity	530
Consolidation adjustment	(3,142)
Restated net deficit	(2,612)

The consolidation adjustment represents an impairment adjustment (described in Note 1) against the Mobile Operator's property and equipment and intangible assets. Given the uncertainties surrounding the viability of the Mobile Operator, management of the Company are unable to assess whether the impairment charge is sufficient.

D Consolidation

(i) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. Intercompany transactions, balances and unrealised gains or transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

ACCOUNTING POLICIES (CONTINUED)

(ii) Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains or transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

E Foreign currency translation

(i) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in ROL, which is the measurement currency of the Company and its subsidiaries.

(ii) Transactions and balances

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

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items are reported as part of the fair value gain or loss.

ACCOUNTING POLICIES (CONTINUED)

F Accounting for the effect of hyperinflation

Prior to 1 July 2004 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the ROL in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment in Romania indicate that hyperinflation has ceased, effective from 1 July 2004 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 30 June 2004 are treated as the basis for the carrying amounts in these financial statements. Corresponding figures for the year ended 31 December 2003 have also been restated for the changes in the general purchasing power of the ROL at 30 June 2004.

The restatement was calculated using the movement in the Romanian Consumer Price Index ("CPI"), published by Comisia Nationala de Statistica. The indices used to restate corresponding figures, based on 2001 prices (2001 = 100) for the three years ended 31 December 2003, and for the six months ended 30 June 2004 are:

Year	Movement in CPI	Indices
2001	30.3%	1.303
2002	17.8%	1.535
2003	14.1%	1.751
30 June 2004	3.76%	1.817

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

(i) Monetary assets and liabilities

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

ACCOUNTING POLICIES (CONTINUED)

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

(ii) Non-monetary items

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

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

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

ACCOUNTING POLICIES (CONTINUED)

(iv) Consolidated income statement

Income statement items, with the exception of depreciation, amortisation, impairment losses and provisions for inventories, are restated by applying the change in the CPI from the dates when the items of income and expenses were initially recorded in the consolidated financial statements to 30 June 2004. In practice this restatement is calculated on a monthly average basis. The depreciation and amortisation expense for the year as well as impairment losses are based on the restated property, plant and equipment and intangible assets balances at year-end. The provision expense for inventories is calculated as the difference between the closing and opening provision balances.

(v) Corresponding figures

All the corresponding figures (including monetary assets and liabilities) for the previous reporting period are restated by multiplying the amounts included in the previous year's financial statements by the change in the CPI at 30 June 2004. Hence, as required by IAS 29, comparative financial information is presented in terms of the measuring unit current as at 30 June 2004. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current as at 30 June 2004.

G Property, plant and equipment

(i) Cost/valuation

Property, plant and equipment are recorded at cost less depreciation. For those items acquired before 1 January 1995 the cost was determined based on an initial valuation based on replacement cost, modern equivalent asset cost or indexed historical cost.

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.

ACCOUNTING POLICIES (CONTINUED)

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

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

(iii) Depreciation

Depreciation is calculated on a straight-line method to write off the cost or valuation to their estimated residual values over their estimated useful lives.

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

	Years
Freehold buildings	45
Duct, cable and outside plant	15-20
Telephone exchanges and related equipment	10-15
Other fixed assets	3-8

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

(iv) Land

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

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

ACCOUNTING POLICIES (CONTINUED)

H Intangible assets

(i) Licenses

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

(ii) Other intangible assets

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

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

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

I Impairment of long lived assets

Property, plant and equipment and other non-current assets, including intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds their recoverable amount, which is the higher of the assets’ net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the circumstances which led to the impairment.

ACCOUNTING POLICIES (CONTINUED)

J Investments

The Group classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. During the year the Group did not held any investments in this category.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods and services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. The latter are classified as non-current assets. During the year, the Group has not provided money as loans to any third party. Receivables are included in trade and other receivables in the balance sheet. Details regarding measurements criteria are provided in Note L.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

ACCOUNTING POLICIES (CONTINUED)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchase and sale of investments are recognised on trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value of the “financial assets at fair value through profit or loss” category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss –is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

K Inventories

Inventories are stated at the lower of cost and estimated net realisable value. Cost is determined on a first-in, first-out (FIFO) basis since 2004, while during 2003 was mainly determined on a weighted average basis. The change in acounting policy was applied prospectively starting 1ST January 2004. Provision is made against slow moving, damaged and obsolete items. Net realisable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.

ACCOUNTING POLICIES (CONTINUED)

L Receivables

Receivables are stated in the balance sheet at their recoverable amount. A provision for impairment of receivables is established, where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement and is measured as the difference between the carrying amount of the receivable and the present value of expected future cash flows discounted at the market rate of interest for similar borrowers. Cash flows relating to short-term receivables are generally not discounted.

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

M Cash and cash equivalents

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

N Share capital

Ordinary shares are classified as equity.

Convertible debt is converted into equity, within “Other Reserves”, if the conversion is substantially completed at the balance sheet date. Upon conversion, such reserves are reclassified as share capital.

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

O Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transactions costs) and the redemption value is recognised in the income statement over the period of the borrowings.

ACCOUNTING POLICIES (CONTINUED)

P Deferred income tax

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Substantially, all temporary differences arise from property, plant and equipment, intangible assets and investments in respect to the differences between the restated amounts in accordance with IAS 29 and the values for tax purposes.

Q Trade and other payables

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

R Employee benefits

(i) Employee leave entitlement

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

(ii) Contributions made on behalf of employees

Contributions are made by the Group to the State's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The cost of these payments is charged to the income statement in the same period as the related salary cost.

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

ACCOUNTING POLICIES (CONTINUED)

(iii) Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or

- past practice has created a valid expectation by employees that they will receive a bonus/profit sharing and the amount can be determined before the time of issuing the financial statements.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iv) Retirement benefits

In accordance with an annually negotiated collective labour contract, Romtelecom is required to pay on retirement the equivalent of 2 to 8 months of average base salaries depending on the length of service. Romtelecom's obligations are restricted to those employees who retire from the Company during the period of the collective labour contract. Such obligation was immaterial and not provisioned up to 31 December 2003. Due mainly to changes in discount rates, the company has recognised ROL 53 in respect of such retirement benefits obligation for the year ended at 31 December 2004, representing the amortization of the total present value of the benefit obligation (as unrecognized actuarial loss), over the average remaining working life of the employees (11.5 years). The discount rates and forecasted increases in the salaries used are estimated based on the current assumptioons in the Romanian economy regarding the evolution of the inflation rate, correlated with similar assumptions used in the European Union.

(v) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

ACCOUNTING POLICIES (CONTINUED)

S Grants

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

T Provisions

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

Restructuring provisions mainly comprise employee termination payments and are recognised in the period in which the Group becomes legally or constructively committed to payment.

U Revenue recognition

Revenue, shown net of Value Added Tax and discounts, and after eliminating sales within the Group, comprises services provided and goods sold. Revenue for all services (Note 16) is recognised when the services are provided.

Revenues and costs are shown gross in these consolidated financial statements.

(i) Fixed line telephony revenues

Domestic calls revenues

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

Rentals

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

ACCOUNTING POLICIES (CONTINUED)

Revenues and costs from international calls and overseas operators

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

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

Revenues from sales of prepaid cards

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

Connection fees

Due to the fact that the Company incurs losses from the installation of phone lines, connection fees are recognised in full in the income statement upon connection of the customers to the Company's network.

(ii) Mobile telephony revenues

Airtime revenues

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

Access revenues

Access revenues are billed once a month in arrears and are recognised when earned.

ACCOUNTING POLICIES (CONTINUED)

Roaming revenues

Roaming airtime revenues represent either airtime provided by the Company to other operator's subscribers or mobile services received by own subscribers in other operator's network and are recorded as the airtime is used.

(iii) Interconnect revenues and costs

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

(iv) Other revenues

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

- *Cable TV Services*

The Group earns cable TV service revenue and activation revenue by providing access to the cable network. Revenue from such services is recognised at the time the service is provided. Activation revenue is recognised at the time of sale.

- *Internet services*

The Group earns revenue from Internet services provision. Revenue from such services is recognised at the time the service is provided.

- *Interest income* – on an effective yield basis.

ACCOUNTING POLICIES (CONTINUED)

V Operating expenses

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

Connection costs are charged to the income statement at the same time with the related income.

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

Advertising costs are charged to the income statement as incurred.

W Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

X Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

Y Corresponding figures

Where necessary, corresponding figures have been adjusted to conform to changes in presentation in the current year (Notes 16, 17).

Z Fair value estimation

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

ACCOUNTING POLICIES (CONTINUED)

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

AA Financial risk management

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

(i) Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the EUR, USD and SDR.

Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group is not party to financial instruments that reduce exposure to foreign exchange risk.

Monetary assets and liabilities in ROL and in foreign currencies are presented in Note 24.

Price risk

The Group is exposed to price risk because its tariffs for services are expressed in EUR and USD for fixed line and mobile segments, respectively.

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of services are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution.

ACCOUNTING POLICIES (CONTINUED)

(iii) Interest rate risk

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

The Group is not a party to financial instruments that reduce exposure to the fluctuations in interest rates.

(iv) Liquidity risk

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

AB Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

During 2004 and 2003 management did not enter into any agreement involving derivatives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Index to notes to the consolidated financial statements **Pages**

1 Property, plant and equipment

Cost or valuation	Land & buildings	Cable and related equipment	Exchanges & related equipment	Other fixed assets	Assets in the course of construction	Total
1 January 2004	21,013	87,769	66,538			200,275
Additions	601	152	-	19,359	5,596	4,985
Transfers from tangible assets in the course of				441	3,791	
construction	-	3,357	1,503			-
Disposals	(176)	(2,926)	(297)	-	(4,860)	(5,042)
31 December 2004	21,438	88,352	67,744	(1,643)	-	200,218
				18,157	4,527	
Depreciation						
and impairment	7,650	43,774	47,840			114,345
1 January 2004	450	3,581	3,152	14,505	576	8,604
Charge for the period				1,421	-	
Release of provision	-	-	-			(198)
Disposals	(30)	(2,856)	(281)	-	(198)	(4,691)
31 December 2004	8,070	44,499	50,711	(1,524)	-	118,060
				14,402	378	
Net book amount						
31 December 2004	13,368	43,853	17,033			82,158
				3,755	4,149	
Net book amount						
31 December 2003	13,363	43,995	18,698			85,930
				4,854	5,020	

Valuation

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

Impairment

During 2002, due to external factors relating to telecommunications markets and internal factors such as operating losses and negative cash flows, management has assessed the recoverable amount of the Mobile Operator's assets and an impairment loss of ROL 3,887 (ROL 3,381 in respect of property and equipment and ROL 506 in respect of intangible assets) has been recognised in the consolidated financial statements in respect of the mobile segment. Property and equipment of the mobile segment were written down as at 31 December 2002 to ROL 3,522. No additional impairment charge was recognized either as at 31 December 2003 or as at 31 December 2004. Given the uncertainties surrounding the viability of the Mobile Operator, management of the Company are unable to assess whether the impairment charge is sufficient.

The impairment loss was allocated to property and equipment and intangible assets of the mobile segment on a pro-rata basis based on their carrying amounts.

Pledged assets

Romanian commercial banks issued bank guarantees against some of the international loans (see Borrowings – Note 10) used for funding digital exchanges and related equipment and cables and related equipment. The Romanian banks had a right of pledge on those assets as at 31 December 2003. No more pledges are in force as at 31 December 2004.

Borrowing costs

Borrowing costs of ROL 4 (2003: ROL 49) arising on financing specifically entered into for the construction of cables and related equipment and exchanges and related equipment, were capitalised during the year and are included in "Additions" in the previous table. A capitalisation rate of 3.66 % (2003: 3.8%) was used, representing the borrowing costs of the payables and/or used to finance the construction projects.

Non-cash transactions

Additions include ROL 171 (2003: ROL 1,002) of property, plant and equipment purchased under contracts financed by suppliers' loans.

Purchases from related parties

Purchases of goods and related services from related parties are described in Note 22.

2 Intangible assets

	Licences	Other intangible assets	Total
Cost			
1 January 2004	1,049	659	1,708
Additions	-	804	804
Disposals	-	(105)	(105)
31 December 2004	1,049	1,358	2,407
Amortisation and impairment			
1 January 2004	772	580	1,352
Charge for the period	44	100	144
Disposals	-	(88)	(88)
31 December 2004	816	592	1,408
Net book amount			
31 December 2004	233	766	999
Net book amount			
31 December 2003	277	79	356

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

Impairment

As described in Note 1, due to external factors relating to telecommunications markets and internal factors such as operating losses and negative cash flows, at 31 December 2002, management has assessed the recoverable amount of the Mobile Operator's assets and an impairment loss of ROL 3,887 (ROL 3,381 in respect of property and equipment and ROL 506 in respect of intangible assets) has been recognised in the consolidated financial statements in respect of the mobile segment.

No additional impairment charge was recognized either as at 31 December 2003 or as at 31 December 2004. Given the uncertainties surrounding the viability of the Mobile Operator, management of the Company are unable to assess whether the impairment charge is sufficient.

3 Purchase of property, plant and equipment and intangible assets

	Year ended 31 December	
	2004	**2003**
Additions to property, plant and equipment	4,985	2,436
Additions to intangible assets	804	33
Total capital expenditure	5,789	2,469
Decrease in payables relating to capital		
expenditure	3,670	6,103
	9,459	8,572

4 Subsidiaries

The Company had three subsidiaries as at 31 December 2004, being:

(i) CosmoROM, a company incorporated in Romania on 15 January 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.

(ii) Cable Vision of Romania SA ("Cable Vision of Romania"), a company incorporated in Romania on 31 August 1993, in which the Company holds 95.67% interest. The principal activity of Cable Vision of Romania is the development and operation of cable television systems. As disclosed in Note 29(b) the subsidiary was sold in April 2005.

(iii) ARTelecom SA ("ARTelecom"), a company incorporated in Romania on 5 June 2001, in which the Company holds 99.999% interest. The principal activity of ARTelecom is the provision of Internet services. As disclosed in Note 29(d) the subsidiary merged with the Company in May 2005.

5 Available-for-sale investments

	2004	**2003**
1 January	57	57
Disposals	(50)	-
Provision	(7)	(57)
31 December	-	-

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

(i) Garanta SA (2004: 0.59% and 2003: 1.14%) - life and general insurance and reinsurance services;

(ii) Telemobil SA (2004: 0% and 2003: 0.12%) - development and operation of a CDMA 450 cellular phone network in Romania. The investment was sold in October 2004.

(iii) Pagini Aurii SA (2004: 0.55% and 2003: 10.68%) – production of printed telephone directories.

6 Inventories

	2004	**2003**
Engineering stores (at net realisable value)	2,512	3,448
Other inventories (at net realisable value)	84	97
	2,596	3,545

The Company revised drastically its Investment Plan during the year 2003. The outcome of this exercise is that the Investment activity will be concentrated on internal infrastructure projects cancelling a number of projects that had not commenced or were at the initial stages. As a result, the Company performed an analysis of the engineering stores in balance as at 31 December 2003 which led Management to the conclusion that a large portion of engineering stores should be reclassified to inventories.

Consequently, the amount of ROL 2,646 was reclassified from property, plant and equipment to current assets – inventories. The reclassification is stated net of a provision of ROL 737, of which ROL 386 write-down to net realizable value as of 31 December 2002 and a further write-down of ROL 351 performed as of 31 December 2003 upon reclassification.

Inventories are shown net of a provision of ROL 1,707 (2003: ROL 886).

7 Receivables and prepayments

	2004	2003
Domestic trade receivables, net	3,281	3,491
Foreign trade receivables, net	741	893
Receivables from related parties (Note 22)	170	6
Prepaid taxes	152	153
Advances to suppliers	30	65
Other receivables and prepaid expenses	471	312
	4,845	4,920

Domestic trade receivables and other receivables are shown net of a provision for impairment of ROL 1,336 and ROL 62, respectively (2003: ROL 1,277 and ROL 53, respectively). Foreign trade receivables comprise balances denominated in foreign currencies, mainly SDR, due from foreign telecommunications operators, net of amounts due to the same operators.

Prepaid taxes relate to VAT recoverable and to VAT not due.

8 Cash and cash equivalents

	2004	2003
Cash at bank and in hand		
- in ROL	180	288
- in foreign currencies	48	66
Short term bank deposits		
- in ROL	2,540	1,706
- in foreign currencies	1,166	1,806
	3,934	3,866

Cash balances at 31 December 2004 include ROL 1 (2003: ROL 23) held in foreign currency as collateral in respect of certain foreign supplier contracts and bank loans.

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

	2004	2003
Deposits in ROL	16.0%	15.0%
Deposits in foreign currencies	1.5%	1.0%

During 2004, these deposits had an average maturity of 6 days (2003: 5 days).

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

	2004	2003
Cash and cash equivalents	3,934	3,866
Bank overdrafts (Note 10)	-	(107)
Restricted cash	(1)	(23)
	3,933	3,736

9 Ordinary shares and share premium

	Share capital	Share premium	Total
1 January 2003	58,840	4,354	63,194
Cash subscriptions	536	5,007	5,543
Debt converted into equity	374	3,591	3,965
31 December 2003 and 31 December 2004	59,750	12,952	72,702

On 31 January 2003, the Extraordinary General Shareholders Meeting approved the increase in the share capital by cash contribution and by the conversion of the EUR denominated loan from OTE International Investments, amounting to EUR 55 million, representing ROL 641 (nominal amount), the equivalent of 6,416,462 shares with a nominal value of ROL 100 thousand per share. Furthermore, the Extraordinary General Shareholders Meeting approved the conversion of the golden share held by the Romanian Government through MCTI into an ordinary share and the termination of the Technical Services Agreement.

The share capital increase through the conversion of certain USD denominated payables to OTE International Investments, amounting to USD 42.6 million, representing ROL 137 (nominal amount), the equivalent of 1,367,501 shares with a nominal value of ROL 100 thousand per share, occurred on 28 February 2003.

Consequently, OTE International Investments' share in the Company increased from 35% to 54.01%.

At 31 December 2004 the statutory share capital of the Company is made up of 31,846,449 ordinary shares (31 December 2003: 31,846,449 ordinary shares) with a nominal value of ROL 100 thousand each, fully paid at the balance sheet date. Ordinary shares carry voting rights with no guarantee of dividends. Currently there are no authorised shares in excess of shares issued.

The shareholding structure as at 31 December 2004 and 2003 was as follows:

	Number of shares	**Percentage held**	**Amount**
Romanian Government through MCTI	14,646,092	45.99%	27,479
OTE International Investments	17,200,354	54,01%	32,271
Other shareholders	3	0.00%	-
	31,846,449	100.00%	59,750

The individual statutory financial statements of the Company and its subsidiaries are the basis of profit distribution and other appropriation. The Romanian legislation identifies the basis of distribution as the current year statutory net profit. The Company recorded in 2004 a statutory profit after taxation. However, this legislation and other statutory law and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

10 Borrowings

	2004	2003
Short term loans:		
ROL (floating rate: BUBOR + 4%)	-	314
EUR (floating rate: EURIBOR + 2.65%)	-	41
	-	355
Overdrafts		
USD (floating rate: LIBOR + 2% at 31 December 2003)	-	107
	-	107
International Financial Institutions ("IFI") loans:		
EUR (floating rate: LIBOR + 1.5%)	2,555	3,472
USD (floating rate: LIBOR + 1.7% - LIBOR + 2%)	291	1,015
EUR (floating rate: 5% - 8%)	1,575	2,033
	4,421	6,520
Commercial banks loans:		
EUR (fixed rate: 8.44% - 10.4%)	-	62
EUR (fixed rate: 6.84% - 7.95%)	-	96
KWON (fixed rate: 2.5% - 4.2%)	1,865	1,958
SEK (fixed rate: 8.54%)	-	19
USD (floating rate: LIBOR + 0.5%)	-	161
EUR (floating rate: EURIBOR + 2.5%)	675	726
	2,540	3,022
Loans from OTE International		
Investments (Note 22):		
EUR (floating rate: EURIBOR + 2.5%)	873	939
USD (floating rate: LIBOR + 1.5%)	291	338
	1,164	1,277
Total borrowings	8,125	11,281
Less current borrowings	(1,162)	(1,738)
Less current portion of long-term borrowings	(1,352)	(2,150)
	(2,514)	(3,888)
Non-current borrowings	5,611	7,393

Maturity of non-current borrowings

	2004	2003
Between 1 and 2 years	1,736	1,474
Between 2 and 5 years	1,971	3,307
Over 5 years	1,904	2,612
	5,611	7,393

Breach of loan covenants

The USD and EUR loans from the EBRD are subject to restrictive covenants which require the Group to achieve minimum ratios in respect of tangible net worth, financial debt, the debt coverage and current ratio, computed on the annual consolidated IFRS financial statements. With the exception of current ratio, all other ratios have been met for the years ended 31 December 2004 and 31 December 2003.

As a result of the breach of the above ratio as at 31 December 2004, such facilities may have become payable on demand. The Company has officially notified the EBRD of this breach. The EBRD has not issued a waiver that this breach will not result in the facilities being withdrawn, nor have they notified the Company of such withdrawal. The other long-term loans do not include clear cross default covenants.

Management believes that the actual breach of current ratio will not result in changes of the repayment terms. As a result, the long term portion of the EBRD loans in amount of ROL 768 billion (2003: ROL 1,715) is presented under long term loans, without being reclassified into current liabilities, as required by IAS 1 – Presentation of Financial Statements.

Other restrictive clauses

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

Pledged assets

The EUR loan from the EBRD and the EUR loans from the other IFI are collateralised by guarantees from the Government of Romania. The USD loan from the EBRD and the loans from OTE International Investments are not collateralised. The other loans are collateralised by guarantees from the Ministry of Finance.

Loan repayments in respect of Cosmorom

In 2003, Cosmorom has not managed to raise finance in order to repay its short-term liabilities, including the loans and overdrafts guaranteed by Romtelecom.

Consequently, on 3 October 2003, the Company has repaid Cosmorom's overdraft balance amounting to EUR 11.8 million.

On 14 November 2003, the Company settled the short-term loan of Cosmorom amounting to USD 30 million by the repayment of USD 10 million and the conversion of the remaining balance into long-term loan amounting to EUR 17 million repayable in January 2005.

Fair value of borrowings

The carrying amounts and fair values of non-current borrowings as at the balance sheet date are as follows:

	Carrying amounts		**Fair values**	
	2004	**2003**	**2004**	**2003**
Non-current borrowings	5,611	7,393	5,647	7,667

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

Undrawn committed borrowing facilities

The Group has the following undrawn committed borrowing facilities:

	2004	2003
Short-term loans	1,098	1,021
Overdrafts	445	374
	1,543	1,395

The undrawn committed borrowing facilities can also be classified as:

	2004	2003
Floating rate		
Expiring within one year	1,543	1,395
Fixed rate	-	-
	1,543	1,395

Interest rate exposure and effective interest rates

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

	2004	2003
Borrowings:		
- at floating rate	6,261	9,147
- at fixed rate	1,865	2,135
	8,126	11,282
Effective interest rates:		
- overdrafts - ROL	-	23.20%
- short - term loans - ROL	19.83%	22.83%
- overdrafts - foreign currencies	3.89%	4.45%
- short-term loans - foreign currencies	4.21%	5.12%
- long-term loans - foreign currencies	4.24%	4.31%

11 Deferred tax liabilities, net

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 16% (2003: 25%).

The movement of the deferred tax liabilities is as follows:

	2004	2003
1 January	3,834	3,318
Deferred income taxes for the year (Note 19)	1,479	2,414
Deferred tax arising from the statutory revaluation of property, plant and equipment (Note 19)	199	(1,898)
Change in tax rate (Note 19)	(1,984)	-
31 December	3,528	3,834

At 31 December 2003, 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 7,590. The application of IAS 12 revised - Income Taxes, gave rise to a release of deferred tax in the income statement, amounting to ROL 1,898.

Effective from 1 January 2005 the profit tax rate decreased from 25% to 16%, the effect being a release of deferred tax in amount of ROL 1,392.

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses from the Mobile Operator of ROL 6,786 (nominal amount) (2003: ROL 6,205 (nominal amount)) to carry forward to offset against future taxable income; these tax losses will expire in the period to 2008 and have not been recognised in these consolidated financial statements.

The unrecognised tax losses of the Mobile Operator will expire as follows:

	2004 (nominal)	2003 (nominal)
Must be utilised within:		
3 years	4,141	1,818
3 – 5 years	2,645	4,387
	6,786	6,205

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

Deferred tax liabilities	Property, plant and equipment	Other assets	Total
At 31 December 2003	4,758	38	4,796
Charged to income statment	739	85	824
Change in tax rate from 25% to 16%	(1,979)	(44)	(2,023)
At 31 December 2004	3,518	79	3,597

Deferred tax assets	Tax losses	Other liabilities	Total
At 31 December 2003	(721)	(241)	(962)
Debited to income statement	721	133	854
Change in rate from 25% to 16%	-	39	39
At 31 December 2004	-	(69)	(69)
Net effect	3,518	10	3,528

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

The amounts shown in the balance sheet include the following:

	2004	2003
Deferred tax liabilities to be settled after more than 12 months	3,166	4,762

12 Other liabilities

	2004	2003
Deferred income	349	227
Customer deposits	6	338
Other payables and accruals	4	42
	359	607

The customer deposits represented guarantees retained from the Company's business customers to cover the risk of non-payment. These deposits were either paid back or offset against outstanding balances at the termination of service. The Company ceased retaining such guarantees in October 2004 and reimbursed them to its corporate customers.

13 Trade payables (long term)

	2004	2003
Payables to services and inventory suppliers	755	674
Payables to fixed asset suppliers	8,705	13,107
Less current portion of payables to fixed assets		
suppliers (Note 14)	(8,560)	(8,058)
Non-current portion	900	5,723

Maturity of non-current portion of trade payables:

	2004	2003
Between 1 and 2 years	440	4,065
Between 2 and 5 years	460	1,658
	900	5,723

The Company initiated and concluded during 2004 changes to the scheduling of the trade payables to certain fixed assets suppliers.

The amounts due to related parties are disclosed under Note 22. A significant part of the amounts payable to fixed asset suppliers carry an interest rate of EURIBOR + 1.5%.

14 Trade and other payables

	2004	2003
Payables to fixed assets suppliers (Note 13)	8,560	8,058
Deferred income	1,097	1,127
Amounts due to the State	953	894
Payables to services and inventory suppliers	755	406
Dividends payable	-	301
Other payables and accruals	1,514	1,518
	12,879	12,304

Included within trade and other payables are ROL 800 (2003: ROL 285) due to related parties (Note 22).

15 Provisions

	Provisions at the litigation with Competition Council	Provisions for redundancy payments	Provisions for retirement benefits	Other provisions	Total
Balance as at 31 December 2003	420	590	-	130	1,140
Additional provisions	-	-	53	58	111
Effect of hyperinflation	(15)	(21)	-	(5)	(41)
Utilized during the year	-	(564)	-	(83)	(647)
Balance as at 31 December 2004	405	5	53	100	563

The Company is in course of restructuring and recognized a provision of ROL 5 at the end of 2004 (2003: ROL 590) for redundancy costs that will be paid in 2005, based on the restructuring plan started before the year-end.

The Company is party to a litigation initiated by the decision of the Competition Council (the "Authority"). Romtelecom was fined ROL 839, based on the Authority Decision 264 on 4 July 2002, for the inclusion in 1993 of a non-competition clause in the association contract concluded with Transpac SA (entity subsequently acquired by Global One Communications Holding BV), for the creation of Global One Communications Romania SA. The Authority considers that this clause has breached the provisions of the Competition Law (Law 21/1996). The Company disputed the guilt and the fine in front of the competent authorities and as a consequence the fine was reduced to half of the initial amount. In 2005 the competent Court ruled in favour of Romtelecom and the fine was cancelled (Note 29 (c)). The Competition Council has the right to appeal the ruling and therefore the management of the Company cannot assess that the probability of an unfavourable outcome has become improbable.

Other provisions relate mainly to several litigation against the Company.

16 Revenue

	Note	2004	2003
Revenue from fixed line telephony	16.1	33,995	32,659
Revenue from mobile telephony	16.2	263	291
		34,258	32,950

16.1 Revenues from fixed line telephony can be analysed as follows:

	2004	2003
Domestic telephony	21,591	21,182
International telephony	5,568	4,337
New business	3,398	3,592
Traditional services	1,661	1,413
Interconnect with mobile operators	379	472
Other	1,398	1,663
	33,995	32,659

During 2004 the Company changed its commercial policy in respect of subscriptions fees. Previously, fixed line residential subscribers received 100 free pulses per month, non-cumulative, included within the rental fee. One pulse represented between 5.5 seconds and 10 minutes of domestic calls. After the change, residential subscribers receive between 20 and 50 free minutes depending on the subscription type.

16.2 Revenues from mobile telephony can be analysed as follows:

	2004	2003
Airtime revenues	90	127
Monthly service fees	34	61
Other operating revenues	139	103
	263	291

Sales of services to related parties are described in Note 22.

17 Operating expenses

	2004	2003
Wages and salaries	6,065	7,476
Redundancy payments	2,092	1,671
Social security contributions	2,037	2,610
Other expenses related to staff	222	159
Total staff costs	**10,416**	**11,916**
Depreciation (Note 1)	8,406	8,249
Amortisation (Note 2)	144	131
Provision for assets proposed for disposal	42	107
Total depreciation and amortisation	8,592	8,487
Interconnect with mobile operators	3,725	4,261
Overseas operators	1,073	859
Provisions	1,069	586
Third party services	1,003	1,340
Consumables	881	988
Maintenance	738	861
Rentals	611	675
Merchandises	463	427
Taxes	436	534
Utilities	434	398
Payments to Value Added Services suppliers	278	210
Advertising	252	158
Management fees	177	163
Fuel	162	196
Spare parts	119	206
Proceeds from disposal of property, plant and equipment	(24)	(11)
Other	697	366
	31,102	32,620
Less own work capitalised	(101)	(135)
	31,001	**32,485**

Purchases of services from related parties are described in Note 22.

18 Finance revenue/(costs), net

	2004	2003
Interest expense and similar charges		
Interest and similar expenses	(791)	(1,244)
Foreign exchange losses	(856)	(4,448)
Total interest expense and other charges	(1,647)	(5,692)
Less interest capitalised	4	49
	(1,643)	(5,643)
Interest income and similar income		
Interest income	412	156
Foreign exchange gains	1,440	1,260
	1,852	1,416
Finance revenue / (costs), net	209	(4,227)

19 Tax

	2004	2003
Current income taxes	381	6
Deferred income taxes (Note 11)	1,479	2,414
Deferred tax arising from the statutory revaluation of property, plant and equipment (Note 11)	199	(1,898)
Deferred tax expense effect of decrease in tax rate (Note 11)	(1,984)	-
	75	522

The difference between income tax expense, computed at Romanian statutory rates (25% in 2004 and 2003) and income tax expense provided on the results were as follows:

	2004	2003
Profit / (loss) before tax	4,525	(587)
Net expenses not deductible for tax purposes	1,790	2,157
Permanent-differences from IFRS adjustments	1,125	7,888
Taxable profit	7,440	9,458
Tax calculated at rate of 25%	1,860	2,365
Deferred tax arising from the statutory revaluation		
of property, plant and equipment (Note 11)	199	(1,898)
Change in tax rate from 25% to 16% - effect on		
opening balance sheet (Note 11)	(1,984)	-
Impact of tax losses carried forward	-	55
Tax charge	75	522

Net expenses not deductible for tax purposes in 2003 include ROL 363 representing adjustments made in the Company's statutory financial statements to write off the investment in CosmoROM, provisions against amounts receivable from CosmoROM and provisions for CosmoROM's liabilities guaranteed by the Company.

Permanent differences from IFRS adjustments relate to restatement of opening shareholder's equity, impairment adjustments and consolidation adjustments.

20 Dividends per share

No dividends were declared in 2004 and 2003.

21 Cash generated from operations

	2004	2003
Profit / (loss) before tax	4,525	(587)
Adjustments for:		
Depreciation and Amortisation (Note 17)	8,592	8,487
Foreign exchange loss / (gain) on finance activities	(251)	990
Monetary effect on non operating activities and income tax	(263)	(1,366)
Interest expense (Note 18)	787	1,195
Interest income (Note 18)	(412)	(156)
Loss on disposal of property, plant and equipment	349	95
Change in bad debt provision due to inflation	(48)	(170)
Provision expense	1,069	1,102
Gain on disposal of fixed assets investments	(2)	-
Operating profit before working capital changes	14,346	9,590
Decrease / (Increase) in receivables and prepayments	(244)	1,956
Decrease in inventories	122	43
Decrease in trade and other payables	(1,244)	(757)
Changes in working capital	(1,346)	1,242
Cash generated from operations	**13,000**	**10,832**

22 Related party transactions

OTE International Investments is controlled by OTE.

Hellascom International SA (“Hellascom”), OTE Consulting SA (“OTE Consulting”), Cosmote SA (“Cosmote”) and OTE Globe SA (“OTE Globe”) are controlled by OTE.
The monetary amount of sales to, purchases from and balances with OTE, OTE International Investments, OTE Consulting, OTE Globe, Hellascom and Cosmote are presented below.

Sales of services

	2004	2003
Sales of services:		
OTE	164	109
Cosmote	4	3
OTE Globe	147	1
	315	113

Sales of services to OTE, Cosmote and OTE Globe represent calls and other traffic that originate in the above-mentioned operators' network and use Romtelecom's network. These transactions are carried out on commercial terms and conditions and at market prices.

Purchases of goods and services

	2004	2003
Purchases of services:		
OTE International Investments	176	176
OTE Consulting	-	9
OTE Globe	59	42
OTE	27	51
	262	278

	2004	2003
Purchases of goods and related services:		
Hellascom	40	140

Purchase of services from OTE and OTE Globe represent calls and other traffic that originate in Romtelecom's network and use the above-mentioned operators' network. These transactions are carried out on commercial terms and conditions and at market prices.

Payments to OTE International Investments are made under a technical services agreement signed between Romtelecom, OTE International Investments, OTE and the Romanian State Ownership Fund.

Based on this contract, OTE International Investments will provide certain services such as to integrate Romtelecom within the OTE International Investments' global relations network, to increase the quality of services and to enable Romtelecom to participate in international services supply schemes. The contract was terminated on 31 January 2003 and replaced by a services agreement signed between Romtelecom and OTE International Investments. The purpose of the new contract is the provision of management assistance by OTE International Investments to Romtelecom and the hiring of experienced expatriate personnel by OTE International Investments to serve in management positions at Romtelecom.

Purchases from OTE Consulting represent consulting services. These purchases were carried out on commercial terms and conditions and at market prices. Substantially, the contract with OTE Consulting ended in 2002.

Purchases from Hellascom are under long-term frame contracts for the supply and construction of cables, related equipment and accessories. These transactions are carried out on commercial terms and conditions and at market prices.

According to IAS 23 ("Related Parties Transactions") allowed alternative treatment (see Accounting Policies note G), the Company capitalizes interest on borrowings to finance the construction of property, plant and equipment during the period of time that is required to complete and prepare the asset for its intended use. Interest costs on fixed assets purchases from Hellascom are consequently capitalised. Other borrowings costs are expensed.

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

Receivables from related parties	**2004**	**2003**
OTE International	27	-
OTE	89	6
OTE Globe	54	-
	170	6

Payables to related parties	2004	2003
Hellascom	964	1,193
OTE International Investments	433	767
OTE Globe	16	-
OTE	20	-
	1,433	1,960
Out of which long term	(633)	(1,675)
	800	285

Loans from related parties

Loans from OTE International Investments	2004	2003
Loan 1 EUR (floating rate: EURIBOR + 2.5%)		
(Note 10)	873	939
Loan 2 USD (floating rate: LIBOR + 1.50%)		
(Note 10)	291	338
	1,164	1,277

The loans can be further analysed as follows:

	2004	2003
At beginning of the year (Note 10)	1,277	1,305
Effects of inflation	(113)	(28)
At end of year (Note 10)	1,164	1,277

Loans from OTE International Investments comprise:

Loan 1 amounting to ROL 873 (EUR 22 million) granted on 1 December 2001, initially for a three-month period, bearing an interest rate of EURIBOR + 2.5%. The loan was subsequently periodically extended. No assets are pledged as collateral.

Loan 2 amounting to ROL 291 (USD 10 million), granted on 15 December 2000, initially for a three-month period, bearing an interest rate of LIBOR + 1.5%. The loan was subsequently periodically extended. No assets are pledged as collateral

23 Segment information

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

(a) Primary reporting format – business segments

The following table presents a summary of operating results of the Group by segment for the years ended 31 December 2004 and 31 December 2003.

	Year ended 31 December	
	2004	**2003**
Revenues		
Fixed line & others	34,648	33,071
Mobile	271	381
Inter-segment elimination	(661)	(502)
	34,258	32,950
Depreciation, amortisation and impairment charge		
Fixed line & others	8,205	7,911
Mobile	385	469
	8,590	8,380
Operating profit/(loss)		
Fixed line & others	3,683	1,273
Mobile	(426)	(808)
	3,257	465
Finance revenues / (costs), net	1,268	(1,052)
Profit / (loss) before tax	4,525	(587)
Tax	(75)	(522)
Group net profit / (loss)	4,450	(1,109)

Assets	2004	2003
Fixed line & others	91,933	94,796
Mobile	3,375	4,566
Inter-segment elimination	(776)	(805)
	94,532	98,557
Liabilities		
Fixed line & others	19,280	27,005
Mobile	7,850	8,568
Inter-segment elimination	(776)	(805)
	26,354	34,818
Capital expenditure		
Fixed line & others	5,767	2,460
Mobile	23	9
	5,790	2,469

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

(b) Secondary reporting format - geographic segments

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

24 Monetary assets and liabilities denominated in ROL and foreign currencies

	2004	2003
Assets		
Monetary assets in ROL	7,821	6,095
Monetary assets in foreign currencies	959	2,692
	8,780	8,787
Liabilities		
Monetary liabilities in ROL	(10,833)	(7,780)
Monetary liabilities in foreign currencies	(11,994)	(23,277)
	(22,827)	(31,057)
Net monetary position in ROL	(3,012)	(1,685)
Net monetary position in foreign currencies	(11,035)	(20,585)

25 Commitments

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

	2004	2003
Non-cancellable commitments	6,438	1,538
Cancellable commitments	9,392	7,446
	15,830	8,984

26 Service concession arrangement

The Group provides telecommunication services in accordance with granted licences:

The Company

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

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

Under the provisions of EGO no. 79/2002 related to the general regulatory framework of communications, prior to 01.01.2003, Romtelecom submitted to ANRC the notification regarding the supply of electronic communication networks and services. Further to relevant notification Romtelecom has been issued a Type Certificate (“Certificate”), which replaced the operating License of Romtelecom, and any other prior licenses and authorization, except those related to frequency spectrum, which remain valid until renewal.

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

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

In accordance with the new regulatory framework, Romtelecom is obliged to provide the following services:
Interconnection;
Indirect interconnection;
Intelligent network services;
Leased line terminating segments;
Perform the "top-down" Long Run Incremental Costing (“LRIC”) model; and
Perform the accounting separation, within the internal cost accounting system.

The tariffs until 31 December 2002 were established in accordance with the Telecommunication Law, Competition Law and Government Ordinance 670/1998 (“GO 670/1998”). In accordance with GO 670/1998 tariffs could be changed at minimum 3 months, based on the formula provided within the Ordinance.

Starting with 2003, in accordance with the Law no. 304/2003 on Universal Service and users' rights relating to electronic communication networks and services, until the issuing of a decision of the President of ANRC regarding the level of tariffs for the supply of retail services, Romtelecom must require ANRC's agreement for the increase of tariffs for retail services supplied at the date of coming into force of this Law.

Romtelecom, as Significant Market Power Operator on the market of access to the fixed public telephone network for call origination, termination and transit, as defined by ANRC Decision 142/2002, is required to provide interconnection based on its cost. Until the LRIC output is ready, ANRC has established interim interconnection rates based on benchmarks, according to ANRC Decision no. 147/2002 regarding the principles and preconditions of Reference Interconnection Offer with fixed public telephone network, amended and completed with Decision no. 1379/2003 on interconnection for leased line terminating segments with fixed public telephone networks and Decision no. 1384/2003 regarding amendment and completion of the ANRC Decision no. 147/2002.

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

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

Regarding the retail markets, ANRC has been designated Romtelecom as having significant power on the following markets:

- market of calls to public mobile telephone networks, at a fixed location, for residential customers
- market of international calls, at a fixed location, for business customers
- market of international calls, at a fixed location, for residential customers
- market of long distance calls, at a fixed location, for business customers
- market of long distance calls, at a fixed location, for residential customers
- market of local calls, at a fixed location, for business customers
- market of local calls, at a fixed location, for residential customers
- the market of providing access to a public telephone network, at a fixed location, for residential - customers

For all these markets no obligations have been yet imposed by ANRC.

CosmoROM

CosmoROM provides its services in accordance with the License granted by MCTI for the provision of telecommunication services. The License has been granted in January 1999 for a period of 10 years with exclusivity rights in the 1,800 MHz bandwidth until 31 December 2002. The duration of the original license may be extended for an additional period, subject to the agreement of the parties, for an additional concession fee. For renewing the license, CosmoROM shall submit a request with 10 months prior to original expiration.

In accordance with the License, the Company has the right to provide the following services:
- installation and operation of a public mobile telecommunication network in the GSM standard in the band of 1800 MHz;
- conclude agreements with domestic and foreign subjects concerning interconnection and roaming.

In accordance with the License, CosmoROM is in particular obliged to:
- build a network complying with DCS standards; and
- observe network quality indicators.

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

Public asset law

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

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

The efficient operation of the telecommunications and data transmission systems is of great importance to Romania for various reasons including economic, social, strategic and national security considerations. The Government therefore has exercised and may be expected to exercise significant influence over the operations of the telecommunications sector and consequently, the Group. The Government, acting through the MCTI and the Competition Council, has the general authority to regulate domestic tariffs, and does regulate tariffs to a limited extent. The National Regulatory Authority for Communications (“ANRC”) has control over the licensing of providers of fixed telecommunication services and has the authority to regulate the electronic communication market.

27 Government policy with regard to the telecommunication sector

Liberalisation of the telecommunication market

During the year 2002, the Government of Romania issued several legislative acts, in line with the Directives of the European Community, with the aim to prepare for the liberalisation of the telecommunication market.

The most important legislative act was the Emergency Ordinance 79 of 13 June 2002 regarding the general regulatory communication framework which defines the responsibilities of the ANRC with regard to the electronic communication sector, the authorisation regime underlying these activities and the specific rules governing competition in the markets of postal services and electronic communication services and networks.

Through the Decision 142/2002 (regarding the designation of S.N.Tc. Romtelecom SA as an operator with significant power in the market of public fixed telephony networks for call origination, termination and transit), ANRC designated Romtelecom as an operator with significant power on this market of the access to the public fixed telephony networks for call origination, termination and transit. Romtelecom is therefore subject to various decisions and regulations imposed by ANRC.

28 Contingencies

(a) Litigation

On 4 December 2003, the International Court of Arbitration within the International Chamber of Commerce Paris notified CosmoROM of the initiation of the arbitration proceedings brought by Intracom and Intrarom, the Company's suppliers, for the alleged non-payment by the Company of amounts due and owing for telecommunication equipment and related services provided under the terms of a contract signed by CosmoROM, Intracom and Intrarom on 30 July 1999. The arbitration proceedings have been brought also against Romtelecom (the Company's main shareholder), OTE International Investments (the main shareholder of Romtelecom) and OTE (the main shareholder of OTE International Investments). Considering that - based on the information received from the lawyers retained to represent the Company in front of the Arbitration Court - the claims have been barely pleaded in any substantive form by Intracom and Intrarom and taking into account the opinion expressed by the lawyers at this stage, the Company's management cannot estimate the output of the arbitration proceedings.

Except for the arbitration proceedings described above, the Group is subject to a number of proceedings arising from the normal conduct of its business. Management believes that the ultimate resolution of these matters will not have a material adverse effect on the results of operations or the financial position of the Group.

(b) Wayleaves

Romtelecom SA was established as a joint stock company as of 1 November 1997 as per Government Decree 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, which is the right to install the network in public and private properties, no claims have been received at the balance sheet date for the period prior to the corporatisation date. Management do not expect to receive any such material claims in the future.

(c) Taxation

The Romanian taxation system is undergoing a process of consolidation and harmonization with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties (respectively 0.06% per day and 0.5% per month of delay). In Romania, tax periods remain open for 5 years. The Company's management considers that the tax liabilities included in these consolidated financial statements are fairly stated.

(d) Operating environment of the Company

Romania continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in other countries and restrictive currency controls. The tax, currency and customs legislation within Romania is subject to varying interpretations, and changes, which can occur frequently.
Whilst there have been improvements in the economic trends, the future economic direction of Romania is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

29 Subsequent events

Tariffs rebalancing

In February 2005 Romtelecom made a step forward in rebalancing its tariffs between subscription fee and call minute tariffs, by increasing the subscription fee by 34,1% and decreasing the tariffs for long distance calls by 0,6%.

Sale of CVR

In 2005, the Group concluded an agreement to sell its shares in Cable Vision Romania. The final transfer of shares took place in April 2005, when Astral Telecom became owner of 95.7% of the share capital of Cable Vision Romania. The Group recorded a gain on the disposal of its subsidiary.

Lawsuit with the Competition Council

As more detailed presented in Note 15, Romtelecom was engaged in a lawsuit with the Competition Council, for a fine of ROL 405 billion (approximately EUR 11 million). In April 2005 the Court ruled in favour of Romtelecom and the fine was cancelled. The competition Council has the right to appeal the ruling.

Merger of Romtelecom with ARTelecom

In 2005 the Board of Directors of Romtelecom decided the merger between Romtelecom and ARTelecom. In April 2005 the Shareholders of both companies approved the merger and Additional Acts to the Constitutive Acts of both companies have been concluded in this respect. The finalisation of the merger will take place in May 2005.

Foreign exchange rates

On 6 June 2005, the foreign exchange rates of ROL to EUR and USD are 36,174 and 29,470 respectively.

For additional information please contact the company at:
ROMTELECOM S.A., Str. Gârlei 1B, Bucharest, Sect. 1, Romania
+40 21 400 5203
www.romtelecom.ro