

SC ROMTELECOM SA

**CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2009**

Contents	Pages
Report of the independent auditors	-
Consolidated statement of comprehensive income	I
Consolidated statement of financial position	II
Consolidated statement of changes in equity	III
Consolidated statement of cash flows	IV
Notes to the consolidated financial statements	1 - 67

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of S.C. Romtelecom S.A. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2009 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2009, and of its consolidated financial performance and its consolidated statement of cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

March 4, 2010

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style. The signature is positioned above the printed name of the firm.

Ernst & Young Assurance Services SRL
Bucharest, Romania

SC ROMTELECOM SA – For the year ended 31 December 2009
Consolidated statement of comprehensive income
(all amounts in Romanian lei thousand unless otherwise stated)

	Notes	Year ended 31 December	
		2009	2008
Revenue	5	3,421,840	3,203,679
Operating expenses	6	(3,486,042)	(3,341,675)
Operating loss		(64,202)	(137,996)
Finance income	7	126,020	146,138
Finance costs	7	(100,759)	(102,423)
Share of loss of associate	12	(74,122)	(122,890)
Loss before tax		(113,063)	(217,171)
Income tax (expense) / credit	8	(33,166)	37,944
Net loss for the year		(146,229)	(179,227)
Other comprehensive income		-	-
Total comprehensive loss for the year, net of tax		(146,229)	(179,227)
Loss attributable to:			
Equity holders of the parent		(146,229)	(179,227)
		(146,229)	(179,227)
Total comprehensive loss attributable to:			
Equity holders of the parent		(146,229)	(179,227)
		(146,229)	(179,227)
Basic and diluted loss per share from continuing operations (RON / share)	9	(4.59)	(5.63)

These consolidated financial statements, accompanying policies and notes on pages 1 to 67, which form an integral part of these financial statements, were approved for issue by the Board of Directors of SC Romtelecom SA on 18 March 2010 and signed on its behalf by:

Georgios Ioannidis
Chief Executive Officer



Anastasios Tzoulas
Chief Financial Officer

SC ROMTELECOM SA - As at 31 December 2009
Consolidated statement of financial position
(all amounts in Romanian lei thousand unless otherwise stated)

	Notes	As at 31 December 2009	As at 31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	10.1	5,678,505	6,153,848
Investment property	10.2	211,540	69,134
Intangible assets	11	174,589	243,660
Investment in associate	12	44,969	119,091
Trade and other receivables	16	56,360	60,907
Other investments	13	78	78
Deferred charges	15	36,213	52,418
		6,202,254	6,699,136
Current assets			
Inventories	17	321,462	291,185
Trade and other receivables	16	546,776	498,727
Financial assets	14	47,928	34,811
Deferred charges	15	29,137	29,660
Cash and cash equivalents	18	781,857	618,617
		1,727,160	1,473,000
Total assets		7,929,414	8,172,136
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	19	5,975,037	5,975,037
Share premium		1,295,227	1,295,227
Accumulated deficit		(495,892)	(349,663)
		6,774,372	6,920,601
LIABILITIES			
Non-current liabilities			
Interest bearing loans and borrowings	21	148,161	159,812
Deferred tax liabilities	22	194,318	206,151
Retirement benefit obligations	23	51,113	42,668
Finance lease liabilities	26	9,391	17,942
Other payables	20	912	457
Deferred income	25	76,442	94,331
		480,337	521,361
Current liabilities			
Trade and other payables	20	550,329	579,044
Interest bearing loans and borrowings	21	29,816	58,951
Provisions for charges and liabilities	24	5,734	6,586
Finance lease liabilities	26	10,534	6,814
Deferred income	25	78,292	78,779
		674,705	730,174
Total liabilities		1,155,042	1,251,535
Total equity and liabilities		7,929,414	8,172,136

The accompanying policies and notes on pages 1 to 67 form an integral part of these consolidated financial statements.

SC ROMTELECOM SA - As at 31 December 2009
Consolidated Statement of Changes in Equity
(all amounts in Romanian lei thousand unless otherwise stated)

	<u>Share capital</u>	<u>Share premium</u>	<u>Accumulated deficit</u>	<u>Total equity</u>
Balance at 1 January 2008	5,975,037	1,295,227	(170,436)	7,099,828
Net loss for the year	-	-	(179,227)	(179,227)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(179,227)	(179,227)
Balance at 1 January 2009	<u>5,975,037</u>	<u>1,295,227</u>	<u>(349,663)</u>	<u>6,920,601</u>
Net loss for the year	-	-	(146,229)	(146,229)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(146,229)	(146,229)
Balance at 31 December 2009	<u>5,975,037</u>	<u>1,295,227</u>	<u>(495,892)</u>	<u>6,774,372</u>

The accompanying policies and notes on pages 1 to 67 form an integral part of these consolidated financial statements.

SC ROMTELECOM SA – For the year ended 31 December 2009
Consolidated Statement of cash flow
(all amounts in Romanian lei thousand unless otherwise stated)

	Notes	Year ended 31 December	
		2009	2008
Cash generated from operations	27	1,030,979	758,987
Interest paid		(10,173)	(13,254)
Payments for fiscal audit penalties		-	(68,758)
Income tax paid		(51,283)	(7,542)
Net cash from operating activities		969,523	669,433
Cash flows from investing activities			
Purchase of tangible and intangible assets		(782,945)	(512,429)
Proceeds from sale of property and equipment		886	1,349
Advance for acquisition of internet networks		(10,499)	-
Purchase of short term investment titles		(73,792)	(22,475)
Proceeds from sale of short term investment titles		62,024	-
Proceeds from sale of long term bonds		-	75,000
Payments for increase in the share capital of associate		-	(138,938)
Interest received		67,327	63,121
Net cash used in investing activities		(736,999)	(534,372)
Cash flows from financing activities			
Repayments of loans and borrowings		(62,478)	(50,419)
Payment of finance lease liabilities		(7,241)	(1,764)
Net cash used in financing activities		(69,719)	(52,183)
Net increase in cash and cash equivalents		162,805	82,878
Cash and cash equivalents at the beginning of the year		618,061	535,183
Cash and cash equivalents at the end of the year	18	780,866	618,061

The accompanying policies and notes on pages 1 to 67 form an integral part of these consolidated financial statements.

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

1. GENERAL INFORMATION

Reporting entity

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

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

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

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

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

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

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

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

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

1. GENERAL INFORMATION (CONTINUED)

Management

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

Position	Manager
President of the Board of Directors	Mr. Panagiotis Vourloumis, was appointed as President of the BoD starting with June 23, 2004. The President of the Board of Directors was re-appointed on June 18, 2008.
Chief Executive Officer ("CEO")	Mr. Georgios Ioannidis was appointed as Chief Executive Officer starting with February 1, 2007. The appointment was approved by the Board of Directors on January 26, 2007.
Chief Financial Officer	Mr. Anastasios Tzoulas was appointed as Chief Financial Officer starting with May 1, 2007, based on CEO Decision dated April 30, 2007.
Chief Commercial Officer - Business Segment	Mr. George Makowski was appointed as Chief Commercial Officer - Business Segment starting with August 1, 2007, based on CEO Decision dated July 31, 2007.
Chief Commercial Officer - Residential Segment	Mr. Joerg Zeddies was appointed as Chief Commercial Officer - Residential Segment starting with August 1, 2007, based on CEO Decision dated July 31, 2007.
Chief Business Services Officer	Mr. Efthymios Papapostolou was appointed as Chief Business Services Officer starting with April 1, 2007, based on CEO Decision, dated 30 March 2007.
Chief Legal, Regulatory & Corporate Affairs Officer	Mr. Catalin Dima was appointed as Chief Legal & Corporate Affairs Officer starting with June 1, 2005. The appointment was approved by the Board of Directors on May 27, 2005. Starting with September 1, 2009, through decision no. 91/31.08.2009, the Chief Legal & Corporate Affairs Officer took over the Regulatory Affairs Division from Carrier Relations & Transformation – Corporate Group and the position was renamed as Chief Legal, Regulatory & Corporate Affairs Officer “.
Chief Information Officer	Mr. Fotis Karonis was appointed as Chief Information Officer starting with June 15, 2007, based on CEO Decision dated 31 May 2007.
Chief Human Resources Officer	Mrs. Anca Georgescu Aladgem was appointed as Chief Human Resources Officer starting with July 1, 2007, based on CEO Decision dated June 15, 2007.
Chief Technology & Operations Officer	Mr. Wolfgang Breuer was appointed as Chief Technology & Operations Officer starting with August 1, 2008, based on CEO Decision dated July 30, 2008.
Chief Operations Officer	Mr. Ioan Botis was appointed as Chief Operations Officer starting with February 1, 2008; based on CEO Decision dated January 30, 2008. Starting with August 1, 2008, the Chief Operations Officer is under the subordination of Chief Technology & Operations Officer.
Chief Technology Officer	Mr. Silviu Agapi was appointed as Chief Technology Officer starting with February 1, 2008; based on CEO Decision dated January 30, 2008. Starting with August 1, 2008, the Chief Technology Officer is under the subordination of Chief Technology & Operations Officer.

SC Romtelecom SA - year ended 31 December 2009**Notes to the consolidated financial statements**

(all amounts in Romanian lei thousand unless otherwise stated)

Chief Implementation Officer	Mr. Charalampos Konstantinidis was appointed as Chief Implementation Officer starting with August 1, 2008; based on CEO Decision no. 96/July 30, 2008; Chief Implementation Officer is under the subordination of Chief Technology & Operations Officer
Chief Strategy & Business Development Officer	Mr. Ovidiu Ghiman was appointed as Chief Strategy & Business Development Officer starting with September 1, 2009, based on CEO Decision no. 92/August 31, 2009.
Chief Business Development & Transformation Officer/Chief Carrier Relations Officer	Mr. Harm Aben was appointed as Chief Business Development & Transformation Officer starting with February 1, 2008, based on CEO Decision dated January 30, 2008. Starting with September 1, 2009 the position was renamed as "Chief Carrier Relations Officer", based on CEO Decision no. 93/August 31, 2009.
Chief Audit Officer	Mrs. Andreea Mirea was appointed as Chief Internal Auditor Officer starting with July 1, 2009, replacing Mr. Ovidiu Rusu who had been Chief Audit Officer since April, 2007 and who left the Company in 2009. The appointment was approved by the Board of Directors on June 29, 2009.
Chief Compliance Officer	Mrs. Marioara Maxim was appointed as Chief Compliance Officer starting with July 9, 2009, based on CEO Decision no. 77/July 09, 2009.

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

1. GENERAL INFORMATION (CONTINUED)

Exchange rates as at 31 December 2009

The principal exchange rates used to translate the balances in foreign currencies to RON as at 31 December 2009 are presented below:

<u>Currency</u>	<u>Abbreviation</u>	<u>Exchange rate (RON for 1 currency unit)</u>
Euro	EUR	4.2282
United States Dollars	USD	2.9361
Korean Wons	KWON	0.0025
Special Drawing Rights	XDR	4.6062

Glossary of terms

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

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian Lei thousand unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Index to accounting policies		Pages
A	Basis of preparation	5
B	Investment in associate	8
C	Operating segment reporting	8
D	Foreign currency translation	9
E	Accounting for the effect of hyperinflation	9
F	Property and equipment	10
G	Investment property	11
H	Intangible assets	11
I	Impairment of non-financial assets	12
J	Financial instruments	13
K	Inventories	1748
L	Share capital	18
M	Income tax	18
N	Employee benefits	19
O	Capital grants and transfer of assets from customers	20
P	Provisions	20
Q	Revenue recognition	21
R	Leases	23
S	Dividend distribution	23
T	Operating expenses	23
U	Comparatives	23

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, (including the effects of hyperinflation up to 30 June 2004), except for the initial valuation of property and equipment as further disclosed in paragraph F of this Note to the consolidated financial statements and the appraised value of the land received from the State free of charge, the valuation of investments in associates in accordance with the equity method prescribed by IAS 28 "Investments in associates" and the fair valuation of financial assets at fair value through the profit or loss and available for sale financial assets.

The management team has developed business plans for the Company for the period up to 2012. Management considers that the Company will be able to continue to operate as a going concern for the foreseeable future.

Statement of compliance

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

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

Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

- IFRIC 13 Customer Loyalty Programmes effective 1 July 2008
- IFRIC 15 Agreements for the Construction of Real Estate effective 1 January 2009
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
- IFRIC 9 Remeasurement of Embedded Derivatives (Amended) and IAS 39 Financial Instruments: Recognition and Measurement (Amended) effective for periods ending on or after 30 June 2009
- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amended) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 January 2009
- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations (Amended) effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IFRS 7 Financial Instruments: Disclosures (Amended) effective 1 January 2009
- IAS 1 Presentation of Financial Statements (Revised) effective 1 January 2009
- IAS 32 Financial Instruments: Presentation (Amended) and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (Amended) effective 1 January 2009
- IAS 23 Borrowing Costs (Revised) effective 1 January 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Basis of preparation (continued)

- Improvements to IFRSs (May 2008)
- IFRIC 18 Transfers of Assets from Customers effective 1 July 2009

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Company, its impact is described below:

- **IFRIC 18 Transfers of Assets from Customers**
This interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets. It is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. The interpretation did not have any impact on the Company's financial statements because the Company has already applied a similar accounting policy for a number of years (Notes 2 Q(i)) and 2 O).
- **IFRS 8 Operating Segments**
This Standard replaces IAS 14 'Segment reporting'. IFRS 8 adopts a management approach to segment reporting. The interpretation did not have any impact on the Company's financial statements because IFRS 8 does not apply to the Company.
- **IFRS 7 Financial Instruments: Disclosures (Amended)**
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by the source of inputs, using a three-level hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between the levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurements and liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 28 (ii) and (v) respectively.
- **IAS 1 Presentation of Financial Statements (Revised)**
The revised standard requires that the statement of changes in equity includes only transactions with shareholders; introduces a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with "other comprehensive income" (either in one single statement or in two linked statements); and requires the inclusion of a third column on the balance sheet to present the effect of restatements of financial statements or retrospective application of a new accounting policy as at the beginning of the earliest comparative period. The Company made the necessary changes to the presentation of its financial statements in 2009 and has elected to present a single statement for the statement of comprehensive income.
- **IAS 23 Borrowing Costs (Revised)**
The benchmark treatment in the existing standard of expensing all borrowing costs to the profit or loss is eliminated in the case of qualifying assets. All borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset must be capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Company already had a policy of capitalizing borrowing costs on qualifying assets therefore the revision to the standard had no effect on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Basis of preparation (continued)

Other standards, amendments to the standards, interpretations or amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Company.

Improvements to IFRSs

In May 2008 the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various and the earliest is for the financial year beginning 1 January 2009. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

- **IAS 1 Presentation of Financial Statements**
This amendment clarifies that assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet. The Company analysed whether the expected period of realization of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instrument between current and non-current in the statement of financial position.
- **IAS 36 Impairment of assets**
This amendment clarifies that when discounted cash flows are used to estimate 'fair value less costs to sell', the same disclosure is required as when discounted cash flows are used to estimate 'value in use'. The Company amended its disclosures accordingly, which did not result in any change in the financial position.

Other amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 Events after the Reporting Period
- IAS 16 Property, Plant and Equipment
- IAS 18 Revenue
- IAS 19 Employee Benefits
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
- IAS 23 Borrowing Costs
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investment in Associates
- IAS 29 Financial Reporting in Hyperinflationary Economies
- IAS 31 Interest in Joint ventures
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial instruments recognition and measurement
- IAS 40 Investment property
- IAS 41 Agriculture

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A Basis of preparation (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of Romtelecom SA and its subsidiary, NextGen Communications SRL as at 31 December 2009.

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

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

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

B Investment in associate

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

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

When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless the Company has incurred obligations or made payments on behalf of the associates. Unrealised gains or transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

C Operating segment reporting

An operating segment is a component of an entity:

- (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- (c) for which discrete financial information is available.

The Company does not fall within the scope of IFRS 8 – Operating segments and has not opted to apply IFRS 8.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D Foreign currency translation

(i) Functional currency

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

(ii) Transactions and balances

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

E Accounting for the effect of hyperinflation

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

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

(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 RON current at the statement of financial position date.

(ii) Non-monetary items

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Profit or loss

Because of Romanian economy ceasing to be hyperinflationary starting with 1 July 2004, profit or loss items arising subsequent to this date (therefore including for the full financial years 2009 and 2008) were not subject to restatement, except for transactions of a non-monetary nature related to statement of financial position items recognised for the first time prior to this date, such as depreciation and amortisation of fixed assets. The depreciation and amortisation expense for the year as well as impairment losses are therefore influenced by the restated carrying value of property and equipment and intangible assets acquired prior to 1 July 2004.

F Property, plant and equipment

(i) Cost / valuation

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

IAS 29 Financial Reporting in Hyperinflationary Economies, which was applicable for the Company up to 30 June 2004, states that all property and equipment should be restated from the date of their purchase using a general price index. When detailed records of the acquisition dates of items are not available or capable of estimation, in the first period of application of the standard it is allowed to use a valuation as basis for the restatements.

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

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

(ii) Subsequent expenditure

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

(iii) Borrowing costs

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F Property, plant and equipment (continued)

(iv) Depreciation

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

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

Management is continuing to assess network development plans and is reviewing assets' residual values and useful lives at each statement of financial position date.

(v) Land and land improvements

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

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

G Investment property

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

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

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

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

H Intangible assets

(i) Licenses

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H Intangible assets (continued)

(ii) Computer software

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

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

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

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

(iii) Subscriber acquisition costs

The Company capitalises as intangible assets the incremental costs of connections related to residential customers acquired after 1 January 2007 for fixed line telephony, internet services and satellite TV. The subscriber acquisition costs are amortised over 2 years, which is the period of the non-cancellable subscription by the customers.

I Impairment of non-financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J Financial instruments

(i) Financial assets

Initial recognition

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

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

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

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

Subsequent measurement

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

a) Trade and other receivables

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

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J Financial instruments (continued)

b) Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

The Company evaluated its financial assets at fair value through profit or loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

c) Available-for-sale financial assets

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the profit or loss in finance costs and removed from the available-for-sale reserve.

The Company evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intent to hold until the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the profit or loss.

d) Cash and cash equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J Financial instruments (continued)

Derecognition

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

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

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Trade and other receivables

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J Financial instruments (continued)

Available-for-sale financial assets

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss – is removed from other comprehensive income and recognised in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

(ii) Financial liabilities

Initial recognition

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J Financial instruments (continued)

Subsequent measurement

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

a) Loans and borrowings

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

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

b) Trade and other payables

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

Derecognition

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

(iii) Offsetting of financial instruments

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

(iv) Fair value of financial instruments

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K Inventories

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

L Share capital

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

M Income tax

Current income tax

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

Deferred income tax

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

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

Deferred income tax is provided on temporary differences arising on investments in associates.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N Employee benefits

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

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

(ii) Bonus plans

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

(iii) Post-employment benefits

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

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

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

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

(iv) Termination benefits

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O Capital grants and transfer of assets from customers

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

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

P Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions for restructuring are recognized when the Company has an approved, detailed and formal plan of restructuring which has started to be implemented or it has been announced to those affected by it. Provisions are not recognised for future operating losses.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q Revenue recognition

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

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

(i) Fixed line telephony revenues

Domestic calls revenues

Domestic calls revenues are recognised in the profit or loss at the time the call is made.

Rentals

Revenue from rentals is recognised in the profit or loss evenly over the period to which the contracts relate.

Revenues and costs from international calls and overseas operators

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

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

Revenues from sales of prepaid cards

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

Connection fees

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

Starting with 1 January 2008, the Company has revised the period over which connection fees are recognised and the balances of connection fees, as follows:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q Revenue recognition (continued)

(ii) Interconnect revenues

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

(iii) Internet and data revenues

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

(iv) Separable components of packaged and bundled offers

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

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

(v) Other revenues

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R Leases

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

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

S Dividend distribution

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

T Operating expenses

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

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

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

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

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

Employee compensation, network maintenance and post-guarantee services and advertising costs are charged to the profit or loss as incurred.

U Comparatives

When necessary, corresponding figures are adjusted to conform to changes in presentation in the current year. No such changes were performed during 2009.

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- **IFRIC 17 Distributions of Non-cash Assets to Owners**
This interpretation is effective for annual periods beginning on or after 1 July 2009 with early application permitted. The interpretation provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Company does not expect IFRIC 17 to have an impact on the financial statements as the Company does not expect to make such distributions to shareholders in the foreseeable future.
- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**
The interpretation is effective for annual periods beginning on or after 1 July 2010. This interpretation addresses the accounting treatment when there is a renegotiation between the entity and the creditor regarding the terms of a financial liability and the creditor agrees to accept the entity's equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies such equity instruments are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. This interpretation has not yet been endorsed by the EU. The Company does not expect that the amendment will have impact on the financial position or performance of the Company, as the Company does not estimate do make such renegotiations with the creditors regarding the terms of the financial liabilities.
- **IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)**
The amendment is effective for annual periods beginning on or after 1 January 2011. The purpose of this amendment was to permit entities to recognise as an asset some voluntary prepayments for minimum funding contributions. This Earlier application permitted and must be applied retrospectively. This amendment has not yet been endorsed by the EU. The Company does not expect that the amendment will have impact on the financial position or performance of the Company.
- **IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)**
The revision and amendment are effective for annual periods beginning on or after 1 July 2009. The revised IFRS 3 introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognising subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill). The amended IAS 27 requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3 (Revised) and IAS 27 (Amendment) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

- **IAS 39 Financial Instruments: Recognition and Measurement (Amended) – eligible hedged items**

The amendment is effective for annual periods beginning on or after 1 July 2009. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company does not expect that the amendment will have any impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

- **IFRS 9 Financial Instruments – Phase 1 financial assets, classification and measurement**

The new standard is effective for annual periods beginning on or after 1 January 2013. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial assets. Early adoption is permitted. This standard has not yet been endorsed by the EU. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

- **IFRS 2 Group Cash-settled Share-based Payment Transactions (Amended)**

The amendment is effective for annual periods beginning on or after 1 January 2010. This amendment clarifies the accounting for group cash-settled share-based payment transactions and how such transactions should be arranged in the individual financial statements of the subsidiary. This interpretation has not yet been endorsed by the EU. The Company does not expect that this amendment will have an impact on the financial position or performance of the Company.

- **IAS 32 Classification on Rights Issues (Amended)**

The amendment is effective for annual periods beginning on or after 1 February 2010. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is to be applied retrospectively. The Company does not expect that this amendment will have an impact on the financial position or performance of the Company.

- **IAS 24 Related Party Disclosures (Revised)**

The revision is effective for annual periods beginning on or after 1 January 2011. This revision relates to the judgment which is required so as to assess whether a government and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities. Early application is permitted and adoption shall be applied retrospectively. This interpretation has not yet been endorsed by the EU. The Company does not expect that this amendment will have an impact on the financial position or performance of the Company.

- **IFRS 1 Additional Exemptions for First-time Adopters (Amended)**

The amendment is effective for annual periods beginning on or after 1 January 2010. This interpretation has not yet been endorsed by the EU. The Company does not expect that this amendment will have an impact on the financial position or performance of the Company.

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

In April 2009 the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various and the earliest is for the financial year beginning 1 July 2009. This annual improvements project has not yet been endorsed by the EU.

- **IFRS 2 Share-based Payment**, effective for annual periods beginning on or after 1 July 2009. Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2 even though they are out of scope of IFRS 3 (revised). If an entity applies IFRS 3 (revised) for an earlier period, the amendment shall also be applied for that earlier period.
- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**, effective for annual periods beginning on or after 1 January 2010. Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- **IFRS 8 Operating Segment Information**, effective for annual periods beginning on or after 1 January 2010. Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- **IAS 1 Presentation of Financial Statements**, effective for annual periods beginning on or after 1 January 2010. The terms of a liability that could result, at any time, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- **IAS 7 Statement of Cash Flows**, effective for annual periods beginning on or after 1 January 2010. Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2009 upon cash settlement.
- **IAS 17 Leases**, effective for annual periods beginning on or after 1 January 2009. The amendment removes the specific guidance on classifying land as a lease so that only the general guidance remains.
- **IAS 18 Revenue**, The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
 - Has primary responsibility for providing the goods or service
 - Has inventory risk
 - Has discretion in establishing prices
 - Bears the credit risk
- **IAS 36 Impairment of Assets**, effective for annual periods beginning on or after 1 January 2010. The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

- **IAS 38 Intangible Assets**, effective for annual periods beginning on or after 1 July 2009. Clarifies that if an intangible asset acquired in business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also, clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used. If an entity applies IFRS 3 (revised) for an earlier period, the amendment shall also be applied for that earlier period.
- **IAS 39 Financial Instruments: Recognition and Measurement**, effective for annual periods beginning on or after 1 January 2010. The amendment clarifies that:
 - A prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
 - The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken (Applicable to all unexpired contracts for annual periods beginning on or after 1 January 2010)
 - Gains and losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss (Applicable to all unexpired contracts for annual periods beginning on or after 1 January 2010)
- **IFRIC 9 Reassessment of Embedded Derivatives**, effective for annual periods beginning on or after 1 July 2009. The Board amended the scope paragraph of IFRIC 9 to clarify that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or business under common control or the formation of a joint venture.
- **IFRIC 16 Hedges of a Net Investment in a Foreign Operation**, effective for annual periods beginning on or after 1 July 2009. The amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.

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

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

4. USE OF JUDGEMENTS AND ESTIMATES

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

(a) Carrying value of investment in associate

As at 31 December 2009, the carrying value of Company's 30% shareholding in its associate Cosmote Romania is presented at cost less Romtelecom's share of associate's accumulated losses for the period. Company's Management believes that as at 31 December 2009 the carrying value of the investment in associate computed as initial cost less 30% of associate's accumulated losses is appropriate as currently there are no circumstances indicating the necessity of recognizing an impairment loss.

(b) Useful lives of network equipment

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

(c) Carrying value of trade receivables

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

(d) Carrying value of inventories

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

(e) Provision for employees' retirement benefits

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

4. USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(f) Impairment test

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next three years and include. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The impairment test for the Company was performed by the ultimate parent (Deutsche Telekom AG) at central level. Deutsche Telekom has performed the impairment exercise for the Company as a CGU concluding that equity value (Enterprise value less Net debt) is higher compared to carrying values, therefore no impairment exists. Deutsche Telekom defined as CGU the fixed line business of the Company and did not come to the conclusion that a lower specific level of impairment test is possible.

The Enterprise value was estimated by management through a discounted cash-flow model, using cash-flow projections from financial budgets approved by senior management covering a 10 - year period (2010- 2019). The terminal value was estimated in perpetuity, based on the net cash-flow of 2019 and using a 2% growth factor. The discount rate was based on the Group calculated WACC and adjusted for the impact of Company specific risks and the recent increase in cost of financing, of 10.39%.

(g) Classification of investment property

The separate classification of investment property assets is done based on the exercise performed by the Company's Real Estate department, as a result of which the Company identified all properties owned but not used for its current operations which are either rented or empty at present but the intention is to rent them out.

The Company considered as "investment property" the entire buildings in the cases whereby the space rented out exceeded 80% of the total available space and as "owner – occupied" the buildings where the unoccupied space was below 20% of the total available space and the rest was used by Romtelecom. For the remaining cases, the split was made by taking into consideration the percentages of space rented or unoccupied.

Measurement uncertainties

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

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

4. USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

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

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

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

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

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

5. REVENUES

Revenues are analysed as follows:

	Year ended 31 December	
	2009	2008
Voice Services	1,798,568	1,816,612
Internet Services	293,580	187,474
TV Services	225,871	107,223
Prepaid Cards	17,376	25,920
Data Services (VPN, Premium Data)	279,585	243,161
CPE Products	187,970	242,372
Interconnect services	383,941	373,037
Collocation Services	24,355	19,506
Global Solutions	66,190	59,882
Value Added Services	30,624	29,676
Penalties	37,607	24,887
Real Estate business	43,859	33,019
Other revenues	32,314	40,911
	3,421,840	3,203,679

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

6. OPERATING EXPENSES

	Year Ended 31 December	
	2009	2008
Employee benefit expense (Note 6.1)	807,111	913,621
Depreciation, amortisation and impairment (Note 6.2)	1,119,898	1,035,107
Interconnect with mobile operators	276,091	358,688
Third party services	292,360	205,410
Overseas operators	175,295	130,425
Merchandise (Note 17)	155,410	202,639
Repairs and Maintenance	93,611	84,774
Advertising	83,857	89,817
Rentals	101,509	81,072
Consumables	108,678	68,581
Utilities	52,886	46,348
Other provisions, net	113,421	7,125
Taxes	29,643	28,530
Fuel	17,141	17,133
Payments to Value Added Services suppliers	11,217	11,074
Loss on disposal of property and equipment	14,205	34,706
Management fees	15,194	9,986
Other operating expenses	50,069	41,934
	3,517,596	3,366,970
Less: own work capitalized	(31,554)	(25,295)
	3,486,042	3,341,675

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

6. OPERATING EXPENSES (CONTINUED)

The rental expenses refer to the rental of poles from the electricity companies (2009 RON 33,722 and 2008 RON 30,262), the special road usage taxes (2009 RON 24,877 and 2008 RON 17,140), the rental of vehicles (2009 RON 6,508 and 2008 RON 9,893) and the rental of buildings, of which the only individually significant contract is for the Company's Headquarter (2009 RON 12,211 and 2008 RON 5,366).

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

6.1 EMPLOYEE BENEFIT EXPENSE

	Year Ended 31 December	
	2009	2008
Wages and salaries	577,481	581,191
Redundancy payments	36,568	140,915
Social security contributions	118,910	114,070
Unemployment fund contributions	2,833	5,390
Health fund contributions	29,753	35,870
Other contributions and expenses	5,976	1,398
Pension costs – defined benefit plan (Note 23)	8,445	9,140
Other expenses related to staff	27,145	25,647
Employee benefit expense (Note 6)	807,111	913,621
Average number of employees	10,198	11,244

During January 2008, the Company publicly announced the intention of restructuring its operations to achieve further efficiencies. Following the application of a voluntary termination program 2,200 left the Company in 2008 and 453 employees in 2009.

6.2 DEPRECIATION, AMORTISATION AND IMPAIRMENT

	Year ended 31 December	
	2009	2008
Depreciation of tangible assets	872,620	897,482
Impairment of tangible assets	99,127	(21,163)
Amortization and impairment	155,778	169,367
Impairment of intangible assets	(187)	(185)
Deferred income amortization for grants / fixed assets received for free	(7,440)	(10,394)
Depreciation and amortization (Note 6)	1,119,898	1,035,107

The depreciation and amortization are presented net of the related deferred income amortization for grants / fixed assets received for free.

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

7. FINANCE INCOME, NET

	Year Ended 31 December	
	2009	2008
Interest expense and similar charges		
Foreign exchange losses	(90,423)	(73,494)
Interest expense and other similar charges	(10,336)	(25,590)
Fair value adjustment for financial assets	-	(3,339)
	(100,759)	(102,423)
Interest income and similar income		
Foreign exchange gains	58,215	86,002
Interest income and similar income	66,456	60,136
Fair value adjustment for financial assets	1,349	-
	126,020	146,138
Finance gain, net	25,261	43,715

8. INCOME TAX EXPENSE

During 2009 and 2008, all Company's income tax expense has been incurred in connection with continuing operations.

	Year Ended 31 December	
	2009	2008
Current income taxes	(44,999)	(15,541)
Deferred income taxes (Note 22)	11,833	53,485
	(33,166)	37,944

The difference between income tax expense, computed at Romanian statutory rates (16% in 2009 and 2008) and income tax expense provided on the results were as follows:

	2009	2008
(Loss) before tax	(113,063)	(217,171)
Income taxes based on statutory tax rate 16% - credit	18,090	34,747
Adjustments for prior year amounts	(11,456)	(14,231)
Disallowable expenses	(88,791)	(56,304)
Permanent differences - revaluations of fixed assets	(5,924)	-
Non taxable profits	53,636	70,255
Fiscal credit for sponsorship	1,279	3,477
Income taxes at effective tax rate as reported in the profit or loss	(33,166)	37,944
Effective tax rate	29%	17%

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

8. INCOME TAX EXPENSE (CONTINUED)

The carrying amounts of the Company's fixed assets had been revalued for statutory purposes and this revaluation was allowed for taxation purposes. In statutory accounts, as of 31 December 2008 the Company has revaluation reserves amounting RON 4,478,075, out of which RON 626,858 is realised.

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

Based on the amendments of the Fiscal Code and Fiscal Procedure Code introduced by Emergency Ordinance 34/11 April 2009, reserves related to statutory revaluations of fixed assets, including land, performed after 1 January 2004, which had been deductible for corporate income tax purposes through fiscal depreciation or through expenses with alienation/write-off of assets, now have to be included in the taxable income for corporate income tax purposes upon deducting the fiscal depreciation, respectively upon the disposal of fixed assets. As a result of this provision, certain differences due to tax revaluations which previously generated deferred tax assets are now considered permanent.

9. EARNINGS PER SHARE

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

	Year Ended 31 December	
	2009	2008
Loss for the year	(146,229)	(179,227)
Weighted average number of ordinary shares in issue (thousand)	31,846	31,846
Basic loss per share from continuing operations (RON / share)	(4.59)	(5.63)

There were no dilutive instruments outstanding during the period.

SC Romtelecom SA - year ended 31 December 2009

Notes to the consolidated financial statements

(all amounts in Romanian lei thousand unless otherwise stated)

10.1 PROPERTY, PLANT AND EQUIPMENT

	Land & buildings	Cable and related equipment	Exchanges and related equipments	Other fixed assets	Assets in Course of construction	Total
Year ended 31 December 2008						
Opening net book amount	912,942	3,539,538	1,503,944	286,668	409,845	6,652,937
Additions	231	4,505	12,936	19,984	417,518	455,174
Transfers from tangible assets in the course of construction	7,081	422,805	(16,057)	23,699	(437,528)	-
Transfers to other groups, net	(46,295)	126	(1,208)	(2,595)	-	(49,972)
Depreciation and impairment charge	(33,822)	(423,966)	(348,149)	(63,061)	519	(868,479)
Disposals, net	(651)	(15,061)	(18,132)	(992)	(976)	(35,812)
Closing net book amount	839,486	3,527,947	1,133,334	263,703	389,378	6,153,848
At 31 December 2008						
Cost or valuation	1,753,309	8,970,569	5,907,614	866,812	411,530	17,909,834
Accumulated depreciation and impairment	(913,823)	(5,442,622)	(4,774,280)	(603,109)	(22,152)	(11,755,986)
Net book amount	839,486	3,527,947	1,133,334	263,703	389,378	6,153,848
Year ended 31 December 2009						
Opening net book amount	839,486	3,527,947	1,133,334	263,703	389,378	6,153,848
Additions	-	13,982	-	1,269	638,635	653,886
Transfers from tangible assets in the course of construction	4,590	592,336	57,251	59,295	(713,472)	-
Transfers to other groups, net	(246,574)	314	2,126	1,126	-	(243,008)
Depreciation and impairment charge	(19,255)	(484,072)	(286,697)	(91,756)	10,635	(871,145)
Disposals, net	(132)	(7,601)	(2,730)	(675)	(3,938)	(15,076)
Closing net book amount	578,115	3,642,906	903,284	232,962	321,238	5,678,505
At 31 December 2009						
Cost or valuation	1,182,616	9,486,249	5,643,851	868,530	332,772	17,514,018
Accumulated depreciation and impairment	(604,501)	(5,843,343)	(4,740,567)	(635,568)	(11,534)	(11,835,513)
Net book amount	578,115	3,642,906	903,284	232,962	321,238	5,678,505

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

10.1 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Pledged assets

No pledges have been in force as at 31 December 2009 and 31 December 2008.

Borrowing costs

No borrowing costs were capitalised during the years 2009 and 2008, as there were no qualifying assets.

Non-cash transactions

During the years 2009 and 2008, there were no purchases of property and equipment under contracts financed by suppliers' loans.

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

	<u>2009</u>	<u>2008</u>
Gross book value	41,527	40,550
Accumulated depreciation	(27,068)	(17,902)
Net book value	<u>14,459</u>	<u>22,648</u>

Purchases from related parties

During 2009 and 2008, there were no purchases of property and equipment from related parties.

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

10.2 INVESTMENT PROPERTY

	Investment properties
Year ended 31 December 2008	
Opening net book amount	27,002
Additions	-
Transfers from land & buildings under PPE, net	49,972
Depreciation and impairment charge	(7,840)
Disposals	-
Closing net book amount	69,134
At 31 December 2008	
Cost or valuation	345,492
Accumulated depreciation and impairment	(276,358)
Net book amount	69,134
Year ended 31 December 2009	
Opening net book amount	69,134
Additions	-
Transfers from land & buildings under PPE, net	243,008
Depreciation and impairment charge	(100,602)
Disposals	-
Closing net book amount	211,540
At 31 December 2009	
Cost or valuation	924,861
Accumulated depreciation and impairment	(713,321)
Net book amount	211,540

Impairment of non-telecom assets

As at 31 December 2009, the carrying amount of non-core property assets is presented net of an impairment provision. The impairment provision balance as of 31 December 2009, computed as the difference between the net carrying amount of such assets that would have been determined had no impairment loss been recognized, and the current recorded net carrying amount, is of RON 147,470 (31 December 2008: RON 73,230).

The recoverable amount was based on the fair value which was determined by an independent appraisal. The fair value of the properties have not been determined on transactions observable in the market because of the nature of the property and the lack of comparable data. Instead, a valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied, the Net Replacement Cost method.

SC Romtelecom SA - year ended 31 December 2009

Notes to the consolidated financial statements

(all amounts in Romanian lei thousand unless otherwise stated)

11. INTANGIBLE ASSETS

	Computer software & licenses	Other licenses	Subscriber acquisition costs	Intangibles in course of development	Total
Year ended 31 December 2008					
Opening net book amount	102,731	111,150	28,813	62,517	305,211
Additions	63	-	40,867	66,945	107,875
Transfers from assets in course of development	35,943	10,100	-	(46,043)	-
Disposals, net	(244)	-	-	-	(244)
Amortisation charge and impairment	(90,813)	(48,314)	(29,794)	(261)	(169,182)
Closing net book amount	47,680	72,936	39,886	83,158	243,660
At 31 December 2008					
Cost	294,804	151,081	74,180	83,419	603,484
Accumulated amortisation	(247,124)	(78,145)	(34,294)	(261)	(359,824)
Net book amount	47,680	72,936	39,886	83,158	243,660
Year ended 31 December 2009					
Opening net book amount	47,680	72,936	39,886	83,158	243,660
Additions	3,746	-	37,626	45,163	86,535
Transfers from assets in course of development	90,927	-	-	(90,927)	-
Disposals, net	(15)	-	-	-	(15)
Amortisation charge and impairment	(55,148)	(59,915)	(40,734)	206	(155,591)
Closing net book amount	87,190	13,021	36,778	37,600	174,589
At 31 December 2009					
Cost	387,102	151,081	111,806	37,655	687,644
Accumulated amortisation	(299,912)	(138,060)	(75,028)	(55)	(513,055)
Net book amount	87,190	13,021	36,778	37,600	174,589

During 2008 and 2007, the Company initiated a number of projects relating to the development of key computer software applications, to be used by various organisational units of the Company, such as billing, finance, service order, human resources, payroll, industry regulation-related (such as number portability and carrier pre-selection) and work-in-progress management. Capitalised costs include both amounts charged by the respective software suppliers and costs incurred by the Company's own staff involved in the development work. Additions from internal development in 2009 amounted to RON 6,371 (2008: RON 8,255).

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

12. INVESTMENT IN ASSOCIATE

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

As at 31 December 2009, the amount of RON 44,969 (31 December 2008: RON 119,091) shown as carrying amount of investment in associate was determined as follows:

	<u>2009</u>	<u>2008</u>
Cost of investment	478,124	478,124
Share of loss of associate (accumulated)	(433,155)	(359,033)
Investment in associate – carrying value	<u>44,969</u>	<u>119,091</u>

The summarized financial information of Cosmote Romania is presented below:

	<u>2009</u>	<u>2008</u>
Total assets	2,729,932	2,552,345
Total liabilities	2,808,670	2,720,319
Total equity	(78,738)	(167,974)
	<u>Year Ended</u> <u>31 December 2009</u>	<u>Year Ended</u> <u>31 December 2008</u>
Operating revenues	1,806,748	1,144,806
Net loss	(247,075)	(409,770)

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

13. OTHER INVESTMENTS

	<u>2009</u>	<u>2008</u>
Non-current		
Beginning of the year	464	464
Allowance for impairment of minority shareholdings held with third parties	(386)	(386)
End of the year	<u>78</u>	<u>78</u>

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

- (i) Garanta SA (2009 and 2008: 0.59%) - life and general insurance and reinsurance services;
- (ii) Pagini Aurii SA (2009 and 2008: 0.55%) – production of printed telephone directories.

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

14. FINANCIAL ASSETS

	2009	2008
Bonds issued by BEI	13,685	12,336
Treasury bills issued by Romanian Ministry of Finance	-	22,475
<i>Financial assets at fair value through profit or loss - unquoted debt securities</i>	13,685	34,811
Treasury bills issued by Romanian Ministry of Finance	34,243	-
<i>Available-for-sale financial investments – unquoted debt securities</i>	34,243	-
	47,928	34,811

Financial assets at fair value through profit or loss - unquoted debt securities unquoted debt securities

Financial assets at fair value through profit or loss are represented by 150,000 bonds issued by European Bank for Investments, which were acquired in May 2007 by the Company for a consideration of RON 15,038. Instruments mature on May 2014 and bear a fixed interest rate of 7% per annum, cashable on a yearly basis. These instruments were designated upon initial recognition as financial assets at fair value through profit or loss, as the management's intention is to trade them in the near term.

These instruments are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the profit or loss. The fair value adjustment recognized in 2009 was a gain of RON 1,349 (2008: a loss of RON 3,339). The fair value of the Bonds issued by BEI was determined by reference to price quotations provided by the bank from which the instruments were acquired.

As of 31 December 2008 financial assets at fair value through profit or loss also included RON 22,475 which was paid by the Company during December 2008 for the acquisition of 2,350 treasury bills having Romanian Ministry of Finance as issuer. Instruments had maturities of 3 or 6 months and bore a fixed interest rate between 14.09% and 14.25%. These instruments were designated upon initial recognition as financial assets at fair value through profit or loss and were disposed of in 2009 without any gain or loss recognised on disposal.

Available-for-sale investment – unquoted debt securities

As of 31 December 2009 financial assets available-for-sale included RON 34,243 which were paid by the Company during July, October and December 2009 for the acquisition of a number of treasury bills having Romanian Ministry of Finance as issuer. Instruments had maturities of 3 or 6 months and bore a fixed interest rate between 9.90% and 10.99%. These instruments were designated upon initial recognition as financial assets available for sale financial assets. The management estimated that the fair value of these instruments equals their carrying amount.

During 2009 the Company purchased and sold treasury bills issued by Romanian Ministry of Finance of RON 39,549 without any gain or loss recognised on disposal and no fair value adjustments recorded during the period.

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

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

15. DEFERRED CHARGES

	<u>2009</u>	<u>2008</u>
Non-current		
Deferred connection costs (1)	36,213	52,418
Current		
Deferred connection costs (1)	28,600	28,195
Deferred cost of prepaid phone cards sold (2)	537	1,465
	<u>29,137</u>	<u>29,660</u>
	<u>65,350</u>	<u>82,078</u>

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

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

16. TRADE AND OTHER RECEIVABLES

	<u>2009</u>	<u>2008</u>
Domestic trade receivables	481,557	347,834
<i>Less: allowance for impairment of domestic trade receivables</i>	<i>(201,398)</i>	<i>(133,628)</i>
Domestic trade receivables, net	280,159	214,206
Foreign trade receivables	41,918	93,207
<i>Less: allowance for impairment of foreign trade receivables</i>	<i>-</i>	<i>-</i>
Foreign trade receivables, net	41,918	93,207
Receivables from related parties (Note 29)	11,297	20,290
Accrued receivables for packaged/bundled offers	156,341	140,211
Prepayments to suppliers of goods and services	11,322	11,059
Income tax receivables	7,674	1,387
Other receivables and prepaid expenses	38,065	18,367
	<u>546,776</u>	<u>498,727</u>
Non-current portion		
Accrued long term receivables for packaged/bundled offers	34,377	50,695
Non-current portion of trade receivables	21,983	10,212
	<u>56,360</u>	<u>60,907</u>

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

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

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

Company's exposure to credit risk and currency risk related to trade and other receivables and movement in provision for impairment, is disclosed in Note 28.

17. INVENTORIES

	<u>2009</u>	<u>2008</u>
Materials	283,791	309,664
Spare parts	55,181	59,140
Merchandises	80,582	54,007
Write-down of materials	(98,092)	(131,626)
	<u>321,462</u>	<u>291,185</u>

The cost of inventories recognised as expense and included in "operating expenses" (Note 6) amounted to RON 281,229 (2008: RON 288,353), of which RON 155,410 (2008: RON 202,639) represents cost of merchandise sold (mainly internet service related customer premises equipment).

Inventories are shown net of a write-down for items with net realisable value lower than acquisition cost of RON 98,092 (2008: RON 131,626). As of 31 December 2009, the carrying amount of inventories carried at net realizable value, after the respective allowance, amounts to RON 4,240 (2008: RON 23,152).

The allowance for write-down of materials decreased mainly due to the fact that a significant part of the items provisioned as of 31 December 2008 were sold during the current year.

18. CASH AND CASH EQUIVALENTS

	<u>2009</u>	<u>2008</u>
Cash at bank and in hand		
- in RON	6,170	7,728
- in foreign currencies	192	195
Short term bank deposits		
- in RON	361,482	586,192
- in foreign currencies	414,013	24,502
	<u>781,857</u>	<u>618,617</u>

Cash balances at 31 December 2009 include restricted cash of RON 991 (2008: RON 556).

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

18. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	<u>2009</u>	<u>2008</u>
Deposits in RON	13.5%	12.0%
Deposits in foreign currencies	<u>3.6%</u>	<u>4.0%</u>

As of 31 December 2009, the Company's deposits had an average maturity of 18 days (2008: 15 days).

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

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

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	781,857	618,617
Restricted cash	(991)	(556)
	<u>780,866</u>	<u>618,061</u>

19. SHARE CAPITAL

At 31 December 2009 the statutory share capital of the Company is made up of 31,846,449 ordinary shares issued (31 December 2008: 31,846,449 ordinary shares) with a nominal value of RON 10 each, fully paid at the statement of financial position 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 2009 and 31 December 2008 was as follows:

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

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

20. TRADE AND OTHER PAYABLES

	<u>2009</u>	<u>2008</u>
Payables to fixed assets suppliers	143,776	238,240
Payables to services and inventory suppliers	85,796	91,966
Amounts due to the State	58,151	53,445
Other payables and accruals	262,606	195,393
	<u>550,329</u>	<u>579,044</u>

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

20. TRADE AND OTHER PAYABLES (CONTINUED)

Included in trade and other payables as at 31 December 2009 are RON 26,282 (2008: RON 30,791) due to related parties (Note 29).

Other non-current payables as of 31 December 2009 amounting to RON 912 (31 December 2008: RON 457) consist of guarantees retained by the Company from third parties.

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

21. INTEREST BEARING LOANS AND BORROWINGS

	2009	2008
Non-current		
<i>International Financial Institutions ("IFI") loans:</i>		
BEI II - EUR (fixed rate: 5%)	34,037	48,122
<i>Commercial banks loans:</i>		
Exim Bank Korea I - KWON (fixed rate: 4.2%)	23,023	26,049
Exim Bank Korea II - KWON (fixed rate: 2.5%)	49,758	49,260
Exim Bank Korea II ad. - KWON (fixed rate: 2.5%)	41,343	36,381
Non-current borrowings	148,161	159,812
Current		
<i>International Financial Institutions ("IFI") loans:</i>		
BEI II - EUR (fixed rate: 5%)	17,019	16,041
BEI I - EUR (fixed rate: 6.12%)	-	31,648
<i>Commercial banks loans:</i>		
Exim Bank Korea I - KWON (fixed rate: 4.2%)	6,577	5,788
Exim Bank Korea II- KWON (fixed rate: 2.5%)	6,220	5,474
Current borrowings	29,816	58,951
Total borrowings	177,977	218,763

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

Loan covenants

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

As of 31 December 2009 the Company breached the covenant related to operating ratio as provided by the agreement with BEI. However, the Company communicated with the bank before the balance sheet date and on 7 January 2010, the bank issued a formal waiver to the Company stating no claims for immediate repayments of outstanding balances.

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

21. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

Guarantees

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

Un-drawn committed borrowing facilities

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

	<u>2009</u>	<u>2008</u>
Short-term loans	84,564	79,704
	<u>84,564</u>	<u>79,704</u>

Un-drawn committed borrowing facilities as at 31 December 2009 bear floating interest rates and expire within one year from balance-sheet date.

22. DEFERRED TAX

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

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 16% (2008: 16%).

The movement of the net deferred tax liabilities is as follows:

	Statement of financial position		Profit or loss	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<i>Deferred tax liability</i>				
Property, plant and equipment restatement	(328,428)	(302,118)	(26,310)	4,076
Inventories restatement	(4,530)	(994)	(3,536)	365
Deferred charges	(10,456)	(13,132)	2,676	(13,132)
Accrued revenue	(2,412)	-	(2,412)	-
	<u>(345,826)</u>	<u>(316,244)</u>	<u>(29,582)</u>	<u>(8,691)</u>
<i>Deferred tax asset</i>				
Investment in associate - equity accounting	69,305	57,445	11,860	19,659
Temporary non-deductible accruals	392	5,650	(5,258)	(2,038)
Provisions for property, plant and equipments	40,851	7,029	33,822	7,029
Provisions for inventories	15,695	15,160	535	15,160
Provisions for risks and charges	13,175	7,519	5,656	7,519
Other current assets	21	928	(907)	928
Deferred income	12,069	16,362	(4,293)	13,919
	<u>151,508</u>	<u>110,093</u>	<u>41,415</u>	<u>62,176</u>
	<u>(194,318)</u>	<u>(206,151)</u>	<u>11,833</u>	<u>53,485</u>

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

23. RETIREMENT BENEFIT OBLIGATIONS

Statement of financial position obligations for pension benefits in amount of RON 51,113 (2007: RON 42,668) are determined as follows:

	<u>2009</u>	<u>2008</u>
Present value of unfunded obligations	56,038	58,451
Unrecognized actuarial losses	(4,925)	(15,783)
Liability in the statement of financial position	<u>51,113</u>	<u>42,668</u>

Profit or loss charge for pension benefits in amount of RON 8,445 (2008: RON 9,140) are as follows:

	<u>2009</u>	<u>2008</u>
Current service cost	2,284	2,807
Interest cost	5,543	4,385
Net actuarial losses recognized during the year	1,049	2,529
Benefits paid	(431)	(581)
Total, included in staff costs (Note 6.1)	<u>8,445</u>	<u>9,140</u>

The movement in the liability recognised in the statement of financial position is as follows:

	<u>2009</u>	<u>2008</u>
Beginning of the year	42,668	33,528
Total expense charged in the profit or loss before effect of settlements	8,876	9,721
Benefits paid	(431)	(581)
End of the year	<u>51,113</u>	<u>42,668</u>

The principal actuarial assumptions used were as follows:

	<u>2009</u>	<u>2008</u>
Discount rate	9.51%	6.70%
Future salary increases	2.50%	3.50%

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

Mortality:

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

Turnover:

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

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

23. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Discount rates:

For 2008 the Company considered the 3 years RON denominated government bond issued in February 2008, while for 2009 the Company considered the 5 years RON denominated government bond issued in September 2008. For 2010 the Company considered the 5 years RON denominated T-bond issued in October 2009 with the yield of 9.98% p.a. For the following years a decreasing trend was considered and an extrapolation along the real yield curve was used, in order to assure the mutual compatibility between the discount rate and the inflation rate.

Inflation rate:

Inflation rate was estimated to be 6% p.a. for the year 2009, 4% p.a. for 2010 and for the period 2011 and following a decreasing pattern in following years.

Salary increase rate:

The salary increase was estimated at 2.5% in the period 2010-2011 and 2% in 2012. For the years 2013 and onward, salary increase rate was considered to be in line with inflation, keeping the same real yield over inflation as in the year 2012.

Sensitivity analysis

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

	2009	2008
Effect on the aggregate current service cost and interest cost	(301)	(628)
Effect on the defined benefit obligation	(3,733)	(4,017)

The retirement benefit plan of the Company is wholly unfunded.

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

24. PROVISIONS FOR CHARGES AND LIABILITIES

	Provision for redundancy payments	Other provisions	Total
At 1 January 2009	778	5,808	6,586
Additional provision	3,826	4,684	8,510
Utilized during the year	(4,392)	(4,970)	(9,362)
At 31 December 2009	212	5,522	5,734

The Company has recognised a provision for redundancy payments in amount of RON 212 at 31 December 2009 (2008: RON 778) for such compensatory payments (and attached social contributions) that are expected to be paid in 2010.

Other provisions as at 31 December 2009 mainly include provisions for ongoing litigations against the Company of RON 1,494 (2008: RON 2,260), as well as other recurring year-end provisions for sales bonuses and untaken holiday rights due to employees amounting to RON 2,977 (2008: RON 3,215).

25. DEFERRED INCOME

	2009	2008
Non-current		
Deferred connection fee income (1)	34,021	50,321
Grants and transfers of assets from customers	42,421	44,010
	76,442	94,331
Current		
Deferred connection fee income (1)	21,732	22,156
Deferred subscription fee income (2)	52,068	43,764
Deferred income from sale of prepaid phone cards (3)	4,492	12,859
	78,292	78,779
	154,734	173,110

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

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

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

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

26. FINANCE LEASE LIABILITIES

The minimum lease payments as at 31 December 2009 and 31 December 2008 are as follows:

	Total	Principal	Interest
31 December 2009			
No later than 1 year	11,506	10,534	972
Later than 1 year and no later than 5 years	10,008	9,391	617
	21,514	19,925	1,589
31 December 2008			
No later than 1 year	8,302	6,814	1,488
Later than 1 year and no later than 5 years	19,231	17,942	1,289
	27,533	24,756	2,777

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

27. CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
Notes	2009	2008
Loss before tax	(113,063)	(217,171)
Adjustments for:		
Depreciation and amortisation	1,119,898	1,035,107
Foreign exchange (gains)/ losses on finance activities	22,810	(14,068)
Non-cash net charges - connection fees	(38,550)	(44,700)
Interest expense and other similar charges	10,336	25,390
Interest income and similar income	(66,456)	(60,136)
Loss on disposal of property and equipment	14,205	34,706
Share of loss of associate	74,122	122,890
Allowance for impairment of operating items	113,708	4,142
Provisions for risks and charges	7,593	(4,445)
Fair value adjustment for financial assets	(1,349)	3,339
Non-cash revenue from packaged and bundled offers	16,517	(121,781)
Operating profit before working capital changes	1,159,771	763,273
Increase in receivables and prepayments	(156,528)	(28,944)
Decrease / (increase) in inventories	3,257	11,280
Increase in trade and other payables	24,479	13,378
Changes in working capital	(128,792)	(4,286)
Cash generated by operating activities	1,030,979	758,987

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

28. FINANCIAL RISK MANAGEMENT

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

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

(i) Market risk

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

Currency risk

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

Exposure to currency risk

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

31 December 2009	RON	EURO	GBP	USD	XDR	KWON
Trade receivables	554,999	45,226	-	1,197	1,714	-
Financial assets	47,928	-	-	-	-	-
Cash and cash equivalents	367,653	412,094	-	2,110	-	-
Interest bearing loans and borrowings	-	(51,056)	-	-	-	(126,921)
Finance lease liabilities	-	(19,925)	-	-	-	-
Retirement benefits obligations	(51,113)	-	-	-	-	-
Trade and other payables	(388,785)	(150,480)	(10)	(10,875)	(192)	(899)
Gross statement of financial position exposure	530,682	235,859	(10)	(7,568)	1,522	(127,820)

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Market risk - Exposure to currency risk (continued)

31 December 2008	RON	EURO	GBP	USD	XDR	KWON
Trade receivables	494,715	61,789	-	985	2,145	-
Financial assets	34,811		-	-	-	-
Cash and cash equivalents	593,920	24,697	-	-	-	-
Interest bearing loans and borrowings	-	(95,810)	-	-	-	(122,953)
Finance lease liabilities	-	(24,756)	-	-	-	-
Retirement benefits obligations	(42,668)	-	-	-	-	-
Trade and other payables	(458,316)	(101,335)	(58)	(19,162)	(630)	-
Gross statement of financial position exposure	622,462	(135,415)	(58)	(18,177)	1,515	(122,953)

The following significant exchange rates were applicable during the year:

	Average rate		Reporting date spot rate	
	2009	2008	2009	2008
EURO	4.2373	3.6809	4.2282	3.9852
GBP	4.7571	4.6289	4.7393	4.1169
USD	3.0493	2.5160	2.9361	2.8342
XDR	4.6957	3.9682	4.6062	4.3753
KWON	0.0024	0.0023	0.0025	0.0022

Sensitivity analysis

A 10 percent strengthening of the RON against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

	Profit or loss	
	2009	2008
EURO	(25,486)	13,771
GBP	759	6
USD	(135)	1,583
XDR	1	(152)
KWON	10,154	12,295
	(14,707)	27,503

A 10 percent weakening of the RON against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Market risk (continued)

Interest rate risk

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

Exposure to interest rate risk

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

	Carrying amounts	
	2009	2008
Fixed rate instruments		
Financial assets	47,928	34,811
Financial liabilities	(177,977)	(218,763)
	(130,049)	(183,952)

Fair value sensitivity analysis for fixed rate instruments

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

A change of 300 basis points in interest rates would have increased or decreased loss by RON 2,255 (2008: RON 3,812).

(ii) Credit risk

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

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

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

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Credit risk (continued)

Exposure to credit risk

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

	Carrying amount	
	2009	2008
Financial assets at fair value through profit or loss	13,685	34,811
Available-for-sale financial investments	34,243	-
Trade and other receivables	603,136	559,634
Cash and cash equivalents	781,857	618,617
Other investments	78	78
	1,432,999	1,213,140

The Company has only plain vanilla deposits with reputable banks, none of which has experienced any difficulties in 2009 or up to the date of these financial statements

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

Impairment losses

The ageing of short-term trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
	2009	2009	2008	2008
Not Past Due	427,522	-	434,769	-
Past Due less 30 days	77,517	-	62,367	(1,972)
Past Due 30-90 days	46,834	(29,025)	17,922	(14,359)
Past Due 90-360 days	139,764	(115,836)	36,217	(36,217)
Past Due 1 to 5 years	56,537	(56,537)	76,020	(76,020)
Past over 5 years	-	-	5,060	(5,060)
	748,174	(201,398)	632,355	(133,628)

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

	2009	2008
Balance at 1 January	133,628	121,099
Net impairment loss recognized	147,418	37,942
Write-offs	(79,648)	(25,413)
Balance at 31 December	201,398	133,628

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

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Liquidity risk

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

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

Exposure to liquidity risk

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

Non derivative financial liabilities	31 December 2009						
	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Interest bearing loans and borrowings	177,977	198,666	18,021	17,702	38,549	71,291	53,103
Finance lease liabilities	19,925	21,514	6,851	4,655	4,958	5,050	-
Trade and other payables	551,241	551,241	550,329	-	912	-	-
	749,143	771,421	575,201	22,357	44,419	76,341	53,103

Non derivative financial liabilities	31 December 2008						
	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Interest bearing loans and borrowings	218,763	245,225	33,853	33,076	32,647	85,592	60,057
Finance lease liabilities	24,756	27,533	4,151	4,151	10,585	8,646	-
Trade and other payables	579,501	579,501	579,044	-	457	-	-
	823,020	852,259	617,048	37,227	43,689	94,238	60,057

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Fair values versus carrying amounts

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

	31 December 2009		31 December 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through profit or loss	13,685	13,685	34,811	34,811
Available-for-sale financial investments	34,243	34,243	-	-
Trade and other receivables	603,136	603,136	559,634	559,634
Cash and cash equivalents	781,857	781,857	618,617	618,617
Interest bearing loans and borrowings	(177,977)	(161,588)	(218,763)	(204,105)
Finance lease liabilities	(19,925)	(19,925)	(24,756)	(24,756)
Trade and other payables	(551,241)	(551,241)	(579,044)	(579,044)
	683,778	700,167	390,499	405,157

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Assets measured at fair value

	2009	Level 1	Level 2	Level 3
<i>Financial assets at fair value through profit or loss</i>				
Bonds issued by BEI	13,685	-	13,685	-
<i>Available-for-sale financial investments</i>				
Treasury bills issued by Romanian Ministry of Finance	34,243	-	34,243	-

During the reporting period ending 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

28. FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) Fair values versus carrying amounts (continued)

Interest rates used for determining fair value

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

	<u>2009</u>	<u>2008</u>
Interest bearing loans and borrowings	4.62% - 8.80%	4.72% - 7.99%

(vi) Capital management

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

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

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

No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 31 December 2008.

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

	<u>2009</u>	<u>2008</u>
Equity	6,774,372	6,920,601
Interest bearing loans and borrowings	177,977	218,763
Trade and other payables	551,241	579,044
Finance lease	19,925	24,756
Less: cash and short term deposits	<u>(781,857)</u>	<u>(618,617)</u>
Net debt	(32,714)	203,946
Capital and net debt	6,741,658	7,124,547
Gearing ratio	-	3%

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

29. RELATED PARTY TRANSACTIONS

OTE International Investments (shareholder of the Company) is controlled by OTE. Starting with 1 February 2009, OTE Group is controlled by Deutsche Telekom A.G.

Cosmote Romanian Mobile Telecommunications ("Cosmote Romania"), OTE International Solutions SA ("OTE Globe"), OTE Investment Services, Hellas Sat Consortium Ltd, Cosmoone Hellas Market Site, Germanos Telecom Romania, Sunlight, OTEPlus Romania, OTE Academy and Telemobil SA are controlled by OTE.

Combridge SRL, Magyar Telekom RT, Makedonski Telekomunikacii, Crnogorski Telekom AD Podgor, Slovak Telekom AS and Detecon International GmbH are controlled by Deutsche Telekom A.G.

The monetary amount of sales to, purchases from and balances with related parties are presented below.

(i) Sales of services

	Year ended 31 December	
	2009	2008
Sales of services:		
Cosmote Romanian Mobile Telecommunications	51,975	47,389
OTE International Solutions	12,718	14,103
Combridge	19,289	-
Deutsche Telekom A.G.	4,595	-
Telemobil	1,034	-
OTE SA	18	64
Magyar Telekom RT	92	-
Makedonski Telekomunikacii	73	-
Crnogorski Telekom AD Podgor	3	-
OTEPlus Romania	3	-
Germanos Telecom Romania	3,331	-
	93,191	61,556
Sales of goods and related services:		
Sunlight	6,693	14,510
Cosmote Romanian Mobile Telecommunications	-	4,698
	6,693	19,208

Sales of services to OTE SA, OTE International Solutions, Deutsche Telekom A.G., Telemobil, Magyar Telekom RT, Makedonski Telekomunikacii, Crnogorski Telekom AD Podgor represent calls and other traffic that originate in the above-mentioned operators' network and use Romtelecom's network.

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

Sales to Germanos Telecom Romania refer mainly to fixed telephony services.

Sales to Combridge represent revenues from leased lines.

Sales to Sunlight refer mainly to sales of prepaid cards.

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

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(ii) Purchases of goods and services

	Year ended 31 December	
	2009	2008
Purchases of services:		
Cosmote Romanian Mobile Telecommunications	78,286	89,781
OTE International Solutions	24,125	19,950
Hellas Sat Consortium Ltd	23,283	18,571
OTE Investment Services	10,035	6,974
OTE International Investments	6,148	2,969
OTE SA	(938)	41
Deutsche Telekom A.G.	2,672	-
Cosmoone Hellas Market Site	2,166	641
OTE Academy	185	190
Magyar Telekom RT	202	-
Slovak Telekom AS	14	-
Makedonski Telekomunikacii	24	-
Germanos Telecom Romania	1,897	1,144
Telemobil	1,374	-
Detecon International Gmbh	1,137	-
Combridge	347	-
	150,957	140,261

Purchases of services from Cosmote Romania, OTE, OTE International Solutions, Deutsche Telekom A.G., Magyar Telekom RT, Slovak Telekom AS, and Makedonski Telekomunikacii represent calls and other traffic that originate in Romtelecom's network and use the above-mentioned operators' network.

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

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

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

Purchases of services from OTE Investment Services and Germanos refer to personnel lease, purchases from Cosmoone Hellas Market Site refer to marketing services, purchases from OTE Academy refer to training services and purchases from Detecon International Gmbh refer to consultancy services.

Purchases from Germanos Telecom Romania refer to sales commissions under the agency agreement between parties, purchases from Telemobil refer to interconnect services and purchases from Combridge refer to leased lines and IP access services

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

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

29. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Receivables from related parties:	2009	2008
OTE International Solutions	5,293	5,061
Combridge	2,377	-
Cosmote Romanian Mobile Telecommunications	1,677	10,982
Sunlight	776	4,216
Germanos Telecom Romania	517	-
Deutsche Telekom A.G.	476	-
Telemobil	113	-
Makedonski Telekomunikacii	68	-
OTE SA	-	31
	11,297	20,290

Payables to related parties:	2009	2008
Cosmote Romanian Mobile Telecommunications	15,178	23,656
Hellas Sat Consortium Ltd	3,869	1,788
OTE International Solutions	1,743	2,609
OTE Investment Services	1,481	1,395
Telemobil	1,247	-
OTE International Investments	1,089	989
Cosmoone Hellas Market Site	774	100
Detecon International GmbH	499	-
Germanos Telecom Romania	149	224
OTE Academy	126	-
Magyar Telekom RT	56	-
OTE SA	47	30
Deutsche Telekom A.G.	19	-
Slovak Telecom AS	5	-
	26,282	30,791

(iv) Key management compensation

	2009	2008
Management fees and wages	25,926	26,617
Social security contribution	4,221	4,527
Unemployment fund contribution	90	165
Health fund contribution	1,062	1,239
Other contributions and expenses	268	237
Board of Directors and Shareholders Meeting Attendance fees	715	373
	32,282	33,158

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

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

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

30. COMMITMENTS

Commitments contracted for at statement of financial position date but not recognised in the consolidated financial statements are as follows:

	<u>2009</u>	<u>2008</u>
Capital commitments	189,494	143,822
Operating commitments	261,136	166,229
Other contractual commitments	60,120	158,637
	<u>510,750</u>	<u>468,688</u>

Operating leases commitments

The Company as Lessee

Operating lease rentals are payable as follows:

	<u>2009</u>	<u>2008</u>
Less than one year	67,180	49,371
Between one and five years	158,047	107,458
More than five years	35,909	9,400
	<u>261,136</u>	<u>166,229</u>

The Company as Lessor

Operating lease rentals are receivable as follows:

	<u>2009</u>	<u>2008</u>
Less than one year	69,616	74,013
Between one and five years	61,856	29,890
More than five years	17,037	2,139
	<u>148,509</u>	<u>106,042</u>

The Company has entered into commercial property leases on its investment property portfolio. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Operating lease rentals includes also rentals receivable for leased lines.

SC Romtelecom SA - year ended 31 December 2009
Notes to the consolidated financial statements
(all amounts in Romanian lei thousand unless otherwise stated)

31. REGULATORY ENVIRONMENT

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 January 2003, Romtelecom submitted to ANRCTI the notification regarding the supply of electronic communication networks and services.

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

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

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

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

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

31. REGULATORY ENVIRONMENT (CONTINUED)

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

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

Wholesale markets regulation

a) Interconnection

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

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

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

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

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

31. REGULATORY ENVIRONMENT (CONTINUED)

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

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

b) Local loop unbundling

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

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

Decisions / public consultation processes held by the regulatory authority / developments during 2009

In 2009 ANCOM continued the market review process started in 2007 with the scope of adjusting regulation to the changing market environment.

The main regulatory developments for 2009 concerned:

Call termination at fixed location

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

The regulatory measures vary in direct proportion with the operators' market position. Thus, as regards interconnection with the network of Romtelecom, ANCOM maintained the whole set of obligations imposed by previous regulations – the obligations of transparency, of non-discrimination, of separate accounting, the obligation of granting access and permission to use specific elements of the network and of the associated infrastructure, as well as the cost-orientation obligation. Furthermore, ANCOM established, for each level of interconnection with the network of Romtelecom, an unique value of the regulated tariff, as an average tariff, repealing the current regulatory regime, which sets different interconnection tariffs, itemized by time of the day (for peak hours and, respectively, for off-peak hours). The interconnection tariffs were set as 0.84 Eurocents/min at local level, 0.97 Eurocents/min at regional level and 1.06 Eurocents/min at national level.

ANCOM also imposed on the other alternative operators of fixed telephone networks the obligations of transparency, of non-discrimination, of granting access and permission to use specific elements of the network and of the associated infrastructure, as well as of tariff control.

31. REGULATORY ENVIRONMENT (CONTINUED)

The tariff control obligation imposed on the alternative operators involves establishing a target-level of their interconnection tariff equal, on average, to Romtelecom average regional interconnection tariff.

ANCOM set up a glide path for cutting the current interconnection tariffs charged by the alternative operators down to the target level, in two steps, 1.15 Eurocents/minute until 30 June 2009 and after this date the tariffs are reduced to 0.97 Eurocents/min.

Market of access services

Based on specific analysis over the telecom market during year 2009, ANCOM established Romtelecom as the telecom operator with significant power in the market of access services to public telecom network. In the same time, this decision is the consequence of ANCOM conclusion that Romtelecom does not hold significant power on calls markets but continues to be dominant on retail access. Therefore, price cap and price floor obligations have been withdrawn, notification obligations have been withdrawn as well as accounting separation requirements strictly related to retail markets have been withdrawn. Romtelecom continues to have the obligation to provide at least one unbundled subscription and the obligation to provide CS/CPS.

Call termination rates at mobile location

According to the final decisions, ANCOM will impose to all five mobile telecom operators additional obligations of transparency and non-discrimination through the publication of RIO as well as the cost orientation obligation. Thus, the maximum tariffs for the call termination on the networks of Cosmote and Telemobil will drop in three stages, according to the 15 month-glidepath, until reaching symmetry with the tariffs of Orange and Vodafone of 5.03 Eurocents/minute, as of 1 July 2010. Since it is a new-entrant on the mobile telephone market, RCS&RDS will be granted a longer glidepath of with call termination rates will drop until 5.67Eurocents/minute, as of 1 July 2010.

Call origination services

During year 2009, Romtelecom was established as the telecom operator with significant power in the market of call origination services and the market of call national transit services. Starting with January 1st 2010 until the date of establishing the tariffs based on long-run incremental cost calculation, the maximum tariffs for call origination and transit services are established at a level of 0.84 Eurocents/minutes, 0.97 Eurocents/minutes and 1.06 Eurocents/minutes respectively for local, regional and national area for fixed call services. Regarding payphones call services the tariffs of 1.86 Eurocents/minute, 3.55 Eurocents/minute and 4.24 Eurocents/minute are set respectively for local, regional and national area. For national transit call services ANCOM established the maximum tariffs at 0.05 Eurocents/minute for single transit and 0.16 Eurocents/minute for double transit.

Number portability

Romtelecom finalized all the procedures required for the implementation of number portability by October 1st, 2008 when the service became operational. Number portability is the service that enables the telephony users to keep their telephone number when shifting to another provider. During year 2009, ANCOM opened a public consultation with the aims of reducing the port-out tariffs for geographic numbers and non-geographic numbers other than mobile numbers from 13 Euro /number ported to 7 Euro/numbers ported. Accordingly, the tariffs for ported mobile numbers should be at the level of 5 Euro/number ported instead of 11 Euro/number ported as it is in present.

31. REGULATORY ENVIRONMENT (CONTINUED)

Numbering plan

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

In year 2009, ANCOM issued a decision which established the allocation and using of the short numbers for services harmonized at European level. Following the above, the decision establishes the obligation to activate each national number 118 (xyz) for a period of maximum 12 month from the date of its allocation and to notify ANCOM in 30 days from the date of activation.

From 28 November 2009, the electronic communication providers cannot use other number from National Numbering Plan than 118(xyz) for providing directory information services. This means that starting with this date Romtelecom is no longer allowed to use its 1931 number for Directory Enquiry Services.

Mobile communication – CDMA License

In September 2008, ANC designated Romtelecom as the winner of the tender for the new mobile communications license in the 410-415/420-425 MHz frequency bands. The license was granted for 10 years and enables Romtelecom to build, hold and operates a broadband network. The first assessment of the geographic coverage assumed by Romtelecom will be undertaken by ANC on December 31, 2010 and the remaining two roll-out phases on June 30, 2012, respectively December 31, 2013.

Universal Service Obligations - Directory Enquiry Services and Subscriber Directory

In 2008 ANC opened the consultation on the Terms of Reference for designation of the universal service provider for making available a comprehensive subscribers directory and directory services.

In February 2009 ANCOM issued a final decision regarding the obligations of universal service providers to provide directory inquiry services. Accordingly, the universal service provider must provide directory inquiry services until 31 October 2009 for a period of 2 years in accordance with established financial and technical agreements. The universal service provider is entitled to require the compensation of net cost of providing the services related to universal service area.

Data Retention obligations

The final version of the law was published in the Official Journal at 21st of November 2008 and entered into force in 60 days after the date of its publishing in the Official Journal. The Law stipulates the obligations of providers of publicly available electronic communications networks and services with respect to the retention of both data on calls and Internet usage which are generated or processed by them. The provisions relating to Internet data are applicable starting with March 15, 2009. The Methodological Norms for Implementation enters into force on 21 February 2009 after the industry consultation. The Law stipulates that the costs incurred by the implementation should be borne by the operators involved. It also provides that all categories of data will be required to be retained for a maximum of 6 months.

31. REGULATORY ENVIRONMENT (CONTINUED)

End User Information

A final decision that establishes the modalities whereby the telephony providers must communicate the information on the pricing and tariffs, as well as the other conditions for using the services to their subscribers was adopted in February 2009. Based on the above, the providers of publicly available electronic communication service should inform their subscribers about general conditions regarding the supply of telephony services and contractual terms via internet and detailed invoices. This decision is also indicating that ANCOM will develop an interactive application to enable consumers to rank the offers of each provider using price as main criteria.

32. CONTINGENCIES

(a) Litigation

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

(b) Taxation

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

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

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

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

(c) Operating environment of the Company

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

33. SUBSEQUENT EVENTS

During the meeting held on 25 January 2010 by the Board of Directors, the CEO of the Company was authorized to vote in the name and on behalf of Romtelecom in the Extraordinary General Meeting of Shareholders of SC Cosmote Mobile Telecommunications SA in favour of the approval of the initiation of the merger process between SC Cosmote Mobile Telecommunications SA and SC Telemobil SA and to sign any document necessary or requested by law in view of initiating the above-mentioned merger process.

Pursuant to the approval granted by the Board of Directors on the date of 17th of November 2009, starting with 11th of January 2010 the switching and power field activities, as well as the employees of the Switching Department and the Power Supply & Clima Department (407 employees) were transferred to Ericsson Telecommunications Romania SRL by means of enterprise transfer.

In December 2009 NextGen Communications SRL signed a contract with New Com Telecomunicatii SA for acquisition of an internet network, at a total consideration of EUR 6.4 million. The transaction refers to a business combination and based on the terms of the agreement the effective date of the transaction (date of transfer of the control) is estimated to take place in April 2010. In December 2009 NextGen Communications SRL paid an advance of approximately EUR 2.5 million to New Com Telecomunicatii SA, which at year-end is recorded under "Other receivables and prepaid expenses".

On 17 February 2010, by virtue of a decision by the Company's CEO, the Company announced the restructuring of the Access Network Directorate, Operations Corporate Group. As part of this restructuring plan, 600 positions are expected to become redundant and the related redundancy costs were estimated by the Company at approximately EUR 11.7 million.