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Telekom Srbija
Post Completion Agreed Upon
Procedures

Segment Report on
Assets and Liabilities

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ONLY

July 1998

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For the attention of Mr. Franco Regis, Mr. Nikakis and Mr. Lj. Belosevic

Dear Sirs,

We are pleased to enclose our draft Segment Report on Assets and Liabilities comprising the preliminary results of our work performed in accordance with the Post Completion Agreed Upon Procedures pertaining to the Share Sale and Purchase Agreement, dated 9 June, 1997.

Scope

The requirements of the Post Completion Agreed Upon Procedures are stipulated in Section 9 "Post Closing Audit" of the Share Sale and Purchase Agreement. The scope of our work to meet these requirements was determined by Arrangement Letter dated 22 December 1997 and approved by shareholders SIN and OTE. The detailed work steps were set out in the Attachment to Arrangement Letter as appendix II - Work Plan.

Our work was performed in two phases:

- work done relating to Employees, Number of Paying Subscribers Lines and Direct Telecoms Revenues on which Draft report was issued and submitted to shareholders on 29 May 1998; and
- work done relating to assets and liabilities based on the limited review of Price Waterhouse audit work papers concerning certain areas of assets and liabilities and work steps performed as far as possible in accordance with Work Plan, subsequently modified to reflect the agreed extended and alternative procedures in certain areas.

The commencement and scope of our work relating to assets and liabilities was dependent upon the outcome of the review of Price Waterhouse opening balance sheet audit work papers. As all shareholders are informed by Status Report on Price Waterhouse working papers review, dated 23 June 1998, the limited review was performed by BC EXCEL auditors in the presence of Price Waterhouse auditors, on 18 and 19 June 1998 in the Coopers & Lybrand premises in Belgrade. Based on the outcomes of this review and taking into account work specified by our Arrangement Letter, detailed Work Plan was prepared and submitted to shareholders. After all arrangements were successfully made, the work relating to assets and liabilities started on 1 July 1998, as proposed.

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We are going to summarize the final scope of our work in this report.

Scope limitations

We wish to emphasize that our work has been conducted within the following frame:

- strictly defined scope of the work and specified limited procedures to be applied (for example, we are not performing any test to the valuation and legal ownership of the fixed assets);
- certain information provided by the management of Telekom Srbija and PTT which represent the basis for specific work steps to be employed was not adequate and we have had to employ alternative procedures which do not, in all instances, substitute the work steps we had intended to perform;
- review of Price Waterhouse audit work papers was made in the limited time available with access to certain working papers on a very selective basis, and more oral information and explanations concerning most of issues on fixed assets and contingencies;
- we were provided (by mid of June 1998) with draft Telekom Srbija audited financial statements as of 31 December 1997, comprising, as a comparative figure, opening balance sheet as of 1 June 1997 prepared by Price Waterhouse without Report of auditors to shareholders. As a result, no audited opening balance sheet of Telekom Srbija was available neither we are inform that audit opinion, if any, is expressed in respect to comparative figures as of 1 June 1997; and
- we were not provided by written representation letter by the management of PTT, which should be issued to the auditors of the opening balance sheet as of 1 June 1997 nor with requested representation by us as to the contingencies.

Our work was conducted in accordance with the International Standard on Auditing applicable to Agreed Upon Procedures engagement and does not constitute either audit or a review made in accordance with International Standards on auditing and, consequently, we do not express any assurance on the information covered by our draft Segment report. Had we performed additional procedures or performed an audit in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you. We make no representation as to the sufficiency, for your purposes, of the procedures we have performed.

Results of our work

In the course of our work certain weaknesses were evident in the internal controls relevant at the same time of separation as well as other matters concerning the accuracy and reliability of the information. The scope of our work did not include procedures necessary to enable us to disclose all weaknesses in internal controls, financial statements errors, irregularities or illegal acts.

Due to the significant time lag between defined and stipulated requirements in the "Post Closing Audit" (9 June 1997) and Arrangement Letter (22 December 1997) and actual work performed in respect of assets and liabilities, completed on 24 July 1998, most of the issues and significant matters arose at the time of separation are no more valid or appropriate.

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Only those significant issues which are currently relevant to Telekom Srbija are included in appropriate sections.

The detailed results of our work and verifications, based on planned scope and procedures, regarding the each category of assets and liabilities covered by the draft Segment report are set out in the respective sections.

We wish to obtain comments from the management of PTT Srbija, SIN and OTB with respect to the results and information presented in this draft Segment report, prior to possible amendments thereto and issuing our final report.

Purpose

This Segment report on assets and liabilities is furnished solely for your information for the purpose set out in our Arrangement Letter and is not to be used for any other purposes, or referred to in any other document, or made available to any third party, without our prior written consent.

Additionally, this Segment report relates only to the items specified above and does not extend to any financial statements of Telekom Srbija taken as a whole.

Yours faithfully,

Dragan Popovic

Managing Director

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I Assets

(a) Relevant Extracts from the Share Sale and Purchase Agreement

Our work on assets has been conducted in accordance with the following clauses in the Share Sale and Purchase Agreement:

Clause 5.1. "The PTT represents and warrants to each of SIN and OTE that, as of the Closing Date and except with respect to the agreement and transaction relating to the Mobtel Agreement or any claim or proceeding that may have been made or may be made or brought and/or involve the PTT, Mobtel or any third party arising thereunder or relating there to:

Clause 5.1. (h) "Ownership of Telecommunications Assets. Telekom Srbija is or will be the legal owner of all of the Telecommunications Assets, transferred (or to be transferred) by the PTT to Telekom Srbija as described in the Acknowledgement of Transfer".

Telecommunications assets are defined in Clause 1.1, under the heading of "Telecommunications Business", and Schedule 1 Assets and Investments of Transfer agreement.

Assets and Investments are specified under Schedule 1 as follows

"The Business assets fall under the following heads:

- 1. Tangible and intangible assets used for implementing fixed telecommunications network facilities as reflected in Exhibit "c" hereto.*
- 2. Current assets, including stocks, payments in advance, accounts receivable (including receivables from international settlements), securities and cash, short term credits, short term instruments.*
- 3. Tangible assets used for implementing telegraphic and telex services (transmission facilities and exchanges, etc.) as reflected in Exhibit "D" hereto.*
- 4. Subject to approval by the competent authority of the Federal republic of Yugoslavia and the continuation of the Assignment, rights to use electromagnetic frequencies including rights to use radio stations operating consistent with Exhibit "E" hereto, for the purpose of implementing fixed telecommunications networks and services.*
- 5. Vehicles as reflected in Exhibit "F" hereto".*

(b) Financial Statements

We were provided by Telekom Srbija Accounting Department with statutory balance sheets as of 1 June and 30 June 1997 and financial statements as of 31 December 1997. These financial statements have been prepared in accordance with Yugoslav accounting regulations and are reclassified to reflect a presentation in accordance with International Accounting Standards (IAS). Generally, statutory financial statements have been prepared under historical cost convention as modified by the statutory revaluations of fixed assets, intangible assets and capital for the effects of inflation.

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The balance sheets referred to above are shown below:

BALANCE SHEET
(Expressed in thousand of Dinars)

	<u>1-June-97</u>	<u>30-June-97</u>	<u>31-Dec-97</u>
ASSETS			
Current assets			
Bank balances and cash	56	4.970	74.878
Securities	-	19	141
Trade receivables	-	114.550	460.934
Payments in advance	8.652	5.401	10.629
Short term placements	-	16.296	254.041
Other current receivables	-	474	11.424
Prepayments	-	72.159	3.312
Inventories	155.304	147.245	185.556
	<u>164.012</u>	<u>361.114</u>	<u>1.000.915</u>
Payments in advance for fixed assets	431.840	250.671	1.271.500
Fixed assets (net)	10.709.410	11.869.586	10.858.439
Intangible assets (net)	-	-	43
Total operating assets	<u>11.305.262</u>	<u>12.481.371</u>	<u>13.130.896</u>
Non-operating assets	-	643	3.413
	<u>11.305.262</u>	<u>12.482.014</u>	<u>13.134.310</u>
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables	-	6.890	236.812
Customer prepayments	-	239	7.674
Debt securities issued	-	-	217.317
Short term borrowings	-	-	472.143
Other current liabilities	-	60.609	108.913
Accruals	-	5.888	15.759
	-	<u>73.626</u>	<u>1.058.646</u>
Long term borrowings	119.075	274.767	26.449
CAPITAL AND RESERVES			
Share capital - common stock	10.800.000	10.800.000	10.800.000
Statutory reserves	386.187	1.345.492	1.070.018
Current year profit/(loss)	-	(12.355)	175.753
	<u>11.186.187</u>	<u>12.133.137</u>	<u>12.045.771</u>
Total operating liabilities	<u>11.305.262</u>	<u>12.481.530</u>	<u>13.130.866</u>
Non-operating liabilities	-	484	3.444
	<u>11.305.262</u>	<u>12.482.014</u>	<u>13.134.310</u>

Our work performed will be referred only to the statutory balance sheet prepared by Telekom Srbija as of 1 June 1997 and, where necessary to the statutory balance sheet as of 31 December 1997.

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1. Fixed assets

1.1. Agreed Work Steps Summary

To address certain of the warranties in Clause 5.1(h) from the Share Sale and Purchase Agreement we proposed in our Arrangement Letter to perform the procedures stated below. Where it has not been possible to complete our agreed upon procedures or circumstances have dictated different approach and extended procedures, these have been described below as alternative procedures employed.

Work Step	Performed	Alternative Procedures/ Notes
<p>1 Obtain a post separation fixed assets listing for Telekom Srbija:</p> <p>a. Post listing</p> <p>b. Agree listing to the opening balance sheet</p>	<p>✓</p> <p>✓</p>	
<p>2 Obtain a pre-separation fixed assets listing for PTT and agree listing to total PTT balance sheet.</p> <p>Select a sample of fixed assets from the listing (40% of total gross book value as of 31 May 1997), and:</p> <ul style="list-style-type: none"> - Understand nature of assets by description and discuss with management. - Determine if asset is to be transferred by reference to Clause 1.1 Schedule 1 and the Exhibits referred to in Schedule 1 of the Acknowledgement of Transfer Agreement. - Agree to post - separation Telekom Srbija fixed assets listing, if appropriate. 	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>Partially</p>	<p>Opening balances of fixed assets posted into Fixed assets ledgers (and fixed assets register) and relating accounts of fixed assets in General ledger represent amounts derived from independent valuation of Ces Mecon. Values of individual assets and general ledger accounts do not comply with values stated in</p>

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