TELEKOM SRBIJA

Appendix II

SHORT TERM BORROWINGS FROM DOMESTIC BANKS

In thousand of Dinars

No	Bank	Agreement Number	Amount	Interest r
1.	Asi banka A.D., Beograd	1775/97	3.000	10% p.r
2.	Delta banka A.D., Beograd	2802	16.000	13% p.r
		2932	2.000	13% p.r
		2996	20.000	9% p.m
		3045	10.000	9% p.m
		2696	8.000	13% p.n
			56.000	
3.	Komercijalna banka A.D., Beograd	5622	10.000	7% p.m
4.	Continental banka A.D., Novi Sad	2292	1.000	8% p.m.
		2250	550	8% p.m.
		2080	2.000	8% p.m.
		2331	450	8% p.m.
		2381	500	8% p.m.
		2225	2.000	8% p.m.
		2586	1.500	8% p.m.
			8.000	
5.	Po□tanska □tedionica, Beograd	61014030	10.000	45% p.a.
		61014028	10.000	45% p.a.
		61014027	10.000	45% p.a.
		61014026	5.300	45% p.a.
		61014029	7.000	45% p.a.
			42.300	
	TOTAL:		119.300	

LEKOM SRBIJA

Appendix II.2.

LONG TERM BORROWINGS FROM FOREIGN CREDITORS

CREDITOR		Amount of loan granted	Approval date	Maturity date	Interest rate	Balance as of 1 June 1997 In foreign currency	In thousand of Dinars	Current portion of LT borrowings
Siemens Switzerland	DEM	5.619.922,00	21-Apr-95	31-Dec-98	Libor (6m) + 1%	5.619.922,00	18.546	13.908
	DEM	2.229.872,00	20-Nov-95	30-June-2001	Libor (6m) + 1%	2.229.872,00	7.358	
						7.849.794,00	25.904	
Alcatel CIT	FRF	87.141.946,50	09-Dec-91	10-July-98	Pibor (6m)	64.318.460,53	62.839	21.430
Siemens Germany	DEM	28.468.454,64	08-May-96	31-Jan-2000	Libor + 1%	21.351.341,64	70.459	
LHB Bank, F/M	DEM	6.092.974,76	21-Apr-89	Rescheduled	Variable (6,75%)	435.335,22	1.437	1.437
Beogradska banka Cyprus	USD	6.800.000,00	14-Sep-90	Rescheduled	Libor (7,8%) and Rescheduled (9.25%)	9.014.443,32	51.603	51.603
TOTAL:							212.242	88.378

EKOM SRBIJA

Appendix II.3.

SUMMARY OF CONTRACTED COMMITMENTS
expressed in DEM

In thousand of DEM

CREDITOR/YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005	TOTAL
HB "Samit"	399	-	-	-	-	-	-	-	-	399
B Cyprus - JU3	16.639	-	-	-	-	-	-	-	-	16.639
iemens, Switzerland 96	1.405	2.810	1.405	-	-	-	-	-	-	5.620
lcatel CIT 96	-	19.365	-	-	-	-	-	-	-	19.365
lcatel CIT 97	6.265	21.692	-	-	6.211	6.211	6.211	6.211	6.211	59.012
iemens, Germany 96	-	0	14.234	7.117	-	-	-	-	-	21.351
emens, Germany 97	9.805	15.658	-	-	6.692	6.692	6.692	6.692	6.692	58.923
emens SDH equipment	2.445	-	-	815	815	815	815	815	-	6.520
emens Amendment II	-	-	557	1.115	557	-	-	-	-	2.229
)TAL:	36.358	59.525	16.196	9.047	14.275	0 13.718	13.718	13.716	12.903	190.058

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tes:
1997 amounts mostly represent the advance payments to creditors for delivered or under customs custadic plant and equipment, for which liabilities were not settled
Dynamic of contracted commitments is already rescheduled due to non-delivery of equipment (for example Alcatel CIT 97)
All deliveries should be made through domestic sub-contractors or importers (VF TEL, DKTS and other)

DOCUMENTO 19

DOC 337/I

JOINT STOCK TELECOMMUNICATIONS COMPANY
"TELEKOM SRBIJA" a.d.

FINANCIAL STATEMENTS

FOR THE SEVEN MONTH PERIOD FROM 1 JUNE 1997 TO
31 DECEMBER 1997

Stefan Karadja 10
1000 Sofia

Стефан Караджа 10
1000 София

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Price Waterhouse

AUDITORS' REPORT

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF JOINT STOCK TELECOMMUNICATIONS COMPANY "TELEKOM SRBIJA" A.D.

1. We have audited the accompanying balance sheet of Joint Stock Telecommunications Company "Telekom Srbija" a.d. ("the Company") at 31 December 1997, and the related statements of income, of cash flows and of shareholders' equity for the seven months then ended appearing on pages 4 through 20. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based upon our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at 31 December 1997 and the results of its operations and its cash flows for the seven months then ended in accordance with International Accounting Standards.

4. Without qualifying our opinion above, we attract your attention to the following matters that we consider significant for the understanding of the accompanying financial statements:

   i) The Federal Republic of Yugoslavia announced a devaluation of the Serbian Dinar subsequent to the year end as discussed in Note 2. In addition there are continuing political uncertainties, as outlined in Note 3 and Note 19. It is possible that both these factors will have a continuing impact on the Company's ability to trade and realise its assets in the ordinary course of business.

   ii) Management performed an appraisal of the telecommunications plant and equipment as outlined in Note 4(4). The charge for depreciation expense has been based on management's appraised values for each category of plant and equipment as the detailed accounting records have not yet been updated to reflect these. Management believes that any impact to the profit and loss for the seven month period ended 31 December 1997 is not material, although overall adjustments will be required after recalculating the actual depreciation expense upon updating the accounting records to reflect the appraised values.

   iii) As explained in note 23 which was added on 1 September 1999, the Republic of Serbia has been subjected to hostile military action and certain of the company's fixed assets have been destroyed or damaged. The management states that there has been some disruption to the company's ability to provide services but that it continues to do so albeit under more difficult circumstances. The financial statements contain no adjustments as a result of this.

Price Waterhouse

Price Waterhouse
23 September 1998 except for paragraph 4 (iii) which is dated 1 September 1999

Telekom Srbija

STATEMENT OF MANAGEMENT BOARD'S RESPONSIBILITIES

To the Shareholders of Joint Stock Telecommunications Company "Telekom Srbija" a.d.

International convention requires that the Management Board prepare financial statements which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the results for the period. The Management Board is responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with International Accounting Standards and local laws and regulations. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Management Board considers that, in preparing the financial statements set out on pages 4 to 22, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Accounting Standards have been followed.

For and on behalf of the Management Board.

Milos Nesovic
General Director

Dr Costas Christopoulos
Chief Administrative Officer

23 September 1998

JOINT STOCK COMPANY "TELEKOM SRBIJA" DRAFT

BALANCE SHEET

(In thousands of Yugoslavian Dinars in terms of the purchasing power of the Dinar at 31 December 1997)

	Notes	31 December 1997	1 June 1997
ASSETS			
Non-current assets			
Property, plant and equipment	5	8,538,197	8,578,499
Advances to suppliers of equipment		320,877	357,831
Total non-current assets		8,859,074	8,836,330
Current assets			
Inventories	7	188,110	150,298
Trade accounts receivable, net of allowance for doubtful accounts of TDIN 80,569		452,723	-
International settlements receivable		84,272	-
Cash and cash equivalents		63,727	59
Other current assets	8	10,003	-
Total current assets		798,835	150,357
Total assets		9,657,909	8,986,687
SHAREHOLDERS' EQUITY AND LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	9	493,542	434,376
Taxes and social security payable	10	55,705	1,666
Short-term borrowings	11	567,032	220,346
Total current liabilities		1,116,279	656,388
Non-current liabilities			
Long-term borrowings	11	112,095	131,420
Shareholders' equity			
Share capital - authorised and issued	12	11,458,800	11,458,800
Retained earnings		230,656	-
Other reserves	13	(3,259,921)	(3,259,921)
Total shareholders' equity		8,429,535	8,198,879
Total liabilities and shareholders' equity		9,657,909	8,986,687

Milos Nesovic
General Director

Dr Costas Christopoulos
Chief Administrative Officer

The accompanying notes 1-22 form an integral part of these financial statements.

JOINT STOCK COMPANY "TELEKOM SRBIJA" DRAFT

STATEMENT OF INCOME

(In thousands of Yugoslavian Dinars, in terms of the purchasing power of the Dinar at 31 December 1997 except earnings per share)

	Notes	Seven months ended 31 December 1997
Revenues	14	2,243,834
Operating expenses		
Wages, salaries, other benefits and payroll taxes		427,206
Payments to other network operators		187,310
Materials, repairs and maintenance, utilities		80,736
Depreciation and amortisation	5	619,983
Other operating expenses	15	598,614
Total operating expenses		1,913,849
Operating profit		329,985
Interest expense, net	16	(127,044)
Other expense, net	17	(3,030)
Monetary gain		30,745
Income before taxation		230,656
Income taxes	6	-
Net income transferred to reserves		230,656
Earnings per share - basic and fully diluted	4(16)	214

Milos Nesovic
General Director

Dr Costas Christopoulos
Chief Administrative Officer

The accompanying notes 1-22 form an integral part of these financial statements.

JOINT STOCK COMPANY "TELEKOM SRBIJA"

DRAFT

STATEMENT OF CASH FLOWS

(In thousand of Yugoslavian Dinars in terms of the purchasing power of the Dinar at 31 December 1997)

	Seven months ended 31 December 1997
Cash flows from operating activities	
Income before taxation	230,656
Adjustments to reconcile net income to cash generated from operations:	
Depreciation and amortisation	619,983
Provision for bad and doubtful accounts receivable	83,346
Provision for inventory and low value items	7,491
Loss on disposal of property, plant and equipment and materials	11,391
Foreign exchange losses	3,829
Fixed assets contributed in exchange for connection fees	(62,572)
	663,468
Increase in trade accounts receivable	(617,564)
Increase in other current assets	(12,780)
Increase in inventories	(41,295)
Increase in payables and accruals	361,622
Net cash provided by operating activities	584,107
Cash flows from investing activities	
Expenditures on fixed assets	(593,448)
Proceeds from sale of property, plant and equipment and materials	19,224
Net cash used in investing activities	(574,224)
Cash flows from financing activities	
Proceeds from borrowings	180,362
Repayment of short-term borrowings	(126,577)
Net cash provided by financing activities	53,785
Net increase in cash and cash equivalents	63,668
Cash and cash equivalents at 1 June 1997	59
Cash and cash equivalents at 31 December 1997	63,727

A portion of activities is transacted by mutual offset and barter and are included above on the same basis as cash transactions (see Note 4(10)).

Milos Nesovic
General Director

Dr Costas Christopoulos
Chief Administrative Officer

The accompanying notes 1-22 form an integral part of these financial statements.

JOINT STOCK COMPANY "TELEKOM SRBIJA" **DRAFT**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Yugoslavian Dinars in terms of the purchasing power of the Dinar at 31 December 1997)

	Share Capital	Retained Earnings	Other Reserves	Total Equity
At 1 June 1997	11,458,800	-	(3,259,921)	8,198,879
Net income for the year	-	230,656	-	230,656
At 31 December 1997	11,458,800	230,656	(3,259,921)	8,429,535

The distributable reserves of the Company under the Federal Republic of Yugoslavia Law as at 31 December 1997 amounted to Dinars 175,753 thousand. These distributable reserves are determined based on the local statutory regulations. The remaining reserves are not presently available for distribution.

Milos Nesovic
General Director

Dr Costas Christopoulos
Chief Administrative Officer

The accompanying notes 1-22 form an integral part of these financial statements.

JOINT STOCK COMPANY "TELEKOM SRBIJA"
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997

(In thousands of Yugoslavian Dinars in terms of the purchasing power of the Dinar at 31 December 1997)

1. DESCRIPTION OF BUSINESS

Operations of the Company

Joint Stock Telecommunications Company "TELEKOM SRBIJA" a.d. ("Telekom Srbija" or the "Company") is incorporated under the laws of the Republic of Serbia. The Company holds exclusive rights for a period of eight years commencing in June 1997 to provide fixed line telecommunications services, including without limitation local, national and international long distance, telephony and other fixed voice services (PSTN), data transmission, leased lines, private circuits and broadband services, throughout the entire territory of the Republic of Serbia. Telekom Srbija also has the rights to provide directory services including "White Pages" and "Yellow Pages" and operator assisted and electronic directory services relating to the fixed telecommunications services.

During 1997, the Public Enterprise of PTT Traffic, Srbija ("PTT") undertook the necessary procedures to separate the former post and telecommunications sectors in anticipation of a sale of a strategic stake of the telecommunications business. Following the incorporation of Telekom Srbija, on 9 June 1997, 29% and 20% of the issued and outstanding voting common shares of Telekom Srbija were sold to STET International Netherlands N.V. ("STET") and Hellenic Telecommunications Organization A.E. ("OTE"), respectively. The remaining share capital together with the Golden Share (see "Formation of Telekom Srbija") representing 51% of the voting shares is held by PTT.

Formation of Telekom Srbija

During 1996, the Government of the Federal Republic of Yugoslavia ("Government") launched the privitisation of Telekom Srbija. Telekom Srbija was incorporated by the PTT on 23 May 1997 in a founding transaction in which the PTT undertook to transfer and assign to Telekom Srbija all of the telecommunications assets, excluding real estate and certain other assets, and liabilities. Pursuant to Article 14a of the Law on Communications of the Republic of Serbia, PTT assigned certain exclusive and non-exclusive operating rights to Telekom Srbija for an initial period of 20 years with the ability to extend for subsequent periods of 10 years. In consideration for the transfer and assignment, Telekom Srbija issued a certificate representing 1,050,000 fully paid registered common voting shares with a par value of DIN 10,000 and issued to the Government the Golden share. The Golden Share bestows certain rights on its owner, including access to information, the appointment of Directors, voting rights and certain other approval rights. This share may only be held by the Government or its nominee.

The Company was registered in the Republic of Serbia on 5 June 1997 in accordance with the Law on Enterprises of the Federal Republic of Yugoslavia as published in the Official Gazette of SRJ No 29/96 dated 26 June 1996. The Company's net assets were attributed an indexed value of DIN 11,572 million calculated in accordance with the Agency of Valuation of Socially Owned Capital in the Republic of Serbia for the purposes of privatisation. These financial statements are based upon the opening ascribed Yugoslavian Accounting Regulations book values as subsequently modified by the initial appraisal value of property, plant, and equipment as further disclosed in Note 4(4) to these financial statements.

On 9 June 1997, PTT and Telekom Srbija entered into an Acknowledgment of Transfer Agreement whereby certain telecommunications assets and liabilities were transferred and assigned to Telekom Srbija with effect from 1 June 1997. For purposes of comparison, the 1 June 1997 balance sheet of the Company representing the assets and liabilities transferred in as part of the privatisation process are presented herein. Certain facilities required to carry out the telecommunications activities have remained with PTT and are the subject of a separate Shared Services Agreement entered into between PTT and Telekom Srbija dated 9 June 1997 (see Note 20).

2. DEVALUATION OF THE DINAR

On 1 April 1998, the Central Bank of the Federal Republic of Yugoslavia announced that the Yugoslavian Dinar would be devalued against hard currencies by approximately 80% with immediate effect. No adjustments have been made in these financial statements to restate assets and liabilities denominated in foreign currencies at their new Dinar amounts following the devaluation. It is estimated that the net monetary foreign currency liabilities of the company, based on the 31 December 1997 balance sheet values, have increased significantly subsequent to year end by approximately 350 million Dinars due to the devaluation. Further, in response to the devaluation, the company has received approval to increase their tariffs. On 9 June

JOINT STOCK COMPANY "TELEKOM SRBIJA" DRAFT
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997
(In thousands of Yugoslavian Dinars in terms of the purchasing power of the Dinar at 31 December 1997)

1998, rates were increased by 40%. Additional increases of 20% and 15% are effective on 21 June and 21 July, respectively, resulting in a cumulative increase of 93%. However, it is not possible at present to assess what the impact will be in relation to domestic suppliers with inflationary price escalation agreements, tariff increases resulting from the devaluation, and other economic factors.

3. THE FEDERAL REPUBLIC OF YUGOSLAVIA ENVIRONMENT

In recent years, the Federal Republic of Yugoslavia has undergone fundamental political and economic change. As an emerging market, the Federal Republic of Yugoslavia does not possess a well developed business infrastructure which generally exists in a more mature free market economy. As a result, operations carried out in the Federal Republic of Yugoslavia involve significant risks which are not typically associated with those in developed markets. Uncertainties regarding the political, legal, tax or regulatory environment, including the potential for adverse changes in any of these factors, could significantly affect the Company's ability to operate commercially. It is not possible to estimate what changes may occur or the resulting effect of any such changes on the Company's financial position or future results of operations.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of Presentation
The Company maintains its accounting records and prepares its statutory accounting reports in accordance with the Accounting Law in the Republic of Yugoslavia in Yugoslavian Dinars. The accompanying financial statements are based upon the statutory accounting records, which are maintained under the historical cost convention, except for the statutory revaluations of property, plant and equipment. These accounts are prepared however based on an initial appraisal of plant and equipment as further described in note 4(4).

The statutory accounting reports have been restated through adjustments and reclassifications to present these financial statements in accordance with International Accounting Standards ("IAS"). A summary of the effect of the adjustments and restatements made to local statutory profit and equity to conform to IAS are provided in Note 12.

The preparation of financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and operating costs during the reporting period. The most significant estimates relate to the realisability and depreciable lives of property, plant and equipment and allowance for doubtful accounts. Actual experience could differ from these estimates.

(2) Corresponding Amounts
The Company commenced trading with effect from 1 June 1997 and this is the first period that financial statements have been prepared under International Accounting Standards. Consequently, corresponding amounts have not been presented for the statements of income or cash flows.

(3) Accounting for the effects of Inflation
The accompanying financial statements are prepared in accordance with International Accounting Standards ("IAS") and under the historical cost convention, as restated in accordance with International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies".

The adjustments and reclassifications made to the statutory records for the purpose of IAS presentation include the restatement for the changes in the general purchasing power of the Dinar in accordance with IAS 29. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. The restatement was calculated using conversion factors derived from the Federal Repubic of Yugoslavia's Consumer Price Index ("CPI"), published by the Federal Republic of Yugoslavia's Committee on Statistics.

JOINT STOCK COMPANY "TELEKOM SRBIJA" DRAFT
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997
(In thousands of Yugoslavian Dinars in terms of the purchasing power of the Dinar at 31 December 1997)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The indices used to restate amounts in these financial statements, based on 1 June 1997 prices (1997 = 100) for the year ended 31 December, and the respective conversion factors, are :

Month	Index	Conversion factors
June	100	1.061
July	100	1.059
August	100	1.063
September	100	1.061
October	100	1.059
November	105	1.010
December	106	1.000

The main guidelines followed in restating the financial statements are:

- Amounts are stated in terms of the measuring unit current at 31 December 1997;
- Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 1997;
- Non-monetary assets and liabilities which are not carried at current amounts at 31 December 1997 and shareholders' equity are restated by applying the relevant conversion factors from the date of recognition to the balance sheet date;
- Indexation restatements to property, plant and equipment are performed commencing with the carrying amounts as restated based on the appraisal value at 1 June 1997;
- All items in the statement of income are restated by applying appropriate average conversion factors with the exception of depreciation, amortisation, loss on disposal of property, plant and equipment;
- The effect of inflation on the Company's net monetary position of assets and liabilites is included in the statement of income as a monetary gain.

(4) Property, Plant and Equipment
For the purposes of determining the opening 1 June 1997 balance sheet, the Company performed an appraisal of the telecommunications plant and equipment as historical cost information was not reliable. A brief description of the methodology applied in performing the appraisal is set out below for each major asset category:

Cable and transmission devices	- current replacement cost
Switches	- modern equivalent asset
Assets in course of construction	- indexed historic cost

Assets acquired after 1 June 1997 are stated at indexed historic cost. Cost comprises construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Trade discounts and rebates are deducted in arriving at the construction cost or purchase price.

Changes in telecommunications technology are having an increasing impact on the activities of the Company. These changes will lead to the replacement of major items by equipment which provides the same or superior service capacity at substantially lower costs and more efficiently. In undertaking the appraisal and reviewing the remaining useful lives for the purposes of these financial statements, Management took into account these circumstances, as well as the environment in which the Company operates.

JOINT STOCK COMPANY "TELEKOM SRBIJA"
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997
(In thousands of Yugoslavian Dinars in terms of the purchasing power of the Dinar at 31 December 1997)

4. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The restated values of property, plant and equipment are depreciated on the straight line basis ove estimated economic useful lives of each class of asset, which are as follows:

Switching equipment	14	years
Transmission devices	10-12.5	years
Cabling and poles	20-25	years
Motor vehicles	3-6	years
Computers, office and other equipment and furniture	4-10	years

Capital improvements, renewals and repairs that extend the life of an asset are capitalised, other repairs maintenance are expensed. The gain or loss on disposal of an asset is credited or charged to the statemen income.

(5) Equipment contributions
Telephony equipment which has been transferred to the Company by customers and other entities capitalised at its market value at the date of transfer. The corresponding contribution liability is credited to statement of income on the same basis as the equipment is depreciated.

Where equipment is transferred in exchange for the provision of new telephone lines for new subscribers t value of the equipment received is credited to income in accordance with the Company's accounting policy f new subscribers connection fees.

(6) Borrowing Costs
Borrowing costs are recorded as an expense during the period in which they are incurred.

(7) Deferred Income Taxes
Income taxes are computed on the basis of reported income in the Company's statutory financial statements in accordance with relevant legislation. As discussed in Note 6, the Company is eligible for a 100% reduction in the effective rate of corporate tax on profit for a three year period which begins with the commencement of business on 1 June 1997.

Deferred tax assets and liabilities are calculated in respect of temporary differences in accordance with IAS 12 (Revised). Valuation allowances are provided for deferred tax assets where realisation is uncertain.

(8) Inventories
Inventories which include spare parts and ancillary equipment are valued at the lower of cost or net realisable value as determined by the weighted average method. Inventories are reported net of provision for slow moving or obsolete items.

Inventories for resale are categorized as current assets. Inventories of ancillary equipment are included in fixed assets.

(9) Credit Risks
A significant portion of the Company's accounts receivable are from State and other public organisations. Collection of these receivables is influenced by political and economic factors. Management believe there are no significant unprovided losses relating to these or other receivables at 31 December 1997.

(10) Mutual Offset and Barter
A portion of sales is settled through mutual offset and barter arrangements which are included in the financial statements on the same basis as cash transactions. These transactions are generally either in the form of direct settlement by goods or services (barter), or through a chain of non-cash transactions involving a number of enterprises. Barter transactions are considered to be cash flows for the purpose of presenting the cash flow statement.

(11) Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments with original maturities of three months or less, with insignificant risks of diminution in value.

JOINT STOCK COMPANY "TELEKOM SRBIJA" DRAFT
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997
(In thousands of Yugoslavian Dinars in terms of the purchasing power of the Dinar at 31 December 1997)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Revenues
Revenues are recognised on an accrual basis as the service is provided. Installation and maintenance fees are recorded as income upon service delivery.

Revenues are received from the Company's customers and other network operators, both domestic and foreign, for the use of its network and completion of connections. The Company makes payments to foreign and national operators for completing calls both internationally and within the Federal Republic of Yugoslavia. These revenues and costs are shown gross in these financial statements. Amounts payable to and receivable from the same operators are shown net in the balance sheet where a legal right of offset exists.

(13) International Settlements
The annual expense for traffic carried and terminated outside of the Company network is shown separately in the statement of income. Amounts due to the Company from the International Settlement Agency for terminating calls originating outside of the Company network are shown separately as income from international call revenues in note 14. The net amount owing from the International Settlement Agency, for which a legal right of offset exists, is shown in the balance sheet under current assets.

(14) Foreign Currency
Foreign currency balances are converted into Yugoslavian Dinars at the year end exchange rates. Transactions in foreign currencies are recorded at the relevant rates of exchange on the date of the transaction. Exchange differences arising are charged or credited to the statement of income.

(15) Pension Costs
Contributions are made to the Federal Republic of Yugoslavia's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The cost of social security payments is charged to the income statement in the same period as the related salary cost.

(16) Earnings per Share
Earnings per share is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

(17) Social Commitments
The Company contributes to the maintenance and upkeep of certain local infrastructure and to the welfare of its employees, including contributions toward the construction, development and maintenance of housing and recreation. These expenditures, including those of a capital nature, are expensed as incurred.

(18) Financial Instruments
The fair value of financial instruments is determined with reference to relevant market information where appropriate. At 31 December 1997 the fair values of instruments held by the Company did not differ materially from their recorded values in the financial statements.

(19) Year 2000 Costs
External and internal costs specifically associated with modifying internal-use software for the year 2000 will be charged to the statement of income as incurred.

JOINT STOCK COMPANY "TELEKOM SRBIJA" **DRAFT**

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997

(In thousands of Yugoslavian Dinars in terms of the purchasing power of the Dinar at 31 December 1997)

5. PROPERTY, PLANT AND EQUIPMENT

	Network construction, cabling and furniture	Switches and transmission devices	Other	Assets under construction and equipment awaiting installation	Total
Gross Value					
Appraised at 1 June 1997	9,460,802	7,234,774	-	1,081,365	17,776,941
Additions	113,833	193,676	149	297,700	605,358
Transfers	174,982	475,234	-	(650,216)	-
Disposals	(9,750)	(52,750)	-	(4,021)	(66,521)
At 31 December 1997	9,739,867	7,850,934	149	724,828	18,315,778
Accumulated Depreciation					
Appraised at 1 June 1997	(4,636,474)	(4,561,968)	-	-	(9,198,442)
Depreciation expense	(265,594)	(354,385)	(4)	-	(619,983)
Disposals	4,226	36,618	-	-	40,844
At 31 December 1997	(4,897,842)	(4,879,735)	(4)	-	(9,777,581)
Net book value at 1 June 1997	4,824,328	2,672,806	-	1,081,365	8,578,499
Net book value at 31 December 1997	4,842,025	2,971,199	145	724,828	8,538,197

Assets under construction and equipment awaiting installation represent property, plant and equipment which has yet to be put into use and construction in progress of new telephone stations and other assets.

At 31 December 1997, the gross carrying value of fully depreciated property, plant and equipment was DIN 116,000 thousand. Property, plant and equipment of DIN 253,000 thousand were pledged as security against long-term credits from suppliers.

6. INCOME TAXES

The corporate income tax rate is 25% on profits in accordance with Federal Republic of Yugoslavia tax and accounting legislation. Under the present tax legislation, Telekom Srbija is eligible for a 100% reduction in the effective rate of corporate tax for a three year period which begins with the commencement of business on 1 June 1997.

Dividend distributions are subject to a withholding tax of 20%.