Work Step		Performed	Alternative Procedures
2	*Continued*		the relating books of accounts of PTT as at the date of separation. Therefore, we were only able to perform alternative analytical procedures.
3	Select a sample from post separation Telekom Srbija fixed assets listing (26% of capacity installed in switches and 20% of the value of cables and transmission):	The sample comprises: -Telekomunikacije - Gradski telefon - Zrenjanin - Sremska Mitrovica - Novi Sad - Nis, etc.	
	/i/Physically verify the existence of the fixed assets to the practicable extent, agreeing the asset description and fixed asset reference number.	✓	
	/ii/Check the fixed assets technical specification. Assess whether a fixed asset is in operation and not obsolete.	✓	
	Work Step 3/ii/ will be performed by SIN/OTE engineer		Separate reports are prepared.
4	Obtain a rollforward of fixed assets from 31 December 1996 to 30 June 1997 detailing additions and disposals in that period, and:	✓	
	- Foot rollforward	✓	
	- Agree fixed assets total to Price Waterhouse illustrative separated accounts as of 31 December 1996 and the Telekom Srbija balance sheet as of 30 June 1997 respectively	Partially	Pre-separation fixed assets totals agreed partially to illustrative separated accounts as of 31 December 1996 and to the PTT Srbija balance sheet as of 30 June 1997 respectively. Alternative procedure was applied at appropriate sections: WIP, advances to suppliers and trade payables.
	- Understand nature of the additions and disposals by discussion with management	✓	
	- For all additions greater than.... agree to purchase invoices		

1.2. Work Performed

We were provided with necessary information, as required by Work step 1 of our Work plan, by departments within Telekom Srbija and PTT such as:

- Accounting Department;
- Planing and Analysis Department;
- Information Center;
- Technical Department, and
- Limited review of Price Waterhouse working papers.

Our understanding of the sources of information is based on discussion with management.

We also had limited insight into working papers of Price Waterhouse (PW), auditor of Telekom Srbija Opening balance sheet.

Scope Limitations

Major scope limitations relate to lack of comparable values, an asset description, inventory numbers and different classification of assets by working units.

Moreover, "transfer" i.e. posting of fixed assets to be used in telecommunication business into Telekom Srbija books was carried out by two major phases:

- as of 1 June 1997, for all working units of telecommunication transferred, in values based on independent valuation performed by Ces Mecon. Amounts of individual assets were different from those existed as of 31 May 1997 in the fixed assets ledgers kept by PTT Srbija. Based on this "transfer", opening balances of fixed assets represent approximately 85-90% of the total fixed assets as stated in the Illustrative separated accounts of Telekom Srbija as of 1 June 1997; and

- remaining fixed assets in physical terms and in values comprising the opening balances were transferred in the period from June mostly to the end of September 1997.

  However, we have not been supplied with lists of assets transferred after 1 June 1997 in order to enable us to verify their existence in the PTT pre-separation fixed assets listings and in the Telekom Srbija post-separation listings. As we understood, each Working unit using data base from PTT transferred directly those fixed assets which are not included in the Ces Mecon listings.

- Time leg between the actual transfer of assets and our field work of more than one year caused the information obtained being obsolete or hardly accessible (for example PTT fixed assets ledgers as of 31 May 1997).

- As we understood updating of accounting records of PTT Srbija, we referred to as 31 May 1997, was delayed at least two months.

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1.2. Work Performed (continued)

Work Step 1

Telekom Srbija provided a post-separation fixed assets listing with the following details:

- number of working units;
- number of cost center;
- fixed asset register number;
- inventory number;
- gross book value;
- accumulated depreciation;
- net book value;
- depreciation rate, etc.

We footed listings, as requested by Work Plan.

Telekom Srbija post-separation fixed assets listing as posted on 1 June 1997 comprises fixed assets amounting as follows:

In thousand of

	DEM Per Ces Mecon		DIN Per Telekom Books	
	GBV	NBV	GBV	NBV
Plant	2.873.138	1.587.893	10.860.462	6.002.236
Equipment	2.421.399	1.043.852	9.152.891	3.945.763
TOTAL:	5.294.537	2.631.745	20.013.353	9.947.999

Notes: 1. Exchange rate used 1 DEM = 3.78 Din
2. The amount of 20.013.353 thousand Dinars represents total per CES Mecon valuation, before any adjustments made
3. See details by working units on Appendix I.1.

Above figures were posted in the Telekom Srbija books, based on independent valuation of telecommunication fixed assets carried out by Ces Mecon, Belgrade. Valuation of fixed assets was originally performed at 30 June 1994 and for the above purpose adjusted up to 31 March 1997.

Amounts of fixed assets detailed by working units and by type of fixed asset were agreed to the Statutory opening balance sheet as of 1 June 1997, prepared by Price Waterhouse auditors, before any adjustments were made. No exceptions has been noted.

As we understood from PTT Traffic Srbija - Discussion Paper - Illustrative separated accounts, April 1997 - Draft (pages 11 and 12) fixed assets comprising mostly telecommunication plant and equipment were subject of transfer from PTT to Telekom Srbija as follows (quoted):

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In thousand of DEM

	Purchase Cost	Cumulative Depreciation	Net Book Amount
Assets Acquired Pre 1994			
Land and buildings			
Operating Assets			
- Constructions	2.720.414	1.024.698	1.695.716
- Switching Equipment	1.603.457	643.332	960.125
- Transmission Equipment	867.172	401.161	46.601
- International Switches	4.478	1.844	2.634
- Vehicles	8.441	4.547	3.894
	5.246.420	2.106.582	3.140.044
Depreciation adjustment for 2.5 years to December 1996		(1.069.930)	(1.069.930)
Assets Acquired Post 1994			
Land and buildings			
Operating Assets			
- Constructions	570.909	22.23	548.786
- Switching Equipment	126.114	12.11	113.503
- Transmission Equipment	66.149	6.15	59.534
- International Switches	30.022	2.27	27.395
- Vehicles	13.491	2.14	10.877
	806.685	45.590	760.095
Total operating assets	6.053.105	3.223.102	2.830.003

Assets acquired pre 1994 are stated at estimated values based on Ces Mecon independent valuation. Assets acquired post 1994 are stated at cost adjusted for inflation using official revaluation coefficients based on retail price indices.

We understood above figures as provisional.

We have tested posting of fixed assets based on Ces Mecon lists comprising items of individual assets as of 31 March 1997.

In respect of the total values posted in the fixed assets ledgers and its reconciliation with control and General ledger accounts we have found no exceptions.

However, we could not agree, in some cases, other details which should be the part of fixed assets ledgers in order to enable identification of fixed asset item, due to:

- limited asset description;
- treatment of composition of cost of one fixed asset (from technical and accounting point of view);
- capacity;
- inventory number;
- number of units posted under the same inventory number; and
- fixed assets Master file number.

Lists of fixed assets produced by independent valuer Ces Mecon did not provide proper identification of items being subject to valuation to enable for bookkeeping purposes the correct matching with an asset item as recorded before valuation.

In order to perform our tests we were provided only with the lists of fixed assets being subject to valuation and assumed to had been posted in the fixed assets ledgers by Telekom Srbija working units.

We were not provided by the original elaborate of valuation issued by above mentioned valuer and therefore we were not in the position to understand assumptions, valuation principles and guides which governed valuer in performing the valuation.

There is a number of queries arising from the above valuation documentation which are not fully resolved to us, such as:

- Which assets were included in the estimated net book value as of 31 March 1997, presented in valuation report;

  Based on our scrutiny of Ces Mecon lists used for posting opening balances of fixed assets we noticed items acquired up to the end of 1996 and some additions relating to 1997 amounting to DEM 8,434 thousand and 31.883 thousand Dinars for GBV;
- However , later transfer of fixed assets amounting to 1.778.676 thousand Dinars representing net of increates and descreates for which opening figures were adjusted, give rise for a question what transfer of assets acquired (or posted) after 31 March 1997 from PTT books to Telekom Srbija should comprise and how to be identified since the majority of fixed assets amounting to DEM 5.294 million, including DEM 8.434 thousand of 1997 additions, were posted directly to Telekom books without previously carving them out from PTT ledgers and General ledger; and
- How to identify other assets to be transferred from PTT books to Telekom Srbija which do not belong to telecommunication business (office furniture, cars and vehicles, computers, etc.) to avoid double inclusion of fixed assets in values.

We have prepared Summary of fixed asset transferred, by working units, agreed with the lists of valuation and listing of fixed asset ledger Summary at the level of Telekom Srbija (Appendix I.1.).

As mentioned above transfer of fixed assets was made in more than one phase:

- first one as of 1 June 1997, based on the lists of fixed assets prepared by the independent valuer;
- next one at various dates from June to September and other dates up to the end of 1997 based on the real transfer of additions after March 1997 not covered by the Ces Mecon list and other assets representing the PTT assets subject to transfer from PTT based on Acknowledgement of Transfer.

We have examined additional postings of fixed assets related to opening balances collected directly from working units and audited by PW auditors.

We have also agreed the totals of adjusted opening figures to totals adjusted for movements on fixed assets between adjusted opening balances and the year end balances and found out that the year end balances comprised all adjustments made by working units, as requested by PW auditors (see Appendix I.2.).

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Work Step 2

We obtained a pre-separation PTT fixed assets listing and agreed it to the trial balance of working units and summary of PTT fixed assets listing as of 31 May 1997.

By combining the PTT pre-separation fixed assets listing and the Telekom Srbija post-separation fixed assets listing we selected a sample in order to compare the fixed assets used by PTT for telecommunication business up to 31 May 1997 with those recorded in the Telekom Srbija books as of 1 June 1997.

The sample includes the fixed assets of 16 out of 31 working units, representing 81% of the total value of fixed assets posted in the Telekom Srbija books as of 1 June 1997, and comprise:

- In thousand of Dinars -

	TELEKOM - GBV			PTT - GBV		
	Total	Sample	%	Total	Sample	
Plant	10.854.407	4.181.326	38,52	6.819.173	947.904	13
Equipment	9.141.612	4.101.976	44,87	5.118.892	911.599	17
TOTAL:	19.996.019	8.283.302	41,42	11.938.065	1.859.503	15

Details of the above sample by working units and major types of assets are presented in Appendix I.3..

Our sample comprise the following individual items:

Number of assets

	Plant	Equipment	Total
Total sample	266	177	443
Agreed between books	228	155	383
Not agreed	38	22	60
Not agreed in %	14,28	12,43	13,54

The basis for matching of fixed assets individual item was master file number, description and location of an asset. Values were not comparable.

Based on procedures followed by our Work plan, we traced selected fixed assets from PTT to Telekom Srbija books or vice versa in order to agree:

- a working unit code;
- a cost center code;
- details of accounting code;
- a master file number (new and former one);
- an inventory number (new and former one);
- description and location of a particular fixed asset;
- year of acquisition;
- capacity (expressed in units);
- gross book value (PTT- 31 May 1997 and Telekom Srbija - 1 May 1997);
- net book value (PTT - 31 May 1997 and Telekom Srbija - 1 May 1997);
- depreciation rate.

Differences presented above arose on switches related only to terminal and local level. Possible reasons for excessive number of switches compared with Acknowledgement of Transfer could be; incomplete description of an asset, duplication, taking into account assets from Work in progress as completed assets, etc.

The same reasons could as well explain the other noted differences.

Matters Arising

Comparison of items, we understood to be a subject of transfer from the PTT to Telekom Srbija books, was difficult or very often impossible without clearance with management, since they were not transferred directly. Vast of fixed assets were posted to the Telekom Srbija books from specific lists produced by Ces Mecon as result of the valuation.

As already explained in work step 1, the valuation of fixed assets used in telecommunication business was prepared independently and therefore the PTT books were not adjusted accordingly. As a consequence, no comparison of the fixed assets by values existed at 31 May 1997 in the PTT books was possible with the same asset posted as of 1 June 1997 into the Telekom Srbija books.

In addition, the valuer changes grouping of assets making either numerous assets of a previous single asset under the same description, using the same master file and inventory number or dividing a previous single asset value into a number of new asset values with no identification numbers at all (marking with "NN").

Based on our examination and comparison of the PTT and Telekom Srbija books, examples of above mentioned disagreements are as follows:

Gradski telefon - 3 items in PTT are divided into 18 items in Telekom Srbija; Telekomunikacije - 13 items of PTT are aggregated into 1, 53 items into 1, 18 items into 1, 14 items into 1 and 11 into 1.

Such cases are noted in almost all other working units. That is the main reason why comparison of individual items from PTT and Telekom Srbija become very difficult.

In addition to above examples we noted incorrectly posted assets from the Ces Mecon lists to fixed assets ledgers where, for example switches and other telecommunication assets were posted as office furniture (e.g. Valjevo switch with GBV 24 million of Dinars posted as office furniture; similar noted in working units Nis, Pozarevac, Krusevac, Vranje, Kikinda etc.), appearing in the fixed asset ledger as of 31 December 1997.

As we already explained comparison and full agreement of values of fixed assets recorded in PTT and Telekom Srbija books was not practicable due to of indirect transfer chosen (instead of list of assets carved out from PTT books with all necessary data relating to telecommunication business to be transferred, valuer's specifications of fixed assets represent the basis for posting).

Differences in values of the fixed assets selected show different grouping made by the valuer which is not practicable to trace by values.

Details like code of working unit, cost center code, location, depreciation rate were mostly comparable.The remaining details such as master file numbers, inventory number, year of acquisition and capacity were very hard to agree. As we understood, the Telekom Srbija fixed asset register had changed from 1 June 1997 up to the end of 1997 based on actions taken by management to install a fixed assets register for telecommunication fixed assets and other assets necessary for the business.

Alternative procedures

Due to difficulties experienced in tracing the selected fixed assets form the PTT fixed assets ledger to the Telekom Srbija fixed assets ledger, we carried out the following alternative procedures:

1) Top twenty largest fixed assets in terms of value existed in 1994 and today amounting to DEM 656.265 thousand or 2.480.979 thousand Dinars representing 12,39% the of total amount of fixed assets, posted as opening balances on the basis of Ces Mecon valuation specifications of Telekom Srbija fixed assets, were identified by inventory numbers in the fixed assets ledgers (see AppendixI.4.).
   In addition, 13 fixed assets out of 20 shown in the above Appendix representing 72,44% were physically inspected by SIN/OTE engineers and by our auditors.
2) Comparison of individual asset number stated in the Ces Mecon lists with fixed assets stated in Acknowledgement of Transfer Agreement.

   We counted and traced items of some specific fixed assets listed in the valuer's lists to those listed in the Schedule 1 of Acknowledgement of Transfer Agreement. Comparison was made for the following groups of telecommunication assets:
   - Switches;
   - Transmission systems;
   - Radio system;
   - Satellite stations; and
   - Towers.

Results of our counting are as follows:

	Per Ces Mecon	Ackowle-dgement	Difference +/(-)
Switches	1.570	1.517	53
Transmission systems	1.555	1.404	151
Radio systems	152	152	-
Satellite stations	1	1	-
Towers	152 112	74	38