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## 2. Commitments

Regarding commitments for plant, equipment and other capital expenditure we were provided by PTT Department of foreign currency operations with a summary of contracted liabilities which will be financed through credits received from equipment vendors.

The summary of committed expenditure under contractual arrangement as of 31 December 1997, expressed in DEM, with repayment schedule up to the year 2005 is provided in Appendix II.3.

We scrutinized the contracted commitments and performed the work as described under Section 3.2. - Long term borrowings, work steps (c) /ii/ and /iii/.

We were provided with very detailed listings of investment projects by Telekom Srbija Department for capital expenditure financing, with progress status of work at 31 December 1997 and 1 June 1998 by each functional working unit and type of work in progress (local network, commutation system, HF transmission and cabling).

Those listings include the following information:

- transit area;
- brief title of investment project;
- name of contractor;
- description of particular work (delivery and the type of equipment, installation, project preparation, training, etc.);
- contract and date of contract;
- contracted amount/advance contracted and paid;
- payment made during 1997;
- outstanding amount due for invoiced advances and completed work; and
- total funds required for completion.

Together with work steps proposed for physical verification of capital WIP we performed detailed review of these listings and findings are described under Section - Work in progress.

No attempt was made to summarize all available information by types of investment project as the majority of WIP is already included within the contracted commitments with foreign vendors.

Total contracted value of WIP as of 1 June 1998 according to provided listings amounted to 1,199,850 thousand Dinars.

Only very broad understanding was obtained regarding committed capital expenditure in conjunction with investments in the network based upon contracts with the local municipality. PW auditors were provided from Telekom Srbija Department for financing of capital expenditure with data regarding contracts with municipalities. We did not receive any evidence that some audit procedures were performed by PW, neither those information were used by PW for audit reporting purposes.



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## 4. Summary of issues

As a result of particular issues reported in this Section and adjustments arose therefrom, we summarize the effects on opening balance sheet liabilities as follows:

In thousand of Dinners

| Balance sheet item | Initial balance at 1 June 1997 | Adjustment | Adjusted opening balance 1 June 1997 |
|---|---|---|---|
| Intercompany payables | 73.367 | 180.172 | 253.539 |
| Intercompany short term borrowing | - | 146.340 | 146.340 |
| Short term borrowings | - | 119.300 | 119.300 |
| Other liabilities | - | 18.914 | 18.914 |
| Long term borrowings | 45.708 | 166.534 | 212.242 |
| TOTAL: | 119.075 | 631.260 | 750.335 |

*Notes:*

1) Intercompany payables were additionally adjusted by 7.821 thousand Dinars as confirmed by written representation from PTT responsible officer, as subsequently established liabilities not recorded in Report of 6/10/97 (including the amount of 6.672 thousand Dinars established as our finding and reported under Work step 4.(b)).
2) Other liabilities comprise of deferred income amounted to 15.700 thousand Dinars, turnover tax thereto 1.570 thousand Dinars and accrued interest of 1.644 thousand Dinars.

The amount of liabilities to be transferred to Telekom Srbija is the subject of further reconciliation between PTT and Telekom Srbija records, and possible adjustments to be made had all outstanding liabilities were confirmed by independent suppliers' statements.



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## 5. Overview of Aggregate Liabilities

A summary comparison of aggregate liabilities stated in Exhibit "A" and our findings is as follows:

In million Dinars

| Balance sheet item | Amount per Exhibit "A" Amount in agreed currency | Dinars equivalent | Dinars Liabilities to be transferred |
|---|---|---|---|
| 1. Domestic equipment and supply contracts | DIN 250 | 250 | 405 |
| 2. International contracts | DEM 80 | 264 | 212 |
| 3. Short term financial debts with domestic banks | DIN 130 | 130 | 121 |
| 4. International contracts | DEM 35 | 116 | - |
| TOTAL: | | 760 | 738 |

*Notes:*

1) Liabilities denominated in DEM are translated at the official exchange rate ruling at the opening balance sheet date (DEM = 3,3 Dinars)
2) Domestic equipment and supply contracts comprise liabilities for payments made by PTT to various suppliers including sub-contractors of international contracts and outstanding liabilities to domestic and foreign suppliers recorded at PTT books.
3) Short term financial debts include 1,7 million Dinars for interest due
4) Other liabilities as stated in Exhibit "A":

| | In million Dinars |
|---|---|
| - current assets | (142) |
| - net settlement | nil |
| - DEM 35 million | 116 |
| Deferred revenue | 17 |
| Liabilities | 133 |

The above amounts of aggregate liabilities do not include any inflation adjustments.

Provision for contingencies regarding claims raised against PTT (50% of claimed amount) and possible adjustments for long term borrowings taken over by the National bank of Yugoslavia can not be in excess of 4 million Dinars.

Based upon the procedural work performed by our firm and reliance placed on Price Waterhouse audit adjustments and within the scope limitations and stated issues which could cause the potential errors, the amount of liabilities to be transferred to Telekom Srbija appears reasonable and lies within the limits stipulated by Clause 5.1(l) of the Share Sale and Purchase Agreement.



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# Telekom Srbija
# Post Completion Agreed Upon Procedures

# APPENDICIES to Segment Report on Assets and Liabilities

PRELIMINARY AND DRAFT - FOR DISCUSSION PURPOSES ONLY

July 1998



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Appendix I.1.

## SUMMARY OF FIXED ASSETS POSTINGS

*as of 1 June 1997*

*(per CES Mecon valuation lists)*

In thousands of Dinars

| | No. | Working unit | PTT Srbija - 31 May 1997. | | | Telekom Srbija - 1 June 1997. | | | CES Mecon in DEM | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | GBV | Accumulated depreciation | NBV | GBV | Accumulated depreciation | GBV | GBV | NBV |
| 1. | 20 | Valjevo | 363.220 | (214.236) | 148.984 | 313.268 | (125.857) | 462.252 | 82.875.080 | 49.579.582 |
| 2. | 21 | Pozarevac | 3.684.040 | (183.687) | 3.500.353 | 591.610 | (261.946) | 4.091.963 | 156.510.627 | 87.212.719 |
| 3. | 22 | Smederevo | 298.722 | (141.509) | 157.213 | 350.868 | (108.478) | 508.081 | 92.822.228 | 64.124.345 |
| 4. | 23 | Sabac | 526.425 | (291.360) | 235.065 | 437.462 | (158.253) | 672.527 | 115.730.830 | 73.863.427 |
| 5. | 30 | Kragujevac | 334.613 | (215.010) | 119.603 | 603.746 | (269.649) | 723.349 | 159.721.256 | 88.385.408 |
| 6. | 31 | Kraljevo | 322.949 | (178.496) | 144.453 | 851.040 | (409.337) | 995.493 | 225.343.009 | 116.852.778 |
| 7. | 32 | Krusevac | 335.942 | (178.047) | 157.895 | 415.493 | (183.421) | 573.388 | 109.918.887 | 61.394.843 |
| 8. | 33 | Jagodina | 296.224 | (196.363) | 99.861 | 459.492 | (238.125) | 559.353 | 121.558.875 | 58.562.825 |
| 9. | 35 | Cacak | 284.032 | (171.559) | 112.473 | 444.598 | (191.724) | 557.071 | 117.618.628 | 66.897.695 |
| 10. | 36 | Uzice | 437.909 | (204.783) | 233.126 | 734.768 | (350.844) | 967.894 | 194.383.097 | 101.567.256 |
| 11. | 40 | Bor | 155.904 | (127.090) | 28.814 | 256.189 | (111.972) | 265.003 | 62.483.773 | 32.861.513 |
| 12. | 41 | Vranje | 851.180 | (796.915) | 54.265 | 174.838 | (76.027) | 229.103 | 46.253.480 | 26.140.433 |
| 13. | 42 | Zajecar | 50.599 | (20.974) | 29.625 | 341.157 | (183.458) | 370.782 | 90.253.170 | 41.719.232 |
| 14. | 43 | Leskovac | 373.121 | (260.197) | 112.924 | 253.138 | (106.339) | 366.062 | 66.967.645 | 38.835.543 |
| 15. | 44 | Pirot | 112.520 | (33.726) | 78.794 | 189.493 | (79.352) | 268.287 | 50.130.334 | 29.137.764 |
| 16. | 45 | Prokuplje | 234.849 | (190.019) | 44.830 | 177.456 | (79.790) | 222.286 | 46.946.082 | 25.837.509 |
| 17. | 50 | Zrenjanin | 282.185 | (172.780) | 109.405 | 589.278 | (277.859) | 698.683 | 155.893.693 | 82.385.945 |
| 18. | 51 | Kikinda | 94.356 | (63.455) | 30.901 | 221.092 | (93.504) | 251.993 | 58.489.850 | 33.753.377 |
| 19. | 52 | Pancevo | 331.357 | (211.417) | 119.940 | 696.296 | (424.964) | 816.236 | 184.205.370 | 71.780.995 |
| 20. | 53 | Sombor | 222.281 | (173.879) | 48.402 | 348.380 | (204.521) | 396.782 | 92.164.170 | 38.058.061 |
| 21. | 54 | Sremska Mitrovica | 265.173 | (190.282) | 74.891 | 823.458 | (531.588) | 898.349 | 217.846.081 | 77.214.267 |
| 22. | 55 | Subotica | 415.456 | (208.736) | 206.720 | 515.158 | (199.088) | 721.878 | 136.285.102 | 83.616.208 |
| 23. | 60 | Pristina | 800.965 | (445.290) | 355.675 | 1.526.594 | (704.519) | 1.882.269 | 403.860.764 | 217.480.250 |
| 24. | 80 | Telegraf Beograd | 114.318 | (94.315) | 20.003 | 83.607 | (47.079) | 103.610 | 22.118.162 | 9.663.390 |
| 25. | 81 | Telekomunikacije | 1.186.456 | (807.093) | 379.363 | 1.129.813 | (685.504) | 1.509.176 | 298.892.301 | 117.541.985 |
| 26. | 82 | Gradski telefon | 2.166.489 | (1.474.939) | 691.550 | 3.623.678 | (2.138.350) | 4.315.228 | 958.645.115 | 392.944.050 |
| 27. | 83 | MG Beograd | 505.121 | (195.883) | 309.238 | 706.430 | (256.234) | 1.015.668 | 186.886.359 | 119.099.541 |
| 28. | 84 | Izgradnja TT objekata | 34.597 | (23.703) | 10.894 | 6.215 | (5.026) | 17.109 | 1.644.335 | 314.625 |
| 29. | 86 | TT NS | 250.147 | (53.215) | 196.932 | 1.213.779 | (657.563) | 1.410.711 | 321.105.495 | 147.146.951 |
| 30. | 88 | TT Novi Sad | 623.307 | (402.408) | 220.899 | 1.954.937 | (904.972) | 2.175.836 | 517.179.075 | 277.768.503 |
| 31. | 87 | Pejdzing sistem | 19.738 | (571) | 19.167 | 19 | (2) | 19.186 | 5.037 | 4.573 |
| | | *Correction Pozarevac* | (3.330.704) | - | (3.330.704) | | | | | |
| | | TOTAL: | 12.643.491 | (7.921.937) | 4.721.554 | 20.013.350 | | | | |

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Appendix 1.2.

SUMMARY ADJUSTMENTS OF OPENING FIXED ASSETS BALANCES

In thousands of Dinars

| Type of fixed assets | Opening balances Jan 1, 1997 (per CES Memo) | Adjustments | | | | Opening balances Adjusted |
|---|---|---|---|---|---|---|
| | | Increases | Transfer from JP PTT | Decreases | Total | |
| **Gross Book Values** | | | | | | |
| Aerial Cables | 1.076.401 | 92.400 | 2.226 | (30340) | 64.286 | 1.140.687 |
| Underground Cables | 8.141.531 | 523.445 | 2.201 | (78107) | 447.239 | 8.588.820 |
| Ducts | 1.550.471 | 85.519 | - | - | 85.519 | 1.635.990 |
| TT equipment | 219.608 | 33.498 | 177 | (8929) | 24.746 | 244.354 |
| Switches | 5.463.292 | 934.033 | 31.886 | (477012) | 488.957 | 5.952.249 |
| VF Devices | 2.172.719 | 539.133 | 2.007 | (247842) | 293.298 | 2.466.017 |
| Other Fixed Assets | 1.389.281 | 475.742 | 5.136 | (106247) | 374.631 | 1.763.912 |
| Total Fixed Assets | 20.013.353 | 2.683.820 | 43.633 | (948.777) | 1.778.676 | 21.792.029 |
| Work in progress cap. | 761.411 | 543.263 | - | (437.321) | 105.942 | 867.353 |
| TOTAL GROSS BOOK VALUES | 20.774.764 | 3.227.083 | 43.633 | (1.386.098) | 1.884.618 | 22.659.382 |
| **Accumulated depreciation** | | | | | | |
| Aerial Cables | 478.245 | 23.196 | - | (11.586) | 11.610 | 489.855 |
| Underground Cables | 3.611.201 | 218.386 | - | (45.040) | 173.346 | 3.784.547 |
| Ducts | 711.624 | 38.495 | - | - | 38.495 | 750.119 |
| TT equipment | 123.202 | 25.047 | 19 | (4.386) | 20.680 | 143.882 |
| Switches | 3.090.551 | 222.954 | 6.662 | (174.640) | 54.976 | 3.135.527 |
| VF Devices | 1.149.934 | 343.290 | - | (149.430) | 193.860 | 1.343.794 |
| Other Fixed Assets | 910.597 | 402.192 | 683 | (11.648) | 391.227 | 1.301.824 |
| Total acc. depreciation | 10.065.354 | 1.273.560 | 7.364 | (396.730) | 884.194 | 10.949.548 |
| Depreciation of CAP WIP | - | - | - | - | - | - |
| Total acc. Depreciation | 10.065.354 | 1.273.560 | 7.364 | (396.730) | 884.194 | 10.949.548 |
| Net Book Values Before Cap. WIP | 9.947.999 | 1.410.260 | 36.269 | (552.047) | 694.482 | 10.842.481 |
| TOTAL NET BOOK VALUES | 10.709.410 | 1.953.523 | 36.269 | (989.368) | 1.000.424 | [illegible] |

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Appendix I.3.

## Summary of fixed assets sample size

| Working unit | Account | Gross book value | | Net book value | | Account | Gross book value | | Net book value | | Telekom gross book value (022 and 023) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Telekom | JP PTT | Telekom | JP PTT | | Telekom | JP PTT | Telekom | JP PTT | |
| 1. Pozarevac | 022 | 146.639 | 24.997 | 96.145 | 16.233 | 023 | 219.538 | 15.677 | 85.836 | 3.409 | 366.177 |
| 2. Kragujevac | 022 | 122.150 | 28.298 | 84.959 | 6.844 | 023 | 209.505 | 20.634 | 104.728 | 2.037 | 331.655 |
| 3. Kraljevo | 022 | 343.784 | 34.779 | 183.317 | 6.306 | 023 | 336.441 | 24.664 | 168.385 | 2.533 | 680.225 |
| 4. Jagodina | 022 | 168.546 | 48.000 | 93.144 | 17.083 | 023 | 98.689 | 64.285 | 41.714 | 450 | 267.235 |
| 5. Uzice | 022 | 256.921 | 124.679 | 151.622 | 71.931 | 023 | 109.513 | 45.436 | 47.147 | 9.370 | 366.434 |
| 6. Zajecar | 022 | 100.522 | 896 | 45.074 | 735 | 023 | 72.609 | 1.813 | 26.168 | 1.497 | 173.131 |
| 7. Zrenjanin | 022 | 249.070 | 57.615 | 147.417 | 26.982 | 023 | 68.275 | 30.694 | 29.514 | 6.925 | 317.345 |
| 8. Pancevo | 022 | 40.095 | 83.108 | 25.435 | 23.168 | 023 | 275.940 | 45.143 | 64.913 | 8.647 | 316.035 |
| 9. Sremska Mitrovica | 022 | 281.259 | 62.951 | 93.377 | 19.528 | 023 | 104.507 | 64.975 | 47.243 | 9.747 | 385.766 |
| 10. Subotica | 022 | 224.635 | 174.879 | 161.951 | 69.788 | 023 | 93.484 | 30.832 | 38.672 | 3.975 | 318.119 |
| 11. Pristina | 022 | 637.900 | 102.698 | 346.979 | 66.310 | 023 | 223.353 | 87.618 | 107.209 | 23.509 | 861.253 |
| 12. Telekomunikacije | 022 | 223.934 | 31.865 | 117.743 | 5.753 | 023 | 516.506 | 26.088 | 168.066 | 2.133 | 740.440 |
| 13. Gradski telefon | 022 | 508.720 | 70.854 | 271.846 | 21.758 | 023 | 592.641 | 314.588 | 248.705 | - | 1.101.361 |
| 14. MG Beograd | 022 | - | - | - | - | 023 | 109.234 | 38.138 | 62.075 | 13.723 | 109.234 |
| 15. TT Nis | 022 | 429.602 | 30.867 | 217.344 | 5.504 | 023 | 180.699 | 747 | 55.804 | 650 | 610.301 |
| 16. TT Novi Sad | 022 | 447.549 | 71.418 | 286.140 | 14.999 | 023 | 891.045 | 100.267 | 441.579 | 7.628 | 1.338.594 |
| Total sample: | 022 | 4.181.326 | 947.904 | 2.322.493 | 372.922 | 023 | 4.101.979 | 911.599 | 1.737.758 | 96.233 | 8.283.305 |
| Total in Telekom: | 022 | 10.854.407 | | | | 023 | 9.141.612 | | | | 20.013.353 |
| Sample scope (%): | | 38.52 | | | | | 44.87 | | | | 41.39 |

TELEKOM SRBIJA

Appendix I.4.

## Summary of 20 largest Fixed assets (in terms of value) which existedf in 1994 and tofay

In thousand of Dinars

| | Working unit | Description of asset | Inventory number | Analytical account | Gross value in DEM | Value per Telekom Fixed Assets Listing |
|---|---|---|---|---|---|---|
| 1. | Novi Sad | VHF Transmitter | 2376 | 0231230 | 124.769 | 471.628 |
| 2. | Novi Sad | Local Network | 32136 | 0220110 | 76.383 | 288.728 |
| 3. | Novi Sad | VHF Transmitter | 195107 | 0231230 | 13.273 | 50.173 |
| 4. | Novi Sad | VHF Transmitter | 206210 | 0231230 | 13.000 | 49.138 |
| 5. | Gradski Telefon | Cable Network | 96327 | 0220110 | 37.753 | 142.708 |
| 6. | Gradski Telefon | Cable Network | 99014 | 0220110 | 37.353 | 141.192 |
| 7. | Gradski Telefon | Cable Network | 97905 | 0220110 | 29.132 | 110.120 |
| 8. | Gradski Telefon | Cable Network | 93220 | 0220110 | 28.139 | 106.365 |
| 9. | Gradski Telefon | Cable Network | 36408 | 0220110 | 26.994 | 102.038 |
| 10. | Gradski Telefon | Cable Network | 89067 | 0220110 | 26.987 | 102.010 |
| 11. | Gradski Telefon | Cable Network | 87551 | 0220110 | 25.153 | 95.079 |
| 12. | Gradski Telefon | Cable Network | 89531 | 0220110 | 25.068 | 94.758 |
| 13. | Telekomunikacije | Main Switch in Belgrade | 10001 | 0231210 | 13.565 | 51.276 |
| 14. | Telekomunikacije | TATC - Switch in Belgrade | 4039 | 0231210 | 12.027 | 45.463 |
| 15. | Kraljevo | Cabling | 490 | 0220110 | 47.427 | 179.275 |
| 16. | Pancevo | Local Switching Station | 171 | 0231210 | 45.000 | 170.100 |
| 17. | Pristina | Local Network | 12193 | 0220110 | 20.670 | 78.128 |
| 18. | Pristina | Local Network | 12147 | 0220110 | 16.221 | 61.315 |
| 19. | Sremska Mitrovica | Cable Network | 13328 | 0220110 | 12.382 | 46.802 |
| 20. | Subotica | Cable Network | 7991 | 0220110 | 24.969 | 94.383 |
| | | | | | 656.265 | 2.480.679 |

Source: Fixed Assets List - extract from PTT Traffic Srbija Discussion paper - Illustrative separated accounts, April 1997, Draft Appendix