



**PRIVREDNI SAVETNIK – REVIZIJA AD**  
A MEMBER OF AGN INTERNATIONAL LTD



**Preduzeće za telekomunikacioni inženjering  
"TELEGROUP" d.o.o. BELGRADE**

**AUDITOR'S REPORT ON FINANCIAL STATEMENTS FOR THE PERIOD  
ENDING 31 DECEMBER 2006**

**BELGRADE, MARCH 2007**

PRIVREDNI SAVETNIK - REVIZIJA, BELGRADE, KNEGINJE ZORKE 96  
REGISTERED IN THE REGISTER OF COMPANIES, BELGRADE, REG. No. 15686/2005  
BANK ACCOUNT No.: 275 22 12730 081 100 56  
TELEPHONES: GENERAL MANAGER (11) 30-20-562; CERTIFIED AUDITORS: (11) 30-20-722; 30-20-538  
FAX: (11) 30-20-686; E-MAIL: [MILOS@PSR.CO.YU](mailto:MILOS@PSR.CO.YU); [REVIZIJA@PSR.CO.YU](mailto:REVIZIJA@PSR.CO.YU); WEB: [WWW.PSR.CO.YU](http://WWW.PSR.CO.YU)

Preduzeće za telekomunikacioni inženjering  
"TELEGROUP" d.o.o. BELGRADE

AUDITOR'S REPORT ON FINANCIAL STATEMENTS FOR THE PERIOD  
ENDING 31 DECEMBER 2006

**CONTENTS**

	PAGE
AUDITOR'S OPINION	1
FINANCIAL STATEMENTS:	
INCOME STATEMENT FOR THE PERIOD JANUARY TO DECEMBER 2006	2
BALANCE SHEET AS OF DECEMBER 31, 2006	3
STATEMENT OF MOVEMENT IN EQUITY	4
STATEMENT OF CASH FLOWS	5
NOTES TO THE FINANCIAL STATEMENTS	6 - 18



**To the Founder of Preduzeće za telekomunikacioni inženjering  
"TELEGROUP" d.o.o. BELGRADE**

**INDEPENDENT AUDITOR'S REPORT**

1. We have audited the accompanying balance sheet of Preduzeće za telekomunikacioni inženjering "TELEGROUP" d.o.o. Belgrade, Svetozara Miletica No. 9a (in further text: the Company), as of 31 December 2006, the related statements of income, changes in equity and cash flows that are set out on pages 2 to 5.

The management of the Company "TELEGROUP" d.o.o. Belgrade is responsible for the information contained in the financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 financial statements present fairly, in all material respects, the financial position of "TELEGROUP" d.o.o. Belgrade as of 31 December 2005, the results of its operations and cash flows for the year then ended, in accordance with accounting regulations of the Republic of Serbia.

Belgrade, 26 March 2007



General Manager  
"Privredni savetnik - Revizija"  
Miloš Petrović Certified Auditor

INCOME STATEMENT

	Notes	2006	2005
REVENUE			
Sales	5.1; 7	812,855	767,631
Revenue from the use of goods		580	1,930
Other income	5.1; 8	<u>6,411</u>	<u>5,636</u>
		819,846	775,197
OPERATING EXPENSES			
Cost of goods sold		(299,652)	(358,084)
Material consumed	9	(63,448)	(33,772)
Gross salaries, fringe benefits & other personal costs	10	(101,688)	(70,972)
Depreciation	5.10; 17	(19,627)	(12,524)
Other operating expenses	11	<u>(220,814)</u>	<u>(202,202)</u>
		(705,229)	(677,554)
OPERATING PROFIT		114,617	97,643
FINANCIAL INCOME	5.2; 5.3;	11,930	18,196
FINANCIAL EXPENSES	5.2; 5.3;	<u>(19,093)</u>	<u>(3,507)</u>
		(7,163)	14,689
OTHER INCOME	14	7,591	690
OTHER EXPENSES	15	<u>(6,933)</u>	<u>(2,110)</u>
		658	(1,420)
PROFIT BEFORE TAX		108,112	110,912
TAX ON PROFIT			-
Tax expense for the period	6; 16	(4,287)	-
Deferred tax income	6; 16	9,167	-
NET PROFIT		112,992	110,912

BALANCE SHEET			
	Notes	2006	2005
<b>ASSETS</b>			
<i>Non-current Assets</i>			
Intangible assets	5.8; 17	15,477	14,672
Property, plant and equipment	5.8; 17	159,396	138,802
Investment property	5.9; 17	14,030	14,030
Long-term financial assets	5.12; 18	13,286	9,442
Other-long term receivables		-	1
Total		202,189	176,947
<i>Current Assets</i>			
Inventories	5.11; 19	43,441	38,051
Receivables	5.7; 20	288,755	166,163
Short-term investments	21	21,554	50,048
Cash and cash equivalents	22	19,161	4,574
VAT and prepayments & deferred expenditures	23	4,711	8,866
Total		377,622	267,702
<i>Deferred tax assets</i>	6; 16	9,167	-
TOTAL ASSETS		588,978	444,649
<b>LIABILITIES</b>			
<i>Equity</i>			
Share capital	24	66,143	66,144
Reserves	25	12,701	13,708
Retained earnings		310,702	197,710
Total capital		389,546	277,562
<i>Long-term loans</i>	26	57,275	-
<i>Current Liabilities</i>			
Short-term financial liabilities	27	10,000	-
Liabilities from operations	28	119,336	157,803
Other liabilities, accruals and deferred income	30	2,684	830
VAT and other taxes	29	9,629	8,454
Liabilities for tax on profits	6; 16	508	-
Total		142,157	167,087
TOTAL EQUITY AND LIABILITIES		588,978	444,649

CASH FLOW STATEMENT

	<i>2006</i>	<i>2005</i>
<i>Cash flows from operating activities</i>		
Sales and received prepayments	788,931	935,851
Other inflows from operating activities	7,030	24
Payments to suppliers and advance payments made	(658,793)	(789,978)
Wages and salaries paid	(99,939)	(56,734)
Interest paid	(2,478)	-
Tax on profit	(3,779)	-
Other taxes and contributions	(79,245)	(47,290)
Net cash inflows/(outflows) from operating activities	<u>(48,273)</u>	<u>41,873</u>
<i>Cash flows from investing activities</i>		
Sale of shares and stakes (net inflows)	149	-
Sale of equipment	-	1,030
Net inflows from other financial investments (net inflows)	29,396	63,249
Interest received	2,518	3,586
Dividends received	-	270
Purchase of shares (net)	-	(5,100)
Purchase of property, plant and equipment	(38,798)	(46,601)
Other financial investments (net outflows)	-	(51,000)
Net cash flows from investing activities	<u>(6,735)</u>	<u>(34,566)</u>
<i>Cash flows from financing activities</i>		
Other long-term and short-term liabilities	69,603	56,002
Long-term and short-term loans (net outflows)	-	(68,000)
Net cash flows from financing activities	<u>69,603</u>	<u>(11,998)</u>
<i>Net increase/(decrease) in cash and cash equivalents</i>	14,595	(4,691)
Cash and cash equivalents at beginning of the year	4,574	9,229
Exchange gains/(losses) on cash and cash equivalents	(8)	36
<i>Cash and cash equivalents end of the year</i>	19,161	4,574

STATEMENT OF MOVEMENT IN EQUITY

	Shares	Other capital	Statutory reserves	Other reserves	Revaluation reserves (Note 22)	Retained earnings	Total
Balance 1.1.2005	66,143	1	2,155	2,971	-	91,337	162,607
Increase	-	-	-	-	4,043	-	4,043
Allocation	-	-	4,539	-	-	(4,539)	-
Current year profit	-	-	-	-	-	110,912	110,912
Balance 31.12.2005	66,143	1	6,694	2,971	4,043	197,710	277,562
Balance 1.1.2006	66,143	1	6,694	2,971	4,043	197,710	277,562
Decrease	-	(1)	-	-	(1,007)	-	(1,008)
Current year profit	-	-	-	-	-	112,992	112,992
Balance 31.12.2006	66,143	-	6,694	2,971	3,036	310,702	389,546

## 1. THE COMPANY OVERVIEW

Preduzeće za telekomunikacioni inženjering "TeleGroup" d.o.o Belgrade, Svetozara Miletica 9a (in further text: the Company), was established on 16 January 2001 as a limited liability company by the founder TeleGroup Limited, Reliance House, Borehamwood, Great Britain, owner 100%.

»TELEGROUP« d.o.o. Belgrade is registered in the Register of Private Companies of the Federal Ministry for Foreign Economic Affairs under registration number 2881/VIII. The Company is registered in the Register of Legal Entities, held by the Agency for Commercial Registers, under No. 10477/2005.

The primary activity of "TeleGroup" d.o.o Belgrade is installation and delivery of telecommunication systems and equipment. The Company is also registered for rendering a variety of telecommunication services, consulting, engineering and complete support to the users of delivered and installed systems and equipment. "TeleGroup" d.o.o Belgrade is the certified partner, among others, with Ericsson Enterprise AB, Jrone GmbH, 3M AG, Alvarion Ltd., Cysco Systems, RAD Data Communications, Juniper Networks, Nortel Networks, Motorola, Harris.

The Company has an operating unit in Novi Sad. The company has a related party TeleGroup d.o.o. Banja Luka, whose owner is the related party - physical person, M. Gligorijevic.

In 2006, the Company averagely had 118 employees, and in 2005, it had 87 employees.

Tax ID number of the Company is 101733237.

## 2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS, GOING CONCERN BASIS AND REPORTING CURRENCY

### 2.1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company has prepared these financial statements in accordance with the Law on Accounting and Auditing, which requires full scope of IFRS to be applied, and the regulations issued by the Ministry of Finance.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

### 2.2. GOING CONCERN CONCEPT

The financial statements are prepared in accordance with the going concern concept, which assumes that the Company will continue its operations for the foreseeable future.

### 2.3. FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the Company are measured and presented in Serbian Dinars ("RSD") that is the functional currency of the Republic of Serbia. Financial statements are presented in RSD rounded to the nearest thousand.

Foreign exchange rates as of 31 December are:

		2006	2005
1 EUR	=	79,0000 RSD	85,5000 RSD
1 USD	=	59,9757 RSD	72,2189 RSD
1 CHF	=	49,1569 RSD	54,9380 RSD

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS 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. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4. FINANCIAL RISK MANAGEMENT

#### 4.1. Financial risk factors

The Company's activities expose it to a variety of financial risks. 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 the financial department. The financial department identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units.

#### (a) *Market risk*

##### (i) *Foreign exchange risk*

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to EUR.

Management has set up a policy to manage its foreign exchange risk against its functional currency.

##### (ii) *Cash flow and fair value interest rate risk*

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from long-term borrowings. During 2006 and 2005, the Company's borrowings at variable rate were denominated in the foreign currency.

#### (b) *Credit risk*

The Company has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. The Company has policies that limit the amount of credit exposure for each individual transaction.

#### (c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

### 5. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies used in preparing and reporting the financial statements for the year 2006 are:

#### 5.1. REVENUES

Revenue comprises the invoiced value for sold goods and services net of value added tax, rebates and discounts. Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer.

Sales of goods are recognised when the Company has delivered products to the buyer, the buyer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the buyer's acceptance of the products.

Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the transaction at the balance sheet date.

The Company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. The amount of the revenue is not considered to be reliably measurable until all contingences relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### 5.2. FOREIGN CURRENCY TRANSLATION

Financial transactions in foreign currency are initially recorded at current spot rate. Gains and losses on foreign exchange arising from the settlement of foreign currency transactions during the year are reported in the income statement as gains or losses on foreign exchange. At the balance sheet date, outstanding foreign currency balances are converted into Serbian Dinars using the official Central Bank's exchange rate as of the balance sheet date. Foreign exchange differences arising on these translations are recognized in the income statement.

#### 5.3. INTEREST INCOME AND EXPENSE

Interest income and expense include incurred interest payable and receivable from various sources and accrued at the balance sheet date.

Interest on loans for acquisition of property, plant and equipment are charged to the income statement.

#### 5.4. FIXED ASSETS MAINTENANCE EXPENSE

All costs incurred in relation to ordinary maintenance of fixed assets are expensed in the current period.

#### 5.5. BORROWING COSTS

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare assets to its intended use. Other borrowing costs are expensed.

#### 5.6. LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

#### 5.7. RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. 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 income statement impairment expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to other income in the income statement.

#### 5.8. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's 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. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

#### 5.9. INVESTMENT PROPERTY

Investment property, comprising an office building, is held for long-term rental yields and is not occupied by the Company. Investment property is stated at cost net of accumulated depreciation.

#### 5.10. DEPRECIATION

Depreciation, based on recorded amounts at the beginning of the period and cost of additions during the period, is charged to the income statement on a straight line basis using the following depreciation rates:

Buildings	1.30 – 2,50%
Computers and equipment	10,00 – 20,00%
Intangible assets	20,00%

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

#### 5.11. INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Cost includes the value charged by suppliers, transport and other handling costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of inventories is determined by using the weighted average method

#### 5.12. LONG-TERM FINANCIAL ASSETS

Long-term financial assets represent available for sale investments. These investments are initially recorded at cost and are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in equity.

#### 5.13. EMPLOYEE BENEFITS

The Company does not have its own pension funds or share options for employees, thus it has not identified such liabilities as of 31 December 2006.

According to Serbian laws, a defined contribution plan is a pension plan under which the Company pays contributions to public pension insurance plans on mandatory basis and at rates prescribed by law. These contributions when due are charged to income statement.

Once the contributions are paid, the Company has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

6. TAXES AND CONTRIBUTIONS

Tax on profit is computed and payable under the Serbian Corporate Tax Law. The tax rate is 10% on the taxable profit reported in tax returns. Taxable income is computed on the basis of accounting profit disclosed in the annual income statement in accordance with the International Financial Reporting Standards further adjusted for certain disallowed costs.

The Serbian Corporate Tax Law does not allow tax losses of current period to be used to recover taxes paid within a specific previous period. However, current year losses may be used to decrease taxable profits for future periods, but not longer than ten years.

Serbian tax laws and relevant regulations are subject to interpretations by tax authorities. Income tax statements are submitted by companies within 10 days after the last date for submission of financial statements to the official institution (28 February). Thus, there is a possibility of additional taxes and super additions, at the time they are examined and finalized by the tax authorities.

Until 2006, "TeleGroup" d.o.o. Belgrade was exempted from payment of income tax for the first five years of its operations.

INCOME STATEMENT

7. SALES

	<i>2006</i>	<i>2005</i>
Sales to related parties:		
Sale of goods	5,316	12,302
Rental of equipment	<u>234</u>	<u>1,834</u>
	5,550	14,136
Sales on domestic market - other parties:		
Sale of goods	369,255	452,701
Sale of services	<u>437,875</u>	<u>300,794</u>
	807,130	753,495
Sales on foreign market - other parties:		
Sale of services	<u>175</u>	<u>-</u>
	175	-
Total	812,855	767,631

8. OTHER INCOME

	<i>2006</i>	<i>2005</i>
Revenue from rentals (including RSD 6,061 thousand from rental of investment property - Note 17)	6,381	5,612
Other income	<u>610</u>	<u>24</u>
Total	<u>6,991</u>	5,636

9. COST OF MATERIAL

	<i>2006</i>	<i>2005</i>
Material for production	36,852	17,178
Office material	12,301	7,962
Fuel and energy	<u>14,295</u>	<u>8,632</u>
Total	63,448	33,772

10. GROSS SALARIES, FRINGE BENEFITS & OTHER PERSONAL COSTS

	<i>2006</i>	<i>2005</i>
Gross salaries	58,074	39,403
Taxes and contributions charged to employer	10,395	7,053
Individual job contracts	145	186
Part-time employees	70	41
Individuals under other contracts	3,454	1,464
Other benefits	29,550	22,825
Total	101,688	70,972

11. OTHER OPERATING EXPENSES

	<i>2006</i>	<i>2005</i>
Production services - related party	49,821	21,586
Production services - other parties	97,297	117,261
Transportation and telephone costs	10,601	8,428
Maintenance	6,878	9,192
Rentals	4,156	1,712
Costs of fairs	385	887
Marketing and commercials	2,363	2,698
Costs of research	264	10
Other production services	3,068	2,807
Non-production services	13,285	7,320
Representation expenses	17,428	15,730
Insurance	2,869	874
Bank charges	3,952	4,198
Memberships	223	221
Taxes	3,699	4,515
Contributions	266	181
Other immaterial expenses	<u>4,259</u>	<u>4,582</u>
Total	220,814	202,202

12. FINANCIAL INCOME

	<i>2006</i>	<i>2005</i>
Financial income from related parties	2,517	-
Interest income	2,619	3,816
Gains on foreign exchange	1,894	583
Gains from foreign exchange hedge	4,330	13,527
Dividends	<u>570</u>	<u>270</u>
Total	11,930	18,196

13. FINANCIAL EXPENSES

	<i>2006</i>	<i>2005</i>
Financial expenses from related parties	222	-
Interest expense	2,758	905
Losses on foreign exchange	2,358	1,886
Losses from foreign exchange hedge	<u>13,755</u>	<u>716</u>
Total	19,093	3,507

14. OTHER INCOME

	<i>2006</i>	<i>2005</i>
Sale of equipment	1	239
Sale of material	2,236	-
Collected previously written-off receivables	161	131
Sale of stakes and long-term securities	4,600	-
Other various income	<u>593</u>	<u>320</u>
Total	7,591	690

15. OTHER EXPENSES

	<i>2006</i>	<i>2005</i>
Disposal of equipment	1,757	455
Impairment of receivables and short-term financial investments	4,907	1,640
Other various expenses	<u>269</u>	<u>15</u>
Total	6,933	2,110

16. TAX ON PROFITS

Taxable income is computed on the basis of accounting profit reported in the annual income statement further adjusted for certain disallowed costs and for different methods and rates of depreciation of fixed assets prescribed by tax laws and depreciation that is computed according to the accounting policies of

the Company. The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighed average tax rate applicable to the Company's profits as follows:

	<i>2006</i>
Profit in the income statement before tax	108,112
Plus: Accounting depreciation	19,627
Minus: Tax depreciation	(18,308)
Plus: Expenses not recognised by tax laws	566
Minus: Dividends received from other entities	<u>(570)</u>
Tax base	109,427
Tax rate in 2006	<u>10%</u>
Tax liability	10,943
Minus: tax credits	<u>(6,656)</u>
Tax expense for the period	4,287
Tax prepayments during the year	<u>3,779</u>
Remaining tax liability	508
Effective tax rate	3,97%
<i>Deferred tax effects:</i>	
<i>Deferred tax liabilities:</i>	
Accounting net book value of fixed assets and intangible assets	153,843
Tax net book value of fixed assets	<u>142,176</u>
Total difference	11,666
Minus: permanent differences	<u>(3,335)</u>
Temporary differences	8,331
Tax rate	10%
Deferred tax liabilities	833
<i>Deferred tax assets:</i>	
Unused tax credits	10,000
Minus: deferred tax liabilities	<u>(833)</u>
Deferred tax assets/income (net)	9,167

BALANCE SHEET

17. INVESTMENT PROPERTY, BUILDINGS, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Equipment	Investment property	PP&E in progress	Total	Intangible assets
<i>Cost:</i>						
Balance 01.01.2005	74,329	54,817	-	17,190	146,336	736
Additions during the year	-	-	-	32,643	32,643	14,501
Transfers	(14,885)	32,101	14,885	(32,101)	-	-
Disposals	-	(1,840)	-	-	(1,840)	-
Balance 31.12.2005	59,444	85,078	14,885	17,732	177,139	15,237
<i>Accumulated depreciation:</i>						
Balance 01.01.2005	467	12,944	-	-	13,411	74
Depreciation	773	11,043	194	-	12,010	491
Transfers	(467)	-	467	-	-	-
Disposals	-	(1,114)	-	-	(1,114)	-
Balance 31.12.2005	773	22,873	661	-	24,307	565
<i>Cost:</i>						
Balance 01.01.2006	59,444	85,078	14,885	17,732	177,139	15,237
Additions during the year	-	-	-	38,798	38,798	3,985
Transfers	-	21,470	-	(21,470)	-	-
Disposals	-	(2,756)	-	-	(2,756)	-
Balance 31.12.2006	59,444	103,792	14,885	35,060	213,181	19,222
<i>Accumulated depreciation:</i>						
Balance 01.01.2006	773	22,873	661	-	24,307	565
Depreciation	772	15,480	194	-	16,446	3,180
Transfers	-	-	-	-	-	-
Disposals	-	(998)	-	-	(998)	-
Balance 31.12.2006	1,545	37,355	855	-	39,755	3,745
Net book value 31.12.2006	57,899	66,437	14,030	35,060	173,426	15,477
Net book value 31.12.2005	58,671	62,205	14,224	17,732	152,832	14,672
Net book value 31.12. 2004	73,862	41,873	-	17,190	132,925	662

Investment property consists of an office building in Brace Kovac Street No. 62a in Belgrade given under an operating lease. In 2006, rental income amounted to RSD 6,061 thousand (Note 8). The building is stated at cost net of accumulated depreciation. Fair value of that building, determined by an external evaluator amounts to EUR 604,525.

As collateral for orderly fulfilment of liabilities toward JUBMES Bank a.d. Beograd, a mortgage is put on the building in Brace Kovac 62a (Note 26).

Buildings in use consist of an office building in Svetozara Miletica 9a in Belgrade, occupied by the Company. The building is stated at cost net of accumulated depreciation. Fair value of the buildings, determined by an external evaluator amounts to EUR 1,650,525.

Intangible assets consist of computer software. In 2006 the depreciation amounts to RSD 3,180 thousand.

Total depreciation in the amount of RSD 19,627 thousand (u 2005: CSD 12,524 thousand) is included in operating expenses in the income statement.

18. LONG TERM FINANCIAL ASSETS

	%	<i>2006</i>	<i>2005</i>
EI EKOS EDS NIŠ	100%	9,381	-
JUBMES BANKA A.D. BEOGRAD	<20%		
Balance 1 January		670	300
Fair value adjustment		<u>(365)</u>	<u>370</u>
Balance 31 December		305	670
TELEFONIJA A.D. BEOGRAD	<20%		
Balance 1 January		8,772	-
Sale of shares		(8,772)	
Obtained new shares through dividend		570	5,100
Fair value adjustment		<u>3,030</u>	<u>3,672</u>
Balance 31 December		3,600	8,772
Total		13,286	9,442

Gains and losses arising from changes in the fair value are recognised in revaluation reserves in equity (Note 25).

19. INVENTORIES

	<i>2005</i>	<i>2005</i>
Material	17,828	12,979
Goods	<u>21,982</u>	<u>18,961</u>
Total inventories	39,810	31,940
Prepayments	<u>3,631</u>	<u>6,111</u>
Total	43,441	38,051

20. RECEIVABLES

	<i>2006</i>	<i>2005</i>
Trade receivables:		
Customers – related parties	4,556	2,628
Domestic customers	290,422	164,518
Foreign customers	-	-
Less: Provision	<u>(6,567)</u>	<u>(1,821)</u>

	288,411	165,325
Other receivables:		
Interest receivable and dividends	88	126
Receivables from employees	226	535
Other receivables	30	177
	344	838
Total	288,755	166,163

21. SHORT-TERM INVESTMENTS

	Interest rate	2006	2005
Receivables relating to credit cards used by employees	-	334	166
A guarantee deposit made at Nacionalna Štedionica Bank a.d. Beograd contracted with a foreign currency clause	0,8% monthly	21,220	49,882
Total		21,554	50,048

22. CASH AND CASH EQUIVALENTS

	2006	2005
Dinar bank account	18,678	4,273
Foreign currency bank account	401	278
Cash in hand	82	23
Total	19,161	4,574

23. VAT AND PREPAYMENTS & DEFERRED EXPENDITURES

	2006	2005
Prepayments and deferred expenditures:		
Prepaid expenses	221	187
Receivables for revenues not yet invoiced	-	2,419
Prepaid VAT	110	52
Computed VAT on advance payments	4,380	6,208
Total	4,711	8,866

24. SHARE CAPITAL

"TeleGroup" d.o.o. is registered as a limited liability company. The sole founder of the Company is "TELEGROUP" Limited from Great Britain. The founder is liable for the commitments of the Company up to the nominal amount of his investment. In 2001, subscribed and paid in capital amounted to USD 5.000,00. In the following years, capital of the Company was increased in cash and in kind, and all of the increases have been registered at the Commercial Court in Belgrade and the Agency for Commercial Registers.

As of 31 December 2006, capital registered at the Agency for Commercial Registers amounted to:

	<i>EUR</i>
In cash:	978,423.74
In kind:	<u>8,500.00</u>
	<u>986,923.74</u>

## 25. REVALUATION RESERVES

Revaluation reserves are formed for the effects of fair value adjustments of available for sale financial assets (Note 18). Changes on this account are:

	Shares in Telefonija ad. Beograd (Note 18)	Shares in JUBMES a.d. Beograd (Note 18)	Total
Balance 01.01.2006	3,673	370	4,043
Increase/(decrease) during the year	<u>(642)</u>	<u>(365)</u>	<u>(1,007)</u>
Balance 31.12.2006	3,031	5	3,036

## 26. LONG - TERM LOANS

In June 2006, an agreement was concluded for a credit line with Volksbank a.d. Beograd. The agreement is with duration of 7 years, credit limit is EUR 1,500,000.00 in RSD equivalent, interest rate 3 month EURIBOR plus 4% p.a.

As of 31 December 2006, RSD 57,275 thousand was drafted, that according to an annex of the Agreement should be repaid in 5 years with a one year grace period.

Bills of exchange and present and future receivables from Telekom Srbija a.d. are used as collateral.

## 27. SHORT TERM LOANS

In 2005, the Company concluded with JUBMES an agreement on further cooperation and revolving Dinar loans, up to RSD 40,000 thousand. As collateral of for orderly fulfilment of liabilities toward JUBMES Bank a.d. Beograd, a mortgage is put on the building in Brace Kovac 62a (Note 17).

## 28. TRADE PAYABLES

	<i>2006</i>	<i>2005</i>
Advance payments received from customers	33,887	75,095
Trade payables – related party - founder	-	5,947
Trade payables – other related parties	44,688	26,452
Domestic trade payables	38,446	46,920
Foreign trade payables	1,704	1,933
Other payables	<u>611</u>	<u>1,456</u>
Total	119,336	157,803

29. VAT AND OTHER TAXES

Tax payables relate to VAT computed for December 2006.

30. OTHER SHORT TERM PAYABLES AND ACCRUALS

	<i>2006</i>	<i>2005</i>
Interest payable	477	106
Payables to employees	1,748	
Other payables	<u>1</u>	<u>6</u>
	2,226	112
Accruals:		
Paid VAT on made advance payments	<u>458</u>	<u>718</u>
	458	718
Total	2,684	830

31. TRANSACTIONS WITH RELATED PARTIES

a. Identity of related parties

TeleGroup Limited, Reliance House, London, Velika Britanija	100% founder
Branch TeleGroup in Novi Sad	
Branch TeleGroup in Niš	
TeleGroup d.o.o. Banja Luka	Founder: TeleGroup Limited, G.B.
TeleGroup, Priština	Founder: TeleGroup Limited, G.B.

b. Transactions with related parties in 2006:

	<i>RSD 000</i>
<i>Income statement:</i>	
Sale of goods and services	6,244
Costs of goods sold and production services	132,911
<i>Balance sheet:</i>	
Receivables for prepayments - TeleGroup Limited	110
Trade Receivables from:	
TeleGroup d.o.o. Banja Luka	395
Less: provision	(395)
TeleGroup Priština	4,161
Less: provision	(1.603)
Liabilities toward:	
TeleGroup Banja Luka	44,688