

TO THE BOARD OF DIRECTORS AND DIRECTOR OF  
“DIGIT-RACUNARSKI INZENJERING”, BELGRADE - ZEMUN

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of the limited liabilities company "Digit - racunarski inzenjering" Belgrade - Zemun (hereinafter referred to as "Company") as of December 31, 2005, and the related statements of income, statement of changes in owners' equity and reserves, and cash flow statement for the year then ended. These financial statements, presented on pages 2 -22, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Law on accounting and auditing and International standards on auditing. These 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.

In our opinion, the financial statements give a **true and fair view** of the financial position of the Company as of December 31, 2005, and of the results of its operations, changes in equity and reserves, and its cash flows for the year then ended in accordance with accounting regulation.

Without qualifying our opinion we draw attention to the following:

In order to guarantee for execution of obligations contracted with Telecom Serbia, Company registered mortgage on property – premises in Kraljevo (164 m2) in favor of Vojvodjanska banka.

Company did not reconcile value of capital registered at Business registry agency with value of capital in accounting records.

Belgrade, May 10, 2006.



**BALANCE SHEET**  
**in thousands of CSD**

|  |         | As of                |                      |
|--|---------|----------------------|----------------------|
|  | Notes   | December 31,<br>2005 | December 31,<br>2004 |
| <b>ASSETS</b>  |         |                      |                      |
| <b>A. NON-CURRENT ASSETS (I+II)</b>                              |         |                      |                      |
| I. Property, plant, equipment, and biological assets             | 4.1, 8  | 154.675              | 152.096              |
| II. Investments (1 - 2)  | 4.3, 9  | 8.638                | 7.819                |
| 1. Investments in equity securities                              |         | 5.044                | 4.080                |
| 2. Other investments   |         | 3.594                | 3.739                |
| <b>B. CURRENT ASSETS (I+II)</b>                                  |         |                      |                      |
| I. Inventory   | 4.4, 10 | 15.770               | 16.623               |
| II. Accounts receivable, short-term investments and cash (1 - 3) | 4.5     | 50.120               | 30.177               |
| 1. Accounts receivable   | 11      | 39.992               | 22.614               |
| 2. Cash and cash equivalents                                     | 12      | 10.128               | 7.472                |
| 3. Prepaid expenses  | 13      | -                    | 91                   |
| <b>C. OPERATING ASSETS (A + B)</b>                               |         |                      |                      |
| <b>D. TOTAL ASSETS (C)</b>                                       |         |                      |                      |
| <b>E. OUT-OF-BALANCE-SHEET ASSETS</b>                            |         |                      |                      |
|  | 25      | 21.411               | 44.657               |
| <b>EQUITY AND LIABILITIES</b>                                    |         |                      |                      |
| <b>A. EQUITY (I + II + III)</b>                                  |         |                      |                      |
| I. Stockholder's and other capital                               | 5.1, 14 | 196.408              | 171.238              |
| II. Reserves   |         | 2.281                | 2.281                |
| III. Retained earnings   |         | 337                  | 337                  |
| <b>B. LONG-TERM PROVISIONS AND LIABILITIES (I - II)</b>          |         |                      |                      |
| II. Short-term liabilities (1 - 3)                               | 5.2     | 32.795               | 35.477               |
| 1. Accounts payable  | 15      | 32.576               | 35.334               |
| 2. Tax and other public revenues liabilities                     | 16      | 24.684               | 28.606               |
| 3. Other short-term liabilities and accrued expenses             | 17      | 5.922                | 2.099                |
| II. Differed income tax liabilities                              | 18      | 1.970                | 4.629                |
| <b>C. TOTAL EQUITY AND LIABILITIES (A + B)</b>                   |         |                      |                      |
| <b>D. OUT-OF-BALANCE-SHEET LIABILITIES</b>                       |         |                      |                      |
|  | 25      | 21.411               | 44.657               |

**INCOME STATEMENT**  
**in thousands of CSD**

|  | Notes   | For period            |                       |
|--|---------|-----------------------|-----------------------|
|  |         | Jan 1-Dec 31,<br>2005 | Jan 1-Dec 31,<br>2004 |
| <b>A. REVENUES AND EXPENSES FROM REGULAR ACTIVITIES</b>  |         |                       |                       |
| <b>A.I. Operating revenues (1 - 3)</b>                   | 7.1, 19 | <b>348.575</b>        | <b>229.210</b>        |
| 1. Sales revenues  |         | 348.202               | 228.816               |
| 2. Internal purchase                                     |         | -                     | 109                   |
| 3. Other operating revenues                              |         | 373                   | 285                   |
| <b>A.II. Operating expenses (1 - 5)</b>                  | 7.1     | <b>(320.939)</b>      | <b>(211.743)</b>      |
| 1. Cost of merchandise sold                              |         | (65.963)              | (30.526)              |
| 2. Cost of material                                      | 20      | (132.866)             | (90.113)              |
| 3. Payroll expenses                                      | 21      | (59.376)              | (47.200)              |
| 4. Depreciation expenses                                 |         | (6.392)               | (4.989)               |
| 5. Other operating expenses                              | 22      | (56.342)              | (38.915)              |
| <b>A.III. Operating income ( I - II )</b>                |         | <b>27.636</b>         | <b>17.467</b>         |
| <b>A.IV. Financial revenues</b>                          | 7.2, 23 | 2.201                 | 473                   |
| <b>A.V. Financial expenses</b>                           | 7.2, 23 | (1.506)               | (2.893)               |
| <b>A.VI. Other revenues</b>                              | 7.3, 24 | 168                   | 106                   |
| <b>A.VII. Other expenses</b>                             | 7.3, 24 | (533)                 | (1.418)               |
| <b>A.VIII. Income from regular activities ( I - II )</b> |         | <b>27.966</b>         | <b>13.735</b>         |
| <b>INCOME BEFORE TAXES</b>                               |         | <b>27.966</b>         | <b>13.735</b>         |
| <b>INCOME TAX</b>  |         | <b>2.721</b>          | <b>1.690</b>          |
| <b>NET INCOME</b>  |         | <b>25.245</b>         | <b>12.045</b>         |

| <b>CASH FLOW STATEMENT</b><br><b>in thousands of CSD</b>               | <b>Notes</b> | <b>As of</b>                 |                              |
|--|--------------|------------------------------|------------------------------|
|  |              | <b>December 31,<br/>2005</b> | <b>December 31,<br/>2004</b> |
| <b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>                          |              |                              |                              |
| <b>I. Inflows from operating activities (1)</b>                        |              | <b>267.415</b>               | <b>275.685</b>               |
| 1. Inflows from sales and received advance payments                    |              | 267.415                      | 275.685                      |
| <b>II. Outflows from operating activities (1 - 6)</b>                  |              | <b>454.765</b>               | <b>270.709</b>               |
| 1. Payments to suppliers and advance payments                          |              | 350.897                      | 209.597                      |
| 2. Outflows from payroll payments                                      |              | 59.376                       | 41.133                       |
| 3. Paid interest   |              | 4                            | 1.667                        |
| 4. Income tax  |              | 1.547                        | 937                          |
| 5. Outflows from other public duties                                   |              | 23.209                       | 17.375                       |
| 6. Extraordinary items   |              | 19.732                       | -                            |
| <b>III. Net inflow/(outflow) from operating activities ( I - II )</b>  |              | <b>(187.350)</b>             | <b>4.976</b>                 |
| <b>B. CASH FLOW FROM INVESTMENT ACTIVITIES</b>                         |              |                              |                              |
| <b>I. Inflows from investment activities (1-2)</b>                     |              | <b>843</b>                   | <b>143</b>                   |
| 1. Inflows from sale of fixed and intangible assets                    |              | 20                           | -                            |
| 2. Received interest payments  |              | 823                          | 143                          |
| <b>II. Outflows from investment activities (1)</b>                     |              | <b>8.970</b>                 | <b>-</b>                     |
| 1. Property and equipment acquisition                                  |              | 8.970                        | -                            |
| <b>III. Net inflow/(outflow) from investment activities ( I - II )</b> |              | <b>(8.127)</b>               | <b>143</b>                   |
| <b>C. CASH INFLOW FROM FINANCING ACTIVITIES</b>                        |              |                              |                              |
| <b>I. Inflows from financing activities (1)</b>                        |              | <b>198.257</b>               | <b>-</b>                     |
| 1. Other long-term and short-term liabilities                          |              | 198.257                      | -                            |
| <b>II. Outflows from financing activities</b>                          |              | <b>-</b>                     | <b>-</b>                     |
| <b>III. Net inflow from financial activities ( I - II )</b>            |              | <b>198.257</b>               | <b>-</b>                     |
| <b>D. TOTAL CASH INFLOW (A I+B I+C I)</b>                              |              | <b>466.515</b>               | <b>275.828</b>               |
| <b>E. TOTAL CASH OUTFLOW (AII+BII+CII)</b>                             |              | <b>463.735</b>               | <b>270.709</b>               |
| <b>F. NET CASH INFLOW/(OUTFLOW) (D - E)</b>                            |              | <b>2.780</b>                 | <b>5.119</b>                 |
| <b>G. CASH AT BEGINNING OF THE PERIOD</b>                              |              | <b>7.472</b>                 | <b>3.240</b>                 |
| <b>H. POSITIVE FOREIGN CURRENCY TRANSLATION OF CASH</b>                |              | <b>1.378</b>                 | <b>339</b>                   |
| <b>I. NEGATIVE FOREIGN CURRENCY TRANSLATION OF CASH</b>                |              | <b>1.502</b>                 | <b>1.226</b>                 |
| <b>J. CASH AT THE END OF THE PERIOD (F+G+H-I)</b>                      | 4.5, 12      | <b>10.128</b>                | <b>7.472</b>                 |

**STATEMENT OF CHANGES IN OWNERS' EQUITY in thousands of CSD**

|  | Notes   | As of             |                   |
|--|---------|-------------------|-------------------|
|  |         | December 31, 2005 | December 31, 2004 |
| <b>A1. Shares of limited liabilities company</b>                                   |         |                   |                   |
| 1. Balance at beginning of period  |         | 1.934             | 1.934             |
| 2. Balance at the end of period  |         | <b>1.934</b>      | <b>1.934</b>      |
| <b>A2. Other capital</b>   |         |                   |                   |
| 1. Balance at beginning of period  |         | 347               | -                 |
| 2. Reclassified according to IFRS – increase from accumulated revaluation reserves |         | -                 | 347               |
| 3. Balance at the end of period  |         | <b>347</b>        | <b>347</b>        |
| <b>A. Owners' and other capital (A1 + A2)</b>                                      |         | <b>2.281</b>      | <b>2.281</b>      |
| <b>B. Statutory reserves</b>   |         |                   |                   |
| 1. Balance at beginning of period  |         | 337               | 193               |
| 2. Reclassified according to IFRS – increase from accumulated revaluation reserves |         | -                 | 144               |
| 3. Balance at the end of period  |         | <b>337</b>        | <b>337</b>        |
| <b>C. Retained earnings</b>  |         |                   |                   |
| 1. Balance at beginning of period  |         | 168.620           | 94.148            |
| 2. Income tax determined by IRS  |         | (2.720)           | (537)             |
| 3. Reclassified according to IFRS – increase from accumulated revaluation reserves |         | -                 | 49.828            |
| 4. Reclassified according to IFRS – transferred from differed revaluation gain     |         | -                 | 1.500             |
| 5. Reclassified according to IFRS – transferred from long-term liabilities conv.   |         | -                 | 7.903             |
| 6. Reclassified according to IFRS – Increase in long-term investment               |         | -                 | 3.733             |
| 7. Differed income tax liabilities   |         | (76)              | -                 |
| 7. Current year retained earnings  |         | 27.966            | 12.045            |
| 8. Balance at the end of period  |         | <b>193.790</b>    | <b>168.620</b>    |
| <b>D. Equity (A + B + C)</b>   | 5.1, 14 | <b>196.408</b>    | <b>171.238</b>    |