

On the basis of Article 4 of the Bylaw on contents and manner of reporting of public companies and notification of holding shares with voting right ("Official Gazette" of RS no. 100/2006) **AD "Telefonija"** makes public the following

**ANNUAL REPORT ON BUSINESS OPERATION
(non-consolidated-without dependent companies)**

I – General data

1. Name	"TELEFONIJA" Stock Company for Engineering and Trade of Telecommunication Equipment
Head office and address	Belgrade, Kumodraska 241
Registration number	7018509
Tax identification number	100002895
2. Web site and e-mail address	www.telefonija.co.yu office@telefonija.co.yu
3. Number and date of the decision on entering into the register of companies	3882/2005 dated 04 March 2005
4. Activity (code and description)	45210-rough construction works
5. Number of employees	235
6. Number of shareholders on 31/12/2007	972

7. Ten major shareholders

Name & surname	Number of shares on 31/12/2007	Share in fixed capital % On 31/12/2007
Branimir Boscovic	47690	10,77 %
Spasoje Zdravkovic	47546	10,73%
ZB INVEST doo	39436	8,90%
Dragan Kilibarda	24229	5,47%
Bojan Jovic	20691	4,67%
Nebojša Simovic	15044	3,39%
Radivoje Milicevic	14009	3,16%
Milan Nikolic	10096	2,28%
Delta Insurance AD Belgrade	9617	2,17%
Business Bank (Privredna banka) Zagreb	7714	1,74%

8. Value of the fixed capital in thousands of dinars	424,512 Thousands of dinars
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9. Data on shares	On 31/12/2007	Day of submitting the report
Number of issued shares (ordinary)	442.795	442.795
ISIN number	RSTLFNE22541	RSTLFNE22541
CIF code	ESVUFR	ESVUFR

10. Data on dependent companies

Name	Head office – business address
BeotelNet-ISP d.o.o	Kumodraska 241, Belgrade
Telefonija Brcko d.o.o	Bulevar mira bb, Brcko
Gastel d.o.o	Kumodraska 241, Belgrade
NSPointNet d.o.o	Bulevar oslobođenja 127, Novi Sad

11. Name of head office and business address of the auditing company which audited the latest financial statement	Deloitte d.o.o Makenzijeve 24 11000 Belgrade
12. Name of the organised market for trade in shares	Belgrade Stock Exchange Novi Belgrade, Omladinskih brigada 1

II. Data on the company's management

1. Members of management staff

Name, surname and residence	Education, present employment, membership in managing boards and supervisory boards of other companies	No. and % of shares held in stock company On 31/12/2007	Paid net fee amount
Slobodan Petrovic, Belgrade,	VII degree of qualification, manager of Telkel Company	1800-0.40%	192.502
Radmila Ristanovic, Belgrade	VII, financial manager of AD "Telefonija"	1391-0.31%	192.502

Radivoje Milicevic, Belgrade	VII degree of qualification, manager of "BeotelNet ISP" d.o.o	14009-3.16%	127.762
Kilibarda Dragan, Belgrade	VII degree of qualification, executive manager of Network Section of AD "Telefonija"	24229-5.47%	127.762
Milan Nikolic, Belgrade	VI degree of qualification, manager of "Telefonija" d.o.o. Brcko	10096-2.28%	192.502
Dejan Eric, Belgrade	Prof. Dr., director of Economic Institute	-	192.502
Nebojsa Simovic, Belgrade	VII degree of qualification, executive manager of E-business Operation Division of AD "Telefonija"	15044-3.39%	64.740
Vladimir Stojanovic, Belgrade	pensioner	4102-0.92%	64.740

2. Members of the supervisory board

Name, surname and residence	Present employment, membership in managing boards and supervisory boards of other companies	No. and % of shares held in stock company On 31/12/2007	Net fee amount paid
Milorad Berdovic, Belgrade	M. A. (Economic Science), pensioner	-	192.502
Marija Spasic, Belgrade	IV degree of qualification, Telenor	4162-0.93%	192.502
Goran Velagic, Belgrade	Head of the Service for Legal Operation in Chamber of Economy of Serbia	-	192.502

3. Code of behaviour in written form	The code of corporate and business communication has been adopted and it can be found on www.telefonija.co.yu
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III. Data on business operation of the company

1. Report of the management staff on realisation of adopted business policy	The management staff established that the business operation has been carried out in accordance with the adopted business policy
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2. Analysis of business operation

Total income	1.218.767
Total expenditure	1.161.429
Gross profit	57.338

Activity	Realised income
Infrastructure works in telecommunication-construction of networks	442.234
Internet	40.365
Information-communication technologies	547.500
Production of fiscal equipment and E-business operation	188.910

Indices of business operation	Value
Productivity of work I (realised income /number of workers)	5,186.24 thousands of dinars
Productivity of work II (realised profit /number of workers)	243.99 thousands of dinars
Economy of business operation (business income /business expenditure)	1,09
Profitability of business operation (presented profit /total incomes)	0,05
yield on total capital (gross profit /total capital)	0,05
Net yield on own capital (net profit / share capital)	0,12
Business net profit (business profit/net income from sale)	0,09
Degree of indebtedness (total liabilities /total capital)	1,07
1 st degree of liquidity (working assets/short term liabilities)	1,01

2 nd degree of liquidity (liquid assets/short term liabilities)	0,80
Net working capital (working assets-short term liabilities)	10.915 thousands of dinars

Highest price of share	22 March 2007 - 24.899,00
Lowest price of share	29.01.2007-5.810,00
Market capitalisation, on 31/12/2007	5.092.142 thousands of dinars
Profit per share	153,02
Paid dividend	4459,66/share-VI issue ; 8.635,38/VIII issue ; 1.328,98/X issue ;

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4. Changes- increase of balance values

Assets	Increase in the assets item is the result of investment made in gas supply network and optical networks
Liabilities	Increase of value of the liabilities item is related to the increase of receivables and conditions of their collection
Net profit	Decrease of net profit is the result of balancing of the deferred tax expenditure

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6. Own shares	During 2007, all own shares held by the company were sold out so that on 31/12/2007 there are no own shares in the portfolio of the company.
7. Completed investments	During 2007, the investments were continued in the new segment of business operation – implementation of works on the infrastructure construction of gas distribution networks.
8. Reserves	In the previous two years, the reserves of the company consist of the issue premium (used for increase of the fixed capital) and revaluation reserve made by registration of the estimated value of the assets.

In Belgrade, 22/04/2008.

AD "TELEFONIJA"
CEO

Predrag Sofrenic, B.Sc. (eng.)

On the basis of Article 66 of the Law on Market of Securities and Other Financial Instruments ("Official Gazette" of the Republic of Serbia", no. 47/2006) and Article 3 of the Bylaw on contents and manner of reporting of public companies and notification of holding the shares with voting right

EXCERPT FROM THE FINANCIAL STATEMENT for 2007

AD TELEFONIJA, Belgrade , Kumodraska 241

I BASIC DATA

1. Short name:	AD TELEFONIJA	3. registration no.:	7018509
2. Address:	Kumodraska 241	4. tax identification number:	100002895

II FINANCIAL STATEMENTS

BALANCE SHEET (in 000 dinars)

ASSETS	2007	2006	LIABILITIES	2007	2006
A. PERMANENT ASSETS	1.646.708	1.111.564	A. CAPITAL	1.164.889	845.605
I Unpaid subscribed capital			I Fixed capital	424.512	179.208
II Goodwill			II Unpaid subscribed capital		
III Intangible investments	19.655	26.469	III Reserves	19.963	87.680
IV Real estates, plants, equipment and biological resources	1.409.893	874.052	IV Revaluation reserves	585.030	369.320
V Long term financial investments	217.160	211.043	V Undistributed profit	135.384	210.955
B. WORKING ASSETS	767.985	460.401	VI Loss		
I Stocks	160.743	103.838	VII Purchased own shares		1.558
II Permanent assets intended for sale and business assets being terminated			B. LONG TERM RESERVATIONS AND LIABILITIES	1.249.804	726.360
III Short term receivables, investments and cash	607.009	352.795	I Long term reservations		
IV Deferred tax assets	233	3.768	II Long term liabilities	424.168	412.486
C. BUSINESS ASSETS	2.414.693	1.571.965	III Short term liabilities	757.070	313.874
D. LOSS ABOVE THE AMOUNT			IV Deferred tax liabilities	68.566	

OF CAPITAL					
E. TOTAL ASSETS	2.414.693	1.571.965	V. TOTAL LIABILITIES	2.414.693	1.571.965
F. NON-BALANCE ASSETS			G. NON-BALANCE LIABILITIES		

REPORT ON CASH FLOWS (in 000 dinars)

Profit and loss account (in 000 dinars)

A. CASH FLOWS FROM BUSINESS ACTIVITIES	2007.	2006.	A. INCOMES AND EXPENDITURES FROM CURRENT OPERATION	2007.	2006.
			I Business incomes	1.174.359	1.146.348
I Cash inflows from business activities	1.094.667	1.046.372	II Business expenditures	1.075.182	1.065.819
II Cash outflows from business activities.	1.345.002	1.004.897	III Business profit/loss	99.177	80.529
III Net inflow/ outflow of cash	-250.335	41.475	IV Financial incomes	39.402	47.542
B. CASH FLOWS FROM INVESTMENT ACTIVITY			V Financial expenditures	74.350	59.298
I Cash inflows from investment activities	31.714	1.774	VI Other incomes	5.006	11.243
II Cash outflows from investment activities	25.743	281.912	VII Other expenditure	11.897	23.126
III Net inflow/outflow of cash	5.971	-280.138	VIII Profit/ loss from current business operation before taxation	57.338	56.890
			IX Net profit/loss of business operation being terminated		
C. CASH FLOWS FROM FINANCING ACTIVITY			B. PROFIT/ LOSS BEFORE TAXATION	57.338	56.890
I Cash inflows from financing activities	461.362	361.730	C. TAX ON PROFIT	4.528	3.953
II Cash outflows from financing activities	215.065	108.430	Deferred tax incomes/expenditures of the period	1.286	1.931
III Net inflow/ outflow of cash	246.297	253.300	D. Paid personal incomes to the employer		
D. TOTAL CASH INFLOWS	1.587.743	1.409.876	E. NET PROFIT/LOSS	51.524	54.868
E. TOTAL CASH OUTFLOWS	1.585.810	1.395.239	F. NET PROFIT BELONGING TO MINORITY INVESTORS		

F. NET INFLOW/OUTFLOW OF CASH	1.933	14.637	G. NET PROFIT BELONGING TO OWNERS OF PARENT LEGAL ENTITY		
G. CASH AT START OF ACCOUNTING PERIOD	19.686	5.026	H. INCOME PER SHARE		
H. POS. / NEG. EXCHANGE RATE DIFFERENCES BASED ON CASH RECALCULATION		23	1. Basic income per share		
			2. Decreased (diluted) income per share		
I. CASH AT END OF ACCOUNTING PERIOD	21.619	19.686			

Report on changes in capital (in 000 dinars)

	2007.				2006			
	Start of year status	Increase during year	Decrease during year	End of year status	Start of year status	Increase during year	Decrease during year	End of year status
Fixed capital	175.351	245.304		420.655	49.580	125.771		175.351
Other capital	3.857			3.857	3.857			3.857
Unpaid subscribed capital								
Issue premium	82.400	10.303	78.020	14.683	48.737	33.663		82.400
Reserves	5.280			5.280	5.280			5.280
Revaluation reserves	369.320	357.132	141.422	585.030	152.232	217.088		369.320
Undistributed profit	210.955	186.935	262.506	135.384	71.797	139.158		210.955
Loss to the amount of capital								
Purchased own shares	1.558	380	1.938		2.527	1.558	2.527	1.558
TOTAL	845.605	799.294	480.010	1.164.889	328.956	516.649		845.605
Loss above the amount of capital								

III FINAL OPINION OF AUDITORS "DELOITTE" D.O.O. BELGRADE ON FINANCIAL STATEMENTS

"In our opinion, the financial statements present in a truthful and objective manner, as to all materially significant issues, the financial status of the Company on 31 December 2007, as well as the results of its business operation, the changes on capital and cash flows for the year ending on that date, in accordance with the accounting regulations of the Republic of Serbia."

IV SIGNIFICANT CHANGES OF THE LEGAL AND FINANCIAL STATUS OF THE COMPANY AND OTHER IMPORTANT CHANGES OF THE DATA CONTAINED IN THE PROSPECTUS FOR PUBLICATION, AND THE PROSPECTUS FOR ORGANISED TRADE IN SECURITIES

There were no significant changes

V PLACE AND TIME FOR ACCESS TO FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The access can be made every working day between 8 a.m. and 4 p.m. in the head office of the company and in the website www.telefonija.co.yu