

EestiTelekom

*Consolidated  
Interim Report of  
AS Eesti Telekom  
for the IV Quarter and  
whole 2007 year*

*6 February 2008*

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2007 YEAR**

---

<i>Beginning of the financial year</i>	1 January 2007
<i>End of the reporting period</i>	31 December 2007
<i>Name of the company</i>	<b>AS Eesti Telekom</b>
<i>Registration number</i>	10234957
<i>Address</i>	Roosikrantsi 2, 10119 Tallinn Estonia
<i>Telephone</i>	+ 372 631 12 12
<i>Facsimile</i>	+ 372 631 12 24
<i>E-mail</i>	<a href="mailto:mailbox@telekom.ee">mailbox@telekom.ee</a>
<i>Web-page</i>	www.telekom.ee
<i>Field of activity</i>	Primarily, the provision of telecommunications and IT services to private and business clients, as well as other telecommunications operators, in the Estonian domestic market. The operation of a mobile and fixed-line communications network.
<i>Auditor</i>	AS PricewaterhouseCoopers

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2007 YEAR**

---

**CONTENTS**

The most significant financial indicators	4
Chairman's statement	5
Consolidated quarterly data	11
Interim report	
<i>IV Quarter consolidated income statement</i>	<i>12</i>
<i>Year consolidated income statement</i>	<i>13</i>
<i>Consolidated balance sheet</i>	<i>14</i>
<i>Consolidated cash flow statement</i>	<i>15</i>
<i>Consolidated statement of changes in equity</i>	<i>16</i>
Management Board's conformation of the financial statements	17

## AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2007 YEAR

### SIGNIFICANT FINANCIAL INDICATORS

#### Eesti Telekom Group

	Q4 2007	Q4 2006	Change, %	12 mos. 2007	12 mos. 2006	Change, %
Total revenues, million EEK	<b>1,570</b>	1,554	1.0	<b>6,261</b>	5,768	8.6
EBITDA, million EEK	<b>576</b>	506	13.9	<b>2,336</b>	2,195	6.4
Margin, %	<b>36.7</b>	32.6		<b>37.3</b>	38.1	
EBIT, million EEK	<b>444</b>	383	16.1	<b>1,840</b>	1,646	11.8
Margin, %	<b>28.3</b>	24.6		<b>29.4</b>	28.5	
EBT, million EEK	<b>455</b>	392	16.0	<b>1,882</b>	1,687	11.6
Net profit for the period, million EEK	<b>455</b>	392	16.0	<b>1,512</b>	1,314	15.0
EPS, EEK	<b>3.28</b>	2.82	16.4	<b>10.91</b>	9.49	14.9
CAPEX, million EEK	<b>351</b>	219	60.3	<b>863</b>	771	11.9
Net gearing, %	<b>-25.2</b>	-33.6				
ROA, %	<b>31.6</b>	28.6				
ROE, %	<b>46.5</b>	43.1				

In connection with changes in the structure of the Eesti Telekom Group, as of 1 July 2007, the significant financial indicators of the Telekom Group are recognized by the following business spheres: the mobile communications service segment (EMT brand), broadband services segment (Elion brand) and IT services segment (MicroLink brand).

#### Mobile communications segment

	Q4 2007	Q4 2006	Change, %	12 mos. 2007	12 mos. 2006	Change, %
Total revenues, million EEK	<b>990</b>	942	5.1	<b>3,904</b>	3,502	11.5
EBITDA, million EEK	<b>293</b>	340	-14.0	<b>1,387</b>	1,346	3.1
Margin, %	<b>29.6</b>	36.1		<b>35.5</b>	38.4	
EBIT, million EEK	<b>235</b>	290	-19.0	<b>1,169</b>	1,102	6.1
Margin, %	<b>23.7</b>	30.8		<b>30.0</b>	31.5	
EBT, million EEK	<b>239</b>	294	-18.6	<b>1,185</b>	1,115	6.3
Net profit for the period, million EEK	<b>239</b>	294	-18.6	<b>935</b>	861	8.6
CAPEX, million EEK	<b>133</b>	115	15.7	<b>330</b>	274	20.4
ROA, %	<b>46.9</b>	46.9				
ROE, %	<b>79.6</b>	78.2				

#### Broadband services segment

	Q4 2007	Q4 2006	Change, %	12 mos. 2007	12 mos. 2006	Change, %
Total revenues, million EEK	<b>781</b>	779	0.2	<b>2,984</b>	2,748	8.6
EBITDA, million EEK	<b>217</b>	172	25.8	<b>885</b>	858	3.2
Margin, %	<b>27.8</b>	22.1		<b>29.7</b>	31.2	
EBIT, million EEK	<b>145</b>	106	37.7	<b>630</b>	574	9.7
Margin, %	<b>18.6</b>	13.6		<b>21.1</b>	20.9	
EBT, million EEK	<b>146</b>	104	40.1	<b>720</b>	572	25.9
Net profit for the period, million EEK	<b>146</b>	104	40.1	<b>599</b>	453	32.4
CAPEX, million EEK	<b>215</b>	90	138.3	<b>513</b>	467	9.8
ROA, %	<b>23.4</b>	19.8				
ROE, %	<b>38.3</b>	30.9				

## AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2007 YEAR

### IT services segment

	Q4 2007	Q4 2006	Change, %	12 mos. 2007	12 mos. 2006	Change, %
Total revenues, million EEK	92	73	26.5	365	280	30.4
EBITDA, million EEK	10	13	-20.2	24	27	-13.0
Margin, %	11.0	17.4		6.5	9.7	
EBIT, million EEK	4	7	-49.0	2	12	-86.8
Margin, %	4.0	10.0		0.4	4.4	
EBT, million EEK	4	9	-61.5	8	23	-67.2
Net profit for the period, million EEK	4	9	-61.5	8	23	-67.2
CAPEX, million EEK	3	14	-79.3	33	30	7.9
ROA, %	2.6	5.0				
ROE, %	3.6	5.9				

### CHAIRMAN'S STATEMENT

#### Sales revenues, operating costs, and profit

The 2007 fourth quarter results of Eesti Telekom Group corresponded to the expectations of the Management Board. **The Group's sales revenues** in the last quarter of 2007 reached 1,570 million EEK (4<sup>th</sup> quarter 2006: 1,554 million EEK).

The following circumstances affected the fourth quarter results:

- 1) Pursuant to the decision of the Communications Board dated 21 March 2006, the fee for voice call termination on mobile networks (interconnection fee) for AS EMT, Elisa Eesti AS and Tele2 Eesti AS for the period from 1 July 2006 to 30 June 2007 was fixed at 2.05 EEK per minute and, pursuant to the decisions of the Communications Board dated 20 June and 22 June 2007, was fixed at 1.66 EEK for the period from 1 July 2007 to 30 June 2008. Since Elisa Eesti AS and Tele2 Eesti AS disputed the decisions in court and the validity of the given legislative act was suspended in the course of initial legal protection, the interconnection fees remained at 2.50 EEK until 5 November 2007. On 5 November 2007, the ruling of the Tallinn Circuit Court came into force, whereby the initial legal protection was cancelled and all three mobile operators were obligated to apply interconnection fees of 1.66 EEK as of that date. The court disputes of Elisa Eesti AS and Tele2 with the Communications Board are continuing, and AS EMT is participating in the dispute as a third party.

Based on the above-mentioned circumstances EMT made one-time provision in the sum of 62 million EEK to cover the possible retroactive claims. The impact of possible retroactive claims on consolidated profit of Eesti Telekom Group has been eliminated since Elion Enterprises has submitted the corresponding claims to three mobile operators in the sum that exceeds the EMT's provision.

- 2) At the recommendation of the auditors, during the preparation of the 2006 annual report part of the transactions of the broadband services segment were reclassified from operational leasing to financial leasing. The aforementioned reclassification was recognized retrospectively in the fourth quarter of 2006, as a result of which sales revenues increased by 9%, costs increased by 20%, and investments decreased 56%.

The consolidated turnover of the **mobile communications services segment** reached 990 million EEK, increasing 5% compared to the fourth quarter of 2006 (4<sup>th</sup> quarter 2006: 942 million EEK). The main portion of the supplemental revenues was earned from the Group's principal fields of activity. The revenue of the parent Group's parent company, AS EMT, increased by 5% compared to the fourth quarter of 2006 reaching 782 million EEK. The increase of revenues in the principal activities was caused primarily by an increase in the number of call minutes initiated from and completed in the EMT network and the growth of mobile data communications.

## **AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2007 YEAR**

---

The AS EMT client base at the end of 2007 included 6 thousand more client than at the end of 2006, reaching 765 thousand active SIM cards (December 2006: 759 thousand cards). Compared to a year ago, the number of contractual clients has increased by 36 thousand, reaching 469 thousand at the end of 2007, while the number of active users of pre-paid cards decreased during the year by 30 thousand to 296 thousand at the end of the year. The customer acquisition campaign conducted at the end of 2007 to find new users of pre-paid cards was not as aggressive as last year. EMT assesses its market share of active SIM cards as 48%. The estimated penetration of active cards in Estonia is 119%.

The number of call minutes initiated by EMT clients in the fourth quarter of 2007, which had the greatest effect on the increase of revenues, grew by 4% compared to the same period of 2006. The modest increase in initiated call minutes is caused by the free calls offered to the users of the Rate.Mobiil service at the end of 2006. A similar campaign offer of free calls did not take place in the last quarter of 2007. Interconnection fees were affected by a drop in interconnection prices in the fourth quarter.

Very rapid growth continued to be demonstrated by AS EMT mobile Internet revenues. In the fourth quarter of this year, the revenues for mobile data communications exceeded the revenues for the same period in 2006 by more than 50%. At the same time, the volume of data transmitted increased almost nine-fold. The number of AS EMT mobile data communications users in December 2007 was 161 thousand, which is 51 thousand more than the year before. The increase in popularity of mobile data communications is caused, on the one hand, by the introduction of new data communication packages based on monthly fees in the summer of 2007, and on the other hand, by the dynamic expansion of 3G coverage area, which provide clients with quality and high-speed data communications at conveniently controllable prices. By the end of 2007, 3G coverage existed in all the county seats of Estonia, and many other towns and their environs. The rapid development, especially in the private segment, has been generated by the EMT Internet start-up package, which includes a free high-speed 3.5G modem for loyal customers who signed up for the EMT Internet 399 package. This provides the client with an opportunity to use the 3G network with the largest coverage area in Estonia and provides Internet connections with speeds approaching those of ADSL. Secondly, the number of mobile Internet users has been positively affected by the establishment of a price ceiling of 9 EEK per day for the use of EMT SurfPort. This has made using the Internet on their mobile phones affordable for many customers. In the fourth quarter, EMT doubled the downloading speed to 7.2 Mbits per second, which increases the volume of the network as well as the speeds provided to users. EMT also introduced faster uploading of data in the 3.5G network (so-called HSUPA), which increases speeds for senders of heavy e-mails threefold to 1.4 Mbits per second.

A regulation applies to AS EMT, as it does to other mobile operators in the European Community, which specifies that as of September 2007 the rate per minute for outgoing calls made within the borders of the European Community cannot exceed the maximum price established by the European Community. Therefore, the revenue from roaming clients has decreased by a third.

The revenues for the mobile communications services segment from retailing and wholesaling telecommunications merchandise increased in the fourth quarter of 2007, compared to the same period in 2006, due primarily to increased mobile phone sales volumes.

In the fourth quarter, **the sales revenues of the broadband services segment** reached 781 million EEK (4<sup>th</sup> quarter 2006: 779 million EEK). Integrated solutions and the rental of connections showed the greatest revenue increase, 44% and 69% respectively. As opposed to previous quarters, the revenues from call connections increased by 4.5% in the last quarter of the year, primarily as a result of the growth of domestic call transit and international calls initiated from the mobile network. The tempo of growth for the retail sales of Elion Group telecommunications and IT merchandise slowed in the fourth quarter to 3% as result of the general cooling of the Estonian economy. In November, Elion Enterprises realized 7.5 million EEK from real estate, which resulted in a 41% increase of other revenues.

## **AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2007 YEAR**

---

Similarly to previous quarters, the trend in connection fees for broadband services is continuing, whereby the clients are replacing individual services with service packages. In the last quarter, the number of Elion triple package users increased by 8,750, reaching 53.5 thousand as of 31 December (31 December 2006: 25.5 thousand). By the end of the year, the total number of Elion IP and cable television clients reached 58 thousand.

The popularity of the triple package has been significantly enhanced by the offering of supplemental services. The remote video rental service that was introduced to the market in the first half of 2007 has proved to be very popular among clients due to the convenience and simplicity of its use. As a result of a successful remote video rental campaign the number of rental increased to a record-breaking 4,700 times per 24 hours in November. As of October, in cooperation with the Estonian Conference Center and SEB Eesti Ühispank, Elion is providing free lectures from Estonia's top conferences via DigiTV remote video rental. The goal of the service is make educational subject services available to as many people as possible.

In the fourth quarter, the total number of Elion clients with permanent connections increased by 6,300 connections to 163 thousand by the end of 2007 (31 December 2006: 141 thousand). The company assesses its market share of private clients with permanent connections to be 56%.

Based on the significant increase in the volume and ratio of revenues of integrated solutions, the revenues from monthly fees for call connections and Internet connections fell by 11% and 13% respectively.

In the fourth quarter, the call revenues in the broadband services segment increased by 4.5% compared to the same period in 2006. The growth of revenues resulted primarily from the growth of domestic call transit and the volume of international calls initiated from the mobile network. At the same time, the revenues received from end consumers for domestic call services continued to increase in the last quarter. Compared with the same period in 2006, the revenues earned from domestic call services decreased by 10% due to a reduction in minute volumes.

Elion Enterprises assesses its market share for call minutes initiated in the fixed network to be 81% (December 2006: 83%). The market share for local call minutes is 83% (December 2006: 85%), 64% for international call minutes (December 2006: 65%) and 72% for call minutes made to mobile phones (December 2006: 70%).

By the end of 2007, the number of Elion call interfaces reached 487 thousand interfaces (31 December 2006: 463 thousand interfaces). The number of call interfaces has increased as result of active campaigning to keep clients and find new ones. Significant impact on the number of interfaces was manifested by the additional users of integrated solutions, since phone connections are a component of double and triple packages.

The company also introduced new added-value services to the market in the fourth quarter. On October 29<sup>th</sup>, Elion and EMT opened the first legal sales environment for digital music in Estonia, which comprises about 4 million foreign and Estonian artists from 12,000 record companies around the world. The music store is available on the Internet portal hot.ee and SurfPort, EMT's mobile portal. The provision of the Picture Album service was started in November. This is an added-value service provided by hot.ee and Elion IP-based television, which can be used to load photos onto the web in order to share them with friends through TV.

Sales revenues for the **IT services segment** reached 92 million EEK in the fourth quarter of 2007 (4th quarter 2006: 73 million EEK). In the fourth quarter of 2007, the sales revenues of the IT services segment, without the network services sphere that was transferred to Elion Enterprises in 2006, increased by 27% compared to the same period last year. Whereas the sales turnover of IT services increased by 32% and of IT merchandise by 21%.

## AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2007 YEAR

---

The significant events in the fourth quarter were the start up of cooperation with Symnatec in the field of data security and archiving solutions, the successful implementation of the Schengen information system (MicroLink Eesti executed the SIS infrastructure solution), and winning the tender for the hosting of the

Tallinn Space Register. In addition, OpenText, the world's leading software corporation, chose MicroLink Eesti as its best partner in Central and Eastern Europe. In the fourth quarter, MicroLink's first LiveLink module was exported to Lithuania. MicroLink Eesti took over the representation of Progress software in Estonia from AS Andmevara. Since December 1, 2007, MicroLink has the right to sell OpenEdge, Sonic, Actional, Business Objects (Crystal Products) and Tugboat (Roundtable) products.

The **operating costs** of the Eesti Telekom Group decreased in the fourth quarter of 2007 by 4% compared to the same period in 2006, reaching 1,004 million EEK (4th quarter 2006: 1,045 million EEK).

The operating costs in the mobile communications services segment increased by 7% compared to the fourth quarter of 2006 reaching 638 million EEK (4th quarter 2006: 597 million EEK). The increase in operating costs is connected basically to the costs related to the retail and wholesale trade of the EMT Group, which increased in approximately the same volume as sales turnover. In addition, the rapid increase in salary costs compared to the same time last year continued in the fourth quarter, which was sustained by strong pressure on salaries in the economy as a whole.

The operating costs of the broadband services segment decreased in the fourth quarter by 6% reaching 572 million EEK (4<sup>th</sup> quarter 2006: 606 million EEK). A significant influence on the decrease was manifested by the aforementioned reclassification of operating leasing as financial leasing. After eliminating the effect of the reclassification, the operating costs increased by 11% compared to the same period in 2006. Forty-five percent of the increase in operating costs resulted from the growth of direct sales costs related to the increase of connection rental services, international call services and domestic interconnection services. The other primary growth factor for operating costs was personnel costs, which increased by 16% in the last quarter. The company's marketing costs increased 59% as a result of very dynamic marketing activities planned for the last quarter of the year.

The operating costs in the IT services segment increased in the fourth quarter by 17% compared to the same period last year, reaching 82 million EEK (4th quarter 2006: 70 million EEK).

The Eesti Telekom Group **EBITDA** reached 576 million EEK in the fourth quarter of 2007, which is 14% more than in the fourth quarter of 2006 (4th quarter 2006: 506 million EEK). The mobile communications services segment EBITDA decreased by 14% in the last quarter compared to the same period in 2006, which was essentially related to a one-time provision totaling 62 million EEK. The EBITDA of the broadband services segment was 217 million EEK in the fourth quarter of 2007 (4<sup>th</sup> quarter 2006: 172 million EEK). The 26% growth was significantly affected by the reclassification of operating leasing as capital leasing recognized in the fourth quarter of 2006.

The Group's EBITDA margin in the fourth quarter of 2007 was 37%, which was higher than the margin for the corresponding period in 2006 (4<sup>th</sup> quarter 2006: 33%).

In the fourth quarter of 2007, the Group's **depreciation cost** reached 132 million EEK, increasing by 7% compared to the same period in 2006. The depreciation costs for the mobile communications services segment increased by 8 million EEK in the fourth quarter of 2007 compared to the same period in 2006. In the last quarter of 2007, the depreciation costs for the broadband services segment increased by 7% during the year, reaching 72 million EEK (4th quarter 2006: 67 million EEK). The depreciation costs for the IT services segment reached 6 million EEK in the fourth quarter of 2007, increasing by 19% compared to the same period in 2006.



## **AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2007 YEAR**

---

In the fourth quarter, the Eesti Telekom Group earned **EBIT** of 444 million EEK, which is 16% more than in the fourth quarter of 2006 (4th quarter 2006: 383 million EEK). The Group's (net) financial revenues in the fourth quarter were 12 million EEK, increasing by 11% compared to the same period last year.

In the fourth quarter of 2007, the Eesti Telekom Group earned a **net profit** of 455 million EEK (4th quarter 2006: 392 million EEK). The profit per share was 3.28 EEK (4th quarter 2006: 2.82 EEK).

The **consolidated sales revenues of the Eesti Telekom Group for 2007** reached 6,261 million EEK, increasing by 9% compared to 2006 (2006: 5,768 million EEK). More than half the additional sales revenues came from the mobile communications segment, although a significant contribution was made by both the broadband services segment, for which the revenues from outside the concern increased by almost 174 million EEK, and the IT services segment, for which the revenues from outside the concern increased by almost 58 million EEK.

The Group's operating costs in 2007 were 3,947 million EEK (2006: 3,621 million EEK). The majority of the operating costs were related to the greater volumes of trading activities. The operating costs in all fields of activity increased by more than ten percent.

The consolidated EBITDA for 2007 was 2,336 million EEK (2006: 2,195 million EEK). The EBITDA margin decreased slightly, reaching 37.3% in 2007 (2006: 38.1%). Depreciation in 2007 totaled 496 million EEK (2006: 548 million EEK).

In the last year, the Group earned EBIT of 1,840 million EEK (2006: 1,646 million EEK). (Net) financial revenues increased by 5 million EEK reaching 46 million EEK. On 1 July 2007, AS MicroLink sold its shares in AS MicroLink Eesti to AS Eesti Telekom. The Group's internal unrealized profit from the sale of the shares was 93.7 million EEK.

In 2007, the Eesti Telekom Group earned a net profit of 1,512 million EEK or 10.91 EEK per share (2006: 1,314 million EEK or 9.49 EEK per share).

### **Balance sheet and cash flows**

As of 31 December 2007, the Eesti Telekom Group balance sheet was 5,023 million EEK (31 December 2006: 4,812 million EEK). The fixed assets of the Group have increased by 355 million EEK during the year. The increase in fixed assets resulted primarily from the investments made by the Group's companies. Current assets have decreased by 144 million EEK during the year, whereas cash and cash equivalents, as well as short-term financial investments, have decreased by 298 million EEK. The reason for the reduction in cash and short-term investments is a larger dividend payment by 69 million EEK, income taxed paid on dividends, and investments.

As of 31 December 2007, the Group's equity totaled 4,314 million EEK (31 December 2006: 4,113 million EEK). As of 31 December 2007, the Eesti Telekom Group has long-term obligations of 25 million EEK (31 December 2006: 38 million EEK) and short-term debt obligations of 683 million EEK (31 December 2006: 660 million EEK). The Group's net debt at the end of 2007 was -1087 million EEK and the net debt to equity ratio was -25% (31 December 2006: -1,383 million EEK and -34%).

The 2007 cash flow from operations for the Eesti Telekom Group was 1,899 million EEK (2006: 1,899 million EEK). The Group's cash flow from investments was -514 million EEK (2006: -761 million EEK). Cash flow for the acquisition of tangible and intangible fixed assets increased during the year, reaching 863 million EEK in the last year (2006: 750 million EEK).

In 2007, the mobile communications segment has made investments of 330 million EEK (2006: 274 million EEK). In mobile communications, in addition to the continual development of the GSM network, a large development sphere was the application of technologies that support high-speed mobile data communications. By the end of the year, EDGE, which operates based on the GSM network, covered 94% of base stations.

## AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2007 YEAR

---

A noteworthy result was achieved in the development of the 3G network - all of Estonia's county seats were covered. Since November 2007, it has been able to use data communications speeds of up to 7.2 Mbits per second for downloading and 1.4 Mbits per second for uploading in the 3G network. In addition, the reliability of the network increased significantly - all the exchanges of the network were put into operation as a single resource, so that a failure of one exchange will not cause the base station serving it to fail or cause a widespread disruption of service.

In the broadband services segment in 2007, the 12-month investments into fixed assets (excluding MicroLink Eesti) reached 513 million EEK (12 months of 2006: 467 million EEK). The main portion of the investments continued to go into improving permanent Internet connections and the availability of DigiTV, into the development of network resources, and several cooperation projects with local governments in various places in Estonia to improve communications possibilities. Compared to 2006, significantly more was invested into reconstruction space for the use of equipment hosting services.

In 2007, the IT services segment invested 33 million EEK, of which 39% comprise the acquisition of the AS MicroLink trademarks by the parent company during the course of the merger between AS MicroLink and Elion Enterprises that took place within the framework of structural changes made in the Eesti Telekom Group. The remaining investments were made predominantly for the expansion of infrastructure necessary for the provision of services.

The Eesti Telekom Group cash flow from financing activities in 2007 was 1,312 million EEK (2006: 1,243 million EEK), of which 1,311 million EEK was used to pay dividends (2006: 1,242 million EEK).

### **Ownership structure of AS Eesti Telekom**

In the fourth quarter of 2007, no significant changes occurred in the shareholder structure of AS Eesti Telekom. Teliasonera AB, the major shareholder of Eesti Telekom (through Baltic Tele AB), continues to own 59.25% of the company's shares. The Estonian state continues to own 24.17% and Estonian Development Fund 3.00% of AS Eesti Telekom shares.

At the end of 2007, 13.58% of AS Eesti Telekom shares are freely traded. Of these, 17.15% were converted into GDRs traded on the London Stock Exchange.

As of 31 December 2007, the largest shareholders of AS Eesti Telekom were:

	Number of securities	Participation
Baltic Tele AB	81,738,899	59.2506%
Ministry of Finance / State Treasury	33,346,464	24.1721%
Estonian Development Fund	4,138,636	3.0000%
Deutsche Bank Trust Company (GDR accounts)	3,212,238	2.3285%
ING Luxembourg S.A.	1,798,330	1.3036%
Danske Bank clients	1,417,453	1.0275%
Skandinaviska Enskilda Banken AB clients	1,402,350	1.0165%
Bank Austria Creditanstalt AG clients	1,202,410	0.8716%
Morgan Stanley Co International Equity clients	1,023,500	0.7419%
Clearstream Banking Luxembourg clients	633,240	0.4590%

---

### **Definitions**

**Net debt** – Long- and short-term interest-bearing borrowings, less cash and cash equivalents and short-term investments

**ROA** – Net profit for the last four quarters divided by the average total assets for the same period

**ROE** – Pre-tax profit for last four quarters divided by the average equity for the same period

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2007 YEAR**
**CONSOLIDATED QUARTERLY DATA**

In million of Estonian kroons (EEK)

	Q4 06	Q1 07	Q2 07	Q3 07	Q4 07
Sales	1,554	1,497	1,582	1,612	1,570
OPEX	(1,045)	(957)	(994)	(992)	(1,004)
Other revenue/expenses, net	(3)	2	2	7	11
EBITDA	506	542	590	627	576
Depreciation and amortisation	(124)	(118)	(123)	(124)	(132)
EBIT	383	424	468	504	444
Income / expenses from associates	(1)	-	(2)	(1)	(1)
Other net financing items	11	15	14	6	12
Profit before tax	392	440	479	509	455
Income tax on dividends	-	-	(371)	-	-
Net profit for the period	392	440	108	509	455
Minority interest	3	2	1	2	2
EBITDA margin, %	32.57%	36.22%	37.31%	38.91%	36.72%
EBIT margin, %	24.62%	28.36%	29.55%	31.24%	28.26%
Net margin, %	25.21%	29.38%	6.83%	31.55%	28.98%
Total assets	4,812	5,175	4,392	4,508	5,023
- Non-current assets	2,395	2,390	2,453	2,536	2,750
- Current assets	2,417	2,785	1,939	1,972	2,273
- Cash and cash equivalents and short-term investments	1,389	1,627	785	780	1,091
Equity and liabilities					
- Equity	4,812	5,175	4,392	4,508	5,023
- Provisions	4,113	4,553	3,351	3,860	4,314
- Non-current liabilities	36	34	22	23	33
- Interest-bearing borrowings	8	8	11	5	1
- Current liabilities	3	3	2	2	1
- Interest-bearing borrowings	654	580	1,007	621	674

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2007 YEAR**

**IV QUARTER CONSOLIDATED INCOME STATEMENT**

In thousand of Estonian kroons (EEK)

	IV Quarter 2007	IV Quarter 2006 Restated
Net sales	1,569,617	1,554,246
Cost of production	(926,289)	(926,463)
<b>Gross profit</b>	<b>643,328</b>	<b>627,783</b>
Sales, administrative, and research & development expenses	(209,704)	(242,519)
Other operating revenues	13,282	(4,552)
Other operating expenses	(2,676)	1,899
<b>Operating profit</b>	<b>444,230</b>	<b>382,611</b>
Finance income	12,485	11,151
Finance costs	(524)	(402)
Finance income, net	<b>11,961</b>	<b>10,749</b>
Net income / (expenses) from associated companies	(1,390)	(1,424)
<b>Net profit for the period</b>	<b>454,801</b>	<b>391,936</b>
Attributable to:		
Equity holders of the parent	453,144	389,438
Minority interest	1,657	2,498
	<b>454,801</b>	<b>391,936</b>
<b>Earnings per share for profit attributable to the equity holders of the parent during the reporting period</b> (expressed in EEK)		
Basic earnings per share	3.28	2.82
Diluted earnings per share	3.28	2.82
<b>EBITDA</b>	<b>576,384</b>	<b>506,171</b>
Depreciation, amortization and write-downs	(132,154)	(123,560)

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2007 YEAR**

**YEAR CONSOLIDATED INCOME STATEMENT**

In thousand of Estonian kroons (EEK)

	<b>2007</b>	<b>2006</b>
Net sales	6,261,002	5,767,734
Cost of production	(3,542,791)	(3,260,113)
<b>Gross profit</b>	<b>2,718,211</b>	<b>2,507,621</b>
Sales, administrative, and research & development expenses	(900,011)	(908,854)
Other operating revenues	28,114	53,011
Other operating expenses	(6,336)	(5,405)
<b>Operating profit</b>	<b>1,839,978</b>	<b>1,646,373</b>
Finance income	48,626	42,768
Finance costs	(2,342)	(1,950)
Finance income, net	<b>46,284</b>	40,818
Net income / (expenses) from associated companies	(3,817)	193
<b>Profit before tax</b>	<b>1,882,445</b>	<b>1,687,384</b>
Income tax on dividends	(370,897)	(373,377)
<b>Net profit for the period</b>	<b>1,511,548</b>	<b>1,314,007</b>
Attributable to:		
Equity holders of the parent	1,505,098	1,309,443
Minority interest	6,450	4,564
	<b>1,511,548</b>	<b>1,314,007</b>
<b>Earnings per share for profit attributable to the equity holders of the parent during the reporting period</b> (expressed in EEK)		
Basic earnings per share	10.91	9.49
Diluted earnings per share	10.91	9.49
<b>EBITDA</b>	<b>2,336,260</b>	<b>2,194,709</b>
Depreciation, amortization and write-downs	(496,282)	(548,336)

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2007 YEAR**

**CONSOLIDATED BALANCE SHEET**

In thousand of Estonian kroons (EEK)

	<b>31 December 2007</b>	<b>31 December 2006</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	2,405,114	2,044,595
Intangible fixed assets	216,011	214,046
Investments in associates	13,422	17,247
Other financial fixed assets	115,618	119,139
<b>Total non-current assets</b>	<b>2,750,165</b>	<b>2,395,027</b>
<b>Current assets</b>		
Inventories	180,695	142,692
Trade and other receivables	999,258	884,212
Short-term investments	694,040	1,064,859
Cash and cash equivalents	396,778	324,405
<b>Total</b>	<b>2,270,771</b>	<b>2,416,168</b>
Assets classified as held-for-sale	1,732	771
<b>Total current assets</b>	<b>2,272,503</b>	<b>2,416,939</b>
<b>TOTAL ASSETS</b>	<b>5,022,668</b>	<b>4,811,966</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves attributable to equity holders of the parent</b>		
Share capital	1,379,545	1,379,545
Share premium	356,018	356,018
Statutory legal reserve	137,955	137,955
Retained earnings	924,263	925,388
Net profit for the period	1,505,098	1,309,443
<b>Total capital and reserves attributable to equity holders of the parent</b>	<b>4,302,879</b>	<b>4,108,349</b>
Minority interest	11,480	5,030
<b>Total equity</b>	<b>4,314,359</b>	<b>4,113,379</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	1,343	3,124
Retirement benefit obligations	3,239	7,912
Provisions	20,673	22,124
Non-interest bearing liabilities	-	5,152
<b>Total non-current liabilities</b>	<b>25,255</b>	<b>38,312</b>
<b>Current liabilities</b>		
Trade and other payables	670,989	651,365
Interest bearing loans and borrowings	2,778	2,742
Retirement benefit obligations	4,814	865
Provisions	4,473	5,303
<b>Total current liabilities</b>	<b>683,054</b>	<b>660,275</b>
<b>Total liabilities</b>	<b>708,309</b>	<b>698,587</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>5,022,668</b>	<b>4,811,966</b>

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2007 YEAR**

**CONSOLIDATED CASH FLOW STATEMENT**

In thousand of Estonian kroons (EEK)

	2007	2006
<b>Operating activities</b>		
Net profit for the period	1,511,548	1,314,007
Adjustments for:		
Depreciation, amortisation and impairment of fixed and intangible assets	496,282	548,336
(Profit) / loss from sales and discards of fixed assets	(3,154)	(34,545)
Net (income) / expenses from associated companies	3,817	(193)
Provisions	(2,811)	20,150
Financial items	6,296	17,496
Income tax on dividends	-	4
Miscellaneous non-cash items	(8,930)	(6,728)
<b>Cash flow before change in working capital</b>	<b>2,003,048</b>	<b>1,858,527</b>
Change in current receivables	(79,800)	43,537
Change in inventories	(38,043)	(55,782)
Change in current liabilities	13,714	52,232
<b>Change in working capital</b>	<b>(104,129)</b>	<b>39,987</b>
<b>Cash flow from operating activities</b>	<b>1,898,919</b>	<b>1,898,514</b>
<b>Investing activities</b>		
Intangible and tangible fixed assets acquired	(862,510)	(749,876)
Intangible and tangible fixed assets divested	14,768	49,599
Shares, participations and operations acquired	-	(111,691)
Net change in interest-receivables short maturities	369,746	177,785
Net cash changes of other long-term receivables	(36,073)	(130,548)
Repayments of loans granted to associates	-	4,100
<b>Cash flow from investing activities</b>	<b>(514,069)</b>	<b>(760,631)</b>
<b>Cash flow before financing activities</b>	<b>1,384,850</b>	<b>1,137,883</b>
<b>Financing activities</b>		
Proceeds from non-convertible debts	188	-
Repayment of finance lease liabilities	(1,819)	(1,704)
Dividends paid	(1,310,568)	(1,241,591)
<b>Cash flow used in financing activities</b>	<b>(1,312,199)</b>	<b>(1,243,295)</b>
<b>Cash flow for the year</b>	<b>72,651</b>	<b>(105,412)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>324,405</b>	<b>430,393</b>
Cash flow for the year	72,651	(105,412)
Effect of foreign exchange rate changes	(278)	(576)
<b>Cash and cash equivalents at end of period</b>	<b>396,778</b>	<b>324,405</b>

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2007 YEAR**
**STATEMENT OF CHANGES IN OWNERS' EQUITY**

In thousand of Estonian kroons (EEK)

	Attributable to equity holders of the Company					Total	Minority interest	Total equity
	Issued capital	Share premium	Statutory legal reserve	Retained earnings	Net profit for the period			
<b>31 December 2005</b>	<b>1,379,545</b>	<b>356,018</b>	<b>137,955</b>	<b>1,078,403</b>	<b>1,087,416</b>	<b>4,039,337</b>	<b>1,160</b>	<b>4,040,497</b>
Net profit for the 2005 transferred to retained earnings	-	-	-	1,087,416	(1,087,416)	-	-	-
Minority interest arising on business combinations	-	-	-	1,160	-	1,160	(694)	466
Dividends paid	-	-	-	(1,241,591)	-	(1,241,591)	-	(1,241,591)
<i>Total changes</i>	-	-	-	<i>(153,015)</i>	<i>(1,087,416)</i>	<i>(1,240,431)</i>	<i>(694)</i>	<i>(1,241,125)</i>
Net profit for the period	-	-	-	-	1,309,443	1,309,443	4,564	1,314,007
<b>31 December 2006</b>	<b>1,379,545</b>	<b>356,018</b>	<b>137,955</b>	<b>925,388</b>	<b>1,309,443</b>	<b>4,108,349</b>	<b>5,030</b>	<b>4,113,379</b>
Net profit for the 2006 transferred to retained earnings	-	-	-	1,309,443	(1,1309,443)	-	-	-
Dividends paid	-	-	-	(1,310,568)	-	(1,310,568)	-	(1,310,568)
<i>Total changes</i>	-	-	-	<i>(1,125)</i>	<i>(1,309,443)</i>	<i>(1,310,568)</i>	-	<i>(1,310,568)</i>
Net profit for the period	-	-	-	-	1,505,098	1,505,098	6,450	1,511,548
<b>31 December 2007</b>	<b>1,379,545</b>	<b>356,018</b>	<b>137,955</b>	<b>924,263</b>	<b>1,505,098</b>	<b>4,302,879</b>	<b>11,480</b>	<b>4,314,359</b>

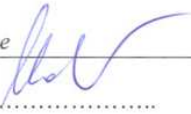





## MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of the consolidated financial statements of AS Eesti Telekom Group for the IV quarter and the whole 2007 year as set out on pages 3 to 17.

The Management Board confirms that:

- 1 the accounting principles used in preparing the financial statements are in compliance with the International Financial Reporting Standards as adopted by the European Union;
- 2 the financial statements present a true and fair of the financial position, the results of operations and the cash flows of the Group;
- 3 Group companies are continuing their operations as a going concern.

<i>Name</i>	<i>Position</i>	<i>Signature</i>
Valdo Kalm	<i>Chairman of the Board</i>	
Leho Tamm	<i>Member of the Board</i>	
Valdur Laid	<i>Member of the Board</i>	
Enn Saar	<i>Member of the Board</i>	

Tallinn, 5 February 2008