*Consolidated*
*Interim Report of*
*AS Eesti Telekom*
*II Quarter and*
*I Half Year 2007*

*19 July 2007*

## AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2007 INTERIM REPORT

| | |
|---|---|
| *Beginning of the financial year* | 1 January 2007 |
| *End of the reporting period* | 30 June 2007 |
| *Name of the company* | **AS Eesti Telekom** |
| *Registration number* | 10234957 |
| *Address* | Roosikrantsi 2,<br>10119 Tallinn<br>Estonia |
| *Telephone* | + 372 631 12 12 |
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| *E-mail* | mailbox@telekom.ee |
| *Web-page* | www.telekom.ee |
| *Field of activity* | Primarily, the provision of tele-communications and IT services to private and business clients, as well as other telecommunications operators, in the Estonian domestic market.<br>The operation of a mobile and fixed-line communications network. |
| *Auditor* | AS PricewaterhouseCoopers |

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# AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2007 INTERIM REPORT

## MOST SIGNIFICANT FINANCIAL INDICATORS

### Eesti Telekom Group

| | **Q2 2007** | Q2 2006 | Change % | **HY1 2007** | HY1 2006 | Change % |
|---|---|---|---|---|---|---|
| Total revenues, million EEK | **1,582** | 1,426 | 11.0 | **3,079** | 2,753 | 11.9 |
| EBITDA, million EEK | **590** | 582 | 1.4 | **1,133** | 1,103 | 2.7 |
| Margin, % | **37.4** | 40.8 | | **36.8** | 40.0 | |
| EBIT, million EEK | **467** | 449 | 4.1 | **892** | 800 | 11.5 |
| Margin, % | **29.6** | 31.5 | | **29.0** | 29.1 | |
| EBT, million EEK | **479** | 462 | 3.7 | **919** | 824 | 11.6 |
| Net profit for the period, million EEK | **108** | 89 | 22.0 | **548** | 450 | 21.7 |
| EPS, EEK | **0.77** | 0.64 | 20.3 | **3.95** | 3.26 | 21.0 |
| CAPEX, million EEK | **184** | 227 | -18.9 | **302** | 356 | -15.4 |
| Net gearing, % | **-23.3** | -33.1 | | | | |
| ROA, % | **30.7** | 26.2 | | | | |
| ROE, % | **46.8** | 40.9 | | | | |

### EMT Group (mobile communications)

| | **Q2 2007** | Q2 2006 | Change % | **HY1 2007** | HY1 2006 | Change % |
|---|---|---|---|---|---|---|
| Total revenues, million EEK | **1,001** | 884 | 13.3 | **1,864** | 1,638 | 13.8 |
| EBITDA, million EEK | **376** | 332 | 13.2 | **706** | 641 | 10.2 |
| Margin, % | **37.6** | 37.6 | | **37.9** | 39.1 | |
| EBIT, million EEK | **322** | 269 | 19.5 | **600** | 499 | 20.3 |
| Margin, % | **32.1** | 30.5 | | **32.2** | 30.5 | |
| EBT, million EEK | **325** | 274 | 18.9 | **612** | 506 | 20.8 |
| Net profit for the period, million EEK | **76** | 20 | 280.8 | **362** | 252 | 43.5 |
| CAPEX, million EEK | **79** | 45 | 76.7 | **128** | 106 | 20.1 |
| ROA, % | **52.4** | 40.5 | | | | |
| ROE, % | **91.3** | 71.9 | | | | |

### Elion Group (broadband and IT services)

| | **Q2 2007** | Q2 2006 | Change % | **HY1 2007** | HY1 2006 | Change % |
|---|---|---|---|---|---|---|
| Total revenues, million EEK | **782** | 716 | 9.3 | **1,561** | 1,401 | 11.5 |
| EBITDA, million EEK | **222** | 256 | -13.4 | **439** | 475 | -7.5 |
| Margin, % | **28.4** | 35.8 | | **28.1** | 33.9 | |
| EBIT, million EEK | **154** | 186 | -17.5 | **304** | 314 | -3.0 |
| Margin, % | **19.6** | 26.0 | | **19.5** | 22.4 | |
| EBT, million EEK | **156** | 190 | -18.2 | **308** | 321 | -4.1 |
| Net profit for the period, million EEK | **34** | 71 | -51.5 | **186** | 202 | -7.5 |
| CAPEX, million EEK | **105** | 182 | -42.3 | **174** | 251 | -30.9 |
| ROA, % | **17.8** | 20.9 | | | | |
| ROE, % | **30.3** | 31.7 | | | | |

# AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2007 INTERIM REPORT

## CHAIRMAN'S STATEMENT

**Sales revenues, operating costs, and profit**

A rapid increase in the sales revenues of the Eesti Telekom Group continued in the second quarter of 2007. Compared to the same period of 2006, the consolidated sales revenues increased 11%, reaching 1,582 million EEK. Rapid growth was demonstrated by the revenues of both mobile communications and fixed communications. Growth was also demonstrated by EBIDTA. Upon the elimination of the 43-million-kroon profit earned in the second quarter of 2006 from the sale of real estate, the growth in the second quarter of this year exceeded 9%.

The consolidated turnover of the **EMT Group** reached 1,001 million EEK, increasing 13% compared to the same period of 2006. The principal part of the supplemental sales revenues was generated by the Group's principal activities. The turnover of the Group's parent company, AS EMT, increased by 12% compared to the second quarter of 2006, reaching 840 million EEK. The increase in the revenues for principal activities was primarily caused by the growth of the number of call minutes initiated from and entering the EMT network.

The growth of the number of call minutes initiated from the EMT network is a result of an increased client base, as well as the more active mobile calling by the customers. Compared to the end of the second quarter of 2006, the AS EMT client base was 9% larger at the end of June of this year, reaching 746 thousand active SIM cards (June 2006: 686 thousand cards). In one year, the number of users of both contractual and pre-paid cards has increased. The number of active contractual SIM cards at the end of June was 450 thousand, which is 24 thousand more than at the end of June 2006. At the end of the second quarter, the number of pre-paid SIM cards was 296 thousand, which is 36 thousand more than the previous year. EMT assesses its market share of active SIM cards to be 48%. The penetration of active cards in Estonia is 116%.

The growth of call minutes initiated by EMT clients exceeded the increase in the client base, reaching 19% in the second quarter of 2007 compared to the same period in 2006. In the second quarter, a 7% average increase per client was demonstrated in initiated call minutes compared to last year. A strong, more than 10% increase was also demonstrated by the call minutes terminating the EMT network. According to the regulation of the Communications Board of 23 March 2006, regarding the declaration of the operators as undertakings with significant market power in the market of terminating voice calls, a successive reduction in the termination fees of mobile operators was to take place on 1 July 2007, in order to align the rates with the levels in the European countries with the lowest rates. Since both Tele2 Eesti AS and Elisa Eesti AS have disputed the resolution of the Communications Board, and the court dispute is continuing, the termination fees of all three mobile operators remained at 2.50 EEK per minute, and in the EMT network, the increase in terminated minutes was accompanied by a similar rate of increase for interconnection revenues.

Very rapid growth continued to be demonstrated by AS EMT revenues for messaging services and mobile Internet. In the second quarter of this year, the number of SMSs sent exceeded the indicator for the same period of 2006 by almost 50%. The number of MMSs has increased by 16%. The number of users of AS EMT mobile data communications increased to 142 thousand by the end of June 2007. The rapid growth of the popularity of mobile data communications was driven by the introduction of new minimum-invoice data communications packages in June, which provide the client quality and rapid data communications at conveniently controllable costs. The clients can choose from packages with monthly fees of 99 EEK, 199 EEK, and 399 EEK, which include data volumes of 30MB, 500MB or 3GB per month.

The increase in the ratio of packages with fixed minimum monthly fees has caused the increase in revenues earned from monthly fees. In the second quarter of this year, the revenues earned from monthly fees exceeded the revenues earned in the same period in 2006 by 11%.

Of the principal fields of activity, the revenues from roaming fees continued to decline. The revenues from roaming services decreased by 13% compared to the second quarter of 2006. The ratio of revenues for roaming services in the total turnover of AS EMT has fallen below 5%. A regulation applies to AS EMT, as it does to other mobile operators in the European Union, which specifies that starting in September 2007, the rate per minute for outgoing calls made within the borders of the European Union cannot exceed 9.05 EEK per minute and the rate for incoming calls cannot exceed 4.43 EEK per minute. Since compared to the total turnover of AS EMT, the revenues from roaming services have decreased to a relatively low level the company assesses the effect of the regulation on its 2007 profit to be insignificant.

The EMT Group revenues for the retailing and wholesaling of telecommunications merchandise increased in the second quarter of 2007 compared to the same period in 2006 by almost 15% due to an expanded range of merchandise.

The sales revenues of the **Elion Group** increased by 9% in the second quarter, reaching 782 million EEK. Of the revenues for broadband services, the fastest growth was demonstrated by revenues from connection fees, which grew by 19% compared to the second quarter of 2006.

In the case of connection fees, the trend whereby the clients replaced individual services with service packages continued. Thereby, the number of users of the Elion triple package increased by 6,586 in the last quarter, reaching 36.4 thousand as of June 30th (30 June 2006: 8.8 thousand). The popularity of the triple package has also been helped by the range of additional services. In the second quarter of this year, Elion was the first in Estonia to offer remote video rental. Via DigiTV, customers can choose from approximately 100 foreign and Estonian films or karaoke videos without leaving their homes. The selection is constantly being improved. In the second quarter, DigiTV started transmitting to business clients. The business client service allows for the reception of quality digital TV reception in offices, as well as small service and lodging establishments. In addition to the triple package, the number of *Kodulahendus* clients, who are provided with two products—telephone and permanent Internet connections—continued to increase, since the demand for new permanent Internet connections is increasing primarily among private individuals. By the end of June 2007, the total number of Elion permanent connection customers increased to 152 thousand (30 June 2006: 119 thousand) and the company assesses its market share of permanent connection customers to be 54%. In cooperation with its affiliate, AS EMT, an updated *Ühislahendus* reached the customers at the beginning of July, which provides business clients both telephone and mobile services, an Internet connection and a large number of other communications services, for a uniform monthly fee. The Elion Group revenues from the monthly fees for service packages increased by 66% in the second quarter of this year compared to the same period in 2006. Unfortunately, the increase of revenues from service packages was accompanied by a decrease in the monthly fees for call connections and Internet connections by 12% and 16% respectively.

The Elion Group revenues from IT services for non-group clients increased by 2% compared to the second quarter of 2006. Compared to the very strong sales revenues in the second quarter of 2006, as well as the results of the first quarter of this year, the results for the second quarter were modest. The revenues for IT services depend to a significant degree on income form large projects and client contracts that are not distributed evenly among quarters. During the second quarter of 2007, the Group's IT service provider, AS MicroLink Eesti, concluded several important contracts that will generate revenues in the future. Thus, on May 18th, a contract was signed with the Ministry of Social Affairs, based on which AS MicroLink Eesti will start working on the solution for the IT digi-prescription service that will become operational throughout Estonia on 1 January 2009. The operational system must be delivered to the client in June 2008. The contract with the Unemployment Insurance Fund to host their server was renewed for four more years. In the second quarter, a supplemental contract was also signed with the shipping company SuperSeaCat OÜ for the administration of computer workstations, which will result in MicroLink, along with Elion Enterprises, providing the shipping company with a broad range of communications and IT services, as a strategic business partner.

The revenues earned from Elion Group call minutes decreased in the second quarter by 1% compared to the same period in 2006. Fees from interconnection services increased, while the revenues earned from end consumers decreased by 8%.

Elion assesses its market share for call minutes initiated in the fixed network to be 82% (June 2006: 85%). The market share for local call minutes is 84% (June 2006: 85%), 65% for international call minutes (June 2006: 66%), 69% for call minutes made to mobile phones (June 2006: 71%), and 97% for internal calling minutes (June 2006: 96%).

In the second quarter, the Communications Board completed the latest analysis of the market segments, which for Elion Enterprises, as the company with the largest market share in the fixed market, again meant several designations as an undertaking with significant market power.

On April 20th, Elion Enterprises was declared an undertaking with significant market power in the copper pair wholesale market and broadband access market by a resolution of the Director General of the Communications Board. The Communications Board is establishing in the above mentioned markets for Elion Enterprises a transparency obligation, a non-discrimination obligation, access obligation, and price controls and cost accounting obligation. Elion Enterprises must fulfill these obligations starting on 1 September 2007.

The Communications Board also declared Elion Enterprises an undertaking with significant market power in the markets for the initiation of calls from a specific location and the termination of calls from specific location. The Communications Board is establishing a transparency obligation, non-discrimination obligation, access obligation, and an obligation for accounting separation, price controls, and cost accounting for Elion Enterprises in the given markets.

Elion has taken the given resolutions into consideration in the preparation of its financial projections and does not anticipate that the financial results for future periods will suffer significant negative impact.

The revenues of the Elion Group retail network from the retail sales of telecommunications and IT merchandise increased by 47% in the second quarter of 2007 compared to the second quarter of 2006.

Eesti Telekom Group **operating costs** increased by 12% in the second quarter, reaching 994 million EEK (2nd quarter: 888 million EEK).

The EMT Group operating costs increased by 13% in the second quarter of 2006, reaching 626 million EEK (2nd quarter of 2006: 553 million EEK). The principal part of the supplemental operating costs is related to the Group's primary activity, in which the operating costs were 11% higher than in the second quarter of 2006. The increase of the principal activity costs are related to two basic cost categories—interconnection costs, the growth of which is caused by an increase in the number of call minutes made to other networks and of roaming costs, which are related to active travel by customers and their use of mobile phones outside of Estonia. In the second quarter, the rapid increase in salary costs continued, sustained by the strong salary pressure in the economy as a whole. Compared to the second quarter of 2006, the expenses related to GSM licenses were significantly lower this year. As opposed to previous quarters, a positive result in the second quarter was the slower rate of growth for the operating costs related to the EMT Group's principal activity as compared to the turnover growth rate. The operating costs related to retail and wholesale trade increased approximately as much as the sales turnover.

The operating costs of the Elion Group increased by 11% in the second quarter, reaching 561 million EEK (2nd quarter 2006: 503 million EEK). The principal part of the increase in operating costs is related to the rapid growth of retail trade turnover. Increased personnel costs contributed significantly to the increase of operating costs. The salary increase has been especially noticeable among the IT specialists at MicroLink Eesti. In case of the Elion Group, the third growth factor in operating costs for the last quarter was the increase in the costs for international call transit services.

In the second quarter of 2007, the Eesti Telekom Group **EBITDA** was 590 million EEK, which is 1% more than the second quarter of 2006 (2nd quarter 2006: 582 million EEK). At the same time, the result for the second quarter of 2006 included a 43-million-kroon profit, which Elion Enterprises earned from the sale of real estate. If this one-time revenue were deducted from EBITDA in the second quarter of 2006, the given indicator for this year would demonstrate an increase of 9%. Very strong EBITDA was demonstrated in the second quarter by the EMT Group—the results of the same period in 2006 were exceeded by 13%. The Elion Group EBITDA increased by 4% (if the profit from the sale of real estate is deducted from the 2006 results). In the second quarter of 2007, the EBITDA margin was 37.3%, which is slightly lower than the margin for the corresponding period in 2006. The main reason for the lower margin is fast growth in the low margin areas, first of all in the area of retail sales of equipment.

In the second quarter of 2007, the Group's **depreciation cost** reached 123 million EEK, decreasing 8% compared to the same period in 2006. The reduction in depreciation costs halted abruptly in the last quarter, since as of May, the effect of the implementation of new useful life spans for fixed assets no longer affected depreciation cost (new useful life spans were applied on 1 May 2006, and the longer life spans in the case of several fixed asset groups caused a reduction in depreciation costs from May 2006 until April 2007, compared to the same periods in the previous year).  At the same time, based on extensive investments in 2006, the fixed assets have increased, accompanied by an increase in depreciation costs.

In the second quarter of 2007, the Eesti Telekom Group earned an **operating profit** of 468 million EEK, which is 4% more than the second quarter of 2006 (2nd quarter 2006: 448 million EEK). The Group's **(net) financial revenues** in the second quarter were 14 million EEK (2nd quarter 2006: 11 million EEK). In the second quarter, the Eesti Telekom Group earned **EBT** of 479 million EEK (2nd quarter 2006: 462 million EEK).

On 19 June of this year, AS Eesti Telekom again paid its shareholders of record **dividend** of 1,311 million EEK. To enable the payment of the dividend to the shareholders of AS Eesti Telekom, a dividend of 885 million EEK was paid to the parent company by AS EMT (2nd quarter 2006: 850 million EEK) and one of 430 million EEK by Elion Enterprises (2nd quarter 2006: 400 million EEK). The payment of the dividend was accompanied by a **dividend income tax cost** of 371 million EEK (2nd quarter 2006: 373 million EEK), of which 250 million EEK was paid by AS EMT (2nd quarter 2006: 254 million EEK) and 121 million EEK by Elion Enterprises (2nd quarter 2006: 119 million EEK).

In the second quarter of 2007, the Eesti Telekom Group earned a **net profit** of 108 million EEK (2nd quarter 2006: 89 million EEK). **A net profit per share of** 0.77 EEK was earned (2nd quarter 2006: 0.64 EEK).

**<u>Balance sheet and cash flows</u>**

As of 30 June 2007, the Eesti Telekom Group balance sheet was 4,392 million EEK (31 December 2006: 4,812 million EEK). Compared to the beginning of the year, fixed assets worth 58 million EEK were accrued, thereby bring the depreciated value to 2,453 million EEK at the end of the second quarter. The accrual of the fixed assets was based primarily on investments of the Group's companies. The Group's current assets during the first half of the year decreased by 478 million EEK, reaching 1,939 million EEK (31 December 2006: 2,417 million EEK) by the end of June. The balance of cash and cash equivalents as well as financial investments have decreased by 604 million EEK in connection with the dividend paid out in June.

As of 30 June 2007, Eesti Telekom Group equity totaled 3,351 million EEK, which is 762 million EEK less than at the end of 2006 (31 December 2006: 4113 million EEK). The reduction of equity is related to the payment of dividends totaling 1,311 million EEK. At the same time, the equity had been increased in the first half of 2007 by a 548-million-kroon net profit. As of the end of June, the long-term liabilities of the Group totaled 31 million EEK (31 December 2006: 38 million EEK) and the short-term debt obligations totaled 1,010 million EEK (31 December 2006: 660 million EEK). The growth of the short-term debt results from the 371-million-kroon income tax liability that is to be paid in July.

The net debt of the Eesti Telekom Group at the end of the second quarter was -780 million EEK and the net debt to equity ratio was -23% (31 December 2006: -1383 million EEK and -34%).

The Eesti Telekom Group cash flow from operations in the first half of 2007 was 1,010million EEK (first half of 2006: 1054 million EEK). The Group's cash flow from investments was 666 million EEK (first half of 2006: 388 million EEK). This year, the principal part of the cash flow from investments in the first half of this year came from short-term financial investments as it did in 2006. The cash flow into tangible and intangible fixed assets in the first half of the year was 301 million EEK (first half of 2006: 356 million EEK). During the six months of this year, the EMT Group has invested 128 million EEK (6 months of 2006: 106 million EEK). The primary area for investment is mobile data communications – the expansion of the EDGE network to cover the entire territory of Estonia by the end of the year, and the expansion of 3G and 3.5G into new areas of Estonia. During the last quarter, the super-high-speed mobile Internet reached two new towns—Haapsalu and Rakvere. Previously, 3G and 3.5G had covered Tallinn, Tartu, Pärnu, Kuressaare, Narva, and Viljandi and their immediate vicinities. The development of the Mobile-ID service was completed in the second quarter. Mobile-ID is a means of mobile authentication worked out in cooperation with the Certification Center, an associated company of the Eesti Telekom Group that is essentially a further development of the ID-card. Mobile-ID facilitates the convenient and secure identification of people without the necessity of having a special card reader. Since people carry mobile phones with them all the time, this provides greater flexibility in conducting Internet transactions that require the identification of people and providing digital signatures. Mobile-ID encourages the use of e-services that require great security, such as e-banking and the e-tax office, making it possible to execute from public Internet points, and when one spending time abroad. Cooperation has already started with Latvia and Lithuania to develop Mobile-ID into a personal identification and digital signature service that unites the three Baltic countries, and is based on a uniform technical standard. During the first half of the year, the investments of the Elion Group reached 174 million EEK (6 months of 2006: 251 million EEK). The principal part of the investments continues to be directed into improving permanent Internet connections and the availability of DigiTV. In May, a frequency permit for the expansion of the network of WiMax base stations throughout Estonia was issued to Elion by the Communications Boards, thereby expanding the opportunities for sparsely populated rural areas to access rapid permanent Internet connections. Elion is planning to intensify the network of wireless WiMax permanent connections in 8 counties already this year, thereby enabling more than 2,000 clients, who live outside DSL coverage areas to get permanent Internet connections. During the first six months of the year, 25 million EEK has been invested by MicroLink Eesti (6 months of 2006: 27 million EEK). Currently, the company's IT-maintenance services cover 95% of the territory of Estonia. In the second quarter, MicroLink Eesti installed the cornerstone for its new, 10-story headquarters, which will be erected in the heart of Tallinn's new innovation center. The cost of the construction is planned at 120 million EEK.

In the first half of the year, the cash flow into Eesti Telekom Group financing activities totaled 1,311 million EEK, of which 1,311 million EEK was used to pay dividends (1,242 million EEK and 1,243 million EEK, respectively in the first half of 2006).

**Ownership structure of AS Eesti Telekom**

In the second quarter of 2007, the majority shareholder, TeliaSonera AB (through its subsidiary Baltic Tele AB) increased its share in AS Eesti Telekom. TeliaSonera acquired an additional 6,353,820 AS Eesti Telekom shares, thereby increasing its participation to 58.33%.

During the second quarter, the resolution of the Government of the Republic to transfer of some its shares in AS Eesti Telekom to the share capital of the Estonian Development Fund was carried out. The Estonian Development Fund is a public organization that invests in start-up technology companies and conducts monitoring of socio-economic and technological developments. In June 2007, the Government of the Republic transferred 4,138,636 AS Eesti Telekom shares to the Development Fund. The Development Fund may use the resources received from dividends or from the sale of the shares for investment activities. In order to conduct transactions with AS Eesti Telekom shares, the Development Fund needs the approval of the Ministry of Finance.

The increase in the participation of TeliaSonera reduced the ratio of freely traded shares (shares that do not belong to TeliaSonera AB, the Estonian state, or the Development Fund). As of the end of the second quarter, the ratio of freely traded shares is 14.50% of the total number of shares. Compared to the beginning of the year, the number of shares traded on the London Stock Exchange has decreased by almost 9 million. The ratio of freely traded shares converted to GDRs was 18% by the end of the second quarter.

As of 4 July 2007, the 10 largest shareholders in AS Eesti Telekom were:

| | Number of securities | Participation |
|---|---|---|
| Baltic Tele AB | 80,463,899 | 58.3264% |
| Ministry of Finance / State Treasury | 33,346,464 | 24.1721% |
| Estonian Development Fund | 4,138,636 | 3.0000% |
| Deutsche Bank Trust Company (GDR accounts) | 3,676,668 | 2.6651% |
| Skandinaviska Enskilda Banken AB clients | 2,448,640 | 1.7750% |
| Danske Bank clients | 1,377,091 | 0.9982% |
| ING Luxembourg S.A. | 1,285,330 | 0.9317% |
| Morgan Stanley Co International Equity clients | 1,198,900 | 0.8691% |
| Bank Austria Creditanstalt AG clients | 959,098 | 0.6952% |
| ABN Amro Bank | 591,755 | 0.4289% |

**Shareholders' general meeting**

The regular general meeting of AS Eesti Telekom shareholders took place on 22 May 2007. The general meeting approved the 2006 financial statement and proposal for the distribution of profits. For the last financial year, dividends of 9.50 EEK per share, or a total of 1,311 million EEK, were paid to AS Eesti Telekom shareholders. The dividends were paid on 19 June 2007 on the basis of the list of shareholders that was fixed as of 12:59 pm on 8. June 2007. Accumulated profits of 924 million EEK were not distributed.

The general meeting made four amendments to the company's articles of association in order to bring it into compliance with the amendments to the Commercial Code and to facilitate the management of the company. The updated articles of association are available for review on the AS Eesti Telekom website at www.telekom.ee.

The buyback option for AS Eesti Telekom shares was extended for another year, i.e. until 22 May 2008.

The general meeting recalled the current members of the AS Eesti Telekom Supervisory Board and elected new members: Terje Christoffersen, Anders Gylder, Jörgen Latte, Tarmo Porgand, Mats Salomonsson, Aare Tark and Jüri Raatma. The members of the Supervisory Board can be paid 9,000 EEK per month for their work, and the chairman of the Supervisory Board can be paid 20,000 EEK per month.

The general meeting chose AS PricewaterhouseCoopers (reg. code 10142876) to be the AS Eesti Telekom auditor for the 2007 financial year. The execution of auditing services and the payment for the services will take place based on a contract concluded with the auditors.

**New structure of the Eesti Telekom Group**

On 5 December 2006, the AS Eesti Telekom Supervisory Board resolved that the Chairman of AS Eesti Telekom, Jaan Männik, would resign his position on 22 May 2007. At the same time it was resolved to appoint Valdo Kalm, the Chairman of AS EMT, will become the new Chairman of AS Eesti Telekom. Valdo Kalm's authorization started on 23 May 2007. Valdo Kalm will continue in his former position as Chairman of AS EMT.

On 1 July 2007, the AS Eesti Telekom Management Board was expanded to include the following people: Leho Tamm, Financial Director and Member of the Board who will continue in his former position as AS EMT Financial Director; Valdur Laid, Member of the Board, who will continue in his former position as Chairman of Elion Enterprises; Enn Saar, Member of the Board, who will continue in his former position as the Chairman of AS MicroLink Eesti. Hille Võrk, the former Member of the Board and Financial Director, resigned on 30 June 2007.

# AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2007 INTERIM REPORT

As of 1 July 2007, AS MicroLink Eesti AS is a direct 100% subsidiary of Eesti Telekom. AS Eesti Telekom bought AS MicroLink Eesti from AS Microlink, which is a 100% subsidiary of Elion Enterprises. The holding company, AS MicroLink, has decided to merge with Elion Enterprises.

The purpose of the given changes is to improve the client service of the Eesti Telekom Group and make the cooperation between the Group's companies more effective.

**Definitions**

**Net debt**—Long- and short-term debt, less cash and cash equivalents and short-term investments
**ROA – Return on Assets—**Net profit for the rolling four quarters, expressed as percentage of average total assets
**ROE – Return on Equity—**Pre-tax profit for rolling four quarters, expressed as percentage of average equity

## CONSOLIDATED QUARTERLY DATA

In million of Estonian kroons (EEK)

| | Q2 06 | Q3 06 | Q4 06 | Q1 07 | Q2 07 |
|---|---|---|---|---|---|
| Sales | 1,426 | 1,462 | 1,554 | 1,497 | 1,582 |
| OPEX | (888) | (877) | (1,045) | (957) | (994) |
| Other revenue/expenses, net | 45 | 2 | (3) | 2 | 2 |
| EBITDA | 582 | 587 | 506 | 542 | 590 |
| Depreciation and amortisation | (133) | (122) | (124) | (118) | (123) |
| EBIT | 449 | 465 | 383 | 424 | 468 |
| | | | | | |
| Income / expenses from associates | 2 | - | (1) | - | (2) |
| Other net financing items | 11 | 7 | 11 | 15 | 14 |
| Profit before tax | 462 | 472 | 392 | 440 | 479 |
| Income tax on dividends | (373) | - | - | - | (371) |
| Net profit for the period | 89 | 472 | 392 | 440 | 108 |
| Minority interest | - | 2 | 3 | 2 | 1 |
| | | | | | |
| EBITDA margin, % | 40.85% | 40.13% | 32.57% | 36.22% | 37.31% |
| EBIT margin, % | 31.51% | 31.79% | 24.62% | 28.36% | 29.55% |
| Net margin, % | 6.23% | 32.27% | 25.21% | 29.38% | 6.8% |
| | | | | | |
| Total assets | 4,252 | 4,314 | 4,812 | 5,175 | 4,392 |
| - Non-current assets | 2,148 | 2,238 | 2,395 | 2,390 | 2,453 |
| - Current assets | 2,104 | 2,076 | 2,417 | 2,785 | 1,939 |
| - Cash and cash equivalents and short-term investments | 1,086 | 1,043 | 1,389 | 1,627 | 785 |
| | | | | | |
| Equity and liabilities | 4,252 | 4,314 | 4,812 | 5,175 | 4,392 |
| - Equity | 3,250 | 3,719 | 4,113 | 4,553 | 3,351 |
| - Provisions | 13 | 11 | 36 | 34 | 22 |
| - Non-current liabilities | 15 | 9 | 8 | 8 | 11 |
| - Interest-bearing borrowings | 5 | 4 | 3 | 3 | 2 |
| - Current liabilities | 975 | 572 | 654 | 580 | 1,007 |
| - Interest-bearing borrowings | 3 | 3 | 3 | 3 | 2 |

## II QUARTER CONSOLIDATED INCOME STATEMENT

In thousand of Estonian kroons (EEK)

| | Notes | II Quarter 2007 | II Quarter 2006 |
|---|---|---|---|
| Net sales | 2.1 (a) | 1,582,417 | 1,425,802 |
| Cost of production | 2.1 (a) | (870,081) | (780,481) |
| **Gross profit** | | **712,336** | **645,321** |
| Sales, administrative, and research & development expenses | 2.1 (a) | (246,647) | (240,773) |
| Other operating revenues | 2.1 (a) | 3,137 | 48,272 |
| Other operating expenses | 2.1 (a) | (1,276) | (3,575) |
| **Operating profit** | | **467,550** | **449,245** |
| Finance income | | 13,923 | 11,845 |
| Finance costs | | (218) | (514) |
| Finance income, net | 2.1 (a) | **13,705** | **11,331** |
| Net income / (expenses) from associated companies | 2.1 (a) | (2,012) | 1,629 |
| **Profit before tax** | | **479,243** | **462,205** |
| Income tax on dividends | | (370,897) | (373,377) |
| **Net profit for the period** | 2.1 (a) | **108,346** | **88,828** |
| Attributable to: | | | |
| Equity holders of the parent | 2.1 (a) | 106,863 | 88,828 |
| Minority interest | 2.1 (a) | 1,483 | - |
| | | **108,346** | **88,828** |

| | | | |
|---|---|---|---|
| **Earnings per share for profit attributable to the equity holders of the parent during the reporting period** (expressed in EEK) | 7 (e) | | |
| Basic earnings per share | | 0.77 | 0.64 |
| Diluted earnings per share | | 0.77 | 0.64 |

| | | | |
|---|---|---|---|
| **EBITDA** | 2.1 (a) | **590,446** | **582,371** |
| Depreciation, amortization and write-downs | 2.1 (a) | (122,896) | (133,126) |

## I HALF YEAR CONSOLIDATED INCOME STATEMENT

In thousand of Estonian kroons (EEK)

| | Notes | I HY 2007 | I HY 2006 | 2006 |
|---|---|---|---|---|
| Net sales | 2.1 (b), 2.3 | 3,078,935 | 2,752,777 | 5,767,734 |
| Cost of production | 2.1 (b) | (1,721,262) | (1,535,601) | (3,260,113) |
| **Gross profit** | | **1,357,673** | **1,217,176** | **2,507,621** |
| Sales, administrative, and research & development expenses | 2.1 (b) | (469,611) | (465,544) | (908,854) |
| Other operating revenues | 2.1 (b) | 6,264 | 54,095 | 53,011 |
| Other operating expenses | 2.1 (b) | (2,332) | (5,613) | (5,405) |
| **Operating profit** | | **891,994** | **800,114** | **1,646,373** |
| Finance income | | 29,576 | 23,354 | 42,768 |
| Finance costs | 2.1 (b) | (768) | (1,402) | (1,950) |
| Finance income, net | | **28,808** | **21,952** | 40,818 |
| Net income / (expenses) from associated companies | 2.1 (b) | (1,809) | 1,539 | 193 |
| **Profit before tax** | | **918,993** | **823,605** | **1,687,384** |
| Income tax on dividends | | (370,897) | (373,377) | (373,377) |
| **Net profit for the period** | 2.1 (b) | **548,096** | **450,228** | **1,314,007** |
| Attributable to: | | | | |
| Equity holders of the parent | 2.1 (b) | 544,932 | 450,228 | 1,309,443 |
| Minority interest | 2.1 (b) | 3,164 | - | 4,564 |
| | | **548,096** | **450,228** | **1,314,007** |

| | | | | |
|---|---|---|---|---|
| **Earnings per share for profit attributable to the equity holders of the parent during the reporting period** (expressed in EEK) | 7 (e) | | | |
| Basic earnings per share | | 3.95 | 3.26 | 9.49 |
| Diluted earnings per share | | 3.95 | 3.26 | 9.49 |

| | | | | |
|---|---|---|---|---|
| **EBITDA** | 2.1 (b) | **1,132,528** | **1,103,005** | **2.194.709** |
| Depreciation, amortization and write-downs | 2.1 (b) | (240,534) | (302,891) | (548.336) |

## CONSOLIDATED BALANCE SHEET

In thousand of Estonian kroons (EEK)

| | Notes | 30 June 2007 | 31 December 2006 | 30 June 2006 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 3 | 2,118,025 | 2,044,595 | 1,890,318 |
| Intangible fixed assets | 3 | 199,685 | 214,046 | 201,348 |
| Investments in associates | 2.2, 5 | 15,438 | 17,247 | 3,122 |
| Other financial fixed assets | | 119,475 | 119,139 | 53,323 |
| **Total non-current assets** | 2.2 | **2,452,623** | **2,395,027** | **2,148,111** |
| **Current assets** | | | | |
| Inventories | 6 | 161,464 | 142,692 | 122,456 |
| Trade and other receivables | | 990,365 | 884,212 | 882,643 |
| Short-term investments | | 123,394 | 1,064,859 | 501,050 |
| Cash and cash equivalents | | 661,721 | 324,405 | 584,676 |
| Total | | **1,936,944** | **2,416,168** | **2,090,825** |
| Assets classified as held-for-sale | | 2,235 | 771 | 13,443 |
| **Total current assets** | 2.2 | **1,939,179** | **2,416,939** | **2,104,268** |
| **TOTAL ASSETS** | 2.2 | **4,391,802** | **4,811,966** | **4,252,379** |
| **EQUITY AND LIABILITIES** | | | | |
| **Capital and reserves attributable to equity holders of the parent** | 7 | | | |
| Share capital | | 1,379,545 | 1,379,545 | 1,379,545 |
| Share premium | | 356,018 | 356,018 | 356,018 |
| Statutory legal reserve | | 137,955 | 137,955 | 137,955 |
| Retained earnings | | 924,263 | 925,388 | 925,388 |
| Net profit for the period | | 544,932 | 1,309,443 | 450,228 |
| **Total capital and reserves attributable to equity holders of the parent** | 2.2 | **3,342,713** | **4,108,349** | **3,249,134** |
| Minority interest | 2.2 | 8,194 | 5,030 | 466 |
| **Total equity** | | **3,350,907** | **4,113,379** | **3,249,600** |
| **Non-current liabilities** | | | | |
| Interest bearing loans and borrowings | 8 | 2,183 | 3,124 | 4,638 |
| Retirement benefit obligations | 9 | 3,735 | 7,912 | 6,572 |
| Provisions | 10 | 20,274 | 22,124 | - |
| Non-interest bearing liabilities | | 5,148 | 5,152 | 10,079 |
| **Total non-current liabilities** | 2.2 | **31,340** | **38,312** | **21,289** |
| **Current liabilities** | | | | |
| Trade and other payables | | 1,000,240 | 651,365 | 972,185 |
| Interest bearing loans and borrowings | 8 | 2,456 | 2,742 | 3,028 |
| Retirement benefit obligations | 9 | 4,689 | 865 | 865 |
| Provisions | 10 | 2,170 | 5,303 | 5,412 |
| **Total current liabilities** | 2.2 | **1,009,555** | **660,275** | **981,490** |
| **Total liabilities** | | **1,040,895** | **698,587** | **1,002,779** |
| **TOTAL EQUITY AND LIABILITIES** | 2.2 | **4,391,802** | **4,811,966** | **4,252,379** |

## CONSOLIDATED CASH FLOW STATEMENT

In thousand of Estonian kroons (EEK)

| | Notes | I HY 2007 | I HY 2006 |
|---|---|---|---|
| **Operating activities** | | | |
| Net profit for the period | | 548,096 | 450,228 |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment of fixed and intangible assets | 3 | 240,534 | 302,891 |
| (Profit) / loss from sales and discards of fixed assets | | (9,552) | (44,443) |
| Net (income) / expenses from associated companies | | 1,809 | 1,539 |
| Provisions | | (5,113) | (2,409) |
| Financial items | | 10,824 | (4,148) |
| Income tax on dividends | | 370,824 | 373,377 |
| Miscellaneous non-cash items | | (2,472) | (3,135) |
| **Cash flow before change in working capital** | | **1,154,950** | **1,073,900** |
| Change in current receivables | | (102,431) | (23,965) |
| Change in inventories | | (18,812) | (35,546) |
| Change in current liabilities | | (23,257) | 40,103 |
| **Change in working capital** | | **(144,500)** | **(19,408)** |
| **Cash flow from operating activities** | 2.2 | **1,010,450** | **1,054,492** |
| **Investing activities** | | | |
| Intangible and tangible fixed assets acquired | 3 | (301,456) | (356,291) |
| Intangible and tangible fixed assets divested | | 11,924 | 48,805 |
| Shares, participations and operations acquired | | - | (77,898) |
| Shares, participations and operations divested | | - | 10,785 |
| Net change in interest-receivables short maturities | | 968,924 | 760,765 |
| Net cash changes of other long-term receivables | | (13,464) | 1,848 |
| **Cash flow from investing activities** | 2.2 | **665,928** | **388,014** |
| **Cash flow before financing activities** | | **1,676,378** | **1,442,506** |
| **Financing activities** | | | |
| Proceeds from non-convertible debts | 8 | 196 | 100 |
| Repayment of finance lease liabilities | 8 | (899) | (1,103) |
| Dividends paid | 7 (d) | (1,310,568) | (1,241,591) |
| **Cash flow used in financing activities** | 2.2 | **(1,311,271)** | **(1,242,594)** |
| **Cash flow for the year** | 2.2 | **365,107** | **199,912** |

| | | | |
|---|---|---|---|
| **Cash and cash equivalents at beginning of year** | 2.2 | **324,405** | **430,393** |
| Cash flow for the year | 2.2 | 365,107 | 199,912 |
| Effect of foreign exchange rate changes | 2.2 | 25 | (603) |
| **Cash and cash equivalents at end of period** | 2.2 | **689,537** | **629,702** |

## STATEMENT OF CHANGES IN OWNERS' EQUITY

In thousand of Estonian kroons (EEK)

| | Attributable to equity holders of the Company | | | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| | **Issued capital** | **Share premium** | **Statutory legal reserve** | **Retained earnings** | **Net profit for the period** | **Total** | | |
| **31 December 2005** | **1,379,545** | **356,018** | **137,955** | **1,078,403** | **1,087,416** | **4,039,337** | **1,160** | **4,040,497** |
| 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 (note 7 d) | - | - | - | (1,241,591) | - | (1,241,591) | - | (1,241,591) |
| Net profit for the period | - | - | - | - | 450,228 | 450,228 | - | 450,228 |
| **30 June 2006** | **1,379,545** | **356,018** | **137,955** | **925,388** | **450,228** | **3,249,134** | **466** | **3,249,600** |
| **31 December 2006** | **1,379,545** | **356,018** | **137,955** | **925,388** | **1,309,443** | **4,108,349** | **5,030** | **4,113,379** |
| Net profit for the 2006 transferred to retained earnings | - | - | - | 1,309,443 | (1,1309,443) | - | - | - |
| Dividends paid (note 7 d) | - | - | - | (1,310,568) | - | (1,310,568) | - | (1,310,568) |
| Net profit for the period | - | - | - | - | 544,932 | 544,932 | 3,164 | 548,096 |
| **30 June 2007** | **1,379,545** | **356,018** | **137,955** | **924,263** | **544,932** | **3,342,713** | **8,194** | **3,350,907** |

## 1. Accounting policies and measurement basis used in preparation of interim financial statements

The consolidated interim financial statements for the II quarter and I half year period ending 30 June 2007 are prepared in accordance with the International Financial Accounting Standards, as adopted by the European Union, includes IAS 34. In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2006.

The functional currency of AS Eesti Telekom is Estonian kroon (EEK). The financial statements are presented in thousand of Estonian kroons (EEK), unless indicated otherwise.

The financial statements are prepared on the historical cost basis except for certain financial instruments that are stated at their fair value.

This consolidated statement is signed by the management board for public disclosure on 18 July 2007.

***Reclassification of balances***

In the third quarter of 2006, the revenues earned from financial services related to the purchase of IT and TV equipments were reclassified. In the income statement for the second quarter and first half year of 2006, these revenues are recognized as entries for sales revenues, not for other financial revenues, as they were in the reports for previous, until the third quarter, periods. The reclassification amounts are the following by reporting periods:

- 2nd quarter of 2006: 5,810 thousand kroons;
- First half of 2006: 10,332 thousand kroons.

In the third quarter of 2006, adjustments were made to the cost classifications of the income statements of the three companies in the Eesti Telekom Group, whereby the costs for sold goods increased, and the marketing, general administrative, research, and development expenditures were reduced accordingly. The adjustments affected the reclassification of the aforementioned costs as follows: 171,407 thousand kroons in the second quarter of 2006 and 310,210 thousand kroons in the first half of 2006.

In the opinion of the Company’s Management Board, the financial statements give a true and fair view of the financial position of the Company.

These financial statements are not audited.

## 2. Segment information

Four major segments, mobile telecommunication, fixed line, managed IT-services and other activities, are distinguished in the consolidated financial statements.

***Mobile telecommunications*** – this segment operates mobile networks and systems, and deals with the producing, marketing, and selling of services related thereto. The companies belonging to this business segment are AS EMT, AS EMT Esindused, AS Mobile Wholesale and Serenda Investment OÜ.

***Broadband services*** – this segment operates the national telecommunications network, with providing fixed telecommunication and data communications services and related value-added-services as well as provision of production, marketing and sales related services. The companies belonging to this business segment are Elion Enterprises AS, AS Elion Esindus, AS EsData and Viru Net OÜ.

***Managed IT-services*** – this segment operates IT services: system integration and infrastructure solutions; software development; ERP and business solutions; data communications and networking; central systems and data centre solutions; systems management and maintenance; end-user PC services and support; full IT outsourcing, with providing IT services and related value-added-services as well as provision of production, marketing and sales related services. The companies belonging to this business segment are AS MicroLink and AS MicroLink Eesti.

***Other activities* –** this segment covers the activities of the parent company AS Eesti Telekom.

Segment turnover represent inter-company income and expenses of the three above-mentioned segments. The inter-company turnovers between the companies belonging to the same segment are eliminated in this report.

All assets of AS Eesti Telekom Group are located in Estonia.

## 2.1 Primary reporting format – business segments

***a) II Quarter income statement***

In thousands of Estonian kroons (EEK)

| | Mobile telecommunications | | Broadband services | | Managed IT-services | | Other activities | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **II Quarter 2007** | **II Quarter 2006** | **II Quarter 2007** | **II Quarter 2006** | **II Quarter 2007** | **II Quarter 2006** | **II Quarter 2007** | **II Quarter 2006** | **II Quarter 2007** | **II Quarter 2006** | **II Quarter 2007** | **II Quarter 2006** |
| Net sales | 866,374 | 768,414 | 663,396 | 605,488 | 52,647 | 51,900 | - | - | - | - | 1,582,,417 | 1,425,802 |
| Inter-segment net sales | 134,623 | 115,337 | 70,552 | 60,526 | 22,629 | 25,364 | 295 | - | (228,099) | (201,227) | - | - |
| Cost of production | (543,631) | (492,273) | (291,039) | (256,357) | (35,411) | (31,851) | - | - | - | - | (870,081) | (780,481) |
| Inter-segment cost of production | (62,281) | (53,237) | (148,727) | (137,102) | (5,447) | (3,349) | - | - | 216,455 | 193,688 | - | - |
| **Gross profit** | **395,085** | **338,241** | **294,182** | **272,555** | **34,418** | **42,064** | **295** | **-** | **(11,644)** | **(7,539)** | **712,336** | **645,321** |
| Sales, administrative and research & development | (70,423) | (65,381) | (129,902) | (134,418) | (37,061) | (33,689) | (7,951) | (5,975) | (1,310) | (1,310) | (246,647) | (240,773) |
| Inter-segment sales, administrative and research & development | (4,293) | (5,051) | (6,343) | (2,267) | (900) | (532) | (109) | (106) | 11,645 | 7,956 | - | - |
| Other operating revenues | 2,376 | 4,430 | 79 | 43,625 | 431 | 217 | 251 | - | - | - | 3,137 | 48,272 |
| Inter-segment other operating revenues | - | 417 | - | - | 1 | - | - | - | (1) | (417) | - | - |
| Other operating expenses | (1,218) | (3,472) | (12) | - | (33) | (101) | (13) | (2) | - | - | (1,276) | (3,575) |
| **Operating profit / (loss)** | **321,527** | **269,184** | **158,004** | **179,495** | **(3,144)** | **7,959** | **(7,527)** | **(6,083)** | **(1,310)** | **(1,310)** | **467,550** | **449,245** |
| Other finance income, net | 4,957 | 3,561 | (751) | 1,030 | 3,657 | 2,323 | 5,842 | 4,417 | - | - | 13,705 | 11,331 |
| Income / (expenses) from subsidiaries and associated | (1,053) | 1,058 | (959) | 571 | - | - | 1,315,000 | 1,250,000 | (1,315,000) | (1,250,000) | (2,012) | 1,629 |
| **Profit before taxation** | **325,431** | **273,803** | **156,294** | **181,096** | **513** | **10,282** | **1,313,315** | **1,248,334** | **(1,316,310)** | **(1,251,310)** | **479,243** | **462,205** |
| Income tax on dividends | (249,615) | (253,896) | (121,282) | (119,481) | - | - | - | - | - | - | (370,897) | (373,377) |
| **Net profit for the period** | **75,816** | **19,907** | **35,012** | **61,615** | **513** | **10,282** | **1,313,315** | **1,248,334** | **(1,316,310)** | **(1,251,310)** | **108,346** | **88,828** |
| Attributable to: | | | | | | | | | | | | |
| Equity holders of the parent | 74,333 | 19,907 | 35,012 | 61,615 | 513 | 10,282 | 1,313,315 | 1,248,334 | (1,316,310) | (1,251,310) | 106,863 | 88,828 |
| Minority interest | 1,483 | - | - | - | - | - | - | - | - | - | 1,483 | - |
| | **75,816** | **19,907** | **35,012** | **61,615** | **513** | **10,282** | **1,313,315** | **1,248,334** | **(1,316,310)** | **(1,251,310)** | **108,346** | **88,828** |
| **EBITDA** | **376,065** | **332,243** | **219,362** | **244,726** | **2,537** | **11,472** | **(7,518)** | **(6,070)** | **-** | **-** | **590,446** | **582,371** |
| Depreciation, amortization and write-downs | (54,538) | (63,059) | (61,358) | (65,231) | (5,681) | (3,513) | (9) | (13) | (1,310) | (1,310) | (122,896) | (133,126) |

***b) I Half Year income statement***
In thousands of Estonian kroons (EEK)

| | Mobile telecommunications | | Broadband services | | Managed IT-services | | Other activities | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **I HY 2007** | **I HY 2006** | **I HY 2007** | **I HY 2006** | **I HY 2007** | **I HY 2006** | **I HY 2007** | **I HY 2006** | **I HY 2007** | **I HY 2006** | **I HY 2007** | **I HY 2006** |
| Net sales | 1,635,758 | 1,450,846 | 1,308,182 | 1,202,789 | 134,995 | 99,142 | - | - | - | - | 3,078,935 | 2,752,777 |
| Inter-segment net sales | 228,205 | 186,903 | 123,204 | 103,905 | 48,156 | 30,179 | 295 | - | (399,860) | (320,987) | - | - |
| Cost of production | (1,020,454) | (929,034) | (595,953) | (545,996) | (104,855) | (60,571) | - | - | - | - | (1,721,262) | (1,535,601) |
| Inter-segment cost of production | (111,928) | (90,132) | (258,527) | (210,342) | (9,653) | (7,517) | - | - | 380,108 | 307,991 | - | - |
| **Gross profit** | **731,581** | **618,583** | **576,906** | **550,356** | **68,643** | **61,233** | **295** | **-** | **(19,752)** | **(12,996)** | **1,357,673** | **1,217,176** |
| Sales, administrative and research & development | (127,834) | (115,067) | (253,163) | (276,255) | (73,427) | (59,628) | (12,568) | (11,975) | (2,619) | (2,619) | (469,611) | (465,544) |
| Inter-segment sales, administrative and research & development | (6,643) | (8,683) | (11,172) | (4,085) | (1,735) | (901) | (203) | (220) | 19,753 | 13,889 | - | - |
| Other operating revenues | 5,283 | 8,564 | 127 | 44,516 | 603 | 1,015 | 251 | - | - | - | 6,264 | 54,095 |
| Inter-segment other operating revenues | - | 839 | - | - | 1 | 54 | - | - | (1) | (893) | - | - |
| Other operating expenses | (2,201) | (5,473) | (74) | - | (42) | (138) | (15) | (2) | - | - | (2,332) | (5,613) |
| **Operating profit / (loss)** | **600,186** | **498,763** | **312,624** | **314,532** | **(5,957)** | **1,635** | **(12,240)** | **(12,197)** | **(2,619)** | **(2,619)** | **891,994** | **800,114** |
| Other finance income, net | 12,311 | 7,374 | (2,054) | 1,518 | 6,720 | 4,532 | 11,831 | 8,528 | - | - | 28,808 | 21,952 |
| Income / (expenses) from subsidiaries and associated | (812) | 157 | (997) | 5 | - | 1,377 | 1,315,000 | 1,250,000 | (1,315,000) | (1,250,000) | (1,809) | 1,539 |
| **Profit before taxation** | **611,685** | **506,294** | **309,573** | **316,055** | **763** | **7,544** | **1,314,591** | **1,246,331** | **(1,317,619)** | **(1,252,619)** | **918,993** | **823,605** |
| Income tax on dividends | (249,615) | (253,896) | (121,282) | (119,481) | - | - | - | - | - | - | (370,897) | (373,377) |
| **Net profit for the period** | **362,070** | **252,398** | **188,291** | **196,574** | **763** | **7,544** | **1,314,591** | **1,246,331** | **(1,317,619)** | **(1,252,619)** | **548,096** | **450,228** |
| Attributable to: | | | | | | | | | | | | |
| Equity holders of the parent | 358,906 | 252,398 | 188,291 | 196,574 | 763 | 7,544 | 1,314,591 | 1,246,331 | (1,317,619) | (1,252,619) | 544,932 | 450,228 |
| Minority interest | 3,164 | - | - | - | - | - | - | - | - | - | 3,164 | - |
| | **362,070** | **252,398** | **188,291** | **196,574** | **763** | **7,544** | **1,314,591** | **1,246,331** | **(1,317,619)** | **(1,252,619)** | **548,096** | **450,228** |
| **EBITDA** | **705,869** | **640,586** | **434,399** | **467,583** | **4,479** | **7,008** | **(12,219)** | **(12,172)** | **-** | **-** | **1,132,528** | **1,103,005** |
| Depreciation, amortization and write-downs | (105,683) | (141,823) | (121,775) | (153,051) | (10,436) | (5,373) | (21) | (25) | (2,619) | (2,619) | (240,534) | (302,891) |

## 2.2 Other information by business segments

In thousands of Estonian kroons (EEK)

| | Mobile telecommunications | | Broadband services | | Managed IT-services | | Other activities | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **30 June, I HY 2007** | **30 June, I HY 2006** | **30 June, I HY 2007** | **30 June, I HY 2006** | **30 June, I HY 2007** | **30 June, I HY 2006** | **30 June, I HY 2007** | **30 June, I HY 2006** | **30 June, I HY 2007** | **30 June, I HY 2006** | **30 June, I HY 2007** | **30 June, I HY 2006** |
| Non-current assets (except investments in subsidiaries & associates) | 903,715 | 813,635 | 1,420,807 | 1,221,860 | 42,822 | 33,427 | 200 | 271 | 69,641 | 75,796 | 2,437,185 | 2,144,989 |
| Investments in subsidiaries and associates | 8,405 | 2,189 | 466,478 | 460,685 | - | - | 1,317,383 | 1,317,383 | (1,776,828) | (1,777,135) | 15,438 | 3,122 |
| Current assets | 842,414 | 782,047 | 642,019 | 500,125 | 437,744 | 418,617 | 635,131 | 648,207 | (618,129) | (244,728) | 1,939,179 | 2,104,268 |
| **Total assets** | **1,754,534** | **1,597,871** | **2,529,304** | **2,182,670** | **480,566** | **452,044** | **1,952,714** | **1,965,861** | **(2,325,316)** | **(1,946,067)** | **4,391,802** | **4,252,379** |
| Equity attributable to equity shareholders of the parent | 1,033,048 | 955,167 | 1,692,975 | 1,678,741 | 401,816 | 384,070 | 1,922,063 | 1,922,096 | (1,707,189) | (1,690,940) | 3,342,713 | 3,249,134 |
| Minority interest | 8,194 | 466 | - | - | - | - | - | - | - | - | 8,194 | 466 |
| Non-current liabilities | 30,320 | 18,222 | 384 | 1,132 | 636 | - | - | 1,935 | - | - | 31,340 | 21,289 |
| Current liabilities | 682,972 | 624,016 | 835,945 | 502,797 | 78,114 | 67,974 | 30,651 | 41,830 | (618,127) | (255,127) | 1,009,555 | 981,490 |
| **Total shareholders' equity and liabilities** | **1,754,534** | **1,597,871** | **2,529,304** | **2,182,670** | **480,566** | **452,044** | **1,952,714** | **1,965,861** | **(2,325,316)** | **(1,946,067)** | **4,391,802** | **4,252,379** |
| Net cash from/ (used in) operating activities | 669,804 | 634,819 | 314,192 | 383,314 | (504) | (2,952) | 1,341,958 | 1,289,311 | (1,315,000) | (1,250,000) | 1,010,450 | 1,054,492 |
| Net cash from/ (used in) investing activities | (127,582) | (133,957) | (176,145) | (247,858) | 731 | (15,868) | 751,870 | 655,528 | 217,054 | 130,169 | 665,928 | 388,014 |
| Net cash from/ (used in) financing activities | (889,731) | (847,900) | (236,093) | (289,190) | 27,175 | 16,256 | (1,310,568) | (1,241,591) | 1,097,946 | 1,119,831 | (1,311,271) | (1,242,594) |
| Exchange rate differences in cash and cash equivalents | - | - | (3) | (636) | - | - | 28 | 33 | - | - | 25 | (603) |
| **Net increase/ (decrease) in cash and cash equivalents** | **(347,509)** | **(347,038)** | **(98,049)** | **(154,370)** | **27,402** | **(2,564)** | **783,288** | **703,281** | **-** | **-** | **365,132** | **199,309** |
| CAPEX | 127,684 | 105,806 | 162,174 | 238,767 | 11,598 | 12,628 | - | - | - | - | 301,456 | 357,201 |

### 2.3 Secondary reporting format - geographic segments

In thousands of Estonian kroons (EEK)

The components of revenues by geographic segments are as follows:

| | Mobile telecommunications | | Broadband services | | Managed IT-services | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **I HY 2007** | **I HY 2006** | **I HY 2007** | **I HY 2006** | **I HY 2007** | **I HY 2006** | **I HY 2007** | **I HY 2006** |
| Revenue from customers in Estonia | 1,571,330 | 1,421,237 | 1,187,657 | 1,135,977 | 132,269 | 97,471 | 2,891,256 | 2,654,685 |
| Revenue from customers outside Estonia | 64,428 | 29,609 | 120,525 | 66,812 | 2,726 | 1,671 | 187,679 | 98,092 |
| | **1,635,758** | **1,450,846** | **1,308,182** | **1,202,789** | **134,995** | **99,142** | **3,078,935** | **2,752,777** |

## 3. Tangible and intangible assets

In thousand of Estonian kroons (EEK)

| | Tangible assets | Intangible assets |
|---|---|---|
| ***At 31December 2005*** | | |
| Cost | **8,561,655** | **333,230** |
| Accumulated depreciation | (6,727,739) | (166,542) |
| **Net book value** | **1,833,916** | **166,688** |
| **Changes in I Half Year 2006** | | |
| Opening net book amount | 1,833,916 | 166,688 |
| Additions | 351,094 | 45,967 |
| Acquired on business combination | 910 | - |
| Reclassification | (3,749) | 5,099 |
| Reclassification to assets classifies as held-for-sale | (4,064) | - |
| Disposals | (1,272) | (32) |
| Depreciation charge | (286,517) | (16,374) |
| **Closing net book amount** | **1,890,318** | **201,348** |
| ***At 30 June 2006*** | | |
| Cost | 8,770,749 | 383,805 |
| Accumulated depreciation | (6,880,431) | (182,457) |
| **Net book value** | **1,890,318** | **201,348** |
| ***At 31 December 2006*** | | |
| Cost | **8,859,076** | **403,974** |
| Accumulated depreciation | (6,814,481) | (189,928) |
| **Net book value** | **2,044,595** | **214,046** |
| **Changes in I Half Year 2007** | | |
| Opening net book amount | 2,044,595 | 214,046 |
| Additions | 298,679 | 2,777 |
| Reclassification | (1,590) | 1,590 |
| Reclassification to assets classifies as held-for-sale | (1,464) | - |
| Disposals | (389) | - |
| Depreciation charge | (221,806) | (18,728) |
| **Closing net book amount** | **2,118,025** | **199,685** |
| ***At 30 June 2007*** | | |
| Cost | **9,083,356** | **408,541** |
| Accumulated depreciation | (6,965,331) | (208,856) |
| **Net book value** | **2,118,025** | **199,685** |

## 4. Investments in subsidiaries

| | Country of incorporation | Ownership interest | | Principal activity | Owner |
|---|---|---|---|---|---|
| | | **30 June 2007** | **31 December 2006** | | |
| Elion Enterprises AS | Estonia | 100% | 100% | Network services for operators, data communication and Internet products, voice communication solutions and Internet content services for business and residential customers | AS Eesti Telekom |
| AS Elion Esindus | Estonia | 100% | 100% | Retail sales of telecommunication products and services | Elion Enterprises AS |
| AS EsData | Estonia | 100% | 100% | Operating and development of data communication, Internet and cable networks, and providing related services; sale, installation and maintenance of equipment related with this activities | Elion Enterprises AS |
| Viru Net OÜ | Estonia | 100% | 100% | Internet services | Elion Enterprises AS |
| AS MicroLink | Estonia | 100% | 100%% | Holding Company | Elion Enterprises AS |
| AS MicroLink Eesti [1)] | Estonia | 100% | 100% | IT services: system integration and infrastructure solutions; software development; ERP and business solutions; data communications and networking; central systems and data centre solutions; systems management and maintenance; end-user PC services and support; full IT outsourcing. | AS MicroLink |
| AS EMT | Estonia | 100% | 100% | Construction and operating of mobile networks, providing mobile communication services | AS Eesti Telekom |
| EMT Esindused AS | Estonia | 100% | 100% | Retail sales of telecommunication products and services | AS EMT |
| AS Mobile Wholesale | Estonia | 100% | 100% | Wholesale of mobile phones | AS EMT |
| Serenda Investment OÜ | Estonia | 51% | 51% | Administration of communication portal based in Estonia internet | AS EMT |

1) From 1 July 2007, decisions of AS Eesti Telekom Council from 18 April 2007 regarding changes in the management and structure of the Eesti Telekom Group became effective.

From 1 July 2007, AS MicroLink Eesti is a 100% owned direct subsidiary of AS Eesti Telekom. AS Eesti Telekom purchased AS MicroLink Eesti from AS MicroLInk, a 100% subsidiary of Elion Ettevõtted AS. It has been decided to merger AS Microlink, a holding company, with Elion Ettevõtted AS.

## 5. Investments in associates

| | Country of incorporation | Ownership interest | | Principal activity | Owner |
|---|---|---|---|---|---|
| | | **30 June 2007** | **31 December 2006** | | |
| AS Sertifitseerimiskeskus | Estonia | 50% | 50% | Providing certification and related services | Elion Enterprises AS – 25%<br>AS EMT – 25% |
| OÜ Voicecom | Estonia | 26% | 26% | Designing and providing software for mobile related services | AS EMT |

## 6. Inventories

In the first half year 2007, the value of the inventories was not decreased (the first half year 2006: 381 thousand EEK).

## 7. Equity

### a) Issued capital

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| **Ordinary shares issued** par value 10 EEK per share, fully paid | 137,954,528 | 137,954,528 |

The holders of ordinary shares are entitled to receive dividends as declared by the general meeting, and are entitled to one vote per share at general meetings of the shareholders of the parent company.

Non-monetary contribution has been made for 63,883,178 shares in the total value of 944,271 thousand EEK. Non-monetary contributions have been made in the first quarter of 1999, in connection with the reconstruction of the AS Eesti Telekom Group. During the reconstruction, the strategic investors in the company, TeliaSonera AB and Sonera OY (presently TeliaSonera AB), exchanged the AS Eesti Telefon (presently Elion Enterprises AS) and AS EMT shares in their possession for AS Eesti Telekom shares. After the reconstruction of the group, all Elion Enterprises AS and AS EMT shares belong to AS Eesti Telekom.

### b) Re-acquiring of shares

The Annual General Meeting of Shareholders, on 18 May 2006, authorized AS Eesti Telekom to acquire within one year from the adoption of this resolution, i.e. until 18 May 2007, AS Eesti Telekom ordinary shares so that the total of nominal values of own shares held by AS Eesti Telekom would not exceed the limit set by statutory regulations, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the company’s assets in excess of its share capital, capital reserves, and share premium. The amount of shares to be acquired each time shall be determined on each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council. As of 30 June 2007, no shares have been re-acquired by AS Eesti Telekom.

**c) Reserves**

Reserves include:

- Obligatory legal reserve required by the Commercial Code. Subject to the approval of the general meeting, the reserve may be used for covering cumulated losses, if the latter cannot be covered with other unrestricted equity, and for increasing share capital.

- Share premium – the positive difference between the issue price and nominal value of issued shares (issue premium).

**d) Dividends**

Dividends in the total amount of 1,310,568 thousand EEK (2006: 1,241,591 thousand EEK) or 9.50 EEK per ordinary share were disbursed in the first half year 2007 (2006: 9.00 EEK).

**e) Earnings per share**

Basic earning per share is calculated by dividing the profit of the year attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year.

Diluted earning per share is calculated based on profit or loss attributable to the ordinary equity holders of the parent company, and the weighted average number of shares outstanding, adjusted for the effects of all dilutive potential ordinary shares. As the Group has not issued any potential ordinary shares, the diluted earnings per share equals to the basic earnings per share.

The following data has been used in the ascertainment of basic and diluted earnings per share:

| | **2007** | **2006** |
|---|---|---|
| ***II Quarter*** | | |
| Net profit attributable to equity holders of the Company (EEK) | 106,863,000 | 88,828,000 |
| The average number of ordinary shares | 137,954,528 | 137,954,528 |
| **EPS** | **0.77** | **0.64** |
| ***I Half Year*** | | |
| Net profit attributable to equity holders of the Company (EEK) | 544,932,000 | 450,228,000 |
| The average number of ordinary shares | 137,954,528 | 137,954,528 |
| **EPS** | **3.95** | **3.26** |

**f) Share information**

AS Eesti Telekom shares are quoted in the main list of the OMX Tallinn Stock Exchange and in the main list of GDR-s on the London Stock Exchange. Each GDR (Global Depositary Receipt) represents three ordinary shares.

The information about the price of an AS Eesti Telekom ordinary share on the OMX Tallinn Stock Exchange is following (EEK):

| | **I HY 2007** | **2006** | **I HY 2006** |
|---|---|---|---|
| Ordinary share highest price | 168.51 | 131.43 | 131.43 |
| Ordinary share lowest price | 121.26 | 108.74 | 108.74 |
| Ordinary share average price | 131.58 | 120.38 | 120.18 |

## 8. Borrowings

In thousand of Estonian kroons (EEK)

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Non-current | 2,183 | 3,124 |
| Current | 2,456 | 2,742 |
| | **4,639** | **5,866** |

The movements in the borrowings can be analyzed as follows:

| | |
|---|---|
| **Opening balance 31 December 2006** | **5,866** |
| Proceeds of borrowings | 196 |
| Repayments of borrowings | (899) |
| Other movements | (524) |
| **Closing balance 30 June 2007** | **4,639** |

## 9. Retirement benefit obligations

In thousand of Estonian kroons (EEK)

| | |
|---|---|
| **31 December 2006** | **8,777** |
| Benefits paid in the reporting period | (437) |
| Interest accrued | 84 |
| **30 June 2007** | **8,424** |
| Current portion of retirement benefit obligations (-) | (4,689) |
| Non-current portion of retirement benefit obligations | 3,735 |

## 10. Provisions

In thousand of Estonian kroons (EEK)

| | Site restoration expense provision | Termination benefits provision | Disputed penalties provision | Compensation of the tolerance of technical infrastructure provision | Guarantee provision | **Total** |
|---|---|---|---|---|---|---|
| **At 31 December 2006** | **19,183** | **3,171** | **2,132** | **1,980** | **961** | **27,427** |
| Additional provision in the reporting period | 455 | - | - | - | 279 | **734** |
| Used provisions during the reporting period | - | 3,171 | (503) | - | (325) | **(3,999)** |
| Decrease of provision in the reporting period | - | - | (1,629) | - | (89) | **(1,718)** |
| **At 30 June 2007** | **19,638** | **-** | **-** | **1,980** | **826** | **22,444** |
| Current portion of provision (-) | - | - | - | (1,980) | (190) | (2,170) |
| Non-current portion of provision | 19,638 | - | - | - | 636 | 20,274 |

## 11. Related party transactions

Transactions with related parties are transactions with associates, shareholders, key management, members of the Supervisory Council, their relatives and the companies in which they hold majority interest.

**a) Name and relationship of related party**

| | Name | Relationship with AS Eesti Telekom Group |
|---|---|---|
| 1. | Key management, supervisory council and their relatives | |
| 2. | List of associates is shown in Note 5 | |
| 3. | Enterprises of TeliaSonera AB Group | Parent company, shareholder |
| 4. | State Government | Shareholder |

**b) Key managements' and supervisory councils' remuneration**

The remunerations of key management and supervisory council during the first half year 2007 and 2006 were as follows (in thousand of Estonian kroons (EEK)):

| | I HY 2007 | I HY 2006 |
|---|---|---|
| Salaries and other short-term employee benefits | 35, 466 | 30,485 |
| Termination benefits | 942 | - |
| Other | 244 | 172 |
| | **36,652** | **30,657** |

### c) Trading transactions

No impairment has been made in the first half year of 2007 and 2006 for the receivables from related parties.

During the first half year 2007 and 2006, group companies entered into the following transactions with related parties (in thousand of Estonian kroons (EEK)):

| | **I HY 2007** | **I HY 2006** |
|---|---|---|
| ***Telecommunication services provided*** | | |
| Associated companies | 3,136 | 918 |
| Shareholders | 80,597 | 104,447 |
| Companies where Supervisory Council members of the Group have significant influence | 259 | - |
| | **83,992** | **105,365** |
| ***Other sales*** | | |
| Associated companies | 28 | - |
| Shareholders | 3,295 | 1,456 |
| Companies where Supervisory Council members of the Group have significant influence | 15 | - |
| | **3,338** | **1,456** |
| ***Telecommunication services purchased*** | | |
| Associated companies | 160 | 277 |
| Shareholders | 90,594 | 84,813 |
| | **90,754** | **85,090** |
| ***Other services purchased*** | | |
| Associated companies | 78 | 15 |
| Shareholders | 6,607 | 2,023 |
| Companies where Supervisory Council members of the Group have significant influence | 440 | - |
| | **7,125** | **2,038** |
| ***Financial income*** | | |
| Associated companies | - | 132 |
| Shareholders | 10 | - |
| | **10** | **132** |
| ***Amount owed by related parties*** | | |
| Associated companies | 196 | 4,258 |
| Shareholders | 27,988 | 45,369 |
| Companies where Supervisory Council members of the Group have significant influence | 51 | - |
| | **28,235** | **49,627** |
| ***Amount owed to related parties*** | | |
| Associated companies | 2 | 243 |
| Shareholders | 28,436 | 18,407 |
| Companies where Supervisory Council members of the Group have significant influence | 74 | - |
| Key management and supervisory council | 14,413 | 4,960 |
| | **42,925** | **23,610** |

## 12. Contingencies

In thousand of Estonian kroons (EEK)

| | 30 June 2007 | 31 December 2006 |
|---|---|---|
| Key management termination benefits | 20 540 | 17 736 |

### *Court Actions*

- **Dispute over the fees for Kodulahenduse and Kõneaja bonus**
  On 8 May 2005, the Communications Board issued a precept to Elion Enterprises, according to which undertakings with significant market power do not have the right to include discounts in the fees for services. Also an execution proceeding was initiated in respect to Elion for the collection of the penalty payment.
  On 22 August 2005, Elion filed a complaint with the Tallinn Administrative Court to have the execution proceeding of the Communications Board nullified and to have the illegality of the coercive measure ascertained. With a judgment on 12 December 2005, the Tallinn Administrative Court dismissed the complaint by Elion Enterprises. Elion Enterprises filed an appeal with the Tallinn District Court, which also dismissed it.
  On 28 December 2006, the Elion filed an appeal in cassation with the District Court. The District Court has not made a judgment regarding accepting the appeal in cassation.
  The court dispute has a practical meaning for Elion Enterprises – this is a question of pricing strategy.

## 13. Members of the Management Board and the Supervisory Council of AS Eesti Telekom

**Management Board:**

| | | |
|---|---|---|
| Valddo Kalm | - | Chairman of the Management Board |
| Leho Tamm | - | Member of the Management Board |
| Valdur Laid | - | Member of the Management Board |
| Enn Saar | - | Member of the Management Board |

**Supervisory Council:**

| | | |
|---|---|---|
| Terje Christoffersen | - | Chairman of the Supervisory Council |
| Andres Gylder | - | Member of the Supervisory Council |
| Jörgen Latte | - | Member of the Supervisory Council |
| Tarmo Porgand | - | Member of the Supervisory Council |
| Jüri Raatma | - | Member of the Supervisory Council |
| Mats Salomonsson | - | Member of the Supervisory Council |
| Aare Tark | - | Member of the Supervisory Council |

# 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 second quarter and the first half year 2007 as set out on pages 3 to 32.

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.

| *Name* | *Position* | *Signature* |
|---|---|---|
| Valdo Kalm | *Chairman of the Board* | ………………………………….. |
| Leho Tamm | *Member of the Board* | ………………………………….. |
| Valdur Laid | *Member of the Board* | ………………………………….. |
| Enn Saar | *Member of the Board* | ………………………………….. |

Tallinn, 18 July 2007