

Eesti**Telekom**

*Consolidated  
Interim Report of  
AS Eesti Telekom  
III Quarter and  
the first nine months 2007*

*19 October 2007*

**AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT**

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<i>Beginning of the financial year</i>	1 January 2007
<i>End of the reporting period</i>	30 September 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 tele-communications 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 III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

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### CONTENTS

The most significant financial indicators	4
Chairman's statement	5
Consolidated quarterly data	11
Interim report	
<i>III Quarter consolidated income statement</i>	12
<i>The first nine months consolidated income statement</i>	13
<i>Consolidated balance sheet</i>	14
<i>Consolidated cash flow statement</i>	15
<i>Consolidated statement of changes in equity</i>	16
<i>Notes to the financial statement</i>	
1. <i>Accounting policies and measurement basis used in preparation of interim financial statements</i>	17
2. <i>Segment information</i>	17
3. <i>Tangible and intangible assets</i>	22
4. <i>Investments in subsidiaries</i>	23
5. <i>Investments in associates</i>	24
6. <i>Inventories</i>	24
7. <i>Equity</i>	24
8. <i>Borrowings</i>	26
9. <i>Retirement benefit obligations</i>	26
10. <i>Provisions</i>	26
11. <i>Related party transactions</i>	27
12. <i>Contingencies</i>	29
13. <i>Members of Management Board and Supervisory Council</i>	29
<i>Management Board's conformation of the financial statements</i>	30

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### SIGNIFICANT FINANCIAL INDICATORS

#### Eesti Telekom Group

	Q3 2007	Q3 2006	Change, %	9 mos. 2007	9 mos. 2006	Change, %
Total revenues, million EEK	<b>1,612</b>	1,461	10.4	<b>4,691</b>	4,214	11.3
EBITDA, million EEK	<b>627</b>	587	6.9	<b>1,760</b>	1,690	4.2
Margin, %	<b>38.9</b>	40.2		<b>37.5</b>	40.1	
EBIT, million EEK	<b>504</b>	464	8.6	<b>1,396</b>	1,264	10.4
Margin, %	<b>31.2</b>	31.8		<b>29.8</b>	30.0	
EBT, million EEK	<b>509</b>	472	7.8	<b>1,428</b>	1,295	10.2
Net profit for the period, million EEK	<b>509</b>	472	7.8	<b>1,057</b>	922	14.6
EPS, EEK	<b>3.68</b>	3.41	7.9	<b>7.63</b>	6.67	14.3
CAPEX, million EEK	<b>209</b>	196	6.3	<b>511</b>	552	-7.3
Net gearing, %	<b>-20.1</b>	-27.8				
ROA, %	<b>31.1</b>	27.6				
ROE, %	<b>46.3</b>	42.0				

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

	Q3 2007	Q3 2006	Change, %	9 mos. 2007	9 mos. 2006	Change, %
Total revenues, million EEK	<b>1,050</b>	923	13.8	<b>2,914</b>	2,560	13.8
EBITDA, million EEK	<b>389</b>	366	6.6	<b>1,095</b>	1,005	8.9
Margin, %	<b>37.0</b>	39.5		<b>37.6</b>	39.3	
EBIT, million EEK	<b>334</b>	313	6.9	<b>934</b>	811	15.2
Margin, %	<b>31.8</b>	33.9		<b>32.1</b>	31.7	
EBT, million EEK	<b>334</b>	315	6.2	<b>946</b>	821	15.2
Net profit for the period, million EEK	<b>334</b>	315	6.2	<b>696</b>	567	22.8
CAPEX, million EEK	<b>69</b>	53	31.2	<b>197</b>	159	23.8
ROA, %	<b>52.2</b>	42.5				
ROE, %	<b>87.3</b>	72.9				

#### Broadband services segment

	Q3 2007	Q3 2006	Change, %	9 mos. 2007	9 mos. 2006	Change, %
Total revenues, million EEK	<b>772</b>	663	16.5	<b>2,203</b>	1,970	11.9
EBITDA, million EEK	<b>234</b>	218	7.3	<b>668</b>	686	-2.5
Margin, %	<b>30.3</b>	32.9		<b>30.3</b>	34.8	
EBIT, million EEK	<b>172</b>	154	11.7	<b>484</b>	468	-3.4
Margin, %	<b>22.2</b>	23.2		<b>22.0</b>	23.8	
EBT, million EEK	<b>265</b>	152	74.5	<b>575</b>	468	-3.4
Net profit for the period, million EEK	<b>265</b>	152	74.5	<b>453</b>	348	30.1
CAPEX, million EEK	<b>136</b>	137	-0,7	<b>298</b>	376	-20.8
ROA, %	<b>34.0</b>	21.7				
ROE, %	<b>31.7</b>	32.7				

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### IT services segment

	Q3 2007	Q3 2006	Change, %	9 mos. 2007	9 mos. 2006	Change, %
Total revenues, million EEK	90	78	15.5	273	207	31.8
EBITDA, million EEK	9	8	20.4	14	15	-6.7
Margin, %	10.1	9.7		5.0	7.0	
EBIT, million EEK	4	3	14.2	-2	5	-141.9
Margin, %	4.3	4.3		-0.8	2.4	
EBT, million EEK	3	6	-48.3	4	14	-71.2
Net profit for the period, million EEK	3	6	-48.3	4	14	-71.2
CAPEX, million EEK	18	4	350.0	17	16	7.2
ROA, %	4.2	10				
ROE, %	18.2	45.1				

### CHAIRMAN'S STATEMENT

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

The positive trends of the first quarters of 2007 continued in the third quarter. The sales revenues of the Eesti Telekom Group increased by 10% compared to the same period in 2006, reaching 1,612 million EEK (3rd quarter 2006: 1,463 million EEK). A positive contribution to the sales revenues was made by all the Group's principal fields of activity.

The consolidated **turnover of the mobile communications services segment** reached 1,050 million EEK, increasing by 14% compared to the same period in 2006 (3rd quarter 2006: 925 million EEK). The main portion of the supplemental revenues was earned from the Group's principal fields of activity. The revenue of the Group's parent company, AS EMT, increased by 11% compared to the third quarter of 2006 reaching 857 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.

The increase of the call minutes initiated from the EMT network results from the client base that increased during the year, as well as the more active mobile call use by the clients. Compared to the end of the third quarter 2006, the client base of AS EMT was 5% larger at the end of September this year, reaching 759 thousand active SIM cards (September 2006: 721 thousand cards). During the year, the number of both contractual as well as pre-paid card users increased. The number of active contractual SIM cards at the end of September was 465 thousand, which is 39 thousand more than at the end of September 2006. At the end of the quarter, the number of active pre-paid SIM cards was 294 thousand, which is exactly as many as a year ago. EMT assesses its market share of active SIM cards as 48%. The penetration of active cards in Estonia is 116%.

The increase in the number of call minutes initiated by EMT clients exceeded the increase in the client base, reaching 11% in the third quarter of 2007 compared to the same period in 2006. In the third quarter of this year, the average number of call minutes initiated per client was 3% more than at the same time last year. The call minutes completed in the EMT network showed an 11% increase. In accordance with the declaration of the Estonian National Communications Board of 23 March 2006, entitled "Regarding the determination of undertakings with significant power in the wholesale market of voice call termination on mobile networks", a successive reduction in the termination fees of mobile operators was to have taken effect on 1 July 2007. Since Tele2 Eesti AS and Elisa Eesti AS have disputed the resolution of the Communications Board, 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.

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

---

Very rapid growth continued to be shown by AS EMT mobile Internet revenues. In the third 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 sixfold. The number of AS EMT mobile data communications users in September 2007 was 119 thousand, 20 thousand more regular users than a year ago. The increase in popularity of mobile data communications is caused, on the one hand, by the introduction in June of new data communication packages based on monthly fees, which provided clients with quality and high-speed data communications at conveniently controllable prices. Clients can choose between packages costing 99 EEK, 199 EEK and 399 EEK, which provide 30MB, 500MB or 3GB of data per month respectively. The mobile Internet start-up package included a free 3.5G modem for loyal customers signing up for the EMT Internet 399 package that provides high-speed mobile Internet access. This provides the client with an opportunity to use Estonia's 3G network with the largest coverage area 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.

The increase in the ratio of services with fixed monthly fees has caused an increase in the revenues earned from monthly fees. The monthly fees earned in the third quarter of this year exceeded the results in the same period of 2006 by 23%.

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. AS EMT assesses that the effect of this regulation on its third quarter profit is insignificant.

The revenues for the mobile communications services segment from retailing and wholesaling telecommunications merchandise increased in the third quarter of 2007 compared to the same period of 2006 by almost 28%, due primarily to larger mobile phone sales volumes.

**The sales revenues for the broadband services segment** increased by 17% compared to the same period last year, reaching 772 million EEK (3rd quarter 2006: 663 million EEK). Domestic interconnection services and international call services showed the greatest increase in revenues, 58% and 34% respectively. Revenues from telecommunications and IT merchandise retailing increased by 25%. In the third quarter of 2007, revenues from broadband business lines increased by 13% compared to the same period in 2006. By the end of the third quarter the number of Elion television clients had increased to 48.4 thousand.

Similarly to earlier 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 8,360, reaching 44.8 thousand as of 30 September (30 September 2006: 16.7 thousand). As of the end of August, the Elion triple package is also available to residents of multi-story buildings.

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 second quarter of this year has proved to be very popular among clients due to the convenience and simplicity of its use. During the third quarter, the number of rental reached 900 per day. The selection of rental films, karaoke videos, and programs has also constantly improved. Thanks to the development of the remote video rental system, Elion was chosen as the winner in the Innovator 2007 category of the enterprise competition organized by Enterprise Estonia.

The total number of Elion clients with permanent connections increased to 157 thousand by the end of September 2007 (30 September 2006: 125 thousand) and the company assesses its market share based on clients with permanent connections to be 56%. The revenues in the broadband services segment from monthly fees for service packages increased this year by 66% compared to the third quarter of 2006. Based on the

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

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increase in the volume and revenues of service packages, the revenues from monthly fees for call connections and Internet connections fell by 11% and 8% respectively.

In the third quarter, Elion introduced a computer protection service targeting business clients, which includes a firewall, Internet traffic control, as well as virus, spyware, and spam protection.

The call revenues in the broadband services segment increased in the third quarter by 11% compared to the same period in 2006. The increase in revenues resulted primarily from international call services and domestic interconnection fees. At the same time, the revenues received from end consumers for domestic call services decreased by 8%.

Elion assesses its market share for call minutes initiated in the fixed network to be 82.1% (September 2006: 83%). The market share for local call minutes is 84.2% (September 2006: 84.4%), 65.3% for international call minutes (September 2006: 65.3%) and 69.5% for call minutes made to mobile phones (September 2006: 70.6%).

In the third quarter, the Communications Board completed the latest analysis of 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.

The Communications Board declared Elion Enterprises an undertaking with significant market power in the market for the final segments of permanent lines and the market for trunk segments of permanent lines. As of 1 December 2007, Elion has an access, non-discrimination, and transparency obligation in these markets and an obligation for accounting separation, price controls, and cost accounting. Elion does not anticipate that the given resolution will have a negative impact on the company's financial results.

In addition, the Communications Board declared Elion Enterprises an undertaking with significant market power in the markets for the access of private and business clients at specific locations to telephone networks. Elion undertakes to enable end consumers to access the services of the providers of telephone services related to its network by dialing an operator code and by pre-selection of a telephone service provider. Elion anticipates that this resolution will entail approximately 3 million EEK of additional investments for its analog stations.

**Sales revenues for the IT services segment** increased by 16% in the third quarter compared to the same period last year, reaching 90 million EEK (3rd quarter 2006: 78 million EEK). The greatest increase was in revenues from the sale of IT merchandise.

**The operating costs of the Eesti Telekom Group** increased by 13% in the third quarter of 2007 compared to the same period in 2006, reaching 992 million EEK (3rd quarter 2006: 877 million EEK).

**The operating costs in the mobile communications services segment** increased by 18% in the third quarter of 2006, reaching 663 million EEK (3rd quarter 2006: 561 million EEK). The principal part of the supplemental operating costs is related to principal activities, in which the operating costs were 13% higher than in the third quarter of 2006. The increase of the principal activity costs are related to two basic cost categories—interconnection costs, the increase of which resulted from an increase in the number of call minutes made by clients to other networks and costs for roaming services, which are related to active travel by customers and their use of their mobile phones outside of Estonia. In the third quarter, the rapid increase in salary costs continued compared to the same time last year, which was sustained by strong pressure on salaries in the economy as a whole. The operating costs related to retail and wholesale trade of the EMT Group increased approximately as much as the sales turnover.

**The operating costs in the broadband services segment** increased by 12% in the third quarter compared to the same period last year, reaching 561 million EEK (3rd quarter 2006: 503 million EEK). The principal part of the increase in operating costs is related to the rapid growth of retail trade turnover as well as to an increase

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

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in the direct sale costs of call services and domestic interconnection services. The third primary growth factor was the personnel costs in the last quarter.

**The operating costs in the IT services segment** increased in the third quarter by 15%, reaching 81 million EEK (3rd quarter 2006: 71 million EEK).

**The Eesti Telekom Group EBITDA** in the third quarter of 2007 reached 627 million EEK, which was 7% more than in the third quarter of 2006 (3rd quarter 2006: 588 million EEK). EBITDA in the mobile communications services segment exceeded the same period of 2006 by 6%, while the EBITDA in the broadband services segment increased by 7%. The EBITDA margin in the third quarter of 2007 was 30%, which is slightly lower than the margin for the corresponding period in 2006.

In the third quarter of 2007, the Group's **depreciation cost** reached 124 million EEK, increasing by 1% compared to the same period in 2006.

In the third quarter, the Eesti Telekom Group earned an **EBIT** of 504 million EEK, which is 8% more than in the third quarter of 2006 (3rd quarter 2006: 466 million EEK). The Group's **(net) financial revenues** in the third quarter were 6 million EEK, similarly to the same period of last year. On 1 July 2007, Elion Enterprises 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 the third quarter of 2007, the Eesti Telekom Group earned a **net profit** of 509 million EEK (3rd quarter 2006: 472 million EEK). The profit per share was 3.68 EEK (3rd quarter 2007: 3.41 EEK).

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

As of 30 September 2007, the Eesti Telekom Group balance sheet was 4,508 million EEK (31 December 2006: 4,812 million EEK). Compared to the beginning of the year, fixed assets of 141 million EEK were accrued, thereby bringing the depreciated value by the end of the third quarter to 2,536 million EEK. The accrual of the fixed assets was based primarily on the investments of the Group's companies. In nine months, the Group's current assets have decreased by 445 million EEK, reaching 1,972 million EEK (31 December 2006: 2,417 million EEK). The cash and cash equivalents as well as short-term financial investments have decreased by 609 million EEK in connection with the dividends paid out in June and income tax on the dividends paid out in July.

As of 30 September 2007, Eesti Telekom Group equity totaled 3,860 million EEK, which is 253 million EEK less than at the end of 2006 (31 December 2006: 4,113 million EEK). The equity has decreased in connection with the payment of dividends.

At the end of the third quarter, the Group had long-term obligations of 26 million EEK (31 December 2006: 38 million EEK) and short-term debt obligations of 623 million EEK (31 December 2006: 660 million EEK).

The net debt of the Eesti Telekom Group at the end of the third quarter was -776 million EEK and the net debt to equity ratio was -20% (31 December 2006: -1383 million EEK and -34%).

The Eesti Telekom Group nine-month cash flow from operations was 1,232 million EEK (9 months of 2006: 1,237 million EEK). The Group's cash flow from investments was 151 million EEK (9 months of 2006: -191 million EEK). The cash flow into tangible and intangible fixed assets in the first nine months was 512 million EEK (9 months of 2006: 551 million EEK). This year, the mobile communications services segment has invested 197 million EEK in 9 months (9 months of 2006: 158 million EEK). The primary investment field was 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 3.5G into new areas of Estonia. During the last quarter, super-high-speed mobile Internet (3.5G) reached four new towns: Jõgeva, Otepää, Jõhvi and Rapla. Previously, 3G and 3.5G had covered Tallinn, Tartu, Pärnu, Kuressaare, Narva, Haapsalu, Rakvere and



## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

Viljandi and their immediate vicinities. The investments in the broadband services segment in 9 months of 2007 reached 298 million EEK (9 months of 2006: 376 million EEK). The principal part of the investments is for improving permanent Internet connections and the availability of DigiTV, as well as for developing network resources.

The Eesti Telekom Group cash flow from financing activities in the first 9 months was 1,312 million EEK (9 months of 2006: 1,243 million EEK), of which 1,311 million EEK was used to pay dividends (9 months of 2006: 1,242 million EEK).

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

In the third 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 1,275,000 AS Eesti Telekom shares, thereby increasing its participation to 59.25%.

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 third quarter, the ratio of freely traded shares was 13.5% of the total number of shares. Since 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 19% by the end of the third quarter.

As of 3 October 2007, the 10 largest shareholders in 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)	3,542,898	2.5682%
Skandinaviska Enskilda Banken AB clients	1,425,140	1.0330%
Danske Bank clients	1,417,453	1.0275%
ING Luxembourg S.A.	1,335,330	0.9679%
Bank Austria Creditanstalt AG clients	1,207,410	0.8752%
Morgan Stanley Co International Equity clients	947,400	0.6867%
Clearstream Banking Luxembourg clients	556,012	0.4030%

### **Shareholders' extraordinary general meeting**

An extraordinary general meeting of the AS Eesti Telekom shareholders took place on 6 September 2007. The general meeting recalled Terje Christoffersen, a current member of the AS Eesti Telekom Supervisory Board and elected Lars Klasson as a new member of the Supervisory Board.

### **New structure of the Eesti Telekom Group**

As of 1 July 2007, the Management Board of AS Eesti Telekom expanded to include the following people: Leho Tamm, Financial Director and Member of the Board, who also continues in his current position as Financial Director of AS EMT; Valdur Laid, Member of the Board, who also continues in his current position as Chairman of Elion Enterprises; and Enn Saar, Member of the Board, who also continues in his current position as Chairman of AS MicroLink Eesti.

In connection with the changes in the Supervisory Board of AS Eesti Telekom, Mats Salomonsson was elected Chairman of the Supervisory Board at the last meeting.

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, a 100% subsidiary of Elion Enterprises. From 1 July 2007 AS MicroLink, a holding company, merged with Elion Enterprises AS. The entry to Commercial Register was made on 28 September 2007.

**AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT**

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**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 III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### CONSOLIDATED QUARTERLY DATA

In million of Estonian kroons (EEK)

	Q3 06	Q4 06	Q1 07	Q2 07	Q3 07
Sales	1,461	1,554	1,497	1,582	1,612
OPEX	(877)	(1,045)	(957)	(994)	(992)
Other revenue/expenses, net	2	(3)	2	2	7
EBITDA	587	506	542	590	627
Depreciation and amortisation	(122)	(124)	(118)	(123)	(124)
EBIT	464	383	424	468	504
Income / expenses from associates	-	(1)	-	(2)	(1)
Other net financing items	8	11	15	14	6
Profit before tax	472	392	440	479	509
Income tax on dividends	-	-	-	(371)	-
Net profit for the period	472	392	440	108	509
Minority interest	2	3	2	1	2
EBITDA margin, %	40.16%	32.57%	36.22%	37.31%	38.91%
EBIT margin, %	31.75%	24.62%	28.36%	29.55%	31.24%
Net margin, %	32.30%	25.21%	29.38%	6.8%	31.55%
Total assets	4,314	4,812	5,175	4,392	4,508
- Non-current assets	2,238	2,395	2,390	2,453	2,536
- Current assets	2,076	2,417	2,785	1,939	1,972
- Cash and cash equivalents and short-term investments	1,043	1,389	1,627	785	780
Equity and liabilities	4,314	4,812	5,175	4,392	4,508
- Equity	3,721	4,113	4,553	3,351	3,860
- Provisions	11	36	34	31	31
- Non-current liabilities	9	8	8	7	2
- Interest-bearing borrowings	4	3	3	2	2
- Current liabilities	572	654	580	1 003	616
- Interest-bearing borrowings	3	3	3	2	2

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### III QUARTER CONSOLIDATED INCOME STATEMENT

In thousand of Estonian kroons (EEK)

	Notes	III Quarter 2007	III Quarter 2006
Net sales	2.1 (a)	1,612,450	1,460,711
Cost of production	2.1 (a)	(895,240)	(798,049)
<b>Gross profit</b>		<b>717,210</b>	<b>662,662</b>
Sales, administrative, and research & development expenses	2.1 (a)	(220,696)	(200,791)
Other operating revenues	2.1 (a)	8,568	3,468
Other operating expenses	2.1 (a)	(1,328)	(1,691)
<b>Operating profit</b>		<b>503,754</b>	<b>463,648</b>
Finance income		6,565	8,263
Finance costs		(1,050)	(146)
Finance income, net	2.1 (a)	<b>5,515</b>	<b>8,117</b>
Net income / (expenses) from associated companies	2.1 (a)	(618)	78
<b>Net profit for the period</b>	2.1 (a)	<b>508,651</b>	<b>471,843</b>
Attributable to:			
Equity holders of the parent	2.1 (a)	507,022	469,777
Minority interest	2.1 (a)	1,629	2,066
		<b>508,651</b>	<b>471,843</b>
<b>Earnings per share for profit attributable to the equity holders of the parent during the reporting period</b> (expressed in EEK)	7 (e)		
Basic earnings per share		3.68	3.41
Diluted earnings per share		3.68	3.41
<b>EBITDA</b>	2.1 (a)	<b>627,348</b>	<b>585,533</b>
Depreciation, amortization and write-downs	2.1 (a)	(123,594)	(121,885)

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### THE FIRST NINE MONTHS CONSOLIDATED INCOME STATEMENT

In thousand of Estonian kroons (EEK)

	Notes	9 months to 30 September 2007	9 months to 30 September 2006	2006
Net sales	2.1 (b), 2.3	4,691,385	4,213,488	5,767,734
Cost of production	2.1 (b)	(2,616,502)	(2,333,650)	(3,260,113)
<b>Gross profit</b>		<b>2,074,883</b>	<b>1,879,838</b>	<b>2,507,621</b>
Sales, administrative, and research & development expenses	2.1 (b)	(690,307)	(666,335)	(908,854)
Other operating revenues	2.1 (b)	14,832	57,563	53,011
Other operating expenses	2.1 (b)	(3,660)	(7,304)	(5,405)
<b>Operating profit</b>		<b>1,395,748</b>	<b>1,263,762</b>	<b>1,646,373</b>
Finance income		36,141	31,617	42,768
Finance costs	2.1 (b)	(1,818)	(1,548)	(1,950)
Finance income, net		<b>34,323</b>	<b>30,069</b>	40,818
Net income / (expenses) from associated companies	2.1 (b)	(2,427)	1,617	193
<b>Profit before tax</b>		<b>1,427,644</b>	<b>1,295,448</b>	<b>1,687,384</b>
Income tax on dividends		(370,897)	(373,377)	(373,377)
<b>Net profit for the period</b>	2.1 (b)	<b>1,056,747</b>	<b>922,071</b>	<b>1,314,007</b>
Attributable to:				
Equity holders of the parent	2.1 (b)	1,051,954	920,005	1,309,443
Minority interest	2.1 (b)	4,793	2,066	4,564
		<b>1,056,747</b>	<b>922,071</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)	7 (d)			
Basic earnings per share		7.63	6.67	9.49
Diluted earnings per share		7.63	6.67	9.49
<b>EBITDA</b>	2.1 (b)	<b>1,759,876</b>	<b>1,688,538</b>	<b>2,194,709</b>
Depreciation, amortization and write-downs	2.1 (b)	(364,128)	(424,776)	(548,336)

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### CONSOLIDATED BALANCE SHEET

In thousand of Estonian kroons (EEK)

	Notes	30 September 2007	31 December 2006	30 September 2006
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	3	2,210,598	2,044,595	1,966,909
Intangible fixed assets	3	193,783	214,046	198,094
Investments in associates	2.2, 5	14,820	17,247	17,300
Other financial fixed assets		116,978	119,139	55,526
<b>Total non-current assets</b>	2.2	<b>2,536,179</b>	<b>2,395,027</b>	<b>2,237,829</b>
<b>Current assets</b>				
Inventories	6	175,458	142,692	122,232
Trade and other receivables		1,014,983	884,212	898,036
Short-term investments		413,411	1,064,859	806,802
Cash and cash equivalents		366,747	324,405	235,664
<b>Total</b>		<b>1,970,599</b>	<b>2,416,168</b>	<b>2,062,734</b>
Assets classified as held-for-sale		1,531	771	13,443
<b>Total current assets</b>	2.2	<b>1,972,130</b>	<b>2,416,939</b>	<b>2,076,177</b>
<b>TOTAL ASSETS</b>	2.2	<b>4,508,309</b>	<b>4,811,966</b>	<b>4,314,006</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves attributable to equity holders of the parent</b>				
Share capital	7	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		1,051,954	1,309,443	920 005
<b>Total capital and reserves attributable to equity holders of the parent</b>	2.2	<b>3,849,735</b>	<b>4,108,349</b>	<b>3 718 911</b>
Minority interest	2.2	9,823	5,030	2 532
<b>Total equity</b>		<b>3,859,558</b>	<b>4,113,379</b>	<b>3 721 443</b>
<b>Non-current liabilities</b>				
Interest bearing loans and borrowings	8	1,656	3,124	3,812
Retirement benefit obligations	9	3,510	7,912	6,367
Provisions	10	20,502	22,124	-
Non-interest bearing liabilities		2	5,152	5,157
<b>Total non-current liabilities</b>	2.2	<b>25,670</b>	<b>38,312</b>	<b>15,336</b>
<b>Current liabilities</b>				
Trade and other payables		613,913	651,365	569,435
Interest bearing loans and borrowings	8	2,286	2,742	2,815
Retirement benefit obligations		4,731	865	865
Provisions	10	2,151	5,303	4,112
<b>Total current liabilities</b>	2.2	<b>623,081</b>	<b>660,275</b>	<b>577,227</b>
<b>Total liabilities</b>		<b>648,751</b>	<b>698,587</b>	<b>592,563</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	2.2	<b>4,508,309</b>	<b>4,811,966</b>	<b>4,314,006</b>

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### CONSOLIDATED CASH FLOW STATEMENT

In thousand of Estonian kroons (EEK)

	Notes	9 months to 30 September 2007	9 months to 30 September 2006
<b>Operating activities</b>			
Net profit for the period		1,056,747	922,071
Adjustments for:			
Depreciation, amortisation and impairment of fixed and intangible assets	3	364,128	424,776
(Profit) / loss from sales and discards of fixed assets		(15,081)	(44,472)
Net (income) / expenses from associated companies		2,427	(1,617)
Provisions		(5,132)	(3,709)
Financial items		9,152	15,452
Income tax on dividends		-	4
Miscellaneous non-cash items		9,096	124
<b>Cash flow before change in working capital</b>		<b>1,421,337</b>	<b>1,312,629</b>
Change in current receivables		(110,989)	(13,118)
Change in inventories		(32,806)	(35,322)
Change in current liabilities		(45,129)	(26,947)
<b>Change in working capital</b>		<b>(188,924)</b>	<b>(75,387)</b>
<b>Cash flow from operating activities</b>	2.2	<b>1,232,413</b>	<b>1,237,242</b>
<b>Investing activities</b>			
Intangible and tangible fixed assets acquired	3	(511,379)	(550,755)
Intangible and tangible fixed assets divested		6,245	48,930
Shares, participations and operations acquired		-	(91,699)
Net change in interest-receivables short maturities		680,220	469,474
Net cash changes of other long-term receivables		(23,382)	(56,098)
<b>Cash flow from investing activities</b>	2.2	<b>151,704</b>	<b>(180,148)</b>
<b>Cash flow before financing activities</b>		<b>1,384,117</b>	<b>1,057,094</b>
<b>Financing activities</b>			
Proceeds from non-convertible debts	8	191	100
Repayment of finance lease liabilities	8	(1,353)	(1,552)
Dividends paid	7 (d)	(1,310,568)	(1,241,591)
<b>Cash flow used in financing activities</b>	2.2	<b>(1,311,730)</b>	<b>(1,243,043)</b>
<b>Cash flow for the year</b>	2.2	<b>72,387</b>	<b>(185,949)</b>
<b>Cash and cash equivalents at beginning of year</b>	2.2	<b>324,405</b>	<b>430,393</b>
Cash flow for the year	2.2	72,387	(185,949)
Effect of foreign exchange rate changes	2.2	(200)	(592)
<b>Cash and cash equivalents at end of period</b>	2.2	<b>396,592</b>	<b>243,852</b>

**AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT**
**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)
Net profit for the period	-	-	-	-	920,005	920,005	2,066	922,071
<b>30 September 2006</b>	<b>1,379,545</b>	<b>356,018</b>	<b>137,955</b>	<b>925,388</b>	<b>920,005</b>	<b>3,718,911</b>	<b>2,532</b>	<b>3,721,443</b>
<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	(1,130,943)	-	-	-
Dividends paid	-	-	-	(1,310,568)	-	(1,310,568)	-	(1,310,568)
Net profit for the period	-	-	-	-	1,051,954	1,051,954	4,793	1,056,747
<b>30 September 2007</b>	<b>1,379,545</b>	<b>356,018</b>	<b>137,955</b>	<b>924,263</b>	<b>1,051,954</b>	<b>3,849,735</b>	<b>9,823</b>	<b>3,859,558</b>



## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### NOTES TO THE FINANCIAL STATEMENTS

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

The consolidated interim financial statements for the third quarter and the first nine months period ending 30 September 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.

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.

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

#### 2. Segment information

Four major segments, mobile telecommunication, broadband, 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 and goods related thereto. The companies belonging to this business segment are AS EMT, AS EMT Esindused, AS Mobile Wholesale and Serenda Investment OÜ.

**Broadband** – this segment operates the national telecommunications network, with providing broadband and data communications services and related value-added-services as well as provision of production, marketing and sales related services and goods. 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 and goods. The companies belonging to this business segment are AS MicroLink Eesti and up to 30 June 2007 AS MicroLink. From 1 July AS MicroLink AS merged with Elion Enterprises AS.

**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.

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

## NOTES TO THE FINANCIAL STATEMENTS

**2.1 Primary reporting format – business segments***a) III Quarter income statement*

In thousands of Estonian kroons (EEK)

	Mobile telecommunications		Broadband services		Managed IT-services		Other activities		Eliminations		Consolidated	
	III Q 2007	III Q 2006	III Q 2007	III Q 2006	III Q 2007	III Q 2006	III Q 2007	III Q 2006	III Q 2007	III Q 2006	III Q 2007	III Q 2006
Net sales	872,636	794,813	689,730	605,819	50,084	60,079	-	-	-	-	1,612,450	1,460,711
Inter-segment net sales	177,404	127,830	82,128	56,990	40,094	17,970	2,133	-	(301,759)	(202,790)	-	-
Cost of production	(561,944)	(499,382)	(285,622)	(255,426)	(47,674)	(43,241)	-	-	-	-	(895,240)	(798,049)
Inter-segment cost of production	(86,797)	(48,708)	(194,284)	(141,217)	(3,887)	(2,680)	-	-	284,968	192,605	-	-
<b>Gross profit</b>	<b>401,299</b>	<b>374,553</b>	<b>291,952</b>	<b>266,166</b>	<b>38,617</b>	<b>32,128</b>	<b>2,133</b>	<b>-</b>	<b>(16,791)</b>	<b>(10,185)</b>	<b>717,210</b>	<b>662,662</b>
Sales, administrative and research & development	(63,556)	(57,044)	(116,518)	(109,969)	(32,820)	(27,905)	(6,493)	(4,564)	(1,309)	(1,309)	(220,696)	(200,791)
Inter-segment sales, administrative and research & development	(5,457)	(7,209)	(8,995)	(2,420)	(2,246)	(861)	(93)	(120)	16,791	10,610	-	-
Other operating revenues	3,014	3,671	5,227	(111)	323	(92)	4	-	-	-	8,568	3,468
Inter-segment other operating revenues	-	425	-	-	-	-	-	-	-	(425)	-	-
Other operating expenses	(1,200)	(1,778)	(112)	(21)	(16)	108	-	-	-	-	(1,328)	(1,691)
<b>Operating profit / (loss)</b>	<b>334,100</b>	<b>312,618</b>	<b>171,554</b>	<b>153,645</b>	<b>3,858</b>	<b>3,378</b>	<b>(4,449)</b>	<b>(4,684)</b>	<b>(1,309)</b>	<b>(1,309)</b>	<b>503,754</b>	<b>463,648</b>
Other finance income, net	153	1,853	63	(1,755)	(687)	2,753	5,986	5,266	-	-	5,515	8,117
Income / (expenses) from subsidiaries and associated	(323)	126	93,397	(48)	-	-	-	-	(93,692)	-	(618)	78
<b>Net profit for the period</b>	<b>333,930</b>	<b>314,597</b>	<b>265,014</b>	<b>151,842</b>	<b>3,171</b>	<b>6,131</b>	<b>1,537</b>	<b>582</b>	<b>(95,001)</b>	<b>(1,309)</b>	<b>508,651</b>	<b>471,843</b>
Attributable to:												
Equity holders of the parent	332,301	312,531	265,014	151,842	3,171	6,131	1,537	582	(95,001)	(1,309)	507,022	469,777
Minority interest	1,629	2,066	-	-	-	-	-	-	-	-	1,629	2,066
	<b>333,930</b>	<b>314,597</b>	<b>265,014</b>	<b>151,842</b>	<b>3,171</b>	<b>6,131</b>	<b>1,537</b>	<b>582</b>	<b>(95,001)</b>	<b>(1,309)</b>	<b>508,651</b>	<b>471,843</b>
<b>EBITDA</b>	<b>388,819</b>	<b>364,674</b>	<b>233,842</b>	<b>217,950</b>	<b>9,129</b>	<b>7,582</b>	<b>(4,442)</b>	<b>(4,673)</b>	<b>-</b>	<b>-</b>	<b>627,348</b>	<b>585,533</b>
Depreciation, amortization and write-downs	(54,719)	(52,056)	(62,288)	(64,305)	(5,271)	(4,204)	(7)	(11)	(1,309)	(1,309)	(123,594)	(121,885)

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

## NOTES TO THE FINANCIAL STATEMENTS

*b) The first nine months income statement*

In thousands of Estonian kroons (EEK)

	Mobile telecommunications		Broadband services		Managed IT-services		Other activities		Eliminations		Consolidated	
	9 months 30 Sept. 2007	9 months 30 Sept. 2006	9 months 30 Sept. 2007	9 months 30 Sept. 2006	9 months 30 Sept. 2007	9 months 30 Sept. 2006	9 months 30 Sept. 2007	9 months 30 Sept. 2006	9 months 30 Sept. 2007	9 months 30 Sept. 2006	9 months 30 Sept. 2007	9 months 30 Sept. 2006
Net sales	2,508,394	2,245,659	1,997,912	1,808,608	185,079	159,221	-	-	-	-	4,691,385	4,213,488
Inter-segment net sales	405,609	314,733	205,332	160,895	88,250	48,149	2,428	-	(701,619)	(523,777)	-	-
Cost of production	(1,582,398)	(1,428,416)	(881,575)	(801,422)	(152,529)	(103,812)	-	-	-	-	(2,616,502)	(2,333,650)
Inter-segment cost of production	(198,725)	(138,840)	(452,811)	(351,559)	(13,540)	(10,197)	-	-	665,076	500,596	-	-
<b>Gross profit</b>	<b>1,132,880</b>	<b>993,136</b>	<b>868,858</b>	<b>816,522</b>	<b>107,260</b>	<b>93,361</b>	<b>2,428</b>	<b>-</b>	<b>(36,543)</b>	<b>(23,181)</b>	<b>2,074,883</b>	<b>1,879,838</b>
Sales, administrative and research & development	(191,390)	(172,111)	(369,681)	(386,224)	(106,247)	(87,533)	(19,061)	(16,539)	(3,928)	(3,928)	(690,307)	(666,335)
Inter-segment sales, administrative and research & development	(12,100)	(15,892)	(20,167)	(6,505)	(3,981)	(1,762)	(296)	(340)	36,544	24,499	-	-
Other operating revenues	8,297	12,235	5,354	44,405	926	923	255	-	-	-	14,832	57,563
Inter-segment other operating revenues	-	1,264	-	-	1	54	-	-	(1)	(1,318)	-	-
Other operating expenses	(3,401)	(7,251)	(186)	(21)	(58)	(30)	(15)	(2)	-	-	(3,660)	(7,304)
<b>Operating profit / (loss)</b>	<b>934,286</b>	<b>811,381</b>	<b>484,178</b>	<b>468,177</b>	<b>(2,099)</b>	<b>5,013</b>	<b>(16,689)</b>	<b>(16,881)</b>	<b>(3,928)</b>	<b>(3,928)</b>	<b>1,395,748</b>	<b>1,263,762</b>
Other finance income, net	12,464	9,227	(1,991)	(237)	6,033	7,285	17,817	13,794	-	-	34,323	30,069
Income / (expenses) from subsidiaries and associated	(1,135)	283	92,400	(43)	-	1,377	1,315,000	1,250,000	(1,408,692)	(1,250,000)	(2,427)	1,617
<b>Profit before taxation</b>	<b>945,615</b>	<b>820,891</b>	<b>574,587</b>	<b>467,897</b>	<b>3,934</b>	<b>13,675</b>	<b>1,316,128</b>	<b>1,246,913</b>	<b>(1,412,620)</b>	<b>(1,253,928)</b>	<b>1,427,644</b>	<b>1,295,448</b>
Income tax on dividends	(249,615)	(253,896)	(121,282)	(119,481)	-	-	-	-	-	-	(370,897)	(373,377)
<b>Net profit for the period</b>	<b>696,000</b>	<b>566,995</b>	<b>453,305</b>	<b>348,416</b>	<b>3,934</b>	<b>13,675</b>	<b>1,316,128</b>	<b>1,246,913</b>	<b>(1,412,620)</b>	<b>(1,253,928)</b>	<b>1,056,747</b>	<b>922,071</b>
Attributable to:												
Equity holders of the parent	691,207	564,929	453,305	348,416	3,934	13,675	1,316,128	1,246,913	(1,412,620)	(1,253,928)	1,051,954	920,005
Minority interest	4,793	2,066	-	-	-	-	-	-	-	-	4,793	2,066
	<b>696,000</b>	<b>566,995</b>	<b>453,305</b>	<b>348,416</b>	<b>3,934</b>	<b>13,675</b>	<b>1,316,128</b>	<b>1,246,913</b>	<b>(1,412,620)</b>	<b>(1,253,928)</b>	<b>1,056,747</b>	<b>922,071</b>
<b>EBITDA</b>	<b>1,094,688</b>	<b>1,005,260</b>	<b>668,241</b>	<b>685,533</b>	<b>13,608</b>	<b>14,590</b>	<b>(16,661)</b>	<b>(16,845)</b>	<b>-</b>	<b>-</b>	<b>1,759,876</b>	<b>1,688,538</b>
Depreciation, amortization and write-downs	(160,402)	(193,879)	(184,063)	(217,356)	(15,707)	(9,577)	(28)	(36)	(3,928)	(3,928)	(364,128)	(424,776)

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

## NOTES TO THE FINANCIAL STATEMENTS

**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 Sept., 9 months 2007	30 Sept., 9 months 2006	30 Sept., 9 months 2007	30 Sept., 9 months 2006	30 Sept., 9 months 2007	30 Sept., 9 months 2006	30 Sept., 9 months 2007	30 Sept., 9 months 2006	30 Sept., 9 months 2007	30 Sept., 9 months 2006	30 Sept., 9 months 2007	30 Sept., 9 months 2006
Non-current assets (except investments in subsidiaries & associates)	917,971	814,768	1,490,779	1,297,734	55,598	33,274	193	266	56,818	74,487	2,521,359	2,220,529
Investments in subsidiaries and associates	8,082	9,365	6,738	468,018	-	-	1,428,644	1,317,383	(1,428,644)	(1,777,466)	14,820	17,300
Current assets	900,033	830,081	1,225,017	490,912	64,986	428,470	506,320	611,811	(724,226)	(285,097)	1,972,130	2,076,177
<b>Total assets</b>	<b>1,826,086</b>	<b>1,654,214</b>	<b>2,722,534</b>	<b>2,256,664</b>	<b>120,584</b>	<b>461,744</b>	<b>1,935,157</b>	<b>1,929,460</b>	<b>(2,096,052)</b>	<b>(1,988,076)</b>	<b>4,508,309</b>	<b>4,314,006</b>
Equity attributable to equity shareholders of the parent	1,365,349	1,267,698	1,905,660	1,830,914	26,954	390,201	1,923,600	1,922,678	(1,371,828)	(1,692,580)	3,849,735	3,718,911
Minority interest	9,823	2,532	-	-	-	-	-	-	-	-	9,823	2,532
Non-current liabilities	24,733	12,670	301	720	636	-	-	1,946	-	-	25,670	15,336
Current liabilities	426,181	371,314	816,573	425,030	92,994	71,543	11,557	4,836	(724,224)	(295,496)	623,081	577,227
<b>Total shareholders' equity and liabilities</b>	<b>1,826,086</b>	<b>1,654,214</b>	<b>2,722,534</b>	<b>2,256,664</b>	<b>120,584</b>	<b>461,744</b>	<b>1,935,157</b>	<b>1,929,460</b>	<b>(2,096,052)</b>	<b>(1,988,076)</b>	<b>4,508,309</b>	<b>4,314,006</b>
Net cash from/ (used in) operating activities	769,104	736,963	471,100	484,644	(2,737)	13,606	1,322,776	1,252,029	(1,327,830)	(1,250,000)	1,232,413	1,237,242
Net cash from/ (used in) investing activities	(196,645)	(193,464)	(203,734)	(399,722)	(30,240)	(30,233)	282,422	264,255	299,901	179,016	151,704	(180,148)
Net cash from/ (used in) financing activities	(883,879)	(850,739)	(174,402)	(238,099)	29,190	16,402	(1,310,568)	(1,241,591)	1,027,929	1,070,984	(1,311,730)	(1,243,043)
Exchange rate differences in cash and cash equivalents	-	-	(249)	(640)	-	-	49	48	-	-	(200)	(592)
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>(311,420)</b>	<b>(307,240)</b>	<b>92,715</b>	<b>(153,817)</b>	<b>(3,787)</b>	<b>(225)</b>	<b>294,679</b>	<b>274,741</b>	<b>-</b>	<b>-</b>	<b>72,187</b>	<b>(186,541)</b>
CAPEX	196,796	159,008	297,641	376,443	29,772	16,208	-	6	(12,830)	-	511,379	551,665

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT  
 NOTES TO THE FINANCIAL STATEMENTS

**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	
	9 months to 30 Sept. 2007	9 months to 30 Sept. 2006	9 months to 30 Sept. 2007	9 months to 30 Sept. 2006	9 months to 30 Sept. 2007	9 months to 30 Sept. 2006	9 months to 30 Sept. 2007	9 months to 30 Sept. 2006
Revenue from customers in Estonia	2,404,548	2,125,066	1,808,416	1,602,042	179,539	153,912	4,392,503	3,881,020
Revenue from customers outside Estonia	103,846	120,593	189,496	206,566	5,540	5,309	298,882	332,468
	<b>2,508,394</b>	<b>2,245,659</b>	<b>1,997,912</b>	<b>1,808,608</b>	<b>185,079</b>	<b>159,221</b>	<b>4,691,385</b>	<b>4,213,488</b>

**AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT**

**NOTES TO THE FINANCIAL STATEMENTS**

**3. Tangible and intangible assets**

In thousand of Estonian kroons (EEK)

	Tangible assets	Intangible assets
<i>At 31 December 2005</i>		
Cost	<b>8,561,655</b>	<b>333,230</b>
Accumulated depreciation	(6,727,739)	(166,542)
<b>Net book value</b>	<b>1,833,916</b>	<b>166,688</b>
<b>Changes in the first nine months 2006</b>		
Opening net book amount	1,833,916	166,688
Additions	544,839	47,018
Acquired on business combination	910	-
Reclassification	(9,263)	9,263
Reclassification to assets classified as held-for-sale	(2,729)	-
Disposals	(863)	-
Depreciation charge	(399,901)	(24,875)
<b>Closing net book amount</b>	<b>1,966,909</b>	<b>198,094</b>
<i>At 30 September 2006</i>		
Cost	8,951,749	389,052
Accumulated depreciation	(6,984,840)	(190,958)
<b>Net book value</b>	<b>1,966,909</b>	<b>198,094</b>
<i>At 31 December 2006</i>		
Cost	<b>8,859,076</b>	<b>403,974</b>
Accumulated depreciation	(6,814,481)	(189,928)
<b>Net book value</b>	<b>2,044,595</b>	<b>214,046</b>
<b>Changes in the first nine months 2007</b>		
Opening net book amount	2,044,595	214,046
Additions	506,460	4,919
Reclassification	(1,590)	1,590
Reclassification to assets classified as held-for-sale	(760)	-
Disposals	(751)	-
Depreciation charge	(337,356)	(26,772)
<b>Closing net book amount</b>	<b>2,210,598</b>	<b>193,783</b>
<i>At 30 September 2007</i>		
Cost	<b>9,282,298</b>	<b>410,683</b>
Accumulated depreciation	(7,071,700)	(216,900)
<b>Net book value</b>	<b>2,210,598</b>	<b>193,783</b>

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### NOTES TO THE FINANCIAL STATEMENTS

#### 4. Investments in subsidiaries

	Country of incorporation	Ownership interest		Principal activity	Owner
		30 September 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 <sup>1)</sup>	Estonia	-	100%	Holding Company	Elion Enterprises AS
AS MicroLink Eesti <sup>1)</sup>	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 Eesti Telekom
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 structure of the Eesti Telekom Group became effective.

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### NOTES TO THE FINANCIAL STATEMENTS

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, 100% subsidiary of Elion Enterprises AS. Purchase price of acquisition was 111.0 million kroons. The deal did not have an impact on financial positions of the ETL.

From 1 July 2007 AS MicroLink, a holding company, merged with Elion Enterprises AS.

#### 5. Investments in associates

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

#### 6. Inventories

In the first nine months 2007, the value of the inventories was not decreased (the first nine months 2006: 626 thousand EEK).

#### 7. Equity

##### a) Issued capital

	30 September 2007	31 December 2006
<b>Ordinary shares issued</b> 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 22 May 2007, authorized AS Eesti Telekom to acquire within one year from the adoption of this resolution, i.e. until 22 May 2008 (the same authority, which was obtained from last Annual General Meeting on 18 May 2006, terminated on 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



## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### NOTES TO THE FINANCIAL STATEMENTS

each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council. As of 30 September 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
<b><i>III Quarter</i></b>		
Net profit attributable to equity holders of the Company (EEK)	507,022,000	469,777,000
The average number of ordinary shares	137,954,528	137,954,528
<b>EPS</b>	<b>3.68</b>	<b>3.41</b>
<b><i>The first 9 months</i></b>		
Net profit attributable to equity holders of the Company (EEK)	1,051,954,000	920,005,000
The average number of ordinary shares	137,954,528	137,954,528
<b>EPS</b>	<b>7.63</b>	<b>6.67</b>

#### 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):

	9 months to 30 Sept. 2007	2006	9 months to 30 Sept. 2006
Ordinary share highest price	168.51	131.43	131.43
Ordinary share lowest price	102.80	108.74	108.74
Ordinary share average price	129.09	120.38	120.08

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### NOTES TO THE FINANCIAL STATEMENTS

#### 8. Borrowings

In thousand of Estonian kroons (EEK)

	30 September 2007	31 December 2006
Non-current	1,656	3,124
Current	2,286	2,742
	<b>3,942</b>	<b>5,866</b>

The movements in the borrowings can be analyzed as follows:

<b>Opening balance 31 December 2006</b>	<b>5,866</b>
Proceeds of borrowings	191
Repayments of borrowings	(1,353)
Other movements	(762)
<b>Closing balance 30 September 2007</b>	<b>3,942</b>

#### 9. Retirement benefit obligations

In thousand of Estonian kroons (EEK)

<b>31 December 2006</b>	<b>8,777</b>
Benefits paid in the reporting period	(662)
Interest accrued	126
<b>30 September 2007</b>	<b>8,241</b>
Current portion of retirement benefit obligations (-)	(4,731)
Non-current portion of retirement benefit obligations	3,510

#### 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	<b>Total</b>
<b>At 31 December 2006</b>	<b>19,183</b>	<b>3,171</b>	<b>2,132</b>	<b>1,980</b>	<b>961</b>	<b>27,427</b>
Additional provision in the reporting period	683	-	-	-	331	<b>1,014</b>
Used provisions during the reporting period	-	(3,171)	(503)	-	(325)	<b>(3,999)</b>
Decrease of provision in the reporting period	-	-	(1,629)	-	(160)	<b>(1,789)</b>
<b>At 30 September 2007</b>	<b>19,866</b>	<b>-</b>	<b>-</b>	<b>1,980</b>	<b>807</b>	<b>22,653</b>
Current portion of provision (-)	-	-	-	(1,980)	(171)	(2,151)
Non-current portion of provision	19,866	-	-	-	636	20,502

**AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT**

**NOTES TO THE FINANCIAL STATEMENTS**

**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 nine months 2007 and 2006 were as follows (in thousand of Estonian kroons (EEK)):

	<b>9 months to 30 September 2007</b>	<b>9 months to 30 September 2006</b>
Salaries and other short-term employee benefits	40,599	41,897
Termination benefits	942	234
Other	358	473
	<b>41,899</b>	<b>42,604</b>

## AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT

### NOTES TO THE FINANCIAL STATEMENTS

#### c) Trading transactions

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

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

	9 months to 30 September 2007	9 months to 30 September 2006
<b><i>Telecommunication services provided</i></b>		
Associated companies	1,589	1,299
Shareholders	126,794	160,660
Companies where Supervisory Council members of the Group have significant influence	388	130
	<b>128,771</b>	<b>162,089</b>
<b><i>Other sales</i></b>		
Associated companies	4,460	3
Shareholders	5,812	1,456
Companies where Supervisory Council members of the Group have significant influence	39	5
	<b>10,311</b>	<b>1,464</b>
<b><i>Telecommunication services purchased</i></b>		
Associated companies	246	333
Shareholders	133,695	132,988
	<b>133,941</b>	<b>133,321</b>
<b><i>Other services purchased</i></b>		
Associated companies	215	411
Shareholders	9,441	3,818
Companies where Supervisory Council members of the Group have significant influence	661	54
	<b>10,317</b>	<b>4,283</b>
<b><i>Financial income</i></b>		
Associated companies	-	199
Shareholders	15	-
	<b>15</b>	<b>199</b>
<b><i>Amount owed by related parties</i></b>		
Associated companies	252	4,257
Shareholders	24,295	39,957
Companies where Supervisory Council members of the Group have significant influence	53	3
	<b>24,600</b>	<b>44,217</b>
<b><i>Amount owed to related parties</i></b>		
Associated companies	35	7,060
Shareholders	21,906	31,378
Key management and supervisory council	13,112	5,471
	<b>35,053</b>	<b>43,909</b>

**AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2007 INTERIM REPORT**  
**NOTES TO THE FINANCIAL STATEMENTS**

## 12. Contingencies

In thousand of Estonian kroons (EEK)

	30 September 2007	31 December 2006
Key management termination benefits	17,840	17,736

### *Court Actions*

- **Dispute over the fees for Kodulahenduse and Kõneaja boonus**

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. On 22 September 2007 the Supreme Court of the Republic of Estonia satisfied the appeal of cassation of Elion Enterprises AS and annulled the previous judgements in full in favour of Elion Enterprises AS.

### *Relations with the regulator*

- According to the Communications Board resolution of March 21, 2006 No J.1-50/0612 "Designation of Undertakings Having Significant Market Power in Voice Call Termination Wholesale Market on Individual Mobile Networks" there should have been taken place the reduction in mobile termination tariffs respectively as of July 1, 2006 and July 1, 2007 in order to approximate gradually the tariffs to the European countries with lowest mobile termination tariffs. As Tele2 Eesti AS and Elisa Eesti AS have appealed the resolution in administrative court and the court proceedings still continue, the mobile termination tariffs have remained in the previous level, i.e. EEK 2.50 per minute. AS EMT and Elion Ettevõtte AS are participating in both court proceedings as third parties. The enforced judgements in both referred court proceedings reflect directly also the termination tariffs implied by AS EMT.

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

### **Management Board:**

Valdo 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:**





Mats Salomonsson	-	Chairman of the Supervisory Council
Anders Gylder	-	Member of the Supervisory Council
Lars Gunnar Klasson	-	Member of the Supervisory Council
Jörgen Latte	-	Member of the Supervisory Council
Tarmo Porgand	-	Member of the Supervisory Council
Aare Tark	-	Member of the Supervisory Council
Heido Vitsur	-	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 third quarter and the first nine months 2007 as set out on pages 3 to 30.

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, 18 October 2007