Consolidated Annual Report of AS Eesti Telekom 2007

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Field of activity	Activities of holding company
Auditor	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

In 2007 Eesti Telekom group was characterized by good profitability growth. Satisfaction can be gained from growth of client base, growth of DigiTV rapid popularity and also from increase of mobile data usage.

Economic environment

Economic growth in Estonia after accession to the European Union has been very rapid. This has been based on an increase in the trustworthiness of the state, the opening of the labor market, as well as the development of the financial sector.

Developments in the world's economy and financial markets also affected Estonia's economy in 2007. An anticipated slowdown in the growth of the Estonian economy started. By the end of the year, Estonia's economic growth reached 7%, which was based on reductions in domestic consumption and real estate investments. Some events from the economic developments of 2007 can be highlighted. Deteriorating relations with Russia; a faster than expected cooling of the real estate market; the continued acceleration of wage increases, the faster than predicted rise in world foodstuff and fuel prices, which, together with the domestic inflationary pressure incidental to fast wage increases, accelerated inflation.

In 2007, the telecommunications sector demonstrated good results. The merger and purchase of companies helped the development and growth of the sector. The consequences of the US junk-loan crisis that started at the end of the year, had an effect on the future of world economic development and therefore also the telecommunications sector. Price increases in energy, raw materials, and foodstuffs significantly reduced consumption which increases competition in the sector and reduce profit expectations.

According to analysts, uncertainty in the Estonian economy is increased by the developments in the world. In 2008, economic growth of 4–5% is projected for the Estonian economy.

Telecommunications market

More than ever before, European telecommunications operators are being forced to juggle the decreasing revenues of their principal activities on the one hand, with the opportunity of conquering new attractive markets related to new technologies and innovative services on the other hand. The communications sector is the only field of activity where prices continue to fall, while the resources necessary for the provision of communications services – personnel costs, fuel, rents, and knowledge-based development services – are all becoming more expensive. A general trend in the communications sector is that the service itself is no longer as important as the content that is provided to the client. The need for interactivity is also increasing.

In the mobile communications field, the trend of "adding intellect" to the terminal equipment is continuing. In other words, modern mobile phones are increasingly becoming computers with good multimedia features, and the connections to mobile communications networks that are becoming faster, creating a combination that delivers good results. The effects of Internet-based social networks and UGC (User Generated Content) or content created by the users themselves – photo and video albums, blogs – continue to expand. Virtual reality environments are improving and becoming increasingly popular.

Last year, the development of mobile-ID definitely turned a new page in the use of mobile phones, whereby they have also become a secure means of providing authentication and electronic signatures for using modern e-services. Currently, many types of location-based services, which have been available to Estonian users for many years, are gathering steam but the rapid development of mobile terminals – the integration of GPS satellite positioning and mobile-network-based positioning and the improvement of map applications – make the use of these services more convenient and faster.

Even today, hundreds of thousands of people use m-Internet and this continues to increase. The expansion of the coverage area of today's high-speed 3.5G mobile communications network provides an opportunity for more people to satisfy their Internet needs by mobile means even outside urban areas. The maximum speed of up to 7.2Mbps for downloading and 1.4Mbps for uploading is significantly better than the speeds of many permanent home connections. Of course, due to fluctuations in mobile communications, it is only possible to approach maximum speeds near the base stations, if there are few hindrances, although the maximum megabits per second are becoming a reality in an ever-widening area.

In the broadband segment, the latest significant innovations and technological developments are related primarily to the development of DigiTV. The implementation of IPTV (television through the Internet) has allowed significantly different television transmission to be provided to the Estonian population. Compared to other television transmission methods, IPTV technology provides significantly more possibilities (Internet and TV transmission synergy) compared to other means of transmission and provides the opportunity to provide very different additional services through the TV screen in the future.

As of May 2007, Elion was the first in Estonia to provide video rental, which is available to all DigiTV clients. What is innovative about this service is that people can rent films without leaving home. The introduction of video rental to the market means that people's habits in using certain services change with the development of technology – people use the same services but in a different way.

In October 2007, Elion and EMT opened the first digital music sales environment in Estonia, which contains about 4 million songs from foreign and Estonian artists from 12,000 record companies around the world. The music store is available to clients from the hot.ee Internet portal and EMT mobile portal SurfPort. In November, the provision of the Pildialbum (PictureAlbum) service was also introduced. This is an added-value service based on the hot.ee environment and Elion IP-based television, which allows the users to load their photos onto the web and exchange them with friends through their TVs.

The Eesti Telekom group

The 2007 Eesti Telekom group results reflect the favorable economic environment as well as developments in the telecommunications sector.

Compared to previous year, the economic results for the Eesti Telekom group were good. The largest increase in revenues was produced by the mobile communications service segment – contributions were made by new customers, increased call minutes, equipment sales, as well as the growth of data communications. In the broadband services segment, the triple solution demonstrated good sales results. However, the IT services segment had the greatest proportional growth.

The following developments in the Group's course of activity are rewarding:

- The AS EMT mobile data communications revenues exceeded revenues for the same period in 2006 by 50%. The number of mobile data communications users increased by 51 thousand during the year. The increase of popularity in mobile data communications is based on the one hand on the introduction of new data communications packages based on monthly fees introduced to the market in the summer of 2007, and on the other hand, on the dynamic expansion of the 3G coverage area, which has allowed clients to use high-quality and high-speed data communications with conveniently controllable costs.

- The use of Mobiil-ID (Mobile-ID) introduced to the market in May 2007 is growing rapidly. New users are being added and the frequency of use by current users is also increasing, which demonstrates that people have accepted the idea that Mobile-ID is a secure and convenient way to operate in the Internet.

- Of all DigiTV clients, one in two has chosen Elion as their service provider, whereby the company has captured over half of the DigiTV market in one year, this is primarily because Internet-based television allows for services to be provided in a new innovative way. The number of DigiTV users has doubled during 2007. The video rental service that was introduced to the market in the first half of 2007 has become very popular among clients due to its convenience and simplicity of use.

- As of July 1st, MicroLink Eesti was transferred from Elion Enterprises to the direct management of Eesti Telekom. The main purpose of the transfer was to place greater importance on the IT business at Eesti Telekom. With its rapid increase in turnover, MicroLink Eesti is among the best IT companies in the Baltic countries. At the same time, Microlink was recognized by Sun MicroSytems, the world's largest manufacturer of servers, which chose MicroLink as its best cooperation partner in the Baltic states.

The structure of the Eesti Telekom group

As of July 1, 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. The holding company, AS MicroLink, was merged with Elion Enterprises.

The goal of the changes was to improve the customer service and efficiency of the Eesti Telekom group and to improve cooperation between the companies in the Group.

Financial results

Revenues, costs, profit

The consolidated sales revenues of the Eesti Telekom group in 2007 reached 6,261 million EEK, increasing by 9% compared to 2006 (2006: 5,768 million EEK).

Over 50% of the outside revenue growth of the Eesti Telekom group came from the mobile communications services segment. The sales revenues for the mobile communications services segment in 2007 were 3,904 million EEK, increasing by 12% compared to 2006 (2006: 3,502 million EEK). The costs for the mobile communications services segment outside the Eesti Telekom group increased by 9% and the revenues of the Group's subsidiaries dealing with trading by 3%.

The revenue increase of the principal activity of the mobile communications services segment during the last year was primarily related to an increase in the number of call minutes initiated from and completed in the EMT network and the growth of mobile data communications. The number of call minutes initiated from the EMT network increased by approximately 14% compared to 2006. The increased number of call minutes is based on more active use by the customer.

During the year, the number of call minutes per customer has also increased and the number of call minutes initiated from the EMT network per customer has increased by 8% compared to 2006. The large number of call minutes also compensated for the drop in minute rates that continued in 2007 and the revenues earned from call services (including the monthly fees for packages that allow for a specified number of call minutes for a fixed monthly fee) increased by almost 11% compared to 2006. The number of call minutes terminated in the EMT network increased at approximately the same tempo as the call minutes initiated from the EMT network.

Compared to the end of 2006, the customer base of AS EMT was larger by 6 thousand, reaching 765 thousand active SIM cards (December 2006: 759 thousand cards). Compared to a year ago, the number of contractual clients increased by 36 thousand, reaching 469 thousand, while at the same time, the number of users of active pre-paid cards decreased by 30 thousand to 296 thousand by the end of the year. As opposed to the previous year, an aggressive campaign to attract new pre-paid card users was not organized at the end of 2007. EMT assesses its market share of active SIM cards as 48%. The approximate penetration of active cards in Estonia is 119%.

Very rapid growth continued to be demonstrated by mobile Internet revenues. 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 eightfold. The number of AS EMT mobile data communications users in December 2007 was 161 thousand, 51 thousand more users than a year ago. The increase in popularity of mobile data communications is caused, on the one hand, by the introduction on new data communications packages with fixed monthly fees in the summer of 2007, and on the other hand, by the dynamic expansion of the 3G coverage area, which provided clients with quality and high-speed data communications at conveniently controllable prices. At the end of 2007, 3G coverage extended to all the county seats in Estonia, as well as many other towns and their vicinities. Rapid development in the private segment was caused by the EMT Internet startup package, which includes a free high-speed 3.5G modem for loyal customers signing up for the EMT Internet 399 package. 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. In the fourth quarter of 2007, EMT doubled the downloading speed of the 3.5G network to 7.2 Mbit/sec, which increased both the capacity of the network as well as the speeds provided to the users. At the same time, the EMT also introduced faster data uploading in the 3.5G network (so-called HSUPA), which increased speeds for the senders of voluminous e-mails over three times to 1.4 Mbit/sek.

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

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

In 2007, AS EMT earned average revenues of 341 EEK per client per month, which is 2.7% more than in 2006 (2006: 332 EEK).

In 2007, the sales revenues for the broadband services segment increased by 9%, reaching 2,984 million EEK (2006: 2,748 million EEK). The most significant impact on the growth of sales revenues was caused by the continued increase of the number of customers for integrated solutions, which increased the revenues earned from these monthly fees by 54%. As a result of the increase in the users of integrated solutions, the revenues earned from the monthly fees for single Internet connection products have decreased by 12%.

During the year, the choice of Elion integrated solutions has constantly expanded. At the end of 2007, a VoIP Business Solution was introduced to the market, which differs from the usual Business Solution primarily due to Internet calling and additional call communications services. As of August 2007, private clients have been offered a Korrusmaja (Multi-Story) solution including DigiTV.

At the end of 2007, the number of Elion Group triple package clients reached 53.5 thousand (31 December 2006: 25.5 thousand). The popularity of the triple package has been significantly enhanced by the offering of supplemental services. The video rental service that was introduced to the market in the first half of 2007 has proven to be very popular among clients due to the convenience and simplicity of its use. The service has no monthly or subscription fee and films can be rented for a one-time fee, which is added to the monthly service bill. The selection of rental films, karaoke videos, and programs has also constantly improved. As a result of a successful marketing campaign, 207,000 viewings were achieved by the end of 2007. As of October, Elion in cooperation with the Estonian Conference Center and SEB Eesti Ühispank offers free video rental of lectures from Estonia's top conferences. The objective of the service is to make educational services available to as many people as possible. Thanks to the development of the video rental system, Elion was chosen as the winner in the Innovator 2007 category of the enterprise competition organized by Enterprise Estonia.

Starting in October 2007, clients of Elion's Home and Multi-Story Solutions can watch DigiTV on several TV sets. Home Solution clients have the opportunity to order an additional DigiTV viewing location, while Multi-Story Solution clients are offered the opportunity for up to four additional viewing locations. In order to enable ADSL2+ lines to transmit two TV pictures, the downloading speed for Home Solution DigiTV clients was increased. As of February 2007, Elion is the first in Estonia to provide new generation high-definition television (HDTV) services, which initially are only available to Elion cable TV clients.

In December, a new service called PictureAlbum was also introduced to the market. This is an added-value service based on the hot.ee environment and Elion IP-based television, which allows the users to load their photos onto the web and exchange them with friends through their TVs. The service is available for use by all registered hot.ee clients.

By the end of 2007, the total number of Elion IP and cable TV clients reached 58 thousand, which is 109% more than at the end of 2006 (31 December 2006: 28 thousand clients). In June, Elion also started to offer DigiTV to business clients, thereby providing high-quality digital television broadcasts to offices, public service institutions, and lodging establishments.

The number of permanent Internet connection in the broadband services segment increased by 16% in 2007, reaching 163 thousand by the end of the year (December 2006: 141 thousand). The growth of the number of the Group's permanent Internet connections coincided with the growth of the volume of the entire Internet market. Elion assesses that its Internet market share among private clients continues to be 56%. In May 2007, Elion Enterprises received a license from the Communications Board for the 3.7 GHz frequency band that allowed Elion to develop a network of WiMAX base stations across Estonia. In the second half of the year, base stations were installed in all the counties, except for Hiiu and Põlva Counties. As a result, the number of Elion's Internet connections based on WiMAX technology increased 3.5 times in 2007.

The rental revenues for connections in the broadband services segment increased in 2007 by 44%, which was based primarily on greater sales volumes of services with lower margins.

Although call communications around the world are moving from fixed networks to mobile networks, the fixed-line telephone continues to be a popular means of communication in Estonia and this especially among business clients, among whom the number of telephone lines has increased in recent years. Despite the decrease in the market volume of fixed call communications and of Elion's intra-network call revenues, Elion's market position continues to be strong. Elion assesses its market share for call minutes initiated in a fixed network to be 81% (December 2006: 83%). In 2007, Elion Group's call revenues increased by 3% compared to 2006. The increase was based primarily on domestic call transit and an increase in the volume of international calls initiated from the mobile network. During the year, the revenues for international calls initiated from the mobile network and domestic call transit increased by 60% and 168% respectively. At the same time, the revenues from intra-network calls decreased by 14%.

In 2007, Elion started to offer a Business Client VoIP service that enables communications over the Internet, which, in addition to a VoIP number includes 10 e-mail addresses and the possibility of hosting the company's website. In November, the testing of a Private Client VoIP product was started in areas where ordinary telephone connections cannot be provided.

The number of Elion call interfaces reached 487 thousand by the end of 2007 (31 December 2006: 463 thousand interfaces). The increase in the number of call interfaces is based on the company's energetic activities directed at keeping existing clients and finding new ones. A significant impact on the increase in the number of interfaces was caused by additional users of integrated solutions, since telephone connections are also a component of double and triple packages.

Retail sales revenues in the broadband services segment increased by 18%, including revenues from the sale of home electronics, computers and supplementary appliances that demonstrated the greatest growth. Thanks to the increase in the number of financing contracts, the financing revenues from private and business clients increased by 42% compared to 2006. A significant accomplishment was the creation of the possibility to formalize installment payment contracts in Elion's e-store. This is the first fully automatic installment payment solution in Estonia, which has quickly become popular among clients. By the end of the year, the majority of Elion's e-store clients had used the installment purchase option.

In October 2007, Elion, in cooperation with its sister company AS EMT, opened a digital music sales environment, which is the first in Estonia to offer the works of both local and international artists. The music store contains about 4 million foreign and Estonian songs from 12,000 record companies around the world. The music store is available to clients through the hot.ee Internet environment and the EMT mobile port, SurfPort.

In 2007, sales revenues in the IT services segment reached 365 million EEK (2006: 280 million EEK). The increase in sales revenues of the IT services segment, without the Võrguteenuse (Network Service) business sphere that was transferred to Elion Enterprises in 2006, was 38% compared to the same period last year, increasing from 265 million to 365 million EEK. The sales turnover for IT services increased by 31% and the sales turnover for IT merchandise by 45%.

The most important events in the IT services segment in 2007 were the startup of customer management, the renewal of many important contracts and the implementation of important IT solutions, as well as the creation of a sales unit for standard leased services.

In respect to the sale of IT merchandise to business clients, undeniably the largest transaction was winning the procurement for the Schengen information system platform financed within the framework of the Schengen Facility Program and its successful implementation, in which MicroLink Eesti executed the SIS infrastructure solution. In addition, several large IT infrastructure solutions were executed for business clients based on HP and SUN products, including the Molcode GRID solution and the cyber-defense project at the Ministry of Defense. From a sales standpoint, the development of cooperation with HP and the creation of a HP sales and support services team, as well as the startup of cooperation with Symantec in the field of data security and archiving solutions was important.

In the Business Solutions area, the largest contracts concluded by MicroLink Eesti were for implementation of a digi-recipe and digi-picture archival information system for the Ministry of Social Affairs and a document management system for the Tax and Customs Board. The given projects will continue in 2008. In addition to the startup of the Dynamics AX financial accounting system at Elion Enterprises. OpenText, the world's leading software corporation, chose MicroLink Eesti as its best partner in Central and Eastern Europe. At the end of 2007, MicroLink's first Livelink modules were exported to Lithuania. MicroLink Eesti took over the representation of Progress software in Estonia from AS Andmevara. As of 1 December 2007, MicroLink has the right to sell OpenEdge, Sonic, Actional, Business Objects (Crystal Products) and Tugboat (Roundtable) products. For OpenEdge, MicroLink is the only authorized reseller in Estonia.

In respect to the development of leased services, the emphasis last year was on putting the existing product portfolio in order and standardizing it, with the goal of finding suitable solutions for servicing mid-and small-sized companies. Based on the complexity of a client's office solutions and how crucial its effectiveness is, the sales units now have a choice of three solutions based on different taxation principles, as well as special solutions. In 2007, the greatest victories in the area of leased services included the hosting of the Construction Register of the Ministry of Economics and Communications, the renewal of the SAP application hosting agreement with the Tallinn City Government, the

CV Online backup data center service, the procurement for the Estonian Informatics Center e-health development environment and the hosting of the Tallinn Space Register.

At the beginning of this year, there are plans to introduce a number of office solutions that use standard server solutions—starting from simple file and printer servers to the hosting of financial and customer management software. In addition, there are plans to introduce several simple solutions related to data recording and data security and to provide monitoring and administrative services for the servers administered by the clients themselves.

The Eesti Telekom group total revenues for the retailing and wholesaling of telecommunications and IT merchandise increased in 2007 by almost 17% compared to 2006, thanks primarily to greater volumes of sold merchandise.

The operating costs of the Eesti Telekom group increased by 9% in 2007 reaching 3,947 million EEK (2006: 3,621 million EEK).

In 2007, the operating costs in the mobile communications services segment were 2,463 million EEK, increasing during the year by 14% (2006: 2,158 million EEK). The principal part of the supplemental operating costs is related to principal activities. Operating costs increases in connection with greater costs for interconnection services (resulting from an increase in the number of call minutes made by clients to other networks) and increased roaming costs. The generally strong pressure on wages in the Estonian economy had an effect on the mobile communications services segment and the personnel costs increased by 17% compared to 2006. At the same time, the ratio of personnel costs in the total costs of the mobile communications services segment is relatively modest. Since the retailing and wholesaling of telecommunications and IT merchandise is a field of activity with very low profitability compared to the principal activity, then the increase in the trading revenues of the mobile communications services segment is accompanied by a comparable large increase in operating costs.

In 2007, the operating costs in the broadband services segment reached 2,115 million EEK (2006: 1,935 million EEK), increasing 9% during the year. More than half of the additional operating costs resulted from increases in the service volumes. The greatest increases were in sales costs for connections, purchase costs for network resources, the costs for international outgoing termination units, and the retail sales costs of merchandise. Personnel costs increased, basically due to increases in salary costs, by 18% compared to 2006. Costs for the maintenance of communications equipment and buildings increased during last year by 10%. Marketing costs in the broadband services segment increased by 35% during the year and IT costs by 34%. The increase in IT costs was primarily related to the more active purchase of services from MicroLink Eesti.

The operating costs of IT services segment increased in 2007 by 30% compared to the previous year, reaching 343 million EEK (2006: 264 million EEK).

The Eesti Telekom group **EBITDA** in 2007 was 2,336 million EEK (2006: 2,195 million EEK).

The EBITDA of the mobile communications services segment increased by 3% compared to 2006 reaching 1,387 million EEK (2006: 1,346 million EEK). The modest growth is basically related to the one-time provision of 62 million EEK created in 2007 in order to cover possible retroactive claims resulting from interconnection fee disputes.

Pursuant to the resolution of the Communications Board dated 21 March 2006, the termination fee for voice calls in the mobile phone networks (interconnection fee) for AS EMT, Elisa Eesti AS and Tele2 Eesti AS for the period 1 July 2006 to 30 June 2007 was fixed at 2.05 EEK per minute, and pursuant to the resolutions of the Communications Board dated 20 June and 22 June 2007, was fixed at 1.66 EEK for the period 1 July 2007 to 30 June 2008. Since Elisa Eesti AS and Tele2 Eesti AS disputed the decisions in court, and in the course of provisional legal protection, the validity of the aforementioned administrative act was suspended, the interconnection fees of all three mobile operators remained at 2.50 EEK until 5 November 2007. On 5 November 2007, the ruling of the Tallinn Circuit Court came into force, whereby the provisional legal protection was cancelled and all three mobile operators were obligated to apply interconnection fees of 1.66 EEK.

The possible effect of a retroactive claim on the consolidated profit of the Eesti Telekom group is eliminated since Elion Enterprises has submitted claims to the three mobile operators that exceed the EMT provision.

The EBITDA of the broadband services segment also increased by 3% in 2007 reaching 882 million EEK (2006: 858 million EEK). Here the modest growth of EBITDA is primarily affected by the profit of 43 million EEK that Elion Enterprises earned from the sale of real estate in the second quarter of 2006. The given factor is reflected in the consolidated data of the Eesti Telekom group.

In 2007, the EBITDA of IT services segment reached 24 million EEK (2006: 27 million EEK, including revenues from the disposal of the Metroo network).

The Eesti Telekom group EBITDA margin has declined somewhat during the year, reaching 37.3% in 2007 (2006: 38.1%).

The Eesti Telekom group's **depreciation costs** in 2007 were 496 million EEK (2006: 548 million EEK). The decrease of depreciation costs was mainly affected by the application of new depreciation rates in 2006. At the beginning of 2006, TeliaSonera established new uniform useful life spans for the fixed assets for their 100% subsidiaries. The companies of the Eesti Telekom group also decided to apply the depreciation periods suggested by TeliaSonera as of 1 May 2006. In connection with the application of new depreciation periods, adjustments were not made regarding the depreciation costs already calculated on the fixed assets. The lengths of the remaining useful life spans were adjusted for the existing fixed assets.

During last year, the Eesti Telekom group earned an **operating profit** of 1,840 million EEK which was an increase of 12% compared to 2006 (2006: 1,646 million EEK). The financial revenues (net) earned by the Eesti Telekom group increased somewhat in 2007 compared to 2006, reaching 46 million EEK (2006: 41 million EEK).

On 1 July 2007, AS Microlink sold AS MicroLink Eesti shares to AS Eesti Telekom. The unrealized intra-group profit from the sale of the shares was 93.7 million EEK.

In 2007, AS Eesti Telekom paid its shareholders record-setting dividends. Despite the increase in the amount of dividends, the income tax due on the dividends decreased in connection with the decrease in the tax rate, reaching 371 million EEK in 2007 (2006: 373 million EEK).

The Eesti Telekom group earned a **net profit** of 1,512 million EEK in 2007 (2006: 1,314 million EEK). The income per shares reached 10.91 EEK (2006: 9.49 EEK).

Investments

During 2007, the Eesti Telekom group invested 863 million EEK (2006: 771 million EEK) into tangible and intangible fixed assets.

The mobile communications services segment has invested 330 million EEK in 2007 (2006: 274 million EEK). In mobile communications, in addition to continuous GSM network development, a large field of development was the implementation of technologies supporting high-speed mobile data communications. By the end of the year, EDGE, which operates on the basis of the GSM network, covered 94% of base stations. A noteworthy result was achieved in the development of the 3G network—all Estonia's county seats were covered. As of November 2007, it is possible to use data communications speeds of up to 7.2 Mbits/s for downloading and 1.4 Mbit/s for uploading in the 3G network. In addition, the reliability of the network was significantly increased— all the exchanges of the network were put into operation as a single resource, so that a failure of one exchange will not cause the base station serving it to fail or cause a widespread disruption of service. In the second quarter of 2007, the development of the Mobile-ID service was completed. Mobile-ID is a mean of authentication developed in cooperation with the Certification Center, an associated company of the Eesti Telekom group, which is actually a further development of the ID card in the mobile phone. Mobile-ID enables the convenient but secure verification of an individual's identity, without requiring the existence of a special card reader. Since people always carry their mobile phones, this provides greater freedom in the execution of Internet transactions that need the verification of an individual's identity and the provision of digital signatures. Mobile-ID promotes e-services that require great security, for instance, the use of e-banking or the e-tax board, making this possible even in public Internet points or abroad. Cooperation has already been started in Latvia and Lithuania to develop Mobile-ID into a personal identification and electronic signature service based on a uniform technical standard that could unite the three Baltic countries.

During the 12 months of 2007, investments into fixed assets in the broadband services segment reached 513 million EEK (2006: 467 million EEK). The principal part of the investments continued to be directed at improving the availability of permanent connections and DigiTV, the development of network resources, and several cooperation projects with local governments to improve communications in various corners of Estonia. Compared to 2006, significantly more was invested in the reconstruction of space for equipment housing services. In May 2007, the Communications Board issued a frequency license to Elion for expanding the network of WiMax base stations throughout Estonia, thereby expanding the opportunity to use permanent high-speed Internet connection in low-density rural areas.

In 2007, the IT services segment invested 33 million EEK (2006: 30 million EEK), of which 39% constituted the AS MicroLink trademarks that were acquired in the course of the merger of the parent company AS MicroLink and Elion Enterprises that took place within the framework of the structural changes at the Eesti Telekom group. The majority of the remaining investments went to the expansion of the infrastructure necessary for the provision of services. In 2007, MicroLink Eesti installed a cornerstone for its new 10-story headquarters that is being constructed in the heart of Tallinn's new innovation center. The projected cost of the building is 120 million EEK.

Balance sheet and cash flows

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

As of 31 December 2007, the Group's equity totaled 4,314 million EEK (31 December 2006: 4,113 million EEK).

As of 31 December 2007, the Eesti Telekom group has long-term obligations of 25 million EEK (31 December 2006: 38 million EEK) and short-term debt obligations of 683 million EEK (31 December 2006: 660 million EEK). The Group's net debt at the end of 2007 was -1,087 million EEK and the net debt to equity ratio was -25% (31 December 2006: -1,383 million EEK and -34%).

The 2007 operating cash flow for the Eesti Telekom group was 1,902 million EEK (2006: 1,899 million EEK). The Groups cash flow into investment activities was 518 million EEK (2006: 761 million EEK). Cash flow for the acquisition of tangible and intangible fixed assets increased during the year, reaching 861 million EEK during the last year (2006: 750 million EEK). The Eesti Telekom group cash flow from financing activities in 2007 was 1,311 million EEK (2006: 1,243 million EEK), of which the majority was used to pay dividends.

Personnel

As of 31 December 2007, the number of Eesti Telekom group employees was 2,398 (31 December 2006: 2,294). The average number of employees during 2007 was 2,327 (2006: 2,206).

The number of employees in the mobile communications services segment as of 31 December 2007 was 597 (31 December 2006: 553). The number of employees has increased in connection with the expansion of the service portfolio.

The number of employees in the broadband services segment as of 31 December 2007 was 1,533. Compared to the end of 2006, the number of employees in the group increased by 55. The increase was primarily based on the increase of the volume of paid services provided to clients and the contact centers created in Pärnu and Tartu in the first half of the year.

The number of employees in the IT services segment as of 31 December 2007 was 261 (31 December 2006: 258).

The amount of wages paid to the employees of the Eesti Telekom group in 2007 totaled 569 million EEK (2006: 484 million EEK). In the mobile communications services segment, the employees were paid 153 million EEK (2006: 128 million EEK). In the broadband services segment, the employees were paid 327 million EEK (2006: 279 million EEK). In the IT services segment, the employees were paid 76 million EEK (2006: 65 million EEK)

As of 31 December 2007, the operating and upper management of the Eesti Telekom group included 52 people (31 December 2006: 54 people). The salaries for the operating and upper management calculated during 2007 totaled 57 million EEK (2006: 57 million EEK).

Structure of capital and restrictions on transfer of shares

The share capital of AS Eesti Telekom (hereinafter "Eesti Telekom") is divided into registered shares of one class, each with a par value of ten (10) EEK. The shares of Eesti Telekom can be freely transferred. Each share grants its holder one vote at the general meeting of shareholders and entitles the shareholder to participate in the general meeting, in the distribution of profit, and in the distribution of the remaining assets upon Eesti Telekom's liquidation, as well as other rights provided by law. The share capital of Eesti Telekom does not include securities that are not admitted to trading on a regulated securities market of a member state.

The articles of association of Eesti Telekom do not prescribe any restrictions on the transfer of shares.

Eesti Telekom has not entered into any agreements with shareholders for restricting the transfer of shares, and nor is the Management Board of Eesti Telekom aware of any such agreements having being entered into between the shareholders.

As of 31. December 2007, the following shareholders have a qualifying holding in Eesti Telekom: Baltic Tele Aktiebolag (a holding of 59.25 per cent) and the Republic of Estonia through the Ministry of Finance and (a holding of 24.17 per cent).

Eesti Telekom has no securities granting special control rights.

Eesti Telekom has not set up any employee share schemes.

The Management Board of Eesti Telekom is not aware of any agreements on voting rights between the shareholders. The regulation of voting rights contained in the articles of association of Eesti Telekom does not in any way differ from that prescribed by law. The shareholders of Eesti Telekom do not hold preferred shares.

Management

Election of management board members. The Management Board of Eesti Telekom has two (2) to five (5) members as decided by the Supervisory Board. According to the articles of association, the members of the Management Board are elected by the Supervisory Board for a term of three (3) years unless otherwise decided by the Supervisory Board. The articles of association may not prescribe a term of office longer than five years for the members of the Management Board. The members of the Management Board must be residents of Estonia. In order to elect a member of the Management Board, his or her consent is required.

The Supervisory Board appoints one member of the Management Board as the Chairman of the Management Board. The Chairman of the Management Board is the chief executive officer of Eesti Telekom. The Supervisory Board defines the allocation of duties and responsibilities among the members of the Management Board and the chief executive officer.

Extension of the term of office of a member of the Management Board may not be decided earlier than one year before the planned date of expiry of the term of office, and not for a period longer than the maximum term of office prescribed by the articles of association. A decision for extension of the term of office of a member of the Management Board entered in the commercial register must be immediately sent to the registrar of the commercial register.

Appointment of Management Board members. With good reason, a court may appoint a new member of the Management Board to replace a withdrawn member of the Management Board on the petition of the Supervisory Board, a shareholder or other interested person. The authority of the court-appointed member of the Management Board will continue until appointment of a new member of the Management Board by the Supervisory Board. A member of the Management Board appointed by a court has the right, at the company's expense, to be compensated for his or her costs to a reasonable extent and to receive a reasonable fee, the amount of which shall be established, in the case of dispute, by a court ruling.

Resignation of Management Board members. A member of the Management Board may resign from the Management Board with good reason if he or she gives notice of his or her resignation to the Supervisory board and, if this is impossible, submits a relevant application to the registrar of the commercial register.

Removal of Management Board members. The Supervisory Board may remove a member of the Management Board regardless of the reason, but the rights and obligations arising from a contract concluded with him or her will terminate pursuant to the contract.

The Chairman of the Supervisory Board or a person authorised by him or her must sign a petition for entry of expiry of the authority of a member of the Management Board or for entry of a new member of the Management Board in the register. The corresponding minutes of the meeting of the Supervisory Board must be appended to the petition.

The general meeting of shareholders of Eesti Telekom has the authority to amend the articles of association. A resolution on amendment of the articles of association is adopted by the general meeting if at least two-thirds of the votes represented at the general meeting are in favour. A resolution on amendment of the articles of association will enter into force as of the making of a corresponding entry in the commercial register.

The Management Board of Eesti Telekom is a directing body of the company that represents and directs the company. The Management Board must, in directing, adhere to the lawful orders of the Supervisory Board. The Management Board is required to act in the most economically purposeful manner. Transactions that are beyond the scope of everyday economic activities may only be concluded by the Management Board with the consent of the Supervisory Board; however, the lack of such consent does not render the concluded transactions invalid.

Either the Chairman of the Management Board alone or two members of the Management Board jointly may represent Eesti Telekom and sign documents on behalf of Eesti Telekom.

Issue and buyback of shares

Members of the Management Board of Eesti Telekom do not have the authority to issue shares; only the general meeting of shareholders is entitled to issue shares. The Management Board of Eesti Telekom may represent Eesti Telekom in a transaction whereby the shares of Eesti Telekom are acquired

1) upon a resolution of the general meeting, provided that:

a. this occurs within one year after adoption of a resolution of the general meeting which specifies the terms and conditions and term for the acquisition or taking as security of shares and the sums to be paid for the shares;
b. the sum of the nominal values of the shares held or taken as security by the company does not exceed one-tenth of the share capital; and
c. the shares are paid for from assets exceeding the share capital, reserve capital and premium;

2) upon a resolution of the Supervisory Board without a resolution of the general meeting if the acquisition of shares is necessary to prevent significant damage to the company. The shareholders must be informed of the circumstances surrounding and the details of the acquisition of shares at the next general meeting of shareholders;

3) without the restrictions set forth above if the shares are acquired by succession.

The annual general meeting of shareholders held on 22 May 2007 granted a right to Eesti Telekom to acquire shares of Eesti Telekom within one year as of adoption of the resolution (i.e. until 22 May 2008) in such a way that the sum of the nominal values of the shares held by Eesti Telekom does not exceed the limit prescribed by law (i.e. 10%) and that the amount paid for a share does not exceed the highest price paid for that share on the Tallinn Stock Exchange on the day of acquiring the share. Eesti Telekom may pay for the shares from the company's assets exceeding the share capital, reserve capital and premium. The number of shares to be acquired in a certain transaction will be determined separately before each purchase transaction by a resolution of the Supervisory Board of Eesti Telekom.

Effects of takeover bids

Eesti Telekom has not entered into agreements with the Management Board or employees containing provisions on payment of compensation in the case of a takeover bid.

Eesti Telekom has not entered into agreements that take effect, alter or terminate upon a change of control of the company following a takeover bid in accordance with the provisions of chapter 19 of the Securities Market Act.

Report on Corporate Governance

As from 1 January 2006, AS Eesti Telekom ("**Eesti Telekom**") follows the instructions of the Estonian Principles of Corporate Governance ("**the Principles**"). This report describes the management of Eesti Telekom in 2007 and its conformity with the Principles. In 2007, Eesti Telekom believes it adhered to the Principles except in the cases noted in this report.

Eesti Telekom

Eesti Telekom is a public limited company registered in the Republic of Estonia, at Valge 16, 19095 Tallinn, with the registry code of 10234957. The share capital of Eesti Telekom in 2007 was 1,379,545,280 EEK, which is divided into registered shares of a single type with a nominal value of 10 EEK. Eesti Telekom shares are listed on the main list of the Tallinn Stock Exchange (Baltic Main List), with the abbreviation ETLAT. The Eesti Telekom share register is maintained by the registrar of the Estonian Central Register of Securities. Eesti Telekom has approximately 3500 shareholders. In addition, the global depositary receipts (GDR) of Eesti Telekom shares are listed on the Main Market of the London Stock Exchange, with the abbreviation EETD. Every Eesti Telekom GDR represents three Eesti Telekom shares.

General Meeting

The highest management body of Eesti Telekom is the shareholders' general meeting. General meetings can be annual or extraordinary. The authority of the general meeting is defined by the Estonian Commercial Code and the Eesti Telekom articles of association (the articles of association are available on the Eesti Telekom website at www.telekom.ee). Among other things, the authority of the general meeting includes amending the Eesti Telekom articles of association, approving the annual report, distributing the profits, and electing the members of the Supervisory Board.

Exercise of the Rights of Shareholders

Each Eesti Telekom share provides one vote at the general meeting and shareholders can participate in general meetings and vote at the meetings personally or through representatives. Usually, the general meeting has the authority to pass resolutions if more than half the votes represented by shares are present. Resolutions of the general meeting are passed if over half the votes represented at the general meeting are in favor, except in certain cases (e.g. amending the articles of association, increasing and reducing share capital, issuing convertible bonds, and the merger, division, reorganization, and termination of Eesti Telekom), in which case the resolution is passed if at least 2/3 of the votes represented at the general meeting are in favor.

On 6 February 2007, an extraordinary shareholders' meeting took place based on the application of Eesti Telekom shareholder Baltic Tele AB, which recalled three members of the Eesti Telekom Supervisory Board and elected three new members to replace them. The recall of the Supervisory Board members was related to internal structural changes at TeliaSonera AB, the parent company of Baltic Tele AB, which caused changes in the work assignments of some of the TeliaSonera employees who were members of the Eesti Telekom Supervisory Board, thereby making the performance of their assignments as Supervisory Board members more difficult. 89.93% of the votes represented by shares were present at the general meeting, and therefore the meeting had the authority to pass resolutions.

In 2007, the shareholders' annual general meeting took place on 22 May. The meeting approved the 2006 Annual Report and proposal for the distribution of profits, amended the Eesti Telecom articles of association, approved the conditions for the repurchase of Eesti Telekom shares, recalled the members of the Eesti Telekom Supervisory Board and elected new members, approved the procedure for the remuneration of Supervisory Board members, chose the Eesti Telekom auditor for the 2007 financial year, and approved the procedure for paying for auditing services, deciding that the provision of auditing services and payment for those services shall be regulated by an agreement to be signed with the auditor. 87.94% of the votes represented by shares were present at the annual general meeting, and therefore the meeting had the authority to pass resolutions.

On 6 September 2007, an extraordinary shareholders' meeting took place based on the application of Eesti Telekom shareholder Baltic Tele AB, which recalled one member of the Eesti Telekom Supervisory Board and elected one new member to replace him. The recall of the Supervisory Board member was related to the termination of his employment relationship with TeliaSonera AB Group, the parent company of Baltic Tele AB, making the performance of his assignments as a Supervisory Board member more difficult. 83.43% of the votes represented by shares were present at the general meeting, and therefore the meeting had the authority to pass resolutions.

Calling of the General Meeting and Publishing of Information

The Eesti Telekom Management Board announces the convening of a general meeting at least three weeks in advance in the case of an annual meeting and at least one week in advance in the case of an extraordinary meeting, by publishing a corresponding notice in at least one newspaper with national circulation in the Republic of Estonia.

A notice regarding the extraordinary general meeting to be held on 6 February 2007 was published in the Postimees on 12 January 2007 and through the Tallinn Stock Exchange information system on 11 January 2007. A notice calling the 2007 annual general meeting was published in the Postimees on 20 April 2007 and through the Tallinn Stock Exchange information system on 19 April 2007. A notice regarding the extraordinary general meeting to be held on 6 September 2007 was published on 28 August 2007 both in the Postimees and through the Tallinn Stock Exchange information system. No questions were asked regarding the agendas presented in the given notices and no supplementary proposals were made.

Therefore, as regards the general meetings of Eesti Telekom, the Principles were followed in 2007, except for the rule prescribed by clause 1.3.2. of the Principles. Pursuant to the given clause, the candidates for Supervisory Board member who have not previously been members of the issuer's Supervisory Board will participate in the general meeting. Jüri Raatma, a candidate for Supervisory Board member, did not participate in the 2007 annual general meeting for reasons not related to Eesti Telekom. Lars Klasson, a candidate for Supervisory Board member, did not participate in the extraordinary general meeting held on 6 September 2007 for reasons not related to Eesti Telekom.

Supervisory Board

Duties

The Supervisory Board plans the activities of Eesti Telekom, elects the members of the Management Board, and executes supervision over the activities of the Management Board. In conformity with the Eesti Telekom articles of association, the Supervisory Board makes decisions regarding the company's activities in significant fields of activity and questions that are not under the sole authority of the general meeting according to the law or articles or association and which are outside the framework of the company's everyday economic activities (i.e. approval of budgets and business plans, resolving organizational issues related to Eesti Telekom and its group, etc.).

Members and Remuneration

Pursuant to the articles of association, the Eesti Telekom Supervisory Board comprises of six to ten members who are elected by the general meeting for a term of two years. Until 22 May 2007, the Eesti Telekom Supervisory Board included the following people: Terje Christoffersen, Anders Gylder, Jörgen Latte, Tarmo Porgand, Mats Salomonsson, Aare Tark, and Heido Vitsur. As from 22 May 2007, the following people comprised the Eesti Telekom Supervisory Board: Terje Christoffersen, Anders Gylder, Jörgen Latte, Tarmo Porgand, Mats Salomonsson, Aare Tark, and Jüri Raatma. At the extraordinary general meeting of the shareholders of Eesti Telekom held on 6 September 2007, Terje Christoffersen was recalled from the Supervisory Board and Lars Klasson was elected as a new member.

The term of office of the current members will expire on the following dates: on 22 May 2009 in the case of Anders Gylder, Jörgen Latte, Tarmo Porgand, Mats Salomonsson, Aare Tark, and Jüri Raatma; and on 6 September 2009 in the case of Lars Klasson.

The following Supervisory Board members are associated with the Swedish company TeliaSonera AB that controls Eesti Telekom: Lars Klasson, Anders Gylder, Jörgen Latte, and Mats Salomonsson. The Supervisory Board member, Aare Tark, has had business connections (provision of legal services) with Eesti Telekom through a company controlled by him, but the company providing the services did not receive a significant amount of compensation for the services and therefore Aare Tark can be considered an independent member of the Supervisory Board.

The members of the Supervisory Board will elect a Chairman from among themselves. Until 6 February 2007, Erik Hallberg acted as Chairman of the Supervisory Board. At the Supervisory Board meeting held on the same day, the Supervisory Board elected Terje Christoffersen as the new Chairman. Terje Christoffersen was the Chairman until 6 September 2007. At the Supervisory Board meeting held on 20 September 2007, Mats Salomonsson was elected as the new Chairman of the Supervisory Board.

Remuneration for the work of the members of the Supervisory Board was paid according to the resolution of the 2007 annual shareholders' meeting. In 2007, the monthly payment for the Chairman of the Supervisory Board was 20,000 EEK and 9,000 EEK for the members of the Supervisory Board, and the actual costs incurred by the members of the Supervisory Board related to the performance of their obligations were compensated.

Activities

The work of the Eesti Telekom Supervisory Board (location, meetings, resolutions, and minutes of the Supervisory Board) is organized according to the Supervisory Board regulations approved by them. In 2007, the Supervisory Board held eleven meetings. The Management Board presented reports to the Supervisory Board on the economic activities and financial status of the Eesti Telekom group on a regular basis. The Supervisory Board was provided a summary of the topics discussed by the Auditing Committee and the Committee on Remuneration and Appointments, including the results of the audits conducted by the internal and external auditors. During 2007, the Supervisory Board approved the 2006 Annual Report, the bonuses to be paid to the top management of the Eesti Telekom group for 2006, the Group's business plan for 2008-2009, the Group's budget for 2008 and the motivational system for the top management of the Group for 2008, drew up the agendas for the general meetings of shareholders, approved the restructuring of the Eesti Telekom group and acquisition of AS MicroLink Eesti from Elion Ettevõtted AS, and decided on recalling and election of Management Board members and signing of contracts of service with Management Board members.

Conflict of Interests

Pursuant to the law and the articles of association, decisions regarding transactions between members of the Supervisory Board and Eesti Telekom are under the authority of the general meeting, and the members of the Supervisory Board may not compete with Eesti Telekom without the permission of the shareholders' general meeting. Until the compilation of this report, the members of the Supervisory Board have not notified the Eesti Telekom Management Board of any cases of conflict of interests in 2007.

Hence, as regards the work of the Supervisory Board of Eesti Telekom, the Principles were adhered to in 2007.

Management Board

Duties

The Management Board is the Eesti Telekom management body that deals with the management of everyday economic activities and the representation of Eesti Telekom. Eesti Telekom may be represented in all legal acts by Valdo Kalm alone or two Management Board members jointly. For the achievement of Eesti Telekom's objectives, the Management Board analyzes the risks related to Eesti Telekom's activities and financial targets. By its resolution, the Management Board of Eesti Telekom has established the Eesti Telekom group's rules for handling of inside information and other internal rules, e.g. accounting policies and procedures. The Management Board must comply with the legitimate regulations of the Supervisory Board. In 2007, there was a constant exchange of information between the Management Board and Supervisory Board of Eesti Telekom; among other things, the Management Board submitted reviews on the economic activities and financial status of the Eesti Telekom group to the Supervisory Board on a regular basis.

Members and Remuneration

According to the Eesti Telekom articles of association, the Supervisory Board may elect two to five members to the Management Board. The members of the Management Board are elected for three years with the option of extending the term. The Supervisory Board appoints one Management Board member as the Chairman, who also acts as the company's Managing Director. As at 1 January 2007, the members of the Management Board of Eesti Telekom were Jaan Männik (the Chairman), Valdo Kalm, and Hille Võrk.

In pursuance of a resolution of the Eesti Telekom Supervisory Board, dated 5 December 2006, Valdo Kalm took over the position of the Chairman of Eesti Telekom's Management Board from the former Chairman, Jaan Männik, after the annual shareholders' meeting of Eesti Telekom held on 22 May 2007. By a resolution adopted on the same day, the Supervisory Board also decided to recall Jaan Männik from the position of a Management Board member as from 22 May 2007.

On 18 April 2007, the Supervisory Board of Eesti Telekom decided to elect the following new members to the Management Board of Eesti Telekom as from 1 July 2007: Leho Tamm, Valdur Laid, and Enn Saar. By a resolution adopted on the same day, the Supervisory Board decided to recall the former Management Board member, Hille Võrk, from the Management Board as from 1 July 2007.

The term of office of the current members will expire on the following dates: on 1 January 2010 in the case of Valdo Kalm; and on 1 July 2010 in the case of Leho Tamm, Valdur Laid, and Enn Saar.

The salaries and severance pay of the members of the Management Board, and the payment conditions are determined by the contracts of service concluded with the members of the Management Board. The bonus system for members of the Management Board is approved annually by a resolution of the Supervisory Board. Upon the achievement of the maximum level of the objectives for 2007, the members of the Management Board would receive a bonus equal to six months' salary. The retired Chairman of the Management Board, Jaan Männik, also has a pension agreement with Eesti Telekom. In 2007, Eesti Telekom did not comply with clause 2.2.7 of the Principles, which provides for disclosing the benefits and bonus system of each member of the Management Board on the website and in this report, as well as the presentation of the principles for the remuneration of the members of the Management Board at the general meeting. On 13 December 2005, the Eesti Telekom Supervisory Board decided that, at that time, the disclosure of such information was not in the interests of the Eesti Telekom group and it would not provide an adequate overview of the motivational system for the Group's top management. Currently, there are no share option programs in the Eesti Telekom group.

Conflict of Interests

Pursuant to the law and the articles of association, transactions between members of the Management Board and Eesti Telekom must be approved by the Supervisory Board, and members of the Management Board may not compete with Eesti Telekom without the permission of the Supervisory Board. Until the compilation of this report, the members of the Management Board have not notified the Eesti Telekom Management Board of any cases of conflict of interests in 2007.

Therefore, in 2007, the Principles were followed in the work of the Eesti Telekom Management Board, except for the rule prescribed by clause 2.2.7 of the Principles.

Control Functions and Auditing

In addition to a reporting system and procedures for risk management, the Eesti Telekom Supervisory Board and Management Board have established various control functions.

Auditing Committee

The Auditing Committee helps the Supervisory Board to perform its supervisory function. Until 6 February 2007, the Committee members were Mats Salomonsson (Committee Chairman), Hans Tuvehjelm, and Tarmo Porgand. As from 6 February 2007, Jörgen Latte is a member of the Committee instead of Hans Tuvehjelm. During 2007, the Committee met seven times.

External Auditors

According to the articles of association, the auditor(s) are chosen by the general meeting. In 2007, the Eesti Telekom auditor was AS PricewaterhouseCoopers. AS PricewaterhouseCoopers audited all the companies in the Eesti Telekom group and submitted the auditor's report to the general meeting. The auditors also informed the Auditing Committee and Management Boards of the Group's companies of their observations.

Internal Control

Since April 2002, the internal control service has been outsourced from AS Deloitte & Touche Audit. The Audit Committee and Deloitte agree upon the extent of the internal control projects once a year. Deloitte reports on the completed work to the Audit Committee.

Committee on Remuneration and Appointments

The principal function of the Committee on Remuneration and Appointments is to harmonize the remuneration principles for the top management of the Eesti Telekom group and to make proposals for the appointment of Supervisory Board members and their remuneration. Until 6 February 2007, Erik Hallberg (Committee Chairman), Bengt Andersson, and Aare Tark were the members of the Committee. As from 6 February 2007, the Committee comprised the following members: Terje Christoffersen (Committee Chairman), Anders Gylder, and Aare Tark. By its resolution of 20 September 2007, the Supervisory Board of Eesti Telekom elected Mats Salomonsson as the new Chairman of the Committee. During 2007, the Committee met four times.

Disclosure of Information

The information required by the Principles is available on the Eesti Telekom website www.telekom.ee, including the financial calendar, articles of association, financial reports, information on presentations and meetings with analysts, information on the members of the Supervisory Board and Management Board, the auditors, and other information. Therefore, in 2007, Eesti Telekom complied with the Principles in terms of the disclosure of information.

Financial Reporting

Eesti Telekom prepares its accounting reports in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS). In respect to the disclosure of financial reporting, Eesti Telekom proceeds from the provisions of the law and the regulations of the Tallinn Stock Exchange.

Interim report for the first quarter of 2007	**19 April 2007**
Interim report for the second quarter and first half-year of 2007	**19 July 2007**
Interim report for the third quarter and nine months of 2007	**19 October 2007**
Interim report for 2007 and the fourth quarter of 2007	**6 February 2008**

MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

The Management Board confirms that the management report of AS Eesti Telekom set out on pages 3 to 13 presents a true and fair view of the business developments and results of the financial position, and includes the description of major risks and doubts for the parent company and consolidated companies as a group.

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, 25 March 2008

FINANCIAL STATEMENTS

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of the consolidated financial statements of the AS Eesti Telekom group for the year 2007 as set out on pages 14 to 52.

The Management Board confirms that:

1 the accounting principles used in preparing the financial statements are in accordance with the International Financial Reporting Standards as adopted by the European Union;

2 the financial statements present a true and fair view 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, 25 March 2008

In thousands of Estonian kroons

Consolidated Income Statement

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Revenue	2 (a, b), 3 (a)	6,261,002	5,767,734
Cost of sales	2 (a), 3 (b)	(3,542,791)	(3,260,113)
Gross profit		**2,718,211**	**2,507,621**
Sales, administrative and research & development expenses	3 (b)	(900,011)	(908,854)
Other operating income	3 (d)	28,114	53,011
Other operating expenses	3 (d)	(6,336)	(5,405)
Operating profit		**1,839,978**	**1,646,373**
Finance income	3 (f)	48,626	42,768
Finance costs	3 (f)	(2,342)	(1,950)
Finance income, net		**46,284**	**40,818**
Share of profit/(loss) from associates	2 (a)	(3,817)	193
Profit before tax		**1,882,445**	**1,687,384**
Income tax on dividends	4	(370,897)	(373,377)
Net profit for the period		**1,511,548**	**1,314,007**
Attributable to:			
– Equity holders of the Company		1,505,098	1,309,443
– Minority interest		6,450	4,564
		1,511,548	**1,314,007**
Earnings per share for profit attributable to the equity holders of the Company during the year	18 (e)		
Basic earnings per share (in EEK)		10.91	9.49
Diluted earnings per share (in EEK)		10.91	9.49

The notes presented on pages 19 to 52 are an integral part of the consolidated financial statements.

In thousands of Estonian kroons

Consolidated Balance Sheet

	Notes	As at 31 December 2007	As at 31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	5	2,405,114	2,044,595
Intangible assets	7	216,011	214,046
Investments in associates	10	13,422	17,247
Other non-current receivables	12, 13	115,059	119,139
Total non-current assets		**2,749,606**	**2,395,027**
Current assets			
Assets classified as held-for-sale	5	1,732	771
Inventories	14	187,573	142,692
Trade and other receivables	15	992,939	884,212
Short-term investments	16	694,040	1,064,859
Cash and cash equivalents	17	396,778	324,405
Total current assets		**2,273,062**	**2,416,939**
TOTAL ASSETS		**5,022,668**	**4,811,966**
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders of the Company	18		
Share capital		1,379,545	1,379,545
Share premium		356,018	356,018
Statutory legal reserve		137,955	137,955
Retained earnings		2,429,361	2,234,831
Total capital and reserves attributable to equity holders of the Company		**4,302,879**	**4,108,349**
Minority interest		11,480	5,030
Total capital and reserves		**4,314,359**	**4,113,379**
Non-current liabilities			
Interest bearing loans and borrowings	19 (a)	1,343	3,124
Retirement benefit obligations	21	3,239	7,912
Provisions	22	20,673	22,124
Non-interest bearing liabilities	23	-	5,152
Total non-current liabilities		**25,255**	**38,312**
Current liabilities			
Trade and other payables	24	670,989	651,365
Interest bearing loans and borrowings	19 (b)	2,778	2,742
Retirement benefit obligations	21	4,814	865
Provisions	22	4,473	5,303
Total current liabilities		**683,054**	**660,275**
Total liabilities		**708,309**	**698,587**
TOTAL EQUITY AND LIABILITIES		**5,022,668**	**4,811,966**

The notes presented on pages 19 to 52 are an integral part of the consolidated financial statements.

In thousands of Estonian kroons

Consolidated Statement Of Changes In Equity

	Notes	Attributable to equity holders of the Company					Minority interest	Total equity
		Share capital	Share premium	Statutory legal reserve	Retained earnings	Total		
1 January 2006		**1,379,545**	**356,018**	**137,955**	**2,165,819**	**4,039,337**	**1,160**	**4,040,497**
Dividends paid	18 (c)	-	-	-	(1,241,591)	(1,241,591)	-	(1,241,591)
Minority interest arising on business combinations		-	-	-	1,160	1,160	(694)	466
Total changes		-	-	-	(1 240,431)	(1,240,431)	(694)	(1,241,125)
Net profit for the period		-	-	-	1,309,443	1,309,443	4,564	1,314,007
31 December 2006		**1,379,545**	**356,018**	**137,955**	**2,234,831**	**4,108,349**	**5,030**	**4,113,379**
1 January 2007		**1,379,545**	**356,018**	**137,955**	**2,234,831**	**4,108,349**	**5,030**	**4,113,379**
Dividends paid	18 (c)	-	-	-	(1,310,568)	(1,310,568)	-	(1,310,568)
Total changes		-	-	-	(1,310,568)	(1,310,568)	-	(1,310,568)
Net profit for the period		-	-	-	1,505,098	1,505,098	6,450	1,511,548
31 December 2007		**1,379,545**	**356,018**	**137,955**	**2,429,361**	**4,302,879**	**11,480**	**4,314,359**

The notes presented on pages 19 to 52 are an integral part of the consolidated financial statements.

In thousands of Estonian kroons

Consolidated Cash Flow Statement

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Net cash from operating activities	28	**1,902,001**	**1,898,514**
Cash flows from investing activities			
Tangible and intangible fixed assets acquired	5, 7	(861,490)	(749,876)
Proceeds from sale of tangible and intangible fixed assets		14,768	49,599
Acquisition of business net of cash acquired and settlements of deferred consideration	9	(4,934)	(97,591)
Acquisition of associates		-	(14,100)
Net cash changes of short-term investments		369,746	177,785
Net cash changes of other long-term receivables		(36,073)	(130,548)
Repayments of loans granted to associates		-	4,100
Net cash used in investing activities		**(517,983)**	**(760,631)**
Cash flow before financing activities		**1,384,018**	**1,137,883**
Cash flows from financing activities			
Dividends paid	19 (c)	(1,310,568)	(1,241,591)
Repayments of finance lease liabilities	6	(1,819)	(1,704)
Proceeds from non-convertible debts		1,020	-
Net cash used in financing activities		**(1,311,367)**	**(1,243,295)**
Net change in cash and cash equivalents		**72,651**	**(105,412)**
Cash and cash equivalents at the beginning of the year	16	**324,405**	**430,393**
Net change in cash and cash equivalents		72,651	(105,412)
Effect of foreign exchange rate changes		(278)	(576)
Cash and cash equivalents at the end of the year	16	**396,778**	**324,405**

The notes presented on pages 19 to 52 are an integral part of the consolidated financial statements.

Notes To The Financial Statements

1. General information and summary of significant accounting policies

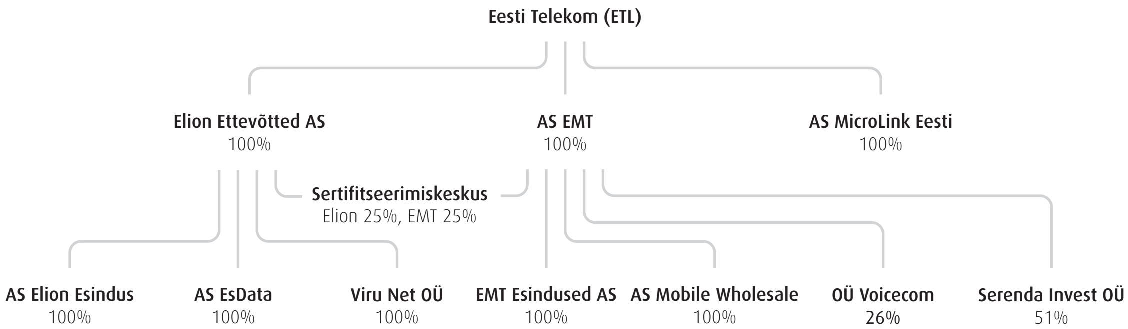
GENERAL INFORMATION

The main activity of AS Eesti Telekom group is providing services in the field of telecommunications.

AS Eesti Telekom (registration number: 10234957; address: Valge 16, 19095 Tallinn, Estonia) is a holding company registered and operating in the Republic of Estonia, with subsidiaries providing services in the field of telecommunications. Starting in 1999, the shares of AS Eesti Telekom are listed on the Tallinn and London Stock Exchanges (OMX: ETLAT/LSE: EETD).

The parent of AS Eesti Telekom is Baltic Tele AB, which is the holding company. Baltic Tele AB is subsidiary of TeliaSonera AB, which is domiciled in Stockholm, and is the ultimate controlling party of AS Eesti Telekom. The largest shareholder of TeliaSonera AB is Swedish State with 37.3%.

The 2007 consolidated statements for the AS Eesti Telekom include the financial results for the following companies:



SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Significant accounting policies adopted in the preparation of the financial statements of AS Eesti Telekom (the parent company) and its subsidiary companies (together referred as "the Group") are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of the Eesti Telekom group are prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

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 convention except for certain financial instruments that are stated at their fair value.

These group consolidated financial statements were authorised for issue by the Management Board on 25 March 2008.

New International Financial Reporting Standards, amendments to existing standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)

Standards, amendments and interpretations effective in 2007

- IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the group's financial instruments, or the disclosures relating to taxation and trade and other payables.

- IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the group's financial statements.

Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- IFRS 4, 'Insurance contracts'
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'
- IFRIC 8, 'Scope of IFRS 2'
- IFRIC 9, 'Re-assessment of embedded derivatives'.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2008 or later periods, but the group has not early adopted them:

- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 supersedes IAS 14 "Segment Reporting". The standard specifies new requirements in respect of the disclosure of information on business segments, as well as information on products and services, geographical areas where the business is conducted and major customers. IFRS 8 requires a "managerial approach" to reporting the performance of business segments. The Group is currently assessing what impact the standard will have on segment disclosures in the consolidated financial statements.

- IAS 23, Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group does not expect the amendment to affect its consolidated financial statements.

- IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

- IAS 27, Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). The revised standard requires that the effects of transactions with minority shareholders be recognised directly in equity, on the condition that control over the entity is retained by the parent company. In addition, the Standard elaborates on the accounting treatment of the loss of control over a subsidiary, i.e. it requires that the remaining shares be restated to fair value, with the resulting difference recognised in the income statement. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

- IFRS 3, Business Combinations (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 includes the choice to disclose minority interests either at fair value or their share in the fair value of the net assets identified; a restatement of shares already held in an acquired entity to fair value, with the resulting differences to be recognised in the income statement; and additional guidance on the application of the purchase method, including the recognition of transaction costs as an expense in the period in which they were incurred, measuring goodwill in step acquisition, and recognising post-acquisition changes in value of liability for contingent purchase consideration. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation contains guidelines on the following issues: applying IFRS 2 "Share-based Payment" for transactions of payment with shares which are entered into by two or more related entities; and adopting an accounting approach in the following instances: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; or an entity or its owner grants the entity's employees rights to the entity's equity instruments, and the provider of those instruments is the owner of the entity. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

- IFRIC 13, 'Customer loyalty programmes' (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 includes guidance on the accounting treatment of transactions resulting from loyalty programmes implemented by an entity for its customers, such as loyalty cards or awarding of 'points'. In particular, IFRIC 13 indicates the correct accounting for the entity's obligation to provide free or discounted goods or services if and when the customers redeem the points. The Group is currently assessing the impact of the Interpretation on its consolidated financial statements.

Interpretations to existing standards that are not yet effective and not relevant for the group's operations

The following interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the group's operations:

- Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009).
- Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2008).
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).
- IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

Currently, the following IASB pronouncements have not yet endorsed for use in Europe:

- IFRS 2 ,'Share-based payment: vesting conditions and cancellations
- IFRS 3, 'Business combinations'(2008)
- IAS 1, 'Presentation of financial statements' (revised September 2007
- IAS 23, 'Borrowings Costs' (revised March 2007)
- IAS 27, 'Consolidated and separate financial statements' (2008)
- IAS 32, 'Amendments for puttable instruments and obligations arising on liquidation
- IFRIC 12, 'Service concession arrangements
- IFRIC 13, 'Customer loyalty programmes'
- IFRIC 14, IAS 19 – 'The limit on a defined benefit asset, minimum funding requirements, and their interaction'.

Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include.

a) Recognition of intangible assets in business combinations

The group allocates the cost of a business combination to separately identifiable assets, liabilities and contingent liabilities, including any intangible assets of the acquirer. Identification of separable intangible assets and determination of their fair value requires judgement. In the course of its recent acquisitions the group has recognised intangible assets in respect of certain trademarks and contractual customer relationships (see Notes 7 and 9). The fair values of those assets were assessed by external valuation experts.

b) Impairment of property, plant and equipment and intangible assets

The carrying values of the Group's intangible, tangible, and financial fixed assets are reassessed, at least annually and else whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, by analyzing individual assets or classes of assets that essentially belong together. If an analysis indicates that the value recorded is too high, the asset's recoverable value is set, which is the higher of the fair value less cost to sell of the asset and its value in use. Value in use is measured as expected future discounted cash flows (DCF model). A write-down consists of the difference between carrying value and recoverable value.

A number of significant assumptions and estimates are involved in using DCF models to forecast operating cash flows, for example with respect to factors such as market growth rates, revenue volumes, market prices for telecommunications services, costs to maintain and develop communications networks and working capital requirements. Forecasts of future cash flows are based on the best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other available information. These assumptions are subject to review by Management Board. The cash flow forecasts are adjusted by an appropriate discount rate derived from our cost of capital plus a reasonable risk premium at the date of evaluation. If the projections for future cash flows for any of the Group have fixed assets change as a result of changes in business model or strategy, competitive pressures, or regulatory environment, the Group may have to recognize impairment charges on the intangible and tangible fixed assets.

c) Non-capitalization of customer acquisition costs

Often, the customer acquisition costs cannot be distinguished from the cost of maintaining customers or general marketing costs or running day-to-day sales operations. As the Group is unable to reliably measure the extent to which costs relate directly to the acquisition of customers rather than to general sales and marketing efforts, it has been decided to expense all such costs as incurred.

d) Useful lives of telecommunication equipment and software

The Company's management determines the estimated useful lives and the related depreciation and amortisation charges for its telecommunication equipment and software. The estimate is based on the projected technology and related software lifecycles. It could change significantly as a result of technical innovations and competitor actions in response to voice and data transmission. On the contrary, if no significant technological changes occur, the equipment might be used longer than currently estimated.

Network assets form the largest part of the Group's tangible assets. If useful lives of network assets would be longer by 10%, depreciation costs of the Group would be down by 29.7 million EEK.

e) Provisions and contingent assets and liabilities

In estimating the probability of realisation of contingent assets and liabilities the management is considering the historical experience, general information about the economical and social environment and the assumptions and conditions of the possible events in the future based on the best knowledge of the situation.

Provisions for restructuring costs, environmental restoration, are recognized when: a legal or constructive obligation exists as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small but it is probable that some outflow of resources will be needed to settle the class of obligations as a whole.

f) Impairment provision for accounts receivable

Impairment provision for accounts receivable was determined based on the management's estimates on recoverability and timing relating to the amounts that will not be collectable according to the original terms of receivables. This determination requires significant judgement. Judgement is exercised based on significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments. Current estimates of the Company could change significantly as a result of change in situation in the market and the economy as a whole. Recoverability rate also highly depends on success rate and actions employed relating to recovery of significantly overdue amounts receivable.

Principles of consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Control is presumed to exist where more than one half of the subsidiary's voting power is controlled by the parent company, or the parent company is able to govern the financial and operation policies of the subsidiary, or control the removal or appointment of a majority of the subsidiary's supervisory council.

The consolidated financial statements include all subsidiaries that are controlled by the parent company. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Group companies use in all material aspects the same accounting principles. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. In case the accounting principles are changed, the comparative data from previous periods is also changed retrospectively.

The information of the Group's subsidiaries is disclosed in Note 8.

b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

In thousands of Estonian kroons

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The information of the Group's associates is disclosed in Note 10.

c) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that is recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange quoted by the Bank of Estonia on the transaction date. On the balance sheet date, monetary assets and liabilities denominated in foreign currencies are recorded at the rate of exchange quoted by the Bank of Estonia on that date. Respective exchange differences are recognised in the income statement for the year.

The exchange rates used in the financial statements were the following:

	Exchange rate in 2007		Exchange rate in 2006	
	As of 31 December	Average	As of 31 December	Average
EUR	15.64660	15.64660	15.64660	15.64660
USD	10.63820	11.43807	11.88180	12.46499
SEK	1.66168	1.69194	1.72897	1.690088
LTL	4.53157	4.53157	4.53157	4.53157
LVL	22.45050	22.35044	22.43340	22.47352
GBP	21.27050	22.88405	23.29970	22.94559
RUB	0.43481	0.44698	0.45123	0.45859
SDR	16.80590	17.49721	17.86470	18.33818

Property, plant and equipment

Property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items (including the custom duties and other non refundable taxes). Cost includes direct and indirect costs related to acquisition of property, plant and equipment necessary to bring them to their present state and condition, as well as estimates of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item. The cost of self-constructed fixed assets includes the cost of materials and direct labour.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

If the fixed asset object consists of components, which have significantly different useful lives, the components will be recorded as independent fixed asset objects, with separate depreciation rates assigned according to their useful life. Groups of fixed assets with similar estimated useful lives will be recorded as aggregates.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the assets are presented at their estimated recoverable value. Recoverable value is equivalent to the higher of a particular asset's fair value less costs to sell, or value in use. The anticipated future discounted cash flows are used as the basis for determining value in use (see also part of accounting polices "Impairment of non-financial assets"). Impairment losses in fixed assets are expressed as an increase in accumulated depreciation and are recognised as an expense in the income statement. A recovery in value in use is recognised as a reversal of impairment loss.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation rates are set separately to each asset depending on its estimated useful life. Depreciation of an asset is started when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from the active use unless the asset is fully depreciated.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is higher than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

At the beginning of 2006, TeliaSonera introduced new uniform useful life spans for the fixed assets of its 100% subsidiaries. As the result of a thorough analysis, the companies in the Eesti Telekom group also decided to introduce the depreciation periods suggested by TeliaSonera (with some adjustments based on local peculiarities) in Eesti Telekom, starting on 1 May 2006. Implementation of new periods was applied prospectively. The remaining useful life spans of existing fixed assets were adjusted.

In thousands of Estonian kroons

The following depreciation rates are used by the Group:

	Until 1 May 2006	Since 1 May 2006
Buildings	3-8% per annum	2-12% per annum
Telecommunication networks equipment	10-40% per annum	3-20% per annum
Other equipment and fixtures	10-50% per annum	20-30% per annum
Intangible assets (excl. goodwill)	Individual, 10-20% per annum	Individual

Land is not depreciated.

Leases

Leases of plant and equipment under which the Group assumes substantially all risks and rewards of ownership are classified as finance leases.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

a) The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease, irrespectively from collection of relevant receivables. Assets leased under operating lease are recorded on the balance sheet in conventional rules similarly to that for other Group's assets.

b) The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded in income statement on accrual basis of accounting, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs.

Finance leased assets are depreciated in accordance with the depreciation policy described above, with the depreciation period being the estimated useful life of the asset.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Intangible assets

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired. Goodwill is recognised as an intangible asset in the Group's consolidated financial statements and it shall be not amortised. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see "Impairment of non-financial assets"). Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other intangible assets: licenses, patents, trademarks and client contracts are stated at the lower of the carrying or recoverable amount and are amortised on the straight-line method over their estimated useful lives (individual for each asset object with depreciation rates 10-20% per annum). Amortisation expenses are recorded in the income statement. Recoverable value is equivalent to the higher of a particular asset's sale price, from which sales costs have been deducted, and value in use. The anticipated discounted cash flows for the coming year are used as the basis for determining value in use (see also part of accounting polices "Impairment of non-financial assets").

Amortisation of the third generation mobile communications license acquired by AS EMT started in August 2003 and will continue for ten years.

Research and development expenditure

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
(b) management intends to complete the intangible asset and use or sell it;
(c) there is an ability to use or sell the intangible asset;
(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;
(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment losses are recognised as period expenses.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Inventories

Inventories for resale are recorded at cost, which comprises purchase price, non-refundable taxes as well as transportation and other costs directly attributable to the acquisition of inventories, less discounts.

Inventories are stated at the lower of acquisition cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Cost is determined by the first-in, first-out method.

Financial assets and liabilities

Cash, shares and other securities, trade receivables, accrued income and other short and long-term receivables are considered to be financial assets. Trade payables, accrued expenses and other short and long-term payables are considered to be financial liabilities.

Financial assets and liabilities are initially measured at cost, which is the fair value of consideration given or received to acquire the financial asset or liability. All costs directly connected with the financial asset or obligations are included in the acquisition price.

Financial assets and liabilities are recognised on the balance sheet when the ownership title is transferred to the Group in accordance with the terms of the contract for the financial asset or liability.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

b) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to income for the financial year.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

c) Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of accounts previously written off are credited against 'sales expenses' in the income statement.

Long-term receivables and long-term loans granted are recognised at their net present value, applying the effective interest rate, from which doubtful accounts are deducted. The difference between the nominal value and the net present value of the receivable until the due date is reported in the income statement by applying the internal interest rate upon return of the receivable.

Loans without interest or loans with an interest rate different of market rates are initially recognized at their fair value, applying the market interest rate, and the difference between the nominal value and the net present value of the receivable is amortized during the period remaining until the due date. The initial revaluation to the net present value and the subsequent amortisation of the receivable's nominal value and net present value is reported in the income statement.

d) Factoring of receivables

Factoring is the transfer of receivables. Depending on the terms of the factoring contract the entity either transfers substantially all the risks and rewards of the ownership of the receivable or retains certain risks and rewards.

If the entity retains the control over receivable or other risks associated to the receivable (for example factoring with recourse), the transaction is recorded as a financing transaction (a collateralized borrowing); the amount is retained in the balance sheet as a receivable until collection or until expiration of the recourse. The related liability is recorded similar to other borrowings.

If the entity transfers the control over the asset and substantially all respective risks and rewards at the moment of transferring receivables, the transaction is recorded as the sale of receivable. Related cost is recognized as financial expense or as a cost related to receivables, depending whether the aim of the transaction was to manage the cash flows or to manage the credit risk.

e) Liabilities

On initial recognition, the Group measures **financial liabilities** (supplier payables, borrowings, accrued expenses and other short and long-term borrowings) at fair value plus transaction costs directly related to the acquisition or issue of financial liabilities if it does not involve financial liabilities recognised at fair value through profit or loss. After initial recognition, the Group measures all financial liabilities at amortised cost using the effective interest rate method. The amortised cost of short-term liabilities normally equals their nominal value; therefore short-term liabilities are stated in the balance sheet in their redemption value. A financial liability is classified as current when its maturity is within twelve months after the balance sheet date. The effective interest rate method is used to calculate the amortised cost of non-current financial liabilities.

Borrowing costs are not capitalised but expensed in the period they occurred.

Provisions

Liabilities that have arisen during the financial year or prior periods, which have a legal or contractual basis, which are expected to result in the outflow of resources, and which can be reliably measured, but for which the actual payment amount and payment date has not been definitely determined, are recorded as **provisions** on the balance sheet. Provisions are measured according to the Management Board's estimates and previous experience, and when necessary also the assessments of independent experts.

Site restoration expense provision has been recognized to the extent a legal or constructive obligation to a third party exists, the acquisition cost includes estimated costs of dismantling and removing the asset and restoring the site. A change in estimated expenditures for dismantling, removal and restoration is added to and/or deducted from the carrying value of the related asset. To the extent that the change would result in a negative carrying amount, this effect is recognized as income. The change in depreciation charge is recognized prospectively.

The **retirement benefit provisions** are recognised based on the entity's obligation to provide the agreed benefits to certain current and former employees for a fixed period of time after their retirement. The company has no retirement benefit obligations except for those arsing from a small number of individual agreements concluded in the past. The retirement benefit provision is measured at the present value of the related obligation.

Termination (redundancy) compensations are recognised as liabilities and as expenses when, and only when, the company has clearly and unequivocally expressed its intention to terminate the employment relationship in the ordinary manner, in accordance with an accord between employer and employee, or before the employee's legally stipulated retirement date. An enterprise is demonstrably committed to a termination only when the enterprise has a detailed formal plan for the termination, and has no other realistic option for solving the situation.

Contingent liabilities are disclosed in the Notes to the financial statements as contingent liabilities.

Taxation

a) Corporate income tax

According to current legislation, the profits of Estonian companies are not taxed, whereby deferred income tax claims or liabilities do not exist. In Estonia instead of profits, dividends paid from undistributed profits are taxed at a rate of 21/79 (until 31 December 2007, a tax rate of 22/78 was in force and until 31 December 2006, a tax rate of 23/77), on the net dividend paid out. The corporate tax resulting from the payment of dividends is recognized as an income tax expense in the same period as the dividends are declared regardless of for which period the dividends are declared or when they are actually paid out.

In thousands of Estonian kroons

b) Other taxes

Other taxes, that are affected the Group's results, and tax rates in 2007 were the:

Social tax	33% of the paid payroll to the employees and of the fringe benefits;
Unemployment tax	0,3% of the paid payroll to the employees;
Income tax on fringe benefits	22/78 of the fringe benefits to the employees; (2006: 23/77);
Income tax on expenses not related to business activities	22/78 of the expenses not related to business activities (2006: 23/77);
Land tax	0,5-2% of the taxable value of the land per annum.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the expected lives of the related assets.

Government grants for operating expenses are recognised in proportion with the related expenses. The expenses for compensating and the compensations are recorded separately.

Revenue recognition

Net sales are recorded at the sales value, adjusted for discounts granted and sales related taxes. Sales principally consist of traffic charges including interconnect and roaming, subscription fees, connection and installation fees, and service charges.

Revenue is recognized for the period in which the service is performed, base on actual traffic or over the contract term, as applicable, or when the product is delivered. Subscription fees are recognized as revenue over the subscription period.

Sales relating to public phone cards and prepaid mobile cards are deferred and recorded in revenue based on the actual usage of the cards. Rollover of unused minutes are deferred and recognized as revenues when the service is provided.

Connection fees are recognized at completion of connection, if the fees do not include any amount for subsequent servicing but only cover the connection costs.

When invoicing end-customers for third-party content services, revenue is reported on a net basis if the Group acts as an agent without assuming the risks and rewards of ownership of the services.

The services and products may be bundled into one customer offering. Offerings may involve the delivery or performance of multiple products or services (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. Telecom equipment is accounted for separately from service where a market for each deliverable exist and if title to the equipment passes to the end-customer. Costs associated with the equipment are recognized at the time of revenue recognized. Composite contracts are divided into part, if the separate parts correspond to the division criterion. The terms and conditions of the contract are allocated to the separate parts according to the proportion of the fair value with certain restrictions. The revenue is allocated to equipment and services in proportion to the fair value of the individual elements.

Customized equipment that can be used only in connection with services or products provided by the Group is not accounted for separately and revenue is deferred over the total service arrangement period. There are generally no options for the customer to acquire the equipment at the end of the service contract period (e. g. DigiTV). Revenue for such functionality agreements is recognized over the service period but part of the periodic fixed fee is deferred to meet the costs at the end of the contract period (maintenance and up-grades).

Revenue from interconnection is accrued at the end of each accounting period based on the actual traffic of incoming calls from different carriers. Accrued revenue is adjusted to actual after reconciliation with the carrier is performed.

In relation to the rendering of services, revenue is recognised when no significant uncertainties remain concerning the derivation of consideration or associated costs. Revenues from the sale of services are recognized after the service is provided, or if the service is provided for a longer period, then the percentage-of-completion method is used.

In relation to the sale of goods, revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding the derivation of that consideration, associated costs, or the possible return of goods.

Interest and dividends are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Interest income is recognised as it accrues, unless collectibility is in doubt. Dividend income is recognised when the shareholder's right to receive payment is established.

Cash and cash flows

For the purposes of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Subsequent events

Significant events that occurred during the preparation of the annual accounts and are related to transactions that took place during the financial year, and confirm the conditions that existed at the date of the financial statement, are considered in the valuation of assets and liabilities.

Significant events that occurred during the preparation of the annual accounts and are not considered in the valuation of assets and liabilities, but significantly influence the results of the next financial year are disclosed in the notes to the annual accounts.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

The report provides information about the Group's segments, and this information is organised by both business segments (the primary format for segment reporting) and geographic segments (the secondary format for segment reporting).

A business segment is a distinguishable component of the Group that is engaged in providing a group of related services or products and that is subject to risks and returns that are different from those of other business segments.

Geographic segment is a part of the Group that provides services in a specific economic environment whereof risks and profitability differ from its other parts that act in other different economic environments. The majority of the Group's revenues are generated in Estonia.

Three major segments, mobile telecommunications, broadband and managed IT services are distinguished as primary segments in the consolidated financial statements.

Segment expense is expense resulting from the operating activities and is directly attributable to the segment.

Segment gross profit is segment revenue less segment expense. Segment gross profit is determined before any adjustments for minority interest.

Segment assets are those operating assets that are operatively employed and that are directly attributable to the segment. Segment liabilities are those directly attributable to the segment.

Capital expenditure represents total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant and equipment, and intangible assets).

Statutory reserve

The statutory reserve in equity is a mandatory reserve, created in accordance with Estonian Commercial Code and it can only be used for covering losses or conversion to the share capital. At each year at least 1/20 of net profit should be recognised as statutory reserve until the statutory reserve comprises 1/10 of share capital. The distribution to shareholders from the statutory reserve is not permitted.

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.

Supplementary disclosure on the parent entity of the Group

According to the Estonian Accounting Law the separate primary reports of parent company should be disclosed. The respective disclosure is in Note 33.

There are included parent company's balance sheet, income statement, statement of changes in equity and cash flows statement, which are presented as annex to the consolidated financial statements. These primary reports do not form a full set of parent company financial statements. The primary reports of parent company are prepared using the same accounting policies as in the preparation of consolidated financial statements.

According to the revised IAS 27 Consolidated and Separate Financial Statements, in the unconsolidated statements of the parent company, which are presented as an annex to the consolidated statement, the investments in subsidiary companies are recognized at the acquisition cost (less the necessary impairment charges).

2. Segment information

Three major segments, mobile telecommunications, broadband and managed IT services are distinguished in the consolidated financial statements.

Mobile telecommunications – this segment operates mobile networks and systems, and deals with the producing, marketing, also with selling of services and goods related thereto. The companies belonging to this business segment are AS EMT, EMT Esindused AS, AS Mobile Wholesale and Serenda Invest 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 of other 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 merged with Elion Enterprises AS.

In thousands of Estonian kroons

Segment turnover represents 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.

a) Primary reporting format – business segments

	Mobile telecommunications		Broadband services		Managed IT services		Unallocated/Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Total segment revenue	3,904,170	3,502,152	2,983,937	2,748,394	365,344	280,137	8,326	-	7,261,777	6,530,683
Inter-segment revenue	(593,205)	(452,358)	(276,950)	(215,964)	(122,294)	(94,627)	(8,326)	-	(1,000,775)	(762,949)
Revenue	**3,310,965**	**3,049,794**	**2,706,987**	**2,532,430**	**243,050**	**185,510**	**-**	**-**	**6,261,002**	**5,767,734**
Operating profit/(loss)	1,169,448	1,101,698	629,547	573,755	1,619	12,303	39,364	(41,383)	1 839,978	1,646,373
Financial income									48,626	42,768
Financial costs									(2,342)	(1,950)
Finance income – net									46,284	40,818
Share of profit / (loss) of associates	(1,758)	134	(2,059)	59	-	-	-	-	(3,817)	193
Profit before tax									**1,882,445**	**1,687,384**
Income tax on dividends									(370,897)	(373,377)
Net profit for the period									**1,511,548**	**1,314,007**

Other information by business segments

	Mobile telecommunications		Broadband services		Managed IT services		Unallocated/Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Assets (except investments in associates and goodwill)	2,098,155	1,939,985	2,771,681	2,044,840	100,165	481,698	(50,437)	238,513	4,919,564	4,705,037
Goodwill	38,848	38,848	828	828	-	-	50,006	50,006	89,682	89,682
Investments in associates	7,451	9,217	5,971	467,474	-	-	-	(459,443)	13,422	17,247
Total assets	**2,144,454**	**1,988,050**	**2,778,480**	**2,513,142**	**100,165**	**481,698**	**(431)**	**(170,924)**	**5,022,668**	**4,811,966**
Liabilities	530,151	423,881	726,751	578,466	69,464	80,645	(618,057)	(384,405)	708,309	698,587
CAPEX	329,608	247,309	512,620	466,673	32,682	30,295	(12,400)	12	862,510	770,778
Depreciation, amortization and write-downs	218,016	243,984	252,100	279,371	22,065	14,921	4,101	5,286	496,282	543,562
Impairment of goodwill	-	-	-	4,774	-	-	-	-	-	4,774

b) Secondary reporting format – geographic segments

The Group operates in one geographical segment, Estonia, only. All Groups' customers are located in Estonia. Revenues from abroad are related to roaming revenues.

	Mobile telecommunications		Broadband services		Managed IT services		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
European Economic Area (EEA)	3,297,845	3,036,191	2,640,194	2,490,527	242,770	185,510	6,180,809	5,712,228
Rest of Europe	9,514	10,072	48,237	26,342	-	-	57,751	36,414
North-America	1,642	1,814	18,520	15,561	280	-	20,442	17,375
Rest of world	1,964	1,717	36	-	-	-	2,000	1,717
Total,	**3,310,965**	**3,049,794**	**2,706,987**	**2,532,430**	**243,050**	**185,510**	**6,261,002**	**5,767,734**
of which:								
– Estonia	3,184,787	2,893,800	2,424,266	2,285,471	239,103	180,580	5,848,156	5,359,851
– Outside Estonia	126,178	155,994	282,721	246,959	3,947	4,930	412,846	407,883

In thousands of Estonian kroons

	Mobile telecommunications		Broadband services		Managed IT services		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
European Economic Area (EEA)	99.60%	99.55%	97.53%	98.35%	99.88%	100.00%	98.72%	99.04%
Rest of Europe	0.29%	0.33%	1.78%	1.04%	-	-	0.92%	0.63%
North-America	0.05%	0.06%	0.68%	0.61%	0.12%	-	0.33%	0.30%
Rest of world	0.06%	0.06%	0.00%	-	-	-	0.03%	0.03%
Total,	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
of which:								
– Estonia	96.19%	94.89%	89.56%	90.25%	98.38%	97.34%	93.41%	92.93%
– Outside Estonia	3.81%	5.11%	10.44%	9.75%	1.62%	2.66%	6.59%	7.07%

3. Additional information on the income statement

	2007	2006
(a) Revenue *)		
Mobile telecommunications activities	2,932,133	2,716,989
Other wireless telecommunications activities (incl. wireless Internet)	492,986	379,040
Fixed telecommunications activities	1,370,207	1,368,363
Other wired telecommunications activities	1,041,656	843,719
Wholesale of information and communication equipment	640,662	517,179
Retail sale of information and communication equipment in specialised stores	1,100,993	1,067,812
Other	149,755	115,521
Inter-group transactions	(1,467,390)	(1,240,889)
	6,261,002	**5,767,734**
(b) Operating costs by function		
Cost of sales	**3,542,791**	**3,260,113**
Sales administrative and R&D expenses		
– Sales	427,701	496,187
– Administration	472,116	412,546
– Research and development	194	121
	900,011	**908,854**
	4,442,802	**4,168,967**
(c) Operating costs by nature		
Goods purchased	1,798,609	1,745,293
Network expenses, interconnect traffic	1,930,662	1,740,100
Other goods and services purchased	231,476	90,342
	3,960,747	**3,575,735**
Wages and salaries	569,270	483,534
Social charges	194,195	167,902
Other	48,484	38,141
	811,949	**689,577**
Marketing expenses	232,849	184,128
Information technology	91,187	71,700
Rent and leasing fees	62,395	48,377
Rent cars and equipment	42,847	38,142
Energy expenses	37,474	35,310
Travel expenses	10,645	9,268
Consultants' services	13,115	6,206
Audit fees and costs	2,469	3,569
Change of bad debt expenses	413	(14,201)
Other expenses	64,724	51,881
	5,330,814	**4,699,692**
Inter-group transactions	**(1,384,294)**	**(1,079,061)**
Total external OPEX	**3,946,520**	**3,620,631**
Depreciation, amortization and write-downs	496,282	548,336
Total operating expenses	**4,442,802**	**4,168,967**

*) Revenue break-down is presented according to Estonian Classifications of Economic Activities (EMTAK) 2008.

In thousands of Estonian kroons

3. Additional information on the income statement (continued)

	2007	2006
(d) Other operating revenues and expenses		
Other operating income		
Profit from sales of fixed assets	13,712	35,196
Foreign exchange gain	4,853	4,068
Interest on fines and penalties	8,488	3,603
Other	1,061	10,144
	28,114	**53,011**
Other operating expenses		
Foreign exchange loss	4,897	3,872
Interest on fines and penalties	1,074	882
Loss from sales of fixed assets	365	651
	6,336	**5,405**
Net effect on profit	**21,778**	**47,606**

(e) Depreciation and amortisation		
Production	439,342	481,321
Sales	15,049	32,185
Administration	41,891	34,830
	496,282	**548,336**

(f) Other net financing items		
Finance income		
– Interest income on short-term bank deposits	45,103	38,901
– Interest income on held-to-maturity assets	2,208	2,100
– Interest income on loans and receivables	1,102	1,176
	48,413	**42,177**
Foreign exchange gain	213	591
	48,626	**42,768**
Interest expense	1,688	1,269
Foreign exchange loss	654	681
	2,342	**1,950**
Net effect on profit	**46,284**	**40,818**

In thousands of Estonian kroons

4. Taxation

According to the Income Tax Act of the Republic of Estonia the net profit earned by enterprises is not taxed. Thus, there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets and liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax: 21/79 of net dividend paid (until 31 December 2007 the tax rate was 22/78 and until 31 December 2006: 23/77). The corporate income tax arising from the payment of dividends is accounted for as an expense in the period which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

In case dividends are paid from the retained earnings for the period 1994-1999, it is possible to deduct the income tax paid earlier on the part of the retained earnings and prepayments of the tax on dividends made before the year 2000 from the amount of income tax to be paid on the respective amount of distribution.

Corporate income tax

	2007	2006
Dividends paid	1,310,568	1,241,591
Income tax 22/78 (28.21%) (2006:23/77 (29.87%))	(369,647)	(370,865)
Part of the income tax paid by Group subsidiaries, which is transferred to the next accounting period	(1,250)	(2,512)
Current tax expense	**(370,897)**	**(373,377)**
Effective income tax rate	28.30%	30.07%

5. Property, plant and equipment

	Land and buildings	Telecommunication networks equipment	Other equipment and fixtures	Construction in process	Total
At 31 December 2005					
Cost	**676,214**	**7,012,031**	**801,147**	**72,263**	**8,561,655**
Accumulated depreciation	(411,761)	(5,764,390)	(551,588)	-	(6,727,739)
Net book amount	**264,453**	**1,247,641**	**249,559**	**72,263**	**1,833,916**
Year ended 31 December 2006					
Opening net book amount	264,453	1,247,641	249,559	72,263	1,833,916
Additions	22,758	208,563	4,234	475,825	711,380
Acquired through business combination (Note 9)	-	910	9,039	-	9,949
Reclassification	77,146	498,107	(94,599)	(480,654)	-
Reclassification to assets classified as held-for-sale	-	(771)	(972)	-	(1,743)
Disposals	-	(132)	(1,259)	(39)	(1,430)
Depreciation charge (Note 2 (a))	(36,354)	(416,949)	(54,174)	-	(507,477)
Closing net book amount	**328,003**	**1,537,369**	**111,828**	**67,395**	**2,044,595**
At 31 December 2006					
Cost	**852,189**	**7,531,843**	**407,649**	**67,395**	**8,859,076**
Accumulated depreciation	(524,186)	(5,994,474)	(295,821)	-	(6,814,481)
Net book amount	**328,003**	**1,537,369**	**111,828**	**67,395**	**2,044,595**
Year ended 31 December 2007					
Opening net book amount	328,003	1,537,369	111,828	67,395	2,044,595
Additions	4,530	237,185	12,033	568,909	822,657
Acquired by finance leases (Note 6)	-	1,020	-	-	1,020
Reclassification	6,883	476,301	20,283	(503,467)	-
Reclassification to assets classified as held-for-sale	-	(961)	-	-	(961)
Disposals	(507)	(1,319)	(850)	-	(2,676)
Depreciation charge (Note 2 (a))	(28,270)	(371,306)	(59,945)	-	(459,521)
Closing net book amount	**310,639**	**1,878,289**	**83,349**	**132,837**	**2,405,114**
At 31 December 2007					
Cost	**858,512**	**7,971,670**	**401,736**	**132,837**	**9,364,755**
Accumulated depreciation	(547,873)	(6,093,381)	(318,387)	-	(6,959,641)
Net book amount	**310,639**	**1,878,289**	**83,349**	**132,837**	**2,405,114**

As at 31 December 2007 for the unused network amount of 1,732 thousand EEK remained as 'Assets classified as held for sale.

The gross carrying amount of fully depreciated property, plant and equipment that are still in use as at 31 December 2007 is 4,756,660 thousand EEK (31 December 2006: 4,791,088 thousand EEK).

In thousands of Estonian kroons

6. Property, plant and equipment acquired by finance lease

	Machinery and equipment
At 31 December 2005	
Cost	**7,772**
Accumulated depreciation	(639)
Net book amount	**7,133**
Year ended 31 December 2005	
Opening net book amount	7,133
Depreciation charge	(1,894)
Closing net amount	**5,239**
At 31 December 2005	
Cost	**7,772**
Accumulated depreciation	(2,533)
Net book value amount	**5,239**
Year ended 31 December 2007	
Opening net book amount	5,239
Additions	1,020
Termination of lease	(28)
Depreciation charge	(1,541)
Closing net book amount	**4,690**
At 31 December 2007	
Cost	**8,711**
Accumulated depreciation	(4,021)
Net book amount	**4,690**

Finance lease liability

	2007	2006
At 31 December	**3,699**	**4,497**
Principal payments during the financial year	1,819	1,704
Interest expenses during the financial year	162	302
Average annual interest rate	1% - 9%	3%

In thousands of Estonian kroons

7. Intangible assets

	Goodwill	Licenses, patents and trade-marks and client relations	Total
At 31 December 2005			
Cost	**55,416**	**277,814**	**333,230**
Accumulated amortisation	-	(166,542)	(166,542)
Net book amount	**55,416**	**111,272**	**166,688**
Year ended 31 December 2006			
Opening net book amount	55,416	111,272	166,688
Additions	39,040	38,496	77,536
Acquired through business combination (Note 9)	-	10,953	10,953
Disposals	-	(272)	(272)
Amortisation charge (Note 2 (a))	-	(36,085)	(36,085)
Impairment charge (Note 2 (a))	(4,774)	-	(4,774)
Closing net book amount	**89,682**	**124,364**	**214,046**
At 31 December 2006			
Cost	**89,682**	**314,292**	**403,974**
Accumulated amortisation	-	(189,928)	(189,928)
Net book amount	**89,682**	**124,364**	**214,046**
Year ended 31 December 2007			
Opening net book amount	89,682	124,364	214,046
Additions	-	38,833	38,833
Disposals and write-offs	-	(107)	(107)
Amortisation charge (Note 2 (a))	-	(36,761)	(36,761)
Closing net book amount	**89,682**	**126,329**	**216,011**
At 31 December 2007			
Cost	**89,682**	**337,477**	**427,159**
Accumulated amortisation	-	(211,148)	(211,148)
Net book amount	**89,682**	**126,329**	**216,011**

The gross carrying amount of fully depreciated intangible assets that are still in use as at 31 December 2007 is 22,279 thousand EEK (31 December 2006: 30,130 thousand EEK).

Impairment tests for goodwill

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant CGUs.

The carrying value of goodwill was tested as of 31 December 2007. The recoverable amount of a Cash Generating Unit (CGU) is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. Management determined budgeted gross margin based on past performance and its expectations for the market development. No impairment was identified during the test.

The key assumptions used for goodwill tests are as follows:

	Mobile telecommunications CGU's	Broad Band CGU's	Managed IT services CGU's
WACC 1)	9.0%	8.5%	9.0%
Growth rate 2)	2.0%	1.0%	2.0%
Discount rate 3)	9.0%	8.5%	9.0%
Net book amount of goodwill relating to CGU's	38,848	828	50,006

1) Weighted average cost of capital.
2) Weighted average growth rate used to extrapolate cash flows beyond the budget period.
3) Discount rate applied to the cash flow projections.

In thousands of Estonian kroons

8. Investments in subsidiaries

	Notes	Country of incorporation	Ownership interest 2007	Ownership interest 2006	Principal activity	Owner
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	9	Estonia	-	100%	Holding Company	Elion Enterprises AS
AS MicroLink Eesti	9	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 Invest OÜ	9	Estonia	51%	51%	Administration of communication portal based in Estonia internet	AS EMT

From 1 July 2007, regarding the decisions of AS Eesti Telekom Council from 18 April 2007, changes in the 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, 100% subsidiary of Elion Enterprises AS. Purchase price of acquisition was 111.0 million kroons. The transaction did not have an impact on financial positions of the AS Eesti Telekom.

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

Restructuring in 2007 did not have any impact on the consolidated financial statements.

9. Business combinations

In April 2006, AS EMT, a wholly owned subsidiary of AS Eesti Telekom, purchased 51 per cent of the shares of Serenda Invest OÜ. Serenda Invest OÜ owns the brand name Rate and administrates Estonian internet based communication portal Rate.ee.

49% of Serenda Invest OÜ belongs to Rate Solution OÜ, which owner is Andrei Korobeinik, the author and founder of Rate.ee.

Rate.ee is the biggest social network in Estonia, which connects 360,000 registered users. The aim of the acquisition of Serenda Invest OÜ is to provide and expand telecommunication- and multimedia services.

The acquired subsidiary contributed revenue of 12,027 thousand EEK and net profit of 9, 315 thousand EEK to the Group for the period from the date of acquisition to 31 December 2006. If the acquisition had occurred on 1 January 2006, the contribution to Group revenue would have been be approximately the same and profit would have been be lower of approximately 1,000 thousand kroons.

The purchase consideration comprises cash and cash equivalents paid as follows:

- 29,210 thousand EEK in 2006;
- 4,934 thousand EEK in 2007;
- deferred consideration of 5,144 thousand EEK payable in 2009 (see Notes 23 and 24).

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined costs savings expected to arise.

Fair value of assets and liabilities acquired are based on discounted cash flow models. The valuation of identifiable intangible assets was performed by an independent professional appraiser.

In the last quarter of 2006, Elion acquired Norby Telecom's private client service business. Fair value of assets and liabilities acquired are based on discounted cash flow models. The valuation of identifiable intangible assets was performed by an independent professional appraiser. The purchase consideration of 20,030 thousand kroons was allocated fully to tangible and intangible assets.

In thousands of Estonian kroons

The effect of the acquisition of subsidiaries on goodwill and cash flows in 2006 were as follows:

		2006			
		Serenda Invest OÜ		Norby Telecommunications	
	Note	Fair value	Acquirer's carrying amount	Fair value	Acquirer's carrying amount
Fixed assets	5	910	910	9,039	3,213
Intangible assets	7	-	-	10,953	-
Trade receivables		-	-	38	38
Cash and cash equivalents		40	40	-	-
Liabilities		(8)	(8)	-	-
Net identifiable assets and liabilities		**942**	**942**	**20,030**	**3,251**
Interest acquired		51%		100%	
Share in net identifiable assets and liabilities acquired		480		20,030	
Goodwill	7	38,848		-	
Total consideration		**39,328**		**20,030**	
Cash and cash equivalents acquired		40		-	
Unpaid consideration	23, 24	(10,078)		-	
Net cash out flow		**(29,210)**		**(20,030)**	

Acquisition of minority interest

In 2006 the Group acquired remaining 0.28% of the share capital of MicroLink AS.

Details of minority interest of MicroLink AS acquired and related goodwill arising on the acquisition are as follows:

Purchase consideration	937
Minority interest acquired	(745)
Goodwill	192

10. Investments in associates

	Year ended 31 December 2007	Year ended 31 December 2006
	2007	
Cost of investments	32,509	32,509
Share of post-acquisition loss, net of dividends received	(19,087)	(15,262)
	13,422	**17,247**

Details of the Group's associates, as of 31 December 2007 and 2006, are as follows:

	Country of incorporation	Ownership interest 2007	Ownership interest 2006	Principal activity	Owner
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

Financial information of associates

	AS Sertifitseerimiskeskus	OÜ Voicecom
2007		
Assets	27,851	9,217
Liabilities	3,966	3,532
Revenues	26,129	22,406
Profit / (loss)	(8,234)	711
2006		
Assets	35,352	7,022
Liabilities	3,233	2,490
Revenues	19,249	10,221
Profit	212	310

In thousands of Estonian kroons

11. Financial instruments by category

The accounting policies for financial instruments have been applied to the items below:

	Notes	Loans and receivables	Assets held-to-maturity	Financial iabilities	Total
31 December 2007					
Assets as per balance sheet					
Trade and other receivables	15	815,335	-	-	815,335
Short-term investments	16	694,040	-	-	694,040
Cash and cash equivalents	17	396,778	-	-	396,778
Total		**1,906,153**	**-**	**-**	**1,906,153**
Liabilities as per balance sheet					
Borrowings	19	-	-	4,121	4,121
Trade and other liabilities	24	-	-	432,054	432,054
Total		**-**	**-**	**436,175**	**436,175**
31 December 2006					
Assets as per balance sheet					
Trade and other receivables	15	726,005	-	-	726,005
Short-term investments	16	980,928	83,931	-	1,064,859
Cash and cash equivalents	17	324,405	-	-	324,405
Total		**2,031,338**	**83,931**	**-**	**2,115,269**
Liabilities as per balance sheet					
Borrowings	19	-	-	5,866	5,866
Trade and other liabilities	23, 24	-	-	443,039	443,039
Total		**-**	**-**	**448,905**	**448,905**

12. Long-term receivables

The interest rates and repayment terms of the Group's long-term receivables are as follows:

	Note	Interest rate	Maturity date	Year ended 31 December 2007	Year ended 31 December 2006
(a) Long- term loan receivables					
Loan to Union of Põlva County Municipalities		10%	2010	1,055	1,055
Non-current portion of receivables				1,055	1,055
(b) Non-current trade receivables					
Factoring receivables				422	1,369
Non-current trade receivables				45,942	17,603
				46,364	18,972
Current portion of receivables (-)				(42,082)	(14,468)
Non-current portion of receivables				4,282	4,504
(c) Other long-term receivables					
Instalment receivables		2% - 16%	2008 - 2011	168,567	143,767
Finance lease receivables	13 (a)	8% - 16%	2008 - 2011	86,750	76,283
				255,317	220,050
Current portion of receivables (-)				(145,595)	(106,470)
Non-current portion of receivables				109,722	113,580
Total other non-current receivables				**115,059**	**119,139**

Expected repayments of the long-term receivables:

	2007	2006
Within one year	187,681	120,925
Later than one year and not later than three years incl.	115,055	119,152
	302,736	**240,077**

In thousands of Estonian kroons

13. Finance and operating leases (the Group as lessor)

a) Finance leases

The investments in finance leases and respective receivables are as follows:

	Note	Year ended 31 December 2007	Year ended 31 December 2006
(a) Finance lease – non-current receivables			
Finance lease – gross receivables		43,857	51,904
Unearned finance income (-)		(5,157)	(5,743)
Finance lease – net receivables		38,700	46,161
(b) Finance lease – current receivables			
Finance lease – gross receivables		56,108	34,417
Unearned finance income (-)		(8,058)	(4,295)
Finance lease – net receivables		48,050	30,122
Total finance lease net receivables	12 (c)	**86,750**	**76,283**

PC, DigiTV equipment (three-year contract) and mobile phones (two-year contract) are leased out at the terms of finance lease.

Expected repayments of the referred finance lease receivables:

	Note	Year ended 31 December 2007	Year ended 31 December 2006
(a) Gross receivables from finance lease			
– Within one year		56,108	33,998
– Between one and three years		43,857	52,323
		99,965	86,321
Unearned future finance income on finance lease (-)		(13,215)	(10,038)
Net investment in finance lease	12 (c)	86,750	76,283
(b) Net investment in finance lease			
– Within one year		48,050	29,741
– Between one and three years		38,700	46,542
Net investment in finance lease	**12 (c)**	**86,750**	**76,283**

b) Operating leases receivables

The Group leases office space and IT equipment and solutions under the terms of operating lease. Income from such leases amounts to 48,595 thousand EEK and 37,851 thousand EEK in 2007 and 2006, respectively.

14. Inventories

	Year ended 31 December 2007	Year ended 31 December 2006
Raw materials and consumables	65,313	43,987
Goods for resale	115,382	93,133
Advances to suppliers	6,878	5,572
	187,573	**142,692**

In 2007, impairment for the inventories were in the total amount of 1,266 thousand EEK (2006: 3,556 thousand EEK) based on the estimated decline of the net realisation value below their acquisition cost.

In thousands of Estonian kroons

15. Trade and other receivables

	Note	Year ended 31 December 2007	Year ended 31 December 2006
Trade receivables			
Accounts receivable		778,773	666,772
Provision for impairment of trade receivables		(17,071)	(11,231)
	27 (b)	**761,702**	**655,541**
Other financial receivables			
International settlements		24,890	43,278
Accrued interest		10,988	14,917
Other accrued income		684	1,038
		36,562	**59,233**
Other receivables			
Prepaid expenses		33,565	42,804
Prepaid value-added tax		5,337	3,612
Prepaid other taxes		69	60
Current portion of other long-term receivables	12 (c)	145,595	106,470
Receivables from associates	29 (c)	206	200
Other receivables		9,903	16,292
		194,675	**169,438**
		992,939	**884,212**

16. Short-term investments

	Year ended 31 December 2007	Year ended 31 December 2006
Short-term investments with maturities over three months		
Deposits	694,040	83,931
Current securities held-to-maturity	-	980,928
Total short-term investments	**694,040**	**1,064,859**

The effective interest rates on short-term investments in 2007 were:

- investments in EEK - 4.41% (2006: 3.12%)
- investments in EUR – 3.86% (2006: 2.87%).

Structure of short-term investments by currencies

	Year ended 31 December 2007	Year ended 31 December 2006
Short-term investments in EEK		
Deposits	660,000	859,085
Bonds	-	76,113
	660,000	**935,198**
Short-term investments in EUR		
Deposits	34,040	121,843
Bonds	-	7,818
	34,040	**129,661**
Short-term investments total		
Deposits	694,040	980,928
Bonds	-	83,931
	694,040	**1,064,859**

There were no assets for trading or available-for-sale in 2007 or 2006.

In thousands of Estonian kroons

17. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and shares of money-market funds:

	Year ended 31 December 2007	Year ended 31 December 2006
Cash in transit	2,576	2,346
Cash on hand	1,764	1,591
Bank accounts	134,368	230,987
Deposits with maturities up to three months	258,070	89,481
	396,778	**324,405**

The effective interest rates on bank accounts in 2007 were:

- bank accounts in EEK - 3.81% (2006: 2.63%);
- bank accounts in EUR - 3.44% (2006: 2.50%);
- bank accounts in USD – 4.67% (2006: 4.60%).

18. Capital and reserves

a) Issued capital

	Year ended 31 December 2007	Year ended 31 December 2006
Shares issued		
Ordinary shares, 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.

The following tables list the largest owners of ordinary AS Eesti Telekom shares at the year ended:

	2007	
	Number of shares	Ownership interest %
TeliaSonera AB (immediate parent company Baltic Tele AB)	81,738,899	59.25
Republic of Estonia	33,346,464	24.17
Estonian Development Fund	4,138,636	3.00
Deutsche Bank Trust Company Americas	3,212,238	2.33
ING Luxembourg S. A.	1,798,330	1.30
Danske Bank Clients Holdings	1,417,453	1.03
Skandinaviska Enskilda Banken AB Clients	1,402,350	1.02
Bank Austria Creditanstalt AG Clients	1,202,410	0.87
Morgan Stanley Co International Equity Client Account	1,023,500	0.74
Clearstream Banking Luxembourg Clients	633,240	0.46
Other public investors	8,041,008	5.83
	137,954,528	**100.00**

	2006	
	Number of shares	Ownership interest %
TeliaSonera AB (immediate parent company Baltic Tele AB)	74,110,079	53.72
Republic of Estonia	37,485,100	27.17
Deutsche Bank Trust Company Americas	12,505,821	9.07
Skandinaviska Enskilda Banken AB Clients	2,238,107	1.62
ING Luxembourg S. A.	1,491,330	1.08
Morgan Stanley Co International Equity Client Account	1,191,442	0.86
Danske Bank Clients Holdings	1,017,063	0.74
Trigon New Europe Small (Little) Associates Found	645,240	0.47
Bank Austria Creditanstalt AG Clients	579,526	0.42
The Northen Trust Company	470,000	0.34
Other public investors	6,220,820	4.51
	137,954,528	**100.00**

In thousands of Estonian kroons

b) Reserves

Reserves include:

- Statutory 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).

c) 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 declared and disbursed in the reporting period 2007 (2006: 9.00 EEK).

d) Treasury shares

The Annual General Meeting of Shareholders, on 22 May 2007, authorized AS Eesti Telekom Management Board 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 shares of A-series so that the total of nominal values of treasury 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 Group's assets in excess of its share capital, legal reserve 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 Eesti Telekom has not acquired treasury shares during 2007 and 2006.

e) Earnings per share

Basic earnings per share have been calculated as follows:

	2007	2006
Profit for the year from continuing operations for the period attributable to equity holders of the Company (EEK)	1,505,098,000	1,309,443,000
The average number of ordinary shares	137,954,528	137,954,528
EPS (EEK)	10.91	9.49

As the Group has no instruments with a dilutive effect on earnings per share neither in 2007 or 2006, diluted earnings per share equals basic earnings per share.

f) Share price

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 Receipts) represents three ordinary shares.

The highest price of an AS Eesti Telekom share on the OMX Tallinn Stock Exchange during 2007 was 168.51 EEK; the lowest price was 102.80 EEK (2006: 131.43 EEK and 108.74 EEK respectively) and the average price was 127.69 EEK per share (2006: 120.38 EEK per share).

19. Interest-bearing liabilities

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
(a) Non-current			
Factoring payable	20	54	423
Finance lease liability	6, 25 (b)	1,289	2,701
		1,343	**3,124**
(b) Current			
Factoring payable	20	368	946
Finance lease liability	6, 25 (b)	2,410	1,796
		2,778	**2,742**

20. Interest-bearing liabilities information

The Group does not have any contingencies from outstanding bank loans as of 31 December 2007. The details of the Group's long-term debts are as follows:

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Factoring		**422**	**1,369**
Current portion of long-term debts (-)	19 (b)	(368)	(946)
Long-term debts	19 (a)	54	423

Expected repayments of the referred long-term debts:

	2007	2006
Within one year	368	946
Later than one year and not later than three years incl.	54	423
	422	**1,369**

In thousands of Estonian kroons

21. Retirement benefit obligations

	Year ended 31 December 2007	Year ended 31 December 2006
Current portion of retirement benefit obligations	4,814	865
Non-current portion of retirement benefit obligations	3,239	7,912
Total retirement benefit obligations	**8,053**	**8,777**
Balance at the beginning of the year	**8,777**	**7,791**
Benefits paid	(893)	(865)
Additional provisions	-	1,505
Interest accrued	169	224
Exchange differences	-	122
Balance at the end of the year	**8,053**	**8,777**

The calculation of **retirement benefit provisions** are based on agreements concluded with certain individuals for a fixed period and amount. These provisions are recorded in the balance sheet at their present value. The interest rates of high-quality corporate bonds are used as the average discount rate of 4.5%.

22. Provisions

	Site restoration expense provision	Termination benefits provision	Disputed penalties provision	Compensation of the tolerance of technical infrastructure provision	Guarantee provision	Other provisions	Total
Current portion of provisions	-	1,957	-	1,980	229	307	4,473
Non-current portion of provisions	20,094	-	-	-	579	-	20,673
	20,094	**1,957**	**-**	**1,980**	**808**	**307**	**25,146**
At 31 December 2006	**19,183**	**3,171**	**2,132**	**1,980**	**961**	**-**	**27,427**
Additional provisions	911	8,546	-	-	390	407	10,254
Used provisions during year	-	(9,760)	(1,629)	-	(179)	(100)	(11,668)
Unused amounts reversed	-	-	(503)	-	(364)	-	(867)
At 31 December 2007	**20,094**	**1,957**	**-**	**1,980**	**808**	**307**	**25,146**

- **Site restoration expense provision.** AS EMT recognized site restoration expense provision to the extent a legal or constructive obligation to a third party exists. The company has concluded two types of contracts for the use of the land under masts and modular buildings: "Contracts constituting rights of superficies" and "Contracts encumbering a registered immovable with the personal right of use". The majority of the contracts have been concluded for periods of 25 and 50 years. Upon the expiration of the contracts, AS EMT is obligated to compensate all the costs that are related to the restoration of the land under the masts and modular buildings to its usual economically good condition, primarily to free the contract objects from unusable structures and buildings and to restore the property into the condition that existed before the contract was signed.

- **Termination (redundancy) benefits provision.** The provision has been created and it will be used in connection with the termination employment contracts when, and only when, the company has a detailed written plan for the termination of the work relationship and there are no realistic possibilities for not implementing this plan.

- **Provision for disputed penalties.** Elisa Mobiilsideteenused AS submitted a statement of claim against Elion Enterprises AS, in which they demand the performance of contractual obligations, and that interconnection fees not paid on time in the amount of 9,652 thousand EEK and a penalty of 2,132 thousand EEK thereon be ordered to be paid by Elion Enterprises AS. Elion Enterprises AS contested the propriety of the interconnection fee claim. The amount for interconnection fees is recognized in the Group's 2005 operating cots, but had not been transferred to Elisa Mobiilsideteenused AS. Based on the statement of claim, an appropriation had been made for penalty in case the court action in not resolved in favor of Elion Enterprises AS. With the Harju County Court judgment dated 15 January 2007, the action of Elisa Mobiilsideteenused AS was partially satisfied and the payment of 9,045 thousand EEK plus 530 thousand EEK to cover court costs was ordered from Elion Enterprises. Elion has paid the corresponding amounts. The amount paid to Elisa based on the judgment was about 2 million EEK less than would have been payable if the claim had not been disputed.

- **Provision for the compensation of the tolerance of technical infrastructure.** According to the Riigikogu resolution of April 30, 2004, owners of technical infrastructure and networks are obligated to pay landowners compensation for the tolerance of technical infrastructure and networks built on their land starting on October 1, 2004. The implementation act regarding the size and payment of the compensation had been passed on February 21, 2007. Upon the passage of the implementation act, Elion Enterprises AS will have to compensate possible claims started from October 1, 2004. Considering this, an appropriation has been made totaling the possible compensation amount for the period October 1, 2004 – December 31, 2007. The calculation of the amounts is based on the law.

- **Guarantee provision.** Provision for long-term additional guarantee of services.

In thousands of Estonian kroons

23. Non-current non-interest bearing liabilities

	Note	Year ended 31 December 2007	Year ended 31 December 2006
Non-current liability for purchase of shares in subsidiaries	9, 27 (b)	-	5,144
Other		-	8
		-	**5,152**

24. Trade and other payables

	Note	Year ended 31 December 2007	Year ended 31 December 2006
Trade and other financial liabilities			
Trade payables		358,467	365,381
International settlements		60,728	54,285
Current liability related to acquisition of shares	9	5,144	4,934
Accrued trade payables		6,079	5,530
Other accrued expenses		1,636	7,765
	27 (b)	**432,054**	**437,895**
Other liabilities			
Payable to employees		141,726	122,205
Other prepaid revenue		47,394	41,822
Value-added tax payable		17,299	18,319
Social insurance tax payable		15,208	14,749
Employee withholding tax payable		8,356	8,234
Income tax fringe benefits payable		1,502	1,654
Unemployment contribution payable		366	358
Other taxes payable		644	586
Customer advances		3,964	3,427
Deferred income from government grants	26	2,350	1,804
Payables to associates	29	126	312
		238,935	**213,470**
		670,989	**651,365**

25. Operating and finance leases (the Group as lessee)

a) Operating lease payments

	Year ended 31 December 2007	Year ended 31 December 2006
Minimum lease payments under non-cancellable operating leases:		
Within one year	34,517	26,220
Later than one year and not later than four years incl.	41,046	48,666
	75,563	**74,886**

The operating lease expenses for 2007 and 2006 were 29,391 thousand EEK and 28,246 thousand EEK, respectively.

b) Finance lease payments

	Note	Year ended 31 December 2007	Year ended 31 December 2006
Finance lease payments, both principal and interest charge, are payable as follows:			
Within one year		2,552	1,951
Later than one year and not later than three years incl.		1,331	2,816
		3,883	**4,767**
Interest charge (-)		(184)	(270)
Current portion of finance lease liability	19 (b)	(2,410)	(1,796)
Long-term liability	**19 (a)**	**1,289**	**2,701**

In thousands of Estonian kroons

26. Government grants

	Notes	2007	2006
Government grants for operating expenses			
Balance of unappropriated government grant at the beginning of the period		-	-
Received from the European Union (AXMEDIS project)		995	-
Recognized as government grant revenue		640	-
Balance of unappropriated government grant at the end of the period	24	**355**	**-**
Government grants of assets			
Undepreciated balance at the beginning of the period		1,804	928
Received from the Government of the Republic		4,628	5,020
Depreciated into revenue		4,437	4,144
Undepreciated balance at the end of the period	24	**1,995**	**1,804**
Total government grants recognized as revenue		**5,077**	**4,144**

The financing of operating costs. As of the beginning of 2007, Elion Enterprises is participating for the first time in AXMEDIS, an international technology-development consortium, which assembles various telcos, universities and other undertakings in Europe and Asia. The consortium deals with the development of multimedia platforms. The development of a cross-European multimedia standard is planned during the course of the project, which would enable the convenient exchange and distribution of digital media between various countries. The European Union, which is interested in an uniform multimedia standard (a single European digital marketplace), is paying the costs related to the development. The total cost of the project is about 20 million EURs, and it is being financed by the European Union 6th Framework (SIXTH FRAMEWORK PROGRAMME PRIORITY 2 Information Society Technologies EU).

Government grants of assets occurred from the state budget and used by EMT for financing hardware and software. The government grants have been accepted by the Estonian Ministry of Economic Affairs and Communications.

27. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk, price risk), credit risk and liquidity risk. The Group's risk management is focused on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Funding the Group as well as managing Group's excess liquidity and financial risks are the responsibilities of the Treasury Department that fulfils its obligations in accordance with the rules approved by the Supervisory Board of AS Eesti Telekom.

To manage the Group's liquid assets more efficiently the Group has cash pooling agreements in Hansapank, SEB Eesti Ühispank, Sampo Pank and in Estonian branch of Nordea Bank Finland. The cash pool is also used for funding the subsidiaries.

a) Market risk

In 2008, the market risk of the Eesti Telekom group may be primarily affected by developments in the Estonian economy, since the Group's economic activities are limited mostly to the territory of Estonia.

To manage risks, an effort is being made to increase the flexibility of activities, as well as to constantly monitor the activities of the competitors. Upon changes in the market situation, the corresponding corrections are made in the company's economic activities.

The business units of the Eesti Telekom group deal independently with the management of market risk. The coordination of activities takes place at the Eesti Telekom group level.

1. Foreign exchange risk

Currency risk is the potential loss of unfavourable movements in currency exchange rates against Estonian kroons. To hedge the currency risk arising from liabilities denominated in foreign currencies, the Group may conclude currency forward, option and swap transactions; also the Group's group accounts include foreign currency assets.

Group Treasury manages currency risk so that in any time the movement of currency exchange rates more than 5% has not bigger effect to open currency positions than 3 million EEK.

Main operating currencies for the Group, other than Estonian kroon, are EUR and USD. In 2007 approximately 10% of settlements were in EUR and less than 5% of settlements in USD. Other foreign currencies contributed less than 1% of the total settlements.

As of 31 December 2007 the Group did not have any outstanding derivative contracts related to hedge currency risks. No derivatives were used during 2007 and 2006.

The Company's financial assets and liabilities denominated in original currencies other than EEK are the following table (expressed in EEK). EEK and EUR have fixed exchange rate, therefore, the management does not anticipate foreign exchange risk occurring from EUR.

In thousands of Estonian kroons

	EUR	USD	SDR	RUB	GBP	SEK	LVL
At 31 December 2007							
Financial asset / (liability)							
Cash and bank accounts	25,547	4,502	-	24	-	-	-
Short-term investments	34,040	-	-	-	-	-	-
Trade and other receivables	43,889	79	9,482	-	35	-	-
Trade and other payables	(35,439)	(3,615)	(20,028)	(21)	-	(77)	-
Net financial asset / (liability)	**68,037**	**966**	**(10,546)**	**3**	**35**	**(77)**	**-**
Impact to net result if foreign currency (USD/RUB) had strengthened against EEK by 10%	-	97	-	-	-	-	-
Impact to net result if foreign currency (USD/RUB) had weakened against EEK by 10%	-	(97)	-	-	-	-	-
At 31 December 2006							
Financial asset / (liability)							
Cash and bank accounts	60,772	3,359	-	11	-	-	72
Short-term investments	129,661	-	-	-	-	-	-
Trade and other receivables	41,606	447	12,419	-	-		-
Trade and other payables	(50 ,853)	(757)	(23,374)	(5)		(500)	-
Net financial asset / (liability)	**181,186**	**3,049**	**(10,955)**	**6**	**-**	**(500)**	**72**
Impact to net result if foreign currency (USD/RUB/LVL) had strengthened against EEK by 10%	-	305	-	1	-	-	7
Impact to net result if foreign currency (USD/RUB/LVL) had weakened against EEK by 10%	-	(305)	-	(1)	-	-	(7)

2. Cash flow and fair value interest rate risk

The Company's cash accounts bear overnight deposit interest, which is exposed to interest rate risk to the extent that Euribor rate fluctuates. The Company's held-to-maturity assets bear fixed interest rate, which exposes the Company to fair value interest rate risk.

Interest rate risk bearing financial assets and liabilities have long term maturities which are sensitive to movements in interest rates.

Interest rate risk for financial liabilities represents the volatility of interest rates, which may result the difficulties in forecasting exact amounts of debt repayments. In worst case scenario, if the company has large amounts of debt on its balance sheet and the interest rates rise sharply, the solvency of the company becomes under threat.

Impact of 1% parallel change (rise) in the interest rate curve to net interest revenue would be 1,057 thousand EEK (2006: 1,564 thousand EEK).

The Group does not have long-term interest rate sensitive financial assets.

The interest rates and repayment terms of the Group's loans are disclosed in note 20 in the financial statements.

3. Price risk

The Company is not exposed to the market risk with respect to financial instruments as it does not hold any equity securities.

b) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed to perform as contracted. The Group does not have significant exposure to credit risk to any individual customer or counter party. To reduce exposure to credit risk, the Group performs ongoing customer performance evaluations. The management does not expect the failure of customers in meeting their obligations.

The Group has policies that limit the amount of credit exposure to any financial institution or other counterparty. The Group manages its excess liquidity and financial risks only with and through Estonian banks, which have at least a Baa3 Moody's credit rating, and foreign banks, which have at least an A2 Moody's credit rating. Total exposure to financial instruments and investments should not exceed 60% of Eesti Telekom group`s Total Equity. Credit risk counterparty`s could be Government Agencies, Banks, Corporates and Money Market Funds. No credit limits were exceeded during the reporting period. The group has no collateral held for financial assets.

In thousands of Estonian kroons

Ageing structure for financial assets

	Not due	Past due not impaired				
		up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total
31 December 2007						
Assets as per balance sheet						
Trade and other receivables	625,756	163,985	18,757	5,935	902	815,335
Short-term investments	694,040	-	-	-	-	694,040
Cash and cash equivalents	396,778	-	-	-	-	396,778
Total	**1,716,574**	**163,985**	**18,757**	**5,935**	**902**	**1,906,153**
31 December 2006						
Assets as per balance sheet						
Trade and other receivables	666,914	37,505	16,558	4,599	429	726,005
Short-term investments	1,064,859	-	-	-	-	1,064,859
Cash and cash equivalents	324,405	-	-	-	-	324,405
Total	**2,056,178**	**37,505**	**16,558**	**4,599**	**429**	**2,115,269**

Management has established several control procedures relating to the monitoring the credit quality of trade and other receivables. Provision of services to clients will be terminated when the client has not paid the overdue invoices.

There are no individually impaired financial assets. There have been no material losses occurring from impairment of financial assets, (see Note 3 change of bad debt expenses) resulting good credit quality of not due financial assets.

The maximum credit exposure for each class of financial assets is equal to the book value.

c) Liquidity risk

Liquidity risk relates to the availability of sufficient funds for debt service, dividend payment, capital expenditure and/or working capital requirement.

Minimum required liquidity position (MRLP) should at any time exceed the level of 5% of planned annual turnover. MRLP is calculated as follows:

MRLP = current assets + unused committed credit facilities – debt repayable within 12 months.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within one year	Between one and four years	Total forecasted cash flow	Total book value
At 31 December 2007				
Trade and other payables	670,989	-	670,989	670,989
Interest bearing loans and borrowings	2,920	1,385	4,305	4,121
At 31 December 2006				
Trade and other payables	656,517	-	656,517	656,517
Interest bearing loans and borrowings	2,897	3,239	6,136	5,866

d) Capital risk management

Eesti Telekom group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

According to Commercial Code, the net assets of a public limited company shall be at least one-half of the share capital and at least EEK 400 thousand.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio, ROA and ROE.

Gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as net total current and non-current borrowings less cash and cash equivalents and short-term investments.

ROA has result of year net profit divided by average total assets for the same period.

ROE has result of year pre-tax profit divided by average total equity for the same period.

In thousands of Estonian kroons

The ratios at 31 December 2007 and 2006 were as follows:

	Notes	2007	2006
Total borrowings	19	4,121	5,866
Cash and cash equivalents and short-term investments (-)	16, 17	(1,090,818)	(1,389,264)
Net debt		**(1,086,697)**	**(1,383,398)**
Total equity		4,314,359	4,113,379
Gearing ratio		**(25%)**	**(34%)**
Net profit		1,511,548	1,314,007
Average total assets		4,917,317	4,735,733
ROA		**31%**	**28%**
Profit before tax		1,882,445	1,687,384
Average total equity		4,213,869	4,076,938
ROE		**45%**	**41%**

Above mentioned results of ratios in the table correspond to the management expectations.

e) Fair value

The fair values of cash, receivables, finance lease receivables, trade payables, loans and borrowings are not materially different from their carrying amounts.

28. Cash flows from operating activities

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Cash flows from operating activities			
Net profit for the period		1,511,548	1,314,007
Adjustments for:			
– Depreciation, amortization and impairment of fixed and intangible assets	3 (e), 5, 7	496,282	548,336
– Profit from sales and write-off of fixed assets	3 (d)	(12,638)	(34,545)
– Share of profit/(loss) from associates		3,817	(193)
– Provisions		(2,811)	20,150
– Other net financing items		(46,671)	(42,244)
– Income tax on dividends		-	4
– Miscellaneous non-cash items		554	(6,728)
Operating cash flows before changes in working capital		**1,950,081**	**1,798,787**
Change in current receivables		(76,497)	43,537
Change in inventories		(38,043)	(55,782)
Change in current liabilities		16,476	52,232
Change in working capital		**(98,064)**	**39,987**
Cash generated from operations		**1,852,017**	**1,838,774**
Interest received		52,047	68,126
Interest paid		(2,063)	(8,386)
Net cash from operating activities		**1,902,001**	**1,898,514**

29. Related party transactions

Transactions with related parties are transactions with ultimate parent company, associates, shareholders, key management, 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
Key management, supervisory council and their relatives	
List of associates is shown in Note 10	
Enterprises of TeliaSonera AB Group	Parent company, shareholder
State Government (State Chancellery and ministries)	Shareholder
Companies where supervisory council members of the Group have significant influence	

In thousands of Estonian kroons

b) Key managements' and supervisory councils' remuneration

The remunerations of key management of the members of management board of Group Companies and supervisory council during the year were as follows:

	2007	2006
Salaries and other short-term employee benefits	52,267	53,872
Termination benefits	3,912	2,608
Other	483	698
	56,662	**57,178**

c) Trading transactions

No impairment has been made in 2007 and 2006 for the receivables to related parties.

During the year, the Group's companies entered into the following transactions with related parties:

	2007	2006
Telecommunication services provided		
Associated companies	4,534	1,890
TeliaSonera AB	138,060	193,862
State Government (State Chancellery and ministries)	25,471	18,490
Companies where supervisory council members of the Group have significant influence	504	240
	168,569	**214,482**
Other sales		
Associated companies	4,514	110
State Government (State Chancellery and ministries)	10,346	11,021
Companies where supervisory council members of the Group have significant influence	62	14
	14,922	**11,145**
Telecommunication services purchased		
Associated companies	377	477
TeliaSonera AB	163,631	180,894
	164,008	**181,371**
Other services purchased		
Associated companies	39	689
TeliaSonera AB	-	16
State Government (State Chancellery and ministries)	13,015	4,808
Companies where supervisory council members of the Group have significant influence	791	211
	13,845	**5,724**
Financial income		
Associated companies	-	264
State Government (State Chancellery and ministries)	19	-
	19	**264**
Amounts owed by related parties		
Associated companies	206	200
TeliaSoera AB	21,024	23,845
State Government (State Chancellery and ministries)	1,780	1,208
Companies where supervisory council members of the Group have significant influence	43	38
	23,053	**25,291**
Amounts owed to related parties		
Associated companies	126	312
TeliaSonera AB	27,076	23,645
State Government (State Chancellery and ministries)	261	331
Companies where supervisory council members of the Group have significant influence	43	-
Key management and supervisory council	17,385	22,818
	44,891	**47,106**

In thousands of Estonian kroons

30. Contingencies

a) Contingent income tax liability

The consolidated retained earnings of AS Eesti Telekom as at 31 December 2007 amounted to 2,429,361 (31 December 2006: 2,234,831) thousand EEK. As from 1 January 2008 income tax of 21/79 of net dividend paid (up to 31 December 2007: 22/78) is imposed on the profit distributed as dividends. Thus, the retained earnings as at 31 December 2007 that can be paid out as dividends to the shareholders, amount to 1,919,195 thousand EEK and the corresponding income tax would amount to 510,166 thousand EEK. As at 31 December 2006 it would have been possible to pay out dividends to the shareholders in the amount of 1,743,168 thousand EEK and the corresponding income tax would have amounted to 491,663 thousand EEK.

b) Other contingent liabilities

	2007	2006
Key management termination benefits	17,385	17,736

The key management termination benefits above are obligations only in case of termination of contracts originated by Group.

During the last few years, the Group's companies have not been controlled by the Customs and Tax Board.

The tax authority has the right to control a company's accounting for tax purposes within 6 years of the tax return being submitted and upon establishing mistakes to assess an additional tax amount, interest or fines. In addition, in certain cases, upon the discovery of possible tax offences, fines may be assigned.

According to the assessment of the management, there are no circumstances, whereby the tax authority could assess the company with any significant supplemental tax.

c) Court Actions

- **Making operator pre-selection possible**

  On 22 April 2004, the National Communications Board issued a precept to Elion which obligated Elion Enterprises AS to guarantee the possibility of pre-selecting the use of the telephone services of other companies, incl. the transmission of accounting data for free, to the users of its telephone network analogue exchange.

  On 20 May 2004, Elion Enterprises filed an action in the Tallinn Administrative Court to suspend the fulfilment of the order. On 17 April 2006, the court satisfied the company's complaint and annulled the order of the Communications Board. The court found that the obligation imposed by the order would require Elion Enterprises to make an approximately 200-million-kroon investment in connection with the exchange of analog exchanges for digital exchanges.

  The Communications Board, in turn, filed an appeal on 15 May 2006, in which it asked for the nullification of the court judgment.

  On 10 January 2007, the Tallinn District Court partially satisfied the appeal by the Communications Board, by changing the motive of the Tallinn Administrative Court. The Tallinn District Court considered the judgment of the Tallinn Administrative Court to be correct and justified.

  It is important to note that today the legal situation has changed - the Electronic Communications Act that came into force on 1 January 2005 obligates undertakings with significant market power to enable pre-selection. Elion has considered mentioned obligation in it business outlooks.

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

  On 8 April 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 favour of Elion Enterprises AS.

  The court dispute had a practical meaning for Elion Enterprises AS – this is a question of pricing strategy. Based on the court judgment, the company can apply pricing without the disputed limitations.

- **The rates for calls made to Friends Phone**

  On 31 March 2005, Elion Enterprises AS submitted an annulment demand to the Tallinn Administrative Court in respect to directive J.1-1/79 dated 31 March 2005 and precept no. j.1-40.KTO/10 issued by the Communications Board. The complaint was made in respect to the rates for calls made to Friends Phone.

  The dispute has been resolved positively for Elion Enterprises AS by the judgment of the Tallinn Circuit Court on 3 October 2007. Upon an application from the Communications Board, the court ended the appeal procedures and left in force the court judgment made by the Tallinn Administrative Court, which was beneficial to the company. Elion Enterprises AS can apply pricing without the disputed limitations.

In thousands of Estonian kroons

d) Relations with the regulator

Dispute concerning fee for voice call termination on mobile networks

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

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

31. Employees

The average number of employees during 2007 was 2,327 and during 2006 - 2,206.

32. Parent of the Group

The parent company of the Group is AS Eesti Telekom, situated at Valge St. 16, 19095 Tallinn, Estonia.

The immediate parent company of AS Eesti Telekom group is Baltic Tele AB, a 100%-owned subsidiary of TeliaSonera AB. Address: Box 7754, SE-103 96, Stockholm, Sweden.

AS Eesti Telekom group consolidated financial statements are consolidated into TeliaSonera AB, the ultimate parent company, situated at Sturegatan 1, SE-106 63 Stockholm, Sweden.

33. Supplementary disclosures on the parent entity of the Group

INCOME STATEMENT OF THE PARENT ENTITY

	2007	2006
Revenue	8,325	-
Gross profit	**8,325**	**-**
Administrative expenses	(27,043)	(26,511)
Other operating revenues and expenses	202	(3)
Gross loss	**(18,516)**	**(26,514)**
Net income from subsidiaries	1,315,000	1,250,000
Other net financing items	24,051	18,789
Net profit for the period	**1,320,535**	**1,242,275**

In thousands of Estonian kroons

BALANCE SHEET OF THE PARENT ENTITY

	Year ended 31 December 2007	Year ended 31 December 2006
ASSETS		
Non-current assets		
Fixed assets	168	219
Intangible assets	17	35
Investments in subsidiaries	1,428,383	1,317,383
Total non-current assets	**1,428,568**	**1,317,637**
Current assets		
Trade and other receivables	486,645	337,179
Short-term investments	28,183	277,206
Total current assets	**514,828**	**614,385**
TOTAL ASSETS	**1,943,396**	**1,932,022**
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	1,379,545	1,379,545
Share premium	356,018	356,018
Statutory legal reserve	137,955	137,955
Retained earnings	54,489	44,522
Total capital and reserves	**1,928,007**	**1,918,040**
Non-current liabilities		
Retirement benefit obligations	-	3,707
Current liabilities		
Trade and other payables	11,514	7,104
Retirement benefit obligations	3,875	-
Provisions	-	3,171
Total current liabilities	**15,389**	**10,275**
Total liabilities	**15,389**	**13,982**
TOTAL EQUITY AND LIABILITIES	**1,943,396**	**1,932,022**

STATEMENT OF CHANGES IN EQUITY OF THE PARENT ENTITY

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
1 January 2006	**1,379,545**	**356,018**	**137,955**	**43,838**	**1,917,356**
Dividends paid	-	-	-	(1,241,591)	(1,241,591)
Total changes	-	-	-	(1,241,591)	(1,241, 591)
Net profit for the period	-	-	-	1,242,275	1,242,275
31 December 2006	**1,379,545**	**356,018**	**137,955**	**44,522**	**1,918,040**
The carrying value of investments in subsidiaries	-	-	-	(1,317,383)	(1,317,383)
The carrying value of investments in subsidiaries, if equity method had been applied	-	-	-	3,507,692	3,507,692
Adjusted equity as at 31 December 2006	**1,379,545**	**356,018**	**137,955**	**2,234,831**	**4,108,349**
1 January 2007	**1,379,545**	**356,018**	**137,955**	**44,522**	**1,918,040**
Dividends paid	-	-	-	(1,310,568)	(1,310,568)
Total changes	-	-	-	(1,310,568)	(1,310,568)
Net profit for the period	-	-	-	1,320,535	1,320,535
31 December 2007	**1,379,545**	**356,018**	**137,955**	**54,489**	**1,928,007**
The carrying value of investments in subsidiaries	-	-	-	(1,428,383)	(1,428,383)
The carrying value of investments in subsidiaries, if equity method had been applied	-	-	-	3,803,255	3,803,255
Adjusted equity as at 31 December 2007	**1,379,545**	**356,018**	**137,955**	**2,429,361**	**4,302,879**

The adjusted equity is the basis for the determination of distributable equity according to the Estonian Accounting Law.

In thousands of Estonian kroons

CASH FLOW STATEMENT OF THE PARENT ENTITY

	2007	2006
Operating activities		
Net profit for the period	1,320,535	1,242,275
Adjustments for:		
Depreciation and amortization	37	48
Profit from sales of fixed assets	(240)	-
Provisions	(3,171)	4,676
Other net financing items	5,772	(537)
Operating cash flows before changes in working capital	1,322,933	1,246,462
Change in current receivables	(3,802)	(273)
Change in current liabilities	4,308	(6)
Change in working capital	**506**	**(279)**
Net cash from operating activities	**1,323,439**	**1,246,183**
Investing activities		
Tangible and intangible fixed assets acquired	-	(12)
Proceeds from sale of tangible and intangible fixed assets	273	6
Acquisition of subsidiaries	(111,000)	-
Net cash changes of short-term investments	247,949	239,707
Net cash changes of interest-bearing receivables	(150,174)	(273,301)
Repayments of long-term loans granted	-	4,100
Net cash used in investing activities	**(12,952)**	**(29,500)**
Cash flow before financing activities	**1,310,487**	**1,216,683**
Financing activities		
Dividends paid	(1,310,568)	(1,241,591)
Net cash used in financing activities	**(1,310,568)**	**(1,241,591)**
Net change in cash and cash equivalents	**(81)**	**(24,908)**

Cash and cash equivalents at beginning of year	**-**	**24,845**
Net change in cash and cash equivalents	(81)	(24,908)
Effect of foreign exchange rate changes	81	63
Cash and cash equivalents at end of year	**-**	**-**

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Eesti Telekom

We have audited the accompanying consolidated financial statements of AS Eesti Telekom and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Urmas Kaarlep
AS PricewaterhouseCoopers

Madis Jääger
Authorised Auditor

25 March 2008

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

MANAGEMENT BOARD'S AND SUPERVISORY COUNCIL'S SIGNATURES TO THE ANNUAL REPORT

The Management Board has prepared the management report and the consolidated financial statements of AS Eesti Telekom for the financial year ended on 31 December 2007 on 27 March 2008.

The Supervisory Council of AS Eesti Telekom has reviewed the annual report, prepared by the Management Board, consisting of the management report, the consolidated annual accounts and the notes to the annual accounts, the Board's proposal for profit distribution and the independent auditor's report, and has approved the annual report for presentation on the General Meeting of Shareholders.

All the members of the Management Board and Supervisory Council have signed the annual report.

Name	Position	Signature	Date
Members of the Management Board			
Valdo Kalm	Chairman of the Board		27.03.2008
Leho Tamm	Member of the Board		27.03.2008
Valdur Laid	Member of the Board		27.03.2008
Enn Saar	Member of the Board		27.03.2008
Members of the Supervisory Council			
Mats Salomonsson	Chairman of the Council		27.03.2008
Anders Gylder	Member of the Council		27.03.2008
Lars Gunnar Klasson	Member of the Council		27.03.2008
Jörgen Latte	Member of the Council		22.04.2008
Tarmo Porgand	Member of the Council		27.03.2008
Jüri Raatma	Member of the Council		27.03.2008
Aare Tark	Member of the Council		27.03.2008