

EestiTelekom

*Consolidated
Interim Report of
AS Eesti Telekom
II Quarter and
I Half Year 2008*

18 July 2008

**AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008
INTERIM REPORT**

<i>Beginning of the financial year</i>	1 January 2008
<i>End of the reporting period</i>	30 June 2008
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<i>Field of activity</i>	Activities of holding company
<i>Auditor</i>	AS PricewaterhouseCoopers

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MANAGEMENT REPORT

Management's commentary: The results were anticipated. It is positive that in the current economic situation, the EBITDA continued to increase. Compared to the same period last year, turnover was affected by a decrease in the interconnection fees charged between mobile operators.

Significant financial indicators

Eesti Telekom Group

	Q2 2008	Q2 2007	Change, %	HY1 2008	HY1 2007	Change, %
Total revenues, million EUR	100.1	101.1	-1.0	195.0	196.8	-0.9
EBITDA, million EUR	39.2	37.7	3.8	76.0	72.4	5.0
Margin, %	39.1	37.3		39.0	36.8	
EBIT, million EUR	29.9	29.9	0.1	57.8	57.0	1.4
Margin, %	29.9	29.6		29.6	29.0	
EBT, million EUR	31.1	30.6	1.7	60.0	58.7	2.2
Net profit for the period, million EUR	6.5	6.9	-6.4	35.4	35.0	1.0
EPS, EUR	0.05	0.05	-5.2	0.26	0.25	1.3
CAPEX, million EUR	11.8	11.8	-0.2	19.4	19.3	0.5
Net gearing, %	-14.3	-23.3				
ROA, %	31.3	30.7				
ROE, %	46.5	46.8				

Mobile communications segment

	Q2 2008	Q2 2007	Change, %	HY1 2008	HY1 2007	Change, %
Total revenues, million EUR	60.0	64.0	-6.3	115.8	119.1	-2.8
EBITDA, million EUR	23.3	24.0	-3.0	44.3	45.1	-1.7
Margin, %	38.9	37.6		38.3	37.9	
EBIT, million EUR	19.1	20.5	-7.1	36.1	38.4	-5.9
Margin, %	31.8	32.1		31.2	32.2	
EBT, million EUR	19.7	20.8	-5.0	37.2	39.1	-4.9
Net profit for the period, million EUR	5.6	4.8	14.7	23.0	23.1	-0.7
CAPEX, million EUR	4.6	5.1	-10.1	8.2	8.2	0.6
ROA, %	45.3	52.4				
ROE, %	76.7	91.3				

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Broadband services segment

	Q2 2008	Q2 2007	Change, %	HY1 2008	HY1 2007	Change, %
Total revenues, million EUR	51.4	46.9	9.6	100.2	91.5	9.6
EBITDA, million EUR	15.7	14.0	12.1	31.5	27.8	13.4
Margin, %	30.6	29.9		31.4	30.4	
EBIT, million EUR	11.1	10.1	9.6	22.3	20.0	11.7
Margin, %	21.5	21.5		22.3	21.8	
EBT, million EUR	11.2	10.0	12.4	22.6	19.8	14.0
Net profit for the period, million EUR	2.7	2.2	21.9	14.1	12.0	16.8
CAPEX, million EUR	6.9	6.3	10.4	10.5	10.4	1.4
ROA, %	24.4	18.2				
ROE, %	40.2	30.6				

IT services segment

	Q2 2008	Q2 2007	Change, %	HY1 2008	HY1 2007	Change, %
Total revenues, million EUR	5.6	4.8	15.6	10.6	11.7	-9.3
EBITDA, million EUR	0.5	0.2	177.5	0.7	0.3	144.3
Margin, %	8.1	3.4		6.6	2.4	
EBIT, million EUR	0.1	-0.2	N/A	-0.1	-0.4	-80.1
Margin, %	1.2	-4.2		-0.7	-3.3	
EBT, million EUR	0.0	0.0	46.0	-0.1	0.0	N/A
Net profit for the period, million EUR	0.0	0.0	46.0	-0.1	0.0	N/A
CAPEX, million EUR	0.3	0.4	-36.4	0.6	0.7	-14.3
ROA, %	4.6	7.1				
ROE, %	17.4	12.9				

Sales revenues, operating costs and profits

The second quarter results of the Eesti Telekom Group for 2008 corresponded to the expectations of the management board. **The Group's sales revenues** reached 100.1 million EUR in the second quarter of 2008 (2nd quarter 2007: 101.1 million EUR), and was primarily affected by the reduction in interconnection fees (As of 5 November 2007, the state regulator fixed an interconnection fee of 0.11 EUR instead of the former 0.16 EUR in mobile phone networks).

The consolidated turnover of the mobile communications services segment was 60.0 million EUR in the second quarter of 2008, decreasing by 6% compared to the same period in 2007 (2nd quarter 2007: 64.0 million EUR). The reduction of **revenues** was caused by a drop in interconnection revenues based on the reduction in interconnection fees, which was partially compensated by a certain increase in the number of call minutes incoming to the network, an increase in mobile data communications, and growth in the volume of subcontracting services. In addition, the revenues received from the retailing and wholesaling of telecommunications goods decreased in the second quarter compared to a year ago, while the repair of mobile equipment increased, which is caused by changes in consumer behavior.

At the end of the second quarter of 2008, the client base of AS EMT was 9 thousand more than at the end of the second quarter of last year, reaching 755 thousand active SIM cards (July 2007: 746 thousand cards). Compared to a year ago, the number of contractual clients has increased by 30 thousand, reaching

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480 thousand by the end of the second quarter of 2008, while at the same time the number of pre-paid card users has decreased by 21 thousand during the year to 275 thousand by the end of the second quarter. EMT assesses its market share of active SIM cards to be 47%. The penetration of active cards in Estonia is 118%.

The level of call minutes initiated by EMT clients slightly increased compared to the second quarter of last year.

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 0.13 EUR per minute, and pursuant to the resolutions of the Communications Board dated 20 June and 22 June 2007, was fixed at 0.11 EUR 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 0.16 EUR 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 0.11 EUR. Litigation by Elisa Eesti AS and Tele2 with the Communications Board is continuing, and EMT is participating in the litigation as a third party. With its resolution of 25 March 2008, the Competition Board, which is the legal successor to the Communications Board, established a fee of 0.09 EUR per minute for the termination of voice calls in the mobile phone networks of AS EMT, Elisa Eesti AS and Tele2 Eesti AS between 1 July 2008 and 30 June 2009.

The revenues received from mobile Internet continued to demonstrate very rapid growth. In the second quarter of this year, the revenues from AS EMT mobile data communications increased by more than 50% compared to same period in 2007. At the same time, the volume of data that was forwarded increased several times. In June 2008, the users of AS EMT mobile data communications numbered 150 thousand, i.e. eight thousand users more than at the same time last year. The increase in the popularity of mobile data communications is based on the dynamic expansion of the 3G coverage area, which allows clients to use high-quality and rapid data communications at speeds approaching ADSL at conveniently manageable prices. By the end of last year, 3G coverage extended to all the Estonian county seats and many other cities and their vicinities. The installation of new 3G stations for the expansion of foreign and domestic coverage is proceeding at a faster pace than earlier. In addition, EMT has the only EDGE network in Estonia with data communications speeds of up to 200 kbit per second that covers the entire GSM coverage area. As of the second quarter, EMT reduced its roaming fees for data communications in various European countries up to fourfold in order to further promote clients' opportunities to use the Internet and to speed up the growth of data communications.

A regulation of the European Parliament and Council 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 and incoming calls made within the borders of the European Community cannot exceed the established price ceiling. Therefore, the revenues received from roaming clients in the second quarter decreased by almost 10%.

The sales revenues for the broadband services segment increased in the second quarter by 10% reaching 51.4 million EUR (2nd quarter 2007: 46.9 million EUR). The greatest revenue increase resulted from the sale of subcontracting services, which increased by 217%, or 3.6 million EUR, compared to the same period the last year. Revenues from subcontracting services primarily grew due to the sales volumes of increased brokered sub-services. Revenues from domestic call transit increased by 124% in the last quarter and the revenues from international call transit by 231%. The revenue increase from call transit was also primarily related to increases of the minute volumes of the subcontracting service. At the same time, the revenues for call services earned from end consumers decreased by 7% due to the drop in minute volumes.

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In the second quarter, the total number of Elion clients with permanent connections increased, reaching 168 thousand by the end of June (30 June 2007: 152 thousand). The company estimates that its market share based on clients with permanent connections is 55%.

At the end of May, OÜ Viru Net, a 100% subsidiary of Elion, was merged with the parent company Elion Enterprises. Viru Net was the leading provider of Internet services in East-Viru County, specializing in the provision of services to multi-story buildings. Upon the merger of the companies, Elion will initiate a broader program to introduce and develop the Internet in multi-story buildings in East-Viru County, by combining Viru Net's knowledge of the client segment and its long-term experiences in the area with Elion's systematic solutions, high quality and broad product portfolio. Essentially, the merger of the company will not result in any changes for the current clients.

Similarly to earlier quarters, the trend in connection fees for broadband services is continuing, whereby the clients are replacing individual services with comprehensive service packages. Compared to last year, the revenues for the broadband services segment increased 31% from the connection fees for service packages. The number of triple-package users increased by 4,200 in the quarter, reaching 62.8 thousand as of 30 June (30 June 2007: 36.4 thousand). By the end of the second quarter, Elion had 67.7 thousand IP and cable television clients (30 June 2007: 39.5 thousand). The popularity of the triple package has been significantly helped by the range of additional services being provided, such as video rental, the volume of which doubled in the second quarter compared to the first quarter. The marketing campaign promoting free films also increased the rental of paid films. Compared to last year, Elion's video rental fees increased by 201% in the second quarter. In April three new channels - Disney Channel, Toon Disney, and Playhouse Disney - were added to the Elion DigiTV children's package, which resulted in a price increase for the package from 1.23 EUR to 2.24 EUR. Among the Elion DigiTV theme package, the children's package with over 4,000 subscribers is one of the most popular.

Based on the significant increase in the volume and revenues of service packages, the revenues from monthly fees for call connections and Internet connections in the last quarter fell by 10% and 18% respectively compared to the same period of last year.

By the end of the second quarter, the number of Elion's active call interfaces totaled 472 thousand (30 June 2007: 468 thousand interfaces), remaining stable at the same level for the last three quarters.

Elion assesses its market share for call minutes initiated in the fixed network to be 81% (June 2007: 82%). The market share for local call minutes is 83% (June 2007: 84%), 66% for international call minutes (June 2007: 65%) and 71% for call minutes made to mobile phones (June 2007: 69%).

In May, Elisa Eesti AS announced its decision to raise the termination fee for calls in its fixed voice communications network by 45%. Based on an application from Elion Enterprises, the Competition Board started a proceeding to examine the justification for the price increase.

The general cooling of the Estonian economy and deceleration of the pace retail sales growth, the Elion Group's retail sales of telecommunications and IT merchandise decreased in the second quarter by 22% compared to last year. At the same time, due to a successful marketing campaign at the second half of the quarter, the retail sales at Elion outlets demonstrated signs of renewed acceleration.

Sales revenues for the IT services segment reached 5.6 million EUR in the second quarter of 2008 (2nd quarter 2007: 4.8 million EUR). Compared to the same quarter of last year, sales revenues increased by 16%, whereas IT services increased by 14% and IT merchandise by 18%.

Significant impact on the sales results for infrastructure solutions was exerted by several large procurements that were realized in the second quarter, including the procurement for the desktop computers for the Ministry of Justice, the disk massif for the e-health project organized by the Ministry of Social Affairs, the servers at the Estonian Informatics Center, and several successful projects in financial institutions.

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During the second quarter, the keyword in the project business was the continuation of work related to the e-health project (patient portal, digital pictures, and digital prescriptions). Implementation continued of important projects at Estonian Post (document management, the implementation of service desk software), at the Tax and Customs Board (document management), at the North-Estonian Regional Hospital (identity management), and at the Labor Market Board (software development).

The management of the central system and workplace computers at Empower Eesti were taken over in the second quarter; 250 new users were connected to the Education Department's school and kindergarten project, and numerous new service contracts were signed with business clients. Several public procurements (Ministry of Social Affairs, Tallinn City Government) also took place in the second quarter, the results of which will be announced in the third quarter.

The operating costs of the Eesti Telekom Group decreased by 3% in the second quarter of 2008 compared to the same period last year, reaching 61.4 million EUR (2nd quarter 2007: 63.5 million EUR).

The operating costs in the mobile communications services segment decreased by 8% compared to the second quarter of 2007, to 36.8 million EUR (2nd quarter 2007: 40.0 million EUR). The greatest decrease was the drop in interconnection prices based on interconnection costs. The operating costs related to retailing and wholesaling also decreased, which corresponds to the drop in sales turnovers.

The operating costs in the broadband services segment increased by 9% compared to the same period in 2007, reaching 36.0 million EUR (2nd quarter 2007: 32.9 million EUR). Two-thirds of the increase in operating costs resulted from the sales volumes of subcontracting services and the growth of direct sales costs based on the increased minute volumes for domestic and international call transit. The other principal growth factors for operating costs were salary costs and the taxes related thereto, which increased by 9% compared to last year. At the same time, based on the reduction of call volumes, the direct sales costs related to domestic call services decreased by 41%. As a result of smaller sales volumes, sales costs for retail merchandise also decreased by 22%.

The operating costs in the IT services segment increased by 10% in the second quarter, reaching 5.1 million EUR (2nd quarter 2007: 4.7 million EUR).

The Eesti Telekom Group EBITDA in the second quarter of 2008 reached 39.2 million EUR, which was 4% more than in the second quarter of 2007 (2nd quarter 2007: 37.7 million EUR). The EBITDA in the mobile communications services segment decreased in the second quarter by 3% compared to the same period last year. EBITDA in the broadband services segment increased by 12% and the corresponding indicator in the IT services segment in the second quarter of 2008 was 0.5 million EUR (2nd quarter 2007: 0.2 million EUR). The Group's EBITDA margin in the second quarter of 2008 was 39%, which is somewhat higher than the margin for the corresponding period in 2007.

The Group's depreciation costs reached 9.3 million EUR in the second quarter of 2008, increasing by 18% compared to the same period in 2007 (2nd quarter 2007: 7.9 million EUR).

In the second quarter, the **Eesti Telekom Group** earned an **EBIT** of 29.9 million EUR, thereby remaining at the same level as last year (2nd quarter 2007: 29.9 million EUR). The Group's **(net) financial revenues** increased in the second quarter by 46% reaching 1.3 million EUR (2nd quarter 2007: 0.9 million EUR). In the second quarter, the Eesti Telekom Group earned **pre-tax profits** of 31.1 million EUR (2nd quarter 2007: 30.6 million EUR).

On 17 June of this year, AS Eesti Telekom again paid its shareholders record-breaking **dividends** of 92.6 million EUR from the profits (2007: 83.8 million EUR). In order to enable the payment of dividends to the shareholders of AS Eesti Telekom, AS EMT paid the parent company dividends of 52.4 million EUR (2nd quarter 2007: 56.6 million EUR) and Elion Enterprises paid 32.0 million EUR (2nd quarter 2007:

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27.5 million EUR). The payment of the dividends was accompanied by **income tax payable on the dividends** totaling 24.7 million EUR (2nd quarter 2007: 23.7 million EUR), of which AS EMT paid 14.2 million EUR (2nd quarter 2007: 16.0 million EUR) and Elion Enterprises paid 8.5 million EUR (2nd quarter 2007: 7.8 million EUR).

In the second quarter of 2008, the **net profit** for the Eesti Telekom Group was 6.5 million EUR (2nd quarter 2007: 6.9 million EUR). The revenue per share was 0.05 EUR (2nd quarter 2007: 0.05 EUR).

Balance sheet and cash flows

As of 30 June 2008, the Eesti Telekom Group balance sheet totaled 288.6 million EUR (31. December 2007: 321.0 million EUR). Compared to the beginning of the year, fixed assets had increased by 0.4 million EUR, thereby bringing the depreciated value at the end of the second quarter to 176.1 million EUR. The Group's current assets have decreased during the first six months of 2008 by 32.8 million EUR, reaching 112.4 million EUR by the end of June (31 December 2007: 145.3 million EUR). Cash and cash equivalents, as well as the balance of short-term financial investments, have decreased by 38.5 million EUR, in connection with the dividends paid out in June.

As of 30 June 2008, the Eesti Telekom Group equity was 218.0 million EUR, which is 57.7 million EUR less than at the end of 2007 (31 December 2007: 275.7 million EUR). The decrease in equity is related to the payment of a dividend totaling 92.6 million EUR. At the same time, equity has been increased by a profit of 35.4 million EUR in the first six months of 2008. As of the end of June, the Group had long-term obligations of 1.7 million EUR (31 December 2007: 1.6 million EUR). The increase in short-term debt obligations results from the income tax liabilities of 24.7 million EUR resulting from the payment of dividends.

The net debt of the Eesti Telekom Group at the end of the second quarter was -31.1 million EUR and the net debt to equity ratio was -14% (31 December 2007: -69.5 million EUR and -25%).

The Eesti Telekom Group cash flow from operations in the first six months of 2008 was 73.1 million EUR (first six months of 2007: 64.6 million EUR). The Group's cash flow from investment activities was 25.5 million EUR (first six months of 2007: 42.6 million EUR). The cash flow into the acquisition of tangible and intangible fixed assets in the first six months was 19.4 million EUR (first six months of 2007: 19.3 million EUR). In the second quarter of this year, the mobile communications segment has invested 4.6 million EUR (2nd quarter 2007: 5.1 million EUR). In mobile communications, in addition to the constant development of the GSM network, a developmental priority was the implementation of technologies to support high-speed mobile data communications. In the second quarter of 2008, the investments into the broadband services segment totaled 6.9 million EUR (2nd quarter 2007: 6.3 million EUR). The majority of the investments continue to be made to improve the quality of services (for instance, the acquisition of NGN service routers and the expansion of the IP core network) as well as the improvement of permanent Internet connections and DigiTV accessibility (implementation of GPON technology, acquisition of xDSL equipment). In the second quarter of 2008, the IT services segment invested 0.3 million EUR into fixed assets (2nd quarter 2007: 0.4 million EUR). The investments in the second quarter of last year included the purchase of the AS MicroLink trademarks that were acquired in the course of the merger of the parent company AS MicroLink and Elion Enterprises that occurred within the framework Eesti Telekom Group's structural changes.

An important event for MicroLink Eesti during the second quarter was moving to the Ülemiste Technology Campus on June 20th. Almost 300 square meters of space in the new building will be the location of a demonstration center for information technology that is unique in Estonia, where Estonian enterprises as well foreign visitors will have the opportunity to see how information technology solutions work in practice.

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In the first six months of this year, the Eesti Telekom Group cash flow into financial activities was 92.7 million EUR, of which 62.6 million EUR was used to pay dividends (in the first six months of 2007, these amounts were 83.8 million EUR and 83.8 million EUR respectively).

Ownership structure of AS Eesti Telekom

During the second quarter of 2008, there were no significant changes in the structure of the AS Eesti Telekom shareholders. The AS Eesti Telekom majority shareholder TeliaSonera AB (through Baltic Tele AB) continues to own 60.12% of the company's shares.

As of the end of the second quarter, the ratio of freely traded shares converted to GDRs was 12.71%. Of these, 18.93% were converted into GDRs traded on the London Stock Exchange.

As of 3 July 2008, the 10 largest shareholders in AS Eesti Telekom were:

	Number of securities	Participation
TeliaSonera AB	82,936,299	60.12%
Republic of Estonia	33,346,464	24.17%
Estonian Development Fund	4,138,636	3.00%
Deutsche Bank Trust Company (GDR accounts)	3,319,437	2.41%
Ing Luxembourg S. A.	1,818,330	1.32%
Danske Bank clients	1,370,739	0.99%
Skandinaviska Enskilda Banken AB clients	1,329,850	0.96%
Bank Austria Creditanstalt AG clients	910,626	0.66%
Clearstream Banking Luxembourg clients	580,336	0.42%
Mellon Treaty Omnibus	392,152	0.28%

Shareholders' general meeting

The regular general meeting of AS Eesti Telekom took place on 22 May 2008. The general meeting approved the 2007 annual report and the proposal for the distribution of dividends. The AS Eesti Telekom shareholders were paid dividends of 0.67 EUR per share or a total of 92.6 million EUR for the last financial year. The dividends were paid out on 17 June 2008 based on the list of shareholders, which was fixed as of 6 June 2008 at 23:59. Accumulated earnings of 62.7 million EUR were not distributed.

The option to repurchase AS Eesti Telekom shares was extended for another five year, i.e. until 22 May 2013.

The general meeting recalled the current Supervisory Board of AS Eesti Telekom and elected the following members for the new Supervisory Board: Anders Gylder, Lars Gunnar Klasson, Jörgen Latte, Tarmo Porgand, Jüri Raatma, Mats Salomonsson and Aare Tark. The members of the Supervisory Board may be paid 703 EUR per month for their services and the chairman may be paid 1278 EUR per month.

The general meeting chose AS PricewaterhouseCoopers (reg. code 10142876) as the Eesti Telekom auditor for the 2008 financial year. The execution of the auditing services and payment for services will occur based on a contract to be concluded with the auditing company.

Shareholders' extraordinary general meeting

An extraordinary general meeting of the AS Eesti Telekom shareholders took place on 26 June 2008. The general meeting recalled Anders Gylder, a current member of the AS Eesti Telekom Supervisory Board, and elected Björn Lindegren as a new member of the Supervisory Board.

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Changes in the structure of the Eesti Telekom Group

On 1 June 2008, OÜ Viru Net merged with Elion Enterprises. Viru Net has been an Elion subsidiary since the end of 2004. The purpose of the given change was the development and broader provision of Internet services.

Definitions

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

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

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

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CONSOLIDATED QUARTERLY DATA

In million of EUR

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
Sales	101.1	103.1	100.3	94.9	100.1
OPEX	(63.5)	(63.4)	(64.2)	(58.3)	(61.4)
Other revenue/expenses, net	0.1	0.5	0.7	0.3	0.4
EBITDA	37.7	40.2	36.8	36.8	39.2
Depreciation and amortisation	(7.9)	(7.9)	(8.4)	(8.9)	(9.3)
EBIT	29.9	33.3	28.4	27.9	29.9
Income / expenses from associates	(0.1)	0.0	(0.1)	(0.1)	(0.1)
Other net financing items	0.9	0.4	0.8	1.1	1.3
Profit before tax	30.6	32.7	29.1	28.9	31.1
Income tax on dividends	(23.7)	0.0	0.0	0.0	(24.7)
Net profit for the period	6.9	32.7	29.1	28.9	6.5
Minority interest	0.1	0.1	0.1	0.1	0.0
EBITDA margin, %	37.31%	38.91%	36.72%	38.83%	39.13%
EBIT margin, %	29.55%	31.24%	28.26%	29.37%	29.87%
Net margin, %	6.83%	31.55%	28.98%	30.45%	6.5%
Total assets	280.7	288.1	321.0	341.4	288.6
- Non-current assets	156.8	162.1	175.7	174.2	176.1
- Current assets	123.9	126.0	145.3	167.2	112.4
- Cash and cash equivalents and short-term investments	50.2	49.9	69.7	90.2	31.2
Equity and liabilities	280.7	288.1	321.0	341.4	288.6
- Equity	214.2	246.7	275.7	304.6	218.0
- Provisions	1.4	1.4	2.1	2.0	1.8
- Non-current liabilities	0.7	0.3	0.1	0.1	1.7
- Interest-bearing borrowings	0.1	0.1	0.1	0.1	0.0
- Current liabilities	64.4	39.7	43.1	34.7	68.9
- Interest-bearing borrowings	0.1	0.1	0.2	0.2	0.2

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II QUARTER CONSOLIDATED INCOME STATEMENT

In thousand of EUR

	Notes	II Quarter 2008	II Quarter 2007
Net sales	2.1(a)	100,131	101,136
Cost of production	2.1(a)	(56,322)	(55,609)
Gross profit		43,809	45,527
Sales, administrative, and research & development expenses	2.1(a)	(14,333)	(15,764)
Other operating revenues	2.1(a)	511	200
Other operating expenses	2.1(a)	(81)	(82)
Operating profit		29,906	29,881
Finance income		1,318	890
Finance costs		(38)	(14)
Finance income, net	2.1(a)	1,280	876
Net income / (expenses) from associated companies	2.1(a)	(52)	(129)
Profit before tax		31,134	30,628
Income tax on dividends		(24,652)	(23,705)
Net profit for the period	2.1(a)	6,482	6,923
Attributable to:			
Equity holders of the parent	2.1(a)	6,474	6,829
Minority interest	2.1(a)	8	94
		6,482	6,923
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EUR)			
	7 (e)		
Basic earnings per share		0.05	0.05
Diluted earnings per share		0.05	0.05
EBITDA	2.1(a)	39,183	37,736
Depreciation, amortization and write-downs	2.1(a)	(9,277)	(7,855)

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

I HALF YEAR CONSOLIDATED INCOME STATEMENT

In thousand of EUR

	Notes	I HY 2008	I HY 2007	2007
Net sales	2.1(b), 2.3	194,988	196,781	400,151
Cost of production	2.1(b)	(109,400)	(110,009)	(226,426)
Gross profit		85,588	86,772	173,725
Sales, administrative, and research & development expenses	2.1(b)	(28,520)	(30,014)	(57,521)
Other operating revenues	2.1(b)	913	400	1,797
Other operating expenses	2.1(b)	(180)	(149)	(404)
Operating profit		57,801	57,009	117,597
Finance income		2,452	1,891	3,108
Finance costs		(75)	(49)	(150)
Finance income, net	2.1(b)	2,377	1,842	2,958
Net income / (expenses) from associated companies	2.1(b)	(159)	(116)	(244)
Profit before tax		60,019	58,735	120,311
Income tax on dividends		(24,652)	(23,705)	(23,705)
Net profit for the period	2.1(b)	35,367	35,030	96,606
Attributable to:				
Equity holders of the parent	2.1(b)	35,277	34,828	96,194
Minority interest	2.1(b)	90	202	412
		35,367	35,030	96,606
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EUR)	7 (e)			
Basic earnings per share		0.26	0.25	0.70
Diluted earnings per share		0.26	0.25	0.70
EBITDA	2.1(b)	76,020	72,382	149,315
Depreciation, amortization and write-downs	2.1(b), 3	(18,219)	(15,373)	(31,718)

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

CONSOLIDATED BALANCE SHEET

In thousand of EUR

	Notes	30 June 2008	31 December 2007	30 June 2007
ASSETS				
Non-current assets				
Property, plant and equipment	3	155,438	153,715	135,366
Intangible fixed assets	3	13,222	13,807	12,763
Investments in associates	2.2, 5	699	858	987
Other financial fixed assets		6,777	7,352	7,636
Total non-current assets	2.2	176,136	175,732	156,752
Current assets				
Assets classified as held-for-sale		-	111	143
Inventories	6	10,917	11,989	10,319
Trade and other receivables		70,288	63,460	63,295
Short-term investments		-	44,357	7,887
Cash and cash equivalents		31,243	25,359	42,291
Total current assets	2.2	112,448	145,276	123,935
TOTAL ASSETS	2.2	288,584	321,008	280,687
EQUITY AND LIABILITIES				
Capital and reserves attributable to equity holders of the parent				
Share capital	7	88,169	88,169	88,169
Share premium		22,753	22,753	22,753
Statutory legal reserve		8,817	8,817	8,817
Retained earnings		62,688	59,071	59,071
Net profit for the period		35,277	96,194	34,828
Total capital and reserves attributable to equity holders of the parent		217,704	275,004	213,638
Minority interest	2.2, 7	342	733	523
Total equity		218,046	275,737	214,161
Non-current liabilities				
Interest bearing loans and borrowings	8	4	85	140
Retirement benefit obligations	9	172	208	238
Provisions	10	1,355	1,321	1,296
Non-interest bearing liabilities		123	-	328
Total non-current liabilities	2.2	1,654	1 614	2 002
Current liabilities				
Trade and other payables		68,491	42,885	63,928
Interest bearing loans and borrowings	8	156	178	157
Retirement benefit obligations	9	64	308	300
Provisions	10	173	286	139
Total current liabilities	2.2	68,884	43,657	64,524
Total liabilities		70,538	45,271	66,526
TOTAL EQUITY AND LIABILITIES	2.2	288,584	321,008	280,687

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

CONSOLIDATED CASH FLOW STATEMENT

In thousand of EUR

	Notes	I HY 2008	I HY 2007
Operating activities			
Net profit for the period		35,367	35,030
Adjustments for:			
Depreciation, amortisation and impairment of fixed and intangible assets	3	18,219	15,373
(Profit) / loss from sales and discards of fixed assets		(445)	(612)
Net (income) / expenses from associated companies		159	116
Provisions		(362)	(327)
Financial items		(3,573)	(3,006)
Income tax on dividends		24,652	23,700
Miscellaneous non-cash items		5	(158)
Cash flow before change in working capital		74,022	70,116
Change in current receivables		(6,346)	(6,547)
Change in inventories		631	(1,202)
Change in current liabilities		458	(1,486)
Change in working capital		(5,257)	(9,235)
Cash flow after changes in working capital		68,765	60,881
Interest received		4,451	3,745
Interest paid		(158)	(47)
Cash flow from operating activities	2.2	73,058	64,579
Investing activities			
Intangible and tangible fixed assets acquired	2.2, 3	(19,355)	(19,267)
Intangible and tangible fixed assets divested		555	762
Net change in interest-receivables short maturities		47,917	61,925
Net cash changes of other long-term receivables		(3,642)	(860)
Cash flow from investing activities	2.2	25,475	42,560
Cash flow before financing activities		98,533	107,139
Financing activities			
Proceeds from non-convertible debts	8	-	13
Repayment of finance lease liabilities	8	(84)	(57)
Dividends paid	7(d)	(92,577)	(83,761)
Cash flow used in financing activities	2.2	(92,661)	(83,805)
Cash flow for the year	2.2	5,872	23,334
Cash and cash equivalents at beginning of year	2.2	25,359	20,733
Cash flow for the year	2.2	5,872	23,334
Effect of foreign exchange rate changes	2.2	12	2
Cash and cash equivalents at end of period	2.2	31,243	44,069

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

STATEMENT OF CHANGES IN OWNERS' EQUITY

In thousand of EUR

	Attributable to equity holders of the Company					Total	Minority interest	Total equity
	Issued capital	Share premium	Statutory legal reserve	Retained earnings	Net profit for the period			
31 December 2006	88,169	22,753	8,817	59,143	83,689	262,571	321	262,892
Net profit for the 2006 transferred to retained earnings	-	-	-	83,689	(83,689)	-	-	-
Dividends paid (Note 7 d)	-	-	-	(83,761)	-	(83,761)	-	(83,761)
Net profit for the period	-	-	-	-	34,828	34,828	202	35,030
30 June 2007	88,169	22,753	8,817	59,071	34,828	213,638	523	214,161
31 December 2007	88,169	22,753	8,817	59,071	96,194	275,004	733	275,737
Net profit for the 2007 transferred to retained earnings	-	-	-	96,194	(96,194)	-	-	-
Dividends paid (Note 7 d)	-	-	-	(92,577)	-	(92,577)	(481)	(93,058)
Net profit for the period	-	-	-	-	35,277	35,277	90	35,367
30 June 2008	88,169	22,753	8,817	62,688	35,277	217,704	342	218,046

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

NOTES TO FINANCIAL STATEMENTS

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

The consolidated interim financial statements for the second quarter and the first half year period ending 30 June 2008 are prepared in accordance with the International Financial Accounting Standards, as adopted by the European Union, includes IAS 34. In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2007.

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

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

These financial statements are not audited.

This consolidated statement is signed by the management board for public disclosure on 17 July 2008.

2. Segment information

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

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

Broadband – this segment operates the national telecommunications network, with providing broadband and data communications services and related value-added-services as well as provision of production, marketing and sales related services and goods. The companies belonging to this business segment are Elion Enterprises AS, AS Elion Esindus, AS EsData and up to 31 May 2008 Viru Net OÜ. From the 1st of July Viru Net OÜ merged with Elion Enterprises AS.

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 company belonging to this business segment is AS MicroLink Eesti. Also AS MicroLink belonged up to 30 June 2007 to this business segment. From the 1st of July 2007 AS MicroLink merged with Elion Enterprises AS.

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

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

Inter-company transactions were conducted on an arms-length basis.

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

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

NOTES TO FINANCIAL STATEMENTS

2.1 Primary reporting format – business segments

a) II Quarter income statement

In thousand of EUR

	Mobile telecommunications		Broadband services		Managed IT-services		Other activities		Eliminations		Consolidated	
	II Quarter 2008	II Quarter 2007	II Quarter 2008	II Quarter 2007	II Quarter 2008	II Quarter 2007	II Quarter 2008	II Quarter 2007	II Quarter 2008	II Quarter 2007	II Quarter 2008	II Quarter 2007
External net sales	50,453	55,371	45,598	42,400	4,080	3,365	-	-	-	-	100,131	101,136
Inter-segment net sales	9,514	8,604	5,811	4,509	1,480	1,447	241	19	(17,046)	(14,579)	-	-
Total net sales	59,967	63,975	51,409	46,909	5,560	4,812	241	19	(17,046)	(14,579)	100,131	101,136
Cost of production	(30,572)	(34,745)	(23,330)	(18,601)	(2,480)	(2,263)	-	-	60	-	(56,322)	(55,609)
Inter-segment cost of production	(5,297)	(3,981)	(10,023)	(9,506)	(344)	(348)	-	-	15,664	13,835	-	-
Gross profit	24,098	25,249	18,056	18,802	2,736	2,201	241	19	(1,322)	(744)	43,809	45,527
Sales, administrative and research & development	(4,711)	(4,501)	(6,427)	(8,303)	(2,583)	(2,369)	(529)	(508)	(83)	(83)	(14,333)	(15,764)
Inter-segment sales, administrative and research & development	(457)	(275)	(826)	(405)	(92)	(58)	(8)	(7)	1,383	745	-	-
Other operating revenues	248	151	254	5	9	28	-	16	-	-	511	200
Other operating expenses	(86)	(77)	7	(2)	(1)	(2)	(1)	(1)	-	-	(81)	(82)
Operating profit / (loss)	19,092	20,547	11,064	10,097	69	(200)	(297)	(481)	(22)	(82)	29,906	29,881
Other finance income, net	670	318	196	(48)	(22)	233	436	373	-	-	1,280	876
Income / (expenses) from subsidiaries and associated	(13)	(67)	(39)	(62)	-	-	84,363	84,044	(84,363)	(84,044)	(52)	(129)
Profit before taxation	19,749	20,798	11,221	9,987	47	33	84,502	83,936	(84,385)	(84,126)	31,134	30,628
Income tax on dividends	(14,192)	(15,953)	(8,495)	(7,752)	-	-	(1,965)	-	-	-	(24,652)	(23,705)
Net profit / (loss) for the period	5,557	4,845	2,726	2,235	47	33	82,537	83,936	(84,385)	(84,126)	6,482	6,923
Attributable to:												
Equity holders of the parent	5,549	4,751	2,726	2,235	47	33	82,537	83,936	(84,385)	(84,126)	6,474	6,829
Minority interest	8	94	-	-	-	-	-	-	-	-	8	94
	5,557	4,845	2,726	2,235	47	33	82,537	83,936	(84,385)	(84,126)	6,482	6,923
EBITDA	23,309	24,033	15,719	14,020	450	163	(295)	(480)	-	-	39,183	37,736
Depreciation, amortization and write-downs	(4,217)	(3,486)	(4,655)	(3,923)	(381)	(363)	(2)	(1)	(22)	(82)	(9,277)	(7,855)

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

b) I Half Year income statement

In thousand of EUR

	Mobile telecommunications		Broadband services		Managed IT-services		Other activities		Eliminations		Consolidated	
	I HY 2008	I HY 2007	I HY 2008	I HY 2007	I HY 2008	I HY 2007	I HY 2008	I HY 2007	I HY 2008	I HY 2007	I HY 2008	I HY 2007
External net sales	97,533	104,544	89,815	83,609	7,640	8,628	-	-	-	-	194,988	196,781
Inter-segment net sales	18,307	14,585	10,411	7,874	2,978	3,078	532	19	(32,228)	(25,556)	-	-
Total net sales	115,840	119,129	100,226	91,483	10,618	11,706	532	19	(32,228)	(25,556)	194,988	196,781
Cost of production	(60,257)	(65,219)	(44,558)	(38,089)	(4,705)	(6,701)	-	-	120	-	(109,400)	(110,009)
Inter-segment cost of production	(9,600)	(7,154)	(19,301)	(16,523)	(681)	(617)	-	-	29,582	24,294	-	-
Gross profit	45,983	46,756	36,367	36,871	5,232	4,388	532	19	(2,526)	(1,262)	85,588	86,772
Sales, administrative and research & development	(9,354)	(8,170)	(12,833)	(16,181)	(5,146)	(4,693)	(1,020)	(803)	(167)	(167)	(28,520)	(30,014)
Inter-segment sales, administrative and research & development	(793)	(425)	(1,650)	(714)	(190)	(111)	(14)	(13)	2,647	1,263	-	-
Other operating revenues	439	337	445	8	29	39	-	16	-	-	913	400
Other operating expenses	(172)	(140)	(5)	(5)	(1)	(3)	(2)	(1)	-	-	(180)	(149)
Operating profit / (loss)	36,103	38,358	22,324	19,979	(76)	(380)	(504)	(782)	(46)	(166)	57,801	57,009
Other finance income, net	1,144	788	319	(131)	(42)	429	956	756	-	-	2,377	1,842
Income / (expenses) from subsidiaries and associated	(69)	(52)	(90)	(64)	-	-	84,363	84,044	(84,363)	(84,044)	(159)	(116)
Profit before taxation	37,178	39,094	22,553	19,784	(118)	49	84,815	84,018	(84,409)	(84,210)	60,019	58,735
Income tax on dividends	(14,192)	(15,953)	(8,495)	(7,752)	-	-	(1,965)	-	-	-	(24,652)	(23,705)
Net profit / (loss) for the period	22,986	23,141	14,058	12,032	(118)	49	82,850	84,018	(84,409)	(84,210)	35,367	35,030
Attributable to:												
Equity holders of the parent	22,896	22,939	14,058	12,032	(118)	49	82,850	84,018	(84,409)	(84,210)	35,277	34,828
Minority interest	90	202	-	-	-	-	-	-	-	-	90	202
	22,986	23,141	14,058	12,032	(118)	49	82,850	84,018	(84,409)	(84,210)	35,367	35,030
EBITDA	44,339	45,113	31,484	27,762	699	287	(502)	(780)	-	-	76,020	72,382
Depreciation, amortization and write-downs	(8,236)	(6,755)	(9,160)	(7,783)	(775)	(667)	(2)	(2)	(46)	(166)	(18,219)	(15,373)

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

2.2 Other information by business segments

In thousand of EUR

	Mobile telecommunications		Broadband services		Managed IT-services		Other activities		Eliminations		Consolidated	
	30 June, II Q 2008	30 June, II Q 2007	30 June, II Q 2008	30 June, II Q 2007	30 June, II Q 2008	30 June, II Q 2007	30 June, II Q 2008	30 June, II Q 2007	30 June, II Q 2008	30 June, II Q 2007	30 June, II Q 2008	30 June, II Q 2007
Non-current assets (except investments in subsidiaries & associates)	6,425	57,758	105,325	90,805	3,133	2,737	10	13	3,544	4,452	175,437	155,765
Investments in subsidiaries and associates	407	537	292	29,814	-	-	91,290	84,196	(91,290)	(113,560)	699	987
Current assets	57,874	53,840	57,450	41,032	4,191	27,977	26,168	40,592	(33,235)	(39,506)	112,448	123,935
Total assets	121,706	112,135	163,067	161,651	7,324	30,714	117,468	124,801	(120,981)	(148,614)	288,584	280,687
Equity attributable to equity shareholders of the parent	72,928	66,024	113,233	108,200	1,845	25,681	113,494	122,842	(83,796)	(109,109)	217,704	213,638
Minority interest	342	523	-	-	-	-	-	-	-	-	342	523
Non-current liabilities	1,491	1,937	126	24	37	41	-	-	-	-	1,654	2,002
Current liabilities	46,945	43,651	49,708	53,427	5,442	4,992	3,974	1,959	(37,185)	(39,505)	68,884	64,524
Total shareholders' equity and liabilities	121,706	112,135	163,067	161,651	7,324	30,714	117,468	124,801	(120,981)	(148,614)	288,584	280,687
Net cash from/ (used in) operating activities	46,418	42,807	24,379	20,081	(39)	(32)	86,663	85,767	(84,363)	(84,044)	73,058	64,579
Net cash from/ (used in) investing activities	(8,199)	(8,154)	(10,049)	(11,258)	(633)	47	47,796	48,053	(3,440)	13,872	25,475	42,560
Net cash from/ (used in) financing activities	(53,664)	(56,864)	(34,776)	(15,089)	553	1,737	(92,577)	(83,761)	87,803	70,172	(92,661)	(83,805)
Exchange rate differences in cash and cash equivalents	-	-	11	-	-	-	1	2	-	-	12	2
Net increase/ (decrease) in cash and cash equivalents	(15,445)	(22,211)	(20,435)	(6,266)	(119)	1,752	41,883	50,061	-	-	5,884	23,336
CAPEX	8,207	8,161	10,512	10,365	635	741	1	-	-	-	19,355	19,267

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

2.3 Secondary reporting format - geographic segments

In thousand of EUR

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									
	I HY 2008	I HY 2007	I HY 2008	I HY 2007	I HY 2008	I HY 2007	I HY 2008	I HY 2007								
Revenue from customers in Estonia	94,336	96.7%	100,426	96.1%	80,567	89.7%	75,906	90.8%	7,587	99.3%	8,454	98.0%	182,490	93.6%	184,786	93.9%
Revenue from customers outside Estonia	3,197	3.3%	4,118	3.9%	9,248	10.3%	7,703	9.2%	53	0.7%	174	2.0%	12,498	6.4%	11,995	6.1%
Total revenue	97,533	100%	104,544	100%	89,815	100%	83,609	100%	7,640	100%	8,628	100%	194,988	100%	196,781	100%

**AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008
INTERIM REPORT**

NOTES TO THE FINANCIAL STATEMENTS

3. Tangible and intangible assets

In thousand of EUR

	Tangible assets	Intangible assets
At 31 December 2006		
Cost	566,198	25,819
Accumulated depreciation	(435,525)	(12,138)
Net book value	130,673	13,681
Changes in the I Half Year 2007		
Opening net book amount	130,673	13,681
Additions	19,089	178
Reclassification	(102)	102
Reclassification to assets classified as held-for-sale	(94)	-
Disposals	(25)	-
Depreciation charge	(14,175)	(1,198)
Closing net book amount	135,366	12,763
At 30 June 2007		
Cost	580,532	26,111
Accumulated depreciation	(445,166)	(13,348)
Net book value	135,366	12,763
At 31 December 2007		
Cost	598,518	27,301
Accumulated depreciation	(444,803)	(13,494)
Net book value	153,715	13,807
Changes in the I Half Year 2008		
Opening net book amount	153,715	13,807
Additions	18,937	418
Reclassification	(463)	463
Reclassification to assets classified as held-for-sale	112	-
Disposals	(110)	-
Depreciation charge	(16,753)	(1,466)
Closing net book amount	155,438	13,222
At 30 June 2008		
Cost	613,967	27,810
Accumulated depreciation	(458,529)	(14,588)
Net book value	155,438	13,222

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

4. Investments in subsidiaries

	Country of incorporation	Ownership interest		Principal activity	Owner
		30 June 2008	31 December 2007		
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 ¹⁾	Estonia	-	100%	Internet services	Elion Enterprises AS
AS MicroLink Eesti	Estonia	100%	100%	IT services: system integration and infrastructure solutions; software development; ERP and business solutions; data communications and networking; central systems and data centre solutions; systems management and maintenance; end-user PC services and support; full IT outsourcing.	AS Eesti Telekom
AS EMT	Estonia	100%	100%	Construction and operating of mobile networks, providing mobile communication services	AS Eesti Telekom
EMT Esindused AS	Estonia	100%	100%	Retail sales of telecommunication products and services	AS EMT
AS Mobile Wholesale	Estonia	100%	100%	Wholesale of mobile phones	AS EMT
Serenda Investment OÜ	Estonia	51%	51%	Administration of communication portal based in Estonia internet	AS EMT

1) From the 1st of June 2008 Viru Net OÜ merged with Elion Enterprises AS.

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

5. Investments in associates

	Country of incorporation	Ownership interest		Principal activity	Owner
		30 June 2008	31 December 2007		
AS Sertifitseerimiskeskus	Estonia	50%	50%	Providing certification and related services	Elion Enterprises AS – 25% AS EMT – 25%
OÜ Voicecom	Estonia	26%	26%	Designing and providing software for mobile related services	AS EMT

6. Inventories

In the first half year 2008, impairment for the inventories were in the total amount of 179 thousand EUR (in the first half year 2007, the value of the inventories was not decreased) based on the estimated decline of the net realisation value below their acquisition cost.

7. Equity

a) Issued capital

	30 June 2008	31 December 2007
Ordinary shares issued par value 0.64 EUR 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.

b) Re-acquiring of shares

The Annual General Meeting of Shareholders, on 22 May 2008, authorized AS Eesti Telekom to acquire within five years from the adoption of this resolution, i.e. until 22 May 2013 (the same authority, which was obtained from last Annual General Meeting on 22 May 2007, terminated on 22 May 2008), AS Eesti Telekom ordinary shares so that the total of nominal values of own shares held by AS Eesti Telekom would not exceed the limit set by statutory regulations, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the company's assets in excess of its share capital, capital reserves, and share premium. The amount of shares to be acquired each time shall be determined on each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council. As of 30 June 2008, no shares have been re-acquired by AS Eesti Telekom.

c) Reserves

Reserves include:

- Obligatory legal reserve required by the Commercial Code. Subject to the approval of the general meeting, the reserve may be used for covering cumulated losses, if the latter cannot be covered with other unrestricted equity, and for increasing share capital.
- Share premium – the positive difference between the issue price and nominal value of issued shares (issue premium).

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

d) Dividends

Dividends in the total amount of 92,577 thousand EUR (2007: 83,761 thousand EUR) or 0,671 EUR per ordinary share were disbursed to the equity holders of the parent in the first half year 2008 (2007: 0.607 EUR).

On 1 July 2008, minority shareholders (Serenda Invest OÜ minority shareholders) were paid dividends totalling 481 thousand EUR (minority shareholders were not paid dividends in 2007).

e) Earnings per share

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

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

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

	2008	2007
<u>II Quarter</u>		
Net profit attributable to equity holders of the Company (EUR)	6,474,000	6,829,000
The average number of ordinary shares	137,954,528	137,954,528
EPS (in EUR)	0.05	0.05
<u>I Half Year</u>		
Net profit attributable to equity holders of the Company (EUR)	35,277,000	34,828,000
The average number of ordinary shares	137,954,528	137,954,528
EPS (in EUR)	0.26	0.25

f) Share information

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

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

	I HY 2008	2007	I HY 2007
Ordinary share highest price	7.99	10.77	10.77
Ordinary share lowest price	6.93	6.57	7.75
Ordinary share average price	7.40	8.16	8.41

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

8. Borrowings

In thousand of EUR

	30 June 2008	31 December 2007
Non-current	4	85
Current	156	178
	160	263

The movements in the borrowings can be analyzed as follows:

Opening balance 31 December 2007	263
Repayments of borrowings	(84)
Other movements	(19)
Closing balance 30 June 2008	160

9. Retirement benefit obligations

In thousand of EUR

	30 June 2008	31 December 2007
Non-current portion of retirement benefit obligations	172	208
Current portion of retirement benefit obligations	64	308
Total retirement benefit obligations	236	516

At 31 December 2007	516
Benefits paid in the reporting period	(286)
Additional provisions	4
Interest accrued	2
AT 30 June 2008	236

10. Provisions

In thousand of EUR

	Site restoration expense provision	Termination benefits provision	Compensation of the tolerance of technical infrastructure provision	Guarantee provision	Other provisions	Total
Non-current portion of provisions	1,318	-	-	37	-	1,355
Current portion of provisions	-	-	127	14	32	173
Total provisions	1,318	-	127	51	32	1,528
At 31 December 2007	1,284	124	127	52	20	1,607
Additional provisions in the reporting period	34	-	-	2	27	63
Used provisions during the reporting period	-	(124)	-	(3)	(15)	(142)
At 30 June 2008	1,318	-	127	51	32	1,528

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NOTES TO THE FINANCIAL STATEMENTS

11. Related party transactions

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

a) Name and relationship of related party

Name	Relationship with AS Eesti Telekom Group
1. Key management, Supervisory Council and their relatives	
2. List of associates is shown in Note 5	
3. Enterprises of TeliaSonera AB Group	Parent company, shareholder
4. State Government (State Chancellery and ministries)	Shareholder
5. Companies where Supervisory Council members of the Group have significant influence	

b) Key managements' and supervisory councils' remuneration

The remunerations of key management and Supervisory Council during the first half year 2008 and 2007 were as follows (in thousand of EUR):

	I HY 2008	I HY 2007
Salaries and other short-term employee benefits	1,968	2,267
Termination benefits	42	60
Other	10	16
	2,020	2,343

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NOTES TO THE FINANCIAL STATEMENTS

c) Trading transactions

No impairment has been made in the first half year of 2008 and 2007 for the receivables from related parties.

During the first half year 2008 and 2007, group companies entered into the following transactions with related parties (in thousand of EUR):

	I HY, 30 June 2008	I HY, 30 June 2007
Telecommunication services provided		
Associated companies	126	200
TeliaSonera AB	4,251	4,505
State Government (State Chancellery and ministries)	990	646
Companies where Supervisory Council members of the Group have significant influence	37	17
	5,404	5,368
Other sales		
Associated companies	6	2
State Government (State Chancellery and ministries)	141	211
Companies where Supervisory Council members of the Group have significant influence	19	1
	166	214
Telecommunication services purchased		
Associated companies	12	10
TeliaSonera AB	4,451	5,790
	4,463	5,800
Other services purchased		
Associated companies	2	5
State Government (State Chancellery and ministries)	1,165	422
Companies where Supervisory Council members of the Group have significant influence	54	28
	1,221	455
Financial income		
State Government (State Chancellery and ministries)	1	1
Amount owed by related parties		
Associated companies	22	13
TeliaSonera AB	1,519	1,643
State Government (State Chancellery and ministries)	366	146
Companies where Supervisory Council members of the Group have significant influence	5	3
	1,912	1,805
Amount owed to related parties		
TeliaSonera AB	1,411	1,816
State Government (State Chancellery and ministries)	16	1
Companies where Supervisory Council members of the Group have significant influence	19	5
Key management and Supervisory Council	656	921
	2,102	2,743

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

12. Contingencies

In thousand of EUR

	30 June 2008	31 December 2007
Key management termination benefits	1,651	1,256

Relations with the regulator

- 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 0.13 EUR per minute and, pursuant to the decisions of the Communications Board dated 20 June and 22 June 2007, was fixed at 0.11 EUR 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 0.16 EUR 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 0.11 EUR 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.

With its resolution of 25 March 2008, the Competition Board, which is the legal successor to the Communications Board, established a fee of 0.09 per minute for the termination of voice calls in mobile phone networks for the period 1 July 2008 - 30 June 2009.

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

Management Board:

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

Supervisory Council:




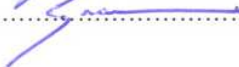
Mats Salomonsson	-	Chairman of the Supervisory Council
Lars Gunnar Klasson	-	Member of the Supervisory Council
Jörgen Latte	-	Member of the Supervisory Council
Björn Lindegren	-	Member of the Supervisory Council
Tarmo Porgand	-	Member of the Supervisory Council
Jüri Raatma	-	Member of the Supervisory Council
Aare Tark	-	Member of the Supervisory Council

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of the consolidated financial statements of AS Eesti Telekom Group for the second quarter and the first half year 2008 as set out on pages 3 to 31.

The Management Board confirms that:

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

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

Tallinn, 17 July 2008