

Eesti**Telekom**

*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 EEK	1,567	1,582	-1.0	3,051	3,079	-0.9
EBITDA, million EEK	613	590	3.8	1,189	1,133	5.0
Margin, %	39.1	37.3		39.0	36.8	
EBIT, million EEK	468	468	0.1	904	892	1.4
Margin, %	29.9	29.6		29.6	29.0	
EBT, million EEK	487	479	1.7	939	919	2.2
Net profit for the period, million EEK	101	108	-6.4	553	548	1.0
EPS, EEK	0.73	0.77	-5.2	4.00	3.95	1.3
CAPEX, million EEK	184	184	-0.2	303	301	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 EEK	938	1,001	-6.3	1,813	1,864	-2.8
EBITDA, million EEK	365	376	-3.0	694	706	-1.7
Margin, %	38.9	37.6		38.3	37.9	
EBIT, million EEK	299	322	-7.1	565	600	-5.9
Margin, %	31.8	32.1		31.2	32.2	
EBT, million EEK	309	325	-5.0	582	612	-4.9
Net profit for the period, million EEK	87	76	14.7	360	362	-0.7
CAPEX, million EEK	71	79	-10.1	128	128	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 EEK	804	734	9.6	1,568	1,431	9.6
EBITDA, million EEK	246	219	12.1	493	434	13.4
Margin, %	30.6	29.9		31.4	30.4	
EBIT, million EEK	173	158	9.6	349	313	11.7
Margin, %	21.5	21.5		22.3	21.8	
EBT, million EEK	176	156	12.4	353	310	14.0
Net profit for the period, million EEK	43	35	21.9	220	188	16.8
CAPEX, million EEK	108	98	10.4	164	162	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 EEK	87	75	15.6	166	183	-9.3
EBITDA, million EEK	7	3	177.5	11	5	144.3
Margin, %	8.1	3.4		6.6	2.4	
EBIT, million EEK	1	-3	N/A	-1	-6	-80.1
Margin, %	1.2	-4.2		-0.7	-3.3	
EBT, million EEK	1	1	46.0	-2	1	N/A
Net profit for the period, million EEK	1	1	46.0	-2	1	N/A
CAPEX, million EEK	5	7	-36.4	10	12	-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 1,567 million EEK in the second quarter of 2008 (2nd quarter 2007: 1,582 million EEK), and was primarily affected by the reduction in interconnection fees (As of 5 November 2007, the state regulator fixed an interconnection fee of 1.66 EEK instead of the former 2.50 EEK in mobile phone networks).

The consolidated turnover of the mobile communications services segment was 938 million EEK in the second quarter of 2008, decreasing by 6% compared to the same period in 2007 (2nd quarter 2007: 1,001 million EEK). 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 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. 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 1.37 EEK 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 804 million EEK (2nd quarter 2007: 734 million EEK). The greatest revenue increase resulted from the sale of subcontracting services, which increased by 217%, or 56 million EEK, 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 20 EEK to 35 EEK. 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 87 million EEK in the second quarter of 2008 (2nd quarter 2007: 75 million EEK). 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 960 million EEK (2nd quarter 2007: 994 million EEK).

The operating costs in the mobile communications services segment decreased by 8% compared to the second quarter of 2007, to 576 million EEK (2nd quarter 2007: 626 million EEK). 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 563 million EEK (2nd quarter 2007: 515 million EEK). 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 80 million EEK (2nd quarter 2007: 73 million EEK).

The Eesti Telekom Group EBITDA in the second quarter of 2008 reached 613 million EEK, which was 4% more than in the second quarter of 2007 (2nd quarter 2007: 590 million EEK). 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 7 million EEK (2nd quarter 2007: 3 million EEK). 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 145 million EEK in the second quarter of 2008, increasing by 18% compared to the same period in 2007 (2nd quarter 2007: 123 million EEK).

In the second quarter, the **Eesti Telekom Group** earned an **EBIT** of 468 million EEK, thereby remaining at the same level as last year (2nd quarter 2007: 468 million EEK). The Group's **(net) financial revenues** increased in the second quarter by 46% reaching 20 million EEK (2nd quarter 2007: 14 million EEK). In the second quarter, the Eesti Telekom Group earned **pre-tax profits** of 487 million EEK (2nd quarter 2007: 479 million EEK).

On 17 June of this year, AS Eesti Telekom again paid its shareholders record-breaking **dividends** of 1,449 million EEK from the profits (2007: 1,311 million EEK). In order to enable the payment of dividends to the shareholders of AS Eesti Telekom, AS EMT paid the parent company dividends of 820 million EEK (2nd quarter 2007: 885 million EEK) and Elion Enterprises paid 500 million EEK (2nd quarter 2007: 430 million EEK). The payment of the dividends was accompanied by **income tax payable on the dividends**

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totaling 386 million EEK (2nd quarter 2007: 371 million EEK), of which AS EMT paid 222 million EEK (2nd quarter 2007: 250 million EEK) and Elion Enterprises paid 133 million EEK (2nd quarter 2007: 121 million EEK).

In the second quarter of 2008, the **net profit** for the Eesti Telekom Group was 101 million EEK (2nd quarter 2007: 108 million EEK). The revenue per share was 0.73 EEK (2nd quarter 2007: 0.77 EEK).

Balance sheet and cash flows

As of 30 June 2008, the Eesti Telekom Group balance sheet totaled 4,515 million EEK (31. December 2007: 5,023 million EEK). Compared to the beginning of the year, fixed assets had increased by 6 million EEK, thereby bringing the depreciated value at the end of the second quarter to 2,756 million EEK. The Group's current assets have decreased during the first six months of 2008 by 514 million EEK, reaching 1,759 million EEK by the end of June (31 December 2007: 2,273 million EEK). Cash and cash equivalents, as well as the balance of short-term financial investments, have decreased by 602 million EEK, in connection with the dividends paid out in June.

As of 30 June 2008, the Eesti Telekom Group equity was 3,412 million EEK, which is 903 million EEK less than at the end of 2007 (31 December 2007: 4,314 million EEK). The decrease in equity is related to the payment of a dividend totaling 1,449 million EEK. At the same time, equity has been increased by a profit of 553 million EEK in the first six months of 2008. As of the end of June, the Group had long-term obligations of 26 million EEK (31 December 2007: 25 million EEK). The increase in short-term debt obligations results from the income tax liabilities of 386 million EEK resulting from the payment of dividends.

The net debt of the Eesti Telekom Group at the end of the second quarter was -486 million EEK and the net debt to equity ratio was -14% (31 December 2007: -1,087 million EEK and -25%).

The Eesti Telekom Group cash flow from operations in the first six months of 2008 was 1,143 million EEK (first six months of 2007: 1,010 million EEK). The Group's cash flow from investment activities was 399 million EEK (first six months of 2007: 666 million EEK). The cash flow into the acquisition of tangible and intangible fixed assets in the first six months was 303 million EEK (first six months of 2007: 301 million EEK). In the second quarter of this year, the mobile communications segment has invested 71 million EEK (2nd quarter 2007: 79 million EEK). 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 108 million EEK (2nd quarter 2007: 98 million EEK). 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 5 million EEK into fixed assets (2nd quarter 2007: 7 million EEK). 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.

In the first six months of this year, the Eesti Telekom Group cash flow into financial activities was 1,450 million EEK, of which 1,449 million EEK was used to pay dividends (in the first six months of 2007, these amounts were 1,311 million EEK and 1,311 million EEK respectively).

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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 10.50 EEK per share or a total of 1,449 million EEK 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 981 million EEK 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 11,000 EEK per month for their services and the chairman may be paid 20,000 EEK 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 Estonian kroons (EEK)

	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08
Sales	1,582	1,612	1,570	1,484	1,567
OPEX	(994)	(992)	(1,004)	(913)	(960)
Other revenue/expenses, net	2	7	11	5	7
EBITDA	590	627	576	576	613
Depreciation and amortisation	(123)	(124)	(132)	(140)	(145)
EBIT	468	504	444	436	468
Income / expenses from associates	(2)	(1)	(1)	(2)	(1)
Other net financing items	14	6	12	17	20
Profit before tax	479	509	455	452	487
Income tax on dividends	(371)	-	-	-	(386)
Net profit for the period	108	509	455	452	101
Minority interest	1	2	2	1	-
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, %	6.8%	31.55%	29.0%	30.4%	6.5%
Total assets	4,392	4,508	5,023	5,342	4,515
- Non-current assets	2,453	2,536	2,750	2,726	2,756
- Current assets	1,939	1,972	2,273	2,616	1,759
- Cash and cash equivalents and short-term investments	785	780	1,091	1,411	489
Equity and liabilities	4,392	4,508	5,023	5,342	4,515
- Equity	3,351	3,860	4,314	4,766	3,412
- Provisions	31	31	33	31	28
- Non-current liabilities	7	2	1	1	2
- Interest-bearing borrowings	2	2	1	1	-
- Current liabilities	1,003	616	674	543	1,074
- Interest-bearing borrowings	2	2	3	3	2

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II QUARTER CONSOLIDATED INCOME STATEMENT

In thousand of Estonian kroons (EEK)

	Notes	II Quarter 2008	II Quarter 2007
Net sales	2.1(a)	1,566,708	1,582,417
Cost of production	2.1(a)	(881,242)	(870,081)
Gross profit		685,466	712,336
Sales, administrative, and research & development expenses	2.1(a)	(224,265)	(246,647)
Other operating revenues	2.1(a)	8,000	3,137
Other operating expenses	2.1(a)	(1,267)	(1,276)
Operating profit		467,934	467,550
Finance income		20,627	13,923
Finance costs		(588)	(218)
Finance income, net	2.1(a)	20,039	13,705
Net income / (expenses) from associated companies	2.1(a)	(800)	(2,012)
Profit before tax		487,173	479,243
Income tax on dividends		(385,721)	(370,897)
Net profit for the period	2.1(a)	101,452	108,346
Attributable to:			
Equity holders of the parent	2.1(a)	101,315	106,863
Minority interest	2.1(a)	137	1,483
		101,452	108,346
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EEK)			
	7 (e)		
Basic earnings per share		0.73	0.77
Diluted earnings per share		0.73	0.77
EBITDA	2.1(a)	613,078	590,446
Depreciation, amortization and write-downs	2.1(a)	(145,144)	(122,896)

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I HALF YEAR CONSOLIDATED INCOME STATEMENT

In thousand of Estonian kroons (EEK)

	Notes	I HY 2008	I HY 2007	2007
Net sales	2.1(b), 2.3	3,050,889	3,078,935	6,261,002
Cost of production	2.1(b)	(1,711,737)	(1,721,262)	(3,542,791)
Gross profit		1,339,152	1,357,673	2,718,211
Sales, administrative, and research & development expenses	2.1(b)	(446,247)	(469,611)	(900,011)
Other operating revenues	2.1(b)	14,285	6,264	28,114
Other operating expenses	2.1(b)	(2,821)	(2,332)	(6,336)
Operating profit		904,369	891,994	1,839,978
Finance income		38,378	29,576	48,626
Finance costs		(1,172)	(768)	(2,342)
Finance income, net	2.1(b)	37,206	28,808	46,284
Net income / (expenses) from associated companies	2.1(b)	(2,480)	(1,809)	(3,817)
Profit before tax		939,095	918,993	1,882,445
Income tax on dividends		(385,721)	(370,897)	(370,897)
Net profit for the period	2.1(b)	553,374	548,096	1,511,548
Attributable to:				
Equity holders of the parent	2.1(b)	551,966	544,932	1,505,098
Minority interest	2.1(b)	1,408	3,164	6,450
		553,374	548,096	1,511,548
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EEK)	7 (e)			
Basic earnings per share		4.00	3.95	10.91
Diluted earnings per share		4.00	3.95	10.91
EBITDA	2.1(b)	1,189,430	1,132,528	2,336,260
Depreciation, amortization and write-downs	2.1(b), 3	(285,061)	(240,534)	(496,282)

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

CONSOLIDATED BALANCE SHEET

In thousand of Estonian kroons (EEK)

	Notes	30 June 2008	31 December 2007	30 June 2007
ASSETS				
Non-current assets				
Property, plant and equipment	3	2,432,084	2,405,114	2,118,025
Intangible fixed assets	3	206,877	216,011	199,685
Investments in associates	2.2, 5	10,942	13,422	15,438
Other financial fixed assets		106,041	115,059	119,475
Total non-current assets	2.2	2,755,944	2,749,606	2,452,623
Current assets				
Assets classified as held-for-sale		-	1,732	2,235
Inventories	6	170,820	187,573	161,464
Trade and other receivables		1,099,761	992,939	990,365
Short-term investments		-	694,040	123,394
Cash and cash equivalents		488,850	396,778	661,721
Total current assets	2.2	1,759,431	2,273,062	1,939,179
TOTAL ASSETS	2.2	4,515,375	5,022,668	4,391,802
EQUITY AND LIABILITIES				
Capital and reserves attributable to equity holders of the parent				
Share capital	7	1,379,545	1,379,545	1,379,545
Share premium		356,018	356,018	356,018
Statutory legal reserve		137,955	137,955	137,955
Retained earnings		980,838	924,263	924,263
Net profit for the period		551,966	1,505,098	544,932
Total capital and reserves attributable to equity holders of the parent		3,406,322	4,302,879	3,342,713
Minority interest	2.2, 7	5,357	11,480	8,194
Total equity		3,411,679	4,314,359	3,350,907
Non-current liabilities				
Interest bearing loans and borrowings	8	67	1,343	2,183
Retirement benefit obligations	9	2,696	3,239	3,735
Provisions	10	21,201	20,673	20,274
Non-interest bearing liabilities		1,920	-	5,148
Total non-current liabilities	2.2	25,884	25,255	31,340
Current liabilities				
Trade and other payables		1,071,667	670,989	1,000,240
Interest bearing loans and borrowings	8	2,444	2,778	2,456
Retirement benefit obligations	9	1,001	4,814	4,689
Provisions	10	2,700	4,473	2,170
Total current liabilities	2.2	1,077,812	683,054	1,009,555
Total liabilities		1,103,696	708,309	1,040,895
TOTAL EQUITY AND LIABILITIES	2.2	4,515,375	5,022,668	4,391,802

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

CONSOLIDATED CASH FLOW STATEMENT

In thousand of Estonian kroons (EEK)

	Notes	I HY 2008	I HY 2007
Operating activities			
Net profit for the period		553,374	548,096
Adjustments for:			
Depreciation, amortisation and impairment of fixed and intangible assets	3	285,061	240,534
(Profit) / loss from sales and discards of fixed assets		(6,957)	(9,552)
Net (income) / expenses from associated companies		2,480	1,809
Provisions		(5,667)	(5,113)
Financial items		(55,909)	(47,036)
Income tax on dividends		385,721	370,824
Miscellaneous non-cash items		90	(2,472)
Cash flow before change in working capital		1,158,193	1,097,090
Change in current receivables		(99,289)	(102,431)
Change in inventories		9,875	(18,812)
Change in current liabilities		7,183	(23,257)
Change in working capital		(82,231)	(144,500)
Cash flow after changes in working capital		1,075,962	952,590
Interest received		69,646	58,592
Interest paid		(2,472)	(732)
Cash flow from operating activities	2.2	1,143,136	1,010,450
Investing activities			
Intangible and tangible fixed assets acquired	2.2, 3	(302,847)	(301,456)
Intangible and tangible fixed assets divested		8,691	11,924
Net change in interest-receivables short maturities		749,734	968,924
Net cash changes of other long-term receivables		(56,989)	(13,464)
Cash flow from investing activities	2.2	398,589	665,928
Cash flow before financing activities		1,541,725	1,676,378
Financing activities			
Proceeds from non-convertible debts	8	-	196
Repayment of finance lease liabilities	8	(1,315)	(899)
Dividends paid	7(d)	(1,448,523)	(1,310,568)
Cash flow used in financing activities	2.2	(1,449,838)	(1,311,271)
Cash flow for the year	2.2	91,887	365,107
Cash and cash equivalents at beginning of year	2.2	396,778	324,405
Cash flow for the year	2.2	91,887	365,107
Effect of foreign exchange rate changes	2.2	185	25
Cash and cash equivalents at end of period	2.2	488,850	689,537

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

STATEMENT OF CHANGES IN OWNERS' EQUITY

In thousand of Estonian kroons (EEK)

	Attributable to equity holders of the Company					Total	Minority interest	Total equity
	Issued capital	Share premium	Statutory legal reserve	Retained earnings	Net profit for the period			
31 December 2006	1,379,545	356,018	137,955	925,388	1,309,443	4,108,349	5,030	4,113,379
Net profit for the 2006 transferred to retained earnings	-	-	-	1,309,443	(1,1309,443)	-	-	-
Dividends paid (Note 7 d)	-	-	-	(1,310,568)	-	(1,310,568)	-	(1,310,568)
Net profit for the period	-	-	-	-	544,932	544,932	3,164	548,096
30 June 2007	1,379,545	356,018	137,955	924,263	544,932	3,342,713	8,194	3,350,907
31 December 2007	1,379,545	356,018	137,955	924,263	1,505,098	4,302,879	11,480	4,314,359
Net profit for the 2007 transferred to retained earnings	-	-	-	1,505,098	(1,505,098)	-	-	-
Dividends paid (Note 7 d)	-	-	-	(1,448,523)	-	(1,448,523)	(7,531)	(1,456,054)
Net profit for the period	-	-	-	-	551,966	551,966	1,408	553,374
30 June 2008	1,379,545	356,018	137,955	980,838	551,966	3,406,322	5,357	3,411,679

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 financial statements are presented in thousand of Estonian kroons (EEK), unless indicated otherwise.

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

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 Estonian kroons (EEK)

	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	789,420	866,374	713,450	663,396	63,838	52,647	-	-	-	-	1,566,708	1,582,417
Inter-segment net sales	148,853	134,623	90,936	70,552	23,167	22,629	3,773	295	(266,729)	(228,099)	-	-
Total net sales	938,273	1,000,997	804,386	733,948	87,005	75,276	3,773	295	(266,729)	(228,099)	1,566,708	1,582,417
Cost of production	(478,345)	(543,631)	(365,034)	(291,039)	(38,802)	(35,411)	-	-	939	-	(881,242)	(870,081)
Inter-segment cost of production	(82,871)	(62,281)	(156,826)	(148,727)	(5,392)	(5,447)	-	-	245,089	216,455	-	-
Gross profit	377,057	395,085	282,526	294,182	42,811	34,418	3,773	295	(20,701)	(11,644)	685,466	712,336
Sales, administrative and research & development	(73,700)	(70,423)	(100,565)	(129,902)	(40,413)	(37,061)	(8,277)	(7,951)	(1,310)	(1,310)	(224,265)	(246,647)
Inter-segment sales, administrative and research & development	(7,153)	(4,293)	(12,921)	(6,343)	(1,445)	(900)	(124)	(109)	21,643	11,645	-	-
Other operating revenues	3,885	2,376	3,978	79	137	431	-	251	-	-	8,000	3,137
Inter-segment other operating revenues	-	-	-	-	3	1	-	-	(3)	(1)	-	-
Other operating expenses	(1,349)	(1,218)	105	(12)	(16)	(33)	(7)	(13)	-	-	(1,267)	(1,276)
Operating profit / (loss)	298,740	321,527	173,123	158,004	1,077	(3,144)	(4,635)	(7,527)	(371)	(1,310)	467,934	467,550
Other finance income, net	10,473	4,957	3,074	(751)	(328)	3,657	6,820	5,842	-	-	20,039	13,705
Income / (expenses) from subsidiaries and associated	(197)	(1,053)	(603)	(959)	-	-	1,320,000	1,315,000	(1,320,000)	(1,315,000)	(800)	(2,012)
Profit before taxation	309,016	325,431	175,594	156,294	749	513	1,322,185	1,313,315	(1,320,371)	(1,316,310)	487,173	479,243
Income tax on dividends	(222,059)	(249,615)	(132,911)	(121,282)	-	-	(30,751)	-	-	-	(385,721)	(370,897)
Net profit / (loss) for the period	86,957	75,816	42,683	35,012	749	513	1,291,434	1,313,315	(1,320,371)	(1,316,310)	101,452	108,346
Attributable to:												
Equity holders of the parent	86,820	74,333	42,683	35,012	749	513	1,291,434	1,313,315	(1,320,371)	(1,316,310)	101,315	106,863
Minority interest	137	1,483	-	-	-	-	-	-	-	-	137	1,483
	86,957	75,816	42,683	35,012	749	513	1,291,434	1,313,315	(1,320,371)	(1,316,310)	101,452	108,346
EBITDA	364,731	376,065	245,934	219,362	7,041	2,537	(4,628)	(7,518)	-	-	613,078	590,446
Depreciation, amortization and write-downs	(65,991)	(54,538)	(72,811)	(61,358)	(5,964)	(5,681)	(7)	(9)	(371)	(1,310)	(145,144)	(122,896)

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 Estonian kroons (EEK)

	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	1,526,059	1,635,758	1,405,292	1,308,182	119,538	134,995	-	-	-	-	3,050,889	3,078,935
Inter-segment net sales	286,437	228,205	162,904	123,204	46,601	48,156	8,325	295	(504,267)	(399,860)	-	-
Total net sales	1,812,496	1,863,963	1,568,196	1,431,386	166,139	183,151	8,325	295	(504,267)	(399,860)	3,050,889	3,078,935
Cost of production	(942,810)	(1,020,454)	(697,188)	(595,953)	(73,616)	(104,855)	-	-	1,877	-	(1,711,737)	(1,721,262)
Inter-segment cost of production	(150,201)	(111,928)	(301,993)	(258,527)	(10,663)	(9,653)	-	-	462,857	380,108	-	-
Gross profit	719,485	731,581	569,015	576,906	81,860	68,643	8,325	295	(39,533)	(19,752)	1,339,152	1,357,673
Sales, administrative and research & development	(146,364)	(127,834)	(200,790)	(253,163)	(80,510)	(73,427)	(15,964)	(12,568)	(2,619)	(2,619)	(446,247)	(469,611)
Inter-segment sales, administrative and research & development	(12,403)	(6,643)	(25,813)	(11,172)	(2,974)	(1,735)	(224)	(203)	41,414	19,753	-	-
Other operating revenues	6,875	5,283	6,958	127	452	603	-	251	-	-	14,285	6,264
Inter-segment other operating revenues	-	-	-	-	4	1	-	-	(4)	(1)	-	-
Other operating expenses	(2,691)	(2,201)	(81)	(74)	(20)	(42)	(29)	(15)	-	-	(2,821)	(2,332)
Operating profit / (loss)	564,902	600,186	349,289	312,624	(1,188)	(5,957)	(7,892)	(12,240)	(742)	(2,619)	904,369	891,994
Other finance income, net	17,896	12,311	5,001	(2,054)	(651)	6,720	14,960	11,831	-	-	37,206	28,808
Income / (expenses) from subsidiaries and associated	(1,081)	(812)	(1,399)	(997)	-	-	1,320,000	1,315,000	(1,320,000)	(1,315,000)	(2,480)	(1,809)
Profit before taxation	581,717	611,685	352,891	309,573	(1,839)	763	1,327,068	1,314,591	(1,320,742)	(1,317,619)	939,095	918,993
Income tax on dividends	(222,059)	(249,615)	(132,911)	(121,282)	-	-	(30,751)	-	-	-	(385,721)	(370,897)
Net profit / (loss) for the period	359,658	362,070	219,980	188,291	(1,839)	763	1,296,317	1,314,591	(1,320,742)	(1,317,619)	553,374	548,096
Attributable to:												
Equity holders of the parent	358,250	358,906	219,980	188,291	(1,839)	763	1,296,317	1,314,591	(1,320,742)	(1,317,619)	551,966	544,932
Minority interest	1,408	3,164	-	-	-	-	-	-	-	-	1,408	3,164
	359,658	362,070	219,980	188,291	(1,839)	763	1,296,317	1,314,591	(1,320,742)	(1,317,619)	553,374	548,096
EBITDA	693,772	705,869	492,593	434,399	10,943	4,479	(7,878)	(12,219)	-	-	1,189,430	1,132,528
Depreciation, amortization and write-downs	(128,870)	(105,683)	(143,304)	(121,775)	(12,131)	(10,436)	(14)	(21)	(742)	(2,619)	(285,061)	(240,534)

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 Estonian kroons (EEK)

	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)	992,397	903,715	1,647,966	1,420,807	49,025	42,822	163	200	55,451	69,641	2,745,002	2,437,185
Investments in subsidiaries and associates	6,369	8,405	4,573	466,478	-	-	1,428,383	1,317,383	(1,428,383)	(1,776,828)	10,942	15,438
Current assets	905,525	842,414	898,901	642,019	65,569	437,744	409,434	635,131	(519,998)	(618,129)	1,759,431	1,939,179
Total assets	1,904,291	1,754,534	2,551,440	2,529,304	114,594	480,566	1,837,980	1,952,714	(1,892,930)	(2,325,316)	4,515,375	4,391,802
Equity attributable to equity shareholders of the parent	1,141,075	1,033,048	1,771,709	1,692,975	28,862	401,816	1,775,801	1,922,063	(1,311,125)	(1,707,189)	3,406,322	3,342,713
Minority interest	5,357	8,194	-	-	-	-	-	-	-	-	5,357	8,194
Non-current liabilities	23,335	30,320	1,970	384	579	636	-	-	-	-	25,884	31,340
Current liabilities	734,524	682,972	777,761	835,945	85,153	78,114	62,179	30,651	(581,805)	(618,127)	1,077,812	1,009,555
Total shareholders' equity and liabilities	1,904,291	1,754,534	2,551,440	2,529,304	114,594	480,566	1,837,980	1,952,714	(1,892,930)	(2,325,316)	4,515,375	4,391,802
Net cash from/ (used in) operating activities	726,321	669,804	381,452	314,192	(611)	(504)	1,355,974	1,341,958	(1,320,000)	(1,315,000)	1,143,136	1,010,450
Net cash from/ (used in) investing activities	(128,298)	(127,582)	(157,234)	(176,145)	(9,903)	731	747,850	751,870	(53,826)	217,054	398,589	665,928
Net cash from/ (used in) financing activities	(839,657)	(889,731)	(544,133)	(236,093)	8,649	27,175	(1,448,523)	(1,310,568)	1,373,826	1,097,946	(1,449,838)	(1,311,271)
Exchange rate differences in cash and cash equivalents	-	-	169	(3)	-	-	16	28	-	-	185	25
Net increase/ (decrease) in cash and cash equivalents	(241,634)	(347,509)	(319,746)	(98,049)	(1,865)	27,402	655,317	783,288	-	-	92,072	365,132
CAPEX	128,403	127,684	164,483	162,174	9,942	11,598	19	-	-	-	302,847	301,456

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 Estonian kroons (EEK)

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	1,476,032	96.7%	1,571,330	96.1%	1,260,597	89.7%	1,187,657	90.8%	118,702	99.3%	132,269	98.0%	2,855,331	93.6%	2,891,256	93.9%
Revenue from customers outside Estonia	50,027	3.3%	64,428	3.9%	144,695	10.3%	120,525	9.2%	836	0.7%	2,726	2.0%	195,558	6.4%	187,679	6.1%
Total revenue	1,526,059	100%	1,635,758	100%	1,405,292	100%	1,308,182	100%	119,538	100%	134,995	100%	3,050,889	100%	3,078,935	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 Estonian kroons (EEK)

	Tangible assets	Intangible assets
<i>At 31 December 2006</i>		
Cost	8,859,076	403,974
Accumulated depreciation	(6,814,481)	(189,928)
Net book value	2,044,595	214,046
Changes in the I Half Year 2007		
Opening net book amount	2,044,595	214,046
Additions	298,679	2,777
Reclassification	(1,590)	1,590
Reclassification to assets classified as held-for-sale	(1,464)	-
Disposals	(389)	-
Depreciation charge	(221,806)	(18,728)
Closing net book amount	2,118,025	199,685
<i>At 30 June 2007</i>		
Cost	9,083,356	408,541
Accumulated depreciation	(6,965,331)	(208,856)
Net book value	2,118,025	199,685
<i>At 31 December 2007</i>		
Cost	9,364,755	427,159
Accumulated depreciation	(6,959,641)	(211,148)
Net book value	2,405,114	216,011
Changes in the I Half Year 2008		
Opening net book amount	2,405,114	216,011
Additions	296,291	6,556
Reclassification	(7,239)	7,239
Reclassification to assets classified as held-for-sale	1,746	-
Disposals	(1,695)	(1)
Depreciation charge	(262,133)	(22,928)
Closing net book amount	2,432,084	206,877
<i>At 30 June 2008</i>		
Cost	9,606,517	435,128
Accumulated depreciation	(7,174,433)	(228,251)
Net book value	2,432,084	206,877

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 2,808 thousand EEK (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 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.

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 1,448,523 thousand EEK (2007: 1,310,568 thousand EEK) or 10.50 EEK per ordinary share were disbursed to the equity holders of the parent in the first half year 2008 (2007: 9.50 EEK).

On 1 July 2008, minority shareholders (Serenda Invest OÜ minority shareholders) were paid dividends totalling 7,531 thousand EEK (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 (EEK)	101,315,000	106,863,000
The average number of ordinary shares	137,954,528	137,954,528
EPS (in EEK)	0.73	0.77
<u>I Half Year</u>		
Net profit attributable to equity holders of the Company (EEK)	551,966,000	544,932,000
The average number of ordinary shares	137,954,528	137,954,528
EPS (in EEK)	4.00	3.95

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 (EEK):

	I HY 2008	2007	I HY 2007
Ordinary share highest price	125.02	168.51	168.51
Ordinary share lowest price	108.43	102.80	121.26
Ordinary share average price	115.82	127.69	131.58

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

NOTES TO THE FINANCIAL STATEMENTS

8. Borrowings

In thousand of Estonian kroons (EEK)

	30 June 2008	31 December 2007
Non-current	67	1,343
Current	2,444	2,778
	2,511	4,121

The movements in the borrowings can be analyzed as follows:

Opening balance 31 December 2007	4,121
Repayments of borrowings	(1,315)
Other movements	(295)
Closing balance 30 June 2008	2,511

9. Retirement benefit obligations

In thousand of Estonian kroons (EEK)

	30 June 2008	31 December 2007
Non-current portion of retirement benefit obligations	2,696	3,239
Current portion of retirement benefit obligations	1,001	4,814
Total retirement benefit obligations	3,697	8,053

At 31 December 2007	8,053
Benefits paid in the reporting period	(4,460)
Additional provisions	62
Interest accrued	42
AT 30 June 2008	3,697

10. Provisions

In thousand of Estonian kroons (EEK)

	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	20,622	-	-	579	-	21,201
Current portion of provisions	-	-	1,980	217	503	2,700
Total provisions	20,622	-	1,980	796	503	23,901
At 31 December 2007	20,094	1,957	1,980	808	307	25,146
Additional provisions in the reporting period	528	-	-	33	429	990
Used provisions during the reporting period	-	(1,957)	-	(45)	(233)	(2,235)
At 30 June 2008	20,622	-	1,980	796	503	23,901

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

NOTES TO THE FINANCIAL STATEMENTS

11. Related party transactions

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

a) Name and relationship of related party

Name	Relationship with AS Eesti Telekom Group
1. Key management, Supervisory Council and their relatives	
2. List of associates is shown in Note 5	
3. Enterprises of TeliaSonera AB Group	Parent company, shareholder
4. State Government (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 Estonian kroons (EEK)):

	I HY 2008	I HY 2007
Salaries and other short-term employee benefits	30,790	35,466
Termination benefits	658	942
Other	152	244
	31,600	36,652

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

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 Estonian kroons (EEK)):

	I HY, 30 June 2008	I HY, 30 June 2007
<i>Telecommunication services provided</i>		
Associated companies	1,972	3,136
TeliaSonera AB	66,516	70,495
State Government (State Chancellery and ministries)	15,500	10,102
Companies where Supervisory Council members of the Group have significant influence	590	259
	84,578	83,992
<i>Other sales</i>		
Associated companies	86	28
State Government (State Chancellery and ministries)	2,208	3,295
Companies where Supervisory Council members of the Group have significant influence	308	15
	2,602	3,338
<i>Telecommunication services purchased</i>		
Associated companies	184	160
TeliaSonera AB	69,643	90,594
	69,827	90,754
<i>Other services purchased</i>		
Associated companies	30	78
State Government (State Chancellery and ministries)	18,229	6,607
Companies where Supervisory Council members of the Group have significant influence	840	440
	19,099	7,125
<i>Financial income</i>		
State Government (State Chancellery and ministries)	12	10
<i>Amount owed by related parties</i>		
Associated companies	349	196
TeliaSonera AB	23,767	25,703
State Government (State Chancellery and ministries)	5,734	2,285
Companies where Supervisory Council members of the Group have significant influence	86	51
	29,936	28,235
<i>Amount owed to related parties</i>		
Associated companies	5	2
TeliaSonera AB	22,084	28,419
State Government (State Chancellery and ministries)	244	17
Companies where Supervisory Council members of the Group have significant influence	297	74
Key management and Supervisory Council	10,263	14,413
	32,893	42,925

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

NOTES TO THE FINANCIAL STATEMENTS

12. Contingencies

In thousand of Estonian kroons (EEK)

	30 June 2008	31 December 2007
Key management termination benefits	25,830	19,660

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 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.

With its resolution of 25 March 2008, the Competition Board, which is the legal successor to the Communications Board, established a fee of 1.37 EEK 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:

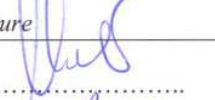



Mats Salomonsson	-	Chairman of the Supervisory Council
Lars Gunnar Klasson	-	Member of the Supervisory Council
Jörgen Latte	-	Member of the Supervisory Council
Björn Lindegren	-	Member of the Supervisory Council
Tarmo Porgand	-	Member of the Supervisory Council
Jüri Raatma	-	Member of the Supervisory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