

EestiTelekom

*Consolidated  
Interim Report of  
AS Eesti Telekom  
for the IV Quarter and  
whole 2008 year*

*5 February 2009*

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2008 YEAR**

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<i>Beginning of the financial year</i>	1 January 2008
<i>End of the reporting period</i>	31 December 2008
<i>Name of the company</i>	<b>AS Eesti Telekom</b>
<i>Registration number</i>	10234957
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<i>Web-page</i>	www.telekom.ee
<i>Field of activity</i>	Activities of holding company
<i>Auditor</i>	AS PricewaterhouseCoopers

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2008 YEAR**

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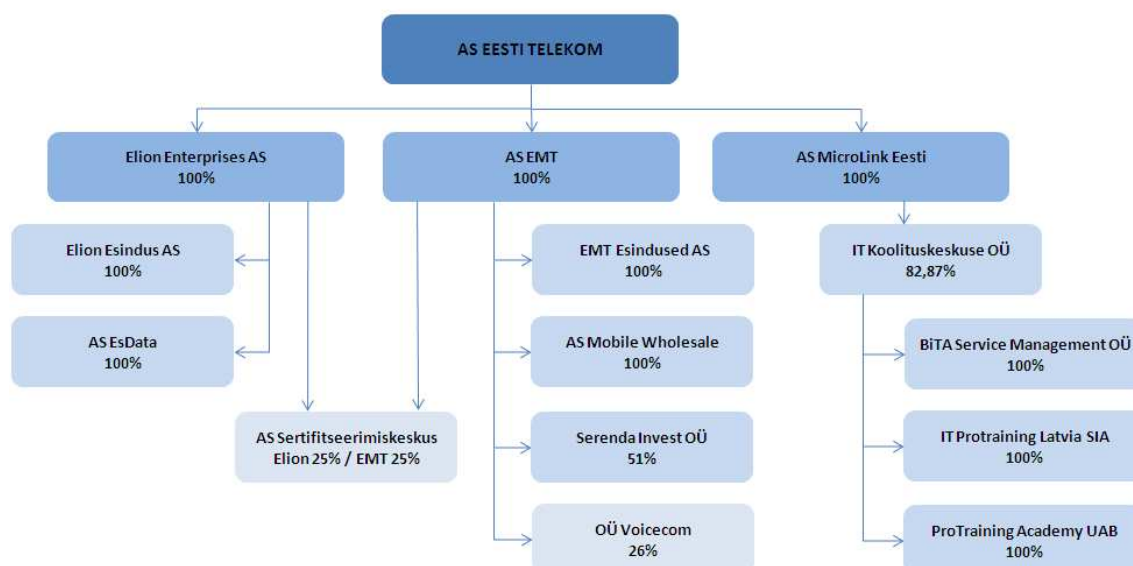
### MANAGEMENT REPORT

#### GENERAL INFORMATION

The principal activity of Eesti Telekom Group, the parent company of which is AS Eesti Telekom (registration number 10234957; address: Valge 16, 19095 Tallinn), is the provision of telecommunications services.

Since 1999, the shares of AS Eesti Telekom have been listed on the Tallinn and London securities markets (OMX: ETLAT / LSE: EETD).

The structure of the Eesti Telekom Group as of 31.12.2008:



#### Changes in the structure of the Eesti Telekom Group

In October 2008, AS MicroLink Eesti acquired the majority participation in the IT Training Center. The acquisition of the training company gives MicroLink with the opportunity to provide high-quality training and consultation services to both clients and partners in various cooperation projects in all three Baltic countries.

#### Ownership structure of AS Eesti Telekom

During the fourth quarter of 2008, there were no significant changes in the structure of the AS Eesti Telekom shareholders. The 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 fourth quarter, the ratio of freely traded shares converted to GDRs was 12.71%. Of these, 12.91% were converted into GDRs traded on the London Stock Exchange.

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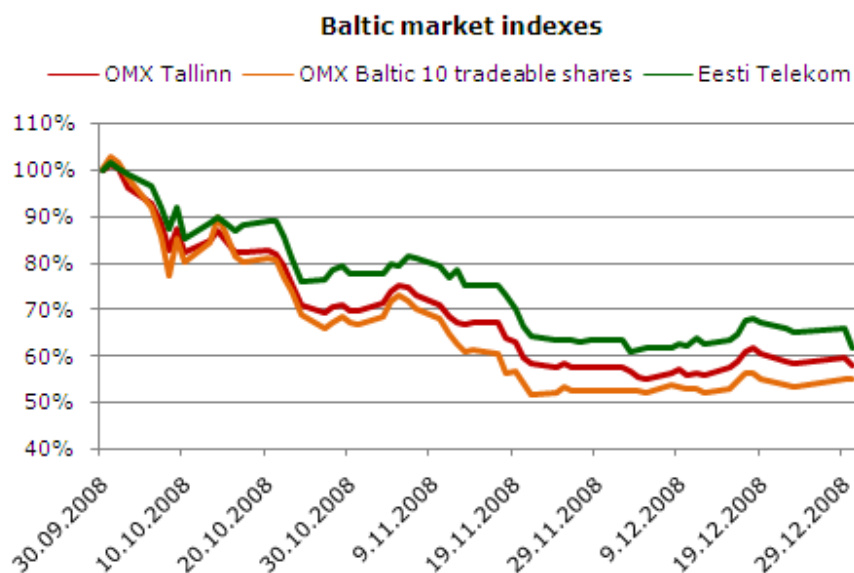
As of 31 December 2008, the 10 largest shareholders in AS Eesti Telekom were:

	31 December 2008		Changed compared to 30 September 2008
	Number of securities	Participation	
Baltic Tele AB	82,936,299	60.12%	0
Ministry of Finance	33,346,464	24.17%	0
Estonian Development Fund	4,138,636	3.00%	0
SEB clients	2,864,734	2.08%	1,477,025
Deutsche Bank (GDR accounts)	2,264,220	1.64%	-767,577
ING Luxembourg S.A.	2,055,783	1.49%	40,000
Clearstream Banking Luxembourg S.A. clients	584,976	0.42%	-26,860
UniCredit Bank Austria AG	496,386	0.36%	-224,984
Mellon Treaty Omnibus	392,152	0.28%	0
State Street Bank and Trust Omnibus Account	335,945	0.24%	335,945

### AS Eesti Telekom shares

In the fourth quarter of 2008, the price of AS Eesti Telekom shares decreased by 38.10%. The share price at the beginning of the quarter was 6.30 EUR and 3.90 EUR at the end of the quarter. The highest and lowest share prices during the reporting period were 6.50 EUR and 3.84 EUR respectively. The turnover for the reporting period was 21 million EUR.

The price of AS Eesti Telekom shares in the fourth quarter of 2008 has moved on higher levels than the indexes of OMX Tallinn and OMX Tallinn 10 tradeable shares.



Source: NASDAQ OMX Tallinn

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### BUSINESS ACTIVITIES

*Management commentary: The 2008 fourth quarter results met expectations. One can also be satisfied with the results for the year since EBITDA increased compared to last year. Market shares remained stable for the year and the number of contractual mobile communications clients, mobile data communications connections, triple packages and DigiTV clients demonstrated sound growth.*

### Significant financial indicators

#### Eesti Telekom Group

	Q4 2008	Q4 2007	Change, %	12 mos. 2008	12 mos. 2007	Change, %
Total revenues, million EUR	<b>100.5</b>	100.3	0.2	<b>395.6</b>	400.2	-1.1
EBITDA, million EUR	<b>33.9</b>	36.8	-7.9	<b>150.1</b>	149.3	0.5
Margin, %	<b>33.8</b>	36.7		<b>37.9</b>	37.3	
EBIT, million EUR	<b>24.7</b>	28.4	-12.9	<b>113.3</b>	117.6	-3.7
Margin, %	<b>24.6</b>	28.3		<b>28.6</b>	29.4	
EBT, million EUR	<b>25.6</b>	29.1	-12.1	<b>116.6</b>	120.3	-3.1
Net profit for the period, million EUR	<b>25.5</b>	29.1	-12.1	<b>91.9</b>	96.6	-4.8
EPS, EUR	<b>0.18</b>	0.21	-11.9	<b>0.66</b>	0.70	-4.7
CAPEX, million EUR	<b>18.0</b>	22.4	-20.0	<b>48.2</b>	55.1	-12.5
Net gearing, %	<b>-19.9</b>	-25.2				
ROA, %	<b>29.7</b>	31.7				
ROE, %	<b>44.6</b>	46.8				

#### Mobile communications segment

	Q4 2008	Q4 2007	Change, %	12 mos. 2008	12 mos. 2007	Change, %
Total revenues, million EUR	<b>57.8</b>	63.3	-8.7	<b>235.3</b>	249.5	-5.7
EBITDA, million EUR	<b>21.6</b>	18.7	15.4	<b>90.4</b>	88.7	1.9
Margin, %	<b>37.4</b>	29.6		<b>38.4</b>	35.5	
EBIT, million EUR	<b>17.8</b>	15.0	18.1	<b>74.1</b>	74.7	-0.9
Margin, %	<b>30.7</b>	23.7		<b>31.5</b>	30.0	
EBT, million EUR	<b>18.3</b>	15.3	20.1	<b>75.8</b>	75.7	0.2
Net profit for the period, million EUR	<b>18.3</b>	15.3	20.1	<b>61.7</b>	59.8	3.2
CAPEX, million EUR	<b>6.3</b>	8.5	-25.5	<b>19.0</b>	21.1	-9.9
ROA, %	<b>45.8</b>	46.8				
ROE, %	<b>76.0</b>	80.6				

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### Broadband services segment

	Q4 2008	Q4 2007	Change, %	12 mos. 2008	12 mos. 2007	Change, %
Total revenues, million EUR	52.8	49.9	5.8	209.6	190.7	9.9
EBITDA, million EUR	12.0	13.6	-11.8	59.3	56.3	5.3
Margin, %	22.8	27.3		28.3	29.6	
EBIT, million EUR	7.1	9.3	-23.9	40.5	40.2	0.6
Margin, %	13.4	18.6		19.3	21.1	
EBT, million EUR	7.0	9.3	-25.3	40.4	46.0	-12.2
Net profit for the period, million EUR	7.0	9.3	-25.3	31.9	38.3	-16.7
CAPEX, million EUR	10.6	13.7	-23.0	27.3	32.8	-16.6
ROA, %	18.6	22.6				
ROE, %	31.6	37.2				

### IT services segment

	Q4 2008	Q4 2007	Change, %	12 mos. 2008	12 mos. 2007	Change, %
Total revenues, million EUR	8.4	5.9	43.3	23.7	23.4	1.6
EBITDA, million EUR	0.5	0.6	-22.2	1.3	1.5	-12.9
Margin, %	5.9	11.0		5.6	6.5	
EBIT, million EUR	0.1	0.2	-58.2	-0.3	0.1	N/A
Margin, %	1.2	4.0		-1.1	0.4	
EBT, million EUR	0.1	0.2	-57.5	-0.3	0.5	N/A
Net profit for the period, million EUR	0.1	0.2	-62.7	-0.3	0.5	N/A
CAPEX, million EUR	1.1	0.2	N/A	1.9	2.1	-7.6
ROA, %	-4.2	2.5				
ROE, %	-9.9	3.5				

### Sales revenues, operating costs and profits

The fourth quarter results of the Eesti Telekom Group for 2008 corresponded to the expectations of the management board. The **Group's sales revenues** increased by 0.2% to 100.5 million EUR in the fourth quarter of 2008 compared to the same period of the previous year (4<sup>th</sup> quarter 2007: 100.3 million EUR). The modest increase in sales revenues were primarily affected by the reduction in interconnection fees (for the period of 1 July 2008-30 June 2009, the state regulator fixed an interconnection fee of 0.09 EUR instead of the former 0.11 EUR) and the reduction in revenues received from the sale of telecommunications and IT merchandise.

In the fourth quarter of 2008, the consolidated turnover of **the mobile communications services segment** reached 57.8 million EUR, decreasing by 9% compared to the fourth quarter of 2007 (4<sup>th</sup> quarter 2007: 63.3 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 fourth quarter compared to a year ago, which is caused by changes in consumer behavior.

At the end of 2008, the client base of AS EMT was 14 thousand more than a year earlier, reaching, 779 thousand active SIM cards (December 2007: 765 thousand cards). Compared to a year ago, the number of

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contractual clients has increased by 18 thousand, reaching 487 thousand by the end of 2008, while at the same time, the number of pre-paid card users has decreased by more than four thousand during the year to 292 thousand at the end of the 2008. EMT assesses its market share of active SIM cards to be 47%. The estimated penetration of active cards in Estonia is on 121%. The number of call minutes initiated by EMT clients showed an increase of 1% compared to the last quarter of 2007.

Pursuant to the resolution of the Communications Board, 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 the interconnection fee 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 from the given date, all three mobile operators undertook to implement interconnection fees of 0.11 EUR. The litigation with Tele2 concluded at the end of December to the benefit of the latter. The litigation Elisa Eesti AS is continuing and EMT is participating in the litigation as a third party. For the period between 1 July 2008 and 30 June 2009, 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.

On 12 July 2008, the Competition Board announced new market analysis results, based on which they plan to declare ProGroup Holding OÜ an undertaking with significant market power in the market for the termination of voice calls in its mobile phone network, in addition to AS EMT, Elisa Eesti AS and Tele2 Eesti AS. According to the resolution plan, within the framework of the price control obligation, the given companies will be obligated to apply benchmark-based interconnection fees that correspond to the average in the European countries during the next three years, which will make 0.09 EUR per minute the maximum tariff to be applicable as of 1 July 2009.

The revenues received from the mobile Internet continued to demonstrate very rapid growth. In the last quarter of 2008, the revenues from AS EMT mobile data communications exceeded the revenues for the same period of 2007 by more than a third. At the same time, the volume of data that was forwarded increased several times. As of December 2008, the users of AS EMT mobile data communications numbered 168 thousand, i.e. 7 thousand users more than at the same time last year. The increase in the popularity of mobile data communications is based on the rapid expansion of the 3G coverage area. Today, most data communications takes place in the 3G network, which allows clients to use high-quality and rapid data communications at speeds approaching ADSL at conveniently manageable prices. Since EMT is the only operator in Estonia that provides EDGE data communications throughout its GSM coverage area, then investments in new base stations during the last months of the year were primarily direct at expanding external and internal 3G coverage in cities. At the same time, the constant improvement of the GSM network continues.

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 price ceiling established by regulation. In addition, in the third quarter, discount contracts for roaming services came into force that reduced both revenues and costs from roaming fees. Therefore, for the year as a whole, the revenues received from roaming clients have decreased by almost 13%.

The sales revenues for **the broadband services segment** increased by 6% in the fourth quarter compared to the same period of the previous year reaching 52.8 million EUR (4<sup>th</sup> quarter 2007: 49.9 million EUR). The greatest revenue increase resulted from the sale of international interconnection and subcontracting services that increased by 105% and 53% respectively. The increase in revenues from international interconnection services resulted primarily from the significant increase of volumes for incoming international call minutes. The revenue increase from subcontracting services is also related to the growth of minute volumes and the increase in brokered



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subservices. At the same time, the revenues for call services earned from end consumers decreased by 11% due to the drop in minute volumes.

Based on the significant increase in the relative importance of the volume and revenues of comprehensive service packages, the revenues from monthly fees for call connections and Internet connections decreased in the last quarter by 11% and 13% respectively. At the same time, the revenues earned from the sale of comprehensive service packages considerably exceeded the given decrease. The revenues in the broadband segment from connection fees for comprehensive service packages increased in the fourth quarter by 51%. In addition, the other business revenues of the group increased by 0.3 million EUR as a result of the revaluation of networks that were acquired for free.

The total number of Elion clients with permanent Internet connections increased by 3,500 connections in the fourth quarter, reaching 175.4 thousand by the end of December (31. December 2007: 163.1 thousand). The company assesses that Elion's market share based on the permanent connections of private clients has not changed and continues to be 54%.

As the result of an active marketing campaign, the number of Elion triple-package users increased during the quarter by 5,800, reaching 76.1 thousand as of 31 December (31 December 2007: 53.5 thousand). By the end of the fourth quarter, Elion had 82.5 thousand IP and cable television clients (31 December 2007: 57.7 thousand). Elion assesses that the company's market share in the cable coverage market was 26% by the end of the year (31 December 2007: 19%), which, in the given market, confers the greatest increase in 2008, in absolute terms.

In December, Elion signed a contract with the nonprofit Baltic Authors and Distribution Association that will guarantee the clients reception of 10 Russian-language TV channels, including the rights for transmitting the Pervõi Baltiiski Kanal, which is the most popular channel among the local population, on Elion's DigiTV.

As of the middle of December, Elion is the first in Estonia to offer games as a new content service in its Internet-based DigiTV. Each of the games can be ordered separately or as a theme package. During the first three months of 2009, Elion will introduce three game packages to the market—for small children, older children and adults.

By the end of fourth quarter, the number of Elion's active call interfaces totaled 469 thousand (31 December 2007: 482 thousand interfaces), remaining stable at the same level during the year.

Elion assesses its market share for call minutes initiated in the fixed network to be 80.5% (December 2007: 81%). The market share for local call minutes is 82% (December 2007: 83%), 66% for international call minutes (December 2007: 64%) and 71% for call minutes made to mobile phones (December 2007: 72%).

In December the Supreme Court decided not to hear the Tele 2 Eesti AS appeal in cassation regarding the establishment of price controls for mobile units. Based on the decision, Elion renewed its claim against Tele2 Eesti AS for the refund of overpaid interconnection fees totaling 2.2 million EUR from 2006-2007.

Based on 2007 cost information and the requirements of the Competition Board, as of 1 December 2008, Elion reduced the monthly fee for rental of copper pairs and selected copper pairs by 0.19 EUR on average and the fees for broadband access by 9-16% depending on speed. The price changes do not have any significant impact on Elion's results.

As a result of the general cooling of retail sales in the Estonian economy, the retail sales of telecommunications and IT merchandise by the Elion group decreased by 18% in the fourth quarter compared to last year.

The 2008 fourth quarter results for the **IT services segment** include the consolidated data from the companies of the IT Training Center Group that was acquired in October 2008.

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In the fourth quarter of 2008, the sales revenues for the IT services segment reached 8.4 million EUR (4<sup>th</sup> quarter 2007: 5.9 million EUR). Compared to the same period of the previous year, the sales revenues increased by 43%, whereas sales revenues for IT services (including IT training) increased by 6% and IT merchandise by 89%.

In the fourth quarter, the sales turnover for infrastructure solutions was significantly higher than in the same period of the previous year (4.3 million EUR vs. 2.3 million EUR). The reason is the Tiger's Leap project. Within the framework of the given project, an order was placed for more than four thousand HP laptops produced for schoolteachers. The transaction totaled 2.2 million EUR.

During the fourth quarter in the project business, work was completed on the development projects for the e-health digital prescription and Statistical Office's KUNDE information system. Work continues on the Estonian Post document management project, North-Estonia Regional Hospital identity management project and Ergo Insurance archiving solution.

In the field of permanent services during the fourth quarter, AS MicroLink Eesti won three procurements organized by the Ministry of Social Affairs for hosting information services. Within the framework of these procurements, MicroLink Eesti will host and manage the Ministry of Social Affairs information system and the register with information on those on file as unemployed and job seekers as well as information on the provision of labor market services, and the register of those dealing with pharmaceuticals.

**The operating costs of the Eesti Telekom Group** increased by 5% in the fourth quarter of 2008 compared to the same period of 2007, reaching 67.1 million EUR (4<sup>th</sup> quarter 2007: 64.2 million EUR).

The operating costs in the **mobile communications segment** decreased by 11% compared to the last quarter of 2007 to 36.3 million EUR (4<sup>th</sup> quarter 2007: 40.8 million EUR). The greatest decrease was in interconnection costs caused by the drop in interconnection prices. The operating costs related to retailing and wholesaling also decreased, which corresponds to the drop in merchandise sales turnovers.

The operating costs in the **broadband services segment** increased during the last quarter by 12% compared to the same period in 2007, reaching 41.1 million EUR (4<sup>th</sup> quarter 2007: 36.8 million EUR). 45% of the increase in the operating costs resulted directly from the increase of direct sales costs caused by the increase in the sales volumes of services. 37% of the increase in costs (1.7 million EUR) is related to efficiency projects and other one-time expenditures made for the improvement of network resources and service quality. The third primary growth factor for operating costs was personnel costs that increased by 9% compared to the previous year. Almost half of the increase in personnel costs (0.3 million EUR) was also of a nonrecurrent nature and related to efficiency projects and the reorganization of work.

The operating costs in the **IT services segment** increased by 51% in the fourth quarter compared to the same period in the previous year, reaching 7.9 million EUR (4<sup>th</sup> quarter 2007: 5.3 million EUR). The operating costs for the quarter were affected by increased costs accompanying the consolidation of the IT Training Center, as an independent company, whereby the operating costs of AS MicroLink Eesti increased by 9%.

**The Eesti Telekom Group EBITDA** decreased in the fourth quarter of 2008 by 8%, reaching 33.9 million EUR (4<sup>th</sup> quarter 2007: 36.8 million EUR). The Group's EBITDA margin in the fourth quarter of 2008 was 34%, which was somewhat lower than the margin in the corresponding period of 2007. The EBITDA in the mobile communications services segment increased by 15% in the fourth quarter compared to the same period in the previous year reaching 21.6 million EUR (4<sup>th</sup> quarter 2007: 18.7 million EUR) in connection with the decrease of the interconnection prices between telecommunications operators and the reduction in the relative importance of merchandise with lower profitability. At the same time, the EBITDA margin for the mobile communications services segment was negatively impacted by a one-time provision of 4.0 million EUR. The EBITDA for the broadband services segment decreased by 12% in the fourth quarter of 2008 compared to the same period in the previous year, reaching 12.0 million EUR (4<sup>th</sup> quarter 2007: 13.6 million EUR) due to the one-time costs related

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to the efficiency projects. The EBITDA for the IT services segment in the fourth quarter of 2008 was 0.5 million EUR (4<sup>th</sup> quarter 2007: 0.6 million EUR).

**The Group's depreciation costs** reached 9.2 million EUR in the fourth quarter of 2008, increasing by 9% compared to the same period in 2007 (4<sup>th</sup> quarter 2007: 8.4 million EUR). The depreciation costs for the mobile communications service segment increased by 0.2 million EUR in the fourth quarter of 2008 compared the same period in 2007 (4<sup>th</sup> quarter 2007: 3.7 million EUR). The depreciation in the broadband services segment has increased by 0.6 million EUR compared to the same period in the previous year, reaching 5.0 million EUR (4<sup>th</sup> quarter 2007: 4.3 million EUR). Depreciation costs in the IT services segment reached 0.4 million EUR in the fourth quarter of the 2008, decreasing by 1% compared to the same period in 2007.

In the fourth quarter, the **Eesti Telekom Group** earned **EBIT** of 24.7 million EUR, which was a decrease of 13% compared to the same period in the previous year (4<sup>th</sup> quarter 2007: 28.4 million EUR). In the fourth quarter, the Eesti Telekom Group earned **pre-tax profits** of 25.6 million EUR (4<sup>th</sup> quarter 2007: 29.1 million EUR).

In the fourth quarter of 2008, the **net profit** for the **Eesti Telekom Group** was 25.5 million EUR (4<sup>th</sup> quarter 2007: 29.1 million EUR). The earnings per share were 0.18 EUR (4<sup>th</sup> quarter 2007: 0.21 EUR).

**The 2008 consolidated sales revenues for the Eesti Telekom Group** reached 395.6 million EUR, decreasing by 1% compared to 2007 (2007: 400.2 million EUR). The sales revenues for the broadband services segment increased significantly reaching 209.6 million EUR (2007: 190.7 million EUR). The sales revenues for the mobile communications services segment in 2008 were 235.3 million EUR (2007: 249.5 million EUR). The sales revenues for the IT services segment increased by 2% during the year and reached 23.7 million EUR (2007: 23.4 million EUR).

**The Group's operating costs** reached 247.0 million EUR in 2008, decreasing 2% compared to the previous year (2007: 252.2 million EUR).

In 2008, **the consolidated EBITDA** totaled 150.1 million EUR, increasing 1% compared to the previous year (2007: 149.3 million EUR). The EBITDA margin increased somewhat, reaching 37.9% in 2008 (2007: 37.3%). **The depreciation** for 2008 was 36.8 million EUR (2007: 31.7 million EUR).

During the last year, the Eesti Telekom Group earned **EBIT** of 113.3 million EUR (2007: 117.6 million EUR). On 1 July 2007, AS Microlink sold its shares of AS MicroLink Eesti to AS Eesti Telekom. The Group's internal unrealized profit from the sale of shares totaled 6.0 million EUR.

The Eesti Telekom Group earned a **net profit** of 91.9 million EUR in 2008 or 0.66 EUR per share (2007: 96.6 million EUR or 0.70 EUR per share).

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

As of 31 December 2008, the Eesti Telekom Group balance sheet totaled 319.6 million EUR (31 December 2007: 321.0 million EUR). Compared to the beginning of the year, the fixed assets have increased by 11.4 million EUR, the balance of which reached 187.1 million EUR by the end of the year (31 December 2007: 175.7 million EUR). The Group's current assets have decreased by 12.8 million EUR during the year, reaching 132.5 million EUR by the end of December (31 December 2007: 145.3 million EUR). Cash and cash equivalents, as well as the balance of short-term financial investments, have decreased by 14.6 million EUR in connection with the dividends paid out in June and the income tax on the dividends paid out in July.

As of 31 December 2008, the Eesti Telekom Group equity was 274.6 million EUR, which is 1.1 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 dividends.

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As of the end of December, the Group had long-term obligations of 2.1 million EUR (31 December 2007: 1.6 million EUR) and short-term debt obligations of 42.9 million EUR (31 December 2007: 43.7 million EUR). The net debt of the Eesti Telekom Group at the end of the fourth quarter was -54.5 million EUR and the net debt to equity ratio was -20% (31 December 2007: -69.5 million EUR and -25%).

The Eesti Telekom Group cash flow from operations in 2008 was 126.7 million EUR (2007: 121.6 million EUR). The Group's cash flow used in investment activities in 2008 was 36.3 million EUR (2007: 33.1 million EUR). The cash flow into the acquisition of tangible and intangible fixed assets in 2008 was 48.2 million EUR (2007: 55.1 million EUR). In 2008, the mobile communications segment invested 19.0 million EUR (2007: 21.1 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 2008, the investments into the broadband services segment totaled 27.3 million EUR (2007: 32.8 million EUR). The majority of the investments were made in order to develop the necessary network resources (IP core and fiber-optic cable networks) and to improve the triple-service packages and increase its availability. In 2008, the IT services segment invested 1.9 million EUR into fixed assets (2007: 2.1 million EUR).

In 2008, the Eesti Telekom Group cash flow into financial activities was 92.6 million EUR, of which 93.1 million EUR was used to pay dividends (in 2007, 83.8 million EUR and 83.8 million EUR respectively).

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### **Definitions**

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

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

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

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**CONSOLIDATED QUARTERLY DATA**

In million of EUR

	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08
Sales	100.3	94.9	100.1	100.1	100.5
OPEX	(64.2)	(58.3)	(61.4)	(60.1)	(67.1)
Other revenue/expenses. net	0.7	0.3	0.4	0.2	0.5
EBITDA	36.8	36.8	39.2	40.2	33.9
Depreciation and amortisation	(8.4)	(8.9)	(9.3)	(9.4)	(9.2)
EBIT	28.4	27.9	29.9	30.8	24.7
Income / expenses from associates	(0.1)	(0.1)	(0.1)	-	-
Other net financing items	0.8	1.1	1.3	0.3	0.8
Profit before tax	29.1	28.9	31.1	31.0	25.6
Income tax on dividends	-	-	(24.7)	-	-
Net profit for the period	29.1	28.9	6.5	31.0	25.5
Minority interest	0.1	0.1	0.0	0.1	0.0
EBITDA margin. %	36.72%	38.83%	39.13%	40.12%	33.75%
EBIT margin. %	28.26%	29.37%	29.87%	30.74%	24.61%
Net margin. %	28.98%	30.45%	6.48%	30.98%	25.42%
Total assets	321.0	341.4	288.6	287.6	319.6
- Non-current assets	175.7	174.2	176.1	176.9	187.1
- Current assets	145.3	167.2	112.4	110.7	132.5
- Cash and cash equivalents and short-term investments	69.7	90.2	31.2	32.6	55.2
Equity and liabilities	321.0	341.4	288.6	287.6	319.6
- Equity	275.7	304.6	218.0	249.1	274.6
- Provisions	2.1	2.0	1.8	2.0	1.8
- Non-current liabilities	0.1	0.0	0.1	0.1	0.6
- Interest-bearing borrowings	0.1	0.0	0.0	0.0	0.4
- Current liabilities	43.1	34.7	68.6	36.5	42.7
- Interest-bearing borrowings	0.2	0.2	0.2	0.1	0.3

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2008 YEAR**

**IV QUARTER CONSOLIDATED INCOME STATEMENT**

In thousand of EUR

	IV Quarter 2008	IV Quarter 2007
Net sales	100,512	100,316
Cost of sales	(60,349)	(59,201)
<b>Gross profit</b>	<b>40,163</b>	<b>41,115</b>
Selling, marketing, administrative and research & development expenses	(15,944)	(13,402)
Other operating revenues	744	849
Other operating expenses	(230)	(171)
<b>Operating profit</b>	<b>24,733</b>	<b>28,391</b>
Finance income	791	799
Finance costs	43	(34)
Finance income, net	<b>834</b>	<b>765</b>
Net income / (expenses) from associated companies	(6)	(89)
<b>Profit before tax</b>	<b>25,561</b>	<b>29,067</b>
Income tax on dividends and on income	(12)	-
<b>Net profit for the period</b>	<b>25,549</b>	<b>29,067</b>
Attributable to:		
Equity holders of the parent	25,506	28,961
Minority interest	43	106
	<b>25,549</b>	<b>29,067</b>
<b>Earnings per share for profit attributable to the equity holders of the parent during the reporting period</b> (expressed in EUR)		
Basic earnings per share	0.18	0.21
Diluted earnings per share	0.18	0.21
<b>EBITDA</b>	<b>33,918</b>	<b>36,837</b>
Depreciation, amortization and write-downs	(9,185)	(8,446)

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2008 YEAR**

**YEAR CONSOLIDATED INCOME STATEMENT**

In thousand of EUR

	2008	2007
Net sales	395,588	400,151
Cost of sales	(225,777)	(226,426)
<b>Gross profit</b>	<b>169,811</b>	<b>173,725</b>
Selling, marketing, administrative and research & development expenses	(57,972)	(57,521)
Other operating revenues	2,001	1,797
Other operating expenses	(543)	(404)
<b>Operating profit</b>	<b>113,297</b>	<b>117,597</b>
Finance income	3,527	3,108
Finance costs	(56)	(150)
Finance income, net	<b>3,471</b>	<b>2,958</b>
Net income / (expenses) from associated companies	(182)	(244)
<b>Profit before tax</b>	<b>116,586</b>	<b>120,311</b>
Income tax on dividends and on income	(24,664)	(23,705)
<b>Net profit for the period</b>	<b>91,922</b>	<b>96,606</b>
Attributable to:		
Equity holders of the parent	91,703	96,194
Minority interest	219	412
	<b>91,922</b>	<b>96,606</b>
<b>Earnings per share for profit attributable to the equity holders of the parent during the reporting period</b> (expressed in EUR)		
Basic earnings per share	0.66	0.70
Diluted earnings per share	0.66	0.70
<b>EBITDA</b>	<b>150,088</b>	<b>149,315</b>
Depreciation, amortization and write-downs	(36,791)	(31,718)

**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2008 YEAR**

**CONSOLIDATED BALANCE SHEET**

In thousand of EUR

	31 December 2008	31 December 2007
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	165,542	153,715
Intangible fixed assets	14,669	13,807
Investments in associates	676	858
Other financial fixed assets	6,200	7,352
<b>Total non-current assets</b>	<b>187,087</b>	<b>175,732</b>
<b>Current assets</b>		
Assets classified as held-for-sale	-	111
Inventories	10,861	11,989
Trade and other receivables	66,491	63,460
Short-term investments	31,956	44,357
Cash and cash equivalents	23,206	25,359
<b>Total current assets</b>	<b>132,514</b>	<b>145,276</b>
<b>TOTAL ASSETS</b>	<b>319,601</b>	<b>321,008</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves attributable to equity holders of the parent</b>		
Share capital	88,169	88,169
Share premium	22,753	22,753
Statutory legal reserve	8,817	8,817
Translation reserve	1	-
Retained earnings	62,598	59,071
Net profit for the period	91,703	96,194
<b>Total capital and reserves attributable to equity holders of the parent</b>	<b>274,041</b>	<b>275,004</b>
Minority interest	513	733
<b>Total equity</b>	<b>274,554</b>	<b>275,737</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	375	85
Retirement benefit obligations	138	208
Provisions	1,443	1,321
Non-interest bearing liabilities	177	-
<b>Total non-current liabilities</b>	<b>2,133</b>	<b>1,614</b>
<b>Current liabilities</b>		
Trade and other payables	42,399	42,885
Interest bearing loans and borrowings	259	178
Retirement benefit obligations	66	308
Provisions	190	286
<b>Total current liabilities</b>	<b>42,914</b>	<b>43,657</b>
<b>Total liabilities</b>	<b>45,047</b>	<b>45,271</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>319,601</b>	<b>321,008</b>



**AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT  
FOR THE IV QUARTER AND WHOLE 2008 YEAR**

**CONSOLIDATED CASH FLOW STATEMENT**

In thousand of EUR

	<b>2008</b>	<b>2007</b>
<b>Operating activities</b>		
Net profit for the period	91,922	96,606
Adjustments for:		
Depreciation, amortisation and impairment of fixed and intangible assets	36,791	31,718
(Profit) / loss from sales and discards of fixed assets	(845)	(808)
Net (income) / expenses from associated companies	182	244
Provisions	(251)	(180)
Financial items	(2,702)	(2,983)
Income tax	(17)	-
Miscellaneous non-cash items	(395)	36
<b>Cash flow before change in working capital</b>	<b>124,685</b>	<b>124,633</b>
Change in current receivables	(709)	(4,889)
Change in inventories	687	(2,431)
Change in current liabilities	(1,048)	1,053
<b>Change in working capital</b>	<b>(1,070)</b>	<b>(6,267)</b>
<b>Cash flow after changes in working capital</b>	<b>123,615</b>	<b>118,366</b>
Interest received	3,456	3,326
Interest paid	(335)	(132)
<b>Cash flow from operating activities</b>	<b>126,736</b>	<b>121,560</b>
<b>Investing activities</b>		
Intangible and tangible fixed assets acquired	(47,506)	(55,059)
Intangible and tangible fixed assets divested	653	944
Acquisition of business combinations net of cash acquired and settlements of deferred consideration	(1,545)	(315)
Net change in interest-receivables short maturities	12,402	23,631
Net cash changes of other long-term receivables	(276)	(2,305)
<b>Cash flow from investing activities</b>	<b>(36,272)</b>	<b>(33,104)</b>
<b>Cash flow before financing activities</b>	<b>90,464</b>	<b>88,456</b>
<b>Financing activities</b>		
Proceeds from non-convertible debts	579	65
Repayment of finance lease liabilities	(154)	(116)
Dividends paid	(93,058)	(83,761)
<b>Cash flow used in financing activities</b>	<b>(92,633)</b>	<b>(83,812)</b>
<b>Cash flow for the year</b>	<b>(2,169)</b>	<b>4,644</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>25,359</b>	<b>20,733</b>
Cash flow for the year	(2,169)	4,644
Effect of foreign exchange rate changes	16	(18)
<b>Cash and cash equivalents at end of period</b>	<b>23,206</b>	<b>25,359</b>

## AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2008 YEAR

## STATEMENT OF CHANGES IN OWNERS' EQUITY

In thousand of EUR

	Attributable to equity holders of the Company							Minority interest	Total equity
	Issued capital	Share premium	Statutory legal reserve	Translation reserve	Retained earnings	Net profit for the period	Total		
<b>31 December 2006</b>	<b>88,169</b>	<b>22,753</b>	<b>8,817</b>	-	<b>59,143</b>	<b>83,689</b>	<b>262,571</b>	<b>321</b>	<b>262,892</b>
Net profit for the 2006 transferred to retained earnings	-	-	-	-	83,689	(83,689)	-	-	-
Dividends paid	-	-	-	-	(83,761)	-	(83,761)	-	(83,761)
<i>Total changes</i>	-	-	-	-	(72)	(83,689)	(83,761)	-	(83,761)
Net profit for the period	-	-	-	-	-	96,194	96,194	412	96,606
<b>31 December 2007</b>	<b>88,169</b>	<b>22,753</b>	<b>8,817</b>	-	<b>59,071</b>	<b>96,194</b>	<b>275,004</b>	<b>733</b>	<b>275,737</b>
<b>1 January 2008</b>	<b>88,169</b>	<b>22,753</b>	<b>8,817</b>	-	<b>59,071</b>	<b>96,194</b>	<b>275,004</b>	<b>733</b>	<b>275,737</b>
Net profit for the 2007 transferred to retained earnings	-	-	-	-	96,194	(96,194)	-	-	-
Dividends paid	-	-	-	-	(92,577)	-	(92,577)	(481)	(93,058)
Changes arising on business combinations	-	-	-	-	(90)	-	(90)	42	(48)
Exchange differences arising from translation of foreign operations	-	-	-	1	-	-	1	-	1
<i>Total changes</i>	-	-	-	1	3,527	(96,194)	(92,666)	(439)	(93,105)
Net profit for the period	-	-	-	-	-	91,703	91,703	219	91,922
<b>31 December 2008</b>	<b>88,169</b>	<b>22,753</b>	<b>8,817</b>	<b>1</b>	<b>62,598</b>	<b>91,703</b>	<b>274,041</b>	<b>513</b>	<b>274,554</b>

## 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 IV quarter and the whole 2008 year as set out on pages 3 to 19.

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 view of the financial position, the results of operations and the cash flows of the Group;
- 3 Group companies are continuing their operations as a going concern.

<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, 4 February 2009