

EestiTelekom

*Consolidated
Annual Report of
AS Eesti Telekom
2008*

(Translation of the Estonian original)

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

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<i>Beginning of the financial year</i>	1 January 2008
<i>End of the financial year</i>	31 December 2008
<i>Name of the company</i>	AS Eesti Telekom
<i>Registration number</i>	10234957
<i>Address</i>	Valge 16, 19095 Tallinn Estonia
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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

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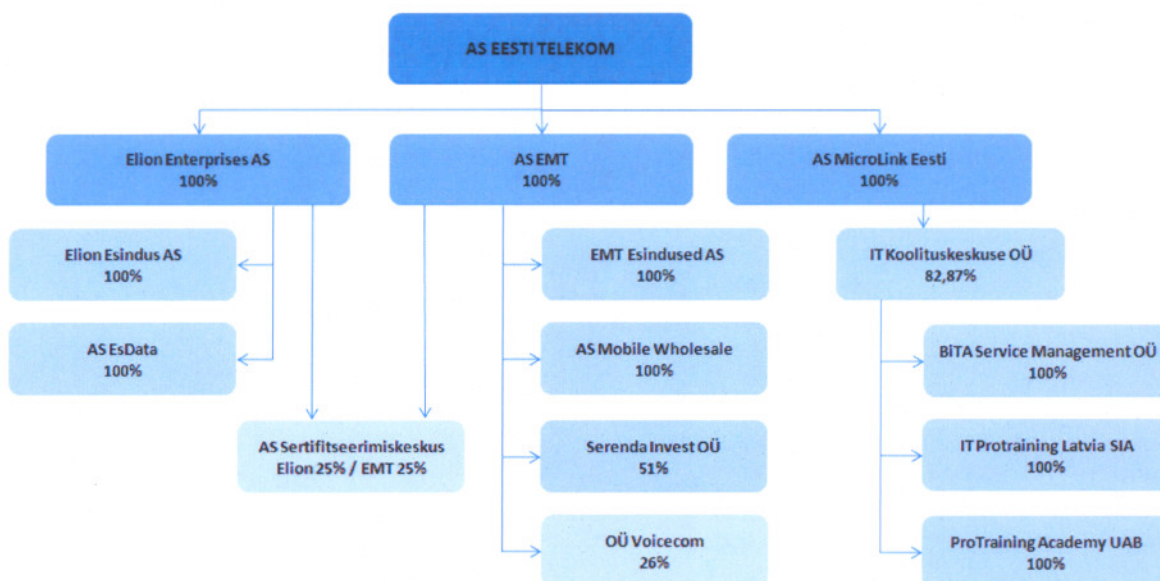
MANAGEMENT REPORT

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 stock exchange (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 the opportunity to provide high-quality training and consultation services to both clients and partners in various cooperation projects in all three Baltic countries.

The ownership structure of AS Eesti Telekom

In the first quarter of 2008, TeliaSonera AB increased its share of AS Eesti Telekom (through its subsidiary Baltic Tele AB). TeliaSonera acquired an additional 1,197,400 AS Eesti Telekom shares and thereby increased its participation to 60.12%. As of the end of 2008, 24.17% of the shares belong to the government of Estonia and 3.00% to Estonian Development Fund.

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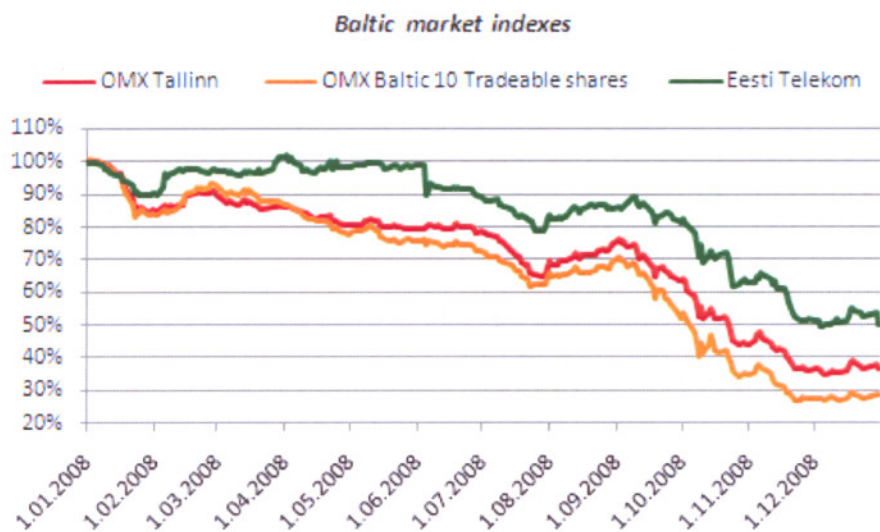
As of 31 December 2008, the 10 largest shareholders in AS Eesti Telekom were:

	31 December 2008		Changed compared to 31 December 2007
	Number of securities	Participation	
Baltic Tele AB	82,936,299	60.12%	1,197,400
Ministry of Finance	33,346,464	24.17%	-
Estonian Development Fund	4,138,636	3.00%	-
SEB clients	2,864,734	2.08%	1,462,384
Deutsche Bank (GDR accounts)	2,264,220	1.64%	(948,018)
ING Luxembourg S.A.	2,055,783	1.49%	257,453
Clearstream Banking Luxembourg S.A. clients	584,976	0.42%	(48,264)
UniCredit Bank Austria AG	496,386	0.36%	(706,024)
Mellon Treaty Omnibus	392,152	0.28%	89,460
State Street Bank and Trust Omnibus Account	335,945	0.24%	255,171

AS Eesti Telekom shares

During 2008, the price of AS Eesti Telekom shares decreased by 50%. The share price was 122.04 EEK at the beginning of the year and 61.02 EEK at the end of the year. The highest and lowest share price during the reporting period was 125.02 EEK and 59.61 EEK respectively. The turnover for the reporting period was 1,822 million EEK.

During 2008, the share price of AS Eesti Telekom has moved at a higher level than the OMX Tallinn Index and the index of the 10 most actively traded shares on the OMX Baltic 10.



Source: NASDAQ OMX Tallinn

Dividends

Eesti Telekom has no official dividend policy. However, the shares have been characterized by relatively high-yield dividends. The shareholders were paid a dividend of 10.50 EEK per share for the 2007 financial year.

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Dividend information:

	2004	2005	2006	2007	2008
Year-end number of shares	137,954,528	137,954,528	137,954,528	137,954,528	137,954,528
Annual average number of shares	137,825,320	137,954,528	137,954,528	137,954,528	137,954,528
Equity per share, EEK	29.40	29.28	29.78	31.19	31.08
Earnings per share, EEK	7.16	7.88	9.49	10.91	10.40
P/E ratio	15.7	15.1	13.8	11.2	5.9
Dividends per share for the year, EEK	8.00	9.00	9.50	10.50	
Dividend payout ratio, %	111.7	114.2	100.1	96.2	

Economic environment

The soft landing anticipated at the beginning of 2008 suddenly turned into an economic recession in the last quarter. The cooling of the real estate market and the toughening of loan terms by the banks that started in 2007 was followed by a decrease in domestic demand in the second quarter of 2008, which altogether resulted in negative economic growth. The downturn in the real estate market continued until the end of 2008. In the fall, the impact of the global financial crisis was added, which resulted in a decline of demand on Estonia's export markets. In the third quarter, export and industrial production suddenly decreased. As the total for the year, the reduction in GDP was 3.6 % according to Statistics Estonia. Unemployment increased during the second half of the year from 4.7% to 9.2%.

Compared to the global economy, the economic downturn arrived in Estonia six months earlier. In the European Union, the anticipated average economic growth for 2008 was 1-2%.

2009 will be one of the most difficult years for Estonia during the period after the restoration of independence. The external economic environment will continue to be unfavorable throughout the year. This primarily is due to difficult-to-obtain and expensive loan resources and the reduced demand for export goods and services. In the Europe Union as a whole, an economic downturn of 2% is projected.

The economic recession should bottom out in the middle of the year, and based on various projections, Estonia's economic decline in 2009 will be between 5% and 9%. A decline in domestic demand of the same caliber is also expected. The growth of unemployment will continue until the first half of 2010. The wages paid out will be reduced by up to 15%.

At the same time, since the beginning of the year, trends have appeared that point to a restoration of economic growth in 2010. These include decreases in raw materials and fuel prices as well as a decline of producer prices. Inflation has halted suddenly and a decrease in consumer prices may already occur in the third quarter. An improvement in credit conditions is expected at the end of the year, as is an increase in the new company startups. However, economic growth will continue to be negative during the final months of the year.

Telecommunications market

The economic crisis has had less impact on the telecommunications sector than on the economy generally. 2008 was successful for telecommunications companies on the whole and the market continued to grow. However, a reduction in demand did appear in the private segment, and by the end of the year, also in the business segment.

Traditional telecommunications services, such a phone calls, are relatively unaffected by events in the economic environment, and their consumption is autonomous, i.e. they are only slightly affected by

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prices and consumers' incomes. However, traditional communications services have exhausted their growth potential in Estonia: the number of ordinary phones has started to decrease and the increase of the number of mobile clients has also ended. The growth of broadband connection users has also slowed, and even if economic growth has continued, market saturation would have been achieved by 2010.

However, the impact of the economic recession was added to the natural deceleration of the growth of traditional communications services, and therefore, new fields of activity are increasingly playing an important role in the revenues of telecommunications companies. Clients want telecommunications that will provide access to necessary information and entertainment, rather than just call communications for their home or office.

In 2009, a decrease in consumption by private individuals and companies will continue, and the price pressure on telecommunications services will increase. However, modest growth will continue in the cable and digital television market. In addition to television services, the clients will be provided with video rental, photo uploading, games and other services.

Estonia is fertile ground for telecommunications companies to find new outputs. The reason is excellent technological education, the government's continued intention of making Estonia a leading e-country, as well as a Nordic disposition that prefers communicating by computers, and TV or telephone screens to direct face-to-face contact. In regards to the spread of computer and ordinary literacy (competence in IT- and telecommunication technology), Estonia is among the most quickly developing countries in both "new" and "old" European countries. Based on the percentage of households connected to the broadband network, Estonia is definitely among the top ten in Europe. Estonia is almost totally covered with a high-quality mobile data communications network, and the development of mobile TV has been started.

The companies that will be successful in 2009 are the ones that are able to make their operations more effective and to develop new technologies and services. In 2009, the "0-growth" scenario is most probable in the Estonian telecommunications market, in which case companies will develop new services to compensate for the reduction in traditional services.

Eesti Telekom Group

The 2008 financial results for the Eesti Telekom Group met expectations. The greatest increase in turnover was created by the broadband service segment – a contribution was made by the number of triple packages as well as an increase in the number of digiTV clients. In the mobile communications segment, the number of contractual mobile communications clients and number of data communications connections demonstrated good growth. In the IT services segment, the greatest growth was experienced by IT services sales (including IT training).

The following developments in the Group's course of action during last year were satisfying:

- Compared to 2007, the number of AS EMT clients has increased by 18 thousand, reaching 487 thousand by the end of 2008. The revenues received from the mobile Internet continued to demonstrate rapid growth and exceeded the revenues for the previous year by 50%. The data volumes being transmitted also increased several times.
- Elion is Estonia's largest provider of digital television service, and in 2.5 years, it has become the second largest television operator on the market. In 2008, the number of digiTV clients has increased by 43%, reaching 82,500 by the end of the year. The number of Elion's permanent Internet connections increased by 8% in 2008 reaching 175,400 by the end of the year.
- In October 2008, MicroLink Eesti acquired the majority share (82.87%) in IT Koolituskeskuse OÜ (IT Training Center). The acquisition of the training company provides MicroLink the opportunity to provide high-quality training and consultation services to clients and partners

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in various cooperation projects. The client base of the IT Training Center and sales units in Latvia and Lithuania create excellent opportunities for growth in these markets.

The Eesti Telekom Group considers rapid adjustment to the macro-economy and competitive situation, as well as maintaining and effectively increasing the client and revenue bases to be its primary objectives in 2009.

Relations with the regulator

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 2.05 EEK per minute and the interconnection fee 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 from the given date, all three mobile operators undertook to implement interconnection fees of 1.66 EEK. 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 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.

On 5 December 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 1.36 EEK per minute the maximum tariff to be applicable as of 1 July 2009.

At the end of February, the Competition Board ended the proceeding regarding Elion's claim regarding the high interconnection fees charged by the Elisa Eesti AS telephone network, as a result of which Elisa decreased the fees for initiating calls by 0.04 EEK.

Based on a resolution of the Competition Board, which was based on a 2006 cost calculation, as of 1 August 2008, Elion reduced the monthly rental fee for copper pairs by 2 EEK and by 3 EEK for selected copper pairs, which does not have a significant financial impact on Elion's results.

At the end of July, the Competition Board completed its proceeding of the investigation of Elion's fees for wholesale leased line services and approved all the valid fees. At the end of August, the Competition Board approved all Elion's currently valid regulated prices (interconnection fees, fees for access to copper pairs and fees for broadband access).

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 3 EEK 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.

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Financial results

In 2008, the market shares of the Eesti Telekom Group remained stable. Satisfying was the increase in the number of contractual mobile communications clients and mobile data communications connections, as well as the increase in the number of triple package and digiTV clients. Compared to the previous year, the EBITDA increased.

Revenues, costs, profits

In 2008, the consolidated sales revenues of the Eesti Telekom Group reached 6,190 million EEK, decreasing by 1% compared to 2007 (2007: 6,261 million EEK).

In 2008, the consolidated turnover in the mobile communications services segment reached 3,682 million EEK, decreasing by 6% compared to 2007 (2007: 3,904 million EEK). The decrease of total revenues was caused by a decline 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 2008, which was caused by changes in consumer behavior due to postponing the purchase of more expensive permanent goods.

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 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 2007.

The revenues received from the mobile Internet continued to demonstrate rapid growth. In 2008, the revenues from AS EMT mobile data communications exceeded the revenues for 2007 by half. At the same time, the volume of data that was transmitted increased several times. As of December 2008, the users of AS EMT mobile data communications amounted to 168 thousand, i.e. 7 thousand more users than a year ago. The increase in the popularity of mobile data communications is based on the rapid expansion of the 3G coverage area and advantageous offers for laptops in combination with Internet connection services. Today, most data communications already takes place in the 3G network, which allows clients to use high-quality Internet connections that approach ADSL speeds with conveniently controllable costs. 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 have been directly primarily 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 turnover of the broadband services segment increased by 10% in 2008 to 3,280 million EEK (2007: 2,984 million EEK). The largest increase in revenues resulted from the sale of subcontracting services and international interconnection services, which increased by 118% and 55% respectively. The increase in revenues from international interconnection services resulted primarily from the significant increase of volumes for incoming international call minutes. The increase in sales revenues from subcontracting services was also related to the growth of minute volumes and the increase in

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brokered subservices. The third field of substantial revenue growth was the sale of comprehensive service packages that increased by 27% on the year. Active marketing campaigns and the general increase in the clients' data volumes have successfully supported the transfer of business clients' connections to greater speeds, which has in turn increased the profitability of comprehensive service packages.

Based on the significant increase in the volume of comprehensive solutions, the revenues from the individual service fees for call connections and Internet connections has decreased by 10% and 14% respectively. At the same time, the revenues earned from the sale of comprehensive solutions considerably exceeded this decline. Due to the decrease in minute volumes, the revenues for call services in the broadband services segment declined by 6.5% during the year.

The total number of Elion clients with permanent Internet connections increased by 12.3 thousand connections in 2008, reaching 175.4 thousand by the end of December (31 December 2007: 163.1 thousand). In addition to the sale of comprehensive solutions, the increase of permanent connections has been supported by the WiMAX base stations that were completed in February in Võru, Pärnu and Rapla Counties within the framework of the Kulatee 3 follow-up project. The company assesses its market share based on the permanent connections of private clients to be 54%.

As the result of an active marketing campaign, the number of Elion triple-package users increased by 22.6 thousand during the year, reaching 76.1 thousand as of 31 December (31 December 2007: 53.5 thousand). By the end of the year, 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 Estonian cable coverage market was 26% by the end of the year (31 December 2007: 19%), which, in the given market, indicates the greatest increase in 2008 in absolute terms.

As of the fall, Elion is the only television services provider in Estonia that provides all its digiTV services in Russian. All of Elion's digiTV menus, programs for the Russian channels, most popular Estonian channels and international channels, screen notices and descriptions for the video-rental films are available in both Estonian and Russian. At the same time, in the fall, several famous Russian movies were added to digiTV's video rental service. The purpose of the improvements was to increase digiTV's user-friendliness for Russian-speaking clients and to provide the most diverse entertainment possible.

A marketing campaign conducted in 2008 providing free films within the framework of the remote video rental service significantly accelerated the rental of films for a fee. In 2008, Elion video rental revenues increased by 172% compared to the previous year.

As of December, Elion is the first in Estonia to offer games as a new content element of its Internet-based digiTV service, in which each game can be ordered separately or as theme packages for a monthly fee.

At the end of 2008, the number of Elion's active call interfaces totalled 469 thousand (31 December 2007: 482 thousand interfaces), remaining stable at the same level during the year. In 2008, Elion focused primarily on the development and provision of IP-based call communications connections and solutions. The number of IP-based Centrex call communications connections increased more than 50% during the year. In addition, during the second half of the year, Business Client VoIP call services based on Internet connections started to be provided in areas with wireless WiMAX Internet coverage.

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%).

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As a result of the general deceleration of retail sales in Estonia, the retail sales of the Elion Group's telecommunications and IT goods slowed by 15% in 2008 compared to the previous year.

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 two companies, Elion initiated 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, as well as its high-quality and broad product portfolio.

In 2008, the consolidated sales revenues for the IT services segment reached 371 million EEK (2007: 365 million EEK). The 2008 IT services segment data includes consolidated data as of 1 November 2008 for the companies of the IT Training Center Group that was acquired in October 2008. Sales revenues increased by 1.5%, compared to the previous year, while the sales revenues increased by 8.8% for services (including IT training) and decreased by 5.2% for merchandise.

In 2008, one of the most important events for MicroLink Eesti was the move to the Ülemiste technology campus, where new worker-friendly office space is being completed. A 150-sq-m information technology demo center unique to Estonia will be established there, where MicroLink and other IT companies will have an opportunity to demonstrate how various information technology solutions work in practice to Estonian companies and foreign visitors, and thereby to promote export.

In October 2008, MicroLink Eesti acquired the majority share (82.87%) of the IT Koolituskeskuse OÜ (IT Training Center). The acquisition of the training company provides MicroLink the opportunity to provide high-quality training and consultation services to clients and partners in various cooperation projects. The company also plans to start providing its services in all three Baltic countries. The client base of the IT Training Center and sales units in Latvia and Lithuania create excellent opportunities for growth in these markets.

In regard to infrastructure solutions, the following large procurements were won: the Health Insurance Fund and Ministry of Defense servers, the drive array for the Ministry of Social Affairs e-health project, the expansion of Eesti Energia's existing drive array, the Ministry of Justice procurement for desktop computers, the Estonian Informatics Center servers, etc. In the third quarter of 2008, the "Laptops for Teachers" procurement organized by the Tiger's Leap Foundation was won. Within the framework of the procurement, laptop computers were procured for almost 4,100 teachers. The transaction totalled more than 34 million EEK. AS MicroLink Eesti designed and procured technological solutions for the server farm with large computing power created at the Scientific Computation Center of the University of Tartu. The procurement placed great importance on the achievement of the best energy consumption and computing power ratio. For new infrastructure solution, MicroLink became a distributor and technical support provider for Apple computers. MicroLink became an official Apple partner and acquired resale rights for Apple products.

In 2008, two of the largest public procurements that were won for the provision of permanent services were the procurement organized by the Ministry of Social Affairs for the purchase of the hosting environment for digital prescription (provision of services for four years at a total cost of 35.4 million EEK) and the procurement for the hosting service for the register of plans organized by the Tallinn City Planning Department (provision of services during three years at a total cost of 2 million EEK). In the fourth quarter, AS MicroLink Eesti also won three procurement organized by the Ministry of Social Affairs for hosting information systems. Within the framework of these procurements, MicroLink Eesti will host and manage the registers of the Ministry of Social Affairs with information on those registered as unemployed and job seekers as well as information on the provision of labor market services, and the register of those dealing with pharmaceuticals. Administration of the operating platform of the Estonian Social Insurance Board information system will also be performed. Also worth noting are the administration of the central systems and workplace

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computers at Empower Eesti and Trust Media, as well as the hosting of the Ministry of Culture's URRAM information system and the information systems for the Estonian Private Forest Union.

The most important activities in the project business in 2008 included jobs related to the e-health project (patient portal, digital photos and digital prescriptions). MicroLink was the principal contractor for the Digital Picture and Digital Prescription solutions and the creator of the Patient Portal within the framework of the Digital Health Record Project. The 2008 development work for the given systems has been completed, and in 2009, they will be actively implemented. The most important projects for 2008 include the implementation of document management (Livelink) and Service Desk software at the Estonian Post; the implementation of Livelink at the Tax and Customs Board; identity management at the North-Estonia Medical Center and the further development of the KUNDE information system at Statistics Estonia. Work will also continue at Estonian Post and the North-Estonia Medical Center in 2009, as will the Ergo Insurance archival solution project that was started in the fourth quarter.

The Eesti Telekom Group **operating costs** decreased in 2008 by 2% to 3,865 million EEK (2007: 3,947 million EEK).

The operating costs for the mobile communications services segments decreased by 8% compared to 2007 to 2,277 million EEK (2007: 2,463 million EEK). The greatest decrease was in interconnection costs, which was caused by a drop in interconnection fees. The operating costs related to retailing and wholesaling also decreased, which correspond to the drop in merchandise sales turnovers.

Operating costs in the broadband services segment increased in 2008 by 12%, reaching 2,366 million EEK (2007: 2,115 million EEK). Of the increase in operating costs, 60% resulted from an increase of direct sales costs caused by a growth of sales volumes. The second primary growth factor for operating costs was personnel costs that increased by 9% compared to the previous year. Of the cost increase, 13% were non-recurring costs and related to efficiency projects and other costs related to the improvement of network resources and service quality. The cost for hopeless receivables in the broadband services segment increased 3.5 times during the year (by 16.5 million EEK).

The consolidated operating costs in the IT services segment increased by 2% in 2008 compared to the previous year reaching 351 million EEK (2007: 343 million EEK). In 2008, labor costs increased by 9.5% and other operating costs by 29.3% compared to the previous year. The operating costs for 2008 were affected by increased costs accompanying the consolidation of the IT Training Center as well as by the non-recurring cost of MicroLink Eesti moving to new offices.

The Eesti Telekom Group **EBITDA** in 2008 totaled 2,348 million EEK (2007: 2,336 million EEK), increasing by 1% compared to the previous year. The EBITDA in the mobile communications services segment increased by 2% compared to 2007, reaching 1,414 million EEK (2007: 1,387 million EEK). In connection with the decrease of the interconnection prices between telecommunications operators and the reduction in the relative importance of merchandise with lower profitability, the EBITDA margin for the year has increased. At the same time, the 2007 EBITDA margin was negatively impacted by a one-time provision of 62 million EEK. In 2008, the EBITDA for the broadband services segment increased by 5%, reaching 928 million EEK (2007: 882 million EEK). The EBITDA in the IT services segment reached 21 million EEK in 2008 (2007: 24 million EEK). The Eesti Telekom Group EBITDA margin has increased slightly during the year, reaching 37.9% in 2008 (2007: 37.3%).

The Eesti Telekom Group's **depreciation costs** were 575 million EEK in 2008 (2007: 496 million EEK).

During the last year, the Eesti Telekom Group earned **EBIT** of 1,773 million EEK, which was a reduction of 4% compared to 2007 (2007: 1,840 million EEK).

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During 2008 AS Eesti Telekom paid their shareholders a record-breaking dividend of 10.50 EEK per share (2007: 9.50 EEK per share). The income tax subject on the payment of the dividends totalled 386 million EEK (2007: 371 million EEK).

The Eesti Telekom Group earned a **net profit** of 1,438 million EEK in 2008 (2007: 1,512 million EEK). The earnings per share were 10.40 EEK (2007: 10.91 EEK).

Investments

During 2008, the Eesti Telekom Group invested 755 million EEK into property, plant and equipment and intangible assets (2007: 863 million EEK).

Investments in the mobile communications services segment totalled 297 million EEK in 2008, decreasing by 10% compared to the previous year (2007: 330 million EEK). In mobile communications, a development priority, in addition to the constant development of the GSM network, was the implementation of technologies to support high-speed mobile data communications.

In the broadband services segment, the 12-month investments in property, plant and equipment and intangible assets totalled 428 million EEK (2007: 513 million EEK). The majority of the capital volume was invested in the development of network resources, for the improvement of service quality and for increasing the availability of permanent Internet connections and digiTV.

In the first quarter of 2008, Elion's international network node in Amsterdam was completed, which was established based on a need to increase the reliability of the London and Frankfurt connections. The creation of the Amsterdam network node enables Elion to better distribute network traffic between various foreign connections and to provide clients with increasingly fast access to various Internet networks. The new network node also enables Elion's call communications network to be developed. In addition to the Amsterdam network node, Elion also has network nodes in London Frankfurt, Helsinki (two), Riga (two), Vilnius, St. Petersburg, and Moscow.

In 2008, the IT services segment invested 30 million EEK (2007: 33 million EEK), the majority of the investments were for the expansion of infrastructure necessary for the provision of services.

It is planned to maintain investments at last year's levels in 2009. Investments will continue to be made in the construction of the mobile data communications (3,5G) network and the development of Elion's broadband network.

Balance sheet and cash flows

As of 31 December 2008, the Eesti Telekom Group balance sheet totalled 4,999 million EEK (31 December 2007: 5,023 million EEK). Compared to the beginning of the year, the non-current assets increased by 175 million EEK, the balance of which reached 2,925 million EEK by the end of the year (31 December 2007: 2,750 million EEK). The increase in non-current assets resulted primarily from the investments of the Group's companies. The Group's current assets decreased by 198 million EEK during the year, reaching 2,075 million EEK by the end of the year (31 December 2007: 2,273 million EEK). Cash and cash equivalents, as well as the balance of short-term financial investments, have decreased by 228 million EEK. This was related to a dividend payment that was larger by 138 million EEK, to income tax on the dividends and the investments that were made.

As of 31 December 2008, the Eesti Telekom Group equity was 4,295 million EEK, which is 19 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 dividends.

As of the end of December, the Group had long-term obligations of 33 million EEK (31 December 2007: 25 million EEK) and short-term debt obligations of 671 million EEK (31 December 2007: 683 million EEK). The net debt (see definition, page 23) of the Eesti Telekom Group at the end of the

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fourth quarter was -853 million EEK and the net debt to equity ratio was -20% (31 December 2007: -1,087 million EEK and -25%).

The Eesti Telekom Group cash from operations in 2008 totalled 1,983 million EEK (2007: 1,902 million EEK). The Group's cash flow from investment activities was 568 million EEK (2007: 518 million EEK). The cash flow into the acquisition of property, plant and equipment and intangible assets in 2008 was 743 million EEK (2007: 861 million EEK). In 2008, the Eesti Telekom Group cash flow into financial activities was 1,449 million EEK (2007: 1,311 million EEK), the majority of which was used to pay dividends.

Personnel

As of 31 December 2008, the number of employees in the Eesti Telekom Group was 2,371 (31 December 2007: 2,398). The average number of workers in 2008 was 2,341 (2007: 2,327).

The number of employees in the mobile communications segment as of 31 December 2008 was 600 (31 December 2007: 597).

As of 31 December 2008, the number of employees in the broadband services segment totalled 1,465. Compared to the end of 2007, the number of workers in this segment decreased by 68 (2007: 1,533). The reduction of the number of workers was related to the reorganization of work and improvements in the efficiency of operations in the group.

In the IT services segment, the number of employees totalled 286 as of 31 December 2008 (31 December 2007: 261).

The total amount of wages paid to Eesti Telekom Group employees was 625 million EEK in 2008 (2007: 569 million EEK). Employees in the mobile communications services segment were paid 168 million EEK (2007: 153 million EEK). Employees in the broadband services segment were paid 359 million EEK (2007: 327 million EEK). Employees in the IT services segment were paid 83 million EEK (2007: 76 million EEK).

The management and upper management of the Eesti Telekom Group included 49 persons as of 31 December 2008 (31 December 2007: 52 persons). The remuneration for the management and upper management was calculated at 50 million EEK during 2008 (2007: 57 million EEK).

Structure of capital and restrictions on transfer of shares

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

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

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

As at 31 December 2008, the following shareholders have a qualifying holding in Eesti Telekom: Baltic Tele Aktiebolag (a holding of 60.12%) and the Republic of Estonia through the Ministry of Finance and (a holding of 24.17%).

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Eesti Telekom has no securities granting special control rights.

Eesti Telekom has not set up any employee share schemes.

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

Management

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

The supervisory board appoints one member of the management board as the chairman of the management board. The chairman of the management board is the chief executive officer of Eesti Telekom. The supervisory board defines the allocation of duties and responsibilities among the members of the management board and the chief executive officer.

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

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

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

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

The chairman of the supervisory board or a person authorised by him or her must sign a petition for entry of expiry of the authority of a member of the management board or for entry of a new member of the management board in the register. The corresponding minutes of the meeting of the supervisory board must be appended to the petition.

The general meeting of shareholders of Eesti Telekom has the authority to amend the articles of association. A resolution on amendment of the articles of association is adopted by the general

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meeting if at least two-thirds of the votes represented at the general meeting are in favour. A resolution on amendment of the articles of association will enter into force as of the making of a corresponding entry in the commercial register.

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

Either the chairman of the management board alone or two members of the management board jointly may represent Eesti Telekom and sign documents on behalf of Eesti Telekom.

Issue and buyback of shares

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

- 1) upon a resolution of the general meeting, provided that:
 - a. this occurs within five years after adoption of a resolution of the general meeting which specifies the terms and conditions for the acquisition or taking shares as security and the amounts to be paid for the shares;
 - b. the sum of the nominal values of the shares held or taken as security by the company does not exceed one-tenth of the share capital; and
 - c. the acquisition of shares does not entail the reduction of net assets below the aggregate sum of the share capital and the reserve capital, the disbursement of which to the shareholders is not permitted, according to the law or the articles of association;
- 2) upon a resolution of the supervisory board without a resolution of the general meeting if the acquisition of shares is necessary to prevent significant damage to the company. The shareholders must be informed of the circumstances surrounding and the details of the acquisition of shares at the next general meeting of shareholders;
- 3) without the restrictions set forth above if the shares are acquired by succession.

The annual general meeting of shareholders held on 22 May 2008 granted a right to Eesti Telekom to acquire shares of Eesti Telekom within five years as of adoption of the resolution (i.e. until 22 May 2013) in such a way that the sum of the nominal values of the shares held by Eesti Telekom does not exceed the limit prescribed by law (i.e. 10%) and that the price paid per share will not be lower than nominal value of one share and will not exceed the higher of the price of the last independent trade and the highest current independent bid on the Tallinn Stock Exchange on the day of the share acquisition. Eesti Telekom may pay for these shares from the company's assets that exceed its share capital, reserve capital and share premium. The maximum number of shares to be acquired each time in accordance will be determined on each occasion separately by a resolution of the supervisory board of Eesti Telekom.

Effects of takeover bids

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

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

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Report on Corporate Governance

As from 1 January 2006, AS Eesti Telekom (“**Eesti Telekom**”) follows the Estonian Principles of Corporate Governance (“the **Principles**”) in its activities. This report describes the management of Eesti Telekom in 2008 and its conformity with the Principles. In 2008, Eesti Telekom believes it adhered to the Principles except in the cases noted in this report.

Eesti Telekom

Eesti Telekom is a public limited company registered in the Republic of Estonia, at Valge 16, 19095 Tallinn, with the registry code of 10234957. The share capital of Eesti Telekom in 2008 was 1,379,545,280 EEK, which is divided into registered shares of a single type with a nominal value of 10 EEK. Eesti Telekom shares are listed on the main list of the Tallinn Stock Exchange (Baltic Main List), with the abbreviation ETLAT. The Eesti Telekom share register is maintained by the registrar of the Estonian Central Register of Securities. Eesti Telekom has approximately 4,000 shareholders. In addition, the global depository receipts (GDR) of Eesti Telekom shares are listed on the Main Market of the London Stock Exchange, with the abbreviation EETD. Every Eesti Telekom GDR represents three Eesti Telekom shares.

General meeting

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

Exercise of the Rights of Shareholders

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

In 2008, the shareholders’ annual general meeting took place on 22 May. The meeting approved the 2007 Annual Report and proposal for the distribution of profits, approved the conditions for the repurchase option of Eesti Telekom shares, recalled the members of the Eesti Telekom Supervisory Board and elected new members, approved the procedure for the remuneration of Supervisory Board members, elected the Eesti Telekom auditor for the 2008 financial year, and approved the procedure for paying for auditing services, deciding that the provision of auditing services and payment for those services shall be regulated by an agreement to be signed with the auditor. 87.25% of the votes represented by shares were present at the annual general meeting, and therefore the meeting had the authority to pass resolutions.

On 26 June 2008, an extraordinary shareholders’ meeting took place based on the application of Eesti Telekom shareholder Baltic Tele AB, which recalled one member of the Eesti Telekom Supervisory Board and elected one new member to replace him. The recall of the Supervisory Board member was related to the change of his duties to be performed in the TeliaSonera AB Group, the parent company of Baltic Tele AB, making the performance of his duties as a Supervisory Board member more difficult. 84.69% of the votes represented by shares were present at the general meeting, and therefore the meeting had the authority to pass resolutions.

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Calling of the General Meeting and Publishing of Information

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

A notice calling the 2008 annual general meeting was published in the Postimees daily on 24 April 2008 and through the Tallinn Stock Exchange information system on 23 April 2008. A notice regarding the extraordinary general meeting to be held on 26 June 2008 was published on 16 June 2008 both in the Postimees and through the Tallinn Stock Exchange information system. No questions were asked regarding the agendas presented in the given notices and no supplementary proposals were made.

Therefore, as regards the general meetings of Eesti Telekom, the Principles were followed in 2008, except for the rules prescribed by clauses 1.3.2. and 1.3.3. of the Principles. Pursuant clause 1.3.2 of the Principles, the candidates for Supervisory Board member who have not previously been members of the issuer's Supervisory Board will participate in the general meeting. Björn Lindegren, a candidate for Supervisory Board member, did not participate in the 2008 extraordinary general meeting due to the performance of duties not related to Eesti Telekom. Clause 1.3.3. of the Principles stipulates that the issuer shall, if it has the necessary technical equipment and if it does not involve too high costs, make it possible to watch and participate in the general meeting through telecommunications. Eesti Telekom is of the opinion that adherence to this principle would involve too high costs and would not be sufficiently used by the shareholders.

Supervisory Board

Duties

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

Members and Remuneration

Pursuant to the articles of association, the Eesti Telekom Supervisory Board comprises six to ten members who are elected by the general meeting for a term of two years. Until 22 May 2008, the Eesti Telekom Supervisory Board included the following people: Anders Gylder, Lars Gunnar Klasson, Jörgen Latte, Tarmo Porgand, Mats Salomonsson, Aare Tark, and Jüri Raatma. As from 22 May 2008, the following people comprised the Eesti Telekom Supervisory Board: Anders Gylder, Lars Gunnar Klasson, Jörgen Latte, Tarmo Porgand, Mats Salomonsson, Aare Tark, and Jüri Raatma. At the extraordinary general meeting of Eesti Telekom shareholders held on 26 June 2008 Anders Gylder was recalled and Björn Lindegren was elected to replace him.

The term of office of the current members will expire on the following dates: on 22 May 2009 in the case of Jörgen Latte, Tarmo Porgand, Mats Salomonsson, Aare Tark, Jüri Raatma, and Lars Klasson; and on 26 June 2010 in the case of Björn Lindegren.

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

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The members of the Supervisory Board will elect a Chairman from among themselves. In 2008, Mats Salomonsson acted as Chairman of the Supervisory Board.

Remuneration for the work of the members of the Supervisory Board was paid according to the resolution of the annual shareholders' meeting. Until 22 May 2008, the monthly payment for the Chairman of the Supervisory Board was 20,000 EEK and 9,000 EEK for the members of the Supervisory Board. By a resolution of the annual general meeting of shareholders held on 22 May 2008, the monthly remuneration payable to Supervisory Board members was increased to 11,000 EEK; remuneration payable to the Chairman was left unchanged. In addition, the actual costs incurred by the members of the Supervisory Board in relation to the performance of their duties were compensated on the basis of their respective applications.

Activities

The work of the Eesti Telekom Supervisory Board (location, meetings, resolutions, and minutes of the Supervisory Board) is organized according to the Supervisory Board regulations approved by them. In 2008, the Supervisory Board held seven meetings. The Management Board presented regular reports to the Supervisory Board on the economic activities and financial status of the Eesti Telekom Group. The Supervisory Board was provided a summary of the topics discussed by the Auditing Committee and the Committee on Remuneration and Appointments, including the results of the audits conducted by the internal and external auditors. During 2008, the Supervisory Board approved the 2007 Annual Report, the results of the motivational system for the top management of the Group for 2007, the Group's budget for 2009 and the motivational system for the top management of the Group for 2009, drew up the agendas for the general meetings of shareholders, and approved the acquisition of IT koolituskeskuse OÜ by AS MicroLink Eesti.

All members of the Supervisory Board of Eesti Telekom participated in more than a half of the meetings of the Supervisory Board in 2008.

Conflict of Interests

Pursuant to the law and the articles of association, decisions regarding transactions between members of the Supervisory Board and Eesti Telekom are under the authority of the general meeting, and the members of the Supervisory Board may not compete with Eesti Telekom without the permission of the shareholders' general meeting. Until the compilation of this report, the members of the Supervisory Board have not notified the Eesti Telekom Management Board of any cases of conflict of interests in 2008.

Hence, as regards the work of the Supervisory Board of Eesti Telekom, the Principles were adhered to in 2008.

Management Board

Duties

The Management Board is the Eesti Telekom management body that deals with the management of everyday economic activities and the representation of Eesti Telekom. Eesti Telekom may be represented in all legal acts by Valdo Kalm alone or two Management Board members jointly. For the achievement of Eesti Telekom's objectives, the Management Board analyzes the risks related to Eesti Telekom's activities and financial targets. By its resolution, the Management Board of Eesti Telekom has established the Eesti Telekom Group's rules for handling of inside information and other internal rules, e.g. accounting policies and procedures. The Management Board must comply with the legitimate regulations of the Supervisory Board. In 2008, a constant exchange of information took place between the Management Board and Supervisory Board of Eesti Telekom, i.e. the Management Board submitted regular reviews on the economic activities and financial status of the Eesti Telekom Group to the Supervisory Board.

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Members and Remuneration

According to the Eesti Telekom articles of association, the Supervisory Board may elect two to five members to the Management Board. The members of the Management Board are elected for three years with the option of extending the term. The Supervisory Board appoints one Management Board member as the Chairman, who also acts as the company's Managing Director. In 2008, the members of the Management Board of Eesti Telekom were Valdo Kalm (the Chairman), Leho Tamm, Valdur Laid, and Enn Saar.

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

The salaries and severance pay of the members of the Management Board, as well as the payment conditions, are determined by the contracts of service concluded with the members of the Management Board. The bonus system for members of the Management Board is approved annually by a resolution of the Supervisory Board. Upon the achievement of the maximum level of the objectives for 2008, the members of the Management Board would receive a bonus equal to six months' salary. In 2008, Eesti Telekom did not comply with clause 2.2.7 of the Principles, which provides for disclosing the benefits and bonus system of each member of the Management Board on the website and in this report, as well as the presentation of the principles for the remuneration of the members of the Management Board at the general meeting. On 13 December 2005, the Eesti Telekom Supervisory Board decided that, at this time, the disclosure of such information is not in the interests of the Eesti Telekom Group and it would not provide an adequate overview of the motivational system for the Group's top management. Currently, there are no share option programs in the Eesti Telekom Group.

Conflict of Interests

Pursuant to the law and the articles of association, transactions between members of the Management Board and Eesti Telekom must be approved by the Supervisory Board, and members of the Management Board may not compete with Eesti Telekom without the permission of the Supervisory Board. Until the compilation of this report, the members of the Management Board have not notified the Eesti Telekom Supervisory Board of any cases of conflict of interests in 2008.

Therefore, in 2008, the Principles were followed in the work of the Eesti Telekom Management Board, except for the rule prescribed by clause 2.2.7 of the Principles.

Control Functions and Auditing

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

Auditing Committee

The Auditing Committee helps the Supervisory Board to perform its supervisory function. In 2008, the Committee members were Mats Salomonsson (the Chairman), Jörgen Latte, and Tarmo Porgand. During 2008, the Committee met 5 times.

External Auditors

According to the articles of association, the auditor(s) are chosen by the general meeting. In 2008, the Eesti Telekom auditor was AS PricewaterhouseCoopers. AS PricewaterhouseCoopers audited all the companies in the Eesti Telekom Group (except of IT Koolituskeskuse OÜ, OÜ Voicocom and AS Sertifitseerimiskeskus) and submitted the auditor's report to the general meeting. The auditors also informed the Auditing Committee and Management Boards of the Group's companies of their observations.

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Internal Control

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

Committee on Remuneration and Appointments

The principal function of the Committee on Remuneration and Appointments is to harmonize the remuneration principles for the top management of the Eesti Telekom Group and to make proposals for the appointment of Supervisory Board members and their remuneration. Until 17 July 2008, Mats Salomonsson (Committee Chairman), Anders Gylder, and Aare Tark were the members of the Committee. As from 17 July 2008, the Committee comprised the following members: Mats Salomonsson (Committee Chairman), Björn Lindegren, and Aare Tark. During 2008, the Committee met 2 times.

Disclosure of Information

The information required by the Principles, including the financial calendar, articles of association, financial reports, information on presentations and meeting with analysts, information on the members of the Supervisory Board and Management Board, the auditors, and other information, is available on the Eesti Telekom website at www.telekom.ee. Therefore, in 2008, Eesti Telekom complied with the Principles in terms of the disclosure of information.

Financial reporting and auditing

Eesti Telekom prepares its accounting reports in accordance with the international financial reporting standards applied in the European Union (IFRS). In respect to the disclosure of financial reporting, Eesti Telekom proceeds from the provisions of the law and the regulations of the Tallinn Stock Exchange (please see the table below for dates of disclosure). At the meeting of the Supervisory Board where the annual report was examined, technical means were present for having a telephone conference with the auditors; however, the Supervisory Board did not consider it necessary to use this opportunity. By an opinion of the Supervisory Board sent along with the notice calling the general meeting, data regarding the auditor and the Supervisory Board's assessment of the work of the auditor, as well as information on the fees paid to the auditor, were disclosed to the shareholders. Thus, as regards financial reporting and auditing, Eesti Telekom adhered to the Principles in 2008.

Interim report for the first quarter of 2008	Interim report for the second quarter and first half-year of 2008	Interim report for the third quarter and nine months of 2008	Interim report for 2008 and the fourth quarter of 2008
23 April 2008	18 July 2008	24 October 2008	5 February 2009

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Key figures

	2004*	2005	2006	2007	2008
Income Statement (mEEK)					
Net sales	5,116	5,159	5,768	6,261	6,190
OPEX	(2,996)	(3,018)	(3,621)	(3,947)	(3,865)
EBITDA	2,122	2,151	2,195	2,336	2,348
Depreciation and amortisation	(816)	(753)	(548)	(496)	(575)
EBIT	1,306	1,398	1,646	1,840	1,773
Net financing items	75	38	41	46	54
Profit before tax	1,381	1,436	1,687	1,882	1,824
Income tax expense	(383)	(349)	(373)	(371)	(386)
Net profit for the year	998	1,088	1,314	1,512	1,438
Attributable to equity holders of the parent	994	1,087	1,309	1,505	1,435
Minority interest	5	0	5	6	3
EPS (in EEK)	7.16	7.88	9.49	10.91	10.40
Balance Sheet (mEEK)					
Property, plant and equipment	2,015	1,834	2,045	2,405	2,590
Intangible assets	91	167	214	216	228
Other non-current assets	39	47	136	129	106
Short term financial investments	1,153	1,267	1,065	694	500
Cash and cash equivalents	331	406	324	397	363
Other current assets	895	940	1,028	1,182	1,212
Total assets	4,524	4,659	4,812	5,023	4,999
Total capital and reserves attributable to equity holders of the parent	4,056	4,039	4,108	4,303	4,287
Minority interest	0	1	5	11	8
Total equity	4,056	4,040	4,113	4,314	4,295
Provisions	12	16	36	33	29
Interest bearing loans and borrowings	20	9	6	4	10
Trade and other payables, non-interest bearing liabilities	437	594	657	671	665
Total equity and liabilities	4,524	4,659	4,812	5,023	4,999
Capital employed	4,075	4,049	4,119	4,318	4,305
Net debt	(1,465)	(1,663)	(1,383)	(1,087)	(853)
Cash Flows (mEEK)					
Cash flows from operating activities	1,645	2,006	1,900	1,902	1,983
Cash flows used in investing activities	(478)	(776)	(762)	(518)	(568)
- including purchases of property, plant and equipment and intangible assets	(515)	(554)	(770)	(863)	(755)
Cash flow before dividends and loan repayments	1,167	1,229	1,138	1,384	1,415
Dividends	(1,101)	(1,104)	(1,242)	(1,311)	(1,456)
Share issue	28	0	0	0	0
Loan repayments (net)	(15)	(27)	(2)	(1)	7
Net change in cash and cash equivalents	78	98	(105)	73	(34)
Financial Ratios					
EBITDA margin (%)	41.5	41.7	38.1	37.3	37.9
EBIT margin (%)	25.5	27.1	28.5	29.4	28.6
Net margin (%)	19.5	21.1	22.8	24.1	23.2
Total asset turnover (multiple)	1.12	1.12	1.22	1.27	1.24
Turnover of capital employed (multiple)	1.24	1.27	1.41	1.48	1.44
ROA (%)	21.9	23.7	27.7	30.7	28.7
ROE (%)	33.7	35.5	41.4	44.7	42.4
ROCA (%)	33.4	35.3	41.3	44.6	42.3
Equity / Assets (%)	89.6	86.7	85.5	85.9	85.9
Net gearing (%)	(36.1)	(41.2)	(33.6)	(25.2)	(19.9)

*) including results of the Eltel group, sold in 2004

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Financial definitions

EBITDA margin = EBITDA / Net sales x 100%

EBIT margin = EBIT / Net sales x 100%

Net margin = Net profit / Net sales x 100%

Asset turnover = Nets sales / Total assets, year average

Capital employed = Owner's equity + Minority interest + LT debt + ST debt

Equity-to-assets ratio = Owner's equity / Total assets x 100%

Net debt = LT borrowings + ST borrowings - Cash and cash equivalents - ST investments

Net gearing = Net debt / Owner's equity x 100%

ROA = Net profit for the period / Annual average assets x 100%

ROE = Profit before tax / Annual average owner's equity x 100%

ROCA = (Profit before tax + Financial costs) / Annual average capital employed x 100%

EPS = Net profit for the year / Annual average no of shares




P/E ratio = End year price of share / EPS

Equity per share = Equity / Annual average number of shares

Dividend payout ratio = Paid dividends per share for the year / Earnings per share for the year x 100%

MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

The Management Board confirms that the management report of AS Eesti Telekom set out on pages 4 to 23 presents a true and fair view of the business developments and results, of the financial position, and includes the description of major risks and doubts for the parent company and consolidated companies as a group.

<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, 23 March 2009

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MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of the consolidated financial statements of Eesti Telekom Group for the year 2008 as set out on pages 24 to 83.

The Management Board confirms that:

- 1 the accounting principles used in preparing the consolidated financial statements are in accordance with the International Financial Reporting Standards as adopted by the European Union;
- 2 the consolidated financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Group;
- 3 AS Eesti Telekom and all Group companies are going concerns.

<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, 23 March 2009

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CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December	
		2008	2007
Revenue	3 (a, b), 4 (a)	6,189,597	6,261,002
Cost of sales	4 (b)	(3,532,648)	(3,542,791)
Gross profit		2,656,949	2,718,211
Selling, administrative and research & development expenses	4 (b)	(907,058)	(900,011)
Other operating income	4 (d)	31,317	28,114
Other operating expenses	4 (d)	(8,498)	(6,336)
Operating profit		1,772,710	1,839,978
Finance income	4 (f)	55,185	48,626
Finance costs	4 (f)	(871)	(2,342)
Finance income, net		54,314	46,284
Share of profit/(loss) from associates	3 (a)	(2,847)	(3,817)
Profit before tax		1,824,177	1,882,445
Income tax expense	5	(385,912)	(370,897)
Net profit for the period		1,438,265	1,511,548
Attributable to:			
Equity holders of the Company		1,434,835	1,505,098
Minority interest		3,430	6,450
		1,438,265	1,511,548
Earnings per share for profit attributable to the equity holders of the Company during the year	19 (f)		
Basic earnings per share (in EEK)		10.40	10.91
Diluted earnings per share (in EEK)		10.40	10.91

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The notes presented on pages 29 to 83 are an integral part of the consolidated financial statements.

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CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December	
		2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	6	2,590,170	2,405,114
Intangible assets	8	228,312	216,011
Investments in associates	11	10,575	13,422
Other non-current receivables	13, 14	95,680	115,059
Total non-current assets		2,924,737	2,749,606
Current assets			
Assets classified as held-for-sale	6	-	1,732
Inventories	15	169,943	187,573
Trade and other receivables	16	1,041,685	992,939
Short-term financial investments	17	500,000	694,040
Cash and cash equivalents	18	363,099	396,778
Total current assets		2,074,727	2,273,062
TOTAL ASSETS		4,999,464	5,022,668
EQUITY AND LIABILITIES			
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital		1,379,545	1,379,545
Share premium		356,018	356,018
Statutory legal reserve		137,955	137,955
Translation reserve		14	-
Retained earnings		2,413,843	2,429,361
Total capital and reserves attributable to equity holders of the Company		4,287,375	4,302,879
Minority interest		8,035	11,480
Total equity		4,295,410	4,314,359
Non-current liabilities			
Interest bearing loans and borrowings	20 (a)	5,872	1,343
Retirement benefit obligations	22	2,158	3,239
Provisions	23	22,571	20,673
Non-interest bearing liabilities	24	1,989	-
Total non-current liabilities		32,590	25,255
Current liabilities			
Trade and other payables	25	663,396	670,989
Interest bearing loans and borrowings	20 (b)	4,061	2,778
Retirement benefit obligations	22	1,032	4,814
Provisions	23	2,975	4,473
Total current liabilities		671,464	683,054
Total liabilities		704,054	708,309
TOTAL EQUITY AND LIABILITIES		4,999,464	5,022,668

The notes presented on pages 29 to 83 are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Company					Total	Minority interest	Total equity
		Share capital	Share premium	Statutory legal reserve	Translation reserve	Retained earnings			
1 January 2007		1,379,545	356,018	137,955	-	2,234,831	4,108,349	5,030	4,113,379
Dividends paid	19 (d)	-	-	-	-	(1,310,568)	(1,310,568)	-	(1,310,568)
<i>Total changes</i>		-	-	-	-	(1,310,568)	(1,310,568)	-	(1,310,568)
Net profit for the period		-	-	-	-	1,505,098	1,505,098	6,450	1,511,548
31 December 2007		1,379,545	356,018	137,955		2,429,361	4,302,879	11,480	4,314,359
1 January 2008		1,379,545	356,018	137,955		2,429,361	4,302,879	11,480	4,314,359
Dividends paid	19 (d)	-	-	-	-	(1,448,523)	(1,448,523)	(7,531)	(1,456,054)
Changes arising on business combinations		-	-	-	-	(1,830)	(1,830)	653	(1,177)
Exchange differences arising from translation of foreign operations		-	-	-	14	-	14	3	17
<i>Total changes</i>		-	-	-	14	(1,450,353)	(1,450,339)	(6,875)	(1,457,214)
Net profit for the period		-	-	-	-	1,434,835	1,434,835	3,430	1,438,265
31 December 2008		1,379,545	356,018	137,955	14	2,413,843	4,287,375	8,035	4,295,410

The notes presented on pages 29 to 83 are an integral part of the consolidated financial statements.

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CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December	
		2008	2007
Net cash from operating activities	29	1,983,002	1,902,001
Cash flows from investing activities			
Purchases of property, plant and equipment and intangible assets	6, 8	(743,307)	(861,490)
Proceeds from sale of property, plant and equipment and intangible assets		10,219	14,768
Acquisition of business net of cash acquired and settlements of deferred consideration	10	(24,163)	(4,934)
Net cash changes of short-term financial investments		194,042	369,746
Net cash changes of other long-term receivables		(4,313)	(36,073)
Net cash used in investing activities		(567,522)	(517,983)
Cash flow before financing activities		1,415,480	1,384,018
Cash flows from financing activities			
Dividends paid	19 (d)	(1,456,054)	(1,310,568)
Proceeds from finance lease	7	9,057	1,020
Repayments of finance lease liabilities		(2,409)	(1,819)
Net cash used in financing activities		(1,449,406)	(1,311,367)
Net change in cash and cash equivalents		(33,926)	72,651
Cash and cash equivalents at beginning of year	18	396,778	324,405
Net change in cash and cash equivalents		(33,926)	72,651
Effect of foreign exchange rate changes		247	(278)
Cash and cash equivalents at end of year	18	363,099	396,778

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1. General information and summary of significant accounting policies

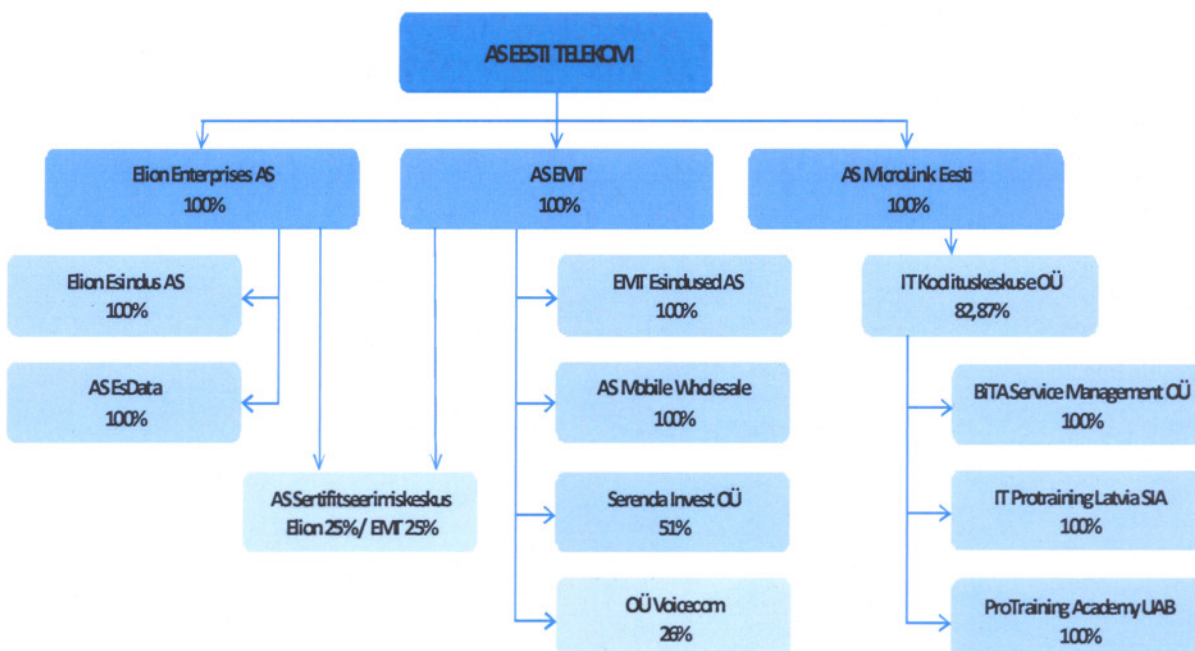
General information

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

AS Eesti Telekom and its subsidiaries comprise the Eesti Telekom Group (hereinafter also the Group). AS Eesti Telekom is a parent company of Eesti Telekom Group.

The immediate parent company of AS Eesti Telekom is Baltic Tele AB, which is the holding company. Company post address is Box 7754, SE-103 96 Stockholm, Sweden. Baltic Tele AB is a 100%-owned subsidiary of TeliaSonera AB and is the ultimate controlling party of AS Eesti Telekom. The largest shareholder of TeliaSonera AB is Swedish State with 37.3%. TeliaSonera AB is situated at Sturegatan 1, SE-106 63 Stockholm, Sweden.

The 2008 consolidated statements for the AS Eesti Telekom include the financial results for the following companies:



Summary of significant accounting policies

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

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

Basis of preparation

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

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

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

These group consolidated financial statements were authorised for issue by the Management Board on 23 March 2009.

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

Standards, amendments to published standards and interpretations mandatory for the Group's accounting periods beginning on or after 1 January 2008.

- **IFRIC 11, IFRS 2 - Group and Treasury Share Transactions** (effective for annual periods beginning on or after 1 March 2007). The interpretation contains guidelines on the following issues: applying IFRS 2 "Share-based Payment" for transactions of payment with shares which are entered into by two or more related entities; and adopting an accounting approach in the following instances: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; or an entity or its owner grants the entity's employees rights to the entity's equity instruments, and the provider of those instruments is the owner of the entity. This interpretation does not have an impact on the Group's financial statements.
- **Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition.** The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments do not have an impact on the Group's financial statements.

New standards, amendments to standards and interpretations that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted.

- **IFRS 8, Operating Segments** (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The Group is currently assessing what impact the standard will have on segment disclosures in the financial statements.
- **Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment** (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group does not expect the amendment to affect its financial statements.
- **IAS 23, Borrowing Costs** (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group does not expect the amendment to affect its financial statements.

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- **IAS 1, Presentation of Financial Statements** (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.
- **IAS 27, Consolidated and Separate Financial Statements** (revised January 2008; effective for annual periods beginning on or after 1 July 2009; the revised standard has not been adopted by the EU). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect the amended standard to have a material effect on its financial statements.
- **Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment** (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to affect its financial statements.
- **IFRS 3, Business Combinations** (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009; the revised standard has not been adopted by the EU). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its financial statements.
- **IFRIC 12, Service Concession Arrangements** (effective for annual periods beginning on or after January 2008; the interpretation has not been adopted by the EU). The interpretation contains guidelines on applying the existing standards by entities being parties to service concessions between the public and the private sector. IFRIC 12 pertains to arrangements where the ordering party controls what services are provided by the operator using the infrastructure, to whom it provides the services and at what price. The Group does not expect the interpretation to affect its financial statements.

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- **IFRIC 13, Customer Loyalty Programmes** (effective for annual periods beginning on or after 1 July 2008; according to the EU's adoption the interpretation is effective for annual periods beginning after 31 December 2008, early adoption permitted). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group is currently assessing the impact of the interpretation on its financial statements.
- **IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective for annual periods beginning on or after 1 January 2008; the interpretation as adopted by the EU is effective for annual periods beginning after 31 December 2008, early adoption permitted). The Interpretation contains general guidance on how to assess the limit of the surplus of fair value of a defined benefit plan over the present value of its liabilities which can be recognised as an asset, in accordance with IAS 19. In addition, IFRIC 14 explains how the statutory or contractual requirements of the minimum funding may affect the values of assets and liabilities of a defined benefit plan. The Group is currently assessing the impact of the interpretation on its financial statements
- **IFRIC 15, Agreements for the Construction of Real Estate** (effective for annual periods beginning on or after 1 January 2009; the interpretation has not been adopted by the EU). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.
- **IFRIC 16, Hedges of a Net Investment in a Foreign Operation** (effective for annual periods beginning on or after 1 October 2008; the interpretation has not been adopted by the EU). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Group does not apply hedge accounting.
- **Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment** (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have any impact on the Group's financial statements.
- **Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement** (effective with retrospective application for annual periods beginning on or after 1 July 2009; the amendment has not been adopted by the EU). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.
- **Improvements to International Financial Reporting Standards** (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The

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substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.

- **IFRIC 17, Distribution of Non-Cash Assets to Owners** (effective for annual periods beginning on or after 1 July 2009; the interpretation has not been adopted by the EU). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.
- **IFRS 1, First-time Adoption of International Financial Reporting Standards** (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; the amended standard has not been adopted by the EU). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.
- **IFRIC 18, Transfers of Assets from Customers** (effective for annual periods beginning on or after 1 July 2009; the interpretation has not been adopted by the EU). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.
- **Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures** (effective for annual periods beginning on or after 1 January 2009; the amendment has not been adopted by the EU). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

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Consolidation principles

a) Subsidiaries

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

The consolidated financial statements include all subsidiaries that are controlled by the parent company. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

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

The information of the Group's subsidiaries is disclosed in Note 9.

b) Associates

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

The acquisition of investments in associated companies is recognised using the purchase method of accounting, similarly to the acquisition of investments in subsidiary companies.

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

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

The information of the Group's associates is disclosed in Note 11.

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c) *Transactions and minority interests*

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

Foreign currency

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

The financial statements of foreign subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency at the exchange rates of the Bank of Estonia (*Eesti Pank*).

The following exchange rates are used for translating the financial statements of subsidiaries prepared in foreign currencies:

- the assets and liabilities are translated, using the exchange rates prevailing on the balance sheet date;
- income and expenses as well as other changes in equity are translated, using the average exchange rates for the period;
- the goodwill created by the acquisition of subsidiaries and adjustments to the fair book value of the assets and liabilities related to the acquisition are treated as assets and liabilities of the subsidiary and therefore are translated at exchange rates of the balance sheet date.

Resulting exchange differences are recognised as a separate component of equity: translation reserve. A recorded reserve in consolidated equity is considered in the calculation of the results of sales of shares of a subsidiary.

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

Currency	Exchange rate in 2008		Exchange rate in 2007	
	As of 31 December	Average	As of 31 December	Average
EUR	15.64660	15.64660	15.64660	15.64660
USD	11.10520	10.69269	10.63820	11.43807
SEK	1.42922	1.63051	1.66168	1.69194
LTL	4.53157	4.53157	4.53157	4.53157
LVL	22.09770	22.27148	22.45050	22.35044
GBP	16.09410	19.70444	21.27050	22.88405
RUB	0.37803	0.43011	0.43481	0.44698
SDR	17.15210	16.86590	16.80590	17.49721

Property, plant and equipment

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

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

If an item of property, plant and equipment consists of identifiable components with significantly different useful lives, the components are recorded as separated items of property, plant and equipment and separate depreciation rates are set for them according to their useful life. Groups of assets with similar estimated useful lives are recorded as aggregates.

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount (higher of an asset's fair value less costs to sell and its value in use) if the asset's carrying amount is higher than its estimated recoverable amount.

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

The following depreciation rates are used by the Group:

- | | |
|--|------------------|
| • Buildings | 2-12% per annum |
| • Telecommunication networks equipment | 3-20% per annum |
| • Other plant and equipment | 10-30% per annum |
| • Other equipment and fixtures | 20-30% per annum |
| • Land is not depreciated. | |

Leases

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

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a) The Group as lessor

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

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

b) The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded in income statement on accrual basis of accounting.

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

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

Intangible assets

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

Other intangible assets: licenses, patents, trademarks and client contracts are stated at the lower of the carrying or recoverable amount and are amortised on the straight-line method over their estimated useful lives (individual for each asset object with depreciation rates 10-20% per annum). Amortisation expenses are recorded in the income statement lines 'Costs of sales' and 'Selling, administrative and research & development expenses'. Recoverable value is equivalent to the higher of a particular asset's sale price, from which sales costs have been deducted, and value in use. The expected discounted future cash flows are used as the basis for determining value in use (see also part of accounting polices "Impairment of assets"). Amortisation of the third generation mobile communications license acquired by AS EMT started in August 2003 and will continue for ten years.

Research and development expenditure

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

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits. Among other things, the company must prove that a market exists for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, that the intangible asset is useful;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

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

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

Non-current assets held for sale

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

Impairment of assets

Assets that have an indefinite useful life (goodwill) are not subject to amortisation and are tested annually for impairment by comparing asset's carrying amount to its recoverable amount.

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purpose of assessing the decrease in asset value, the recoverable value is assessed by either individual asset objects or by cash-generating units. A cash-generating unit is the smallest separately identifiable group of assets, the generated cash flows of which is to a significant extent independent of the cash flows generated by the company's remaining assets. For the purpose of testing goodwill, the cash-generating units correspond to the Group's business segments.

Impairment losses are recognised as period expenses.

Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Inventories

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

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

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

Financial assets and liabilities

Cash, shares and other securities, trade receivables, accrued income and other short and long-term receivables (include finance lease and instalment receivables) are considered to be financial assets.

Trade payables, accrued expenses and other short and long-term payables are considered to be financial liabilities.

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

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

a) Loans and receivables

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

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

Factoring is the transfer of **receivables**. Depending on the terms of the factoring contract the entity either transfers substantially all the risks and rewards of the ownership of the receivable or retains certain risks and rewards. If the entity retains the control over receivable or other risks associated to the receivable (for example factoring with recourse), the transaction is recorded as a financing transaction (a collateralized borrowing); the amount is retained in the balance sheet as a receivable until collection or until expiration of the recourse. The related liability is recorded similar to other borrowings. If the entity transfers the control over the asset and substantially all respective risks and rewards at the moment of transferring receivables, the transaction is recorded as the sale of receivable. Related cost is recognized as financial expense or as a cost related to receivables, depending whether the aim of the transaction was to manage the cash flows or to manage the credit risk.

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

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

b) Held-to-maturity financial assets

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

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

c) Liabilities

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

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

Provisions

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

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

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

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

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

Taxation

a) Corporate income tax

According to valid legislation, corporate profits are not taxed in Estonia, and therefore no deferred tax assets or liabilities arise. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, entertainment costs, disbursements not related to business, and the adjustment of transfer prices. As of 1 January 2008, the tax rate on the net amount of profits paid out as dividends is 21/79 (in 2007 a tax rate of 22/78 applied). In

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certain circumstances dividends can be distributed without any additional income tax expense. The Income Tax Act prescribes subsequent reductions in the income tax rate from 2010 to 2012: the 2010 tax rate is 20/80, 19/81 in 2011, and as of 2012, the tax rate is 18/82 of the amount paid out as net dividends. The corporate income tax that accompanies the payment of dividends is recognised in the income statement as an income tax expense in the same period that the dividend is declared, regardless of the period for which it is declared or when it is actually paid out. The obligation to pay income tax develops on the 10th day of the month following the declaration of dividends.

b) Other taxes in Estonia

Other taxes, that are affected the Group's results, and tax rates in 2008 were the following:

- social tax - 33% of the paid payroll to the employees and of the fringe benefits;
- unemployment tax - 0,3% of the paid payroll to the employees;
- income tax on fringe benefits - 21/79 of the fringe benefits (2007: 22/78);
- income tax on expenses not related to business activities - 21/79 of the expenses not related to business activities (2007: 22/78);
- land tax - 0,1-2,5% of the taxable value of the land per annum.

c) Corporate income tax in foreign countries where Group activities occur

Pursuant to Latvian and Lithuanian income tax regulations, the obligation for business taxpayers in the corresponding countries to pay income tax develops when taxable profits are earned during the financial year. In 2008, a 15% tax rate applied in Latvia and Lithuania.

Government grants

Government grants are recognised as revenues in the period when the cost which the government grant is intended to cover occurs. Government grants that are received for costs that occurred in previous periods, or for which no future conditions are attached, are recognised as revenues of the period when grant becomes receivable. Government grants are not recognised as revenue before reasonable assurance exists that the company complies with the conditions related to the grant and that the government grant will be received. The possible obligations accompanying government grants are recognised in the financial statement as provisions or contingent liabilities.

Assets acquired by means of a government grant are initially recognised in the balance sheet at cost, the amount received as a government grant is recorded as deferred income in non-current liabilities. Related asset and deferred government grant is recognised in the income statement on a straight line basis over the expected useful life of the asset.

Government grants for operating expenses are recognised in proportion with the related expenses. Government grant income is presented separately from the related expenses in the income statement.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account any discounts granted and sales related taxes. Revenue mainly consists of traffic charges including interconnect and roaming, subscription fees, connection and installation fees, and service charges.

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

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

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

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

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

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

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

In relation to the rendering of services, revenue is recorded upon rendering of service and when receipt of the payment is probable and costs incurred in respect of the transaction can be measured reliably. If the service is provided for a longer period, revenue is recognised by reference to the stage of completion of the service to be rendered at the balance sheet date.

Revenue from the sale of goods is recognised when the significant risks and rewards incidental to ownership have been transferred to the buyer, the amount of revenue from the sales transaction and the costs incurred in respect of the transaction can be measured reliably and the receipt of the payment is probable.

Interest and dividends are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Interest income is recognised as using the effective interest rate, except if the receipt of interest is uncertain. Dividend income is recognised when the shareholder's right to receive payment is established.

Cash and cash flows

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

Subsequent events

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

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

Segment reporting

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

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

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

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

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

Unallocated revenue and expenses are related to the use or disposal of unallocated assets and liabilities and also include the administrative costs of the Group's parent company.

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

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

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

Unallocated assets and liabilities are assets and liabilities, the allocation of which into segments is not possible or justified due to the structure of the Group's business activities (e.g. corporate income tax, interest receivables or liabilities, dividend receivables or liabilities).

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

Statutory legal reserve

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

Earnings per share

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

Diluted earning per share is calculated based on profit or loss attributable to the 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 AS Eesti Telekom has not issued any potential ordinary shares, the diluted earnings per share equals to the basic earnings per share.

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Supplementary disclosure on the parent entity of the Group

According to the Estonian Accounting Law the separate primary financial statements of parent company should be disclosed. The respective disclosure is in Note 34.

There are included parent company's balance sheet, income statement, statement of changes in equity and cash flows statement, which are presented as annex to the consolidated financial statements. These primary financial statements do not form a full set of parent company's financial statements. The primary financial statements of parent company are prepared using the same accounting policies as in the preparation of consolidated financial statements, excluding the investments in subsidiary companies, which are measured at the cost (less the necessary impairment losses), according to the revised IAS 27 Consolidated and Separate Financial Statements.

2. Critical accounting estimates and judgements

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

a) Recognition of intangible assets in business combinations

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

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

The carrying values of the Group's property, plant and equipment, intangible assets and financial non-current assets are tested, at least annually and else whenever events or changes in circumstances indicate that the assets may be impaired, by analyzing individual assets or classes of assets that essentially belong together. If an analysis indicates that the assets may be impaired, the asset's recoverable amount is determined, which is the higher of the fair value less cost to sell of the asset and its value in use. Value in use is calculated based on expected future discounted cash flows (DCF model). Impairment loss is the difference between carrying amount and recoverable amount.

A number of significant assumptions and estimates are involved when using DCF models to forecast operating cash flows, for example with respect to factors such as market growth rates, revenue volumes, market prices for telecommunications services, costs to maintain and develop communications networks and working capital requirements. Forecasts of future cash flows are based on the best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other relevant information available. These assumptions are subject to review by Management Board. The cash flow forecasts are adjusted by an appropriate discount rate derived from Group's cost of capital plus a reasonable risk premium at the date of evaluation. If the projections for future cash flows of Group's any non-current assets change as a result of changes in business model or strategy, competitive pressures, or regulatory environment, the Group may have to recognize impairment losses of intangible assets and property, plant and equipment (see also note 8).

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c) Non-capitalization of customer acquisition costs

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

d) Useful lives of telecommunication equipment and software

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

Network assets form the largest part of the Group's tangible assets. If useful lives of network assets would be prolonged by 10%, depreciation costs of the Group would decrease by 65.1 million EEK in 2008.

e) Provisions and contingent assets and liabilities

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

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

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

f) Impairment of accounts receivable

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

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3. Segment information

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

Mobile telecommunications – this segment operates mobile networks and systems, and deals with the provision, marketing and selling of services and goods related thereto. The entities in this business segment are AS EMT, EMT Esindused AS, AS Mobile Wholesale and Serenda Invest OÜ.

Broadband – this segment operates the national telecommunications network, with providing broadband and data communications services and related value-added services as well as provision, marketing and sales of other related services and goods. The entities in this business segment are Elion Enterprises AS, AS Elion Esindus, AS EsData and up to 31 May 2008 Viru Net OÜ. From 1 June 2008 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; IT training; 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, marketing and sales of related services and goods. The entities in this business segment are AS MicroLink Eesti and from 1 November 2008 the Group's new members: IT Koolituskeskus OÜ, BiTA Service Management OÜ, IT Protraining Latvia SIA and ProTraining Academy UAB. Until 30 June 2007 managed IT-services segment included also AS MicroLink. From 1 July 2007 AS MicroLink merged with Elion Enterprises AS.

Segment turnover represent inter-company income and expenses of the three above-mentioned segments. The inter-company transactions between the companies within the same segment are eliminated in this report.

The majority of the Eesti Telekom Group assets are located in Estonia, with an insignificant part in Latvia and Lithuania.

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a) Primary reporting format – business segments

	Mobile telecommunications		Broadband services		Managed IT services		Unallocated / Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Total segment revenue	3,682,303	3,904,170	3,280,091	2,983,937	371,043	365,344	13,216	8,326	7,346,653	7,261,777
Inter-segment revenue	(695,163)	(593,205)	(347,312)	(276,950)	(101,365)	(122,294)	(13,216)	(8,326)	(1,157,056)	(1,000,775)
Revenue	2,987,140	3,310,965	2,932,779	2,706,987	269,678	243,050	-	-	6,189,597	6,261,002
Operating profit/(loss)	1,158,727	1,169,448	633,383	629,547	(3,942)	1,619	(15,458)	39,364	1,772,710	1 839,978
Finance income									55,185	48,626
Finance costs									(871)	(2,342)
Finance income – net									54,314	46,284
Share of profit / (loss) from associates	(1,303)	(1,758)	(1,544)	(2,059)	-	-	-	-	(2,847)	(3,817)
Profit before tax									1,824,177	1,882,445
Income tax on dividends									(385,912)	(370,897)
Net profit for the period									1,438,265	1,511,548

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Other information by business segments

	Mobile telecommunications		Broadband services		Managed IT services		Unallocated / Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Assets (except investments in associates and goodwill)	2,184,142	2,098,155	2,749,038	2,771,681	129,200	100,165	(180,722)	(50,437)	4,881,658	4,919,564
Goodwill	38,848	38,848	-	828	68,383	50,006	-	-	107,231	89,682
Investments in associates	6,148	7,451	4,427	5,971	-	-	-	-	10,575	13,422
Total assets	2,229,138	2,144,454	2,753,465	2,778,480	197,583	150,171	(180,722)	(50,437)	4,999,464	5,022,668
Liabilities	477,695	530,151	702,385	726,751	77,499	69,464	(553,525)	(618,057)	704,054	708,309
Purchases of property, plant and equipment and intangible assets	297,030	329,608	427,530	512,620	30,192	32,682	30	(12,400)	754,782	862,510
Depreciation, amortization and write-downs	255,352	218,016	293,991	252,100	24,575	22,065	904	4,101	574,822	496,282
Impairment of goodwill	-	-	828	-	-	-	-	-	828	-

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b) Secondary reporting format – geographic segments

The Group's activities mainly take place in one geographical segment, in Estonia. The majority of the Group's clients are from Estonia. An insignificant part of the clients are located in Latvia and Lithuania. The revenues outside of Estonia are primarily related to "roaming" revenues.

	Mobile telecommunications				Broadband services				Managed IT services				Consolidated			
	2008		2007		2008		2007		2008		2007		2008	2007		
		%		%		%		%		%		%		%		
European Economic Area (EEA)	2,969,453	99.41%	3,297,845	99.60%	2,865,323	97.70%	2,640,194	97.53%	269,540	99.95%	242,770	99.88%	6,104,316	98.62%	6,180,809	98.72%
Rest of Europe	13,022	0.44%	9,514	0.29%	46,164	1.57%	48,237	1.78%	138	0.05%	-	-	59,324	0.96%	57,751	0.92%
North-America	2,172	0.07%	1,642	0.05%	21,199	0.72%	18,520	0.68%	-	-	280	0.12%	23,371	0.38%	20,442	0.33%
Rest of world	2,493	0.08%	1,964	0.06%	93	0.01%	36	0.00%	-	-	-	-	2,586	0.04%	2,000	0.03%
Total,	2,987,140	100.00%	3,310,965	100.00%	2,932,779	100.00%	2,706,987	100.00%	269,678	100.00%	243,050	100.00%	6,189,597	100.0%	6,261,002	100.00%
of which:																
Estonia	2,875,367	96.26%	3,184,787	96.19%	2,517,899	85.85%	2,424,266	89.56%	261,032	96.79%	239,103	98.38%	5,654,298	91.35%	5,848,156	93.41%
Outside Estonia	111,773	3.74%	126,178	3.81%	414,880	14.15%	282,721	10.44%	8,646	3.21%	3,947	1.62%	535,299	8.65%	412,846	6.59%

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4. Additional information on the income statement

	2008	2007
(a) Revenue		
Mobile communications	3,058,396	3,190,861
Fixed telephony	1,695,333	1,370,207
Services, installation and customer equipment	1,110,143	1,041,656
Internet	1,604,188	1,741,655
IT and data services	216,593	234,258
Other	83,561	149,755
Inter-group transactions	(1,578,617)	(1,467,390)
	6,189,597	6,261,002
(b) Operating costs by function		
Cost of sales	3,532,648	3,542,791
Selling, administrative and R&D expenses		
Selling	430,142	427,701
Administration	476,916	472,116
Research and development	-	194
	907,058	900,011
	4,439,706	4,442,802
(c) Operating costs by nature		
Goods purchased	2,193,470	1,798,609
Network expenses, interconnect traffic	1,528,350	1,930,662
Other goods and services purchased	258,152	231,476
	3,979,972	3,960,747
Wages and salaries	625,082	569,270
Social charges	208,118	194,195
Other	52,028	48,484
	885,228	811,949
Marketing expenses	203,023	232,849
Information technology	86,804	91,187
Rent and leasing fees	56,034	62,395
Leased cars and equipment	42,525	42,847
Travel expenses	9,821	10,645
Consulting services	27,217	13,115
Audit fees and costs	3,770	2,469
Change of bad debt expenses	28,354	413
Other expenses	121,630	102,198
	5,444,378	5,330,814
Inter-group transactions	(1,580,322)	(1,384,294)
Total external operating expenses	3,864,056	3,946,520
Depreciation, amortization and write-downs	575,650	496,282
Total operating expenses	4,439,706	4,442,802

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4. Additional information on the income statement (continued)

	2008	2007
(d) Other operating revenues and expenses		
Other operating income		
Profit from sales of property, plant and equipment and intangible assets	13,309	13,712
Foreign exchange gain	6,775	4,853
Interest on fines and penalties	10,344	8,488
Other	889	1,061
	31,317	28,114
Other operating expenses		
Foreign exchange loss	7,601	4,897
Loss from sales of property, plant and equipment and intangible assets	98	1,074
Interest on fines and penalties	799	365
	8,498	6,336
Net effect on profit	22,819	21,778
(e) Depreciation and amortisation		
Cost of sale	513,200	439,342
Selling and marketing expenses	19,000	15,049
Administrative expenses	43,450	41,891
	575,650	496,282
(f) Finance income and expenses		
Interest income		
Interest income on short-term bank deposits	52,747	45,103
Interest income on held-to-maturity assets	-	2,208
Interest income on loans and receivables	1,938	1,102
	54,685	48,413
Foreign exchange gain	500	213
	55,185	48,626
Interest expense	318	1,688
Foreign exchange loss	553	654
	871	2,342
Finance income, net	54,314	46,284

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5. Taxation

The income tax cost on the dividends of companies registered in Estonia and the corporate income tax cost calculated on the profits of subsidiaries located in Lithuania are recognised in the consolidated income statement.

According to the Income Tax Act, the dividends payable out of retained earnings are taxed in Estonia. In 2008, the income tax rate was 21/79 of the net dividend paid (2007: 22/78). Corporate income tax received from other companies registered in Estonia can be deducted from corporate income tax payable, when the recipient of dividends owned at least 15% of the shares of the payer of dividends.

Pursuant to Latvian and Lithuanian income tax regulations, the obligation for business taxpayers in the corresponding countries to pay income tax develops when taxable profits are earned during the financial year. In 2008, a 15% tax rate applied in Latvia and Lithuania.

Corporate income tax on dividends (Estonia)

	2008	2007
Dividends paid	1,456,054	1,310,568
Income tax 21/79 (26.58%) (2007:22/78 (28.21%))	(387,052)	(369,647)
Part of the income tax paid by Group subsidiaries, which is used in the accounting period	3,413	-
Part of the income tax paid by Group subsidiaries, which is transferred to the next accounting period	(2,083)	(1,250)
Current tax expense	(385,722)	(370,897)

Corporate income tax on profit (Lithuania)

	2008	2007
Profit before tax	1,253	-
Income tax 15%	(188)	-
Impact of non-deductible expenses	(2)	-
Current tax expense	(190)	-
Effective income tax rate	15.16%	-

As at 31 December 2008 the Group did not have any deferred income tax assets and liabilities.

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6. Property, plant and equipment

	Notes	Telecommunication networks equipment					Construction in process	Total
		Land and buildings	Mobile networks	Fixed networks	Other plant and equipment	Other equipment and fixtures		
At 31 December 2006								
Cost		852,189	2,422,060	5,062,552	47,231	407,649	67,395	8,859,076
Accumulated depreciation		(524,186)	(1,784,236)	(4,192,724)	(17,514)	(295,821)	-	(6,814,481)
Net book amount		328,003	637,824	869,828	29,717	111,828	67,395	2,044,595
Movements in 2007								
Opening net book amount		328,003	637,824	869,828	29,717	111,828	67,395	2,044,595
Additions		4,530	215,228	5,342	16,615	12,033	568,909	822,657
Acquired by finance leases	7	-	824	196	-	-	-	1,020
Reclassification		6,883	76,612	399,689	-	20,283	(503,467)	-
Reclassification to assets classified as held-for-sale		-	-	(961)	-	-	-	(961)
Disposals and write-offs		(507)	(912)	(282)	(125)	(850)	-	(2,676)
Depreciation charge	3 (a)	(28,270)	(198,688)	(157,348)	(15,270)	(59,945)	-	(459,521)
Closing net book amount		310,639	730,888	1,116,464	30,937	83,349	132,837	2,405,114
At 31 December 2007								
Cost		858,512	2,537,129	5,371,905	62,636	401,736	132,837	9,364,755
Accumulated depreciation		(547,873)	(1,806,241)	(4,255,441)	(31,699)	(318,387)	-	(6,959,641)
Net book amount		310,639	730,888	1,116,464	30,937	83,349	132,837	2,405,114

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6. Property, plant and equipment (continued)

	Notes	Telecommunication networks equipment			Other plant and equipment	Other equipment and fixtures	Construction in process	Total
		Land and buildings	Mobile networks	Fixed networks				
At 31 December 2007								
Cost		858,512	2,537,129	5,371,905	62,636	401,736	132,837	9,364,755
Accumulated depreciation		(547,873)	(1,806,241)	(4,255,441)	(31,699)	(318,387)	-	(6,959,641)
Net book amount		310,639	730,888	1,116,464	30,937	83,349	132,837	2,405,114
Movements in 2008								
Opening net book amount		310,639	730,888	1,116,464	30,937	83,349	132,837	2,405,114
Additions		13,420	155,706	6,359	19,054	11,364	504,956	710 859
Acquired through business combination	10	-	-	-	-	177	-	177
Acquired by finance leases	7	-	-	-	-	8,409	-	8 409
Acquired by finance leases through business combinations	7, 10	-	-	-	-	648	-	648
Reclassification		26,976	123,945	330,782	(1,251)	21,185	(501,637)	-
Reclassification from assets classified as held-for-sale		-	-	-	-	-	1,732	1 732
Disposals and write-offs		(289)	(164)	(599)	(159)	(576)	-	(1 787)
Depreciation charge	3 (a)	(19,560)	(238,313)	(205,578)	(17,520)	(54,011)	-	(534 982)
Closing net book amount		331,186	772,062	1,247,428	31,061	70,545	137,888	2 590 170
At 31 December 2008								
Cost		886,009	2,676,024	5,571,934	72,255	358,027	137,888	9 702 137
Accumulated depreciation		(554,823)	(1,903,962)	(4,324,506)	(41,194)	(287,482)	-	(7 111 967)
Net book amount		331,186	772,062	1,247,428	31,061	70,545	137,888	2 590 170

The gross carrying amount of fully depreciated property, plant and equipment that are still in use as at 31 December 2008 is 4,737,332 thousand EEK (31 December 2007: 4,756,660 thousand EEK).

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7. Property, plant and equipment acquired by finance lease

	Telecommunication network equipment	Other equipment and fixtures	Total
At 31 December 2006			
Cost	7,772	-	7,772
Accumulated depreciation	(2,533)	-	(2,533)
Net book amount	5,239	-	5,239
Movements in 2007			
Opening net book amount	5,239	-	5,239
Additions	1,020	-	1,020
Termination of lease	(28)	-	(28)
Depreciation charge	(1,541)	-	(1,541)
Closing net amount	4,690	-	4,690
At 31 December 2007			
Cost	8,711	-	8,711
Accumulated depreciation	(4,021)	-	(4,021)
Net book value amount	4,690	-	4,690
Movements in 2008			
Opening net book amount	4,690	-	4,690
Additions	-	8,409	8,409
Acquired through business combination	-	648	648
Termination of lease	(127)	-	(127)
Depreciation charge	(1,743)	(178)	(1,921)
Closing net book amount	2,820	8,879	11,699
At 31 December 2008			
Cost	7,718	10,507	18,225
Accumulated depreciation	(4,898)	(1,628)	(6,526)
Net book amount	2,820	8,879	11,699

Information about finance lease liabilities is disclosed in note 26.

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8. Intangible assets

	Notes	Goodwill	Licenses, patents, trademarks and client relations	Total
At 31 December 2006				
Cost		89,682	314,292	403,974
Accumulated amortisation		-	(189,928)	(189,928)
Net book amount		89,682	124,364	214,046
Movements in 2007				
Opening net book amount		89,682	124,364	214,046
Additions		-	38,833	38,833
Disposals and write-offs		-	(107)	(107)
Amortisation charge	3 (a)	-	(36,761)	(36,761)
Closing net book amount		89,682	126,329	216,011
At 31 December 2007				
Cost		89,682	337,477	427,159
Accumulated amortisation		-	(211,148)	(211,148)
Net book amount		89,682	126,329	216,011
Movements in 2008				
Opening net book amount		89,682	126,329	216,011
Additions		-	32,448	32,448
Acquired through business combination	10	18,377	2,241	20,618
Disposals and write-offs		-	(97)	(97)
Amortisation charge	3 (a)	-	(39,840)	(39,840)
Impairment charge	3 (a)	(828)	-	(828)
Closing net book amount		107,231	121,081	228,312
At 31 December 2008				
Cost		107,231	346,225	453,456
Accumulated amortisation		-	(225,144)	(225,144)
Net book amount		107,231	121,081	228,312

The gross carrying amount of fully depreciated intangible assets that are still in use as at 31 December 2008 is 106,471 thousand EEK (31 December 2007: 126,905 thousand EEK).

Impairment tests for goodwill

The carrying amount of goodwill was tested as of 31 December 2008. The recoverable amount of a Cash Generating Unit (CGU) is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. Management determined the budgeted gross margin based on past performance and its expectations for market development.

The discount rates used reflect specific risks relating to the relevant CGUs.

No impairment was identified as a result of the test.

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The key assumptions used for goodwill impairment tests are as follows:

	Mobile telecommunications CGU's	Managed IT services CGU's
WACC ¹⁾	9.7%	9.7%
Growth rate ²⁾	2.0%	2.0%
Discount rate ³⁾	9.7%	9.7%
Net book amount of goodwill relating to CGU's	38,848	68,383

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

If a discount rate of 11.5% were used in the cash flow projections, the difference between the recoverable amount of the IT services Cash Generating Units and its book value of the net assets would be zero.

As of 1 June 2008, Viru NET OÜ merged with Elion Enterprises. The activities of the merged company were distributed among several units of Elion Enterprises. Therefore, the management board of Elion Enterprises decided to write off the goodwill of Viru NET OÜ totalling 828 thousand EEK.

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9. Investments in subsidiaries

	Notes	Country of incorporation	Ownership interest		Principal activity	Owner
			2008	2007		
AS EMT		Estonia	100%	100%	Construction and operating of mobile networks, providing mobile communication services	AS Eesti Telekom
EMT Esindused AS		Estonia	100%	100%	Retail sales of telecommunication products and services	AS EMT
AS Mobile Wholesale		Estonia	100%	100%	Wholesale of mobile phones	AS EMT
Serenda Invest OÜ		Estonia	51%	51%	Administration of communication portal based in Estonia internet	AS EMT
Elion Enterprises Ltd		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 Ltd
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 Ltd
Viru Net OÜ ¹⁾		Estonia	-	100%	Internet services	Elion Enterprises Ltd
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
IT Koolituskeskuse OÜ	10	Estonia	82,87%	-	Information and communication technology and IT project control training services provider	AS MicroLink Eesti
ProTraining Academy UAB	10	Lithuania	100%	-	IT training services	IT Koolituskeskuse OÜ
SIA IT Protraining Latvia	10	Latvia	100%	-	IT training services	IT Koolituskeskuse OÜ
BiTA Service management OÜ	10	Estonia	100%	-	IT Service Management (methodology of ITIL) consultations and training services	IT Koolituskeskuse OÜ

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

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10. Business combinations

In 22 October 2008, AS MicroLink Eesti, a wholly owned subsidiary of AS Eesti Telekom, purchased 82,87 per cent of the shares of IT Koolituskeskuse OÜ. IT Koolituskeskuse OÜ (trademark: **IT Koolitus**) is a leading information and communications technology company, and a provider of training services for IT project management, in the Baltic countries.

In addition to Estonia, IT Koolituskeskuse OÜ also operates in Latvia and Lithuania through its subsidiaries ProTraining Academy UAB (Lithuanian subsidiary) and SIA IT Protraining Latvia (Latvian subsidiary). The third subsidiary of the IT Koolituskeskuse Group is BiTA Service Management OÜ, located in Estonia.

The acquisition of a training company provides MicroLink with the opportunity to provide high-quality training and consultation services for both clients and partners in various cooperation projects.

The acquired subsidiary contributed revenue of 3.9 million EEK and net loss of -0.5 million EEK to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, the contribution to Group revenue would have been approximately 31.1 million EEK and profit would have been approximately 0.4 million kroons.

The purchase consideration comprises cash paid in 2008 in the amount of 24,828 thousand EEK and deferred consideration of 280 thousand EEK payable in 2011 (see Note 24).

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

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

The effect of the acquisition of subsidiaries on goodwill and cash flows in 2008 were as follows:

	Note	2008	
		IT Koolituskeskus Group	
		Fair value	Acquiree's carrying amount
Property, plant and equipment	6	825	825
Intangible assets	8	2,241	250
Inventories		490	490
Trade and other receivables		7,301	7,301
Cash and cash equivalents		2,809	2,809
Liabilities		(9,164)	(9,164)
Net identifiable assets and liabilities		4,502	2,511
Interest acquired		82.87%	
Group's share in net identifiable assets and liabilities acquired		3,731	
Goodwill	8	18,377	
Total consideration		22,108	
Cash and cash equivalents acquired		(2,809)	
Deferred consideration	24	(280)	
Net cash out flow		19,019	

In 2008, the final deferred portion of the acquisition cost of Serenda Invest OÜ (the company was acquired in 2006) totalling 5,144 thousand EEK was paid.

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11. Investments in associates

	Year ended 31 December	
	2008	2007
Cost of investments	32,509	32,509
Share of post-acquisition loss, net of dividends received	(21,934)	(19,087)
Net book amount of investments	10,575	13,422

Details of the Group's associates, as of 31 December 2008 and 2007, are as follows:

	Country of incorporation	Ownership interest		Principal activity	Owner
		2008	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

Financial information of associates

	AS Sertifitseerimiskeskus	OÜ Voicecom
2008		
Assets	22,336	10,742
Liabilities	4,629	4,129
Revenues	32,708	10,039
Profit / (loss)	(6,178)	474
2007		
Assets	27,851	9,217
Liabilities	3,966	3,532
Revenues	26,129	22,406
Profit / (loss)	(8,234)	711

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12. Financial instruments by category

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

	Notes	Loans and receivables	Financial liabilities	Total
31 December 2008				
<u>Assets as per balance sheet</u>				
Trade and other receivables	13, 16	1,084,508	-	1,084,508
Short-term financial investments	17	500,000	-	500,000
Cash and cash equivalents	18	363,099	-	363,099
Total		1,947,607	-	1,947,607
<u>Liabilities as per balance sheet</u>				
Borrowings	20	-	9,933	9,933
Trade and other liabilities	24, 25	-	413,133	413,133
Total		-	423,066	423,066
31 December 2007				
<u>Assets as per balance sheet</u>				
Trade and other receivables	13, 16	1,075,989	-	1,075,989
Short-term financial investments	17	694,040	-	694,040
Cash and cash equivalents	18	396,778	-	396,778
Total		2,166,807	-	2,166,807
<u>Liabilities as per balance sheet</u>				
Borrowings	20	-	4,121	4,121
Trade and other liabilities	25	-	432,054	432,054
Total		-	436,175	436,175

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13. Long-term receivables

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

	Note	Interest rate	Maturity date	Year ended 31 December	
				2008	2007
(a) Long-term loan receivables					
Loan to Union of Põlva County Municipalities		10%	2010	1,055	1,055
Non-current portion of receivables				1,055	1,055
(b) Non-current trade receivables					
Factoring receivables				54	422
Non-current trade receivables				37,831	45,942
				37,885	46,364
Current portion of receivables (-)	16			(32,255)	(42,082)
Non-current portion of receivables				5,630	4,282
(c) Other long-term receivables					
Instalment receivables		2% - 16%	2009 - 2011	173,615	168,567
Finance lease receivables	14 (a)	8% - 15%	2009 - 2011	79,127	86,750
				252,742	255,317
Current portion of receivables (-)	16			(163,747)	(145,595)
Non-current portion of receivables				88,995	109,722
Total other non-current receivables	12			95,680	115,059

Expected repayments of the long-term receivables:

	2008	2007
Within one year	196,002	187,681
Later than one year and not later than five years incl.	95,680	115,055
	291,682	302,736

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

a) Finance leases

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

	Note	Year ended 31 December	
		2008	2007
(a) Finance lease – non-current receivables			
Finance lease – gross receivables		25,697	43,857
Unearned finance income (-)		(3,419)	(5,157)
Finance lease – net receivables		22,278	38,700
(b) Finance lease – current receivables			
Finance lease – gross receivables		65,230	56,108
Unearned finance income (-)		(8,381)	(8,058)
Finance lease – net receivables		56,849	48,050
Total finance lease net receivables	13 (c)	79,127	86,750

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

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Expected repayments of the referred finance lease receivables:

	Note	Year ended 31 December	
		2008	2007
(a) Gross receivables from finance lease			
Within one year		63,609	56,108
Between one and four years		27,318	43,857
		90,927	99,965
Unearned future finance income on finance lease (-)		(11,800)	(13,215)
Net investment in finance lease	13 (c)	79,127	86,750
(b) Net investment in finance lease			
Within one year		55,471	48,050
Between one and four years		23,656	38,700
Net investment in finance lease	13 (c)	79,127	86,750

b) Operating leases

The Group leases office space and IT and office equipment and IT solutions under the terms of operating lease. The operating lease contracts do not have any additional terms and they can be cancelled by giving notice at least three months in advance. Income from such leases amounts to 42,251 thousand EEK and 48,595 thousand EEK in 2008 and 2007, respectively.

	Year ended 31 December	
	31 December 2008	31 December 2007
IT and office equipment (group of tangible assets 'Other equipment and fixture')		
Cost	79,804	95,743
Accumulated depreciation	(69,231)	(59,167)
Net book amount	10,573	36,576
Depreciation charge in reporting period	(25,510)	(31,303)

Office space, which leased out, forms insignificant part of total Group's property.

15. Inventories

	Year ended 31 December	
	2008	2007
Raw materials and consumables	34,864	65,313
Goods for resale	127,382	115,382
Advances to suppliers	7,697	6,878
	169,943	187,573

In 2008, inventories in the total amount of 13,077 thousand EEK (2007: 1,266 thousand EEK) were written down due to the estimated net realisable value falling below their acquisition cost.

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16. Trade and other receivables

	Note	Year ended 31 December	
		2008	2007
Trade receivables			
Accounts receivable	12	768,762	778,773
<i>Incl. current portion of non-current trade receivables</i>	13 (b)	32,255	42,082
Provision for impairment of trade receivables		(23,145)	(17,071)
		745,617	761,702
Other financial receivables			
Current portion of other long-term receivables	13 (c)	163,747	145,595
International settlements		46,474	24,890
Accrued interest		9,623	10,988
Other accrued income		222	684
	12	220,066	182,157
Other receivables			
Prepaid expenses		47,788	33,565
Prepaid value-added tax		10,080	5,337
Prepaid other taxes		127	69
Receivables from associates	30 (c)	309	206
Other receivables		17,698	9,903
		76,002	49,080
		1,041,685	992,939

Movements in provision for impairment of trade receivables

	2008	2007
Provision for impairment of trade receivables at beginning of the period	(17,071)	(11,243)
Provision for receivables impairment	(28,354)	(22,186)
Receivables written-off as uncollectible	22,280	16,358
Provision for impairment of trade receivables at end of period	(23,145)	(17,071)

17. Short-term financial investments

	Year ended 31 December	
	2008	2007
Short-term financial investments with maturities over three months, but less than twelve months		
Deposits	500,000	694,040

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

- investments in EEK - 6.16% (2007: 4.41%);
- investments in EUR - 4.11% (2007: 3.86%).

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Structure of short-term financial investments by currencies

	Year ended 31 December	
	2008	2007
Short-term financial investments in EEK		
Deposits	500,000	660,000
Short-term financial investments in EUR		
Deposits	-	34,040
Short-term financial investments total		
Deposits	500,000	694,040

There were no assets held for trading or available-for-sale in 2008 or 2007.

18. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks:

	Year ended 31 December	
	2008	2007
Cash in transit	2,256	2,576
Cash on hand	1,596	1,764
Bank accounts	259,247	134,368
Deposits with maturities up to three months	100,000	258,070
	363,099	396,778

The effective interest rates on bank accounts in 2008 were:

- bank accounts in EEK – 5.21% (2007: 3.81%);
- bank accounts in EUR – 3.47% (2007: 3.44%);
- bank accounts in USD – 2.05% (2007: 4.67%).

19. Capital and reserves

a) Issued capital

	Year ended 31 December	
	2008	2007
Shares issued		
Ordinary shares, par value 10 EEK per share, fully paid	137,954,528	137,954,528

The holders of ordinary shares are entitled to receive dividends as declared by the general meeting, and are entitled to one vote per share at general meetings of the shareholders of the parent company.

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e) Treasury shares

The Annual General Meeting of Shareholders, on 22 May 2008, authorized AS Eesti Telekom Management Board 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 shares of A-series so that the total of nominal values of treasury shares held by AS Eesti Telekom would not exceed the limit set by statutory regulations, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the Group's assets in excess of its share capital, legal reserve and share premium. The amount of shares to be acquired each time shall be determined on each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council.

AS Eesti Telekom has not acquired treasury shares during 2008 and 2007.

f) Basic and diluted earnings per share

Basic earnings per share have been calculated as follows:

	2008	2007
Profit for the year from continuing operations for the period attributable to equity holders of the Company (EEK)	1,434,835,000	1,505,098,000
The average number of ordinary shares	137,954,528	137,954,528
Earnings per share (EEK)	10.40	10.91

As the Group has no instruments with a dilutive effect on earnings per share neither in 2008 or 2007, **diluted earnings per share** equals basic earnings per share.

g) Share price

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

The highest price of an AS Eesti Telekom share on the OMX Tallinn Stock Exchange during 2008 was 125.02 EEK; the lowest price was 59.61 EEK (2007: 168.51 EEK and 102.80 EEK respectively) and the average price was 103.32 EEK per share (2007: 127.69 EEK per share).

20. Interest-bearing liabilities

	Notes	Year ended 31 December	
		2008	2007
(a) Non-current			
Factoring payable	21	-	54
Finance lease liability	26 (b)	5,872	1,289
	12	5,872	1,343
(b) Current			
Factoring payable	21	54	368
Finance lease liability	26 (b)	4,007	2,410
	12	4,061	2,778

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21. Interest-bearing liabilities information (excluding finance lease payables)

The Group does not have any outstanding bank loans as of 31 December 2007.

The details of the Group's long-term debts are as follows:

	Notes	Year ended 31 December	
		2008	2007
Factoring		54	422
Current portion of long-term debts (-)	20 (b)	54	(368)
Long-term debts	20 (a)	-	54

Expected repayments of the above long-term debts:

	2008	2007
Within one year	54	368
Later than one year and not later than three years incl.	-	54
	54	422

22. Retirement benefit obligations

	Year ended 31 December	
	2008	2007
Current portion of retirement benefit obligations	1,032	4,814
Non-current portion of retirement benefit obligations	2,158	3,239
Total retirement benefit obligations	3,190	8,053
Balance at the beginning of the year	8,053	8,777
Benefits paid	(4,905)	(893)
Interest accrued	42	169
Balance at the end of the year	3,190	8,053

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

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23. Provisions

	Site Termination restoration expense provision	Compensation benefits of the provision of technical infrastructure provision	Guarantee provision	Other provisions	Total
Current portion of provisions	-	2,827	-	148	2,975
Non-current portion of provisions	22,040	-	-	531	22,571
Total provisions	22,040	2,827	-	679	25,546
At 31 December 2007	20,094	1,957	1,980	808	25,146
Recognition and change in provisions, net	1,946	8,891	(1,978)	(81)	9,153
Used provisions during year	-	(8,021)	(2)	(48)	(8,753)
At 31 December 2008	22,040	2,827	-	679	25,546

- **Site restoration expense provision.** AS EMT recognized site restoration expense provision to the extent a legal or constructive obligation to a third party exists. The company has concluded two types of contracts for the use of the land under masts and modular buildings: "Contracts constituting rights of superficies" and "Contracts encumbering a registered immovable with the personal right of use". The majority of the contracts have been concluded for periods of 25 and 50 years. Upon the expiration of the contracts, AS EMT is obligated to compensate all the costs that are related to the restoration of the land under the masts and modular buildings to its usual economically good condition, primarily to free the contract objects from unusable structures and buildings and to restore the property into the condition that existed before the contract was signed.
- **Termination (redundancy) benefits provision.** The provision has been created and it will be used in connection with the termination employment contracts when, and only when, the company has a detailed written plan for the termination of the work relationship and there are no realistic possibilities for not implementing this plan.
- **Provision for the compensation of the tolerance of technical infrastructure.** According to the Riigikogu resolution of April 30, 2004, owners of technical infrastructure and networks are obligated to pay landowners compensation for the tolerance of technical infrastructure and networks built on their land starting on October 1, 2004. The implementation act regarding the size and payment of the compensation had been passed on February 21, 2007.
- **Guarantee provision.** Provision for additional guarantee of services.

24. Non-current non-interest bearing liabilities

	Note	Year ended 31 December	
		2008	2007
Non-current liability for purchase of shares in subsidiaries	10, 12	280	-
Deferred income from government grants	27	1,079	-
		1,989	-

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25. Trade and other payables

	Note	Year ended 31 December	
		2008	2007
Trade and other current financial liabilities			
Trade payables		349,196	358,467
International settlements		47,944	60,728
Current liability for purchase of shares in subsidiaries	10	-	5,144
Accrued trade payables		12,361	6,079
Other accrued expenses		3,352	1,636
	12	412,853	432,054
Other liabilities			
Payable to employees		142,032	141,726
Other prepaid revenue		43,280	47,394
Value-added tax payable		25,842	17,299
Social insurance tax payable		18,781	15,208
Employee withholding tax payable		10,090	8,356
Income tax fringe benefits payable		781	1,502
Unemployment contribution payable		453	366
Other taxes payable		1,035	644
Customer advances		4,981	3,964
Deferred income from government grants	27	3,137	2,350
Payables to associates	30 (c)	131	126
		250,543	238,935
		663,396	670,989

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

a) Operating lease payments

	Year ended 31 December	
	2008	2007
Minimum lease payments under non-cancellable operating leases:		
Within one year	29,466	34,517
Later than one year and not later than five years incl.	35,673	41,046
	65,139	75,563

The operating lease expenses for 2008 and 2007 were 28,711 thousand EEK and 29,391 thousand EEK, respectively.

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b) Finance lease payments

	Note	Year ended 31 December	
		2008	2007
Finance lease payments, both principal and interest charge, are payable as follows:			
Within one year		4,585	2,552
Later than one year and not later than three years incl.		6,347	1,331
		10,932	3,883
Interest charge (-)		(1,053)	(184)
Present value of principal payments of finance lease liability		9,879	3,699
Current portion of finance lease liability	20 (b)	(4,007)	(2,410)
Long-term finance lease liability	20 (a)	5,872	1,289
Average annual interest rate		6.7% - 7.4%	1% - 9%

27. Government grants

	Notes	2008	2007
Government grants for operating expenses			
Balance of unappropriated government grant at the beginning of the period		355	-
Received from the European Union (AXMEDIS project)		381	995
Government grant recognized as revenue		(736)	(640)
Balance of unappropriated government grant at the end of the period	25	-	355
Government grants of assets			
Undepreciated balance at the beginning of the period		1,995	1,804
Received from the Government of the Republic		6,450	4,628
Recorded as revenue		(3,599)	(4,437)
Undepreciated balance at the end of the period		4,846	1,995
Current portion of undepreciated balance at the end of the period	25	3,137	1,995
Long-term portion of undepreciated balance at the end of the period	24	1,709	-
Total government grants recognized as revenue		4,335	5,077

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

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

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28. Financial risk management

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

Purpose of the financial risk management is to exposure financial risks and to minimise volatility of financial results. Funding the Group as well as managing Group's excess liquidity and financial risks are the responsibilities of the Treasury Department that fulfils its obligations in accordance with the rules approved by the Supervisory Board of AS Eesti Telekom.

To manage the Group's liquid assets more efficiently the Group has cash pooling agreements in Swedbank AS, AS SEB Bank, Danske Bank AS Estonia Brunch and in Estonian branch of Nordea Bank Finland. The cash pool is also used for funding the subsidiaries.

a) Market risk

1. Foreign exchange risk

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

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

The main operating currencies for the Group, other than the Estonian kroon, are EUR and USD. In 2008 approximately 10% of settlements were in EUR and less than 5% of settlements in USD. Other foreign currencies contributed less than 1% of total settlements.

Considering the volume and risks of the transactions in both 2007 and 2008, the Group's management did not consider the implementation of derivative instruments to be necessary. As of 31 December 2008 the Group did not have any outstanding derivative contracts related to hedge currency risks. No derivatives were used during 2008 and 2007.

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

	EUR	USD	SDR	GBP	LVL	LTL	SEK	RUB
At 31 December 2008								
<u>Financial asset / (liability)</u>								
Cash and bank accounts	7 473	260	-	-	-	739	-	-
Trade and other receivables	76 558	7	8 506	-	22	168	-	-
Trade and other payables	(35 722)	(2 145)	(3 794)	(175)	(552)	(231)	-	-
Net financial asset / (liability)	48 309	(1 878)	4 712	(175)	(530)	676	-	-
Impact to net result if foreign currency had strengthened against EEK by 10%	-	(188)	471	(18)	(53)	68	-	-
Impact to net result if foreign currency had weakened against EEK by 10%	-	188	(471)	18	53	68	-	-
At 31 December 2007								
<u>Financial asset / (liability)</u>								
Cash and bank accounts	25,547	4,502	-	-	-	-	-	24
Short-term financial investments	34,040	-	-	-	-	-	-	-
Trade and other receivables	43,889	79	9,482	35	-	-	-	-
Trade and other payables	(35,439)	(3,615)	(20,028)	-	-	-	(77)	(21)
Net financial asset / (liability)	68,037	966	(10,546)	35	-	-	(77)	3
Impact to net result if foreign currency had strengthened against EEK by 10%	-	97	(1 055)	4	-	-	(8)	-
Impact to net result if foreign currency had weakened against EEK by 10%	-	(97)	1 055	(4)	-	-	8	-

2. Cash flow and fair value interest rate risk

The Company's cash accounts bear overnight deposit interest, which is exposed to interest rate risk to the extent that the Euribor rate fluctuates. The Company's held-to-maturity assets (note 17) bear fixed interest rate, which exposes the Company to fair value interest rate risk.

Financial assets and liabilities with long-term maturities bear interest rate risk and are sensitive to movements in interest rates. Contracts for term deposits (note 17), financial lease and instalment receivables (note 13 (c)) and liabilities (note 26(b)) are concluded with fixed interest rates and do not result in an interest rate risks for the Group's cash flows.

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

The impact of 1% parallel change (rise/ decline) in the interest rate curve to net interest revenue would amount to 2 401 thousand EEK (2007: 1 057 thousand EEK), as a result of the increase/decrease in the net interest income of short-term financial investments (overnight deposits).

The Group does not have long-term interest rate sensitive financial assets. The information of the Group's interest-bearing liabilities is disclosed in notes 20, 21 and 26 (b) in the financial statements.

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3. Price risk

The Group is not exposed to the market risk with respect to financial instruments as it does not hold any equity securities (excluding shares in subsidiaries and associates).

b) Credit risk

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

Ageing structure of financial assets

	Notes	Not due	Past due not impaired				Total
			up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	
31 December 2008							
<u>Assets as per balance sheet</u>							
Trade and other receivables	12, 13,16	993,840	72,957	14,807	2,159	745	1,084,508
Short-term financial investments	17	500,000	-	-	-	-	500,000
Cash and cash equivalents	18	363,099	-	-	-	-	363,099
Total		1,856,939	72,957	14,807	2,159	745	1,947,607
31 December 2007							
<u>Assets as per balance sheet</u>							
Trade and other receivables	12, 13,16	886,410	163,985	18,757	5,935	902	1,075,989
Short-term financial investments	17	694,040	-	-	-	-	694,040
Cash and cash equivalents	18	396,778	-	-	-	-	396,778
Total		1,977,228	163,985	18,757	5,935	902	2,166,807

The Group's credit policy is a credit management process whereby crediting decisions are made and activities related to debt collection are executed as the result of purposeful activity. The objective of the group's credit policy is to prevent clients' payment problems, to manage credit risks and guarantee the receipt of receivables overdue, in order to fulfil the Group's business goals.

The Group's management has implemented several control procedures that are related to the monitoring of receivables and other financial claims. If payment deadlines for invoices submitted to the buyers are exceeded, the following collection measures are used to influence the client: phone calls, SMS's, notices, debt claims, and forwarding of information to the Credit Register. The sanctions that are implemented if payment deadlines for invoices submitted to the customers are exceeded include partial restriction of the provision of services, total restriction of services, suspension of credit sales, cancellation of contracts and late interest.

In the case of finance leases (notes 13 (c), 14 (a)), the leased equipment assets are owned by the Group until the receipt of the last payment. If the client does not fulfil its payment obligations, the equipment is subject to return. In the case of instalment payments (note 13 (c)), the right of ownership is immediately transferred to the client.

The Group has policies that limit the amount of credit exposure to any financial institution or other counterparty. The Group manages its excess liquidity and financial risks only with and through Estonian banks, which have at least a Baa3 Moody's credit rating, and foreign banks, which have at least an A2 Moody's credit rating. Total exposure to financial instruments and investments should not exceed 60% of Eesti Telekom Group's total equity. Credit risk counter parties could be government agencies, banks, corporates and

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money market funds. No credit limits were exceeded during the reporting period. The Group has no collateral held for financial assets.

The Group's short-term financial investments (note 17), as well as cash and cash equivalents (18), are deposited in Estonian financial institutions that have at least a Moody's Baa3 credit rating and in foreign institutions that have at least a Moody's A2 credit rating.

There are no individually impaired financial assets. There have been no material losses occurring from the impairment of financial assets, (see Note 4, change of bad debt expenses). Therefore Group's management has assessed the credit quality of the financial assets that are not yet due to be good.

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

c) Liquidity risk

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

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

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

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

	Notes	Within one year	Between one and four years	Total forecasted cash flow	Total book value
At 31 December 2008					
Trade and other payables	24, 25	663,396	1,989	665,385	665,385
Interest bearing loans and borrowings	21, 26 (b)	4,639	6,347	10,986	9,933
At 31 December 2007					
Trade and other payables	25	670,989	-	670,989	670,989
Interest bearing loans and borrowings	21, 26 (b)	2,920	1,385	4,305	4,121

d) Capital risk management

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

The valid Commercial Code of the Republic of Estonia establishes the following requirements regarding the share capital of companies registered in Estonia:

- A public limited company's share capital must be at least 400 thousand EEK;
- A public limited company's net assets must comprise at least half of the company's share capital, but it must not be less than 400 thousand EEK.

The size of the public limited company's share capital or its minimum and maximum capital is determined by the articles of association, whereas the size of the minimum capital must be at least ¼ of the maximum capital.

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Pursuant to the articles of association, the minimum share capital of AS Eesti Telekom is 735,000 thousand EEK and the maximum capital is 2,940,000 thousand EEK. As of 31.12.08 the share capital of AS Eesti Telekom was 1,379,545 thousand EEK (31.12.2007: 1,379,545 thousand EEK) and the net assets totalled 4,295,410 thousand EEK (31.12.2007: 4,314,359 thousand EEK). During the reporting period, the company's share capital and equity conformed to the requirements established by the Commercial Code.

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

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

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

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

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

The ratios at 31 December 2008 and 2007 were as follows:

	Notes	2008	2007
Total borrowings	20	9,933	4,121
Cash and cash equivalents and short-term financial investments (-)	17, 18	(863,099)	(1,090,818)
Net debt		(853,166)	(1,086,697)
Total equity		4,295,410	4,314,359
Gearing ratio		(20%)	(25%)
Net profit		1,438,265	1,511,548
Average total assets		5,011,066	4,917,317
ROA		29%	31%
Profit before tax		1,824,177	1,882,445
Average total equity		4,304,885	4,213,869
ROE		42%	45%

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

e) Fair value

The fair value of cash and cash equivalents, receivables, financial lease and instalment claims, loans and debt obligations does not differ significantly from their carrying amounts, since the Group lacks long-term receivables and liabilities with interest rates that differ from the market interest rates.

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29. Cash flows from operating activities

	Notes	Year ended 31 December	
		2008	2007
Cash flows from operating activities			
Net profit for the period		1,438,265	1,511,548
Adjustments for:			
Depreciation, amortization and impairment of fixed and intangible assets	4 (e), 6, 8	575,650	496,282
Profit from sales and write-off of property, plant and equipment and intangible assets	4 (d)	(13,211)	(12,638)
Share of profit/(loss) from associates		2,847	3,817
Provisions		(3,920)	(2,811)
Other net financing items		(42,268)	(46,671)
Corporate income tax		(270)	-
Miscellaneous non-cash items		2,864	554
Operating cash flows before changes in working capital		1,959,957	1,950,081
Change in current receivables		(11,086)	(76,497)
Change in inventories		10,751	(38,043)
Change in current liabilities		(25,449)	16,476
Change in working capital		(25,784)	(98,064)
Cash generated from operations		1,934,173	1,852,017
Interest received		54,078	52,047
Interest paid		(5,249)	(2,063)
Net cash from operating activities		1,983,002	1,902,001

30. Related party transactions

Transactions with related parties are transactions with ultimate parent company, associates, shareholders, key management, supervisory council, their relatives and the companies in which they hold majority interest.

a) Name and relationship of related party

Name	Relationship with Eesti Telekom Group
Key management, supervisory council and their relatives	
List of associates is shown in Note 11	
Enterprises of TeliaSonera AB Group	Parent company, shareholder
State Government (State Chancellery and ministries)	Shareholder
Companies where supervisory council members of the Group have significant influence	

b) Key managements' and supervisory councils' remuneration

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

	2008	2007
Salaries and other short-term employee benefits	48,997	52,267
Termination benefits	1,011	3,912
Other	325	483
	50,333	56,662

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c) Transactions with related parties

No impairment losses have been recognised in 2008 and 2007 for the receivables to related parties.

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

	2008	2007
Telecommunication services provided and goods sold		
Associated companies	3,761	4,534
TeliaSonera AB	149,399	138,060
State Government (State Chancellery and ministries)	33,002	25,490
Companies where supervisory council members of the Group have significant influence	1,019	504
	187,181	168,588
Other sales		
Associated companies	-	4,514
State Government (State Chancellery and ministries)	3,033	10,346
Companies where supervisory council members of the Group have significant influence	-	62
	3,033	14,922
Telecommunication services purchased		
Associated companies	508	377
TeliaSonera AB	135,652	163,631
	136,160	164,008
Other services purchased		
Associated companies	56	39
State Government (State Chancellery and ministries)	34,778	13,015
Companies where supervisory council members of the Group have significant influence	1,465	791
	36,299	13,845
Amounts owed by related parties		
Associated companies	309	206
TeliaSoera AB	23,877	21,024
State Government (State Chancellery and ministries)	2,208	1,780
Companies where supervisory council members of the Group have significant influence	44	43
	26,438	23,053
Amounts owed to related parties		
Associated companies	131	126
TeliaSonera AB	11,249	27,076
State Government (State Chancellery and ministries)	246	261
Companies where supervisory council members of the Group have significant influence	37	43
Key management and supervisory council	13,800	17,385
	25,463	44,891

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31. Contingencies

a) Contingent income tax liability

The consolidated retained earnings of AS Eesti Telekom as at 31 December 2008 amounted to 2,413,843 (31 December 2007: 2,429,361) thousand EEK. As from 1 January 2009 income tax of 21/79 of net dividend paid (up to 31 December 2008: 21/79) is imposed on the profit distributed as dividends. Thus, the retained earnings as at 31 December 2008 that can be paid out as dividends to the shareholders, amount to 1,906,936 thousand EEK and the corresponding income tax would amount to 506,907 thousand EEK. As at 31 December 2007 it would have been possible to pay out dividends to the shareholders in the amount of 1,919,195 thousand EEK and the corresponding income tax would have amounted to 510,166 thousand EEK.

b) Other contingent liabilities

	2008	2007
Key management termination benefits	25,452	19,960

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

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

The tax authority has the right to verify the Group's tax records up to 6 years from the time of submitting the tax declaration and upon establishing errors to impose additional taxes, interest and fines.

Group's management estimates that there are no circumstances, which may lead the tax authorities to impose additional significant taxes on the Group.

c) Relations with the regulator

• **Dispute concerning fee for voice call termination on mobile networks**

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

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

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.

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32. Employees

The average number of employees during 2008 was 2,341 and during 2007 - 2,327.

33. Economic crisis impact

The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing financial crisis is proving to be impossible to anticipate or completely guard against.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

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34. Supplementary disclosures on the parent company of the Group

INCOME STATEMENT OF THE PARENT COMPANY

	2008	2007
Revenue	13,216	8,325
Gross profit	13,216	8,325
Administrative expenses	(27,586)	(27,043)
Other operating revenues and expenses, net	(210)	202
Gross loss	(14,580)	(18,516)
Net income from subsidiaries	1,320,000	1,315,000
Other net financing items	25,513	24,051
Profit before tax	1,330,933	1,320,535
Income tax on dividends	(30,751)	-
Net profit for the period	1,300,182	1,320,535

BALANCE SHEET OF THE PARENT COMPANY

	Year ended 31 December	
	2008	2007
ASSETS		
Non-current assets		
Property, plant and equipment	151	168
Intangible assets	-	17
Investments in subsidiaries	1,473,983	1,428,383
Total non-current assets	1,474,134	1,428,568
Current assets		
Trade and other receivables	407,389	486,645
Short-term financial investments	-	28,183
Total current assets	407,389	514,828
TOTAL ASSETS	1,881,523	1,943,396
EQUITY AND LIABILITIES		
Equity		
Share capital	1,379,545	1,379,545
Share premium	356,018	356,018
Statutory legal reserve	137,955	137,955
Retained earnings / (losses)	(93,852)	54,489
Total equity	1,779,666	1,928,007
Current liabilities		
Current interest-bearing liabilities to subsidiaries	89,493	-
Trade and other payables	12,364	11,514
Retirement benefit obligations	-	3,875
Total current liabilities	101,857	15,389
Total liabilities	101,857	15,389
TOTAL EQUITY AND LIABILITIES	1,881,523	1,943,396

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STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

	Share capital	Share premium	Statutory legal reserve	Retained earnings	Total equity
1 January 2007	1,379,545	356,018	137,955	44,522	1,918,040
Dividends paid	-	-	-	(1,310,568)	(1,310,568)
<i>Total changes</i>	-	-	-	(1,310,568)	(1,310,568)
Net profit for the period	-	-	-	1,320,535	1,320,535
31 December 2007	1,379,545	356,018	137,955	54,489	1,928,007
The carrying value of investments in subsidiaries	-	-	-	-	(1,428,383)
The carrying value of investments in subsidiaries, if equity method had been applied	-	-	-	-	3,803,255
Adjusted equity as at 31 December 2007	-	-	-	-	4,302,879
1 January 2008	1,379,545	356,018	137,955	54,489	1,928,007
Dividends paid	-	-	-	(1,448,523)	(1,448,523)
<i>Total changes</i>	-	-	-	(1,448,523)	(1,448,523)
Net profit for the period	-	-	-	1,300,182	1,300,182
31 December 2008	1,379,545	356,018	137,955	(93,852)	1,779,666
The carrying value of investments in subsidiaries	-	-	-	-	(1,473,983)
The carrying value of investments in subsidiaries, if equity method had been applied	-	-	-	-	3,981,692
Adjusted equity as at 31 December 2008	-	-	-	-	4,287,375

The adjusted equity is the basis for the determination of distributable equity according to the Estonian Commercial Code.

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CASH FLOW STATEMENT OF THE PARENT COMPANY

	2008	2007
Operating activities		
Net profit for the period	1,300,182	1,320,535
Adjustments for:		
Depreciation and amortization	27	37
(Profit) / loss from sales of property, plant and equipment and intangible assets	25	(240)
Provisions	(3,917)	(3,171)
Other net financing items	1,876	5,772
Operating cash flows before changes in working capital	1,298,193	1,322,933
Change in current receivables	4,015	
Change in current liabilities	21	4,308
Change in working capital	4,036	506
Net cash from operating activities	1,302,229	1,323,439
Investing activities		
Purchase of property, plant and equipment and intangible assets	(30)	-
Proceeds from sale of property, plant and equipment and intangible fixed assets	13	273
Acquisition of subsidiaries	(45,600)	(111,000)
Net cash changes of short-term financial investments	28,183	247,949
Net cash changes of interest-bearing receivables	74,158	(150,174)
Net cash used in investing activities	56,724	(12,952)
Cash flow before financing activities	1,358,953	1,310,487
Financing activities		
Dividends paid	(1,448,523)	(1,310,568)
Net cash changes of short-term interest-bearing liabilities	89,493	-
Net cash used in financing activities	(1,359,030)	(1,310,568)
Net change in cash and cash equivalents	(77)	(81)
Cash and cash equivalents at beginning of year	-	-
Net change in cash and cash equivalents	(77)	(81)
Effect of foreign exchange rate changes	77	81
Cash and cash equivalents at end of year	-	-

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Eesti Telekom

We have audited the accompanying consolidated financial statements of AS Eesti Telekom and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Ago Vilu
AS PricewaterhouseCoopers



Madis Jääger
Authorised Auditor

24 March 2009

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

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

The Management Board has prepared the management report and the consolidated financial statements of AS Eesti Telekom for the financial year ended 31 December 2008 on 23 March 2009.

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

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

<i>Name</i>	<i>Position</i>	<i>Signature</i>	<i>Date</i>
<i>Members of the Management Board</i>			
Valdo Kalm	<i>Chairman of the Board</i>		<u>26.03.09</u>
Leho Tamm	<i>Member of the Board</i>		<u>26.03.09</u>
Valdur Laid	<i>Member of the Board</i>		<u>26.03.09</u>
Enn Saar	<i>Member of the Board</i>		<u>26.03.09</u>
<i>Members of the Supervisory Council</i>			
Mats Salomonsson	<i>Chairman of the Council</i>		<u>26.03.09</u>
Lars Gunnar Klasson	<i>Member of the Council</i>		<u>26.03.2009</u>
Jörgen Latte	<i>Member of the Council</i>		<u>26.03.2009</u>
Tarmo Porgand	<i>Member of the Council</i>		<u>26.03.09</u>
Jüri Raatma	<i>Member of the Council</i>		<u>26.03.09</u>
Aare Tark	<i>Member of the Council</i>