

EestiTelekom

*Consolidated
Interim Report of
AS Eesti Telekom
III Quarter and
the first nine months 2008*

24 October 2008

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT

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

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MANAGEMENT REPORT

Management's commentary: Customer growth in mobility and broadband segment. EBITDA continued to be stable. Compared to the same period last year, turnover was affected by a decrease in the interconnection fees charged between mobile operators.

Significant financial indicators

Eesti Telekom Group

	Q3 2008	Q3 2007	Change, %	9 mos. 2008	9 mos. 2007	Change, %
Total revenues, million EUR	100.1	103.1	-2.9	295.1	299.8	-1.6
EBITDA, million EUR	40.2	40.1	0.1	116.2	112.5	3.3
Margin, %	40.1	38.9		39.4	37.5	
EBIT, million EUR	30.8	32.2	-4.4	88.6	89.2	-0.7
Margin, %	30.7	31.2		30.0	29.8	
EBT, million EUR	31.0	32.5	-4.6	91.0	91.2	-0.2
Net profit for the period, million EUR	31.0	32.5	-4.6	66.4	67.5	-1.7
EPS, EUR	0.22	0.23	-4.6	0.48	0.49	-1.5
CAPEX, million EUR	10.9	13.4	-18.6	30.3	32.7	-7.4
Net gearing, %	-13.1	-20.1				
ROA, %	30.8	30.7				
ROE, %	45.9	45.8				

Mobile communications segment

	Q3 2008	Q3 2007	Change, %	9 mos. 2008	9 mos. 2007	Change, %
Total revenues, million EUR	61.7	67.1	-8.0	177.6	186.2	-4.7
EBITDA, million EUR	24.5	24.9	-1.6	68.8	70.0	-1.7
Margin, %	39.6	37.0		38.7	37.6	
EBIT, million EUR	20.2	21.4	-5.4	56.3	59.7	-5.7
Margin, %	32.7	31.8		31.7	32.1	
EBT, million EUR	20.3	21.3	-4.8	57.5	60.4	-4.9
Net profit for the period, million EUR	20.3	21.3	-4.8	43.3	44.5	-2.6
CAPEX, million EUR	4.5	4.4	0.8	12.7	12.6	0.6
ROA, %	43.9	52.2				
ROE, %	74.5	87.3				

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Broadband services segment

	Q3 2008	Q3 2007	Change, %	9 mos. 2008	9 mos. 2007	Change, %
Total revenues, million EUR	56.6	49.3	14.8	156.9	140.8	11.4
EBITDA, million EUR	15.8	14.9	5.7	47.3	42.7	10.7
Margin, %	27.9	30.3		30.1	30.3	
EBIT, million EUR	11.1	11.0	1.1	33.4	30.9	8.0
Margin, %	19.6	22.2		21.3	22.0	
EBT, million EUR	10.9	16.9	-35.7	33.4	36.7	-8.9
Net profit for the period, million EUR	10.9	16.9	-35.7	25.0	29.0	-13.9
CAPEX, million EUR	6.2	8.7	-28.0	16.7	19.0	-12.0
ROA, %	19.9	21.8				
ROE, %	33.5	35.9				

IT services segment

	Q3 2008	Q3 2007	Change, %	9 mos. 2008	9 mos. 2007	Change, %
Total revenues, million EUR	4.7	5.8	-19.0	15.3	17.5	-12.5
EBITDA, million EUR	0.1	0.6	-79.8	0.8	0.9	-6.0
Margin, %	2.5	10.1		5.3	5.0	
EBIT, million EUR	-0.3	0.2	N/A	-0.4	-0.1	-161.8
Margin, %	-5.9	4.3		-2.3	-0.8	
EBT, million EUR	-0.3	0.2	N/A	-0.4	0.3	N/A
Net profit for the period, million EUR	-0.3	0.2	N/A	-0.4	0.3	N/A
CAPEX, million EUR	0.2	1.2	-79.2	0.9	1.9	-53.9
ROA, %	-2.6	3.4				
ROE, %	-7.0	4.4				

Sales revenues, operating costs, and profit

The Eesti Telekom Group trends of the first two quarters of 2008 also continued in the third quarter. **The sales revenues** of the Group in the third quarter of 2008 reached 100.1 million EUR (3rd quarter 2007: 103.1 million EUR), and is primarily affected by the reduction in interconnection fees (for the period from 1 July 2008 to 30 June 2009, the interconnection fees in mobile phone networks were fixed at 0.09 EUR instead of the former 0.11 EUR).

In the mobile communications services segment, the consolidated **turnover** reached 61.7 million EUR, decreasing by 8% compared to the third period of 2007 (3rd quarter 2007: 67.1 million EUR). The drop in total revenues was caused by a reduction in interconnection revenues resulting from the decrease in interconnection prices, which was partially compensated by growth in the number of terminated call minutes, the growth of mobile data communications, and the growth of subcontracted services volumes. In addition, in the third quarter the revenues received from the retailing and wholesaling of telecommunications merchandise decreased compared to a year ago, which is caused by changes in consumer behavior.

At the end of the third quarter of 2008, the EMT client base was 18 thousand users more than at the end of the third quarter of last year, reaching 777 thousand active SIM cards (September 2007: 759 thousand cards). Compared with a year ago, the number of contractual clients has increased by 19 thousand, reaching 484 thousand by the third quarter of 2008, while at the same time, the number of active users of pre-paid cards decreased by one thousand during the year, to 293 thousand by the end of the third quarter. EMT

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assesses its market share based on active SIM cards to be 47%. The estimated penetration of active cards in Estonia is 122%. The increase in the call minutes initiated by EMT clients remained at 1% compared to the third quarter of last year.

Pursuant to the resolution of the Communications Board, a termination fee for voice calls in the mobile phone networks (interconnection fees) for AS EMT, Elisa Eesti AS and Tele2 Eesti AS for the period 1 July 2006 to 30 June 2007 was fixed at 0.13 EUR per minute, and for the period 1 July 2007 to 30 June 2008 was fixed at 0.11 EUR. Since Elisa Eesti AS and Tele2 Eesti AS disputed the decisions in court, and in the course of provisional legal protection, the validity of the aforementioned administrative act was suspended, the interconnection fees of all three mobile operators remained at 0.16 EUR until 5 November 2007. On 5 November 2007, the ruling of the Tallinn Circuit Court came into force, whereby the provisional legal protection was cancelled and all three mobile operators were obligated to apply interconnection fees of 0.11 EUR. Litigation by Elisa Eesti AS and Tele2 with the Communications Board is continuing, and EMT is participating in the litigation as a third party. For the period of 1 July 2008 – 30 June 2009, the Competition Board, which is the legal successor to the Communications Board, established a fee of 0.09 EUR per minute for the termination of voice calls for AS EMT, Elisa Eesti AS and Tele2 Eesti AS in their mobile phone networks.

The revenues received from mobile Internet continued to show very rapid growth. In the third quarter of this year, EMT revenues from mobile data communications exceeded the revenues for the same period in 2007 by half. At the same time, the volumes of transmitted data volumes redoubled. In September 2008, the number of mobile data communications users was 153 thousand, which is 34 thousand more than last year. The increase in the popularity of mobile data communications is caused by the rapid expansion of the 3G coverage area, which allows the clients to use high-quality and high-speed data communications at conveniently controllable prices. The installation of new 3G base stations for the expansion of external and internal coverage occurred at an accelerated tempo primarily in vacation districts. In addition, EMT is the only one in Estonia to provide EDGE data communications at speeds up to 200 kbps throughout its GSM coverage area.

A European Parliament and Council of Europe regulation applies to AS EMT, as it does to other mobile operators in the European Community, pursuant to which, as of September 2007 the rate per minute for outgoing calls made or calls terminated within the borders of the European Community cannot exceed the maximum price established by the regulation. In addition, in the third quarter, discount contracts for roaming service came into force causing reductions in both the revenues from and costs of roaming. Therefore, the revenues received from roaming clients in the third quarter decreased by almost 25%.

The sales revenues for the broadband services segment increased in the third quarter by 15%, reaching 56.6 million EUR (3rd quarter 2007: 49.3 million EUR). The largest increase in revenues came from the sale of subcontracted services, which increased by 140% or 5.3 million EUR. Revenues from subcontracted services grew primarily due to increases in minute volumes and significant increases in the sales volumes of brokered sub-services. In the last quarter, revenues increased from international interconnection services by 65%, which included an increase of 215% in the revenues for international call transit. At the same time, the revenues for call services earned from end consumers decreased by 10% due to the drop in minute volumes.

In the third quarter, the total number of Elion clients with permanent connections increased by 3,600 connections, reaching 172 thousand (30 September 2007: 157 thousand). The company estimates that its market share based on clients with permanent connections is 54%.

In the last quarter, the trend in connection fees for broadband services continued of the clients replacing individual services with comprehensive service packages. Compared to last year, the revenues for the broadband services segment increased 26% from the connection fees for service packages. As a result of a successful marketing campaign, the number of triple-package users increased during the quarter by 7,500, reaching 70.3 thousand as of September 30th (30 September 2007: 44.8 thousand). By the end of the third quarter, Elion had 75.4 thousand IP- and cable television clients (30 September 2007: 48.4 thousand).

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To guarantee the continued popularity of the triple package, as of September, Elion is the only television service provider in Estonia to provide digiTV totally in Russian. All the Elion digiTV menus, schedules for the Russian-language channels and most popular Estonian and international channels, screen notices and introduction of the films offered for video rental are also available in Russian. Also many well-known Russian films have been added to the digiTV video rental selection. The goal of the innovations is to make digiTV even more user friendly for Russian-speaking clients and to provide clients with diversified entertainment.

As of October 1st, two new channels were added to the Elion digiTV basic package, diversified the choice of channels in the theme packages, and equalized the monthly fees of all the theme packages, except for the Entertainment theme package to 2.24 EUR per month.

Based on the significant increase of the ratio of the volume and revenues of the comprehensive packages, the revenues from monthly fees for call connections and Internet connections in the last quarter fell by 11% and 13% respectively compared to the same period of last year. At the same time, the revenue earned from the sale of comprehensive packages considerably exceeds the given decrease.

By the end of the third quarter, the number of Elion's active call interfaces totaled 471.3 thousand (30 September 2007: 470.2 thousand interfaces), remaining stable at the same level for the last four quarters.

Elion assesses its market share for call minutes initiated in the fixed network to be 80.4% (September 2007: 82%). The market share for local call minutes is 82% (September 2007: 84%), 67% for international call minutes 67% (September 2007: 65%) and 70.8% for call minutes made to mobile phones (September 2007: 69.5%).

Pursuant to the resolution of the Competition Board, as of 1 August 2008, Elion reduced the monthly fee for the rental of copper pairs by 0.13 EUR and the rental fee for selected copper pairs by 0.19 EUR, which had not significant effect on Elion's results. In July, the Competition Board also terminated the proceeding investigating the fees for the wholesale service of Elion's permanent lines and approved the fees.

In August, the Competition Board approved all the currently valid regulated prices (interconnection fees, fees for copper pair access, and fees for broadband access).

Sales revenues for the IT services segment reached 4.7 million EUR in the third quarter of 2008 (3rd quarter 2007: 5.8 million EUR). Compared to the same period last year, sales revenues decreased by 19%, whereas the sales revenues for IT services remained the same and decreased by 37% for IT merchandise.

Several large procurements in the private sector (finance and energy fields) affected the sales results for infrastructure solutions. In the third quarter, the "Laptops for Teachers" procurement organized by the Tiger's Leap Foundation was won by a bid from AS MicroLink Eesti. Within the framework of the procurement, 4,000 teachers will get new laptop computers. The HP laptops will be delivered within this calendar year. The cost of the transaction is more than 2.2 million EUR.

In the third quarter, all the large projects in the project business continued—the e-health project (patient portal, digital pictures and digital prescriptions), Estonian Post's document management project, and the North-Estonian Regional Hospital identity management project.

In the field of regular services, AS MicroLink Eesti won two important public procurements in the third quarter—the procurement for the purchase of a hosting environment for digital prescriptions organized by the Ministry of Social Affairs (provision of service during four years at a total cost of 2.3 million EUR) 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 0.1 million EUR). The procurement for

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IT maintenance services organized by the Ministry of Social Affairs was cancelled and will be organized again.

The operating costs of the Eesti Telekom Group decreased by 5% in the third quarter of 2008 compared to the same period in 2007, reaching 60.1 million EUR (3rd quarter 2007: 63.4 million EUR).

The operating costs in the mobile communications services segment decreased by 12 % compared to the third quarter of 2007 reaching 37.4 million EUR (3rd quarter 2007: 42.4 million EUR). Interconnection costs have decreased the most in connection with decreased interconnection prices. The operating costs related to retail and wholesale trading have also decreased, which is in line with the decrease in the sales turnover for trading. In connection with the decrease in the interconnection fees between telecommunications operators and a decrease in the relative importance of low-profitability, the operating profit margin has increased.

The operating costs in the broadband services segment increased by 18% in the last quarter compared to the same period in 2007, reaching 40.8 million EUR (3rd quarter 2007: 34.7 million EUR). Of the increase in operating costs, 84% resulted directly from an increase in the direct sales costs of subcontracted services, international interconnection fees and increased sales volumes for triple packages. Another primary growth factor for operating costs was personnel costs, which increased by 10% compared to last year. At the same time, the direct sales costs for call services to end consumers decreased by 43% based on the reduction of call volumes. Due to smaller sales volumes, sales costs for retailing also decreased by 16%.

The operating costs in the IT services segment decreased in the third quarter by 12%, reaching 4.6 million EUR (3rd quarter 2007: 5.2 million EUR).

The Eesti Telekom Group EBITDA in the third quarter of 2008 reached 40.2 million EUR, which is slightly more than in the third quarter of 2007 (3rd quarter 2007: 40.1 million EUR). EBITDA in the mobile communications services segment decreased in the first quarter by 2% compared to the same period last year. EBITDA in the broadband services segment increased by 6% and in the IT services segment the increase was 0.1 million EUR in the third quarter of 2008 (3rd quarter 2007: 0.6 million EUR). The Group's EBITDA margin in the third quarter of 2007 was 40%, which is slightly higher than the margin for the corresponding period in 2007.

The Group's depreciation cost reached 9.4 million EUR in the third quarter of 2008, increasing by 19% compared to the same period in 2007 (3rd quarter 2007: 7.9 million EUR).

In the third quarter, the **Eesti Telekom Group** earned an **EBIT** of 30.8 million EUR, which decreased by 4% compared to the same period last year (3rd quarter 2007: 32.2 million EUR). The Group's **(net) financial revenues** decreased 27 % in the third quarter reaching 0.3 million EUR (3rd quarter 2007: 0.4 million EUR). In the third quarter, the Eesti Telekom Group earned **pre-tax profits** of 31.0 million EUR (3rd quarter 2007: 32.5 million EUR). On 1 July 2007, Elion Enterprises sold its shares in AS MicroLink Eesti to AS Eesti Telekom. The Group's internal unrealized profit from the sale of the shares was 6.0 million EUR.

In the third quarter of 2008, the **Eesti Telekom Group net profit** was 31.0 million EUR (3rd quarter 2008: 32.5 million EUR). The profit per share was 0.22 EUR (3rd quarter 2007: 0.23 EUR).

Balance sheet and cash flows

As of 30 September 2008, the Eesti Telekom Group balance sheet totaled 287.6 million EUR (31 December 2007: 321.0 million EUR). Compared to the beginning of the year, fixed assets have increased by 1.2 million EUR, thereby bringing the depreciated value at the end of the third quarter to 176.9 million EUR. In nine months, the Group's current assets have decreased by 34.6 million EUR, reaching 110.7 million EUR by the end of September (31 December 2007: 145.3 million EUR). The depreciated value of cash and cash equivalents as well as short-term financial investments has decreased by 37.1 million EUR in connection with the dividends paid out in June and the income tax on dividends paid in July.

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As of 30 September 2008, the Eesti Telekom Group equity was 249.1 million EUR, which is 26.7 million EUR less than at the end of 2007 (31 December 2007: 275.7 million EUR). The equity has decreased due to the payment of dividends.

At the end of September, the Group had long-term obligations totaling 1.7 million EUR (31 December 2007: 1.6 million EUR) and short-term debt obligations of 36.8 million EUR (31 December 2007: 43.7 million EUR).

The net debt of the Eesti Telekom Group at the end of the third quarter was -32.5 million EUR and the net debt to equity ratio was -13% (31 December 2007: -69.5 million EUR and -25%).

The Eesti Telekom Group nine-month cash flow from operations in 2008 was 85.5 million EUR (9 months of 2007: 78.8 million EUR). The Group's cash flow from investments was -4.3 million EUR (9 months of 2007: 9.7 million EUR). The cash flow into tangible and intangible fixed assets in the first nine months was 30.3 million EUR (9 months of 2007: 32.7 million EUR). During the nine months of 2008, the mobile communications services segment has invested 12.7 million EUR (9 months of 2007: 12.6 million EUR). In mobile communications, in addition to the constant development of the GSM network, a large development field was the implementation of technologies supporting high-speed data communications. During the first nine months of 2008, the investments in the broadband services segment reached 16.7 million EUR (9 months of 2007: 19.0 million EUR). The majority of the investments continue to be made to improve the quality of service for the triple package, increase accessibility, and to develop the necessary network resources (IP core and fiber-optic cable networks). During the nine months of 2008, the IT services segment invested 0.9 million EUR into fixed assets (9 months of 2007: 1.9 million EUR).

The Eesti Telekom Group cash flow from financing activities in the first nine months was 93.1 million EUR, from which 93.1 million EUR was used to pay dividends (9 months of 2007: 83.8 million EUR and 83.8 million EUR respectively).

Ownership structure of AS Eesti Telekom

In the third quarter of 2008, no significant changes occurred in the shareholder structure of AS Eesti Telekom. TeliaSonera AB, the major shareholder of Eesti Telekom (through Baltic Tele AB), continues to own 60.12% of the company's shares.

As of the end of the third quarter, 12.71% of the total shares were freely traded. Of these, 17.29% were converted into GDRs traded on the London Stock Exchange.

As of 30 September 2008, the largest shareholders of AS Eesti Telekom were:

	Number of securities	Participation
TeliaSonera AB	82,936,299	60.12%
Republic of Estonia	33,346,464	24.17%
Estonian Development Fund	4,138,636	3.00%
Deutsche Bank Trust Company (GDR accounts)	3,031,797	2.20%
ING Luxembourg S. A.	2,015,783	1.46%
Skandinaviska Enskilda Banken AB clients	1,387,709	1.01%
Danske Bank clients	1,070,739	0.78%
Bank Austria Creditanstalt AG clients	721,370	0.52%
Clearstream Banking Luxembourg clients	611,836	0.44%
New York Mellon Treaty Omnibus Bank	392,152	0.28%

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Changes in the structure of the Eesti Telekom Group

In August, AS MicroLink Eesti decided to acquire a majority share in the IT Koolituskeskuse (Training Center) OÜ. The transaction will most probably be completed in October. The acquisition of the training company will provide MicroLink with the opportunity to provide high-quality training and consulting services to clients and partners in various cooperation projects. The company also planning to start providing its services in the three Baltic countries again and the client base of the IT Koolituskeskus, along with its sales units in Latvia and Lithuania, provide better opportunities for growth in these markets.

Definitions

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

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

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

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CONSOLIDATED QUARTERLY DATA

In million of EUR

	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
Sales	103.1	100.3	94.9	100.1	100.1
OPEX	(63.4)	(64.2)	(58.3)	(61.4)	(60.1)
Other revenue/expenses, net	0.5	0.7	0.3	0.4	0.2
EBITDA	40.1	36.8	36.8	39.2	40.2
Depreciation and amortisation	(7.9)	(8.4)	(8.9)	(9.3)	(9.4)
EBIT	32.2	29.4	27.9	29.9	30.8
Income / expenses from associates	-	(0.1)	(0.1)	(0.1)	-
Other net financing items	0.4	0.8	1.1	1.3	0.3
Profit before tax	32.5	30.1	28.9	31.1	31.0
Income tax on dividends	-	-	-	(24.7)	-
Net profit for the period	32.5	30.1	28.9	6.5	31.0
Minority interest	0.1	0.1	0.1	0.0	0.1
EBITDA margin, %	38.91%	36.72%	38.83%	39.13%	40.12%
EBIT margin, %	31.24%	28.26%	29.37%	29.87%	30.74%
Net margin, %	31.55%	28.98%	30.45%	6.48%	30.98%
Total assets	288.1	321.0	341.4	288.6	287.6
- Non-current assets	162.1	175.7	174.2	176.1	176.9
- Current assets	126.0	145.3	167.2	112.4	110.7
- Cash and cash equivalents and short-term investments	49.9	69.7	90.2	31.2	32.6
Equity and liabilities	288.1	321.0	341.4	288.6	287.6
- Equity	246.7	275.7	304.6	218.0	249.1
- Provisions	2.0	2.1	2.0	1.8	2.0
- Non-current liabilities	0.1	0.1	0.0	0.1	0.1
- Interest-bearing borrowings	0.1	0.1	0.0	0.0	0.0
- Current liabilities	39.4	43.1	34.7	68.6	36.5
- Interest-bearing borrowings	0.1	0.2	0.2	0.2	0.1

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III QUARTER CONSOLIDATED INCOME STATEMENT

In thousand of EUR

	Notes	III Quarter 2008	III Quarter 2007
Net sales	2.1(a)	100,088	103,054
Cost of production	2.1(a)	(56,028)	(57,216)
Gross profit		44,060	45,838
Sales, administrative, and research & development expenses	2.1(a)	(13,508)	(14,105)
Other operating revenues	2.1(a)	344	548
Other operating expenses	2.1(a)	(133)	(84)
Operating profit		30,763	32,197
Finance income		284	418
Finance costs		(24)	(67)
Finance income, net	2.1(a)	260	351
Net income / (expenses) from associated companies	2.1(a)	(17)	(39)
Profit before tax		31,006	32,509
Income tax on dividends		-	-
Net profit for the period	2.1(a)	31,006	32,509
Attributable to:			
Equity holders of the parent	2.1(a)	30,920	32,405
Minority interest	2.1(a)	86	104
		31,006	32,509
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EUR)			
	7 (e)		
Basic earnings per share		0.22	0.23
Diluted earnings per share		0.22	0.23
EBITDA	2.1(a)	40,150	40,096
Depreciation, amortization and write-downs	2.1(a), 3	(9,387)	(7,899)

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THE FIRST NINE MONTHS CONSOLIDATED INCOME STATEMENT

In thousand of EUR

	Notes	9 months to 30 September 2008	9 months to 30 September 2007	2007
Net sales	2.1(b), 2.3	295,076	299,835	400,151
Cost of production	2.1(b)	(165,428)	(167,225)	(226,426)
Gross profit		129,648	132,610	173,725
Sales, administrative, and research & development expenses	2.1(b)	(42,028)	(44,119)	(57,521)
Other operating revenues	2.1(b)	1,257	948	1,797
Other operating expenses	2.1(b)	(313)	(233)	(404)
Operating profit		88,564	89,206	117,597
Finance income		2,736	2,309	3,108
Finance costs		(99)	(116)	(150)
Finance income, net	2.1(b)	2,637	2,193	2,958
Net income / (expenses) from associated companies	2.1(b)	(176)	(155)	(244)
Profit before tax		91,025	91,244	120,311
Income tax on dividends	2.1(b)	(24,652)	(23,705)	(23,705)
Net profit for the period	2.1(b)	66,373	67,539	96,606
Attributable to:				
Equity holders of the parent	2.1(b)	66,197	67,233	96,194
Minority interest	2.1(b)	176	306	412
		66,373	67,539	96,606
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EUR)	7 (e)			
Basic earnings per share		0.48	0.49	0.70
Diluted earnings per share		0.48	0.49	0.70
EBITDA	2.1(b)	116,170	112,478	149,315
Depreciation, amortization and write-downs	2.1(b), 3	(27,606)	(23,272)	(31,718)

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT

CONSOLIDATED BALANCE SHEET

In thousand of EUR

	Notes	30 September 2008	31 December 2007	30 September 2007
ASSETS				
Non-current assets				
Property, plant and equipment	3	157,540	153,715	141,283
Intangible fixed assets	3	12,570	13,807	12,386
Investments in associates	2.2, 5	682	858	947
Other financial fixed assets		6,125	7,352	7,477
Total non-current assets	2.2	176,917	175,732	162,093
Current assets				
Assets classified as held-for-sale		-	111	98
Inventories	6	12,526	11,989	11,214
Trade and other receivables		65,534	63,460	64,868
Short-term investments		19,173	44,357	26,421
Cash and cash equivalents		13,456	25,359	23,440
Total current assets	2.2	110,689	145,276	126,041
TOTAL ASSETS	2.2	287,606	321,008	288,134
EQUITY AND LIABILITIES				
Capital and reserves attributable to equity holders of the parent				
Share capital	7	88,169	88,169	88,169
Share premium		22,753	22,753	22,753
Statutory legal reserve		8,817	8,817	8,817
Retained earnings		62,688	59,071	59,071
Net profit for the period		66,197	96,194	67,233
Total capital and reserves attributable to equity holders of the parent		248,624	275,004	246,043
Minority interest	2.2, 7	428	733	627
Total equity		249,052	275,737	246,670
Non-current liabilities				
Interest bearing loans and borrowings	8	2	85	105
Retirement benefit obligations	9	156	208	224
Provisions	10	1,437	1,321	1,310
Non-interest bearing liabilities		123	-	1
Total non-current liabilities	2.2	1,718	1,614	1,640
Current liabilities				
Trade and other payables		36,349	42,885	39,238
Interest bearing loans and borrowings	8	117	178	146
Retirement benefit obligations	9	64	308	302
Provisions	10	306	286	138
Total current liabilities	2.2	36,836	43,657	39,824
Total liabilities		38,554	45,271	41,464
TOTAL EQUITY AND LIABILITIES	2.2	287,606	321,008	288,134

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT
CONSOLIDATED CASH FLOW STATEMENT

In thousand of EUR

	Notes	9 months to 30 September 2008	9 months to 30 September 2007
Operating activities			
Net profit for the period		66,373	67,539
Adjustments for:			
Depreciation, amortisation and impairment of fixed and intangible assets	3	27,606	23,272
(Profit) / loss from sales and discards of fixed assets		(390)	(964)
Net (income) / expenses from associated companies		176	155
Provisions		(160)	(328)
Financial items		(4,654)	(4,066)
Miscellaneous non-cash items		(19)	582
Cash flow before change in working capital		88,932	86,190
Change in current receivables		(1,359)	(7,092)
Change in inventories		(977)	(2,097)
Change in current liabilities		(6,434)	(2,884)
Change in working capital		(8,770)	(12,073)
Cash flow after changes in working capital		80,162	74,117
Interest received		5,586	4,732
Interest paid		(246)	(81)
Cash flow from operating activities	2.2	85,502	78,768
Investing activities			
Intangible and tangible fixed assets acquired	2.2, 3	(30,278)	(32,684)
Intangible and tangible fixed assets divested		614	399
Net change in interest-receivables short maturities		25,184	43,474
Net cash changes of other long-term receivables		203	(1,494)
Cash flow from investing activities	2.2	(4,277)	9,695
Cash flow before financing activities		81,225	88,463
Financing activities			
Proceeds from non-convertible debts		-	12
Repayment of finance lease liabilities	8	(84)	(87)
Dividends paid	7(d)	(93,058)	(83,761)
Cash flow used in financing activities	2.2	(93,142)	(83,836)
Cash flow for the year	2.2	(11,917)	4,627
Cash and cash equivalents at beginning of year	2.2	25,359	20,733
Cash flow for the year	2.2	(11,917)	4,627
Effect of foreign exchange rate changes	2.2	14	(13)
Cash and cash equivalents at end of period	2.2	13,456	25,347

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT

STATEMENT OF CHANGES IN OWNERS' EQUITY

In thousand of EUR

	Attributable to equity holders of the Company					Total	Minority interest	Total equity
	Issued capital	Share premium	Statutory legal reserve	Retained earnings	Net profit for the period			
31 December 2006	88,169	22,753	8,817	59,143	83,689	262,571	321	262,892
Net profit for the 2006 transferred to retained earnings	-	-	-	83,689	(83,689)	-	-	-
Dividends paid (Note 7 d)	-	-	-	(83,761)	-	(83,761)	-	(83,761)
Net profit for the period	-	-	-	-	67,233	67,233	306	67,539
30 September 2007	88,169	22,753	8,817	59,071	67,233	246,043	627	246,670
31 December 2007	88,169	22,753	8,817	59,071	96,194	275,004	733	275,737
Net profit for the 2007 transferred to retained earnings	-	-	-	96,194	(96,194)	-	-	-
Dividends paid (Note 7 d)	-	-	-	(92,577)	-	(92,577)	(481)	(93,058)
Net profit for the period	-	-	-	-	66,197	66,197	176	66,373
30 September 2008	88,169	22,753	8,817	62,688	66,197	248,624	428	249,052

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

These financial statements are not audited.

This consolidated statement is signed by the management board for public disclosure on 23 October 2008.

2. Segment information

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

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

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

Managed IT-services – this segment operates IT services: system integration and infrastructure solutions; software development; ERP and business solutions; data communications and networking; central systems and data centre solutions; systems management and maintenance; end-user PC services and support; full IT outsourcing, with providing IT services and related value-added-services as well as provision of production, marketing and sales related services and goods. The company belonging to this business segment is AS MicroLink Eesti. Also AS MicroLink belonged up to 30 June 2007 to this business segment. From the 1st of July 2007 AS MicroLink merged with Elion Enterprises AS.

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

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

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

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

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT

NOTES TO FINANCIAL STATEMENTS

2.1 Primary reporting format – business segments

a) III Quarter income statement

In thousand of EUR

	Mobile telecommunications		Broadband services		Managed IT-services		Other activities		Eliminations		Consolidated	
	III Q 2008	III Q 2007	III Q 2008	III Q 2007	III Q 2008	III Q 2007	III Q 2008	III Q 2007	III Q 2008	III Q 2007	III Q 2008	III Q 2007
External net sales	47,700	55,771	49,467	44,082	2,921	3,201	-	-	-	-	100,088	103,054
Inter-segment net sales	14,014	11,338	7,171	5,249	1,749	2,562	241	136	(23,175)	(19,285)	-	-
Total net sales	61,714	67,109	56,638	49,331	4,670	5,763	241	136	(23,175)	(19,285)	100,088	103,054
Cost of production	(29,763)	(35,915)	(24,302)	(18,254)	(2,023)	(3,047)	-	-	60	-	(56,028)	(57,216)
Inter-segment cost of production	(7,031)	(5,547)	(14,449)	(12,417)	(398)	(248)	-	-	21,878	18,212	-	-
Gross profit	24,920	25,647	17,887	18,660	2,249	2,468	241	136	(1,237)	(1,073)	44,060	45,838
Sales, administrative and research & development	(4,429)	(4,062)	(6,077)	(7,447)	(2,461)	(2,097)	(457)	(415)	(84)	(84)	(13,508)	(14,105)
Inter-segment sales, administrative and research & development	(465)	(348)	(734)	(575)	(90)	(143)	(7)	(6)	1,296	1,072	-	-
Other operating revenues	303	193	12	335	29	20	-	-	-	-	344	548
Other operating expenses	(129)	(77)	(2)	(6)	(2)	(1)	-	-	-	-	(133)	(84)
Operating profit / (loss)	20,200	21,353	11,086	10,967	(275)	247	(223)	(285)	(25)	(85)	30,763	32,197
Other finance income, net	135	9	(190)	2	(17)	(43)	332	383	-	-	260	351
Income / (expenses) from subsidiaries and associated	(14)	(21)	(3)	5,970	-	-	-	-	-	(5,988)	(17)	(39)
Net profit / (loss) for the period	20,321	21,341	10,893	16,939	(292)	204	109	98	(25)	(6,073)	31,006	32,509
Attributable to:												
Equity holders of the parent	20,235	21,237	10,893	16,939	(292)	204	109	98	(25)	(6,073)	30,920	32,405
Minority interest	86	104	-	-	-	-	-	-	-	-	86	104
	20,321	21,341	10,893	16,939	(292)	204	109	98	(25)	(6,073)	31,006	32,509
EBITDA	24,451	24,850	15,803	14,947	119	584	(223)	(285)	-	-	40,150	40,096
Depreciation, amortization and write-downs	(4,251)	(3,497)	(4,717)	(3,980)	(394)	(337)	-	-	(25)	(85)	(9,387)	(7,899)

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

b) The first nine months income statement

In thousand of EUR

	Mobile telecommunications		Broadband services		Managed IT-services		Other activities		Eliminations		Consolidated	
	9 mos. to 30 Sept. 2008	9 mos. to 30 Sept. 2007	9 mos. to 30 Sept. 2008	9 mos. to 30 Sept. 2007	9 mos. to 30 Sept. 2008	9 mos. to 30 Sept. 2007	9 mos. to 30 Sept. 2008	9 mos. to 30 Sept. 2007	9 mos. to 30 Sept. 2008	9 mos. to 30 Sept. 2007	9 mos. to 30 Sept. 2008	9 mos. to 30 Sept. 2007
External net sales	145,233	160,315	139,282	127,691	10,561	11,829	-	-	-	-	295,076	299,835
Inter-segment net sales	32,321	25,923	17,582	13,123	4,727	5,640	773	155	(55,403)	(44,841)	-	-
Total net sales	177,554	186,238	156,864	140,814	15,288	17,469	773	155	(55,403)	(44,841)	295,076	299,835
Cost of production	(90,020)	(101,134)	(68,860)	(56,343)	(6,728)	(9,748)	-	-	180	-	(165,428)	(167,225)
Inter-segment cost of production	(16,631)	(12,701)	(33,750)	(28,940)	(1,079)	(865)	-	-	51,460	42,506	-	-
Gross profit	70,903	72,403	54,254	55,531	7,481	6,856	773	155	(3,763)	(2,335)	129,648	132,610
Sales, administrative and research & development	(13,783)	(12,232)	(18,910)	(23,628)	(7,607)	(6,790)	(1,477)	(1,218)	(251)	(251)	(42,028)	(44,119)
Inter-segment sales, administrative and research & development	(1,258)	(773)	(2,384)	(1,289)	(280)	(254)	(21)	(19)	3,943	2,335	-	-
Other operating revenues	742	530	457	343	58	59	-	16	-	-	1,257	948
Other operating expenses	(301)	(217)	(7)	(11)	(3)	(4)	(2)	(1)	-	-	(313)	(233)
Operating profit / (loss)	56,303	59,711	33,410	30,946	(351)	(133)	(727)	(1,067)	(71)	(251)	88,564	89,206
Other finance income, net	1,279	797	129	(129)	(59)	386	1,288	1,139	-	-	2,637	2,193
Income / (expenses) from subsidiaries and associated	(83)	(73)	(93)	5,906	-	-	84,363	84,044	(84,363)	(90,032)	(176)	(155)
Profit before taxation	57,499	60,435	33,446	36,723	(410)	253	84,924	84,116	(84,434)	(90,283)	91,025	91,244
Income tax on dividends	(14,192)	(15,953)	(8,495)	(7,752)	-	-	(1,965)	-	-	-	(24,652)	(23,705)
Net profit / (loss) for the period	43,307	44,482	24,951	28,971	(410)	253	82,959	84,116	(84,434)	(90,283)	66,373	67,539
Attributable to:												
Equity holders of the parent	43,131	44,176	24,951	28,971	(410)	253	82,959	84,116	(84,434)	(90,283)	66,197	67,233
Minority interest	176	306	-	-	-	-	-	-	-	-	176	306
	43,307	44,482	24,951	28,971	(410)	253	82,959	84,116	(84,434)	(90,283)	66,373	67,539
EBITDA	68,790	69,963	47,287	42,709	818	871	(725)	(1,065)	-	-	116,170	112,478
Depreciation, amortization and write-downs	(12,487)	(10,252)	(13,877)	(11,763)	(1,169)	(1,004)	(2)	(2)	(71)	(251)	(27,606)	(23,272)

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

2.2 Other information by business segments

In thousand of EUR

	Mobile telecommunications		Broadband services		Managed IT-services		Other activities		Eliminations		Consolidated	
	30 Sept., 9 mos. 2008	30 Sept., 9 mos. 2007	30 Sept., 9 mos. 2008	30 Sept., 9 mos. 2007	30 Sept., 9 mos. 2008	30 Sept., 9 mos. 2007	30 Sept., 9 mos. 2008	30 Sept., 9 mos. 2007	30 Sept., 9 mos. 2008	30 Sept., 9 mos. 2007	30 Sept., 9 mos. 2008	30 Sept., 9 mos. 2007
Non-current assets (except investments in subsidiaries & associates)	63,641	58,669	106,114	95,278	2,950	3,554	9	12	3,521	3,633	176,235	161,146
Investments in subsidiaries and associates	393	516	289	431	-	-	94,205	91,307	(94,205)	(91,307)	682	947
Current assets	60,024	57,523	57,507	78,293	4,737	4,153	19,954	32,360	(31,533)	(46,288)	110,689	126,041
Total assets	124,058	116,708	163,910	174,002	7,687	7,707	114,168	123,679	(122,217)	(133,962)	287,606	288,134
Equity attributable to equity shareholders of the parent	93,162	87,262	124,126	121,793	4,467	1,723	113,604	122,940	(86,735)	(87,675)	248,624	246,043
Minority interest	428	627	-	-	-	-	-	-	-	-	428	627
Non-current liabilities	1,556	1,580	125	19	37	41	-	-	-	-	1,718	1,640
Current liabilities	28,912	27,239	39,659	52,190	3,183	5,943	564	739	(35,482)	(46,287)	36,836	39,824
Total shareholders' equity and liabilities	124,058	116,708	163,910	174,002	7,687	7,707	114,168	123,679	(122,217)	(133,962)	287,606	288,134
Net cash from/ (used in) operating activities	54,661	49,156	31,696	30,110	200	(175)	83,308	84,541	(84,363)	(84,864)	85,502	78,768
Net cash from/ (used in) investing activities	(12,682)	(12,567)	(15,936)	(13,022)	(841)	(1,933)	28,855	18,050	(3,673)	19,167	(4,277)	9,695
Net cash from/ (used in) financing activities	(53,309)	(56,492)	(37,185)	(11,146)	1,893	1,866	(92,577)	(83,761)	88,036	65,697	(93,142)	(83,836)
Exchange rate differences in cash and cash equivalents	-	-	11	(16)	-	-	3	3	-	-	14	(13)
Net increase/ (decrease) in cash and cash equivalents	(11,330)	(19,903)	(21,414)	5,926	1,252	(242)	19,589	18,833	-	-	(11,903)	4,614
CAPEX	12,657	12,578	16,742	19,023	878	1,903	1	-	-	(820)	30,278	32,684

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

2.3 Secondary reporting format - geographic segments (external net sales)

In thousand of EUR

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

	Mobile telecommunications				Broadband services				Managed IT-services				Consolidated			
	9 months to 30 Sept. 2008		9 months to 30 Sept. 2007		9 months to 30 Sept. 2008		9 months to 30 Sept. 2007		9 months to 30 Sept. 2008		9 months to 30 Sept. 2007		9 months to 30 Sept. 2008		9 months to 30 Sept. 2007	
Customers in Estonia	139,695	96.2%	153,678	95.9%	120,191	86.3%	115,580	90.5%	10,430	98.8%	11,475	97.0%	270,316	91.6%	280,733	93.6%
Customers outside Estonia	5,538	3.8%	6,637	4.1%	19,091	13.7%	12,111	9.5%	131	1.2%	354	3.0%	24,760	8.4%	19,102	6.4%
Total revenue	145,233	100%	160,315	100%	139,282	100%	127,691	100%	10,561	100%	11,829	100%	295,076	100%	299,835	100%

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

3. Tangible and intangible assets

In thousand of EUR

	Tangible assets	Intangible assets
At 31 December 2006		
Cost	566,198	25,819
Accumulated depreciation	(435,525)	(12,138)
Net book value	130,673	13,681
Changes in the first nine months 2007		
Opening net book amount	130,673	13,681
Additions	32,369	315
Reclassification	(102)	102
Reclassification to assets classified as held-for-sale	(49)	-
Disposals	(48)	-
Depreciation charge	(21,560)	(1,712)
Closing net book amount	141,283	12,386
At 30 September 2007		
Cost	593,247	26,247
Accumulated depreciation	(451,964)	(13,861)
Net book value	141,283	12,386
At 31 December 2007		
Cost	598,518	27,301
Accumulated depreciation	(444,803)	(13,494)
Net book value	153,715	13,807
Changes in the first nine months 2008		
Opening net book amount	153,715	13,807
Additions	29,824	454
Reclassification	(565)	565
Reclassification to assets classified as held-for-sale	111	-
Disposals	(189)	(6)
Depreciation charge	(25,356)	(2,250)
Closing net book amount	157,540	12,570
At 30 September 2008		
Cost	623,530	27,940
Accumulated depreciation	(465,990)	(15,370)
Net book value	157,540	12,570

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

4. Investments in subsidiaries

	Country of incorporation	Ownership interest		Principal activity	Owner
		30 Sept. 2008	31 Dec. 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 Investment OÜ	Estonia	51%	51%	Administration of communication portal based in Estonia internet	AS EMT
Elion Enterprises AS	Estonia	100%	100%	Network services for operators, data communication and Internet products, voice communication solutions and Internet content services for business and residential customers	AS Eesti Telekom
AS Elion Esindus	Estonia	100%	100%	Retail sales of telecommunication products and services	Elion Enterprises AS
AS EsData	Estonia	100%	100%	Operating and development of data communication, Internet and cable networks, and providing related services; sale, installation and maintenance of equipment related with this activities	Elion Enterprises AS
Viru Net OÜ ¹⁾	Estonia	-	100%	Internet services	Elion Enterprises AS
AS MicroLink Eesti ²⁾	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

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

2) AS Eesti Telekom invested an additional 2.9 million EUR in AS MicroLink Eesti, by increasing the latter's share capital.
In August, AS MicroLink Eesti decided to acquire a majority share in the IT Koolituskeskuse (Training Center) OÜ. The transaction will most probably be completed in October. The acquisition of the training company will provide MicroLink with the opportunity to provide high-quality training and consulting services to clients and partners in various cooperation projects. The company also planning to start providing its services in the three Baltic countries again and the client base of the IT Koolituskeskus, along with its sales units in Latvia and Lithuania, provide better opportunities for growth in these markets.

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

5. Investments in associates

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

6. Inventories

In the first nine months 2008, impairment for the inventories were in the total amount of 213.8 thousand EUR (in the first nine months 2007, the value of the inventories was not decreased) based on the estimated decline of the net realisation value below their acquisition cost.

7. Equity

a) Issued capital

	30 September 2008	31 December 2007
Ordinary shares issued par value 0.64 EUR per share, fully paid	137,954,528	137,954,528

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

b) Re-acquiring of shares

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

c) Reserves

Reserves include:

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

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NOTES TO THE FINANCIAL STATEMENTS

d) Dividends

Dividends in the total amount of 92,577 thousand EUR (2007: 83,761 thousand EUR) or 0.671 EUR per ordinary share were disbursed to the equity holders of the parent in the first half year 2008 (2007: 0.607 EUR).

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

e) Earnings per share

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

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

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

	2008	2007
<u>III Quarter</u>		
Net profit attributable to equity holders of the Company (EUR)	30,920,000	32,405,000
The average number of ordinary shares	137,954,528	137,954,528
EPS (in EUR)	0.22	0.23
<u>The first 9 months</u>		
Net profit attributable to equity holders of the Company (EUR)	66,197,000	67,233,000
The average number of ordinary shares	137,954,528	137,954,528
EPS (in EUR)	0.48	0.49

f) Share information

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

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

	9 months to 30 Sept. 2008	2007	9 months to 30 Sept. 2007
Ordinary share highest price	7.99	10.77	10.77
Ordinary share lowest price	6.10	6.57	6.57
Ordinary share average price	7.23	8.16	8.25

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NOTES TO THE FINANCIAL STATEMENTS

8. Borrowings

In thousand of EUR

	30 September 2008	31 December 2007
Non-current	2	85
Current	117	178
	119	263

The movements in the borrowings can be analyzed as follows:

Opening balance 31 December 2007	263
Repayments of borrowings	(84)
Other movements	(60)
Closing balance 30 September 2008	119

9. Retirement benefit obligations

In thousand of EUR

	30 September 2008	31 December 2007
Non-current portion of retirement benefit obligations	156	208
Current portion of retirement benefit obligations	64	308
Total retirement benefit obligations	220	516

At 31 December 2007	516
Benefits paid in the reporting period	(302)
Additional provisions	4
Interest accrued	2
AT 30 September 2008	220

10. Provisions

In thousand of EUR

	Site restoration expense provision	Termination benefits provision	Compensation of the tolerance of technical infrastructure provision	Guarantee provision	Other provisions	Total
Non-current portion of provisions	1,400	-	-	37	-	1,437
Current portion of provisions	-	132	127	9	38	306
Total provisions	1,400	132	127	46	38	1,743
At 31 December 2007	1,284	124	127	52	20	1,607
Additional provisions in the reporting period	116	160	-	14	39	329
Used provisions during the reporting period	-	(152)	-	(20)	(21)	(193)
At 30 September 2008	1,400	132	127	46	38	1,743

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NOTES TO THE FINANCIAL STATEMENTS

11. Related party transactions

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

a) Name and relationship of related party

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

b) Key managements' and Supervisory Councils' remuneration

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

	9 months to 30 September 2008	9 months to 30 September 2007
Salaries and other short-term employee benefits	2,726	2,595
Termination benefits	65	60
Other	30	23
	2,821	2,678

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NOTES TO THE FINANCIAL STATEMENTS

c) Trading transactions

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

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

	9 months, 30 September 2008	9 months, 30 September 2007
<i>Telecommunication services provided</i>		
Associated companies	180	244
TeliaSonera AB	6,998	7,017
State Government (State Chancellery and ministries)	1,255	1,087
Companies where Supervisory Council members of the Group have significant influence	45	27
	8,478	8,375
<i>Other sales</i>		
State Government (State Chancellery and ministries)	135	371
<i>Telecommunication services purchased</i>		
Associated companies	18	16
TeliaSonera AB	6,764	8,545
	6,782	8,561
<i>Other services purchased</i>		
Associated companies	3	14
State Government (State Chancellery and ministries)	1,395	603
Companies where Supervisory Council members of the Group have significant influence	89	42
	1,487	659
<i>Amount owed by related parties</i>		
Associated companies	20	16
TeliaSonera AB	1,658	1,314
State Government (State Chancellery and ministries)	155	239
Companies where Supervisory Council members of the Group have significant influence	5	3
	1,838	1,572
<i>Amount owed to related parties</i>		
Associated companies	1	2
TeliaSonera AB	1,076	1,392
State Government (State Chancellery and ministries)	1	8
Key management and Supervisory Council	915	838
	1,993	2,240

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NOTES TO THE FINANCIAL STATEMENTS

12. Contingencies

In thousand of EUR

	30 September 2008	31 December 2007
Key management termination benefits	1,609	1,256

Relations with the regulator

- Pursuant to the decision of the Communications Board dated 21 March 2006, the fee for voice call termination on mobile networks (interconnection fee) for AS EMT, Elisa Eesti AS and Tele2 Eesti AS for the period from 1 July 2006 to 30 June 2007 was fixed at 0.13 EUR per minute and, pursuant to the decisions of the Communications Board dated 20 June and 22 June 2007, was fixed at 0.11 EUR for the period from 1 July 2007 to 30 June 2008. Since Elisa Eesti AS and Tele2 Eesti AS disputed the decisions in court and the validity of the given legislative act was suspended in the course of initial legal protection, the interconnection fees remained at 0.16 EUR until 5 November 2007. On 5 November 2007, the ruling of the Tallinn Circuit Court came into force, whereby the initial legal protection was cancelled and all three mobile operators were obligated to apply interconnection fees of 0.11 EUR as of that date. The court disputes of Elisa Eesti AS and Tele2 with the Communications Board are continuing, and AS EMT is participating in the dispute as a third party.

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

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

Management Board:

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

Supervisory Council:

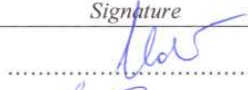



Mats Salomonsson	-	Chairman of the Supervisory Council
Lars Gunnar Klasson	-	Member of the Supervisory Council
Jörgen Latte	-	Member of the Supervisory Council
Björn Lindegren	-	Member of the Supervisory Council
Tarmo Porgand	-	Member of the Supervisory Council
Jüri Raatma	-	Member of the Supervisory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

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of the consolidated financial statements of AS Eesti Telekom Group for the second quarter and the first nine months 2008 as set out on pages 3 to 30.

The Management Board confirms that:

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

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

Tallinn, 23 October 2008