

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

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

CONTENTS

MANAGEMENT REPORT	4
CONSOLIDATED QUARTERLY DATA	11
INTERIM REPORT	
III QUARTER CONSOLIDATED INCOME STATEMENT	12
THE FIRST NINE MONTHS CONSOLIDATED INCOME STATEMENT	13
CONSOLIDATED BALANCE SHEET	14
CONSOLIDATED CASH FLOW STATEMENT	15
STATEMENT OF CHANGES IN OWNERS' EQUITY	16
NOTES TO FINANCIAL STATEMENTS	
1. Accounting policies and measurement basis used in preparation of interim financial statements	17
2. Segment information	17
3. Tangible and intangible assets.....	22
4. Investments in subsidiaries.....	23
5. Investments in associates.....	24
6. Inventories	24
7. Equity	24
8. Borrowings	26
9. Retirement benefit obligations	26
10. Provisions	26
11. Related party transactions	27
12. Contingencies	29
13. Members of the Management Board and the Supervisory Council of AS Eesti Telekom.....	29
MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS.....	30

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

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 EEK	1,566	1,612	-2.9	4,617	4,691	-1.6
EBITDA, million EEK	628	627	0.1	1,818	1,760	3.3
Margin, %	40.1	38.9		39.4	37.5	
EBIT, million EEK	481	504	-4.4	1,386	1,396	-0.7
Margin, %	30.7	31.2		30.0	29.8	
EBT, million EEK	485	509	-4.6	1,424	1,428	-0.2
Net profit for the period, million EEK	485	509	-4.6	1,039	1,057	-1.7
EPS, EEK	3.51	3.68	-4.6	7.51	7.63	-1.5
CAPEX, million EEK	171	210	-18.6	474	511	-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 EEK	966	1,050	-8.0	2,778	2,914	-4.7
EBITDA, million EEK	383	389	-1.6	1,076	1,095	-1.7
Margin, %	39.6	37.0		38.7	37.6	
EBIT, million EEK	316	334	-5.4	881	934	-5.7
Margin, %	32.7	31.8		31.7	32.1	
EBT, million EEK	318	334	-4.8	900	946	-4.9
Net profit for the period, million EEK	318	334	-4.8	678	696	-2.6
CAPEX, million EEK	70	69	0.8	198	197	0.6
ROA, %	43.9	52.2				
ROE, %	74.5	87.3				

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

Broadband services segment

	Q3 2008	Q3 2007	Change, %	9 mos. 2008	9 mos. 2007	Change, %
Total revenues, million EEK	886	772	14.8	2,454	2,203	11.4
EBITDA, million EEK	247	234	5.7	740	668	10.7
Margin, %	27.9	30.3		30.1	30.3	
EBIT, million EEK	173	172	1.1	523	484	8.0
Margin, %	19.6	22.2		21.3	22.0	
EBT, million EEK	170	265	-35.7	523	575	-8.9
Net profit for the period, million EEK	170	265	-35.7	390	453	-13.9
CAPEX, million EEK	97	135	-28.0	262	298	-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 EEK	73	90	-19.0	239	273	-12.5
EBITDA, million EEK	2	9	-79.8	13	14	-6.0
Margin, %	2.5	10.1		5.3	5.0	
EBIT, million EEK	-4	4	N/A	-5	-2	-161.8
Margin, %	-5.9	4.3		-2.3	-0.8	
EBT, million EEK	-5	3	N/A	-6	4	N/A
Net profit for the period, million EEK	-5	3	N/A	-6	4	N/A
CAPEX, million EEK	4	18	-79.2	14	30	-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 1,566 million EEK (3rd quarter 2007: 1,612 million EEK), 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 1.37 EEK instead of the former 1.66 EEK).

In the mobile communications services segment, the consolidated **turnover** reached 966 million EEK, decreasing by 8% compared to the third period of 2007 (3rd quarter 2007: 1,050 million EEK). 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

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

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 2.05 EEK per minute, and for the period 1 July 2007 to 30 June 2008 was fixed at 1.66 EEK. Since Elisa Eesti AS and Tele2 Eesti AS disputed the decisions in court, and in the course of provisional legal protection, the validity of the aforementioned administrative act was suspended, the interconnection fees of all three mobile operators remained at 2.50 EEK until 5 November 2007. On 5 November 2007, the ruling of the Tallinn Circuit Court came into force, whereby the provisional legal protection was cancelled and all three mobile operators were obligated to apply interconnection fees of 1.66 EEK. Litigation by Elisa Eesti AS and Tele2 with the Communications Board is continuing, and EMT is participating in the litigation as a third party. 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 1.37 EEK 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 886 million EEK (3rd quarter 2007: 772 million EEK). The largest increase in revenues came from the sale of subcontracted services, which increased by 140% or 83 million EEK. 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).

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

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 35 EEK 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 2 EEK and the rental fee for selected copper pairs by 3 EEK, 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 73 million EEK in the third quarter of 2008 (3rd quarter 2007: 90 million EEK). 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 34 million EEK.

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

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

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 941 million EEK (3rd quarter 2007: 992 million EEK).

The operating costs in the mobile communications services segment decreased by 12 % compared to the third quarter of 2007 reaching 586 million EEK (3rd quarter 2007: 663 million EEK). 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 639 million EEK (3rd quarter 2007: 543 million EEK). 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 72 million EEK (3rd quarter 2007: 81 million EEK).

The Eesti Telekom Group EBITDA in the third quarter of 2008 reached 628 million EEK, which is slightly more than in the third quarter of 2007 (3rd quarter 2007: 627 million EEK). 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 2 million EEK in the third quarter of 2008 (3rd quarter 2007: 9 million EEK). 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 147 million EEK in the third quarter of 2008, increasing by 19% compared to the same period in 2007 (3rd quarter 2007: 124 million EEK).

In the third quarter, the **Eesti Telekom Group** earned an **EBIT** of 481 million EEK, which decreased by 4% compared to the same period last year (3rd quarter 2007: 504 million EEK). The Group's **(net) financial revenues** decreased 27 % in the third quarter reaching 4 million EEK (3rd quarter 2007: 6 million EEK). In the third quarter, the Eesti Telekom Group earned **pre-tax profits** of 485 million EEK (3rd quarter 2007: 509 million EEK). 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 93.7 million EEK.

In the third quarter of 2008, the **Eesti Telekom Group net profit** was 485 million EEK (3rd quarter 2008: 509 million EEK). The profit per share was 3.51 EEK (3rd quarter 2007: 3.68 EEK).

Balance sheet and cash flows

As of 30 September 2008, the Eesti Telekom Group balance sheet totaled 4,500 million EEK (31 December 2007: 5,023 million EEK). Compared to the beginning of the year, fixed assets have increased by 19 million EEK, thereby bringing the depreciated value at the end of the third quarter to 2,768 million EEK. In nine months, the Group's current assets have decreased by 541 million EEK, reaching 1,732 million EEK by the end of September (31 December 2007: 2,273 million EEK). The depreciated value of cash and cash equivalents as well as short-term financial investments has decreased by 580 million EEK in connection with the dividends paid out in June and the income tax on dividends paid in July.

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

As of 30 September 2008, the Eesti Telekom Group equity was 3,897 million EEK, which is 418 million EEK less than at the end of 2007 (31 December 2007: 4,314 million EEK). The equity has decreased due to the payment of dividends.

At the end of September, the Group had long-term obligations totaling 27 million EEK (31 December 2007: 25 million EEK) and short-term debt obligations of 576 million EEK (31 December 2007: 683 million EEK).

The net debt of the Eesti Telekom Group at the end of the third quarter was -509 million EEK and the net debt to equity ratio was -13% (31 December 2007: -1,087 million EEK and -25%).

The Eesti Telekom Group nine-month cash flow from operations in 2008 was 1,338 million EEK (9 months of 2007: 1,232 million EEK). The Group's cash flow from investments was -67 million EEK (9 months of 2007: 152 million EEK). The cash flow into tangible and intangible fixed assets in the first nine months was 474 million EEK (9 months of 2007: 511 million EEK). During the nine months of 2008, the mobile communications services segment has invested 198 million EEK (9 months of 2007: 197 million EEK). 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 262 million EEK (9 months of 2007: 298 million EEK). 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 14 million EEK into fixed assets (9 months of 2007: 30 million EEK).

The Eesti Telekom Group cash flow from financing activities in the first nine months was 1,457 million EEK, from which 1,456 million EEK was used to pay dividends (9 months of 2007 1,312 million EEK and 1,311 million EEK 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%

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

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

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

CONSOLIDATED QUARTERLY DATA

In million of Estonian kroons (EEK)

	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08
Sales	1,612	1,570	1,484	1,567	1,566
OPEX	(992)	(1,004)	(913)	(960)	(941)
Other revenue/expenses, net	7	11	5	7	3
EBITDA	627	576	576	613	628
Depreciation and amortisation	(124)	(132)	(140)	(145)	(147)
EBIT	504	444	436	468	481
Income / expenses from associates	(1)	(1)	(2)	(1)	-
Other net financing items	6	12	17	20	4
Profit before tax	509	455	452	487	485
Income tax on dividends	-	-	-	(386)	-
Net profit for the period	509	455	452	101	485
Minority interest	2	2	1	-	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	4,508	5,023	5,342	4,515	4,500
- Non-current assets	2,536	2,750	2,726	2,756	2,768
- Current assets	1,972	2,273	2,616	1,759	1,732
- Cash and cash equivalents and short-term investments	780	1,091	1,411	489	511
Equity and liabilities	4,508	5,023	5,342	4,515	4,500
- Equity	3,860	4,314	4,766	3,412	3,897
- Provisions	31	33	31	28	31
- Non-current liabilities	2	1	1	2	2
- Interest-bearing borrowings	2	1	1	-	-
- Current liabilities	616	674	543	1,074	571
- Interest-bearing borrowings	2	3	3	2	2

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

III QUARTER CONSOLIDATED INCOME STATEMENT

In thousand of Estonian kroons (EEK)

	Notes	III Quarter 2008	III Quarter 2007
Net sales	2.1(a)	1,566,042	1,612,450
Cost of production	2.1(a)	(876,653)	(895,240)
Gross profit		689,389	717,210
Sales, administrative, and research & development expenses	2.1(a)	(211,328)	(220,696)
Other operating revenues	2.1(a)	5,389	8,568
Other operating expenses	2.1(a)	(2,084)	(1,328)
Operating profit		481,366	503,754
Finance income		4,435	6,565
Finance costs		(384)	(1,050)
Finance income, net	2.1(a)	4,051	5,515
Net income / (expenses) from associated companies	2.1(a)	(273)	(618)
Profit before tax		485,144	508,651
Income tax on dividends		(1)	-
Net profit for the period	2.1(a)	485,143	508,651
Attributable to:			
Equity holders of the parent	2.1(a)	483,791	507,022
Minority interest	2.1(a)	1,352	1,629
		485,143	508,651
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EEK)			
	7 (e)		
Basic earnings per share		3.51	3.68
Diluted earnings per share		3.51	3.68
EBITDA	2.1(a)	628,225	627,348
Depreciation, amortization and write-downs	2.1(a), 3	(146,859)	(123,594)

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

THE FIRST NINE MONTHS CONSOLIDATED INCOME STATEMENT

In thousand of Estonian kroons (EEK)

	Notes	9 months to 30 September 2008	9 months to 30 September 2007	2007
Net sales	2.1(b), 2.3	4,616,931	4,691,385	6,261,002
Cost of production	2.1(b)	(2,588,390)	(2,616,502)	(3,542,791)
Gross profit		2,028,541	2,074,883	2,718,211
Sales, administrative, and research & development expenses	2.1(b)	(657,575)	(690,307)	(900,011)
Other operating revenues	2.1(b)	19,674	14,832	28,114
Other operating expenses	2.1(b)	(4,905)	(3,660)	(6,336)
Operating profit		1,385,735	1,395,748	1,839,978
Finance income		42,813	36,141	48,626
Finance costs		(1,556)	(1,818)	(2,342)
Finance income, net	2.1(b)	41,257	34,323	46,284
Net income / (expenses) from associated companies	2.1(b)	(2,753)	(2,427)	(3,817)
Profit before tax		1,424,239	1,427,644	1,882,445
Income tax on dividends	2.1(b)	(385,722)	(370,897)	(370,897)
Net profit for the period	2.1(b)	1,038,517	1,056,747	1,511,548
Attributable to:				
Equity holders of the parent	2.1(b)	1,035,757	1,051,954	1,505,098
Minority interest	2.1(b)	2,760	4,793	6,450
		1,038,517	1,056,747	1,511,548
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EEK)	7 (e)			
Basic earnings per share		7.51	7.63	10.91
Diluted earnings per share		7.51	7.63	10.91
EBITDA	2.1(b)	1,817,655	1,759,876	2,336,260
Depreciation, amortization and write-downs	2.1(b), 3	(431,920)	(364,128)	(496,282)

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

In thousand of Estonian kroons (EEK)

	Notes	30 September 2008	31 December 2007	30 September 2007
ASSETS				
Non-current assets				
Property, plant and equipment	3	2,464,966	2,405,114	2,210,598
Intangible fixed assets	3	196,671	216,011	193,783
Investments in associates	2.2, 5	10,669	13,422	14,820
Other financial fixed assets		95,834	115,059	116,978
Total non-current assets	2.2	2,768,140	2,749,606	2,536,179
Current assets				
Assets classified as held-for-sale		-	1,732	1,531
Inventories	6	195,986	187,573	175,458
Trade and other receivables		1,025,389	992,939	1,014,983
Short-term investments		300,000	694,040	413,411
Cash and cash equivalents		210,533	396,778	366,747
Total current assets	2.2	1,731,908	2,273,062	1,972,130
TOTAL ASSETS	2.2	4,500,048	5,022,668	4,508,309
EQUITY AND LIABILITIES				
Capital and reserves attributable to equity holders of the parent				
Share capital	7	1,379,545	1,379,545	1,379,545
Share premium		356,018	356,018	356,018
Statutory legal reserve		137,955	137,955	137,955
Retained earnings		980,838	924,263	924,263
Net profit for the period		1,035,757	1,505,098	1,051,954
Total capital and reserves attributable to equity holders of the parent		3,890,113	4,302,879	3,849,735
Minority interest	2.2, 7	6,709	11,480	9,823
Total equity		3,896,822	4,314,359	3,859,558
Non-current liabilities				
Interest bearing loans and borrowings	8	37	1,343	1,656
Retirement benefit obligations	9	2,445	3,239	3,510
Provisions	10	22,472	20,673	20,502
Non-interest bearing liabilities		1,921	-	2
Total non-current liabilities	2.2	26,875	25,255	25,670
Current liabilities				
Trade and other payables		568,732	670,989	613,913
Interest bearing loans and borrowings	8	1,828	2,778	2,286
Retirement benefit obligations	9	1,001	4,814	4,731
Provisions	10	4,790	4,473	2,151
Total current liabilities	2.2	576,351	683,054	623,081
Total liabilities		603,226	708,309	648,751
TOTAL EQUITY AND LIABILITIES	2.2	4,500,048	5,022,668	4,508,309

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

CONSOLIDATED CASH FLOW STATEMENT

In thousand of Estonian kroons (EEK)

	Notes	9 months to 30 September 2008	9 months to 30 September 2007
Operating activities			
Net profit for the period		1,038,517	1,056,747
Adjustments for:			
Depreciation, amortisation and impairment of fixed and intangible assets	3	431,920	364,128
(Profit) / loss from sales and discards of fixed assets		(6,107)	(15,081)
Net (income) / expenses from associated companies		2,753	2,427
Provisions		(2,511)	(5,132)
Financial items		(72,826)	(63,610)
Miscellaneous non-cash items		(289)	9,096
Cash flow before change in working capital		1,391,457	1,348,575
Change in current receivables		(21,265)	(110,989)
Change in inventories		(15,291)	(32,806)
Change in current liabilities		(100,650)	(45,129)
Change in working capital		(137,206)	(188,924)
Cash flow after changes in working capital		1,254,251	1,159,651
Interest received		87,408	74,033
Interest paid		(3,845)	(1,271)
Cash flow from operating activities	2.2	1,337,814	1,232,413
Investing activities			
Intangible and tangible fixed assets acquired	2.2, 3	(473,740)	(511,379)
Intangible and tangible fixed assets divested		9,612	6,245
Net change in interest-receivables short maturities		394,040	680,220
Net cash changes of other long-term receivables		3,189	(23,382)
Cash flow from investing activities	2.2	(66,899)	151,704
Cash flow before financing activities		1,270,915	1,384,117
Financing activities			
Proceeds from non-convertible debts		-	191
Repayment of finance lease liabilities	8	(1,325)	(1,353)
Dividends paid	7(d)	(1,456,054)	(1,310,568)
Cash flow used in financing activities	2.2	(1,457,379)	(1,311,730)
Cash flow for the year	2.2	(186,464)	72,387
Cash and cash equivalents at beginning of year	2.2	396,778	324,405
Cash flow for the year	2.2	(186,464)	72,387
Effect of foreign exchange rate changes	2.2	219	(200)
Cash and cash equivalents at end of period	2.2	210,533	396,592

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2008 INTERIM REPORT
STATEMENT OF CHANGES IN OWNERS' EQUITY

In thousand of Estonian kroons (EEK)

	Attributable to equity holders of the Company					Total	Minority interest	Total equity
	Issued capital	Share premium	Statutory legal reserve	Retained earnings	Net profit for the period			
31 December 2006	1,379,545	356,018	137,955	925,388	1,309,443	4,108,349	5,030	4,113,379
Net profit for the 2006 transferred to retained earnings	-	-	-	1,309,443	(1,1309,443)	-	-	-
Dividends paid (Note 7 d)	-	-	-	(1,310,568)	-	(1,310,568)	-	(1,310,568)
Net profit for the period	-	-	-	-	1,051,954	1,051,954	4,793	1,056,747
30 September 2007	1,379,545	356,018	137,955	924,263	1,051,954	3,849,735	9,823	3,859,558
31 December 2007	1,379,545	356,018	137,955	924,263	1,505,098	4,302,879	11,480	4,314,359
Net profit for the 2007 transferred to retained earnings	-	-	-	1,505,098	(1,505,098)	-	-	-
Dividends paid (Note 7 d)	-	-	-	(1,448,523)	-	(1,448,523)	(7,531)	(1,456,054)
Net profit for the period	-	-	-	-	1,035,757	1,035,757	2,760	1,038,517
30 September 2008	1,379,545	356,018	137,955	980,838	1,035,757	3,890,113	6,709	3,896,822

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

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

These financial statements are not audited.

This consolidated statement is signed by the management board for public disclosure on 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 Estonian kroons (EEK)

	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	746,347	872,636	773,992	689,730	45,703	50,084	-	-	-	-	1,566,042	1,612,450
Inter-segment net sales	219,278	177,404	112,195	82,128	27,365	40,094	3,772	2,133	(362,610)	(301,759)	-	-
Total net sales	965,625	1,050,040	886,187	771,858	73,068	90,178	3,772	2,133	(362,610)	(301,759)	1,566,042	1,612,450
Cost of production	(465,703)	(561,944)	(380,234)	(285,622)	(31,654)	(47,674)	-	-	938	-	(876,653)	(895,240)
Inter-segment cost of production	(110,018)	(86,797)	(226,077)	(194,284)	(6,225)	(3,887)	-	-	342,320	284,968	-	-
Gross profit	389,904	401,299	279,876	291,952	35,189	38,617	3,772	2,133	(19,352)	(16,791)	689,389	717,210
Sales, administrative and research & development	(69,287)	(63,556)	(95,065)	(116,518)	(38,516)	(32,820)	(7,151)	(6,493)	(1,309)	(1,309)	(211,328)	(220,696)
Inter-segment sales, administrative and research & development	(7,287)	(5,457)	(11,496)	(8,995)	(1,404)	(2,246)	(105)	(93)	20,292	16,791	-	-
Other operating revenues	4,750	3,014	186	5,227	453	323	-	4	-	-	5,389	8,568
Inter-segment other operating revenues	-	-	-	-	2	-	-	-	(2)	-	-	-
Other operating expenses	(2,016)	(1,200)	(35)	(112)	(32)	(16)	(1)	-	-	-	(2,084)	(1,328)
Operating profit / (loss)	316,064	334,100	173,466	171,554	(4,308)	3,858	(3,485)	(4,449)	(371)	(1,309)	481,366	503,754
Other finance income, net	2,094	153	(2,970)	63	(273)	(687)	5,200	5,986	-	-	4,051	5,515
Income / (expenses) from subsidiaries and associated	(220)	(323)	(53)	93,397	-	-	-	-	-	(93,692)	(273)	(618)
Profit before taxation	317,938	333,930	170,443	265,014	(4,581)	3,171	1,715	1,537	(371)	(95,001)	485,144	508,651
Income tax on dividends	(1)	-	-	-	-	-	-	-	-	-	(1)	-
Net profit / (loss) for the period	317,937	333,930	170,443	265,014	(4,581)	3,171	1,715	1,537	(371)	(95,001)	485,143	508,651
Attributable to:												
Equity holders of the parent	316,585	332,301	170,443	265,014	(4,581)	3,171	1,715	1,537	(371)	(95,001)	483,791	507,022
Minority interest	1,352	1,629	-	-	-	-	-	-	-	-	1,352	1,629
	317,937	333,930	170,443	265,014	(4,581)	3,171	1,715	1,537	(371)	(95,001)	485,143	508,651
EBITDA	382,582	388,819	247,274	233,842	1,848	9,129	(3,479)	(4,442)	-	-	628,225	627,348
Depreciation, amortization and write-downs	(66,518)	(54,719)	(73,808)	(62,288)	(6,156)	(5,271)	(6)	(7)	(371)	(1,309)	(146,859)	(123,594)

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 Estonian kroons (EEK)

	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	2,272,406	2,508,394	2,179,284	1,997,912	165,241	185,079	-	-	-	-	4,616,931	4,691,385
Inter-segment net sales	505,715	405,609	275,099	205,332	73,966	88,250	12,097	2,428	(866,877)	(701,619)	-	-
Total net sales	2,778,121	2,914,003	2,454,383	2,203,244	239,207	273,329	12,097	2,428	(866,877)	(701,619)	4,616,931	4,691,385
Cost of production	(1,408,513)	(1,582,398)	(1,077,422)	(881,575)	(105,270)	(152,529)	-	-	2,815	-	(2,588,390)	(2,616,502)
Inter-segment cost of production	(260,219)	(198,725)	(528,070)	(452,811)	(16,888)	(13,540)	-	-	805,177	665,076	-	-
Gross profit	1,109,389	1,132,880	848,891	868,858	117,049	107,260	12,097	2,428	(58,885)	(36,543)	2,028,541	2,074,883
Sales, administrative and research & development	(215,651)	(191,390)	(295,855)	(369,681)	(119,026)	(106,247)	(23,115)	(19,061)	(3,928)	(3,928)	(657,575)	(690,307)
Inter-segment sales, administrative and research & development	(19,690)	(12,100)	(37,309)	(20,167)	(4,378)	(3,981)	(329)	(296)	61,706	36,544	-	-
Other operating revenues	11,625	8,297	7,144	5,354	905	926	-	255	-	-	19,674	14,832
Inter-segment other operating revenues	-	-	-	-	6	1	-	-	(6)	(1)	-	-
Other operating expenses	(4,707)	(3,401)	(116)	(186)	(52)	(58)	(30)	(15)	-	-	(4,905)	(3,660)
Operating profit / (loss)	880,966	934,286	522,755	484,178	(5,496)	(2,099)	(11,377)	(16,689)	(1,113)	(3,928)	1,385,735	1,395,748
Other finance income, net	19,990	12,464	2,031	(1,991)	(924)	6,033	20,160	17,817	-	-	41,257	34,323
Income / (expenses) from subsidiaries and associated	(1,301)	(1,135)	(1,452)	92,400	-	-	1,320,000	1,315,000	(1,320,000)	(1,408,692)	(2,753)	(2,427)
Profit before taxation	899,655	945,615	523,334	574,587	(6,420)	3,934	1,328,783	1,316,128	(1,321,113)	(1,412,620)	1,424,239	1,427,644
Income tax on dividends	(222,060)	(249,615)	(132,911)	(121,282)	-	-	(30,751)	-	-	-	(385,722)	(370,897)
Net profit / (loss) for the period	677,595	696,000	390,423	453,305	(6,420)	3,934	1,298,032	1,316,128	(1,321,113)	(1,412,620)	1,038,517	1,056,747
Attributable to:												
Equity holders of the parent	674,835	691,207	390,423	453,305	(6,420)	3,934	1,298,032	1,316,128	(1,321,113)	(1,412,620)	1,035,757	1,051,954
Minority interest	2,760	4,793	-	-	-	-	-	-	-	-	2,760	4,793
	677,595	696,000	390,423	453,305	(6,420)	3,934	1,298,032	1,316,128	(1,321,113)	(1,412,620)	1,038,517	1,056,747
EBITDA	1,076,354	1,094,688	739,867	668,241	12,791	13,608	(11,357)	(16,661)	-	-	1,817,655	1,759,876
Depreciation, amortization and write-downs	(195,388)	(160,402)	(217,112)	(184,063)	(18,287)	(15,707)	(20)	(28)	(1,113)	(3,928)	(431,920)	(364,128)

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 Estonian kroons (EEK)

	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)	995,767	917,971	1,660,322	1,490,779	46,156	55,598	146	193	55,080	56,818	2,757,471	2,521,359
Investments in subsidiaries and associates	6,150	8,082	4,520	6,738	-	-	1,473,983	1,428,644	(1,473,984)	(1,428,644)	10,669	14,820
Current assets	939,169	900,033	899,795	1,225,017	74,114	64,986	312,210	506,320	(493,380)	(724,226)	1,731,908	1,972,130
Total assets	1,941,086	1,826,086	2,564,637	2,722,534	120,270	120,584	1,786,339	1,935,157	(1,912,284)	(2,096,052)	4,500,048	4,508,309
Equity attributable to equity shareholders of the parent	1,457,661	1,365,349	1,942,152	1,905,660	69,881	26,954	1,777,516	1,923,600	(1,357,097)	(1,371,828)	3,890,113	3,849,735
Minority interest	6,709	9,823	-	-	-	-	-	-	-	-	6,709	9,823
Non-current liabilities	24,339	24,733	1,957	301	579	636	-	-	-	-	26,875	25,670
Current liabilities	452,377	426,181	620,528	816,573	49,810	92,994	8,823	11,557	(555,187)	(724,224)	576,351	623,081
Total shareholders' equity and liabilities	1,941,086	1,826,086	2,564,637	2,722,534	120,270	120,584	1,786,339	1,935,157	(1,912,284)	(2,096,052)	4,500,048	4,508,309
Net cash from/ (used in) operating activities	855,251	769,104	495,957	471,100	3,125	(2,737)	1,303,481	1,322,776	(1,320,000)	(1,327,830)	1,337,814	1,232,413
Net cash from/ (used in) investing activities	(198,432)	(196,645)	(249,337)	(203,734)	(13,164)	(30,240)	451,492	282,422	(57,458)	299,901	(66,899)	151,704
Net cash from/ (used in) financing activities	(834,110)	(883,879)	(581,818)	(174,402)	29,614	29,190	(1,448,523)	(1,310,568)	1,377,458	1,027,929	(1,457,379)	(1,311,730)
Exchange rate differences in cash and cash equivalents	-	-	169	(249)	-	-	50	49	-	-	219	(200)
Net increase/ (decrease) in cash and cash equivalents	(177,291)	(311,420)	(335,029)	92,715	19,575	(3,787)	306,500	294,679	-	-	(186,245)	72,187
CAPEX	198,041	196,796	261,953	297,641	13,727	29,772	19	-	-	(12,830)	473,740	511,379

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 Estonian kroons (EEK)

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

	Mobile telecommunications		Broadband services				Managed IT-services				Consolidated					
	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	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	2,185,753	96.2%	2,404,548	95.9%	1,880,577	86.3%	1,808,416	90.5%	163,190	98.8%	179,539	97.0%	4,229,520	91.6%	4,392,503	93.6%
Customers outside Estonia	86,653	3.8%	103,846	4.1%	298,707	13.7%	189,496	9.5%	2,051	1.2%	5,540	3.0%	387,411	8.4%	298,882	6.4%
Total revenue	2,272,406	100%	2,508,394	100%	2,179,284	100%	1,997,912	100%	165,241	100%	185,079	100%	4,616,931	100%	4,691,385	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 Estonian kroons (EEK)

	Tangible assets	Intangible assets
At 31 December 2006		
Cost	8,859,076	403,974
Accumulated depreciation	(6,814,481)	(189,928)
Net book value	2,044,595	214,046
Changes in the first nine months 2007		
Opening net book amount	2,044,595	214,046
Additions	506,460	4,919
Reclassification	(1,590)	1,590
Reclassification to assets classified as held-for-sale	(760)	-
Disposals	(751)	-
Depreciation charge	(337,356)	(26,772)
Closing net book amount	2,210,598	193,783
At 30 September 2007		
Cost	9,282,298	410,683
Accumulated depreciation	(7,071,700)	(216,900)
Net book value	2,210,598	193,783
At 31 December 2007		
Cost	9,364,755	427,159
Accumulated depreciation	(6,959,641)	(211,148)
Net book value	2,405,114	216,011
Changes in the first nine months 2008		
Opening net book amount	2,405,114	216,011
Additions	466,635	7,105
Reclassification	(8,847)	8,847
Reclassification to assets classified as held-for-sale	1,732	-
Disposals	(2,943)	(97)
Depreciation charge	(396,725)	(35,195)
Closing net book amount	2,464,966	196,671
At 30 September 2008		
Cost	9,756,118	437,162
Accumulated depreciation	(7,291,152)	(240,491)
Net book value	2,464,966	196,671

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 45.6 million EEK 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 3,346 thousand EEK (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 10 EEK per share, fully paid	137,954,528	137,954,528

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

b) Re-acquiring of shares

The Annual General Meeting of Shareholders, on 22 May 2008, authorized AS Eesti Telekom to acquire within five years from the adoption of this resolution, i.e. until 22 May 2013 (the same authority, which was obtained from last Annual General Meeting on 22 May 2007, terminated on 22 May 2008), AS Eesti Telekom ordinary shares so that the total of nominal values of own shares held by AS Eesti Telekom would not exceed the limit set by statutory regulations, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the company's assets in excess of its share capital, capital reserves, and share premium. The amount of shares to be acquired each time shall be determined on each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council. As of 30 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).

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

NOTES TO THE FINANCIAL STATEMENTS

d) Dividends

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

On 1 July 2008, minority shareholders (Serenda Invest OÜ minority shareholders) were paid dividends totalling 7,531 thousand EEK (minority shareholders were not paid dividends in 2007).

e) Earnings per share

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

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

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

	2008	2007
<i>III Quarter</i>		
Net profit attributable to equity holders of the Company (EEK)	483,791,000	507,022,000
The average number of ordinary shares	137,954,528	137,954,528
EPS (in EEK)	3.51	3.68
<i>The first 9 months</i>		
Net profit attributable to equity holders of the Company (EEK)	1,035,757,000	1,051,954,000
The average number of ordinary shares	137,954,528	137,954,528
EPS (in EEK)	7.51	7.63

f) Share information

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

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

	9 months to 30 Sept. 2008	2007	9 months to 30 Sept. 2007
Ordinary share highest price	125.02	168.51	168.51
Ordinary share lowest price	95.44	102.80	102.80
Ordinary share average price	113.19	127.69	129.09

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

NOTES TO THE FINANCIAL STATEMENTS

8. Borrowings

In thousand of Estonian kroons (EEK)

	30 September 2008	31 December 2007
Non-current	37	1,343
Current	1,828	2,778
	1,865	4,121

The movements in the borrowings can be analyzed as follows:

Opening balance 31 December 2007	4,121
Repayments of borrowings	(1,325)
Other movements	(931)
Closing balance 30 September 2008	1,865

9. Retirement benefit obligations

In thousand of Estonian kroons (EEK)

	30 September 2008	31 December 2007
Non-current portion of retirement benefit obligations	2,445	3,239
Current portion of retirement benefit obligations	1,001	4,814
Total retirement benefit obligations	3,446	8,053

At 31 December 2007	8,053
Benefits paid in the reporting period	(4,711)
Additional provisions	62
Interest accrued	42
AT 30 September 2008	3,446

10. Provisions

In thousand of Estonian kroons (EEK)

	Site restoration expense provision	Termination benefits provision	Compensation of the tolerance of technical infrastructure provision	Guarantee provision	Other provisions	Total
Non-current portion of provisions	21,893	-	-	579	-	22,472
Current portion of provisions	-	2,067	1,980	148	595	4,790
Total provisions	21,893	2,067	1,980	727	595	27,262
At 31 December 2007	20,094	1,957	1,980	808	307	25,146
Additional provisions in the reporting period	1,799	2,487	-	234	619	5,139
Used provisions during the reporting period	-	(2,377)	-	(315)	(331)	(3,023)
At 30 September 2008	21,893	2,067	1,980	727	595	27,262

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

NOTES TO THE FINANCIAL STATEMENTS

11. Related party transactions

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

a) Name and relationship of related party

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

b) Key managements' and Supervisory Councils' remuneration

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

	9 months to 30 September 2008	9 months to 30 September 2007
Salaries and other short-term employee benefits	42,657	40,599
Termination benefits	1,011	942
Other	470	358
	44,138	41,899

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

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 Estonian kroons (EEK)):

	9 months, 30 September 2008	9 months, 30 September 2007
<i>Telecommunication services provided</i>		
Associated companies	2,818	3,819
TeliaSonera AB	109,495	109,782
State Government (State Chancellery and ministries)	19,634	17,012
Companies where Supervisory Council members of the Group have significant influence	700	425
	132,647	131,038
<i>Other sales</i>		
Associated companies	2	-
State Government (State Chancellery and ministries)	2,118	5,812
Companies where Supervisory Council members of the Group have significant influence	-	2
	2,120	5,814
<i>Telecommunication services purchased</i>		
Associated companies	290	246
TeliaSonera AB	105,826	133,695
	106,116	133,941
<i>Other services purchased</i>		
Associated companies	42	215
State Government (State Chancellery and ministries)	21,823	9,441
Companies where Supervisory Council members of the Group have significant influence	1,392	661
	23,257	10,317
<i>Amount owed by related parties</i>		
Associated companies	308	252
TeliaSonera AB	25,937	20,552
State Government (State Chancellery and ministries)	2,421	3,743
Companies where Supervisory Council members of the Group have significant influence	83	53
	28,749	24,600
<i>Amount owed to related parties</i>		
Associated companies	21	35
TeliaSonera AB	16,840	21,779
State Government (State Chancellery and ministries)	8	127
Key management and Supervisory Council	14,314	13,112
	31,183	35,053

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

NOTES TO THE FINANCIAL STATEMENTS

12. Contingencies

In thousand of Estonian kroons (EEK)

	30 September 2008	31 December 2007
Key management termination benefits	25,176	19,660

Relations with the regulator

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

With its resolution of 25 March 2008, the Competition Board, which is the legal successor to the Communications Board, established a fee of 1.37 EEK per minute for the termination of voice calls in mobile phone networks for the period 1 July 2008-30 June 2009.

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

Management Board:

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

Supervisory Council:

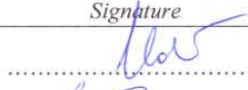



Mats Salomonsson	-	Chairman of the Supervisory Council
Lars Gunnar Klasson	-	Member of the Supervisory Council
Jörgen Latte	-	Member of the Supervisory Council
Björn Lindegren	-	Member of the Supervisory Council
Tarmo Porgand	-	Member of the Supervisory Council
Jüri Raatma	-	Member of the Supervisory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

MANAGEMENT BOARD'S CONFIRMATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of the consolidated financial statements of AS Eesti Telekom Group for the second quarter and the first 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