Consolidated Annual Report of AS Eesti Telekom 2005

In thousands of Estonian kroons

Beginning of the financial year	1 January 2005
End of the financial year	31 December 2005
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Field of activity	providing services in the field of telecommunications
Auditor	AS PricewaterhouseCoopers

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DEVELOPMENT OF THE OPERATIONAL ENVIRONMENT

In 2005, the rapid development of the Estonian economy continued. The economic growth, which reached 6.2% in 2004, accelerated further reaching 10% in the second half of 2005. Rapid real growth of 7 - 9% is also expected during 2006. An increase in domestic consumption is a factor that has significantly supported economic growth. Favorable interest rates have increased individual demand for various consumer products. A good business climate, as well as a need to make their activity more effective, has increased the expenditures and investments in business and the public sector. All this has also increased demand for telecommunications services.

An important development in the telecommunications field was the coming into force of the Electronic Communications Act on January 1, 2005. The new law replaced the previous Telecommunications Act and brought the regulations in Estonia into compliance with the more important European Union requirements. Among other things, the principles for declaring an enterprise to be an undertaking with significant market power changed upon the new law coming into force. Starting in 2005, undertakings with significant market power will be declared in domain-specific markets, and obligations resulting from the new law will be applied to them.

A significant regulatory change was the number portability requirement for mobile operators that came into force as of January 1, 2005. The implementation of the requirement was accompanied by increased price competitiveness during the first half of 2005, and the arrival on the market of several new brands. At the same time, based on the experiences of the first year, the utilization of number portability by customers was more modest than expected and no significant redistribution of market shares took place.

A significant marker in the development of the Estonian mobile communications market, the 100% mobile phone penetration level, was exceeded in September of 2005. At the end of 2005, the number of active SIM cards per 100 residents already reached 106, and a continued increase in penetration is expected. The increase in penetration is supported by the increasing number of customers with several SIM cards, regardless of whether the reason for using several cards is a wish to use different service packages to optimize expenses, the need for mobile data communications, or the acquisition of equipment managed by mobile communications.

In 2005, competition was also activated in the market for fixed communications. AS Starman, which started its activities as a cable TV operator, announced several offers during the year in the field of fixed-line voice communications and the Internet. AS Norby Telecom, which was formed as a result of the consolidation of the smaller Internet connection providers in the spring of 2005, has quickly expanded its activities in almost all regions of Estonia. If in the case of mobile communications, Estonia is a market with high penetration that exceeds 100%, then by the end of 2005, the number of permanent

Internet connection per 100 residents reached almost 15%. At the same time, this is a very rapidly increasing market—during 2005, the number of connections increased by almost 40%.

In 2005, the trend for a decrease in connections continued in fixed-line telephones. Strong competition from the mobile operators has made thousands of people give up their fixed-line telephones. A certain slowdown in the declining trend may be brought about by offers for complex solutions, which were started in 2004, and which during 2005, became even more extensive and diverse, whereby fixed-line telephone connections and free call minutes are offered with Internet connections or TV reception. At the same time, Tele2 Eesti AS, which has entered the fixed-line telephone market in 2001, announced in fall of 2005 that it would discontinue activities in the ordinary telephone services market.

2005 saw important developments in the technological landscape. In October, the first commercially available 3G network in Estonia was launched. By the end of the year, three operators had started to establish WiMax networks.

2006 may bring many new complex solutions, encompassing different services, to the telecommunications market. Already during the first months of the year, a joint solution from AS EMT and Elion Enterprises AS for small and mid-sized businesses has reached the customers. Packages combining voice and data communications, IT services, and TV-transmission for other customer groups will also be definitely introduced. The diversification of technological possibilities – expansion of EDGE and 3G coverage, establishment of new WiMax coverage areas – will also definitely continue. As elsewhere in Europe, IP-based services are also being developed and tested in Estonia.

CHANGES IN THE STRUCTURE OF THE EESTI TELEKOM GROUP

During 2005, three companies were added to the Eesti Telekom Group. On December 30, 2004, Elion Enterprises AS, a subsidiary of AS Eesti Telekom signed a purchase and sale contract for the purchase of Viru Net OÜ. Viru Net OÜ is one of the leading Internet service providers in East-Viru County. By acquiring Viru Net OÜ, Elion Enterprises AS wished to strengthen its market position in East-Viru Country and to consolidate the Estonian Internet market. The financial results of Viru Net OÜ have been consolidated with the Eesti Telekom Group since January 2005.

On May 17, 2005, Elion Enterprises AS, along with SIA Lattelekom in Latvia and AB Lietuvos Telekomas in Lithuania, which also belong to the TeliaSonera Group, announced their plan to purchase AS MicroLink, the leading IT company in the Baltic states, in order to offer their customers the widest possible selection of IT and telecommunications services and comprehensive solutions.

The AS MicroLink purchase agreement came into force on October 31, 2005, when Elion Enterprises AS acquired 96% of the shares in AS MicroLink. On November 14, 2005, AS MicroLink operations in Latvia and Lithuania were resold to SIA Lattelekom and AB Lietuvas Telekomas respectively.
AS MicroLink Eesti, a subsidiary of AS MicroLink, continues operations within the Elion Group.

In December of 2005, Elion Enterprises AS made an offer to the small shareholders of AS MicroLink for the purchase of their shares. By the end of 2005, the participating interest of Elion Enterprises AS had increased to 99.7%. Since November of 2005, the results of AS MicroLink and AS MicroLink Eesti have been consolidated into the Eesti Telekom Group.

On September 20, 2005, Elion Enterprises AS sold its 50% interest in the associated company AS Intergate. Like Elion, SEB Ühispank also sold its interest in AS Intergate. AS Intergate was bought out by the company's management.

AS Intergate was established in 2000 to develop widely used Internet environments with added value for the private and business sector. The best-known projects developed by Intergate are E-kindlustus, an Internet insurance broker; City24.ee, a real estate portal; and the software development company, Webmedia. The share capital of AS Intergate is 30 million EEK. In 2004, the net profit for AS Intergate was 5.7 million EEK.

The sale of shares in AS-is Intergate was caused by a change in the strategic focus of Elion, whereby the sale of the shares was considered to be the most rational decision.

EESTI TELEKOM GROUP

Profits

In 2005, Eesti Telekom Group revenues were 5,168 million EEK (2004: 5,138 million EEK), increasing 1% as compared to 2004. In December of 2004, AS Eesti Telekom subsidiary Elion Enterprises AS sold its 51% interest in AS Eltel Networks, which deals with network construction. This also ended the activities of the Eesti Telekom Group in the construction sector. By deducting the influence of the discontinued operations, from 2004 revenues, the increase in the 2005 revenues of the Eesti Telekom Group would be 3%.

The majority of the increase in group's consolidated revenues, almost 70%, came from the mobile communications sector. Fixed-line communications revenues also showed an increase in 2005. At the same time, in the case of fixed-line communications, an important growth factor was the acquisition of the new subsidiary, AS MicroLink Eesti, and the consolidation its financial results during the last two months of 2005. In the case of both the mobile and fixed-line communications sector, the retail chains showed strong growth during 2005. The rapid development of Internet-based services has supported the demand for computers and accessories and the Eesti Telekom Group retail chains have become considerable forces in the marketplace.

In 2005, the operating costs of Eesti Telekom Group remained at the same level as 2004, reaching 3,027 million EEK (2004: 3,016 million EEK). By deducting the construction operations costs from the 2004 results, the 2005 increase in operating costs would be 5%. The increase in operating costs was caused by an increase in costs for the goods and services necessary for providing the services. As for revenues, the majority of the increase in costs came from the mobile sector. The increase in call minutes was accompanied by an increase in interconnection and roaming costs. Another important area for the increase in operating costs was the retail activity, in which increased sales volumes were accompanied by larger costs for merchandise acquisition. The third factor in increased costs was the acquisition of AS MicroLink and AS MicroLink Eesti and the consolidation of the operating costs for November and December.

The EBITDA for the Eesti Telekom Group in 2005 was 2,141 million EEK (2004: 2,122 million EEK), increasing by 1% compared to 2004. In 2005, the EBITDA margin remained the same. In 2005, the respective indicator was 41.4% and 41.3% in 2004.

In 2005, the Group's depreciation decreased by 64 million EEK as compared to 2004, declining to 753 million EEK. The reduction resulted primarily from the smaller depreciation costs of Elion Enterprises AS. Based on this reduction, the EBIT of the Eesti Telekom Group increased by 6% to 1,388 million EEK in 2005. The EBIT margin improved reaching 26.9% in 2005 (2004: 25.4%). In 2005, net financial revenues reached 48 million EEK, which was 28 million EEK less than net revenues in 2004. At the same time, the 2004 results included the 43 million EEK profit from the sale of AS Eltel Networks.

In 2005, the Eesti Telekom Group profit before taxes was 1,436 million EEK (2004: 1,381 million EEK), increasing 4% as compared to 2004. By a resolution of the general meeting of shareholders, AS Eesti Telekom paid its shareholders a dividend of 8.00 EEK per share for the 2004 financial year. The same size dividends per share were also paid in 2004 for the 2003 financial year. Due to an increase in share capital in June 2004, the total AS Eesti Telekom dividend amount increased from 1,101 million EEK in 2004 to 1,104 million EEK in 2005. At the same time, the income tax rate to be paid on the dividends in 2005 decreased from 26/74 of the dividend amount in 2004 to 24/76 of the dividend amount in 2005. Due to the lower tax rate, the income tax cost in 2005 was 34 million EEK less than in 2004, declining to 349 million EEK.

In 2005, the Eesti Telekom Group earned a net profit of 1,088 million EEK (2004: 998 million EEK), which was 9% more than in 2004. The earnings per share reached 7.88 EEK in 2005 (2004: 7.21 EEK).

Balance sheet and cash flows

As of the end of December 2005, the balance sheet total for the Eesti Telekom Group was 4,659 million EEK (December 2004: 4,524 million EEK). The non-current assets of the group have decreased by 97 million EEK, including 181 million EEK of tangible fixed assets based on the moderate investments of the last few years. Intangible assets have grown by 75 million EEK, related to the intangible assets registered in connection with the acquisition of the participating interest in AS MicroLink. The group's current assets have grown by 232 million EEK, of which the majority, 187 million EEK, results from an increase in cash, cash equivalents, and short-term investments.

Eesti Telekom Group equity at the end of 2005 was 4,040 million EEK (December 2004: 4,056 million EEK). Interest-bearing debt obligations continue to be modest, reaching 9 million EEK by the end of 2005 (December 2004: 20 million EEK). The group's net debt at the end of December 2005 was -1663 million EEK and the net gearing was -41.2%. During 2005, other current liabilities of the Eesti Telekom Group increased by 162 million EEK to 603 million EEK by the end of December.

The 2005 Eesti Telekom Group cash flow from operations was 1,958 million EEK (2004: 1,645 million EEK). Cash flow into investment activities has increased in connection with the acquisition of MicroLink and larger investments into fixed assets. If the cash flow into investment activities in 2004 was 478 million EEK, then this indicator reached 729 million EEK in 2005. The cash flow into financing activities was 1,131 million EEK (2004: 1,089 million EEK). In 2005, Eesti Telekom Group cash flows totaled 98 million EEK (2004: 78 million EEK).

The group's ROA and ROE continue to remain at a high level. During the year, the ROE increased from 35.0% to 36.9%. The ROA increased from 22.1% to 24.5%. The ROA level is influenced by cash with small productivity and the large ratio of bank accounts among the assets.

Management and personnel

The number of employees in the Eesti Telekom Group as of December 31, 2005 was 2,186 (1,959 as of December 31, 2004). The number of employees increased in connection with the addition of AS MicroLink Eesti to the group (number of employees as of December 31, 2005: 186). The average number of employees during 2005 was 2,000. The amount of salaries paid to employees in 2005 was 396 million EEK (2004: 365 million EEK, salaries of discontinued operations excluded).

As of December 31, 2005, 61 people belonged to the key management and supervisory council of the Eesti Telekom Group. 40.3 million EEK was paid to the key management and supervisory council.

There were six employees at AS Eesti Telekom as of December 31, 2005 (7 as of December 31, 2004). The salaries paid to the employees totaled 6 million EEK in 2005 (2004: 8 million EEK). As of December 31, 2005, 11 people belonged to the key management and supervisory council of AS Eesti Telekom. The salaries paid to the key management and supervisory council in 2005 totaled 6.5 million EEK.

ELION GROUP

The following companies belong to the Elion Group: Elion Enterprises AS, AS Elion Esindus, AS EsData, Viru Net OÜ, AS MicroLink, and AS MicroLink Eesti.

The revenues of the Elion Group in 2005 were 2,588 million EEK, (2004: 2,677 million EEK), decreasing 3% compared to 2004. By deducting the revenues of AS Eltel Networks, which was sold in 2004, from the consolidated results, there would be a 3% increase in the revenues for 2005.

Of the main fields of activity for the Elion Group, in 2005, the revenues from IT and data communications, which grew 18% compared to 2004, showed the fastest growth. The acquisition of AS MicroLink Eesti made an important contribution to the growth of the revenues in this field of activity. At the same time, Elion Enterprises AS itself also dealt successfully with offering IT and data communications services throughout 2005. Starting in January 2005, Elion Enterprises AS is a Microsoft Certified Golden Partner in the area of networking infrastructures. This status allows the customers to be sure that the Microsoft Partner fulfills all the requirements designated at its quality level.

In January of 2005, Elion Enterprises AS completed the public procurement for the Tallinn Educational Department, by installing 90 MicroLink computers with monitors and software in 20 Tallinn schools. Within the framework of the entire public procurement, Elion has supplied over 1,600 computers with servers, printers, video-projectors, and high-speed Internet connections to schools, hobby schools, and kindergartens. An extra-high-speed data communications network was provided for five years to Tartu schools and institutions administered by the city government. The city-wide fiber-optic cable network, which was constructed in order to equip the Tartu schools, museums, libraries and other institutions administered by the city government with high-speed data communications connections, connects 31 buildings and is based on *Gigabit Ethernet* and *Fast Ethernet* technologies. In order to acquire customers who are interested in complex services, in September, Elion introduced a new offer for start-up companies. In cooperation with Estonia’s largest commercial bank, Hansapank, a start-up package was offered to companies that includes bank services, training, and favorable IT and communications solutions.

During all of 2005, all Elion Group revenues in Internet connections and services showed strong growth. The increase in revenues reached 17%. In 2005, the number of Elion Group permanent Internet connections increased by 40% reaching 108.0 thousand by the end of the year (December 2004: 76.8 thousand). The coverage area for permanent Internet connections expanded by more than 20% and currently permanent connections are available in all Estonian towns and more than 1,000 villages. Elion assesses its share in the market for permanent Internet connections for private individuals to be 53%. The market share has increased by 6-7 percentage points during the year. The increase in the number of permanent connections has been supported by the introduction of *Kodu-* and *Ärilahendus* [Home and Business Solution] packages, and the various opportunities offered to customers by Elion to

acquire computers. In addition, Elion is continuing to develop its Internet product portfolio, by offering customers a wider range of communications services.

In the second quarter of 2005, Elion introduced a new service to the market – Digi TV. In cooperation with Alcatel, Elion started to offer a laser-optic cable solution to new residential districts, which facilitates super-high-speed Internet connections, voice communications, and super-high-quality digital TV reception. This is one of the first uses of passive optical network (PON) technology in Europe. In new apartment buildings, Elion uses ordinary cable-TV or coaxial networks to offer digital television, and the DigiTV signal is delivered to the building by laser-optic cable.

At the end of 2005, Elion started to test TV transmission over ADSL and CAT5 networks, in order to start offering triple services to both Kodulahendus and Korrusmaja Lahendus [Home and Multi-Story Building Solutions] customers in the first half of 2006, which would include quality DigiTV in addition to high-speed permanent Internet connections and fixed-line telephone connections. In this way, DigiTV would gradually arrive in smaller settlements where the possibility of cable television does not currently exist.

In December 2005, Elion established its first WiMax (new wireless Internet technology) coverage areas near Tallinn around Saku and Suurupi. During 2006, it is planned to cover all of Harju County with WiMax, in order to offer radio Internet in a wider area.

In 2005, Elion Group revenues from voice communications decreased by 9%. An important factor in the decrease of voice communications revenues continues to be clients giving up fixed-line telephones, and call minutes being directed to mobile networks. At the end of 2005, Elion had 408.8 thousand main lines in use (December 2004: 426.1 thousand). Thereby, the number of main lines decreased by 17.3 thousand. Another important factor influencing the drop in voice communications revenues was a summer discount campaign targeting those who might potentially give up their fixed-line telephones, which temporarily offered voice communication connections at half the normal monthly fee. Starting on October 15, Elion reduced the cost of intra-network calls to *Kodupaket* [Home Package] customers. If previously, *Kodupaket* customers had the opportunity to choose between three *Sõbranumbers* [Friend Numbers], which the customer could call at a discounted price per minute and after ten minutes talk for free, then on 15 October, the offer of free minutes was expanded to all intra-network calls that last more than nine minutes. In other words, Elion *Kodupaket* customers do not pay more than 3.54 kroons for any intra-network calls, no matter how long the conversation.

In 2005, Elion did not suffer any significant decrease in the share of the voice communications market. Elion estimates its market share of call minutes initiated from a fixed-line network to be 85% (December 2004: 86%). Market share of local call minutes is 86% (December 2004: 87%), of international call minutes 66% (December 2004: 69%), calls made to mobile telephones 72% (December 2004: 75%), and dial-up minutes 97% (December 2004: 96%).

In 2005, revenues from network services increased by 1% compared to 2004. The growth resulted from increased volumes in international transit traffic.

In 2005, Elion Group retail revenues also showed strong 28% growth. The rapid growth of permanent Internet connections has been accompanied by great demand for computers, especially laptops. At the end of 2005, Elion Esindus (the retail sales chain of the Elion Group) also started to sell LCD TVs, in order to offer the equipment necessary for watching DigiTV along with a quality TV picture.

In 2005, Elion Group operating costs decreased by 6% compared to 2004, declining to 1,716 million EEK (2004: 1,816 million EEK). By deducting the influence of discontinued operations from the 2004 operating costs, the increase in 2005 operating costs would be 2%. The increase in operating costs in 2005 (compared to the 2004 adjusted results) resulted from the accession of AS MicroLink Eesti to the group and the consolidation of its operating costs during the last two months of 2005. During the year, the purchases costs for goods and services increased, this primarily due to the increased activity volumes of the AS Elion Esindus retail chain. In 2005, the costs related to interconnection fees declined. The decrease in interconnection fees was supported by the reduction in termination fees by the mobile operators in March-April of 2005.

The 2005 EBITDA of the Elion Group grew by 1% compared to 2004, reaching 872 million EEK (2004: 861 million EEK). The EBITDA margin increased from 32.2% in 2004 to 33.7% in 2005. The reduction of Elion Group depreciation also continued in 2005, when the drop compared to 2004 reached 17%. The Elion Group EBIT was 486 million EEK (2004: 394 million EEK), increasing by 23% in one year. In connection with the increased volume of installment purchases, Elion Group interest revenues increased significantly in 2005. At the same time, the 43-million-kroon profit from the sale of the Eltel Group was reflected in the financial revenues for 2004, whereby the financial revenues (net) as a whole decreased in 2005 by 54% compared to 2004. The Elion Group EBT in 2005 was 511 million EEK (2004: 449 million EEK), increasing 14% during the year. In 2005, the Group's income tax costs for dividends increased by 25 million EEK compared to 2004, due to the 400-million EEK dividend payment made by Elion Ettevõtted AS to the parent company (2004: 300 million EEK). In 2005, the Elion Group earned a net profit of 385 million EEK, which is 11% more than in 2004 (2004: 347 million EEK).

The Elion Group invested 370 million EEK in 2005 (2004: 243 million EEK). The main portion of the investment has gone to development of the DSL network.

At the end of December 2005, 1,673 people worked for the Elion Group (December 2004: 1,454 people). The increase in the number of employees resulted from the accession of AS MicroLink Eesti. The total amount of salaries paid to employees in 2005 was 274 million EEK (2004: 253 million EEK, salaries of discontinued operations excluded).

EMT GROUP

The following companies belong to the EMT Group: AS EMT, EMT Esindused AS, and AS Mobile Wholesale.

2005 was a tense year for the EMT Group. On January 1, 2005, the number portability requirement was introduced in Estonia, which was accompanied by heightened pressure to reduce service rates and to increase the discounts and subsidies offered to the customers. For the EMT Group, this intensification of competitiveness meant a 1% drop in revenues and 5% decline in EBITDA in the second quarter of 2005 as compared to the same period in 2004. By the second half of 2005, the mobile communications market stabilized and EMT Group revenues and EBITDA again turned upward.

As a whole, EMT Group revenues in 2005 reached 3,088 million EEK (2004: 2999 million EEK), increasing by 3% compared to 2004. A contribution to the increase in revenues was made basic and support services.

The growth of the AS EMT client base also continued in 2005, but did not equal the growth in 2004, when the operator recorded a record number of new customers. During 2005, the number of active SIM cards increased by 82 thousand to 677 thousand as of 31 December (December 2004: 595 thousand). EMT estimates its market share, based on the number of active SIM cards, to be 47% as of the end of December 2005.

During 2005, the number of SIM cards of contractual clients increased by 43 thousand, and as of the end of December, 406 cards were in use (2004: 363 thousand). Since mobile communications penetration in Estonia has already exceeded 100%, then the potential for growth by adding new clients for mobile operators will become ever more limited. The ever-increasing use of data communications by the customers has favorably influenced the increase in the number of active SIM cards at AS EMT. By the end of 2005, over 100 thousand customers used the AS EMT network for mobile data communications services.

The spread of mobile data communications should additionally be supported by the introduction of a 3G network by AS EMT. On 28 October 2005, AS EMT started to offer 3G service, the first mobile operator in Estonia to do so, and opened a 3G network for commercial use. Data transmission in the EMT 3G network, takes place at 384Kb per second. After the introduction, EMT 3G coverage includes the majority of the Estonian capital, Tallinn, in outdoor conditions. In the other larger town, the possibility for mobile data communications is offered based on EDGE technology. It is possible to use GPRS data communications throughout Estonia.

The first year of number portability also elapsed successfully for AS EMT. During the year, a total of 75 thousand customers in Estonia moved from one operator network to another. Therefore, the rate of portability remained relatively modest compared to the expectations of a year ago. For AS EMT, 2005 ended with a slightly positive balance in regard to number portability.

During 2005, the number of active pre-paid cards increased by 39 thousand, reaching 271 thousand by the end of December (2004: 232 thousand). In one year, the ratio of pre-paid cards to total active SIM cards has increased from 39.0% to 40.0%. The continued fast growth of pre-paid cards has been helped by the group's discount operator, Diil. In 2005, one of the important developments in the field of mobile communications was the differentiation of the discount operator market from the quality operator market. According to estimates, at the end of 2005, the discount operators serviced about 10% of the active SIM cards, or 150 thousand cards. Diil had the largest market share in this sector, with 71 thousand active cards at the end of 2005.

Of the revenues from EMT's principle activity, the revenues from SMS and MMS messages showed the fastest growth, at a pace of growth that reached 8% compared to 2004. The increase in revenues is caused by customers making livelier use of services. The increase in the number of active cards and the livelier use of call services by the customers compensated for the drop in mobile call rates, and EMT revenues from domestic calls and mobile Internet grew by 5% compared to 2004. In March-April of 2005, all of Estonia's mobile communications operators lowered the termination fees in their networks (In the case of EMT, the termination fees established for other operators were lowered from 2.75 EEK per minute to 2.50 EEK). Based on reduced interconnection fees, AS EMT revenues earned from interconnection fees slowed in 2005. During the year, the growth of roaming revenues also slowed. The many discount offers made to the customers caused the revenues earned from monthly fees to decrease in 2005 compared to 2004.

In 2005, AS EMT earned average revenues per user (ARPU) of 337 EEK per month (2004: 381 EEK). The downward ARPU trend slowed from quarter to quarter in 2005, reaching 9.0% in December of 2005 (March 2005: 12.8%; June 2005: 11.5%; September 2005: 10.6%).

An important contribution to the increase of total revenues was made by the EMT Group retail chain, EMT Esindused AS. The external revenues of EMT Esindused AS in 2005 exceeded the same indicator in 2004 by 15%. The increase in sales revenues was the result of successful mobile phone sales, as well as the sale of laptop computers that has taken off in EMT Esindused, supporting the use of mobile data communications by the customers.

In 2005, EMT Group operating costs reached 1,800 million EEK (2004: 1,712 million EEK), increasing 5% compared to 2004. The increase of principle activity costs resulted primarily from the increase in costs related to domestic interconnection services and roaming. In these cost categories, the increases are caused primarily by a larger AS EMT customer base and livelier use of the services by the customers. A third important growth factor was the growth of purchasing costs related to increased retail sales volumes. During 2005, EMT Group general costs decreased.

The 2005 EMT Group EBITDA was 1,288 million EEK (2004: 1,288 million EEK). The EBITDA margin fell somewhat to 41.7% in 2005 (2004: 42.9%). EMT Group depreciation increased slightly in 2005, reaching 366 million EEK (2004: 350 million EEK). The increase resulted from the somewhat accelerated depreciation of some exchange equipment during the fourth quarter of 2005, which were related to the adjustment in the useful life of the equipment.

The larger depreciation amount also caused fact that, in 2005, EMT Group EBIT decreased by 2% compared to 2004 to 921 million EEK (2004: 938 million EEK). The EMT Group financial revenues (net) increased by 1 million EEK in 2005 reaching 9 million EEK. The group's EBT was 930 million EEK, which was 2% less than the 2004 result. The income tax cost for EMT Group dividends in 2005 was 60 million EEK less than the income tax cost in 2004. The reduction resulted from a dividend payment that was smaller by 100 million kroons, as well as a reduction in the rate of income tax on dividends from 26/74 to 24/76.

The EMT Group earned a net profit of 709 million EEK in 2005 (2004: 665 million EEK), which was 7% more than in 2004.

In 2005, the EMT Group invested 191 million EEK (2004: 295 million EEK). The main portion of the investment went to guarantee the quality of the technological infrastructure. An important investment object was the construction of the 3G network covering the entire city of Tallinn.

At the end of December 2005, 507 people were employed by the EMT Group (December 2004: 498). In 2005, the salaries paid to the employees totaled 114 million EEK.

RELATIONS WITH THE REGULATOR

AS EMT declared an undertaking with significant market power

On 23 March 2006, the Estonian National Communications Board notified AS EMT of its decision to have it declared an undertaking with significant power in the market of voice call termination on mobile networks.

Declaration as an undertaking with significant market power takes place according to the Electronic Communication Act, with which Estonia took over the European Union framework regulating electronic communications networks and services. The Communications Board also declares the remaining two communications companies operating mobile communications networks—Elisa Mobiilsideteenused AS and Tele2 Eesti AS—as undertakings with significant power in the market of voice call termination on mobile networks.

To guarantee the development of a market open to competition, and the promotion of competition in providing electronic communications services on the market, the National Communications Board plans to establish the following obligations, specified in the Electronic Communications Act, on an equal basis for the communications companies that have been declared to have significant market power: a transparency obligation, non-discrimination obligation, accessibility obligation, and an obligation for price controls and cost accounting. According to the resolution plan, in 2006-2008, communications companies should charge voice call termination based on "glide path" and "price cap" mathodologies. Based on those methodologies, the tariff rate for voice call termination, to be implemented starting on

1 July 2006, should not be higher than 2.05 EEK/min in any of the aforementioned communications companies. The respective tariff rate that is the final objective planned by the Communications Board would be 0.93 EEK/min by 2008.

By the law, AS EMT is entitled to submit an objection to the decision within one month.

GENERAL MEETING OF SHAREHOLDERS

The AS Eesti Telekom General Meeting of Shareholders that took place on May 18, 2005 approved the 2004 Annual Report and the proposal for profit distribution. The legal reserve of AS Eesti Telekom was increased by 0.3 million EEK, in order to meet the legal requirement after the increase in share capital that took place in June 2004. It was decided to pay a dividend of 8.00 EEK per share to the company's shareholders. A total of 1,104 million EEK was paid out in dividends. The list of shareholders entitled to dividends was fixed as of June 2, 2005 at 8 am. The dividends were paid out on June 16, 2005.

The General Meeting of Shareholders decided to allow AS Eesti Telekom to acquire AS Eesti Telekom shares within one year (i.e. until May 18, 2006) in such a way that the nominal value of the shares belonging to AS Eesti Telekom does not exceed the limit allowed by law and the amount paid for the shares is not greater than the highest price paid for AS Eesti Telekom shares on the Tallinn Stock Exchange on the day the shares are acquired. The number of shares to be acquired will be determined before each purchase transaction by resolution of the AS Eesti Telekom Supervisory Board.

A seven-member AS Eesti Telekom Supervisory was again elected. Bengt Andersson, Erik Hallberg, Alo Kelder, Tomas Lenke, Tarmo Porgand, Mats Salomonsson and Raivo Vare were elected to the Supervisory Board. At the AS Eesti Telekom Supervisory Board meeting on June 8, Erik Hallberg was elected as chairman of the Supervisory Board.

AS PricewaterhouseCoopers was chosen to the AS Eesti Telekom auditor for the 2005 financial year.

PLANS FOR 2006

In 2006, the Eesti Telekom Group plans to continue improving the quality of servicing and services and to continue offering integrated communications solutions, which allow for the cooperation of the fixed-line and mobile communications companies as well as IT companies belonging to the group. By cooperating, we can offer solutions that satisfy all communications and IT-related needs in homes and offices.

EMT, the group's mobile communications operator, believes the trend in the mobile communications market for 2006 will be the development of an inexpensive, but qualitative communications market, as well as investments into innovative technologies, which will continually allow more new services to be offered to the customers. In 2006, the construction of communications networks enabling quality data communications will continue. AS EMT plans to continue developing 3G networks in Tartu and Pärnu, and also to expand the EDGE network, which already covers Estonia's larger towns and popular recreation areas. In 2006, an increase in the number of 3G telephones is anticipated. A "music telephone", which in addition to communications would allow for listening to the radio and recording music, could become an alternative to MP3.

Elion Enterprises AS will continue the expansion of the DSL network, but also the development of several networks based on radio solutions. As far as the services offered to customers, we plan to increase the ratio of entertainment. In addition to communications opportunities, we will start offering digital TV reception for homes, and in the future, remote video rental, online-games, etc. with all the necessary equipment, maintenance, and servicing. For this, we plan to enter the DigiTV mass market in 2006, and to start offering *Kodulahendus* [Home Solution] and *Korrusmaja Lahendus* [Multi-Story Building Solution] as a triple service, which includes TV programs in addition to Internet and telephone connections. The goal is for DigiTV to reach half the homes in Estonia by 2010.

In 2006, we await fast developments regarding the IT services that we offer. We wish to actively offer IT services to both business and private customers, also encompassing installment purchase and rental services. We hope to develop a value chain and to provide more services that support the consumption of communications services. These fields of activity include administrative services for local networks and computer workplaces, server and storage equipment solutions, security solutions and IT applications including communications services.

FINANCIAL STATEMENTS OF AS EESTI TELEKOM GROUP

MANAGEMENT BOARD'S CONFIRMATION OF THE FINANCIAL STATEMENTS

The Management Board confirms the correctness and completeness of the consolidated financial statements of AS Eesti Telekom Group for the year 2005 as set out on pages 12 to 60.

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.

Name	*Position*	*Signature*
Jaan Männik	*Chairman of the Board*	....
Hille Võrk	*Member of the Board*	....

Tallinn, 27 March 2006

In thousands of Estonian kroons

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2005	2004 Restated
Continuing operations:			
Revenues			
Sales	2 (a, b), 3, 4 (a)	5,149,937	4,972,661
Other operating income	3, 4 (b)	18,488	21,973
Total revenues		**5,168,425**	**4,994,634**
Operating expenses			
Materials, consumables, supplies and services	2 (a), 3	(1,955,500)	(1,803,114)
Other operating expenses	2 (a), 3	(513,789)	(565,851)
Personnel expenses	2 (a), 3, 4 (c)	(538,112)	(498,163)
Other expenses	2 (a), 3, 4 (d)	(19,867)	(17,400)
Depreciation, amortisation and impairment of fixed and intangible assets	2 (a), 3, 4 (d)	(752,741)	(812,450)
Operating profit		**1,388,416**	**1,297,656**
Net income/(expenses) from associates	2 (a), 3	452	40,020
Other net financing items	2 (a), 3, 4 (f)	47,225	32,682
Profit before tax		**1,436,093**	**1,370,358**
Income tax on dividends	2 (a), 3, 5	(348,515)	(382,918)
Profit for the year from continuing operations		**1,087,578**	**987,440**
Discontinuing operations:			
Profit for the year from discontinuing operations		-	11,020
Net profit for the period		**1,087,578**	**998,460**
Attributable to:			
Equity holders of the Company	2 (a), 3	1,087,416	993,568
Minority interest	2 (a), 3	162	4,892
		1,087,578	**998,460**
Earnings per share for profit from continuing operations attributable to the equity holders of the Company during the year	18 (e)		
Basic earnings per share (in EEK)		7.88	7.16
Diluted earnings per share (in EEK)		7.88	7.16
Earnings per share for profit from discontinuing operations attributable to the equity holders of the Company during the year	18 (e)		
Basic earnings per share (in EEK)		-	0.04
Diluted earnings per share (in EEK)		-	0.04

The notes presented on pages 17 to 60 form an integral part of the consolidated financial statements.

In thousands of Estonian kroons

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Notes	**2005**	**2004 Restated**
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,833,916	2,014,908
Goodwill	8	55,416	-
Licenses, patents, trademarks	8	111,272	91,190
Investments in associates	11	2,951	18,804
Other non-current receivables	12, 13	44,194	19,985
Total non-current assets		**2,047,749**	**2,144,887**
Current assets			
Inventories	14	86,870	124,382
Trade and other receivables	15	836,945	770,129
Short-term investments	16	1,266,638	1,153,740
Cash and cash equivalents	17	405,548	331,359
Total		**2,596,001**	**2,379,610**
Assets classified as held-for-sale	6	15,749	-
Total current assets		**2,611,750**	**2,379,610**
TOTAL ASSETS		**4,659,499**	**4,524,497**
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders of the Company	18		
Share capital		1,379,545	1,379,545
Share premium		356,018	356,018
Statutory legal reserve		137,955	137,645
Retained earnings		2,165,819	2,182,349
Total equity attributable to equity holders of the Company		**4,039,337**	**4,055,557**
Minority interest		**1,160**	-
Total capital and reserves		**4,040,497**	**4,055,557**
Non-current liabilities			
Interest-bearing loans and borrowings	19 (a)	5,773	604
Retirement benefit obligations	24 (a)	6,926	8,006
Total non-current liabilities		**12,699**	**8,610**
Current liabilities			
Trade and other payables	22	594,444	436,906
Interest-bearing loans and borrowings	19 (b)	3,173	18,968
Retirement benefit obligations	24 (a)	865	651
Provisions	24 (b)	7,821	3,805
Total current liabilities		**606,303**	**460,330**
TOTAL EQUITY AND LIABILITIES		**4,659,499**	**4,524,497**

The notes presented on pages 17 to 60 form an integral part of the consolidated financial statements.

In thousands of Estonian kroons

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company						Minority interest	Total equity
	Notes	**Share capital**	**Share premium**	**Statutory legal reserve**	**Translation reserve**	**Retained earnings**	**Total**		
1 January 2004		**1,376,445**	**331,026**	**137,384**	**(11)**	**2,290,218**	**4,135,062**	**13,540**	**4,148,602**
Amounts transferred to reserves	18 (b)	-	-	261	-	(261)	-	-	**-**
Exchange differences arising from translation of foreign operations		-	-	-	11	(11)	-	-	-
Issue of share capital	18 (a)	3,100	24,992	-	-	-	28,092	-	28,092
Dividends paid	18 (c)	-	-	-	-	(1,101,165)	(1,101,165)	-	(1,101,165)
Minority interest related to sold subsidiary		-	-	-	-	-	-	(18,432)	(18,432)
Total changes		*3,100*	*24,992*	*261*	*11*	*(1,101,437)*	*(1,073,073)*	*(18,432)*	*(1,091,505)*
Net profit for the period		-	-	-	-	993,568	993,568	4,892	998,460
31 December 2004		**1,379,545**	**356,018**	**137,645**	**-**	**2,182,349**	**4,055,557**	**-**	**4,055,557**
1 January 2004		**1,379,545**	**356,018**	**137,645**	**-**	**2,182,349**	**4,055,557**	**-**	**4,055,557**
Amounts transferred to reserves	18 (b)	-	-	310	-	(310)	-	-	**-**
Dividends paid	18 (c)	-	-	-	-	(1,103,636)	(1,103,636)	-	(1,103,636)
Minority interest arising on business combinations		-	-	-	-	-	-	998	998
Total changes		-	-	*310*	-	*(1,103,946)*	*(1,103,636)*	*998*	*(1,102,638)*
Net profit for the period		-	-	-	-	1,087,416	1,087,416	162	1,087,578
31 December 2005		**1,379,545**	**356,018**	**137,955**	**-**	**2,165,819**	**4,039,337**	**1,160**	**4,040,497**

The notes presented on pages 17 to 60 form an integral part of the consolidated financial statements.

In thousands of Estonian kroons

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2005	2004 Restated
Operating activities			
Net profit for the period		1,087,578	998,460
Adjustments for:			
Income tax on dividends		348,515	382,918
Other net financing items		(47,225)	(30,315)
Net income/(expenses) from associates		(452)	(45,183)
Depreciation, amortization and impairment of fixed and intangible assets	4 (e), 6, 8	752,741	816,472
Profit from sales and write-off of fixed assets	4 (b)	(7,564)	(10,294)
Operating cash flows before changes in working capital		2,133,593	2,112,058
Change in current receivables		49,479	(98,553)
Change in inventories		39,166	(34,365)
Change in current liabilities		85,332	50,142
Cash generated from operations		2,307,570	2,029,282
Interest paid		(735)	(908)
Income tax on dividends paid	5	(348,568)	(382,918)
Net cash from operating activities		**1,958,267**	**1,645,456**
Investing activities			
Purchase of property, plant and equipment	6	(533,632)	(502,587)
Purchase of licences	8	(20,292)	(12,400)
Proceeds from sales of fixed assets		17,563	18,476
Net cash outflow from acquisition of subsidiaries	10	(294,052)	(3,872)
Net cash inflow from sales of subsidiaries		217,475	52,272
Net cash inflow from sales of associates		16,305	-
Net cash changes of short-term investments	16	(87,660)	(37,652)
Loans granted		(94,877)	(36,256)
Repayments of loans granted		2,715	3,829
Interest received		47,669	39,741
Net cash used in investing activities		**(728,786)**	**(478,449)**
Financing activities			
Repayments of convertible debts		-	(48)
Proceeds from non-convertible debts		2,073	1,353
Repayments of non-convertible debts		(4,602)	(7,377)
Repayments of long-term borrowings		(333)	-
Repayments of finance lease liabilities	7	(15,719)	(9,059)
Repayments of short-term borrowings		(8,901)	(176)
Shares issuance	18 (a)	-	27,782
Dividends paid	18 (c)	(1,103,816)	(1,101,165)
Net cash used in financing activities		**(1,131,298)**	**(1,088,690)**
Net change in cash and cash equivalents		**98,183**	**78,317**
Cash and cash equivalents at beginning of year	16, 17	**331,359**	**253,862**
Exchange gains/(losses) on cash		851	(820)
Cash and cash equivalents at end of year	16, 17	**430,393**	**331,359**

The notes presented on pages 17 to 60 form an integral part of the consolidated financial statements.

1. General information and summary of significant accounting policies

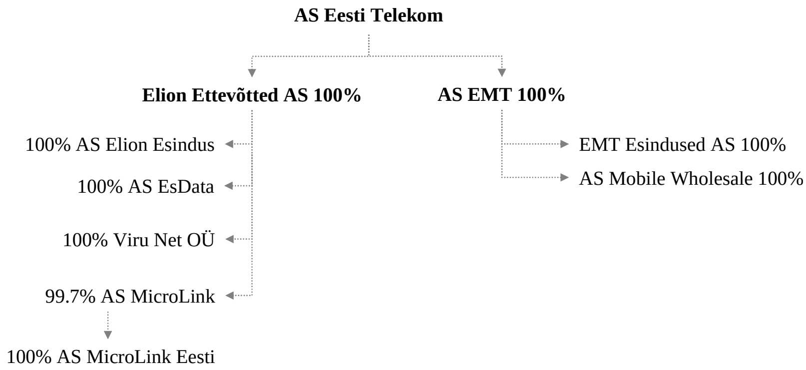
General information

The main activity of AS Eesti Telekom Group is providing services in the field of telecommunications.

AS Eesti Telekom (registration number: 10234957; address: Roosikrantsi 2, 10119 Tallinn, Estonia) is a holding company registered and operating in the Republic of Estonia, with subsidiaries providing services in the field of telecommunications. Starting in 1999, the shares of AS Eesti Telekom are listed on the Tallinn and London Stock Exchanges (OMX: ETLAT / LSE: EETD).

The majority owner of the AS Eesti Telekom is TeliaSonera AB, which is listed on the Stockholm Stock Exchange, through Baltic Tele AB.

The 2005 consolidated statements for the AS Eesti Telekom include the financial results for the following companies:



Summary of significant accounting polices

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

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

Basis of preparation

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

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.

This consolidated statement is signed by the management board for public disclosure on 27 March 2006.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies.

The preparation of the annual financial statements involves estimates made by the Management Board of the parent company about circumstances that influence the Group’s and the parent company’s assets and liabilities as of the balance sheet date, and about income received and expenses incurred during the financial year. These estimates are based upon up-to-date information about the state of the Group and take into consideration the Group's plans and risks as they stand at the date of the financial statements' preparation.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual results may differ from the estimates. Areas comprising critical judgment that may have impact on Group financial statements are valuation of intangible and other long-lived assets, provisions and contingent assets and liabilities, and business combinations.

a) Business combinations

In estimating the fair values in purchase price allocation considerations the management has used among other also the valuations of experts.

The trademark of MicroLink met the criteria for recognition as a separately identifiable asset acquired in a business combination given that it is registered trademark in Estonia and it is in continuous commercial use. As the trade name is actively used and promoted by MicroLink and it contributes to sales to external parties, an income approach should provide the most accurate measure of value. Thus, the relief from royalty method was used for valuation of mentioned trade name.

Contractual and non-contractual customer relationships, which met the criteria for recognition as a separately identifiable asset acquired in a business combination are recognised separately. As the Microlink normally transacts with its customers through establishment of contracts, framework agreements and purchase orders. The value of the customer relationships of an aquired company is evident through ability of the company to generate earnings in excess of a normal fair return on the other tangible and intangible assets employed in the business. Therefore the multi-period excess earnings method was selected to isolate the cash flow attributable to the customer relationships from the cash flow attributable to contributory assets. The expected future revenue streams and EBIDTA margin on a combination of historical trends and future expectations of management have been benchmarked for reasonableness against the forecasts for a group of guideline companies. A remaining useful life of 7 years has been assigned to the customer relationships. Thus, there is a stronger expectation of recurring cash flows from the existing active customer base. The discount rate for customer relationships evaluations was equal to the Microlink WACC.

Specific assets, which must be sold within 9 months subsequent to the acquisition, are classified as assets held for sale and are valued, using the discounted future economic method. The assets held for sale are measured at fair value less cost to sell.

The goodwill recorded has been recognized in connection with the acquisition of MicroLink and ViruNet in 2005. According to standard procedures, the carrying value these operations were tested for impairment as of 31 December 2005. The recoverable values were found to be in excess of the carrying value. Thus, the related goodwill was not impaired.

Estimates and judgements used in business combination evaluations are continually evaluated. If the actual results differ from the estimates, the respective adjustments will be made subsequently.

b) Tangible and intangible assets

The carrying values of the Group's intangible, tangible, and financial fixed assets are reassessed, at least annually and else whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, by analyzing individual assets or classes of assets that naturally belong together. If an analysis indicates that the value recorded is too high, the asset's recoverable value is set, which is the higher of the net realizable value of the asset and its value in use. Value in use is measured as expected future discounted cash flows (DCF model). A write-down consists of the difference between carrying value and recoverable value.
A number of significant assumptions and estimates are involved in using DCF models to forecast operating cash flows, for example with respect to factors such as market growth rates, revenue volumes, market prices for telecommunications services, costs to maintain and develop communications networks and working capital requirements. Forecasts of future cash flows are based on the best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other available information. These assumptions are subject to review by Management Board. The cash flow forecasts are adjusted by an appropriate discount rate derived from our cost of capital plus a reasonable risk premium at the date of evaluation. If the projections for future cash flows for any of Group have fixed assets change as a result of changes in business model or strategy, competitive pressures, or regulatory environment, The Group may have to recognize impairment charges on the intangible and tangible fixed assets.

c) Property, plant and equipment

Depreciation on tangible assets and amortization on intangible assets are based on the historical acquisition value (purchase cost), with appropriate adjustment for impairment and taking into account the estimated useful life of various classes of assets. Management has estimated the useful lives of property, plant and equipment based on the volume and conditions of provided services, historical experience in this area and the perspectives in the future. According to the estimates the useful lives of buildings is 12 to 33 years depending on the construction and purpose of use. The useful lives of telecommunication network equipment are 5 to 10 years depending on the specific equipment conditions and purpose. Other plant and equipment has the useful lives of 2,5 to 7 years depending on the purpose of use. The furniture, fixtures and fittings have the useful live of 2 to 10 years depending on the specific assets. No general changes in depreciation schedules were applied in 2005 and 2004.

d) Provisions and contingent assets and liabilities

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

Adoption of new or revised standards and interpretations

In 2005 the Group adopted all new and revised standards that are effective from or before 1 January 2005. The amended standard, which are applied from 1 January 2005 are following:

- IAS 1 (revised 2003) Presentation of Financial Statements
- IAS 2 (revised 2003) Inventories
- IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 (revised 2003) Events After Balance Sheet Date
- IAS 16 (revised 2003) Property, Plant and Equipment
- IAS 17 (revised 2003) Leases
- IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
- IAS 24 (revised 2003) Related Party Disclosures
- IAS 27 (revised 2003) Consolidated and Separate Financial Statements
- IAS 28 (revised 2003) Investments in Associates
- IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
- IAS 33 (revised 2003) Earnings per Share
- IAS 36 (revised 2004) Impairment of Assets
- IAS 38 (revised 2004) Intangible Assets
- IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
- IAS 40 (revised 2004) Investment Property

The issued new standards, which get into force for the period starting from 1 January 2005 and are applied respectively, are the following:

- IFRS 2 , Share-based Payments
- IFRS 3, Business Combinations
- IFRS 4, Insurance Contracts
- IFRS 5, Non-current Assets Held for Sale and Discontinued Operations
- IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments

Applying these amendments and interpretations to standards, which are applicable to the Group, did not cause significant changes to the accounting principles used previously and did not have influence to the Group results.

According to the requirements the presentation of information is changed and the additional information is disclosed in the notes. There were no significant reclassifications or adjustments into comparatives. However, the adoption of the above standards has resulted in certain changes in presentation of the financial information, which are described below.

Principles of consolidation

a) Subsidiaries

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

The consolidated financial statements include all subsidiaries that are controlled by the parent company. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

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

Minority interests in the equity and financial results of subsidiaries are shown as a separate line item in the consolidated financial statements.

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

b) Associates

An associate is an enterprise in which the Group holds, directly or indirectly, 20% - 50% of the voting power, or where the Group exercises significant influence over the enterprise but is not controlled it.

The acquisition of investments in associated companies is recognized similarly to the acquisition of investments in subsidiary companies.

Investments in associated companies are recognized in the consolidated statements using the equity method, whereby the initial investment is adjusted by the profit/loss obtained from the company and the received dividends. According to the equity method, the unrealized profits and losses created by transactions between the Group and the associated company are proportionally eliminated from the investor's shareholding in the share capital.

The shares of subsidiary and associated companies that are acquired for a period of more than one year are shown as long-term financial investments.

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

c) Transactions and minority interests

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

In thousands of Estonian kroons

Foreign currency

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

The financial statements of foreign subsidiaries are recorded at the Bank of Estonia (*Eesti Pank*) effective exchange rates.

The following exchange rates are used for recalculating the statements of subsidiary companies that are prepared using foreign currency:

- the assets and liabilities are recorded, using the exchange rates prevailing on the balance sheet date;
- Income and expense items are recorded, using the average exchange rates for the period;
- the goodwill created by the acquisition of subsidiaries and adjustments to the fair book value of the assets and liabilities related to the acquisition are treated as assets and liabilities of the subsidiary and therefore are revaluated as of the balance sheet date.

Exchange differences, which arise, are charged to equity and transferred to the Group's recorded reserve. Such recording differences are recognised as income from, or as expenses of, subsidiaries in the period in which the operation has taken place. A recorded reserve in consolidated equity is considered in the calculation of the results of sales of shares of a subsidiary.

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

Currency	**Exchange rate in 2005**		**Exchange rate in 2004**	
	As of 31 December	**Average**	**As of 31 December**	**Average**
EUR	15.64660	15.64660	15.64660	15.64660
USD	13.22060	12.58756	11.47110	12.58881
SEK	1.66071	1.68612	1.73450	1.71506
LTL	4.53157	4.53157	4.53157	4.53157
LVL	22.47260	22.47419	22.42200	23.52225

Property, plant and equipment

Assets with expected useful life of more than one year are capitalised as fixed assets, if it is probable that future economic benefits associated with the asset will flow to the enterprise.

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

If the fixed asset object consists of components, which have significantly different useful lives, the components will be recorded as independent fixed asset objects, with separate depreciation rates assigned according to their useful life. Groups of fixed assets with similar estimated useful lives will be recorded as aggregates.

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

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation rates are set separately to each asset depending on its estimated useful life. Depreciation of an asset is started when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from the active use unless the asset is fully depreciated.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

The following depreciation rates are used by the Group:

- Buildings 3 - 8% per annum;
- Telecommunication network equipment 10 - 20% per annum;
- Plant and equipment 15 - 40% per annum;
- Furniture, fixtures and fittings 10 - 50% per annum.

Freehold land is not depreciated.

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

Leases

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

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

a) The Group as lessor

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

Rental income from operating leases is recognised on a straight-line basis over the term of the lease, irrespectively from collection of relevant receivables.

Assets leased under operating lease are recorded on the balance sheet in conventional rules similarly to that for other Group's assets.

b) The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded in income statement on accrual basis of accounting, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs.

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

Rentals payable under operating leases are charged to expense on straight-line basis over the term of the relevant lease, irrespectively from disbursements for relevant payables. Assets leased under operating lease are not recorded on the balance sheet.

Intangible assets

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired. Goodwill is recognised as an intangible asset in the Group's consolidated financial statements and it shall be not amortised. Goodwill is tested at least once a year and discounted if necessary (see also part of accounting polices "Impairment of non-financial assets"). On the balance sheet, goodwill is recognized as residual value or the acquisition cost less discounts based on impairment losses. Discounts resulting from goodwill impairment losses are recognized in the income statement under the entry "Depreciation and impairments". Impairment losses on goodwill are not reversed. Goodwill recognized in the consolidated balance sheet is internalized when the profit/loss of the parent company is calculated upon the sale of subsidiary's stocks or shares.

Licenses, patents, and trademarks are stated at the lower of the carrying or recoverable amount, and are amortised on the straight-line method over their estimated useful lives (five years, as a rule). Amortisation expenses are recorded in the income statement line "Depreciation, amortisation and impairment of fixed and intangible assets". Recoverable value is equivalent to the higher of a particular asset's sale price, from which sales costs have been deducted, or value in use. The anticipated discounted cash flows for the coming year are used as the basis for determining value in use (see also part of accounting polices "Impairment of non-financial assets").

Amortisation of the third generation mobile communications license acquired by AS EMT started in August 2003 and will continue for ten years.

Research and development expenditure

Research and development costs are charged as an expense in the income statement for the period during which they incurred. Exceptions to this are development costs that are identifiable, verifiable and will generate future economic benefits; the resources needed to complete the development project and the estimated timing of income streams is disclosed. Capitalised development costs are amortised over five years using the straight-line method.

Non-current assets held for sale

Non-current assets held for sale (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. These assets may be a component of an entity, a disposal group or an individual non-current asset.

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

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Impairment losses are recognised as period expenses.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. A recovery in value in use is recognised as a reversal of impairment loss.

Inventories

Raw materials and goods for resale are recorded at cost, which comprises purchase price, non-refundable taxes as well as transportation and other direct acquisition expenditures, less discounts.

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

Cost is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

Financial assets and liabilities

Cash, shares and other securities, trade receivables, accrued income, other short and long-term receivables and derivatives with positive market value are considered to be financial assets. Trade payables, accrued expenses, other short and long-term payables, bonds issued and derivatives with negative market value are considered to be financial liabilities.

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

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

a) Loans and receivables

Loans and receivables are carried at amortised cost using the effective interest method. Impairment testing of trade receivables is described under “Trade receivables”. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

Available-for-sale securities (stocks, bonds, fund shares, etc.), and investments or securities with definite redemption deadlines, which are redeemable within 12 months of the date of the balance sheet, are recognized as short-term financial investments. Securities (stocks, bonds, fund shares, etc.), which will probably not be sold in the next 12 months (exc. for investments in subsidiaries or associates) and securities with definite redemption deadlines, which are redeemable more than 12 months after the date of the balance sheet, are recognized as long-term financial investments (other long-term stocks and securities). Shares and securities are recognised on the balance sheet using the trade date accounting method and are initially recognised at cost, which is the fair value of consideration given to acquire the financial assets. All costs directly connected with the given financial asset are included in the initial acquisition price. The Group had no available for sale investments in the reporting period.

c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group’s management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassificed as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

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

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

d) Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

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

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

e) Factoring of receivables

Factoring is the transfer of receivables. Depending on the terms of the factoring contract the entity either transfers substantially all the risks and rewards of the ownership of the receivable or retains certain risks and rewards.

If the entity retains the control over receivable or other risks associated to the receivable (for example factoring with recourse), the transaction is recorded as a financing transaction (a collateralized borrowing); the amount is retained in the balance sheet as a receivable until collection or until expiration of the recourse. The related liability is recorded similar to other borrowings.

If the entity transfers the control over the asset and substantially all respective risks and rewards at the moment of transferring receivables, the transaction is recorded as the sale of receivable. Related cost is recognized as financial expense or as a cost related to receivables, depending whether the aim of the transaction was to manage the cash flows or to manage the credit risk.

f) Liabilities

Liabilities with payment terms over one year from the balance sheet date are considered to be long-term liabilities. Other liabilities are reported as short-term.

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

Potential liabilities, guarantees and warranties are disclosed in the Notes to the financial statements as contingent liabilities.

The calculation of **retirement benefit provisions** is based on the corresponding agreements that have been concluded. The company has no retirement benefit obligations except for those arsing from individual agreements concluded in the past. Provisions arising from agreements are for fixed period. These provisions are recorded in the balance sheet at their present value as they committed. The interest rates of bonds issued by long-term high quality companies are used as the discount rate. The retirement benefit charges have been included in the income statement as "Personnel expenses" at their nominal value as they committed. The difference between the nominal value and the net present value of the liability is amortized over the period remaining until the maturity date. Initial revaluation into the net present value and the subsequent amortisation of the difference between the nominal value and the net present value of the liability is recorded in the income statement as "Other financial income and expenses".

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

Vacation expenses are recorded in the period the vacation was earned, i.e. when the right to claim the vacation by an employee occurs. Vacation payment earned, or changes made to it, is recorded in the income statement as an expense and on the balance sheet as a short-term liability.

Interest bearing bank loans, credit lines, other loans and bonds issued are initially recognized at the consideration received, less paid transaction costs. These financial liabilities are subsequently measured at amortized cost, in accordance to which the liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount (only for bonds). The amortized cost is determined by applying the internal rate of return, which is calculated by discounting the future net cash flows to the balance sheet value. Amortization of the transaction costs is recorded in the income statement together with the interest expense. The interest expense and borrowing costs are recorded as “Other financial income and expenses” in the income statement in the period in which they arise.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

Taxation

a) Corporate income tax

According to current legislation, the profits of Estonian companies are not taxed, whereby deferred income tax claims or liabilities do not exist. In Estonia instead of profits, dividends paid from undistributed profits are taxed at a rate of 23/77 (until 31 December 2005, a tax rate of 24/76 was in force and until 31 December 2004, a tax rate of 26/74), on the net dividend paid out. The corporate tax resulting from the payment of dividends is recognized as an income tax expense in the same period as the dividends are declared regardless of for which period the dividends are declared or when they are actually paid out.

b) Other taxes

Other taxes, that are affected the Group’s results, and tax rates in 2005 were the following:

- Social tax - 33% of the paid payroll to the employees and of the fringe benefits;
- Unemployment tax - 0,5% of the paid payroll to the employees;
- Income tax on fringe benefits - 24/76 of the fringe benefits to the employees; (2004: 26/74)
- Income tax on expenses not related to business activities - 24/76 of the expenses not related to business activities (2004: 26/76);
- Land tax - 0,5-2% of the taxable value of the land per annum.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the expected lives of the related assets.

Government grants for operating expenses are recognised in proportion with the related expenses. The expenses for compensating and the compensations are recorded separately.

Revenue recognition

Net sales are recorded at the sales value, adjusted for discounts granted and sales related taxes. Sales principally consist of traffic charges including interconnect and roaming, subscription fees, connection and installation fees, and service charges.

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

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

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

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

The services and products may be bundled into one customer offering. Offerings may involve the delivery or performance of multiple products or services (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. Telecom equipment is accounted for separately from service where a market for each deliverable exist and if title to the equipment passes to the end-customer. Costs associated with the equipment are recognized at the time of revenue recognized.
The revenue is allocated to equipment and services in proportion to the fair value of the individual elements. Customized equipment that can be used only in connection with services or products provided by the Group is not accounted for separately and revenue is deferred over the total service arrangement period.

There are generally no options for the customer to acquire the equipment at the end of the service contract period. Revenue for such functionality agreements is recognized over the service period but part of the periodic fixed fee is deferred to meet the costs at the end of the contract period (maintenance and up-grades).

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

In relation to the rendering of services, revenue is recognised when no significant uncertainties remain concerning the derivation of consideration or associated costs. Revenues from the sale of services are recognized after the service is provided, or if the service is provided for a longer period, then the percentage-of-completion method is used.

In relation to the sale of goods, revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding the derivation of that consideration, associated costs, or the possible return of goods.

Interest and dividends are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Interest income is recognised as it accrues, unless collectibility is in doubt. Dividend income is recognised when the shareholder's right to receive payment is established.

Cash and cash flows

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, excluding bank overdrafts, and shares of money-market funds. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

In the cash flow statement, under the “Cash and cash equivalents” entry, in addition to cash, bank accounts, short-term bank deposits (with deadlines of less then three months), and money market fund shares, the balance includes the balances of other, short-term (under three-month) financial investments.
Cash flows from operating activities are reported under the indirect method. Cash flows from investing and financing activities are reported based on gross receipts and disbursements made during the accounting period.

Subsequent events

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

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

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

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

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

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

Four major segments, fixed network telecommunications, mobile telecommunications, construction services and other activities are distinguished as primary segments in the consolidated financial statements.

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

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

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

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

Statutory reserve

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

Earnings per share

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

Diluted earning per share is calculated based on profit or loss attributable to the 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.

Reclassification of balances
In 2005, the manner of presentation for the Group's income statement was changed in relation with discontinuing construction operations in 2004 (sold). Income statement balances are separated into the two parts: continuing operations and discontinuing operations.

In thousands of Estonian kroons

During 2005, the following comparative balances of 2004 were reclassified:

	Initial opening balance	Reclassification	Comparative balance
Balance sheet)			
Short-term investments	28,874	1,124,866	1,153,740
Cash and cash equivalents	1,456,225	(1,124,866)	331,359

Starting with 2005, the balance sheet account „Cash and cash equivalents” does not include time deposits with maturity from three to twelve months. Those deposits are shown as a part of financial investments now. Also accounts of 2004 have been restated in order to make them comparable with the results of 2005.

Supplementary disclosure on the parent entity of the Group

According to the Estonian Accounting Law the separate primary reports of parent company should be disclosed. The respective disclosure is in Note 31.

There are included parent company's balance sheet, income statement, statement of changes in equity and cash flows statement, which are presented as annex to the consolidated financial statements. These primary reports do not form a full set of parent company financial statements.

The primary reports of parent company are prepared using the same accounting policies as in the preparation of consolidated financial statements. The change of accounting policy applicable to parent company separate primary reports is described below.

Changes in the accounting policies applicable to the parent company

The financial information of the parent company is disclosed in the notes (Note 31). According to the revised IAS 27 Consolidated and Separate Financial Statements the accounting principle for the measurement of investment in subsidiaries and associates is changed. The subsidiaries are reported in the separate report at cost; previously the equity method was used. The influence of the respective change is recorded as at 1 January 2004 as an adjustment to the retained earnings as of that date of 2,219,841 thousand kroons.

In the unconsolidated statements of the parent company, which are presented as an annex to the consolidated statement, the investments in subsidiary companies are recognized at the acquisition cost (less the necessary discounts).

Changes in the manner of presenting information in 2006

In 2006, the manner of presentation for the Group's income statement will change. The current itemization of operating expenses, which is based on the nature of the expenses, will be changed to the itemization of operating expenses based on the function of the expenses in the company. This decision is made in connection with the fact that the new itemization of expenses will provide the user of the statement a better overview of the cost of different functions and how results of economic development are created in the company.

Changes are also planned for the manner of presenting the balance sheet and cash flow statement.

New International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations

By the time this statement was being prepared, new international financial reporting standards and their interpretations had been issued, which become mandatory for consolidated companies as of January 1, 2006 or for statements issued for later periods. Below are the consolidated company's assessments of the possible influence of the new standards and interpretations on the financial statement during the first application period.

- *IAS 1 Change in the presentation of financial statements – Presentation of financial statements: Capital disclosures.* The IAS 1 amendment will apply for reporting periods, which start on January 1, 2007 or later. The Group has decided not to apply the changes before the prescribed time. The standard requires the disclosure of additional information in financial statements.

- *IAS 19 Change in Employee Benefits – Actuarial profits and losses from pension plans and disclosure requirements.* The amendment to standards will apply for reporting periods, which start on January 1, 2006 or later. The Group does not have plans with established benefits, whereby the given amendment does not influence the group's financial statements.

- *IAS 39 Financial instruments: amendments to recognition and measurement (Accounting of cash flow hedging for planned intra-group transactions; Fair value option). IAS 39 Financial instruments: amendments to recognition and measurement, and IFRS 4 Insurance contracts amendment – financial guarantee contracts.* The amendment to standards will apply for reporting periods, which start on January 1, 2006 or later. The Group has decided not to apply the changes before the prescribed time. According to the assessment of the management, the application of this change at the time the statement was prepared would not cause any changes in the recognition of the Group's existing assets and liabilities.

- *IFRS 6 Exploration and Evaluation of Mineral Assets.* The Group is lacking assets for exploration and evaluation, whereby this standard does not affect the group's financial statements.

- *IFRS 7 Financial instruments: Disclosure requirements.* IFRS 7 will apply for reporting periods, which start on January 1, 2007 or later. The Group has decided not to apply the changes before the prescribed time. Standard requires the disclosure of supplemental information in financial statements.

- *IFRIC 4 Determining whether an arrangement contains a lease.* IFRIC 4 will apply for reporting periods, which start on January 1, 2006 or later. The Group has decided not to apply IFRIC 4 before the prescribed time. According to the assessment of the management, the application of IFRIC 4 at the time the statement was prepared would not cause any changes in the recognition of valid agreements.

- *IFRIC 5 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds.* The Group does not participate in decommissioning, restoration and environmental rehabilitation funds, whereby the given interpretation does not affect the group's financial statements.

- *IFRIC 6 Liabilities arising from participating in a specific market: waste electrical and electronic equipment.* IFRIC 6 will apply for reporting periods, which start on December 1, 2005 or later. The group has very small participation in a specific market, which would assume the treatment of waste electrical or electronic equipment, whereby the given interpretation does not affect the group's financial statements.

- *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies.* IFRIC 7 will apply for reporting periods, which start on March 1, 2006 or later. The group does not prepare financial statements in the currency of hyperinflationary economies, whereby the given interpretation does not affect the group's financial statements.

- I*FRIC 8 Scope of IFRS 2 clarifies that IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration.* IFRIC 8 is effective for annual periods beginning on or after 1 May 2006. Earlier application is encouraged. According to the assessment of the management, the application of IFRIC 8 at the time the statement was prepared would not cause any changes in the recognition of valid agreements.

- *IFRIC 9 Reassessment of embedded derivatives.* IFRIC 9 concludes that an entity must assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is effective for annual periods beginning on or after 1 June 2006. Earlier application is encouraged. According to the assessment of the management, the application of IFRIC 9 at the time the statement was prepared would not cause any changes in the recognition of valid agreements.

2. Segment information

Four major segments, fixed network telecommunications, mobile telecommunications, construction services and other activities are distinguished in the consolidated financial statements.

Fixed network telecommunications – this segment operates the national telecommunications network, with providing fixed telecommunication services and related value-added services as well as providing production, marketing and sales of other related services. The companies belonging to this business segment are Elion Enterprises AS, AS Elion Esindus, AS EsData, AS MicroLink and AS MicroLink Eesti.

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

Construction services (discontinued from 1 December 2004) – these segment activities are construction and maintenance of telecommunication networks. The companies belonging to this business segment are AS Eltel Networks, AS Reveko Telekom, SIA Connecto Latvia and UAB Lidivos Technologijos.

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.

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

In thousands of Estonian kroons

(a) Primary reporting format – business segments

	Fixed network telecommunications		Mobile telecommunications		Construction services		Other activities		Eliminations		Consolidated	
	2005	**2004 Restated**	**2005**	**2004 Restated**	**2005**	**2004 Restated**	**2005**	**2004 Restated**	**2005**	**2004 Restated**	**2005**	**2004 Restated**
Revenues												
Sales	2,393,604	2,325,738	2,756,333	2,635,789	-	154,577	-	5	-	-	5,149,937	5,116,109
Other operating income	12,272	10,008	7,128	11,821	-	823	-	68	-	-	19,400	22,720
Inter-segment sales	182,415	186,098	324,123	351,791	-	149,847	-	55	(506,538)	(687,791)	-	-
Total revenues	**2,588,291**	**2,521,844**	**3,087,584**	**2,999,401**	**-**	**305,247**	**-**	**128**	**(506,538)**	**(687,791)**	**5,169,337**	**5,138,829**
Materials, consumables, supplies and services	(626,929)	(563,873)	(1,328,571)	(1,232,077)	-	(100,448)	-	-	-	-	(1,955,500)	(1,896,398)
Other operating expenses	(377,480)	(312,059)	(129,142)	(155,454)	-	(41,472)	(7,167)	(11,181)	-	-	(513,789)	(520,166)
Personnel expenses	(375,463)	(345,644)	(152,334)	(139,322)	-	(80,703)	(10,315)	(13,647)	-	-	(538,112)	(579,316)
Other expenses	(11,951)	(11,968)	(7,919)	(5,310)	-	(2,618)	(909)	(701)	-	-	(20,779)	(20,597)
Inter-segment expenses	(324,066)	(440,646)	(181,991)	(179,688)	-	(60,110)	(481)	(474)	506,538	680,918	-	-
Depreciation and amortisation	(386,877)	(463,042)	(366,157)	(349,532)	-	(8,560)	(130)	(691)	423	5,353	(752,741)	(816,472)
Operating profit/ (loss)	**485,525**	**384,612**	**921,470**	**938,018**	**-**	**11,336**	**(19,002)**	**(26,566)**	**423**	**(1,520)**	**1,388,416**	**1,305,880**
Income / (expenses) from associates	1,084	48,875	(632)	(592)	-	-	1,100,000	1,100,000	(1,100,000)	(1,103,100)	452	45,183
Foreign exchange gain/(loss)	905	(616)	(181)	(96)	-	(35)	127	(247)	-	-	851	(994)
Other net financing items	23,314	10,311	9,830	8,810	-	(281)	13,230	12,469	-	-	46,374	31,309
Income tax on dividends	(126,314)	(101,428)	(221,053)	(281,081)	-	-	(1,148)	(409)	-	-	(348,515)	(382,918)
Net profit for the period	384,514	341,754	709,434	665,059	-	11,020	1,093,207	1,085,247	(1,099,577)	(1,104,620)	1,087,578	998,460
Attributable to:												
Equity holders of the Company	384,352	341,754	709,434	665,059	-	6,128	1,093,207	1,085,247	(1,099,577)	(1,104,620)	1,087,416	993,568
Minority interest	162	-	-	-	-	4,892	-	-	-	-	162	4,892
	384,514	**341,754**	**709,434**	**665,059**	**-**	**11,020**	**1,093,207**	**1,085,247**	**(1,099,577)**	**(1,104,620)**	**1,087,578**	**998,460**

1) The balances reported in segment's and consolidated income statements differ due to the presentation of discontinuing construction operations as separate segment in the segment's income statement, but its discontinuing effect is not eliminated from other segments.
2) The difference between balances of other operating Income and expenses reported in segment's and consolidated income statement presented in the note 3 "Discontinuing operations" arises from the new accounting policy implemented in 2005. On the assumption of cited above, financial statements are presented by netting gains/losses on the disposal and write-offs of non-current assets and foreign exchange gains/losses arising from accounts receivables and accounts payables. The difference between balances in 2005 is 912 thousand EEK and in 2004 – 586 thousand EEK.

In thousands of Estonian kroons

Other information by business segments

	Fixed network telecommunications		Mobile telecommunications		Construction services		Other activities		Eliminations		Consolidated	
	2005	**2004 Restated**	**2005**	**2004 Restated**	**2005**	**2004 Restated**	**2005**	**2004 Restated**	**2005**	**2004 Restated**	**2005**	**2004 Restated**
Non-current assets (except investments in associates)	1,233,609	1,131,600	810,893	990,496	-	-	296	4,410	-	(423)	2,044,798	2,126,083
Investments in associates	927	16,148	2,024	2,656	-	-	1,317,383	1,317,383	(1,317,383)	(1,317,383)	2,951	18,804
Current assets	1,050,214	1,032,745	1,047,892	896,362	-	-	1,333,547	1,288,660	(819,903)	(838,157)	2,611,750	2,379,610
Total assets	**2,284,750**	**2,180,493**	**1,860,809**	**1,889,514**	**-**	**-**	**2,651,226**	**2,610,453**	**(2,137,286)**	**(2,155,963)**	**4,659,499**	**4,524,497**
Equity attributable to equity holders of the parent	**1,886,599**	**1,902,248**	**1,552,765**	**1,543,330**	**-**	**-**	**1,917,356**	**1,927,785**	**(1,317,383)**	**(1,317,806)**	**4,039,337**	**4,055,557**
Minority interest	1,160	-	-	-	-	-	-	-	-	-	1,160	-
Non-current liabilities	1,231	604	9,612	6,150	-	-	1,856	1,856	-	-	12,699	8,610
Current liabilities	395,760	277,641	298,432	340,034	-	-	732,014	680,812	(819,903)	(838,157)	606,303	460,330
Total equity and liabilities	**2,284,750**	**2,180,493**	**1,860,809**	**1,889,514**	**-**	**-**	**2,651,226**	**2,610,453**	**(2,137,286)**	**(2,155,963)**	**4,659,499**	**4,524,497**
Net cash from/(used in) operating activities	891,044	687,116	1,087,334	985,270	-	7,832	(23,784)	(30,635)	3,673	(4,127)	1,958,267	1,645,456
Net cash from/(used in) investing activities	(501,521)	(238,756)	(203,017)	(304,065)	-	(18,930)	1,101,052	1,002,141	(1,125,300)	(918,839)	(728,786)	(478,449)
Net cash from/(used in) financing activities	(434,866)	(280,219)	(765,509)	(750,261)	-	(1,822)	(1,052,550)	(971,259)	1,121,627	914,871	(1,131,298)	(1,088,690)
Foreign exchange rate differences	905	(616)	(181)	(96)	-	139	127	(247)	-	-	851	(820)
Net increase/(decrease) in cash and cash equivalents	**(44,438)**	**167,525**	**118,627**	**(69,152)**	**-**	**(12,781)**	**24 845**	**-**	**-**	**(8,095)**	**99,034**	**77,497**
Capital expenditure	506,101	235,108	190,657	295,469	-	21,617	116	-	-	(7,116)	696,874	545,078

b) Secondary reporting format – geographic segments

The components of revenues by geographic segments are as follows:

	Fixed network telecommunications		Mobile telecommunications		Construction services		Other activities		Consolidated	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Revenue from customers in Estonia	2,115,294	2,040,963	2,599,570	2,495,347	-	116,503	-	5	4,714,864	4,652,818
Revenue from customers outside Estonia	278,310	284,775	156,763	140,442	-	38,074	-	-	435,073	463,291
	2,393,604	**2,325,738**	**2,756,333**	**2,635,789**	**-**	**154,577**	**-**	**5**	**5,149,937**	**5,116,109**

In thousands of Estonian kroons

3. Discontinuing operations

Elion Enterprises AS sold 51% of AS Eltel Networks shares to the Eltel Networks Corporation. Eltel Networks Corporation already owned 49% interest in AS Eltel Networks before the transaction. The disposal was completed on 15 December 2004.

The consolidated results of AS Eltel Networks and its subsidiaries for the period from 1 January 2004 to 30 November 2004, which have been included in AS Eesti Telekom Group's consolidated financial statements, are as follows:

	Continuing operations		Discontinuing operations		Eliminations		Consolidated	
	2005	**2004 Restated**	**2005**	**2004 Restated**	**2005**	**2004 Restated**	**2005**	**2004 Restated**
Revenues								
Sales	5,149,937	4,972,661	-	304,660	-	(161,212)	5,149,937	5,116,109
Other operating income	18,488	21,973	-	587	-	(426)	18,488	22,134
Total revenues	**5,168,425**	**4,994,634**	**-**	**305,247**	**-**	**(161,638)**	**5,168,425**	**5,138,243**
Operating expenses								
Materials, consumables, supplies and services	(1,955,500)	(1,803,114)	-	(137,196)	-	43,912	(1,955,500)	(1,896,398)
Other operating expenses	(513,789)	(565,851)	-	(57,156)	-	102,841	(513,789)	(520,166)
Personnel expenses	(538,112)	(498,163)	-	(88,292)	-	7,139	(538,112)	(579,316)
Other expenses	(19,867)	(17,400)	-	(2,707)	-	96	(19,867)	(20,011)
Depreciation, amortisation and impairment of fixed and intangible assets	(752,741)	(812,450)	-	(8,560)	-	4,538	(752,741)	(816,472)
Operating profit	**1,388,416**	**1,297,656**	**-**	**11,336**	**-**	**(3,112)**	**1,388,416**	**1,305,880**
Net income/(expenses) from associates	452	40,020	-	-	-	5,163	452	45,183
Other net financing items	47,225	32,682	-	(316)	-	(2,051)	47,225	30,315
Profit before tax	**1,436,093**	**1,370,358**	**-**	**11,020**	**-**	**-**	**1,436,093**	**1,381,378**
Income tax on dividends	(348,515)	(382,918)	-	-	-	-	(348,515)	(382,918)
Net profit for the period	**1,087,578**	**987,440**	**-**	**11,020**	**-**	**-**	**1,087,578**	**998,460**
Attributable to:			**-**		**-**			
Equity holders of the Company	1,087,416	987,440	-	6,128	-	-	1,087,416	993,568
Minority interest	162	-	-	4,892	-	-	162	4,892
	1,087,578	**987,440**	-	**11,020**	**-**	**-**	**1,087,578**	**998,460**

In thousands of Estonian kroons

Cash flow information:

	Continuing operations		Discontinuing operations		Eliminations		Consolidated	
	2005	**2004 Restated**	**2005**	**2004 Restated**	**2005**	**2004 Restated**	**2005**	**2004 Restated**
Net cash from / (used in) operating activities	1,958,267	1,645,516	-	7,832	-	(7,892)	1,958,267	1,645,456
Net cash from / (used in) investing activities	(728,786)	(460,983)	-	(18,930)	-	1,464	(728,786)	(478,449)
Net cash from / used in financing activities	(1,131,298)	(1,086,868)	-	(1,822)	-	-	(1,131,298)	(1,088,690)
Effect of foreign exchange rate changes	851	(290)	-	139	-	(669)	851	(820)
Net change in cash and cash equivalents	**99,034**	**97,375**	**-**	**(12,781)**	**-**	**(7,097)**	**99,034**	**77,497**

In thousands of Estonian kroons

4. Additional information on the income statement

	2005	2004 Restated
(a) Sales		
Telecommunication services	4,422,545	4,350,816
Goods	627,007	537,078
Other services	100,385	84,767
	5,149,937	**4,972,661**
(b) Other operating income		
Profit from sales of fixed assets		
Profit from sales of fixed assets	9,257	12,234
Loss from sales of fixed assets	(1,692)	(2,175)
Foreign exchange gain		
Foreign exchange gain	3,184	-
Foreign exchange loss	(2,861)	-
Interest on fines and penalties	1,908	2,257
Income from government grants (note 24)	1,582	-
Other	7,110	9,657
	18,488	**21,973**
(c) Personnel expenses		
Wages and salaries	(395,983)	(346,604)
Social charges	(133,971)	(127,010)
Unemployment insurance charges	(1,874)	(1,802)
Other	(6,284)	(4,747)
	(538,112)	**(498,163)**
(d) Other expenses		
Foreign exchange loss		
Foreign exchange loss	-	(4,213)
Foreign exchange gain	-	2,356
Sponsorship	(10,185)	(9,699)
Interest on fines and penalties	(2,996)	(178)
Local taxes	(113)	(148)
Other	(6,573)	(5,518)
	(19,867)	**(17,400)**
(e) Depreciation and amortisation		
Depreciation	(726,736)	(777,315)
Amortisation	(26,005)	(30,335)
Impairment of intangible assets	-	(4,800)
	(752,741)	**(812,450)**
(f) Other net financing items		
Interest income	49,183	39,679
Interest expense	(210)	(725)
Net foreign exchange gain / (loss)	851	(959)
Net gain / (loss) from other financial investments	-	(2,687)
Other financial expenses	(2,599)	(2,626)
	47,225	**32,682**

In thousands of Estonian kroons

5. Taxation

According to the Income Tax Act of the Republic of Estonia the net profit earned by enterprises is not taxed. Thus, there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets and liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to income tax: 23/77 of net dividend paid (until 31 December 2005 the tax rate was 24/76 and until 31 December 2004: 26/74). The corporate income tax arising from the payment of dividends is accounted for as an expense in the period which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

In case dividends are paid from the retained earnings for the period 1994-1999, it is possible to deduct the income tax paid earlier on the part of the retained earnings and prepayments of the tax on dividends made before the year 2000 from the amount of income tax to be paid on the respective amount of distribution.

Corporate income tax

	2005	**2004**
Dividends paid	1,103,816	1,101,165
Dividends attracting income tax	1,103,816	1,101,165
Income tax 24/76 (31,58%) (2004:26/74 (35,14%))	(348,573)	(386,896)
Reduction of the income tax paid on 1994 to 1999 earned profit	-	3,978
Reduction of the income tax on dividends due to tax rate change	58	-
Current tax expense	**(348,515)**	**(382,918)**
Effective income tax rate	31.57%	34.77%

In thousands of Estonian kroons

6. Property, plant and equipment

	Land and buildings	Machinery and equipment	Other equipment and fixtures	Construction in process	Expenditures for non-current assets	**Total**
At cost						
At 31 December 2003	**729,570**	**6,460,782**	**600,324**	**53,388**	**1,890**	**7,845,954**
Additions	786	47,804	55,890	366,465	31,642	502,587
Acquired by finance leases	-	26,007	-	-	-	26,007
Acquired on business combination	-	1,703	407	-	-	2,110
Reclassification	17,161	360,127	37,113	(382,332)	(32,069)	-
Eliminated on disposal of a subsidiary (-)	(438)	(32,754)	(3,317)	-	(1,463)	(37,972)
Disposals and write-offs (-)	(56,579)	(160,318)	(38,291)	(105)	-	(256,293)
At 31 December 2004	**690,500**	**6,703,351**	**652,126**	**37,416**	**-**	**8,083,393**
Additions	-	69,260	48,985	395,444	19,943	533,632
Acquired by finance leases	-	7,240	-	-	-	7,240
Acquired on business combination	-	9,167	36,908	-	-	46,075
Reclassification	15,439	272,430	92,174	(372,612)	(7,431)	-
Reclassification to assets classified as held-for-sale [1)]	(10,859)	(226)	-	-	-	(11,085)
Disposals and write-offs (-)	(18,866)	(49,191)	(29,046)	(497)	-	(97,600)
At 31 December 2005	**676,214**	**7,012,031**	**801,147**	**59,751**	**12,512**	**8,561,655**
Accumulated depreciation						
At 31 December 2003	**429,849**	**4,771,050**	**369,187**	**-**	**-**	**5,570,086**
Charge for the year	29,592	644,499	103,224	-	-	777,315
Acquired on business combination	-	777	698	-	-	1,475
Eliminated on disposal of a subsidiary (-)	(221)	(12,991)	(1,645)	-	-	(14,857)
Disposals and write-offs (-)	(50,098)	(180,390)	(35,046)	-	-	(265,534)
At 31 December 2004	**409,122**	**5,222,945**	**436,418**	**-**	**-**	**6,068,485**
Charge for the year	27,789	580,406	118,541	-		726,736
Acquired on business combination	212	5,014	25,616	-	-	30,842
Reclassification to assets classified as held-for-sale [1)]	(6,640)	(226)	-	-	-	(6,866)
Disposals and write-offs (-)	(18,722)	(43,749)	(28,987)	-	-	(91,458)
At 31 December 2005	**411,761**	**5,764,390**	**551,588**	**-**	**-**	**6,727,739**
Net book value						
At 31 December 2004	**281,378**	**1,480,406**	**215,708**	**37,416**	**-**	**2,014,908**
At 31 December 2005	**264,453**	**1,247,641**	**249,559**	**59,751**	**12,512**	**1,833,916**

1) According to the decision of the Elion Enterprises AS made by the management board, the real estate located in Tallinn at Särje 22A, 24 and 26 are considered to be unnecessary for business activities. The decision has been made to sell the real estate by written auction and at a minimum price of 19.0 million EEK, 1.2 million EEK, and 2.8 million EEK, respectively

In thousands of Estonian kroons

7. Property, plant and equipment acquired by finance lease

	Machinery and equipment
At cost	
At 31 December 2003	**-**
Additions	26,007
Acquired on business combination	1,570
Eliminated on disposal of a subsidiary (-)	(4,877)
At 31 December 2004	**22,700**
Additions	7,240
Acquired on business combination	612
Termination of lease	(20,434)
At 31 December 2005	**10,118**
Accumulated depreciation	
At 31 December 2003	**-**
Charge for the year	2,952
Acquired on business combination	458
Eliminated on disposal of a subsidiary (-)	(1,140)
At 31 December 2004	**2,270**
Charge for the year	1,392
Acquired on business combination	80
Termination of lease	(757)
At 31 December 2005	**2,985**
Net book value	
At 31 December 2004	**20,430**
At 31 December 2005	**7,133**

Finance lease liability

	2005	2004
At 31 December	**6,603**	**14,700**
Principal payments during the financial year	15,719	9,059
Interest expenses during the financial year	109	388
Average annual interest rate	3%	4%

In thousands of Estonian kroons

8. *Intangible assets*

	Goodwill	Licenses, patents and trademarks	**Total**
At cost			
At 31 December 2003	**17,949**	**224,918**	**242,867**
Additions	1,798	12,400	14,198
Acquired on business combination	-	176	176
Eliminated on disposal of a subsidiary (-)	(11,959)	(1,345)	(13,304)
Disposals and write-offs (-)	(7,788)	(4,851)	(12,639)
At 31 December 2004	**-**	**231,298**	**231,298**
Additions	55,416	20,292	75,708
Acquired on business combination	-	34,219	34,219
Disposals and write-offs (-)	-	(7,995)	(7,995)
At 31 December 2005	**55,416**	**277,814**	**333,230**
Accumulated amortisation			
At 31 December 2003	**7,662**	**111,110**	**118,772**
Charge for the year	3,190	29,957	33,147
Acquired on business combination (Note 10)	-	82	82
Eliminated on disposal of a subsidiary (-)	(3,064)	(1,008)	(4,072)
Disposals and write-offs (-)	(5,390)	(4,419)	(9,809)
Write-off of trade mark	-	4,800	4,800
At 31 December 2004	**-**	**140,108**	**140,108**
Charge for the year	-	26,005	26,005
Acquired on business combination	-	5,388	5,388
Disposals and write-offs (-)	-	(4,959)	(4,959)
At 31 December 2005	**-**	**166,542**	**166,542**
Net book value			
At 31 December 2004	**-**	**91,190**	**91,190**
At 31 December 2005	**55,416**	**111,272**	**166,688**

In thousands of Estonian kroons

9. Investments in subsidiaries

	Notes	Country of incorporation	Ownership interest 2005	Ownership interest 2004	Principal activity	Owner
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	10	Estonia	100%	100%	Internet services	Elion Enterprises AS
AS MicroLink	10	Estonia	99,72%	-	Holding Company	Elion Enterprises AS
AS MicroLink Eesti	10	Estonia	99,72%	-	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 MicroLink
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

10. Acquisition of subsidiaries

Elion Enterprises AS purchased 100% of the shares of Viru Net OÜ on 30 December 2004. The acquisition cost was 6.5 million EEK. Viru Net OÜ is one of the leading Internet service providers in the county of Ida-Virumaa. The enterprise was established in 1997. The turnover of Viru Net OÜ in 2004 was 4.3 million EEK with a net profit of 0.35 million EEK. The company has currently 17 employees. The financial results of Viru Net OÜ were consolidated starting from 1 January 2005.

On October 31, 2005, the transfer of 96% of the shares of AS MicroLink, the leading IT company in the Baltic States, to Elion Enterprises AS (subsidiary belonging 100% to AS Eesti Telekom) came into force. The purchase price for the shares was 445 million EEK. In December of 2005, Elion Enterprises AS made an offer to the small shareholders of AS MicroLink for the purchase of their shares and both additional 3.24% shares with purchase price 14 million kroons. MicroLink AS offers services for software development, business and financial information systems, infrastructure solutions, computer workplace and information system maintenance, administration of data communications, private networks, and centralized systems, as well as monitoring and client support services. The company was established in 1991. Its consolidated revenues for the financial year 2004/2005 were 515 million EEK and the net profit was 20 million EEK. AS MicroLink Eesti employs 172 people. The financial results of AS MicroLink were consolidated starting on 1 November 2005.
The acquired companies AS MicroLink and AS MicroLink Eesti portion of the group's turnover is 52,409 thousand EEK and the net profit was 7,664 thousand EEK in the period November 1 to 31 December 2005.

If the acquisition had occurred on 1 January 2005, the effect on the turnover would have been 183,746 thousand EEK and the net profit 30,319 thousand EEK. The calculations are based on the group's accounting principles. The results of the subsidiaries have been adjusted as if the depreciation of the acquired assets and other adjustments had been recognized according to the fair value of the assets and if they had been applied according these principles starting on 1 January 2005.

In thousands of Estonian kroons

The effect of the acquisition of subsidiaries on goodwill and cash flows in 2005 and 2004 were as follows:

	Note	2005						2004	
		Group Eesti MicroLink At 31 October		Group Eesti MickroLink At 31 December		Viru Net OÜ At 1 January		UAB Lidivos Technologijos At 1 January	
		Fair value	Acquiree's carrying amount	Fair value	Acquiree's carrying amount	Fair value	Acquiree's carrying amount	Fair value	Acquiree's carrying amount
Fixed assets		17 524	16 694	14 794	14 794	2,976	2,976	1,486	1,486
Trademark		17 607	-	17 607	-				
Client contracts		9 143	-	9 143	-				
Inventories		1 653	1,653	2,077	2,077	-	-	2,407	2,407
Trade receivables		12 916	12,916	20,675	20,675	123	123	2,284	2,284
Other receivables		12 901	12,901	43,415	43,415	-	-	33	33
Assets classified as held for sale									
Data communication network		11 530	1,899	11,530	1,899	-	-	-	-
Investments held for sale		238 898	90,759	-	-	-	-	-	-
Cash and cash equivalents		123 598	123,598	356,622	356,622	56	56	668	668
Liabilities		(36 075)	(36,075)	(61,579)	(61,579)	(2,107)	(2,116)	(4,136)	(4,136)
Net identifiable assets and liabilities		**409,695**	**224,345**	**414,284**	**377,903**	**1,048**	**1,039**	**2,742**	**2,742**
Interest owned		96.48%		3.24%		100%		100%	
Net identifiable assets and liabilities owned		395,273		13,423		1,048		2,742	
Goodwill	8	49,312		500		5,602		1,798	
Total consideration		**(444,585)**		**(13,923)**		**(6,650)**		**(4,540)**	
Cash and cash equivalents		123,598		-		56		668	
Unpaid in the current year		45,802		-		1,650		-	
Net cash out flow		**(275,185)**		**(13,923)**		**(4,944)**		**(3,872)**	

The carrying value of goodwill was tested as of 31 December 2005. The recoverable amount of a Cash Generating Unit (CGU) is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. Management determined budgeted gross margin based on past performance and its expectations for the market development. For calculations the WACC rate of 13% was used.

In thousands of Estonian kroons

11. Investments in associates

	Year ended 31 December	
	2005	**2004**
Cost of investments	18,409	33,409
Share of post-acquisition loss, net of dividends received	(15,458)	(14,605)
	2,951	18,804

Details of the Group's associates, as of 31 December 2005 and 2004, are as follows:

	Country of incorporation	Ownership interest		Principal activity	Owner
		2005	**2004**		
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
AS Intergate [1)]	Estonia	-	50%	Venture capital investments into companies with innovative technologies	Elion Enterprises AS

1) Elion Enterprises AS, a 100%-owned subsidiary of AS Eesti Telekom, sold on 20 September 2005 50% interest in an associated company AS Intergate. The acquisition cost was 16.3 million EEK.

Financial information of associates

	AS Sertifitseerimis-keskus	OÜ Voicecom	AS Intergate	**Total**
2004				
Assets	20,895	5,451	28,880	**55,226**
Liabilities	14,062	1,806	1	**15,869**
Revenues	22,700	5,754	-	**28,454**
Profit / (loss)	(2,419)	101	6,658	**4,340**
2005				
Assets	15,455	6,488	-	**21,943**
Liabilities	11,748	2,266	-	**14,014**
Revenues	21,315	8,007	-	**29,322**
Profit / (loss)	(3,127)	595	-	**(2,532)**

In thousands of Estonian kroons

12. Long-term receivables

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

	Note	Interest rate	Maturity date	Year ended 31 December	
				2005	**2004**
(a) Long- term receivables from associated company					
Loan to AS Sertifitseerimiskeskus	27	6.50%	2006	4,100	4,100
Current portion of receivables (-)				(4,100)	-
Non-current portion of receivables				-	4,100
(b) Non-current trade receivables					
Factoring receivables				2,342	1,183
Non-current trade receivables				610	777
				2,952	1,960
Current portion of receivables (-)				(1,452)	(793)
Non-current portion of receivables				1,500	1,167
(c) Other long-term receivables					
Instalment receivables		2% - 16%	2006 - 2010	87 490	28 347
Finance lease receivables (13 a)	13 (a)	8% - 16%	2004 - 2005	1 325	992
Advances for operating leases			2007	678	961
Other advances				9	8
				89,502	30,308
Current portion of receivables (-)				(46,808)	(15,590)
Non-current portion of receivables				42,694	14,718
Total other non-current receivables				**44,194**	**19,985**

Expected repayments of the long-term receivables:

Within one year	52,360
Later than one year and not later than five years incl.	44,194
After five years	-
	96,554

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

a) Finance leases

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

	Note	Year ended 31 December	
		2005	**2004**
(a) Finance lease - non-current receivables			
Finance lease – gross receivables		331	144
Unearned finance income (-)		(22)	(4)
Finance lease – net receivables		309	140
(b) Finance lease – current receivables			
Finance lease – gross receivables		1,133	935
Unearned finance income (-)		(117)	(83)
Finance lease – net receivables		1,016	852
Total finance lease net receivables	12	**1,325**	**992**

The capital lease terms are given for telephone branch exchange (one-year contract) and mobile phones (two-year contract).

In thousands of Estonian kroons

Expected repayments of the referred finance lease receivables:

	Note	Year ended 31 December 2005	2004
(a) Gross receivables from finance lease			
Within one year		1,133	935
Between one and two years		331	144
		1,464	**1,079**
Unearned future finance income on finance lease (-)		(139)	(87)
Net investment in finance lease	12	**1,325**	**992**
(a) Net investment in finance lease			
Within one year		1,016	852
Between one and two years		309	140
Net investment in finance lease	12	**1,325**	**992**

b) Operating leases receivables

The Group leases office space and IT equipment and solutions under the terms of operating lease. Income from such leases amounts to 23,327 thousand EEK and 13,625 thousand EEK in 2005 and 2004, respectively.

14. Inventories

	Year ended 31 December 2005	2004
Raw materials and consumables	38,171	48,136
Goods for resale	48,487	76,196
Advances to suppliers	212	50
	86,870	**124,382**

In 2005, impairment for the inventories were in the total amount of 26,816 thousand EEK (2004: 7,149 thousand EEK) based on the estimated decline of the net realisation value below their acquisition cost.

15. Trade and other receivables

	Note	Year ended 31 December 2005	2004
Trade receivables			
Accounts receivable		623,488	598,476
Provision for impairment of receivables		(17,856)	(20,995)
		605,632	**577,481**
Other receivables			
Receivables from associates	27	4,259	1,006
International settlements		63,990	78,224
Accrued interest		15,001	13,881
Other accrued income		49	17
Prepaid value-added tax		3,146	3,343
Prepaid other taxes		25	-
Prepaid expenses		60,865	59,787
Other receivables		83,978	36,390
		231,313	**192,648**
		836,945	**770,129**

The impairment expense for doubtful receivables was 12,834 thousand EEK (2004: 28,359 thousand EEK).

In thousands of Estonian kroons

16. Short-term investments

	Year ended 31 December	
	2005	**2004**
a) Short-term investments with maturities up to three months		
Current securities held-to-maturity	24,845	-
b) Short-term investments with maturities over three months		
Current securities held-to-maturity	52,520	28,874
Deposits	1,189,273	1,124,866
	1,241,793	**1,153,740**
	1,266,638	**1,153,740**

Movements in current securities:

	2005	**2004**
a) Short-term investments with maturities up to three months (securities)		
Opening balance	-	-
Reclassification	53,496	56,359
Disposals (at carrying value)	(28,165)	(56,359)
Amortisation of the difference between the nominal value and the cost of the securities	(486)	-
	24,845	**-**
b) Short-term investments with maturities over 3 months and up to 12 months		
Opening balance of deposits	1,124,865	1,066,940
Net change of deposits	64,407	57,925
	1,189,272	**1,124,865**
Opening balance of securities	28,875	49,449
Acquisitions (at cost)	76,263	36,271
Reclassification	(53,496)	(56,359)
Amortisation of the difference between the nominal value and the cost of the securities	879	(486)
	52,521	**28,875**
	1,241,793	**1,153,740**
c) Shares available-for-sale		
Opening balance	-	185
Disposals (at carrying value)	-	(185)
	-	-
Total short-term investments	**1,266,638**	**1,153,740**

The effective interest rates on short-term investments in 2005 were:

- investments in EEK - 2.53% (2004: 2.59%)
- investments in EUR – 2.33% (2004: 2.27%).

There were no assets for trading or available-for-sale in 2005 or 2004

17. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and shares of money-market funds:

	Year ended 31 December	
	2005	**2004**
Bank accounts	173,233	44,491
Deposits with maturities up to three months	231,636	286,480
Cash on hand	679	388
	405,548	**331,359**

In thousands of Estonian kroons

18. Capital and reserves

a) Issued capital

	Year ended 31 December	
	2005	**2004**
Shares issued		
Ordinary shares, par value 10 EEK per share, fully paid		
At beginning of year	137,954,528	137,644,428
Share issuance	-	310,000
Converted preference share	-	100
	137,954,528	**137,954,528**

Monetary contributions in connection with the shares issued in 2004 are presented in the following table:

	Note	2005	2004
Share capital issued			
At beginning of year		1,379,545	1,376,445
Share capital issuance			
Nominal value of bonds (amounts transferred from convertible bonds)	21	-	310
Additional payments in cash		-	2,790
		1,379 545	**1,379,545**
Share premium			
Opening balance		356,018	331,026
Premium on ordinary shares issued		-	24,992
		356,018	**356,018**

The extraordinary general meeting of shareholders of AS Eesti Telekom held on 15 December 2000 approved the issuance of up to 85,000 convertible bonds, including the issuing of up to 42,500 A-series and 42,500 B-series bonds within the framework of the Eesti Telekom Group's employee incentive program. A resolution passed at the same meeting ruled out AS Eesti Telekom shareholders' pre-emptive right to subscribe such convertible bonds.

During the subscription period of 2 May – 2 June 2003 26,125 A-series bonds were converted into 261,250 AS Eesti Telekom A-shares.

The total number of bonds outstanding as of 1 May 2004 was 34,125 B-series bonds.

In accordance with the "AS Eesti Telekom terms for the issue of convertible bonds", an owner of B-series bond was entitled to

(i) Redeem a bond and exchange it for 10 AS Eesti Telekom ordinary shares, which have a nominal value of 10 EEK each and a subscription price of 90.62 EEK, or
(ii) Redeem a bond and exchange it for a sum of money (the bond's nominal value 10 EEK plus accumulated interest of 7% per annum).

On 4 June 2004, the Management Board of AS Eesti Telekom approved the results of the subscription period that lasted from 2 May to 2 June 2004. During the said period, applications were received for the exchange of 31,000 bonds for 310,000 AS Eesti Telekom ordinary shares. The Management Board of AS Eesti Telekom approved the subscription list, and submits an application to the registry department of the Tallinn City Court for the registration of 310,000 ordinary shares with a nominal value of 10 EEK and an issue price of 90.62 EEK, i.e. an issue premium of 80.62 EEK. The shares issued are in all respects equivalent to the existing AS Eesti Telekom A-series shares.

As of December 31, 2005, no share option contracts have been signed with AS Eesti Telekom employees.

Pursuant to the Shareholders' Agreement and in accordance with the decision of the Shareholders' Annual General Meeting on 18 May 2004, one preference share was converted into one hundred ordinary shares, which have a nominal value of 10 EEK each.

In thousands of Estonian kroons

The total number of AS Eesti Telekom ordinary shares after the share issuance of the new shares is 137,954,528 and share capital 1,379,545,280 EEK.

The following chart lists the ten largest owners of ordinary AS Eesti Telekom shares.

	Year ended 31 December			
	2005		2004	
	Number of shares	Ownership interest %	Number of shares	Ownership interest %
TeliaSonera AB (immediate parent company Baltic Tele AB)	69,330,171	50.26	68,977,314	50.00
Republic of Estonia	37,485,100	27.17	37,485,100	27.17
Deutsche Bank Trust Company Americas	13,700,667	9.93	18,126,924	13.14
Skandinaviska Enskilda Banken AB Clients	6,588,858	4.78	2,380,158	1.73
Ing Luxembourg S. A.	1,663,000	1.21	1,475,000	1.07
Danske Bank Clients Holdings	787,464	0.57	173,360	0.13
Clearstream Banking Luxembourg S. A. Clients	590,209	0.43	774,044	0.56
Morgan Stanley + Co International Equity Client Account	562,400	0.41	95,600	0.07
Skandinaviska Enskilda Banken Finnish Clients	527,899	0.38	559,928	0.41
Trigon Centre and East Europe Found	488,658	0.35	326,396	0.24
Other public investors	6,230,102	4.52	7,580,704	5.50
	137,954,528	**100.00**	**137,954,528**	**100.00**

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.

Non-monetary contribution has been made for 63,883,178 shares in the total value of 944,271 thousand EEK. Non-monetary contributions have been made in the 1st quarter of 1999, in connection with the reconstruction of the AS Eesti Telekom Group. During the reconstruction, the strategic investors in the company, TeliaSonera AB and Sonera OY (presently TeliaSonera AB), exchanged the AS Eesti Telefon (presently Elion Enterprises AS) and AS EMT shares in their possession for AS Eesti Telekom shares. After the reconstruction of the group, all Elion Enterprises AS and AS EMT shares belong to AS Eesti Telekom.

b) Reserves

Reserves include:

- Statutory 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).

310 thousand EEK from 2004 net profit were transferred to the legal reserve in May 2005 (2004:261 thousand EEK).

c) Dividends

Dividends in the total amount of 1,103,636 thousand EEK (2004: 1,101,165 thousand EEK) or 8.00 EEK per ordinary share were declared and disbursed in the reporting period 2005 (2004: 8.00 EEK and 10,000 EEK per preference share). Viru Net OÜ paid dividends debt from year 2004 in the amount 180 thousand EEK.

d) Treasury shares

The Annual General Meeting of Shareholders, on 18 May 2005, authorized AS Eesti Telekom Management Board to acquire within one year from the adoption of this resolution, i.e. until 18 May 2006 (the same authority, which was obtained from last Annual General Meeting on 18 May 2004, terminated on 18 May 2005) AS Eesti Telekom shares of A-series so that the total of nominal values of treasury shares held by AS Eesti Telekom would not exceed the limit set by statutory regulations, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the Group's assets in excess of its share capital, legal reserve and share premium. The amount of shares to be acquired each time shall be determined on each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council.

AS Eesti Telekom has not acquired treasury shares during 2005.

In thousands of Estonian kroons

e) Earnings per share

Basic earnings per share have been calculated as follows:

1) Continuing operations:

*<u>2005 year</u>: **EEK 7.88** = 1,087,416,000: 137,954,528*

*<u>2004 year:</u> **EEK 7.16** = 987,440,000: 137,825,320*

2) Discontinuing operations:

*<u>2005 year</u>: **EEK 0.00** = 0: 137,954,528*

*<u>2004 year</u>: **EEK 0.04** = 6,128,000: 137,825,320*

Diluted earnings per share have been calculated as follows:

In view of the fact that the Group has not any dealings with a dilutive effect of earnings per share at the end of 2005 and 2004 years, **diluted earnings per share** equals basic earnings per share.

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

	2005	**2004**
Profit for the year from continuing operations for the period attributable to equity holders of the Company (EEK)	1,087,416,000	987,440,000
Profit for the year from discontinuing operations for the period attributable to equity holders of the Company (EEK) (see Note 3)	0	6,128,000
The average number of ordinary shares	137,954,528	137,825,320

f) Share information

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

The highest price of an AS Eesti Telekom share on the OMX Tallinn Stock Exchange during 2005 was 134.56 EEK; the lowest price was 111.09 EEK (2004: 126.58 EEK and 101.70 EEK respectively), and the average price was 122.43 EEK per share (2004: 111.97 EEK per share).

19. Interest-bearing loans and borrowings

		Year ended 31 December	
	Notes	**2005**	**2004**
(a) Non-current			
Non-convertible long-term debts	20	1,117	604
Finance lease liability	23 (a)	4,656	-
		5,773	**604**
(b) Current			
Non-convertible debts	20	1,226	4,268
Finance lease liability	7, 23 (b)	1,947	14,700
		3,173	**18,968**

In thousands of Estonian kroons

20. Loan information

The Group does not have any contingencies from outstanding bank loans as of 31 December 2005.

On 18 January 2001, AS Eesti Telekom entered into a loan facility agreement with a syndicate of international banks for the purpose of raising a 40 million EURO (625.9 million EEK) debt. The maturity date of the loan is 5 years and the annual interest rate is EURIBOR of relevant interest period + 0.775%. The syndicate consists of Bankgesellschaft Berlin AG, the Dai-Ichi Kangio Bank Ltd, Landesbank Schleswig Holstein Girozentrale, Sampo Bank Plc, AB Swedbank and AS Hansapank.

As of 31 December 2005 and 2004, the loan has not been used.

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

	Interest rate	Notes	Year ended 31 December 2005	2004
EUR (with floating interest) *)	3 months EURIBOR+3,5%		-	3,688
Factoring			2,343	1,184
			2,343	**4,872**
Current portion of non-convertible long-term debts (-)		19 (b)	(1,226)	(4,268)
Non-convertible long-term debts		19 (a)	1,117	604

*) Elion Enterprises AS has an outstanding liability in the form of a non-convertible long-term loan. It was taken from Telia Finans AB in the amount of 34 million SEK on 30 December 1994. On 20 February 2002, the loan agreement was changed in a way that an annuity, denominated in SEK and interest payments at the beginning of each period (interest rate K1+margin) became a EUR denominated fixed repayment schedule loan with an interest payment at the end of each period (interest rate 3 months EURIBOR+3.5%). Consequently, the Group eliminated the foreign exchange rate risk between SEK and EEK. The last repayment was made on July 2005.

Expected repayments of the referred long-term debt:

	Non-convertible long-term debt
Within one year	1,226
Later than one year and not later than five years incl.	1,117
	2,343

21. Convertible debt

Employees' share option

	Year ended 31 December 2005	2004
Nominal value of convertible loan bonds issued at the year beginning	**-**	**358**
Repayment of convertible loan bonds in nominal value	-	(48)
Exchange of convertible loan bonds for ordinary shares	-	(310)
Nominal value of convertible loan bonds issued at the year ending	**-**	**-**
Convertible loan bonds premium at the year beginning	-	3
Discount of convertible loan bonds premium	-	(3)
	-	**-**
Interest charged at the year beginning	-	72
Interest charged	-	13
Interest paid	-	(85)
	-	-
Current portion of convertible long-term loan bonds	-	-

Additional information concerning the B-series convertible bonds transaction in 2004 is provided in Note 18, section (a).

In thousands of Estonian kroons

22. Trade and other payables

		Year ended 31 December	
	Note	**2005**	**2004**
Trade payables		319,745	264,702
Customer advances		6,829	5,689
Payables to associates	27	112	380
Value-added tax payable		23,621	9,085
Social insurance tax payable		15,134	13,248
Income tax fringe benefits payable		2,441	2,108
Unemployment contribution payable		588	508
Employee withholding tax payable		8,802	7,680
Other taxes payable		575	394
Payable to employees		82,333	65,430
International settlements		46,265	50,141
Accrued expenses related with acquisition of shares	10	47,452	-
Other accrued expenses		25,439	16,945
Deferred income from government grants		928	-
Other prepaid revenue		14,180	596
		594,444	**436,906**

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

a) Operating lease payments

	Year ended 31 December	
	2005	**2004**
Minimum lease payments under non-cancellable operating leases:		
Within one year	22,122	21,051
Later than one year and not later than five years incl.	43,462	39,952
After five years	29	**-**
	65,613	**61,003**

The operating lease expenses for 2005 and 2004 were 24,268 thousand EEK and 50,069 thousand EEK, respectively.

b) Finance lease payments

		Year ended 31 December	
	Note	**2005**	**2004**
Finance lease payments, both principal and interest charge, are payable as follows:			
Within one year		2,026	15,000
Later than one year and not later than five years incl.		4,749	-
		6,775	**15,000**
Interest charge (-)		(172)	(300)
Current portion of finance lease liability	19 (b)	(1,947)	(14,700)
Long-term liability		**4,656**	**-**

In thousands of Estonian kroons

24. Provisions

a) Retirement benefit obligations

	Year ended 31 December	
	2005	**2004**
Current portion of retirement benefit obligations	865	651
Non-current portion of retirement benefit obligations	6,926	8,006
Total retirement benefit obligations	**7,791**	**8,657**
Balance at the beginning of the year	**8,657**	**9,428**
Contributions paid	(866)	(865)
Interest rate differences	80	81
Exchange differences	(80)	13
Balance at the end of the year	**7,791**	**8,657**

b) Current provisions

	Termination benefits provision	Disputed penalties provision	Compensation of the tolerance of technical infrastructure provision	**Total**
At 31 December 2004	**3,805**	**-**	**-**	**3,805**
Additional provisions	4,177	2,132	1,980	**8,289**
Used provisions during year	(4,273)	-	-	**(4,273)**
At 31 December 2005	**3,709**	**2,132**	**1,980**	**7,821**

Two supplemental provisions were made during the accounting period:

- **Provision for disputed penalties.** Elisa Mobiilsideteenused AS has submitted a statement of claim against Elion Enterprises AS, in which they demand the performance of contractual obligations, and that interconnection fees not paid on time in the amount of 9,652 thousand EEK and a penalty of 2,132 thousand EEK thereon be ordered to be paid by Elion Enterprises AS. Elion Enterprises AS has contested the propriety of the interconnection fee claim. The amount for interconnection fees is recognized in the Group's 2005 operating cots, but has not been transferred to Elisa Mobiilsideteenused AS. Based on the statement of claim, an appropriation has been made for penalty in case the court action in not resolved in favor of Elion Enterprises AS.
- **Provision for the compensation of the tolerance of technical infrastructure.** According to the Riigikogu resolution of April 30, 2004, owners of technical infrastructure and networks are obligated to pay landowners compensation for the tolerance of technical infrastructure and networks built on their land starting on October 1, 2004. The implementation act regarding the size and payment of the compensation has not yet been passed. Upon the passage of the implementation act, Elion Enterprises AS will have to compensate possible claims started from October 1, 2004. Considering this, an appropriation has been made totaling the possible compensation amount for the period October 1, 2004 – December 31, 2006. The calculation of the amounts is based on the law and the draft regulation of the Government of the Republic.

25. Government grants

The following table contains information about the usage of government grants occurred from the state budget and used by EMT for financing hardware and software. The government grants has been accepted by the Estonian Ministry of Economic Affairs and Communications.

	Notes	**2005**	**2004**
Government grants for operating expenses			
Balance of unappropriated government grant at the beginning of the period		-	-
Received from the Government of the Republic		854	-
Recognized as government grant revenue		854	-
Balance of unappropriated government grant at the end of the period	22	-	-
Government grants of assets			
Undepreciated balance at the beginning of the period		-	-
Received from the Government of the Republic		1,656	-
Depreciated into revenue		728	-
Undepreciated balance at the end of the period	22	928	-
Total government grants recognized as revenue	**4**	**1,582**	**-**

26. Financial risk management

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk, liquidity risk, currency risk and fair value risk. The Group's risk management is focused on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Funding the Group as well as managing Group's excess liquidity and financial risks are the responsibilities of the Treasury Department that fulfils its obligations in accordance with the rules approved by the Supervisory Board of AS Eesti Telekom.

To manage the Group's liquid assets more efficiently the Group has cash pooling agreements in Hansapank, SEB Eesti Ühispank, Sampo Pank and in Estonian branch of Nordea Bank Finland. The cash pool is also used for funding the subsidiaries.

(a) Interest rate risk

Interest rate risk bearing financial assets and liabilities have long term maturities which are sensitive to movements in interest rates. The Group does not have long-term interest rate sensitive financial assets.

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

The Group had hedged one liability through IRS (Interest Rate Swap) against the volatility of interest rates (3 months Euribor). The deal was made with Nordea Bank Estonia and the hedged loan agreement was signed between Elion Enterprises AS and Telia Finans AB. Interest rate in loan agreement was 3 months Euribor + 3.5%. According to the IRS, signed in February 2002, Elion Enterprises AS was obliged to pay fixed rate of 4.45%. The effective interest rate for Elion Enterprises AS was 7.95%. The loan agreement and the IRS contract ended on 30 June 2005.

The interest rates and repayment terms of the Group's loans are disclosed in note 20 in the financial statements.

(b) Credit risk

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

The Group has policies that limit the amount of credit exposure to any financial institution or other counterparty. The Group manages its excess liquidity and financial risks only with and through Estonian banks, which have at least a Baa3 credit rating, and foreign banks, which have at least an A2 credit rating.

(c) Foreign exchange risk

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

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

Main operating currencies for the Group, other than Estonian kroon, are euro and USD. In 2004 approximately 10% of settlements were in EUR and less than 5% of settlements in USD. Other foreign currencies contributed less than 1% of the total settlements.

As of 31 December 2005 the Group did not have any outstanding derivative contracts related to hedge currency risks.

(d) Liquidity risk

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

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

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

In thousands of Estonian kroons

(e) Fair value

The fair values of cash, trade payables, loans and borrowings are not materially different from their carrying amounts.

27. Related party transactions

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

a) Name and relationship of related party

Name	Relationship with AS Eesti Telekom Group
Key management, supervisory council and their relatives	
List of associates is shown in Note 11	
Enterprises of TeliaSonera AB Group	Parent company, shareholder
Eltel Networks Corporation (up to 30 November 2004)	Minority shareholder of AS Eltel Networks
State Government	Shareholder

To State Government the telecommunication services were provided. The detailed information of transactions and balances is not available. The information regarding tax balances are disclosed in Notes 15 and 22.

b) Key managements' and supervisory councils' remuneration

The remunerations of key management and supervisory council during the year were as follows:

	2005	2004
Salaries and other short-term employee benefits	39,596	40,948
Termination benefits	98	3,355
Other	596	297
	40,290	**44,600**

c) Trading transactions

No impairment has been made in 2005 and 2004 for the receivables to related parties.

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

	2005	2004
Telecommunication services provided		
Associated companies	1,053	853
Shareholders	195,273	219,397
Companies where supervisory council members of the Group have significant influence	-	236
	196,326	**220,486**
Other sales		
Associated companies	36	1,409
Shareholders	-	2,897
	36	**4,306**
Telecommunication services purchased		
Associated companies	2,141	1,140
Shareholders	154,960	144,108
	157,101	**145,248**
Other services purchased		
Associated companies	63	19
Shareholders	520	4,288
Companies where supervisory council members of the Group have significant influence	-	59
	583	**4,366**
Financial income		
Associated companies	**267**	**401**
Financial expenses		
Shareholders	**78**	**463**

In thousands of Estonian kroons

	2005	2004
Amounts owed by related parties		
Associated companies	4,259	5,106
Shareholders	35,009	62,862
	39,268	**67,968**
Amounts owed to related parties		
Associated companies	112	380
Shareholders	22,260	25,316
Key management and supervisory council	9,768	11,754
	32,140	**37,450**

28. Contingencies

Contingent income tax liability

The consolidated retained earnings of AS Eesti Telekom as at 31 December 2005 amounted to 2,165,819 (31 December 2004: 2,182,349) thousand EEK. As from 1 January 2006 income tax of 23/77 of net dividend paid (up to 31 December 2005: 24/76) is imposed on the profit distributed as dividends. Thus, the retained earnings as at 31 December 2005 that can be paid out as dividends to the shareholders, amount to 1,667,681 thousand EEK and the corresponding income tax would amount to 498,138 thousand EEK. As at 31 December 2004 it would have been possible to pay out dividends to the shareholders in the amount of 1,658,585 thousand EEK and the corresponding income tax would have amounted to 523,764 thousand EEK.

Other contingent liabilities

	2005	2004
Key management termination benefits	21,936	20,630
Guaranties to other companies	2,643	813
Guarantees to former employees	200	200
	24,779	**21,643**

AS EMT acquired a third generation mobile communications license in 2003. By acquiring the license, AS EMT accepted an obligation to establish, within seven years of the issuance of the license (17 July 2003), a third generation network, covering at least 30% of the Estonian population and having a data transmission speed of at least 144 Kb/sec in urban areas and 64 Kb/sec elsewhere in Estonia.

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

The tax authority has the right to control a company's accounting for tax purposes within 6 years of the tax return being submitted, and upon establishing mistakes to assess an additional tax amount, interest, or fines. In addition, in certain cases, upon the discovery of possible tax offences, fines may be assigned.

According to the assessment of the management, there are no circumstances, whereby the tax authority could assess the company with any significant supplemental tax.

Court Actions

- **Making operator pre-selection possible**
  On 22 April 2004, the National Communications Board issued a precept to Elion which obligated Elion Enterprises AS to guarantee the possibility of pre-selecting the use of the telephone services of other companies, incl. the transmission of accounting data for free, to the users of its telephone network analogue exchange.
  On 20 May 2004, Elion filed an action with the Tallinn Administrative Court seeking to suspend the execution of the precept. The court satisfied Elion's action by suspending the execution of the precept during the period of litigation. The hearing in the given matter will take place on 30 March 2006. The litigation is of significant practical importance to Elion. Since the execution of the precept is suspended, then during two years, Elion has not had to make any supplemental investments into creating operator pre-selection possibilities for analogue exchange customers. On 1 January 2005, the Electronic Communications Act came into force, pursuant to which Elion must also create possibilities for the use of pre-selection for analogue exchange customers. The size of the investment will depend on which technical solution is chosen. Therefore, Elion must count on making the respective investments in the future, regardless of the outcome of the litigation.

- **Action by Elisa Mobiilsideteenused AS claiming supplemental interconnection fees**
  On 5 December 2005, Elisa Mobiilsideteenused AS filed an action against Elion for unpaid interconnection fees and a penalty thereon totalling 11,784 thousand EEK. According to the justification for the action, Elion applied an incorrect interconnection fee for call termination in the Elisa mobile network. Since there was no interconnection agreement between Elion and Elisa Mobiilsideteenused between 1 January 2005 and 1 August 2005, and therefore there was no agreement on price, then Elion applied the principle of receiving a reasonable price, i.e. such a fee that would include a reasonable profit. The date of the hearing for this matter has not yet been determined. If the action of Elisa Mobiilsideteenused is satisfied, Elion Enterprises AS may be ordered to pay 11,784 thousand EEK, to which the penalty, which has increased during the course of the dispute, will be added. Since Elion has already created an appropriation for the presumed expense amount, then the satisfaction of the given action will not create any additional expense. At the same time, the management has assessed that the amount that the actual payment amount will be significantly smaller.

- **Contesting the size of Tele2 Eesti AS interconnection fees**
  On 28 January 2005, Elion filed an action with the Tallinn Administrative Court, whereby it sought to have the court declare unlawful the act of the National Communications Board whereby the Communications Board deemed the precept made to Tele2 Eesti AS regarding the calculation of interconnection fees to be effected. With its ruling of 4 November 2005, the Tallinn Administrative Court did not satisfy Elion’s action. On 2 December 2005, Elion filed an appeal with the Tallinn Circuit Court in which it seeks to have the ruling of the Tallinn Administrative Court annulled. Currently, the date for the Tallinn Circuit Court hearing has not been determined. The monetary value of the dispute for Elion is 4,367 thousand EEK. Since Elion has already paid the given amount to Tele2 Eesti AS, there will be no additional costs to Elion if the appeal is not satisfied.

- **Estonian National Communications Board precepts to Elion**
  According to the Estonian National Communications Board, the price systems for Elion *Sõbranumber* [Friend number] and *Kõneaja boonus* [Call time bonus] packages contained impermissible discounts. The Communications Board issued two precepts to Elion, and the date for complying with these precepts was 9 May 2005. Elion challenged the precepts in court, as well as the applying for the suspension of the deadline for the performance of the precepts, which the Tallinn Administrative Court and Tallinn Circuit Court did not satisfy. Elion cannot appeal the judgment of the Circuit Court, and therefore Elion had to comply with the precepts. In order to comply with the precepts, Elion partially lowered the interconnection fees and reduced the amount of call time offered under the *Kõneaja boonus* scheme by 25%. At the same time, Elion considers the Communications Board precepts to be unfair and prejudicial to the consumers’ interests, and therefore is continuing litigation in order to restore the original situation. On 12 December, the Tallinn Administrative Court did not satisfy Elion’s complaint regarding the precept regarding the *Kõneaja boonus* system, and Elion appealed the court judgment.

29. Employees

The average number of employees during 2005 was 2,175 and during 2004, 2,447.

30. Parent of the Group

The parent company of the Group is AS Eesti Telekom, situated at Roosikrantsi St. 2, 10119 Tallinn, Estonia.

The immediate parent company of AS Eesti Telekom Group is Baltic Tele AB, a 100%-owned subsidiary of TeliaSonera AB. Address: Box 7754, SE-103 96, Stockholm, Sweden.

AS Eesti Telekom Group consolidated financial statements are consolidated into TeliaSonera AB, the ultimate parent company, situated at Sturegatan 1, SE-106 63 Stockholm, Sweden.

In thousands of Estonian kroons

31. Supplementary disclosures on the parent entity of the Group

INCOME STATEMENT OF THE PARENT ENTITY

	2005	2004 Restated
Revenues		
Sales	-	60
Other operating income	-	68
Total revenues	**-**	**128**
Operating expenses		
Other operating expenses	(7,648)	(11,655)
Personnel expenses	(10,315)	(13,647)
Other expenses	(909)	(701)
Depreciation, amortisation and impairment of fixed and intangible assets	(130)	(691)
Net income from subsidiaries	1,100,000	1,100,000
Other net financing items	13,357	12,222
Profit before tax	**1,094,355**	**1,085,656**
Income tax on dividends	(1,148)	(409)
Net profit for the period	**1,093,207**	**1,085,247**

Reclassification of balances

During 2005, the following comparative balances of 2004 were reclassified:

	Initial opening balance	Reclassification	Comparative balance
Other operating income	74	(6)	68
Other expenses	(707)	6	(701)
Net income from subsidiaries	1,007,931	92,069	1,100,000

1) According to IAS 1 Presentation of Financial Statements clauses 34 -35, gains and losses arising from a group of similar transactions are reported on a net basis. On the assumption of cited above, the year 2004 financial statements are presented by netting gains / losses on the disposal and write-offs of non-current assets and foreign exchange gains / losses arising from accounts receivables and accounts payables.

2) As a result of the application of Standard IAS 27 (amended in 2003), the equity method for subsidiary recording in the parent company's standalone financial statements was discontinued. Starting from 1 January 2004, investments in subsidiaries are recognized in the financial statements of the parent company according to the acquisition cost method. In this connection, the dividends received from them are recognized as financial income from subsidiaries in the income statement of the parent company.

In thousands of Estonian kroons

BALANCE SHEET OF THE PARENT ENTITY

	Year ended 31 December	
	2005	**2004 Restated**
ASSETS		
Non-current assets		
Fixed assets	243	256
Intangible assets	53	54
Investments in subsidiaries	1,317,383	1,317,383
Other non-current receivables	-	4,100
Total non-current assets	**1,317,679**	**1,321,793**
Current assets		
Trade and other receivables	66,909	134,920
Current securities	1,266,638	1,153,740
Total current assets	**1,333,547**	**1,288,660**
TOTAL ASSETS	**2,651,226**	**2,610,453**
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	1,379,545	1,379,545
Share premium	356,018	356,018
Statutory legal reserve	137,955	137,645
Accumulated profit	43,838	54,577
Total capital and reserves	**1,917,356**	**1,927,785**
Non-current liabilities		
Retirement benefit obligations	1,856	1,856
Total non-current liabilities	**1,856**	**1,856**
Current liabilities		
Trade and other payables	6,406	6,290
Interest-bearing loans and borrowings	725 608	674 522
Total current liabilities	**732 014**	**680 812**
TOTAL EQUITY AND LIABILITIES	**2 651 226**	**2 610 453**

Reclassification of balances

In 2005, the following comparative balances of 2004 were reclassified (Investments in subsidiaries is restated as at 1 January 2004) :

	Initial 1.01. 2004	Reclassification	Restated 1.01. 2004
***Non-current assets* [1)]**			
Investments in subsidiaries	3,537,225	(2,219,841)	1,317,383
***Equity* [1)]**			
Accumulated profit	2,290,597	(2,219,841)	70,756
	Initial 31.12. 2004	**Reclassification**	**Restated 31.12. 2004**
***Current assets* [2)]**			
Short-term investments	28,874	1,124,866	1,153,740
Cash and cash equivalents	450,344	(1,124,866)	(674,522)
***Current liabilities* [3)]**			
Interest-bearing loans and borrowings	-	674,522	674,522

1) As a result of the application of Standard IAS 27 (amended in 2003), the equity method for subsidiary recording in the parent company's unconsolidated financial statements was discontinued. Starting on

In thousands of Estonian kroons

January 1, 2004, investments in subsidiaries are recognized in the financial statements of the parent company according to the acquisition cost method.

2) Starting from 2005, the balance sheet account „Cash and cash equivalents" does not include deposits with maturity from three to twelve months. Those deposits are shown as a part of financial investments now. Also accounts of 2004 have been restated in order to make them comparable with the results of 2005.

3) The balance sheet account „Interest-bearing loans and borrowings" consists of parent company's short-term liabilities to subsidiaries regarding the cash pooling activities (all the cash pool settlements and investments are done through the parent company's bank accounts).

STATEMENT OF CHANGES IN EQUITY OF THE PARENT ENTITY

	Share capital	Share premium	Statutory legal reserve	Accumulated profit	**Total**
31 December 2003	**1,376,445**	**331,026**	**137,384**	**2,290,597**	**4,135,452**
Changes in accounting polices	-	-	-	(2,219,841)	(2,219,841)
01 January 2004	**1,376,445**	**331,026**	**137,384**	**70,756**	**1,915,611**
Increase in statutory legal reserve	-	-	261	(261)	-
Share issuance	3,100	24,992	-	-	28,092
Dividends declared	-	-	-	(1,101,165)	(1,101,165)
Total changes	*3,100*	*24,992*	*261*	*(1,101,426)*	*(1,073,073)*
Net profit for the period	-	-	-	1,085,247	1,085,247
31 December 2004	**1,379,545**	**356,018**	**137,645**	**54,577**	**1,927,785**
1 January 2005	**1,379,545**	**356,018**	**137,645**	**54,577**	**1,927,785**
Increase in statutory legal reserve	-	-	310	(310)	-
Dividends declared	-	-	-	(1,103,636)	(1,103,636)
Total changes	-	-	*310*	*(1,103,946)*	*(1,103,636)*
Net profit for the period	-	-	-	1,093,207	1,093,207
31 December 2005	**1,379,545**	**356,018**	**137,955**	**43,838**	**1,917,356**
The book value of shareholdings under dominant or significant influence	-	-	-	(1,317,383)	(1,317,383)
The value of shareholdings under dominant or significant influence accounted by the equity method	-	-	-	3,439,364	3,439,364
Restated equity as at 31 December 2005	**1,379,545**	**356,018**	**137,955**	**2,165,819**	**4,039,337**

In thousands of Estonian kroons

CASH-FLOW STATEMENT OF THE PARENT ENTITY

Cash-flow Statement of the Parent Entity

	2005	2004
Operating activities		
Net profit for the period	1,093,207	1,085,247
Adjustments for:		
Income tax on dividends	1,148	409
Other net financing items	(13,357)	(12,222)
Net income from subsidiaries	(1,100,000)	(1,100,000)
Depreciation, amortization and impairment of fixed and intangible assets	130	691
(Profit) / loss from sales and write-off of fixed assets	-	(68)
Operating cash flows before changes in working capital	(18,872)	(25,943)
Change in current receivables	(2,290)	(2,342)
Change in current liabilities	57	(783)
Cash generated by operations	(21,105)	(29,068)
Interest paid	(1,531)	(1,158)
Income tax on dividends paid	(1,148)	(409)
Net cash used in operating activities	**(23,784)**	**(30,635)**
Investing activities		
Purchase of property, plant and equipment	(62)	-
Purchase of licences	(54)	-
Proceeds from sales of fixed assets	-	276
Net change of short-term investments [1)]	(87,660)	(37,850)
Loans granted	(26,746)	(189,060)
Repayments of loans granted	99,458	109,519
Dividends received	1,100,000	1,100,000
Interest received	16,116	19,256
Net cash from investing activities	**1,101,052**	**1,002,141**
Financing activities		
Repayments of convertible debts	-	(48)
Shares issuance	-	27,782
Proceeds from short-term borrowings	51,086	102,172
Dividends paid	(1,103,636)	(1,101,165)
Net cash used in financing activities	**(1,052,550)**	**(971,259)**
Net change in cash and cash equivalents	**24,718**	**247**
Cash and cash equivalents at beginning of year [1)]	**-**	**-**
Effect of foreign exchange rate changes	127	(247)
Cash and cash equivalents at end of year [1)]	**28,845**	**-**

1) Starting from 2005, the balance sheet account „Cash and cash equivalents" does not include deposits with maturity from three to twelve months. Those deposits are shown as a part of financial investments now. Also accounts of 2004 have been restated in order to make them comparable with the results of 2005. The account "Cash and cash equivalents" also includes time deposits with maturity up to three months.

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

The Management Board has prepared the management report and the consolidated financial statements of AS Eesti Telekom for the financial year ended 31 December 2005 on 27 March 2006.

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

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

Name	*Position*	*Signature*	*Date*
Jaan Männik	*Chairman of the Board*		30.03.2006
Hille Võrk	*Member of the Board*		30.03.2006
Erik Hallberg	*Chairman of the Council*		30.03.2006
Bengt Andersson	*Member of the Council*		30.03.2006
Alo Kelder	*Member of the Council*		11.04.2006
Tomas Olav Lenke	*Member of the Council*		30.03.2006
Tarmo Porgand	*Member of the Council*		30.03.2006
Mats Salomonsson	*Member of the Council*		30.03.2006
Raivo Vare	*Member of the Council*		30.03.2006

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AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholders of AS Eesti Telekom

We have audited the accompanying consolidated balance sheet of AS Eesti Telekom (the Parent Company) and its subsidiaries (the Group) as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements as set out on pages 12 to 60 are the responsibility of the Parent Company's Management Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2005 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Urmas Kaarlep
AS PricewaterhouseCoopers

Heidi Seeland
Authorised Auditor

27 March 2006