

8 February 2006

## AS EESTI TELEKOM FINANCIAL RESULTS FOR THE 4<sup>TH</sup> QUARTER OF 2005

AS Eesti Telekom, the leading provider of telecommunications services in Estonia, hereby announces its results for the fourth quarter ending 31 December 2005.

### The most significant financial indicators

	<b>Q4 2005</b>	Q4 2004	Change %	Q4 2004, excl. discontinued operations	Change %
Total revenues, million EEK	<b>1,407</b>	1,310	7.4	1,283	9.7
EBITDA, million EEK	<b>504</b>	487	3.6	492	2.5
EBITDA margin, %	<b>35.8</b>	37.1		38.4	
EBIT, million EEK	<b>307</b>	285	7.74	281	9.1
EBIT margin, %	<b>21.8</b>	21.7		21.9	
EBT, million EEK	<b>319</b>	336	-5.0	291	9.5
Net profit for the period, million EEK	<b>319</b>	336	-5.0	291	9.5
EPS, EEK	<b>2.31</b>	2.42	-4.6		
CAPEX, million EEK	<b>211</b>	221	-4.3	219	-3.7
Net gearing, %	<b>-41.2</b>	-36.1			
ROA, %	<b>24.5</b>	22.1			
ROE, %	<b>36.9</b>	35.0			

  

	<b>12M 2005</b>	12M 2004	Change %	12M 2004, excl. discontinued operations	Change %
Total revenues, million EEK	<b>5,174</b>	5,138	0.7	4,996	3.6
EBITDA, million EEK	<b>2,147</b>	2,122	1.1	2,121	1.2
EBITDA margin, %	<b>41.5</b>	41.3		42.5	
EBIT, million EEK	<b>1,394</b>	1,306	6.7	1,298	7.4
EBIT margin, %	<b>27.0</b>	25.4		26.0	
EBT, million EEK	<b>1,442</b>	1,381	4.4	1,332	8.2
Net profit for period, million EEK	<b>1,093</b>	999	9.5	949	15.2
EPS, EEK	<b>7.92</b>	7.21	9.9		
CAPEX, million EEK	<b>554</b>	515	7.6	508	9.1

### For further information, please contact:

Jaan Männik, CEO  
Hille Vörk, CFO

+372 631 1212  
+372 627 2460

Address  
Roosikrantsi 2  
10119 Tallinn  
Estonia

Phone  
+372 6311212  
Fax  
+372 6311224

E-post  
[mailbox@telekom.ee](mailto:mailbox@telekom.ee)

Homepage  
[www.telekom.ee](http://www.telekom.ee)

## CHAIRMAN'S STATEMENT

### Financial results

In the last quarter of 2005, two processes important to the future development of the Eesti Telekom Group came to fruition. On 31 October the purchase of AS MikroLink by AS Elion Enterprises came into force. As a result of the transaction, Estonia's largest IT service provider was added to the Eesti Telekom Group. If, up to the present, we were able to offer our customers the most diversified selection of fixed-line and mobile communications products, then from now on we have the possibility to integrate a wide range of IT services with telecommunications solutions.

The other achievement in the fourth quarter was to bring the first 3G network in Estonia into commercial use by AS EMT, a subsidiary of the Eesti Telekom Group. Currently, the 3G network only covers Tallinn, and the number of active users can be measured in the hundreds. However, taking into account the percentage of active users of mobile data communications among EMT customers, adding the new technology is an important step.

The last quarter of the year was also successful in regard to total revenues. Total fourth quarter revenues reached 1,407 million kroons, increasing 7.4% compared to the fourth quarter of 2004. If one eliminates the revenues of the Eltel Group, which was sold at the end of 2004, from the 2004 indicator, the increase in the last quarter of 2005 would be 9.7%. Both mobile communications and fixed-line communications experienced growth. In the group's principle fields of activity, the growth on the fixed-line side resulted primarily from the continued rapid growth in Internet revenues. In the fourth quarter, an important contribution was also made by IT and data communications revenues, supported by the consolidation of MikroLink revenues starting in November. In the field of mobile communications, the greatest increase was in revenues from domestic calls and data communications, along with interconnection revenues. Strong economic growth in 2005 and an increase in personal consumption also had an effect on the turnover of the Eesti Telekom Group retail chains. The sales results of both AS EMT Esindused and AS Elion Esindused were strong during the Christmas holiday period. In addition to the sale of traditional products—fixed-line and mobile phones—our chains have achieved a strong market position in the sale of computers and other IT products.

In the fourth quarter of 2005, Eesti Telekom Group operating costs reached 903 million kroons, increasing 9.6% compared to the same period in 2004 (14.2%, if Eltel Group is eliminated). The increase in operating costs basically resulted from an increase in costs related to purchased goods and is related to the increased volume of retail activity. The second factor in the growth of operating costs is the continued increase in the number of call minutes outgoing from the EMT network and the resulting increase in the cost of interconnection fees.

Eesti Telekom Group EBITDA was 504 million kroons, growing 3.6% compared to the fourth quarter of 2004. The EBITDA margin in the fourth quarter was typically low, 35.8% (37.1% in the fourth quarter of 2004).

The group's depreciation decreased by 2.0% compared to the same period in 2004. The smaller drop in depreciation costs, compared to the last quarters, resulted from supplementary amortization carried out by AS EMT, which was related to the adjustment of the assumed useful life of certain fixed assets. Making provisions for supplementary amortization was a one-time event.

Thanks to a strong financial position, the financial revenues (net) in the fourth quarter reached 13 million kroons. Since the financial revenues for the fourth quarter of 2004 comprised a sales profit of 43 million kroons for the Eltel Group, then this year, the fourth quarter net profit for the Eesti Telekom Group was 5.0% less than the result in 2004, reaching 319 million kroons. The revenue per share reached 2.31 euros in the ending quarter.

The 2005 total revenues for the Eesti Telekom Group reached 5,174 million kroons, increasing 0.7% compared to 2004 (3.6% when eliminating the Eltel Group). The group's operating costs remained at the 2004 level, reaching 3,027 million kroons (an increase of 5.3% when eliminating the Eltel Group). The

group's EBIT grew 1.1% during the year. Despite higher than usual depreciation in the fourth quarter, depreciation as a whole decreased by 7.8% in 2005 compared to 2004, being the main factor for 6.7% EBIT growth. During 2005, the Eesti Telekom Group earned 47 million kroons in financial revenues (net). This indicator is still less than the result in 2004 based on the 43-million-kroon profit earned from the sale of the Eltel Group. In June, according to a resolution of the shareholders' general meeting, AS Eesti Telekom paid its shareholders dividends for the 2004 financial year of 8.00 kroons per share. Although the amount of dividends per share remained the same, the total dividend amount increased due to the increase in share capital that took place in June 2004. If, in 2004, 1,101 million kroons was paid out in dividends, then this year the amount was already 1,104 million kroons. At the same time, the income tax rate on dividends paid out has decreased—26/74 of the dividend amount in 2004, and 24/76 of the dividend amount in 2005. The income tax cost for AS Eesti Telekom dividends was 34 million kroons less than last year, reaching 349 million kroons. In 2005, the Eesti Telekom Group earned a net profit of 1,093 million kroons, which was 9.5% more than in 2004. The revenue per share was 7.92 kroons.

As of the end of December 2005, the Eesti Telekom Group balance sheet total was 4,665 million kroons (December 2004: 4,524 million kroons). The group's non-current assets in total had decreased by 83 million kroons. Tangible assets were down by 169 million kroons, based on the moderate investments of the last few years. Intangible assets have grown by 80 million kroons, related to the intangible assets registered in connection the acquisition of the participating interest in AS MikroLink. The group's current assets have grown by 222 million kroons, the majority of which, 187 million kroons, results from an increase in cash, cash equivalents and short-term investments.

Eesti Telekom Group equity at the end of 2005 was 4,046 million kroons (December 2004: 4,056 million kroons). Interest-bearing liabilities continue be modest, reaching 9 million kroons at the end of 2005 (December 2004: 20 million kroons). The group's net debt at the end of December 2005 was -1,667 million kroons and the ratio of net debt to equity was -41.2%. Other current liabilities increased by 161 million kroons during 2005, to a total of 603 million kroons by the end of December.

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

### **Elion Group**

	<b>Q4 2005</b>	Q4 2004	Change %	Q4 2004, excl. discontinued operation	Change %
Total revenues, million EEK	<b>732</b>	683	7.3	652	12.4
EBITDA, million EEK	<b>218</b>	204	6.7	199	9.3
EBITDA margin, %	<b>29.7</b>	29.9		30.6	
EBIT, million EEK	<b>125</b>	92	35.3	88	41.5
EBIT margin, %	<b>17.0</b>	13.5		13.5	
EBT, million EEK	<b>132</b>	140	-6.2	96	37.8
Net profit for period, million EEK	<b>132</b>	140	-6.2	96	37.8
CAPEX, million EEK	<b>147</b>	92	60.8	87	69.9
ROA, %	<b>18.1</b>	15.9			
ROE, %	<b>28.0</b>	24.5			

	<b>12M 2005</b>	12M 2004	Change %	12M 2004, excl. discontinued operations	Change %
Total revenues, million EEK	<b>2,594</b>	2,677	-3.1	2,524	2.8
EBITDA, million EEK	<b>878</b>	861	1.9	849	3.46
EBITDA margin, %	<b>33.8</b>	32.2		33.6	
EBIT, million EEK	<b>491</b>	394	24.6	385	27.6
EBIT margin, %	<b>18.9</b>	14.7		15.2	
EBT, million EEK	<b>516</b>	449	15.1	398	29.7
Net profit for period, million EEK	<b>390</b>	347	12.3	297	31.5
CAPEX, million EEK	<b>370</b>	243	52.6	229	61.2

Elion Group revenues showed strong 7.3% growth in the fourth quarter of 2005, reaching 732 million kroons. By eliminating the effect of the Eltel Group (Elion Group sold its shares in the Eltel Group in December 2004) from the 2004 fourth quarter results, the revenue growth reached 12.4%.

The main factor causing the revenue growth for the Elion Group in the fourth quarter was the purchase of AS MicroLink that came into force on 31 October 2005. As a result of this transaction, Elion Enterprises AS acquired 96% of the shares of the leading Baltic IT company, AS MicroLink. The Latvian and Lithuanian operations of AS MicroLink were sold on 14 November to Lattelekom SIA and Lietuvos Telekomas AB respectively. MicroLink Eesti AS, a subsidiary of AS MicroLink, is independently continuing its operations within the Elion Group. Starting in November, the results of MicroLink Eesti operations have been consolidated into the Elion Group.

In December 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%.

The objective for the purchase of MicroLink Eesti was to further strengthen the market position of Elion and MicroLink in the Estonian IT market and to offer clients a wider selection of telecommunications and IT services as well as complex solutions. MicroLink will be responsible for all providing IT services for the entire Elion Group, while Elion Enterprises for its part will provide comprehensive solutions as well as the sale of IT services to small and medium-sized businesses.

The addition of MicroLink to the consolidated revenues of the Elion Group starting in November 2005, is also the reason why IT and data communications revenues experienced a rapid acceleration in the fourth quarter. Revenues, in this sphere of activity, increased by 37.7%, compared to the same period last year.

Throughout 2005, Elion Group revenues from Internet connections and services showed strong growth. During the last quarter of the year, these revenues grew by 18.8%. In 2005, the number of Elion Group permanent Internet connections grew over 40% reaching 108.0 thousand by the end of the year (December 2004: 76.8 thousand). The coverage area for permanent Internet connections has expanded by more than 20%, and currently, permanent connections are available in all Estonian towns and more than 1,000 villages. 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 an even wider area. Elion estimates its permanent Internet connections market share among private individuals to be 53%. During 2005, the market share increased by 6-7 percentage points.

Elion Group revenues from voice communications decreased by 10.6% in the fourth quarter of 2005. 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 (December 2004: 426.1 thousand) in use. Thereby, the number of main lines decreased by 17.3 thousand in 2005. Another important factor influencing the drop in voice communications revenues in the fourth quarter was a summer discount campaign targeting older clients and those who might potentially give up their fixed-line telephones, which temporarily offered voice communications

connections at half the normal monthly fee. 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 fee, 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 voice communications market share. 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 the fourth quarter of 2005, revenues from network services increased 4.3% compared to the same period in 2004. The growth resulted from increased volumes in international transit traffic.

In the fourth quarter, Elion Group retail revenues also showed strong 37% 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-televvisions, in order to offer the equipment necessary to watch DigiTV along with a quality TV picture.

In the fourth quarter of 2005, the Elion Group operating costs increased by 7.5% compared to the same period in 2004. Eliminating Eltel Group operating costs from the 2004 results, the growth would be 13.8%. The growth in revenues, as well as operating costs, basically resulted from the merger of AS MicroLink and AS MicroLink Eesti starting in November. Compared to last year, the domestic interconnection costs decreased significantly based on the reduction of termination fees by the mobile operators at the beginning of 2005.

The fourth quarter EBITDA of the Elion Group grew by 6.7% compared to the same period in 2004. When eliminating the Eltel Group, the growth becomes 9.3%. Typical of the fourth quarter, the EBITDA margin was low, 29.7% (2004 fourth quarter 29.9%)

The reduction of Elion Group depreciation also continued in the fourth quarter of 2005, when the drop reached 16.9%, compared to the same period in 2004. Elion Group EBIT was 125 million kroons, increasing by 35.3% in one year. In connection with the increased volume of installment purchases, the group's interest revenues have significantly increased. At the same time, the 43-million-kroon profit from the sale of the Eltel Group was reflected in the financial revenues for the fourth quarter of 2004, whereby the financial revenues as a whole decreased in the fourth quarter of 2005 by 84.6% compared to the same period in 2004. In the ended quarter, the Elion Group earned a net profit of 132 million kroons, which is 6.2% less than the fourth quarter of 2004.

Elion Group invested 147 million kroons in the fourth quarter of 2005 (fourth quarter 2004: 92 million kroons). The main portion of the investment has gone to development of the DSL network and into improvement of IT rental services for external customers.

In 2005, total revenues for the Elion Group decreased by 3.1% compared to 2004. When eliminating the Eltel Group from the 2004 results, the growth of total revenues in 2005 would be 2.8%. The increase in total revenues resulted from revenues from Internet connections, IT and data communications, as well as retail trade. At the same time, the group's total revenues from voice communications dropped significantly. Elion Group operating costs were 5.5% less than in 2004. However, when eliminating the Eltel Group, there would be a 2.4% increase in operating costs in 2005. The increase in operating costs results primarily from an increase in the expenditures made for goods and services, which are related to the expansion of retail activities and the addition of the MicroLink companies. For the year, costs related to interconnection services also decreased.

Elion Group EBITDA increased by 1.9% (3.4% without the Eltel Group). In one year, the EBITDA margin improved, reaching 33.8% in 2005. Compared to 2004, Elion Group depreciation decreased by 17.4%. In

2005, EBIT increased by 25.2%. The increase in the group's net profit was slower than the EBIT growth, reaching 12.3%. This resulted from showing the 43-million-kroon profit from the sale of the Eltel Group as an Elion Group financial revenue in 2004 and from the income tax expenditure on dividends that was 25-million-kroon higher than in 2004, which resulted from the 400-million-kroon dividend payment by Elion Enterprises AS to its parent company, AS Eesti Telekom (in 2004, dividends of 300 million kroons were paid).

As of the end of December 2005, 1673 people were employed by Elion (December 2004: 1,454 people).

### **EMT Group**

	<b>Q4 2005</b>	Q4 2004	Change %	<b>12M 2005</b>	12M 2004	Change %
Total revenues, million EEK	<b>808</b>	766	5.5	<b>3,088</b>	2,999	2.9
EBITDA, million EEK	<b>292</b>	288	1.3	<b>1,288</b>	1,288	0.0
EBITDA margin, %	<b>36.1</b>	37.6		<b>41.7</b>	42.9	
EBIT, million EEK	<b>187</b>	198	-5.7	<b>922</b>	938	-1.8
EBIT margin, %	<b>23.1</b>	25.8		<b>29.8</b>	31.3	
EBT, million EEK	<b>189</b>	199	-4.7	<b>931</b>	946	-1.7
Net profit for period, million EEK	<b>189</b>	199	-4.7	<b>709</b>	665	6.7
CAPEX, million EEK	<b>63</b>	129	-50.6	<b>183</b>	273	-32.8
ROA, %	<b>38.9</b>	36.2		<b>38.9</b>	36.2	
ROE, %	<b>63.7</b>	62.7		<b>63.7</b>	62.7	

EMT Group revenue growth accelerated in the fourth quarter of 2005, reaching 5.5%. Positive development in the group's basic and support services contributed to the increase in total revenues. At the same time, compared to the previous quarters, the higher growth figures are a result of the relatively weak results of the base period—the fourth quarter of 2004 (Competition in the mobile communications market was intensified in the fall of 2004 in connection with the mobile number portability that was introduced on 1 January 2005).

The growth of the AS EMT client base in the fourth quarter was, as usual, the fastest of the year. During three months, the number of active SIM cards grew by 26 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. Mobile communications penetration in Estonia as a whole reached 107% by the end of the year.

During the last three months, the growth of contractual customers accelerated. During the fourth quarter of 2005, the number of AS EMT contractual customers' SIM cards increased by 11 thousand, reaching 406 thousand by the end of the year (December 2004: 363 thousand, a 43-thousand increase for the year). Since mobile communications penetration in Estonia has already exceeded 100%, then the potential for growth by through 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.

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.

The increase in pre-paid cards during the last three quarters has been stable. During the fourth quarter of 2005, 15 thousand active SIM cards were added and a total of 39 thousand were added during 2005. By the end of the year, the number of cards in use reached 271 thousand (December 2004: 232 thousand). The percentage of pre-paid cards of total 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, 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 in the fourth quarter of 2005, increasing 9% compared to the fourth quarter of 2004. More active use of the services by the customers is behind the increase in revenues. The increase in the number of active cards and the more active use of call services by the customers compensated for the drop in mobile call rates. EMT revenues from domestic calls and mobile Internet grew by 4% compared to the fourth quarter of 2004, and domestic interconnection fees also increased. Compared to the last quarter of 2004, a small drop was experienced by revenues from monthly fees, the sale of pre-paid cards, and roaming.

In December 2005, AS EMT earned an average revenue per active SIM card (ARPU) of 324 kroons (September 2005: 338 kroons; December 2004: 356 kroons). The downward ARPU trend slowed from quarter to quarter in 2005, reaching 9.0% in December of 2005, compared to December of 2004 (March 2005: 12.8%; June 2005: 11.5%; September 2005: 10.6%).

An important contribution to the increase of total revenues in the fourth quarter was made by the EMT Group retail chain, AS EMT Esindused. The 2005 last quarter revenues of EMT Esindused exceeded the indicators of the same period in 2004 by 30.7%. The increase in sales revenues was the result of successful Christmas 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.

The fourth quarter has traditionally been characterized by high costs and low margins. In the fourth quarter of 2005, EMT Group operating costs reached 517 million kroons, increasing by 8.2% compared to the last quarter of 2004. The main portion of the increase in operating costs came from AS EMT Esindused, which saw costs increase by 33.6% in connection with increased sales volumes.

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 more active use of the services by the customers.

In the fourth quarter, EMT Group EBITDA grew by 1.3% compared to the same quarter in 2004, reaching 292 million kroons. Based on the great relative importance of merchandising in the fourth quarter results, the EBITDA margin was lower than in previous quarters, reaching 36.1%.

In the fourth quarter of 2005, AS EMT amortized assets at an accelerated pace in the exchange equipment group. Therefore, the 2005 fourth quarter increase in depreciation compared to the same period in 2004 was faster than usual, reaching 16.6%. The adjustment of the useful life in the exchange equipment group was a one-time event.

The larger depreciation amount was also caused by the fact that EMT Group EBIT in the fourth quarter of 2005 decreased by 5.7% compared to the fourth quarter of 2004, and the net profit for the period decreased by 4.7%.

In the fourth quarter of 2005, the EMT Group invested 64 million kroons (fourth quarter of 2004: 129 million kroons). An important investment object in the fourth quarter was the construction of the 3G network covering the city of Tallinn.

The total revenues of the EMT Group in 2005 were 3,088 million kroons, increasing by 3.0% compared to 2004. The primary growth factors for the entire year were the parent company's revenues from local calls and interconnection fees, as well as the increased turnover in the retail chain. The group's operating costs increased by 5.2% during the year. In 2005, the EMT Group EBITDA was 1,288 million kroons, as it was the previous year. The EBITDA margin had decreased somewhat, reaching 41.7% for the whole year (2004: 42.9%). In 2005, the EMT Group depreciation increased by 4.8% compared to 2004, although this increase resulted from the aforementioned one-time accelerated amortization in the fourth quarter. If one subtracts this transaction, the increase in depreciation would have been close to zero. The group earned a net profit of 710 million kroons in 2005, which was 6.7% more than in 2004. The increase in the net profit resulted from an income tax cost on dividends that was 60 million kroons less than last year, which was caused by 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.

At the end of December 2005, 507 people were employed by EMT (December 2004: 498).

### **Relations with the regulator**

#### Intention to have AS EMT declared an undertaking with significant market power

On 28 November 2005, the Estonian National Communications Board notified AS EMT of its intention 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 plans to declare the remaining two communications companies operating mobile communications networks—Elisa Mobiilsideteenus 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" methodologies. 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.

On 28 December 2005, AS EMT submitted an objection to the Communications Board regarding the decision to declare it an undertaking with significant market power. The two other communications companies mentioned above did the same. As of today, the Communications Board has not yet compiled a draft for making or not making the declaration as an undertaking with significant market power.

#### 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 must 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 *Kõneajal boonus* system, and Elion appealed the court judgment.

### **Definitions**

**Net debt**—Long- and short-term debt, less cash and cash equivalents and short-term investments

**ROA – Return on Assets**—Net profit for the rolling four quarters, expressed as percentage of average total assets

**ROE – Return on Equity**—Pre-tax profit for rolling four quarters, expressed as percentage of average equity

All trends, margins and growth rates are calculated on the basis of the Estonian kroon, and using data that is rounded to the nearest kroon.

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**QUARTERLY DATA**  
**mln EEK**

	<b>Q4 04</b>	<b>Q1 05</b>	<b>Q2 05</b>	<b>Q3 05</b>	<b>Q4 05</b>
Revenues	1,310.3	1,219.6	1,250.4	1,296.4	1,407.2
Operating expenses	(823.7)	(700.1)	(698.0)	(726.1)	(902.9)
Profit from operations before depreciation	486.6	519.5	552.4	570.3	504.3
Depreciation and amortisation	(201.9)	(190.2)	(185.1)	(179.6)	(196.9)
Profit from operations	284.7	329.3	367.3	390.7	307.4
Income / (expenses) from subsidiaries and associates	46.0	3.0	(0.9)	(1.6)	(0.1)
Other net financing items	5.2	11.9	13.9	8.8	12.6
Profit before tax	335.9	344.1	380.4	398.0	319.8
Income tax on dividends	-	-	(348.5)	-	-
Net profit for the period	335.9	344.1	31.8	398.0	319.8
Minority interest	(1.7)	-	-	-	-
EBITDA margin, %	37.1%	42.6%	44.2%	44.0%	35.8%
EBIT margin, %	21.7%	27.0%	29.4%	30.1%	21.8%
Net margin, %	25.6%	28.2%	2.5%	30.7%	22.7%
Total assets	4,524.5	4,823.9	4,130.5	4,195.4	4,664.6
- Non-current assets	2,144.9	2,020.1	1,969.2	1,937.1	2,064.2
- Current assets	2,379.6	2,803.8	2,161.4	2,258.3	2,600.4
- Cash and cash equivalents	1,456.2	1,868.6	1,249.8	1,288.3	1,672.2
Equity and liabilities	4,524.5	4,823.9	4,130.5	4,195.4	4,664.6
- Equity	4,055.6	4,399.7	3,327.9	3,725.9	4,045.7
- Non-current liabilities	8.6	8.6	8.3	13.2	12.7
- Interest-bearing borrowings	0.6	1.0	1.0	6.0	5.8
- Current liabilities	460.3	415.6	794.3	456.3	606.2
- Interest-bearing borrowings	19.0	2.7	2.8	2.8	3.2
Proceeds from operating activities	537.3	491.1	607.0	223.6	636.6
Net cash used in investing activities	(181.1)	(62.7)	(122.5)	(182.8)	(321.2)
Net cash before dividends and net loans	356.1	428.4	484.6	40.8	315.4
Dividends paid	-	-	(1,103.7)	-	-
Loan repayments (net)	(1.3)	(16.6)	-	(2.2)	(8.8)
Net increase (decrease) in cash and cash equivalents	354.8	411.8	(619.1)	38.6	306.6

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**4<sup>TH</sup> QUARTER INCOME STATEMENT**

Financial statements are prepared in thousands of EEK

	<b>Q4 2005</b>	<b>Q4 2004 Restated</b>
<b>Revenues</b>		
Net sales	1,394,002	1,306,273
Other operating income	13,199	4,027
<b>Total revenues</b>	<b>1,407,201</b>	<b>1,310,300</b>
<b>Operating expenses</b>		
Materials, consumables, supplies and services	(597,528)	(518,542)
Other operating expenses	(135,647)	(150,469)
Personnel expenses	(161,309)	(148,653)
Other expenses	(8,399)	(6,022)
<b>Total operating expenses</b>	<b>(902,883)</b>	<b>(823,686)</b>
<b>Profit from operations before depreciation</b>	<b>504,318</b>	<b>486,614</b>
Depreciation, amortisation and impairment of fixed and intangible assets	(197,769)	(201,901)
<b>Profit from operations</b>	<b>306,549</b>	<b>284,713</b>
Net income / (expenses) from associates	(102)	46,023
Other net financing items	12,569	5,191
<b>Profit before tax</b>	<b>319,016</b>	<b>335,927</b>
Income tax on dividends	1	-
<b>Net profit / (loss) for the period</b>	<b>319,017</b>	<b>335,927</b>
Attributable to:		
Equity holders of the parent	318,676	334,180
Minority interest	341	1,747
	<b>319,017</b>	<b>335,927</b>
<b>Earnings per share for profit attributable to the equity holders of the parent during the reporting period</b> (expressed in EEK per share)		
Basic earnings per share	2.31	2.42
Diluted earnings per share	2.31	2.42

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**INCOME STATEMENT**

Financial statements are prepared in thousands of EEK

	2005	2004 Restated
<b>Revenues</b>		
Net sales	5,149,857	5,116,109
Other operating income *)	23,765	22,134
<b>Total revenues</b>	<b>5,173,622</b>	<b>5,138,243</b>
<b>Operating expenses</b>		
Materials, consumables, supplies and services	(1,955,460)	(1,896,398)
Other operating expenses	(513,640)	(520,166)
Personnel expenses	(538,112)	(579,316)
Other expenses *)	(19,867)	(20,011)
<b>Total operating expenses</b>	<b>(3,027,079)</b>	<b>(3,015,891)</b>
<b>Profit from operations before depreciation</b>	<b>2,146,543</b>	<b>2,122,352</b>
Depreciation, amortisation and impairment of fixed and intangible assets	(752,741)	(816,472)
<b>Profit from operations</b>	<b>1,393,802</b>	<b>1,305,880</b>
Net income / (expenses) from associates	452	45,183
Other net financing items	47,225	30,315
<b>Profit before tax</b>	<b>1,441,479</b>	<b>1,381,378</b>
Income tax on dividends	(348,516)	(382,918)
<b>Net profit for the period</b>	<b>1,092,963</b>	<b>998,460</b>
Attributable to:		
Equity holders of the parent	1,092,622	993,568
Minority interest	341	4,892
	<b>1,092,963</b>	<b>998,460</b>
<b>Earnings per share for profit attributable to the equity holders of the parent during the reporting period</b> (expressed in EEK per share)		
Basic earnings per share	7.92	7.21
Diluted earnings per share	7.92	7.21

**\*) Note:**

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 writ-offs of non-current assets and foreign exchange gains / losses arising from accounts receivables and accounts payables.

## AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

### BALANCE SHEET

Financial statements are prepared in thousands of EEK

	31 December 2005	31 December 2004 Restated
<b>ASSETS</b>		
<b>Non-current assets</b>		
Fixed assets	1,845,446	2,014,908
Goodwill	60,322	-
Licenses, patents and trademarks	111,272	91,190
Investments in subsidiaries and associates	2,951	18,804
Other non-current receivables	44,194	19,985
<b>Total non-current assets</b>	<b>2,064,185</b>	<b>2,144,887</b>
<b>Current assets</b>		
Inventories	86,909	124,382
Available-for-sale fixed assets	4,219	-
Trade receivables	605,744	577,481
Other receivables	231,314	192,648
Short-term investments *)	1,266,638	1,153,739
Cash and cash equivalents*)	405,548	331,360
<b>Total current assets</b>	<b>2,600,372</b>	<b>2,379,610</b>
<b>TOTAL ASSETS</b>	<b>4,664,557</b>	<b>4,524,497</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
<b>Equity attributable to equity holders of the parent</b>		
Issued capital	1,379,545	1,379,545
Reserves	493,973	493,663
Retained earnings	1,078,403	1,188,781
Net profit for the period	1,092,622	993,568
<b>Total equity attributable to equity holders of the parent</b>	<b>4,044,543</b>	<b>4,055,557</b>
Minority interest	1,160	-
<b>Total equity</b>	<b>4,045,703</b>	<b>4,055,557</b>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	5,773	604
Provisions	6,926	8,006
<b>Total non-current liabilities</b>	<b>12,699</b>	<b>8,610</b>
<b>Current liabilities</b>		
Trade payables	319,745	264,702
Other current liabilities	223,390	139,181
Tax liabilities	51,161	33,023
Interest-bearing loans and borrowings	3,173	18,968
Provisions	8,686	4,456
<b>Total current liabilities</b>	<b>606,155</b>	<b>460,330</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4 664,557</b>	<b>4,524,497</b>

**\*) Note:**

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.

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**
**CASH FLOW STATEMENT**

Financial statements are prepared in thousands of EEK

	2005	2004 Restated
<b>Operating activities</b>		
Profit from operations	1,393,802	1,305,880
Adjustments for:		
Depreciation, amortisation and impairment of fixed and intangible assets	752,741	816,472
(Profit) / loss from sales and write-off of fixed assets	(7,564)	(10,294)
Operating cash flow before changes in working capital	2,138,979	2,112,058
Change in current receivables	49,367	(98,553)
Change in inventories	39,126	(34,365)
Change in current liabilities	80,099	50,143
Cash generated by operations	2,307,571	2,029,283
Interest paid	(735)	(908)
Income tax on dividends paid	(348,569)	(382,918)
<b>Net cash from operating activities</b>	<b>1,958,267</b>	<b>1,645,457</b>
<b>Investing activities</b>		
Purchases of property, plant and equipment	(533,632)	(502,587)
Purchases of licenses	(20,292)	(12,400)
Proceeds from sales of fixed assets	17,563	18,476
Net cash outflow from acquisition of subsidiaries	(294,052)	(3,872)
Net cash inflow from disposal of subsidiaries	217,475	52,272
Net cash inflow from disposal of associates	16,305	-
Net change of sort-term investments *)	(87,660)	(35,947)
Loans granted	(94,877)	(36,256)
Repayment of loans granted	2,715	3,829
Interest received	47,669	38,036
<b>Net cash used in investing activities</b>	<b>(728,786)</b>	<b>(478,449)</b>
<b>Financing activities</b>		
Repayment of convertible debt	-	(48)
Proceeds from non-convertible debt	2,073	1,353
Repayment of nonconvertible debt	(4,602)	(7,377)
Repayment of long-term borrowings	(333)	-
Repayment of finance lease liabilities	(15,719)	(9,059)
Repayment of short-term borrowings	(8,901)	(176)
Shares issuance	-	27,782
Dividends paid	(1,103,816)	(1,101,165)
<b>Net cash used in financing activities</b>	<b>(1,131,298)</b>	<b>(1,088,690)</b>
<b>Net change in cash and cash equivalents</b>	<b>98,183</b>	<b>78,318</b>
<b>Cash and cash equivalents at beginning of year *)</b>	<b>331,360</b>	<b>253,862</b>
Effect of foreign exchange rate changes	851	(820)
<b>Cash and cash equivalents at end of period *)</b>	<b>430,394</b>	<b>331,360</b>

**\*) Note:**

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. The account “Cash and cash equivalents” also includes time deposits with maturity up to three months.

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**
**STATEMENT OF CHANGES IN OWNERS' EQUITY**

Financial statements are prepared in thousands of EEK

	Attributable to equity holders of the parent					Minority interest	Total equity	
	Issued capital	Reserves		Translation reserve	Retained earnings			Net profit for the period
		Share premium	Statutory legal reserve					
<b>31 December 2003</b>	<b>1,376,445</b>	<b>331,026</b>	<b>137,384</b>	<b>(11)</b>	<b>1,254,670</b>	<b>1,035,548</b>	<b>13,540</b>	<b>4,148,602</b>
Net profit for the 2003 transferred to retained earnings	-	-	-	-	1,035,548	(1,035,548)	-	-
Exchange differences arising from translation of foreign operations	-	-	-	11	(11)	-	-	-
Share issuance	3,100	24,992	-	-	-	-	-	28,092
Amounts transferred to reserves	-	-	261	-	(261)	-	-	-
Dividends paid	-	-	-	-	(1,101,165)	-	-	(1,101,165)
Net profit for the period	-	-	-	-	-	993 568	4 892	998 460
Business combinations	-	-	-	-	-	-	(18 432)	(18 432)
<b>31 December 2004</b>	<b>1,379,545</b>	<b>356,018</b>	<b>137,645</b>	<b>-</b>	<b>1,188,781</b>	<b>993 568</b>	<b>-</b>	<b>4 055 557</b>
Net profit for the 2004 transferred to retained earnings	-	-	-	-	993,568	(993,568)	-	-
Amounts transferred to reserves	-	-	310	-	(310)	-	-	-
Dividends paid	-	-	-	-	(1,103,636)	-	-	(1,103,636)
Net profit for the period	-	-	-	-	-	1 092 622	341	1 092 963
Business combinations	-	-	-	-	-	-	819	819
<b>31 December 2005</b>	<b>1,379,545</b>	<b>356,018</b>	<b>137,955</b>	<b>-</b>	<b>1,078,403</b>	<b>1 092 622</b>	<b>1 160</b>	<b>4 045 703</b>

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES****MANAGEMENT BOARD'S SIGNATURES FOR THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE 4<sup>TH</sup> QUARTER AND WHOLE 2005 YEAR**

The Management Board has prepared the Consolidated Interim Financial Report of AS Eesti Telekom for the 4<sup>th</sup> Quarter and whole 2005 year as presented on pages 1- 15.

All the members of the Management Board have signed the Consolidated Interim Financial Report for the 4<sup>th</sup> Quarter and whole 2005 year.

<i>Name</i>	<i>Position</i>	<i>Signature</i>	<i>Date</i>
Jaan Männik	Chairman of the Board		7 February 2005
Hille Võrk	Member of the Board		7 February 2005