



*Consolidated  
Interim Report of  
AS Eesti Telekom  
I Quarter 2006*

*19 April 2006*

**AS EESTI TELEKOM CONSOLIDATED I QUARTER 2006 INTERIM REPORT**

<i>Beginning of the financial year</i>	1 January 2006
<i>End of the reporting period</i>	31 March 2006
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<i>Field of activity</i>	providing services in the field of telecommunications
<i>Auditor</i>	AS PricewaterhouseCoopers

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### THE MOST SIGNIFICANT FINANCIAL INDICATORS

	Q1 2006	Q1 2005	Change, %
Sales, million EUR	<b>84.5</b>	77.8	8.6
EBITDA, million EUR	<b>33.0</b>	33.2	-0.6
EBITDA margin, %	<b>39.0</b>	42.7	
EBIT, million EUR	<b>22.1</b>	21.0	5.2
EBIT margin, %	<b>26.2</b>	27.0	
EBT, million EUR	<b>23.1</b>	22.0	5.0
Net profit for the period, million EUR	<b>23.1</b>	22.0	5.0
EPS, EUR	<b>0.17</b>	0.16	5.0
CAPEX, million EUR	<b>8.5</b>	3.8	221.8
Net gearing, %	<b>-44.2</b>	-43.0	
ROA, %	<b>24.3</b>	22.4	
ROE, %	<b>36.5</b>	35.2	

### CHAIRMAN'S STATEMENT

#### Financial results

##### Sales, operating costs, profit

In the first quarter of 2006, the strong growth of Eesti Telekom Group sales continued. The Group's sales for three months reached 84.5 million euros (first quarter of 2005: 77.8 million euros), increasing 8.6% during the year. The increase in sales was supported by developments in several fields of activity. Compared to the first quarter of 2005, the greatest increase was in the sales of Internet connections, IT, and data communications. The growth in the given field is based on the 40 percent increase in the client base for permanent connections, as well as the addition of a new subsidiary, the IT company AS MicroLink Eesti, to the Group in November of 2005. A significant contribution to the growth of consolidated sales came from the two retail chains in the Eesti Telekom Group—EMT Esindused and Elion Esindus. The client base of the Group's mobile communications operator, AS EMT, has increased by 12% during the year. The use of services by customers has also increased. These two positive trends have compensated for the considerable drop in mobile rates that took place during the year, so that sales revenues for mobile communications also showed an increase in the first quarter of this year in comparison to last year. Of the principal fields of activity, the only sales revenues for fixed-line voice communications suffered a decrease. On the one hand, the number of customers continues to decrease, while an ever more important factor is the change of voice communications from a separate service to an additional possibility in combination with integrated solutions, and the changes in voice communications prices caused thereby.

The operating costs of the Eesti Telekom Group reached 51.5 million euros in the first quarter of 2006 (first quarter of 2005: 44.6 million euros), increasing by 16.3% on the year. The main portion of the added operating costs is related to the consolidation of AS MicroLink Eesti results. Another factor in the increase of operating costs is the growth of purchasing costs for goods related to the increase of retail sales volumes and increases in interconnection fees resulting from greater minute volumes in mobile communications.

In the first quarter of 2006, the Eesti Telekom Group earned EBITDA of 33.0 million euros (first quarter of 2005: 33.2 million euros), which is 0.6% less than in the same period in 2005. The EBITDA margin has dropped during the year, reaching 39.0% in the first quarter of 2006. The drop in the margin resulted from changes in the structure of Eesti Telekom Group sales. The ratio of voice communication services with relatively high profitability in total sales has gradually decreased and been replaced by IT services and retail trade revenues with lower margins. In the case of the first quarter this year, supplemental costs related to the reorganization of the data communications and IT services of AS MicroLink Eesti and Elion Enterprises AS were also added. In March of this year, the National Communications Board notified all three operators of mobile networks of their declaration as undertakings with significant power in the market

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of voice call termination on mobile networks. The Communications Board also notified the operators of an upper limit for call termination fees of 0.13 euros, which will be implemented on 1 July 2006. Since interconnection fees form a significant part of Eesti Telekom Group's sales revenues and operating costs, then the decrease in termination fees in the second half of the year will presumably cause a decrease in sales revenues and operating costs. At the time, the presumable effect on EBITDA will remain neutral and this will be accompanied by a positive influence on the margin.

Depreciation in the first quarter of 2006 was 10.9 million euros (first quarter of 2005: 12.2 million euros), 10.8% less than the depreciation for the first quarter of 2005. During 2004 and 2005, TeliaSonera AB, the majority shareholder of AS Eesti Telekom, analyzed the useful life spans applied to the categories of fixed asset by different companies belonging to the TeliaSonera Group. Based on the results of the analysis, a uniform classification for fixed assets was worked out for use by all companies fully owned by TeliaSonera AB, as well as the useful life spans to be applied to classes of fixed assets.

The subsidiaries of AS Eesti Telekom thoroughly analyzed the depreciation periods suggested by TeliaSonera and the reasoning behind them, and they compared them to current depreciation periods applied by the Eesti Telekom Group. Based on the analysis, a decision was made to apply the depreciation periods suggested by TeliaSonera (with changes based on some local characteristics) in the Eesti Telekom Group starting on 1 May 2006. In connection with the application of new periods, adjustments will not be made in the depreciation of fixed assets already calculated. Adjustments will be made in the remaining lengths of the useful life spans of existing fixed assets.

Due to the change in the useful life spans of fixed assets, the depreciation of the Elion Enterprises in 2006 will decrease by approximately 3.2 million euros and the EMT Group 2006 depreciation by approximately 3.2 million euros.

The Eesti Telekom Group operating profit in the first quarter was 22.1 million euros (first quarter of 2005: 21.0 million euros). The operating profit margin has dropped slightly during the year reaching 26.2% in 2006 (first quarter of 2005: 27.0%). Thanks to a strong financial position, the Group earned financial revenues (net) of 1.0 million euros in the first quarter.

The net profit of the Eesti Telekom Group 2006 was 23.1 million euros (first quarter of 2005: 22.0 million euros), increasing 5.0% during the year. Income per share in the first quarter was 0.17 euros (first quarter of 2005: 0.16 euros).

### Balance sheet and cash flow

The Eesti Telekom Group balance sheet total at the end of March 2006 was 312.7 million euros (31 December 2005: 297.8 million euros). Thanks to moderate investments, fixed assets have decreased by 2.1 million euros in three months. The Group's current assets have increased by 17.2 million euros, whereas cash and cash equivalents, as well as short-term investment have increased by 18.2 million euros.

As of 31 March 2006, Eesti Telekom Group equity totaled 281.3 million euros (31 December 2005: 258.2 million euros). The equity has increased thanks to the net profit earned in the first quarter.

As of the end of March 2006, the Eesti Telekom Group had interest-bearing debt obligations of 0.4 million euros (31 December 2005: 0.6 million euros). The net debt of the Group at the end of March was -124.6 million euros and the ratio of net debt to equity was -44.3% (31 December 2005: 106.3 million euros and 41.1%). As of 31 March 2006, Eesti Telekom Group liabilities totaled 30.5 million euros (31 December 2005: 38.6 million euros), having decreased by 8.0 million euros since the beginning of the year.

The Eesti Telekom Group cash flow from operations was 31.1 million euros in the first quarter (first quarter of 2005: 31.9 million euros). Cash flow into investment activities compared to the same period in 2005 increased, reaching 31.2 million euros (first quarter of 2005: 26.7 million euros). The cash flow into financial activities was 0.1 million euros (first quarter of 2005: 1.1 million euros).

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### Elion Group (fixed-line communications)

	Q1 2006	Q1 2005	Change, %
Sales, million EUR	<b>43.5</b>	39.8	9.0
EBITDA, million EUR	<b>13.7</b>	14.2	-3.6
EBITDA margin, %	<b>31.4</b>	35.5	
EBIT, million EUR	<b>7.9</b>	7.6	3.0
EBIT margin, %	<b>18.1</b>	19.1	
EBT, million EUR	<b>8.5</b>	8.2	2.9
Net profit for period, million EUR	<b>8.5</b>	8.2	2.9
CAPEX, million EUR	<b>4.2</b>	3.1	35.3
ROA, %	<b>17.8</b>	17.0	
ROE, %	<b>27.5</b>	25.6	

In the first quarter of 2006, the sales of the Elion Group reached 43.5 million euros (first quarter of 2005: 39.8 million euros), increasing 9.0%. The main portion of increased sales revenues came from Internet connection, IT services and the sale of goods. The increase in revenues was largely caused by the addition of the revenues from the subsidiary AS Microlink Eesti, which was acquired at the end of 2005, into the Elion Group consolidated revenues. With acquisition growth eliminated, the first quarter 2006 sales growth would be 3%.

In the first quarter, Elion Group revenues from IT services increased by 27% compared to the first quarter of 2005 (organic growth only, IT revenues of MicroLink Eesti included also into the base period data), reaching 2.0 million euros. The concentration of Estonia's largest mobile operator, fixed-line operator, and IT service provider into the Eesti Telekom Group has made it possible to offer customers on the Estonian market the most diversified choice of communications and IT services. To make combining various services easier for customers, in February of 2006, AS EMT and Elion Enterprises AS introduced the *Ühislahendus* (Combined Solution) for medium- and small-sized businesses, which includes a permanent Internet connection, fixed-line and mobile telephone numbers with calls, e-mail services and mobile phone e-mails, hosting for a website, as well as mobile Internet for one monthly fee. *Ühislahendus* is significantly more advantageous for clients than buying the products separately. *Ühislahendus* facilitates the simple and convenient creation of an entire work environment for one monthly fee, which the company can adjust according to its needs. *Ühislahendus* covers the communications needs of about 90% of Estonian firms. Since *Ühislahendus* combines both stationary and mobile means of communications, this provides the customer with the opportunity to work there where he or she likes.

In the first quarter of 2006, the revenue earned from connection fees (connection fees for data communications, Internet communications, voice communications, DigiTV and integrated services) increased by 2% compared to the same period in 2005 (organic growth only, IT revenues of MicroLink Eesti included also into the base period data), reaching 17.5 million euros. The fastest-growing component in the given revenue category is the fees received from integrated services, which increased by 80% on the year. Fees for data communications connections also showed growth. Based on the growing popularity of integrated solutions, the monthly fees from separate voice communications and Internet connections have decreased.

As of 31 March 2006, the number of Elion Group clients with permanent Internet connections increased to 115 thousand (March 2005: 79 thousand; December 2005: 108 thousand), increasing by 45% in one year. At the beginning of 2005, the *Külatee 3* (Village Road 3) project was initiated by the State Information Systems Development Center, which is designed to guarantee the delivery of permanent Internet connection in 90% of Estonia. Elion has participated in all competitions to provide Internet services in the counties organized to date and has won the right to develop permanent connection networks in Lääne and Harju Counties. To be able to offer permanent connections to areas in Estonia with dispersed populations, Elion has started establishing new coverage areas based on WiMax wireless Internet technology. During

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2006, there are plans to cover all of Harju County. As of the end of March 2006, Elion was operating 456 780 voice connections<sup>1</sup> (March 2005: 469 thousand; December 2005: 458 thousand).

In the first quarter, revenues from the retail sales of telecommunications, IT and TV equipment continued to increase. The growth resulted from an expansion of the assortment in the Esindused and by consumer trends. The expansion of Internet coverage areas has caused the substitution of laptops for desktop computers. Elion Esindused together with EMT Esindused has become Estonia's largest provider in the given field. The spread of digital television has increased the demand for LCD-TVs. Compared to the first quarter of 2005, retail sales revenues increased by 30% reaching 6.6 million euros.

Elion Group revenues for voice communication services decreased by 10% in the first quarter of 2006, reaching 14.9 million euros. One of the factors in the revenue decrease continues to be customers giving up their fixed-line telephones and the call minutes being transferred to mobile networks. Ever greater influence on voice communications revenues is exerted by all types of discount offers made to customers, which are changing fixed-line calls into a supplemental service accompanying Internet connections. In this way, free call minutes are part of *Kodulahendus* packages (permanent Internet connection, plus telephone connection and a fixed number of free call minutes per month). After the tenth call minutes, telephone calls are free for *Kodulahendus* customers.

Elion estimates its market share in call minutes initiated from fixed-line networks at 84% (December 2005: 85%). The market share of local call minutes is 85% (December 2005: 86%), of international call minutes 66% (December 2005: 66%), calls made to mobile telephones 71% (December 2005: 72%), and dial-up minutes 97% (December 2005: 97%).

In the first quarter of 2006, other Elion Group revenues increased by 13% compared to the same period last year.

Elion Group operating costs reached 30.0 million euros in the first quarter of 2006 (first quarter of 2005: 25.7 million euros), thereby increasing by 16.4%. There are two basic reasons for the increase in operating costs. Firstly, increased volumes in retail trade have also increased the costs for the purchase of goods. Secondly, AS MicroLink and AS MicroLink Eesti have been added to the Elion Group and their operating costs have been consolidated. With acquisition growth eliminated, the first quarter 2006 operating expenses growth would have been 5%. Due to the lowering of termination fees in mobile networks in March-April of 2005, Elion's interconnection fees in the first quarter of 2006 were almost 10% smaller than the indicators for the same period in 2005.

Elion Group's EBITDA was 13.7 million euros (first quarter of 2005: 14.2 million euros), diminishing by 3.6%. The EBITDA margin had fallen to 31.4% (first quarter of 2005: 35.5%). The drop in the margin was caused by an increase in the ratio of activities—retail trade, IT services—with lower profitability among the revenues earned by the Group.

Elion Group depreciation decreased by 11.2% compared to the first quarter of 2005, reaching 5.8 million euros (first quarter of 2005: 6.6 million euros). Based on reduced depreciation, the operating profit increased by 3.0%, reaching 7.9 million euros (first quarter of 2005: 7.6 million euros). In the first quarter, the Elion Group earned a net profit of 8.5 million euros, which is 2.9% more than in the first quarter of 2005.

In the first quarter of 2006, the Elion Group invested 4.2 million euros (first quarter of 2005: 3.1 million euros). In the case of investments, the most important fields were the expansion of the DSL network, preparations for the introduction of mass DigiTV services, and the development of IT infrastructure.

In order to keep up with developments in the telecommunications sector, at the beginning of March 2006, Elion introduced a new IP-based network platform for multimedia services, whereby both private and

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<sup>1</sup> VoIP users and active users of main line connections

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business customers can start to access IP-based voice communications with new possibilities during the first half of this year, and new multimedia services in the future.

The first services to be offered on the new IP Multimedia Subsystem (IMS) network platform are traditional VoIP services, which should reach the clients during the first half of 2006. These make it possible to make voice and video calls everywhere on the Internet network together with the usual additional services, the exchange of real-time text messages, and the transfer of files. In the future, the IMS platform will enable same services to be offered as on fixed-line and mobile communications networks with the addition of new multimedia possibilities, starting from the transmission of television broadcasts to the directing of video cameras, activation of home security systems, or locking of doors.

As of 31 March 2006, 1,692 people were employed by the Elion Group (March 2005: 1,473; December 2005: 1,673).

### **EMT Group (mobile communications)**

	<b>Q1 2006</b>	Q1 2005	Change, %
Sales, million EUR	<b>48.2</b>	45.6	5.7
EBITDA, million EUR	<b>19.7</b>	19.3	2.3
EBITDA margin, %	<b>40.9</b>	42.3	
EBIT, million EUR	<b>14.7</b>	13.7	7.4
EBIT margin, %	<b>30.5</b>	30.0	
EBT, million EUR	<b>14.9</b>	13.8	7.6
Net profit for period, million EUR	<b>14.9</b>	13.8	7.6
CAPEX, million EUR	<b>4.3</b>	0.7	589.7
ROA, %	<b>39.0</b>	35.5	
ROE, %	<b>62.7</b>	61.8	

The accelerated sales growth of the last quarter of 2005 continued in the first quarter of 2006, when EMT Group revenues reached 48.2 million euros, increasing by 5.7% compared to the same period in 2005. If growth in the fourth quarter of 2005 largely resulted from activities in the retail sales network, and was related to year-end discount offers, then in the past quarter, the most important contribution came from the Group's principal activity.

As of 31 March 2006, there were 675 thousand active SIM cards in use in the AS EMT mobile network, of which the number of contractual clients is 415 thousand and the number of pre-paid cards is 260 thousand (December 2005: 406 thousand contractual clients and 271 thousand pre-paid cards; March 2005: 378 thousand contractual clients and 224 thousand pre-paid cards). EMT estimates that its market share of active SIM cards continues to be 47%.

The number of AS EMT contractual clients continues to increase. As of 31 March 2006, 415 thousand SIM cards were in use by contractual clients, which is 37 thousand more than in March 2005 and 9 thousand more than at the end of 2005. The increase in the number of pre-paid cards compared to March 2005 is 36 thousand. The decrease compared to December 2005 was caused by seasonal factors that influence the pre-paid card market.

The increase in the number of clients compared to March 2005 is one of the important factors in the growth of sales revenues. The revenues of parent company AS EMT that grew the fastest in the first quarter, compared to the same period in 2005, were revenues from interconnection fees. The greatest contribution to the growth of sales revenues came from revenues for local calls and data communications. Compared to the first quarter of 2005, the number of call minutes initiated from the EMT network increased by more than 20% and this has compensated for the considerable drop in minute rates that occurred during the year. Compared to last year, the number of call minutes per customer has also increased significantly. Thanks to technological innovations (expansion of the EDGE network, introduction of 3G) as well as the new services being offered, the volume of mobile data communications has almost doubled during the year. AS EMT revenues from SMS and MMS messaging continued to show growth of 6%. The growth is based on



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both discount offers by the operator and the wider use of SMS messaging as a media channel for conducting various campaigns, opinion polls, and consumer games. During the first quarter of 2006, revenues from roaming and pre-paid cards decreased compared to the first quarter of 2005. In March of 2006, AS EMT earned revenues of 21.2 euros per customer (March 2005: 21.8 euros; December 2005: 20.7 euros).

The growth of revenues for EMT Esindused, the EMT Group retail sales chain, were more modest than the growth in the last quarter of 2005, but compared to the first quarter of 2005 still reached 12%, thereby contributing significantly to the increase in consolidated sales revenues.

In the first quarter of 2006, EMT Group operating costs reached 28.6 million euros (first quarter of 2005: 26.3 million euros) increasing 9.0% during the year. The main portion of the increase in operating costs resulted from an increase in costs related to domestic interconnection services and roaming. The purchasing costs for goods related to the retail sales chain also increased.

In the first quarter of 2006, EMT Group EBITDA was 19.7 million euros (first quarter of 2005: 19.3 million euros), increasing 2.3%. The EBITDA margin dropped slightly, reaching 40.9% this year (first quarter of 2005: 42.3%). The decrease in the margin resulted from changes in the Group's revenue structure. During the year, the relative importance of activities with lower margins, primarily retail trade, has increased in the total revenues of the Group.

The Group's depreciation diminished by 10.2% compared to the first quarter of 2005, reaching 5.0 million euros (first quarter of 2005: 5.6 million euros). The reduction in depreciation contributed to the increase in the operating profit. During the first quarter, the EMT Group earned an operating profit of 14.7 million euros (first quarter of 2005: 13.7 million euros), which is 7.4% more than in the first quarter of 2005. The financial revenues (net) earned by the EMT Group remained at the 2005 level for the same period, reaching 0.1 million euros. During the first quarter, the Group earned a net profit of 14.9 million euros (first quarter of 2005: 13.8 million euros), which was 7.6% more than for the same period in 2005.

The EMT Group invested 4.3 million euros in the first quarter of 2006 (first quarter of 2005: 0.7 million euros). The multiple growth of investment compared to the same period in 2005 is based on very low investments in the base period rather than high investments in the reporting period. The commercial introduction of a 3G network in the last quarter of 2005 caused the investments in the past year to be pushed into the second half of the year and a lower than usual investment level as a whole. In the current year, AS EMT has started to expand both the EDGE and 3G networks, which has also caused an increase in the volume of investments. For the whole year, the level of investments should not exceed 10% of the planned revenues for the period.

On April 5, 2006, AS EMT bought 51% of Serenda Invest OÜ, which owns the Rate brand, and administers Estonia's most popular Internet communications environment—Rate.ee. Forty-nine percent of Serenda Invest OÜ belongs to Rate Solutions OÜ, which is owned by Andrei Korobeinik, the designer of Rate.ee.

Rate.ee, which was launched on May 1, 2002, is the largest social network in Estonia, which unites about 360,000 registered users. The main users of the site are 15–25-year-old young people. There is an average of 130,000 visits per day made to Rate.ee per day and 350,000 separate visits per wEUR. The number of page views is 19 million per day, which is significantly higher than for all other Estonian sites combined. During 2005, Rate Solution OÜ earned revenues of 0.4 million euros and a profit of 0.3 million euros from services and advertisements on Rate.ee.

In Rate.ee, AS EMT sees the opportunity to create and offer products directed primarily at the youth segment. Rate.ee provides great opportunities for its main activity, providing telecommunications services, but Rate.ee is also a super-effective advertising channel, offering possibilities for many new products and services.

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The total value of the transaction was less than 2.6 million euros. The investment remains within the planned investment volumes for EMT.

At the end of March 2006, 510 people were employed by the EMT Group (March 2005: 500; December 2005: 507).

### **AS EMT was declared an undertaking with significant market power**

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

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 declared 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 implement a sliding fee scale for voice call termination on mobile networks and the methodology of price cap regulation. Based on this methodology, the tariff rate for voice call termination, to be implemented starting on 1 July 2006, should not be higher than 0.13 EUR/min in any of the aforementioned communications companies. The respective tariff rate that is the final objective planned by the Communications Board would be 0.06 EUR/min by 2008.

According to the law, AS EMT has one month to take a position regarding the Communications Board decision.

### **The ownership structure of AS Eesti Telekom**

During the first quarter of 2006, the major owner of AS Eesti Telekom, TeliaSonera AB through its subsidiary Baltic Tele AB increased its participation in the company. As of 17 April, 53.71% of AS Eesti Telekom shares belong to TeliaSonera AB. As of 17 April, the largest shareholders in AS Eesti Telekom were:

	Number of shares	Participation
Baltic Tele AB	74,102,079	53.7149%
Ministry of Finance / Central State Treasury	37,485,100	27.1721%
Deutsche Bank Trust Company	13,594,215	9.8541%
Skandinaviska Enskilda Banken AB clients	2,467,100	1.7883%
ING Luxembourg S.A.	1,393,830	1.0104%
Danske Bank clients	786,063	0.5698%
Morgan Stanley Co International Equity clients	659,400	0.4780%
Trigon Central and Eastern Europe Fund	649,658	0.4709%
Clearstream Banking Louxembourg clients	528,617	0.3832%
Bank Austria Creditanstalt AG clients	507,736	0.3680%

### **Shareholders' general meeting**

The annual general meeting of the AS Eesti Telekom shareholders will take place on 18 May 2006 at 2 pm. in the Tallinn at the National Library. Starting on 21 April 2006, one can become familiar with the annual report and resolution drafts for the general meeting on the Internet: <http://www.telekom.ee> or at Eesti Telekom, located at Roosikrantsi 2, Tallinn on workdays from 10 am to 2 pm. Questions related to the

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general meeting may be presented to AS Eesti Telekom on the website, by telephone at 6 311 212, or by e-mail to [mailbox@telekom.ee](mailto:mailbox@telekom.ee).

**Dividends**

The management board of AS Eesti Telekom will make a proposal to the shareholders' general meeting to distribute and pay out dividends 79.35 million euros to the shareholders, or 0.575 euros per share, based on the number of shares entitled to dividends, or 137,954,528 shares.

In 2005, 70.6 million euros was distributed among shareholders as dividends, or 0.51 euros per share.

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**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

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**CONSOLIDATED QUARTERLY DATA**
**In million of EUR**

	<b>Q1 05</b>	<b>Q2 05</b>	<b>Q3 05</b>	<b>Q4 05</b>	<b>Q1 06</b>
Sales	77.8	79.5	82.7	89.1	84.5
OPEX	(44.5)	(44.3)	(46.2)	(57.2)	(51.8)
Other revenue/expenses, net	(0.1)	0.1	(0.1)	0.0	0.2
EBITDA	33.2	35.3	36.4	31.9	33.0
Depreciation and amortisation	(12.2)	(11.8)	(11.5)	(12.6)	(10.9)
EBIT	21.0	23.5	25.0	19.2	22.1
Income / expenses from associates	0.2	(0.1)	(0.1)	0.0	0.0
Other net financing items	0.8	0.9	0.6	0.8	1.0
Profit before tax	22.0	24.3	25.4	20.0	23.1
Income tax on dividends	0.0	(22.3)	0.0	0.0	0.0
Net profit for the period	22.0	2.0	25.4	20.0	23.1
Minority interest	0.0	0.0	0.0	0.0	0.0
EBITDA margin, %	42.7%	44.4%	44.1%	35.8%	39.0%
EBIT margin, %	27.1%	29.5%	30.2%	21.6%	26.2%
Net margin, %	28.3%	2.6%	30.8%	22.5%	27.3%
Total assets	308.3	264.0	268.1	297.8	312.7
- Non-current assets	129.1	125.9	123.8	130.9	128.7
- Current assets	179.2	138.1	144.3	166.9	183.9
- Cash and cash equivalents and short-term investments	121.3	81.9	86.7	106.9	125.0
Equity and liabilities	308.3	264.0	268.1	297.8	312.7
- Equity	281.2	212.7	238.1	258.2	281.3
- Non-current liabilities	0.5	0.5	0.8	0.8	0.6
- Interest-bearing borrowings	0.1	0.1	0.4	0.4	0.3
- Current liabilities	26.6	50.8	29.2	38.7	30.9
- Interest-bearing borrowings	0.2	0.2	0.2	0.2	0.1

**AS EESTI TELEKOM CONSOLIDATED I QUARTER 2006 INTERIM REPORT**  
**In thousand of EUR**
**CONSOLIDATED INCOME STATEMENT**

	Notes	I Quarter 2006	I Quarter 2005 Restated	2005 Restated
Net sales	2.1, 2.3	84,521	77,800	329,140
Cost of production	2.1	(39,390)	(39,735)	(154,594)
<b>Gross profit</b>		<b>45,131</b>	<b>38,065</b>	<b>174,546</b>
Sales, administrative, and research & development expenses	2.1	(23,237)	(16,938)	(85,723)
Other operating revenues and expenses	2.1	242	(82)	(88)
<b>Operating profit</b>		<b>22,136</b>	<b>21,045</b>	<b>88,735</b>
Income / (expenses) from associated companies	2.1	(6)	190	29
Financial revenues and expenses	2.1	968	760	3,018
<b>Profit before tax</b>		<b>23,098</b>	<b>21,995</b>	<b>91,782</b>
Income tax on dividends		-	-	(22,274)
<b>Net profit for the period</b>	2.1	<b>23,098</b>	<b>21,995</b>	<b>69,508</b>
Attributable to:				
Equity holders of the parent	2.1	23,098	21,995	69,498
Minority interest	2.1	-	-	10
		<b>23,098</b>	<b>21,995</b>	<b>69,508</b>
<b>Earnings per share for profit attributable to the equity holders of the parent during the reporting period</b> (expressed in EUR per share)	7 (d)			
Basic earnings per share		0.17	0.16	0.50
Diluted earnings per share		0,17	0.16	0.50
EBITDA		32,986	33,201	136,844
Depreciation, amortization and write-downs	2.1, 3	(10,850)	(12,156)	(48,109)

**AS EESTI TELEKOM CONSOLIDATED I QUARTER 2006 INTERIM REPORT**  
**In thousand of EUR**
**CONSOLIDATED BALANCE SHEET**

	Notes	31 March 2006	31 December 2005	31 March 2005
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	2.2, 3	114,581	117,209	120,389
Intangible fixed assets	2.2, 3	10,781	10,654	5,800
Investments in associates	2.2, 5	95	189	1,392
Other financial fixed assets	2.2	3,289	2,823	1,529
<b>Total non-current assets</b>		<b>128,746</b>	<b>130,875</b>	<b>129,110</b>
Inventories	6	5,698	5,552	7,449
Trade and other receivables		52,099	53,490	50,488
Short-term investments		35,142	80,953	43,894
Cash and cash equivalents		89,874	25,919	77,363
<b>Total</b>		<b>182,813</b>	<b>165,914</b>	<b>179,194</b>
Assets classified as held-for-sale		1,129	1,007	-
<b>Total current assets</b>	2.2	<b>183,942</b>	<b>166,921</b>	<b>179,194</b>
<b>TOTAL ASSETS</b>	2.2	<b>312,688</b>	<b>297,796</b>	<b>308,304</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves attributable to equity holders of the parent</b>				
	7			
Share capital		88,169	88,169	88,169
Share premium		22,753	22,753	22,753
Statutory legal reserve		8,817	8,817	8,797
Retained earnings		138,495	68,923	139,478
Net profit for the period		23,098	69,498	21,995
<b>Total capital and reserves attributable to equity holders of the parent</b>	2.2	<b>281,332</b>	<b>258,160</b>	<b>281,192</b>
Minority interest	2.2	-	74	-
<b>Total equity</b>		<b>281,332</b>	<b>258,234</b>	<b>281,192</b>
<b>Provisions</b>				
Provisions for pension	8 (a)	485	498	539
Other provisions	8 (b)	353	500	167
<b>Total provisions</b>	2.2	<b>838</b>	<b>998</b>	<b>706</b>
<b>Interest-bearing liabilities</b>				
	9			
Long-term liabilities		252	369	65
Short-term liabilities		116	203	173
<b>Total interest bearing liabilities</b>		<b>368</b>	<b>572</b>	<b>238</b>
<b>Non-interest-bearing liabilities</b>				
Long-term liabilities		66	-	-
Current liabilities		30,084	37,992	26,168
<b>Total non-interest-bearing liabilities</b>		<b>30,150</b>	<b>37,992</b>	<b>26,168</b>
<b>Total liabilities</b>	2.2	<b>30,518</b>	<b>38,564</b>	<b>26,406</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	2.2	<b>312,688</b>	<b>297,796</b>	<b>308,304</b>

**AS EESTI TELEKOM CONSOLIDATED I QUARTER 2006 INTERIM REPORT**  
**In thousand of EUR**
**CONSOLIDATED CASH FLOW STATEMENT**

	Notes	I Quarter 2006	I Quarter 2005
<b>Operating activities</b>			
Net profit for the period		23,098	21,995
Adjustments for:			
Depreciation, amortisation and impairment of fixed and intangible assets	3	10,850	12,156
(Profit) / loss from sales and discards of fixed assets		(32)	59
Income from associated companies		(6)	(190)
Provisions		(147)	(76)
Financial items		(1,367)	396
Miscellaneous non-cash items		145	-
<b>Cash flow before change in working capital</b>		<b>32,541</b>	<b>34,340</b>
Change in current receivables		4,685	(1,352)
Change in inventories		(144)	500
Change in current liabilities		(5,970)	(1,591)
<b>Change in working capital</b>		<b>(1,429)</b>	<b>(2,443)</b>
<b>Cash flow from operating activities</b>	2.2	<b>31,112</b>	<b>31,897</b>
<b>Investing activities</b>			
Intangible and tangible fixed assets acquired	3	(8,160)	(3,282)
Intangible and tangible fixed assets divested		9	20
Shares, participations and operations acquired		(3,779)	(316)
Net change in interest-receivables short maturities		44,301	31,195
Loans granted		(1,240)	(947)
Repayment of loans granted		33	15
<b>Cash flow from investing activities</b>	2.2	<b>31,164</b>	<b>26,685</b>
<b>Cash flow before financing activities</b>		<b>62,276</b>	<b>58,582</b>
<b>Financing activities</b>			
Repayment of borrowings	9	(2)	(147)
Repayment of finance lease liabilities	9	(88)	(942)
<b>Cash flow used in financing activities</b>	2.2	<b>(90)</b>	<b>(1,089)</b>
<b>Cash flow for the year</b>	2.2	<b>62,186</b>	<b>57,493</b>
<b>Cash and cash equivalents at beginning of year</b>	2.2	<b>27,507</b>	<b>21,178</b>
Cash flow for the year	2.2	62,186	57,493
Effect of foreign exchange rate changes	2.2	181	36
<b>Cash and cash equivalents at end of period</b>	2.2	<b>89,874</b>	<b>78,707</b>

**AS EESTI TELEKOM CONSOLIDATED I QUARTER 2006 INTERIM REPORT**
**In thousand of EUR**
**STATEMENT OF CHANGES IN OWNERS' EQUITY**

	Attributable to equity holders of the Company					Total	Minority interest	Total equity
	Issued capital	Share premium	Statutory legal reserve	Retained earnings	Net profit for the period			
<b>31 December 2004</b>	<b>88,169</b>	<b>22,753</b>	<b>8,797</b>	<b>75,977</b>	<b>63,501</b>	<b>259,197</b>	-	<b>259,197</b>
Net profit for the 2004 transferred to retained earnings	-	-	-	63,501	(63,501)	-	-	-
Net profit for the period	-	-	-	-	21,995	21,995	-	21,995
<b>31 March 2005</b>	<b>88,169</b>	<b>22,753</b>	<b>8,797</b>	<b>139,478</b>	<b>21,995</b>	<b>281,192</b>	-	<b>281,192</b>
<b>31 December 2005</b>	<b>88,169</b>	<b>22,753</b>	<b>8,817</b>	<b>68,923</b>	<b>69,498</b>	<b>258,160</b>	<b>74</b>	<b>258,234</b>
Net profit for the 2005 transferred to retained earnings	-	-	-	69,498	(69,498)	-	-	-
Minority interest arising on business combinations	-	-	-	74	-	74	(74)	-
Net profit for the period	-	-	-	-	23,098	23,098	-	23,098
<b>31 March 2006</b>	<b>88,169</b>	<b>22,753</b>	<b>8,817</b>	<b>138,495</b>	<b>23,098</b>	<b>281,332</b>	-	<b>281,332</b>



## AS EESTI TELEKOM CONSOLIDATED I QUARTER 2006 REPORT

### NOTES TO THE FINANCIAL STATEMENTS

In thousands of EUR

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

The consolidated interim financial statements for the first quarter period ending 31 March 2006 are prepared in accordance with the International Financial Accounting Standards, as adopted by the European Union, includes IAS 34. In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2005.

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

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

This consolidated statement is signed by the management board for public disclosure on 18 April 2006.

#### *Changes in the manner of presenting information in 2006*

In 2006, the manner of presentation for the Group's income statement changed. The current itemization of operating expenses, which was based on the nature of the expenses, is 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 were also made for the manner of presenting the balance sheet and cash flow statement.

In the opinion of the Company's Management Board, the financial statements give a true and fair view of the financial position of the Company.

These financial statements are not audited.

#### 2. Segment information

Three major segments, fixed line, mobile telecommunication 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 provision of production, marketing and sales related services. The companies belonging to this business segment are Elion Enterprises AS, AS Elion Esindus, AS EsData, AS MicroLink, AS MicroLink Eesti and Viru Net OÜ.

**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, AS EMT Esindused and AS Mobile Wholesale.

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

Segment turnover represent inter-company income and expenses of the three 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.

# AS EESTI TELEKOM CONSOLIDATED I QUARTER 2006 INTERIM REPORT



## NOTES TO THE FINANCIAL STATEMENTS

In thousand of EUR

### 2.1 Primary reporting format – business segments

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	Q1 2006	Q1 2005 Restated	Q1 2006	Q1 2005 Restated	Q1 2006	Q1 2005 Restated	Q1 2006	Q1 2005 Restated	Q1 2006	Q1 2005 Restated
Net sales	40,906	37,172	43,615	40,628	-	-	-	-	84,521	77,800
Inter-segment net sales	2,597	2,672	4,574	4,974	-	-	(7,171)	(7,646)	-	-
Costs of production	(17,353)	(19,482)	(22,037)	(20,256)	-	-	-	3	(39,390)	(39,735)
Inter-segment costs of production	(3,038)	(4,963)	(2,224)	(2,337)	-	-	5,262	7,300	-	-
<b>Gross profit</b>	<b>23,112</b>	<b>15,399</b>	<b>23,928</b>	<b>23,009</b>	-	-	<b>(1,909)</b>	<b>(343)</b>	<b>45,131</b>	<b>38,065</b>
Sales, administrative, and research & development expenses	(13,802)	(7,718)	(9,052)	(8,978)	(383)	(242)	-	-	(23,237)	(16,938)
Inter-segment sales, administrative, and research & development expenses	(1,562)	(11)	(366)	(330)	(7)	(6)	1,935	347	-	-
Other operating revenues and expenses	106	(44)	163	(35)	-	(3)	(27)	-	242	(82)
<b>Operating profit / (loss)</b>	<b>7,854</b>	<b>7,626</b>	<b>14,673</b>	<b>13,666</b>	<b>(390)</b>	<b>(251)</b>	<b>(1)</b>	<b>4</b>	<b>22,136</b>	<b>21,045</b>
Income / (expenses) from subsidiaries and associated companies, net	52	223	(58)	(33)	-	-	-	-	(6)	190
Other net financing items	549	364	244	166	263	230	(88)	-	968	760
<b>Net profit / (loss) for the period</b>	<b>8,455</b>	<b>8,213</b>	<b>14,859</b>	<b>13,799</b>	<b>(127)</b>	<b>(21)</b>	<b>(89)</b>	<b>4</b>	<b>23,098</b>	<b>21,995</b>
Attributable to:										
Equity holders of the parent	8,455	8,213	14,859	13,799	(127)	(21)	(89)	4	23,098	21,995
Minority interest	-	-	-	-	-	-	-	-	-	-
	<b>8,455</b>	<b>8,213</b>	<b>14,859</b>	<b>13,799</b>	<b>(127)</b>	<b>(21)</b>	<b>(89)</b>	<b>4</b>	<b>23,098</b>	<b>21,995</b>
<b>EBITDA</b>	<b>13,669</b>	<b>14,177</b>	<b>19,707</b>	<b>19,271</b>	<b>(389)</b>	<b>(248)</b>	<b>(1)</b>	<b>1</b>	<b>32,986</b>	<b>33,201</b>
Depreciation, amortization and write-downs	(5,815)	(6,551)	(5,034)	(5,605)	(1)	(3)	-	3	(10,850)	(12,156)

**AS EESTI TELEKOM CONSOLIDATED I QUARTER 2006 INTERIM REPORT**
**NOTES TO THE FINANCIAL STATEMENTS**
**In thousand of EUR**
**2.2 Other information by business segments**

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	I Quarter 31 March 2006	I Quarter 31 March 2005	I Quarter 31 March 2006	I Quarter 31 March 2005	I Quarter 31 March 2006	I Quarter 31 March 2005	I Quarter 31 March 2006	I Quarter 31 March 2005	I Quarter 31 March 2006	I Quarter 31 March 2005
Non-current assets (except investments in subsidiaries and associates)	78,004	69,108	50,629	58,353	18	281	-	(24)	128,651	127,718
Investments in subsidiaries and associates	23	1,255	72	137	84,196	84,196	(84,196)	(84,196)	95	1,392
Current assets	68,562	75,662	82,081	73,058	38,722	39,219	(5,423)	(8,745)	183,942	179,194
<b>Total assets</b>	<b>146,589</b>	<b>146,025</b>	<b>132,782</b>	<b>131,548</b>	<b>122,936</b>	<b>123,696</b>	<b>(89,619)</b>	<b>(92,965)</b>	<b>312,688</b>	<b>308,304</b>
<b>Equity attributable to equity holders of the parent</b>	129,016	129,791	114,099	112,435	122,413	123,186	(84,196)	(84,220)	281,332	281,192
<b>Minority interest</b>	-	-	-	-	-	-	-	-	-	-
Provisions	353	167	365	421	120	118	-	-	838	706
Non-current liabilities	73	65	245	-	-	-	-	-	318	65
Current liabilities	17,147	16,002	18,073	18,692	403	392	(5,423)	(8,745)	30,200	26,341
<b>Total equity and liabilities</b>	<b>146,589</b>	<b>146,025</b>	<b>132,782</b>	<b>131,548</b>	<b>122,936</b>	<b>123,696</b>	<b>(89,619)</b>	<b>(92,965)</b>	<b>312,688</b>	<b>308,304</b>
Net cash from/ (used in) operating activities	12,861	15,259	18,647	16,907	(371)	(272)	(25)	3	31,112	31,897
Net cash from / (used in) investing activities	(9,354)	(3,778)	(3,751)	(726)	44,369	32,963	(100)	(1,774)	31,164	26,685
Net cash from / (used in) financing activities	476	(420)	(691)	(2,440)	-	-	125	1,771	(90)	(1,089)
Foreign exchange rate differences	(29)	34	210	-	-	2	-	-	181	36
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>3,954</b>	<b>11,095</b>	<b>14,415</b>	<b>13,741</b>	<b>43,998</b>	<b>32,693</b>	<b>-</b>	<b>-</b>	<b>62,367</b>	<b>57,529</b>
<b>Capital expenditure</b>	4,204	3,108	4,322	733	-	2	-	-	8,526	3,843

**2.3 Secondary reporting format - geographic segments**

The components of revenues by geographic segments are as follows:

	Fixed network telecommunications		Mobile telecommunications		Consolidated	
	I Quarter 2006	I Quarter 2005	I Quarter 2006	I Quarter 2005	I Quarter 2006	I Quarter 2005
Revenue from customers in Estonia	36,529	32,813	41,723	38,748	78,252	71,561
Revenue from customers outside Estonia	4,377	4,359	1,892	1,880	6,269	6,239
	<b>40,906</b>	<b>37,172</b>	<b>43,615</b>	<b>40,628</b>	<b>84,521</b>	<b>77,800</b>

**AS EESTI TELEKOM CONSOLIDATED I QUARTER 2006 INTERIM REPORT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**In thousand of EUR**

**3. Tangible and intangible assets**

	Tangible assets	Intangible assets
<b><u>At cost</u></b>		
<b>At 31 December 2004</b>	<b>516,620</b>	<b>14,783</b>
Additions	3,226	404
Acquired on business combination	207	6
Reclassification	45	(45)
Disposals and write-offs (-)	(2,625)	(46)
<b>At 31 March 2005</b>	<b>517,473</b>	<b>15,102</b>
<b>At 31 December 2005</b>	<b>547,185</b>	<b>21,298</b>
Additions	8,009	517
Reclassification	28	(28)
Reclassification to assets classified as held-for-sale	(918)	-
Disposals and write-offs (-)	(7,192)	(13)
<b>At 31 March 2006</b>	<b>547,112</b>	<b>21,774</b>
<b><u>Accumulated depreciation</u></b>		
<b>At 31 December 2004</b>	<b>387,844</b>	<b>8,955</b>
Charge for the period	11,763	393
Acquired on acquisition of a subsidiary	74	1
Disposals and write-offs (-)	(2,597)	(47)
<b>At 31 March 2005</b>	<b>397,084</b>	<b>9,302</b>
<b>At 31 December 2005</b>	<b>429,976</b>	<b>10,644</b>
Charge for the period	10,315	535
Reclassification to assets classified as held-for-sale	(662)	-
Disposals and write-offs (-)	(7,098)	(186)
<b>At 31 March 2006</b>	<b>432,531</b>	<b>10,993</b>
<b><u>Net book value</u></b>		
<b>At 31 March 2005</b>	<b>120,389</b>	<b>5,800</b>
<b>At 31 March 2006</b>	<b>114,581</b>	<b>10,781</b>

**AS EESTI TELEKOM CONSOLIDATED I QUARTER 2006 INTERIM REPORT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**In thousand of EUR**

**4. Investments in subsidiaries**

	Country of incorporation	Ownership interest		Principal activity	Owner
		31 March 2006	31 December 2005		
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	Estonia	100%	100%	Internet services	Elion Enterprises AS
AS MicroLink	Estonia	100%	99,72%	Holding Company	Elion Enterprises AS
AS MicroLink Eesti	Estonia	100%	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

**AS EESTI TELEKOM CONSOLIDATED I QUARTER 2006 INTERIM REPORT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**In thousand of EUR**

**5. Investments in associates**

	Country of incorporation	Ownership interest		Principal activity	Owner
		31 March 2006	31 December 2005		
AS Sertifitseerimiskeskus	Estonia	50%	50%	Providing certification and related services	Elion Enterprises AS – 25% AS EMT – 25%
OÜ Voicecom	Estonia	26%	26%	Designing and providing software for mobile related services	AS EMT

**6. Inventories**

In the first quarter 2006, the value of the inventories was decreased by the total amount of 24 thousand EUR (first quarter 2005: 233 thousand EUR) based on the estimated decline of the realisation value below their acquisition cost.

**7. Equity**

**a) Issued capital**

	31 March 2006	31 December 2005
<b>Ordinary shares issued</b> par value 0.64 EUR per share, fully paid	137,954,528	137,954,528

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

Non-monetary contribution has been made for 63,883,178 shares in the total value of 60,350 thousand EUR. Non-monetary contributions have been made in the 1<sup>st</sup> 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) Re-acquiring of shares**

The Annual General Meeting of Shareholders, on 18 May 2005, authorized AS Eesti Telekom to acquire within one year from the adoption of this resolution, i.e. until 18 May 2006, AS Eesti Telekom ordinary shares so that the total of nominal values of own shares held by AS Eesti Telekom would not exceed the limit set by statutory regulations, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the company's assets in excess of its share capital, capital reserves, and share premium. The amount of shares to be acquired each time shall be determined on each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council. As of 31 March 2006, no shares have been re-acquired by AS Eesti Telekom.

**c) Reserves**

Reserves include:

- Obligatory legal reserve required by the Commercial Code. Subject to the approval of the general meeting, the reserve may be used for covering cumulated losses, if the latter cannot be covered with other unrestricted equity, and for increasing share capital.

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- Share premium – the positive difference between the issue price and nominal value of issued shares (issue premium).

**d) Earnings per share**
**Basic earnings per share** have been calculated as follows:

I quarter 2006: EUR 0.17 = 23,098,000: 137,954,528

I quarter 2005: EUR 0.16 = 21,995,000: 137,954,528

In view of the fact that the Group had not any dealings with a dilutive effect of earnings per share at the end of the March 2006 and 2005, **diluted earnings per share** equal basic earnings per share.

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

	<b>I Quarter 2006</b>	<b>I Quarter 2005</b>
Net profit attributable to equity holders of the Company (EUR)	23,098,000	21,995,000
The average number of ordinary shares	137,954,528	137,954,528

**e) 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 Depository Receipt) represents three ordinary shares.

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

	<b>I Quarter 2006</b>	<b>2005</b>	<b>I Quarter 2005</b>
Ordinary share highest price for the reporting period	7.98	8.60	8.60
Ordinary share lowest price for the reporting period	7.57	7.10	7.10
Ordinary share average price for the reporting period	7.75	7.82	7.80

**8. Provisions**
**a) Retirement benefit obligation**

<b>31 December 2005</b>	<b>498</b>
Additional provision in the reporting period	1
Decrease of provision in the reporting period	(14)
<b>31 March 2006</b>	<b>485</b>
Current portion of retirement benefit obligations (-)	(55)
Non-current portion of retirement benefit obligations	430

**b) Current provisions**

	Termination benefits provision	Disputed penalties provision	Compensation of the tolerance of technical infrastructure provision	<b>Total</b>
<b>At 31 December 2005</b>	<b>237</b>	<b>136</b>	<b>127</b>	<b>500</b>
Used provisions during year	(147)	-	-	(147)
<b>At 31 March 2006</b>	<b>90</b>	<b>136</b>	<b>127</b>	<b>353</b>

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## 9. Borrowings

	31 March 2006	31 December 2005
Non-current	252	369
Current	116	203
	<b>368</b>	<b>572</b>

The movements in the borrowings can be analyzed as follows:

<b>Opening balance 31 December 2005</b>	<b>572</b>
Repayments of borrowings	(90)
Other movements	(114)
<b>Closing balance 31 March 2006</b>	<b>368</b>

## 10. Related party transactions

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

### a) Name and relationship of related party

Name	Relationship with AS Eesti Telekom Group
1. Key management, supervisory council and their relatives	
2. List of associates is shown in Note 5	
3. Enterprises of TeliaSonera AB Group	Parent company, shareholder
4. State Government	

To State Government the telecommunication services were provided. The detailed information of transactions and balances is not available.

### b) Key managements' and supervisory councils' remuneration

The remunerations of key management and supervisory council during the first quarter 2006 and 2005 were as follows:

	I Quarter 2006	I Quarter 2005
Salaries and other short-term employee benefits	848	569
Other	5	6
	<b>853</b>	<b>575</b>



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**c) Trading transactions**

No impairment has been made in the first quarter 2006 and 2005 for the receivables to related parties.

During the first quarter 2006 and 2005, group companies entered into the following transactions with related parties:

	<b>I Quarter 2006</b>	<b>I Quarter 2005</b>
<b><i>Telecommunication services provided</i></b>		
Associated companies	28	20
Shareholders	2,604	2,789
	<b>2,632</b>	<b>2,809</b>
<b><i>Other sales</i></b>		
Associated companies	1	-
<b><i>Telecommunication services purchased</i></b>		
Associated companies	8	24
Shareholders	1,938	2,227
	<b>1,946</b>	<b>2,251</b>
<b><i>Other services purchased</i></b>		
Associated companies	1	-
Shareholders	10	10
	<b>11</b>	<b>10</b>
<b><i>Financial income</i></b>		
Associated companies	4	4
<b><i>Financial expenses</i></b>		
Shareholders	-	3
<b><i>Amount owed by related parties</i></b>		
Associated companies	272	328
Shareholders	1,885	1,080
	<b>2,157</b>	<b>1,408</b>
<b><i>Amount owed to related parties</i></b>		
Associated companies	3	16
Shareholders	1,456	1,592
Key management and supervisory council	292	240
	<b>1,751</b>	<b>1,848</b>

## **11. Contingencies**

	<b>31 March 2006</b>	<b>31 December 2005</b>
Key management termination benefits	1,531	1,402
Guaranties to other companies	291	169
Guarantees to former employees	13	13
	<b>1,835</b>	<b>1,584</b>

### ***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 challenged the precept in court, as well as the applying for the suspension the execution of the precept during the period of litigation. The court satisfied Elion's action by

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suspending the execution of the precept during the period of litigation. On 17 April 2006, the court satisfied Elion's complaint and declared unlawful the precept of the National Communications Board.

- **Action by Elisa Mobiilsideteenus AS claiming supplemental interconnection fees**

On 5 December 2005, Elisa Mobiilsideteenus AS filed an action against Elion for unpaid interconnection fees and a penalty thereon totalling 753 thousand EUR. 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 Mobiilsideteenus 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 hearing in the given matter will take place on 24 May 2006.

- **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.

- **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.

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

### Management Board:

Jaan Männik	-	Chairman of the Management Board
Hille Võrk	-	Member of the Management Board

### Supervisory Council:

Erik Halberg	-	Chairman of the Supervisory Council
Bengt Andersson	-	Member of the Supervisory Council
Alo Kelder	-	Member of the Supervisory Council
Tomas Olav Lenke	-	Member of the Supervisory Council
Tarmo Porgand	-	Member of the Supervisory Council
Mats Salomonsson	-	Member of the Supervisory Council
Raivo Vare	-	Member of the Supervisory Council

## 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 first quarter 2006 as set out on pages 3 to 27.

The Management Board confirms that:

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

<i>Name</i>	<i>Position</i>	<i>Signature</i>
Jaak Männik	<i>Chairman of the Board</i>	
Hille Võrk	<i>Member of the Board</i>	

Tallinn, 18 April 2006