Consolidated
Interim Report of
AS Eesti Telekom
II Quarter and I Half Year 2006

20 July 2006

AS EESTI TELEKOM CONSOLIDATED II QUARTER AND I HALF YEAR 2006 INTERIM REPORT

Beginning of the financial year	1 January 2006
End of the reporting period	30 June 2006
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Auditor	AS PricewaterhouseCoopers

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MOST SIGNIFICANT FINANCIAL INDICATORS

	Q2 2006	Q2 2005	Change, %	**6 months 2006**	6 months 2005	Change, %
Net sales, million EUR	**90.8**	79.5	14.1	175.3	157.3	11.4
EBITDA, million EUR	**36.8**	35.3	4.4	69.8	68.5	1.9
EBITDA margin, %	**40.6**	44.4		39.8	43.5	
EBIT, million EUR	**28.3**	23.5	20.7	50.5	44.5	13.4
EBIT margin, %	**31.2**	30.0		28.8	28.3	
EBT, million EUR	**29.5**	24.3	21.5	52.6	46.3	13.7
Net profit for the period, million EUR	**5.7**	2.0	178.9	28.8	24.0	19.8
EPS, EUR	**0.04**	0.01	178.9	0.21	0.17	19.8
CAPEX, million EUR	**14.5**	8.5	68.5	22.9	11.8	90.5
Net gearing, %	**-33.2**	-38.4				
ROA, %	**26.2**	24.7				
ROE, %	**40.9**	37.8				

CHAIRMAN’S STATEMENT

Financial results

Net sales, operating expenses, profit

The sales activities of the companies in the Eesti Telekom Group were successful in the second quarter of 2006. The increase in net sales compared to the same period in 2005 was 14% and the revenues reached 90.8 million euros (second quarter of 2005: 79.5 million euros). Sales activities were successful in both mobile and fixed-line communications. The high penetration of the market has started to influence the mobile communications sector and the increase in the number of SIM-cards has started to slow. At the same time, the use of services by the customers is increasing—both traditional call services as well as the newer mobile data communications services are increasing. Larger service volumes have been able to compensate for the continual decrease in rates, which has resulted in an increase of mobile net sales.

A significant role in the increase of net sales for fixed-line communications was played by the consolidation of the net sales of AS MicroLink and AS MicroLink, which were acquired on 31 October 2005. At the same time, the fruits of the cooperation between Elion and MicroLink were already evident. Even if the influence of adding the new companies is deducted, the segment with the fastest growing revenues in the second quarter is IT services. Compared to the first quarter, the margins in the field have improved. In the last quarter, the other successful field in fixed-line communications was the provision of integrated services to private customers. In April, a mass DigiTV solution reached the customers. Although the revenues from the transmission of TV programming is still small, the demand for the new service has been unexpectedly great, creating a need to speed up the construction of the infrastructure necessary for subscribing to the service.

Increases in retail sales revenues exerted a positive influence on the net sales of both fixed-line and mobile communications. Rapid economic growth and advantageous financing conditions have supported the growth of consumption in the country as a whole. The interest of consumers in new telecommunications and IT equipment has also increased. The companies in the Eesti Telekom Group have tried to further stimulate this interest by introducing new services to the market and by offering their own favorable financing schemes.

The revenues from fixed-line voice communications continued to decrease in the last quarter. This process is familiar to many of Europe’s telecommunications companies, where customers redirect their call minutes from fixed-line networks to other communications channels. To adapt to the changing situation, in the last quarter, the Eesti Telekom subsidiary Elion also introduced an IP-based call service. Hopefully, the new service will help to retain customers, by offering them a newer and more convenient service at a better price.

In the second quarter of 2006, the operating expenses of the Eesti Telekom Group reached 56.8 million euros (second quarter 2005: 44.3 million euros), thereby increasing 28%. Again, a significant role in the increase of operating expenses was played by the acquisition of new subsidiaries. Other principal factors in the increase in operating expenses were the increase in retail sales volumes—along with an increase in sales revenues, acquisition costs for goods were up; interconnection fees—the volume of call minutes has increased in the networks of other operators and inter-network turnover has also increased and been accompanied by an increase in interconnection fees; and labor costs—during the year, the number of employees in the Group, as well as the average salaries, have increased.

In the second quarter of 2006, the Eesti Telekom group earned EBITDA of 36.8 million euros (second quarter of 2005: 35.3 million euros), which was 4% more than in the same period in 2005. The increase in EBITDA included a 2.7 million euros profit that Elion Enterprises earned in the second quarter from the sale of real estate. Without this nonrecurrent revenue, the EBITDA would have shown a decrease of 3%. The EBITDA margin has dropped to 40.6% (second quarter 2005: 44.4%). The decrease in the margin is caused by the continued increase in the relative importance of retail sales revenues in the Group's net sales, but also the rapidly increasing interconnection costs related to the increase in the number of inter-operator call minutes. In the commentary for the first quarter of 2006, we announced that all three Estonian mobile operators have been declared undertakings with significant power in the market of voice call termination on mobile networks and the upper limit for call termination fees of 0.13 euros established by the Communications Board that was supposed to come into force on July 1, 2006. Since two operators—Tele2 Eesti AS and Elisa Mobiilsideteenused AS—contested the decision of the Communications Board in Administrative Court (see "AS EMT was declared an undertaking with significant market power), the decrease in termination fees will not take place on July 1. For the financial results of AS EMT and the Eesti Telekom Group, this means supplementary sales revenues as well as operating costs. The impact on the earned operating profit at the Group level is not significant, although the preservation of higher termination rates continues to have a negative influence on margins.

The Group's depreciation in the second quarter of 2006 was 8.5 million euros (second quarter 2005: 11.8 million euros). Almost half of the decrease, compared to the same period in 2005, derives from the implementation of new depreciation rates. At the beginning of 2006, TeliaSonera introduced new uniform useful life spans for the fixed assets of its 100% subsidiaries. As the result of a thorough analysis, the companies in the Eesti Telekom Group also decided to introduce the depreciation periods suggested by TeliaSonera (with some adjustments based on local peculiarities) in Eesti Telekom, starting on 1 May 2006., However, adjustments in connection with the implementation of new periods were not made in the depreciation that has already been calculated. The remaining useful life spans of existing fixed assets will be adjusted.

The operating profit of the Eesti Telekom Group in the second quarter was 28.3 million euros (second quarter 2005: 23.5 million euros). Thanks to reduced depreciation, the operating profit margin has increased, reaching 31.2% (second quarter 2005: 30.0%). Thanks to the strong financial position of the Group, the financial revenues (net) for the second quarter of the current year reached 1.2 million euros (second quarter 2005: 0.8 million euros).

On June 16, based on a resolution of the shareholders' general meeting, AS Eesti Telekom paid out the largest dividend of all time. The total dividend amount reached 79.4 million euros or 114% of the net profit for 2005. A dividend of 0.58 euros was paid for each share. Although the income tax rate to be paid on dividends is lower than in 2005—24/76 of the dividend amount in 2005, and 23/77 of the dividend amount in 2006—thanks to the larger dividend amount, the amount of income tax to be paid by the companies in the Eesti Telekom Group also increased. If, in 2005, 22.3 million euros was paid in income tax for dividends, then the amount that is to be paid in July of this year is 1.5 million euros higher, reaching 23.8 million euros.

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The net profit of the Eesti Telekom Group in the second quarter of 2006 was 5.7 million euros (second quarter 2005: 2.0 million euros). The revenue per earned in the second quarter was 0.04 euros (second quarter 2005: 0.01 euros)

Balance sheet and cash flow

The Eesti Telekom Group balance sheet total at the end of June 2006 was 271.8 million euros (31 December 2005: 297.8 million euros). During the first half of the year, the Group's fixed assets have increased by 6.4 million euros. The intangible fixed assets have increased by 2.2 million euros thanks to the goodwill created by the acquisition of the participation in Serenda Invest OÜ-s. Tangible fixed assets have increased by 3.6 million euros in connection with the larger than usual investments made by Elion Enterprises. In six months, the balance of the Group's short-term investments, cash, and cash equivalents has decreased by 37.4 million euros. The reason is the dividend payment of 79.4 million euros made in June.

As of 30 June 2006, Eesti Telekom Group equity was 207.7 million euros (31 December 2005: 258.2 million euros). The equity has decreased in connection with the payment of dividends. At the end of the second quarter, the Group had long-term liabilities of 1.0 million euros (31 December 2005: 0.5 million euros) and short-term liabilities of 62.3 million euros (31 December 2005: 38.2 million euros). The increase in short-term liabilities results from the income tax liability of 23.8 million euros for dividends, which is to be paid in July. The Group's net debt at the end of June was -68.9 million euros and the ratio of net debt to equity was -33% (31 December 2005: -106.3 million euros and -41%).

For the first half of the year, the Eesti Telekom Group cash flow for operations was 67.4 million euros (first half of 2005: 72.2 million euros). Cash flow from investment activities was 24.8 million euros (first half of 2005: 17.7 million euros) based on the realization of short-term financial investments for 48.6 million euros. During six months, 22.8 million euros was invested in tangible and intangible assets (first half of 2005: 12.0 million euros). Compared to 2005, investments in the field of fixed-line and mobile communications have increased significantly. The Group's cash flow into financial activities in the first six months was -79.4 million euros, including the payment of dividends totaling -79.4 million euros (first half of 2005: -71.6 million euros and -70.6 million euros).

Elion Group (fixed-line communications)

	Q2 2006	Q2 2005	Change, %	**6 months 2006**	6 months 2005	Change, %
Net sales, million EUR	**45.4**	39.4	15.3	**89.0**	79.3	12.2
EBITDA, million EUR	**16.1**	14.3	12.4	**29.7**	28.5	4.5
EBITDA margin, %	**35.4**	36.3		**33.4**	35.9	
EBIT, million EUR	**11.6**	8.0	44.9	**19.5**	15.6	22.4
EBIT margin, %	**25.5**	20.3		**21.9**	19.7	
EBT, million EUR	**12.1**	8.4	43.7	**20.5**	16.6	23.5
Net profit for period, million EUR	**4.4**	0.3	1287.5	**12.9**	8.5	50.9
CAPEX, million EUR	**11.7**	6.1	89.7	**16.1**	8.8	81.8
ROA, %	**20.9**	18.2				
ROE, %	**31.7**	28.4				

In the second quarter of 2006, the net sales of the Elion Group grew by 15% compared to the same period in 2005, reaching 45.4 million euros. An important factor in the growth of sales revenues was the addition of AS MicroLink Eesti revenues (the management company AS MicroLink and its 100% subsidiary AS MicroLink Eesti were acquired by Elion Enterprises on 31 October 2005). Although, even if the influence of the MicroLink acquisition is deducted, the sales revenues for the second quarter showed growth of 5%.

Of the principal activities of the Elion Group, the sales revenues for IT services grew fastest in the second quarter. The increase of revenues has been helped by the rapid development of the IT sector in Estonia generally, as well as the synergy that has developed from the cooperation of Elion Enterprises and MicroLink.

If, in the first quarter of 2006, when the two IT service teams that has previously operated separately converged in MicroLink, an increase in sales revenues of 27% was achieved compared to the same period in 2005 (the impact of adding MicroLink was deducted, by adding the IT revenues of AS MicroLink Eesti into the revenues for the same period of 2005), then the growth rate in the second quarter still doubled, reaching 58%. However, there is some seasonality in net sales of IT services. The second quarter and the fourth quarter have been traditionally good periods for sale of IT products and services.

Together with its affiliate, EMT, and other cooperation partners, Elion actively participates in projects, which are directed at the development of Estonia as a progressive IT-country. Based on information from the Statistical Office, almost 40% of Estonian households have Internet connections. Unfortunately, the spread of computers and Internet connections has also caused problems. Approximately 60-80% of home computers are not protected against viruses and computer crime that is developed by leaps and bounds. On 23 May 2006, Elion Enterprises and EMT, along with the *Vaata Maailma* (Look@World) Foundation, signed a cooperation agreement entitled “Computer Security 2009” with its other principal partners SEB Eesti Ühispank and Hansapank, as well as with representatives of the Estonian state, whereby the goal was set to make Estonia the safest country in the information society by 2009. Based on the cooperation agreement, the principal partners will finance the initiative for a total of 3.8 million euros during the next three years. As one of the first steps within the framework of the project, Elion, in cooperation with F-Secure, one of the world’s leading virus protection providers, introduced a new integrated computer protection service, which provides virus protection, as well as protection against spyware and spam, along with automatic renewal.

The second growth field among Elion’s principal activities was connection fees. In the second quarter of 2006, the revenues 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, reaching 17.8 million euros (the influence of the addition of MicroLink was deducted by added the connection fees revenues of AS MicroLink to the second quarter revenues of 2005). The trend for exchanging single services for integrated solutions continued in the second quarter, whereby traditional connection fees—voice communications connections and Internet connections—decreased by 16% and 18% compared to the second quarter of 2005. At the same time, the fees earned from integrated solutions grew by 35%.

In April 2005, Elion Enterprises entered the TV transmission market. Unfortunately, the service was initially only available to residents of new homes and apartment buildings. However, starting in April 2006, Elion is also offering quality digital TV transmission with their new *Kodulahenduse* package through their network of permanent connections with super high-speed Internet in older homes. The first priority was to begin providing the service in Tallin and the immediate vicinity, in Tartu, Pärnu, Kohtla-Järve, and Narva, but after a few months, all other other county seats and several smaller towns have been reached. By the end of the year, the service should be available in all Estonian towns and almost 100 larger settlements. The customers are offered a triple service, which includes the use of a telephone connection (incl. free intra-network calls), an Internet connection with a downloading speed of up to 12 Mb per second (when DigiTV is not being used), and the DigiTV basic package which comprises 40 of the most popular domestic and foreign TV channels in Estonia. Starting in July, the customers can order several themed packages for an additional fee. In the fall, it is also planned to introduce video-on-demand and some other additional services. In almost three months, approximately 8,800 people have signed up for the new *Kodulahenduse* package. The total number of DigiTV users has reached 10,150.

The number of Elion permanent Internet connections (as a separate service and as part of integrated solutions) continued its rapid growth in the second quarter. As of 30 June 2006, the Elion Group had 120 thousand clients with permanent connections, which was 38% more than at the end of the second quarter in 2005. Based on the number of permanent connections, Elion estimates that its market share is 54%.

As of 30 June 2006, Elion had 462,500 call interfaces[1] in use (June 2005: 465 000, December 2005: 458 450). During the second quarter, the number of call interfaces increased by almost six thousand, and this primarily due to the addition of a new IP-based call solution. In order to keep up with developments in the telecommunications sector, at the beginning of March 2006, Elion put a new IP-based network platform for multimedia services into operation. On May 17, Elion's new Internet telephone Hotifon was officially launched, which allows the users of the popular hot.ee e-mail environment to make free calls amongst themselves, and until 31 August 2006, to also place free calls to Elion fixed-line phones. Subscribing to Hotifon is free. When using Hotifon, there is no connection fee. Calls to the majority of foreign countries are less expensive than using the networks of Estonia's fixed-line operators. In order to make overseas calls or calls to mobile phones, one must first download call time, which can be done conveniently by making an Internet bank transfer or EMT mobile payment. During six months, Hotifon has acquired 7,200 users.

Elion has been active also in the area of business customers. In the second quarter Elion established a new IP-based call communications solution for the international garment concern Baltika, which allows Baltika offices in various countries to communicate free over the IP network.

Although the number of Elion call interfaces has remained stable, the Group's revenues from voice services decreased by 3% in the second quarter compared to the same period in 2005, reaching 15.7 million euros. The principal part of the decrease in voice communications revenues came from local calls, for which the earned revenues dropped by 25%. The reasons for the decrease were traditional - the transfer of call minutes to mobile networks, free call minutes for users of certain packages, free calls after the tenth call minute.

The revenues earned from international calls decreased by 15% in the second quarter. Compared to the first quarter, the decrease accelerated. A reason for that was a change in call rates made by Elion. In the middle of May, Elion decreased the minute rate for international calling by an average of about 25%, and replaced the country-based rate schedule with regional international call rates for *Kodupaket* customers.

In the second quarter, Elion's revenues from calls to mobile networks dropped by 7% compared to the second quarter in 2005. Other Elion voice communications revenues showed strong growth in the second quarter of 2006. Compared to the same period in 2005, the sales revenues for the area were 15% higher. The increase was caused primarily by an increase in the number of international call minutes passing through the network.

Elion estimates its market share in call minutes initiated from fixed-line networks to be 85% (June 2005: 86%). The market share of local call minutes is 85% (June 2005: 86%), international call minutes, 66% (June 2005: 68%), call minutes made to mobile phones, 71% (June 2005: 73%), and incoming call minutes, 97% (June 2005: 96%).

In the second quarter, the growth of revenues from retail sales of telecommunications, IT, and TV equipment accelerated even faster. Compared to the second quarter of 2005, the revenues in this sphere increased by 61% and reached 6.5 million euros.

In addition to sales revenues, in the second quarter of 2006, Elion earned 2.7 million euros from the sale of real estate.

The Elion Group operating expenses increased by 27% in the second quarter of 2006, thereby reaching 32.2 million euros (second quarter of 2005: 25.3 million euros). Again, a significant factor in the increase was the addition of new subsidiaries. If the influence of adding AS MicroLink and AS MicroLink Eesti is deducted, the growth of Elion Group operating expenses in the second quarter is 16%.

Approximately half of the additional operating expenses (based on comparable data) is related to the increase in retail sales volumes. The second source of additional operating expenses is labor costs. During 2005, in the Estonian economy as a whole, the average gross salary increased by 10.8%. The unemployment rate has

[1] The users of VoIP services and active users of call services

dropped to a record low and there is an especially large deficit in IT specialists. The Elion Group companies have not been immune to these trends, and therefore, the expenditures made for labor have increased. The third growth factor for operating costs has been the costs related to the transit of international calls.

Elion Group's EBITDA was 16.1 million euros (second quarter 2005: 14.3 million euros), increasing by 12% (if the revenues earned from real estate sales are deducted, the EBITDA is 13.4 million euros, thereby decreasing by 7% compared to 2005). The EBITDA margin has fallen slightly reaching 35.4% (second quarter of 2005: 36.3%). The drop in the margin was caused by an increase in the ratio of activities—retail trade, IT services—with a lower profitability among the revenues earned by the Group.

Elion Group depreciation decreased by 29% compared to the second quarter of 2005, reaching 4.5 million euros (second quarter 2005: 6.3 million euros). The reduction in depreciation was caused by modest investments during the previous years as well as the implementation of new depreciation rates starting in May 2006 (an impact on depreciation of approximately -0.4 million euros per month). The operating profit increased by 45% in the second quarter, reaching 11.6 million euros (second quarter 2005: 8.0 million euros). The Group's financial revenues (net) in the second quarter were 0.5 million euros (second quarter 2005: 0.4 million euros).

In June 2006, Elion Enterprises paid the parent company, AS Eesti Telekom, 25.6 million euros in dividends for the 2005 financial year. Although the dividend amount remained at the same level as 2005, thanks to a lower income tax rate for dividends, the amount to be paid by Elion Enterprises in incomes taxes dropped this year to 7.6 million euros (2005: 8.0 million euros). The net profit for the Elion Group in the second quarter of 2006 was 4.4 million euros (second quarter 2005: 0.3 million euros).

In the second quarter, the Elion Group invested 11.7 million euros, which is approximately twice the amount for the same period in 2005 (second quarter 2005: 6.1 million euros). This increase in investments is caused by the great demand for new permanent connections and the demands placed on Internet connections by DigiTV. Almost a third of this year's investments have gone into expanding and developing the DSL network. The second important field of investment has been made to increase the capability of the backbone network in order to ensure quality service for the increasing number of customers and to reach the numerous new real estate development areas.

When AS MicroLink and AS MicroLink Eesti were acquired by Elion Enterprises last October, the Competition Board set a condition that the Metroo network belonging to AS MicroLink be sold within six months. The sales process is currently under way.

The six-month net sales for the Elion Group were 89.0 million euros, increasing by 12% compared to 2005 (6 months 2005: 79.3 million euros). By deducting the influence of the addition of new subsidiaries, the increase in sales revenues for the first half of the year is 5%. Cumulatively, the growth areas for sales revenues were IT services, connection fees, and retail sales, while at the same time, the revenues from call services decreased. The six-month operating expenses for the Elion Group were 62.1 million euros, increasing by 22% compared to 2005 (6 months 2005: 50.9 million euros). If the operating costs for new subsidiaries are deducted, the increase is 11%. The EBITDA for the first half of the year increased by 5%, and reached 29.7 million euros (6 months 2005: 28.5 million euros). Deducting the profit for real estate sales, the EBITDA is 27.0 million euros. Elion Group depreciation during the first half of the year was 10.3 million euros decreasing by 20% compared to the first half of 2005 (6 months 2005: 12.9 million euros). The six-month net profit of the Elion Group was 12.9 million euros, which is 51% more than in 2005 (6 months 2005: 8.6 million euros). This year, the Elion Group had made investments of 16.1 million euros (6 months 2005: 8.8 million euros).

As of 30 June 2006, 1,681 people were employed by the Elion Group (June 2005: 1,507; December 2005: 1,673).

EMT Group (mobile communications)

	Q2 2006	Q2 2005	Change, %	**6 months 2006**	6 months 2005	Change, %
Net sales, million EUR	**56.4**	48.1	17.2	104.6	93.7	11.5
EBITDA, million EUR	**21.2**	21.3	-0.8	40.9	40.6	0.6
EBITDA margin, %	**37.5**	44.3		39.1	43.3	
EBIT, million EUR	**17.1**	15.8	8.5	31.8	29.5	8.0
EBIT margin, %	**30.4**	32.8		30.4	31.4	
EBT, million EUR	**17.1**	16.0	9.3	32.4	29.8	8.5
Net profit for period, million EUR	**1.3**	1.9	-32.5	16.1	15.7	2.8
CAPEX, million EUR	**2.9**	2.4	20.9	6.8	3.1	118.7
ROA, %	**40.5**	39.9				
ROE, %	**71.9**	67.8				

The growth of net sales accelerated even further in the second quarter of 2006. Compared to the second quarter of 2005, this year's sales revenues increased by 17%, reaching 56.4 million euros (second quarter 2005: 48.1 million euros). The fastest growth was in revenues from retail trade. As an absolute amount, the sales revenues added from retail trade were the greatest in the second quarter. The increase was caused by customers' interest in new mobile and IT equipment. The arrival of 3G and 3.5G has increased demand for new mobile phones. The expansion of various possibilities for wireless Internet connections supports the continuing boom in the purchase of laptop computers.

In the second quarter, the sales revenues of EMT Group's principal activities also showed strong growth. Compared to the second quarter of 2005, the sales revenues of the Group's parent company, AS EMT, grew by 10%. The increase was caused by the continued rapid growth of the mobile sector in Estonia. As of 30 June 2006, 686 thousand active SIM cards were in use in the AS EMT mobile network, of which the number of contractual clients was 426 thousand and the number of pre-paid cards 260 thousand (December 2005: contractual clients, 406 thousand and pre-paid cards, 271 thousand; June 2005: contractual clients 385 thousand and pre-paid cards 241 thousand). In 2005, the mobile penetration in Estonia exceeded the 100% mark and a slackening trend can be seen in the growth of new SIM cards. If, during 2005, AS EMT added over 80 thousand new SIM cards, then during six months of the current year, 10 thousand new SIM cards have been added. Compared to June 2005, the number of cards has still increased by 60 thousand, being an important factor in increasing sales revenues.

In addition to an increase in the number of customers, the volume of services used by the clients has also increased. This year, the number of call minutes initiated from the EMT network is over 20% greater than in the same period last year. The number of call minutes per customer has increased by nearly 10%.

The slowdown in the increase of the client base has not affected the market share of AS EMT—a deceleration of growth has been characteristic of the market as a whole. EMT estimates its market share, based on active SIM cards, to continue at 47%. At the end of June, the mobile penetration in Estonia as a whole was 108-109%. The increase of the entire market has affected the number of terminated call minutes in the EMT network, which increased by over 20% in the second quarter compared to the same period in 2005. The interconnection fees related to the completed call minutes in the EMT network were the fastest growing basic revenues in the second quarter. A small 2% increase was also shown by the revenues earned from roaming.

Strong growth was also demonstrated in the second quarter by revenues earned from end customers. Revenues earned from monthly fees and local calls increased by almost 8%. Compared to the same period in 2005, the number of SMS and especially MMS messages has increased significantly. The growth in the volume of services has compensated the rate reductions related to various campaigns and the result is a 14% increase in revenues for the second quarter.

SMS and especially MMS messaging are services directed primarily at young people. Therefore, the growth in the given revenues should also be supported by the acquisition of 51% of Serenda Invest OÜ by AS EMT on April 5. The Rate trademark belongs to Seranda Invest OÜ, which administers Estonia's most popular Internet communications environment of the same name—Rate.ee. Rate Solutions OÜ, which is owned by Andrei Korobeinik, the creator of Rate.ee, owns 49% of Serenda Invest OÜ.

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 are 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 more than 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.

AS EMT sees an opportunity in Rate.ee to create and offer services primarily to the youth segment. Great opportunities are seen in Rate.ee for the principal business of providing telecommunications services. The first product launched by AS EMT in May that is directed at Rate users is *Ratemobiil*—a calling card that offers benefits for the Rate users to communicate amongst themselves.

In June of 2006, AS EMT earned revenues of 23.01 euros per customer (June 2005: 22.24 euros; December 2005: 20.71euros), which is 3% more than in June of 2005.

In the second quarter of 2006, EMT Group operating expenses reached 35.3 million euros (second quarter 2005: 26.8 million euros) thereby increasing 32% for the year. The principal portion of the increase in operating costs resulted from an increase in the costs related retail trade activities, in which the operating costs almost doubled, compared to the same period in 2005. Another significant growth factor was related to domestic interconnection services (the fee paid to the network owner for calls made by EMT customers to his network) and roaming fees. The increase in personnel costs also affected the growth of operating costs. As mentioned in the case of Elion, the salaries in Estonia as a whole have increased, as they have at EMT.

In the second quarter of 2006, EMT Group EBITDA remained at the same level as in the second quarter of 2005, reaching 21.2 million euros (second quarter 2005: 21.3 million euros). The EBITDA margin has dropped, reaching 37.5% this year (second quarter 2005: 44.3%). 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 Group's total revenues.

EMT Group's depreciation diminished by 27% compared to the second quarter of 2005, reaching 4.0 million euros (second quarter 2005: 5.6 million euros). Starting in May, new depreciation rates are being applied in the EMT Group, the impact of which on depreciation is approximately -0.3 million euros per month. The operating profit of the EMT Group grew by 8% compared to the second quarter of 2005, reaching 17.1 million euros (second quarter 2005: 15.8 million euros). In the second quarter, the Group earned financial revenues (net) of 0.4 million euros (second quarter 2005: 0.1 million euros).

In June of 2006, AS EMT paid the parent company, AS Eesti Telekom, 54.3 million euros in dividends. Compared to 2005, the amount of dividends increased by 10.0 million euros and in connection with this, despite the lower tax rate, the amount of income tax to be paid on the dividends also increased, reaching 16.2 million euros this year (second quarter 2005: 14.1 million euros). In the second quarter, the EMT Group earned a net profit of 1.3 million euros (second quarter 2005: 1.9 million euros).

During the second quarter, the EMT Group invested 2.9 (acquisition of Serenda Invest OÜ not includede) million euros (second quarter 2005: 2.4 million euros). The most important area of investment was the expansion of coverage areas for new mobile technologies. On April 25, EMT launched 3.5G services in Tallinn. This was the second HSDPA network in the Nordic countries and the first in Estonia. On June 2, the service also reached Tartu, and on June 12, the service arrived in the summer capital, Pärnu.

The six-month net sales for the EMT Group were 104.6 million euros, increasing by 12% compared to 2005 (6 months of 2005: 93.7 million euros). The main portion of the additional sales revenues have been received from retail trade, connection fees, and local calls, as well as mobile Internet. The six-month operating costs for the Group were 64.0 million euros, increasing 20% compared to 2005 (6 months of 2005: 53.2 million euros). The EBITDA for the first half of the year remained at the 2005 level, reaching 40.8 million euros (6 months of 2005: 40.6 million euros). The depreciation for the EMT Group in the first half of the year was 9.1 million euros diminishing by 19% compared to the first half of 2005 (6 months of 2005: 11.1 million euros). The six-month net profit for the EMT Group was 16.1 million euros, which was 3% more than in 2005 (6 months of 2005: 15.7 million euros). This year, the Group has invested 6.8 million euros (6 months of 2005: 3.1 million euros).

At the end of June 2006, 546 people were employed by the EMT Group (June 2005: 509; 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 on mobile networks. 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. In addition, the Communications Board established a transparency obligation, non-discrimination obligation, accessibility obligation, and an obligation for price controls and cost accounting.

According to the decision, the companies that have been declared undertakings with significant market power were to perform these obligations starting on July 1, 2006.

On April 21, both Tele2 and Elisa filed a complaint in the Tallinn Administrative Court, in which they applied to have the aforementioned decision related to undertaking with significant market power partially (Tele2) or entirely (Elisa) annulled, along with a preliminary application for legal protection. On May 8, the Tallinn Adminstrative Court suspended the validity of the decision in the part relevant to Elisa and the part relevant to the obligations established for Tele2.

Pursuant to EMT's application, the Communications Board also suspended the validity of the obligation for price controls and cost accounting for EMT, because the enforcement of the Communications Board decision only on the part of EMT would cause discriminatory treatment and the distortion of competition. In connection with the partial suspension of the Communications Board decision, the obligation to reduce termination fees to a maximum of 0.13 euros by July 1 does not apply to any mobile operator.

The partial and temporary suspension of the Communications Board's declaration of EMT as undertaking with significant market power will continue while the validity of the Communications Board decision is suspended by the application of preliminary legal protection for Elisa and/or Tele2.

The ownership structure of AS Eesti Telekom

In the second quarter of 2006, there were no significant changes among the shareholders of AS Eesti Telekom. As of 30 June 2006, the largest shareholder continued to be Baltic Tele AS (a company owned 100% by TeliaSonera), whose participation in AS Eesti Telekom did not change during the quarter.

	Number of securities	Participation
Baltic Tele AB	74,102,079	53.7149%
Ministry of Finance / State Treasury	37,485,100	27.1721%
Deutsche Bank Trust Company	13,594,215	9.8541%
Skandinaviska Enskilda Banken AB clients	2,458,043	1.7818%
ING Luxembourg S.A.	1,461,330	1.0593%
Danske Bank clients	819,063	0.5937%
Morgan Stanley Co International Equity clients	709,400	0.5142%
Bank Austria Creditanstalt AG clients	532,526	0.3860%
Trigon Central and Eastern European Fund	509,658	0.3694%
Clearstream Banking Luxembourg clients	465,587	0.3375%

The Estonian Ministry of Economics and Communication has prepared a draft according to which 3% of the AS Eesti Telekom shares that are currently owned by the state will be transferred to the Estonian Development Fund. The Fund would be able to use the resources received from the sale of the shares or dividends for investment activities. The approval of the Riigikogu is necessary to implement the project.

Shareholders' general meeting

The AS Eesti Telekom shareholders' general meeting that took place on 18 May 2006 confirmed the company's annual report for 2005 and the proposal for the distribution of dividends. The company's shareholders decided to pay a dividend of 0.58 euros per share. In total, it was decided to distribute 79.4 million euros in dividends. The list of those receiving dividends was fixed as of 2 June 2006 at 8 am. The dividends were paid to the shareholders on 16 June 2006.

The shareholders' general meeting decided to allow AS Eesti Telekom to acquire AS Eesti Telekom shares during one year (i.e. until 18 May 2007), if the nominal value of the shares owned by AS Eesti Telekom does not exceed the limit prescribed by the law and the amount paid for the shares is not greater than the highest price paid on the Tallinn Stock Exchange for AS Eesti Telekom shares on the day of the acquisition. The number of shares to be acquired is to be determined by a resolution of the AS Eesti Telekom Supervisory Board before each purchase transaction.

A seven-member Supervisory Board of AS Eesti Telekom was again elected. The Supervisory Board members elected were Bengt Andersson, Erik Hallberg, Heido Vitsur, Tarmo Porgand, Hans Tuvehjelm, Mats Salomonsson, and Aare Tark. Erik Hallberg was chosen as Chairman of the Supervisory Board at the meeting of the AS Eesti Telekom Supervisory Board on May 30.

AS PricewaterhouseCoopers, which was the company's auditor during the last financial year, was chosen as AS Eesti Telekom's auditor in 2006.

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

CONSOLIDATED QUARTERLY DATA

In million of Estonian euros (EUR)

	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06
Sales	79.5	82.6	89.1	84.5	90.8
OPEX	(44.3)	(46.4)	(57.2)	(51.8)	(56.8)
Other revenue/expenses, net	0.1	0.1	0.0	0.2	2.9
EBITDA	35.3	36.4	31.9	33.0	36.8
Depreciation and amortisation	(11.8)	(11.5)	(12.6)	(10.9)	(8.5)
EBIT	23.5	25.0	19.2	22.1	28.3
Income / expenses from associates	(0.1)	(0.1)	0.0	0.0	0.1
Other net financing items	0.9	0.6	0.8	1.0	1.1
Profit before tax	24.3	25.4	20.0	23.1	29.5
Income tax on dividends	(22.3)	0.0	0.0	0.0	(23.9)
Net profit for the period	2.0	25.4	20.0	23.1	5.7
Minority interest	0.0	0.0	0.0	0.0	0.0
EBITDA margin, %	44.4%	44.1%	35.8%	39.0%	40.6%
EBIT margin, %	30.0%	30.2%	21.6%	26.2%	31.2%
Net margin, %	2.6%	30.8%	22.5%	27.3%	6.3%
Total assets	264.0	268.1	297.8	312.7	271.8
- Non-current assets	125.9	123.8	130.9	128.7	137.3
- Current assets	138.1	144.3	166.9	183.9	134.5
- Cash and cash equivalents and short-term investments	81.9	86.7	106.9	125.0	69.4
Equity and liabilities	264.0	268.1	297.8	312.7	271.8
- Equity	212.7	238.1	258.2	281.3	207.7
- Non-current liabilities	0.1	0.8	0.4	0.3	0.9
- Interest-bearing borrowings	0.1	0.4	0.4	0.3	0.3
- Current liabilities	50.6	29.2	38.2	30.2	62.3
- Interest-bearing borrowings	0.2	0.2	0.2	0.1	0.2

II QUARTER CONSOLIDATED INCOME STATEMENT

In thousand of EUR

	Notes	II Quarter 2006	II Quarter 2005 Restated
Net sales	2.1 (a)	90,753	79,540
Cost of production	2.1 (a)	(38,926)	(40,401)
Gross profit		**51,827**	**39,139**
Sales, administrative, and research & development expenses	2.1 (a)	(26,343)	(15 740)
Other operating revenues and expenses	2.1 (a)	2,857	75
Operating profit		**28,341**	**23,474**
Net income / (expenses) from associated companies	2.1 (a)	104	(55)
Other net financial items	2.1 (a)	1,095	890
Profit before tax		**29,540**	**24,309**
Income tax on dividends		(23,863)	(22 274)
Net profit for the period	2.1 (a)	**5,677**	**2,035**
Attributable to:			
Equity holders of the parent	2.1 (a)	5,677	2,035
Minority interest	2.1 (a)	-	-
		5,677	**2,035**
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EUR per share)	8 (d)		
Basic earnings per share		0.04	0.01
Diluted earnings per share		0.04	0.01
EBITDA	2.1 (a)	**36,849**	**35,307**
Depreciation, amortization and write-downs	2.1 (a)	(8,508)	(11,833)

I HALF YEAR CONSOLIDATED INCOME STATEMENT

In thousand of EUR

	Notes	I HY 2006	I HY 2005 Restated	2005 Restated
Net sales	2.1 (b), 2.3	175,274	157,340	329,140
Cost of production	2.1 (b)	(78,316)	(80,136)	(154,594)
Gross profit		**96,958**	**77,204**	**174,546**
Sales, administrative, and research & development expenses	2.1 (b)	(49,580)	(32,678)	(85,723)
Other operating revenues and expenses	2.1 (b)	3,099	(7)	(88)
Operating profit		**50,477**	**44,519**	**88,735**
Net income / (expenses) from associated companies	2.1 (b)	98	135	29
Other net financial items	2.1 (b)	2,063	1,650	3,018
Profit before tax		**52,638**	**46,304**	**91,782**
Income tax on dividends		(23,863)	(22,274)	(22,274)
Net profit for the period	2.1 (b)	**28,775**	**24,030**	**69,508**
Attributable to:				
Equity holders of the parent	2.1 (b)	28,775	24,030	69,498
Minority interest	2.1 (b)	-	-	10
		28,775	**24,030**	**69,508**
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EUR per share)	8 (d)			
Basic earnings per share		0.21	0.17	0.50
Diluted earnings per share		0.21	0.17	0.50
EBITDA	2.1 (b)	**69,835**	**68,508**	**136,844**
Depreciation, amortization and write-downs	2.1 (b)	(19,358)	(23,989)	(48,109)

CONSOLIDATED BALANCE SHEET

In thousand of EUR

	Notes	30 June 2006	31 December 2005	30 June 2005
ASSETS				
Non-current assets				
Property, plant and equipment	2.2, 3	120,813	117,209	117,151
Intangible fixed assets	2.2, 3	12,869	10,654	5,649
Investments in associates	2.2, 6	200	189	1,337
Other financial fixed assets	2.2	3,408	2,823	1,715
Total non-current assets		**137,290**	**130,875**	**125,852**
Inventories	7	7,826	5,552	7,105
Trade and other receivables		56,411	53,490	49,098
Short-term investments		32,023	80,953	42,465
Cash and cash equivalents		37,368	25,919	39,470
Total		**133,628**	**165,914**	**138,138**
Assets classified as held-for-sale		859	1,007	-
Total current assets	2.2	**134,487**	**166,921**	**138,138**
TOTAL ASSETS	2.2	**271,777**	**297,796**	**263,990**
EQUITY AND LIABILITIES				
Capital and reserves attributable to equity holders of the parent	8			
Share capital		88,169	88,169	88,169
Share premium		22,753	22,753	22,753
Statutory legal reserve		8,817	8,817	8,817
Retained earnings		59,143	68,923	68,923
Net profit for the period		28,775	69,498	24,030
Total capital and reserves attributable to equity holders of the parent	2.2	**207,657**	**258,160**	**212,692**
Minority interest	2.2	30	74	-
Total equity		**207,687**	**258,234**	**212,692**
Provisions				
Provisions for pension	9 (a)	475	498	468
Other provisions	9 (b)	346	500	257
Total provisions	2.2	**821**	**998**	**725**
Interest-bearing liabilities	10			
Long –term liabilities		296	369	64
Short-term liabilities		194	203	177
Total interest bearing liabilities		**490**	**572**	**241**
Non-interest-bearing liabilities				
Long-term liabilities		645	-	-
Current liabilities		62,134	37,992	50,332
Total non-interest-bearing liabilities		**62,779**	**37,992**	**50,332**
Total liabilities	2.2	**63,269**	**38,564**	**50,573**
TOTAL EQUITY AND LIABILITIES	2.2	**271,777**	**297,796**	**263,990**

CONSOLIDATED CASH FLOW STATEMENT

In thousand of EUR

	Notes	I HY 2006	I HY 2005
Operating activities			
Net profit for the period		28,775	24,030
Adjustments for:			
Depreciation, amortisation and impairment of fixed and intangible assets	3	19,358	23,989
(Profit) / loss from sales and discards of fixed assets		(2,840)	(253)
Net (income) / expenses from associated companies		98	(135)
Provisions		(154)	(41)
Financial items		(265)	1,637
Income tax on dividends		23,863	22,273
Miscellaneous non-cash items		(200)	313
Cash flow before change in working capital		**68,635**	**71,813**
Change in current receivables		(1,531)	(493)
Change in inventories		(2,272)	845
Change in current liabilities		2,564	(30)
Change in working capital		**(1,239)**	**322**
Cash flow from operating activities	2.2	**67,396**	**72,135**
Investing activities			
Intangible and tangible fixed assets acquired	3	(22,771)	(11,955)
Intangible and tangible fixed assets divested		3,119	562
Shares, participations and operations acquired		(4,979)	(316)
Shares, participations and operations divested		689	-
Net change in interest-receivables short maturities		48,622	31,272
Loans granted		-	(1,902)
Repayment of loans granted		118	36
Cash flow from investing activities	2.2	**24,798**	**17,697**
Cash flow before financing activities		**92,194**	**89,832**
Financing activities			
Proceeds from non-convertible debts	10	6	51
Repayment of borrowings	10	-	(162)
Repayment of finance lease liabilities	10	(70)	(944)
Dividends paid	8 (d)	(79,352)	(70,540)
Cash flow used in financing activities	2.2	**(79,416)**	**(71,595)**
Cash flow for the year	2.2	**12,778**	**18,237**
Cash and cash equivalents at beginning of year	2.2	**27,507**	**21,178**
Cash flow for the year	2.2	12,778	18,237
Effect of foreign exchange rate changes	2.2	(39)	55
Cash and cash equivalents at end of period	2.2	**40,246**	**39,470**

STATEMENT OF CHANGES IN OWNERS' EQUITY

In thousand of EUR

	Attributable to equity holders of the Company						Minority interest	Total equity
	Issued capital	Share premium	Statutory legal reserve	Retained earnings	Net profit for the period	Total		
31 December 2004	**88,169**	**22,753**	**8,797**	**75,977**	**63,501**	**259,197**	**-**	**259,197**
Net profit for the 2004 transferred to retained earnings	-	-	-	63,501	(63,501)	-	-	-
Amounts transferred to reserves	-	-	20	(20)	-	-	-	-
Dividends paid	-	-	-	(70,535)	-	(70,535)	-	(70,535)
Net profit for the period	-	-	-	-	24,030	24,030	-	24,030
30 June 2005	**88,169**	**22,753**	**8,817**	**68,923**	**24,030**	**212,692**	**-**	**212,692**
31 December 2005	**88,169**	**22,753**	**8,817**	**68,923**	**69,498**	**258,160**	**74**	**258,234**
Net profit for the 2005 transferred to retained earnings	-	-	-	69,498	(69,498)	-	-	-
Dividends paid	-	-	-	(79,352)	-	(79,352)	-	(79,352)
Minority interest arising on business combinations	-	-	-	74	-	74	(44)	30
Net profit for the period	-	-	-	-	28,775	28,775	-	28,775
30 June 2006	**88,169**	**22,753**	**8,817**	**59,143**	**28,775**	**207,657**	**30**	**207,687**

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

The consolidated interim financial statements for the first half year period ending 30 June 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 19 June 2006.

Changes in accounting estimates in 2006

At the beginning of 2006, TeliaSonera introduced new uniform useful life spans for the fixed assets of its 100% subsidiaries. As the result of a thorough analysis, the companies in the Eesti Telekom Group also decided to introduce the depreciation periods suggested by TeliaSonera (with some adjustments based on local peculiarities) in Eesti Telekom, starting on 1 May 2006. However, adjustments in connection with the implementation of new periods were not made in the depreciation that has already been calculated. The remaining useful life spans of existing fixed assets will be adjusted.

The following depreciation rates are used by the Group:

	Until 1 May 2006	Since 1 May 2006
• Buildings	3-8% per annum	2-12% per annum
• Telecommunication network equipment	10-20% per annum	10-20% per annum
• Plant and equipment	15-40% per annum	3-20% per annum
• Furniture, fixtures and fittings	10-50% per annum	20-30% per annum
• Intangible assets (excl. goodwill)	20% per annum	Individual

Freehold land is not depreciated.

The impact of the implementation of new depreciation rates on depreciation of the period was approximately 1.4 million EUR.

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, AS Mobile Wholesale and Serenda Investment OÜ.

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.

2.1 Primary reporting format – business segments

a) Results of the II Quarter 2006 / 2005

In thousands of EUR

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	Q1I 2006	**Q1I 2005 Restated**	**Q1I 2006**	**Q1I 2005 Restated**	**Q1I 2006**	**Q1I 2005 Restated**	**Q1I 2006**	**Q1I 2005 Restated**	**Q1I 2006**	**Q1I 2005 Restated**
Net sales	41,716	36,460	49,037	43,080	-	-	-	-	90,753	79,540
Inter-segment net sales	3,731	2,947	7,371	5,096	-	-	(11,102)	(8,043)	-	-
Costs of production	(15,633)	(18,974)	(23,293)	(21,429)	-	-	-	2	(38,926)	(40,401)
Inter-segment costs of production	(3,944)	(4,915)	(2,746)	(2,461)	-	-	6,690	7,376	-	-
Gross profit	**25,870**	**15,518**	**30,369**	**24,286**	**-**	**-**	**(4,412)**	**(665)**	**51,827**	**39,139**
Sales, administrative, and research & development expenses	(13,613)	(7,504)	(12,348)	(7,966)	(382)	(270)	-	-	(26,343)	(15,740)
Inter-segment sales, administrative, and research & development expenses	(3,453)	(180)	(979)	(481)	(7)	(6)	4,439	667	-	-
Other operating revenues and expenses	2,795	172	89	(44)	-	(53)	(27)	-	2,857	75
Operating profit / (loss)	**11,599**	**8,006**	**17,131**	**15,795**	**(389)**	**(329)**	**-**	**2**	**28,341**	**23,474**
Net income / (expenses) from subsidiaries and associated companies	36	(42)	68	(13)	79,890	70,303	(79,890)	(70,303)	104	(55)
Other net financing items	424	428	301	232	282	230	88	-	1,095	890
Profit before tax	**12,059**	**8,392**	**17,500**	**16,014**	**79,783**	**70,204**	**(79,802)**	**(70,301)**	**29,540**	**24,309**
Income tax on dividends	(7,636)	(8,073)	(16,227)	(14,128)	-	(73)	-	-	(23,863)	(22,274)
Net profit for the period	**4,423**	**319**	**1,273**	**1,886**	**79,783**	**70,131**	**(79,802)**	**(70,301)**	**5,677**	**2,035**
Attributable to:										
Equity holders of the parent	4,423	319	1,273	1,886	79,783	70,131	(79,802)	(70,301)	5,677	2,035
Minority interest	-	-	-	-	-	-	-	-	-	-
	4,423	**319**	**1,273**	**1,886**	**79,783**	**70,131**	**(79,802)**	**(70,301)**	**5,677**	**2,035**
EBITDA	**16,076**	**14,300**	**21,161**	**21,334**	**(388)**	**(327)**	**-**	**-**	**36,849**	**35,307**
Depreciation, amortization and write-downs	(4,477)	(6,294)	(4,030)	(5,539)	(1)	(2)	-	2	(8,508)	(11,833)

b) **Results of the I Half Year 2006 / 2005**
In thousands of EUR

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	I HY 2006	**I HY 2005 Restated**	**I HY 2006**	**I HY 2005 Restated**	**I HY 2006**	**I HY 2005 Restated**	**I HY 2006**	**I HY 2005 Restated**	**I HY 2006**	**I HY 2005 Restated**
Net sales	82,622	73,632	92,652	83,708	-	-	-	-	175,274	157,340
Inter-segment net sales	6,328	5,619	11,945	10,070	-	-	(18,273)	(15,689)	-	-
Costs of production	(32,986)	(38,456)	(45,330)	(41,685)	-	-	-	5	(78,316)	(80,136)
Inter-segment costs of production	(6,983)	(9,877)	(4,970)	(4,798)	-	-	11,953	14,675	-	-
Gross profit	**48,981**	**30,918**	**54,297**	**47,295**	**-**	**-**	**(6,320)**	**(1,009)**	**96,958**	**77,204**
Sales, administrative, and research & development expenses	(27,415)	(15,222)	(21,400)	(16,943)	(765)	(513)	-	-	(49,580)	(32,678)
Inter-segment sales, administrative, and research & development expenses	(5,015)	(191)	(1,345)	(811)	(14)	(12)	6,374	1,014	-	-
Other operating revenues and expenses	2,901	128	252	(79)	-	(56)	(54)	-	3,099	(7)
Operating profit / (loss)	**19,452**	**15,633**	**31,804**	**29,462**	**(779)**	**(581)**	**-**	**5**	**50,477**	**44,519**
Net income / (expenses) from subsidiaries and associated companies	88	181	10	(46)	79,890	70,303	(79,890)	(70,303)	98	135
Other net financing items	973	792	545	398	545	460	-	-	2,063	1,650
Profit before tax	**20,513**	**16,606**	**32,359**	**29,814**	**79,656**	**70,182**	**(79,890)**	**(70,298)**	**52,638**	**46,304**
Income tax on dividends	(7,636)	(8,073)	(16,227)	(14,128)	-	(73)	-	-	(23,863)	(22,274)
Net profit for the period	**12,877**	**8,533**	**16,132**	**15,686**	**79,656**	**70,109**	**(79,890)**	**(70,298)**	**28,775**	**24,030**
Attributable to:										
Equity holders of the parent	12,877	8,533	16,132	15,686	79,656	70,109	(79,890)	(70,298)	28,775	24,030
Minority interest	-	-	-	-	-	-	-	-	-	-
	12,877	**8,533**	**16,132**	**15,686**	**79,656**	**70,109**	**(79,890)**	**(70,298)**	**28,775**	**24,030**
EBITDA	**29,744**	**28,478**	**40,868**	**40,606**	**(777)**	**(576)**	**-**	**-**	**69,835**	**68,508**
Depreciation, amortization and write-downs	(10,292)	(12,845)	(9,064)	(11,144)	(2)	(5)	-	5	(19,358)	(23,989)

2.2 Other information by business segments

In thousands of EUR

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	I HY 30 June 2006	**I HY 30 June 2005**	**I HY 30 June 2006**	**I HY 30 June 2005**	**I HY 30 June 2006**	**I HY 30 June 2005**	**I HY 30 June 2006**	**I HY 30 June 2005**	**I HY 30 June 2006**	**I HY 30 June 2005**
Non-current assets (except investments in subsidiaries and associates)	85,072	69,090	52,001	55,166	17	281	-	(22)	137,090	124,515
Investments in subsidiaries and associates	60	1,214	140	123	84,196	84,196	(84,196)	(84,196)	200	1,337
Current assets	57,812	57,673	49,982	46,710	41,428	41,367	(14,735)	(7,612)	134,487	138,138
Total assets	**142,944**	**127,977**	**102,123**	**101,999**	**125,641**	**125,844**	**(98,931)**	**(91,830)**	**271,777**	**263,990**
Equity attributable to equity holders of the parent	107,963	104,544	61,046	69,584	122,844	122,782	(84,196)	(84,218)	207,657	212,692
Minority interest	-	-	30	-	-	-	-	-	30	-
Provisions	346	202	351	407	124	116	-	-	821	725
Non-current liabilities	72	64	869	-	-	-	-	-	941	64
Current liabilities	34,563	23,167	39,827	32,008	2 673	2,946	(14,735)	(7,612)	62,328	50,509
Total equity and liabilities	**142,944**	**127,977**	**102,123**	**101,999**	**125,641**	**125,844**	**(98,931)**	**(91,830)**	**271,777**	**263,990**
Net cash from/ (used in) operating activities	24,311	30,979	40,573	38,493	82,402	72,986	(79,890)	(70,323)	67,396	72,135
Net cash from / (used in) investing activities	(16,855)	(10,558)	(8,562)	(3,013)	41,893	34,203	8,322	(2,935)	24,798	17,697
Net cash from / (used in) financing activities	(17,443)	(26,178)	(54,191)	(48,140)	(79,352)	(70,535)	71,570	73,258	(79,416)	(71,595)
Foreign exchange rate differences	(41)	49	-	(1)	2	7	-	-	(39)	55
Net increase / (decrease) in cash and cash equivalents	**(10,028)**	**(5,708)**	**(22,180)**	**(12,661)**	**44,945**	**36,661**	**2**	**-**	**12,739**	**18,292**
Capital expenditure	16,100	9,187	9,335	3,112	-	4	-	-	25,435	12,303

2.3 Secondary reporting format - geographic segments (in thousand of EUR)

The components of revenues by geographic segments are as follows:

	Fixed network telecommunications		Mobile telecommunications		Consolidated	
	I HY 2006	**I HY 2005**	**I HY 2006**	**I HY 2005**	**I HY 2006**	**I HY 2005**
Revenue from customers in Estonia	73,426	69,273	87,920	81,828	161,346	151,101
Revenue from customers outside Estonia	9,196	4,359	4,732	1,880	13,928	6,239
	82,622	**73,632**	**92,652**	**83,708**	**175,274**	**157,340**

3. Tangible and intangible assets

In thousand of EUR

	Tangible assets	Intangible assets
At cost		
At 31 December 2004	**516,620**	**14,783**
Additions	11,643	661
Acquired on business combination	207	6
Reclassification	(127)	(63)
Disposals and write-offs (-)	(5,582)	(50)
At 30 June 2005	**522,761**	**15,337**
At 31 December 2005	**547,185**	**21,298**
Additions	22,439	2,937
Acquired on business combination	58	-
Reclassification	(321)	323
Reclassification to assets classified as held-for-sale	(943)	-
Disposals and write-offs (-)	(7,870)	(29)
At 30 June 2006	**560,548**	**24,529**
Accumulated depreciation		
At 31 December 2004	**387,844**	**8,955**
Charge for the period	23,188	801
Acquired on acquisition of a subsidiary	74	1
Disposals and write-offs (-)	(5,496)	(69)
At 30 June 2005	**405,610**	**9,688**
At 31 December 2005	**429,976**	**10,644**
Charge for the period	18,312	1,046
Reclassification	(81)	(3)
Reclassification to assets classified as held-for-sale	(684)	-
Disposals and write-offs (-)	(7,788)	(27)
At 30 June 2006	**439,735**	**11,660**
Net book value		
At 30 June 2005	**117,151**	**5,649**
At 30 June 2006	**120,813**	**12,869**

4. Investments in subsidiaries

	Country of incorporation	Ownership interest		Principal activity	Owner
		30 June 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
Serenda Investment OÜ (Note 5)	Estonia	51%	-	Administration of communication portal based in Estonia internet	AS EMT

5. Acquisition of subsidiaries

EMT Ltd, a wholly owned subsidiary of Eesti Telekom Ltd, purchased 51 per cent of the shares of Serenda Invest OÜ. Serenda Investment OÜ owns the brand name Rate and administrates Estonian internet based communication portal Rate.ee.

49% of Serenda Invest OÜ belongs to Rate Solution OÜ, which owner is Andrei Korobeinik, the author and founder of Rate.ee.

Rate.ee is the biggest social network in Estonia, which connects 360,000 registered users. The aim of the acquisition of Serenda Invest OÜ is to provide and expand telecommunication- and multimedia services.

The complete transaction is valued less than 40 million EEK (2.5 million Euros approx.). The amount of investment is not exceeding the limits of planned investments of EMT Ltd.

The effect of the acquisition of subsidiary on goodwill and cash flows in the first half year 2006 was the following (in thousand of EUR):

	Acquirer's carrying amount	**Fair value**
Fixed assets	58	58
Cash and cash equivalents	3	3
Current liabilities	(1)	(1)
Net identifiable assets and liabilities	**60**	**60**
Interest owned		51%
Net identifiable assets and liabilities owned		30
Goodwill		2,483
Total consideration		**(2,513)**
Cash and cash equivalents		3
Unpaid in the current year		644
Net cash in / (out) flow		**(1,866)**

6. Investments in associates

	Country of incorporation	Ownership interest		Principal activity	Owner
		30 June 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

7. Inventories

In the first half year 2006, the value of the inventories was decreased by the total amount of 24 thousand EUR (the first half year 2005: 290 thousand EUR) based on the estimated decline of the realisation value below their acquisition cost.

8. Equity

a) Issued capital

	30 June 2006	31 December 2005
Ordinary shares issued par value 10 EEK per share, fully paid	137,954,528	137,954,528

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

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 1st quarter of 1999, in connection with the reconstruction of the AS Eesti Telekom Group. During the reconstruction, the strategic investors in the company, TeliaSonera AB and Sonera OY (presently TeliaSonera AB), exchanged the AS Eesti Telefon (presently Elion Enterprises AS) and AS EMT shares in their possession for AS Eesti Telekom shares. After the reconstruction of the group, all Elion Enterprises AS and AS EMT shares belong to AS Eesti Telekom.

b) Re-acquiring of shares

The Annual General Meeting of Shareholders, on 18 May 2006, authorized AS Eesti Telekom to acquire within one year from the adoption of this resolution, i.e. until 18 May 2007 (the same authority, which was obtained from last Annual General Meeting on 18 May 2005, terminated on 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 30 June 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.
- Share premium – the positive difference between the issue price and nominal value of issued shares (issue premium).

d) Dividends

Dividends in the total amount of 79,352 thousand EUR (2005: 70,535 thousand EUR) or 0.575 EUR per ordinary share were disbursed in the first half year 2006 (2005: 0.511 EUR). In I half year 2005 Viru Net OÜ paid dividends debt from year 2004 in the amount 6 thousand EUR.

e) Earnings per share

Basic earnings per share have been calculated as follows:

II Quarter 2006: EUR 0.04 = 5,677,000: 137,954,528
I Half Year 2006: EUR 0.21 = 28,775,000: 137,954,528

II Quarter 2005: EUR 0.01 = 2,035,000: 137,954,528
I Half Year 2005: EEK 0.17 = 24,030,000: 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 June 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:

	2006	2005
Net profit for the II Quarter attributable to equity holders of the Company (EUR)	5,677,000	2,035,000
Net profit for the I Half Year attributable to equity holders of the Company (EUR)	28,775,000	24,030,000
The average number of ordinary shares for the II Quarter	137,954,528	137,954,528
The average number of ordinary shares for the I Half Year	137,954,528	137,954,528

f) Share information

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

	I HY 2006	2005	I HY 2005
Ordinary share highest price	8.40	8.60	8.60
Ordinary share lowest price	6.95	7.10	7.10
Ordinary share average price	7.68	7.82	7.99

9. Provisions

In thousand of EUR

a) Retirement benefit obligation

31 December 2005	**498**
Additional provision in the reporting period	5
Decrease of provision in the reporting period	(28)
30 June 2006	**475**
Current portion of retirement benefit obligations (-)	(55)
Non-current portion of retirement benefit obligations	420

b) Current provisions

	Termination benefits provision	Disputed penalties provision	Compensation of the tolerance of technical infrastructure provision	**Total**
At 31 December 2005	**237**	**136**	**127**	**500**
Additional provisions	83	-	-	**83**
Used provisions during year	(237)	-	-	**(237)**
At 30 June 2006	**83**	**136**	**127**	**346**

10. Borrowings

In thousand of EUR

	30 June 2006	31 December 2005
Non-current	296	369
Current	194	203
	490	**572**

The movements in the borrowings can be analyzed as follows:

Opening balance 31 December 2005	**572**
Proceeds from borrowings	6
Repayments of borrowings	(70)
Other movements	(18)
Closing balance 30 June 2006	**490**

11. Related party transactions

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

a) Name and relationship of related party

	Name	Relationship with AS Eesti Telekom Group
1.	Key management, supervisory council and their relatives	
2.	List of associates is shown in Note 6	
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 half year 2006 and 2005 were as follows (in thousand of EUR):

	I HY 2006	I HY 2005
Salaries and other short-term employee benefits	1,948	1,423
Other	11	18
	1,959	**1,441**

c) Trading transactions

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

During the first half year 2006 and 2005, group companies entered into the following transactions with related parties (in thousand of EUR):

	I HY 2006	I HY 2005
Telecommunication services provided		
Associated companies	58	42
Shareholders	6,110	6,075
	6,168	**6,117**
Other sales		
Associated companies	**-**	**1**
Telecommunication services purchased		
Associated companies	18	43
Shareholders	5,418	4,487
	5,436	**4,530**
Other services purchased		
Associated companies	1	1
Shareholders	15	5
	16	**6**
Financial income		
Associated companies	**8**	**8**
Financial expenses		
Shareholders	**-**	**5**
Amount owed by related parties		
Associated companies	272	327
Shareholders	2,743	3,289
	3,015	**3,616**
Amount owed to related parties		
Associated companies	15	4
Shareholders	1,158	2,063
Key management and supervisory council	317	210
	1,490	**2,277**

12. Contingencies

In thousand of EUR

	30 June 2006	31 December 2005
Key management termination benefits	1,531	1,402
Guaranties to other companies	169	169
Guarantees to former employees	13	13
	1,713	**1,584**

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 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 Mobiilsideteenused AS claiming supplemental interconnection fees**

On 5 December 2005, Elisa Mobiilsideteenused AS filed an action against Elion for unpaid interconnection fees and a penalty thereon totalling 11,784 thousand EEK. According to the justification for the action, Elion applied an incorrect interconnection fee for call termination in the Elisa mobile network. Since there was no interconnection agreement between Elion and Elisa Mobiilsideteenused between 1 January 2005 and 1 August 2005, and therefore there was no agreement on price, then Elion applied the principle of receiving a reasonable price, i.e. such a fee that would include a reasonable profit. The hearing in the given matter will take place on October 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. The Court has satisfied Elion's application regarding Sõbranumber.

13. 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
Tarmo Porgand	-	Member of the Supervisory Council
Mats Salomonsson	-	Member of the Supervisory Council
Aare Tark	-	Member of the Supervisory Council
Hans Tuvehjelm	-	Member of the Supervisory Council
Heido Vitsur	-	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 half year 2006 as set out on pages 3 to 34.

The Management Board confirms that:

1 the accounting principles used in preparing the financial statements are in compliance with the International Financial Reporting Standards as adopted by the European Union;

2 the financial statements present a true and fair of the financial position, the results of operations and the cash flows of the Group;

3 Group companies are continuing their operations as a going concern.

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

Tallinn, 19 July 2006