



***Consolidated
Interim Report of
AS Eesti Telekom
III Quarter and
the first nine months 2006***

26 October 2006

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2006 INTERIM REPORT

<i>Beginning of the financial year</i>	1 January 2006
<i>End of the reporting period</i>	30 September 2006
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<i>Auditor</i>	AS PricewaterhouseCoopers

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MOST SIGNIFICANT FINANCIAL INDICATORS

	Q3 2006	Q3 2005	Change %	9 mos. 2006	9 mos. 2005	Change %
Total revenues, million EUR	93.4	82.9	12.8	269.3	240.4	12.0
EBITDA, million EUR	37.5	36.6	2.4	107.9	105.3	2.5
Margin, %	40.1	44.2		40.1	43.8	
EBIT, million EUR	29.7	25.1	18.3	80.8	69.9	15.6
Margin, %	31.8	30.3		30.0	29.1	
EBT, million EUR	30.2	25.4	18.6	82.8	71.7	15.4
Net profit for the period, million EUR	30.2	25.4	18.6	58.9	49.5	19.1
EPS, EUR	0.22	0.18	18.4	0.43	0.36	18.9
CAPEX, million EUR	12.4	10.0	24.8	35.2	21.9	60.6
Net gearing, %	-27.8	-36.2				
ROA, %	27.7	25.4				
ROE, %	42.0	37.9				

CHAIRMAN'S STATEMENT

Financial results

Net sales, operating costs, profits

The positive trends of the first quarters of 2006 also continued in the third quarter. The sales revenues for the Eesti Telekom Group increased by 13% compared to the same period in 2005, reaching 93.4 million euros (3rd quarter of 2005: 82.9 million euros). All the group's principal fields of activity made a positive contribution to the increase in net sales.

In the third quarter, the greatest increase in net sales came from mobile services. The increase in revenues was caused primarily by extensive growth in the volumes of call minutes. At the same time, the increase in the client base accelerated again in the third quarter. In April of this year, AS EMT acquired a majority share in Serenda Invest OÜ, which administers Rate.ee, a popular young people's communications portal. The positive results of the transactions became apparent in the third quarter—a significant portion of new clients came from *Ratemobiil*, a mobile package targeting Rate.ee users. The new package, which is oriented to a specific client group, has enabled EMT to come out with several new user facilities. During the quarter, in addition to *Ratemobiil*, EMT came out with several other offerings oriented to narrow customer groups. More detailed customer segmentation and the compilation of offerings taking specific needs into account have helped to maintain market share and the revenues earned per customer, which remained at the same level as in the third quarter of last year.

A contribution to increased net sales, which equaled that of the mobile operator, was made by the consolidation of the revenues of AS MicroLink and AS MicroLink Eesti, which were acquired on 31 October 2005. Since, MicroLink Eesti was reorganized at the beginning of this year, during the course of which the IT services offered by MicroLink and Elion Enterprises were combined and MicroLink's Internet and data communications services were transferred to Elion Enterprises, then, the entire consolidated sales revenues of MicroLink cannot be considered additional sales revenues resulting from the merger. However, even in the case of comparable data, (the revenues from MicroLink Eesti IT services were also recognized in the comparative data for 2005), IT services would still be the field of activity with the fastest growth of sales revenues in the previous quarter.

Elion's sales revenues for fixed-line communications increased by 3% compared to the third quarter of 2005. Although the rapid decrease in revenues earned from end consumers of traditional voice communications

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services continued, this was compensated by an increase in revenues from other fields of activity, primarily from connection and monthly fees. During the third quarter, the increase in the number of permanent Internet connections again accelerated. In three months, the number of DigiTV customers practically doubled.

Supported by Estonia's continued rapid economic growth, the revenues of the companies in the Eesti Telekom Group dealing with retail and wholesale sales also increased. In the last quarter, compared to the third quarter of 2005, sales revenues increased by 20%. In addition to ordinary sales of equipment, thanks to the strong financial position of the group's companies, for the second year, customers have also been offered various financing possibilities for purchasing IT and TV equipment. Starting in the last quarter, the revenues earned from financing services are also recognized as sales revenues.

In the third quarter of 2006, the operating costs for the Eesti Telekom Group were 56.0 million euros, increasing 21% compared to the same period in 2005 (3rd quarter of 2005: 46.2 million euros). The increase in operating costs resulted from traditional circumstances: the addition of new subsidiaries, increases in the volumes of retail and wholesale activities, increases in the number of terminated call minutes and the related interconnection fees, and the increase in labor costs resulting from the general pressure on salaries in the economy.

In the third quarter, Eesti Telekom Group earned EBITDA of 37.5 million euros, which was 2% more than in the same period of 2005 (3rd quarter of 2005: 36.6 million euros). Since the ratio of the fields of activity with low margins has continued to increase, then a drop in the EBITDA margin has followed. In the third quarter of this year, the margin reached 40.1% (3rd quarter of 2005: 44.2%). With the squeezed margins, the management together with the council are constantly reviewing possibilities to increase efficiency and productivity.

The group's depreciation in the third quarter of 2006 was 7.8 million euros (3rd quarter of 2005: 11.5 million euros). The majority of the drop in depreciation, compared to the same period in 2005, resulted from the introduction of new depreciation rates. At the beginning of 2006, TeliaSonera established new uniformly applied useful life spans for fixed assets in its 100% subsidiaries. Based on thorough analysis, the Eesti Telekom Group also decided to implement the depreciation periods proposed by TeliaSonera (with some changes based on local circumstances) in the Eesti Telekom Group starting on 1 May 2006. The depreciation already calculated on fixed assets was not adjusted in connection with the establishment of the new periods. The remaining useful life of existing fixed assets will be adjusted. Another important factor affecting the drop in depreciation is the modest investments made during the last few years.

The Eesti Telekom Group EBIT for the third quarter was 29.7 million euros (3rd quarter of 2005: 25.1 million euros). The EBIT margin increased slightly, reaching 31.8% (3rd quarter of 2005: 30.3%). In the third quarter, financial revenues (net) of 0.5 million euros were earned (3rd quarter of 2005: 0.5 million euros).

The Eesti Telekom Group net profit for the third quarter of 2006 was 30.2 million euros (3rd quarter of 2005: 25.4 million euros). Revenues earned per share were 0.22 euros (3rd quarter of 2005: 0.18 euros).

Balance sheet and cash flows

As of 30 September 2006, the Eesti Telekom Group balance sheet totaled 275.7 million euros (31 December 2005: 297.8 million euros). In nine months, the group's non-current assets have increased by 12.1 million euros. The majority of the growth in non-current assets came from an increase in tangible fixed assets that is related to this year's extensive investments by Elion Enterprises. Intangible fixed assets have increased by 2 million euros, mainly thanks to the goodwill created by the acquisition of the shareholding in Serenda Invest OÜ.

In nine months, the Eesti Telekom Group's current assets have decreased by 34.2 million euros. The reduction is caused by short-term investments, and a reduction in the surplus of cash and cash equivalents by 40.2 million euros in connection with the 79.4-million-euro dividend payment and the 23.9-million-euro dividend income tax payment made in July.

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As of 30 September 2006, Eesti Telekom Group equity was 237.8 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 third quarter, the group had long-term liabilities of .06 million euros (31 December 2005: .04 million euros) and short-term liabilities of 36.6 million euros (31 December 2005: 38.2 million euros). As of 30 September 2006, provisions totaling 0.7 million euros had been made. The group's net debt at the end of September was -66.2 million euros and the net gearing was -28% (31 December 2005: -106.3 million euros and -41%).

For the first nine months of the year, the Eesti Telekom Group cash flow for operations was 79.8 million euros (9 months of 2005: 87.0 million euros). Cash flow into investment activities was 12.2 million euros (9 months of 2005: 16.4 million euros). 35.2 million euros was invested into tangible and intangible assets (9 months of 2005: 21.9 million euros). 6.5 million euros was used for acquisition of shares of subsidiaries and associated companies. The Group's cash flow into financial activities in the first nine months was -79.4 million euros, including the payment of dividends totaling -79.4 million euros (9 months of 2005: -71.7 million euros and -70.5 million euros).

Elion Group (fixed-line communications)

	Q3 2006	Q3 2005	Change %	9 mos. 2006	9 mos. 2005	Change %
Total revenues, million EUR	46.1	39.4	17.0	135.7	118.9	14.1
EBITDA, million EUR	14.4	13.9	3.9	44.7	42.6	5.1
Margin, %	31.2	35.1		32.9	35.8	
EBIT, million EUR	10.0	7.9	25.7	30.0	23.8	26.1
Margin, %	21.6	20.1		22.1	20.0	
EBT, million EUR	10.0	8.0	25.6	30.5	24.6	24.2
Net profit for period, million EUR	10.0	8.0	25.6	22.9	16.5	38.7
CAPEX, million EUR	9.0	5.4	66.8	25.1	14.3	76.0
ROA, %	21.7	18.9				
ROE, %	32.7	28.8				

Elion Group net sales increased by 17% to 46.1 million euros in the third quarter of 2006. An important factor in the increase of net sales for the last quarter was the addition of AS MicroLink Eesti revenues (the management company AS MicroLink and its 100% subsidiary AS MicroLink Eesti were acquired by AS Elion Enterprises on 31 October 2005). If the influence of the MicroLink acquisition were deducted, the increase in sales revenues for the third quarter would be 10%.

Of the group's principal fields of activity, the fastest growth in the third quarter continued to be experienced by IT services. The consolidation of activities in the IT field into MicroLink that was started in the first quarter of 2006 has been completed and the increase of sales revenues has accelerated, reaching 49% in the third quarter (the influence of the MicroLink acquisition has been deducted by adding AS MicroLink Eesti IT revenues to the revenues of the corresponding period in 2005).

Another important factor in the growth of sales revenues in the third quarter were connection fees. The revenues earned from connection fees increased by almost 6% compared to the third quarter of 2005. At the same time, changes in the structure of connection fees continued. Compared to the third quarter of last year, the fees earned from voice connection dropped by 11% and fees from Internet connections have decreased by 14%. The rapid increase in fees for integrated services has continued. The revenues in the given category have exceeded the revenues for the third quarter in 2005 by 56%. The success of integrated solutions is based on an active demand for DigiTV. The *Kodulahendus (Home Solution)* package introduced to the market this April, in which a quality television picture is offered together with telephone and super high-speed Internet connections, is currently technically available in more than 90 locations throughout Estonia. By the end of the year, DigiTV and super high-speed Internet will be available in all Estonian towns and almost 100 larger

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settlements, so they can be accessed by more than two-thirds of Elion's Internet customers, or over 100,000 families throughout Estonia. As of 30 September, 18,400 users had signed up for DigiTV (30 June 2006: 9,960), whereby Elion is the digital television transmitter with the great number of customers on the market. Fast growth in the number of customers has, however, caused some technical problems – there have been delays in deliveries, some parts of the necessary equipment haven't had good enough quality. As it has always been the intention of Elion to offer its customers only the best quality services, the company will concentrate on overcoming the technical problems at the present in order to be able to continue with rapid customer growth thereupon. At the same time, new additional services have been developed. In addition to the basic package comprising 40 domestic and foreign channels, theme packages for a fee reached the users in July. There are plans to introduce video on demand this year, the testing of which has already been started.

The increase in Elion permanent Internet connections accelerated in the third quarter. As of 30 September 2006, the company had 126 thousand customers with permanent Internet connections (as either a separate service or part of an integrated solution), which is 7 thousand more than at the end of the second quarter and 29 thousand more than at the end of the third quarter in 2005. Elion assesses its market share of permanent connections to be 54%. The growth of permanent Internet connections has been helped by the provision of Internet connection possibilities to the first counties within the framework of the *KülaTee 3 (CountryRoad 3)* program. In September, Elion started offering wireless Internet in Harju and Lääne Counties within the framework of the *Külatee 3* program. Currently, the construction of WiMAX networks is also being completed in Rapla County and Elva, and work is continuing in West-Viru and Tartu Counties.

As of 30 September 2006, Elion had 468,076 call interfaces¹ (June 2006: 462,500, December 2005: 458,450; September 2005: 459,166). The stabilization of the number of call interfaces has been supported by the introduction of Elion's own Internet telephone, Hotifon, in May of this year. Hotifon allows the users of the popular hot.ee e-mail environment to make free calls amongst themselves, as well as place free calls to Elion fixed-line phones and to other fixed-line and mobile networks in Estonia and abroad without connection fees until the end of November. Hotifon has been well accepted by the users, and at the end of September, the service had almost 9,600 users (30 June 2006: 7,200). In addition to the innovative Hotifon offering, during the summer Elion also conducted a campaign to retain customers of traditional call services—the opportunity to reconnect fixed-line phones free has been offered, and price-sensitive customers have been offered the opportunity to sign up for discount packages.

Despite the stabilization of the number of clients, the decrease in voice revenues from end consumers continued. The drop in revenues resulted primarily from local calls, for which the sales revenues decreased by 24% compared to the third quarter of 2005. The reasons for the decrease in this category are the free call minutes provided to customers of integrated solutions, free calls after the tenth call minute for *Kodupaket* customers, as well as the continued transfer of call minutes to mobile networks. Revenues earned from international calls dropped by 14% and calls to mobile networks by 8%. Strong 15%-growth was shown by revenues for other call services. The increase was primarily caused by the number of international call minutes passing through the network. Thanks to the strong growth of call transit, the revenues earned from call services as a whole decreased by 2% compared the same period in 2005.

Elion estimates its market share for call minutes initiated from fixed-line networks to be 83% (September 2005: 85%). The market share of local call minutes is 84% (September 2005: 86%), international call minutes, 65% (September 2005: 67%), call minutes made to mobile phones, 71% (September 2005: 72%), and incoming call minutes, 97% (September 2005: 96%).

In the third quarter, the rapid growth of revenues from the retail sales of telecommunications, IT, and TV equipment continued. Compared to the third quarter of 2005, the sales revenues in this sphere increased by 53%, reaching 7.9 million euros. For the second year, Elion is offering its customers installment purchasing

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

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services for telecommunications, IT, and TV equipment. Since October of this year, business customers are also being offered equipment on operating and financial leases. Since the service has been very popular among the clients, and the volume of installment receivables has notably increased, we have decided to start recognizing the interest revenues as sales revenues (in earlier periods, as financial revenues). In the third quarter of this year, Elion's revenues from financial services reached 0.3 million euros.

Elion Group operating costs increased by 25% in the third quarter of 2006, reaching 31.7 million euros (3rd quarter of 2005: 25.4 million euros). A significant factor in the increase of operating costs was again the addition of new subsidiaries. If the influence of adding AS MicroLink and AS MicroLink Eesti were deducted, the growth of Elion Group operating costs in the third quarter would have been 13%.

The two main growth components for operating costs (on a comparative basis) were the increase in retail sales volumes, which increased the expenditures made for purchasing merchandise, and the increase in the international transit passing through the Elion network, which was accompanied by greater connection costs. The increase in labor costs during the third quarter was significantly less than in previous quarters, reaching only 5% compared to the same period in 2005. Taking Estonia's rapid economic development and the tense situation in the labor market into account, the modest increase in labor costs during the last quarter can be considered an exception, and a more extensive increase in costs may be expected in subsequent quarters.

Elion Group's EBITDA in the third quarter was 14.4 million euros, which was 4% more than the same period in 2005. The EBITDA margin has dropped, reaching 31.2% (3rd quarter of 2005: 35.1%). The drop in the margin is caused by an increase in the ratio of activities—retail trade, IT services—with lower profitability among the revenues earned by the group.

The Elion Group depreciation decreased by 25% compared to the third quarter of 2005, reaching 4.5 million euros (3rd quarter of 2005: 6.0 million euros). The reduction in depreciation was caused primarily by the implementation of new depreciation rates starting in May of 2006 (the effect on depreciation is approximately -0.4 million euros per month). The EBIT increased by 26% in the third quarter reaching 10.0 million euros (3rd quarter of 2005: 7.9 million euros). The group's financial revenues (net) in the third quarter were 0.1 million euros (3rd quarter of 2005: 0.0 million euros). The net profit for the Elion Group in the third quarter of 2006 was 10.0 million euros (3rd quarter of 2005: 8.0 million euros).

In the third quarter of 2006, the Elion Group invested 9.0 million euros in fixed assets, which is 67% more than the same period in 2005. Approximately half the investments were used to work out solutions for the end consumer. The rapid construction of the DigiTV network continued. Within the framework of the *Küllatee 3* program, 33 WiMAX base stations were erected in Harju County. Communications networks were established for numerous new houses and apartments. In addition to increasing the power of the backbone network, almost 25% of the investments, or 2.2 million euros, went toward the purchase of IT and TV equipment to be rented to the customers.

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 nine months. In September, the sales process was completed and a purchase-sale contract was signed with Norby Telekom AS. The contract has also been approved by the Competition Board, which is a necessary precondition for the contract to come into force.

The nine-month net sales for the Elion Group were 135.7 million euros, increasing by 14% compared to 2005 (9 months of 2005: 118.9 million euros). By deducting the influence of the addition of the new subsidiaries, the increase in sales revenues for the period is 7%. The nine-month operating costs for the Elion group were 93.8 million euros, increasing 23% compared to 2005 (9 months of 2005: 76.3 million euros). By deducting the new subsidiaries, the increase in operating costs would be 12%. The EBITDA increased by 5% reaching 44.7 million euros (9 months of 2005: 42.6 million euros). At the same time, the EBITDA for this year comprises revenues of 2.7 million from the sales of real estate. Without the profit earned from the sales of

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real estate, the EBITDA would be 42.0 million euros. The Elion Group depreciation decreased by 22% during nine months to 14.8 million euros (9 months of 2005: 18.8 million euros). The nine-month net profit of the Elion Group was 22.9 million euros, which is 39% more than in 2005 (9 months of 2005: 16.5 million euros). This year, the Elion Group has invested 25.1 million euros (9 months of 2005: 14.3 million euros), of which 6.5 million has gone into the purchase of rentable IT and TV equipment.

AS of 30 September 2006, the Elion Group employed 1,713 people (December 2005: 1,673; September 2005: 1,515).

EMT Group (mobile communications)

	Q3 2006	Q3 2005	Change %	9 mos. 2006	9 mos. 2005	Change %
Total revenues, million EUR	59.0	51.6	14.3	163.6	145.4	12.5
EBITDA, million EUR	23.4	23.0	1.5	64.2	63.6	1.0
Margin, %	39.6	44.6		39.3	43.8	
EBIT, million EUR	20.1	17.5	14.5	51.9	47.0	10.4
Margin, %	34.0	33.9		31.7	32.3	
EBT, million EUR	20.1	17.6	14.5	52.5	47.4	10.7
Net profit for period, million EUR	20.1	17.6	14.5	36.2	33.2	9.0
CAPEX, million EUR	3.4	4.5	-25.3	10.1	7.7	32.1
ROA, %	42.5	40.5				
ROE, %	72.9	66.2				

The rapid growth of EMT Group sales revenues continued in the third quarter of 2006. Compared to the second quarter of this year, the growth rate for mobile communications sales revenues have fallen slightly. If the growth in the second quarter compared to the second quarter was 17%, then in the third quarter, the sales revenues increased by 14% or 7.4 million euros compared to 2005.

The third quarter was successful for AS EMT from several aspects. If during the first two quarters of this year, the increase in the company's mobile customers was rather modest, then in the third quarter, the customer base again increased significantly. As of 30 September 2006, 294 thousand EMT pre-paid cards were in use, which is 35 thousand more than at the end of the second quarter of 2006, and 38 thousand more than on 30 September 2005. An important growth factor for pre-paid cards has been *Ratemobil*. On 5 April of this year, AS EMT acquired 51% of the shares of Serenda Invest OÜ. Serenda Invest OÜ owns the trademark Rate and also administers Rate.ee, Estonia's most popular Internet communications environment for young people. This summer, AS EMT introduced *Ratemobil*, a special mobile package oriented to Rate.ee users. In addition to favorable rates (until December of this year, many of the services are free), *Ratemobil* offers clients numerous additional services that integrate Internet communications and mobile possibilities—*RateTeade*, which informs the user of developments on his or her Internet account and reminds the user of his or her portal friends' birthdays; *RateSMS*, which allows SMS messages to be sent only if the Rate user name of the addressee is known.

The third quarter was also characterized by active special offers for the users of pre-paid services and discount packages. During August and September, EMT also made several special offers to the users of Simpel pre-paid cards and Diil discount packages, whereby the user numbers for the given packages also demonstrated growth. At the same time, since the campaigns directed at the users of pre-paid cards have included many special offers (two start-up packages for one price, mutual free calls, etc.) the increase in the client base has not been accompanied by an increase in the revenues earned from pre-paid cards. Compared to the third quarter of 2005, the revenues from pre-paid cards for the third quarter of this year dropped by 5%.

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As of 30 September 2006, the number of EMT contractual customers was 427 thousand. Compared to the end of the second quarter, the number of contractual customers has increased by one thousand, and by 32 thousand compared to 30 September 2005. On the Estonian market, which has achieved nearly 114% mobile penetration, the growth of the number of contractual customers has been modest compared to previous years.

To find new clients, one must concentrate on the special interests of ever smaller client groups. Therefore, during the third quarter, EMT made special offers for families, university students, elderly customers, and small entrepreneurs.

As of 30 September 2006, the total number of active EMT SIM cards was 721 thousand (30 June 2006: 686 thousand; 31 December 2005: 677 thousand; 30 September 2005: 651 thousand). The company assesses its market share of active SIM cards to be 47%.

The increased client base has also enlarged the volumes of services being used. The number of call minutes initiated from the EMT network in the third quarter this year was 16% greater than in the same period last year. Along with the increase in the volume of call services, the revenues earned by AS EMT have also increased. In the third quarter, the revenues earned from local calls and monthly fees (incl. fees for packages that provide a specific number of call minutes for a fixed monthly fee) were more than 8% greater than in the same period of 2005.

Simultaneously with the increase in call minutes initiated from the EMT network, the number and revenues of call minutes terminated in the EMT network also increased, the indicators for which grew by more than 10% compared to the same period in 2005. The company's revenues from roaming services remained at the same level as in the corresponding period of 2005.

In the third quarter, the number of SMS and MMS messages sent from the EMT network increased significantly. Compared to the same period of 2005, the number of sent messages increased 48% and 15% respectively. Since an important factor behind the increase in volumes was special offers, then the increase of revenues in the given category was more modest than the growth in volume, reaching 11% in the third quarter.

In September 2006, AS EMT earned revenues of 21.67 euros per customer (June 2006: 23.01 euros; December 2005: 20.71 euros; September 2005: 21.60 euros).

An important contribution to the increase of EMT sales revenues was made by the group's retail and wholesale sale of telephones and other communications and IT equipment, including sales to other companies in the Eesti Telekom Group. The revenues earned from commercial activities increased by almost 20% compared to the same period in 2005.

The EMT Group operating costs for the third quarter of 2006 reached 35.8 million euros growing 25% compared to the same period in 2005. The principal portion of the increase in operating costs came from the call termination fees and roaming fees paid to other operators. Since the situation in the Estonian labor market continues to be tense, and there is strong pressure for salary increases, the personnel costs of AS EMT have also increased. Since several extensive marketing campaigns took place during the third quarter, marketing and sales costs also increased. Since retail and wholesale trade are fields of activity with low margins, then the increases in the operating costs for these fields of activity were approximately the same as the increases in sales revenues.

In the third quarter of 2006, the EMT Group EBITDA showed a small, 1.5% increase, reaching 23.4 million euros (3rd quarter 2005: 23.0 million euros). Based on the continued rapid growth of retail sales activities and interconnection services, the EBITDA margin in the third quarter of this year reached 39.6% (3rd quarter 2005: 44.6%).

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Compared to the third quarter of 2005, the depreciation for the EMT Group decreased by 40% to 3.3 million euros (3rd quarter 2005: 5.5 million euros). Starting in May, the EMT Group implemented new depreciation rates, the influence of which is approximately -0.3 million euros per month. In addition, the reduction in depreciation was caused by a relatively low level of investments during the last few years. Compared to the third quarter of 2005, the EBIT of the EMT Group increased by 14.5% reaching 20.1 million euros

(3rd quarter 2005: 17.5 million euros). In the third quarter, the group earned financial revenues (net) of 0.1 million euros (3rd quarter 2005: 0.1 million euros). In the last quarter, the EMT Group earned a net profit of 20.1 million euros (3rd quarter 2005: 17.6 million euros).

EMT Group investments in fixed assets totaled 3.4 million euros in the third quarter (3rd quarter 2005: 4.5 million euros). If a year ago, larger than usual investments were made in connection with preparations for putting a 3G network into operation, then this year, the majority of investments were made for the expansion of the 2G and 3G networks, in order to guarantee quality services under conditions of rapidly increasing user volumes.

The nine-month sales revenues for the EMT Group totaled 163.6 million euros, thereby increasing 13% compared to 2005 (9 months of 2005: 145.4 million euros). The main portion of the additional sales revenues have been received from interconnection fees, trade, and local calls, as well as from mobile data communications. The group's nine-month operating costs totaled 99.8 million euros, increasing 22% compared to 2005 (9 months of 2005: 81.7 million euros). The EBITDA remained at the same level as 2005, reaching 64.2 million euros (9 months of 2005: 63.6 million euros). The nine-month depreciation for the EMT Group was 12.4 million euros, decreasing by 26% compared to the first nine months of 2005 (9 months of 2005: 16.8 million euros). The nine-month net profit for the EMT Group was 36.2 million euros, which was 9% more than in 2005 (9 months of 2005: 33.2 million euros). This year, the Group has invested 10.1 million euros (9 months of 2005: 7.7 million euros).

At the end of September 2006, 543 people were employed by the EMT Group (December 2005: 507; September 2005: 512).

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 Mobiilsideteenus 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 Administrative 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.

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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. AS of 30 September 2006, the Communications Board's declaration of all three operators as undertaking with significant market power continued to be suspended.

Plan to declare Elion Enterprises an undertaking with significant market power

On August 21, the Communications Board notified Elion Enterprises of its plan to declare Elion an undertaking with significant market power in the broadband access market. According to the draft of the decision, competition does not exist in the broadband access market, and therefore, the Communications Board plans to declare Elion an undertaking with significant market power. The Communications Board will propose the implementation of an accessibility obligation for the Elion broadband network, and obligations for non-discrimination, transparency as well as for separate cost accounting, price controls and cost accounting. This means that Elion would have to sell client lines and transmission volumes on their transmission networks to other service providers as wholesale products, so that the other service providers can provide various data communications services to retail customers through the Elion broadband network.

The Communications Board finds that it is reasonable to demand that Elion perform the obligations, which are named in the draft decision, in the broadband access market three month after receiving the decision regarding declaration as an undertaking with significant market power, but no sooner than 1 March 2007.

Elion has filed a protest regarding the proposed draft decision that the Communications Board has not answered to date.

Ownership structure of AS Eesti Telekom

In the third quarter of 2006, there were no significant changes among the shareholders of AS Eesti Telekom. As of 9 October 2006, the largest shareholder continued to be Baltic Tele AS (a company 100%-owned by TeliaSonera), whose participation in AS Eesti Telekom increased by 8,000 shares during the quarter.

	Number of securities	Participation
Baltic Tele AB	74,110,079	53.7207%
Ministry of Finance / State Treasury	37,485,100	27.1721%
Deutsche Bank Trust Company	13,812,987	10.0127%
Skandinaviska Enskilda Banken AB clients	2,051,687	1.4872%
ING Luxembourg S.A.	1,461,330	1.0593%
Danske Bank clients	866,063	0.6278%
Morgan Stanley Co International Equity clients	863,400	0.6259%
Bank Austria Creditanstalt AG clients	522,526	0.3788%
The Northern Trust Company	470,000	0.3407%
Clearstream Banking Luxembourg clients	466,387	0.3381%

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

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2006 INTERIM REPORT
CONSOLIDATED QUARTERLY DATA
In million of Estonian euros (EUR)

	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06
Sales	82.9	89.3	84.8	91.0	93.4
OPEX	-46.2	-57.2	-51.8	-56.8	-56.1
Other revenue/expenses, net	-0.1	0.0	0.2	2.9	0.1
EBITDA	36.6	32.1	33.3	37.1	37.5
Depreciation and amortisation	-11.5	-12.6	-10.9	-8.5	-7.8
EBIT	25.1	19.5	22.4	28.6	29.7
Income / expenses from associates	-0.1	0.0	0.0	0.1	0.0
Other net financing items	0.4	0.6	0.7	0.8	0.4
Profit before tax	25.4	20.0	23.1	29.5	30.2
Income tax on dividends	0.0	0.0	0.0	-23.9	0.0
Net profit for the period	25.4	20.0	23.1	5.7	30.2
Minority interest	0.0	0.0	0.0	0.0	0.1
EBITDA margin, %	44.2%	35.9%	39.2%	40.8%	40.1%
EBIT margin, %	30.3%	21.8%	26.4%	31.4%	31.8%
Net margin, %	30.7%	22.4%	27.2%	6.2%	32.3%
Total assets	268.1	297.8	312.7	271.8	275.7
- Non-current assets	123.8	130.9	128.7	137.3	143.0
- Current assets	144.3	166.9	183.9	134.5	132.7
- Cash and cash equivalents and short-term investments	86.7	106.9	125.0	69.4	66.6
Equity and liabilities	268.1	297.8	312.7	271.8	275.7
- Equity	238.1	258.2	281.3	207.7	237.7
- Provisions	0.7	1.0	0.8	0.8	0.7
- Non-current liabilities	0.4	0.4	0.3	0.9	0.6
- Interest-bearing borrowings	0.4	0.4	0.2	0.3	0.2
- Current liabilities	28.9	38.2	30.2	62.3	36.6
- Interest-bearing borrowings	0.2	0.2	0.1	0.2	0.2

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2006 INTERIM REPORT
III QUARTER CONSOLIDATED INCOME STATEMENT

In thousand of euros (EUR)

	Notes	III Quarter 2006	III Quarter 2005 Restated
Net sales	2.1 (a)	93,431	82,856
Cost of production	2.1 (a)	(51,004)	(46,314)
Gross profit		42,427	36,542
Sales, administrative, and research & development expenses	2.1 (a)	(12,833)	(11,371)
Other operating revenues and expenses	2.1 (a)	113	(51)
Operating profit		29,707	25,120
Net income / (expenses) from associated companies	2.1 (a)	5	(100)
Other net financial items	2.1 (a)	445	413
Net profit for the period	2.1 (a)	30,157	25,433
Attributable to:			
Equity holders of the parent	2.1 (a)	30,025	25,433
Minority interest	2.1 (a)	132	-
		30,157	25,433
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		0.22	0.18
Diluted earnings per share		0.22	0.18
EBITDA	2.1 (a)	37,497	36,600
Depreciation, amortization and write-downs	2.1 (a)	(7,790)	(11,480)

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2006 INTERIM REPORT
THE FIRST NINE MONTHS CONSOLIDATED INCOME STATEMENT

In thousand of euros (EUR)

	Notes	9 months to 30 September 2006	9 months to 30 September 2005 Restated	2005 Restated
Net sales	2.1 (b), 2.3	269,291	240,419	329,744
Cost of production	2.1 (b)	(149,147)	(135,247)	(189,073)
Gross profit		120,144	105,172	140,671
Sales, administrative, and research & development expenses	2.1 (b)	(42,587)	(35,250)	(51,245)
Other operating revenues and expenses	2.1 (b)	3,212	(58)	(88)
Operating profit		80,769	69,864	89,338
Net income / (expenses) from associated companies	2.1 (b)	103	35	29
Other net financial items	2.1 (b)	1,922	1,839	2,415
Profit before tax		82,794	71,738	91,782
Income tax on dividends		(23,863)	(22,274)	(22,274)
Net profit for the period	2.1 (b)	58,931	49,464	69,508
Attributable to:				
Equity holders of the parent	2.1 (b)	58,799	49,464	69,498
Minority interest	2.1 (b)	132	-	10
		58,931	49,464	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		0.43	0.36	0.50
Diluted earnings per share		0.43	0.36	0.50
EBITDA	2.1 (b)	107,917	105,333	137,447
Depreciation, amortization and write-downs	2.1 (b)	(27,148)	(35,469)	(48,109)

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2006 INTERIM REPORT
CONSOLIDATED BALANCE SHEET

In thousand of euros (EUR)

	Notes	30 September 2006	31 December 2005	30 September 2005
ASSETS				
Non-current assets				
Property, plant and equipment	2.2, 3	125 708	117 209	116 259
Intangible fixed assets	2.2, 3	12 661	10 654	5 481
Investments in associates	2.2, 6	1 106	189	195
Other financial fixed assets	2.2	3 549	2 823	1 864
Total non-current assets		143 024	130 875	123 799
Inventories	7	7 812	5 552	5 656
Trade and other receivables		57 395	53 490	51 954
Short-term investments		51 564	80 953	67 166
Cash and cash equivalents		15 062	25 919	19 557
Total		131 833	165 914	144 333
Assets classified as held-for-sale		859	1 007	-
Total current assets	2.2	132 692	166 921	144 333
TOTAL ASSETS	2.2	275 716	297 796	268 132
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		58 799	69 498	49 464
Total capital and reserves attributable to equity holders of the parent	2.2	237 681	258 160	238 126
Minority interest	2.2	162	74	-
Total equity		237 843	258 234	238 126
Provisions				
Provisions for pension	9 (a)	463	498	457
Other provisions	9 (b)	263	500	283
Total provisions	2.2	726	998	740
Interest-bearing liabilities				
	10			
Long-term liabilities		244	369	385
Short-term liabilities		180	203	180
Total interest bearing liabilities		424	572	565
Non-interest-bearing liabilities				
Long-term liabilities		329	-	-
Current liabilities		36 394	37 992	28 701
Total non-interest-bearing liabilities		36 723	37 992	28 701
Total liabilities	2.2	37 147	38 564	29 266
TOTAL EQUITY AND LIABILITIES	2.2	275 716	297 796	268 132

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2006 INTERIM REPORT
CONSOLIDATED CASH FLOW STATEMENT

In thousand of euros (EUR)

	Notes	9 months to 30 September 2006	9 months to 30 September 2005
Operating activities			
Net profit for the period		58,931	49,464
Adjustments for:			
Depreciation, amortisation and impairment of fixed and intangible assets	3	27,148	35,469
(Profit) / loss from sales and discards of fixed assets		(2,842)	(303)
Net (income) / expenses from associated companies		(103)	(35)
Provisions		(237)	(15)
Financial items		988	2,459
Income tax on dividends		-	(904)
Miscellaneous non-cash items		8	-
Cash flow before change in working capital		83,893	86,135
Change in current receivables		(839)	(3,386)
Change in inventories		(2,257)	2,293
Change in current liabilities		(1,038)	1,950
Change in working capital		(4,134)	857
Cash flow from operating activities	2.2	79,759	86,992
Investing activities			
Intangible and tangible fixed assets acquired	3	(35,200)	(21,912)
Intangible and tangible fixed assets divested		3,127	610
Shares, participations and operations acquired		(6,545)	(316)
Shares, participations and operations divested		-	1,042
Net change in interest-receivables short maturities		30,006	7,067
Loans granted		(3,848)	(3,005)
Repayment of loans granted		263	83
Cash flow from investing activities	2.2	(12,197)	(16,431)
Cash flow before financing activities		67,562	70,561
Financing activities			
Proceeds from non-convertible debts	10	6	76
Repayment of borrowings	10	-	(296)
Repayment of finance lease liabilities	10	(100)	(974)
Dividends paid	8 (d)	(79,352)	(70,544)
Cash flow used in financing activities	2.2	(79,446)	(71,738)
Cash flow for the year	2.2	(11,884)	(1,177)
Cash and cash equivalents at beginning of year	2.2	27,507	21,178
Cash flow for the year	2.2	(11,884)	(1,177)
Effect of foreign exchange rate changes	2.2	(38)	52
Cash and cash equivalents at end of period	2.2	15,585	20,053

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

In thousand of euros (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	-	-	-	-	49 464	49 464	-	49 464
30 September 2005	88 169	22 753	8 817	68 923	49 464	238 126	-	238 126
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	-	-	-	-	58 799	58 799	132	58 931
30 September 2006	88 169	22 753	8 817	59 143	58 799	237 681	162	237 843

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2006 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

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

The consolidated interim financial statements for the first nine months period ending 30 September 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 25 September 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 3.5 million euros.

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 third quarter of 2006, adjustments were made to the cost classifications of the income statements of the three companies in the Eesti Telekom Group, whereby the costs for sold goods increased, and the marketing, general administrative, research, and development expenditures were reduced accordingly. The adjustments affected the reclassification of the aforementioned costs as follows: 8,871 thousand euros in the first quarter

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2006 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

of 2006 (1st quarter of 2005: 4,933 thousand euros), and 19,826 thousand euros in the first half of 2006 (first half of 2005: 8,798 thousand euros).

Reclassification of balances

In the third quarter of 2006, the revenues earned from financial services related to the purchase of IT and TV equipments were reclassified. In the income statement for the third quarter and first nine months of 2006, these revenues are recognized as entries for sales revenues, not for other financial revenues, as they were in the reports for previous periods. In order to guarantee the comparability of the income statement indicators, the corresponding reclassification has also been made in the data for 2005. The reclassification amounts are the following by reporting periods:

- 1st quarter of 2006: 289 thousand euros (1st quarter of 2005: 97 thousand euros);
- First half of 2006: 586 thousand euros (first half of 2005: 224 thousand euros);
- 9 months of 2006: 882 thousand euros (9 months of 2005: 376 thousand euros).

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.

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2006 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

2.1 Primary reporting format – business segments

a) Results of the III Quarter 2006 / 2005

In thousands of euros (EUR)

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	Q1II 2006	Q1II 2005 Restated	Q1II 2006	Q1II 2005 Restated	Q1II 2006	Q1II 2005 Restated	Q1II 2006	Q1II 2005 Restated	Q1II 2006	Q1II 2005 Restated
Net sales	42,559	36,370	50,872	46,486	-	-	-	-	93 431	82 856
Inter-segment net sales	3,580	3,048	8,170	5,152	-	-	(11,750)	(8,200)	-	-
Costs of production	(19,088)	(18,211)	(31,916)	(28,106)	-	-	-	3	(51 004)	(46 314)
Inter-segment costs of production	(8,065)	(5,021)	(3,113)	(2,787)	-	-	11,178	7 808	-	-
Gross profit	18,986	16,186	24,013	20,745	-	-	(572)	(389)	42 427	36 542
Sales, administrative, and research & development expenses	(8,895)	(8,033)	(3,646)	(3,036)	(292)	(302)	-	-	(12 833)	(11 371)
Inter-segment sales, administrative, and research & development expenses	(130)	(130)	(461)	(256)	(8)	(6)	599	392	-	-
Other operating revenues and expenses	(7)	(103)	66	53	-	(1)	54	-	113	(51)
Inter-segment other operating revenues and expenses	-	-	81	-	-	-	(81)	-	-	-
Operating profit / (loss)	9,954	7,920	20,053	17,506	(300)	(309)	-	3	29 707	25 120
Net income / (expenses) from subsidiaries and associated companies	(3)	(107)	8	7	-	-	-	-	5	(100)
Other net financing items	63	159	45	44	337	210	-	-	445	413
Net profit for the period	10,014	7,972	20,106	17,557	37	(99)	-	3	30 157	25 433
Attributable to:										
Equity holders of the parent	10,014	7,972	19,974	17,557	37	(99)	-	3	30 025	25 433
Minority interest	-	-	132	-	-	-	-	-	132	-
	10,014	7,972	20,106	17,557	37	(99)	-	3	30 157	25 433
EBITDA	14,417	13,873	23,380	23,034	(300)	(307)	-	-	37 497	36 600
Depreciation, amortization and write-downs	(4,463)	(5,953)	(3,327)	(5,528)	-	(2)	-	3	(7 790)	(11 480)

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2006 INTERIM REPORT
NOTES TO THE FINANCIAL STATEMENTS

b) Results of the first nine months 2006 / 2005

In thousands of euros (EUR)

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	9 months 30 Sept. 2006	9 months 30 Sept. 2005 Restated	9 months 30 Sept. 2006	9 months 30 Sept. 2005 Restated	9 months 30 Sept. 2006	9 months 30 Sept. 2005 Restated	9 months 30 Sept. 2006	9 months 30 Sept. 2005 Restated	9 months 30 Sept. 2006	9 months 30 Sept. 2005 Restated
	Net sales	125,767	110,226	143,524	130,193	-	-	-	-	269,291
Inter-segment net sales	9,908	8,667	20,115	15,222	-	-	(30,023)	(23,889)	-	-
Costs of production	(57,855)	(55,444)	(91,292)	(79,811)	-	-	-	8	(149,147)	(135,247)
Inter-segment costs of production	(19,789)	(14,823)	(8,873)	(7,800)	-	-	28,662	22,623	-	-
Gross profit	58,031	48,626	63,474	57,804	-	-	(1,361)	(1,258)	120,144	105,172
Sales, administrative, and research & development expenses	(30,530)	(24,479)	(11,000)	(9,957)	(1,057)	(814)	-	-	(42,587)	(35,250)
Inter-segment sales, administrative, and research & development expenses	(404)	(396)	(1,016)	(852)	(22)	(18)	1,442	1,266	-	-
Other operating revenues and expenses	2,894	25	318	(26)	-	(57)	-	-	3,212	(58)
Inter-segment other operating revenues and expenses	-	-	81	-	-	-	(81)	-	-	-
Operating profit / (loss)	29,991	23,776	51,857	46,969	(1,079)	(889)	-	8	80,769	69,864
Net income / (expenses) from subsidiaries and associated companies	85	74	18	(39)	79,890	70,303	(79,890)	(70,303)	103	35
Other net financing items	450	727	590	442	882	670	-	-	1,922	1,839
Profit before tax	30,526	24,577	52,465	47,372	79,693	70,084	(79,890)	(70,295)	82,794	71,738
Income tax on dividends	(7,636)	(8,073)	(16,227)	(14,128)	-	(73)	-	-	(23,863)	(22,274)
Net profit for the period	22,890	16,504	36,238	33,244	79,693	70,011	(79,890)	(70,295)	58,931	49,464
Attributable to:										
Equity holders of the parent	22,890	16,504	36,106	33,244	79,693	70,011	(79,890)	(70,295)	58,799	49,464
Minority interest	-	-	132	-	-	-	-	-	132	-
	22,890	16,504	36,238	33,244	79,693	70,011	(79,890)	(70,295)	58,931	49,464
EBITDA	44,746	42,574	64,248	63,641	(1,077)	(882)	-	-	107,917	105,333
Depreciation, amortization and write-downs	(14,755)	(18,798)	(12,391)	(16,672)	(2)	(7)	-	8	(27,148)	(35,469)

AS EESTI TELEKOM CONSOLIDATED III QUARTER AND THE FIRST NINE MONTHS 2006 INTERIM REPORT

NOTES TO THE FINANCIAL STATEMENTS

2.2 Other information by business segments

In thousands of euros (EUR)

	Fixed network telecommunications		Mobile telecommunications		Other operations		Eliminations		Consolidated	
	9 months 30 Sept. 2006	9 months 30 Sept. 2005	9 months 30 Sept. 2006	9 months 30 Sept. 2005	9 months 30 Sept. 2006	9 months 30 Sept. 2005	9 months 30 Sept. 2006	9 months 30 Sept. 2005	9 months 30 Sept. 2006	9 months 30 Sept. 2005
Non-current assets (except investments in subsidiaries and associates)	89,828	68,688	52,073	54,657	17	279	-	(20)	141,918	123,604
Investments in subsidiaries and associates	507	65	599	131	84,196	84,196	(84,196)	(84,197)	1,106	195
Current assets	58,752	58,261	53,052	54,283	39,102	38,638	(18,214)	(6,849)	132,692	144,333
Total assets	149,087	127,014	105,724	109,071	123,315	123,113	(102,410)	(91,066)	275,716	268,132
Equity attributable to equity holders of the parent	117,974	112,515	81,021	87,142	122,882	122,683	(84,196)	(84,214)	237,681	238,126
Minority interest	-	-	162	-	-	-	-	-	162	-
Provisions	264	228	338	393	124	119	-	-	726	740
Non-current liabilities	46	66	527	319	-	-	-	-	573	385
Current liabilities	30,803	14,205	23,676	21,217	309	311	(18,214)	(6,852)	36,574	28,881
Total equity and liabilities	149,087	127,014	105,724	109,071	123,315	123,113	(102,410)	(91,066)	275,716	268,132
Net cash from/ (used in) operating activities	31,844	37,345	47,786	49,723	80,019	70,219	(79,890)	(70,295)	79,759	86,992
Net cash from / (used in) investing activities	(27,479)	(15,934)	(13,049)	(7,555)	16,889	10,914	11,442	(3,856)	(12,197)	(16,431)
Net cash from / (used in) financing activities	(14,169)	(26,847)	(54,372)	(48,507)	(79,353)	(70,535)	68,448	74,151	(79,446)	(71,738)
Foreign exchange rate differences	(41)	54	-	(8)	3	6	-	-	(38)	52
Net increase / (decrease) in cash and cash equivalents	(9,845)	(5,382)	(19,635)	(6,347)	17,558	10,604	-	-	(11,922)	(1,125)
Capital expenditure	25,167	14,745	12,718	8,106	-	4	-	-	37,885	22,855

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

The components of revenues by geographic segments are as follows:

	Fixed network telecommunications		Mobile telecommunications		Consolidated		
	9 months to 30 Sept. 2006	9 months to 30 Sept. 2005	9 months to 30 Sept. 2006	9 months to 30 Sept. 2005	9 months to 30 Sept. 2006	9 months to 30 Sept. 2005	
Revenue from customers in Estonia		112,226	97,448	135,817	122,731	248,043	220,179
Revenue from customers outside Estonia		13,541	12,778	7,707	7,462	21,248	20,240
		125,767	110,226	143,524	130,193	269,291	240,419

NOTES TO THE FINANCIAL STATEMENTS

3. Tangible and intangible assets

In thousand of euros (EUR)

	Tangible assets	Intangible assets
<i><u>At cost</u></i>		
At 31 December 2004	516,620	14,783
Additions	21,376	884
Acquired by finance leases	463	-
Acquired on business combination	207	6
Reclassification	(248)	(63)
Disposals and write-offs (-)	(6,508)	(48)
At 30 September 2005	531,910	15,562
At 31 December 2005	547,185	21,298
Additions	34,822	3,005
Acquired on business combination	58	-
Reclassification	(592)	589
Reclassification to assets classified as held-for-sale	(904)	-
Disposals and write-offs (-)	(8,453)	(27)
At 30 September 2006	572,116	24,865
<i><u>Accumulated depreciation</u></i>		
At 31 December 2004	387,844	8,955
Charge for the period	34,277	1,192
Acquired on acquisition of a subsidiary	74	1
Disposals and write-offs (-)	(6,544)	(67)
At 30 September 2005	415,651	10,081
At 31 December 2005	429,976	10,644
Charge for the period	25,558	1,590
Reclassification	(81)	(3)
Reclassification to assets classified as held-for-sale	(650)	-
Disposals and write-offs (-)	(8,395)	(27)
At 30 September 2006	446,408	12,204
<i><u>Net book value</u></i>		
At 30 September 2005	116,259	5,481
At 30 September 2006	125,708	12,661

NOTES TO THE FINANCIAL STATEMENTS

4. Investments in subsidiaries

	Country of incorporation	Ownership interest		Principal activity	Owner
		30 September 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

NOTES TO THE FINANCIAL STATEMENTS

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 nine months 2006 was the following (in thousand of euros (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 September 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

During the first nine months of 2006, subsidiaries of the Eesti Telekom Group - Elion Esindused AS and AS EMT- each invested an additional 0.45 million euros in AS Sertifitseerimiskeskus, thereby increasing the associated company's share capital by the corresponding amount. During the same period, the same amount was invested in the enlargement of the share capital of AS Sertifitseerimiskeskus by the company's co-shareholders, Hansapank AS and SEB Eesti Ühispank AS.

NOTES TO THE FINANCIAL STATEMENTS

7. Inventories

In the first nine months 2006, the value of the inventories was decreased by the total amount of 40 thousand EUR (the first nine months 2005: 327 thousand EUR) based on the estimated decline of the realisation value below their acquisition cost.

8. Equity

a) Issued capital

	30 September 2006	31 December 2005
Ordinary shares issued 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 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 September 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). During the first nine months 2005 Viru Net OÜ paid dividends debt from year 2004 in the amount 9 thousand EUR.

e) Earnings per share

Basic earnings per share have been calculated as follows:

III Quarter 2006: EUR 0.22 = 30,025,000: 137,954,528
9 months to 30 Sept. 2006: EUR 0.43 = 58,799,000: 137,954,528

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NOTES TO THE FINANCIAL STATEMENTS

III Quarter 2005: UR 0.18 = 25,433,000: 137,954,528
 9 months to 30 Sept. 2005: EEK 0.36 = 49,464,000: 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 September 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 III Quarter attributable to equity holders of the Company (EUR)	30,025,000	25,433,000
Net profit for the first nine months attributable to equity holders of the Company (EUR)	58,799,000	49,464,000
The average number of ordinary shares for the III Quarter	137,954,528	137,954,528
The average number of ordinary shares for the first nine months	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):

	9 months to 30 Sept. 2006	2005	9 months to 30 Sept. 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	7.67	7.82	7.87

9. Provisions

In thousand of euros (EUR)

a) Retirement benefit obligation

31 December 2005	498
Additional provision in the reporting period	6
Decrease of provision in the reporting period	(41)
30 September 2006	463
Current portion of retirement benefit obligations (-)	(55)
Non-current portion of retirement benefit obligations	408

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
Used provisions during year	(237)	-	-	(237)
At 30 September 2006	-	136	127	263

NOTES TO THE FINANCIAL STATEMENTS

10. Borrowings

In thousand of euros (EUR)

	30 September 2006	31 December 2005
Non-current	244	369
Current	180	203
	424	572

The movements in the borrowings can be analyzed as follows:

Opening balance 31 December 2005	572
Proceeds from borrowings	6
Repayments of borrowings	(100)
Other movements	(54)
Closing balance 30 September 2006	424

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 nine months 2006 and 2005 were as follows (in thousand of euros (EUR)):

	9 months to 30 September 2006	9 months to 30 September 2005
Salaries and other short-term employee benefits	2,678	1,987
Termination benefits	15	6
Other	30	23
	2,723	2,016

NOTES TO THE FINANCIAL STATEMENTS

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 nine months 2006 and 2005, group companies entered into the following transactions with related parties (in thousand of Estonian kroons (EEK)):

	9 months to 30 September 2006	9 months to 30 September 2005
<i>Telecommunication services provided</i>		
Associated companies	83	64
Shareholders	9,709	9,531
Companies where Supervisory Council members of the Group have significant influence	8	-
	9,800	9,595
<i>Other sales</i>		
Associated companies	-	1
<i>Telecommunication services purchased</i>		
Associated companies	21	71
Shareholders	8,497	7,168
	8,518	7,239
<i>Other services purchased</i>		
Associated companies	26	1
Shareholders	1	21
Companies where Supervisory Council members of the Group have significant influence	3	-
	30	22
<i>Financial income</i>		
Associated companies	13	13
<i>Financial expenses</i>		
Shareholders	-	5
<i>Amount owed by related parties</i>		
Associated companies	272	328
Shareholders	2,554	4,120
Companies where Supervisory Council members of the Group have significant influence	2	-
	2,828	4,448
<i>Amount owed to related parties</i>		
Associated companies	451	27
Shareholders	2,005	2,282
Key management and supervisory council	350	304
	2,806	2,613

12. Contingencies

In thousand of euros (EUR)

	30 September 2006	31 December 2005
Key management termination benefits	1,476	1,402
Guaranties to other companies	162	169
Guarantees to former employees	13	13
	1,651	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. On 15 May 2006, in reaction to the cited judgment of the Tallinn Administrative Court, the Communications Board filed an appeal, which requests the reversal of the court judgment. Currently, the Tallinn Circuit Court has not fixed a court date.

- **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 totals 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 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. The hearing in the given matter will take place on October 2006.

- **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:

Jaani Männik	-	Chairman of the Management Board
Hille Vörk	-	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 III Quarter and the first nine months 2006 as set out on pages 3 to 33.

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 view 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>
Jaan Männik	<i>Chairman of the Board</i>	
Hille Vörk	<i>Member of the Board</i>	

Tallinn, 25 October 2006