Consolidated
Interim Report of
AS Eesti Telekom
for the IV Quarter and
whole 2006 year

7 February 2007

EESTI TELEKOM

AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2006 YEAR

Beginning of the financial year	1 January 2006
End of the reporting period	31 December 2006
Name of the company	**AS Eesti Telekom**
Registration number	10234957
Address	Roosikrantsi 2, 10119 Tallinn Estonia
Telephone	+ 372 631 12 12
Facsimile	+ 372 631 12 24
E-mail	mailbox@telekom.ee
Web-page	www.telekom.ee
Field of activity	providing services in the field of telecommunications
Auditor	AS PricewaterhouseCoopers

EESTI TELEKOM

CONTENTS OF AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2006 YEAR

EESTI TELEKOM

AS EESTI TELEKOM CONSOLIDATED INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2006 YEAR

MOST SIGNIFICANT FINANCIAL INDICATORS

	Q4 2006	Q4 2005	Change, %	**12M 2006**	12M 2005	Change, %
Net sales, million EEK	**1,551**	1,398	11.0	**5,765**	5,159	11.7
EBITDA, million EEK	**513**	502	2.0	**2,201**	2,151	2.4
EBITDA margin, %	**33.1**	35.9		**38.2**	41.7	
EBIT, million EEK	**394**	305	29.5	**1,658**	1,398	18.6
EBIT margin, %	**25.4**	21.8		**28.8**	27.1	
EBT, million EEK	**404**	314	28.8	**1,699**	1,436	18.3
Net profit for period, million EEK	**404**	314	28.8	**1,326**	1,088	21.9
EPS, EEK	**2.91**	2.27	28.0	**9.58**	7.88	21.5
CAPEX, million EEK	**219**	238	-8.0	**771**	586	31.7
Net gearing, %	**-33.5**	-41.2				
ROA, %	**28.8**	24.4				
ROE, %	**43.4**	36.7				

CHAIRMAN'S STATEMENT

Financial Results

Sales revenues, operating expenses and profit

Financial results of the last quarter of 2006 were affected by several circumstances. One of them was an end to the effect of adding the new subsidiaries, AS MicroLink Eesti and AS MicroLink. The given enterprises were acquired by Elion Enterprises on 31 October 2005. Therefore, the turnover resulting from the acquisition of the enterprises only affected the results for the first month of the last quarter in 2006. Another circumstance is reclassification leasing claims related to some long term DigiTV and Internet access contracts which were done retrospectively in the last quarter of 2006 (look also Elion Group).

The strongest contribution to the increase in sales revenues in the fourth quarter was made by mobile communications. The growth was primarily caused by increased volumes of call minutes. An increasingly discernible positive influence on sale revenues was manifested by mobile data communications—by the end of the year, the number of data communications users had increased to over 110,000. By the end of the year, there were already 15,000 3G users. During the past year, the increase of the client base as a whole was also positive. If, in the first half of 2006, the growth of the client base significantly decelerated, then the situation in the second half changed, and during the year as a whole, 82,000 (net) active SIM cards were added, the same number as in 2005. By the end of the year, Ratemobiil—the special package directed at the users of Rate.ee—had attracted 35,000 clients. AS EMT acquired a 51% share of OÜ Serenda Invest that manages Rate.ee in April of 2006. Currently we can say that the investment decision was correct, since EMT has significantly strengthened its market position among young people and introduced entirely new mobile services to the market.

The sales revenues for fixed communications in the past quarter remained at the same level as the last quarter of 2005. At the same time, changes in the revenue structure continued. Revenues from voice communications also continued to decrease in the fourth quarter. However, the decrease was compensated by revenues in various fields of activity. For one thing, revenues earned from connection services increased. Elion, which entered the television transmission market in 2005, became the preferred provider of digital television transmission during 2006, and the addition of triple-solution clients significantly exceeded the company's own projections. A record number of permanent Internet connection clients were added during the year. On the other hand, sales revenues were added by the provision of IT services which became a separate business activity.

In the fourth quarter of 2006, the group's revenues from the retailing and wholesaling of telecommunications, IT, and TV equipment increased by 51% compared to the same period in 2005. The growth was mainly related to the reclassification of leasing claims.

In the last quarter of 2006, the Eesti Telekom Group operating expenses increased by 16% reaching 1045 million kroons (4th quarter 2005: 904 million kroons). The additional operating expenses are related primarily to increasing volumes of merchandise procured for sale (incl. reclassification of leasing). The second source of growth for operating expenses has been mobile communications, where the increasing minute volumes passing through the network have been accompanied by greater interconnection fees. At the same time, the increase in mobile communications costs has been slowed by an improvement in the clients' payment behavior, which has allowed significantly reduce the provisions made to cover accounts receivable in the last quarter of 2006. Compared to the same period of 2005, the operating expenses for fixed communications have decreased slightly.

Eesti Telekom Group fourth quarter EBITDA increased by 2% compared to the same period in 2005, reaching 513 million kroons (4th quarter 2005: 502 million kroons). The EBITDA margin decreased to 33.1% (4th quarter 2005: 35.9%).

In the fourth quarter, Eesti Telekom Group depreciation was 118 million kroons, which is 40% less than a year earlier (4th quarter 2005: 198 million kroons). The majority of the decrease in depreciation resulted from the implementation 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. The second important factor affecting the drop in depreciation was the moderate investments made during the past year.

The Eesti Telekom Group earned an EBIT of 394 million kroons (4th quarter 2005: 305 million kroons). The group's (net) financial revenues remained at the same level as the same period in 2005, reaching 9 million kroons. The net profit for Eesti Telekom Group in the fourth quarter of 2006 was 404 million kroons (4th quarter 2005: 314 million kroons). The EPS earned was 2.91 kroons (4th quarter 2005: 2.27 kroons).

The consolidated sales revenues for the Eesti Telekom Group in 2006 reached 5,765 million kroons, increasing 12% compared to 2005 (2005: 5,159 million kroons). More than one third the additional sales revenues came from the mobile communications field. For the year, a significant contribution was also made by fixed communications, for which external sales revenues grew by almost 200 million kroons. The principal growth factor was the addition of revenues from new subsidiaries. Sales revenues from trading grew 30% during the year.

In 2006, the group's operating costs expenses 3,621 million kroons (2005: 3,017 million kroons). The majority of the increase in operating expenses is related to the increased volumes of commercial activities. The operating expenses for mobile and fixed communications have also increased by over ten percent.

The consolidated EBITDA for 2006 was 2,201 million kroons (2005: 2,151 million kroons). The EBITDA margin decreased slightly, reaching 38.2% in 2006 (2005: 41.7%). The reason for the decrease in the margin was the greater ratio of fields of activity with lower profitability—IT services and trading—in 2006 sales revenues.

The depreciation in 2006 was 543 million kroons (2005: 753 million kroons). In the past year, the Group earned an EBIT of 1,658 million kroons (2005: 1,398 million kroons). In one year, the financial revenues (net) increased by 3 million kroons reaching 41 million kroons. In 2006, in connection with larger dividends, the amount of income tax paid on dividends also increased by 25 million kroons, reaching 373 million kroons. The Eesti Telekom Group earned a net profit of 1,326 million kroons in 2006 or 9.58 kroons per share (2005: 1,088 million kroons or 7.88 kroons per share).

Balance sheet and cash flows

As of 31 December 2006, the Eesti Telekom Group total assets were 4,816 million kroons (31 December 2005: 4,659 million kroons). In one year, the group's non-current assets increased by 339 million kroons. The growth of the non-current assets is based on greater investments by the group's enterprises this year. During the past year, the current assets decreased by 182 million kroons, whereas the cash and cash equivalents and short-term investment declined by 283 million kroons. The reason for the reduction in cash and short-term investments is a dividend payment that was 138 million kroons larger, increased dividend income tax, and an increase in investments.

As of 31 December 2006, the group's equity was 4,118 million kroons (as of 31 December 2005: 4,040 million kroons). On the one hand, equity was also reduced by the dividend payment that was larger than in 2005. On the other hand, equity was increased by a net profit that was 238 million kroons larger than in 2005.

As of 31 December 2006, the long-term liabilities of Eesti Telekom Group totaled 8 million kroons (as of 31 December 2005: 6 million kroons) and short-term liabilities totaled 654 million kroons (31 December 2005: 598 million kroons). At the end of the year, provisions totaling 36 million kroons had been made. The group's net debt at the end of 2006 was -1,383 million kroons and net gearing was -34% (31 December 2005: -1,663 million kroons and -41%).

In 2006, the cash flow from operations for the Eesti Telekom Group was 1,903 million kroons (2005: 2,006 million kroons). The cash flow into investment activities in 2006 was 764 million kroons (2005: 776 million kroons). In one year, cash flow into the acquisition of tangible and intangible fixed assets increased, reaching 770 million kroons in the past year (2005: 554 million kroons). The cash flow into financial activities was 1,244 million kroons in 2006 (2005: 1,131 million kroons), including 1,242 million kroons (2005: 1,104 million kroons) that was paid out in dividends.

Fixed-communications (Elion Group)

	Q4 2006	Q4 2005	Change, %	**12M 2006**	12M 2005	Change, %
Net sales, million EEK	**804**	725	10.8	**2,927**	2,585	13.2
EBITDA, million EEK	**182**	216	-15.7	**882**	882	0.0
EBITDA margin, %	**22.6**	29.7		**30.1**	34.1	
EBIT, million EEK	**114**	123	-7.4	**583**	495	17.8
EBIT margin, %	**14.2**	17.0		**19.9**	19.1	
EBT, million EEK	**114**	126	-9.3	**592**	511	15.9
Net profit for period, million EEK	**114**	126	-9.3	**473**	385	22.9
CAPEX, million EEK	**104**	174	-40.1	**497**	395	25.8
ROA, %	**20.0**	17.9				
ROE, %	**31.3**	22.7				

One principal factor behind Elion's results is the end of the effect created by the acquisition of MicroLink Eesti. In the last quarter, only the results for October were influenced by the addition of revenues from new subsidiaries.

The second principal factor that strongly influenced the quarterly result is change in accounting principle of equipment leased to customers. In April 2006, Elion came out with its DigiTV offer. Equipment provided to customers signing long-term DigiTV contracts was accounted as operational lease. The same principle was used in case of customers who used the “crazy offer” campaign for signing long-term Internet access contracts. A suggestion was made by the auditors that equipment of the kind should be accounted as finance lease and not as operating lease. At the end of 2006, Elion decided to reclassify the equipment. As a result, net sales of the fourth quarter were increased retrospectively by 61 million kroons. Operating expenses were increased by 101 million kroons (incl. 7 million kroons accounted previously as depreciation). The EBITDA was down by 40 million kroons and net profit by 33 million kroons. As by its essence, reclassification of leasing is a periodization issue, then the decrease in profit in 2006 leads to higher profit in the next years and the total impact on profit will be zero.

If the influence of the acquisition of the MicroLink Group companies and reclassification of lease were deducted from the Elion Group last quarter results for 2006, the increase in sales revenues would have been close to zero.

Of the Elion Group’s principal fields of activity, the fastest growth in the last quarter of 2006 was demonstrated by monthly fees for integrated solutions. This year, the revenues in the given field of activity exceeded the results of the last quarter of 2005 by 78%. The increase was caused by the continued popularity of integrated solutions among the customers. One of the motivating forces is DigiTV that is offered as one component of the triple solution. The technical problems that occurred in the fall of 2006 were solved by the beginning of the last quarter, and by the end of the year, the total of DigiTV subscribers increased to 28,400, by growing by 10,000 during the quarter (30 September 2006: 18,400). During the past quarter, the theme packages offered the customers were supplemented. In November, at the DigiExpo Fair in Tallinn, remote video rental, which enables users to order films and programs directly from the TV screen, was demonstrated to the visitors for the first time. In February 2007, the first HD TV channel in Estonia and the Baltic States, Voom HD should reach the viewers.

During the last quarter, Elion permanent Internet connections achieved the fastest growth rate of the year—15,700 new connections were added during three months. The rapid increase in connections was supported by the acquisition of Norby Telecom’s private client service business by Elion in November of 2006. By the end of 2006, the company had 141,700 permanent connection clients (30 September 2006: 126,000, 31 December 2005: 108,000). Since, in the past year, Elion concentrated primarily on offering integrated solutions, then the revenues from monthly fees earned from connection services decreased by 31%, compared to the last quarter of 2005. In addition to integrated solutions, the decrease was also caused by the increase in the ratio of *Korterimaja* Internet customers in the client base.

The number of Elion voice interfaces[1] remained stable in the last quarter of 2006, and as of 31 December 2006, the company had 463,900 interfaces (30 September 2006: 468,076; 31 December 2005: 458,450). The stabilization of the number of voice interfaces during 2006 was caused by the company’s active efforts to maintain clients and find new customers. Various client segments have also been offered different solutions to meet their needs. Therefore, a campaign for a discount package targeting price-sensitive clients was organized during the last quarter. The addition of new integrated solution users has also added voice interfaces, since telephone connections are a component of both double and triple packages. However, the amount of monthly fees earned from voice communications connections still dropped 12% compared to the same period in 2005, since the ratio of packages with low monthly fees has increased among connections.

In the last quarter of 2006, Elion Group revenues from IT services decreased by 25% compared to the last quarter of 2005. The drop in the fourth quarter was caused by an incorrect intra-company posting of revenue accounts in the third and fourth quarters of 2006. Starting in June, a part of the account settlements related to MicroLink Eesti and Elion Enterprises were incorrectly recognized as external turnover. In November, these transactions were reclassified as internal turnover. Since the entire amount was recognized in fourth quarter revenues, this resulted in a decrease in revenues compared to the same period in 2005.

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

In the fourth quarter of 2006, the decrease in call revenues earned from end consumers continued. Compared to the same period in 2005, the revenues earned from local calls decreased by 16%. The reduction in revenues from local calls is caused primarily by the free calls provided to users of various call or integrated solutions.

The revenues earned from international calls decreased by 18%. The revenues for calls made from fixed-line telephones to mobile networks decreased by 6%. In the last quarter, other voice communications revenues, including revenues earned from interconnection fees and call transit, remained at the same level as the last quarter of 2005.

Elion estimates its market share for call minutes initiated from fixed-line networks to be 83% (December 2006: 85%). The market share of local call minutes 85% (December 2006: 86%), international call minutes, 65% (December 2005: 66%), call minutes made to mobile phones, 70% (December 2005: 72%), and dial-up minutes, 97% (December 2005: 97%).

The Communications Board has disclosed the draft of a resolution for the declaration of undertakings with significant market power in the telephone network interconnection services market for domestic consultation. In the market for call initiation, it is planned to declare only Elion Enterprises as an undertaking with significant market power; while the specific telephone networks Elion, Elisa, Starman, STV, Televõrgu AS, Telset, Tele2, Norby, Top Connect, RIKS, and ViaTel would be declared in the call termination market; and in the transit market, Elion and Elisa would be declared. There are plans to establish obligations for access, non-discrimination, transparency, and price controls, as well as cost accounting for the undertakings with significant market power.

The revenues earned from the retail sales of telecommunications, IT, and TV equipment increased in the last quarter, as is typical of the end of the year. In addition to the seasonal factor, sales were affected by reclassification of leasing.

During the last quarter of 2006, Elion Group operating expenses were 632 million kroons (4th quarter 2005: 509 million kroons). The changes that took place in the components of individual operating costs reflect the developments that took place in sales revenues. Thus, in comparison to the same period in 2005, the greatest increase was in costs related to connection fees. Costs for goods procured for retail sale also were up, compared to the same period in 2005. The main reason for the growth was reclassification of leasing. The rapid growth of wages in Estonia as a whole also affected Elion. The personnel costs in the fourth quarter were 15% higher than in the same period of 2005. At the same time, the number of Elion employees has also increased by 6%. The number of employees has primarily increased in the fastest-growing subsidiaries of the group—Elion Esindus and MicroLink Eesti. Employees were also added in connection with the takeover of the private client business from Norby Telecom. The costs related to Elion call services remained at the same level as the last quarter of 2005. However, the costs related to providing call services to end consumers decreased, although the costs related to interconnection services and call transit increased.

The Elion Group EBITDA in the fourth quarter was 182 million kroons, which was at the same level with the same period of 2005 (4th quarter 2005: 216 million kroons). The EBITDA margin was 22.6%. Elion Group depreciation decreased by 27% on the year to 68 million kroons (4th quarter 2005: 93 million kroons) in the last quarter of 2006. The reduction in depreciation was caused by the implementation of new depreciation norms starting in May of 2006 (the effect on depreciation is approximately -6 million kroons per month). The EBIT of the Elion Group in the fourth quarter was 114 million kroons, which was 9% less than in the last quarter of 2005 (4th quarter 2005: 123 million kroons). The financial revenues (net) in the last quarter of 2006 were 1 million kroons (4th quarter 2005: 3 million kroons). The net profit of the Elion Group in the fourth quarter was 114 million kroons (4th quarter 2005: 126 million kroons).

In the last quarter of 2006, the Elion Group invested 104 million kroons (4th quarter 2005: 174 million kroons). Majority of the investments went into the development of client solutions—expanding the permanent connection network, enabling digital TV reception, and for several cooperation projects designed to improve the communications possibilities of local governments in various parts of Estonia. Almost a quarter of the investments were used to develop the backbone network.

Elion Group sales revenues for 2006 were 13% greater than sales revenues in 2005. As far as the year as a whole, the consolidation of MicroLink Eesti manifested a significant influence on the increase of sales

revenues. For the year, faster growth was also demonstrated by revenues earned from the monthly fees for integrated services, which increased by 68%. Retail sales revenues for merchandise increased by 45%, or more than 150 million kroons. The annual growth of sales revenues from IT services was 25%. During the year, revenues earned from monthly Internet and voice communications connections decreased.

In 2006, the operating expenses of the Elion Group reached 2,099 million kroons (2005: 1,716 million kroons), increasing 23% on the year. Almost half of the additional operating costs resulted from the greater volumes of retail sales merchandise. Other growth factors affecting operating expenses were costs related to personnel and interconnection fees, as well as call transit.

Elion Group EBITDA was 882 million kroons in 2006 (2005: 882 million kroons). The EBITDA margin dropped somewhat, reaching 30.1% in 2006 (2005: 34.1%). The decrease in the margin was caused by an increase in the ratio of fields of activity with low profitability in the turnover. Depreciation dropped during the year by 23% to 299 million kroons (2005: 387 million kroons). During the past year, the Elion Group earned EBIT of 583 million kroons (2005: 486 million kroons). In 2006, Elion EBT was 592 million kroons (2005: 495 million kroons). In connection with the reduction in the income tax rate, the costs for income taxes paid on dividends reached 119 million kroons (2005: 126 million kroons). In 2006, the Elion Group earned a net profit of 473 million kroons (2005: 385 million kroons). During the year, 497 million kroons (2005: 395 million kroons) was invested into fixed assets.

At the end of 2006, the Elion Group employed 1,757 workers (2005: 1,663).

At the beginning of 2007, the litigation between Elion Enterprises and Elion Mobiilsideteenuste AS was resolved. On 5 December 2005, Elisa Mobiilsideteenused filed an action against Elion Enterprises for the payment of unpaid interconnection fees and the penalties calculated thereon in the amount of 11,784 thousand kroons. The reason for the action was the claim that Elion had applied the incorrect call termination fee for the Elisa mobile network. Since, in the period 1 January 2005 to 1 August 2005, an interconnection contract between Elion and Elisa Mobiilsideteenused was lacking, and therefore a contractual price was also lacking, Elion applied the principle of receiving a reasonable price, i.e. payment that includes a reasonable profit. On 15 January 2007, the Harju County Court passed judgment, according to which Elion must pay 10 million kroons to Elisa for the unrealized interconnection fees. Elion had taken into account the possible payment obligation and it will not affect the company's business activities. At the same time, Elion has never disputed the interconnection fees as such, but it did not agree with the amount of the fees. Therefore, Elion is satisfied with the court resolution, which recognized the fact that the interconnection fees demanded by Elisa were too high and assigned a lower price.

Mobile communications (EMT Group)

	Q4 2006	Q4 2005	Change, %	**12M 2006**	12M 2005	Change, %
Net sales, million EEK	**942**	805	17.0	**3,502**	3,079	13.8
EBITDA, million EEK	**340**	292	16.6	**1,346**	1,288	4.5
EBITDA margin, %	**36.2**	36.3		**38.4**	41.8	
EBIT, million EEK	**290**	187	55.6	**1,102**	922	19.6
EBIT margin, %	**30.8**	23.2		**31.5**	30.0	
EBT, million EEK	**294**	189	55.3	**1,115**	931	19.8
Net profit for period, million EEK	**294**	189	55.3	**861**	709	21.4
CAPEX, million EEK	**115**	64	80.7	**274**	191	44.0
ROA, %	**46.9**	38.9				
ROE, %	**78.2**	63.7				

The growth rate of EMT Group sales revenues remained rapid in the last quarter of 2006. Thanks to the

increase in retail sales typical of the end of the year, the growth rate of revenues for the group even increased compared to the third quarter, reaching 17 percent.

The increase of revenues from principal activities is related primarily to an increase in the number of call minutes. In 2006, the number of call minutes initiated from the EMT network increased approximately 20% compared to 2005. The greater number of call minutes, in turn, resulted from an increase in the number of clients, as well as the more active use of call services by the customers.

As of the end of December 2006, AS EMT had 759 thousand active SIM-cards, which is 82 thousand more than at the end of 2005 (31 December 2005: 677 thousand). Throughout the year, the company maintained its 47% market share. The number of contractual clients remained stable throughout the year. During the last quarter, 6 thousand contractual SIM-cards were added; as of 31 December 2006, the number of active cards had increased to 433 thousand (31 December 2005: 406 thousand).

If, as far as pre-paid cards, the beginning of 2006 started passively, and the first half of the year ended with a decline in the number of active SIM-cards, then at the end of summer, the negative trend reversed and the number of pre-paid cards again started an increase, which continued until the last quarter of the year. During the fourth quarter, 32 thousand active pre-paid cards were added and the total number of cards grew to 326 thousand (31 December 2005: 271 thousand). The principal portion of the growth in the number of pre-paid cards again resulted from Ratemobiil. On April 5, 2006, 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. In the summer of 2006, AS EMT introduced *Ratemobiil*, a special mobile package oriented to Rate.ee users, which, by the end of the year, had already acquired tens of thousands of users. A discount campaign by Simpel, EMT's oldest pre-paid card, has become a tradition at the end of the year, and at the end of this year, attracted thousands of new customers for the service. Based on the rapid increase in the number of pre-paid cards in the second half of 2006, the ratio of pre-paid cards among the total number of active EMT cards also increased, reaching 42% by the end of December (31 December 2005: 39%).

In addition to the increase in the client base, the number of call minutes used per client also increased. Despite the fact that the average rate per minute in the Estonian market continued to drop, the increase in the client base and number of call minutes compensated for the drop in rates, and the revenues earned from domestic call services (including the fees for packages that allow for a certain number of call minutes for a monthly fee) increased in the fourth quarter by 4% compared to the same period in 2005.

Together with the increase in the number of call minutes initiated from the EMT network, the number of terminated minutes in the EMT network has also increased at approximately the same rate. Since the litigation between the Communications Board and mobile communications operators Elisa Mobiil and Tele2 Eesti regarding declaring the given operators undertakings with significant power continued throughout the fourth quarter of 2006, the termination fees of all the operators remained unchanged at 2.50 kroons per minute. Therefore, the increase in the number of terminated call minutes was accompanied by a significant, over 10%, increase in interconnection revenues.

An increase in the number of mobile messages has been traditional for the fourth quarter and end of the year. At the end of 2006, the increase was especially brisk, and the number of SMS messages more than doubled, and the number of MMS messages grew by over 25%. Since Ratemobiil clients could still send messages for free during the fourth quarter, then the increase in revenues earned from messages in the fourth quarter of 2006, remained more modest than the same period in 2005, while still reaching 19%.

In December 2006, AS EMT earned revenues of 320 kroons per customer (September 2006: 339 kroons, December 2005: 324 kroons). The average monthly revenue per customer in 2006 was 332 kroons, which is 1% less than in 2005.

The fourth quarter was also successful for EMT Esindused and MWS, the companies in the EMT Group that

deal with the sale of merchandise. Compared to the last quarter of 2005, sales revenues increased by 44%, and increases took place in sales to both retail consumers and other companies in the Eesti Telekom Group.

EMT Group operating expenses in 2006 remained modest compared to previous quarters, reaching 16%. One of the factors that caused a more modest increase in operating costs in the fourth quarter was the reduction in the seasonality of marketing activities. If, in 2005, numerous marketing campaigns and discount sales took place in the last quarter, in 2006, these were spread more evenly throughout the year, and therefore, a sharp increase in marketing costs did not occur in the last quarter.

The other circumstances that affected the increase of operating expenses were the adjustment of provisions and reserves at the end of the year. During 2006, the customers' payment behavior improved significantly, whereby the provision for doubtful debts was reduced. If, in the last quarter of 2005, the reserve for employees' bonuses in the EMT Group was increased in connection with the improved financial results at the end of the year, then the 2006 results were more in line with the company's projections, whereby the provisions for the bonus reserve was more even distributed over the year and an increase at the end of the year did not occur.

The sales revenues and operating costs grew at the same rate, and also brought the EBITDA to a 17% increase. The EBITDA for the fourth quarter of 2006 was 340 million kroons (4th quarter 2005: 292 million kroons). The EBITDA margin in the fourth quarter was 36.2%, which was the same level as the margin for the fourth quarter of 2005. The aforementioned change in provisions also had a significant influence on maintaining the level of the margin, as opposed to the previous quarters of 2006.

EMT Group depreciation declined by 52% in the fourth quarter of 2006, reaching 50 million kroons (4th quarter 2005: 105 million kroons). Starting in May of 2006, the EMT Group implemented new depreciation rates, the influence of which is approximately -5 million kroons per month. The EMT Group EBIT increased in the fourth quarter by 56%, reaching 290 million kroons (4th quarter 2005: 187 million kroons). In the last quarter, the group earned financial revenues (net) of 4 million kroons (4th quarter 2005: 3 million kroons). EMT Group net profit was 294 million kroons (4th quarter 2005: 189 million kroons).

The EMT Group invested 115 million kroons in the last quarter of 2006 (4th quarter 2006: 64 million kroons). The principal portion of the investments went into the expansion of the 2G and 3G networks and guaranteeing service quality even under conditions of rapid user growth. During the last quarter, in compliance with the requirements of the International Financial Reporting Standards, a 19-million-kroon reserve was established to cover possible expenses to restore the rented land under operator towers after the end of the rental period.

The EMT Group sales revenues increased by 14% in 2006 compared to 2005. For the year, the greatest additional revenues were received from interconnection services, domestic calls, and the sale of merchandise. The group's operating costs increased by 20%. The increase in operating costs resulted primarily from the increase in procurement costs of merchandise, and increases in interconnection and roaming fees. In 2006, the EMT Group earned EBITDA of 1,346 million kroons, which was 5% more than 2005 (2005: 1288 million kroons). The EBITDA margin decreased in a year from 42.8% to 38.4%. The decrease in the margin was caused by the increase in the ratio of commercial activities with a lower profitability than principal activities in the consolidated sales revenues. EMT Group depreciation declined by 33% during the year. The decline was caused by the implementation of new depreciation rates as well as the modest investments made during previous years. Thanks to a strong financial position, EMT Group financial revenues (net) in 2006 reached 13 million kroons (2005: 10 million kroons). Due to larger dividends paid by the parent company, the income tax amount increased in 2006, reaching 254 million kroons (2005: 221 million kroons). The EMT Group earned a net profit of 861 million kroons (2005: 709 million kroons). During the year, 274 million kroons (2005: 191 million kroons) was invested in fixed assets.

At the end of 2006, EMT Group employed 551 workers (2005: 507).

Ownership structure of AS Eesti Telekom

In the fourth quarter of 2006, the participation of Deutsche Bank Trust Company in AS Eesti Telekom dropped below 10% (10.01% at the end of the third quarter 2006). The Deutsche Bank Trust Company represents the accounts of owners of AS Eesti Telekom GDRs listed on the London Stock Exchange.

On 11 November 2006, the Riigikogu passed the Estonian Development Fund Act. The goal of the Development Fund is to stimulate and support changes in the Estonian economy that should help to update the economy, guarantee the growth of exports, and create new jobs that require high qualifications. Upon its establishment, the Development Fund will be given at least 3% of the AS Eesti Telekom shares that belong to the state. The Development Fund may use the resources received from dividends or from the sale of the shares for investment activities. As of 31 December 2006, the AS Eesti Telekom shares had not been transferred to the Development Fund.

As of the end of 2006, 19.1% of the AS Eesti Telekom shares could be freely traded. Almost half the freely tradable shares had been converted to GDRs.

AS of 31 December 2006, the 10 largest shareholders in AS Eesti Telekom were:

	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	12,505,821	9.0652%
Skandinaviska Enskilda Banken AB clients	2,238,107	1.6224%
ING Luxembourg S.A.	1,491,330	1.0810%
Morgan Stanley Co International Equity clients	1,191,442	0.8636%
Danske Bank clients	1,017,063	0.7372%
Trigon New Europe Small Cap Fund	645,240	0.4677%
Bank Austria Creditanstalt AG clients	579,526	0.4201%
The Northen Trust Company	470,000	0.3407%

On 6 February, an extraordinary general meeting of the AS Eesti Telekom shareholders took place. Baltic Tele AB applied for the convening of the general meeting in connection with internal structural changes in its parent company, TeliaSonera AB. The given structural changes caused changes in the work assignments of some of the Supervisory Board members of AS Eesti Telekom who are employed by TeliaSonera AB, whereby the Supervisory Board members' performance of their duties might be rendered difficult. Therefore, Baltic Tele AB applied to have the given individuals replaced on the AS Eesti Telekom Supervisory Board.

The extraordinary shareholders' general meeting resolved the following: to recall AS Eesti Telekom Supervisory Board members, Erik Hallberg, Bengt Andersson, and Hans Tuvehjelm; to consider the given individuals as being recalled and their authorizations terminated as of the passing of the resolution; to elect Terje Christoffersen, Jörgen Latte, and Anders Gylder as new members of the AS Eesti Telekom Supervisory Board; to consider the given individuals to be elected and the term of the Supervisory Board member's authorization to be valid from the passing of the resolution to 18 May 2007.

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 INTERIM REPORT FOR THE IV QUARTER AND WHOLE 2006 YEAR

CONSOLIDATED QUARTERLY DATA

In million of Estonian kroons (EEK)

	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
Sales	1 397,6	1 327,0	1 424,6	1 461,9	1 551,1
OPEX	(904,9)	(810,1)	(888,1)	(877,0)	(1 045,4)
Other revenue/expenses, net	9,7	3,8	44,7	1,8	7,0
EBITDA	502,5	520,6	581,2	586,7	512,7
Depreciation and amortisation	(197,8)	(169,8)	(133,1)	(121,9)	(118,2)
EBIT	304,7	350,9	448,1	464,8	427,6
Income / expenses from associates	(0,1)	(0,1)	1.6	0,1	(1,4)
Other net financing items	9,0	10,6	12,5	7,0	10,7
Profit before tax	313,6	361 ,4	462,2	471,8	403,8
Income tax on dividends	0,0	0 ,0	(373,4)	0,0	0,0
Net profit for the period	313,6	361 ,4	88,8	471,8	403,8
Minority interest	0,2	0 ,0	0,0	2,1	2,5
EBITDA margin, %	35,9%	39,2%	40,8%	40,1%	33,1%
EBIT margin, %	21,8%	26,4%	31,4%	31,8%	25,4%
Net margin, %	22,4%	27,2%	6,2%	32,3%	26,0%
Total assets	4 659,5	4 892,5	4 252,4	4 314,0	4 816,5
- Non-current assets	2 047,7	2 014,4	2 148,1	2 237,8	2 386,7
- Current assets	2 611,8	2 878,1	2 104,3	2 076,2	2 429,7
- Cash and cash equivalents and short-term investments	1 672,2	1 956,1	1 085,7	1 042,5	1 389,3
Equity and liabilities	4 659,5	4 892,5	4 252,4	4 314,0	4 816,5
- Equity	4 040,5	4 401,9	3 249,6	3 718,9	4 117,9
- Provisions	15,6	13,1	12,8	11,3	36,2
- Non-current liabilities	5,8	5,0	14,7	9,0	8,2
- Interest-bearing borrowings	5,8	3,9	4,6	3,8	3,6
- Current liabilities	597,6	472,5	975,2	572,3	654,1
- Interest-bearing borrowings	3,2	1,8	3,0	2,8	2,2

IV QUARTER CONSOLIDATED INCOME STATEMENT

In thousand of Estonian kroons (EEK)

	IV Quarter 2006	**IV Quarter 2005 Restated**
Net sales	1,551,095	1,397,631
Cost of production	(921,080)	(842,168)
Gross profit	**630,015**	**555,463**
Sales, administrative, and research & development expenses	(242,519)	(260,457)
Other operating revenues and expenses	6,978	9,708
Operating profit	**394,474**	**304,714**
Net income / (expenses) from associated companies	(1,424)	(102)
Other net financial items	10,749	9,020
Net profit for the period	**403,799**	**313,632**
Attributable to:		
Equity holders of the parent	401,301	313,632
Minority interest	2,498	-
	403,799	**313,632**
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EEK per share)		
Basic earnings per share	2.91	2.27
Diluted earnings per share	2.91	2.27
EBITDA	**512,651**	**502,483**
Depreciation, amortization and write-downs	(118,177)	(197,769)

CONSOLIDATED 2006 INCOME STATEMENT

In thousand of Estonian kroons (EEK)

	2006	2005 Restated
Net sales	5,764,583	5,159,372
Cost of production	(3,254,730)	(2,958,334)
Gross profit	**2,509,853**	**2,201,038**
Sales, administrative, and research & development expenses	(908,854)	(811,991)
Other operating revenues and expenses	57,237	8,806
Operating profit	**1,658,236**	**1,397,853**
Net income / (expenses) from associated companies	193	452
Other net financial items	40,818	37,790
Profit before tax	**1,699,247**	**1,436,095**
Income tax on dividends	(373,377)	(348,517)
Net profit for the period	**1,325,870**	**1,087,578**
Attributable to:		
Equity holders of the parent	1,321,306	1,087,416
Minority interest	4,564	162
	1,325,870	**1,087,578**
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EEK per share)		
Basic earnings per share	9.58	7.88
Diluted earnings per share	9.58	7.88
EBITDA	**2,201,189**	**2,150,594**
Depreciation, amortization and write-downs	(542,953)	(752,741)

CONSOLIDATED BALANCE SHEET

In thousand of Estonian kroons (EEK)

	31 December 2006	31 December 2005
ASSETS		
Non-current assets		
Property, plant and equipment	2,034,403	1,833,916
Intangible fixed assets	214,046	166,688
Investments in associates	17,247	2,951
Other financial fixed assets	121,036	44,194
Total non-current assets	**2,386,732**	**2,047,749**
Inventories	142,692	86,870
Trade and other receivables	887,363	836,945
Short-term investments	1,064,859	1,266,638
Cash and cash equivalents	324,405	405,548
Total	**2,419,319**	**2,596,001**
Assets classified as held-for-sale	10,402	15,749
Total current assets	**2,429,721**	**2,611,750**
TOTAL ASSETS	**4,816,453**	**4,659,499**
EQUITY AND LIABILITIES		
Capital and reserves attributable to equity holders of the parent		
Share capital	1,379,545	1,379,545
Share premium	356,018	356,018
Statutory legal reserve	137,955	137,955
Retained earnings	918,012	1,078,403
Net profit for the period	1,321,306	1,087,416
Total capital and reserves attributable to equity holders of the parent	**4,112,836**	**4,039,337**
Minority interest	5,030	1,160
Total equity	**4,117,866**	**4,040,497**
Provisions		
Provisions for pension	8,777	7,791
Other provisions	27,427	7,821
Total provisions	**36,204**	**15,612**
Interest-bearing liabilities		
Long –term liabilities	3,124	5,773
Short-term liabilities	2,742	3,173
Total interest bearing liabilities	**5,866**	**8,946**
Non-interest-bearing liabilities		
Long-term liabilities	5,152	-
Current liabilities	651,365	594,444
Total non-interest-bearing liabilities	**656,517**	**594,444**
Total liabilities	**662,383**	**603,390**
TOTAL EQUITY AND LIABILITIES	**4,816,453**	**4,659,499**

CONSOLIDATED CASH FLOW STATEMENT

In thousand of Estonian kroons (EEK)

	2006	2005
Operating activities		
Net profit for the period	1,325,870	1,087,578
Adjustments for:		
Depreciation, amortisation and impairment of fixed and intangible assets	542,953	752,741
(Profit) / loss from sales and discards of fixed assets	(44,022)	(7,564)
Net (income) / expenses from associated companies	(193)	(452)
Provisions	20,150	4,015
Financial items	17,898	67,432
Income tax on dividends	4	(53)
Miscellaneous non-cash items	(10,166)	(18,971)
Cash flow before change in working capital	**1,852,494**	**1,884,726**
Change in current receivables	43,537	(22,384)
Change in inventories	(55,782)	39,166
Change in current liabilities	62,353	104,428
Change in working capital	**50,108**	**121,210**
Cash flow from operating activities	**1,902,602**	**2,005,936**
Investing activities		
Intangible and tangible fixed assets acquired	(769,868)	(553,924)
Intangible and tangible fixed assets divested	49,599	17,563
Shares, participations and operations acquired	(96,993)	(294,052)
Shares, participations and operations divested	-	233,780
Net change in interest-receivables short maturities	220,506	(87,660)
Loans granted	(179,621)	(94,877)
Repayment of loans granted	12,060	2,715
Cash flow from investing activities	**(764,317)**	**(776,455)**
Cash flow before financing activities	**1,138,285**	**1,229,481**
Financing activities		
Proceeds from non-convertible debts	-	2,073
Repayment of borrowings	-	(13,836)
Repayment of finance lease liabilities	(2,106)	(15,719)
Dividends paid	(1,241,591)	(1,103,816)
Cash flow used in financing activities	**(1,243,697)**	**(1,131,298)**
Cash flow for the year	**(105,412)**	**98,183**
Cash and cash equivalents at beginning of year	**430,393**	**331,359**
Cash flow for the year	(105,412)	98,183
Effect of foreign exchange rate changes	(576)	851
Cash and cash equivalents at end of period	**324,405**	**430,393**

STATEMENT OF CHANGES IN OWNERS' EQUITY

In thousand of Estonian kroons (EEK)

	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	**1,379,545**	**356,018**	**137,645**	**1,188,781**	**993,568**	**4,055,557**	**-**	**4,055,557**
Net profit for the 2004 transferred to retained earnings	-	-	-	993,568	(993,568)	-	-	-
Amounts transferred to reserves	-	-	310	(310)	-	-	-	-
Dividends paid	-	-	-	(1,103,636)	-	(1,103,636)	-	(1,103,636)
Minority interest arising on business combinations	-	-	-	-	-	-	998	998
Total changes	*-*	*-*	*310*	*(110,378)*	*(993,568)*	*(1,103,636)*	*998*	*(1,102,638)*
Net profit for the period	-	-	-	-	1,087,416	1,087,416	162	1,087,578
31 December 2005	**1,379,545**	**356,018**	**137,955**	**1,078,403**	**1,087,416**	**4,039,337**	**1,160**	**4,040,497**
Net profit for the 2005 transferred to retained earnings	-	-	-	1,087,416	(1,087,416)	-	-	-
Adjustments to retained earnings	-	-	-	(7,376)	-	(7,376)	-	(7,376)
Dividends paid	-	-	-	(1,241,591)	-	(1,241,591)	-	(1,241,591)
Minority interest arising on business combinations	-	-	-	1,160	-	1,160	(694)	466
Total changes	*-*	*-*	*-*	*(160,391)*	*(1,087,416)*	*(1 ,247,807)*	*(694)*	*(1,248,501)*
Net profit for the period	-	-	-	-	1,321,306	1,321,306	4,564	1,325,870
31 December 2006	**1,379,545**	**356,018**	**137,955**	**918,012**	**1,321,306**	**4,112,836**	**5,030**	**4,117,866**

MANAGEMENT BOARD'S CONFIRMATION

The Management Board confirms the correctness and completeness of the consolidated financial statements of AS Eesti Telekom Group for the IV quarter and whole 2006 year as set out on pages 3 to 19.

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, February 6, 2007