Consolidated and Parent Company Annual Accounts of AS Eesti Telekom 2003

ANNUAL REPORT

Beginning of the financial year	1 January 2003
End of the financial year	31 December 2003
Name of the enterprise	**AS Eesti Telekom**
Registration number	10234957
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Web-page	www.telekom.ee
Field of activity	Investments into other companies operating in the field of telecommunications and management and administration of such investments
Auditors	AS Deloitte & Touche Audit

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BOARD DECLARATION

The Management Board has prepared AS Eesti Telekom (hereinafter also "Parent") and AS Eesti Telekom and its subsidiaries ((hereinafter also "Group") management report and the annual accounts for the financial year ended on 31 December 2003.

The annual accounts have been prepared according to the International Financial Reporting Standards (IFRS), and present a true and fair view of the financial position, economic performance and cash flows of the Parent and the Group.

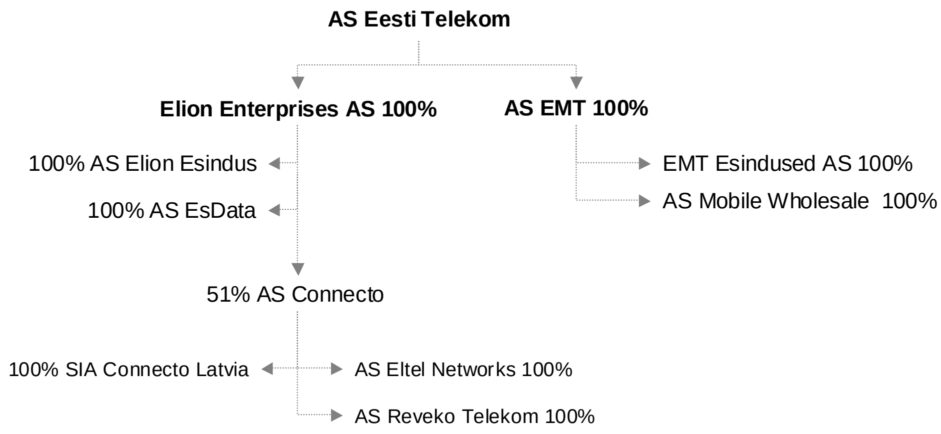
Preparation of the annual accounts according to the IFRS involves estimates made by the Management Board on the Parent's and Group's assets and liabilities as of the balance sheet date, and on income and expenses during the financial year. These estimates are based on the up-to-date information about the state of the Parent and the Group and consider the plans and risks as at the date of the financial statements' preparation. The actual results of the business transactions recorded may differ from those estimates.

The significant circumstances that have effect on the valuation of assets and liabilities until preparation of the annual accounts on 18 February 2004 are taken into consideration.

The Management Board considers AS Eesti Telekom and its subsidiaries to carry their activities as going concerns.

Name	*Position*	*Signature*	*Date*
Jaan Männik	*Chairman of the Board*	…………………	…..………………..
Krister Björkqvist	*Member of the Board*	……………………	…..………………..

The consolidated statements of AS Eesti Telekom for 2003 cover the financial results of the following companies:



Changes in the corporate structure of the Eesti Telekom Group

During 2003, several changes took place in the corporate structure of the Eesti Telekom Group.

On 18 June 2003, a 49% minority share in AS Connecto was sold to Eltel Networks Corporation, a Finnish telecommunications network development firm. The transaction price was 4.4 mln EUR, and the capital gain declared was 3.8 mln EUR. Eltel Networks Corporation has the right to acquire 51% of the company shares in 2005. The involvement of a strategic partner accelerates the expansion of AS Connecto into the other two Baltic States. This sale also enables the parent company to focus on its core business, which is providing of telecommunications and IT services.

On 30 June 2003, AS Eesti Telefon changed its business name to Elion Enterprises AS. Its subsidiary company, AS Telefonipood, changed its name to AS Elion Esindus. A reason for the adoption of the new names was the increasing ratio of new business areas – Internet, data communications and IT – compared to the traditional fixed line services.

On 3 July 2003, AS Connecto acquired all of the shares of AS Reveko Telekom. 55% of the shares were purchased from TeliaSonera AB, and 45% from Estonian private persons. The price of the deal was 0.9 mln EUR. AS Reveko Telekom was founded in 1995. The firm specialises in various aspects of indoor telecommunications: the sales and installation of telephone relays and communications systems, the construction of computer and telephone networks, the design and installation of low current systems, and operating services. The aim of the acquisition was to strengthen the position of AS Connecto in strategic business areas.

On 31 October 2003, AS Connecto bought 100% of the shares of an Estonian company AS Eltel Networks from the Finnish company Eltel Networks Corporation. The price of the transaction was 0.7 mln EUR. AS Eltel Networks was founded in 1999, and its main area of business is the construction of electrical and telecommunication networks.

On 25 November 2003, AS Esmofon changed its name to EMT Esindused AS.

On 3 December 2003, Elion Enterprises AS acquired all of the shares of the associated company AS EsData, which offers data communication and Internet services. In accordance with the purchase and sale agreement, Elion Enterprises AS purchased 70% of the shares of AS EsData from TeliaSonera AB for 0.4 mln EUR. Prior to the deal, Elion Enterprises AS owned 30% of the shares of AS EsData. The aim of the acquisition was to consolidate the Elion Group's data communication and Internet services, and to increase the synergy between the two companies in both network management and customer service.

On 18 December 2003, a merger agreement between AS Eltel Networks and AS Connecto was signed. The merger supports the company's development plans, that foresee combining the resources and know-how in the field of electrical and telecommunication networks, which provides an opportunity to offer integrated network solutions for customers. After the merger, the company's name will be changed to be AS Eltel Networks. The merger shall be completed by spring 2004, when the entry will be made into the Commercial Register.

On 12 January 2004, AS Connecto signed an agreement for the purchase of 100% of the shares of the Lithuanian company UAB Lidivos Technologijos. The transaction price is 0.3 mln EUR. The primary activity of the company acquired is the installation and maintenance of low-current and security systems. The concluded transaction will support the expansion of the activities of AS Connecto in the Baltic region.

Eesti Telekom Group

Revenues, expenses, and profits

The consolidated revenues of the Eesti Telekom Group for the year 2003 amounted to 307.3 mln EUR, up by 5%, compared to 2002. The 2002 consolidated revenues included a non-recurring item, a 4.0 mln EUR capital gain from the sale of real estate. With the elimination of this gain from the revenues of the base-period, the revenue growth would be 7%.

Mobile communications continued to make the largest contribution to revenue growth. Non-core activities – construction and trade – increased at a fast pace. The acquisition of two new subsidiaries in 2003 supported the growth of the construction segment. The year was successful for fixed data communications. However, the increase in the Internet and data communication revenues did not fully compensate the decrease in voice communications, and the total revenue from fixed communications was slightly down.

The non-core activities of the Eesti Telekom Group, as well as the data communications sphere, are characterised by lower margins than the traditional telecommunication services. Revenue growth in the new spheres of activity was accompanied by the growth in operating expenses. The operating expenses of 2003 were 172 mln EUR, up by 11%. The EBITDA of the Eesti Telekom Group was 135.3 mln EUR, down by 1% compared to 2002. The EBITDA margin was 44%. The elimination of the abovementioned non-recurring item from the revenues of 2002 would make the EBITDA growth to be 2%.

The depreciation charge of the Eesti Telekom Group in 2003 amounted to 56.3 mln EUR, down by 7.7mln EUR or by 12%, compared to 2002.

The net financial result of 2003 was 5.7 mln EUR. Financial revenues of the year include a 3.8 mln EUR capital gain from the sale of 49% of the shares of AS Connecto. The net interest revenue of the Group, in 2003, was 2.3 mln EUR (2002: 1.1 mln EUR).

The net profit of the Eesti Telekom Group in 2003 was 66.2 mln EUR or 0.48 EUR per share (2002: 66.5 mln EUR or 0.48 EUR per share). The net profit of 2003 was affected by an amendment in the taxation regulations, which became effective in 2003. In 2002, the dividend tax applied only to dividend payments to private individuals and non-resident legal entities, but in 2003, the dividend tax became effective for all dividend payments. Thus, for the Eesti Telekom Group, this amendment, together with a higher dividend payout, brought with it a significant increase in the dividend tax that had to be paid. The dividend tax, in 2003, amounted to 18.3 mln EUR, up by 12.4 mln EUR, compared to 2002.

Balance sheet and cash flows

At the end of December 2003, the total assets of the Eesti Telekom Group amounted to 293.9 mln EUR (2002: 284.0 mln EUR). Non-current assets were reduced, from the beginning of the year, by 20.3 mln EUR. Current assets were increased by 30.2 mln EUR. This increase was mainly the result of an increase in cash and cash equivalents (bank accounts, units of money-market funds) by 27.9 mln EUR. By the end of 2003, the net debt of the Group amounted to –86.8 mln EUR, and net gearing was –33% (2002: -58.5 mln EUR and –23%).

The net operating cash flows of the Eesti Telekom Group in 2003 amounted to 109.2 mln EUR, including a payment of dividend tax in the amount of –18.3 mln EUR (2002: 121.2 mln EUR, including a dividend tax of –5.8 mln EUR). Cash outflows into investments amounted to –27.6 mln EUR (2002: -35.3 mln EUR). The investing cash flows were affected by a 4.4 mln EUR cash inflow from the sale of the minority ownership in AS Connecto, a 4.5 mln EUR payment for the UMTS licence, and by a large investment into improving the quality of the GSM-network that AS EMT made in the fourth quarter of 2003. The cash outflows into financing were –53.6 mln EUR, including 52.7 mln EUR paid as dividends (2002: -54.7 mln EUR, including 48.3 mln EUR paid as dividends).

Return on assets (ROA) and return on equity (ROE) continued to be very high. ROE increased from the previous year's 30% to 33%. The ROA decreased from 24% to 23%, mostly due to the large portion of cash and cash equivalents, and the low interest returns on those assets.

Management and personnel
As of 31 December 2003, there were 2,452 employees in the Eesti Telekom Group (31 December 2002: 2,412). An increase in the number of employees was caused by the acquisition of new subsidiaries. The total amount of employees' salaries was 24.8 mln EUR.

The number of employees of AS Eesti Telekom, the parent company of the Eesti Telekom Group, as of 31 December 2003, was 8 (31 December 2002: 7). The overall amount of employees' salaries was 0.4 mln EUR.

Elion Group
The Elion group consists of Elion Enterprises AS, AS Elion Esindus, AS EsData, AS Connecto, AS Reveko Telekom, AS Eltel Networks and SIA Connecto Latvia.

The consolidated revenues of the Elion Group, in 2003, amounted to 164.8 mln EUR, up by 1%, compared to 2002. The consolidated revenues of 2002 contain a non-recurring capital gain from the sale of real estate in the amount of 4.0 mln EUR. The elimination of this capital gain would make the revenues of 2003 3% higher than the revenues of 2002.

This revenue growth was the result of various circumstances. The Elion Group acquired several new subsidiaries in 2003 – AS Reveko Telekom, AS Eltel Networks, and AS EsData (an associated company of the Group until December 2003). Revenues from non-core activities, construction (the Connecto Group), and retail sales (AS Elion Esindus) were substantially up. The revenue from voice communications was down. The revenue from domestic calls decreased by 12%, compared to 2002. The revenue from international calls was down by 9%, and the revenue from calls into mobile networks was down by 5%. The revenues from phone installations and monthly fees were down by 5%. Voice communication revenue, as a percentage of the total revenues of the Group, was down from 60% (excl. non-recurring items) at the end of 2002, to 56% at the end of 2003.

The Internet and dial-up revenues increased at a fast pace. The revenues of 2002 were exceeded by 23%. This increase was the result of the new permanent connections made during 2003, while the number of dial-up customers kept falling. Expansion of wireless Internet continues, in the fourth quarter of 2003, Elion Enterprises AS rolled out wireless hotspots in all Neste A24 service stations. The total number of Elion's wireless hotspots more than doubled during the year. At the end of the year, a new Internet content service "ITV" was launched. ITV makes it possible to watch TV programs, via Internet, at any time convenient for the customer. ITV is a digital media archive consisting of the best programs and movies made in Estonia, plus the latest news and sports.

The revenues from IT and data communications were up by 33%. Elion Enterprises AS successful participation in state tenders has contributed to this increase. In May 2003, the Tallinn Education Authority and Elion Enterprises AS signed a framework agreement concerning the installation of new computers and other equipment into the computer classes of Tallinn schools. The total value of the procurement amounts to more than 4.0 mln EUR. In the fourth quarter of 2003, Elion Enterprises AS won the tender of the Tallinn Education Authority for the procurement of 139 laptop computers for Tallinn's schools. The company also signed a procurement agreement with the Tallinn Education Authority for the installation of 170 PC's in Tallinn's schools and kindergartens. Internet and data communication revenues, as a percentage of the total revenues of the Group, were up, from 17% (excl. non-recurring items) at the end of 2002 to 21% at the end of 2003.

The revenues from network services were down by 6%, compared to 2002. The network services revenues, as a percentage of the total revenues, was down, from 18% to 16%.

The operating expenses of the year were up by 7%, amounting to 109.4 mln EUR. This increase of the operating expenses was the result of the acquisition of new subsidiaries, and the higher volumes of construction and trading activities. The operating expenses were also affected by the launching of a new brand name. On 18 August 2003, Elion Enterprises AS introduced the new brand name of *Elion*. *Elion* replaced the former brand names *Eesti Telefon*, *et*, *Hot*, *Hallo*, and *Atlas*. One objective of the change was to make the obtaining of services from, and communicating with the company easier for the customer. Elion Enterprises AS rearranged its portfolio to customers' needs by making a distinction between household, business, and corporate customers. Already starting this year, the company also "entertains" its customers by launching Internet access to TV, movies, computer games, and music. Operating expenses related to launching the new brand name amounted to approximately 0.5 mln EUR.

The EBITDA of the Group was 55.3 mln EUR, and the EBITDA margin was 34%. Depreciation of the Elion Group in 2003 was down by 7.4 mln EUR or 18%, compared to 2002. This decline is largely the result of the revised depreciation rates at the beginning of 2003 (the monetary value of the change being –6.4 mln EUR). The new rates are more differentiated by asset groups than the ones used in prior years. The useful lifetime of the various categories of tangible assets is more accurate. In addition, depreciation charges decline as a result of the relatively low CAPEX that the Group has had during the past years, compared to earlier periods. The Elion Group invested 14.3 mln EUR during 2003 (2002: 21.3 mln EUR; 2001: 31.6 mln EUR).

The net financing items of the Group was 3.8 mln EUR (2002: -1.2 mln EUR). The financial revenues of the year include a 3.8 mln EUR capital gain from the sale of 49% of the shares of AS Connecto. The interest expenses of the Group were down by 1.2 mln EUR. As a result of amendments in the regulations concerning income taxation, the Group declared a dividend income tax expense of 4.3 mln EUR. The net profit of the Elion Group, for 2003, was 20.3 mln EUR, up by 11%, compared to 2002.

The number of main lines in use at the end of December was 444,661 (a penetration of 32.8 lines per 100 persons). The net decrease in the number of main lines, since the beginning of 2003, was 15,600. Private individuals mainly caused this decrease. The number of main lines used by corporate customers increased during 2003. The total number of Internet permanent connections was 50,841 at the end of December 2003. The total number of ADSL connections was 49,448 (3.7 connections per 100 people). The net increase in the number of ADSL connections, since the beginning of 2003, was 19,000.

The market shares of Elion Enterprises AS have been stable. The company estimates its share of total call minutes to be 87% (2002: 89%). The estimated market share of domestic call minutes, international call minutes, and fixed to mobile call minutes are 87% (2002: 88%), 67% (2002: 70%), and 76% (2002: 75%) respectively. The estimated market share of dial-up minutes is 95% (2002: 95%).

On 31 December 2003, 2,014 people were employed by the Elion Group (31 December 2002: 1,999). The overall amount of the Elion Group employees' salaries was 18.5 mln EUR.

EMT Group

The EMT Group consists of AS EMT, EMT Esindused AS and AS Mobile Wholesale.

The consolidated revenues of the EMT Group, for 2003, amounted to 174.5 mln EUR, up by 11%, compared to 2002. Revenues of both AS EMT, the parent company of the Group, and of the subsidiary companies acting in the telecommunication equipment wholesaler and retailer, were up significantly. In the area of mobile communications, the revenues from SMS and data communications continued to have the highest growth rate, showing an increase of 28%. The revenues from domestic and international calls were up by 9%. In December 2003, the ARPU (average revenue per user) was 26.2 EUR (December 2002: 27.0 EUR). The lower ARPU was mainly caused by an increase in the usage time of prepaid call-cards.

The revenue growth of the EMT Group was the result of a larger customer base. The total number of AS EMT customers grew by 64 thousand during 2003. The number of contractual customers was up by 26 thousand, and the number of prepaid customers was up by 38 thousand. This growth in the number of prepaid customers was partly caused by changes in the terms of the Simpel call-cards, which became effective 1 May 2003. Until that date, customers could, in the course of two months; use the calling time stored on their cards for outgoing calls, plus, for one more month, could receive incoming calls. According to the new terms, the calling time stored on the cards can be used, in the course of five months, for outgoing calls, plus, incoming calls can be received for an additional month. Due to this change in terms, AS EMT did not close any prepaid cards between 2 August and the end of October. The total number of AS EMT customers reached 492 thousand by the end of December, up by 15% compared to 2002. The number of contractual customers was 307 thousand, and the number of prepaid customers was 185 thousand (2002: total number of customers: 427 thousand; number of contractual customers: 280 thousand; number of prepaid customers: 147 thousand). Prepaid customers form 38% of the number of total customers, compared to 34% at the end of 2002. AS EMT estimated its market share to be around 47%. In the second half of 2003, EMT was able to stop its market share slide, but at the expense of reduced margins. Mobile penetration in Estonia reached 77% (2002: 65%).

The operating expenses for the year amounted to 92.7 mln EUR, up by 15%. The operating expenses for 2003 were influenced by a devaluation of assets, at AS EMT, by 0.5 mln EUR. The EBITDA of the Group was 81.7 mln EUR, and the EBITDA margin was 47%. Profit before tax was up by 11%, amounting to 60.6 mln EUR. As a result of amendments, which were made to the regulations concerning the calculating of income tax on dividends, the Group declared a dividend income tax expense of 13.5 mln EUR in its income statement. The net profit of the EMT Group, in 2003, was 47.1 mln EUR.

The EMT Group invested 21.7 mln EUR during 2003 (2002: 18.8 mln EUR). On 8 May 2003, a direct offer was made by the Estonian National Communications Board to AS EMT, Radiolinja Eesti AS, and Tele2 AS to acquire third generation mobile communications licences. All three operators submitted their applications in July, and received licences from the Communications Board after paying a licence fee and state duty of 4.5 mln EUR per licence. By acquiring the licence, each operator also accepted the obligation to establish, within seven years of the issuance of the licence, an UMTS (Universal Mobile Telecommunication System) network, covering at least 30% of the Estonian population, and having a data transmission speed of at least 144 Kb/sec in urban areas and 64Kb/sec anywhere else in Estonia.

On 17 September 2003, the minister of economic affairs and communications and the CEO of AS EMT, made the first UMTS-call in Estonia via the EMT trial network. A commercial UMTS-network is expected to start functioning in 2005.

Almost half of the investments of the EMT Group were made in the fourth quarter of 2003. A large investment was made into improving the quality of the GSM network in the fourth quarter of 2003.

On 31 December 2003, 428 people were employed by the EMT Group (31 December 2002: 406). The total amount of the EMT Group employees' salaries was 5.9 mln EUR.

Relations with state regulators

<u>Procedure of the Communications Board to cut the mobile interconnection fees</u>
The Communications Board started procedures, in November 2002, to reduce the termination fees of calls made to mobile networks. The Board analysed interconnection fees of the mobile operators, and came to the conclusion, that the operators have not based their charges on a reasonable profit percentage, as stipulated by the Telecommunication Act. The opinion of the Communications Board is, that lower interconnection charges would improve the quality of mobile calls made from abroad to Estonia, and would lead to lower retail rates. As a result, on 31 January 2003, AS EMT announced its intention to reduce the termination fee, starting 1 March 2003, from the current 0.20 EUR/min to 0.19 EUR/min, and the discounted termination fee from the current 0.179 EUR/min to 0.176 EUR/min.

<u>Elimination of the fixed phone waiting list</u>
On 29 December 2000, the agreement for the termination of the concession agreement was concluded between the Republic of Estonia and Elion Enterprises AS (the former AS Eesti Telefon). The agreement regulates some aspects of the relationship between the company and the state until 1 January 2004. With that agreement, AS Eesti Telefon accepted the obligation to ensure that 95% of the applications for telephone connections submitted to AS Eesti Telefon, after 28 February 2003, will be fulfilled within two weeks from the payment of the invoice, and to eliminate, by 28 February 2003, at latest, the waiting list of those who had submitted applications before the concluding of the agreement.

At the end of the year 2000, 24,290 people were waiting for phones. By the end of February 2003, the waiting list of subscribers, resulting from applications received before the end of 2000, was eliminated. In 98% of cases, a new application for a fixed phone connection is fulfilled within 10 workdays.

<u>Being recognised an a SMP enterprise</u>
On 18 November, the Communications Board declared Elion Enterprises AS to be an operator with significant market power (SMP) in 2004, in the public telephone service market, public leased line service market, and public interconnection service market. AS EMT was declared to have SMP in 2004, in the public mobile telephone service market. Elion Enterprises AS was also declared to have SMP in 2001, 2002, and 2003. AS EMT was also declared to have SMP in 2002 and 2003. The Communications Board based the determination of operators with significant market power in 2004 upon the market share percentages of 2002. The market share of Elion Enterprises AS amounted to 87.32% of the telephone services market, 73.22% of the leased line service market, and 43.78% of the interconnection service market. The market share of AS EMT amounted to 63.22% of the public mobile telephone service market. Elion Enterprises AS and AS EMT have assumed in their prognoses that the Communications Board would declare the firms to be operators with significant market power in 2004.

<u>Litigation with the Estonian Competition Board</u>
The court case between Elion Enterprises AS and the Competition Board over the justification of rates, which became effective on 1 April 2001, for calls inside the network, has been concluded. On 19 January, Tallinn City Court approved the Agreement reached by the Estonian Competition Board and Elion Enterprises AS to end litigation over the minute rates charged in Elion's fixed telephone network. On 15 January, the Competition Board and Elion Enterprises AS filed an application with Tallinn Administrative Court to approve their Agreement for ending the lawsuit litigated by all instances of the court, because, over the years, the case has ceased to be an issue. In the Agreement, Elion concedes, that the unified intra-network minute rates introduced on 1 April 2001 would have been too high, at that

time, if voice packages and volume discounts had not been introduced. In turn, the Competition Board acknowledges, that Elion has been complying with the requirements of the precept by introducing price packages and volume discounts, thus reducing the average minute rates to a level below the price level established on 1 April 2001.

The Competition Board is explicit in the agreement that its decision and the issued precept were fully justified at that time, and does not wish to annul them. The Board concedes, however, that since then, the telecommunications market has changed irreversibly, and the Board does not insist on any changes being made in Elion's intra-network voice tariffs. Besides, the legislation dealing with the malpractice of companies with SMP has been amended, and therefore, it is impossible to impose any penalty.

For the above-mentioned reasons, including the fact that Elion has taken the necessary measures, and that the dispute has lost its topicality, the Competition Board and Elion have both lost interest in pursuing the case. According to the Agreement, Elion is to indemnify the Competition Board in the amount of 28 121 EUR, which partly covers the expenses incurred.

Litigation with the Communications Board
The Communications Board issued a precept on 5 September 2003, obligating Elion Enterprises AS to provide AS Uninet with special access to Elion's network at a location and in a manner determined by Uninet in its application. Elion Enterprises AS contested the precept in Tallinn Administrative Court, applying for a cancellation of the obligation. The next session of the Administrative Court is scheduled for 23 March 2004. In the case of an adverse decision by the court, Elion Enterprise AS must provide AS Uninet with access to its ATM-ADSL equipment. Such a development would have an impact upon competition in this activity. However, it would not have any significant effect upon the financial results of the company.

Annual General Meeting of Shareholders
On 22 May 2003, the Annual General Meeting of the shareholders of AS Eesti Telekom approved the 2002 Annual Report of the company, and the allocation of the profits. It was decided that an ordinary dividend of 0.24 EUR per share, plus an extraordinary dividend of 0.14 EUR per share (in total 52,682 thousand EUR) should be paid to the holders of A shares. The dividend to the holder of the B share was 639 EUR. The list of shareholders, on the basis of which dividends were to be paid, was established on 10 June 2003 at 08:00. The dividends were paid out on 19 June 2003.

The Annual General Meeting decided to authorise AS Eesti Telekom to reacquire, within one year (by 22 May 2004), AS Eesti Telekom A series shares, so that the total nominal value of AS Eesti Telekom shares held by AS Eesti Telekom would not exceed the legal limit, and that the price payable per share would not exceed the highest price paid for A shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. The number of shares to be acquired shall be determined, on each individual occasion, by a resolution of the AS Eesti Telekom's Supervisory Board. As of 18 February 2004, AS Eesti Telekom has acquired no such shares.

The Annual General Meeting elected ten new members to the Supervisory Board. Villu Vaino from AS Deloitte & Touche Audit was appointed to audit Eesti Telekom in 2003.

Perspectives for 2004
Starting on 1 January 2004, the subscribers of public telephone network services have the option of retaining their telephone number if they should change their telephone service provider. Already in January, two operators – AS Uninet and OÜ Via Tel – started to offer fixed line customers the possibility of switching over to their networks. However, both operators are primarily oriented to corporate customers. In January 2004, the Communications Board issued to AS Starman the licence permitting call transmission via their cable network. The company intended to enter the fixed voice market in February 2004. They are mainly interested in private customers.

It is not yet definite when mobile telephone users will have the option of retaining their number when changing their mobile service provider. Appropriate legislation needs to be amended and certain technical preliminary work needs to be done before the mobile number portability requirement can become effective. It is estimated that mobile number portability could become a reality in the fall of 2004 or at the beginning of 2005.

In January 2004, the Communications Board announced a public tender for the fourth third generation mobile telephone network technical licence. The starting price of the public tender is 4.5 mln EUR, and the licence would be valid for 10 years. Those wishing to participate in the public tender must submit all required documents to the Communications Board by 23 April 2004. So far, it is not known if any operators are interested in obtaining the fourth UMTS licence.

In August 2002, two virtual network service providers – Vertelson Mobile AS and OÜ CityGSM - announced their intention of entering the mobile communications market. By the beginning of 2004, neither of them had started to actually provide the announced service. Vertelson Mobile AS has announced that the summer of 2004 would be their new deadline for doing so. At the end of 2003, the Communications Board also issued a licence and assigned a mobile number-interval for OÜ Top Connect.

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

INCOME STATEMENTS
FOR THE FINANCIAL YEARS 2003 AND 2002

Financial statements are prepared in thousands of euros (EUR)

	Notes	CONSOLIDATED 2003	CONSOLIDATED 2002 Restated	PARENT COMPANY 2003	PARENT COMPANY 2002
Revenues					
Revenue	2 (a, c), 3 (a)	305,360	285,597	2	-
Other operating income	3 (b)	1,942	5,863	2	11
Total revenues		**307,302**	**291,460**	**4**	**11**
Operating expenses					
Change in work-in-progress		-	(29)	-	-
Materials, consumables, supplies and services	2 (a)	(106,226)	(92,995)	-	-
Other operating expenses	2 (a)	(29,224)	(27,324)	(736)	(742)
Personnel expenses	2 (a), 3 (c)	(34,010)	(32,192)	(899)	(765)
Other expenses	3 (d)	(2,503)	(2,731)	(114)	(72)
Total operating expenses		**(171,963)**	**(155,271)**	**(1,749)**	**(1,579)**
Profit / (loss) from operations before depreciation		**135,339**	**136,189**	**(1,745)**	**(1,568)**
Depreciation and amortisation	3 (e), 5, 7	(56,302)	(63,941)	(77)	(86)
Profit / (loss) from operations		**79,037**	**72,248**	**(1,822)**	**(1,654)**
Net income/(expenses) from subsidiaries and associates		3,545	(329)	67,498	73,010
Other net financing items	3 (f)	2,140	411	1,079	972
Profit before tax		**84,722**	**72,330**	**66,755**	**72,328**
Income tax on dividends	4	(18,280)	(5,835)	(546)	(5,835)
Profit after tax		**66,442**	**66,495**	**66,209**	**66,493**
Minority interest		(259)	-	-	-
Net profit for the period		**66,183**	**66,495**	**66,209**	**66,493**
Earnings per share	17 (e)				
Basic earnings per share (in euros)		0.48	0.48	0.48	0.48
Diluted earnings per share (in euros)		0.48	0.48	0.48	0.48

The notes presented on pages 16 to 46 form an integral part of the consolidated and Parent Company financial statements.

BALANCE SHEETS AS OF 31 DECEMBER 2003

Financial statements are prepared in thousands of euros (EUR)

		CONSOLIDATED		PARENT COMPANY	
	Notes	**2003**	**2002 Restated**	**2003**	**2002**
ASSETS					
Non-current assets					
Property, plant and equipment	5	145,454	170,879	68	91
Goodwill	7	657	236	-	-
Licences, patents and trademarks	7	7,274	2,483	13	45
Investments in subsidiaries and associates	8 - 9	1,063	1,451	226,069	209,701
Other investments	10	172	173	77	77
Other non-current assets	11	439	130	262	18,865
Total non-current assets		**155,059**	**175,352**	**226,489**	**228,779**
Current assets					
Inventories	12	6,226	5,865	-	-
Trade and other receivables	13	45,116	41,213	3,694	3,558
Investments held for trading	14	3,113	5,052	3,101	5,029
Cash and cash equivalents	15	84,414	56,497	31,610	12,316
Total current assets		**138,869**	**108,627**	**38,405**	**20,903**
TOTAL ASSETS		**293,928**	**283,979**	**264,894**	**249,682**
EQUITY AND LIABILITIES					
Capital and reserves	17				
Issued capital		87,971	87,804	87,971	87,804
Reserves		29,937	28,591	29,937	28,591
Translation reserve		(1)	(2)	-	-
Accumulated profits		146,370	132,870	146,394	132,868
Total capital and reserves		**264,277**	**249,263**	**264,302**	**249,263**
Minority interest		865	-	-	-
Non-current liabilities					
Interest-bearing loans and borrowings	18 (a)	236	773	-	31
Provisions	23 (a)	561	490	113	-
Total non-current liabilities		**797**	**1,263**	**113**	**31**
Current liabilities					
Trade and other payables	21	27,071	30,601	451	357
Interest-bearing loans and borrowings	18 (b)	533	2,240	28	31
Provisions	23 (b)	385	612	-	-
Total current liabilities		**27,989**	**33,453**	**479**	**388**
TOTAL EQUITY AND LIABILITIES		**293,928**	**283,979**	**264,894**	**249,682**

The notes presented on pages 16 to 46 form an integral part of the consolidated and Parent Company financial statements.

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEARS 2003 AND 2002
(CONSOLIDATED)

Financial statements are prepared in thousands of euros (EUR)

	Notes	Issued capital	Reserves: Share premium	Reserves: Statutory legal reserve	Translation reserve	Accumulated profits	Total
31 December 2001		**87,804**	**19,810**	**8,781**	**-**	**114,668**	**231,063**
Exchange differences arising from translation of foreign operations		-	-	-	(2)	-	(2)
Dividends paid	17 (c)	-	-	-	-	(48,293)	(48,293)
Net profit for the period		-	-	-	-	66,495	66,495
31 December 2002		**87,804**	**19,810**	**8,781**	**(2)**	**132,870**	**249,263**
Exchange differences arising from translation of foreign operations		-	-	-	1	-	1
Dividends paid	17 (c)	-	-	-	-	(52,683)	(52,683)
Share issuance	17 (a)	167	1,346	-	-	-	1,513
Net profit for the period		-	-	-	-	66,183	66,183
31 December 2003		**87,971**	**21,156**	**8,781**	**(1)**	**146,370**	**264,277**

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEARS 2003 AND 2002
(PARENT COMPANY)

Financial statements are prepared in thousands of euros (EUR)

	Notes	Issued capital	Reserves: Share premium	Reserves: Statutory legal reserve	Accumulated profits	Total
31 December 2001		**87,804**	**19,810**	**8,781**	**114,668**	**231,063**
Dividends paid	17 (c)	-	-	-	(48,293)	(48,293)
Net profit for the period		-	-	-	66,493	66,493
31 December 2002		**87,804**	**19,810**	**8,781**	**132,868**	**249,263**
Dividends paid	17 (c)	-	-	-	(52,683)	(52,683)
Share issuance	17 (a)	167	1,346	-	-	1,513
Net profit for the period		-	-	-	66,209	66,209
31 December 2003		**87,971**	**21,156**	**8,781**	**146,394**	**264,302**

The notes presented on pages 16 to 46 form an integral part of the consolidated and Parent Company financial statements.

CASH FLOW STATEMENTS FOR THE FINANCIAL YEARS 2003 AND 2002

Financial statements are prepared in thousands of euros (EUR)

		CONSOLIDATED		PARENT COMPANY	
	Notes	**2003**	**2002**	**2003**	**2002**
Operating activities					
Profit / (loss) from operations		79,037	72,248	(1,822)	(1,654)
Adjustments for:					
Depreciation and amortization	3 (e), 5, 7	56,302	63,941	77	86
(Profit) / loss from sales and write-off of fixed assets	3 (b, d)	(399)	(3,497)	-	1
Increase in retirement benefit provisions	23 (a)	145	-	145	-
Operating cash flow before working capital changes		135,085	132,692	(1,600)	(1,567)
Change in current receivables		(2,762)	(6,033)	(176)	(169)
Change in inventories		(192)	852	-	-
Change in current liabilities		(4,506)	140	94	137
Cash generated by operations		127,625	127,651	(1,682)	(1,599)
Interest paid		(119)	(600)	(15)	-
Income tax paid	4	(18,280)	(5,835)	(546)	(5,835)
Net cash from / (used in) operating activities		**109,226**	**121,216**	**(2,243)**	**(7,434)**
Investing activities					
Purchase of property, plant and equipment		(30,241)	(37,902)	(31)	(8)
Purchase of licences		(5,769)	(2,153)	-	(12)
Proceeds from sales of property, plant and equipment		1,959	5,459	10	9
Acquisition of subsidiaries	25	(1,573)	(2)	-	-
Proceeds from sales of subsidiaries	8	4,355	-	-	-
Acquisition of associated companies	9	-	(639)	-	-
Repayment of long-term promissory note	11	-	-	19,129	1,913
Purchase of trading investments	14	(3,113)	(15,143)	(3,101)	(15,143)
Proceeds on disposal of trading investments		5,054	13,988	5,029	13,988
Loans granted		(144)	(28)	(3,904)	(14,816)
Cash receipts from repayment of loans		4	6	2,994	23,830
Dividends received		1	6	51,129	49,945
Interest received		1,850	1,070	1,494	1,268
Net cash from / (used in) investing activities		**(27,617)**	**(35,338)**	**72,749**	**60,974**
Financing activities					
Proceeds from long-term convertible debt	20	-	31	-	31
Repayment of long-term convertible debt	20	(14)	(1)	(14)	(1)
Proceeds from nonconvertible long-term debt		23	101	-	-
Repayment of nonconvertible long-term debt		(852)	(339)	-	-
Repayment of long-term borrowings	19	(1,487)	(5,064)	-	-
Repayments of obligations under finance lease liabilities	6	(68)	(1,136)	-	-
Repayment of short-term borrowings		(52)	-	-	-
Shares issuance (Rights Offering)	17 (a)	1,496	-	1,496	-
Dividends paid	17 (c)	(52,683)	(48,293)	(52,683)	(48,293)
Net cash used in financing activities		**(53,637)**	**(54,701)**	**(51,201)**	**(48,263)**
Net increase in cash and cash equivalents		**27,972**	**31,177**	**19,305**	**5,277**
Cash and cash equivalents at beginning of year	15	**56,497**	**25,797**	**12,315**	**7,514**
Effect of foreign exchange rate changes		(55)	(477)	(10)	(475)
Cash and cash equivalents at end of year	15	**84,414**	**56,497**	**31,610**	**12,316**

The notes presented on pages 16 to 46 form an integral part of the consolidated and Parent Company financial statements.

1. Significant accounting policies

Significant accounting policies adopted in the preparation of the financial statements of AS Eesti Telekom (the parent company) and its subsidiary companies (together referred as "the Group") are set out below. The Supervisory Council of the parent company approved these financial statements on 10 March 2004.

The consolidated financial statements are presented in thousands of euros, unless indicated otherwise. AS Eesti Telekom measurement currency is Estonian kroon. Estonian kroon's exchange rate is fixed at 15,64664 EEK per euro.

Statement of compliance

The consolidated financial statements of the Group and the financial statements of the parent company are prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The financial statements present fairly the financial position, financial performance and cash flows of the Group and the parent company.

The preparation of the annual financial statements involves estimates made by the Management Board of the parent company about circumstances that influence the Group's and the parent company's assets and liabilities as of the balance sheet date, and about income received and expenses incurred during the financial year. These estimates are based upon up-to-date information about the state of the Group and take into consideration the Group's plans and risks as they stand at the date of the financial statements' preparation. The actual results may differ from the estimates.

The main accounting policies applied in preparation of the financial statements are presented below.

Principles of consolidation

The consolidated financial statements include all subsidiaries that are controlled by the parent company. When an entity began or ceased to be controlled during the year, the results are included only from the date control commenced to the date control ceased. Control is presumed to exist where more than one half of the subsidiary's voting power is controlled by the parent company, or the parent company is able to govern the financial and operation policies of the subsidiary, or control the removal or appointment of a majority of the subsidiary's board of directors.

All inter-company transactions and balances have been eliminated.

Minority interests in the equity and financial results of subsidiaries are shown as a separate line item in the consolidated financial statements.

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange quoted by the Bank of Estonia on the transaction date. On the balance sheet date, monetary assets and liabilities denominated in foreign currencies are recorded at the rate of exchange quoted by the Bank of Estonia on that date. Respective exchange differences are recognised in the income statement for the year.

The financial statements of foreign subsidiaries are recorded at the Bank of Estonia (*Eesti Pank*) effective exchange rates. Upon the acquisition of a foreign subsidiary, the parent company's share of the net assets of the subsidiary is established and recorded, using the exchange rate prevailing on the date of acquisition. These parts of the equity of the subsidiary will maintain their acquisition value even after the rest of the subsidiary's balance sheet has been retranslated. If a foreign subsidiary issues shares, these shares are recorded, using the exchange rate on the day of the issuance. Concerning the following consolidation of the balance sheet of a foreign subsidiary, the assets and liabilities are recorded, using the exchange rates prevailing on the balance sheet date. Income and expense items are recorded, using the average exchange rates for the period. Exchange differences, which arise, are charged to equity and transferred to the Group's recorded reserve. Such recording differences are recognised as income from, or as expenses of, subsidiaries in the period in which the operation has taken place. A recorded reserve in consolidated equity is considered in the calculation of the results of sales of shares of a subsidiary.

Financial statements are prepared in thousands of euros (EUR)

The exchange rates, applicable for the measurement currency, used in the financial statements were the following:

Currency	Exchange rate	
	As of 31 December 2003	**As of 31 December 2002**
USD	12.40960	14.93642
SEK	1.72205	1.70284
LAT	23.26510	25.49530

Hedging

Foreign exchange contracts are considered to be a hedge when the contracts are entered into with the intention to hedge other transactions with a high degree of correlation with the hedging instruments.

The Group uses derivative financial instruments (forward, SWAP, currency option contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Such derivatives are initially recorded at cost, if any, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise. Gain or loss arising from the settlement of the contracts will be recognised as income or expense when the transaction being hedged is realised.

Property, plant and equipment

Assets with a useful life of over one year and a minimum value of 639 EUR (Parent company: 320 EUR) are considered to be fixed assets. Fixed assets are recorded at acquisition cost, which consists of the purchase price, non-refundable taxes, and other expenditures directly related to taking the fixed asset object into use. The acquisition price of property, plant and equipment constructed by the company includes the cost of materials and direct labour.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the assets are presented at their estimated value in use. Recoverable value is equivalent to the higher of a particular asset's sale price or value in use. The anticipated cash flows for the coming year are used as the basis for determining value in use. Impairment losses in property, plant and equipment are expressed as an increase in accumulated depreciation, are recognised as an expense in the income statement, and are entered as "Depreciation". A reversal of an impairment loss is recognised as decrease of write-down expenses in the statement.

Depreciation is calculated on the straight-line method. Depreciation rates are set separately to each asset depending on its estimated useful life as follows:

- Buildings 3 - 8% per annum;
- Telecommunication network equipment 10 - 20% per annum;
- Plant and equipment 15 - 40% per annum;
- Furniture, fixtures, and fittings 10 - 50% per annum.

Freehold land is not depreciated.

Assets are depreciated from the date of acquisition or, in the case of internally constructed assets, from the time an asset is completed and ready for use.

The improvements to fixed assets are capitalized if the asset is improved to a qualitatively new level, or if it is possible to prove that the revenue resulting from the expenditure made will be generated to a significant extent in future periods. Maintenance and repairs are recognised as period expenses.

Leased assets

Leases of plant and equipment under which the Group assumes substantially all risks and rewards incidental to ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are recognised on the balance sheet by recording an asset and a liability equal to the present value of minimum lease payments at the inception of the lease. Finance assets are depreciated in accordance with the depreciation policy described above, with the depreciation period being the estimated useful life of the asset. Repayments of principal reduce lease liabilities, whilst the finance charge component of the lease payment is charged directly to the income.

Operating lease payments are recorded in the income statement as period costs on an accrual basis. Assets leased under operating lease are not recorded on the balance sheet.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired. Goodwill is recognised as an intangible asset in the Group's consolidated financial statements and is amortised on a straight-line basis. Amortisation of goodwill is recorded in the income statement line "Depreciation and amortisation". The period of amortisation is the period of time during which benefits are expected to flow into the Group and does not exceed five years.

Licenses, patents and trademarks

Licenses, patents, and trademarks are stated at the lower of the historical cost or recoverable amount, and are amortised on the straight-line method, over their estimated useful lives (five years, as a rule).

Amortisation of the third generation mobile communications license acquired by AS EMT started in August 2003 and will continue for ten years.

Development

Development costs are charged as an expense in the income statement for the period during which they incurred. Exceptions to this are development costs that are identifiable, verifiable and will generate future economic benefits; the resources needed to complete the development project and the estimated timing of income streams are disclosed. Development costs are amortised over five years using the straight-line method.

Financial assets and financial liabilities

Cash, shares and other securities, trade receivables, accrued income, other short and long-term receivables and derivatives with positive market value are considered to be financial assets. Supplier payables, accrued expenses, other short and long-term payables, bonds issued and derivatives with negative market value are considered to be financial liabilities.

Financial assets and liabilities are initially measured at cost, which is the fair value of consideration given or received to acquire the financial asset or liability. All costs directly connected with the financial asset or obligations are included in the acquisition price.

Financial assets and liabilities are recognised on the balance sheet when the ownership title is transferred to the Group in accordance with the terms of the contract for the financial asset or liability.

Shares of subsidiaries and associates

A subsidiary is deemed to be under the control of the parent company when more than one half of the subsidiary's voting power is controlled by the parent company, or the parent company is able to govern the operating and financial policies of the subsidiary, or control the appointment or removal of a majority of the subsidiary's supervisory council.

An associate is an enterprise in which the Group holds, directly or indirectly, 20% - 50% of the voting power, or where the Group exercises significant influence over the enterprise.

Investments in subsidiaries and associates are presented in the parent company's financial statements and accounted for under the equity method, in accordance with which the original investment value is adjusted to take into consideration the profit/loss arising from the company and the dividends received. Under the equity method, unearned profits and losses from the transactions between the parent and subsidiaries and associates are eliminated.

At the acquisition of an associate or a subsidiary, an acquisition analysis is performed. In the acquisition analysis, the investment is adjusted with positive goodwill determined as the difference between the acquisition cost of the net assets acquired and the net realizable value of the investor's share in the investment, using the straight-line method over the period of time during which the asset is anticipated to be profitable, which shall not exceed five years.

Investment in a subsidiary that is under liquidation is reported as a short-term financial investment at the anticipated liquidation value, and the write-down is reported as a financial expense.

The list of the Group's subsidiaries is disclosed in Note 8 to the financial statements, and the list of associates in Note 9.

Portfolio investments

Shares and securities are recognised on the balance sheet using the trade date accounting method and are initially recognised at cost, which is the fair value of consideration given to acquire the financial assets. All costs directly connected with the given financial asset are included in the initial acquisition price.

The following principles are applied to the recording of shares and securities:

- Shares and securities, whose value can be reliably measured, are recorded on the balance sheet at fair value. The change in the fair value of short-term shares and other securities is recorded in the income statement as “Other financial income and expenses”. The change in the fair value of long-term shares and other securities is recorded in the income statement as “Financial income and expenses from other long-term financial investments”.

- Bonds that the Company does not intend to hold to maturity are recorded on the balance sheet using the fair value method. The change in the fair value of short-term bonds is recorded in the income statement as “Other financial income and expenses”. The change in fair value of long-term bonds is recorded in the income statement as “Financial income and expenses from other long-term financial investments”.

- Shares and securities whose fair value cannot be reliably measured are recorded on the balance sheet at amortized cost, which consists of its initial recognition cost minus any write-down for impairment or uncollectibility. Write-down is recorded in the income statement as “Other financial income and expenses”. Write-down of long-term shares and other securities is recorded in the income statement as “Financial income and expenses from other long-term financial investments”.

- Bonds that the Company intends to hold to maturity are recorded on the balance sheet at amortized cost, applying the effective interest rate method minus any write-down for impairment or uncollectibility. The change in the carrying value of short-term bonds is recorded in the income statement as “Other financial income and expenses”. In calculating the write-down, the net present value of the future cash receipts of the financial instrument is considered, applying the internal rate of return as the discount rate. The interest income and write-down of held-to-maturity securities are recorded in the income statement as “Other financial income and expenses”. The interest income and write-down of long-term securities is recorded in the income statement as “Financial income and expenses from other long-term financial investments”.

Shares and securities that are intended to be disposed of during the following financial year and the maturity date of which is one year or less from the balance sheet date are recorded on the balance sheet as “Shares and other securities”. Long-term shares and securities are recorded on the balance sheet as “Other investments”.

On disposal of an in investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to income for the financial year.

Inventories

Raw materials and goods for resale are recorded at cost, which comprises of purchase price, non-refundable taxes as well as transportation and other direct acquisition expenditures, less discounts and subsidies received.

Inventories are carried at the lower of acquisition cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Cost is based on the weighted average cost principle in AS EMT and on the first-in, first-out principle in Elion Ettevõtted AS, and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

Taxation

The Income Tax Law that became effective in Estonia on 1 January 2000 replaces the taxation of earnings with the taxation of dividend distributions and other payments that have the characteristics of profit distribution. Because of the principles of taxation, the term *tax base of assets and liabilities* does not meet the criteria of recognition and deferred income tax assets and liabilities as defined in IAS 12 (Income Taxes) do not arise.

Receivables

Trade receivables are recorded at amortised cost. Receivables that are considered to be either partially or completely unlikely to be collected are expensed and reported on the balance sheet as “Allowance for doubtful receivables” and correspondingly in the income statement as “Other operating expenses”. Receivables whose collection is not feasible or economically justified are considered to be non-collectible, and are written-off from the balance sheet. Previously expensed receivables collected during the financial year are recorded on the same expense account as a reverse entry.

Long-term receivables and long-term loans granted are recognised at their net present value, from which doubtful accounts are deducted. The difference between the nominal value and the net present value of the receivable until the due date is reported in the income statement as “Other financial income and expenses” by applying the internal interest rate upon return of the receivable.

Loans without interest or loans with an interest rate different to market rates are initially recognized at their net present value, applying the market interest rate, and the difference between the nominal value and the net present value of the receivable is amortized during the period remaining until the due date. The initial revaluation to the net present value and the subsequent amortisation of the receivable’s nominal value and net present value is reported in the income statement as “Other financial income and expenses”.

Liabilities

Liabilities with payment terms over one year from the balance sheet date are considered to be long-term liabilities. Other liabilities are reported as short-term.

Liabilities that have arisen during the financial year or prior periods, which have a legal or contractual basis, which are expected to result in the outflow of resources, and which can be reliably measured, but for which the actual payment amount and payment date has not been definitely determined, are recorded as provisions on the Balance Sheet. Provisions are measured according to the Management Board’s estimates and previous experience, and when necessary also the assessments of independent experts.

Potential liabilities, guarantees, and warranties are disclosed in the Notes to the financial statements as contingent liabilities.

The calculation of retirement benefit provisions is based on the corresponding agreements that have been concluded. These provisions are recorded at their present value as they committed. The interest rates of bonds issued by long-term high quality companies are used as the discount rate. The difference between the nominal value and the net present value of the liability is amortized over the period remaining until the maturity date. Initial revaluation into the net present value and the subsequent amortisation of the difference between the nominal value and the net present value of the liability is recorded in the income statement as “Other financial income and expenses”.

Vacation expenses are recorded in the period the vacation was earned, i.e. when the right to claim the vacation by an employee occurs. Vacation payment earned, or changes made to it, is recorded in the income statement as an expense and on the balance sheet as a short-term liability.

Termination (redundancy) compensations are recognised as liabilities and as expenses when, and only when, the company has clearly and unequivocally expressed its intention to terminate the employment relationship in the ordinary manner, in accordance with an accord between employer and employee, or before the employee’s legally stipulated retirement date. An enterprise is demonstrably committed to a termination only when the enterprise has a detailed formal plan for the termination, and has no other realistic option for solving the situation.

Interest bearing bank loans, credit lines, other loans and bonds issued are initially recognized at the consideration received, less paid transaction costs. These financial liabilities are subsequently measured at amortized cost, in accordance to which the liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount (only for bonds). The amortized cost is determined by applying the internal rate of return, which is calculated by discounting the future net cash flows to the balance sheet value. Amortization of the transaction costs is recorded in the income statement together with the interest expense. The interest expense is recorded as “Other financial income and expenses” in the income statement in the period in which they arise.

Interest non-bearing loans without interest or loans with an interest rate different from the market interest rate are initially recognized at net present value by applying the market interest rate, and the difference between the nominal value and the net present value of the liability is amortized over the period remaining until the due date. Initial revaluation into the net present value and the subsequent amortisation of the difference between the nominal value and the net present value of the liability is recorded in the income statement as “Other financial income and expenses”.

Factoring of receivables

The factoring of receivables is the sale of receivables. Depending on the type of factoring contract, the buyer acquires the right to sell the receivable back to the seller (factoring with recourse) or there is no right to resell and all the risks and rewards of the receivable are transferred from the seller to the buyer (factoring without recourse).

Factoring with recourse is considered as a financing transaction (i.e. a financing raised on the collateral of a receivable): the receivable is recorded on the balance sheet until the receivable is collected or the right of recourse expires.

Factoring without recourse is considered as the sale of a receivable. The expense related to the sale of the receivable is recorded as a financial expense or allowance depending on whether the transaction was made for managing the cash flows or for decreasing the risk of doubtful receivables.

Revenue recognition

Sales revenue is recorded on the accrual basis of accounting, in accordance with the revenue principle.

In relation to the rendering of services, revenue is recognised when no significant uncertainties remain concerning the derivation of consideration or associated costs.

In relation to the sale of goods, revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding the derivation of that consideration, associated costs, or the possible return of goods.

The completion method is used to determine construction contracts. Revenue and costs are recognised by reference to the stage of completion of the contract activity on the balance sheet date.

Construction contracts are accounted for at percentage of completion method: revenue and profits obtained from construction contracts are recorded proportionally in the same periods as respective expenses incurred. In order to ensure the accuracy of the year-end financial results, an assessment of all unfinished contracts is made of the expenses to be incurred until the completion of the project, and the assessment is compared to the project’s total budgetary costs. In the event of significant differences, the project’s anticipated profit margin is adjusted, and correspondingly, the revenue calculation. If, on the balance sheet date, the sum of the interim invoices presented to the client exceeds the project’s total expenditures and the corresponding income share, the difference is recorded on the balance sheet under short-term liabilities, as “Accrued expenses”. In the event the sum of the interim invoices presented to the client is less than the project’s total expenditures and the corresponding income share, the difference is recorded on the balance sheet as “Accrued income”.

Interest, royalties, and dividends are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Interest income is recognised as it accrues, unless collectibility is in doubt. Royalty income is recognised on the accrual basis in accordance with the substance of the relevant agreement. Dividend income is recognised when the shareholder's right to receive payment is established.

Cash and cash flows

The balance sheet line “Cash and cash equivalents” and the same line listed in the cash flow statement consist of cash in hand, bank accounts, short-term bank deposits and shares of money-market funds.

Cash flows from operating activities are reported under the indirect method. Cash flows from investing and financing activities are reported based on gross receipts and disbursements made during the accounting period.

Financial statements are prepared in thousands of euros (EUR)

Subsequent events

Significant events that occurred during the preparation of the annual accounts and are related to transactions that took place during the financial year, and confirm the conditions that existed at the date of the financial statement, are considered in the valuation of assets and liabilities.

Significant events that occurred during the preparation of the annual accounts and are not considered in the valuation of assets and liabilities, but significantly influence the results of the next financial year, are disclosed in the notes to the annual accounts.

Changes in accounting policies

At the beginning of 2003, Elion Ettevõtted AS analysed the composition and useful lifetime of the company's non-current assets. As a result of the analysis, the depreciation rates for some categories of non-current assets were reviewed and differentiated.

The following are the most significant changes in the depreciation rates for 2003:

Non-current asset category	Former depreciation rate up to 31.12.2002	Established depreciation rate after 01.01.2003
Telecommunications network	17.5%	10%
Communications installations	17.5%	10%
Telecommunications devices	17.5%	20%
Patents, licenses	50%	30%
Software	17.5%	10%

The influence of the change in depreciation rates is approximately 6,4 million EUR (decrease of expenses).

Reclassification of balances

During 2003, the following comparative balances of 2002 were reclassified:

	CONSOLIDATED		
	Initial opening balance	Reclassification	Reclassified opening balance
Reclassification of income statement [1)]			
Revenues			
Sales revenue	285,513	84	285,597
Capitalised expenditures on self-constructed assets	4,179	(4,179)	-
Operating expenses			
Change in work-in-progress	55	(84)	(29)
Materials, consumables, supplies and services	(96,107)	3,112	(92,995)
Other operating expenses	(27,792)	468	(27,324)
Personnel expenses	(32,787)	595	(32,192)
Other expenses	(2,735)	4	(2,731)
Reclassification of balance sheet [2)]			
Assets			
Current assets			
Inventories	5,971	(106)	5,865
Trade and other receivables	40,987	226	41,213
Non-current liabilities			
Interest-bearing loans and liabilities	1,263	(490)	773
Non-current provisions for pensions	-	490	490
Current liabilities			
Trade and other payables	30,009	592	30,601
Interest-bearing loans and borrowings	2,282	(42)	2,240
Provisions	1,042	(430)	612

1) Explanations for reclassification of income statement entries:
   - Pursuant to *IAS* 16: *Property, Plant and Equipment*, the cost of property, plant and equipment constructed by the company is recognised in the same manner as acquired property, plant and equipment, i.e. the expenditures incurred for the acquisition are described on an accrual basis. In order to ensure the comparability of data, the same amendment has been made in the 2002 income statement.
   - Profits and losses connected with uncompleted construction projects shall be entered in the income statement as “Revenue”. Until 2003, however, these were recorded under the income statement entry “Change in work-in-progress”. A corresponding amendment has also been made in the comparative data for 2002.

2) Explanations for reclassification of balance sheet entries:
   - Balances connected with uncompleted construction projects and recorded in the balance sheet in net amounts under “Inventories” are reclassified into receivables and liabilities at gross amounts.
   - As of 2003, balance sheet entries concerning pension liabilities have been reorganised. Both non-current and current pension liabilities are recorded as provisions.
   - Employee-related accounting benefits (bonuses), which until 2003 were recorded in the balance sheet entry “Provisions”, are shown as “Trade and other payables”.

2. Segment information

A business segment is a distinguishable component of the Group that is engaged in providing a group of related services or products and that is subject to risks and returns that are different from those of other business segments.

Four major segments, fixed line, mobile telecommunication, construction services 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 Ettevõtted AS, AS Elion Esindus and AS EsData.

Mobile telecommunications – this segment operates mobile networks and systems, and deals with the producing, marketing, and selling of services related thereto. The companies belonging to this business segment are AS EMT, AS EMT Esindused and AS Mobile Wholesale.

Construction services – these segment activities are construction and maintenance of telecommunication networks. The companies belonging to this business segment are AS Connecto, AS Reveko Telekom, Eltel Networks AS and SIA Connecto Latvia.

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

Segment expense is expense resulting from the operating activities and is directly attributable to the segment. Segment expense does not include extraordinary items, interest, or income tax expense.

Segment gross profit is segment revenue less segment expense. Segment gross profit is determined before any adjustments for minority interest.

Segment assets are those operating assets that are operatively employed and that are directly attributable to the segment.

Segment liabilities are those directly attributable to the segment.

Capital expenditure represents total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, and equipment, and intangible assets).

Segment turnover represent inter-company income and expenses of the four above-mentioned segments. The inter-company turnovers between the companies belonging to the same segment are eliminated in this report.

Inter-company transactions were conducted on an arms-length basis.

Financial statements are prepared in thousands of euros (EUR)

(a) Business segments

	Fixed network telecommunications		Mobile telecommunications		Construction *)		Other operations		Eliminations		Consolidated	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Revenue												
Revenue	143,795	144,858	152,706	135,747	8,859	4,992	-	-	-	-	305,360	285,597
Other operating income	1,263	4,398	627	1,462	51	-	1	3	-	-	1,942	5,863
Inter-segment revenue	11,101	11,949	21,165	19,841	11,245	11,684	3	8	(43,514)	(43,482)	-	-
Total revenue	**156,159**	**161,205**	**174,498**	**157,050**	**20,155**	**16,676**	**4**	**11**	**(43,514)**	**(43,482)**	**307,302**	**291,460**
Operating expenses												
Change in work-in-progress	-	(29)	-	-	-	-	-	-	-	-	-	(29)
Materials, consumables, supplies and services	(31,996)	(33,444)	(66,483)	(55,689)	(7,747)	(3,862)	-	-	-	-	(106,226)	(92,995)
Other operating expenses	(19,954)	(18,461)	(6,518)	(6,882)	(2,039)	(1,252)	(713)	(729)	-	-	(29,224)	(27,324)
Personnel expenses	(21,015)	(20,514)	(7,913)	(7,189)	(4,183)	(3,724)	(899)	(765)	-	-	(34,010)	(32,192)
Other expenses	(734)	(1,238)	(1,371)	(1,282)	(284)	(139)	(114)	(72)	-	-	(2,503)	(2,731)
Inter-segment expenses	(27,969)	(26,466)	(10,441)	(9,476)	(4,547)	(6,742)	(23)	(13)	42,980	42,697	-	-
Total expenses	**(101,668)**	**(100,152)**	**(92,726)**	**(80,518)**	**(18,800)**	**(15,719)**	**(1,749)**	**(1,579)**	**42,980**	**42,697**	**(171,963)**	**(155,271)**
EBITDA	**54,491**	**61,053**	**81,772**	**76,532**	**1,355**	**957**	**(1,745)**	**(1,568)**	**(534)**	**(785)**	**135,339**	**136,189**
Depreciation and amortisation	(34,218)	(41,663)	(21,931)	(22,092)	(316)	(192)	(77)	(86)	240	92	(56,302)	(63,941)
EBIT	**20,273**	**19,390**	**59,841**	**54,440**	**1,039**	**765**	**(1,822)**	**(1,654)**	**(294)**	**(693)**	**79,037**	**72,248**
Income/ -expenses from subsidiaries and associated companies	4,121	257	(75)	(143)	-	-	67,498	73,010	(67,999)	(73,453)	3,545	(329)
Foreign exchange gain	(41)	(11)	(4)	(2)	(1)	(1)	(10)	(475)	-	-	(56)	(489)
Other net financing items	248	(1,077)	822	484	37	46	1,089	1,447	-	-	2,196	900
Income tax on dividends	(4,261)	-	(13,473)	-	-	-	(546)	(5,835)	-	-	(18,280)	(5,835)
Minority interest	-	-	-	-	-	-	-	-	(259)	-	(259)	-
Net profit	**20,340**	**18,559**	**47,111**	**54,779**	**1,075**	**810**	**66,209**	**66,493**	**(68,552)**	**(74,146)**	**66,183**	**66,495**

*) Net sales include sales revenue from uncompleted construction projects in the amount of 278 thousand EUR (2002: 84 thousand EUR), whereas real expenses, plus calculated gross profits minus cumulative gross losses amounted to 413 thousand EUR (2002: 227 thousand EUR), and advance payments by clients amounted to 29 thousand of EUR (2002: 121 thousand EUR).

Financial statements are prepared in thousands of euros (EUR)

(b) Other information by segments

	Fixed network telecommunications		Mobile telecommunications		Construction		Other operations		Eliminations		Consolidated	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Non-current assets (except investments in subsidiaries and associates)	86,496	106,238	66,906	67,843	1,390	531	420	19,078	(1,216)	(19,789)	153,996	173,901
Investments in subsidiaries and associates	1,889	2,533	208	282	-	-	226,069	209,701	(227,103)	(211,065)	1,063	1,451
Current assets	47,918	48,950	53,738	42,314	5,399	3,383	38,405	20,903	(6,591)	(6,923)	138,869	108,627
Total assets	**136,303**	**157,721**	**120,852**	**110,439**	**6,789**	**3,914**	**264,894**	**249,682**	**(234,910)**	**(237,777)**	**293,928**	**283,979**
Owners' equity	**119,029**	**111,697**	**107,261**	**98,497**	**2,869**	**1,794**	**264,302**	**249,263**	**(229,184)**	**(211,988)**	**264,277**	**249,263**
Minority interest	-	-	-	-	-	-	-	-	865	-	865	-
Non-current liabilities	236	19,608	448	490	-	-	113	31	-	(18,866)	797	1,263
Current liabilities	17,038	26,416	13,143	11,452	3,920	2,120	479	388	(6,591)	(6,923)	27,989	33,453
Total equity and liabilities	**136,303**	**157,721**	**120,852**	**110,439**	**6,789**	**3,914**	**264,894**	**249,682**	**(234,910)**	**(237,777)**	**293,928**	**283,979**
Net cash from/(used in) operating activities	43,908	54,849	66,310	72,852	804	573	(2,243)	(7,434)	447	376	109,226	121,216
Net cash from/(used in) investing activities	6,138	5,366	979	481	(661)	303	72,780	60,994	(70,843)	(62,427)	8,393	4,717
CAPEX	(14,795)	(21,698)	(21,725)	(18,786)	(508)	(218)	(31)	(20)	1,049	667	(36,010)	(40,055)
Net cash from/(used in) financing activities	(35,705)	(17,510)	(36,084)	(49,825)	6	(487)	(51,201)	(48,263)	69,347	61,384	(53,637)	(54,701)
Foreign exchange rate differences	(40)	(11)	(4)	(3)	(1)	12	(10)	(475)	-	-	(55)	(477)
Net increase/(decrease) in cash and cash equivalents	**(494)**	**20,996**	**9,476**	**4,719**	**(360)**	**183**	**19,295**	**4,802**	**-**	**-**	**27,917**	**30,700**

c) Revenue by geographic area

	Fixed network telecommunications		Mobile telecommunications		Construction		Consolidated	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Revenue from customers in Estonia	129,047	129,323	145,713	129,710	6,595	4,556	281,355	263,589
Revenue from customers outside Estonia	14,748	15,535	6,993	6,037	2,264	436	24,005	22,008
	143,795	**144,858**	**152,706**	**135,747**	**8,859**	**4,992**	**305,360**	**285,597**

Financial statements are prepared in thousands of euros (EUR)

3. Additional information on the income statement

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
(a) Revenue				
Telecommunication services	265,014	258,745	-	-
Goods	27,610	18,440	-	-
Other services	10,763	6,404	2	-
Other	1,973	2,008	-	-
	305,360	**285,597**	**2**	**-**
(b) Other operating income				
Profit from sales of fixed assets	1,110	4,145	-	-
Foreign exchange gain	272	301	-	-
Interest on arrears and penalties	183	119	-	-
Other	377	1,298	2	11
	1,942	**5,863**	**2**	**11**
(c) Personnel expenses				
Wages and salaries	(24,842)	(23,583)	(533)	(401)
Social charges	(8,584)	(8,076)	(209)	(207)
Pension expenses	(145)	(149)	(145)	(149)
Unemployment insurance charges	(130)	(120)	(2)	(2)
Other	(309)	(264)	(10)	(6)
	(34,010)	**(32,192)**	**(899)**	**(765)**
(d) Other expenses				
Loss from sales of fixed assets	(5)	(212)	-	-
Retirement of fixed assets	(706)	(436)	-	(1)
Foreign exchange loss	(346)	(275)	(1)	-
Sponsorship	(691)	(1 341)	(106)	(62)
Local taxes	(27)	(22)	-	-
Other	(728)	(445)	(7)	(9)
	(2,503)	**(2 731)**	**(114)**	**(72)**
(e) Depreciation and amortisation				
Depreciation	(54,601)	(61,064)	(45)	(55)
Amortisation	(1,701)	(2,877)	(32)	(31)
	(56,302)	**(63,941)**	**(77)**	**(86)**
(f) Other net financing items				
Interest income	2,414	1,520	1,230	1,606
Interest expense	(91)	(460)	(12)	(2)
Net foreign exchange gain / (loss)	(53)	(487)	(10)	(472)
Other financial income	33	-	33	-
Other financial expenses	(163)	(162)	(162)	(160)
	2,140	**411**	**1,079**	**972**

Financial statements are prepared in thousands of euros (EUR)

4. Taxation

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on the dividend distribution. Resident legal entities are, since January 2003, liable to income tax on all dividends paid and other profit distributions irrespective of the recipient (Income Tax Act, section 50). The tax rate applicable is 26/74 on the dividends paid.

In case dividends are paid from the retained earnings for the period 1994-1999, it is possible to discount the income tax paid earlier on the part of the retained earnings and prepayments of the tax on dividends made before 2000 from the amount of income tax to be paid on the respective amount of distribution.

Reconciliation of current tax change

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Dividends paid	52,683	48,293	52,683	48,293
Dividends attracting income tax	52,683	34,528	52,683	34,528
Income tax 26/74 from dividends	(18,510)	(12,132)	(18,510)	(12,132)
Reduction of the income tax paid on 1994 to 1999 earned profit	230	6,034	-	6,034
Reduction of the income tax paid by Group subsidiaries on 1994 to 1999 earned profit	-	263	17,964	263
Current tax expense	**(18,280)**	**(5,835)**	**(546)**	**(5,835)**

Financial statements are prepared in thousands of euros (EUR)

5. Property, plant and equipment

(a) Consolidated

	Land and buildings	Plant and equipment	Other equipment and fixtures	Properties under construction	Advance payments for non-current assets	**Total**
At cost						
At 31 December 2001	**50,670**	**383,450**	**32,283**	**1,034**	**90**	**467,527**
Additions	55	4,614	2,823	29,790	620	37,902
Acquired by finance leases		1,201				1,201
Acquired on acquisition of a subsidiary	-	-	86	-	-	86
Disposals and retirements (-)	(3,103)	(13,270)	(4,674)	(2)	-	(21,049)
Reclassification	1,872	25,096	2,313	(28,621)	(660)	-
At 31 December 2002	**49,494**	**401,091**	**32,831**	**2,201**	**50**	**485,667**
Additions	35	3,296	3,453	22,997	460	30,241
Acquired on acquisition of a subsidiary	-	723	690	-	-	1,413
Disposals and retirements (-)	(3,257)	(10,544)	(2,047)	(28)	-	(15,876)
Reclassification	356	18,354	3,437	(21,758)	(389)	-
At 31 December 2003	**46,628**	**412,920**	**38,364**	**3,412**	**121**	**501,445**
Accumulated depreciation						
At 31 December 2001	**28,380**	**229,670**	**14,939**	**-**	**-**	**272,989**
Charge for the year	2,126	51,613	7,325	-	-	61,064
Acquired on acquisition of a subsidiary	-	-	59	-	-	59
Disposals and retirements (-)	(2,214)	(12,490)	(4,620)	-	-	(19,324)
At 31 December 2002	**28,292**	**268,793**	**17,703**	**-**	**-**	**314,788**
Charge for the year	2,017	45,586	7,000	-	-	54,603
Acquired on acquisition of a subsidiary	-	335	528	-	-	863
Disposals and retirements (-)	(2,837)	(9,791)	(1,635)	-	-	(14,263)
At 31 December 2003	**27,472**	**304,923**	**23,596**	**-**	**-**	**355,991**
Carrying amount						
At 31 December 2002	**21,202**	**132,298**	**15,128**	**2,201**	**50**	**170,879**
At 31 December 2003	**19,156**	**107,997**	**14,768**	**3,412**	**121**	**145,454**

Foreign subsidiary SIA Connecto Latvia's share of the Group's total fixed assets is 0.02%. In connection with this and on the basis of the principle of materiality, the influence of unrealised appreciation on components of capital finance is not individually specified in the information on tangible fixed assets.

Financial statements are prepared in thousands of euros (EUR)

(b) Parent company

	Plant and equipment	Other equipment and fixtures	**Total**
At cost			
At 31 December 2001	**73**	**181**	**254**
Additions	-	8	8
Disposals and retirements (-)	(10)	(19)	(29)
At 31 December 2002	**63**	**170**	**233**
Additions	29	2	31
Disposals and retirements (-)	(19)	(9)	(28)
At 31 December 2003	**73**	**163**	**236**
Accumulated depreciation			
At 31 December 2001	**23**	**84**	**107**
Charge for the year	15	40	55
Disposals and retirements (-)	(4)	(16)	(20)
At 31 December 2002	**34**	**108**	**142**
Charge for the year	16	29	45
Disposals and retirements (-)	(9)	(10)	(19)
At 31 December 2003	**41**	**127**	**168**
Carrying amount			
At 31 December 2002	**29**	**62**	**91**
At 31 December 2003	**32**	**36**	**68**

Financial statements are prepared in thousands of euros (EUR)

6. Leased plant and equipment (consolidated)

	Plant and equipment
At cost	
At 31 December 2001	**-**
Additions	1,201
At 31 December 2002	**1,201**
Acquired on acquisition of a subsidiary	52
Disposals and retirements (-)	(52)
Termination of lease	(1,201)
At 31 December 2003	**-**
Accumulated depreciation	
At 31 December 2001	**-**
Charge for the year	120
At 31 December 2002	**120**
Charge for the year	160
Acquired on acquisition of a subsidiary	15
Termination of lease	(295)
At 31 December 2003	**-**
Carrying amount	
At 31 December 2002	**1,081**
At 31 December 2003	**-**

Finance lease liability	
At 31 December 2003	**-**
Principal payments during the financial year	68
Interest expenses during the financial year	4
Annual interest rate	7%

Financial statements are prepared in thousands of euros (EUR)

7. Intangible assets

	CONSOLIDATED			PARENT COMPANY	
	Goodwill	Licenses-patents and trademarks	**Total**	Licenses-patents and trademarks	**Total**
At cost					
At 31 December 2001	**2,972**	**9,755**	**12,727**	**91**	**91**
Additions	38	2,153	2,191	12	12
Acquired on acquisition of a subsidiary	-	14	14	-	-
Retirements (-)	(206)	(3,223)	(3,429)	-	-
At 31 December 2002	**2,804**	**8,699**	**11,503**	**103**	**103**
Additions	654	5,769	6,423	-	-
Acquired on acquisition of a subsidiary	-	520	520	-	-
Retirements (-)	(2,311)	(612)	(2,923)	-	-
At 31 December 2003	**1,147**	**14,376**	**15,523**	**103**	**103**
Accumulated amortisation					
At 31 December 2001	**2,025**	**7,113**	**9,138**	**27**	**27**
Charge for the year	718	2,159	2,877	31	31
Acquired on acquisition of a subsidiary	-	4	4	-	-
Retirements (-)	(175)	(3,060)	(3,235)	-	-
At 31 December 2002	**2,568**	**6,216**	**8,784**	**58**	**58**
Charge for the year	232	1,467	1,699	32	32
Acquired on acquisition of a subsidiary	-	6	6	-	-
Retirements (-)	(2,310)	(589)	(2,899)	-	-
Impairment	-	2	2	-	-
At 31 December 2003	**490**	**7,102**	**7,592**	**90**	**90**
Carrying amount					
At 31 December 2002	**236**	**2,483**	**2,719**	**45**	**45**
At 31 December 2003	**657**	**7,274**	**7,931**	**13**	**13**

Foreign subsidiary SIA Connecto Latvia's share of the Group's total intangible assets is 0.05%. In connection with this and on the basis of the principle of materiality, the influence of unrealised appreciation on components of capital finance is not individually specified in the information on intangible assets.

Financial statements are prepared in thousands of euros (EUR)

8. Investments in subsidiaries

	Note	Country of incorporation	Ownership interest		Principal activity	Owner
			2003	**2002**		
Elion Ettevõtted AS [1)]		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 [2)]		Estonia	100%	100%	Retail sales of telecommunication products and services	Elion Ettevõtted AS
AS EsData	25	Estonia	100%	30%	Internet and data communication services, VoiP long distance calls and equipment hosting services	Elion Ettevõtted AS
AS Connecto [3)]		Estonia	51%	100%	Construction and maintenance of telecommunication networks	Elion Ettevõtted AS
SIA Connecto Latvia		Latvia	100%	100%	Construction and maintenance of telecommunication networks	AS Connecto
AS Reveko Telekom	25	Estonia	100%	-	Installation of telephone exchanges and communications systems	AS Connecto
AS Eltel Networks	25	Estonia	100%	-	Construction of electrical and mobile communications networks	AS Connecto
AS EMT		Estonia	100%	100%	Construction and operating of mobile networks, providing mobile communication services	AS Eesti Telekom
EMT Esindused AS [4)]		Estonia	100%	100%	Retail sales of telecommunication products and services	AS EMT
AS Mobile Wholesale		Estonia	100%	100%	Wholesale of mobile phones	AS EMT

1) Previously AS Eesti Telefon.

2) Previously AS Telefonipood.

3) Estonian Competition Board gave approval to Elion Enterprises Ltd, a 100%-owned subsidiary of AS Eesti Telekom, to sell a 49% minority stake in its 100% owned subsidiary AS Connecto, to Eltel Networks Corporation.
On 18 June 2003, the contracting parties executed the closing of the sale- purchase transaction and confirmed the price of the deal, which is 4.3 mln EUR and the capital gain in the amount of 3.8 mln EUR was booked in Q2 of 2003.

4) Previously AS Esmofon.

9. Investments in associates

	2003	2002
Cost of investments	2,315	2,315
Reclassification	(184)	-
Share of post-acquisition loss, net of dividends received	(1,068)	(864)
	1,063	**1,451**

Financial statements are prepared in thousands of euros (EUR)

Details of the Group's associates, as of 31 December 2003, are as follows:

	Country of incorporation	Ownership interest		Principal activity	Owner
		2003	**2002**		
AS Intergate	Estonia	50%	50%	Venture capital investments into companies with innovative technologies	Elion Ettevõtted AS
AS Sertifitseerimiskeskus	Estonia	50%	50%	Providing certification and related services	Elion Ettevõtted AS – 25% AS EMT – 25%
AS EsData [1)]	Estonia	100%	30%	Internet and data communication services, VoiP long distance calls and equipment hosting services	Elion Ettevõtted AS
OÜ Voicecom	Estonia	26%	26%	Designing and providing software for mobile related services	AS EMT

[1)] In accordance with the contract of purchase and sale of 12 December 2003, AS Eesti Telekom's 100%-owned company Elion Ettevõtted AS purchased 70% of the shares of AS EsData from TeliaSonera AB for 0.4 mln EUR. Until that time, Elion Ettevõtted AS owned 30% of the shares of AS EsData.

10. Other investments

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Non-current investments in other enterprises:				
AS Rocca al Mare Suurhall	172	172	77	77
Foundation Vaata Maailma	-	1	-	-
	172	**173**	**77**	**77**

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Movement in other investments:				
Opening balance	173	176	77	77
Reclassification	-	(3)	-	-
Amortisation (-)	(1)	-	-	-
	172	**173**	**77**	**77**

The AS Rocca al Mare Suurhall shares are not listed on any stock exchange and therefore possess no reliable market information.

Financial statements are prepared in thousands of euros (EUR)

11. Long-term receivables

The interest rates and repayment terms of the Group's long-term receivables are as follows:

	Interest rate	Maturity date	CONSOLIDATED		PARENT COMPANY	
			2003	**2002**	**2003**	**2002**
(a) Long-term receivables from subsidiary [1)]						
Promissory note to Elion Ettevõtted AS	4,00%		-	-	-	19,129
Loan to Elion Ettevõtted AS	4,00%		-	-	-	1,649
			-	-	-	20,778
Current portion of receivables (-)			-	-	-	(1,913)
Non-current portion of receivables			-	-	-	18,865
(b) Long- term receivables from associated company						
Loan to AS Sertifitseerimiskeskus	6,50%	2006	262	262	262	262
Current portion of receivables (-)			-	(262)	-	(262)
Non-current portion of receivables			262	-	262	-
(c) Non-current trade receivables						
Factoring receivables			35	102	-	-
Non-current trade receivables			63	1	-	-
			98	103	-	-
Current portion of receivables (-)			(47)	(67)	-	-
Non-current portion of receivables			51	36	-	-
(d) Other long-term receivables						
Instalment of dwelling-house	2,0%	2010	45	54	-	-
Instalment (computers, office furniture)	16,0%	2006	37	-	-	-
Finance lease	8,0%	2004	2	21	-	-
Finance lease	15,0%	2005	50	49	-	-
Advance for the rent charges			47	32	-	-
Advance for operating leases		2007	8	7	-	-
Deposits	2,5%	2005	5	1	-	-
Other advance			1	-	-	-
			195	164	-	-
Current portion of receivables (-)			(69)	(70)	-	-
Non-current portion of receivables			126	94	-	-
Total other non-current assets			**439**	**130**	**262**	**18,865**

1) Elion Ettevõtted AS prematurely repaid to the parent company the loan in the amount of 1,649 thousand EUR (contractual deadline: 2007) and a long-term bond in the amount of 19,129 thousand EUR (contractual deadline: 2007), including the portion for 2003, i.e. 1,913 thousand EUR.

2) The loan agreement concluded with AS Sertifitseerimskeskus has been extended, and the loan's new repayment deadline is 31 December 2006.

Expected repayments of the referred long-term receivables:

	CONSOLIDATED	PARENT COMPANY
2004	116	-
2005	63	-
2006	306	262
2007	30	-
2008	23	-
Thereafter	17	-
Total	**555**	**262**

Financial statements are prepared in thousands of euros (EUR)

12. Inventories

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Raw materials and consumables	2,278	2,687	-	-
Merchandise purchased for resale	3,902	1,644	-	-
Advance to suppliers	46	1,534	-	-
	6,226	**5,865**	**-**	**-**

In 2003, the inventories were retirement in the total amount of 630 thousand EUR (2002 year: 230 thousand EUR) based on the estimated decline of the realisation value below their acquisition cost.

13. Trade and other receivables

		CONSOLIDATED		PARENT COMPANY	
	Note	**2003**	**2002**	**2003**	**2002**
Trade receivables		31,063	27,503	-	-
Intra-group receivables	26	-	-	2,590	2,771
Receivables from associated companies	26	5	314	4	266
Accrued income		7,915	8,222	1,046	481
Tax receivables		1,762	1,355	-	9
Other		4,371	3,819	54	31
		45,116	**41,213**	**3,694**	**3,558**

14. Investments held for trading

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
a) Securities				
Skandinaviska Enskilda Banken, bonds	-	2,512	-	2,512
Eesti Ühispank, commercial papers	-	2,517	-	2,517
Sampo Pank, commercial papers	3,101	-	3,101	-
	3,101	**5,029**	**3,101**	**5,029**
b) Shares				
AS Hansapank	-	22	-	-
AS Esmofon Tartu	-	1	-	-
AS EGCC	12	-	-	-
	12	**23**	**-**	**-**
	3,113	**5,052**	**3,101**	**5,029**

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Movements in investments held for trading:				
a) Securities				
Opening balance	5,029	3,872	5,029	3,872
Acquisitions (at cost)	3,101	15,143	3,101	15,143
Disposals (at carrying value)	(5,029)	(13,986)	(5,029)	(13,986)
	3,101	**5,029**	**3,101**	**5,029**
b) Shares				
Opening balance	23	-	-	-
Acquisitions (at cost)	12	-	-	-
Disposals (at carrying value)	(23)	-	-	-
Reclassification (transferred from non-current investments)	-	4	-	-
Change in fair value	-	19	-	-
	12	**23**	**-**	**-**

Financial statements are prepared in thousands of euros (EUR)

15. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and shares of money-market funds.

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Bank accounts	2 487	8,021	(50,279)	(36,135)
Deposits	81,826	48,450	81,825	48,451
Cash on hand	37	26	-	-
Money-market fund shares	64	-	64	-
	84,414	**56,497**	**31,610**	**12,316**

Negative balances of parent company bank accounts are connected with Group account management. All the Group account settlements and investments are done through parent company bank accounts.

16. Lease receivables

Operating lease receivables

In 2002, EMT Esindused AS provided inventory and computing technology to contractual partners on the basis of operating lease. In 2003 there took place a procedure of taking over sales representations from authorised resellers, and consequently by the end of the year the assets provided as operating lease were no longer listed as such.

The Elion Ettevõtted AS group leases telecommunication channels, office space, and IT equipment and solutions under the terms of operating lease. Income from such leases amounts to 11,835 mln EUR and 12,733 mln EUR in 2003 and 2002, respectively.

The Parent Company does not have any finance or operating lease agreement.

Financial statements are prepared in thousands of euros (EUR)

17. Capital and reserves

a) Issued capital

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Share issued				
Ordinary shares par value 0.64 EUR per share, fully paid				
At beginning of year	137,383,178	137,383,178	137,383,178	137,383,178
Share issuance	261,250	-	261,250	-
	137,644,428	137,383,178	137,644,428	137,383,178
Preference share par value 63.91 EUR per share, fully paid	1	1	1	1

Monetary contributions in connection with the shares issued in 2003 are presented in the following table:

		CONSOLIDATED		PARENT COMPANY	
	Note	**2003**	**2002**	**2003**	**2002**
Share capital issued					
At beginning of year		87,804	87,804	87,804	87,804
Share capital issuance					
Denominational value of bonds (amounts transferred from convertible bonds)	20	17	-	17	-
Additional payments in cash		150	-	150	-
		87,971	**87,804**	**87,971**	**87,804**
Share premium					
Opening balance		19,810	19,810	19,810	19,810
Premium on ordinary shares issued		1,346	-	1,346	-
		21,156	**19,810**	**21,156**	**19,810**

The extraordinary general meeting of shareholders of AS Eesti Telekom held on 15 December 2000 approved the issuance of up to 85,000 convertible bonds, including the issuing of up to 42,500 A-series and 42,500 B-series bonds within the framework of the Eesti Telekom Group's employee incentive system.

A resolution passed at the same meeting ruled out AS Eesti Telekom shareholders' pre-emptive right to subscribe the convertible bonds to be issued.

During the initial subscription of convertible bonds that took place from 18 December 2000 to 5 January 2001, 144 employees of the Group subscribed 20,750 A-series and 20,750 B-series bonds. The Management Board of AS Eesti Telekom accepted all subscription applications. Additional 21,750 A-series and 21,750 B-series bonds were issued until 1 May 2003, and the total numbers of bonds outstanding as of 1 June 2003 were 41,625 A-series and 41,625 B-series.

In accordance with the "AS Eesti Telekom terms for the issue of convertible bonds", an owner of A-series bond was entitled to (i) redeem a bond and exchange it for 10 Eesti Telekom A-series shares, which have a nominal value of 0.64 EUR each and a subscription price of 5.79 EUR per share, or (ii) redeem a bond and exchange it for a sum of money (the bond's nominal value 0.64 EUR plus accumulated interest of 7% per annum).

On 4 June 2003 the Management Board of AS Eesti Telekom approved the results of the subscription period that lasted from 2 May to 2 June 2003. During that period, applications were received for the exchange of 26,125 bonds for 261,250 AS Eesti Telekom A-series shares. The Management Board of AS Eesti Telekom approved the subscription list, and will submit an application to the registry department of the Tallinn City Government for the registration of 261,250 A-series shares with a nominal value of 0.64 EUR and an issue price of 5.79 EUR, i.e. an issue premium of 5.15 EUR. The shares issued are in all respects equivalent to the existing AS Eesti Telekom A-series shares. The new shares entitle shareholders to dividends for the 2003 financial year. The total number of AS Eesti Telekom A-shares after the share issuance of the new shares is 137,644,428 and share capital 87,971 thousand EUR.

Financial statements are prepared in thousands of euros (EUR)

A-shares are distributed between the main groups of shareholders as follows:

Republic of Estonia	37,485,000 shares	(27,23%)
Public investors	32,841,672 shares	(23,86%)
TeliaSonera AB:		
Baltic Tele AB	67,317,756 shares	(48,91%)

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.

The company has issued one preference share. The holder of the preference share is entitled to an annual preference dividend of 639.11 EUR, and one vote at the shareholders' general meeting.

Pursuant to the Shareholders' Agreement, preferred shares will be converted into ordinary shares in May 2004.

Non-monetary contribution has been made for 63,883,178 shares in the total value of 56,923 thousand EUR.

b) 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).

c) Dividends

Dividends in the total amount of 52,683 thousand EUR or 0.38 EUR per ordinary share and 639.11 EUR per preference share, were disbursed in 2003.

d) Re-acquiring of shares

The Annual General Meeting of Shareholders, on May 22, 2003, authorized AS Eesti Telekom to acquire within one year from the adoption of this resolution (i.e. until 22 May 2004; the same authority, which was obtained from last Annual General Meeting on 17 May 2002, terminated on 17 May 2003) AS Eesti Telekom shares of A-series so that the total of nominal values of own shares held by AS Eesti Telekom would not exceed the limit set by statutory regulations, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the company's assets in excess of its share capital, capital reserves, and share premium. The amount of shares to be acquired each time shall be determined on each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council. As of 31 December 2003, no shares have been re-acquired by AS Eesti Telekom.

e) Earnings per share

Basic earnings per share have been calculated as follows:

- Consolidated:

2003 year: EUR 0.48 = (66,183,000 – 639.11): ((137,383,178 x 5/12) + (137,644,428 x 7/12))

2002 year: EUR 0.48 = (66,495,000 – 639.11): 137,383,178

- Parent Company:

2003 year: EUR 0.48 = (66,209,000 - 639.11): ((137,383,178 x 5/12) + (137,644,428 x 7/12))

2002 year: EUR 0.48 = (66,493, 000 - 639.11): 137,383,178

Financial statements are prepared in thousands of euros (EUR)

The calculation of **diluted earnings per share** is the following:

- Consolidated:

2003 year: EUR 0.48 = (66,183,000 – 639.11): ((137,383,178 x 5/12) + (137,644,428 x 7/12) + + ((216,250 – (261,250 x 5.79/6.44)) x 5/12) + ((357,500 – (357,500 x 5.79/6.44)) x 12/12))

- Parent Company:

2003 year: EUR 0.48 = (66,209,000 – 639.11): ((137,383,178 x 5/12) + (137,644,428 x 7/12) + + ((216,250 – (261,250 x 5.79/6.44)) x 5/12) + ((357,500 – (357,500 x 5.79/6.44)) x 12/12))

The following data have been used in the ascertainment of diluted earnings per share at the time of calculation of the indicator:

- 66,183,000 EUR – consolidated net profit for the period;
- 66,209,000 EUR – Parent Company net profit for the period;
- 639.11 EUR – dividends on preferred shares;
- 137,383,178 – the number of ordinary shares after issuance (up to 31 May 2003);
- 137,644,428 – the number of ordinary shares after the issuance of the shares;
- 216,250 – the number of A-series shares covered by options, until the moment of conversion (up to 31 May 2003);
- 357,500 – the number of B-series shares covered by options, as of 31 December 2003;
- 6.44 EUR – the average market value of shares during the financial year;
- 5.79 EUR – the subscription price of shares, as stated in the option agreement.

2002 year: In view of the fact that in 2002 the average price of the shares of AS Eesti Telekom at the Estonian Central Depository for Securities was 4.98 EUR, the options relating to the bonds do not have a dilutive effect and diluted earnings per share equal basic earnings per share.

f) Share information

AS Eesti Telekom shares are quoted in the main list of the HEX 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 highest price of an AS Eesti Telekom share on the Tallinn Stock Exchange, during 2003 year, was 7.90 EUR; the lowest price was 5.14 EUR, and the average price was 6.44 EUR per share.

18. Interest-bearing loans and borrowings

		CONSOLIDATED		PARENT COMPANY	
	Notes	**2003**	**2002**	**2003**	**2002**
(a) Non-current					
Non-convertible long-term debt	19 (b)	236	742	-	-
Convertible bonds	20	-	31	-	31
		236	**773**	**-**	**31**
(b) Current					
Bank loans - current portion (secured)	19 (a)	-	1,487	-	-
Non-convertible debt	19 (b)	505	656	-	-
Convertible loan – current portion	20	28	31	28	31
Finance lease liability	6, 22 (b)	-	66	-	-
		533	**2,240**	**28**	**31**

Financial statements are prepared in thousands of euros (EUR)

19. Loan information

The details of the Group's loans are as follows:

	Interest rate	Notes	CONSOLIDATED 2003	CONSOLIDATED 2002	PARENT COMPANY 2003	PARENT COMPANY 2002
Bank loans with floating interest						
EUR loans	6 month EURIBOR+ 0.55%		-	1,487	-	-
Current portion of bank loans (-)		18 (b)	-	(1,487)	-	-
Non-current portion of bank loans			-	-	-	-

Group does not have any outstanding bank-loans as of 31 December 2003.

On 18 January 2001, AS Eesti Telekom entered into a loan facility agreement with a syndicate of international banks for the purpose of raising a 40 million EURO (625, 9 million EEK) debt. The maturity date of the loan is 5 years and the annual interest rate is EURIBOR+0.775%. The syndicate consists of Bankgesellschaft Berlin AG, the Dai-Ichi Kangyo Bank Ltd, Landesbank Schleswig Holstein Girozentrale, Sampo Bank plc, Swedbank and AS Hansapank. As of 31 December 2003, the loan has not been reduced.

	Interest rate	Notes	CONSOLIDATED 2003	CONSOLIDATED 2002	PARENT COMPANY 2003	PARENT COMPANY 2002
(c) Non-convertible long-term debt						
EUR (with floating interest) *)	3 month EURIBOR + 3.5%		706	1,296	-	-
Factoring			35	102	-	-
			741	1,398	-	-
Current portion of non-convertible long-term debt (-)		18 (b, c)	(505)	(656)	-	-
Non-convertible long-term debt		18 (a, c)	236	742	-	-

*) Elion Ettevõtted AS has an outstanding liability in the form of a non-convertible long-term loan. It was taken from Telia Finans AB in the amount of 34 mln SEK on 30 December 1994.

On 20 February 2002, the loan agreement was changed in a way that an annuity, denominated in SEK and interest payments at the beginning of each period (interest rate K1+margin) became a EUR denominated fixed repayment schedule loan with an interest payment at the end of each period (interest rate EURIBOR +3.5%). Consequently, the Group eliminated the foreign exchange rate risk between SEK and EEK. The last repayment will be made on 30 June 2005.

(c) Repayment of bank loans and non-convertible long-term debt (consolidated)

	Non-convertible long term debt
2004	505
2005	236
	741

20. Convertible debt

Employees' share option

At the beginning of 2001, Eesti Telekom Group launched a motivation system for its employees. As a part of the system, AS Eesti Telekom issued bonds with the issuance value of 0.64 EUR per bond. The bonds are accompanied by an option that allows the holder to exchange them for the parent company's ordinary shares either in the spring of 2003 (A-series) or in the spring of 2004 (B-series). The subscription price of the shares is 90.62 EEK.

Financial statements are prepared in thousands of euros (EUR)

In accordance with the "AS Eesti Telekom terms for the issue of convertible bonds", an owner of A-series bond was entitled to (i) redeem a bond and exchange it for 10 Eesti Telekom A-series shares, which have a nominal value of 0.64 EUR each and a subscription price of 5.79 EUR per share, or (ii) redeem a bond and exchange it for a sum of money (the bond's nominal value 0.64 EUR plus accumulated interest of 7% per annum).

Additional information concerning the A-series convertible bonds transaction in 2003 is provided in Note 15, section (a).

As of 31 December 2003, 35,750 B-series bonds had been issued, which can be exchanged for 357,500 AS Eesti Telekom ordinary shares in 2004.

Each bond shall bear interest on its nominal amount at the rate of 7% per annum.

		CONSOLIDATED	
	Notes	**2003**	**2002**
Nominal value of convertible loan bonds issued at the year beginning		**54**	**28**
Nominal value of convertible loan bonds issued		-	27
Repayment of convertible loan bonds in nominal value		(14)	(1)
Exchange of convertible loan bonds for ordinary shares		(17)	-
Nominal value of convertible loan bonds issued at the year ending		**23**	**54**
Convertible loan bonds premium at the year beginning		1	-
Issued convertible loan bonds premium		-	4
Discount of convertible loan bonds premium		(1)	(2)
		23	**56**
Interest charged		10	6
Interest paid		(5)	-
		28	**62**
Current portion of convertible long-term loan bonds (-)	18 (b)	28	(31)
Convertible long-term loan bonds	18 (a)	-	31

21. Trade and other payables

		CONSOLIDATED		PARENT COMPANY	
	Note	**2003**	**2002**	**2003**	**2002**
Trade payables		14,447	15,019	47	48
Intra-group payables	26	-	-	149	159
Customer advances		446	361	-	-
Taxes payable		2,281	1,825	29	-
Accrued expenses		9,854	13,302	226	150
Other prepaid revenue		43	94	-	-
		27,071	**30,601**	**451**	**357**

Financial statements are prepared in thousands of euros (EUR)

22. Operating and finance leases

		CONSOLIDATED		PARENT COMPANY	
	Note	**2003**	**2002**	**2003**	**2002**
a) Operating lease payments					
Minimum lease payments under non-cancellable operating leases, not provided for:					
- no later than in one year		1,823	1,591	-	-
- between one and two years		1,414	1,081	-	-
- between two and three years		644	562	-	-
- between three and four years		241	237	-	-
- between four and five years		30	106	-	-
		4,152	**3,577**	**-**	**-**
(b) Finance lease payments					
Finance lease payments, both principal and interest charge, are payable as follows:					
- no later than one year		-	70	-	-
Interest charge (-)		-	(4)	-	-
Current portion of finance lease liability	18 (b)	-	66	-	-

23. Provisions

a) Non-current retirement benefit provisions

	CONSOLIDATED	PARENT COMPANY
Opening balance	**490**	**-**
Additional provision in the year	113	113
	603	113
Current portion of retirement benefit provisions (-)	(42)	-
Non-current retirement benefit provisions	**561**	**113**

b) Current provisions

	Termination benefits provision	Current portion of retirement benefit provisions	Other provisions	**Total**
At 31 December 2002	562	42	8	**612**
Additional provision in the year	209	42	1	252
Utilisation of provision	(429)	(42)	(8)	(479)
At 31 December 2003	**342**	**42**	**1**	**385**

24. Financial instruments

Financial assets of the Group include cash, marketable securities and trade receivables. Financial liabilities include loans, borrowings and trade payables. Accounting policies for financial assets and liabilities are disclosed in Note 1.

To manage the Group's liquid assets more efficiently, the Group has Group account systems in Hansapank, Eesti Ühispank, and Sampo Pank in Estonia, and in Hansabanka in Latvia. The group accounts are also used for funding the subsidiaries.

Funding the Group, as well as managing the Group's excess liquidity and financial risks, is the responsibility of the Treasury Department, which fulfils its respective obligations and responsibilities in accordance with the rules approved by the Supervisory Board of AS Eesti Telekom.

Financial statements are prepared in thousands of euros (EUR)

(a) Interest rate risk

The Group has hedged a liability through IRS (Interest Rate Swap) against the rise in interest rates (3 month EURIBOR). The contract is made with Nordea Bank Estonia and the hedged loan agreement is signed between Elion Ettevõtted AS and Telia Finans AB.

The interest rates and repayment terms of the Group's loans are disclosed in Note 19 of the financial statements.

(b) Credit risk

Credit risk represents accounting loss that would be recognised at the reporting date if counterparties failed to perform as contracted. The Group does not have significant exposure to any individual customer or counter-party. To reduce exposure to credit risk, the Group performs ongoing customer performance evaluations. The management does not expect the customers to fail to meet their obligations.

The Group manages its excess liquidity and financial risks only with and through Estonian banks, which have at least a Baa 2 credit rating, and foreign banks, which have at least an A2 credit rating.

(c) Fair value

The fair values of cash, trade payables, loans and borrowings are not materially different from their carrying amounts.

(d) Foreign exchange hedge instruments

To hedge the currency risk arising from liabilities denominated in foreign currencies, the Group has concluded currency option and swap transactions and the Group's group account include foreign currency assets.

As of 31 December 2003, the Group did not have any outstanding derivative contracts related to hedge currency risks.

25. Acquisition of subsidiaries

In accordance with the contract of sale and purchase of 12 December 2003, 100% subsidiary of AS Eesti Telekom’s Elion Ettevõtted AS acquired 70% of the shares of AS EsData from TeliaSonera AB for 0.4 mln EUR. Until that time, Elion Ettevõtted AS had owned 30% of the shares of AS EsData.

On 1 July 2003 AS Connecto, which is a 51%-owned subsidiary of Elion Ettevõtted AS, acquired all of the shares of telecommunications company AS Reveko Telekom. Pursuant to the contract of purchase and sale, AS Connecto purchased 55% of the shares of AS Reveko Telekom from TeliaSonera AB, and the remainder from other Estonian private persons. The value of the transaction was 0.9 EUR.

On the basis of the agreement concluded between AS Connecto and Eltel Networks Corporation, AS Connecto purchased 100% of the shares of AS Eltel Networks, which is located in Estonia. The value of the transaction concluded amounted to 0.7 mln EUR. AS Connecto and AS Eltel Networks, which operates in Estonia, signed a merger agreement on 18 December 2003, in accordance with which the two companies shall begin merger proceedings. The merger of the companies is anticipated to take place in the first quarter of 2004.

The effect of the acquisition on goodwill and cash flows in 2003 was the following:

		2003				**2002**
	Note	AS Reveko Telekom	AS Eltel Networks	AS EsData 100%	AS EsData +70%	SIA Connecto Latvia
Fixed assets		636	286	119	84	47
Inventories		31	112	9	6	69
Trade receivables		314	258	69	48	68
Other receivables		29	152	82	58	-
Cash and bank accounts		42	8	441	309	2
Short-term liabilities		(347)	(540)	-	-	(224)
Net identifiable assets and liabilities		705	276	720	505	(38)
Goodwill	7	190	460	-	4	38
Total consideration		895	736		433	-
Cash and bank accounts		42	8		441	2
Net cash in / (out)flow		(853)	(728)		8	2

Financial statements are prepared in thousands of euros (EUR)

26. Related party transactions

Transactions with related parties are transactions with parent, subsidiaries and associates, shareholders, members of the Supervisory Council and the Management Board, employees, their relatives and the companies in which they hold majority interest.

a) Directors' and executives' remuneration

The remuneration of directors and other members of key management during the year was as follows:

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Salaries	1,475	258	1,006	208

b) Trading transactions

Transactions with related parties were conducted under market terms.
During the year, group companies entered into the following transactions with related parties:

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Telecommunication services provided				
Associates:				
AS EsData	288	233	-	-
AS Sertifitseerimiskeskus	5	16	-	-
AS Intergate	-	3	-	-
OÜ Voicecom	5	6	-	-
Owners:				
TeliaSonera AB	8,153	8,515	-	-
Supervisory Council members:				
Tark & Co Law Office	29	19	-	-
	8,480	**8,792**	**-**	**-**
Other sales				
Subsidiaries:				
AS EMT	-	-	1	8
AS Connecto	-	-	2	-
Associates:				
AS EsData	1	-	-	-
AS Sertifitseerimiskeskus	1	-	-	-
OÜ Voicecom	1	-	-	-
Owners:				
Eltel Networks Corporation (from 01.07.2003)	20	-	-	-
	23	**-**	**3**	**8**
Telecommunication services purchased				
Subsidiaries				
Elion Ettevõtted AS	-	-	17	8
AS EMT	-	-	6	5
Associates:				
AS EsData	-	23	-	2
OÜ Voicecom	119	134	-	-
Owners:				
TeliaSonera AB	4,347	7,253	-	-
	4,466	**7,410**	**23**	**15**

Financial statements are prepared in thousands of euros (EUR)

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Other services purchased				
Associates:				
OÜ Voicecom	4	1	-	-
Owners:				
TeliaSonera AB	87	257	-	-
Eltel Networks Corporation (from 01.07.2003)	50	-	-	-
Supervisory Council members:				
Tark & Co Law Office	130	68	14	4
	271	**326**	**14**	**4**
Financial income				
Subsidiaries:				
Elion Ettevõtted AS	-	-	106	957
AS EMT	-	-	-	46
AS Mobile Wholesale	-	-	21	34
EMT Esindused AS	-	-	1	-
SIA Connecto Latvia	-	-	5	4
Associates:				
AS Sertifitseerimiskeskus	17	17	17	17
	17	**17**	**150**	**1,058**
Financial expenses				
Subsidiaries:				
Elion Ettevõtted AS	-	-	-	4
AS EMT	-	-	-	6
Owners:				
TeliaSonera AB	60	130	-	-
Eltel Networks Corporation (since 01.07.2003)	1	-	-	-
	61	**130**	**-**	**10**
Amounts owed by related parties				
Subsidiaries:				
Elion Ettevõtted AS	-	-	-	21,610
AS Mobile Wholesale	-	-	1,566	1
EMT Esindused AS	-	-	767	-
AS Eltel Networks	-	-	112	-
SIA Connecto Latvia	-	-	145	25
Associates:				
AS Sertifitseerimiskeskus	266	267	266	266
AS EsData	-	46	-	-
OÜ Voicecom	1	1	-	-
Owners:				
TeliaSonera AB	3,264	1,757		-
Eltel Networks Corporation (since 01.07.2003)	14	-	-	-
Supervisory Council members:				
Tark & Co Law Office	2	2	-	-
	3,547	**2,073**	**2,856**	**21,902**

Financial statements are prepared in thousands of euros (EUR)

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Amounts owed to related parties				
Subsidiaries:				
Elion Ettevõtted AS	-	-	63	77
AS EMT	-	-	82	71
AS Connecto	-	-	1	7
AS Elion Esindused	-	-	1	3
AS Reveko Telekom	-	-	2	-
EMT Esindused AS	-	-	-	1
Owners:				
TeliaSonera AB	1,711	3,223	-	-
Eltel Networks Corporation (since 01.07.2003)	43	-	-	-
Employees of AS Eesti Telekom Group (convertible loan)		61		61
	1,754	**3,284**	**149**	**220**

27. Contingencies

Contingent income tax liability

According to the Estonian Income Tax Law in force from 1 January 2003, resident legal entities pay income tax on dividends and on other distribution of profit irrespective of the recipient. The maximum amount of the contingent income tax occurring at the distribution of profits as dividends (146,394 thousand EUR) is up to 51,436 thousand EUR. The income tax payable can be decreased by the income tax paid by the subsidiary and associated company at their dividend distribution.

Other contingent liabilities

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Guarantees to former employees	13	13	13	13
Guarantees to subsidiaries	-	-	192	192
Guarantees to other companies	114	101	-	-
Legal proceeding	-	12	-	-

During the financial year AS EMT acquired a third generation mobile communications license. By acquiring the license, AS EMT accepted an obligation to establish, within seven years of the issuance of the license (17 July 2003), a third generation network, covering at least 30% of the Estonian population and having a data transmission speed of at least 144 Kb/sec in urban areas and 64 Kb/sec elsewhere in Estonia.

28. Employees

The average number of employees during 2003 was 2,426; and during 2002, 2,307.

29. Ultimate parent of the Group

The ultimate parent of the Group is AS Eesti Telekom, situated at Roosikrantsi Str 2, 10119 Tallinn, Estonia.

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To the Shareholders of AS Eesti Telekom:

We have audited the accompanying consolidated balance sheet of AS Eesti Telekom and subsidiaries ("the Group") and the separate balance sheet of AS Eesti Telekom as of 31 December 2003, and the related statement of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the AS Eesti Telekom management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Group and the financial position of AS Eesti Telekom as of 31 December 2003, and the results of their operations and their cash flows for the year then ended, in accordance with International Financial Reporting Standards.

AS Deloitte & Touche Audit
1 March 2004

Deloitte
Touche
Tohmatsu

MANAGEMENT BOARD'S AND SUPERVISORY COUNSIL'S SIGNATURES TO THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

The Management Board has prepared the management report and the consolidated and parent company financial statements of AS Eesti Telekom for the financial year ended 31 December 2003 on 18 February 2004.

The Supervisory Council of AS Eesti Telekom has reviewed the annual report, prepared by the Management Board, consisting of the management report, the consolidated and parent company annual accounts and the notes to the annual accounts and the independent auditors' report, and has approved the annual report for presentation on the General Meeting.

All the members of the Management Board and Supervisory Council have signed the financial statements.

Name	*Position*	*Signature*	*Date*
Jaan Männik	*Chairman of the Board*	……………………	……………..
Krister Björkqvist	*Member of the Board*	……………………	……………..
Aare Tark	*Chairman of the Council*	……………………	……………..
Annika Christiansson	*Member of the Council*	…………………..	……………..
Erik Halberg	*Member of the Council*	……………………	……………..
Alo Kelder	*Member of the Council*	……………………	……………..
Kalev Kukk	*Member of the Council*	……………………	……………..
Tiina Mõis	*Member of the Council*	……………………	……………..
Tarmo Porgand	*Member of the Council*	……………………	……………..
Mats Salomonsson	*Member of the Council*	……………………	……………..
Kennet Rådne	*Member of the Council*	……………………	……………..
Raivo Vare	*Member of the Council*	……………………	……………..