Consolidated and Parent Company Annual Accounts of AS Eesti Telekom 2004

ANNUAL REPORT

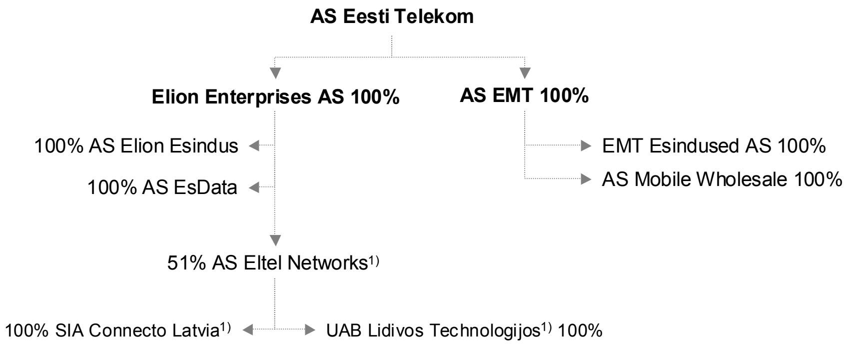
Beginning of the financial year	1 January 2004
End of the financial year	31 December 2004
Name of the enterprise	**AS Eesti Telekom**
Registration number	10234957
Address	Roosikrantsi 2, 10119 Tallinn Estonia
Telephone	+ 372 631 12 12
Facsimile	+ 372 631 12 24
E-mail	mailbox@telekom.ee
Web-page	www.telekom.ee
Field of activity	Investments into other companies operating in the field of telecommunications and management and administration of such investments
Auditors	AS Deloitte & Touche Audit

Documents enclosed with the annual accounts

Independent Auditor's Report

CONTENTS

The consolidated statements of AS Eesti Telekom in 2004 cover the financial results of the following companies:



[1] Consolidated until 30 November 2004

Changes in the corporate structure of the Eesti Telekom Group

Majority of the changes in the corporate structure of the Eesti Telekom Group that took place in 2004 were related to the construction segment.

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 primary activity of the acquired company is the installation and maintenance of low-current and security systems. The concluded transaction reinforces the expansion of the AS Connecto's activities in the Baltic region.

In 2004, the merger process of the Connecto Group companies, which was started in December 2003, was completed, as a result of which, on 8 June 2004, AS Connecto and AS Eltel Networks were merged. The merged company continued operations as AS Eltel Networks. On 8 December 2004, AS Reveko Telekom and AS Eltel Networks were also merged.

In December 2004, Elion Enterprises AS sold its 51% stake in the subsidiary AS Eltel Networks to the Finnish network construction company Eltel Networks Corporation, which already possessed a 49% holding in the company. Price of the deal was approximately 60 million EEK. Capital gain, approximately 43 million EEK is recognised as financial income in the income statement for 2004.

On 30 December 2004, Elion Enterprises AS acquired Viru Net OÜ, a leading Internet service provider in Ida-Viru County, in order to strengthen Elion's market position in that county and consolidate the Estonian Internet market. In 2003, the net sales of Viru Net OÜ were 3 million EEK, and it earned profits of 0.4 million EEK. The company employs 17 people. The results of Viru Net OÜ will be included in the Elion Group's consolidated financial results from January 2005.

On 23 December 2004, TeliaSonera AB, through its subsidiary Baltic Tele AB, carried out transactions for the acquisition of 100 AS Eesti Telekom shares from public investors, as a result of which TeliaSonera AB's holding in AS Eesti Telekom raised to 50.00004%. When the holding surpassed 50%, TeliaSonera AB made a bid for all of the shares of AS Eesti Telekom, as required by Estonian Securities Market Act. The value of the bid is 109.84 EEK per share. The acceptance period of the bid is from 13 January 2005 until 23 February 2005. At 14 February 2005, the ownership structure of AS Eesti Telekom is as follows:

Baltic Tele AB	68,977,314 shares	50.00%
Republic of Estonia	37,485,100 shares	27.17%
Public investors	31,492,114 shares	22.83%

Since TeliaSonera AB's holding exceeds the 50 percent limit, AS Eesti Telekom will be consolidated into the TeliaSonera Group.

Eesti Telekom Group

Revenues, expenses and profits

In 2004 the development of the Estonian telecommunications market was very rapid in the area of both mobile and fixed-line communications. The year 2003 ended with a mobile penetration of 77% in Estonia. By the end of 2004 mobile penetration had reached 94%. The rapid growth in customer base has undoubtedly been supported by the reduction in call rates. Although mobile number portability only started on 1 January 2005, operators, including the Eesti Telekom Group’s mobile communications operator AS EMT, already began to make preparations for this in 2004. Rates were adjusted and many discount packages were offered to customers, with the aim to attract customer groups (families, groups of friends, colleagues) to join EMT. In November 2004 the so-called discount service provider *Diil*, which targets price-sensitive mobile phone users, entered the market. Alongside voice communications, mobile data communications are acquiring increasing popularity. In this area, AS EMT was the first operator in Estonia to launch the EDGE technology in 2004. Despite the competition, which has become increasingly strong, AS EMT maintained its 47% market share.

The keywords in fixed-line communications in 2004 were the Internet, data communications and IT. The number of broadband connections provided by Elion Enterprises AS increased 52% during the year. During the year, the company broke several computer sales records with its subsidiaries. Elion Enterprises AS has become one of Estonia’s leading IT companies. In fixed-line communications, the growth in the Internet and data communications in Estonia has been, as elsewhere in Europe, overshadowed by the decline in the area of voice communications. Customers increasingly use mobile phones for communication, and are terminating their fixed-line telephone subscriptions. In order to remain in step with global developments, i.e. offers where voice and Internet connections are an integral package and for a single monthly fee, Elion launched new *Kodulahendus* packages in October. The first months have shown that the offer has gained customers’ approval. In January 2005, Elion began to offer business customers *Ärilahendus* packages, which are similar to *Kodulahendus*. Revenue from new spheres of business has helped compensate for the decline in the area of voice communications. The launching of combined communications solutions has helped curb the decline in the number of fixed-line customers.

The Eesti Telekom Group’s total revenues for 2004 were 5,143 million EEK (2003: 4,808 million EEK), which is an increase of 7% or by 335 million EEK in comparison with 2003. The majority of the increase in revenue came from the area of mobile communications. The significant increase in retail subsidiaries’ sales of telecommunications devices helped towards the growth of revenues in the area of both mobile and fixed-line communications.

The Group’s operating costs for 2004 increased 12%, reaching 3,020 million EEK (2003: 2,691 million EEK). Operating costs were influenced by larger customer base and fast growth of the retail subsidiaries’ sales. EBITDA amounted to 2,122 million EEK, remained at the same level as for 2003. Depreciation and amortisation was 816 million EEK (2003: 881 million EEK), down by 65 million EEK during the year. The lower amortisation expenses of Elion Enterprises AS mainly caused this reduction.

The net financial income fell by 13 million EEK. Total revenues for 2003 included the 59 million EEK in profits earned from the sale of 49% of the shares of AS Eltel Networks. The profits earned from the sale of 51% of the shares of AS Eltel Networks in 2004 amounted to 43 million EEK. The price per share was the same in the case of the sale of the minority and majority shareholdings.

The Eesti Telekom Group’s profit before income tax was 1,381 million EEK (2003: 1,326 million EEK), which is 4% more than in 2003. Whereas in 2003 the company paid its shareholders 6 EEK in dividends per A-share, in 2004 the value of the dividend was 8 EEK per A-share. As a result, the amount of income tax paid on the dividends also increased by 92 million EEK. AS Eesti Telekom, the parent company, earned a net profit of 993 million EEK in 2004 (2003: 1,036 million EEK). The revenue earned per share was 7.21 EEK in 2004.

Balance sheet and cash flows

As of the end of December 2004, the total assets of the Eesti Telekom Group amounted to 4,524 million EEK (4,599 million EEK in December 2003). During the year, non-current assets fell by 281 million EEK, and current assets increased 207 million EEK. The decrease in non-current assets resulted from the relatively small volume of investments in recent years. The growth in current assets was mainly the result of the increase in cash and cash equivalents (135 million EEK). Trade receivables increased by 91 million EEK, of which 70 million EEK is the increase in the receivables of retail chains in connection with the increase in the volume of sales by instalment.

The Eesti Telekom Group’s equity decreased 79.5 million EEK during the year, as a result of the payment of 1,101 million EEK in dividends. As of the end of December 2004, the Group had 1 million

EEK in long-term debt and 19 million EEK in short-term debt (at the end of December 2003 these figures were 4 million EEK and 8 million EEK respectively). The Group's net debt at the end of 2004 was -1,463 million EEK, and net gearing was -36%. The Group's other short-term liabilities increased 12 million EEK during 2004.

The Eesti Telekom Group's cash flows from operating activities were 1,645 million EEK in 2004 (1,709 million EEK in 2003). The most significant factor leading to the decrease in cash flows from operating activities was the increase in the income tax paid on dividends. Cash flows into investing activities decreased in comparison with 2003 - 432 million EEK in 2003 (including the 68 million EEK earned from the sale of the minority share in AS Eltel Networks), 421 million EEK in 2004 (including the 52 million EEK earned from the sale of the majority share in AS Eltel Networks). Cash flows into financing activities were 1,089 million EEK in 2004, including 1,101 million EEK paid out in dividends (in 2003: 839 million EEK, including 824 million EEK paid as dividends).

Return on assets (ROA) and return on equity (ROE) continued to be very high. ROE increased from the previous year's 34.1% to 35.0%. ROA decreased from 23.1% to 22.1%, mostly due to the large portion of cash and cash equivalents in total assets.

Management and personnel

As of 31 December 2004, there were 1,959 employees in the Eesti Telekom Group (31 December 2003: 2,452). The number of employees decreased primarily in connection with the sale of AS Eltel Networks (in November 2004 there were 594 employees). The total amount of employees' salaries paid in 2004 was 425 million EEK.

The number of employees of AS Eesti Telekom, the parent company of the Eesti Telekom Group, as of 31 December 2004, was 7 (31 December 2003: 8). The overall amount of employees' salaries paid in 2004 was 8 million EEK.

Elion Group

The Elion Group consists of Elion Enterprises AS, AS Elion Esindus, and AS EsData. Until 30 November 2004 AS Eltel Networks, SIA Connecto Latvia and UAB Lidivos Technologijos also belonged to the Elion Group.

The Elion Group's total revenues for 2004 were 2,679 million EEK, which is an increase of 4% in comparison with 2003 or an absolute increase of 101 million EEK.

Of the Elion Group's core activities, the most rapid increases in revenue were in data communications and IT. In 2004 as a whole, the Elion Group's revenues from data communications and IT services increased 19%. During 2004, Elion specialists mapped the IT systems of approximately 200 firms, and began to service the computer terminals of more than 1,000 other firms. Also, the product portfolio of Elion Enterprises AS was expanded by a new complex server service, with a fixed monthly fee, designed for smaller firms. The company signed a co-operation contract with Columbus IT Partners to start offering Microsoft Business Solutions business information systems. Connecting Tallinn's school computers with a high-speed fiber-optic network completed the public tender of the Tallinn Educational Authority that Elion Enterprises AS won a year ago. The construction of an extensive private network for AS Eesti Post, which connected 42 larger post offices across Estonia, ended in August. In September Elion signed an agreement to provide nearly 500 computer worksites on the basis of operating lease to schools, the public library and the government of Tartu.

The second important revenue growth area for the Elion Group was Internet. In 2004, the Group's revenues from the Internet grew 10%. During 2004, the number of permanent connections provided by Elion grew by 26,000, reaching 76.8 thousand by the end of December. The price of services, however, has fallen. In order to remain in step with global developments, i.e. offers where voice and Internet connections are an integral package and for a single monthly fee, Elion launched new *Kodulahendus* packages in October. *Kodulahendus* offers individuals the opportunity to use a permanent Internet connection, a telephone connection and 20 hours of free calls within the network for one monthly fee. Customers can choose the package that best suits them from among the three *Kodulahendus* packages. The monthly fee for *Kodulahendus* is less than the sum of the fees for the individual services it comprises. By the end of 2004, over 22.3 thousand customers had subscribed to the *Kodulahendus* packages. In January 2005 Elion began to offer business customers *Ärilahendus* packages, which are similar to *Kodulahendus*.

The Elion Group's revenues from voice communications in 2004 were 5% less than the results for 2003. At the end of December 2004, Elion had 426,000 main lines at its disposal. During the year, the number of main lines decreased by 18.5 thousand. The decrease slowed down significantly during the second half of 2004. The stabilisation of the number of main lines has been supported by the launch of the above-mentioned *Kodulahendus* packages which promote the use of fixed-line telephones in addition to offering Internet connections, and also by Elion's campaigns for free subscription of telephone connections. During the latest of the campaigns of the kind, which lasted from July to December 16 thousand customers were added to the Elion network.

The fall in mobile communications rates and the rapid increase in the number of mobile phone users in 2004 led to a reduction in the number of local call minutes made from fixed-line telephones. As a result, revenue from local calls was 18% lower than the corresponding figure for 2003. Revenues from international calls were up by 1%, compared to 2003. Revenues from calls made to the mobile telephone network decreased 4% over 2004.

Elion Enterprises AS estimates its market share in the area of call minutes initiated from the fixed-line network to be 86% (87% in December 2003). Market share from local call minutes was 87% in December 2004 (87% in December 2003), 75% of calls to mobile phones (76% in December 2003), 69% of international call minutes (67% in December 2003), and 95% of Internet dial-up minutes (95% in December 2003).

Revenues from network services increased 18% during 2004. This growth is the result of increased international traffic and income from the leased lines.

A significant contribution to the growth of the Elion Group's total revenues was made by AS Elion Esindus, which is involved with the retail sale of telephones and computing equipment. The company's revenues increased 33% over 2004. In December 2004 another computer sales record was set – over 1,500 computers sold in a one-month period. During 2004, nearly three times more computers were sold at Elion Esindused than in 2003. About 60 percent of computers are paid for by instalment. Computers are generally purchased with the ADSL start-up package, and a permanent Internet connection is also usually ordered.

The results of the part of the Elion Group that is involved with network construction, the Eltel Group, were only consolidated into the Elion Group until November 2004. As a result of the sale of the Eltel Group, the revenues of the Elion Group decreased by roughly 24 million EEK in 2004.

In 2004, the Elion Group's operating costs amounted to 1,818 million EEK, having increased 6% during the year. The increase in the revenues of AS Elion Esindus also led to an extensive increase in operating costs. The company's operating costs for 2004 exceeded the figure for 2003 by 35%. The operating costs of the group's parent company Elion Enterprises AS grew 1%. During the year, several categories of direct sales expenses have decreased, and marketing and sub-contracting expenses have also fallen. The growth in the number of call minutes made to the networks of foreign operators has led to a certain increase in interconnection expenses.

In 2004 the Elion Group's EBITDA was 861 million EEK, which is 1% less than the corresponding result for 2003. The group's depreciation charges decreased 13% over the year, and amounted to 467 million EEK. The Elion Group's EBIT was 394 million EEK, which is 20% greater than the result for 2003.

The Elion Group's consolidated net profit for 2004 was 342 million EEK, which is 24 million EEK less than in 2003. The result for 2003 includes the 59 million EEK in profit earned from the sale of the minority shareholding in AS Eltel Networks. The result for 2004, however, includes the 43 million EEK in profit earned from the sale of the majority shareholding in AS Eltel Networks. In addition to this, Elion Enterprises AS paid AS Eesti Telekom 100 million EEK more in dividends in 2004 than it did in 2003, which led to increased income tax on dividends of 35 million EEK in comparison with 2003.

The Elion Group invested a total of 243 million EEK (2003: 224 million EEK). The majority of investments were targeted to the satisfaction of customers' needs and the development of the network. The most significant investment projects were the development of IT infrastructure, the expansion of the DSL network, the creation of a data warehouse for AS Hansapank.

The Elion Group had 1,452 employees at the end of December 2004 (2,014 in December 2003). The decrease was mainly the result of the sale of the Eltel Group. The overall sum of the Elion Group employees' salaries was 313 million EEK.

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

The total revenues of the EMT Group in 2004 exceeded 3 billion EEK (3,002 million EEK), having increased 10% in comparison with 2003. The majority of the growth in total revenues came from the operations of the parent company. A significant factor that influenced the growth in total revenues was the increase in customer base.

The EMT Group has been able to maintain its 47% market share successfully in conditions of tough competition. As of the end of December 2004, the operator had 595.4 thousand customers (491.4 thousand in December 2003). During the year 2004, the company's customer base has increased by 104 thousand customers. The numbers of both contractual customers and users of pre-paid cards have increased. At the end of December, AS EMT had 363.4 thousand contractual customers (306.6 thousand in December 2003). The number of pre-paid cards at the end of December was 232.0 thousand (184.8 thousand in December 2003). The increase in the number of pre-paid cards is partly the result of changes in the terms and conditions of use of the Simpel pre-paid call card, which came into effect from 21 September 2004. Up to September 2004, call card users were able to use their call time to make calls within a maximum of five months from the last loading, which was supplemented with the possibility of receiving calls for 1 more month. As of September, loaded calling time can be used to make calls for up to six months, and calls can be received for up to one month, as before. The purpose of this change was to harmonise the conditions of use of AS EMT's call cards with those of call cards offered by other operators.

In November 2004, the first virtual operator entered the Estonian mobile telephone market. A couple of weeks later, AS EMT launched the so-called discount service provider, *Diil*. *Diil* is an independent unit within the structure of EMT that operates with a small workforce and low fixed costs, in order to offer the most price-sensitive customers simple and inexpensive services. At the end of 2004, the discount service provider *Diil* had 7,100 customers.

The growth in the number of customers has led to an increase in call minutes, the number of messages sent and data volume. At the same time, 2004 was also characterised by a significant decrease in rates, which became intensified in the final months of the year in connection with operators' preparations for the transferability of mobile phone numbers, which was launched as of 1 January 2005. The reduced rates have had the strongest influence on the revenues earned by AS EMT from SMSs. At the end of the third quarter, the Tudengipakett (Student Package), which has low charges for sending SMSs, was launched on the market. Users of personal short numbers and the EMT self-service office can also send SMSs at the discount rate. The lower rates have increased the number of SMSs sent, although AS EMT's fourth quarter revenues from SMSs increased just 1% in comparison with the fourth quarter of 2003. In 2004 as a whole, revenues from this category increased 11%.

AS EMT's revenues from voice communication increased 11% during 2004. The cause of the increase in revenue from voice communication is both the growth in customer base, the increase in the number of call minutes per customer and increased revenue from *roaming*. The other revenues of AS EMT grew by 5% during 2004. This growth is mainly the result of the increase in the number of call minutes made to EMT's customers from other networks.

In December 2004 AS EMT earned ARPU of 356 EEK (410 EEK in December 2003).

The revenues of EMT Esindused AS, the subsidiary of the EMT Group that is involved with retail sales, increased 30% in 2004, and the revenues of AS Mobile Wholesale, the subsidiary involved with wholesale, increased 17%. At the end of 2003, EMT Esindused AS began to offer customers the possibility of paying for mobile phones by instalment, and as a result indicators pertaining to the retail sale (and also the related wholesale) of telephones remained high through all four quarters in 2004.

The EMT Group's operating costs increased 14%, reaching 1,714 million EEK. The majority of the growth in operating costs comes from the expansion of customer base and the direct costs connected with the increase in the number of call minutes. The increase in operating costs has also been significantly influenced by the growth in the operating volume of retail and wholesale sales of telecommunications devices, which have low margins.

The EMT Group's EBITDA was 1,288 million EEK, which represents an increase of 1% over the year. The Group earned net profits of 665 million EEK, which is 72 million EEK less than in 2003. Whereas in 2003 AS EMT paid AS Eesti Telekom 600 million EEK in dividends, in 2004 dividends amounted to 800 million EEK. As a result of the larger volume of dividends, AS EMT's income tax expenditure from the dividends also increased 70 million EEK in comparison with 2003.

In 2004, the EMT invested 273 million EEK (2003: 340 million EEK). The majority of investments have been made in order to guarantee the quality of the technological infrastructure. On 28 June 2004, AS EMT, the first Estonian operator to do so, started the development of EDGE, which will make possible fast data communications. Data communications are gaining popularity and customers' demands are increasing. To keep pace with these developments, EMT decided to start offering fast data communications by EDGE before the 3G becomes widely available. During the first year, EMT plans to invest approximately 15 million EEK into the development of EDGE. EMT's new mobile Internet environment, called EMT Go!, which has rapidly gained in popularity, 'opened its doors' at the end of June 2004.

On 31 December 2004, 498 people were employed by the EMT Group (31 December 2003: 430). The overall sum of the EMT Group employees' salaries was 104 million EEK.

Relations with state regulators
Litigation with the Estonian Competition Board
The court case between Elion Enterprises AS and the Competition Board over the justification of rates, which became effective 1 April 2001, for calls inside the network, has been concluded in 2004. On 19 January 2004, 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. The Competition Board no longer seeks to have the voice service charges of Elion Enterprises AS changed.

Litigation with the Communications Board
The Estonian National Communications Board (ENCB) issued a precept on 5 September 2003, obligating Elion Enterprises AS to provide AS Uninet with special access to Elion's network at the location and in a manner stipulated in AS Uninet suit. By now, the ENCB has annulled the precept.

Precept of the Communications Board to Elion Enterprises AS regarding the calculation of the domestic interconnection service charges
On 22 June 2004, the ENCB issued a precept to Elion Enterprises AS, whereby the firm has to decrease domestic interconnection service charges in its telephone network. Pursuant to the precept, Elion has to apply charges, which were determined by the ENCB on the basis Regulation no. 313 of the Government of the Republic of 11.12.2003, entitled "Cost Accounting Methodology for Leased Line and Interconnection Service Charges". Elion filed an objection regarding the ENCB's precept, as a result of which the ENCB changed its earlier precept. Pursuant to the ENCB's new precept, Elion was required to lower its domestic interconnection charges by an average of 17 percent by 1 October. Elion Enterprises AS has performed the precept.

Being recognised as a SMP enterprise
On 29 November 2004, the ENCB declared Elion Enterprises AS to be an operator with significant market power (SMP) in the fixed-line telephone services market, the leased line services market and the interconnection services market. Based on the analysis of the 2003 financial results, Elion Enterprises AS possessed a market share of 82.68% in the telephone services market, 76.20% in the leased line services market and 34.02% in the interconnection services market. Elion Enterprises AS was also declared an operator with significant market power for the years 2001 to 2004. The company was not surprised by the ENCB's intention to declare Elion Enterprises AS an SMP in the three above-mentioned markets for 2005 also.

At the same day, the ENCB declared AS EMT to be an SMP in the mobile telephone services market for 2005. EMT was an SMP also in 2002 to 2004. Based on the analysis of the financial results for 2003, AS EMT possessed a market share of 59.39% in the mobile telephone services market. AS EMT submitted a complaint to the Tallinn Administrative Court concerning the decision made by the ENCB. The first hearing in the matter is set to take place on 19 April 2005.

According to the Telecommunications Act, the ENCB shall recognise in 2004 for the last time an undertaking with significant market power. As of 2005, procedures shall be changed according to the new regulatory framework of the European Union, which is implemented in the Electronic Communication Act. As of the following year, undertaking with significant market power shall be designated on sector specific markets, and their obligations resulting from the new act shall be determined.

Annual General Meeting of Shareholders

The Annual General Meeting of the Shareholders of AS Eesti Telekom, that took place on 18 May 2004, approved the 2003 Annual Report and proposal for profit distribution. It was decided to increase the statutory legal reserve of the company by 0.3 million EEK, so that the legal reserve would meet the legal requirements, which applied after the increasing of share capital in June 2003. It was decided, that a dividend of 8.00 EEK per share shall be paid to the holders of A-shares, and 10,000 EEK per share to the holder of B-share. It was decided, that total of 1,101 million EEK shall be paid to the shareholders. The list of shareholders, on the basis of which dividends were to be paid, was set on 8 June 2004 at 08:00. The dividends were paid out on 17 June 2004.

The Annual General Meeting decided to authorise AS Eesti Telekom to acquire, within one year (i.e. until 18 May 2005), AS Eesti Telekom A-shares, so that the total nominal value of AS Eesti Telekom shares held by AS Eesti Telekom would not exceed the statutory 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 amount of shares to be acquired shall be determined, on each individual occasion, by a resolution of the AS Eesti Telekom's Supervisory Board.

A new Supervisory Board with seven members (instead of ten members as in previous years) was elected. Annika Christiansson, Erik Hallberg, Alo Kelder, Tarmo Porgand, Kennet Rådne, Mats Salomonsson and Raivo Vare were elected to be members of the Supervisory Board.

AS Deloitte & Touche Audit was appointed to audit AS Eesti Telekom in 2004.

The General Meeting decided to amend the Articles of Association of AS Eesti Telekom so that it wouldn't be necessary, in the future, to notify the shareholders about the Annual General Meeting by publishing a notice in the Financial Times. It was also decided to amend the Articles so as to make it possible to convert the state owned B-share into one hundred A-shares of AS Eesti Telekom in connection with the termination of the 1998 Shareholders Agreement concluded in May 2004.

Perspectives for 2005

The "Electronic Communications Act" came into force on 1 January 2005. This Act prescribes the requirements for public communications networks, the provision of services using such networks, the operation of radio communications and the management of radio frequencies and numeration. The purpose of the Act is to bring the regulation concerning this area into compliance with the changes that have taken place in Estonian regulations.

Another significant change in the Eesti Telekom Group's operating environment is the transferability of mobile telephone numbers from one operator to another, which for customers means the possibility to subscribe to another mobile services provider, taking their mobile telephone number with them. The first month under the new system proved successful for the Eesti Telekom Group. 2,200 customers subscribed to AS EMT more than left the company. The process launched in January will, however, definitely influence developments in the mobile telephone services market throughout the whole of 2005.

The transferability of numbers is not the only factor influencing the development of the mobile communications market in 2005. In 2004, AS EMT became the first operator in Estonia to offer services based on the EDGE technology. The second half of 2004 was characterised by a rapid increase in the number and volume of mobile data communications customers. We see data communications as a significant factor for growth in the area of mobile communications in 2005.

In fixed-line communications, we foresee continued rapid growth in the number of broadband Internet connections in 2005. At the same time, we hope to stop the fall in the number of voice communications customers in 2005, by offering package solutions.

In the area of fixed-line communications, our main objective for 2005 regarding our corporate clients is to secure our positions in the provision of data communications and IT services.

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 2004.

The annual accounts have been prepared according to the Accounting Law of Estonia and 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 14 February 2005 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…*		14 February 2005
Hille Võrk	*Member of the Board*		14 February 2005

INCOME STATEMENTS
FOR THE FINANCIAL YEARS 2004 AND 2003

Financial statements are prepared in thousands of EEK

		CONSOLIDATED		PARENT COMPANY	
	Notes	**2004**	**2003**	**2004**	**2003**
Revenues					
Revenue	2 (a, b), 3, 5 (a)	5,116,109	4,777,858	60	30
Other operating income	3, 5 (b)	26,733	30,393	74	30
Total revenues		**5,142,842**	**4,808,251**	**134**	**60**
Operating expenses					
Materials, consumables, supplies and services	2 (a), 3	(1,896,398)	(1,662,093)	-	-
Other operating expenses	2 (a), 3	(520,166)	(457,253)	(11,655)	(11,518)
Personnel expenses	2 (a), 3, 5 (c)	(579,316)	(532,140)	(13,647)	(14,066)
Other expenses	2 (a), 3, 5 (d)	(24,610)	(39,164)	(707)	(1,783)
Total operating expenses		**(3,020,490)**	**(2,690,650)**	**(26,009)**	**(27,367)**
Profit / (loss) from operations before depreciation		**2,122,352**	**2,117,601**	**(25,875)**	**(27,307)**
Depreciation, amortisation and impairment of fixed and intangible assets	2 (a), 3, 5 (e), 7, 9	(816,472)	(880,941)	(691)	(1,200)
Profit / (loss) from operations		**1,305,880**	**1,236,660**	**(26,566)**	**(28,507)**
Net income/(expenses) from subsidiaries and associates	2 (a), 3	45,183	55,462	1,007,931	1,056,109
Other net financing items	2 (a), 3, 5 (f)	30,315	33,495	12,222	16,891
Profit before tax		**1,381,378**	**1,325,617**	**993,587**	**1,044,493**
Income tax on dividends	2 (a), 3, 6	(382,918)	(286,022)	(409)	(8,541)
Profit after tax		**998,460**	**1,039,595**	**993,178**	**1,035,952**
Minority interest	2 (a), 3	(4,892)	(4,047)	-	-
Net profit for the period		**993,568**	**1,035,548**	**993,178**	**1,035,952**
Earnings per share	20 (e)				
Including discontinuing operations:					
Basic earnings per share (in EEK)		7.21	7.53	7.21	7.53
Diluted earnings per share (in EEK)		7.21	7.53	7.21	7.53
Excluding discontinuing operations:					
Basic earnings per share (in EEK)		7.16	7.44	7.16	7.44
Diluted earnings per share (in EEK)		7.16	7.43	7.16	7.44

The notes presented on pages 16 to 47 form an integral part of the consolidated and Parent Company financial statements.

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BALANCE SHEETS AS OF 31 DECEMBER 2004 AND 2003

Financial statements are prepared in thousands of EEK

		CONSOLIDATED		PARENT COMPANY	
	Notes	**2004**	**2003**	**2004**	**2003**
ASSETS					
Non-current assets					
Fixed assets	7	2,014,908	2,275,868	256	1,063
Intangible assets	9	91,190	124,095	54	200
Investments in subsidiaries and associates	10 - 12	18,804	16,638	3,445,155	3,537,225
Non-current securities	13	-	2,700	-	1,200
Other non-current receivables	14	19,985	6,852	4,100	4,100
Total non-current assets		**2,144,887**	**2,426,153**	**3,449,565**	**3,543,788**
Current assets					
Inventories	15	124,382	97,417	-	-
Trade and other receivables	16	770,129	705,930	134,920	57,810
Current securities	17	28,874	48,709	28,874	48,524
Cash and cash equivalents	18	1,456,225	1,320,802	450,344	494,590
Total current assets		**2,379,610**	**2,172,858**	**614,138**	**600,924**
TOTAL ASSETS		**4,524,497**	**4,599,011**	**4,063,703**	**4,144,712**
EQUITY AND LIABILITIES					
Capital and reserves	20				
Issued capital		1,379,545	1,376,445	1,379,545	1,376,445
Reserves		493,663	468,410	493,663	468,410
Translation reserve		-	(11)	-	-
Accumulated profit		2,182,349	2,290,218	2,182,349	2,290,597
Total capital and reserves		**4,055,557**	**4,135,062**	**4,055,557**	**4,135,452**
Minority interest		-	13,540	-	-
Non-current liabilities					
Interest-bearing loans and borrowings	21 (a)	604	3,694	-	-
Provisions	26 (a)	8,006	8,777	1,856	1,762
Total non-current liabilities		**8,610**	**12,471**	**1,856**	**1,762**
Current liabilities					
Trade and other payables	24	436,906	423,567	6,290	7,065
Interest-bearing loans and borrowings	21 (b)	18,968	8,346	-	433
Provisions	26 (b)	4,456	6,025	-	-
Total current liabilities		**460,330**	**437,938**	**6,290**	**7,498**
TOTAL EQUITY AND LIABILITIES		**4,524,497**	**4,599,011**	**4,063,703**	**4,144,712**

The notes presented on pages 16 to 47 form an integral part of the consolidated and Parent Company financial statements.

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STATEMENTS OF CHANGES IN OWNERS' EQUITY FOR THE FINANCIAL YEARS 2004 AND 2003 *(CONSOLIDATED)*

Financial statements are prepared in thousands of EEK

	Notes	Issued capital	Reserves: Share premium	Reserves: Statutory legal reserve	Translation reserve	Accumulated profit	Total
31 December 2002		**1,373,833**	**309,964**	**137,384**	**(25)**	**2,078,979**	**3,900,135**
Exchange differences arising from translation of foreign operations		-	-	-	14	-	14
Share issuance		2,612	21,062	-	-	-	23,674
Dividends declared	20 (c)	-	-	-	-	(824,309)	(824,309)
Net profit for the period		-	-	-	-	1,035,548	1,035,548
31 December 2003		**1,376,445**	**331,026**	**137,384**	**(11)**	**2,290,218**	**4,135,062**
Increase in statutory legal reserve	20 (b)	-	-	261	-	(261)	-
Exchange differences arising from translation of foreign operations		-	-	-	11	(11)	-
Share issuance	20 (a)	3,100	24,992	-	-	-	28,092
Dividends declared	20 (c)	-	-	-	-	(1,101,165)	(1,101,165)
Net profit for the period		-	-	-	-	993,568	993,568
31 December 2004		**1,379,545**	**356,018**	**137,645**	**-**	**2,182,349**	**4,055,557**

STATEMENTS OF CHANGES IN OWNERS' EQUITY FOR THE FINANCIAL YEARS 2004 AND 2003 *(PARENT COMPANY)*

Financial statements are prepared in thousands of EEK

	Notes	Issued capital	Reserves: Share premium	Reserves: Statutory legal reserve	Accumulated profit	Total
31 December 2002		**1,373,833**	**309,964**	**137,384**	**2,078,954**	**3,900,135**
Share issuance		2,612	21,062	-	-	23,674
Dividends declared	20 (c)	-	-	-	(824,309)	(824,309)
Net profit for the period		-	-	-	1,035,952	1,035,952
31 December 2003		**1,376,445**	**331,026**	**137,384**	**2,290,597**	**4,135,452**
Increase in statutory legal reserve	20 (b)	-	-	261	(261)	-
Share issuance	20 (a)	3,100	24,992	-	-	28,092
Dividends declared	20 (c)	-	-	-	(1,101,165)	(1,101,165)
Net profit for the period		-	-	-	993,178	993,178
31 December 2004		**1,379,545**	**356,018**	**137,645**	**2,182,349**	**4,055,557**

The notes presented on pages 16 to 47 form an integral part of the consolidated and Parent Company financial statements.

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CASH FLOW STATEMENTS FOR THE FINANCIAL YEARS 2004 AND 2003

Financial statements are prepared in thousands of EEK

		CONSOLIDATED		PARENT COMPANY	
	Notes	**2004**	**2003**	**2004**	**2003**
Operating activities					
Profit / (loss) from operations		1,305,880	1,236,660	(26,566)	(28,507)
Adjustments for:					
Depreciation, amortization and impairment of fixed and intangible assets	5 (e), 7, 9	816,472	880,941	691	1,200
(Profit) / loss from sales and write-off of fixed assets	5 (b, d)	(10,294)	(6,231)	(68)	(5)
Creating of retirement benefit provisions		-	2,273	-	2,273
Operating cash flows before changes in working capital		2,112,058	2,113,643	(25,943)	(25,039)
Change in current receivables		(98,553)	(43,213)	(2,341)	(2,753)
Change in inventories		(34,365)	(3,006)	-	-
Change in current liabilities		50,143	(70,512)	(783)	1,468
Cash generated by operations		2,029,283	1,996,912	(29,067)	(26,324)
Interest paid		(908)	(1,868)	(1,158)	(236)
Income tax on dividends paid	6	(382,918)	(286,022)	(409)	(8,541)
Net cash from / (used in) operating activities		**1,645,457**	**1,709,022**	**(30,634)**	**(35,101)**
Investing activities					
Purchase of property, plant and equipment	7	(502,587)	(473,180)	-	(481)
Purchase of licences	9	(12,400)	(90,263)	-	-
Proceeds from sales of fixed assets		18,476	30,652	276	152
Net cash outflow from acquisition of subsidiaries	11	(3,872)	(24,593)	-	-
Net cash inflow from sales of subsidiaries	4	52,272	68,137	-	-
Repayment of long-term promissory note		-	-	-	299,298
Purchase of short-term securities	17	(37,295)	(48,709)	(37,295)	(48,524)
Proceeds on disposal of short-term investments		59,273	79,079	59,075	78,699
Loans granted		(36,256)	(2,248)	(189,060)	(61,091)
Repayments of loans granted		3,829	60	109,519	46,845
Dividends received		-	8	1,100,000	800,000
Interest received		38,036	28,941	17,551	23,380
Net cash from / (used in) investing activities		**(420,524)**	**(432,116)**	**1,060,066**	**1,138,278**
Financing activities					
Repayments of convertible debts	23	(48)	(224)	(48)	(224)
Proceeds from non-convertible debts		1,353	360	-	-
Repayments of non-convertible debts		(7,377)	(13,326)	-	-
Repayments of long-term borrowings		-	(23,273)	-	-
Repayments of finance lease liabilities	8	(9,059)	(1,066)	-	-
Repayments of short-term borrowings		(176)	(810)	-	-
Shares issuance	20 (a)	27,782	23,413	27,782	23,413
Dividends paid	20 (c)	(1,101,165)	(824,309)	(1,101,165)	(824,309)
Net cash used in financing activities		**(1,088,690)**	**(839,235)**	**(1,073,431)**	**(801,120)**
Net change in cash and cash equivalents		**136,243**	**437,671**	**(43,999)**	**302,057**
Cash and cash equivalents at beginning of year	18	**1,320,802**	**883,989**	**494,590**	**192,688**
Effect of foreign exchange rate changes		(820)	(858)	(247)	(155)
Cash and cash equivalents at end of year	18	**1,456,225**	**1,320,802**	**450,344**	**494,590**

The notes presented on pages 16 to 47 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.

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.

Basis of preparation

The financial statements are presented in thousands of Estonian kroons (EEK), unless indicated otherwise.

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

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

Principles of consolidation

The consolidated financial statements include all significant 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 supervisory council.

Group companies use in all material aspects the same accounting principles. In case the accounting principles are changed, the comparative data from previous periods is also changed retrospectively.

All inter-company transactions and balances, also unearned profits and losses 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

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has taken place. A recorded reserve in consolidated equity is considered in the calculation of the results of sales of shares of a subsidiary.

The exchange rates used in the financial statements were the following:

Currency	Exchange rate in 2004		Exchange rate in 2003	
	As of 31 December	Average	As of 31 December	Average
EUR	15.64660	15.64660	15.64664	15.64664
USD	11.47110	12.58881	12.40960	13.85949
SEK	1.73450	1.71506	1.72205	1.71511
LTL	4.53158	4.53158	4.53158	4.53158
LVL	22.42200	23.52225	23.26510	24.43537

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 and 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. The quotations of credit institutions are used for the determination of the fair value of the derivatives as of the balance sheet date.

Property, plant and equipment

Fixed assets with useful life of over one year and a minimum value of 10,000 EEK (parent company: 5,000 EEK) are considered 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 cost of self-constructed fixed assets 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 recoverable value. Recoverable value is equivalent to the higher of a particular asset's sale price or value in use. The anticipated future cash flows are used as the basis for determining value in use. Impairment losses in fixed assets are expressed as an increase in accumulated depreciation and are recognised as an expense in the income statement line "Depreciation, amortisation and impairment of fixed and intangible assets". A recovery in value in use is recognised as a reversal of impairment loss.

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 self-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.

Leases

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.

The Group as lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease, irrespectively from collection of relevant receivables.

Assets leased under operating lease are recorded on the balance sheet in conventional rules similarly to that for other Group's assets.

The Group as lessee
Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded in income statement on accrual basis of accounting, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs.

Finance assets are depreciated in accordance with the depreciation policy described above, with the depreciation period being the estimated useful life of the asset.

Rentals payable under operating leases are charged to expense on straight-line basis over the term of the relevant lease, irrespectively from disbursements for relevant payables. Assets leased under operating lease are not recorded on the balance sheet.

Intangible assets

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, amortisation and impairment of fixed and intangible assets". 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 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 expenses are recorded in the income statement line "Depreciation, amortisation and impairment of fixed and intangible assets". 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.

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

Research and development expenditure

Research and 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 is disclosed. Capitalised development costs are amortised over five years using the straight-line method.

Financial assets and 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.

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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 but is not controlled it.

Purchase of investments in subsidiaries and associates are reported in accordance with the acquisition method.

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 and fair value of the net assets acquire. Goodwill is amortised 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.

Shares of subsidiaries and associates made for a longer period than one year are recorded as long-term financial investments. 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.

The list of the Group's subsidiaries is disclosed in Note 10 to the financial statements, and the list of associates in Note 12.

Financial 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 fair 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.
- Bonds that the Group 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.
- 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 uncollectability. Write-down is recorded in the income statement.
- Bonds that the Group 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 uncollectability. The change in the carrying value of short-term bonds is recorded in the income statement. 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.

Shares and securities that are held for disposal during the following financial year are recorded on the balance sheet as "Current securities". Long-term shares and securities are recorded on the balance sheet as "Non-current securities".

On disposal of an 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 purchase price, non-refundable taxes as well as transportation and other direct acquisition expenditures, less discounts.

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 Enterprises AS, and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

Taxation

a) Corporate income tax

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 disbursements that have the characteristics of profit distribution. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

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.

b) Other taxes

Other taxes, that are affected the Group’s results, and tax rates are the following:

- Social tax - 33% of the paid payroll to the employees and of the fringe benefits;
- Unemployment tax - 0,5% of the paid payroll to the employees;
- Income tax on fringe benefits - 26/74 of the fringe benefits to the employees;
- Income tax on expenses not related to business activities - 26/74 of the expenses not related to business activities;
- Land tax - 0,5-2% of the taxable value of the land per annum.

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 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 in the balance sheet 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 retirement benefit charges have been included in the income statement as "Personnel expenses" at their nominal value as they committed. 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".

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.

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.

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 and borrowing costs are 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 one 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.

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 “Trade and other payables”. 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 “Trade and other receivables”.

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.

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.

Segment reporting

The report provides information about the Group's segments, and this information is organised by both business segments (the main format for segment reporting) and geographic segments (an additional format for segment reporting).

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.

Geographic segment is a part of the Group that provides services in a specific economic environment whereof risks and profitability differ from its other parts that act in other different economic environments. The majority of the Group's revenues are generated in Estonia.

Four major segments, fixed network telecommunications, mobile telecommunications, construction services and other activities are distinguished in the consolidated financial statements.

Segment expense is expense resulting from the operating activities and is directly attributable to the segment.

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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).

Changes in accounting principles in 2005

New IFRS standards and several changes in existing standard texts will be implemented from 1 January 2005. The group has not applied the new IFRS standards in advance of the prescribed time, i.e. in the preparation of these financial statements.

The Group's accounting system and reporting for 2005 are expected to be influenced above all by the following IFRS standards:

IFRS 3 Business combinations

- The acquirer shall measure goodwill acquired in a business combination at cost less any accumulated impairment losses. Goodwill shall not be amortised. Instead the acquirer shall test it for impairment annually, or more frequently. (Refer to Note 9)

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

- Non-current assets (including fixed and intangible assets and long-term financial investments) that have been earmarked for sale or abandonment shall be classified as "held for sale", they shall not be depreciated, and shall be presented on a separate line on the balance sheet, at the lower of its carrying amount and fair value less costs to sell.

IAS 16 Property, plant and equipment

- The cost of an item of property, plant and equipment comprises its purchase price and other direct costs necessary to keep the asset in working order or for the replacement of its parts, as well as estimates of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item.
- In determining the depreciation method for an item of property, plant and equipment, the useful life of the individual parts of an item shall be assessed separately.
- In the accounting of property, plant and equipment, the item's depreciable amount and residual value shall be determined. The residual value is equivalent to the amount the company could obtain from the sale of the item in the condition in which it will presumably be at the end of its useful life.

IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries

- The accounting principles applied in consolidated units must be uniform.
- In unconsolidated financial statements, the use of the equity method shall cease, and investments in subsidiaries shall be accounted for at cost or in accordance with IAS 39, at fair value.

IAS 36 Impairment of Assets

- Testing of the value of an asset against impairment shall be performed once a year for intangible assets that have an unlimited useful life or are not yet usable, and for goodwill. IAS 36, which was in force before, required the performance of a value test only in case there was an indication that the assets might have impaired. (Refer to Note 9)

IAS 39 Financial Instruments. Recognition and Measurement

- Write-offs of financial assets are estimated individually at the moment the detrimental factors and circumstances are identified. The standard also offers guidelines, how accounting shall be performed when it is not possible to apply the individual assessment of the impairment of financial assets.

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2. Segment information

Four major segments, fixed network telecommunications, mobile telecommunications, 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, production, marketing and sales of other related services. The companies belonging to this business segment are Elion Enterprises 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, EMT Esindused AS 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 Eltel Networks, AS Reveko Telekom, SIA Connecto Latvia and UAB Lidivos Technologijos.

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

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.

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(a) Main format - business segments

	Fixed network telecommunications		Mobile telecommunications		Construction services		Other activities		Eliminations		Consolidated	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Revenues												
Revenue	2,325,738	2,249,915	2,635,789	2,389,332	154,577	138,611	5	-	-	-	5,116,109	4,777,858
Other operating income	11,698	19,771	14,085	9,822	876	790	74	10	-	-	26,733	30,393
Inter-segment revenue	186,098	173,697	351,791	331,159	149,847	175,940	55	50	(687,791)	(680,846)	-	-
Total revenues	**2,523,534**	**2,443,383**	**3,001,665**	**2,730,313**	**305,300**	**315,341**	**134**	**60**	**(687,791)**	**(680,846)**	**5,142,842**	**4,808,251**
Operating expenses												
Materials, consumables, supplies and services	(563,873)	(500,632)	(1,232,077)	(1,040,252)	(100,448)	(121,209)	-	-	-	-	(1,896,398)	(1,662,093)
Other operating expenses	(312,059)	(312,214)	(155,454)	(101,981)	(41,472)	(31,898)	(11,181)	(11,160)	-	-	(520,166)	(457,253)
Personnel expenses	(345,644)	(328,819)	(139,322)	(123,806)	(80,703)	(65,449)	(13,647)	(14,066)	-	-	(579,316)	(532,140)
Other expenses	(13,658)	(11,480)	(7,574)	(21,451)	(2,671)	(4,450)	(707)	(1,783)	-	-	(24,610)	(39,164)
Inter-segment expenses	(440,646)	(437,619)	(179,688)	(163,370)	(60,110)	(71,150)	(474)	(358)	680,918	672,497	-	-
Total operating expenses	**(1,675,880)**	**(1,590,764)**	**(1,714,115)**	**(1,450,860)**	**(285,404)**	**(294,156)**	**(26,009)**	**(27,367)**	**680,918**	**672,497**	**(3,020,490)**	**(2,690,650)**
EBITDA	**847,654**	**852,619**	**1,287,550**	**1,279,453**	**19,896**	**21,185**	**(25,875)**	**(27,307)**	**(6,873)**	**(8,349)**	**2,122,352**	**2,117,601**
Depreciation and amortisation	(463,042)	(535,413)	(349,532)	(343,147)	(8,560)	(4,939)	(691)	(1,200)	5,353	3,758	(816,472)	(880,941)
EBIT	**384,612**	**317,206**	**938,018**	**936,306**	**11,336**	**16,246**	**(26,566)**	**(28,507)**	**(1,520)**	**(4,591)**	**1,305,880**	**1,236,660**
Income / (expenses) from subsidiaries and associates	48,875	64,475	(592)	(1,166)	-	-	1,007,931	1,056,109	(1,011,031)	(1,063,956)	45,183	55,462
Foreign exchange gain	(616)	(635)	(96)	(57)	(35)	(20)	(247)	(155)	-	-	(994)	(867)
Other net financing items	10,311	3,881	8,810	12,857	(281)	578	12,469	17,046	-	-	31,309	34,362
Income tax on dividends	(101,428)	(66,670)	(281,081)	(210,811)	-	-	(409)	(8,541)	-	-	(382,918)	(286,022)
Minority interest	-	-	-	-	(4,892)	(4,047)	-	-	-	-	(4,892)	(4,047)
Net profit for the period	**341,754**	**318,257**	**665,059**	**737,129**	**6,128**	**12,757**	**993,178**	**1,035,952**	**(1,012,551)**	**(1,068,547)**	**993,568**	**1,035,548**

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Other information by business segments

	Fixed network telecommunications		Mobile telecommunications		Construction services		Other activities		Eliminations		Consolidated	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Non-current assets (except investments in subsidiaries and associates)	1,131,600	1,353,363	990,496	1,046,866	-	21,753	4,410	6,563	(423)	(19,030)	2,126,083	2,409,515
Investments in subsidiaries and associates	16,148	29,550	2,656	3,249	-	-	3,445,155	3,537,225	(3,445,155)	(3,553,386)	18,804	16,638
Current assets	1,032,745	749,766	896,362	840,822	-	84,472	614,138	600,924	(163,635)	(103,126)	2,379,610	2,172,858
Total assets	**2,180,493**	**2,132,679**	**1,889,514**	**1,890,937**	**-**	**106,225**	**4,063,703**	**4,144,712**	**(3,609,213)**	**(3,675,542)**	**4,524,497**	**4,599,011**
Owners' equity	**1,902,248**	**1,862,405**	**1,543,330**	**1,678,271**	**-**	**44,890**	**4,055,557**	**4,135,452**	**(3,445,578)**	**(3,585,956)**	**4,055,557**	**4,135,062**
Minority interest	-	-	-	-	-	-	-	-	-	13,540	-	13,540
Non-current liabilities	604	3,694	6,150	7,015	-	-	1,856	1,762	-	-	8,610	12,471
Current liabilities	277,641	266,580	340,034	205,651	-	61,335	6,290	7,498	(163,635)	(103,126)	460,330	437,938
Total equity and liabilities	**2,180,493**	**2,132,679**	**1,889,514**	**1,890,937**	**-**	**106,225**	**4,063,703**	**4,144,712**	**(3,609,213)**	**(3,675,542)**	**4,524,497**	**4,599,011**
Net cash from/(used in) operating activities	687,116	687,010	985,270	1,037,529	7,832	12,574	(30,634)	(35,101)	(4,127)	7,010	1,645,457	1,709,022
Net cash from/(used in) investing activities	52,853	96,058	14,375	15,316	(4,704)	(10,351)	1,060,066	1,138,759	(1,028,127)	(1,108,455)	94,463	131,327
Capital expenditure	(235,108)	(231,491)	(272,769)	(339,921)	(14,226)	(7,943)	-	(481)	7,116	16,393	(514,987)	(563,443)
Net cash from/(used in) financing activities	(280,219)	(558,661)	(750,261)	(564,595)	(1,822)	89	(1,073,431)	(801,120)	1,017,043	1,085,052	(1,088,690)	(839,235)
Foreign exchange rate differences	(616)	(635)	(96)	(57)	139	(11)	(247)	(155)	-	-	(820)	(858)
Net increase/(decrease) in cash and cash equivalents	**224,026**	**(7,719)**	**(23,481)**	**148,272**	**(12,781)**	**(5,642)**	**(44,246)**	**301,902**	**(8,095)**	**-**	**135,423**	**436,813**

b) Additional format - geographic segments

The components of revenues by geographic segments are as follows:

	Fixed network telecommunications		Mobile telecommunications		Construction services		Other activities		Consolidated	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Revenue from customers in Estonia	2,040,963	2,019,156	2,495,347	2,279,914	116,503	103,194	5	-	4,652,818	4,402,264
Revenue from customers outside Estonia	284,775	230,759	140,442	109,418	38,074	35,417	-	-	463,291	375,594
	2,325,738	2,249,915	2,635,789	2,389,332	154,577	138,611	5	-	5,116,109	4,777,858

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3. Discontinuing operations

On 10 December 2004, Elion Enterprises AS and Finnish Eltel Networks Corporation entered into a sale agreement of 51% majority interest in AS Eltel Networks with the price 60.4 million EEK. Eltel Networks Corporation already owns 49% interest in AS Eltel Networks. The disposal was completed on 15 December 2004.

As for the turnover AS Eltel Networks is one of the largest company in the Baltics, offering design, installation, construction and maintenance services for telecommunication and electrical systems. The company has subsidiaries in Latvia and Lithuania.

The consolidated results of AS Eltel Networks and its subsidiaries for the period from 1 January 2004 to 30 November 2004, which have been included in AS Eesti Telekom Group's consolidated financial statements, are as follows:

	CONTINUING OPERATIONS		DISCONTINUING OPERATIONS		GROUP AS A WHOLE	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Revenues						
Revenue	4,811,449	4,463,281	304,660	314,577	5,116,109	4,777,858
Other operating income	26,093	29,629	640	764	26,733	30,393
Total revenues	**4,837,542**	**4,492,910**	**305,300**	**315,341**	**5,142,842**	**4,808,251**
Operating expenses						
Materials, consumables, supplies and services	(1,759,202)	(1,497,617)	(137,196)	(164,476)	(1,896,398)	(1,662,093)
Other operating expenses	(463,010)	(406,985)	(57,156)	(50,268)	(520,166)	(457,253)
Personnel expenses	(491,024)	(457,465)	(88,292)	(74,675)	(579,316)	(532,140)
Other expenses	(21,850)	(34,427)	(2,760)	(4,737)	(24,610)	(39,164)
Total operating expenses	**(2,735,086)**	**(2,396,494)**	**(285,404)**	**(294,156)**	**(3,020,490)**	**(2,690,650)**
Profit from operations before depreciation	**2,102,456**	**2,096,416**	**19,896**	**21,185**	**2,122,352**	**2,117,601**
Depreciation, amortisation and impairment of fixed and intangible assets	(807,912)	(876,002)	(8,560)	(4,939)	(816,472)	(880,941)
Profit from operations	**1,294,544**	**1,220,414**	**11,336**	**16,246**	**1,305,880**	**1,236,660**
Net income/(expenses) from subsidiaries and associates	45,183	55,462	-	-	45,183	55,462
Other net financing items	30,631	32,937	(316)	558	30,315	33,495
Profit before tax	**1,370,358**	**1,308,813**	**11,020**	**16,804**	**1,381,378**	**1,325,617**
Income tax on dividends	(382,918)	(286,022)	-	-	(382,918)	(286,022)
Profit after tax	**987,440**	**1,022,791**	**11,020**	**16,804**	**998,460**	**1,039,595**
Minority interest	-	-	(4,892)	(4,047)	(4,892)	(4,047)
Net profit for the period	**987,440**	**1,022,791**	**6,128**	**12,757**	**993,568**	**1,035,548**

Cash flow information:

	CONTINUING OPERATIONS		DISCONTINUING OPERATIONS		GROUP AS A WHOLE	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Net cash from / (used in) operating activities	1,637,625	1,696,448	7,832	12,574	1,645,457	1,709,022
Net cash from / (used in) investing activities	(401,594)	(413,822)	(18,930)	(18,294)	(420,524)	(432,116)
Net cash from / used in financing activities	(1,086,868)	(839,324)	(1,822)	89	(1,088,690)	(839,235)
Effect of foreign exchange rate changes	(959)	(847)	139	(11)	(820)	(858)
Net change in cash and cash equivalents	**148,204**	**442,455**	**(12,781)**	**(5,642)**	**135,423**	**436,813**

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4. Disposal of subsidiaries

As referred to in note 3 Elion Enterprises AS, a 100%-owned subsidiary of AS Eesti Telekom, sold 51% majority interest in AS Eltel Networks.

The influence of the sale of AS Eltel Networks with its subsidiaries on the assets and liabilities of Eesti Telekom Group on the referred date and in the year 2003 was as follows:

	30 November 2004 51%	31 December 2003 51%	30 June 2003 49%
Property, plant and equipment	35,436	21,753	7,840
Inventories	10,330	6,002	4,015
Trade receivables	24,869	28,121	5,108
Other receivables	26,003	29,473	11,996
Cash and cash equivalents	8,095	20,876	20,899
Liabilities	(48,802)	(61,335)	(18,558)
Net identifiable assets and liabilities	**55,931**	**44,890**	**31,300**
Elion Enterprises AS interest 51%	28,525		15,963
Intra-group unearned profit	(11,175)		(6,470)
Investment carrying amount	**17,350**		**9,493**
Gain on disposal	43,017		58,644
Total consideration	**60,367**		**68,137**
Satisfied by:			
Cash	60,367		68,137
Cash and cash equivalents disposed of	(8,095)		-
Net cash in flow	**52,272**		**68,137**

5. Additional information on the income statement

	CONSOLIDATED		PARENT COMPANY	
	2004	**2003**	**2004**	**2003**
(a) Revenue				
Telecommunication services	4,350,816	4,146,572	-	-
Goods	537,078	431,997	-	-
Construction contracts	154,577	138,611	-	-
Other services	40,680	29,793	60	30
Other	32,958	30,885	-	-
	5,116,109	**4,777,858**	**60**	**30**
(b) Other operating income				
Profit from sales of fixed assets	12,515	17,361	71	5
Foreign exchange gain	2,379	4,263	3	5
Interest on arrears and penalties	2,257	2,868	-	-
Other	9,582	5,901	-	20
	26,733	**30,393**	**74**	**30**
(c) Personnel expenses				
Wages and salaries	(425,451)	(388,673)	(9,456)	(8,330)
Social charges	(146,250)	(134,317)	(3,921)	(3,265)
Pension expenses	-	(2,273)	-	(2,273)
Unemployment insurance charges	(2,089)	(2,035)	(42)	(36)
Other	(5,526)	(4,842)	(228)	(162)
	(579,316)	**(532,140)**	**(13,647)**	**(14,066)**

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	CONSOLIDATED		PARENT COMPANY	
	2004	**2003**	**2004**	**2003**
(d) Other expenses				
Loss from sales of fixed assets	(178)	(82)	(3)	-
Retirement of fixed assets	(2,043)	(11,048)	-	-
Foreign exchange loss	(4,220)	(5,419)	(12)	(11)
Sponsorship	(9,943)	(10,819)	(600)	(1,665)
Local taxes	(148)	(416)	-	-
Other	(8,078)	(11,380)	(92)	(107)
	(24,610)	**(39,164)**	**(707)**	**(1,783)**
(e) Depreciation and amortisation				
Depreciation	(778,525)	(854,330)	(545)	(697)
Amortisation	(33,147)	(26,586)	(146)	(503)
Impairment of intangible assets	(4,800)	(25)	-	-
	(816,472)	**(880,941)**	**(691)**	**(1,200)**
(f) Other net financing items				
Interest income	37,674	37,783	17,375	19,257
Interest expense	(1,052)	(1,423)	(1,103)	(194)
Net foreign exchange gain / (loss)	(994)	(867)	(247)	(155)
Net gain / (loss) from other financial investments	(2,687)	14	(1,200)	-
Other financial income	-	520	-	511
Other financial expenses	(2,626)	(2,532)	(2,603)	(2,528)
	30,315	**33,495**	**12,222**	**16,891**

6. 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. The tax rate applicable in 2004 was 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	
	2004	**2003**	**2004**	**2003**
Dividends paid	1,101,165	824,309	1,101,165	824,309
Dividends attracting income tax	1,101,165	824,309	1,101,165	824,309
Income tax 26/74 from dividends (35.14%)	(386,896)	(289,622)	(386,896)	(289,622)
Reduction of the income tax paid on 1994 to 1999 earned profit	3,978	3,600	-	-
Reduction of the income tax paid by Group subsidiaries	-	-	386,487	281,081
Current tax expense	**(382,918)**	**(286,022)**	**(409)**	**(8,541)**
Effective income tax rate	34.77%	34.70%	0.04%	1.04%

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7. Property, plant and equipment

(a) Consolidated

	Land and buildings	Machinery and equipment	Other equipment and fixtures	Properties under construction	Prepayments for non-current assets	**Total**
At cost						
At 31 December 2002	**774,421**	**6,275,705**	**513,725**	**34,430**	**790**	**7,599,071**
Additions	557	51,579	54,022	359,815	7,207	473,180
Acquired on business combination	-	11,310	10,793	-	-	22,103
Disposals and write-offs (-)	(50,977)	(164,979)	(32,007)	(437)	-	(248,400)
Reclassification	5,569	287,167	53,791	(340,420)	(6,107)	-
At 31 December 2003	**729,570**	**6,460,782**	**600,324**	**53,388**	**1,890**	**7,845,954**
Additions	786	47,804	55,890	366,465	31,642	502,587
Acquired by finance leases	-	26,007	-	-	-	26,007
Acquired on business combination	-	1,703	407	-	-	2,110
Disposals and write-offs (-)	(57,017)	(193,072)	(41,608)	(105)	(1 463)	(293,265)
Reclassification	17,161	360,127	37,113	(382,332)	(32,069)	-
At 31 December 2004	**690,500**	**6,703,351**	**652,126**	**37,416**	**-**	**8,083,393**
Accumulated depreciation						
At 31 December 2002	**442,674**	**4,205,746**	**276,978**	**-**	**-**	**4,925,398**
Charge for the year	31,553	713,254	109,523	-	-	854,330
Acquired on business combination	-	5,236	8,260	-	-	13,496
Disposals and write-offs (-)	(44,378)	(153,186)	(25,574)	-	-	(223,138)
At 31 December 2003	**429,849**	**4,771,050**	**369,187**	**-**	**-**	**5,570,086**
Charge for the year	29,723	644,938	103,864	-	-	778,525
Acquired on business combination	-	777	698	-	-	1,475
Disposals and write-offs (-)	(50,450)	(193,820)	(37,331)	-	-	(281,601)
At 31 December 2004	**409,122**	**5,222,945**	**436,418**	**-**	**-**	**6,068,485**
Carrying amount						
At 31 December 2003	**299,721**	**1,689,732**	**231,137**	**53,388**	**1,890**	**2,275,868**
At 31 December 2004	**281,378**	**1,480,406**	**215,708**	**37,416**	**-**	**2,014,908**

Foreign subsidiary SIA Connecto Latvia's share of the Group's total fixed assets was 0.03%. 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.

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(b) Parent company

	Machinery and equipment	Other equipment and fixtures	**Total**
At cost			
At 31 December 2002	**982**	**2,670**	**3,652**
Additions	450	31	481
Disposals and write-offs (-)	(290)	(145)	(435)
At 31 December 2003	**1,142**	**2,556**	**3,698**
Disposals and write-offs (-)	(450)	(57)	(507)
At 31 December 2004	**692**	**2,499**	**3,191**
Accumulated depreciation			
At 31 December 2002	**534**	**1,691**	**2,225**
Charge for the year	248	449	697
Disposals and write-offs (-)	(147)	(140)	(287)
At 31 December 2003	**635**	**2,000**	**2,635**
Charge for the year	245	300	545
Disposals and write-offs (-)	(197)	(48)	(245)
At 31 December 2004	**683**	**2,252**	**2,935**
Carrying amount			
At 31 December 2003	**507**	**556**	**1,063**
At 31 December 2004	**9**	**247**	**256**

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8. Leased plant and equipment

	Machinery and equipment
At cost	
At 31 December 2002	**18,799**
Acquired on business combination	807
Disposals and write-offs (-)	(807)
Termination of lease	(18,799)
At 31 December 2003	**-**
Additions	26,007
Acquired on business combination	1,570
Disposals and write-offs (-)	(4,877)
At 31 December 2004	**22,700**
Accumulated depreciation	
At 31 December 2002	**1,873**
Charge for the year	2,506
Acquired on business combination	232
Disposals and write-offs (-)	(4,611)
At 31 December 2003	**-**
Charge for the year	2,952
Acquired on business combination	458
Disposals and write-offs (-)	(1,140)
At 31 December 2004	**2,270**
Carrying amount	
At 31 December 2003	**-**
At 31 December 2004	**20,430**

Finance lease liability

	2004	**2003**
At 31 December	**14,700**	**-**
Principal payments during the financial year	9,059	1,066
Interest expenses during the financial year	388	57
Average annual interest rate	4%	7%

The parent company does not have any finance lease agreement.

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9. Intangible assets

	CONSOLIDATED			PARENT COMPANY	
	Goodwill	Licenses, patents and trademarks	**Total**	Licenses, patents and trademarks	**Total**
At cost					
At 31 December 2002	**43,872**	**136,100**	**179,972**	**1,617**	**1,617**
Additions	10,225	90,263	100,488	-	-
Acquired on business combination	-	8,136	8,136	-	-
Disposals and write-offs (-)	(36,148)	(9,581)	(45,729)	-	-
At 31 December 2003	**17,949**	**224,918**	**242,867**	**1,617**	**1,617**
Additions	1,798	12,400	14,198	-	-
Acquired on business combination	-	176	176	-	-
Disposals and write-offs (-)	(19,747)	(6,196)	(25,943)	-	-
At 31 December 2004	**-**	**231,298**	**231,298**	**1,617**	**1,617**
Accumulated amortisation					
At 31 December 2002	**40,185**	**97,247**	**137,432**	**914**	**914**
Charge for the year	3,625	22,961	26,586	503	503
Acquired on business combination	-	88	88	-	-
Disposals and write-offs (-)	(36,148)	(9,211)	(45,359)	-	-
Impairment loss	-	25	25	-	-
At 31 December 2003	**7,662**	**111,110**	**118,772**	**1,417**	**1,417**
Charge for the year	3,190	29,957	33,147	146	146
Acquired on business combination	-	82	82	-	-
Disposals and write-offs (-)	(10,852)	(5,841)	(16,693)	-	-
Impairment loss	-	4,800	4,800	-	-
At 31 December 2004	**-**	**140,108**	**140,108**	**1,563**	**1,563**
Carrying amount					
At 31 December 2003	**10,287**	**113,808**	**124,095**	**200**	**200**
At 31 December 2004	**-**	**91,190**	**91,190**	**54**	**54**

Foreign subsidiary SIA Connecto Latvia's share of the Group's total intangible assets was 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 intangible assets.

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10. Investments in subsidiaries

	Notes	Country of incorporation	Ownership interest 2004	Ownership interest 2003	Principal activity	Owner
Elion Enterprises AS		Estonia	100%	100%	Network services for operators, data communication and Internet products, voice communication solutions and Internet content services for business and residential customers	AS Eesti Telekom
AS Elion Esindus		Estonia	100%	100%	Retail sales of telecommunication products and services	Elion Enterprises AS
AS EsData		Estonia	100%	100%	Internet and data communication services, VoiP long distance calls and equipment hosting services	Elion Enterprises AS
Viru Net OÜ [1)]		Estonia	100%	-	Internet services	Elion Enterprises AS
AS Eltel Networks (previously AS Connecto) [2,3)]	3, 4	Estonia	-	51%	Construction and maintenance of telecommunication networks	Elion Enterprises AS
SIA Connecto Latvia [2)]		Latvia	-	100%	Construction and maintenance of telecommunication networks	AS Eltel Networks (previously AS Connecto)
AS Reveko Telekom [3)]		Estonia	-	100%	Installation of telephone exchanges and communications systems	AS Eltel Networks (previously AS Connecto)
AS Eltel Networks [2, 3)]		Estonia	-	100%	Construction of electrical and mobile communications networks	AS Eltel Networks (previously AS Connecto)
UAB Lidivos Tchnologijos [2)]	11	Lithuania	-	-	Construction and maintenance of telecommunication networks	AS Eltel Networks (previously AS Connecto)
AS EMT		Estonia	100%	100%	Construction and operating of mobile networks, providing mobile communication services	AS Eesti Telekom
EMT Esindused AS		Estonia	100%	100%	Retail sales of telecommunication products and services	AS EMT
AS Mobile Wholesale		Estonia	100%	100%	Wholesale of mobile phones	AS EMT

1) Elion Enterprises AS purchased 100% of the shares of Viru Net OÜ on 30 December 2004. The acquisition cost was 6.5 million EEK. Viru Net OÜ is one of the leading Internet service providers to business in the county of Ida-Virumaa. The enterprise was established in 1997. The turnover of Viru Net OÜ in 2003 was 3 million EEK with a net profit of 0.4 million EEK. The company currently has 17 employees. In terms of AS Eesti Telekom Group financial results, the deal has insignificant impact; therefore the financial results of Viru Net OÜ are consolidated from 1 January 2005 onwards.

2) On 15 December 2004, Elion Enterprises AS sold 51% of AS Eltel Networks' shares to the Finnish network construction company Eltel Networks Corporation.

3) AS Connecto, AS Eltel Networks and AS Reveko Telekom were merged during 2004. The acquiring company was AS Connecto. After the merger the acquiring company continued its operations under the corporate name AS Eltel Networks.

The parent company's investments into the subsidiaries are the following:

	2004	2003
Cost of investments	1,263,763	1,263,763
Share of post-acquisition gain, net of dividends received	2,181,392	2,273,462
	3,445,155	**3,537,225**

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11. Acquisition of subsidiaries

On 1 January 2004, AS Eltel Networks (previously AS Connecto) acquired 100% of the shares of UAB Lidivos Technologijos. The value of the transaction was 4.5 million EEK.

The primary activity of the company purchased is the installation and maintenance of low-current and security systems.

The effect of the acquisition of subsidiaries on goodwill and cash flows in 2004 and 2003 was the following:

		2004	2003		
	Note	UAB Lidivos Technologijos +100%	AS Reveko Telekom +100%	AS Eltel Networks +100%	AS EsData +70%
Fixed assets		1,486	9,951	4,473	1,308
Inventories		2,407	482	1,755	95
Trade receivables		2,284	4,914	4,035	757
Other receivables		33	461	2,385	900
Cash and cash equivalents		668	661	131	4,835
Liabilities		(4,136)	(5,437)	(8,457)	(1,183)
Net identifiable assets and liabilities		**2,742**	**11,032**	**4,322**	**6,712**
Goodwill	9	1,798	2,968	7,194	63
Total consideration		**(4,540)**	**(14,000)**	**(11,516)**	**(6,775)**
Cash and cash equivalents		668	661	131	6,906
Net cash in / (out) flow		**(3,872)**	**(13,339)**	**(11,385)**	**131**

12. Investments in associates

	2004	2003
Cost of investments	35,509	36,216
Reclassification to the subsidiary	-	(2,876)
Share of post-acquisition loss, net of dividends received	(16,705)	(16,702)
	18,804	**16,638**

Details of the Group's associates, as of 31 December 2004 and 2003, are as follows:

	Country of incorporation	Ownership interest 2004	Ownership interest 2003	Principal activity	Owner
AS Intergate	Estonia	50%	50%	Venture capital investments into companies with innovative technologies	Elion Enterprises AS
AS Sertifitseerimiskeskus	Estonia	50%	50%	Providing certification and related services	Elion Enterprises AS – 25% AS EMT – 25%
OÜ Voicecom	Estonia	26%	26%	Designing and providing software for mobile related services	AS EMT

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13. Non-current securities

	CONSOLIDATED		PARENT COMPANY	
	2004	**2003**	**2004**	**2003**
Non-current securities available for sale				
AS Rocca al Mare Suurhall	-	2,700	-	1,200
	-	**2,700**	**-**	**1,200**

	CONSOLIDATED		PARENT COMPANY	
	2004	**2003**	**2004**	**2003**
Movement in non-current securities available for sale				
Opening balance	2,700	2,710	1,200	1,200
Change in fair value	(2,700)	(10)	(1,200)	-
	-	**2,710**	**-**	**1,200**

In the opinion of the Management Board of AS Eesti Telekom, the net realisation value of the shares in AS Rocca al Mare Suurhall is close to nil, as a result of which the decision has been made to recognise impairment loss in full.

14. Long-term receivables

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

	Note	Interest rate	Maturity date	CONSOLIDATED		PARENT COMPANY	
				2004	**2003**	**2004**	**2003**
(a) Long- term receivables from associated company							
Loan to AS Sertifitseerimiskeskus	28	6.50%	2006	4,100	4,100	4,100	4,100
Non-current portion of receivables				4,100	4,100	4,100	4,100
(b) Non-current trade receivables							
Factoring receivables				1,183	542	-	-
Non-current trade receivables				777	983	-	-
				1,960	1,525	-	-
Current portion of receivables (-)				(793)	(742)	-	-
Non-current portion of receivables				1,167	783	-	-
(c) Other long-term receivables							
Instalment receivables		2% - 16%	2006 - 2010	28,347	1,299	-	-
Finance lease receivables		8% - 16%	2004 - 2005	992	801	-	-
Advances for operating leases			2007	961	860	-	-
Deposits		2.5%	2005	-	83	-	-
Other advances				8	8	-	-
				30,308	3,051	-	-
Current portion of receivables (-)				(15,590)	(1,082)	-	-
Non-current portion of receivables				14,718	1,969	-	-
Total other non-current receivables				**19,985**	**6,852**	**4,100**	**4,100**

Expected repayments of the referred long-term receivables:

	CONSOLIDATED	PARENT COMPANY
Within one year	16,383	-
Later than one year and not later than five years incl.	19,841	4,100
After five years	144	-
	36,368	**4,100**

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15. Inventories

	CONSOLIDATED		PARENT COMPANY	
	2004	**2003**	**2004**	**2003**
Raw materials and consumables	48,136	35,641	-	-
Goods for resale	76,196	61,054	-	-
Advance to suppliers	50	722	-	-
	124,382	**97,417**	**-**	**-**

In 2004, the inventories were retired in the total amount of 7,149 thousand EEK (2003: 9,860 thousand EEK) based on the estimated decline of the net realisation value below their acquisition cost.

16. Trade and other receivables

		CONSOLIDATED		PARENT COMPANY	
	Note	**2004**	**2003**	**2004**	**2003**
Trade receivables					
Accounts receivable		598,476	499,658	5	-
Allowance for doubtful receivables		(20,995)	(13,621)	-	-
		577,481	**486,037**	**5**	**-**
Other receivables					
Receivables from subsidiaries and associates	28	1,006	77	120,311	40,583
International settlements		78,224	100,311	-	-
Accrued interest		13,881	16,372	13,877	16,371
Accrued revenue from construction contracts in progress		-	6,456	-	-
Other accrued income		17	709	-	-
Prepaid value-added tax		3,343	27,121	-	3
Prepaid other taxes		-	454	-	-
Prepaid expenses		59,787	54,450	719	845
Other receivables		36,390	13,943	8	8
		192,648	**219,893**	**134,915**	**57,810**
		770,129	**705,930**	**134,920**	**57,810**

17. Current securities

	CONSOLIDATED		PARENT COMPANY	
	2004	**2003**	**2004**	**2003**
a) Current securities held to maturity (maturity date within 1 year)				
Sampo Pank, commercial papers	-	48,524	-	48,524
Eesti Ühispank, bonds	20,902	-	20,902	-
Eurohypo, bonds	7,972	-	7,972	-
	28,874	**48,524**	**28,874**	**48,524**
b) Shares available for sale				
AS EGCC	-	185	-	-
	-	**185**	**-**	**-**
	28,874	**48,709**	**28,874**	**48,524**

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Movements in current securities:

	CONSOLIDATED		PARENT COMPANY	
	2004	**2003**	**2004**	**2003**
a) Current securities held to maturity (maturity date within 1 year)				
Opening balance	48,524	78,699	48,524	78,699
Acquisitions (at cost)	37,295	48,524	37,295	48,524
Disposals (at carrying value)	(59,075)	(78,699)	(59,075)	(78,699)
Amortisation of the difference between the nominal value and the cost of the securities	2,130	-	2,130	-
	28,874	**48,524**	**28,874**	**48,524**
b) Shares available for sale				
Opening balance	185	355	-	-
Acquisitions (at cost)	-	185	-	-
Disposals (at carrying value)	(185)	(355)	-	-
	-	**185**	**-**	**-**

18. 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	
	2004	**2003**	**2004**	**2003**
Bank accounts	44,491	38,920	(961,013)	(786,705)
Deposits	1,411,346	1,280,305	1,411,346	1,280,290
Cash on hand	388	577	11	5
Money-market fund shares	-	1,000	-	1,000
	1,456,225	**1,320,802**	**450,344**	**494,590**

The effective interest rates on term deposits were between 2.43% - 2.73% (2003: 2.7% - 3.43%). Accrued interest on bank deposits is disclosed in Note 16.

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

19. Lease receivables

Operating lease receivables

The Group leases office space and IT equipment and solutions under the terms of operating lease. Income from such leases amounts to 3,837 thousand EEK and 1,931 thousand EEK in 2004 and 2003, respectively.

The parent company does not have any operating lease agreement.

20. Capital and reserves

a) Issued capital

	2004	2003
Shares issued		
Ordinary shares, par value 10 EEK per share, fully paid		
At beginning of year	137,644,428	137,383,178
Share issuance	310,000	261,250
Converted preference share	100	-
	137,954,528	137,644,428
Preference share, par value 1,000 EEK per share, fully paid	-	1

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Monetary contributions in connection with the shares issued in 2004 are presented in the following table:

	Note	2004	2003
Share capital issued			
At beginning of year		1,376,445	1,373,833
Share capital issuance			
Denominational value of bonds (amounts transferred from convertible bonds)	23	310	261
Additional payments in cash		2,790	2,351
		1,379,545	**1,376,445**
Share premium			
Opening balance		331,026	309,964
Premium on ordinary shares issued		24,992	21,062
		356,018	**331,026**

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

During the subscription period of 2 May – 2 June 2003 26,125 A-series bonds were converted into 261,250 AS Eesti Telekom A-shares.

The total number of bonds outstanding as of 1 May 2004 was 34,125 B-series bonds.

In accordance with the "AS Eesti Telekom terms for the issue of convertible bonds", an owner of B-series bond was entitled to

(i) Redeem a bond and exchange it for 10 AS Eesti Telekom ordinary shares, which have a nominal value of 10 EEK each and a subscription price of 90.62 EEK, or

(ii) Redeem a bond and exchange it for a sum of money (the bond's nominal value 10 EEK plus accumulated interest of 7% per annum).

On 4 June 2004, the Management Board of AS Eesti Telekom approved the results of the subscription period that lasted from 2 May to 2 June 2004. During the said period, applications were received for the exchange of 31,000 bonds for 310,000 AS Eesti Telekom ordinary shares. The Management Board of AS Eesti Telekom approved the subscription list, and submit an application to the registry department of the Tallinn City Court for the registration of 310,000 ordinary shares with a nominal value of 10 EEK and an issue price of 90.62 EEK, i.e. an issue premium of 80.62 EEK. The shares issued are in all respects equivalent to the existing AS Eesti Telekom A-series shares. The new shares entitle shareholders to dividends as of the 2004 financial year.

Pursuant to the Shareholders' Agreement and in accordance with the decision of the Shareholders' Annual General Meeting on 18 May 2004, one preference share was converted into one hundred ordinary shares, which have a nominal value of 10 EEK each.

The total number of AS Eesti Telekom ordinary shares after the share issuance of the new shares is 137,954,528 and share capital 1,379,545,280 EEK.

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

	2004		2003	
	Number of shares	Ownership interest %	Number of shares	Ownership interest %
Republic of Estonia	37,485,100	27,17	37,485,000	27,23
Public investors	31,492,114	22,83	32,841,672	23,86
TeliaSonera AB (Baltic Tele AB)	68,977,314	50,00	67,317,756	48,91
	137,954,528	**100,00**	**137,644,428**	**100,00**

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

Non-monetary contribution has been made for 63,883,178 shares in the total value of 890,651 thousand EEK.

b) Reserves

Reserves include:

- Statutory 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).

261 thousand EEK from 2003 net profit were transferred to the legal reserve in May 2004.

c) Dividends

Dividends in the total amount of 1,101,165 thousand EEK (2003: 824,309 thousand EEK) or 8.00 EEK (2003: 6.00 EEK) per ordinary share and 10,000 EEK (2003: 10,000 EEK) per preference share were disbursed in 2004.

d) Treasury shares

The Annual General Meeting of Shareholders, on 18 May 2004, authorized AS Eesti Telekom Management Board to acquire within one year from the adoption of this resolution, i.e. until 18 May 2005 (the same authority, which was obtained from last Annual General Meeting on 22 May 2003, terminated on 22 May 2004) AS Eesti Telekom shares of A-series so that the total of nominal values of treasury 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 Group's assets in excess of its share capital, legal reserve 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 Eesti Telekom has acquired no treasury shares during 2004.

e) Earnings per share

Basic earnings per share have been calculated as follows:

- Consolidated:

1) Including discontinuing operations:

2004 year: EEK 7.21 = 993,568,000 : 137,825,320

2003 year: EEK 7.53 = (1,035,548,000 – 10,000) : 137,535,574

2) Excluding discontinuing operations:

2004 year: EEK 7.16 = 987,440,000 : 137,825,320

2003 year: EEK 7.44 = (1,022,791,000 – 10,000) : 137,535,574

- Parent Company:

1) Including discontinuing operations:

2004 year: EEK 7.21 = 993,178,000 : 137,825,320

2003 year: EEK 7.53 = (1,035,952,000 – 10,000) : 137,535,574

2) Excluding discontinuing operations:

2004 year: EEK 7.16 = 987,050,000 : 137,825,320

2003 year: EEK 7.44 = (1,023,195,000 – 10,000) : 137,535,574

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Diluted earnings per share have been calculated as follows:

2004 year: in view of the fact that the Group has not any dealings with a dilutive effect of earnings per share, diluted earnings per share equal basic earnings per share.

2003 year:
- Consolidated:

1) Including discontinuing operations:

EEK 7.53 = (1,035,548,000 - 10,000) : (137,535,574 + ((216,250 - (261,250 x 90.62/100.80)) x 5/12) + ((357,500- - (357,500 x 90.62/100.80)) x 12/12))

2) Excluding discontinuing operations:

EEK 7.43 = (1,022,791,000 - 10,000) : (137,535,574 + ((216,250 - (261,250 x 90.62/100.80)) x 5/12) + + ((357,500 - (357,500 x 90.62/100.80)) x 12/12))

- Parent Company:

1) Including discontinuing operations:

EEK 7.53 = (1,035,952,000 - 10,000) : (137,535,574 + ((216,250 - (261,250 x 90.62/100.80)) x 5/12) + + ((357,500 - (357,500 x 90.62/100.80)) x 12/12))

2) Excluding discontinuing operations:

EEK 7.44 = (1,023,195,000 - 10,000) : (137,535,574 + ((216,250 - (261,250 x 90.62/100.80)) x 5/12) + + ((357,500 - (357,500 x 90.62/100.80)) x 12/12))

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

	2004	**2003**
Consolidated net profit for the period (EEK)	993,568,000	1,035,548,000
Parent Company net profit for the period (EEK)	993,178,000	1,035,952,000
Discontinuing operations net profit for the period (EEK)	6,128,000	12,757,000
Dividends on preferred share (EEK)	-	10,000
The number of ordinary shares before issuance (up to 31 May)	137,644,428	137,383,178
The number of ordinary shares after issuance of the shares	137,954,528	137,644,428
The average number of ordinary shares	137,825,320	137,535,574
The number of A-series shares covered by options, until the moment of conversion (up to 31 May)	-	261,250
The number of B-series shares covered by options, as of 31 December	-	357,500
The subscription price of shares, as stated in the option agreement (EEK)	-	90.62
The average market value of shares during the financial year (EEK)	-	100.80

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 Receipts) represents three ordinary shares.

The highest price of an AS Eesti Telekom share on the HEX Tallinn Stock Exchange during 2004 was 126.58 EEK; the lowest price was 101.70 EEK (2003: 123.61 EEK and 80.42 EEK respectively), and the average price was 111.97 EEK per share (2003: 100.80 EEK per share).

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21. Interest-bearing loans and borrowings

		CONSOLIDATED		PARENT COMPANY	
	Notes	**2004**	**2003**	**2004**	**2003**
(a) Non-current					
Non-convertible long-term debts	22	**604**	**3,694**	**-**	**-**
(b) Current					
Non-convertible debts	22	4,268	7,913	-	-
Convertible loan – current portion	23	-	433	-	433
Finance lease liability	8, 25 (b)	14,700	-	-	-
		18,968	**8,346**	**-**	**433**

22. Loan information

The Group does not have any contingencies from outstanding bank loans as of 31 December 2004.

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 Kangio Bank Ltd, Landesbank Schleswig Holstein Girozentrale, Sampo Bank plc, AB Swedbank and AS Hansapank.

As of 31 December 2004 and 2003, the loan has not been used.

The details of the Group's non-convertible long-term debts are as follows:

	Interest rate	Notes	CONSOLIDATED		PARENT COMPANY	
			2004	**2003**	**2004**	**2003**
EUR (with floating interest) *)	3 months EURIBOR+3,5%		3,688	11,065	-	-
Factoring			1,184	542	-	-
			4,872	**11,607**	**-**	**-**
Current portion of non-convertible long-term debts (-)		21 (b)	(4,268)	(7,913)	-	-
Non-convertible long-term debts		21 (a)	604	3,694	-	-

*) Elion Enterprises 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 million 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 3 months 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.

Expected repayments of the referred long-term debt:

	Non-convertible long-term debt
Within one year	4,268
Later than one year and not later than five years incl.	604
	4,872

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23. Convertible debt

Employees' share option

		CONSOLIDATED	
	Notes	**2004**	**2003**
Nominal value of convertible loan bonds issued at the year beginning		**358**	**843**
Repayment of convertible loan bonds in nominal value		(48)	(224)
Exchange of convertible loan bonds for ordinary shares		(310)	(261)
Nominal value of convertible loan bonds issued at the year ending		**-**	**358**
Convertible loan bonds premium at the year beginning		3	17
Discount of convertible loan bonds premium		(3)	(14)
		-	**3**
Interest charged at the year beginning		72	53
Interest charged		13	95
Interest paid		(85)	(76)
		-	**72**
Current portion of convertible long-term loan bonds	21 (b)	-	**433**

Additional information concerning the B-series convertible bonds transaction in 2004 is provided in Note 20, section (a).

24. Trade and other payables

		CONSOLIDATED		PARENT COMPANY	
	Note	**2004**	**2003**	**2004**	**2003**
Trade payables		264,702	226,042	728	742
Customer advances		5,689	6,974	-	-
Payables to subsidiaries and associates	28	380	-	2,412	2,336
Value-added tax payable		9,085	6,412	-	-
Social insurance tax payable		13,248	15,214	189	244
Income tax fringe benefits payable		2,108	2,649	6	20
Unemployment contribution payable		508	615	7	9
Employee withholding tax payable		7,680	10,449	137	177
Other taxes payable		394	357	6	7
Payable to employees		65,430	65,815	2,663	3,443
International settlements		50,141	72,434	-	-
Clients advance payments for construction contracts to projects		-	453	-	-
Other accrued expenses		16,945	15,483	142	87
Other prepaid revenue		596	670	-	-
		436,906	**423,567**	**6,290**	**7,065**

25. Operating and finance leases

a) Operating lease payments

	CONSOLIDATED		PARENT COMPANY	
	2004	**2003**	**2004**	**2003**
Minimum lease payments under non-cancellable operating leases, not provided for:				
Within one year	21,051	28,527	-	-
Later than one year and not later than five years incl.	39,952	36,444	-	-
	61,003	**64,971**	**-**	**-**

The operating lease expenses for 2004 and 2003 were 50,069 thousand EEK and 45,936 thousand EEK, respectively.

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b) Finance lease payments

	Note	CONSOLIDATED 2004	CONSOLIDATED 2003	PARENT COMPANY 2004	PARENT COMPANY 2003
Finance lease payments, both principal and interest charge, are payable as follows:					
Within one year		15,000	-	-	-
Interest charge (-)		(300)	-	-	-
Current portion of finance lease liability	21 (b)	**14,700**	-	-	-

26. Provisions

a) Non-current retirement benefit provisions

	CONSOLIDATED	PARENT COMPANY
Opening balance at 31 December 2003	**8,777**	**1,762**
Revaluated provisions	94	94
Additional amount transferred to the current portion of provision	(214)	-
	8,657	**1,856**
Current portion of retirement benefit provisions (-)	(651)	-
Non-current retirement benefit provisions	**8,006**	**1,856**

b) Current provisions

	Termination benefits provision	Current portion of retirement benefit provisions	Other provisions	**Total**
At 31 December 2003	**5,345**	**651**	**29**	**6,025**
Additional provisions	6,304	865	-	**7,169**
Unused amounts reversed	(1,479)	-	-	**(1,479)**
Used provisions during year	(6,365)	(865)	(29)	**(7,259)**
At 31 December 2004	**3,805**	**651**	**-**	**4,456**

27. Financial instruments

The Group's activities expose it to a variety of financial risks: interest rate risk, credit risk, liquidity risk, currency risk and fair value risk. The Group's risk management is focused on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Funding the Group as well as managing Group's excess liquidity and financial risks are the responsibilities of the Treasury Department that fulfils its obligations in accordance with the rules approved by the Supervisory Council of AS Eesti Telekom.

The Group manages its excess liquidity and financial risks only with and through Estonian banks, which have at least a Baa3 credit rating, and foreign banks, which have at least an A2 credit rating. To manage the Group's liquid assets more efficiently the Group has group account systems in Hansapank, Eesti Ühispank, Sampo Pank and in Estonian branch of Nordea Bank Finland. The group accounts are also used for funding the subsidiaries.

(a) Interest rate risk

The financial assets and liabilities bearing interest rate risk have long-term maturities, which are sensitive to movements in interest rates. The Group does not have long-term interest rate sensitive financial assets.

Interest rate risk for financial liabilities represents the volatility of interest rates, which may result the difficulties in forecasting exact amounts of debt repayments. In worst case scenario, if the company has large amounts of debt on its balance sheet and the interest rates rise sharply, the solvency of the company becomes under threat.

The Group has hedged one liability through IRS (Interest Rate Swap) against the volatility of interest rates (3 months Euribor). The deal is made with Nordea Bank Estonia and the hedged loan agreement is signed between Elion Enterprises AS and Telia Finans AB. Interest rate in loan agreement is 3 months Euribor + 3.5%.

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According to the IRS, signed in February 2002, Elion Enterprises AS is obliged to pay fixed rate of 4.45%. The effective interest rate for Elion Enterprises AS is 7.95%.

The interest rates and repayment terms of the Group's loans are disclosed in note 22 in the financial statements.

(b) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed to perform as contracted. The Group does not have significant exposure to credit risk 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 failure of customers in meeting their obligations.

The Group has policies that limit the amount of credit exposure to any financial institution or other counterparty.

(c) Currency risk

Curency risk is the potential loss of unfavourable movements in currency exchange rates against Estonian kroon. To hedge the currency risk arising from liabilities denominated in foreign currencies, the Group may conclude currency forward, option and swap transactions; also the Group's group accounts include foreign currency assets.

Group Treasury manages currency risk so that in any time the movement of currency exchange rates more than 5% has not bigger effect to open currency positions than 3 million EEK.

Main operating currencies for the Group, other than Estonian kroon, are euro and American dollar. In 2004 approximately 10% of settlements were in EUR and less than 5% of settlements in USD. Other foreign currencies contributed less than 1% of the total settlements.

As of 31 December 2004 the Group did not have any outstanding derivative contracts related to hedge currency risks.

(d) Liquidity risk

Liquidity risk relates to the availability of sufficient funds for debt service, dividend payment, and capital expenditure and/or working capital requirement.

Minimum required liquidity position (MRLP) should at any time exceed the level of 5% of planned annual turnover. MRLP is calculated as follows:

MRLP = current assets + unused committed credit facilities – debt repayable within 12 months.

(e) Fair value

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

28. 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) Name and relationship of related party

Name	Relationship with AS Eesti Telekom Group
Members of the Management Board and the Supervisory Council	
Employees of AS Eesti Telekom Group	
List of subsidiaries is shown in Note 10	
List of associates is shown in Note 12	
Enterprises of TeliaSonera AB Group	Parent company, shareholder
Eltel Networks Corporation (up to 30 November 2004)	Minority shareholder of AS Eltel Networks

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b) Directors' and executives' remuneration

The remuneration of directors and executives during the year were as follows:

	CONSOLIDATED		PARENT COMPANY	
	2004	**2003**	**2004**	**2003**
Remunerations	25,517	23,075	5,705	4,033

c) 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	
	2004	**2003**	**2004**	**2003**
Telecommunication services provided				
Subsidiaries	853	4,663	-	-
Shareholders	219,397	163,245	-	-
Companies where Supervisory Council members of the Group have significant influence	236	457	-	-
	220,486	**168,365**	-	-
Other sales				
Subsidiaries	-	-	55	50
Associated companies	1,409	51	-	-
Shareholders	2,897	319	-	-
Companies where Supervisory Council members of the Group have significant influence	-	3	-	-
	4,306	**373**	**55**	**50**
Telecommunication services purchased				
Subsidiaries	-	-	474	358
Associated companies	1,140	1,868	-	-
Shareholders	144,108	118,734	-	-
	145,248	**120,602**	**474**	**358**
Other services purchased				
Associated companies	19	63	-	-
Shareholders	4,288	2,141	-	-
Companies where Supervisory Council members of the Group have significant influence	59	2,263	-	223
	4,366	**4,467**	**-**	**223**
Financial income				
Subsidiaries	-	-	2,136	2,084
Associated companies	134	266	-	266
	134	**266**	**2,136**	**2,350**
Financial expenses				
Subsidiaries	-	-	1,093	152
Shareholders	463	943	-	-
	463	**943**	**1,093**	**152**
Amounts owed by related parties				
Subsidiaries	-	-	120,250	40,522
Associated companies	5,106	4,177	4,161	4,161
Shareholders	53,113	55,758	-	-
Companies where Supervisory Council members of the Group have significant influence	-	27	-	-
	58,219	**59,962**	**124,411**	**44,683**
Amounts owed to related parties				
Subsidiaries	-	-	2,412	2,336
Associated companies	380	-	-	-
Shareholders	25,316	35,126	-	-
Companies where Supervisory Council members of the Group have significant influence	-	1	-	-
Employees of AS Eesti Telekom Group (convertible loan)	-	433	-	433
	25,696	**35,560**	**2,412**	**2,769**

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29. 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 (2,182,349 thousand EEK) is up to 689,163 thousand EEK. The tax rate applicable in 2005 is 24/76 on the dividends paid. 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	
	2004	**2003**	**2004**	**2003**
Guarantees to former employees	200	200	200	200
Guarantees to subsidiary	-	-	-	3,000
Guarantees to other companies	813	1,777	-	-

Construction guarantees given to AS Eltel Networks during the period from 1 January up to 30 November 2004, i. e. date of sale, were not realised.

AS EMT acquired a third generation mobile communications license in 2003. 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.

30. Employees

The average number of employees during 2004 was 2,447; and during 2003, 2,426.

31. Parent of the Group

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

The immediate parent company of AS Eesti Telekom Group is Baltic Tele AB, a 100%-owned subsidiary of TeliaSonera AB. Address: Box 7754, SE-103 96, Stockholm, Sweden.

AS Eesti Telekom Group consolidated financial statements are consolidated into TeliaSonera AB, the ultimate parent company, situated at Sturegatan 1, SE-106 63 Stockholm, Sweden.

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AS Deloitte & Touche Audit
Roosikrantsi 2
10119 Tallinn
Estonia
Tel: +372 640 6500
Fax: +372 640 6503
www.deloitte.com
Reg. kood 10687819

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS Eesti Telekom:

We have audited the annual accounts of AS Eesti Telekom ("the Parent") and of AS Eesti Telekom and its subsidiaries ("the Group") for the year ended 31 December 2004. These annual accounts are the responsibility of the Parent's Management Board. Our responsibility is to express an opinion on these annual accounts 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 annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual accounts present fairly, in all material respects, the financial position of the Parent and the Group as of 31 December 2004, the results of their operations and their cash flows for the year then ended, in accordance with Estonian Accounting Law and International Financial Reporting Standards.

Deloitte & Touche

Villu Vaino
Certified Auditor
4 March 2005

AS Deloitte & Touche Audit