EESTI TELEKOM

15 April 2004

THE FINANCIAL RESULTS OF THE FIRST THREE MONTHS OF 2004

Eesti Telekom, the leading provider of telecommunication services in Estonia, hereby announces its results for the three month period, which ended 31 March 2004.

Financial highlights

	Q1 2004	Q1 2003	Change %
Total revenues, mEEK	**1,218**	1,107	10
EBITDA, mEEK	**522**	540	-3
EBITDA margin, %	**43**	49	
EBIT, mEEK	**310**	311	-1
EBIT margin, %	**25**	28	
Profit before taxes, mEEK	**319**	319	0
Net profit for the period, mEEK	**319**	39	717
EPS, EEK	**2.32**	0.28	716
CAPEX, mEEK	**107**	43	147
Net gearing, %	**-39**	-34	
ROA (annualised), %	**27**	3	
ROE (annualised), %	**30**	33	

Commenting on these financial results, Chairman Jaan Männik stresses:

"The year started with strong growth and maintained profits."

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CHAIRMAN'S STATEMENT

Financial results

The consolidated revenues of the Eesti Telekom Group, in the first quarter of 2004, amounted to 1,218 mln EEK, up by 10%, compared to the same period in 2003. The operating expenses of the Group were up by 23%, amounting to 697 mln EEK. The EBITDA of the first quarter was 522 mln EEK and the EBITDA margin was 43%. The EBITDA was down by 3%, compared to the first quarter of 2003.

The fast growth of revenues and operating expenses, accompanied by lower margins, is the result of changes, which have taken place in the structure of the Group's activities. The largest injection into this revenue growth has been made by the sale and service subsidiaries of the EMT Group and the Elion Group – AS Elion Esindus, EMT Esindused AS and AS Mobile Wholesale. In 2003, both Elion Enterprises AS and AS EMT established the objective of shifting from technology-based companies into service companies. Several processes were initiated, that are oriented to co-operation within the sphere of customer services. The first large change to take place, which was also visible to customers, was the coordinating of the outward appearance of and services offered by the sales and service offices. In addition to voice communications and Internet services, AS Elion Esindus started to offer mobile phones, and to handle AS EMT contracts. EMT Esindused AS now also handles products and services connected with the Elion Group. In addition to the traditional sales facilities, both retailers also use electronic sales channels. Several payment-by-instalment plans have been introduced for stimulating sales activities. This expansion in the sales sphere has lowered the profit margins of the Eesti Telekom Group. But comfortable and convenient sales channels are an important factor in ensuring customer satisfaction.

Co-operation between the Elion Group and the EMT Group is not limited to sales activities. The variety of services offered by both operators of the Eesti Telekom Group is becoming ever more diversified. And, especially in the case of data communications, it may even be difficult for customers unfamiliar with appropriate technology to chose the optimal solutions for their needs. Therefore, Elion and EMT have established the concept of simplicity as the principle guideline for dealing with their customers. And customers' technical selections and decisions should be made under the direct advice and guidance of the operators.

It has been decided not to formally merge Elion Enterprises AS and AS EMT. At the same time, co-operation between the two must be intensified. A uniform segment-based customer analyses system has been established, that enables the development, especially for business clients, of integrated fixed, mobile, and data communications solutions. To further improve customer relations, the work regimen of customer service personnel is in the process of being reorganised. The aim of this overhaul is to increase the capability to satisfy telecommunications needs within the framework of the Telekom Group, and to thereby increase the share of loyal steady customers.

Another Eesti Telekom Group growth factor, affecting both revenues and operating expenses, has been the widening of construction activities. In 2003, AS Connecto acquired a strategic investor, when 49% of the firm's shares were sold to the Finnish telecommunications network development company Eltel Networks Corporation. After this development, AS Connecto has expanded its activities with the acquisition of new subsidiaries, and, in addition to the establishing of new telecommunications networks, with the construction of electric-power grids. The profit margins of construction activities are, compared to those of telecommunications services, low. Thereby, the expansion of Connecto has lowered the profit margins of the Eesti Telekom Group as a whole. As Eltel Networks Corporation has the option of acquiring the remaining 51% of the shares of AS Connecto during the first half of 2005, developments in the construction sphere will only have a short-term effect upon the financial results of the Eesti Telekom Group.

The depreciation of the Eesti Telekom Group, in the first quarter of 2004, was 212 mln EEK, down by 17 mln EEK or 7%, compared to the first quarter of 2003. Depreciation is continuously falling as a result of the relatively low CAPEX that the Group has had during the past years. The net financial result of the first quarter was 9 mln EEK.

The net profit of the Eesti Telekom Group in the first quarter was 319 mln EEK or 2.32 EEK per share (Q1 2003: 39 mln EEK or 0.28 EEK per share). The result of the first quarter of 2003 was impacted by income tax on dividends in the amount of 280 mln EEK. In 2003, dividends payable by subsidiary companies to AS Eesti Telekom were decided in March, and the corresponding income tax on dividends was shown as an expense of the first quarter. In 2004, dividends for the financial year 2003 were not decided by the end of March.

At the end of March 2004, the total assets of the Eesti Telekom Group amounted to 4,922 mln EEK (December 2003: 4,599 mln EEK). Non-current assets were reduced by 102 mln EEK and current assets were increased by 425 mln EEK. This increase was mainly the result of an increase in cash and cash equivalents (bank accounts, units of money market funds) by 331 mln EEK. By the end of March 2004, the net debt of the Group amounted to –1,719 mln EEK, and net gearing was –39% (December 2003: -1,357 mln EEK, and –33%).

The net operating cash flow of the Eesti Telekom Group, in the first quarter of 2004, amounted to 464 mln EEK (Q1 2003: 455 mln EEK). Cash flow into investments was –131 mln EEK (Q1 2003: 37 mln EEK). Cash flow into financing was –2 mln EEK (Q1 2003: -13 mln EEK).

Elion Group

	Q1 2004	Q1 2003	Change %
Total revenues, mEEK	**652**	605	8
EBITDA, mEEK	**225**	231	-3
EBITDA margin, %	**35**	38	
EBIT, mEEK	**99**	92	8
EBIT margin, %	**15**	15	
Profit before taxes, mEEK	**101**	91	11
Net profit for the period, mEEK	**101**	22	360
CAPEX, mln EEK	**52**	19	172
ROA, %	**18**	4	
ROE, %	**21**	22	

Revenues of the Elion Group continued to grow in the first quarter of 2004. The consolidated revenues amounted to 652 mln EEK, up by 8%, compared to the first quarter of 2003. The operating expenses of the first quarter were 426 mln EEK, up by 14%. The EBITDA was 225 mln EEK, and the EBITDA margin was 35%. Depreciation of the Elion Group is continuously falling, as a result of the relatively low CAPEX that the Group has had during the past years. Compared to the first quarter of 2003, depreciation of 2004 was down by 9%. The EBIT of the Elion Group amounted to 99 mln EEK, and the EBIT margin was 15%. The net profit for the first quarter was 101 mln EEK, up by 360 %, compared to the same period in 2003. This increase is mainly the result of dividend tax expenses (69 mln EEK) that were declared in the statements of the first quarter in 2003, while in 2004, the profit allocation was not confirmed by the end of March.

Revenues of Elion Enterprises AS were up by 2%, amounting to 573 mln EEK . The operating expenses were up by 5%, amounting to 346 mln EEK. These increases were the result of new areas of activities – the Internet, and IT and data communications. The revenues of the company from the Internet exceeded those of the first quarter of 2003 by 17%. The revenues from IT and data communications were up by 54%. Internet, IT and data communications revenues formed 21% of the firm's first quarter total revenues.

The revenues from voice communications were down by 6%, compared to the first quarter of 2003. On 1 January 2004, the operator pre-selection requirement and the fixed phone number portability requirement came into force. Elion Enterprises AS has already offered its customers the operator pre-selection service free-of-charge since 1 December 2003. By dialling the appropriate code, customers can choose, or cancel the pre-selection of, a particular operator for their domestic and international calls. Different operators can be chosen for different kinds of calls. By the end of the first quarter of 2004, approximately 6,500 customers had made use of the services of an operator other than Elion Enterprises. 344 customers had used the portability for leaving the Elion network since 1 January 2004. Neither operator pre-selection nor number portability have had any significant effect upon the revenues or market shares of Elion Enterprises AS. During an Elion Enterprises free installation campaign, that lasted from the beginning of 2004, until 15 February, 3,800 customers joined up. 85% of the new customers were private individuals, and 22% of the new customers also applied for an ADSL permanent connection. The number of main lines in use at the end of March 2004 was 440,201 (a penetration of 32.6 lines per 100 persons). Since the beginning of 2004, the number of main lines has fallen by 4.5 thousand. The company estimates its share of total call minutes to be 87% (March 2003: 88%). The estimated market share of domestic call minutes, international call minutes, and fixed to mobile call minutes is 87% (March 2003: 87%), 68% (March 2003: 68%), and 75% (March 2003: 74%), correspondingly. The estimated market share of dial-up minutes is 96% (March 2003: 95%).

The Elion Group's spheres of activity with the fastest growth, in both revenues and expenses, have been construction and trade. Growth in the construction sphere has been supported by the acquisition of new subsidiaries by the Connecto Group, which has enabled the Group to expand operations and diversify its activities. During the second half of 2003, AS Reveko Telekom and AS Eltel Network became part of the Connecto Group. On 12 January 2004, AS Connecto signed an agreement for the purchase of 100% of the shares of the Lithuanian company UAB Lidivos Technologijos. The transaction price was 300 thousand EUR (4,7 mln EEK). 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 Connecto Group's activities in the Baltic region.

So far, AS Eltel Networks has mainly maintained and constructed the grids of Fortum Elekter in Estonia. On 31 March 2004, AS Eltel Networks and Distribution Network of Eesti Energia AS, signed a contract concerning the scheduled maintenance and construction of the distribution grids of Eesti Energia. The contract was signed for a 2+1 year term. The value of the first year of the contract is 37.6 mln EEK.

The Elion Group invested 52 mln EEK during the first quarter of 2004. Almost half of the investments went into development of the DSL network. The total number of Internet permanent connections was 56.0 thousand by the end of March 2004. The net increase in the number of permanent connections since March 2003 has been 20.2 thousand. This rapid growth has been promoted by the sale of ADSL starter kits, which was launched at the end of 2002. Starter kits enable customers to install Internet permanent connections by themselves. About 80% of the new customers of Elion's Home ADSL or Home Office ADSL prefer to use starter kits. At the beginning of 2004, the Wireless Home ADSL starter kit also became available, with which it is possible to set up a wireless network at home or at the office, and to securely share Internet connection between several computers.

In 2003, Elion Enterprises AS determined to transform itself from a technology oriented firm into a customer oriented one. In March 2004, Elion Enterprises AS became the first Estonian telecommunication services provider whose quality management system has earned the ISO 9001:2000 certification. As a matter of fact, the ISO 9001:2000 certificate was awarded to all the operational processes of Elion Enterprises AS. However, in AS Elion Esindus outlets it concerns only the sale of Elion's products and services, including the relevant after-sale service provided. The Elion management system was certified as fulfilling ISO 9001:2000 qualifications by the worldwide certification body Bureau Veritas Quality International. The ISO 9001:2000 certificate confirms Elion's commitment to be the most preferred service provider in the residential and business communication sectors. The receiving of this certificate attests to the fact that Elion Enterprises AS systematically and constantly upgrades the quality of the various services that it provides, implements documented quality requirements on a daily basis, and monitors customer satisfaction with the firm's endeavours.

On 31 March 2004, 2,029 people were employed by the Elion Group (31 December 2003: 2,014).

EMT Group

	Q1	Q1 Change %

	2004	2003	
Total revenues, mEEK	**682**	610	12
EBITDA, mEEK	**301**	313	-4
EBITDA margin, %	**44**	51	
EBIT, mEEK	**216**	225	-4
EBIT margin, %	**32**	37	
Profit before taxes, mEEK	**220**	228	-4
Net profit for the period, mEEK	**220**	17	1182
CAPEX, mln EEK	**55**	24	136
ROA, %	**44**	4	
ROE, %	**49**	73	

The consolidated revenues of the EMT Group in the first quarter of 2004 were up by 12%, compared to the first quarter of 2003, and amounted to 682 mln EEK. The operating expenses of the Group were 380 mln EEK, up by 28%. The EBITDA of the EMT Group in the first quarter of 2004 was 301 mln EEK and the EBITDA margin 44%. The relatively low CAPEX of the past years has lead to lower depreciation expenses. Depreciation of the first quarter amounted to 85 mln EEK, down by 4%, compared to the same period in 2003. The EBIT of the first three months was 216 mln EEK, down by 4%, compared to the first quarter of 2003. The EBIT margin was 32%. The net profit for the first quarter of the EMT Group was 220 mln EEK (Q1 2003: 17 mln EEK). This increase was mainly the result of the dividend tax expense (211 mln EEK) that was declared in the statements of the first quarter in 2003, while in 2004, the profit allocation had not been confirmed by the end of March.

Approximately half of the revenue growth in the first quarter resulted from the activities of the subsidiaries of the EMT Group – AS Mobile Wholesale and EMT Esindused AS. An increase in the demand for new mobile handsets, that started at the end of 2003, continues. Sale of the handsets has been supported by several promotional campaigns launched by AS EMT. New contractual customers, for instance, have been offered handsets at discounted prices. From the end of 2003 on, customers can buy handsets on the instalment plan. The profit margins of telephone sales are traditionally low. The growth of the costs of sales activities in the first quarter of 2004 was of the same magnitude as revenue growth.

Revenues of AS EMT, the parent company of the EMT Group, were up by 7%, amounting to 587 mln EEK. The revenues from SMS and data communications continued to have the highest growth rate, showing an increase of 22%, compared to the first quarter of 2003. The revenues from domestic and international calls were up by 7%. Other revenues were up by 6%.

The revenue growth of AS EMT is mainly the result of its wider customer base. The annual net change in the total number of customers of AS EMT, by the end of March 2004, was 76.8 thousand (this growth has been affected by changes in the terms of the prepaid Simpel card, which became effective on 1 May 2003). At the end of 2003, AS EMT undertook to change the image of the Simpel trade mark. The aim was to attract new customers primarily from the younger generation. At the beginning of 2004, AS EMT introduced the POP! prepaid card, which is primarily targeted at school children who are just becoming acquainted with the world of mobile communications. New contractual customers have been offered 5 hours of free talking time, distributed over 15 months. The total number of AS EMT customers has grown by 16.1 thousand, compared to the end of December 2003. The number of contractual customers has grown by 12.3 thousand, and the number of prepaid card users has grown by 3.8 thousand. The total number of AS EMT customers reached 507.5 thousand by the end of March 2004. The number of contractual customers was 318.9 thousand, and the number of prepaid customers was 188.6 thousand (March 2003: 430.7 thousand customers; 285.8 thousand contractual customers; 144.9 thousand prepaid customers). The monthly ARPU (average revenue per user) of the operator has fallen as a result of the higher ratio of prepaid customers (compared to March 2003) and several promotional campaigns that have taken place or are still continuing. The ARPU in March 2004 was 391 EEK (March 2003: 423 EEK; December 2003: 410 EEK). AS EMT estimates that its market share, based upon the number of customers, is stable at around 47%. Mobile penetration in Estonia has reached 80%.

The operating expenses of AS EMT in the first quarter of 2004 were 288 mln EEK, up by 20%, compared to the first quarter of 2003. This rapid growth in the number of customers has been caused by an increase in traffic with other Estonian and foreign operators. The growth of interconnection and roaming charges formed more than half of the additional operating expenses of AS EMT. Introduction of the POP! prepaid card and promotional campaigns have increased marketing expenses.

The EMT Group invested 55 mln EEK in the first quarter of 2004 (Q1 2003: 24 mln EEK). On 31 March 2004, the EMT Group had 445 employees (December 2003: 428).

Relations with state regulators

Litigation with the Competition Board

The court case between Elion Enterprises AS and the Competition Board over the justification of rates for calls inside the network, which became effective 1 April 2001, has been concluded. On 19 January, Tallinn City Court approved the agreement reached by the Estonian Competition Board and Elion Enterprises AS to end litigation over the minute rates charged in Elion's fixed telephone network.

Litigation with the Communications Board

The Communications Board issued a precept on 5 September 2003, obligating Elion Enterprises AS to provide AS Uninet with special access to Elion's network at a location and in a manner stipulated in Uninet's suit. Elion Enterprises Ltd. contested the precept in Tallinn Administrative Court and appealed for a reversal of the precept. The next session of the Administrative Court was scheduled for 23 March 2004, but, due to an application by the Board, it was postponed till 9 June 2004. The Communications Board has affirmed that it initiated an annulment of the precept, since the factual and legal circumstances concerning the matter have changed.

Information to the Shareholders

The Annual General Meeting of AS Eesti Telekom shall be held on 18 May 2004, at 12.30 p.m., at the Estonian National Library (Tõnismägi 2, Tallinn). The 2003 Annual Report and resolution projects are available for all shareholders on Internet page http://www.telekom.ee and in the office of AS Eesti Telekom at Roosikrantsi 2, Tallinn, starting 19 April 2004, on working days, from 10.00 a.m. to 2.00 p.m. Any inquiries regarding the General Meeting can be made by phone: +372 6311212; or by e-mail: mailbox@telekom.ee.

Definitions

Net debt – long term and short term debt, less cash and cash equivalents, and short term investments
ROA – Net profit for the period, expressed as a percentage of average total assets
ROE – Pre-tax profit for the period, expressed as a percentage of average equity

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
QUARTERLY DATA
mln EEK

	Q1 2003	Q2 2003	Q3 2003	Q4 2003	Q1 2004
Revenues	1,107.1	1,187.8	1,242.2	1,271.2	1,218.2
Operating expenses	-567.3	-625.1	-676.0	-822.3	-696.7
Profit from operations before depreciation	539.8	562.7	566.2	448.8	521.5
Depreciation and amortisation	-228.4	-221.3	-214.9	-216.2	-211.8
Profit from operations	311.4	341.4	351.3	232.6	309.7
Income / (expenses) from subsidiaries and associates	-0.7	58.3	-1.1	-1.0	-0.2
Other net financing items	8.2	10.5	6.2	8.6	9.5
Profit before tax	318.9	410.2	356.4	240.1	319.0
Income tax on dividends	-279.8	-6.2	0.0	0.0	0.0
Minority interest	0.0	0.0	-3.5	-0.6	0.3
Net profit for the period	39.1	404.0	352.9	239.6	319.4
EBITDA margin, %	48.8%	47.4%	45.6%	35.3%	42.8%
EBIT margin, %	28.1%	28.7%	28.3%	18.3%	25.4%
Net margin, %	3.5%	34.0%	28.4%	18.8%	26.2%
Total assets	4,641.4	4,356.4	4,327.2	4,599.0	4,922.0
- Non-current assets	2,556.4	2,419.2	2,389.1	2,426.2	2,324.2
- Current assets	2,085.0	1,937.2	1,938.0	2,172.9	2,597.8
- Cash and cash equivalents	1,362.5	1,132.4	1,143.4	1,320.8	1,651.7
Equity and liabilities	4,641.4	4,356.4	4,327.2	4,599.0	4,922.0
- Equity	3,939.2	3,542.6	3,895.5	4,135.1	4,454.4
- Minority interest	0.0	9.5	13.0	13.5	13.2
- Non-current liabilities	19.7	15.4	12.8	12.5	10.8
- Interest-bearing borrowings	19.7	15.4	12.8	10.7	2.2
- Current liabilities	682.5	789.0	405.9	437.9	443.6
- Interest-bearing borrowings	22.4	22.4	9.2	9.0	8.6
Proceeds from operating activities	454.7	608.8	206.3	437.6	464.1
Net cash used in investing activities	37.2	-33.8	-179.2	-256.2	-131.4
Net cash before dividends and net loans	491.9	575.0	27.1	181.4	332.8
Dividends paid	0.0	-824.3	0.0	0.0	0.0
Loan repayments (net)	-13.4	-4.0	-15.8	-5.8	-1.9
Share issue	0.0	23.4	0.0	0.0	0.0
Net increase (decrease) in cash and cash equivalents	478.5	-229.9	11.3	175.6	330.8

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

INCOME STATEMENT

Financial statements are prepared in thousands of Estonian kroons (EEK)

	Notes	3 months to 31 March 2004	3 months to 31 March 2003 Restated	2003
Revenues				
Net sales	10 (a, c)	1,212,950	1,102,396	4,777,858
Other revenues		5,273	4,733	30,393
Total revenues		**1,218,223**	**1,107,129**	**4,808,251**
Operating expenses				
Materials, consumables, supplies and services		(425,680)	(331,565)	(1,662,093)
Other operating expenses		(112,605)	(101,968)	(457,253)
Personnel expenses		(153,314)	(127,394)	(532,140)
Other expenses		(5,086)	(6,374)	(39,164)
Total operating expenses		**(696,685)**	**(567,301)**	**(2,690,650)**
Profit from operations before depreciation		**521,538**	**539,828**	**2,117,601**
Depreciation and amortisation	2	(211,850)	(228,445)	(880,941)
Profit from operations		**309,688**	**311,383**	**1,236,660**
Net financial income / (expenses) from associates		(182)	(729)	55,462
Other net financing items		9,498	8,245	33,495
Profit before tax		**319,004**	**318,899**	**1,325,617**
Income tax on dividends		-	(279,816)	(286,022)
Profit after tax		**319,004**	**39,083**	**1,039,595**
Minority interest		347	-	(4,047)
Net profit for the period		**319,351**	**39,083**	**1,035,548**
Earning per share	6 (e)			
Basic earning per share (in kroons)		2.32	0.28	7.53
Diluted earning per share (in kroons)		2.32	0.28	7.53

EESTI TELEKOM

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

BALANCE SHEET

Financial statements are prepared in thousands of Estonian kroons (EEK)

	Notes	31 March 2004	31 Dec 2003	31 March 2003 Restated
ASSETS				
Non-current assets				
Property, plant and equipment	2	2,178,888	2,275,868	2,492,653
Goodwill	2	11,230	10,287	2,540
Licenses, patents and trademarks	2	107,767	113,808	34,516
Investments in subsidiaries and associates	3, 4	16,457	16,638	21,967
Other investments		2,700	2,700	2,710
Other non-current assets		7,122	6,852	2,017
Total non-current assets		**2,324,164**	**2,426,153**	**2,556,403**
Current assets				
Inventories	5	94,959	97,417	98,923
Trade receivables		526,852	486,037	421,593
Other receivables		246,261	219,893	191,790
Investments held for trading		78,064	48,709	10,192
Cash and cash equivalents		1,651,701	1,320,802	1,362,515
Total current assets		**2,597,837**	**2,172,858**	**2,085,013**
TOTAL ASSETS		**4,922,001**	**4,599,011**	**4,641,416**
EQUITY AND LIABILITIES				
Equity	6			
Issued capital		1,376,445	1,376,445	1,373,833
Reserves		468,410	468,410	447,348
Translation reserve		12	(11)	(34)
Retained earnings		2,290,218	1,254,670	2,078,979
Net profit for the period		319,351	1,035,548	39,083
Total equity		**4,454,436**	**4,135,062**	**3,939,209**
Minority interest		**13,194**	**13,540**	**-**
Non-current liabilities				
Interest-bearing loans and borrowings – due after one year		2,173	3,694	12,178
Provisions		8,602	8,777	7,503
Total non-current liabilities	7	**10,775**	**12,471**	**19,681**
Current liabilities				
Trade payables		174,387	226,042	124,685
Other current liabilities		190,421	161,829	179,499
Tax liabilities		66,793	35,696	343,509
Interest-bearing loans and borrowings – due within one year	7	8,583	8,346	21,730
Provisions	8	3,412	6,025	13,103
Total current liabilities		**443,596**	**437,938**	**682,526**
TOTAL EQUITY AND LIABILITIES		**4,922,001**	**4,599,011**	**4,641,416**

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

CASH FLOW STATEMENT

Financial statements are prepared in thousands of Estonian kroons (EEK)

	3 months to 31 March 2004	3 months to 31 March 2003
Operating activities		
Profit from operations	309,688	311,383
Adjustments for:		
Depreciation and amortisation	211,850	228,445
(Profit) from sales and write-off of fixed assets	(3,016)	(849)
Operating cash flow before movements in working capital	518,522	538,979
Change in current receivables	(60,796)	30,793
Change in inventories	4,865	(7,154)
Change in current liabilities	1,984	(107,846)
Cash generated by operations	464,575	454,772
Interest paid	(451)	(231)
Net cash from operating activities	**464,124**	**454,541**
Investing activities		
Purchases of property, plant and equipment	(105,058)	(42,819)
Purchases of licenses	(1,748)	(390)
Proceeds from sales of property, plant and equipment	3,537	1,851
Acquisition of subsidiaries	(3,872)	-
Purchases of trading investments	(29,356)	-
Proceeds on disposal of trading investments	-	68,862
Loans granted	(1,283)	(217)
Cash receipt from repayment of loans	-	24
Interest received	6,416	9,865
Net cash used in investing activities	**(131,364)**	**37,176**
Financing activities		
Repayment of long-term convertible debt	(8)	(3)
Proceeds from nonconvertible long-term debt	111	240
Repayment of nonconvertible long-term debt	(1,844)	(1,845)
Repayment of long-term borrowings	-	(11,636)
Repayment of obligations under finance lease	(65)	-
Repayment of short-term borrowings	(116)	-
Net cash used in financing activities	**(1,922)**	**(13,244)**
Net increase in cash and cash equivalents	**330,838**	**478,473**
Cash and cash equivalents at beginning of year	**1,320,802**	**883,988**
Effect of foreign exchange rate changes	61	54
Cash and cash equivalents at end of period	**1,651,701**	**1,362,515**

EESTI TELEKOM

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

STATEMENT OF CHANGES IN EQUITY

Financial statements are prepared in thousands of Estonian kroons (EEK)

	Issued capital	Reserves		Translation reserve	Retained earnings	Net profit for the period	TOTAL
		Share premium	Statutory legal reserve				
31 December 2002	**1,373,833**	**309,964**	**137,384**	**(25)**	**1,038,553**	**1,040,426**	**3,900,135**
Net profit for the 2002 transferred to retained earnings	-	-	-	-	1,040,426	(1,040,426)	-
Exchange differences arising from translation of foreign operations	-	-	-	(9)	-	-	(9)
Net profit for the period	-	-	-	-	-	39,083	39,083
31 March 2003	**1,373,833**	**309,964**	**137,384**	**(34)**	**2,078,979**	**39,083**	**3,939,209**
31 December 2003	**1,376,445**	**331,026**	**137,384**	**(11)**	**1,254,670**	**1,035,548**	**4,135,062**
Net profit for the 2003 transferred to retained earnings	-	-	-	-	1,035,548	(1,035,548)	-
Exchange differences arising from translation of foreign operations	-	-	-	23	-	-	23
Net profit for the period	-	-	-	-	-	319,351	319,351
31 March 2004	**1,376,445**	**331,026**	**137,384**	**12**	**2,290,218**	**319,351**	**4,454,436**

Financial statements are prepared in thousand of Estonian kroons (EEK)

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

The consolidated interim financial statements for the three months period ending 31 March 2004 are prepared in accordance with the International Financial Accounting Standards (IAS 34). In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2003.

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

All inter-company transactions and balances have been eliminated.

Minority interests in the balance sheet and results of the entities that are controlled by the parent company are shown as a separate line item in the consolidated financial statements.

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 fixed and recorded, using the exchange rate prevailing on the date of acquisition. These equity items of the subsidiary will maintain their acquisition value even when the rest of the balance sheet of the subsidiary is retranslated. If a foreign subsidiary issues shares, these shares are recorded, using the exchange rate on the date of the issuance. Concerning the future consolidation of the balance sheet of a foreign subsidiary, the assets and liabilities are recorded, using the exchange rates prevailing on the balance sheet date. Income and expense items are recorded, using the average exchange rates for the period. Exchange differences, which arise, are charged to equity and transferred to the Group's recorded reserve. Such recording differences are recognised as income from, or as expenses of, subsidiaries in the period in which the operation has taken place. A recorded reserve in consolidated equity is considered in the calculation of the results of sales of shares of a subsidiary.

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

Currency	Exchange rate		
	31March 2004	**31 March 2003**	**31 December 2003**
EUR	15.64664	15.64664	15.64664
USD	12.79837	14.39102	12.40960
SEK	1.69011	1.69408	1.72205
LVL	23.92890	24.91305	23.26510

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

Assets with a useful life of over one year and a minimum value of 10,000 EEK are considered to be ***fixed assets***. Fixed assets are recorded at acquisition cost, which consists of the purchase price, non-refundable taxes, and other expenditures directly related to taking the fixed asset object into use. The acquisition price of property, plant and equipment constructed by the company includes the cost of materials and direct labour.

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

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

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

Freehold land is not depreciated.

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

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

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

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

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

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

Development costs are charged as an expense in the income statement for the period during which they incurred.

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

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

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

Investments in associates are accounted for according to the equity method. An associate is an enterprise in which the Group holds, directly or indirectly, 20% - 50% of the voting power of the enterprise, or where the Group exercises significant influence over the enterprise, but is not subject to control by the Group.

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

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

- Shares and securities, whose value can be reliably measured, are recorded on the balance sheet at fair value. The change in the fair value of short-term shares and other securities is recorded in the income statement as “Other financial income and expenses”. The change in the fair value of long-term shares and other securities is recorded in the income statement as “Financial income and expenses from other long-term financial investments”.
- Bonds that the Company does not intend to hold to maturity are recorded on the balance sheet using the fair value method. The change in the fair value of short-term bonds is recorded in the income statement as “Other financial income and expenses”. The change in fair value of long-term bonds is recorded in the income statement as “Financial income and expenses from other long-term financial investments”.
- Shares and securities whose fair value cannot be reliably measured are recorded on the balance sheet at amortized cost, which consists of its initial recognition cost minus any write-down for impairment or uncollectibility. Write-down is recorded in the income statement as “Other financial income and expenses”. Write-down of long-term shares and other securities is recorded in the income statement as “Financial income and expenses from other long-term financial investments”.
- Bonds that the Company intends to hold to maturity are recorded on the balance sheet at amortized cost, applying the effective interest rate method minus any write-down for impairment or uncollectibility. The change in the carrying value of short-term bonds is recorded in the income statement as “Other financial income and expenses”. In calculating the write-down, the net present value of the future cash receipts of the financial instrument is considered, applying the internal rate of return as the discount rate. The interest income and write-down of held-to-maturity securities are recorded in the income statement as “Other financial income and expenses”. The interest income and write-down of long-term securities is recorded in the income statement as “Financial income and expenses from other long-term financial investments”.

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

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

Inventories. Raw materials and goods for resale are recorded at cost, which comprises of purchase price, non-refundable taxes as well as transportation and other direct acquisition expenditures, less discounts and subsidies received. Inventories are carried at the lower of acquisition cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Cost is based on the first-in, first-out or on the weighted average cost principle.

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

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

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

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.

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

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

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

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

Financial statements are prepared in thousand of Estonian kroons (EEK)

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 "Accrued expenses". In the event the sum of the interim invoices presented to the client is less than the project's total expenditures and the corresponding income share, the difference is recorded on the balance sheet as "Accrued income".

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

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.

Reclassification of balances

During 2004, the following comparative balances of first three months 2003 were reclassified:

	Initial opening balance 31 March 2003	Reclassification	Comparative balance 31 March 2003
Reclassification of income statement [1)]			
Revenues			
Sales revenue	1,101,637	759	1,102,396
Operating expenses			
Change in work-in-progress	759	(759)	-
Capitalised self-construction assets	2,149	(2,149)	-
Materials, consumables, supplies and services	(333,021)	1,456	(331,565)
Other operating costs	(102,249)	281	(101,968)
Personnel expenses	(127,797)	403	(127,394)
Other expenses	(6,383)	9	(6,374)

Financial statements are prepared in thousand of Estonian kroons (EEK)

	Initial opening balance 31 March 2003	Reclassification	Comparative balance 31 March 2003
Reclassification of balance sheet [2)]			
Assets			
Current assets			
Inventories	101 057	(2,134)	98,923
Trade receivables	421,550	43	421,593
Other receivables	189,699	2,091	191,790
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings – due after one year	19,681	(7,503)	12,178
Provisions	-	7,503	7,503
Current liabilities			
Interest bearing loans and borrowings – due within year	22,380	(650)	21,730
Provisions	12,453	650	13,103

1) Explanations for reclassification of income statement entries:
   - Pursuant to *IAS* 16: *Property, Plant and Equipment*, the cost of property, plant and equipment constructed by the company is recognised in the same manner as acquired property, plant and equipment, i.e. the expenditures incurred for the acquisition are described on an accrual basis.
   - Profits and losses connected with uncompleted construction projects shall be entered in the income statement as “Revenue”.

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

In the opinion of the Company’s Management Board, the financial statements give a true and fair view of the financial position of the Company.

These financial statements are not audited.

Financial statements are prepared in thousand of Estonian kroons (EEK)

2. Tangible and intangible assets

	Tangible assets	Intangible assets
At cost		
31 December 2002	**7,599,071**	**179,972**
Additions	42,819	390
Disposals and retirements (-)	(21,340)	(16,920)
31 March 2003	**7,620,550**	**163,442**
31 December 2003	**7,845,954**	**242,867**
Additions	105,058	3,546
Acquired by finance leases	173	-
Acquired on acquisition of a subsidiary	2,092	186
Disposals and retirements (-)	(19,202)	(6,024)
31 March 2004	**7,934,075**	**240,575**
Accumulated depreciation		
31 December 2002	**4,925,398**	**137,432**
Charge for the period	222,571	5,874
Disposals and retirements (-)	(20,072)	(16,920)
31 March 2003	**5 127 897**	**126 386**
31 December 2003	**5 570 086**	**118 772**
Charge for the period	203 113	8 737
Acquired on acquisition of a subsidiary	710	92
Disposals and retirements (-)	(18 722)	(6 023)
31 March 2004	**5 755 187**	**121 578**
Carrying amount		
At 31 March 2003	**2 492 653**	**37 056**
At 31 March 2004	**2 178 888**	**118 997**

Financial statements are prepared in thousand of Estonian kroons (EEK)

3. Investments in subsidiaries

	Country of incorporation	Ownership interest		Principal activity	Owner
		31 March 2004	**31 Dec 2003**		
Elion Ettevõtted 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 Ettevõtted AS
AS EsData	Estonia	100%	100%	Internet and data communication services, VoiP long distance calls and equipment hosting services	Elion Ettevõtted AS
AS Connecto	Estonia	51%	51%	Construction and maintenance of telecommunication networks	Elion Ettevõtted AS
SIA Connecto Latvia	Latvia	100%	100%	Construction and maintenance of telecommunication networks	AS Connecto
UAB Lidivos Technologijos	Lithuania	100%	-	Construction and maintenance of telecommunication networks	AS Connecto
AS Reveko Telekom	Estonia	100%	-	Installation of telephone exchanges and communications systems	AS Connecto
AS Eltel Networks	Estonia	100%	-	Construction of electrical and mobile communications networks	AS Connecto
AS EMT	Estonia	100%	100%	Construction and operating of mobile networks, providing mobile communication services	AS Eesti Telekom
EMT Esindused AS	Estonia	100%	100%	Retail sales of telecommunication products and services	AS EMT
AS Mobile Wholesale	Estonia	100%	100%	Wholesale of mobile phones	AS EMT

4. Investments in associates

	Country of incorporation	Ownership interest		Principal activity	Owner
		31 March 2004	**31 Dec 2003**		
AS Intergate	Estonia	50%	50%	Venture capital investments into companies with innovative technologies	Elion Ettevõtted AS
AS Sertifitseerimiskeskus	Estonia	50%	50%	Providing certification and related services	Elion Ettevõtted AS – 25% AS EMT – 25%
OÜ Voicecom	Estonia	26%	26%	Designing and providing software for mobile related services	AS EMT

Financial statements are prepared in thousand of Estonian kroons (EEK)

5. Inventories

In the first three months 2004, the inventories were retirement in the total amount of 581 thousand EEK (first three months 2003: 228 thousand EEK) based on the estimated decline of the realisation value below their acquisition cost.

6. Equity

a) Issued capital

	31 March 2004	31 December 2003
Share issued		
Ordinary shares par value 10 EEK per share, fully paid	137 644 428	137 644 428
Preference share par value 1,000 EEK per share, fully paid	1	1

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

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

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

The company has issued one preference share. The holder of the preference share is entitled to an annual preference dividend of 10,000 EEK, and one vote at the shareholders' general meeting. Pursuant to the Shareholders’ Agreement, preferred shares will be converted into ordinary shares in May 2004.

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

b) Re-acquiring of shares

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

c) Employees' share option

At the beginning of 2001, Eesti Telekom Group launched a motivation system for its employees. As a part of the system, AS Eesti Telekom issued bonds with the issuance value of 10 EEK per bond. The bonds are accompanied by an option that allows the holder to exchange them for the parent company’s ordinary shares either in the spring of 2003 (A-series) or in the spring of 2004 (B-series). The subscription price of the shares is 90.62 EEK.

In accordance with the "AS Eesti Telekom terms for the issue of convertible bonds", an owner of A-series bond was entitled to (i) redeem a bond and exchange it for 10 Eesti Telekom A-series shares, which have a nominal value of 10 EEK each and a subscription price of 90.62 EEK per share, 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).

As of 31 March 2004, 35,000 B-series bonds had been issued, which can be exchanged for 350,000 AS Eesti Telekom ordinary shares in 2004.

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

d) Reserves

Reserves include:

- Obligatory legal reserve required by the Commercial Code. Subject to the approval of the general meeting, the reserve may be used for covering cumulated losses, if the latter cannot be covered with other unrestricted equity, and for increasing share capital.
- Share premium – the positive difference between the issue price and nominal value of issued shares (issue premium).

e) Earnings per share

Basic earnings per share have been calculated as follows:

3 months 2004: EEK 2.32 = (319,351,000 – 10,000): 137,644,428

3 months 2003: EEK 0.28 = (39,083,000 – 10,000): 137,383,178

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

3 months 2004: EEK 2.32 = (319,351,000 – 10,000): (137,644,428 + (350,000 – (350,000 x 90.62/116.90)))

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

- 319,351,000 EEK – consolidated net profit for the period;
- 10,000 EEK – dividends on preferred shares;
- 137,644,428 – the number of ordinary shares;
- 350,000 – the number of B-series shares covered by options, as of 31 March 2004;
- 116.90 EEK – the average market value of shares during the period;
- 90.62 EEK – the subscription price of shares, as stated in the option agreement.

3 months 2003: In view of the fact that in the three months of 2003 the average price of the shares of AS Eesti Telekom at the Estonian Central Depository for Securities was 86.57 EEK, the options relating to the bonds do not have a dilutive effect and diluted earnings per share equal basic earnings per.

f) Share information

AS Eesti Telekom shares are quoted in the main list of the HEX Tallinn Stock Exchange and in the main list of GDR-s on the London Stock Exchange. Each GDR (Global Depositary Receipt) represents three ordinary shares.

The highest price of an AS Eesti Telekom share on the Tallinn Stock Exchange, during the reporting period, was 124.39 EEK; the lowest price was 102.80 EEK, and the average price was 116.90 EEK per share.

Financial statements are prepared in thousand of Estonian kroons (EEK)

7. Borrowings

	31 March 2004	31 Dec 2003
Current	8,583	8,346
Non-current	2,173	3,694
	10,756	**12,040**

The movements in the borrowings can be analyzed as follows:

Opening balance 31 Dec 2003	**12,040**
Proceeds from borrowings	111
Repayments of borrowings	(2,033)
Other movements	638
Closing balance 31 March 2004	**10,756**

8. Provisions

a) Non-current retirement benefit provisions

31 December 2003	**8,777**
Additional provision in the reporting period	20
Decrease of provision in the reporting period	(195)
31 March 2004	**8,602**

b) Current provisions

	Termination benefits provision	Current portion of retirement benefit provision	Other provisions	**Total**
31 December 2003	**5,345**	**651**	**29**	**6,025**
Additional provision in the reporting period	578	162	1	741
Decrease of provision in the reporting period	(1,330)	-	-	(1,330)
Utilisation of provision in the reporting period	(1,862)	(162)	-	(2,024)
31 March 2004	**2,731**	**651**	**30**	**3,412**

9. Related party transactions

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

a) Directors' and executives' remuneration

The remuneration of directors and other members of key management during the first three months 2004 and 2003 were as follows:

	3 months to 31 March 2004	3 months to 31 March 2003
Salaries	8,339	6,091

b) Trading transactions

Transactions with related parties were conducted under market terms.

Financial statements are prepared in thousand of Estonian kroons (EEK)

During the first three months 2004 and 2003, group companies entered into the following transactions with related parties:

	3 months to 31 March 2004	3 months to 31 March 2003
Telecommunication services provided		
Associates:		
Esdata AS (kuni 30.11.03)	-	932
Sertifitseerimiskeskuse AS	75	49
Voicecom AS	20	20
Owners:		
TeliaSonera AB	38,170	26,764
Supervisory Council members:		
Tark & Co Law Office	63	72
Other sales		
Associates:		
Sertifitseerimiskeskuse AS	9	-
Voicecom AS	10	14
Owners:		
Eltel Networks Corp. (alates 01.07.03)	22	-
Supervisory Council members:		
Tark & Co Law Office	2	-
Telecommunication services purchased		
Associates:		
Esdata AS (kuni 30.11.03)	-	1
Sertifitseerimiskeskuse AS	3	-
Voicecom AS	68	139
Owners:		
TeliaSonera AB	22,892	24,119
Other services purchased		
Associates:		
Voicecom AS	-	3
Owners:		
TeliaSonera AB	52	-
Supervisory Council members:		
Tark & Co Law Office	62	402
Financial income		
Associates:		
AS Sertifitseerimiskeskus	66	65
Financial expenses		
Associates:		
TeliaSonera AB	156	293
Amounts owed by related parties		
Associates:		
Esdata AS (up to 30.11.03)	-	715
Sertifitseerimiskeskuse AS	4,222	4,167
Voicecom AS	8	7
Owners:		
TeliaSonera AB	24,880	10,487
Supervisory Council members:		
Tark & Co Law Office	25	26
Amount owed to related parties		
Owners:		
TeliaSonera AB	17,681	23,303

10. Segment information

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

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

Fixed network telecommunications – this segment operates the national telecommunications network, with providing fixed telecommunication services and related value-added-services as well as provision of production, marketing and sales related services. The companies belonging to this business segment are Elion Ettevõtted AS, AS Elion Esindus and AS EsData.

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

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

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

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

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

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

Segment liabilities are those directly attributable to the segment.

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

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

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

Financial statements are prepared in thousand of Estonia kroons (EEK)

a) Business segments

	Fixed network telecommunications		Mobile telecommunications		Construction		Other operations		Eliminations		Consolidated	
	3 months 31 March 2004	**3 months 31 March 2003**	**3 months 31 March 2004**	**3 months 31 March 2003**	**3 months 31 March 2004**	**3 months 31 March 2003**	**3 months 31 March 2004**	**3 months 31 March 2003**	**3 months 31 March 2004**	**3 months 31 March 2003**	**3 months 31 March 2004**	**3 months 31 March 2003 Restated**
Revenue												
Revenue	573,717	549,452	603,085	536,298	36,148	16,646	-	-	-	-	1,212,950	1,102,396
Other operating income	3,720	2,523	1,098	2,182	453	26	2	2	-	-	5,273	4,733
Inter-segment revenue	38,832	39,205	77,327	71,100	29,082	25,965	15	20	(145,256)	(136,290)	-	-
Total revenue	**616,269**	**591,180**	**681,510**	**609,580**	**65,683**	**42,637**	**17**	**22**	**(145,256)**	**(136,290)**	**1,218,223**	**1,107,129**
Operating expenses												
Materials, consumables, supplies and services	(122,548)	(106,260)	(279,539)	(213,153)	(23,593)	(12,152)	-	-	-	-	(425,680)	(331,565)
Other operating expenses	(71,571)	(72,494)	(28,792)	(19,914)	(10,407)	(7,915)	(1,835)	(1,645)	-	-	(112,605)	(101,968)
Personnel expenses	(93,524)	(83,933)	(33,352)	(24,603)	(23,408)	(16,904)	(3,030)	(1,954)	-	-	(153,314)	(127,394)
Other expenses	(2,745)	(2,416)	(1,720)	(2,445)	(536)	(341)	(85)	(1,172)	-	-	(5,086)	(6,374)
Inter-segment expenses	(100,224)	(94,049)	(36,692)	(36,178)	(7,755)	(5,758)	(110)	(50)	144,781	136,035	-	-
Total expenses	**(390,612)**	**(359,152)**	**(380,095)**	**(296,293)**	**(65,699)**	**(43,070)**	**(5,060)**	**(4,821)**	**144,781**	**136,035**	**(696,685)**	**(567,301)**
EBITDA	**225,657**	**232,028**	**301,415**	**313,287**	**(16)**	**(433)**	**(5,043)**	**(4,799)**	**(475)**	**(255)**	**521,538**	**539,828**
Depreciation and amortisation	(125,473)	(139,489)	(85,284)	(88,633)	(2,225)	(872)	(249)	(329)	1,381	878	(211,850)	(228,445)
EBIT	**100,184**	**92,539**	**216,131**	**224,654**	**(2,241)**	**(1,305)**	**(5,292)**	**(5,128)**	**906**	**623**	**309,688**	**311,383**
Income/ (expenses) from subsidiaries and associated companies, net	(428)	(1,100)	(90)	(376)	-	-	321,768	39,358	(321,432)	(38,611)	(182)	(729)
Other net financing items	2,048	(473)	3,690	3,674	70	200	3,690	4,844	-	-	9,498	8,245
Income tax on dividends	-	(69,005)	-	(210,811)	-	-	-	-	-	-	-	(279,816)
Minority interest	-	-	-	-	-	-	-	-	347	-	347	-
Net profit for the period	**101,804**	**21,961**	**219,731**	**17,141**	**(2,171)**	**(1,105)**	**320,166**	**39,074**	(320,179)	(37,988)	**319,351**	**39,083**

Financial statements are prepared in thousand of Estonia kroons (EEK)

b) Other information by segments

	Fixed network telecommunications		Mobile telecommunications		Construction		Other operations		Eliminations		Consolidated	
	3 months 31 March 2004	**3 months 31 March 2003**	**3 months 31 March 2004**	**3 months 31 March 2003**	**3 months 31 March 2004**	**3 months 31 March 2003**	**3 months 31 March 2004**	**3 months 31 March 2003**	**3 months 31 March 2004**	**3 months 31 March 2003**	**3 months 31 March 2004**	**3 months 31 March 2003 Restated**
Non-current assets (except investments in subsidiaries and associates)	1,279,243	1,541,487	1,015,885	995,907	24,390	7,549	6,314	3,309	(18,125)	(13,816)	2,307,707	2,534,436
Investments in subsidiaries and associates	32,896	38,526	3,159	4,039	-	-	3,858,993	2,520,473	(3,878,591)	(2,541,071)	16,457	21,967
Current assets	911,547	542,655	1,107,215	934,239	61,265	37,740	599,210	1,422,414	(81,400)	(852,035)	2,597,837	2,085,013
Total assets	**2,223,686**	**2,122,668**	**2,126,259**	**1,934,185**	**85,655**	**45,289**	**4,464,517**	**3,946,196**	**(3,978,116)**	**(3,406,922)**	**4,922,001**	**4,641,416**
Owners' equity	**1,967,983**	**1,569,647**	**1,898,003**	**958,283**	**42,741**	**26,958**	**4,455,619**	**3,939,209**	**(3,909,910)**	**(2,554,888)**	**4,454,436**	**3,939,209**
Minority interest	-	-	-	-	-	-	-	-	13,194	-	13,194	-
Non-current liabilities	1,884	11,700	6,853	7,503	289	-	1,749	478	-	-	10,775	19,681
Current liabilities	253,819	541,321	221,403	968,399	42,625	18,331	7,149	6,509	(81,400)	(852,034)	443,596	682,526
Total equity and liabilities	**2,223,686**	**2,122,668**	**2,126,259**	**1,934,185**	**85,655**	**45,289**	**4,464,517**	**3,946,196**	**(3,978,116)**	**(3,406,922)**	**4,922,001**	**4,641,416**
Net cash from/ (used in) operating activities	175,796	145,992	291,892	302,239	3,362	(3,549)	(6,508)	(5,192)	(418)	15,051	464,124	454,541
Net cash from / (used in) investing activities	4,126	4,077	3,681	3,582	(3,282)	251	(23,442)	406,091	(5,641)	(333,616)	(24,558)	80,385
CAPEX	(51,406)	(19,291)	(54,457)	(23,519)	(1,656)	(212)	-	(450)	713	263	(106,806)	(43,209)
Net cash (used in) financing activities	(1,733)	(338,348)	(4,397)	5,942	(1,130)	863	(8)	(3)	5,346	318,302	(1,922)	(13,244)
Foreign exchange rate differences	(23)	142	4	(66)	7	(9)	73	(13)	-	-	61	54
Net increase / (decrease) in cash and cash equivalents	**126,760**	**(207,428)**	**236,723**	**288,178**	**(2,699)**	**(2,656)**	**(29,885)**	**400,433**	**-**	**-**	**330,899**	**478,527**

c) Revenue by geographic area

	Fixed network telecommunications		Mobile telecommunications		Construction		Consolidated	
	3 months 2004	**3 months 2003**	**3 months 2004**	**3 months 2003**	**3 months 2004**	**3 months 2003**	**3 months 2004**	**3 months 2003**
Revenue from customers in Estonia	503,503	494,128	578,797	517,379	28,979	14,127	1,111,279	1,025,634
Revenue from customers outside Estonia	70,214	55,324	24,288	18,919	7,169	2,519	101,671	76,762
	573,717	**549,452**	**603,085**	**536,298**	**36,148**	**16,646**	**1,212,950**	**1,102,396**