15 June 2004

THE FINANCIAL RESULTS OF THE FIRST SIX MONTHS OF 2004

Eesti Telekom, the leading provider of telecommunication services in Estonia, hereby announces its results for the six-month period, which ended 30 June 2004.

Financial highlights

	Q2 2004	Q2 2003	Change %	**HY1 2004**	HY1 2003	Change %
Total revenues, mEUR	**82**	76	8	**160**	147	9
EBITDA, mEUR	**35**	36	-2	**69**	70	-3
EBITDA margin, %	**43**	47		**43**	48	
EBIT, mEUR	**22**	22	2	**42**	42	1
EBIT margin, %	**27**	29		**26**	28	
Profit before taxes, mEUR	**23**	26	-13	**43**	47	-7
Net profit for the period, mEUR	**-2**	26		**19**	28	-34
EPS, EUR	**-0.01**	0.19		**0.14**	0.21	-34
CAPEX, mEUR	**5**	5	-1	**12**	8	49
Net gearing, %	**-33**	-33		**-33**	-33	
ROA (annualised), %	**-2**	36		**13**	20	
ROE (annualised), %	**37**	44		**34**	38	

Commenting on these financial results, Chairman Jaan Männik stresses:

"The strong sales growth and maintained profitability continued in the second quarter."

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CHAIRMAN'S STATEMENT

Financial results

The development of the telecommunications market in Estonia, during the first six months of 2004, has been energetic. The mobile communications sector has been the "engine" of this development. Mobile penetration in Estonia reached 77% by the end of 2003. This was a very good indicator, considering the nation's economic opportunities. In the course of six months, mobile penetration has reached 84%. Lower tariffs are largely responsible for this increase in customers, but it has not been the only factor. In addition to voice communications, data communications are gaining popularity in both the mobile and fixed communications spheres. Competition in the Estonian telecommunications market is strong, and several operators have been successful in their endeavours. As a result, the flow of capital in this market has also been increased by the rapid growth of interconnection transactions.

The Eesti Telekom Group has been able to keep up with market developments, and the second quarter was successful for us. The consolidated revenues of the Group were up by 8%, compared to the second quarter of 2003, amounting to 82 mln EUR. All of the spheres of activity, that the Group is involved in, contributed to this increase. The revenue increase was accompanied by an increase of expenses. The consolidated operating expenses of the second quarter of 2004 exceeded the corresponding figure for 2003 by 18%, amounting to 47 mln EUR. Various circumstances lead to this increase of expenses. Due to the increase in interconnected calls, the Group has had to make greater interconnection payments. We have set as our goal the maintaining of our market position. The achieving of this goal has required the increasing of our marketing expenses. The expansion of our activities in the construction and the wholesale and retail trade sectors has been accompanied by an increase of the expenses connected with these sectors.

The EBITDA of the Group, in the second quarter of 2004, was 35 mln EUR, and the EBITDA margin was 43%. The margin is down, compared to the same period in 2003. However, it has been possible to maintain the margin established in the first quarter of 2004.

The depreciation of the Eesti Telekom Group, in the second quarter of 2004, was down by 7%, compared to the same period in 2003. Depreciation has been falling during the last quarters as a result of the relatively low CAPEX that the Group has had during the past years. However, it should be noted, that, in the course of the last few quarters, several extensive investment projects have been carried out in the mobile sector.

The EBIT of the Eesti Telekom Group in the second quarter of 2004 was 22 mln EUR, up by 2%. The Group's pre-tax profit amounted to 23 mln EUR, down by 13%. This decline is the result of the fact that the financial revenues of the base period include a 3.8 mln EUR capital gain from the sale of 49% of the shares of AS Connecto.

The second quarter of 2004 ended for the Eesti Telekom Group with a net loss of 2 mln EUR. Dividend income tax expense, calculated on dividends paid to AS Eesti Telekom by its subsidiaries, and paid by AS Eesti Telekom to its shareholders, in the amount of 24 mln EUR, was shown as an expense of the second quarter. In the year 2003, dividend income tax calculated for dividends paid by subsidiaries to AS Eesti Telekom, was already shown as an expense of the first quarter. As a result of the increase in dividends paid out in 2004, as compared to 2003, the dividend tax of the Eesti Telekom Group increased by 6 mln EUR.

At the end of June 2004, the total assets of the Eesti Telekom Group amounted to 273 mln EUR (in December 2003, 294 mln EUR). Non-current assets were reduced, from the beginning of the year, by 13 mln EUR. Current assets were down by 9 mln EUR. This decline was mainly the result of the lower balance of cash and cash equivalents by 14 mln EUR related to the dividend payout. At the end of June 2004, the Group's non-current debt amounted to 0.1 mln EUR, and current debt amounted to 2 mln EUR (in December 2003, 0.2 mln EUR and 1 mln EUR respectively). By the end of the period, the net debt of the Group amounted to –70 mln EUR, and net gearing was –33%. Other current liabilities of the Group were up by 27 mln EUR, including a 29 mln EUR increase in tax liabilities. The majority of the increase in tax liabilities was income tax calculated on dividends paid out.

The net operating cash flow of the Eesti Telekom Group in the first six months of 2004 was 64 mln EUR (during the corresponding 6 months of 2003, 68 mln EUR). Cash flow into investments was essentially larger than a year ago - 0.2 mln EUR in 2003 (taking into account the 4.3 mln EUR, which came in from sales of the minority ownership in AS Connecto), -9 mln EUR in 2004. The cash outflow into financing was 69 mln EUR, including 70 mln EUR paid as dividends (during the corresponding 6 months of 2003, 52 mln EUR, including 53 mln EUR paid as dividends).

Elion Group

	Q2 2004	Q2 2003	Change %	**HY1 2004**	HY1 2003	Change %
Total revenues, mEUR	**43**	40	5	**84**	79	7
EBITDA, mEUR	**13**	15	-8	**28**	29	-5
EBITDA margin, %	**32**	36		**33**	37	
EBIT, mEUR	**6**	6	-1	**12**	12	3
EBIT margin, %	**14**	15		**15**	15	
Profit before taxes, mEUR	**6**	10	-38	**13**	16	-20
Net profit for the period, mEUR	**-0**	10		**6**	11	-46
CAPEX, mEUR	**3**	3	-2	**6**	4	52
ROA, %	**-1**	30		**9**	16	
ROE, %	**5**	38		**22**	29	

The revenue growth of the Elion Group continued in the second quarter of 2004, when the result of the second quarter of 2003 was exceeded by 2 mln EUR. The operating expenses were up by 3 mln EUR or 13%, amounting to 29 mln EUR. The EBITDA of the second quarter was 13 mln EUR, down by 1 mln EUR, compared to the second quarter of 2003. Depreciation of the Elion Group is continuously down, as a result of the relatively low CAPEX that the Group has had during the past years. Depreciation of the second quarter amounted to 8 mln EUR, down by 1 mln EUR, compared to the same period in the previous year. The EBIT of the Elion Group was 6 mln EUR, down by 0.1 mln EUR. The net loss for the second quarter was 0.3 mln EUR. This result cannot properly be compared with the corresponding period of 2003 for two reasons. First, the net profit of the second quarter of 2003 included a 3.8 mln EUR capital gain from the sale of 49% of the shares of AS Connecto. Second, there is the dividend tax expense (6 mln EUR) shown as an expense of the second quarter in the 2004 accounts, while in 2003, the dividend tax was already shown as an expense of the first quarter.

The consolidated revenues growth of the Elion Group resulted from growth of the parent company of the Group as well as from growth of the subsidiary companies. Revenues of Elion Enterprises AS, the parent company of the Elion Group, were up by 2%, amounting to 37 mln EUR. These revenues were mostly influenced by a price war between the mobile communication operators and by increasing competition in the Internet market.

In April 2004, Radiolinja Eesti, the last Estonian mobile operator to do so, launched its prepaid call-card. As part of the promotion campaign, the call-card clients can, until September, call fellow clients for free. Other mobile operators reacted to the campaign by lowering tariffs, thereby reducing the price differences between calls made from fixed and mobile phones. The mobile operators' price war has had an effect on the results of fixed phone communications by reducing domestic call minutes and revenues. Compared to the second quarter of 2003, this year's revenues from domestic calls were 20% lower.

In the second quarter, Elion Enterprises AS reduced several international tariffs. Customers now have the opportunity to choose not just one, but two Friend Countries, which they can call at lower rates than usual. Elion's merchandising coupled with Estonians' ever increasing activities abroad have ensured the increase of revenues from international calls. The results of this year's second quarter surpassed the indicator for 2003 by 9%.

The revenues from fixed to mobile calls were down by 6% in the second quarter. However, the quantity of call minutes has remained stable, so that the reduction of revenues is caused more by the very good results of the corresponding period in 2003, rather than by this year's poorer results.

Elion Enterprises AS estimates its share of total call minutes initiated from the fixed network to continuously be 87% (June 2003: 87%). The market share of domestic call minutes, international call minutes, fixed to mobile call minutes, and dial-up minutes is 87% (June 2003: 87%), 68% (June 2003: 66%), 75% (June 2003: 74%), and 96% (June 2003: 95%), respectively.

The revenues from installation and monthly fees were down by 4%. By the end of June 2004, Elion was using 431,937 main lines (a penetration of 31.9 lines per 100 persons). Since the beginning of the year, the number of main lines has decreased by 12.8 thousand. Special offers from mobile operators have lead to customers, mainly private individuals, giving up their fixed lines. In March 2004, AS Starman, a cable TV operator, started to offer fixed voice connections through its cable network. The opportunity of hooking up to the Starman cable network brought about, in the second quarter, an increase in the use of the number portability facility. If, in the first quarter of 2004, 344 clients switched from Elion to another fixed operator network, then, in the second quarter, the corresponding number was 706, and again, the majority were private individuals.

Revenue growth in the Internet sector slowed down a bit as a result of stronger competition. The total number of Elion permanent Internet connections was 58.7 thousand by the end of June 2004. The net increase in the number of permanent connections since June 2003 has been 19.5 thousand.

In the second quarter, revenue growth in the IT and data communications sector was also lower, as the demand for IT rental services by Estonian firms remained somewhat bellow our expectations. At the same time, during the second quarter, Elion Enterprises made a concerted effort to market its IT and data communication services. In the course of a couple of months, Elion specialists mapped the IT systems of approximately 100 firms, and began to service the computer terminals of more than 500 other firms. Also, the product portfolio of Elion Enterprises 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. The public tender of the Tallinn Educational Authority, that Elion Enterprises won a year ago, was completed by connecting Tallinn’s school computers with a high-speed fibber-optic network.

The revenues from network services were up by 27%, compared to the second quarter of 2003. This growth resulted from international traffic and leased lines rental revenue.

Revenues of the subsidiaries of the Elion Group that are operating in the network construction area were up by 17% in the second quarter, with the revenues from outside the Eesti Telekom Group increasing by 43%. On 3 July 2003, the Finnish network construction company Eltel Networks Corporation became involved in the management of the Connecto Group, since it bought 49% of the shares of AS Connecto, the parent company of the Connecto Group. On 27 May 2004, the merger process of the Connecto Group network companies, which had been started in December 2003, was completed, as a result of which, AS Connecto, AS Reveko Telekom, and ELTEL Networks AS were joined up. The merged company will continue its operations under the trademark Eltel Networks. The aim of the merger was to improve the Group’s prospects for development in the Baltic states. The merger of the companies, which had previously been successfully operating in different areas of network construction, provides a chance for the cross- usage of telecommunication and electricity network construction resources, thus ensuring a higher level of operational efficiency. For the client, this means more favourable conditions, stable quality, and the opportunity to trust all network construction services into the care of one strong partner. The merged firm forecasts, for 2004, a turnover of 26 mln EUR in the Baltics. Elion Enterprises AS has decided to sell, in the first quarter of 2005, at the latest, its 51% ownership of Eltel Networks to Eltel Networks Corporation.

In the second quarter, the revenues of AS Elion Esindus, a subsidiary operating in the retail area, were up by 18%.

The growth of the operating expenses of the Elion Group was caused by three main factors. First, the expansion of construction and retail activities has been accompanied by an increase in the expenses incurred in those sectors. Second, an increase of call minutes into the networks of foreign operators has generated higher interconnection payments. Third, expansion of the network construction sector (both entering the Lithuanian market and expanding into the electricity network construction field) has necessitated the hiring of additional staff, which has, of course, lead to higher personnel expenses. The number of employees of the Elion Group at the end of June 2004 was 2,065 (June 2003: 1,924; December 2003: 2,014). The number of employees of Elion Enterprises AS at the end of June 2004 was 1,287 (June 2003: 1,343; December 2003: 1,354).

The Elion Group invested 3 mln EUR in the second quarter of 2004. The majority of investments were made to better satisfy the needs of the customers and to develop the networks. The most important investment projects of the second quarter were the enlargement of the Tallinn – London data transmission channel and expansion of the broadband network.

The consolidated revenues of the Elion Group, during the first six months of 2004, amounted to 84 mln EUR, up by 7%, compared to the same period in 2003. Operating expenses during the period amounted to 56 mln EUR, up by 14%. The EBITDA of the Group was 28 mln EUR, and the EBITDA margin was 33%. The net profit for the six months was 6 mln EUR. In 2003, Elion Enterprises AS paid 13 mln EUR to AS Eesti Telekom as dividends. In 2004 the dividend payment amounted to 19 mln EUR. The higher dividends meant that the dividend tax payment was 2 mln EUR higher than in 2003.

EMT Group

	Q2 2004	Q2 2003	Change %	**HY1 2004**	HY1 2003	Change %
Total revenues, mEUR	**49**	44	12	**92**	83	12
EBITDA, mEUR	**22**	22	3	**42**	42	-0
EBITDA margin, %	**46**	50		**45**	51	
EBIT, mEUR	**17**	16	4	**31**	31	0
EBIT margin, %	**35**	37		**33**	37	
Profit before taxes, mEUR	**17**	16	4	**31**	31	0
Net profit for the period, mEUR	**-1**	16		**13**	18	-25
CAPEX, mEUR	**3**	3	0	**6**	4	47
ROA, %	**-3**	58		**22**	31	
ROE, %	**72**	95		**63**	79	

The fast development of the Estonian mobile market continued in the second quarter of 2004. For the EMT Group it meant fast revenue growth on the one hand, and an extensive growth of expenses on the other. The consolidated revenues of the EMT Group in the second quarter of 2004 exceed the corresponding figure in 2003 by 5 mln EUR, amounting to 49 mln EUR. The operating expenses of the Group were up by 4 mln EUR, amounting to 26 mln EUR. Higher investments made at the end of 2003 and at the beginning of 2004 have stopped the reduction of depreciation expenses. The depreciation of the second quarter of 2004 was at the same level as in 2003. The pre-tax profit of the EMT Group was up by 4%, amounting to 17 mln EUR. The net loss in the second quarter was 1 mln EUR as the dividend tax expense (18 mln EUR) was shown as an expense of the second quarter in the 2004 accounts, while in 2003, the dividend tax was already shown as an expense of the first quarter.

The revenues of AS EMT, the parent company of the EMT Group, were up by 11%, amounting to 666 mln EUR. The revenue increase of AS EMT is mainly the result of its wider customer base. The total number of customers of AS EMT, by the end of June 2004, was 530.6 thousand. The annual net change in the number of customers was 91.2 thousand. The increase in the number of customers during the second quarter of 2004 was 23.1 thousand. There has been an increase in the number of both prepaid and post-paid customers. By the end of June 2004, AS EMT had 194.9 thousand prepaid customers (June 2003: 148.2 thousand) and 335.7 thousand post-paid customers (June 2003: 291.3 thousand). The growth has been fuelled by, not only, a lowering of the end-user tariffs during the mobile price war, but also by the efforts of many firms to limit their communication expenses by paying only for their employees' work-related mobile calls, which has lead to a higher number of customers using more than one mobile number.

EMT did not remain untouched by the price war. More call minutes were added to the Simpel starter packages. The price of the starter packages was cut. Children using EMT's POP-card can talk to each other for free until the end of August. New contractual customers are offered several months with no monthly fee. In June, discounted tariffs at certain hours, or for certain customer groups, called Summer Calls, are becoming a tradition. But, despite these special discount offers, EMT's ARPU remained stable. In June it was 25.12 EUR (March 2004: 24.99 EUR; December 2003: 26.20 EUR; June 2003: 28.31 EUR).

The revenues from GPRS had the highest growth rate – 2.5 times, compared to the second quarter of 2003. The increase in this sector's revenues was brought about by, not only, an expansion of the customer base, but also by the steps taken to popularize the mobile data communication services among existing clientele. In the second quarter, the data limits of the GPRS packages were doubled without raising the monthly fee. From June on, WAP and GPRS services can also be used by Simpel prepaid card customers. At the end of June, a new EMT Go mobile internet environment "opened its doors". Via the mobile phone, EMT Go integrates the most popular mobile data communication services and offers updated information and entertainment services. With this service, it is possible to read e-mails; find directions; check up on your bank account; download logos, pictures and games; and read the latest news. The service is available for all customers with handsets that enable data communications. Payments for the service depend on the amounts of data sent and received by the customer.

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. Although EDGE is not yet a revenue producer, the significance of this development, as a step into the future, cannot be underestimated. 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 1 mln EUR into the development of EDGE.

Both subsidiaries of the EMT Group – AS EMT Esindused and AS MWS – have contributed to the revenue growth. The fast-growing customer base has kept the demand for new handsets high. Development of mobile data communications has increased the number of customers interested in phones with GPRS or EDGE facilities.

The number of customers of all the Estonian mobile operators has been growing at a fast pace during the last quarters. That has boosted traffic between operators. The increase in EMT's interconnection expenses has been the main factor behind the big increase in operating expenses. AS EMT estimates that its market share, based upon the number of customers, is stable at around 47%. To maintain its market share, EMT has had to increase its marketing costs. Expenses related to more handsets sold were the third important factor behing the OPEX growth. The number of employees of the EMT Group has been increasing. On 30 June 2004, the EMT Group had 471 employees, whereas, a year earlier, the number was 414. The increase in employees has lead to higher personnel expenses.

The EMT Group invested 3 mln EUR in the second quarter of 2004. Majority of investments were made to improve the quality of the technological infrastructure.

The consolidated revenues of the EMT Group, during the first six months of 2004, amounted to 92 mln EUR, up by 12% compared to the same period in 2003. Operating expenses during the period amounted to 62 mln EUR, up by 24%. The EBITDA of the Group was 50 mln EUR and the EBITDA margin was 45%. The net profit for the six months was 13 mln EUR. In 2003, AS EMT paid 38 mln EUR to AS Eesti Telekom as dividends. In 2004 the dividend payment amounted to 51 mln EUR. These bigger dividends meant that this year's dividend tax payment was 4 mln EUR bigger than in 2003.

Relations with state regulators

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. By now, the Communications Board has annulled the precept.

The National Communications Board issued a precept to Elion Enterprises AS regarding the calculation of the domestic interconnection service charges

On 22 June 2004, the Estonian National Communications Board (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 of Regulation no. 313 of the „Cost Accounting Methodology for Leased Line and Interconnection Service Charges". The Estonian Government had approved this new regulation package on 11 December 2003. It prescribes the cost accounting methodology of SMP, which had been formulated in cooperation with the Danish consultation company Andersen Management International AS, the Association of Estonian IT and Telecommunication Companies, and the ENCB.

Compared to the interconnection service charges in force up to the present, the new local level and single transit interconnection (call termination and call origination) service charge is approximately 20% lower during normal time. The precept becomes effective 1 August 2004.

Elion Enterprises has asked the Communications Board for additional information regarding the calculations that formed the bases for the precept. After receiving and analysing the additional information, Elion will make its decisions concerning appropriate reactions.

Mobile number portability

In June 2004, the Estonian Parliament approved amendments of the Telecommunications Act, that make it possible to apply the mobile number portability requirement starting 1 January 2005.

Annual General Meeting of the 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 legal reserve of the company by 0.02 mln EUR, so that 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 0.51 EUR per share be paid to the holders of A shares, and 639 EUR per share to the holders of B shares. It was decided, that a total of 70 mln EUR be paid to the shareholders. The list of shareholders, on the basis of which, dividends were to be paid, was established 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 series shares, so that the total nominal value of AS Eesti Telekom shares held by AS Eesti Telekom would not exceed the legal limit, and that the price payable per share would not exceed the highest price paid for A shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. The 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.

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

The 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 in May 2004 of the Shareholders Agreement concluded in 1998.

The share capital enlargement of AS Eesti Telekom

100 additional A shares of AS Eesti Telekom were issued in May 2004, which were used to convert the B share owned by the government of Estonia.

From 2 May 2004 until 2 June 2004, employees of the Eesti Telekom Group covered by the share option program could convert their B-series bonds for A shares of AS Eesti Telekom at the issue price of 90.62 EUR per share. The total number of B-series bonds outstanding as of 1 May 2004 was 34,125. By 2 June 2004, the owners of B-series bonds subscribed 310,000 AS Eesti Telekom A shares for the exchange of 31,000 B-series bonds. The Management Board of AS Eesti Telekom approved the subscription list, and submitted an application to the Registry Department of the Tallinn City Government for the registration of 310,000 A-series shares with a nominal value of 0.64 EUR and an issue price of 5.79 EUR, i.e. an issue premium of 5.15 EUR. 3,125 B-series bonds were redeemed for the bond's nominal value of 0.64 EUR plus the accumulated interest, based upon an interest rate of 7% per annum.

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.

The total number of AS Eesti Telekom A shares, after the emission of the new shares, is 137,954,528, and the share capital is 88,169,013 EUR. A shares are distributed between the main groups of shareholders as follows:

	No of shares	%
Baltic Tele AB	67,317,756	48.80
Republic of Estonia	37,485,100	27.17
Public investors	33,151,672	24.03

The cash offer

On 29 April 2004, Baltic Tele AB, a large shareholder of AS Eesti Telekom, made an offer to acquire all shares of AS Eesti Telekom, not already owned by Baltic Tele AB, from the shareholders of AS Eesti Telekom. The offer price was 7.11 EUR per each A share and 711 EUR per B share. The period of acceptance of the offer started on 30 April 2004 and ended on 10 June 2004. The offer was conditional. For the completion of the offer it was necessary to obtain the approval of the Estonian Competition Board for the acquisition of control over AS Eesti Telekom, and to get acceptance of the offer to the extent that it would ensure for Baltic Tele AB an 85% share of AS Eesti Telekom.

Since the second condition of the offer was not satisfied by the end of the offer period, the rights and obligations determined by the offer did not arise.

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 EUR

	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
Revenues	75.9	79.4	81.2	77.9	82.3
Operating expenses	-40.0	-43.2	-52.6	-44.5	-47.1
Profit from operations before depreciation	36.0	36.2	28.7	33.3	35.3
Depreciation and amortisation	-14.1	-13.7	-13.8	-13.5	-13.1
Profit from operations	21.8	22.5	14.9	19.8	22.2
Income / (expenses) from subsidiaries and associates	3.7	-0.1	-0.1	0.0	0.0
Other net financing items	0.7	0.4	0.5	0.6	0.7
Profit before tax	26.2	22.8	15.3	20.4	22.8
Income tax on dividends	-0.4	0.0	0.0	0.0	-24.5
Minority interest	0.0	-0.2	0.0	0.0	0.0
Net profit for the period	25.8	22.6	15.3	20.4	-1.6
EBITDA margin, %	47.4%	45.6%	35.3%	42.8%	42.8%
EBIT margin, %	28.7%	28.3%	18.3%	25.4%	27.0%
Net margin, %	34.0%	28.4%	18.8%	26.2%	-2.0%
Total assets	278.4	276.6	293.9	314.6	272.5
- Non-current assets	154.6	152.7	155.1	148.5	142.4
- Current assets	123.8	123.9	138.9	166.0	130.1
- Cash and cash equivalents	72.4	73.1	84.4	105.6	70.0
Equity and liabilities	278.4	276.6	293.9	314.6	272.5
- Equity	226.4	249.0	264.3	284.7	214.5
- Minority interest	0.6	0.8	0.9	0.8	0.8
- Non-current liabilities	1.0	0.8	0.8	0.7	0.7
- Interest-bearing borrowings	0.5	0.4	0.2	0.1	0.1
- Current liabilities	50.4	25.9	28.0	28.4	56.5
- Interest-bearing borrowings	1.4	0.5	0.5	0.5	2.0
Proceeds from operating activities	38.9	13.2	28.0	29.7	34.1
Net cash used in investing activities	-2.2	-11.5	-16.4	-8.4	-0.9
Net cash before dividends and net loans	36.7	1.7	11.6	21.3	33.2
Dividends paid	-52.7	0.0	0.0	0.0	-70.4
Loan repayments (net)	-0.2	-1.0	-0.4	-0.1	-0.1
Share issue	1.5	0.0	0.0	0.0	1.8
Net increase (decrease) in cash and cash equivalents	-14.7	0.7	11.2	21.1	-35.6

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

INCOME STATEMENT

Financial statements are prepared in thousands of euros (EUR)

	Notes	6 months to 30 June 2004	6 months to 30 June 2003 Restated	2003
Revenues				
Net sales	10 (a, c)	159,370	145,575	305,360
Other revenues		811	1,097	1,942
Total revenues		**160,181**	**146,672**	**307,302**
Operating expenses				
Materials, consumables, supplies and services		(56,036)	(45,294)	(106,226)
Other operating expenses		(15,594)	(13,772)	(29,224)
Personnel expenses		(19,207)	(16,387)	(34,010)
Other expenses		(744)	(754)	(2,503)
Total operating expenses		**(91,581)**	**(76,207)**	**(171,963)**
Profit from operations before depreciation		**68,600**	**70,465**	**135,339**
Depreciation and amortisation	2	(26,614)	(28,746)	(56,302)
Profit from operations		**41,986**	**41,719**	**79,037**
Net financial income / (expenses) from associates		(24)	3,682	3,545
Other net financing items		1,264	1,196	2,140
Profit before tax		**43,226**	**46,597**	**84,722**
Income tax on dividends		(24,473)	(18,280)	(18,280)
Profit after tax		**18,753**	**28,317**	**66,442**
Minority interest		19	-	(259)
Net profit for the period		**18,772**	**28,317**	**66,183**
Earnings per share	6 (e)			
Basic earnings per share (in euros)		0,14	0,21	0.48
Diluted earnings per share (in euros)		0,14	0,21	0.48

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

BALANCE SHEET

Financial statements are prepared in thousands of euros (EUR)

	Notes	30 June 2004	31 Dec 2003	30 June 2003 Restated
ASSETS				
Non-current assets				
Property, plant and equipment	2	133,173	145,454	150,848
Goodwill	2	673	657	125
Licenses, patents and trademarks	2	6,763	7,274	1,939
Investments in subsidiaries and associates	3, 4	1,039	1,063	1,384
Other investments		173	173	173
Other non-current assets		595	438	146
Total non-current assets		**142,416**	**155,059**	**154,615**
Current assets				
Inventories	5	7,177	6,226	6,741
Trade receivables		37,135	31,063	28,959
Other receivables		13,971	14,053	12,636
Investments held for trading		1,825	3,113	3,102
Cash and cash equivalents		69,976	84,414	72,371
Total current assets		**130,084**	**138,869**	**123,809**
TOTAL ASSETS		**272,500**	**293,928**	**278,424**
EQUITY AND LIABILITIES				
Equity	6			
Issued capital		88,169	87,971	87,971
Reserves		31,550	29,937	29,937
Translation reserve		-	(1)	(2)
Retained earnings		75,977	80,187	80,187
Net profit for the period		18,772	66,183	28,317
Total equity		**214,468**	**264,277**	**226,410**
Minority interest		**846**	**865**	**607**
Non-current liabilities				
Interest-bearing loans and borrowings – due after one year		119	236	512
Provisions		542	561	469
Total non-current liabilities	7	**661**	**797**	**981**
Current liabilities				
Trade payables		12,223	14,447	8,989
Other current liabilities		10,939	10,343	12,898
Tax liabilities		31,181	2,281	26,498
Interest-bearing loans and borrowings – due within one year	7	1,970	533	1,389
Provisions	8	212	385	652
Total current liabilities		**56,525**	**27,989**	**50,426**
TOTAL EQUITY AND LIABILITIES		**272,500**	**293,928**	**278,424**

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

CASH FLOW STATEMENT

Financial statements are prepared in thousands of euros (EUR)

	6 months to 30 June 2004	6 months to 30 June 2003
Operating activities		
Profit from operations	41,986	41,719
Adjustments for:		
Depreciation and amortisation	26,614	28,746
(Profit) from sales and write-off of fixed assets	(173)	(545)
Operating cash flow before movements in working capital	68,427	69,920
Change in current receivables	(6,256)	(559)
Change in inventories	(797)	(876)
Change in current liabilities	2,349	(496)
Cash generated by operations	63,723	67,989
Interest paid	7	(40)
Net cash from operating activities	**63,730**	**67,949**
Investing activities		
Purchases of property, plant and equipment	(11,718)	(8,126)
Purchases of licenses	(484)	(74)
Proceeds from sales of property, plant and equipment	332	669
Acquisition of subsidiaries	(247)	-
Proceeds from sales subsidiaries	-	4,355
Purchases of trading investments	(1,876)	(3,101)
Proceeds on disposal of trading investments	3,164	5,052
Loans granted	(408)	(32)
Cash receipt from repayment of loans	2	3
Interest received	1,937	1,470
Net cash used in investing activities	**(9,298)**	**216**
Financing activities		
Repayment of long-term convertible debt	(3)	(11)
Proceeds from nonconvertible long-term debt	15	15
Repayment of nonconvertible long-term debt	(236)	(354)
Repayment of long-term borrowings	-	(744)
Repayment of obligations under finance lease	(25)	-
Repayment of short-term borrowings	(11)	-
Shares issuance (Rights Offering)	1,776	1,496
Dividends paid	(70,377)	(52,683)
Net cash used in financing activities	**(68,861)**	**(52,281)**
Net increase in cash and cash equivalents	**(14,429)**	**15,884**
Cash and cash equivalents at beginning of year	**84,414**	**56,497**
Effect of foreign exchange rate changes	(9)	(10)
Cash and cash equivalents at end of period	**69,976**	**72,371**

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

STATEMENT OF CHANGES IN EQUITY

Financial statements are prepared in thousands of euros (EUR)

	Notes	Issued capital	Reserves		Translation reserve	Retained earnings	Net profit for the period	TOTAL
			Share premium	Statutory legal reserve				
31 December 2002		**87,804**	**19,810**	**8,781**	**(2)**	**66,375**	**66,495**	**249,263**
Net profit for the 2002 transferred to retained earnings		-	-	-	-	66,495	(66,495)	-
Share issuance	**6 (a)**	167	1,346	-	-	-	-	1,513
Dividends paid	**6 (d)**	-	-	-	-	(52,683)	-	(52,683)
Net profit for the period		-	-	-	-	-	28,317	28,317
30 June 2003		**87,971**	**21,156**	**8,781**	**(2)**	**80,187**	**28,317**	**226,410**
31 December 2003		**87,971**	**21,156**	**8,781**	**(1)**	**80,187**	**66,183**	**264,277**
Net profit for the 2003 transferred to retained earnings		-	-	-	-	66,183	(66,183)	-
Exchange differences arising from translation of foreign operations		-	-	-	1	-	-	1
Share issuance	**6 (a)**	198	1,597	-	-	-	-	1,795
Amounts transferred to reserves	**6 (c)**	-	-	16	-	(16)	-	-
Dividends paid	**6 (d)**	-	-	-	-	(70,377)	-	(70,377)
Net profit for the period		-	-	-	-	-	18,772	18,772
30 June 2004		**88,169**	**22,753**	**8,797**	**-**	**75,977**	**18,772**	**214,468**

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

The consolidated interim financial statements for the three months period ending 30 June 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 are presented in thousands of euros, unless indicated otherwise. AS Eesti Telekom measurement currency is Estonian kroon. Estonian kroon's exchange rate is fixed at 15.64660 EEK per euro.

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		
	30 June 2004	**30 June 2003**	**31 December 2003**
EUR	15.64660	15.64664	15.64664
USD	12.90070	13.68611	12.40960
SEK	1.71340	1.70735	1.72205
LVL	23.84830	24.11440	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 639 EUR are considered to be ***fixed assets***. Fixed assets are recorded at acquisition cost, which consists of the purchase price, non-refundable taxes, and other expenditures directly related to taking the fixed asset object into use. The acquisition price of property, plant and equipment constructed by the company includes the cost of materials and direct labour.

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

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

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

Freehold land is not depreciated.

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

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

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

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 thousands of euros (EUR)

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 30 June 2003	Reclassification	Comparative balance 30 June 2003
Reclassification of income statement [1)]			
Revenues			
Sales revenue	145,480	95	145,575
Operating expenses			
Change in work-in-progress	95	(95)	-
Capitalised self-construction assets	599	(599)	-
Materials, consumables, supplies and services	(45,706)	412	(45,294)
Other operating costs	(13,849)	77	(13,772)
Personnel expenses	(16,495)	108	(16,387)
Other expenses	(756)	2	(754)

Financial statements are prepared in thousands of euros (EUR)

	Initial opening balance 30 June 2003	Reclassification	Comparative balance 30 June 2003
Reclassification of balance sheet [2)]			
Assets			
Current assets			
Inventories	7 024	(283)	6,741
Trade receivables	28,267	692	28,959
Other receivables	13,045	(409)	12,636
Liabilities			
Non-current liabilities			
Interest bearing loans and borrowings – due after one year	981	(469)	512
Provisions	-	469	469
Current liabilities			
Trade payables	9,744	(755)	8,989
Other current liabilities	11,901	997	12,898
Interest bearing loans and borrowings – due within year	1,430	(41)	1,389
Provisions	853	(201)	652

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 "Other current liabilities".

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 thousands of euros (EUR)

2. Tangible and intangible assets

	Tangible assets	Intangible assets
At cost		
31 December 2002	**485,667**	**11,503**
Additions	8,126	74
Disposals and retirements (-)	(4,631)	(1,255)
30 June 2003	**489,162**	**10,322**
31 December 2003	**501,445**	**15,523**
Additions	11,718	599
Acquired by finance leases	1,585	-
Acquired on acquisition of a subsidiary	133	12
Disposals and retirements (-)	(2,902)	(398)
30 June 2004	**511,979**	**15,736**
Accumulated depreciation		
31 December 2002	**314,788**	**8,784**
Charge for the period	28,040	706
Disposals and retirements (-)	(4,514)	(1,232)
30 June 2003	**338,314**	**8,258**
31 December 2003	**355,991**	**7,592**
Charge for the period	25,514	1,100
Acquired on acquisition of a subsidiary	45	6
Disposals and retirements (-)	(2,744)	(398)
30 June 2004	**378,806**	**8,300**
Carrying amount		
At 30 June 2003	**150,848**	**2,064**
At 30 June 2004	**133,173**	**7,436**

Financial statements are prepared in thousands of euros (EUR)

3. Investments in subsidiaries

	Country of incorporation	Ownership interest		Principal activity	Owner
		30 June 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 Eltel Networks (previously AS Connecto)[1)]	Estonia	51%	51%	Construction and maintenance of telecommunication and electrical networks	Elion Ettevõtted AS
SIA Connecto Latvia	Latvia	100%	100%	Construction and maintenance of telecommunication networks	AS Eltel Networks
UAB Lidivos Technologijos	Lithuania	100%	-	Construction and maintenance of telecommunication networks	AS Eltel Networks
AS Reveko Telekom	Estonia	100%	100%	Installation of telephone exchanges and communications systems	AS Eltel Networks
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

1) On 8 June 2004, the registry department of the Tallinn City Government registered the merger of AS Connecto and AS Eltel Networks. The merged companies continue operations under business name AS Eltel Networks.

Financial statements are prepared in thousands of euros (EUR)

4. Investments in associates

	Country of incorporation	Ownership interest		Principal activity	Owner
		30 June 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

5. Inventories

In the first six months 2004, the inventories were retirement in the total amount of 73 thousand EUR (first six months 2003: 25 thousand EUR) based on the estimated decline of the realisation value below their acquisition cost.

6. Equity

a) Issued capital

	30 June 2004	**2003**
Share issued		
Ordinary shares par value 0.64 EUR per share, fully paid		
At beginning of year	137,644,428	137,383,178
Share issuance	310,000	261,250
Converted preference share	100	-
At ending of period	137,954,528	137,644,428
Preference share par value 63.91 EUR per share, fully paid	-	1

The extraordinary general meeting of shareholders of AS Eesti Telekom held on 15 December 2000 approved the issuing of up to 85,000 convertible bonds, including the issuing of up to 42,500 A-series and 42,500 B-series bonds within the framework of the Eesti Telekom Group's employee incentive system. A resolution passed at the same meeting ruled out AS Eesti Telekom shareholders' pre-emptive right to subscribe the convertible bonds to be issued.

During the subscription period of 2.05.2003 – 2.06.2003 26,125 A-series bonds were converted into 261,250 AS Eesti Telekom A-shares.

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

Financial statements are prepared in thousands of euros (EUR)

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

On 4 June 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 Government for the registration of 310,000 ordinary shares with a nominal value of 0.64 EUR and an issue price of 5.79 EUR, i.e. an issue premium of 5.15 EUR. The shares issued are in all respects equivalent to the existing AS Eesti Telekom A-series shares. The new shares entitle shareholders to dividends as of the 2004 financial year.

Pursuant to the Shareholders’ Agreement and accordance with the decision of the Shareholders’ Annual General Meeting one preference share was converted into one hundred ordinary shares, which have a nominal value of 0.64 EUR each, on 18 May 2004.

The total number of AS Eesti Telekom ordinary shares after the share issuance of the new shares is 137,954,528 and share capital 88,169,013 EUR.

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

Republic of Estonia	37,485,100 shares	(27,17%)
Public investors	33,151,672 shares	(24,03%)
TeliaSonera AB:		
Baltic Tele AB	67,317,756 shares	(48,80%)

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 56,923 thousand EUR.

b) Re-acquiring of shares

The Annual General Meeting of Shareholders, on 18 May 2004, authorized AS Eesti Telekom 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 ordinary shares so that the total of nominal values of own shares held by AS Eesti Telekom would not exceed the limit set by statutory regulations, and that the price payable per share would not exceed the highest price paid for the ordinary shares of AS Eesti Telekom on the Tallinn Stock Exchange on the day of acquiring the shares. AS Eesti Telekom has to pay for the shares from the company’s assets in excess of its share capital, capital reserves, and share premium. The amount of shares to be acquired each time shall be determined on each occasion separately by a resolution of AS Eesti Telekom's Supervisory Council. As of 30 June 2004, no shares have been re-acquired by AS Eesti Telekom.

c) Reserves

Reserves include:

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

It were transferred 16 thousand EUR to the legal reserve in the first half year 2004.

d) Dividends

The Annual General Meeting of the shareholders of AS Eesti Telekom took place on 18 May 2004. It was decided to pay dividends in the total amount 70,376 thousand EUR: 0.51 EUR per ordinary share (2003 year: 0.38 EUR) as dividends to the holders of ordinary shares and 639.11 EUR (2003 year: 639.11 EUR) to the holder of preference share. The list of shareholders on bases of which dividends were distributed was fixed on 8 June 2004 at 8.00 and dividends were paid on 17 June 2004.

e) Earnings per share

Basic earnings per share have been calculated as follows:

6 months 2004: EUR 0.14 = 18,772,000: ((137,644,428 x 5/6) + (137,954,528 x 1/6))

6 months 2003: EUR 0.21 = (28,317,000 – 639.11): ((137,383,178 x 5/6) + (137,644,428 x 1/6))

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

6 months 2004: EUR 0.14 = 18,772,000: ((137,644,428 x 5/6) + (137,954,528 x 1/6) + ((310,000 – (310,000 x 5.79/7.41)) x 5/6)), where are:

- 18,772,000 EUR – consolidated net profit for the 6 months 2004;
- 137,644,428 – the number of ordinary shares before issuance (up to 31 May 2004);
- 137,954,528 – the number of ordinary shares after the issuance of the shares;
- 310,000 – the number of ordinary shares (B-series bonds) covered by options, until the moment of conversion (up to 31 May 2004);
- 5.79 EUR – the subscription price of shares, as stated in the option agreement;
- 7.41 EUR – the average market value of shares during the period;

6 months 2003: EUR 0.21 = (28,317,000 – 639.11): ((137,383,178 x 5/6) + (137,644,428 x 1/6) + ((216,250 – (216,250 x 5.79/5.90)) x 5/6) + ((416,250 – (416,250 x 5.79/5.90)) x 6/6)), where are:

- 28,317,000 EUR – consolidated net profit for the 6 months 2003;
- 639.11 EUR – dividends on preferred shares;
- 137,644,428 - the number of ordinary shares before issuance (up to 31 May 2003);
- 137,644,428 – the number of ordinary shares after the issuance of the shares;
- 216,250 – the number of ordinary shares (A-series bonds) covered by options, until the moment of conversion (up to 31 May 2003);
- 416,250 – the number of ordinary shares (B-series bonds) covered by options, as of 30 June 2004;
- 5.79 EUR – the subscription price of shares, as stated in the option agreement;
- 5.90 EUR – the average market value of shares during the period.

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 8.09 EUR; the lowest price was 6.50 EUR, and the average price was 7.41 EUR per share.

Financial statements are prepared in thousands of euros (EUR)

7. Borrowings

	30 June 2004	31 Dec 2003
Non-current	119	236
Current	1,970	533
	2,089	**769**

The movements in the borrowings can be analyzed as follows:

Opening balance 31 Dec 2003	**769**
Proceeds from borrowings	1,600
Repayments of borrowings	(275)
Other movements	(5)
Closing balance 30 June 2004	**2,089**

8. Provisions

a) Non-current retirement benefit provisions

31 December 2003	**561**
Additional provision in the reporting period	5
Decrease of provision in the reporting period	(24)
30 June 2004	**542**

b) Current provisions

	Termination benefits provision	Current portion of retirement benefit provision	Other provisions	**Total**
31 December 2003	**342**	**42**	**1**	**385**
Additional provision in the reporting period	74	21	-	95
Decrease of provision in the reporting period	(85)	-	-	(85)
Utilisation of provision in the reporting period	(162)	(21)	-	(183)
30 June 2004	**169**	**42**	**1**	**212**

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 six months 2004 and 2003 were as follows:

	6 months to 30 June 2004	6 months to 30 June 2003
Salaries	832	687

b) Trading transactions

Transactions with related parties were conducted under market terms.

Financial statements are prepared in thousands of euros (EUR)

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

	6 months to 30 June 2004	6 months to 30 June 2003
Telecommunication services provided		
Associates:		
Esdata AS (up to 30.11.03)	-	153
Sertifitseerimiskeskuse AS	21	5
Voicecom AS	3	3
Owners:		
TeliaSonera AB	5,257	3,991
Supervisory Council members:		
Tark & Co Law Office (up to 31.05.04)	17	4
Other sales		
Associates:		
Esdata AS (up to 30.11.03)	-	1
Sertifitseerimiskeskuse AS	88	1
Voicecom AS	1	1
Owners:		
Eltel Networks Corp. (since 01.07.03)	14	-
Supervisory Council members:		
Tark & Co Law Office (up to 31.05.04)	1	-
Telecommunication services purchased		
Associates:		
Sertifitseerimiskeskuse AS	1	-
Voicecom AS	18	29
Owners:		
TeliaSonera AB	2,723	2,792
Other services purchased		
Owners:		
TeliaSonera AB	174	43
Eltel Networks Corp. (since 01.07.03)	1	-
Supervisory Council members:		
Tark & Co Law Office (up to 31.05.04)	6	89
Financial income		
Associates:		
AS Sertifitseerimiskeskus	9	8
Financial expenses		
Owners:		
TeliaSonera AB	18	35
Amounts owed by related parties		
Associates:		
Esdata AS (up to 30.11.03)	-	34
Sertifitseerimiskeskuse AS	118	266
Voicecom AS	1	1
Owners:		
TeliaSonera AB	647	2 497
Eltel Networks Corp. (since 01.07.03)	2 838	-
Supervisory Council members:		
Tark & Co Law Office (up to 31.05.04)	2	1

	6 months to 30 June 2004	6 months to 30 June 2003
Amount owed to related parties		
Owners:		
TeliaSonera AB	1,261	1,810
Supervisory Council members:		
Tark & Co Law Office (up to 31.05.04)	2	1

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 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 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 thousands of euros (EUR)

a) Business segments

	Fixed network telecommunications		Mobile telecommunications		Construction		Other operations		Eliminations		Consolidated	
	6 months 30 June 2004	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003 Restated**
Revenue												
Revenue	73,726	70,785	80,978	72,250	4,666	2,540	-	-	-	-	159,370	145,575
Other operating income	279	733	493	348	39	15	-	1	-	-	811	1,097
Inter-segment revenue	5,629	5,229	10,849	10,016	3,888	3,920	2	1	(20,368)	(19,166)	-	-
Total revenue	**79,634**	**76,747**	**92,320**	**82,614**	**8,593**	**6,475**	**2**	**2**	**(20,368)**	**(19,166)**	**160,181**	**146,672**
Operating expenses												
Materials, consumables, supplies and services	(16,581)	(13,811)	(36,553)	(29,481)	(2,902)	(2,002)	-	-	-	-	(56,036)	(45,294)
Other operating expenses	(9,572)	(9,550)	(4,104)	(2,823)	(1,470)	(1,069)	(448)	(330)	-	-	(15,594)	(13,772)
Personnel expenses	(11,438)	(10,649)	(4,379)	(3,412)	(2,955)	(2,034)	(435)	(292)	-	-	(19,207)	(16,387)
Other expenses	(383)	(316)	(229)	(296)	(88)	(66)	(44)	(76)	-	-	(744)	(754)
Inter-segment expenses	(13,791)	(13,176)	(5,387)	(4,899)	(1,085)	(1,000)	(16)	(8)	20,279	19,083	-	-
Total expenses	**(51,765)**	**(47,502)**	**(50,652)**	**(40,911)**	**(8,500)**	**(6,171)**	**(943)**	**(706)**	**20,279**	**19,083**	**(91,581)**	**(76,207)**
EBITDA	**27,869**	**29,245**	**41,668**	**41,703**	**93**	**304**	**(941)**	**(704)**	**(89)**	**(83)**	**68,600**	**70,465**
Depreciation and amortisation	(15,486)	(17,549)	(10,996)	(11,154)	(282)	(117)	(26)	(40)	176	114	(26,614)	(28,746)
EBIT	**12,383**	**11,696**	**30,672**	**30,549**	**(189)**	**187**	**(967)**	**(744)**	**87**	**31**	**41,986**	**41,719**
Income/ (expenses) from subsidiaries and associated companies, net	(15)	3,937	(26)	(33)	-	-	19,403	29,013	(19,386)	(29,235)	(24)	3,682
Other net financing items	314	34	492	541	3	20	455	601	-	-	1,264	1,196
Income tax on dividends	(6,483)	(4,261)	(17,964)	(13,473)	-	-	(26)	(546)	-	-	(24,473)	(18,280)
Minority interest	-	-	-	-	-	-	-	-	19	-	19	-
Net profit for the period	**6,199**	**11,406**	**13,174**	**17,584**	**(186)**	**207**	**18,865**	**28,324**	(19,280)	(29,204)	**18,772**	**28,317**

Financial statements are prepared in thousands of euros (EUR)

b) Other information by segments

	Fixed network telecommunications		Mobile telecommunications		Construction		Other operations		Eliminations		Consolidated	
	6 months 30 June 2004	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003 Restated**
Non-current assets (except investments in subsidiaries and associates)	76,854	92,585	63,586	60,847	1,670	502	394	192	(1,127)	(895)	141,377	153,231
Investments in subsidiaries and associates	2,115	2,114	182	249	-	-	175,170	187,585	(176,428)	(188,564)	1,039	1,384
Current assets	49,395	38,435	42,703	42,062	3,208	2,684	42,667	44,009	(7,889)	(3,381)	130,084	123,809
Total assets	**128,364**	**133,134**	**106,471**	**103,158**	**4,878**	**3,186**	**218,231**	**231,786**	**(185,444)**	**(192,840)**	**272,500**	**278,424**
Owners' equity	**106,297**	**110,323**	**69,305**	**77,734**	**2,684**	**2,000**	**214,586**	**226,418**	**(178,404)**	**(190,065)**	**214,468**	**226,410**
Minority interest	-	-	-	-	-	-	-	-	846	607	846	607
Non-current liabilities	6	512	428	469	113	-	115	-	(1)	-	661	981
Current liabilities	22,061	22,299	36,738	24,955	2,081	1,186	3,530	5,368	(7,885)	(3,382)	56,525	50,426
Total equity and liabilities	**128,364**	**133,134**	**106,471**	**103,158**	**4,878**	**3 186**	**218,231**	**231,786**	**(185,444)**	**(192,840)**	**272,500**	**278,424**
Net cash from/ (used in) operating activities	22,593	22,874	39,815	40,910	(669)	(385)	1,988	3,639	3	911	63,730	67,949
Net cash from / (used in) investing activities	286	5,226	519	581	(200)	38	70,775	75,297	(68,476)	(72,726)	2,904	8,416
CAPEX	(5,886)	(3,948)	(6,184)	(4,215)	(236)	(95)	-	(29)	104	87	(12,202)	(8,200)
Net cash (used in) financing activities	(18,679)	(34,643)	(50,172)	(38,253)	226	84	(68,605)	(51,197)	68,369	71,728	(68,861)	(52,281)
Foreign exchange rate differences	(9)	(3)	(2)	(2)	(1)	(1)	3	(4)	-	-	(9)	(10)
Net increase / (decrease) in cash and cash equivalents	**(1,695)**	**(10,494)**	**(16,024)**	**(979)**	**(880)**	**(359)**	**4,161**	**27,706**	**-**	**-**	**(14,438)**	**15,874**

c) Revenue by geographic area

	Fixed network telecommunications		Mobile telecommunications		Construction		Consolidated	
	6 months 30 June 2004	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003**	**6 months 30 June 2004**	**6 months 30 June 2003**
Revenue from customers in Estonia	64,496	63,827	77,073	69,233	3,667	2,071	145,236	135,131
Revenue from customers outside Estonia	9,230	6,958	3,905	3,017	999	469	14,134	10,444
	73,726	**70,785**	**80,978**	**72,250**	**4 ,666**	**2,540**	**159,370**	**145,575**