

4 February 2005

**AS EESTI TELEKOM  
PRELIMINARY RESULTS FOR 2004**

Eesti Telekom, the leading provider of telecommunications services in Estonia, hereby announces its preliminary results for the financial year ending 31 December 2004.

**Financial highlights**

	<b>Q4 2004</b>	Q4 2003	Change, %	<b>12 months 2004</b>	12 months 2003	Change, %
Total revenues, million EEK	<b>1,313</b>	1,271	3.3	<b>5,143</b>	4,808	7.0
EBITDA, million EEK	<b>487</b>	449	8.4	<b>2,122</b>	2,118	0.2
EBITDA margin, %	<b>37.1</b>	35.3		<b>41.3</b>	44.0	
EBIT, million EEK	<b>285</b>	233	22.4	<b>1,306</b>	1,237	5.6
EBIT margin, %	<b>21.7</b>	18.3		<b>25.4</b>	25.7	
Profit before taxes and minority, million EEK	<b>336</b>	240	40.0	<b>1,382</b>	1,326	4.2
Net profit for period, million EEK	<b>334</b>	240	39.6	<b>994</b>	1,036	-4.0
EPS, EEK	<b>2.42</b>	1.74	39.1	<b>7.21</b>	7.53	-4.2
CAPEX, million EEK	<b>220</b>	257	-14.2	<b>515</b>	563	-8.6
Net gearing, %	<b>-36.1</b>	-32.8		<b>-36.1</b>	-32.8	
ROA, %	<b>30.7</b>	21.5		<b>22.1</b>	23.1	
ROE, %	<b>34.6</b>	23.9		<b>35.0</b>	34.1	

In commenting on the results of the Eesti Telekom Group, Jaan Männik, Chairman of the Management Board, emphasised: “On the basis of Eesti Telekom’s financial results, we can say that 2004 was a good year.”

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## CHAIRMAN'S STATEMENT

### Financial results

The fourth quarter of 2004 was a period of many significant changes for the Eesti Telekom Group. For instance, changes took place in the operating environment of mobile communications. Although mobile phone numbers only became portable from one operator to another as of 1 January 2005, operators, including the Eesti Telekom Group's mobile communications operator AS EMT, had already begun to make preparations for this in 2004. Rates were adjusted and many discount packages were offered to customers, with the aim to attract customer groups (families, groups of friends, colleagues) to join EMT. In November the so-called discount service provider *Diil*, which targets price-sensitive mobile phone users, entered the market. Increased competition has inevitably had its influence on revenue growth and profit margins in the area of mobile communications. At the same time, the first weeks of 2005 have demonstrated that EMT has been able to retain its position in the market. The first results since mobile telephone numbers became portable show that the number of those wishing to subscribe to EMT is bigger than those wishing to leave the operator.

In fixed telephone services, the growth of Internet and data communication in Estonia, as elsewhere in Europe, has been overshadowed by the fall in the area of voice communications. Customers increasingly use mobile phones for communication, and are giving up their fixed-line phones. In November 2004 Elion joined the global trend towards offering home users voice and Internet connections as an integral package and for a single monthly fee that includes monthly free call minutes. The first months have shown that this offer has met customers' approval. As of January 2005, a similar service will also be available to business customers.

In order to concentrate on its core activities, in December 2004 Elion Ettevõtte AS sold its 51 percent stake in subsidiary Eltel Networks AS to the Finnish network construction company ELTEL Networks Corporation, which already possessed a 49 percent holding in the company.

As of 28 December 2004, AS Eesti Telekom has a majority shareholder, Teliasonera AB, which increased its holding in the company to 50.0004 percent. In the opinion of the Supervisory Board of AS Eesti Telekom, the transaction has a positive long-term economic rationale. As a member of the TeliaSonera Group, the Eesti Telekom Group will be able to benefit from economies of scale and the purchasing power of TeliaSonera, and the competitiveness of the Eesti Telekom Group will increase. With the combined resources and TeliaSonera's large market, the group's operators will be able to offer competitive prices for new customer services.

In numbers, the Eesti Telekom Group's revenues for the fourth quarter of 2004 reached 1,313 million kroons, which represents an increase of 3% in comparison with the fourth quarter of 2003. The source of this growth was the increasing expansion of customer numbers in the area of mobile communications, data communication and IT services. The Eesti Telekom Group's operating costs for the fourth quarter of 2004 were at the same level as for the same period in 2003. EBITDA increased 8% in comparison with the fourth quarter of 2003, and the EBITDA margin improved. Depreciation and amortisation decreased 7%, most of that change being the result of the Elion Group's lower amortisation costs. The Eesti Telekom Group's profits from operations were 285 million kroons in the third quarter, and thus increased 22% over the year.

The Eesti Telekom Group's total revenues for the fourth quarter of 2004 include 43 million kroons in profits from the sale of its majority holding in AS Eltel Networks. The Eesti Telekom Group's net profits for the fourth quarter were 334 million kroons or 2.42 kroons per share.

The Eesti Telekom Group's total revenues for 2004 were 5,143 million kroons, which is an increase of 7% in comparison with 2003, i.e. an increase of 335 million kroons. The majority of the increase in revenue came from the area of mobile communications. The Group's operating costs for 2004 increased 12%, reaching 3,021 million kroons. EBITDA remained at the same level as for 2003. Depreciation and amortisation decreased by 65 million kroons during the year. The net financial revenues fell by 13 million kroons. Total revenues for 2003 included the 59 million kroons in profits earned from the sale of 49% of the shares of AS Eltel Networks. The profits earned from the sale of 51% of the shares of AS Eltel

Networks in 2004 amounted to 43 million kroons. The share-based price was the same in the case of the sale of the minority and majority shareholdings.

277 million kroons more in dividends were paid to shareholders in 2004 than was the case in 2003, which led to an increase of 97 million kroons in income tax on the dividends in comparison with 2003. Eesti Telekom earned 994 million kroons in net profits in 2004, which is 42 million kroons less than in 2003. The revenue earned per share in 2004 was 7.21 kroons.

As of the end of December 2004, the total assets of the Eesti Telekom Group amounted to 4,525 million EEK (4,599 million EEK in December 2003). During the year, non-current assets fell 281 million kroons, and current assets increased 206 million kroons. The decrease in non-current assets resulted from the relatively small volume of investments in recent years. The growth in current assets was mainly the result of the increase in cash and cash equivalents (134 million kroons). Trade receivables increased by 92 million kroons, of which 70 million is the increase in the receivables of retail chains in connection with the increase in the volume of sales by instalment.

The Eesti Telekom Group's equity decreased 79 million kroons during the year, as a result of the payment of 1101 million kroons in dividends. As of the end of December 2004, the Group had 1 million kroons in long-term debt and 19 million kroons in short-term debt (at the end of December 2003 these figures were 4 million and 8 million kroons respectively). The Group's net debt at the end of 2004 was -1,463 million kroons, and net gearing was -36%. The Group's other short-term liabilities increased 12 million kroons during 2004.

The Eesti Telekom Group's cash flow from operating activities was 1,644 million kroons in 2004 (1,709 million kroons in 2003). The most significant factor leading to the decrease in cash flow from operating activities was the increase in the income tax paid on dividends. Cash flow into investing activities decreased in comparison with 2003 - 432 million kroons in 2003 (including the 68 million kroons earned from the sale of the minority share in AS Eltel Networks), 421 million in 2004 (including the 52 million kroons earned from the sale of the majority share in AS Eltel Networks). Cash flow into financing activities was 1,089 million kroons in 2004, including 1,101 million kroons paid out in dividends (in 2003: 839 million kroons, including 824 million kroons paid as dividends).

### **Elion Group**

	<b>Q4 2004</b>	Q4 2003	Change, %	<b>12 months 2004</b>	12 months 2003	Change, %
Total revenues, million EEK	<b>683</b>	680	0.5	<b>2,679</b>	2,578	3.9
EBITDA, million EEK	<b>204</b>	184	10.6	<b>861</b>	866	-0.5
EBITDA margin, %	<b>29.8</b>	27.1		<b>32.1</b>	33.6	
EBIT, million EEK	<b>92</b>	52	78.7	<b>394</b>	328	20.0
EBIT margin, %	<b>13.5</b>	7.6		<b>14.7</b>	12.7	
Profit before taxes and minority, million EEK	<b>139</b>	53	163.7	<b>449</b>	389	15.4
Net profit for the period, million EEK	<b>137</b>	52	163.7	<b>342</b>	318	7.5
CAPEX, million EEK	<b>92</b>	98	-6.9	<b>243</b>	224	8.6
ROA, %	<b>25.8</b>	9.7		<b>15.9</b>	14.4	
ROE, %	<b>30.3</b>	11.5		<b>24.5</b>	22.4	

The Elion Group's revenues in the fourth quarter of 2004 reached 683 million kroons, surpassing the indicator for the fourth quarter of 2003 by 3 million kroons. The Group's operating costs decreased by 16 million kroons, reaching 479 million kroons. The Group's EBITDA was 204 million kroons, which is an increase of 20 million kroons. The Elion Group's fourth quarter result was influenced by the sale of the group's subsidiary that was involved with network construction, the Eltel Group, as a result of which the Eltel Group's financial results are only consolidated until the end of November 2004. The sale of the Eltel Group reduced the Elion Group's fourth quarter revenues by 24 million kroons in comparison with the fourth quarter of 2003. Margins for construction activities have been modest in comparison with the Elion Group's core activities. Thus the sale of this area of activity with smaller margins can be expected to raise the Elion Group's margins in 2005. In the fourth quarter of 2004, the Elion Group's EBITDA margin was 29.8%, which is lower than the third quarter's 32.6% margin. At the same time, low margins have always been characteristic for the fourth quarter. The Elion Group's fourth quarter depreciation decreased 16% (21

million kroons) in comparison with the fourth quarter of 2003. The Group's fourth quarter EBIT increased by 40 million kroons, i.e. 79%, in comparison with the same period in 2003. Elion Ettevõtte earned 43 million kroons in profits from the sale of the Eltel Group, and this is accounted as the company's fourth quarter financial income. The Elion Group's net profit for the quarter was 138 million kroons.

Of the Elion Group's core activities, the most rapid increases in revenue were in data communications and IT. The revenues of the said area increased 49% in comparison with the same period in 2003. In 2004 as a whole, the Elion Group's revenues from data communications and IT services increased 19%. The rapid increase in revenues from data communications and IT services was caused by consistent work for the strengthening of positions in the said areas.

During the fourth quarter of 2004, the Elion Group's revenues from the Internet remained at the same level as in the fourth quarter of 2003. In 2004 as a whole, the Group's revenues from the Internet grew 10%. The rapid increase in permanent Internet connections has continued. During 2004, the number of permanent connections provided by Elion grew by 26,000, reaching 76.8 thousand by the end of December. The price of services, however, has fallen. Thus monthly fees for Business Internet fell by up to 25% as of 1 December 2004. In order to remain in step with global developments, i.e. offers where voice and Internet connections are an integral package and for a single monthly fee, Elion launched new *Kodulahendus* packages in October. *Kodulahendus* offers individuals the opportunity to use a permanent Internet connection, a telephone connection and 20 hours of free calls within the network for one monthly fee. Customers can choose the package that best suits them from among the three *Kodulahendus* packages. The monthly fee for *Kodulahendus* is less than the sum of the fees for the individual services it comprises. By the end of 2004, over 22.3 thousand customers had subscribed to the *Kodulahendus* packages. In January 2005 Elion began to offer business customers *Ärilahendus* packages, which are similar to *Kodulahendus*.

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

The Elion Group's fourth quarter revenues from voice communications were 9% less than the results for the fourth quarter of 2003. In 2004 as a whole, revenues from voice communications fell 5%. At the end of December 2004, Elion had 426,112 main lines at its disposal. During the course of the year, the number of main lines decreased by 18.5 thousand, the decrease in the fourth quarter was 2.1 thousand. The stabilisation of the number of main lines has been helped by the launching of the above-mentioned *Kodulahendus* packages which promote the use of fixed-line telephones in addition to offering data communications solutions, and also by Elion's campaigns for free subscription of telephone connections. During the latest of the campaigns of the kind, which lasted from July to December, 16 thousand customers were added to the Elion network.

The fall in mobile communications rates and the rapid increase in the number of mobile phone users in 2004 led to a reduction in the number of local call minutes made from fixed-line telephones. As a result, the fourth quarter revenue from local calls was 18% lower than the corresponding figure for 2003. In 2004 as a whole, revenues from local calls also decreased 18%. Revenues from international calls fell 2% in the fourth quarter, whereas in 2004 as a whole, revenues from the area in question grew by 1%. Revenues from calls made to the mobile telephone network decreased 2% in the fourth quarter of 2004, and 4% over the whole year.

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

Revenues from network services increased 15% in the fourth quarter and 18% during the whole of 2004. This growth is the result of increased international traffic and income from the leased lines.

A significant contribution to the growth of the Elion Group's total revenues was made by AS Elion Esindus, which is involved with the retail sale of telephones and computing equipment. The company's revenues increased 27% in comparison with the fourth quarter of 2003, and 33% over the whole of 2004. In December 2004 another computer sales record was set – over 1500 computers sold in a one month period. During 2004, nearly three times more computers were sold at Elion Esindus than in 2003. About 60 percent of computers are paid for by instalment. Computers are generally purchased with the ADSL start-up package, and a permanent Internet connection is also usually ordered.

The Elion Group's operating costs were 3% or 16 million kroons less than the result for the fourth quarter of 2003. The increase in the revenues of AS Elion Esindus coincided with an extensive increase in operating costs. The company's fourth quarter operating costs exceeded the corresponding figure for 2003 by 30%. The operating costs of the Group's parent company, Elion Ettevõtte, fell 3% in the fourth quarter. The bulk of the decrease in operating costs arose from direct sales costs. Marketing and subcontracting costs have also fallen. The increase in the number of call minutes made to the networks of foreign operators has led to a certain increase in interconnection charges.

In the fourth quarter of 2004, the Elion Group invested 92 million kroons. A total of 243 million kroons was invested during the whole of 2004. The majority of investments were targeted to the satisfaction of customers' needs and the development of the network.

The Elion Group's total revenues for 2004 were 2,679 million kroons, which is an increase of 4% in comparison with 2003 or an absolute increase of 101 million kroons. The majority of the increase came from retail sales. The revenue of the Group's parent company grew 0.5% in comparison with the previous year, i.e. 12 million kroons. The Group's operating costs grew 6%, reaching 1,818 million kroons. The majority of the increase in operating costs also comes from the expansion of the operations of Elion Esindus. The operating costs of the Group's parent company grew by 0.8%. The main cause of the growth was the increase in interconnection fees associated with the increased number of call minutes to foreign operators' networks. The Elion Group's EBITDA was 0.5% or 5 million kroons less than the result for 2003. The Elion Group's net profit for 2004 was 342 million kroons, which is 24 million kroons less than in 2003. The result for 2003 includes the 59 million kroons in profit earned from the sale of the minority shareholding in AS Eltel Networks. The result for 2004, however, includes the 43 million kroons in profit earned from the sale of the majority shareholding in AS Eltel Networks. In addition to this, Elion Ettevõtte AS paid AS Eesti Telekom 100 million kroons more in dividends in 2004 than it did in 2003, which led to increased income tax on dividends of 35 million kroons in comparison with 2003.

### **EMT Group**

	<b>Q4 2004</b>	Q4 2003	Change, %	<b>12 months 2004</b>	12 months 2003	Change, %
Total revenues, million EEK	<b>767</b>	736	4.3	<b>3002</b>	2730	9.9
EBITDA, million EEK	<b>288</b>	274	5.3	<b>1288</b>	1279	0.6
EBITDA margin, %	<b>37.5</b>	37.2		<b>42.9</b>	46.9	
EBIT, million EEK	<b>198</b>	190	4.2	<b>938</b>	936	0.2
EBIT margin, %	<b>25.8</b>	25.8		<b>31.3</b>	34.3	
Profit before taxes, million EEK	<b>199</b>	193	3.2	<b>946</b>	948	-0.2
Net profit for the period, million EEK	<b>199</b>	193	3.2	<b>665</b>	737	-9.7
CAPEX, million EEK	<b>129</b>	159	-18.7	<b>273</b>	340	-19.8
ROA, %	<b>45.3</b>	43.4		<b>36.2</b>	41.8	
ROE, %	<b>55.1</b>	48.7		<b>62.7</b>	68.9	

The EMT Group's total revenues for the fourth quarter of 2004 were 767 million kroons, which is an increase of 4% in comparison with the fourth quarter of 2003. The EMT Group's fourth quarter operating costs were 479 million kroons, which is also an increase of 4% in comparison with the fourth quarter of 2003. The fourth quarter has traditionally been characterised by low margins in the mobile communications sector. The EBITDA margin for the fourth quarter of 2004 was 37.5%. EBITDA was 288 million kroons, having risen 5% in comparison with the result for the same period in 2003. The extensive investments made by the EMT Group in the second half of 2003 have led to a certain increase in depreciation costs. Depreciation for the fourth quarter of 2004 exceeded the indicator for the same period of 2003 by 8%. The

Group's total revenues reached 198 million kroons, being 4% higher than the result for the fourth quarter of 2003.

The EMT Group's results, especially the results for the second half-year, were influenced by intensified competition and mobile phone operators' preparations for the mobile number portability effective from 1 January 2005. The trend towards falling rates has continued. Subscribers to new operators are offered waivers of monthly fees, free call minutes and telephones at discount prices. In November 2004 the first virtual operator entered the Estonian mobile telephone market. A couple of weeks later, AS EMT launched the so-called discount service provider, *Diil*. *Diil* is an independent unit within the structure of EMT that operates with a small workforce and low fixed costs, in order to offer the most price-sensitive customers simple and inexpensive services.

The EMT Group has been able to maintain its market positions successfully in conditions of tough competition. As of the end of December 2004, the operator had 595.4 thousand customers (491.4 thousand in December 2003). During the year 2004, the company's customer base has increased by 104 thousand customers. The growth in the customer base was greatest in the fourth quarter of 2004, when the total number of customers increased by 38.1 thousand. The numbers of both contractual customers and users of pre-paid cards have increased. At the end of December, AS EMT had 363.4 thousand contractual customers (306.6 thousand in December 2003). During fourth quarter, the number of pre-paid cards in use increased by 24.3 thousand. The increase in the number of pre-paid cards is partly the result of changes in the terms and conditions of use of the Sempel pre-paid call card, which came into effect from 21 September 2004. Up to September 2004, call card users were able to use their call time to make calls within a maximum of five months from the last loading, which was supplemented with the possibility of receiving calls for 1 more month. As of September, loaded calling time can be used to make calls for up to six months, and calls can be received for up to one month, as before. The purpose of this change was to harmonise the conditions of use of AS EMT's call cards with those of call cards offered by other operators. The discount operator *Diil* had attracted 7,100 customers by the end of 2004.

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

AS EMT's revenues from voice communication increased 12% during the fourth quarter of 2004, and 11% during the whole of 2004. The cause of the increase in revenue from voice communication is both the growth in customer base, the increase in the number of call minutes per customer and increased revenue from *roaming*.

The other revenues of AS EMT grew 2% during the fourth quarter, and 5% during the whole of 2004. This growth is mainly the result of the increase in the number of call minutes made to EMT customers from other networks.

In December 2004 AS EMT earned ARPU of 356 kroons (378 kroons in September 2004; 410 kroons in December 2003).

In the fourth quarter of 2004 the operating costs of the EMT Group's parent company increased 9% in comparison with the fourth quarter of 2003, reaching 373 million kroons. Most of this increase in expenses came from the expansion of customer base – the interconnection fees paid for calls to numbers not within the EMT network and *roaming* expenses increased. The competition that has become especially intense in the past half year has led to a modest increase in marketing expenses. The expansion of customer base was accompanied by an increase in expenses related to SIM-cards and pre-paid cards. In comparison with the fourth quarter of 2003, AS EMT's personnel expenses decreased 8%.

The fourth quarter revenues of AS EMT Esindused, which is the subsidiary in the EMT Group that is involved with retail operations, decreased 11% in comparison with the fourth quarter of 2003. The fourth quarter revenues of the company in the EMT Group that is involved with the wholesale of telecommunications equipment, AS MWS, were 18% lower than for the corresponding period in 2003. The end of the year 2003 and the ends of preceding years were characterised by special Christmas offers in the area of retail sales of mobile phones, which led to dramatic increases in fourth quarter revenues. At the end of 2003, the company began to offer customers the possibility of paying for mobile phones by instalment, and as a result indicators pertaining to the retail sale (and also the related wholesale) of telephones remained high through all four quarters in 2004. In the fourth quarter, both retail and wholesale revenues remained at the level of the previous quarter, and previous years' dramatic increase in connection with Christmas sales was not repeated. In 2004 as a whole, the revenues of AS EMT Esindused increased 30%, and those of AS MWS increased 17%.

In the fourth quarter of 2004, operating costs of the trade area also fell in comparison with the fourth quarter of 2003. The operating costs of AS EMT Esindused fell 11%, and those of AS MWS fell 20%. In 2004 as a whole, the growth of operating costs was somewhat slower than that of revenues, reaching 29% in the case of AS EMT Esindused and 16% in the case of AS MWS. The profit margins of both retail and wholesale operations increased.

In the fourth quarter of 2004, the EMT Group invested 129 million kroons, and 273 million kroons in the whole of 2004. The majority of investments have been made in order to guarantee the quality of the technological infrastructure. EMT continued to expand the coverage area of EDGE, which permits rapid data communications, and the capacity of EMT's *Go* mobile Internet environment was also increased.

The total revenues of the EMT Group in 2004 exceeded 3 billion kroons, having increased 10%, or 272 million kroons, in comparison with 2003. The majority of the growth in total revenues came from the operations of the parent company. The Group's operating costs increased 18%, reaching 1,714 million kroons. The majority of the growth in operating costs comes from the expansion of customer base and the direct costs connected with the increase in the number of call minutes. The EMT Group's EBITDA was 1,288 million kroons, which represents an increase of 1% over the year. The Group earned net profits of 665 million kroons, which is 72 million kroons less than in 2003. Whereas in 2003 AS EMT paid AS Eesti Telekom 600 million kroons in dividends, in 2004 dividends amounted to 800 million kroons. As a result of the larger volume of dividends, AS EMT's income tax expenditure from the dividends also increased 70 million kroons in comparison with 2003.

### **Relations with regulator**

The "Electronic Communications Act" entered into effect as of 1 January 2005

This Act prescribes the requirements for public communications networks, the provision of services using such networks, the operation of radio communications and the management of radio frequencies and numeration. The purpose of the Act is to bring the regulation concerning this area into compliance with the changes that have taken place in Estonian law.

### Elion EnterprisesAS is declared SMP

The Estonian National Communications Board (ENCB) declared Elion EnterprisesAS to be an operator with significant market power (SMP) in the telephone services market, the leased line services market and the interconnection services market. Based on the analysis of the financial results for 2003, Elion EnterprisesAS possessed a market share of 82.68% in the telephone services market, 76.20% in the leased line services market and 34.02% in the interconnection services market.

Elion EnterprisesAS was declared an operator with significant market power for the years 2001, 2002, 2003 and 2004. The company was not surprised by the ENCB's intention to declare Elion Enterprisesan SMP in the three above-mentioned markets in 2005 also.

#### EMT is declared SMP

The ENCB declared AS EMT to be an SMP in the mobile telephone services market for 2005. EMT was an SMP in 2002, 2003 and 2004. Based on the analysis of the financial results for 2003, AS EMT possessed a market share of 59.39% in the mobile telephone services market.

AS EMT submitted a complaint to the Tallinn Administrative Court concerning the decision made by the ENCB. The first hearing in the matter is set to take place on 19 April 2005.

#### **Change in ownership structure**

On 23 December 2004, TeliaSonera, through its subsidiary Baltic Tele AB, carried out transactions for the acquisition of 100 Eesti Telekom shares from the market, as a result of which TeliaSonera's holding in Eesti Telekom rose to 50.00004 percent. After the increase in TeliaSonera's holding, the ownership structure of AS Eesti Telekom is as follows:

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

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

When the holding surpassed 50 percent, TeliaSonera made a mandatory bid for all of the shares of Eesti Telekom, as required by Estonia's Securities Market Act. The value of the bid is 109.84 kroons per share. The deadline for acceptance of the bid began on 13 January 2005 and ends on 23 February 2005.

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#### **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

All trends, margins and growth rates are calculated on the basis of the Estonian kroon, and using data that is rounded to the nearest kroon.



**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**QUARTERLY DATA**  
**mln EEK**

	<b>Q4 2003</b>	<b>Q1 2004</b>	<b>Q2 2004</b>	<b>Q3 2004</b>	<b>Q4 2004</b>
Revenues	1,271.2	1,218.2	1,288.1	1,324.2	1,312.5
Operating expenses	-822.4	-696.7	-736.3	-761.8	-825.9
Profit from operations before depreciation	448.8	521.5	551.8	562.4	486.6
Depreciation and amortisation	-216.2	-211.8	-204.5	-198.2	-201.8
Profit from operations	232.6	309.7	347.3	364.2	284.8
Income / (expenses) from subsidiaries and associates	-1.1	-0.2	-0.2	-0.4	46.1
Other net financing items	8.6	9.5	10.3	5.3	5.2
Profit before tax	240.1	319.0	357.3	369.1	336.1
Income tax on dividends	0.0	0.0	-382.9	0.0	0.0
Minority interest	-0.5	0.4	0.0	-3.4	-1.7
Net profit for the period	239.6	319.4	-25.6	365.7	334.3
EBITDA margin, %	35.3%	42.8%	42.8%	42.5%	37.1%
EBIT margin, %	18.3%	25.4%	27.0%	27.5%	21.7%
Net margin, %	18.8%	26.2%	-2.0%	27.6%	25.5%
Total assets	4,599.0	4,922.0	4,263.7	4,189.2	4,524.6
- Non-current assets	2,426.2	2,324.2	2,228.3	2,132.0	2,145.5
- Current assets	2,172.9	2,597.8	2,035.4	2,057.2	2,379.1
- Cash and cash equivalents	1,320.8	1,651.7	1,094.9	1,101.9	1,455.0
Equity and liabilities	4,599.0	4,922.0	4,263.7	4,189.2	4,524.6
- Equity	4,135.1	4,454.4	3,355.7	3,721.4	4,055.7
- Minority interest	13.5	13.2	13.2	16.7	0.0
- Non-current liabilities	12.5	10.8	10.4	11.0	8.6
- Interest-bearing borrowings	3.7	2.2	1.9	2.8	0.6
- Current liabilities	437.9	443.6	884.4	440.1	460.3
- Interest-bearing borrowings	8.3	8.6	30.8	20.8	19.0
Proceeds from operating activities	437.4	464.1	533.1	111.0	536.1
Net cash used in investing activities	-256.2	-131.4	-14.1	-93.9	-181.1
Net cash before dividends and net loans	181.2	332.8	518.9	17.1	354.9
Dividends paid	0.0	0.0	-1 101.2	0.0	0.0
Loan repayments (net)	-5.6	-1.9	-2.2	-9.9	-1.3
Share issue	0.0	0.0	27.8	0.0	0.0
Net increase (decrease) in cash and cash equivalents	175.6	330.8	-556.6	7.2	353.6

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**4<sup>th</sup> QUARTER INCOME STATEMENT**

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

	Q4 2004	Q4 2003
<b>Revenues</b>		
Net sales	1,306,361	1,263,421
Other revenues	6,162	7,731
<b>Total revenues</b>	<b>1,312,523</b>	<b>1,271,152</b>
<b>Operating expenses</b>		
Materials, consumables, supplies and services	(518,982)	(514,822)
Other operating expenses	(150,614)	(131,543)
Personnel expenses	(148,653)	(153,946)
Other expenses	(7,662)	(21,992)
<b>Total operating expenses</b>	<b>(825,911)</b>	<b>(822,303)</b>
<b>Profit from operations before depreciation</b>	<b>486,612</b>	<b>448,849</b>
Depreciation and amortisation	(201,836)	(216,236)
<b>Profit from operations</b>	<b>284,776</b>	<b>232,613</b>
Net financial income / (expenses) from associates	46,106	(1,047)
Other net financing items	5,191	8,567
<b>Profit before minority interest</b>	<b>336,073</b>	<b>240,133</b>
Minority interest	(1,747)	(562)
<b>Net profit for the period</b>	<b>334,326</b>	<b>239,571</b>
<b>Earnings per share</b>		
Basic earnings per share (in kroons)	2.42	1.74
Diluted earnings per share (in kroons)	2.42	1.74

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**INCOME STATEMENT**

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

	2004	2003
<b>Revenues</b>		
Net sales	5,116,197	4,777,858
Other revenues	26,791	30,393
<b>Total revenues</b>	<b>5,142,988</b>	<b>4,808,251</b>
<b>Operating expenses</b>		
Materials, consumables, supplies and services	(1,896,838)	(1,662,093)
Other operating expenses	(520,311)	(457,253)
Personnel expenses	(579,316)	(532,140)
Other expenses	(24,173)	(39,164)
<b>Total operating expenses</b>	<b>(3,020,638)</b>	<b>(2,690,650)</b>
<b>Profit from operations before depreciation</b>	<b>2,122,350</b>	<b>2,117,601</b>
Depreciation and amortisation	(816,407)	(880,941)
<b>Profit from operations</b>	<b>1,305,943</b>	<b>1,236,660</b>
Net financial income / (expenses) from associates	45,266	55,462
Other net financing items	30,315	33,495
<b>Profit before tax</b>	<b>1,381,524</b>	<b>1,325,617</b>
Income tax on dividends	(382,918)	(286,022)
<b>Profit after tax</b>	<b>998,606</b>	<b>1,039,595</b>
Minority interest	(4,892)	(4,047)
<b>Net profit for the period</b>	<b>993,714</b>	<b>1,035,548</b>
<b>Earnings per share</b>		
Basic earnings per share (in kroons)	7.21	7.53
Diluted earnings per share (in kroons)	7.21	7.53

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**BALANCE SHEET**

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

	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	2,015,439	2,275,868
Goodwill	-	10,287
Licenses, patents and trademarks	91,190	113,808
Investments in subsidiaries and associates	18,887	16,638
Other investments	-	2,700
Other non-current assets	19,986	6,852
<b>Total non-current assets</b>	<b>2,145,502</b>	<b>2,426,153</b>
<b>Current assets</b>		
Inventories	124,341	97,417
Trade receivables	578,225	486,037
Other receivables	193,082	219,893
Investments held for trading	28,449	48,709
Cash and cash equivalents	1,455,003	1,320,802
<b>Total current assets</b>	<b>2,379,100</b>	<b>2,172,858</b>
<b>TOTAL ASSETS</b>	<b>4,524,602</b>	<b>4,599,011</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	1,379,545	1,376,445
Reserves	493,663	468,410
Translation reserve	-	(11)
Retained earnings	1,188,781	1,254,670
Net profit for the period	993,714	1,035,548
<b>Total equity</b>	<b>4,055,703</b>	<b>4,135,062</b>
<b>Minority interest</b>	-	<b>13,540</b>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings – due after one year	604	3,694
Retirement benefit obligation	8,006	8,777
<b>Total non-current liabilities</b>	<b>8,610</b>	<b>12,471</b>
<b>Current liabilities</b>		
Trade payables	264,803	226,042
Other current liabilities	137,944	161,829
Tax liabilities	34,118	35,696
Interest-bearing loans and borrowings – due within one year	18,968	8,346
Provisions	4,456	6,025
<b>Total current liabilities</b>	<b>460,289</b>	<b>437,938</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>4,524,602</b>	<b>4,599,011</b>

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**CASH FLOW STATEMENT**

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

	2004	2003
<b>Operating activities</b>		
Profit from operations	1,305,943	1,236,660
Adjustments for:		
Depreciation and amortisation	816,407	880,941
Profit from sales and write-off of fixed assets	(10,737)	(6,231)
Increase in retirement benefit provisions	-	2,273
Operating cash flow before movements in working capital	2,111,613	2,113,643
Change in current receivables	(99,304)	(43,213)
Change in inventories	(34,324)	(3,006)
Change in current liabilities	50,100	(70,512)
Cash generated by operations	2,028,085	1,996,912
Interest paid	(908)	(1,868)
Income tax on dividends paid	(382,918)	(286,022)
<b>Net cash from operating activities</b>	<b>1,644,259</b>	<b>1,709,022</b>
<b>Investing activities</b>		
Purchases of property, plant and equipment	(502,509)	(473,180)
Purchases of licenses	(12,400)	(90,263)
Proceeds from sales of property, plant and equipment	18,387	30,652
Acquisition of subsidiaries	(3,872)	(24,593)
Proceeds from sales subsidiaries	52,276	68,137
Purchases of trading investments	(37,295)	(48,709)
Proceeds on disposal of trading investments	57,555	79,079
Loans granted	(36,256)	(2,248)
Cash receipt from repayment of loans	3,829	60
Dividends received	-	8
Interest received	39,740	28,941
<b>Net cash used in investing activities</b>	<b>(420,545)</b>	<b>(432,116)</b>
<b>Financing activities</b>		
Repayment of long-term convertible debt	(48)	(224)
Proceeds from nonconvertible long-term debt	1,353	360
Repayment of nonconvertible long-term debt	(7,377)	(13,326)
Repayment of long-term borrowings	-	(23,273)
Repayment of obligations under finance lease	(9,059)	(1,066)
Repayment of short-term borrowings	(176)	(810)
Shares issuance (Rights Offering)	27,782	23,413
Dividends paid	(1,101,165)	(824,309)
<b>Net cash used in financing activities</b>	<b>(1,088,690)</b>	<b>(839,235)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>135,024</b>	<b>437,671</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,320,802</b>	<b>883,989</b>
Effect of foreign exchange rate changes	(823)	(858)
<b>Cash and cash equivalents at end of period</b>	<b>1,455,003</b>	<b>1,320,802</b>

**AS EESTI TELEKOM AND SUBSIDIARY COMPANIES**  
**STATEMENT OF CHANGES IN EQUITY**

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

	Share capital	Reserves		Translation reserve	Accumulated profits	TOTAL
		Share premium	Statutory legal reserve			
<b>31 December 2002</b>	<b>1,373,833</b>	<b>309,964</b>	<b>137,384</b>	<b>(25)</b>	<b>2,078,979</b>	<b>3,900,135</b>
Exchange differences arising from translation of foreign operations	-	-	-	14	-	14
Share issuance	2,612	21,062	-	-	-	23,674
Dividends paid	-	-	-	-	(824,309)	(824,309)
Net profit for the period	-	-	-	-	1,035,548	1,035,548
<b>31 December 2003</b>	<b>1,376,445</b>	<b>331,026</b>	<b>137 384</b>	<b>(11)</b>	<b>2,290,218</b>	<b>4,135,062</b>
Exchange differences arising from translation of foreign operations	-	-	-	11	(11)	
Share issuance	3,100	24,992	-	-	-	28,092
Amounts transferred to reserves	-	-	261	-	(261)	-
Dividends paid	-	-	-	-	(1,101,165)	(1,101,165)
Net profit for the period	-	-	-	-	993,714	993 714
<b>31 December 2004</b>	<b>1,379,545</b>	<b>356,018</b>	<b>137,645</b>	<b>-</b>	<b>2,182,495</b>	<b>4 055 703</b>