EESTI TELEKOM

22 April 2005

AS EESTI TELEKOM
FINANCIAL RESULTS FOR THE FIRST 3 MONTHS OF 2005

AS Eesti Telekom, the leading provider of telecommunications services in Estonia, hereby announces its results for the three-month period ending 31 March 2005.

Financial highlights

	3 months 2005	3 months 2004	Change, %	3 months 2004, not including terminated operations	Change, %
Total revenues, million EUR	**77.9**	77.8	0.2	75.6	3.0
EBITDA, million EUR	**33.2**	33.3	-0.4	33.4	-0.5
EBITDA margin, %	**42.6**	42.8		44.1	
EBIT, million EUR	**21.0**	19.8	6.3	19.9	5.7
EBIT margin, %	**27.0**	25.4		26.3	
Profit before taxes, million EUR	**22.0**	20.4	7.9	20.5	7.3
Net profit for period, million EUR	**22.0**	20.4	7.9	20.5	7.3
EPS, EUR	**0.16**	0.15	7.3	0.15	6.9
CAPEX, million EUR	**3.3**	6.8	-51.9	6.7	-48.5
Net gearing, %	**-43.0**	-38.5			
ROA, %	**22.4**	28.8			
ROE, %	**35.2**	33.2			

In commenting on the results of the Eesti Telekom Group, Jaan Männik, Chairman of the Management Board, emphasised: "The group's consolidated total revenues increased 3%. The net profit for the first quarter showed strong growth."

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CHAIRMAN'S STATEMENT

Financial results

The Eesti Telekom Group's total revenues in the first quarter remained at the same level as in the first quarter of 2004. The result of the first quarter of 2004, however, includes the revenues of the Eltel Group (a group of subsidiaries involved with network construction, sold in December 2004). If one removes the said revenues from the total revenues of the first quarter of 2004, total revenues for the first quarter of 2005 show an increase of 3.0% in comparison with the same period of the previous year.

Events in the area of mobile communications had a significant influence on the Eesti Telekom Group's revenues in the first quarter of 2005. The mobile number portability requirement was implemented as of the first quarter of 2005. Mobile communications operators, including Eesti Telekom's subsidiary AS EMT, began preparations for the mobile number portability at the end of 2004, when rates were adjusted, several discount packages were introduced, and in November EMT's so-called discount operator Diil, which targets price-sensitive mobile customers, entered the market. Thanks to the preparations that began last year and the company's longstanding investment in quality, the result of the first months of operations under the number portability was positive for AS EMT in terms of customer numbers. The number of customers who have moved from one network to another in Estonia as a whole has been smaller than expected. According to the Communications Board, only about 19,600 customers have changed service providers during these three months. In summing up the results of this period, AS EMT has acquired more customers through number portability than it has lost to other operators. At the same time, the intense price war that has ensued from the number portability has led to an extensive drop in rates, as a result of which the group's revenues growth in the area of mobile communications have remained at the modest level of 4-5% for the second successive quarter.

Positive developments took place in the area of fixed-line communications, where growth from new areas of activity – the Internet, IT and data communications – has almost compensated for the reduction in revenue from voice communications. The *Kodulahendus* and *Ärilahendus* packages that combine Internet connections and voice communications, which have been introduced since the end of 2004 and the beginning of 2005 have helped to stabilise the number of fixed lines and supported the growth in the number of permanent connections. Since the beginning of 2005, Elion has begun entering the market for television image transmission. This year the company will restrict itself to new buildings, and will concentrate mostly on the testing of various technologies. In the coming years, however, service packages incorporating voice communications, Internet connection and TV image provision should become an important competitive advantage for Elion in the eyes of households.

The Eesti Telekom Group's EBITDA for the first quarter of 2005 was 0.1 million euros lower than the corresponding figure for the same period in 2004. The group has managed to maintain the EBITDA margin at the same level. On the one hand, the margin has been significantly influenced by events in the mobile market and also by the growth in the turnover of the group's retail sales chain; while on the other hand, the margin has been positively influenced by the sale of the group's construction activities, which had a low profitability.

The group's depreciation in the first quarter of 2005 was 10.2% lower than the result for the first quarter of 2004. The reduction in depreciation came from the fixed-line communications sector. The growth in the Eesti Telekom Group's EBIT reached 6.3%. Thanks to the group's strong financial position, net financial income has increased. Net financial income for the first quarter of 2005 was 0.3 million euros greater than the corresponding figure for 2004.

The Eesti Telekom Group's net profit for the first quarter of 2005 was 22.0 million euros, which is 7.9% more than in the first quarter of 2004. Earnings per share in the first quarter amounted to 0.16 euros (0.15 euros in the first quarter of 2004).

As of the end of March 2005, the Eesti Telekom Group's balance sheet total was 308.3 million euros (289.2 million euros in December 2004). During the first quarter, the group's fixed assets decreased by 8.0 million euros, and current assets increased by 27.1 million euros. The reduction in fixed assets is the result of the relatively limited investments of recent years. The growth in current assets was caused primarily by the 26.4 million euro increase in cash and cash equivalents.

The Eesti Telekom Group's equity has increased by 22.0 million euros during the first quarter (on account of the first quarter's net profit). As of the end of March 2005, the group had 0.1 million euros in long-term debt, and 0.2 million euros in short-term debt (at the end of December 2004, 0.04 million and 1.2 million euros respectively). The group's net debt at the end of March 2005 was –121 million euros, and net gearing was –43%. The group's other payables decreased by 1.9 million euros during the first quarter of 2005.

The Eesti Telekom Group's cash flows from operating activities amounted to 31.4 million euros in the first quarter of 2005 (29.7 million euros in the first quarter of 2004). Cash flows used in investing activities decreased – in the first quarter of 2004, by 8.4 million euros, but in the first quarter of 2005, by 4.0 million euros. Cash flow used in financing activities was 1.1 million euros in the first quarter of 2005 (0.1 million euros in the first quarter of 2004).

Elion Group

	3 months 2005	3 months 2004	Change, %	3 months 2004, not including terminated operations	Change, %
Total revenues, million EUR	**39.9**	41.6	-4.1	39.4	1.4
EBITDA, million EUR	**14.2**	14.4	-1.5	14.4	-1.3
EBITDA margin, %	**35.5**	34.6		36.4	
EBIT, million EUR	**7.6**	6.3	21.0	6.4	20.3
EBIT margin, %	**19.1**	15.1		16.1	
Profit before taxes, million EUR	**8.2**	6.4	27.7	6.4	29.7
Net profit for period, million EUR	**8.2**	6.4	27.7	6.4	29.7
CAPEX, million EUR	**2.5**	3.3	-24.0	3.3	-22.6
ROA, %	**17.0**	18.4			
ROE, %	**25.6**	22.3			

The Elion Group's total revenues for the first quarter of 2005 were 4.1% lower than the result for the first quarter of 2004. The main factor that caused the reduction in total revenues was the sale of the Eltel Group in December 2004. The result for the first quarter of 2004 included the Eltel Group's revenues in the amount of 4.2 million euros, of which 2.3 million were revenues from outside the Eesti Telekom Group. If we remove the Eltel Group's total revenues from consolidated total revenues for the first quarter of 2004, we obtain a 1.4% growth in total revenues in 2005.

The Elion Group's operating costs decreased 5.5% in the first quarter of 2005, in comparison with the same period in 2004. Once again, the main factor in the reduction in operating costs was the Eltel Group. At the same time, the operating costs of the group's parent company, Elion Enterprises AS, fell 1.5%. As a result of the increased volume of sales, the operating costs of AS Elion Esindus, the Elion Group's retail sales chain, have increased significantly.

The Elion Group's EBITDA decreased 1.5% in comparison with the first quarter of 2004. The EBITDA margin, however, increased, reaching 35.5% in the first quarter of 2005. The Eltel Group's losses in the first quarter of 2004 were less than 0.1 million euros, and thus the sale of the Eltel Group does not prevent the comparison of earnings in the first quarter of 2004 and 2005. The Eltel Group's EBITDA margin was negative in the first quarter of 2004, and remained below 10% for 2004 as a whole. The sale of the Eltel Group has had a positive effect on the Elion Group's profit margins.

As a result of the moderate level of investment in recent years, the fall in depreciation continued in the first quarter of 2005. Depreciation in the first quarter of this year was 19.0% lower than the corresponding indicator for 2004, amounting to 6.6 million euros. Thanks to the fall in depreciation, EBIT increased, and the result for the first quarter of 2004 was exceeded by 21.0%. Thanks to the strong positive cash flow, the Elion Group's net financial income has increased. In the first quarter of 2005, the group's financial income exceeded financial expenses by 0.6 million euros. The Elion Group's net profit for the first quarter increased 27.7% in comparison with the same period in 2004, reaching 8.2 million euros.

The Elion Group's revenues from core activities were characterised by the continuation of trends that developed in previous quarters. The group's revenues from voice communication have decreased 9% during the year. As of 31 March 2005, Elion had 422 thousand main lines at its disposal. During the last two quarters, the fall in the number of main lines has slowed considerably, although the number of main lines has decreased by only 18 thousand in comparison with the end of March 2004. In October 2004, Elion entered the market with innovative *Kodulahendus* packages that permit customers to use a permanent Internet connection, a telephone connection and 20 hours of free calls within the network for one monthly rate. As of January 1st, analogous packages were also offered to corporate customers. On the one hand, the introduction of such service packages has helped to stabilise the number of main lines. On the other hand, however, the offering of free call minutes has led to a certain decrease in the revenue earned per call minute. The rapid fall in mobile phone rates during the last six months has encouraged the movement of call minutes from the fixed-line network to mobile networks. In comparison with the first quarter of 2004, 9.7% less call minutes passed through the Elion network in the first quarter of this year. At the same time, Elion has maintained its market position among providers of fixed-line voice communications. In March 2005 Elion Enterprises AS estimated its market share in the fixed-line network to be 85%, based on call minutes initiated in the fixed-line network (86% in December 2004). Market share in the area of local call minutes was 86% (87% in December 2004), 73% in call minutes made to mobile phones (75% in December 2004), 67% of international call minutes (69% in December 2004), and 96% in dial-up minutes (96% in December 2004).

Revenues earned from the provision of Internet connections continued to increase in the first quarter of 2005. In comparison with the first quarter of 2004, the group's revenues in this area increased 13%. By the end of March 2005, the number of permanent connections offered by Elion had increased to 81.7 thousand (76.8 thousand in December 2004; 55.0 thousand in March 2004). The increase in the number of permanent Internet connections has been supported by the above-mentioned introduction of the *Kodulahendus* and *Ärilahendus* packages, but also by the diverse possibilities offered to customers by the companies of the Elion Group in computer sales. In order to cope with the increasing growth in the number of permanent Internet connections, Elion significantly increased the speed of its foreign connections in the first quarter. Elion increased the volume of its international connection to operator Teleglobe to 1 gigabit per second. By doing so, Elion increased the total volume of connections with foreign Internet networks to 4.35 gigabits per second, which is the highest known rate of all Internet service providers in Estonia. Elion has foreign Internet connections with the United Kingdom, but also Finland, Sweden and Latvia.

In the first quarter of 2005, the Elion Group's revenues from IT and data communications increased 7% in comparison with the first quarter of 2004. In January 2005, Elion completed the public procurement for the Tallinn Education Authority, with which it installed 90 Microlink PCs with monitors and software in 20 schools in Tallinn. In the framework of the entire above-mentioned public procurement, Elion has supplied over 1600 computers with servers, printers, video projectors and high-speed Internet connections to schools, hobby schools and kindergartens. In addition, last year Elion connected the computers of 82 Tallinn schools with an ultra-high-speed fibre-optic network. The volume of the public procurement for the computers was 0.1 million euros.

As of January 2005, Elion Enterprises AS is a certified gold partner of Microsoft in the area of network infrastructure. The above-mentioned status allows customers to be certain that Microsoft's partner fulfils all of the requirements specified in the quality standards. Elion benefits from advantages offered through the program that tie in with its operations, and thus help the company raise its competence in the area of products and services connected with Microsoft software, and improve sales operations and customer service. Elion has the highest number of IT specialists possessing Microsoft Certified Professional certificates, and the company continues to develop its employees' IT skills.

The Elion Group's revenues from network services increased 7% during the first quarter. The growth in revenues in this category is the result of a certain growth in the volume of international network traffic through Estonia.

The Elion Group’s revenues from the retail sale of communications and IT devices grew 31% in the first quarter. Thanks to the introduction of the option of payment by instalment, there was a dramatic increase in the volume of computers sold by AS Elion Esindus, the Elion Group’s retail sales chain, in the fourth quarter of 2004. The high level of sales figures also continued in the first quarter of 2005.

In the first quarter of 2005, Elion also began to enter a market that is entirely new to the company. Elion has obtained a permit from the Communications Board for the provision of cable television services. The company plans to begin offering these services in April 2005. Elion plans to use several technologies for the transmission of the television image. In March an agreement was concluded with Alcatel for the testing of a new FTTU (fiber-to-the-user) solution for end users, permitting high bandwidth data and voice communications and the transmission of an high-quality digital television image. This is one of the first applications of this new technology in Europe. Elion will begin the testing of the solution in Merirahu and several other new residential areas near Tallinn this year. In the coming years Elion intends to offer this service to all users of permanent Internet connections. This would make it possible to variety of television channels to reach isolated places where cable television is presently not available.

The objective of offering digital television has been to bring an integral selection of communication and entertainment services to homes: telephone communications, high-speed Internet communications, IT services and high-quality television image. Elion’s objective is to reach half of Estonian homes with digital television by the year 2010.

In the first quarter of 2005, the Elion Group invested 2.5 million euros (3.3 million euros in the first quarter of 2004). The majority of investment has been in the development of broadband services.

At the end of March 2005, the Elion Group had 1473 employees (2029 in March 2004).

EMT Group

	3 months 2005	3 months 2004	Change, %
Total revenues, million EUR	**45.7**	43.5	4.9
EBITDA, million EUR	**19.3**	19.3	0.0
EBITDA margin, %	**42.2**	44.2	
EBIT, million EUR	**13.7**	13.8	-1.1
EBIT margin, %	**29.9**	31.7	
Profit before taxes, million EUR	**13.8**	14.0	-1.7
Net profit for period, million EUR	**13.8**	14.0	-1.7
CAPEX, million EUR	**0.7**	3.5	-78.9
ROA, %	**35.3**	50.9	
ROE, %	**61.8**	64.9	

In the first quarter of 2005, the EMT Group’s total revenues were 45.7 million euros, which is an increase of 4.9% in comparison with the same period in 2004. The majority of the increase in revenues was generated by the group’s parent company, AS EMT. The most rapid growth continued to take place in the group’s retail chain, EMT Esindused AS, although the double-digit growth in that area has been replaced with single digits.

The EMT Group’s operating costs increased 8.8% in the first quarter, in comparison with the same period in 2004. The majority of operating costs were also generated by the parent company. The increase in expenses is a result of the increase in customer base – per-minute interconnection charges paid on calls customers make outside the EMT network and roaming costs have increased. Costs connected with retail operations have also increased, while the growth in expenses in this particular area has been slower than the increase in the revenue.

The EMT Group’s EBITDA was 19.3 million euros, i.e. at the same level as the results for the first quarter of 2004. The EBITDA margin fell, as a result of developments that took place in core activities, while margins from retail activities have increased in comparison with the first quarter of last year.

In comparison with the first quarter of 2004, depreciation was 0.1 million euros greater in the first quarter of 2005, and net financial income was 0.1 million euros smaller. The EMT Group's net profit in the first quarter was 1.7% lower than the result for the same period in 2004.

The EMT Group's results for the first quarter have been influenced by the introduction of the mobile number portability. The influence of this development on EMT's customer base was positive during the first quarter. According to the Communications Board, 19,623 customers changed communications operators in that three-month period in Estonia (this includes movement between fixed-line operators). The number of new customers obtained by EMT as a result of the portability of mobile phone numbers has exceeded the number of customers it has lost.

The growth in customer base through the addition of new mobile telephone numbers also increased. As of the end of March 2005, AS EMT had 601.4 thousand customers (595.4 thousand in December 2004; 507.5 thousand in March 2004). The number of contractual customers as of the end of March 2005 was 377.8 thousand (363.4 thousand in December 2004; 318.9 thousand in March 2004). Operators' special offers to contractual customers have led to a reduction in the number of pre-paid call cards. The number of pre-paid call cards at AS EMT was 223.6 thousand at the end of March 2005 (232.0 thousand in December 2004; 188.6 thousand in March 2004). EMT estimated that as of the end of March 2005, its market share based on customer numbers continues to be 47%.

One of the most common discounts offered to new customers in the Estonian market is the waiving of monthly payments. The gradual reduction of monthly payments is also an effective mean with which to guarantee the loyalty of existing customers. Thus EMT's revenues from monthly payments have, despite the increase in customer base, been falling for some time. The said trend also continued in the first quarter of 2005. As a result of the reduction in the number of users of pre-paid call cards, revenues earned from pre-paid call cards also fell in the first quarter.

Thanks to the growth in customer base, the number of call minutes in the EMT network has increased. The majority of the increase in revenue in the first quarter in comparison with the same period in 2004 is the result of revenues earned from local call minutes. Revenues from interconnection charges also demonstrated strong growth. In March and April 2005, all three mobile communications operators reduced termination rates in their networks. In the case of EMT, termination rates established for other operators fell from 0.176 euros per minute to 0.160 euros per minute. As a result of this, one can forecast a slowing in the growth of EMT's revenues from interconnection services. At the same time, however, the growth in expenses related to interconnection charges should also slow down.

The most rapid growth took place in EMT's revenues from roaming services. Revenues from SMSs also demonstrated double-digit growth. At the same time, these revenue categories represent a relatively modest proportion of the total revenues of the EMT Group.

In March 2005, AS EMT earned an ARPU of 21.8 euros per active mobile telephone number (22.8 euros in December 2004, and 25.0 euros in March 2004). During the year, the revenue earned has decreased 12.8%. In comparison with December 2004, the fall in revenue has slowed somewhat (December 2004 compared with December 2003: -13.2%). The revenue earned per mobile telephone number is influenced on the one hand by the reduction in rates that has taken place in recent quarters, and by discounts. The other significant factor that influences this indicator is undoubtedly mobile penetration in Estonia, which has risen to about 95%. This level of penetration shows that an increasing number of customers are using more than one mobile telephone number, which has inevitably led to a reduction in the volume of services used and revenue earned per number.

In the first quarter of 2005, the EMT Group invested 0.7 million euros (3.5 million euros in the first quarter of 2004). The majority of that investment was made in order to ensure the quality of technological infrastructure.

As of the end of March 2005, the EMT Group had 500 employees (445 in March 2004).

Relations with state regulator

EMT is declared operator with significant market power (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 was set to take place on 19 April 2005.

Change in ownership structure

As of 13 January 2005, Baltic Tele AB made an offer to the shareholders of AS Eesti Telekom to acquire all of the shares of AS Eesti Telekom that did not belong to Baltic Tele AB, at the offer price of 7.02 euros per share. The deadline for accepting the offer passed on 23 February 2005. As a result of the offer, Baltic Tele AB's holding in AS Eesti Telekom increased by 352,857 shares, and as of 7 March 2005, Baltic Tele AB owned 69,330,171 shares in AS Eesti Telekom, which represents 50.255814% of the total number of AS Eesti Telekom shares. No other company in the TeliaSonera Group possesses any AS Eesti Telekom shares.

General meeting of shareholders

AS Eesti Telekom's regular general meeting of shareholders will take place on 18 May 2005 beginning at 2 o'clock p.m. at the National Library in Tallinn. One can familiarise oneself with the annual accounts and draft decisions for the general meeting as of 25 April 2005 at the Internet address http://www.telekom.ee and at Eesti Telekom, at 2 Roosikrantsi St. in Tallinn, from 10:00 a.m. – 2:00 p.m. Monday to Friday. For enquiries related to the general meeting, please call 6 311 212 or write an e-mail to the address mailbox@telekom.ee.

Definitions

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

	Q1 04	Q2 04	Q3 04	Q4 04	Q1 05
Revenues	77.8	82.3	84.6	83.7	77.9
Operating expenses	-44.5	-47.0	-48.6	-52.6	-44.7
Profit from operations before depreciation	33.3	35.3	35.9	31.1	33.2
Depreciation and amortisation	-13.5	-13.1	-12.7	-12.9	-12.2
Profit from operations	19.8	22.2	23.3	18.2	21.0
Income / (expenses) from subsidiaries and associates	0.0	0.0	0.0	2.9	0.2
Other net financing items	0.6	0.7	0.3	0.3	0.8
Profit before tax	20.4	22.8	23.6	21.5	22.0
Income tax on dividends	0.0	-24.5	0.0	0.0	0.0
Net profit for the period	20.4	-1.6	23.6	21.5	22.0
Minority interest	0.0	0.0	-0.2	-0.1	0.0
EBITDA margin, %	42.8%	42.9%	42.5%	37.1%	42.6%
EBIT margin, %	25.4%	27.0%	27.5%	21.7%	27.0%
Net margin, %	26.2%	-2.0%	27.9%	25.6%	28.2%
Total assets	314.6	272.5	267.7	289.2	308.3
- Non-current assets	148.5	142.4	136.3	137.1	129.1
- Current assets	166.0	130.1	131.5	152.1	179.2
- Cash and cash equivalents	105.6	70.0	70.4	93.1	119.4
Equity and liabilities	314.6	272.5	267.7	289.2	308.3
- Equity	285.5	215.3	238.9	259.2	281.2
- Non-current liabilities	0.7	0.7	0.7	0.6	0.5
- Interest-bearing borrowings	0.1	0.1	0.2	0.0	0.1
- Current liabilities	28.4	56.5	28.1	29.4	26.6
- Interest-bearing borrowings	0.5	2.0	1.3	1.2	0.2
Proceeds from operating activities	29.7	34.1	7.1	34.3	31.4
Net cash used in investing activities	-8.4	-0.9	-6.0	-11.6	-4.0
Net cash before dividends and net loans	21.3	33.2	1.1	22.8	27.4
Dividends paid	0.0	-70.4	0.0	0.0	0.0
Loan repayments (net)	-0.1	-0.1	-0.6	-0.1	-1.1
Share issue	0.0	1.8	0.0	0.0	0.0
Net increase (decrease) in cash and cash equivalents	21.1	-35.6	0.5	22.7	26.3

EESTI TELEKOM

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

INCOME STATEMENT

Financial statements are prepared in thousands of EUR

	Notes	I Quarter 2005	I Quarter 2004 Restated	2004 Restated
Revenues				
Net sales	2 (a, b)	77,800	77,522	326,980
Other operating income		149	289	1,415
Total revenues		**77,949**	**77,811**	**328,395**
Operating expenses	2 (a)			
Materials, consumables, supplies and services		(28,369)	(27,205)	(121,202)
Other operating expenses		(7,904)	(7,197)	(33,245)
Personnel expenses		(8,244)	(9,799)	(37,025)
Other expenses		(231)	(277)	(1,278)
Total operating expenses		**(44,748)**	**(44,478)**	**(192,750)**
Profit from operations before depreciation		**33,201**	**33,333**	**135,645**
Depreciation, amortisation and impairment of fixed and intangible assets	2 (a), 3	(12,156)	(13,540)	(52,182)
Profit from operations		**21,045**	**19,793**	**83,463**
Net income / (expenses) from associates	2 (a)	190	(12)	2,888
Other net financing items	2 (a)	760	607	1,937
Profit before tax		**21,995**	**20,388**	**88,288**
Income tax on dividends		-	-	(24,473)
Net profit for the period	2 (a)	**21,995**	**20,388**	**63,815**
Attributable to:				
Equity holders of the parent	2 (a)	21,995	20,410	63,502
Minority interest	2 (a)	-	(22)	313
		21,995	**20,388**	**63,815**
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EUR per share)	6 (d)			
Basic earnings per share		0.16	0.15	0.46
Diluted earnings per share		0.16	0.15	0.46

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

BALANCE SHEET

Financial statements are prepared in thousands of EUR

	Notes	31 March 2005	31 December 2004	31 March 2004
ASSETS				
Non-current assets				
Fixed assets	2 (a), 3	120,389	128,776	139,256
Goodwill	2 (a), 3, 5	348	-	718
Licenses, patents and trademarks	2 (a), 3	5,452	5,828	6,888
Investments in subsidiaries and associates	2 (a), 4 - 6	1,392	1,202	1,052
Non-current securities	2 (a)	-	-	173
Other non-current receivables	2 (a)	1,529	1,277	454
Total non-current assets		**129,110**	**137,083**	**148,541**
Current assets				
Inventories	7	7,449	7,949	6,069
Trade receivables		38,833	36,908	33,672
Other receivables		11,655	12,313	15,738
Current securities		1,834	1,845	4,989
Cash and cash equivalents		119,423	93,070	105,563
Total current assets	2 (a)	**179,194**	**152,085**	**166,031**
TOTAL ASSETS	2 (a)	**308,304**	**289,168**	**314,572**
EQUITY AND LIABILITIES				
Equity	8			
Equity attributable to equity holders of the parent				
Issued capital		88,169	88,169	87,971
Reserves		31,550	31,550	29,937
Translation reserve		-	-	-
Retained earnings		139,478	75,976	146,370
Net profit for the period		21,995	63,502	20,410
Total equity attributable to equity holders of the parent	2 (a)	**281,192**	**259,197**	**284,688**
Minority interest	2 (a)	-	-	843
Total equity		**281,192**	**259,197**	**285,531**
Non-current liabilities				
Interest-bearing loans and borrowings	9	64	38	139
Provisions	10 (a)	484	512	550
Total non-current liabilities	2 (a)	**548**	**550**	**689**
Current liabilities				
Trade payables		11,654	16,918	11,145
Other current liabilities		9,943	8,895	12,171
Tax liabilities		4,571	2,111	4,269
Interest-bearing loans and borrowings	9	174	1,212	549
Provisions	10 (b)	222	285	218
Total current liabilities	2 (a)	**26,564**	**29,421**	**28,352**
TOTAL EQUITY AND LIABILITIES		**308,304**	**289,168**	**314,572**

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

CASH FLOW STATEMENT

Financial statements are prepared in thousands of EUR

	Notes	I Quarter 2005	I Quarter 2004
Operating activities			
Profit from operations		21,045	19,793
Adjustments for:			
Depreciation, amortisation and impairment of fixed and intangible assets	3	12,156	13,540
(Profit) / loss from sales and write-off of fixed assets		59	(193)
Operating cash flow before changes in working capital		33,260	33,140
Change in current receivables		(340)	(3,886)
Change in inventories		501	311
Change in current liabilities		(1,978)	127
Cash generated by operations		31,443	29,692
Interest paid		(58)	(29)
Income tax on dividends paid		(1)	-
Net cash from operating activities	2 (a)	**31,384**	**29,663**
Investing activities			
Purchases of property, plant and equipment	3	(3,226)	(6,714)
Purchases of licenses	3	(56)	(112)
Proceeds from sales of fixed assets		20	226
Net cash outflow from acquisition of subsidiaries	5	(316)	(247)
Purchases of current securities		-	(1,876)
Proceeds on disposal of current securities		18	-
Loans granted		(947)	(82)
Repayment of loans granted		15	-
Interest received		485	409
Net cash used in investing activities	2 (a)	**(4,007)**	**(8,396)**
Financing activities			
Repayment of convertible debt		-	(1)
Proceeds from non-convertible debt	9	31	7
Repayment of nonconvertible debt	9	(126)	(117)
Repayment of long-term borrowings	9	(21)	-
Repayment of finance lease liabilities	9	(942)	(4)
Repayment of short-term borrowings		-	(7)
Dividends paid		(3)	-
Net cash used in financing activities	2 (a)	**(1,061)**	**(122)**
Net change in cash and cash equivalents		**26,316**	**21,145**
Cash and cash equivalents at beginning of year		**93,070**	**84,414**
Effect of foreign exchange rate changes	2 (a)	37	4
Cash and cash equivalents at end of period		**119,423**	**105,563**

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

STATEMENT OF CHANGES IN OWNERS' EQUITY

Financial statements are prepared in thousands of EUR

	Attributable to equity holders of the parent						Minority interest	Total equity
	Issued capital	Reserves		Translation reserve	Retained earnings	Net profit for the period		
		Share premium	Statutory legal reserve					
31 December 2003	**87,971**	**21,156**	**8,781**	**(1)**	**80,187**	**66,183**	**865**	**265,142**
Net profit for the 2003 transferred to retained earnings	-	-	-	-	66,183	(66,183)	-	-
Exchange differences arising from translation of foreign operations	-	-	-	1	-	-	-	1
Net profit for the period	-	-	-	-	-	20,410	(22)	20,388
31 March 2004	**87,971**	**21,156**	**8,781**	**-**	**146,370**	**20,410**	**843**	**285,531**
31 December 2004	**88,169**	**22,753**	**8,797**	**-**	**75,976**	**63,502**	**-**	**259,197**
Net profit for the 2004 transferred to retained earnings	-	-	-	-	63,502	(63,502)		-
Net profit for the period	-	-	-	-	-	21,995		21,995
31 March 2005	**88,169**	**22,753**	**8,797**	**-**	**139,478**	**21,995**	**-**	**281,192**

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

The consolidated interim financial statements for the nine months period ending 31 March 2005 are prepared in accordance with the International Financial Accounting Standards, includes IAS 34. In all material respects, the same accounting principles have been followed as in the preparation of financial statements for 2004, except changes became effective from 1 January 2005.

Changes in accounting principles in 2005. New IFRS standards and several changes in existing standard texts were implemented from 1 January 2005. The following standards have been adopted for the preparation of the financial statements of the Group:

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 8 Accounting polices, Changes in Accounting Estimates and Errors
- IAS 10 Events After Balance Sheet Date
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related arty Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 33 Earnings per Share
- IAS 36 Impairment of Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 3 Business Combinations
- IFRS 5 Non-current assets Held for Sale and Discontinued Operations

The adoption of all abovementioned standards becomes obligatory for the Group from the financial year begun from 1 January 2005. The adoption of the standards caused no significant changes to the existing recognition an measurement policies and had no impact to the profit of the Group. However, the adoption of the above standards has resulted in certain changes in presentation of the financial information.

The financial statements are presented in thousands of euros (EUR), 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 financial statements are prepared on the historical cost basis except certain category of financial instruments that are stated at their fair value.

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 supervisory board.

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

All inter-company transactions and balances 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.

Financial statements are prepared in thousands of EUR

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. 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		
	31 March 2005	**31 December 2004**	**31 March 2004**
EEK	0.06391	0.06391	0.06391
USD	0.77220	0.73314	0.81796
SEK	0.10940	0.11085	0.10802
LTL	0.28962	0.28962	0.28962
LVL	1.43705	1.43303	1.52933

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

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 direct costs necessary to keep the asset in working order or for the replacement of its parts, as well as estimates of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item.. 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 line "Depreciation, amortisation and impairment of fixed and intangible assets". A recovery in value in use is recognised as a reversal of impairment loss.

Depreciation is calculated on the straight-line method. Depreciation rates are set separately to each asset or the individual parts of an item 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.

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.

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

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

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

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

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

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

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. Goodwill shall not be amortised. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses in goodwill are recognised as an expense in the income statement. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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.

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

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 financial liabilities with realisation terms over one year from the balance sheet date are considered to be long-term items. Other assets and liabilities are reported as short-term.

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.

Financial investments *(s*hares 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.
- 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.
- Shares and securities whose fair value cannot be reliably measured are recorded on the balance sheet at amortised cost, which consists of its initial recognition cost minus any write-down for impairment or uncollectibility. Write-down is recorded in the income statement.
- Bonds that the Company intends to hold to maturity are recorded on the balance sheet at amortised 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. In calculating the write-down, the net present value of the future cash receipts of the financial instrument is considered, applying the internal rate of return as the discount rate. The interest income and write-down of held-to-maturity securities are recorded in the income statement.

Shares and securities that are held for disposal 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 “Current securities”. Long-term shares and securities are recorded on the balance sheet as “Non-current securities”.

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.

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

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

Taxation. The Income Tax Law that became effective in Estonia on 1 January 2000 replaces the taxation of earnings with the taxation of dividend distributions and other disbursements that have the characteristics of profit distribution. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid for.

Because of the principles of taxation, the term *tax base of assets and liabilities* does not meet the criteria of recognition and deferred income tax assets and liabilities as defined in IAS 12 (Income Taxes) do not arise.

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

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

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

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

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 amortised cost, in accordance to which the liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount (only for bonds). The amortized cost is determined by applying the internal rate of return, which is calculated by discounting the future net cash flows to the balance sheet value. Amortization of the transaction costs is recorded in the income statement together with the interest expense. The interest expense and borrowing costs are recorded as “Other financial income and expenses” in the income statement in the period in which they arise.

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

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

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

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

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

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

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

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

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

Financial statements are prepared in thousands of EUR

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

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

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

Reclassification of balances

During 2005, the following comparative balances of first Quarter 2005 were reclassified:

	Other operating income	**Other expenses**
I Quarter 2004		
Initial opening balance 31 March 2004	337	(325)
Reclassification	(48)	48
Comparative balance 31 March 2004	289	(277)
2004		
Initial opening balance 31 December 2004	1,709	(1,572)
Reclassification	(294)	294
Comparative balance 31 December 2004	1,415	(1,278)

According to IAS 1 Presentation of Financial Statements clauses 34 -35, gains and losses arising from a group of similar transactions are reported on a net basis. On the assumption of cited above, the first quarter 2004 and year 2004 financial statements are presented by netting gains / losses on the disposal and writ-offs of non-current assets and foreign exchange gains / losses arising from accounts receivables and accounts payables.

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

These financial statements are not audited.

2. Segment information

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 Enterprises AS, AS Elion Esindus, AS EsData and Viru Net OÜ.

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 (discontinued from 1 December 2004) – these segment activities were construction and maintenance of telecommunication networks. The companies belonging to this business segment are AS Eltel Networks, AS Reveko Telekom, SIA Connecto Latvia and UAB Lidivos Technologijos.

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

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

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

Financial statements are prepared in thousands of EUR

a) Main format – business segments

	Fixed network telecommunications		Mobile telecommunications		Construction		Other operations		Eliminations		Consolidated	
	Q1 2005	**Q1 2004 Restated**	**Q1 2005**	**Q1 2004 Restated**	**Q1 2005**	**Q1 2004 Restated**	**Q1 2005**	**Q1 2004 Restated**	**Q1 2005**	**Q1 2004 Restated**	**Q1 2005**	**Q1 2004 Restated**
Revenue												
Revenue	37,172	36,668	40,628	38,544	-	2,310	-	-	-	-	77,800	77,522
Other operating income	63	212	93	54	-	29	-	-	-	-	156	295
Inter-segment revenue	2,672	2,482	4,974	4,942	-	1,859	-	1	(7,646)	(9,284)	-	-
Total revenue	**39,907**	**39,362**	**45,695**	**43,540**	**-**	**4,198**	**-**	**1**	**(7,646)**	**(9,284)**	**77,956**	**77,817**
Operating expenses												
Materials, consumables, supplies and services	(9,119)	(7,831)	(19,250)	(17,866)	-	(1,508)	-	-	-	-	(28,369)	(27,205)
Other operating expenses	(5,772)	(4,575)	(2,049)	(1,840)	-	(665)	(83)	(117)	-	-	(7,904)	(7,197)
Personnel expenses	(5,758)	(5,977)	(2,330)	(2,132)	-	(1,496)	(156)	(194)	-	-	(8,244)	(9,799)
Other expenses	(107)	(150)	(128)	(94)	-	(34)	(3)	(5)	-	-	(238)	(283)
Inter-segment expenses	(4,973)	(6,405)	(2,667)	(2,345)	-	(496)	(6)	(7)	7,646	9,253	-	-
Total expenses	**(25,729)**	**(24,938)**	**(26,424)**	**(24,277)**	**-**	**(4 ,199)**	**(248)**	**(323)**	**7,646**	**9,253**	**(44,755)**	**(44,484)**
EBITDA	**14,178**	**14,424**	**19,271**	**19,263**	**-**	**(1)**	**(248)**	**(322)**	**-**	**(31)**	**33,201**	**33,333**
Depreciation, amortisation and impairment of fixed and intangible assets	(6,551)	(8,019)	(5,605)	(5,451)	-	(142)	(3)	(16)	3	88	(12,156)	(13,540)
EBIT	**7,627**	**6,405**	**13,666**	**13,812**	**-**	**(143)**	**(251)**	**(338)**	**3**	**57**	**21,045**	**19,793**
Income / (expenses) from subsidiaries and associated companies, net	223	(6)	(33)	(6)	-	-	-	-	-	-	190	(12)
Other net financing items	365	131	166	236	-	4	229	236	-	-	760	607
Net profit for the period	**8,215**	**6,530**	**13,799**	**14,042**	**-**	**(139)**	**(22)**	**(102)**	3	57	**21,995**	**20,388**
Attributable to:												
Equity holders of the parent	8,215	6,530	13,799	14,042	-	(117)	(22)	(102)	3	57	21,995	20,410
Minority interest	-	-	-	-	-	(22)	-	-	-	-	-	(22)
	8,215	**6,530**	**13,799**	**14,042**	**-**	**(139)**	**(22)**	**(102)**	3	57	**21,995**	**20,388**

Financial statements are prepared in thousands of EUR

Other information by business segments

	Fixed network telecommunications		Mobile telecommunications		Construction		Other operations		Eliminations		Consolidated	
	I Quarter 31 March 2005	**I Quarter 31 March 2004**	**I Quarter 31 March 2005**	**I Quarter 31 March 2004**	**I Quarter 31 March 2005**	**I Quarter 31 March 2004**	**I Quarter 31 March 2005**	**I Quarter 31 March 2004**	**I Quarter 31 March 2005**	**I Quarter 31 March 2004**	**I Quarter 31 March 2005**	**I Quarter 31 March 2004**
Non-current assets (except investments in subsidiaries and associates)	69,109	81,759	58,353	64,927	-	1,559	281	404	(25)	(1,160)	127,718	147,489
Investments in subsidiaries and associates	1,255	1,374	137	202	-	-	80,769	80,769	(80,769)	(81,293)	1,392	1,052
Current assets	75,662	58,258	73,058	70,763	-	3,916	39,219	38,296	(8,745)	(5,202)	179,194	166,031
Total assets	**146,026**	**141,391**	**131,548**	**135,892**	**-**	**5,475**	**120,269**	**119,469**	**(89,539)**	**(87,655)**	**308,304**	**314,572**
Equity attributable to equity holders of the parent	**129,790**	**125,049**	**112,435**	**121,304**	**-**	**1,889**	**119,759**	**118,900**	**(80,792)**	**(82,454)**	**281,192**	**284,688**
Minority interest	**-**	**-**	**-**	**-**	**-**	**843**	**-**	**-**	**-**	**-**	**-**	**843**
Non-current liabilities	65	120	366	438	-	18	118	112	(1)	1	548	689
Current liabilities	16,171	16,222	18,747	14,150	-	2,725	392	457	(8,746)	(5,202)	26,564	28,352
Total equity and liabilities	**146,026**	**141,391**	**131,548**	**135,892**	**-**	**5,475**	**120,269**	**119,469**	**(89,539)**	**(87,655)**	**308,304**	**314,572**
Net cash from/ (used in) operating activities	14,962	11,235	16,696	18,655	-	215	(322)	(416)	48	(26)	31,384	29,663
Net cash from / (used in) investing activities	(954)	263	210	235	-	(210)	1,839	(1,498)	(1,820)	(360)	(725)	(1,570)
CAPEX	(2,547)	(3,285)	(733)	(3,480)	-	(106)	(2)	-	-	45	(3,282)	(6,826)
Net cash (used in) financing activities	(400)	(110)	(2,433)	(281)	-	(72)	-	-	1,772	341	(1,061)	(122)
Foreign exchange rate differences	35	(1)	-	-	-	-	2	5	-	-	37	4
Net increase / (decrease) in cash and cash equivalents	**11,096**	**8,102**	**13,740**	**15,129**	**-**	**(173)**	**1,517**	**(1,909)**	**-**	**-**	**26,353**	**21,149**

b) Additional format - geographic segments

The components of revenues by geographic segments are as follows:

	Fixed network telecommunications		Mobile telecommunications		Construction		Consolidated	
	I Quarter 2005	**I Quarter 2004**	**I Quarter 2005**	**I Quarter 2004**	**I Quarter 2005**	**I Quarter 2004**	**I Quarter 2005**	**I Quarter 2004**
Revenue from customers in Estonia	32,813	32,181	38,748	36,992	-	1,852	71,561	71,025
Revenue from customers outside Estonia	4,359	4,487	1,880	1,552	-	458	6,239	6,497
	37,172	**36,668**	**40,628**	**38,544**	**-**	**2,310**	**77,800**	**77,522**

Financial statements are prepared in thousands of EUR

3. Tangible and intangible assets

	Tangible assets	Intangible assets
At cost		
31 December 2003	**501,445**	**15,523**
Additions	6,714	227
Acquired by finance leases	11	-
Acquired on acquisition of a subsidiary	134	12
Disposals and write-offs (-)	(1,225)	(385)
31 March 2004	**507,079**	**15,377**
31 December 2004	**516,620**	**14,783**
Additions	3,226	404
Acquired on acquisition of a subsidiary	207	6
Disposals and write-offs (-)	(2,625)	(46)
Reclassification	45	(45)
31 March 2005	**517,473**	**15,102**
Accumulated depreciation		
31 December 2003	**355,991**	**7,592**
Charge for the period	12,982	558
Acquired on acquisition of a subsidiary	45	6
Disposals and write-offs (-)	(1,195)	(385)
31 March 2004	**367,823**	**7,771**
31 December 2004	**387,844**	**8,955**
Charge for the period	11,763	393
Acquired on acquisition of a subsidiary	74	1
Disposals and write-offs (-)	(2,597)	(47)
31 March 2005	**397,084**	**9,302**
Carrying amount		
At 31 March 2004	**139,256**	**7,606**
At 31 March 2005	**120,389**	**5,800**

Financial statements are prepared in thousands of EUR

4. Investments in subsidiaries

	Note	Country of incorporation	Ownership interest		Principal activity	Owner
			31 March 2005	**31 December 2004**		
Elion Enterprises AS		Estonia	100%	100%	Network services for operators, data communication and Internet products, voice communication solutions and Internet content services for business and residential customers	AS Eesti Telekom
AS Elion Esindus		Estonia	100%	100%	Retail sales of telecommunication products and services	Elion Enterprises AS
AS EsData		Estonia	100%	100%	Internet and data communication services, VoiP long distance calls and equipment hosting services	Elion Enterprises AS
Viru Net OÜ	5	Estonia	100%	-	Internet services	Elion Enterprises AS
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

5. Acquisition of subsidiaries

Elion Enterprises AS purchased 100% of the shares of Viru Net OÜ on 30 December 2004. The acquisition cost was 0.4 million EUR. Viru Net OÜ is one of the leading Internet service providers to business in the county of Ida-Virumaa. The enterprise was established in 1997. The turnover of Viru Net OÜ in 2004 was 0.3 million EUR with a net profit of 0.02 million EUR. The company currently has 17 employees. The financial results of Viru Net OÜ are consolidated from 1 January 2005.

	Acquiree's carrying amount at 31.12.2004	**Fair value**
Fixed assets	190	190
Receivables	8	8
Cash and cash equivalents	4	4
Non-current liabilities	(26)	(26)
Current liabilities	(109)	(109)
Net identifiable assets and liabilities	**67**	**67**
Goodwill		348
Total consideration		**(415)**
Paid up to 31.03.2005		(320)
Cash and cash equivalents		4
Net cash in / (out) flow		**(316)**

Financial statements are prepared in thousands of EUR

6. Investments in associates

	Country of incorporation	Ownership interest		Principal activity	Owner
		31 March 2005	**31 December 2004**		
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

7. Inventories

In the first quarter 2005, the value of the inventories was decreased by the total amount of 223 thousand EUR (first quarter 2004: 37 thousand EUR) based on the estimated decline of the realisation value below their acquisition cost.

8. Equity

a) Issued capital

	31 March 2005	**31 December 2004**
Ordinary shares issued par value 0,64 EUR per share, fully paid	137,954,528	137,954,528

The ordinary shares are distributed between the main groups of shareholders as follows:

	31March 2005		**31 December 2004**	
	Number of shares	Ownership interest %	Number of shares	Ownership interest %
Republic of Estonia	37,485,100	27.17	37,485,100	27.17
Public investors	31,139,257	22.57	31,492,114	22.83
TeliaSonera AB (Baltic Tele AB)	69,330,171	50.26	68,977,314	50.00
	137,954,528	**100.00**	**137,954,528**	**100.00**

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) 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 31march 2005, no shares have been re-acquired by AS Eesti Telekom.

Financial statements are prepared in thousands of EUR

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).

d) Earnings per share

Basic earnings per share have been calculated as follows:

I Quarter 2005: EUR 0.16 = 21,995,000: 137,954,528
I Quarter 2004: EUR 0.15 = (20,410,000 – 639.11): 137,644,428

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

I Quarter 2005: in view of the fact that the Group has not any dealings with a dilutive effect of earnings per share, diluted earnings per share equal basic earnings per share.

I quarter 2004: EUR 0.15 = (20,410,000 – 639.11) : (137,644,428 + (350,000 – (350,000 x 5.79/7.47)))

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

	I Quarter 2005	I Quarter 2004
Consolidated profit for the 3 quarter (EUR)	21,995,000	20,410,000
Dividends on preferred share (EUR)	-	639.11
The number of ordinary shares	137,954,528	137,644,428
The number of B-series shares covered by options, as of 31 March	-	350,000
The I Quarter average market value of ordinary shares (EUR)	-	7.47
The subscription price of ordinary shares, as stated in the option agreement (EUR)	-	5.79

e) 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 information about the price of an AS Eesti Telekom ordinary share on the Tallinn Stock Exchange is following (EUR):

	I Quarter 2005	2004	I Quarter 2004
Ordinary share highest price for the reporting period	8.60	8.10	7.95
Ordinary share lowest price for the reporting period	7.10	6.50	6.57
Ordinary share average price for the reporting period	7.80	7.16	7.47

Financial statements are prepared in thousands of EUR

9. Borrowings

	31 March 2005	31 December 2004
Non-current	64	38
Current	174	1,212
	238	**1,250**

The movements in the borrowings can be analyzed as follows:

Opening balance 31 December 2004	**1,250**
Proceeds from borrowings	31
Repayments of borrowings	(1,089)
Other movements	46
Closing balance 31 March 2005	**238**

10. Provisions

a) Non-current retirement benefit provisions

31 December 2004	**512**
Additional provision in the reporting period	2
Decrease of provision in the reporting period	(30)
31 March 2005	**484**

b) Current provisions

	Termination benefits provision	Current portion of retirement benefit provision	**Total**
31 December 2003	**243**	**42**	**285**
Additional provision in the reporting period	67	28	95
Utilisation of provision in the reporting period	(144)	(14)	(158)
30 September 2004	**166**	**56**	**222**

11. 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 quarter 2005 and 2004 were as follows:

	I Quarter 2005	I Quarter 2004
Salaries	542	533

Financial statements are prepared in thousands of EUR

b) Trading transactions

Transactions with related parties were conducted under market terms.

During the first quarter 2005 and 2004, group companies entered into the following transactions with related parties:

	I Quarter 2005	I Quarter 2004
Telecommunication services provided		
Associated companies	20	6
Shareholders	2,789	2,440
Companies where Supervisory Council members of the Group have significant influence	-	4
	2,809	**2,450**
Other sales		
Associated companies	-	1
Shareholders	-	1
	-	2
Telecommunication services purchased		
Associated companies	24	4
Shareholders	2,227	1,463
	2,251	**1,467**
Other services purchased		
Shareholders	10	3
Companies where Supervisory Council members of the Group have significant influence	-	4
	10	**7**
Financial income		
Associated companies	**4**	**4**
Financial expenses		
Shareholders	**3**	**10**
Amount owed by related parties		
Associated companies	327	271
Shareholders	1,080	1,590
Companies where Supervisory Council members of the Group have significant influence	-	2
	1,407	**1,863**
Amount owed to related parties		
Associated companies	16	-
Shareholders	1,592	1,130
	1,608	**1,130**