EESTI TELEKOM

15 July 2005

AS EESTI TELEKOM
FINANCIAL RESULTS FOR THE 2ND QUARTER OF 2005

AS Eesti Telekom, the leading provider of telecommunications services in Estonia, hereby announces its results for the second quarter ending 30 June 2005.

	Q2 2005	Q2 2004	Change, %	Q2 2004, Eltel Group excl.	Change, %
Total revenues, million EEK	**1,250**	1,287	-2.8%	**1,253**	-0.2%
EBITDA, million EEK	**552**	552	0.1%	**551**	0.2%
EBITDA margin, %	**44.2%**	42.9%		**44.0%**	
EBIT, million EEK	**367**	347	5.8%	**348**	5.6%
EBIT margin, %	**29.4%**	27.0%		**27.8%**	
Profit before taxes, million EEK	**380**	357	6.4%	**358**	6.2%
Net profit for period, million EEK	**32**	-26		**-25**	
EPS, EEK	**0.23**	-0.19			
CAPEX, million EEK	**136**	84	61.3%	**82**	65.2%
Net gearing, %	**-38.4%**	-32.5%			
ROA, %	**24.5%**	19.7%			
ROE, %	**37.9%**	32.8%			

	HY1 2005	HY1 2004	Change, %	HY1 2004, Eltel Group excl.	Change, %
Total revenues, million EEK	**2,470**	2,505	-1.4%	2,437	1.4%
EBITDA, million EEK	**1,072**	1,073	-0.1%	1,074	-0.2%
EBITDA margin, %	**43.4%**	42.9%		44.1%	
EBIT, million EEK	**697**	657	6.0%	659	5.7%
EBIT margin, %	**28.2%**	26.2%		27.1%	
Profit before taxes, million EEK	**725**	676	7.1%	679	6.8%
Net profit for period, million EEK	**376**	293	28.1%	296	27.2%
EPS, EEK	**2.73**	2.13			
CAPEX, million EEK	**187**	191	-2.0%	187	0.0%

In commenting on the results of the Eesti Telekom Group, Jaan Männik, Chairman of the Management Board, emphasised: “We kept market shares and EBITDA margin. Profit before taxes showed strong growth.”

For further information, please contact:

Jaan Männik, CEO +372 6311 212

Hille Võrk, CFO +372 6272 460

CHAIRMAN'S STATEMENT

Financial results

The Eesti Telekom Group's total revenues for the second quarter of 2005 were 1,250 million kroons, which is 2.8% less than the result for the second quarter of 2004. In December 2004, AS Eesti Telekom's subsidiary, Elion Enterprises Ltd., sold its majority holding in network construction group Eltel. If one were to eliminate the influence of the Eltel Group from total revenues for the second quarter of 2004, the reduction in total revenues for this year would be 0.2%.

Revenues in the second quarter of 2005 were positively influenced by the increasingly rapid growth in revenues earned from Internet connections, IT and data communications. At the same time, the reduction in revenues earned from fixed-line voice communications also slowed somewhat. Eesti Telekom's total out-of-group revenues from fixed-line communications as a whole fell by roughly 5 million kroons in the second quarter of this year, in comparison with the same period in 2004.

In the area of mobile communications, the continuing stiff competition between service providers influenced total revenues in the second quarter of 2005. The Eesti Telekom Group's mobile operator EMT has been able to maintain its 47-percent market share despite the competition, and the ended quarter has also been characterised by a strong increase in the company's customer base. At the same time, falling rates and discount offers have slowed growth in revenues. In addition, the revenue earned from the retail and wholesale sale of telephones by the EMT Group fell significantly in the second quarter. The Eesti Telekom Group's total out-of-group revenues from mobile segment increased in the second quarter of 2005 by roughly 5 million kroons.

The Eesti Telekom Group's operating expenses for the second quarter were 698 million kroons, which was also at the same level as the second quarter of 2004 (excluding the Eltel Group). In the second quarter, the most important factors influencing operating expenses were the increase in the EMT Group's domestic and international interconnection charges caused by the rapid increase in the number of call minutes initiated from mobile phones (including minutes dialled outside the EMT network). The growth of the EMT Group's operating expenses was compensated by a decrease in operating expenses in the area of fixed-line communications. AS Eesti Telekom's operating expenses decreased by 4.5 million kroons.

The Eesti Telekom Group's EBITDA was 552 million kroons, which was also at the same level as in the second quarter of 2004. The EBITDA margin was 44.2% in the second quarter of 2005 (44.0 in the second quarter of 2004, excluding Eltel Group).

Depreciation fell 9.0% in the second quarter in comparison with the same period in 2004. This decrease mainly comes from Elion Enterprises Ltd., and is connected with the company's relatively small investments in recent years. In the second quarter of 2005, the Eesti Telekom Group's EBIT increased 5.6% in comparison with the same period in 2004 (excluding the Eltel Group).

By decision of the general meeting of shareholders, in June AS Eesti Telekom paid its shareholders dividends of 8.00 kroons per share for the financial year 2004. Although the amount of dividends per share remained the same as before, the total amount of the dividends increased thanks to the increasing of share capital that took place in June 2004. Whereas 1,101 million kroons in dividends were paid out in 2004, this year that amount reached 1,104 million kroons. At the same, however, the rate of income tax to be paid on dividends has decreased – in 2004 26/74 of the amount of the dividends, but in 2005 24/76 of the amount of the dividends. AS Eesti Telekom's income tax expenditures on dividends were 34 million kroons less than at the same time last year, amounting to 349 million kroons.

In the second quarter of 2005, the Eesti Telekom Group earned a net profit of 32 million kroons (the loss for the second quarter of 2004 was 25 million kroons), i.e. 0.23 kroons per share.

The balance sheet total of the Eesti Telekom Group was 4,131 million kroons as of the end of June 2005 (4,524 million kroons as of December 2004). During the first half of the year, the group's fixed assets decreased 176 million kroons and current assets decreased 218 million kroons. The fall in fixed assets is the result of relatively small investments in recent years. The reduction in current assets is the result of the payment of dividends amounting to 1,104 million kroons in June.

The equity of the Eesti Telekom Group has decreased 728 million kroons during the first half of the year. The reason for this decrease was the above-mentioned dividend payment, while equity capital was increased by the net profit of the first half of the year, in the amount of 376 million kroons. As of June 2005, the group had 1 million kroons in long-term interest bearing liabilities, and 3 million kroons in short-term interest bearing liabilities (at the end of December 2004, one million kroons and 19 million kroons respectively). The group's net debt at the end of June 2005 was –1,278 million kroons, and net gearing was –38.4%. The group's taxes payable had increased 414 million kroons in comparison with the beginning of the year, 349 million kroons of which was income tax liability on the dividends, which is to be paid in July.

In the first half of 2005, the Eesti Telekom Group's cash flows from operating activities was 1,098 million kroons (997 million kroons in the first half of 2004). Cash flows used in investing activities increased – in the first half of 2004 this figure was 146 million kroons, and in the first half of 2005 it was 185 million kroons. Cash flows used in financing activities amounted to 1,120 million in the first half of 2005 (1,077 million kroons in the first half of 2004). The total cash flows of the Eesti Telekom Group were –207 million kroons in the first half of 2005 (-226 million kroons in the first half of 2004).

Elion Group

	Q2 2005	Q2 2004	Change, %	Q2 2004, Eltel Group excl.	Change, %
Total revenues, million EEK	**622**	666	-6.6%	630	-1.2%
EBITDA, million EEK	**224**	211	6.0%	210	6.3%
EBITDA margin, %	**36.0%**	31.7%		33.4%	
EBIT, million EEK	**125**	93	34.5%	94	33.9%
EBIT margin, %	**20.1%**	14.0%		14.9%	
Profit before taxes, million EEK	**131**	96	36.7%	97	36.1%
Net profit for period, million EEK	**5**	-5		-5	
CAPEX, million EEK	**99**	42	135.1%	40	146.9%
ROA, %	**18.0%**	11.0%			
ROE, %	**28.5%**	18.9%			

	HY1 2005	HY1 2004	Change, %	HY1 2004, Eltel Group excl.	Change, %
Total revenues, million EEK	**1,246**	1,317	-5.4%	1,245	0.1%
EBITDA, million EEK	**446**	436	2.1%	436	2.2%
EBITDA margin, %	**35.8%**	33.1%		35.0%	
EBIT, million EEK	**245**	192	27.5%	194	26.3%
EBIT margin, %	**19.6%**	14.6%		15.5%	
Profit before taxes, million EEK	**260**	197	32.1%	199	30.8%
Net profit for period, million EEK	**134**	95	40.1%	97	37.4%
CAPEX, million EEK	**138**	94	46.7%	90	53.27%

The Elion group's total revenues in the second quarter were 6.6% smaller than the result for the second quarter of 2004. The reduction in revenues was mainly caused by the sale of the Eltel Group in December 2004. In the second quarter of 2004, the Eltel Group's total revenues outside the Elion Group reached 36.2 million kroons. The elimination of the Eltel Group's result from total revenues for 2004 would yield a 1.2% decrease in total revenues for the second quarter of this year.

As concerns the main revenue categories of the Elion Group, trends characteristic of previous quarters continued. Revenues from voice communication decreased 6.8%. The main factor that caused the reduction in voice communication revenues was the continuing competition from mobile operators. The price war that developed as a result of the implementation of the portability of mobile phone numbers has further reduced the price difference between calls initiated from the fixed-line network or mobile network, and has led to a reduction in the number of calls initiated from the local fixed network. The fall in the number of call minutes has been slowed by the extensive use of the *Kodulahendus* (Home Solution) and *Ärilahendus* (Business Solution) packages by customers. *Kodulahendus* and *Ärilahendus* are service packages intended for private and corporate customers respectively, which contain a voice and data communications connection, and *Kodulahendus* also offers free calls each month for a fixed monthly fee. The above-mentioned packages have on the one hand increased the number of call minutes initiated by customers, while at the same time they have reduced the amount of revenue earned per call minute.

Elion estimates its market share of call minutes initiated in the fixed-line network to be 85% (June 2004: 87%). The market share in local call minutes is 86% (June 2004: 87%), in international call minutes 68% (June 2004: 68%), in call minutes made from mobile phones 73% (June 2004: 75%), and in dial-up minutes 96% (June 2004: 96%).

The number of main lines in use fell by 4 thousand during the second quarter of 2005, reaching 418 thousand lines by 30 June (432 thousand as of 30 June 2004). From the middle of June to the end of August, customers will again be able to acquire an Elion voice connection without paying a subscription fee.

In the second quarter, the Elion Group's most rapidly growing revenue group was revenue from the Internet. In comparison with the second quarter of 2004, revenues earned from Internet connections and services increased 18.5%. The growth was largely caused by the increase in the number of permanent Internet connections. By the end of June 2005, the number of Elion permanent connections had increased to 89.9 thousand (in December 2004: 76.8 thousand; in June 2004: 58.7 thousand). The increase in the number of permanent connections has been supported by the introduction of *Kodulahendus* and *Ärilahendus* packages and the diverse possibilities offered to customers by Elion for the purchasing of computers. In April Elion also launched versions of *Ärilahendus* that would be suitable to medium-sized companies, enabling them to use a permanent Internet connection, e-mail, web hosting and a telephone connection for one monthly fee. In addition, Elion continues to develop its product portfolio, offering customers an increasingly broad variety of content services. In the second quarter, Elion brought a new product onto the market – Digi TV – thus making it possible to offer customers a triple solution (Internet connection, television picture, voice communication). In private residential areas, Elion began offering fibre optic solutions in co-operation with Alcatel, thus permitting ultra-high-speed Internet connections, voice communications and also the transmission of an ultra-high-quality digital television picture. This is one of the first applications of passive optical network (PON) technology in Europe. In the quarter that has just ended, these new services have not yet generated considerable revenue.

Elion's revenues from IT and data communications increased 12.0% in comparison with the second quarter of 2004. The majority of the growth in this area came from IT services, while revenues from data communication services remained at the same level as in the second quarter of 2004.

Revenues from network services fell 4.4% in the second quarter of 2005 in comparison with the same period in 2004. This decrease was caused by the fall in interconnection charges, which reduced termination and origination costs.

The Elion Group's other revenues remained at the same level as in the same period in 2004.

The Elion Group's operating expenses decreased a total of 12.4% in the second quarter of 2005 in comparison with the same period in 2004. The main circumstance that led to a decrease in operating expenses was once again the sale of the Eltel Group. The elimination of the Eltel Group from the results for the second quarter of 2004 would yield a fall of 5.0% in operating expenses in the second quarter of this year. The main reduced expenses articles were both domestic and international interconnection charges (in connection with the reduction in rates) and the purchase costs of goods sold.

The Elion group's second quarter EBITDA increased 6.0% in comparison with the previous year. If one excludes the Eltel Group, that growth would be 6.3%. EBITDA margin also rose – in the second quarter of 2004 it was 33.4% (without the Eltel Group), and in the second quarter of 2005 it was 36.0%.

As a result of the limited volume of investments in recent years, the Elion Group's depreciation and amortisation decreased 15.7 in the second quarter of 2005 in comparison with the second quarter of 2004 (excluding the Eltel Group). EBIT increased 33.9%, and the EBIT margin rose 14.9% (excluding the Eltel Group) to 20.1%.

Whereas in 2004 the Elion Group's parent company, Elion Enterprises Ltd., paid 300 million kroons in dividends to AS Eesti Telekom, in 2005 one hundred million kroons more were paid in dividends – 400 million kroons. Thus the income tax burden from dividends calculated by Elion Enterprises also increased, reaching 126 million kroons this year (in 2004: 101 million kroons). The Elion Group's second quarter net profit was 5 million kroons (in the second quarter of 2004, without the Eltel group: -5 million kroons).

The Elion Group invested 98.5 million kroons in the second quarter of 2005 (41.9 million kroons in the second quarter of 2004). The majority of the said investments went into the development of the DSL network.

The Elion Group's six month total revenues were 1,246 million kroons, remaining at the same level as the first half of 2004 (excluding the Eltel Group). During the first half of 2005, the rate at which voice communication revenues have fallen has slowed somewhat, while the growth rate of Internet revenues and revenues from IT and data communications has accelerated. The Elion Group's operating costs fell 1.1% over the first half of the year, and EBITDA increased 2.2%. The EBITDA margin has also improved – 35.0% in the first half of 2004 (excluding the Eltel Group), and 35.8% in the first half of 2005. The depreciation and amortisation for the first half of this year was 17.1% less than the result for the same period in 2004. EBIT for the half year grew 26.3%, and net profits increased 37.4%.

As of the end of June 2005, the Elion Group had 1,507 employees (in June 2004: 2,065 employees, including 596 in the Eltel Group; in December 2004: 1,454 employees).

EMT Group

	Q2 2005	Q2 2004	Change, %	**HY1 2005**	HY1 2004	Change, %
Total revenues, million EEK	**755**	763	-1.0%	**1,470**	1,444	1.8%
EBITDA, million EEK	**334**	351	-4.8%	**635**	652	-2.5%
EBITDA margin, %	**44.2%**	46.0%		**43.2%**	45.1%	
EBIT, million EEK	**247**	264	-6.3%	**461**	480	-3.9%
EBIT margin, %	**32.7%**	34.6%		**31.4%**	33.2%	
Profit before taxes, million EEK	**251**	267	-6.3%	**466**	487	-4.3%
Net profit for period, million EEK	**30**	-14		**245**	206	19.1%
CAPEX, million EEK	**37**	42	-12.2%	**49**	97	-49.8%
ROA, %	**39.9%**	37.3%				
ROE, %	**67.8%**	64.5%				

The EMT Group's total revenue during the second quarter of 2005 were 755 million kroons, which is a fall of 1.0%, i.e. 8 million kroons. The decrease in total revenue was the result of the fall in the sale of telephones by the EMT Group.

The total revenues of the EMT Group's parent company, AS EMT, increased 1.6%, reaching 676 million kroons. In comparison with the previous quarter, the rate of increase of the company's total revenues has decelerated. At the same time, the second quarter of 2004 was a period of very rapid increase in total revenues. In the second quarter of 2005, the main sources of the growth in AS EMT's total revenues were revenues earned from local call minutes and revenues from interconnection charges. The growth of both categories of revenues was assisted by the growth in customer base. As of the end of June 2005, AS EMT had 625.9 thousand customers (in December 2004: 595.4 thousand; in June 2004: 530.6 thousand). The number of contractual customers was 385.2 at the end of June 2005 (in December 2004: 363.4 thousand; in

June 2004: 335.7 thousand). In the second quarter, the growth in the number of prepaid cards accelerated again. As of the end of June, AS EMT had 240.7 thousand active prepaid cards (in December 2004: 232.0 thousand; in June 2004: 194.9 thousand). The net effect of the portability of mobile telephone numbers, which was implemented from the 1st of January, had a positive influence on AS EMT's customer base. On the basis of the number of active SIM cards, EMT estimates its market share as of the end of June at 47%.

Another factor that supported the increase in revenues was the continuing rapid increase in the number of call minutes initiated from and to the EMT network. A negative influence on the revenue earned from AS EMT's customers has been exerted by the continuing fall in call rates and various discount packages, which have primarily reduced revenues earned from monthly fees. In March and April 2005, all three mobile operators lowered termination rates in their networks (in the case of EMT, termination rates established for other operators fell from 2.75 kroons per minute to 2.50 kroons per minute). As a result of low interconnection charges, the growth in total revenues earned by AS EMT from interconnection charges slowed in the second quarter. AS EMT's revenues from roaming services and revenues from SMSs increased most rapidly in the second quarter. The proportion of both of the above-mentioned categories in AS EMT's total revenues remains modest, however.

In June 2005, AS EMT earned an average of 348 kroons of revenue from each active mobile phone number (ARPU) (in December 2004: 356 kroons; in June 2004: 393 kroons), which is 7 kroons more than at the end of the first quarter of 2005. Whereas the annual fall in ARPU was 13.2% in December 2004, and 12.8% in March 2005, ARPU in June 2005 had fallen 11.5% in comparison with June 2004.

The EMT Group's operating expenses increased 2.1% in the second quarter of 2005, i.e. by 9 million kroons.

The EMT Group's second quarter EBITDA fell 4.8% in comparison with the previous year. The main factor in the fall in EBITDA was the increase in operating costs. The EBITDA margin was 44.2% in the second quarter of 2005, which is somewhat lower than the 46.0% margin of the second quarter of 2004.

The EMT Group's depreciation in the second quarter of 2005 remained at the level of the second quarter of 2004. The group's EBIT decreased 6.3% The EBIT margin for 2005 was 32.7% (34.6% in the second quarter of 2004).

This year AS EMT paid the parent company, AS Eesti Telekom, dividends of 700 million kroons, which is 100 million kroons less than in 2004. As a result of the smaller amount of dividends and the reduction in the rate of taxation on the dividends, i.e. from 26/74 to 24/76, AS EMT's tax burden from the payment of the dividends decreased by 60 million kroons.

In the second quarter of 2005, the EMT Group earned a net profit of 30 million kroons (-14 million kroons in the second quarter of 2004).

The EMT Group invested 37 million kroons in the second quarter of 2005 (42 million kroons in the second quarter of 2004). The majority of the investments went into securing the quality of technological infrastructure.

The EMT Group's six month total revenues were 1,470 million kroons, which is 1.8% higher than in the first half of the year. In the half-year as a whole, the main growth factors were the parent company's revenues from local calls and interconnection charges, while at the same time, revenues from retail and wholesale decreased. The group's operating costs increased 5.4% in the first half of the year, and EBITDA fell 2.8%. The EMT Group's EBITDA for the first half of 2005 was 43.2%, which is lower than the 45.1% margin for the first half of 2004. Nevertheless, the margin has improved by the end of the second quarter of 2005 in comparison with the beginning of 2005. The depreciation and amortisation of the first half of this year increased 1.3%. The half-year EBIT fell 3.9% in comparison with the first half of 2004.

At the end of June 2005, 509 persons were employed at the EMT Group (498 in December 2004; 472 in June 2004).

Strengthening of market position in the area of IT services
On 17 May, Elion Enterprises, together with Latvia's Lattelekom and Lithuania's Lietuvos Telekomas, which also belong to the TeliaSonera Group, made public their intention to purchase MicroLink, the leading IT company in the Baltic States, in order to offer their customers the broadest possible selection of IT and telecommunications services and complete solutions. The agreement for the purchase and sale of the shares was signed by the parties on 16 May.

The transaction will enter into effect once the Estonian, Latvian and Lithuanian Competition Boards grant their permission for the transaction to take place (presumably within 3 to 5 months). Until then, the companies will continue to operate independently. By agreement between the parties, the precise value of the transaction will not be disclosed. The cost of MicroLink Estonia to Elion was less than 100 million kroons.

After the entry into effect of the transaction, Elion will acquire the holding company MicroLink, whose subsidiary MicroLink Eesti AS will continue to operate independently within the Elion Group. The activities of MicroLink Latvia will be sold to Lattelekom, and MicroLink Lithuania to Lietuvos Telekomas. Elion's IT services area will go to MicroLink, but MicroLink's Internet and data communications area will go to Elion. MicroLink will become responsible for providing IT services for the entire Elion Group, and Elion will in turn become responsible for the sale of complete solutions and IT services to small and medium sized companies and for customer management for major clients. MicroLink will also remain an IT services brand throughout the Baltic States. After the merger, Elion and MicroLink will together become the undisputed leader in the Estonian IT and communications market. The consolidation of the knowledge of the employees of MicroLink and Elion and the combination of the resources of both companies will enable the Eesti Telekom Group to offer customers in Estonia the broadest selection of IT and communications services, the highest quality and the best customer service.

All of Elion's and MicroLink's customer agreements will remain valid on the same conditions as before, and no redundancies or closures of business lines are planned in either company in connection with the transaction.

MicroLink (www.microlink.ee) is the largest IT company in the Baltic States, offering software solutions, business and financial information systems, infrastructure solutions, computer workplace and information system administration, data communications and private networks, central systems management and monitoring, and customer support services. The MicroLink Group has 553 employees in the three Baltic States, 167 of whom are in Estonia. The consolidated net turnover of MicroLink in the 2003/2004 financial year was 820 million kroons, and its consolidated net profit was 351 million kroons.

Relations with regulator
<u>EMT is declared operator with significant market power (SMP)</u>
The **Estonian National Communications Board (**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, although the hearing did not take place at the appointed time. The court has not yet set a date for a new hearing.

<u>Estonian National Communications Board's precepts to Elion</u>
In the opinion of the ENCB, the Elion Friend Number and Call Time Bonus price schemes contained inacceptable discounts, which harmed other companies' competitiveness in the corresponding telecommunications market.

The Estonian National Communications Board issued Elion two precepts, which were to be executed by 9 May of this year. Elion brought an action against the precepts, and also applied for the suspension of the execution of the precepts, but both the Tallinn Administrative Court and the Tallinn Circuit Court denied these actions. The court found that in this matter, Elion's interest in suspending the execution of the precepts did not outweigh the public interest and competitors' interest in the immediate execution of the precepts. Elion cannot appeal the decision of the circuit court, and thus Elion had to execute the precepts.

Elion partly lowered interconnection charges in order to fulfil the precepts, and reduced the amount of call time offered within the Call Time Bonus price scheme by 25%.

General meeting of shareholders

The general meeting of shareholders held on 18 May 2005 confirmed the company's Annual Report for 2004 and the proposal for the allocation of net profits. AS Eesti Telekom's statutory legal reserves were increased by 0.3 million kroons, in order to bring them to the level provided for by law, after the increase of share capital that took place in June 2004. It was decided to pay the company's shareholders 8 kroons per share. In total, it was decided to pay out 1104 million kroons in dividends. The list of shareholders entitled to receive dividends was set as of 8:00 a.m. on 2 June 2005. The dividends were paid out on 16 June 2005.

The general meeting of shareholders decided to permit AS Eesti Telekom to acquire, within one year (i.e. until 18 May 2006), shares of AS Eesti Telekom, provided that the total nominal value of own shares held by AS Eesti Telekom does not exceed the Estonian statutory limits; and provided that the price payable per share does not exceed the highest price paid for an AS Eesti Telekom share on the Tallinn Stock Exchange on the day of the acquisition of the shares. The number of shares to be acquired shall be designated by resolution of the Supervisory Board of AS Eesti Telekom before each purchase transaction.

AS Eesti Telekom's Supervisory Board continues to have seven members. The following were elected as members of the Supervisory Board: Bengt Andersson, Erik Hallberg, Alo Kelder, Tomas Lenke, Tarmo Porgand, Mats Salomonsson and Raivo Vare.

AS Eesti Telekom Supervisory Board on its meeting on 8 June 2005 elected Erik Hallberg to be Chairman of the Supervisory Board.

AS PricewaterhouseCoopers was selected as AS Eesti Telekom's auditor for the financial year 2005.

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.

EESTI TELEKOM

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES
QUARTERLY DATA
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	Q2 04	Q3 04	Q4 04	Q1 05	Q2 05
Revenues	1,287 .1	1,323 .4	1,310 .3	1,219 .6	1,250.4
Operating expenses	-735 .3	-761 .0	-823 .7	-700 .1	-698.0
Profit from operations before depreciation	551 .8	562 .4	486 .6	519 .5	552.4
Depreciation and amortisation	-204 .6	-198 .2	-201 .9	-190 .2	-185.1
Profit from operations	347 .3	364 .2	284 .7	329 .3	367.3
Income / (expenses) from subsidiaries and associates	-0 .2	-0 .5	46 .0	3 .0	-0.9
Other net financing items	10 .3	5 .3	5 .2	11 .9	13.9
Profit before tax	357 .3	369 .1	335 .9	344 .1	380.4
Income tax on dividends	-382 .9	0 .0	0 .0	0 .0	-348.5
Net profit for the period	-25 .6	369 .1	335 .9	344 .1	31.8
Minority interest	0 .0	-3 .4	-1 .7	0 .0	0.0
EBITDA margin, %	42 .9%	42 .5%	37 .1%	42 .6%	44.2%
EBIT margin, %	27 .0%	27 .5%	21 .7%	27 .0%	29.4%
Net margin, %	-2 .0%	27 .9%	25 .6%	28 .2%	2.5%
Total assets	4,263.7	4,189.2	4,524.5	4,823.9	4,130.5
- Non-current assets	2,228.3	2,132.0	2,144.9	2,020.1	1,969.2
- Current assets	2,035.4	2,057.2	2,379.6	2,803.8	2,161.4
- Cash and cash equivalents	1,094.9	1,101.9	1,456.2	1,868.6	1,249.8
Equity and liabilities	4,263 .7	4,189 .2	4,524 .5	4,823 .9	4,130.5
- Equity	3,369 .0	3,738.1	4,055 .6	4,399 .7	3,327.9
- Non-current liabilities	10 .3	11 .0	8 .6	8 .6	8.3
- Interest-bearing borrowings	1 .9	2 .8	0 .6	1 .0	1.0
- Current liabilities	884 .4	440 .2	460 .3	415 .6	794.3
- Interest-bearing borrowings	30 .8	20 .8	19 .0	2 .7	2.8
Proceeds from operating activities	533 .1	111 .0	537 .3	491 .1	607.0
Net cash used in investing activities	-14 .1	-93 .9	-181 .1	-62 .7	-122.5
Net cash before dividends and net loans	518 .9	17 .1	356 .1	428 .4	484.6
Dividends paid	-1,101 .2	0 .0	0 .0	0 .0	-1,103.7
Loan repayments (net)	-2 .2	-9 .9	-1 .3	-16 .6	0.0
Share issue	27 .8	0 .0	0 .0	0 .0	0.0
Net increase (decrease) in cash and cash equivalents	-556 .6	7 .2	354 .8	411 .8	-619.1

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

II QUARTER INCOME STATEMENT

Financial statements are prepared in thousands of EEK

	Notes	II Quarter 2005	II Quarter 2004 Restated
Revenues	2.1 (a)		
Net sales		1,244,512	1,280,651
Other operating income		5,900	6,418
Total revenues		**1,250,412**	**1,287,069**
Operating expenses	2.1 (a)		
Materials, consumables, supplies and services		(430,863)	(451,102)
Other operating expenses		(132,549)	(131,380)
Personnel expenses		(129,855)	(147,217)
Other expenses		(4,710)	(5,554)
Total operating expenses		**(697,977)**	**(735,253)**
Profit from operations before depreciation		**552,435**	**551,816**
Depreciation, amortisation and impairment of fixed and intangible assets	2.1 (a)	(185,132)	(204,563)
Profit from operations		**367,303**	**347,253**
Net income / (expenses) from associates	2.1 (a)	(856)	(201)
Other net financing items	2.1 (a)	13,920	10,279
Profit before tax		**380,367**	**357,331**
Income tax on dividends		(348,517)	(382,918)
Net profit / (loss) for the period	2.1 (a)	**31,850**	**(25,587)**
Attributable to:			
Equity holders of the parent	2.1 (a)	31,850	(25,635)
Minority interest	2.1 (a)	-	48
		31,850	**(25,587)**
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EEK per share)	6 (e)		
Basic earnings per share		0.23	(0.19)
Diluted earnings per share		0.23	(0.19)

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

THE FIRST HALF YEAR INCOME STATEMENT

Financial statements are prepared in thousands of EEK

	Notes	I HY 2005	I HY 2004 Restated	2004 Restated
Revenues				
Net sales	2.1 (b), 2.3	2,461,816	2,493,601	5,116,109
Other operating income	2.1 (b)	8,218	10,940	22,134
Total revenues		**2,470,034**	**2,504,541**	**5,138,243**
Operating expenses	2.1 (b)			
Materials, consumables, supplies and services		(874,734)	(876,782)	(1,896,398)
Other operating expenses		(256,213)	(243,985)	(520,166)
Personnel expenses		(258,850)	(300,531)	(579,316)
Other expenses		(8,326)	(9,889)	(20,011)
Total operating expenses		**(1,398,123)**	**(1,431,187)**	**(3,015,891)**
Profit from operations before depreciation		**1,071,911**	**1,073,354**	**2,122,352**
Depreciation, amortisation and impairment of fixed and intangible assets	2.1 (b), 3	(375,339)	(416,413)	(816,472)
Profit from operations		**696,572**	**656,941**	**1,305,880**
Net income / (expenses) from associates	2.1 (b)	2,117	(383)	45,183
Other net financing items	2.1 (b)	25,815	19,777	30,315
Profit before tax		**724,504**	**676,335**	**1,381,378**
Income tax on dividends		(348,517)	(382,918)	(382,918)
Net profit for the period	2.1 (b)	**375,987**	**293,417**	**998,460**
Attributable to:				
Equity holders of the parent	2.1 (b)	375,987	293,716	993,568
Minority interest	2.1 (b)	-	(299)	4,892
		375,987	**293,417**	**998,460**
Earnings per share for profit attributable to the equity holders of the parent during the reporting period (expressed in EEK per share)	6 (e)			
Basic earnings per share		2.73	2.13	7.21
Diluted earnings per share		2.73	2.13	7.21

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

BALANCE SHEET

Financial statements are prepared in thousands of EEK

	Notes	30 June 2005	31 December 2004	30 June 2004
ASSETS				
Non-current assets				
Fixed assets	2.2, 3	1,833,016	2,014,908	2,083,710
Goodwill	2.2, 3, 5	5,452	-	10,534
Licenses, patents and trademarks	2.2, 3	82,929	91,190	105,812
Investments in subsidiaries and associates	2.2, 4 - 6	20,921	18,804	16,255
Non-current securities	2.2	-	-	2,700
Other non-current receivables	2.2	26,834	19,985	9,313
Total non-current assets		**1,969,152**	**2,144,887**	**2,228,324**
Current assets				
Inventories	7	111,166	124,382	112,296
Trade receivables		573,474	577,481	581,036
Other receivables		194,735	192,648	218,608
Current securities		32,236	28,874	28,554
Cash and cash equivalents		1,249,772	1,456,225	1,094,883
Total current assets	2.2	**2,161,383**	**2,379,610**	**2,035,377**
TOTAL ASSETS	2.2	**4,130,535**	**4,524,497**	**4,263,701**
EQUITY AND LIABILITIES				
Equity	8			
Equity attributable to equity holders of the parent				
Issued capital		1,379,545	1,379,545	1,379,545
Reserves		493,973	493,663	493,663
Translation reserve		-	-	11
Retained earnings		1,078,402	1,188,781	1,188,792
Net profit for the period		375,987	993,568	293,716
Total equity attributable to equity holders of the parent	2.2	**3,327,907**	**4,055,557**	**3,355,727**
Minority interest	2.2	-	-	13,241
Total equity		**3,327,907**	**4,055,557**	**3,368,968**
Non-current liabilities				
Interest-bearing loans and borrowings	9	1,007	604	1,855
Provisions	10 (a)	7,319	8,006	8,483
Total non-current liabilities	2.2	**8,326**	**8,610**	**10,338**
Current liabilities				
Trade payables		182,338	264,702	191,241
Other current liabilities		158,108	139,181	171,140
Tax liabilities		447,057	33,023	487,878
Interest-bearing loans and borrowings	9	2,775	18,968	30,825
Provisions	10 (b)	4,024	4,456	3,311
Total current liabilities	2.2	**794,302**	**460,330**	**884,395**
TOTAL EQUITY AND LIABILITIES	2.2	**4,130,535**	**4,524,497**	**4,263,701**

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

CASH FLOW STATEMENT

Financial statements are prepared in thousands of EEK

	Notes	I Half Year 2005	I Half Year 2004
Operating activities			
Profit from operations		696,572	656,941
Adjustments for:			
Depreciation, amortisation and impairment of fixed and intangible assets	3	375,339	416,413
(Profit) / loss from sales and write-off of fixed assets		(3,962)	(2,705)
Operating cash flow before changes in working capital		1,067,949	1,070,649
Change in current receivables		18,953	(97,866)
Change in inventories		13,217	(12,472)
Change in current liabilities		(1,499)	36,749
Cash generated by operations		1,098,620	997,060
Interest paid		(501)	115
Income tax on dividends paid		(24)	-
Net cash from operating activities	2.2	**1,098,095**	**997,175**
Investing activities			
Purchases of property, plant and equipment	3	(182,179)	(183,352)
Purchases of licenses	3	(4,874)	(7,576)
Proceeds from sales of fixed assets		8,801	5,194
Net cash outflow from acquisition of subsidiaries	5	(4,944)	(3,872)
Purchases of current securities		(24,372)	(29,356)
Proceeds on disposal of current securities		20,794	49,510
Loans granted		(29,765)	(6,384)
Repayment of loans granted		565	33
Interest received		30,798	30,303
Net cash used in investing activities	2.2	**(185,176)**	**(145,500)**
Financing activities			
Repayment of convertible debt		-	(48)
Proceeds from non-convertible debt	9	793	233
Repayment of nonconvertible debt	9	(2,199)	(3,688)
Repayment of long-term borrowings	9	(333)	-
Repayment of finance lease liabilities	9	(14,765)	(394)
Repayment of short-term borrowings		-	(176)
Shares issuance		-	27,782
Dividends paid	8 (d)	(1,103,727)	(1,101,165)
Net cash used in financing activities	2.2	**(1,120,231)**	**(1,077,456)**
Net change in cash and cash equivalents	2.2	**(207,312)**	**(225,781)**
Cash and cash equivalents at beginning of year	2.2	**1,456,225**	**1,320,802**
Effect of foreign exchange rate changes	2.2	859	(138)
Cash and cash equivalents at end of period	2.2	**1,249,772**	**1,094,883**

EESTI TELEKOM

AS EESTI TELEKOM AND SUBSIDIARY COMPANIES

STATEMENT OF CHANGES IN OWNERS' EQUITY

Financial statements are prepared in thousands of EEK

	Notes	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		**1,376,445**	**331,026**	**137,384**	**(11)**	**1,254,670**	**1,035,548**	**13,540**	**4,148,602**
Net profit for the 2003 transferred to retained earnings		-	-	-	-	1,035,548	(1,035,548)	-	-
Exchange differences arising from translation of foreign operations		-	-	-	22	-	-	-	22
Share issuance		3,100	24,992	-	-	-	-	-	28,092
Amounts transferred to reserves	8 (c)	-	-	261	-	(261)	-	-	-
Dividends paid	8 (d)	-	-	-	-	(1,101,165)	-	-	(1,101,165)
Net profit for the period		-	-	-	-	-	293,716	(299)	293,417
30 June 2004		**1,379,545**	**356,018**	**137,645**	**11**	**1,188,792**	**293,716**	**13,241**	**3,368,968**
31 December 2004		**1,379,545**	**356,018**	**137,645**	**-**	**1,188,781**	**993,568**	**-**	**4,055,557**
Net profit for the 2004 transferred to retained earnings		-	-	-	-	993,568	(993,568)	-	-
Amounts transferred to reserves	8 (c)	-	-	310	-	(310)	-		-
Dividends paid	8 (d)	-	-	-	-	(1,103,637)	-		(1,103,637)
Net profit for the period		-	-	-	-	-	375,987		375,987
30 June 2005		**1,379,545**	**356,018**	**137,955**	**-**	**1,078,402**	**375,987**	**-**	**3,327,907**

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

The consolidated interim financial statements for the first half year period ending 30 June 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 Estonian kroons (EEK), unless indicated otherwise.

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 EEK

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		
	30 June 2005	**31 December 2004**	**30 June 2004**
EUR	15.64660	15.64660	15.64664
USD	12.95200	11.47110	12.90070
SEK	1.65989	1.73450	1.71340
LTL	4.53157	4.53157	4.53157
LVL	22.46850	22.42200	23.84830

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 10,000 EEK are considered to be ***fixed assets***. Fixed assets are recorded at acquisition cost, which consists of the purchase price, non-refundable taxes, and other 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 EEK

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 the first half year 2004 and whole year 2004 were reclassified:

	Other operating income	Other expenses
I Half Year 2004		
Initial opening balance 30 June 2004	12,694	(11,643)
Reclassification	(1,754)	1,754
Comparative balance 30 June 2004	10,940	(9,889)
2004		
Initial opening balance 31 December 2004	26,733	(24,610)
Reclassification	(4,599)	4,599
Comparative balance 31 December 2004	22,134	(20,011)

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 half year 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 EEK

2.1 Main format – business segments

a) Results of the II Quarter 2005 / 2004

	Fixed network telecommunications		Mobile telecommunications		Construction		Other operations		Eliminations		Consolidated	
	QII 2005	**QII 2004 Restated**	**QII 2005**	**QII 2004 Restated**	**QII 2005**	**QII 2004 Restated**	**QII 2005**	**QII 2004 Restated**	**QII 2005**	**QII 2004 Restated**	**QII 2005**	**QII 2004 Restated**
Revenue												
Revenue	570,471	579,848	674,041	663,942	-	36,861	-	-	-	-	1,244,512	1,280,651
Other operating income	5,280	37	1,133	6,403	-	146	-	-	-	-	6,413	6,586
Inter-segment revenue	46,109	49,238	79,725	92,415	-	31,751	-	15	(125,834)	(173,419)	-	-
Total revenue	**621,860**	**629,123**	**754,899**	**762,760**	**-**	**68,758**	**-**	**15**	**(125,834)**	**(173,419)**	**1,250,925**	**1,287,237**
Operating expenses												
Materials, consumables, supplies and services	(125,912)	(136,894)	(304,951)	(292,388)	-	(21,820)	-	-	-	-	(430,863)	(451,102)
Other operating expenses	(99,696)	(78,181)	(31,344)	(35,429)	-	(12,593)	(1,509)	(5,177)	-	-	(132,549)	(131,380)
Personnel expenses	(90,222)	(85,446)	(36,952)	(35,168)	-	(22,819)	(2,681)	(3,784)	-	-	(129,855)	(147,217)
Other expenses	(2,581)	(2,638)	(1,804)	(1,649)	-	(835)	(838)	(600)	-	-	(5,223)	(5,722)
Inter-segment expenses	(79,715)	(115,556)	(46,031)	(47,598)	-	(9,217)	(88)	(143)	125,834	172,514	-	-
Total expenses	**(398,126)**	**(418,715)**	**(421,082)**	**(412,232)**	**-**	**(67,284)**	**(5,116)**	**(9,704)**	**125,834**	**172,514**	**(698,490)**	**(735,421)**
EBITDA	**223,734**	**210,408**	**333,817**	**350,528**	**-**	**1,474**	**(5,116)**	**(9,689)**	**-**	**(905)**	**552,435**	**551,816**
Depreciation, amortisation and impairment of fixed and intangible assets	(98,470)	(116,827)	(86,675)	(86,768)	-	(2,188)	(30)	(153)	43	1,373	(185,132)	(204,563)
EBIT	**125,264**	**93,581**	**247,142**	**263,760**	**-**	**(714)**	**(5,146)**	**(9,842)**	**43**	**468**	**367,303**	**347,253**
Income / (expenses) from subsidiaries and associated companies, net	(649)	110	(207)	(311)	-	-	1,100,000	1,100,000	(1,100,000)	(1,100,000)	(856)	(201)
Other net financing items	6,689	2,864	3,625	4,018	-	(30)	3,606	3,427	-	-	13,920	10,279
Income tax on dividends	(126,316)	(101,428)	(221,053)	(281,081)	-	-	(1,148)	(409)	-	-	(348,517)	(382,918)
Net profit / (loss) for the period	**4,988**	**(4,873)**	**29,507**	**(13,614)**	**-**	**(744)**	**1,097,312**	**1,093,176**	(1,099,957)	(1,099,532)	**31,850**	**(25,587)**
Attributable to:												
Equity holders of the parent	4,988	(4,873)	29,507	(13,614)	-	(792)	1,097,312	1,093,176	(1,099,957)	(1,099,532)	31,850	(25,635)
Minority interest	-	-	-	-	-	48	-	-	-	-	-	48
	4,988	**(4,873)**	**29,507**	**(13,614)**	**-**	**(744)**	**1,097,312**	**1,093,176**	(1,099957)	(1,099,532)	**31,850**	**(25,587)**

Financial statements are prepared in thousands of EEK

b) Result of the first half year 2005 / 2004

	Fixed network telecommunications		Mobile telecommunications		Construction		Other operations		Eliminations		Consolidated	
	I HY 2005	**I HY 2004 Restated**	**I HY 2005**	**I HY 2004 Restated**	**I HY 2005**	**I HY 2004 Restated**	**I HY 2005**	**I HY 2004 Restated**	**I HY 2005**	**I HY 2004 Restated**	**I HY 2005**	**I HY 2004 Restated**
Revenue												
Revenue	1,152,083	1,153,565	1,309,733	1,267,027	-	73,009	-	-	-	-	2,461,816	2,493,601
Other operating income	6,269	3,354	2,573	7,236	-	599	-	2	-	-	8,842	11,191
Inter-segment revenue	87,924	88,070	157,558	169,742	-	60,833	-	30	(245,482)	(318,675)	-	-
Total revenue	**1,246,276**	**1,244,989**	**1,469,864**	**1,444,005**	**-**	**134,441**	**-**	**32**	**(245,482)**	**(318,675)**	**2,470,658**	**2,504,792**
Operating expenses												
Materials, consumables, supplies and services	(268,589)	(259,442)	(606,145)	(571,927)	-	(45,413)	-	-	-	-	(874,734)	(876,782)
Other operating expenses	(189,998)	(149,752)	(63,403)	(64,221)	-	(23,000)	(2,812)	(7,012)	-	-	(256,213)	(243,985)
Personnel expenses	(180,325)	(178,970)	(73,404)	(68,520)	-	(46,227)	(5,121)	(6,814)	-	-	(258,850)	(300,531)
Other expenses	(4,258)	(4,980)	(3,808)	(3,104)	-	(1,371)	(884)	(685)	-	-	(8,950)	(10,140)
Inter-segment expenses	(157,536)	(215,780)	(87,759)	(84,290)	-	(16,972)	(187)	(253)	245,482	317,295	-	-
Total expenses	**(800,706)**	**(808,924)**	**(834,519)**	**(792,062)**	**-**	**(132,983)**	**(9,004)**	**(14,764)**	**245,482**	**317,295**	**(1,398,747)**	**(1,431,438)**
EBITDA	**445,570**	**436,065**	**635,345**	**651,943**	**-**	**1,458**	**(9,004)**	**(14,732)**	**-**	**(1,380)**	**1,071,911**	**1,073,354**
Depreciation, amortisation and impairment of fixed and intangible assets	(200,972)	(242,300)	(174,368)	(172,052)	-	(4,413)	(84)	(402)	85	2,754	(375,339)	(416,413)
EBIT	**244,598**	**193,765**	**460,977**	**479,891**	**-**	**(2,955)**	**(9,088)**	**(15,134)**	**85**	**1,374**	**696,572**	**656,941**
Income / (expenses) from subsidiaries and associated companies, net	2,843	18	(726)	(401)	-	-	1,100,000	1,100,000	(1,100,000)	(1,100,000)	2,117	(383)
Other net financing items	12,389	4,912	6 221	7,708	-	40	7,205	7,117	-	-	25,815	19,777
Income tax on dividends	(126,316)	(101,428)	(221,053)	(281,081)	-	-	(1,148)	(409)	-	-	(348,517)	(382,918)
Net profit / (loss) for the period	**133,514**	**97,267**	**245,419**	**206,117**	**-**	**(2,915)**	**1,096,969**	**1,091,574**	(1,099,915)	(1,098,626)	**375,987**	**293,417**
Attributable to:												
Equity holders of the parent	133,514	97,267	245,419	206,117	-	(2,616)	1,096,969	1,091,574	(1,099,915)	(1,098,626)	375,987	293,716
Minority interest	-	-	-	-	-	(299)	-	-	-	-	-	(299)
	133,514	**97,267**	**245,419**	**206,117**	**-**	**(2,915)**	**1,096,969**	**1,091,574**	(1,099,915)	(1,098,626)	**375,987**	**293,417**

Financial statements are prepared in thousands of EEK

2.2 Other information by business segments

	Fixed network telecommunications		Mobile telecommunications		Construction		Other operations		Eliminations		Consolidated	
	I HY 30 June 2005	**I HY 30 June 2004**	**I HY 30 June 2005**	**I HY 30 June 2004**	**I HY 30 June 2005**	**I HY 30 June 2004**	**I HY 30 June 2005**	**I HY 30 June 2004**	**I HY 30 June 2005**	**I HY 30 June 2004**	**I HY 30 June 2005**	**I HY 30 June 2004**
Non-current assets (except investments in subsidiaries and associates)	1,081,026	1,202,516	863,156	994,909	-	26,136	4,388	6,162	(339)	(17,654)	1,948,231	2,212,069
Investments in subsidiaries and associates	18,991	21,603	1,930	2,848	-	-	1,263,763	1,263,763	(1,263,763)	(1,271,959)	20,921	16,255
Current assets	902,382	772,870	730,858	668,155	-	50,200	647,247	667,599	(119,104)	(123,447)	2,161,383	2,035,377
Total assets	**2,002,399**	**1,996,989**	**1,595,944**	**1,665,912**	**-**	**76,336**	**1,915,398**	**1,937,524**	**(1,383,206)**	**(1,413,060)**	**4,130,535**	**4,263,701**
Equity attributable to equity holders of the parent	**1,635,761**	**1,651,704**	**1,088,750**	**1,084,390**	**-**	**28,756**	**1,867,498**	**1,880,491**	**(1,264,102)**	**(1,289,614)**	**3,327,907**	**3,355,727**
Minority interest	**-**	**-**	**-**	**-**	**-**	**13,241**	**-**	**-**	**-**	**-**	**-**	**13,241**
Non-current liabilities	1,008	91	5,502	6,691	-	1,763	1,816	1,793	-	-	8,326	10,338
Current liabilities	365,630	345,194	501,692	574,831	-	32,576	46,084	55,240	(119,104)	(123,446)	794,302	884,395
Total equity and liabilities	**2,002,399**	**1,996,989**	**1,595,944**	**1,665,912**	**-**	**76,336**	**1,915,398**	**1,937,524**	**(1,383,206)**	**(1,413,060)**	**4,130,535**	**4,263,701**
Net cash from/ (used in) operating activities	473,356	353,508	595,057	622,954	-	(10,472)	27,442	31,106	2,240	79	1,098,095	997,175
Net cash from / (used in) investing activities	(15,444)	4,471	8,694	8,116	-	(3,130)	1,157,104	1,107,389	(1,148,477)	(1,071,418)	1,877	45,428
CAPEX	(138,381)	(92,095)	(48,610)	(96,758)	-	(3,697)	(62)	-	-	1,622	(187,053)	(190,928)
Net cash from / (used in) financing activities	(409,605)	(292,260)	(753,226)	(785,017)	-	3,535	(1,103,637)	(1,073,431)	1,146,237	1,069,717	(1,120,231)	(1,077,456)
Foreign exchange rate differences	774	(129)	(21)	(31)	-	(23)	106	45	-	-	859	(138)
Net increase / (decrease) in cash and cash equivalents	**(89,300)**	**(26,505)**	**(198,106)**	**(250,736)**	**-**	**(13,787)**	**80,953**	**65,109**	**-**	**-**	**(206,453)**	**(225,919)**

2.3 Additional format - geographic segments

The components of revenues by geographic segments are as follows:

	Fixed network telecommunications		Mobile telecommunications		Construction		Consolidated	
	I HY 2005	**I HY 2004**	**I HY 2005**	**I HY 2004**	**I HY 2005**	**I HY 2004**	**I HY 2005**	**I HY 2004**
Revenue from customers in Estonia	1,016,668	1,009,153	1,242,962	1,205,929	-	57,375	2,259,630	2,272,457
Revenue from customers outside Estonia	135,415	144,412	66,771	61,098	-	15,634	202,186	221,144
	1,152,083	**1,153,565**	**1,309,733**	**1,267,027**	**-**	**73,009**	**2,461,816**	**2,493,601**

Financial statements are prepared in thousands of EEK

3. Tangible and intangible assets

	Tangible assets	Intangible assets
At cost		
31 December 2003	**7,845,954**	**242,867**
Additions	183,352	9,374
Acquired by finance leases	24,792	-
Acquired on acquisition of a subsidiary	2,093	186
Disposals and write-offs (-)	(45,402)	(6,222)
30 June 2004	**8,010,789**	**246,205**
31 December 2004	**8,083,393**	**231,298**
Additions	182,179	10,326
Acquired on acquisition of a subsidiary	3,242	97
Disposals and write-offs (-)	(87,397)	(778)
Reclassification	(1,983)	(978)
30 June 2005	**8,179,434**	**239,965**
Accumulated depreciation		
31 December 2003	**5,570,086**	**118,772**
Charge for the period	399,198	17,215
Acquired on acquisition of a subsidiary	710	92
Disposals and write-offs (-)	(42,915)	(6,220)
30 June 2004	**5,927,079**	**129,859**
31 December 2004	**6,068,485**	**140,108**
Charge for the period	362,812	12,527
Acquired on acquisition of a subsidiary	1,155	18
Disposals and write-offs (-)	(86,034)	(1,069)
30 June 2005	**6,346,418**	**151,584**
Carrying amount		
At 30 June 2004	**2,083,710**	**116,346**
At 30 June 2005	**1,833,016**	**88,381**

Financial statements are prepared in thousands of EEK

4. Investments in subsidiaries

	Note	Country of incorporation	Ownership interest		Principal activity	Owner
			30 June 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%	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 6.5 million EEK. Viru Net OÜ is one of the leading Internet service providers to business in the county of Ida-Virumaa. The enterprise was established in 1997. The turnover of Viru Net OÜ in 2004 was 4.3 million EEK with a net profit of 0.35 million EEK. The company currently has 17 employees. The financial results of Viru Net OÜ are consolidated from 1 January 2005.

The effect of the acquisition of subsidiary on goodwill and cash flows in the first half year 2005 was the following:

	Acquirer's carrying amount at 31.12.2004	**Fair value**
Fixed assets	2,975	2,975
Receivables	123	123
Cash and cash equivalents	56	56
Non-current liabilities	(404)	(404)
Current liabilities	(1,711)	(1,702)
Net identifiable assets and liabilities	**1,039**	**1,048**
Goodwill		5,452
Total consideration		**(6,500)**
Paid up to 30.06.2005		(5,000)
Cash and cash equivalents		56
Net cash in / (out) flow		**(4,944)**

Financial statements are prepared in thousands of EEK

6. Investments in associates

	Country of incorporation	Ownership interest		Principal activity	Owner
		30 June 2005	**31 December 2004**		
AS Intergate	Estonia	50%	50%	Venture capital investments into companies with innovative technologies	Elion Enterprises AS
AS Sertifitseerimiskeskus	Estonia	50%	50%	Providing certification and related services	Elion Enterprises AS – 25% AS EMT – 25%
OÜ Voicecom	Estonia	26%	26%	Designing and providing software for mobile related services	AS EMT

7. Inventories

In the first half year 2005, the value of the inventories was decreased by the total amount of 4,536 thousand EEK (first half year 2004: 1,140 thousand EEK) based on the estimated decline of the realisation value below their acquisition cost.

8. Equity

a) Issued capital

	30 June 2005	31 December 2004
Ordinary shares issued par value 10 EEK per share, fully paid	137,954,528	137,954,528

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

	30June 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 890,651 thousand EEK.

b) Re-acquiring of shares

The Annual General Meeting of Shareholders, on 18 May 2005, authorized AS Eesti Telekom to acquire within one year from the adoption of this resolution, i.e. until 18 May 2006 (the same authority, which was obtained from last Annual General Meeting on 18 May 2004, terminated on 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 30 June 2005, no shares have been re-acquired by AS Eesti Telekom.

Financial statements are prepared in thousands of EEK

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).

310 thousand EEK from 2004 net profit were transferred to the legal reserve in the first half year 2005 (I HY 2004: 261 thousand EEK).

d) Dividends

Dividends in the total amount of 1,103,637 thousand EEK (2004: 1,101,165 thousand EEK) or 8.00 EEK per ordinary share were disbursed in the first half year 2005 (2004: 8.00 EEK and 10,000 EEK per preference share). Viru Net OÜ paid dividends debt from year 2004 in the amount 90 thousand EEK.

e) Earnings per share

Basic earnings per share have been calculated as follows:

II Quarter 2005: EEK 0.23 = 31,850,000: 137,954,528
I Half Year 2005: EEK 2.73 = 375,987,000: 137,954,528

II Quarter 2004: EEK (0.19) = (25,635,000): 137,747,795
I Half Year 2004: EEK 2.13 = 293,716,000: 137,696,111

In view of the fact that the Group had not any dealings with a dilutive effect of earnings per share at the end of the first half years 2005 and 2004 , diluted earnings per share equal basic earnings per share.

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

	2005	2004
Net profit / (loss) for the II Quarter attributable to equity holders of the parent (EEK)	31,850,000	(25,635,000)
Net profit for the I Half Year attributable to equity holders of the parent (EEK)	375,987,000	293,716,000
The average number of ordinary shares (I Quarter)	137,954,528	137,747,795
The average number of ordinary shares (I Half Year)	137,954,528	137,696,111

f) Share information

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

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

	I HY 2005	2004	I HY 2004
Ordinary share highest price for the reporting period	134.56	126.58	126.58
Ordinary share lowest price for the reporting period	111.09	101.70	101.70
Ordinary share average price for the reporting period	125.04	111.97	115.95

Financial statements are prepared in thousands of EEK

9. Borrowings

	30 June 2005	31 December 2004
Non-current	1,007	604
Current	2,775	18,968
	3,782	**19,572**

The movements in the borrowings can be analyzed as follows:

Opening balance 31 December 2004	**19,572**
Proceeds from borrowings	793
Repayments of borrowings	(17,297)
Other movements	714
Closing balance 30 June 2005	**3,782**

10. Provisions

a) Non-current retirement benefit provisions

31 December 2004	**8,006**
Additional provision in the reporting period	55
Decrease of provision in the reporting period	(742)
30 June 2005	**7,319**

b) Current provisions

	Termination benefits provision	Current portion of retirement benefit provision	**Total**
31 December 2004	**3,805**	**651**	**4,456**
Additional provision in the reporting period	2,089	647	2,736
Utilisation of provision in the reporting period	(2,735)	(433)	(3,168)
30 June 2005	**3,159**	**865**	**4,024**

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) Name and relationship of related party

Name	Relationship with AS Eesti Telekom Group
Members of the Management Board and the Supervisory Council	
List of associates is shown in Note 6	
Enterprises of TeliaSonera AB Group	Parent company, shareholder
Eltel Networks Corporation (up to 30 November 2004)	Minority shareholder of AS Eltel Networks

b) Directors' and executives' remuneration

The remuneration of directors and other members of key management during the first half year 2005 and 2004 were as follows:

	I HY 2005	I HY 2004
Salaries	12,938	13,016

Financial statements are prepared in thousands of EEK

c) Trading transactions

Transactions with related parties were conducted under market terms.

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

	I HY 2005	I HY 2004
Telecommunication services provided		
Associated companies	657	365
Shareholders	95,056	82,260
Companies where Supervisory Council members of the Group have significant influence	-	263
	95,713	**82,888**
Other sales		
Associated companies	9	1,396
Shareholders	-	222
Companies where Supervisory Council members of the Group have significant influence	-	10
	9	**1,628**
Telecommunication services purchased		
Associated companies	667	285
Shareholders	70,210	42,610
	70,877	**42,895**
Other services purchased		
Associated companies	11	5
Shareholders	77	2,753
Companies where Supervisory Council members of the Group have significant influence	-	90
	88	**2,848**
Financial income		
Associated companies	**132**	**134**
Financial expenses		
Shareholders	**78**	**281**
Amount owed by related parties		
Associated companies	5,122	6,209
Shareholders	51,464	54,522
Companies where Supervisory Council members of the Group have significant influence	-	31
	56,586	**60,762**
Amount owed to related parties		
Associated companies	59	-
Shareholders	32,277	19,723
Companies where Supervisory Council members of the Group have significant influence	-	37
	32,336	**19,760**

12. Contingencies

	I HY 2005	I HY 2004
Guaranties to former employees	200	200
Guaranties to employees	25	-
Guaranties to companies	206	1,346